Poste Italiane Financial statements for the year ended 31 December 2017

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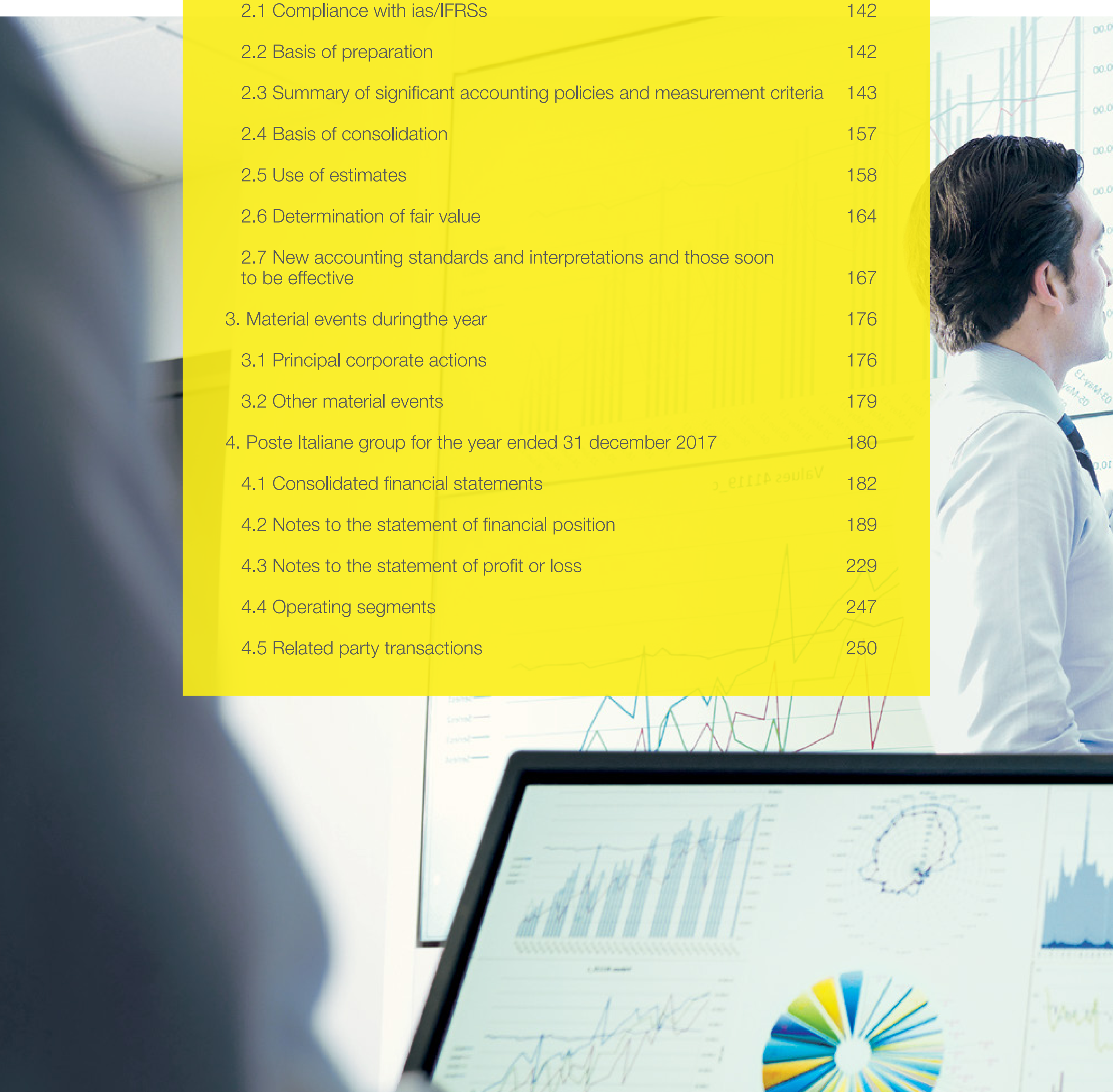
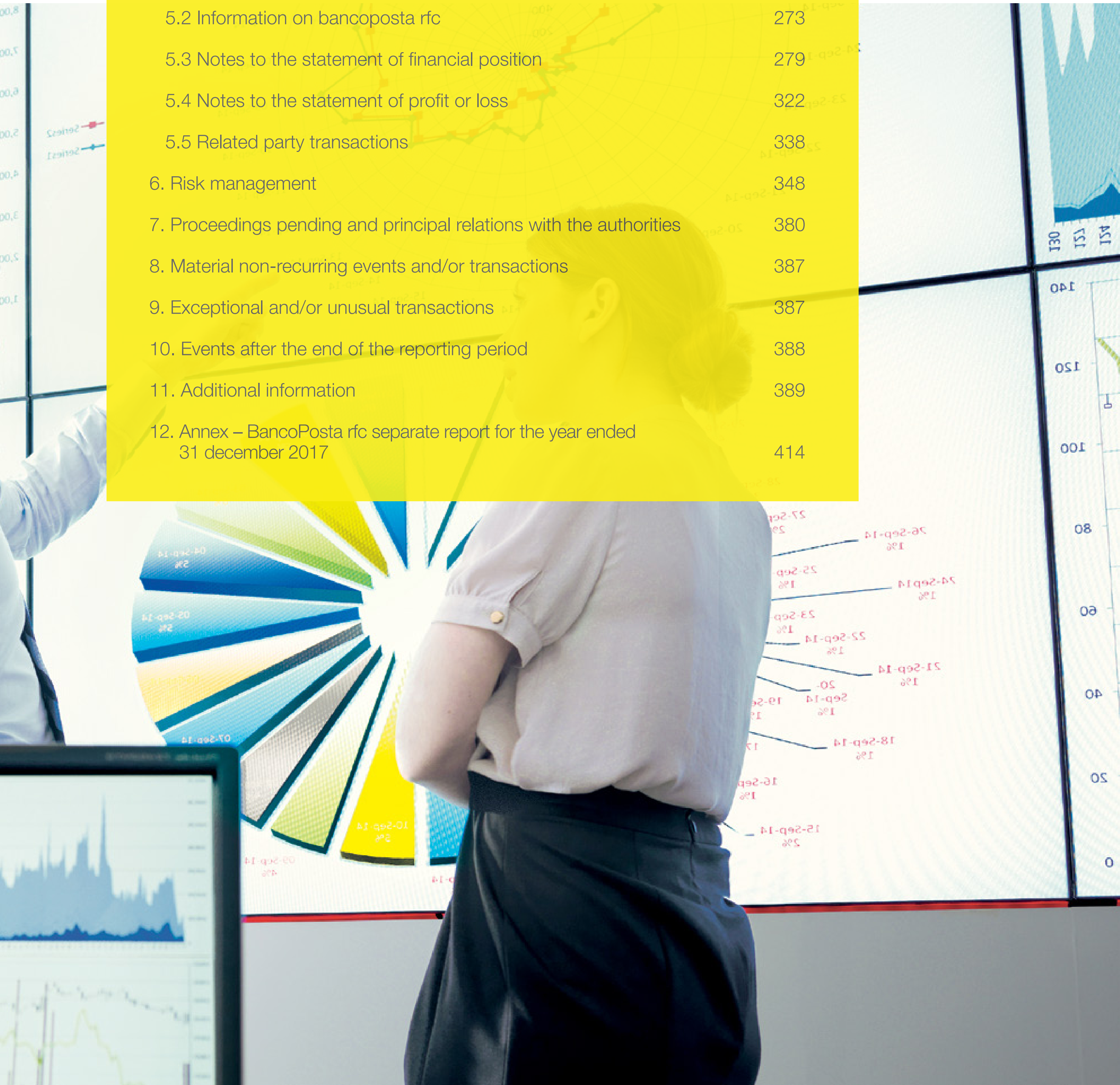
POSTE ITALIANE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017





1. Introduction

Poste Italiane SpA (the "Parent Company") is the company formed following conversion of the former Public Administration entity, "Poste Italiane", under Resolution 244 of 18 December 1997. Its registered office is at Viale Europa 190, Rome (Italy).

Poste Italiane's shares have been listed on the *Mercato Telematico Azionario* (the *MTA*, an electronic stock exchange) since 27 October 2015. At 31 December 2017, the Company is 35% owned by CDP and 29.3% owned by the MEF, with the remaining shares held by institutional and retail investors. Poste Italiane SpA continues to be under the control of the MEF.

The **Poste Italiane Group** (the "Group") provides a universal postal service in Italy as well as integrated communication, logistics, financial and insurance products and services throughout the country via its national network of approximately 13,000 post offices.

The financial statements for the year ended 31 December 2017 mark a change in the presentation of the Group's businesses. Four new operating segments have been identified: (i) Mail, Parcels and Distribution, (ii) Payments, Mobile and Digital, (iii) Financial Services and (iv) Insurance Services. The change was rendered necessary in order to bring presentation of the operating segments into line with the Group's new strategic guidelines, as set out in the Strategic Plan for the period 2018-2022 approved by Poste Italiane SpA's Board of Directors on 26 February 2017, and, in particular, with management's new approach to assessing performance and making decisions. In particular, following the creation of the Payments, Mobile and Digital function during 2017, on 25 January 2018, Poste Italiane SpA's Board of Directors decided to submit the proposed separation and transfer of certain assets, contractual rights and authorisations from BancoPosta RFC to a new e-money and payment services unit to be set up within PosteMobile SpA, for approval by shareholders. The transaction is subject to authorisation from the Bank of Italy.

The above changes are reflected in the consolidated financial statements for the year ended 31 December 2017, both in the statement of profit or loss, in which the Group's revenue from ordinary activities is presented in a different manner, and in the note on operating segments, including the allocation of the Group's activities and companies to the various segments.

The Mail, Parcels and Distribution segment includes letter post, express delivery, logistics, parcels and philately, in addition to the activities conducted by various units of Poste Italiane SpA for other segments in which the Group operates. The newly formed Payments, Mobile and Digital segment includes revenue from payment services (as an outsourcing partner), e-money products and the services provided by PosteMobile SpA. Financial Services regard the activities of BancoPosta, which include the collection of all forms of savings deposits from the public, the provision of payment services (of which some outsourced to the Payments, Mobile and Digital segment), foreign currency exchange, the promotion and arrangement of loans issued by banks and other authorised financial institutions, the provision of investment services and the activities of BancoPosta Fondi SpA SGR. Insurance Services regard the activities of Poste Vita SpA, which operates in ministerial life assurance Classes I, III and V, and of its direct subsidiaries, Poste Assicura SpA, which operates in non-life insurance, and Poste Welfare Servizi Srl, which provides services to the segment in question.

Further details are provided in *Material events during the year* (note 3) and *Operating segments* (note 4.4).

This section of the Annual Report for the year ended 31 December 2017 includes the consolidated financial statements of the Poste Italiane Group, the separate financial statements of Poste Italiane SpA and BancoPosta RFC's Separate Report (also, the annual accounts). The Report has prepared in euros, the currency of the economy in which the Group operates.

The Group's consolidated financial statements consist of the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes to the financial statements. All amounts in the consolidated financial statements and the notes are shown in millions of euros, unless otherwise stated.

The separate financial statements of Poste Italiane SpA consist of the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes. Amounts in the financial statements are shown in euros (except for the statement of cash flows, which is shown in thousands of euros), whilst those in the notes are shown in millions of euros, unless otherwise stated.

BancoPosta RFC's Separate Report, which forms an integral part of Poste Italiane SpA's financial statements, is prepared in accordance with the specific financial reporting rules laid down by the applicable banking regulations, is dealt with separately in this Section.

During 2017, an internal review of the disclosures provided in Poste Italiane's financial statements was completed, followed by a revision of both the structure and form of presentation of the content, and the degree of detail provide for the various items. The revision of the content of the disclosures was carried out in full compliance with the accounting standards in force, and in line with recent international guidance regarding application of the materiality concept in financial reporting in relation to providing stakeholders with an understanding of the Group's results of operations and financial position.

To help in reading the financial statements and render them comparable with the past, a brief summary of the changes made is provided below:

- A new section on *Material events during the year* (note 3) has been added. This provides information on events within the Group and in the external environment that have had a material impact on the results of operations and financial position at the end of the reporting period.
- The consolidated and separate financial statements form part of a single, integrated document, containing sections and notes applicable to both sets of financial statements, which provide information on matters common to both the Group and Poste Italiane SpA. Unless otherwise indicated, the information provided in these sections is, therefore, to be considered as applicable to both the consolidated and separate financial statements. The relevant matters specifically regard:
    - the basis of presentation used and accounting standards adopted;
    - disclosure of the sources and the procedures used in determining fair value;
    - financial risk disclosures;
    - a summary of the principal proceedings pending and relations with the authorities at 31 December 2017;
    - and, in general, certain additional disclosures required by accounting standards, whose presentation in a single section is designed to provide the reader with better information (e.g. the analysis of net debt, key performance indicators for investee companies, etc.).
- The method of presenting the revenue and cost components relating to the life and non-life insurance businesses in the consolidated statement of profit or loss for the year has been revised, in line with the new management view. Specifically, and in compliance with IAS 1, the consolidated statement of profit or loss for the year ended 31 December 2017 includes a new item, *Revenue from insurance services after movements in technical provisions and other claims expenses*, providing a synthetic indication (in just one line of the statement) of the Insurance Services segment's contribution to the Group's operating result[30]. This item is defined as the sum of premium revenue net of outward reinsurance premiums, income and losses from financial instruments attributable to insurance activities and movements in technical provisions and other claims expenses[31]. In order to ensure comparability with prior year financial statements, the item is accompanied by disclosure of each individual revenue and cost component contributing to the result.
- As stated above, presentation of the notes for each item and the degree of disclosure provided result from a preliminary analysis of the materiality of the information, to be repeated at the end of each reporting period in compliance with international accounting standards. The general approach adopted envisages a specific note for certain items deemed to be of qualitative significance, regardless of the materiality of the amounts at the reporting date and/or movements during the period (as an example, financial assets, personnel expenses, relations with the Public Administration, etc.). In all other cases, the materiality of the amount and movements during the period are taken into account and, therefore, disclosure is only provided to the extent that it will provide the reader with information that is useful or necessary in understanding the results of operations and financial position of Poste Italiane SpA and of the Group.

30. Net of intra-group fees paid to Poste Italiane's distribution network.
31. The individual components that contribute to the net result from insurance activities will continue, in the statement of profit or loss for the year, to influence movements in the same items presented until 2016 and to be shown separately under the new revenue item. The new form of presentation is easily reconstructed and traced starting from historical data, as it has not led to any change in key performance indicators, such as operating profit or profit for the year.

2. Basis of preparation and significant accounting policies

2.1 Compliance with IAS/IFRSs

The annual accounts are prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), and endorsed by the European Union ("EU") in EC Regulation 1606/2002 of 19 July 2002, and in accordance with Legislative Decree 38 of 28 February 2005, which introduced regulations governing the adoption of IFRS in Italian law.

The term IFRS includes all the International Financial Reporting Standards, International Accounting Standards ("IAS") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC", previously known as the Standing Interpretations Committee or "SIC"), adopted by the European Union and contained in the EU regulations published as of 29 March 2018, the date on which the Board of Directors of Poste Italiane SpA approved the annual accounts.

2.2 Basis of preparation

The accounting policies described below reflect the fact that the Group and Poste Italiane SpA will remain **fully operational** in the foreseeable future, in accordance with the **going concern assumption**, and are consistent with those applied in the preparation of the annuals accounts for the previous year. Amendments to accounting standards applicable from the accounting period under review have not had an impact on these financial statements (note 2.7 – *New accounting standards and interpretations and those soon to be effective*).

The statement of financial position has been prepared on the basis of the **"current/non-current distinction"**[32]. In the statement of profit or loss, **expenses are classified according to their nature**. The **indirect method**[33] has been applied in preparation of the statement of cash flows.

In preparing the annual accounts, the CONSOB regulations contained in Resolution 15519 of 27 July 2006 and in Ruling DEM/6064293 of 28 July 2006 have been taken into account.

In accordance with CONSOB Resolution 15519 of 27 July 2006, the statement of financial position, the statement of profit or loss and the statement of cash flows show **amounts deriving from related party transactions**. The statement of profit or loss also shows, where applicable, **income and expenses deriving from material non-recurring transactions**, or transactions that occur infrequently in the normal course of business. Given the diverse nature and frequency of transactions conducted by Group companies, numerous income and expense items of a non-regular nature may occur with considerable frequency. These items of income and expense are only presented separately when they are both of an exceptional nature and were generated by a materially significant transaction.

In order to allow comparison on a like-for-like basis with amounts for the year ended 31 December 2017, the allocation of the Group's activities and companies to operating segments has changed and certain amounts and notes for the comparative period have been reclassified.

32. Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting period (IAS 1 (Revised), paragraph 68).
33. Under the indirect method, net cash from operating activities is determined by adjusting profit/(loss) for the year to reflect the impact of non-cash items, any deferment or provisions for previous or future operating inflows or outflows, and revenue or cost items linked to cash flows from investing or financing activities.

Pursuant to article 2447-septies of the Italian Civil Code, following the creation of BancoPosta's ring-fenced capital in 2011, the assets and contractual rights included therein (hereafter: "BancoPosta RFC") are shown separately in Poste Italiane SpA's statement of financial position, in a specific supplementary statement, and in the notes to the financial statements.

With regard to the interpretation and application of newly published, or revised, international accounting standards, and to certain aspects of taxation[34], where the related interpretations are based on examples of best practice or case-law that cannot yet be regarded as exhaustive, the financial statements been prepared on the basis of the relevant best practices. Any future changes or updated interpretations will be reflected in subsequent reporting periods, in accordance with the specific procedures provided for by the related standards.

2.3 Summary of significant accounting policies and measurement *criteria*

The Poste Italiane Group's financial statements have been prepared on a **historical cost basis**, with the exception of certain items for which **fair value measurement** is obligatory.

The principal accounting policies adopted by the Poste Italiane Group are described below.

Property, plant and equipment

Property, plant and equipment is stated at acquisition or construction cost, less accumulated depreciation and any accumulated impairment losses. Cost includes any directly attributable costs incurred to prepare the asset for its intended use, and the cost of dismantling and removing the asset to be incurred as a result of legal obligations requiring the asset to be restored to its original condition. Borrowing costs incurred for the acquisition or construction of property, plant and equipment are recognised as an expense in the period in which they are incurred (with the exception of borrowing costs directly attributable to the acquisition or construction of a qualifying asset, which are capitalised as part of the cost of the asset in question). Costs incurred for routine and/or cyclical maintenance and repairs are recognised directly in profit or loss in the year in which they are incurred. The capitalisation of costs attributable to the extension, modernisation or improvement of assets owned by Group companies or held under lease is carried out to the extent that they qualify for separate recognition as an asset or as a component of an asset, applying the component approach, which requires each component with a different useful life and value to be recognised separately. The original cost is depreciated on a straight-line basis from the date the asset is available and ready for use, based on the asset's expected useful life.

The useful life and residual value of property, plant and equipment are reviewed annually and adjusted, where necessary, at the end of each year. Land is not depreciated. When a depreciable asset consists of separately identifiable components, with useful lives that are significantly different from those of the other components of the asset, each component is depreciated separately, in accordance with the component approach, over a period that does not exceed the life of the principal asset.

34. The tax authorities have issued regular official interpretations only in respect of certain of the tax-related effects of the measures contained in Legislative Decree 38 of 28 February 2005, Law 244 of 24 December 2007 (the 2008 Budget Law) and the Ministerial Decree of 1 April 2009, implementing the 2008 Budget Law, which introduced numerous changes to IRES and IRAP. The MEF Decree issued on 8 June 2011 contains instructions regarding the coordinated application of EU-endorsed international accounting standards coming into effect between 1 January 2009 and 31 December 2010, in addition to regulations governing determination of the tax bases for IRES and IRAP.

The Poste Italiane Group has estimated the following useful lives for the various categories of property, plant and equipment:

Category	Years
Buildings	25-33
Structural improvements to own assets	20
Plant	4-10
Light constructions	10
Equipment	5-10
Furniture and fittings	8
Electrical and electronic office equipment	3-10
Motor vehicles, automobiles, motorcycles	4-10
Leasehold improvements	estimated lease term*
Other assets	3-5

(*) Or the useful life of the improvement if shorter than the estimated lease term.

Property and any related fixed plant and machinery located on land held under concession or sub-concession, which is to be returned free of charge to the grantor at the end of the concession term, are accounted for, based on the nature of the asset, within property, plant and equipment and depreciated on a straight-line basis over the shorter of the useful life of the asset and the residual concession term.

Gains and losses deriving from the disposal or retirement of an asset are calculated as the difference between the disposal proceeds and the net carrying amount of the asset retired or sold, and are recognised in profit or loss in the period in which the transaction occurs.

Investment property

Investment property relates to land or buildings held with a view to earn rental or lease income or for capital appreciation or both; in both cases such property generates cash flows that are largely independent of other assets. The same accounting treatment is applied to investment property as to property, plant and equipment.

Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance, which is controllable and capable of generating future economic benefits. Intangible assets are recognised at cost, including any directly attributable costs required to prepare the asset for its intended use, less accumulated amortisation and any accumulated impairment losses. Borrowings costs are capitalised as part of the cost of the asset only if directly attributable to its purchase or development; otherwise, they are recognised as an expense in the period in which they are incurred. Amortisation is applied from the date the asset is ready for use, systematically over the remaining useful life of the asset, or its estimated useful life.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets and liabilities of the company or business acquired, at the date of acquisition. Goodwill attributable to investments accounted for using the equity method is included in the carrying amount of the equity investment. Goodwill is not amortised on a systematic basis, but is tested periodically for impairment in accordance with IAS 36. This test is performed with reference to the cash generating unit ("CGU") to which the goodwill is attributable. The method applied in conducting impairment tests and the impact on the accounts of any impairment losses are described in the paragraph, "Impairment of assets".

Industrial patents, intellectual property rights, licences and similar rights

The costs of acquiring industrial patents, intellectual property rights, licences and similar rights are capitalised. Amortisation is applied on a straight-line basis, in order to allocate the purchase cost over the shorter of the expected useful life of the asset and any related contract terms, from the date the entity has the right to use the asset.

Costs associated with developing or maintaining software programmes are recognised in profit or loss in the period in which they are incurred. Costs that are directly associated with the production of identifiable and unique software products, and that generate economic benefits beyond one year, are recognised as intangible assets. Directly attributable costs, to the extent separately identifiable and measurable, include the cost of staff involved in software development and an appropriate portion of the relevant overheads. Amortisation is calculated on the basis of the estimated useful life of the software, which is usually three years. Research costs are not capitalised.

Leased assets

Assets held under finance leases, where the risks and rewards of ownership are substantially transferred to the lessee, are recognised at fair value or, if lower, at the present value of the minimum lease payments. The corresponding obligation toward the lessor, which is equal to the principal amount of future lease payments, is recognised as a financial liability. Depreciation is calculated on a straight-line basis, based on the useful lives of the various categories of asset previously described for property, plant and equipment and intangible assets.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the lease term.

Impairment of assets

At the end of each reporting period, property, plant, equipment and intangible assets with finite lives are analysed to assess whether there is any indication that an asset may be impaired (as defined by IAS 36). If any such indication exists, the recoverable amount of the asset is estimated in order to determine the impairment loss to be recognised in profit or loss. The recoverable amount is the higher of an asset's fair value less costs to sell, and its value in use, represented by the present value of the future cash flows expected to be derived from the asset. In calculating value in use, future cash flow estimates are discounted using a rate that reflects current market assessments of the time value of money, the period of the investment and the risks specific to the asset. The realisable value of assets that do not generate separate cash flows is determined with reference to the cash generating unit (CGU) to which the asset belongs.

Regardless of any impairment indicator, the assets listed below are tested for impairment every year:

- intangible assets with an indefinite useful life or that are not yet available; the impairment test can take place at any time during the year, provided that it is performed at the same time in each of the following years;
- goodwill acquired in a business combination.

An impairment loss is recognised in profit or loss for the amount by which the net carrying amount of the asset, or the CGU to which it belongs, exceeds its recoverable amount. In particular, if the impairment loss regards goodwill and is higher than the related carrying amount, the remaining amount is allocated to the assets included in the CGU to which the goodwill has been allocated, in proportion to their carrying amount[35]. Except in the case of goodwill, if the impairment indicators no longer exist, the carrying amount of the asset or CGU is reinstated and the reversal recognised in profit or loss. The reversal must not exceed the carrying amount that would have been determined had no impairment loss been recognised and depreciation or amortisation been charged.

35. If the amount of the impairment loss is greater than the carrying amount of the asset or CGU, in accordance with IAS 36, no liability is recognised, unless recognition of a liability is required by an international accounting standard other than IAS36.

Investments

In the Poste Italiane Group's consolidated financial statements, investments in subsidiaries that are not significant (individually or in the aggregate) and are not consolidated, and those in companies over which the Group exerts significant influence ("associates") and in joint ventures, are accounted for using the equity method. See the note 2.4 – *Basis of consolidation*

In Poste Italiane SpA's separate financial statements, investments in subsidiaries and associates are accounted for at cost (including any directly attributable incidental expenses), after adjustment for any impairments. Investments in subsidiaries and associates are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any impairment losses (or subsequent reversals of impairment losses) are recognised in the same way and to the same extent described with regard to property, plant and equipment and intangible assets in the paragraph, "Impairment of assets".

Financial instruments

Financial instruments include financial assets and liabilities that are classified on initial recognition at fair value based on the business purpose for which they were acquired. The purchase and sale of financial instruments are recognised by category, either on the date on which the Group commits to purchase or sell the asset (trade date or transaction date), or, in the case of the insurance transactions and BancoPosta's operations, at the settlement date[36]. For BancoPosta operations, the settlement date almost always coincides with the transaction date. Any changes in fair value between the transaction date and the settlement date are recognised in the financial statements.

Financial assets

On initial recognition, financial assets are classified in one of the following categories and valued as follows:

- Financial assets at fair value through profit or loss
  This category includes: (a) financial assets held for trading, (b) those that qualify for designation at fair value through profit or loss on initial recognition, or for which the option to measure at fair value can be exercised, and (c) derivative instruments, with the exception of the effective portion of those designated as cash flow hedges. Financial assets in this category are accounted for at fair value and changes during the period of ownership are recognised in profit or loss. Financial instruments in this category are classified as short-term if they are held for trading or if they are expected to be realised within twelve months of the end of the reporting period. Derivative instruments at fair value through profit or loss are recognised as assets or liabilities depending on whether the fair value is positive or negative. Fair value gains and losses on outstanding transactions with the same counterparty are offset, where contractually permitted.
- Loans and receivables
  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and primarily regard amounts due from customers, including trade receivables. They are included in current assets, except for those with maturities greater than twelve months after the end of the reporting period, which are classified as non-current assets. These assets are carried at amortised cost[37] using the effective interest rate method. If there is objective evidence of impairment, the asset is written down to the present value of the estimated future cash flows, with such impairment loss being recognised in profit or loss.If in subsequent periods the conditions which led to the impairment no longer exist, the carrying amount of the asset is reinstated on the basis of the value that would have resulted from application of the amortised cost method. The estimation procedure adopted in determining provisions for doubtful debts, or operating revenue to be so allocated, primarily reflects the identification and measurement of elements resulting in specific reductions in the value of individually significant assets. Financial assets with similar risk profiles are subsequently measured collectively, taking account, among other things, of the age of the receivable, the nature of the counterparty, past experience of losses and collections on similar positions and information on the related markets.

36. This is possible for transactions carried out on organised markets (the "regular way").
37. The amortised cost of a financial asset or liability means the amount recognised initially, less principal repayments and plus or minus accumulated amortisation, using the effective interest method, of the difference between the initial amount and the maturity amount, after reductions for impairment and insolvency. The effective interest rate is the rate that exactly discounts contractual (or expected) future cash payments or receipts over the expected life of the asset or liability to its initial carrying amount. Calculation of amortised cost must also include external costs and income directly attributable to the asset or liability on initial recognition.

- Held-to-maturity financial assets
  Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and maturities that the Group has a positive intention and ability to hold to maturity. These assets are carried at amortised cost using the effective interest method, adjusted to reflect any impairment loss. The same policies as described in relation to loans and receivables are applied if there is impairment.
- Available-for-sale financial assets
  Available-for-sale financial assets are non-derivative financial instruments that are either designated in this category or not attributable to any of the other categories described above. These financial instruments are recognised at fair value and any resulting fair value gains or losses are recognised in an equity reserve, with movements in such reserve being accounted for in "Other comprehensive income" (the "Fair value reserve"). This reserve is only recycled to profit or loss when the financial asset is effectively disposed of (or settled) or, in the event of accumulated losses, when there is evidence that the impairment recognised in equity cannot be recovered. Solely in the case of debt securities, if the fair value subsequently increases as the objective result of an event that took place after an impairment loss was recognised in profit or loss, the value of the financial instrument is reinstated and the reversal recognised in profit or loss. The recognition of returns on debt securities under the amortised cost method takes place through profit or loss, as do the effects of movements in exchange rates, whilst movements in exchange rates relating to available-for-sale equity instruments are recognised in a specific equity reserve, with movements in the reserve accounted for in "Other comprehensive income". The classification of an asset as current or non-current depends on the term to maturity of the financial instrument. Financial instruments expected to be realised within twelve months of the end of the reporting period are, in any event, classified as current assets.

Financial assets are derecognised when there is no longer a contractual right to receive cash flows from the investment or when all the related risks and rewards and control have been substantially transferred.

Financial liabilities

Financial liabilities, including borrowings, trade payables and other payment obligations, are carried at amortised cost using the effective interest method. If there is a change in the expected cash flows and they can be reliably estimated, the value of borrowings is recalculated to reflect the change on the basis of the present value of estimated future cash flows and the internal rate of return initially applied. Financial liabilities are classified as current liabilities, unless there is an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

Financial liabilities are derecognised when settled or when all the related risks and rewards have been substantially transferred.

Derivative instruments

Derivatives are initially recognised at fair value on the date the derivative contract is executed and if they do not qualify for hedge accounting treatment, gains and losses arising from changes in fair value are accounted for in profit or loss for the period.

If, on the other hand, derivative financial instruments qualify for hedge accounting, gains and losses arising from changes in fair value after initial recognition are accounted for in accordance with the specific policies described below.

The relationship between each hedging instrument and the hedged item is documented, as well as the risk management objective, the strategy for undertaking the hedge transaction and the methods used to assess effectiveness. Assessment of whether the hedging derivative is effective takes place both at inception of the hedge and throughout the term of the hedge.

- Fair value hedges[38]
  When the hedge is related to recognised assets or liabilities, or an unrecognised firm commitment, the changes in fair value of both the hedging instrument and the hedged item are recognised in profit or loss. When the hedging transaction is not fully effective, resulting in differences between the above changes, the ineffective portion represents a loss or gain recognised separately in profit or loss for the period.

38. A hedge of the exposure to a change in fair value of a recognised asset or liability or of an unrecognised firm commitment attributable to a particular risk, and that could have an impact on profit or loss.

IAS 39 allows, in addition to individual assets and liabilities, the designation of a cash amount, representing a group of financial assets and liabilities (or portions thereof) as the hedged item in such a way that a group of derivative instruments may be used to reduce exposure to fair value interest rate risk (a so-called macro hedge). Macro hedges cannot be used for net amounts deriving from differences between assets and liabilities. Like micro hedges, macro hedges are deemed highly effective if, at their inception and throughout the term of the hedge, changes in the fair value of the cash amount are offset by changes in the fair value of the hedges, and if the effective results fall within the interval required by IAS 39.

- Cash flow hedges[39]

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges after initial recognition is recognised in a specific equity reserve, with movements in the reserve accounted for in "Other comprehensive income" (the "Cash flow hedge reserve"). A hedging transaction is generally considered highly effective if, both at inception of the hedge and on an ongoing basis, changes in the expected future cash flows of the hedged item are substantially offset by changes in the fair value of the hedging instrument. If the hedging transaction is not fully effective, the gain or loss arising from a change in fair value relating to the ineffective portion is recognised in profit or loss for the period.

Amounts accumulated in equity are recycled to profit or loss in the period in which the hedged item affects profit or loss. In particular, in the case of hedges associated with a highly probable forecast transaction (such as the purchase of fixed income debt securities), the reserve is reclassified to profit or loss in the period or in the periods in which the asset or liability, subsequently accounted for and connected to the aforementioned transaction, will affect profit or loss (for example, an adjustment to the return on the security).

If, during the life of the derivative, the forecast hedged transaction is no longer expected to occur, the related gains and losses accumulated in the cash flow hedge reserve are immediately reclassified to profit or loss for the period. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the related gains and losses accumulated in the cash flow hedge reserve at that time remain in equity and are recognised in profit or loss at the same time as the original underlying.

39. A hedge of the exposure to the variability of cash flows attributable to a particular risk associated with an asset or liability or with a highly probable forecast transaction, and that could have an impact on profit or loss.

Classification of receivables and payables attributable to BancoPosta RFC

Receivables and payables attributable to BancoPosta RFC are treated as financial assets and liabilities if related to BancoPosta's typical deposit-taking and lending activities, or services provided under authority from customers. The related operating expenses and income, if not settled or classifiable in accordance with Bank of Italy Circular 272 of 30 July 2008 – The Account Matrix, are accounted for in trade receivables and payables.

Own use exemption

The standards establishing the principles for the recognition and measurement of financial instruments are also applied to derivative contracts to buy or sell non-financial items that are settled net in cash or in another financial instrument, with the exception of contracts entered into, and that continue to be held, for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements (the own use exemption).

This exemption applies to the recognition and measurement of forward electricity contracts entered into by the subsidiary EGI SpA if the following conditions have been met:

- the contract involves the physical supply of a commodity;
- the entity has not entered into an offsetting contract;
- the transaction must be entered into in accordance with expected purchase and/or sale or usage requirements.

In the event of application of the own use exemption, the commitments assumed are reported in note 11 *Additional information - Commitments.*

Income tax expense

Current income tax expense (IRES and IRAP) is based on the best estimate of taxable profit for the period and the related regulations, applying the rates in force. Deferred tax assets and liabilities are calculated on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts, using tax rates that are expected to apply when the related deferred tax assets are realised or the deferred tax liabilities are settled. Deferred tax assets and liabilities are not recognised if the temporary differences derive from investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary difference is controlled by the Group or it is probable that the temporary difference will not reverse in the foreseeable future (IAS 12.39 and 12.40). In accordance with IAS 12, deferred tax liabilities are not recognised on goodwill deriving from a business combination.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Current and deferred taxes are recognised in profit or loss, with the exception of taxes charged or credited directly to equity, in which case the tax effect is recognised directly in equity. Current and deferred tax assets and liabilities are offset when they are applied by the same tax authority to the same taxpaying entity, which has the legally exercisable right to offset the amounts recognised, and the entity has the intention of exercising this right. As a result, tax liabilities accruing in interim periods that are shorter than the tax year are not offset against related assets deriving from withholding tax or advances paid.

The Group's tax expense and related accounting treatment reflect the effects of the election to adopt a tax consolidation arrangement, in accordance with relevant legislation, by Poste Italiane SpA, together with the subsidiaries, Poste Vita SpA, SDA Express Courier SpA, Mistral Air Srl, Postel SpA and, from 1 January 2017, Risparmio Holding SpA. The tax consolidation arrangement is governed by Group regulations based on the principles of neutrality and equality of treatment, which are intended to ensure that the companies included in the tax consolidation are in no way penalised as a result. Following adoption of the tax consolidation arrangement, the Parent Company's tax expense is determined at consolidated level on the basis of the tax expense or tax losses for the period for each company included in the consolidation, taking account of any withholding tax or advances paid. Poste Italiane SpA posts its IRES tax expense to income taxes for the period, after adjustments to take account of the positive or negative impact of tax consolidation adjustments. Should the reductions or increases in tax expense deriving from such adjustments be attributable to the companies included in the tax consolidation, Poste Italiane SpA attributes such reductions or increases in tax expense to the companies in question. the economic benefits deriving from the offset of tax losses transferred to the consolidating entity by the companies participating in the tax consolidation arrangement are recognised in full by Poste Italiane SpA. Other taxes not related to income are included in "Other operating costs".

Inventories

Inventories are valued at the lower of cost and net realisable value. The cost of interchangeable items and goods for resale is calculated using the weighted average cost method. In the case of non-interchangeable items, cost is measured on the basis of the specific cost of the item at the time of purchase. The value of the inventories is adjusted, if necessary, by provisions for obsolete or slow moving stock. When the circumstances that previously led to recognition of the above provisions no longer exist, or when there is a clear indication of an increase in the net realisable value, the provisions are fully or partly reversed, so that the new carrying amount is the lower of cost and net realisable value at the end of the reporting period. Assets are not, however, recognised in the statement of financial position when the Group has incurred an expense that, based on the best information available at the date of preparation of the financial statements, is deemed unlikely to generate economic benefits for the Group after the end of the reporting period.

In the case of properties held for sale[40], cost is represented by the fair value of each asset at the date of acquisition, plus any directly attributable transaction costs, whilst the net realisable value is based on the estimated sale price under normal market conditions, less direct costs to sell.

Long-term contract work is measured using the percentage of completion method, using cost to cost accounting[41].

Green Certificates (Emission Allowances)

With reference to Group companies subject to these rules[42], Green Certificates (or Emission Allowances) are a means of reducing greenhouse gas emissions, introduced into Italian and European legislation by the Kyoto Protocol with the aim of improving the technologies used in the production of energy and in industrial processes.

The European Emissions Trading System, which works on the basis of the cap and trade principle, has capped annual greenhouse gas emissions at European level. This corresponds to the issue, free of charge, of a set number of emission allowances by the competent national authorities. During the year, depending on the effective volume of greenhouse gas emissions produced with respect to the above cap, each company has the option of selling or purchasing emission allowances on the market.

In compliance with the requirements of the *OIC* (the Italian accounting standards setter) regarding "Greenhouse gas emissions allowances", in addition to being best practice for the principal IAS adopters, the accounting treatment is as follows.

The issue, free of charge, of emission allowances involves a commitment to produce, in the relevant year, a quantity of greenhouse gas emissions in proportion to the emission allowances received: this commitment is accounted for in the memorandum accounts based on the fair value of the emission allowances at the time of allocation. At the end of the year, the commitment is reduced or derecognised in proportion to the greenhouse gas emissions effectively produced and any residual value is reported in the section, "Additional information", in the Annual Report. The purchase and sale of emission allowances are accounted for in profit or loss in the year in which the transaction occurs. At the end of the year, any surplus emission allowances deriving from purchases are accounted for in closing inventory at the lower of cost and net realisable value. Any surplus emission allowances allocated free of charge are not accounted for in closing inventory. In the event of a shortfall in emission allowances the resulting charge and related liability are accounted for at the end of the year at fair value.

40. These are properties held by EGI SpA and not accounted for in "Investment property" as they were purchased for sale or subsequently reclassified as held for sale.
41. This method is based on the ratio of costs incurred as of a given date divided by the estimated total project cost. The resulting percentage is then applied to estimated total revenue, obtaining the value to be attributed to the contract work completed and accrued revenue at the given date.
42. The subsidiary, Mistral Air Srl.

BancoPosta cash and deposits

Cash and securities held at post offices, and bank deposits attributable to the operations of BancoPosta RFC, are accounted for separately from cash and cash equivalents as they derive from deposits subject to investment restrictions, or from advances from the Italian Treasury to ensure that post offices can operate. This cash cannot be used for purposes other than those relating to the aforementioned operations.

Cash and cash equivalents

Cash and cash equivalents refer to cash in hand, deposits held at call with banks, amounts that at 31 December 2017 the Parent Company has temporarily deposited with the MEF and other highly liquid short-term investments with original maturities of ninety days or less. Current account overdrafts are accounted for in current liabilities.

Non-current assets (or disposal groups) classified as held for sale and discontinued operations

In compliance with IFRS 5, non-current assets, disposal groups and discontinued operations are measured at the lower of their carrying amount and fair value, less costs to sell.

When it is highly probable that the carrying amount of a non-current asset, or a disposal group, will be recovered, in its present condition, principally through a sale transaction or other form of disposal, rather than through continuing use, and the transaction likely to take place in the short term, the asset or disposal group is classified as held for sale or as a discontinuing operation in the statement of financial position. The transaction is deemed to be highly probable, when the Parent Company's Board of Directors, or, when so authorised, the board of directors of a subsidiary, has committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan has been initiated. Sale transactions include exchanges of non-current assets for other non-current assets when the exchange has commercial substance.

Non-current assets and net assets in a disposal group held for sale are recognised as discontinued operations if one of the following conditions is met: i) they represent a major line of business or geographical area of operation, ii) they are part of a single coordinated plan to dispose of a separate major line of business or geographical area of operation, or, iii) they are subsidiaries acquired exclusively with a view to resale. The profit or loss from discontinued operations, and any gains or losses following the sale, are presented separately in a specific item in profit or loss, after the related taxation, with comparatives.

If the commitment to a plan to sell is assumed after the end of the reporting period, and/or the asset or disposal group can only be included in the transaction under conditions that are different from the current conditions, the Group does not proceed with reclassification and discloses the necessary information.

If, after the date of preparation of the financial statements, an asset (or disposal group) no longer meets the conditions for classification as held for sale, it must be reclassified following measurement at the lower of

- the carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortisation, impairments or reversals of impairments that would have been recognised if the asset (or disposal group) had not been classified as held for sale;
- the recoverable amount, calculated at the date on which the decision not to sell was made.

Any adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale is included in "Profit/(Loss) for the year from continuing operations" in the period in which it no longer meets the conditions for classification as held for sale. If an individual asset or liability is removed from the disposal group classified as held for sale, the remaining assets and liabilities in the disposal group continue to be measured as a single group only if they continue to meet the conditions for classification as held for sale.

Equity

Share capital

Share capital is represented by Poste Italiane SpA's subscribed and paid-up capital. Incremental costs directly attributable to the issue of new shares are recognised as a reduction of the share capital, net of any deferred tax effect.

Reserves

Reserves include capital and revenue reserves. They include, the BancoPosta ring fenced capital reserve (hereafter "BancoPosta RFC"), representing the dedicated assets attributed to BancoPosta RFC, the Parent Company's legal reserve, the fair value reserve, relating to items recognised at fair value through equity, and the cash flow hedge reserve, reflecting the effective portion of hedging instruments outstanding at the end of the reporting period.

Retained earnings

This relates to the portion of profit for the period and for previous periods which has not been distributed or taken to reserves or used to cover losses and actuarial gains and losses deriving from the calculation of the liability for employee termination benefits. This item also includes transfers from other equity reserves, when they have been released from the restrictions to which they were subjected.

Insurance contracts

The following policies and classification and measurement criteria refer specifically to the operations of the Poste Italiane Group's insurance companies.

Insurance contracts are classified and measured as insurance contracts or finance contracts, based on their prevalent features. Contracts issued by Poste Vita SpA primarily relate to life assurance. In 2010 Poste Assicura SpA began operating in the non-life sector.

The Group applies the following bases for classification and measurement of these contracts.

Insurance contracts

Contracts classified as insurance contracts in accordance with IFRS 4 include Class I and Class V life insurance policies, Class III policies that qualify as insurance contracts and non-life insurance contracts. These products are accounted for as follows:

- insurance premiums are accounted for when the policies are written, recognised as income and classified in revenue (shown net of outward reinsurance premiums); they include annual or single premiums accruing during the period and deriving from insurance contracts outstanding at the end of the reporting period, net of cancellations;
- technical provisions are made in respect of earned premiums to cover obligations to policyholders; such provisions are calculated on an analytical basis for each contract using the prospective method, based on actuarial assumptions appropriate to cover all outstanding obligations. An increase in technical provisions and the cost of claims are recognised as expenses in profit or loss, whilst a reduction in technical provisions, compared with the previous period, is recognised in income.

Contracts for separately managed accounts with discretionary participation features

In the case of contracts for separately managed accounts with discretionary participation features[43] (as defined in Appendix A of IFRS 4), IFRS 4 makes reference to national GAAP. The contracts are classified as "financial", but accounted for as "insurance" as follows:

- premiums, movements in technical provisions and other claims expenses are recognised in the same way as the insurance contracts described above;
- unrealised gains and losses attributable to policyholders are assigned to them and recognised in technical provisions (deferred liabilities payable to policyholders) under the shadow accounting method (IFRS 4.30).

The calculation technique used in applying the shadow accounting method is based on the prospective yield on each separately managed account, considering a hypothetical realisation of unrealised gains and losses over a period which is consistent with the characteristics of the assets and liabilities held in the portfolio. The amount to be recognised as a deferred liability also takes account, for each separately managed account, of the contractual obligations, the level of guaranteed minimum returns and any financial guarantees provided.

43. A contractual right of investors to receive returns on the separately managed account.

Provisions for risks and charges

Provisions for risks and charges are recorded to cover losses that are either probable or certain to be incurred, for which, however, there is an uncertainty as to the amount or as to the date on which they will occur.

Provisions for risks and charges are made when the Group has a present (legal or constructive) obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation. Provisions are measured on the basis of management's best estimate of the use of resources required to settle the obligation. The value of the liability is discounted at a rate that reflects current market values and takes into account the risks specific to the liability. In those rare cases, in which disclosure of some or all of the information regarding the risks in question could seriously prejudice the Group's position in a dispute or in ongoing negotiations with third parties, the Group exercises the option granted by the relevant accounting standards to provide limited disclosure.

Employee benefits

Short-term benefits

Short-term employee benefits are those that will be fully paid within twelve months of the end of the year in which the employee provided his or her services. Such benefits include wages, salaries, social security contributions, holiday pay and sick pay.

The undiscounted value of short-term employee benefits to be paid to employees in consideration of employment services provided over the relevant period is accrued as personnel expenses.

Post-employment benefits

Post-employment benefits are of two types:

- Defined benefit plans
  Defined benefit plans include employee termination benefits payable to employees in accordance with article 2120 of the Italian Civil Code. For all companies with at least 50 employees, covered by the reform of supplementary pension provision, from 1 January 2007 vesting employee termination benefits must be paid into a supplementary pension fund or into a Treasury Fund set up by INPS. Accordingly the company's defined benefit liability is applicable only to the provisions made up to 31 December 2006[44]. In the case of companies with less than 50 employees, to which the reform of supplementary pension provision does not apply, vested employee termination benefits continue to represent a defined benefit liability for the company. Under these plans, given that the amount of the benefit to be paid is only quantifiable following the termination of employment, the related effects on profit or loss or the financial position are recognised on the basis of actuarial calculations in compliance with IAS 19. In particular, the liability to be paid on cessation of employment is calculated using the projected unit credit method and then discounted to recognise the time value of money prior to the liability being settled. The liability recognised in the financial statements is based on calculations performed by independent actuaries.The calculation takes account of termination benefits accrued for the period of service to date and is based on actuarial assumptions. These primarily regard: demographic assumptions (such as employee turnover and mortality) and financial assumptions (such as rate of inflation and a discount rate consistent with that of the liability). In the case of companies with at least 50 employees, as the company is not liable for employee termination benefits accruing after 31 December 2006, the actuarial calculation of employee termination benefits no longer takes account of future salary increases. Actuarial gains and losses are recognised directly in other comprehensive income at the end of each reporting period, based on the difference between the carrying amount of the liability and the present value of the Group's obligations at the end of the period, due to changes in the actuarial assumptions, are recognised directly in *Other comprehensive income*.

44. Where, following entry into effect of the new legislation, the employee has not exercised any option regarding the investment of vested employee termination benefits, the Group has remained liable to pay the benefits until 30 June 2007, or until the date, between 1 January 2007 and 30 June 2007, on which the employee exercised a specific option. Where no option was exercised, from 1 July 2007 vested employee termination benefits have been paid into a supplementary pension fund.

- Defined contribution plans
  TFR falls within the scope of defined contribution plans provided the benefits vested subsequent to 1 January 2007 and were paid into a Supplementary Pension Fund or a Treasury Fund at INPS. Contributions to defined contribution plans are recognised in profit or loss when incurred, based on their nominal value.

Termination benefits

Termination benefits payable to employees are recognised as a liability when the entity gives a binding commitment, also on the basis of consolidated relationships and mutual undertakings with union representatives, to terminate the employment of an employee, or group of employees, prior to the normal retirement date or, alternatively, an employee or group of employees accepts an offer of benefits in consideration of a termination of employment. Termination benefits payable to employees are immediately recognised as personnel expenses.

Other long-term employee benefits

Other long-term employment benefits consist of benefits not payable within twelve months of the end of the reporting period during which the employees provided their services. The net change in the value of any of the components of the liability during the reporting period is recognised in full in profit or loss. Measurement of the other long-term employee benefits liability is recognised in the financial statements also on the basis of calculations performed by independent actuaries.

Share-based payment

Goods or services received or acquired and the liability assumed in a share-based payment transaction – settled in cash, equity instruments or in other financial instruments – are recognised at fair value. In the case of a cash-settled transaction, the fair value of the liability is remeasured at the end of each reporting period, with any changes in fair value recognised in profit or loss, until the liability is settled. In the case of employee benefits, the expense is recognised in personnel expenses over the period in which the employee renders the relevant service.

Translation of items denominated in currencies other than the euro

Transactions in currencies other than the euro are translated to euro using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at closing exchange rates of monetary assets and liabilities denominated in currencies other than the euro are recognised in profit or loss.

Revenue recognition

Revenue is recognised at the fair value of the consideration received, net of rebates and discounts, and in accordance with the accruals basis of accounting. Revenue from the rendering of services is recognised when it can be reliably measured on the basis of the stage of completion of the service provided. Revenue from activities carried out in favour of or on behalf of the state and Public Administration entities is recognised on the basis of the amount effectively accrued, with reference to the laws and agreements in force, taking account, in any event, of the instructions contained in legislation regarding the public finances. The return on the current account deposits held by the MEF is determined using the effective interest method and is recognised as revenue from financial services. The same classification is applied to income from euro area government securities, in which deposits paid into accounts by private customers are invested. Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer.

Government grants

Government grants are recognised once they have been formally allocated to the Group by the public entity concerned and only if, based on the information available at the end of the year, there is reasonable assurance that the project to which the grant relates will be effectively carried out and completed in accordance with the conditions attached to the grant. Government grants are recognised in profit or loss as other operating income as follows: grants related to income are recognised in proportion to the costs actually incurred for the project and accounted for to the public entity; grants related to property, plant and equipment are recognised in proportion to the depreciation charged on the assets acquired and used to carry out the projects and whose cost have been accounted for to the public entity.

Finance income and costs

Finance income and costs are recognised on an accruals basis based on the effective interest method, i.e. using an interest rate that discounts all cash flows relating to a given transaction in the same way.

Dividends

Dividends are recognised as finance income when the right to receive payment is established, which generally corresponds with approval of the distribution by the Shareholders Meeting of the investee company. Dividends from subsidiaries are accounted for as "Other operating income".

Earnings per share

In the Poste Italiane Group's consolidated financial statements, earnings per share is determined as follows:

Basic: basic earnings per share is calculated by dividing the Group's profit for the year by the weighted average number of Poste Italiane SpA's ordinary shares in issue during the period.

Diluted: At the date of preparation of these financial statements no financial instruments have been issued which have potentially dilutive characteristics[45].

Related parties

Related parties within the Group refer to Poste Italiane SpA's direct and indirect subsidiaries and associates. Related parties external to the Group include the MEF and its direct or indirect subsidiaries and associates. The Group's key management personnel are also classified as related parties, as are funds providing post-employment benefits to the Group's employees and the related entities. The state and Public Administration entities other than the MEF are not classified as related parties. Related party transactions do not include those deriving from financial assets and liabilities represented by instruments traded on organised markets.

45. Diluted earnings per share are calculated by taking into account the potentially dilutive effect of all instruments which can be converted into ordinary shares issued by the Parent Company. The calculation is based on the ratio of profit attributable to the Parent Company, adjusted to take account of any costs or income deriving from the conversion, net of any tax effect, and the weighted average number of shares outstanding, assuming conversion of all convertible securities.

2.4 Basis of consolidation

The Poste Italiane Group's consolidated financial statements include the financial statements of Poste Italiane SpA and of the companies over which the Parent Company directly or indirectly exercises control, as defined by IFRS 10, from the date on which control is obtained until the date on which control is no longer held by the Group. The Group controls an entity when it simultaneously:

- has power over the investee;
- is exposed, or has rights to, variable returns from its involvement with the investee;
- has the ability to influence those returns through its power over the investee.

Control is exercised both via direct or indirect ownership of voting shares, and via the exercise of dominant influence, defined as the power to govern the financial and operating policies of the entity, including indirectly based on legal agreements, obtaining the related benefits, regardless of the nature of the equity interest. In determining control, potential voting rights exercisable at the end of the reporting period are taken into account.

The consolidated financial statements have been specifically prepared at 31 December 2017, after appropriate adjustment, where necessary, to align accounting policies with those of the Parent Company.

Subsidiaries that, in terms of their size or operations, are, either individually or taken together, irrelevant to a true and fair view of the Group's results of operations and financial position have not been included within the scope of consolidation. The criteria used for line-by-line consolidation are as follows:

- the assets, liabilities, costs and revenue of consolidated entities are accounted for on a line-by-line basis, separating where applicable the equity and profit/(loss) amounts attributable to non-controlling interests in consolidated equity and consolidated profit or loss;
- business combinations, in which control over an entity is acquired, are accounting for using the acquisition method. The cost of acquisition is based on the fair values of the assets given, the liabilities incurred and the equity instruments issued by the acquirer, plus any directly attributable acquisition costs incurred. Any difference between the cost of acquisition and the fair values of the assets and liabilities acquired, following review of their fair value, is recognised as goodwill arising from consolidation (if positive), or recognised in profit or loss (if negative);
- acquisitions of non-controlling interests in entities already controlled by the Group are not accounted for as acquisitions, but as equity transactions; in the absence of a relevant accounting standard, the Group recognises any difference between the cost of acquisition and the related share of net assets of the subsidiary in equity;
- any significant gains and losses (and the related tax effects) on transactions between companies consolidated on a line-by-line basis, to the extent not yet realised with respect to third parties, are eliminated, as are intercompany payables and receivables, costs and revenue, and finance costs and income;
- gains and losses deriving from the disposal of investments in consolidated companies are recognised in profit or loss based on the difference between the sale price and the corresponding share of consolidated equity disposed of.

Investments in subsidiaries that are not significant and are not consolidated, and those in companies over which the Group exerts significant influence (assumed when the Group holds an interest of between 20% and 50%), hereinafter "associates", and joint ventures are accounted for using the equity method.

At the time of acquisition, the investment is accounted for using the equity method. Any difference between the cost of acquisition of the investment and the net fair value of the investee's identifiable assets and liabilities is accounted for as follows:

a. goodwill related to an associate or a joint venture is included in the carrying amount of the investment. Amortisation of such goodwill is not permitted;

b. in determining the initial value of the entity's investment, any excess of the entity's interest in the net fair value of investee's identifiable assets and liabilities over cost is recognised as income in determining the acquirer's interest in the profit (loss) for the period of the associate or joint venture in the period in which the interest is acquired.

After acquisition, appropriate adjustments are made to the entity's share of the profits or losses of the associate or joint venture to account, for example, for additional depreciation or amortisation of the investee's depreciable or amortisable assets, based on the excess of their fair values over their carrying amounts at the time the investment was acquired, and of any impairment losses on goodwill or property, plant and equipment.

The equity method is as follows:

- the Group's share of an entity's post-acquisition profits or losses is recognised in profit or loss from the date on which significant influence or control is obtained until the date on which significant influence or control is no longer exerted by the Group; provisions are made to cover a company's losses that exceed the carrying amount of the investment, to the extent that the Group has legal or constructive obligations to cover such losses; changes in the equity of companies accounted for using the equity method not related to the profit/(loss) for the year are recognised directly in equity;
- unrealised gains and losses on transactions between the Parent Company/subsidiaries and the company accounted for using the equity method are eliminated to the extent of the Group's interest in the associate; unrealised losses, unless relating to impairment, are eliminated.

The following table shows the number of subsidiaries by method of consolidation and measurement:

Subsidiaries and joint ventures	At 31 December 2017	At 31 December 2016
Consolidated on a line-by-line basis	15	17
Accounted for using the equity method	6	6
Total companies	**21**	**23**

A list of companies consolidated on a line-by-line basis and using the equity method is provided in note 11 *Additional information – Information on investments.*

2.5 Use of estimates

Preparation of the annual accounts requires the application of accounting standards and methods that are at times based on complex subjective judgments and estimates based on historical experience, and assumptions that are considered reasonable and realistic under the circumstances. Use of such estimates and assumptions affects the amounts reported in the financial statements and related disclosures. The actual amounts of items for which the above estimates and assumptions have been applied may differ from those reported in previous financial statements, due to uncertainties regarding the assumptions themselves and the conditions on which estimates are based. Estimates and assumptions are periodically reviewed and the impact of any changes is reflected in the financial statements for the period in which the estimate is revised if the revision only influences the current period, or also in future periods if the revision influences both current and future periods.

This section provides a description of accounting treatments that require the use of subjective estimates and for which a change in the conditions underlying the assumptions used could have a material impact on the Group's financial statements.

Revenue and receivables due from the State

The Group has substantial receivables due from the State, though the amount is much lower than in the past. Revenue from activities carried out in favour of or on behalf of the State and Public Administration entities is recognised on the basis of the amount effectively accrued, with reference to the laws and agreements in force, taking account, in any event, of the instructions contained in legislation regarding the public finance. The legal framework of reference is still subject to change and, as has at times been the case, circumstances were such that estimates made in relations to previous financial statements, with effects on the statement of profit and loss, had to be changed. The complex process associated with the determination of receivables, which has not been completed yet, may result in changes in the results for the years after that ended 31 December 2017 to reflect variations in estimates, due to future regulatory enactments or following the finalisation of expired agreements to be renewed.

At 31 December 2017, Poste Italiane Group's receivables outstanding with central and local authorities amounted to €969 million (€1,010 million at 31 December 2016), gross of provisions for doubtful debts. The significant decrease in the amounts outstanding at 31 December 2017 and 31 December 2016, with respect to the past, reflects the effects of the review of the main exposures conducted by a joint working group with the MEF – Treasury and General Accounting Department, which ended in August 2015.

On 7 August 2015, the MEF committed *"the Ministry to complete all the procedures necessary in order to pay the amounts due in accordance with procedures and timing consistent with the current privatisation process (…), including provision of the necessary funding"* and sent the Parent Company a letter signed by the Director General of the Treasury Department and General Accounting Office (the "MEF letter"), constituting a legally binding commitment.

The table below summarises receivables due from the State:

Receivables (€m)		at 31 December 2017	at 31 December 2016
Universal Service compensation	(i)	31	139
Electoral subsidies	(ii)	83	83
Remuneration of current account deposits	(iii)	25	8
Delegated services	(iii)	56	28
Distribution of Euroconvertors	(iii)	-	6
Other		2	3
Trade receivables due from the MEF		**197**	**267**
Loans and receivables due from the MEF			
for repayment of loans accounted for in liabilities		**-**	**1**
Shareholder transactions:			
Amount due from MEF following cancellation of EC Decision of 16 July 2008	(iv)	**39**	**45**
Total amounts due from the MEF		**236**	**313**
Receivables due from Ministries and Public Administration entities: Cabinet Office for publisher tariff subsidies	(v)	43	1
Receivables due from Ministries and Public Administration entities: Ministry for Econ. Dev.	(vi)	77	75
Other trade receivables due from Public Administration entities	(vii)	538	557
Trade receivables due from Public Administration entities		**658**	**633**
Other receivables and assets:			
Sundry receivables due from Public Administration entities	(viii)	8	8
Amounts receivable for IRES refund		55	56
Amounts receivable for IRAP refund		12	-
Current tax assets and related interest	(ix)	**67**	**56**
Total amounts due from the MEF and Public Administration entities		**969**	**1,010**

Specifically, at 31 December 2017, the total exposure to the State includes the following items.

i. Receivables related to Universal Service compensation, totalling €31 million and relating to compensation for previous years not funded in the state budget. In 2017, the Group received €262 million in accrued compensation for the period and €108 million related to compensation for 2015 and 2014 (see note 5.3 - A7 Trade receivables).

ii. Receivables related to electoral tariff subsidies, totalling €83 million, a sum acknowledged in the MEF Letter, fully funded in the state budget for 2017 and for prior years, and awaiting approval by the European Commission. These receivables are shown gross of collection of the amount of €55 million deposited in an escrow account with the MEF in December 2017. For this reason, the account, which is non-interest bearing and held with the Treasury, is accounted for in "Prepayments received". The release of the amount deposited with the MEF and derecognition of the receivables in question will occur once the European Commission has given the related consent.

iii. Sums due from the MEF in the amount of €81 million, accruing during the period and not giving rise to any particular concerns. Receivables deriving from the distribution of Euroconverters, accruing in previous year and acknowledged in the MEF letter, were collected in full during 2017.

iv. Receivables of €39 million following cancellation of the EC Decision of 16 July 2008 and the interest due as a result of the sentence of the European Court of 30 September 2013, the impact of which on the Parent Company's equity was deferred or adjusted. A total of €6 million, acknowledged in the MEF letter, was collected in 2017.

v. A sum due from the Cabinet Office, including €43 million accruing during the period[46] included in the state budget for 2017 and awaiting approval by the European Commission. The sum of €1 million, acknowledged in the MEF Letter, was collected in 2017.

vi. Receivables due from the Ministry for Economic Development, amounting to €77 million, including receivables of €62 million that are the subject of legal proceedings following the decision by the State Attorney's Office not to clear a negotiated settlement worth approximately €50 million; with regard to the remaining amount, a joint working group has been set up with the debtor to agree on the amount of the services to be billed, partly on the basis of the results of the expert appraisal conducted as part of the above legal action.

vii. Regarding receivables outstanding with central and local government entities, totalling €538 million, certain items are still overdue, mainly because no provision was made in the relevant budgets or in connection with contracts or agreements. To this end, steps continue to be taken to renew the expired agreements and to make the necessary provisions[47].

viii. Other receivables of €8 million, for which provisions for doubtful debts for the full amount have been made.

ix. Remaining current tax assets and the related interest to be recovered in relation to:

- €55 million in IRES to be recovered on the unreported lump-sum deduction equal to 10% of IRAP and the unreported deduction of IRAP incurred on personnel expenses, including €8 million in principal and €47 million in interest. Recovery of a large part of the amount due, attributable to the Parent Company, Poste Italiane, is the subject of two disputes heard by the Provincial Tax Tribunal for Rome, which has upheld Poste Italiane's appeals, ordering the tax authorities in Rome to refund the amounts claimed, in addition to the payment of interest. The tax authorities have appealed both rulings before the Regional Tax Tribunal and, on 23 March 2018, the Tribunal upheld the tax authorities' appeal against one of the rulings. Poste Italiane intends to appeal this ruling before the Supreme Court of Cassation. The recent ruling, in contrast with other previous favourable rulings, introduces new elements of uncertainty as regards the final outcome. The progress of the dispute is being closely monitored and should further developments lead the Company to reach a new and revised assessment of the situation, this will be reflected in future financial statements.
- €12 million in IRAP to be recovered on the unreported deduction of expenses for disabled personnel in 2003. This receivable, including accrued interest of approximately €3 million at 31 December 2017, was assessed during the year under review, following the ruling handed down by the Regional Tax Tribunal for Lazio, which upheld an earlier appeal brought by the Parent Company, challenging the failure of the tax authorities in Rome to refund the amount claimed. This ruling was not appealed within the statutory deadline and is thereby final.

At 31 December 2017, provisions for doubtful debts reflect receivables for which no provision had been made in the state budget and other past due sums.

Provisions for risks and charges

The Group makes provisions for probable liabilities deriving from disputes with staff, suppliers, and third parties and, in general, for liabilities deriving from present obligations. These provisions cover the liabilities that could result from legal action of varying nature, the impact on profit or loss of seizures incurred and not yet definitively assigned, and amounts expected to be refundable to customers where the final amount payable has yet to be determined.

Determination of the provisions involves the use of estimates based on current knowledge of factors that may change over time, potentially resulting in outcomes that may be significantly different from those taken into account in preparing these financial statements.

46. Publisher tariff subsidies were reinstated by Law Decree 244/2016 (the so-called "Mille Proroghe" decree), in effect from 1 January 2017 and converted with amendments into Law 19 of 27 February 2017.

47. The principal agreements that have expired regard those governing relations with INPS in relation to the payment of vouchers on the institution's behalf (see note 5.3 – A7 Trade receivables) and with the tax authorities in relation to the collection and reporting of road tax, the payment of tax refunds and the notification of fines.

Impairment tests of cash generating units and equity investments

Goodwill and other non-current assets are tested for impairment in accordance with the applicable accounting standards.

Impairment testing involves the use of estimates based on factors that may change over time, potentially resulting in effects that may be significantly different from prior year estimates.

In the Parent Company's case, the Mail, Parcels and Distribution segment, to which goodwill has been allocated, was tested for impairment. Each of the other Group companies is considered a separate CGU. Details of goodwill are provided in table A3.2.

The impairment tests at 31 December 2017 were performed on the basis of the five-year business plans of the units concerned or the latest available projections. Data from the last year of the plan have been used to project cash flows for subsequent years over an indefinite time, and the resulting value was then discounted using the Discounted Cash Flow (DCF) method. For the determination of value in use, NOPLAT (net operating profit less adjusted taxes) was capitalised using an appropriate growth rate and discounted using the related WACC (Weighted Average Cost of Capital)[48].

With regard to Poste Italiane SpA alone, impairment tests were carried out on investments. The methods and criteria used to carry out the tests are in line with those described in relation to goodwill and other intangible assets. The results of the tests are described in note 5.3 – A4 Investments.

Goodwill

Goodwill is tested at least annually to assess whether or not it has suffered any impairment to be recognised in profit or loss.

The test involves the allocation of goodwill to the various cash generating units and the subsequent measurement of the related recoverable amount. If the resulting recoverable amount is lower than the carrying amount of the cash generating unit, it is necessary to reduce the value of goodwill allocated to the unit. The allocation of goodwill to cash generating units and the measurement of their fair value involves the use of estimates based on factors that may change over time, affecting the analyses performed.

Measurement of other non-current assets

The current economic and financial crisis - which has resulted in highly volatile markets and great uncertainty with regard to economic projections - and the decline of the postal market in which the Group operates make it difficult to produce forecasts that can, with certainty, be defined as reliable. In this context, as at 31 December 2017, in part in view of the content of the Group's Strategic Plan for 2018-2022, approved by the Parent Company's Board of Directors on 26 February 2018, and the ongoing crisis in the postal and real estate sectors, the Parent Company's Mail, Parcels and Distribution segment was tested for impairment in order to determine a value in use to compare with the total carrying amount of net invested capital. In estimating the value in use of the segment, in accordance with generally accepted valuation techniques, reference was made to revenue and cost projections in the Strategic Plan for 2018-2022, whilst the terminal value, calculated on the basis of data for the latest explicit projection period, was based on normalised earnings, taking into account the existence of potential positive elements whose value was not reflected in the explicit projections over the life of the plan. Reference was also made to the transfer prices that BancoPosta RFC is expected to pay for the services provided by Poste Italiane's distribution network, as determined in the new Strategic Plan. A WACC of 6.12% was used. The impairment test determined that the related carrying amounts are fair.

48. In the test carried out at 31 December 2017, use was made of an assumed growth rate of 1.4%, while the WACC for each CGU tested for impairment, determined in accordance with best market practices and for each operating segment, ranged from 5.71% to 6.74%.
The cost of equity (Ke) is 6.74% for banking activities and 7.24% for asset management activities.

In addition, in assessing the value of non-current assets of the Mail, Parcels and Distribution segment, account was taken of any effect on the value in use of certain properties, should such properties no longer be used in operations in future, making adjustments to certain impairment losses taken in the past in the light of new evidence available at 31 December 2017. The fair value of the Parent Company's properties used in operations continued to be significantly higher than their carrying amount, as confirmed by the progressive updates of the property valuations carried out by a leading independent expert. As in the past, in determining the value of properties used as post offices and sorting centres, Poste Italiane SpA's universal service obligation was taken into account, as was the inseparability of the cash flows generated from the properties that provide this service, (which the Parent Company is required to operate throughout the country regardless of the expected profitability of each location); the unique nature of the operating processes involved and the substantial overlap between postal and financial activities within the same outlets, represented by post offices, were also considered. On this basis, the value in use of the Parent Company's land and buildings used in operations is relatively unaffected by changes in the commercial value of the properties concerned and, in certain critical market conditions, certain properties may have values that are significantly higher than their market value, without this having any impact on the cash flows or results of the Mail, Parcels and Distribution segment.

Depreciation and amortisation of property, plant and equipment and intangible assets

The cost of these assets is depreciated or amortised on a straight-line basis over the estimated useful life of the asset. The useful life is determined at the time of acquisition and is based on historical experience of similar investments, market conditions and expectations regarding future events that may have an impact, such as technological developments. The actual useful life may, therefore, differ from the estimated useful life. Each year, changes in technology and within the industry and the costs of dismantling tangible assets and their recoverable amounts are reviewed in order to update the residual useful lives of such assets. This periodic update may lead to changes in the depreciation or amortisation period and thus in charges for depreciation or amortisation in the current and in future years.

In the case of assets to be handed over, located on land held under concession or sub-concession, on expiry of the concession term, or whilst awaiting confirmation of renewal, any additional depreciation of assets takes into account the probable residual duration of the right to use the assets to provide public services, to be estimated on the basis of the framework agreements entered into with the Public Administration entity, the status of negotiations with the grantors and past experience.

Deferred tax assets

The recognition of deferred tax assets is based on the expectation of taxable income in future years. Assessments of expected taxable income depend on factors which may change over time, impacting on the valuation of the deferred tax assets in the statement of financial position.

Provisions for doubtful debts

The provision for doubtful debts reflects the estimated losses on receivables, which, in the case of receivables due from Public Administration entities, considers the legislation restricting public spending. Provisions for expected losses reflect the estimated credit risk associated with historical experience of similar receivables, an analysis of past-due items (current and historical), losses and collections and the monitoring of the current and future economic conditions in the related markets. Net provisions for doubtful debts are accounted for in profit or loss under other operating costs, or, if relating to receivables accrued during the year, by deferring the related revenue.

Fair value of unquoted financial instruments

The fair value of financial instruments that are not traded on an active market is based on prices quoted by external dealers or on internal valuation techniques which estimate the transaction price on the measurement date in an arm's length exchange motivated by normal business considerations. The valuation models are primarily based on market variables, considering where possible, the prices in recent transactions and quoted market prices for substantially similar instruments, and of any related credit risk.

Technical provisions for insurance business

The measurement of technical provisions for the insurance business is based on the calculations performed by actuaries employed by Poste Vita SpA, based on a series of material assumptions, including technical, actuarial, demographic and financial assumptions, as well as on projections of future cash flows from the insurance contracts entered into by Poste Vita and Poste Assicura and effective at the end of the year. In order to verify the adequacy of the provisions, liability adequacy tests (LATs), (which measure the ability of future cash flows from the insurance contracts to cover liabilities towards the policyholders), are periodically performed. The LAT is conducted on the basis of the present value of future cash flows, obtained by projecting expected future cash flows from the existing portfolio to the end of the reporting period, based on appropriate assumptions regarding the cause of termination (death, surrender, redemption, reduction) and the performance of claims expenses. If necessary, technical provisions are topped up and the related cost charged to profit or loss.

Employee termination benefits

The calculation of employee termination benefits is conducted also by independent actuaries, considering vested termination benefits for the period of service to date and actuarial assumptions of a demographic, economic and financial nature. These assumptions, which are based on the Group's experience and relevant best practices, are subject to periodic reviews.

Share-based payment

As more fully described in note 11 *Additional information – Share-based payment arrangements*, measurement of the fair value of the “Long-term Incentive Plan for 2016-2018 (LTIP) – Phantom Stock Plan”, the “Long-term Incentive Plan for 2017-2019 (LTIP) –Phantom Stock Plan” (both approved by Poste Italiane SpA’s shareholders on 24 May 2016) and the short-term incentive plan (MBO) for BancoPosta RFC’s material risk takers (approved by Poste Italiane SpA’s shareholders on 27 April 2017), with the related impact following the termination of employment, was based on the conclusions of independent actuaries. The plan terms and conditions link the award of the related options to the occurrence of certain events, such as the achievement of performance targets and performance hurdles and, in certain areas of operation, compliance with certain capital adequacy and short-term liquidity requirements. For these reasons, measurement of the liability, based on the outcome of an appraisal by external actuaries, involves the use of estimates based on current knowledge of factors that may change over time, potentially resulting in outcomes that may be significantly different from those taken into account in preparing these financial statements.

2.6 Determination of fair value

The Poste Italiane Group has adopted a fair value policy, setting out the general principles and rules to be applied in determining fair value for the purposes of preparing the financial statements, conducting risk management assessments and supporting the market transactions carried out by the Finance departments of the various Group entities. The principles and rules to be applied in measuring the fair value of financial instruments are unchanged with respect to 31 December 2016 and have been defined in compliance with indications from the various (banking and insurance) regulators and the relevant accounting standards, ensuring consistent application of the valuation techniques adopted at Group level. The methods used have been revised, where necessary, to take into account developments in operational procedures and in market practices during the year, and the guidelines for the Group’s financial management reviewed and approved by Poste Italiane SpA’s Board of Directors in December 2017.

In compliance with **IFRS 13** - *Fair Value Measurement*, the following section provides information regarding the techniques used to measure the fair value of financial instruments within the Poste Italiane Group.

The assets and liabilities concerned (specifically assets and liabilities carried at fair value and carried at cost or amortised cost, for which fair value is required to be disclosed in the notes) are classified with reference to a hierarchy that reflects the materiality of the sources used for their valuation.

The hierarchy consists of three levels.

Level 1: this level is comprised of fair values determined with reference to unadjusted prices quoted in active markets for identical assets or liabilities to which the entity has access on the measurement date. For the Poste Italiane Group, these include the following types of financial instruments:

Bonds quoted on active markets:

- **Bonds issued by EU government bodies or Italian or foreign corporate bonds:** measurement is based on bid prices, according to a hierarchy of sources where the MTS (the wholesale electronic market for government securities) ranks first, MILA (Milan Stock Exchange) second, for bonds intended for retail customers, and the CBBT (Composite Bloomberg Bond Trader)[49] third;
- **Financial liabilities:** measurement is based on the ask prices quoted by CBBT (*Bloomberg Composite Price*)**.**

Equities and ETFs (Exchange Traded Funds) quoted on active markets: measurement is based on the price resulting from the last trade of the day on the stock exchange of reference.

Quoted investment funds: measurement is based on the daily closing market price as provided by Bloomberg or the fund manager. Level 1 bond price quotations incorporate a credit risk component.

49. For technical reasons, at 31 December 2017, the measurement of bonds issued by EU governments was based on this latter source.

Exchange rates published by the European Central Bank are used in determining the value of financial instruments denominated in currencies other than the euro.

Level 2: this level is comprised of fair values based on inputs other than Level 1 quoted market prices that are either directly or indirectly observable for the asset or liability. Given the nature of Poste Italiane Group's operations, the observable data used as input to determine the fair value of the various instruments include yield curves and projected inflation rates, exchange rates provided by the European Central Bank, ranges of rate volatility, inflation option premiums, asset swap spreads or credit default spreads which represent the creditworthiness of specific counterparties and any liquidity adjustments quoted by primary market counterparties.

For the Poste Italiane Group these include the following types of financial instruments:

Bonds either quoted on inactive markets or not at all:

- **Straight Italian and international government and non-government bonds:** valued using discounted cash flow techniques involving the computation of the present value of future cash flows, inputting rates from yield curves incorporating spreads reflecting credit risk that are based on spreads determined with reference to quoted and liquid benchmark securities issued by the issuer, or by other companies with similar characteristics to the issuer. Yield curves may be slightly adjusted to reflect liquidity risk relating to the absence of an active market.
- **Structured bonds:** measurement is based on a building blocks approach, where the structured bond is broken down into its basic components: the bond component and the option component. The bond component is measured by discounting cash flows to present value in line with the approach applicable to straight bonds, as defined above. The option component - which considering the features of the bonds included in the portfolio of the Poste Italiane Group relates to interest rate risk - is measured in accordance with a standard closed form expression as with classical option valuation models with underlyings exposed to such risks. In the case of structured bonds used to hedge index-linked policies (before ISVAP regulation no. 32), measurement is based on the bid price provided by the financial counterparties with which buyback agreements have been struck.

Unquoted equities: this category may be included here provided it is possible to use the price of quoted equities of the same issuer as a benchmark. The price inferred in this manner would be adjusted through the application of the discount implicit in the process to align the value of the unquoted shares to the quoted ones.

Unquoted open-end investment funds: measurement is based on the latest available NAV (Net Asset Value) as provided by Bloomberg or as determined by the fund manager.

Derivative financial instruments:

- **Interest rate swaps:**

Plain vanilla interest rate swaps: valued using discounted cash flow techniques, involving the computation of the present value of future differentials between the receiver and payer legs of the swap. The construction of yield curves to estimate future cash flows indexed to market parameters (money market rates and/or inflation) and computation of the present value of future differentials are carried out using techniques commonly used in capital markets.

Interest rate swaps with an embedded option: valuation is based on a building block approach, entailing decomposition of a structured position into its basic components: the linear and option components. The linear component is measure using the discounted cash flow techniques described for plain vanilla interest rate swaps above. Using the derivatives held in Poste Italiane's portfolio as an example, the option component is derived from interest rate or inflation rate risks and is valued using a closed form expression, as with classical option valuation models with underlyings exposed to such risks.

- **Bond forwards:** valuation is based on the present value of the differential between the forward price of the underlying instrument as of the measurement date and the settlement price.
- **Warrants:** considering the features of the securities held, measurement is based on the local volatility model. In particular, considering that buyback agreements have been entered into with the counterparties that structured these warrants, and that such counterparties use valuation models consistent with those used by the Group, these instruments are measured on the basis of the bid price quoted by the counterparties.
- ***Currency forwards:*** valuation is based on the differential between the reciprocal currency registered at the measurement date and the reciprocal currency fixed at the trade date.

The derivatives held in Poste Italiane's portfolio may be pledged as collateral and the fair value, consequently, need not be adjusted for counterparty risk. The yield curve used to compute present value is selected to be consistent with the manner in which cash collateral is remunerated. This approach is also followed for security in the form of pledged debt securities, given the limited level of credit risk inherent in the securities held as collateral by the Poste Italiane Group.

In the rare instances where collateral agreements do not substantially reduce counterparty risk, measurement takes place by discounting to present value the cash flows generated by the securities held as collateral, using as the input a yield curve that reflects the spread applicable to the issuer's credit risk. Alternatively, use is made of fair value to calculate the CVA/DVA (Credit Valuation Adjustment / Debit Valuation Adjustment), in relation to the main technical and financial characteristics of the agreements and the counterparty's probability of default.

Buy & Sell Back used for the short-term investment of liquidity: valuation is based on discounted cash flow techniques involving the computation of the present value of future cash flows. Buy and Sell Back agreements may be pledged as collateral and the fair value, consequently, need not be adjusted for counterparty risk.

Fixed rate and variable rate instruments: measurement is based on the discounted cash flow approach. The counterparty's credit spread is considered through:

- use of the Italian government yield curve or the credit default swap (CDS) of the Italian Republic, in the case of Italian government agencies;
- use of quoted CDS yield curves or, if not available, the adoption of "synthetic" CDS yield curves represented by the counterparty's rating, as constructed starting from the input data observable on the market;
- use do yield curves based on the specific issuer's quoted bond prices.

Financial liabilities either quoted on inactive markets or not at all:

- **Straight bonds**: these are measured by discounting their future cash flows using as input a yield curve reflecting the spread applicable to the issuer's credit risk.
- **Structured bonds**: measurement is based on a building blocks approach, where the structured product is broken down into its basic components: the bond component and the option component. The bond component is measured by discounting cash flows to present value in line with the approach applicable to straight bonds, as defined above. The option component - which considering the features of the bonds included in the portfolio of the Poste Italiane Group relates to interest rate risk - is measured in accordance with a standard closed form expression as with classical option valuation models with underlyings exposed to such risks.
- **Borrowings**: these are measured by discounting their future cash flows using as input a yield curve reflecting the spread applicable to the credit risk.
- **Repurchase agreements**: are valued using discounted cash flow techniques involving the computation of future contractual cash flows. Repos may also be used for collateral and in such cases fair value need not be adjusted for the counterparty's credit risk.

Investment property (excluding former service accommodation) and inventories of properties held for sale: The fair value of both investment property and inventories has been determined mainly by discounting to present value the cash flows expected to be generated by the rental agreements and/or proceeds from sales, net of related costs. The process uses a discount rate that considers analytically the risks typical of the property.

Level 3: this category includes the fair value measurement of assets and liabilities using inputs which cannot be observed, in addition to Level 2 inputs. For the Poste Italiane Group the following categories of financial instrument apply:

Fixed rate and variable rate instruments: measurement is based on discounted cash flow. The counterparty's credit spread is set according to best practices, by using the probability of default and transition matrices created by external information providers and loss given default parameters determined by prudential regulations for banks or in accordance with market standards.

Unquoted closed-end funds: these include funds that invest mainly in unquoted instruments. Their fair value is determined by considering the latest NAV (Net Asset Value), available at least every six months, reported by the fund manager. This NAV is adjusted according to the capital calls and reimbursements announced by the managers which occurred between the latest NAV date and the valuation date.

Investment property (former service accommodation): The value of this investment property is determined on the basis of the applicable law (Law 560 of 24 December 1993), which sets the selling price in case of sale to the tenant or the minimum selling price in case the property is sold through a public auction.

Unquoted equity instruments: this category includes shares for which no price is observable directly or indirectly in the market. Measurement of these instruments is based on the price of quoted equities of the same issuer as a benchmark. The price inferred in this manner would be adjusted through the application of the discount implicit in the process to align the value of the unquoted shares to the quoted ones.

2.7 New accounting standards and interpretations and those soon to be effective

Accounting standards and interpretations applicable from 1 January 2017

- **Amendments to IAS 12** – *Income taxes - Recognition of Deferred Tax Assets for Unrealised Losses*, adopted with Regulation (EU) no. 1989/2017. The amendments to this standard have clarified how to account for deferred tax assets on debt instruments measured at fair value.
- **Amendments to IAS 7** - *Statement of Cash Flows – Disclosure initiative*, adopted with Regulation (EU) no. 1990/2017. The amendments have introduced a requirement to provide additional disclosures on changes in liabilities arising from financing activities, enabling the users of financial statements to distinguish between those of a monetary nature and other changes.
- **Annual Improvements Cycle to IFRSs 2014 - 2016,** adopted with Regulation (EU) no. 182/2018 in connection with the annual projects to improve and revise international accounting standards. The accounting standard affected by the amendments introduced by this Regulation, applicable from 1 January 2017, is **IFRS 12** - *Disclosure of Interests in Other Entities*.

Accounting standards and interpretations soon to be effective

The following are applicable from 1 January 2018:

- **IFRS 15** - *Revenue from Contracts with Customers,* adopted with Regulation (EU) no. 1905/2016.
  The new standard, which will replace IAS 18 - *Revenue*, IAS 11 – *Construction Contracts* and IFRIC 13 – *Customer Loyalty Programmes*, introduces an innovative, single framework that substantially changes the definitions, criteria and methods used for measuring and recognising revenue in the financial statements. Very briefly, the principal changes introduced by the standard are described below:

  a. **Recognition of variable consideration**

     A more detailed definition of revenue is provided, with the addition of "elements of variable consideration", compared with the pre-existing accounting treatment.

Among these elements, special emphasis is placed on penalties (other than damages) which, based on IAS 18, fell within the scope of IAS 37 – P*rovisions, Contingent Liabilities and Contingent Assets*. The new standard requires that penalties be deducted from revenue, instead of making provisions as per the pre-existing standard.

The variable elements must be identified at contract inception and estimated at the end of every accounting period (annual or interim) throughout the term of the contract, to take into account any new circumstances and any changes in circumstances already considered in previous measurements.

b. Separate revenue recognition for every single performance obligation

Every single performance obligation of the supplier with the customer must be estimated, measured and recognised separately.

This approach assumes an accurate preliminary analysis of the contract, to identity every "single good/service", or every "single component" of a good/service that the supplier undertakes to provide[50], allocating to each the relevant transaction price, and to monitor it throughout its duration (in terms manner and timing of fulfilment and customer satisfaction).

c. Recognition based on satisfaction of performance obligation

Revenue recognition is no longer related to the characteristics of the asset underlying the transaction with the customer (goods, services, interest, royalties) but is based on the distinction between an obligation "fulfilled at a point in time" and obligation "fulfilled over time".

In the case of obligation fulfilled at a point in time, revenue is recognised only when the total "control" over the underlying goods or services is transferred to the customer. In this respect, attention is paid not only to the significant exposure to the risks and benefits related to the good or service but also to physical possession, customer acceptance, the existence of legal rights, etc.

If the performance obligation is fulfilled over time, revenue measurement and recognition reflect, virtually, the progress of the customer's level of satisfaction. The standard provides specific guidance to help the entity to select the most appropriate accounting treatment.

d. Specific disclosure
The quantitative and qualitative disclosures related to revenue are broader and more analytical than before.

- **IFRS 9** - *Financial Instruments, adopted with* Regulation (EU) no. 2067/2016.
  The purpose of the new accounting standard, which replaces a large part of IAS 39 – *Financial Instruments: Recognition and Measurement*, is to improve disclosures on financial instruments with the aim of addressing the concerns that arose during the financial crisis. The standard also introduces an accounting model that aims to the timely recognition of expected impairment losses on financial assets. The changes introduced by the standard can be summarised within the following three categories:

  i. **Classification and measurement** of financial assets, based on the business model, determined by senior management, in which the financial asset is held and the related purposes, and on the expected contractual cash flow characteristics. The new standard envisages three different categories of financial asset (in place of the four envisaged by the existing IAS 39):
  Amortised cost; financial assets held to collect the contractual cash flows, represented exclusively by repayments of principal and interest;
  Fair value through other comprehensive income (FVTOCI); financial assets held to collect the contractual cash flows, represented exclusively by repayments of principal and interest, and flows resulting from the sale of the assets;
  Fair value through profit or loss (FVTPL); a residual category within which financial assets not falling within the previous categories are classified.

  ii. **Impairment**; under the new model, Expected Losses, credit losses are recognised on an expected basis over the life of the financial instrument, requiring immediate recognition, rather than the occurrence of a trigger event, as under the existing Incurred Losses model. IFRS 9 requires entities to account for 12-month expected credit losses (stage 1) from the moment of initial recognition of the financial instrument. Expected credit losses must, instead, be measured over the remaining life of the asset being measured, when there has been a significant deterioration in the credit quality of the financial instrument since initial recognition (stage 2) or in the case of credit-impaired assets (stage 3).

  iii. **General Hedge accounting**; partially amended with respect to IAS 39. Key aspects of the main changes introduced regard: an expanded scope of application of hedge accounting; the testing of hedge effectiveness is only prospective; the introduction of the option of rebalancing without interrupting the pre-existing hedge.

50. By "single good/service" or "single components" of a good/service, reference is made to the minimum unit provided to the customer, identifiable and individually/potentially saleable in the market.

There are no substantial changes in the classification and measurement of financial liabilities with respect to IAS 39. The only change is the accounting treatment of own credit risk: in the case of financial liabilities designated at fair value (the so-called fair value option), the standard requires changes in the fair value of financial liabilities resulting from a change in own credit risk to be recognised in equity, unless this treatment were to create or amplify an accounting mismatch in profit for the period, whilst the remaining changes in the fair value of the liabilities must be recognised in profit or loss.

- **Amendments to IFRS 15** - *Revenue from Contracts with Customers – Clarifications to IFRS 15, adopted with* Regulation (EU) no. 1987/2017. Certain clarifications are introduced regarding the new treatment of revenue and further application relief is provided to entities that adopt the standard on the basis of the modified retrospective method.

- **Amendments to IFRS 4** - *Applying IFRS 9 – Financial Instruments with IFRS 4 - Insurance Contracts,* adopted with Regulation (EU) no. 1988/2017. These amendments aim to address the temporary accounting consequences of the different effective dates of IFRS 9 and the new standard for insurance contracts (IFRS 17), replacing IFRS 4 presumably starting from 1 January 2021.

  In particular, the amendments permit insurance companies:

  a. to defer the effective date of IFRS 9, and continue to apply IAS 39 until 1 January 2021. This option is available only to entities that predominantly undertake insurance activities; or

  b. to apply the overlay approach, whereby the difference between the profit/(loss) for the "Financial assets designated at fair value through profit or loss" applying IFRS 9 and the profit/(loss) for the same financial assets applying IFRS 39 is reclassified to other comprehensive income. This reclassification would ensure the consistency of the effect on profit or loss of the financial assets in question, regardless of the accounting treatment.

- **Annual improvements cycle to IFRSs 2014 - 2016,** adopted with Regulation (EU) no. 182/2018 within the framework of the annual project to improve and review the International Financial Reporting Standards. The accounting standards affected by the amendments introduced by this Regulation, applicable as of 1 January 2018, are IAS 28 – *Investments in Associates and Joint Ventures* and IFRS 1 – *First-time Adoption of International Financial Reporting Standards*.

- **Amendments to IFRS 2** – *Share-based Payment* adopted with Regulation (EU) no. 289/2018. The Regulation introduces certain formal amendments and examples, to facilitate an understanding of the situations covered by the standard; it also provides specific indications on the accounting treatment of vesting and non-vesting conditions in case of cash-settled share-based payment transactions. In addition, the Regulation again illustrates the rules on *Share-based Payment Transactions with a Net Settlement Feature for Withholding Tax Obligations*.

- **Amendments to IAS 40** – Investment Property adopted with Regulation (EU) no. 400/2018. The amendments introduced clarify when an entity is authorised to change the designation of a property that was not an "investment property" as such and vice versa.

The following amendments apply as of 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 asset for an amount equal to the present value of all future lease payments;

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

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

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

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

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

- IFRS 17 - *Insurance Contracts*;
- Interpretation IFRIC 22 - *Foreign Currency Transactions and Advance Consideration*;
- Interpretation IFRIC 23 - *Uncertainty over Income Tax Treatments*;
- Amendments to IAS 28: *Long-term Interests in Associates and Joint Ventures*;
- Annual improvements cycle in relation to IFRS 2015 - 2017;
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement.

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

New International Financial Reporting Standards: Transitional provisions and ESMA disclosures

On 27 October 2017, the European Securities and Markets Authority (hereinafter **ESMA**) published a Public Statement[51] to identify certain disclosures that listed companies are required or encouraged to provide in their 2017 Annual Financial Reports.

Specifically, such disclosures refer to:

1. The expected impact of the upcoming implementation of ***IFRS 9*** – *Financial Instruments*, ***IFRS 15*** – *Revenue from Contracts with Customers*, and ***IFRS 16*** – *Leases*;
2. Specific issues on application of ***IFRS 3*** – *Business Combinations*;
3. Specific issue on application of ***IAS 7*** – *Statement of Cash Flows*.

This note provides the disclosure under item 1 above, for a preliminary overview of the effects of the implementation of IFRSs 9, 15 and 16 on the Poste Italiane Group's financial statements. For the other issues mentioned by the Public Statement, reference is made to the specific explanatory notes (B8 – *Financial liabilities*).

51. ESMA32-63-340, Public Statement "European common enforcement priorities for 2017 IFRS financial statements"

IFRS 9 – Financial Instruments

The Poste Italiane Group's project to implement IFRS 9 – *Financial Instruments* (hereinafter the "IFRS 9 Project" or just the "Project") has been led by the Parent Company, with the involvement of all the direct and indirect subsidiaries, and support from a consultant with proven expertise and qualifications. The Project's objectives were: i) identification of the main areas impacted by the standard (classification and measurement of financial instruments, impairment procedures and hedge accounting on the basis of the new provisions); ii) determination of the quantitative and qualitative effects of the transition; iii) identification and implementation of the application and organisational solutions, following full adoption, for comprehensive, effective and consistent management within the Group. Accordingly, the Project, which delved into the areas identified by the standard (Classification & Measurement, Impairment and Hedge Accounting), unfolded along three successive stages: Assessment (which was completed on 30 June 2017); ii) Design (completed on 30 September 2017) and iii) Implementation (completed, for the main aspects, on 31 December 2017 with the adoption of IFRS 9 Guidelines). The activities to upgrade the information systems were carried out in accordance with the processes and procedures implemented by Poste Italiane's IT function.

It is a well-known fact that implementation of IFRS 9 requires the application of new accounting criteria and methods, which are often based on subjective assessments and estimates related to an entity's specific history and experience, as well as on assumptions that, from time to time, are considered reasonable and realistic, depending on the circumstances. The application of these estimates and assumptions affects the amounts reported in the financial statements and the relevant disclosures. As such, the amounts for which the above estimates and assumptions were used may differ from those that will be indicated in future financial reports, due to the uncertainty that marks certain assumptions and conditions on which the estimates are based. Estimates and assumptions are revised regularly and the effects of each change are reflected in the accounts of the year in which the estimate is revised, if the estimate only affects the current year, or also in the following periods, if the revision affects both the current and future periods.

IFRS 9 Guidelines

In the final part of the Project's third stage, on 13 December 2017, Poste Italiane's Board of Directors approved specific IFRS 9 Guidelines, which set out to define the following "high-level" policies:

- the Business Model choices to be adopted at Group level;
- the methodological approach to estimate the impairment of financial instruments, in relation to the trading book and the banking book (thus, the way expected losses are assessed);
- stage allocation criteria, to allocate financial instruments to the applicable stages on the basis of their downgrading;
- hedge accounting choices.

At the same meeting of 13 December 2017, the Parent Company's Board of Directors also approved an updated version of Poste Italiane's Financial Management Guidelines, which, in accordance with specific prudential provisions issued by the Bank of Italy, also apply to BancoPosta RFC. The update was necessary in view of changes to the organisational and business structure of the Group, which operates under a unified and integrated strategic management, on the one hand, and financial market conditions, on the other, as well as to make the approach, operations and formal aspects consistent with the provisions of IFRS 9.

In the following notes, a description is provided of the most significant aspects addressed by the IFRS 9 Guidelines for *Classification and Measurement, Impairment and Hedge Accounting.*

Classification and Measurement

IFRS 9 requires Business Models to reflect the manner in which given sets of financial instruments are managed in a coherent manner, so as to achieve pre-established business objectives. The Business Models identified must be consistent with the provisions of IFRS 9, thus:

- *Hold to Collect ("HTC"): where the financial asset is held to collect contractual cash flows, in the form of principal and interest, with rare sales and/or limited volumes;*
- *Hold to Collect & Sell ("HTC&S"): where the financial asset is held to collect contractual cash flows, in the form of principal and interest, and well as proceeds from its sale;*

- Other: this is a residual category which includes financial assets with a business model other than the previous ones, including held-for-trading financial assets.

Equity instruments account for a residual portfolio share, compared with the debt instruments and shares/units of collective investment schemes held by the Poste Italiane Group. Nearly all the shares held by the Group are reported at fair value through profit or loss.

Impairment and Stage Allocation

The Group companies apply the general impairment approach on the basis of models to estimate risk according to the type of counterparty:

- Instruments issued by sovereigns and banks: internal models to estimate risk;
- Other corporate instruments: risk ratings are supplied by an external provider.

