Annual Report 2016

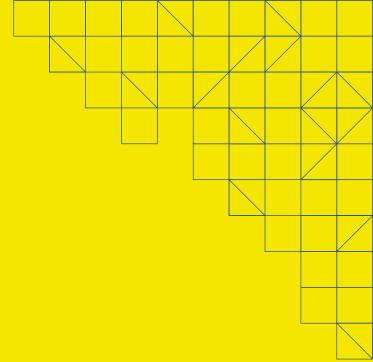


Annual Report 2016

Summary

Annual Report 2016

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01 Group financial and operational highlights

RESULTS OF OPERATIONS

for the year ended 31 December (€m)	2016	2015
Total revenue	33,112	30,739
of which:		
from Postal and Business Services	3,822	3,882
from Financial Services	5,294	5,155
from Insurance Services	23,772	21,459
from Other Services	224	243
EBITDA	1,622	1,461
Operating profit/(loss)	1,041	880
Profit for the year	622	552
Gross ROE	11.9%	10.3%

FINANCIAL POSITION

at 31 December (€m)	at 31 December 2016	at 31 December 2015
Non-current assets	2,867	3,010
Working capital	1,183	1,301
Net invested capital	1,909	999
Equity	8,134	9,658
Net funds/(debt)	6,225	8,659
Industrial net funds/(debt) (before adjusting for intersegment transactions)	893	307

INVESTMENT

for the year ended 31 December (€m)	2016	2015
Capital expenditure	451	488

AVERAGE WORKFORCE

for the year ended 31 December (€m)	2016	2015
Total permanent and flexible workforce expressed in full-time equivalent terms	141,246	143,700

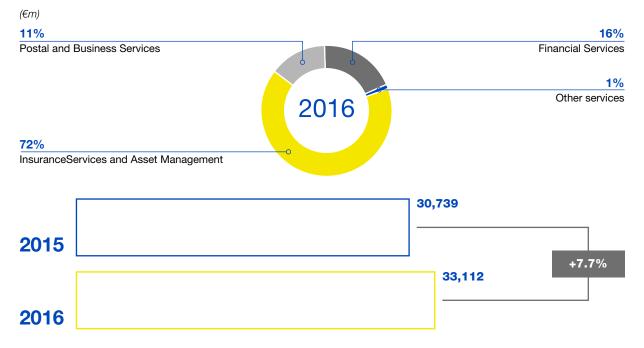
OTHER OPERATIONAL DATA

	at 31 December 2016	at 31 December 2015
Outstanding customer current accounts ('000) ⁽¹⁾	6,377	6,362
Client assets (€bn) ⁽²⁾	493	476
Number of post offices	12,845	13,048

for the year ended 31 December	2016	2015
Letters handled by Group (volumes in million)	3,506	3,937
Express Delivery items and Parcels handled by Group (volumes in million)	97	86
Current account deposits (average for the period in €m) ⁽³⁾	49,643	45,169
Poste Vita group (net premium revenue in €m)	19,884	18,197
Number of PosteMobile SIM cards (average for the period in '000)	3,643	3,471

- (1) This figure does not include transaction accounts.
- (2) These amounts include postal savings deposits, the mutual investment funds marketed, Poste Vita's technical provisions and average current account deposits (average current account deposits include Long-Term RePos).
- (3) These amounts include both private customer deposits (including the investment of liquidity by Group companies and amounts payable to financial institutions under repurchase agreements), and deposits by the Public Administration.

TOTAL REVENUE BY OPERATING SEGMENT

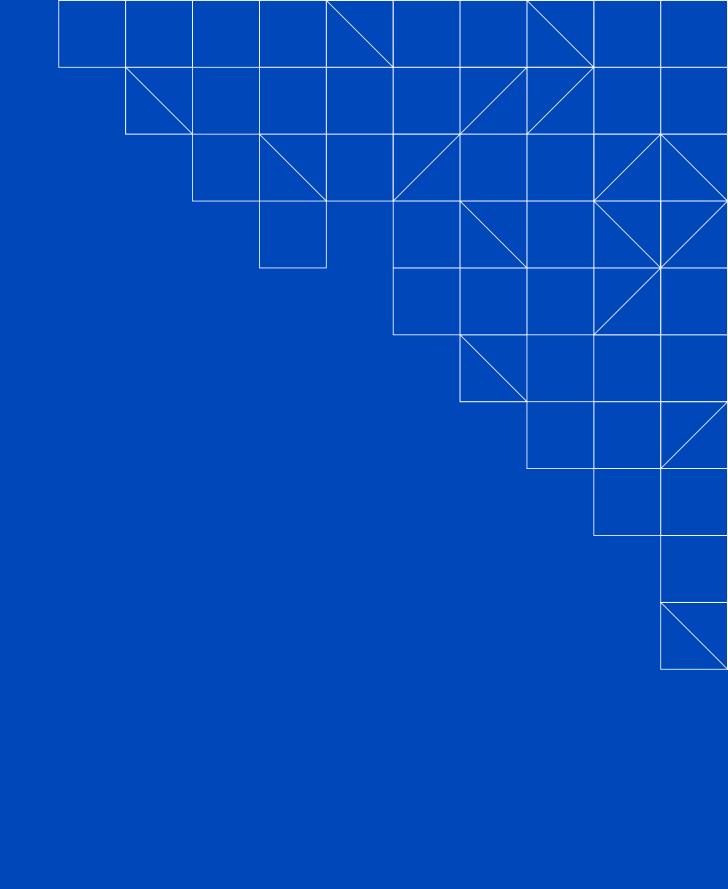


GROUP OPERATING PROFIT

(€m) 880 2015 +18.3% 1,041 2016

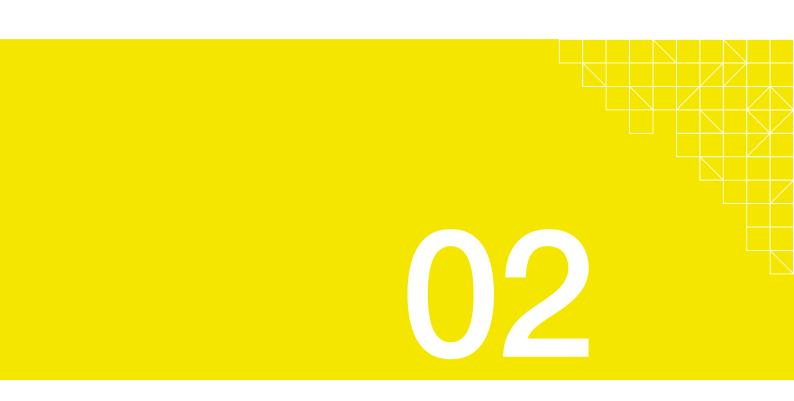
GROUP PROFIT FOR THE YEAR

(€m) **552** 2015 +12.7% 622 2016



Directors' report on operations for the year

ended 31 December 2016



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01 Management and supervisory bodies



Chairwoman **Luisa Todini**



Chief Executive Officer and General Manager

Francesco Caio

Board of Directors(1)

ChairwomanLuisa Todini

Chief Executive Officer and General Manager Francesco Caio

Directors
Giovanni Azzone
Elisabetta Fabri
Mimi Kung

Umberto Carlo Maria Nicodano

Chiara Palmieri Filippo Passerini Roberto Rao

Board of Statutory Auditors(2)

ChairmanMauro LonardoAuditorsAlessia Bastiani

Maurizio Bastoni

Alternates Marina Colletta

Andrea Bonechi Ermanno Sgaravato

Supervisory Board(3)

Chairwoman Nadia Fontana

Members Gennaro Terracciano
Paolo Casati⁽⁴⁾

Magistrate appointed by the Italian Court of Auditors to audit Poste Italiane

Francesco Petronio

Independent Auditors

PricewaterhouseCoopersSpA

Audit and Risk Committee ⁽⁵⁾	Remuneration Committee ⁽⁵⁾	Nominations Committee ⁽⁵⁾	Related and Connected Parties Committee ⁽⁶⁾
Umberto Carlo Maria Nicodano (Chairman) Chiara Palmieri Filippo Passerini Roberto Rao	Filippo Passerini (Chairman) Elisabetta Fabri Mimi Kung	Roberto Rao (Chairman) Giovanni Azzone Chiara Palmieri	Giovanni Azzone (Chairman) Mimi Kung Roberto Rao

- (1) In order to fulfil the undertakings given by the Company and the Ministry of the Economy and Finance at the time of the Company's privatisation, the Ordinary General Meeting held on 24 May 2016 elected additional members of the Board of Directors, increasing the number of Directors from seven to nine and electing Giovanni Azzone and Mimi Kung as the new members of the Board.
 The Board of Directors will remain in office until the General Meeting's approval of the financial statements for the year ended 31 December 2016."
- (2) The Board of Statutory Auditors was elected by the Ordinary General Meeing of 24 May 2016 to serve for a period of three years and will remain in office until the General Meeting's approval of the financial statements for the year ended 31 December 2018. On 30 January 2017, the Alternate Auditor, Andrea Bonechi, resigned from his position with immediate.
- (3) At its meeting of 17 May 2016, the Board of Directors voted to assign supervisory responsibilities to two separate bodies: the Board of Statutory Auditors, which has maintained its existing responsibilities, and the Supervisory Board. As a result, the Board of Directors appointed the new Supervisory Board with effect from 24 May 2016. The Supervisory Board will remain in office for three years.
- (4) The only internal member, Head of Poste Italiane SpA's Internal Auditing.
- (5) This Committee was established by the Board of Directors on 10 September 2015.
- (6) This Committee was established by the Board of Directors on 15 September 2016, with effect from 1 October 2016.

Corporate governance

Poste Italiane's shares are listed on the Mercato Telematico Azionario (the MTA, an electronic stock exchange) organised and managed by Borsa Italiana SpA. The Company is controlled by the Ministry of the Economy and Finance ("MEF"), which holds a direct 29.3% interest and an indirect 35% interest through Cassa Depositi e Prestiti SpA (CDP), itself controlled by the MEF.

This ownership structure is the result of the following transactions:

- On 31 May 2016 the Italian cabinet, on the recommendation of the Minister of the Economy and Finance, approved a draft Cabinet Office Decree setting out the terms of Poste Italiane SpA's privatisation and the method for selling a further tranche of shares in the Company held by the Ministry of the Economy and Finance - MEF (which currently holds a 64.7% interest). The plan is to retain a stake of not less than 35% in the Company (to be held through and managed separately by Cassa Depositi e Prestiti SpA (CDP)), which will continue to be under the control of the MEF. On 24 June 2016, the extraordinary general meeting of Cassa Depositi e Prestiti SpA's shareholders approved the issue of new shares to the MEF amounting to €2.930 billion, inclusive of the share premium. As payment for the new shares, on 20 October 2016, the MEF transferred a 35% interest in Poste Italiane to CDP, consisting of 457,138,500 ordinary shares. Following this transaction, the MEF holds a stake of approximately 29.7% in Poste Italiane.
- On 30 December 2016 and 7 February 2017, a total of 5,739,602 ordinary shares were awarded to shareholders who – as indicated in the Offering Circular for the Initial Public Offering ("IPO") and admission to trading on the MTA - had held the shares purchased at the time of the IPO continuously for a period of twelve months. As a result of the award of these bonus shares, the interest held by the selling shareholder (the MEF) has been reduced to 29.3%.

The corporate governance structure reflects the recommendations in the Corporate Governance Code for listed companies published by Borsa Italiana, the provisions of Legislative Decree 58 of 24 February 1998 (the Consolidated Law on Finance), where applicable, and the Supervisory Standards issued by the Bank of Italy and applicable to Poste Italiane in view of the unbundled activities conducted by BancoPosta RFC (Patrimonio destinato BancoPosta).

Poste Italiane has adopted a "traditional" governance model, separating the roles of the Board of Directors and the Board of Statutory Auditors. The Company's accounts are audited by an independent firm of auditors.

Poste Italiane's financial management is overseen by the Italian Court of Auditors (Law 259 of 21 March 1958); the relevant controls are conducted by a Magistrate appointed by the Court of Auditors, who attends meetings of the Board of Directors and the Board of Statutory Auditors.

The Board of Directors and Board of Statutory Auditors and their respective chairpersons are elected and dismissed by General Meeting of shareholders, which is also responsible for determining the related remuneration and for appointing independent auditors. The General Meeting also approves the annual financial statements, amendments to the Company's By-laws and transactions of a non-recurring nature, such as rights issues, mergers and demergers. The Board of Directors consists of nine members (eight non-executives and one executive) and normally meets once a month to examine and vote on resolutions regarding the operating performance, the results of operations, proposals relating to the organisational structure and transactions of strategic importance. The Board met 16 times in 2016. Of the nine members of the Board, six meet the requirements to qualify as independent.

In accordance with the provisions of the Italian Civil Code, the Board of Directors has delegated certain executive powers to the Chief Executive Officer and has established, in accordance with the recommendations in the Corporate Governance Code and the Bank of Italy's supervisory standards, four Board Committees to provide recommendations and advice: the Nominations Committee, the Remuneration Committee, the Audit and Risk Committee and the Related and Connected Parties Committee. The members of the latter committee are all independent Directors, with roles and responsibilities defined by the regulations governing related and connected party transactions.

The role of the Chairwoman is to lead and oversee the Board of Directors. She is the Company's legal representative and exercises the powers provided for by law and the Company's By-laws, and those assigned by the Board of Directors' meeting of 7 May 2014.

The Chief Executive Officer and General Manager, to whom all key departments report, has, again on the basis of the Board of Directors' resolution of 7 May 2014, full powers for the administration of the Company across the organisational structure, unless otherwise provided for by law and the Company's By-laws and with the exception of the powers reserved to the Board of Directors. The Chief Executive Officer is also the Company's legal representative within the scope of the powers delegated to him.

The Board of Statutory Auditors in office has 3 standing members and 3 alternates. The Board verifies compliance with the law, the Company's By-laws and with correct corporate governance principles, also verifying the adequacy of the organisational structure and administrative and accounting systems adopted by the Company and their functionality. On 17 May 2016, the Board of Directors voted to assign supervisory responsibilities to two bodies with separate roles: the Board of Statutory Auditors and the Supervisory Board, as defined by Legislative Decree 231/2001. As a result, the Board appointed the new Supervisory Board with effect from 24 May 2016. Until this date, the related functions had been carried out by the Board of Statutory Auditors in office.

The Board of Statutory Auditors met 22 times during the year. It held a further 2 meetings exclusively in its role as Supervisory Board.

Since its establishment, the Supervisory Board has met on 7 occasions.

The audit firm, PricewaterhouseCoopers SpA, has been appointed **to audit the Company's accounts** for the period 2011-2019. The appointment was made in conformity with Legislative Decree 39/2010 ("Implementation of Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts").

With regard to the governance system adopted by BancoPosta RFC, the rules governing the organisation, management and control of BancoPosta's operations are contained in the specific BancoPosta RFC Regulation approved by the Extraordinary General Meeting of 14 April 2011 and amended by the Extraordinary General Meeting of 31 July 2015. As a result of the new Supervisory Standards applicable to BancoPosta RFC, issued by the Bank of Italy on 27 May 2014, Poste Italiane, in providing financial services to the public, is comparable – for the purposes of application of corporate governance regulations – to a major bank in terms of size and operational complexity.

Further information regarding the corporate governance structure is provided in Poste Italiane's "Report on Corporate Governance and the Ownership Structure", published in the "Governance" section of the Company's website.

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02 Mission and key aspects of strategy

Poste Italiane aims to be a driving force for inclusive development in Italy, helping citizens, businesses and the Public Administration through the transition to a digital economy by offering high-quality, simple, transparent and reliable services.

In order to successfully fulfil its mission, the Group has embarked on an overall action plan that focuses on developing both its businesses and key business enablers.

In the **Postal and Business Services** segment, we are proceeding with implementation of the new delivery model, requiring changes to processes and the offering, so as to ensure that it is sustainable over the medium to long term. In addition, the process of simplifying and expanding the Parcels offering has been completed, in part with a view driving growth in the e-commerce sector, which is strategic for the Group.

In 2016, the **Financial Services** segment continued with the implementation of innovative online payment solutions and the development of its e-money offering, which led, in September, to an agreement that will see Poste Italiane acquire an indirect 14.85% interest in SIA SpA, a leader in the provision of e-money, e-payment and network services. This acquisition will play a key role in driving the Group's growth in the area of digital payments and transactions and, as a result, in e-Commerce, in full accordance with the guidelines set out in the Business Plan.

In the **Insurance Services and Asset Management** segment the Group's strategy in 2016 focused on maintaining its position as a preferred and trusted provider to the public. This includes further development of our offering, with particular attention focused on protection and non-life products, and on the alliance with Anima Holding.

In terms of the digital transformation programme, work on developing a multi-access channel approach continued. This led to the launch of new dematerialisation solutions for contracts, with the aim of improving the customer experience in post offices through use of the Ufficio Postale App, the Postepay App and the digital version of the Sconti BancoPosta programme. In addition, in 2016, Poste Italiane was accredited by the Agency for Digital Italy to carry out the role of Digital Identity Manager, using our "PostelD abilitato a SPID" digital identity solution ("SPID" is a Public System for Digital Identity Management).

The key enablers of the above businesses are represented by the Group's investment in human resources and technology platforms, paying continuous attention to the world of innovation and start-ups, a strategy that has, among other things, led to: (i) creation of Poste Italiane's Talent Garden, a platform that allows digital, technology and creative innovators to work, learn and connect; (ii) acquisition of the start-up, IndaBox Srl, which offers its customers the possibility to receive or send parcels using its collection and delivery network, made up of over 3,100 participating retail outlets.

Oscillation of the structure of the s



The provision of current accounts and payment services, financial products and loan products arranged by third parties.



Insurance Services and Asset Management

The sale of Class I, III, IV and V life insurance products through Poste Vita and of non-life insurance products through Poste Assicura. The marketing and distribution of mutual investment funds.

Postevita **Poste**assicura Banco**Posta**FondisgR



The Group's operations are divided into four operating segments: Postal and Business Services, Financial Services, Insurance Services and Asset Management, and Other Services, which are managed by dedicated Group functions and/or companies. The organisation is also based on two distribution channels for retail customers, on the one hand, and business and Public Administration customers, on the other. These channels operate alongside a series of corporate functions responsible for policy, governance, controls and the provision of services supporting business processes. The organisational model, which ensures the development of synergies within the Group as part of an integrated approach to operations, is applied via governance and operating models, characterised by:

- coherent and integrated management of the Group, ensuring a uniform and coordinated approach to the market, whilst taking into account the central importance of customers and exploiting potential synergies, as well as assigning responsibility for coordinating subsidiaries to the relevant functions within the Parent Company according to business sector;
- an organisational structure focused on core businesses: mail and logistics, payments and financial services, savings and insurance;
- Corporate functions capable of ensuring, through coordination and integration of their respective areas of expertise, coherent fulfilment of their assigned roles at Group level and the provision of shared services closely aligned with business needs, thus ensuring efficiency, economies of scale, quality and effective support for the different businesses.

During 2016, the allocation of certain companies to the related operating segments altered. Specifically, BancoPosta Fondi SpA SGR, which was previously allocated to the Financial Services segment, now forms part of the Insurance Services and Asset Management segment, whilst Poste Tributi ScpA in liquidation, which was previously allocated to the Postal and Business Services segment, has been transferred to the Financial Services segment. Therefore, the relevant comparative amounts for 2015 have been accordingly reclassified in this Annual Report. In addition, the following corporate actions took place during the year:

The deed for the merger of PosteShop SpA with and into Postel SpA was executed on 22 April 2016. The merger
was effective for legal, accounting and tax purposes from 1 May 2016.

- The partial demerger of the fixed line telecommunications business of the subsidiary, PosteMobile SpA, to Poste Italiane was executed on 27 April 2016 and the transaction was effective from 1 May 2016.
- On 25 July 2016, the deed for the merger of SDS Nuova Sanità Srl was signed, and the merged entity was renamed as Poste Welfare Servizi Srl (100% PosteVita). The merger was effective for accounting and tax purposes from 1 January 2016, and for legal purposes from the date on which the merger deed was filed with the Companies' Register (29 July 2016).
- On 7 October 2016 and 17 October 2016, respectively, the memoranda of association of Risparmio Holding SpA. which is owned by Poste Italiane (80%) and CDP (20%), and of Equam SpA, 80% owned by Risparmio Holding SpA and 20% by Anima Holding SpA, were signed. The companies were incorporated to participate in the competitive tender process launched by Unicredit SpA in relation to the sale of its asset management activities provided by the group of companies headed by Pioneer Global Asset Management SpA. On 10 November 2016 – on behalf of and in the interests of its shareholders - Equam SpA submitted a binding offer of purchase to Unicredit, which on 5 December 2016 announced the launch of exclusive negotiations with the French company, Amundi.
- On 7 November 2016, Poste Italiane acquired the entire share capital of the start-up Indabox Srl, whose core business involves offering services that enable products purchased online to be picked up at a network of affiliated outlets. The company has a network of around 3,000 affiliated outlets, including bars, supermarkets (including the Carrefour chain), tobacconists, etc. This acquisition is part of the development of third-party networks, aimed at gaining expertise in this field.
- On 10 November 2016, Poste Italiane SpA and Anima Holding signed a framework agreement whereby Poste Italiane will transfer its interest in BancoPosta Fondi SpA SGR to Anima Holding during 2017. Following this transaction, which confirms its growth strategy in the asset management sector, Poste Italiane will increase its investment in Anima Holding SpA from 10.32% to up to 24.9%. In accordance with the terms and commitments assumed as at 31 December 2016, the transaction involves an exchange of equity instruments, after which Poste Italiane will have increased its investment in Anima Holding SpA without, however, assuming, under the existing conditions at the date of preparation of these financial statements, control thereof(1).
- On 30 December 2016, an extraordinary general meeting of Poste Tributi ScpA's shareholder approved the voluntary winding up and liquidation of the company. This decision derives from the fact that tax collection activities are no longer deemed to be in line with the new strategic context and no longer serve the development of Poste Italiane's business. Nevertheless, Poste Tributi will fulfil the commitments undertaken prior to the liquidation, either directly or by identifying a party to whom the company may be transferred within the scope of the liquidation. The appointment of a liquidator was published in the Companies' Register on 24 January 2017.
- On 30 January 2017, the demerger and merger regarding the restructuring of Postecom SPA was executed, which breaks down into two phases:
 - the partial demerger of Postecom's interests in PatentiVlaPoste ScpA and Consorzio Poste Motori and the transfer of the interests to Postel;
 - the merger of Postecom with and into Poste Italiane.

The operation will be effective for legal, accounting and tax purposes from 1 April 2017.

- Following negotiations that took place during the last quarter of 2016, on 8 February 2017 an agreement was reached to transfer the entire shareholding in Banca del Mezzogiorno-Medio Credito Centrale, with a total value of €390 million, from Poste Italiane to Agenzia Nazionale per l'Attrazione degli Investimenti e lo Sviluppo d'Impresa SpA (Invitalia). With this transaction, Poste Italiane continues its implementation of the Business Plan, focused on three key areas of business - mail and logistics, payments and financial services, and savings and insurance - on which the Group has decided to concentrate investment and allocation of capital in order to pursue important innovation and growth objectives. The transaction is expected to be completed during 2017, subject to approval from the Ministry of Economic Development, the Bank of Italy and the European Central Bank. This is a related party transaction (as Poste Italiane and Invitalia are subject to the common control of the Ministry of the Economy and Finance), and, pursuant to the applicable legislation and regulations, was approved by the Board of Directors of Poste Italiane, with the consent of its Related Parties and Associated Entities Committee.
- On 15 February 2017 in implementation of the preliminary agreement signed on 16 September 2016 between Poste Italiane SpA and Cassa Depositi e Prestiti (CDP) regarding the transfer by FSI Investimenti SpA (a company 77%-owned by CDP Equity SpA) to Poste Italiane of an indirect shareholding in SIA SpA (equal to 14.85%), a leader in the provision of e-money, e-payment and network services - the acquisition of a 30% stake in FSIA Investimenti Srl (a company with a 49.5% interest in SIA) that is wholly owned by FSI Investimenti SpA was completed. On completion of the transaction, following clearance from the relevant antitrust authorities and authorisation from the Bank of Italy, Poste Italiane paid 80% of the transaction price, totalling €278 million. The final price is subject

On 14 October 2016, Poste Italiane announced that it had notified Banca Popolare di Milano Scarl of its intention not to renew the shareholders' agreement signed by the parties on 26 June 2015 and due to expire on 16 April 2017, relating to the companies' respective shareholdings in Anima Holding SpA. As a result, as of the expiry date of 16 April 2017, the shareholders' agreement will no longer be in effect.

to upward or downward adjustment based on predetermined amounts for SIA's net debt at 31 December 2016 and its operating results for 2017. 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 and SIA, over which the parties will exercise joint control, became effective. This is also a related party transaction (as Poste Italiane and FSI Investimenti are subject to the common control of the Ministry of the Economy and Finance) of lesser importance.

Postal and business services

Postal and Business Services include the letter post, express delivery, logistics, parcels and philately activities carried out by Poste Italiane SpA and certain subsidiaries, in addition to the activities conducted by various units of the Parent Company for BancoPosta RFC and the other segments in which the Group operates.

Legislative Decree 58/2011 provides that Poste Italiane SpA is the universal postal service provider for fifteen years from 30 April 2011. The efficiency of provision of the service is verified every five years by the Ministry for Economic Development, based on an assessment performed by the regulator (AGCom – the Italian Communications Authority). Letter post includes Poste Italiane SpA's traditional postal services, direct marketing and innovative services for paper-based as well as electronic communications in addition to e-Government services. **Postel SpA** provides communications services to businesses and Public Sector entities, offering a full range of services including mass printing and enveloping, electronic document management, direct marketing and commercial printing.

The Express Delivery and Parcels business relates to express delivery products offered on the deregulated market by Poste Italiane SpA to retail and SME customers, and by **SDA Express Courier SpA** to business customers. SDA also provides its customers with integrated solutions for distribution, logistics and catalogue sales. The provision of standard parcel services falls under the Universal Service obligation (USO).

As noted previously, there are a number of Group companies that provide support services for mail, express delivery, logistics, parcels and philately:

Mistral Air SrI provides air mail services to Poste Italiane SpA (in conjunction with Consorzio Logistica Pacchi ScpA) as part of postal service operations, in addition to air freight and passenger services for other customers.

Europa Gestioni Immobiliari SpA (EGI) operates in the real estate sector, managing and developing properties through urban and property redevelopment, with a view to their commercialisation (leases and sales). Due to the nature of the properties, the service is mainly provided to large customers, often public entities. The company also procures energy for the Poste Italiane Group, acting as a wholesale purchaser, and deals with energy saving projects for Poste Italiane SpA.

PosteTutela SpA offers secure funds logistics services (transport, escort, custody, and currency counts), fixed and mobile security, as well as all types of surveillance and protection of sensitive data. These services are provided to the Poste Italiane's operating units and customers outside the Group, for whom it primarily carries out the movement of cash and valuables.

PatentiViaPoste ScpA is a not-for-profit, joint-stock consortium that serves as a jointly owned vehicle for its shareholders in managing and fulfilling the contract regarding the centralised printing, distribution and delivery of European driving licences and vehicle registration certificates.

The not-for-profit consortium, **PosteMotori**, serves as a jointly owned vehicle for its shareholders in managing and fulfilling the contract regarding management and remittance services for payments, by road users, for the services provided by the Department of Transport.

The Mail, Logistics and Communication function is aimed at bringing all areas of business relating to the postal, logistics and communications services provided by the Group⁽²⁾ under one roof. This function is responsible for end-to-end management of operating processes, development and management of the offering and the activities involved in its supply.

The logistics network⁽³⁾ is locally organised on two levels, the first of which deals with coordination and is represented by Area Logistics Offices responsible for one or more regions, whilst the second is operational and includes sorting centres (mechanical and manual) and distribution centres (Delivery Offices).

⁽²⁾ Postel SpA, SDA Express Courier SpA, Consorzio Logistica Pacchi ScpA and Mistral Air Srl report to the Mail, Logistics and Communication function.

⁽³⁾ The logistics process breaks down into receipt, collection, transport, sorting and delivery.

POSTE ITALIANE SPA LOGISTICS

	At 31 December 2016		At 31 December 2015	
	Number	Number Workforce		Workforce
Area Logistics Offices(*)	9	1,836	9	2,428
Sorting Centres	16	7,833	16	8,164
Priority Centres	7	849	7	906
Logistics support	2	248	2	265
Delivery Offices(**)	2,117	40,717	2,372	43,601

All workforce data is shown in full-time equivalent terms.

- The geographical distribution of Offices at 31 December 2016 is as follows: Piedmont, Valle d'Aosta and Liguria; Lombardy; Veneto, Trentino Alto Adige and Friuli Venezia Giulia; Emilia Romagna and Marche; Tuscany and Umbria; Lazio, Abruzzo, Molise and Sardinia; Campania and Calabria; Puglia and Basilicata; Sicily.
- Delivery staff include 30,959 postmen and women and delivery supervisors (33,523 at 31 December 2015).

The initiatives implemented in 2016 regard consolidation of the organisational structure of the Mail, Logistics and Communication function, rationalisation initiatives provided for in the Business Plan and the labour union agreements of 25 September 2015 and 24 February 2016, and new operating procedures for mail processing and delivery. In particular, rationalisation initiatives were implemented via new alternate-day delivery models in defined areas and the related efficiency improvements regarding the number of delivery zones.

In December 2016, restructuring initiatives were completed at 51% of the total number of distribution centres. These initiatives regarded approximately 4,500 municipalities and 462 distribution centres.

Moreover, as part of the rationalisation of sorting activities, automatic walk-sequencing is being activated at sorting centres using existing and latest-generation sorting equipment.

Regarding the process to modernise the operating fleet (cars and vans), the gradual introduction of new vehicles equipped with modern Black Box⁽⁴⁾ devices was launched. These devices electronically send data to the services centre of the leasing company that supplies Company vehicles. The new palmtop device used by postmen and women was also trialled at three distribution centres in the provinces of Rome, Padua and Bari.

Financial services

The Financial services segment primarily regards the BancoPosta RFC offering, with these activities being regulated by Presidential Decree 144 of 14 March 2001, as amended. These activities include: management of private and Public Administration customer deposits and the related investment, postal savings deposits issued by Cassa Depositi e Prestiti (Savings Books and Interest-bearing Postal Certificates), collection and payment services, the sale and distribution of financial products issued by banks and other finance companies authorised to provide investment services, and electronic money services via the issue of debit and prepaid cards.

The BancoPosta (5) function is responsible for creating, designing and managing the Group's financial product and service offerings, as well as checking the compliance of insurance, savings and investment products sold as an intermediary. In 2016, these activities were also carried out via coordination of the operations of Banca del Mezzogiorno - MedioCredito Centrale SpA and without affecting the operational autonomy of this company in compliance with the relevant legal and regulatory requirements. In addition, the function is responsible for processing the related products and services, partly through the coordination of local operating centres, including:

- three Unified Service Automation Centres, where the payment slips for bills paid at post offices are processed;
- two Centres for the processing of cleared cheques;
- two Multi-service Centres located in Turin and Ancona, which carry out certain back-office processes (fraud analysis and management, credit checks, the management of payment orders for legal and other expenses, as well as postal savings products).

The black box is a satellite device mounted on a vehicle that monitors and registers all data regarding the vehicle.

Poste Tributi ScpA reports to the BancoPosta function.

Insurance services and asset management

The Insurance Services business is run by the Postevita insurance group, a registered insurance group that includes the parent, **Poste Vita SpA**, and its subsidiaries, **Poste Assicura SpA** and **Poste Welfare Servizi SrI**. The Group operates in the life and non-life insurance business, as well as in the provision of health insurance.

As already mentioned, from 2016, **BancoPosta Fondi SpA SGR** – a company responsible for the collective management of savings via the establishment and management of mutual investment funds, and the individual management of investment portfolios relating to on behalf of other institutions within the Group – now forms part of the Insurance Services and Asset Management segment, having previously been allocated to the Financial Services segment.

Other Services

The Other services segment includes Poste Mobile SpA and Consorzio per i Servizi di Telefonia Mobile ScpA operations.

PosteMobile is the Group's mobile operator which, in keeping with its planned development, has gradually switched from being an Enhanced Service Provider (or ESP) to operating as a Full MVNO (a Full Mobile Virtual Network Operator). Consorzio per i Servizi di Telefonia Mobile ScpA is responsible for providing Poste Italiane with electronic communications networks and the related platforms, systems and terminals, by coordinating, organising and managing the resources, equipment and people made available by consortium members. The consortium is also responsible for supplying the related mobile, fixed-line, integrated and value added services.

Additional information

Just over a year after it started operating, in 2016, the not-for-profit organisation, **Fondazione Poste Insieme Onlus**, a Poste Italiane foundation established in April 2015 to promote social solidarity and inclusion policies, achieved important objectives in the various phases of its initiatives in support of local areas, families and the non-profit sector, with 44 new projects approved and the setting up of a corporate volunteering network in which 1,200 staff participate.

Projects throughout Italy in 2016 regarded assistance and work placement for female victims of violence, home and residential assistance for people with illnesses, support for active aging and maintenance of autonomy, actions to combat new forms of extreme poverty, and activities relating to vocational training and enhancement of the talent and creativity of disadvantaged and disabled young people.

The foundation engages in various forms of funding (total investment has already topped €2.5 million), characterised by innovative ongoing involvement and assessment methods, followed by monitoring of the foundation's social impact in accordance with the SROI (Social Return on Investment) international standard. Thanks to operational synergies with the Poste Italiane Group's corporate social responsibility function, Poste Insieme intends to combine its funding activities with an original form of corporate volunteering outside working hours. This is a first in Italy and is set to expand further during 2017.

Distribution channels and multichannel strategy

The Group has an integrated, multichannel distribution network, which serves the country's entire population via a physical network of post offices and staff on the ground and a virtual infrastructure with state-of-the-art multimedia channels.

The customer contact channels are managed by two Poste Italiane business functions dedicated to the sale of products and services and specialised by type of customer: Private Customer and Business and Public Sector.

The **Private Customer** function manages the commercial front end and back office activities (pre- and post-sales support) for the Private Customer and SME segments, as well as overseeing the development of philately products, their distribution and marketing.

The organisation of the commercial network and related operational support processes breaks down into three levels:

- Multiregional Area Offices;
- Branch Offices:
- post offices, classified with respect to their business operations, into central, reporting, standard and basic.

Back-office activities are partly carried out at post offices, and partly at 15 specialist service centres (Centralised Service Teams) spread around the country, which carry out back-office processes and are the sole point of reference for post offices with regard to such activities⁽⁶⁾, handling both Private Customers and business customers.

In continuation of the rationalisation process⁽⁷⁾, the number of post offices was reduced in 2016 from 13,048 at 31 December 2015 to 12,845 at 31 December 2016.

	At 31 December 2016 Number Workforce		At 31 December 2015	
			Number	Workforce
Multiregional area offices	9	1,600	9	2,196
Branch offices	132	3,664	132	3,876
Post offices	12,845	57,779	13,048	58,875

All workforce data is shown in full-time equivalent terms.

Action continued during the year with the aim of improving the organisational and commercial management of the retail and SME segments. The "new retail service model" was implemented at an additional 1,409 post offices (a total of 2,309 post offices at 31 December 2016 compared with the 900 at the end of 2015). The model provides for a more focused approach to customers with the introduction of consultants specialised in terms of target customers, and a new staff role dedicated to welcoming and guiding customers inside post offices. In order to maximise their effectiveness and coverage in keeping with the growth potential for these target customers, changes to the specialised sales formats (consulting rooms and corners) within post offices continued. In this regard, the new "UP Corner" sales format was introduced into 108 post offices with high growth potential, with the aim of promoting the offer of ancillary current account services and providing information on the insurance offering, directing interested customers to the relevant insurance specialists. Discontinuation of the "Insurance Corner" format was also completed, with the related sales activities now carried out by specialist "Insurance Consulting Rooms" (at 31 December 2016, the number of post offices with these consulting rooms numbers 175). The number of Consulting Rooms, which total 6,376 at 31 December 2016, was increased. This includes 2,300 rooms with staff dedicated to affluent customers (900 at 31 December 2015) and 182 with staff having expertise in loan products (159 at 31 December 2015).

From October, 105 post offices were equipped with the "Guided Consultancy" platform which, in addition to assisting counter staff with compliance with investment regulations, provides a guide to identifying the best investment solutions for customers.

A network of 51 Philately experts was introduced at Branch Offices, designed to strengthen the marketing of philately products by managing the related commercial initiatives; these staff also provide support for post offices that specialise in the sale of philately products, as well as developing relations within the areas for which they are responsible. Antimoney laundering initiatives were also strengthened among the Centralised Service Teams, together with increases in staff numbers at post-sales sites.

The number of Specialist Commercial Financial Promoters⁽⁸⁾ was also increased (374 staff at 31 December 2016, compared with 206 at 31 December 2015), and new roles were introduced in each Area Office with responsibility for their coordination and support including via provision of direct assistance during the sales phase.

Additional activities regarded:

- an increase in the number of post offices equipped with a dedicated counter for BancoPosta account holders (2,831 at 31 December 2016 compared with 2,808 at 31 December 2015), as well as an increase in the number of post offices where the "New queue management" system has been installed (1,746 post offices at 31 December 2016 compared with 720 at 31 December 2015);
- expansion of the network of multi-ethnic post offices (23 at 31 December 2016, compared with the 18 operating at 31 December 2015);

This regards the processing of certain products and services, such as current accounts, financial products, probate services, and money laundering (6)prevention requirements.

The rationalisation of the post office network, aimed at reducing universal service provision costs, is being carried out in accordance with the criteria laid down by the Ministerial Decree of 7 October 2008 and AGCom Resolution 342/14/CONS.

The Specialist Business Financial Promotors are responsible for the promotion and sale of certain investment products and services.

- consolidation of the ATM network, which stood at 7,249 machines at 31 December 2016 (7,235 at 31 December 2015), and boosting of the network of PosteMobile corners which included 340 operating units at 31 December 2016 (339 corners operating at 31 December 2015);
- the extension of free Wi-Fi for customers at additional offices (at 31 December 2016 the number of offices equipped with Wi-Fi totals 3,224, compared with 917 offices at 31 December 2015);
- a boost to the commercial effectiveness of the Business Channel by increasing the number of Specialist Business Finance Consultants and expanding the Business Sales Force⁽⁹⁾ (491 at 31 December 2016 compared with 464 at 31 December 2015), redistribution of Specialist Business Consultants across a larger number of post offices in order to guarantee more effective management of areas with a high concentration of businesses (at 31 December 2016, 946 post offices had Specialist Business Consultants compared with 907 at 31 December 2015), and activation of a service on an experimental basis to customers at 422 offices without such consultants, enabling them to book an appointment with a specialist at a nearby office.

Following the tragic earthquakes that hit the population of central Italy during 2016, Poste Italiane immediately launched a series of initiatives aimed at assisting residents of the most badly affected areas by opening mobile post offices within hours of the quakes striking, in order to keep all services up and running. Among other things, this enabled pensioners living in the areas affected by the earthquakes to draw their pensions at any post office across Italy. It was also decided to immediately suspend payment of current mortgage and loan instalments, at the request of those concerned. Finally, via activation of the "Seguimi" service, delivery of mail to people who had been temporarily transferred was guaranteed, partly in collaboration with the Civil Defence Department and other emergency management facilities.

In 2016, the "Poste Risponde" Contact Centre handled around 21 million contacts, including 89% for the captive market. Alongside the usual customer relationship management and commercial network support services, the centre launched new initiatives designed to support the Group's businesses. These included the launch of the New Front-End Assistance (NFEA) application, which enables operators to improve customer management by optimising the time needed to deal with requests.

Assistance was boosted via an increase in the number of dedicated financial and insurance services staff, and in March the Contact Centre also began managing all the notifications and information and assistance requests deriving from the Posteltaliane and Postepay fan pages. All Contact Centre sites were also equipped with the multichannel telephone bar, which enables joint management of customer contacts regardless of the channel selected (chat, email, telephone).

The channel also assists customers in setting up access to the SPID service. In this regard, Poste Italiane, in the role of Digital Identity Manager accredited by the Agency for Digital Italy, completed the process of launching the SPID, which allows all citizens and companies to access any service provided by the Public Administration or participating businesses using a single PIN and certifying their identity only once.

Poste Italiane's Digital Identity solution is called "PosteID abilitato a SPID" and can be requested – depending on the customer's requirements – on line, at any post office in Italy, or at a customer's home via the network of postmen and women. At the end of 2016, Poste Italiane had activated 900 thousand PosteID digital identities, ranking as the SPID system's number one identity provider.

In terms of monitoring and overseeing customer satisfaction, with the aim of offering increasingly better support services, the Group has begun a structured process designed to analyse the channel's perceived quality, based on surveys conducted with customers who contact the Contact Centre. Customers for all services are automatically asked if they wish to take part in the surveys on a daily and permanent basis.

The web distribution channel, via the website www.poste.it and other dedicated web portals, provides access to online services for 12.7 million retail and business customers⁽¹⁰⁾ (10.7 million at 31 December 2015), operating as a direct end-to-end sales channel and as a support provider for other channels.

As well as carrying out evolutionary maintenance work on the portal during 2016, a series of initiatives was carried out, as part of the digital transformation process, with the aim of improving the Group's online offering.

In particular, the Poste.it website was re-engineered and redefined in architectural, application and user experience terms. In line with the multichannel access strategy, the new website is closely linked to the other Poste Italiane touchpoints, such as apps, ATMs and above all post offices (for example, the post office search function, or the option to book your turn at the counter on line).

New functions were also added to the www.postepay.it website, including the ability to view historical transactions over the last year, the option of carrying out an international bank transfer from the new PostePay Evolution prepaid card and of activating the Postepay card directly on line.

The www.postevita.it website also saw the addition of new functions for customers, including the introduction of

⁽⁹⁾ The Specialist Business Finance Consultants and the Business Sales Force are dedicated to small and medium enterprises (manufacturing, services, etc.). The Specialist Business Finance Consultants are geared towards customers who traditionally carry out transactions at post offices, especially professionals and artisans.

⁽¹⁰⁾ The figure refers to registered and active users.

new simulation apps linked to the launch of certain products and the possibility of making a claim on the customer's personal insurance policy and following its progress through to the outcome.

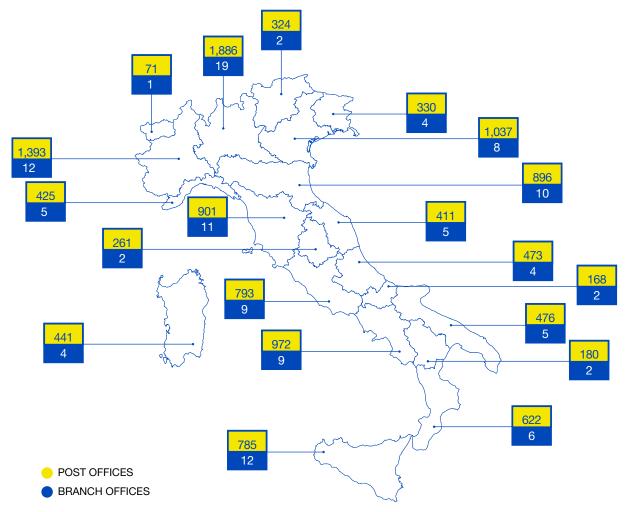
Poste Italiane's Business and Public Sector function is responsible for commercial operations and sales of Group products and services regarding large companies and Central and Local Government.

Adoption of the business and organisational model introduced in 2015 continued during the year. This is based on approaches that differ in terms of the characteristics of the sectors in which customers operate, and the actual and potential value of the various identified targets.

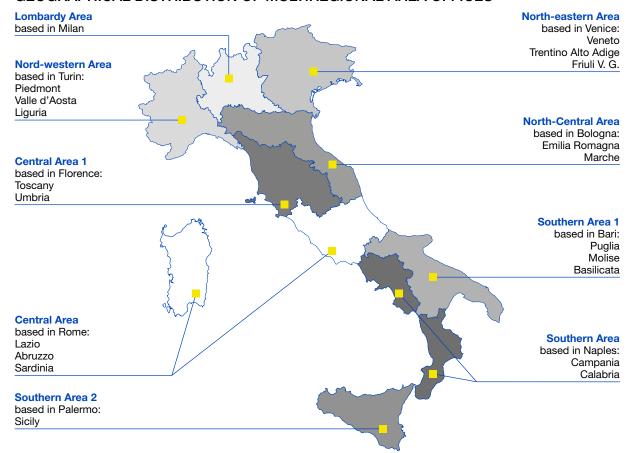
Specifically, the model provides for:

- central management dedicated to commercial coordination of the top business sales force, in order to guarantee adequate oversight of high value customers;
- central management dedicated to commercial management of central government;
- dedicated pre- and post-sales functions, at central and local level;
- development of indirect channels and prospective customers via a dedicated organisational function;
- five Area Offices (Lombardy and Northwest, Northeast, North-Central, Central, South) each responsible for commercial operations in their own area via management of the local sales force and implementation of marketing initiatives defined on the basis of a specialisation by customer segment model.

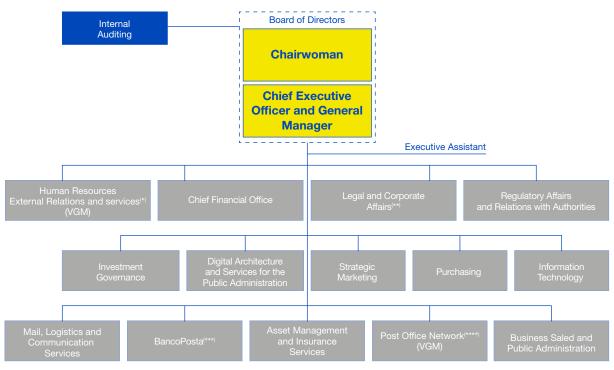
GEOGRAPHICAL DISTRIBUTION OF POST OFFICES AND BRANCH OFFICES



GEOGRAPHICAL DISTRIBUTION OF MULTIREGIONAL AREA OFFICES



ORGANISATIONAL STRUCTURE OF POSTE ITALIANE SPA



- Human Resources and Organization, Real Estate, Communications, Institutional Relations and Security and Safety functions are part of the Vice (*) General Manager area of responsibilities.
- Legai Affairs, Corporale Affairs and Corporate Assurance & General Affairs functions are part of Legal and Corporate Affairs function.
- BancoPosta's Internal Auditing function reports directly to the Board of Directors and the Board of Auditors.
- (****) The Vice General Manager leads Customer Operations and Financial Back Office Integration Projects.

In line with the transformation process launched by the Group, the main organisational initiatives implemented at Poste Italiane SpA during the year regarded:

- the appointment of two Deputy General Managers who have been assigned, in addition to significant organisational responsibilities, the role of implementing a series of initiatives across the Group that will be key to achieving the strategic objectives set out in the Plan. The Human Resources, External Relations and Services function has been created, coordinated by one of the two Deputy General Managers, to which responsibility for Human Resources and Organisation, Property, Security and Safety, Communication and Government Relations has been allocated;
- the centralisation of the Administration, Finance and Control function, under the responsibility of the Chief Financial Officer, of central and local administrative and accounting functions as part of the plan to progressively centralise administrative services and the accounting cycle within the Group;
- the redefinition of the procurement model, in order to maximise savings and, at the same time, achieve greater flexibility in procurement processes that serve business requirements. The new model aims to focus the Corporate Procurement function on the provision of guidance and coordination, as well as assigning it responsibility for purchases common to several functions/Group companies. The model also envisages the operational decentralisation of procurement activities for specific product categories to the BancoPosta and Mail, Logistics and Communication business functions;
- the launch of Customer Operations and Financial Back Office Integration projects regarding the integration, rationalisation and simplification of customer care processes and of the financial services back office, as part of which staff formerly dedicated to customer care activities within the individual business functions were centralised within the Private Customer segment;
- the strengthening of areas of responsibility in the Security & Safety function, particularly regarding information security issues, via enhancement of security information sharing and prevention activities and response to potential IT threats.

04 Performance indicators

In keeping with the guidelines published by the European Securities and Markets Authority on 5 October 2015 (ESMA/2015/1415), which, as announced by the CONSOB(11), have, from 3 July 2016, replaced the Committee of European Securities Regulators' Recommendation CESR/05-178b, in addition to the financial disclosures required by IFRS, Poste Italiane has included a number of indicators in this report that have been derived from them. These provide management with a further tool for measuring the performances of the Parent Company and its subsidiaries. In particular, in addition to the operating segment disclosures required by IFRS 8, management has proceeded to reclassify the income statement for the Financial Services and Insurance Services and Asset Management segments solely for the purpose of integrating and enhancing its assessment of the operating performance of the specific segments in which the Group operates.

In addition, as a result of the current process of disposing of the subsidiaries, BancoPosta Fondi SpA SGR and Banca del Mezzogiorno-MCC SpA (described in the section on the Group's organisational structure), in preparing the financial statements for 2016 the Group has applied the provisions of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". The application of IFRS 5 in order to present the above corporate actions has involved presentation of the two companies' net assets, in the Poste Italiane Group's consolidated financial statements, as "Non-current assets and disposal groups held for sale" and "Liabilities related to assets held for sale" and restatement of the related amounts, where lower, in line with the expected realisable value.

In Poste Italiane SpA's separate financial statements, on the other hand, the investments in BancoPosta Fondi SpA SGR and BdM-MCC SpA have been presented in "Non-current assets held for sale and discontinued operations". In line with the basis of presentation used in Poste Italiane's financial statements for the year ended 31 December 2016, amounts for Non-current Assets, Working Capital, Net Invested Capital and Net Funds/(Debt) as at 31 December 2015 have not been restated.

The following alternative performance indicators are used:

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation) – this is an indicator of a company's operating profit before non-operating financial expenses and taxation, and depreciation, amortisation and impairments of non-current assets and investment property.

Gross ROE (Return On Equity) – the ratio of pre-tax profit to the average value of equity at the beginning and end of the reporting period. The performance of this indicator reflects, among other things, the change in the fair value reserves for financial assets classified as available-for-sale. In order to facilitate comparison of the Group's profitability, pre-tax profit has been used in calculating this indicator, rather than net profit for the period, given the different forms of taxation to which the Group's operating segments are subject.

NON-CURRENT ASSETS – this indicator represents the sum of property, plant and equipment, investment property, intangible assets and investments measured using the equity method.

WORKING CAPITAL – the sum of inventories, trade receivables and other receivables and assets, current tax assets, trade payables and other liabilities, and current tax liabilities.

NET INVESTED CAPITAL – the sum of non-current assets and working capital, deferred tax assets, deferred tax liabilities, provisions for risks and charges and provisions for employee termination benefits and pension plans. Following the above application of IFRS 5, for 2016 the assets and liabilities attributable to BancoPosta Fondi Sgr and BdM-MCC are shown separately within the Group's net invested capital in "Non-current assets and disposal groups held for sale" and "Liabilities related to assets held for sale". This reclassification includes the financial assets and liabilities that, in 2015, were presented in the Group's net funds/(debt). The investments in the two companies are, on the other hand, shown separately within Poste Italiane SpA's net invested capital in "Non-current assets held for sale and discontinued operations".

GROUP NET FUNDS/(DEBT) - the sum of financial liabilities, technical provisions for the insurance business, financial assets, technical provisions attributable to reinsurers, cash and deposits attributable to BancoPosta and cash equivalents. This indicator is also shown separately for each operating segment. Following the above application of IFRS 5, for 2016 net funds/(debt) does not take into account the financial assets and liabilities attributable to BdM-MCC SpA and BancoPosta Fondi SpA SGR, which are classified in "Non-current assets and disposal groups held for sale" and "Liabilities related to assets held for sale".

INDUSTRIAL NET FUNDS/(DEBT), IN ACCORDANCE WITH ESMA GUIDELINES, for the Postal and Business Services and Other Services segments - the sum of the following items, shown according to the format recommended by ESMA, the European Securities and Markets Authority (document 319 of 2013): financial liabilities after adjusting for intersegment transactions, current financial assets after adjusting for intersegment transactions and cash and cash equivalents.

INDUSTRIAL NET FUNDS/(DEBT), before adjusting for intersegment transactions: this is the sum of net debt attributable to the sum of net funds/(debt) for the Postal and Business Services and Other Services segments before adjusting for intersegment transactions.

Macroeconomic environment

2016 continued to register moderate growth and a substantial absence of inflation, which has characterised the macroeconomic environment for some years now. Global growth gradually strengthened from the summer onwards, thanks to positive signs from emerging countries, but this did not translate into a solid recovery in international trade. Oil prices were particularly volatile as a result of excess supply, although the cut in production agreed by OPEC countries at the end of November led to a rapid increase in prices, temporarily reducing fears of potential financial instability in the producing countries.

Among the industrialised economies, the USA continues to grow, with growth in the first nine months of 2016 driven primarily by an increase in domestic demand, before losing momentum in the last quarter of the year. At the end of the year, in response to an improving labour market and inflation expectations, the Federal Reserve began raising interest rates again for the first time since the end of 2015. The prospects for the USA remain subject to various uncertainties surrounding the economic policies of the new administration: if, on the one hand, they might stimulate growth in the US economy, as a result of the deregulation and fiscal stimulus included in the new President's electoral programme, on the other, they could represent a risk to the global economy, given the stated intention to introduce protectionist measures.

The UK also closed 2016 having chalked up its seventh consecutive year of growth, thanks to consumer spending and exports that benefitted from the weakness of sterling.

In Japan, the central bank's expansionary policies and the government's package of measures designed to stimulate the economy have yet to yield the hoped for results and economic activity remains subdued, with prices declining.

The leading emerging economies, China and India, ended 2016 with growth rates just below those of 2015, driven by strong internal demand, whilst Brazil and Russia saw another year of recession.

In Europe, growth remained moderate, but there was gradual consolidation thanks to improved internal demand, which offset softening demand for exports. Inflation also began to slowly rise in the second half, driven by a recovery in oil prices. The European Central Bank (ECB) confirmed its expansionary monetary policy in December, extending the duration of its asset purchase programme to at least the end of 2017, in order to ensure a return of inflation of around 2%.

In Italy, after picking up in the first quarter, economic growth fell away to below the European average. The principal driving force for the Italian economy is private investment (in part thanks to tax breaks) and consumer spending. In fact, the improving labour market and low consumer inflation have helped to protect consumers' purchasing power. It should be noted that, over the year, average consumer price inflation was negative for the first time in many years.

Uncertainty in the Italian political scenario, following the outcome of the referendum at the beginning of December, contributed to a widening spread between 10-year Treasury Notes (BTPs) and German Bunds in the last part of the year (161 basis points at 31 December 2016), whilst in previous months, thanks to the ECB's expansionary monetary policies, the average spread had been lower.

Early 2017 has been marked by political uncertainty, amplified by the upcoming round of general elections around Europe, and discussion of electoral reform, causing a high degree of volatility and a further widening of the BTP-Bund spread (182 basis points at 1 March 2017).

Consolidated operating results

The Poste Italiane Group's profit for 2016 amounts to €622 million, a 12.7% improvement on the figure for 2015, amounting to €552 million. Operating profit of €1,041 million is up 18.3% on the €880 million of 2015. Despite the fact that the Postal and Business Services segment contributed a loss of €436 million, this is an improvement of 23.2% on the operating loss of €568 million for the previous year. This reflects the positive contribution from the fees paid by BancoPosta RFC in return for use of the Group's distribution network.

The Financial Services segment recorded an operating profit of €813 million (€907 million in 2015), after benefitting from non-recurring income generated by the sale of the Group's investment in Visa Europe Ltd.⁽¹²⁾, which took place as part of Visa Inc.'s acquisition of this company, and returns on BancoPosta RFC's investments. In contrast, as described below, the result also reflects other provisions for risks and charges, made to cover the estimated cost of voluntary action taken to protect customers who purchased units issued by the Invest Real Security real estate fund.

The Insurance Services and Asset Management segment reports operating profit of €636 million (up 24.7%) and an excellent operating performance, with €19.9 billion in premium revenue during the period (€18.2 billion in 2015).

RECLASSIFIED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December (€m)	2016	2015	Increase/(Increase/(decrease)	
Revenue from sales and services and insurance premium revenue	28,627	27,007	1,620	6.0%	
Postal and Business Services	3,768	3,818	(50)	-1.3%	
Financial Services	4,683	4,707	(24)	-0.5%	
Insurance Services and Asset Management	19,953	18,243	1,710	9.4%	
Other Services	223	239	(16)	-6.7%	
Other income from financial and insurance activities	4,421	3,657	764	20.9%	
Financial Services	604	442	162	36.7%	
Insurance Services and Asset Management	3,817	3,215	602	18.7%	
Other operating income	64	75	(11)	-14.7%	
Postal and Business Services	54	64	(10)	-15.6%	
Financial Services	7	6	1	16.7%	
Insurance Services and Asset Management	2	1	1	n/s	
Other Services	1	4	(3)	-75.0%	
Total revenue	33,112	30,739	2,373	7.7%	
Cost of goods and services	2,476	2,590	(114)	-4.4%	
Net change in technical provisions for insurance business and other claims expenses	21,958	19,683	2,275	11.6%	
Other expenses from financial and insurance activities	539	689	(150)	-21.8%	
Personnel expenses	6,241	6,151	90	1.5%	
Capitalised costs and expenses	(25)	(33)	8	24.2%	
Other operating costs	301	198	103	52.0%	
Total costs	31,490	29,278	2,212	7.6%	
EBITDA	1,622	1,461	161	11.0%	
Depreciation, amortisation and impairments	581	581	_	n/s	
Operating profit/(loss)	1,041	880	161	18.3%	
Finance income/(costs)	9	50	(41)	-82.0%	
Profit/(loss) on investments accounted for using the equity method	6	3	3	n/s	
Profit/(Loss) before tax	1,056	933	123	13.2%	
Income tax expense	434	381	53	13.9%	
Profit for the year	622	552	70	12.7%	

n/s: not significant

On 21 December 2015, Visa Europe informed its Principal Members, including Poste Italiane which held an ordinary share previously allocated at the time of the company's incorporation, that each of them would be paid a consideration as a result of the acquisition and merger of Visa Europe Ltd with the US-registered company, Visa Incorporated. This transaction was completed on 21 June 2016 and, as a result, Poste Italiane was paid the above consideration, based on a total fair value of the investment of €121 million.

TOTAL REVENUE BY OPERATING SEGMENT

for the year ended 31 December (€m)	2016	2015	Increase/(decrease)
Postal and Business Services	3,822	3,882	(60)	-1.5%
Financial Services	5,294	5,155	139	2.7%
Insurance Services and Asset Management	23,772	21,459	2,313	10.8%
Other Services	224	243	(19)	-7.8%
Total revenue	33,112	30,739	2,373	7.7%

Total revenue of €33.1 billion is up 7.7% on 2015. The improvement primarily reflects the positive performance of insurance services and asset management, where total revenue amounts to €23.8 billion (up 10.8% compared with the previous year).

Postal and Business Services contributed total revenue of €3,822 million, registering a reduction of 1.5% due to the expected decline in traditional letter post. It should be noted that there has been an ongoing slowdown in the pace of decline in this segment's total revenue over a number of quarters. Despite this, the decline in revenue from traditional letter post is only partially being replaced by revenue from the parcels business. Revenue for the year also includes portions of Universal Service compensation relating to previous years, as described in more detail below.

Total revenue from Financial Services amounts to €5,294 million, marking an increase of 2.7% due to a rise in "Other income from financial activities", which is up from €442 million in 2015 to €604 million in 2016. This income includes €121 million in non-recurring income generated by the sale of the Group's investment in Visa Europe Ltd..

As noted above, the Insurance Services and Asset Management segment which, from 1 January 2016, also includes the activities of BancoPosta Fondi Sgr, delivered excellent results during the year (€23.8 billion in total revenue), with Poste Vita and its subsidiary, Poste Assicura, recording premium revenue of €19.9 billion (premium revenue of €18.2 billion in 2015). This primarily reflects the performances of traditional Class I investment and savings products, where the Group has built up a strong presence.

Total revenue from Other Services amounts to €224 million (€243 million in 2015) and is generated by Poste Mobile.

COST OF GOODS AND SERVICES

for the year ended 31 December (€m)	2016	2015	Increase/(decrease)
Services	1,960	1,999	(39)	-2.0%
Lease expense	336	359	(23)	-6.4%
Raw, ancillary and consumable materials and goods for resale	146	175	(29)	-16.6%
Interest expense	34	57	(23)	-40.4%
Total	2,476	2,590	(114)	-4.4%

The cost of goods and services is down 4.4% from €2,590 million in 2015 to €2,476 million, reflecting a reduction across all items of expenditure and the Group's commitment to making savings on its controllable costs.

The net change in technical provisions for the insurance business and other claims expenses, which is closely linked to the above growth in premium revenue recorded by Poste Vita, amounts to €22 billion (€19.7 billion in the previous year).

Other expenses from financial and insurance activities are down from €689 million in 2015 to €539 million in 2016, reflecting the impact of movements in the fair value of financial instruments held by the subsidiary, PosteVita and by BancoPosta RFC.

PERSONNEL EXPENSES

for the year ended 31 December (€m)	2016	2015	Increase/((decrease)
Salaries, social security contributions and sundry expenses ^(*)	5,738	5,787	(49)	-0.8%
Redundancy payments	167	78	89	n/s
Net provisions (uses) for disputes	3	(13)	16	n/s
Amounts recovered from staff due to disputes	(9)	(6)	(3)	50.0%
Provisions for restructuring charges	342	316	26	8.2%
Total	6,241	6,162	79	1.3%
Income from fixed-term and temporary contract agreements	-	(11)	11	n/s
Total personnel expenses	6,241	6,151	90	1.5%

n/s: not significant

Ordinary personnel expenses, linked to salaries, contributions and sundry expenses, are down €49 million, declining from €5,787 million in 2015 to €5,738 million in 2016. This reflects a reduction in the average permanent and flexible workforce employed during the year (approximately 2,400 fewer full-time equivalents or FTEs compared with 2015). This offset the additional costs incurred as a result of public holidays falling on a Sunday, the inability to exempt performance bonuses from the payment of social security contributions, and provisions linked to the expected increase in pay in the renewed national collective labour contract.

The non-recurring component reflects an increase in early retirement incentives, which are up from €78 million in 2015 to €167 million in 2016, and provisions of €342 million (€316 million in 2015) for restructuring charges, made to cover the estimated costs to be incurred by the Parent Company for early retirement incentives, under the current redundancy scheme for employees leaving the Company by 31 December 2018.

The provisions of €316 million made in 2015 were used in full during 2016.

Finally, the 1.5% increase in total personnel expenses reflects the income of €11 million recognised by the Poste Italiane in 2015, following the agreements concluded with the labour unions, regarding the re-employment by court order of staff previously employed on fixed-term contracts.

The profit on investments accounted for using the equity method, totalling €6 million (€3 million in 2015) primarily regards the investment in Anima Holding SpA.

Income tax expense is up from €381 million for 2015 to €434 million for 2016. The effective tax rate of 41.09% reflects an IRES tax rate of 34.48% and an IRAP tax rate of 6.61%.

OPERATING RESULTS BY OPERATING SEGMENT

for the year ended 31 December 2016 (€m)	Postal and Business Services	Financial Services	Insurance Services and Asset Management	Other Services	Adjustments and eliminations	Total
External revenue	3,822	5,294	23,772	224	-	33,112
Intersegment revenue	4,540	543	1	44	(5,128)	_
Total revenue	8,362	5,837	23,773	268	(5,128)	33,112
Costs	8,713	518	22,620	220	-	32,071
Intersegment costs	85	4,506	517	20	(5,128)	_
Total costs	8,798	5,024	23,137	240	(5,128)	32,071
Operating profit/(loss)	(436)	813	636	28	-	1,041

^(*) This includes the following items described in note C8 to the consolidated financial statements: salaries and wages; social security contributions; employee termination benefits; temporary work; Directors' fees and expenses; other costs (cost recoveries).

for the year ended 31 December 2015 (€m)	Postal and Business Services	Financial Services	Insurance Services and Asset Management	Other Services	Adjustments and eliminations	Total
External revenue	3,882	5,155	21,459	243	-	30,739
Intersegment revenue	4,331	491	-	91	(4,913)	_
Total revenue	8,213	5,646	21,459	334	(4,913)	30,739
Costs	8,650	441	20,484	284	-	29,859
Intersegment costs	131	4,298	465	19	(4,913)	-
Total costs	8,781	4,739	20,949	303	(4,913)	29,859
Operating profit/(loss)	(568)	907	510	31	_	880

Postal and business services

Postal services market

In 2016, the postal services market registered what is by now a long-standing decline in traditional letter post volumes and revenue, accompanied by progressive volume and revenue growth in the parcel services market, driven by the expansion of e-commerce.

The pace and extent of the decline in letter volumes continues to vary from one European operator to another, depending on a range of factors, such as the level of internet penetration, the degree to which public and private organisations have shifted to electronic invoicing and billing (e-substitution), the level of market competition and deregulation, the degree of demand elasticity to price changes and other macroeconomic factors.

In Italy, the approach adopted by the regulator (the Autorità per le Garanzie nelle Comunicazioni or AGCom) to provision of the Universal Service has allowed Poste Italiane to proceed with its planned transformation of the postal service, necessary in order to continue to effectively meet the changing needs of citizens in the digital age.

POSTAL AND BUSINESS SERVICES SEGMENT PROFIT OR LOSS

for the year ended 31 December (€m)	2016	2015	Increase/(decrease)
Revenue from sales and services	3,768	3,818	(50)	-1.3%
Other operating income	54	64	(10)	-15.6%
Total external revenue	3,822	3,882	(60)	-1.5%
Intersegment revenue	4,540	4,331	209	4.8%
Total revenue	8,362	8,213	149	1.8%
Cost of goods and services	2,048	2,116	(68)	-3.2%
Personnel expenses	6,059	5,974	85	1.4%
Depreciation, amortisation and impairments	536	530	6	1.1%
Capitalised costs and expenses	(25)	(33)	8	24.2%
Other operating costs	95	63	32	50.8%
Intersegment costs	85	131	(46)	-35.1%
Total costs	8,798	8,781	17	0.2%
Operating profit/(loss) (EBIT)	(436)	(568)	132	23.2%

The Postal and Business Services segment reports an operating loss of €436 million, although this marks an improvement of €132 million on 2015 (a loss of €568 million).

This reflects an increase in intersegment revenue (up €209 million on 2015), which is regulated by specific internal operating guidelines governing the fees payable for services provided to the Financial Service segment. This made up for the reduction in volumes and revenue generated by the external market (down €60 million compared with 2015) primarily attributable to the decline in traditional letter post. The increase in intersegment revenue from distribution services also reflects the results generated by active management of BancoPosta's investment portfolio and the above gain on the sale of the investment in Visa Europe.

An analysis of costs reveals a reduction in the cost of goods and services (down €68 million on 2015), primarily due to efficiency improvements achieved during the year, whilst personnel expenses are up (rising €85 million compared with 2015). The latter trend reflects non-recurring expenses linked to the cost of early retirement incentives during the year, and provisions for restructuring charges, made to cover the estimated costs to be incurred by the Parent Company for early retirement incentives. These items offset the impact of the reduction in the average workforce in 2016, compared with the average for the previous year.

Operating results

GROUP LETTER POST

	Volumes (in millions)				Revenue (€m)			
	2016	2015 Increase/(decrease)		2016	2015	Increase/(decrease)	
Unrecorded Mail and Philately	1,491	1,556	(65)	-4.2%	934	1,020	(86)	-8.4%
Recorded Mail	201	207	(6)	-2.9%	965	971	(6)	-0.6%
Direct Marketing and Unaddressed Mail	813	980	(167)	-17.0%	176	192	(16)	-8.3%
Integrated Services	34	42	(8)	-19.0%	207	220	(13)	-5.9%
Other(*)	967	1,152	(185)	-16.1%	254	280	(26)	-9.3%
Universal Service Obligation (USO) compensation(**)					371	279	92	33.0%
Total	3,506	3,937	(431)	-10.9%	2,907	2,962	(55)	-1.9%

- Includes services for publishers, multi-cnannel services, printing, document management, other basic services.
- Universal Service compensation also includes compensation relating to the ordinary parcels service.

The performance of the Group's Letter Post services reflects a reduction in volumes and revenue, with declines of 10.9% (431 million fewer items) and 1.9% (€55 million), respectively, compared with 2015. This essentially due to the structural decline in traditional postal services, in part reflecting the progressive shift away from paper-based communication towards digital forms (letter post replaced by e-mail, electronic billing, etc.).

The decline in Unrecorded Mail (65 million fewer items, down 4.2% on 2015) generated a corresponding reduction in revenue of €86 million (down 8.4%), reflecting, as previously mentioned, the general decline in market volumes as a result of e-substitution. Despite a 2.9% reduction in volumes, revenue from Recorded Mail remained broadly stable, decreasing from €971 million in 2015 to €965 million in 2016. This reflects price increases for Registered Mail introduced from 1 December 2015.

Direct Marketing and Unaddressed Mail volumes and revenue are down 17% and 8.3%, respectively, reflecting the Group's decision to exit the unaddressed mail market and customers rationalising their mail spend. Other revenue includes, among other things, services for publishers, which fell as a result of the continuing decline in the number of subscribers for printed publications and the increase in digital subscriptions.

The compensation partially covering the cost of the Universal Service for 2016, as provided for in the new Contratto di Programma (Service Contract) for 2015-2019, in effect from 1 January 2016, amounts to €262 million. Total revenue attributable to this item, however, amounts to €371 million, reflecting the release of provisions for bad debts made in previous years, following the MEF's decision to make provision for the payment of amounts due under previous contractual obligations.

GROUP EXPRESS DELIVERY, LOGISTICS AND PARCELS

	Volumes (in millions)				Revenue (€m)			
	2016	2015	Increase/(decrease)	2016	2015	Increase/(decrease)
Express delivery	95	84	11	13.1%	558	501	57	11.4%
Domestic Express delivery	76	67	9	13.4%	441	395	46	11.6%
International Express delivery	19	17	2	11.8%	117	106	11	10.4%
Parcels	2	2	_	n/s	36	39	(3)	-7.7%
Domestic Parcels	1	1	-	n/s	14	13	1	7.7%
International Parcels	1	1	-	n/s	22	26	(4)	-15.4%
Other ^(*)					55	70	(15)	-21.4%
Total Express delivery, Logistics and Parcels	97	86	11	12.8%	649	610	39	6.4%

^(*) The item, "Other", includes Dedicated Services, Logistics, other SDA Express Courier SpA services and other revenue attributable to Consorzio Logistica Pacchi ScpA.

n/s: not significant

The Express Delivery, Logistics and Parcels segment saw growth in the volume of items transported and in revenue, registering increases of 12.8% (11 million more items handled) and 6.4% (up €39 million), respectively, compared with 2015. This good performance is essentially due to growth in the National Express Delivery segment, which registered a rise of 9 million in the number of items handled and a €46 million increase in revenue (volumes up 13.4% and revenue up 11.6%, compared with 2015), due to the good performance posted by e-commerce in the B2C segment.