For trade receivables the simplified approach was applied, on the basis of the matrix generated for the historical losses observed.

The Group implemented a stage allocation application model to evaluate the downgrade of financial instruments on the basis of the issuer's rating and other technical and statistical standards of reference, as well as all the other forward-looking qualitative and quantitative information[52] available at the measurement date. The model is defined in keeping with the risk parameters adopted to determine impairment criteria.

A financial instrument is transferred to stage 2 only if the downgrade of its credit rating exceeds a pre-established threshold, taking into account the initial rating and the vintage of the position.

Given the current asset conditions, and according to the staging model adopted by the Group, financial instruments are allocated nearly entirely to stage 1. In accordance with IFRS 9, the impairment of instruments classified in this stage is measured as the expected loss over a maximum time horizon of 12 months.

Moreover, regarding the definition of default, the following approach was adopted for the issuers of debt securities:

- 90-day overdue payments for corporates and banks;
- overdue payments, even by just one day, or renegotiation of debt for sovereigns.

For trade payables, on the basis of past collection experience, the peculiar nature of the Group's activities and customers, and also considering the age of receivables, it has been deemed appropriate to set a period longer than the 90 days provided for by IFRS 9.

The Group did not avail itself of the low credit risk exemption.

Hedge Accounting

For hedge accounting transactions, the Poste Italiane Group used the option made available by IFRS 9 and maintained the accounting treatments provided for by IAS 39. Accordingly, no effects of any type are expected.

52. Forward-looking information is included directly in the probability-of-default estimates. To safeguard the objectivity of the model's estimates, forward-looking factors were introduced only in the cases where information is available which might have an impact on counterparties' actual risk. This takes place through constant monitoring of market indicators (CDS spreads, bond spreads, etc.), ECAI ratings, macroeconomic forecasts. In the presence of significant phenomena that might undermine the proper measurement of PD, the amount is changed by using, where necessary, correlation matrices for the model variables.

Other decisions made

The Poste Italiane Group chose to apply IFRS 9 as of its effective date, that is 1 January 2018, without early adoption, and opted for the "simplified" transition method, whereby the cumulative effect of the change in accounting standard is recognised as of 1 January 2018, without restating the comparative year-earlier accounts.

In the assessment phase of the project for the adoption of IFRS 9, the Poste Italiane Group – considering the prevailing nature of Poste Vita SpA's business and the stabilising effect of the shadow accounting mechanism – considered that the adoption of IFRS 9 by its insurance subsidiaries would not give rise to significant volatility effects on the income statements, or any mismatches. Also considering the need for consistency in the application of accounting rules, and in the preparation of any type of internal and external reporting, given that insurance companies are permitted to postpone the adoption of IFRS 9, the Poste Italiane Group, in agreement with its Poste Vita SpA and Poste Assicura SpA subsidiaries, has decided that the Group's consolidated financial statements and the Poste Vita Group's consolidated financial statements would be fully compliant with IFRS 9 as of 1 January 2018.

Preliminary effects as of 1 January 2018

As noted above, the Poste Italiane Group will apply the new accounting standard IFRS 9 from 1 January 2018, without any restatement of the comparative year-earlier accounts. Information on the preliminary effects of application of IFRS 9 from 1 January 2018 are shown below. Checks on the data presented below are still in progress. All the effects are shown before the related taxation.

Reclassification of the Poste Italiane Group's securities portfolio

The Poste Italiane Group's securities portfolio (with the exclusion of trade receivables, other receivables and hedging derivatives) at 31 December 2017 consists of:

- Held to maturity: €12.9 billion
- Available for sale: €135.8 billion
- Fair Value through Profit and Loss: €29.5 billion
- Loans & Receivables: €8.1 billion

Following application of IFRS 9 in the manner described above, and assuming a positive outcome to the checks being conducted, the Group's securities portfolio at 1 January 2018 will consist of the following:

- Hold to Collect: €28.4 billion
- Hold to Collect and Sell: €132.5 billion
- Fair Value through Profit and Loss: €27.1 billion

Expected Credit Loss ("ECL")

As a result of the new rules introduced by IFRS 9 and the business models adopted by the Poste Italiane Group, the ECL at 1 January 2018 amounts to a total of €81 million and regards:

- €11 million on financial instruments classified as HTC.
- €57 million on financial instruments classified as HTCS; of this amount, €42 million is attributable to policyholders under the shadow accounting method.
- €13 million on trade and other receivables.

The impact on retained earnings will amount to €39 million.

Equity attributable to owners of the Parent

As a result of the above, the expected effects on equity attributable to owners of the Parent at 1 January 2018 are as follows (before the related taxation):

- An increase of approximately €1.7 billion in the fair value reserve.
- A reduction of approximately €23 million in retained earnings:
  - a reduction of €39 million resulting from the new method of determining ECLs;
  - an increase of €16 million, resulting primarily from the reclassification of non-qualifying investments to FVPL.

IFRS 15 - Revenue from Contracts with Customers

The Poste Italiane Group has opted to apply IFRS 15 from its effective date (1 January 2018). The Group has not opted for early application and adopted the simplified transition method (the cumulative effect of the change of accounting standard is recognised as of 1 January 2018 in retained earnings, without any restatement of the comparative year-earlier accounts). It also opted not to take into account the so-called "completed contracts" at the transition date, which continue to be recognised in accordance with IAS 18 and related interpretations.

The assessment, design and implementation of the project to adopt the new standard were completed in the last quarter of 2017.

For the assessment phase, the only one where an external consultant with proven expertise and qualifications was retained, the Group adopted a methodology that follows in the logical footsteps in which the revenue measurement and identification process unfolds under IFRS 15. In this context, use was made of an IT tool developed internally, which made it possible to assess sales contracts, grouped by type of activity, to identify the individual performance obligations in place, and to spot any difference between the previous and the new accounting standard. In this phase, the administrative and accounting systems, the available IT systems and the procedures in place to evaluate compliance with the new standard were analysed.

Below, the main preliminary conclusions of the assessments made are outlined:

- it was necessary to change the initial equity amount, pursuant to IFRS 15, only for PosteMobile SpA, in the presence of contracts that were not completed at the transition date and contracts made up of several performance obligations, for which revenue recognition policies were revised (involving, in particular, the consequences of the different allocation of revenues for certain services, such as fees for changes in price plans, bundled offers, etc.);
- penalties in favour of customers were found (in case of failure to achieve pre-established service levels) and clauses involving the return of fees collected for the placement of mortgages and loans repaid early (which to date have been treated as provisions), with such fees to be deducted directly from revenue as of 1 January 2018;
- as of the transition date, the effects of the above resulted in a decrease in revenue reserves of approximately €1.5 million, before the related effects on taxation. A review is still under way for the reported amounts.

Regarding administrative management of the elements of variable consideration (including the above-mentioned penalties), the underlying processes, the responsibilities and the activities, including control activities, to perform the calculations underlying the accounting entries have been revised.

IFRS 16 - Leases

In 2017, the Group started a preliminary assessment of the effects of IFRS 16, via a survey of the lease contracts Poste Italiane SpA has entered into as lessee. Based on the available evidence (in terms of nature of assets, minimum payments, reasonably predictable payment dates and other contractual terms and conditions of relevance for the application of IFRS 16) and certain simplifying assumptions, an initial simulation was conducted to determine the impact of the transition on the Parent Company's financial condition, operating performance and key performance indicators.

In early 2018, work is continuing on:

- a full map of lease contracts within the Poste Italiane Group and the identification of those in scope;
- identification of the relevant procedures and policies, which are likely to be changed to accommodate the adoption of the new accounting standard;
- a survey of the IT systems currently available for the database, administrative and accounting management of the contracts, with the indication of any application limits and identification of the optimal IT strategy.

In the second half of 2018, all analyses and assessments should be finalised and an IFRS 16 compliant accounting system should be finally put in place, with the redesign of the administrative and accounting processes and the relevant control system, and implementation of the most appropriate IT strategy.

At the date of preparation of these financial statements, there is no exhaustive or reliable, general qualitative and quantitative overview of the impacts determined by IFRS 16. However, early evidence suggests that it is reasonable to suppose that the impacts will be significant in terms of the accounts and the management and control of lease contracts, considering also the substantial number of operating leases entered into as lessee by Post Italiane SpA alone, on the strength of its more than 10,000 capital leases.

3. Material events during the year

3.1 Principal corporate actions

Poste Italiane and FSI Investimenti SpA sign an agreement for the Company's acquisition of an investment in FSIA Investimenti Srl

Having obtained the consent of the Related and Connected Parties Committee and receipt of clearance from the relevant antitrust authorities and authorisation from the Bank of Italy, and fulfilment of the conditions precedent set out in the preliminary agreement dated 16 September 2016, on 15 February 2017 Poste Italiane SpA and FSI Investimenti SpA (a company 77.1% owned by CDP Equity SpA) entered into an agreement for the purchase of an interest in FSIA Investimenti Srl, a wholly owned subsidiary of FSI Investimenti. In particular, Poste Italiane SpA has acquired a 30% interest in FSIA Investimenti Srl and, as a result, holds an indirect interest of 14.85% in SIA SpA, which is 49.5% owned by FSIA Investimenti Srl. At the same time as completing the acquisition of an interest in FSIA Investimenti Srl, Poste Italiane SpA also signed a "deed of pledge", in which it declared that it was bound by, to the extent and in the exercise of its investment in the acquired company, the obligations provided for in a loan agreement entered into by FSIA Investimenti Srl with a number of banks on 28 May 2014.

The transaction consideration amounted to €278.3 million, 80% of which was paid on completion. This amount was then subject to payment of an upward adjustment of €0.55 million based on the value of SIA's net debt at 31 December 2016.

At the same time as the transaction completed, the shareholders' agreement between Poste Italiane and CDP Equity, covering the governance and ownership structures of FSIA Investimenti Srl and SIA SpA, over which the parties will exercise joint control, became effective.

The following table shows a comparison of the consideration paid and the net assets of the acquired company at 1 January 2017.

FSIA Investimenti Srl	(€m)
Equity (pro rata)	83.5
Previously allocated goodwill /intangible assets	(144.1)
Net assets acquired before the acquisition (pro rata)	**(60.6)**
Fair value adjustments:	
- Property, plant and equipment	-
- Intangible assets	115.8
- Deferred tax liabilities	(30.4)
Net assets acquired after the allocation (pro rata)	**24.8**
Transaction consideration	**278.9**
Goodwill	**254.1**

The difference between the transaction consideration and the net assets acquired, totalling €339.5 million has been allocated, partly on the basis of an appraisal conducted by an external expert, as follows: €115.8 million to the fair value of certain intangible assets; and the remaining €254.1 million to goodwill included in the carrying amount of the investment at 31 December 2017.

Poste Italiane and Anima Holding: new binding agreement to strengthen partnership in asset management

On 21 December 2017, Poste Italiane SpA and Anima Holding SpA signed a Memorandum of Understanding with the aim of strengthening their partnership in the asset management sector.

The transaction envisages the following.

i. The partial spin-off of management of the assets underlying Poste Vita SpA's Class I insurance products (totalling over €70 billion), previously attributed to BancoPosta Fondi SpA SGR, to Anima SpA SGR. As a result of the spin-off, Poste Italiane SpA will receive newly issued shares in Anima SpA SGR that will at the same time be acquired by Anima Holding SpA in return for a cash payment of €120 million.

ii. Amendment and expansion of the partnership agreements between the Poste Italiane Group and Anima Holding SpA, dating back to July 2015, by virtue of which Anima Holding SpA has been delegated to manage the retail funds established by BancoPosta Fondi SpA SGR and the assets underlying Poste Vita SpA's Class III insurance products; this amendment extends the partnership, which will have a duration of 15 years.

On 6 March 2018, Poste Italiane SpA and Anima Holding SpA, together with Poste Vita SpA, BancoPosta Fondi SpA SGR and Anima SpA SGR, to the extent of their respective responsibilities, signed implementing agreements designed to strengthen their partnership in the asset management sector, in accordance with the terms and conditions announced on 21 December 2017. In particular, with regard to the spin-off and sale, determination of the final price will be subject to an earnout in Poste Italiane's favour, in the event of an increase in income from the management mandates/delegations assigned to Anima SGR, in addition to certain thresholds and a price adjustment mechanism in Anima Holding's favour, which is of marginal importance. The consideration will be paid in full on completion of the transaction by 31 December 2018, subject to suspensive conditions relating to receipt of the necessary consents from the competent authorities and following the subscription for and redemption of one or more share issues by Anima Holding SpA, with a value of at least €250 million.

The fact that Poste Italiane SpA has retained control of BancoPosta Fondi SpA SGR has modified the original plan for the subsidiary's ownership structure, as reflected, moreover, in the Poste Italiane Group's consolidated financial statements from the year ended 31 December 2016 until 30 September 2017[53]

In the light of the above agreements, in the Poste Italiane Group's consolidated financial statements for the year ended 31 December 2017, the assets and liabilities of BancoPosta Fondi SpA SGR have been reclassified. As a result, they are no longer recognised in "Non-current assets and disposal groups held for sale" and "Liabilities related to assets held for sale", and have been reallocated to the respective items under assets and liabilities, with the exception of items closely related to the activities included in the spin-off, which will continue to be classified in the items provided for in IFRS 5.

The following corporate actions also took place in 2017:

- On 24 January 2017, the appointment and powers of the liquidator to take charge of Poste Tributi ScpA, whose liquidation was approved by the extraordinary general meeting of the company's shareholders held on 30 December 2016, was published in the Companies' Register. On 26 October 2017, the extraordinary general meeting of Poste Tributi SCpA's shareholders voted to reduce the share capital by €258,300 following the exclusion of the shareholder, AIPA SpA.
- On 30 January 2017, the deed governing the partial demerger of assets belonging Postecom SpA to Postel SpA, and the ensuing deed regarding the merger of Postecom SpA with and into Poste Italiane SpA, were executed. The assets transferred to Postel SpA included the investments previously held by Postecom SpA in Consorzio PosteMotori (22.63%) and in the joint-stock consortium, PatentiViaPoste ScpA (17.21%). The transaction was effective for legal, accounting and tax purposes from 1 April 2017.
- On 28 April 2017, the ordinary general meeting of Programma Dinamico SpA's shareholders approved the company's financial statements and the summary schedules showing the securitised assets and the securities issued (in accordance with the Bank of Italy's Order of 29 March 2000) at 31 December 2016. The meeting also approved the final liquidation financial statements, at the level of both individual items and as a whole, and the plan for distribution, at the same time authorising the

53. Specifically, on 10 November 2016, Poste Italiane SpA, Cassa Depositi e Prestiti and Anima Holding SpA signed a Framework Agreement for a joint project involving the creation of a leading asset management company. Under the agreement, Poste Italiane and Anima Holding have committed, at the earliest opportunity, to complete the transfer of Poste Italiane's 100% interest in the subsidiary, BancoPosta Fondi SpA SGR, to Anima Holding. On the above terms, for the purposes of the Poste Italiane Group's consolidated financial statements, the transaction qualified for application of IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations. This resulted in recognition of the subsidiary's assets and liabilities in "Non-current assets and disposal groups held for sale" and "Liabilities related to assets held for sale".

liquidator to request that the company struck off the register held at the relevant Chamber of Commerce, without waiting for the end of the term of ninety days provided for in art. 2493 of the Italian Civil Code. On 18 May 2017, Programma Dinamico SpA was struck off the Companies Register.

- On 8 May 2017, Anima Holding SpA proceeded to increase its capital via the issue of 8,333,947 new shares following exercise of all the options under the LTIP plan for 2014-2016. As a result, Poste Italiane SpA's interest in Anima Holding SpA was diluted from 10.32% to 10.04%.
- On 27 July 2017, the Board of Directors of Equam SpA called an extraordinary general meeting of the company's shareholders to approve the winding up and liquidation of the company. On 29 September 2017, a general meeting of the company's shareholders approved the final liquidation financial statements, the liquidator's report and the plan for distribution. The company was struck off the Companies Register on 2 October 2017.
- Following issue of the relevant consents by the Ministry for Economic Development, the European Central Bank and the Bank of Italy, on 7 August 2017, Poste Italiane SpA and Invitalia SpA, Agenzia nazionale per l'attrazione degli investimenti e lo sviluppo d'impresa, completed the sale to the latter of Poste Italiane SpA's 100% interest in Banca del Mezzogiorno-Medio Credito Centrale[54]. The transaction, between related parties (given that Poste Italiane SpA and Invitalia SpA are under the common control of the Ministry of the Economy and Finance), in accordance with the law and the related regulations, was approved by Poste Italiane SpA's Board of Directors, with the prior consent of the Board's Related and Connected Parties Committee. Under the related contract of sale, €158 million of the total consideration of €387 million[55] was collected during the year under review, with the balance accounted for in "Other financial receivables", after the effect of discounting to present value. €159 million was collected in early 2018, with the remainder to be collected in tranches, the last of which after five years (€30 million).
- On 20 September 2017, Poste Italiane SpA's Board of Directors authorised SDA Express Courier SpA to subscribe for new shares in Uptime SpA, amounting to the minimum required by law of €50 thousand. As a result of this transaction, Uptime SpA is 100% owned by SDA Express Courier.
- On 9 November 2017, the respective boards of directors approved the merger of Poste Tutela SpA (a wholly owned subsidiary of Poste Italiane SpA) with and into Poste Italiane. On 13 February 2018, the merger deed for PosteTutela SpA's merger with and into Poste Italiane SpA was executed. The transaction will be effective for legal purposes from 1 March 2018, and for accounting and tax purposes from 1 January 2018.
- Finally, the following corporate actions are in progress at 31 December 2017.

Launch of the process of establishing an e-money institution within the Group

On 25 January 2018, Poste Italiane SpA's Board of Directors approved the separation and transfer of certain assets, contractual rights and authorisations from BancoPosta RFC to a new ring-fenced e-money and payment services unit to be set up within PosteMobile SpA, as well as the separation of the contractual rights and authorisations relating to back-office and anti-money laundering activities. These corporate actions are subject to approval by Extraordinary General Meeting, following prior receipt of all the consents needed to comply with existing statutory and regulatory requirements.

Following submission to the Bank of Italy of a request for authorisation and receipt of the necessary consents, the Board of Directors approved: a) submission of a proposal to an Extraordinary General Meeting of shareholders for removal of the ring-fence that applies to BancoPosta RFC from the assets, contractual rights and authorisations that make up the e-money and payment services unit, which will form part of a contribution in kind to PosteMobile SpA; b) PosteMobile SpA's establishment of a separate entity – to include the above unit – to specialise in e-money and payment services, and through which PosteMobile SpA will be able to operate as an electronic money institution, whilst also continuing to operate as a mobile virtual network operator.

The above transaction aims to create a single provider of e-money and payment services to retail, business and Public Administration customers, combining in one entity the Poste Italiane Group's distinctive competencies in the field of mobile and digital payments.

54. At 31 December 2016, the sale of BdM-MCC SpA met the requirements for application of IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations. This resulted in the reclassification of the subsidiary's assets and liabilities to "Non-current assets and disposal groups held for sale" and "Liabilities related to assets held for sale".

55. The transaction consideration of €390 million was adjusted by approximately €3 million to take into account certain adjustments provided for in the contract on the occurrence of certain conditions.

The restructuring taking place within Poste Italiane SpA since 2017 shares the same goal. Specifically, in July 2017, the Company set up the Payments, Mobile and Digital function with the aim of carefully assessing future growth scenarios, including from the viewpoint of compliance with the related statutory requirements.

The Parent Company's new organisational structure is reflected in the disclosures provided in Poste Italiane's financial statements for the year ended 31 December 2017, with particular regard to the financial statements and the note on Operating segments (note 4.4).

3.2 Other material events

The following material events also occurred in 2017:

- Allocation of the price paid by Poste Italiane SpA in order to acquire Indabox SpA for a consideration of €650 thousand, on 7 November 2016, was completed. The resulting difference between the transaction consideration and the net assets acquired amounts to €610 thousand, which has been allocated to goodwill and included in the carrying amount of the investment, which was valued using the equity method at 31 December 2017.
- As regards Poste Italiane SpA's investment in the Contingent Convertible Notes issued by Midco SpA, subscribed for in December 2014 and having an original value of €75 million, on 2 May 2017, following a general meeting of the shareholders of Alitalia SAI SpA (51% owned by Midco SpA), which noted the serious financial difficulties faced by the airline, the withdrawal of support by shareholders and the impossibility of quickly finding alternative solutions, the airline's board of directors decided to file for extraordinary administration, granted by Ministry for Economic Development decree. On 11 May 2017, the Court of Civitavecchia declared Alitalia SAI SpA to be insolvent and, on 17 May 2017, the appointed administrators invited expressions of interest from parties wishing to acquire the airline and take it out of extraordinary administration. On 5 July 2017, a general meeting of Midco SpA's shareholders approved the company's financial statements for the year ended 31 December 2016, in which its investment in Alitalia SAI was written off. The financial statements show that the company's equity has been reduced to such an extent as to trigger conversion of the Notes held by Poste Italiane SpA into equity instruments. Based on the above events, a non-recurring loss equal to the total value of the Notes, amounting to €82 million at 31 December 2016, including interest recognised, has been recognised in finance costs for 2017.
- During the last quarter of 2017, Poste Italiane SpA sold its holding of 756,280 Class B Mastercard Incorporated shares in a series of transactions, following their conversion into Class A shares. The consideration received was €91 million, more or less equal to the non-recurring gain recognised in consolidated profit or loss.
- On 30 November 2017, agreement was reached with the labour unions over the renewed National Collective Labour Agreement for Poste Italiane's non-managerial personnel for the three-year period 2016-2018, the effects of which will be taken into account when preparing the financial statements for the year ended 31 December 2017.
- On 14 December 2017, following the resolutions approved by their respective boards of directors, Cassa depositi e prestiti SpA and Poste Italiane SpA signed a new agreement covering the collection of postal savings in the three-year period 2018-2020.

4. Poste Italiane Group

FOR THE YEAR ENDED 31 DECEMBER 2017

4. Poste Italiane Group for the year ended 31 December 2017

4.1 Consolidated financial statements

Consolidated statement of financial position at 31 December

Assets (€m)	Note	2017	*of which, related party transactions*	2016	*of which, related party transactions*
Non-current assets					
Property, plant and equipment	[A1]	2,001	-	2,080	-
Investment property	[A2]	52	-	56	-
Intangible assets	[A3]	516	-	513	-
Investments accounted for using the equity method	[A4]	508	*508*	218	*218*
Financial assets	[A5]	171,004	*3,059*	155,819	*2,059*
Trade receivables	[A7]	9	-	4	-
Deferred tax assets	[C12]	869	-	799	-
Other receivables and assets	[A8]	3,043	*1*	2,682	*1*
Technical provisions attributable to reinsurers		71	-	66	-
Total		**178,073**		**162,237**	
Current assets					
Inventories	[A6]	138	-	137	-
Trade receivables	[A7]	2,026	*688*	2,168	*789*
Current tax assets	[C12]	93	-	15	-
Other receivables and assets	[A8]	954	*5*	989	*10*
Financial assets	[A5]	15,762	*6,211*	18,543	*6,191*
Cash and deposits attributable to BancoPosta	[A9]	3,196	-	2,494	-
Cash and cash equivalents	[A10]	2,428	*385*	3,902	*1,310*
Total		24,597		28,248	
Non-current assets and disposal groups held for sale	**[A11]**	**-**	-	**2,720**	***49***
Total assets		**202,670**		**193,205**	

Liabilities and equity (€m)	Note	2017	*of which, related party transactions*	2016	*of which, related party transactions*
Equity					
Share capital	[B1]	1,306	-	1,306	-
Reserves	[B4]	1,611	-	2,374	-
Retained earnings		4,633	-	4,454	-
Equity attributable to owners of the Parent		7,550		8,134	
Equity attributable to non-controlling interests		-	-	-	-
Total		**7,550**		**8,134**	
Non-current liabilities					
Technical provisions for insurance business	[B5]	123,650	-	113,678	-
Provisions for risks and charges	[B6]	692	*58*	658	*50*
Employee termination benefits	[B7]	1,274	-	1,347	-
Financial liabilities	[B8]	5,044	-	8,404	-
Deferred tax liabilities	[C12]	546	-	746	-
Other liabilities	[B10]	1,207	-	1,071	-
Total		**132,413**		**125,904**	
Current liabilities					
Provisions for risks and charges	[B6]	903	*13*	849	*10*
Trade payables	[B9]	1,332	*194*	1,506	*205*
Current tax liabilities	[C12]	23	-	88	-
Other liabilities	[B10]	2,249	*70*	2,147	*89*
Financial liabilities	[B8]	58,200	*3,541*	52,517	*2,430*
Total		**62,707**		**57,107**	
Liabilities related to assets held for sale	**[A11]**	**-**	-	**2,060**	***130***
Total equity and liabilities		**202,670**		**193,205**	

Consolidated statement of profit or loss for the year ended 31 December

(€m)	Note	2017	*of which, related party transactions*	2016	*of which, related party transactions*
Revenue from Mail, Parcel & other	[C1]	3,631	*513*	3,822	*549*
Revenue from Payments, Mobile & Digital	[C2]	586	*64*	570	*84*
Revenue from Financial Services	[C3]	4,956	*1,663*	5,009	*1,684*
of which, non-recurring income		*91*		*121*	
Revenue from Insurance Services after movements in technical provisions and other claims expenses	[C4]	1,456	*15*	1,242	*15*
Insurance premium revenues		20,343	-	19,884	-
Income from insurance activities		3,925	*15*	3,827	*15*
Net change in technical provisions for insurance business and other claim expenses		(22,335)	-	(21,958)	-
Expenses from insurance activities		(477)	-	(511)	-
Net operating revenue		**10,629**		**10,643**	
Cost of goods and services	[C5]	2,370	*195*	2,442	*192*
Expenses from financial activities	[C6]	57	*3*	62	*1*
Personnel expenses	[C7]	6,093	*40*	6,241	*43*
Depreciation, amortisation and impairments	[C8]	545	-	581	-
Capitalised costs and expenses	[C9]	(24)	-	(25)	-
Other operating costs	[C10]	465	*15*	301	*3*
of which, non-recurring costs		-		*37*	
Operating profit/(loss)		**1,123**		**1,041**	
Finance costs	[C11]	188	*1*	100	*1*
of which, non-recurring costs		*82*		-	
Finance income	[C11]	115	-	109	-
of which, non-recurring income		*3*		-	
Profit/(Loss) on investments accounted for using the equity method	[A4]	17	-	6	-
Profit/(Loss) before tax		**1,067**		**1,056**	
Income tax for the year	[C12]	378	-	434	-
of which, non-recurring expense/(income)		*(9)*		*14*	
PROFIT FOR THE YEAR		**689**		**622**	
of which, attributable to owners of the Parent		*689*		*622*	
of which, attributable to non-controlling interests		-		-	
Earnings per share	**[B3]**	**0.528**		**0.476**	
Diluted earnings per share	**[B3]**	**0.528**		**0.476**	

Consolidated statement of comprehensive income for the year ended 31 December

(€m)	Note	2017	2016
Profit/(Loss) for the year		**689**	**622**
Items to be reclassified in the Statement of profit or loss for the year			
Available-for-sale financial assets			
Increase/(decrease) in fair value during the year	[tab. B4]	(315)	(1,673)
Transfers to profit or loss	[tab. B4]	(676)	(592)
Cash flow hedges			
Increase/(decrease) in fair value during the year	[tab. B4]	(57)	(15)
Transfers to profit or loss	[tab. B4]	(4)	(22)
Taxation of items recognised directly in, or transferred from, equity to be reclassified in the Statement of profit or loss for the year		287	627
Share of after-tax comprehensive income/(loss) of investees accounted for using equity method		-	-
After-tax increase/(decrease) in reserves related to group of assets and liabilites held for sale	[tab. B4]	2	-
Items not to be reclassified in the Statement of profit or loss for the year			
Actuarial gains/(losses) on provisions for employee termination benefits	[tab. B7]	(1)	(51)
Taxation of items recognised directly in, or transferred from, equity not to be reclassified in the Statement of profit or loss for the year		-	18
Share of after-tax comprehensive income/(loss) of investees accounted for using equity method		-	-
Total other comprehensive income		**(764)**	**(1,708)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(75)**	**(1,086)**
of which, attributable to owners of the Parent		*(75)*	*(1,086)*
of which, attributable to non-controlling interests		-	-

Consolidated statement of changes in equity

	Equity										
	Share capital	Reserves						Retained earnings / (Accumulated losses)	Total equity attributable to owners of the Parent	Equity attributable to non-controlling interests	**Total equity**
(€m)		Legal reserve	BancoPosta RFC reserve	Fair value reserve	Cash flow hedge reserve	Reserves related to disposal groups and liabilites held for sale	Reserve for investees accounted for using equity method				
Balance at 1 January 2016	**1,306**	**299**	**1,000**	**2,739**	**9**	**-**	**-**	**4,305**	**9,658**	**-**	**9,658**
Total comprehensive income for the year	-	-	-	(1,648)	(27)	-	-	589	(1,086)	-	(1,086)
Dividends paid	-	-	-	-	-	-	-	(444)	(444)	-	(444)
Reclassifications to/ from reserves related to disposal groups and liabilites held for sale	-	-	-	1	-	(1)	-	-	-	-	-
Other changes	-	-	-	-	-	-	2	-	2	-	2
Other shareholder transactions	-	-	-	-	-	-	-	4	4	-	4
Amount due from MEF following cancellation of EC Decision of 16 July 2008	-	-	-	-	-			6	6	-	6
Taxation	-	-	-	-	-			(2)	(2)	-	(2)
Balance at 31 December 2016	**1,306**	**299**	**1,000**	**1,092**	**(18)**	**(1)**	**2**	**4,454**	**8,134**	**-**	**8,134**
Total comprehensive income for the year	-	-	-	(722)	(43)	2	-	688 (*)	(75)	-	(75)
Dividends paid	-	-	-	-	-	-	-	(509)	(509)	-	(509)
Reclassifications to/ from reserves related to disposal groups and liabilites held for sale	-	-	-	1	-	(1)	-	-	-	-	-
Balance at 31 December 2017	**1,306**	**299**	**1,000**	**371**	**(61)**	**-**	**2**	**4,633**	**7,550**	**-**	**7,550**

* This item includes profit for the year of €689 million and actuarial losses on provisions for employee termination benefits of €1 million after the related current and deferred taxation.

Consolidated statement of cash flows for the year ended 31 December

(€m)	Note	2017	2016
Cash and cash equivalents at beginning of year		**3,902**	**3,142**
Profit/(Loss) before tax		1,067	1,056
Depreciation, amortisation and impairments	[tab. C8]	545	581
Net provisions for risks and charges	[tab. B6]	707	563
Use of provisions for risks and charges	[tab. B6]	(617)	(448)
Provisions for employee termination benefits	[tab. B7]	1	1
Employee termination benefits	[tab. B7]	(96)	(82)
Impairment of disposal groups	[tab. A11.1]	3	37
(Gains)/Losses on disposals		(2)	3
Impairment on available-for-sale financial assets	[tab. C11.2]	12	12
Impairment loss on Contingent Convertible Notes	[tab. C11.2]	82	-
(Dividends)	[tab. C11.1]	-	-
Dividends received		-	-
(Finance income realised)	[tab. C11.1]	(9)	(7)
(Finance income in form of interest)	[tab. C11.1]	(94)	(99)
Interest received		102	94
Interest expense and other finance costs	[tab. C11.2]	80	85
Interest paid		(57)	(60)
Losses and impairments/(Recoveries) on receivables	[tab. C10]	55	22
Income tax paid	[tab. C12.3]	(472)	(317)
Other changes		(1)	(2)
Cash flow generated by operating activities before movements in working capital	**[a]**	**1,306**	**1,439**
Movements in working capital:			
(Increase)/decrease in Inventories	[tab. A6]	(1)	(3)
(Increase)/decrease in Trade receivables		80	86
(Increase)/decrease in Other receivables and assets		(202)	(357)
Increase/(decrease) in Trade payables		(176)	62
Increase/(decrease) in Other liabilities		97	129
Movement in group of assets and liabilites held for sale		(12)	-
Cash flow generated by /(used in) movements in working capital	**[b]**	**(214)**	**(83)**
Increase/(decrease) in liabilities attributable to financial activities		2,911	5,225
Net cash generated by/(used for) financial assets attributable to financial activities held for trading		-	-
Net cash generated by/(used for) available-for-sale financial assets attributable to financial activities		(2,497)	(5,114)
Net cash generated by/(used for) held-to-maturity financial assets attributable to financial activities		(108)	370
(Increase)/decrease in cash and deposits attributable to BancoPosta	[tab. A9]	(702)	667
(Increase)/decrease in other assets attributable to financial activities		315	773
(Income)/Expenses and other non-cash components from financial activities		(1,405)	(1,044)
Cash generated by/(used for) assets and liabilities attributable to financial activities	**[c]**	**(1,486)**	**877**

(€m)	Note	2017	2016
Net cash generated by/(used for) financial assets at fair value through profit or loss attributable to insurance activities		(3,911)	(6,100)
Increase/(decrease) in net technical provisions for insurance business		11,185	14,266
Net cash generated by/(used for) available-for-sale financial assets attributable to insurance activities	[tab. A5.4]	(5,825)	(6,466)
(Increase)/decrease in other assets attributable to insurance activities		(204)	12
(Gains)/Losses on financial assets/liabilities measured at fair value		(349)	(624)
(Income)/Expenses and other non-cash components from insurance activities		(1,211)	(1,063)
Cash generated by/(used for) assets and liabilities attributable to insurance activities	**[d]**	**(315)**	**25**
Net cash flow from /(for) operating activities ***- of which related party transactions***	**[e]=[a+b+c+d]**	**(709)** ***241***	**2,258** ***3,648***
Investing activities:			
Property, plant and equipment	[tab. A1]	(241)	(221)
Investment property	[tab. A2]	(1)	-
Intangible assets	[tab. A3]	(225)	(230)
Investments		(228)	(1)
Other financial assets		-	(100)
Disposals:			
Property, plant and equipment, investment property, intangible assets and assets held for sale		5	5
Investments		-	-
Other financial assets		296	103
Disposal groups		131	-
Net cash flow from /(for) investing activities ***- of which related party transactions***	**[f]**	**(263)** ***(65)***	**(444)** ***(22)***
Proceeds from/(Repayments of) long-term borrowings		4	-
(Increase)/decrease in loans and receivables		1	1
Increase/(decrease) in short-term borrowings		1	(521)
Dividends paid	[B2]	(509)	(444)
Net cash flow from/(for) financing activities and shareholder transactions ***- of which related party transactions***	**[g]**	**(503)** ***(327)***	**(964)** ***(286)***
Cash and cash equivalents reclassified from non-current assets and disposal groups held for sale	**[h] [tab. A11]**	**1**	**(90)**
Net increase/(decrease) in cash	**[i]=[e+f+g+h]**	**(1,474)**	**760**
Cash and cash equivalents at end of year	**[tab. A10]**	**2,428**	**3,902**
Cash and cash equivalents at end of year	**[tab. A10]**	**2,428**	**3,902**
Cash subject to investment restrictions		-	(780)
Escrow account with the Italian Treasury		(55)	-
Cash attributable to technical provisions for insurance business		(358)	(799)
Amounts that cannot be drawn on due to court rulings		(15)	(12)
Current account overdrafts		(1)	(2)
Cash received on delivery (restricted) and other restrictions		(21)	(17)
Unrestricted net cash and cash equivalents at end of year		**1,978**	**2,292**

4.2 Notes to statement of financial position

Assets

A1 - Property, plant and equipment (€2,001 million)

The following table shows movements in property, plant and equipment in 2017:

tab. A1 - Movements in property, plant and equipment

(€m)	Land	Property used in operations	Plant and machinery	Industrial and commercial equipment	Leasehold improvements	Other assets	Assets under construction and prepayments	Total
Cost	76	2,915	2,211	333	448	1,807	54	7,844
Accumulated depreciation	-	(1,644)	(1,893)	(304)	(260)	(1,562)	-	(5,663)
Accumulated impairment	-	(78)	(17)	(1)	(5)	-	-	(101)
Balance at 1 January 2017	**76**	**1,193**	**301**	**28**	**183**	**245**	**54**	**2,080**
Movements during the year								
Additions	-	32	66	9	33	70	31	241
Adjustments	-	-	-	-	-	-	-	-
Reclassifications	-	9	24	-	5	4	(42)	-
Disposals	-	-	-	-	-	-	-	-
Depreciation	-	(112)	(77)	(8)	(30)	(102)	-	(329)
(Impairments)/Reversal of impairments	-	12	3	-	(5)	(1)	-	9
Total movements	**-**	**(59)**	**16**	**1**	**3**	**(29)**	**(11)**	**(79)**
Cost	76	2,956	2,168	325	482	1,875	43	7,925
Accumulated depreciation	-	(1,756)	(1,837)	(295)	(286)	(1,658)		(5,832)
Accumulated impairment	-	(66)	(14)	(1)	(10)	(1)	-	(92)
Balance at 31 December 2017	**76**	**1,134**	**317**	**29**	**186**	**216**	**43**	**2,001**

At 31 December 2017, property, plant and equipment includes assets belonging to the Parent Company located on land held under concession or sub-concession, which are to be handed over free of charge at the end of the concession term. These assets have a total carrying amount of €55 million.

Capital expenditure of €241 million in 2017, including €7 million in capitalised costs for self-constructed assets, consists of:

- €32 million relating to extraordinary maintenance of post offices and local head offices around the country (€23 million) and mail sorting offices (€5 million);
- €66 million relating to plant, with the most significant expenditure made by the Parent Company, of which €26 million for plant and equipment related to buildings, €12 million for the installation of ATMs, €10 million for the purchase of equipment for use in sorting letters and processing parcels and
- €7 million for the purchase of telecommunications infrastructure;
- €33 million to upgrade plant and the structure of properties held under lease;
- €70 million relating to "Other assets", of which €45 million for the purchase of new computer hardware for post offices and head offices and the consolidation of storage systems;
- €31 million relating to assets under construction, of which €26 million incurred by the Parent Company and including €17 million regards the restyling of post offices and €5 million the renovation of primary distribution centres.

Reversals of impairment losses are due to changes in estimates relating to buildings (property used in operations) and sorting centres owned by the Parent Company, and reflect prudent consideration of the effects on the relevant values in use that might arise as a result of reduced utilisation or future removal from the production cycle (note 2.5 – *Use of estimates*).

Reclassifications from assets under construction, totalling €42 million, relate primarily to the acquisition cost of assets that became available and ready for use during the year. In particular, these assets regard the completion of the process of restyling leased and owned properties.

All of the properties formerly held under finance lease arrangements, totalling €9 million, were purchased at the end of the leases in 2017.

A2 - Investment property (€52 million)

Investment property primarily relates to residential accommodation previously used by post office directors and former service accommodation owned by Poste Italiane SpA in accordance with Law 560 of 24 December 1993. The following movements in Investment property took place in 2017:

tab. A2 - Movements in investment property

(€m)	Year ended 31 December 2017
Cost	142
Accumulated depreciation	(85)
Accumulated impairment	(1)
Balance at 1 January	**56**
Movements during the year	
Additions	1
Disposals	(1)
Depreciation	(4)
(Impairments)/Reversal of impairments	-
Total movements	**(4)**
Cost	141
Accumulated depreciation	(88)
Accumulated impairment	(1)
Balance at 31 December	**52**
Fair value at 31 December	102

The fair value of investment property at 31 December 2017 includes €67 million representing the sale price applicable to the Parent Company's former service accommodation in accordance with Law 560 of 24 December 1993, while the remaining balance reflects price estimates computed internally by the Company[56].

Most of the properties included in this category are subject to lease agreements classifiable as operating leases, given that the Group retains substantially all the risks and rewards of ownership of the properties. Under the relevant agreements, tenants usually have the right to break off the lease with six months' notice. Given the resulting lack of certainty, the expected revenue flows from these leases are not referred to in these notes.

A3 - Intangible assets (€516 million)

The following table shows movements in intangible assets in 2017:

tab. A3 - Movements in intangible assets

(€m)	Industrial patents, intellectual property rights, concessions, licences, trademarks and similar rights	Assets under construction and advances	Goodwill	Other	Total
Cost	2,662	94	120	109	2,985
Accumulated amortisation and impairments	(2,307)	-	(69)	(96)	(2,472)
Balance at 1 January 2017	**355**	**94**	**51**	**13**	**513**
Movements during the year					
Additions	119	103	-	3	225
Reclassifications	81	(79)	-	(2)	-
Transfers and disposals	-	(1)	-	-	(1)
Amortisation and impairments	(215)	-	-	(6)	(221)
Total movements	**(15)**	**23**	**-**	**(5)**	**3**
Cost	2,871	117	120	100	3,208
Accumulated amortisation and impairments	(2,531)	-	(69)	(92)	(2,692)
Balance at 31 December 2017	**340**	**117**	**51**	**8**	**516**

Investment in "Intangible assets" during 2017 amounts to €225 million, of which €17 million relates to internally developed software. Development costs, other than those incurred directly to produce identifiable software used, or intended for use, within the Group, are not capitalised.

The increase in **industrial patents, intellectual property, rights, concessions, licences, trademarks and similar rights** total €119 million, before amortisation for the period, and relate primarily to the purchase and entry into service of new software programmes and the acquisition of software licences. The balance includes €10 million representing the carrying amount of the IT platform used in development of the Full MVNO (Mobile Virtual Network Operator) project and held under finance lease arrangements by PosteMobile SpA. The platform is amortised over 10 years.

The balance of **intangible assets under construction** includes activities conducted by the Parent Company, primarily regarding the development for software relating to the infrastructure platform (€44 million), for BancoPosta services (€30 million), for use in providing support to the sales network (€18 million), for the postal products platform (€12 million).

56. In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, service accommodation qualifies for level 3, while the other investment property qualifies for level 2.

During the year the Group effected reclassifications from intangible assets under construction to industrial patents, intellectual property, rights, concessions, licences, trademarks and similar rights, amounting to €79 million, reflecting the completion and commissioning of software and the upgrade of existing software.

Goodwill regards the following:

tab. A3.1 - Goodwill

Item (€m)	Balance at 31 December 2017	Balance at 31 December 2016
Postel SpA	33	33
Poste Welfare Servizi Srl	18	18
Total	**51**	**51**

Goodwill has been tested for impairment in accordance with the relevant accounting standards. Based on the information available and the impairment tests conducted, there has been no need to recognise impairment losses on the goodwill accounted for at 31 December 2017.

A4 - Investments accounted for using the equity method (€508 million)

tab. A4 - investments

Item (€m)	Balance at 31 December 2017	Balance at 31 December 2016
Investments in associates	219	217
Investments in subsidiaries	2	1
Investments in joint ventures	287	-
Total	**508**	**218**

The movement in **investments** primarily regards:

- the net increase in the carrying amount of the investment in Anima Holding SpA (an associate), amounting to approximately €2.3 million, reflecting the combined effect of a reduction of €7.7 million, following the payment of dividends for 2016, and an increase of €10 million, including €9.5 million representing the share of profit booked by the investee between 30 September 2016 and 30 September 2017 (the latest data available).
- the acquisition of the investment in FSIA Investimenti Srl (a joint venture) for €278.3 million in February 2017 (see the information provided in note 3 – Material events during the year). The carrying amount of this investment was subsequently increased by over €7 million, primarily due to the investee's result for the first nine months of 2017.

At 31 December 2017, given the highly volatile performance of Anima Holding SpA's shares, the value of goodwill implicit in the carrying amount of the investment was tested for impairment. Based on the prospective information available, there was no need to recognise an impairment loss on the goodwill accounted for at the time of acquisition of the investment.

A list of subsidiaries, joint ventures and associates accounted for using the equity method is provided in *Additional information – Information on investments* (note 11), together with key data.

A5 - Financial assets (€186,766 million)

tab. A5 - Financial assets

Financial assets Item (€m)	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Loans and receivables	41	8,091	8,132	98	8,011	8,109
Held-to-maturity financial assets	11,667	1,245	12,912	11,213	1,470	12,683
Available-for-sale financial assets	130,969	4,836	135,805	123,175	5,068	128,243
Financial assets at fair value through profit or loss	27,857	1,481	29,338	20,996	3,907	24,903
Derivative financial instruments	470	109	579	337	87	424
Total	**171,004**	**15,762**	**186,766**	**155,819**	**18,543**	**174,362**

Financial assets by operating segment Item (€m)	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Financial services	49,415	10,663	60,078	47,299	10,753	58,052
Loans and receivables	8	7,592	7,600	8	7,907	7,915
Held-to-maturity financial assets	11,667	1,245	12,912	11,213	1,470	12,683
Available-for-sale financial assets	37,346	1,825	39,171	35,893	1,370	37,263
Derivative financial instruments	394	1	395	185	6	191
Insurance services	121,005	4,853	125,858	107,868	7,728	115,596
Loans and receivables	-	258	258	-	54	54
Available-for-sale financial assets	93,072	3,006	96,078	86,720	3,686	90,406
Financial assets at fair value through profit or loss	27,857	1,481	29,338	20,996	3,907	24,903
Derivative financial instruments	76	108	184	152	81	233
Postal and business services	584	246	830	652	62	714
Loans and receivables	33	241	274	90	50	140
Available-for-sale financial assets	551	5	556	562	12	574
Derivative financial instruments	-	-	-	-	-	-
Total	**171,004**	**15,762**	**186,766**	**155,819**	**18,543**	**174,362**

Financial assets by operating segment break down as follows:

- Financial Services, relate primarily to the financial assets of BancoPosta RFC and the company, BancoPosta Fondi SpA SGR;
- Insurance Services, includes the financial assets of Poste Vita SpA and its subsidiary, Poste Assicura SpA;
- Postal and Business Services, representing all the other financial assets held by the Parent Company (different from those held by BancoPosta) and the other financial assets held by companies that provide postal and business services.

Financial services

Loans and receivables

tab. A5.1 - Receivables

Item (€m)	Balance at 31 December 2017 Non-current assets	Current assets	Total	Balance at 31 December 2016 Non-current assets	Current assets	Total
Amounts deposited with MEF	-	6,011	6,011	-	6,189	6,189
Other financial receivables	8	1,581	1,589	8	1,718	1,726
Total	**8**	**7,592**	**7,600**	**8**	**7,907**	**7,915**

Receivables include:

- **Amounts deposited with the MEF,** including public customers' current account deposits of BancoPosta RFC, which earn a variable rate of return, calculated on a basket of government bonds and money market indices[57].
- **Other financial receivables,** relating to guarantee deposits of €1,179 million, including €1,110 million provided to counterparties in asset swap transactions (with collateral provided by specific Credit Support Annexes) and €69 million provided to counterparties in repurchase agreements on fixed income securities (with collateral contemplated by specific Global Master Repurchase Agreements).

There are no loans at 31 December 2017.

Investments in securities and equity instruments

tab. A5.2 - Investments in securities and equity instruments

Item (€m)	Note	Balance at 31 December 2017 Non-current assets	Current assets	Total	Balance at 31 December 2016 Non-current assets	Current assets	Total
Held-to-maturity financial assets		11,667	1,245	12,912	11,213	1,470	12,683
Fixed income instruments	[tab. A5.2.1]	11,667	1,245	12,912	11,213	1,470	12,683
Available-for-sale financial assets		37,346	1,825	39,171	35,893	1,370	37,263
Fixed income instruments	[tab. A5.2.1]	37,305	1,825	39,130	35,789	1,370	37,159
Equity instruments		41	-	41	104	-	104
Total		**49,013**	**3,070**	**52,083**	**47,106**	**2,840**	**49,946**

57. The rate in question is calculated as follows: 50% is based on the return on 6-month BOTs, with the remaining 50% based on the monthly average Rendistato index. The latter represents the average yield on government securities with maturity greater than 1 year, approximating the return on 7-year BTPs.

Investments in securities relate to investments in Italian government securities with a nominal value of €48,460 million held primarily by BancoPosta RFC, with the remaining balance held by BancoPosta Fondi SpA SGR.

tab. A5.2.1 - Movements in investments in securities

Securities (€m)	HTM		AFS		FVPL		Total	
	Nominal value	Carrying amount	Nominal value	Carrying amount	Nominal value	Carrying amount	Nominal value	Carrying amount
Balance at 1 January 2017	**12,392**	**12,683**	**32,178**	**37,159**	**-**	**-**	**44,570**	**49,842**
Purchases		1,582		8,997		-		10,579
Transfers to equity		-		(590)		-		(590)
Change in amortised cost		(9)		(77)		-		(86)
Changes in fair value through equity		-		(323)		-		(323)
Changes in fair value through profit or loss		-		(496)		-		(496)
Changes in cash flow hedge transactions (*)		(22)		-		-		(22)
Effect of sales on profit or loss		-		505		-		505
Accrued income		152		332		-		484
Recl. to non-current assets and disposal groups held for sale		-		31		-		31
Sales, redemptions and settlement of accrued income		(1,474)		(6,408)		-		(7,882)
Balance at 31 December 2017	**12,692**	**12,912**	**35,768**	**39,130**	**-**	**-**	**48,460**	**52,042**

(*) The item "Changes in cash flow hedge transactions", relates to the purchase of forward contracts in relation to cash flow hedge transactions, reflects changes in the fair value of such forward contracts between the date of purchase and the settlement date, which are recognised in equity, in the cash flow hedge reserve.

At 31 December 2017, the fair value[58] of the held-to-maturity portfolio, accounted for at amortised cost, is €14,384 million (including €152 million in accrued interest).

The overall fair value loss of the available-for-sale portfolio during the period is €819 million, recognised in the relevant equity reserve, recording a negative amount of €323 million in relation to the portion of the portfolio not hedged by fair value hedges, and through profit and loss, in relation to the loss of €496 million on the hedged portion.

The available-for-sale portfolio includes fixed rate instruments amounting to €2,500 million (including €1,000 million acquired in 2017), issued by Cassa Depositi e Prestiti SpA and guaranteed by the Italian government (at 31 December 2017, their fair value totalled €2,485 million).

Certain securities are encumbered as they have been delivered to counterparties for use as collateral in connection with loans and hedging transactions, as described in note 11 – *Additional information*.

58. In terms of the fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 1.

Investments in equity instruments include:

- €37 million, reflecting the fair value of 32,059 Visa Incorporated preference shares (Series C Convertible Participating Preferred Stock) received for the sale of the Visa Europe Ltd. share to Visa Incorporated on 21 June 2016. These shares are convertible at the rate of 13,893[59] ordinary shares for each C share, minus a suitable illiquidity discount, considering the staggered conversion between the fourth and the twelfth year after the closing;
- €4 million, reflecting the fair value of 11,144 class C shares of Visa Incorporated. These shares are not traded on an organised exchange, but are convertible into Class A shares (at the rate of four ordinary shares for each C share), which are listed on the New York Stock Exchange, if disposal is desired.

Fair value gains in the year under review, amounting to €11 million, have been recognised in the relevant equity reserve.

Finally, during the last quarter of 2017, Poste Italiane SpA sold its holding of 756,280 Class B Mastercard Incorporated shares in a series of transactions, following their conversion into Class A shares. The transaction generated a gain of €91 million, recognised as a non-recurring realised gain and accounted for in “Revenue from financial activities”.

Derivative financial instruments

The following table shows movements in derivative instruments during the year:

tab. A5.3 - Movements in derivative financial instruments

	Cash flow hedges						Fair value hedges		FVPL				Total	
	Forward purchases		Forward sales		Asset swap		Asset swap		Forward purchases		Forward sales			
(€m)	notional	fair value	notional	fair value	notional	fair value	notional	fair value	notional	fair value	notional	fair value	notional	fair value
Balance at 1 January 2017	**400**	**3**	**-**	**-**	**1,390**	**(65)**	**16,150**	**(2,052)**	**-**	**-**	**-**	**-**	**17,940**	**(2,114)**
Increases/ (decreases) *	-	(25)	1,408	(23)	50	(9)	5,205	446	-	-	92	-	6,755	389
Gains/(Losses) through profit or loss **	-	-	-	-	-	-	-	2	-	-	-	-	-	2
Transactions settled ***	(400)	22	-	-	(330)	15	(1,600)	444	-	-	(92)	-	(2,422)	481
Balance at 31 December 2017	**-**	**-**	**1,408**	**(23)**	**1,110**	**(59)**	**19,755**	**(1,160)**	**-**	**-**	**-**	**-**	**22,273**	**(1,242)**
Of which:														
Derivative assets	**-**	**-**	**-**	**-**	**175**	**31**	**9,370**	**364**	**-**	**-**	**-**	**-**	**9,545**	**395**
Derivative liabilities	**-**	**-**	**1,408**	**(23)**	**935**	**(90)**	**10,385**	**(1,524)**	**-**	**-**	**-**	**-**	**12,728**	**(1,637)**

* Increases / (decreases) refer to the nominal value of new transactions and changes in the fair value of the overall portfolio during the period.
** Gains and losses through profit or loss refer to any ineffective components of hedges, recognised in other income and other expenses from financial and insurance activities.
*** Transactions settled include forward transactions settled, accrued differentials and the settlement of asset swaps linked to securities sold.

59. Until the assigned shares are fully converted into ordinary shares, the share exchange ratio may be reduced if Visa Europe Ltd. incurs liabilities that, as of the reporting date, were considered as merely contingent.

During the year under review, the effective portion of interest rate hedges recorded an overall fair value loss of €57 million reflected in the cash flow hedge reserve.

Fair value hedges recorded an increase in the fair value of the effective portion of €446 million, whilst the hedged securities (tab. A5.2.1) recorded a fair value loss of €496 million, with the difference of €50 million due to paid differentials.

In the year under review, the Parent Company carried out the following transactions:

- the settlement of forward purchases, totalling €400 million;
- the conclusion of forward sales with a nominal value of €1,408 million;
- new asset swaps used as cash flow hedges with a nominal value of €50 million euro;
- the unwinding of asset swaps, used as cash flow hedges for securities sold, with a nominal value of €330 million;
- new asset swaps used as fair value hedges with a nominal value of €5,205 million;
- the unwinding of asset swaps, used as fair value hedges for securities sold, with a nominal value of €1,600 million.

Insurance services

Loans and receivables

Receivables of €258 million relate primarily to contributions in the form of subscriptions and payment for unissued units of mutual investment funds.

There are no loans at 31 December 2017.

Available-for-sale financial assets

Movements in available-for-sale financial assets are as follows:

tab. A5.4 - Movements in available-for-sale financial assets

	Fixed income instruments		Other investments	Equity instruments	Total
(€m)	Nominal value	Fair value	Fair value	Fair value	Fair value
Balance at 1 January 2017	**80,524**	**88,377**	**2,013**	**16**	**90,406**
Purchases		20,016	631	27	20,674
Transfers to equity		(279)	38	-	(241)
Changes in amortised cost		270	-	-	270
Fair value gains and losses through equity		(1,030)	38	2	(990)
Impairments		-	(105)	-	(105)
Effects of sales on profit or loss		209	(16)	1	194
Accrued income		719	-	-	719
Recl. to non-current assets and disposal groups held for sale		-	-	-	-
Sales, redemptions and settlement of accrued income		(13,573)	(1,247)	(29)	(14,849)
Balance at 31 December 2017	**87,893**	**94,709**	**1,352**	**17**	**96,078**

These financial instruments recorded net fair value losses of €990 million deriving from the measurement of securities held by Poste Vita SpA, of which €988 million was transferred to policyholders, with a contra-entry made in technical provisions in accordance with the shadow accounting method and a portion of €2 million reflected in a matching negative movement in the related equity reserve.

Fixed income instruments relate primarily to investments held by Poste Vita SpA, totalling €94,475 million (nominal value of €87,670 million) issued by European governments and European blue-chip companies. These instruments are mainly intended to cover separately managed accounts, where gains and losses are transferred in full to policyholders and recognised in technical provisions using the shadow accounting method. These fixed income instruments comprise bonds issued by CDP SpA, with a fair value of €1,244 million (a nominal value of €1,123 million).

Other investments relate to units of mutual investment funds, totalling €1,352 million, of which €834 million relates to equity funds, €356 million to mutual property funds and the remaining €162 million primarily to bond funds. These units are subscribed for entirely by Poste Vita SpA and allocated to the insurance company's separately managed accounts.

In 2016, Poste Vita decided to invest approximately €260 million in an alternative investment fund called "Atlante", and, in July 2016, invested approximately a further €200 million in the alternative investment fund named "Atlante 2" (now called the "Italian Recovery Fund"). Both funds, which are managed by Quaestio Capital Management SGR SpA, are closed-end funds restricted to professional investors, investing primarily in financial instruments issued by banks looking to strengthen their capital and non-performing loans held by various Italian banks. At 31 December 2017, the Atlante fund has called up €239.6 million, including €211.9 million allocated to the separately managed account, *PostaValorePiù*, and €27.7 million allocated to the company's free capital, whilst the Atlante 2 fund (now called the "Italian Recovery Fund") has called up a total of €101.9 million, allocated in full to the separately managed account, *PostaValorePiù*.

With particular regard to the Atlante fund, the Group, when preparing the financial statements for the year ended 31 December 2016, had already recognised an impairment loss on the investment of equal to approximately 50% (€106 million, including approximately €94 million recognised in deferred liabilities due to policyholders).

In view of recent events regarding the assets in which the fund has invested, and information from the management company on 21 July 2017 relating to the value of the fund's units at 30 June 2017, during the year the Group recognised a further impairment loss equal to 50% of its investment, with the sole exception of the amount invested in the Atlante II fund (now called the "Italian Recovery Fund"). Impairment losses recognised in 2017 total €105 million. Of this amount, €93 million, allocated to separately managed accounts, has been deducted from deferred liabilities due to policyholders, whilst the €12 million relating to the insurance company's free capital has been recognised in finance costs. The total impairment loss recognised at 31 December 2017 thus amounts to €211 million, with the total finance costs recognised on the investment of Poste Vita's free capital in 2016 and 2017 totalling a cumulative amount of €24 million.

Financial instruments at fair value through profit or loss

tab. A5.5 - Movements in financial instruments at fair value through profit or loss

	Fixed income instruments		Structured bonds		Other investments	Equity instruments	Total
(€m)	Nominal value	Fair value	Nominal value	Fair value	Fair value	Fair value	Fair value
Balance at 1 January 2017	**9,379**	**9,566**	**857**	**992**	**14,345**	**-**	**24,903**
Purchases		1,133		4	14,466	62	15,665
Fair value gains and losses through profit or loss		143		(4)	289	2	430
Accrued income		47		-	-	-	47
Effects of sales on profit or loss		(75)		4	(11)	1	(81)
Sales/Settlement of accrued income		(4,594)		(450)	(6,575)	(7)	(11,626)
Balance at 31 December 2017	**5,979**	**6,220**	**500**	**546**	**22,514**	**58**	**29,338**

These financial instruments are held by the subsidiary, Poste Vita SpA, and relate to:

- **Fixed income securities,** amounting to €6,220 million and consisting of €2,152 million in coupon stripped BTPs e Zero Coupon primarily acquired to cover the contractual obligations arising on Class III insurance policies, while the balance of €4,068 million is primarily made up of corporate bonds issued by blue-chip companies, including €3,886 million linked to separately managed accounts, €114 million covering contractual obligations arising on Class III insurance policies and the remaining €68 million relating to securities in which the company's free capital has been invested.
- **Structured bonds,** amounting to €546 million relating solely to the private placement of bonds issued by CDP SpA (nominal amount of €500 million) acquired to cover the contractual obligations arising on Class III insurance policies. The overall reduction is primarily due to redemption of an index-linked policy, totalling €446 million.
- **Other investments,** amounting to €22,514 million and relating to units of mutual investment funds, which include €21,484 million to cover Class I products and €1,030 million to cover Class III products. Details of the funds in question are provided in note 11 – *Additional information - Unconsolidated structured entities*.
- **Equity instruments,** totalling €58 million. These are investments to cover the contractual obligations arising on Class III products following establishment of the new unit-linked product linked to the individual savings plan, *PosteVita Soluzione Italia*.

Derivative financial instruments

At 31 December 2017, outstanding instruments primarily regard warrants executed by Poste Vita SpA to cover contractual obligations deriving from Class III policies with a fair value of €184 million and a notional amount of €2,149 million. The reduction in value in 2017 reflects an increase in fair value of €39 million, gains on sales of €40 million and redemptions of €128 million. Details of the Group's warrants are as follows.

tab. A5.6 - Warrants

Policy (€m)	At 31 December 2017		At 31 December 2016	
	Nominal value	Fair value	Nominal value	Fair value
Alba	-	-	712	17
Terra	-	-	1,355	27
Quarzo	-	-	1,254	35
Titanium	621	45	656	34
Arco	165	34	174	30
Prisma	166	29	175	25
6Speciale	200	-	200	-
6Avanti	200	-	200	-
6Sereno	173	18	181	15
Primula	176	17	184	15
Top5	223	18	233	16
Top5 edizione II	225	23	234	19
Total	**2,149**	**184**	**5,558**	**233**

Postal and business services

Loans and receivables

tab. A5.7 - Receivables

(€m)	Balance at 31 December 2017 Non-current assets	Current assets	Total	Balance at 31 December 2016 Non-current assets	Current assets	Total
Due from MEF for repayment of loans accounted for in liabilities	-	-	-	-	1	1
Guarantee deposits	-	40	40	-	50	50
Due from the purchasers of service accommodation	5	2	7	7	-	7
Due from others	28	199	227	-	-	-
Provisions for doubtful debts	-	-	-	-	-	-
Total	**33**	**241**	**274**	**7**	**51**	**58**

Guarantee deposits relate to collateral provided to counterparties with whom the Company has entered into asset swaps.

Other receivables regard the remaining amount due from Invitalia SpA as a result of the sale of Banca del Mezzogiorno-MedioCreditoCentrale SpA on 7 August 2017.

There are no loans at 31 December 2017.

Available-for-sale financial assets

tab. A5.8 - Movements in available-for-sale financial assets

	Fixed income instruments		Other investments		Equity instruments	Total
(€m)	Nominal value	Fair value	Nominal value	Fair value	Fair value	Fair value
Balance at 1 January 2017	**500**	**562**	**5**	**7**	**5**	**574**
Purchases		-		-	-	-
Redemptions		-		-	-	-
Transfers to equity reserves		-		(4)	-	(4)
Changes in amortised cost		-		-	-	-
Impairments		-		-	-	-
Fair value gains and losses through equity		(1)		-	-	(1)
Fair value gains and losses through profit or loss		(10)		-	-	(10)
Effects of sales on profit or loss		-		4	-	4
Accrued income		5		-	-	5
Sales and settlement of accrued income		(5)		(7)	-	(12)
Balance at 31 December 2017	**500**	**551**	**-**	**-**	**5**	**556**

Fixed income instruments regard BTPs with a total nominal value of €500 million. Of these, instruments with a value of €375 million have been hedged using asset swaps designated as fair value hedges.

Other investments consist of equity instruments (as defined by art. 2346, paragraph 6 of the Italian Civil Code) resulting from the conversion of Contingent Convertible Notes[60] held by Poste Italiane SpA, whose value at 31 December 2017 is zero. As described in greater detail in note 3.2 – *Other material events*, during the year under review, the Company recognised a non-recurring impairment loss equal to the value of the Notes, amounting to €82 million, including interest recognised at 31 December 2016. The loss was accounted for in finance costs.

During the year under review, Poste Italiane SpA sold its holdings in equity mutual investment funds. This generated a gain of €4 million recognised in finance income.

Equity instruments primarily reflects the investment in CAI SpA (formerly Alitalia CAI SpA), which was acquired for €75 million in 2013 and written off in 2014.

Derivative financial instruments

tab. A5.9 - Movements in derivative financial instruments

	Year ended 31 December 2017			
(€m)	Cash Flow hedges	Fair value hedges	Fair value through profit or loss	Total
Balance at 1 January 2017	**(7)**	**(44)**	**-**	**(51)**
Transactions settled (*)	2	10	-	12
Balance at 31 December 2017	**(5)**	**(34)**	**-**	**(39)**
Of which:				
Derivative assets	-	-	-	-
Derivative liabilities	(5)	(34)	-	(39)

* Transactions settled include forward transactions settled, accrued differentials and the settlement of asset swaps linked to securities sold.

At 31 December 2017, derivative financial instruments include:

- nine asset swaps used as fair value hedges in 2010 to protect the value of BTPs with a nominal value of €375 million against movements in interest rates. These instruments have enabled the Parent Company to sell the fixed rate on the BTPs of 3.75% and purchase a variable rate;
- a swap contract entered into in 2013 to hedge the cash flows of a €50 million bond issued on 25 October 2013 (note B.8 – *Financial liabilities*). With this transaction, the Company took on the obligation to pay a fixed rate of 4.035% and sold the variable rate of the bond which, at 31 December 2017, is 1.843%.

60. These are Contingent Convertible Notes with an original value of €75 million, a twenty-year term to maturity and issued by Midco SpA, which in turn owns 51% of the airline Alitalia SAI SpA. The Notes were subscribed for by Poste Italiane SpA on 23 December 2014, in connection with the strategic transaction that resulted in Etihad Airways' acquisition of an equity interest in Alitalia SAI, without giving rise to any involvement on the part of Poste Italiane in the management of the issuer or its subsidiary. Interest and principal payments were provided for in the relevant terms and conditions if, and to the extent that, there was available liquidity. The loan was convertible, on the fulfilment of certain negative pledge conditions, into an equity instrument (as defined by art. 2346, paragraph 6 of the Italian Civil Code), carrying the same rights associated with the Notes. From 1 January 2015 to 31 December 2016, the Notes paid a nominal rate of interest of 7% per annum.

Fair value hierarchy

Fair value hierarchy

Item (€m)	At 31 December 2017				At 31 December 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Available-for-sale financial assets	129,465	5,418	922	135,805	122,497	4,958	788	128,243
Equity instruments	17	4	42	63	16	77	32	125
Fixed income instruments	129,448	4,942	-	134,390	122,474	3,624	-	126,098
Other investments	-	472	880	1,352	7	1,257	756	2,020
Financial assets at fair value through profit or loss	6,796	21,788	754	29,338	10,094	14,635	174	24,903
Equity instruments	58	-	-	58	-	-	-	-
Fixed income instruments	6,212	8	-	6,220	9,535	31	-	9,566
Structured bonds	-	546	-	546	-	992	-	992
Other investments	526	21,234	754	22,514	559	13,612	174	14,345
Derivative financial instruments	-	579	-	579	-	424	-	424
Non-current assets and disposal groups held for sale	-	-	-	-	793	123	-	916
Total	**136,261**	**27,785**	**1,676**	**165,722**	**133,384**	**20,140**	**962**	**154,486**

At 31 December 2016, non-current assets and disposal groups held for sale included financial instruments at fair value held by BdM-MCC SpA and BancoPosta Fondi SGR SpA.

Transfers between levels 1 and 2, relating entirely to the Poste Vita insurance group, are shown below:

Net transfers between Level 1 and 2 at 31 December 2017

Item (€m)	From Level 1 to Level 2		From Level 2 to Level 1	
	Level 1	Level 2	Level 1	Level 2
Transfers of financial assets	**(687)**	**687**	**352**	**(352)**
Available-for-sale financial assets				
Equity instruments	-	-	-	-
Fixed income instruments	(674)	674	273	(273)
Other investments	-	-	-	-
Financial assets at fair value through profit or loss				
Fixed income instruments	-	-	24	(24)
Structured bonds	-	-	-	-
Other investments	(13)	13	55	(55)
(Net transfers between Levels 1 and 2)	**(687)**	**687**	**352**	**(352)**

Reclassifications from level 1 to level 2 regard financial instruments whose value, at 31 December 2017, is not observable in a liquid and active market, as defined in the Group's Fair Value Policy. Reclassifications from level 2 to level 1, on the other hand, regard financial instruments whose value, at 31 December 2017, is observable in a liquid and active market.

Movements in level 3 during the year are shown below:

Movements in financial instruments at fair value (level 3)

Item (€m)	Financial assets			
	Available-for-sale financial assets	Financial asset at fair value through profit or loss	Derivative financial instruments	Total
Balance at 31 December 2016	**788**	**174**	**-**	**962**
Purchases/Issues	401	570	-	971
Sales/Extinguishment of initial accruals	(199)	-	-	(199)
Redemptions	-	-	-	-
Movements in fair value through profit or loss	-	10	-	10
Movements in fair value through equity	37	-	-	37
Transfers to profit or loss	-	-	-	-
Gains/Losses in profit or loss due to sales	-	-	-	-
Transfers to level 3	-	-	-	-
Transfers to other levels	-	-	-	-
Movements in amortised cost	-	-	-	-
Impairments	(105)	-	-	(105)
Other movements (including accruals at end of period)	-	-	-	-
Balance at 31 December 2017	**922**	**754**	**-**	**1,676**

Financial instruments classified in level 3 are held primarily by Poste Vita SpA and, to a residual extent, by Poste Italiane SpA. In the case of the Group's insurance company, instruments in level 3 regard funds that invest primarily in unlisted instruments, whose fair value measurement is based on the latest available NAV (Net Asset Value) as announced by the fund manager. This NAV is adjusted according to the capital calls and reimbursements announced by the managers which occurred between the latest NAV date and the measurement date. These financial instruments primarily consist of investments in private equity funds and, to a lesser extent, real estate funds associated entirely with Class I products related to separately managed accounts. Movements during the year regard the purchase of new investments, redemptions of units of unquoted close-end funds, changes in fair value (including gains of €11 million on the "Series C Visa Inc. convertible preferred stock" held by the Parent Company), and the impairment loss on the alternative investment fund, "Atlante", as described above.

A6 - Inventories (€138 million)

tab. A6 - Inventories

Item (€m)	Balance at 31 December 2016	Increase/ (decrease)	Balance at 31 December 2017
Properties held for sale	118	1	119
Work in progress, semi-finished and finished goods and goods for resale	12	(2)	10
Raw, ancillary and consumable materials	7	2	9
Total	**137**	**1**	**138**

This item refers entirely to properties held for sale, which include the portion of EGI SpA's real estate portfolio to be sold, whose *fair value*[61] at 31 December 2017 amounts to approximately €285 million.

A7 - Trade receivables (€2,035 million)

tab. A7 - Trade receivables

	Balance at 31 December 2017			Balance at 31 December 2016		
Item (€m)	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Customers	9	1,860	1,869	4	1,929	1,933
MEF	-	166	166	-	236	236
Subsidiaries, associates and joint ventures	-	-	-	-	3	3
Prepayments to suppliers	-	-	-	-	-	-
Total	**9**	**2,026**	**2,035**	**4**	**2,168**	**2,172**

61. In terms of the fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 2.

Receivables due from customers

tab. A7.1 - Receivables due from customers

Item (€m)	Balance at 31 December 2017 Non-current assets	Current assets	Total	Balance at 31 December 2016 Non-current assets	Current assets	Total
Ministries and Public Administration entities	-	658	658	-	633	633
Cassa Depositi e Prestiti	-	374	374	-	364	364
Unfranked mail delivered and other value added services	20	254	274	24	274	298
Parcel express courier and express parcel services	-	259	259	-	238	238
Overseas counterparties	-	229	229	-	285	285
Overdrawn current accounts	-	148	148	-	142	142
Amounts due for other BancoPosta services	-	87	87	-	113	113
Property management	-	7	7	-	7	7
Other trade receivables	4	412	416	-	376	376
Provisions for doubtful debts	(15)	(568)	(583)	(20)	(503)	(523)
Total	**9**	**1,860**	**1,869**	**4**	**1,929**	**1,933**

Specifically:

- Amounts due from **ministries and Public Administration entities** refer mainly to the following services:
  - Integrated Notification and mailroom services, amounting to €253 million rendered to central government entities as well as local government authorities;
  - Unfranked mail services provided on credit, totalling €88 million, to central government entities as well as local government authorities;
  - Reimbursement of the costs associated with the management of property, vehicles and security incurred on behalf of the Ministry for Economic Development, totalling €75 million, of which €2 million relates to the amount accrued during the year (see note 2.5[62] for information on this item);
  - Compensation for the discounts applied to publishers during the year under review, due from the *Presidenza del Consiglio dei Ministri* - Dipartimento dell'Editoria (Cabinet Office – Publishing department), amounting to €43 million;
  - The payment of pensions and vouchers on behalf of INPS (the National Institute of Social Security), totalling €66 million.

  In order to settle the amount due, INPS has expressed a willingness to offset receivables due to the Company with liabilities that, in Poste Italiane's opinion, are not subject to the same degree of certainty, liquidity or enforceability, and which the Company has recognised according to the procedures and to the extent required by the relevant accounting standards. Whilst waiting for the counterparty to acknowledge its obligations, the Parent Company has instructed its legal counsel to take the necessary steps to recover the amount due.

- Amounts due from **Cassa Depositi e Prestiti** refer to fees and commissions for BancoPosta's deposit-taking activities during 2017.
- Receivables arising from **unfranked mail delivered and other value added services** refer to bulk mail services and other added value services.
- Receivables for **parcel, express courier and express parcel services** refer to services provided by SDA Express Courier SpA, and to the mailing of parcels by the Parent Company.

62. See "Revenue and receivables due from the State", item (vi), showing overall amounts due from the Ministry for Economic Development (€77 million), including amounts due for postal and other residual services, amounting to €2 million.

- Receivables from **overseas counterparties** relate to postal services carried out by the Parent Company for overseas postal operators.
- Receivables for **overdrawn current accounts** are amounts due to BancoPosta for temporarily overdrawn current accounts largely due to recurring BancoPosta bank charges, including accumulated sums, which have largely been written down, that BancoPosta is in the process of recovering.
- **Other trade receivables** include mainly: €48 million related to PosteMobile Spa for sales of terminals, services rendered to other operators and for the sale of top-ups through other channels, €45 million for Posta Time services, €26 million for Posta Target services, €22 million relating to air transport provided by Mistral Air Srl, €20 million related to Notification of Legal Process service, €14 million for Advice and Billing Mail services and €14 million for telegraphic services

Movements in **provisions for doubtful debts** are as follows:

tab. A7.2 - Movements in provisions for doubtful debts

Item (€m)	Balance at 1 January 2017	Net provisions	Deferred revenue	Uses	Balance at 31 December 2017
Private customers	348	37	-	(3)	382
Public Administration entities	132	1	11	-	144
Overseas postal operators	5	2	-	-	7
	485	**40**	**11**	**(3)**	**533**
Interest on late payments	38	15	-	(3)	50
Total	**523**	**55**	**11**	**(6)**	**583**

Provisions for doubtful debts relating to private customers include the amount set aside attributable to BancoPosta's operations, mainly to cover numerous individually immaterial amounts due from overdrawn current account holders.

Provisions for doubtful debts relating to Public Administration entities regard amounts that may be partially unrecoverable as a result of legislation restricting government spending, delays in payment and problems at debtor entities.

Receivables due from the MEF

This item relates to trade receivables due to the Parent Company from the Ministry of the Economy and Finance.

tab. A7.3 - Receivables due from the MEF

Item (€m)	Balance at 31 December 2017	Balance at 31 December 2016
Universal Service compensation	31	139
Publisher tariff and electoral subsidies	83	83
Remuneration of current account deposits	25	8
Payment for delegated services	56	28
Distribution of Euroconverters	-	6
Other	2	3
Provision for doubtful debts due from the MEF	(31)	(31)
Total	**166**	**236**

Specifically:

- **Universal Service compensation** includes:

tab. A7.3.1 - Universal Service compensation receivable

Item (€m)	Balance at 31 December 2017	Balance at 31 December 2016
Remaining balance for 2015	-	67
Remaining balance for 2014	-	41
Remaining balance for 2012	23	23
Remaining balance for 2005	8	8
Total	**31**	**139**

A total of €370 million was collected in 2017, including €262 million relating to compensation for 2017 and €108 million in residual compensation for 2015 and 2014.
With reference to the amount receivable for 2012, AGCom has recognised a net cost incurred by the Company of €327 million, compared with compensation of €350 million originally recognised. Provision has not been made in the state budget for the remaining €23 million. The Company appealed AGCom's decision on 13 November 2014 before the Regional Administrative Court (TAR).
The outstanding receivable relating to compensation for 2005 was subject to cuts in the budget laws for 2007 and 2008.
Finally, with regard to the outstanding balance of the compensation for 2013, which was collected in full in 2015, with resolution 493/14/CONS of 9 October 2014, AGCom has initiated an assessment of the net cost incurred by Poste Italiane SpA. On 24 July 2015, the regulator notified the Company that it would extend the assessment to include the 2014 financial year. At the end of the public consultation, launched by AGCom in 2016, the regulator published Resolution 298/17/CONS, in which it assessed the cost of providing the universal service for 2013 and 2014 to be €393 million and €409 million, respectively, compared with revenue of €343 million and €277 million recognised in the Company's statement of profit or loss for services rendered in the relevant years. The regulator also announced that the compensation fund to cover the cost of providing the universal service has not been set up. The Company filed a legal challenge to AGCom's resolution before the Regional Administrative Court on 6 November 2017.
On 27 October 2017, AGCom announced the launch of the process of verifying the net cost of the universal postal service for 2015 and 2016.

- Receivables arising from **electoral subsidies** refer to compensation for previous years. Funds have been earmarked in the state budgets for 2017 and previous years, but they are still being reviewed by the European Commission. These receivables are shown gross of collection of the amount of €55 million deposited in an escrow account with the MEF in December 2017. For this reason, the account, which is non-interest bearing and held with the Treasury, is accounted for in "Prepayments received". The release of the amount deposited with the MEF and derecognition of the receivables in question will occur once the European Commission has given the related consent.
- The **remuneration of current account deposits** refers entirely to amounts accruing in 2017 and almost entirely relates to the deposit of funds deriving from accounts opened by Public Administration entities and attributable to BancoPosta RFC.
- Payments for **delegated services** relate to fees accrued solely in the year under review for treasury services performed by BancoPosta on behalf of the state in accordance with a special agreement with the MEF, renewed on 16 November 2017 for the three-year period 2017-2019.

Provisions for doubtful debts due from the MEF reflect the lack of funding of the state budget, which make it difficult to collect certain receivables recognised on the basis of laws, contracts and agreements in force at the time of recognition. The provisions are unchanged over the year.

A8 - Other receivables and assets (€3,997 million)

tab. A8 - Other receivables and assets

		Balance at 31 December 2017			Balance at 31 December 2016		
Item (€m)	Note	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Substitute tax paid		2,926	541	3,467	2,546	564	3,110
Receivables relating to fixed-term contract settlements		101	87	188	121	89	210
Amounts due from social security agencies and pension funds (excl. fixed-term contract settlements)		-	98	98	-	89	89
Amounts restricted by court rulings		-	75	75	-	71	71
Accrued income and prepaid expenses from trading transactions		-	11	11	-	16	16
Tax assets		-	5	5	-	4	4
Sundry receivables		16	159	175	15	163	178
Provisions for doubtful debts due from others		-	(72)	(72)	-	(60)	(60)
Other receivables and assets		3,043	904	3,947	2,682	936	3,618
Amount due from MEF following cancellation of EC Decision of 16 July 2008	[B2]	-	-	-	-	6	6
Interest accrued on IRES refund	[C12.1]	-	47	47	-	47	47
Interest accrued on IRAP refund	[C12.1]	-	3	3	-	-	-
Total		**3,043**	**954**	**3,997**	**2,682**	**989**	**3,671**

Specifically:

- **substitute tax paid** refers mainly to:
  - €1,858 million on non-current receivables paid in advance by Poste Vita SpA for the financial years 2012-2017, relating to withholding and substitute tax paid on capital gains on life policies[63];
  - €1,064 million charged to holders of Interest-bearing Postal Certificates and Class III and V insurance policies for stamp duty at 31 December 2017[64]. This amount is balanced by a matching entry in "Other taxes payable" until expiration or early settlement of the Interest-bearing Postal Certificates or the insurance policies, i.e. the date on which the tax is payable to the tax authorities (tab. B10.3);
  - €325 million relating to advances paid in relation to stamp duty to be paid in virtual form in 2018 and charged to customers and to be recovered from customers by Poste Italiane;
  - €143 million relating to stamp duty charged to Postal Savings Books, which Poste Italiane SpA pays in virtual form as required by law.

63. Of the total amount, €489 million, assessed on the basis of provisions at 31 December 2016, has yet to be paid and is accounted for in "Other taxes payable" (tab. B10.3).
64. Introduced by article 19 of Law Decree 201/2011, converted as amended by Law 214/2011, in accordance with the MEF Decree dated 24 May 2012: Manner of implementation of paragraphs from 1 to 3 of article 19 of Law Decree 201 of 6 December 2011, on stamp duty on current accounts and financial products (Official Gazette 127 of 1 June 2012).

- Amounts due from staff under **fixed-term contract settlements** consist of salaries to be recovered following the agreements of 13 January 2006, 10 July 2008, 27 July 2010, 18 May 2012, 21 March 2013 and 30 July 2015 between Poste Italiane SpA and the trade unions, regarding the re-employment by court order of staff previously employed on fixed-term contracts. This item refers to receivables with a present value of €188 million from staff, from INPS and pension funds recoverable in the form of variable instalments, the last of which is due in 2040. With regard to amounts receivable from INPS (formerly IPOST), of which approximately €42 million is due, the same considerations described in the above note A7 apply.
- Amounts that **cannot be drawn on due to court rulings** include €62 million in amounts seized and not assigned to creditors, in the process of recovery, and €13 million in amounts stolen from the Parent Company in December 2007 as a result of an attempted fraud and that have remained on deposit with an overseas bank. The latter sum may only be recovered once the legal formalities are completed. The risks associated with collection of these items are taken into account in the provisions for doubtful debts due from others.
- **Accrued interest on IRES** refund, amounting to €47 million, refers to interest accruing up to 31 December 2017 in relation to the tax credit determined by an unreported deduction of IRAP paid on labour costs from IRES and almost entirely attributable to the Parent Company. Recovery of the amount in question has resulted in a dispute, the outcome of which is subject to uncertainty. With regard to the remaining overall tax credit, amounting to €55 million (i.e. including current tax assets and related interest), information is provided in note 2.5– *Use of estimates*.

Movements in the related **provisions for doubtful debts** are as follows:

tab. A8.1 - Movements in Provisions for doubtful debts due from others

Item (€m)	Balance at 1 January 2017	Net provisions	Uses	Balance at 31 December 2017
Public Administration entities for sundry services	13	1	-	14
Receivables relating to fixed-term contract settlements	7	2	-	9
Other receivables	40	9	-	49
Total	**60**	**12**	**-**	**72**

A9 - Cash and deposits attributable to BancoPosta (€3,196 million)

tab. A9 - Cash and deposits attributable to BancoPosta

Item (€m)	Balance at 31 December 2017	Balance at 31 December 2016
Cash and cash equivalents in hand	2,799	2,269
Bank deposits	397	225
Total	**3,196**	**2,494**

Cash at post offices, relating exclusively to BancoPosta RFC, regards cash deposits on postal current accounts, postal savings products (Interest-bearing Postal Certificates and Postal Savings Books) or advances obtained from the Italian Treasury to fund post office operations. This cash may only be used in settlement of these obligations. Cash and cash equivalents in hand are held at post offices (€813 million) and companies that provide cash transportation services whilst awaiting transfer to the Italian Treasury (€1,986 million). Bank deposits relate to BancoPosta RFC's operations and include amounts deposited in an account with the Bank of Italy to be used in interbank settlements, totalling €396 million.

A10 - Cash and cash equivalents (€2,428 million)

tab. A10 - Cash and cash equivalents

Item (€m)	Balance at 31 December 2017	Balance at 31 December 2016
Bank deposits and amounts held at the Italian Treasury	2,034	2,581
Deposits with the MEF	379	1,310
Cash and cash equivalents in hand	15	11
Total	**2,428**	**3,902**

The balance of cash at 31 December 2017 includes approximately €450 million the use of which is restricted, including €358 million in liquidity covering technical provisions for the insurance business, €55 million deposited in a non-interest bearing escrow account with the MEF in December 2017, as prepayment of electoral subsidies to cover discounts granted by the Parent Company, €15 million whose use is restricted by court orders related to different disputes and €21 million resulting from the collection of cash on delivery and amounts subject to other restrictions.

A11 - Non-current assets and disposal groups held for sale and liabilities related to assets held for sale (-€0.3 million)

Net liabilities held for sale at 31 December 2017 amount to €0.3 million. Following completion of the sale of BdM-MCC SpA on 7 August 2017, all the related items at that date were derecognised in 2017, whilst, given that the requirements of IFRS 5 were no longer met, almost all the assets and liabilities of BancoPosta Fondi SpA SGR were reclassified to the relevant items in the statement of financial position. The balance of the item in question regards remaining assets and liabilities attributable to BancoPosta Fondi SpA SGR, relating to the business unit (represented by management of the assets underlying Class I insurance products) due to be spun off as part of the agreement with Anima Holding, described in note 3.1, which continues to be classified in the items provided for in IFRS 5.

Further information is provided in *Material events during the year* (note 3).

Movements in the related assets are as follows:

tab. A11.1 - Non-current assets and disposal groups held for sale

Item (€m)	Balance at 31 December 2016	Other movements	Impairments	Disposal	Recl. from non-current assets and disposal groups held for sale	Balance at 31 December 2017
Property, plant and equipment	2	-	-	(1)	(1)	-
Intangible assets	7	-	-	(7)	-	-
Non-current financial assets	2,154	(157)	-	(1,970)	(27)	-
Non-current trade receivables	56	25	-	(81)	-	-
Deferred tax assets	12	(1)	-	(11)	-	-
Other non-current assets	-	-	-	-	-	-
Current trade receivables	9	2	-	(4)	(7)	-
Current financial assets	375	18	-	(389)	(4)	-
Current tax assets	9	(2)	-	(7)	-	-
Other current assets	43	(10)	-	(31)	(2)	-
Cash and cash equivalents	90	(25)	-	(64)	(1)	-
Impairments of disposal groups held for sale	(37)	-	(3)	40	-	-
Total	**2,720**	**(150)**	**(3)**	**(2,525)**	**(42)**	**-**

Movements in the related liabilities are as follows:

tab. A11.2 - Liabilities related to assets held for sale

Item (€m)	Balance at 31 December 2016	Other movements	Impairment	Disposal	Recl. from liabilities realted to assets held for sale	Balance at 31 December 2017
Non-current provisions for risks and charges	1	-	-	-	(1)	-
Employee termination benefits and pension plans	8	-	-	(8)	-	-
Non-current financial liabilities	880	148	-	(1,028)	-	-
Deferred tax liabilities	1	-	-	(1)	-	-
Other non-current liabilities	-	-	-	-	-	-
Trade payables	9	(2)	-	(4)	(3)	-
Current financial liabilities	1,144	(126)	-	(1,018)	-	-
Current provisions for risks and charges	5	(2)	-	(3)	-	-
Current tax liabilities	3	(1)	-	-	(2)	-
Other current liabilities	9	2	-	(9)	(2)	-
Total	**2,060**	**19**	**-**	**(2,071)**	**(8)**	**-**

Equity

B1 - Share capital (€7,550 million)

The share capital of Poste Italiane SpA consists of 1,306,110,000 no-par value ordinary shares, of which CDP holds 35% and the MEF 29.3%, while the remaining shares are held by institutional and retail investors.

At 31 December 2017, all the shares in issue are fully subscribed and paid up. No preference shares have been issued and the Parent Company does not hold treasury shares.

The following table shows a reconciliation of the Parent Company's equity and profit/(loss) for the year with the consolidated amounts:

tab. B1 - Reconciliation of equity

(€m)	Equity at 31 December 2017	Changes in equity during 2017	Profit/(loss) for 2017	Equity at 31 December 2016	Changes in equity during 2016	Profit/(loss) for full year 2016	Equity at 1 January 2016
Financial statements of Poste Italiane SpA	**5,512**	**(1,265)**	**617**	**6,160**	**(2,111)**	**625**	**7,646**
- Undistributed profit (loss) of consolidated companies	3,293	-	557	2,736	-	425	2,311
- Investments accounted for using the equity method	27	-	17	10	1	6	3
- Balance of FV and CFH reserves of investee companies	156	(7)	-	163	(35)	-	198
- Actuarial gains and losses on employee termination benefits of investee companies	(4)	1	-	(5)	(1)	-	(4)
- Fees to be amortised attributable to Poste Vita SpA and Poste Assicura SpA	(40)	-	(1)	(39)	-	-	(39)
- Effects of contributions and transfers of business units between Group companies							
SDA Express Courier SpA	2	-	-	2	-	-	2
EGI SpA	(71)	-	-	(71)	-	-	(71)
Postel SpA	17	-	-	17	-	-	17
PosteShop SpA	1	-	-	1	-	-	1
- Effects of intercompany transactions (including dividends)	(1,586)	(2)	(516)	(1,068)	-	(430)	(638)
- Elimination of adjustments to value of consolidated companies	428	-	28	400	-	37	363
- Amortisation until1 January 2004/Impairment of goodwill	(139)	-	-	(139)	-	-	(139)
- Impairments of disposal groups held for sale	(40)	-	(3)	(37)	-	(37)	-
- Other consolidation adjustments	(6)	-	(10)(*)	4	-	(4)	8
Equity attributable to owners of the Parent	**7,550**	**(1,273)**	**689**	**8,134**	**(2,146)**	**622**	**9,658**
- Non-controlling interests	-	-	-	-	-	-	-
- (excluding profit/(loss))							
- Profit/(loss) attributable to non-controlling interests	-	-	-	-	-	-	-
Equity attributable to non-controlling interests	-	-	-	-	-	-	-
Total consolidated equity	**7,550**	**(1,273)**	**689**	**8,134**	**(2,146)**	**622**	**9,658**

(*) This includes the reversal of non-recurring income of €14 million from Poste Italiane SpA's sale of its 100% interest in Banca del Mezzogiorno–MedioCreditoCentrale SpA to Invitalia SpA.

B2 – Shareholders transactions

As resolved at the General Meeting of shareholders held on 27 April 2017, on 21 June 2017 the Parent Company paid dividends totalling €509 million, based on a dividend per share of €0.39.

B3 – Earnings per share

The calculation of basic and diluted earnings per share (EPS) is based on the Group's profit for the year. The denominator used in the calculation of both basic and diluted EPS is represented by the number of the Parent Company's shares in issue, given that no financial instruments with potentially dilutive effects have been issued at 31 December 2017 or at 31 December 2016. As a result, at 31 December 2017, earnings per share is €0.528 (€0.476 at 31 December 2016).

B4 – Reserves (€1,611 million)

tab. B4 - Reserves

(€m)	Legal reserve	BancoPosta RFC reserve	Fair value reserve	Cash flow hedge reserve	Reserves related to groups of assets and liabilities held for sale	Reserve for investees accounted for using equity method	Total
Balance at 1 January 2017	**299**	**1,000**	**1,092**	**(18)**	**(1)**	**2**	**2,374**
Increases/(decreases) in fair value during the period	-	-	(315)	(57)	-	-	(372)
Tax effect of changes in fair value	-	-	93	16	-	-	109
Transfers to profit or loss	-	-	(676)	(4)	-	-	(680)
Tax effect of transfers to profit or loss	-	-	176	2	-	-	178
Investees accounted for using equity method - share of OCI (net of tax)	-	-	-	-	-	-	-
After-tax increase/(decrease) in reserves related to groups of assets and liabilites held for sale	-	-	-	-	2	-	2
Gains/(losses) recognised in equity	-	-	(722)	(43)	2	-	(763)
Reserves related to disposal groups and liabilities held for sale	-	-	1	-	(1)	-	-
Other	-	-	-	-	-	-	-
Attribution of profit for 2016	-	-	-	-	-	-	-
Balance at 31 December 2017	**299**	**1,000**	**371**	**(61)**	**-**	**2**	**1,611**

Details are as follows:

- the **fair value reserve** regards changes in the fair value of available-for-sale financial assets which, during 2017, resulted in fair value losses totalling €315 million, reflecting:
  - a net decrease of €312 million in available-for-sale financial assets attributable to the Group's Financial Services segment, due to the combined effect of a loss on securities of €323 million and a gain on equity instruments of €11 million;
  - a net decrease of €2 million in available-for-sale financial assets attributable to the Group's Insurance Services segment;
  - a net decrease of €1 million in available-for-sale financial assets attributable to the Group's Postal and Business Services segment.
- The **cash flow hedge** reserve, attributable to the Parent Company, reflects changes in the fair value of the effective portion of cash flow hedges. In 2017, fair value losses of €57 million were attributable to the value of BancoPosta RFC's derivative financial instruments.

Liabilities

B5 - Technical provisions for insurance business (€123,650 million)

These provisions refer to the contractual obligations of the subsidiaries, Poste Vita SpA and Poste Assicura SpA, in respect of their policyholders, inclusive of deferred liabilities resulting from application of the shadow accounting method, as follows:

tab. B5 - Technical provisions for insurance business

Item (€m)	Balance at 31 December 2017	Balance at 31 December 2016
Mathematical provisions	111,014	96,333
Outstanding claims provisions	631	942
Technical provisions where investment risk is transferred to policyholders	3,530	6,900
Other provisions	8,315	9,360
for operating costs	90	79
for deferred liabilities to policyholders	8,225	9,281
Technical provisions for claims	160	143
Total	**123,650**	**113,678**

Details of movements in technical provisions for the insurance business and other claims expenses are provided in the notes to the consolidated statement of profit or loss.

The provisions for deferred liabilities due to policyholders include portions of gains and losses attributable to policyholders under the shadow accounting method. In particular, the value of the provisions reflects the attribution to policyholders, in accordance with the relevant accounting standards (to which reference is made for more details), of unrealised profits and losses on available-for-sale financial assets at 31 December 2017 and, to a lesser extent, on financial instruments at fair value through profit or loss.

B6 - Provisions for risks and charges (€1,595 million)

Movements in provisions for risks and charges are as follows:

tab. B6 - Movements in provisions for risks and charges for the year ended 31 December 2017

Item (€m)	Balance at 1 January 2017	Provisions	Finance costs	Released to profit or loss	Uses	Recl. to liabilities related to assets held for sale	Balance at 31 December 2017
Provisions for operational risk	364	180	-	(10)	(95)	-	439
Provisions for disputes with third parties	349	102	-	(65)	(17)	-	369
Provisions for disputes with staff (1)	120	14	-	(34)	(23)	-	77
Provisions for personnel expenses	196	87	-	(28)	(122)	-	133
Provisions for early retirement incentives	342	446	-	-	(342)	-	446
Provisions for expired and statute barred postal savings certificates	14	-	1	-	-	-	15
Provisions for taxation/social security contributions	28	4	-	(10)	(8)	-	14
Other provisions for risks and charges	94	23	-	(3)	(13)	1	102
Total	**1,507**	**856**	**1**	**(150)**	**(620)**	**1**	**1,595**
Overall analysis of provisions:							
- non-current portion	658						692
- current portion	849						903
	1,507						**1,595**

(1) Net accruals for Personnel expenses amount to €10 million. Service costs (legal assistance) total €3 million.

Specifically:

- **Provisions for non-recurring charges** relate to operational risks arising from BancoPosta's operations. They primarily regard the liabilities arising from the reconstruction of operating ledger entries at the time of the Company's incorporation, liabilities deriving from the provision of delegated services for social security agencies, fraud, violations of administrative regulations, compensation and adjustments and outstanding income for previous years, risks linked to disputes with customers regarding certain investment products whose performance is not in line expectations, risks linked to customer complaints relating to the erroneous application of statute barring and estimated risks for charges and expenses to be incurred in connection with seizures effected by BancoPosta as garnishee-defendant. Provisions for the year, totalling €180 million, primarily reflect a revised estimate of probable liabilities linked to third-party financial products sold in the early 2000s, including €35 million relating to the voluntary action taken to protect customers, approved by Poste Italiane's Board of Directors on 19 February 2018, in relation to customers who had invested in the Europa Immobiliare 1 fund (which reached maturity on 31 December 2017[65]), and the revision of other liabilities due to adjustments and revised estimates of income for previous years. Uses, amounting to €95 million include €48 million relating to the settlement of amounts due to customers who had invested in the IRS real estate fund, following the decision to take extraordinary measures by Poste Italiane's Board of Directors on 16 January 2017.

65. This initiative is described in "Risk management – Reputational risk".

- **Provisions for disputes with third parties** regard the present value of expected liabilities deriving from different types of legal and out-of-court disputes with suppliers and third parties, the related legal expenses, and penalties and indemnities payable to customers. Provisions for the year of €102 million reflect the estimated value of new liabilities measured on the basis of expected outcomes. The reduction of €65 million relates to the reversal of liabilities recognised in the past, whilst a reduction of €17 million regards the value of disputes settled.
- **Provisions for disputes with staff** regard liabilities that may arise following labour litigation and disputes of various types. Net releases of €20 million relate to an update of the estimate of the liabilities and the related legal expenses, taking account of both the overall value of negative outcomes in terms of litigation, and the application of Law 183 of 4 November 2010 ("*Collegato lavoro*"), which has introduced a cap on current and future compensation payable to an employee in the event of "court-imposed conversion" of a fixed-term contract.
- **Provisions for personnel expenses** are made to cover expected liabilities arising in relation to the cost of labour, with are certain or likely to occur but whose estimated amount is subject to change. They have increased by the estimated amount of new liabilities (€87 million) and decreased as a result of past liabilities that failed to materialise (€28 million) and settled disputes (€122 million).
- **Provisions for early retirement incentives** reflect the estimated costs to be incurred as a result of the Company's binding commitment to pay early retirement incentives on a voluntary basis, under the current redundancy scheme agreed with the labour unions for a determinate number of employees who will leave the Company by 31 December 2019.
- **Provisions for expired and statute barred Postal Certificates** have been made to cover the cost of redeeming certificates relating to specific issues, even if expired[66].
- **Provisions for taxation/social security contributions** have been made to cover potential future tax and social security liabilities.
- **Other provisions** cover probable liabilities of various type, including: estimated liabilities deriving from the risk that specific legal actions undertaken in order to reverse seizures of the Parent Company's assets may be unable to recover the related amounts, claims for rent arrears on properties used free of charge by the Parent Company, claims for payment of accrued interest expense due to certain suppliers and frauds.

66. Provisions for expired and statute barred Postal Certificates were made in 1998 to cover the cost of redeeming certificates relating to specific issues, the value of which was recognised in revenue in profit or loss in the years in which the certificates became invalid. The provisions were made in response to the Parent Company's decision to redeem such certificates even if expired and statute barred. At 31 December 2017, the provisions represent the present value of total liabilities, based on a nominal value of €21 million, expected to be progressively settled by 2043.

B7 - Employee termination benefits (€1,274 million)

The following movements in employee termination benefits took place in 2017:

tab. B7 - Movements in provisions for employee termination benefits

(€m)	2017
Balance at 1 January	**1,347**
Current service cost	1
Interest component	21
Effect of actuarial (gains)/losses	1
Uses for the period	(96)
Balance at 31 December	**1,274**

The current service cost is recognised in personnel expenses, whilst the interest component is recognised in finance costs.

The main actuarial assumptions applied in calculating provisions for **employee termination benefits**, are as follows:

tab. B7.1 - Economic and financial assumptions

	At 31 December 2017
Discount rate	1.25%
Inflation rate	1.50%
Annual rate of increase of employee termination benefits	2.625%

tab. B7.2 - Demographic assumptions

	At 31 December 2017
Mortality	RG48 differentiated by gender
Disability	INPS 1998 table differentiated by gender
Rate of employee turnover	Specific table with rates differentiated by length of service
Advance rate	Specific table with rates differentiated by length of service
Pensionable age	In accordance with rules set by INPS

Actuarial gains and losses are generated by the following factors:

tab. B7.3 - Actuarial gains and losses

	At 31 December 2017
Change in demographic assumptions	-
Change in financial assumptions	7
Other experience-related adjustments	(6)
Total	**1**

The sensitivity of employee termination benefits plan to changes in the principal actuarial assumptions is analysed below.

tab. B7.4 - Sensitivity analysis

	At 31 December 2017
Inflation rate +0.25%	1,293
Inflation rate -0.25%	1,256
Discount rate +0.25%	1,244
Discount rate -0.25%	1,305
Turnover rate +0.25%	1,272
Turnover rate -0.25%	1,275

The following table provides further information in relation to employee termination benefits.

tab. B7.5 - Other information

	At 31 December 2017
Expected service cost	1
Average duration of defined benefit plan	10.2
Average employee turnover	0.20%

B8 - Financial liabilities (€63,244 million)

tab. B8 - Financial liabilities

Item (€m)	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Payables deriving from postal current accounts	-	46,575	46,575	-	45,125	45,125
Borrowings	3,398	3,419	6,817	6,097	1,265	7,362
Bonds	798	775	1,573	1,545	26	1,571
Borrowings from financial institutions	2,600	2,643	5,243	4,551	1,232	5,783
Other borrowings	-	-	-	-	-	-
Finance leases	-	1	1	1	7	8
MEF account, held at the Treasury	-	3,483	3,483	-	2,429	2,429
Derivative financial instruments	1,645	31	1,676	2,306	50	2,356
Cash flow hedges	101	17	118	87	21	108
Fair value hedges	1,544	14	1,558	2,219	29	2,248
Fair value through profit or loss	-	-	-	-	-	-
Other financial liabilities	1	4,692	4,693	1	3,648	3,649
Total	**5,044**	**58,200**	**63,244**	**8,404**	**52,517**	**60,921**

Payables deriving from postal current accounts

Payables deriving from postal current accounts represent BancoPosta's direct deposits, and include interest accrued at 31 December 2017, which was settled with customers in January 2018.

Borrowings

Other than the guarantees described in the following notes, borrowings are unsecured and are not subject to financial covenants, which would require Group companies to comply with financial ratios or maintain a certain minimum rating.

Bonds

Bonds consist of the following:

- Two issues by Poste Italiane SpA, recognised at an amortised cost of €813 million under the EMTN – Euro Medium Term Note programme of €2 billion listed by the Company in 2013 on the Luxembourg Stock Exchange. In particular:
  - bonds with a nominal value of €750 million, placed through a public offering for institutional investors at a below par price of 99.66 on 18 June 2013. The bonds have a term to maturity of five years and pay annual coupon interest at a fixed rate of 3.25%. The fair value[67] of this borrowing at 31 December 2017 is €775 million;

67. In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 1.

- bonds with a nominal value of €50 million subscribed by investors through a private placement at par on 25 October 2013. The term to maturity of the loan is ten years and the interest rate is 3.5% for the first two years and variable thereafter (EUR Constant Maturity Swap rate plus 0.955%, with a cap of 6% and a floor of 0%). The interest rate risk exposure was hedged as described in note A5; the fair value[68] of this borrowing at 31 December 2017 is €53 million.

- Subordinated bonds[69] with a nominal value of €750 million and accounted for at their amortised cost of € 760million, issued at a below par price of 99.597 by Poste Vita SpA on 30 May 2014 and listed on the Luxembourg Stock Exchange. The bonds have a five-year term to maturity and pay annual coupon interest of 2.875%. The fair value[70] of this liability at 31 December 2017 is €782 million.

Borrowings from financial institutions

tab. B8.1 - Borrowings from financial institutions

	Balance at 31 December 2017			Balance at 31 December 2016		
Item (€m)	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Repurchase agreements	2,400	2,442	4,842	4,151	1,230	5,381
EIB fixed rate loan maturing 11 April 2018	-	200	200	200	-	200
EIB fixed rate loan maturing 23 March 2019	200	-	200	200	-	200
Current account overdrafts	-	1	1	-	2	2
Total	**2,600**	**2,643**	**5,243**	**4,551**	**1,232**	**5,783**

Borrowings from financial institutions are subject to standard negative pledge[71].

Outstanding liabilities for repurchase agreements at 31 December 2017 amount to €4,842 million and relate to contracts with a total nominal value of €4,407 million, entered into by the Parent Company with major financial institutions. These liabilities consist of:

- €3,903 million relating to Long Term Repos entered into with primary counterparties, with the resulting resources invested in Italian fixed income government securities of a matching nominal amount;
- €939 million relating to BancoPosta's ordinary borrowing operations via repurchase agreement transactions with primary financial institutions as funding for incremental deposits used as collateral.

At 31 December 2017, the fair value[72] of the above repurchase agreements amounts to €4,853 million.

The fair value[73] of the two fixed rate EIB loans of €400 million obtained by the Parent Company amounts to €402 million.

68. In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 2.
69. The bondholders rank below customers holding the company's insurance policies.
70. In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 1.
71. A commitment given to creditors by which a borrower undertakes not to give senior security to other lenders ranking *pari passu* with existing creditors, unless the same degree of protection is also offered to them.
72. In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 2.
73. In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 2.

At 31 December 2017, the following credit facilities are available:

- committed lines of €1,173 million (including lines with a value of €1 billion extinguished on 2 February 2018);
- uncommitted lines of credit of €1,059 million, of which €9 thousand has been used in the form of medium/long-term borrowings;
- overdraft facilities of €166.8 million, of which €0.8 million has been used;
- unsecured guarantee facilities with a value of €639.2 million (with €505.2 million available to the Parent Company), of which guarantees with a value of €281.9 million have been used in favour of third parties.

No collateral has been provided to secure the lines of credit obtained.

Finally, the Bank of Italy has granted BancoPosta RFC access to intraday credit in order to fund intraday interbank transactions. Collateral for this credit facility is provided by securities with a nominal value of €490 million, and the facility is unused at 31 December 2017.

MEF account held at the Treasury

tab. B8.2 - MEF account, held at the Treasury

	Balance at 31 December 2017			Balance at 31 December 2016		
Item (€m)	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Balance of cash flows for advances	-	3,375	3,375	-	2,239	2,239
Balance of cash flows from management of postal savings	-	(84)	(84)	-	(4)	(4)
Amounts payable due to theft	-	157	157	-	159	159
Amounts payable for operational risks	-	35	35	-	35	35
Total	**-**	**3,483**	**3,483**	**-**	**2,429**	**2,429**

The **balance of cash flows for advances**, represents the net amount payable as a result of advances from the MEF to meet the cash requirements of BancoPosta. These break down as follows:

tab. B8.2.1 - Balance of cash flows for advances

	Balance at 31 December 2017			Balance at 31 December 2016		
Item (€m)	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Net advances	-	3,375	3,375	-	2,239	2,239
MEF postal current accounts and other payables	-	671	671	-	671	671
Ministry of Justice - Orders for payment	-	-	-	-	-	-
MEF - State pensions	-	(671)	(671)	-	(671)	(671)
Total	**-**	**3,375**	**3,375**	**-**	**2,239**	**2,239**

The **balance of cash flows from the management of postal savings**, amounting to a positive €84 million, represents the balance of withdrawals less deposits during the last two days of the year and cleared early in the following year. The balance at 31 December consists of €43 million payable to Cassa Depositi e Prestiti, less €127 million receivable from the MEF for Interest-bearing Postal Certificates issued on its behalf.

Amounts payable due to thefts from post offices regard the Parent Company's liability to the MEF on behalf of the Italian Treasury for losses resulting from theft and fraud. This liability derives from cash withdrawals from the Treasury to make up for the losses resulting from these criminal acts, in order to ensure that post offices can continue to operate.

Amounts payable for operational risks regard the portion of advances obtained to fund the operations of BancoPosta, in relation to which asset under recovery is certain or probable.

Derivative financial instruments

Movements in derivative financial instruments during 2017 are described in note A5 – *Financial assets*.

Other financial liabilities

Other financial liabilities have a fair value that approximates to their carrying amount and refer mainly to BancoPosta RFC.

tab. B8.3 - Other financial liabilities

	Balance at 31 December 2017			Balance at 31 December 2016		
Item (€m)	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Prepaid cards	-	2,853	2,853	-	2,161	2,161
Domestic and international money transfers	-	734	734	-	599	599
Cashed cheques	-	243	243	-	284	284
Tax collection and road tax	-	145	145	-	153	153
Endorsed cheques	-	188	188	-	148	148
Amounts to be credited to customers	-	88	88	-	75	75
Guarantee deposits	-	100	100	-	32	32
Other amounts payable to third parties	-	68	68	-	66	66
Payables for items in process	-	190	190	-	117	117
Other	1	83	84	1	13	14
Total	**1**	**4,692**	**4,693**	**1**	**3,648**	**3,649**

Amounts payable for guarantee deposits regard amounts received by the Parent Company in relation to asset swaps (collateral provided by specific Credit Support Annexes).

Other includes €56 million relating to the outstanding amount payable to FSI Investimenti SpA for the acquisition of the investment in FSIA Investimenti Srl on 15 February 2017.

Changes in liabilities arising from financing activities

The following reconciliation of financial liabilities is provided in accordance with IAS 7, following the amendments introduced by EU Regulation 1990/2017 of 6 November 2017.

tab. B8.4 - Changes in liabilities arising from financing activities

Item (€m)	Balance at 31 December 2016	Net cash flow from/(for) financing activities	Net cash flow from/ (for) operating activities (*)	Non-cash flows	Balance at 31 December 2017
Borrowings	7,362	(8)	(543)	6	6,817
Bonds	1,571	-	-	2	1,573
Borrowings from financial institutions	5,783	(1)	(543)	4	5,243
Other borrowings	-	-	-	-	-
Finance lease liabilities	8	(7)	-	-	1
Other financial liabilities	3,649	13	975	56	4,693
Total	**11,011**	**5**	**432**	**62**	**11,510**

(*) The total amount of €432 million is included in the cash flow from /(for) operating activities, the balance of which in the statement of cash flows amounts to an outflow of €709 million and regards borrowings and other financial liabilities not attributable to financing activities.

Fair value hierarchy

In terms of the fair value hierarchy, derivative financial instruments held at 31 December 2017 (€1,676 million) are classified in level 2.

B9 - Trade payables (€1,332 million)

tab. B9 - Trade payables

Item (€m)	Balance at 31 December 2017	Balance at 31 December 2016
Amounts due to suppliers	1,064	1,283
Prepayments and advances from customers	246	209
Other trade payables	7	12
Amounts due to subidiaries	1	2
Amounts due to associates	2	-
Amounts due to joint ventures	12	-
Total	**1,332**	**1,506**

Amounts due to suppliers

tab. B9.1 - Amounts due to suppliers

Item (€m)	Balance at 31 December 2017	Balance at 31 December 2016
Italian suppliers	926	1,131
Overseas suppliers	30	24
Overseas counterparties (1)	108	128
Total	**1,064**	**1,283**

(1) The amount due to overseas counterparties relates to fees payable to overseas postal operators and companies in return for postal and telegraphic services received.

Prepayments and advances from customers

Prepayments and advances from customers relate to amounts received from customers as prepayment for the following services to be rendered:

tab. B9.2 - Prepayments and advances from customers

Item (€m)	Note	Balance at 31 December 2017	Balance at 31 December 2016
Prepayments from overseas suppliers		107	123
Advances from MEF	[tab. A7.3]	55	-
Automated franking		47	53
Unfranked mail		13	14
Postage-paid mailing services		7	7
Other services		17	12
Total		**246**	**209**

B10 - Other liabilities (€3,456 million)

tab. B10 - Other liabilities

Item (€m)	Balance at 31 December 2017 Non-current liabilities	Current liabilities	Total	Balance at 31 December 2016 Non-current liabilities	Current liabilities	Total
Amounts due to staff	4	932	936	1	913	914
Social security payables	35	482	517	38	451	489
Other taxes payable	1,065	687	1,752	927	624	1,551
Amounts due to the MEF	-	-	-	-	21	21
Other amounts due to joint ventures	-	1	1	-	-	-
Sundry payables	92	68	160	91	70	161
Accrued liabilities and deferred income	11	79	90	14	68	82
Total	**1,207**	**2,249**	**3,456**	**1,071**	**2,147**	**3,218**

Amounts due to staff

tab. B10.1 - Amounts due to staff

Item (€m)	Balance at 31 December 2017 Non-current liabilities	Current liabilities	Total	Balance at 31 December 2016 Non-current liabilities	Current liabilities	Total
Thirteenth and fourteenth month salaries	-	231	231	-	236	236
Incentives	4	448	452	1	533	534
Accrued vacation pay	-	56	56	-	55	55
Other amounts due to staff	-	197	197	-	89	89
Total	**4**	**932**	**936**	**1**	**913**	**914**

At 31 December 2017, certain liabilities, which at 31 December 2016 were included in provisions for personnel expenses, were determinable with reasonable certainty and, as such, were recognised as payables.

Social security payables

tab. B10.2 - Social security payables

	Balance at 31 December 2017			Balance at 31 December 2016		
Item (€m)	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
INPS	1	385	386	-	358	358
Pension funds	-	82	82	-	83	83
INAIL	34	3	37	38	3	41
Other agencies	-	12	12	-	7	7
Total	**35**	**482**	**517**	**38**	**451**	**489**

Other tax liabilities

tab. B10.3 - Other tax liabilities

	Balance at 31 December 2017			Balance at 31 December 2016		
Item (€m)	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Stamp duty payable	1,065	31	1,096	927	-	927
Tax due on insurance provisions	-	489	489	-	443	443
Withholding tax on employees' and consultants' salaries	-	98	98	-	113	113
VAT payable	-	21	21	-	18	18
Substitute tax	-	24	24	-	24	24
Withholding tax on postal current accounts	-	1	1	-	3	3
Other taxes due	-	23	23	-	23	23
Total	**1,065**	**687**	**1,752**	**927**	**624**	**1,551**

In particular:

- **Stamp duty** relates mainly to the amount accrued at 31 December 2017 on Interest-bearing Postal Certificates outstanding and on Class III and V insurance policies pursuant to the new law referred to in note A8 – *Other receivables and assets.*
- **Tax due on insurance provisions** relates to Poste Vita SpA and is described in note A8.
- **Withholding tax on employees' and consultants' salaries** relates to amounts paid to the tax authorities by Group companies in January and February 2018 as withholding agents.

Amounts due to the MEF

Amounts due to the MEF, which at 31 December 2016 amounted to €21 million, were settled during 2017.

Sundry payables

tab. B10.4 - Sundry payables

Item (€m)	Balance at 31 December 2017 Non-current liabilities	Current liabilities	Total	Balance at 31 December 2016 Non-current liabilities	Current liabilities	Total
Sundry payables attributable to BancoPosta	75	8	83	75	7	82
Guarantee deposits	10	4	14	9	2	11
Other payables	7	56	63	7	61	68
Total	**92**	**68**	**160**	**91**	**70**	**161**

Sundry payables attributable to BancoPosta's operations primarily relate to prior year balances currently being verified.

Accrued expenses and deferred income from trading transactions

tab. B10.5 - Accrued liabilities and deferred income

Item (€m)	Balance at 31 December 2017 Non-current liabilities	Current liabilities	Total	Balance at 31 December 2016 Non-current liabilities	Current liabilities	Total
Accrued liabilities	-	5	5	-	6	6
Deferred income	11	74	85	14	62	76
Total	**11**	**79**	**90**	**14**	**68**	**82**

Deferred income comprises:

- €27 million in fees on Postemat and Postepay Evolution cards collected in advance by the Parent Company;
- €22 million in prepaid telephone traffic sold as of 31 December 2017 sold by PosteMobile SpA and not yet used by customers;
- €7 million in grants approved by the competent public authorities in favour of the Parent Company, where the matching costs have yet to be incurred.

4.3 Notes to the statement of profit or loss

C1 – Revenue from mail, parcels and other revenue (€3,631million)

This item breaks down as follows:

tab. C1 - Revenue from mail, parcel & other revenue

Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
Mail and parcel revenue	3,373	3,584
Other revenue	258	238
Total	**3,631**	**3,822**

Mail and parcel revenue breaks down as follows:

tab. C1.1 - Mail and parcel revenue

Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
Unfranked mail	1,089	1,109
Automated franking by third parties and at post offices	731	789
Express parcel and express courier services	406	440
Integrated services	157	206
Stamps	152	190
Overseas mail and parcels	172	150
Postage-paid mailing services	95	102
Electronic document management and e-procurement services	28	39
Telegrams	41	40
Innovative services	12	15
Logistics services	6	12
Other postal services	179	121
Total market revenue	**3,068**	**3,213**
Universal Service compensation	262	371
Publisher tariff subsidies	43	-
Total	**3,373**	**3,584**

Universal Service compensation relates to amounts paid by the MEF to cover the costs of fulfilling the USO. Compensation for services rendered during the year, amounting to €262 million, was recognised on the basis of the new *Contratto di Programma* (Service Contract) for 2015-2019, which took effect on 1 January 2016. Approximately €108 million in further compensation for previous years was recognised in 2016[74].

Publisher tariff subsidies[75] relate to the amount receivable by Poste Italiane from the *Presidenza del Consiglio dei Ministri - Dipartimento dell'Editoria* (Cabinet Office - Publishing department) as compensation for the discounts applied to publishers and non-profit organisations when sending mail. The compensation is determined on the basis of the tariffs set in the decree issued by the Ministry for Economic Development, in agreement with the Ministry of the Economy and Finance, on 21 October 2010 and Law Decree 63 of 18 May 2012, as converted into Law 103 of 16 July 2012. In this regard, provision has been made in the state budget for 2017 to cover the discounts applied by the Company in the period under review, but the subsidies are subject to the approval of the European Commission.

Other revenue breaks down as follows:

tab. C1.2 - Other revenue

Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
Air transport	62	57
Income from applications for residence permits	23	27
Rentals	15	16
Other business services	92	84
Other operating income	66	54
Total	**258**	**238**

74. This amount was previously accounted for in "Provisions for doubtful debts due from the MEF" and recognised following new provision made in the State Budget to cover prior contractual obligations.
75. Law Decree 244/2016 (the so-called "*Mille Proroghe*" decree), converted with amendments into Law 19 of 27 February 2017, has extended the provision of subsidies for postal services introduced by the Interministerial Decree of 21 October 2010, aimed at publishing houses and non-profit organisations entered in the Register of Communications Providers (ROC), and has also restored the government subsidies introduced by Law 46 of 27 February 2004. The Decree also confirmed the subsidised tariffs for promotional mailshots by non-profit organisations.

C2 – Revenue from payment services, mobile and digital (€586 million)

This item breaks down as follows:

tab. C2 - Revenue from payments, mobile & digital

Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
Mobile	211	224
E-money	212	166
Cards	194	151
Acquiring	5	4
Other fees	13	11
Payment services	163	180
Payment Slips	77	79
Fees for the processing of tax returns	61	76
Bank and money transfers	23	24
Other products and services	2	1
Total	**586**	**570**

This item primarily regards revenue from the mobile telecommunications services provided by PosteMobile SpA and revenue generated by the Parent Company from e-money products and payments services.

C3 – Revenue from financial services (€4,956 million)

This item breaks down as follows:

tab. C3 - Revenue from financial servicesi

Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
Financial services	4,307	4,397
Income from financial activities	646	604
Other operating income	3	8
Total	**4,956**	**5,009**

This revenue primarily regards revenue generated by the Parent Company's BancoPosta RFC.

Revenue from Financial Services breaks down as follows:

tab. C3.1 - Revenue from financial services

Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
Fees for collection of postal savings deposits	1,566	1,577
Income from investment of postal current account deposits	1,475	1,509
Commissions on payment of bills by payment slip	434	463
Other revenues from current account services	359	351
Distribution of loan products	197	189
Income from delegated services	103	106
Fees for the management of public funds	27	50
Interest on loans and other income	22	48
Money transfers	17	19
Mutual fund management fees	85	60
Securities custody	5	6
Commissions from securities trading	4	4
Other products and services	13	15
Total	**4,307**	**4,397**

In particular:

- **Fees for the collection of postal savings deposits** relate to remuneration for the provision and redemption of Interest-bearing Postal Certificates and payments into and withdrawals from Postal Savings Books. This service is provided by Poste Italiane SpA on behalf of Cassa Depositi e Prestiti under the Agreement of 4 December 2014, originally intended to cover the five-year period 2014-2018. On 14 December 2017, the new Agreement for the three-year period 2018-2020 was signed.
- **Income from the investment of postal current account deposits** breaks down as follows:

tab. C3.1.1 - Income from investment of postal current account deposits

Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
Income from investments in securities	1,448	1,489
Interest income on held-to-maturity financial assets	499	541
Interest income on available-for-sale financial assets	992	974
Interest expense on asset swaps of available-for-sale financial assets	(49)	(33)
Interest income on repurchase agreements	6	7
Income from deposits held with the MEF	27	20
Remuneration of current account deposits (deposited with the MEF)	27	20
Total	**1,475**	**1,509**

Income from investments in securities relates to interest earned on investment of deposits paid into postal current accounts by private customers. The total includes the impact of the interest rate hedge described in note A5 – *Financial assets*.
Income from deposits held with the MEF primarily represents accrued interest for the year on amounts deposited by Public Administration entities.

- **Revenue from current account services** primarily relates to charges on current accounts, fees on amounts collected and on statements of account sent to customers, annual fees on debit cards and related transactions.
- **Revenue from the distribution of loan products** relate to commissions received by the Parent Company on the placement of personal loans and mortgages on behalf of third parties.

tab. C3.2 - Income from financial activities

Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
Income from available-for-sale financial assets	639	599
Realised gains	547	477
Realised gains on other equity instruments	91	121
Dividends received from other equity instruments	1	1
Income from fair value hedges	2	-
Fair value gains	2	-
Foreign exchange gains	5	4
Fair value gains	-	-
Realised gains	5	4
Other income	-	1
Total	**646**	**604**

Realised gains on other investments in 2017 regard the gain generated by the sale of shares in Mastercard Incorporated, as described in note A5 – *Financial assets.*

C4 – Revenue from Insurance Services after movements in technical provisions and other claims expenses (€1,456 million)

Details of this item are as follows:

tab. C4 - Revenue from Insurance Services after movements in technical provisions and other claims expenses

Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
Insurance premium revenue	20,343	19,884
Income from insurance activities	3,925	3,827
Movement in technical provisions for insurance business and other claim expenses	(22,335)	(21,958)
Expenses from insurance activities	(477)	(511)
Total	**1,456**	**1,242**

A breakdown of premium revenue, showing outward reinsurance premiums, is as follows:

tab. C4.1 - Insurance premium revenue

Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
Class I	19,634	19,265
Class III	537	475
Class IV	17	11
Class V	75	69
Gross life Premiums	**20,263**	**19,820**
Outward reinsurance premiums	(19)	(16)
Net life premiums	**20,244**	**19,804**
Non-life premiums	131	108
Outward reinsurance premiums	(32)	(28)
Net non-life premiums	**99**	**80**
Total	**20,343**	**19,884**

Income from insurance activities is as follows:

tab. C4.2 - Income from insurance activities

Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
Income from financial assets at fair value through profit or loss	1,246	1,256
Interest	586	328
Fair value gains	585	913
Realised gains	75	15
Income from available-for-sale financial assets	2,638	2,540
Interest	2,360	2,221
Realised gains	278	319
Other income	41	31
Total	**3,925**	**3,827**

A breakdown of the movement in technical provisions and other claims expenses, showing the portion ceded to reinsurers, is as follows:

tab. C4.3 - Movement in technical provisions for insurance business and other claims expenses

Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
Claims paid	11,141	7,689
Movement in mathematical provisions	14,694	14,327
Movement in outstanding claims provisions	(311)	(237)
Movement in Other technical provisions	172	478
Movement in technical provisions where investment risk is transferred to policyholders	(3,370)	(319)
Total movement in technical provisions for insurance business and other claims expenses: life	**22,326**	**21,938**
Portion ceded to reinsurers: life	**(13)**	**(10)**
Total movement in technical provisions for insurance business and other claims expenses: non-life	**29**	**40**
Portion ceded to reinsurers: non-life	**(7)**	**(10)**
Total	**22,335**	**21,958**

The movement in technical provisions for the insurance business and other claims expenses primarily reflect:

- claims paid, policies redeemed and the related expenses incurred by Poste Vita SpA during the period;
- the change in mathematical provisions reflecting increased obligations to policyholders;
- the decrease in technical provisions where investment risk is transferred to policyholders (so-called class D), totalling €3,370 million, primarily following the expiration of certain Class III products.

Expenses from insurance activities break down as follows:

tab. C4.4 - Expenses from insurance activities

Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
Expenses from financial instruments through profit or loss	245	314
Fair value losses	119	290
Realised losses	126	24
Expenses from available-for-sale financial instruments	189	179
Impairment	93	94
Realised losses	96	85
Change in fair value of financial liabilities	-	-
Other expenses	43	18
Total	**477**	**511**

C5 - Costs of goods and services (€2,370 million)

tab. C5 - Cost of goods and services

Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
Services	1,894	1,960
Lease expense	335	336
Raw, ancillary and consumable materials and goods for resale	141	146
Total	**2,370**	**2,442**

Cost of services

tab. C5.1 - Cost of services

Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
Transport of mail, parcels and forms	538	534
Routine maintenance and technical assistance	240	256
Outsourcing fees and external service charges	187	194
Personnel services	142	155
Energy and water	124	129
Mobile telecommunication services for customers	89	100
Transport of cash	99	101
Credit and debit card fees and charges	84	83
Cleaning, waste disposal and security	62	64
Telecommunications and data trasmission	63	62
Mail, telegraph and telex	54	67
Advertising and promotions	72	75
Consultants' fees and legal expenses	27	35
Airport costs	32	24
Electronic document management, printing and enveloping services	28	27
Asset management fees	19	18
Insurance premiums	15	15
Agent commissions and other	13	14
Securities custody and management fees	2	2
Remuneration of Statutory Auditors	1	2
Other	3	3
Total	**1,894**	**1,960**

Lease expense

tab. C5.2 - Lease expense

Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
Real estate leases and ancillary costs	183	189
Vehicle leases	69	64
Equipment hire and software licences	47	50
Other lease expense	36	33
Total	**335**	**336**

Real estate leases relate almost entirely to the buildings from which the Group operates (post offices, Delivery Logistics Centres and Sorting Centres). Under the relevant lease agreements, rents are increased annually on the basis of the price index published by the *Istituto Nazionale di Statistica* (ISTAT, the Italian Office for National Statistics). Lease terms are generally six years, renewable for a further six. Renewal is assured from the clause stating that the lessor "waives the option of refusing renewal on expiry of the first term", by which the lessor, once the agreement has been signed, cannot refuse to renew the lease, except in cases of force majeure. The Parent Company has the right to withdraw from the contract at any time, giving six months' notice, in accordance with the standard lease contract.

Raw, ancillary and consumable materials and goods for resale

tab. C5.3 - Raw, ancillary and consumable materials and goods for resale

Item (€m)	Note	For the year ended 31 December 2017	For the year ended 31 December 2016
Consumables, advertising materials and goods for resale		78	86
Fuels and lubricants		55	55
Printing of postage and revenue stamps		5	6
SIM cards and scratch cards		3	2
Change in inventories of work in progress, semi-finished and finished goods and goods for resale	[tab. A6]	2	-
Change in inventories of raw, ancillary and consumable materials	[tab. A6]	(2)	1
Change in property held for sale	[tab. A6]	(1)	(4)
Other		1	-
Total		**141**	**146**

C6 - Expenses from financial activities (€57 million)

The table below provides a breakdown of this item:

tab. C6 - Expenses from financial activities

Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
Expenses from available-for-sale financial instruments	17	-
Realised losses	17	-
Expenses from fair value hedges	-	1
Fair value losses	-	1
Foreign exchange losses	2	1
Fair value losses	1	1
Realised losses	1	-
Expenses incurred on repurchase agreements	-	6
Interest expense	21	34
Interest on customers' deposits	5	12
Interest expense on repurchase agreements	11	17
Interest due to MEF	4	2
Other interest expense and similar charges	2	4
Portion of interest expense on own liquidity (finance costs)	(1)	(1)
Other expenses	17	20
Total	**57**	**62**

C7 - Personnel expenses (€6,093 million)

Personnel expenses include the cost of staff seconded to other organisations. The recovery of such expenses, determined by the relevant chargebacks, is posted to "Other operating income". Personnel expenses break down as follows:

tab. C7 - Personnel expenses

Item (€m)	Note	For the year ended 31 December 2017	For the year ended 31 December 2016
Wages and salaries		4,208	4,296
Social security contributions		1,196	1,218
Provisions for employee termination benefits: current service cost	[tab. B7]	1	1
Provisions for employee termination benefits: supplementary pension funds and INPS		258	265
Agency staff		2	1
Remuneration and expenses paid to Directors		2	2
Early retirement incentives		52	167
Net provisions (reversals) for disputes with staff	[tab. B6]	(25)	3
Provisions for early retirement incentives	[tab. B6]	446	342
Amounts recovered from staff due to disputes		(6)	(9)
Share-based payment		3	1
Other personnel expenses/(cost recoveries)		(44)	(46)
Total		**6,093**	**6,241**

Net provisions for disputes with staff and provisions for restructuring charges are described in note B6 – *Provisions for risks and charges*.

Cost savings refer mainly to changes in estimates made in previous years.

The following table shows the Group's average and year-end headcount for 2017:

tab. C7.1 - Number of employees

	Average		Year end	
Category	For the year ended 31 December 2017	For the year ended 31 December 2016	At 31 December 2017	At 31 December 2016
Executives	732	773	699	748
Middle managers	15,859	16,113	15,481	15,807
Operational staff	114,007	118,720	110,607	115,035
Back-office staff	760	1,052	644	912
Total employees on permanent contracts (*)	**131,358**	**136,658**	**127,431**	**132,502**

(*) Figures expressed in Full Time Equivalent terms

Taking account of staff on flexible contracts, the total average number of full-time equivalent staff in 2017 is 138,040 (141,246 in 2016).

C8 - Depreciation, amortisation and impairments (€545 million)

Depreciation, amortisation and impairments break down as follows:

tab. C8 - Depreciation, amortisation and impairments

Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
Property, plant and equipment	329	349
Properties used in operations	112	110
Plant and machinery	77	87
Industrial and commercial equipment	8	9
Leasehold improvements	30	33
Other assets	102	110
Impairments/recoveries/adjustments of property, plant and equipment	(9)	(14)
Depreciation of investment property	4	4
Amortisation and impairments of intangible assets	221	242
Industrial patents and intellectual property rights,concessions, lincenses, trademarks and similar rights	215	232
Other	6	10
Total	**545**	**581**

C9 - Capitalised costs and expenses (€24 million)

Capitalised costs and expenses break down as follows:

tab. C9 - Increases relating to assets under construction

Item (€m)	Note	For the year ended 31 December 2017	For the year ended 31 December 2016
Property, plant and machinery	[A1]	7	5
Intangible assets	[A3]	17	20
Total		**24**	**25**

C10 - Other operating costs (€465 million)

Other operating costs break down as follows:

tab. C10 - Other operating costs

Item (€m)	Note	For the year ended 31 December 2017	For the year ended 31 December 2016
Net provisions and losses on doubtful debts (uses of provisions)		55	22
Provisions for receivables due from customers	[tab. A7.2]	40	24
Provisions (reversal of provisions) for receivables due from MEF		-	(7)
Provisions (reversal of provisions) for sundry receivables	[tab. A8.1]	12	4
Losses on receivables		3	1
Operational risk events		60	42
Thefts		5	8
Loss of BancoPosta assets, net of recoveries		1	1
Other operating losses of BancoPosta		54	33
Net provisions for risks and charges made/(released)		227	80
for disputes with third parties	[tab. B6]	37	(28)
for non-recurring charges	[tab. B6]	170	86
for other risks and charges	[tab. B6]	20	22
Losses		1	4
Municipal property tax, urban waste tax and other taxes and duties		69	75
Impairments of disposal groups held for sale	[tab. A11.1]	3	37
Other recurring expenses		50	41
Total		**465**	**301**

C11 – Finance income (€115 million) and costs (€188 million)

Income from and costs incurred on financial instruments relate to assets other than those in which deposits collected by BancoPosta and the financial and insurance businesses are invested.

Finance income

tab. C11.1 - Finance income

Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
Income from available-for-sale financial assets	91	95
Interest	93	98
Accrued differentials on fair value hedges	(11)	(10)
Realised gains	9	7
Income from financial assets at fair value through profit or loss	3	-
Other finance income	9	11
Finance income on discounted receivables	6	7
Late payment interest	16	10
Impairment of amounts due as late payment interest	(16)	(10)
Interest on IRAP refund	3	-
Interest on Contingent Convertible Notes	-	4
Foreign exchange gains	12	3
Total	**115**	**109**

For the purposes of reconciliation with the statement of cash flows, in 2017 finance income after realised gains, dividends received and foreign exchange gains amounts to €94 million (€99 million in 2016).

Finance costs

tab. C11.2 - Finance costs

Item (€m)	Note	For the year ended 31 December 2017	For the year ended 31 December 2016
Finance costs on financial liabilities		51	52
on bonds		49	49
on borrowings from financial institutions		1	2
on derivative financial instruments		1	1
Finance costs on sundry financial assets		13	12
Impairment loss on available-for-sale investments		12	12
Realised losses on available-for-sale financial assets		1	-
Realised losses on financial instruments at fair value through profit or loss		-	-
Finance costs on provisions for employee termination benefits and pension plans	[tab. B7]	21	24
Finance costs on provisions for risks	[tab. B6]	1	1
Impairment loss on Convertible Contingent Notes	[tab. A5]	82	-
Remuneration of Poste Italiane liquidity		1	1
Other finance costs		5	7
Foreign exchange losses		14	3
Total		**188**	**100**

For the purposes of reconciliation with the statement of cash flows, in 2017 financial costs after foreign exchange losses and impairment losses on available-for-sale financial assets amount to €80 million (€85 million in 2016).

C12 - Income tax expense (€378 million)

This item breaks down as follows:

tab. C12 - Income tax expense

Item (€m)	For the year ended 31 December 2017			For the year ended 31 December 2016		
	IRES	IRAP	Total	IRES	IRAP	Total
Current tax expense	285	75	360	358	73	431
Deferred tax income	(11)	1	(10)	(10)	(8)	(18)
Deferred tax expense	25	3	28	16	5	21
Total	**299**	**79**	**378**	**364**	**70**	**434**

The tax rate for 2017 is 35.17% and consists of:

tab. C12.1 - Reconciliation between theoretical and effective IRES rate

Item (€m)	For the year ended 31 December 2017		For the year ended 31 December 2016	
	IRES	Tax Rate %	IRES	Tax Rate %
Profit before tax	**1,067**		**1,056**	
Theoretical tax charge	256	24,0%	290	27.5%
Effect of changes with respect to theoretical rate				
Realised gains on other investments	(21)	-1.95%	(32)	-3.01%
Non-deductible out-of-period losses	6	0.54%	8	0.71%
Net provisions for risks and charges and bad debts	15	1.42%	19	1.79%
Non-deductible taxes	6	0.56%	8	0.72%
Realignment of tax bases and carrying amounts and taxation for previous years	(17)	-1.64%	11	1.09%
Technical provisions for insurance business	49	4.59%	55	5.20%
Adjustments for change in IRES tax rate introduced by 2016 Stability Law	-	0.00%	14	1.35%
Other	5	0.34%	(9)	-0.88%
Effective tax charge	**299**	**27.85%**	**364**	**34.48%**

tab. C12.2 - Reconciliation between theoretical and effective IRAP rate

Item (€m)	For the year ended 31 December 2017		For the year ended 31 December 2016	
	IRAP	Tax Rate %	IRAP	Tax Rate %
Profit before tax	**1,067**		**1,056**	
Theoretical tax charge	68	6.33%	63	5.96%
Effect of changes with respect to theoretical rate				
Non-deductible personnel expenses	13	1.18%	7	0.67%
Non-deductible out-of-period losses	1	0.09%	1	0.08%
Net provisions for risks and charges and bad debts	5	0.48%	2	0.22%
Non-deductible taxes	1	0.13%	1	0.13%
Finance income and costs	5	0.45%	-	-0.02%
Realignment of tax bases and carrying amounts and taxation for previous years	-	-0.01%	(3)	-0.33%
Claim for IRAP refund	(9)	-0.81%	-	0.00%
Other	(5)	-0.51%	(1)	-0.10%
Effective tax charge	**79**	**7.32%**	**70**	**6.61%**

In the movements in current and deferred tax assets and liabilities shown below and the provisions to profit or loss do not take into account provisions for current tax expense (€14 million) and deferred tax expense (€2 million) for the period made by BdM-MCC SpA and BancoPosta Fondi SGR SpA, which are included in movements in "Non-current assets and disposal groups held for sale" and in "Liabilities related to assets held for sale".

Current tax assets and liabilities

tab. C12.3 - Movements in current tax assets/(liabilities)

Item (€m)	Current taxes for the year ended 31 December 2017		
	IRES	IRAP	Total
	Assets/(Liabilities)	Assets/(Liabilities)	
Balance at 1 January	**(63)**	**(10)**	**(73)**
Payment of	391	81	472
prepayments for the current year	323	68	391
balance payable for the previous year	68	13	81
Collection of IRES refund claimed	(1)	-	(1)
IRAP refund claimed	-	9	9
Provisions to profit or loss	(274)	(81)	(355)
Provisions to equity	1	-	1
Other	17	-	17
Balance at 31 December	**71**	**(1)**	**70**
of which:			
Current tax assets	81	12	93
Current tax liabilities	(10)	(13)	(23)

Under IAS 12 – Income Taxes, IRES and IRAP credits are offset against the corresponding current tax liabilities, when applied by the same tax authority to the same taxable entity, which has a legally enforceable right to offset and intends to exercise this right.

Current tax assets/(liabilities) include:

- the tax asset of €53 million reflects payments of IRES and IRAP on account, refundable IRAP from the previous year and IRES withholding tax incurred, after provisions for IRES and IRAP for the year;
- the assets described in note 2.5 – *Use of estimates*, amounting to €17 million..

Deferred tax assets and liabilities

tab. C12.4 - Deferred taxes

Item (€m)	Balance at 31 December 2017	Balance at 31 December 2016
Deferred tax assets	869	799
Deferred tax liabilities	(546)	(746)
Total	**323**	**53**

The nominal tax rate for IRES is 24% from 1 January 2017, whilst the Group's average statutory rate for IRAP is 6.33%[76]. Movements in deferred tax assets and liabilities are shown below:

tab. C12.5 - Movements in deferred tax assets and liabilities

Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
Balance at 1 January	**53**	**(554)**
Net income/(expenses) recognised in profit or loss	(16)	11
Net non-recurring income/(expenses) recognised in profit or loss due to adjustment to IRES rate	-	(14)
Net income/(expenses) recognised in equity	286	621
Recl. to disposal groups and liabilities held for sale	-	(11)
Balance at 31 December	**323**	**53**

76. The nominal IRAP rate is 3.90% for most taxpayers, 4.65% for banks and other financial entities and 5.90% for insurance companies (+/-0.92%, representing regional increases and cuts and + 0.15% representing an increase for regions that showed a healthcare deficit).

The following table shows movements in deferred tax assets and liabilities, broken down according to the events that generated such movements:

tab. C12.6 - Movements in deferred tax assets

Item (€m)	PPE and intangible assets	Depreciation and amortisation.	Financial assets and liabilities	Provisions for impairments and value adjustments	Provisions for risks and charges	Actuarial gains and losses on employee termination benefits	Other	Total
Balance at 1 January 2017	**49**	**18**	**205**	**89**	**333**	**27**	**78**	**799**
Income/(expenses) recognised in profit or loss	(1)	-	-	5	21	-	(14)	11
Income/(expenses) recognised in equity	-	-	60	-	-	(1)	-	59
Change in scope of consolidation	-	-	-	3	(3)	-	-	-
Balance at 31 December 2017	**48**	**18**	**265**	**97**	**351**	**26**	**64**	**869**

tab. C12.7 - Movements in deferred tax liabilities

Item (€m)	Financial assets and liabilities	Other	Total
Balance at 1 January 2017	**725**	**21**	**746**
Income/(expenses) recognised in profit or loss	16	11	27
Income/(expenses) recognised in equity	(227)	-	(227)
Balance at 31 December 2017	**514**	**32**	**546**

The decrease in deferred tax liabilities related to financial assets and liabilities is due mainly to movements in the fair value reserve, as described in note B4 - *Reserves*.

Movements in deferred tax assets and liabilities recognised directly in equity during the year are as follows:

tab. C12.8 - Income/(expense) recognised in equity

	Increases/(decreases) in equity	
Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
Fair value reserve for available-for-sale financial instruments	269	617
Cash flow hedge reserve for hedging instruments	18	10
Actuarial gains /(losses) on employee termination benefits	(1)	(4)
Retained earnings from shareholder transactions	-	(2)
Total	**286**	**621**

Income tax expense calculated on actuarial losses on employee termination benefits recognised in equity decreased by €1 million. Therefore, the decrease in equity in the year under review due to income tax expense amounts to €287 million.

4.4 Operating segments

As described in the previous notes, during 2017, the Group has revised the way it assesses and reports on the performance of its business, so as to reflect the Group's new strategic guidelines and the internal reorganisation that took place during the year (further details are provided in note 1, "Introduction", to these financial statements).

As a result of this revision, the segment disclosures provided in this note have undergone significant changes compared with the past, in keeping with the new management view reflected in the Strategic Plan for the period 2018-2022. A brief summary of events and the resulting changes is provided below:

- The Payments, Mobile and Digital (PMD) function was created in 2017, with the aim of establishing a single provider services to retail, business and Public Administration customers, combining in one entity the Poste Italiane Group's distinctive competencies in the field of mobile and digital payments. This function, which forms a new operating segment, primarily includes (as explained in more detail in note 3.1 "Material events during the year – Launch of the process of establishing an e-money institution within the Group") the payment and e-money services provided by BancoPosta and the activities of PosteMobile SpA. For this purpose, on 25 January 2018, Poste Italiane SpA's Board of Directors approved the separation and transfer of certain assets, contractual rights and authorisations from BancoPosta RFC to a separate new e-money and payment services unit to be set up within PosteMobile SpA, following prior receipt of all the consents needed to comply with existing statutory and regulatory requirements. The PMD segment also includes the investment in SIA SpA.
- The recent renegotiation of the agreements between Poste Italiane SpA and Anima Holding SpA, with the aim of strengthening their partnership in the asset management sector, has altered the scenario on which the agreements were based through to the end of the reporting period. In particular, the new agreement envisages the partial spin-off of management of the assets underlying Poste Vita SpA's Class I insurance products (totalling over €70 billion), previously attributed to BancoPosta Fondi SpA SGR, in place of the transfer of the entire investment in the asset management company.
- As a result, in the Poste Italiane Group's consolidated financial statements for the year ended 31 December 2017, BancoPosta Fondi SpA SGR's assets and liabilities, previously presented in assets and liabilities held for sale, in accordance with IFRS 5, have been reclassified to the respective items under assets and liabilities (with the exception of items closely related to the activities included in the spin-off). At the same time, the assets and results of operations of the company, previously allocated to the Insurance Services segment, have been reallocated to the Financial Services segment. This last segment also includes the investment in Anima Holding SpA, previously allocated to the Insurance Services segment.
- Finally, the names of operating segments have been revised so as to make the nature of the segments more readily identifiable.

The identified operating segments at the date of preparation of these financial statements are, therefore, the following:

- Mail, Parcels and Distribution
- Payments, Mobile and Digital
- Financial Services
- Insurance Services

In addition to managing the mail and parcel service, the Mail, Parcels and Distribution segment also includes the activities of the distribution network and the activities of Poste Italiane SpA corporate functions that provide services to BancoPosta RFC and the other segments in which the Group operates. In this regard, separate General Operating Guidelines have been approved by Poste Italiane SpA's Board of Directors which, in implementation of BancoPosta RFC's By-laws, identify the services provided by Poste Italiane SpA functions to BancoPosta and determines the manner in which they are remunerated. The Payments, Mobile and Digital segment includes the activities of the new function created by the Parent Company and the mobile telecommunications services provided by PosteMobile SpA and Consorzio per i servizi di telefonia Mobile ScpA. The Financial Services segment includes the activities of BancoPosta RFC, BancoPosta Fondi SpA SGR and Poste Tributi ScpA in liquidation. Insurance Services segment includes the activities carried out by the Poste Vita group.

The result for each segment is based on operating profit/(loss) and gains/losses on intermediation. All income components reported for operating segments are measured using the same accounting policies applied in the preparation of these consolidated financial statements.

The following results, which are shown separately in accordance with the management view and with applicable accounting standards, should be read in light of the integration of the services offered by the distribution network within the businesses allocated to all four identified operating segments, also considering the obligation to carry out the Universal Postal Service.

Year ended 31 December 2017 (€m)	Mail, Parcels & Distribution	Payments, Mobile & Digital	Financial Services	Insurance Services	Adjustments and eliminations	Total
Net external revenue from ordinary activities	3,631	586	4,956	1,456	-	10,629
Net intersegment revenue from ordinary activities	4,497	328	1,014	1	(5,840)	-
Net revenue from ordinary activities	**8,128**	**914**	**5,970**	**1,457**	**(5,840)**	**10,629**
Depreciation, amortisation and impairments	(505)	(22)	(1)	(17)	-	(545)
Non-cash expenses	(56)	(8)	(198)	(11,188)	-	(11,450)
Total non-cash expenses	**(561)**	**(30)**	**(199)**	**(11,205)**	**-**	**(11,995)**
Operating profit/(loss)	**(517)**	**195**	**646**	**799**	**-**	**1,123**
Profit/(Loss) on investments accounted for using the equity method	(2)	7	12	-	-	17
Finance income/(costs)	(119)	(1)	(2)	49	-	(73)
Income tax expense	127	(55)	(153)	(297)	-	(378)
Profit/(loss) for the year	**(502)**	**146**	**499**	**546**	**-**	**689**
Assets	**10,199**	**3,490**	**67,149**	**129,059**	**(7,227)**	**202,670**
Non-current assets	5,769	72	50,869	123,202	(1,839)	178,073
Current assets	4,430	3,418	16,280	5,857	(5,388)	24,597
Non-current assets and disposal groups held for sale	-	-	-	-	-	-
Liabilities	**7,465**	**3,165**	**64,447**	**125,681**	**(5,638)**	**195,120**
Non-current liabilities	1,868	19	5,888	124,888	(250)	132,413
Current liabilities	5,597	3,146	58,559	793	(5,388)	62,707
Liabilities related to assets held for sale	-	-	-	-	-	-
Other information						
Capital expenditure	425	27	-	15	-	467
Investments accounted for using equity method	490	7	11	-	-	508

Year ended 31 December 2016 (€m)	Mail, Parcels & Distribution	Payments, Mobile & Digital	Financial Services	Insurance Services	Adjustments and eliminations	Total
Net external revenue from ordinary activities	3,822	570	5,009	1,242	-	10,643
Net intersegment revenue from ordinary activities	4,540	359	982	-	(5,881)	-
Net revenue from ordinary activities	**8,362**	**929**	**5,991**	**1,242**	**(5,881)**	**10,643**
Depreciation, amortisation and impairments	(536)	(30)	(1)	(14)	-	(581)
Non-cash expenses	2	(8)	(135)	(14,263)	-	(14,404)
Total non-cash expenses	**(534)**	**(38)**	**(136)**	**(14,277)**	**-**	**(14,985)**
Operating profit/(loss)	**(436)**	**213**	**660**	**604**	**-**	**1,041**
Profit/(Loss) on investments accounted for using the equity method	(4)	-	10	-	-	6
Finance income/(costs)	(41)	(1)	(1)	52	-	9
Income tax expense	83	(68)	(198)	(251)	-	(434)
Profit/(loss) for the year	**(379)**	**144**	**465**	**392**	**-**	**622**
Assets	**10,313**	**2,808**	**67,628**	**119,027**	**(6,571)**	**193,205**
Non-current assets	6,232	57	48,483	109,877	(2,412)	162,237
Current assets	4,081	2,751	16,418	9,150	(4,152)	28,248
Non-current assets and disposal groups held for sale	-	-	2,727	-	(7)	2,720
Liabilities	**7,555**	**2,485**	**63,925**	**115,717**	**(4,611)**	**185,071**
Non-current liabilities	2,916	20	8,272	115,002	(306)	125,904
Current liabilities	4,639	2,465	53,340	715	(4,052)	57,107
Liabilities related to assets held for sale	-	-	2,313	-	(253)	2,060
Other information						
Capital expenditure	408	21	2	20	-	451
Investments accounted for using equity method	212	-	6	-	-	218

Disclosure about geographical segments, based on the geographical areas in which the various Group companies are based or the location of its customers, is of no material significance. At 31 December 2017, all entities consolidated on a line-by-line basis are based in Italy, as is the majority of their client base; revenue from foreign clients does not represent a significant percentage of total revenue.

Assets include those deployed by the segment in the course of ordinary business activities and those that could be allocated to it for the performance of such activities.

4.5 Related party transactions

The impact of related party transactions on the financial position and profit or loss.

The impact of related party transactions on the financial position and profit or loss is shown below.

Impact of related party transactions on the financial position at 31 December 2017

Name (€m)	Balance at 31 December 2017						
	Financial assets	Trade receivables	Other assets Other receivables	Cash and cash equivalents	Financial liabilities	Trade payables	Other liabilities
Subsidiaries							
Address Software Srl	-	-	-	-	-	1	-
Kipoint SpA	-	-	-	-	-	1	-
Risparmio Holding SpA	-	-	-	-	-	-	1
Joint ventures							
FSIA Group	-	-	-	-	-	12	-
Associates							
Anima Holding Group	-	-	-	-	-	2	-
Telma-Sapienza Scarl	-	-	-	-	-	-	-
Other SDA group associates	-	-	-	-	-	-	-
Related parties external to the Group							
MEF	6,011	316	17	379	3,485	96	8
Cassa Depositi e Prestiti Group	3,032	375	-	-	56	2	-
Enel Group	-	30	-	-	-	11	-
Eni Group	-	1	-	-	-	18	-
Equitalia Group	-	-	-	-	-	-	-
Leonardo Group	-	-	-	-	-	33	-
Montepaschi Group	-	2	-	6	-	-	-
Other related parties external to the Group	227	6	-	-	-	18	61
Provision for doubtful debts owing from external related parties	-	(42)	(11)	-	-	-	-
Total	**9,270**	**688**	**6**	**385**	**3,541**	**194**	**70**

At 31 December 2017, total provisions for risks and charges made to cover probable liabilities arising from transactions with related parties external to the Group attributable to trading relations amount to €71 million (€60 million al 31 December 2016).

Impact of related party transactions on the financial position at 31 December 2016

Name (€m)	Balance at 31 December 2016								
	Financial assets	Trade receivables	Other assets Other receivables	Cash and cash equivalents	Financial liabilities	Trade payables	Other liabilities	Non-current assets and disposal groups held for sale	Liabilities related to assets held for sale
Subsidiaries									
Address Software Srl	-	-	-	-	-	1	-	-	-
Kipoint SpA	-	-	-	-	-	1	-	-	-
Associates									
Anima Holding Group	-	-	-	-	-	-	-	-	1
Other SDA group associates	-	2	-	-	-	-	-	-	-
Related parties external to the Group									
MEF	6,190	330	21	1,310	2,430	108	20	1	-
Cassa Depositi e Prestiti Group	2,060	365	-	-	-	19	-	22	129
Enel Group	-	31	-	-	-	11	-	-	-
Eni Group	-	7	-	-	-	14	-	19	-
Equitalia Group	-	90	-	-	-	3	8	-	-
Leonardo Group	-	-	-	-	-	30	-	-	-
Other related parties external to the Group	-	6	-	-	-	18	61	7	-
Provision for doubtful debts owing from external related parties	-	(42)	(10)	-	-	-	-	-	-
Total	**8,250**	**789**	**11**	**1,310**	**2,430**	**205**	**89**	**49**	**130**

Impact of related party transactions on profit or loss for the year ended 31 December 2017

	Year Ended December 2017											
	Revenue					Costs						
						Capital expenditure		Current expenditure				
Name (€m)	Revenue from Mail, Parcel & other	Revenue from Payments, Mobile & Digital	Revenue from Financial Services	Revenue from Insurance Services after movements in technical provisions and other claims expensesi	Finance income	Property, plant and equipment.	Intangible assets	Goods and services	Personnel expenses	Other operating costs	Expenses from financial activities	Finance costs
Subsidiaries												
Address Software Srl	-	-	-	-	-	-	-	1	-	-	-	-
Kipoint SpA	-	-	-	-	-	-	-	1	-	-	-	-
Joint ventures				-								
FSIA Group	-	-	-		-	-	3	29	-	-	-	-
Associates												
Anima Holding Group	2	-	-	-	-	-	-	5	-	-	-	-
Other SDA group associates	1	-	-	-	-	-	-	-	-	-	-	-
Related parties external to the Group												
MEF	380	59	86	-	-	-	-	5	-	1	3	1
Cassa Depositi e Prestiti Group	2	-	1,577	15	-	-	-	8	-	-	-	-
Enel Group	75	2	-	-	-	-	-	33	-	2	-	-
Eni Group	7	3	-	-	-	-	-	38	-	-	-	-
Equitalia Group	1	-	-	-	-	-	-	-	-	-	-	-
Leonardo Group	-	-	-	-	-	-	12	34	-	-	-	-
Montepaschi Group	17	-	-	-	-	-	-	-	-	-	-	-
Other related parties external to the Group	28	-	-	-	-	-	-	41	40	1	-	-
Total	**513**	**64**	**1,663**	**15**	**-**	**-**	**15**	**195**	**40**	**4**	**3**	**1**

At 31 December 2017, net provisions for risks and charges used to cover probable liabilities arising from transactions with related parties external to the Group attributable to trading relations amount to €11 million (€6 million al 31 December 2016).

Impact of related party transactions on profit or loss for the year ended 31 December 2016

	Year Ended 31 December 2016											
	Revenue					Costs						
						Capital expenditure		Current expenditure				
Name (€m)	Revenue from Mail, Parcel & other	Revenue from Payments, Mobile & Digital	Revenue from Financial Services	Revenue from Insurance Services after movements in technical provisions and other claims expenses	Finance income	Property, plant and equipment	Intangible assets	Goods and services	Personnel expenses	Other operating costs	Expenses from financial activities	Finance costs
Subsidiaries												
Address Software Srl	-	-	-	-	-	-	-	1	-	-	-	-
Kipoint SpA	-	-	-	-	-	-	-	1	-	-	-	-
Associates												
Anima Holding Group	-	-	-	-	-	-	-	3	-	-	-	-
Other SDA group associates	4	-	-	-	-	-	-	4	-	-	-	-
Related parties external to the Group												
MEF	373	73	96	-	-	-	-	2	-	(6)	1	1
Cassa Depositi e Prestiti Group	2	-	1,587	15	-	-	4	24	-	1	-	-
Enel Group	82	7	-	-	-	-	-	35	-	-	-	-
Eni Group	19	3	-	-	-	-	-	40	-	-	-	-
Equitalia Group	59	-	-	-	-	-	-	3	-	-	-	-
Leonardo Group	-	-	-	-	-	-	10	33	-	-	-	-
Other related parties external to the Group	10	1	1	-	-	-	-	46	43	2	-	-
Total	**549**	**84**	**1,684**	**15**	**-**	**-**	**14**	**192**	**43**	**(3)**	**1**	**1**

The nature of the Parent Company's principal transactions with related parties external to the Group is summarised below in order of relevance.

- Amounts received from the MEF relate primarily to payment for carrying out the USO, the management of postal current accounts, as payment for delegated services, integrated e-mail services, the franking of mail on credit, collection services, and for the integrated notification and reporting service for processing tax returns. The costs incurred primarily regard the transmission of data relating to the payment of tax returns. Following the creation of the *Agenzia delle Entrate e delle riscossioni*, a publicly owned entity subject to management and oversight by the MEF, and the consequent winding up of the principal companies in the Equitalia group, certain fees received for provision of the integrated notification and reporting service and for the franking of mail on credit, as well as the cost incurred for the transmission of data relating to the payment of tax returns, which were attributable to relations with the Equitalia group at 31 December 2016, are now shown as attributable to relations with the MEF.
- Amounts received from CDP SpA primarily relate to payment for the collection of postal savings deposits.
- Amounts received from the Enel Group primarily relate to payment for bulk mail shipments, unfranked mail, franking of mail on credit and postage paid mailing services, as well as collection and accounting for electric utility payments. The costs incurred primarily relate to the supply of gas and electricity.
- Amounts received from the Eni Group relate primarily to payment for mail shipments and collection and accounting for utility payments. The costs incurred relate to the supply of gas and of fuel for motorcycles and vehicles.
- Purchases from the Leonardo Group primarily relate to the supply, by Leonardo SpA, of equipment, maintenance and technical assistance for mechanised sorting equipment, and systems and IT assistance regarding the creation of document storage facilities, specialist consulting services and software maintenance, and the supply of software licences and of hardware.
- Amounts received from the Monte dei Paschi di Siena group primarily regard payment for mail shipments.

Impact of related party transactions and positions

The impact of related party transactions on the financial position, profit or loss and cash flows is shown in the following table:

Impact of related party transactions

Item (€m)	Total in financial statements	Total related parties	Impact (%)	Total in financial statements	Total related parties	Impact (%)
	31 December 2017			31 December 2016		
Assets and liabilities						
Financial assets	186,766	9,270	5.0	174,362	8,250	4.7
Trade receivables	2,035	688	33.8	2,172	789	36.3
Other receivables and assets	3,997	6	0.2	3,671	11	0.3
Cash and cash equivalents	2,428	385	15.9	3,902	1,310	33.6
Non-current assets and disposal groups held for sale	-	-	n.a.	2,720	49	1.8
Provisions for risks and charges	1,595	71	4.5	1,507	60	4.0
Financial liabilities	63,244	3,541	5.6	60,921	2,430	4.0
Trade payables	1,332	194	14.6	1,506	205	13.6
Other liabilities	3,456	70	2.0	3,218	89	2.8
Liabilities related to assets held for sale	-	-	n.a.	2,060	130	6.3
	Year ended 31 December 2017			Year ended 31 December 2016		
Profit or loss						
Revenue from Mail, Parcel & other	3,631	513	14.1	3,822	549	14.4
Revenue from Payments, Mobile & Digital	586	64	10.9	570	84	14.7
Revenue from Financial Services	4,956	1,663	33.6	5,009	1,684	33.6
Revenue frome Insurance Services after movements in technical provisions and other claims expenses	1,456	15	1.0	1,242	15	1.2
Cost of goods and services	2,370	195	8.2	2,442	192	7.9
Expenses from financial activities	57	3	5.3	62	1	1.6
Personnel expenses	6,093	40	0.7	6,241	43	0.7
Other operating costs	465	15	3.2	301	3	1.0
Finance costs	188	1	0.5	100	1	1.0
Finance income	115	-	n.a.	109	-	n.a.
Cash flows						
Cash flow from/(for) operating activities	(709)	241	n.a.	2,258	3,648	161.6
Cash flow from/(for) investing activities	(263)	(65)	24.7	(444)	(22)	n.a.
Cash flow from/(for) financing activities and shareholder transactions	(503)	(327)	65.0	(964)	(286)	29.7

Key management personnel

Key management personnel consist of Directors, members of the Board of Statutory Auditors, managers at the first organisational level of the Parent Company and Poste Italiane's manager responsible for financial reporting. The related remuneration, gross of expenses and social security contributions, of such key management personnel as defined above is as follows:

Remuneration of key management personnel

Item (€000)	Year ended 31 December 2017	Year ended 31 December 2016
Remuneration to be paid in short/medium term	11,577	13,503
Post-employment benefits	463	552
Other benefits to be paid in longer term	7	452
Termination benefits	6,979	3,845
Share-based payments	2,034	812
Total	**21,060**	**19,164**

Remuneration of Statutory Auditors

Name (€000)	Year ended 31 December 2017	Year ended 31 December 2016
Remuneration	1,350	1,436
Expenses	44	66
Total	**1,394**	**1,502**

The remuneration paid to members of the Parent Company's Supervisory Board amounts to approximately €76 thousand in 2017. In determining the remuneration, the amounts paid to managers of Poste Italiane who are members of the Supervisory Board is not taken into account, as this remuneration is passed on to the employer.

No loans were granted to key management personnel during the year and, at 31 December 2017, Group companies do not report receivables in respect of loans granted to key management personnel.

Transactions with staff pensions funds

The Parent Company and the subsidiaries that apply the National Collective Labour Agreement are members of the Fondoposte Pension Fund, the national supplementary pension fund for Poste Italiane personnel, established on 31 July 2002 as a non-profit entity. The Fund's officers and boards are the General Meeting of delegates, the Board of Directors, the Chairman and Deputy Chairman of the Board of Directors and Board of Statutory Auditors. Representation of members on the above boards is shared equally between the companies and the workers that are members of the Fund. The participation of members in the running of the Fund is guaranteed by the fact that they directly elect the delegates to send to the General Meeting.

Other related party disclosures

At a meeting on 20 September 2017, Poste Italiane's Board of Directors, having obtained the consent of the Related and Connected Parties Committee, authorised the spot and forward purchase and sale of securities issued and/or guaranteed by the Italian government and the execution of repurchase agreements and reverse repos and of hedging derivatives by BancoPosta RFC, with Monte Paschi Capital Services Banca per le Imprese SpA acting as counterparty. This company qualifies as a related party of Poste Italiane as it is also controlled by the Ministry of the Economy and Finance through Banca Monte dei Paschi di Siena SpA.

Following conclusion of the agreement, from October 2017, five repurchase agreements and 23 buy & sell back transactions, which expired during the period, have been entered into, in addition to two Interest rate Swaps for hedging purposes and two forward sales of securities.

At a meeting on 13 December 2017, the Board of Directors, having obtained the consent of the Related and Connected Parties Committee, authorised signature of the agreement with Cassa Depositi e Prestiti governing the collection and distribution of Postal Savings products, by BancoPosta on behalf of Cassa Depositi e Prestiti, for the three-year period 2018-2020.

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5. Poste Italiane SpA

FOR THE YEAR ENDED 31 DECEMBER 2017

5. Poste Italiane SpA
for the year ended 31 December 2017

5.1 Financial statements

Statement of financial position at 31 December

Assets (€)	Note	2017	*of which, related party transactions*	2016	*of which, related party transactions*
Non-current assets					
Property, plant and equipment	[A1]	1,911,937,903	-	1,999,184,993	-
Investment property	[A2]	52,173,862	-	56,069,941	-
Intangible assets	[A3]	384,738,633	-	365,485,226	-
Investments	[A4]	2,080,824,271	*2,080,824,271*	1,815,097,205	*1,815,097,205*
Financial assets attributable to BancoPosta	[A5]	49,388,349,082	*2,484,460,998*	47,299,107,112	*1,508,858,153*
Financial assets	[A6]	834,206,663	*278,545,033*	1,101,079,196	*450,000,000*
Trade receivables	[A7]	4,819,596	-	4,215,000	-
Deferred tax assets	[C10]	762,428,461	-	671,921,335	-
Other receivables and assets	[A8]	1,147,810,617	*1,465,574*	989,780,655	*1,465,574*
Total		**56,567,289,088**		**54,301,940,663**	
Current assets					
Trade receivables	[A7]	2,014,316,006	*969,785,580*	2,094,957,975	*1,071,299,709*
Current tax assets	[C10]	76,514,929	-	5,914,922	-
Other receivables and assets	[A8]	893,895,395	*8,206,579*	937,064,274	*68,990,476*
Financial assets attributable to BancoPosta	[A5]	10,659,169,756	*6,011,557,495*	10,752,544,243	*6,189,333,872*
Financial assets	[A6]	362,812,795	*316,214,465*	243,411,037	*181,548,490*
Cash and deposits attributable to BancoPosta	[A9]	3,196,090,710	-	2,494,150,897	-
Cash and cash equivalents	[A10]	2,038,504,143	*385,342,934*	2,715,198,980	*1,309,580,485*
Total		**19,241,303,734**		**19,243,242,328**	
Non-current assets held for sale	**[A11]**	**-**		**384,308,792**	*383,978,080*
Total assets		**75,808,592,822**		**73,929,491,783**	

Liabilities and equity	Note	2017	*of which, related party transactions*	2016	*of which, related party transactions*
Equity					
Share capital	[B1]	1,306,110,000	-	1,306,110,000	-
Reserves	[B2]	1,431,627,440	-	2,186,144,274	-
Retained earnings		2,774,352,906	-	2,667,930,819	-
Total		**5,512,090,346**		**6,160,185,093**	
Non-current liabilities					
Provisions for risks and charges	[B4]	668,025,648	*58,061,136*	589,611,766	*49,962,342*
Employee termination benefits	[B5]	1,244,371,225	-	1,315,043,763	-
Financial liabilities attributable to BancoPosta	[B6]	4,010,248,264	-	6,409,893,597	-
Financial liabilities	[B7]	285,458,970	-	1,245,813,299	-
Deferred tax liabilities	[C10]	315,083,329	-	536,290,271	-
Other liabilities	[B9]	1,182,435,445	*6,839,319*	1,002,066,304	*6,039,926*
Total		**7,705,622,881**		**11,098,719,000**	
Current liabilities					
Provisions for risks and charges	[B4]	870,369,401	*12,872,791*	818,399,423	*10,488,457*
Trade payables	[B8]	1,210,582,606	*396,805,756*	1,384,577,042	*464,278,724*
Current tax liabilities	[C10]	4,646,411	-	72,924,479	-
Other liabilities	[B9]	1,593,498,699	*98,743,272*	1,556,324,717	*106,595,007*
Financial liabilities attributable to BancoPosta	[B6]	57,842,702,028	*4,191,469,190*	52,782,494,828	*2,747,319,692*
Financial liabilities	[B7]	1,069,080,450	*101,772,823*	55,867,201	*38,262,982*
Total		**62,590,879,595**		**56,670,587,690**	
Total liabilities and equity		**75,808,592,822**		**73,929,491,783**	

Statement of financial position (continued)

Supplementary statement showing BancoPosta RFC at 31 December 2017

Assets (€)	Note	Capital outside the ring-fence	BancoPosta RFC	Adjustments	Total
Non-current assets					
Property, plant and equipment		1,911,937,903	-	-	1,911,937,903
Investment property		52,173,862	-	-	52,173,862
Intangible assets		384,738,633	-	-	384,738,633
Investments		2,080,824,271	-	-	2,080,824,271
Financial assets attributable to BancoPosta	[A5]	-	49,388,349,082	-	49,388,349,082
Financial assets		834,206,663	-	-	834,206,663
Trade receivables		4,819,596	-	-	4,819,596
Deferred tax assets	[C10]	356,756,674	405,671,787	-	762,428,461
Other receivables and assets	[A8]	107,821,075	1,039,989,542	-	1,147,810,617
Total		**5,733,278,677**	**50,834,010,411**	**-**	**56,567,289,088**
Current assets					
Trade receivables	[A7]	1,225,248,317	789,067,689	-	2,014,316,006
Current tax assets	[C10]	76,514,929	-	-	76,514,929
Other receivables and assets	[A8]	286,712,412	607,182,983	-	893,895,395
Financial assets attributable to BancoPosta	[A5]	-	10,659,169,756	-	10,659,169,756
Financial assets		362,812,795	-	-	362,812,795
Cash and deposits attributable to BancoPosta	[A9]	-	3,196,090,710	-	3,196,090,710
Cash and cash equivalents	[A10]	1,647,069,987	391,434,156	-	2,038,504,143
Non-current assets held for sale		**3,598,358,440**	**15,642,945,294**	**-**	**19,241,303,734**
Intersegment relations net amount		**(246,597,739)**	**-**	**246,597,739**	**-**
Total assets		**9,085,039,378**	**66,476,955,705**	**246,597,739**	**75,808,592,822**

Liabilities and equity	Note	Capital outside the ring-fence	BancoPosta RFC	Adjustments	Total
Equity					
Share capital		1,306,110,000		-	1,306,110,000
Reserves	[B2]	314,288,161	1,117,339,279	-	1,431,627,440
Retained earnings		1,132,771,446	1,641,581,460	-	2,774,352,906
Total		**2,753,169,607**	**2,758,920,739**	**-**	**5,512,090,346**
Non-current liabilities					
Provisions for risks and charges	[B4]	217,857,055	450,168,593	-	668,025,648
Employee termination benefits	[B5]	1,227,833,121	16,538,104	-	1,244,371,225
Financial liabilities attributable to BancoPosta	[B6]	-	4,010,248,264	-	4,010,248,264
Financial liabilities		285,458,970	-	-	285,458,970
Deferred tax liabilities	[C10]	7,138,359	307,944,970	-	315,083,329
Other liabilities	[B9]	67,086,975	1,115,348,470	-	1,182,435,445
Total		**1,805,374,480**	**5,900,248,401**	**-**	**7,705,622,881**
Current liabilities					
Provisions for risks and charges	[B4]	777,162,208	93,207,193	-	870,369,401
Trade payables	[B8]	1,147,321,447	63,261,159	-	1,210,582,606
Current tax liabilities	[C10]	4,646,411	-	-	4,646,411
Other liabilities	[B9]	1,528,284,775	65,213,924	-	1,593,498,699
Financial liabilities attributable to BancoPosta	[B6]	-	57,842,702,028	-	57,842,702,028
Financial liabilities		1,069,080,450	-	-	1,069,080,450
Total		**4,526,495,291**	**58,064,384,304**	**-**	**62,590,879,595**
Intersegment relations net amount		**-**	**(246,597,739)**	**246,597,739**	**-**
Total liabilities and equity		**9,085,039,378**	**66,476,955,705**	**246,597,739**	**75,808,592,822**

Statement of financial position (continued)

Supplementary statement showing BancoPosta RFC at 31 December 2016

Assets (€)	Note	Capital outside the ring-fence	BancoPosta RFC	Adjustments	Total
Non-current assets					
Property, plant and equipment		1,999,184,993	-	-	1,999,184,993
Investment property		56,069,941	-	-	56,069,941
Intangible assets		365,485,226	-	-	365,485,226
Investments		1,815,097,205	-	-	1,815,097,205
Financial assets attributable to BancoPosta	[A5]	-	47,299,107,112	-	47,299,107,112
Financial assets		1,101,079,196	-	-	1,101,079,196
Trade receivables		4,215,000	-	-	4,215,000
Deferred tax assets	[C10]	351,050,427	320,870,908	-	671,921,335
Other receivables and assets	[A8]	128,503,354	861,277,301	-	989,780,655
Total		**5,820,685,342**	**48,481,255,321**	**-**	**54,301,940,663**
Current assets					
Trade receivables	[A7]	1,352,319,776	742,638,199	-	2,094,957,975
Current tax assets	[C10]	5,914,922	-	-	5,914,922
Other receivables and assets	[A8]	335,863,124	601,201,150	-	937,064,274
Financial assets attributable to BancoPosta	[A5]	-	10,752,544,243	-	10,752,544,243
Financial assets		243,411,037	-	-	243,411,037
Cash and deposits attributable to BancoPosta	[A9]	-	2,494,150,897	-	2,494,150,897
Cash and cash equivalents	[A10]	1,394,587,838	1,320,611,142	-	2,715,198,980
Total		**3,332,096,697**	**15,911,145,631**	**-**	**19,243,242,328**
Non-current assets held for sale		**384,308,792**	**-**	**-**	**384,308,792**
Intersegment relations net amount		**(281,643,966)**	**-**	**281,643,966**	**-**
Total assets		**9,255,446,865**	**64,392,400,952**	**281,643,966**	**73,929,491,783**

Liabilities and equity	Note	Capital outside the ring-fence	BancoPosta RFC	Adjustments	Total
Equity					
Share capital		1,306,110,000	-	-	1,306,110,000
Reserves	[B2]	314,572,060	1,871,572,214	-	2,186,144,274
Retained earnings		1,153,335,288	1,514,595,531	-	2,667,930,819
Total		**2,774,017,348**	**3,386,167,745**	**-**	**6,160,185,093**
Non-current liabilities					
Provisions for risks and charges	[B4]	196,842,893	392,768,873	-	589,611,766
Employee termination benefits	[B5]	1,296,486,957	18,556,806	-	1,315,043,763
Financial liabilities attributable to BancoPosta	[B6]	-	6,409,893,597	-	6,409,893,597
Financial liabilities		1,245,813,299	-	-	1,245,813,299
Deferred tax liabilities	[C10]	6,000,151	530,290,120	-	536,290,271
Other liabilities	[B9]	65,453,709	936,612,595	-	1,002,066,304
Total		**2,810,597,009**	**8,288,121,991**	**-**	**11,098,719,000**
Current liabilities					
Provisions for risks and charges	[B4]	748,771,523	69,627,900	-	818,399,423
Trade payables	[B8]	1,297,439,901	87,137,141	-	1,384,577,042
Current tax liabilities	[C10]	72,924,479	-	-	72,924,479
Other liabilities	[B9]	1,495,829,404	60,495,313	-	1,556,324,717
Financial liabilities attributable to BancoPosta	[B6]	-	52,782,494,828	-	52,782,494,828
Financial liabilities		55,867,201	-	-	55,867,201
Total		**3,670,832,508**	**52,999,755,182**	**-**	**56,670,587,690**
Intersegment relations net amount		**-**	**(281,643,966)**	**281,643,966**	**-**
Total liabilities and equity		**9,255,446,865**	**64,392,400,952**	**281,643,966**	**73,929,491,783**

Statement of profit or loss

for the year ended 31 December

(€)	Note	2017	*of which, related party transactions*	2016	*of which, related party transactions*
Revenue from sales and services	[C1]	8,060,292,717	*2,844,220,110*	8,218,552,595	*2,909,610,935*
Other income from financial activities	[C2]	645,722,411	-	598,784,197	-
of which non-recurring income		*91,265,681*	-	*120,776,622*	-
Other operating income	[C3]	584,162,127	*535,510,396*	477,863,220	*439,544,987*
of which non-recurring income		*13,724,680*			
Total revenue		**9,290,177,255**		**9,295,200,012**	
Cost of goods and services	[C4]	1,665,585,335	*614,207,444*	1,703,796,187	*655,288,346*
Expenses from financial activities	[C5]	40,429,235	*3,241,443*	44,350,227	*1,307,839*
Personnel expenses	[C6]	5,877,139,431	*40,386,709*	5,992,141,750	*44,045,010*
Depreciation, amortisation and impairments	[C7]	480,482,332	-	504,354,712	-
Capitalised costs and expenses		(12,220,140)	-	(3,805,665)	-
Other operating costs	[C8]	459,125,763	*14,861,209*	254,803,828	*6,672,306*
Operating profit/(loss)		**779,635,299**		**799,558,973**	
Finance costs	[C9]	149,743,097	*793,778*	65,166,194	*825,985*
of which non-recurring costs		*82,067,306*	-	-	-
Finance income	[C9]	42,999,301	*14,006,202*	44,594,487	*24,399,725*
of which non-recurring income		*2,570,648*	-	-	-
Profit/(Loss) before tax		**672,891,503**		**778,987,266**	
Income tax for the year	[C10]	55,926,464	-	153,645,906	-
of which, non-recurring expense/(income)		*(8,634,273)*	-	*14,225,182*	-
Profit for the year		**616,965,039**		**625,341,360**	

Statement of comprehensive income for the year ended 31 December

(€)	Note	2017	2016
Profit/(Loss) for the year		**616,965,039**	**625,341,360**
Items to be reclassified in the Statement of profit or loss for the year			
Available-for-sale financial assets			
Increase/(decrease) in fair value during the year	[tab. B3]	(313,350,744)	(1,637,143,892)
Transfers to profit or loss		(665,615,256)	(577,650,684)
Cash flow hedges			
Increase/(decrease) in fair value during the year	[tab. B3]	(56,619,724)	(15,406,658)
Transfers to profit or loss		(4,419,347)	(21,928,766)
Taxation of items recognised directly in, or transferred from, equity to be reclassified in the Statement of profit or loss for the year		283,203,836	612,236,179
Items not to be reclassified in the Statement of profit or loss for the year			
Actuarial gains/(losses) on provisions for employee termination benefits	[tab. B5]	(1,605,572)	(48,563,432)
Taxation of items recognised directly in, or transferred from, equity not to be reclassified in the Statement of profit or loss for the year		445,520	16,332,193
Total other components of comprehensive income		**(757,961,287)**	**(1,672,125,060)**
Total comprehensive income for the year		**(140,996,248)**	**(1,046,783,700)**

Statement of changes in equity

(€)	Equity Share capital	Reserves Legal reserve	BancoPosta RFC reserve	Fair value reserve	*Cash flow hedge reserve*	Merger surplus	Retained earnings/ (Accummulated losses)	**Total**
Balance at 1 January 2016	**1,306,110,000**	**299,234,320**	**1,000,000,000**	**2,517,822,132**	**8,981,643**	**-**	**2,514,289,615**	**7,646,437,710**
Total comprehensive income for the year	-	-	-	(1,613,166,625)	(26,727,196)	-	593,110,121	(1,046,783,700)
Dividends paid	-	-	-	-	-	-	(444,077,400)	(444,077,400)
Changes due to share-based payments	-	-	-	-	-	-	260,714	260,714
Other shareholder transactions	-	-	-	-	-	-	4,347,769	4,347,769
Amount due from MEF following cancellation of EC Decision of 16 July 2008	-	-	-	-	-	-	5,720,748	5,720,748
Taxation	-	-	-	-	-	-	(1,372,979)	(1,372,979)
Balance at 31 December 2016	**1,306,110,000**	**299,234,320**	**1,000,000,000**	**904,655,507**	**(17,745,553)**	**-**	**2,667,930,819**	**6,160,185,093**
of which attributable to BancoPosta RFC	-	-	*1,000,000,000*	*888,943,631*	*(17,371,417)*	-	*1,514,595,531*	*3,386,167,745*
Total comprehensive income for the year	-	-	-	(713,275,172)	(43,526,063)	-	615,804,987 (*)	(140,996,248)
Dividends paid	-	-	-	-	-	-	(509,382,900)	(509,382,900)
Postecom SpA merger	-	-	-	-	-	2,284,401	-	2,284,401
Balance at 31 December 2017	**1,306,110,000**	**299,234,320**	**1,000,000,000**	**191,380,335**	**(61,271,616)**	**2,284,401**	**2,774,352,906**	**5,512,090,346**
of which attributable to BancoPosta RFC	-	-	*1,000,000,000*	*179,388,940*	*(62,049,661)*	-	*1,641,581,460*	*2,758,920,739*

(*) This item includes profit for the year of €617 million and actuarial losses on provisions for employee termination benefits of €2 million after the related taxation of €1 million.

Statement of cash flows for the year ended 31 December

(€000)	Note	2017	2016
Cash and cash equivalents at beginning of year		**2,715,199**	**1,519,733**
Profit/(Loss) before tax		672,891	778,987
Depreciation, amortisation and impairments	[tab. C7]	480,483	504,355
Impairments/(Reversals of impairments) of investments	[tab. A4.1]	21,821	33,284
Net provisions for risks and charges	[tab. B4]	736,659	541,169
Use of provisions for risks and charges	[tab. B4]	(607,140)	(435,652)
Employee termination benefits paid	[tab. B5]	(94,256)	(78,138)
(Gains)/losses on disposals	[tab. C3.2]	(15,476)	840
(Dividends)		(7,748)	(7,738)
Dividends received		7,748	7,738
(Finance income on disposals)	[tab. C9.1]	(3,816)	-
(Finance income in form of interest)	[tab. C9.1]	(20,338)	(34,523)
Interest received		26,072	31,679
Interest expense and other finance costs	[tab. C9.2]	55,235	62,817
Impairment loss on Contingent Convertible Notes	[tab. C9.2]	82,132	-
Interest paid		(33,708)	(36,096)
Losses and impairments/(Recoveries) on receivables	[tab. C8]	29,487	9,772
Income tax paid	[tab. C10.3]	(400,524)	(189,546)
Other changes		-	-
Cash generated by operating activities before movements in working capital	**[a]**	**929,522**	**1,188,948**
Movements in working capital:			
(Increase)/decrease in Trade receivables		68,571	52,179
(Increase)/decrease in Other receivables and assets		252,794	54,006
Increase/(decrease) in Trade payables		(208,179)	111,079
Increase/(decrease) in Other liabilities		34,427	68,927
Cash generated by/(used in) movements in working capital	**[b]**	**147,613**	**286,191**
Increase/(decrease) in financial liabilities attributable to BancoPosta		3,324,390	5,195,749
Net cash generated by/(used for) financial assets held for trading		-	(89)
Net cash generated by/(used for) available-for-sale financial assets		(2,497,177)	(5,140,342)
Net cash generated by/(used for) held-to-maturity financial assets		(107,948)	370,245
(Increase)/decrease in other financial assets attributable to BancoPosta		314,441	896,512
(Increase)/decrease in cash and deposits attributable to BancoPosta		(701,940)	666,503
(Income)/Expenses and other non-cash components attributable to financial activities		(1,404,203)	(1,041,371)
Cash generated by/(used for) financial assets and liabilities attributable to BancoPosta	**[c]**	**(1,072,437)**	**947,207**
Net cash flow from /(for) operating activities	**[d]=[a+b+c]**	**4,698**	**2,422,346**
- of which related party transactions		***723,071***	***3,598,562***

(€000)	Note	2017	2016
Investing activities:			
Property, plant and equipment	[tab. A1]	(208,088)	(200,278)
Investment property	[tab. A2]	(586)	(528)
Intangible assets	[tab. A3]	(192,681)	(180,782)
Investments		(227,780)	(38,790)
Other financial assets		(2,133)	(357,261)
Postecom merger		5,851	-
Disposals:			
Property, plant and equipment, investment property and assets held for sale		135,315	2,493
Other financial assets		309,995	535,559
Net cash flow from /(for) investing activities	**[e]**	**(180,107)**	**(239,587)**
- of which related party transactions		***183,287***	***112,483***
(Increase)/decrease in loans and receivables		1,031	2,351
Increase/(decrease) in short-term borrowings		7,066	(545,571)
Dividends paid	[B1]	(509,383)	(444,073)
Net cash flow from /(for) financing activities and shareholder transactions	**[f]**	**(501,286)**	**(987,293)**
- of which related party transactions		***(327,533)***	***(476,590)***
Net increase/(decrease) in cash	**[g]=[d+e+f]**	**(676,695)**	**1,195,466**
Cash and cash equivalents at end of year	**[tab. A10]**	**2,038,504**	**2,715,199**
Cash and cash equivalents at end of year	**[tab. A10]**	**2,038,504**	**2,715,199**
Cash subject to investment restrictions		-	(1,070,530)
Restricted deposits with the Italian Treasury		(55,506)	-
Amounts that cannot be drawn on due to court rulings		(14,782)	(12,457)
Unrestricted net cash and cash equivalents at end of year		**1,968,216**	**1,632,212**

5.2 Information on BancoPosta RFC

As required by art. 2, paragraphs 17-octies et seq. of Law 10 of 26 February 2011, converting Law Decree 225 of 29 December 2010, in order to identify ring-fenced capital for the purposes of applying the Bank of Italy's prudential requirements to BancoPosta's operations and for the protection of creditors, at the General Meeting held on 14 April 2011 Poste Italiane SpA's shareholder approved the creation of ring-fenced capital to be used exclusively in relation to BancoPosta's operations (BancoPosta Ring-fenced Capital or BancoPosta RFC), as governed by Presidential Decree 144 of 14 March 2001, and established the assets and contractual rights to be included in the ring-fence as well as By-laws governing its organisation, management and control. BancoPosta RFC was provided originally with an initial reserve of €1 billion through the attribution of Poste Italiane SpA's retained earnings. The resolution of 14 April 2011 became effective on 2 May 2011, the date on which it was filed with the Companies' Register.

The separation of BancoPosta from Poste Italiane SpA is only partly comparable to other ring-fenced capital solutions. Indeed, BancoPosta is not expected to meet the requirements of articles 2447 bis et seq. of the Italian Civil Code or for other special purpose entities, in that it has not been established for a single specific business but rather, pursuant to Presidential Decree 144 of 14 March 2001, for several types of financial activities to be regularly carried out for an unlimited period of time. For this reason, the above legislation does not impose the 10% limit on BancoPosta's equity, waiving the provisions of the Italian Civil Code unless expressly cited as applicable.

Nature of assets and contractual rights and authorisation

BancoPosta's assets, contractual rights and authorisations pursuant to notarial deed were conferred on BancoPosta RFC exclusively by Poste Italiane SpA without third-party contributions. BancoPosta's operations consist of those listed in Presidential Decree 144 of 14 March 2001, as amended[77] namely:

- the collection of all forms of savings deposit from the public in accordance with art. 11, para. 1 of Legislative Decree 385/1993 of 1 September 1993 - Consolidated Banking Law (*Testo Unico Bancario*, or TUB) - and all related and consequent activities;
- the collection of savings through postal securities and deposits;
- payment services, including the issuance, administration and sale of prepaid cards and other payment instruments pursuant to art. 1, para. 2, letter f) numbers 4) and 5), TUB;
- foreign currency exchange services;
- promotion and arrangement of loans issued by approved banks and financial brokers;
- investment and related services pursuant to art. 12, Presidential Decree 144/2001;
- debt collection services;
- professional gold trading, on own behalf or on behalf of third parties, in accordance with the requirements of Law 7 of 17 January 2000.

77. As revised on the issuance of Law Decree 179 of 18 October 2012 converted into law with amendments by Law 221 of 17 December 2012.

All of the assets and rights arising out of various contracts, agreements and legal transactions related to the above activities have also been conferred on BancoPosta RFC[78].

BancoPosta RFC's operations

BancoPosta RFC's operations consist of the investment of cash held in postal current accounts, in the name of BancoPosta but subject to statutory restrictions, and the management of third parties' collections and remittances. This latter activity includes the collection of postal savings (Postal Savings Books and Interest-bearing Postal Certificates), carried out on behalf of Cassa Depositi e Prestiti and the MEF, and services delegated by Public Administration entities. These transactions involve the use of cash advances from the Italian Treasury and the recognition of financial items awaiting settlement. The specific agreement with the MEF requires BancoPosta to provide daily statements of all cash flows, with a delay of two bank working days with respect to the transaction date. In compliance with the 2007 Budget Law, from 2007 the Company is required to invest the funds raised from deposits paid into postal current accounts by private customers in euro area government securities[79]. Funds deposited by Public Administration entities are, instead, deposited with the Ministry of the Economy and Finance and earn a variable rate of return linked to a basket of government securities and money market indices, in accordance with a specific agreement with the MEF regarding treasury services, renewed on 2 October 2017 and covering the two-year period 2017-2018. In addition, under the agreement with the MEF, renewed on 16 November 2017 for the three-year period 2017-2019, a percentage of the funds deriving from private customer deposits may be placed in a special "Buffer" account at the MEF, with the objective of ensuring flexibility with regard to investments in view of daily movements in amounts payable to current account holders. These deposits are remunerated at a variable rate calculated on the basis of the Euro OverNight Index Average (EONIA)[80] rate.

78. All assets, contractual rights and authorisations were conferred on BancoPosta as required to engage in the following types of operation:
   a. Contracts for the collection of savings from the public, both in the form of deposits (e.g., postal current accounts) and the related services (e.g., issuance of postal cheques, payment of bills by payment slip and direct debits) and in other forms;
   b. Contracts for the provision of payment services including the issuance, management and sale of payment cards, including prepaid cards (e.g., "postamat", "postepay"), acquiring services and money transfers (e.g., post office money orders);
   c. Investment services contracts (e.g., brokerage, distribution and investment advisory services) and related services (e.g., securities custody);
   d. Agreements with Cassa Depositi e Prestiti SpA in connection with collection of savings through postal securities and deposits;
   e. Agreements with approved banks and brokers for the promotion and lending to the public (e.g. mortgages, personal loans);
   f. Agreements with approved banks and brokers for acquiring and payment services;
   g. Agreements with approved brokers to promote and place financial instruments, bankassurrance and insurance products (e.g., share, bond and mutual fund subscriptions, life and non-life insurance);
   h. Other agreements relating to Bancoposta services;
   i. Contracts and related legal arrangements with Bancoposta employees belonging to a separate cost centre;
   j. Contracts with suppliers to the Bancoposta costs centre and related legal arrangements;
   k. Shares and investments in companies, consortia, payment/credit card issuers or money transfer service companies;
   l. Euro area government securities and securities guaranteed by the Italian government, held pursuant to art. 1, paragraph 1097 of Law 296 of 27 December 2006, as amended, and the related valuation reserves, including hedging derivatives;
   m. Accounts payable (e.g., postal current accounts) and receivable in connection with the above points;
   n. Intersegment accounts payable and receivable respectively to and from Poste Italiane;
   o. Deferred tax assets and liabilities relating to Bancoposta;
   p. Post office and bank account cash balances associated with Bancoposta operations;
   q. "Buffer" account at the Treasury, Ministry of the Economy and Finance;
   r. Cash deposits at the Treasury, Ministry of the Economy and Finance relating to Public Administration balances held in post offices;
   s. Cash and cash equivalent in connection with Bancoposta operations;
   t. Litigation relating to Bancoposta and associated settlements;
   u. Provisions in connection with BancoPosta RFC's contractual and legal obligations.
79. In addition, following the amendment of art. 1, paragraph 1097 of Law 296 of 27 December 2006, introduced by art. 1, paragraph 285 of the 2015 Stability Law (Law 190 of 23 December 2014), it became possible for BancoPosta RFC to invest up to 50% of its deposits in securities guaranteed by the Italian government.
80. The rate applied in overnight lending and calculated as the weighted average of overnight rates for transactions on the interbank market reported to ECB by a panel of banks operating in the euro zone (the biggest banks in all the euro zone countries).

Cost and revenue allocation

Given the fact that Poste Italiane is a single legal entity, the Company's general accounting system maintains its uniform characteristics and capabilities. In this context, the general principles governing administrative and accounting aspects of BancoPosta RFC are as follows:

- identification of transactions in Poste Italiane SpA's general ledgers relating to BancoPosta's ring-fenced operations which are then extracted for recording in BancoPosta's separate ledgers;
- allocation to BancoPosta of all relevant revenues and costs. In particular the services rendered by the different functions of Poste Italiane SpA to BancoPosta RFC, are exclusively recorded as payables in BancoPosta's separate books, in special intersegment accounts only, and subsequently settled;
- settlement of all incoming and outgoing third party payments by Poste Italiane SpA's Chief Financial Office;
- allocation of income taxes based on BancoPosta's separate income statement after adjusting for deferred taxation;
- reconciliation of BancoPosta's separate books to Poste Italiane's general ledger;
- the activities – or services – carried out by the various departments within Poste Italiane SpA on behalf of BancoPosta RFC are indicated in specific *General Guidelines governing the process of contracting out BancoPosta's corporate functions to Poste Italiane* (the "General Guidelines") approved by Poste Italiane SpA's Board of Directors on 28 February 2017. In implementation of BancoPosta RFC's Regulation, these General Guidelines identify the services in question and determine the manner in which they are remunerated.

The services provided by Poste Italiane to BancoPosta are subdivided into three macro areas in accordance with their nature:

- Commercial activities, represented by the sale of BancoPosta products and services to all customer segments.
- Support services, meaning the coordination and management of investments, IT systems, customer care and postal services.
- Staff services, represented by the provision of support for the coordination and management of BancoPosta RFC across all areas of business.