The International Express Delivery segment also performed well (volumes up 11.8%, and revenue up 10.4%) thanks to a similar increase in international shipments linked to e-commerce.

Postal sector regulation

Contratto di Programma (Service Contract)

The Contratto di Programma (Service Contract) regulates relations between the Ministry for Economic Development and Poste Italiane SpA in connection with the Universal Postal Service.

The current *Contratto di Programma* (Service Contract) for 2015-2019 was signed by the parties on 15 December 2015 and is effective from 1 January 2016 to 31 December 2019.

The Contratto di Programma (Service Contract) for 2015-2019 was formally submitted to the European Commission for the usual assessments relating to European regulations regarding state aid.

The European Commission has approved government compensation for the period 2012-2015 and 2016-2019, payable to Poste Italiane for provision of the Universal Postal Service, deeming it to be compatible with European Union regulations regarding state aid⁽¹³⁾.

Other regulatory measures

In accordance with art. 23, paragraph 2 of Legislative Decree 261/1999, as amended, every five years – from the entry into effect of Legislative Decree 58/2011, which provided that Poste Italiane SpA should be the Universal Service provider for a period of fifteen years – the Ministry for Economic Development assesses, on the basis of a survey conducted by the regulator (the *Autorità per le Garanzie nelle Comunicazioni* or AGCom), whether or not provision of the service meets the criteria set out in the decree (continuity of service provision, profitability, etc.) and if there have been improvements to the efficiency of provision.

Following this five-yearly assessment by AGCom, the Ministry for Economic Development issued a Decree on 25 August 2016, confirming that Poste Italiane's provision of the universal service in the period from 30 April 2011 to 30 April 2016 had fulfilled the related requirements.

On 26 January 2015, the Ministry for Economic Development issued a Decree regarding "Calculation and procedures for the payment of contributions by postal operators to AGCom for the years 2012, 2013 and 2014", regarding the contribution that all postal service operators are obliged to pay to AGCom to fund the regulator's activities, in accordance with the provisions of Legislative Decree 261/99. Poste Italiane paid the contributions. Following an appeal lodged by the Italian Association of International Air Couriers (AICAI) and other postal operators, requesting cancellation of the

⁽¹³⁾ State Aid SA. 43243 (2015/N) - Italy" Decision of 4 December 2015.

relevant Decree, on 10 February 2016, Lazio Regional Administrative Court passed judgement in first instance, ruling that the retroactive nature of the contribution for the years 2012-2014 was unlawful. This was ruling was then confirmed in second instance by the Council of State.

As regards the contribution required by art. 2, paragraph 14 of Legislative Decree 261/99, relating to the years 2015 and 2016, whilst awaiting the Ministry's issue of the decree determining the contribution, on 10 March 2016, the Ministry for Economic Development issued an Interministerial Decree regulating payment of the contribution payable for 2016. In May 2016, Poste Italiane paid the amount due in accordance with the indications provided by AGCom in Resolution 145/16/CONS of 19 April 2016.

A further Interministerial Decree of 10 March 2016 redefined the contributions due to the Ministry for Economic Development, for 2016 and 2017, for the procedure involved in the issue of the various authorisations (the individual licence and general authorisation) and the controls and checks made to ensure that the related requirements continue to be met. Poste Italiane has paid the amounts due for both years.

On 29 July 2016, AGCom published Resolution 166/16/CONS, launching a public consultation on the draft ruling concerning assessment of the net cost of the universal postal service in 2013 and 2014. On 27 September 2016, Poste Italiane submitted its contribution to the consultation to the regulator.

Other regulatory measures regarding the sector include the draft of Law 2085 "Annual market and competition law", approved by the lower house of Parliament on 7 October 2015 and currently being examined by the Senate. Art. 27 provides for the repeal, from 10 June 2017, of art. 4 of Legislative Decree 261/99, giving Poste Italiane SpA exclusive rights (as the Universal Service provider) to offer services relating to legal process and the notification of violations of the Highway Code. To date, the parliamentary procedure has yet to be completed, so the rights are still attributed to Poste Italiane.

Legislative Decree 244/2016 of 30 December 2016 (the so-called "Mille Proroghe" decree), in force from 1 January 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.

The state budget for 2017 has made provision of €60 million from 2017. This amount is expected to be sufficient to compensate for the reduced prices to be applied to the entities due to benefit as a result of the legislation. This compensation is classified as state aid and must, therefore, be notified and approved in accordance with EU legislation.

Operating review

The Group has proceeded with its restructuring of its postal and logistics operations. As previously mentioned in the section, "Organisational structure", the aim is to develop a new, quality Universal Service that is sustainable and in keeping with the changing needs of citizens.

In this regard, as part of the optimisation, digital transformation and automation process, the following have been

- the "Digital signature for postmen and women" project, which enables the addressee's signature to be obtained directly on the handheld device as proof of delivery of the letter or package, alongside the GPS coordinates of the place of delivery:
- new procedures for the issue of the PostelD⁽¹⁴⁾ digital identity product by postmen and women, with the possibility for citizens to complete all the necessary steps and receive their "Digital ID" directly at home;
- the activation of Driven Parcel Sorting machines for automating and tracking parcels at the Bologna, Florence, Milan Peschiera Borromeo, Turin, Padua and Rome Fiumicino sorting centres;
- the launch of a partnership with the customer, Amazon, covering the delivery of small packages throughout Italy, using the network of postmen and women.

Renewal of the fleet of vehicles was also carried out, resulting in the replacement of approximately 17 thousand vehicles located at Network Centres and used for the transport and delivery of postal products.

In terms of initiatives designed to improve the quality performance, the monitoring of the most important service provision processes continued via the introduction, at local level, of the quality dashboard⁽¹⁵⁾. Each dashboard indicator

PosteID is the Digitale ID solution that can be used to access enabled Poste Italiane and all the services covered by the Public System for Digital Identity Management (SPID) displaying the "SPID" logo. The SPID allows access to any online service provided by the Public Administration from a computer, tablet or smartphone.

The dashboard is a system for summarising and aggregating data regarding a company, in order to present the information in a chart or in number form, thereby providing an immediate and readibly understandable visual format.

enables assessment of the performances of both the organisation as a whole and each organisational unit (Distribution Centre/Primary/Secondary/Decentralised Distribution Centres) against their assigned targets.

In 2015, calls for tenders were launched to find a suitable provider to manage the entire service. On completion of the tender process, the companies to which SDA Express Courier had outsourced the services until the end of 2015 – Uptime SpA, a joint venture (28.57% owned by SDA and 71.43% owned by Gepin) and Gepin Contact SpA – were not awarded the contract and, on 30 December 2015, SDA terminated its relationships with these companies, as provided for in the relevant contracts, with effect from 1 July 2016.

With the regard to the transaction's impact on jobs, on 16 March 2016, an Ordinary General Meeting of Uptime SpA's shareholders determined, with the vote of the majority shareholder (Gepin) alone, to terminate operations and wind-up the company. The shareholder, SDA, abstained. Following the start of the process that will make all 93 employees redundant, on 31 May 2016, Poste Italiane and labour unions representing most of the workers involved reached agreement on the redeployment of the workers involved. This envisages, among other things, that Poste Italiane will hire all former Uptime employees who have failed to find alternative employment by 31 December 2016 on permanent part-time contracts. In the second half of February 2017, following the outplacements provided for in the above agreement, the process of finding positions at Poste Italiane for personnel who have failed to find alternative employment began. As regards Gepin, efforts are being made, in collaboration with the Ministry for Economic Development, to find solutions for the company's personnel.

Strictly in terms of employment law, in recent months, a number of former employees of Uptime/Gepin have filed a claim for wrongful dismissal, despite the agreements reached and the negotiations in progress.

From a civil law standpoint, Gepin and Uptime SpA have brought a number of legal actions. Gepin has filed a claim for damages from SDA, amounting to €15.5 million, due 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 that were in any event not provided. SDA has challenged the claims in court. At the first hearing, the court turned down the plaintiff's request for provisional execution of the injunction, postponing any decision until a later hearing.

Finally, on 21 December 2016, Poste Italiane and SDA were served a writ of summons by Gepin and Uptime, containing joint and several claims for approximately \in 66.4 million, as compensation for the damages incurred by Uptime SpA as a result of the alleged unjustified termination of the above contract, and for approximately \in 16.2 million, as compensation for the damages incurred by Gepin as a result of the alleged reduction in the value of its investment. These claims will also be opposed in court.

An extraordinary general meeting of Uptime SpA's shareholders was held on 2 February 2017. During the meeting, the sole liquidator was made aware of a liability of approximately €3.5 million, which as yet requires further confirmation. Given that the general meeting voted, among other things, to cover the company's losses by reducing the share capital to zero and recapitalising the company, involving capital contributions or payments into a share premium reserve of the required amount, based on the financial position currently being reassessed. As the shareholder, Gepin Contact, has opted not to take up its rights, the entire capital increase could be subscribed for by just one of the shareholder, SDA Express Courier. The deadline for taking up the rights expires 90 days after the date of the above general meeting.

Postal service quality

With regard to the audit of quality targets for 2014, published by the regulator on 22 December 2015, AGCom has identified a slight shortfall (0.1%) with respect to the national regulatory target for extra-regional Priority Mail and 1.1% shortfall with respect to the target for the Abruzzo region. The latter shortfall resulted in the regulator's application of a penalty of €50,000, confirmed in resolution **5/16/CONS** of 14 January 2016. Poste Italiane paid the above fine on 7 March 2016.

On 31 March 2016, the results for registered, bulk and priority mail (for the period October-December 2015) and ordinary parcel post⁽¹⁵⁾ in the second half of 2015 were submitted to AGCom. All the results were in line with the relevant regulatory targets.

⁽¹⁶⁾ Law 190/2014 (the 2015 Stability Law), which came into effect on 1 January 2015, has reintroduced ordinary mail as a basic non-bulk mail service and defined priority mail as a non-bulk express mail service, and has reset universal service delivery targets (within four working days of postage) for all universal postal products, except for priority mail (delivery within one working day).

From 1 October 2015, AGCom Resolution 396/15/CONS has introduced new prices and defined the new percentage quality targets for each product covered by the Universal Service.

In a memorandum dated 27 November 2015, AGCom asked IZI SpA to transfer its sample quality checks on Priority Mail to the Ordinary Mail service from December 2015.

With regard to the figures for priority mail in 2015, on 18 December 2015, the regulator informed Poste Italiane that the performance was not monitored from 1 October 2015. From this date, therefore, the monitoring of priority mail (named *Posta1*) quality targets is based on the Company's own monitoring systems.

On 30 June 2016, in compliance with art. 9, paragraph 1, letters b) and c) of annex A to AGCom Resolution 413/14/ CONS, the Group published the report on the Company's website, containing the results for the quality of deregulated delivery services provided in 2015, and submitted the same report to the regulator. AGCom then published its own data for post services covered by the Universal Service on 30 December 2016.

In view of the fact that, from 1 October 2015, the quality standards for all products covered by the Universal Service have been modified, that the ordinary (Posta4) mail product and the new priority (Posta1) product have been introduced, for which sub-targets in terms of region and route have been abolished, it is not possible to arrive at an annual figure for 2015 on which to base measurement of the overall performance.

On 26 September 2016, the results for registered, bulk and priority mail and ordinary parcel post in the first half of 2016 were submitted to AGCom. All the results were in line with the relevant regulatory targets.

In addition, statistics relating to the quality of the service covering the notification of legal process were submitted. The performance of this service, which is not covered by regulatory targets set by the regulator in accordance with art. 12 of Legislative Decree 261/99, was assessed on the basis of the 2015 Stability Law and using, merely for reference purposes, the indicators for registered mail. All the statistics were in line with regulatory targets.

On 22 December 2016, in compliance with the above Resolution 413/14/CONS, the Company provided the regulator with an explanatory table for 2017, setting out the quality standards and related methods for measuring performance used by the Company for unregulated postal services.

In Resolution 608/16/CONS dated 6 December 2016, published on 10 January 2017, and following a tender procedure launched with Determination 132/16/SAG of 21 July 2016, the regulator announced the specialist, independent body chosen to monitor the quality of universal postal service provision in the three-year period from 1 December 2016 to 30 November 2019.

On 29 May 2015, in response to certain press reports, Italy's Data Protection Authority asked Poste Italiane to provide information regarding alleged processing of the personal data of persons operating at companies (in particular IZI SpA) appointed to monitor postal service quality standards. According to the Authority, the data was processed without providing the parties concerned with the relevant privacy notices and without obtaining their consent to use of the data. Poste Italiane has met all of the Authority's requests, providing a full and documented response and setting out details of the resulting internal audit carried out, the disciplinary proceedings regarding the staff involved and the organisational and procedural steps taken or in the process of being implemented. The Authority was also informed of the outcome of the final audit. In the light of this, on 23 March 2016, the Authority, in view of the provisions of Authority regulation 1/2007 (art. 11, paragraph 1, letter d), announced that, at that time, there were no grounds for applying restrictions or prohibitions. From the findings of the internal audit, it appears, however, that certain members of staff interfered with quality control systems in violation of the Company's policy. It is currently impossible to ascertain whether this behaviour may have influenced determination of the service quality indicators recorded, and the possibility that the impact of such events may give rise to legal proceedings and fines cannot be ruled out. In response to the above findings, 246 reprimands have been notified and there have been 15 dismissals and 156 disciplinary measures without dismissal relating to managerial and non-managerial staff.

A technical committee was set up to manage these proceedings in order to verify the findings regarding the contested audits, taking into account the defence arguments put forward by the parties concerned and any other evidence that may emerge. All these measures also refer to the Company's right to take action to protect its rights and interests with respect to findings that may yet emerge and damages the Company may suffer for any reason or cause whatsoever. For the sake of completeness - and again with regard to the disciplinary measures taken - following completion of the audit carried out in the meantime, an in-depth investigation was conducted by the above technical committee. This identified specific evidence of wrongdoing by the personnel involved.

As a result, disciplinary action was taken against a further 988 people from early May 2016 onwards. On completion of the related procedures, which were carried out with the aid of the above technical committee, there were a total of 976 disciplinary measures without dismissal relating to managerial and non-managerial staff. This marks the end of any possible disciplinary action, given that there are no further irregularities to be penalised.

In 2015, a long-term transformation programme was launched aimed at increasing the level of automation of mail and parcel logistics procedures, in all processing phases, from collection to delivery, partly through the development of ICT support systems and platforms. This programme will enable a substantial strengthening of performance monitoring. In this context, the Company has submitted a statement to the judiciary, appearing as the injured party and submitting a report prepared by Internal Auditing, in which the measures taken by the Company, including action against the personnel involved, are described. The report has also been filed with the other independent authorities.

Finally, in 2016, AGCom requested the Company to provide information on events and on the internal audit activities conducted. Poste Italiane cooperated fully by promptly responding to the regulator's request, providing details of the results of the audit and the initiatives undertaken.

Quality performance

Mail

In accordance with AGCom Resolution 396/15/CONS, the delivery of Posta1 and Posta4 products must meet the following delivery targets:

- for the Posta1 product within one working day of receipt for at least 80% of items (in municipalities in which delivery takes place on alternate days, this target can vary from 1 to 3 days depending on the area of collection/destination for items) and within four working days of receipt for at least 98% of all items sent;
- for the Posta4 product within four working days of receipt for 90% of items and within six working days of receipt for 98% of all items sent.

for the year ended 31 December		2016			2015			
	Delivery within	Target	Actual	Delivery within	Target	Actual		
Posta 1 – Priority ⁽¹⁾	1 day	80.0%	83.9%	n/a	n/a	n/a		
Posta 1 – Priority ⁽¹⁾	4 days	98.0%	99.2%	n/a	n/a	n/a		
Posta 4 ⁽²⁾	4 days	90.0%	95.8%(*)	n/a	n/a	n/a		
Posta 4 ⁽²⁾	6 days	98.0%	98.7%(*)	n/a	n/a	n/a		
International Mail ⁽³⁾								
inbound	3 days	85.0%	76.9%	3 days	85.0%	83.9%		
outbound	3 days	85.0%	67.0%	3 days	85.0%	84.4%		
Registered Mail ⁽¹⁾	4 days	90.0%	97.0%	4 days	90.0%	97.9%		
Insured Mail ⁽¹⁾	4 days	90.0%	99.8%	4 days	90.0%	99.5%		

n/a: not applicable

- (1) Monitored by the electronic tracking system.
- (2) Based on data certified by IZI at the request of AGCom.
- (3) Dati IPC UNEX End-to-End Official Rule.
- (*) Whilst waiting for the official figure, inclusive of the standard deviation, from AGCom. The results refer to December YTD.

EXPRESS DELIVERY AND PARCELS

2016			2015		
Delivery within	Target	Actual	Delivery within	Target	Actual
4 days	90.0%	96.8%	4 days	90.0%	96.7%
1 day	90.0%	87.4%	1 day	90.0%	84.6%
3 days	98.0%	97.9%	3 days	98.0%	95.8%
	within 4 days 1 day	Delivery within 4 days 90.0% 1 day 90.0%	Delivery within Target Actual 4 days 90.0% 96.8% 1 day 90.0% 87.4%	Delivery withinTarget withinActual withinDelivery within4 days90.0%96.8%4 days1 day90.0%87.4%1 day	Delivery within Target Actual within Delivery within Target 4 days 90.0% 96.8% 4 days 90.0% 1 day 90.0% 87.4% 1 day 90.0%

All products are monitored with an electronic tracking system.

Financial services

Financial market trends

As mentioned in the section on the "Macroeconomic environment", against a backdrop marked by uncertainty over the direction of the global economy, in part reflecting geopolitical tensions, the European Central Bank's Executive Board, at its meeting of 8 December 2016, extended its Expanded Asset Purchase Programme, (APP) until the end of 2017.

In the financial markets, expectations of an expansion of government spending and higher inflation in the United States, following the election of the new President, resulted in a shift away from bonds to equities. The US equity markets rose, with the S&P500 registered an annual increase of 9.4% at the end of December, whilst European bourses (the

Dow Jones Euro Stoxx) lost 3% over the same period, reflecting a different approach to monetary policy. The worst performer was the Italian stock market (down 10% over the year), with the banking sector weighing heavily (down 39%) as a result of the large volume of non-performing loans. In the exchange markets, after a decline in the US dollar, the trend reversed in the last guarter of the year, reflecting the Federal Reserve's decision to raise interest rates and expectations surrounding the new administration (the euro/USD exchange rate at 31 December 2016 was 1.05, compared with 1.11 at 30 June 2016 and 1.09 in December 2015).

In the UK, following the result of the Brexit referendum, the value of sterling fell significantly against all other major currencies, including the euro (the average GBP/euro exchange rate in the second half of 2016 was 0.86, compared with a rate of around 0.78 in the first half of the year).

Banking system

Bank deposits by resident Italian savers fell 1.3% in 2016, with aggregate deposits totalling approximately €1,676 billion in December 2016. This negative performance is due to falling investment in bonds (down €77 billion year-on-year in December 2016), only partially offset by growth in deposits by resident customers (up €55 billion year-on-year). Funding costs (deposits, bonds and repurchase agreements) were also down in 2016: the average cost of customer deposits in December 2016 was 0.97%, compared with 1.08% in June 2016 and 1.19% in December 2015.

Bank lending rose. In December 2016, total lending to Italian residents - excluding interbank loans - amounted to approximately €1,808 billion, marking a year-on-year increase of 0.7%. The mortgage market is showing signs of picking up. In November 2016, total mortgage lending to households was up 1.8%, confirming the trend witnessed

Doubtful loans within the banking system, after impairments, amounted to approximately €85 billion in November 2016, down by approximately €3.6 billion compared with the same month in 2015. In percentage terms, doubtful loans amounted to 4.80% of total loans in November 2016 (4.89% one year earlier). The average interest rate applied to consumer and corporate loans has fallen, with the rate at 2.85% in December 2016, compared with 3.05% in June 2016 and 3.25% in December 2015.

Regulatory environment

With regard to the steps taken to ensure compliance with the Supervisory Standards issued by the Bank of Italy (Circular 285 of 17 December 2013, 16th update of 17 May 2016), which fully apply the "Final guidance on the security of online payments", work on strengthening the measures designed to prevent, monitor and combat fraud has been carried out. Changes to procedures and IT systems also continued with a view to strengthening business continuity and information systems, as part of a two-year review plan. Following the entry into effect of Legislative Decree 72 of 21 April 2016, which aims to provide appropriate protection for consumers who take out residential mortgages, Poste Italiane has, in agreement with its partner, Deutsche Bank, completed the process of implementing the new legislation, finalising the content of the new contracts and adjusting the processes and procedures involved in selling its products, which has included staff training.

In response to the determination 343 issued by the CICR (the Interministerial Committee for Lending and Savings) on 3 August 2016, containing new measures on "procedures and criteria for the computation of interest on overdue interest on banking and financial transactions (art. 120, paragraph 2 of the Consolidated Law on Banking, as amended by art. 25 of Legislative Decree 342/99)", Poste Italiane worked with its partner, Deutsche Bank, on the process of drawing up new contracts and amending existing ones.

With regard to insurance broking, the steps taken, together with Poste Vita and Poste Assicura, to make the organisational changes required by IVASS Regulation 46 of 3 May 2016, which has extended the application of ISVAP Regulation 24 of 2008, regarding the handling of complaints, to include insurance brokers, were completed in November.

Following the entry into effect of the MEF Decree of 29 February 2016, providing for the introduction, from 15 November 2016, of dematerialised Savings Books, Poste Italiane, in agreement with Cassa Depositi e Prestiti, has introduced the new savings book that does not involve the traditional paper document. It solely involves accounting entries and requires use of an electronic card, the "Carta Libretto".

With regard to the provision of investment services, CONSOB Resolution 19602 of 4 May 2016 has established the Financial Services Ombudsman (Arbitro per le Controversie Finanziarie or ACF), with responsibility for resolving disputes with investors in connection with the provision of investment and collective asset management services. The Resolution also sets out the related Terms of Reference. The new system, following the issue of further organisational and functional guidelines by the CONSOB, is operational from 9 January 2017. As with the Bank of Italy's Banking Ombudsman (Arbitro Bancario Finanziario or ABF), intermediaries' participation in the CONSOB's new system for the out-of-court settlement of disputes is mandatory and this applies to Poste Italiane - BancoPosta RFC, which has completed the process of ensuring correct application of the system.

Finally, with regard to Regulation (EU) 596/2014 of the European Parliament and Council, dated 16 April 2014, on Market Abuse, applicable from July 2016, the Group had completed the process of complying with the new regulations, updating the processes used to monitor securities trading by its customers in order to identify any potential Market Manipulation or Insider Trading.

FINANCIAL SERVICES SEGMENT PROFIT OR LOSS

for the year ended 31 December (€m)	2016	2015	Increase/(decrease)
Net interest income	1,517	1,543	(26)	-1.7%
Interest and similar income	1,591	1,601	(10)	-0.6%
Interest and similar expense	74	58	16	27.6%
Net fee and commission income	3,586	3,528	58	1.6%
Fee and commission income	3,653	3,583	70	2.0%
Fee and commission expense	67	55	12	21.8%
Profits/(Losses) on trading, on disposals or repurchases and fair value adjustments in hedge accounting	582	429	153	35.7%
Net interest and other banking income	5,685	5,500	185	3.4%
Net losses /recoveries on impairment of loans and advances	(6)	(9)	3	-33.3%
Net income from banking activities	5,679	5,491	188	3.4%
Administrative expenses:	4,702	4,495	207	4.6%
personnel expenses	126	124	2	1.6%
other administrative expenses	4,576	4,371	205	4.7%
Net provisions for risks and charges	132	59	73	n/s
Other operating income/(expenses)	32	30	2	6.7%
Operating expenses	4,866	4,584	282	6.2%
Operating profit/(loss) (EBIT)	813	907	(94)	-10.4%

n/s: not significant

Operating profit generated by the Financial Services segment in 2016 amounts to \in 813 million, down 10.4% compared with the previous year (\in 907 million in 2015). This essentially reflects an increase in operating expenses (up 6.2% compared with 2015, as detailed below), partially offset by an improvement in net interest and other banking income, which totals \in 5,685 million (up 3.4% compared with the \in 5,500 million of 2015).

Net interest income of €1,517 million marks a slight reduction of 1.7% (€1,543 million in 2015), essentially reflecting a reduction in the return earned by BancoPosta RFC on deposits with the Ministry of the Economy and Finance, in line with market trends.

Net fee and commission income is up from €3,528 million in 2015 to €3,586 million in 2016. This income primarily consists of commissions earned on the distribution of postal savings products, totalling €1,577 million, and €2,026 million from the processing of bills paid by payment slip, insurance broking, the distribution of loan products and other collection and payment services.

Net interest and other banking income is up from €5,500 million in 2015 to €5,685 million (up 3.4%), primarily due to gains on the sale of available-for-sale financial assets held by BancoPosta RFC, totalling €594 million (€426 million in the previous year). This figure includes the impact of the sale of the investment in Visa Europe Ltd. to Visa Incorporated, which resulted in non-recurring income of €121 million, in recognition of Poste Italiane's contribution over the years as a provider of electronic money services. The result also reflects specific impairment losses of €13.7 million on non-performing loans at Banca del Mezzogiorno-Medio Credito Centrale (BdM-MCC).

Net income from banking activities is up €188 million from the €5,491 million of 2015 to €5,679 million in 2016, after impairment losses on loans of €6 million, including the impairment of overdrawn current accounts held by BancoPosta's customers.

Operating expenses are up 6.2% on the same period of the previous year, due primarily to an increase in intersegment costs paid for the services provided by the distribution network to the Financial Services segment (regulated by specific internal operating guidelines), and to an increase in net provisions for risks and charges, due to the voluntary initiative designed to protect customers who had invested in real estate funds marketed by Poste Italiane between 2002 and

2005 (further information is provided in the section of the Report on Operations containing the BancoPosta RFC Management Review – Risk management system).

This item also includes the impairment of €37 million recognised in order to bring the value of BdM-MCC's net assets into line with their estimated realisable value. This impairment was rendered necessary by the agreement to transfer Poste Italiane's entire interest in BdM-MCC to Invitalia. The agreement was finalised on 8 February 2017 and the transfer will take place in 2017.

OPERATING RESULTS

for the year ended 31 December (€m)	2016	2015	Increase/(decrease)
Revenue from:				
management of deposits taken and related investments ⁽¹⁾	1,983	1,974	9	0.5%
postal savings	1,577	1,610	(33)	-2.0%
fees for collection and payment services(2)	1,048	1,058	(10)	-0.9%
the placement and distribution of financial products ⁽³⁾	327	272	55	20.2%
electronic money services ⁽⁴⁾	359	241	118	49.0%
Total	5,294	5,155	139	2.7%

- (1) Includes returns and capital gains from sales.
- (2) Includes fees for the acceptance of payment slips, delegated services, fund transfers and other revenue from bank accounts.
- (3) Includes revenue related to loans, credit cards, other investment products and Banca del Mezzogiorno.
- Includes fees on prepaid cards, debit cards and acquiring services.

Revenue generated by the Financial Services segment is up from €5,155 million in 2015 to €5,294 million in 2016. In detail, revenue from the investment of postal current account deposits amounts to €1,983 million (€1,974 million in 2015), having benefitted from the positive performance of the securities portfolio, resulting in realised gains of €473 million on the sale of securities (€426 million in 2015). This result more than offset the reduction in interest income on investments, which is down from €1,546 million in 2015 to €1,509 million in 2016. Despite a rise in the amount invested due to an increase in deposits(17), this figure reflects a reduction in average returns on investments (both portfolio securities and deposits with the Ministry of the Economy and Finance).

Sales of postal savings products, where revenue is linked to a mechanism agreed with Cassa Depositi e Prestiti SpA (tied to the achievement of targets in terms of net savings inflows and average deposits(18)), contributed €1,577 million to revenue (€1,610 million in 2015). At 31 December 2016, Savings Book deposits amount to €119 billion (in line with the figure for 31 December 2015), whilst savings in the form of Interest-bearing Postal Certificates amount to €204 billion (€206 billion at 31 December 2015).

Revenue from collection and payment services is down €10 million to €1,048 million, essentially reflecting a reduction in revenue from delegated services, due to both a decrease in the number of pensions paid (both over the counter and through Savings Books), and a reduction in the fee charged on payments into current accounts, following a review of the agreement with INPS in June 2015.

The above reduction was partially offset by an increase in non-recurring income from the processing of tax payments using form F24, resulting from the agreement with the tax authorities relating to the recovery of fees attributable to previous years (€15 million collected in September 2016).

Revenue from the placement and distribution of third-party financial products is up 20,2%, benefitting from increased revenue from the sale of loan products (€199 million in 2016, compared with €136 million in 2015).

Revenue from the provision of electronic money services is up from €241 million in 2015 to €359 million in 2016, primarily due to Visa Inc.'s acquisition of Visa Europe, which resulted in the former's payment to Poste Italiane of a gain of €121 million in return for the sale of the share held in Visa Europe. The Postepay product also performed well, generating revenue of €152 million (€131 million in 2015) and benefitting from an increase in income linked to the issue and use of Postepay Evolution cards.

Average deposits are up from €45.2 billion in 2015 to €49.6 billion in 2016 (including Group companies' investments and amounts payable to nancial institutions under repurchase agreements).

In 2016, a number of conditions provided for in the Agreement of 4 December 2014 covering the five-year period 2014-2018 were confirmed, requiring the parties to renegotiate existing agreements in good faith. Whilst awaiting the agreement of new terms and conditions, Poste Italiane has recognised revenue from the services rendered in 2016 on the basis of the Agreement of 4 December 2014.

Operating review

In the Financial Services segment, efforts aimed at developing the commercial offering and foster the cross-selling of products continued in 2016, taking advantage of a business model centred around the construction of long-term relationships with customers and building customer loyalty.

In this context, the main initiatives aimed at developing the offering of Postal Savings products. This entailed relaunching the offer of retail loans and increasing the range of transaction banking services on offer, including electronic money, collection and payment services. With regard to collection and payment services, the process of updating and refreshing the traditional payment of bills using payment slips, so as to enable payments to be made via multiple digital channels, continued. The new Payments section, accessible from the "www.poste.it" site, was launched, providing a single digital channel for the payment of payments slips, utility bills, amounts due to businesses and the Public Administration, taxes using form F24 and, from October, the payment of road tax.

As regards international money transfers, an advertising campaign was run to promote the MoneyGram product, with the aim of extending the services offered in order to build awareness of the BancoPosta brand.

In the electronic money sector, the number of Postamat cards in circulation is stable at 7 million, whilst the number of Postepay cards stands at over 16 million, including 3.3 million of the new Postepay Evolution cards. Moreover, the release of a new version of the Postepay app during the year means that, in addition to new graphics and greater ease of use, the app has been expanded with the new real-time money transfer service (P2P), offering a new form of payment that allows the customer to make online purchases using a With regard to third-party loan products, new solutions have been introduced, including an expanded range of salary loans for retail customers and the offer of new types of business loan (Postal Savings Books holders and professionals) for people looking, for example, to purchase operating assets or renovate a property for commercial use. A new tool has been introduced to help advisors identify the most suitable product for each customer. Finally, thanks to the partnership with Banca del Mezzogiorno, the offer of salary loans for the employees of Poste Italiane and the principal Group companies has been extended, as has the offering of medium/long-term loan products for business customers, designed to meet the financing needs of limited companies that have had an account for at least six months and meeting certain requirements in terms of turnover and location.

Insurance services and asset management

Insurance market

Whilst the final official data for Italy is not yet available, the estimated figure for gross premium revenue in the **life insurance market**, in 2016, is approximately €103 billion, down 10% on the figure for 2015. This primarily reflects a significant reduction in sales of Class III policies (down 28% on 2015), and a reduction of over €2 billion (3%) in Class I policies, which as a proportion of total premium revenue have, however, increased from 68% in 2015 to 74% in 2016.

In terms of new business for individual and collective policies sold by Italian and non-EU-registered insurers, including additional single premiums, premium revenue was approximately €87 billion, marking a reduction of around 12% compared with the previous year. New business for individual policies alone amount to €84.2 billion, down almost 13% on 2015.

Analysing the composition and performance of new business, Class I continued to be the best-selling form of insurance in 2016, despite registering a 4.5% reduction in new business to €61.3 billion compared with 2015. This Class accounts for over 70% of new life business.

In contrast, new business for Class III individual policies, which are exclusively of the unit-linked type, is down 30% compared with 2015 to €21 billion. Class V policies also declined, with premium revenue of €2.3 billion (€3 billion in 2015) accounting for just 3% of total new business.

New business in terms of Class VI products amounts to €729 million, marking a slight increase of around 4% on the previous year. The contribution from new inflows into individual pension plans was also positive, with inflows of €1.5 billion registering and improvement of 10.7% on 2015.

Direct premiums in the **non-life insurance market** amounted to approximately €25.5 billion in the third quarter of 2016, down 1.6% on the same period of the previous year (source: ANIA). The overall reduction is due to a fall in vehicle insurance premiums (third-party land vehicle and land vehicle hull policies), which are down 4.2%, whilst other non-life premium revenue recorded a slight increase of 1.1%.

In detail, third-party land vehicle premiums amount to \in 10.5 billion (down 5.9% on the third quarter of 2015), whilst land vehicle hull premiums amount to \in 2.0 billion (up 5.5% on the same period of 2015). As noted above, the other classes registered slight growth, with the related premium revenue totalling approximately \in 13.0 billion. In terms of volumes and growth rate, the best-performing classes were medical, with premiums of \in 1.7 billion up 8.3%, and accident, with premiums of \in 2.3 billion up 0.5% on the same period of the previous year.

INSURANCE SERVICES AND ASSET MANAGEMENT SEGMENT PROFIT OR LOSS

for the year ended 31 December (€m)	2016	2015	Increase/(de	crease)
Net insurance premium revenue	19,884	18,197	1,687	9.3%
gross premium revenue	19,929	18,238	1,691	9.3%
outward reinsurance premiums	45	41	4	9.8%
Fee and commission income	60	44	16	36.4%
Net financial income from assets related to traditional products	3,274	2,352	922	39.2%
Net financial income from assets related to index- and unit-linked products	35	193	(158)	-81.9%
Net change in technical provisions for insurance business and other claims expenses	21,958	19,683	2,275	11.6%
Claims paid	7,471	8,038	(567)	-7.1%
Net change in technical provisions for insurance business	14,507	11,660	2,847	24.4%
Change in technical provisions where investment risk is transferred to policyholders	(20)	(15)	5	33.3%
Investment management expenses	17	15	2	13.3%
Acquisition and administration costs	633	562	71	12.6%
Net commissions and other acquisition costs	482	436	46	10.6%
Operating costs	151	126	25	19.8%
Other revenues/(costs), net	(9)	(16)	7	-43.8%
Operating profit/(loss) (EBIT)	636	510	126	24.7%

Operating profit generated by the Insurance Services and Asset Management segment amounts to €636 million, marking an increase of 24.7% on the previous year. This primarily reflects the positive performance of the Poste Vita Group, whose operations resulted in total premium revenue of €19.9 billion, after the portion ceded to reinsurers (up 9.3% on premium revenue of €18.2 billion in 2015). This was generated primarily by the sale of life products, amounting to €19.8 billion (€18.1 billion in 2015), whilst €80 million was generated by sales of non-life products.

With regard to assets under management, the period saw an increase in inflows into mutual investment funds, generating commission income of €60 million in 2016 (up 36.4% on the previous year).

Despite a market scenario marked by a high degree of volatility and falling yields on government securities, net finance income from securities related to traditional products amounts to €3,274 million, up on the €2,352 million of 2015. This reflects both an increase in ordinary income, thanks to growth in assets under management, and above all financial market trends, which resulted in the recognition of net unrealised gains of €475 million, compared with losses of €435 million in 2015. However, given that these investments are included in the separately managed accounts covering the matching insurance liabilities, this amount has been attributed in full to policyholders under the shadow accounting method.

Finance income from investments linked to index- and unit-linked products amounts to approximately €35 million in 2016, down on the figure of €193 million recorded in 2015, primarily reflecting heightened financial market volatility and the number of Class III products reaching maturity. This amount is almost entirely matched by a corresponding change in technical provisions.

As a result of the above operating performance and the corresponding revaluation of insurance liabilities due to the positive financial performance, the matching change in technical provisions, after the portion ceded to reinsurers, amounts to €22.0 billion, compared with €19.7 billion in the same period of the previous year. Of the above change, claims paid to customers, inclusive of policy expirations of approximately €3.8 billion, amount to approximately €7.5 billion (€8.0 billion in 2015). Total surrenders accounted for 2.9% of initial provisions (3.3% in 2015), a figure that continues to be far lower than the industry average.

As a result of the above, net premium revenue at the end of 2016 amounts to approximately €12.4 billion (€10.1 billion 2015). Investment management expenses, amounting to €17 million (€15 million in 2015), primarily regard portfolio management fees and fees for the custody of securities. The increase is due to growth in the portfolio.

Given the positive operating performance, infra-group commissions for distribution and collection amount to €482 million (€436 million in 2015). The increase has benefitted the Group's Financial Services segment, which is responsible for marketing the products, and the Postal and Business Services segment in return for the distribution services provided.

Operating expenses of €151 million are up 19.8% compared with the €126 million of 2015. This reflects increases in the quality and size of the Group's workforce, needed in order to respond to the continuous growth in size and business volumes, and its investment in ongoing functional/infrastructural improvements to key business support systems. However, operating expenses continue to be far lower than the industry average at 0.8% of premium revenue and 0.1% of provisions.

Operating review

In keeping with the strategic objectives pursued in previous years, in 2016 the Poste Vita insurance group primarily focused its efforts on:

- strengthening its leadership in the life insurance market and consolidating its competitive position;
- boosting its position in the welfare segment, investing in health insurance products, thanks in part to the subsidiary, Poste Welfare Servizi Srl.

In a market environment marked by low interest rates and high volatility, and in accordance with the strategic guidelines set out in the business plan, in 2016 the group aimed to progressively rebalance its offering towards products without guarantees ("multi-line" and "unit-linked" products), but providing a moderate risk-return profile, in line with the type of customer served by the group, whilst potentially providing more attractive returns on investment. In addition, the group continued with its commitment to developing new instruments and training network staff (in relation to pre-sales, sales and post-sales procedures) with the aim of improving and consolidating long-term customer relationships.

As previously noted, total premium revenue amounts to \in 19.9 billion (\in 18.2 billion in 2015), including approximately \in 19.1 billion from sales of Class I and V investment and savings products (traditional separately managed accounts), compared with \in 18.1 billion in 2015. Premium revenue from Class III policies (multi-line products and unit-linked products launched in April) amounts to approximately \in 722 million, compared with \in 342 million in the previous year.

Sales of regular premium products also performed well (*Multiutile Ricorrente, Long Term Care, Posta Futuro Da Grande*), with over 117 thousand policies sold in 2016, as did sales of the PostaPrevidenzaValore product which, with over 96 thousand policies sold during the year and a total number of members amounting to 874 thousand, has enabled Poste Vita to consolidate its role in the pensions market. Sales of pure risk policies (term life insurance) also performed well. These are sold in stand-alone versions (not bundled together with products of a financial nature), with over 23 thousand new policies sold during 2016, whilst over 90 thousand were new policies, again of a pure risk nature, sold bundled together with financial obligations deriving from mortgages and loans sold through Poste Italiane's network.

Management of the **non-life business** was also along the lines set out in the business plan, seeking to meet the new needs of customers in the areas of welfare and health insurance, expanding the offering and fine-tuning the model for network support. Above all, during the year the company identified specific marketing and commercial initiatives aimed at a product offering increasingly based on the offer of modular health and protection products (e.g., *PosteProtezione Innova Salute and PosteProtezione Innova Infortuni*), capable of meeting the different needs of a very large customer base. While the contribution to the Group's results is still limited, the segment recorded a positive performance, with total premium revenue for the period of €118.8 million⁽¹⁹⁾, up 28% on the figure for 2015 (€93.0 million). This performance was accompanied by a positive technical performance as a result of a reduced volume of claims with respect to the growth in sales.

In terms of investments during the period, against a backdrop of falling interest rates and declining yields on government securities, the investment policy continues to be marked by the utmost prudence, based on the guidelines in the above-mentioned business plan. The portfolio is primarily invested in Italian government securities and highly-rated corporate bonds, with an overall exposure that, whilst lower than in 2015, represents over 85% of the entire portfolio. In addition, in 2016, whilst maintaining a moderate risk appetite, the company continued with the gradual process of diversifying investments by increasing its exposure to equities (up from 10.6% to 14.2%), above all multi-asset, harmonised open-end funds of the UCITS (Undertakings for Collective Investment in Transferable Securities) type. In line with its strategic asset allocation policy, moreover, the company continued to invest in real estate funds (targeting retail and office properties) primarily in Europe.

As a result of the above operating and financial performance, technical provisions for the direct Italian portfolio amount to €104.3 billion (€90.5 billion at the end of 2015), including €95.9 billion for Class I and V products (€81.7 billion at the end of 2015). Provisions for products where the investment risk is borne by policyholders amount to €6.8 billion (€7.2 billion at 31 December 2015). Deferred Policyholder Liability (DPL) provisions, linked to the change in the fair value of

⁽¹⁹⁾ Gross premium revenue for 2016 amounts to €108.4 million.

the financial instruments covering the provisions, are down from €9.7 billion at the end of 2015 to €9.3 billion, reflecting an increase in fair values as a result of the more positive performance of financial markets compared with the end of the previous year.

Technical provisions for the non-life business, before the portion ceded to reinsurers, amount to €143.3 million at the end of the period, up 28% compared with the end of 2015.

In terms of the prudential Solvency II requirements, which came into effect from 1 January 2016, an early indication of Poste Vita's solvency position at 31 December 2016 shows that it has own funds of €8,057 million (€6,841 million at the end of 2015), a capital requirement of €2,734 million (€1,687 million at the end of 2015) and a solvency ratio that, whilst down on the figure for 2015 (from 405% to 295% at the end of 2016), continues, in any event, to be well above the regulatory requirement and the market average.

The growth in own funds (up €1,216 million) primarily reflects a significant increase in the present value of future profits from the existing portfolio, as a direct consequence of the growth in business, which has more than offset the distribution of reserves and the partial repayment of subordinated borrowing in 2016. The positive performance of own funds was, however, accompanied by an increase in capital requirements of €1,046 million, primarily due to the greater amount of capital needed to cover market risk. This is linked to interest rate trends and the spread on Italian government bonds in the last quarter of 2016, to the greater degree of diversification of investments (a lower proportion invested in government securities) and to the above growth in business.

The above figures reflect application of the Standard Solvency II Formula and comply with the regulations issued thus far, namely Delegated Regulation (EU) 2015/35 issued by the Commission on 10 October 2014, as amended. The Poste Vita group does not plan to use an internal model. As a result of the assessment conducted, the Standard Formula accurately represents Poste Vita SpA's risk capital position and, as a result, the company's solvency position.

Finally, with regard to the mutual investment funds business, gross inflows during the period amount to €2.4 billion, up 20% on the previous year, whilst the significant reduction in redemptions was reflected in an increase in net inflows, which are up from €676 million in 2015 to €1,445 million. As a result, the assets of retail customers managed by Banco Posta Fondi Sgr are up from €5.7 billion at the end of December 2015 to €7.3 billion at 31 December 2016. Taking into account the portion of the Poste Vita group's technical provisions under management, total assets managed by BancoPosta Fondi SGR at 31 December 2016 have risen to €79.8 billion, representing growth of 14% compared with the €70.2 billion of the end of 2015.

Programma Dinamico SpA

In December 2016, the process of winding up Programma Dinamico SpA began. This securitisation vehicle was set up in 2001 in accordance with Law 130 of 30 April 1999, and operated until 2012 in connection with six securitisation transactions backing various Class III Index-linked products issued by Poste Vita. In particular, the structured securities issued by the vehicle were used as assets to cover the policies themselves, in compliance with the regulations applicable at that time. As a result, as the policies have now all expired, the vehicle has been placed in liquidation.

Atlante and Atlante 2 funds

In April 2016, Poste Vita decided to invest approximately €260 million in an alternative investment fund called "Atlante", and, on 27 July 2016, invested approximately a further €200 million in the alternative investment fund named "Atlante 2". Both funds, which are managed by Quaestio Capital Management, are closed-end funds restricted to institutional investors, investing in financial instruments issued by banks looking to strengthen their capital and non-performing loans held by various Italian banks.

At 31 December 2016, the Atlante fund has called up €211.0 million, including €186.6 million allocated to the separately managed account, PostaValorePiù, and €24.4 million allocated to the company's free capital, whilst the subscribed capital of the Atlante 2 fund, allocated entirely to the separately managed account, PostaValorePiù, has yet to be called up. For the purposes of transparent disclosure of the fund's performances, on 31 January 2017, the management company announced the results of a valuation of the Atlante fund, revealing a potential impairment loss with respect to the initial value of the investment of approximately 24%. The management company also noted that, "as stated by the appraiser, the valuation is subject to significant uncertainty due to the limited availability of objective data and to use of a method of calculation based exclusively on equity market multiples, despite the fact that the companies are unquoted, and to the fact that the sector is currently embarking on a radical process of restructuring and consolidation".

Based on the most recent market information and in line with the approach adopted by other institutional investors, the company has proceeded to recognise a prudent impairment loss on the investment of 50%, amounting to a total of approximately €106 million. €94 million of the impairment, allocated to cover separately managed accounts, has been recognised in deferred liabilities due to policyholders (reflecting application of the shadow accounting method), whilst the €12 million relating to the insurance company's free capital has been recognised in finance costs.

Other services

The mobile telecommunications market

In 2016, the mobile telecommunications market continued where it left off towards the end of 2015: further rationalisation of price offerings, with bundles that include even more traffic (primarily mobile data). Basing their strategies around triple and quad play bundles⁽²⁰⁾, operators are expanding their offerings with the introduction of on-demand TV/video and streaming packages, with a view to capturing a large portion of consumers' communication and entertainment spend. The trend towards convergent landline and mobile services has continued, as has the development of partnerships between the suppliers of digital content and the operators of telecommunications networks.

A number of retail market trends have continued, with the use of social media due for further expansion in all key markets, both for recreational purposes and for online searches, above all in connection with m-commerce. In the business market, operators aim to play a leading role in the digital transformation of Italian companies across all sectors, including the Public Administration.

In 2016, after announcement of the combination of the telecommunications businesses of Wind and H3G, the European Commission, at the end of its investigation launched in the first quarter of 2016, cleared the merger subject, however, to the market entry of a new mobile operator. This is to ensure that the Italian market remains competitive and that consumers can continue to enjoy fairly priced innovative mobile services and quality networks. This operator is to be the French company, Iliad. Further details are provided in the section, "Principal relations with the authorities".

OTHER SERVICES SEGMENT PROFIT OR LOSS

for the year ended 31 December (€m)	2016	2015	Increase/(decrease)
Revenue from sales and services	223	239	(16)	-6.7%
Other operating income	1	4	(3)	-75.0%
Total external revenue	224	243	(19)	-7.8%
Intersegment revenue	44	91	(47)	-51.6%
Total revenue	268	334	(66)	-19.8%
Cost of goods and services	167	217	(50)	-23.0%
Personnel expenses	17	21	(4)	-19.0%
Depreciation, amortisation and impairments	30	39	(9)	-23.1%
Other operating costs	6	7	(1)	-14.3%
Intersegment costs	20	19	1	5.3%
Total costs	240	303	(63)	-20.8%
Operating profit/(loss) (EBIT)	28	31	(3)	-9.7%

⁽²⁰⁾ Operators that use telecommunications networks can exploit the convergence between telecommunications and TV to offer triple play bundles (fixed line, broadband and pay-TV) and quadruple play bundles (fixed line, mobile, broadband and pay-TV).

The Other Services segment, which includes the company, PosteMobile, reports operating profit of €28 million for 2016, down €3 million on the previous year (€31 million in 2015).

The reduction reflects the performance of revenue, which is down 19.8% to €268 million, primarily as a result of the extraordinary transaction consisting of the demerger of the fixed line telecommunications business⁽²¹⁾ and its transfer to Poste Italiane SpA, resulting in a reduction of €47 million in intersegment revenue (down 51.6% on 2015).

In the mobile telecommunications business, the trend towards a gradual repositioning of the offering towards flat-rate offerings continued, with a reduction in pay-as-you-go voice and messaging revenue only to a small extent offset by an increase in data revenue.

The cost of goods and services is down 23% compared with the previous year to €167 million, reflecting the above demerger and the cost efficiencies resulting from the contract with the new operator that has enabled PosteMobile to sell its own SIM cards as a Full MVNO and to migrate SIMs from the ESP platform.

Personnel expenses are also down 19% (down €4 million compared with 2015), following a reduction in the workforce, which is down from an average of 309 FTEs in 2015 to 249 in 2016. The decrease primarily reflects the transfer of the workforce employed by the fixed line telecommunications business to the Parent Company.

Depreciation and amortisation is down approximately €9 million, primarily as a result of the demerger of the fixed line telecommunications business, whilst other operating costs and provisions are down €1 million due to reduced impairment losses on trade and other receivables.

At 31 December 2016, PosteMobile's customer base totals 3.65 million lines, up 1.3% on 31 December 2015. Good performances were registered both by voice services, with over 5.3 billion minutes used during the period (up 0.2% on 2015), and above all by data services provided over PosteMobile's network, with an increase to 6.7 thousand terabytes (up 76% on 2015).

In 2016, PosteMobile further strengthened its position in the mobile payment services market, registering total transactions of in excess of €1 billion, up 89% on the figure for 2015. This growth was made possible by the role played by the PosteMobile and BancoPosta apps.

Thanks to ongoing updates of the functions and user experiences offered, the PosteMobile APP continues to be one of the most popular and widely used apps in the segment. With over 2 million downloads and an average customer rating in stores of 4.2 (on a scale of 1-5), it is one of the leading mobile wallet services in the Italian mobile market. The value of transactions has exceeded €520 million, marking a further 6% improvement on the performance registered in the previous year. There was an increase in the number of customers to almost 2 million (SIM PosteMobile SIMs or the SIMs of other operators), able to carry out financial transactions simply and securely through mobile digital channels. The BancoPosta APP, made available to all Poste Italiane customers from July 2015, regardless of their mobile operator, also achieved positive results, with over 600 thousand customers enabled to use its payment services and transactions amounting to over €518 million during the year.

On 26 January 2016, Poste Italiane's Board of Directors approved the partial demerger of PosteMobile's fixed line telecommunications business to the Parent Company. The deed was formally executed on 27 April 2016.

Group financial position and cash flow

NET INVESTED CAPITAL AND RELATED FUNDING

at 31 December (€m)	2016	2015	Increase/(decrease)	
Non-current assets:				
Property, plant and equipment	2,080	2,190	(110)	-5.0%
Investment property	56	61	(5)	-8.2%
Intangible assets	513	545	(32)	-5.9%
Investments accounted for using the equity method	218	214	4	1.9%
Total non-current assets (a)	2,867	3,010	(143)	-4.8%
Working capital:				
Inventories	137	134	3	2.2%
Trade receivables and other receivables and assets	5,843	5,546	297	5.4%
Trade payables and other liabilities	(4,724)	(4,398)	(326)	7.4%
Current tax assets and liabilities	(73)	19	(92)	n/s
Total working capital: (b)	1,183	1,301	(118)	-9.1%
Gross invested capital (a+b)	4,050	4,311	(261)	-6.1%
Provisions for risks and charges	(1,507)	(1,397)	(110)	7.9%
Provisions for employee termination benefits and pension plans	(1,347)	(1,361)	14	-1.0%
Deferred tax assets/(liabilities)	53	(554)	607	n/s
Non-current assets and disposal groups held for sale and liabilities related to assets held for sale ⁽¹⁾	660	_	660	n/s
Net invested capital	1,909	999	910	91.1%
Equity	8,134	9,658	(1,524)	-15.8%
Net funds	6,225	8,659	(2,434)	-28.1%

⁽¹⁾ Non-current assets and disposal groups amount to €2,720 million and regard BdM-MCC SpA, totalling €2,665 million, and BancoPosta Fondi SpA SGR, totalling €55 million. Liabilities related to assets held for sale amount to €2,060 million and regard BdM-MCC SpA, totalling €2,049 million, and BancoPosta Fondi SpA SGR, totalling €11 million.

n/s: not significant

The Poste Italiane Group's **net invested capital** at 31 December 2016 amounts to €1,909 million, amply financed by equity. A comparison with the end of the previous year, when the figure was €999 million, shows an increase of €910 million. This partly reflects the previously noted application of IFRS 5, resulting in the presentation, for 2016 alone, of the financial assets and liabilities (a total of €595 million net) of BdM-MCC SpA and BancoPosta Fondi SpA SGR in "Non-current assets and disposal groups held for sale and Liabilities related to assets held for sale". In addition, as these items include all the assets and liabilities of the two companies held for sale, the balances of non-current assets and working capital do not include – for 2016 – the current and non-current assets and liabilities of BdM-MCC and BancoPosta Fondi.

Non-current assets total €2,867 million (€3,010 million at the end of 2015). In addition to depreciation, amortisation and impairments of €581 million recognised during the year, the movement in this indicator reflects capital expenditure of €451 million, including €381 million invested by Poste Italiane and primarily relating to IT assets, which continue to play a key role in enabling the Group to achieve the objectives set out in its business plan. In particular, work on developing hardware, storage and backup systems continued, as did work on the rationalisation and consolidation of the Group's Data Centre infrastructure. Over the years, these activities have led to the original 35 data rooms distributed nationwide being reduced to the current 7 Data Centres, including the new Data Centre in Viale Europa in Rome, completion of which, including the related testing, is expected to occur in early 2017. Work was also completed, in the second half of 2016, on enlargement (rooms 3 and 4) of the Turin Data Centre.

In keeping with the plan to ensure the security of IT infrastructure, work on the "Rinnovo Tecnologico dei sistemi Posteltaliane" project continued, with the aim of upgrading the systems used by the rationalised Data Centres, in order to maximise their efficiency. In this context, the Group's server farms were expanded during the year, partly under contracts concluded, at Group level, with the most important IT providers (i.e. Oracle and Microsoft) with the

objective of obtaining more systemic solutions and achieving cost savings due to economies of scale. Work on Storage infrastructure also took place in 2016 in order to keep pace with the growing needs of the various businesses.

The upgrade of IT hardware also proceeded at local level (post offices, head offices and delivery offices), as did the extension of free Wi-Fi points at post offices, with a total of 3,224 Wi-Fi points operating at the end of 2016.

To support the planned Digital Transformation, work on integrating the new platform within the existing infrastructure continued in 2016, from the viewpoint of both hardware and software.

There was further investment in the development of advanced solutions relating to the Public System for Digital Identity Management (SPID), and in implementing the full acquiring service for all the main debit cards that use Italy's network (Pagobancomat) or the international networks operated by VISA, VISA Electron, VPAY and Mastercard, Maestro. Work on the single Customer Database also continued, in line with the project carried out in the previous year, designed to ensure close links with the Customer Relationship Management (CRM) and Enterprise Data Warehouse (EDWH) systems.

On the IT security front, work on the analysis and assessment of Information Security risks continued, resulting in the definition of the security requirements needed to ensure an adequate level of data protection.

In terms of Group companies, the investment activities of PosteMobile SpA primarily related (over 60%) to the development of landline services, with the aim of supporting the evolution of Group business processes. The main initiatives carried out during the year relating to the mobile network were aimed at boosting the competitiveness and innovative nature of the retail offering in the mobile market, at expanding the range of services provided to business customers and on developing BancoPosta and PosteMobile apps.

Initiatives in the Postal Logistics segment continued in 2016 via three courses of action: implementation of the postal network, involving activities designed to guarantee the operational continuity of facilities and delivery centres by supplying equipment; optimisation of the postal network which, in 2016, resulted in the rollout of electronic signatures on handheld devices throughout Italy, which will boost the efficiency of signed-for deliveries and enable provision of an increasingly innovative services meeting customer needs; and evolution of the postal network, entailing the launch of a project to redesign the logistics network with the introduction of new sorting and delivery models, in line with the new regulatory framework.

Activities regarding application platforms continued, aimed at developing the integrated Group-level system for tracking items of mail.

In addition, with regard to business support, work on the systems needed to rollout the "next day" service envisaged by the partnership with the customer, Amazon, was completed.

There was further investment in the modernisation and renovation of buildings, in keeping with Poste Italiane's property development strategy, with the main focus on property used in operations. In particular, work continued on planned renovation and non-routine maintenance work, with the aim of upgrading and improving property used in operations in order to meet workplace needs and those related to the services provided, as well as initiatives designed to improve staff health and safety. Furthermore, around 2,386 non-routine maintenance works (heating and air-conditioning units, electrical and fire prevention equipment, etc.) were carried out during 2016, as well as work on restoring normal service at post offices where criminal acts had taken place.

Working capital amounts to €1,183 million at 31 December 2016, down €118 million compared with the end of 2015. The reduction essentially reflects the reclassification, in application of IFRS 5, of current and non-current receivables and payables attributable to BdM-MCC and BancoPosta Fondi, amounting to a net amount of €96 million at 31 December 2016, to "Non-current assets and disposal groups held for sale and Liabilities related to assets held for sale". The reduction in net deferred tax liabilities, after offsetting against deferred tax assets, amounts to €607 million. This is largely due to the net positive effect on taxation (an increase in deferred tax assets and/or a reduction in deferred tax liabilities) of increased fair value losses on investments in available-for-sale financial assets.

The net balance of "Non-current assets and disposal groups held for sale and Liabilities related to assets held for sale" amounts to €660 million, with €616 million attributable to BdM-MCC and €44 million to BancoPosta Fondi. In addition to the above financial assets and liabilities (totalling €595 million), this also includes the impairment of €37 million recognised in order to bring the value of the net assets into line with the estimated realisable value, less costs to sell.

Equity amounts to €8.1 billion at 31 December 2016 a reduction of €1.5 billion compared with 31 December 2015. This primarily reflects movements in the fair value reserves (€1.6 billion, after tax), reflecting positive and negative movements in the fair value of investments in available-for-sale financial assets held by the Financial Services segment. The reduction in equity also reflects the payment of dividends totalling €444 million, as approved by the Annual General Meeting of 24 May 2016 (€0.34 per share, paid to shareholders on 22 June 2016).

The above reductions were partially offset by profit for the year of €622 million.

Analysis of net funds/(debt)

GROUP NET FUNDS/(DEBT) BY OPERATING SEGMENT

At 31 December 2016 (€m)	Postal and Business Services	Financial Services	Insurance Services and Asset Management	Other Services	Eliminations	Consolidated amount
Financial liabilities	(1,947)	(59,225)	(1,012)	(2)	1,265	(60,921)
Technical provisions for insurance business	-	_	(113,678)	_	-	(113,678)
Financial assets	1,236	58,681	115,596	29	(1,180)	174,362
Technical provisions for claims attributable to reinsurers	_	_	66	-	_	66
Net financial assets/(liabilities)	(711)	(544)	972	27	85	(171)
Cash and deposits attributable to BancoPosta	_	2,494	-	-	_	2,494
Cash and cash equivalents	1,556	1,320	1,324	21	(319)	3,902
Net funds/(debt)	845	3,270	2,296	48	(234)	6,225

At 31 December 2015 (€m)	Postal and Business Services	Financial Services	Insurance Services and Asset Management	Other Services	Eliminations	Consolidated amount
Financial liabilities	(2,442)	(55,418)	(1,218)	(4)	1,604	(57,478)
Technical provisions for insurance business	-	-	(100,314)	-	-	(100,314)
Financial assets	1,396	57,574	102,409	26	(1,315)	160,090
Technical provisions for claims attributable to reinsurers	-	-	58	-	-	58
Net financial assets/(liabilities)	(1,046)	2,156	935	22	289	2,356
Cash and deposits attributable to BancoPosta	_	3,161	-	-	-	3,161
Cash and cash equivalents	1,315	485	1,615	16	(289)	3,142
Net funds/(debt)	269	5,802	2,550	38	-	8,659

Total net funds at 31 December 2016 amount to €6,225 million, down on the figure for 31 December 2015 (when net funds amounted to €8,659 million). This primarily reflects the component linked to fair value measurement of available-for-sale financial assets, totalling approximately €2,265 million, before tax, largely attributable to BancoPosta RFC's investments and, to a lesser extent, to the subsidiary, Poste Vita. The reduction in net funds also reflects the reclassification of financial assets and liabilities attributable to BdM-MCC SpA and BancoPosta Fondi SpA SGR, totalling €595 million net, to the specific items, "Non-current assets and disposal groups held for sale and Liabilities related to assets held for sale", in application of IFRS 5.

Industrial net funds/(debt), in accordance with ESMA guidelines

An analysis of the industrial net funds/(debt) of the Postal and Business Services and Other Services segments at 31 December 2016, in accordance with ESMA guidelines, computed on the basis of paragraph 127 of the recommendations contained in ESMA document 319 of 2013, is provided below:

At 31 December (€m)	2016	2015
A. Cash	2	2
B. Other cash equivalents	1,575	1,329
C. Securities held for trading	-	_
D. Liquidity (A+B+C)	1,577	1,331
E. Current loans and receivables	63	169
F. Current bank borrowings	(2)	(515)
G. Current portion of non-current debt	(14)	(16)
H. Other current financial liabilities	(22)	(20)
I. Current financial debt (F+G+H)	(38)	(551)
J. Current net funds/(debt) (I+E+D)	1,602	949
K. Non-current bank borrowings	(400)	(400)
L. Bond issues	(798)	(797)
M. Other non-current liabilities	(50)	(57)
N. Non-current financial debt (K+L+M)	(1,248)	(1,254)
O. Industrial net funds/(debt) (ESMA guidelines) (J+N)	354	(305)
Non-current financial assets	651	553
Industrial net funds/(debt)	1,005	248
Intersegment loans and receivables	522	674
Intersegment financial liabilities	(634)	(615)
Industrial net funds/(debt) including intersegment transactions	893	307
of which:		
- Postal and Business Services	845	269
- Other	48	38

Liquidity

for the year ended 31 December (€m)	2016	2015
Cash and cash equivalents at beginning of period	3,142	1,704
Cash flow from/(for) operating activities	2,258	2,563
Cash flow generated by operating activities before movements in working capital	1,439	1,192
Cash flow generated by /(used in) movements in working capital	(83)	2,040
Cash generated by/(used for) assets and liabilities attributable to financial activities	864	(835)
Cash generated by/(used for) assets and liabilities attributable to insurance activities	38	166
Cash flow from/(for) investing activities	(444)	(689)
Cash flow from/(for) financing activities and shareholder transactions	(964)	(436)
Cash and cash equivalents reclassified to non-current assets and disposal groups held for sale	(90)	_
Movement in cash	760	1,438
Cash and cash equivalents at end of period	3,902	3,142
of which:		
Cash subject to investment restrictions	780	1
Cash attributable to technical provisions for insurance business	799	1,324
Other cash subject to restrictions	31	34

Operating activities generated a cash inflow of €2,258 million as a result of, among other things, profit for the year (€622 million).

The cash generated was primarily used to finance capital expenditure which, after disposals, resulted in an outflow of €446 million, and to pay off short-term borrowings of approximately €521 million.

Cash and cash equivalents is up €760 million, after the payment of dividends of €444 million.

06 Human resources

Headcount

The workforce employed by the Group breaks down as follows:

	Number of employees ^(*)					
	Avarage for the 31 Dec		At 31 December			
Permanent workforce	2016	2015	2016	2015		
Executives	773	793	748	790		
Middle managers	16,113	16,042	15,807	15,878		
Operational staff	118,720	121,487	115,035	119,792		
Back-office staff	1,052	1,408	912	1,141		
Total workforce on permanent contracts	136,658	139,730	132,502	137,601		
Apprenticeships	32	43	23	37		
Total	136,690	139,773	132,525	137,638		

	Avarage for the year ended 31 December			
Flexible workforce	2016	2015	2016	2015
Temporary contracts	11	120	3	118
Fixed-term contracts	4,545	3,807	4,211	5,042
Total	4,556	3,927	4,214	5,160
Total permanent and flexible workforce	141,246	143,700	136,739	142,798

^(*) Expressed in full-time equivalent terms.

Training

In 2016 a total of 3 million training hours were provided, corresponding to around 1.3 million participations⁽²²⁾ and approximately 420,000 person days of training.

CLASSROOM AND ONLINE TRAINING HOURS

Classroom	for the year ended 31 December 2016				for the year ended 31 December 2015			
courses in hours	Grades B-C-D-E-F	Middle managers (A1 and A2)	Executives	Total	Grades B-C-D-E-F	Middle managers (A1 and A2)	Executives	Total
Mail, Logistics and Communications Services	413,643	36,259	1,520	451,422	594,459	32,873	1,796	629,128
Services	413,043		1,520	451,422	594,459	32,073	1,790	029,120
BancoPosta	12,553	11,041	1,165	24,759	5,632	3,023	884	9,539
Private Customer	1,015,166	392,512	6,937	1,414,615	1,232,711	368,385	2,661	1,603,757
Business Sales and Public Administration	5,557	26,818	1,021	33,396	1,844	8,067	858	10,769
Corporate	23,461	37,435	3,416	64,312	13,923	20,996	3,904	38,823
Total classroom hours	1,470,380	504,065	14,059	1,988,504	1,848,569	433,344	10,103	2,292,016
Classroom hours converted to person days	204,219	70,009	1,953	276,181	256,746	60,187	1,403	318,336

Online courses	for the year ended 31 December 2016				for the year ended 31 December 2015			
in hours	Grades B-C-D-E-F	Middle managers (A1 and A2)	Executives	Total	Grades B-C-D-E-F	Middle managers (A1 and A2)	Executives	Total
Mail, Logistics and Communications	400.005	40.000	0.004	470.004	1 10 000	7,000	745	151 705
Services	160,335	10,662	2,004	173,001	143,682	7,398	715	151,795
BancoPosta	3,705	2,027	570	6,302	3,321	972	463	4,756
Private Customer	714,203	96,865	5,172	816,240	515,294	124,294	2,520	642,108
Business Sales and Public Administration	997	4,673	1,088	6,758	706	2,983	476	4,165
Corporate	10,350	14,825	3,495	28,670	8,553	9,251	2,630	20,434
Total online hours	889,590	129,052	12,329	1,030,971	671,556	144,898	6,804	823,258
Online hours converted to person days	123,554	17,924	1,712	143,190	93,272	20,125	945	114,341

Classroom training accounted for 66% of the total number of hours and online training the remaining 34%. Classroom training represented 27% of total participation and online training 73%.

As in the previous year, **management training** predominated in 2016, in terms of both initiatives and the number of staff involved, resulting in 92,000 training hours, provided to approximately 2,000 staff (senior managers and middle managers responsible for organisational roles).

In particular, training courses continued regarding the exploration of macroeconomic and geopolitical scenarios, and ethical issues, and the transfer of marketing management expertise, aimed at creating the right conditions for systematic consolidation of a market- and customer-centred culture.

⁽²²⁾ The participations include staff who have participated in only one course, and staff who have participated in more than one course.

Various training initiatives were implemented for line managers, aimed at strengthening professional leadership of Private Customer, Business and Public Sector function staff, as well as training regarding the new retail service model for Private Customer staff and the new delivery model for Mail, Logistics and Communication staff.

For younger staff members - middle managers and graduates - training courses aimed to support participants in interpreting new market scenarios, drawing inspiration and impetus from them in order to adopt innovative strategies and working solutions, develop professional skills, strengthen motivation and engagement, and practise coming up with simple solutions against a backdrop of organisational complexity.

For new recruits (on permanent and fixed-term contracts) and interns, a course called "Sistema InPoste" was launched. aimed at raising awareness and understanding of the organisational culture of the Group's businesses.

In addition to initiatives relating to the above-mentioned transformations of the post offices service model and sales network customer relations, technical and specialist training saw the launch of courses for financial and insurance specialists on strategic themes: "Insurance Culture Development - Savings Protection", "Guided Consultancy" and "Asset Management".

Cross-functional initiatives, in addition to workplace safety training (approximately 488,000 hours and 72,000 participations), include:

- courses on compliance (IVASS (the insurance regulator), Transparency, Money Laundering Prevention, MiFID, Transport Safety, Legislative Decree 231, Privacy and IT Security) involving over 983,000 training hours;
- courses on project management (650 participations and 10,000 training hours);
- training activities for the development and consolidation of so-called soft skills (professional self-sufficiency, management and development of staff, interpersonal communication techniques, management by objectives and results orientation, etc.).

Human resources management and development

Recruitment and selection activities in 2016 primarily focused on the quest for new business and finance graduates, to work as commercial specialists and financial promoters, with a view to strengthening frontline commercial activities. Staff numbers were also boosted at multi-ethnic post offices, whilst, at Corporate level, Strategic Marketing functions - specifically regarding digital skills - as well as IT Systems and BancoPosta, were strengthened.

External recruitment also regarded the specific business requirements of Group companies, especially Poste Vita. In relation to procedures aimed at ensuring the appropriate distribution of staff around the country, a number of personnel were transferred on the basis of applications submitted in accordance with the union agreement regarding nationwide mobility and in keeping with requirements as they arose.

During the year the managerial skills model launched in 2015, which consists of three processes each with its own specific activities involving different sectors of the workforce, was consolidated: scouting with initiatives aimed at identification and development of young talents, enhancement of middle managers under development who have further growth potential, and assessment of senior managers' potential; managerial planning that enabled identification of 111 potential successors from across various sectors of the workforce for first- and second-level organisational roles; development via individual initiatives to support the growth of staff with high potential.

The performance appraisal process, which was completed with the feedback phase in June 2016, was extended to include postmen and women (approximately 34,000 staff) for the first time. Over 123,000 appraisals were carried out (30,000 more than in 2015), while the number of appraisers (approximately 8,200) was in line with previous years. In July 2016 a complete redesign of the process was launched, which will be implemented during 2017.

Compensation

Regarding incentive policies, the new "Poste Italiane Group Commercial and Operating Incentive Scheme Guidelines" were issued, which describe the contributions made by the various corporate functions involved in the process, in line with the relevant regulatory requirements.

Payments were authorised and made to executives and other staff members as part of the salary review process, with the aim of rewarding merit and the complexity of roles, with particular attention given to critical areas for the business.

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Regarding the MBO management incentive scheme, evaluation of objectives relating to 2015 was completed and bonuses were paid out, and the 2016 objectives were finalised. Regarding the latter, an overall framework was defined, together with objectives for the General Manager and a scheme for key management personnel, in line with the principles set out in the "Remuneration Report 2016", approved by the Annual General Meeting of 24 May 2016. The same Meeting also approved the information circular, prepared in accordance with art 84-bis of the Regulations for Issuers, regarding the "Long-term Incentive Plan for 2016-2018 – Phantom Stock Plan".