In compliance with Bank of Italy Circular 285//2013[81], these services are in turn classified in the General Guidelines as essential and non-essential control and operating functions.

The general policies and instructions contained in the General Guidelines in relation to transfer pricing are detailed in separate Operating Guidelines, jointly developed by BancoPosta and the Issuer's other functions. The Operating Guidelines establish, among other things, levels of service and the related transfer prices, and become effective, in accordance with the General Guidelines, following an authorisation process involving the relevant functions, the Chief Executive Officer and, when provided for, the Issuer's Board of Directors.

In line with 2016, the transfer prices set out in the Operating Guidelines are determined according to objective criteria that reflect the real contribution of the various functions to BancoPosta RFC's results. In this regard, the transfer prices paid, inclusive of commissions and any other form of remuneration due, are determined on the basis of market prices and tariffs for the same or similar services, identified, where possible, following a benchmarking process. When the specifics and/or the particular nature of a service provided by one of the Issuer's functions do not allow the use of a comparable market price, a cost-based method is used, again with the support of benchmarking to ensure that the price charged is adequate for the service provided. In this case, an appropriate mark-up, determined with reference to those used by comparable peers, is applied. From 2017, the resulting transfer prices are reviewed every two years.

The following table includes a summary of the services provided to BancoPosta RFC by the Issuer's functions, with a brief indication of how the transfer prices are determined.

81. Bank of Italy Circular 285 of 17 December 2013, part four, chapter 1 – BancoPosta.

Function	Allocation key
Post Office Network and Customer Services	Percentage of revenue generated Priced on the basis of the type of contract + recharge of external costs Penalties for failure to meet predetermined quality standards
Information Technology	Fixed component: recharge of costs based on direct and indirect drivers Variable component: determined with reference to the maintenance of operating performance
Investment Governance	Fees by professional role based on market benchmarks + recharge of external costs
Real Estate	Market prices with reference to floor space and maintenance costs
Mail and Logistics Services	Prices for mail sent to customers and internal mail
Customer Care	Priced on the basis of type of contact
Chief Financial Office	Fees by professional role based on market benchmarks Recharge of external costs, where applicable
Human Resources, Organisation and Services	
Security and Safety	
Legal Affairs	
External Relations	
Purchasing	
Internal Auditing	
Compliance	

Essential operating functions   Control functions

In this regard, the Operating Guidelines drawn up for the two-year period 2017-2018, relating to key operating functions and control functions, have been submitted to the Bank of Italy, as required by the Supervisory Standards, and the 60-day term for the Bank to notify its prohibition on implementation has expired.

The interest paid on the intersegment accounts between BancoPosta RFC and the Poste Italiane functions outside the ring-fence, used for settlements between the two entities, is the same rate paid by the MEF on the relevant Buffer account, at the Euro OverNight Index Average (EONIA) rate.

The cost of the services rendered by Poste Italiane functions outside the ring-fence, and the revenue earned from the latter by BancoPosta, contribute to BancoPosta's results. The relevant transactions, profit and loss and balance sheet amounts, generated by these relationships are only recorded in BancoPosta RFC's Separate Report. In Poste Italiane SpA's comprehensive accounts intersegment transactions are on the other hand eliminated, and are not presented. The accounting treatment adopted is similar to that provided for by the accounting standards regulating the preparation of the Group's consolidated financial statements.

Obligations

Poste Italiane SpA's liability, pursuant to art. 2, paragraph 17-*nonies* of Law Decree 225 of 29 December 2010 converted into Law 10, to creditors of Bancoposta RFC is limited to the ring-fenced capital, represented by the assets and contractual rights originally allocated or arisen after the separation. Poste Italiane's liability is, however, unlimited with respect to claims arising from actions in tort relating to the management of BancoPosta or for transactions for which no indication was made that the obligation was taken specifically by BancoPosta RFC. The Regulation approved at the Extraordinary General Meeting of Poste Italiane SpA's shareholder on 14 April 2011 SpA, and subsequently amended on 31 July 2015, provides that BancoPosta RFC's equity shall be sufficient to ensure that it is able to comply with supervisory capital requirements and is aligned with the risk profile of its operations.

Separate Report

BancoPosta RFC's Separate Report is prepared in application of Bank of Italy Circular 262 of 22 December 2005 - *Banks' Financial Statements: Layouts and Preparation*, as amended. The application of these regulations, whilst in compliance with the same accounting standards adopted by Poste Italiane SpA, requires the use of a different basis of presentation for certain components of profit or loss and the statement of financial position compared with the basis of presentation adopted for the statutory financial statements.

In this regard, the following table shows a reconciliation of the components of BancoPosta RFC's equity, as shown in the Company's statement of financial position and in the Separate Report[82].

Reconciliation of separate equity

(€m)

Item in supplementary statement / Item in Separate Report		130 Valuation reserves	160 Reserves	200 Net profit for period
Reserves	1,117	117	1,000	-
BancoPosta RFC reserve	1,000	-	1,000	-
Fair value reserve	179	179	-	-
Cash flow hedge reserve	(62)	(62)	-	-
Retained earnings	1,642	(2)	1,059	585
Net profit for period	1,644	-	1,059	585
Cumulative actuarial gains/ (losses) on defined benefit plans	(2)	(2)	-	-
Total	**2,759**	**115**	**2,059**	**585**

Intersegment relations between BancoPosta RFC and the Poste Italiane functions outside the ring-fence are disclosed exclusively in BancoPosta RFC's Separate Report, where they are shown in detail and in full, together with the income and expenses that generated them.

82. Actuarial gains and losses on defined benefit plans, which in the Company's financial statements are accounted for in retained earnings, are accounted for in the valuation reserves in the Separate Report (Item 130 of Liabilities).

Further regulatory aspects

Pursuant to art. 2, paragraph 17-*undecies* of Law Decree 225 of 29 December 2010[83], which states that "the assets and contractual rights included in BancoPosta's ring-fenced capital shall be shown separately in the Company's statement of financial position", Poste Italiane SpA's statement of financial position includes a "Supplementary statement showing BancoPosta RFC".

On 27 May 2014, the Bank of Italy issued specific Supervisory Standards for BancoPosta RFC, which, in taking into account the entity's specific organisational and operational aspects, has established prudential requirements that are substantially in line with those applicable to banks. These include regulations covering the organisational structure and governance, the system of internal controls and the requirements regarding capital adequacy and risk containment.

Furthermore, BancoPosta RFC's Regulation states that "In view of the absence of non-controlling interests in BancoPosta RFC, on approval of Poste Italiane SpA's financial statements, the General Meeting shall – on the recommendation of the Board of Directors – vote on the appropriation of the Company's profit for the year, and in particular: the share attributable to BancoPosta RFC, as indicated in the Separate Report, taking account of specific regulatory aspects and, above all, the need to comply with prudential capital adequacy requirements (…)".

On 25 January 2018, Poste Italiane SpA's Board of Directors approved the separation and transfer of certain assets, contractual rights and authorisations from BancoPosta RFC to a new ring-fenced e-money and payment services unit to be set up within PosteMobile SpA, as well as the separation of the contractual rights and authorisations relating to back-office and anti-money laundering activities. These corporate actions were subject to approval by Extraordinary General Meeting, following prior receipt of all the consents needed to comply with existing statutory and regulatory requirements. Submission to the Bank of Italy of a request for authorisation to remove the ring-fence from the assets, contractual rights and authorisations that make up the e-money and payment services unit was also approved. Further details on this corporate action are provided in note 3.1 – *Principal corporate actions*.

83. Converted into Law 10 of 26 February 2011.

5.3 Notes to the financial statements

Assets

A1 - Property, plant and equipment (€1,912 million)

Movements in property, plant and equipment are as follows:

tab. A1 - Movements in property, plant and equipment

(€m)	Land	Property used in operations	Plant and machinery	Industrial and commercial equipment	Leasehold improvements	Other assets	Assets under construction and prepayments	Total
Cost	75	2,774	1,956	330	440	1,642	51	7,268
Accumulated depreciation	-	(1,535)	(1,659)	(301)	(253)	(1,431)	-	(5,179)
Accumulated impairment	-	(77)	(7)	(1)	(5)	-	-	(90)
Balance at 1 January 2017	**75**	**1,162**	**290**	**28**	**182**	**211**	**51**	**1,999**
Movements during the year								
Additions	-	30	60	9	33	51	26	209
Merger contribution	-	-	2	-	-	-	-	2
Reclassifications	-	9	22	-	5	3	(39)	-
Disposals	-	1	(1)	-	(1)	-	-	(1)
Depreciation	-	(110)	(72)	(9)	(30)	(86)	-	(307)
(Impairments)/ Reversal of impairments	-	12	3	-	(5)	-	-	10
Total movements	**-**	**(58)**	**14**	**-**	**2**	**(32)**	**(13)**	**(87)**
Cost	75	2,814	1,963	322	475	1,700	38	7,387
Accumulated depreciation	-	(1,645)	(1,656)	(293)	(281)	(1,521)	-	(5,396)
Accumulated impairment	-	(65)	(3)	(1)	(10)	-	-	(79)
Balance at 31 December 2017	**75**	**1,104**	**304**	**28**	**184**	**179**	**38**	**1,912**

None of the above items is attributable to BancoPosta RFC.

At 31 December 2017, property, plant and equipment includes assets located on land held under concession or sub-concession, which are to be handed over free of charge at the end of the concession term, with a carrying amount of €55 million.

The main movements during 2017 are described below.

Purchases of €209 million primarily relate to:

- €30 million relating to extraordinary maintenance of post offices and local head offices around the country (€23 million) and mail sorting offices (€5 million);
- €60 million relating to plant, of which €26 million for plant and equipment related to buildings, €12 million for the installation of ATMs, €10 million for the purchase of equipment for use in sorting letters and processing parcels, €7 million for the purchase of telecommunications infrastructure and €5 million for the installation and extraordinary maintenance of video surveillance systems;
- €33 million invested in the upgrade of plant (€20 million) and the structure (€13 million) of properties held under lease;
- €51 million relating to “Other assets”, including €45, million for the purchase of new computer hardware for post offices and head offices and the consolidation of storage systems;
- €26 million relating to assets under construction, of which €17 million regards the restyling of post offices and €5 million the renovation of primary distribution centres.

The merger contribution of €2 million regards the acquisition of plant and technology assets already in use, following the merger of the subsidiary, Postecom SpA, with and into the Company.

Reclassifications from assets under construction, totalling €39 million, relate primarily to the acquisition cost of assets that became available and ready for use during the year. In particular, these assets regard the rollout of hardware held in storage and completion of the process of restyling leased and owned properties.

Reversals of impairment losses are due to revised estimates relating to buildings (property used in operations) and sorting centres, and reflect prudent consideration of the effects on the relevant values in use that might arise as a result of reduced utilisation or future removal from the production cycle (note 2.5 – *Use of estimates*).

A2 - Investment property (€52 million)

Investment property primarily regards former service accommodation owned by Poste Italiane SpA pursuant to Law 560 of 24 December 1993, and residential accommodation previously used by post office directors. None of the property included in this item is attributable to BancoPosta RFC. Movements in investment property are as follows:

tab. A2 - Movements in investment property

(€m)	Year ended 31 December 2017
Cost	142
Accumulated depreciation	(85)
Accumulated impairment	(1)
Balance at 1 January	**56**
Movements during the year	
Additions	1
Disposals	(1)
Depreciation	(4)
Total movements	**(4)**
Cost	141
Accumulated depreciation	(88)
Accumulated impairment	(1)
Carrying amount	**52**
Fair value at 31 December	**102**

The fair value of investment property at 31 December includes approximately €67 million representing the sale price applicable to the Company's former service accommodation in accordance with Law 560 of 24 December 1993, while the remaining balance reflects price estimates computed internally by the Company[84].

Most of the properties included in this category are subject to lease agreements classifiable as operating leases, given that Poste Italiane SpA retains substantially all the risks and rewards of ownership of the properties. Under the relevant agreements, tenants usually have the right to break off the lease with six-month notice. Given the resulting lack of certainty, the expected revenue flows from these leases are not referred to in these notes.

84. In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, service accommodation qualifies for level 3, while the other investment property qualifies for level 2.

A3 - Intangible assets (€385 million)

The following table shows movements in intangible assets:

tab. A3 - Movements in intangible assets

(€m)	Industrial patents, intellectual property rights, concessions, licences, trademarks and similar rights	Concessions, licences, trademarks and similar rights	Assets under construction and advances	Total
Cost	2,309	2	82	2,393
Accumulated amortisation and impairments	(2,025)	(2)	-	(2,027)
Balance at 1 January 2017	**284**	**-**	**82**	**366**
Movements during the year				
Additions	95	-	98	193
Merger contribution	6	-	1	7
Reclassifications	70	-	(70)	-
Disposals	-	-	(1)	(1)
Amortisation and impairments	(180)	-	-	(180)
Total movements	**(9)**	**-**	**28**	**19**
Cost	2,536	2	110	2,648
Accumulated amortisation and impairments	(2,261)	(2)	-	(2,263)
Balance at 31 December 2017	**275**	**-**	**110**	**385**

None of the above items is attributable to BancoPosta RFC.

Investment in Intangible assets during 2017 amounts to €193 million, including €12 million in internal software development costs and the related expenses. Research and development costs, other than those incurred directly to produce identifiable software used, or intended for use, within the Company, are not capitalised.

The increase in **industrial patents and intellectual property rights**, totalling €95 million, before amortisation for the year, relates primarily to the purchase and entry into service of new software programs following the purchase of software licences.

Purchases of **intangible assets under construction** refer mainly to activities for the development of software for infrastructure platforms and for BancoPosta services.

The balance of **intangible assets under construction** includes activities primarily regarding the development of software relating to the infrastructure platform (€44 million), BancoPosta services (€30 million), the provision of support to the sales network (€18 million) and the postal products platform (€12 million).

During the year the Company effected reclassifications from "Intangible assets under construction" to "Industrial patents, intellectual property, rights, concessions, licences, trademarks and similar rights", amounting to €70 million, reflecting the completion and commissioning of software and the upgrade of existing software.

The **merger contribution**, totalling €7 million, regards the acquisition of applications and software licences already in use, and applications yet to enter service, following the merger of the subsidiary, Postecom SpA, with and into the Company.

A4 – Investments (€2,081 million)

This item includes the following:

tab. A4 - Investments

Item (€m)	Balance at 31 December 2017	Balance at 31 December 2016
Investments in subsidiaries	1,591	1,604
Investments in joint ventures	279	-
Investments in associates	211	211
Total	**2,081**	**1,815**

No investments are attributable to BancoPosta RFC.

Movements in investments in subsidiaries and associates are as follows:

Tab. A4.1 - Movements in investments in the year ended 31 December 2017

Investments (€m)	Balance at 1 January 2017	Additions			Reductions		Adjustments		Balance at 31 December 2017
		Subscriptions/ Capital contributions	Acquisitions	Reclass. to non-current assets held for sale	Sales, liquidations, mergers	Reclass. to non-current assets held for sale	Revaluations	(Impairments)	
in subsidiaries									
BancoPosta Fondi SpA SGR	-	-	-	12	-	-	-	-	12
CLP ScpA	-	-	-	-	-	-	-	-	-
Consorzio PosteMotori	-	-	-	-	-	-	-	-	-
Cons. per i Servizi di Telefonia Mobile ScpA	-	-	-	-	-	-	-	-	-
EGI SpA	178	-	-	-	-	-	-	(6)	172
Indabox Srl	1	1	-	-	-	-	-	-	2
Mistral Air Srl	-	4	-	-	-	-	-	(4)	-
PatentiViaPoste ScpA	-	-	-	-	-	-	-	-	-
Poste Tributi ScpA (in liquidation)	2	-	-	-	-	-	-	(2)	-
PosteTutela SpA	1	-	-	-	-	-	-	-	1
Poste Vita SpA	1,219	-	-	-	-	-	-	-	1,219
Postecom SpA	13	-	-	-	(13)	-	-	-	-
Postel SpA	121	-	4	-	-	-	-	-	125
PosteMobile SpA	60	-	-	-	-	-	-	-	60
Risparmio Holding SpA	-	-	-	-	-	-	-	-	-
SDA Express Courier SpA	9	-	-	-	-	-	-	(9)	-
Total subsidiaries	**1,604**	**5**	**4**	**12**	**(13)**	**-**	**-**	**(21)**	**1,591**
in joint ventures									
FSIA Investimenti Srl	-	-	279	-	-	-	-	-	279
Total joint ventures	**-**	**-**	**279**	**-**	**-**	**-**	**-**	**-**	**279**
in associates									
ItaliaCamp Srl	-	-	-	-	-	-	-	-	-
Anima Holding SpA	211	-	-	-	-	-	-	-	211
Conio Inc.	-	-	-	-	-	-	-	-	-
Total associates	**211**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**211**
Total	**1,815**	**5**	**283**	**12**	**(13)**	**-**	**-**	**(21)**	**2,081**

The following movements occurred in 2017:

- Subscription for new shares issued by Indabox Srl and establishment of an extraordinary reserve of €0.8 million, as approved by the extraordinary general meeting of the investee company's shareholders on 2 February 2017.
- The injection of capital amounting to €4 million into Mistral Air Srl to cover the losses incurred by the subsidiary through to 31 March 2017, and to establish an extraordinary reserve, as approved by the extraordinary general meeting of the investee company's shareholders on 28 June 2017.
- The acquisition, on 15 February 2017, from FSI Investimenti SpA (a company 77.1% owned by CDP Equity SpA) of a 30% interest in FSIA Investimenti Srl, a company with a 49.5% interest in SIA SpA, a leading provider of e-money, payment and network services[85]. 80% of the transaction consideration of €278.3 million was paid on completion, before receipt of an upward adjustment of €0.55 million based on the value of SIA's net debt at 31 December 2016.
- On 30 January 2017, the partial demerger of assets belonging to Postecom SpA to Postel SpA, including the investments in PatentiViaPoste ScpA and Consorzio Poste Motori, and the ensuing merger of Postecom SpA with and into Poste Italiane SpA, was completed. The transaction, accounted for on a predecessor basis and effective for legal, accounting and tax purposes from 1 April 2017, has generated a merger surplus of €2 million, recognised in a specific equity reserve.
- The payment of non-refundable contributions of €4.2 million to Risparmio Holding SpA to enable the company to meet the commitments assumed in 2016, as approved by the investee company's Board of Directors on 13 January 2017, partly via use of the provisions for risks and charges made in 2016 (€3.9 million).

Finally, on 6 March 2018, agreements between Poste Italiane SpA, Anima Holding SpA and BancoPosta Fondi SGR SpA were finalised with the aim of strengthening their partnership in the asset management sector, in accordance with the terms and conditions announced on 21 December 2017. As a result of the agreements, as described in greater detail in note 3.1 – *Principal corporate actions*, Poste Italiane SpA will continue to hold a 100% interest in the subsidiary, BancoPosta Fondi SpA SGR, the carrying amount of which, at the date of preparation of these financial statements, has thus been reclassified to "Non-current assets held for sale and discontinued operations" (note A11).

Corporate actions during 2017 and in early 2018 are described in notes 3.1 – *Principal corporate actions* and 10 – *Events after the end of the reporting period*

The impairment tests required by the related accounting standards have been conducted in order to identify any evidence of impairment. Based on the available projections and the results of the impairment tests carried out[86], impairment losses totalling €21 million (tab. C8) have been recognised on the following investments. In particular:

- in the case of EGI SpA, an impairment loss of €6 million was recognised, based on the value of equity adjusted for unrealised after-tax gains on the property it owns as the best approximation of value in use, prudently deemed to be a valid indicator of the company's recoverable value;
- the investments in Mistral Air Srl and SDA Express Courier SpA have been written off (€13 million), in addition to provisions being made for risks and charges (€25 million) to reflect the losses incurred by the companies at 31 December 2017, which Poste Italiane intends to cover;
- the investment in Poste Tributi ScpA, whose liquidation was approved by the extraordinary general meeting of the company's shareholders held on 30 December 2016 and published in the Companies' Register on 24 January 2017, has been written off (€2 million) and provisions for risks and charges have been made (€2 million) to take account of the estimated net costs and charges of the liquidation.

Poste Italiane SpA has committed to providing financial support to the subsidiaries, SDA Express Courier SpA and Mistral Air Srl, for 2018 and Poste Tributi ScpA throughout its liquidation.

85. As a result of the transaction, Poste Italiane indirectly holds a 14.85% interest in SIA SpA.

86. The method applied and the criteria used in conducting impairment tests at 31 December 2017 are described in note 2.5 – *Use of estimates*, with regard to the impairment testing of cash generating units and investments.

The following table shows a list of investments in subsidiaries, joint ventures and associates at 31 December 2017.

tab. A4.2 - List of investments

Name (€000)	% interest	Share capital (1)	Profit/(loss) for the year	Carrying amount of equity	Share of equity	Carrying amount at 31 December 2017	Difference between equity and carrying amount
subsidiaries							
BancoPosta Fondi SpA SGR	100.00	12,000	29,134	53,886	53,886	12,000	41,886
CLP ScpA	51.00	516	-	516	263	263	-
Consorzio PosteMotori	58.12	120	171	291	169	70	99
Consorzio per i Servizi di Telefonia Mobile ScpA(2)	51.00	120	-	120	61	61	-
EGI SpA	55.00	103,200	1,843	237,263	130,495	171,721	(41,226)
Indabox Srl(2)	100.00	50	(289)	604	604	1,550	(946)
Mistral Air Srl	100.00	1,000	(7,611)	(1,895)	(1,895)	-	(1,895)
PatentiViaPoste ScpA(2)	69.65	120	(2)	125	87	84	3
Poste Tributi ScpA (in liquidation)(2)	80.00	2,583	(1,053)	(1,590)	(1,272)	-	(1,272)
PosteTutela SpA	100.00	153	298	13,441	13,441	818	12,623
Poste Vita SpA(2)	100.00	1,216,608	510,172	3,323,728	3,323,728	1,218,481	2,105,247
Postel SpA	100.00	20,400	118	101,459	101,459	125,511	(24,052)
PosteMobile SpA	100.00	32,561	18,659	57,905	57,905	60,580	(2,675)
Risparmio Holding SpA(2)	80.00	50	737	1,091	873	323	550
SDA Express Courier SpA	100.00	10,000	(31,990)	(22,876)	(22,876)	-	(22,876)
joint ventures							
FSIA Investimenti Srl(4)	30.00	20	24,816	951,930	285,579	278,870	6,709
associates							
ItaliaCamp Srl(3)	20.00	10	161	271	54	2	52
Anima Holding SpA(5)	10.04	5,926	78,347	839,693	84,305	210,468	(126,163)
Conio Inc.(2)(6)	20.00	22	(38)	(51)	(10)	22	(32)

(1) Consortium fund in the case of consortia. The registered offices of all the companies are located in Rome, with the exception of Anima Holding SpA and FSIA Investimenti Srl, whose registered offices are in Milan, and Conio Inc., whose registered office is in California (USA).
(2) These amounts have been calculated under IFRS and, therefore, may not be consistent with those included in the investee company's annual financial statements prepared in accordance with the Civil Code and Italian GAAP and, in the case of Conio Inc., in accordance with US GAAP.
(3) Figures taken from the company's latest approved financial statements at 31 December 2016.
(4) Figures taken from the company's interim financial statements at 30 September 2017, as approved by its board of directors, and including measurement of the SIA group using the equity method and recognition of the related effects with regard to Purchase Price Allocation.
(5) Figures taken from the company's interim financial statements at 30 September 2017, as approved by its board of directors.
(6) Investment acquired following the merger of Postecom SpA with and into the Company.

A5 - Financial assets attributable to BancoPosta (€60,048 million)

tab. A5 - Financial assets attributable to BancoPosta

Item (€m)	Note	Balance at 31 December 2017 Non-current assets	Current assets	Total	Balance at 31 December 2016 Non-current assets	Current assets	Total
Receivables							
Held-to-maturity financial assets		11,667	1,245	12,912	11,213	1,470	12,683
Fixed-income instruments	[tab. A5.2]	11,667	1,245	12,912	11,213	1,470	12,683
Available-for-sale financial assets		37,319	1,821	39,140	35,893	1,370	37,263
Fixed-income instruments	[tab. A5.2]	37,278	1,821	39,099	35,789	1,370	37,159
Equity instruments		41	-	41	104	-	104
Derivative financial instruments		394	1	395	185	6	191
Cash flow hedges		30	1	31	33	6	39
Fair value hedges		364	-	364	152	-	152
Total		**49,388**	**10,660**	**60,048**	**47,299**	**10,753**	**58,052**

The operations in question regard the financial services provided by the Company pursuant to Presidential Decree 144/2001, which from 2 May 2011 are attributable to the ring-fenced capital, and which relate to the management of postal current accounts deposits, carried out in the name of BancoPosta but subject to statutory restrictions on the investment of the liquidity in compliance with the applicable legislation, and the management of collections and payments on behalf of third parties (see note 5.2 - *Information on BancoPosta RFC*).

Loans and receivables

tab. A5.1 - Loans and receivables

Item (€m)	Balance at 31 December 2017 Non-current assets	Current assets	Total	Balance at 31 December 2016 Non-current assets	Current assets	Total
Loans						
Receivables	8	7,593	7,601	8	7,907	7,915
Amounts deposited with the MEF	-	6,011	6,011	-	6,189	6,189
Other financial receivables	8	1,582	1,590	8	1,718	1,726
Total	**8**	**7,593**	**7,601**	**8**	**7,907**	**7,915**

Receivables

Receivables include:

- **Amounts deposited with the MEF**, including public customers' current account deposits, which earn a variable rate of return calculated on a basket of government bonds and money market indices[87].
- **Other financial receivables** of €1,179 million, including €1,110 million provided to counterparties in asset swap transactions (with collateral provided by specific Credit Support Annexes) and €69 million provided to counterparties in repurchase agreements on fixed income securities (with collateral contemplated by specific Global Master Repurchase Agreements).

Investments in securities

These regard investments in fixed income euro area government securities, consisting of bonds issued by the Italian government and securities guaranteed by the Italian government, having a nominal value of €48,430 million. Movements are as follows:

tab. A5.2 - Movements in investment securities

	HTM		AFS		FVPL		Total	
Securities (€m)	Nominal value	Carrying amount	Nominal value	Carrying amount	Nominal value	Carrying amount	Nominal value	Carrying amount
Balance at 1 January 2017	**12,392**	**12,683**	**32,178**	**37,159**	**-**	**-**	**44,570**	**49,842**
Purchases	1,600	1,582	8,640	8,997	-	-	10,240	10,579
Redemptions	(1,300)	(1,300)	(990)	(1,020)	-	-	(2,290)	(2,320)
Transfers to equity		-	-	(590)		-	-	(590)
Change in amortised cost		(9)	-	(77)		-	-	(86)
Changes in fair value through equity		-	-	(323)		-	-	(323)
Changes in fair value through profit or loss		-	-	(496)		-	-	(496)
Changes in cash flow hedge transactions(*)		(22)	-	-		-	-	(22)
Effect of sales on profit or loss		-	-	506		-	-	506
Accrued income for current year		152	-	331		-	-	483
Sales and settlement of accrued income	-	(174)	(4,090)	(5,388)	-	-	(4,090)	(5,562)
Balance at 31 December 2017	**12,692**	**12,912**	**35,738**	**39,099**	**-**	**-**	**48,430**	**52,011**

(*) The item "Changes in cash flow hedge transactions", relates to the purchase of forward contracts in relation to cash flow hedge transactions, reflects changes in the fair value of such forward contracts between the date of purchase and the settlement date, which are recognised in equity, in the cash flow hedge reserve.

87. The rate in question is calculated as follows: 50% is based on the return on 6-month BOTs, with the remaining 50% based on the monthly average Rendistato index. The latter represents the average yield on government securities with maturities greater than 1 year, approximating the return on 7-year BTPs.

At 31 December 2017, the fair value[88] of the held-to-maturity portfolio, accounted for at amortised cost, is €14,384 million (including €152 million in accrued interest).

The fair value of the available-for-sale portfolio is €39,099 million (including €331 million in accrued interest). The overall fair value loss for the period of €819 million has been recognised in the relevant equity reserve, recording a negative amount of €323 million in relation to the portion of the portfolio not hedged by fair value hedges, and through profit and loss, in relation to the loss of €496 million on the hedged portion.

The available-for-sale portfolio includes fixed rate instruments amounting to €2,500 million (including €1,000 million acquired in 2017), issued by Cassa Depositi e Prestiti SpA and guaranteed by the Italian government (at 31 December 2017, their fair value totalled €2,485 million).

Certain securities are encumbered as they have been delivered to counterparties for use as collateral in connection with loans and hedging transactions, as described in note 11 – *Additional information*.

Investments in equity instruments

Equity instruments include:

- €37 million, reflecting the fair value of 32,059 Visa Incorporated preference shares (Series C Convertible Participating Preferred Stock) received for the sale of the Visa Europe Ltd. share to Visa Incorporated on 21 June 2016; these shares are convertible at the rate of 13.893[89] ordinary shares for each C share, minus a suitable illiquidity discount, considering the staggered conversion between the fourth and the twelfth year after the closing;
- €4 million, reflecting the fair value of 11,144 Class C shares of Visa Incorporated. These shares are not traded on an organised exchange, but are convertible into Class A shares (at the rate of four ordinary shares for each Class C share), which are listed on the New York Stock Exchange, if disposal is desired.

Fair value gains in the year under review, amounting to €11 million, have been recognised in the relevant equity reserve (see note B3).

Finally, during the last quarter of 2017, Poste Italiane SpA sold its holding of 756,280 Class B Mastercard Incorporated shares in a series of transactions, following their conversion into Class A shares. The transaction generated a gain of €91 million, recognised as a non-recurring realised gain and accounted for in “Other income from financial activities”.

88. In terms of the fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 1.
89. Until the assigned shares are fully converted into ordinary shares, the share exchange ratio may be reduced if Visa Europe Ltd. incurs liabilities that, as of the reporting date, were considered as merely contingent.

Derivative financial instruments

Movements in derivative financial instruments are as follows:

tab. A5.3 - Movements in derivative financial instruments

	Cash flow hedging						Fair value hedges		FVPL				Total	
	Forward purchases		Forward sales		Asset swap		Asset swap		Forward purchases		Forward sales			
(€m)	notional	fair value	notional	fair value	notional	fair value	notional	fair value	notional	fair value	notional	fair value	notional	fair value
Balance at 1 January 2017	**400**	**3**	**-**	**-**	**1,390**	**(65)**	**16,150**	**(2,052)**	**-**	**-**	**-**	**-**	**17,940**	**(2,114)**
Increases/ (decreases) (*)	-	(25)	1,408	(23)	50	(9)	5,205	446	-	-	92	-	6,755	389
Gains/(Losses) through profit or loss (**)	-	-	-	-	-	-	-	2	-	-	-	-	-	2
Transactions settled (***)	(400)	22	-	-	(330)	15	(1,600)	444	-	-	(92)	-	(2,422)	481
Balance at 31 December 2017	**-**	**-**	**1,408**	**(23)**	**1,110**	**(59)**	**19,755**	**(1,160)**	**-**	**-**	**-**	**-**	**22,273**	**(1,242)**
of which														
Derivative assets	-	-	-	-	175	31	9,370	364	-	-	-	-	9,545	395
Derivative liabilities	-	-	1,408	(23)	935	(90)	10,385	(1,524)	-	-	-	-	12,728	(1,637)

(*) Increases / (decreases) refer to the nominal value of new transactions and changes in the fair value of the overall portfolio during the period.
(**) Gains and losses through profit or loss refer to any ineffective components of hedges, recognised in other income and other expenses from financial and insurance activities.
(***) Transactions settled include forward transactions settled, accrued differentials and the settlement of asset swaps linked to securities sold.

During the year under review, the effective portion of interest rate hedges recorded an overall fair value loss of €57 million reflected in the cash flow hedge reserve.

Fair value hedges recorded an increase in the fair value of the effective portion of €446 million, whilst the hedged securities (tab. A5.2) recorded a fair value loss of €496 million, with the difference of €50 million due to paid differentials.

In the year under review, the Company carried out the following transactions:

- the settlement of forward purchases outstanding at 31 December 2016, totalling €400 million;
- the conclusion of forward sales with a nominal value of €1,408 million;
- new asset swaps used as cash flow hedges with a nominal value of €50 million euro;
- the unwinding of asset swaps, used as cash flow hedges for securities sold, with a nominal value of €330 million;
- new asset swaps used as fair value hedges with a nominal value of €5,205 million;
- the unwinding of asset swaps, used as fair value hedges for securities sold, with a nominal value of €1,600 million.

Fair value hierarchy of BancoPosta's financial assets

The following table shows the classification of BancoPosta's financial assets measured at fair value by level in the fair value hierarchy:

tab. A5.4 - Fair value hierarchy

Item (€m)	Balance at 31 December 2017				Balance at 31 December 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	36,244	2,859	37	39,140	35,280	1,956	27	37,263
Fixed-income instruments	36,244	2,855	-	39,099	35,280	1,879	-	37,159
Equity instruments	-	4	37	41	-	77	27	104
Financial instruments at fair value through profit or loss	-	-	-	-	-	-	-	-
Derivative financial instruments	-	395	-	395	-	191	-	191
Total financial assets at fair value	**36,244**	**3,254**	**37**	**39,535**	**35,280**	**2,147**	**27**	**37,454**

There were no transfers of the related financial instruments measured at fair value on a recurring basis between level 1 and level 2 in 2017.

Changes in level 3 primarily regard changes in the fair value of the Visa Incorporated preference shares.

A6 - Financial assets (€1,198 million)

tab. A6 - Financial assets

Item (€m)	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Loans and receivables	284	358	642	539	231	770
Loans	250	117	367	532	180	712
Receivables	34	241	275	7	51	58
Available-for-sale financial assets	551	5	556	562	12	574
Equity instruments	5	-	5	5	-	5
Fixed income instruments	546	5	551	557	5	562
Other investments	-	-	-	-	7	7
Total	**835**	**363**	**1,198**	**1,01**	**243**	**1,344**

Loans and receivables

Loans

The non-current portion relates to an irredeemable subordinated loan, issued to Poste Vita SpA in order to bring the subsidiary's capitalisation into line with expected growth in earned premiums, in compliance with the specific regulations governing the insurance sector.

The current portion regards overdrafts on intercompany current accounts granted to subsidiaries, paying interest on an arm's length basis.

These loans break down as follows:

tab. A6.1 - Current portion of loans

Item (€m)	Balance at 31 December 2017			Balance at 31 December 2016		
	Loans	Intercompany accounts	Total	Loans	Intercompany accounts	Total
Direct subsidiaries						
Banca del Mezzogiorno-MedioCredito Centrale SpA	-	-	-	50	-	50
Mistral Air Srl	-	13	13	-	10	10
PatentiViaPoste ScpA	-	-	-	-	1	1
Poste Tributi ScpA	-	2	2	-	6	6
Postel SpA	-	8	8	-	18	18
SDA Express Courier SpA	-	93	93	-	94	94
	-	**116**	**116**	**50**	**129**	**179**
Accrued interest on non-current loans	1	-	1	1	-	1
Total	**1**	**116**	**117**	**51**	**129**	**180**

Receivables

tab. A6.2 - Receivables

Item (€m)	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Due from MEF for repayment of loans accounted for in liabilities	-	-	-	-	1	1
Guarantee deposits	-	40	40	-	50	50
Due from the purchasers of service accommodation	5	2	7	7	-	7
Others	29	199	228	-	-	-
Total	**34**	**241**	**275**	**7**	**51**	**58**

Guarantee deposits relate to collateral provided to counterparties with whom the Company has entered into asset swaps (note D2).

Other receivables regard the remaining amount due from Invitalia SpA as a result of the sale of Banca del Mezzogiorno-MedioCreditoCentrale SpA on 7 August 2017 (note A11).

Available-for-sale financial assets

tab. A6.3 - Movements in available-for-sale financial assets

	Equity	Fixed-income instruments		Other investments		Total
(€m)	Carrying amount	Nominal value	Carrying amount	Nominal value	Carrying amount	Nominal value
Balance at 1 January 2017	**5**	**500**	**562**	**5**	**7**	**574**
Purchases	-	-	-	-	-	-
Redemptions	-	-	-	-	-	-
Transfers to equity reserves	-		-		(4)	(4)
Changes in amortised cost	-		-		-	-
Changes in fair value through equity	-		(1)		-	(1)
Changes in fair value through profit or loss	-		(10)		-	(10)
Effects of sales on profit or loss	-		-		4	4
Impairments	-		-		-	-
Accrued income for current year	-		5		-	5
Sales and settlement of accrued income	-	-	(5)	(5)	(7)	(12)
Balance at 31 December 2017	**5**	**500**	**551**	**-**	**-**	**556**

Equity instruments, which are unchanged with respect to the previous year, include the investment in CAI SpA (formerly Alitalia CAI SpA), which was acquired for €75 million in 2013 and written off in 2014, and the historical cost of €4.5 million for a 15% equity interest in Innovazione e Progetti ScpA, which is in liquidation.

Fixed income instruments entirely regard BTPs. Of these, instruments with a value of €375 million have been hedged using asset swaps designated as fair value hedges.

Other investments consist of equity instruments (as defined by art. 2346, paragraph 6 of the Italian Civil Code) resulting from the conversion of Contingent Convertible Notes[90] held by Poste Italiane SpA, whose value at 31 December 2017 is zero. As described in greater detail in note 3.2 – Other material events, during the year under review, the Company recognised a non-recurring impairment loss equal to the value of the Notes, amounting to €82 million, including interest recognised at 31 December 2016. The loss was accounted for in finance costs.

During the year under review, Poste Italiane SpA sold its holdings in equity mutual investment funds. This generated a gain of €4 million recognised in finance income.

90. These are Contingent Convertible Notes with an original value of €75 million, a twenty-year term to maturity and issued by Midco SpA, which in turn owns 51% of the airline Alitalia SAI SpA. The Notes were subscribed for by Poste Italiane SpA on 23 December 2014, in connection with the strategic transaction that resulted in Etihad Airways' acquisition of an equity interest in Alitalia SAI, without giving rise to any involvement on the part of Poste Italiane in the management of the issuer or its subsidiary. Interest and principal payments were provided for in the relevant terms and conditions if, and to the extent that, there was available liquidity. The loan was convertible, on the fulfilment of certain negative pledge conditions, into an equity instrument (as defined by art. 2346, paragraph 6 of the Italian Civil Code), carrying the same rights associated with the Notes. From 1 January 2015 to 31 December 2016, the Notes paid a nominal rate of interest of 7% per annum.

Derivative financial instruments

tab. A6.4 - Movements in derivative financial instruments

(€m)	Cash Flow hedges	Fair value hedges	Fair value through profit or loss	Total
Balance at 1 January 2017	**(7)**	**(44)**	**-**	**(51)**
Transactions settled(*)	2	10	-	12
Balance at 31 December 2017	**(5)**	**(34)**	**-**	**(39)**
of which:				
Derivative assets	-	-	-	-
Derivative liabilities	*(5)*	*(34)*	-	*(39)*

(*) Transactions settled include forward transactions settled, accrued differentials and the settlement of asset swaps linked to securities sold.

At 31 December 2017, outstanding derivative financial instruments include:

- nine asset swaps used as fair value hedges in 2010 to protect the value of BTPs with a nominal value of €375 million against movements in interest rates. These instruments have enabled the Company to sell the fixed rate on the BTPs of 3.75% and purchase a variable rate;
- a swap contract entered into in 2013 to hedge the cash flows of a €50 million bond issued on 25 October 2013 (note B7). With this transaction, the Company took on the obligation to pay a fixed rate of 4.035% and sold the variable rate of the bond which, at 31 December 2017, is 1.843%.

Fair value hierarchy of financial assets

The following table shows the classification of financial assets measured at fair value by level in the fair value hierarchy:

tab. A6.5 - Fair value hierarchy

Item (€m)	Balance at 31 December 2017				Balance at 31 December 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	551	-	5	556	569	-	5	574
Fixed income instruments	551	-	-	551	562	-	-	562
Equity instruments	-	-	5	5	-	-	5	5
Other investments	-	-	-	-	7	-	-	7
Derivative financial instruments	-	-	-	-	-	-	-	-
Total financial asset at fair value	**551**	**-**	**5**	**556**	**569**	**-**	**5**	**574**

There were no transfers of the related financial instruments measured at fair value on a recurring basis between level 1 and level 2 in 2017.

A7 - Trade receivables (€2,019 million)

tab. A7 - Trade receivables

Item (€m)	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Customers	5	1,560	1,565	4	1,569	1,573
Subsidiaries	-	288	288	-	290	290
MEF	-	166	166	-	236	236
Total	**5**	**2,014**	**2,019**	**4**	**2,095**	**2,099**
of which attributable to BancoPosta RFC	*-*	*789*	*789*	*-*	*743*	*743*

Receivables due from customers

tab. A7.1 - Receivables due from customers

Item (€m)	Balance at 31 December 2017 Non-current assets	Current assets	Total	Balance at 31 December 2016 Non-current assets	Current assets	Total
Ministries and Public Administration entities	-	642	642	-	619	619
Cassa Depositi e Prestiti	-	374	374	-	364	364
Overseas counterparties	-	229	229	-	285	285
Unfranked mail delivered	20	140	160	24	133	157
Overdrawn current accounts	-	148	148	-	142	142
Amounts due for other BancoPosta services	-	87	87	-	113	113
Other trade receivables	-	411	411	-	321	321
Provisions for doubtful debts	(15)	(471)	(486)	(20)	(408)	(428)
Total	**5**	**1,560**	**1,565**	**4**	**1,569**	**1,573**
of which attributable to BancoPosta RFC	-	*536*	*536*	-	*545*	*545*

Specifically:

- Amounts due from **Ministries and Public Administration entities** refer mainly to the following services:
  - Integrated Notification and mailroom services rendered to central and local government bodies, amounting to €253 million;
  - Unfranked mail services provided on credit to central and local government bodies, totalling €88 million;
  - Reimbursement of the costs associated with the management of property, vehicles and security incurred on behalf of the Ministry for Economic Development, totalling €75 million, of which €2 million relates to the amount accrued during the year (see note 2.5[91] for information on this item);
  - Compensation for the discounts applied to publishers during the year under review, due from the *Presidenza del Consiglio dei Ministri - Dipartimento dell'Editoria* (Cabinet Office – Publishing department), amounting to €43 million;
- The payment of pensions and vouchers on behalf of INPS (the National Institute of Social Security), totalling €66 million. In order to settle the amount due, INPS has expressed a willingness to offset receivables due to the Company with liabilities that, in Poste Italiane's opinion, are not subject to the same degree of certainty, liquidity or enforceability, and which the Company has recognised according to the procedures and to the extent required by the relevant accounting standards. Whilst waiting for the counterparty to acknowledge its obligations, the Company has instructed its legal counsel to take the necessary steps to recover the amount due, reserving the right to take action to enforce its claims once it has exhausted all the possible options to resolve the dispute.

Receivables due from **Cassa Depositi e Prestiti** refer to fees for BancoPosta's deposit-taking activities during 2017.

Receivables from **overseas counterparties** primarily relates to postal services carried out by the Company for overseas postal operators.

Receivables arising from **Unfranked mail delivered** include €74 million in amounts due from customers who use the service on their own behalf and €86 million for amounts due from agents who provide the service for third parties, primarily regarding bulk mail. Collection of these receivables is delegated to the authorised agents who provide the service. €20 million of the total is classified in "Non-current assets".

91. See "Revenue and receivables due from the State", item (vi), showing overall amounts due from the Ministry for Economic Development (€77 million), including amounts due for postal and other residual services, amounting to €2 million.

Receivables for **overdrawn current accounts** are amounts due for temporarily overdrawn current accounts largely due to recurring BancoPosta bank charges, including accumulated sums in the process of being recovered, which have largely been written down.

Other trade receivables primarily include €82 million generated by parcel post operations, €45 million for Posta Time services, €26 million related to Posta Target services, €20 million related to the Notification of Legal Process service, €14 million for Advice and Billing Mail services and €14 million for telegraphic services.

Movements in **provisions for doubtful debts** are as follows:

tab. A7.2 - Movements in provisions for doubtful debts

(€m)	Balance at 1 January 2017	Merger contribution	Net provisions	Deferred revenue	Uses	Balance at 31 December 2017
Overseas postal operators	5	-	2	-	-	7
Public Administration entities	129	-	-	11	-	140
Private customers	261	15	20	-	(1)	295
	395	**15**	**22**	**11**	**(1)**	**442**
Interest on late payments	33	-	14	-	(3)	44
Total	**428**	**15**	**36**	**11**	**(4)**	**486**
of which attributable to BancoPosta RFC	*141*	-	*9*	-	-	*150*

Provisions for doubtful debts relating to Public Administration entities regard amounts that may be partially unrecoverable as a result of legislation restricting government spending, delays in payment and problems at debtor entities.

Provisions for doubtful debts relating to private customers include the amount set aside attributable to BancoPosta's operations, mainly to cover numerous individually immaterial amounts due from overdrawn current account holders.

Receivables due from subsidiaries and joint ventures

tab. A7.3 - Trade Receivables due from subsidiaries

Name (€m)	Balance at 31 December 2017	Balance at 31 December 2016
Direct subsidiaries		
Banca del Mezzogiorno-MedioCredito Centrale SpA	-	1
BancoPosta Fondi SpA SGR	22	16
CLP ScpA	14	15
Consorzio PosteMotori	6	6
EGI SpA	1	1
Mistral Air Srl	2	2
PatentiViaPoste ScpA	6	5
Poste Tributi ScpA	5	6
Poste Vita SpA	139	130
Postecom SpA	-	10
Postel SpA	41	52
PosteMobile SpA	18	22
SDA Express Courier SpA	28	17
Indirect subsidiaries		
Poste Assicura SpA	6	7
Total	**288**	**290**
of which attributable to BancoPosta RFC	*172*	*162*

These trade receivables include:

- Poste Vita SpA: largely regarding fees deriving from the sale of insurance policies through post offices and attributable to BancoPosta RFC (€136 million);
- Postel SpA: mainly relating to receivables deriving from the delivery of Bulk Mail by Poste Italiane SpA and collected by the subsidiary (€24 million).

Receivables due from the MEF

This item relates to trade receivables due from the Ministry of the Economy and Finance:

tab. A7.4 - Receivables due from the MEF

Item (€m)	Balance at 31 December 2017	Balance at 31 December 2016
Universal Service compensation	31	139
Publisher tariff and electoral subsidies	83	83
Remuneration of current account deposits	25	8
Payment for delegated services	56	28
Distribution of euro converters	-	6
Other	2	3
Provision for doubtful debts due from the MEF	(31)	(31)
Total	**166**	**236**
of which attributable to BancoPosta RFC	*81*	*36*

Specifically:

- **Universal Service compensation** includes the following:

tab. A7.4.1 - Universal Service compensation receivable

Item (€m)	Balance at 31 December 2017	Balance at 31 December 2016
Remaining balance for 2015	-	67
Remaining balance for 2014	-	41
Remaining balance for 2012	23	23
Remaining balance for 2005	8	8
Total	**31**	**139**

A total of €370 million was collected in 2017, including €262 million relating to compensation for 2017 and €108 million in residual compensation for 2015 and 2014.
With reference to the amount receivable for 2012, AGCom has recognised a net cost incurred by the Company of €327 million, compared with compensation of €350 million originally recognised. Provision has not been made in the state budget for the remaining €23 million. The Company appealed AGCom's decision on 13 November 2014 before the Regional Administrative Court (TAR).
The outstanding receivable relating to compensation for 2005 was subject to cuts in the budget laws for 2007 and 2008.
Finally, with regard to the outstanding balance of the compensation for 2013, which was collected in full in 2015, with resolution 493/14/CONS of 9 October 2014, AGCom has initiated an assessment of the net cost incurred by the Company. On 24 July 2015, the regulator notified the Company that it would extend the assessment to include the 2014 financial year. At the end of the public consultation, launched by AGCom in 2016, the regulator published Resolution 298/17/CONS, in which it assessed the cost of providing the universal service for 2013 and 2014 to be €393 million and €409 million, respectively, compared with revenue of €343 million and €277 million recognised in the Company's statement of profit or loss for services rendered in the relevant years. The regulator also announced that the compensation fund to cover the cost of providing the universal service has not been set up. The Company filed a legal challenge to AGCom's resolution before the Regional Administrative Court on 6 November 2017.
On 27 October 2017, AGCom announced the launch of the process of verifying the net cost of the universal postal service for 2015 and 2016

- Receivables arising from **electoral subsidies** refer to compensation for previous years. Funds have been earmarked in the state budgets for 2017 and previous years, but they are still being reviewed by the European Commission. These receivables are shown gross of collection of the amount of €55 million deposited in an escrow account with the MEF in December 2017. For this reason, the account, which is non-interest bearing and held with the Treasury, is accounted for in "Prepayments received". The release of the amount deposited with the MEF and derecognition of the receivables in question will occur once the European Commission has given the related consent.
- The **remuneration of current account deposits** refers entirely to amounts accruing in 2017 and almost entirely relates to the deposit of funds deriving from accounts opened by Public Administration entities and attributable to BancoPosta RFC.
- Payments for **delegated services** relate to fees accrued solely in the year under review for treasury services performed by Bancoposta on behalf of the state in accordance with a special agreement with the MEF, renewed on 16 November 2017 for the three-year period 2017-2019.

Movements in **provisions for doubtful debts due from the MEF** are as follows:

tab. A7.5 - Movements in provisions for doubtful debts due from the MEF

(€m)	Balance at 1 January 2017	Net provisions	Deferred revenue	Uses	Balance at 31 December 2017
Provisions for doubtful debts	31	-	-	-	31
Total	**31**	**-**	**-**	**-**	**31**
Provisions for doubtful debts	-	-	-	-	-

These provisions, which are unchanged with respect to the beginning of the period, reflect the lack of funding of the state budget, a situation that does not permit the collection of certain receivables recognised on the basis of laws, contracts and agreements in force at the time of recognition.

A8 - Other receivables and assets (€2,042 million)

This item breaks down as follows:

tab. A8 - Other receivables and assets

		Balance at 31 December 2017			Balance at 31 December 2016		
Item (€m)	Note	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Substitute tax paid		1,040	536	1,576	861	527	1,388
Receivables relating to fixed-term contract settlements		101	87	188	121	89	210
Amounts due from social security agencies and pension funds (excl. fixed-term contract settlements)		-	98	98	-	88	88
Amounts restricted by court rulings		-	75	75	-	71	71
Accrued income and prepaid expenses from trading transactions and other assets		-	6	6	-	6	6
Tax assets		-	-	-	-	-	-
Other amounts due from subsidiaries		-	4	4	-	60	60
Sundry receivables		7	106	113	8	103	111
Provisions for doubtful debts due from others		-	(67)	(67)	-	(59)	(59)
Other receivables and assets		**1,148**	**845**	**1,993**	**990**	**885**	**1,875**
Amount due from MEF following cancellation of EC Decision of 16 July 2008		-	-	-	-	6	6
Interest accrued on IRES refund	[C10]	-	46	46	-	46	46
Interest accrued on IRAP refund	[C10]	-	3	3	-	-	-
Total		**1,148**	**894**	**2,042**	**990**	**937**	**1,927**
of which attributable to BancoPosta RFC		*1,040*	*607*	*1,647*	*861*	*601*	*1,462*

Specifically:

- **Substitute tax paid**, attributable to BancoPosta RFC, primarily regards:
  - €1,040 million charged to holder of Interest bearing Postal Certificates for stamp duty at 31 December 2017[92]. This amount is balanced by a matching entry in "Other taxes payable" until expiration or early extinguishment of the Interest bearing Postal Certificates, i.e. the date on which the tax is payable to the tax authorities (tab. B9.3);
  - €325 million relating to stamp duty to be paid in virtual form in 2018 and to be recovered from customers;
  - €143 million relating to stamp duty to be charged to Postal Savings Book holders, which the Company pays in virtual form as required by law;
  - €23 million due from the tax authorities in the form of refundable stamp duty paid in virtual form in 2017;
  - €11 million in withholding tax on interest paid to current account holders for 2017, which is to be recovered from customers;
- Amounts due from staff under **fixed-term contract settlements** consist of salaries to be recovered following the agreements of 13 January 2006, 10 July 2008, 27 July 2010, 18 May 2012, 21 March 2013 and 30 July 2015 between Poste Italiane SpA and the trade unions, regarding the re-employment by court order of staff previously employed on fixed-term contracts. This item refers to receivables with a present value of €188 million from staff, from INPS and pension funds recoverable in the form of variable instalments, the last of which is due in 2040. With regard to amounts receivable from INPS (formerly IPOST), of which approximately €42 million is due, the same considerations described in the above note A7 apply. A breakdown of the receivables by individual agreement is provided below:

tab A8.1 - Receivables from fixed-term contract settlements

	Balance at 31 December 2017				Balance at 31 December 2016			
Item (€m)	Non-current assets	Current assets	Total	Nominal value	Non-current assets	Current assets	Total	Nominal value
Receivables								
due from staff under agreement of 2006	3	1	4	4	4	2	6	6
due from staff under agreement of 2008	29	13	42	45	38	13	51	56
due from staff under agreement of 2010	32	7	39	48	35	7	42	54
due from staff under agreement of 2012	25	7	32	40	30	7	37	46
due from staff under agreement of 2013	3	1	4	5	4	1	5	6
due from staff under agreement of 2015	4	1	5	5	5	1	6	7
due from INPS (former IPOST)	-	42	42	42	-	42	42	42
due from INPS	5	10	15	16	5	11	16	18
due from pension funds	-	5	5	5	-	5	5	5
Total	**101**	**87**	**188**		**121**	**89**	**210**	

- Amounts that **cannot be drawn on due to court rulings** include €62 million in amounts seized and not assigned to creditors in the process of recovery, and €13 million in amounts stolen from the Company in December 2007 as a result of an attempted fraud and that have remained on deposit with an overseas bank. The latter sum may only be recovered once the legal formalities are completed. The risks associated with collection of these items are taken into account in the provisions for doubtful debts due from others.

92. Introduced by article 19 of Law Decree 201/2011, converted as amended by Law 214/2011, in accordance with the MEF Decree dated 24 May 2012: Manner of implementation of paragraphs from 1 to 3 of article 19 of Law Decree 201 of 6 December 2011, on stamp duty on current accounts and financial products (Official Gazette 127 of 1 June 2012).

- The **amount due from the MEF following cancellation of EC Decision 16/07/08**, recognised in the MEF's letter of 7 August 2015, was collected on 30 November 2017.
- **Accrued interest on IRES refund**, amounting to €46 million, refers to interest accruing up to 31 December 2017 in relation to the tax credit determined by an unreported deduction of IRAP paid on labour costs from IRES. Recovery of the amount in question has resulted in a dispute, the outcome of which is subject to uncertainty. With regard to the remaining overall tax credit, amounting to €50 million (i.e. including current tax assets and related interest), information is provided in note 2.5 – *Use of estimates*.
- **Accrued interest on IRAP refund**, amounting to €3 million, regards interest accruing up to 31 December 2017 on IRAP to be recovered on the unreported deduction of expenses for disabled personnel in 2003, described in note C10.
- Movements in the related **provisions for doubtful debts** are as follows:

tab. A8.2 - Movements in provisions for doubtful debts due from others

(€m)	Balance at 1 January 2017	Net provisions	Uses	Balance at 31 December 2017
Public Administration entities for sundry services	12	1	-	13
Receivables from fixed-term contract settlements	7	2	-	9
Other receivables	40	5	-	45
Total	**59**	**8**	**-**	**67**
of which attributable to BancoPosta RFC	*22*	*5*	-	*27*

A9 - Cash and deposits attributable to BancoPosta (€3,196 million)

Details of this item are as follows:

tab. A9 - Cash and deposits attributable to BancoPosta

Item (€m)	Balance at 31 December 2017	Balance at 31 December 2016
Cash and cash equivalents in hand	2,799	2,269
Bank deposits	397	225
Total	**3,196**	**2,494**

Cash at post offices, relating exclusively to BancoPosta RFC, regards cash deposits on postal current accounts, postal savings products (Interest bearing Postal Certificates and Postal Savings Books) or advances obtained from the Italian Treasury to fund post office operations. This cash may only be used in settlement of these obligations. Cash and cash equivalents in hand are held at post offices (€813 million) and companies that provide cash transportation services whilst awaiting transfer to the Italian Treasury (€1,986 million). Bank deposits relate to BancoPosta RFC's operations and include amounts deposited in an account with the Bank of Italy to be used in interbank settlements, totalling €396 million.

A10 - Cash and cash equivalents (€2,039 million)

Details of this item are as follows:

tab. A10 - Cash and cash equivalents

Item (€m)	Balance at 31 December 2017	Balance at 31 December 2016
Deposits with the MEF	379	1,310
Bank deposits and amounts held at the Italian Treasury	1,648	1,395
Cash and cash equivalents in hand	12	10
Total	**2,039**	**2,715**
of which attributable to BancoPosta RFC	*391*	*1,321*

Bank deposits and amounts held at the Italian Treasury include €55 million deposited in a non-interest bearing escrow account with the MEF in December 2017, as prepayment of subsidies to cover discounts granted by the Company. In addition, **bank deposits and amounts held at the Italian Treasury** include €15 million whose use is restricted by court orders related to different disputes.

A11 - Non-current assets held for sale and discontinued operations

The reduction of this amount to zero (€384 million at 31 December 2016) reflects:

- completion, on 7 August 2017, following issue of the relevant consents by the Ministry for Economic Development, the European Central Bank and the Bank of Italy, of the sale of the 100% interest in Banca del Mezzogiorno–MedioCreditoCentrale SpA to Invitalia SpA, Agenzia Nazionale per l'Attrazione degli Investimenti e lo Sviluppo d'Impresa. This transaction generated a net gain of €14 million, recognised as non-recurring income and accounting for in "Other operating income". Under the related contract of sale, €158 million of the total consideration of €387 million[93] was collected during the year under review, with the balance accounted for in "Other financial receivables", after the effect of discounting to present value. €159 million was collected in early 2018, with the remainder to be collected in tranches, the last of which after five years (€30 million);
- reclassification to the relevant item in assets (note A4) of the carrying amount of the investment in BancoPosta Fondi SpA SGR, as this asset no longer meets the requirements of IFRS 5 - *Non-current Assets Held for Sale and Discontinued Operations*.

93. The transaction consideration of €390 million was adjusted by approximately €3 million to take into account certain adjustments provided for in the contract on the occurrence of certain conditions.

Equity

B1 – Share capital (€1,306 million)

Poste Italiane SpA's share capital consists of 1,306,110,000 no-par value ordinary shares, of which Cassa Depositi e Prestiti SpA (CDP) holds 35% and the Ministry of the Economy and Finance holds 29.3%, while the remaining shares are held by institutional and retail investors.

At 31 December 2017, all the shares in issue are fully subscribed and paid up. No preference shares have been issued and the Company does not hold treasury shares.

In accordance with the resolution adopted by shareholders at the Annual General Meeting held on 27 April 2017, on 21 June 2017, the Company paid dividends of €509 million (a dividend of €0.39 per share).

B2 – Reserves (€1,431 million)

tab. B2 - Reserves

(€m)	Legal reserve	BancoPosta RFC reserve	Fair value reserve	Cash flow hedge reserve	Merger surplus	Total
Balance at 1 January 2017	**299**	**1,000**	**905**	**(18)**	**-**	**2,186**
of which attributable to BancoPosta RFC	-	*1,000*	*889*	*(17)*	-	*1,872*
Increases/(decreases) in fair value during the year	-	-	(313)	(57)	-	(370)
Tax effect of changes in fair value	-	-	92	16	-	108
Transfers to profit or loss	-	-	(666)	(4)	-	(670)
Tax effect of transfers to profit or loss	-	-	173	2	-	175
Gains/(Losses) recognised in equity	-	-	(714)	(43)	-	(757)
Merger contribution	-	-	-	-	2	2
Attribution of profit for 2016	-	-	-	-	-	-
Balance at 31 December 2017	**299**	**1,000**	**191**	**(61)**	**2**	**1,431**
of which attributable to BancoPosta RFC	-	*1,000*	*179*	*(62)*	-	*1,117*

Details are as follows:

- the **fair value reserve** regards changes in the fair value of available-for-sale financial assets. The decrease of €313 million during 2017 reflects:
  - a net decrease of €312 million in available-for-sale financial assets attributable to BancoPosta RFC, due to the combined effect of a loss on securities of €323 million and a gain on equity instruments of €11 million;
  - €1 million regarding the net fair value loss on available-for-sale financial assets outside the ring-fence.
- the **cash flow hedge reserve** represents changes in the fair value of the effective portion of cash flow hedges outstanding. In 2017, total fair value losses of €57 million are attributable to the value of BancoPosta RFC's derivative financial instruments.

Information on the **BancoPosta RFC reserve** is provided in note 5.2 – *Information on BancoPosta RFC*.

B3 - Availability and distributability of reserves

The following table shows the availability and distributability of Poste Italiane SpA's reserves. Retained earnings include the profit for 2017 of €617 million.

tab. B3 - Availability and distributability of reserves

(€m)	Amount at 31 December 2017		Potential use
Share capital		**1,306**	
Revenue reserves:			
legal reserve	*261*		*B*
legal reserve	*38*		*A B D*
- legal reserve		**299**	
- BancoPosta RFC reserve		**1,000**	**- -**
- fair value reserve		**191**	**- -**
- cash flow hedge reserve		**(61)**	**- -**
- merger surplus		**2**	**A B D**
retained earnings	*106*		*- -*
retained earnings	*1,059*		*C*
retained earnings	*1,747*		*A B D*
after-tax actuarial gains/(losses)	*(137)*		*- -*
- retained earnings		**2,775**	
Total		**5,512**	
of which distributable		***1,785***	

A: for capital increases
B: to cover losses
C: to cover BancoPosta losses
D: for shareholder distributions

Liabilities

B4 - Provisions for risks and charges (€1,538 million)

Movements in provisions for risks and charges are as follows:

tab. B4 - Movements in provisions for risks and charges

Item (€m)	Balance at 31 December 2016	Provisions	Finance costs	Released to profit or loss	Uses	Balance at 31 December 2017
Provisions for non-recurring charges	354	178	-	(8)	(95)	429
Provisions for disputes with third parties	309	90	-	(40)	(18)	341
Provisions for disputes with staff (1)	118	13	-	(33)	(23)	75
Provisions for personnel expenses	194	85	-	(28)	(119)	132
Provisions for early retirement incentives	342	440	-	-	(342)	440
Provisions for expired and statute barred postal savings certificates	14	-	1	-	-	15
Provisions for taxation	4	-	-	-	(1)	3
Other provisions	73	39	-	-	(9)	103
Total	**1,408**	**845**	**1**	**(109)**	**(607)**	**1,538**
of which attributable to BancoPosta RFC	*462*	*208*	*1*	*(19)*	*(108)*	*544*
Overall analysis of provisions:						
- non-current portion	590					668
- current portion	818					870
	1,408					**1,538**

(1) Net provisions for personnel expenses total €25million. Service costs (legal assistance) total €5 million.

Specifically:

- **Provisions for non-recurring charges** relate to operational risks arising from BancoPosta's operations. They primarily regard the liabilities arising from the reconstruction of operating ledger entries at the time of the Company's incorporation, liabilities deriving from the provision of delegated services for social security agencies, fraud, violations of administrative regulations, adjustments and outstanding income for previous years, risks linked to disputes with customers regarding certain investment products whose performance is not in line with expectations, or to the erroneous application of statute barring and estimated risks for charges and expenses to be incurred in connection with seizures effected by BancoPosta as garnishee-defendant. Provisions for the year, totalling €178 million, primarily reflect a revised estimate of probable liabilities linked to third-party financial products sold in the early 2000s, including €35 million relating to the voluntary action taken to protect customers, approved by Poste Italiane's Board of Directors on 19 February 2018, in relation to customers who had invested in the Europa Immobiliare 1 fund (which reached maturity on 31 December 2017[94]), and the revision of other liabilities due to adjustments and revised estimates of income for previous years. Uses, amounting to €95 million include €48 million relating to the settlement of amounts due to customers who had invested in the IRS real estate fund, following the decision to take extraordinary measures by Poste Italiane's Board of Directors on 16 January 2017.

94. This initiative is described in "Risk management – Reputational risk".

- **Provisions for disputes with third parties** regard the present value of expected liabilities deriving from different types of legal and out-of-court disputes with suppliers and third parties, the related legal expenses, and penalties and indemnities payable to customers. Provisions for the year of €90 million reflect the estimated value of new liabilities measured on the basis of expected outcomes. The reduction of €40 million relates to the reversal of liabilities recognised in the past, whilst a reduction of €18 million regards the value of disputes settled.
- **Provisions for disputes with staff** regard liabilities that may arise following labour litigation and disputes of various types. Net provisions of €20 million relate to an update of the estimate of the liabilities and the related legal expenses, taking account of both the overall value of negative outcomes in terms of litigation, and the application of Law 183 of 4 November 2010 ("Collegato lavoro"), which introduced a cap on current and future compensation payable to an employee in the event of "court-imposed conversion" of a fixed-term contract to a permanent one.
- **Provisions for personnel expenses** are made to cover expected liabilities arising in relation to the cost of labour, with are certain or likely to occur but whose estimated amount is subject to change. They have increased by €85 million to reflect the estimated value of new liabilities and decreased as a result of past contingent liabilities that failed to materialise (€28 million) and settled disputes (€119 million).
- **Provisions for early retirement incentives** reflect the estimated costs to be incurred as a result of the Company's bonding commitment to pay early retirement incentives on a voluntary basis, under the current redundancy scheme agreed with the labour unions for a determinate number of employees who will leave the Company by 31 December 2019.
- **Provisions for expired and statute barred Postal Certificates** have been made to cover the cost of redeeming certificates relating to specific issues, even after the certificates have become invalid[95].
- **Provisions for taxation** have been made to cover estimated tax liabilities.
- **Other provisions** cover probable liabilities of various type, including: estimated liabilities deriving from the risk that specific legal actions undertaken in order to reverse seizures of the Company's assets may be unable to recover the related amounts; losses incurred by subsidiaries that the Company intends to cover; claims for rent arrears on properties used free of charge by the Company; and claims for payment of accrued interest expense due to certain suppliers. Provisions of €39 million for the year primarily regard the first two types of liability.

B5 - Employee termination benefits (€1,244 million)

Movements in employee termination benefits are as follows:

tab. B5 - Movements in provisions for employee termination benefits

(€m)		2017
Balance at 1 January		**1,315**
interest component	20	
effect of actuarial gains/(losses)	2	
Provisions for the year		22
Uses for the year(1)		(93)
Balance at 31 December		**1,244**
of which attributable to BancoPosta RFC		*17*

(1) For the purposes of reconciliation with the statement of cash flows, uses of the provisions in 2017, after the transfer of provisions as a result of the merger of the subsidiary, Postecom SpA, with and into the Company, amount to €94 million.

95. Provisions for expired and statute barred Postal Certificates were made in 1998 to cover the cost of redeeming certificates relating to specific issues, the value of which was recognised in revenue in profit or loss in the years in which the certificates became invalid. The provisions were made in response to the Company's decision to redeem such certificates even if expired and statute barred. At 31 December 2017, the provisions represent the present value of total liabilities, based on a nominal value of €21 million, expected to be progressively settled by 2043.

The interest component is recognised in finance costs. The current service cost, which from 2007 is paid to pension funds or third-party social security agencies and is no longer included in the employee termination benefits managed by the Company, is recognised in personnel expenses. Net uses of provisions for employee termination benefits amount to €91 million, €4 million to substitute tax and €2 million to transfers from a number of Group companies.

The main actuarial assumptions applied in calculating provisions for employee termination benefits are as follows:

tab. B5.1 - Economic and financial assumptions

	At 31 December 2017	At 30 June 2017	At 31 December 2016
Discount rate	1.25%	1.67%	1.31%
Inflation rate	1.50%	1.50%	1.50%
Annual rate of increase of employee termination benefits	2.625%	2.625%	2.625%

tab. B5.2 - Demographic assumptions

	At 31 December 2017
Mortality	RG48 differentiated by gender
Disability	INPS 1998 differentiated by gender
Rate of employee turnover	Specific table with rates differentiated by length of service. The average length of service for participants corresponds to an annual rate of 0.14%
Advance rate	1.25% for lengths of service of at least 8 years
Pensionable age	In accordance with rules set by INPS

Actuarial gains and losses are generated by the following factors:

tab. B5.3 - Actuarial gains and losses

(€m)	At 31 December 2017	At 31 December 2016
Change in demographic assumptions		
Change in financial assumptions	7	65
Other experience-related adjustments	(5)	(16)
Total	**2**	**49**

The sensitivity of employee termination benefits to changes in the principal actuarial assumptions is analysed below:

tab. B5.4 - Sensitivity analysis

(€m)	Employee termination benefits at 31 December 2017	Employee termination benefits at 31 December 2016
Inflation rate +0.25%	1,263	1,336
Inflation rate -0.25%	1,226	1,295
Discount rate +0.25%	1,215	1,283
Discount rate -0.25%	1,275	1,349
Turnover rate +0.25%	1,243	1,313
Turnover rate -0.25%	1,245	1,317

tab. B5.5 - Other information

	At 31 December 2017
Expected service cost	-
Average duration of defined benefit plan	9.60
Average employee turnover	0.14%

B6 - Financial liabilities attributable to BancoPosta (€61,853 million)

tab. B6 - Financial liabilities attributable to BancoPosta

	Balance at 31 December 2017			Balance at 31 December 2016		
Item (€m)	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Payables deriving from postal current accounts	-	47,252	47,252	-	45,416	45,416
Borrowings	2,400	2,442	4,842	4,151	1,230	5,381
Borrowings from financial institutions	2,400	2,442	4,842	4,151	1,230	5,381
MEF account, held at the Treasury	-	3,483	3,483	-	2,429	2,429
Derivative financial instruments(1)	1,610	28	1,638	2,259	46	2,305
Cash flow hedges	96	17	113	80	21	101
Fair value hedges	1,514	11	1,525	2,179	25	2,204
Other financial liabilities	-	4,638	4,638	-	3,662	3,662
Total	**4,010**	**57,843**	**61,853**	**6,410**	**52,783**	**59,193**

(1) In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 2.

Payables deriving from postal current accounts

These payables include net amounts accrued at 31 December 2017 and settled with customers in January 2018. The balance includes amounts due to Poste Italiane Group companies, totalling €677 million, with €539 million deposited in postal current accounts by Poste Vita SpA.

Borrowings

Borrowings from financial institutions

At 31 December 2017, borrowings from financial institutions amount to €4,842 million and regard repurchase agreements having a total nominal value of €4,407 million, entered into with major financial institutions. These liabilities consist of:

- €3,903 million relating to Long Term Repos entered into with primary counterparties, with the resulting resources invested in Italian fixed-income government securities of a matching nominal amount;
- €939 million relating to BancoPosta's ordinary borrowing operations via repurchase agreement transactions with primary financial institutions as funding for incremental deposits used as collateral.

At 31 December 2017, the fair value[96] of the above borrowings amounts to €4,853 million.

MEF account held at the Treasury

tab. B6.1 - MEF account held at the Treasury

Item (€m)	Balance at 31 December 2017 Non-current assets	Current assets	Total	Balance at 31 December 2016 Non-current assets	Current assets	Total
Balance of cash flows for advances	-	3,375	3,375	-	2,239	2,239
Balance of cash flows from management of postal savings	-	(84)	(84)	-	(4)	(4)
Amounts payable due to theft	-	157	157	-	159	159
Amounts payable for operational risks	-	35	35	-	35	35
Total	**-**	**3,483**	**3,483**	**-**	**2,429**	**2,429**

The ***balance of cash flows for advances*** represents the net amount payable as a result of advances from the MEF to meet the cash requirements of BancoPosta. These break down as follows:

tab. B6.1.1 - Balance of cash flows for advances

Item (€m)	Balance at 31 December 2017 Non-current assets	Current assets	Total	Balance at 31 December 2016 Non-current assets	Current assets	Total
Net advances	-	3,375	3,375	-	2,239	2,239
MEF postal current accounts and other payables	-	671	671	-	671	671
MEF - State pensions	-	(671)	(671)	-	(671)	(671)
Total	**-**	**3,375**	**3,375**	**-**	**2,239**	**2,239**

The ***balance of cash flows from the management of postal savings***, amounting to a positive €84 million represents the balance of withdrawals less deposits during the last two days of the year and cleared early in the following year. The balance at 31 December 2017 consists of €43 million payable to Cassa Depositi e Prestiti, less €127 million receivable from the MEF for Interest-bearing Postal Certificates issued on its behalf.

96. In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 2.

Amounts payable due to thefts from post offices regard the Company's liability to the MEF on behalf of the Italian Treasury for losses resulting from theft and fraud. This liability derives from cash withdrawals from the Treasury to make up for the losses resulting from these criminal acts, in order to ensure that post offices can continue to operate.

Amounts payable for operational risks regard the portion of advances obtained to fund the operations of BancoPosta, in relation to which asset under recovery is certain or probable.

Derivative financial instruments

Movements in derivative financial instruments during 2017 are described in note A5.

Other financial liabilities

tab. B6.2 - Other financial liabilities

	Balance at 31 December 2017			Balance at 31 December 2016		
Item (€m)	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Prepaid cards	-	2,853	2,853	-	2,161	2,161
Domestic and international money transfers	-	734	734	-	599	599
Cheques to be credited to postal savings books	-	243	243	-	284	284
Endorsed cheques	-	188	188	-	148	148
Tax collection and road tax	-	145	145	-	153	153
Amounts to be credited to customers	-	118	118	-	102	102
Guarantee deposits	-	100	100	-	32	32
Other amounts payable to third parties	-	67	67	-	66	66
Payables for items in process	-	190	190	-	117	117
Total	**-**	**4,638**	**4,638**	**-**	**3,662**	**3,662**

Amounts payable for guarantee deposits refer to amounts received from counterparties in relation to Asset Swaps (with collateral provided by specific Credit Support Annexes).

B7 - Financial liabilities (€1,355 million)

tab. B7 - Financial liabilities

Item (€m)	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Borrowings	250	963	1,213	1,198	14	1,212
Bonds	50	763	813	798	14	812
Borrowings from financial institutions	200	200	400	400	-	400
Derivative financial instruments(1)	35	4	39	47	4	51
Fair value hedges	30	4	34	40	4	44
Cash flow hedges	5	-	5	7	-	7
Financial liabilities due to subsidiaries	-	46	46	-	38	38
Other financial liabilities	1	56	57	1	-	1
Total	**286**	**1,069**	**1,355**	**1,246**	**56**	**1,302**

(1) In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 2.

Borrowings

Other than the guarantees described in the following notes, borrowings are unsecured and are not subject to financial covenants, which would require the Company to comply with financial ratios or maintain a certain minimum rating. Financial institutions borrowings are subject to standard negative pledge clauses[97].

Bonds

As part of the Company's EMTN – Euro Medium Term Note programme, totalling €2 billion, the following bonds listed on the Luxembourg Stock Exchange were issued in 2013:

- bonds with a nominal value of €750 million, placed through a public offering for institutional investors at a price below par of €99.66 on 18 June 2013. The bonds have a term to maturity of five years and pay annual coupon interest at a fixed rate of 3.25%. The fair value[98] of this borrowing at al 31 December 2017 is €775 million;
- bonds with a nominal value of €50 million subscribed by investors through a private placement at par on 25 October 2013. The term to maturity of the loan is ten years, while the interest rate is 3.5% for the first two years and is variable thereafter (EUR Constant Maturity Swap rate plus 0.955%, with a cap of 6% and a floor of 0%). The cash flow interest rate risk exposure was hedged as described in note A6. The fair value[99] of this borrowing at 31 December 2017 is €53 million.

97. A commitment given to creditors by which a borrower undertakes not to give senior security to other lenders ranking *pari passu* with existing creditors, unless the same degree of protection is also offered to them.
98. In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 1.
99. In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 2.

Borrowings from financial institutions

tab. B7.1 - Borrowings from financial institutions

Item (€m)	Balance at 31 December 2017			Balance at 31 December 2016		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
EIB fixed rate loan maturing 11 April 2018	-	200	200	200	-	200
EIB fixed rate loan maturing 23 March 2019	200	-	200	200	-	200
Total	**200**	**200**	**400**	**400**	**-**	**400**

The fair value[100] of the two fixed rate EIB loans, totalling €400 million, is €402 million at 31 December 2017.

The carrying amount of the other financial liabilities in table B7 approximates to their fair value.

Credit facilities

At 31 December 2017, the following credit facilities are available:

- committed lines of €1,173 million (including lines with a value of €1 billion extinguished on 2 February 2018);
- uncommitted lines of credit of €1,059 million;
- overdraft facilities of €160 million;
- unsecured guarantee facilities with a value of €505 million.

At 31 December 2017, the committed and uncommitted lines have not been used. Unsecured guarantees with a value of €172 million have been used on behalf of Poste Italiane SpA and with a value €59 million, on behalf of Group companies. No collateral has been provided to secure the lines of credit obtained.

The uncommitted lines of credit and overdraft facilities are also available for overnight transactions entered into by BancoPosta RFC.

From 2014, the Bank of Italy has granted BancoPosta RFC access to intraday credit in order to fund intraday interbank transactions. Collateral for this credit facility is provided by securities with a nominal value of €490 million, and the facility is unused at 31 December 2017.

The existing lines of credit and medium/long-term borrowings are adequate to meet expected financing requirements.

Derivative financial instruments

Movements in derivative financial instruments during 2017 are described in note A6.

100. In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 2.

Financial liabilities due to subsidiaries

These liabilities relate to intercompany current accounts paying interest at market rates and break down as follows:

tab. B7.2 - Financial liabilities due to subsidiaries

Item (€m)	Balance at 31 December 2017	Balance at 31 December 2016
Direct subsidiaries		
BancoPosta Fondi SpA SGR	20	4
EGI SpA	1	2
PosteTutela SpA	-	1
Poste Vita SpA	1	-
Postecom SpA	-	2
PosteMobile SpA	24	29
Total	**46**	**38**

Other financial liabilities

This item includes €56 million relating to the outstanding amount payable to FSI Investimenti SpA for the acquisition of the investment in FSIA Investimenti Srl on 15 February 2017 (note A4).

Changes in liabilities arising from financing activities

The following disclosures are provided in accordance with IAS 7, following the amendments introduced by EU Regulation 1990/2017 of 6 November 2017.

tab. B7.3 - Changes in liabilities arising from financing activities

Item (€m)	Balance at 31 December 2016	Net cash flow from/(for) financing activities	Non-cash flows	Balance at 31 December 2017
Borrowings	1,211	-	2	1,213
Bonds	811	-	2	813
Borrowings from financial institutions	400	-	-	400
Financial liabilities due to subsidiaries	38	8	-	46
Other financial liabilities	1	-	56	57
Total	**1,250**	**8**	**58**	**1,316**

B8 - Trade payables (€1,211 million)

tab. B8 - Trade payables

Item (€m)	Balance at 31 December 2017	Balance at 31 December 2016
Amounts due to suppliers	727	895
Amounts due to subsidiaries	230	269
Prepayments and advances from customers	245	208
Other trade payables	9	12
Total	**1,211**	**1,384**
of which attributable to BancoPosta RFC	*63*	*87*

Amounts due to suppliers

tab. B8.1 - Amounts due to suppliers

Item (€m)	Balance at 31 December 2017	Balance at 31 December 2016
Italian suppliers	594	749
Overseas suppliers	25	18
Overseas postal operators(*)	108	128
Total	**727**	**895**
of which attributable to BancoPosta RFC	*29*	*40*

(*) The amount due to overseas counterparties regards fees payable to overseas postal operators and companies in return for postal and telegraphic services received.

Amounts due to subsidiaries and joint ventures

tab. B8.2 - Amounts due to subsidiaries

Name (€m)	Balance at 31 December 2017	Balance at 31 December 2016
Direct subsidiaries		
CLP ScpA	84	111
Consorzio per i Servizi di Telefonia Mobile ScpA	9	9
EGI SpA	16	16
PatentiViaPoste ScpA	1	1
Poste Tributi ScpA	-	5
PosteTutela SpA	47	47
Postecom SpA	-	20
Postel SpA	15	21
PosteMobile SpA	5	3
SDA Express Courier SpA	41	36
Joint ventures		
FSIA group	12	-
Total	**230**	**269**
of which attributable to BancoPosta RFC	*25*	*35*

Prepayments and advances from customers

This item refers to amounts received from customers as prepayment for the following services to be rendered:

tab. B8.3 - Prepayments and advances from customers

Item (€m)		Balance at 31 December 2017	Balance at 31 December 2016
Overseas counterparties		107	123
Advances from MEF	[tab.A7.4]	55	-
Automated franking		47	53
Unfranked mail		13	14
Postage-paid mailing services		7	7
Other services		16	11
Total		**245**	**208**
of which attributable to BancoPosta RFC		-	-

B9 - Other liabilities (€2,775 million)

tab. B9 - Other liabilities

Item (€m)	Balance at 31 December 2017 Non-current liabilities	Current liabilities	Total	Balance at 31 December 2016 Non-current liabilities	Current liabilities	Total
Amounts due to staff	4	914	918	1	895	896
Social security payables	35	469	504	38	437	475
Other tax liabilities	1,040	116	1,156	861	133	994
Amounts due to the MEF	-	-	-	-	21	21
Other amounts due to subsidiaries	7	30	37	6	17	23
Sundry payables	85	34	119	84	28	112
Accrued expenses and deferred income from trading transactions	11	30	41	12	25	37
Total	**1,182**	**1,593**	**2,775**	**1,002**	**1,556**	**2,558**
of which attributable to BancoPosta RFC	*1,115*	*65*	*1,180*	*936*	*61*	*997*

Amounts due to staff

These items primarily regard accrued amounts that have yet to be paid at 31 December 2017. The following table shows a breakdown:

tab. B9.1 - Amounts due to staff

Item (€m)	Balance at 31 December 2017 Non-current liabilities	Current liabilities	Total	Balance at 31 December 2016 Non-current liabilities	Current liabilities	Total
Fourteenth month salaries	-	222	222	-	227	227
Incentives	4	447	451	1	533	534
Accrued vacation pay	-	54	54	-	53	53
Other amounts due to staff	-	191	191	-	82	82
Total	**4**	**914**	**918**	**1**	**895**	**896**
of which attributable to BancoPosta RFC	-	*14*	*14*	-	*14*	*14*

At 31 December 2017, certain liabilities, which at 31 December 2016 were included in provisions for restructuring, were determinable with reasonable certainty and, as such, were recognised as payables.

Social security payables

tab. B9.2 - Social security payables

Item (€m)	Balance at 31 December 2017 Non-current liabilities	Current liabilities	Total	Balance at 31 December 2016 Non-current liabilities	Current liabilities	Total
INPS	1	375	376	-	348	348
Pension funds	-	80	80	-	81	81
INAIL	34	3	37	38	3	41
Other agencies	-	11	11	-	5	5
Total	**35**	**469**	**504**	**38**	**437**	**475**
of which attributable to BancoPosta RFC	*-*	*7*	*7*	*-*	*7*	*7*

Other tax liabilities

Other tax liabilities break down as follows:

tab. B9.3 - Other tax liabilities

Item (€m)	Balance at 31 December 2017 Non-current liabilities	Current liabilities	Total	Balance at 31 December 2016 Non-current liabilities	Current liabilities	Total
Withholding tax on employees' and consultants' salaries	-	93	93	-	108	108
Withholding tax on postal current accounts	-	1	1	-	3	3
Stamp duty payable	1,040	-	1,040	861	-	861
Substitute tax	-	1	1	-	1	1
Other taxes due	-	21	21	-	21	21
Total	**1,040**	**116**	**1,156**	**861**	**133**	**994**
of which attributable to BancoPosta RFC	*1,040*	*9*	*1,049*	*861*	*11*	*872*

Specifically:

- **Withholding tax on employees' and consultants' salaries** relates to amounts paid to the tax authorities by the Company in January and February 2018 as the withholding agent.
- **Stamp duty** represents the accrued amount payable to the tax authorities at 31 December 2017 on Interest-bearing Postal Certificates outstanding, in compliance with the legislation referred to in note A8 – *Other receivables and assets*.

Amounts due to the MEF

Amounts due to the MEF, which at 31 December 2016 amounted to €21 million, were settled during 2017.

Other amounts due to subsidiaries and joint ventures

tab. B9.4 - Other amounts due to subsidiaries

	Balance at 31 December 2017			Balance at 31 December 2016		
Name (€m)	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Direct subsidiaries						
Mistral Air Srl	1	1	2	1	1	2
Poste Vita SpA	-	15	15	-	-	-
Postel SpA	1	3	4	1	6	7
Risparmio Holding SpA	-	1	1	-	-	-
SDA Express Courier SpA	5	10	15	4	10	14
Total	**7**	**30**	**37**	**6**	**17**	**23**
of which attributable to BancoPosta RFC	-	-	-	-	-	-

This item primarily regards the amount payable to subsidiaries by Poste Italiane SpA, as the consolidating entity in the tax consolidation arrangement (note 2.3 – *Summary of significant accounting standards and policies*), to whom the subsidiaries have transferred tax assets in the form of payments on account, withholding taxes and taxes paid overseas, after deducting IRES payable to the Parent Company by the subsidiary, Poste Vita SpA, and the benefit connected with the tax losses contributed by Mistral Air Srl, Postel SpA, SDA Express Courier SpA and Risparmio Holding SpA in 2017.

Sundry payables

This item breaks down as follows:

tab. B9.5 - Sundry payables

	Balance at 31 December 2017			Balance at 31 December 2016		
Item (€m)	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Sundry payables attributable to BancoPosta	75	8	83	75	7	82
Guarantee deposits	10	-	10	9	-	9
Other	-	26	26	-	21	21
Total	**85**	**34**	**119**	**84**	**28**	**112**
of which attributable to BancoPosta RFC	*75*	*8*	*83*	*75*	*8*	*83*

In particular:

- **sundry payables attributable to BancoPosta's** operations primarily relate to transactions effected in previous years in the process of settlement;
- **guarantee deposits** primarily relate to amounts collected from customers as a guarantee of payment for services (postage-paid mailing services, the use of post office boxes, lease contracts, telegraphic service contracts, etc.).

Accrued expenses and deferred income from trading transactions

This item breaks down as follows:

tab. B9.6 - Accrued expenses and deferred income

	Balance at 31 December 2017			Balance at 31 December 2016		
Item (€m)	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Accrued expenses	-	2	2	-	2	2
Deferred income	11	28	39	12	23	35
Total	**11**	**30**	**41**	**12**	**25**	**37**
of which attributable to BancoPosta RFC	*-*	*27*	*27*	*-*	*21*	*21*

Deferred income outside the ring-fence primarily regards:

- €7 million in grants approved by the competent public authorities in favour of the Company, whose matching costs have not been incurred yet;
- €4 million relating to advance collection of the rental on a thirty-year lease of a pneumatic postal structure in Rome.

Deferred income attributable to BancoPosta RFC (€27 million) regards fees on Postemat and Postepay Evolution cards collected in advance.

5.4 Statement of profit or loss

C1 - Revenue from sales and services (€8,060 million)

tab. C1 - Revenue from sales and services

Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
Postal Services	2,879	3,032
BancoPosta services	5,106	5,114
Other sales of goods and services	75	73
Total	**8,060**	**8,219**

Postal Services

Revenue from Postal Services breaks down as follows:

tab. C1.1 - Revenue from Postal Services

Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
Unfranked mail	1,053	1,068
Automated franking by third parties and at post offices	731	790
Overseas mail and parcels	173	150
Integrated services	157	207
Stamps	152	190
Postage-paid mailing services	95	102
Telegrams	41	40
Other postal services	172	114
Total market revenue	**2,574**	**2,661**
Universal Service compensation	262	371
Publisher tariff subsidies	43	-
Total	**2,879**	**3,032**

In particular:

- **Universal Service compensation** relates to amounts paid by the MEF to cover the costs of fulfilling the USO. Annual compensation, amounting to €262 million, is established in the *Contratto di Programma* (Service Contract) for 2015-2019, which took effect on 1 January 2016. Approximately €108 million in further compensation for previous years was recognised in 2016[101].
- Publisher tariff subsidies[102] **relate to the amount receivable by the Company from the** *Presidenza del Consiglio dei Ministri - Dipartimento dell'Editoria* (Cabinet Office - Publishing department) as compensation for the discounts applied to publishers and non-profit organisations when sending mail. The compensation is determined on the basis of the tariffs set in the decree issued by the Ministry for Economic Development, in agreement with the Ministry of the Economy and Finance, on 21 October 2010 and Law Decree 63 of 18 May 2012, as converted into Law 103 of 16 July 2012. In this regard, provision has been made in the state budget for 2017 to cover the discounts applied by the Company in the period under review, but the subsidies are subject to the approval of the European Commission.

BancoPosta Services

This revenue breaks down as follows:

tab. C1.2 - Revenue from BancoPosta services

Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
Fees for collection of postal savings deposits	1,566	1,577
Income from investment of postal current account deposits	1,475	1,509
Revenue from current account services	497	486
Insurance brokerage	468	455
Commissions on payment of bills by payment slip	434	463
Distribution of loan products	214	203
Fees for issue and use of prepaid cards	194	151
Income from delegated services	104	107
Distribution of investment funds	41	29
Money transfers	37	41
Securities custody	5	6
Commissions from securities placements and trading	4	4
Other products and services	67	83
Total	**5,106**	**5,114**

101. This amount was previously accounted for in "Provisions for doubtful debts due from the MEF" and recognised following new provision made in the State Budget to cover prior contractual obligations.
102. Law Decree 244/2016 (the so-called "*Mille Proroghe*" decree), converted with amendments into Law 19 of 27 February 2017, has extended the provision of subsidies for postal services introduced by the Interministerial Decree of 21 October 2010, aimed at publishing houses and non-profit organisations entered in the Register of Communications Providers (*ROC*), and has also restored the government subsidies introduced by Law 46 of 27 February 2004. The Decree also confirmed the subsidised tariffs for promotional mailshots by non-profit organisations.

In particular:

- **Fees for the collection of postal savings deposits** relate to remuneration for the provision and redemption of Interest-bearing Postal Certificates and payments into and withdrawals from Postal Savings Books. This service is provided by Poste Italiane SpA on behalf of Cassa Depositi e Prestiti under the Agreement of 4 December 2014, originally intended to cover the five-year period 2014-2018. On 14 December 2017, the new Agreement for the three-year period 2018-2020 was signed.
- **Income from the investment of postal current account deposits** breaks down as follows:

tab. C1.2.1 - Income from investment of postal current accounts deposits

Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
Income from investments in securities	1,448	1,489
Interest income on held-to-maturity financial assets	499	541
Interest income on available-for-sale financial assets	992	974
Interest income on asset swaps of available-for-sale financial assets	(49)	(33)
Interest on repurchase agreements	6	7
Income from deposits held with the MEF	27	20
Remuneration of current account deposits (deposited with the MEF)	27	20
Total	**1,475**	**1,509**

Income from investments in securities derives from the investment of deposits paid into postal current accounts held by private customers. The total includes the impact of the interest rate hedge described in note A5.

Income from deposits held with the MEF primarily represents accrued interest for the year on amounts deposited by Public Administration entities.

- **Other revenue from current account services** primarily relates to charges on current accounts (€210 million), fees on amounts collected and on statements of account sent to customers (€112 million), annual fees on debit cards (€28 million) and related transactions (€50 million).
- **Revenue from insurance brokerage** derives from fees receivable from the subsidiaries, Poste Vita and Poste Assicura, in return for the sale of insurance policies.
- **Revenue from the distribution of loan products** relate to commissions received by the Company on the placement of personal loans and mortgages on behalf of third parties.
- **Income from delegated services** primarily regards amounts received by the Company for the payment of pensions and vouchers issued by INPS (€42 million), and for the provision of treasury services on the basis of the agreement with the MEF (€57 million).
- **Other products and services** mainly reflect fees deriving from the processing of tax payment forms (F24) (€58 million).

Other sales of goods and services

This relates to income from ordinary activities that is not directly attributable to the specific Postal services and Bancoposta segments. The main components are: fees received for collecting applications for residence permits, totalling €23 million and income from call centre services, amounting to €7 million.

C2 - Other income from financial activities (€646 million)

tab. C2 - Other income from financial activities

Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
Income from available-for-sale financial assets	639	595
Realised gains	547	473
Realised gains on other investments	91	121
Dividends from other investments	1	1
Income from fair value hedges	2	-
Fair value gains	2	-
Foreign exchange gains	5	4
Realised gains	5	4
Total	**646**	**599**

Realised gains on other investments in 2017 regard the gain generated by the sale of shares in Mastercard Incorporated, as described in note A5 – *Financial assets attributable to BancoPosta*.

C3 - Other operating income (€584 million)

tab. C3 - Other operating income

Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
Dividends from subsidiaries	508	423
Gains on disposals	17	1
Lease rentals	14	16
Recoveries of contract expenses and other recoveries	13	19
Government grants	9	11
Recovery of cost of seconded staff	5	4
Other income	18	4
Total	**584**	**478**

Dividends from subsidiaries

tab. C3.1 - Dividends from subsidiaries

Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
Poste Vita SpA	470	340
BancoPosta Fondi SpA SGR	21	32
PosteMobile SpA	17	18
Banca del Mezzogiorno-MedioCredito Centrale SpA	-	26
Postecom SpA	-	7
Total	**508**	**423**

Gains on disposals

tab. C3.2 - Gains on disposals

Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
Gains on disposal of investments	14	-
Gains on disposal of investment property	2	1
Gains on disposal of property and plant	1	-
Total	**17**	**1**

(1) For the purposes of reconciliation with the statement of cash flows, in 2017 this item amounts to €16 million, after losses of €1 million. In 2016, this item, after losses of €2 million, amounted to a loss of €1 million.

Gains on the sale of investments are non-recurring and regard the sale of the 100% interest in Banca del Mezzogiorno–MedioCreditoCentrale SpA.

C4 - Cost of goods and services (€1,666 million)

tab. C4 - Cost of goods and services

Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
Services	1,288	1,323
Lease expense	282	283
Raw, ancillary and consumable materials and goods for resale	96	98
Total	**1,666**	**1,704**

Cost of services

tab. C4.1 - Cost of services

Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
Transport of mail, parcels and forms	229	203
Routine maintenance and technical assistance	192	184
Outsourcing fees and external service charges	135	154
Personnel services	133	146
Energy and water	113	118
Transport of cash	88	92
Credit and debit card fees and charges	84	83
Cleaning, waste disposal and security	65	66
Advertising and promotions	62	65
Mail, telegraph and telex	54	67
Telecommunications and data transmission	53	59
Printing and enveloping services	43	45
Consultants' fees and legal expenses	19	23
Insurance premiums	9	9
Agent commissions and other	7	7
Securities custody and management fees	2	2
Total	**1,288**	**1,323**

Lease expense

tab. C4.2 - Lease expense

Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
Property rentals	159	163
Lease rentals	151	155
Ancillary costs	8	8
Vehicle leases	67	62
Equipment hire and software licenses	52	52
Other lease expense	4	6
Total	**282**	**283**

Real estate leases relate almost entirely to the buildings from which the Company operates (post offices, Delivery Logistics Centres and Sorting Centres). Under the relevant lease agreements, rents are increased annually on the basis of the price index published by the *Istituto Nazionale di Statistica* (*ISTAT*, the Italian Office for National Statistics). Lease terms are generally six years, renewable for a further six. Renewal is assured from the clause stating that the lessor “waives the option of refusing renewal on expiry of the first term”, by which the lessor, once the agreement has been signed, cannot refuse to renew the lease, except in cases of force majeure. Poste Italiane SpA has the right to withdraw from the contract at any time, giving six months’ notice, in accordance with the standard lease contract.