Industrial relations

Industrial relations at Poste Italiane primarily entailed negotiations during 2016 with labour unions on the following matters.

Mail, Logistics and Communication

With regard to the requirements identified in relation to delivery activities, on 27 January 2016, a statement of agreement was signed. This provides for the conversion of up to 125 fixed-term contracts, entered into as a result of statements of agreement reached with the labour unions in 2013 and 2014, to permanent part-time contracts. The conversion to permanent deals, which took place in March 2016, applies to staff in service at the date of signature of the agreement to carry out delivery activities, at the offices to which they have been assigned.

On 24 February 2016, a statement of agreement was signed with the labour unions, with the exception of UlLposte, following completion of a joint assessment of reorganisation initiatives in 2016, drawn up in accordance with the guidelines agreed on 25 September 2015. The agreement envisages, from 2016, the implementation of new delivery models for provincial capitals and unregulated rural areas and for regulated rural areas, as previously identified in the agreement of 25 September 2015. This approach offers the best way of managing the resulting impact on jobs. The agreement has identified 4 thousand staff surplus to requirements. Whilst retaining the current approach to operational flexibility, the parties have agreed to raise the monthly and annual limits applicable to operational flexibility for delivery staff on a five-day working week. Finally, also as part of the agreement of 24 February 2016, the Company has agreed to offer to convert at least 150 part-time positions within the Mail, Logistics and Communication function, wherever located, to full-time posts for delivery personnel in the provinces of Milan and Monza Brianza. In this respect, an additional agreement was signed on 14 April 2016, which defined the timing and criteria for staff wishing to take advantage of this conversion proposal.

Private Customer – Administration, Finance and Control

On 8 March 2016, the minutes of a meeting with the labour unions were signed which, as well as changes to sales formats present within post offices (consulting rooms and corners), also define various organisational solutions for the management of middle managers not performing appropriate roles or who are to be retrained in the Private Customer segment. The agreement has identified three specific projects (Strengthening the Presence in Local Philately Markets, Strengthening the Oversight of Operating Processes and Branch Professionals). Moreover, in November and December 2016, the Company presented the organisational projects for the Private Customer and Administration, Finance and Control functions to the labour unions, regarding: restructuring of local operational management; development of customer services; organisational development of Administration and Control of Private Customer Area Offices; review of the Administrative Services management model relating to the Administration, Finance and Control function.

The minutes of 21 December 2016 provide details of how to manage the impact of these projects on employment.

Nationwide voluntary mobility

On 12 April 2016, an agreement was signed that regulates the management of voluntary transfers for staff wishing to work in regions other than those to which they have been assigned. The agreement, which is valid for a two-year period (2016 and 2017), confirms the framework of the previous agreement, and boosts social protection for the relevant staff. Indeed, as already provided for members of staff suffering from "serious illnesses", as expressly set out in art. 41 of the National Collective Labour Contract, or who have cohabiting children or a spouse/cohabiting partner affected by the same disease, it has also been made easier for employees undergoing lifesaving treatments, or who have children with conditions classified as "chronic and incapacitating" by the Ministry of Health, to obtain a transfer.

Uptime SpA in liquidation

Following the launch of a collective redundancy scheme for all the staff of Uptime SpA, which is partly owned by SDA Express Courier SpA, as previously mentioned, on 31 May 2016 Poste Italiane signed an agreement with the labour unions aimed at safeguarding jobs. This envisages, among other things, that Poste Italiane will hire all former Uptime employees who have failed to find alternative employment on permanent part-time contracts. In the second half of 2017, following the outplacement activities provided for in the above agreement, procedures were launched to hire staff who had not found alternative employment at Poste Italiane. As regards Gepin, in collaboration with the Ministry for Economic Development, possible solutions to deal with the impact on employment are being evaluated.

National Collective Labour Contract for non-managerial Poste Italiane staff

Negotiations with the labour unions began in May 2016 regarding renewal of the National Collective Labour Contract, which are still in progress. Moreover, a proposal was presented to the labour unions regarding establishment of a Health Fund to provide supplementary insurance cover.

Performance-related bonus

On 26 July 2016 an agreement was reached on performance-related bonuses for: Poste Italiane SpA, Poste Vita SpA, Poste Assicura SpA, Postetutela SpA, Poste Tributi ScpA, EGI SpA and BancoPosta Fondi SpA SGR. The agreement is valid for one year and enables the assessment of staff contributions to the achievement of corporate objectives for 2016. The structure of the bonus for the following three-year period will be defined in the first guarter of 2017.

New company fleet equipped with a "black box" system

Regarding delivery of the new company fleet equipped with a "black box(23)" system, the Company entered into negotiations with the labour unions, which ended on 20 July 2016 with the signing of a statement of non-agreement. In line with the relevant legislation (art. 4 Workers' Statute - "Audio-visual equipment"), on 25 July 2016, Poste Italiane filed an application with the Ministry of Labour in order to obtain authorisation to use the above system and the related data. On 7 October 2016, the Ministry issued a measure that authorised possible use of data recorded by this system for organisational and production purposes, and in relation to protection of corporate assets and occupational safety. Therefore, in compliance with the new regulations and the above-mentioned ministerial authorisation, a notice regarding procedures for using and monitoring the devices that comprise the black box system was prepared and sent to all staff concerned.

Bilateral Agencies

The activities of the Ente Bilaterale per la Formazione e Riqualificazione del Personale (the Bilateral Agency for Staff Training and Retraining) continued with the signing of agreements to enable access to the funding provided by Fondimpresa and the Solidarity Fund for income support, employment and professional retraining of Poste Italiane Group staff. The Organismo Paritetico Nazionale (Joint National Body) also continued its workplace health and safety initiatives, relating to consistent and correct application of workplace health and safety guidelines.

Social policies and Corporate Social Responsibility

Once again in 2016, the well-established welfare system continued to improve the range and quality of inclusive services provided to socially vulnerable groups, and implement initiatives geared towards the needs of employees and their families.

Activities in support of the inclusion and active participation of women in the world of work continued with various initiatives including the "maam u" project, aimed at encouraging active parenthood and involving 270 employees on maternity leave, while on the healthcare front the Health Plan was launched at several sites nationwide, with information meetings and free specialist medical examinations for 450 staff in 15 cities.

During 2016, 220 staff took advantage of the socially innovative organisational and technological tool of telecommuting. Among the initiatives to support the development of future generations, the "PosteOrienta" project was launched,

⁽²³⁾ The black box is a satellite device mounted on a vehicle that monitors and registers all data regarding the vehicle.

including professional guidance workshops and studies dedicated to employees' children, and the setting up of a website, specifically designed to help young people over 13 in making their future choices. Over 500 young people participated in the 17 workshops held. Moreover, in collaboration with Intercultura, Poste Italiane offered its employees' children the opportunity to live and study abroad by organising a competition regarding 14 scholarships for the entire school year and for the summer.

Procedure 231, "Agreements with third parties relating to special product and service offers", was also launched, based on which temporary thematic campaigns and 160 agreements relating to special product and service offers were activated nationwide, specifically focusing on health-related services and summer camps for children and youngsters. In 2016, in synergy with the non-profit organisation Fondazione Poste Insieme, the "Corporate Volunteering" project was launched with the aim of creating a solidarity network, increasing Poste Italiane's ethical value, strengthening people's collaboration capacities and developing local relations networks. The first phase of the initiative was completed with the gathering of over 1,000 spontaneous applications from Group staff, and subsequently the funded projects were defined, in collaboration with the Foundation where Company volunteers may be deployed.

Also in collaboration with the non-profit organisation Fondazione Poste Insieme Fondazione, the first volunteering project called "Mentoring to combat early school leaving" was launched, with the active involvement of 20 volunteer employees acting as mentors, aimed at students in junior and senior high schools in Campania, Calabria, Apulia and Sicily.

Finally, 7 allowances were granted to members of staff in documented situations of need, while initiatives relating to gender differences were stepped up via training courses, events, testimonials and working groups.

Following the earthquakes that struck central Italy, the Company (also representing Group companies that apply the National Collective Labour Contract for Poste Italiane's non-managerial staff) signed two statements of agreement with the labour unions relating to initiatives designed to help affected staff and the local population.

The agreements enable advances on termination payments to be requested to meet any financial obligations arising from the earthquakes, while also confirming the commitment to take periods during which post offices were forced to close into account when assessing the achievement of performance targets. The restructuring of delivery operations was temporarily put on hold in the municipalities affected by the quake, and the issue of individual transfers and temporary transfers to other locations was also carefully examined. Finally, the agreement establishes the Group's participation in the initiative launched by Confindustria and CGIL-CISL-UIL regarding activation of the Solidarity Fund for the Populations of Central Italy. In particular, with the establishment of the "Ethical Hour", staff may help by contributing the equivalent of one hour's pay or, in the case of managerial staff, one day's pay that the Company will match by donating an equal amount.

Labour disputes

Compared with the previous year, the number of labour disputes is down by around 27%; the number of actions brought amounted to 1,002, compared with 1,379 in 2015.

With regard to disputes over flexible employment:

- in relation to fixed-term contracts, 49 new claims were filed, compared with the 91 in the previous year. The number of cases lost calculated on the basis of outcomes notified regardless of the year in which the claims were filed was approximately 10% (around 13% in 2015);
- in relation to temporary and agency work, 14 new claims were filed, compared with 12 in the previous year, with cases lost amounting to around 47% (46.6% in 2015).

The number of new disputes arising from other contractual terms and conditions amounts to 939 at 31 December 2016, a decrease with respect to the 1,276 of 2015. This area also includes dismissals on disciplinary grounds. New challenges amounted to 139 in 2016, compared with 183 in 2015, with the number of cases lost falling slightly from around 22% in 2015 to around 21% in 2016.

A total of 5,604 disciplinary procedures were launched during the year, based on reports from the Security & Safety and/ or Internal Auditing functions, namely on the basis of specific reports received from the competent local departments. At the end of this process, 192 staff were dismissed (241 in 2015) and 5,099 received penalties without dismissal (4,052 in 2015); 313 procedures were concluded without consequence (347 in 2015). Compared with 2015, the number of dismissals fell while the number of staff receiving a penalty without dismissal registered a sharp rise, due to the disciplinary actions taken against more than 1,200 staff for irregularities regarding the monitoring of delivery quality. The principal grounds for dismissal included: "unjustified absence" (around 24%); "irregularities regarding securities trading" (around 23%); "criminal convictions/proceedings" (around 13%); and "irregularities regarding delivery quality monitoring" (around 7%). The main reasons for the imposition of penalties without dismissal were: "failure to fulfil duties and obligations" (around 30%); "absence in the event of a health inspection and failure to comply with sickness regulations" (around 20%); "misbehaviour" (around 14%); and "irregularities regarding the monitoring of delivery quality" (around 19%).

07 Risk management

Poste Italiane has adopted a Group Risk Management model (also "GRM") to form part of its Internal Control and Risk Management System (also "SCIGR"), in line with the requirements of the Corporate Governance Code for listed companies and the relevant best practices. The GRM model aims to provide an organic, overall view of the Group's principal risk exposures, greater consistency across the methods and tools used to support risk management and reinforced awareness, at all levels, of the fact that the adequate assessment and management of risks can play a part in achieving strategic objectives.

The GRM model involves an integrated risk management process, implemented according to a continuous and dynamic approach. It exploits the existing risk management systems applicable to each segment (financial, insurance, postal and logistics) and business process, bringing them into line with the specific methods and tools envisaged by the model, so as to help in developing risk management behaviours and expertise throughout the Group's operations. Risk monitoring took place during 2016, with particular emphasis placed on the major risks identified during previous assessment cycles, in line with developments in the internal and external environments and the Group's strategy.

The GRM model has adopted a Risk Model to support the process of identifying and describing risks. The Model allows the identified risks to be classified in uniform categories applied throughout the Group, in line with the relevant best practices and, where applicable, specific regulatory requirements. The Risk Model provides a continuous point of reference for the management, control and integrated reporting of risks. As a result, it is periodically revised to reflect the Group's operations and in response to the results of assessment activities. The Risk Model has established five categories of risk: strategic, regulatory and compliance, insurance, operational and financial, as described below.

Strategic risk

The risk of a deterioration in profit or capital resulting from changes in the operating environment, poor business decisions, the substandard execution of decisions or the failure to adequately respond to changes in the competitive environment.

Regulatory and compliance risk

The current or future risk linked to the failure to comply with statutory or regulatory requirements imposed by legislation, industry regulations or internal rules.

Insurance risk

This category of risk regards technical risks resulting from insurance operations (non-life technical, health technical and life technical) and is dealt with in Poste Italiane's financial statements for the year ended 31 December 2016 (Notes to the consolidated financial statements of the Poste Italiane Group – Risk management; Notes to the financial statements of Poste Italiane SpA – Risk management) which, together with the Report on Operations, form a further section of the Annual Report.

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 the risk of workplace accidents or injuries to employees, the risk of criminal acts or attacks resulting in damage to operating assets or activities, fraud, including online fraud (e.g., phishing), and unauthorised transactions, including errors resulting from the failure of IT or telecommunications systems. Certain types of operational risk are described below.

Risk of attacks/external event risk

One of Poste Italiane's areas of focus is post office security, in order to protect its staff and the Company's assets, and deal with the risks deriving from fraud or external criminal attacks. The need to transport cash exposes Poste Italiane to the risk of criminal acts (theft and/or robbery) which, if they were to occur, could have a negative impact on the Company's image, its operations and the Group's future prospects, operating results and financial position.

Work on boosting active security measures in post offices continued in 2016, including the implementation, integration and replacement of alarm and video surveillance systems, using technologically advanced equipment. Passive security was also strengthened via the installation of anti-theft devices.

Great attention is also paid to combating the risks deriving from potential fraud inside and outside the Company, including online identity theft, phishing, malware, IP addresses identified as malicious and other data.

Risks connected to health and safety regulations

Having revised its model for managing workplace health and safety, Poste Italiane identified 5 new operating units: 4 that coincide with the business functions (Mail, Logistics and Communication, BancoPosta, Private Customer and Business Sales and Public Administration) and 1 that includes the remaining staff functions. All the units are now dealt with as a uniform whole by the Security and Safety function.

During 2016, the information campaign called "delivery awareness raising" continued, which involved many post offices and distribution centres with a view to taking further action to reduce accidents.

Finally, further mandatory training in occupational safety was provided, in continuation of the training courses run in previous years. Training courses for emergency team staff were also updated, and spread across several sites to facilitate greater participation in the courses.

Information technology risk

Within the context of the risks associated with tangible events (e.g., fires, earthquakes, water damage, equipment breakdowns) and/or intangible events (breaches of trust, unexpected network outages, cyber crime), data breaches have assumed growing importance. The direct consequences are the loss, destruction or unauthorised disclosure of sensitive and confidential information. Poste Italiane is thus conducting an assessment with the aim of deciding whether or not to obtain more appropriate insurance cover to protect the Company, in view of the considerable growth in the quantity of digital information held, which has increased the risks to data confidentiality, integrity and access.

Information security

In recent years, Poste Italiane has designed an integrated Information Security Governance model for the Group. The model sets out the related roles, responsibilities and activities in order to provide strategic guidance for the monitoring of the Group's data security infrastructure. Security has, in fact, been given significant attention in 2016, through the conduct of specific Information Security risk analysis and assessments, resulting in the definition of the security requirements needed to ensure an adequate degree of protection for the data handled by the Group's information systems. These activities regarded the development of solutions to protect technology infrastructure, an increase in the operational efficiency and level of security of the processes and systems used to control users' access to the information system, the implementation of solutions designed to protect the Group's data network, the implementation of security measures designed to protect applications, new anti-spam measures, and appropriate measures and controls relating to cyber security, with particular attention to the services provided to customers using digital channels.

In this latter regard, Poste Italiane is the first Italian organisation to have a fully operational and internationally accredited CERT (Computer Emergency Response Team), bringing together and coordinating the Group's prevention and emergency response activities.

Prototypes are being made to test new technologies, and pilot projects implemented to engineer the tested solutions, with a special focus on big data technologies, applied to both Security issues and business development. In this area, new solutions in support of digital marketing were tested, especially with regard to the customer journey process. Furthermore, as regards Group companies, an assessment of the levels of security of the IT systems used by Postel, Postecom, SDA, PosteVita, PosteMobile (in respect of both fixed and mobile telecommunications) has been completed.

Financial risk

The risk environment is defined on the basis of the framework established by IFRS 7 - "Financial Instruments: Disclosures", which distinguishes between four main types of risk (a non-exhaustive classification):

- market risk;
- credit risk;
- liquidity risk;
- cash flow interest rate risk.

These types of risk are dealt with in Poste Italiane's financial statements for the year ended 31 December 2016 (Notes to the consolidated financial statements of the Poste Italiane Group - Risk management; Notes to the financial statements of Poste Italiane SpA – Risk management).

08 Events after 31 December 2016

Events after the end of the reporting period are described in other sections of the Annual Report for 2015, and there are no other significant events occurring after 31 December 2016.

09 Outlook

In the **Postal and Business Services** segment, 2017 will see the Group continue with the restructuring process embarked on in recent years, taking advantage, on the one hand, of the new regulatory framework and, on the other, the efficiency improvements achieved thanks to implementation of the new delivery model.

The process of revisiting the organisation of logistics and operations will continue, as will development of the business through the use of new automation technologies in support of operational processes. The aim is to maintain our leadership in the postal services market and improve efficiency, quality and competitiveness in the express delivery and parcels market. This will involve industrial partnerships with leading players in e-Commerce, in order to exploit the growth of the B2C market, and repositioning the subsidiary, SDA, as a provider of B2B services.

The **Financial Services** segment will continue to act on its strategic objectives, with particular attention to its position in the transaction banking market, to consolidating its digital banking services, and to the management of Postal Savings, where it will continue, in 2017, with talks on the terms and conditions for the new Agreement governing the provision of intermediation services on behalf of Cassa Depositi e Prestiti SpA.

In addition, as described in the section, "Group organisational structure", on 8 February 2017 Poste Italiane reached agreement with Invitalia for the sale of its entire shareholding in Banca del Mezzogiorno. Under the terms of the agreement, the date of signature marks the start of an interim period for which the agreement provides indications as to how the company is to be managed, with regard, above all, to the development of lending activities.

In the Insurance Services business, in addition to consolidating its leadership in the life market by increasing its customer base, the Group is committed to developing a new "integrated" offering of Savings, Protection and Services, partly by strengthening Poste Vita's and Poste Welfare Servizi's offerings and operating models (Pensions, Health and Care), taking advantage of the Poste Italiane Group's assets and role in society. On the other hand, in the Asset Management business will continue to consolidate its offering of Class I products, with the aim of capitalising on PosteVita's leadership position. The segment will continue to expand its presence in the market for funds and Class III policies, in line with the strategies in its business plan and in compliance with the regulations in force, guaranteeing transparency and close attention to the needs of customers in a period of zero interest rates. Furthermore, as mentioned in in the section, "Group organisation structure", talks will continue in 2017 with a view to increasing the Group's interest in Anima Holding.

Despite operating in a radically different competitive environment, following the merger of Wind and H3G and the market entry of the new operator, Iliad, **PosteMobile** will proceed with its strategy of consolidating its core business and expanding in markets that are complementary and integrated with those served by the Poste Italiane Group.

The digital channel represents a further vehicle for growth, alongside the traditional physical distribution channel represented by post offices, which will continue the process of evolving an increasingly complete offering of simple, effective products designed to meet the changing needs of Poste Italiane's customers.

The reinvestment of liquidity from securities maturing in the first quarter of 2017 was largely carried out in the last quarter of 2016. Operations will, therefore, focus on the investment of new liquidity in the form of postal current account deposits. Active management of the portfolio, with the aim of stabilising returns, will continue during the year in accordance with market conditions.

As regards the Parent Company's financial investments, in view of press reports on the liquidity position, solvency and exposure to financial, business and reputational risks of the Group that includes the debtor, Midco SpA, the company that owns 51% of Alitalia SAI, and whose Contingent Convertible Notes, with an original value of €75 million, Poste Italiane subscribed for on 23 December 2014, the Company will continue to monitor the information provided by the above Midco SpA under the terms of the existing contract. based on the best information available to the Company, the terms and conditions applicable to the loan and the Alitalia Group's most recent business plan, prepared at the end of 2014. At the date of preparation of this Annual Report, here is no indication of the need to recognise an impairment of the investment. However, we cannot exclude that future developments regarding the agreement in place between the airline, its shareholders and its banks, as well as the risks to which the industry may be exposed, could influence a future assessment of the recoverability of the loan of €82 million at 31 December 2017 (further information is provided in the "Notes to the Poste Italiane Group's consolidated financial statements − Financial assets"). Finally, the above investment does not give rise to any involvement on the part of Poste Italiane in the management of the issuer.

10 Principal relations with the authorities

Autorità per le Garanzie nelle Comunicazioni (AGCom – the Italian Communications Authority)

In accordance with Law 190/2014 (the 2015 Stability Law), AGCom has authorised a series of initiatives aimed at redefining the universal postal service in order to guarantee its financial sustainability, and in line with the changing requirements of users. In particular:

- with Resolution 395/15/CONS, AGCom authorised an alternate day delivery model for mail within the scope of the universal service;
- with Resolution 396/15/CONS, AGCom introduced new statistical quality targets and new tariffs for universal service mail.

Specifically, Resolution 395/15/CONS provides for implementation of alternate day delivery, which once fully implemented will affect around 23.2% of the Italian population, in three phases. The phase launched in October 2015 covered 256 municipalities in the Lombardy, Piedmont, Friuli Venezia Giulia and Veneto regions. The second, launched in April 2016, will be gradually rolled out in 2,400 municipalities in 14 Italian regions. Finally, pursuant to the above Resolution, the third phase of the new delivery model will not be implemented before February 2017 and will progressively involve approximately 2,500 municipalities belonging to 18 regions. In addition, in accordance with the above Resolution, Poste Italiane has agreed a new formula for the distribution of printed publications with the regulator. This will cover delivery of publications to subscribers in the areas in which the alternate day delivery model is being implemented. Legal challenges to Resolution 395/15/CONS have been lodged with the Lazio Regional Administrative Court by the Italian Federation of Newspaper Publishers (FIEG), Avvenire, the consumers association, Codacons, and finally the Piedmont branch of the National Confederation of Local Authorities (ANCI), together with 41 Piedmont municipalities. The latter challenge was suspended on 29 April 2016, as the Regional Administrative Court, in declaring that the grounds submitted by the plaintiff were without basis and upholding the legality of the aforementioned resolution, had referred the challenge to the European Court of Justice for a preliminary ruling on the compatibility of Italian legislation with the European postal directive. On 16 September 2016, Poste Italiane submitted its observations to the Court of justice.

On 8 March 2017, the Piedmont branch of ANCI and the 41 Piedmont municipalities withdrew their challenge before Lazio Regional Administrative Court. In this regard, the Attorney General's office will shortly file a request for an adjournment of the hearing before the Court of Justice scheduled for 22 March 2017 whilst waiting for Lazio Regional Administrative Court to announce a stay of proceedings in the main case.

On 13 March 2017, FIEG and Avvenire notified their decision to withdraw their challenge. The decision on the challenge brought by Codacons has, on the other hand, been put off to a later date.

AlCAI (the Italian Association of International Air Couriers) and Confetra (the General Italian Confederation of Transport and Logistics Companies) have challenged AGCom Resolution 129/15/Cons ("Regulations regarding the requirements to be met in order to offer postal services to the public", by which AGCom has establishes the conditions applicable to the issue of individual licences and general authorisation by the Ministry for Economic Development) and the related acts before the Regional Administrative Court, claiming that application of the obligations provided for in these regulations to their members is unlawful. In the challenge, AlCAI argues, among other things, in favour of the exclusion of express couriers from any obligation to contribute to the universal service compensation fund.

In two separate rulings dated 27 January 2016, Lazio Regional Administrative Court referred the matter to the European Court of Justice, requesting a ruling on the compatibility of Italian legislation with the European postal directive, including express couriers' contribution to the universal service compensation fund. On 27 September, Poste Italiane, as a party to the Italian proceedings initiated by AlCAI, filed a brief with the European Court defending the legality of application of the obligations provided for in the relevant legislation to express couriers and haulage companies to the extent that these companies provide postal services. Obervations were also submitted by the European Commission, the Italian government, Confetra and AlCAI.

Regarding the right to direct access to the universal postal network, Poste Italiane's appeal against Resolution 728/13/ CONS, which established an obligation for the Company to provide access to postal services, at the request of third parties, under fair and reasonable conditions to be freely negotiated with the parties, is still pending. Pending the appeal, Poste Italiane received two requests for access to the universal postal network, in February and October 2014. Neither of the two negotiations has reached a conclusion. Regarding the first request, in October 2014 the operator seeking access involved the regulator, which asked the parties to go ahead with negotiations. In January 2015, the operator informally notified Poste Italiane that it had reiterated the request for intervention to the regulator, owing to the persistent stalemate in the negotiations, following which the regulator has so far taken no action regarding the request for intervention.

Furthermore, on 1 July 2016, AGCom published a press release on its website, announcing the start of a procedure entailing a review of the network access obligations set out in art. 6 of Resolution 728/13/CONS⁽²⁴⁾. In September 2016, Poste Italiane submitted a document in which it explains its views on the issue and requests removal of the above obligation, which it deems to be unjustified. Subsequently, the Company also sent the regulator the results of a study conducted by Copenhagen Economics, accompanied by certain additional information relevant to the procedure.

With Resolution 651/16/CONS, published on 23 December 2016, AGCom launched a public consultation on its outline proposals for changes to the provisions regarding access to Poste Italiane's postal network and infrastructure. In its analysis, the regulator recognises that there is a significant and growing level of both competition in the postal market and of replicability of Poste Italiane's network, focusing the consultation on the following issues: the possibility of reducing the scope of Poste Italiane's network access obligations (restricting them to the level of sorting centres); the regulation of certain aspects linked to access to postal infrastructure (post offices for managing undelivered registered mail, information on postcodes, the database of addresses, modular mailboxes and post boxes), the possibility of assessing the issue of the replicability of Poste Italiane's offerings by price testing.

Poste Italiane submitted its contribution to the debate to AGCom on 6 February 2017, stating that: it agreed with the regulator's analysis of market competition; it is opposed to the imposition of obligations regarding access to infrastructure, as this would not be justified by "market failures"; it wished to have all existing network access obligations removed (and not only revised), partly in view of the outcome of the market survey; whilst there are a number of issues surrounding the introduction of a "price test" for its commercial offerings, it was willing to engage in discussion. The Company explained its position in a hearing held at AGCom's offices on 21 February 2017.

On the basis of Resolution 728/13/CONS, Poste Italiane drew up, submitted to the regulator (on 1 September 2016) and published (on 7 December 2016) a new price list for signed-for products (e.g. registered and insured mail, legal process), with the new prices to come into effect from 10 January 2017.

The new price list and the related acts are the subject of a legal challenge, notified on 16 January 2017, brought by the consumers' association, CODACONS, which has also applied to the court for suspensive relief. This association also challenged previous changes to prices introduced by Poste Italiane with effect from 1 December 2014. Judgement of this earlier case is still pending.

Following a dispute brought by the operator GPS (Globe Postal Services) and a prior public consultation, AGCom adopted Resolution 621/15/CONS regarding regulations governing the return of items of mail entrusted to other postal operators that finish up in Poste Italiane's network. Under this ruling, Poste Italiane is obliged to revise the "Contract terms and conditions regarding the return of items of mail entrusted by senders to other postal operators that finish up in Poste Italiane's network", including three distinct return procedures (25) and, on this basis, a reformulation of the rates charged, taking into account, among other things, the principle of cost orientation (avoidable cost) and applying discounts for certain volumes.

Poste Italiane proceeded to amend its Contract Terms and Conditions and informed all contracted operators, as well as GPS, about the new Contract Terms and Conditions.

Given the financial impact this ruling may have on Poste Italiane - especially the possibility of only being able to recover additional costs with the new rates - the Company appealed the ruling before the Lazio Regional Administrative Court. On 22 September 2016, the Regional Administrative Court published its judgment, partially upholding the arguments supporting Poste Italiane's appeal. In particular, the Regional Administrative Court has upheld the appeal insofar as it relates to the principle under which the additional costs alone may be recovered, establishing Poste Italiane's right to recover the full cost of the service through the prices charged. Following the above judgment, Poste Italiane proposed a number of changes to the Contract Terms and Conditions to AGCom. The regulator, however, asked the Company to wait for a new resolution on the issue before publishing new Contract Terms and Conditions.

Despite this, both AGCom and Nexive (as well as GPS, which has submitted a cross appeal on the appeal brought by AGCom) have appealed to the Council of State. In particular, AGCom has requested an injunction halting implementation of the Regional Administrative Court ruling. The Council of State, not dealing with the request for an injunction, has scheduled the hearing on the merits for 4 May 2017.

⁽²⁴⁾ The start of this procedure had been provided for in Resolution 396/15/CONS, approving the new tariffs and quality targets for the universal service, in response to changed conditions in the postal market.

¹⁾ Pick up at sorting centres to which items are returned and/or referred;

²⁾ pick up at one or more collection centres;

³⁾ delivery by Poste Italiane to an address specified by other operators.

GPS has challenged certain communications sent to it by AGCom before the Lazio Regional Administrative Court. The communications were aimed at obliging the operator to agree to Poste Italiane's new Contract Terms and Conditions (deemed by AGCom to be in line with the resolution). GPS has also contested AGCom's prohibition against use of the term "stamp" to indicate the "stickers" used by GPS. Poste Italiane has entered an appearance before the court. On this latter matter, in Resolution 412/16/CONS of 16 September 2016, the regulator served formal notice on GPS to cease, within 15 days of notification of the resolution, use of the terms "stamp" and "franked", and the corresponding English terms, including the word "stamp", on any products offered to the public and in any information documents distributed to customers in whatever form. The request for a precautionary injunction filed by GPS has been upheld by the Lazio Regional Administrative Court in ruling 6880/16, published on 4 November 2016, in view of the "serious harm to the company's finances and organisation". The hearing on the merits is due to be held on 5 April 2017.

On 14 April 2015, AGCom issued formal notification of penalty **02/15/DSP**, launching a procedure against Poste Italiane for alleged violation of certain legal obligations relating to provision of the Universal Postal Service, with regard to the exceptional closure of 21 post offices in the city and Province of Messina on certain days in July and August 2014. Following the Company's submission of a defence brief, with Resolution **517/15/CONS** of 25 September 2015, notified to the Company on 26 October 2015, the regulator halted the penalty procedure regarding 29 of the 42 violations initially claimed. Regarding the other violations, having rejected Poste Italiane's defence, with Resolution **631/15/CONS** of 21 December 2015, AGCom ordered the Company to pay a fine of €296,000. Poste Italiane lodged an appeal with the Lazio Regional Administrative Court which, in ruling 11023/2016, turned down the appeal. Poste Italiane has appealed this ruling before the Council of State, which has scheduled a hearing on the merits for 18 January 2018.

On 10 July 2015, AGCom issued formal notification of penalty **04/15/DISP**, launching a procedure against Poste Italiane for the alleged violation of its legal obligations relating to certain post offices and local area offices, following monitoring carried out by IZI SpA in 2014 in connection with changes to post office opening hours during the summer period. On 7 August 2015, Poste Italiane sent the regulator a defence brief, rejecting the alleged violations. On 18 March 2016, AGCom summoned Poste Italiane to a hearing to look into the matter. In response, on 4 April 2016, the Company sent the regulator its closing arguments. Subsequently, with Resolution **143/16/CONS** of 19 April 2016, AGCom halted the entire proceedings.

With regard to the delivery of legal process, the various investigations launched by AGCom into alleged violations of the Company's obligations relating to the notification of legal process, as provided for in Law 890 of 29 November 1982, came to an end in 2016 with the imposition of fines (resolutions 161/16/CONS, 188/16/CONS, 251/16/CONS, 338/16/CONS, 339/16/CONS and 413/16/CONS). The Company has challenged the above rulings before Lazio Regional Administrative Court.

In Resolution **366/16/CONS**, dated 2 August 2016, AGCom gave Poste Italiane a formal warning in relation to compliance with the provisions of Law 890/1982, ordering the Company to submit a plan showing the organisational measures it intends to adopt in order to ensure the proper provision of the service. On 5 August 2016, the Company sent the regulator the document containing "*Proposed changes to the handling and delivery of legal process*", which had already been sent on 10 December 2015. The document sets out a series of proposals aimed at improving both the operational processes involved in the handling of legal process and the reporting of initiatives and corrective measures already implemented to the regulator. The Company challenged Resolution 366/16/CONS before Lazio Regional Administrative Court on 31 October 2016. Following this, on 9 November 2016, a hearing on the matter was held at the regulator's offices, during which the Company accurately described the initiatives undertaken and those in the process of being implemented. In a memorandum dated 8 February 2017, AGCom issued a positive assessment of the projects presented by Poste Italiane, adjudging them to meet the requirements of Resolution 366/16/CONS.

Regarding obligations relating to the management of post offices, the regulator notified its decision to halt four proceedings (184/16/CONS, 187/16/CONS, 414/16/CONS and 434/16/CONS) and set aside two resolutions imposing fines (Resolution 186/16/CONS – challenged by the Company before Lazio Regional Administrative Court on 5 September 2016 – and Resolution 57/17/CONS).

AGCom has issued Resolution 5/17/CONS halting proceeding 10/16/DSP, relating to the same issue resolved by Resolution 143/16/CONS, having excluded the possibility that the regulator can use the specialist independent body to assess whether or not the reporting requirements imposed on the Universal Service provider are being met.

AGCM (the Antitrust Authority)

With regard to investigation **PS/10009**, launched by the AGCM in 2015, into alleged violation of articles 20, 21 and 22 of the Consumer Code, regarding the "Libretto Smart" product, on 21 December 2015, the Authority imposed a fine of €540,000, 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 (RG 2288/16) on 24 February 2016. At the hearing held on 23 March 2016, the court adjourned the case until a hearing on the merits. In addition, on 7 March 2016, the AGCM, as part of a compliance audit, sent a request for information on the nature of the Libretto Smart product from 1 July 2015 and on the related "Supersmart" offering. Poste Italiane replied to the Authority on 22 March 2016, and on 24 June 2016 AGCM informed Poste Italiane that insufficient evidence is currently available to conduct an investigation.

On 4 June 2015, the AGCM launched an investigation (SP/157) 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 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 – at variance with the provisions of art. 8, paragraph 2 quater of Law 287/90 – 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. The Authority issued a warning to Poste Italiane that it should desist from such conduct in the future, but did not impose any fine.

Following the above ruling from the AGCM, on 23 December 2015, H3G also submitted a writ of summons to the Court of Rome, citing Poste Italiane and PosteMobile and requesting that the latter be ordered to pay compensation for damages incurred, arising from the violations referred to in the above ruling, amounting to approximately €375.8 million, as well as court fees. At the hearing held on 22 June 2016, after full discussion, the investigating judge upheld the procedural objection raised by Poste Italiane, regarding the lack of authority of H3G's legal representative to institute legal proceedings, and adjourned the case to a hearing on 1 December 2016, setting a deadline for the submission of depositions, pursuant to art. 183 of the Code of Civil Procedure. Following completion of the investigation, and submission of the depositions pursuant to art. 183 of the Code of Civil Procedure, the settlement hearing has been scheduled for 29 March 2017.

Poste Italiane lodged an appeal against the AGCM's ruling on 25 February 2016, with PosteMobile also lodging an appeal against the final ruling before Lazio Regional Administrative Court on 19 February 2016.

On 28 September 2016, Lazio Regional Administrative Court published its ruling, rejecting the appeals lodged by Poste and Poste Mobile, whilst confirming 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 (26).

Having assessed the implications of the Lazio Regional Administrative Court ruling, PosteMobile and Poste Italiane decided not to appeal and the ruling thereby became final.

Partly taking into account the percentage of uncertainty attaching to any judgment and impeding any quantification, it is now possible to state that the risk of an adverse outcome for Poste Italiane in the above dispute has been significantly reduced.

On 8 June 2016, the AGCM notified Poste Italiane of the launch of investigation A493 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.

In particular, the AGCM intends to ascertain whether Poste Italiane refuses to offer Nexive, in geographical areas where the company does not have a presence with its own distribution networks, the Posta Time service, namely the service that Poste Italiane offers to end customers in those areas, only making available its Bulk Mail service, for which it charges higher rates than for its Posta Time service. Moreover, according to the Antitrust Authority, Poste Italiane operates a policy of applying loyalty-building discounts on its Posta Time product for the benefit of end customers. The proceedings will conclude on 31 October 2017.

On 9 September 2016, Poste Italiane submitted a set of commitments designed to settle the Authority's competition concerns and, given the AGCM's rejection on 4 October 2016, is taking steps to defend its position as the proceedings continue.

With regard to postal services available for purchase on line, on 22 April 2016, the AGCM sent Poste Italiane a request to remedy certain shortcomings that could possibly be considered examples of unfair commercial practices (PS/10408), in accordance with art. 4, paragraph 5 of the "Regulations on investigations of misleading and comparative advertising, unfair commercial practices, the violation of consumer rights in contracts, the violation of prohibitions on discriminatory conduct and vexatious clauses".

The AGCM's request regarded: i) the inclusion of Poste Italiane's email address on the website, on the homepage or in an indicated section of the website, ii) a clearer indication, before confirmation of purchase, of the prices of postal

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.

services available for purchase on line, above all with regard to any additional costs, such as stamp duty.

On 13 May 2016, Poste Italiane responded to the Authority, sending it certain relevant documentation. After this, on 9 August 2016, the AGCM requested further information on Poste Italiane's telephone number and email address, to be used by consumers to contact the Company. On 6 September 2016, Poste Italiane provided an appropriate response. Following this, on 30 November 2016, the AGCM announced that it had halted the proceeding as Poste Italiane had responded to the Authority's request to remedy the identified shortcomings.

The AGCM has lodged a challenge with the Lazio Regional Administrative Court against INPS and Poste Italiane, seeking cancellation of the tender process awarding the contract for non-automated mail delivery services for INPS's head office and regional offices. In ruling 5335 of May 2016, the Regional Administrative Court rejected the challenge, thus confirming the legitimacy of the INPS tender. In September 2016, the AGCM announced its intention to appeal the above ruling and a decision on the appeal is currently awaited.

On 13 March 2017, the AGCM notified Poste Italiane of the launch of investigation pursuant to art. 27, paragraph 3 of the Consumer Code, with the aim of assessing whether or not the unilateral changes to the Bancopostaclick contract and to the fees applicable to the Postamat payment card constitute unfair commercial practices. Above all, the Authority intends to investigate whether Poste Italiane has failed to provide accurate information regarding the free nature of the Postamat card for Bancopostaclick current account customers, wrongfully inducing account holders to accept the additional cost of the Postamat card, not granting them the right to withdraw from the part of the contract relating to the Postamat card alone and providing for withdrawal from the current account package as a whole.

Italian National Anti-Corruption Authority (ANAC)

On 28 September 2015, the Italian National Anti-Corruption Authority (ANAC) notified Poste Italiane that it was launching an investigation to verify the administrative procedures carried out regarding upgrade and restyling work at the Sesto Fiorentino sorting centre (FI). The Authority asked Poste Italiane to submit an explanatory report on the contract, together with the related documentation. On 17 November 2015, the person responsible for the procedure sent the documented report to ANAC and asked to testify before the Authority. The hearing was held on 27 January 2016, when the Company provided clarification and details regarding the contract in question. A further hearing was held on 8 February 2017 and the Authority's conclusions are awaited.

Bank of Italy

In December 2015, the Bank of Italy's Financial Intelligence Unit (UIF) launched an investigation of **Poste Vita SpA** relating to money laundering prevention as per art. 47 and art. 53, paragraph 4, of Legislative Decree 231 of 2007. The above investigation came to an end on 8 April 2016, with receipt of the final document from the company, containing the clarifications and information requested by the UIF.

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 (punishable, in accordance with art. 57, paragraph 4 of Legislative Decree 231/2007, with a fine amounting to between 1% and 40% of the value of the transactions) may result in a fine of up to approximately €400,000. Poste Vita sent the Ministry of the Economy and Finance a defence memorandum and requested a hearing. Following the investigations, on 27 July 2016, the Bank of Italy requested the company to take corrective action to resolve a number of issues emerging during the checks carried out, and asking the company to report back. The company first informed the Bank that it was taking the necessary steps, after which it would report on the initiatives and corrective action undertaken. This report was submitted on 20 December 2016, with a description of the steps being taken in order to implement the UIF's recommendations.

On 18 July 2016, following a recent inspection at **Banca del Mezzoggiorno – MedioCredito Centrale**, completed on 20 April 2016, the Bank of Italy notified the findings of the audit, which identified certain aspects of the Bank's organisation and activities that require corrective action, expressing a partly unfavourable opinion. The inspection did not give rise to any imposition of fines on the bank or its representatives.

In line with the relevant regulations, on 5 August 2016, the bank submitted its comments on the findings and its observations to the Bank of Italy, as well the overall plan for compliance initiatives, which have already been partially implemented and are being monitored on a continuous basis by the various internal bodies.

On 10 February 2017, the Bank of Italy announced 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.

CONSOB

The process of preparing for the introduction of the new "guided consultancy" service provided for in the Plan submitted to the CONSOB, following the inspection completed in 2014, has been completed. In line with the related plan submitted to the CONSOB on 1 June 2016, the new IT platform for the "guided consultancy" service was rolled out in 5 "pilot" post offices on 17 October. The platform was then implemented in a further 100 offices during the last quarter of 2016. The new "guided consultancy" platform has introduced standardised procedures designed to aid in identifying the best investment solution for the customer, keeping a systematic record of manager-customer relations. In this regard, as set out in the information provided to the CONSOB in December 2016, the platform is to be gradually rolled out in all post offices according to a programme that will be completed at the end of 2017. Priority is being given to the "MiFID offices with consulting rooms" (approximately 3,900, covering 83% of the target customers), which will migrate to the new platform in the first half of 2017.

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

Following the inspection that took place between 1 April and 14 July 2014, for the purposes of assessing the governance, management and control of investments and financial risk, and compliance with anti-money laundering regulations, on 17 September 2014, IVASS notified Poste Vita SpA of its recommendations and the start of an administrative procedure regarding the alleged violation of four provisions concerning anti-money laundering regulations. On 12 May 2016, the Authority notified the company of the ruling in which two of the four violations challenged were upheld. Poste Vita paid the fine of €70,000 and, based on the findings of an analysis and assessment carried out, the company's Board of Directors decided not to challenge the ruling.

Between September 2015 and September 2016, IVASS notified Poste Vita of eight alleged violations of art. 183, paragraph 1.a) of the Codice delle Assicurazioni Private (Private Insurance Code or CAP), as a result of delays in the payment of claims. Having ascertained that four of the above violations had been committed, IVASS notified Poste Vita that it was imposing the relevant fines for three of the violations in August 2016 and for a further violation in January 2017. No fine is to be imposed for one of the remaining violations, whilst the other proceedings are still 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 is still in progress.

Data Protection Authority

From 29 September to 1 October 2015, the Nucleo Polizia Tributaria Roma (Tax Police), in implementation of Data Protection Authority order 21876/97157, as per the Data Protection Code, inspected PosteMobile's premises.

After the inspection, on 3 November 2015, the Tax Police notified PosteMobile of one alleged violation relating to the retention of data for the purposes of identifying and combatting crimes (documentation of traffic data, namely internet access) beyond the maximum periods laid down in art. 132 of the Data Protection Code, with the imposition of a fine (ranging from a minimum of €10,000 to a maximum of €50,000).

Deeming the allegation to be groundless, on 2 December 2015, pursuant to art. 18 of Law 689 of 24 November 1981, PosteMobile submitted its defensive brief to the Authority asserting that data retention for the purposes of identifying and combatting crimes was extended beyond the maximum periods provided for by the Data Protection Code in good faith and in line with the interpretative and applicatory practices of the Anti-terrorism Decree 43 of 17 April 2015, which all telecommunications operators comply with. On 2 February 2016, the company confirmed to the Authority that it had completed cancellation of the traffic data relating to communications prior to 21 April 2015, being up to the entry into effect of the legislation converting the Anti-terrorism Decree into law. Poste Mobile has requested a halt to the procedure, taking into account the unique and isolated nature of the violation within a general context of full compliance with existing data protection legislation, as confirmed by the findings of the investigation.

In terms of legislation, with regard to operators' legal requirements pursuant to art. 96 of the Electronic Communications Code, the so-called "Mille Proroghe" decree published in the Official Bulletin of 26 February 2016, which, in art. 4-quater, has amended article 4-bis of Law Decree 7 of 18 February 2015, converted with amendments into Law 43 of 17 April 2015, has come into force. As regards PosteMobile's obligations, the new legislation has altered the period of time in which the operator must store phone and internet data for the purposes of surveillance and combatting crime, with particular regard to terrorism. Any data held at the date of entry into force of the legislation and transmitted after this date must be stored until 30 June 2017.

European Commission

The Court of the European Union's sentence of 13 September 2013 upheld Poste Italiane SpA's appeal against the European Commission's decision of 16 July 2008 regarding state aid (**Decision C42/2006**), ordering the latter to pay the related costs. In compliance with the Decision, and as requested by the Ministry of the Economy and Finance, in November 2008 the Company returned the related amounts (€443 million, plus interest of €41 million). Under the 2015 Stability Law, in order to implement the Court of the European Union's sentence of 13 September 2013, €535 million has been set aside for payment to Poste Italiane for 2014. These amounts were collected from the Central Treasury on 13 May 2015.

The European Commission subsequently reopened the enquiry, appointing an external expert to check that the levels of interest paid to the Company from 1 January 2005 to 31 December 2007 on deposits held at the Ministry of the Economy and Finance (as per art. 1, paragraph 31, of Law 266 of 23 December 2005 "2006 Budget Law") were in line with the market. To date, the expert has submitted to the Commission a preliminary revised version of the assessment originally carried out by the Commission. Poste Italiane intends to actively collaborate with the national authorities to demonstrate the fairness of the returns it received during the relevant period.

On 5 February 2016, Hutchison and VimpelCom notified the European Commission, in accordance with the EC Merger Regulation (no. 139/2004), of a plan to create a joint venture to operate in the Italian mobile market by merging their respective subsidiaries, Hutchison 3G Italy and WIND. The combination would reduce the number of mobile operators with their own networks from four to three. The Commission has thus initiated an investigation of the merger, in which PosteMobile also took part as an interested third party (PosteMobile is a mobile virtual network operator in that it does not have its own network).

On 30 March 2016, the Commission decided to begin the second stage of the procedure, announcing to the parties that the notified merger raised doubts over its compatibility with the single market. The transaction may, in fact, lead to higher prices, less choice for consumers and reduced innovation in the Italian mobile market. In addition, mobile virtual network operators could have less choice and reduced bargaining power when negotiating access to the networks of operators with their own infrastructure (the wholesale access market).

In accordance with the EU procedure, on 6 June 2016, the notifying parties submitted commitments designed to eliminate any anti-competitive impact of the merger.

In the light of the commitments submitted by the notifying parties, on 1 September 2016, the Commission approved the merger, subject to specific conditions ("remedies"), with the aim of enabling a fourth operator to enter the Italian mobile market. This operator had already been selected by the notifying parties via an agreement with the French operator. Iliad.

The conditions imposed by the Commission are primarily the following:

- the sale, by Wind/H3G, of radio spectrum to Iliad;
- the co-location and provision to Iliad of a number of mobile base station sites;
- a transitional agreement with Iliad granting access to Wind/H3G's new technologies, enabling Iliad to progressively
 equip itself with its own network infrastructure.

Information on litigation and tax and social security disputes is provided in Poste Italiane's financial statements for the year ended 31 December 2016 (Notes to the consolidated financial statements of the Poste Italiane Group – Principal proceedings pending and relations with the authorities; Notes to the financial statements of Poste Italiane SpA – Principal proceedings pending and relations with the authorities).

11 Financial review for Poste Italiane SpA

Operating results of Poste Italiane SpA

RECLASSIFIED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December (€m)	2016	2015	Increase/	decrease)
Revenue from sales and services	8,218	8,205	13	0.2%
Other income from financial activities	599	433	166	38.3%
Other operating income	478	399	79	19.8%
Total revenue	9,295	9,037	258	2.9%
Cost of goods and services	1,734	1,819	(85)	-4.7%
Other expenses from financial activities	15	3	12	n/s
Personnel expenses	5,992	5,895	97	1.6%
Capitalised costs and expenses	(4)	(5)	1	-20.0%
Other operating costs	254	226	28	12.4%
Total costs	7,991	7,938	53	0.7%
EBITDA	1,304	1,099	205	18.7%
Depreciation, amortisation and impairments	504	485	19	3.9%
Operating profit/(loss)	800	614	186	30.3%
Finance income/(costs)	(21)	(18)	(3)	16.7%
Profit/(Loss) before tax	779	596	183	30.7%
Income tax expense	154	145	9	6.2%
Profit for the year	625	451	174	38.6%

n/s: not significant

Poste Italiane SpA reports profit for the year of €625 million, an improvement of €174 million (38.6%) compared with 2015.

Revenue from sales and services amounts to €8,218 million, an increase of €13 million due to the positive performance of service revenue at BancoPosta, which has offset reduced revenue from postal and business services.

Other income from financial activities is up from €433 million in 2015 to €599 million in 2016, primarily linked to non-recurring income of €121 million deriving from the sale of the investment in Visa Europe Ltd. to Visa Incorporated, and to gains on the sale of available-for-sale financial assets by BancoPosta RFC.

Other operating income is up from €399 million in 2015 to €478 million in 2016, including €423 million in dividends from subsidiaries.

Despite a reduction in the cost of goods and services (down \in 85 million or 4.7% compared with the previous year), total costs are up \in 53 million from \in 7,938 million in 2015 to \in 7,991 million in 2016, largely due to the following performance of personnel expenses.

PERSONNEL EXPENSES

for the year ended 31 December (€m)	2016	2015	Increase/(decrease)
Salaries, social security contributions and sundry expenses ^(*)	5,490	5,532	(42)	-0.8%
Redundancy payments	165	76	89	n/s
Net provisions (uses) for disputes	4	(12)	16	n/s
Amounts recovered from staff due to disputes	(9)	(6)	(3)	50.0%
Provisions for restructuring charges	342	316	26	8.2%
Total	5,992	5,906	86	1.5%
Income from fixed-term and temporary contract agreements	-	(11)	11	n/s
Total personnel expenses	5,992	5,895	97	1.6%

n/s: not significant

Total personnel expenses incurred in 2016 amount to €5,992 million, marking an increase of 1.6% on 2015, when the figure benefitted from net releases of €12 million from provisions for disputes, after updated estimates of the liabilities and related legal expenses, and from income of €11 million recognised by Poste Italiane SpA, following the agreements concluded with the labour unions in July 2015, regarding the re-employment by court order of staff previously employed on fixed-term contracts.

Ordinary personnel expenses, linked to salaries, contributions and sundry expenses, are down 0.8% (a reduction of €42 million) compared with 2015. This reflects a reduction in the average workforce employed during the year (approximately 2,000 fewer full-time equivalents or FTEs compared with 2015). This easily offset the additional costs incurred as a result of public holidays falling on a Sunday, the inability to exempt performance bonuses from the payment of social security contributions, and provisions linked to the expected increase in pay in the renewed national collective labour contract.

The non-recurring component reflects an increase in early retirement incentives, which are up from €76 million in 2015 to €165 million in 2016, and provisions of €342 million (€316 million in 2015) for restructuring charges, made to cover the estimated costs to be incurred by Poste Italiane SpA for early retirement incentives, under the current redundancy scheme for employees leaving the Company by 31 December 2018.

With regard to fixed-term contracts, the Company employed 7,036 people on fixed-term contracts in 2016 (7,277 in 2015), equal to 6,953 FTEs (7,144 FTEs in 2015). As a result of specific measures establishing quotas limiting the use of such contracts (the so-called "clausole di contingentamento"), the following should be noted: the permanent workforce at 1 January 2016⁽²⁷⁾ was 138,236 (141,459 at 1 January 2015), equal to 133,392 FTEs (135,797 at 1 January 2015); the number of people on fixed-term contracts as defined by art. 2, paragraph 1-*bis* of Legislative Decree 368/01⁽²⁸⁾ – the so-called "causale finanziaria" – amounted to zero; the number of people on fixed-term contracts as defined by art. 1, paragraph 1 of Legislative Decree 368/01, as amended by Law Decree 34/14⁽²⁹⁾ – the so-called "Jobs Act" – amounted to 12,111, equal to 11,941 FTEs⁽³⁰⁾.

Other operating costs are up 12.4% (€28 million) on the previous year, reflecting the release, in 2015, of provisions made in previous years, linked to the procedures and timing involved in the collection of amounts receivable from the Ministry of the Economy and Finance.

Income tax expense is up from €145 million in 2015 to €154 million for 2016. The total effective tax rate for 2016 is 19.72%, reflecting an IRES tax rate of 16.59% and an IRAP tax rate of 3.13%. The difference in the effective tax rate for IRES, compared with the statutory rate of 27.5%, primarily reflects the deductibility (95%) of dividends received from certain subsidiaries.

^(*) This includes the following items described in note C6 to the financial statements: salaries and wages; social security contributions; employee termination benefits; temporary work; Directors' fees and expenses; other costs (cost recoveries).

⁽²⁷⁾ The workforce at 1 January of each year is identical to the workforce at 31 December of the previous year.

⁽²⁸⁾ Art. 2, paragraph 1-bis of Legislative Decree 368/01 requires, among other things, that fixed-term contracts must not represent more than 15% of a company's workforce on 1 January of the year in which the staff are recruited.

⁽²⁹⁾ Art. 1, paragraph 1 of Legislative Decree 368/01, as amended by Law Decree 34/14 (the so-called "Jobs Act") establishes, among other things, that employees recruited on fixed-term contracts cannot exceed 20% of a company's permanent workforce at 1 January of the year in which they are recruited, after rounding up to the nearest whole number should the figure be equal to or above 0.5.

⁽³⁰⁾ The number of fixed-term contracts – expressed in terms of both headcount and FTEs – includes, for 2016, both contracts and renewals during the year in question (7,036, equal to 6,953 FTEs) and contracts and renewals still in force at 1 January 2016 (5,075, equal to 4,988 FTEs), although executed before this date.

Financial position and cash flow of Poste Italiane SpA

NET INVESTED CAPITAL AND RELATED FUNDING

at 31 December (€m)	2016	2015	Increase/(decrease)
Non-current assets:				
Property, plant and equipment	1,999	2,074	(75)	-3.6%
Investment property	56	61	(5)	-8.2%
Intangible assets	365	374	(9)	-2.4%
Investments	1,815	2,204	(389)	-17.6%
Total non-current assets (a)	4,235	4,713	(478)	-10.1%
Working capital:				
Trade receivables and other receivables and assets	4,027	3,840	187	4.9%
Trade payables and other liabilities	(3,942)	(3,563)	(379)	10.6%
Current tax assets and liabilities	(67)	_	(67)	n/s
Total working capital: (b)	18	277	(259)	-93.5%
Gross invested capital (a+b)	4,253	4,990	(737)	-14.8%
Provisions for risks and charges	(1,408)	(1,298)	(110)	8.5%
Provisions for employee termination benefits	(1,315)	(1,320)	5	-0.4%
Deferred tax assets/(liabilities)	136	(476)	612	n/s
Non-current assets held for sale	384	_	384	n/s
Net invested capital	2,050	1,896	154	8.1%
Equity	6,160	7,646	(1,486)	-19.4%
Net funds	4,110	5,750	(1,640)	-28.5%

n/s: not significant

Poste Italiane SpA's net invested capital amounts to €2,050 million, amply financed by equity. A comparison with the end of the previous year, when the figure was €1,896 million, shows an increase of €154 million. This is primarily due to the movement in net deferred tax liabilities after offsetting against deferred tax assets, as described in detail below. Non-current assets of €4,235 million are down €478 million compared with the end of 2015. The reduction essentially reflects the reclassification, in application of IFRS 5, of the investments in BdM-MCC and BancoPosta Fondi, amounting to €384 million, to "Non-current assets and disposal groups held for sale". Other movements in investments affecting non-current assets regard: the recapitalisation of SDA Express Courier SpA (€38 million) in order to cover the losses incurred by the subsidiary through to 31 March 2016 and replenish its other equity reserves, resulting from Poste Italiane's commitment to provide financial support for the subsidiary(31); and impairment losses on the investments in SDA Express Courier SpA (€29 million) and EGI SpA (€4 million), applied on the basis of the available information and the results of impairment tests carried out at 31 December 2016.

Movements in non-current assets also reflect the acquisition of infrastructure equipment, technology assets and software applications, totalling €38 million, as a result of the partial demerger of PosteMobile's fixed line telecommunications business to Poste Italiane. Movements in this indicator also reflect: capital expenditure of €381 million, as described in the description of the Group's non-current assets; and depreciation, amortisation and impairments of property, plant and equipment, intangible assets and investment property, amounting to €504 million.

Working capital amounts to €18 million at 31 December 2016, marking a reduction of €259 million compared with the previous year, primarily due to an increase in trade payables and other liabilities, which are up from €3,563 million at the end of 2015 to €3,942 million. Movements in this indicator also include an increase in amounts due to staff, reflecting the recognition of amounts, formerly included in provisions for risks and charges at 31 December 2015, relating to early retirement incentives payable and an increase in accrued stamp duty on outstanding postal savings certificates at 31 December 2016.

The reduction in net deferred tax liabilities, after offsetting against deferred tax assets, amounts to €612 million. This is largely due to the net positive effect on taxation (an increase in deferred tax assets and/or a reduction in deferred tax liabilities) of increased fair value losses on investments in available-for-sale financial assets.

Poste Italiane SpA is committed to providing financial support to the subsidiaries SDA Express Courier SpA and Mistral Air SrI for 2017 and to Poste Tributi ScpA throughout its liquidation.

Equity amounts to €6,160 million at 31 December 2016, marking a reduction of €1,486 million due primarily to the following: movements in the fair value reserves net of tax (€1,613 million), as a result of positive and/or negative movements in the value of investments in securities held by BancoPosta RFC; the payment of dividends totalling €444 million, as approved by the Annual General Meeting of 24 May 2016 (€0.34 per share, paid to shareholders on 22 June 2016). The above reductions in equity were partially offset by profit for the year of €625 million.

ANALYSIS OF POSTE ITALIANE SPA'S NET FUNDS/(DEBT)

2016	2015	Increase/(decrease)
(60,495)	(55,083)	(5,412)	9.8%
59,396	56,152	3,244	5.8%
(1,099)	1,069	(2,168)	n/s
2,494	3,161	(667)	-21.1%
2,715	1,520	1,195	78.6%
4,110	5,750	(1,640)	-28.5%
	(60,495) 59,396 (1,099) 2,494 2,715	(60,495) (55,083) 59,396 56,152 (1,099) 1,069 2,494 3,161 2,715 1,520	(60,495) (55,083) (5,412) 59,396 56,152 3,244 (1,099) 1,069 (2,168) 2,494 3,161 (667) 2,715 1,520 1,195

n/s: not significant

Net funds amount to €4,110 million at 31 December 2016, down compared with 31 December 2015, when the figure was €5,750 million. This primarily reflects the component linked to fair value measurement of BancoPosta RFC's available-for-sale financial assets, totalling approximately €2,215 million, before tax.

INDUSTRIAL NET FUNDS/(DEBT), IN ACCORDANCE WITH ESMA GUIDELINES

At 31 December (€m)	2016	2015
A. Cash	1	1
B. Other cash equivalents	1,460	1,197
C. Securities held for trading	_	-
D. Liquidity (A+B+C)	1,461	1,198
E. Current loans and receivables	243	577
F. Current bank borrowings	_	(510)
G. Current portion of non-current debt	(14)	(16)
H. Other current financial liabilities	(42)	(77)
I. Current financial liabilities (F+G+H)	(56)	(603)
J. Currrent net debt (I+E+D)	1,648	1,172
K. Non-current bank borrowings	(400)	(400)
L. Bond issues	(798)	(797)
M. Other non-current liabilities	(48)	(48)
N. Non-currrent net debt (K+L+M)	(1,246)	(1,245)
O. Net debt (ESMA guidelines) (J+N)	402	(73)
Non-current financial assets	1,101	953
Industrial net funds/(debt) outside the ring-fence	1,503	880
Intersegment financial receivables	14	14
Intersegment financial payables	(630)	(577)
Industrial net funds/(debt) outside the ring-fence after adjusting for intersegment transactions	887	317

LIQUIDITY

for the year ended 31 December (€m)	2016	2015
Cash and cash equivalents at beginning of period	1,520	986
Cash flow from/(for) operating activities	2,422	2,303
Cash flow from/(for) investing activities	(240)	(518)
Cash flow from/(for) financing activities and shareholder transactions	(987)	(1,251)
Movement in cash	1,195	534
Cash and cash equivalents at end of period	2,715	1,520
of which:		
Cash subject to investment restrictions	1,071	217
Other cash subject to restrictions	12	11

Operating activities generated a cash inflow of €2,422 million as a result of, among other things, profit for the year (€625

The cash generated was primarily used to finance capital expenditure which, after disposals, resulted in an outflow of €380 million, and to pay off short-term borrowings of approximately €546 million.

Cash and cash equivalents is up €1,195 million, after the payment of dividends of €444 million.

12 BancoPosta RFC management review

Corporate governance at BancoPosta RFC

With regard to BancoPosta RFC's governance, the rules governing the organisation, management and control of BancoPosta's operations are contained in the specific BancoPosta RFC Regulation approved by the Extraordinary General Meeting of 14 April 2011 and recently amended by the Extraordinary General Meeting of 31 July 2015. Following the issue by the Bank of Italy on 27 May 2014 of an update to the prudential supervisory regulations for banks, the corporate governance regulations for banks are applied to BancoPosta (Part One, Title IV, Chapter I "Corporate governance" of Circular no. 285). Further information regarding the corporate governance structure is provided in Poste Italiane's "Report on Corporate Governance and the Ownership Structure", approved by the Board of Directors and published in the "Governance" section of the Company's website.

BancoPosta RFC's internal control system and risk management

Internal control system

The system of internal controls consists of a body of rules, procedures and organisational structures, which aim to prevent or limit the consequences of unexpected events, enable the achievement of strategic and operating objectives and compliance with the relevant laws and regulations, and ensure the fairness and transparency of internal and external reporting.

Under the guiding principles adopted at Group level, one of the most important aspects of the system is the control environment in which employees carry out their activities and exercise their responsibilities. This environment is based on integrity and other ethical values, the organisational structure, the allocation and exercise of authorities and responsibilities, the separation of duties, staff management and incentive policies, staff expertise and, more in general, the corporate culture. BancoPosta's control environment is evidenced by:

- the Group Code of Ethics;
- implementation of the Organisational Model required by Legislative Decree 231/2001 and the related corporate procedures;
- the organisational structure of BancoPosta, as reflected in organisational charts, service orders, organisational notices and procedures determining the roles and responsibilities of the various functions;
- the "General Guidelines governing the process of contracting out BancoPosta's corporate functions to Poste Italiane" which, in implementation of the BancoPosta RFC Regulation, establish the procedures to be used in contracting out BancoPosta RFC's functions to Poste Italiane in terms of decision-making processes, the minimum content of operating guidelines, levels of services, information flows and control procedures;
- the guidelines in the Internal Control and Risk Management System (also "SCIGR"), describing the roles and duties of BancoPosta RFC's control functions, and the procedures for coordinating and ensuring the exchange of information between these functions and Poste Italiane's control functions and the flow of information to corporate bodies;
- the system for delegating powers to function heads in accordance with their responsibilities.

In terms of BancoPosta RFC's organisational structure, the existing organisational model set out in the Regulation requires, among other things:

- an interface between staff units (e.g., BancoPosta's Accountancy and Control; HR Business Partner BancoPosta) and the matching corporate functions at Poste Italiane;
- the establishment of autonomous and independent control functions in compliance with the Bank of Italy's supervisory requirements: Risk Management, Internal Auditing, Compliance and Anti-Money Laundering.

The risk assessment techniques, methods, controls and periodic audit findings are shared amongst the above control functions to promote synergies and take advantage of the specific expertise available.

In compliance with the regulatory requirements contained in the Bank of Italy's Supervisory Standards and the CONSOB regulation governing the controls to which BancoPosta is subject, in early 2017 BancoPosta's Internal Auditing function prepared its Annual Report for 2016, the purpose of which is to provide information to the various corporate bodies on the completeness, adequacy, functionality and reliability of the overall system of controls, with specific regard to information systems and the control processes, procedures and mechanisms applied in the oversight of BancoPosta's activities. The Report was prepared on the basis of the findings of the audit activities carried out by the function and set out in the Audit Plan for 2016.

The Annual Report for 2016, presented to the Board of Statutory Auditors and the Board of Directors, will subsequently be submitted to the Bank of Italy. The specific section regarding investment services will, on the other hand, be submitted to the CONSOB.

The audits were in part performed with reference to the findings of Poste Italiane's Internal Auditing function, which is responsible, in accordance with the specific operating guidelines in the "General Guidelines governing the process of contracting out BancoPosta's corporate functions to Poste Italiane", for the IT audit and the audit of the local units and distribution channels within Poste Italiane's network that are responsible for BancoPosta's processes and services.

Internal Auditing has also drawn up the Annual (2017) and Multi-year (2017 - 2019) Audit Plan, based on a risk assessment process designed to ensure adequate coverage of BancoPosta's Business Process Model, including operational and financial risks, changing aspects of the business, regulatory issues and BancoPosta RFC's organisational structures. This Plan has been presented to the Board of Statutory Auditors and submitted for the attention of the Board of Directors.

Risk management system

BancoPosta RFC has an independent Risk Management unit, responsible for ensuring, in collaboration with the Group Risk Management function, an integrated, retrospective and prospective view of the risk environment and of BancoPosta RFC's capital and organisational adequacy. Among other things, the function provides a detailed evaluation of the risk profile of the financial products sold to customers and provides the operational and business functions involved in product development and placement with advice and support. It is also responsible for periodic reporting.

During 2016, the Risk Appetite Framework was revised in accordance with the budget. The annual report for 2015 and the programme of activities for 2016 were submitted to the Board of Statutory Auditors, the Audit and Risk Committee and the Board of Directors, as were the ICAAP (Internal Capital Adequacy Assessment Process) report and the Public Risk Report for 2015. These bodies also received quarterly reports on the performance of the effective risk profile versus the determined risk appetite. The principal types of risk to which BancoPosta RFC is exposed in the course of its ordinary activities are described below:

- credit risk (including counterparty risk);
- market risk (including banking book rate risk);
- liquidity risk;
- operational risk.

In terms of the evolution of significant risks, the first half of 2016 witnessed a further reduction in the yields on Italian government securities, resulting in a further increase in fair value gains, partly recognised in profit or loss. This was partly due to the ECB's announcement of the continuation of its Quantitative Easing programme. In the second half of the year, these trends reversed and the yields on 10-year Treasury Notes (BTPs) began to rise, driven by international political events (Brexit in the UK and the presidential elections in the USA) and national issues (the constitutional referendum). This trend was reflected in unrealised gains, which were significantly reduced, reflecting the rise in the spread between BTPs and German Bunds, which rose from just under 100 to around 161 basis points.

The Basel III leverage ratio has remained within the limits set by the Company's risk appetite framework and, at around 3%, is just below the required threshold.

The natural "aging" of the securities portfolio and active management during the period, in keeping with the market scenario, have enabled BancoPosta RFC to contain the average duration of assets. This trend, allied with positive performance of postal current account deposits and prepaid cards, has resulted in a reduced exposure to banking book interest rate risk. Moreover, from the end of the first quarter of 2016, in terms of economic value, BancoPosta RFC was exposed to falling rates, rather than rising ones; the entity of the exposure is consistent with the risk appetite framework, in terms of the impact on capital adequacy.

In terms of operational risk, with regard to real estate funds sold in the period 2002-2005, which have given rise to a number of complaints and disputes, Poste Italiane SpA is closely monitoring market developments and the related initiatives put in place in order to protect its customers, in order to assess any impact on provisions for risks and charges in the financial statements. In this regard, on 16 January 2017, following a resolution passed by the Board of Directors, Poste Italiane took action - with the aim of consolidating its historical customer relationships, based on trust and transparency – to protect all the customers who purchased units issued by the Invest Real Security real estate fund and who still held the related units at 31 December 2016.

Details of the various areas of risk and the methods used for their measurement and prevention are provided in Poste Italiane SpA's financial statements for the year ended 31 December 2016.

BANCOPOSTA RFC FINANCIAL REVIEW

Key performance indicators(*) for the year ended 31 December	2016	2015
ROA ⁽¹⁾	0.87%	0.96%
ROE ⁽²⁾	29%	30%
Net interest income / Net interest and other banking income ⁽³⁾	26%	28%
Operating expenses / Net interest and other banking income ⁽⁴⁾	84%	83%

- (*) The key income ratios normally used reflect the unique nature of BancoPosta RFC and the fact that payments to Poste Italiane in reimbursement of costs are classified as "administrative expenses". The absolute amounts of the ratios are, consequently, irrelevant and should not be used for market comparisons but for analyses over time.
- (1) Represents the ratio of profit for the period and total assets.
- (2) Represents the ratio of profit for the period and equity after deducting profit for the period and the valuation reserves.
- (3) Represents the contribution from net interest income as a ratio of net interest and other banking income.
- (4) Cost/income ratio.

Operating results

RECLASSIFIED INCOME STATEMENT

for the year ended 31 December (€m)	2016	2015	Increase/(de	crease)
Interest and similar income	1,543	1,545	(2)	-0.1%
Interest and similar expense	(74)	(55)	(19)	34.5%
Net interest income	1,469	1,490	(21)	-1.4%
Fee and commission income	3,603	3,538	65	1.8%
Fee and commission expense	(66)	(55)	(11)	20.0%
Net fee and commission income	3,537	3,483	54	1.6%
Dividends and similar income	1	-	1	n/s
Profits/(Losses) on trading	3	9	(6)	-66.7%
Fair value adjustments in hadge accounting	(1)	1	(2)	n/s
Profit/(Loss) from sale of financial assets/liabilities	587	426	161	37.8%
Net interest and other banking income	5,596	5,409	187	3.5%
Net operating income	5,596	5,409	187	3.5%
Administrative expenses	(4,653)	(4,443)	(210)	4.7%
Other operating income/(expenses)	(39)	(37)	(2)	5.4%
Net operating expenses	(4,692)	(4,480)	(212)	4.7%
Operating profit/(loss)	904	929	(25)	-2.7%
Net provisions for risks and charges	(95)	(60)	(35)	58.3%
Net losses /recoveries on impairment of loans and advances	(6)	(11)	5	-45.5%
Income/(Loss) before tax from continuing operations	803	858	(55)	-6.4%
Taxes on income from continuing operations	(235)	(271)	36	-13.3%
Profit/(Loss) for the year	568	587	(19)	-3.2%

n/s: not significant

BancoPosta RFC's performance during the year resulted in profit for the year of €568 million, a reduction of €19 million (3.2%) compared with 2015. This was primarily due to an increase in administrative expenses, generated by an increase in transfer payments for the intersegment services provided by the distribution network to the Financial Services segment (up 4.7%) and an increase in net provisions for risks (up 58.3% on 2015), only partially offset by an improvement in net interest and other banking income (up 3.5%).

The interest margin amounts to €1,469 million (€1,490 million in 2015) and is the difference between:

- interest earned primarily on investments in government securities and deposits at the MEF, amounting to €1,543 million (€1,545 million in 2015);
- interest expense of €74 million (€55 million in 2015), including €20 million paid to current account holders (€34 million in 2015), €16 million (€21 million in 2015) payable for repurchase agreements, €33 million in accrued differentials on Asset Swaps (in 2015 these differentials were positive and totalled approximately €4 million) and €5 million (€1 million in 2015) in interest on guarantee deposits.

Net fee and commission income amounts to €3,537 million (€3,483 million in 2015), and includes:

- fee and commission income of €3,603 million (€3,538 million in 2015), including €1,577 million generated by the agreement with Cassa Depositi e Prestiti (€1,610 million in 2015) and €2,026 million (1,928 million in 2015) from the processing of bills paid by payment slip, sundry payments and from other services offered to customers (e.g. insurance broking);
- fees and commissions paid, amounting to €66 million (€55 million in 2015), primarily relating to debit/credit card clearing services.

Net interest and other banking income amounts to €5,596 million (€5,409 million in 2015) and, in addition to the interest margin and net fee and commission income, includes the net profit from the sale of financial assets/liabilities, totalling €587 million (€426 million in 2015). This result benefitted from non-recurring income of €121 million resulting from the sale of the share in Visa Europe following Visa Inc.'s acquisition of this company.

Net operating expenses of €4,692 million are up 4.7% on the previous year (€4,480 million in 2015), primarily due, as mentioned above, to the increase in "Other administrative expenses", which are up from €4,348 million in 2015 to €4,555 million in 2016. These expenses include €4,457 million (€4,251 million in the previous year) in transfer payments to other Poste Italiane functions in accordance with the "General Guidelines governing the process of contracting out BancoPosta's corporate functions to Poste Italiane" and the related operating guidelines for 2016. In particular, the cost of the services provided by the distribution network amounts to €4,092 million, up €194 million compared with the previous year (€3,898 million in 2015), Personnel expenses of €98 million (€95 million in 2015) are for BancoPosta employees shown in the following table. In carrying out its activities, BancoPosta RFC is, however, the recipient of services provided by other Poste Italiane functions, particularly post office and Contact Centre personnel.

Net other operating expenses of €39 million (€37 million in 2015) primarily relate to operating losses resulting from withdrawals that customers claim not to have made.

AVERAGE WORKFORCE AT BANCOPOSTA RFC

for the year ended 31 December	Average numbe	r of employees(*)
Permanent workforce	2016	2015
Executives	54	52
Middle managers (A1, A2)	460	450
Grades B, C, D, E, F	1,310	1,343
Total	1,824	1,845

for the year ended 31 December	Average numbe	r of employees(*)
Flexible workforce	2016	2015
Fixed-term contracts	3	-
Total	3	-
Total permanent and flexible workforce	1,827	1,845

Expressed in full-time equivalent terms.

Income before tax from continuing operations of €803 million (€858 million in 2015) includes net provisions for risks and charges, which are up from €60 million in 2015 to €95 million, reflecting the initiative designed to protect the customers who invested in the real estate funds sold by Poste Italiane in the period between 2002 and 2005.

Financial position and cash flow

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

Assets at 31 December (€m)	2016	2015
Cash and cash equivalents	2,511	3,169
Available-for-sale financial assets	37,263	32,597
Held-to-maturity financial assets	12,683	12,886
Due from banks	1,314	1,211
Due from customers	9,004	9,023
Hedging derivatives	191	328
Tax assets	321	130
Other assets	1,766	1,626
Total assets	65,053	60,970

Liabilities and equity at 31 December (€m)	2016	2015
Due to banks	5,799	5,259
Due to customers	50,374	45,469
Hedging derivatives	2,304	1,547
Tax liabilities	530	968
Other liabilities	2,179	2,282
Employee termination benefits	19	19
Provisions for risks and charges	462	384
Total liabilities	61,667	55,928
Total liabilities Equity	61,667 3,386	55,928 5,042
	-	
Equity	-	
Equity of which:	3,386	5,042
Equity of which: Initial reserve	3,386	5,042 1,000
Equity of which: Initial reserve Retained earnings	3,386 1,000 949	5,042 1,000 949
Equity of which: Initial reserve Retained earnings Valuation reserves	3,386 1,000 949 869	1,000 949 2,506

With regard to the financial position, at 31 December 2016, cash and cash equivalents amount to €2,511 million (€3,169 million at the end of 2015) and include €2,288 million (€2,953 million at 31 December 2015) in cash on hand at post offices and cash in transit services deriving from postal current account balances, postal savings products (Interest-bearing Postal Certificates and Postal Savings Books deposits) not yet deposited at Cassa Depositi e Prestiti, or advances collected from the State Treasury to finance post office operations.

Available-for-sale financial assets amount to €37,263 million (€32,597 million at 31 December 2015) and consist of investments in Italian government securities, securities guaranteed by the Italian government and equity instruments (primarily shares in Mastercard Incorporated and Visa Incorporated). The increase in debt securities, which are up from €32.4 million in 2015 to €37.2 million, is linked to the purchase of new securities in which to invest the increased volume of current account deposits in 2016, which has offset fair value losses. In addition, in view of the macroeconomic

environment, the strategy aimed at managing the duration of the portfolio, so as to protect against the exposure of securities to changes in fair value resulting from potential rises in interest rates, continued during the year.

Equity instruments of €104 million are down 43% (€78 million), essentially due to the sale of the ordinary share in Visa Europe, completed on 21 June 2016, to Visa Incorporated. The carrying amount of the share at 31 December 2015 was €111 million. Poste Italiane received a consideration equal to a fair value of €121 million (a sum recognised as non-recurring income and entered as "Other income from financial activities"). Payment was received as follows: €88 million in cash; €25 million in Visa Incorporated preference shares (Series C Convertible Participating Preferred Stock), convertible into ordinary shares in several tranches between the fourth and the twelfth year after the closing, based on a conversion rate and a discount rate that take into account the illiquidity of the shares; and €8 million payable by Visa Incorporated after three years from the closing of the transaction.

Held-to-maturity financial assets, consisting of fixed payment or fixed maturity debt securities, amount to €12,683 million, marking a reduction of €203 million compared with 31 December 2015. This is primarily due to the redemption of matured securities, totalling €1,300 million, and the purchase of new securities with a nominal value of €1,080 million. Amounts due from customers are down from the €9,023 million of 31 December 2015 to €9,004 million at 31 December 2016. They include €7,499 million (€6,246 million at 31 December 2015) in amounts deposited by private and Public Administration customers and held at the MEF, which, under a specific agreement with the MEF, earn variable rates of return calculated, respectively, on the basis of the Euro OverNight Index Average (EONIA) rate and a basket of government securities and money market indices.

Other assets are up from €1,626 million at 31 December 2015 to €1,766 million at the end of 2016. They essentially regard the payment of tax withholdings and items in progress that will be settled after the end of the reporting period.

The amount due to banks, totalling €5,799 million (€5,259 million at 31 December 2015), primarily regards repurchase agreements amounting to €5,381 million (€4,895 million at 31 December 2015), relating to:

- €3,904 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;
- €1,477 million relating to BancoPosta's ordinary borrowing operations with primary financial institutions as funding for incremental deposits used as collateral for Asset Swaps and repurchase agreements.

The amount due to customers is up from €45,469 million at the end of December 2015 to €50,374 million at 31 December 2016. This regards current account deposits of €45,098 million (€43,093 million at 31 December 2015), other forms of deposit of €2,833 million (€1,977 million at 31 December 2015), primarily including Postepay and Postepay Evolution accounts, totalling €2,141 million (€1,438 million at 31 December 2015), and amounts due to the MEF in relation to advances from the State Treasury, totalling €2,429 million, which at 31 December 2015 had a credit balance and was, therefore, shown in "Amounts due from customers".

The debit balance with the MEF in relation to advances from the State Treasury is the result of Legislative Decree 244/2016 (the so-called "Mille Proroghe" decree), which has altered the timing of pension payments, with the payment of pensions for January 2017 being postponed by one bank working day. Compared with 31 December 2015, therefore, deposit of the amount required to pay the pensions for January 2017 by the paying entity. INPS, took place on the first working day of the month of payment, rather than on the last working day in December 2016.

The increase in direct deposits is due to general market conditions, marked by low interest rates and a lack of attractive alternative forms of cash investment.

Other liabilities of €2,179 million (€2,282 million at 31 December 2015) primarily regard tax liabilities in the form of tax withholdings, items in progress that will be settled after the end of the reporting period and amounts payable to other Poste Italiane functions. In this regard, it should be noted that, in carrying out its activities, BancoPosta RFC makes use of real estate assets (e.g., use and management of office space for BancoPosta's operations) and technology assets (e.g., the design and implementation of new services, the development and maintenance of operations and business software) owned by Poste Italiane SpA. The provision of these services is regulated by operating guidelines and remunerated through the payment by BancoPosta RFC of transfer prices to Poste Italiane.

BancoPosta RFC's equity at 31 December 2016 amounts to €3,386 million (€5,042 million at the end of 2015). In addition to the initial reserve of €1 billion, it includes retained earnings of €949 million, the fair value reserve of €869 million, after reflecting fair value losses on investments in available-for-sale financial assets, and profit for the year of €568 million.

BancoPosta RFC events after 31 December 2016

Events after the end of the reporting period are described in other sections of the document and there are no further material events occurring after 31 December 2016 to report.

Outlook for BancoPosta RFC

In 2017, BancoPosta RFC will continue to implement the strategic objectives forming the basis for the Business Plan, with particular attention to:

- developing the customer base, through targeted offerings of products and services capable of consolidating customer relations and boosting both deposits and the related investments in financial instruments;
- focusing on the management of Postal Savings, with talks on the terms and conditions for the new Agreement, governing the provision of intermediation services on behalf of Cassa Depositi e Prestiti SpA due to continue in 2017;
- strengthening the position in transaction banking, focusing above all on collections and payments;
- expanding the distribution of consumer credit products and consolidating digital banking activities as part of Poste Italiane's wider multi-channel strategy.

In addition, in view of ongoing volatility in the international and national financial markets, the strategy of actively managing the securities portfolio, with the aim of stabilising the overall return, in terms of interest income and capital gains, will continue.

Other information on BancoPosta RFC

Related party transactions

Information on transactions between BancoPosta and its related parties is provided in Poste Italiane's financial statements (5. BancoPosta RFC's Separate Report for the year ended 31 December 2016, Part H of the notes).

Separate financial statements

Poste Italiane SpA's financial statements include separate BancoPosta financial statements in compliance with art. 2, paragraph 17-undecies of Law 10 converting Legislative Decree 225 of 29 December 2010, requiring separate disclosure of BancoPosta's ring-fenced assets and liabilities.

Intersegment transactions

Intersegment transactions between BancoPosta and Poste Italiane functions outside the ring-fence are set out in Poste Italiane's financial statements (5. BancoPosta RFC's Separate Report for the year ended 31 December 2016, Part A of the notes).

Information on proceedings and BancoPosta RFC's relations with the authorities are provided in the section, "Principal relations with the authorities"

13 Other information

The environment

The Poste Italiane Group is committed to environmental protection which, within the scope of its green strategy, it considers to be a vital element in its path to growth. For this reason, all the business activities carried out entail implementation of environmental sustainability actions and policies inspired by principles of saving, recovery and recycling, innovation and security.

Over two-thirds of Poste Italiane's polluting emissions are attributable to the energy used to supply its properties. For this reason, the plan to optimise energy use, by encouraging staff to adopt a virtuous approach to energy, continued during 2016. This included information campaigns focusing on the need to save energy (for example, on the careful use of "heat pumps"), and the introduction of technical initiatives designed to reduce waste, including the installation and activation of energy management devices for monitoring energy consumption, enabling, for example, the analysis of consumption on Saturdays and Sundays, measurement at the sites where energy consumption is highest and the correct setting of temperatures and time-settings for cooling and heating systems. In addition, over 20,000 human presence sensors have been installed.

Fleet management is also a key component of the Group's green strategy, which has seen deployment of a growing number of low environmental impact vehicles. In this regard, around 4,000 alternative fuel vehicles were used for road transport in 2016 (2,750 in 2015), including 1,000 electric-powered vehicles and 3,000 vehicles powered by natural gas and LPG. Moreover, thanks to renewal of the entire four-wheel fleet, Poste Italiane now has vehicles in lower pollution, fuel consumption and specific emissions categories with respect to those previously in use.

As part of the Mobility Management project, which aims to support the adoption of sustainable mobility solutions in urban areas, special agreements enabling the Group's employees to purchase annual season tickets for local public transport in certain Italian cities, at reduced rates and in instalments, continued, as did initiatives designed to convey the importance of new, equitable and sustainable lifestyles to employees who use private vehicles to commute to work on a daily basis, with the main aim of making a significant contribution to reducing CO_2 emissions into the air. Consequently, a new car-sharing was launched in Rome and Milan, accessible via the Company's intranet or the internet, which enables use of only one private vehicle by a group of employees for their daily commuting. Furthermore, to encourage staff to walk and cycle to work, company changing rooms were installed at the Mestre (VE) site, in addition those already available at the Rome headquarters.

In this connection, the Group continued to participate in international programmes aimed at reducing greenhouse gas emissions, such as the Environmental Measurement and Monitoring System (EMMS) run by the International Post Corporation (IPC), the Greenhouse Gas Reduction Programme set up by Posteurop, and the new OSCAR (Online Solution for Carbon Analysis and Reporting) programme, launched in July by the UPU (Universal Postal Union) with the aim of reporting and monitoring the CO_2 emissions of postal operators. Thanks to the Group's growing commitment to such issues, the Poste Italiane Group has this year been included in the so-called "silver class" under the EMMS programme. This is reward for postal operators who have succeeded in achieving significant qualitative results (e.g., energy efficient operating systems, policies and procedures) accompanied by concomitant cuts in CO_2 emissions. On a scale of 0 to 100, the Group scored over 80.

Related party transactions

Internal related parties include subsidiaries and associates directly or indirectly managed by Poste Italiane SpA. External related parties include the majority shareholder, the Ministry of the Economy and Finance, entities controlled, also jointly, by the Ministry of the Economy and Finance, and companies associated with them. The Group's key management personnel and pension funds providing post-employment benefits for staff employed by the Group and related entities are also related parties. The state and public bodies, other than the Ministry of the Economy and Finance, are not deemed to be related parties. Transactions involving financial assets and liabilities represented by instruments traded on organised markets are not deemed to be related party transactions.

With the aim of ensuring the transparency and substantial and procedural correctness of transactions with related parties and connected persons, Poste Italiane has adopted "Guidelines for the management of transactions with related and connected parties", approved by Poste Italiane SpA's Board of Directors in July 2015. The Guidelines have been drawn up in compliance with the principles established by the CONSOB in the Regulation adopted with Resolution 17221 of 12 March 2010 and Announcement DEM/10078683 of 24 September 2010.

The Guidelines apply the regulations contained in Bank of Italy Circular 263/2006, "New prudential supervisory standards for banks", Title V, Chapter 5, "Risk assets and conflicts of interest with connected parties" and Bank of Italy Circular 285/2013 ("Supervisory Standards"), applicable to Poste Italiane with reference to transactions entered into by BancoPosta with persons connected with Poste Italiane.

The scope of application of the Guidelines differs depending on the applicable regulations. This means that the CONSOB's requirements apply to Poste Italiane (in carrying out both its postal activities and those of BancoPosta and in the conduct of transactions with Poste Italiane's related parties through subsidiaries), whilst the standards issued by the Bank of Italy apply solely to BancoPosta's transactions with Poste Italiane's connected parties. The updated version of the Guidelines is published on Poste Italiane's website at:

http://www.posteitaliane.it/en/governance/company-documents/related-parties-connected-persons.shtml The document is also available in the section dedicated to BancoPosta at:

http://www.posteitaliane.it/it/governance/documenti_bancoposta/operativita_parti_correlate_sogg_collegati.shtml.

On 11 October 2016, Poste Italiane's Board of Directors, having obtained the consent of the Related and Connected Parties Committee, authorised the execution of short-term repurchase agreements with Cassa Depositi e Prestiti with a total nominal amount of up to, but no more than, €2.5 billion. Whilst meeting CONSOB's definition of greater significance, the transaction is ordinary in nature and, therefore, again according to the same CONSOB regulations, is exempted from the decision-making procedures for such transactions. The first loans were granted in accordance with the above agreement in early 2017.

Details of the impact of related party transactions on the financial position and profit or loss are provided in Poste Italiane's financial statements for the year ended 31 December 2016 (Notes to the Poste Italiane Group's financial statements – Additional information; Notes to Poste Italiane SpA's financial statements – Additional information)

Statement of reconciliation of profit and equity

The statement of reconciliation of the Parent Company's profit/(loss) for the period and equity with the consolidated amounts at 31 December 2016, compared with the statement at 31 December 2015, is included in Poste Italiane's financial statements for the year ended 31 December 2016 (Notes to the Poste Italiane Group's financial statements – Equity).

Exceptional and/or unusual transactions

Disclosures regarding exceptional and/or unusual transactions in 2016 are provided in Poste Italiane's financial statements for the year ended 31 December 2016 (Notes to the Poste Italiane Group's financial statements – Exceptional and/or unusual transactions; Notes to Poste Italiane SpA's financial statements – Exceptional and/or unusual transactions)

14 Proposed shareholder resolutions

The Board of Directors proposes that the Annual General Meeting approve Poste Italiane SpA's financial statements for the year ended 31 December 2016 (including BancoPosta RFC's Separate Report), accompanied by the Directors' Report on Operations.

Based on the fact that the Poste Italiane Group's consolidated profit for 2016 amounts to approximately €622,160 thousand (entirely attributable to owners of the Parent), in line with the agreed dividend policy, the Board of Directors proposes that the Annual General Meeting:

- appropriate BancoPosta RFC's profit for the year of €568,276,740 as follows:
 - a.1) €110,000,000 to "Reserves and retained earnings";
 - a.2) €458,276,740 at the Company's disposal.
- appropriate Poste Italiane SpA's profit for 2016, amounting to €625,341,360 euro, as follows:
 - b.1) €509,382,900 to pay shareholders a dividend of €0.39 per share, payable to the holders of each of the 1,306,110,000 ordinary shares in issue at the ex dividend date of 19 June 2017;
 - b.2) €115,958,460 to "Retained earnings", including the €110,000,000 referred to in point a.1, in relation to BancoPosta RFC.
- to pay the above dividend of €0.39 per ordinary share for 2016 before any applicable taxation from 21 June 2017, with an ex dividend date of 19 June 2017 and a record date (defined in accordance with art. 83-terdecies of Legislative Decree 58 of 24 February 1998 and art. 2.6.6, paragraph 2 of the Regulations for the Markets organised and managed by Borsa Italiana SpA), of 20 June 2017.

Appendix – Key performance indicators for principal Poste Italiane Group companies

The figures shown in the tables below reflect the financial and operational indicators (as deduced from the related reporting packages) of the principal Group companies, prepared in accordance with International Financial Reporting Standards (IFRS) and approved by the boards of directors of the respective companies.

POSTEL SPA(*)

for the year ended 31 December (€000)	2016	2015	Increase/(Increase/(decrease)	
Revenue from sales and services	215,593	224,366	(8,773)	-3.9%	
Operating profit/(loss)	(7,721)	570	(8,291)	n/s	
Profit/(loss) for the period	(7,968)	(3,535)	(4,433)	n/s	
Investment	12,120	13,561	(1,441)	-10.6%	
Equity	96,081	103,265	(7,184)	-7.0%	
Permanent workforce – average	1,162	1,186	(24)	-2.0%	
Flexible workforce – average	29	33	(4)	-12.1%	

^(*) In the first half of 2016, PosteShop SpA was merged with and into Postel SpA, effective for accounting and tax purposes from 1 May 2016. n/s: not significant

SDA EXPRESS COURIER SPA

for the year ended 31 December (€000)	2016	2015	Increase/(decrease)
Revenue from sales and services	568,165	534,950	33,215	6.2%
Operating profit/(loss)	(35,612)	(51,071)	15,459	-30.3%
Profit/(loss) for the period	(28,904)	(39,322)	10,418	-26.5%
Investment	4,858	10,267	(5,409)	-52.7%
Equity(*)	9,125	498	8,627	n/s
Permanent workforce – average	1,376	1,434	(58)	-4.0%
Flexible workforce – average	66	144	(78)	-54.2%

^(*) Equity includes the recapitalisation of €38 million carried out by the Parent Company in 2016. n/s: not significant

POSTE TUTELA SPA

for the year ended 31 December (€000)	2016	2015	Increase/(decrease)	
Revenue from sales and services	87,138	84,039	3,099	3.7%
Operating profit/(loss)	694	411	283	68.9%
Profit/(loss) for the period	503	258	245	95.0%
Investment	59	41	18	43.9%
Equity	13,153	12,662	491	3.9%
Permanent workforce – average	15	15	-	n/s

n/s: not significant

POSTECOM SPA

for the year ended 31 December (€000)	2016	2015	Increase/(decrease)
Revenue from sales and services	73,770	79,015	(5,245)	-6.6%
Operating profit/(loss)	2,590	1,999	591	29.6%
Profit/(loss) for the period	1,786	77	1,709	n/s
Investment	6,606	7,579	(973)	-12.8%
Equity(*)	15,529	21,003	(5,474)	-26.1%
Permanent workforce – average	283	289	(6)	-1.9%
Flexible workforce – average	2	6	(4)	-66.7%

^(*) During 2016, the company paid dividends totalling €7 million. n/s: not significant

EUROPA GESTIONI IMMOBILIARI SPA

for the year ended 31 December (€000)	2016	2015	Increase/(decrease)	
Revenue from sales and services	94,948	14,447	80,501	n/s
Operating profit/(loss)	4,671	2,000	2,671	n/s
Profit/(loss) for the period	1,585	943	642	68.1%
Investment	380	812	(432)	-53.2%
Equity	235,402	233,833	1,569	0.7%
Permanent workforce – average	26	30	(4)	-13.3%

n/s: not significant

MISTRAL AIR SRL

for the year ended 31 December (€000)	2016	2015	Increase/(decrease)
Revenue from sales and services	84,919	115,772	(30,853)	-26.6%
Operating profit/(loss)	(3,979)	1,078	(5,057)	n/s
Profit/(loss) for the period	(2,942)	573	(3,515)	n/s
Investment	611	88	523	n/s
Equity	1,687	4,577	(2,890)	-63.1%
Permanent workforce – average	143	152	(9)	-5.9%
Flexible workforce – average	43	77	(34)	-44.2%

n/s: not significant

BANCA DEL MEZZOGIORNO - MEDIOCREDITO CENTRALE SPA

for the year ended 31 December (€000)	2016	2015	Increase/(Increase/(decrease)	
Net interest income	41,678	47,725	(6,047)	-12.7%	
Net fee and commission income	49,581	44,055	5,526	12.5%	
Profit/(loss) for the period	29,146	32,427	(3,281)	-10.1%	
Financial assets	2,685,827	2,523,777	162,050	6.4%	
Equity(*)	425,042	425,511	(469)	-0.1%	
Permanent workforce – average	293	274	19	6.9%	
Flexible workforce – average	24	21	3	14.3%	

^(*) During 2016, the company paid dividends totalling €26 million.

POSTE VITA SPA(*)

for the year ended 31 December (€000)	2016	2015	Increase/(decrease)
Insurance premium revenue(**)	19,820,265	18,145,452	1,674,813	9.2%
Profit/(loss) for the period	377,511	388,421	(10,910)	-2.8%
Financial assets	115,417,452	102,210,858	13,206,594	12.9%
Technical provisions for insurance business	113,534,750	100,201,523	13,333,227	13.3%
Equity(***)	3,292,074	3,283,955	8,119	0.2%
Permanent workforce – average	361	311	50	16.1%
Flexible workforce – average	4	3	1	33.3%

^(*) The figures shown have been prepared in accordance with IFRS and therefore may not coincide with those in the financial statements prepared under Italian GAAP and in accordance with the Italian Civil Code.

POSTE ASSICURA SPA(*)

for the year ended 31 December (€000)	2016	2015	Increase/(decrease)	
Insurance premium revenue(**)	108,415	93,287	15,128	16.2%
Profit/(loss) for the period	12,607	8,954	3,653	40.8%
Financial assets	178,146	139,884	38,262	27.4%
Technical provisions for insurance business	143,164	112,317	30,847	27.5%
Equity	76,057	65,225	10,832	16.6%
Permanent workforce – average	48	57	(9)	-15.8%

^(*) The figures shown have been prepared in accordance with IFRS and therefore may not coincide with those in the financial statements prepared under Italian GAAP and in accordance with the Italian Civil Code.

^(**) Insurance premium revenue is reported gross of outward reinsurance premiums.

^(***) During 2016, the company paid dividends totalling €340 million.

^(**) Insurance premium revenue is reported gross of outward reinsurance premiums.

BANCOPOSTA FONDI SPA SGR

for the year ended 31 December (€000)	2016	2015	Increase/(decrease)	
Fee income	75,493	58,084	17,409	30.0%
Net fee income	42,571	34,188	8,383	24.5%
Profit/(loss) for the period	21,751	16,496	5,255	31.9%
Financial assets (liquidity and securities)	62,242	65,851	(3,609)	-5.5%
Equity(*)	46,013	56,820	(10,807)	-19.0%
Permanent workforce – average	55	52	3	5.8%
Flexible workforce – average	1	1	-	n/s

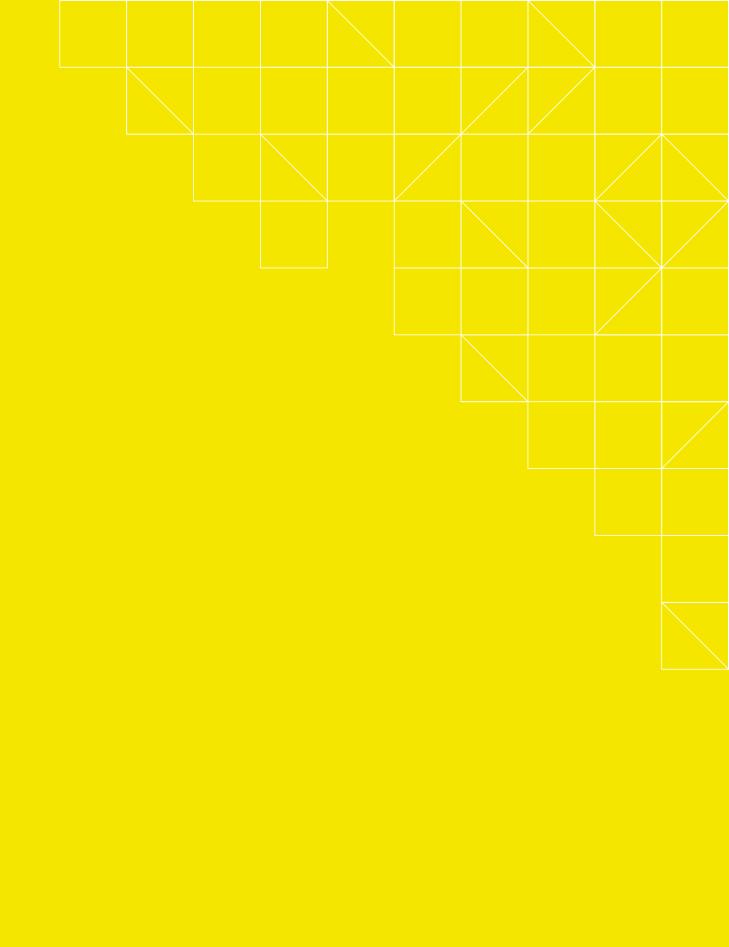
^(*) During 2016, the company paid dividends totalling \in 32 million. n/s: not significant

POSTEMOBILE SPA(*)

for the year ended 31 December (€000)	2016	2015	Increase/(decrease)
Revenue from sales and services	267,685	333,530	(65,845)	-19.7%
Operating profit/(loss)	28,345	31,116	(2,771)	-8.9%
Profit/(loss) for the period	17,903	18,726	(823)	-4.4%
Investment	20,549	29,077	(8,528)	-29.3%
Equity(**)	56,043	66,657	(10,614)	-15.9%
Permanent workforce – average	211	308	(97)	-31.5%
Flexible workforce – average	7	5	2	40.0%

The partial demerger of the company's fixed line telecommunications business to Poste Italiane was executed on 27 April 2016 and the transaction was effective for legal, accounting and tax purposes from 1 May 2016.

^(**) During 2016, the company paid dividends totalling €18 million.



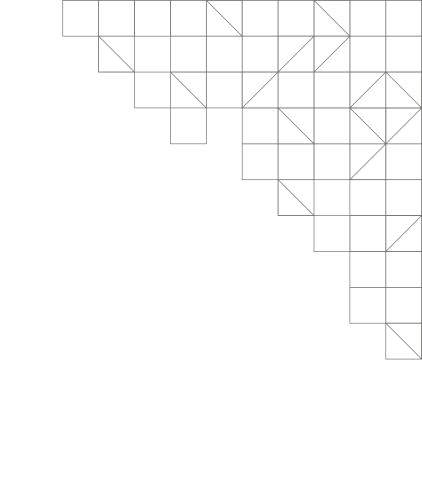
Poste Italiane Financial statements

for the year ended 31 December 2016



Poste Italiane Financial statements for the year ended 31 December 2016

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01 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 and, at 31 December 2015, the Company was 64.7% owned by Ministry of the Economy and Finance ("MEF"). On 20 October 2016, the MEF subscribed for new shares issued by Cassa Depositi e Prestiti SpA (CDP), amounting to €2,930 million, inclusive of the share premium. The new shares were paid for via the MEF's transfer of a 35% interest in Poste Italiane SpA to CDP. On 30 December 2016, the MEF awarded approximately 5.7 million bonus shares, representing 0.4% of Poste Italiane's share capital, to purchasers of the shares during the Initial Public Offering of 27 October 2015 who had held the shares continuously for twelve months. At 31 December 2016, therefore, 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 Group assesses and reports on the performance of its business on the basis of four operating segments: Postal and Business Services, Financial Services, Insurance and Asset Management Services, and Other Services. Postal and Business Services include mail, express delivery, logistics, parcels and philately, in addition to the activities performed by the various structures of Poste Italiane SpA in favour of the other sectors in which the Group operates. Financial Services primarily regard the activities of BancoPosta (as listed in art. 2 of Presidential Decree 144 of 14 March 2001), which are managed as a segregated portfolio within Poste Italiane SpA; these include the collection of all forms of savings deposits from the public, the provision of payment services, foreign currency exchange, the promotion and arrangement of loans issued by banks and other authorised financial institutions, and the provision of investment services. Insurance and Asset Management Services include the insurance services provided by the subsidiary, Poste Vita SpA, which operates in ministerial life assurance Classes I, III e V, and by its subsidiary, Poste Assicura SpA, which operates in non-life insurance, and asset management services, in 2016 provided by the subsidiary, BancoPosta Fondi SGR SpA, which is to be transferred to the associate, Anima Holding SpA (further details are provided in the section, "Basis of consolidation and corporate actions"). Other Services include the activities carried out by PosteMobile SpA and Consorzio per i servizi di telefonia Mobile ScpA.

This section of the Annual Report for the year ended 31 December 2016 includes the consolidated financial statements of the Poste Italiane Group and the separate financial statements of Poste Italiane SpA, to which BancoPosta RFC's Separate Report is attached. Information on the accounting policies, measurement criteria and estimation methods adopted by both the Group and by Poste Italiane SpA (note 2 – Basis of preparation and significant accounting policies), is provided only once, in sections relevant to both sets of statements. Unless otherwise indicated, therefore, the contents of these sections apply to both the consolidated and separate financial statements.

Note 5 includes BancoPosta RFC's Separate Report, which forms an integral part of Poste Italiane SpA's financial statements, but is prepared in accordance with the specific financial reporting rules laid down by the applicable banking regulations.

The consolidated financial statements of the Poste Italiane Group and the separate financial statements of Poste Italiane SpA (also, the annual accounts) refer to the year ended 31 December 2016 and have been 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⁽³²⁾, 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.

⁽³²⁾ The statement of comprehensive income shows "Profit/(loss) for the year" and "Other comprehensive income" recognised directly in equity. The latter includes, but is not limited to, actuarial gains/(losses) from defined benefit plans (employee termination benefits and pensions plans), unrealised gains/(losses) on available-for-sale financial assets and the effective portion of cash flow hedges. This Statement includes items that will be reclassified to profit or loss and items that will not.

O2 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 15 March 2017, the date on which the Board of Directors of Poste Italiane SpA approved the annual accounts.

98 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 2.6).

The statement of financial position has been prepared on the basis of the "current/non-current distinction"(33). In the statement of profit or loss, expenses are classified according to their nature. The indirect method(34) 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.

⁽³³⁾ 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).

⁽³⁴⁾ 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.

In order to allow comparison on a like-for-like basis with amounts for the year ended 31 December 2015, when organisational changes made it necessary to re-allocate certain Group companies to the relevant operating segments⁽³⁵⁾ and to make a number of changes to presentation, certain amounts and notes for the comparative period have been reclassified.

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⁽³⁶⁾, 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.

⁽³⁵⁾ Following a number of organisational changes in 2015, from 2016 BancoPosta Fondi SpA SGR, which was previously allocated to the Financial Services segment, now forms part of the Insurance Services and Asset Management segment, whilst Poste Tributi ScpA, which was previously allocated to the Postal and Business Services segment, has been transferred to the Financial Services segment.

⁽³⁶⁾ 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. This test is performed with reference to the cash generating unit ("CGU") to which the goodwill is attributable. An impairment loss is recognised in profit or loss for the amount by which the net carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the cash generating unit's fair value less costs to sell and value in use⁽³⁷⁾, calculated as the present value of the future cash flows expected to be derived from the cash generating unit and from its disposal at the end of its useful life. Impairment losses on goodwill cannot be subsequently reversed.

⁽³⁷⁾ Value in use is determined based on the method described below in "Impairment of assets".

When the impairment resulting from the test is higher than the carrying amount of the goodwill attributed to the cash generating unit, the residual amount is attributed to the assets included in the cash generating unit in proportion to their carrying amounts. The minimum attributable amount is the highest of:

- the related fair value of the asset less costs to sell,
- the related value in use, when determinable, and
- zero.

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. 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. Except in the case of goodwill, if the impairment indicators no longer exist, the carrying amount of the asset 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.

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In the Poste Italiane Group's consolidated financial statements, investments in subsidiaries that are not significant and are not consolidated and those in companies over which the Group exerts significant influence ("associates") are accounted for using the equity method. See the note on the "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 is recognised in profit or loss as an impairment loss. When an impairment no longer exists, the carrying amount of the asset 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.

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⁽³⁸⁾. 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

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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⁽³⁹⁾ 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.

This is possible for transactions carried out on organised markets (the "regular way").

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 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.

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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(40)

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.

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(41)

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. Amounts accumulated in equity are recycled to profit or loss in the period in which the hedged item affects profit or loss.

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 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.

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.

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.

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 section D3.

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. and, from 1 January 2016, Postel 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. From 2013, following the adoption of new tax consolidation rules, 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".

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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⁽⁴²⁾, 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⁽⁴³⁾.

Green Certificates (Emission Allowances)

With reference to Group companies subject to these rules⁽⁴⁴⁾, 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 Scheme, 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, "Other 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.

BancoPosta cash and deposits

Cash and securities held at post offices, and bank deposits attributable to the operations of BancoPosta, 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.

⁽⁴²⁾ These are properties held by EGI SpA and not accounted for in "Investment property" as they were purchased for sale or subsequently reclassified

⁽⁴³⁾ 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.

⁽⁴⁴⁾ The subsidiary, Mistral Air Srl.

Cash and cash equivalents

Cash and cash equivalents refer to cash in hand, deposits held at call with banks, amounts that at 31 December 2016 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.

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, and, in accordance with IFRS 2 – Share-Based Payments, the effects of the award of bonus shares to employees in connection with the Parent Company's Initial Public Offering in 2015. 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

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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 policies. These products are accounted for as follows:

- insurance premiums are accounted for when the policies are written, recognised as income and classified in revenue; 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⁽⁴⁵⁾ (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, a changes in technical provisions and the cost of claims 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.

Investments contracts not linked to separately managed accounts

Investment contracts (a type of contract not currently present) which are not related to separately managed accounts, and which include a portion of "linked" contracts, are accounted for in accordance with IAS 39, as follows:

- technical provisions are recognised as financial liabilities and are measured at fair value, whilst the related financial instruments are accounted for as assets;
- premiums and changes in technical provisions are not recognised in income, but rather, only fees and commissions are recorded as revenue, and commissions and other charges are recorded as cost. IAS 18 and IAS 39 require revenue and costs associated with the contracts to be allocated over the contract term, based on the service supplied.

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 and defined contribution 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.

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⁽⁴⁶⁾.

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.

The termination of employment (TFR) 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.

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⁽⁴⁶⁾ 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 benefit plans also include supplementary pension plans guaranteeing members and their surviving spouses pensions in addition to those managed by INPS to the extent of and in accordance with the conditions provided for in specific regulations covered by the collective labour contract and legislation. The initial recognition and subsequent measurement of such plans are consistent with the valuation of the TFR described above. Measurement of the liability recognised in the financial statements is based on calculations performed by independent actuaries.

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 decides to terminate the employees, 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 employee benefits consist of benefits not payable within twelve months of the end of the reporting period during which the employees provided their services. Generally, there is not the same degree of uncertainty regarding the measurement of other long-term employee benefits as there is in relation to post-employment benefits. As a result, IAS 19 permits use of a simplified method of accounting: 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 based on 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⁽⁴⁷⁾.

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.

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⁽⁴⁷⁾ 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 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 2016 to reflect variations in estimates, due to future regulatory enactments or following the finalisation of expired agreements to be renewed.

At 31 December 2016, Poste Italiane Group's receivables outstanding with central and local authorities amounted to approximately €1 billion (€1.3 billion at 31 December 2015), gross of provisions for doubtful debts. The significant decrease in the amounts outstanding at 31 December 2016 and 31 December 2015, 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 2016	at 31 December 2015
Universal Service compensation (i)	139	334
Electoral subsidies (ii)	83	83
Remuneration of current account deposits (iii)	8	15
Delegated services (iii)	28	28
Distribution of Euroconvertors (iv)	6	6
Other	3	3
Trade receivables due from the MEF	267	469
Loans and receivables due from the MEF		
for repayment of loans accounted for in liabilities	1	3
Shareholder transactions:		
Amount due from MEF following cancellation of EC Decision of 16 July 2008 (v)	45	45
Total amounts due from the MEF	313	517
Receivables due from Ministries and Public Administration entities: Cabinet Office for publisher tariff subsidies (vi)	1	52
Receivables due from Ministries and Public Administration entities: Ministry for Econ. Dev. (vii)	75	72
Other trade receivables due from Public Administration entities (viii)	557	557
Trade receivables due from Public Administration entities	633	681
Other receivables and assets:		
Sundry receivables due from Public Administration entities (ix)	8	9
Current tax assets and related interest (x)	56	59
Total amounts due from the MEF and Public Administration entities	1,010	1,266

Specifically, at 31 December 2016, the total exposure to the State includes the following items.

- (i) Receivables related to Universal Service compensation, totalling €139 million, including:
 - €67 million relating to the remaining compensation due for 2015, which is funded in the state budget for 2017;
 - €72 million relating to compensation for previous years, of which €41 million funded in the state budget for 2017 and €31 million unfunded.
 - In 2016, the Group received €262 million in accrued compensation for the period, as per the new *Contratto di Programma* (Service Contract), an additional €131 million related to compensation for 2015 and €64 million related to compensation for past years.
- (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.
- (iii) Sums due from the MEF in the amount of €36 million, accruing during the period and not giving rise to any particular concerns.
- (iv) Receivables in the amount of €6 million, for the distribution of Euroconverters and acknowledged in the MEF letter, for which provision has been made in the state budget for 2017.
- (v) Receivables of €45 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. This amount was acknowledged in the MEF letter up to €6 million and provision has been made in the state budget for 2017.
- (vi) A residual sum due from the Cabinet Office, totalling €1 million, and acknowledged in the MEF Letter. Provision has been made in the state budget for 2017.
- (vii) Receivables due from the Ministry of Economic Development, amounting to €75 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.
- (viii) Regarding receivables outstanding with central and local government entities, totalling €557 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.
- (ix) Other receivables of €8 million under collection, though provisions for the full amount have been made.
- Corporate income tax (IRES) overpayments and related interest to be recovered in relation to the unreported IRAP deduction of €56 million. Recovery of a large part of the amount due, attributable to the Parent Company, Poste Italiane, is disputed and, on 24 November 2016, the Provincial Tax Tribunal for Rome upheld Poste Italiane's appeal, ordering the tax authorities in Rome to refund the amounts claimed. There is uncertainty over the time necessary to collect the amount due. Any elements of uncertainty or risk arising as the dispute progresses will be re-assessed by the Company and reflected in future financial statements.

At 31 December 2016, 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.

Impairment tests and cash generating units

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

In particular, two cash generating units (CGUs) are identified for the Parent Company - BancoPosta RFC and the remaining Postal and Business Services segment – and goodwill has been allocated to both of these. 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 2016 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).

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.

In the test carried out at 31 December 2016, use was made of an assumed growth rate of 1.2%, while the WACC for each CGU tested for impairment, determined in accordance with best market practices and for each operating segment, ranged from 6.16% to 6.97%.

The cost of equity (Ke) is 7.42% for banking activities and 7.47% for asset management activities.

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 2016, the Parent Company's Postal and Business Services segment was tested again for impairment. In this respect, reference was made, among other things, to the transfer prices that BancoPosta RFC is expected to pay for the services provided by Poste Italiane's network, as determined in the 2015-2019 business plan approved by the Parent Company's Board of Director on 15 May 2015. The impairment test determined that the related carrying amounts are fair.

In addition, in assessing the value of non-current assets of the Postal and Business service 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 2016. The fair value of the Parent Company's properties used in operations continued to be significantly higher than their carrying amount. 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 Postal and Business Services 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 (see section 2.5 - Determination of fair value).

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; such calculations are then regularly verified by independent external actuaries. 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 section D4, the Annual General Meeting of Poste Italiane SpA's shareholders held on 24 May 2016 approved the "Long-term Incentive Plan for 2016-2018 (LTIP) - Phantom Stock Plan". 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.

2.5 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 2015 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.

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.

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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 (Bloomberg Composite Price) 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.

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

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.

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' 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.

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

2.6.1 Accounting standards and interpretations applicable from 1 January 2016

Annual Improvement Cycle to IFRSs 2010-2012 adopted with Regulaton (EU) n. 28/2015 in connection with the annual projects to improve and revise international accounting standards.

- IAS 19 Employee benefits Defined Benefit Plans: Employee Contributions adopted with Regulation (EU) no. 29/2015. The amendment clarifies the application of IAS 19 to defined benefit plans in connection with contributions linked to service by the employee or a third party. These contributions reduce the entity's service cost in providing benefits and, to the extent that they are commensurate with the service provided by the employee in a given period, can be deducted fully from the cost for the period, instead of being allocated over the employee's years of remaining service.
- IFRS 11 Joint Arrangements amended by Regulation (EU) no. 2173/2015. The amendment provides that when an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes a business it will apply all the principles contained in IFRS 3. This applies to the acquisition of both the initial interest and additional interests. On the other hand, an interest held prior to the coming into effect of the amendment is not remeasured, in the event that the acquisition of an additional interest allows the entity to retain joint control (i.e. the additional interest acquired does not give the entity a controlling interest).
- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets amended by Regulation (EU) no. 2231/2015. The amendment clarifies whether it is appropriate to use revenue-based methods to calculate the depreciation or amortisation of an asset (in addition to those permitted by the pre-existing versions of IAS 16 and IAS 38 for tangible and intangible assets, respectively). The amendment defined this method as inappropriate in the case of tangible assets and as appropriate for intangible assets but only if it can be demonstrated that revenue and the consumption of the economic benefits of the intangible assets are highly correlated. The amendment is founded on the existence of cases where the revenue generated by the activity that includes the use of an asset typically reflects factors that are not directly linked to consumption of the economic benefits embodied in the asset, such as selling activity, a different production process, changes in selling prices.
- Annual improvement cycle in relation to IFRS 2012-2014 adopted with Regulation (EU) no. 2343/2015 in connection with the annual projects to improve and revise international accounting standards.
- IAS 1 Presentation of Financial Statements as amended by Regulation (EU) no. 2406/2015. The amendments aim to improve the effectiveness of disclosure and to encourage companies to apply professional judgment in determining the information to be disclosed in their financial statements when applying IAS 1. In particular, the amendments clarify the guidelines contained in IAS 1 on the materiality, the aggregation of items, the presentation of subtotals, the structure of the financial statements and the disclosure on the accounting policies adopted. Amendments concern also the information required for the section on the other comprehensive income. Specifically, the share of other comprehensive income pertaining to associates and joint ventures accounted for with the equity method, indicating which of those amounts will or will not be recycled subsequently to profit and
- IAS 27 Presentation of Financial Statements as amended by Regulation (EU) no. 2441/2015. Regarding entities that prepare separate financial statements, the amendment permits such entities to adopt the equity method to account for investments in subsidiaries, associates and joint ventures. This option is in addition to those permitted by the pre-existing version of IAS 27 (cost method and in accordance with IAS 39).
- Amendments to IFRS 10 and 12 and to IAS 28 adopted with Regulation (EU) no.1703/2016, with the aim of providing clarification regarding investment entities – applying the consolidation exception.

2.6.2 Accounting standards and interpretation 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 a model for revenue recognition that is no longer based on the nature of the item to be transferred to the customer (goods, services, interest, royalties, etc.), but is based on the distinction between a performance obligation that is fulfilled at a point in time and one that is fulfilled over time.

In the case of a performance obligation fulfilled at a point in time, revenue must be recognised only when full control of the good or service exchanged has been transferred to the customer. Not only must exposure to the significant risks and rewards related to ownership of the good or service be taken into account, but also physical possession, acceptance by the customer and the existence of legal title, etc.

In the case of a performance obligation fulfilled over time, measurement and recognition of revenue should, in theory, reflect progressive levels of customer satisfaction; in practice, the entity must apply an accounting method based on the stage of completion or the costs incurred. The standard provides specific guidance to aid the entity in choosing the most appropriate accounting method.

Finally, the new standard requires each individual performance obligation assumed by the seller should be accounted for separately, rather than within the context of a contract and/or transaction.

As a result of this approach, measurement and the timing of revenue recognition may differ from the approach used under IAS 18.

• IFRS 9 – Financial Instruments, adopted with Regulation (EU) no. 2067/2016.

The purpose of the new accounting standard, which will replace a large part of IAS 39 – *Financial Instruments: Recognition and Measurement* from 1 January 2018, 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) <u>Classification and measurement</u> 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).
- **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.

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.

Lastly, as of the date of approval of these financial statements, the IASB has issued standards, interpretations, amendments that have not yet been endorsed by the EU:

- IFRS 14 Regulatory Deferral Accounts;
- IFRS 16 Leases, applicable from 1 January 2019.

The new standard establishes the accounting treatment for leases and will replace the existing approach required by IAS 17 - Leases and interpretations IFRIC 4 - Determining whether an Arrangement contains a Lease, SIC 15 - Operating Leases - Incentives and SIC 27 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The new standard introduces a treatment based on right-of-use assets, providing a single lessee accounting model for both operating and finance leases.

- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate/Joint Venture.
- Amendments to IAS 12 on the Recognition of Deferred Tax Assets for Unrealised Losses.
- Amendments to IAS 7 on the information to be provided on cash flows from financing activities.
- Clarification on IFRS 15 Revenue from Contracts with Customers.
- Amendments to IFRS 2: Classification and measurement of share-based payments.
- Amendments to IFRS 4: Transitional provisions for the application of IFRS 9 Financial Instruments to insurance contracts, whilst awaiting the issue of a specific new accounting standard.
- Annual improvement cycle in relation to IFRS 2014-2016.
- Interpretation IFRIC 22 Foreign Currency Transactions and Advance Consideration.
- Amendments to IAS 40: Transfers of investment property.

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.

122 2.6.3 IFRS 15 and 9: Transitional provisions and ESMA disclosures

The following information is provided in accordance with the recommendations issued in 2016 by the European Securities and Markets Authority ("ESMA") in its annual Public Statements. The recommendations aim to facilitate the gradual and transparent application of IFRS 15 and IFRS 9, and ensure appropriate disclosure in annual and interim financial statements published prior to the effective date for the new standards.

IFRS 15 - Revenue from Contracts with Customers

The Poste Italiane Group has opted to apply IFRS 15 from its effective date (1 January 2018, as required by EU Regulation 1905/2016, which published the standard). The Group has not opted for early application.

The Group began a preliminary assessment of the impact of IFRS 15 in 2016 and this is in the process of being completed. The Group has taken into account the clarifications issued by the IASB in April 2016, as well as the results of discussions with the ad hoc Technical Resource Group set up by the IASB to aid first-time adopters of the new standard, and will assess any further developments as practice evolves.

Initial analysis, conducted through to the date of preparation of these financial statements, has identified a significant percentage of the Group's revenue at 31 December 2016 falling within the scope of application of IFRS 15⁽⁴⁹⁾. The Group is utilising an assessment method that follows the logical steps involved in the new process of identifying and measuring revenue contained in IFRS 15, using a tool developed internally. Work has begun on assessing contracts of sale, categorised according to the nature of the Group's different areas of business, to identify any gaps between the accounting policies currently applied and those introduced by the new standard. The revenue streams⁽⁵⁰⁾ identified, on the basis of specific and consistent contractual characteristics, are summarised below, together with the results of the analysis conducted so far:

Revenue from Postal and Business Services: based on the results of the analysis in progress, the Group does not expect the accounting models currently used to differ significantly from those soon to be introduced.

Revenue falling within the scope of IFRS15 accounts for approximately 20% of total consolidated revenue; recognition of the remainingg forms of revenue is governed by other accounting standards (IFRS 4, IAS 39, etc).

⁽⁵⁰⁾ Identification of the listed revenue streams is subject to change as the above analysis progresses.

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Revenue from Financial Services: based on the results of the analysis in progress, the Group does not expect the accounting models currently used to differ significantly from those soon to be introduced.

Mobile service revenue: based on the results of the analysis in progress, the Group expects to apply a different revenue recognition model due to changes in the allocation of bundle discounts.

Generally, at this stage in the assessment, no significant effects have been identified.

Finally, in view of the new disclosure requirements, the Group plans to accompany the above process with detailed assessment of its systems, policies and procedures to evaluate any resulting impact.

The Group believes that further analysis will confirm expectations regarding the potential impact of IFRS 15. Furthermore, the Group believes that its planning and completion of the current evaluation process will enable it, in the coming months, to obtain exhaustive qualitative and quantitative information, and the elements necessary in order to complete preparations for adoption of IFRS 15 in time for its entry into force.

IFRS 9 - Financial Instruments

The Poste Italiane Group has opted to apply IFRS 9 from its effective date (1 January 2018, as required by EU Regulation 2067/2016, which published the standard). The Group has not opted for early application.

After conducting a preliminary assessment of the main areas of impact, in 2017 the Poste Italiane Group has initiated a project designed to closely examine the various areas affected by the standard, to evaluate its qualitative and quantitative impact, and to identify and implement the applications and organisational changes necessary in order to ensure consistent, organic and effective adoption within the Group as a whole and across all the companies that belong to it.

Initial analysis shows that the main effects, at least from a qualitative viewpoint, will regard the classification and measurement of investments in securities held by the Group and of medium/long-term receivables due from the Public Administration.

In particular, whilst classification of the portfolio has yet to be completed applying the new standard, it is possible that the significant presence of government securities (primarily issued by the Italian government) may result in recognition of a 12-month expected loss (stage 1). If confirmed, this expected credit loss, which is not currently quantifiable, will have an impact on the Group's equity on first.-time application and potential effects on profit or loss in the subsequent years.

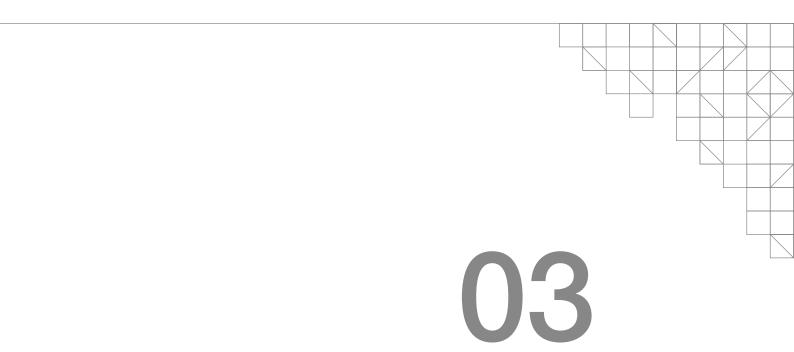
In addition, in view of their nature and historical uncertainty surrounding the timing of collection, the new standard is also expected to have an impact on the classification of receivables due from the Public Administration over the various "stages" envisaged by the standard. This is expected to result in the recognition of expected losses, determined in line with the classifications adopted.

With regard to hedge accounting, a preliminary analysis has not indicated any concerns over the possibility of retaining existing hedging relationship.

Finally, a further area of potential impact regards classification and measurement in the insurance segment, in which the Group operates through Poste Vita SpA and its subsidiary, Poste Assicura. Whilst awaiting definition of the regulatory framework (also in view of the fact that, at the date of preparation of these financial statements, the "Amendment to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" has yet to be endorsed), the Group is proceeding with its assessment and, at this time, has not identified the areas of most significant impact.

Poste Italiane Group

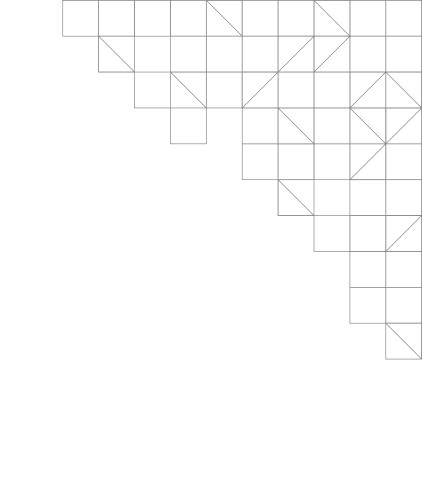
for the year ended 31 December 2016





Poste Italiane Group for the year ended 31 December 2016

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Consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER

ASSETS (€m)	Note	2016	of which, related party transactions (note 3.5)	2015	of which, related party transactions (note 3.5)
Non-current assets					
Property, plant and equipment	[A1]	2,080	-	2,190	_
Investment property	[A2]	56	_	61	_
Intangible assets	[A3]	513	_	545	_
Investments accounted for using the equity method	[A4]	218	218	214	214
Financial assets	[A5]	155,819	3,964	139,310	3,988
Trade receivables	[A7]	4	-	54	_
Deferred tax assets	[C13]	799	-	623	-
Other receivables and assets	[A8]	2,682	1	2,303	1
Technical provisions attributable to reinsurers		66	_	58	-
Total		162,237		145,358	
Current assets					
Inventories	[A6]	137	-	134	_
Trade receivables	[A7]	2,168	789	2,292	904
Current tax assets	[C13]	15	-	72	-
Other receivables and assets	[A8]	989	10	897	2
Financial assets	[A5]	18,543	6,226	20,780	7,274
Cash and deposits attributable to BancoPosta	[A9]	2,494	_	3,161	-
Cash and cash equivalents	[A10]	3,902	1,310	3,142	391
Total		28,248		30,478	
Non-current assets and disposal groups held for sale	[A11]	2,720	49	_	_
TOTAL ASSETS		193,205		175,836	

LIABILITIES AND EQUITY (€m)	Note	2016	of which, related party transactions (note 3.5)	2015	of which, related party transactions (note 3.5)
Equity					
Share capital	[B1]	1,306	-	1,306	_
Reserves	[B4]	2,374	_	4,047	_
Retained earnings		4,454	-	4,305	_
Equity attributable to owners of the Parent		8,134		9,658	
Equity attributable to non-controlling interests		_	-	-	-
Total		8,134		9,658	
Non-current liabilities					
Technical provisions for insurance business	[B5]	113,678	-	100,314	-
Provisions for risks and charges	[B6]	658	50	634	50
Employee termination benefits and pension plans	[B7]	1,347	_	1,361	_
Financial liabilities	[B8]	8,404	_	7,598	77
Deferred tax liabilities	[C13]	746	-	1,177	_
Other liabilities	[B10]	1,071	_	920	_
Total		125,904		112,004	
Current liabilities					
Provisions for risks and charges	[B6]	849	10	763	11
Trade payables	[B9]	1,506	205	1,453	174
Current tax liabilities	[C13]	88	-	53	_
Other liabilities	[B10]	2,147	89	2,025	91
Financial liabilities	[B8]	52,517	2,430	49,880	3
Total		57,107		54,174	
Liabilities related to assets held for sale	[A11]	2,060	130	-	-
TOTAL EQUITY AND LIABILITIES		193,205		175,836	

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER

<i>(€m)</i>	Note	2016	of which, related party transactions (note 3.5)	2015	of which, related party transactions (note 3.5)
Revenue from sales and services	[C1]	8,743	2,312	8,810	2,390
Insurance premium revenue	[C2]	19,884	-	18,197	_
Other income from financial and insurance activities	[C3]	4,421	80	3,657	104
of which, non-recurring income		121		_	
Other operating income	[C4]	64	5	75	6
Total revenue		33,112		30,739	
Cost of goods and services	[C5]	2,476	193	2,590	173
Net change in technical provisions for insurance business and other claims expenses	[C6]	21,958	-	19,683	-
Other expenses from financial and insurance activities	[C7]	539	-	689	-
Personnel expenses	[C8]	6,241	43	6,151	40
of which, non-recurring costs/(income)		_		(11)	
Depreciation, amortisation and impairments	[C9]	581	-	581	-
of which, non-recurring costs/(income)		_		12	
Capitalised costs and expenses	[C10]	(25)	_	(33)	-
Other operating costs	[C11]	301	3	198	(46)
of which, non-recurring costs		37		_	
Operating profit/(loss)		1,041		880	
Finance costs	[C12]	100	1	108	1
Finance income	[C12]	109	1	158	3
of which, non-recurring income		_		4	
Profit/(Loss) on investments accounted for using the equity method	[A4]	6	-	3	_
Profit/(Loss) before tax		1,056		933	
Income tax expense	[C13]	434	_	381	_
of which, non-recurring costs/(income)		14		16	
PROFIT FOR THE YEAR		622		552	
of which, attributable to owners of the Parent		622		552	
of which, attributable to non-controlling interests		-		_	
Earnings per share	[B3]	0.476		0.423	
Diluted earnings per share	[B3]	0.476		0.423	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER

(<i>€m</i>)	Note	2016	2015
Profit/(Loss) for the year		622	552
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]	(1,673)	1,591
Transfers to profit or loss	[tab. B4]	(592)	(467)
Cash flow hedges			
Increase/(decrease) in fair value during the year	[tab. B4]	(15)	13
Transfers to profit or loss	[tab. B4]	(22)	(71)
Taxation of items recognised directly in, or transferred from, equity to be reclassified in the Statement of profit or loss for the year		627	(179)
Share of after-tax comprehensive income/(loss) of investees accounted for using equity method		-	-
Items not to be reclassified in the Statement of profit or loss for the year			
Actuarial gains/(losses) on provisions for employee termination benefits and pension plans	[tab. B7]	(51)	81
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	(30)
Share of after-tax comprehensive income/(loss) of investees accounted for using equity method		-	_
Other comprehensive income for the year		(1,708)	938
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(1,086)	1,490
of which, attributable to owners of the Parent		(1,086)	1,490
of which, attributable to non-controlling interests		-	-

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(€m)						Equity					
	Share			Rese	erves			Retained	Total equity	Equity	Total
	capital •	Legal reserve	BancoPosta RFC reserve	Fair value reserve	Cash flow hedge reserve	Reserves related to group of assets and liabilites held for sale	Reserve for investees accounted for using equity method	earnings / (Accumulated losses)	attributable to owners of the Parent	attributable to non- controlling interests	equity
Balance at 1 January 2015	1,306	299	1,000	1,813	48	-	-	3,952	8,418	-	8,418
Total comprehensive income for the year	-	-	-	926	(39)	-	-	603	1,490	-	1,490
Attribution of profit to reserves	-	-	-	-	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	(250)	(250)	-	(250)
Changes due to share-based payments	-	-	-	-	-	-	-	1	1	-	1
Other changes	-	-	-	-	-	-	-	-	-	-	-
Change in scope of consolidation	-	-	-	-	-	-	-	-	-	-	-
Other shareholder transactions	_	-	-	-	-	-	-	(1)	(1)	-	(1)
Balance at 31 December 2015	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)
Attribution of profit to reserves	-	-	-	-	-	-	-	-	-	-	-
Dividends paid	_	-	-	-	-	-	-	(444)	(444)	-	(444)
Changes due to share-based payments	-	-	-	-	-	-	-	-	-	-	-
Reclassifications to reserves related to disposal groups and liabilities held for sale	-	_	-	1	-	(1)	-	-	-	-	-
Other changes	_	-	-	-	-	-	2	-	2	-	2
Change in scope of consolidation	-	-	-	-	-	-	-	_	-	-	-
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

This item includes profit for the year of €622 million and actuarial losses on provisions for employee termination benefits of €51 million after current and deferred tax expense of €18 million.

^(**) Transactions with shareholders are described in section B2.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER

<i>(€m)</i>	Note	2016	2015
Cash and cash equivalents at beginning of year		3,142	1,704
Profit/(Loss) before tax		1,056	933
Depreciation, amortisation and impairments	[tab. C9]	581	569
Impairment of goodwill/goodwill arising from consolidation	[tab. A3]	_	12
Net provisions for risks and charges	[tab. B6]	563	454
Use of provisions for risks and charges	[tab. B6]	(448)	(392)
Provisions for employee termination benefits	[tab. B7]	1	1
Employee termination benefits and pensions paid	[tab. B7]	(82)	(66)
Impairment of disposal groups	[tab. A11]	37	_
(Gains)/Losses on disposals	[tab. C11]	3	-
Impairment on available-for-sale financial assets [t	ab. C12,2]	12	-
(Dividends) [t	ab. C12,1]	_	(1)
Dividends received		_	1
(Finance income realised) [t	ab. C12,1]	(7)	(23)
(Finance income in form of interest) [t	ab. C12,1]	(99)	(127)
Interest received		94	123
Interest expense and other finance costs [t	ab. C12,2]	85	101
Interest paid		(60)	(72)
Losses and impairments/(Recoveries) on receivables	[tab. C11]	22	(42)
Income tax paid [t	ab. C13,3]	(317)	(275)
Other changes		(2)	(4)
Cash flow generated by operating activities before movements in working capital	[a]	1,439	1,192
Movements in working capital:			
(Increase)/decrease in Inventories	[tab. A6]	(3)	5
(Increase)/decrease in Trade receivables		86	1,444
(Increase)/decrease in Other receivables and assets		(357)	(115)
Increase/(decrease) in Trade payables		62	31
Increase/(decrease) in Other liabilities		129	129
Current tax assets recovered		_	546
Cash flow generated by /(used in) movements in working capital	[b]	(83)	2,040
Increase/(decrease) in liabilities attributable to financial activities		5,225	3,127
Net cash generated by/(used for) financial assets attributable to financial activities held for trading		_	1
Net cash generated by/(used for) available-for-sale financial assets attributable to financial activities		(5,127)	(2,477)
Net cash generated by/(used for) held-to-maturity financial assets attributable to financial activities		370	1,404
(Increase)/decrease in cash and deposits attributable to BancoPosta	[tab. A9]	667	(288)
(Increase)/decrease in other assets attributable to financial activities		773	(1,683)
(Income)/Expenses and other non-cash components from financial activities		(1,044)	(919)
Cash generated by/(used for) assets and liabilities attributable to financial activities	[c]	864	(835)
Payment of liabilities linked to financial contracts attributable to insurance activities	[tab. B8]	-	-
Net cash generated by/(used for) financial assets at fair value through profit or loss attributable to insurance activities		(6,100)	(6,236)

(€ <i>m</i>)	Note	2016	2015
Increase/(decrease) in net technical provisions for insurance business		14,266	12,353
Net cash generated by/(used for) available-for-sale financial assets attributable to insurance activities	[tab. A5,5]	(6,453)	(4,914)
(Increase)/decrease in other assets attributable to insurance activities		12	(43)
(Gains)/Losses on financial assets/liabilities measured at fair value		(624)	290
(Income)/Expenses and other non-cash components from insurance activities		(1,063)	(1,284)
Cash generated by/(used for) assets and liabilities attributable to insurance activities	[d]	38	166
pase/(decrease) in net technical provisions for insurance business cash generated by/(used for) available-for-sale financial assets attributable surance activities lease)/decrease in other assets attributable to insurance activities ns/Losses on financial assets/liabilities measured at fair value nse//Expenses and other non-cash components from insurance activities on generated by/(used for) assets and liabilities attributable to insurance activities cash flow from /(tor) operating activities		2,258	2,563
rease/(decrease) in net technical provisions for insurance business cash generated by/(used for) available-for-sale financial assets attributable nsurance activities rease)/decrease in other assets attributable to insurance activities insyl/Losses on financial assets/liabilities measured at fair value comel/Expenses and other non-cash components from insurance activities sh generated by/(used for) assets and liabilities attributable to insurance activities to cash flow from /(for) operating activities the function assets to cash flow from /(for) operating activities to cash flow from /(for) operating activities to cash flow from /(for) investing activities to cash flow from /(for) investing activities function for alle set mancial assets ange in scope of consolidation to cash flow from /(for) investing activities function form /(for) investing activities function form /(for) investing activities to cash flow from /(for) investing activities to cash flow from /(for) investing activities arease/(decrease) in loans and receivables rease/(decrease) in short-term borrowings idends paid ceivable authorised by 2015 Stability Law in implementation of Sentence of European Court to cash flow from /(for) financing activities and shareholder transactions function for financing activities and shareholder tran		3,648	1,221
Investing activities:			
Property, plant and equipment	[tab. A1]	(221)	(237)
Investment property	[tab. A2]	_	_
Intangible assets	[tab. A3]	(230)	(251)
Investments		(1)	(211)
Other financial assets		(100)	_
Disposals:			
Property, plant and equipment, investment property, intangible assets and assets held for sale		5	4
Investments		_	-
Other financial assets		103	4
Change in scope of consolidation		_	2
Net cash flow from /(for) investing activities	[f]	(444)	(689)
- of which related party transactions		(22)	(1,725)
Proceeds from/(Repayments of) long-term borrowings		-	_
(Increase)/decrease in loans and receivables		1	114
Increase/(decrease) in short-term borrowings		(521)	(835)
Dividends paid	[B2]	(444)	(250)
Receivable authorised by 2015 Stability Law in implementation of Sentence of the European Court		_	535
Net cash flow from/(for) financing activities and shareholder transactions	[g]	(964)	(436)
- of which related party transactions		(286)	(139)
Cash and cash equivalents reclassified to non-current assets and disposal groups held for sale	[h] [tab. A11]	(90)	-
Net increase/(decrease) in cash	[i]=[e+f+g+h]	760	1,438
Cash and cash equivalents at end of year	[tab. A10]	3,902	3,142
Cash and cash equivalents at end of year	[tab. A10]	3,902	3,142
Cash subject to investment restrictions		(780)	(1)
Cash attributable to technical provisions for insurance business		(799)	(1,324)
Amounts that cannot be drawn on due to court rulings		(12)	(11)
Current account overdrafts		(2)	(5)
Cash received on delivery (restricted) and other restrictions		(17)	(18)
Unrestricted net cash and cash equivalents at end of year		2,292	1,783

Basis of consolidation and corporate actions

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 2016, 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 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	31 December 2016	31 December 2015
Consolidated on a line-by-line basis	17	19
Accounted for using the equity method	6	4
Total companies	23	23

A list of companies consolidated on a line-by-line basis and using the equity method is provided in section D5, together with key data.

Principal corporate actions completed or initiated during the year

The following corporate actions were either completed or initiated during 2016:

- The deed for the merger of PosteShop SpA with and into Postel SpA was executed on 22 April 2016. The agreement was recorded with the Companies Register on 29 April 2016 and the merger was effective for legal, accounting, and tax purposes from 1 May 2016.
- On 25 July 2016, the deed governing the merger of SDS Nuova Sanità Srl with and into SDS System Data Software Srl was signed and the merged entity renamed Poste Welfare Servizi Srl. The merger was effective for accounting and tax purposes from 1 January 2016.
- The memorandum of association of Risparmio Holding SpA, which is owned by Poste Italiane (80%) and CDP (20%), was signed on 7 October 2016. The business purpose of the new company is to arrange for the acquisition of equity investments, loans to companies or entities in which it holds equity, and trading in securities, either directly and/or via its participating interest in a company specifically incorporated for this purpose.
- The memorandum of association of Equam SpA, a company 80% owned by Risparmio Holding SpA and 20% owned by Anima Holding SpA, was signed on 17 October 2016. The business purpose of the new company is to arrange for the acquisition of equity investments, loans to companies or entities in which it holds equity and trading in securities.
- On 7 November 2016, Poste Italiane SpA acquired a 100% interest in Indabox SrI at a price of €0.65 million. This company operates in the e-commerce market with a platform designed to facilitate transactions.

In addition the following material events occurred in early 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 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 transaction will be effective for legal, accounting and tax purposes from 1 April 2017.
- Following 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 acquired a 30% stake in FSIA Investimenti SrI at a cost of €278.3 million. This company owns a 49.5% interest in SIA SpA (SIA), a wholly owned subsidiary of FSI Investimenti, in turn a subsidiary of CDP Equity SpA via its 77.1% interest in the company. Following this transaction, Poste Italiane holds an indirect interest of 14.85% in SIA. 80% of the above consideration was paid on completion. The final price is subject to upward or downward adjustment based on predetermined amounts for SIA's net debt at 31 December 2016

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and its operating results for 2017. 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 and SIA, over which the parties will exercise joint control, became effective.

Disposal groups

Information about further corporate actions in the process of being carried out is provided below in accordance with the requirements of IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations.