Raw, ancillary and consumable materials and goods for resale

tab. C4.3 - Raw, ancillary and consumable materials and goods for resale

Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
Fuels and lubricants	41	43
Stationery and printed matter	20	22
Printing of postage and revenue stamps	6	6
Consumables and goods for resale	29	27
Total	**96**	**98**

C5 - Expenses from financial activities (€40 million)

tab. C5 - Expenses from financial activities

Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
Interest expense	19	30
Interest expense on repurchase agreements	11	17
Interest on customers' deposits	5	12
Interest paid to MEF	4	2
Portion of interest expense on own liquidity (finance costs)	(1)	(1)
Income from available-for-sale financial assets	15	-
Realised gains	15	-
Expenses from fair value hedges	-	1
Fair value losses	-	1
Foreign exchange losses	2	1
Fair value losses	1	1
Realised gains	1	-
Expenses incurred on repurchase agreements	-	7
Other expenses	4	6
Total	**40**	**45**

C6 – Personnel expenses (€5,877 million)

Personnel expenses include the cost of staff seconded to other organisations. The recovery of such expenses, determined by the relevant chargebacks, is posted to other operating income. Personnel expenses break down as follows:

tab. C6 - Personnel expenses

Item (€m)	Note	For the year ended 31 December 2017	For the year ended 31 December 2016
Wages and salaries		4,050	4,116
Social security contributions		1,150	1,166
Provisions for employee termination benefits: supplementary pension funds and INPS		248	254
Agency staff		2	-
Remuneration and expenses paid to Directors		2	1
Share based payment		3	1
Redundancy payments		51	165
Net provisions (reversals) for disputes with staff	[tab. B4]	(25)	4
Provisions for restructuring charges	[tab. B4]	440	342
Amounts recovered from staff for disputes		(6)	(9)
Other staff costs/(cost recoveries)		(38)	(48)
Total		**5,877**	**5,992**

Net provisions for disputes with staff and provisions for early retirement incentives are described in note B4 - *Provisions for risks and charges*.

Cost recoveries primarily regard revised estimates for previous years.

The following table shows the Company's average and year-end headcounts by category:

tab. C6.1 - Workforce

	Average workforce		Year-end workforce	
Permanent workforce	2017	2016	At 31 December 2017	At 31 December 2016
Executives	594	608	583	588
Middle managers (A1)	6,476	6,489	6,344	6,360
Middle managers (A2)	8,203	8,248	8,073	8,084
Grades B, C, D	111,695	116,200	108,409	112,532
Grades E, F	734	1,005	622	873
Total permanent workforce(*)	**127,702**	**132,550**	**124,031**	**128,437**

(*) Figures expressed in full-time equivalent terms

Furthermore, taking account of staff on flexible contracts, the average number of full-time equivalent staff in 2017 is di 134,190 (in 2016: 136,928).

C7 - Depreciation, amortisation and impairments (€481 million)

tab. C7 - Depreciation, amortisation and impairments

Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
Property, plant and equipment	307	319
Properties used in operations	110	108
Plant and machinery	72	80
Industrial and commercial equipment	9	10
Leasehold improvements	30	32
Other assets	86	89
Impairments/recoveries/adjustments of property, plant and equipment(1)	(10)	(14)
Depreciation of investment property	4	4
Amortisation and impairments of intangible assets	180	195
Industrial patents and intellectual property rights	180	195
Total	**481**	**504**

(1) See note A1.

C8 - Other operating costs (€459 million)

tab. C8 - Other operating costs

Item (€m)	Note	For the year ended 31 December 2017	For the year ended 31 December 2016
Net provisions and losses on doubtful debts (uses of provisions)		30	10
Provisions for receivables due from customers	[tab. A7.2]	22	13
Provisions (reversal of provisions) for receivables due from MEF	[tab. A7.5]	-	(7)
Provisions (reversal of provisions) for sundry receivables	[tab. A8.2]	8	4
Operational risk events		60	42
Thefts during the year		5	8
Reversal of BancoPosta assets, net of recoveries		1	1
Other operating losses of BancoPosta		54	33
Net provisions for risks and charges made/(released)		259	71
for disputes with third parties	[tab. B4]	50	(30)
for non-recurring charges incurred by BancoPosta	[tab. B4]	170	86
for other risks and charges	[tab. B4]	39	15
Losses		1	2
Other taxes and duties		62	67
Municipal property tax		26	27
Urban waste tax		22	20
Other		14	20
Impairments of investments	[tab. A4.1]	21	33
Other recurring expenses		26	30
Total		**459**	**255**

Impairment losses on investments in subsidiaries are described in note A4.

C9 - Finance income (€43 million) and costs (€150 million)

Finance income

tab C9.1 - Finance income

Item (€m)	Note	For the year ended 31 December 2017	For the year ended 31 December 2016
Income from subsidiaries and associates		14	25
Interest on loans		5	16
Interest on intercompany current accounts		1	1
Dividends from associates [1]		8	8
Income from available-for-sale financial assets		9	7
Interest on fixed-income instruments		16	17
Accrued differentials on fair value hedges		(11)	(10)
Realised gains		4	-
Other finance income		9	11
Finance income on discounting receivables [2]		6	7
Overdue interest		14	9
Impairment of amounts due as overdue interest		(14)	(9)
Interest on IRAP refund	[tab. A8]	3	-
Interest income on Contingent Convertible Notes		-	3
Other		-	1
Foreign exchange gains [1]		11	2
Total		**43**	**45**

(1) For the purposes of reconciliation with the statement of cash flows, in 2017 finance income after foreign exchange gains and dividends from associates amounts to €24 million (€35 million in 2016).

(2) Finance income on discounted receivables regards interest on amounts due from staff and INPS under the fixed-term contract settlements of 2006, 2008, 2010, 2012, 2013 and 2015.

Finance costs

tab. C9.2 - Finance costs

Item (€m)	Note	For the year ended 31 December 2017	For the year ended 31 December 2016
Finance costs on financial liabilities		29	30
on bonds		27	27
on financial institutions borrowings		1	2
on derivative financial instruments		1	1
Finance costs on provisions for employee termination benefits	[tab. B5]	20	23
Finance costs on provisions for risks	[tab. B4]	1	1
Remuneration of Poste Italiane's own liquidity	[tab. C5]	1	1
Loss on contingent convertible notes		82	-
Impairment of investments in joint ventures		-	4
Other finance costs		5	4
Foreign exchange losses[1]		12	2
Total		**150**	**65**

(1) For the purposes of reconciliation with the statement of cash flows, in 2017 financial costs after foreign exchange losses amount to €138 million (€63 million in 2016).

C10 - Income tax expense (€56 million)

tab. C10 - Income tax expense

Item (€m)	For the year ended 31 December 2017			For the year ended 31 December 2016		
	IRES	IRAP	Total	IRES	IRAP	Total
Current tax expense	56	26	82	129	29	158
Deferred tax income	(24)	(4)	(28)	3	(5)	(2)
Deferred tax expense	2	-	2	(3)	-	(3)
Total	**34**	**22**	**56**	**129**	**24**	**153**

The tax rate for 2017 is 8.31% and consists of:

tab. C10.1 - Reconciliation between the theoretical IRES tax rate and the effective IRES tax rate

Item (€m)	For the year ended 31 December 2017		For the year ended 31 December 2016	
	IRES	Tax rate	IRES	Tax rate
Profit before tax	**673**		**779**	
Theoretical tax charge	162	24.0%	214	27.5%
Adjustments to investments	5	0.78%	9	1.17%
Dividends from investee companies	(117)	-17.48%	(113)	-14.45%
Realised gains on investments	(3)	-0.47%	-	-
Realised gains on other investments	(21)	-3.09%	(32)	-4.07%
Non-deductible out-of-period losses	5	0.70%	6	0.69%
Non-deductible taxes	5	0.76%	6	0.77%
Net provisions for risks and charges and bad debts	20	2.97%	26	3.36%
Taxation for previous years	(19)	-2.78%	(5)	-0.66%
Adjustments for change in IRES tax rate introduced by 2016 Stability Law	-	-	14	1.83%
Other	(3)	-0.42%	4	0.44%
Effective tax charge	**34**	**4.98%**	**129**	**16.59%**

tab. C10.2 - Reconciliation between the theoretical IRAP tax rate and the effective IRAP tax rate

Item (€m)	For the year ended 31 December 2017		For the year ended 31 December 2016	
	IRES	Tax rate	IRES	Tax rate
Profit before tax	**673**		**779**	
Theoretical tax charge	31	4.57%	35	4.55%
Effect of increases/(decreases)on theoretical tax charge				
Non-deductible personnel expenses	12	1.70%	6	0.78%
Dividends from investee companies	(24)	-3.51%	(19)	-2.52%
Realised gains on investments	(1)	-0.09%	-	-
Net provisions for risks and charges and bad debts	5	0.80%	1	0.15%
Non-deductible out-of-period losses	1	0.13%	1	0.09%
Finance income and costs	5	0.70%	(1)	-0.05%
Non-deductible taxes	1	0.18%	1	0.16%
Claim for IRAP refund	(9)	-1.28%	-	-
Taxation for previous years	(1)	-0.09%	(4)	-0.49%
Other	2	0.23%	4	0.45%
Effective tax charge	**22**	**3.33%**	**24**	**3.13%**

Current tax expense

tab. C10.3 - Movements in current tax assets/(liabilities)

Item (€m)	Current taxes for the year ended 31 December 2017 IRES Assets/ (Liabilities)	IRAP Assets/ (Liabilities)	Total
Balance at 1 January	**(68)**	**1**	**(67)**
Payments of	373	29	402
prepayments for the current year	305	29	334
balance payable for the previous year	68	-	68
Collection of IRES refund claimed	(1)	-	(1)
Adjustment of IRES refund claimed	-	9	9
Provisions to profit or loss	(56)	(35)	(91)
Provisions to equity	1	-	1
Tax consolidation	(188)	-	(188)
Other	7 (*)	-	7
Balance at 31 December	**68**	**4**	**72**
of which:			
Current tax assets	68	9	77
Current tax liabilities	-	(5)	(5)

(*) This item regards credits resulting from withholdings on fees.

Under IAS 12 – Income Taxes, IRES and IRAP credits are offset against the corresponding current tax liabilities, when applied by the same tax authority to the same taxable entity, which has a legally enforceable right to offset and intends to exercise this right.

Current tax assets/(liabilities) for the year ended 31 December 2017 primarily regard:

- the tax asset of €59 million reflects payments of IRES and IRAP on account, refundable IRAP from the previous year and IRES withholding tax incurred, after provisions for IRES and IRAP for the year;
- the IRAP refund of €9 million to be recovered on the unreported deduction of expenses for disabled personnel in 2003. This receivable, which is of a non-recurring nature, was assessed during the first half under review, following the ruling handed down by the Regional Tax Tribunal for Lazio, which has upheld an earlier appeal brought by the Company (see the description provided in note 2.5 – *Use of estimates*). At 31 December 2017, accrued interest of €3 million has also been recognised on this sum (also of a non-recurring nature). Given the nature of this income, it has been accounted for in finance income (tab. C9.1), with the related receivable recognised in “Other receivables and assets” (tab. A8);
- the remaining IRES credit of €4 million to be recovered on unreported IRAP deduction, following submission of a claim pursuant to article 6 of Law Decree 185 of 29 November 2008 and article 2 of Law Decree 201 of 6 December 2011, which provided for a partial deductibility of IRAP from IRES (reference should be made to the information on accrued interest in note A8).

Deferred tax assets and liabilities

Details of this item at 31 December 2017 are shown in the following table:

tab. C10.4 - Deferred taxes

Item (€m)	Balance at 31 December 2017	Balance at 31 December 2016
Deferred tax assets	762	672
Deferred tax liabilities	(315)	(536)
Total	**447**	**136**
of which attributable to BancoPosta RFC		
Deferred tax assets	406	321
Deferred tax liabilities	(308)	(530)

The nominal tax rate for IRES is 24% from 1 January 2017, whilst the nominal tax rate for IRAP is 3.90% for entities as a whole and 4.20% for entities that hold concessions other than those relating to the construction and operation of motorways and tunnels (+/–0.92% resulting from regional surtaxes and/or relief and +0.15% as a result of additional surtaxes levied in regions with a health service deficit). The Company's average statutory rate for IRAP is 4.57%. Movements in deferred tax assets and liabilities are shown below:

tab. C10.5 - Movements in deferred tax assets and liabilities

Item (€m)	Note	2017
Balance at 1 January		**136**
Deferred tax income/(expense) recognised in profit or loss		26
Non-recurring income/(expense) recognised in profit or loss due to adjustment to IRES rate		-
Income/(expense) recognised in equity	[tab. C10.8]	282
Merger contribution		3
Balance at 31 December		**447**

The following table shows movements in deferred tax assets and liabilities, broken down according to the events that generated such movements:

tab. C10.6 - Movements in deferred tax assets

Item (€m)	Investment property	Financial assets and liabilities	Contra asset accounts	Provisions for risks and charges	Present value of employee termination benefits	Other	Total
Balance at 1 January 2017	**16**	**206**	**75**	**308**	**25**	**42**	**672**
Income/(Expenses) recognised in profit or loss	-	-	3	22	-	3	28
Income/(expenses) recognised in equity	-	60	-	-	(1)	-	59
Merger contribution	-	-	3	-	-	-	3
Balance at 31 December 2017	**16**	**266**	**81**	**330**	**24**	**45**	**762**

tab. C10.7 - Movements in deferred tax liabilities

Item (€m)	Financial assets and liabilities	PPE	Other	Total
Balance at 1 January 2017	**535**	**1**	**-**	**536**
Income/(Expenses) recognised in profit or loss	-	-	2	2
Income/(expenses) recognised in equity	(223)	-	-	(223)
Balance at 31 December 2017	**312**	**1**	**2**	**315**

The decrease in deferred tax liabilities related to financial assets and liabilities is due mainly to movements in the fair value reserve, as described in note B2.

At 31 December 2017, deferred tax assets and liabilities recognised directly in equity are as follows:

tab. C10.8 - Deferred tax assets and liabilities recognised in equity

	Increases/(decreases) in equity	
Item (€m)	Year ended 31 December 2017	Year ended 31 December 2016
Fair value reserve for available-for-sale financial assets	265	602
Cash flow hedge reserve	18	11
Actuarial gains /(losses) on employee termination benefits	(1)	(5)
Retained earnings from shareholder transactions	-	(2)
Total	**282**	**606**

5.5 Related party transactions

Impact of related party transactions on the financial position and profit or loss

The impact of related party transactions on the financial position and profit or loss is shown below.

Impact of related party transactions on the financial position at 31 December 2017

Name (€m)	Balance at 31 December 2017								
	BancoPosta's financial assets	Financial assets	Trade receivables	Other receivables and assets	Cash and cash equivalents	BancoPosta's financial liabilities	Financial liabilities	Trade payables	Other liabilities
Direct subsidiaries									
BancoPosta Fondi SpA SGR	-	-	22	-	-	19	20	-	-
CLP ScpA	-	-	14	-	-	10	-	84	-
Consorzio PosteMotori	-	-	6	-	-	41	-	-	-
Consorzio Servizi Telef. Mobile ScpA	-	-	-	-	-	6	-	9	-
EGI SpA	-	-	1	-	-	12	1	16	-
Mistral Air Srl	-	13	2	-	-	-	-	-	2
PatentiViaPoste ScpA	-	-	6	-	-	8	-	1	-
Poste Tributi ScpA (in liquidation)	-	2	5	1	-	7	-	-	-
PosteTutela SpA	-	-	-	-	-	7	-	47	-
Poste Vita SpA	-	251	139	-	-	570	1	-	15
Postel SpA	-	8	41	1	-	5	-	15	4
PosteMobile SpA	-	-	18	1	-	15	24	5	-
Risparmio Holding SpA	-	-	-	-	-	-	-	-	1
SDA Express Courier SpA	-	93	28	1	-	3	-	41	15
Indirect subsidiaries									
Poste Assicura SpA	-	-	6	-	-	2	-	-	-
Poste Welfare Servizi Srl	-	-	-	-	-	3	-	-	-
Joint ventures									
SIA Group	-	-	-	-	-	-	-	12	-
Related parties external to the Group									
Ministry of the Economy and Finance	6,011	-	312	17	379	3,483	-	97	8
Cassa Depositi e Prestiti Group	2,485	-	374	-	-	-	56	-	-
Enel Group	-	-	29	-	-	-	-	5	-
Eni Group	-	-	1	-	-	-	-	19	-
Equitalia Group	-	-	-	-	-	-	-	-	-
Leonardo Group	-	-	-	-	-	-	-	32	-
Monte dei Paschi di Siena Group	-	-	2	-	6	-	-	-	-
Invitalia Group	-	228	2	-	-	-	-	-	-
Other related parties external to the Group	-	-	4	-	-	-	-	14	61
Provisions for doubtful debts from external related parties	-	-	(42)	(11)	-	-	-	-	-
Total	**8,496**	**595**	**970**	**10**	**385**	**4,191**	**102**	**397**	**106**

Impact of related party transactions on the financial position at 31 December 2016

Name (€m)	Balance at 31 December 2016								
	BancoPosta's financial assets	Financial assets	Trade receivables	Other receivables and assets	Cash and cash equivalents	BancoPosta's financial liabilities	Financial liabilities	Trade payables	Other liabilities
Direct subsidiaries									
Banca del Mezzogiorno-MedioCredito Centrale SpA	-	250	1	-	-	25	-	-	-
BancoPosta Fondi SpA SGR	-	-	16	-	-	12	4	-	-
CLP ScpA	-	-	15	-	-	1	-	111	-
Consorzio PosteMotori	-	-	6	-	-	27	-	-	-
Consorzio Servizi Telef. Mobile ScpA	-	-	-	-	-	-	-	9	-
EGI SpA	-	-	1	-	-	12	2	16	-
Mistral Air Srl	-	10	2	-	-	1	-	-	1
PatentiViaPoste ScpA	-	1	5	-	-	4	-	1	-
Poste Tributi ScpA	-	6	6	-	-	2	-	5	-
PosteTutela SpA	-	-	-	-	-	13	1	47	-
Poste Vita SpA	-	251	130	56	-	186	-	-	-
Postecom SpA	-	-	10	2	-	5	2	20	-
Postel SpA	-	18	52	-	-	2	-	21	7
PosteMobile SpA	-	-	22	1	-	21	29	3	-
SDA Express Courier SpA	-	94	17	1	-	4	-	36	14
Indirect subsidiaries									
Poste Assicura SpA	-	-	7	-	-	3	-	-	-
Related parties external to the Group									
Ministry of the Economy and Finance	6,189	1	327	21	1,310	2,429	-	108	21
Cassa Depositi e Prestiti Group	1,509	-	364	-	-	-	-	18	-
Enel Group	-	-	29	-	-	-	-	8	-
Eni Group	-	-	7	-	-	-	-	14	-
Equitalia Group	-	-	90	-	-	-	-	3	8
Leonardo Group	-	-	-	-	-	-	-	30	-
Other related parties external to the Group	-	-	4	-	-	-	-	14	62
Provisions for doubtful debts from external related parties	-	-	(40)	(10)	-	-	-	-	-
Total	**7,698**	**631**	**1,071**	**71**	**1,310**	**2,747**	**38**	**464**	**113**

At 31 December 2017, total provisions for risks and charges made to cover probable liabilities arising from transactions with related parties external to the Company and attributable primarily to trading relations amount to €71 million (€60 million at 31 December 2016).

Impact of related party transactions on profit or loss

Name (€m)	Year ended 31 December 2017									
	Revenue			Costs						
				Capital expenditure		Current expenditure				
	Revenue from sales and services	Other operating income	Finance income	Property, plant and equipment	Intangible assets	Cost of goods and services	Expenses from financial activities	Personnel expenses	Other operating costs	Finance costs
Direct subsidiaries										
Banca del Mezzogiorno-MedioCredito Centrale SpA	1	-	-	-	-	-	-	-	-	-
BancoPosta Fondi SpA SGR	43	21	1	-	-	-	-	-	-	-
CLP ScpA	8	1	-	-	1	153	-	-	1	-
Consorzio PosteMotori	40	-	-	-	-	-	-	-	-	-
Consorzio Servizi Telef. Mobile ScpA	-	-	-	6	-	23	-	-	-	-
EGI SpA	-	1	-	-	-	99	-	-	-	-
PatentiViaPoste ScpA	25	-	-	-	-	-	-	-	1	-
Postecom SpA	-	-	-	-	5	9	-	-	-	-
Poste Tributi ScpA *(in liquidation)*	1	-	-	-	-	-	-	-	-	-
PosteTutela SpA	-	1	-	-	-	98	-	-	-	-
Poste Vita SpA	470	471	4	-	-	-	-	-	-	-
Postel SpA	4	1	-	-	-	43	-	1	-	-
PosteMobile SpA	16	18	-	-	-	2	-	-	-	-
SDA Express Courier SpA	7	4	1	-	-	80	-	-	-	-
Indirect subsidiaries										
Poste Assicura SpA	23	-	-	-	-	-	-	-	-	-
Joint ventures										
SIA Group	-	-	-	-	3	28	-	-	-	-
Associates										
Anima Group	2	-	8	-	-	-	-	-	-	-
Related parties external to the Group										
Ministry of the Economy and Finance	514	3	-	-	-	5	3	-	-	1
Cassa Depositi e Prestiti Group	1,578	-	-	-	-	-	-	-	-	-
Enel Group	70	-	-	-	-	-	-	-	2	-
Eni Group	9	-	-	-	-	31	-	-	-	-
Equitalia Group	1	-	-	-	-	-	-	-	-	-
Leonardo Group	1	-	-	-	12	29	-	-	-	-
Monte dei Paschi di Siena Group	17	-	-	-	-	-	-	-	-	-
Invitalia Group	3	14	-	-	-	-	-	-	-	-
Other related parties external to the Group	11	-	-	-	-	14	-	39	-	-
Total	**2,844**	**535**	**14**	**6**	**21**	**614**	**3**	**40**	**4**	**1**

Impact of related party transactions on profit or loss

	Year ended 31 December 2016									
	Revenue			Costs						
				Capital expenditure		Current expenditure				
Name (€m)	Revenue from sales and services	Other operating income	Finance income	Property, plant and equipment	Intangible assets	Cost of goods and services	Expenses from financial activities	Personnel expenses	Other operating costs	Finance costs
Direct subsidiaries										
Banca del Mezzogiorno-MedioCredito Centrale SpA	2	26	2	-	-	-	-	-	-	-
BancoPosta Fondi SpA SGR	31	32	-	-	-	-	-	-	-	-
CLP ScpA	12	-	-	5	-	171	-	-	1	-
Consorzio PosteMotori	40	-	-	-	-	-	-	-	-	-
Consorzio Servizi Telef. Mobile ScpA	-	-	-	-	-	47	-	-	-	-
EGI SpA	-	1	-	-	-	102	-	-	-	-
Mistral Air Srl	-	1	-	-	-	-	-	-	-	-
PatentiViaPoste ScpA	25	-	-	-	-	-	-	-	1	-
Poste Tributi ScpA	5	-	-	-	-	-	-	-	5	-
PosteTutela SpA	-	1	-	-	-	100	-	-	-	-
Poste Vita SpA	456	341	13	-	-	-	-	-	-	-
Postecom SpA	-	9	-	-	15	40	-	-	-	-
Postel SpA	4	2	-	-	-	25	-	1	-	-
PosteMobile SpA	16	20	-	-	-	3	-	-	-	-
SDA Express Courier SpA	5	3	1	-	-	58	-	1	-	-
Indirect subsidiaries						**-**	**-**	**-**	**-**	**-**
Poste Assicura SpA	21	-	-	-	-	-	-	-	-	-
Associates										
Anima Group	-	-	8	-	-	-	-	-	-	-
Related parties external to the Group										
Ministry of the Economy and Finance	535	4	-	-	-	2	1	-	(6)	1
Cassa Depositi e Prestiti Group	1,588	-	-	-	5	23	-	-	-	-
Enel Group	81	-	-	-	-	-	-	-	-	-
Eni Group	23	-	-	-	-	30	-	-	-	-
Equitalia Group	59	-	-	-	-	3	-	-	-	-
Leonardo Group	-	-	-	-	10	30	-	-	-	-
Other related parties external to the Group	7	-	-	-	-	21	-	42	-	-
Total	**2,910**	**440**	**24**	**5**	**30**	**655**	**1**	**44**	**1**	**1**

At 31 December 2017, total provisions for risks and charges made to cover probable liabilities arising from transactions with related parties external to the Company and primarily attributable to trading relations amount to €11 million (€6 million at 31 December 2016).

The nature of the Company's principal transactions with related parties external to the Group is summarised below.

- Amounts received from the MEF relate primarily to payment for carrying out the USO, the management of postal current accounts, as payment for delegated services, integrated e-mail services, the franking of mail on credit, collection services, and for the integrated notification and reporting service for processing tax returns. The costs incurred primarily regard the transmission of data relating to the payment of tax returns. Following the creation of the Agenzia delle Entrate e delle riscossioni, a publicly owned entity subject to management and oversight by the MEF, and the consequent winding up of the principal companies in the Equitalia group, certain fees received for provision of the integrated notification and reporting service and for the franking of mail on credit, as well as the cost incurred for the transmission of data relating to the payment of tax returns, which were attributable to relations with the Equitalia group at 31 December 2016, are now shown as attributable to relations with the MEF.
- Amounts received from CDP SpA primarily relate to payment for the collection of postal savings deposits.
- Amounts received from the Enel Group primarily relate to payment for bulk mail shipments, unfranked mail, franking of mail on credit and postage paid mailing services, as well as collection and accounting for electric utility payments. The costs incurred primarily relate to the supply of gas and electricity.
- Amounts received from the Eni Group relate primarily to payment for mail shipments and collection and accounting for utility payments. The costs incurred relate to the supply of fuel for motorcycles and vehicles and the supply of gas.
- Purchases from the Leonardo Group primarily relate to the supply, by Leonardo SpA (formerly Selex ES SpA), of equipment, maintenance and technical assistance for mechanised sorting equipment, and systems and IT assistance regarding the creation of document storage facilities, specialist consulting services and software maintenance, and the supply of software licences and of hardware.
- Amounts received from the Monte dei Paschi di Siena group primarily regard payment for mail shipments.
- Other income from the Invitalia group refers to the gain recognised following the sale of the investment in Banca del Mezzogiorno–MedioCreditoCentrale SpA (note A11).

Impact of related party transactions and positions

The impact of related party transactions on the financial position, profit or loss and cash flows is shown in the following table:

Impact of related party transactions

Item (€m)	At 31 December 2017 Total in financial statements	At 31 December 2017 Total related parties	At 31 December 2017 Impact (%)	At 31 December 2016 Total in financial statements	At 31 December 2016 Total related parties	At 31 December 2016 Impact (%)
Financial position						
Financial assets attributable to BancoPosta	60,048	8,496	14.1	58,052	7,698	13.3
Financial assets	1,198	595	49.7	1,344	631	46.9
Trade receivables	2,019	970	48.0	2,099	1,071	51.0
Other receivables and assets	2,042	10	0.5	1,927	71	3.7
Cash and cash equivalents	2,039	385	18.9	2,715	1,310	48.3
Provisions for risks and charges	1,538	71	4.6	1,408	60	4.3
Financial liabilities attributable to BancoPosta	61,853	4,191	6.8	59,193	2,747	4.6
Financial liabilities	1,355	102	7.5	1,302	38	2.9
Trade payables	1,211	397	32.8	1,384	464	33.5
Other liabilities	2,775	106	3.8	2,558	113	4.4
Profit or loss						
Revenue from sales and services	8,060	2,844	35.3	8,219	2,910	35.4
Other operating income	584	535	91.6	478	440	92.1
Cost of goods and services	1,666	614	36.9	1,704	655	38.4
Expenses from financial activities	40	3	7.5	45	1	2.2
Personnel expenses	5,877	40	0.7	5,992	44	0.7
Other operating costs	459	15	3.3	255	7	2.7
Finance costs	150	1	0.7	65	1	1.5
Finance income	43	14	32.6	45	24	53.3
Cash flow						
Net cash flow from/(for) operating activities	5	723	n.a.	2,422	3,599	n.a.
Net cash flow from/(for) investing activities	(180)	183	n.a.	(240)	112	n.a.
Net cash flow from/(for) financing activities and shareholder transactions	(501)	(328)	65.5	(987)	(477)	48.3

Key management personnel

Key management personnel consist of Directors, members of the Board of Statutory Auditors and the Supervisory Board, managers at the first organisational level of the Company and Poste Italiane's manager responsible for financial reporting. The related remuneration, gross of expenses and social security contributions, is as follows:

Remuneration of key management personnel

Item (€000)	Year ended 31 December 2017	Year ended 31 December 2016
Remuneration to be paid in short/medium term	11,577	13,503
Post-employment benefits	463	552
Other benefits to be paid in longer term	7	452
Termination benefits	6,979	3,845
Share-based payments	2,034	812
Total	**21,060**	**19,164**

Remuneration of Statutory Auditors

Item (€000)	Year ended 31 December 2017	Year ended 31 December 2016
Remuneration	271	228
Expenses	-	1
Total	**271**	**229**

The remuneration paid to members of the Company's Supervisory Board amounts to approximately €76 thousand in 2017. In determining the re, the amounts paid to managers of Poste Italiane who are members of the Supervisory Board is not taken into account, as this remuneration is passed on to the employer.

No loans were granted to key management personnel during the year and, at 31 December 2017, the Company does not report receivables in respect of loans granted to key management personnel.

Transactions with staff pensions funds

Poste Italiane SpA and the subsidiaries that apply the National Collective Labour Contract are members of the Fondoposte Pension Fund, the national supplementary pension fund for Poste Italiane personnel, established on 31 July 2002 as a non-profit entity. The Fund's officers and boards are the General Meeting of delegates, the Board of Directors, the Chairman and Deputy Chairman of the Board of Directors and Board of Statutory Auditors. Representation of members on the above boards is shared equally between the companies and the workers that are members of the Fund. The participation of members in the running of the Fund is guaranteed by the fact that they directly elect the delegates to send to the General Meeting.

Other related party disclosures

At a meeting on 20 September 2017, Poste Italiane's Board of Directors, having obtained the consent of the Related and Connected Parties Committee, authorised the spot and forward purchase and sale of securities issued and/or guaranteed by the Italian government and the execution of repurchase agreements and reverse repos and of hedging derivatives by BancoPosta RFC, with Monte Paschi Capital Services Banca per le Imprese SpA acting as counterparty. This company qualifies as a related party of Poste Italiane as it is also controlled by the Ministry of the Economy and Finance through Banca Monte dei Paschi di Siena SpA.

Following conclusion of the agreement, from October 2017, five repurchase agreements and 23 buy & sell back transactions, which expired during the period, have been entered into, in addition to two Interest rate Swaps for hedging purposes and two forward sales of securities.

At a meeting on 13 December 2017, Poste Italiane's Board of Directors, having obtained the consent of the Related and Connected Parties Committee, authorised signature of the agreement with Cassa Depositi e Prestiti governing the collection and distribution of Postal Savings products, by BancoPosta on behalf of Cassa Depositi e Prestiti, for the three-year period 2018-2020.

6. Risk management

Introduction

Compared with the version presented until the end of the last annual reporting period, this note has undergone a number of changes in terms of form and content.

To help in reading the note and enable comparison with the past, a brief summary of the changes made is provided below:

- The note on "Risk management" is included only once, in an area of the document providing information on matters common to both the Group and Poste Italiane SpA. It deals with both financial risk (as defined by IFRS 7) and other types of risk that the Group's deems it appropriate or necessary to disclose in this note.
- With regard to finance risk, qualitative and quantitative disclosures are provided about the Group's exposure, indicating aspects that specifically relate to Poste Italiane SpA. Where the risk exposure regards the Group, the qualitative disclosure is provided only once, distinguishing between aspects attributable to the Parent Company and those attributable to other Group companies, whilst quantitative data (balances at the reporting date and the outcomes of stress tests) is provided at both consolidated level and in relation to Poste Italiane SpA. In contrast, where the risk only regards the Parent Company's operations, this fact is explained at the beginning of the section dealing with that risk.

Financial risk

Information on financial risk management at 31 December 2017 is provided below, in accordance with the requirements of IFRS 7 – *Financial Instruments: Disclosures*.

Responsibility for coordinating and managing the investment strategy and the hedging of capital market risks has been assigned to the Parent Company's Coordination of Investment Management function, which aims to ensure a uniform approach across the Poste Italiane Group's various financial entities. Treasury management for the Company and on a centralised basis, definition of the capital structure for the Group, and the assessment of funding transactions and extraordinary and subsidised transactions is, on the other hand, the responsibility of Administration, Finance and Control.

Management of the Group's financial transactions and of the associated risks relates mainly to the operations of Poste Italiane SpA and the Poste Vita insurance group.

- **Poste Italiane SpA**'s financial transactions primarily relate to BancoPosta's operations, asset financing and liquidity investment.
  BancoPosta RFC's operations consist in the active management of liquidity generated by postal current account deposits, carried out in the name of BancoPosta but subject to statutory restrictions, and collections and payments on behalf of third parties. The funds deposited by private account holders in postal current accounts are invested in euro zone government securities[103], whilst deposits by Public Administration entities are deposited with the MEF. The investment profile is based on the constant monitoring of habits of current account holders and a use of a leading market operator's statistical/econometric model that forecasts the interest rates and maturities typical of postal current accounts. Accordingly, the portfolio composition aims to replicate the financial structure of current accounts by private customers. The company has also an asset-liability

103. Following the amendment of art. 1, paragraph 1097 of Law 296 of 27 December 2006, introduced by art. 1, paragraph 285 of the 2015 Stability Law (Law 190 of 23 December 2014), it became possible for BancoPosta RFC to invest up to 50% of its deposits in securities guaranteed by the Italian government. As of 1 April 2015 the match between BancoPosta's private customer deposits and related investments, which is verified on a quarterly basis, relates to the amortised cost calculated on the ex coupon value of the financial instruments held in portfolio. Before, the equivalence was measured based on the nominal value of the instruments.

model in place to match the maturities of deposits and loans. The above mentioned model is thus the general reference for the investments, in order to limit exposure to interest rate risk and liquidity risks. The prudential requirements introduced by the third revision of the Bank of Italy Circular 285/2013 require Bancoposta to apply the same regulations applicable to banks in terms of its controls, establishing that its operations are to be conducted in accordance with the Consolidated Law on Banking (TUB) and the Consolidated Law on Finance (TUF). Bancoposta RFC is, therefore, required to establish a system of internal controls in line with the provisions of Circular 285[104], which, among other things, requires definition of a Risk Appetite Framework (RAF[105]), the containment of risks within the limits set by the RAF, protection of the value of assets and against losses, and identification of material transactions to be subject to prior examination by the risk control function.

Following the positive performance of current account deposits in 2017, from June onwards, the process of monitoring the risk profile indicated that there had been a decline in the leverage ratio to below the threshold set in the Risk Appetite Framework (RAF). The ***leverage ratio*** at 31 December 2017 stands at approximately 3.11% (3% being the minimum level required by the regulations). In order to restore the leverage ratio to the target level set out in the RAF (3.15%), on 25 January 2018, Poste Italiane SpA's Board of Directors approved the recapitalisation of BancoPosta by transferring free reserves of €210 million. The relevant functions will continue to keep a close eye on the leverage ratio throughout 2018 to ensure, over time, that it continues to meet the related targets, thresholds and limits established in the RAF.

Operations not covered by BancoPosta RFC, primarily relating to management of the Parent Company's own liquidity, are carried out in accordance with investment guidelines approved by the Board of Directors, which require the Company to invest in instruments such as government securities, high-quality corporate or bank bonds and term bank deposits. Liquidity is also deposited in postal current accounts, subject to the same requirements applied to the investment of deposits by private current account holders.

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

  Traditional life policies, classified under Class I and V, primarily include products whose benefits are revaluated based on the return generated through the management of pools of financial assets, which are separately identifiable in accounting terms only, within the company's assets (so-called separately managed accounts). Typically, the Company guarantees a minimum return payable at maturity on such products (31 December 2017, this return ranged between 0% and 1.5%). Gains and losses resulting from measurement are attributed in full to policyholders and accounted for in specific technical provisions under the shadow accounting method. The calculation technique used by the Group in applying this method is based on the prospective yield on each separately managed account, considering a hypothetical realisation of unrealised gains and losses over a period of time that matches the assets and liabilities held in the portfolio (see note 2.3 in relation to "Insurance contracts").

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

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

  Poste Assicura SpA's investment policies are designed to preserve the Company's financial strength, as outlined in the framework resolution approved by the Board of Directors on 19 October 2017. Regular analyses of the macroeconomic context and market trends for the different asset classes, with the relevant effects on asset-liability management, are conducted. For the non-life business, such analyses do not consider guaranteed minimum returns but, rather, focus on the management of liquidity in order to meet claims.

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

104. See in particular the provisions laid down in Part I – Section IV – Chapter 3.

105. The RAF consists of a framework that defines, in keeping with the maximum acceptable risk, the business model and strategic plan, the risk appetite, risk tolerance thresholds, risk limits, and risk management policies, together with the processes needed to define and implement them.

In this regard, on 19 February 2018, Poste Italiane SpA's Board of Directors adopted a revised version of the Guidelines for Internal Control and Risk Management System (*SCIGR*), which contains integrated guidelines for Poste Italiane SpA's Internal Control and Risk Management System.

From an organisational viewpoint, the management of financial risk involves the following bodies and functions:

- the **Audit, Risk and Sustainability Committee**, established in 2015, whose role, based on adequate research activity, is to act in an advisory capacity and make recommendations to support the Board of Directors in assessing and making decisions regarding Poste Italiane SpA's internal control and risk management system and, from February 2018, issues relating to Poste Italiane SpA's sustainability.
- the **Financial and Insurance Services Committee**, established on 19 March 2018 to replace the previous Finance, Savings and Investment Committee, with the aim of overseeing the process of developing the products and services distributed by BancoPosta, in order to take a uniform, integrated view of the entire offering and to monitor the performance of the financial investments in which private customer deposits are invested.
- an **Investment Committee established at the Group's insurance company, Poste Vita SpA**, which, based on analyses by the relevant functions, provides advice to senior management on the development, implementation and oversight of investment strategy;
- appropriate functions established within the Parent Company and the subsidiaries providing financial and insurance services (BancoPosta Fondi SGR SpA and Poste Vita SpA) that perform **Risk Measurement and Control** activities, ensuring the organisational separation of risk assessment from risk management activities. The results of these activities are examined by the relevant advisory Committees, which are responsible for carrying out an integrated assessment of the main risk profiles;
- **BancoPosta RFC's Cross-functional Committee**, set up under the BancoPosta RFC Regulation, which provides advice, makes recommendations and coordinates BancoPosta's operations with those of other Poste Italiane functions. The Committee is chaired by the Parent Company's CEO. Other permanent members are the Head of BancoPosta and the heads of the functions within Poste Italiane SpA primarily involved with BancoPosta.

In constructing the Risk Model used by BancoPosta RFC, account was also taken of the existing prudential supervisory standards for banks and the specific instructions for BancoPosta, published by the Bank of Italy on 27 May 2014 with the third revision of Circular 285 of 17 December 2013.

Price risk

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

Price risk relates to financial assets that the Group has classified as “Available-for-sale” (AFS) or “Held for trading” and certain derivative financial instruments where changes in value are recognised in profit or loss.

The sensitivity analysis conducted at 31 December 2017 relates to the principal positions potentially exposed to fluctuations in value. Financial statement balances have been subjected to a stress test, based on actual volatility during the year, considered to be representative of potential market movements. The results of the sensitivity analysis carried out as at 31 December 2017 for the Poste Italiane Group are shown in the following table.

Poste Italiane Group- Price risk

Item (€m)	Position	Change in value		Effect on liabilitiy toward policyholders		Pre-tax profit		Equity reserves before taxation	
		+ Vol	- Vol	+ Vol	- Vol	+ Vol	- Vol	+ Vol	- Vol
2017 effects									
Financial assets									
Available-for-sale financial assets	1,248	117	(117)	111	(111)	-	-	6	(6)
Equity instruments	58	10	(10)	4	(4)	-	-	6	(6)
Other investments	1,190	107	(107)	107	(107)	-	-	-	-
Financial asset at fair value through profit or loss	22,452	804	(804)	804	(804)	-	-	-	-
Equity instruments	58	14	(14)	14	(14)	-	-	-	-
Structured bonds	-	-	-	-	-	-	-	-	-
Other investments	22,394	790	(790)	790	(790)	-	-	-	-
Derivative financial instruments	184	47	(47)	47	(47)	-	-	-	-
Fair value through profit or loss	184	47	(47)	47	(47)	-	-	-	-
Fair value through profit or loss (liabilities)	-	-	-	-	-	-	-	-	-
Variability at 31 December 2017	**23,884**	**968**	**(968)**	**962**	**(962)**	**-**	**-**	**6**	**(6)**
2016 effects									
Financial assets									
Available-for-sale financial assets	1,335	183	(183)	158	(158)	-	-	25	(25)
Equity instruments	120	26	(26)	4	(4)	-	-	22	(22)
Other investments	1,215	157	(157)	154	(154)	-	-	3	(3)
Financial asset at fair value through profit or loss	14,786	586	(586)	586	(586)	-	-	-	-
Structured bonds	441	15	(15)	15	(15)	-	-	-	-
Other investments	14,345	571	(571)	571	(571)	-	-	-	-
Derivative financial instruments	233	59	(59)	59	(59)	-	-	-	-
Fair value through profit or loss	233	59	(59)	59	(59)	-	-	-	-
Fair value through profit or loss (liabilities)	-	-	-	-	-	-	-	-	-
Variability at 31 December 2016	**16,354**	**828**	**(828)**	**803**	**(803)**	**-**	**-**	**25**	**(25)**

Available-for-sale financial assets refer to:

- Other investments in the form of units of mutual investment funds, amounting to €1,190 million, held by Poste Vita SpA to meet its obligations to policyholders under the separately managed portfolios;
- equities held by BancoPosta RFC, totalling €41 million, consisting of €37 million in Visa Incorporated preference shares (Series C Convertible Participating Preferred Stock) and €4 million in Class C shares of Visa Incorporated. For the purposes of the sensitivity analysis, the equities are matched with the corresponding amount of the Class A shares, considering the volatility of the shares listed on the NYSE;
- equities held by Poste Vita SpA in Class I separately managed portfolios, totalling €17 million.

In relation to **financial assets recognised at fair value through profit or loss**, price risk concerns investments held by Poste Vita SpA, totalling €22,452 million, of which €21,364 million used to cover Class I policies and €1,088 million used to cover Class III policies.

Lastly, in relation to **derivative financial instruments**, the price risk relates to warrants held by Poste Vita SpA to cover the benefits associated with the Class III policies.

For the purposes of complete disclosure, Poste Italiane SpA's exposure to the risk in question is shown in the following table.

Poste Italiane SpA - Price risk

Item (€m)	Position	Change in value		Pre-tax profit		Equity reserves before taxation	
		+ Vol	- Vol	+ Vol	- Vol	+ Vol	- Vol
2017 effects							
Financial assets attributable to BancoPosta							
Available-for-sale financial assets	41	5	(5)	-	-	5	(5)
Equity instruments	41	5	(5)	-	-	5	(5)
Financial assets							
Available-for-sale financial assets	-	-	-	-	-	-	-
Other investments	-	-	-	-	-	-	-
Variability at 31 December 2017	**41**	**5**	**(5)**	**-**	**-**	**5**	**(5)**
2016 effects							
Financial assets attributable to BancoPosta							
Available-for-sale financial assets	104	22	(22)	-	-	22	(22)
Equity instruments	104	22	(22)	-	-	22	(22)
Financial assets							
Available-for-sale financial assets	7	1	(1)	-	-	1	(1)
Other investments	7	1	(1)	-	-	1	(1)
Variability at 31 December 2016	**111**	**23**	**(23)**	**-**	**-**	**23**	**(23)**

Foreign exchange risk

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

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

The table below shows the sensitivity to foreign exchange risk of the Poste Italiane Group's most significant positions at 31 December 2017.

Poste Italiane Group - Foreign exchange risk/USD

Item (€m)	Position in USD	Position in Euro	Change in value		Pre-tax profit		Equity reserves before taxation	
			+ Vol 260gg	- Vol 260gg	+ Vol 260gg	- Vol 260gg	+ Vol 260gg	- Vol 260gg
2017 effects								
Financial assets								
Available-for-sale financial assets	96	80	6	(6)	-	-	6	(6)
Equity instruments	49	41	3	(3)	-	-	3	(3)
Other investments	47	39	3	(3)	-	-	3	(3)
Variability at 31 December 2017	**96**	**80**	**6**	**(6)**	**-**	**-**	**6**	**(6)**
2016 effects								
Financial assets								
Available-for-sale financial assets	143	136	11	(11)	-	-	11	(11)
Equity instruments	110	104	9	(9)	-	-	9	(9)
Other investments	33	32	2	(2)	-	-	2	(2)
Variability at 31 December 2016	**143**	**136**	**11**	**(11)**	**-**	**-**	**11**	**(11)**

The risk in question regards equities held by the Parent Company and two private equity funds in which Poste Vita SpA has invested.

Poste Italiane SpA - Foreign exchange risk/SDR

Item (€m)	Position in SDR	Position in Euro	Change in value		Pre-tax profit		Equity reserves before taxation	
			+ Vol 260gg	- Vol 260gg	+ Vol 260gg	- Vol 260gg	+ Vol 260gg	- Vol 260gg
2017 effects								
Current assets in SDRs	117	139	5	(5)	5	(5)	-	-
Current liabilities in SDRs	(101)	(120)	(4)	4	(4)	4	-	-
Variability at 31 December 2017	**16**	**19**	**1**	**(1)**	**1**	**(1)**	**-**	**-**
2016 effects								
Current assets in SDRs	119	151	7	(7)	7	(7)	-	-
Current liabilities in SDRs	(101)	(129)	(6)	6	(6)	6	-	-
Variability at 31 December 2016	**18**	**22**	**1**	**(1)**	**1**	**(1)**	**-**	**-**

Foreign exchange risk refers to the net receivable/(payable) position in SDRs, a synthetic currency resulting from the weighted average of the exchange rates of four major currencies (the euro, US dollar, British pound and Japanese yen) held by Poste Italiane SpA and used worldwide to settle debts and credits among postal operators.

Fair value interest rate risk

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

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

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

The table below shows the sensitivity analysis for the fair value interest rate risk at 31 December 2017 for the Poste Italiane Group's positions.

Poste Italiane Group - Fair value interest risk

Item (€m)	Position		Change in value		Effect on liability toward policyholders		Pre-tax profit		Equity reserves before taxation	
	Nominal	Fair value	+100 bps	-100 bps	+100 bps	-100 bps	+100 bps	-100 bps	+100 bps	-100 bps
2017 effects										
Financial assets										
Available-for-sale financial assets	124,162	134,552	(6,614)	6,536	(5,450)	5,450	-	-	(1,164)	1,086
Fixed income instruments	124,161	134,390	(6,611)	6,533	(5,447)	5,447	-	-	(1,164)	1,086
Other investments	1	162	(3)	3	(3)	3	-	-	-	-
Financial assets at FV through profit or loss	6,481	6,886	(251)	244	(248)	241	(3)	3	-	-
Fixed income instruments	5,979	6,220	(235)	235	(232)	232	(3)	3	-	-
Structured bonds	500	546	(13)	6	(13)	6	-	-	-	-
Other investments	2	120	(3)	3	(3)	3	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-
Cash flow hedges	-	-	-	-	-	-	-	-	-	-
Fair value hedges	-	-	-	-	-	-	-	-	-	-
Financial liabilities						-				
Derivative financial instruments	1,358	(28)	94	(100)	-	-	-	-	94	(100)
Fair value though profit or loss	-	-	-	-	-	-	-	-	-	-
Cash flow hedges	1,358	(28)	94	(100)	-	-	-	-	94	(100)
Variability at 31 December 2017	**132,001**	**141,410**	**(6,771)**	**6,680**	**(5,698)**	**5,691**	**(3)**	**3**	**(1,070)**	**986**

Item (€m)	Position		Change in value		Effect on liability toward policyholders		Pre-tax profit		Equity reserves before taxation	
	Nominal	Fair value	+100 bps	-100 bps	+100 bps	-100 bps	+100 bps	-100 bps	+100 bps	-100 bps
2016 effects										
Financial assets										
Available-for-sale financial assets	113,211	126,903	(6,386)	6,319	(5,144)	5,144	-	-	(1,242)	1,175
Fixed income instruments	113,202	126,098	(6,359)	6,292	(5,117)	5,117	-	-	(1,242)	1,175
Other investments	9	805	(27)	27	(27)	27	-	-	-	-
Financial assets at FV through profit or loss	9,879	10,117	(341)	329	(340)	328	(1)	1	-	-
Fixed income instruments	9,379	9,566	(326)	326	(325)	325	(1)	1	-	-
Structured bonds	500	551	(15)	3	(15)	3	-	-	-	-
Derivative financial instruments	200	6	(28)	33	-	-	-	-	(28)	33
Cash flow hedges	200	6	(28)	33	-	-	-	-	(28)	33
Fair value hedges	-	-	-	-	-	-	-	-	-	-
Financial liabilities						-				
Derivative financial instruments	150	(10)	(23)	27	-	-	-	-	(23)	27
Fair value though profit or loss	-	-	-	-	-	-	-	-	-	-
Cash flow hedges	150	(10)	(23)	27	-	-	-	-	(23)	27
Variability at 31 December 2016	**123,440**	**137,016**	**(6,778)**	**6,708**	**(5,484)**	**5,472**	**(1)**	**1**	**(1,293)**	**1,235**

Available-for-sale financial assets exposed to the risk in question primarily regard:

- fixed income government bonds held by Poste Vita SpA, totalling €81,099 million; of this amount, €77,768 million is used to cover Class I and V policies linked to separately managed funds, €3,331 million relates to the company's free capital;
- €36,614 million in fixed income government bonds held by BancoPosta RFC, which consist of: fixed rate bonds amounting to €11,460 million; variable rate bonds converted into fixed rate bonds via cash flow swaps amounting to €1,400 million; variable rate bonds amounting to €2,594 million (of which €2,508 million in inflation-linked instruments) and fixed or variable rate bonds converted to variable rate positions via fair value hedges amounting to €21,160 million (of which €19,013 million in forward starts);
- €13,376 million in other, non-government bonds held by Poste Vita SpA, used mainly to meet obligations towards policy-holders in relation to separately managed Class I and V policies;
- €2,485 million in fixed rate bonds issued by CDP, and guaranteed by the Italian government, held by BancoPosta RFC.

Within the context of **financial assets at fair value through profit or loss**, fair value interest rate risk concerns a portion of the fixed rate investments of Poste Vita SpA, totalling €6,220 million (consisting of investments with a fair value of €2,152 million, relating to coupon stripped[106] BTPs primarily covering obligations associated with Class III insurance products, investments with a fair value of €4,068 million, relating to corporate bonds primarily covering Class I and V contractual obligations linked to separately managed accounts, and investment of the company's free capital), investments with a fair value of €546 million, relating to bonds issued by CDP SpA to cover Class III policies, and, to a lesser extent, Poste Vita SpA's investments in "Other investments", represented by mutual funds, totalling €120 million.

Within the context of **derivative financial instruments**, the risk in question concerns forward purchase contracts for government bonds, classified as cash flow hedges, with a total nominal value of €1,408 million, entered into during the year by BancoPosta RFC and a derivative contract entered into by the Parent Company in 2013 to hedge the cash flows of the bond with a nominal value of €50 million.

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

At 31 December 2017, with reference to the interest rate risk exposure determined by the average duration[107] of the portfolios, the duration of BancoPosta's overall investments went from 5.56 to 5.30. On the other hand, with respect to Class I and Class V policies sold by Poste Vita SpA, the duration of the matching assets went from 6.08 at 31 December 2016 at 6.13 at 31 December 2017, whilst the duration of the liabilities went from 7.26 to 7.84. The financial instruments intended to cover the technical provisions for Class III policies have maturities that match those of the liabilities.

For the purposes of complete disclosure, Poste Italiane SpA's exposure to the risk in question is shown in the following table.

Poste Italiane SpA - Fair value interest rate risk

Item (€m)	Position		Change in value		Pre-tax profit		Equity reserves before taxation	
	Nominal	Fair value	+100 bps	-100 bps	+100 bps	-100 bps	+100 bps	-100 bps
2017 effects								
Financial assets attributable to BancoPosta								
Available-for-sale financial assets	35,738	39,099	(1,009)	931	-	-	(1,009)	931
Fixed income instruments	35,738	39,099	(1,009)	931	-	-	(1,009)	931
Derivative financial instruments	-	-	-	-	-	-	-	-
Cash flow hedges	-	-	-	-	-	-	-	-
Financial assets								
Available-for-sale financial assets	500	551	(4)	4	-	-	(4)	4
Fixed income instruments	500	551	(4)	4	-	-	(4)	4
Financial liabilities attributable to BancoPosta								
Derivative financial instruments	1,408	(23)	91	(97)	-	-	91	(97)
Cash flow hedges	1,408	(23)	91	(97)	-	-	91	(97)
Financial liabilities								
Derivative financial instruments	(50)	(5)	3	(3)	-	-	3	(3)
Cash flow hedges	(50)	(5)	3	(3)	-	-	3	(3)
Variability at 31 December 2017	**37,596**	**39,622**	**(919)**	**835**	**-**	**-**	**(919)**	**835**

107. Duration is the indicator used to estimate the percentage change in price of in response to a shift in market returns.

Item (€m)	Position		Change in value		Pre-tax profit		Equity reserves before taxation	
	Nominal	Fair Value	+100 bps	-100 bps	+100 bps	-100 bps	+100 bps	-100 bps
2016 effects								
Financial assets attributable to BancoPosta								
Available-for-sale financial assets	32,178	37,159	(1,099)	1,031	-	-	(1,099)	1,031
Fixed income instruments	32,178	37,159	(1,099)	1,031	-	-	(1,099)	1,031
Derivative financial instruments	200	6	(28)	33	-	-	(28)	33
Cash flow hedges	200	6	(28)	33	-	-	(28)	33
Financial assets								
Available-for-sale financial assets	500	562	(5)	6	-	-	(5)	6
Fixed income instruments	500	562	(5)	6	-	-	(5)	6
Financial liabilities attributable to BancoPosta								
Derivative financial instruments	200	(3)	(26)	31	-	-	(26)	31
Cash flow hedges	200	(3)	(26)	31	-	-	(26)	31
Financial liabilities								
Derivative financial instruments	(50)	(7)	3	(4)	-	-	3	(4)
Cash flow hedges	(50)	(7)	3	(4)	-	-	3	(4)
Variability at 31 December 2016	**33,028**	**37,717**	**(1,155)**	**1,097**	**-**	**-**	**(1,155)**	**1,097**

Spread risk

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

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

On average, 2017 witnessed an increase in the yields on Italian government bonds, whilst, at 31 December 2017, the spread between ten-year Italian government bonds and German bunds is approximately 159 bps, demonstrating a trend in line with the previous year (161 bps at 31 December 2016). The related impact on the Group's portfolio in the period under review is as follows:

i. a net reduction in the fair value of BancoPosta RFC's available-for-sale portfolio (a nominal value of approximately €36 billion) of approximately €0.8 billion. The decrease in the fair value of instruments hedged against interest rate risk, amounting to approximately €0.5 billion, was offset by an increase in the fair value of the related derivatives, whilst the reduction in the fair value of unhedged instruments and of the component subject to spread risk (unhedged) was reflected in consolidated equity (approximately €0.3 billion);

ii. a net reduction in the fair value of the Poste Vita insurance group's available-for-sale portfolio (a nominal value of approximately €88 billion) of approximately €1 billion, almost entirely passed on to policyholders and recognised in specific technical provisions under the shadow accounting mechanism (the impact on the specific fair value reserve amounts to approximately €2 million).

The sensitivity to the spread has been calculated by applying a shift of +/- 100 bps to the risk factor that affects the different types of bonds held represented by the yield curve of Italian government bonds.

The table below shows the results of the analysis of sensitivity to country risk of the most significant positions in the portfolios of both the Parent Company and the Poste Vita group at 31 December 2017.

Poste Italiane SpA - Effect of credit spread on fair value

Item (€m)	Position		Change in value		Pre-tax profit		Equity reserves before taxation	
	Nominal	Fair value	+100 bps	-100 bps	+100 bps	-100 bps	+100 bps	-100 bps
2017 effects								
Financial assets attributable to BancoPosta								
Available-for-sale financial assets	35,738	39,099	(3,877)	4,606	-	-	(3,877)	4,606
Fixed income instruments	35,738	39,099	(3,877)	4,606	-	-	(3,877)	4,606
Derivative financial instruments	-	-	-	-	-	-	-	-
Cash flow hedges	-	-	-	-	-	-	-	-
Financial assets								
Available-for-sale financial assets	500	551	(16)	17	-	-	(16)	17
Fixed income instruments	500	551	(16)	17	-	-	(16)	17
Financial liabilities attributable to BancoPosta								
Derivative financial instruments	1,408	(23)	92	(98)	-	-	92	(98)
Cash flow hedges	1,408	(23)	92	(98)	-	-	92	(98)
Variability at 31 December 2017	**37,646**	**39,627**	**(3,801)**	**4,525**	**-**	**-**	**(3,801)**	**4,525**
2016 effects								
Financial assets attributable to BancoPosta								
Available-for-sale financial assets	32,178	37,159	(3,615)	4,292	-	-	(3,615)	4,292
Fixed income instruments	32,178	37,159	(3,615)	4,292	-	-	(3,615)	4,292
Derivative financial instruments	200	6	(28)	33	-	-	(28)	33
Cash flow hedges	200	6	(28)	33	-	-	(28)	33
Financial assets								
Available-for-sale financial assets	500	562	(21)	22	-	-	(21)	22
Fixed income instruments	500	562	(21)	22	-	-	(21)	22
Financial liabilities attributable to BancoPosta								
Derivative financial instruments	200	(3)	(26)	31	-	-	(26)	31
Cash flow hedges	200	(3)	(26)	31	-	-	(26)	31
Variability at 31 December 2016	**33,078**	**37,724**	**(3,690)**	**4,378**	**-**	**-**	**(3,690)**	**4,378**

Poste Vita Group - Effect of credit spread on fair value

Item (€m)	Position		Change in value		Effect on liability toward policyholders		Pre-tax profit		Equity reserves before taxation	
	Nominal	Fair value	+100 bps	-100 bps	+100 bps	-100 bps	+100 bps	-100 bps	+100 bps	-100 bps
2017 effects										
Financial assets										
Available-for-sale financial assets	87,894	94,871	(6,634)	6,634	(6,450)	6,450	-	-	(184)	184
Fixed income instruments	87,893	94,709	(6,526)	6,526	(6,342)	6,342	-	-	(184)	184
Other investments	1	162	(108)	108	(108)	108	-	-	-	-
Financial assets at FV through profit or loss	6,481	6,886	(290)	290	(287)	287	(3)	3	-	-
Fixed income instruments	5,979	6,220	(240)	240	(237)	237	(3)	3	-	-
Structured bonds	500	546	(30)	30	(30)	30	-	-	-	-
Other investments	2	120	(20)	20	(20)	20	-	-	-	-
Variability at 31 December 2017	**94,375**	**101,757**	**(6,924)**	**6,924**	**(6,737)**	**6,737**	**(3)**	**3**	**(184)**	**184**
2016 effects										
Financial assets										
Available-for-sale financial assets	80,533	89,182	(6,071)	6,071	(5,895)	5,895	-	-	(176)	176
Fixed income instruments	80,524	88,377	(6,009)	6,009	(5,833)	5,833	-	-	(176)	176
Other investments	9	805	(62)	62	(62)	62	-	-	-	-
Financial assets at FV through profit or loss	9,879	10,117	(364)	364	(363)	363	(1)	1	-	-
Fixed income instruments	9,379	9,566	(329)	329	(328)	328	(1)	1	-	-
Structured bonds	500	551	(35)	35	(35)	35	-	-	-	-
Variability at 31 December 2016	**90,412**	**99,299**	**(6,435)**	**6,435**	**(6,258)**	**6,258**	**(1)**	**1**	**(176)**	**176**

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

The table below shows the VaR analysis performed on the portfolios of the Parent Company and the Poste Vita group at 31 December 2017, solely with reference to spread risk.

Poste Italiane SpA - VAR analysis

Item (€m)	Position		SpreadVaR
	Nominal	Fair value	
2017 effects			
Financial assets attributable to BancoPosta			
Available-for-sale financial assets	35,738	39,099	345
Fixed income instruments	35,738	39,099	345
Derivative financial instruments	-	-	-
Cash flow hedges	-	-	-
Financial assets			
Available-for-sale financial assets	500	551	2
Fixed income instruments	500	551	2
Financial liabilities attributable to BancoPosta			
Derivative financial instruments	1,408	(23)	8
Cash flow hedges	1,408	(23)	8
Variability at 31 December 2017	**37,646**	**39,627**	**336**
2016 effects			
Financial assets attributable to BancoPosta			
Available-for-sale financial assets	32,178	37,159	460
Fixed income instruments	32,178	37,159	460
Derivative financial instruments	200	6	4
Cash flow hedges	200	6	4
Financial assets			
Available-for-sale financial assets	500	562	4
Fixed income instruments	500	562	4
Financial liabilities attributable to BancoPosta			
Derivative financial instruments	200	(3)	3
Cash flow hedges	200	(3)	3
Variability at 31 December 2016	**33,078**	**37,724**	**469**

Poste Vita Group - VAR analysis

Item (€m)	Position		SpreadVaR
	Nominal	Fair value	
2017 effects			
Financial assets			
Available-for-sale financial assets	87,894	94,871	564
Fixed income instruments	87,893	94,709	564
Other investments	1	162	-
Financial assets at FV through profit or loss	6,481	6,886	4
Fixed income instruments	5,979	6,220	4
Structured bonds	500	546	-
Other investments	2	120	-
Variability at 31 December 2017	**94,375**	**101,757**	**565**
2016 effects			
Financial assets			
Available-for-sale financial assets	80,533	89,182	622
Fixed income instruments	80,524	88,377	622
Other investments	9	805	1
Financial assets at FV through profit or loss	9,879	10,117	8
Fixed income instruments	9,379	9,566	8
Structured bonds	500	551	1
Variability at 31 December 2016	**90,412**	**99,299**	**628**

Credit risk

This is the risk of default of one of the counterparties to which there is an exposure.

This risk is managed though minimum rating requirements for issuers/counterparties, based on the type of instrument; concentration limits per issuer/counterparty; the monitoring of changes in the ratings of counterparties.

In 2017, the ratings revised by the main agencies did not result in changes in the weighted average rating of the exposures of the Parent Company, Poste Italiane SpA, which, for investments other than Italian government bonds, was A3 at 31 December 2017, equivalent to the Group's average rating at the same date.

The Poste Italiane Group's **financial assets** xposed to credit risk at 31 December 2017 are shown in the table below. The ratings reported in the table have been assigned by Moody's.

Poste Italiane Group - Credit risk on financial assets

Item (€m)	Balance at 31 December 2017				Balance at 31 December 2016			
	from Aaa to Aa3	from A1 to Baa3	from Ba1 to Not rated	Total	from Aaa to Aa3	from A1 to Baa3	from Ba1 to Not rated	Total
Financial assets								
Loans and receivables	184	7,248	700	8,132	161	7,436	512	8,109
Loans	-	-	-	-	-	-	82	82
Receivables	184	7,248	700	8,132	161	7,436	430	8,027
Held-to-maturity financial assets	-	12,912	-	12,912	-	12,683	-	12,683
Fixed income instruments	-	12,912	-	12,912	-	12,683	-	12,683
Available-for-sale financial assets	1,935	131,974	481	134,390	2,777	122,634	687	126,098
Fixed income instruments	1,935	131,974	481	134,390	2,777	122,634	687	126,098
Financial assets at FV through profit or loss	136	6,058	572	6,766	249	9,892	417	10,558
Fixed income instruments	136	5,512	572	6,220	249	8,900	417	9,566
Structured bonds	-	546	-	546	-	992	-	992
Derivative financial instruments	73	442	64	579	20	382	22	424
Cash flow hedges	18	13	-	31	-	39	-	39
Fair value hedges	55	245	64	364	20	110	22	152
Fair value through profit or loss	-	184	-	184	-	233	-	233
Total	**2,328**	**158,634**	**1,817**	**162,779**	**3,207**	**153,027**	**1,638**	**157,872**

Credit risk arising from derivative transactions is mitigated through rating limits and by monitoring group/counterparty concentrations. In addition, interest rate, asset swap and forward purchase contracts are collateralised by deposits or the physical delivery of financial instruments (in accordance with Credit Support Annexes). Exposure is quantified and monitored using the "market value" method provided for by Regulation (EU) 575/2013 (Basel 3).

With regard to financial assets, as required by Communication DEM/11070007 of 28 July 2011, implementing Document 2011/266 published by the European Securities and Markets Authority (ESMA) and later amendments, the Group's exposure to sovereign debt[108] at 31 December 2017 is shown in the table below.

108. "Sovereign debt" includes bonds issued by, and loans provided to, central and local governments and government bodies.

Poste Italiane Group - Exposure to sovereign debt

Item (€m)	at 31 December 2017			at 31 December 2016		
	Nominal value	Carrying amount	Fair value	Nominal value	Carrying amount	Fair value
Italy	**121,811**	**130,961**	**132,433**	**114,065**	**125,851**	**127,615**
Held-to-maturity financial assets	12,692	12,912	14,384	12,392	12,683	14,447
Available-for-sale financial assets	106,971	115,897	115,897	95,479	106,924	106,924
Financial assets at FV through profit or loss	2,148	2,152	2,152	5,445	5,451	5,451
Non-current assets and disposal groups held for sale	-	-	-	749	793	793
Austria	**-**	**-**	**-**	**40**	**42**	**42**
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	-	-	-	40	42	42
Financial assets at FV through profit or loss	-	-	-	-	-	-
Belgium	**95**	**101**	**101**	**95**	**103**	**103**
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	95	101	101	95	103	103
Financial assets at FV through profit or loss	-	-	-	-	-	-
Finland	**-**	**-**	**-**	**35**	**36**	**36**
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	-	-	-	35	36	36
Financial assets at FV through profit or loss	-	-	-	-	-	-
France	**151**	**171**	**171**	**151**	**176**	**176**
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	151	171	171	151	176	176
Financial assets at FV through profit or loss	-	-	-	-	-	-
Germany	**58**	**67**	**67**	**13**	**22**	**22**
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	58	67	67	13	22	22
Financial assets at FV through profit or loss	-	-	-	-	-	-
Ireland	**10**	**11**	**11**	**-**	**-**	**-**
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	10	11	11	-	-	-
Financial assets at FV through profit or loss	-	-	-	-	-	-
Spain	**1,928**	**2,186**	**2,186**	**1,566**	**1,850**	**1,850**
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	1,928	2,186	2,186	1,566	1,850	1,850
Financial assets at FV through profit or loss	-	-	-	-	-	-
Slovenia	**20**	**23**	**23**	**93**	**104**	**104**
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	20	23	23	93	104	104
Financial assets at FV through profit or loss	-	-	-	-	-	-
Total	**124,073**	**133,520**	**134,992**	**116,058**	**128,184**	**129,948**

The Poste Italiane Group's **trade receivables** exposed to credit risk at 31 December 2017 are shown in the table below.

Poste Italiane Group - Credit risk on trade receivables

Item (€m)	at 31 December 2017 Carrying amount	at 31 December 2017 Specific impairment	at 31 December 2016 Carrying amount	at 31 December 2016 Specific impairment
Trade receivables				
Due from customers	1,869	(480)	1,933	(430)
Cassa Depositi e Prestiti	374	-	364	-
Ministries and public entities	484	(130)	478	(115)
Overseas counterparties	222	-	280	-
Private customers	789	(350)	811	(314)
Due from MEF	166	(31)	236	(31)
Due from subsidiaries, associates and joint ventures	-	-	3	-
Prepayments	-	-	-	-
Total	**2,035**		**2.172**	
of which past due	*467*		*433*	

In relation to "Revenue and receivables due from the state", the nature of the Group's customers, the structure of revenue and the method of collection limit the risk of default on trade receivables. However, as explained in note 2.5, in the case of certain of the Parent Company's activities, regulated by statute and specific agreements or contracts involving particularly complex renewal processes, prompt and full payment of the amounts due is dependent on availability of the necessary funds in the state budget or in the budgets of the related public sector entities.

All receivables are subject to specific monitoring and reporting procedures to support credit collection activities.

The Poste Italiane Group's **other receivables and assets** exposed to the risk in question at 31 December 2017 are shown in the table below.

Poste Italiane Group - Credit risk on other receivables and assets

Item (€m)	at 31 December 2017 Carrying amount	at 31 December 2017 Specific impairment	at 31 December 2016 Carrying amount	at 31 December 2016 Specific impairment
Other receivables and assets				
Due from tax authorities - tax withholdings	3,467	-	3,110	-
Receivables due from staff under fixed-term contract settlements	179	(9)	203	(7)
Accrued income and prepaid expenses from trading transactions	11	-	16	-
Tax assets	5	-	4	-
Other receivables	285	(63)	285	(53)
Amount due from MEF following cancellation of EC Decision of 16 July 2008	-	-	6	-
Interest accrued on IRES refund	47	-	47	-
Interest accrued on IRAP refund	3	-	-	-
Total	**3,997**		**3,671**	
of which past due	*58*		*46*	

For the purposes of complete disclosure, Poste Italiane SpA's exposure to the risk in question is shown in the following tables.

Poste Italiane SpA - Credit risk on financial assets attributable to BancoPosta

Item (€m)	Balance at 31 December 2017 from Aaa to Aa3	from A1 to Baa3	from Ba1 to Not rated	Total	Balance at 31 December 2016 from Aaa to Aa3	from A1 to Baa3	from Ba1 to Not rated	Total
Financial assets attributable to BancoPosta								
Loans and receivables	177	6,989	435	7,601	161	7,386	368	7,915
Loans	-	-	-	-	-	-	-	-
Receivables	177	6,989	435	7,601	161	7,386	368	7,915
Held-to-maturity financial assets	-	12,913	-	12,913	-	12,683	-	12,683
Fixed income instruments	-	12,913	-	12,913	-	12,683	-	12,683
Available-for-sale financial assets	-	39,099	-	39,099	-	37,159	-	37,159
Fixed income instruments	-	39,099	-	39,099	-	37,159	-	37,159
Derivative financial instruments	73	258	63	394	20	149	22	191
Cash flow hedges	18	13	-	31	-	39	-	39
Fair value hedges	55	245	63	363	20	110	22	152
Fair value through profit or loss	-	-	-	-	-	-	-	-
Total	**250**	**59,259**	**498**	**60,007**	**181**	**57,377**	**390**	**57,948**

Poste Italiane SpA - Credit risk on financial assets

Item (€m)	Balance at 31 December 2017 from Aaa to Aa3	from A1 to Baa3	from Ba1 to Not rated	Total	Balance at 31 December 2016 from Aaa to Aa3	from A1 to Baa3	from Ba1 to Not rated	Total
Financial assets								
Loans and receivables	7	261	374	642	-	51	719	770
Loans	-	-	367	367	-	-	712	712
Receivables	7	261	7	275	-	51	7	58
Held-to-maturity financial assets	-	-	-	-	-	-	-	-
Fixed income instruments	-	-	-	-	-	-	-	-
Available-for-sale financial assets	-	551	-	551	-	562	-	562
Fixed income instruments	-	551	-	551	-	562	-	562
Derivative financial instruments	-	-	-	-	-	-	-	-
Cash flow hedges	-	-	-	-	-	-	-	-
Fair value hedges	-	-	-	-	-	-	-	-
Fair value through profit or loss	-	-	-	-	-	-	-	-
Total	**7**	**812**	**374**	**1,193**	**-**	**613**	**719**	**1,332**

Poste Italiane SpA - Credit risk on trade receivables

Item (€m)	At 31 December 2017 Carrying amount	Specific impairments	At 31 December 2016 Carrying amount	Specific impairments
Trade receivables				
Due from customers	1,565	(388)	1,573	(342)
Cassa Depositi e Prestiti	374	-	364	-
Ministries and public entities	478	(130)	472	(115)
Overseas postal operators	222	-	280	-
Private customers	491	(258)	457	(227)
Due from MEF	166	(31)	236	(31)
Due from subsidiaries	288	-	290	-
Due from associates	-	-	-	-
Total	**2,019**		**2,099**	
of which past due	*373*		*327*	

Poste Italiane SpA - Credit risk on other receivables and assets

Item (€m)	At 31 December 2017 Carrying amount	Specific impairments	At 31 December 2016 Carrying amount	Specific impairments
Other receivables and assets				
Due from tax authorities - tax withholdings	1,576	-	1,388	-
Receivables due from staff under fixed-term contract settlements	179	(9)	204	(7)
Accrued income and prepaid expenses from trading transactions	6	-	6	-
Tax assets	-	-	-	-
Due from subsidiaries	3	-	59	-
Other receivables	229	(58)	218	(52)
Amount due under 2015 Stability Law implementing EU Court sentence	-	-	6	-
Interest accrued on IRES refund	46	-	46	-
Interest accrued on IRAP refund	3	-	-	-
Total	**2,042**		**1,927**	
of which past due	*46*		*46*	

Poste Italiane SpA - Exposure to sovereign debt

Item (€m)	At 31 December 2017			At 31 December 2016		
	Nominal value	Carrying amount	Fair value	Nominal value	Carrying amount	Fair value
Financial assets attributable to BancoPosta						
Italy	**45,930**	**49,527**	**50,998**	**43,070**	**48,334**	**50,098**
Held-to-maturity financial assets	12,692	12,913	14,384	12,392	12,683	14,447
Available-for-sale financial assets	33,238	36,614	36,614	30,678	35,651	35,651
Financial assets at FV through profit or loss	-	-	-	-	-	-
Financial assets						
Italy	**500**	**551**	**551**	**500**	**562**	**562**
Held-to-maturity financial assets	-	-	-	-	-	-
Available-for-sale financial assets	500	551	551	500	562	562
Financial assets at FV through profit or loss	-	-	-	-	-	-
Total	**46,430**	**50,078**	**51,549**	**43,570**	**48,896**	**50,660**

Liquidity risk

This is the risk that an entity may have difficulties in raising sufficient funds, at market conditions, to meet its obligations deriving from financial instruments.

In order to minimise this risk, the Poste Italiane Group applies a financial policy based on diversification of the various forms of short-term and long-term borrowings and counterparties; availability of relevant lines of credit in terms of amounts and the number of banks; gradual and consistent distribution of the maturities of medium/long-term borrowings; use of dedicated analytical models to monitor the maturities of assets and liabilities.

The following tables compare the Poste Italiane Group's liabilities and assets at 31 December 2017, in terms of liquidity risk.

Poste Italiane Group - Liquidity risk - Liabilities

Item (€m)	at 31 December 2017				at 31 December 2016			
	Within 12 months	Between 1 and 5 years	Over 5 years	Total	Within 12 months	Between 1 and 5 years	Over 5 years	Total
Flows from Poste Vita group's policies	12,913	37,877	110,200	160,990	13,174	39,603	84,851	137,628
Financial liabilities	24,513	14,184	22,910	61,607	21,860	15,414	21,377	58,651
Postal current accounts	14,904	9,966	21,717	46,587	15,991	8,683	20,479	45,153
Borrowings	3,430	3,359	52	6,841	1,267	6,085	54	7,406
Other financial liabilities	6,179	859	1,141	8,179	4,602	646	844	6,092
Trade payables	1,332	-	-	1,332	1,506	-	-	1,506
Other liabilities	2,249	1,185	26	3,460	2,149	1,077	30	3,256
Total	**41,007**	**53,246**	**133,136**	**227,389**	**38,689**	**56,094**	**106,258**	**201,041**

The above table shows expected cash outflows at the date of the financial statements, broken down by maturity, while the maturities of postal current account deposits are reported on the basis of the estimates made with a statistic/econometric model. Repayments of principal at nominal value are increased by interest payments calculated, where applicable, on the basis of the yield curve applicable at 31 December 2017. The liabilities of Poste Vita SpA and Poste Assicura SpA are reflected in "Flows from Poste Vita group's policies".

Poste Italiane Group - Liquidity risk - Assets

Item (€m)	at 31 December 2017 Within 12 months	Between 1 and 5 years	Over 5 years	Total	at 31 December 2016 Within 12 months	Between 1 and 5 years	Over 5 years	Total
Financial assets	21,398	66,789	155,301	243,488	21,862	57,839	137,973	217,674
Loans	-	-	-	-	-	-	-	-
Receivables								
Deposits with the MEF	6,047	-	-	6,047	6,214	-	-	6,214
Other financial receivables	1,822	38	4	1,864	1,769	8	7	1,784
Held-to-maturity financial assets	1,594	6,702	7,327	15,623	1,399	6,389	7,837	15,625
Available-for-sale financial assets	9,619	55,447	110,169	175,235	7,997	46,455	107,835	162,287
Financial assets at FV through profit or loss	2,316	4,602	37,801	44,719	4,483	4,987	22,294	31,764
Trade receivables	2,026	6	3	2,035	2,168	1	3	2,172
Other receivables and assets	952	3,012	53	4,017	971	2,663	66	3,700
Cash and deposits attributable to BancoPosta	3,196	-	-	3,196	2,494	-	-	2,494
Cash and cash equivalent	2,428	-	-	2,428	3,902	-	-	3,902
Total	**30,000**	**69,807**	**155,357**	**255,164**	**31,397**	**60,503**	**138,042**	**229,942**

In the case of assets, cash inflows are broken down by maturity, shown at nominal value and increased, where applicable, by interest receivable. Held-to-maturity and available-for-sale financial assets include financial instruments held by BancoPosta RFC and the Group's insurance companies, shown on the basis of expected cash flows, consisting of principal and interest paid at the various payment dates.

The key point of note is the liquidity risk associated with the investment of customers' current account balances and with the Class I and V policies issued by Poste Vita SpA.

In terms of BancoPosta RFC's specific operations, the liquidity risk regards current account deposits and prepaid cards, the related investment of the deposits in Eurozone government securities and /or securities guaranteed by the Italian government, and the margins on derivative transactions. The potential risk derives from a mismatch between the maturities of investments in securities and those of liabilities, represented by current accounts where the funds are available on demand, thus compromising the Parent Company's ability to meet its obligations to current account holders. This potential mismatch between assets and liabilities is monitored via comparison of the maturity schedule for assets with the statistical model of the performance of current account deposits, in accordance with the various likely maturity schedules and assuming the progressive total withdrawal of deposits over a period of twenty years for retail customers, ten years for business customers and PostePay cards and five years for Public Administration customers.

As to the policies sold by Poste Vita SpA, in order to analyse its liquidity risk profile, the company performs Asset/liability management (ALM) analysis to manage assets effectively in relation to its obligations to policyholders, and also develops projections of the effects deriving from financial market shocks (asset dynamics) and of the behaviour of policyholders (liability dynamics).

Lastly, for the proper evaluation of the liquidity risk attributable to BancoPosta RFC, it should be borne in mind that, unless they are restricted, investments in euro area government securities are highly liquid assets and can be used as collateral in interbank repurchase agreements to obtain short-term financing. This practice is normally adopted by BancoPosta.

For the purposes of complete disclosure, Poste Italiane SpA's exposure to the risk in question is shown in the following tables.

Poste Italiane SpA - Liquidity risk - Liabilities

Description (€m)	At 31 December 2017 Within 12 months	Between 1 and 5 years	Over 5 years	Total	At 31 December 2016 Within 12 months	Between 1 and 5 years	Over 5 years	Total
Financial liabilities attributable to BancoPosta	23,683	13,371	23,173	60,227	21,923	13,540	21,455	56,918
Postal current accounts	15,121	10,110	22,032	47,263	16,095	8,739	20,611	45,445
Borrowings	2,440	2,403	-	4,843	1,226	4,155	-	5,381
Other financial liabilitie	6,122	858	1,141	8,121	4,602	646	844	6,092
Financial liabilities	1,079	209	52	1,340	66	1,184	54	1,304
Trade payables	1,211	-	-	1,211	1,384	-	-	1,384
Other liabilities	1,594	1,161	26	2,781	1,557	977	30	2,564
Total liabilities	**27,567**	**14,741**	**23,251**	**65,559**	**24,930**	**15,701**	**21,539**	**62,170**

Poste Italiane SpA - Liquidity risk - Assets

Item (€m)	At 31 December 2017 Within 12 months	Between 1 and 5 years	Over 5 years	Total	At 31 December 2016 Within 12 months	Between 1 and 5 years	Over 5 years	Total
Financial assets attributable to BancoPosta								
Loans	-	-	-	-	-	-	-	-
Receivables	7,629	8	-	7,637	7,932	8	-	7,940
Deposits with the MEF	6,047	-	-	6,047	6,214	-	-	6,214
Other financial receivables	1,582	8	-	1,590	1,718	8	-	1,726
Held-to-maturity financial assets	1,594	6,702	7,327	15,623	1,399	6,389	7,837	15,625
Fixed income instruments	1,594	6,702	7,327	15,623	1,399	6,389	7,837	15,625
Available-for-sale financial assets	4,143	9,767	39,362	53,272	2,005	9,087	36,522	47,614
Fixed income instruments	4,143	9,767	39,362	53,272	2,005	9,087	36,522	47,614
Financial assets	366	570	301	1,237	-	740	482	1,222
Trade receivables	2,014	1	4	2,019	2,095	1	3	2,099
Other receivables and assets	894	1,118	52	2,064	937	952	66	1,955
Cash and deposits attributable to BancoPosta	3,196	-	-	3,196	2,494	-	-	2,494
Cash and cash equivalents	2,039	-	-	2,039	2,715	-	-	2,715
Total Attivo	**21,875**	**18,166**	**47,046**	**87,087**	**19,577**	**17,177**	**44,910**	**81,664**

Cash flow interest rate risk

This is defined as the uncertainty related to the generation of future cash flows, due to interest rate fluctuations. Such risk may arise from the mismatch – in terms of interest rate, interest rate resets and maturities – of financial assets and liabilities until their contractual maturity and/or expected maturity (banking book), with effects in terms of interest spreads and, as such, an impact on future results.

The following analysis refers to the uncertainty over future cash flows generated by variable rate instruments and variable rate instruments created through fair value hedges following fluctuations in market interest rates.

Sensitivity to cash flow interest rate risk relating to these instruments is calculated by assuming a parallel shift in the yield curve +/- 100 bps.

Sensitivity to cash flow interest rate risk at 31 December 2017 on the Poste Italiane Group's positions is shown in the table below.

Poste Italiane Group - Cash flow interest rate risk

Item (€m)	Position	Change in value		Effect on liability toward policyholders		Pre-tax profit	
	Nominal	+100 bps	-100 bps	+100 bps	-100 bps	+100 bps	-100 bps
2017 effects							
Financial assets							
Loans	-	-	-	-	-	-	-
Receivables							
Deposits with the MEF	6,011	60	(60)	-	-	60	(60)
Other financial receivables	1,219	12	(12)	-	-	12	(12)
Available-for-sale financial assets							
Fixed income instruments	16,166	162	(162)	127	(127)	35	(35)
Financial assets at FV through profit or loss							
Fixed income instruments	162	2	(2)	2	(2)	-	-
Structured bonds	500	5	(5)	5	(5)	-	-
Cash and deposits attributable to BancoPosta							
Bank deposits	397	4	(4)	-	-	4	(4)
Cash and cash equivalent							
Bank deposits	1,916	20	(20)	3	(3)	17	(17)
Deposits with the MEF	379	4	(4)	-	-	4	(4)
Financial liabilities							
Borrowings							
Bonds	-	-	-	-	-	-	-
Borrowings from financial institutions	-	-	-	-	-	-	-
Other financial liabilities	(100)	(1)	1	-	-	(1)	1
Variability at 31 December 2017	**26,650**	**268**	**(268)**	**137**	**(137)**	**131**	**(131)**
2016 effects							
Financial assets							
Loans	-	-	-	-	-	-	-
Receivables							
Deposits with the MEF	6,189	62	(62)	-	-	62	(62)
Other financial receivables	1,485	15	(15)	-	-	15	(15)
Available-for-sale financial assets							
Fixed income instruments	15,249	152	(152)	117	(117)	35	(35)
Financial assets at FV through profit or loss							
Fixed income instruments	106	1	(1)	1	(1)	-	-
Structured bonds	500	5	(5)	5	(5)	-	-
Cash and deposits attributable to BancoPosta							
Bank deposits	225	2	(2)	-	-	2	(2)
Cash and cash equivalent							
Bank deposits	2,088	21	(21)	7	(7)	14	(14)
Deposits with the MEF	1,310	13	(13)	-	-	13	(13)
Financial liabilities							
Borrowings							
Bonds	-	-	-	-	-	-	-
Borrowings from financial institutions	-	-	-	-	-	-	-
Other financial liabilities	(32)	-	-	-	-	-	-
Variability at 31 December 2016	**27,120**	**271**	**(271)**	**130**	**(130)**	**141**	**(141)**

Specifically, with respect to **financial assets**, the cash flow interest rate risk primarily relates to:

- a portion of the securities portfolio held by the Poste Vita group, with a nominal value of €14,197 million;
- investment by the Parent Company of the funds deriving from the current account deposits of Public Administration entities in the following: deposits with the MEF, with a nominal value of €6,011 million;
- fixed rate government bonds held by the Parent Company and swapped into variable rate through fair value hedges, with a total nominal amount of €1,985 million (including €745 million in securities hedged against changes in fair value, where the hedges will begin to have an effect on profit or loss in the 12 months after the end of the period under review); in addition to a security issued by CDP with a nominal value of €500 million and an inflation-linked bond issued by the Italian Republic, with a nominal value of €100 million, both of which have been hedged against changes in its fair value;
- receivables of €1,219 million, reflecting collateral posted to secure liabilities arising in relation to derivative financial instruments held by BancoPosta RFC, amounting to €1,179 million.

In relation to **cash and cash equivalents**, cash flow interest rate risk primarily regards the bank deposits of Poste Italiane SpA and Poste Vita SpA, in addition to amounts deposited by the Parent Company with the MEF and held in the so-called buffer account.

For the purposes of complete disclosure, Poste Italiane SpA's exposure to the risk in question is shown in the following table.

Poste Italiane SpA - Cash flow interest rate risk

Item (€m)	Position	Change in value		Pre-tax profit	
	Nominal	+100 bps	-100 bps	+100 bps	-100 bps
2017 effects					
Financial assets attributable to BancoPosta					
Receivables					
Amounts due from MEF	6,011	60	(60)	60	(60)
Other financial receivables	1,179	12	(12)	12	(12)
Available-for-sale financial assets					
Fixed income instruments	2,210	22	(22)	22	(22)
Financial assets					
Loans	367	4	(4)	4	(4)
Receivables					
Other financial receivables	40	-	-	-	-
Available-for-sale financial assets					
Fixed income instruments	375	4	(4)	4	(4)
Cash and deposits attributable to BancoPosta					
Bank deposits	397	4	(4)	4	(4)
Cash and cash equivalents					
Deposits with the MEF	379	4	(4)	4	(4)
Bank deposits	1,557	16	(16)	16	(16)
Financial liabilities attributable to BancoPosta					
Other financial liabilities	(100)	(1)	1	(1)	1
Financial liabilities					
Financial liabilities due to subsidiaries	(46)	-	-	-	-
Other financial liabilities	-	-	-	-	-
Variability at 31 December 2017	**12,369**	**125**	**(125)**	**125**	**(125)**
2016 effects					
Financial assets attributable to BancoPosta					
Receivables					
Amounts due from MEF	6,189	62	(62)	62	(62)
Other financial receivables	1,435	14	(14)	14	(14)
Available-for-sale financial assets					
Fixed income instruments	2,235	22	(22)	22	(22)
Financial assets					
Loans	630	6	(6)	6	(6)
Receivables					
Other financial receivables	50	-	-	-	-
Available-for-sale financial assets					
Fixed income instruments	375	4	(4)	4	(4)
Cash and deposits attributable to BancoPosta					
Bank deposits	226	2	(2)	2	(2)
Cash and cash equivalents					
Deposits with the MEF	1,310	13	(13)	13	(13)
Bank deposits	930	9	(9)	9	(9)
Financial liabilities attributable to BancoPosta					
Other financial liabilities	(32)	-	-	-	-
Financial liabilities					
Financial liabilities due to subsidiaries	(38)	-	-	-	-
Other financial liabilities	-	-	-	-	-
Variability at 31 December 2016	**13,310**	**132**	**(132)**	**132**	**(132)**

Cash flow inflation risk

This is defined as the uncertainty related to future cash flows due to changes in the rate of inflation observed in the market.

The table below analyses the sensitivity of future cash flows for the Poste Italiane Group's financial assets at 31 December 2017.

Poste Italiane Group - Cash flow inflation risk

Item (€m)	Position		Change in value		Effect on liabilitiy toward policyholders		Pre-tax profit	
	Nominal	Fair value	+100 bps	-100 bps	+100 bps	-100 bps	+100 bps	-100 bps
2017 effects								
Financial assets								
Available-for-sale financial assets	12,475	14,136	43	(43)	40	(40)	3	(3)
Fixed income instruments	12,475	14,136	43	(43)	40	(40)	3	(3)
Variability at 31 December 2017	**12,475**	**14,136**	**43**	**(43)**	**40**	**(40)**	**3**	**(3)**
2016 effects								
Financial assets								
Available-for-sale financial assets	9,825	11,399	37	(37)	35	(35)	2	(2)
Fixed income instruments	9,825	11,399	37	(37)	35	(35)	2	(2)
Variability at 31 December 2016	**9,825**	**11,399**	**37**	**(37)**	**35**	**(35)**	**2**	**(2)**

At 31 December 2017, cash flow inflation risk regards inflation-linked government securities not subject to cash flow hedges or fair value hedges. Of the total nominal value, securities totalling €10,320 million are held by the Poste Vita group and securities totalling €2,145 million by BancoPosta RFC.

Other Risks

The other principal risks to which the Poste Italiane Group is exposed at 31 December 2017 are described below.

Operational risk

Operational risk refers to the risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events. This category of risk includes losses resulting from fraud, human error, business disruption, systems failures, breach of contracts and natural disasters. Operational risk includes legal risk.

To protect against this form of risk, BancoPosta RFC has formalised a methodological and organisational framework to identify, measure and manage the operating risk related to its products/processes.

The framework, which is based on an integrated (qualitative and quantitative) measurement model, makes it possible to monitor and manage risk on an increasingly informed basis.

In 2017, a series of steps have been taken to refine the operational risk management framework, with the aim of making the process of recording operational losses more efficient and mitigating such risks. This has involved the creation of cross-functional working groups. Support has also been provided to the specialist units and the user responsible for the process of analysing and assessing IT risk, in keeping with the approach adopted in 2016.

At 31 December 2017, the risk map prepared in accordance with the aforementioned framework shows the type of operational risks BancoPosta RFC's products are exposed to. In particular:

Event Type	Number of types
Internal fraud	35
External fraud	54
Employee practices and workplace safety	7
Customers, products and business practices	34
Damage to tangible assets	4
Business disruption and system failure	7
Process execution, management and delivery	140
Total at 31 December 2017	**281**

For each type of mapped risk, the Company has recorded and classified the related sources of risk (internal losses, external losses, scenario analysis and risk indicators) in order to construct complete inputs for the integrated measurement model. Systematic measurement of the mapped risks has enabled the Company to prioritise mitigation initiatives and attribute responsibilities to competent functions, in order to contain any future impact.

Poste Vita SpA and Poste Assicura SpA have also drawn up and finalised their own framework for identifying, assessing and managing operational risks. The adopted approach reflects the specific nature of the processes and operational risk events typical of an insurance company. The process of assessing operational risk exposure is carried out in keeping with the related solvency requirements, and involves both qualitative and quantitative analysis, conducted through a structured process for identifying internal losses and assessing potential risks in terms of frequency, impact and mitigation. The overall risk exposure is modest thanks to the adoption of organisational measures and mitigating risk controls.

Insurance risks

Insurance risks derive from the stipulation of insurance contracts and the terms and conditions contained therein (technical bases adopted, premium calculation, terms and conditions of cash surrender, etc.).

In technical terms, mortality is one of the main risk factors for Poste Vita SpA, i.e. any risk associated with the uncertainty of a policyholder's life expectancy. Particular attention is paid in selling pure life insurance policies, an area where procedures set underwriting limits to the capital and the age of the policyholder. In terms of "pure life" insured amounts the Group's insurance companies transfer their risks to reinsurers in keeping with the nature of the products sold and conservation levels adequate to the companies' capital structure. The main reinsurers of the Group are characterised by substantial financial strength.

For products with the capital sum subject to positive risk, such as term life insurance, this risk has negative consequences if the actual frequency of death exceeds the death probabilities realistically calculated (second order technical bases).

For products with the capital sum subject to negative risk, such as annuities, there are negative consequences when actual death frequencies are lower than the death probabilities realistically calculated (longevity risk).

Nevertheless, at 31 December 2017, the mortality risk is limited for the Group, considering the features of the products offered. The only area where this risk is somewhat significant is term life insurance, for which actual death rates are compared from time to time with those projected on the basis of the demographics adopted for pricing purposes; to date, the former have always turned out to be much lower than the latter. Moreover, mortality risk is mitigated through reinsurance and by setting limits on both the capital and the age of the policyholder when policies are sold.

Longevity risk is also low. In fact, for most life insurance products the probability of annuitisation is very close to zero, as historical experience shows that policyholders never use the option to annuitise. Pension products, in particular, still account for a limited share of insurance liabilities (about 5%). In addition, for these products, the Group may, if certain conditions materialise, change the demographic base and the composition by sex used to calculate the annuity rates.

Pricing risk is the risk of incurring losses due to the inadequate premiums charged for the insurance products sold. It may arise due to:

- inappropriate selection of the technical basis;
- incorrect assessment of the options embedded in the product;
- incorrect evaluation of the factors used to calculate the expense loads.

As Poste Vita's mixed and whole-life policies have mostly cash value build-up features, accumulating in accordance with a technical rate of zero, the technical basis adopted does not affect premium calculation (and/or the insured capital). In fact, there is nearly no pricing risk associated with the choice between technical bases in Poste Vita's portfolio, except for the term life insurance products discussed above.

The options embedded in the policies held in the portfolio include:

- Surrender option;
- Guaranteed minimum return option;
- Annuity conversion option.

For nearly all the products in the portfolio there are no surrender penalties. The surrender risk only becomes significant, however, in the event of mass surrenders which, on the basis of historical evidence, have a low probability of occurrence.

Poste Assicura SpA is exposed to the following insurance risks:

- Underwriting risk: the risk deriving from the conclusion of insurance contracts associated with the events insured, the processes followed when pricing and selecting risks and unfavourable claims trends compared with previous estimates. This risk can be divided into the following categories:
    - Pricing risk: the risk linked to the company's pricing of its policies which depends on the assumptions used in order to calculate premiums. If prices are based on inadequate assumptions, the insurer may be exposed to the risk of being unable to meet its contractual obligations to policyholders. These risks include those related to disability-morbidity, or the risk associated with the payment of benefits or claims for illness and/or injury. Pricing risk also includes the risk that the premiums charged are not sufficient to cover the actual costs incurred in the management of the contract and the risk of excessive growth in operations associated with poor selection of risks or the absence of resources sufficient to keep up with the pace of growth.
    - Provisioning risk: referring to the risk that technical provisions are not sufficient to meet obligations to policyholders. This insufficiency may be due to incorrect estimates by the company and/or changes in the general environment.
- Catastrophe risk: the risk that extreme and exceptional events have a negative impact that has not been taken into account when pricing the policies.
- Anti-selection risk: this relates to the company's unwillingness to insure an event not classified as future, uncertain and damaging.

As regards Poste Assicura SpA's insurance business, which commenced operations in 2010, the expected growth of the portfolio and the different degrees of risk associated with the products distributed has required the company to adopt a highly prudent approach to reinsurance. In particular, it has entered into pro rata reinsurance treaties with major reinsurance providers, establishing the amounts to be ceded based on the specific type and size of the risk to be assumed, backed up by excess-loss or stop-loss treaties to cover risks of a certain size (such as accident policies or so-called catastrophic risks). In addition, when defining the guarantees offered, the assumption of specific types of risk has been mitigated by limiting the size of pay-outs in the event of certain specific types of claim.

With reference to non-life risks, the Group performs specific analyses including, among other things, stress tests to determine the Company's solvency also under adverse market conditions.

Reputational risk

In line with the related regulatory requirements and leading practices, Poste Italiane SpA is developing a specific, integrated framework for assessing, monitoring and reporting reputational risks at Group level, using a process-based approach. The model identifies the Group's key stakeholders (among them employees, customers, suppliers and regulators), topics of interest and the drivers of the related impacts (for example, integrity and transparency). It also identifies the departments within Poste Italiane SpA and Group companies involved in managing stakeholders, defining the related roles and responsibilities, assessment criteria, the tools and flows involved in reporting to senior management and corporate bodies. The project forms part of the steps being taken to put in place a formalised **stakeholder engagement** programme, with the aim of addressing sources of reputational risk, guiding sustainability initiatives and reporting on them, partly for the purposes of the disclosures of non-financial information.

The main element of reputational risk to which the Group is, by its nature, exposed is linked to market performance and primarily associated with the placement of postal savings products and investment products issued by third-party entities (bonds, certificates and real estate funds) or by Group companies (insurance policies issued by the subsidiary, Poste Vita SpA, and mutual funds managed by BancoPosta Fondi SpA SGR).

In this regard, in order to optimise the risk-return profile of the products offered to its customers, Poste Italiane SpA has adopted competitive selection policies and procedures for third-party issuers, entailing the selection of domestic and foreign issuers consisting solely of banks and other financial companies with investment grade ratings. In addition, in order to protect and safeguard the Group's excellent reputation and public confidence in its operations and to protect its commercial interests from potential dissatisfaction among savers, significant monitoring activity is carried out throughout the Group to keep track of the performance of individual products and of changes in the risks to which customers are exposed; this involves conducting careful assessments based on the contractual nature of the products in question in terms of how they meet the needs of the various customers.

In particular, with regard to real estate funds sold in the period 2002-2005, which have given rise to a number of complaints and disputes, the Company is closely monitoring performance through to the respective maturities, assessing the potential impact on the provisions for risks and charges accounted for in the financial statements. During the year ended 31 December 2017, the estimate of the liabilities deriving from risks linked to disputes with customers regarding certain financial instruments and investment products, sold in previous years and that have not yet reached maturity, whose performance is not in line with expectations, was prudently revised. on 16 January 2017, Poste Italiane SpA's Board of Directors passed a resolution aimed at protecting all the customers who, in 2003, purchased units issued by the Invest Real Security real estate fund, and who still held the units at 31 December 2016, the date of the fund's maturity. The estimated liabilities resulting from this initiative were recognised in provisions for risks and charges, with a total of €48 million used at 31 December 2017 following implementation. In addition, with a view to consolidating the Company's historical customer relationships, based on trust and transparency, on 19 February 2018, Poste Italiane SpA's Board of Directors approved an initiative designed to protect customers who, in 2004, against a different economic and regulatory backdrop compared with today's, purchased units issued by the Europa Immobiliare 1 fund and who still held the units at 31 December 2017, the date of the fund's maturity. With sole regard to this product, the aim is to allow each investor to recover the difference between the amount they invested at the time of subscription, increased by any income distributions or early returns of capital over the life of the fund, and the amount that the investor will receive from the Fund's "Final Liquidation Distribution". The estimated liabilities resulting from this initiative have been recognised in provisions for risks and charges at 31 December 2017 (note B6).

Information on categories of reputational risk other than those linked to the sale of financial products is provided below.

On 30 December 2015, SDA terminated contracts for the provision of call centre services previously entered into with Uptime SpA – a company in which it held a 28.57% interest – and Gepin Contact SpA - Uptime SpA's majority shareholder – with effect from 1 July 2016.

Gepin then filed a claim for damages from SDA, amounting to €15.5 million, relating to the alleged unjustified nature of termination of the above contracts, and has obtained an injunctive order for payment of approximately €3.7 million for uncontracted services. SDA challenged the claims in court.

In December 2016, Poste Italiane and SDA were served a writ of summons by Gepin and Uptime, containing claims for damages of approximately €66.4 million, in the case of Uptime (in liquidation), and approximately €16.2 million, in the case of Gepin. At the hearing in October 2017, Gepin Contact SpA's legal counsel announced the company's bankruptcy.

In September 2017, SDA subscribed for Uptime's entire share capital. The latter then filed for a voluntary early arrangement with creditors. The above claim for €66.4 million in damages from SDA and Poste Italiane has not been taken up by the liquidator overseeing Gepin's bankruptcy and has, therefore, been cancelled. Formal cancellation of the claim by the Civil Court of Rome is now awaited.

7. Proceedings pending
and principal relations with the authorities

The following information is provided in accordance with accounting standard IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*.

Litigation

In 2011, as part of a criminal investigation of third parties, the Tax Office in Rome, acting on behalf of local judicial authorities, seized accounting and administrative documents from **Postel SpA** related to e-procurement transactions carried out in 2010 and, to a lesser extent, in 2011; as a precautionary measure, e-procurement operations were suspended in 2011.

On 27 February 2015, the tax authorities notified **Poste Italiane SpA** of an indictment for accounting irregularities before the Court of Auditors for the Lazio region, regarding a number of accounting records for the handling and distribution of revenue stamps in the years between 2007 and 2010. The hearing was held on 2 July 2015. With sentence no. 332 of 9 July 2015, the Court of Auditors for the Lazio region fined the Parent Company an amount of €8 million, plus monetary revaluation and legal interest. The Company filed an appeal and, on 15 November 2017, the Court of Auditors issued judgement 542, upholding the appeal and limiting the initial fine to the sum already paid by the Company, amounting to €4 million.

Tax disputes

in November 2011, the tax authorities notified **EGI SpA** of three notices of assessment for the years 2006, 2007 and 2008, resulting in the identification of the same irregularity in each of the three years. This concerned the application, for the purposes of IRES, of art. 11, paragraph 2 of Law 413/1991 to properties of historical and artistic interest owned by EGI and leased by it to third parties. Following the ruling in first instance of the Provincial Tax Tribunal of Rome, on 7 May 2014, the company proceeded to pay a total amount due of approximately €2.1 million. Furthermore, as a result of the ruling in second instance, handed down by the Regional Tax Tribunal of Rome in EGI SpA's favour, on 10 June 2015, the company obtained a refund of the amount paid. On 24 April 2015, the tax authorities notified EGI that they had filed an appeal with the Court of Cassation, requesting annulment of the judgement on appeal, and on 12 June 2015 EGI SpA presented a cross appeal. The litigation is currently pending before the Supreme Court of Cassation.

In 2009, the Regional Tax Office for Large Taxpayers (Agenzia delle Entrate - *Direzione Regionale del Lazio - Ufficio Grandi Contribuenti*) notified **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. Poste Vita SpA appealed the above findings before the Provincial Tax Tribunal of Rome. In December 2010 and September 2011, the tax authorities sent notices of two further small fines for the same violation in fiscal years 2005 and 2006. These fines have also been appealed. The Provincial Tax Tribunal of Rome found in the company's favour, ruling that the tax authorities' allegations are without grounds. The tax authorities have challenged such rulings, filing a series of appeals. The Regional Tax Tribunal of Rome rejected both appeals and confirmed the lack of grounds for the claims against Poste Vita. With regard to the disputes relating to 2004 and 2006, on 23 October 2015, the State Attorney's Office challenged these decisions and summoned the company to appear before the Court of Cassation. The 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. On the other hand, with regard to the dispute 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.

As part of activities relating to so-called "Help with Tax" (*tutoraggio fiscale*) initiative conducted by the Regional Tax Office for Lazio (Agenzia delle Entrate - Direzione Regionale del Lazio), in September 2016, **Poste Vita SpA** received a request for documentation pursuant to art. 32 of Presidential Decree 600/1973. This was followed, on 22 November 2016, by a raid on the company's premises, conducted in accordance with art. 52 of Presidential Decree 633/1972 and art. 33 of Presidential Decree 600/73, with the aim of verifying, for the tax years 2012 and 2013, the correct computation of outstanding claims provisions and the related tax treatment for the purposes of IRES and IRAP. On 30 November 2016, the company was notified of a tax assessment notice containing one violation in relation to IRES and IRAP, regarding the alleged non-deductibility of the cost of certain "lapsed" claims that have yet to be paid and that were, therefore, still included in the provisions at 31 December 2012 and 31 December 2013. The tax authorities' findings, relating to approximately 340 policies, amounting to a total of approximately €2.1 million for 2012 and approximately €0.2 million for 2013, solely regards the timing of recognition of the relevant costs. The inspectors' opinion is based on the assumption that the company, with regard to lapsed policies, should have included the provisions for claims no longer payable to beneficiaries in taxable income, and then applied a matching reduction in taxable income in future years, when payment of the policies took place. This, according to the tax authorities, because the company's decision to honour the policies, giving rise therefore to the possibility of deducting the related costs, can only be considered irrevocable and final when effective payment of the policy takes place. The company has so far acknowledged the inspectors' findings and, on 23 December 2016, filed a tax settlement proposal in accordance with art. 6, paragraph 1 of Legislative Decree 218 of 19 June 1997. The purposes of this was to enter into discussions with the offices responsible for issuing the notices of assessment, with the aim of obtaining a reduction in the tax to be paid and the related penalties. Following discussions, during which the company was able to demonstrate that claims on around 55% of the lapsed policies attributable to 2012 and approximately 88% of those attributable to 2013 had already been paid by 31 December 2015, amounting to a total of approximately €1.3 million. The tax authorities thus proposed to only recover IRES and IRAP in relation to the additional tax due for 2012 and 2013 on policies that, at 31 December 2015, were still included in outstanding claims provisions (amounting to approximately €0.357 million), to reduce the related penalties by a third as a result of the tax settlement and to reduce them by a further 50% with reference to the policies already paid in recognition of the company's good faith (approximately €0.153 million), in addition to interest charged at 3.5% per annum in accordance with the relevant tax legislation (approximately €0.105 million). As the irregularity merely regarded a question of timing, the additional IRES and IRAP payable will be recovered in the years in which the disputed amounts are paid to beneficiaries, with the company actually only incurring the penalties and interest. Following the board of directors' approval of the tax authorities' proposal on 21 March 2017, the company accepted the proposal on 27 March 2017 by paying the sums due.

On 25 November 2014, a tax audit relating to **Postel SpA**, regarding direct taxes and VAT for the tax years from 2009 to 2012 and previously undertaken by the tax authorities, came to an end with delivery of a tax audit report in which the right to deduct VAT from purchases, applied by the company in 2010 and 2011, was contested. Then, on 8 October 2015, an audit regarding income tax and withholding tax, regarding **Postel SpA**'s alleged failure to pay social security contributions for employees and/or contractors used by a supplier between 2010 and 2014, came to an end with delivery of a tax audit report, contesting the right to deduct VAT and the deductibility of IRAP.

As a result of the above audits, the tax authorities have served the company with two separate tax assessment notices for 2010 and 2011. Specifically:

- In relation to 2010, on 21 December 2015, the company was requested to pay VAT of €5.6 million, in addition to penalties and interest, as well as VAT, IRES and IRAP totalling €0.2 million, plus penalties and interest. On 18 May 2016, the company appealed the assessment notice, at the same time paying a provisional amount of approximately €2.3 million of the VAT due.
- In relation to 2011, on 18 October 2016, the company received a tax assessment notice for VAT, IRES, IRAP and withholding tax, amounting to €1.2 million, plus penalties and interest. On 16 December 2016, the company appealed the assessment notice, at the same time paying a provisional amount of approximately €0.5 million.

In addition, based on the findings set out in the tax audit report of 8 October 2015, the tax authorities:

- with regard to the 2012 tax year, on 25 November 2016, notified Postel SpA of a tax assessment notice relating to IRES, IRAP, VAT and withholding tax of €0.1 million, plus penalties and interest. On 19 January 2017, the company appealed the assessment notice, at the same time paying a provisional amount equal to about half of the requested amount. At the hearing held on 13 February 2018, the appeal was upheld and the tax authorities were ordered to pay costs.
- with regard to the 2013 tax year, on 24 July 2017, notified Postel SpA of a tax assessment notice relating to VAT, IRES, IRAP and withholding tax of approximately €0.2 million, plus penalties and interest. The company appealed the assessment notice on 23 October 2017, at the same time paying a provisional amount equal to about half of the requested amount. A date for the appeal hearing has yet to be fixed.

With regard to the assessment notices for 2010 and 2011, the company has elected to take up the settlement concession introduced by art. 11 of Law Decree 50 of 24 April 2017, which involves payment of the outstanding tax and interest on the arrears accruing up to the 60th day after notification of the assessment, except for penalties and overdue interest. The amounts payable under the settlement are reduced by the amounts already paid as a result of the legislation in force regarding the collection of tax when judgement is pending. In this instance, the amount payable by the company is €8.4 million. Thus, having already paid the sum of €2.8 million, the company proceeded to pay the sum of €5.6 million. The provisions made in previous years, totalling €8.3 million, have been used up. At the hearings for the appeals against the notices of assessment for the 2010 tax year (17 October 2017) and the 2011 tax year (6 December 2017), the Tribunal noted the request for a halt to proceedings and the company's decision to opt for the settlement concession, adjourning the hearing to a later date to allow the tax authorities to verify the validity of the company's request and whether or not the requirements of art. 11 of Law Decree 50 of 24 April 2017 have been met.

Social security disputes

since 2012, the *Istituto Nazionale per la Previdenza Sociale* (INPS, the National Institute of Social Security) office at Genoa Ponente has issued **Postel SpA** and Postelprint SpA (regarding which an agreement relating to a merger with Postel SpA was signed on 27 April 2015, effective for accounting and tax purposes from 1 January 2015) a number of notices of adjustment, some of which have resulted in payment orders, for a total amount payable of €18.2 million at 31 December 2017. According to INPS, this amount represents social security contributions funding income support, extraordinary income support, unemployment benefit and family benefits not covered by the contributions paid to IPOST and which, according to INPS, the two companies have failed to pay. The companies immediately challenged the grounds for the payment orders, initially through administrative channels before the Administrative Committee for Employee Pensions, and then in the form of legal action before the Court of Genoa. In a memo issued on 20 October 2016, the Ministry of Labour stated that the social security contributions system applicable to Poste Italiane also applies to all the other Group companies, with the sole exception of those that provide air transport, banking and express delivery services.

In relation to the three combined actions of the five pending before the Court of Genoa, on 11 July 2017, the court read out the judgement upholding INPS's claim, amounting to €9.16 million, only to the extent of the difference in contributions between the family benefits paid by Postel to employees and the amount assessed by INPS in the form of contributions for family benefits. The company was ordered to pay just €0.22 million. The contribution for income support, extraordinary income support, unemployment benefit (€8.94 million) is not payable, on the basis that, given that Postel is wholly owned by the State through the Parent Company (the requirement was met until Poste Italiane SpA's floatation), it is included among the state-owned enterprises which are exempted by law from the obligation to pay contributions for income support and unemployment benefit. On 20 October 2017, the company proceeded to pay the sum requested. On 9 March 2018, INPS filed an appeal, contesting the merits of the judgement at first instance and the sum arrived at. In the view of INPS, the rate applicable for contributions for family benefits, in line with recent guidance issued by INPS, should have been 4.40% in place of the 0.68% applied in the payment notices involved in the court action. The company will oppose INPS's claims, as they are inadmissible in court.

The other two cases are still pending and are still at the preliminary stage, relating to the appeals filed by Postel SpA against the payment orders for the periods from February 2011 to September 2017, amounting to outstanding contributions of €9 million, in addition to approximately €0.645 million in contributions for 2017, for which no payment orders or adjustment notices have been received.

Taking into account the favourable judgement at first instance on 11 July 2017 and the reasons given, the company has adjusted its provisions for risks and charges to reflect the relevant liability.

Finally, on 15 February 2018, as part of a judgement pending before the Court of Genoa against a payment order regarding management personnel, INPS has submitted to Postel a brief defending its claim, based on which the company should pay family benefit contributions at a rate, also in this case, of 4.40%, rather than the 0.68% requested in the various payments orders notified to Postel and regularly appealed by the company. The company will appeal the order and challenge INPS's claims.

Principal proceedings pending and relations with the authorities

European Commission

On 13 September 2013, the Court of Justice of the European Union upheld **Poste Italiane SpA**'s appeal, overturning the decision of the European Commission of 16 July 2008 on state aid, ordering the EC to pay legal costs. Acting on the European Commission's Decision, and in accordance with instructions from the Parent Company's shareholder, in November 2008 Poste Italiane SpA made available €443 million plus interest of €41 million to the MEF, which collected the sum in January 2009. In implementation of the European Court's (by then definitive) decision, in accordance with art.1 paragraph 281 of the 2015 Budget Law, (Law 190 of 23 December 2014), on 13 May 2015, the Company collected the amount of €535 million from its then sole shareholder, the MEF. Following the European Court's decision, however, the European Commission reopened its review and appointed an external expert to determine whether (in accordance with art. 1, paragraph 31 of the 2006 Budget Law - Law 266 of 23 December 2005) the rates of interest earned by the Company on deposits with the MEF during the period from 1 January 2005 to 31 December 2007 were in line with market rates. The external expert has provided the Commission, on a preliminary basis, with an updated version of the analysis originally performed by the Commission. Poste Italiane will collaborate with the relevant national authorities to demonstrate the appropriate nature of the returns earned during the period in question.

AGCM (the Antitrust Authority)

On 9 March 2015, the Authority notified **Poste Italiane SpA** of an investigation of BancoPosta RFC for alleged violation of articles 20, 21 and 22 of the Consumer Code, regarding the "Libretto Smart" product. On 21 December 2015, the AGCM notified Poste Italiane of its final ruling in which it deemed the Company's conduct unfair and imposed a fine of €0.54 million, limited to a tenth of the maximum applicable amount taking into account the mitigating circumstance that Poste Italiane had adopted initiatives aimed at allowing customers to benefit from the bonus rate. Poste Italiane lodged an appeal against this ruling before the Lazio Regional Administrative Court, which has adjourned the case until a hearing on the merits.

On 4 June 2015, the AGCM launched an investigation pursuant to art.8, paragraph 2 *quater* of Law 287/90, aimed at ascertaining whether actions taken by **Poste Italiane** were designed to prevent H3G SpA (now Wind tre SpA) from accessing the post office network. Requests to participate in the investigation from Fastweb SpA and Vodafone Omnitel BV, as well as **PosteMobile**, were accepted. With the ruling adopted at a meeting held on 16 December 2015, the Authority deemed that Poste Italiane had failed, when requested, to offer a competitor of its subsidiary, PosteMobile, equal access to goods and services that are exclusively available from Poste Italiane, as they form part of the activities carried out within the scope of the Universal Postal Service. In the same ruling, the Authority also ruled that Poste Italiane should desist from such conduct in the future. The Authority did not impose a fine.

Poste Italiane and PosteMobile lodged an appeal against the ruling before Lazio Regional Administrative Court which, whilst rejecting the appeals lodged by Poste and Poste Mobile, confirmed the principle, backed by Poste Italiane and expressly approved by the AGCM, under which the obligation established by art. 8, paragraph 2-*quater* of Law 287/90 regards equality of treatment. As a result, H3G's request was unlawful, as it aimed to limit access to certain areas of Poste Italiane's network and was not interested in obtaining treatment equal to that applied by Poste Italiane to its subsidiary, Poste Mobile[109].

Following the above ruling from the AGCM, H3G submitted a writ of summons to the Court of Rome, citing Poste Italiane and PosteMobile and requesting an order to pay compensation for damages incurred, arising from the violations referred to in the above ruling, amounting to approximately €375.8 million. At the hearing held on 29 March 2017, the investigating judge ordered the appointment of an independent expert.

109. In fact, in its ruling of 14 September 2016, the AGCM clarified that, at that time, there were no grounds to justify action pursuant to Law 287/90, as art. 8, paragraph 2-*quater* of Law 287/90 does not establish a generic obligation to grant access to the network on ad hoc terms, but an obligation to grant access on equivalent terms to those applied to subsidiaries.

Finally, on 28 March 2018, Poste Italiane, PosteMobile and WindTre SpA reached an agreement whereby, without any recognition and in order to restore peaceful business relations, the parties abandoned the dispute in question. By signing the agreement, Poste Italiane undertook to pay WindTre SpA a total of €1.5 million to cover the operating, general and staff costs incurred, also in relation to disputes, including but not limited to the collection and processing of information and corporate data by WindTre's offices, legal fees and legal aid expenses, charges relating to technical consultancy services, etc..

On 8 June 2016, the AGCM notified **Poste Italiane** of the launch of investigation pursuant to art. 14 of Law 287/90, aimed at determining whether behaviour towards Nexive SpA, in multi-item ordinary mail delivery markets, constitutes an abuse of its dominant market position as per art. 102 of the TFEU.

On 13 December 2017, the Authority handed down the final ruling of the investigation, notified on 15 January 2018, by which an infringement regarding abuse of dominant position was ascertained, with a warning to the Company to refrain from similar conduct in the future. The same ruling imposed an administrative fine which was limited – compared with the Authority's previous fines – to 2% of turnover and discounted in relation to the compliance obligations undertaken in advance by Poste Italiane and positively assessed by Nexive, amounting to €23 million. The Company has taken this fine into account when calculated provisions for disputes with third parties (note B6) at 31 December 2017. The AGCM set a 60-day deadline for submitting the compliance report.

Poste Italiane lodged an appeal against the above ruling before the Lazio Regional Administrative Court with a request for suspension, which was not granted, and a hearing on the merits was set for 5 December 2018. In the meantime, the Company has entered into dialogue with the Antitrust Authority to define the compliance proposals.

Autorità per le Garanzie nelle Comunicazioni (AGCOM - the Italian Communications Authority)

Law Decree 201 of 6 December 2011, converted into Law 214 of 22 December 2011, transferred responsibility for regulation and supervision of the postal sector from the Ministry for Economic Development to the Italian Communications Authority (AGCom).

Following transposition into Italian law of the third European postal services directive (Directive 2008/6/CE), the so-called "net avoided cost" method has been applied in quantifying the cost of the universal service[110]. In this regard:

iii. On 29 July 2014, the board of AGCom issued Resolution 412/14/CONS, approving the measure defining the method of calculating and quantifying the net cost of the universal postal service for 2011 and 2012. In confirming that the cost of the universal service for 2011 and 2012 is, in certain respects, unfair and thus merits compensation, the resolution quantified the cost for 2011 and 2012, respectively, as €381 million and €327 million, compared to sums recorded originally by Poste Italiane SpA for approximately €357 million and €350 million. On 13 November 2014, Poste Italiane SpA challenged this resolution by filing an appeal before the Regional Administrative Court (TAR). The case is still pending.

iv. In September 2017, the regulator published Resolution 298/17/CONS relating to its assessment of the net cost of the universal postal service incurred by the Company for 2013 and 2014 and the applicability of the mechanism for allocating such cost. In detail, the regulator has assessed the cost of providing the universal service for 2013 and 2014 to be €393 million and €409 million, respectively, compared with revenue of €343 million and €277 million recognised in Poste Italiane SpA's statement of profit or loss in previous years. The regulator has also announced that the compensation fund to cover the cost of providing the universal service, as provided for in art. 10 of Legislative Decree 261/1999, has not been set up. On 6 November 2017, the Company challenged this resolution by filing an appeal before the Regional Administrative Court (TAR).

v. On 27 October 2017, AGCom announced the launch of the process for assessing the net cost of the universal postal service for 2015 and 2016.

110. This method defines the cost incurred as the difference between the net operating cost incurred by a designated universal service provider when subject to universal service obligations and the net operating cost without such obligations.

Bank of Italy

In 2017, the Bank of Italy conducted an inspection pursuant to art. 54 of Legislative Decree 385 of 1993, with the aim of assessing the governance, control and operational and IT risk management systems in relation to BancoPosta's operations. The inspection began on 10 February 2017 and ended on 5 May 2017. The related Inspection Report was issued on 20 July 2017. Poste Italiane responded within the required deadline by submitting its views in September 2017 and launching the related compliance initiatives.

In addition, on 28 September 2017, the Bank of Italy began an inspection pursuant to art. 53 of Legislative Decree 231/2007, again with regard to BancoPosta's operations. The inspection related to money laundering prevention at a sample of post offices. The process, ended on 11 December 2017, having the nature of a follow-up to the inspection conducted in 2015, aimed to assess the progress made in implementing the compliance initiatives communicated to the Bank.

The Bank of Italy's Financial Intelligence Unit (UIF) conducted a number of inspections of **Poste Vita SpA** conducted in 2015 and 2016, in relation to money laundering prevention as per art. 47 and art. 53, paragraph 4, of Legislative Decree 231 of 2007. On 8 July 2016, the UIF sent Poste Vita a notice of assessment and violation, alleging the company's failure to promptly report 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.

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

On 20 March 2017, IVASS began an inspection of **Poste Vita** pursuant to art. 189 of the Private Insurance Code (Legislative Decree 209 of 7 September 2005) ended on 28 June 2017. The focus of the inspection was "an audit of the best estimate of liabilities and the assumptions used in computing such liabilities and solvency capital requirements (SCR), including on a prospective basis". On 27 September 2017, Poste Vita provided the documentation requested. On 27 September 2017, IVASS sent Poste Vita the results of the inspection. Finding that the degree of implementation of the Solvency II framework was satisfactory overall, the regulator did not identify any specific shortcomings, and issued a partially favourably opinion, making a number of points and observations. Therefore, on 25 October 2017 the company submitted its considerations regarding the investigations and corrective measures required by the inspection report to IVASS, and planned a series of activities aimed at implementing the improvement initiatives recommended by the Authority. To date, Poste Vita's implementation of the planned actions is on schedule.

With regard to the violations notified by IVASS to **Poste Vita SpA,** three injunctions settling a total of seven proceedings have been notified. Two related to violations of art. 183, paragraph 1.a) of the *Codice delle Assicurazioni Private* (Private Insurance Code or CAP), as a result of the payment of claims beyond the 30-day term provided for in the related contracts, and one to the failure to comply with article 16 of IVASS Regulation 35/2010, regarding the obligations regarding the deadline for responding to requests for information. Four further proceedings launched by IVASS, almost all regarding violations of art. 183, paragraph 1.a) of the CAP, are pending.

Commissione di Vigilanza sui Fondi Pensione (the pensions regulator)

On 4 October 2016, the pensions regulator launched an inspection focusing on the *PostaPrevidenza Valore* individual pension plan. The inspection at the offices of Poste Vita came to an end on 23 March 2017. On 14 July 2017, the regulator notified the company that the inspection had been completed on 30 June 2017. The company has yet to receive any feedback from the regulator regarding the inspectors' findings.

CONSOB

In 2017, in line with the roll-out plan launched in October 2016, IT releases were completed for the new guided consultancy platform, which was gradually extended to the entire Poste Italiane network during the year. In parallel, during the second half of 2017, the segment was subject to further compliance initiatives aimed at implementing the MiFID 2 Directive, which came into force on 3 January 2018. The innovations made to procedural and IT structures, and the further initiatives planned in 2018 to consolidate the Company's oversight of them, were the subject of specific reporting to the CONSOB.

Garante per la protezione dei dati personali (the Data Protection Authority)

On 15 January 2014, at the end of an investigation launched in 2009, the Authority imposed a fine of €0.34 million on **Postel SpA**, which the company accounted for in its financial statements for 2013. The company appealed the Authority's ruling before the Civil Court of Rome, requesting an injunction suspending its implementation, which was accepted by the judge with a ruling on 16 June 2014. On 21 January 2016, the designated judge reduced the fine by €0.1 million, rejecting the other preliminary exceptions raised on the merits. As a result of this decision, the relevant liabilities recognised in the financial statements for the year ended 31 December 2016 were adjusted accordingly. On 21 March 2017, Equitalia Servizi di riscossione SpA notified the company of a payment order in which, in addition to requesting payment of a fine of €0.24 million, as reduced by the judgement handed won by the Court of Rome, it also applied, among other things, an additional amount of €0.12 million. The company has appealed the order before the Court of Rome, requesting an injunction suspending its execution. With regard to this payment order, on 15 June 2017, Equitalia Servizi di Riscossione SpA proceeded to seize sums due to Postel from INPS in accordance with articles 72-*bis* and 48-*bis* of Presidential Decree 602/73. In response, the company filed a further request with the Authority asking for execution of the order to be delayed whilst awaiting the decision of the court regarding the application for injunctive relief. The hearing is scheduled for 18 April 2018. In accordance with and for the purposes of the writ of seizure, INPS, as the garnishee defendant, has paid the sum of €0.386 million to Equitalia Servizi di Riscossione.

Italian National Anti-Corruption Authority (ANAC)

On 18 November 2016, the Italian National Anti-Corruption Authority (ANAC) notified **Postel SpA** that it was launching an investigation following a report from the commissioning body, Fondimpresa, following Postel's exclusion from a tender called to award a contract for the provision of digital mail and document storage services. The total value of the contract was €0.4 million. The exclusion was based on the fact that Postel, subjected to the checks required by art. 48, paragraph 2 of Legislative Decree 163/2006, did not provide evidence, within the required deadline, that it could meet the related financial and technical and organisational requirements contained in the tender terms and conditions. On 9 August 2017, the Authority notified Postel and the commissioning body of its decision to close the proceedings, without imposing any sanctions.

8. Material non-recurring events and/or transactions

A brief summary of the impact of material non-recurring events and transactions[111] involving the Poste Italiane Group in 2017, is provided below, as required by CONSOB ruling DEM/6064293 of 28 July 2006:

- income of €91 million from the sale of 756,280 Class B Mastercard Incorporated shares in a series of transactions, following their conversion into Class A shares (see note A5);
- a total loss of €82 million on the *Convertible Contingent Notes* issued by Midco SpA and recognised in finance costs (see note 3 *Material events during the year*);
- income of €9 million in IRAP to be recovered on the unreported deduction of expenses for disabled personnel in 2003. This amount was assessed following the ruling handed down by the Regional Tax Tribunal for Lazio, which upheld an earlier appeal brought by the Parent Company (see note 2.5 – *Use of estimates*). Accrued interest of €3 million on this sum was assessed and is also of a non-recurring nature. This amount has been classified in finance income;
- with regard to the Parent Company's separate financial statements, income of €14 million recognised in "Other operating income", following the sale of the 100% interest in Banca del Mezzogiorno–MedioCreditoCentrale SpA to Invitalia SpA (see note 5.2-A11 *Non-current assets held for sale and discontinued operations*).

9. Exceptional and/or unusual transactions

Under the definition provided by the CONSOB ruling of 28 July 2006, the Poste Italiane Group did not conduct any exceptional and/or unusual transactions[112] in 2017.

111. Events and transactions are defined as such when their occurrence is non-recurring, being transactions or events that do not recur frequently in the ordinary course of business.
112. Such transactions are defined as transactions that due to their significance/materiality, the nature of the counterparties, the purpose of the transaction, the manner of determining the transfer price and timing of the transaction may give rise to doubts over the correctness and/or completeness of the disclosures in the financial statements, over a conflict of interest, safeguards for the Company's financial position and protections for non-controlling shareholders.

10. Events after the end of the reporting period

The following events have taken place in early 2018:

- On 25 January 2018, Poste Italiane SpA's Board of Directors approved the Company's transfer of free reserves of €210 million to BancoPosta RFC in order to restore the leverage ratio to the target level set out in the Risk Appetite Framework[113]. For this purpose, at the same time, the Chief Executive Officer of Poste Italiane SpA was given the authority to carry out any activities and to negotiate and sign any deeds or documents necessary or appropriate. It was also decided to submit the proposal to strengthen BancoPosta RFC's capital for approval by an Extraordinary General Meeting of Poste Italiane SpA's shareholders.
- On 25 January 2018, Poste Italiane SpA announced its intention to participate in the rights issue to be carried out by Anima Holding SpA. At the end of the previous year, Anima Holding SpA's board of directors was authorised by an extraordinary general meeting of the company's shareholders to proceed with a capital increase of up to €300 million. Poste Italiane SpA, which at the reporting date holds an interest of approximately 10.04% in Anima Holding SpA, will therefore subscribe for the new shares. The offer period is between 26 March 2018 and 12 April 2018 and the cost of the new shares to be subscribed by Poste Italiane SpA amounts to up to €32 million.
- On 25 January 2018, Poste Italiane SpA's Board of Directors authorised a capital injection of €40 million for SDA Express Courier SpA to cover losses incurred through to 31 December 2017, and to recapitalise the company and establish an extraordinary reserve.
- On 13 February 2018, the merger of PosteTutela SpA with and into Poste Italiane SpA was completed. The transaction will be effective for legal purposes from 1 March 2018, whilst it will be effective for accounting and tax purposes from 1 January 2018.
- On 19 February 2018, Poste Italiane SpA's Board of Directors approved an initiative designed to protect customers who invested in the "Europa Immobiliare n.1" fund, granting the Chief Executive Officer the authority and the powers to take all the preparatory and consequent steps to implement the initiative.
- On 26 February 2018, Poste Italiane SpA's Board of Directors approved "Deliver 2022", the five-year Strategic Plan that aims to maximise the potential value of Poste Italiane's distribution network, already acknowledged as being the country's most efficient and secure.

113. The RAF consists of a framework that defines, in keeping with the maximum acceptable risk, the business model and strategic plan, the risk appetite, risk tolerance thresholds, risk limits, and risk management policies, together with the processes needed to define and implement them.

11. Additional information

This note provides information applicable to both the Poste Italiane Group's consolidated financial statements and Poste Italiane SpA's separate financial statements, including qualitative and quantitative disclosures on matters required by accounting standards, not specifically dealt with in the previous notes.

Analysis of net debt/(funds)

The net debt/(funds) of the Poste Italiane Group and Poste Italiane SpA at 31 December 2017 are analysed below.

Poste Italiane Group

Net funds/(debt) at 31 December 2017

Balance at 31 December 2017 (€m)	Mail, Parcel & Distribution	Payments, Mobile & Digital	Financial Services	Insurance Services	Eliminations	Consolidated amount	*of which, related parties*
Financial liabilities	**2,249**	**2,970**	**62,063**	**1,017**	**(5,055)**	**63,244**	
Postal current accounts	-	-	47,468	-	(893)	46,575	-
Bonds	812	-	-	761	-	1,573	-
Borrowings from financial institutions	401	-	4,842	-	-	5,243	-
Other borrowings	-	-	-	-	-	-	-
Finance leases	-	1	-	-	-	1	-
MEF account, held at the Treasury	-	-	3,483	-	-	3,483	*3,483*
Derivative financial instruments	39	-	1,637	-	-	1,676	-
Other financial liabilities	79	2,969	1,639	6	-	4,693	*56*
Intersegment financial liabilities	918	-	2,994	250	(4,162)	-	-
Technical provisions for insurance business	**-**	**-**	**-**	**123,650**	**-**	**123,650**	**-**
Financial assets	**(1,097)**	**(3,283)**	**(60,688)**	**(125,860)**	**4,162**	**(186,766)**	
Loans and receivables	(274)	-	(7,600)	(258)	-	(8,132)	*(6,239)*
Held-to-maturity financial assets	-	-	(12,912)	-	-	(12,912)	-
Available-for-sale financial assets	(556)	-	(39,171)	(96,078)	-	(135,805)	*(2,485)*
Financial assets at fair value through profit or loss	-	-	-	(29,338)	-	(29,338)	*(555)*
Derivative financial instruments	-	-	(395)	(184)	-	(579)	-
Intersegment financial assets	(267)	(3,283)	(610)	(2)	4,162	-	-
Technical provisions attributable to reinsurers	**-**	**-**	**-**	**(71)**	**-**	**(71)**	**-**
Net financial liabilities/(assets)	**1,152**	**(313)**	**1,375**	**(1,264)**	**(893)**	**57**	
Cash and deposits attributable to BancoPosta	**-**	**-**	**(3,196)**	**-**	**-**	**(3,196)**	**-**
Cash and cash equivalents	**(1,997)**	**(21)**	**(396)**	**(907)**	**893**	**(2,428)**	***(385)***
Net debt/(funds)	**(845)**	**(334)**	**(2,217)**	**(2,171)**	**-**	**(5,567)**	

Net funds/(debt) at 31 December 2016

Balance at 31 December 2016 (€m)	Mail, Parcel & Distribution	Payments, Mobile & Digital	Financial Services	Insurance Services	Eliminations	Consolidated amount	*of which, related parties*
Financial liabilities	**2,087**	**2,284**	**59,219**	**1,012**	**(3,681)**	**60,921**	
Postal current accounts	-	-	45,444	-	(319)	45,125	-
Bonds	812	-	-	759	-	1,571	-
Borrowings from financial institutions	402	-	5,381	-	-	5,783	-
Other borrowings	-	-	-	-	-	-	-
Finance leases	6	2	-	-	-	8	-
MEF account, held at the Treasury	-	-	2,429	-	-	2,429	*2,429*
Derivative financial instruments	51	-	2,305	-	-	2,356	-
Other financial liabilities	13	2,282	1,352	2	-	3,649	*1*
Intersegment financial liabilities	803	-	2,308	251	(3,362)		-
Technical provisions for insurance business	**-**	**-**	**-**	**113,678**	**-**	**113,678**	**-**
Financial assets	**(1,236)**	**(2,609)**	**(58,529)**	**(115,596)**	**3,608**	**(174,362)**	**-**
Loans and receivables	(140)	-	(7,915)	(54)	-	(8,109)	*(6,190)*
Held-to-maturity financial assets	-	-	(12,683)	-	-	(12,683)	-
Available-for-sale financial assets	(574)	-	(37,263)	(90,406)	-	(128,243)	*(1,509)*
Financial assets at fair value through profit or loss	-	-	-	(24,903)	-	(24,903)	*(551)*
Derivative financial instruments	-	-	(191)	(233)	-	(424)	-
Intersegment financial assets	(522)	(2,609)	(477)	-	3,608	-	-
Technical provisions attributable to reinsurers	**-**	**-**	**-**	**(66)**	**-**	**(66)**	**-**
Net financial liabilities/(assets)	**851**	**(325)**	**690**	**(972)**	**(73)**	**171**	**-**
Cash and deposits attributable to BancoPosta	**-**	**-**	**(2,494)**	**-**	**-**	**(2,494)**	**-**
Cash and cash equivalents	**(1,556)**	**(21)**	**(1,320)**	**(1,324)**	**319**	**(3,902)**	***(1,310)***
Net debt/(funds)	**(705)**	**(346)**	**(3,124)**	**(2,296)**	**246**	**(6,225)**	**-**

At 31 December 2017, the Group has net funds of €5,567 million. The increase during the year reflects the reduction in the fair value of available-for-sale financial assets (€991 million). The fair value reserve for available-for-sale financial assets, before tax, amounts to €521 million (€1,512 million at 31 December 2016).

An analysis of the net funds of the Mail, Parcels and Distribution segment at 31 December 2017, in accordance with ESMA recommendation 319/2013, is provided below:

ESMA net financial indebtedness

(€m)	at 31 December 2017	at 31 December 2016
A. Cash	(4)	(2)
B. Other cash equivalents	(1,993)	(1,554)
C. Securities held for trading	-	-
D. Liquidity (A+B+C)	**(1,997)**	**(1,556)**
E. Current loans and receivables	**(245)**	**(63)**
F. Current bank borrowings	201	2
G. Current portion of non-current debt	763	14
H. Other current financial liabilities	82	22
I. Current financial debt (F+G+H)	**1,046**	**38**
J. Current net debt/(funds) (I+E+D)	**(1,196)**	**(1,581)**
K. Non-current bank borrowings	200	400
L. Bond issues	49	798
M. Other non-current liabilities	36	48
N. Non-current financial debt (K+L+M)	**285**	**1,246**
O. Net debt/(funds) (ESMA guidelines) (J+N)	**(911)**	**(335)**
Non-current financial assets	(585)	(651)
Net debt/(funds)	**(1,496)**	**(986)**
Intersegment loans and receivables	(267)	(522)
Intersegment financial liabilities	918	803
Net debt/(funds) including intersegment transactions	**(845)**	**(705)**

Poste Italiane SpA

Net debt/(funds)

Balance at 31 December 2017 (€m)	Capital outside ring-fence	BancoPosta RFC	Eliminations	Poste Italiane SpA	*of which related party transactions*
Financial liabilities	**2,087**	**62,109**	**(988)**	**63,208**	
Postal current accounts	-	47,494	(242)	47,252	*677*
Bonds	813	-	-	813	-
Borrowings from financial institutions	400	4,842	-	5,242	-
MEF account held at the Treasury	-	3,483	-	3,483	*3,483*
Derivative financial instruments	39	1,638	-	1,677	-
Other financial liabilities	103	4,638	-	4,741	*133*
Intersegment financial liabilities	732	14	(746)	-	-
Financial assets	**(1,212)**	**(60,780)**	**746**	**(61,246)**	
Loans and receivables	(642)	(7,601)	-	(8,243)	*(6,923)*
Held-to-maturity financial assets	-	(12,912)	-	(12,912)	-
Available-for-sale financial assets	(556)	(39,140)	-	(39,696)	*(2,485)*
Derivative financial instruments	-	(395)	-	(395)	-
Intersegment financial assets	(14)	(732)	746	-	-
Liabilities/(net financial assets)	**875**	**1,329**	**(242)**	**1,962**	
Cash and deposits attributable to BancoPosta	**-**	**(3,196)**	**-**	**(3,196)**	**-**
Cash and cash equivalents	**(1,885)**	**(396)**	**242**	**(2,039)**	***(385)***
Net (debt)/funds	**(1,010)**	**(2,263)**	**-**	**(3,273)**	

Net debt/(funds)

Balance at 31 December 2016 (€m)	Capital outside ring-fence	BancoPosta RFC	Eliminations	Poste Italiane SpA	*of which related party transactions*
Financial liabilities	**1,932**	**59,274**	**(711)**	**60,495**	
Postal current accounts	-	45,483	(67)	45,416	*291*
Bonds	812	-	-	812	-
Borrowings from financial institutions	400	5,381	-	5,781	-
Loans from Cassa Depositi e Prestiti	-	2,429	-	2,429	*2,429*
Derivative financial instruments	51	2,305	-	2,356	-
Other financial liabilities	39	3,662	-	3,701	*65*
Intersegment financial liabilities	630	14	(644)	-	-
Financial assets	**(1,358)**	**(58,682)**	**644**	**(59,396)**	
Loans and receivables	(770)	(7,915)	-	(8,685)	*(6,820)*
Held-to-maturity financial assets	-	(12,683)	-	(12,683)	-
Available-for-sale financial assets	(574)	(37,263)	-	(37,837)	*(1,509)*
Derivative financial instruments	-	(191)	-	(191)	-
Intersegment financial assets	(14)	(630)	644	-	-
Net financial liabilities/(assets)	**574**	**592**	**(67)**	**1,099**	
Cash and deposits attributable to BancoPosta	**-**	**(2,494)**	**-**	**(2,494)**	**-**
Cash and cash equivalents	**(1,461)**	**(1,321)**	**67**	**(2,715)**	***(1,310)***
Net (debt)/funds	**(887)**	**(3,223)**	**-**	**(4,110)**	

At 31 December 2017, the Company has net funds of €3,273 million. The increase during the year reflects the reduction in the fair value of available-for-sale financial assets (€979 million). The fair value reserve for available-for-sale financial assets, before tax, amounts to €262 million (€1,241 million at 31 December 2016).

An analysis of the net funds of the Parent Company outside the ring-fence at 31 December 2017, in accordance with ESMA recommendation 319/2013, is provided below:

ESMA net financial indebtedness for capital outside ring-fence

(€m)	At 31 December 2017	At 31 December 2016
A. Cash	(1)	(1)
B. Other cash equivalents	(1,884)	(1,460)
C. Securities held for trading	-	-
D. Liquidity (A+B+C)	**(1,885)**	**(1,461)**
E. Current loans and receivables	**(363)**	**(243)**
F. Current bank borrowings	200	-
G. Current portion of non-current debt	763	14
H. Other current financial liabilities	106	42
I. Current financial liabilities (F+G+H)	**1,069**	**56**
J. Current net debt (I+E+D)	**(1,179)**	**(1,648)**
K. Non-current bank borrowings	200	400
L. Bond issues	50	798
M. Other non-current liabilities	36	48
N. Non-current net debt (K+L+M)	**286**	**1,246**
O. Industrial net debt (ESMA guidelines) (J+N)	**(893)**	**(402)**
Non-current financial assets	(835)	(1,101)
Industrial net debt	**(1,728)**	**(1,503)**
Intersegment loans and receivables	(14)	(14)
Intersegment financial liabilities	732	630
Industrial net debt for capital outside ring-fence including intersegment transactions	**(1,010)**	**(887)**

Offseting financial assets and liabilities

In accordance with IFRS 7 – *Financial Instruments: Disclosures*, this section provides details of financial assets and liabilities that are subject to master netting agreements or similar arrangements, regardless of whether the financial instruments have been offset in keeping with paragraph 42 of IAS 32[114].

In particular, the disclosures in question concern the following positions relating to Poste Italiane SpA at 31 December 2017:

- derivative assets and liabilities and related collateral, represented by both cash and government securities;
- repurchase agreements and reverse repurchase agreements and the related collateral, represented by both cash and government securities.

Financial assets/liabilities offset in the statement of financial position, or subject to a master netting agreement or similar arrangements

Category (€m)	Gross amount of financial assets (*) (a)	Gross amount of financial liabilities (*) (b)	Amount of financial (liabilities)/ assets that have been offset (c)	Financial assets/ (liabilities), net (d=a+b+c)	Related amounts not offset			Financial assets/ (liabilities), net (h=d+e+f+g)
					Financial instruments transferred or provided as collateral (e)	Collateral		
						Securities provided/ (received) as collateral (f)	Cash deposits provided/ (received) as collateral (g)	
Year ended 31 December 2017								
Financial assets/(liabilities) attributable to BancoPosta								
Derivatives	394	(1,637)	-	(1,243)	-	288	965	10
Repurchase agreements	-	(4,842)	-	(4,842)	4,816	-	22	(4)
Other	-	-	-	-	-	-	-	-
Financial assets/(liabilities)								
Derivatives	-	(39)	-	(39)	-	-	39	-
Repurchase agreements	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total at 31 December 2017	**394**	**(6,518)**	**-**	**(6,124)**	**4,816**	**288**	**1,026**	**6**
Year ended 31 December 2016								
Financial assets/(liabilities) attributable to BancoPosta								
Derivatives	191	(2,305)	-	(2,114)	-	714	1,363	(37)
Repurchase agreements	-	(5,381)	-	(5,381)	5,374	-	7	-
Other	-	-	-	-	-	-	-	-
Financial assets/(liabilities)								
Derivatives	-	(51)	-	(51)	-	-	50	(1)
Repurchase agreements	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total at 31 December 2016	**191**	**(7,737)**	**-**	**(7,546)**	**5,374**	**714**	**1,420**	**(38)**

* The gross amount of financial assets and liabilities includes the financial instruments subject to offsetting and those subject to master netting agreements or similar arrangements, regardless of whether the financial instruments have been offset.

114. Paragraph 42 of IAS 32 provides that "A financial asset and a financial liability can be offset and the net amount presented in the statement of financial position when, and only when, an entity:
a. currently has a legally enforceable right to set off the recognised amounts; and
b. intends either to settle on a net basis or to realise the asset and settle the liability simultaneously."

Transfers of financial assets that are not derecognised

In accordance with IFRS 7 – *Financial Instruments: Disclosures*, this section provides additional information on the transfer of financial assets that are not derecognised (continuing involvement).

At 31 December 2017, these assets concern reverse repurchase agreements entered into with primary financial intermediaries and entirely attributable to the Parent Company.

Transfer of financial assets that are not derecognised

Item (€m)	Note	At 31 December 2017 Nominal value	Carrying amount	Fair value	At 31 December 2016 Nominal value	Carrying amount	Fair value
Financial assets attributable to BancoPosta	**[A5]**						
Held-to-maturity financial assets		4,407	4,486	4,890	4,596	4,688	5,276
Available-for-sale financial assets		-	-	-	165	206	206
Financial liabilities attributable to BancoPosta	**[B6]**						
Financial liabilities arising from repos		(4,840)	(4,842)	(4,853)	(5,379)	(5,381)	(5,419)
Financial assets	**[A6]**						
Available-for-sale financial assets		-	-	-	-	-	-
Financial liabilities	**[B7]**						
Financial liabilities arising from repos		-	-	-	-	-	-
Total		**(433)**	**(356)**	**37**	**(618)**	**(487)**	**63**

Financial assets subject to encumbrances

This paragraph provides information on the nominal value and carrying amount of financial assets delivered to counterparties as collateral for repurchase agreements and asset swaps, and financial assets delivered to the Bank of Italy as collateral for intraday credit granted to the Parent Company and as collateral for SEPA Direct Debits.

Financial assets subject to encumbrances

Item (€m)	At 31 December 2017 Nominal value	At 31 December 2017 Carrying amount	At 31 December 2016 Nominal value	At 31 December 2016 Carrying amount
Financial assets attributable to BancoPosta				
Loans and receivables	1,179	1,179	1,435	1,435
Receivables used as collateral provided by CSAs	1,110	1,110	1,391	1,391
Receivables used as collateral provided by GMRAs	69	69	44	44
Held-to-maturity financial assets	5,180	5,288	5,765	5,909
Securities used for repurchase agreements	4,407	4,486	4,596	4,688
Securities used as collateral provided by CSAs and GMRAs	253	269	676	716
Securities used as collateral for intraday credit from the Bank of Italy and for Sepa Direct Debits	520	533	493	505
Available-for-sale financial assets	-	-	165	206
Securities used for repurchase agreements	-	-	165	206
Financial assets				
Loans and receivables	40	40	50	50
Receivables used as collateral provided by CSAs	40	40	50	50
Available-for-sale financial assets	-	-	-	-
Securities used for repurchase agreements	-	-	-	-
Total financial assets subject to encumbrances	**6,399**	**6,507**	**7,415**	**7,600**

Unconsolidated structured entities

In order to make investments as consistent as possible with the risk-return profiles of the policies issued, ensuring management flexibility and efficiency, in certain cases Poste Vita SpA has purchased over 50% of the assets managed by certain investment funds. In these cases, tests have been performed in keeping with IFRS to determine the existence of control. The results of the tests on such funds suggest that the company does not exercise any control within the meaning of IFRS 10 – *Consolidated Financial Statements*. However, these funds qualify as unconsolidated structured entities. A structured entity is an entity designed in such a way as not to make voting rights the key factor in determining control over it, as in the case where voting rights refer solely to administrative activities and the relevant operations are managed on the basis of contractual arrangements. Whilst maintaining a moderate risk appetite, in 2017, the gradual process of diversifying investments, begun in 2015 and 2016, continued by increasing investments in open-end harmonised multi-asset funds of the UCITS type, above all those belonging to the “MULTIFLEX” SICAV.

Nature of the involvement in the unconsolidated structured entity

The purpose of Poste Vita's investment in the funds is to diversify its portfolio of financial instruments intended to cover Class I products (Separately Managed Accounts), with the objective of mitigating the concentration of investments in Italian government. Details are provided below.

Nature of the involvement in the unconsolidated structured entity

ISIN (€m)	Name	Nature of entity	Activity of the Fund	% investment	NAV	
					At	Amount
LU1379774190	Multiflex-Diversified Dis-Cm	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	29 December 2017	5,804
LU1193254122	Mfx - Global Fund - Asset Global Fund (Pimco Multi Asset)	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	29 December 2017	4,098
LU1407712014	Multiflex - Global Optimal Multi Asset Fund	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	29 December 2017	3,602
LU1407711800	Multiflex - Dynamic Multi Asset Fund	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	29 December 2017	3,580
LU1407712287	Multiflex - Strategic Insurance Distribution	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	29 December 2017	3,343
IT0004937691	Tages Platinum Growth	Non-harmonised fund of hedge funds	Pursuit of absolute returns, with low long-term volatility and correlation with the main financial markets	100	30 November 2017	437
IT0005212193	Diamond Italian Properties	Italian-registered, closed-end alternative real estate investment funds	Investment in real estate assets, real property rights, including those resulting from property lease-translational arrangements, concessions and other similar rights in accordance with the legislation from time to time in effect	100	31 December 2017	155
LU1500341752	Multiflex-Dynamic Lt M/A-Cm	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	29 December 2017	152
LU1500341240	Multiflex-Lt Optimal M/A-Cm	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	29 December 2017	151
IT0005174450	Fund Diamond Eurozone Office Ubs	Italian-registered, closed-end alternative real estate investment funds	Investment in "core" and "core plus" real estate assets for retail use, located in the Eurozone and euro-denominated	100	31 December 2017	129

ISIN (€m)	Name	Nature of entity	Activity of the Fund	% investment	NAV	
					At	Amount
IT0005210387	Diamond Eurozone Retail Property Fund	Italian-registered, closed-end alternative real estate investment funds	Investment in "core" and "core plus" real estate assets for office use, located in the Eurozone and euro-denominated	100	31 December 2017	94
LU1081427665	Shopping Property Fund 2	Closed-end harmonised fund	Master fund which invests primarily in commercial properties and, marginally, in office buildings and alternative sectors. It does not invest in property debt	63.77	30 September 2017	89
LU1581282842	Indaco Sicav Sif - Indaco Cifc Us Loan	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds, loans and equities)	100	30 November 2017	81
QU0006738854	Prima Credit Opportunity Fund	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	30 September 2017	80
IT0005215113	Fund Cbre Diamond	Italian-registered, closed-end alternative real estate investment funds	Investiment in real estate assets, real property rights, including those resulting from property lease arrangements, participating interests in property companies and in units of alternative real estate funds	100	31 December 2017	66
IT0005210593	Diamond Other Sector Italia	Italian-registered, closed-end alternative real estate investment funds	Investment in real estate assets, real property rights, including those resulting from property lease arrangements, participating interests in property companies and the professional management and development of the fund's assets	100	31 December 2017	58
IT0005247819	Fund Diamond Value Added Properties	Italian-registered, closed-end alternative real estate investment funds	Investment in real estate assets and real property rights, including those resulting from property lease-translational arrangements and concessions and in investments in unquoted property companies	100	31 December 2017	52
QU0006738052	Prima Eu Private Debt Opportunity Fund	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	30 September 2017	39
IT0004597396	Advance Capital Energy Fund	Closed-end non-harmonised fund of funds	Investments in energy companies to achieve capital appreciation and realise relevant gains, after exit	86.21	30 September 2017	25

Nature of the risk

The company's investments in the funds in question are reported at fair value (mainly level 2 of the fair value hierarchy), on the basis of the NAV reported from time to time by the fund manager. These investments were made in connection with Class I policies and, as such, any changes in fair value are passed on to the policyholder under the shadow accounting mechanism.

Details at 31 December 2017 are provided below.

Nature of the risk

ISIN (€m)	Name	Classification	Carrying amount	Maximum loss exposure*	Difference between carrying amount and maximum loss exposure	Method to determine maximum loss exposure
LU1379774190	Multiflex-Diversified Dis-Cm	Financial assets FVPL	5,804	1,701	4,103	Analytical VaR 99.5% annualised
LU1193254122	Mfx - Global Fund - Asset Global Fund (Pimco Multi Asset)	Financial assets FVPL	4,098	318	3,780	Analytical VaR 99.5% over 1-year
LU1407712014	Multiflex - Global Optimal Multi Asset Fund	Financial assets FVPL	3,602	158	3,444	Analytical VaR 99.5% over 1-year
LU1407711800	Multiflex - Dynamic Multi Asset Fund	Financial assets FVPL	3,580	158	3,422	Analytical VaR 99.5% over 1-year
LU1407712287	Multiflex - Strategic Insurance Distribution	Financial assets FVPL	3,343	357	2,986	Historical VaR 99.5% over 1-year
IT0004937691	Tages Platinum Growth	Available-for-sale financial assets	437	32	405	VaR 99.5% over a 1-year time horizon
IT0005212193	Diamond Italian Properties	Financial assets FVPL	155	39	116	Analytical VaR 99.5% annualised
LU1500341752	Multiflex-Dynamic Lt M/A-Cm	Financial assets FVPL	152	7	145	Analytical VaR 99.5% over 1-year
LU1500341240	Multiflex-Lt Optimal M/A-Cm	Financial assets FVPL	151	8	143	Analytical VaR 99.5% over 1-year
IT0005174450	Fund Diamond Eurozone Office Ubs	Financial assets FVPL	129	43	86	Analytical VaR 99.5% annualised
IT0005210387	Diamond Eurozone Retail Property Fund	Financial assets FVPL	94	23	71	Analytical VaR 99.5% annualised
LU1081427665	Shopping Property Fund 2	Available-for-sale financial assets	57	24	33	Analytical VaR 99.5% annualised
LU1581282842	Indaco Sicav Sif - Indaco Cifc Us Loan	Financial assets FVPL	81	31	50	VaR 99.5% over a 1-year time horizon
QU0006738854	Prima Credit Opportunity Fund	Financial assets FVPL	80	41	39	VaR 99.5% over a 1-year time horizon

ISIN (€m)	Name	Classification	Carrying amount	Maximum loss exposure*	Difference between carrying amount and maximum loss exposure	Method to determine maximum loss exposure
IT0005215113	Fund Cbre Diamond	Financial assets FVPL	66	21	45	Analytical VaR 99.5% annualised
IT0005210593	Diamond Other Sector Italia	Financial assets FVPL	58	14	44	Analytical VaR 99.5% annualised
IT0005247819	Fund Diamond Value Added Properties	Financial assets FVPL	52	13	39	Analytical VaR 99.5% annualised
QU0006738052	Prima Eu Private Debt Opportunity Fund	Financial assets FVPL	39	5	34	VaR 99.5% over a 1-year time horizon
IT0004597396	Advance Capital Energy Fund	Available-for-sale financial assets	22	11	11	VaR 99.5% over a 1-year time horizon

* Maximum loss is estimated without considering the ability of liabilities to offset losses, thus representing a more prudential estimate

The table below shows the types of financial instruments in which the funds invest and the main markets of reference.

Asset class (€m)	Fair Value
Financial instruments	
Corporate bonds	7,718
Government bonds	9,350
Other investments net of liabilities	2,020
Equity instruments	2,182
Cash	762
Derivatives	
Swaps	4
Futures	-
Forwards	(1)
Total	**22,035**

Market traded on and UCITS	Fair Value
New York	2,747
Germany (Frankfurt, Berlin, Munich)	2,845
London	783
Paris	1,020
Luxembourg	166
Dublin	1,573
Eurotlx	261
Euromtf	367
Tokyo	393
Euronext	542
Trace	1,933
Singapore	332
Hong Kong	108
Other	7,962
Funds	1,003
Total	**22,035**

Share-based payment arrangements

Long-term incentive scheme: phantom stock plan

Poste Italiane Group

The Annual General Meeting of Poste Italiane SpA's shareholders held on 24 May 2016 approved the information circular for the "Long-term Incentive Plan for 2016-2018 (LTIP) – Phantom Stock Plan", prepared in accordance with art 84-bis of the Regulations for Issuers. The LTIP, set up in line with market practices, aims to link a portion of the variable component of remuneration to the achievement of earnings targets and the creation of sustainable shareholder value over the long term.

Description of the Plan

As described in the above information circular for the "Long-term Incentive Plan for 2016-2018 (LTIP) – Phantom Stock Plan", prepared in accordance with art 84-bis of the Regulations for Issuers, the Phantom Stock Plan for the period 2016-2018 entails the award to Beneficiaries of phantom stocks granting them the right to receive stock representing the value of Poste Italiane's shares and the related cash bonus at the end of a vesting period. The number of phantom stocks awarded to each Beneficiary is dependent on achieving the Performance Hurdle and meeting the Qualifying Conditions and the related Performance Targets over a three-year period. The Plan covers a medium- to long-term period. In particular, the plan includes three award cycles, corresponding to the financial years 2016, 2017 and 2018, each with a duration of three years.

The phantom stocks are awarded if the performance targets are achieved, and converted into a cash bonus based on the market value of the shares in the thirty stock exchange trading days prior to the grant date for the phantom stocks or at the end of a retention period (as specified below). The key characteristics of the Plan are described below.

Beneficiaries

The beneficiaries are: Poste Italiane's Chief Executive Officer, in his role as General Manager, certain managers within the Poste Italiane Group, including key management personnel, Material Risk Takers who work for BancoPosta RFC and personnel belonging to the Poste Vita insurance group.

Plan terms and conditions

The Performance Targets, to which receipt of the cash bonus is subject, are as follows:

- for the General Manager and other beneficiaries of the Plan employed by Poste Italiane, other than Bancoposta personnel, an indicator of earnings based on the Group's cumulative EBIT over a three-year period, used to account for the continuity and sustainability of earnings over the long term;
- for Beneficiaries included among BancoPosta RFC's Risk Takers, the three-year RORAC (Return On Risk Adjusted Capital), used for the LTIP with the aim of taking into account the continuity and sustainability of the long-term performance after appropriately adjusting for risk;
- for Beneficiaries included among personnel belonging to the Poste Vita insurance group, the RORAC registered by the Poste Vita insurance group over a three-year period, used for the LTIP with the aim of taking into account the continuity and sustainability of the long-term performance after appropriately adjusting for risk.

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

Vesting of the Phantom Stocks is subject to achievement of the Performance Hurdle, designed to ensure sustainability of the Plan at Group level. The Performance Hurdle corresponds with achievement of a certain target for the Group's cumulative EBIT over a three-year period at the end of each Performance Period. In addition, in the case of the General Manager (and Chief Executive Officer) and BancoPosta RFC's Risk Takers, vesting of the Phantom Stocks is also subject to achievement of Qualifying Conditions, designed to ensure the stability of BancoPosta RFC's capital and liquidity position, as follows:

Indicator of capital adequacy, based on CET 1 at the end of the period;

Indicator of short-term liquidity, based on LCR at the end of the period;

Indicator of risk-adjusted earnings, based on RORAC at the end of the period; this indicator has been introduced from the 2017-2019 cycle and only for the General Manager (and Chief Executive Officer).

For personnel belonging to the Poste Vita insurance group, vesting of the Phantom Stocks, in addition to achievement of the Performance Hurdle (Group's cumulative EBIT over a three-year period), is subject to achievement of the specific Qualifying Condition, namely the Solvency II ratio at the end of the period.

The Phantom Stocks will be awarded by the end of the year following the end of the Performance Period, and immediately converted into cash. In the case of the General Manager, BancoPostaRFC's Risk Takers and the Poste Vita group's personnel, they are subject to a one-year retention period, before they can be converted into cash, following confirmation that the Qualifying Conditions for each plan have been met.

Determination of fair value and effects on profit or loss

First Cycle 2016-2018

The total number of phantom stocks awarded to the 44 Beneficiaries of the First Cycle of the Plan amounted to 473,073. An independent expert, external to the Group, was appointed to measure the value of the stocks and this was done using Monte Carlo simulations. The cost recognised for 2017 is approximately €0.2 million, whilst the liability recognised in amounts due to staff is approximately €1.5 million.

Second Cycle 2017-2019

The total number of phantom stocks awarded to the 55 Beneficiaries of the Second Cycle of the Plan amounted to 609,491. The fair value of each stock at 31 December 2017 was estimated to be €3.98 with regard to the plan for the Chief Executive Officer and General Manager, BancoPosta RFC personnel and Poste Vita's personnel, and €4.17 relating to the plan for the remaining Poste Italiane personnel. An independent expert, external to the Group, was appointed to measure the value of the stocks and this was done using Monte Carlo simulations. The cost recognised for 2017 is approximately €0.8 million, equivalent to the liability recognised in amounts due to staff.

Poste Italiane SpA

The effects on profit or loss of the First and Second Cycles if the above Long-Term Incentive scheme at 31 December 2017 for Poste Italiane SpA are shown below.

Determination of fair value and effects on profit or loss

First Cycle 2016-2018

The total number of phantom stocks awarded to the 42 Beneficiaries of the First Cycle of the Plan outstanding at 31 December 2017 amounted to 447,800. An independent expert, external to the Group, was appointed to measure the value of the stocks and this was done using Monte Carlo simulations. The cost recognised for 2017 is approximately €0.2 million, whilst the liability recognised in amounts due to staff is approximately €1.4 million.

Second Cycle 2017-2019

The total number of phantom stocks awarded to the 52 Beneficiaries of the Second Cycle of the Plan amounted to 574,141. An independent expert, external to the Group, was appointed to measure the value of the stocks and this was done using Monte Carlo simulations. The cost recognised for 2017 is approximately €0.8 million, equivalent to the liability recognised in amounts due to staff.

Short-term incentive schemes: MBO

On 27 May 2014, the Bank of Italy issued specific Supervisory Standards for BancoPosta (Part IV, Chapter I, “BancoPosta” including in Circular 285 of 17 December 2013 “Prudential supervisory standards for banks”) which, in taking into account BancoPosta’s specific organisational and operational aspects, has extended application of the prudential standards for banks to include BancoPosta. This includes the standards relating to remuneration and incentive policies (Part I, Title IV, Chapter 2 “Remuneration and incentive policies and practices” in the above Circular 285/2013). These standards provide that a part of the bonuses paid to BancoPosta RFC’s Material Risk Takers may be awarded in the form of financial instruments over a multi-year timeframe. As a result, with regard to the management incentive schemes adopted for BancoPosta RFC, where the incentive is above a certain materiality threshold, the MBO management incentive scheme envisages the award of 50% of the incentive in the form of phantom stocks, representing the value of Poste Italiane SpA’s shares, and application of the following deferral mechanisms:

- 60% of the award to be deferred for a 5-year period on a pro-rata basis, in the case of Material Risk Takers who are beneficiaries of both the short- and long-term incentive schemes;
- 40% of the award to be deferred for a 3-year period on a pro-rata basis for the remaining Material Risk Takers.

The award of phantom stocks is subject to meeting the Performance Hurdle (Group earnings: EBIT) and certain Qualifying Conditions, as follows:

- Capital adequacy: CET 1, risk tolerance level approved in the Risk Appetite Framework (RAF);
- Short-term liquidity: LCR, risk tolerance level approved in the Risk Appetite Framework (RAF).

Payment of the deferred portion will take place each year, provided that BancoPosta RFC’s minimum regulatory capital and liquidity requirements have been met. The effects on profit or loss and on equity are recognised in the period in which the instruments vest.

Determination of fair value and effects on profit or loss

At 31 December 2017, the number of phantom stocks has been estimated on the basis of the best available information, with the aim of recognising the related service cost. An independent expert, external to the Group, was appointed to measure the value of the stocks, based on best market practices. The cost recognised for 2017 amounts to approximately €0.6 million, equivalent to the liability recognised in amounts due to staff.

Severance payments on termination of employment

Severance payments to BancoPosta RFC's Material Risk Takers on early termination are paid in accordance with the same procedures applied to short-term variable remuneration as regards deferral, payment in financial instruments and verification of the minimum regulatory capital and liquidity requirements for BancoPosta RFC.

The total number of phantom stocks awarded following early termination of employment in 2017 amounted to 276,744. The cost recognised in profit or loss amounts to approximately €1.5 million, equivalent to the liability recognised in amounts due to staff.

Information on investments

Details of investments are as follows:

List of investments consolidated on a line-by-line basis

Name (Registered office) (€000)	% interest	Share capital	Profit / (loss) for the year	Equity
BancoPosta Fondi SpA SGR (Rome)	100.00%	12,000	29,134	53,886
Consorzio Logistica Pacchi ScpA (Rome)	100.00%	516	-	516
Consorzio per i Servizi di Telefonia Mobile ScpA (Rome) (*)	100.00%	120	-	120
Consorzio PosteMotori (Rome)	80.75%	120	171	291
Europa Gestioni Immobiliari SpA (Rome)	100.00%	103,200	1,843	237,263
Mistral Air Srl (Rome) (**)	100.00%	1,000	(7,611)	(1,895)
PatentiViaPoste ScpA (Rome) (*)	86.86%	120	(2)	125
PosteMobile SpA (Rome)	100.00%	32,561	18,659	57,905
Poste Tributi ScpA (Rome) (*)(**)	90.00%	2,583	(1,053)	(1,590)
PosteTutela SpA (Rome)	100.00%	153	298	13,441
Poste Vita SpA (Rome) (*)	100.00%	1,216,608	510,172	3,323,728
Poste Assicura SpA (Rome) (*)	100.00%	25,000	28,609	104,359
Postel SpA (Rome)	100.00%	20,400	118	101,459
SDA Express Courier SpA (Rome) (**)	100.00%	10,000	(31,990)	(22,876)
Poste Welfare Servizi Srl (Rome)	100.00%	16	2,590	7,651

(*) The figures shown for these companies were prepared in accordance with IFRS and, as such, may vary from those available in the respective financial reports, which were prepared in accordance with the Italian Civil Code and Italian GAAP.

(**) Poste Italiane SpA is committed to providing financial support to the subsidiaries SDA Express Courier SpA and Mistral Air Srl for 2018 and to Poste Tributi ScpA throughout its liquidation.

List of investments accounted for using the equity method

Name (Registered office) (€000)	Nature of investment	Carrying amount	% interest	Assets	Liabilities	Equity	Revenue and income	Profit / (loss) for the year
Address Software Srl (Rome)	Subsidiary	237	51.00%	931	466	465	1,087	38
Anima Holding SpA (Milan) (a)	Associate	218,911	10.04%	1,212,463	372,770	839,693	578,620 (*)	78,347
Conio Inc. (San Francisco) (b)	Associate	68	20.00%	346	136	210	-	220
FSIA Investimenti Srl (Milano) (c)	Joint venture	286,136	30.00%	1,011,722	59,792	951,930	-	24,816
Indabox Srl (Roma)	Subsidiary	1,222	100.00%	755	151	604	98	(289)
ItaliaCamp Srl (Rome) (d)	Associate	54	20.00%	941	670	271	879	161
Kipoint SpA (Rome)	Subsidiary	614	100.00%	2,589	1,975	614	4,678	57
Risparmio Holding SpA (Roma)	Subsidiary	873	80.00%	1,208	117	1,091	-	737
Uptime SpA - in liquidation (Rome) (e)	Subsidiary	-	100.00%	4,104	4,339	(235)	5,791	(413)
Other SDA Express Courier associates (f)	Associate	4						

a. Data derived from the latest consolidated interim accounts for the period ended 30 September 2017 approved by the company's board of directors.
b. Data for Conio Inc. and its subsidiary, Conio Srl at 30 June 2017.
c. Data derived from the latest interim accounts for the period ended 30 September 2017 approved by the company's board of directors, including measurement of the SIA group at equity and the effects recognised at the time of Purchase Price Allocation.
d. Data derived from the accounts for the period ended 31 December 2016, the latest approved by the company.
e. Data derived from the accounts for the period ended 31 December 2015, the latest approved by the company.
f. The other associates of the SDA Express Courier Group are: MDG Express Srl and Speedy Express Courier Srl.
(*) The amount includes commissions, interest income and other similar income.

Postal savings deposits

the following table provides a breakdown of postal savings deposits collected by the Parent Company in the name of and on behalf of Cassa Depositi e Prestiti, by category. The amounts are inclusive of accrued, unpaid interest.

Postal savings deposits

Item (€m)	At 31 December 2017	At 31 December 2016
Post office savings books	108,564	118,938
Interest-bearing Postal Certificates	214,347	203,962
Cassa Depositi e Prestiti	146,104	134,121
Ministry of the Economy and Finance	68,243	69,841
Total	**322,911**	**322,900**

Assets under management

assets under management by BancoPosta Fondi SpA SGR, measured at fair value using information available on the last working day of the year, amount to €7,984 million at 31 December 2017 (€7,269 million at 31 December 2016).

Commitments

The Group's purchase commitments break down as follows.

Commitments

Item (€m)	Balance at 31 December 2017	Balance at 31 December 2016
Purchase commitments		
Property leases	523	501
Purchases of property, plant and equipment	42	41
Purchases of intangible assets	32	27
Vehicle leases	200	260
Other leases	26	28
Total	**823**	**857**

At 31 December 2017, EGI SpA has given commitments to purchase electricity, with a total value of €10.7 million, on regulated forward markets in 2018. At 31 December 2017, the corresponding market value is €12.4 million.

Poste Italiane SpA's purchase commitments break down as follows.

Purchase commitments

Item (€m)	At 31 December 2017	*related to subsidiaries*	At 31 December 2016	*related to subsidiaries*
Property leases	533	*32*	515	*13*
Property, plant and equipment	42	-	43	*2*
Intangible assets	33	-	30	*3*
Vehicle leases	200	-	260	-
Other contracts	31	*16*	18	*4*
Total	**839**	***48***	**866**	***22***

Future commitments attributable to the Group and Poste Italiane SpA related to property leases, which may generally be terminated with six months' notice, break down by due date as follows:

Commitments for property leases - Poste Italiane Group

Item (€m)	Balance at 31 December 2017	Balance at 31 December 2016
Instalments falling due:		
within 1 year of the reporting date	138	139
between 2 and 5 years after the reporting date	320	311
more than 5 years after the reporting date	65	52
Total	**523**	**502**

Commitments for property leases - Poste Italiane SpA

Item (€m)	At 31 December 2017	*related to subsidiaries*	At 31 December 2016	*related to subsidiaries*
Instalments falling due:				
within 1 year of the reporting date	145	*7*	146	*7*
between 2 and 5 years after the reporting date	333	*20*	316	*5*
more than 5 years after the reporting date	55	*5*	53	*1*
Total	**533**	***32***	**515**	***13***

Guarantees

Unsecured guarantees issued by the Group and Poste Italiane SpA are as follows:

Guarantees

Item (€m)	Balance at 31 December 2017	Balance at 31 December 2016
Sureties and other guarantees issued:		
by banks/insurance companies in the interests of Group companies in favour of third parties	283	321
by the Group in its own interests in favour of third parties	21	-
Total	**304**	**321**

Guarantees

Item (€m)	At 31 December 2017	At 31 December 2016
Sureties and other guarantees issued:		
by banks in the interests of Poste Italiane SpA in favour of third parties	172	212
by Poste Italiane SpA in the interests of subsidiaries in favour of third parties	59	59
letters of patronage issued by Poste Italiane SpA in the interests of subsidiaries	21	1
Total	**252**	**272**

Third-party assets

Third-party assets held by Group companies are shown below. This type of asset refers solely to the Parent Company, Poste Italiane SpA.

Third-party assets

Item (€m)	Balance at 31 December 2017	Balance at 31 December 2016
Bonds subscribed by customers held at third-party banks	3,562	5,262
Total	**3,562**	**5,262**

In addition to the above, at 31 December 2017, Poste Italiane SpA holds a further €3 million in assets belonging to Group companies.

Assets in the process of allocation

at 31 December 2017, the Parent Company had paid a total of €107 million in claims on behalf of the Ministry of Justice, for which, under the agreement between Poste Italiane SpA and the MEF, it has already been reimbursed by the Treasury, whilst awaiting acknowledgement of the relevant account receivable from the Ministry of Justice.

Disclosure of fees paid to independent auditors pursuant to art.149 *Duodecies* of the CONSOB's regulations for issuers

The following table shows fees payable to the Parent Company's auditors, PricewaterhouseCoopers SpA, and companies within its network for 2017, presented in accordance with art. 149 duodecies of the CONSOB's Regulations for Issuers:

Disclosure of fees paid to Independent Auditors

Type of service (€000)	Supplier of service	Fees (*)
Poste Italiane SpA		
Audit	PricewaterhouseCoopers SpA	1,166
	PricewaterhouseCoopers network	-
Attestation services	PricewaterhouseCoopers SpA	293
	PricewaterhouseCoopers network	-
Other services	PricewaterhouseCoopers SpA	55
	PricewaterhouseCoopers network	-
Subsidiaries of Poste Italiane SpA		
Audit (**)	PricewaterhouseCoopers SpA	1,058
	PricewaterhouseCoopers network	-
Attestation services	PricewaterhouseCoopers SpA	353
	PricewaterhouseCoopers network	-
Other services	PricewaterhouseCoopers SpA	95
	PricewaterhouseCoopers network	-
Total		**3,020**

(*) The above amounts do not include incidental expenses and charges.
(**) The amounts shown do not include fees for auditing services performed in respect of funds managed by BancoPosta Fondi SGR SpA and payable by investors, amounting to €119 thousand.

Auditing services are expensed as incurred and reported in the audited financial statements[115]. With regard to the Parent Company, the item "Audit" includes additional fees of €130 thousand subject to approval by the Annual General Meeting of shareholders on 29 May 2018.

115. Any audit or attestation services relating to accounts prior to the reporting date are recognised on an accruals basis, following engagement of the auditor, in the year in which the services are rendered, applying the percentage of completion method.

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12. BancoPosta RFC Separate Report

FOR THE YEAR ENDED 31 DECEMBER 2017


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BANCOPOSTA RFC SEPARATE REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

Financial statements

Statement of financial position

Assets (€)		at 31 December 2017	at 31 December 2016
10.	Cash and cash equivalents	3,217,163,704	2,510,820,434
20.	Financial assets held for trading	-	-
30.	Financial assets designated at fair value	-	-
40.	Available-for-sale financial assets	39,140,379,660	37,263,441,355
50.	Held-to-maturity financial assets	12,912,363,033	12,682,587,907
60.	Due from banks	1,150,646,309	1,314,337,052
70.	Due from customers	7,951,158,686	9,004,203,937
80.	Hedging derivatives	394,507,899	190,911,119
90.	Adjustments for changes in hedged financial assets portfolio (+/-)	-	-
100.	Investments	-	-
110.	Property, plant and equipment	-	-
120.	Intangible assets	-	-
	of which:		
	- goodwill	-	-
130.	Tax assets:	405,671,786	320,870,907
	a) current	-	-
	b) deferred	*405,671,786*	*320,870,907*
	of which Law 214/2011	-	-
140.	Non-current assets held for sale and discontinued operations	-	-
150.	Other assets	2,063,534,180	1,765,994,097
Total assets		**67,235,425,257**	**65,053,166,808**

Statement of financial position

Liabilities and equity (€)		at 31 December 2017	at 31 December 2016
10.	Due to banks	5,949,610,345	5,798,577,802
20.	Due to customers	53,686,408,893	50,373,852,771
30.	Debt securities in issue	-	-
40.	Financial liabilities held for trading	-	-
50.	Financial liabilities designated at fair value	-	-
60.	Hedging derivatives	1,637,107,776	2,304,549,533
70.	Adjustments for changes in hedged financial liabilities portfolio (+/-)	-	-
80.	Tax liabilities:	307,944,970	530,290,120
	a) current	-	-
	b) deferred	*307,944,970*	*530,290,120*
90.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-
100.	Other liabilities	2,335,518,644	2,178,775,258
110.	Employee termination benefits	16,538,104	18,556,806
120.	Provisions for risks and charges:	543,375,786	462,396,773
	a) post-employment benefits	-	-
	b) other provisions	*543,375,786*	*462,396,773*
130.	Valuation reserves	114,941,270	868,891,183
140.	Redeemable shares	-	-
150.	Equity instruments	-	-
160.	Reserves	2,058,999,822	1,948,999,822
170.	Share premium reserve	-	-
180.	Share capital	-	-
190.	Treasury shares (-)	-	-
200.	Profit/(Loss) for the year (+/-)	584,979,647	568,276,740
Total liabilities and equity		**67,235,425,257**	**65,053,166,808**

Income statement

Income/(Expense) (€)		for the year ended 31 December 2017	for the year ended 31 December 2016
10.	Interest and similar income	1,525,963,155	1,542,998,078
20.	Interest and similar expense	(78,167,651)	(73,840,796)
30.	**Net interest income**	**1,447,795,504**	**1,469,157,282**
40.	Fee and commission income	3,628,959,602	3,602,704,357
50.	Fee and commission expense	(64,607,340)	(66,084,130)
60.	**Net fee and commission income**	**3,564,352,262**	**3,536,620,227**
70.	Dividends and similar income	597,839	690,388
80.	Profits/(Losses) on trading	2,342,123	3,133,641
90.	Fair value adjustments in hedge accounting	1,897,984	(910,193)
100.	Profits/(Losses) on disposal or repurchase of:	623,613,722	587,484,549
	a) loans and advances	-	-
	b) available-for-sale financial assets	*623,613,722*	*593,952,484*
	c) held-to-maturity financial assets	-	-
	d) financial liabilities	-	*(6,467,935)*
110.	Profits/(Losses) on financial assets/liabilities designated at fair value	-	-
120.	**Net interest and other banking income**	**5,640,599,434**	**5,596,175,894**
130.	Net losses/recoveries on impairment of:	(14,583,719)	(6,363,522)
	a) loans and advances	*(14,583,719)*	*(6,363,522)*
	b) available-for-sale financial assets	-	-
	c) held-to-maturity financial assets	-	-
	d) other financial transactions	-	-
140.	**Net income from banking activities**	**5,626,015,715**	**5,589,812,372**
150.	Administrative expenses:	(4,615,783,659)	(4,653,115,006)
	a) personnel expenses	*(93,415,138)*	*(98,478,270)*
	b) other administrative expenses	*(4,522,368,521)*	*(4,554,636,736)*
160.	Net provisions for risks and charges	(182,598,597)	(94,802,615)
170.	Net losses/recoveries on property, plant and equipment	-	-
180.	Net losses/recoveries on intangible assets	-	-
190.	Other operating income/(expenses)	(57,613,621)	(39,373,904)
200.	**Operating expenses**	**(4,855,995,877)**	**(4,787,291,525)**
210.	Profits/(Losses) on investments	-	-
220.	Profits/(Losses) on fair value measurement of property, plant and equipment and intangible assets	-	-
230.	Impairment of goodwill	-	-
240.	Profits/(Losses) on disposal of investments	-	-
250.	**Income/(Loss) before tax from continuing operations**	**770,019,838**	**802,520,847**
260.	Taxes on income from continuing operations	(185,040,191)	(234,244,107)
270.	**Income/(Loss) after tax from continuing operations**	**584,979,647**	**568,276,740**
280.	Income/(Loss) after tax from discontinued operations	-	-
290.	**Profit/(Loss) for the year**	**584,979,647**	**568,276,740**

Statement of comprehensive income

	Income/(Expense) (€)	for the year ended 31 December 2017	for the year ended 31 December 2016
10.	**Profit/(Loss) for the year**	**584,979,647**	**568,276,740**
	Other components of comprehensive income after taxes not reclassified to profit or loss		
20.	Property, plant and equipment	-	-
30.	Intangible assets	-	-
40.	Defined benefit plans	283,022	(422,365)
50.	Non-current assets held for sale	-	-
60.	Share of valuation reserve attributable to equity-accounted investments	-	-
	Other components of comprehensive income after taxes reclassified to profit or loss		
70.	Hedges of foreign investments	-	-
80.	Foreign exchange differences	-	-
90.	Cash flow hedges	(44,678,244)	(25,835,153)
100.	Available-for-sale financial assets	(709,554,691)	(1,611,038,479)
110.	Non-current assets held for sale	-	-
120.	Share of valuation reserve attributable to equity-accounted investments	-	-
130.	**Total other components of comprehensive income after taxes**	**(753,949,913)**	**(1,637,295,997)**
140.	**Comprehensive income (Items 10+130)**	**(168,970,266)**	**(1,069,019,257)**

Statement of changes in equity

(€)	Share capital - ordinary shares	Share capital - other shares	Share premium reserve	Reserves - retained earnings	Reserves - other (*)	Valuation reserves	Equity instruments	Treasury shares	Profit/(Loss) for the year	Equity
	at 31 December 2017									
Closing balances at 31 December 2016	**-**	**-**	**-**	**948,999,822**	**1,000,000,000**	**868,891,183**	**-**	**-**	**568,276,740**	**3,386,167,745**
Adjustments to opening balances	-	-	-	-	-	-	-	-	-	-
Opening balances at 1 January 2017	**-**	**-**	**-**	**948,999,822**	**1,000,000,000**	**868,891,183**	**-**	**-**	**568,276,740**	**3,386,167,745**
Attribution of retained earnings	**-**	**-**	**-**	**110,000,000**	**-**	**-**	**-**	**-**	**(568,276,740)**	**(458,276,740)**
Reserves	-	-	-	110,000,000	-	-	-	-	(110,000,000)	-
Dividends and other attributions	-	-	-	-	-	-	-	-	(458,276,740)	(458,276,740)
Movements during the year	**-**	**-**	**-**	**-**	**-**	**(753,949,913)**	**-**	**-**	**584,979,647**	**(168,970,266)**
Movements in reserves	-	-	-	-	-	-	-	-	-	-
Equity-related transactions	-	-	-	-	-	-	-	-	-	-
Issuance of new shares	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-
Payment of extraordinary dividends	-	-	-	-	-	-	-	-	-	-
Movements in equity instruments	-	-	-	-	-	-	-	-	-	-
Derivatives on own shares	-	-	-	-	-	-	-	-	-	-
Stock options	-	-	-	-	-	-	-	-	-	-
Comprehensive income for 2017	-	-	-	-	-	(753,949,913)	-	-	584,979,647	(168,970,266)
Equity at 31 December 2017	**-**	**-**	**-**	**1,058,999,822**	**1,000,000,000**	**114,941,270**	**-**	**-**	**584,979,647**	**2,758,920,739**

(*) This item corresponds to the BancoPosta RFC reserve.

at 31 December 2016

(€)	Share capital: ordinary shares	Share capital: other shares	Share premium reserve	Reserves: retained earnings	Reserves: other (*)	Valuation reserves	Equity instruments	Treasury shares	Profit/(Loss) for the year	Equity
Closing balances at 31 December 2015	**-**	**-**	**-**	**948,996,672**	**1,000,000,000**	**2,506,187,180**	**-**	**-**	**586,969,571**	**5,042,153,423**
Adjustments to opening balances	-	-	-	-	-	-	-	-	-	-
Opening balances at 1 January 2016	**-**	**-**	**-**	**948,996,672**	**1,000,000,000**	**2,506,187,180**	**-**	**-**	**586,969,571**	**5,042,153,423**
Attribution of retained earnings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(586,969,571)**	**(586,969,571)**
Reserves	-	-	-	-	-	-	-	-	-	-
Dividends and other attributions	-	-	-	-	-	-	-	-	(586,969,571)	(586,969,571)
Movements during the year	**-**	**-**	**-**	**3,150**	**-**	**(1,637,295,997)**	**-**	**-**	**568,276,740**	**(1,069,016,107)**
Movements in reserves	-	-	-	3,150	-	-	-	-	-	3,150
Equity-related transactions	-	-	-	-	-	-	-	-	-	-
Issuance of new shares	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-
Payment of extraordinary dividends	-	-	-	-	-	-	-	-	-	-
Movements in equity instruments	-	-	-	-	-	-	-	-	-	-
Derivatives on own shares	-	-	-	-	-	-	-	-	-	-
Stock options	-	-	-	-	-	-	-	-	-	-
Comprehensive income for 2016	-	-	-	-	-	(1,637,295,997)	-	-	568,276,740	(1,069,019,257)
Equity at 31 December 2016	**-**	**-**	**-**	**948,999,822**	**1,000,000,000**	**868,891,183**	**-**	**-**	**568,276,740**	**3,386,167,745**

(*) This item corresponds to the BancoPosta RFC reserve.

Statement of cash flows

Indirect method

(€)	for the year ended 31 December 2017	for the year ended 31 December 2016
A. OPERATING ACTIVITIES		
1. Cash flow from operations	**669,944,592**	**650,037,706**
- profit/(loss) for the year (+/-)	584,979,647	568,276,740
- gains/(losses) on financial assets held for trading and on assets and liabilities designated at fair value (-/+)	1,095,199	68,387
- gains/(losses) on hedging activities (-/+)	(1,897,984)	910,193
- net losses/recoveries on impairment (+/-)	14,583,719	6,363,522
- net losses/recoveries on property, plant and equipment (+/-)	-	-
- net provisions and other expenses/income (+/-)	444,520,215	398,219,073
- unpaid taxes and duties (+)	185,040,192	234,017,820
- net losses/recoveries on discontinued operations after tax (+/-)	-	-
- other adjustments (+/-)	(558,376,396)	(557,818,029)
2. Cash flow from/(used for) financial assets	**(2,070,552,058)**	**(5,941,565,182)**
- financial assets held for trading	-	-
- financial assets designated at fair value	-	-
- available-for-sale financial assets	(2,764,116,693)	(5,467,991,805)
- due from banks: on demand	(540,869)	(399,288)
- due from banks: other	163,136,413	(103,403,902)
- due from customers	1,038,461,533	20,821,972
- other assets	(507,492,442)	(390,592,159)
3. Cash flow from/(used for) financial liabilities	**2,847,080,414**	**5,041,164,367**
- due to banks: on demand	638,071,027	101,623,433
- due to banks: other	(487,038,484)	437,934,922
- due to customers	3,312,556,122	4,904,804,958
- debt securities in issue	-	-
- financial liabilities held for trading	-	-
- financial liabilities designated at fair value	-	-
- other liabilities	(616,508,251)	(403,198,946)
Net cash flow from/(used for) operating activities	**1,446,472,948**	**(250,363,109)**
B. INVESTING ACTIVITIES		
1. Cash flow from	**1,300,000,002**	**1,300,000,002**
- disposal of investments	-	-
- dividends received on investments	-	-
- disposal of held-to-maturity financial assets	1,300,000,002	1,300,000,002
- disposal of property, plant and equipment	-	-
- disposal of intangible assets	-	-
- disposal of business division	-	-
2. Cash flow used for	**(1,581,852,940)**	**(1,120,543,164)**
- acquisition of investments	-	-
- acquisition of held-to-maturity financial assets	(1,581,852,940)	(1,120,543,164)
- acquisition of property, plant and equipment	-	-
- acquisition of intangible assets	-	-
- acquisition of business division	-	-
Net cash flow from / (used for) investing activities	**(281,852,938)**	**179,456,838**
C. FINANCING ACTIVITIES		
- issuance/purchase of own shares	-	-
- issuance/purchase of equity instruments	-	-
- dividends and other payments	(458,276,740)	(586,969,571)
Net cash flow from / (used for) financing activities	**(458,276,740)**	**(586,969,571)**
NET CASH FLOW GENERATED / (USED) DURING THE YEAR	**706,343,270**	**(657,875,842)**

KEY:
(+) from
(-) used for

Reconciliation

Item (€)	for the year ended 31 December 2017	for the year ended 31 December 2016
Cash and cash equivalents at beginning of the year	2,510,820,434	3,168,696,276
Net cash flow generated/(used) during the year	706,343,270	(657,875,842)
Cash and cash equivalents: foreign exchange effect	-	-
Cash and cash equivalents at end of the year	**3,217,163,704**	**2,510,820,434**

Notes

Part A – Accounting policies

A.1 – General

Section 1 – Declaration of compliance with international financial reporting standards

The Separate Report has been prepared in compliance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). These were endorsed for application in the European Union by European Regulation (EC) 1606/2002 of 19 July 2002, as transposed into Italian law by Legislative Decree 38 of 28 February 2005 governing the introduction of IFRS into Italian legislation. The term "IFRS" means all International Financial Reporting Standards, all International Accounting Standards ("IAS"), and all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") previously known as the Standing Interpretations Committee ("SIC") endorsed for application in the European Union by EU Regulations issued prior to 29 March 2018, the date on which the Board of Directors of Poste Italiane SpA approved the BancoPosta RFC Separate Report as part of Poste Italiane SpA's Annual Report.

Accounting standards and interpretations applicable from 1 January 2017 and those soon to be effective

The relevant information is provided in note 2.7 – *New Accounting standards and interpretations and those soon to be effective* – in the section – *Poste Italiane financial statements* – of this Annual Report.

In 2017, Poste Italiane SpA prepared for implementation of the new accounting standard, IFRS 9, which will come into effect from 1 January 2018 and will largely replace the current standard, IAS 39. The purpose of the process was: i) to identify the impact of the standard ("Classification & Measurement", "Impairment" and "Hedge accounting"), ii) to determine the quantitative and qualitative effects of transition, iii) to identify and implement the applications and organisational changes necessary in order to ensure consistent, organic and effective adoption within the Group.

Information on the assessment of the qualitative effects and the choices made is provided in the above note 2.7. Preliminary information about the main effects on BancoPosta RFC's assets and liabilities at 1 January 2018, resulting from adoption of the new accounting standard, is provided below. Checks on the data presented below are still in progress. All the effects are shown before the related taxation.

Classification and Measurement of financial instruments

BancoPosta RFC's securities portfolio at 31 December 2017 consists of the following:

- "Held-to-maturity financial assets": €12.9 billion;
- "Available-for-sale financial assets": €39.1 billion.

Following application of IFRS 9 as indicated in the above note 2.7, and assuming a positive outcome to the checks being carried out, BancoPosta RFC's securities portfolio at 1 January 2018 will consist of the following:

- "Financial assets measured at amortised cost" (business model: Hold to Collect): €19.1 billion;
- "Financial assets measured at fair value through other comprehensive income" (business model: Hold to Collect and Sell): €34.8 billion.

Impairment

As a result of the new rules introduced by IFRS 9 governing the approach to calculating impairments (Expected Credit Losses - ECLs) and the expected loss models adopted, the ECLs at 1 January 2018, recognised in revenue reserves, amount to €25 million and include:

- €8 million on securities classified as "Financial assets measured at amortised cost";
- €14 million on securities classified as "Financial assets measured at fair value through other comprehensive income";
- €3 million on other financial assets measured at amortised cost (other than securities).

Effects on equity

As a result of the above, the expected effects on BancoPosta RFC's equity at 1 January 2018 are as follows (before the related taxation):

- An increase of approximately €1.9 billion in the fair value reserve;
- A reduction of approximately €8 million in revenue reserves, of which:
    - a reduction of €25 million resulting from the new method of determining ECLs;
    - an increase of €16 million, resulting from the reclassification to "Financial assets measured at fair value through profit or loss" of equity instruments classified in "Available-for-sale financial assets" at 31 December 2017.