- BancoPosta Fondi SpA SGR: 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. Following this transaction, Poste Italiane will increase its investment in Anima Holding SpA from 10.32% to up to 24.9%. In accordance with the terms and commitments assumed as at 31 December 2016, the transaction involves an exchange of equity instruments, after which Poste Italiane will have increased its investment in Anima Holding SpA without, however, assuming, under the existing conditions at the date of preparation of these financial statements, control thereof⁽⁵²⁾. Completion of the transaction is subject to receipt of the related clearance and consents required by law and the applicable regulations. Any future developments affecting the alliance and/or the manner in which the transaction will be executed will be disclosed in accordance with the relevant accounting standards.
- BdM-MCC SpA: In line with the Group's strategic guidelines and following negotiations during the last quarter of 2016, resulting in a proposal from the buyer on 10 January 2017, on 8 February 2017 the boards of directors of Poste Italiane SpA and Agenzia Nazionale per l'Attrazione degli Investimenti e lo Sviluppo d'Impresa SpA (Invitalia) approved the transfer of Poste Italiane's 100% interest in Banca del Mezzogiorno–MedioCreditoCentrale SpA (BdM-MCC SpA) to Invitalia at a total price of €390 million. Approximately €360 million of this amount will be collected in instalments during 2017, with €30 million to be collected after five years. The transaction, which requires the approval of the Bank of Italy, the Ministry for Economic Development and the European Central Bank, is expected to complete in the first half of 2017.

Adoption of IFRS 5 in order to present the above corporate actions has resulted, at the reporting date, in recognition of the net assets of BancoPosta Fondi SpA SGR and BdM-MCC SpA as "Non-current assets and disposal groups held for sale" and "Liabilities related to assets held for sale" and restatement of the related amounts, where lower, in line with the expected realisable value (section A11).

⁽⁵²⁾ On 14 October 2016, Poste Italiane announced that it had notified Banca Popolare di Milano Scarl of its intention not to renew the shareholders' agreement signed by the parties on 26 June 2015 and due to expire on 16 April 2017, relating to the companies' respective shareholdings in Anima Holding SpA. As a result, as of the expiry date of 16 April 2017, the shareholders' agreement will no longer be in effect.

Notes to the financial statements

Assets

A1 - Property, plant and equipment

The following table shows movements in property, plant and equipment in 2016:

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
Balance at 1 January 2015								
Cost	76	2,840	2,200	323	398	1,639	43	7,519
Accumulated depreciation	-	(1,429)	(1,792)	(288)	(202)	(1,383)	-	(5,094)
Accumulated impairment	-	(96)	(19)	(1)	(12)	(1)	-	(129)
Carrying amount	76	1,315	389	34	184	255	43	2,296
Movements during the year								
Additions	-	35	36	6	23	91	46	237
Adjustments	-	-	-	-	-	-	-	-
Reclassifications	-	11	8	-	6	12	(37)	-
Disposals	-	-	-	-	(2)	-	-	(2)
Change in scope of consolidation	-	-	-	-	_	_	-	_
Depreciation	_	(108)	(98)	(10)	(29)	(108)	-	(353)
(Impairments)/Reversal of impairments	-	8	(3)	-	7	-	-	12
Total movements	_	(54)	(57)	(4)	5	(5)	9	(106)
Balance at 31 December 2015								
Cost	76	2,883	2,209	329	424	1,719	52	7,692
Accumulated depreciation	-	(1,534)	(1,855)	(298)	(230)	(1,468)	-	(5,385)
Accumulated impairment	-	(88)	(22)	(1)	(5)	(1)	-	(117)
Carrying amount	76	1,261	332	30	189	250	52	2,190
Movements during the year								
Additions	-	29	46	7	26	72	41	221
Adjustments (1)	-	-	-	-	-	-	-	-
Reclassifications (2)	-	3	7	-	3	35	(39)	9
Disposals (3)	-	-	(1)	_	(2)	(1)	-	(4)
Depreciation	_	(110)	(87)	(9)	(33)	(110)	-	(349)
(Impairments)/Reversal of impairments		10	4			-	-	14
Recl. to non-current assets and disposal groups held for sale (4)	_				_	(1)	_	(1)
Total movements	_	(68)	(31)	(2)	(6)	(5)	2	(110)

(€m)	Land	Property used in operations	Plant and machinery	Industrial and commercial equipment	Leasehold improvements	Other assets	Assets under construction and prepayments	Total
Balance at 31 December 2016								
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)
Carrying amount	76	1,193	301	28	183	245	54	2,080
Adjustments (1)								
Cost	_		2	_	-	1	-	3
Accumulated depreciation	_	_	(2)	-	-	(1)	-	(3)
Accumulated impairment	_		-	_	-	-	-	-
Total	_	_	-	_	-	-	-	-
Reclassifications (2)								
Cost	_	3	7	-	3	36	(39)	10
Accumulated depreciation	_	_	-	_	-	(1)	-	(1)
Accumulated impairment	_	_	-	_	-	-	-	_
Total	_	3	7	_	3	35	(39)	9
Disposals (3)								
Cost	_	_	(52)	(3)	(5)	(18)	-	(78)
Accumulated depreciation	_	_	50	3	3	16	-	72
Accumulated Impairment	-	_	1	_	-	1	-	2
Total	_	-	(1)	_	(2)	(1)	-	(4)
Recl. to non-current assets and disposal groups held for sale (4)								
Cost	_	-	(1)	-	-	(3)	-	(4)
Accumulated depreciation	_	-	1	-	-	2	-	3
Accumulated impairment	_	_	-	-	-	-	-	_
Total		_	_	_	_	(1)	_	(1)

At 31 December 2016, 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 €67 million.

The carrying amount of assets held under finance leases, consisting of buildings, is shown below:

TAB. A1.1 - PROPERTY.PLANT AND EQUIPMENT HELD UNDER FINANCE LEASES

Item (€ <i>m</i>)	At 31 December 2016			At 31 December 2015			
	Cost	Accumulated amortisation	Carrying amount	Cost	Accumulated amortisation	Carrying amount	
Buildings	17	(7)	10	17	(7)	10	
Total	17	(7)	10	17	(7)	10	
					<u> </u>		

Capital expenditure of €221 million in 2016, including €5 million in capitalised costs for self-constructed assets, consists

- €29 million relating to extraordinary maintenance of post offices and local head offices around the country (€21 million) and mail sorting offices (€7);
- €46 million relating to plant, with the most significant expenditure made by the Parent Company, of which €27 million for plant and equipment related to buildings and €6 million for the installation and extraordinary maintenance of video surveillance, €5 million for the installation of ATMs and €5 million for the purchase of telecommunications infrastructure:
- €26 million to upgrade plant and the structure of properties held under lease;
- €72 million relating to "Other assets", of which €53 million for the purchase of new computer hardware for post offices and head offices and the consolidation of storage systems and €7 million for the purchase of furniture and fittings in connection with the new layouts for post offices and €2 million to renew the equipment used in mail delivery:
- €41 million relating to assets under construction, of which €35 million incurred by the Parent Company and including €19 million regards the restyling of post offices, €6 million the restructuring of head offices, €6 million the renovation of primary distribution centres and €3 million the purchase of hardware and other technological equipment not yet operational.

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 2.4 - Use of estimates).

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.

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A2 – Investment property

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 2016:

TAB. A2 - MOVEMENTS IN INVESTMENT PROPERTY

(€m)	Year ended 31 December 2016	Year ended 31 December 2015	
Balance at 1 January			
Cost	144	147	
Accumulated depreciation	(82)	(79)	
Accumulated impairment	(1)	(1)	
Carrying amount	61	67	
Movements during the year			
Additions	_	_	
Disposals ⁽²⁾	(1)	(1)	
Depreciation	(4)	(5)	
(Impairments)/Reversal of impairments	_	_	
Total movements	(5)	(6)	
Balance at 31 December			
Cost	142	144	
Accumulated depreciation	(85)	(82)	
Accumulated impairment	(1)	(1)	
Carrying amount	56	61	
Fair value at 31 December	113	113	
Disposals ⁽¹⁾			
Cost	(2)	(3)	
Accumulated depreciation	1	2	
Accumulated impairment		_	
Total	(1)	(1)	

The fair value of investment property at 31 December 2016 includes €65 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⁽⁵³⁾.

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.

⁽⁵³⁾ 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

The following table shows movements in intangible assets in 2016:

TAB. A3 - MOVEMENTS IN INTANGIBLE ASSETS

(<i>€m</i>)	Industrial patents, intellectual property rights, concessions, licences, trademarks and similar rights	Assets under construction and advances	Goodwill	Other	Totale
Balance at 1 January 2015					
Cost	2,263	74	104	100	2,541
Accumulated amortisation and impairments	(1,874)	_	(57)	(81)	(2,012)
Carrying amount	389	74	47	19	529
Movements during the year					
Additions	155	72	18	6	251
Reclassifications	63	(68)	_	5	_
Transfers and disposals	-	_	_	(1)	(1)
Change in scope of consolidation	1	_	_	-	1
Amortisation and impairments	(212)	_	(12)	(11)	(235)
Total movements	7	4	6	(1)	16
Balance at 31 December 2015					
Cost	2,477	78	122	110	2,787
Accumulated amortisation and impairments	(2,081)	_	(69)	(92)	(2,242)
Carrying amount	396	78	53	18	545
Movements during the year					
Additions	138	87	_	5	230
Reclassifications (1)	53	(68)	_	6	(9)
Transfers and disposals (2)	-	(2)	_	(1)	(3)
Amortisation and impairments	(232)	_	_	(10)	(242)
Recl. to non-current assets and disposal groups held for sale (3)	-	(1)	(2)	(5)	(8)
Total movements	(41)	16	(2)	(5)	(32)
Balance at 31 December 2016					
Cost	2,662	94	120	109	2,985
Accumulated amortisation and impairments	(2,307)	_	(69)	(96)	(2,472)
Carrying amount	355	94	51	13	513
Reclassifications ⁽¹⁾					
Cost	51	(68)	_	7	(10)
Accumulated amortisation and impairments	2	_	_	(1)	1
Total	53	(68)	_	6	(9)
Transfers and disposals (2)					
Cost	(3)	(2)	_	(1)	(6)
Accumulated amortisation and impairments	3	_	-	-	3
Total	-	(2)	_	(1)	(3)
Recl. to non-current assets and disposal groups held for sale (3)					
Cost	(1)	(1)	(2)	(12)	(16)
Accumulated amortisation and impairments	1	_	_	7	8
Total	_	(1)	(2)	(5)	(8)

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Investment in "Intangible assets" during 2016 amounts to €230 million, of which €20 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.

Purchases of industrial patents, intellectual property, rights, concessions, licences, trademarks and similar rights total €138 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 table below shows amounts for the IT platform used in development of the Full MVNO (Mobile Virtual Network Operator) project and held under lease finance arrangements by PosteMobile SpA. The platform is amortised over 10 years.

TAB. A3.1 - INTANGIBLE ASSETS HELD UNDER FINANCE LEASES

Item		At 31 December 2	016	At 31 December 2015			
(€m)	Cost	Accumulated amortisation	Carrying amount	Cost	Accumulated amortisation	Carrying amount	
Industrial patents and intellectual property rights, concessions, licences, trademarks and similar							
rights	16	(4)	12	16	(2)	14	
Total	16	(4)	12	16	(2)	14	

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 (\in 35 million), for BancoPosta services (\in 21 million), for use in providing support to the sales network (\in 12 million), for the postal products platform (\in 8 million). Software is also being developed in relation to the engineering of reporting processes for other business and staff functions (\in 6 million).

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 €53 million, reflecting the completion and commissioning of software and the upgrade of existing software.

As of 31 December 2016 goodwill consisted of:

TAB. A3.2 - GOODWILL

Item (<i>€m</i>)	Balance at 31 December 2016	Balance at 31 December 2015
Postel SpA	33	33
Poste Welfare Servizi Srl	18	18
BdM - MCC SpA	_	2
Total	51	53

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 2016.

Goodwill of approximately €2 million attributable to BdM-MCC SpA has been reclassified to "non-current assets held for sale and discontinued operations". Information on the agreements governing the sale of the bank is provided in section A11.

A4 – Investments accounted for using the equity method

TAB. A4 - INVESTMENTS

Item (<i>€m</i>)	Balance at 31 December 2016	Balance at 31 December 2015
Investments in associates	217	213
Investments in subsidiaries	1	1
Investments in joint ventures	_	_
Total	218	214

There as an increase in the carrying amount of the investment in Anima Holding SpA, totalling approximately €3.4 million, during the year. This is due to the combined effect of a reduction of €7.7 million, following the payment of dividends for 2015, and an increase of €11.1 million, including €9.7 million representing the share of profit booked by the investee between 30 September 2015 and 30 September 2016 (the latest data available) and approximately €1.4 million due to the recognition of other items in equity.

As a result, the carrying amount of the investment in Anima Holding at 31 December 2016 is approximately €216.6 million.

Furthermore, a provision of approximately €4 million was recognised in "Other provisions" at 31 December 2016 in order to take into account the liabilities attributable to Poste Italiane SpA as a result of the losses incurred by Risparmio Holding SpA and Equam SpA. The impact of this provision on profit or loss, given that the above are joint ventures, has been recognised in the "Profit/(Loss) on investments accounted for using the equity method".

A list of subsidiaries, joint ventures and associates accounted for using the equity method is provided in section D5, together with key data.

A5 - Financial assets

The following table provides a breakdown of financial assets at 31 December 2016:

TAB. A5 - FINANCIAL ASSETS

Item	Balance a	t 31 Decemb	er 2016	Balance at 31 December 2015			
(€m)	Non- current assets	Current assets	Total	Non- current assets	Current assets	Total	
Loans and receivables	98	8,011	8,109	1,303	9,205	10,508	
Held-to-maturity financial assets	11,213	1,470	12,683	11,402	1,484	12,886	
Available-for-sale financial assets	123,175	5,068	128,243	109,699	8,170	117,869	
Financial assets at fair value through profit or loss	20,996	3,907	24,903	16,233	1,899	18,132	
Derivative financial instruments	337	87	424	673	22	695	
Total	155,819	18,543	174,362	139,310	20,780	160,090	

FINANCIAL ASSETS BY OPERATING SEGMENT

Item	Balance a	at 31 Decemb	per 2016	Balance a	t 31 Decemb	er 2015
(€m)	Non- current assets	Current assets	Total	Non- current assets	Current assets	Total
FINANCIAL SERVICES	47,299	10,753	58,052	45,294	11,703	56,997
Loans and receivables	8	7,907	7,915	1,217	9,084	10,301
Held-to-maturity financial assets	11,213	1,470	12,683	11,402	1,484	12,886
Available-for-sale financial assets	35,893	1,370	37,263	32,247	1,113	33,360
Derivative financial instruments	185	6	191	428	22	450
INSURANCE SERVICES	107,868	7,728	115,596	93,463	8,908	102,371
Loans and receivables	_	54	54	-	66	66
Available-for-sale financial assets	86,720	3,686	90,406	76,985	6,943	83,928
Financial assets at fair value through profit or loss	20,996	3,907	24,903	16,233	1,899	18,132
Derivative financial instruments	152	81	233	245	-	245
POSTAL AND BUSINESS SERVICES	652	62	714	553	169	722
Loans and receivables	90	50	140	86	55	141
Available-for-sale financial assets	562	12	574	467	114	581
Derivative financial instruments	_	_	-	-		_
Total	155,819	18,543	174,362	139,310	20,780	160,090

Financial assets by operating segment break down as follows:

- Financial Services, relate primarily to the financial assets of BancoPosta RFC;
- 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 of the Group.

The financial assets of BdM-MCC SpA and BancoPosta Fondi SGR SpA, at 31 December 2015 presented within the Financial Services and Insurance Services segments, respectively, are presented in section A11 at 31 December 2016, following application of IFRS 5, as described in more detail above.

Financial services

Loans and receivables

TAB. A5.1 - LOANS AND RECEIVABLES

Item	Balance a	at 31 Decemb	er 2016	Balance at 31 December 2015			
(€m)	Non- current assets	Current assets	Total	Non- current assets	Current assets	Total	
Loans	_	-	_	1,217	689	1,906	
Receivables	8	7,907	7,915	-	8,395	8,395	
Amounts deposited with MEF	_	6,189	6,189	-	5,855	5,855	
MEF account, held at the Treasury	_	-	_	-	1,331	1,331	
Other financial receivables	8	1,718	1,726	-	1,209	1,209	
Total	8	7,907	7,915	1,217	9,084	10,301	

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At 31 December 2016, **Loans** do not include the loans and financing provided by BdM-MCC SpA (amounting to €1,489 million at 31 December 2015), which have been reclassified, following application of IFRS 5, to "Non-current assets and disposal groups held for sale".

Receivables of €7,915 million reflect:

- Amounts deposited with the MEF, totalling €6,189 million, 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⁽⁵⁴⁾
- At 31 December 2016, the Company's MEF account at the Treasury has a debit balance and, as a result, movements during 2016 are described in section B8.
- Other financial receivables of €1,726 million break down as follows:

TAB. A5.1.2 - OTHER FINANCIAL RECEIVABLES

Item	Balance a	t 31 Decemb	per 2016	Balance at 31 December 2015			
(€m)	Non- current assets	Current assets	Total	Non- current assets	Current assets	Total	
Guarantee deposits	_	1,435	1,435	-	864	864	
Items to be debited to customers	_	116	116	_	233	233	
Items awaiting settlement with the banking system	_	147	147	_	106	106	
Other receivables	8	20	28	-	6	6	
Total	8	1,718	1,726	-	1,209	1,209	

Guarantee deposits, totalling €1,435 million relate to €1,391 million provided to counterparties in asset swap transactions (with collateral provided by specific Credit Support Annexes) and €44 million provided to counterparties in repurchase agreements (with collateral contemplated by specific a Global Master Repurchase Agreements).

Items awaiting settlement with the banking system, totalling €147 million, primarily consist of: bank cheques deposited in accounts, primarily through ATMs located at post offices.

Other amounts to be charged to customers, amounting to €116 million, primarily regard: withdrawals from BancoPosta ATMs, the use of debit cards issued by BancoPosta, cheques and other collection items settled in the clearing house.

Other receivables include €8 million arising from Poste Italiane's sale of the Visa Europe Ltd. share to Visa Incorporated, payable after three years from 21 June 2016, when the transaction was consummated (the transaction is described after tab A5.2).

⁽⁵⁴⁾ 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 and equity instruments

The following table shows a breakdown of investments in securities and equity instruments:

TAB. A5.2 - INVESTMENTS IN SECURITIES AND EQUITY INSTRUMENTS

Item		Balance a	t 31 Decemb	per 2016	Balance at 31 December 2015			
(€m)	Note	Non- current assets	Current assets	Total	Non- current assets	Current assets	Total	
Held-to-maturity financial assets		11,213	1,470	12,683	11,402	1,484	12,886	
Fixed-income instruments	[tab. A5.2.1]	11,213	1,470	12,683	11,402	1,484	12,886	
Available-for-sale financial assets		35,893	1,370	37,263	32,247	1,113	33,360	
Fixed-income instruments	[tab. A5.2.1]	35,789	1,370	37,159	32,176	1,002	33,178	
Equity instruments		104	-	104	71	111	182	
Total		47,106	2,840	49,946	43,649	2,597	46,246	

Investments in securities relate to investments in Italian government securities with a nominal value of €44,570 million, held by BancoPosta RFC.

Movements in investments in securities in 2015 and 2016 are as follows:

TAB. A5.2.1 - MOVEMENTS IN INVESTMENTS IN SECURITIES

Securities	НТ	M	AF	S	FV	PL	TOTAL	
<i>(€m)</i>	Nominal value	Carrying amount						
Balance at 1 January 2015	13,808	14,100	24,575	29,448	_	-	38,383	43,548
Purchases		-		11,214		5,862		17,076
Transfers to equity		-		(395)		-		(395)
Change in amortised cost		3		(20)		-		(17)
Changes in fair value through equity		-		1,412		-		1,412
Changes in fair value through profit or loss		_		(432)		-		(432)
Changes in cash flow hedge transactions		_		_		-		-
Effect of sales on profit or loss		_		385		1		386
Accrued income		187		304		-		491
Sales, redemptions and settlement of accrued income		(1,404)		(8,738)		(5,863)		(16,005)
Balance at 31 December 2015	12,612	12,886	27,165	33,178	-	-	39,777	46,064
Purchases		1,121		11,228		316		12,665
Transfers to equity		-		(476)		-		(476)
Change in amortised cost		(3)		(38)		-		(41)
Changes in fair value through equity		-		(1,643)		-		(1,643)
Changes in fair value through profit or loss		_		856		-		856
Changes in cash flow hedge transactions (*)		_		3		_		3
Effect of sales on profit or loss		-		471		-		471
Accrued income		170		334		-		504
Recl. to non-current assets and disposal groups held for sale		_		(749)		_		(749)
Sales, redemptions and settlement of accrued income		(1,491)		(6,005)		(316)		(7,812)
Balance at 31 December 2016	12,392	12,683	32,178	37,159	_	-	44,570	49,842

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 2016, the fair value⁽⁵⁵⁾ of the held-to-maturity portfolio, accounted for at amortised cost, is €14,447 million (including €170 million in accrued interest).

The fair value of the available-for-sale portfolio is €37,159 million. The overall fair value loss for the period of €787 million has been recognised in the relevant equity reserve, recording a negative amount of €1,643 million in relation to the portion of the portfolio not hedged by fair value hedges, and through profit and loss, in relation to the gain of €856 million on the hedged portion.

The available-for-sale portfolio includes two fixed rate bonds, amounting to €750 million each, with six-monthly interest payments and maturing in 4 and 5 years, issued by Cassa Depositi e Prestiti and guaranteed by the Italian government (at 31 December 2016, their fair value totalled €1,509 million).

⁽⁵⁵⁾ In terms of the fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 1.

Certain securities are encumbered as they have been delivered to counterparties for use as collateral in connection with loans and hedging transactions. These are described in section D2.

Investments in equity instruments are attributable to BancoPosta RFC and primarily include:

- €74 million, reflecting the fair value of 756,280 Class B shares of Mastercard Incorporated. These shares are not traded on an organised exchange but are convertible into an equal number of Class A shares, which are listed on the New York Stock Exchange, if disposal is desired;
- €27 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. In exchange for the share in Visa Europe Ltd. ⁽⁵⁶⁾, Poste Italiane received a consideration of €121 million (a sum recognised as non-recurring income and entered as "Other income from financial and insurance activities"), consisting of:
 - €88 million in cash;
 - €25 million, representing the fair value of 32,059 Visa Incorporated preference shares (Series C Convertible Participating Preferred Stock), convertible at the rate of 13.952⁽⁵⁷⁾ 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;
 - €8 million payable by Visa Incorporated after three years from the closing of the transaction;
- €3 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 €9 million, have been recognised in the relevant equity reserve (section B4).

Derivative financial instruments

At 31 December 2016, derivative financial instruments attributable to the Financial Services segment, amounting to €191 million, are attributable to BancoPosta RFC⁽⁵⁸⁾.

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⁽⁵⁶⁾ On 21 December 2015, Visa Europe informed its Principal Members that each of them would receive a consideration for the purchase, and subsequent merger with and into the US-registered Visa Incorporated, of Visa Europe Ltd (in which Poste Italiane held an equity interest assigned to it when the company was incorporated).

⁽⁵⁷⁾ 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.

⁽⁵⁸⁾ At 31 December 2015, this item, totalling €450 million, included €122 million relating to the fair value of fair value hedges entered into by BdM-MCC SpA, the carrying amount of which at 31 December 2016 has been reclassified in application of IFRS 5, as described above.

The following table shows movements in the derivative instruments attributable to BancoPosta RFC:

TAB. A5.3 - MOVEMENTS IN DERIVATIVE FINANCIAL INSTRUMENTS

(€m)		Cash flow	/ hedges		Fair value hedges FVPL		Tota	d				
	Forward pur	rchases	Asset sw	vaps Asset swaps		Forward purchases Forward			sales			
	notional	fair value	notional	fair value	notional	fair value	notional	fair value	notional	fair value	notional	fair value
Balance at 1 January 2015	_	-	1,700	1	7,295	(1,672)	-	_	-	_	8,995	(1,671)
Increases/(decreases)(*)	-	-	-	12	4,780	404	108	5	2,700	1	7,588	422
Gains/(Losses) through profit or loss(**)	-	-	-	_	-	_	-	_	-	-	-	_
Transactions settled(***)	-	-	-	(39)	(320)	75	(108)	(5)	(2,700)	(1)	(3,128)	30
Balance at 31 December 2015	_	_	1,700	(26)	11,755	(1,193)	-	_	-	_	13,455	(1,219)
Increases/(decreases)(*)	875	6	100	(19)	4,525	(885)	-	-	-	-	5,500	(898)
Gains/(Losses) through profit or loss(**)	-	-	-	_	-	(1)	-	_	-	-	-	(1)
Transactions settled(***)	(475)	(3)	(410)	(20)	(130)	27	-	-	-	-	(1,015)	4
Balance at 31 December 2016	400	3	1,390	(65)	16,150	(2,052)	-	_	-	_	17,940	(2,114)
Of which:												
Derivative assets	200	6	175	33	3,585	152	-	-	-	-	3,960	191
Derivative liabilities	200	(3)	1,215	(98)	12,565	(2,204)	-	-	-	-	13,980	(2,305)

- (*) 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 hedging instruments recorded an overall fair value loss of €13 million reflected in the cash flow hedge reserve.

The fair value hedges in place, which are held to limit the price volatility of certain available-for-sale fixed rate instruments, saw their effective portion record a decrease in fair value of €885 million (of which €69 million attributable to financial instruments purchased during the period under review), whilst the hedged securities (tab. A5.2.1) recorded a fair value gain of €856 million, with the difference of €29 million due to paid differentials.

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

- forward purchases with a nominal value of €875 million, including €475 million settled at 31 December 2016;
- new asset swaps used as cash flow hedges with a nominal value of €100 million;
- the settlement of asset swaps, used as cash flow hedges for securities sold, with a nominal value of €410 million;
- new asset swaps used as fair value hedges with a nominal value of €4,525 million;
- the settlement of asset swaps, used as fair value hedges for securities sold, with a nominal value of €130 million.

Insurance services

Receivables

Receivables of €54 million relate primarily to Poste Vita SpA's subscription and payment for unissued units of mutual investment funds (€30 million) and accrued interest to be collected (€22 million).

Available-for-sale financial assets

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

TAB. A5.5 - MOVEMENTS IN AVAILABLE-FOR-SALE FINANCIAL ASSETS

(€m)	Fixed-ii instrur		Other investments	Equity instruments	Total
	Nominal value	Fair value	Fair value	Fair value	Fair value
Balance at 1 January 2015	68,732	75,561	1,492	9	77,062
Purchases		24,846	180	11	25,037
Transfers to equity		(371)	_	-	(371)
Changes in amortised cost		227	_	-	227
Fair value gains and losses through equity		1,092	(7)	(1)	1,084
Effects of sales on profit or loss		328	_	1	329
Accrued income		682	_	-	682
Sales, redemptions and settlement of accrued income		(20,061)	(49)	(12)	(20,122)
Balance at 31 December 2015	74,226	82,304	1,616	8	83,928
Purchases		21,670	734	25	22,429
Transfers to equity		(282)	12	-	(270)
Changes in amortised cost		174	_	-	174
Fair value gains and losses through equity		(680)	_	(4)	(684)
Impairments		-	(106)	-	(106)
Effects of sales on profit or loss		261	(11)	1	251
Accrued income		704	-	-	704
Recl. to non-current assets and disposal groups held for sale		(44)	-	-	(44)
Sales, redemptions and settlement of accrued income		(15,730)	(232)	(14)	(15,976)
Balance at 31 December 2016	80,524	88,377	2,013	16	90,406

The Group recorded fair value losses of €684 million in relation to its available-for-sale financial assets in 2016, as follows:

- net losses of €682 million deriving from the measurement of securities held by Poste Vita SpA, of which €648
 million was transferred to policyholders, with a contra-entry made in technical provisions in accordance with the
 shadow accounting method;
- net losses on the securities held by Poste Assicura SpA, totalling €2 million.

The above changes in the fair value of available-for-sale financial assets during the period had a net positive impact on the relevant equity reserve of €36 million (tab. B4).

Fixed income instruments relate primarily to investments held by Poste Vita SpA, totalling €88,199 million (nominal value of €80,356 million) issued by European governments and European blue-chip companies. These instruments are mainly intended to cover separately managed accounts where, under the shadow method of accounting applied. These fixed income instruments comprise bonds issued by CDP SpA, with a fair value of €1,320 million (a nominal value of €1,164 million).

The remaining balance is represented by the fair value of fixed income instruments, totalling €178 million, held by Poste Assicura SpA.

Other investments relate to units of mutual investment funds, totalling €2,013 million, of which €892 million consists of equity funds and €805 million of bond funds subscribed to entirely by Poste Vita SpA and allocated to the insurance company's separately managed accounts. The remaining balance is represented by the fair value of units of property funds, totalling €316 million.

In April 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". Both funds, which are managed by Quaestio Capital Management, are closed-end funds restricted to professional investors, investing primarily in financial instruments issued by banks looking to strengthen their capital and nonperforming loans held by various Italian banks. At 31 December 2016, the Atlante fund has called up €211.0 million, including €186.6 million allocated to the separately managed account, PostaValorePiù, and €24.4 million allocated to the company's free capital, whilst the subscribed capital of the Atlante 2 fund, allocated entirely to the separately managed account, PostaValorePiù, has yet to be called up. For the purposes of transparent disclosure of the fund's performances, on 31 January 2017, the management company announced the results of an independent valuation of the Atlante fund, revealing a potential impairment loss with respect to the initial value of the investment of approximately 24%. The management company also noted that, "as stated by the appraiser, the valuation is subject to significant uncertainty due to the limited availability of objective data and to use of a method of calculation based exclusively on equity market multiples, despite the fact that the companies are unquoted, and to the fact that the sector is currently embarking on a radical process of restructuring and consolidation". Based on the most recent market information and in line with the approach adopted by other institutional investors, Poste Vita has proceeded to recognise a prudent impairment loss on the investment of 50%, amounting to a total of approximately €106 million. €94 million of the impairment, allocated to cover separately managed accounts, has been recognised in deferred liabilities due to policyholders (reflecting application of the shadow accounting method described in note 2.3), whilst the €12 million relating to the insurance company's free capital has been recognised in finance costs.

Financial instruments at fair value through profit or loss

Movements in financial instruments at fair value through profit or loss are as follows:

TAB. A5.6 – MOVEMENTS IN FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

(€ m)		ncome ments	Structure	ed bonds	Other investments	Total
	Nominal value	Fair value	Nominal value	Fair value	Fair value	Fair value
Balance at 1 January 2015	7,404	7,369	1,965	2,368	2,418	12,155
Purchases		816		-	7,394	8,210
Fair value gains and losses through profit or loss		65		22	(392)	(305)
Accrued income		26		_	-	26
Effects of sales on profit or loss		(6)		21	-	15
Sales/Settlement of accrued income		(711)		(1,065)	(193)	(1,969)
Balance at 31 December 2015	7,542	7,559	1,155	1,346	9,227	18,132
Purchases		2,579		346	5,537	8,462
Fair value gains and losses through profit or loss		145		(3)	485	627
Accrued income		47		-	-	47
Effects of sales on profit or loss		6		(4)	(5)	(3)
Sales/Settlement of accrued income		(770)		(693)	(899)	(2,362)
Balance at 31 December 2016	9,379	9,566	857	992	14,345	24,903

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

- fixed income securities, amounting to €9,566 million and consisting of €5,451 million in coupon stripped BTPs acquired to cover the contractual obligations arising on Class III insurance policies, while the balance of €4,086 million is primarily made up of corporate bonds issued by blue-chip companies and primarily linked to separately managed accounts, with €29 million relating to securities in which the company's free capital has been invested.
- **structured bonds,** amounting to €992 million and relating to investments whose returns are linked to particular market indices; such financial instruments include bonds issued by CDP SpA with a fair value of €551 million (nominal amount of €500 million) associated with Class I policies.
- other investments, amounting to €14,345 million and relating to units of mutual investment funds. These instruments include €5,738 million invested in the *Blackrock Diversified Distribution Fund*, a UCITS, and €4,047 million invested in the *Multiflex* UCIT to cover Class I products, with the aim of diversifying the insurance business's exposure to government bonds (see also section *Unconsolidated structured entities*). Investments amounting to €849 million are used to cover Class III unit-linked products.

Derivative financial instruments

At 31 December 2016, outstanding instruments primarily regard warrants executed by Poste Vita SpA to cover contractual obligations deriving from Class III policies with a fair value of €233 million and a notional amount of €5,558 million. The reduction of €12 million in the value of these derivative financial instruments is entirely attributable to fair value. Details of the Group's warrants are as follows.

TAB. A5.7 - WARRANTS

Policy	At 31 Dece	ember 2016	At 31 Decei	mber 2015
(€m)	Nominal value	Fair value	Nominal value	Fair value
Alba	712	17	712	18
Terra	1,355	27	1,355	35
Quarzo	1,254	35	1,254	36
Titanium	656	34	656	36
Arco	174	30	174	30
Prisma	175	25	175	25
6Speciale	200	-	200	-
6Avanti	200	-	200	-
6Sereno	181	15	181	15
Primula	184	15	184	15
Тор5	233	16	233	15
Top5 edizione II	234	19	234	20
Total	5,558	233	5,558	245

Postal and business services

Loans and receivables

These amount to €140 million and consist of loans of €82 million and receivables of €58 million.

Loans include Contingent Convertible Notes (59) with a value of €82 million (a total nominal value of €75 million), subscribed on 23 December 2014 by Poste Italiane SpA, in connection with the strategic transaction that resulted in Etihad Airways' acquisition of an equity interest in Alitalia SAI SpA(60). The Notes were issued by Midco SpA, which in turn owns 51% of Alitalia SAI. The Contingent Convertible Notes, with a twenty-year term to maturity starting 1 January 2015, carry a nominal rate of interest of 7% per annum. Interest and principal payments will be made by Midco SpA if, and to the extent that, there is available liquidity. Based on the latest available business plan of the Alitalia Group, prepared at the end of 2014, a reasonable estimate of the effective interest rate payable on the Notes amounts to approximately 4.6%.

At the date of preparation of these financial statements, based on the best information available to us, there is no indication of the need to recognise an impairment of the Contingent Convertible Notes. This conclusion has also been reached on the basis of the terms and conditions applicable to the loan and the Alitalia Group's above-mentioned business plan, in addition to the latest financial statements for the year ended 31 December 2015, approved by Midco SpA on 4 July 2016 (showing equity of €323 million and valuing the investment in Alitalia at €403 million), and despite the presence of indicators of impairment (such as press reports on the liquidity position, solvency and exposure to financial, business and reputational risks of the Group to which the debtor belongs). However, whilst continuing to monitor the information provided by the above Midco SpA under the terms of the existing contract, we cannot exclude that future developments regarding the agreement in place between the airline, its shareholders and its banks, as well as the risks to which the industry may be exposed, could influence a future assessment of the recoverability of the loan.

This is a loan convertible, on the fulfilment of certain negative pledge conditions, into an equity instrument pursuant to art. 2346 paragraph 6 of the Italian Civil Code, carrying the same rights associated with the loan.

This is the so-called "Nuova Alitalia", the company to which all the aviation assets and activities of Alitalia Compagnia Aerea Italiana SpA, now CAI SpA, have been transferred. The company owns 100% of Midco SpA.

The impact of such developments will be taken into account in accordance with the relevant accounting standards.

Receivables break down as follows:

TAB. A5.8 - RECEIVABLES

Balance at	31 December	er 2016	Balance at 31 December 201			
Non- current assets	Current assets	Total	Non- current assets	Current assets	Total	
_	1	1	_	3	3	
-	50	50	-	52	52	
7	-	7	8	-	8	
7	51	58	8	55	63	
	Non- current	Non- current assets - 1 - 50 7 -	current assets assets - 1 1 - 50 50 7 - 7	Non-current assets Current assets Total assets Non-current assets - 1 1 - - 50 50 - 7 - 7 8	Non-current assets Current assets Total current assets Current current assets - 1 1 - 3 - 50 50 - 52 7 - 7 8 -	

Guarantee deposits of €50 million relate to collateral provided to counterparties with whom the Company has entered into asset swaps.

Available-for-sale financial assets

Available-for-sale financial assets, held primarily by the Parent Company, and the related movements break down as follows:

TAB. A5.9 - MOVEMENTS IN AVAILABLE-FOR-SALE FINANCIAL ASSETS

(<i>€m</i>)	Fixed-income Other inv			estments	Equity instruments	Total
	Nominal value	Fair value	Nominal value	Fair value	Fair value	Fair value
Balance at 1 January 2015	500	570	5	6	5	581
Purchases		-		-	-	_
Redemptions		-		-	-	_
Transfers to equity reserves		-		-	-	_
Changes in amortised cost		1		-	-	1
Impairments		-		-	-	-
Fair value gains and losses through equity		4		-	-	4
Fair value gains and losses through profit or loss		(5)		_	_	(5)
Effects of sales on profit or loss		-		-	-	_
Accrued income		6		-	-	6
Sales and settlement of accrued income		(6)		-	-	(6)
Balance at 31 December 2015	500	570	5	6	5	581
Purchases		100		_	_	100
Redemptions		(100)		-	-	(100)
Transfers to equity reserves		-		-	-	_
Changes in amortised cost		-		-	-	_
Impairments		-		-	-	-
Fair value gains and losses through equity		(4)		1	-	(3)
Fair value gains and losses through profit or loss		(3)		_	_	(3)
Effects of sales on profit or loss		_		_	-	-
Accrued income		5		_	-	5
Sales and settlement of accrued income		(6)		-	-	(6)
Balance at 31 December 2016	500	562	5	7	5	574

Fixed income instruments regard BTPs with a total nominal value of €500 million (fair value of €562 million). Of these, instruments with a value of €375 million have been hedged using asset swaps designated as fair value hedges.

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, the historical cost of approximately €4.5 million for the 15% equity interest in Innovazione e Progetti ScpA, which is in liquidation, unchanged from last year.

Derivative financial instruments

Movements in derivative assets and liabilities are as follows:

TAB. A5.10 - MOVEMENTS IN DERIVATIVE FINANCIAL INSTRUMENTS

(€m)	Yea	r ended 31	December 20	16	Yea	r ended 31	December 201	5
	Cash Flow hedges	Fair value hedges	Fair value through profit or loss	Total	Cash Flow hedges	Fair value hedges	Fair value through profit or loss	Total
Balance at 1 January	(5)	(47)	-	(52)	-	(52)	(7)	(59)
Increases/(decreases)(*)	(3)	(7)	-	(10)	1	(4)	1	(2)
Hedge completion	_	-	-	_	(6)	-	6	-
Transactions settled(**)	1	10	-	11	-	9	-	9
Balance at 31 December	(7)	(44)	-	(51)	(5)	(47)	-	(52)
Of which:								
Derivative assets	_	-	-	_	-	-	-	-
Derivative liabilities	(7)	(44)	-	(51)	(5)	(47)	-	(52)

^(*) Increases/ (decreases) refer to the nominal value of new transactions and changes in the fair value of the overall portfolio during the period.

At 31 December 2016, the derivative financial instruments held by the Parent Company, with fair value losses of €51 million, included:

- 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 (section B.8). 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 2016, is 1.339%.

A6 - Inventories

At 31 December 2016, net inventories break down as follows:

TAB. A6 - INVENTORIES

Item (<i>€m</i>)	Balance at 31 December 2015	Increase / (decrease)	Balance at 31 December 2016
Properties held for sale	114	4	118
Work in progress, semi-finished and finished goods and goods for resale	12	-	12
Raw, ancillary and consumable materials	8	(1)	7
Total	134	3	137

This item refers mainly 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 2016 amounts to approximately €302 million.

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

⁽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.

A7 - Trade receivables

Trade receivables break down as follows:

TAB. A7 - TRADE RECEIVABLES

Item	Balance a	at 31 Decemb	per 2016	Balance at 31 December 2015			
(€m)	Non- current assets	Current assets	Total	Non- current assets	Current assets	Total	
Customers	4	1,929	1,933	54	1,968	2,022	
MEF	_	236	236	-	322	322	
Subsidiaries, associates and joint ventures	_	3	3	-	2	2	
Prepayments to suppliers	_	-	_	-	-	_	
Total	4	2,168	2,172	54	2,292	2,346	

Receivables due from customers

TAB. A7.1 - RECEIVABLES DUE FROM CUSTOMERS

Item	Balance a	t 31 Decemb	per 2016	Balance at 31 December 2015			
(€m)	Non- current assets	Current assets	Total	Non- current assets	Current assets	Total	
Ministries and Public Administration entities	_	633	633	49	632	681	
Cassa Depositi e Prestiti	-	364	364	-	397	397	
Unfranked mail delivered and other value added services	24	274	298	27	322	349	
Overseas counterparties	-	285	285	-	236	236	
Parcel express courier and express parcel services	_	238	238	_	227	227	
Amounts due for other BancoPosta services	-	113	113	-	109	109	
Overdrawn current accounts	-	142	142	-	138	138	
Property management	-	7	7	-	7	7	
Other trade receivables	-	376	376	1	379	380	
Provisions for doubtful debts	(20)	(503)	(523)	(23)	(479)	(502)	
Total	4	1,929	1,933	54	1,968	2,022	

Specifically:

- Amounts due from ministries and Public Administration entities refer mainly to the following services:
 - Integrated Notification and mailroom services, amounting to €314 million, rendered to local government authorities;
 - Unfranked mail services provided on credit, totalling €80 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 €74 million, of which €3 million relates to the amount accrued during the year.
 - The payment of pensions and vouchers on behalf of INPS (the National Institute of Social Security), totalling €59 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. Discussions are taking place with the counterparty with a view to reaching agreement on the settlement of these and other receivables due to Poste Italiane.

- Amounts due from Cassa Depositi e Prestiti refer to fees and commissions for BancoPosta's deposit-taking activities during 2016.
- Receivables arising from unfranked mail delivered and other value added services refer to bulk mail services and other added value services.
- Receivables from overseas counterparties relate to postal services carried out by the Parent Company for overseas postal operators.
- 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.
- 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.
- Amounts due for other BancoPosta services refer to amounts due on financial services, personal loans, overdrafts and mortgages sold on behalf of third parties, totalling €92 million.
- Other trade receivables include mainly: €60 million related to PosteMobile Spa for sales of terminals, services rendered to other operators and for the sale of top-ups through other channels; €38 million for Posta Time services, €33 million for Posta Target services, €19 million related to Notification of Legal Process service, €18 million for telegraphic services, €18 million relating to air transport provided by Mistral Air Srl and €15 million for Advice and Billing Mail services.

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

TAB. A7.2 - MOVEMENTS IN PROVISIONS FOR DOUBTFUL DEBTS

ltem (€m)	Balance at 1 January 2015	Net provisions	Deferred revenue	Uses	Balance at 31 December 2015	Net provisions	Deferred revenue	Uses	Recl. to non-current assets and disposal groups held for sale	Balance at 31 December 2016
Overseas postal operators	5	(1)	-	_	4	1	-	_	-	5
Public Administration entities	134	(5)	3	_	132	2	3	(2)	(3)	132
Private customers	314	27	-	(7)	334	21	-	(7)	-	348
	453	21	3	(7)	470	24	3	(9)	(3)	485
Interest on late payments	17	17	-	(2)	32	10	-	(4)	-	38
Total	470	38	3	(9)	502	34	3	(13)	(3)	523

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 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 (<i>€m</i>)	Balance at 31 December 2016	Balance at 31 December 2015
Universal Service compensation	139	334
Publisher tariff and electoral subsidies	83	83
Remuneration of current account deposits	8	15
Payment for delegated services	28	28
Distribution of Euroconverters	6	6
Other	3	3
Provision for doubtful debts due from the MEF	(31)	(147)
Total	236	322

Specifically:

Universal Service compensation includes:

TAB. A7.3.1 - UNIVERSAL SERVICE COMPENSATION RECEIVABLE

Item (<i>€m</i>)	Balance at 31 December 2016	Balance at 31 December 2015
Balance for 2016	_	-
Remaining balance for 2015	67	198
Remaining balance for 2014	41	55
Remaining balance for 2012	23	23
Remaining balance for 2011	_	50
Remaining balance for 2005	8	8
Total	139	334

In 2016, collections for the entire period amounted to €262 million. Moreover:

- The outstanding balance of the compensation for 2015 has been provided for in the state budget for 2017. The €131 million provided for in the state budget for 2015 was collected in March 2016.
- The outstanding balance of the compensation for 2014 has been provided for in the state budget for 2017. €14 million was collected in 2016.
- With reference to the services rendered in 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. Poste Italiane SpA 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 will extend the assessment to include the 2014 financial year. On 29 July 2016, AGCom published Resolution 166/16/CONS, launching a public consultation on the draft ruling concerning assessment of the net cost of the universal postal service in 2013 and 2014, in which the cost of universal provision was estimated to be €345 million for 2013 and €365 million for 2014, compared with revenue of €343 and €277 million, respectively, recognised in the Parent Company's statement of profit or loss for services rendered in those years. The Parent Company submitted its observations to the public consultation on 27 September 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.

- The remuneration of current account deposits refers entirely to amounts accruing in 2016 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, which
 expired on 31 December 2016 and is in the process of being renewed.

Movements in provisions for doubtful debts due from the MEF are as follows:

TAB. A7.4 - MOVEMENTS IN PROVISIONS FOR DOUBTFUL DEBTS DUE FROM THE MEF

(€m)	Balance at 1 January 2015	Net provisions	Deferred revenue	Uses	Balance at 31 December 2015	Net provisions	Deferred revenue	Uses	Balance at 31 December 2016
Provisions for doubtful debts	166	(68)	49		147	(7)	(109)	_	31

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 release of provisions and previously deferred revenue recognised in 2016, totalling €116 million, reflects new provision in the state budget for 2017.

A8 - Other receivables and assets

This item breaks down as follows:

TAB. A8 - OTHER RECEIVABLES AND ASSETS

Item	Note	Balance a	t 31 Decem	ber 2016	Balance a	t 31 Decemb	er 2015
(€m)		Non- current assets	Current assets	Total	Non- current assets	Current assets	Total
Substitute tax paid		2,546	564	3,110	2,147	520	2,667
Receivables relating to fixed-term contract settlements		121	89	210	144	95	239
Amounts due from social security agencies and pension funds (excl. fixed-term contract settlements)		-	89	89	-	77	77
Amounts restricted by court rulings		_	71	71	_	68	68
Accrued income and prepaid expenses from trading transactions		_	16	16	-	16	16
Tax assets		_	4	4	-	6	6
Other amounts due from associates		_	_	-	_	-	_
Other amounts due from subsidiaries		_	_	-	_	-	_
Other amounts due from joint ventures		-	_	-	_	_	_
Sundry receivables		15	163	178	12	127	139
Provisions for doubtful debts due from others		_	(60)	(60)	-	(59)	(59)
Other receivables and assets		2,682	936	3,618	2,303	850	3,153
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
Total		2,682	989	3,671	2,303	897	3,200

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Specifically:

- substitute tax paid refers mainly to:
 - €1,614 million paid in advance by Poste Vita SpA for the financial years 2012-2016, relating to withholding and substitute tax paid on capital gains on life policies(62);
 - €945 million (€927 million non-current) charged to holders of Interest-bearing Postal Certificates and Class III and V insurance policies for stamp duty at 31 December 2016⁽⁶³⁾. 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);
 - €329 million relating to advances paid in relation to stamp duty to be paid in virtual form in 2017 and charged to customers and to be recovered from customers by Poste Italiane;
 - €154 million relating to stamp duty charged to Postal Savings Books, which Poste Italiane SpA pays in virtual form as required by law;
 - €16 million to advances paid in relation to withholding tax on interest earned by current account holders for 2016, 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 €210 million from staff, from INPS and pension funds recoverable in the form of variable instalments, the last of which is due in 2040.
- Amounts that cannot be drawn on due to court rulings include €58 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 amount due from the MEF following cancellation of EC Decision 16/07/08, totalling €6 million, is described in section B2.
- Accrued interest on IRES refund, amounting to €47 million, refers to interest accruing up to 31 December 2016 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 been disputed and, on 24 November 2016, the Provincial Tax Tribunal for Rome upheld Poste Italiane's appeal, ordering the tax authorities in Rome to refund the amounts claimed. With regard to the remaining overall tax credit, amounting to €56 million (i.e. including current tax assets and related interest), described in note 2.4 – Use of estimates, there is uncertainty over the time necessary to collect the amount due.

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

TAB. A8.1 - MOVEMENTS IN PROVISIONS FOR DOUBTFUL DEBTS DUE FROM OTHERS

ltem (€m)	Balance at 1 January 2015	Net provisions	Uses	Balance at 31 December 2015	Net provisions	Uses	Balance at 31 December 2016
Public Administration entities for sundry services	13	_	_	13	-	-	13
Receivables relating to fixed-term contract settlements	6	1	_	7	-	-	7
Other receivables	38	3	(2)	39	4	(3)	40
Total	57	4	(2)	59	4	(3)	60

Of the total amount, €443 million, assessed on the basis of provisions at 31 December 2016, has yet to be paid and is accounted for in "Other

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).

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A9 - CASH AND DEPOSITS ATTRIBUTABLE TO BANCOPOSTA

Details of this item are as follows:

TAB. A9 - CASH AND DEPOSITS ATTRIBUTABLE TO BANCOPOSTA

Item (<i>€m</i>)	Balance at 31 December 2016	Balance at 31 December 2015
Cash and cash equivalents in hand	2,269	2,943
Bank deposits	225	218
Total	2,494	3,161

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 (€753 million) and companies that provide cash transportation services whilst awaiting transfer to the Italian Treasury (€1,516 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 €223 million.

A10 - Cash and cash equivalents

TAB. A10 - CASH AND CASH EQUIVALENTS

Item (<i>€m</i>)	Balance at 31 December 2016	Balance at 31 December 2015
Bank deposits and amounts held at the Italian Treasury	2,581	2,741
Deposits with the MEF	1,310	391
Cash and cash equivalents in hand	11	10
Total	3,902	3,142

The balance of cash at 31 December 2016 includes approximately €1,608 million the use of which is restricted, including €780 million in **cash deposited with the MEF** and held in the so-called buffer account in relation to customers' deposits subject to investment restrictions, €799 million in liquidity covering technical provisions for the insurance business, €12 million whose use is restricted by court orders related to different disputes and €17 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

Net assets held for sale, after eliminating intercompany items, amount to €660 million. This regards amounts relating to BdM-MCC SpA, totalling €616 million, and BancoPosta Fondi SpA SGR, totalling €44 million, which, as a result of decisions taken by the Group's management, meet the requirements of IFRS 5 for classification in these items.

Non-current assets and disposal groups held for sale amount to €2,720 million, and regard BdM-MCC SpA (€2,665 million) and BancoPosta Fondi SpA SGR (€55 million).

Movements in this item are as follows:

TAB. A11.1 - NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

Item	Balance at 31 December 2015	Recl. to non-current assets and disposal groups held for sale	Impairments	Balance at 31 December 2016
Property, plant and equipment	-	2	-	2
Intangible assets	-	7	-	7
Non-current financial assets	-	2,154	-	2,154
Non-current trade receivables	-	56		56
Deferred tax assets	-	12	-	12
Other non-current assets	-	_	-	-
Current trade receivables	-	9	-	9
Current financial assets	-	375	-	375
Current tax assets	-	9	-	9
Other current assets	-	43	-	43
Cash and cash equivalents	-	90	-	90
Impairments of disposal groups held for sale	_	-	(37)	(37)
Total	_	2,757	(37)	2,720

The impairment of €37 million regards BdM-MCC SpA and has been recognised to align the carrying amount of the company's net assets with its estimated realisable value, less costs to sell (further details are provided in the section, "Basis of consolidation and corporate actions").

Liabilities related to assets held for sale amount to €2,060 million and regard BdM-MCC SpA (€2,049 million) and BancoPosta Fondi SpA SGR (€11 million).

Movements in this item are as follows:

TAB. A11.2 - LIABILITIES RELATED TO ASSETS HELD FOR SALE

Item	Balance at 31 December 2015	Recl. To liabilities related to assets held for sale	Balance at 31 December 2016
Non-current provisions for risks and charges	_	1	1
Employee termination benefits and pension plans	_	8	8
Non-current financial liabilities	_	880	880
Deferred tax liabilities	_	1	1
Other non-current liabilities	_	-	-
Trade payables	_	9	9
Current financial liabilities	_	1,144	1,144
Current provisions for risks and charges	-	5	5
Current tax liabilities	-	3	3
Other current liabilities	-	9	9
Total	_	2,060	2,060

Equity

B1 - Share capital

The share capital of Poste Italiane SpA 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 2016, 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 2016	Changes in equity during 2016	Profit/ (loss) for 2016	Equity at 31 December 2015	Changes in equity during 2015	Profit/(loss) for full year 2015	Equity at 1 January 2015
Financial statements of Poste Italiane SpA	6,160	(2,111)	625	7,646	690	451	6,505
 Undistributed profit (loss) of consolidated companies 	2,736	-	425	2,311	-	424	1,887
 Investments accounted for using the equity method 	10	1	6	3	-	3	-
Balance of FV and CFH reserves of investee companies	163	(35)	-	198	(4)	_	202
Actuarial gains and losses on employee termination benefits of investee companies	(5)	(1)	-	(4)	2	-	(6)
 Fees to be amortised attributable to Poste Vita SpA and Poste Assicura SpA 	(39)	-	-	(39)	-	(5)	(34)
Effects of contributions and transfers of business units between Group companies							
SDA Express Courier SpA	2	-	-	2	-	_	2
EGI SpA	(71)	-	-	(71)	-	(6)	(65)
Postel SpA	17	-	-	17	-	-	17
PosteShop SpA	1	-	-	1	-	-	1
Effects of intercompany transactions (including dividends)	(1,068)	-	(430)	(638)	-	(392)	(246)
 Elimination of adjustments to value of consolidated companies 	400	-	37	363	-	84	279
Amortisation until1 January 2004/Impairment of goodwill	(139)	-	-	(139)	-	(12)	(127)
- Impairments of disposal groups held for sale	(37)	-	(37)	-	-	-	-
- Other consolidation adjustments	4	-	(4)	8	-	5	3
Equity attributable to owners of the Parent	8,134	(2,146)	622	9,658	688	552	8,418
- Non-controlling interests (excluding profit/(loss)	-	-	-	-	-	-	-
- Non-controlling interests in profit/loss	-	-	-	-	_	_	_
Non-controlling interests in equity	-	-	-	-	-	_	_
TOTAL CONSOLIDATED EQUITY	8,134	(2,146)	622	9,658	688	552	8,418

B2 – Shareholders transactions

As resolved at the General Meeting of shareholders held on 24 May 2016, on 22 June 2016 the Parent Company paid dividends totalling €444 million, based on a dividend per share of €0.34).

Regarding shareholder transactions, following the ruling of the General Court of the European Union dated 13 September 2013, Poste Italiane SpA has a residual claim on the MEF of €45 million, relating to the return of sums paid in the past to the MEF out of retained earnings. At 31 December 2016, the sum of €6 million, previously recognised in the MEF's letter of 7 August 2015, has been earmarked in the state budget for 2017 and has, therefore, been recognised in "Other receivables and assets"(64).

B3 – Earnings per share

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 2016 or at 31 December 2015. As a result, at 31 December 2016, earnings per share is €0.476 (€0.423 at 31 December 2015).

Deferred tax assets of approximately €2 million on this amount have already been used; the overall impact on equity thus amounts to approximately €4 million. Absent further recognition of claims by the MEF, in line with the past, at 31 December 2016, the component of the Company's equity relating to the residual receivable of approximately €39 million is shown with a nil balance.

B4 - Reserves

TAB. B4 - RESERVES

(€m)	Legal reserve	BancoPosta RFC reserve	Fair value reserve	Cash flow hedge reserve	Reserves related to group of assets and liabilities held for sale	Reserve for investees accounted for using equity method	Total
Balance at 1 January 2015	299	1,000	1,813	48	-	-	3,160
Increases/(decreases) in fair value during the period	_	-	1,591	13	-	-	1,604
Tax effect of changes in fair value	-	-	(473)	(4)	-	-	(477)
Transfers to profit or loss	-	-	(467)	(71)	-	-	(538)
Tax effect of transfers to profit or loss	-	-	151	23	-	-	174
Adjustments for change in IRES tax rate introduced by 2016 Stability Law			124	_	-		124
Investees accounted for using equity method – share of OCI (net of tax)	-	-	-	-	-	-	_
Gains/(Losses) recognised in equity	-	-	926	(39)	-	-	887
Other	-	-	-	-	-	-	_
Attribution of profit for 2014	-	-	-	-	-	-	-
Balance at 31 December 2015	299	1,000	2,739	9	-	-	4,047
Increases/(decreases) in fair value during the period	-	-	(1,673)	(15)	-	-	(1,688)
Tax effect of changes in fair value	-	-	477	4	-	-	481
Transfers to profit or loss	-	-	(592)	(22)	-	-	(614)
Tax effect of transfers to profit or loss	-	-	140	6	-	-	146
Investees accounted for using equity method – share of OCI (net of tax)	-	-	-	-	-	_	_
Gains/(Losses) recognised in equity	_	-	(1,648)	(27)	-	-	(1,675)
Reserves related to disposal groups and liabilities held for sale	_	-	1	_	(1)	-	_
Other	-	-	-	-	_	2	2
Attribution of profit for 2015	-	-	-	-	-	-	_
Balance at 31 December 2016	299	1,000	1,092	(18)	(1)	2	2,374

Details are as follows:

- the **fair value reserve** regards changes in the fair value of available-for-sale financial assets which, during 2016, showed gains totalling €1,673 million as follows:
 - a net decrease of €1,634 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 €1,643 million and a gain on equity instruments of €9 million;
 - a net decrease of €36 million in available-for-sale financial assets attributable to the Group's Insurance Services segment;
 - a net decrease of €3 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 2016, fair value losses of €15 million were attributable to the value of BancoPosta RFC's derivative financial instruments.

B5 - Technical provisions for insurance business

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 (€ <i>m</i>)	Balance at 31 December 2016	Balance at 31 December 2015
Mathematical provisions	96,333	82,015
Outstanding claims provisions	942	1,179
Technical provisions where investment risk is transferred to policyholders	6,900	7,218
Other provisions	9,360	9,790
for operating costs	79	79
for deferred liabilities to policyholders	9,281	9,711
Technical provisions for claims	143	112
Total	113,678	100,314

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 2016 and, to a lesser extent, on financial instruments at fair value through profit or loss.

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B6 - Provisions for risks and charges

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 2016

Item (<i>€m</i>)	Balance at 31 December 2015	Provisions	Finance costs	Released to profit or loss	Uses	Recl. to liabilities related to assets held for sale	Balance at 31 December 2016
Provisions for non-recurring charges	295	96	-	(10)	(17)	-	364
Provisions for disputes with third parties	399	54	-	(82)	(22)	-	349
Provisions for disputes with staff (1)	142	22	_	(13)	(30)	(1)	120
Provisions for personnel expenses	131	152	-	(28)	(56)	(3)	196
Provisions for restructuring charges	316	342	-	-	(316)	-	342
Provisions for expired and statute barred postal savings certificates	14	_	_	-	_	-	14
Provisions for taxation/social security contributions	24	5	1	(1)	(1)	-	28
Other provisions for risks and charges (2)	76	27	-	(1)	(6)	(2)	94
Total	1,397	698	1	(135)	(448)	(6)	1,507
Overall analysis of provisions:							
- non-current portion	634						658
- current portion	763						849
	1,397						1,507

⁽¹⁾ Net accruals for Personnel expenses amount to €3 million. Service costs (legal assistance) total €6 million.

MOVEMENTS IN PROVISIONS FOR RISKS AND CHARGES FOR THE YEAR ENDED 2015

Item (<i>€m</i>)	Balance at 31 December 2014	Provisions	Finance costs	Released to profit or loss	Uses	Recl. to liabilities related to assets held for sale	Balance at 31 December 2015
Provisions for non-recurring charges	278	50	-	(4)	(29)	-	295
Provisions for disputes with third parties	383	73	1	(32)	(26)	-	399
Provisions for disputes with staff (1)	184	16	-	(22)	(36)	-	142
Provisions for personnel expenses	115	80	-	(25)	(39)	-	131
Provisions for restructuring charges	256	316	-	-	(256)	-	316
Provisions for expired and statute barred postal savings certificates	14	_	-	_	_	-	14
Provisions for taxation/social security contributions	24	3	-	(3)	-	-	24
Other provisions for risks and charges (2)	80	12	-	(10)	(6)	-	76
Total	1,334	550	1	(96)	(392)	-	1,397
Overall analysis of provisions:							
- non-current portion	601						634
- current portion	733						763
	1,334						1,397

⁽¹⁾ Net releases for Personnel expenses amount to €13 million. Service costs (legal assistance) total €7 million.

⁽²⁾ Net provisions of €22 million and €4 million are recognised in "Other operating costs" and "Profit/(Loss) on investments accounted for using the equity method", respectively.

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 to 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 garnisheedefendant. Provisions for the year, totalling €96 million, include €47 million to reflect a revised assessment of the liabilities relating to the estimated cost of the voluntary action taken to protect customers who purchased units issued by the Invest Real Security real estate fund (described in more detail in the section Risk management -Reputational risk). The remaining provisions reflect a revised estimate of other liabilities, primarily linked to risks related to investment instruments sold to customers in the past and whose performances have failed to meet expectations, fraud and risks related to delegated services. Uses, amounting to €17 million, relate to settlement of disputes and payment of other liabilities during the period. Releases to profit or loss, amounting to €10 million, relate to liabilities recognised in the past that have failed to materialise.
- 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 €54 million reflect the estimated value of new liabilities measured on the basis of expected outcomes. The reduction of €82 million relates to the reversal of liabilities recognised in the past, whilst a reduction of €22 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 €9 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. Uses of €30 million regard amounts used to cover the cost of settling disputes.
- 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 (€152 million) and decreased as a result of past liabilities that failed to materialise (€28 million) and settled disputes (€56 million).
- Provisions for restructuring charges reflect the estimated costs to be incurred by the Parent Company for early retirement incentives, under the current redundancy scheme for employees leaving the Company by 31 December 2018. Use of €316 million was made during the year under review.
- Provisions for expired and statute barred Postal Certificates held by BancoPosta have been made 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 1988 in response to the Parent Company's decision to redeem such certificates even if expired and statute barred. At 31 December 2016, the provisions represent the present value of total liabilities, based on a nominal value of €21 million expected to be progressively settled by 2043.
- 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, and claims for payment of accrued interest expense due to certain suppliers.

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B7 - Employee termination benefits and pensions plans

The following movements in employee termination benefits took place in 2016:

TAB. B7 – MOVEMENTS IN PROVISIONS FOR EMPLOYEE TERMINATION BENEFITS AND PENSION PLANS

(€m)		2016			2015	
	Employee termination benefits	Pension plans	Total	Employee termination benefits	Pension plans	Total
Balance at 1 January	1,357	4	1,361	1,475	3	1,478
Change in scope of consolidation	_	-	-	1	-	1
Current service cost	1	-	1	1	-	1
Interest component	24	-	24	28	-	28
Effect of actuarial (gains)/losses	50	1	51	(82)	1	(81)
Uses for the period	(82)	-	(82)	(66)	-	(66)
Balance at end of period	(3)	(5)	(8)	-	-	_
Saldo al 31 dicembre	1,347	-	1,347	1,357	4	1,361

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** and the **pension plan**, where the latter relates solely to BdM-MCC employees, are as follows:

TAB. B7.1 - ECONOMIC AND FINANCIAL ASSUMPTIONS

	At 31 December 2016	At 30 June 2016	At 31 December 2015
Discount rate	1.31%	1,05%	2,03%
		1.50% for 2016	1.50% for 2016
		1.80% for 2017	1.80% for 2017
Inflation rate	1.50%	1.70% for 2018	1.70% for 2018
		1.60% for 2019	1.60% for 2019
		2.00% from 2020 on	2.00% from 2020 on
		2.625% for 2016	2.625% for 2016
		2.85% for 2017	2.85% for 2017
Annual rate of increase of employee termination benefits	2.625%	2.775% for 2018	2.775% for 2018
		2.70% for 2019	2.70% for 2019
		3.00% from 2020 on	3.00% from 2020 on

TAB. B7.2 - DEMOGRAPHIC ASSUMPTIONS

	At 31 December 2016
Mortality	RG48
Disability	INPS tables by age and sex
Pensionable age	Attainment of legal requirements for retirement

Actuarial gains and losses are generated by the following factors:

TAB. B7.3 - ACTUARIAL GAINS AND LOSSES

31 Decen	nber 2016	31 December 2015		
Employee termination benefits	Pension plan	Employee termination benefits	Pension plan	
-	-	3	1	
67	-	(68)	-	
(17)	1	(17)	-	
50	1	(82)	1	
	Employee termination benefits - 67 (17)	termination benefits - - 67 - (17) 1	Employee termination benefitsPension plan termination benefitsEmployee termination benefits367-(68)(17)1(17)	

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

TAB. B7.4 - SENSITIVITY ANALYSIS

(€m)	31 Decen	nber 2016	31 December 2015		
	Employee termination benefits	Pension plan	Employee termination benefits	Pension plan	
Inflation rate +0.25%	1,368	-	1,379	4	
Inflation rate -0.25%	1,326	-	1,337	3	
Discount rate +0.25%	1,314	-	1,325	3	
Discount rate -0.25%	1,381	-	1,392	4	
Turnover rate +0.25%	1,345	-	1,357	-	
Turnover rate -0.25%	1,349	-	1,359	-	

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

TAB. B7.5 - OTHER INFORMATION

	At 31 December 2016
Expected service cost	1
Average duration of defined benefit plan	10.9
Average employee turnover	0.41%

B8 - Financial liabilities

Financial liabilities break down as follows at 31 December 2016:

TAB. B8 - FINANCIAL LIABILITIES

Item	Balance a	at 31 Decembe	er 2016	Balance at 31 December 2015		
(<i>€m</i>)	Non- current liabilities	Current liabilities	Total	Non- current liabilities	Current liabilities	Total
Payables deriving from postal current accounts	_	45,125	45,125	-	43,468	43,468
Borrowings	6,097	1,265	7,362	6,003	3,074	9,077
Bonds	1,545	26	1,571	2,011	37	2,048
Borrowings from financial institutions	4,551	1,232	5,783	3,984	3,034	7,018
Other borrowings	_	-	-	_	1	1
Finance leases	1	7	8	8	2	10
MEF account, held at the Treasury	_	2,429	2,429	_	-	-
Derivative financial instruments	2,306	50	2,356	1,595	4	1,599
Cash flow hedges	87	21	108	88	(9)	79
Fair value hedges	2,219	29	2,248	1,507	13	1,520
Fair value through profit or loss	_	-	-	_	_	_
Other financial liabilities	1	3,648	3,649	-	3,334	3,334
Total	8,404	52,517	60,921	7,598	49,880	57,478

Payables deriving from postal current accounts

Payables deriving from postal current accounts represent BancoPosta's direct deposits, and include interest accrued at 31 December 2016, which was settled with customers in January 2017.

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 €812 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 (65) of this borrowing at 31 December 2016 is €799 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 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 section A5; the fair value ⁽⁶⁶⁾ of this borrowing at 31 December 2016 is €52 million.

⁽⁶⁵⁾ In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 1.

⁽⁶⁶⁾ In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 2.

Subordinated bonds⁽⁶⁷⁾ with a nominal value of €750 million and accounted for at their amortised cost of €759 million, 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⁽⁶⁸⁾ of this liability at 31 December 2016 is €784 million.

At 31 December 2016, the value of the four bonds issued by BdM-MCC SpA (€479 million at 31 December 2015) has been reclassified, following the application of IFRS 5, to "Liabilities related to assets held for sale" (section A11).

Borrowings from financial institutions

This item breaks down as follows:

TAB. B8.1 - BORROWINGS FROM FINANCIAL INSTITUTIONS

Item	at 31 Decemb	per 2016	Balance a	at 31 Decemb	per 2015	
(€m)	Non- current liabilities	Current liabilities	Total	Non- current liabilities	Current liabilities	Total
Repurchase agreements	4,151	1,230	5,381	3,384	2,021	5,405
ECB loan	_	-	-	-	830	830
EIB fixed rate loan maturing 11 April 2018	200	-	200	200	-	200
EIB fixed rate loan maturing 23 March 2019	200	-	200	200	-	200
EIB variable rate loan maturing in 2017	-	-	-	-	1	1
Other borrowings	_	-	-	200	175	375
Current account overdrafts	-	2	2	-	5	5
Accrued interest expense	-	-	-	-	2	2
Total	4,551	1,232	5,783	3,984	3,034	7,018

TV: Finanziamento a tasso variabile, TF: Finanziamento a tasso fisso,

Borrowings from financial institutions are subject to standard negative pledge⁽⁶⁹⁾.

Outstanding liabilities for repurchase agreements at 31 December 2016 amount to €5,381 million and relate to contracts with a total nominal value of €4,761 million, entered into by the Parent Company with major financial institutions. These liabilities consist of:

- €3,904 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;
- €1,477 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 2016, the fair value⁽⁷⁰⁾ of the above repurchase agreements amounts to €5,419 million.

The fair value⁽⁷¹⁾ of the two fixed rate EIB loans of €400 million obtained by the Parent Company amounts to €404 million.

ECB and other loans attributable to BdM-MCC SpA have been reclassified, following the application of IFRS 5, to "Liabilities related to assets held for sale" (section A11).

⁽⁶⁷⁾ The bondholders rank below customers holding the company's insurance policies.

⁽⁶⁸⁾ In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 1.

⁽⁶⁹⁾ 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.

⁽⁷⁰⁾ In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 2.

⁽⁷¹⁾ In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 2.

Finance leases

These reflect the outstanding principal due under finance lease agreements for fixed assets, as shown in the following table.