In 2017, Poste Italiane SpA also prepared for implementation of the new accounting standard, IFRS 15 – Revenue from Contracts with Customers, which will come into effect from 1 January 2018 and which will replace IAS 18, IAS 11 and IFRIC 13. The purpose of the process was to assess contracts of sale, categorised by type of activity, and identify each existing performance obligation and any gaps between the accounting policies currently applied and those introduced by the new standard. This involved analysing administrative and accounting processes, the available IT systems, and existing procedures to assess their compliance with the new standard. A description of the assessment carried out is provided in the above note 2.7. Application of the new standard at the transition date will not have any impact on BancoPosta RFC's revenue reserves.

Section 2 – Basis of preparation

The Separate Report has been prepared in application of Bank of Italy Circular 262 of 22 December 2005 – "Banks' Financial Statements: Layouts and Preparation", as amended, applicable at the date of preparation of this Report, and of art. 2447 septies, paragraph 2, of the Italian Civil Code. On 27 May 2014, the Bank of Italy issued specific Supervisory Standards for BancoPosta RFC (Circular 285/2013, Part Four, Section 1) which, in taking into account the entity's specific organisational and operational aspects, has established prudential requirements that are substantially in line with those applicable to banks. The Standards also govern the requirements regarding capital adequacy and risk containment. The Separate Report relates to the year ended 31 December 2017, has been prepared in euros and consists of the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the explanatory notes. The statement of financial position, income statement and statement of comprehensive income consists of numbered line items and lettered line sub-items. Nil balances have also been presented in the statement of financial position, income statement and statement of comprehensive income for the sake of completeness. The statement of cash flows has been prepared using the indirect method[116]. All figures in the notes are stated in millions of euros. Notes and account analysis have not been included for nil balances.

116. Under the indirect method, net cash from operating activities is determined by adjusting profit/(loss) for the year to reflect the impact of non-cash items, any deferment or provisions for previous or future operating inflows or outflows, and revenue or cost items linked to cash flows from investing or financing activities.

The Separate Report forms an integral part of Poste Italiane SpA's financial statements and has been prepared on a going concern basis in that BancoPosta's operations are certain to continue in the foreseeable future. BancoPosta's accounting policies, described in the Separate Report, are the same as those adopted by Poste Italiane SpA and are relevant to all of BancoPosta RFC's operations.

Section 3 – Events after the end of the reporting period

- On 25 January 2018, Poste Italiane SpA's Board of Directors approved the Company's transfer of free reserves of €210 million to BancoPosta RFC in order to restore the leverage ratio to the target level set out in the Risk Appetite Frameworkk[117]. At the same time, it was decided to submit the proposal to strengthen BancoPosta RFC's capital for approval by an Extraordinary General Meeting of Poste Italiane SpA's shareholders.
- On 25 January 2018, Poste Italiane SpA's Board of Directors approved the separation and transfer of certain assets, contractual rights and authorisations from BancoPosta RFC to a new ring-fenced e-money and payment services unit to be set up within PosteMobile SpA, as well as the separation of the contractual rights and authorisations relating to back-office and anti-money laundering activities. These corporate actions were subject to approval by Extraordinary General Meeting, following prior receipt of all the consents needed to comply with existing statutory and regulatory requirements. Submission to the Bank of Italy of a request for authorisation to remove the ring-fence from the assets, contractual rights and authorisations that make up the e-money and payment services unit was also approved.
- On 19 February 2018, Poste Italiane SpA's Board of Directors approved an initiative designed to protect customers who had invested in the Europa Immobiliare 1 fund, granting the Chief Executive Officer the authority and the powers to take all the preparatory and consequent steps to implement the initiative.

117. Further details are provided in Part E – Introduction.

Section 4 – Other information

4.1 Intersegment relations

Balances relating to transactions between BancoPosta RFC and Poste Italiane SpA ("Intersegment transactions") are recognised in the statement of financial position at 31 December 2017 as shown below:

(€m)		At 31 December 2017	*of which intersegment*	At 31 December 2016	*of which intersegment*
	Assets				
10.	Cash and cash equivalents	3,217	-	2,511	-
40.	Available-for-sale financial assets	39,140	-	37,263	-
50.	Held-to-maturity financial assets	12,912	-	12,683	-
60.	Due from banks	1,151	-	1,314	-
70.	Due from customers	7,951	734	9,004	632
80.	Hedging derivatives	395	-	191	-
130.	Tax assets	406	-	321	-
150.	Other assets	2,063	22	1,766	29
	A Total assets	**67,235**	**756**	**65,053**	**661**
	Liabilities and equity				
10.	Due to banks	5,950	-	5,799	-
20.	Due to customers	53,686	256	50,374	82
60.	Hedging derivatives	1,637	-	2,305	-
80.	Tax liabilities	308	-	530	-
100.	Other liabilities	2,335	254	2,178	297
110.	Employee termination benefits	17	-	19	-
120.	Provisions for risks and charges	543	-	462	-
130.	Valuation reserves	115	-	869	-
160.	Reserves	2,059	-	1,949	-
200.	Profit/(Loss) for the year (+/-)	585	-	568	-
	B Total liabilities and equity	**67,235**	**510**	**65,053**	**379**
	A-B Net intersegment balances		**246**		**282**

The provision of services to BancoPosta RFC by Poste Italiane SpA functions is governed by specific *General Guidelines governing the process of contracting out BancoPosta's corporate functions to Poste Italiane* (the "General Guidelines"), the latest version of which was approved by Poste Italiane SpA's Board of Directors. In implementation of *BancoPosta RFC's Regulation*, these General Guidelines identify the services in question and determine the manner in which they are remunerated. The general policies and instructions contained in the General Guidelines in relation to transfer pricing are detailed in specific Operating Guidelines, jointly developed by BancoPosta and other Poste Italiane SpA functions. The Operating Guidelines establish, among other things, levels of service and the related transfer prices, and become effective, in accordance with the General Guidelines, following an authorisation process involving the relevant functions, the Chief Executive Officer and, when provided for, Poste Italiane SpA's Board of Directors. When BancoPosta intends to contract out a major operating process or a control procedure, whether in its entirety or in part, to Poste Italiane SpA in accordance with specific Operating Guidelines, it must give prior notice to the Bank of Italy. In accordance with Bank of Italy Circular 285 issued on 17 December 2013, Part Four, Chapter 1 BancoPosta, Section II, paragraph 2, the Board of Statutory Auditors is required to verify, at least every six months, that the policies adopted are fit for purpose and are in compliance with the related statutory requirements and supervisory standards.

In line with 2016, the services are charged for in the form of transfer prices. The transfer prices paid, inclusive of commissions and any other form of remuneration due, are determined on the basis of market prices and tariffs for the same or similar services, identified, where possible, following a benchmarking process. When the specifics and/or the particular nature of a service provided by a Poste Italiane function do not allow the use of a comparable market price, a cost-based method is used, again with the support of benchmarking to ensure that the price charged is adequate for the service provided. In this case, an appropriate mark-up, determined with reference to those used by comparable peers, is applied. From 2017, the resulting transfer prices are reviewed every two years.

For the purposes of oversight of the unbundled accounts, in 2017 the Board of Statutory Auditors conducted the relevant audit activities during 3 meetings, reporting its conclusions in its annual report to shareholders for the year ended 31 December 2017.

4.2 Relations with the Authorities

AGCM (The Antitrust Authority)

On 9 March 2015, the Authority notified Poste Italiane SpA of an investigation of BancoPosta RFC for alleged violation of articles 20, 21 and 22 of the Consumer Code, regarding the "Libretto Smart" product. On 21 December 2015, the AGCM notified Poste Italiane of its final ruling, in which it deemed the Company's conduct unfair and imposed a fine of €0.54 million, limited to a tenth of the maximum applicable amount, taking into account the mitigating circumstance that Poste Italiane had adopted initiatives aimed at allowing customers to benefit from the bonus rate. Poste Italiane lodged an appeal against this ruling before the Lazio Regional Administrative Court, which adjourned the case to a hearing on the merits.

Bank of Italy

In 2017, the Bank of Italy conducted an inspection pursuant to art. 54 of Legislative Decree 385 of 1993, with the aim of assessing the governance, control and operational and IT risk management systems in relation to BancoPosta's operations. The inspection began on 10 February 2017 and ended on 5 May 2017. The related Inspection Report was issued on 20 July 2017. Poste Italiane responded within the required deadline by submitting its views in September 2017 and initiating the necessary remedial action.

In addition, on 28 September 2017, the Bank of Italy began an inspection pursuant to art. 53 of Legislative Decree 231/2007, again with regard to BancoPosta's operations. The inspection related to money laundering prevention at a sample of post offices. The inspection, which was concluded on 11 December 2017, had the nature of a follow-up to the inspection conducted in 2015, aimed to assess the progress made in implementing the compliance initiatives communicated to the Bank.

CONSOB

In accordance with the roll-out plan launched in October 2016, in 2017, Poste Italiane completed the process of releasing the software for the new "guided consultancy" service, which was gradually implemented throughout Poste Italiane's post office network during the year. In parallel, during the second half of 2017, further work was carried out in order to comply with the requirements of MiFID2, which came into effect from 3 January 2018. The changes made to procedures and IT systems, together with the further initiatives planned for 2018 with a view to consolidating the related processes, were the subject of a specific report to the CONSOB.

A.2 – Part relating to principal financial statement items

The following notes have been numbered in accordance with instructions contained in Bank of Italy Circular 262/2005. Omitted numbers denote information not relevant to the Separate Report.

1 – Financial assets held for trading

a) Recognition

Financial assets held for trading are initially recognised on the settlement date for debt and equity securities, whereas, for derivative contracts, on the subscription date. Financial assets are initially recognised at fair value which is generally the price paid. Any changes in fair value occurring between the trade and settlement dates are recognised in the Separate Report.

b) Classification

This category includes debt and equity instruments acquired primarily to obtain a short-term profit as the result of changes in their prices and the positive value of derivative contracts unless designated as hedging instruments.

c) Measurement and recognition of gains and losses

Financial assets held for trading are recognised at fair value with any changes in fair value recognised in profit or loss in line "Item 80 - Profits/(Losses) on trading". Derivatives are accounted for either as assets or liabilities depending on whether their fair value is positive or negative.

d) Derecognition

Financial assets are derecognised when the contractual rights to the cash flows of those financial assets lapse or when the financial asset is sold and all risks and rewards relating to the financial asset are substantially transferred.

2 – Available-for-sale financial assets

a) Recognition

Available-for-sale financial assets are initially recognised on the settlement date at fair value which is generally the price paid. Any changes in fair value occurring between the trade and settlement dates are recognised in the Separate Report. If, exceptionally, recognition is the result of the reclassification of Held-to-maturity assets, recognition is at fair value at the time of the reclassification. Any difference in the initial amount at which debt securities are recognised and the amount of repayments is amortised over the term of the security.

b) Classification

Available-for-sale financial assets are non-derivative financial instruments that are either designated in this category or not attributable to any of the other categories described in paragraphs 1, 3 and 4.

c) Measurement

Available-for-sale financial assets are recognised at fair value and any resulting fair value gains or losses are recognised in an equity reserve. This reserve is only recycled to profit or loss when the financial asset is effectively disposed of (or settled) or, in the event of accumulated losses, when there is evidence that the impairment recognised in equity cannot be recovered. Solely in the case of debt securities, if the fair value subsequently increases as the objective result of an event that took place after the impairment loss was recognised in profit or loss, the value of the financial instrument is reinstated and the reversal recognised in profit or loss. The recognition of returns on debt securities under the amortised cost method [118] takes place through profit or loss, as do the effects of movements in exchange rates, whilst movements in exchange rates relating to available-for-sale equity instruments are recognised in a specific equity reserve.

d) Derecognition

Available-for-sale financial assets are derecognised when the contractual rights to the cash flows of those financial assets cease or on the disposal of the financial asset and substantially all risks and rewards relating to the financial asset are transferred. Any securities received as part of a transaction entailing subsequent re-sale and the delivery of securities as part of a transaction entailing their subsequent repurchase are not either recognised or derecognised.

118. The amortised cost of a financial asset or liability is the amount at which the asset or liability is initially recognised less any repayments of principal, plus or minus accumulated amortisation, in application of the effective interest rate method, of all differences between the amount initially recognised and the amount repayable on maturity less any impairment due to insolvency or any other reason. The effective interest rate is the rate that exactly discounts contractual (or expected) future cash payments or receipts over the expected life of the asset or liability to its initial carrying amount. Calculation of amortised cost must also include external costs and income directly attributable to the asset or liability on initial recognition.

3 – Held-to-maturity financial assets

a) Recognition

Held-to-maturity financial assets are initially recognised on settlement date. They are initially recognised at fair value which is generally the price paid. When recognition in this category arises in connection with the reclassification of available-for-sale financial assets, the fair value of the asset at the date of reclassification is deemed to be the asset's amortised cost.

b) Classification

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and maturities that BancoPosta RFC has a positive intention and ability to hold to maturity.

c) Measurement and recognition of gains and losses

Held-to-maturity financial assets are measured at amortised cost using the effective interest rate method adjusted for any impairments. Any gains or losses are recognised in profit or loss in line item 10 - Interest and similar income. In the event that there is objective evidence of an impairment, the impairment loss recognised as the amount that would equate the carrying amount to the present value of the projected cash flows. Any impairment loss is then recognised in profit or loss. If, subsequently, the reasons giving rise to the impairment cease to exist, the impairments are reversed to reinstate the amortised cost that would have been the carrying amount if there had been no impairment.

d) Derecognition

Held-to-maturity financial assets are derecognised when the contractual rights to the cash flows of those financial assets lapse or on the disposal of the financial asset and all risks and rewards relating to the financial asset are substantially transferred. Any securities received as part of a transaction entailing subsequent re-sale and the delivery of securities as part of a transaction entailing their subsequent repurchase are not either recognised or derecognised.

4 – Loans and receivables

a) Classification and recognition

Loans and advances are non-derivative, unlisted financial instruments largely consisting of deposits at the Ministry of the Economy and Finance (the MEF) which are expected to generate income of fixed amounts or which can be determined. Receivables relate to operations and are trade in nature. Loans and advances are recognised on settlement, whereas receivables relating to operations are recognised when the service is rendered.

b) Measurement and recognition of gains and losses

Receivables, loans and advances are carried at amortised cost determined using the effective interest rate method adjusted for any impairment. Impairments are recognised as described in the note on held-to-maturity financial assets.

c) Derecognition

Receivables, loans and advances are derecognised when the contractual rights to the cash flows of those financial assets lapse or on disposal of the financial asset and all risks and rewards relating to the financial asset are substantially transferred.

6 – Hedges

a) Recognition and classification

Derivative hedges are initially recognised on conclusion of the relevant contract. There are two types of hedge:

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

b) Measurement and recognition of gains and losses

Derivatives are initially recognised at fair value on the date the derivative contract is executed. If derivative financial instruments qualify for hedge accounting, gains and losses arising from changes in fair value after initial recognition are accounted for in accordance with the specific policies described below. The relationship between each hedging instrument and the hedged item is documented, as well as the risk management objective, the strategy for undertaking the hedge transaction and the methods used to assess effectiveness. Assessment of whether the hedging derivative is effective takes place both at inception of the hedge and throughout the term of the hedge.

- **Fair value hedges**
  When the hedge is related to recognised assets or liabilities, or an unrecognised firm commitment, changes in the fair values of both the hedging instrument and the hedged item are recognised in profit or loss. Any difference represents the ineffective portion of the hedge and is accounted for as a loss or gain, recognised separately in line “Item 90 - Fair value adjustments in hedge accounting”.

- **Cash flow hedges**
  The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges after initial recognition is recognised in a specific equity reserve (the “Cash flow hedge reserve”). A hedging transaction is generally considered highly effective if, both at inception of the hedge and on an ongoing basis, changes in the expected future cash flows of the hedged item are substantially offset by changes in the fair value of the hedging instrument. Amounts accumulated in equity are recycled to profit or loss in the period in which the hedged item affect profit or loss.

In the case of hedges associated with a highly probable forecast transaction (such as, forward purchases of fixed income debt securities), the reserve is reclassified to profit or loss in the period or in the periods in which the asset or liability, subsequently accounted for and connected to the aforementioned transaction, will affect profit or loss (for example, an adjustment to the return on the security).

If the hedging transaction is not fully effective, the gain or loss arising from a change in fair value relating to the ineffective portion is recognised in line “Item 90 - Fair value adjustments in hedge accounting”. If, during the life of the derivative, the forecast hedged transaction is no longer expected to occur, the related gains and losses accumulated in the cash flow hedge reserve are immediately reclassified in line “Item 80 – Profits/(Losses) on trading” for the relevant year. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the related gains and losses accumulated in the cash flow hedge reserve at that time remain in equity and are recognised in profit or loss at the same time as the original underlying.

11 – Current and deferred taxation

Current income tax expense (IRES and IRAP) is based on the best estimate of taxable profit for the period and the related regulations, applying the rates in force. Deferred tax assets and liabilities are calculated on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts, using tax rates that are expected to apply when the related deferred tax assets are realised or the deferred tax liabilities are settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Current and deferred taxes are recognised in profit or loss, with the exception of taxes charged or credited directly to equity, in which case the tax effect is recognised directly in equity.

BancoPosta RFC is not a separate legal person and is not either directly or indirectly assessable to taxes. BancoPosta’s share of taxes on Poste Italiane SpA’s overall income is charged to BancoPosta RFC based on the profit or loss presented in this Separate Report adjusted for deferred taxation. In the case of both IRES and IRAP, the computation takes all permanent and temporary changes in BancoPosta’s operations into account. Any items not directly relating to BancoPosta are included in the Poste Italiane computation.

Current tax assets and liabilities form part of intersegment relations and are presented in the Separate Report in “Other assets” and “Other liabilities”, as they are settled with the segment of Poste Italiane SpA outside the ring-fence, within the scope of internal relations with Poste Italiane SpA, which continues to be the sole taxable entity.

12 – Provisions for risks and charges

Provisions for risks and charges are recorded to cover losses that are either probable or certain to be incurred, for which, however, there is an uncertainty as to the amount or as to the date on which they will occur. Provisions for risks and charges are made when the entity has a present (legal or constructive) obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation. Provisions are measured on the basis of management’s best estimate of the use of resources required to settle the obligation. The value of the liability is discounted at a rate that reflects current market values and takes into account the risks specific to the liability. Under the option granted by the relevant accounting standards, limited disclosure is provided when, in rare cases, disclosure of some or all of the information regarding the risks in question could seriously prejudice BancoPosta RFC’s position, reputation or operating capability in a dispute or in ongoing negotiations with third parties, or when it could prejudice the regular operation of markets.

13 – Due to banks, due to customers and debt securities in issue

a) Recognition and classification

BancoPosta RFC has no outstanding debt securities and has not issued any such securities since its establishment. Due to banks and customers consist of funding provided by customers and obtained from the interbank market. These financial liabilities are recognised at fair value on the date of receipt of the funds. Fair value is normally the amount received.

b) Measurement and recognition of gains and losses

Due to banks and customers are measured at amortised cost, employing the effective interest rate method. If there is a change in expected cash flows and they can be reliably estimated, the value of borrowings is recalculated to reflect the change in estimated future cash flows and the internal rate of return initially applied.

c) Derecognition

Financial liabilities are derecognised when repaid or in the event that BancoPosta RFC transfers all liabilities and charges associated with the relevant instrument.

14 – Financial liabilities held for trading

a) Classification and recognition

Financial liabilities held for trading consist either of derivatives which do not qualify for classification as hedging instruments in accordance with accounting standards or originally obtained as a hedge which was subsequently discontinued. Financial liabilities held for trading are recognised on the derivative contract date.

b) Measurement

Financial liabilities held for trading are carried at fair value though profit or loss.

c) derecognition

Financial liabilities held for trading are derecognised on the cessation of rights to the cash flows associated with the liability or when BancoPosta RFC has substantially transferred all the related risks and rewards.

d) recognition of gains and losses

Gains and losses arising from movements in the fair value of financial liabilities held for trading are recognised in profit or loss in line “Item 80– Profits/(Losses) on trading”.

16 – Foreign currency transactions

a) Recognition

Foreign currency transactions are initially recognised in the functional currency by translating the foreign currency amount at the transaction date spot rate.

b) Classification, measurement, derecognition and recognition of gains and losses

Foreign currency items are translated at each reporting date as shown below:

- monetary items at closing exchange rates;
- non-monetary items are recognised at their historical cost translated at the transaction date spot rate;
- non-monetary items designated at fair value at closing exchange rates.

Foreign exchange differences realised on the settlement of monetary items or on the translation of monetary and non-monetary items, using exchange rates other than the rate used to translate the item on initial recognition, are recognised in profit or loss in line "Item 80 - Profits/(Losses) on trading".

17 – Other information

Revenue recognition

Revenue is recognised at the fair value of the consideration received, net of rebates and discounts, and in accordance with the accruals basis of accounting. Specifically:

- interest is evenly accrued over time at the contractual rate of interest or, for items carried at amortised cost, the effective interest rate;
- dividends are recognised in profit or loss when the right to receive payment is established, which generally corresponds with approval of the distribution by the shareholders of the investee company;
- service fee income is recognised in accordance with the underlying contracts in the period in which the services are rendered. Fees, less associated costs, are recognised on a percentage of completion basis to the extent that there is reasonable certainty that they will be paid. Fees on activities carried out in favour of or on behalf of the state and Public Administration entities are recognised on the basis of the amount effectively accrued, with reference to the laws and agreements in force, taking account, in any event, of the instructions contained in legislation regarding the public finances;
- returns on the portion of current account deposits deposited with the MEF are determined on an accruals basis, using the effective interest rate method, and classified in "Item 10 – Interest and similar income";
- the same classification is applied to income from euro area government securities, in which deposits paid into accounts by private customers are invested;
- revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods are transferred to the buyer.

Related parties

Related parties within the Poste Italiane Group are Poste Italiane SpA's functions outside the ring-fence and Poste Italiane SpA's direct and indirect subsidiaries and associates.

Related parties external to the Group include the MEF and its direct and indirect subsidiaries and associates. Related parties also include Poste Italiane SpA's key management personnel and the funds representing poste-employment benefit plans for the personnel of BancoPosta RFC and its related parties. The state and public sector entities other than the MEF are not classified as related parties. Related party transactions do not include those deriving from financial assets and liabilities represented by instruments traded on organised markets.

Employee benefits

Short-term benefits

Short-term employee benefits are those that will be fully paid within twelve months of the end of the year in which the employee provided his or her services. Such benefits include wages, salaries, social security contributions, holiday pay and sick pay.

The undiscounted value of short-term employee benefits, to be paid to employees in consideration of employment services provided over the relevant period, is accrued as personnel expenses.

Post-employment benefits

There are two types of post-employment benefit: defined contribution and defined benefit plans.

Since, for defined benefit plans, the amount of benefits payable can only be determined subsequent to the cessation of employment, the related cost and obligations can only be estimated by actuarial techniques in accordance with IAS 19.

Under defined contribution plans, contributions payable are recognised in profit or loss when incurred, based on the nominal value.

- **Defined benefit plans**
  Defined benefit plans include employee termination benefits payable to employees in accordance with article 2120 of the Italian Civil Code. Benefits vesting up to 31 December 2006[119], which are covered by the reform of supplementary pension provision, must, from 1 January 2007, be paid into a supplementary pension fund or into a Treasury Fund set up by INPS. Accordingly the BancoPosta RFC's defined benefit liability is applicable only to the provisions made up to 31 December 2006.
  The termination of employment (TFR) liability is calculated using the projected unit credit method and then discounted to recognise the time value of money prior to the liability being settled. The liability recognised in the Separate Report is also based on calculations performed by independent actuaries. The calculation takes account of termination benefits accrued for the period of service to date and is based on actuarial assumptions. These primarily regard: demographic assumptions (such as employee turnover and mortality) and financial assumptions (such as rate of inflation and a discount rate consistent with that of the liability). As BancoPosta RFC is not liable for employee termination benefits accruing after 31 December 2006, the actuarial calculation of employee termination benefits no longer takes account of future salary increases. Actuarial gains and losses are recognised directly in equity at the end of each reporting period, based on the difference between the carrying amount of the liability and the present value of the BancoPosta RFC's obligations at the end of the period, due to changes in the actuarial assumptions.

- **Defined contribution plans**
  Employee termination benefits payable pursuant to art. 2120, Italian Civil Code fall within the scope of defined contribution plans provided they vested subsequent to 1 January 2007 and were paid into a Supplementary Pension Fund or a Treasury Fund at INPS. Contributions to defined contribution plans are recognised in profit or loss when incurred, based on their nominal value.

119. Where, following entry into effect of the new legislation, the employee has not exercised any option regarding the investment of vested employee termination benefits, BancoPosta RFC has remained liable to pay the benefits until 30 June 2007, or until the date, between 1 January 2007 and 30 June 2007, on which the employee exercised a specific option. Where no option was exercised, from 1 July 2007 vested employee termination benefits have been paid into a supplementary pension fund.

Termination benefits

Termination benefits payable to employees are recognised as a liability when BancoPosta RFC gives a binding commitment, also on the basis of consolidated relationships and mutual undertakings with union representatives, to terminate the employment of an employee, or group of employees, prior to the normal retirement date or, alternatively, an employee or group of employees accepts an offer of benefits in consideration of a termination of employment. Termination benefits payable to employees are immediately recognised as personnel expenses.

Other long-term employment benefits

Other long-term employment benefits consist of benefits not payable within twelve months of the end of the reporting period during which the employees provided their services. The net change in the value of the liability during the reporting period is recognised in full in profit or loss. Measurement of the other long-term employee benefits liability is recognised in the financial statements also on the basis of calculations performed by independent actuaries.

Share-based payments

In the event of share-based payment transactions settled in cash, shares or other financial instruments, BancoPosta RFC is required to measure the goods or services acquired and the liability incurred at fair value. Until the liability is settled, the fair value of the liability must be remeasured at the end of each reporting period, recognising any changes in fair value in profit or loss for the period. In the event of benefits granted to employees, recognition should take place in the period in which the employees render service and the expense accounted for in personnel expenses.

Classification of the costs for services provided by Poste Italiane SpA

Service costs charged by Poste Italiane SpA's functions outside the ring-fence, which include a portion of the fees paid included in the transfer prices charged in accordance with the operating guidelines for Poste Italiane's commercial network, are normally recognised in "Item 150 b) - Other administrative expenses".

Use of estimates

Preparation of the Separate Report requires the application of accounting standards and methods that are at times based on complex subjective judgments and estimates based on historical experience, and assumptions that are considered reasonable and realistic under the circumstances. Use of such estimates and assumptions affects the amounts reported in the financial statements, with reference to the statement of financial position, the income statement, the statement of comprehensive income, the statement of cash flows and the notes. The actual amounts of items for which the above estimates and assumptions have been applied may differ from those reported in previous financial statements, due to uncertainties regarding the assumptions themselves and the conditions on which estimates are based. Estimates and assumptions are periodically reviewed and the impact of any changes is reflected in the financial statements for the period in which the estimate is revised if the revision only influences the current period, or also in future periods if the revision influences both current and future periods.
This section provides a description of accounting treatments that require the use of subjective estimates and for which a change in the conditions underlying the assumptions used could have a material impact on BancoPosta RFC's Separate Report.

Deferred tax assets

The recognition of deferred tax assets is based on the expectation of taxable income in future years. Assessments of expected taxable income depend on factors which may change over time, impacting on the valuation of the deferred tax assets in the Separate Report.

Fair value of unquoted financial instruments

The fair value of financial instruments that are not traded on an active market is based on prices quoted by external dealers or on internal valuation techniques which estimate the transaction price on the measurement date in an arm's length exchange motivated by normal business considerations. The valuation models are primarily based on market variables, considering where possible, the prices in recent transactions and quoted market prices for substantially similar instruments, and of any related credit risk. Further details on the techniques used to measure the fair value of unquoted financial instruments are contained in Section A.4.1 of Part A.

Impairments/recoveries of loans and receivables

BancoPosta RFC is prohibited by Presidential Decree 144 of 14 March 2001 from making loans to customers. Impairments and recoveries of loans and receivables, consequently, relate exclusively to unpaid trade receivables. Impairments and reversals are made with reference to assessments of credit risk based on historical experience of similar receivables, an analysis of past due items (current and historical), losses and collections and the monitoring of the current and future economic conditions in the related markets.

Provisions for risks and charges

Provisions for risks and charges represent probable liabilities in connection with personnel, customers, suppliers, third parties and, in general, liabilities deriving from present obligations. The amounts of the provisions are based, among other things, on the estimated cost of operating contingencies, such as disputes with customers regarding investment products of a nature and/or performance deemed by customers to be inconsistent with their expectations, seizures incurred and not yet definitively assigned, and the likelihood of paying compensation or refunds to clients in those cases where there is no definitive ascertainment.

Determination of the amounts to be provided involves the use of estimates based on current knowledge of factors that may change over time, potentially resulting in outcomes that may be significantly different from those taken into account when preparing this Separate Report.

Share-based payments

As more fully described in Part I – Share-based payment arrangements, measurement of the fair value of the "Long-term Incentive Plan for 2016-2018 (LTIP) – Phantom Stock Plan", the "Long-term Incentive Plan for 2017-2019 (LTIP) –Phantom Stock Plan" (both approved by Poste Italiane SpA's shareholders on 24 May 2016) and the short-term incentive plan (MBO) for BancoPosta RFC's material risk takers (approved by Poste Italiane SpA's shareholders on 27 April 2017), was based on the conclusions of independent actuaries. The Plan terms and conditions require the occurrence of certain future events, such as the achievement of performance targets, performance hurdles and of certain indicators of capital adequacy and short-term liquidity. For these reasons, measurement of the related liabilities requires the application of estimates based on current information about factors that may change over time, thereby resulting in outcomes that may be different from those taken into account during preparation of this Separate Report.

A.3 – Information on transfers between financial asset portfolios

There have been no transfers between portfolios.

A.4 – Information on fair value

Qualitative information

A.4.1 Fair value levels 2 and 3: valuation techniques and inputs

BancoPosta RFC had adopted the Poste Italiane Group's fair value policy. This policy sets out the general principles and rules to be applied in determining fair value for the purposes of preparing the financial statements, conducting risk management assessments and supporting the market transactions carried out by the Finance departments of the various Group entities. The general principles to be applied in measuring the fair value of financial instruments have not changed with respect to 31 December 2016 and have been defined in compliance with indications from the various (banking and insurance) regulators and the relevant accounting standards, ensuring consistent application of the valuation techniques adopted at Group level. The methods used have been revised, where necessary, to take into account developments in operational procedures and in market practices during the year, and the guidelines for the Group's financial management reviewed and approved by Poste Italiane SpA's Board of Directors in December 2017.

In compliance with IFRS 13 - *Fair Value Measurement*, the valuation techniques used are described below.

The assets and liabilities concerned (specifically assets and liabilities carried at fair value and carried at cost or amortised cost, for which fair value is required to be disclosed in the notes) are classified with reference to a hierarchy that reflects the materiality of the sources used for their valuation.

The hierarchy consists of three levels.

Level 1: this level is comprised of fair values determined with reference to (unadjusted) prices quoted in active markets for identical assets or liabilities to which the entity has access on the measurement date. For BancoPosta RFC, the financial instruments included in this category consist of bonds issued by the Italian government, the valuation of which is based on the bid prices, according to a hierarchy of sources where the MTS (the wholesale electronic market for government securities) ranks first, MILA (Milan Stock Exchange) second, for bonds intended for retail customers, and the CBBT (Composite Bloomberg Bond Trader) third[120]. Level 1 bond price quotations incorporate a credit risk component.

Level 2: this level is comprised of fair values based on inputs other than Level 1 quoted market prices that are either directly or indirectly observable for the asset or liability. Given the nature of BancoPosta RFC's operations, the observable data used as input to determine the fair value of the various instruments include yield curves and projected inflation rates, exchange rates provided by the European Central Bank, ranges of rate volatility, inflation option premia, asset swap spreads or credit default spreads which represent the creditworthiness of specific counterparties and any liquidity adjustments quoted by primary market counterparties.

For BancoPosta RFC, these include the following types of financial instrument:

- Straight Italian and international government and non-government bonds, quoted on inactive markets or not at all: valuation is based on discounted cash flow techniques involving the computation of the present value of future cash flows, inputting rates from yield curves incorporating spreads reflecting credit risk that are based on spreads determined with reference to quoted and liquid benchmark securities issued by the issuer, or by other companies with similar characteristics to the issuer. Yield curves may be slightly adjusted to reflect liquidity risk relating to the absence of an active market.

120. For technical reasons, at 31 December 2017, the measurement of bonds issued by EU governments was based on this latter source.

- Unquoted equities, for which it is to use the price of quoted equities of the same issuer as a benchmark. The price inferred in this manner is adjusted through the application of a discount, quoted by primary market counterparties, representing the cost implicit in the process to align the value of the unquoted shares to the quoted ones.
- Derivative financial instruments:
    - Plain vanilla interest rate swaps: valuation is based on discounted cash flow techniques, involving the computation of the present value of future differentials between the receiver and payer legs of the swap. The construction of yield curves to estimate future cash flows indexed to market parameters (money market rates and/or inflation) and computation of the present value of future differentials are carried out using techniques commonly used in capital markets.
    - Interest rate swaps with an embedded option: valuation is based on a building block approach, entailing decomposition of a structured position into its basic components: the linear and option components. The linear component is measure using the discounted cash flow techniques described for plain vanilla interest rate swaps above. Using the derivatives held in BancoPosta RFC's portfolio as an example, the option component is derived from interest rate or inflation rate risks and is valued using a closed form expression, as with classical option valuation models with underlyings exposed to such risks.
    - Bond forwards: valuation is based on the present value of the differential between the forward price of the underlying instrument as of the measurement date and the settlement price.
    - Currency forwards: valuation is based on the differential between the reciprocal currency registered at the measurement date and the reciprocal currency fixed at the trade date.

  The derivatives held in BancoPosta RFC's portfolio may be pledged as collateral and the fair value, consequently, need not be adjusted for counterparty risk. The yield curve used to compute present value is selected to be consistent with the manner in which cash collateral is remunerated. This approach is also followed for security in the form of pledged debt securities, given the limited level of credit risk inherent in the securities held as collateral by BancoPosta RFC.
- Buy and Sell Back agreements used for the short-term investment of liquidity: valuation is based on discounted cash flow techniques involving the computation of the present value of future cash flows. Buy and Sell Back agreements may be pledged as collateral and the fair value, consequently, need not be adjusted for counterparty risk.
- Financial liabilities either quoted on inactive markets or not at all, consisting of repurchase agreements used to raise finance are valued using discounted cash flow techniques involving the computation of future contractual cash flows. Repos may also be used for collateral and in such cases fair value need not be adjusted for the counterparty credit risk.

Level 3: this category includes the fair value measurement of assets and liabilities using both Level 2 inputs and inputs that cannot be observed. In BancoPosta RFC's case, this category includes equity instruments for which no price is observable directly or indirectly in the market. The measurement of these instruments is based on the quoted price of equity instruments issued by the same issuer, to which a discount is applied, calculated using internal valuation techniques, representing the cost implicit in the process of aligning the value of the unquoted shares to be measured with that of the quoted ones.

A.4.2 Measurement processes and sensitivities

The processes used in recurring and non-recurring fair value measurements of instruments classified in Level 3 are described in paragraphs A.4.1 and A.4.5, respectively, of Part A.

Sensitivity analysis of recurring fair value measurements classified in Level 3 of the hierarchy is conducted for the Series C Visa Incorporated Convertible Participating Preferred Stock. Measurement of these financial instruments is in fact subject to change following alterations that may occur in the discount factor applied in determining fair value, in order to take into account the illiquid nature of the shares. This discount factor, estimated using an internal valuation technique, is above all influenced by the annual volatility of the underlying shares. Applying the maximum volatility according to the technique used, the potential reduction in fair value could reach approximately 31%.

A.4.3 Fair value hierarchy

There were no occurrences during the year resulting in a requirement to transfer financial assets and liabilities measured at fair value on a recurring basis between the various levels of the fair value hierarchy.

A.4.4 Other information

There is no need to provide the additional disclosures required by IFRS 13, paragraphs 51, 93(i) and 96.

Quantitative information

A.4.5 Fair value hierarchy

A.4.5.1 Financial assets and liabilities measured at fair value on a recurring basis by fair value level

Financial assets/liabilities at fair value (€m)	At 31 December 2017			At 31 December 2016		
	Level 1	Level 2	Level 3*	Level 1	Level 2	Level 3*
1. Financial assets held for trading	-	-	-	-	-	-
2. Financial assets designated at fair value	-	-	-	-	-	-
3. Available-for-sale financial assets	36,244	2,859	37	35,280	1,956	27
4. Hedging derivatives	-	395	-	-	191	-
5. Property, plant and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**36,244**	**3,254**	**37**	**35,280**	**2,147**	**27**
1. Financial liabilities held for trading	-	-	-	-	-	-
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	1,637	-	-	2,305	-
Total	**-**	**1,637**	**-**	**-**	**2,305**	**-**

(*) Notes on this position are provided in Part B, Assets, Table 4.1.

The derivatives held in BancoPosta RFC's portfolio may be pledged as collateral and the fair value, consequently, need not be adjusted for the counterparty's credit risk (Part A, Section A.4.1).

A.4.5.2 Movements during the year in assets measured at fair value on a recurring basis (Level 3)

(€m)	Financial assets held for trading	Financial assets designated at fair value	Available-for-sale financial assets	Hedging derivatives	Property, plant and equipment	Intangible assets
1. Opening balance	**-**	**-**	**27**	**-**	**-**	**-**
2. Increases	**-**	**-**	**10**	**-**	**-**	**-**
2.1. Purchases	-	-	-	-	-	-
2.2. Profit recognition:	-	-	10	-	-	-
2.2.1. Profit or loss	-	-	-	-	-	-
- of which gains	-	-	-	-	-	-
2.2.2. Equity	x	x	10	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-
2.4. Other increases	-	-	-	-	-	-
3. Decreases	**-**	**-**	**-**	**-**	**-**	**-**
3.1. Disposals	-	-	-	-	-	-
3.2. Repayments	-	-	-	-	-	-
3.3. Impairment recognition:	-	-	-	-	-	-
3.3.1. Profit or loss	-	-	-	-	-	-
- of which loss	-	-	-	-	-	-
3.3.2. Equity	x	x	-	-	-	-
3.4. Transfers to other levels	-	-	-	-	-	-
3.5. Other decreases	-	-	-	-	-	-
4. Closing balance	**-**	**-**	**37**	**-**	**-**	**-**

Movements during the period in question include the change in the fair value of the Series C Visa Incorporated Convertible Participating Preferred Stock.

A.4.5.3 Movements during the year in liabilities measured at fair value on a recurring basis (Level 3)

Nil.

A.4.5.4 Assets and liabilities not designated at fair value or not measured at fair value on a recurring basis by fair value level

Assets/Liabilities not designated at fair value or not measured at fair value on a recurring basis by fair value level (€m)	Balance at 31 December 2017				Balance at 31 December 2016			
	Carrying amount	Fair Value			Carrying amount	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Held-to-maturity financial assets	12,912	14,384	-	-	12,683	14,447	-	-
2. Due from banks	1,151	-	-	1,151	1,314	-	-	1,314
3. Due from customers	7,951	-	-	7,951	9,004	-	-	9,004
4. Property, plant and equipment held for investment purposes	-	-	-	-	-	-	-	-
5. Non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-	-
Total	**22,014**	**14,384**	**-**	**9,102**	**23,001**	**14,447**	**-**	**10,318**
1. Due to banks	5,950	-	4,853	1,108	5,799	-	5,419	418
2. Due to customers	53,686	-	-	53,686	50,374	-	-	50,374
3. Debt securities in issue	-	-	-	-	-	-	-	-
4. Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-	-
Total	**59,636**	**-**	**4,853**	**54,794**	**56,173**	**-**	**5,419**	**50,792**

In determining the fair values shown in the table, the following criteria were used:

- debt securities classified in the held-to-maturity category were measured applying the same rules as those used in the fair value measurement of available-for-sale investments; these instruments are shown in Level 1 of the fair value hierarchy;
- the fair value of repurchase agreements was measured using the discounted cash flow techniques described in paragraph A.4.1; these financial instruments are shown in Level 2 of the fair value hierarchy;
- the carrying amount of other financial assets and liabilities represents a reasonable approximation of fair value and is shown in the column corresponding to Level 3 in the fair value hierarchy.

A.5 – Information on day one profit/loss

This form of profit or loss is not applicable to BancoPosta RFC.

Part B – Information on the Statement of financial position

Assets

Section 1 – Cash and cash equivalents – item 10

1.1 Cash and cash equivalents: analysis

(€m)	Balance at 31 December 2017	Balance at 31 December 2016
a) Cash	2,821	2,288
b) Central bank deposits	396	223
Total	**3,217**	**2,511**

"Cash" is comprised of cash at post office counters and companies that provide cash transportation services, consisting of cash deposits on postal current accounts, postal savings products (Interest-bearing Postal Certificates and Postal Savings Books) or advances obtained from the Treasury to fund post office operations. This cash may only be used in settlement of these obligations. Cash includes banknotes totalling €11 million.

Section 2 – Financial assets held for trading – item 20

2.1 Financial assets held for trading: analysis

BancoPosta RFC had no financial instruments in the trading book either at 31 December 2017 or 31 December 2016.

BancoPosta RFC entered into transactions to acquire and immediately dispose of debt securities and equities on behalf of certain customers in 2017.

2.2 Financial assets held for trading: by borrower/issuer

Nil.

Section 3 – Financial assets designated at fair value – item 30

No financial assets are held in portfolio designated at fair value through profit or loss (the "fair value option").

Section 4 – Available-for-sale financial assets – item 40

4.1 Available-for-sale financial assets: analysis

Transaction Type/Amounts (€m)	Balance at 31 December 2017			Balance at 31 December 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**36,244**	**2,855**	**-**	**35,280**	**1,879**	**-**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	36,244	2,855	-	35,280	1,879	-
2. Equity instruments	**-**	**4**	**37**	**-**	**77**	**27**
2.1 At fair value	-	4	37	-	77	27
2.2 At cost	-	-	-	-	-	-
3. UCIs	**-**	**-**	**-**	**-**	**-**	**-**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**36,244**	**2,859**	**37**	**35,280**	**1,956**	**27**

Debt securities carried at fair value total €39,099 million (€331 million of which being accrued interest).

Equity instruments comprise:

- €37 million, reflecting the fair value of 32,059 Visa Incorporated preference shares (Series C Convertible Participating Preferred Stock) received for the sale of the Visa Europe Ltd. share to Visa Incorporated on 21 June 2016 convertible at the rate of 13,893[121] ordinary shares for each C share, minus a suitable illiquidity discount, considering the staggered conversion between the fourth and the twelfth year after the closing;
- €4 million, reflecting the fair value of 11,144 class C shares of Visa Incorporated. These shares are not traded on an organised exchange, but are immediately convertible into Class A shares (at the rate of four ordinary shares for each C share), which are listed on the New York Stock Exchange, if disposal is desired.

Finally, during the last quarter of 2017, BancoPosta RFC sold its holding of 756,280 Class B Mastercard Incorporated shares in a series of transactions, following their conversion into Class A shares. The transaction generated a gain of €91 million, recognised the income statement in "Item 100 - Profits/(Losses) on disposal or repurchase".

121. Until the assigned shares are fully converted into ordinary shares, the share exchange ratio may be reduced if Visa Europe Ltd. incurs liabilities that, as of the reporting date, were considered as merely contingent.

4.2 Available-for-sale financial assets: by borrower/issuer

Transaction Type/Amounts (€m)	Balance at 31 December 2017	Balance at 31 December 2016
1. Debt securities	**39,099**	**37,159**
a) Governments and Central Banks	36,614	35,650
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	2,485	1,509
2. Equity instruments	**41**	**104**
a) Banks	-	-
b) Other issuers	41	104
- insurance companies	-	-
- finance companies	41	104
- non-finance companies	-	-
- other	-	-
3. UCIs	**-**	**-**
4. Loans	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	**39,140**	**37,263**

Securities issued by other issuers with a fair value of €2,485 million regard fixed rate securities with a nominal value of €2,500 million (including €1,000 million acquired in 2017), issued by Cassa Depositi e Prestiti SpA and guaranteed by the Italian government.

4.3 Micro-hedged available-for-sale financial assets

Transaction Type/Amounts (€m)	Balance at 31 December 2017	Balance at 31 December 2016
1. Micro-fair value hedged financial assets	**21,648**	**18,792**
a) Rate risk	21,648	18,792
b) Price risk	-	-
c) Foreign exchange risk	-	-
d) Credit risk	-	-
e) Multiple risks	-	-
2. Micro-cash flow hedged financial assets	**1,400**	**1,758**
a) Rate risk	1,400	1,758
b) Foreign exchange risk	-	-
c) Other	-	-
Total	**23,048**	**20,550**

4.4 Available-for-sale financial assets: movements during the year

(€m)	Debt securities	Equity instruments	UCIs	Loans	Total
A. Opening balance	**37,159**	**104**	**-**	**-**	**37,263**
B. Increases	**9,197**	**11**	**-**	**-**	**9,208**
B.1 Purchases	8,997	-	-	-	8,997
B.2 Increases in fair value	126	11	-	-	137
B.3 Recoveries	-	-	-	-	-
- through profit or loss	-	-	-	-	-
- through equity	-	-	-	-	-
B.4 Transfers from other portfolios	-	-	-	-	-
B.5 Other increases	74	-	-	-	74
C. Decreases	**(7,257)**	**(74)**	**-**	**-**	**(7,331)**
C.1 Disposals	(5,139)	(74)	-	-	(5,213)
C.2 Repayments	(1,020)	-	-	-	(1,020)
C.3 Decreases in fair value	(945)	-	-	-	(945)
C.4 Impairments	-	-	-	-	-
- through profit or loss	-	-	-	-	-
- through equity	-	-	-	-	-
C.5 Transfers to other portfolios	-	-	-	-	-
C.6 Other decreases	(153)	-	-	-	(153)
D. Closing balance	**39,099**	**41**	**-**	**-**	**39,140**

There was an overall reduction of €819 million in the fair value of debt securities in the period under review, with a net loss of €323 million, on securities for which fair value hedges had not been arranged, recognised in a separate equity reserve, and a net loss of €496 million on the hedged portion recognised in profit or loss (Part C, table 5.1).

Disposals of equity instruments completed during the year regard the sale of the Class B Mastercard Incorporated shares described below table 4.1 in this section.

Section 5 – Held-to-maturity financial assets – item 50

5.1 Held-to-maturity financial assets: analysis

(€m)	Balance at 31 December 2017				Balance at 31 December 2016			
	Carrying amount	Fair Value			Carrying amount	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	**12,912**	**14,384**	**-**	**-**	**12,683**	**14,447**	**-**	**-**
- structured	-	-	-	-	-	-	-	-
- other	12,912	14,384	-	-	12,683	14,447	-	-
2. Loans	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

At 31 December 2017, €153 million of the aggregate fair value of the held-to-maturity portfolio was accrued interest.

Securities with a nominal value of €5,180 million are encumbered as follows:

- €4,407 million, carried at an amortised cost of €4,486 million (Part B, Other Information, Table 2), and delivered to counterparties in connection with repurchase agreements concluded prior to 31 December 2017;
- €253 million, carried at an amortised cost of €269 million (Part B, Other information, Table 2) and delivered to counterparties for use as collateral for asset swaps and repurchase agreements;
- €490 million, carried at an amortised cost of €502 million and delivered to the Bank of Italy as collateral for intraday credit granted;
- €30 million, carried at an amortised cost of €31 million and delivered to the Bank of Italy in relation to the clearing service offered by the central bank for the execution of Sepa Direct Debits.

5.2 Held-to-maturity financial assets: by borrower/issuer

Transaction Type/Amounts (€m)	Balance at 31 December 2017	Balance at 31 December 2016
1. Debt securities	**12,912**	**12,683**
a) Governments and Central Banks	12,912	12,683
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Loans	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	**12,912**	**12,683**
Total fair value	**14,384**	**14,447**

5.3 Micro-hedged held-to-maturity financial assets

Nil.

5.4 Held-to-maturity financial assets: movements during the year

(€m)	Debt securities	Loans	Total
A. Opening balance	**12,683**	**-**	**12,683**
B. Increases	**1,603**	**-**	**1,603**
B.1 Purchases	1,582	-	1,582
B.2 Recoveries	-	-	-
B.3 Transfers from other portfolios	-	-	-
B.4 Other increases	21	-	21
C. Decreases	**(1,374)**	**-**	**(1,374)**
C.1 Disposals	-	-	-
C.2 Repayments	(1,300)	-	(1,300)
C.3 Impairment	-	-	-
C.4 Transfers to other portfolios	-	-	-
C.5 Other decreases	(74)	-	(74)
D. Closing balance	**12,912**	**-**	**12,912**

Section 6 – Due from banks – item 60

6.1 Due from banks: analysis

Transaction Type/Amounts (€m)	Balance at 31 December 2017				Balance at 31 December 2016			
	Carrying amount	Fair Value			Carrying amount	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Due from Central Banks	**-**				**-**			
1. Time deposits	-	x	x	x	-	x	x	x
2. Compulsory reserves	-	x	x	x	-	x	x	x
3. Reverse repurchase agreements	-	x	x	x	-	x	x	x
4. Other	-	x	x	x	-	x	x	x
B. Due from banks	**1,151**				**1,314**			
1. Loans	1,151				1,314			
1.1 Current accounts and demand deposits	3	x	x	x	4	x	x	x
1.2 Time deposits	-	x	x	x	-	x	x	x
1.3 Other loans:	1,148	x	x	x	1,310	x	x	x
- Reverse repurchase agreements	-	x	x	x	-	x	x	x
- Finance leases	-	x	x	x	-	x	x	x
- Other	1,148	x	x	x	1,310	x	x	x
2. Debt securities	-				-			
2.1 Structured securities	-	x	x	x	-	x	x	x
2.2 Other debt securities	-	x	x	x	-	x	x	x
Total	**1,151**	**-**	**-**	**1,151**	**1,314**	**-**	**-**	**1,314**

"Other loans, Other" includes cash collateral held by counterparties for asset swaps (€1,027 million as collateral pursuant to Credit Support Annexes), entered into for cash flow and fair value hedging purposes by BancoPosta RFC, and repurchase agreements (€69 million as collateral pursuant to specific Global Master Repurchase Agreements).

Section 7 – due from customers – item 70

7.1 Due from customers: analysis

Transaction type/Amounts (€m)	Balance at 31 December 2017						Balance at 31 December 2016					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Performing	Non-performing		Level 1	Level 2	Level 3	Performing	Non-performing		Level 1	Level 2	Level 3
		Assets purchased	Other					Assets purchased	Other			
Loans	7,951	-	-				9,004	-	-			
1. Current accounts	9	-	-	X	X	X	9	-	-	X	X	X
2. Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
3. Term loans	-	-	-	X	X	X	-	-	-	X	X	X
4. Credit cards, personal and salary loans	-	-	-	X	X	X	-	-	-	X	X	X
5. Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
7. Other transactions	7,942	-	-	X	X	X	8,995	-	-	X	X	X
Debt securities	**-**	**-**	**-**				**-**	**-**	**-**			
8. Structured securities	-	-	-	X	X	X	-	-	-	X	X	X
9. Other debt securities	-	-	-	X	X	X	-	-	-	X	X	X
Total	**7,951**	**-**	**-**	**-**	**-**	**7,951**	**9,004**	**-**	**-**	**-**	**-**	**9,004**

"Other transactions" primarily consist of:

- €6,038 million, €27 million of which being accrued interest, in public customers' current account deposits deposited with the MEF, which earn a variable rate of return, calculated on a basket of government securities and money market indexes[122];
- €377 million, €2 million of which being accrued interest, in deposits at the MEF (the "Buffer account"), remunerated at the EONIA rate[123];
- €374 million in fees receivable from Cassa Depositi e Prestiti during the year in connection with postal savings;
- €84 million in guarantee deposits provided to counterparties in asset swap transactions (with collateral provided by specific Credit Support Annexes) entered into for cash flow and fair value hedging purposes by BancoPosta RFC;
- €66 million in amounts due for the payment of pensions and vouchers on behalf of INPS (the National Institute of Social Security). In order to settle the amount due, INPS has expressed a willingness to offset receivables due to BancoPosta RFC with liabilities that, in Poste Italiane SpA's opinion, are not subject to the same degree of certainty, liquidity or enforceability, and which BancoPosta RFC has recognised according to the procedures and to the extent required by the relevant accounting standards. Whilst waiting for the counterparty to acknowledge its obligations, Poste Italiane SpA has instructed its legal counsel to take the necessary steps to recover the amount due, reserving the right to take action to enforce its claims once it has exhausted all the possible options to resolve the dispute;
- €734 million in amounts receivable from Poste Italiane SpA's functions outside the ring-fence, €732 million of which relates to Poste Italiane SpA's Finance function's intersegment financial account, used for the processing of payments to and from third parties.

122. The rate in question is calculated as follows: 50% is based on the return on 6 month BOTs, with the remaining 50% based on the monthly average Rendistato index. The latter represents the average yield on government securities with maturities greater than one year, which approximates the return on 7-year BTPs.
123. The rate applied in overnight lending and calculated as the weighted average of overnight rates for transactions on the interbank market reported to the ECB by a panel of banks operating in the euro zone (the biggest banks in all the euro zone countries).

7.2 Due from customers: by borrower/issuer

Transaction type/Amounts (€m)	Balance at 31 December 2017			Balance at 31 December 2016		
	Performing	Non-performing		Performing	Non-performing	
		Assets purchased	Other		Assets purchased	Other
1. Debt securities	**-**	**-**	**-**	**-**	**-**	**-**
a) Governments	-	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-
c) Other issuers	-	-	-	-	-	-
- non-finance companies	-	-	-	-	-	-
- finance companies	-	-	-	-	-	-
- insurance companies	-	-	-	-	-	-
- other	-	-	-	-	-	-
2. Loans to:	**7,951**	**-**	**-**	**9,004**	**-**	**-**
a) Governments	6,484	-	-	7,544	-	-
b) Other public entities	62	-	-	57	-	-
c) Other issuers	1,405	-	-	1,403	-	-
- non-finance companies	756	-	-	652	-	-
- finance companies	496	-	-	609	-	-
- insurance companies	143	-	-	134	-	-
- other	10	-	-	8	-	-
Total	**7,951**	**-**	**-**	**9,004**	**-**	**-**

Section 8 – Hedging derivatives – item 80

8.1 Hedging derivatives by type of hedge and fair value level

(€m)	Fair value at 31 December 2017			Notional amount at 31 December 2017	Fair value at 31 December 2016			Notional* amount at 31 December 2016
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives	**-**	**395**	**-**	**9,545**	**-**	**191**	**-**	**3,980**
1) Fair Value	-	364	-	9,370	-	152	-	3,585
2) Cash flow	-	31	-	175	-	39	-	395
3) Net foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair Value	-	-	-	-	-	-	-	-
2) Cash flow	-	-	-	-	-	-	-	-
Total	**-**	**395**	**-**	**9,545**	**-**	**191**	**-**	**3,980**

(*) The settlement price for derivatives involving the exchange of principal (securities or other assets) has been indicated, as required by Bank of Italy Circular 262/2005.

8.2 Hedging derivatives by hedged portfolio and type of hedge

Transaction type/Type of hedge	Fair Value						Cash flow		Net foreign investment
	Micro					Macro	Micro	Macro	
	Interest rate risk	Foreign exchange risk	Credit risk	Price risk	Multiple risks				
1. Available-for-sale financial assets	364	-	-	-	-	x	31	x	x
2. Loans	-	-	-	x	-	x	-	x	x
3. Held-to-maturity financial assets	x	-	-	x	-	x	-	x	x
4. Portfolio	x	x	x	x	x	-	x	-	x
5. Other transactions	-	-	-	-	-	x	-	x	-
Total assets	**364**	**-**	**-**	**-**	**-**	**-**	**31**	**-**	**-**
1. Financial liabilities	-	-	-	x	-	x	-	x	x
2. Portfolio	x	x	x	x	x	-	x	-	x
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Expected transactions	x	x	x	x	x	x	-	x	x
2. Portfolio of financial assets and financial liabilities	x	x	x	x	x	-	x	-	-

Section 9 – Adjustments for changes in hedged financial assets portfolio – item 90

No macro-hedges have been arranged at the reporting date.

Section 10 – Investments – item 100

There are no investments in subsidiaries, joint arrangements or companies subject to significant influence.

Section 11 – Property, plant and equipment – item 110

BancoPosta does not own property, plant and equipment either for operating or investment purposes.

Section 12 – Intangible assets – item 120

There are no intangible assets.

Section 13 – Tax assets and liabilities – assets item 130 and liabilities – item 80

Current tax assets and liabilities form part of intersegment relations and are shown in "Other assets" (item 150 in Assets) and "Other liabilities" (item 100 in Liabilities), as they are settled with Poste Italiane SpA's functions outside the ring-fence, within the scope of internal relations with Poste Italiane SpA, as the sole taxable entity.

Deferred tax assets and liabilities are analysed below:

13.1 Deferred tax assets: analysis

Description (€m)	Financial assets and liabilities		Hedging derivatives		Provisions for doubtful debts		Provisions for risks and charges		Total IRES	Total IRAP
	IRES	IRAP	IRES	IRAP	IRES	IRAP	IRES	IRAP		
Deferred tax assets through profit or loss	-	-	-	-	24	-	97	19	121	19
Deferred tax assets through equity	196	37	28	5	-	-	-	-	224	42
2017 Total	**196**	**37**	**28**	**5**	**24**	**-**	**97**	**19**	**345**	**61**
Deferred tax assets through profit or loss	-	-	-	-	21	-	78	15	99	15
Deferred tax assets through equity	148	28	26	5	-	-	-	-	174	33
2016 Total	**148**	**28**	**26**	**5**	**21**	**-**	**78**	**15**	**273**	**48**

13.2 Deferred tax liabilities: analysis

Description (€m)	Financial assets and liabilities		Hedging derivatives		Total IRES	Total IRAP
	IRES	IRAP	IRES	IRAP		
Deferred tax liabilities through profit or loss	-	-	-	-	-	-
Deferred tax liabilities through equity	246	48	12	2	258	50
2017 Total	**246**	**48**	**12**	**2**	**258**	**50**
Deferred tax liabilities through profit or loss	-	-	-	-	-	-
Deferred tax liabilities through equity	424	84	19	3	443	87
2016 Total	**424**	**84**	**19**	**3**	**443**	**87**

13.3 Movements in deferred tax assets through profit or loss

(€m)	Balance at 31 December 2017	Balance at 31 December 2016
1. Opening balance	**114**	**98**
2. Increases	**26**	**29**
2.1 Deferred tax assets recognised in the year	26	29
a) relating to previous years	-	-
b) due to changes in accounting policies	-	-
c) write-backs	-	-
d) other	26	29
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**-**	**(13)**
3.1 Deferred tax assets derecognised in the year	-	(10)
a) reversals	-	(10)
b) write-downs of non-recoverable items	-	-
c) due to changes in accounting policies	-	-
d) other	-	-
3.2 Reduction of tax rate	-	(3)
3.3 Other decreases:	-	-
a) transformation into tax credit pursuant to Law 214/2011	-	-
b) other	-	-
4. Closing balance	**140**	**114**

13.4 Movements in deferred tax liabilities through profit or loss

Nil.

13.5 Movements in deferred tax assets through equity

(€m)	Balance at 31 December 2017	Balance at 31 December 2016
1. Opening balance	**207**	**32**
2. Increases	**92**	**185**
2.1 Deferred tax assets derecognised in the year	92	185
a) relating to previous years	-	-
b) due to changes in accounting policies	-	-
c) other	92	185
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**(33)**	**(10)**
3.1 Deferred tax assets derecognised in the year	(33)	(10)
a) reversals	(25)	(8)
b) write-downs of non-recoverable items	-	-
c) due to changes in accounting policies	-	-
d) other	(8)	(2)
3.2 Reduction of tax rate	-	-
3.3 Other decreases	-	-
4. Closing balance	**266**	**207**

13.6 Movements in deferred tax liabilities through equity

(€m)	Balance at 31 December 2017	Balance at 31 December 2016
1. Opening balance	**(530)**	**(967)**
2. Increases	**(34)**	**(22)**
2.1 Deferred tax liabilities recognised in the year	(34)	(19)
a) relating to previous years	-	-
b) due to changes in accounting policies	-	-
c) other	(34)	(19)
2.2 New taxes or tax rate increases	-	(3)
2.3 Other increases	-	-
3. Decreases	**256**	**459**
3.1 Deferred tax liabilities derecognised in the year	256	459
a) reversals	192	145
b) due to changes in accounting policies	-	-
c) other	64	314
3.2 Reduction of tax rate	-	-
3.3 Other decreases	-	-
4. Closing balance	**(308)**	**(530)**

The net charge or credit to profit or loss due to movements in deferred tax assets and liabilities through equity is the tax effect on reserves described in Part D.

13.7 Other information

Nil.

Section 14 – Non-current assets held for sale and discontinued operations and associated liabilities - assets item 140 and liabilities item 90

There are no non-current assets held for sale or discontinued operations at the reporting date.

Section 15 – Other assets – item 150

15.1 Other assets: analysis

Transaction type/Amounts (€m)	Balance at 31 December 2017	Balance at 31 December 2016
Tax assets other than those included in item 130	372	357
Items in process	298	203
- items in transit between local branches	8	8
- other	290	195
Current account cheques being settled, drawn on other banks	130	100
Current tax assets receivable from Poste Italiane SpA outside the ring-fence	22	29
Other items	1,242	1,077
Total	**2,064**	**1,766**

Tax assets primarily relate to payments on account, €325 million of which for virtual stamp duty payable in 2018, €23 million due from the tax authorities in virtual stamp duty paid in 2017 and €11 million for withholding tax on interest paid to current account holders for 2017.

"Items in process, other" includes:

- customer postal cheques of €29 million in collection from banks;
- uses of debit cards issued by BancoPosta to be debited to customer accounts, totalling €14 million;
- €67 million in withdrawals from BancoPosta ATMs yet to be debited to customer accounts or awaiting settlement;
- amounts due from commercial partners for providing PostePay top-ups, totalling €41million, and processing payments slips, totalling €40 million, to be credited to beneficiaries;
- unsettled debit card payments made at post offices, totalling €45 million;
- account maintenance and custody fees of €6 million to be debited to customers.

Movements in current tax assets and liabilities receivable from and payable to Poste Italiane SpA outside the ring-fence are shown below:

Description (€m)	Current taxes for the year ended 31 December 2017			Current taxes for the year ended 31 December 2016		
	IRES	IRAP	Total	IRES	IRAP	Total
	Amounts due from/(to) Poste Italiane SpA outside the ring-fence	Amounts due from/(to) Poste Italiane SpA outside the ring-fence		Amounts due from/(to) Poste Italiane SpA outside the ring-fence	Amounts due from/(to) Poste Italiane SpA outside the ring-fence	
Opening balance	**28**	**1**	**29**	**(73)**	**(11)**	**(84)**
Payments of	158	39	197	303	52	355
prepayments for the current year	158	39	197	230	41	271
balance payable for previous year	-	-	-	73	11	84
Collection of IRES refund claimed	-	-	-	-	-	-
Provisions to profit or loss for	(170)	(40)	(210)	(211)	(40)	(251)
current tax expense	(183)	(40)	(223)	(212)	(40)	(252)
adjustments to prior period taxes	13	-	13	1	-	1
Provisions to equity	-	-	-	-	-	-
Other (*)	6	-	6	9	-	9
Closing balance	**22**	**-**	**22**	**28**	**1**	**29**
of which:						
Current tax assets receivable from Poste Italiane SpA outside the ring-fence (item 150 Assets)	22	-	22	28	1	29
Current tax liabilities payable to Poste Italiane SpA outside the ring-fence (item 100 Liabilities)	-	-	-	-	-	-

(*) Primarily due to amounts receivable following the payment of withholding tax on fees received.

“Other items” include:

- €1,040 million in stamp duty accrued to 31 December 2017[124] payable by holders of outstanding Interest-bearing Postal Certificates. An equal amount has been recognised in “Other liabilities” as tax payables (Part B, Liabilities, Table 10.1) until expiration or early extinguishment of Interest-bearing Postal Certificates, which is the date on which the tax must be paid to the authorities;
- €143 million relating to stamp duty charged to Postal Savings Books, which BancoPosta RFC pays in virtual form as required by law;
- amounts in the process of recovery, totalling €19 million, which are not available since the related amounts have been seized and have not yet been assigned to creditors of Poste Italiane SpA’s functions outside the ring-fence. Any losses on realisation of collateral are for the account of Poste Italiane SpA’s functions outside the ring-fence.

124. Introduced by article 19 of Law Decree 201/2011 converted with amendments by Law 214/2011 in the manner provided for by the MEF Decree of 24 May 2012: Manner of implementing paragraphs 1 to 3 of article 19 of Decree Law 201 of 6 December 2011 having regard to stamp duty on current accounts and financial products (Official Gazette 127 of 1 June 2012).

Liabilities

Section 1 – Due to banks – item 10

1.1 Due to banks: analysis

Transaction type/Amounts (€m)	Balance at 31 December 2017	Balance at 31 December 2016
1. Due to Central Banks	**-**	**-**
2. Due to banks	**5,950**	**5,799**
2.1 Current accounts and demand deposits	1,023	385
2.2 Time deposits	-	-
2.3 Loans	4,842	5,381
2.3.1 Repurchase agreements	4,842	5,381
2.3.2 Other	-	-
2.4 Obligations to repurchase equity instruments	-	-
2.5 Other payables	85	33
Total	**5,950**	**5,799**
Fair value - Level 1	-	-
Fair value - Level 2	4,853	5,419
Fair value - Level 3	1,108	418
Total fair value	**5,961**	**5,837**

At 31 December 2017, €4,842 million is due to banks under the terms of repurchase agreements involving securities with a total nominal value of €4,407 million. These regard:

- €3,903 million (€2 million of which being accrued net interest) relating to Long Term Repos entered into with primary financial institutions, with the resulting resources invested in Italian fixed income government securities of a matching nominal amount;
- €939 million relating to ordinary borrowing operations via repurchase agreement transactions with primary financial institutions as funding for incremental deposits used as collateral.

Repurchase agreements are classified as fair value Level 2 transactions, whereas the fair value of other types of transaction included in this line item approximates to their carrying amounts and they are consequently classified as Level 3.

“Other payables” include €82 million in guarantee deposits received from counterparties in relation to asset swaps (with collateral provided by specific Credit Support Annexes), in relation to BancoPosta RFC’s cash flow hedges and fair value hedges.

BancoPosta RFC has uncommitted overnight lines of credit amounting to €1,059 million and overdraft arrangements of €160 million provided by Poste Italiane SpA, both undrawn at 31 December 2017. From 2014, the Bank of Italy has granted BancoPosta RFC access to intraday credit in order to fund intraday interbank transactions. Collateral for this credit facility is provided by securities with a nominal value of €490 million and the facility is unused at 31 December 2017.

Section 2 – Due to customers – item 20

2.1 Due to customers: analysis

Transaction type/Amounts (€m)	Balance at 31 December 2017	Balance at 31 December 2016
1. Current accounts and demand Deposits	46,468	45,097
2. Time deposits	-	-
3. Loans	3,497	2,443
3.1 Repurchase agreements	-	-
3.2 Other	3,497	2,443
4. Obligations to repurchase equity instruments	-	-
5. Other payables	3,721	2,834
Total	**53,686**	**50,374**
Fair value - Level 1	-	-
Fair value - Level 2	-	-
Fair value - Level 3	53,686	50,374
Total fair value	**53,686**	**50,374**

"Current accounts and demand deposits" include €242 million in postal current accounts held by Poste Italiane SpA outside the ring-fence.

"Loans, Other" refers to the following:

- the net amount of €3,483 million deposited in the MEF account held at the Treasury, which breaks down as follows:
  - the balance of cash flows for advances, amounting to €3,375 million, represents the net amount payable as a result of advances from the MEF to meet the cash requirements of BancoPosta;
  - the balance of cash flows from the management of postal savings, amounting to a positive €84 million, represents the balance of withdrawals less deposits during the last two days of the year and cleared early in the following year. The balance at 31 December 2017 consists of €43 million payable to Cassa Depositi e Prestiti, less €127 million receivable from the MEF for Interest-bearing Postal Certificates issued on its behalf;
  - amounts payable due to thefts from post offices regard the liability to the MEF on behalf of the Italian Treasury for losses resulting from theft and fraud, totalling €157 million. This liability derives from cash withdrawals from the Treasury to make up for the losses resulting from these criminal acts, in order to ensure that post offices can continue to operate;
  - amounts payable for operational risks (€35 million) regard the portion of advances obtained to fund operations, in relation to which asset under recovery is certain or probable;
- €14 million relating to an amount due to Poste Italiane SpA's functions outside the ring-fence in connection with the creation of BancoPosta RFC.

"Other payables" primarily consist of €2,831 million in prepaid PostePay card balances payable to customers, domestic postal orders, amounting to €676 million, and guarantee deposits of €18 million received from counterparties in relation to asset swaps.

The fair value of this line item approximates to its carrying amount and it is consequently classified as Level 3.

Section 3 – Debt securities in issue – item 30

BancoPosta RFC has no debt securities in issue.

Section 4 – Financial liabilities held for trading – item 40

BancoPosta RFC held no financial instruments in the trading book at either 31 December 2017 or 31 December 2016.

Section 5 – Financial liabilities designated at fair value – item 50

no financial liabilities are held in portfolio designated at fair value through profit or loss (the “fair value option”).

Section 6 – Hedging derivatives – item 60

6.1 Hedging derivatives by type and fair value level

	Fair Value at 31 December 2017			Notional* amount at 31 December 2017	Fair Value at 31 December 2016			Notional* amount at 31 December 2016
(€m)	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives	**-**	**1,637**	**-**	**13,025**	**-**	**2,305**	**-**	**13,976**
1) Fair value	-	1,524	-	10,385	-	2,204	-	12,565
2) Cash flow	-	113	-	2,640	-	101	-	1,411
3) Net foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flow	-	-	-	-	-	-	-	-
Total	**-**	**1,637**	**-**	**13,025**	**-**	**2,305**	**-**	**13,976**

(*) The settlement price for derivatives involving the exchange of principal (securities or other assets) has been indicated, as required by Bank of Italy Circular 262/2005.

Cash flow hedges include forward sales entered into by BancoPosta RFC during the period under review, having a settlement value of €1,705 million.

6.2 Hedging derivatives by hedged portfolio and type of hedge

Transaction type/Type of hedge (€m)	Fair Value						Cash flow		Net foreign investments
	Micro					Macro	Micro	Macro	
	Interest rate risk	Foreign exchange risk	Credit risk	Price risk	Multiple risks				
1. Available-for-sale financial assets	1,524	-	-	-	-	x	90	x	x
2. Loans	-	-	-	x	-	x	-	x	x
3. Held-to-maturity financial assets	x	-	-	x	-	x	-	x	x
4. Portfolio	x	x	x	x	x	-	x	-	x
5. Other transactions	-	-	-	-	-	x	-	x	-
Total assets	**1,524**	**-**	**-**	**-**	**-**	**-**	**90**	**-**	**-**
1. Financial liabilities	-	-	-	x	-	x	-	x	x
2. Portfolio	x	x	x	x	x	-	x	-	x
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Expected transactions	x	x	x	x	x	x	23	x	x
2. Portfolio of financial assets and liabilities	x	x	x	x	x	-	x	-	-

Section 7 – Adjustments for changes in hedged financial liabilities portfolio – item 70

No macro-hedges have been arranged at the reporting date.

Section 8 – Tax liabilities – item 80

Please refer to Assets, Section 13.

Section 9 – Liabilities associated with non-current assets held for sale and discontinued operations– item 90

There are no such liabilities at the reporting date.

Section 10 – Other liabilities – item 100

10.1 Other liabilities: analysis

Transaction type/Amounts (€m)	Balance at 31 December 2017	Balance at 31 December 2016
Tax liabilities other than those included in item 80	1,194	1,026
Items in process:	637	555
- amounts to be credited to Postal Savings Books	243	284
- items in transit between local branches	5	4
- other	389	267
Amounts payable to Poste Italiane SpA outside the ring-fence for services rendered	255	294
Amounts due to customers	60	64
Trade payables	64	90
Due to employees	21	21
Accrued expenses and deferred income	27	21
Other items	78	107
Total	**2,336**	**2,178**

"Tax liabilities other than those included in Item 80" primarily include:

- €1,040 million in stamp duty accrued to 31 December 2017 on outstanding Interest-bearing Postal Certificates in accordance with the requirements referenced in Part B, Assets, Table 15.1;
- €145 million regarding taxes and road tax payable to collection agents, the tax authorities and regional authorities for payments made by customers;
- €1 million in tax withholdings on current account interest earned by customers.

"Items in process, other" includes, among other things, domestic and international bank transfers, totalling €58 million, and unpaid postal cheques of €47 million.

"Amounts due to suppliers" include approximately €1 million for services purchased from external suppliers and settled via Poste Italiane's functions outside the ring-fence.

"Accrued expenses and deferred income not on own account", totalling €27 million, refer to fees collected in advance on Postamat and "Postepay Evolution" cards.

"Other items" relate to prior year balances currently being verified.

Section 11 – Employee termination benefits – item 110

Movements in employee termination benefits during the year under review are shown below:

11.1 Employee termination benefits: movements during the year

(€m)	Balance at 31 December 2017	Balance at 31 December 2016
A. Opening balance	**19**	**19**
B. Increases	**1**	**1**
B.1 Provisions for year	-	-
B.2 Other increases	1	1
C. Decreases	**(3)**	**(1)**
C.1 Benefits paid	(1)	(1)
C.2 Other decreases	(2)	-
D. Closing balance	**17**	**19**

"Other increases" were the result of transfers from Poste Italiane SpA or other Group companies. The current service cost is not applicable to the employee termination benefits attributable to BancoPosta RFC, since this cost is recognised in personnel expenses, as the contributions are paid over to pension funds or other social security institutions.

Payments of termination benefits include the substitute tax withheld.

Other decreases were caused by transfers to certain Group companies and actuarial gains.

Measurement of the liability entails actuarial computations for which the following assumptions were used in 2017 and 2016:

Key economic and financial assumptions

	At 31 December 2017	At 30 June 2017	At 31 December 2016
Discount rate	1.25%	1.67%	1.31%
Inflation rate	1.50%	1.50%	1.50%
Annual rate of increase of employee termination benefits	2.625%	2.625%	2.625%

Demographic assumptions

	At 31 December 2017
Mortality	RG48 differentiated by gender
Disability	INPS 1998 differentiated by gender
Rate of employee turnover	Specific table with rates differentiated by length of service. The average length of service for participants corresponds to an annual rate of 0.14%
Advance rate	1.25% for lengths of service of at least 8 years
Pensionable age	In accordance with rules set by INPS

Actuarial gains/(losses)

(€m)	At 31 December 2017	At 31 December 2016
Change in demographic assumptions	-	-
Change in financial assumptions	-	1
Other experience-related adjustments	-	-
Total	**-**	**1**

Sensitivity analysis

(€m)	Employee termination benefits at 31 December 2017	Employee termination benefits at 31 December 2016
Inflation rate +0.25%	17	19
Inflation rate -0.25%	16	18
Discount rate +0.25%	16	18
Discount rate -0.25%	17	19
Turnover rate +0.25%	17	19
Turnover rate -0.25%	17	19

Other information

	At 31 December 2017	At 31 December 2016
Service Cost	-	-
Average duration of defined benefit plan	9.0	10.3
Average employee turnover	0.14%	0.41%

Section 12 – Provisions for risks and charges – item 120

12.1 Provisions for risks and charges: analysis

Transaction type/Amounts (€m)	Balance at 31 December 2017	Balance at 31 December 2016
1. Provisions for retirement benefits	-	-
2. Other provisions	543	462
2.1 litigation	97	90
2.2 personnel expenses	2	3
2.3 other	444	369
Total	**543**	**462**

The composition of “Other provisions” is provided in Table 12.4, below.

12.2 Provisions for risks and charges: movements during the year

(€m)	Provisions for retirement benefits	Other provisions	Total
A. Opening balance	**-**	**462**	**462**
B. Increases	**-**	**208**	**208**
B.1 Provisions for the year	-	208	208
B.2 Increases due to passage of time	-	-	-
B.3 Increases due to changed discount rates	-	-	-
B.4 Other increases	-	-	-
C. Decreases	**-**	**(127)**	**(127)**
C.1 Uses during the year	-	(108)	(108)
C.2 Decreases due to changed discount rates	-	-	-
C.3 Other decreases	-	(19)	(19)
D. Closing balance	**-**	**543**	**543**

"B.1 Provisions for the year" includes personnel expenses of €8 million. Other decreases relate to transfers to the income statement during the year as a result of the derecognition of prior year liabilities, including a part of the provisions for personnel expenses.

12.3 Company defined benefit pension plan

Nil.

12.4 Provisions for risks and charges - other provisions

Description (€m)	Balance at 31 December 2017	Balance at 31 December 2016
Litigation	**97**	**90**
Provisions for disputes with third parties	97	90
Provisions for disputes with staff	-	-
Provisions for personnel expenses	**2**	**3**
Other provisions	**444**	**369**
Provision for non-recurring charges	430	355
Provisions for expired and statute barred Postal Certificates	14	14
Total	**543**	**462**

Provisions for disputes with third parties regard expected liabilities deriving from different types of legal and out-of-court disputes with suppliers and third parties, the related legal expenses, and penalties and compensation payable to customers.

Provisions for disputes with staff regard liabilities that may arise following labour litigation and disputes of various type.

Provisions for personnel expenses are made to cover expected liabilities arising in relation to the cost of labour.

Provisions for non-recurring charges relate to operational risks attributable to BancoPosta RFC. They regard, among other things, the liabilities arising from the reconstruction of operating ledger entries at the time of Poste Italiane SpA's incorporation, liabilities deriving from the provision of delegated services for social security agencies, fraud, violations of administrative regulations, adjustments and outstanding income for previous years, risks linked to disputes with customers regarding certain investment products whose performance is not in line with expectations, or to the erroneous application of statute barring and estimated risks for charges and expenses to be incurred in connection with seizures effected by BancoPosta as garnishee-defendant. Uses, amounting to €95 million include €48 million relating to the settlement of amounts due to customers who had invested in the IRS (Invest Real Security) real estate fund, following the decision to take extraordinary measures by Poste Italiane's Board of Directors on 16 January 2017.

Provisions for expired and statute barred Postal Certificates have been made to cover the cost of redeeming certificates relating to specific issues, even after the certificates have become invalid[125].

Section 13 – Redeemable shares – item 140

Not applicable.

Section 14 – Equity – items 130, 150, 160, 170, 180, 190 and 200

14.1 Capital and treasury shares: analysis

Nil.

14.2 Capital – Number of shares: movements during the year

Nil.

14.3 Capital – Other information

Nil.

14.4 Revenue reserves: other information

At 31 December 2017, undistributed earnings total €1,059 million. Other revenue reserves include the initial reserve of €1 billion provided to BancoPosta RFC on its creation.

125. Provisions for expired and statute barred Postal Certificates were made in 1998 to cover the cost of redeeming certificates relating to specific issues, the value of which was recognised in revenue in profit or loss in the years in which the certificates became invalid. The provisions were made in response to Poste Italiane SpA's decision to redeem such certificates even if expired and statute barred. At 31 December 2017, the provisions represent the present value of total liabilities, based on a nominal value of €21 million, expected to be progressively settled by 2043.

Other information

1. Guarantees and commitments

Guarantees/Commitments (€m)	Balance at 31 December 2017	Balance at 31 December 2016
1) Financial guarantees issued	**-**	**-**
a) Banks	-	-
b) Customers	-	-
2) Trade guarantees issued	**-**	**-**
a) Banks	-	-
b) Customers	-	-
3) Irrevocable commitments to disburse funds	**-**	**416**
a) Banks	-	393
i) certain disbursement	-	393
ii) uncertain disbursement	-	-
b) Customers	-	23
i) certain disbursement	-	23
ii) uncertain disbursement	-	-
4) Commitments underlying credit derivatives: protection sales	**-**	**-**
5 Assets pledged as collateral for third party commitments	**-**	**-**
6) Other commitments	**1,768**	**-**
Total	**1,768**	**416**

"Other commitments" include €360 million relating to the nominal value of securities to be delivered under repurchase agreements, accounted for in "Held-to-maturity financial assets", and €1,408 million relating to the nominal value of securities in the "Available-for-sale financial assets" to be delivered under forward sale agreements.

2. Assets pledged as collateral for liabilities and commitments

Portfolio (€m)	Balance at 31 December 2017	Balance at 31 December 2016
1. Financial assets held for trading	-	-
2. Financial assets designated at fair value	-	-
3. Available-for-sale financial assets	-	206
4. Held-to-maturity financial assets	4,755	5,404
5. Due from banks	-	-
6. Due from customers	-	-
7. Property, plant and equipment	-	-

"Held-to-maturity financial assets", carried at amortised cost, relate to securities used as collateral in repurchase agreements and securities provided as collateral to counterparties in asset swaps registering fair value losses and for repos.

3. Information on operating leases

Nil.

4. Brokerage and management on behalf of third parties

Service (€m)	Amount
1. Execution of orders on behalf of customers	**-**
a) purchase	-
1. settled	-
2. not settled	-
b) sale	-
1. settled	-
2. not settled	-
2. Portfolio management	**-**
a) individual	-
b) collective	-
3. Custody and administration of securities	**51,992**
a) third party securities in custody: related to depository bank operations (excluding portfolio management)	-
1. securities issued by the reporting bank	-
2. other securities	-
b) third party securities in custody (excluding portfolio management): other	3,562
1. securities issued by the reporting bank	-
2. other securities	3,562
c) third-party securities deposited with third parties	3,562
d) own securities deposited with third parties	48,430
4. Other transactions	**237,212**
a) Postal Savings Books	108,551
b) Interest-bearing Postal Certificates	128,661

The “Custody and administration of third-party securities deposited with third parties” relates to customers’ securities held at primary market operators and presented at their nominal value. Orders received from customers are executed by qualified, designated credit institutions.

“Other transactions” include the principal of postal savings deposits accepted for and on behalf of Cassa Depositi e Prestiti and the MEF.

5. Financial assets offset in the financial statements or subject to master netting agreements or similar arrangements

Technical form (€m)	Amount of gross financial assets (a)	Amount of financial liabilities offset in financial statements (b)	Amount of net financial assets reported in financial statements (c=a-b)	Related amounts not subject to offset in the financial statements		Net amount at 31 December 2017 (f=c-d-e)	Net amount at 31 December 2016
				Financial instruments (d)	Cash collateral received (e)		
1. Derivatives	395	-	395	282	100	13	-
2. Repurchase agreements	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total at 31 December 2017	**395**	**-**	**395**	**282**	**100**	**13**	**x**
Total at 31 December 2016	**191**	**-**	**191**	**163**	**28**	**x**	**-**

6. Financial liabilities offset in the financial statements or subject to master netting agreements or similar arrangements

Technical form (€m)	Amount of gross financial Liabilities (a)	Amount of financial assets offset in financial statements (b)	Amount of net financial liabilities reported in financial statements (c=a-b)	Related amounts not subject to offset in the financial statements		Net amount at 31 December 2017 (f=c-d-e)	Net amount at 31 December 2016
				Financial instruments (d)	Cash collateral given (e)		
1. Derivatives	1,637	-	1,637	570	1,064	3	37
2. Repurchase agreements	4,842	-	4,842	4,816	22	4	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total at 31 December 2017	**6,479**	**-**	**6,479**	**5,386**	**1,086**	**7**	**x**
Total at 31 December 2016	**7,686**	**-**	**7,686**	**6,251**	**1,398**	**x**	**37**

BancoPosta RFC is not a party to enforceable master netting agreements or similar arrangements meeting the requirements of IAS 32, paragraph 42 for offsetting in the financial statements. The above tables have been compiled in accordance with IFRS 7 – Financial Instruments: Disclosure, which requires a specific disclosure regardless of whether or not the financial instruments have been offset.

7. Securities lending

Nil.

Part C – Information on the Income statement

Section 1 – Interest – items 10 and 20

1.1 Interest and similar income: analysis

Asset/Technical form (€m)	Debt securities	Loans	Other transactions	For the year ended 31 December 2017	For the year ended 31 December 2016
1. Financial assets held for trading	-	-	-	-	-
2. Available-for-sale financial assets	992	-	-	992	974
3. Held-to-maturity financial assets	500	-	-	500	541
4. Due from banks	-	-	-	-	-
5. Due from customers	-	27	-	27	20
6. Financial assets designated at fair value	-	-	-	-	-
7. Hedging derivatives	x	x	-	-	-
8. Other assets	x	x	7	7	8
Total	**1,492**	**27**	**7**	**1,526**	**1,543**

The sub-item, "Other assets, Other transactions" includes €6 million in interest income accruing during the year on reverse repos and €1 million in interest for the year receivable from Poste Italiane SpA's functions outside the ring-fence.

1.2 Interest and similar income: hedge differentials

Nil.

1.3 Interest and similar income: other information

Nil.

1.4 Interest and similar expense: analysis

Liability/Technical form (€m)	Debts	Securities	Other transactions	For the year ended 31 December 2017	For the year ended 31 December 2016
1. Due to Central Banks	-	x	-	-	-
2. Due to banks	(15)	x	-	(15)	(23)
3. Due to customers	(10)	x	-	(10)	(13)
4. Debt securities in issue	x	-	-	-	-
5. Financial liabilities held for trading	-	-	-	-	-
6. Financial liabilities designated at fair value	-	-	-	-	-
7. Other liabilities and provisions	x	x	(4)	(4)	(5)
8. Hedging derivatives	x	x	(49)	(49)	(33)
Total	**(25)**	**-**	**(53)**	**(78)**	**(74)**

"Other liabilities and provisions – Other transactions" includes interest payable to Poste Italiane SpA's functions outside the ring-fence, totalling €3 million.

1.5 Interest and similar expense: hedge differentials

Item (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
A. Positive hedge differentials	15	25
B. Negative hedge differentials	(64)	(58)
C. Net (A-B)	**(49)**	**(33)**

Section 2 – Fees and commissions – items 40 and 50

2.1 Fee and commission income: analysis

Service/Amounts (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
a) Guarantees issued	-	-
b) Credit derivatives	-	-
c) Management, brokerage and advisory services:	2,309	2,285
1. Financial instrument trading	-	-
2. FX trading	1	1
3. Portfolio management:	-	-
3.1 Individual	-	-
3.2 Collective	-	-
4. Securities custody and administration	5	6
5. Depository banking	-	-
6. Securities placements	42	29
7. Order receipt and transmission	3	4
8. Advisory services:	-	-
8.1 Relating to investments	-	-
8. 2 Relating to financial structuring	-	-
9. Arrangement of third-party services:	2,258	2,245
9.1 Portfolio management:	-	-
9.1.1 Individual	-	-
9.1.2 Collective	-	-
9.2 Insurance products	468	455
9.3 Other products	1,790	1,790
d) Collection and payment services	1,069	1,070
e) Securitisation servicing	-	-
f) Factoring services	-	-
g) Tax collection	-	-
h) Multilateral trading services	-	-
i) Current account maintenance and management	240	237
j) Other services	11	11
Total	**3,629**	**3,603**

“Management, brokerage and advisory services” include, within the context of the distribution of other products, fees receivable in return for the collection of postal savings deposits, totalling €1,566 million. This service relates to the provision and redemption of Interest-bearing Postal Certificates and payments into and withdrawals from Postal Savings Books, carried out on behalf of Cassa Depositi e Prestiti under the Agreement of 4 December 2014, originally intended to cover the five-year period 2014-2018. On 14 December 2017, the new Agreement for the three-year period 2018-2020 was signed.

2.2 Fee and commission income by product and service distribution channel

Channel/Amounts (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
A. Own counters:	**2,300**	**2,274**
1. Portfolio management	-	-
2. Securities placements	42	29
3. Third-party products and services	2,258	2,245
B. Door-to-door:	**-**	**-**
1. Portfolio management	-	-
2. Securities placements	-	-
3. Third-party products and services	-	-
C. Other distribution channels:	**-**	**-**
1. Portfolio management	-	-
2. Securities placements	-	-
3. Third-party products and services	-	-

"Own counters" means Poste Italiane SpA's post office network.

2.3 Fee and commission expense: analysis

Service/Amounts (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
a) Guarantees received	-	-
b) Credit derivatives	-	-
c) Management and brokerage services:	(2)	(2)
1. Financial instrument trading	-	-
2. FX trading	-	-
3. Portfolio management:	-	-
3.1 Own	-	-
3.2 For third parties	-	-
4. Securities custody and administration	(1)	(1)
5. Financial instrument placements	(1)	(1)
6. Door-to-door marketing of financial instruments, products and services	-	-
d) Collection and payment services	(61)	(63)
e) Other services	(2)	(1)
Total	**(65)**	**(66)**

Section 3 – Dividends and similar income – item 70

3.1 Dividends and similar income: analysis

During the year, BancoPosta RFC received dividends on its shares in Mastercard Incorporated and Visa Incorporated, accounted for in "Available-for-sale financial assets".

Asset/income (€m)	For the year ended 31 December 2017		For the year ended 31 December 2016	
	Dividends	UCI distributions	Dividends	UCI distributions
A. Financial assets held for trading	-	-	-	-
B. Available-for-sale financial assets	1	-	1	-
C. Financial assets designated at fair value	-	-	-	-
D. Investments	-	x	-	x
Total	**1**	**-**	**1**	**-**

Section 4 – Profits/(Losses) on trading – item 80

4.1 Profits/(Losses) on trading: analysis

Asset-Liability/Profit component (€m)	Gains (A)	Trading income (B)	Losses (C)	Trading losses (D)	Net income/(loss) [(A+B) – (C+D)]
1. Financial assets held for trading	**-**	**4**	**-**	**(1)**	**3**
1.1 Debt securities	-	-	-	-	-
1.2 Equity instruments	-	-	-	-	-
1.3 UCIs	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	4	-	(1)	3
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Debts	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange differences	**x**	**x**	**x**	**x**	**(1)**
4. Derivative instruments	**-**	**-**	**-**	**-**	**-**
4.1 Financial derivatives:	-	-	-	-	-
- on debt securities and interest rates	-	-	-	-	-
- on equity instruments and share indices	-	-	-	-	-
- on foreign exchange and gold	x	x	x	x	-
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	**-**	**4**	**-**	**(1)**	**2**

Section 5 – Fair value adjustments in hedge accounting – item 90

5.1 Fair value adjustments in hedge accounting: analysis

Profit component/Amounts (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
A. Income on:		
A.1 Fair value hedge derivatives	525	84
A.2 Hedged financial assets (fair value)	27	940
A.3 Hedged financial liabilities (fair value)	-	-
A.4 Cash flow hedge derivatives	-	-
A.5 Foreign currency assets and liabilities	-	-
Gross hedging income (A)	**552**	**1,024**
B. Cost of:		
B.1 Fair value hedge derivatives	(27)	(941)
B.2 Hedged financial assets (fair value)	(523)	(84)
B.3 Hedged financial liabilities (fair value)	-	-
B.4 Cash flow hedge derivatives	-	-
B.5 Foreign currency assets and liabilities	-	-
Gross hedging cost (B)	**(550)**	**(1,025)**
C. Net hedging income (A – B)	**2**	**(1)**

Section 6 – Profits/(Losses) on disposal or repurchase – item 100

6.1 Profits/(Losses) on disposal or repurchase: analysis

Asset-Liability/Profit component (€m)	For the year ended 31 December 2017			For the year ended 31 December 2016		
	Profit	Loss	Net profit	Profit	Loss	Net profit
Financial assets						
1. Due from banks	-	-	-	-	-	-
2. Due from customers	-	-	-	-	-	-
3. Available-for-sale financial assets	638	(14)	624	594	-	594
3.1 Debt securities	547	(14)	533	473	-	473
3.2 Equity instruments	91	-	91	121	-	121
3.3 UCIs	-	-	-	-	-	-
3.4 Loans	-	-	-	-	-	-
4. Held-to-maturity financial assets	-	-	-	-	-	-
Total assets	**638**	**(14)**	**624**	**594**	**-**	**594**
Financial liabilities						
1. Due to banks	-	-	-	-	(7)	(7)
2. Due to customers	-	-	-	-	-	-
3. Debt securities in issue	-	-	-	-	-	-
Total liabilities	**-**	**-**	**-**	**-**	**(7)**	**(7)**

Section 7 – Profits/(Losses) on financial assets and liabilities designated at fair value – item 110

Not applicable.

Section 8 – Net losses/recoveries on impairment – item 130

8.1 Net losses/recoveries on impairment of loans and advances: analysis

Asset-Liability/Profit component (€m)	Impairment losses			Recoveries				For the year ended 31 December 2017	For the year ended 31 December 2016
	Specific		Collective	Specific		Collective			
	Write-off	Other		Interest	Other	Interest	Other		
A. Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
B. Due from customers	**-**	**-**	**(16)**	**-**	**-**	**-**	**1**	**(15)**	**(6)**
Non-performing loans purchased	-	-	-	-	-	-	-	-	-
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
Other amounts owing	-	-	(16)	-	-	-	1	(15)	(6)
- Loans	-	-	(16)	-	-	-	1	(15)	(6)
- Debt securities	-	-	-	-	-	-	-	-	-
C. Total	**-**	**-**	**(16)**	**-**	**-**	**-**	**1**	**(15)**	**(6)**

Section 9 – Administrative expenses – item 150

9.1 Personnel expenses: analysis

Expense/Amounts (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
1) Employees	(93)	(98)
a) wages and salaries	(64)	(68)
b) social security	(18)	(18)
c) employee termination benefits	(4)	(4)
d) social security costs	-	-
e) provision for employee termination benefits	-	-
f) provisions for post- employment benefits	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
g) payments to external supplementary pension funds:	(1)	(1)
- defined contribution plans	(1)	(1)
- defined benefit plans	-	-
h) cost of share-based payments	-	-
i) other employee benefits	(6)	(7)
2) Other active personnel	-	-
3) Directors and Statutory Auditors	-	-
4) Retirees	-	-
5) Recovery of employment costs of staff seconded to other companies	-	-
6) Refund of costs of third party employees seconded to the company	-	-
Total	**(93)**	**(98)**

9.2 Average number of employees by category (*)

	For the year ended 31 December 2017	For the year ended 31 December 2016
Employees	**1,730**	**1,827**
a) executives	55	54
b) middle managers	479	460
c) other employees	1,196	1,313
Other employees	**-**	**-**
Total	**1,730**	**1,827**

(*) Figures expressed in full time equivalent terms.

9.3 Post-employment defined benefit plans: costs and revenues

Nil.

9.4 Other employee benefits

This primarily relates to redundancy payments.

9.5 Other administrative expenses: analysis

Expense/Amounts (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
1) Cost of services provided by Poste Italiane SpA:	(4,418)	(4,457)
- commercial services	(4,032)	(4,092)
- support services	(300)	(302)
- staff services	(86)	(63)
2) Cost of goods and non-professional services:	(44)	(42)
- printing and postage	(35)	(33)
- credit and debit card supply services	(9)	(9)
3) Advisory and other professional services	(54)	(52)
4) Taxes, penalties and duties	(6)	(4)
5) Other expenses	-	-
Total	**(4,522)**	**(4,555)**

The cost of services provided by Poste Italiane functions outside the ring-fence relates to those services described in Part A - *Accounting policies*, A.1, Section 4 - *Other information*.

Section 10 – Net provisions for risks and charges – item 160

10.1 Net provisions for risks and charges: analysis

Asset-Liability/Profit component (€m)	Provisions	Reversals	Net provision
Provisions for litigation	(21)	9	(12)
Provisions for risks and charges	(179)	8	(171)
Total	**(200)**	**17**	**(183)**

Provisions for risks and charges for the year, totalling €179 million, primarily reflect a revised estimate of probable liabilities linked to third-party financial products placed in the early 2000s, including €35 million relating to the voluntary action taken to protect customers, approved by Poste Italiane's Board of Directors on 19 February 2018, in relation to customers who had invested in the Europa Immobiliare 1 fund (which reached maturity on 31 December 2017[126]), and the revision of other liabilities due to adjustments and outstanding income for previous years. Reversals, amounting to €8 million, relate to liabilities recognised in the past that have failed to materialise.

126. This initiative is described in section 6 - *Risk management – Reputational risk* – in the section – *Poste Italiane financial statements* – of this Annual Report.

Section 11 – Net losses/recoveries on property, plant and equipment – item 170

Not applicable.

Section 12 – Net losses/recoveries on intangible assets – item 180

Not applicable.

Section 13 – Other operating income/(expenses) – item 190

13.1 Other operating expenses: analysis

Profit component/Amounts (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
1. Burglaries and theft	(5)	(8)
2. Other charges	(57)	(34)
Total	**(62)**	**(42)**

"Other charges" relates primarily to post office operating losses.

13.2 Other operating income: analysis

Profit component/Amounts (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
1. Statute barred money orders	-	-
2. Other operating income	4	3
Total	**4**	**3**

Section 14 – Profits/(Losses) on investments – item 210

Not applicable.

Section 15 – Profits/(Losses) on fair value measurement of property, plant and equipment and intangible assets – item 220

Not applicable.

Section 16 – Impairment of goodwill – item 230

Not applicable.

Section 17 – Profits/(Losses) on disposal of investments – item 240

Not applicable.

Section 18 – Taxes on income from continuing operations – item 260

18.1 Taxes on income from continuing operations: analysis

Profit component/Amounts (€m)	For the year ended 31 December 2017	For the year ended 31 December 2016
1. Current taxes (-)	(223)	(252)
2. Increase/(decrease) in current taxes of prior period taxation (+/-)	13	1
3. Reduction in current taxes (+)	-	-
3. *bis*. Reduction in current taxation due to tax credit pursuant to Law 214/2011 (+)	-	-
4. Increase/(decrease) in deferred tax assets (+/-)	25	17
5. Increase/(decrease) in deferred tax liabilities (+/-)	-	-
6. Taxation for year (-) (-1+/-2+3+/-4+/-5)	**(185)**	**(234)**

18.2 Reconciliation between theoretical tax charge at statutory rate and effective tax charge

Description (€m)	For the year ended 31 December 2017		For the year ended 31 December 2016	
	IRES	% rate	IRES	% rate
Income before tax	770		803	
Theoretical tax charge	185	24.0%	221	27.5%
Effect of increases/(decreases) on theoretical tax charge				
Adjustments for change in IRES tax rate introduced by 2016 Stability Law	-	0.0%	3	0.4%
Non-recurring (income)/expense for taxes charged to profit or loss	-	0.0%	-	0.0%
Net provisions for risks and charges and impairments of receivables	2	0.3%	6	0.7%
Taxation for previous years	(13)	-1.7%	(1)	-0.1%
Capital gains and dividends	(21)	-2.7%	(32)	-4.0%
Other	(4)	-0.5%	-	0.0%
Effective tax charge	**149**	**19.3%**	**197**	**24.5%**

The IRES tax rate has fallen from the 24.5% of 2016 to 19.3% in 2017, primarily due to art. 1, paragraph 61 of Law 208/2015, which reduced the nominal IRES rate from 27.5%, in the previous tax year, to 24%. Another reason for the reduction in the tax rate is the realisation of a gain on the sale of the Mastercard Incorporated shares which, as a result of the "participation exemption", was almost totally exempted from tax (only 5% was taxable).

Description (€m)	For the year ended 31 December 2017		For the year ended 31 December 2016	
	IRAP	% rate	IRAP	% rate
Income before tax	770		803	
Theoretical tax charge	35	4.6%	37	4.6%
Effect of increases/(decreases) on theoretical tax charge				
Non-recurring (income)/expense for taxes charged to profit or loss	-	0.0%	-	0.0%
Provisions for risks and charges	-	0.0%	-	0.0%
Personnel expenses	1	0.1%	-	0.0%
Other	-	0.0%	-	0.0%
Effective tax charge	**36**	**4.7%**	**37**	**4.6%**

Section 19 – Income/(Loss) after tax from discontinued operations – item 280

Not applicable.

Section 20 – Other information

All information has been presented above.

Section 21 – Earnings per share

Not applicable.

Part D – Comprehensive income

Analysis of comprehensive income

Items (€m)		Gross amount	Tax on income	Net amount
10.	**Profit/(Loss) for the year**	**X**	**X**	**585**
	Other components of comprehensive income not reclassified to profit or loss			
20.	Property, plant and equipment	-	-	-
30.	Intangible assets	-	-	-
40.	Defined benefit plans	-	-	-
50.	Non-current assets held for sale	-	-	-
60.	Share of valuation reserve attributable to equity-accounted investments	-	-	-
	Other components of comprehensive income reclassified to profit or loss			
70.	**Hedges of foreign investments:**	**-**	**-**	**-**
	a) changes in fair value	-	-	-
	b) reversal to profit or loss	-	-	-
	c) other movements	-	-	-
80.	**Foreign exchange differences:**	**-**	**-**	**-**
	a) changes in carrying amounts	-	-	-
	b) reversal to profit or loss	-	-	-
	c) other movements	-	-	-
90.	**Cash flow hedges:**	**(63)**	**18**	**(45)**
	a) changes in fair value	(57)	16	(41)
	b) reversal to profit or loss	(6)	2	(4)
	c) other movements	-	-	-
100.	**Available-for-sale financial assets:**	**(974)**	**264**	**(710)**
	a) changes in fair value	(312)	92	(220)
	b) reversal to profit or loss	(662)	172	(490)
	- impairments	-	-	-
	- realised gains/(losses)	(662)	172	(490)
	c) other movements	-	-	-
110.	**Non-current assets held for sale:**	**-**	**-**	**-**
	a) changes in fair value	-	-	-
	b) reversal to profit or loss	-	-	-
	c) other movements	-	-	-
120.	**Share of valuation reserve attributable to equity-accounted investments:**	**-**	**-**	**-**
	a) changes in fair value	-	-	-
	b) reversal to profit or loss	-	-	-
	- impairments	-	-	-
	- realised gains/(losses)	-	-	-
	c) other movements	-	-	-
130.	**Total other components of comprehensive income**	**(1,037)**	**282**	**(755)**
140.	**Comprehensive income (Items 10+130)**	**X**	**X**	**(170)**

Part E – Information on risks and related hedging policies

Introduction

BancoPosta's operations, conducted in accordance with Presidential Decree 144/2001, consist in the management of liquidity generated by postal current account deposits, carried out in the name of BancoPosta but subject to statutory restrictions, and collections and payments on behalf of third parties.

The funds deposited by private account holders in postal current accounts are invested in euro zone government securities, with the option of investing up to 50% of the deposits in securities guaranteed by the Italian government[127], whilst deposits by Public Administration entities are deposited with the MEF. In 2017, BancoPosta RFC's operations focused on investment of the significantly increased volume of current account deposits, the reinvestment of funds deriving from maturing government securities and in the active management of financial instruments.

During 2017, the modest rise in both risk-free interest rates and the yields on Italian government bonds resulted in a slight reduction in unrealised gains on the securities accounted for in the financial statements, some of which were, in any event, recognised as realised gains in profit or loss.

Following the positive performance of current account deposits in 2017, from June onwards, the process of monitoring the risk profile indicated that there had been a decline in the leverage ratio to below the threshold set in the Risk Appetite Framework (RAF). The leverage ratio at 31 December 2017 stands at approximately 3.11% (3% being the minimum level required by the regulations). in order to restore the leverage ratio to the target level set out in the RAF (3.15%), on 25 January 2018, Poste Italiane SpA's Board of Directors approved the recapitalisation of BancoPosta by transferring free reserves of €210 million. The relevant functions will continue to keep a close eye on the leverage ratio throughout 2018 to ensure, over time, that it continues to meet the related targets, thresholds and limits established in the RAF.

The investment profile is based, among other things, on the constant monitoring of habits of current account holders and a use of a leading market operator's statistical/econometric model of typical postal current account interest rates and maturities, based on a prudent projection of the future volume of deposits. The above mentioned model is thus the general reference for the investments (the limits of which are determined by specific guidelines approved by the Board of Directors) in order to limit exposure to interest rate and liquidity risks.

Financial risk management

Balanced financial management and monitoring of the main risk/return profiles are carried out and ensured by dedicated organisational structures, both within and without the BancoPosta ring-fence, that operate separately and independently. In addition, specific processes are in place governing the assumption and management of and control over financial risks. In this regard, on 19 February 2018, Poste Italiane SpA's Board of Directors adopted a revised version of the Guidelines for Internal Control and Risk Management System (SCIGR), which contains integrated guidelines for Poste Italiane SpA's Internal Control and Risk Management System. From an organisational viewpoint, the model consists of:

- the **Audit and Risk Committee**, which, with regard to BancoPosta's operations, provides support to the Board of Directors in relation to risks and the internal control system, with particular reference to all the activities deemed instrumental and necessary to enable the Board of Directors to correctly and effectively determine the Risk Appetite Framework and risk management policies;
- the **Cross-functional Committee**, set up under the BancoPosta RFC Regulation and chaired by Poste Italiane SpA's CEO and General Manager. Other permanent members are the Head of BancoPosta and the heads of the functions within Poste Italiane SpA primarily involved with BancoPosta. The Committee provides advice, makes recommendations and coordinates BancoPosta's operations with those of other Poste Italiane functions;

127. Amendment of art. 1, paragraph 1097 of Law 296 of 27 December 2006, introduced by art. 1, paragraph 285 of the 2015 Stability Law (Law 190 of 23 December 2014).

- the **Financial and Insurance Services Committee**, established on 19 March 2018 to replace the previous Finance, Savings and Investment Committee, with the aim of overseeing the process of developing the products and services distributed by BancoPosta, in order to take a uniform, integrated view of the entire offering and to monitor the performance of the financial investments in which private customer deposits are invested;
- Poste Italiane SpA's **Coordination of Investment Management** function, the work of which is regulated by specific operating guidelines, and which oversees investment strategy and the hedging of capital market risks in respect of the liquidity deriving from BancoPosta current account deposits, in accordance with the guidelines established by the various corporate bodies;
- the BancoPosta's **Risk Management function**, responsible for measuring and controlling risk and duly observing the independence of control functions from management. The results of these activities are examined by Poste Italiane SpA's Financial Risk Committee.

In constructing the Risk Model used by BancoPosta RFC, account was also taken of the existing prudential supervisory standards for banks and the specific instructions for BancoPosta, published by the Bank of Italy on 27 May 2014 with the third revision of Circular 285 of 17 December 2013.

The above prudential standards have imposed the same obligations on BancoPosta as those applicable to banks in terms of corporate governance, internal controls and risk management, requiring, among other things, achievement of the following objectives:

- definition of a Risk Appetite Framework (RAF);
- oversight of implementation of Poste Italiane SpA's strategies and policies;
- the containment of risks within the limits set by the RAF;
- protection of the value of assets and against losses;
- identification of material transactions to be subject to prior examination by the risk control function.

The RAF consists of a framework that defines, in keeping with the maximum acceptable risk, the business model and strategic plan, the risk appetite, risk tolerance thresholds, risk limits and risk management policies, together with the processes needed to define and implement them.

Section 1 – Credit risk

Credit risk regards the types of risk described below.

Credit risk relates to the possibility that a change in a borrower's credit rating could result in a loss, i.e., the risk that a debtor comes into full or partial breach of its repayment obligations for principal and interest.

Counterparty risk is the risk that a counterparty could default on obligations of a financial instrument during its term. This risk is inherent in certain types of transaction which, for BancoPosta RFC, would be derivatives and repurchase agreements.

Concentration risk is related to the overexposure to counterparties, groups of related counterparties and counterparties in the same business segment or that engage in the same business or operate in the same geographic region.

Qualitative information

1. Generalities

Presidential Decree 144/2001 prohibits BancoPosta RFC from making loans to members of the public. As a result, there are no credit policies.

The nature of BancoPosta RFC's operations, however, results in a considerable concentration of exposure to Republic of Italy risk as a result of its deposits at the MEF and its investments in Government securities. Credit risk models, explained below, show, however, that for capital requirements this type of investment does not determine capital absorption.

2. Credit risk management policies

2.1 Organisational aspects

The role of BancoPosta RFC's Risk Management function is the management and control of credit, counterparty and concentration risks.

Monitoring credit risk is particularly focused on the following exposures:

- euro area government securities (or those guaranteed by the government) in which private customer account deposits are invested;
- deposits at the MEF in which Public Administration account deposits are invested;
- any eventual amounts due from the Italian Treasury as a result of depositing funds gathered less payables for advances disbursed;
- items in process: cheque clearing, use of electronic cards, collections;
- temporarily overdrawn post office current accounts caused by debiting fees: limited to those which were not classified as impaired since the accounts were in funds in early 2018;
- cash collateral for outstanding transactions with banks and customers, in accordance with agreements intended to mitigate counterparty risk (CSA - Credit Support Annexes and GMRA – Global Master Repurchase Agreements);
- securities provided as collateral in accordance with agreements intended to mitigate counterparty risk (CSAs and GMRAs);
- trade receivables payable for financial/insurance product arrangement.

Monitoring counterparty risk particularly regards hedging derivatives and repurchase agreements.

BancoPosta RFC's concentration risk is monitored to limit the instability that could be caused by the default of one customer or a group of related customers to which BancoPosta has a significant credit and counterparty risk exposure.

2.2 Management, measurement and control systems

Credit risk is controlled through the following:

- minimum rating requirements for issuers/counterparties, based on the type of instrument;
- concentration limits per issuer/counterparty;
- monitoring of changes in the ratings of counterparties.

The above limits for BancoPosta RFC are set out in Poste Italiane SpA's "Guidelines for financial transactions"[128], which also contain rating limits that only permit dealings with investment grade counterparties, whilst concentration limits are applied as required by prudential standards[129].

The standard method[130], as defined by EU Regulation 575/2013, is used by BancoPosta to measure credit and counterparty risks. The method entails the use of Standard & Poor's, Moody's and Fitch for the computation of counterparty credit rating classes.

In terms of prudential oversight, the following methods are used to estimate the exposure to counterparty risk inherent in each of the following types of transaction:

- the "Market Value" method[131] is used for asset swaps and forward purchases of government securities;
- Credit Risk Mitigation (CRM) techniques, the Full Method[132], are used for repurchase transactions.

Concentration risk is measured using the method described in EU Regulation 575/2013 with regard to large exposures.

2.3 Credit risk mitigation techniques

In order to limit the counterparty risk exposure, partly for the purposes of prudential supervisory standards, BancoPosta RFC has concluded standard ISDA master agreements and special agreements for the mitigation of risk for repo transactions (GMRAs) and OTC derivatives (CSAs). More specifically, the agreements provide for the netting of asset and liability positions and the posting of cash and/or government securities as collateral.

In addition, in order to mitigate counterparty risk and gain readier access to the market, from December 2017, BancoPosta RFC has begun to enter into repurchase agreements with the Central Clearing House, the *Cassa Compensazione e Garanzia*.

128. On 13 December 2017, Poste Italiane SpA's Board of Directors approved new "Guidelines for financial transactions" for Poste Italiane SpA, following the entry into effect of the new accounting standard, IFRS 9 – Financial Instruments from 1 January 2018.
129. According to the prudential requirements, weighted risk exposure must at all times be below 25% of own funds. Exposures are normally equal to an asset's nominal value adjusting for any credit risk mitigation. Lower risk borrowers are assigned lower risk weightings.
130. The standard method entails risk weightings in accordance with the nature of the exposure and the identity of the counterparty and the counterparty's external credit rating.
131. The "Market Value" method to measure the risk inherent in derivatives entails summing two components: the current replacement cost, represented by fair value, if positive, and an add-on equal to the product of the nominal value and the probability that the fair value, if positive, increases the value or, if negative, turns positive.
132. The full CRM method entails reducing risk exposure by the value of the guarantee. Specific rules are applied to take into account market price volatility of the guaranteed asset as well as the collateral received.

2.4 Impaired financial assets

There were no impaired financial assets on BancoPosta RFC's books at 31 December 2017.

Quantitative information

A. Credit quality

A.1 Exposure to performing and non-performing loans: amounts, impairments, movements, economic and geographic segment

A.1.1 Distribution of credit exposure by portfolio and credit quality by carrying amount

Portfolio/Credit quality (€m)	Doubtful loans	Unlikely to pay	Non-performing past-due	Performing past-due	Other performing exposures	Total
1. Available-for-sale financial assets	-	-	-	-	39,099	39,099
2. Held-to-maturity financial assets	-	-	-	-	12,912	12,912
3. Due from banks	-	-	-	-	1,151	1,151
4. Due from customers	-	-	-	-	7,951	7,951
5. Financial assets designated at fair value	-	-	-	-	-	-
6. Financial assets held for sale	-	-	-	-	-	-
Total at 31 December 2017		**-**	**-**	**-**	**61,113**	**61,113**
Total at 31 December 2016		**-**	**-**	**-**	**60,160**	**60,160**

A.1.2 Distribution of gross and net credit exposure by portfolio and credit quality

Portfolio/Credit quality (€m)	Non-performing			Performing			Total (net exposure)
	Gross exposure	Specific provisions	Net exposure	Gross exposure	Collective provisions	Net exposure	
1. Available-for-sale financial assets	-	-	-	39,099	-	39,099	39,099
2. Held-to-maturity financial assets	-	-	-	12,912	-	12,912	12,912
3. Due from banks	-	-	-	1,151	-	1,151	1,151
4. Due from customers	-	-	-	8,128	177	7,951	7,951
5. Financial assets designated at fair value	-	-	-	X	X	-	-
6. Financial assets held for sale	-	-	-	-	-	-	-
Total at 31 December 2017		**-**	**-**	**61,290**	**177**	**61,113**	**61,113**
Total at 31 December 2016		**-**	**-**	**60,322**	**162**	**60,160**	**60,160**

Portfolio/Credit quality (€m)	Assets of evidently low credit quality		Other assets
	Cumulative losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	-
2. Hedging derivatives	-	-	395
Total at 31 December 2017		**-**	**395**
Total at 31 December 2016		**-**	**191**

A.1.3 On and off-balance sheet credit exposure to banks: gross and net amounts and past-due categories

Type of exposure/Amounts (€m)	Gross exposure					Specific provisions	Collective provisions	Net exposure
	Non-performing				Performing			
	Up to 3 months	Between 3 and 6 months	Between 6 months and 1 year	Over 1 year				
A. On-balance sheet exposures								
a) Doubtful loans	-	-	-	-	X	-	X	-
- of which: forborne exposures	-	-	-	-	*X*	-	*X*	-
b) Unlikely to pay	-	-	-	-	X	-	X	-
- of which: forborne exposures	-	-	-	-	*X*	-	*X*	-
c) Non-performing past-due exposures	-	-	-	-	X	-	X	-
- of which: forborne exposures	-	-	-	-	*X*	-	*X*	-
d) Performing past-due exposures	X	X	X	X	-	X	-	-
- of which: forborne exposures	*X*	*X*	*X*	*X*	-	*X*	-	-
e) Other performing exposures	X	X	X	X	1,151	X	-	1,151
- of which: forborne exposures	*X*	*X*	*X*	*X*	-	*X*	-	-
Total A	**-**	**-**	**-**	**-**	**1,151**	**-**	**-**	**1,151**
B. Off-balance sheet exposures								
a) Non-performing	-	-	-	-	X	-	X	-
b) Performing	X	X	X	X	497	X	-	497
Total B	**-**	**-**	**-**	**-**	**497**	**-**	**-**	**497**
Total A+B	**-**	**-**	**-**	**-**	**1,648**	**-**	**-**	**1,648**

"Off-balance sheet exposures, Performing" relates to the counterparty risk associated with derivatives registering fair value gains after the effect of netting agreements, securities provided as collateral under counterparty risk mitigation agreements and for Repo financing with Securities Financing Transactions (SFT)[133] margins.

A.1.4/ A.1.5 On-balance sheet credit exposure to banks: changes in gross non-performing exposures and in total adjustments

Nil.

133. As defined in the prudential requirements.

A.1.6 On and off-balance sheet credit exposure to customers: gross and net amounts and past-due categories

Type of exposure/Amounts (€m)	Gross exposure					Specific provisions	Collective provisions	Net exposure
	Non-performing				Performing			
	Up to 3 months	Between 3 and 6 months	Between 6 months and 1 year	Over 1 year				
A. On-balance sheet exposures								
a) Doubtful loans	-	-	-	-	X	-	X	-
- *of which: forborne exposures*	-	-	-	-	*X*	-	*X*	-
b) Unlikely to pay	-	-	-	-	X	-	X	-
- *of which: forborne exposures*	-	-	-	-	*X*	-	*X*	-
c) Non-performing past-due exposures	-	-	-	-	X	-	X	-
- *of which: forborne exposures*	-	-	-	-	*X*	-	*X*	-
d) Performing past-due exposures	X	X	X	X	-	X	-	-
- *of which: forborne exposures*	*X*	*X*	*X*	*X*	-	*X*	-	-
e) Other performing exposures	X	X	X	X	60,139	X	177	59,962
- *of which: forborne exposures*	*X*	*X*	*X*	*X*	-	*X*	-	-
Total A	**-**	**-**	**-**	**-**	**60,139**	**-**	**177**	**59,962**
B. Off-balance sheet exposures								
a) Non-performing	-	-	-	-	X	-	X	-
b) Performing	X	X	X	X	25	X	-	25
Total B	**-**	**-**	**-**	**-**	**25**	**-**	**-**	**25**
Total A+B	**-**	**-**	**-**	**-**	**60,164**	**-**	**177**	**59,987**

"Off-balance sheet exposures, Performing" relates to the counterparty risk associated with derivatives registering fair value gains after the effect of netting agreements and Repo financing with Securities Financing Transactions (SFT) margins.

A.1.7/ A.1.8 On-balance sheet credit exposure to customers: changes in gross non-performing exposures and in total adjustments

Nil.

A.2 Classification of exposures based on external and internal ratings

A.2.1 Distribution of on and off-balance sheet exposures by external rating classes

Exposure (€m)	External rating classes						Not rated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. On-balance sheet credit exposure	**-**	**1,041**	**59,916**	**-**	**1**	**-**	**155**	**61,113**
B. Derivatives	**19**	**49**	**-**	**-**	**-**	**-**	**45**	**113**
B.1 Financial derivatives	19	49	-	-	-	-	45	113
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Guarantees issued	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
D. Commitments to disburse funds	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
E. Other	**28**	**29**	**352**	**-**	**-**	**-**	**-**	**409**
Total	**47**	**1,119**	**60,268**	**-**	**1**	**-**	**200**	**61,635**

The rating agency equivalents of credit rating classes are shown below:

Credit rating class	Fitch	Moody's	S&P
1	AAA to AA-	Aaa to Aa3	AAA to AA-
2	A+ to A-	A1 to A3	A+ to A-
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-
5	B+ to B-	B1 to B3	B+ to B-
6	CCC+ and below	Caa1 and below	CCC+ and below

The nature of BancoPosta's operations exposes it to a substantial degree of concentration in respect of the Italian state. The concentration can be seen in Table A.2.1 under External Rating Class 3, which includes the Italian state.

A.3 Distribution of guaranteed exposures by type of guarantee

A.3.1 Guaranteed credit exposures to banks

(€m)	Net exposure	Collateral (1)				Personal guarantees (2)									Total (1)+(2)
						Credit derivatives					Unsecured				
						CLN	Other derivatives								
		Mortgages	Finance leases	Securities	Other collateral		Governments and central banks	Other public entities	Banks	Other counter-parties	Governments and central banks	Other public entities	Banks	Other counter-parties	
1. Guaranteed on-balance sheet credit exposures:															
1.1 guaranteed in full:	-	-	-	-	-	-	-	-	-		-	-	-	-	-
- *of which non-performing*	-	-	-	-	-	-	-	-	-		-	-	-	-	-
1.2 partially guaranteed	-	-	-	-		-	-	-	-		-	-	-	-	-
- *of which non-performing*	-	-	-	-	-	-	-	-	-		-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:															
2.1 guaranteed in full	-	-	-	-	-	-	-	-	-		-	-	-	-	-
- *of which non-performing*	-	-	-	-	-	-	-	-	-		-	-	-	-	-
2.2 partially guaranteed	93	-	-	-	82	-	-	-	-		-	-		-	82
- *of which non-performing*	-	-	-	-	-	-	-	-	-		-	-	-	-	-

A.3.2 Guaranteed credit exposures to customers

	Net exposure	Collateral (1)				Personal guarantees (2)									Total (1)+(2)
						Credit derivatives					Unsecured				
						CLN	Other derivatives								
(€m)		Mortgages	Finance leases	Securities	Other collateral		Governments and central banks	Other public entities	Banks	Other counter-parties	Governments and central banks	Other public entities	Banks	Other counter-parties	
1. Guaranteed on-balance sheet credit exposures:															
1.1 guaranteed in full:	975	-	-	-	-	-	-	-	-	-	975	-	-	-	975
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially guaranteed	1,510	-	-	-		-	-	-	-	-	1,500	-	-	-	1,500
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:															
2.1 guaranteed in full	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially guaranteed	20	-	-	-	18	-	-	-	-	-	-	-		-	18
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

B. Distribution and concentration of credit exposures

B.1 Distribution of on and off-balance sheet credit exposures to customers by economic sector and carrying amount

Exposures/Counterparty (€m)	Governments			Other public entities			Finance companies			Insurance companies			Non-finance companies			Other entities		
	Net expos.	Specif. prov.	Coll. prov.	Net expos.	Specif. prov.	Coll. prov.	Net expos.	Specif. prov.	Coll. prov.	Net expos.	Specif. prov.	Coll. prov.	Net expos.	Specif. prov.	Coll. prov.	Net expos.	Specif. prov.	Coll. prov.
A. On-balance sheet exposures																		
A.1 Doubtful loans	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
- of which: forborne exposures	-	-	*X*	-	-	*X*	-	-	*X*	-	-	*X*	-	-	*X*	-	-	*X*
A.2 Unlikely to pay	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
- of which: forborne exposures	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
A.3 Non-performing exposures	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
- of which: forborne exposures	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
A.4 Performing exposures	56,010	X	8	62	X	8	2,981	X	-	143	X	-	756	X	21	10	X	140
- of which: forborne exposures	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-
Total A	**56,010**	**-**	**8**	**62**	**-**	**8**	**2,981**	**-**	**-**	**143**	**-**	**-**	**756**	**-**	**21**	**10**	**-**	**140**
B. Off-balance sheet exposures																		
B.1 Doubtful loans	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
B.2 Unlikely to pay	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
B.3 Other non-performing assets	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
B.4 Performing exposures	-	X	-	-	X	-	20	X	-	-	X	-	-	X	-	-	X	-
Total B	**-**	**-**	**-**	**-**	**-**	**-**	**20**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL (A+B) at 31 December 2017	**56,010**	**-**	**8**	**62**	**-**	**8**	**3,001**	**-**	**-**	**143**	**-**	**-**	**756**	**-**	**21**	**10**	**-**	**140**
TOTAL (A+B) at 31 December 2016	**56,293**	**-**	**7**	**57**	**-**	**5**	**2,118**	**-**	**-**	**134**	**-**	**-**	**652**	**-**	**19**	**8**	**-**	**131**

B.2 Distribution of on and off-balance sheet credit exposures to customers by geographic area and carrying amount

Exposures/ Geographic area (€m)	Italy		Other european countries		Americas		Asia		Rest of the world	
	Net expos.	Coll. prov.	Net expos.	Coll. prov.	Net expos.	Coll. prov.	Net expos.	Coll. prov.	Net expos.	Coll. prov.
A. On-balance sheet exposures										
A.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	59,868	177	86	-	8	-	-	-	-	-
Total A	**59,868**	**177**	**86**	**-**	**8**	**-**	**-**	**-**	**-**	**-**
B. Off-balance sheet exposures										
B.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
B.3 Other non-performing assets	-	-	-	-	-	-	-	-	-	-
B.4 Performing exposures	-	-	20	-	-	-	-	-	-	-
Total B	**-**	**-**	**20**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL (A+B) at 31 December 2017	**59,868**	**177**	**106**	**-**	**8**	**-**	**-**	**-**	**-**	**-**
TOTAL (A+B) at 31 December 2016	**59,044**	**162**	**210**	**-**	**8**	**-**	**-**	**-**	**-**	**-**

B.2 Distribution of on and off-balance sheet credit exposures to customers by geographic area and carrying amount

Exposures/ Geographic area (€m)	Italy, northwest		Italy, northeast		Italy, centre		Italy, south and islands	
	Net expos.	Coll. prov.	Net expos.	Coll. prov.	Net expos.	Coll. prov.	Net expos.	Coll. prov.
A. On-balance sheet exposures								
A.1 Doubtful loans	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-	-	-	-
A.4 Performing exposures	7	5	-	16	59,857	145	4	11
Total A	**7**	**5**	**-**	**16**	**59,857**	**145**	**4**	**11**
B. Off-balance sheet exposures								
B.1 Doubtful loans	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-
B.3 Other non-performing assets	-	-	-	-	-	-	-	-
B.4 Performing exposures	-	-	-	-	-	-	-	-
Total B	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL (A+B) at 31 December 2017	**7**	**5**	**-**	**16**	**59,857**	**145**	**4**	**11**
TOTAL (A+B) at 31 December 2016	**4**	**4**	**1**	**15**	**59,035**	**135**	**4**	**8**

The concentration in central Italy is due to the fact that nearly all exposures consist of Italian Government securities and deposits at the MEF.

B.3 Distribution of on and off-balance sheet credit exposures to banks by geographic area and carrying amount

Exposures/ Geographic area (€m)	Italy		Other european countries		Americas		Asia		Rest of the world	
	Net expos.	Coll. prov.	Net expos.	Coll. prov.	Net expos.	Coll. prov.	Net expos.	Coll. prov.	Net expos.	Coll. prov.
A. On-balance sheet exposures										
A.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	134	-	1,017	-	-	-	-	-	-	-
Total A	**134**	**-**	**1,017**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Off-balance sheet exposures										
B.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
B.3 Other non-performing assets	-	-	-	-	-	-	-	-	-	-
B.4 Performing exposures	184	-	221	-	-	-	-	-	-	-
Total B	**184**	**-**	**221**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL (A+B) at 31 December 2017	**318**	**-**	**1,238**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL (A+B) at 31 December 2016	**564**	**-**	**1,632**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

B.3 Distribution of on and off-balance sheet credit exposures to banks by geographic area and carrying amount

Exposures/ Geographic area (€m)	Italy, northwest		Italy, northeast		Italy, centre		Italy, south and islands	
	Net expos.	Coll. prov.	Net expos.	Coll. prov.	Net expos.	Coll. prov.	Net expos.	Coll. prov.
A. On-balance sheet exposures								
A.1 Doubtful loans	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-	-	-	-
A.4 Performing exposures	64	-	-	-	67	-	3	-
Total A	**64**	**-**	**-**	**-**	**67**	**-**	**3**	**-**
B. Off-balance sheet exposures								
B.1 Doubtful loans	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-
B.3 Other non-performing assets	-	-	-	-	-	-	-	-
B.4 Performing exposures	184	-	-	-	-	-	-	-
Total B	**184**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL (A+B) at 31 December 2017	**248**	**-**	**-**	**-**	**67**	**-**	**3**	**-**
TOTAL (A+B) at 31 December 2016	**436**	**-**	**-**	**-**	**128**	**-**	**-**	**-**

B.4 Large exposures (in compliance with supervisory standards)

In compliance with the supervisory standards in force, the table for "Large exposures" shows information on exposures to customers or groups of connected customers that exceed 10% of total own funds. The exposures are determined with reference to total on-balance sheet risk assets and off-balance sheet transactions, without applying any risk weightings. Based on these criteria, the table includes entities that, despite having a risk weighting of 0%, represent an unweighted exposure in excess of 10% of own funds. Exposures to the Italian state shown in the table represent approximately 90% of the total carrying amount. The remaining exposures regard primary counterparties represented by European banks and other central counterparties in Italy. However, in view of the fact that it cannot lend to the public, the Bank of Italy has exempted BancoPosta RFC from application of the requirements regarding limits on large exposures. No further exemptions from the remaining obligations have been granted.

Large exposures		
a)	Carrying amount (€m)	70,280
b)	Weighted amount (€m)	1,782
c)	Number	12

C. Securitisations

Nil.

D. Information on unconsolidated structured entities (other than securitisation vehicles)

Nil.

E. Disposal of assets

A. Financial assets sold but not fully derecognised

Qualitative information

In the case of BancoPosta RFC, this category only regards Italian government securities provided as collateral for repurchase agreements. BancoPosta uses these transactions to access the interbank market to raise funds, with the aim of funding the purchase of government securities and the deposits necessary for margin lending.

Quantitative information

E.1 Financial assets sold but not fully derecognised: carrying amount and gross amount

Asset/ Portfolio (€m)	Financial assets held for trading			Financial assets designated at fair value			Available-for-sale financial assets			Held-to-maturity financial assets			Due from banks			Due from customers			Total	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	At 31 December 2017	At 31 December 2016
A. On balance sheet assets	-	-	-	-	-	-	-	-	-	4,486	-	-	-	-	-	-	-	-	4,486	4,894
1. Debt securities	-	-	-	-	-	-	-	-	-	4,486	-	-	-	-	-	-	-	-	4,486	4,894
2. Equity instruments	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
3. UCIs	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Derivative instruments	-	-	-	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	-	-
Total at 31 December 2017	-	-	-	-	-	-	-	-	-	4,486	-	-	-	-	-	-	-	-	4,486	X
of which non-performing:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	*X*
Total at 31 December 2016	-	-	-	-	-	-	206	-	-	4,688	-	-	-	-	-	-	-	-	X	4,894
of which non-performing:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	*X*	-

Key
A = Full recognition of financial assets sold to third parties (carrying amount)
B = Partial recognition of financial assets sold to third parties (carrying amount)
C = Partial recognition of financial assets sold to third parties (gross amount)

E.2 Financial liabilities matched with assets sold but not derecognised: carrying amount

Liability/ Asset portfolio (€m)	Financial assets held for trading	Financial assets designated at fair value	Available-for-sale financial assets	Held-to-maturity financial assets	Due from banks	Due from customers	Total
1. Due to customers	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) asset fully recognised	-	-	-	-	-	-	-
b) asset partially recognised	-	-	-	-	-	-	-
2. Due to banks	**-**	**-**	**-**	**4,842**	**-**	**-**	**4,842**
a) asset fully recognised	-	-	-	4,842	-	-	4,842
b) asset partially recognised	-	-	-	-	-	-	-
Total at 31 December 2017	**-**	**-**	**-**	**4,842**	**-**	**-**	**4,842**
Total at 31 December 2016	**-**	**-**	**206**	**5,175**	**-**	**-**	**5,381**

Section 2 –market risk

Market risk relates to:

- price risk: the risk that the value of a financial instrument fluctuates as a result of market price movements, deriving from factors specific to the individual instrument or the issuer, and factors that influence all instruments traded on the market;
- foreign exchange risk: the risk that the value of a financial instrument fluctuates as a result of movements in exchange rates for currencies other than the functional currency;
- fair value interest rate risk: the risk that the value of a financial instrument fluctuates as a result of movements in market interest rates;
- spread risk: the risk relates to the potential fall in the value of bonds held, following a deterioration in the creditworthiness of issuers;
- cash flow interest rate risk: the risk that the cash flows from a financial instrument will fluctuate because of movements in market interest rates;
- cash flow inflation rate risk: the risk that the cash flows from a financial instrument will fluctuate because of movements in inflation rates.

2.1 Interest rate and price risks - supervisory trading book

There were no supervisory trading book assets or liabilities at 31 December 2017. Poste Italiane SpA's "Guidelines for financial transactions" for BancoPosta RFC prohibit the acquisition of assets and liabilities with the intention to trade, as defined by article 104 of EU Regulation 575/2013 in relation to classification of the "supervisory trading book".

2.2 Interest rate and price risks - banking book

Qualitative information

A. Generalities, operating procedures and interest rate and price risk measurement methods

Interest rate risk

Interest rate risk is inherent in the operations of a financial institution and can affect income (cash flow interest rate risk) and the value of the firm (fair value interest rate risk). Movements in interest rate can affect the cash flows associated with variable rate assets and liabilities and the fair value of fixed rate instruments.

Cash flow interest rate risk arises from the mismatch – in terms of interest rate, interest rate resets and maturities – of financial assets and liabilities until their contractual maturity and/or expected maturity (banking book), with effects in terms of interest spreads and, as such, an impact on future results. This risk is of particular relevance to variable rate assets and liabilities or assets and liabilities which have been transformed into variable rate by fair value hedges.

Fair value interest rate risk primarily refers to the effects of changes in interest rates on the price of fixed rate financial instruments or variable rate financial instruments converted to fixed rate via cash flow hedges and, to a lesser degree, the effects of changes in interest rates on the fixed components of floating rate financial instruments or fixed rate financial instruments converted to variable rate via fair value hedges.

BancoPosta RFC's portfolio is predominantly invested in fixed rate instruments, some of which, with a fair value of €19,013 million, have been hedged using fair value hedges of the forward start type or index-linked instruments amounting to approximately €1,400 million, converted to fixed rate via asset swaps used as cash flow hedges.

Interest rate risk is measured internally using the economic value method. This results in a need to develop an amortisation schedule for the funding consistent with its nature and to select a time horizon and confidence levels for the estimates. A maximum time horizon (cut-off point) of 20 years is used for retail customer deposits, 10 years for business customer deposits and PostePay cards, and 5 years for Public Administration deposits, based on a 99% confidence level. This approach entails the computation of an ALM rate risk through the determination of asset/liability maturity gaps.

The exposure to interest rate risk, as measured internally, is subject to stress tests of the principal risk factors – such as the duration of deposits, the value of investments and interest rate trends – that contribute to determining the measurement of exposure. In particular, the stress tests are based on an assumed reduction in the maximum time horizon (cut-off point) for retail and business customer deposits, revaluation of the asset portfolio in response to adverse market movements, and non-parallel shifts in the interest rate curve.

Interest rate risk management and mitigation is based on the conclusions of the measurement of risk exposure and compliance - in line with the risk appetite and thresholds and limits established in the RAF - with financial operations guidelines as approved from time to time by Poste Italiane SpA's Board of Directors.

Details on the risk management model are contained in the note on financial risks in Part E.

BancoPosta RFC monitors market risk, including fair value interest rate and spread risks, inherent in available-for-sale financial assets and derivative financial instruments through the computation of Value at Risk (VaR) over a time horizon of 1 day at a 99% confidence level.

Spread risk

Spread risk regards bonds issued or guaranteed by the Italian government and classified as available-for-sale financial assets. On average, 2017 witnessed an increase in the yields on Italian government bonds, whilst, at 31 December 2017, the spread between ten-year Italian government bonds and German bunds is approximately 159 bps, demonstrating a trend in line with the previous year (161 bps at 31 December 2016).

Over the period under review, the above situation resulted in a net reduction in the fair value of BancoPosta RFC's available-for-sale portfolio (a nominal value of approximately €36 billion) of approximately €0.8 billion. The decrease in the fair value of instruments hedged against interest rate risk, amounting to approximately €0.5 billion, was offset by an increase in the fair value of the related derivatives, whilst the reduction in the fair value of unhedged instruments and of the component subject to spread risk (unhedged) was reflected in consolidated equity (approximately €0.3 billion.

Price risk

Price risk relates to available-for-sale financial assets.

This sensitivity analysis takes into account the main positions potentially exposed to the greatest risk of price movements.

BancoPosta RFC monitors the price risk to which its shareholdings are exposed by computing Value at Risk (VaR) over a time horizon of 1 day at a 99% confidence level.

B. Fair value hedges

BancoPosta RFC's fair value interest rate risk hedges include entering into OTC fair value hedge asset swaps primarily with banks for individual securities in portfolio. These derivatives cannot hedge spread risk since they hedge market interest rate fluctuations through rate swaps. BancoPosta RFC again made use of this type of transaction in 2017, in response to the low level of interest rates and in order to protect against the negative effects of rising interest rates.

C. Cash flow hedges

BancoPosta RFC's cash flow interest rate risk hedges include entering into OTC cash flow hedge asset swaps primarily with banks for individual securities in portfolio.

The pattern of portfolio maturities results in the need to invest funds in euro government securities resulting in an exposure to risk of an increase in prices as a consequence of decreasing yields. Where appropriate, BancoPosta RFC is a buyer of cash flow hedges of a forecast transaction to hedge this type of cash flow interest rate risk.

In order to stabilise revenue and limit exposure to interest rate and spread risk, BancoPosta RFC enters as a seller into cash flow hedges of a forecast transaction with the aim of crystallising gains when market movements are favourable.

Quantitative information

1. Banking book: distribution of residual terms to maturity of financial assets and liabilities by repricing date

Currency: Euro

Asset - Liability / Residual term to maturity (€m)	Demand	3 months or less	3 - 6 months	6 months - 1 year	1 - 5 years	5 - 10 years	Over 10 years	Unspecified maturity
1. On-balance sheet assets	**7,912**	**5,540**	**163**	**2,081**	**11,181**	**9,577**	**24,658**	**-**
1.1 Debt securities	-	4,360	163	2,081	11,173	9,577	24,658	-
- with prepayment option	-	-	-	-	-	-	-	-
- other	-	4,360	163	2,081	11,173	9,577	24,658	-
1.2 Due from banks	53	1,096	-	-	-	-	-	-
1.3 Due from customers	7,859	84	-	-	8	-	-	-
- current accounts	9	-	-	-	-	-	-	-
- other loans	7,850	84	-	-	8	-	-	-
- with prepayment option	-	-	-	-	-	-	-	-
- other	7,850	84	-	-	8	-	-	-
2. On-balance sheet liabilities	**53,829**	**1,919**	**522**	**100**	**2,402**	**-**	**-**	**-**
2.1 Due to customers	52,806	18	-	-	-	-	-	-
- current accounts	46,468	-	-	-	-	-	-	-
- other deposits	6,338	18	-	-	-	-	-	-
- with prepayment option	-	-	-	-	-	-	-	-
- other	6,338	18	-	-	-	-	-	-
2.2 Due to banks	1,023	1,901	522	100	2,402	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other deposits	1,023	1,901	522	100	2,402	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with prepayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with prepayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying securities								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	1,705	-	-	-	-	-	-
+ short positions	-	-	-	-	300	1,408	-	-
3.2 Without underlying securities								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	1,265	-	445	18,040	940	175	-
+ short positions	-	1,175	-	200	-	200	19,290	-
4. Other off-balance sheet transactions								
+ long positions	-	371	-	-	-	-	-	-
+ short positions	-	371	-	-	-	-	-	-

1. Banking book: distribution of residual terms to maturity of financial assets and liabilities by repricing date

Currency: US dollar

Asset - Liability / Residual term to maturity (€m)	Demand	3 months or less	3 - 6 months	6 months - 1 year	1 - 5 years	5 - 10 years	Over 10 years	Unspecified maturity
1. On-balance sheet assets	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with prepayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Due from banks	1	-	-	-	-	-	-	-
1.3 Due from customers	-	-	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other loans	-	-	-	-	-	-	-	-
- with prepayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	-	-	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other deposits	-	-	-	-	-	-	-	-
- with prepayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other deposits	-	-	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with prepayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with prepayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying securities								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying securities								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

1. Banking book: distribution of residual terms to maturity of financial assets and liabilities by repricing date

Currency: Swiss franc

Asset - Liability / Residual term to maturity (€m)	Demand	3 months or less	3 - 6 months	6 months - 1 year	1 - 5 years	5 - 10 years	Over 10 years	Unspecified maturity
1. On-balance sheet assets	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with prepayment option		-	-	-	-	-	-	-
- other		-	-	-	-	-	-	-
1.2 Due from banks	1	-	-	-	-	-	-	-
1.3 Due from customers	-	-	-	-	-	-	-	-
- current accounts		-	-	-	-	-	-	-
- other loans		-	-	-	-	-	-	-
- with prepayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	-	-	-	-	-	-	-	-
2.1 Due to customers	-	-	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other deposits	-	-	-	-	-	-	-	-
- with prepayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other deposits	-	-	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with prepayment option		-	-	-	-	-	-	-
- other		-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with prepayment option		-	-	-	-	-	-	-
- other		-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying securities								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying securities								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

2. Banking book: internal models and other methods of sensitivity analysis

Fair value interest rate risk

The sensitivity of exposures to fair value interest rate risk was tested by assuming a parallel shift of the market yield curve of +/- 100 bps.

BancoPosta's available-for-sale financial assets portfolio at 31 December 2017 had a duration of 5.34 (31 December 2016: 5.79). The sensitivity analysis is shown in the table.

Fair value interest rate risk

Analysis date (€m)	Nominal value	Fair value	Changes in value		Net interest and other banking income		Equity reserves before taxes	
			+100 bps	-100 bps	+100 bps	-100 bps	+100 bps	-100 bps
2017 effect								
Available-for-sale financial assets								
Debt securities	35,738	39,099	(1,009)	931	-	-	(1,009)	931
Financial assets held for trading	-	-	-	-	-	-	-	-
Asset - Hedging derivatives	-	-	-	-	-	-	-	-
Financial liabilities held for trading	-	-	-	-	-	-	-	-
Liability - Hedging derivatives	1,705	(23)	91	(97)	-	-	91	(97)
31 December 2017 variability	**37,443**	**39,076**	**(918)**	**834**	**-**	**-**	**(918)**	**834**
2016 effect								
Available-for-sale financial assets								
Debt securities	32,178	37,159	(1,099)	1,031	-	-	(1,099)	1,031
Financial assets held for trading	-	-	-	-	-	-	-	-
Asset - Hedging derivatives	220	6	(28)	33	-	-	(28)	33
Financial liabilities held for trading	-	-	-	-	-	-	-	-
Liability - Hedging derivatives	196	(3)	(26)	31	-	-	(26)	31
31 December 2016 variability	**32,594**	**37,162**	**(1,153)**	**1,095**	**-**	**-**	**(1,153)**	**1,095**

All of BancoPosta RFC's investments are classified as held-to-maturity and available-for-sale financial assets. The sensitivity analysis shown above is for the last of these categories.

Spread risk

The value of the portfolio of bonds issued or guaranteed by the Italian government is much more sensitive to the credit risk associated with the Italian Republic than to changes in so-called risk-free interest rates. This is due, in part, to the fact that changes in credit spreads also affect the value of variable rate bonds and, especially, to the fact that, unlike pure interest rate risk, no hedging policy is in place to protect against credit spread risk. This means that, in the event of increases in interest rates attributable to pure rate component, unrealised losses on fixed rate bonds are offset by an increase in the value of hedging IRSs (a fair value hedge strategy). If, on the other hand, interest rates rise as a result of a wider credit spread for the Italian Republic, losses on bonds issued or guaranteed by the Italian government are not offset by movements in the opposite direction of other exposures.

The sensitivity to the spread has been calculated by applying a shift of +/- 100 bps to the risk factor that affects the different types of bonds held represented by the yield curve of Italian government bonds.

The sensitivity analyses are shown below.

Fair value spread risk

Analysis date (€m)	Nominal value	Fair value	Changes in value		Net interest and other banking income		Equity reserves before taxes	
			+100 bps	-100 bps	+100 bps	-100 bps	+100 bps	-100 bps
2017 effect								
Available-for-sale financial assets								
Debt securities	35,738	39,099	(3,877)	4,606	-	-	(3,877)	4,606
Financial assets held for trading	-	-	-	-	-	-	-	-
Asset - Hedging derivatives	-	-	-	-	-	-	-	-
Liability - Hedging derivatives	1,705	(23)	92	(98)	-	-	92	(98)
31 December 2017 variability	**37,443**	**39,076**	**(3,785)**	**4,508**	**-**	**-**	**(3,785)**	**4,508**
2016 effect								
Available-for-sale financial assets								
Debt securities	32,178	37,159	(3,615)	4,292	-	-	(3,615)	4,292
Financial assets held for trading	-	-	-	-	-	-	-	-
Asset - Hedging derivatives	220	6	(28)	33	-	-	(28)	33
Liability - Hedging derivatives	196	(3)	(26)	31	-	-	(26)	31
31 December 2016 variability	**32,594**	**37,162**	**(3,669)**	**4,356**	**-**	**-**	**(3,669)**	**4,356**

In addition to sensitivity analyses, BancoPosta RFC monitors fair value interest rate risk by computing maximum potential loss or VaR - Value at Risk. The results of the VaR analysis regarding the variability of spread risk are shown below.

Spread risk - VaR analyses

Analysis date (€m)	Risk exposure		
	Nominal value	Fair value	Spread VaR
2017 effect			
Available-for-sale financial assets			
Debt securities	35,738	39,099	345
Asset - Hedging derivatives	-	-	-
Liability - Hedging derivatives	1,705	(23)	8
31 December 2017 variability	**37,443**	**39,076**	**353**
2016 effect			
Available-for-sale financial assets			
Debt securities	32,178	37,159	460
Asset - Hedging derivatives	220	6	4
Liability - Hedging derivatives	196	(3)	3
31 December 2016 variability	**32,594**	**37,162**	**467**

In addition, if considered as a whole, financial assets and liabilities are subject to maximum potential losses of €336 million.

Maximum potential loss (VaR - Value at Risk), a statistical estimation with a time horizon of 1 day and a confidence level of 99%, is also computed by BancoPosta RFC to monitor market risk. Risk analysis performed through VaR takes into account the historical variability of the risk (spread) in question, in addition to modelling parallel shifts of the yield curve.

In order to jointly monitor spread and fair value interest rate risks, the following table shows the results of the VaR analysis conducted with reference to available-for-sale financial assets and derivative financial instruments, taking into account the variability of both risk factors:

(€m)	2017	2016
Closing VaR	(325)	(434)
Average VaR	(356)	(397)
Minimum VaR	(210)	(278)
Maximum VaR	(523)	(587)

The decrease in VaR at the end of the period, compared with 31 December 2016, primarily reflects the reduction in market volatility.

Taking into account both available-for-sale financial assets (including the related hedges outstanding) and forward sales, the combined analysis of spread risk and fair value interest rate risk at 31 December 2017 results in a potential loss of €318 million (VaR at the end of the period).

Cash flow interest rate risk

The sensitivity to cash flow interest rate risk at 31 December 2016 and 31 December 2017 is summarised in the table below and was computed assuming a +/- 100 bps parallel shift in the market forward interest rate curve.

Cash flow interest rate risk

	2017			2016		
	Exposure	Net interest and other banking income		Exposure	Net interest and other banking income	
(€m)		+100 bps	-100 bps		+100 bps	-100 bps
Cash						
- Account held at Bank of Italy	396	4	(4)	223	2	(2)
Due from banks	1,099	11	(11)	1,230	12	(12)
Due from customers						
- Deposits at MEF (Treasury)	6,011	60	(60)	6,189	62	(62)
- Buffer deposit at MEF	379	4	(4)	1,310	13	(13)
- Due from customers (collateral)	83	1	(1)	209	2	(2)
- Due from customers (Poste Italiane SpA outside the ring-fence)	732	7	(7)	629	6	(6)
Financial assets available-for-sale						
- Debt securities	2,210	22	(22)	2,235	22	(22)
Due to banks	(82)	(1)	1	(32)	-	-
Due to customers	(18)	-	-	-	-	-
Due to customers (Poste Italiane SpA outside the ring-fence)	(14)	-	-	(14)	-	-
Total variability	**10,796**	**108**	**(108)**	**11,979**	**119**	**(119)**

Cash flow interest rate risk at 31 December 2017 was primarily inherent in the placement of Public Administration deposits with the MEF.

Cash flow inflation risk

Cash flow inflation rate risk at 31 December 2017 relates to government inflation indexed bonds which were not hedged through the arrangement of cash flow hedges or fair value hedges entered into by BancoPosta RFC, having a nominal value of €2,145 million and a fair value of €2,594 million. The effects of sensitivity analysis are immaterial.

Price risk

The sensitivity of financial instruments to price risk is analysed using a stress test based on one-year historical volatility, considered to be representative of potential market movements.

Price risk

Analysis date (€m)	Exposure	Changes in value		Net interest and other banking income		Equity reserves before taxes	
		+ Vol	- Vol	+ Vol	- Vol	+ Vol	- Vol
2017 effect							
Available-for-sale financial assets							
Equity instruments	41	5	(5)	-	-	5	(5)
31 December 2017 variability	**41**	**5**	**(5)**	**-**	**-**	**5**	**(5)**
2016 effect							
Available-for-sale financial assets							
Equity instruments	104	22	(22)	-	-	22	(22)
31 December 2016 variability	**104**	**22**	**(22)**	**-**	**-**	**22**	**(22)**

Notes on the related equity instruments (shares) are contained in Part B, Assets, Table 4.1.

The Class C Visa Incorporated shares and the Series C Convertible Participating Preferred Stock issued by Visa Incorporated held in portfolio were sensitivity tested using similar listed shares, after adjusting for 2017 volatility. The shares' price risk is also monitored through the computation of VaR.

The VaR sensitivity analyses are shown below:

(€m)	2017	2016
Closing VaR	-	(2)
Average VaR	(2)	(2)
Minimum VaR	-	(1)
Maximum VaR	(3)	(3)

2.3 Foreign exchange risk

Qualitative information

A. Generalities, management policies and foreign exchange risk measurement methods

Foreign exchange risk relates to losses that could be incurred on foreign currency positions, regardless of portfolio, through fluctuations in foreign exchange rates. BancoPosta RFC is exposed to this risk principally through foreign currency bank accounts, foreign currency cash and its VISA shares.

Foreign exchange risk is controlled by the Risk Management function using the measurement of exposure to the risk in accordance with financial operations guidelines which restrict currency trading to the foreign exchange service and international bank transfers.

Foreign exchange risk is measured using the Bank of Italy prudential methodology currently recommended for banks (see EU Regulation 575/2013). Furthermore, sensitivity stress tests are regularly conducted for the most important exposures with reference to hypothetical levels of exchange rate volatility for each currency position. Movements in exchange rates equal to the volatility for the period are assumed to emulate market fluctuations.

B. Foreign exchange hedges

Quantitative information

1. Distribution of assets, liabilities and derivatives by currency

Items (€m)	Currency					
	US Dollar	Swiss Franc	Sterling	Japanese Yen	Tunisian Dinar	Other currencies
A. Financial assets	**42**	**1**	**-**	**-**	**-**	**-**
A.1 Debt securities	-	-	-	-	-	-
A.2 Equity instruments	41	-	-	-	-	-
A.3 Due from banks	1	1	-	-	-	-
A.4 Due from customers	-	-	-	-	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**6**	**3**	**2**	**-**	**-**	**-**
C. Financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Due to banks	-	-	-	-	-	-
C.2 Due to customers	-	-	-	-	-	-
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**
E. Financial derivatives						
- Options						
+ Long positions	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
- Other derivatives						
+ Long positions	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
Total assets	**48**	**4**	**2**	**-**	**-**	**-**
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**
Position (+/-)	**48**	**4**	**2**	**-**	**-**	**-**

“Other assets” relate to foreign currencies held in post offices for the foreign exchange service.

2. Internal models and other methods of sensitivity analysis

Application of the foreign exchange rate volatility during the period to the most important equity instruments held by BancoPosta are shown in the following table.

Foreign exchange risk - US dollar

Analysis date (€m)	US dollar position ($000)	EUR position (€000)	Changes in value		Net interest and other banking income		Equity reserves before taxes	
			+ Vol 260 days	- Vol 260 days	+ Vol 260 days	- Vol 260 days	+ Vol 260 days	- Vol 260 days
2017 effect								
Available-for-sale Investments								
Equity instruments	49	41	3	(3)	-	-	3	(3)
31 December 2017 variability	**49**	**41**	**3**	**(3)**	**-**	**-**	**3**	**(3)**
2016 effect								
Available-for-sale Investments								
Equity instruments	110	104	9	(9)	-	-	9	(9)
31 December 2016 variability	**110**	**104**	**9**	**(9)**	**-**	**-**	**9**	**(9)**

2.4 Derivatives

A. Financial derivatives

A.1 Supervisory trading book: closing and average notional amounts

Nil.

A.2 Banking book: closing and average notional amounts

A.2.1 Hedging

	Balance at 31 December 2017		Balance at 31 December 2016	
Underlyings / Type of derivative (€m)	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**22,570**	**-**	**17,956**	**-**
a) Options	-	-	-	-
b) Swaps	20,865	-	17,540	-
c) Forwards	1,705	-	416	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity instruments and stock indices	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlyings	**-**	**-**	**-**	**-**
Total	**22,570**	**-**	**17,956**	**-**
Averages	**20,814**	**-**	**16,497**	**-**

A.2.2 Other derivatives

Nil.

A.3 Financial derivatives: positive gross fair value by product

Book/Type of derivative (€m)	Positive fair value			
	Balance at 31 December 2017		Balance at 31 December 2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Supervisory trading book	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
B. Banking book - hedging	**395**	**-**	**191**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	395	-	185	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	6	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - other derivatives	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**395**	**-**	**191**	**-**

A.4 Financial derivatives: negative gross fair value by product

Book/Type of derivative (€m)	Negative fair value: Balance at 31 December 2017 – Over the counter	Balance at 31 December 2017 – Central counterparties	Balance at 31 December 2016 – Over the counter	Balance at 31 December 2016 – Central counterparties
A. Supervisory trading book	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
B. Banking book - hedging	**1,637**	**-**	**2,305**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	1,614	-	2,302	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	23	-	3	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - other derivatives	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**1,637**	**-**	**2,305**	**-**

A.5 / A.6 OTC financial derivatives - supervisory trading book: notional amount, gross negative and positive fair value by counterparty - contracts falling and not falling within the scope of netting agreements

Nil.

A.7 OTC financial derivatives - banking book: notional amount, gross negative and positive fair value by counterparty - contracts not falling within the scope of netting agreements

Nil.

A.8 OTC financial derivatives - banking book: notional amount, gross negative and positive fair value by counterparty - contracts falling within the scope of netting agreements

Contracts falling within the scope of netting agreements (€m)	Governments and Central Banks	Other public entities	Banks	Finance companies	Insurance companies	Non-finance companies	Other entities
1) Debt securities and interest rates							
- notional amount	-	-	19,030	3,540	-	-	-
- positive fair value	-	-	318	77	-	-	-
- negative fair value	-	-	(1,505)	(132)	-	-	-
2) Equity instruments and stock indices							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
3) Currencies and gold							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
4) Other							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

A.9 Residual terms to maturity of OTC financial derivatives: notional amounts

Underlyings/Residual term to maturity (€m)	1 year or less	1 - 5 years	over 5 years	Total
A. Supervisory trading book	**-**	**-**	**-**	**-**
A.1 Financial derivatives on debt securities and interest rates	-	-	-	-
A.2 Financial derivatives on equity instruments and stock indices	-	-	-	-
A.3 Financial derivatives on exchange rates and gold	-	-	-	-
A.4 Financial derivatives on other underlyings	-	-	-	-
B. Banking book:	**1,705**	**745**	**20,120**	**22,570**
B.1 Financial derivatives on debt securities and interest rates	1,705	745	20,120	22,570
B.2 Financial derivatives on equity instruments and stock indices	-	-	-	-
B.3 Financial derivatives on exchange rates and gold	-	-	-	-
B.4 Financial derivatives on other underlyings	-	-	-	-
Total at 31 December 2017		**745**	**20,120**	**22,570**
Total at 31 December 2016		**645**	**16,725**	**17,956**

B. Credit derivatives

Not applicable.

C. Financial and credit derivatives

C.1 OTC financial and credit derivatives: net fair value and future exposures by counterparty

(€m)	Governments and Central Banks	Other public entities	Banks	Finance companies	Insurance companies	Non-finance companies	Other entities
1) Bilateral agreements financial derivatives							
- positive fair value	-	-	93	20	-	-	-
- negative fair value	-	-	(1,280)	(75)	-	-	-
- future exposure	-	-	127	23	-	-	-
- net counterparty risk	-	-	58	10	-	-	-
2) Bilateral agreements credit derivatives							
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-
3) Cross product agreements							
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-

Section 3 – liquidity risk

Qualitative information

A. Generalities, management policies and liquidity risk measurement methods

Liquidity risk is the risk that an entity may have difficulties in raising sufficient funds, at market conditions, to meet its obligations deriving from financial instruments. Liquidity risk may derive from the inability to sell financial assets quickly at an amount close to fair value or the need to raise funds at off-market rates.

It is policy to minimise liquidity risk through:

- diversification of the various forms of short-term and long-term borrowings and counterparties;
- gradual and consistent distribution of the maturities of medium/long-term borrowings;
- use of dedicated analytical models to monitor the maturities of assets and liabilities;
- the availability of the interbank markets as a source of repurchase agreement finance, with collateral in the form of securities held in portfolio, due to the fact that such assets consist of financial instruments deemed to be highly liquid assets by current standards.

In terms of BancoPosta RFC's specific operations, liquidity risk regards the investment of current account deposits in bonds issued or guaranteed by the Italian government, prepaid cards and the margins on derivative transactions. The potential risk derives from a mismatch between the maturities of investments in securities and those of liabilities, represented by current accounts where the funds are available on demand, thus compromising the ability to meet its obligations to current account holders. This potential mismatch between assets and liabilities is monitored via comparison of loan and deposit maturities, using the statistical model of the performance of current account deposits, in accordance with the various likely maturity schedules and assuming the progressive total withdrawal of deposits over a period of 20 years for retail customers, 10 years for business customers and PostePay cards and 5 years for Public Administration customers. BancoPosta RFC closely monitors the behaviour of deposits taken in order to assure the model's validity.

In addition to postal deposits, BancoPosta also funds itself through:

- LTROs, amounting to an outstanding €3.9 billion;
- short-term deposits created through repurchase agreements as funding for incremental deposits used as collateral for asset swaps and Repos (collateral provided, respectively, under CSAs and GMRAs).

BancoPosta RFC's maturity mismatch approach entails an analysis of the mismatch between cash in and outflows for each time band of the maturity ladder.

BancoPosta RFC's cash is dynamically managed by treasury for the timely and continual monitoring of private customer postal current account cash flows and the efficient management of short-term cash shortfalls and excesses. In order to assure flexible investments in securities consistent with the dynamic nature of current accounts, BancoPosta RFC can also use the MEF buffer account within certain limits and subject to payment of a fee.

Details on the risk management model are contained in the note on financial risk at the beginning of this Part E.

The liquidity risk resulting from contract terms requiring the provision of additional collateral in the event of a downgrade of Poste Italiane SpA is negligible. Such contracts include those for margin lending of derivatives, which require the threshold amount[134] to be reduced to zero in the event that Poste Italiane SpA's rating is downgraded to below "BBB-". The threshold amounts relating to margin lending contracts included in repurchase agreements are equal to zero, meaning that these transactions are not subject to liquidity risk.

BancoPosta RFC's liquidity is assessed, in the form of stress tests, through risk indicators (the Liquidity Coverage Ratio and Net Stable Funding Ratio) defined by the Basle 3 prudential regulations. These indicators aim to assess whether or not the entity has sufficient high-quality liquid assets to overcome situations of acute stress lasting a month, and to verify that assets and liabilities have sustainable maturity profiles assuming a stress scenario lasting one year. Thanks to the nature of its balance sheet (significant holdings of EU government securities and a preponderance of retail deposits), in BancoPosta's case the indicators are well above the limits imposed by the prudential regulations.

Moreover, liquidity risk is monitored through the development of early warning indicators that, in addition to taking into account the level of deposit withdrawals under conditions of stress, aim to monitor funding outflows in line with the estimated performance of deposits at a 99% confidence level.

Quantitative information

1. Distribution of residual terms to maturity of financial assets and liabilities

The time distribution of assets and liabilities is shown below, as established for banks' financial statements (Bank of Italy Circular 262/2005, third Revision and relevant clarifications provided by the Supervisory Body), using accounting data reported for the residual contractual term to maturity.

Management data, such as the modelling of demand deposits and the reporting of cash and cash equivalents taking account of their degree of liquidity, has, consequently, not been used.

134. The threshold amount is the amount of collateral that is not required to be provided under the contract; it therefore represents the residual counterparty risk to be borne by a counterparty.

Currency: Euro

Asset - Liability/Residual terms to maturity (€m)	Demand	1 - 7 days	7 - 15 days	15 days - 1 month	1 - 3 months	3 - 6 months	6 months - 1 year	1 - 5 years	> 5 years	Unspecified maturity
On-balance sheet assets	**8,089**	**1,180**	**-**	**-**	**1,010**	**282**	**2,811**	**12,042**	**33,868**	**-**
A.1 Government securities	-	-	-	-	1,010	272	2,791	10,534	32,868	-
A.2 Other debt securities	-	-	-	-	-	10	20	1,500	1,000	-
A.3 UCIs	-	-	-	-	-	-	-	-	-	-
A.4 Loans	8,089	1,180	-	-	-	-	-	8	-	-
- Banks	53	1,096	-	-	-	-	-	-	-	-
- Customers	8,036	84	-	-	-	-	-	8	-	-
On-balance sheet liabilities	**54,693**	**267**	**101**	**251**	**1,303**	**521**	**102**	**2,401**	**-**	**-**
B.1 Deposits and current accounts	47,491	-	-	-	-	-	-	-	-	-
- Banks	1,023	-	-	-	-	-	-	-	-	-
- Customers	46,468	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	7,202	267	101	251	1,303	521	102	2,401	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of principal										
- Long positions	-	-	1,705	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	245	1,163	-
C.2 Financial derivatives without exchange of principal										
- Long positions	-	-	-	2	31	-	39	-	-	-
- Short positions	-	-	-	-	33	-	44	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	371	-	-	-	-	-	-	-	-
- Short positions	-	371	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1. Distribution of residual terms to maturity of financial assets and liabilities

Currency: US dollar

Asset - Liability/Residual terms to maturity (€m)	Demand	1 - 7 days	7 - 15 days	15 days - 1 month	1 - 3 months	3 - 6 months	6 months - 1 year	1 - 5 years	> 5 years	Unspecified maturity
On-balance sheet assets	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCIs	-	-	-	-	-	-	-	-	-	-
A.4 Loans	1	-	-	-	-	-	-	-	-	-
- Banks	1	-	-	-	-	-	-	-	-	-
- Customers	-	-	-	-	-	-	-	-	-	-
On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	-	-	-	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-	-	-	-
- Customers	-	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1. Distribution of residual terms to maturity of financial assets and liabilities

Currency: Swiss franc

Asset - Liability/Residual terms to maturity (€m)	Demand	1 - 7 days	7 - 15 days	15 days - 1 month	1 - 3 months	3 - 6 months	6 months - 1 year	1 - 5 years	> 5 years	Unspecified maturity
On-balance sheet assets	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCIs	-	-	-	-	-	-	-	-	-	-
A.4 Loans	1	-	-	-	-	-	-	-	-	-
- Banks	1	-	-	-	-	-	-	-	-	-
- Customers	-	-	-	-	-	-	-	-	-	-
On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	-	-	-	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-	-	-	-
- Customers	-	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Section 4 – Operational risk

Qualitative information

A. Generalities, management policies and operational risk measurement methods

Operational risk refers to the risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events. This category of risk includes losses resulting from fraud, human error, business disruption, systems failures, breach of contracts and natural disasters. Operational risk includes legal risk, but not strategic and reputational risks.

To protect against this form of risk, BancoPosta RFC has formalised a methodological and organisational framework to identify, measure and manage the operational risk related to its products/processes.

The framework, which is based on an integrated (qualitative and quantitative) measurement model, makes it possible to monitor and manage risk on an increasingly informed basis.

In 2017, a series of steps have been taken to refine the operational risk management framework, with the aim of making the process of recording operational losses more efficient and mitigating such risks. This has involved the creation of cross-functional working groups. Support has also been provided to the specialist units and the user responsible for the process of analysing and assessing IT risk, in keeping with the approach adopted in 2016.

Qualitative information

At 31 December 2017, the risk map prepared in accordance with the aforementioned framework shows the type of operational risks BancoPosta RFC's products are exposed to. These are as follows:

Operational risk

Event type	Number of types
Internal fraud	35
External fraud	54
Employee practices and workplace safety	7
Customers, products and business practices	34
Damage caused by external events	4
Business disruption and system failure	7
Execution, delivery and process management	140
Total at 31 December 2017	**281**

For each type of mapped risk, the related sources of risk (internal losses, external losses, scenario analysis and risk indicators) have been recorded and classified in order to construct complete inputs for the integrated measurement model.

Systematic measurement of the mapped risks has enabled the prioritization of mitigation initiatives and the attribution of responsibilities in order to contain any future impact.

Part F – information on equity

Section 1 – BancoPosta RFC's equity

A. Qualitative information

The prudential regulations applicable to banks and investment firms from 1 January 2014 are contained in Bank of Italy Circular 285/2013, the purpose of which was to implement EU Regulation 575/2013 (the so-called Capital Requirements Regulation, or "CRR") and Directive 2013/36/EU (the so-called Capital Requirements Directive, or "CRD IV"), containing the reforms required in order to introduce the "Basel 3" regulations. In the third revision of the above Circular, the Bank of Italy has extended the prudential requirements applicable to banks to BancoPosta, taking into account the specific nature of the entity. As a result, BancoPosta RFC is required to comply with Pillar 1 capital requirements (credit, counterparty, market and operational risks) and those regarding Pillar 2 internal capital adequacy (Pillar 1 and interest rate risks), for the purposes of the ICAAP process. The relevant definition of capital in both cases is provided by the above supervisory standards.

In view of the extension of prudential standards to BancoPosta, BancoPosta RFC is now required to establish a system of internal controls in line with the provisions of Bank of Italy Circular 285/2013, which, among other things, requires the definition of a Risk Appetite Framework (RAF) and the containment of risks within the limits set by the RAF[135]. Compliance with the metrics established by the RAF influences decisions regarding profit distributions as part of capital management.

135. A definition of the RAF is provided in the "Introduction" to Part E.

B. Quantitative information

B.1 Equity: analysis

Equity accounts/Amounts (€m)	Balance at 31 December 2017	Balance at 31 December 2016
1. Share capital	-	-
2. Share premium reserve	-	-
3. Reserves	2,059	1,949
- revenue reserves	1,059	949
a) legal	-	-
b) required by articles	-	-
c) treasury shares	-	-
d) other	1,059	949
- other	1,000	1,000
4. Equity instruments	-	-
5. (Treasury shares)	-	-
6. Valuation reserves	115	869
- Available-for-sale financial assets	179	889
- Property, plant and equipment	-	-
- Intangible assets	-	-
- Hedges of net investments in foreign operations	-	-
- Cash flow hedges	(62)	(17)
- Translation differences	-	-
- Non-current assets held for sale	-	-
- Actuarial profits/(losses) on defined benefit plans	(2)	(3)
- Valuation reserves relating to equity accounted investments	-	-
- Special revaluations laws	-	-
7. Profit/(Loss) for the year	585	568
Total	**2,759**	**3,386**

“Reserves, other” consists of the initial reserve of €1 billion provided to BancoPosta RFC on its creation, through the attribution of Poste Italiane SpA’s retained earnings.

B.2 Valuation reserve for available-for-sale financial assets: analysis

Asset/Amounts (€m)	Balance at 31 December 2017		Balance at 31 December 2016	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	731	(567)	1,254	(439)
2. Equity instruments	15	-	74	-
3. UCIs	-	-	-	-
4. Loans	-	-	-	-
Total	**746**	**(567)**	**1,328**	**(439)**

B.3 Valuation reserve for available-for-sale financial assets: movements during the year

(€m)	Debt securities	Equity instruments	UCIs	Loans
1. Opening balance	**815**	**74**	**-**	**-**
2. Increases	**130**	**10**	**-**	**-**
2.1 Increases in fair value	99	10	-	-
2.2 Reversal to income statement of negative reserve:	31	-	-	-
- impairments	-	-	-	-
- disposals	31	-	-	-
2.3 Other increases	-	-	-	-
3. Decreases	**(781)**	**(69)**	**-**	**-**
3.1 Decrease in fair value	(330)	-	-	-
3.2 Impairments	-	-	-	-
3.3 Reversal to income statement of positive reserve on disposal	(451)	(69)	-	-
3.4 Other increases	-	-	-	-
4. Closing balance	**164**	**15**	**-**	**-**

B.4 Defined benefits plans valuation reserve: movements during the year

(€m)	Balance at 31 December 2017	Balance at 31 December 2016
Opening actuarial gains/(losses)	**(3)**	**(2)**
Actuarial gains/(losses)	1	(1)
Taxation of actuarial gains/(losses)	-	-
Closing actuarial gains/(losses)	**(2)**	**(3)**

Section 2 – Own funds and capital ratios

2.1 Own funds

A. Qualitative information

According to the framework defined by the Bank of Italy, own funds consist of two levels:

- Tier 1 Capital, in turn consisting of:
  - Common Equity Tier 1 – CET1;
  - Additional Tier 1 - AT1;
- Tier 2 Capital - T2.

BancoPosta RFC's own funds are all Common Equity Tier 1.

1. Common Equity Tier 1 – CET1

CET1 consists of elements that enable the entity to absorb any losses and continue operating as a going concern, thanks to its particular nature, such as the level of subordination, unredeemability and the absence of any obligation to pay dividends.

BancoPosta's CET1 consists of:

- other reserves, being revenue reserves, amounting to €1 billion originating from the creation of the ring-fence, and any further amounts attributed by Poste Italiane SpA that meet the requirements for inclusion in own funds[136];
- undistributed earnings, being BancoPosta RFC's profits appropriated on approval of Poste Italiane SpA's financial statements.

2. Additional Tier 1 – AT1

BancoPosta does not hold any Additional Tier 1 capital.

3. Tier 2 Capital –T2

BancoPosta does not hold any Tier 2 capital.

136. Contributions from non-controlling shareholders to BancoPosta RFC are excluded, as they are not provided for in the special regulations governing the ring-fence.

B. Quantitative information

Items/Amounts (€m)	Amount at 31 December 2017	Amount at 31 December 2016
A. Common Equity Tier 1 - CET1, before application of prudential filters	**2,059**	**1,949**
of which CET1 instruments subject to transitional requirements	-	-
B. Prudential CET1 filters (+/-)	**-**	**-**
C. CET1 before investments to be deducted and adjustments for the transitional regime (A+/- B)	**2,059**	**1,949**
D. Elements to be deducted from CET1	**-**	**-**
E. Transitional regime - Impact on CET1 (+/-)	**-**	**-**
F. Total Common Equity Tier 1 - CET1 (C - D +/- E)	**2,059**	**1,949**
G. Additional Tier 1 - AT1 before elements to be deducted and adjustments for the transitional regime	**-**	**-**
of which AT1 instruments subject to transitional requirements	-	-
H. Elements to be deducted from AT1	**-**	**-**
I. Transitional regime - Impact on AT1 (+/-)	**-**	**-**
L. Total Additional Tier 1 - AT1 (G - H +/- I)	**-**	**-**
M. Tier 2 - T2 before investments to be deducted and adjustments for the transitional regime	**-**	**-**
of which T2 instruments subject to transitional requirements	-	-
N. Elements to be deducted from T2	**-**	**-**
O. Transitional regime - Impact on T2 (+/-)	**-**	**-**
P. Total Tier2 - T2 (M - N +/- O)	**-**	**-**
Q. Total own funds (F + L + P)	**2,059**	**1,949**

CET1 consists of the initial equity reserve of €1,000 million provided to BancoPosta RFC on its creation and retained earnings of €1,059 million.

Profit for the year has not been computed in accordance with article 26 of EU Regulation 575/2013.

2.2 Capital adequacy

A. Qualitative information

Based on prudential standards, BancoPosta is required to comply with the following minimum capital ratios:

- Total capital ratio (the ratio of total own funds to total risk weighted assets - RWA[137]), equal to 10.5% (8% being the minimum requirement and 2.5% being the capital conservation buffer[138]);
- Common Equity Tier 1 ratio (the ratio of CET1 to total RWA): equal to 7.0% (4.5% being the minimum requirement and 2.5% being the capital conservation buffer);
- Tier 1 ratio (the ratio of T1 and total RWA): equal to 8.5% (6.0% being the minimum requirement and 2.5% being the capital conservation buffer).

In calculating both the capital requirements regarding credit and counterparty risk and the Credit Valuation Adjustment (CVA), the standardised approach provided for by EU Regulation 575/2013 is used.

In the case of BancoPosta RFC, credit risk derives primarily from exposures in the form of cash deposits and securities pledged as collateral (under counterparty risk mitigation agreements, such as CSAs and GMRAs), and trade receivables due from partners as a result of the distribution of financial and insurance products[139].

Exposures resulting from the investment of funds raised from deposits paid into accounts by private and Public Administration customers (bonds issued or guaranteed by the Italian government and amounts deposited with the MEF) and any eventual amounts due from the Italian Treasury as a result of depositing funds gathered, less payables for advances disbursed, do not, for the purposes of credit risk, result in the absorption of capital, as these exposures have a zero weighting.

Counterparty risk derives from exposures resulting from cash flow and fair value hedges and repurchase agreements[140].

Market risks solely regard foreign exchange risk which, in BancoPosta RFC's case, principally derives from foreign currency bank accounts, foreign currency holdings and the VISA shareholding. In calculating the capital requirements regarding foreign exchange risk, the standardised approach provided for by EU Regulation 575/2013 is applied.

In calculating Pillar 1 capital requirements for operational risk, BancoPosta applied the simplified approach (BIA – Basic Indicator Approach) provided for by EU Regulation 575/2013. This consists of applying a percentage of 15% to the average of the relevant indicator for the last three years[141] as at the end of the reporting period.

137. Risk weighted assets, or RWAs, are calculated by applying a risk weighting to the assets exposed to credit, counterparty, market and operational risks.
138. The capital conservation buffer is designed to ensure a minimum level of regulatory capital under adverse market conditions by enabling the build-up of high-quality capital outside periods of market stress. A transitional regime will reduce this buffer from 1 January 2017, with the aim of applying equal treatment to Italian banks with respect to other intermediaries operating in the euro zone. The new minimum ratios are: 1.250% from 1 January 2017 to 31 December 2017; 1.875% from 1 January 2018 to 31 December 2018; 2.500% from 1 January 2019.
139. See the previous description in Part E – Section 1, Credit risk.
140. The estimated risk exposure for derivative financial instruments is based on the "Market value" method, whilst the exposure deriving from repurchase agreements is estimated using the Credit Risk Mitigation (CRM) techniques, the "Full Method". Further information is provided in Part E – Section 1, Credit risk.
141. BancoPosta RFC calculates the relevant indicator as the sum of the following income statement items (in accordance with IAS): net interest income (items 10-20); net fee and commission income (items 40-50); the portion of "other operating income" not generated by extraordinary or non-recurring items (a portion of the positive component of item 190); net profits on the trading book (items 80, 90, 100b, 100c, 110); dividends (item 70).

B. Quantitative information

Categories / Amounts (€m)	Unweighted amounts/Requirement at 31 December 2017	Unweighted amounts/Requirement at 31 December 2016	Weighted amounts/Requirements at 31 December 2017	Weighted amounts/Requirements at 31 December 2016
A. RISK ASSETS				
A.1 Credit and counterparty risk	67,513	65,532	1,464	1,588
1. Standardised approach	67,513	65,532	1,464	1,588
2. Internal ratings based approach	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. SUPERVISORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			117	127
B.2 Risk of changes in credit ratings			23	14
B.3 Regulatory risk			-	-
B.4 Market risk			4	9
1. Standard approach			4	9
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			833	823
1. Basic approach			833	823
2. Standardised approach			-	-
3. Advanced approach			-	-
B.6 Other elements in the calculation			-	-
B.7 Total prudential requirements			977	973
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Weighted risk assets			12,215	12,162
C.2 CET1 capital ratio			16.9%	16.0%
C.3 Tier 1 capital ratio			16.9%	16.0%
C.4 Total capital ratio			16.9%	16.0%

The table shows BancoPosta's position regarding compliance with the Pillar 1 capital requirements governed by the CRR.

Unweighted risk exposures do not take into account risk mitigation techniques and the credit conversion factors used for off-balance sheet exposures.

The principal risk is operational, which absorbs approximately 85% of total prudential requirements. Credit risk amounts to €108 million, whilst the remaining amount absorbed regards counterparty risk (approximately €9 million). Market risk solely regards foreign exchange risk, which absorbs less than 1% of total capital requirements.

At 31 December 2017, BancoPosta RFC complies with the prudential requirements specified in the section on qualitative information.

Part G – Business combinations

No business combinations took place either during or subsequent to the period under review.

Part H – Related party transactions

1. Payments to key management personnel

Key management personnel consist of Directors of Poste Italiane SpA and first-line managers, whose compensation before social security and welfare charges and contributions are disclosed in table 4.4.5 in the notes on Poste Italiane SpA's financial statements and have been charged to BancoPosta RFC as part of the services provided by Poste Italiane functions outside the ring-fence (see Part C, Table 9.5). The charges are calculated in accordance with specific operating guidelines (Part A, paragraph A.1, Section 4).

2. Related party transactions

Impact of related party transactions on the financial position at 31 December 2017

Name (€m)	Balance at 31 December 2017						
	Financial assets	Due from banks and customers	Hedging derivatives	Other assets	Financial liabilities	Due to banks and customers	Other liabilities
Poste Italiane SpA	-	734	-	22	-	256	254
Direct subsidiaries							
BancoPosta Fondi SpA SGR	-	21	-	-	-	19	-
CLP ScpA	-	-	-	-	-	10	1
Consorzio PosteMotori	-	5	-	-	-	41	-
Consorzio Servizi Telef. Mobile ScpA	-	-	-	-	-	6	-
EGI SpA	-	-	-	-	-	12	-
Mistral Air Srl	-	-	-	-	-	-	-
PatentiViaPoste ScpA	-	-	-	-	-	8	-
Poste Tributi ScpA	-	2	-	-	-	7	-
Poste Tutela SpA	-	-	-	-	-	7	-
Poste Vita SpA	-	137	-	-	-	570	-
Postecom SpA	-	-	-	-	-	-	-
Postel SpA	-	-	-	-	-	5	10
PosteMobile SpA	-	2	-	-	-	15	5
PosteShop SpA	-	-	-	-	-	-	-
SDA Express Courier SpA	-	-	-	-	-	3	-
Indirect subsidiaries							
Poste Assicura SpA	-	5	-	-	-	2	-
Poste Welfare Servizi Srl	-	-	-	-	-	3	-
Joint ventures							
Gruppo SIA	-	-	-	-	-	-	9
Associates							
Anima Holding SpA	-	-	-	-	-	-	-
Related parties external to the Group							
Ministry of the Economy and Finance	-	6,491	-	-	-	3,483	1
Cassa Depositi e Prestiti Group	2,485	374	-	-	-	-	-
Enel Group	-	-	-	-	-	-	5
Equitalia Group	-	-	-	-	-	-	-
Other related parties external to the Group	-	-	-	-	-	-	2
Provision for doubtful debts owing from external related parties	-	(8)	-	-	-	-	-
Total	**2,485**	**7,763**	**-**	**22**	**-**	**4,447**	**287**

Impact of related party transactions on the financial position at 31 December 2016

Name (€m)	Balance at 31 December 2016						
	Financial assets	Due from banks and customers	Hedging derivatives	Other assets	Financial liabilities	Due to banks and customers	Other liabilities
Poste Italiane SpA	-	632	-	29	-	82	297
Direct subsidiaries							
Banca del Mezzogiorno MCC SpA	-	-	-	-	-	25	-
BancoPosta Fondi SpA SGR	-	16	-	-	-	12	-
CLP ScpA	-	-	-	-	-	1	14
Consorzio PosteMotori	-	5	-	-	-	27	-
EGI SpA	-	-	-	-	-	12	-
Mistral Air Srl	-	-	-	-	-	1	-
PatentiViaPoste ScpA	-	-	-	-	-	4	-
Poste Tributi ScpA	-	2	-	-	-	2	-
Poste Tutela SpA	-	-	-	-	-	13	-
Poste Vita SpA	-	128	-	-	-	186	-
Postecom SpA	-	-	-	-	-	5	2
Postel SpA	-	-	-	-	-	2	16
PosteMobile SpA	-	4	-	-	-	21	3
PosteShop SpA	-	-	-	-	-	-	-
SDA Express Courier SpA	-	-	-	-	-	4	-
Indirect subsidiaries							
Poste Assicura SpA	-	6	-	-	-	3	-
Related parties external to the Group							
Ministry of the Economy and Finance	-	7,550	-	-	-	2,429	-
Cassa Depositi e Prestiti Group	1,509	364	-	-	-	-	12
Enel Group	-	-	-	-	-	-	8
Equitalia Group	-	-	-	-	-	-	3
Other related parties external to the Group	-	-	-	-	-	-	2
Provision for doubtful debts owing from external related parties	-	(7)	-	-	-	-	-
Total	**1,509**	**8,700**	**-**	**29**	**-**	**2,829**	**357**

Impact of related party transactions on profit or loss for the year ended 31 December 2017

Name (€m)	For the year ended 31 December 2017							
	Interest and similar income	Interest and similar expense	Fee income	Fee expenses	Dividends and similar income	Net losses/ recoveries on impairments	Administrative expenses	Other operating income/ (expenses)
Poste Italiane SpA	1	(3)	-	-	-	-	(4,418)	-
Direct subsidiaries								
BancoPosta Fondi SpA SGR	-	-	41	-	-	-	-	-
CLP ScpA	-	-	-	-	-	-	(2)	-
Consorzio PosteMotori	-	-	36	-	-	-	-	-
Poste Vita SpA	-	-	462	-	-	-	-	-
Postecom SpA	-	-	-	-	-	-	(1)	-
Postel SpA	-	-	-	-	-	-	(42)	-
PosteMobile SpA	-	-	2	-	-	-	(2)	-
Indirect subsidiaries								
Poste Assicura SpA	-	-	21	-	-	-	-	-
Joint ventures								
Gruppo SIA	-	-	-	-	-	-	(27)	-
Associates								
Anima Holding SpA	-	-	-	-	-	-	-	-
Related parties external to the Group								
Ministry of the Economy and Finance	27	(4)	118	-	-	(1)	(3)	-
Cassa Depositi e Prestiti Group	10	-	1,566	-	-	-	-	-
Enel Group	-	-	8	-	-	-	-	-
Eni Group	-	-	3	-	-	-	-	-
Equitalia Group	-	-	-	-	-	-	-	-
Other related parties external to the Group	-	-	-	-	-	-	-	-
Total	**38**	**(7)**	**2,257**	**-**	**-**	**(1)**	**(4,495)**	**-**

Impact of related party transactions on profit or loss for the year ended 31 December 2016

Name (€m)	For the year ended 31 December 2016 Interest and similar income	Interest and similar expense	Fee income	Fee expenses	Dividends and similar income	Net losses/ recoveries on impairments	Administrative expenses	Other operating income/ (expenses)
Poste Italiane SpA	1	(3)	-	-	-	-	(4,457)	-
Direct subsidiaries								
BancoPosta Fondi SpA SGR	-	-	29	-	-	-	-	-
CLP ScpA	-	-	-	-	-	-	(16)	-
Consorzio PosteMotori	-	-	36	-	-	-	-	-
Poste Vita SpA	-	-	448	-	-	-	-	-
Postecom SpA	-	-	-	-	-	-	(4)	-
Postel SpA	-	-	-	-	-	-	(25)	-
PosteMobile SpA	-	-	2	-	-	-	(3)	-
Indirect subsidiaries								
Poste Assicura SpA	-	-	20	-	-	-	-	-
Related parties external to the Group								
Ministry of the Economy and Finance	40	(2)	130	-	-	2	-	-
Cassa Depositi e Prestiti Group	9	-	1,577	-	-	-	(8)	-
Enel Group	-	-	7	-	-	-	-	-
Eni Group	-	-	4	-	-	-	-	-
Equitalia Group	-	-	-	-	-	-	(3)	-
Other related parties external to the Group	-	-	-	-	-	-	(2)	-
Total	**50**	**(5)**	**2,253**	**-**	**-**	**2**	**(4,518)**	**-**

Other related party disclosures

At a meeting on 20 September 2017, Poste Italiane SpA's Board of Directors, having obtained the consent of the Related and Connected Parties Committee, authorised the spot and forward purchase and sale of securities issued and/or guaranteed by the Italian government and the execution of repurchase agreements and reverse repos and of hedging derivatives by BancoPosta RFC, with Monte Paschi Capital Services Banca per le Imprese SpA acting as counterparty. This company qualifies as a related party of Poste Italiane as it is also controlled by the Ministry of the Economy and Finance through Banca Monte dei Paschi di Siena SpA.

Following conclusion of the agreement, from October 2017, 5 repurchase agreements and 23 buy & sell back transactions, which expired during the period, have been entered into, in addition to 2 Interest rate Swaps for hedging purposes and 2 forward sales of securities.

At a meeting on 13 December 2017, the Board of Directors, having obtained the consent of the Related and Connected Parties Committee, authorised signature of the agreement with Cassa Depositi e Prestiti governing the collection and distribution of Postal Savings products, by BancoPosta on behalf of Cassa Depositi e Prestiti, for the three-year period 2018-2020.

Part I – Share-based payment arrangements

Long-term incentive scheme: phantom stock plan

The Annual General Meeting of Poste Italiane SpA's shareholders held on 24 May 2016 approved the information circular for the "Long-term Incentive Plan for 2016-2018 (LTIP) – Phantom Stock Plan", prepared in accordance with art 84-bis of the Regulations for Issuers. The LTIP, set up in line with market practices, aims to link a portion of the variable component of remuneration to the achievement of earnings targets and the creation of sustainable shareholder value over the long term.

Description of the Plan

As described in the above information circular for the "Long-term Incentive Plan for 2016-2018 (LTIP) – Phantom Stock Plan", prepared in accordance with art 84-bis of the Regulations for Issuers, the Phantom Stock Plan for the period 2016-2018 entails the award to Beneficiaries of phantom stocks granting them the right to receive stock representing the value of Poste Italiane's shares and the related cash bonus at the end of a vesting period. The number of phantom stocks awarded to each Beneficiary is dependent on achieving the Performance Hurdle and meeting the Qualifying Conditions and the related Performance Targets over a three-year period. The Plan covers a medium- to long-term period. In particular, the plan includes three award cycles, corresponding to the financial years 2016, 2017 and 2018, each with a duration of three years.

The phantom stocks are awarded if the performance targets are achieved, and converted into a cash bonus based on the market value of the shares in the thirty stock exchange trading days prior to the grant date for the phantom stocks or at the end of a retention period (as specified below). The key characteristics of the Plan are described below.

Beneficiaries

The beneficiaries of the Plan are BancoPosta RFC's Material Risk Takers.

Plan terms and conditions

The Performance Targets, to which receipt of the cash bonus is subject, are as follows:

- an indicator of earnings over e three-year period, based on the RORAC (Return On Risk Adjusted Capital), used for the LTIP with the aim of taking into account the continuity and sustainability of the long-term performance after appropriately adjusting for risk;
- an indicator of shareholder value creation, based on the Total Shareholder Return, used to measure performance based on the value created for Poste Italiane's shareholders compared with other FTSE MIB-listed companies.

Vesting of the phantom stocks is subject to achievement of the Performance Hurdle, designed to ensure sustainability of the Plan. The Performance Hurdle corresponds with achievement of a certain target for the Group's cumulative EBIT over a three-year period at the end of each Performance Period. In addition, vesting of the phantom stocks is also subject to achievement of Qualifying Conditions, designed to ensure the stability of BancoPosta RFC's capital and liquidity position, as follows:

- Indicator of capital adequacy, based on CET 1 at the end of the period;
- Indicator of short-term liquidity, based on LCR at the end of the period.

The phantom stocks will be awarded by the end of the year following the end of the Performance Period, and are subject to a one-year retention period before they can be converted into cash, following confirmation that the Qualifying Conditions have been met.

Determination of fair value and effects on profit or loss

First Cycle 2016-2018

The total number of phantom stocks awarded to the 3 Beneficiaries of the First Cycle of the Plan amounted to 22,278 units. An independent expert, external to the Group, was appointed to measure the value of the stocks and this was done using Monte Carlo simulations.

Second Cycle 2017-2019

The total number of phantom stocks awarded to the 5 Beneficiaries of the Second Cycle of the Plan amounted to 36,022 units. An independent expert, external to the Group, was appointed to measure the value of the stocks and this was done using Monte Carlo simulations.

Short-term incentive schemes: MBO

On 27 May 2014, the Bank of Italy issued specific Supervisory Standards for BancoPosta (Part IV, Chapter I, “BancoPosta” including in Circular 285 of 17 December 2013 “Prudential supervisory standards for banks”) which, in taking into account BancoPosta’s specific organisational and operational aspects, has extended application of the prudential standards for banks to include BancoPosta. This includes the standards relating to remuneration and incentive policies (Part I, Title IV, Chapter 2 “Remuneration and incentive policies and practices” in the above Circular 285/2013). These standards provide that a part of the bonuses paid to BancoPosta RFC’s Material Risk Takers may be awarded in the form of financial instruments over a multi-year timeframe. As a result, with regard to the management incentive schemes adopted for BancoPosta RFC, where the incentive is above a certain materiality threshold, the MBO management incentive scheme envisages the award of 50% of the incentive in the form of phantom stocks, representing the value of Poste Italiane’s shares, and application of the following deferral mechanisms:

- 60% of the award to be deferred for a 5-year period on a pro-rata basis, in the case of Material Risk Takers who are beneficiaries of both the short- and long-term incentive schemes;
- 40% of the award to be deferred for a 3-year period on a pro-rata basis for the remaining Material Risk Takers.

The award of phantom stocks is subject to meeting the Performance Hurdle (Group earnings: EBIT) and certain Qualifying Conditions, as follows:

- Capital adequacy: CET 1, risk tolerance level approved in the Risk Appetite Framework (RAF);
- Short-term liquidity: LCR, risk tolerance level approved in the Risk Appetite Framework (RAF).

Payment of the deferred portion will take place each year, provided that BancoPosta RFC’s minimum regulatory capital and liquidity requirements have been met. The effects on profit or loss and on equity are recognised in the period in which the instruments vest.

Determination of fair value and effects on profit or loss

At 31 December 2017, the number of phantom stocks has been estimated on the basis of the best available information, with the aim of recognising the related service cost. An independent expert, external to the Group, was appointed to measure the value of the stocks, based on best market practices. The cost recognised for 2017 amounts to approximately €0.2 million, equivalent to the liability recognised in amounts due to staff.

Part L – Operating segments

The economic flows and performance of the operations are reported internally on a regular basis to executives without identifying segments. BancoPosta RFC’s results are consequently evaluated by senior management as one business division.

Furthermore, in accordance with IFRS 8.4, when separate and consolidated financial statements are combined segment information is only required for the consolidated statements.