TAB. B8.2 – RECONCILIATION OF TOTAL FUTURE PAYMENTS AND THEIR PRESENT VALUE

Item (Con)	At 31 December 2016					
(€m)	Instalments from 1 January 2016 to maturity	Interest	Present value			
Buildings used in operations	6	-	6			
Other assets	_	-	-			
Industrial patents, intellectual property, rights, concessions, licences, trademarks and similar rights	2	-	2			
Total	8	-	8			

TAB. B8.3 - TERM TO MATURITY OF FINANCE LEASE LIABILITIES

Item	At 31 December 2016						
(€m)	within 1 year	from 1 to 5 years	over 5 years	Total			
Buildings used in operations	6	-	-	6			
Other assets	_	-	-	-			
Industrial patents, intellectual property, rights, concessions, licences, trademarks and similar rights	1	1	-	2			
Total	7	1	-	8			

MEF account held at the Treasury

At 31 December 2016, the **MEF account held at the Treasury** has a debit balance of €2,429 million. This breaks down as follows:

TAB. B8.4 - MEF ACCOUNT, HELD AT THE TREASURY

Item	Balance at 31 December 2016			Balance at 31 December 2015		
(€m)	Non- current liabilities	Current liabilities	Total	Non- current assets	Current assets	Total
Balance of cash flows for advances	_	2,239	2,239	-	(1,693)	(1,693)
Balance of cash flows from management of postal savings	-	(4)	(4)	_	170	170
Amounts payable due to theft	-	159	159	-	158	158
Amounts payable for operational risks	-	35	35	-	34	34
Total	-	2,429	2,429	-	(1,331)	(1,331)

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TAB. B8.4.1 - BALANCE OF CASH FLOWS FOR ADVANCES

Item	Balance at 31 December 2016			Balance at 31 December 2015		
(€m)	Non- current liabilities	Current liabilities	Total	Non- current assets	Current assets	Total
Net advances	_	2,239	2,239	-	(1,694)	(1,694)
MEF postal current accounts and other payables	_	671	671	-	672	672
Ministry of Justice – Orders for payment	_	_	_	-	1	1
MEF – State pensions	_	(671)	(671)	-	(672)	(672)
Total	-	2,239	2,239	_	(1,693)	(1,693)

As a result of Legislative Decree 244/2016 (the so-called "Mille Proroghe" decree), the timing of pension payments was changed and the payment of pensions for January 2017 was postponed by one bank working day. Compared with 31 December 2015, therefore, deposit of the amount required to pay the pensions for January 2017 by the paying entity, INPS, took place on the first working day of the month of payment, rather than on the last working day in December 2016.

- The balance of cash flows from the management of postal savings, amounting to a positive €4 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 2016 consists of €92 million payable to Cassa Depositi e Prestiti, less €96 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, totalling €159 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.
 - During 2016, Poste Italiane SpA suffered totalling €8 million, made repayments to the Italian Treasury for thefts that took place up to 31 December 2015, amounting to €3 million, and in the first half of 2016, totalling €4 million.
- Amounts payable for operational risks (€35 million) regard the portion of advances obtained to fund the operations of BancoPosta, in relation to which asset under recovery is certain or probable.

Credit facilities

At 31 December 2016, the following credit facilities are available:

- committed lines of €1,173 million that have not been used;
- uncommitted lines of credit of €1,118 million that have not been used;
- overdraft facilities of €89 million, of which €2 million has been used:
- unsecured guarantee facilities with a value of €517 million (with €377 million available to the Parent Company), of which guarantees with a value of €320 million have been used for guarantees issued to third parties.

The above information does not take into account credit facilities attributable to BdM-MCC SpA.

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

Moreover, 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 €464 million, and the facility is unused at 31 December 2016.

Derivative financial instruments

Movements in derivative financial instruments during 2016 are described in section A5.

Other financial liabilities

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

TAB. B8.5 - OTHER FINANCIAL LIABILITIES

Item	Balance a	at 31 Decemb	per 2016	Balance a	at 31 Decemb	31 December 2015	
(€m)	Non- current liabilities	Current liabilities	Total	Non- current liabilities	Current liabilities	Total	
Prepaid cards	_	2,161	2,161	-	1,454	1,454	
Domestic and international money transfers	-	599	599	-	532	532	
Cashed cheques	-	284	284	-	508	508	
Tax collection and road tax	-	153	153	-	106	106	
Endorsed cheques	-	148	148	-	135	135	
Amounts to be credited to customers	-	75	75	-	160	160	
Guarantee deposits	-	32	32	-	205	205	
Other amounts payable to third parties	-	66	66	-	65	65	
Payables for items in process	-	117	117	_	60	60	
Amounts due to BdM-MCC SpA customers	-	-	-	_	88	88	
Other	1	13	14	_	21	21	
Total	1	3,648	3,649	_	3,334	3,334	

Specifically:

- Amounts due on prepaid cards relate to the electronic top-up of Postepay cards. The increase was due mainly
 to the Postepay Evolution product.
- Amounts due on domestic and international money transfers represent the exposure to third parties for:
 - domestic postal orders, totalling €536 million;
 - domestic and international transfers, totalling €63 million.
- Tax collection and road tax payables relate to amounts due to collection agents, the tax authorities and regional authorities for payments made by customers.
- Amounts to be credited to customers relate to payments of bills by payment slip in the process of being credited to beneficiaries' accounts, premiums collected and payments to be made on behalf of Poste Vita SpA and Poste Assicura, amounts to be paid for BancoPosta promotions, etc.
- Amounts payable for guarantee deposits, totalling €32 million, include €29 million received in relation to asset swaps (collateral provided by specific Credit Support Annexes) and €3 million received from counterparties in relation to repurchase agreements covering fixed-income securities (collateral under specific Global Master Repurchase Agreements).

B9 - Trade payables

Details are as follows:

TAB. B9 - TRADE PAYABLES

Item (<i>€m</i>)	Balance at 31 December 2016	Balance at 31 December 2015
Amounts due to suppliers	1,283	1,254
Prepayments and advances from customers	209	186
Other trade payables	12	10
Amounts due to subidiaries	2	2
Amounts due to associates	_	-
Amounts due to joint ventures	_	1
Total	1,506	1,453

Amounts due to suppliers

TAB. B9.1 - AMOUNTS DUE TO SUPPLIERS

Item (<i>€m</i>)	Balance at 31 December 2016	Balance at 31 December 2015
Italian suppliers	1,131	1,118
Overseas suppliers	24	21
Overseas counterparties (1)	128	115
Total	1,283	1,254

⁽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

ltem (€m)	Balance at 31 December 2016	Balance at 31 December 2015
Prepayments from overseas suppliers	123	92
Automated franking	53	60
Unfranked mail	14	12
Postage-paid mailing services	7	5
Other services	12	17
Total	209	186

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B10 - Other liabilities

Details of these items are as follows:

TAB. B10 - OTHER LIABILITIES

Item	Balance a	at 31 Deceml	per 2016	Balance a	at 31 Decemb	per 2015
(€m)	Non- current liabilities	Current liabilities	Total	Non- current liabilities	Current liabilities	Total
Amounts due to staff	1	913	914	-	794	794
Social security payables	38	451	489	41	443	484
Other taxes payable	927	624	1,551	773	642	1,415
Amounts due to the MEF	_	21	21	-	21	21
Sundry payables	91	70	161	90	69	159
Accrued liabilities and deferred income	14	68	82	16	56	72
Total	1,071	2,147	3,218	920	2,025	2,945

Amounts due to staff

Amounts due to staff relate primarily to amounts accrued and not paid at 31 December 2016. Details are as follows:

TAB. B10.1 - AMOUNTS DUE TO STAFF

Item	Balance at 31 December 2016			Balance at 31 December 2015			
(€m)	Non- current liabilities	Current liabilities	Total	Non- current liabilities	Current liabilities	Total	
Thirteenth and fourteenth month salaries	_	236	236	-	240	240	
Incentives	1	533	534	-	413	413	
Accrued vacation pay	_	55	55	-	56	56	
Other amounts due to staff	_	89	89	_	85	85	
Total	1	913	914	_	794	794	

At 31 December 2016, incentives that at 31 December 2015 were included in provisions for restructuring were determinable with reasonable certainty and, as such, were recognised as payables.

Social security payables

TAB. B10.2 - SOCIAL SECURITY PAYABLES

Item	Balance at 31 December 2016			Balance at 31 December 2015		
(€m)	Non- Current Tot current liabilities liabilities		Total	Non- current liabilities	Current liabilities	Total
INPS	-	358	358	-	351	351
Pension funds	_	83	83	-	82	82
INAIL	38	3	41	41	3	44
Other agencies	_	7	7	-	7	7
Total	38	451	489	41	443	484

Specifically:

- Amounts due to the *Istituto Nazionale per la Previdenza Sociale* (*INPS*, the National Institute of Social Security) primarily relate to amounts due on salaries paid and accrued at 31 December 2016. This item also includes provisions for employee termination benefits still to be paid.
- Amounts payable to pension funds relate to sums due to FondoPoste and other pension funds following the
 decision by certain Group employees to join supplementary funds.
- Amounts due to the Istituto Nazionale per l'Assicurazione contro gli Infortuni sul Lavoro (INAIL, the National Occupational Injury Compensation Authority) relate to injury compensation paid to employees of the Parent Company for injuries occurring up to 31 December 1998.

Other tax liabilities

TAB. B10.3 - OTHER TAXES PAYABLE

Item	Balance a	at 31 December 2016 Balance at 31 December			per 2015	
(<i>€m</i>)	Non- current liabilities	Current liabilities	Total	Non- current liabilities	Current liabilities	Total
Stamp duty payable	927	-	927	773	43	816
Tax due on insurance provisions	-	443	443	-	385	385
Withholding tax on employees' and consultants' salaries	-	113	113	-	113	113
VAT payable	-	18	18	-	21	21
Substitute tax	-	24	24	-	55	55
Withholding tax on postal current accounts	-	3	3	-	7	7
Other taxes due	-	23	23	-	18	18
Total	927	624	1,551	773	642	1,415

In particular:

- **Stamp duty** relates mainly to the amount accrued at 31 December 2016 on Interest-bearing Postal Certificates outstanding and on Class III and V insurance policies pursuant to the new law referred to in section A8.
- Tax due on insurance provisions relates to Poste Vita SpA and is described in section A8.
- Withholding tax on employees' and consultants' salaries relates to amounts paid to the tax authorities by Group companies in January and February 2017 as withholding agents.
- Withholding tax due on postal current accounts refers to amounts withheld by BancoPosta RFC on interest accrued during the year on customer current accounts.
- **Substitute tax**, relating mainly to Poste Vita SpA, refers to the tax payable on annual revaluations of individual pension plans and the monthly withholdings for December, which were both paid in January and February 2017.

Amounts due to the MEF

The item includes:

- €12 million, reflecting payables arising from pension payments made by the MEF to former Poste Italiane SpA employees between 1 January 1994 and 31 July 1994;
- €9 million, relating to the return of the extraordinary contribution, pursuant to article 2 Law 778/85, received from the MEF to cover shortfalls of the pension fund of the former Postal and Telecommunications Administration.

The items in question were reviewed by a joint working group created with the MEF – Department of Treasury and General Accounting Department and included in the letter dated 7 August 2015.

Sundry payables

TAB. B10.4 - SUNDRY PAYABLES

Item	Balance a	at 31 Deceml	ber 2016	Balance at 31 December 2015			
(€m)	Non- current liabilities	Current liabilities	Total	Non- current liabilities	Current liabilities	Total	
Sundry payables attributable to BancoPosta	75	7	82	76	8	84	
Guarantee deposits	9	2	11	8	2	10	
Other payables	7	61	68	6	59	65	
Total	91	70	161	90	69	159	

In detail:

- sundry payables attributable to BancoPosta's operations primarily relate to prior year balances currently being verified.
- guarantee deposits primarily relate to amounts collected from the Parent Company's 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

AB. B10.5 - ACCRUED LIABILITIES AND DEFERRED INCOME

Item	Balance a	at 31 Decemb	per 2016	Balance a	at 31 Decemb	ember 2015	
(€m)	Non- current liabilities	Current liabilities	Total	Non- current liabilities	Current liabilities	Total	
Accrued liabilities	-	6	6	-	5	5	
Deferred income	14	62	76	16	51	67	
Total	14	68	82	16	56	72	

Deferred income comprises:

- €21 million in prepaid telephone traffic sold as of 31 December 2016 sold by PosteMobile SpA and not yet used by customers;
- €21 million in fees on Postemat and Postepay Evolution cards collected in advance by the Parent Company;
- €8 million in grants approved by the competent public authorities in favour of the Parent 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.

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Statement of profit or loss

C1 – Revenue from sales and services

Revenue from sales and services, amounting to €8,743 million, breaks down as follows:

TAB. C1 - REVENUE FROM SALES AND SERVICES

Item (<i>€m</i>)	For the year ended 31 December 2016	For the year ended 31 December 2015
Postal and Business Services	3,768	3,818
Financial Services	4,683	4,707
Insurance Services and Asset Management	69	46
Mobile phone Services	223	239
Total	8,743	8,810

Postal and Business Services

Revenue from Postal and Business Services breaks down as follows:

TAB. C1.1 - REVENUE FROM POSTAL AND BUSINESS SERVICES

Unfranked mail 1,109 1,152 Automated franking by third parties and at post offices 789 827 Express parcel and express courier services 440 422 Integrated services 206 220 Stamps 190 224 Overseas mail and parcels 150 127 Postage-paid mailing services 102 115 Electronic document management and e-procurement services 39 38 Telegrams 40 40 Innovative services 15 22 Logistics services 12 25 Other postal services 121 108 Total revenue from Postal Services 3,213 3,320 Air shipping services 57 82 Income from application for residence permits 27 29 Rentals 16 15 Other business services 84 93 Total revenue from Business Services 184 219 Total market revenue 3,397 3,539 Universal Service compens	Item (<i>€m</i>)	For the year ended 31 December 2016	For the year ended 31 December 2015
Express parcel and express courier services 440 422 Integrated services 206 220 Stamps 190 224 Overseas mail and parcels 150 127 Postage-paid mailling services 102 115 Electronic document management and e-procurement services 39 38 Telegrams 40 40 Innovative services 15 22 Logistics services 12 25 Other postal services 121 108 Total revenue from Postal Services 3,213 3,320 Air shipping services 57 82 Income from application for residence permits 27 29 Rentals 16 15 Other business services 84 93 Total revenue from Business Services 184 219 Total market revenue 3,397 3,539 Universal Service compensation 371 279 Electoral subsidies - -	Unfranked mail	1,109	1,152
Integrated services 206 220 Stamps 190 224 Overseas mail and parcels 150 127 Postage-paid mailing services 102 115 Electronic document management and e-procurement services 39 38 Telegrams 40 40 Innovative services 15 22 Logistics services 12 25 Other postal services 121 108 Total revenue from Postal Services 3,213 3,320 Air shipping services 57 82 Income from application for residence permits 27 29 Rentals 16 15 Other business services 84 93 Total revenue from Business Services 184 219 Total market revenue 3,397 3,539 Universal Service compensation 371 279 Electoral subsidies - - -	Automated franking by third parties and at post offices	789	827
Stamps 190 224 Overseas mail and parcels 150 127 Postage-paid mailing services 102 115 Electronic document management and e-procurement services 39 38 Telegrams 40 40 Innovative services 15 22 Logistics services 12 25 Other postal services 121 108 Total revenue from Postal Services 3,213 3,320 Air shipping services 57 82 Income from application for residence permits 27 29 Rentals 16 15 Other business services 84 93 Total revenue from Business Services 184 219 Total market revenue 3,397 3,539 Universal Service compensation 371 279 Electoral subsidies - - -	Express parcel and express courier services	440	422
Overseas mail and parcels 150 127 Postage-paid mailing services 102 115 Electronic document management and e-procurement services 39 38 Telegrams 40 40 Innovative services 15 22 Logistics services 12 25 Other postal services 121 108 Total revenue from Postal Services 3,213 3,320 Air shipping services 57 82 Income from application for residence permits 27 29 Rentals 16 15 Other business services 84 93 Total revenue from Business Services 184 219 Total market revenue 3,397 3,539 Universal Service compensation 371 279 Electoral subsidies - - -	Integrated services	206	220
Postage-paid mailing services 102 115 Electronic document management and e-procurement services 39 38 Telegrams 40 40 Innovative services 15 22 Logistics services 12 25 Other postal services 121 108 Total revenue from Postal Services 3,213 3,320 Air shipping services 57 82 Income from application for residence permits 27 29 Rentals 16 15 Other business services 84 93 Total revenue from Business Services 184 219 Total market revenue 3,397 3,539 Universal Service compensation 371 279 Electoral subsidies - - -	Stamps	190	224
Electronic document management and e-procurement services 39 38 Telegrams 40 40 Innovative services 15 22 Logistics services 12 25 Other postal services 121 108 Total revenue from Postal Services 3,213 3,320 Air shipping services 57 82 Income from application for residence permits 27 29 Rentals 16 15 Other business services 84 93 Total revenue from Business Services 184 219 Total market revenue 3,397 3,539 Universal Service compensation 371 279 Electoral subsidies - -	Overseas mail and parcels	150	127
Telegrams 40 40 Innovative services 15 22 Logistics services 12 25 Other postal services 121 108 Total revenue from Postal Services 3,213 3,320 Air shipping services 57 82 Income from application for residence permits 27 29 Rentals 16 15 Other business services 84 93 Total revenue from Business Services 184 219 Total market revenue 3,397 3,539 Universal Service compensation 371 279 Electoral subsidies - -	Postage-paid mailing services	102	115
Innovative services 15 22 Logistics services 12 25 Other postal services 121 108 Total revenue from Postal Services 3,213 3,320 Air shipping services 57 82 Income from application for residence permits 27 29 Rentals 16 15 Other business services 84 93 Total revenue from Business Services 184 219 Total market revenue 3,397 3,539 Universal Service compensation 371 279 Electoral subsidies - - -	Electronic document management and e-procurement services	39	38
Logistics services 12 25 Other postal services 121 108 Total revenue from Postal Services 3,213 3,320 Air shipping services 57 82 Income from application for residence permits 27 29 Rentals 16 15 Other business services 84 93 Total revenue from Business Services 184 219 Total market revenue 3,397 3,539 Universal Service compensation 371 279 Electoral subsidies - -	Telegrams	40	40
Other postal services 121 108 Total revenue from Postal Services 3,213 3,320 Air shipping services 57 82 Income from application for residence permits 27 29 Rentals 16 15 Other business services 84 93 Total revenue from Business Services 184 219 Total market revenue 3,397 3,539 Universal Service compensation 371 279 Electoral subsidies - - -	Innovative services	15	22
Total revenue from Postal Services 3,213 3,320 Air shipping services 57 82 Income from application for residence permits 27 29 Rentals 16 15 Other business services 84 93 Total revenue from Business Services 184 219 Total market revenue 3,397 3,539 Universal Service compensation 371 279 Electoral subsidies - - -	Logistics services	12	25
Air shipping services 57 82 Income from application for residence permits 27 29 Rentals 16 15 Other business services 84 93 Total revenue from Business Services 184 219 Total market revenue 3,397 3,539 Universal Service compensation 371 279 Electoral subsidies - -	Other postal services	121	108
Income from application for residence permits 27 29 Rentals 16 15 Other business services 84 93 Total revenue from Business Services 184 219 Total market revenue 3,397 3,539 Universal Service compensation 371 279 Electoral subsidies - -	Total revenue from Postal Services	3,213	3,320
Rentals 16 15 Other business services 84 93 Total revenue from Business Services 184 219 Total market revenue 3,397 3,539 Universal Service compensation 371 279 Electoral subsidies - - -	Air shipping services	57	82
Other business services 84 93 Total revenue from Business Services 184 219 Total market revenue 3,397 3,539 Universal Service compensation 371 279 Electoral subsidies - -	Income from application for residence permits	27	29
Total revenue from Business Services184219Total market revenue3,3973,539Universal Service compensation371279Electoral subsidies	Rentals	16	15
Total market revenue3,3973,539Universal Service compensation371279Electoral subsidies	Other business services	84	93
Universal Service compensation 371 279 Electoral subsidies	Total revenue from Business Services	184	219
Electoral subsidies	Total market revenue	3,397	3,539
	Universal Service compensation	371	279
Total 3,768 3,818	Electoral subsidies	-	-
	Total	3,768	3,818

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In detail:

- **Unfranked mail** relates to revenue from the mailing of correspondence by large customers from the post office network, including those conducted using the Bulk Mail formula.
- Automated franking by third parties or at post offices, relates to revenue from the mailing of correspondence franked by customers or at post offices using a franking machine.
- Express parcel and express courier services relate to services provided mainly by the subsidiary, SDA Express Courier SpA.
- Integrated services relate primarily to the delivery of administrative notices and fines (€182 million).
- Stamps relates to the sale of stamps through post offices and authorised outlets, and sales of stamps used for franking on credit.
- Postage-paid mailing services relate to revenue from the delivery of publications and mail-order goods on behalf
 of publishers.
- Revenue from electronic document management and e-procurement services relates to the distribution and supply of stationery, forms and printed documents by the subsidiary, Postel SpA.
- 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. The remaining amount due of €371 million reflects revenue previously written down in provisions for doubtful debts due from the MEF, after the Ministry made new provision to honour previous contractual obligations. In this regard, reference is made to note 2.4 *Use of estimates* and A7.4 *Due from the MEF*.

Financial Services

Revenue from Financial Services, which relate mainly to services rendered by the Parent Company's BancoPosta RFC and by BdM-MCC SpA, break down as follows:

TAB. C1.2 - REVENUE FROM FINANCIAL SERVICES

Item (<i>€m</i>)	For the year ended 31 December 2016	For the year ended 31 December 2015
Fees for collection of postal savings deposits	1,577	1,610
Income from investment of postal current account deposits	1,509	1,546
Commissions on payment of bills by payment slip	463	456
Other revenues from current account services	447	472
Distribution of loan products	189	125
Fees for issue and use of prepaid cards	151	130
Income from delegated services	107	123
Fees for the management of public funds	50	45
Interest on loans and other income	48	55
Money transfers	41	45
Securities custody	6	8
Commissions from securities trading	4	5
Other products and services	91	87
Total	4,683	4,707

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 covering the five-year period 2014-2018. In 2016, a number of conditions provided for in the Agreement of 4 December 2014 covering the five-year period 2014-2018 were confirmed, requiring the parties to renegotiate existing agreements in good faith. Whilst awaiting the agreement of new terms and conditions, Poste Italiane has recognised revenue from the services rendered in 2016 on the basis of the Agreement of 4 December 2014. Any impact of a new agreement on the Company's operating results, not as yet foreseeable, will be taken into account, on an accruals basis, once such an impact can be reasonably assessed.
- Income from the investment of postal current account deposits breaks down as follows:

TAB. C1.3 - INCOME FROM INVESTMENT OF POSTAL CURRENT ACCOUNT **DEPOSITS**

Item (<i>€m</i>)	For the year ended 31 December 2016	For the year ended 31 December 2015
Income from investments in securities	1,489	1,508
Interest income on held-to-maturity financial assets	541	573
Interest income on available-for-sale financial assets	974	930
Interest income on securities held for trading	-	1
Interest expense on asset swaps of available-for-sale financial assets	(33)	4
Interest income on repurchase agreements	7	-
Income from deposits held with the MEF	20	38
Remuneration of current account deposits (deposited with the MEF)	20	34
Differential on derivatives stabilising returns	-	4
Total	1,509	1,546

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.

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.
- Income from delegated services primarily regards amounts received by the Parent Company for the payment of pensions and vouchers issued by INPS and for the provision of treasury services on the basis of the agreement with the MEF.
- Interest on loans and fees for the management of public funds are entirely attributable to BdM-MCC SpA.
- Other products and services mainly reflect fees deriving from the processing of tax payment forms (F24).

Revenue from insurance and asset management services

This item amounts to €69 million, reflecting €60 million in commissions received from BancoPosta Fondi SGR SpA for the management of mutual funds and €9 million in revenue generated by Poste Welfare Servizi Srl.

Revenue from mobile telephony services

This item, amounting to €223 million, reflects revenue generated by PosteMobile SpA, primarily from the provisions of mobile telecommunications.

C2 - Insurance premium revenue

Details of this item are as follows:

TAB. C2 - INSURANCE PREMIUM REVENUE

Item (<i>€m</i>)	For the year ended 31 December 2016	For the year ended 31 December 2015
Life premiums(*)	19,804	18,130
Class I	19,252	17,898
Class III	475	163
Class IV	8	3
Class V	69	66
Non-life premiums ^(*)	80	67
Total	19,884	18,197

^(*) Insurance premium revenue is reported net of outward reinsurance premiums

C3 – Other income from financial and insurance activities

Details of this item are as follows:

TAB. C3 - OTHER INCOME FROM FINANCIAL AND INSURANCE ACTIVITIES

Item (<i>€m</i>)	For the year ended 31 December 2016	For the year ended 31 December 2015
Income from financial assets at fair value through profit or loss	1,256	567
Interest	328	468
Fair value gains	913	72
Realised gains	15	27
Income from available-for-sale financial assets	3,139	3,067
Interest	2,221	2,278
Realised gains	796	789
Realised gains on other equity instruments	121	_
Dividends received from other equity instruments	1	-
Income from fair value hedges	_	2
Fair value gains	_	2
Foreign exchange gains	4	5
Fair value gains	_	1
Realised gains	4	4
Other income	22	16
Total	4,421	3,657

Income from available-for-sale financial assets includes gains of €477 million realised by the Financial Services segment in 2016, with €473 million attributable to BancoPosta RFC, and gains of €319 million realised by the Insurance Services segment. In addition, following the sale of the equity interest in Visa Europe Ltd, Poste Italiane received proceeds corresponding to a total fair value of €121 million (recognised as a non-recurring realised gain).

C4 - Other operating income

Other operating income relates to the following:

TAB. C4 - OTHER OPERATING INCOME

Item (€m)	For the year ended 31 December 2016	For the year ended 31 December 2015
Recoveries of contract expenses and other recoveries	28	25
Government grants	11	14
Recovery of cost of seconded staff	1	1
Gains on disposals	1	2
Other income	23	33
Total	64	75

C5 - Costs of goods and services

The following table provides a breakdown of the cost of goods and services:

TAB. C5 - COST OF GOODS AND SERVICES

Item (<i>€m</i>)	For the year ended 31 December 2016	For the year ended 31 December 2015
Services	1,960	1,999
Lease expense	336	359
Raw, ancillary and consumable materials and goods for resale	146	175
Interest expense	34	57
Total	2,476	2,590

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Cost of services

TAB. C5.1 - SERVICES

Item (<i>€m</i>)	For the year ended 31 December 2016	For the year ended 31 December 2015
Transport of mail, parcels and forms	534	521
Routine maintenance and technical assistance	256	264
Outsourcing fees and external service charges	194	190
Personnel services	155	164
Energy and water	129	139
Mobile telecommunication services for customers	100	112
Transport of cash	101	98
Credit and debit card fees and charges	83	73
Cleaning, waste disposal and security	64	64
Telecommunications and data trasmission	62	73
Mail, telegraph and telex	67	62
Advertising and promotions	75	85
Consultants' fees and legal expenses	35	50
Airport costs	24	26
Electronic document management, printing and enveloping services	27	29
Asset management fees	18	16
Insurance premiums	15	16
Agent commissions and other	14	12
Securities custody and management fees	2	2
Remuneration of Statutory Auditors	2	2
Other	3	1
Total	1,960	1,999

Lease expense

TAB. C5.2 - LEASE EXPENSE

Item (<i>€m</i>)	For the year ended 31 December 2016	For the year ended 31 December 2015
Real estate leases and ancillary costs	189	192
Vehicle leases	64	77
Equipment hire and software licences	50	54
Other lease expense	33	36
Total	336	359

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 (<i>€m</i>)	Nota	For the year ended 31 December 2016	For the year ended 31 December 2015
Consumables, advertising materials and goods for resale		86	94
Fuels and lubricants		55	66
Printing of postage and revenue stamps		6	8
SIM cards and scratch cards		2	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]	1	4
Change in property held for sale	[tab. A6]	(4)	(1)
Other		-	-
Total		146	175

Interest expense

TAB. C5.4 - INTEREST EXPENSE

Item (€m)	For the year ended 31 December 2016	For the year ended 31 December 2015
Interest on customers' deposits	12	30
Interest expense on repurchase agreements	17	21
Interest due to MEF	2	1
Other interest expense and similar charges	4	5
Portion of interest expense on own liquidity (finance costs)	(1)	-
Total	34	57

Compared to the previous year, interest paid to customers decreased, mainly as a result of a fall in the interest rates paid on certain postal current accounts.

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C6 – Net movement in technical provisions for insurance business and other claim expenses

This item breaks down as follows:

TAB. C6 – MOVEMENTS IN TECHNICAL PROVISIONS FOR INSURANCE BUSINESS AND OTHER CLAIMS EXPENSES

Item (<i>€m</i>)	For the year ended 31 December 2016	For the year ended 31 December 2015
Claims paid	7,682	7,313
Movement in mathematical provisions	14,325	13,383
Movement in outstanding claim provisions	(238)	704
Movement in Other technical provisions	478	(459)
Movement in technical provisions where investment risk is transferred to policyholders	(319)	(1,285)
Claim expenses and movement in other provisions – Non-life	30	27
Total	21,958	19,683

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

- claims paid, policies redeemed and the related expenses incurred by Poste Vita SpA during the period, totalling
 €7,682 million;
- the change in mathematical provisions, totalling €14,325 million, reflecting increased obligations to policyholder;
- the decrease in technical provisions where investment risk is transferred to policyholders (so-called class D), totalling €319 million.

C7 - Other expenses from financial and insurance activities

The table below provides a breakdown of this item:

TAB. C7 - OTHER EXPENSES FROM FINANCIAL AND INSURANCE ACTIVITIES

Item (€ <i>m</i>)	For the year ended 31 December 2016	For the year ended 31 December 2015
Expenses from financial instruments through profit or loss	314	611
Fair value losses	290	604
Realised losses	24	7
Expenses from available-for-sale financial instruments	178	47
Impairment	94	-
Realised losses	84	47
Expenses from cash flow hedges	-	-
Fair value losses	-	-
Change in fair value of financial liabilities	-	-
Expenses from fair value hedges	1	-
Fair value losses	1	_
Foreign exchange losses	1	-
Fair value losses	1	-
Realised losses	-	-
Expenses incurred on repurchase agreements	6	_
Other expenses	39	31
Total	539	689

C8 – Personnel expenses

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. C8 - PERSONNEL EXPENSES

Item (€m) Nota	For the year ended 31 December 2016	For the year ended 31 December 2015
Wages and salaries	4,297	4,346
Social security contributions	1,218	1,226
Provisions for employee termination benefits: current service cost [tab. B7]	1	1
Provisions for employee termination benefits: supplementary pension funds and INPS	265	269
Agency staff	1	5
Remuneration and expenses paid to Directors	2	2
Early retirement incentives	167	78
Net provisions (reversals) for disputes with staff [tab. B6]	3	(13)
Provisions for restructuring charges [tab. B6]	342	316
Amounts recovered from staff due to disputes	(9)	(6)
Other personnel expenses/(cost recoveries)	(46)	(62)
Total personnel expenses	6,241	6,162
Income from settlements with fixed-term and agency staff	-	(11)
Total	6,241	6,151

Net provisions for disputes with staff and provisions for restructuring charges are described in section B6.

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 2016:

TAB. C8.1 - NUMBER OF EMPLOYEES

Category	Avei	rage	Year end		
	For the year ended 31 December 2016	For the year ended 31 December 2015	At 31 December 2016	At 31 December 2015	
Executives	773	793	748	790	
Middle managers	16,113	16,042	15,807	15,878	
Operational staff	118,720	121,487	115,035	119,792	
Back-office staff	1,052	1,408	912	1,141	
Total employees on permanent contracts ^(*)	136,658	139,730	132,502	137,601	

Figures expressed in Full Time Equivalent terms

Taking account of staff on flexible contracts, the total average number of full-time equivalent staff in 2016 is 141,246 (143,700 in 2015).

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C9 - Depreciation, amortisation and impairments

Depreciation, amortisation and impairments break down as follows:

TAB. C9 - DEPRECIATION, AMORTISATION AND IMPAIRMENTS

Item (€ <i>m</i>)	For the year ended 31 December 2016	For the year ended 31 December 2015
Property, plant and equipment	349	353
Properties used in operations	110	108
Plant and machinery	87	98
Industrial and commercial equipment	9	10
Leasehold improvements	33	29
Other assets	110	108
Impairments/recoveries/adjustments of property, plant and equipment	(14)	(12)
Depreciation of investment property	4	5
Impairment/recoveries/adjustments of investment property	_	_
Amortisation and impairments of intangible assets	242	223
Industrial patents and intellectual property rights, concessions, lincenses, trademarks and similar rights	232	212
Other	10	11
Goodwill impairment	_	12
Total	581	581

Goodwill impairment refers to Postel SpA, as described in section A3.

C10 - Capitalised costs and expenses

Capitalised costs and expenses break down as follows:

TAB. C10 - INCREASES RELATING TO ASSETS UNDER CONSTRUCTION

Item (€m)	lota	For the year ended 31 December 2016	For the year ended 31 December 2015
Property, plant and machinery	[A1]	5	7
Intangible assets	[A3]	20	26
Total		25	33

C11 - Other operating costs

Other operating costs break down as follows:

TAB. C11 - OTHER OPERATING COSTS

Item (<i>€m</i>)	Note	For the year ended 31 December 2016	For the year ended 31 December 2015
Net provisions and losses on doubtful debts (uses of provisions)		22	(42)
Provisions for receivables due from customers	[tab. A7.2]	24	21
Provisions (reversal of provisions) for receivables due from MEF	[tab. A7.4]	(7)	(68)
Provisions (reversal of provisions) for sundry receivables	[tab. A8.1]	4	4
Losses on receivables		1	1
Operational risk events		42	39
Thefts		8	6
Loss of BancoPosta assets, net of recoveries		1	5
Other operating losses of BancoPosta		33	28
Net provisions for risks and charges made/(released)		80	89
for disputes with third parties	[tab. B6]	(28)	41
for non-recurring charges	[tab. B6]	86	46
for other risks and charges	[tab. B6]	22	2
Losses		4	2
Municipal property tax, urban waste tax and other taxes and duties		75	68
Impairment gruppi di attività in dismissione	[tab. A11.1]	37	-
Other recurring expenses		41	42
Total		301	198

C12 - Finance income/costs

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. C12.1 - FINANCE INCOME

Item (<i>€m</i>)	For the year ended 31 December 2016	For the year ended 31 December 2015
Income from available-for-sale financial assets	95	128
Interest	98	113
Accrued differentials on fair value hedges	(10)	(9)
Realised gains ⁽¹⁾	7	23
Dividends ⁽¹⁾	_	1
Income from financial assets at fair value through profit or loss	_	-
Other finance income	11	23
Interest from the MEF	_	2
Interest on bank current accounts	_	-
Finance income on discounted receivables ⁽²⁾	7	11
Late payment interest	10	17
Impairment of amounts due as late payment interest	(10)	(17)
Income from subsidiaries	_	-
Interest on IRES refund	_	5
Adjustment of interest on IRES refund	-	(1)
Other	4	6
Foreign exchange gains ⁽¹⁾	3	7
Total	109	158

⁽¹⁾ For the purposes of reconciliation with the statement of cash flows, in 2016 finance income after realised gains, dividends received and foreign exchange gains amounts to €99 million (€127 million in 2015).

Finance costs

TAB. C12.2 - FINANCE COSTS

Item (€m)	For the year ended 31 December 2016	For the year ended 31 December 2015
Finance costs on financial liabilities	52	59
on bonds	49	50
on borrowings from financial institutions	2	8
on derivative financial instruments	1	1
Finance costs on sundry financial assets	12	6
Impairment loss on available-for-sale investments(1)	12	_
Realised losses on financial instruments at fair value through profit or loss	_	6
Finance costs on provisions for employee termination benefits and pension plans [tab. B7]	24	28
Finance costs on provisions for risks [tab. B6]	1	1
Other finance costs	7	7
Foreign exchange losses ⁽¹⁾	3	7
Total	100	108

For the purposes of reconciliation with the statement of cash flows, in 2016 financial costs after foreign exchange losses and impairment losses on available-for-sale financial assets amount to €85 million (€101 million in 2015).

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 and 2013.

C13 - Income tax expense

This item breaks down as follows:

TAB. C13 - INCOME TAX EXPENSE

Item (€m)	For the year	r ended 31 E 2016	December	For the year	ended 31 De 2015	ecember
	IRES	IRAP	Total	IRES	IRAP	Total
Current tax expense	358	73	431	297	59	356
Deferred tax income	(10)	(8)	(18)	21	(24)	(3)
Deferred tax expense	16	5	21	22	6	28
Total	364	70	434	340	41	381

The tax rate for 2016 is 41.09% and consists of:

TAB. C13.1 - RECONCILIATION BETWEEN THEORETICAL AND EFFECTIVE IRES RATE

Item (<i>€m</i>)	For the year Decembe		For the year of December	
	IRES	Tax Rate	IRES	Tax Rate
Profit before tax	1,056		933	
Theoretical tax charge at 27.5%	290	27.5%	256	27.5%
Effect of changes with respect to theoretical rate				
Realised gains on other investments	(32)	-3.01%	-	0.00%
Non-deductible out-of-period losses	8	0.71%	9	0.98%
Net provisions for risks and charges and bad debts	19	1.79%	12	1.30%
Non-deductible taxes	8	0.72%	6	0.64%
Realignment of tax bases and carrying amounts and taxation for previous years	11	1.09%	(4)	-0.40%
Technical provisions for insurance business	55	5.20%	52	5.56%
Deduction from IRES tax base of IRAP paid on personnel expenses	-	0.00%	(4)	-0.40%
Adjustments for change in IRES tax rate introduced by 2016 Stability Law	14	1.35%	23	2.49%
Adjustment of IRES refund claimed	_	0.00%	9	1.02%
Non-recurring income/(expenses) for deferred taxes recycled to profit or loss	-	0.00%	7	0.71%
Other	(9)	-0.88%	(26)	-2.97%
Effective tax charge	364	34.48%	340	36.42%

TAB. C13.2 - RECONCILIATION BETWEEN THEORETICAL AND EFFECTIVE IRAP RATE

Item (<i>€m</i>)	For the year December		For the year ended 31 December 2015		
	IRAP	Tax Rate	IRAP	Tax Rate	
Profit before tax	1,056		933		
Theoretical tax charge	63	5.96%	57	6.16%	
Effect of changes with respect to theoretical rate					
Non-deductible personnel expenses	7	0.67%	29	3.15%	
Change in value of available-for-sale investments	_	0.00%	-	0.00%	
Non-deductible out-of-period losses	1	0.08%	2	0.17%	
Net provisions for risks and charges and bad debts	2	0.22%	(12)	-1.32%	
Non-deductible taxes	1	0.13%	1	0.14%	
Finance income and costs	_	-0.02%	(3)	-0.31%	
Realignment of tax bases and carrying amounts and taxation for previous years	(3)	-0.33%	(1)	-0.10%	
Non-recurring income/(expenses) for deferred taxes recycled to profit or loss	_	0.00%	(24)	-2.54%	
Other	(1)	-0.10%	(8)	-1.00%	
Effective tax charge	70	6.61%	41	4.35%	

Current tax assets and liabilities

TAB. C13.3 - MOVEMENTS IN CURRENT TAX ASSETS /(LIABILITIES)

Item (€m)		xes for the ye December 20			ces for the yea December 201	
	IRES	IRAP	Total	IRES	IRAP	Total
	Assets/ (Liabilities)	Assets/ (Liabilities)		Assets/ (Liabilities)	Assets/ (Liabilities)	
Balance at 1 January	(16)	35	19	587	48	635
Payment of	288	29	317	225	50	275
prepayments for the current year	269	27	296	213	46	259
balance payable for the previous year	19	2	21	12	4	16
Collection of IRES refund claimed	_	_	_	(518)	-	(518)
Adjustment of IRES refund claimed	_	-	-	(9)	-	(9)
Provisions to profit or loss	(358)	(73)	(431)	(288)	(59)	(347)
Provisions to equity	20	2	22	(22)	(4)	(26)
Other	3	(3)	-	9	-	9
Balance at 31 December	(63)	(10)	(73)	(16)	35	19
of which:						
Current tax assets	12	3	15	34	38	72
Current tax liabilities	(75)	(13)	(88)	(50)	(3)	(53)

 $^{(\}mbox{\ensuremath{^{'}}})$ Mainly due to 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 include €9 million relate to the remaining IRES refund to be received on the 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. This legislation provided for the partial deduction of IRAP paid on personnel expenses from IRES (to this end, reference should be made to the relevant interest receivable in section A8).

Deferred tax assets and liabilities

TAB. C13.4 - DEFERRED TAXES

Balance at 31 December 2016	Balance at 31 December 2015
799	623
(746)	(1,177)
53	(554)
	799 (746)

The nominal tax rate for IRES is 27.5% for 2016 and 24% from 1 January 2017, whilst the Group's average statutory rate for IRAP is 5.96%⁽⁷²⁾. Movements in deferred tax assets and liabilities are shown below:

TAB. C13.5 - MOVEMENTS IN DEFERRED TAX ASSETS AND LIABILITIES

Item (<i>€m</i>)	2016	2015
Balance at 1 January	(554)	(345)
Net income/(expenses) recognised in profit or loss	11	(18)
Net non-recurring income/(expenses) recognised in profit or loss	_	17
Net non-recurring income/(expenses) recognised in profit or loss due to adjustment to IRES rate	(14)	(24)
Net income/(expenses) recognised in equity	621	(303)
Net non-recurring income/(expenses) recognised in equity due to adjustment to IRES rate	-	119
Recl. to disposal groups and liabilities held for sale	(11)	_
Balance at 31 December	53	(554)

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. C13.6 - MOVEMENTS IN DEFERRED TAX ASSETS

Item (<i>€m</i>)	PPE and intangible assets	Depreciation and amortisation	Financial assets and liabilities	Provisions for impairments and value adjustments	Provisions for risks and charges	Trade and other receivables	Personnel expenses	Actuarial gains and losses on employee termination benefits	Other	Total
Balance at 1 January 2015	55	18	110	129	292	(1)	2	36	61	702
Income/(expenses) recognised in profit or loss	1	1	(2)	(40)	44	1	-	-	5	10
Non-recurring income/(expenses) recognised in profit or loss	-	-	-	24	-		-	-	-	24
Income/(expenses) recognised in profit or loss due to adjustment to IRES rate	(6)	(2)	-	(3)	(14)	_	-	-	(6)	(31)
Income/(expenses) recognised in equity	-	-	(73)	-	-	-	-	-	-	(73)
Income/(expenses) recognised in equity due to adjustment to IRES rate	-	-	(4)	-	-	_	-	(4)	(1)	(9)
Balance at 31 December 2015	50	17	31	110	322	-	2	32	59	623
Income/(expenses) recognised in profit or loss	(1)	1	-	(6)	18	-	(1)	-	21	32
Income/(expenses) recognised in profit or loss due to adjustment to IRES rate	-	-	-	(9)	(5)	-	-	-	-	(14)
Income/(expenses) recognised in equity	-	-	176	-	-	_	-	(4)	(2)	170
Recl. to disposal groups and liabilities held for sale	-	_	(2)	(6)	(2)	(1)	(1)	_	-	(12)
Balance at 31 December 2016	49	18	205	89	333	(1)	-	28	78	799

TAB. C13.7 - MOVEMENTS IN DEFERRED TAX LIABILITIES

Item (<i>€m</i>)	PPE	Intangible assets	Financial assets and liabilities	Gains	Actuarial gains and losses on employee termination benefits	Other	Total
Balance at 1 January 2014	1	1	1,021	1	1	22	1,047
Income/(expenses) recognised in profit or loss	-	_	39	_	_	(11)	28
Non-recurring income/(expenses) recognised in profit or loss	-	_	-	_	_	7	7
Income/(expenses) recognised in profit or loss due to adjustment to IRES rate	-	_	(5)	-	-	(2)	(7)
Income/(expenses) recognised in equity	-	-	230	-	-	_	230
Income/(expenses) recognised in equity due to adjustment to IRES rate	-	_	(128)	-	-	-	(128)
Balance at 31 December 2015	1	1	1,157	1	1	16	1,177
Income/(expenses) recognised in profit or loss	-	-	20	-	-	1	21
Income/(expenses) recognised in equity	_	_	(451)	_	_	-	(451)
Recl. to disposal groups and liabilities held for sale	_	_	(1)	_	-	_	(1)
Balance at 31 December 2016	1	1	725	1	1	17	746

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 section B4.

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

TAB. C13.8 - INCOME/(EXPENSE) RECOGNISED IN EQUITY

Item	Increases/(decr	Increases/(decreases) in equity			
(€m)	For the year ended 31 December 2016	For the year ended 31 December 2015			
Fair value reserve for available-for-sale financial instruments	617	(198)			
Cash flow hedge reserve for hedging instruments	10	19			
Actuarial gains /(losses) on employee termination benefits	(4)	(4)			
Retained earnings from shareholder transactions	(2)	(1)			
Total	621	(184)			

Income tax expense calculated on actuarial gains on employee termination benefits recognised in equity decreased by €22 million. Therefore, the decrease of equity in the year under review due to income tax expense amounts to €643 million.

Additional information

D1 - Operating segments 198

The identified operating segments are Postal and Business Services, Financial Services and Insurance Services and Asset Management, with the remaining activities allocated to the Other Services segment (73).

Following a number of organisational changes, from 2016 the allocation of certain companies to the related operating segments has been modified. Specifically, BancoPosta Fondi SpA SGR, which was previously allocated to the Financial Services segment, now forms part of the Insurance Services and Asset Management segment (until 31 December 2015, the segment was named Insurance Services), whilst Poste Tributi ScpA, which was previously allocated to the Postal and Business Services segment, has been transferred to the Financial Services segment. The relevant comparative amounts for 2015 have been reclassified accordingly.

The Postal and Business Services segment also earns revenue from the services provided by the various Poste Italiane SpA functions to BancoPosta RFC. In this regard, separate General Operating Guidelines have been developed and 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 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 management's views and with applicable accounting standards, should be read in light of the integration of the services offered by the sales force within the postal, financial and insurance businesses, also considering the obligation to carry out the Universal Postal Service.

Postal and Business Services include also the activities performed by the various departments of the Parent Company in managing BancoPosta's ring-fenced capital and the other areas in which the Group operates. In addition, this segment includes the operations of Postel SpA, SDA SpA, Mistrail Air Srl and Postecom SpA. Financial Services refer to BancoPosta's activities provided for by Presidential Decree 144 of 14 March 2001, to which the ring-fenced capital is allocated within the Parent Company. In addition, this segment includes the operations of BdM-MCC SpA and Poste Tributi Scarl. Insurance Services and Asset Management concern the operations of the Poste Vita group and BancoPosta Fondi SpA SGR. Other Services include the mobile telephony operations of PosteMobile SpA.

Finally, as described in more detail in "Basis of consolidation and corporate actions", at 31 December 2016, following application of IFRS 5 to the operations of BdM-MCC SpA and BancoPosta Fondi SpA SGR, the two companies' assets and liabilities have been reclassified to "Non-current assets and disposal groups held for sale" and "Liabilities related to assets held for sale".

Year ended 31 December 2016 (€m)	Postal and Business Services	Financial Services	Insurance Services and Asset Management	Other Services	Adjustments and eliminations	Total
External revenue	3,822	5,294	23,772	224	-	33,112
Intersegment revenue	4,540	543	1	44	(5,128)	_
Total revenue	8,362	5,837	23,773	268	(5,128)	33,112
Depreciation, amortisation and impairments	(536)	(1)	(14)	(30)	-	(581)
Non-cash expenses	2	(138)	(14,264)	(4)	-	(14,404)
Total non-cash expenses	(534)	(139)	(14,278)	(34)	-	(14,985)
Operating profit/(loss)	(436)	813	636	28	-	1,041
Profit/(Loss) on investments accounted for using the equity method	(4)	-	10	-	-	6
Finance income/(costs)						9
Income tax expense						(434)
Profit/(loss) for the year						622
Assets	10,174	67,706	119,102	179	(3,956)	193,205
Non-current assets	6,092	48,481	109,883	53	(2,272)	162,237
Current assets	4,082	16,560	9,148	126	(1,668)	28,248
Non-current assets and disposal groups held for sale	-	2,665	71	-	(16)	2,720
Liabilities	7,415	63,928	115,740	123	(2,135)	185,071
Non-current liabilities	2,916	8,289	115,002	3	(306)	125,904
Current liabilities	4,499	53,339	711	120	(1,562)	57,107
Liabilities related to assets held for sale	-	2,300	27	_	(267)	2,060
Other information						
Capital expenditure	408	2	20	21	-	451
Investments accounted for using equity method	212	_	6	_	-	218

Year ended 31 December 2015 (€m)	Postal and Business Services	Financial Services	Insurance Services and Asset Management	Other Services	Adjustments and eliminations	Total
External revenue	3,882	5,155	21,459	243	-	30,739
Intersegment revenue	4,331	491	-	91	(4,913)	_
Total revenue	8,213	5,646	21,459	334	(4,913)	30,739
Depreciation, amortisation and impairments	(530)	(2)	(10)	(39)	-	(581)
Non-cash expenses	42	(70)	(12,360)	(5)	-	(12,393)
Total non-cash expenses	(488)	(72)	(12,370)	(44)	-	(12,974)
Operating profit/(loss)	(568)	907	510	31	-	880
Profit/(Loss) on investments accounted for using the equity method	_	_	3	_	-	3
Finance income/(costs)						50
Income tax expense						(381)
Profit/(loss) for the year						552
Assets	10,217	63,525	105,822	255	(3,983)	175,836
Non-current assets	6,092	46,208	95,189	99	(2,230)	145,358
Current assets	4,125	17,317	10,633	156	(1,753)	30,478
Liabilities	7,616	58,055	102,473	188	(2,154)	166,178
Non-current liabilities	2,973	7,711	101,766	5	(451)	112,004
Current liabilities	4,643	50,344	707	183	(1,703)	54,174
Other information						
Capital expenditure	420	2	37	29	-	488
Investments accounted for using equity method	211	_	3	-	-	214

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 2016, 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.

D2 - 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 2016

Name	Balance at 31 December 2016									
(<i>€m</i>)	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	3,637	365	-	-	-	19	-	22	129	
Enel Group	65	31	-	-	-	11	-	-	-	
Eni Group	219	7	-	-	-	14	-	19	-	
Equitalia Group	-	90	-	-	-	3	8	-	-	
Leonardo Group	14	-	-	-	-	30	-	-	-	
Other related parties external to the Group	65	6	-	-	-	18	61	7	-	
Provision for doubtful debts owing from external related parties	-	(42)	(10)	-	-	-	-	-	-	
Total	10,190	789	11	1,310	2,430	205	89	49	130	

At 31 December 2016, 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 €60 million (€60 million al 31 December 2015).

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IMPACT OF RELATED PARTY TRANSACTIONS ON THE FINANCIAL POSITION AT 31 DECEMBER 2015

Name			Balance a	t 31 December	r 2015		
(€m)	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	_
Joint ventures							
Uptime SpA	-	_	_	_	_	1	-
Associates							
Anima Holding Group	-	_	_	_	_	_	-
Other SDA group associates	-	2	_	_	_	_	-
Related parties external to the Group				,			
MEF	7,189	541	13	391	2	102	21
Cassa Depositi e Prestiti Group	3,764	397	-	-	78	11	-
Enel Group	79	45	-	-	-	12	-
Eni Group	140	15	-	-	-	12	-
Equitalia Group	-	56	_	-	_	1	8
Leonardo Group	14	-	-	-	-	30	-
Other related parties external to the Group	76	5	-	-	-	3	62
Provision for doubtful debts owing from external related parties		(157)	(10)		_		-
Total	11,262	904	3	391	80	174	91

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IMPACT OF RELATED PARTY TRANSACTIONS ON PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2016

Name	Year ended 31 December 2016									
(€m)		Reve	nue				Cos	sts		
	Revenue	Other	Other	Finance	Capital expenditure		Current expenditure			
	from sales and services	operating income	income from financial and insurance activities	income	Property, plant and equipment	Intangible assets	Goods and services	Personnel expenses	Other operating costs	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	539	4	-	-	-	-	4	-	(6)	1
Cassa Depositi e Prestiti Group	1,589	-	66	1	-	4	24	_	1	-
Enel Group	90	-	7	-	-	-	35	_	-	-
Eni Group	23	-	5	-	-	-	40	_	-	-
Equitalia Group	59	-	-	-	-	-	3	-	-	-
Leonardo Group	-	-	1	-	-	10	33	-	-	-
Other related parties external to the Group	8	1	1	-	-	-	45	43	2	-
Total	2,312	5	80	1	-	14	193	43	(3)	1

At 31 December 2016, 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 €6 million (€9 million al 31 December 2015).

IMPACT OF RELATED PARTY TRANSACTIONS ON PROFIT OR LOSS FOR THE YEAR **ENDED 31 DECEMBER 2015**

Name		Year ended 31 December 2015									
(€m)		Reve	enue				Cos	sts			
	Revenue	Other	Other	Finance	Capital ex	penditure	Current expenditure				
	from sales and services	operating income	income from financial and insurance activities	income	Property, plant and equipment	Intangible assets	Goods and services	Personnel expenses	Other operating costs	Finance costs	
Subsidiaries											
Address Software Srl	-	_	-	-	-	-	1	-	_	-	
Kipoint SpA	-	_	-	-	-	-	1	-	_	-	
Joint ventures											
Uptime SpA	-	_	-	-	-	-	6	-	_	-	
Associates											
Anima Holding Group	-	-	-	-	-	-	-	-	-	-	
Other SDA group associates	3	_		-	-	-	3	-	_	-	
Related parties external to the Group											
MEF	563	3	-	2	-	-	2	-	(63)	-	
Cassa Depositi e Prestiti Group	1,612	-	93	1	-	2	21	-	1	-	
Enel Group	111	-	3	-	-	-	42	-	-	-	
Eni Group	30	-	4	-	-	-	44	-	-	-	
Equitalia Group	54	_	_	-	-	_	4	-	4	-	
Leonardo Group	-		2	-		12	35	-		-	
Other related parties external to the Group	17	3	2	-	-	1	14	40	3	1	
Total	2,390	6	104	3	-	15	173	40	(55)	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, for delegated services, integrated e-mail services, the franking of mail on credit, the collection of tax returns and for collection and accounting of electronic payments and, with reference to previous years alone, the reimbursement of electoral tariff reductions and subsidies.
- Amounts received from CDP SpA primarily relate to payment for the collection of postal savings deposits. The costs incurred with the CDP Group refer mainly to software maintenance and electronic payment card management services performed by SIA SpA
- 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 Equitalia Group primarily relate to payment for the integrated notification service and for unfranked mail. The costs incurred primarily relate to electronic transmission of tax collection data.
- 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.

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	31 De	cember 201	6	31 December 2015			
(€m)	Total in financial statements	Total related parties	Impact (%)	Total in financial statements	Total related parties	Impact (%)	
Assets and liabilities							
Financial assets	174,362	10,190	5.8	160,090	11,262	7.0	
Trade receivables	2,172	789	36.3	2,346	904	38.5	
Other receivables and assets	3,671	11	0.3	3,258	3	0.1	
Cash and cash equivalents	3,902	1,310	33.6	3,142	391	12.4	
Non-current assets and disposal groups held for sale	2,720	49	1.8	_	-	_	
Provisions for risks and charges	1,507	60	4.0	1,397	61	4.4	
Financial liabilities	60,921	2,430	4.0	57,478	80	0.1	
Trade payables	1,506	205	13.6	1,453	174	12.0	
Other liabilities	3,218	89	2.8	2,945	91	3.1	
Liabilities related to assets held for sale	2,060	130	6.3	_	-	-	
Profit or loss							
Revenue from sales and services	8,743	2,312	26.4	8,810	2,390	27.1	
Other income from financial and insurance activities	4,421	80	1.8	3,657	104	2.8	
Other operating income	64	5	7.8	75	6	8.0	
Cost of goods and services	2,476	193	7.8	2,590	173	6.7	
Personnel expenses	6,241	43	0.7	6,151	40	0.7	
Other operating costs	301	-	n.a.	198	(46)	n.a.	
Finance costs	100	1	1.0	108	1	0.9	
Finance income	109	1	0.9	158	3	1.9	
Cash flows							
Cash flow from/(for) operating activities	2,258	3,648	n.a.	2,563	1,221	47.6	
Cash flow from/(for) investing activities	(444)	(22)	5.0	(689)	(1,725)	n.a.	
Cash flow from/(for) financing activities and shareholder transactions	(964)	(286)	29.7	(436)	(139)	31.9	

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 2016	Year ended 31 December 2015
Remuneration to be paid in short/medium term	13,503	18,241
Post-employment benefits	552	634
Other benefits to be paid in longer term	452	392
Termination benefits	3,845	-
Share-based payments	812	-
Total	19,164	19,267

REMUNERATION OF STATUTORY AUDITORS

Name (€000)	Year ended 31 December 2016	Year ended 31 December 2015
Remuneration	1,436	1,537
Expenses	66	109
Total	1,502	1,646

The remuneration paid to members of the Parent Company's Supervisory Board who, since 24 May 2016 are no longer the same as the members of the Board of Statutory Auditors, amounts to approximately €51 thousand for the period from the date they took up office to 31 December 2016. 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 2016, Group companies do not report receivables in respect of loans granted to key management personnel.

Transactions with staff pensions funds

The Parent Company and its subsidiaries that apply the National Collective Labour Contract are members of the Fondoposte Pension Fund, the national supplementary pension fund for non-managerial staff. As indicated in article 14, paragraph 1 of Fondoposte's By-laws, the representation of members among the various officers and boards (the General Meeting of delegates, the Board of Directors, Chairman and Deputy Chairman, Board of Statutory Auditors) is shared equally between the workers and the companies that are members of the Fund. The Fund's Board of Directors takes decisions including:

- the general criteria for the allocation of risk in terms of investments and investment policies;
- the choice of fund manager and custodian bank.

Other related party disclosures

On 11 October 2016, Poste Italiane's Board of Directors, having obtained the consent of the Related and Connected Parties Committee, authorised the execution of short-term repurchase agreements with Cassa Depositi e Prestiti with a total nominal amount of up to, but no more than, €2.5 billion. Whilst meeting CONSOB's definition of greater significance, the transaction is ordinary in nature and, therefore, again according to the same CONSOB regulations, is exempted from the decision-making procedures for such transactions.

The first loans were granted in accordance with the above agreement in early 2017.

D3 - Other information on financial assets and liabilities

Analysis of net debt/(funds) by operating segment

At 31 December 2016, the Poste Italiane Group's net debt/(funds) is as follows:

NET FUNDS/(DEBT) AT 31 DECEMBER 2016

Balance at 31 December 2016 (€m)	Postal and Business Services	Financial Services	Insurance Services and Asset Management	Other Services	Eliminations	Consolidated amount	of which, related parties
Financial liabilities	(1,947)	(59,225)	(1,012)	(2)	1,265	(60,921)	
Postal current accounts	-	(45,456)	-	-	331	(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)	(3,634)	(2)	-	-	(3,649)	(1)
Intersegment financial liabilities	(663)	(20)	(251)	-	934	-	-
Technical provisions for insurance business	-	-	(113,678)	-	-	(113,678)	-
Financial assets	1,236	58,681	115,596	29	(1,180)	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	3,430
Financial assets at fair value through profit or loss	-	-	24,903	-	-	24,903	570
Derivative financial instruments	-	191	233	-	-	424	-
Intersegment financial assets	522	629	-	29	(1,180)	-	-
Technical provisions attributable to reinsurers	-	-	66	-	-	66	-
Net financial assets/(liabilities)	(711)	(544)	972	27	85	(171)	
Cash and deposits attributable to BancoPosta	-	2,494	-	-	-	2,494	-
Cash and cash equivalents	1,556	1,320	1,324	21	(319)	3,902	1,310
Net funds/(debt)	845	3,270	2,296	48	(234)	6,225	

NET FUNDS/(DEBT) AT 31 DECEMBER 2015

Balance at 31 December 2015 (€m)	Postal and Business Services	Financial Services	Insurance Services and Asset Management	Other Services	Eliminations	Consolidated amount	of which, related parties
Financial liabilities	(2,442)	(55,418)	(1,218)	(4)	1,604	(57,478)	
Postal current accounts	-	(43,757)	-	-	289	(43,468)	(1)
Bonds	(811)	(479)	(758)	-	_	(2,048)	-
Borrowings from financial institutions	(917)	(6,101)	-	-	_	(7,018)	(77)
Other borrowings	(1)	-	-	-	_	(1)	(1)
Finance leases	(6)	-	-	(4)	-	(10)	-
MEF account, held at the Treasury	-	-	-	-	-	-	-
Derivative financial instruments	(52)	(1,547)	-	-	-	(1,599)	-
Other financial liabilities	(14)	(3,314)	(6)	-	-	(3,334)	(2)
Intersegment financial liabilities	(641)	(220)	(454)	-	1,315		-
Technical provisions for insurance business	-	-	(100,314)	-	-	(100,314)	-
Financial assets	1,396	57,574	102,409	26	(1,315)	160,090	-
Loans and receivables	141	10,301	66	-	-	10,508	8,724
Held-to-maturity financial assets	-	12,886	-	-	-	12,886	-
Available-for-sale financial assets	581	33,360	83,928	-	-	117,869	1,969
Financial assets at fair value through profit or loss	-	-	18,132	-	-	18,132	569
Derivative financial instruments	-	450	245	_	-	695	-
Intersegment financial assets	674	577	38	26	(1,315)	_	-
Technical provisions attributable to reinsurers	-	-	58	-	-	58	-
Net financial assets/(liabilities)	(1,046)	2,156	935	22	289	2,356	-
Cash and deposits attributable to BancoPosta	-	3,161	-	_	_	3,161	-
Cash and cash equivalents	1,315	485	1,615	16	(289)	3,142	391
Net funds/(debt)	269	5,802	2,550	38	-	8,659	-

At 31 December 2016, the reduction in net funds reflects the decrease in the fair value reserve for available-for-sale financial assets (€2,265 million before tax) and the negative impact of reclassification of the financial assets and liabilities (a net total of €595 million) of BdM-MCC SpA and BancoPosta Fondi SpA SGR to the specific items resulting from application of IFRS 5. The fair value reserve for available-for-sale financial assets, before tax, amounts to €1,512 million (€3,775 million at 31 December 2015).

Industrial net (debt)/funds, in accordance with ESMA guidelines

An analysis of the industrial net funds/(debt) of the Postal and Business Services and Other Services segments at 31 December 2016, in accordance with ESMA guidelines, computed on the basis of paragraph 127 of the recommendations contained in ESMA document 319 of 2013, is provided below:

ESMA NET FINANCIAL INDEBTEDNESS

(<i>€</i> m)	at 31 December 2016	at 31 December 2015
A. Cash	2	2
B. Other cash equivalents	1,575	1,329
C. Securities held for trading	_	_
D. Liquidity (A+B+C)	1,577	1,331
E. Current loans and receivables	63	169
F. Current bank borrowings	(2)	(515)
G. Current portion of non-current debt	(14)	(16)
H. Other current financial liabilities	(22)	(20)
I. Current financial debt (F+G+H)	(38)	(551)
J. Current net funds/(debt) (I+E+D)	1,602	949
K. Non-current bank borrowings	(400)	(400)
L. Bond issues	(798)	(797)
M. Other non-current liabilities	(50)	(57)
N. Non-current financial debt (K+L+M)	(1,248)	(1,254)
O. Industrial net funds/(debt) (ESMA guidelines) (J+N)	354	(305)
Non-current financial assets	651	553
Industrial net funds/(debt)	1,005	248
Intersegment loans and receivables	522	674
Intersegment financial liabilities	(634)	(615)
Industrial net funds/(debt) including intersegment transactions	893	307
of which:		
- Postal and Business Services	845	269
- Other	48	38

Determination of fair value

The fair value measurement techniques used by the Poste Italiane Group are described in note 2.5. This section provides additional information regarding determination of the fair value of the financial assets and liabilities recognised at their fair value. Additional information related to financial assets and liabilities recognised at their amortised cost is provided in the respective notes.

The table below breaks down the fair value of financial assets and liabilities by level in the fair value hierarchy:

FAIR VALUE HIERARCHY

Item		at 31 Dece	mber 2016		at 31 December 2015			
(€m)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Available-for-sale financial assets	122,497	4,958	788	128,243	112,267	5,123	479	117,869
Equity instruments	16	77	32	125	8	70	117	195
Fixed-income instruments	122,474	3,624	-	126,098	112,253	3,799	_	116,052
Other investments	7	1,257	756	2,020	6	1,254	362	1,622
Financial assets at fair value through profit or loss	10,094	14,635	174	24,903	8,067	10,065	-	18,132
Fixed-income instruments	9,535	31	-	9,566	7,537	22	-	7,559
Structured bonds	_	992	-	992	_	1,346	-	1,346
Other investments	559	13,612	174	14,345	530	8,697	-	9,227
Derivative financial instruments	_	424	-	424	_	695	-	695
Non-current assets and disposal groups held for sale	793	123	-	916	-	_	-	-
Total	133,384	20,140	962	154,486	120,334	15,883	479	136,696
Financial liabilities								
Financial liabilities at fair value	-	-	-	-	-	_	_	_
Derivative financial instruments	-	(2,356)	-	(2,356)	-	(1,599)	_	(1,599)
Total	-	(2,356)	-	(2,356)	_	(1,599)	_	(1,599)

The item, "Non-current assets and disposal group held for sale" includes the fair value of financial instruments held by BdM-MCC SpA and BancoPosta Fondi SGR SpA.

Details of transfers of financial instruments measured at fair value between level 1 and level 2 of the hierarchy on a recurring basis are as follows.

NET TRANSFERS BETWEEN LEVEL 1 AND 2 AT 31 DECEMBER 2016

Item	From Lev	el 1 to Level 2	From Level 2 to Level 1		
(€m)	Level 1	Level 2	Level 1	Level 2	
Transfers of financial assets	(312)	312	466	(466)	
Available-for-sale financial assets					
Equity instruments	-	-	-	-	
Fixed-income instruments	(288)	288	455	(455)	
Other investments	-	-	-	-	
Financial assets at fair value through profit or loss					
Fixed-income instruments	(24)	24	11	(11)	
Structured bonds	_	-	-	-	
Other investments	_	-	-	-	
(Net transfers between Level 1 and 2)	(312)	312	466	(466)	

Transfers of fixed income instruments between levels 1 and 2 (and vice versa) primarily regard instruments held by Poste Vita SpA. In particular, transfers of bonds from level 1 to level 2 are due to the application of the stricter standards for definition of a "liquid and active" market, as defined in the Group's Fair Value Policy, a feature that is measured mainly by reference to the bid-ask spread. Transfers of available-for-sale financial assets during the period refer to *corporate* and coupon-stripped Italian government bonds. Reclassifications from level 2 to level 1 concerned corporate bonds recognised as available-for-sale financial assets and coupon-stripped Italian government bonds, given that the liquidity of the markets where they are traded justified their transition to level 1.

Reconciliation of the opening and closing balances of financial instruments measured at fair value on a recurring basis, classified in level 3, is shown below.

MOVEMENTS IN FINANCIAL INSTRUMENTS AT FAIR VALUE (LEVEL 3)

Item	Financial assets						
(€m)	Available- for-sale financial assets	Financial asset at fair value through profit or loss	Derivative financial instruments	Total			
Balance at 1 January 2015	248	_	-	248			
Purchases/Issues	151	-	-	151			
Sales/Extinguishment of initial accruals	(49)	-	-	(49)			
Redemptions	-	_	-	-			
Movements in fair value through profit or loss	-	-	-	_			
Movements in fair value through equity	129	_	-	129			
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	-	_	-	-			
Other movements (including accruals at the end of the period)	-	_	_	-			
Balance at 31 December 2015	479	_	_	479			
Purchases/Issues	656	174	-	830			
Sales/Extinguishment of initial accruals	(266)	_	-	(266)			
Redemptions	-	_	_	-			
Movements in fair value through profit or loss	-	_	-	-			
Movements in fair value through equity	25	_	_	25			
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	(106)	-	_	(106)			
Other movements (including accruals at the end of the period)	_	-	_	-			
Balance at 31 December 2016	788	174	_	962			

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Movements in Level 3 of the hierarchy within the scope of Poste Vita SpA's operations regard new investments, redemptions of unlisted closed-end funds, changes in fair value during the year and the impairment loss on the investment in the alternative investment fund, "Atlante", described in section A5.5 (a net movement attributable to the company of approximately €568 million). This category includes 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 in Level 3 of the hierarchy during the year include the sale of the Parent Company's investment in Visa Europe Ltd. (at 31 December 2015, accounted for at a fair value of €111 million), as described in note A5.2, and the recognition of the Series C Visa Inc. convertible preferred stock received as partial payment. The fair value of the Series C Visa Inc. convertible preferred stock (at 31 December 2016, equal to €27 million) is 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 34%.

Offsetting 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⁽⁷⁴⁾.

In particular, the disclosures in question concern the following positions at 31 December 2016:

- derivative assets and liabilities and related collateral, represented by both cash and government securities;
- reverse repurchase agreements and the related collateral, represented by both cash and government securities.

For 2016, following the reclassifications carried out in application of IFRS 5, borrowings and the related government securities used as collateral for transactions entered into by BdM-MCC SpA with the ECB are not shown in the following table.

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: currently has a legally enforceable right to set off the recognised amounts; and

intends either to settle on a net basis or to realise the asset and settle the liability simultaneously."

FINANCIAL ASSETS/LIABILITIES OFFSET IN THE STATEMENT OF FINANCIAL POSITION OR THAT ARE SUBJECT TO A MASTER NETTING AGREEMENT OR SIMILAR ARRANGEMENTS

Item	Gross	Gross	Amount of	Financial	Relate	Financial		
(€m)	financial financial (liabilities)/ (liabilities), assets(*) liabilities(*) assets that net (a) (b) have been (d=a+b+c) offset (c) (c) (liabilities), instruments transferred or provided as collatera	amount of financial	financial (liabilities)/	assets/ * (liabilities).	Financial	Collateral		assets/ (liabilities),
		transferred or provided as collateral (e)	Securities provided/ (received) as collateral (f)	Cash deposits provided/ (received) as collateral (g)	net (h=d+e+f+g)			
For the year ended 31 December 2016								
Derivatives	191	(2,356)	-	(2,165)	-	714	1,413	(38)
Repurchase agreements	-	(5,381)	-	(5,381)	5,374	-	7	-
Other	-	-	-	-	-	-	-	-
Total at 31 December 2016	191	(7,737)	-	(7,546)	5,374	714	1,420	(38)
For the year ended 31 December 2015								
Derivatives	450	(1,599)	-	(1,149)	-	349	779	(21)
Repurchase agreements	417	(5,405)	-	(4,988)	4,987	-	(1)	(2)
Other	-	(897)	-	(897)	897	-	-	-
Total at 31 December 2015	867	(7,901)	_	(7,034)	5,884	349	778	(23)

^(*) 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.

Transfer 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 2016, these assets concern reverse repurchase agreements entered into with primary financial intermediaries.

TRANSFER OF FINANCIAL ASSETS THAT ARE NOT DERECOGNISED

Item	Note	At 31	December 2	2016	At 31 December 2015		
(<i>€m</i>)		Nominal value	Carrying amount	Fair value	Nominal value	Carrying amount	Fair value
Financial Services							
Held-to-maturity financial assets	[A5]	4,596	4,688	5,276	4,072	4,101	4,621
Available-for-sale financial assets	[A5]	165	206	206	497	544	544
Financial liabilities arising from repos	[B8]	(5,379)	(5,381)	(5,419)	(4,885)	(4,895)	(4,949)
Postal and Business Services							
Held-to-maturity financial assets		_	_	_	_	-	-
Available-for-sale financial assets	[A5]	_	_	_	450	510	510
Financial liabilities arising from repos	[B8]	_	-	_	(510)	(510)	(510)
Total		(618)	(487)	63	(376)	(250)	216

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

at 31 Decer	mber 2016	at 31 December 2015		
Nominal value	Carrying amount	Nominal value	Carrying amount	
1,485	1,485	1,602	1,602	
_	-	614	614	
_	-	72	72	
1,441	1,441	909	909	
44	44	7	7	
5,765	5,909	4,992	5,057	
4,596	4,688	4,072	4,101	
676	716	344	373	
493	505	576	583	
165	206	1,515	1,647	
165	206	947	1,054	
-	-	563	588	
-	-	5	5	
7,415	7,600	8,109	8,306	
	Nominal value 1,485 1,441 44 5,765 4,596 676 493 165 165	value amount 1,485 1,485 - - - - 1,441 1,441 44 44 5,765 5,909 4,596 4,688 676 716 493 505 165 206 165 206 - -	Nominal value Carrying amount Nominal value 1,485 1,485 1,602 - - 614 - - 72 1,441 1,441 909 44 44 7 5,765 5,909 4,992 4,596 4,688 4,072 676 716 344 493 505 576 165 206 1,515 165 206 947 - - 563 - - 5	

For 2016, following the reclassifications carried out in application of IFRS 5, financial assets used as collateral by BdM-MCC SpA for transactions entered into with the ECB and Cassa Depositi e Prestiti are not shown in the table.

D4 – Other information

For 2016, following the reclassifications carried out in application of IFRS 5, commitments and guarantees attributable to BdM-MCC SpA and BancoPosta Fondi SGR SpA are not shown in the following tables.

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

Balance at 31 December 2016	Balance at 31 December 2015
118,938	118,721
203,962	206,114
134,121	135,497
69,841	70,617
322,900	324,835
	December 2016 118,938 203,962 134,121 69,841

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 €7,269 million at 31 December 2016 (€5,734 million at 31 December 2015).

Commitments

Purchase commitments relating primarily to the Parent Company break down as follows.

COMMITMENTS

Item (€m)	Balance at 31 December 2016	Balance at 31 December 2015
Purchase commitments		
Property leases	501	521
Purchases of property, plant and equipment	41	52
Purchases of intangible assets	27	32
Vehicle leases	260	61
Other leases	28	33
Committed lines of credit		
Loans agreed to be disbursed	-	58
Total	857	757

The increase in purchase commitments relating to the lease of fleet vehicles is due to the Parent Company's renewal of the related contract during the year.

At 31 December 2016, EGI SpA has given commitments to purchase electricity, with a total value of €11.3 million, on regulated forward markets in 2017. At 31 December 2016, the corresponding market value is €12.9 million.

Future commitments related to property leases, which may generally be terminated with six months' notice, break down by due date as follows:

COMMITMENTS FOR PROPERTY LEASES

Item (<i>€m</i>)	Balance at 31 December 2016	Balance at 31 December 2015
Instalments falling due:		
within 1 year of the reporting date	139	143
between 2 and 5 years after the reporting date	310	327
more than 5 years after the reporting date	52	51
Total	501	521

Guarantees

Unsecured guarantees issued by the Group are as follows:

GUARANTEES

Item (€ <i>m</i>)	Balance at 31 December 2016	Balance at 31 December 2015
Sureties and other guarantees issued:		
by banks/insurance companies in the interests of Group companies in favour of third parties	321	281
Total	321	281

Third-party assets

THIRD-PARTY ASSETS

Item (<i>€m</i>)	Balance at 31 December 2016	Balance at 31 December 2015
Bonds subscribed by customers held at third-party banks	5,262	5,992
Other assets	_	3
Total	5,262	5,995

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Assets in the process of allocation

At 31 December 2016, the Parent Company had paid a total of €96 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

The following table shows fees, in thousands of euros, broken down by type of service, payable to the Parent Company's auditors, PricewaterhouseCoopers SpA and companies within its network for 2016.

DISCLOSURE OF FEES PAID TO INDEPENDENT AUDITORS

Item (€000)	Entity providing the service	Fees (*)
Audit ^(**)	PricewaterhouseCoopers SpA	2,446
	PricewaterhouseCoopers network	_
Attestation services	PricewaterhouseCoopers SpA	804
	PricewaterhouseCoopers network	_
Other services	PricewaterhouseCoopers SpA	475
	PricewaterhouseCoopers network	_
Total		3,725

The above amounts do not include incidental expenses and charges.

Auditing services are expensed as incurred and reported in the audited financial statements.

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 €103 thousand.

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.

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.

ISIN	Name	Nature of entity	Activity of the Fund	% investment	NAV	
(€m)					At	Amount
IE00BP9DPZ45	BLACKROCK DIVERSIFIED DISTRIBUTION FUND	Open-end harmonised UCITS	Investment in a mix of asset classes (corpora- te bonds, government bonds and equities)	100	29 December 2016	5,738
LU1193254122	MFX – GLOBAL FUND – ASSET GLOBAL FUND (PIMCO MULTI ASSET)	Open-end harmonised UCITS	Investment in a mix of asset classes (corpora- te bonds, government bonds and equities)	100	30 December 2016	4,047
LU1407711800	MULTIFLEX – Dynamic Multi Asset Fund	Open-end harmonised UCITS	Investment in a mix of asset classes (corpora- te bonds, government bonds and equities)	100	30 December 2016	1,304
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	30 December 2016	1,294
LU1407712287	MULTIFLEX – Strategic Insurance Distribution	Open-end harmonised UCITS	Investment in a mix of asset classes (corpora- te bonds, government bonds and equities)	100	30 December 2016	938
IE00B1VWGP80	PIANO 400 FUND DEUTSCHE BANK	Open-end harmonised UCITS	Investment in a mix of asset classes, especially debt instruments of va- rious sectors and coun- tries	100	16 December 2016	486
IT0004801996	TAGES CAPITAL PLATINUM	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 2016	250
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 2016	190

ISIN	Name	Nature of entity	Activity of the Fund	% investment	NAV	
(€m)					At	Amount
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 2016	118
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 2016	86
IT0005174450	FONDO 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 2016	56
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 2016	24
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 2016	1
IT0005215113	FONDO 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	30 September 2016	0
П0005210387	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	30 September 2016	0

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 (Separately Managed Accounts) and, as such, any changes in fair value are passed on to the policyholder under the shadow accounting mechanism.

Details at 31 December 2016 are provided below.

ISIN (€m)	Name	Classification	Carrying amount	Maximum loss exposure*	Difference between carrying amount and maximum loss exposure	Method to determine maximum loss exposure
IE00BP9DPZ45	BLACKROCK DIVERSIFIED DISTRIBUTION FUND	Financial assets FVPL	5,738	671	5,067	Analytical VaR 99.5% annualised
LU1193254122	MFX – GLOBAL FUND – ASSET GLOBAL FUND (PIMCO MULTI ASSET)	Financial assets FVPL	4,047	487	3,560	Analytical VaR 99.5% over 1-year
LU1407711800	MULTIFLEX - Dynamic Multi Asset Fund	Financial assets FVPL	1,304	135	1,169	Analytical VaR 99.5% over 1-year
LU1407712014	MULTIFLEX – Global Optimal Multi Asset Fund	Financial assets FVPL	1,294	168	1,126	Analytical VaR 99.5% over 1-year
LU1407712287	MULTIFLEX – Strategic Insurance Distribution	Financial assets FVPL	938	105	833	Historical VaR 99.5% over a 1-year
IE00B1VWGP80	PIANO 400 FUND DEUTSCHE BANK	Available-for-sale financial assets	486	58	428	Change between market price as of reporting date and guaranteed performance
IT0004801996	TAGES CAPITAL PLATINUM	Available-for-sale financial assets	250	68	182	VaR 99.5% over a 1-year time horizon
IT0004937691	TAGES PLATINUM GROWTH	Available-for-sale financial assets	190	36	154	VaR 99.5% over a 1-year time horizon
IT0005212193	DIAMOND ITALIAN PROPERTIES	Financial assets FVPL	118	29	89	Analytical VaR 99.5% annualised
LU1081427665	SHOPPING PROPERTY FUND 2	Available-for-sale financial assets	55	21	34	Analytical VaR 99.5% annualised
IT0005174450	FONDO DIAMOND EUROZONE OFFICE UBS	Financial assets FVPL	56	14	42	Analytical VaR 99.5% annualised
IT0004597396	ADVANCE CAPITAL ENERGY FUND	Available-for-sale financial assets	21	10	11	VaR 99.5% over a 1-year time horizon
IT0005210593	DIAMOND OTHER SECTOR ITALIA	Financial assets FVPL	1	0	1	Analytical VaR 99.5% annualised
IT0005215113	FONDO CBRE DIAMOND	Financial assets FVPL	-	0	-	Analytical VaR 99.5% annualised
IT0005210387	DIAMOND EUROZONE RETAIL PROPERTY FUND	Financial assets FVPL	-	0	-	Analytical VaR 99.5% annualised

^{*} 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	7,560
Government bonds	4,389
Other investments net of liabilities	982
Equity instruments	661
Cash	625
Derivatives	
Swaps	494
Futures	-
Forwards	(179)
Total	14,532

Market traded on and UCITS	Fair Value
New York	4,788
Germany (Frankfurt, Berlin, Munich)	1,349
London	574
Parigi	582
Luxembourg	473
Dublin	426
Tokyo	259
Euronext	183
Singapore	100
Hong Kong	34
Other	4,936
Funds	828
Total	14,532

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 at the same time 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: 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.

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 specific Qualifying Conditions, 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 have been met.

Determination of fair value and effects on profit or loss

The total number of Phantom stocks awarded to the 55 Beneficiaries of the First Cycle of the Plan amounted to 706,643 units. The fair value of each stock at 31 December 2016 was estimated to be €5.435 with regard to the plan for the Chief Executive Officer and General Manager, BancoPosta RFC personnel and Poste Vita's personnel, and €5.721 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 based on best market practices. The cost recognised for 2016 is approximately €1.3 million, equivalent to the liability recognised in personnel expenses.

D5 - Information on investments

Details of this item 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
Consorzio Logistica Pacchi ScpA (Rome)	100.00%	516	_	516
Consorzio per i Servizi di Telefonia Mobile ScpA (Rome) (1)	100.00%	120	_	120
Consorzio PosteMotori (Rome)	80.75%	120	_	120
Europa Gestioni Immobiliari SpA (Rome)	100.00%	103,200	1,585	235,402
Mistral Air Srl (Rome) (**)	100.00%	1,000	(2,942)	1,687
PatentiViaPoste ScpA (Rome) (*)	86.86%	120	7	127
Postecom SpA (Rome)	100.00%	6,450	1,786	15,529
PosteMobile SpA (Rome)	100.00%	32,561	17,903	56,043
Poste Tributi ScpA (Rome) (*)(**)	90.00%	2,583	1	2,538
PosteTutela SpA (Rome)	100.00%	153	503	13,153
Poste Vita SpA (Rome) (1)	100.00%	1,216,608	377,511	3,292,074
Poste Assicura SpA (Rome) (1)	100.00%	25,000	12,607	76,057
Postel SpA (Rome)	100.00%	20,400	(7,968)	96,081
SDA Express Courier SpA (Rome) (**)	100.00%	10,000	(28,904)	9,125
Poste Welfare Servizi Srl (Rome) (1)	100.00%	16	2,253	5,018
Investments held for sale or disposal				
Banca del Mezzogiorno – MedioCredito Centrale SpA (Rome)	100.00%	364,509	29,146	425,042
BancoPosta Fondi SpA SGR (Rome)	100.00%	12,000	21,751	46,013

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 SrI for 2017 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	218	51.00%	1,130	704	426	1,169	36
Anima Holding SpA (Milan) (a)	Associate	216,580	10.32%	1,196,453	402,033	794,420	560,505(*)	63,262
Conio Inc. (San Francisco) (b)	Associate	24	20.00%	45	56	(11)	132	9
Equam SpA (Roma)	Joint venture	-	64.00%	50	5,713	(5,663)	-	(5,713)
Indabox Srl (Roma)	Subsidiary	704	100.00%	133	41	92	74	(139)
ItaliaCamp SrI (Rome) (c)	Associate	21	20.00%	640	536	104	613	83
Kipoint SpA (Rome)	Subsidiary	557	100.00%	2,106	1,549	557	4,204	62
Programma Dinamico SpA – in liquidation (Rome) (d)	Subsidiary	-	0.00%	136	166	(30)	-	(149)
Risparmio Holding SpA (Roma)	Joint venture	-	80.00%	40	4,922	(4,882)	-	(4,932)
Other SDA Express Courier associates (e)	Associates	9						

- (a) Data derived from the consolidated accounts for the period ended 30 September 2016, the latest approved by the company.
- (b) Data for Conio Inc. and its subsidiary, Conio Srl.
- (c) Data derived from the accounts for the period ended 31 December 2015, the latest approved by the company.
- (d) Data derived from the accounts for the period ended 31 December 2015, the latest approved by the company; Group companies do not hold any equity interests in Programma Dinamico SpA.
- (e) The other associates of the SDA Express Courier Group are: Uptime SpA (in liquidation), MDG Express SrI, Speedy Express Courier SrI and T.W.S. Express Courier SrI.
- (*) The amount includes commissions, interest income and other similar income.

Risk management

E1 - Financial risks

Introduction

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⁽⁷⁵⁾, 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 model in place to match the maturities

⁽⁷⁵⁾ 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.

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⁽⁷⁶⁾, which, among other things, requires definition of a Risk Appetite Framework (RAF(77)), 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.

During 2016, BancoPosta RFC's leverage ratio (the ratio of its Common Equity Tier1 and total assets) declined as a result of the significant increase in activity, linked to the positive performance of deposits and the related investments. At 31 December 2016, the ratio is just below the limit of 3%, fixed by Poste Italiane SpA's Board of Directors. As a result, at the date on which it will approve these consolidated financial statements, the Board of Directors proposes to strengthen BancoPosta RFC's capital position in order to restore the ratio to the target level set out in the Risk Appetite Framework.

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 2016, 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 quaranteed 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 structured financial instruments, Italian government securities, warrants and mutual investment funds. For this type of product, issued prior to the introduction of ISVAP Regulation 32 of 11 June 2009, the company does not guarantee capital or a minimum return and, therefore, the associated financial risks are borne almost entirely by the customer. However, in the case of policies issued after the introduction of the Regulation, 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 29 September 2016. 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.

⁽⁷⁶⁾ See in particular the provisions laid down in Part I – Section IV – Chapter 3.

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.

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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.

Against this backdrop, Poste Italiane SpA's Board of Directors has adopted regulations containing integrated guidelines for Poste Italiane SpA's Internal Control and Risk Management System (Guidelines for Internal Control and Risk Management System or "SCIGR").

From an organisational viewpoint, the model consists of:

- the **Risk and Control 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.
- the Finance, Savings and Investment Committee, which is responsible for establishing policies governing management of the savings of retail customers, as well as strategies to be applied in managing the Group's financial assets. In view of the matters dealt with, the Committee is divided into three sections:
 - Finance, with the role of defining and overseeing the financial strategy;
 - Savings, with responsibility for establishing guidelines to be applied in the development of savings products;
 - **Financial investment strategies,** with the role of ensuring effective governance and the greatest possible alignment with strategic decisions regarding the allocation and management of the Group's financial assets.
- 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, BdM-MCC 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.

The risk environment is defined on the basis of the framework established by IFRS 7 - "Financial Instruments: Disclosures", which distinguishes between four main types of risk (a non-exhaustive classification):

- market risk;
- credit risk;
- liquidity risk;
- cash flow interest rate 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 became a major component of market risk in 2011-2012. Spread risk 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 securities, reflecting the market's perception of the credit rating of sovereign issuers.

Credit risk is the risk of default of one of the counterparties to which there is an exposure.

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, for example, derive from the inability to sell financial assets quickly at an amount close to fair value or the need to raise funds on excessively onerous terms or, in extreme cases, the inability to borrow on the market.

Cash flow interest rate risk refers to 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.

Cash flow inflation risk reflects the uncertainty related to future cash flows due to changes in the rate of inflation observed in the market.

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

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 following sensitivity analysis relates to the principal positions potentially exposed to fluctuations in value. Financial statement balances at 31 December 2016 have been subjected, where applicable to a stress test, based on actual volatility during the year, considered to be representative of potential market movements.

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The principal financial assets subject to price risk and the results of the analysis carried out as at 31 December 2016 for the Poste Italiane Group are shown in the following table.

PRICE RISK

ltem (€m)	Position	Change i	Change in value Effect on liabilitiy toward policyholders		toward	Pre-tax	profit	Equity re	
		+ Vol	– Vol	+ Vol	– Vol	+ Vol	– Vol	+ Vol	– Vol
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)
2015 effects									
Financial assets									
Available-for-sale financial assets	1,427	162	(162)	146	(146)	_	_	16	(16)
Equity instruments	190	17	(17)	2	(2)	-	-	15	(15)
Other investments	1,237	145	(145)	144	(144)	-	-	1	(1)
Financial asset at fair value through profit or loss	10,004	436	(436)	436	(436)	_	_	_	_
Structured bonds	777	36	(36)	36	(36)	_	-	_	-
Other investments	9,227	400	(400)	400	(400)	-	-	_	-
Derivative financial instruments	245	58	(58)	58	(58)	_	-	_	-
Fair value through profit or loss	245	58	(58)	58	(58)	_	-	_	_
Fair value through profit or loss (liabilities)	_	_	_	_	_	_	_	_	_
Variability at 31 December 2015	11,676	657	(657)	641	(641)	-		16	(16)

Available-for-sale financial assets mainly refer to the Parent Company's investments in equity instruments and Poste Vita SpA's position in other investments, represented by equity mutual investment funds.

At 31 December 2016, equity instruments include:

- equities held by BancoPosta RFC, totalling €104 million, primarily consisting of Class B Mastercard Incorporated shares, totalling €74 million, Visa Incorporated preference shares (Series C Convertible Participating Preferred Stock), totalling €27 million. For the purposes of the sensitivity analysis, 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 €16 million.

- units of mutual investment funds, amounting to €1,208 million, held by Poste Vita SpA, to meet its obligations to policyholders under the separately managed portfolios;
- units of mutual investment funds held by the Parent Company outside the ring-fence, amounting to €7 million.

In relation to financial assets recognised at fair value through profit or loss, price risk concerns investments held by Poste Vita SpA, totalling €14,786 million, of which €1,290 million used to cover Class III policies, €13,495 million used to cover Class I policies and €0.1 million in mutual fund units held in the Company's free capital.

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.

Foreign exchange risk

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.

At 31 December 2016, this item primarily refers to equity instruments held by Poste Italiane SpA (denominated in US dollars and Special Drawing Rights) and by Poste Vita SpA (denominated in US dollars).

The table below shows the sensitivity to foreign exchange risk at 31 December 2016.

FOREIGN EXCHANGE RISK/USD

Item (m)	Position in USD	Position in Euro	Change in value		ue Pre-tax profit		Equity re before to	
			+ Vol 260gg	– Vol 260gg	+ Vol 260gg	– Vol 260gg	+ Vol 260gg	– Vol 260gg
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)
2015 effects								
Financial assets								
Available-for-sale financial assets	77	71	9	(9)	-	_	9	(9)
Equity instruments	77	71	9	(9)	-	-	9	(9)
Other investments	-		-	-	-	-	-	-
Variability at 31 December 2015	77	71	9	(9)	-	-	9	(9)

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The risk in question regards equities held by the Parent Company and a private equity fund held by Poste Vita 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
2016 effects								
Current assets in SDRs	119	151	7	(7)	7	(7)	-	_
Current liabilites in SDRs	(101)	(129)	(6)	6	(6)	6	-	-
Variability at 31 December 2016	18	22	1	(1)	1	(1)	-	-
2015 effects								
Current assets in SDRs	75	95	5	(5)	5	(5)	_	_
Current liabilites in SDRs	(72)	(92)	(5)	5	(5)	5	_	-
Variability at 31 December 2015	3	3	_	_	_	_	_	_

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) and used worldwide to settle debts and credits among postal operators.

Fair value interest rate risk

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 \pm 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 2016 for the Poste Italiane Group's positions.

FAIR VALUE INTEREST RISK

ltem (€m)	Posit	tion	Change	in value	Effect on toward pol		Pre-tax	c profit	Equity re before t	
	Nominal	Fair value	+100bps	-100bps	+100bps	-100bps	+100bps	-100bps	+100bps	-100bps
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
2015 effects										
Financial assets										
Available-for-sale financial assets	101,896	116,437	(6,272)	6,290	(4,822)	4,822	-	-	(1,450)	1,468
Fixed-income instruments	101,892	116,052	(6,264)	6,282	(4,814)	4,814	-	-	(1,450)	1,468
Other investments	4	385	(8)	8	(8)	8	_	_	-	-
Financial assets at FV through profit or loss	8,042	8,128	(249)	247	(249)	247	-	-	-	-
Fixed-income instruments	7,542	7,559	(233)	233	(233)	233	-	-	-	-
Structured bonds	500	569	(16)	14	(16)	14	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-
Cash flow hedges	-	-	-	-	-	-	-	-	-	-
Fair value hedges	-	-	-	-	-	-	-	-	-	-
Financial liabilities										
Derivative financial instruments	(50)	(5)	3	(4)	-	_	_	-	3	(4)
Fair value though profit or loss	-	-	-	-				-	-	-
Cash flow hedges	(50)	(5)	3	(4)		_		-	3	(4)
Variability at 31 December 2015	109,888	124,560	(6,518)	6,533	(5,071)	5,069	_	_	(1,447)	1,464

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Available-for-sale financial assets exposed to the risk in question regard primarily fixed rate instruments held almost exclusively by the Parent Company and by Poste Vita SpA. They include:

- fixed income government bonds held by Poste Vita SpA, totalling €72,941 million (of which €8,775 million in inflation-indexed bonds); of this amount, €69,802 million is used to cover Class I and V policies linked to separately managed funds, €3,139 million relates to the Company's free capital;
- €35,650 million in fixed income government bonds held by BancoPosta RFC, which consist of: fixed rate bonds amounting to €12,324 million; variable rate bonds converted into fixed rate bonds via cash flow swaps amounting to €1,758 million; variable rate bonds amounting to €2,776 million (of which €2,605 million in inflation-linked instruments and €171 million CCTeus, which are variable rate Italian treasury certificates indexed to Euribor) and fixed or variable rate bonds converted to variable rate positions via fair value hedges amounting to €18,792 million (of which €16,087 million in forward starts);
- €15,258 million in other, non-government bonds held by Poste Vita SpA, used mainly to meet obligations towards policyholders in relation to separately managed Class I and V policies;
- €1,509 million in fixed rate bonds issued by CDP, and guaranteed by the Italian government, held by BancoPosta RFC.

At 31 December 2016, following the reclassifications carried out in application of IFRS 5, fixed income government bonds held by BdM-MCC SpA and BancoPosta Fondi SGR SpA are not shown in the above table.

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 €9,566 million. These consist of investments with a fair value of €5,451 million, relating to coupon stripped⁽⁷⁸⁾ BTPs covering obligations associated with Class III insurance products, investments with a fair value of €4,115 million, relating to corporate bonds covering Class I and V contractual obligations, and investments with a fair value of €551 million, relating to bonds issued by CDP SpA to cover Class I policies.

Within the context of **derivative financial instruments**, the risk in question concerns forward purchase contracts for government bonds with a total nominal value of €400 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 (tab. A5.10).

At 31 December 2016, with reference to the interest rate risk exposure determined by the average duration (79) of the portfolios, the duration of BancoPosta's overall investments went from 5.58 to 5.56. 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 6.19 at 31 December 2015 at 6.08 at 31 December 2016. On the other hand, with respect to Class I and Class V policies sold by Poste Vita SpA, the duration of the liabilities went from 7.05 to 7.26. The financial instruments intended to cover the technical provisions for Class III have maturities that match those of the liabilities.

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 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.

The progressive deterioration in the market perception of Italy's sovereign credit rating in 2016, despite the Quantitative Easing carried out by the ECB, has had a negative influence on the price of Italian government bonds. Indeed, the spreads between ten-year Italian government bonds and German bunds is approximately 161 bps at 31 December 2016 (97 bps at 31 December 2015).

⁽⁷⁸⁾ 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.

⁽⁷⁹⁾ Duration is the indicator used to estimate the percentage change in price of in response to a shift in market returns.

Over the period under review, the fall in Italian government bond prices, linked to movements in the spread and the reduction in risk-free interest rates to close to all-time lows, has had the following impact on the Group's portfolio:

- a net reduction in the fair value of BancoPosta RFC's available-for-sale portfolio (a nominal value of approximately €32 billion) of approximately €0.8 billion. The increase in the fair value of instruments hedged against interest rate risk, amounting to approximately €0.8 billion, was offset by a reduction 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 €1.6 billion);
- a net reduction in the fair value of the Poste Vita insurance group's available-for-sale portfolio (a nominal value of approximately €80 billion) of approximately €0.7 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 €36 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 2016.

POSTE ITALIANE SPA - EFFECT OF CREDIT SPREAD ON FAIR VALUE

Item (€m)	Positi	on	Change in value		Pre-tax profit		Equity reserves before taxation	
	Nominal	Fair value	+100bps	-100bps	+100bps	-100bps	+100bps	-100bps
2016 effects								
Financial assets								
Available-for-sale financial assets	32,678	37,721	(3,636)	4,314	_	_	(3,636)	4,314
Fixed-income instruments	32,678	37,721	(3,636)	4,314	_	_	(3,636)	4,314
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	200	(3)	(26)	31	_	_	(26)	31
Fair value though profit or loss	_	_	-	_	_	-	-	-
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
2015 effects								
Financial assets								
Available-for-sale financial assets	26,928	32,985	(3,058)	3,622	_	_	(3,058)	3,622
Fixed-income instruments	26,928	32,985	(3,058)	3,622	_	_	(3,058)	3,622
Derivative financial instruments	-	_	-	_	_	_	_	-
Cash flow hedges	_	_	_	-	_	_	_	-
Fair value hedges	_	_	-	-	_	_	_	-
Financial liabilities								
Derivative financial instruments	-	-	-	_	_	-	-	-
Fair value though profit or loss	_	-	-	_	_	-	-	_
Cash flow hedges	_	_	-	-	_	-	-	-
Variability at 31 December 2015	26,928	32,985	(3,058)	3,622	_	_	(3,058)	3,622

POSTE VITA GROUP - EFFECT OF CREDIT SPREAD ON FAIR VALUE

Item (<i>€m</i>)	Positi	ion	Change	Change in value		Effect on liability toward policyholders		c profit	Equity reserves before taxation	
	Notional	Fair Value	+100bps	-100bps	+100bps	-100bps	+100bps	-100bps	+100bps	-100bps
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
2015 effects										
Financial assets										
Available-for-sale financial assets	74,176	82,632	(5,630)	5,630	(5,440)	5,440	-	-	(190)	190
Fixed-income instruments	74,172	82,247	(5,622)	5,622	(5,432)	5,432	_	-	(190)	190
Other investments	4	385	(8)	8	(8)	8	-	_	-	-
Financial assets at FV through profit or loss	8,042	8,128	(298)	298	(298)	298	_	_	_	-
Fixed-income instruments	7,542	7,559	(252)	252	(252)	252	-	-	-	-
Structured bonds	500	569	(46)	46	(46)	46	-	-	-	-
Variability at 31 December 2015	82,218	90,760	(5,928)	5,928	(5,738)	5,738	_	_	(190)	190

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 2016, solely with reference to spread risk.

POSTE ITALIANE SPA - VAR ANALYSIS

Item	Positio	n	SpreadVaR		
(€m)	Nominal	Fair value			
2016 effects					
Financial assets					
Available-for-sale financial assets	32,678	37,721	461		
Fixed-income instruments	32,678	37,721	461		
Derivative financial instruments	200	6	4		
Cash flow hedges	200	6	4		
Fair value hedges	-	-	-		
Financial liabilities					
Derivative financial instruments	200	(3)	3		
Fair value though profit or loss	-	-	-		
Cash flow hedges	200	(3)	3		
Variability at 31 December 2016	33,078	37,724	469		
2015 effects					
Financial assets					
Available-for-sale financial assets	26,928	32,985	262		
Fixed-income instruments	26,928	32,985	262		
Derivative financial instruments	-	-	-		
Cash flow hedges	-	-	-		
Fair value hedges	-	-	-		
Financial liabilities					
Derivative financial instruments	-	_	_		
Fair value though profit or loss	-	_	-		
Cash flow hedges	-	_	-		
Variability at 31 December 2015	26,928	32,985	262		

POSTE VITA GROUP - VAR ANALYSIS

Item	Positio	n	SpreadVaR
(€m)	Nominal	Fair value	
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
2015 effects			
Financial assets			
Available-for-sale financial assets	74,176	82,632	425
Fixed-income instruments	74,172	82,247	425
Other investments	4	385	-
Financial assets at FV through profit or loss	8,042	8,128	15
Fixed-income instruments	7,542	7,559	18
Structured bonds	500	569	3
Variability at 31 December 2015	82,218	90,760	437

Credit risk

Credit risk refers to all assets, except shares and units of mutual funds.

This risk is managed as follows:

- 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.

In 2016, the ratings revised by the main agencies did not result in changes in the weighted average rating of the Group's exposures, which, for investments other than Italian government bonds, was A2 at 31 December 2016, an improvement on the rating of A3 assigned at 31 December 2015.

Poste Italiane Group's **financial assets** exposed to credit risk at 31 December 2016 are shown in the table below. The ratings reported in the table have been assigned by Moody's.

CREDIT RISK ON FINANCIAL ASSETS

Item	Bala	nce at 31 D	December 2	2016	Bala	nce at 31 D	ecember 2	2015
(€ <i>m</i>)	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	161	7,436	512	8,109	96	8,173	2,239	10,508
Loans	_	_	82	82	_	229	1,755	1,984
Receivables	161	7,436	430	8,027	96	7,944	484	8,524
Held-to-maturity financial assets	-	12,683	-	12,683	_	12,886	-	12,886
Fixed-income instruments	-	12,683	-	12,683	-	12,886	-	12,886
Available-for-sale financial assets	2,777	122,634	687	126,098	2,579	112,999	474	116,052
Fixed-income instruments	2,777	122,634	687	126,098	2,579	112,999	474	116,052
Financial assets at FV through profit or loss	249	9,892	417	10,558	190	8,639	76	8,905
Fixed-income instruments	249	8,900	417	9,566	190	7,293	76	7,559
Structured bonds	-	992	-	992	_	1,346	-	1,346
Derivative financial instruments	20	382	22	424	23	624	48	695
Cash flow hedges	-	39	-	39	2	45	_	47
Fair value hedges	20	110	22	152	21	334	48	403
Fair value through profit or loss	_	233	-	233	_	245	_	245
Total	3,207	153,027	1,638	157,872	2,888	143,321	2,837	149,046

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).

The Poste Italiane Group's trade receivables exposed to credit risk at 31 December 2016 are shown in the table below.

CREDIT RISK ON TRADE RECEIVABLES

Item	at 31 Dece	ember 2016	at 31 Dece	mber 2015
(<i>€m</i>)	Carrying amount	Specific impairment	Carrying amount	Specific impairment
Trade receivables				
Due from customers	1,933	(430)	2,022	(419)
Cassa Depositi e Prestiti	364	-	397	-
Ministries and public entities	478	(115)	529	(112)
Overseas counterparties	280	-	232	-
Private customers	811	(314)	864	(307)
Due from MEF	236	(31)	322	(147)
Due from subsidiaries, associates and joint ventures	3	-	2	_
Prepayments	_	-	_	-
Total	2,172		2,346	
of which past due	433		569	

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 2.4, 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 2016 are shown in the table below.

CREDIT RISK ON OTHER RECEIVABLES AND ASSETS

Item	at 31 Dece	mber 2016	at 31 Dece	mber 2015
(€m)	Carrying amount	Specific impairment	Carrying amount	Specific impairment
Other receivables and assets				
Due from tax authorities – tax withholdings	3,110	-	2,667	-
Receivables due from staff under fixed-term contract settlements	203	(7)	232	(7)
Accrued income and prepaid expenses from trading transactions	16	-	16	-
Tax assets	4	-	6	-
Other receivables	285	(53)	232	(52)
Amount due from MEF following cancellation of EC Decision of 16 July 2008	6	-	_	-
Interest accrued on IRES refund	47	-	47	-
Total	3,671		3,200	
of which past due	46		46	

Lastly, 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, Poste Italiane SpA's exposure to sovereign debt⁽⁸⁰⁾ at 31 December 2016 is shown in the table below, which provides details of the nominal value, carrying amount and fair value of each type of portfolio.

^{(80) &}quot;Sovereign debt" includes bonds issued by, and loans provided to, central and local governments and government bodies.

EXPOSURE TO SOVEREIGN DEBT

value	Item	at 31	December	2016	at 31	December	2015
Held-to-maturity financial assets	(€m)			Fair Value			Fair Value
Available-for-sale financial assets 95,479 106,924 106,924 86,014 99,137 99,1 financial assets at FV through profit or loss 5,445 5,451 5,451 5,678 5,665 5,6	Italy	114,065	125,851	127,615	104,304	117,688	119,859
Financial assets at FV through profit or loss	Held-to-maturity financial assets	12,392	12,683	14,447	12,612	12,886	15,057
Non-current assets and disposal groups held for sale 749 783	Available-for-sale financial assets	95,479	106,924	106,924	86,014	99,137	99,137
sale 749 793 793 - - Austria 40 42 42 10 11 Held-to-maturity financial assets - - - - Available-for-sale financial assets 40 42 42 10 111 Financial assets at FV through profit or loss - - - - - Belgium 95 103 103 95 93 Held-for-sale financial assets 95 103 103 95 93 Financial asset at FV through profit or loss - - - - - - Financial assets at FV through profit or loss - - - - - - - France 151 176 176 208 217 2 2 Held-to-maturity financial assets 151 176 176 208 217 2 Financial assets at FV through profit or loss - - - - <	Financial assets at FV through profit or loss	5,445	5,451	5,451	5,678	5,665	5,665
Held-to-maturity financial assets		749	793	793	-	_	-
Available-for-sale financial assets	Austria	40	42	42	10	11	11
Financial assets at FV through profit or loss	Held-to-maturity financial assets	_	_	_	-	-	-
Belgium	Available-for-sale financial assets	40	42	42	10	11	11
Held-to-maturity financial assets	Financial assets at FV through profit or loss	-	-	-	-	-	-
Available-for-sale financial assets	Belgium	95	103	103	95	93	93
Financial assets at FV through profit or loss	Held-to-maturity financial assets	-	-	-	_	_	-
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 151 176 176 208 217 2 Held-to-maturity financial assets 151 176 176 208 217 2 Financial assets at FV through profit or loss -	Available-for-sale financial assets	95	103	103	95	93	93
Helid-to-maturity financial assets	Financial assets at FV through profit or loss	-	_	_	_	_	_
Available-for-sale financial assets Available-for-sale financial assets Sabara Sabara	Finland	35	36	36	-	_	_
Financial assets at FV through profit or loss - </td <td>Held-to-maturity financial assets</td> <td>_</td> <td>_</td> <td>_</td> <td>_</td> <td>_</td> <td>_</td>	Held-to-maturity financial assets	_	_	_	_	_	_
France 151 176 208 217 2 Held-to-maturity financial assets -<	Available-for-sale financial assets	35	36	36	_	_	_
Held-to-maturity financial assets	Financial assets at FV through profit or loss	_	_	_	_	_	_
Available-for-sale financial assets 151 176 176 208 217 2 Financial assets at FV through profit or loss - <	France	151	176	176	208	217	217
Financial assets at FV through profit or loss	Held-to-maturity financial assets	_	_	_	_	_	_
Sermany	Available-for-sale financial assets	151	176	176	208	217	217
Held-to-maturity financial assets	Financial assets at FV through profit or loss	_	_	_	_	_	_
Available-for-sale financial assets 13 22 22 25 32 Financial assets at FV through profit or loss - - - - - Ireland - - - 355 365 3 Held-to-maturity financial assets - - - - - Available-for-sale financial assets - - - - - - Netherlands -	Germany	13	22	22	25	32	32
Financial assets at FV through profit or loss - - - - - - - Image: Financial assets at FV through profit or loss are significant assets. - <td>Held-to-maturity financial assets</td> <td>_</td> <td>_</td> <td>_</td> <td>_</td> <td>_</td> <td>_</td>	Held-to-maturity financial assets	_	_	_	_	_	_
Ireland	Available-for-sale financial assets	13	22	22	25	32	32
Held-to-maturity financial assets - - - - - Available-for-sale financial assets - - - 355 365 3 Financial assets at FV through profit or loss - - - - - - Netherlands - <t< td=""><td>Financial assets at FV through profit or loss</td><td>_</td><td>_</td><td>_</td><td>_</td><td>_</td><td>_</td></t<>	Financial assets at FV through profit or loss	_	_	_	_	_	_
Available-for-sale financial assets - - - 355 365 3 Financial assets at FV through profit or loss - - - - - - Netherlands - - - 10 10 Held-to-maturity financial assets - - - - - Available-for-sale financial assets - - - - - - Portugal -<	Ireland	_	_	_	355	365	365
Financial assets at FV through profit or loss - <td< td=""><td>Held-to-maturity financial assets</td><td>_</td><td>_</td><td>_</td><td>_</td><td>_</td><td>_</td></td<>	Held-to-maturity financial assets	_	_	_	_	_	_
Netherlands - - - 10 10 Held-to-maturity financial assets - - - - - Available-for-sale financial assets - - - 10 10 Financial assets at FV through profit or loss - - - - - Portugal - - - 28 29 Held-to-maturity financial assets - - - - - Available-for-sale financial assets - - - 28 29 Financial assets at FV through profit or loss - - - - - Spain 1,566 1,850 1,850 1,359 1,487 1,4 Held-to-maturity financial assets - - - - - - -	Available-for-sale financial assets	_	_	_	355	365	365
Held-to-maturity financial assets - - - - - Available-for-sale financial assets - - - 10 10 Financial assets at FV through profit or loss - - - - - Portugal - - - 28 29 Held-to-maturity financial assets - - - - - Available-for-sale financial assets - - - - - - Financial assets at FV through profit or loss - - - - - - Spain 1,566 1,850 1,850 1,359 1,487 1,4 Held-to-maturity financial assets -	Financial assets at FV through profit or loss	_	_	_	_	_	_
Available-for-sale financial assets - - - 10 10 Financial assets at FV through profit or loss - - - - - Portugal - - - 28 29 Held-to-maturity financial assets - - - - Available-for-sale financial assets - - - 28 29 Financial assets at FV through profit or loss - - - - - Spain 1,566 1,850 1,850 1,359 1,487 1,4 Held-to-maturity financial assets - - - - - -	Netherlands	_	_	_	10	10	10
Financial assets at FV through profit or loss - </td <td>Held-to-maturity financial assets</td> <td>_</td> <td>_</td> <td>_</td> <td>_</td> <td>_</td> <td>_</td>	Held-to-maturity financial assets	_	_	_	_	_	_
Portugal - - - 28 29 Held-to-maturity financial assets - - - - - Available-for-sale financial assets - - - 28 29 Financial assets at FV through profit or loss - - - - - Spain 1,566 1,850 1,850 1,359 1,487 1,4 Held-to-maturity financial assets - - - - - -	Available-for-sale financial assets	_	_	_	10	10	10
Held-to-maturity financial assets - - - - - Available-for-sale financial assets - - - 28 29 Financial assets at FV through profit or loss - - - - - Spain 1,566 1,850 1,850 1,359 1,487 1,4 Held-to-maturity financial assets - - - - - -	Financial assets at FV through profit or loss	_	_	_	-	_	_
Available-for-sale financial assets - - - 28 29 Financial assets at FV through profit or loss - - - - - - Spain 1,566 1,850 1,850 1,359 1,487 1,4 Held-to-maturity financial assets - - - - - - - -	Portugal	_	_	_	28	29	29
Available-for-sale financial assets - - - 28 29 Financial assets at FV through profit or loss - - - - - - Spain 1,566 1,850 1,850 1,359 1,487 1,4 Held-to-maturity financial assets - - - - - - -	Held-to-maturity financial assets	_	_	_	-	-	-
Spain 1,566 1,850 1,850 1,359 1,487 1,4 Held-to-maturity financial assets -		_	_	_	28	29	29
Spain 1,566 1,850 1,850 1,359 1,487 1,4 Held-to-maturity financial assets -	Financial assets at FV through profit or loss	_	_	_	-	-	-
Held-to-maturity financial assets – – – – –		1,566	1,850	1,850	1,359	1,487	1,487
		_	_	_	_	_	_
, , ,, ,,		1,566	1,850	1,850	1,359	1,487	1,487
Financial assets at FV through profit or loss – – – – –	Financial assets at FV through profit or loss	_	_	_	_	_	_

Item	at 31	December	2016	at 31 December 2015			
(€m)	Nominal value	Carrying amount	Fair Value	Nominal value	Carrying amount	Fair Value	
Slovenia	93	104	104	40	43	43	
Held-to-maturity financial assets	-	-	-	-	-	-	
Available-for-sale financial assets	93	104	104	40	43	43	
Financial assets at FV through profit or loss	_	_	_	-	_	-	
Other Countries	_	-	-	-	-	-	
Held-to-maturity financial assets	_	_	_	-	_	-	
Available-for-sale financial assets	_	-	-	-	-	-	
Financial assets at FV through profit or loss	_	-	-	-	-	-	
Total	116,058	128,184	129,948	106,434	119,975	122,146	
				·		·	

Following the reclassifications carried out in application of IFRS 5, the government bonds held by BdM-MCC SpA and BancoPosta Fondi SpA SGR are shown in the table in "Non-current assets and disposal groups held for sale".

Liquidity risk

In order to minimise the risk of experiencing difficulties in raising sufficient funds, at market conditions, to meet its obligations, 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 Group's liabilities and assets at 31 December 2016, in terms of liquidity risk.

LIQUIDITY RISK - LIABILITIES

Item		at 31 December 2016			at 31 December 2015				
(€m)	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	13,174	39,603	84,851	137,628	9,728	40,039	69,376	119,143	
Financial liabilities	21,860	15,414	21,377	58,651	21,409	14,178	20,568	56,155	
Postal current accounts	15,991	8,683	20,479	45,153	15,404	8,364	19,727	43,495	
Borrowings	1,267	6,085	54	7,406	3,606	5,400	312	9,318	
Other financial liabilities	4,602	646	844	6,092	2,399	414	529	3,342	
Trade payables	1,506	-	-	1,506	1,453	-	-	1,453	
Other liabilities	2,149	1,077	30	3,256	2,039	899	35	2,973	
Total	38,689	56,094	106,258	201,041	34,629	55,116	89,979	179,724	

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 2016. The liabilities of Poste Vita SpA and Poste Assicura SpA are reflected in "Flows from Poste Vita group's policies".

LIQUIDITY RISK - ASSETS

Item	at 31 December 2016				at 31 December 2015				
(€m)	Within 12 months	Between 1 and 5 years	Over 5 years	Total	Within 12 months	Between 1 and 5 years	Over 5 years	Total	
Financial assets	21,862	57,839	138,153	217,854	19,622	55,472	113,273	188,367	
Loans	_	-	180	180	697	790	785	2,272	
Receivables									
Deposits with the MEF	6,214	-	-	6,214	5,899	-	-	5,899	
Other financial receivables	1,769	8	7	1,784	2,594	-	188	2,782	
Held-to-maturity financial assets	1,399	6,389	7,837	15,625	1,864	6,544	7,689	16,097	
Available-for-sale financial assets	7,997	46,455	107,835	162,287	7,551	40,035	89,619	137,205	
Financial assets at FV through profit or loss	4,483	4,987	22,294	31,764	1,017	8,103	14,992	24,112	
Trade receivables	2,168	1	3	2,172	2,292	51	3	2,346	
Other receivables and assets	971	2,663	66	3,700	905	2,315	81	3,301	
Cash and deposits attributable to BancoPosta	2,494	_	_	2,494	3,161	_	_	3,161	
Cash and cash equivalent	3,902	-	-	3,902	3,142	-	-	3,142	
Total	31,397	60,503	138,222	230,122	29,122	57,838	113,357	200,317	

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, the related investment of the deposits in Eurozone government securities 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.

Cash flow interest rate risk

Cash flow interest rate risk 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 2016 on the Poste Italiane Group's positions is shown in the table below.

CASH FLOW INTEREST RATE RISK

Item (<i>€m</i>)	Position	Change in value		Effect on liabilitiy toward policyholders		Pre-tax profit	
_	Nominal	+100 bps	-100 bps	+100 bps	-100 bps	+100 bps	-100 bps
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)
2015 effects							
Financial assets							
Loans	1,310	13	_	_	-	13	-
Receivables							
Deposits with the MEF	5,855	59	(59)	_	_	59	(59)
Other financial receivables	916	9	(9)	_	_	9	(9)
Available-for-sale financial assets							
Fixed-income instruments	11,561	116	(116)	90	(90)	26	(26)
Financial assets at FV through profit or loss							
Fixed-income instruments	619	6	(6)	6	(6)	_	_
Structured bonds	500	5	(5)	5	(5)	_	_
Cash and deposits attributable to BancoPosta							
Bank deposits	218	2	(2)	-	_	2	(2)
Cash and cash equivalent							
Bank deposits	1,608	16	(16)	4	(4)	12	(12)
Deposits with the MEF	391	4	(4)	_		4	(4)
Financial liabilities							
Borrowings							
Bonds	(357)	(4)	_	_	_	(4)	-
Borrowings from financial institutions	(1,204)	(12)	-	_	_	(12)	_
Other financial liabilities	(293)	(3)	1	-	-	(3)	1

Specifically, with respect to financial assets, the cash flow interest rate risk primarily relates to:

- 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 €6,189 million;
- fixed and variable rate government bonds with a total nominal value of €170 million, as well as fixed rate bonds swapped into variable rate through fair value hedges, with a total nominal amount of €2,340 million; and an inflation-linked bond issued by the Italian Republic, with a nominal value of €100 million, which has been hedged against changes in its fair value;
- a portion of the securities portfolio held by the Poste Vita group, with a nominal value of €13,245 million.
- receivables of €1,485 million, reflecting collateral posted to secure liabilities arising in relation to derivative financial instruments.

In relation to cash and cash equivalents, cash flow interest rate risk primarily regards amounts deposited by the Parent Company with the MEF and held in the so-called buffer account, in addition to the bank deposits of the subsidiary, Poste Vita SpA.

Cash flow inflation risk

The table below analyses the sensitivity of future cash flows for the Poste Italiane Group's financial assets at 31 December 2016.

CASH FLOW INFLATION RISK

Item (€m)	Pos	Position Change in value		Effect on liability toward policyholders		Pre-tax profit		
	Nominal	Fair value	+100bps	-100bps	+100bps	-100bps	+100bps	-100bps
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)
2015 effects								
Financial assets								
Available-for-sale financial assets	8,138	9,458	31	(30)	28	(28)	3	(2)
Fixed-income instruments	8,138	9,458	31	(30)	28	(28)	3	(2)
Variability at 31 December 2015	8,138	9,458	31	(30)	28	(28)	3	(2)

At 31 December 2016, cash flow inflation risk regards inflation-linked government securities not subject to cash flow hedges or fair value hedges. These have a total nominal value of €9,825 million, of which €7,705 million were held by the Poste Vita group and €2,120 million by BancoPosta RFC.

E.2 Other risks

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.

At 31 December 2016, 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	52
Employee practices and workplace safety	8
Customers, products and business practices	37
Damage to tangible assets	4
Business disruption and system failure	7
Process execution, management and delivery	164
Total at 31 December 2016	307

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 involves both qualitative and quantitative analysis and is conducted through a structured process of identifying 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.

In the insurance business, the most significant events for the Group regard errors in the execution of processes.

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 2016, 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 4%). 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.

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Reputational risk

The Group's business is by its nature exposed to elements of reputational risk, linked to market performance and primarily associated with the placement of 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. In this regard, on 16 January 2017, Poste Italiane's Board of Directors passed a resolution aimed at consolidating its historical customer relationships, based on trust and transparency. This will involve taking steps to protect all the customers who, in 2003, purchased units issued by the Invest Real Security real estate fund, against a different economic and regulatory backdrop compared with today's, and still held the units at 31 December 2016, the date of the Fund's maturity. The aim was 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 "Interim Liquidation Distribution" (the "Difference"). To anyone having reached the age of 80 at 31 December 2016, Poste Italiane has committed to pay, from its own resources, the Difference in the form of an amount to be credited to a current account or a postal savings book; other customers will be offered the option of taking out a Class I life insurance policy in which to invest the proceeds received from the Fund. To ensure that the value of the policy, which has a duration of 5 years, reaches the amount representing the Difference on maturity, Poste Italiane has committed to topping up the amount invested from its own resources. The estimated liabilities resulting from this initiative have been recognised in "Provisions for risks and charges" (note B6).

Information on categories of reputational risk other than those linked to the sale of financial products is provided below.

In 2015, calls for tenders were launched to find a suitable provider to manage the entire service. On completion of the tender process, the companies to which SDA Express Courier had outsourced the services until the end of 2015 – Uptime SpA⁽⁸¹⁾ and Gepin Contact SpA (the other shareholder of Uptime SpA) – were not awarded the contract and, on 30 December 2015, SDA terminated its relationships with these companies, as provided for in the relevant contracts, with effect from 1 July 2016.

With the regard to the transaction's impact on jobs, on 16 March 2016, an Ordinary General Meeting of Uptime SpA's shareholders determined, with the vote of the majority shareholder (Gepin) alone, to terminate operations and wind-up the company. The shareholder, SDA, abstained. Following the start of the process that will make all 93 employees redundant, on 31 May 2016, Poste Italiane and labour unions representing most of the workers involved reached agreement on the redeployment of the workers involved. This envisages, among other things, that Poste Italiane will hire all former Uptime employees who have failed to find alternative employment by 31 December 2016 on permanent part-time contracts. In the second half of February 2017, following the outplacements provided for in the above agreement, the process of finding positions at Poste Italiane for personnel who have failed to find alternative employment began. As regards Gepin, efforts are being made, in collaboration with the Ministry for Economic Development, to find solutions for the company's personnel.

Strictly in terms of employment law, in recent months, a number of former employees of Uptime/Gepin have filed a claim for wrongful dismissal, despite the agreements reached and the negotiations in progress.

From a civil law standpoint, Gepin and Uptime SpA have brought a number of legal actions. Gepin has filed a claim for damages from SDA, amounting to €15.5 million, due 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 that were in any event not provided. SDA has challenged the claims in court.

⁽⁸¹⁾ This company (71.43% owned by Gepin Contact SpA, 28.57% owned by SDA Express Courier SpA) did not take part in the tender as it did not meet the elevant requirements.

Finally, on 21 December 2016, Poste Italiane and SDA were served a writ of summons by Gepin and Uptime, containing joint and several claims for approximately €66.4 million, as compensation for the damages incurred by Uptime SpA as a result of the alleged unjustified termination of the above contract, and for approximately €16.2 million, as compensation for the damages incurred by Gepin as a result of the alleged reduction in the value of its investment. These claims will also be opposed in court.

An extraordinary general meeting of Uptime SpA's shareholders was held on 2 February 2017. During the meeting, the sole liquidator was made aware of a liability of approximately €3.5 million, which as yet requires further confirmation. Given that the general meeting voted, among other things, to cover the company's losses by reducing the share capital to zero and recapitalising the company, involving capital contributions or payments into a share premium reserve of the required amount, based on the financial position currently being reassessed. As the shareholder, Gepin Contact, has opted not to take up its rights, the entire capital increase could be subscribed for by just one of the shareholder, SDA Express Courier. The deadline for taking up the rights expires 90 days after the date of the above general meeting.

Proceedings pending and relations with the authorities

F1 - 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. The company and its external legal advisors will consider what actions to take to best safeguard the company's interests, should it be necessary.

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 sentence was notified on 9 September 2015. The Company filed an appeal and the date of the first hearing is pending. In the meantime, the tax authorities collected the sum under the guarantee and requested payment of the remaining sum pursuant to the decision. The Company complied by paying the required amount. The Court of Auditors has scheduled the appeal hearing for 26 April 2017.

F2 – Tax disputes

Upon conclusion of a general tax audit relating to the 2008 tax year, on 22 December 2011 BdM-MCC SpA received an official tax audit report contesting the deductibility of €19.6 million in costs, relating to agreements effected in 2008 to settle disputes with the Parmalat Group. The report further claims that BdM-MCC underreported its taxable income by €16.2 million, relating to the sale of non-performing loans to a company in the Unicredit Group, to which BdM-MCC belonged at the time. The appeal against the notice of assessment against the second of the two alleged violations was upheld by the Provincial Tax Tribunal on 2 October 2014, with the ruling confirmed on appeal on 10 May 2016. On 13 January 2017, the tax authorities again filed an appeal against the ruling. In this regard, as in previous years, the bank has not deemed it necessary to make any provision for risks and charges, given that any potential liabilities, obligations or responsibility are attributable to the previous owner of the bank.

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

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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. With regard to the dispute over VAT for 2004 and 2006, the Provincial Tax Tribunal of Rome has found in the company's favour, ruling that the tax authorities' allegations are without grounds. The tax authorities have challenged such rulings by filing an appeal. The Regional Tax Tribunal of Rome rejected both appeals and confirmed the lack of grounds of the claims against Poste Vita. 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. The litigation is currently pending before the Court of Cassation. Regarding, on the other hand, the disputes relating to 2005, with a ruling filed on 24 December 2015, the Provincial Tax Tribunal of Rome found in favour of the company. This ruling was then appealed by the tax authorities, as notified to the company on 26 June 2016. The company entered an appearance before the court on 27 July 2016 and the hearing before the Regional Tax Tribunal of Rome was held on 17 January 2017. The ruling has yet to be filed. 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, which is to date still awaiting a response.

On 22 July 2014, the *Nucleo Polizia Tributaria Roma* (Tax Police) commenced a tax audit relating to **Postel SpA** regarding direct taxes and VAT for the tax years from 2009 to 2012 included. This audit came to an end on 25 November 2014, with delivery of a tax audit report in which the right to deduct VAT from purchases, applied by the company in 2010 and 2011, is contested. On 21 December 2015, the tax authorities served a tax assessment notice to the Company, for fiscal year 2010, whereby the company was ordered to pay €5.6 million plus fines and interest. Considering that the tax assessment notice contains a number of key aspects warranting a radical review of the assessment, and considering the remarks made under article 12, paragraph 7, of Law 212 of 27 July 2000, Postel SpA filed a tax settlement proposal, which was rejected. On 18 May 2016, the company appealed the assessment notice, whilst at the same time making a provisional payment of approximately €2.35 million. A date for the appeal hearing has yet to be fixed. The likely outcome of this dispute continues to be taken into account in determining provisions for risks and charges.

In addition, on 6 July 2015, the *Nucleo Polizia Tributaria Roma* (Tax Police) carried out an inspection at Postel SpA regarding income tax, IRAP and withholding tax, pursuant to and in accordance with articles 32 and 33 of Presidential Decree 600 of 29 September 1973, article 35 of Law 4 of 7 January 1929, and art. 2 of Legislative Decree 68 of 19 March 2001. In particular, the inspection regarded the company's alleged failure to pay social security contributions for employees and/or contractors used by a supplier. The inspection was concluded on 8 October 2015 with delivery of a tax audit report, contesting the right to deduct VAT and the deductibility of IRAP applied by the company in the tax years 2010 and 2014. On 4 December 2015, the company filed a brief pursuant to article 12, paragraph 7, of Law 212/2000. On 21 December 2015, the tax authorities served the company with a tax assessment notice for 2010 where, in taking the view that the service contracts with the supplier were instead employment contracts, it requested the company to pay VAT, IRES and IRAP totalling €0.2 million, plus penalties and interest. Considering that the tax assessment notice contains a number of key aspects warranting a radical review of the assessment, and considering the remarks made under article 12, paragraph 7, of Law 212 of 27 July 2000, on 27 January 2016, Postel SpA filed a tax settlement proposal, which was rejected. On 18 May 2016, the company appealed the assessment notice. A date for the appeal hearing has yet to be fixed. The lack of any basis for the inspectors' claims suggests that, at present, it might be reasonably assumed that the matter will be closed in a positive manner.

On 18 October 2016, the tax authorities notified Postel SpA of a tax assessment notice, amounting to €1.2 million, plus penalties and interest, for 2011: the notice refers to the tax audit reports notified on 25 November 2014 and 8 October 2015, following the audits conducted by the tax authorities relating to e-procurement transactions entered into by the company and findings concerning the revision of contracts entered into with a supplier. On 16 December 2016, the company appealed the assessment notice, whilst at the same time making a provisional payment of approximately €0.48 million. A date for the appeal hearing has yet to be fixed. The likely outcome of this dispute continues to be taken into account in determining provisions for risks and charges.

Finally, on 25 November 2016, the tax authorities notified Postel SpA of a tax assessment notice relating to IRES, IRAP, VAT and withholding tax for 2012, based on the findings set out in the tax audit report of 8 October 2015. The assessment notice requires the company to pay additional VAT, IRES, IRAP and withholding tax amounting to €0.12 million, plus penalties and interest. On 19 January 2017, the company appealed the assessment notice, whilst at the same time making a provisional payment of approximately €0.05 million. A date for the appeal hearing has yet to be fixed. The lack of any basis for the inspectors' claims suggests that, at present, it might be reasonably assumed that the matter will be closed in a positive manner.

F3 – 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 €14.8 million at 31 December 2016. According to INPS, this amount represents social security contributions that the two companies 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. The Court awarded an injunction suspending the payment orders and adjourned the discussion until the related hearings. In a brief filed on 24 May 2014 with regard to one of the pending actions, INPS has for the first time clarified the nature of its claim for unpaid contributions, arguing that the two companies, whilst correctly paying pension contributions to IPOST (a fact that cannot be contested in the light of the authentic interpretation provided by art 7, paragraph 9 sexies of Law Decree 101/2013), should have paid non-pension contributions to INPS, on the assumption that IPOST represents a supplementary pension scheme and not an alternative to the general regime, and that its sole purpose is to provide old age, invalidity and survivors' pensions. According to this interpretation, Postel SpA is required to insure their employees with INPS in order to provide other forms of cover (income support, extraordinary income support, unemployment benefit and family benefits) not provided by IPOST. In part based on the opinion of its legal counsel, the company maintains that is has correctly applied the relevant legislation and that INPS's claims are without grounds. The correctness of the company's conduct would appear to be confirmed by Ministry of Labour which, in response to a request for clarification from Poste Italiane regarding the correct interpretation of the related legislation, on 20 October 2016 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.

The degree of uncertainty linked to the outcome of the pending court cases, with the next hearing scheduled for 16 March 2017 at the Court of Genoa, has, in any event, been prudentially taken into account in calculating provisions for risks and charges at 31 December 2016.

F4 – 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 (Note B2). 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

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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. Specifically, the Authority claimed that, in advertising campaigns in February 2015, emphasis was placed on returns offered by Libretto Smart without providing details of the offer the advertised returns were associated with. On 12 June 2015, the Authority notified its rejection of the proposed set of commitments and its intention to ascertain whether any violation had occurred. On 3 July 2015, the Authority notified its intention to extend the investigation to include Cassa Depositi e Prestiti SpA. 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 (RG 2288/16) on 24 February 2016. At the hearing held on 23 March 2016, the court adjourned the case until a hearing on the merits. In addition, on 7 March 2016, the AGCM, as part of a compliance audit, sent a request for information on the nature of the Libretto Smart product from 1 July 2015 and on the related "Supersmart" offering. Poste Italiane replied to the Authority on 22 March 2016, and on 24 June 2016 the AGCM informed Poste Italiane that insufficient evidence is currently available to conduct an investigation.

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 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 – at variance with the provisions of art. 8, paragraph 2 *quater* of Law 287/90 – 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.

Following the above ruling from the AGCM, on 23 December 2015, H3G also submitted a writ of summons to the Court of Rome, citing Poste Italiane and PosteMobile and requesting that the latter be ordered to pay compensation for damages incurred, arising from the violations referred to in the above ruling, amounting to approximately €375.8 million, as well as court fees. At the hearing held on 22 June 2016, after full discussion, the investigating judge upheld the procedural objection raised by Poste Italiane, regarding the lack of authority of H3G's legal representative to institute legal proceedings, and adjourned the case to a hearing on 1 December 2016, setting a deadline for the submission of depositions, pursuant to art. 183 of the Code of Civil Procedure. Following completion of the investigation, and submission of the depositions pursuant to art. 183 of the Code of Civil Procedure, the settlement hearing has been scheduled for 29 March 2017.

Poste Italiane lodged an appeal against the AGCM's ruling on 25 February 2016, with PosteMobile also lodging an appeal against the final ruling before Lazio Regional Administrative Court on 19 February 2016.

On 28 September 2016, Lazio Regional Administrative Court published its ruling, rejecting the appeals lodged by Poste and Poste Mobile, whilst confirming 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⁽⁸²⁾. Having assessed the implications of the Lazio Regional Administrative Court ruling, PosteMobile and Poste Italiane decided not to appeal and the ruling thereby became final.

Partly taking into account the percentage of uncertainty attaching to any judgment and impeding any quantification, it is now possible to state that the risk of an adverse outcome for Poste Italiane in the above dispute has been significantly reduced.

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.

In particular, the AGCM intends to ascertain whether Poste Italiane refuses to offer Nexive, in geographical areas where the company does not have a presence with its own distribution networks, the Posta Time service, namely the

⁽⁸²⁾ 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.

service that Poste Italiane offers to end customers in those areas, only making available its Bulk Mail service, for which it charges higher rates than for its Posta Time service. Moreover, according to the Antitrust Authority, Poste Italiane operates a policy of applying loyalty-building discounts on its Posta Time product for the benefit of end customers. The proceedings will conclude on 31 October 2017. On 9 September 2016, Poste Italiane submitted a set of commitments designed to settle the Authority's competition concerns and, given the AGCM's rejection on 4 October 2016, is taking steps to defend its position as the proceedings continue.

On 13 March 2017, the AGCM notified Poste Italiane SpA of the launch of investigation pursuant to art. 27, paragraph 3 of the Consumer Code, with the aim of assessing whether or not the unilateral changes to the Bancopostaclick contract and to the fees applicable to the Postamat payment card constitute unfair commercial practices.

Above all, the Authority intends to investigate whether Poste Italiane has failed to provide accurate information regarding the free nature of the Postamat card for Bancopostaclick current account customers, wrongfully inducing account holders to accept the additional cost of the Postamat card, not granting them the right to withdraw from the part of the contract relating to the Postamat card alone and providing for withdrawal from the current account package as a whole.

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).

Responsibility for providing the Universal Service was assigned to Poste Italiane SpA by Legislative Decree 261/1999 (art. 23, paragraph 2), as amended by Legislative decree 58 of 31 March 2011, which provided that the Company should be the provider for fifteen years from the date of entry into effect of the decree. Every five years, the Ministry for Economic Development assesses, on the basis of a survey conducted by the regulator (AGCom), whether or not provision of the service meets the criteria set out in the decree and if there have been improvements to the efficiency of provision. Following the five-yearly assessment conducted by AGCom, the Ministry for Economic Development issued a Decree on 25 August 2016, confirming that Poste Italiane's provision of the universal service in the period from 30 April 2011 to 30 April 2016 had fulfilled the related requirements.

Following transposition into Italian law of the third European postal services directive (Directive 2008/6/CE), the socalled "net avoided cost" method has been applied in quantifying the cost of the universal service. 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. In this regard:

- 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). A date for the hearing has yet to be fixed.
- On 23 September 2014, the Authority began the process covering the analysis and applicability of the method for allocating and assessing the net cost of the Universal Postal Service for 2013, and, on 24 July 2015, confirmed that such process would be extended to include the 2014 financial year. On 29 July 2016, AGCom published a resolution launching a public consultation on the draft ruling concerning assessment of the net cost of providing the universal postal service in these years, in which the cost of universal provision was estimated to be €345 million for 2013 and €365 million for 2014, compared with revenue of €343 and €277 million, respectively, recognised in Poste Italiane's statement of profit or loss for services rendered in those years. The Company submitted its observations to the public consultation on 27 September 2016. The process has yet to be concluded.
- AGCom has not yet announced the start of the process of assessing the cost for 2015. In application of the subsidy cap provided for in the Contratto di Programma (Service Contract) for 2009-2011, Poste Italiane has quantified the compensation due for this year as €329.1 million (note 2.4).

With regard to access to the postal network, On 1 July 2016, AGCom published a press release on its website, announcing the start of a review of Poste Italiane's network access obligations, as set out in art. 6 of Resolution 728/13/ CONS. The start of this review had been provided for in Resolution 396/15/CONS, approving the new tariffs and quality targets for the universal service, in response to changed conditions in the postal market. On 1 September 2016, Poste Italiane submitted an initial document in which it explains its views on the issue and requests removal of the above obligation, which it deems to be unjustified. Subsequently, on 27 September, Poste Italiane sent the regulator the results of a study on this matter, accompanied by certain additional information of relevance to the review.

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On 23 December 2016, AGCom launched a public consultation on its outline proposals for changes to the provisions regarding access to Poste Italiane's postal network and infrastructure. In its analysis, the regulator recognises that there is a significant and growing level of both competition in the postal market and of replicability of Poste Italiane's network, focusing the consultation on the following issues: the possibility of reducing the scope of Poste Italiane's network access obligations (restricting them to the level of sorting centres); the regulation of certain aspects linked to access to postal infrastructure (post offices for managing undelivered registered mail, information on postcodes, the database of addresses, modular mailboxes and post boxes), the possibility of assessing the issue of the replicability of Poste Italiane's offerings by price testing.

Poste Italiane submitted its contribution to the debate to AGCom on 6 February 2017, stating that: it agreed with the regulator's analysis of market competition; it is opposed to the imposition of obligations regarding access to infrastructure, as this would not be justified by "market failures"; it wished to have all existing network access obligations removed (and not only revised), partly in view of the outcome of the market survey; whilst there are a number of issues surrounding the introduction of a "price test" for its commercial offerings, it was willing to engage in discussion. Poste Italiane explained its position in a hearing held at AGCom's offices on 21 February 2017.

Bank of Italy

In December 2015, the Bank of Italy's Financial Intelligence Unit (UIF) launched an investigation of **Poste Vita SpA** relating to money laundering prevention as per art. 47 and art. 53, paragraph 4, of Legislative Decree 231 of 2007. The above investigation came to an end on 8 April 2016, with receipt of the final document from the company, containing the clarifications and information requested by the UIF.

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 (punishable, in accordance with art. 57, paragraph 4 of Legislative Decree 231/2007, with a fine amounting to between 1% and 40% of the value of the transactions) may result in a fine of up to €0.4 million. Poste Vita sent the Ministry of the Economy and Finance a defence memorandum and requested a hearing. On 27 July 2016, the Bank of Italy requested the company to take corrective action to resolve a number of issues emerging during the checks carried out, and asking the company to report back. The company informed the Bank that it was taking the necessary steps, after which it would report on the initiatives and corrective action undertaken. This report was submitted on 20 December 2016, with a description of the steps being taken in order to implement the UIF's recommendations.

On 18 July 2016, following an inspection at **Banca del Mezzoggiorno – MedioCredito Centrale**, completed on 20 April 2016, the Bank of Italy notified the findings of the audit, which identified certain aspects of the Bank's organisation and activities that require corrective action, expressing a partly unfavourable opinion. The inspection did not give rise to any imposition of fines on the bank or its representatives. In line with the relevant regulations, on 5 August 2016, the bank submitted its comments on the findings and its observations to the Bank of Italy, as well the overall plan for compliance initiatives, which have already been partially implemented.

On 10 February 2017, the Bank of Italy announced an inspection of Poste Italiane SpA, pursuant to art. 54 of Legislative Decree 385 of 1 September 1993, with the aim of assessing its governance, control and operational and IT risk management systems.

IVASS – Istituto per la Vigilanza sulle Assicurazioni (the insurance regulator)

Following the inspection that took place between 1 April and 14 July 2014, for the purposes of assessing the governance, management and control of investments and financial risk, and compliance with anti-money laundering regulations, on 17 September 2014, IVASS notified **Poste Vita SpA** of its recommendations and the start of an administrative procedure regarding the alleged violation of four provisions concerning anti-money laundering regulations. On 12 May 2016, the Authority notified the company of the ruling in which two of the four violations challenged were upheld. Poste Vita paid the fine of €70,000 and, based on the findings of an analysis and assessment carried out, the company's Board of Directors decided not to challenge the ruling.

Between September 2015 and September 2016, IVASS notified Poste Vita of eight alleged violations of art. 183, paragraph 1.a) of the *Codice delle Assicurazioni Private* (Private Insurance Code or CAP), as a result of delays in the payment of claims. Having ascertained that four of the above violations had been committed, IVASS notified Poste Vita that it was imposing the relevant fines for three of the violations in August 2016 and for a further violation in January 2017. The fines are not of a significant amount. No fine is to be imposed for one of the remaining violations, whilst the other proceedings are still 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 is still in progress.

CONSOB

The process of preparing for the introduction of the new "quided consultancy" service provided for in the Plan submitted to the CONSOB, following the inspection completed in 2014, has been completed. In line with the related plan submitted to the CONSOB on 1 June 2016, the new IT platform for the "quided consultancy" service was rolled out in 5 "pilot" post offices on 17 October. The platform was then implemented in a further 100 offices during the last guarter of 2016.

The new "quided consultancy" platform has introduced standardised procedures designed to aid in identifying the best investment solution for the customer, keeping a systematic record of manager-customer relations. In this regard, as set out in the information provided to the CONSOB in December 2016, the platform is to be gradually rolled out in all post offices according to a programme that will be completed at the end of 2017. Priority is being given to the "MiFID offices with consulting rooms" (approximately 3,900, covering 83% of the target customers), which will migrate to the new platform in the first half of 2017.

Data Protection Authority

On 29 May 2015, in response to certain press reports, the Data Protection Authority asked Poste Italiane SpA to provide information regarding alleged processing of the personal data of persons operating at companies appointed to monitor postal service quality standards. According to the Authority, the data was processed without providing the parties concerned with the relevant privacy notices and without obtaining their consent to use of the data. Poste Italiane has met all of the Authority's requests, providing a full and documented response and setting out details of the resulting internal audit carried out, the disciplinary proceedings regarding the staff involved and the organisational and procedural steps taken or in the process of being implemented. The Authority will be informed of the outcome of the final audit. In the light of this, on 23 March 2016, the Authority, in view of the provisions of Authority regulation 1/2007 (art. 11, paragraph 1, letter d), announced that, at that time, there were no grounds for applying restrictions or prohibitions. From the findings of the internal audit, it appears, however, that certain members of staff interfered with quality control systems in violation of the Company's policy. It is currently impossible to ascertain whether this behaviour may have influenced determination of the service quality indicators recorded, and the possibility that the impact of such events may give rise to legal proceedings and fines cannot be ruled out.

In response to the above findings, 246 reprimands have been notified and there have been 15 dismissals and 156 disciplinary measures without dismissal relating to managerial and non-managerial staff.

A technical committee was set up to manage these proceedings in order to verify the findings regarding the contested audits, taking into account the defence arguments put forward by the parties concerned and any other evidence that may emerge. All these measures also refer to the Company's right to take action to protect its rights and interests with respect to findings that may yet emerge and damages the Company may suffer for any reason or cause whatsoever. Following completion of the audit carried out in the meantime, an in-depth investigation was conducted by the above technical committee. This identified specific evidence of wrongdoing by the personnel involved. As a result, disciplinary action was taken against a further 988 people from early May 2016 onwards. On completion of the related procedures, which were carried out with the aid of the above technical committee, there were a total of 976 disciplinary measures without dismissal relating to managerial and non-managerial staff.

This marks the end of any possible disciplinary action, given that there are no further irregularities to be penalised. In 2015, a long-term transformation programme was launched aimed at increasing the level of automation of mail and parcel logistics procedures, in all processing phases, from collection to delivery, partly through the development of ICT support systems and platforms. This programme will enable a substantial strengthening of performance monitoring. In this context, the Company has submitted a statement to the judiciary, appearing as the injured party and submitting a report prepared by Internal Auditing, in which the measures taken by the Company, including action against the personnel involved, are described. The report has also been filed with the other independent authorities.

Finally, in 2016, AGCom requested the Company to provide information on events and on the internal audit activities conducted. Poste Italiane cooperated fully by promptly responding to the regulator's request, providing details of the results of the audit and the initiatives undertaken.

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 these financial statements have been adjusted accordingly.

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 €0.362 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. ANAC has scheduled a hearing for March 2017, specifying that the term for conclusion of the proceeding (180 days from the start) will be suspended in this period. The risk of a fine resulting from this proceeding has been assessed as possible. In the event of a negative outcome, the proceeding could result in a fine of up to €51 thousand.

Material non-recurring events and/or transactions

G1 - Material non-recurring events and/or transactions

A brief summary of the impact of material non-recurring events and transactions, involving the Poste Italiane Group in 2016, is provided below, as required by CONSOB ruling DEM/6064293 of 28 July 2006. In this regard, 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:

- the sale of the share in Visa Europe Ltd to Visa Incorporated, resulting in the Parent Company's recognition of a non-recurring realised gain at a total fair value of €121 million (further details are provided in section A5);
- an agreement to transfer the entire shareholding in BdM-MCC SpA, resulting in recognition of an impairment of €37 million in order to bring the value of the net assets into line with the estimated realisable value, less costs to sell (further details are provided in section A11);
- the 2016 Stability Law, which has reduced the IRES rate from 27.5% to 24% with effect from 1 January 2017.
 Non-recurring charges of €14 million were recognised in the period under review, following a reassessment of
 deferred tax assets due to the occurrence of temporary taxable differences that differed from those estimated in
 2015.

Exceptional and/or unusual transactions

H1 - 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 in 2016.

In this regard, 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.

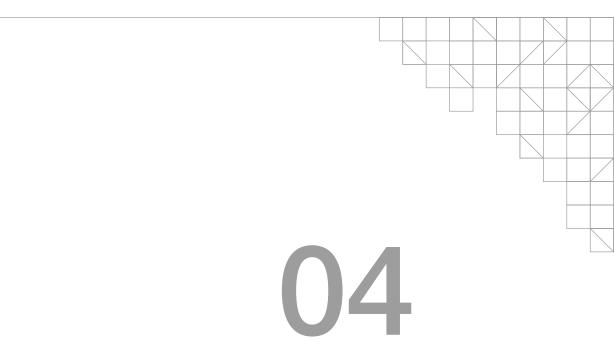
Events after the end of the reporting period

11 - Events after the end of the reporting period

Events after the end of the reporting period are described in the above notes and there are no other significant events occurring after 31 December 2016.

Poste Italiane SpA

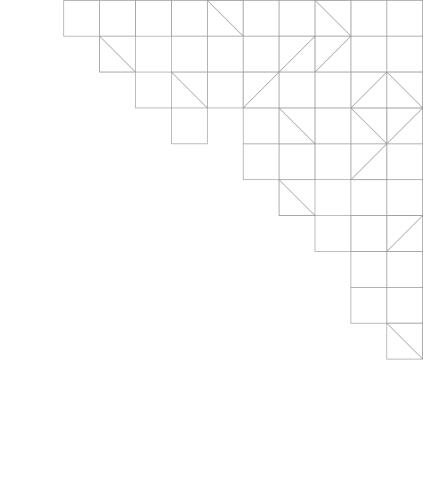
Separate financial statements for the year ended 31 December 2016





Poste Italiane SpA – Separate financial statements for the year ended 31 December 2016

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Financial statements

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER

ASSETS (€)	Note	2016	of which, related party transactions	2015	of which, related party transactions
Non-current assets					
Property, plant and equipment	[A1]	1,999,184,993	_	2,074,370,693	_
Investment property	[A2]	56,069,941	_	60,828,032	_
Intangible assets	[A3]	365,485,226	_	374,346,738	_
Investments	[A4]	1,815,097,205	1,815,097,205	2,204,019,035	2,204,019,035
Financial assets attributable to BancoPosta	[A5]	47,299,107,112	1,508,858,153	43,214,825,954	1,500,064,238
Financial assets	[A6]	1,101,079,196	450,000,000	953,364,988	400,000,000
Trade receivables	[A7]	4,215,000	_	5,000,000	-
Deferred tax assets	[C10]	671,921,335	_	502,185,920	_
Other receivables and assets	[A8]	989,780,655	1,465,574	866,177,199	1,465,574
Total		54,301,940,663		50,255,118,559	
Current assets					
Trade receivables	[A7]	2,094,957,975	1,071,299,709	2,136,938,455	1,182,136,389
Current tax assets	[C10]	5,914,922	_	33,037,579	_
Other receivables and assets	[A8]	937,064,274	68,990,476	832,037,455	5,140,667
Financial assets attributable to BancoPosta	[A5]	10,752,544,243	6,189,333,872	11,407,328,893	7,185,619,804
Financial assets	[A6]	243,411,037	181,548,490	576,863,696	412,395,498
Cash and deposits attributable to BancoPosta	[A9]	2,494,150,897	-	3,160,654,030	-
Cash and cash equivalents	[A10]	2,715,198,980	1,309,580,485	1,519,732,866	390,911,052
Total		19,243,242,328		19,666,592,974	
Non-current assets held for sale	[A11]	384,308,792	383,978,080	_	-
TOTAL ASSETS		73,929,491,783		69,921,711,533	

LIABILITIES AND EQUITY (€)	Note	2016	of which, related party transactions	2015	of which, related party transactions
Equity					
Share capital	[B1]	1,306,110,000	-	1,306,110,000	_
Reserves	[B3]	2,186,144,274	-	3,826,038,095	_
Retained earnings		2,667,930,819	-	2,514,289,615	_
Total		6,160,185,093		7,646,437,710	
Non-current liabilities					
Provisions for risks and charges	[B4]	589,611,766	49,962,342	568,950,071	49,900,737
Employee termination benefits	[B5]	1,315,043,763	_	1,319,863,214	_
Financial liabilities attributable to BancoPosta	[B6]	6,409,893,597	-	4,930,051,750	_
Financial liabilities	[B7]	1,245,813,299	_	1,245,490,530	_
Deferred tax liabilities	[C10]	536,290,271	_	977,014,825	_
Other liabilities	[B9]	1,002,066,304	6,039,926	861,126,059	6,550,690
Total		11,098,719,000		9,902,496,449	
Current liabilities					
Provisions for risks and charges	[B4]	818,399,423	10,488,457	728,854,041	10,570,973
Trade payables	[B8]	1,384,577,042	464,278,724	1,229,523,982	419,958,662
Current tax liabilities	[C10]	72,924,479	_	32,519,074	_
Other liabilities	[B9]	1,556,324,717	106,595,007	1,473,866,252	119,118,319
Financial liabilities attributable to BancoPosta	[B6]	52,782,494,828	2,747,319,692	48,305,103,683	222,957,889
Financial liabilities	[B7]	55,867,201	38,262,982	602,910,342	73,126,907
Total		56,670,587,690		52,372,777,374	_
TOTAL LIABILITIES AND EQUITY		73,929,491,783		69,921,711,533	

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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	[A11]	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	[B3]	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

From 2016, current tax assets and liabilities attributable to BancoPosta RFC are presented in intersegment relations, as they are settled with the segment of the Company outside the ring-fence, within the scope of internal relations with Poste Italiane SpA, which continues to be the sole taxable entity. The corresponding amounts at 31 December 2015 have been accordingly reclassified.

STATEMENT OF FINANCIAL POSITION (CONTINUED)

Supplementary statement showing bancoposta RFC at 31 december 2015

ASSETS (€)	Note	Capital outside the ring-fence	BancoPosta RFC	Adjustments	Total
Non-current assets					
Property, plant and equipment		2,074,370,693	_	_	2,074,370,693
Investment property		60,828,032	_	_	60,828,032
Intangible assets		374,346,738	_	_	374,346,738
Investments		2,204,019,035	_	_	2,204,019,035
Financial assets attributable to BancoPosta	[A5]	_	43,214,825,954	-	43,214,825,954
Financial assets		953,364,988	_	_	953,364,988
Trade receivables		5,000,000	_	_	5,000,000
Deferred tax assets	[C10]	372,272,273	129,913,647	_	502,185,920
Other receivables and assets	[A8]	150,449,722	715,727,477	_	866,177,199
Total		6,194,651,481	44,060,467,078	-	50,255,118,559
Current assets					
Trade receivables	[A7]	1,341,670,235	795,268,220	-	2,136,938,455
Current tax assets	[C10]	33,037,579	_	_	33,037,579
Other receivables and assets	[A8]	267,320,254	564,717,201	-	832,037,455
Financial assets attributable to BancoPosta	[A5]	-	11,407,328,893	-	11,407,328,893
Financial assets		576,863,696	_	-	576,863,696
Cash and deposits attributable to BancoPosta	[A9]	-	3,160,654,030	-	3,160,654,030
Cash and cash equivalents	[A10]	1,118,704,353	401,028,513	-	1,519,732,866
Total		3,337,596,117	16,328,996,857	-	19,666,592,974
Intersegment relations net amount		(214,424,441)	-	214,424,441	-
TOTAL ASSETS		9,317,823,157	60,389,463,935	214,424,441	69,921,711,533

STATEMENT OF FINANCIAL POSITION (CONTINUED)

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	[B3]	317,592,249	3,508,445,846	_	3,826,038,095
Retained earnings		980,582,038	1,533,707,577	_	2,514,289,615
Total		2,604,284,287	5,042,153,423	-	7,646,437,710
Non-current liabilities					
Provisions for risks and charges	[B4]	242,037,277	326,912,794	_	568,950,071
Employee termination benefits	[B5]	1,300,825,437	19,037,777	_	1,319,863,214
Financial liabilities attributable to BancoPosta	[B6]	-	4,930,051,750	-	4,930,051,750
Financial liabilities		1,245,490,530	-	_	1,245,490,530
Deferred tax liabilities	[C10]	9,822,533	967,192,292	-	977,014,825
Other liabilities	[B9]	69,619,980	791,506,079	_	861,126,059
Total		2,867,795,757	7,034,700,692	-	9,902,496,449
Current liabilities					
Provisions for risks and charges	[B4]	671,474,487	57,379,554	_	728,854,041
Trade payables	[B8]	1,164,978,977	64,545,005	_	1,229,523,982
Current tax liabilities	[C10]	32,519,074	-	_	32,519,074
Other liabilities	[B9]	1,373,860,233	100,006,019	-	1,473,866,252
Financial liabilities attributable to BancoPosta	[B6]	-	48,305,103,683	-	48,305,103,683
Financial liabilities		602,910,342	-	_	602,910,342
Total		3,845,743,113	48,527,034,261	-	52,372,777,374
Intersegment relations net amount		-	(214,424,441)	214,424,441	-
TOTAL LIABILITIES AND EQUITY		9,317,823,157	60,389,463,935	214,424,441	69,921,711,533

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED

(€)	Note	2016	of which, related party transactions	2015	of which, related party transactions
Revenue from sales and services	[C1]	8,218,552,595	2,909,610,935	8,205,339,001	2,937,333,121
Other income from financial activities	[C2]	598,784,197	_	432,729,127	_
of which non-recurring income		120,776,622	-	-	_
Other operating income	[C3]	477,863,220	439,544,987	398,603,385	344,660,651
Total revenue		9,295,200,012		9,036,671,513	
Cost of goods and services	[C4]	1,733,501,266	656,596,185	1,818,825,347	703,908,697
Other expenses from financial activities	[C5]	14,645,148	-	2,658,951	_
Personnel expenses	[C6]	5,992,141,750	44,045,010	5,895,395,587	43,499,516
of which non-recurring costs/(income)		-	-	(10,990,041)	_
Depreciation, amortisation and impairments	[C7]	504,354,712	_	484,513,261	_
Capitalised costs and expenses		(3,805,665)	-	(4,877,662)	-
Other operating costs	[C8]	254,803,828	6,672,306	226,279,057	(45,676,448)
Operating profit/(loss)		799,558,973		613,876,972	
Finance costs	[C9]	65,166,194	825,985	76,378,041	2,398,225
Finance income	[C9]	44,594,487	24,399,725	58,443,397	22,122,141
of which non-recurring income		-	-	4,021,772	-
Profit/(Loss) before tax		778,987,266		595,942,328	
Income tax expense	[C10]	153,645,906	_	145,143,605	
of which, non-recurring costs/(income)		14,225,182	-	12,043,138	
PROFIT FOR THE YEAR		625,341,360		450,798,723	

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED

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] (1,637,143,892) 1,531,496,129 Transfers to profit or loss (577,650,684) (383,526,596) Cash flow hedges Increase/(decrease) in fair value during the year [tab. B3] (15,406,658) 12,721,109 Transfers to profit or loss (21,928,766) (70,813,431) Taxation of items recognised directly in, or transferred from, equity to be reclassified in the Statement of profit or loss for the year Actuarial gains/(losses) on provisions for employee termination benefits [tab. B5] (48,563,432) 78,728,918 Taxation of items recognised directly in, or transferred from, equity not to be reclassified in the Statement of profit or loss for the year Actuarial spains/(losses) on provisions for employee termination benefits [tab. B5] (48,563,432) 78,728,918 Taxation of items recognised directly in, or transferred from, equity not to be reclassified in the Statement of profit or loss for the year 16,332,193 (29,541,350)	(€)	Note	2016	2015
Available-for-sale financial assets Increase/(decrease) in fair value during the year [tab. B3] (1,637,143,892) 1,531,496,123 Transfers to profit or loss (577,650,684) (383,526,596) Cash flow hedges Increase/(decrease) in fair value during the year [tab. B3] (15,406,658) 12,721,103 Transfers to profit or loss (21,928,766) (70,813,431) Taxation of items recognised directly in, or transferred from, equity to be reclassified in the Statement of profit or loss for the year (197,732,176) Items not to be reclassified in the Statement of profit or loss for the year (197,732,176) Actuarial gains/(losses) on provisions for employee termination benefits [tab. B5] (48,563,432) 78,728,918 Taxation of items recognised directly in, or transferred from, equity not to be reclassified in the Statement of profit or loss for the year (29,541,350)	Profit/(Loss) for the year		625,341,360	450,798,723
Increase/(decrease) in fair value during the year [tab. B3] (1,637,143,892) 1,531,496,129 Transfers to profit or loss (577,650,684) (383,526,596) Cash flow hedges Increase/(decrease) in fair value during the year [tab. B3] (15,406,658) 12,721,107 Transfers to profit or loss (21,928,766) (70,813,431) Taxation of items recognised directly in, or transferred from, equity to be reclassified in the Statement of profit or loss for the year (197,732,176) Items not to be reclassified in the Statement of profit or loss for the year (197,732,176) Actuarial gains/(losses) on provisions for employee termination benefits [tab. B5] (48,563,432) 78,728,918 Taxation of items recognised directly in, or transferred from, equity not to be reclassified in the Statement of profit or loss for the year (29,541,350)	Items to be reclassified in the Statement of profit or loss for the year			
Transfers to profit or loss (577,650,684) (383,526,596) Cash flow hedges Increase/(decrease) in fair value during the year [tab. B3] (15,406,658) 12,721,107 Transfers to profit or loss (21,928,766) (70,813,431) Taxation of items recognised directly in, or transferred from, equity to be reclassified in the Statement of profit or loss for the year Actuarial gains/(losses) on provisions for employee termination benefits [tab. B5] (48,563,432) 78,728,918 Taxation of items recognised directly in, or transferred from, equity not to be reclassified in the Statement of profit or loss for the year (29,541,350)	Available-for-sale financial assets			
Cash flow hedges Increase/(decrease) in fair value during the year [tab. B3] (15,406,658) 12,721,103 Transfers to profit or loss (21,928,766) (70,813,431) Taxation of items recognised directly in, or transferred from, equity to be reclassified in the Statement of profit or loss for the year 612,236,179 (197,732,176) Items not to be reclassified in the Statement of profit or loss for the year 612,236,179 Actuarial gains/(losses) on provisions for employee termination benefits [tab. B5] (48,563,432) 78,728,918 Taxation of items recognised directly in, or transferred from, equity not to be reclassified in the Statement of profit or loss for the year (29,541,350)	Increase/(decrease) in fair value during the year [1	[tab. B3]	(1,637,143,892)	1,531,496,129
Increase/(decrease) in fair value during the year [tab. B3] (15,406,658) 12,721,107 Transfers to profit or loss (21,928,766) (70,813,431) Taxation of items recognised directly in, or transferred from, equity to be reclassified in the Statement of profit or loss for the year (197,732,176) 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] (48,563,432) 78,728,918 Taxation of items recognised directly in, or transferred from, equity not to be reclassified in the Statement of profit or loss for the year (29,541,350)	Transfers to profit or loss		(577,650,684)	(383,526,596)
Transfers to profit or loss (21,928,766) (70,813,431) Taxation of items recognised directly in, or transferred from, equity to be reclassified in the Statement of profit or loss for the year 612,236,179 (197,732,176) 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] (48,563,432) 78,728,915 Taxation of items recognised directly in, or transferred from, equity not to be reclassified in the Statement of profit or loss for the year (29,541,350)	Cash flow hedges			
Taxation of items recognised directly in, or transferred from, equity to be reclassified in the Statement of profit or loss for the year 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] (48,563,432) 78,728,918 Taxation of items recognised directly in, or transferred from, equity not to be reclassified in the Statement of profit or loss for the year (29,541,350)	Increase/(decrease) in fair value during the year [1	[tab. B3]	(15,406,658)	12,721,107
reclassified in the Statement of profit or loss for the year 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] Taxation of items recognised directly in, or transferred from, equity not to be reclassified in the Statement of profit or loss for the year (29,541,350)	Transfers to profit or loss		(21,928,766)	(70,813,431)
Actuarial gains/(losses) on provisions for employee termination benefits [tab. B5] (48,563,432) 78,728,918 Taxation of items recognised directly in, or transferred from, equity not to be reclassified in the Statement of profit or loss for the year 16,332,193 (29,541,350)			612,236,179	(197,732,176)
Taxation of items recognised directly in, or transferred from, equity not to be reclassified in the Statement of profit or loss for the year 16,332,193 (29,541,350)	·			
reclassified in the Statement of profit or loss for the year 16,332,193 (29,541,350)	Actuarial gains/(losses) on provisions for employee termination benefits [t	[tab. B5]	(48,563,432)	78,728,915
Total other components of comprehensive income (1.672.125.060) 941.332.59			16,332,193	(29,541,350)
(1)012,120,000)	Total other components of comprehensive income		(1,672,125,060)	941,332,598
TOTAL COMPREHENSIVE INCOME FOR THE YEAR (1,046,783,700) 1,392,131,32	TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(1,046,783,700)	1,392,131,321

STATEMENT OF CHANGES IN EQUITY

(€)				Equity			
	Share capital		Res	erves		Retained	Total
		Legal reserve	BancoPosta RFC reserve	Fair value reserve	Cash flow hedge reserve	earnings/ (Accummulated losses)	
Balance at 1 January 2015	1,306,110,000	299,234,320	1,000,000,000	1,586,642,318	48,016,424	2,264,920,280	6,504,923,342
Total comprehensive income for the year	-	-	-	931,179,814	(39,034,781)	499,986,288	1,392,131,321
Dividends paid	-	-	-	-	-	(250,000,000)	(250,000,000)
Changes due to share-based payments	-	-	-	-	-	552,284	552,284
Other shareholder transactions	-	-	-	-	-	(1,169,237)	(1,169,237)
Balance at 31 December 2015	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
of which attributable to BancoPosta RFC	-	-	1,000,000,000	2,499,982,110	8,463,736	1,533,707,577	5,042,153,423
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

^(*) This item includes profit for the year of €625 million and actuarial losses on provisions for employee termination benefits of €49 million after the related taxation of €17 million.

^(**) Shareholder transactions are described in section B2.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED

(€000)	Note	2016	2015
Cash and cash equivalents at beginning of year		1,519,733	985,536
Profit/(Loss) before tax		778,987	595,942
Depreciation, amortisation and impairments	[tab. C7]	504,355	484,515
Impairments/(Reversals of impairments) of investments	[tab. A4.1]	33,284	76,644
Net provisions for risks and charges	[tab. B4]	541,169	440,824
Use of provisions for risks and charges	[tab. B4]	(435,652)	(390,820)
Employee termination benefits paid	[tab. B5]	(78,138)	(63,203)
(Gains)/losses on disposals		840	(2,952)
(Dividends)		(7,738)	(478)
Dividends received		7,738	478
(Finance income in form of interest)	[tab. C9.1]	(34,523)	(52,452)
Interest received		31,679	49,154
Interest expense and other finance costs	[tab. C9.2]	62,817	70,281
Interest paid		(36,096)	(43,703)
Losses and impairments/(Recoveries) on receivables	[tab. C8]	9,772	(63,151)
Income tax paid	[tab. C10.3]	(189,546)	(219,293)
Other movements		-	813
Cash generated by operating activities before movements in working capital	[a]	1,188,948	882,599
Movements in working capital:			
(Increase)/decrease in Trade receivables		52,179	1,398,288
(Increase)/decrease in Other receivables and assets		54,006	228,402
Increase/(decrease) in Trade payables		111,079	7,434
Increase/(decrease) in Other liabilities		68,927	43,535
Current tax assets recovered		-	545,662
Cash generated by/(used in) movements in working capital	[b]	286,191	2,223,321
Increase/(decrease) in financial liabilities attributable to BancoPosta		5,195,749	2,899,972
Net cash generated by/(used for) financial assets held for trading		(89)	939
Net cash generated by/(used for) available-for-sale financial assets		(5,140,342)	(2,412,869)
Net cash generated by/(used for) held-to-maturity financial assets		370,245	1,403,512
(Increase)/decrease in other financial assets attributable to BancoPosta		896,512	(1,480,336)
(Increase)/decrease in cash and deposits attributable to BancoPosta		666,503	(287,612)
(Income)/Expenses and other non-cash components attributable to financial activities		(1,041,371)	(926,509)
Cash generated by/(used for) financial assets and liabilities attributable to BancoPosta	[c]	947,207	(802,903)
Net cash flow from /(for) operating activities	[d]=[a+b+c]	2,422,346	2,303,017
- of which related party transactions		3,598,562	(1,616,762)

(€000)	Note	2016	2015
Investing activities:			
Property, plant and equipment	[tab. A1]	(200,278)	(206,991)
Investment property	[tab. A2]	(528)	(319)
Intangible assets	[tab. A3]	(180,782)	(176,972)
Investments		(38,790)	(251,768)
Other financial assets		(357,261)	(2,157)
Disposals:			
Property, plant and equipment, investment property and assets held for sale		2,493	3,576
Investments		-	3,182
Other financial assets		535,559	113,371
Net cash flow from/(for) investing activities	[e]	(239,587)	(518,078)
- of which related party transactions		112,483	(27,837)
(Increase)/decrease in loans and receivables		2,351	113,594
Increase/(decrease) in short-term borrowings		(545,571)	(1,649,336)
Dividends paid	[B2]	(444,073)	(250,000)
Receivable authorised by 2015 Stability Law in implementation of Sentence of the European Court		_	535,000
Net cash flow from/(for) financing activities and shareholder transactions	[f]	(987,293)	(1,250,742)
- of which related party transactions		(476,590)	(419,046)
Net increase/(decrease) in cash	[g]=[d+e+f]	1,195,466	534,197
Cash and cash equivalents at end of year	[tab. A10]	2,715,199	1,519,733
Cash and cash equivalents at end of year	[tab. A10]	2,715,199	1,519,733
Cash subject to investment restrictions		(1,070,530)	(217,320)
Amounts that cannot be drawn on due to court rulings		(12,457)	(11,228)
Unrestricted net cash and cash equivalents at end of year		1,632,212	1,291,185

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⁽⁸³⁾, 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.

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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⁽⁸⁴⁾.

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(85). 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, signed on 27 March 2015 and covering the two-year period 2015-2016. In addition, under the agreement with the MEF, renewed on 11 June 2014 for the three-year period 2014-2016, 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)(86) rate. Both the agreements with the MEF, having expired on 31 December 2016, are in the process of being renewed.

- (84) 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;
 - 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;
 - ${\it n.} \quad {\it Intersegment\ accounts\ payable\ and\ receivable\ respectively\ to\ and\ from\ Poste\ Italiane;}$
 - 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.
- (85) 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.
- (86) 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 27 May 2015. 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(87), 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 2015, 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. The resulting transfer prices are reviewed annually.

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⁽⁸⁷⁾ Bank of Italy Circular 285 of 17 December 2013, part four, chapter 1 – BancoPosta.

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.

Function	Allocation key
Post Office Network	Percentage of revenue generated Penalties for failure to meet predetermined quality standards
Information Technology	Fixed component: Cost + mark-up Variable component: determined with reference to the maintenance of operating performance
Investment Governance	Fees by professional role based on market benchmarks
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	
Human Resources, Organisation and Services	
Security and Safety	
Legal Affairs	Fees by professional role based on market benchmarks
External Relations	Recharge of external costs, where applicable
Purchasing	-
Internal Auditing	
Compliance	
Essential operating funct	ions Control functions

In this regard, the new Operating Guidelines drawn up in 2016, 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(88).

RECONCILIATION OF SEPARATE EQUITY

	Item in	130	160	200
Item in supplementary statement $(\in m)$	Separate – Report	Valuation reserves	Reserves	Net profit for period
Reserves	1,872	872	1,000	-
BancoPosta RFC reserve	1,000	-	1,000	-
Fair value reserve	889	889	-	-
Cash flow hedge reserve	(17)	(17)	-	_
Retained earnings	1,514	(3)	949	568
Net profit for period	1,517	-	949	568
Cumulative actuarial gains/(losses) on defined benefit plans	(3)	(3)	_	-
Total	3,386	869	1,949	568

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.

Further regulatory aspects

Pursuant to art. 2, paragraph 17-undecies of Law Decree 225 of 29 December 2010⁽⁶⁹⁾, 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 (...)".

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).

Converted into Law 10 of 26 February 2011.

Notes to the financial statements

Assets

A1 - Property, plant and equipment

Movements in property, plant and equipment are as follows:

TAB. A1 – MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

<i>(€m)</i>	Land	Property used in operations	Plant and machinery	Industrial and commercial equipment	Leasehold improvements	Other assets	Assets under construction and prepayments	Total
Balance at 1 January 2015								
Cost	75	2,697	1,829	320	392	1,457	36	6,806
Accumulated depreciation	_	(1,321)	(1,453)	(285)	(196)	(1,262)	_	(4,517)
Accumulated impairment	_	(95)	(9)	(1)	(12)	-	-	(117)
Carrying amount	75	1,281	367	34	184	195	36	2,172
Movements during the year								
Additions	-	34	33	6	23	75	36	207
Reclassifications	_	12	7	-	5	5	(29)	-
Disposals	-	-	-	-	(2)	-	-	(2)
Depreciation	_	(106)	(88)	(9)	(29)	(82)	_	(314)
(Impairments)/Reversal of impairments	-	8	(3)	-	7	-	-	12
Total movements	-	(52)	(51)	(3)	4	(2)	7	(97)
Balance at 31 December 2015								
Cost	75	2,743	1,837	326	416	1,515	43	6,955
Accumulated depreciation	_	(1,427)	(1,509)	(294)	(223)	(1,322)	_	(4,775)
Accumulated impairment		(87)	(12)	(1)	(5)	-	_	(105)
Carrying amount	75	1,229	316	31	188	193	43	2,075
Movements during the year								
Additions	_	28	43	7	25	62	35	200
Extraordinary transactions (1)	_	_	1	_	_	20	8	29
Adjustments ⁽²⁾	_	_	_	-		-	_	-
Reclassifications (3)	_	3	6	_	3	25	(35)	2
Disposals (4)	_	_	_	-	(2)	-	_	(2)
Depreciation		(108)	(80)	(10)	(32)	(89)	_	(319)
(Impairments)/Reversal of impairments	_	10	4			-	_	14
Total movements	-	(67)	(26)	(3)	(6)	18	8	(76)
Balance at 31 December 2016								
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)
Carrying amount	75	1,162	290	28	182	211	51	1,999

(€m)	Land	Property used in operations	Plant and machinery	Industrial and commercial equipment	Leasehold improvements	Other assets	Assets under construction and prepayments	Total
Extraordinary transactions(1)								
Cost	-	-	113	-	-	50	8	171
Accumulated depreciation	-	-	(112)	-	-	(30)	-	(142)
Total	-	-	1	-	-	20	8	29
Adjustments(2)								
Cost	-	-	2	-	-	1	-	3
Others	-	-	-	-	-	-	-	-
Accumulated depreciation	-	-	(2)	-	-	(1)	-	(3)
Total	-	-	-	-	-	-	-	-
Reclassifications (3)								
Cost	-	3	6	-	3	25	(35)	2
Accumulated depreciation	-	-	-	-	-	-	-	-
Total	-	3	6	-	3	25	(35)	2
Disposals (4)								
Cost	-	-	(45)	(3)	(4)	(11)	-	(63)
Accumulated depreciation	-	-	44	3	2	11	-	60
Accumulated Impairment	_	-	1	-	_	-	-	1
Total	-	-	-	_	(2)		-	(2)

None of the above items is attributable to BancoPosta RFC.

At 31 December 2016, property, plant and equipment includes assets located on land held under concession or subconcession, which are to be handed over free of charge at the end of the concession term, with a carrying amount of €67 million.

The main movements during 2016 are described below.

Purchases of €200 million primarily relate to:

- €28 million relating to extraordinary maintenance of post offices and local head offices around the country (€21 million) and mail sorting offices (€7 million);
- €43 million relating to plant, of which €27 million for plant and equipment related to buildings, €6 million for the installation and extraordinary maintenance of video surveillance systems, €5 million for the installation of ATMs and €5 million for the purchase of telecommunications infrastructure;
- €25 million to upgrade plant (€15 million) and the structure (€10 million) of properties held under lease;
- €62 million relating to "Other assets", including €53 million for the purchase of new computer hardware for post offices and head offices and the consolidation of storage systems, €7 million for the purchase of furniture and fittings in connection with the new layouts for post offices and €2 million to renew the equipment used in mail delivery;
- €35 million relating to assets under construction, of which €19 million regards the restyling of post offices, €6 million the restructuring of head offices, €6 million the renovation of primary distribution centres and €3 million the purchase of hardware and other technological equipment not yet operational.

Extraordinary transactions, totalling €29 million, regard the partial demerger of the fixed line telecommunications business ("Rete Fissa TLC") of the subsidiary, PosteMobile SpA, and the corresponding acquisition of the related infrastructure (€1 million), technology assets already in use (€20 million) and technology assets not yet operational (€8 million).

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 2.4 – Use of estimates).

Reclassifications from assets under construction, totalling €35 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.

A2 - Investment property

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 2016	Year ended 31 December 2015
Balance at 1 January		
Cost	144	147
Accumulated depreciation	(82)	(79)
Accumulated impairment	(1)	(1)
Carrying amount	61	67
Movements during the year		
Additions	_	_
Disposals (1)	(1)	(1)
Depreciation	(4)	(5)
Total movements	(5)	(6)
Balance at 31 December		
Cost	142	144
Accumulated depreciation	(85)	(82)
Accumulated impairment	(1)	(1)
Carrying amount	56	61
Fair value at 31 December	113	113
Disposals (1)		
Cost	(2)	(3)
Accumulated depreciation	1	2
Total	(1)	(1)

The fair value of investment property at 31 December includes approximately €65 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⁽⁹⁰⁾.

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.

⁽⁹⁰⁾ 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

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
Balance at 1 January 2015				
Cost	1,953	2	64	2,019
Accumulated amortisation and impairments	(1,641)	(2)	_	(1,643)
Carrying amount	312	_	64	376
Movements during the year				
Additions	126	-	50	176
Reclassifications	57	-	(57)	-
Transfers and disposals	_	_	_	_
Amortisation and impairments	(178)	_	_	(178)
Total movements	5	_	(7)	(2)
Balance at 31 December 2015				
Cost	2,134	2	57	2,193
Accumulated amortisation and impairments	(1,817)	(2)	_	(1,819)
Carrying amount	317	-	57	374
Movements during the year				
Additions	106	-	75	181
Extraordinary transactions (1)	4	-	5	9
Reclassifications (2)	52	_	(55)	(3)
Disposals (3)	_	_	_	-
Amortisation and impairments	(195)	_	_	(195)
Total movements	(33)	_	25	(8)
Balance at 31 December 2016				
Cost	2,309	2	82	2,393
Accumulated amortisation and impairments	(2,025)	(2)	_	(2,027)
Carrying amount	284	_	82	366
Extraordinary transactions (1)				
Cost	19	_	5	24
Accumulated amortisation and impairments	(15)	_	_	(15)
Total	4	_	5	9
Reclassifications (2)				
Cost	52	_	(55)	(3)
Accumulated amortisation and impairments	_	_	_	_
Total	52	_	(55)	(3)
Disposals (3)			. ,	
Cost	(2)	_	_	(2)
Accumulated amortisation and impairments	2	_	_	2
Total	_	_	_	_

None of the above items is attributable to BancoPosta RFC.

Investment in "Intangible assets" during 2016 amounts to €181 million, including €4 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.

Purchases of industrial patents, intellectual property, rights, concessions, licences, trademarks and similar rights total €106 million, before amortisation for the year, and relate primarily to the purchase and entry into service of new software programmes 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 (€35 million), BancoPosta services (€21 million), the provision of support to the sales network (€12 million) and the postal products platform (€8 million). Software is also being developed in relation to the engineering of reporting processes for other business and staff functions (€6 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 €52 million, reflecting the completion and commissioning of software and the upgrade of existing software.

Extraordinary transactions, totalling €9 million, regard the partial demerger of the fixed line telecommunications business ("Rete Fissa TLC") of the subsidiary, PosteMobile SpA, and the corresponding acquisition of software applications already in use (€4 million) and applications tested but not yet in use (€5 million).

A4 - Investments

This item includes the following:

TAB. A4 - INVESTMENTS

Item (<i>€m</i>)	Balance at 31 December 2016	Balance at 31 December 2015
Investments in subsidiaries	1,604	1,993
Investments in associates	211	211
Total	1,815	2,204

No investments are attributable to BancoPosta RFC.

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Movements in investments in subsidiaries and associates are as follows:

TAB. A4.1 MOVEMENTS IN INVESTMENTS MOVEMENTS IN INVESTMENTS IN THE YEAR ENDED 31 DECEMBER 2016

Investments	Balance	Additi	ons	Reduct	ions	Adjus	stments	Balance
(€ <i>m</i>)	at 1 January 2016	Subscriptions/ Capital contributions	Acquisitions	Sales, liquidations, mergers	Reclass. to non- current assets held for sale	Reval.	(Impair.)	at 31 December 2016
in subsidiaries								
Banca del Mezzogiorno- MedioCredito Centrale SpA	372	-	-	-	(372)	-	-	-
BancoPosta Fondi SpA SGR	12	-	-	_	(12)	_	_	-
CLP ScpA	_	-	-	_	-	-	_	-
Consorzio PosteMotori	_	-	-	-	_	-	_	_
Cons. per i Servizi di Telefonia Mobile ScpA	_	-	_	_	-	_	_	_
EGI SpA	182	_	-	-	-	-	(4)	178
Indabox Srl	-	-	1	-	-	-	-	1
Mistral Air Srl	_	_	-	-	-	-	_	-
PatentiViaPoste ScpA	-	_	-	-	-	-	-	-
Poste Tributi ScpA	2	_	-	-	_	-	_	2
PosteTutela SpA	1	_	-	-	-	-	_	1
Poste Vita SpA	1,219	_	-	-	-	-	_	1,219
Postecom SpA	13	_	-	_	-	_	_	13
Postel SpA	120	-	-	1	-	-	-	121
PosteMobile SpA	71	-	-	(11)	-	_	_	60
PosteShop SpA	1	-	-	(1)	_	-	_	-
Risparmio Holding SpA ⁽¹⁾	_	-	-	-	_	-	_	_
SDA Express Courier SpA	_	38	-	-	-	_	(29)	9
Total subsidiaries	1,993	38	1	(11)	(384)	-	(33)	1,604
in associates								
Anima Holding SpA	211	-	-	-	-	-	-	211
Total associates	211	-	-	-	-	_		211
Total	2,204	38	1	(11)	(384)	-	(33)	1,815

⁽¹⁾ Joint venture.

MOVEMENTS IN INVESTMENTS IN THE YEAR ENDED 31 DECEMBER 2015

Investments	Balance	Additi	ons	Reduct	ions	Adjus	stments	Balance
(€m)	at 1 January 2015	Subscriptions/ Capital contributions	Acquisitions	Sales, liquidations, mergers	Reclass. to non- current assets held for sale	Reval.	(Impair.)	at 31 December 2015
in subsidiaries								
Banca del Mezzogiorno- MedioCredito Centrale SpA	372	-	-	-	-	-	-	372
BancoPosta Fondi SpA SGR	12	-	_	_	-	-	_	12
CLP ScpA	-	_	-	-	-	-	-	-
Consorzio PosteMotori	-	-	_	_	_	_	-	_
Cons. per i Servizi di Telefonia Mobile ScpA	-	-	_	_	_	_	-	_
EGI SpA	191	_	-	-	-	-	(9)	182
Mistral Air Srl	-	_	-	-	-	-	-	-
PatentiViaPoste ScpA	-	_	-	-	-	-	-	-
Poste Holding Participações do Brasil Ltda	1	_	_	(1)	-	_	_	_
Poste Tributi ScpA	2	_	_	_	-	_	_	2
PosteTutela SpA	1	_	_	_	_	_	_	1
Poste Vita SpA	1,219	_	_	_	-	-	_	1,219
Postecom SpA	13	-	-	_	-	_	_	13
Postel SpA	124	_	-	_	_	_	(4)	120
PosteMobile SpA	71	_	-	_	_	-	_	71
PosteShop SpA	-	1	-	_	-	-	_	1
SDA Express Courier SpA	23	40	_	_	_	-	(63)	_
Total subsidiaries	2,029	41	_	(1)	-	-	(76)	1,993
in associates								
Telma-Sapienza Scarl	1	_	_		_	_	(1)	_
ItaliaCamp Srl	_	_	_		_	_	_	-
Anima Holding SpA		_	211		_			211
Total associates	1	_	211		_	_	(1)	211
Total	2,030	41	211	(1)	-	-	(77)	2,204

The following movements occurred in 2016:

- The injection of €38 million into SDA Express Courier SpA to cover the losses incurred by the subsidiary through to 31 March 2016 and establish other equity reserves, as approved by the extraordinary general meeting of the investee company's shareholders on 6 October 2016.
- The acquisition, on 7 November 2016, of a 100% interest in Indabox SrI at a price of €0.65 million. This company operates in the e-commerce market with a platform designed to facilitate transactions.
- The merger of PosteShop SpA with and into the subsidiary, Postel SpA, on 22 April 2016, with effect for legal, tax and accounting purposes from 1 May 2016.
- The partial demerger of PosteMobile SpA's fixed line telecommunications business ("Rete Fissa TLC") and its transfer to Poste Italiane SpA, as approved by the extraordinary general meetings of the companies' shareholders on 26 January 2016. The net carrying amount of the related assets was approximately €11 million and the transaction was effective legal, accounting and tax purposes from 1 May 2016.
- The memorandum of association of Risparmio Holding SpA, which is owned by Poste Italiane (80%) and CDP (20%), was signed on 7 October 2016. The business purpose of the new company is to arrange for the acquisition of equity investments, loans to companies or entities in which it holds equity, and trading in securities, either directly and/or via its participating interest in a company specifically incorporated for this purpose. For this purpose, Equam SpA (a company 80% owned by Risparmio Holding SpA and 20% owned by Anima Holding SpA) was established on 17 October 2016.

In addition:

- 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. Following this transaction, Poste Italiane will increase its investment in Anima Holding SpA from 10.32% to up to 24.9%. In accordance with the terms and commitments assumed as at 31 December 2016, the transaction involves an exchange of equity instruments, after which Poste Italiane will have increased its investment in Anima Holding SpA without, however, assuming, under the existing conditions at the date of preparation of these financial statements, control thereof⁽⁹¹⁾. Completion of the transaction is subject to receipt of the related clearance and consents required by law and the applicable regulations. Any future developments affecting the alliance and/or the manner in which the transaction will be executed will be disclosed in accordance with the relevant accounting standards.
- In line with the Group's strategic guidelines and following negotiations during the last quarter of 2016, resulting in a proposal from the buyer on 10 January 2017, on 8 February 2017 the boards of directors of Poste Italiane SpA and Agenzia Nazionale per l'Attrazione degli Investimenti e lo Sviluppo d'Impresa SpA (Invitalia) approved the transfer of Poste Italiane's 100% interest in Banca del Mezzogiorno–MedioCreditoCentrale SpA (BdM-MCC SpA) to Invitalia at a total price of €390 million. Approximately €360 million of this amount will be collected in instalments during 2017, with €30 million to be collected after five years. The transaction, which requires the approval of the Bank of Italy, the Ministry for Economic Development and the European Central Bank, is expected to complete in the first half of 2017.

At 31 December 2016, the carrying amount of the investments in the subsidiaries, BancoPosta Fondi SpA SGR and BdM-MCC SpA, totalling \in 384 million, has been reclassified to the appropriate item under assets (section A11) in compliance with IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*.

The following transactions took place in early 2017:

- On 13 January 2017, the board of directors of Risparmio Holding SpA voted to ask shareholders to make nonrefundable contributions to enable the company to meet its commitments in 2016. Poste Italiane's resulting liability, amounting to approximately €4 million, has been included in "Other provisions for risks and charges" (92).
- 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.

⁽⁹¹⁾ On 14 October 2016, Poste Italiane announced that it had notified Banca Popolare di Milano Scarl of its intention not to renew the shareholders' agreement signed by the parties on 26 June 2015 and due to expire on 16 April 2017, relating to the companies' respective shareholdings in Anima Holding SpA. As a result, as of the expiry date of 16 April 2017, the shareholders' agreement will no longer be in effect.

⁽⁹²⁾ As Risparmio Holding SpA is jointly controlled by Poste Italiane and CDP SpA, the impact on the statement of profit or loss is shown in finance costs (tab C9.2).

- On 30 January 2017, the deed governing the partial demerger of the assets relating to Postecom SpA's investments
 in PatentiViaPoste ScpA and Consorzio Poste Motori to Postel SpA, and the ensuing deed regarding the merger
 of Postecom SpA with and into Poste Italiane SpA, were executed. The transaction will be effective for legal,
 accounting and tax purposes from 1 April 2017.
- On 2 February 2017, an extraordinary general meeting of Indabox Srl's shareholders approved the issue of new shares and the creation of an extraordinary reserve amounting to €0.8 million. The above sum was paid in full by Poste Italiane SpA.
- Following 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 acquired a 30% stake in FSIA Investimenti SrI at a cost of €278.3 million. This company owns a 49.5% interest in SIA SpA (SIA), a wholly owned subsidiary of FSI Investimenti, in turn a subsidiary of CDP Equity SpA via its 77.1% interest in the company. Following this transaction, Poste Italiane holds an indirect interest of 14.85% in SIA. 80% of the above consideration was paid on completion. The final price is subject to upward or downward adjustment based on predetermined amounts for SIA's net debt at 31 December 2016 and its operating results for 2017. 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 and SIA, over which the parties will exercise joint control, became effective.

The impairment tests required by the related accounting standards have been conducted in order to identify any evidence of impairment. The tests carried out at 31 December 2016 were based on projections contained in the five-year business plans for the relevant cash generating units (companies or their subsidiaries) 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). In testing investments in subsidiaries, an assumed growth rate of 1.2% was used at 31 December 2016 (1.34% at 31 December 2015), whilst the WACCs, based on best market practices for the relevant sectors, were in a range of between 6.16% and 6.97%. The cost of equity (Ke) is 7.42% for banking activities and 7.47% for asset management activities.

Based on the available projections and the results of the impairment tests carried out, impairment losses totalling €33 million (tab. C8) have been recognised on the following investments. In particular:

- in the case of SDA Express Courier SpA, an impairment loss of €29 million was recognised, based on the value of equity as the best approximation of value in use which, in the circumstances, was deemed not to be lower than the company's recoverable value;
- in the case of EGI SpA, an impairment loss of €4 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.

Poste Italiane SpA has committed to providing financial support to the subsidiaries SDA Express Courier SpA and Mistral Air SrI for 2017 and Poste Tributi ScpA throughout its liquidation.

The following table shows a list of investments in subsidiaries, joint ventures, associates and those held for sale at 31 December 2016:

TAB. A4.2 - LIST OF INVESTMENTS

subsidiaries						2016	carrying amount
Cabolalarioo							
CLP ScpA	51.00	516	-	516	263	263	-
Consorzio PosteMotori	58.12	120	_	120	70	70	-
Consorzio per i Servizi di Telefonia Mobile ScpA ⁽²⁾	51.00	120	_	120	61	61	-
EGI SpA	55.00	103,200	1,585	235,402	129,471	178,351	(48,880)
Indabox Srl ⁽²⁾	100.00	25	(139)	92	92	750	(658)
Mistral Air Srl	100.00	1,000	(2,942)	1,687	1,687	_	1,687
PatentiViaPoste ScpA(2)	69.65	120	7	127	88	84	4
Poste Tributi ScpA ⁽²⁾	70.00	2,583	1	2,538	1,777	1,808	(31)
PosteTutela SpA	100.00	153	503	13,153	13,153	818	12,335
Poste Vita SpA ⁽²⁾	100.00	1,216,608	377,511	3,292,074	3,292,074	1,218,481	2,073,593
Postecom SpA	100.00	6,450	1,786	15,529	15,529	12,789	2,740
Postel SpA	100.00	20,400	(7,968)	96,081	96,081	121,447	(25,366)
PosteMobile SpA	100.00	32,561	17,903	56,043	56,043	60,580	(4,537)
SDA Express Courier SpA	100.00	10,000	(28,904)	9,125	9,125	9,125	_
joint ventures							
Risparmio Holding SpA ⁽²⁾	80.00	50	(4,932)	(4,882)	(3,906)	-	(3,906)
associates							
ItaliaCamp Srl ⁽³⁾	20.00	10	83	104	21	2	19
Anima Holding SpA ⁽⁴⁾	10.32	5,765	63,262	794,420	81,984	210,468	(128,484)
held for sale							
Banca del Mezzogiorno- MedioCredito Centrale SpA	100.00	364,509	29,146	425,042	425,042	371,978	53,064
BancoPosta Fondi SpA SGR	100.00	12,000	21,751	46,013	46,013	12,000	34,013

⁽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, whose registered office is in Milan.

⁽²⁾ These figures have been calculated under IFRS, and may not be consistent with those included in the investee company's financial statements prepared in accordance with the Civil Code and Italian GAAP.

⁽³⁾ Figures taken from the company's latest approved financial statements at 31 December 2015.

⁽⁴⁾ Figures taken from the company's latest approved financial statements at 30 September 2016.

A5 - Financial assets attributable to BancoPosta

Financial assets attributable to BancoPosta break down as follows at 31 December 2016.

TAB. A5 - FINANCIAL ASSETS ATTRIBUTABLE TO BANCOPOSTA

Item	Note	Balance a	t 31 Decemb	per 2016	Balance a	t 31 Decemb	per 2015
(€m)		Non- current assets	Current assets	Total	Non- current assets	Current assets	Total
Receivables		8	7,907	7,915	_	8,811	8,811
Held-to-maturity financial assets		11,213	1,470	12,683	11,402	1,484	12,886
Fixed-income instruments	[tab. A5.2]	11,213	1,470	12,683	11,402	1,484	12,886
Available-for-sale financial assets		35,893	1,370	37,263	31,488	1,109	32,597
Fixed-income instruments	[tab. A5.2]	35,789	1,370	37,159	31,417	998	32,415
Equity instruments		104	-	104	71	111	182
Derivative financial instruments		185	6	191	325	3	328
Cash flow hedges		33	6	39	44	3	47
Fair value hedges		152	-	152	281	-	281
Total		47,299	10,753	58,052	43,215	11,407	54,622

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 "Information on BancoPosta RFC").

Loans and receivables

TAB. A5.1 - LOANS AND RECEIVABLES

Item	Balance a	t 31 Decem	ber 2016	Balance at 31 December 2015			
(<i>€m</i>)	Non- current assets	Current assets	Total	Non- current assets	Current assets	Total	
Loans	_	_	-	_	417	417	
Receivables	8	7,907	7,915	_	8,394	8,394	
Amounts deposited with the MEF	-	6,189	6,189	_	5,855	5,855	
MEF on behalf of the Italian Treasury(*)	_	_	_	_	1,331	1,331	
Other financial receivables	8	1,718	1,726	-	1,208	1,208	
Total	8	7,907	7,915	_	8,811	8,811	

Receivables

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Receivables of €7,915 million include:

- Amounts deposited with the MEF, totalling €6,189 million, including public customers' current account deposits, which earn a variable rate of return calculated on a basket of government bonds and money market indices (93).
- At 31 December 2016, the Company's MEF account at the Treasury has a debit balance and, as a result, movements during 2016 are described in section B6.
- Other financial receivables of €1,726 million break down as follows:

TAB. A5.1.1 - OTHER FINANCIAL RECEIVABLES

Item	Balance a	t 31 Decem	ber 2016	Balance at 31 December 2015		
(<i>€m</i>)	Non- current assets	Current assets	Total	Non- current assets	Current assets	Total
Guarantee deposits	-	1,435	1,435	_	864	864
Items awaiting settlement with the banking system	_	147	147	_	106	106
Items to be debited to customers	-	116	116	-	233	233
Other receivables	8	20	28	_	5	5
Total	8	1,718	1,726	-	1,208	1,208

Guarantee deposits, totalling €1,435 million relate to €1,391 million provided to counterparties in asset swap transactions (with collateral provided by specific Credit Support Annexes) and €44 million provided to counterparties in repurchase agreements on fixed income securities (with collateral contemplated by specific a Global Master Repurchase Agreements).

Items awaiting settlement with the banking system, totalling €147 million, primarily consist of: bank cheques deposited in accounts, primarily through ATMs located at post offices.

Items to be debited to customers, amounting to €116 million, primarily regard: withdrawals from BancoPosta ATMs, the use of debit cards issued by BancoPosta, cheques and other collection items settled in the clearing house, etc...

Other receivables include €8 million arising from Poste Italiane's sale of the Visa Europe Ltd. share to Visa Incorporated, payable after three years from 21 June 2016, when the transaction was consummated (the transaction is described after tab. A5.2).

⁽⁹³⁾ 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

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 €44,570 million. Movements are as follows:

TAB. A5.2 - MOVEMENTS IN INVESTMENT SECURITIES

Securities (€m)	НТМ		AFS		FVPL		TOTAL	
	Nominal value	Carrying amount						
Balance at 1 January 2015	13,808	14,100	23,941	28,751	-	-	37,749	42,851
Purchases	-	_	7,575	8,280	5,627	5,862	13,202	14,142
Redemptions	(1,196)	(1,196)	(2,143)	(2,143)	(1,650)	(1,650)	(4,989)	(4,989)
Transfers to equity	-	-	-	(385)	_	-	_	(385)
Change in amortised cost	-	3	_	(20)	_	-	_	(17)
Changes in fair value through equity	_	-	_	1,401	-	-	_	1,401
Changes in fair value through profit or loss	-	-	-	(432)	_	-	-	(432)
Changes in cash flow hedge transactions	_	-	_	-	-	-	_	-
Effect of sales on profit or loss	-	-	-	385	-	1	-	386
Accrued income for current year	-	187	_	302	_	-	_	489
Sales and settlement of accrued income	_	(208)	(2,945)	(3,724)	(3,977)	(4,213)	(6,922)	(8,145)
Balance at 31 December 2015	12,612	12,886	26,428	32,415	_	-	39,040	45,301
Purchases	1,080	1,121	8,350	8,766	315	316	9,745	10,203
Redemptions	(1,300)	(1,300)	(650)	(686)	(315)	(315)	(2,265)	(2,301)
Transfers to equity	_	_	_	(472)	_	-	_	(472)
Change in amortised cost	-	(3)	-	(39)	_	-	_	(42)
Changes in fair value through equity	_	_	_	(1,643)	_	-	_	(1,643)
Changes in fair value through profit or loss	-	-	-	856	-	-	-	856
Changes in cash flow hedge transactions ^(*)	_	_	_	3	_	-	_	3
Effect of sales on profit or loss	_	-	_	471	_	-	-	471
Accrued income for current year	_	170	_	331	_	-	-	501
Sales and settlement of accrued income		(191)	(1,950)	(2,843)		(1)	(1,950)	(3,035)
Balance at 31 December 2016	12,392	12,683	32,178	37,159	_	_	44,570	49,842

^(*) 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 2016, the fair value⁽⁹⁴⁾ of the held-to-maturity portfolio, accounted for at amortised cost, is €14,447 million (including €170 million in accrued interest).

The fair value of the available-for-sale portfolio is €37,159 million (including €331 million in accrued interest). The overall fair value loss for the period of €787 million has been recognised in the relevant equity reserve, recording a negative amount of €1,643 million in relation to the portion of the portfolio not hedged by fair value hedges, and through profit and loss, in relation to the gain of €856 million on the hedged portion.

⁽⁹⁴⁾ In terms of the fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 1.

The available-for-sale portfolio includes two fixed rate bonds, amounting to €750 million each, with six-monthly interest payments and maturing in 4 and 5 years, issued by Cassa Depositi e Prestiti and guaranteed by the Italian government (at 31 December 2016, their fair value totalled €1,509 million).

Certain securities are encumbered as they have been delivered to counterparties for use as collateral in connection with loans and hedging transactions. These are described in section D2.

Investments in equity instruments

Equity instruments include:

- €74 million, reflecting the fair value of 756,280 Class B shares of Mastercard Incorporated. These shares are not traded on an organised exchange but are convertible into an equal number of Class A shares, which are listed on the New York Stock Exchange, if disposal is desired;
- €27 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. In exchange for the share in Visa Europe Ltd. (95), Poste Italiane received a consideration of €121 million (a sum recognised as non-recurring income and entered as "Other income from financial and insurance activities"), consisting of:
 - €88 million in cash:
 - €25 million, representing the fair value of 32,059 Visa Incorporated preference shares (Series C Convertible Participating Preferred Stock), convertible at the rate of 13.952(96) 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;
 - €8 million payable by Visa Incorporated after three years from the closing of the transaction;
 - €3 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 €9 million, have been recognised in the relevant equity reserve (section B3).

²⁸⁶

On 21 December 2015, Visa Europe informed its Principal Members that each of them would receive a consideration for the purchase, and subsequent merger with and into the US-registered Visa Incorporated, of Visa Europe Ltd (in which Poste Italiane held an equity interest assigned to it when the company was incorporated).

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

(€m)		Cash flow	hedges		Fair value	hedges		FVF	PL		Tota	al
	Forward pu	rchases	Asset sv	vaps	Asset s	waps	Forward pu	rchases	Forward	sales		
	notional	fair value	notional	fair value	notional	fair value	notional	fair value	notional	fair value	notional	fair value
Balance at 1 January 2015	-	-	1,700	1	7,295	(1,672)	-	-	-	-	8,995	(1,671)
Increases/(decreases)(*)	_	-	-	12	4,780	404	108	4	2,700	2	7,588	422
Gains/(Losses) through profit or loss ^(**)	-	-	_	_	-	-	_	-	-	-	-	-
Transactions settled(***)	-	-	-	(39)	(320)	75	(108)	(4)	(2,700)	(2)	(3,128)	30
Balance at 31 December 2015	_	_	1,700	(26)	11,755	(1,193)	_	_	-	-	13,455	(1,219)
Increases/(decreases)(*)	875	6	100	(19)	4,525	(885)	-	-	-	-	5,500	(898)
Gains/(Losses) through profit or loss ^(**)	-	-	-	_	-	(1)	-	-	-	-	-	(1)
Transactions settled(***)	(475)	(3)	(410)	(20)	(130)	27	-	-	-	-	(1,015)	4
Balance at 31 December 2016	400	3	1,390	(65)	16,150	(2,052)	_	_	-	-	17,940	(2,114)
of which												
Derivative assets	200	6	175	33	3,585	152	-	-	-	-	3,960	191
Derivative liabilities	200	(3)	1,215	(98)	12,565	(2,204)	-	-	-	-	13,980	(2,305)

^(*) Increases / (decreases) refer to the nominal value of new transactions and changes in the fair value of the overall portfolio during the period.

During the year under review, the effective portion of interest rate hedging instruments recorded an overall fair value loss of €13 million reflected in the cash flow hedge reserve.

The fair value hedges in place, which are held to limit the price volatility of certain available-for-sale fixed rate instruments, saw their effective portion record a decrease in fair value of \in 885 million (of which \in 69 million attributable to financial instruments purchased during the period under review), whilst the hedged securities (tab. A5.2) recorded a fair value gain of \in 856 million, with the difference of \in 29 million due to paid differentials.

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

- forward purchases with a nominal value of €875 million, including €475 million settled at 31 December 2016;
- new asset swaps used as cash flow hedges with a nominal value of €100 million;
- the settlement of asset swaps, used as cash flow hedges for securities sold, with a nominal value of €410 million;
- new asset swaps used as fair value hedges with a nominal value of €4,525 million;
- the settlement of asset swaps, used as fair value hedges for securities sold, with a nominal value of €130 million.

^(**) 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.

A6 - Financial assets

At 31 December 2016, financial assets outside the ring-fence are as follows:

TAB. A6 - FINANCIAL ASSETS

Item	Balance a	at 31 Decemb	er 2016	Balance at 31 December 2015			
(€m)	Non- current assets	Current assets	Total	Non- current assets	Current assets	Total	
Loans and receivables	539	231	770	486	464	950	
Loans	532	180	712	478	409	887	
Receivables	7	51	58	8	55	63	
Available-for-sale financial assets	562	12	574	467	113	580	
Equity instruments	5	-	5	5	-	5	
Fixed-income instruments	557	5	562	462	107	569	
Other investments	-	7	7	-	6	6	
Total	1,101	243	1,344	953	577	1,530	

Loans and receivables

Loans

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Non-current portion

This item includes:

- an irredeemable subordinated loan of €250 million, 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;
- a loan of €200 million issued to Banca del Mezzogiorno-MedioCredito Centrale SpA in 2016 and repayable in a lump sum on 11 February 2018, designed to support the subsidiary's business;
- Contingent Convertible Notes⁽⁹⁷⁾ with a value of €82 million (a total nominal value of €75 million), subscribed on 23 December 2014 by Poste Italiane SpA, in connection with the strategic transaction that resulted in Etihad Airways' acquisition of an equity interest in Alitalia SAI SpA(98). The Notes were issued by Midco SpA, which in turn owns 51% of Alitalia SAI. The Contingent Convertible Notes, with a twenty-year term to maturity starting 1 January 2015, carry a nominal rate of interest of 7% per annum. Interest and principal payments will be made by Midco SpA if, and to the extent that, there is available liquidity. Based on the latest available business plan of the Alitalia Group, prepared at the end of 2014, a reasonable estimate of the effective interest rate payable on the Notes amounts to approximately 4.6%. At the date of preparation of these financial statements, based on the best information available to us, there is no indication of the need to recognise an impairment of the Contingent Convertible Notes. This conclusion has also been reached on the basis of the terms and conditions applicable to the loan and the Alitalia Group's above-mentioned business plan, in addition to the latest financial statements for the year ended 31 December 2015, approved by Midco SpA on 4 July 2016 (showing equity of €323 million and valuing the investment in Alitalia at €403 million), and despite the presence of indicators of impairment (such as press reports on the liquidity position, solvency and exposure to financial, business and reputational risks of the Group to which the debtor belongs). However, whilst continuing to monitor the information provided by the above Midco SpA under the terms of the existing contract, we cannot exclude that future developments regarding the agreement in place between the airline, its shareholders and its banks, as well as the risks to which the industry may be exposed, could influence a future assessment of the recoverability of the loan. The impact of such developments will be taken into account in accordance with the relevant accounting standards.

This is a loan convertible, on the fulfilment of certain negative pledge conditions, into an equity instrument pursuant to art. 2346 paragraph 6 of the Italian Civil Code, carrying the same rights associated with the loan.

This is the so-called "Nuova Alitalia", the company to which all the aviation assets and activities of Alitalia Compagnia Aerea Italiana SpA, now CAI SpA, have been transferred. The company owns 100% of Midco SpA.

Current portion

This item (€180 million) regards a line of credit of up to €100 million granted to Banca del Mezzogiorno-MedioCredito Centrale SpA, expiring by the end of 2017, and 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	Balance at	31 December 201	6	Balance at 31 December 2015			
(€m)	Loans	Intercompany accounts	Total	Loans	Intercompany accounts	Total	
Direct subsidiaries							
Banca del Mezzogiorno-MedioCredito Centrale SpA	50	-	50	200	-	200	
Mistral Air Srl	_	10	10	_	6	6	
PatentiViaPoste ScpA	_	1	1	_	1	1	
Poste Tributi ScpA	-	6	6	_	6	6	
Poste Vita SpA	-	-	-	51	_	51	
Postel SpA	-	18	18	_	44	44	
PosteShop SpA	-	_	-	_	1	1	
SDA Express Courier SpA	-	94	94	_	97	97	
	50	129	179	251	155	406	
Accrued interest on non-current loans	1		1	3	-	3	
Total	51	129	180	254	155	409	

Receivables

Receivables break down as follows:

TAB. A6.2 - RECEIVABLES

Item	Balance a	t 31 Decemb	er 2016	Balance at 31 December 2015			
(€m)	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	-	3	3	
Guarantee deposits	-	50	50	-	52	52	
Due from the purchasers of service accommodation	7	-	7	8	-	8	
Total	7	51	58	8	55	63	

Guarantee deposits of €50 million relate to collateral provided to counterparties with whom the Company has entered into asset swaps (section D2).

Available-for-sale financial assets

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

TAB. A6.3 - MOVEMENTS IN AVAILABLE-FOR-SALE FINANCIAL ASSETS

(€m)	Equity Fixed-income instruments			Other inves	Total	
	Carrying amount	Nominal value	Carrying amount	Nominal value	Carrying amount	Carrying amount
Balance at 1 January 2015	5	500	569	5	6	580
Purchases	-	-	-	-	-	-
Redemptions	-	-	-	-	-	-
Transfers to equity reserves	-	-	-	-	-	-
Changes in amortised cost	_	-	1	_	-	1
Changes in fair value through equity	_	-	4	_	-	4
Changes in fair value through profit or loss	-	-	(5)	-	-	(5)
Effects of sales on profit or loss	-	-	-	-	-	-
Impairment	_	-	_	_	-	-
Accrued income for current year	_	_	6	_	-	6
Sales and settlement of accrued income	_	_	(6)	_	-	(6)
Balance at 31 December 2015	5	500	569	5	6	580
Purchases	-	100	101	-	-	101
Redemptions	-	(100)	(100)	-	-	(100)
Transfers to equity reserves	-	-	-	-	-	-
Changes in amortised cost	_	-	-	_	-	-
Changes in fair value through equity	_	-	(4)	_	1	(3)
Changes in fair value through profit or loss	_	-	(3)	-	_	(3)
Effects of sales on profit or loss	_	_	-	_	-	-
Impairment	_	_	_	_	-	-
Accrued income for current year	_	-	5	-	_	5
Sales and settlement of accrued income	_	-	(6)	-	-	(6)
Balance at 31 December 2016	5	500	562	5	7	574

Equity instruments

These instruments primarily 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 and is unchanged from last year.

Fixed income instruments

This item regards BTPs with a total nominal value of €500 million (fair value of €562 million). Of these, instruments with a value of €375 million have been hedged using asset swaps designated as fair value hedges.

Other investments

This item relates to units of equity mutual investment funds with a fair value of €7 million.

Derivative financial instruments

Movements in derivative financial instruments are as follows:

TAB. A 6.4 - MOVEMENTS IN DERIVATIVE FINANCIAL INSTRUMENTS

(€m)	Yea	ar ended 31	December 20	16	Yea	r ended 31	December 20	ecember 2015	
	Cash Flow hedges	Fair value hedges	Fair value through profit or loss	Total	Cash Flow hedges	Fair value hedges	Fair value through profit or loss	Total	
Balance at 1 January	(5)	(46)	-	(51)	-	(51)	(7)	(58)	
Increases/(decreases)(*)	(3)	(7)	_	(10)	1	(4)	1	(2)	
Hedge completion	_	_	_	-	(6)	-	6	-	
Transactions settled(**)	1	9	-	10	-	9	_	9	
Balance at 31 December	(7)	(44)	-	(51)	(5)	(46)	-	(51)	
of which:									
Derivative assets	-	_	-	-	-	-	-	-	
Derivative liabilities	(7)	(44)	-	(51)	(5)	(46)	-	(51)	

^(*) Increases/(decreases) refer to the nominal value of new transactions and changes in the fair value of the overall portfolio during the year.

At 31 December 2016, outstanding derivative financial instruments report fair value⁽⁹⁹⁾ losses of €51 million and 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 (section B.7). 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 2016, is 1.339%.

A7 - Trade receivables

Trade receivables break down as follows:

TAB. A7 - TRADE RECEIVABLES

Item	Balance a	at 31 Decembe	er 2016	Balance at 31 December 2015			
(€m)	Non- current assets	Current assets	Total	Non- current assets	Current assets	Total	
Customers	4	1,569	1,573	5	1,522	1,527	
Subsidiaries	-	290	290	-	293	293	
MEF	-	236	236	-	322	322	
Total	4	2,095	2,099	5	2,137	2,142	
of which attributable to BancoPosta RFC	-	743	743	_	795	795	

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

⁽⁹⁹⁾ The fair value of these derivative instruments is based on the present value of expected cash flows deriving from the differentials to be exchanged.

Receivables due from customers

TAB. A7.1 - RECEIVABLES DUE FROM CUSTOMERS

Item	Balance a	at 31 Decemb	per 2016	Balance at 31 December 2015			
(<i>€m</i>)	Non- current assets	Current assets	Total	Non- current assets	Current assets	Total	
Ministries and Public Administration entities	_	619	619	_	605	605	
Cassa Depositi e Prestiti	_	364	364	_	397	397	
Overseas counterparties	_	285	285	_	236	236	
Unfranked mail delivered	24	133	157	27	150	177	
Overdrawn current accounts	_	142	142	-	138	138	
Amounts due for other BancoPosta services	_	113	113	_	109	109	
Other trade receivables	_	321	321	-	279	279	
Provisions for doubtful debts	(20)	(408)	(428)	(22)	(392)	(414)	
Total	4	1,569	1,573	5	1,522	1,527	
of which attributable to BancoPosta RFC	-	545	545	-	587	587	

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 €314 million;
 - Unfranked mail services provided on credit to central and local government bodies, totalling €80 million;
 - Reimbursement of the costs associated with the management of property, vehicles and security incurred on behalf of the Ministry for Economic Development, totalling €74 million, of which €3 million relates to the amount accrued during the year.
 - The payment of pensions and vouchers on behalf of INPS (the National Institute of Social Security), totalling €59 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. Discussions are taking place with the counterparty with a view to reaching agreement on the settlement of these and other receivables due to Poste Italiane.
- Amounts due from Cassa Depositi e Prestiti refer to fees for BancoPosta's deposit-taking activities during 2016.
- 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 €75 million in amounts due from customers who use the service on their own behalf and €82 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. €24 million of the total is classified in "Non-current assets".
- 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.
- Amounts due for other BancoPosta services refer to amounts due on insurance and banking services, personal loans, overdrafts and mortgages sold on behalf of third parties, totalling €92 million.
- Other trade receivables primarily include €47 million generated by parcel post operations, €38 million for Posta Time services, €33 million related to Posta Target services, €19 million related to the Notification of Legal Process service, €18 million for telegraphic services and €15 million for Advice and Billing Mail services.

Movements in provisions for doubtful debts are as follows:

TAB. A7.2 - MOVEMENTS IN PROVISIONS FOR DOUBTFUL DEBTS

(€m)	Balance at 1 January 2015	Net provisions	Deferred revenue	Uses	Balance at 31 December 2015	Net provisions	Deferred revenue	Uses	Balance at 31 December 2016
Overseas postal operators	5	(2)	_	_	3	2	-	_	5
Public Administration entities	131	(6)	3	_	128	_	3	(2)	129
Private customers	242	11	_	-	253	11	_	(3)	261
	378	3	3	_	384	13	3	(5)	395
Interest on late payments	18	13	-	(1)	30	9	-	(6)	33
Total	396	16	3	(1)	414	22	3	(11)	428
of which attributable to BancoPosta RFC	128	10	_	-	138	4	_	(1)	141

Provisions for doubtful debts relating to Public Sector 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 direct and indirect subsidiaries

TAB. A7.3 - TRADE RECEIVABLES DUE FROM SUBSIDIARIES

Name (<i>€m</i>)	Balance at 31 December 2016	Balance at 31 December 2015
Direct subsidiaries		
Banca del Mezzogiorno-MedioCredito Centrale SpA	1	4
BancoPosta Fondi SpA SGR	16	12
CLP ScpA	15	21
Consorzio PosteMotori	6	9
EGI SpA	1	1
Mistral Air Srl	2	1
PatentiViaPoste ScpA	5	4
Poste Tributi ScpA	6	6
Poste Vita SpA	130	137
Postecom SpA	10	7
Postel SpA	52	58
PosteMobile SpA	22	15
PosteShop SpA	_	1
SDA Express Courier SpA	17	12
Indirect subsidiaries		
Poste Assicura SpA	7	5
Total	290	293
of which attributable to BancoPosta RFC	162	165

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 (€128 million);
- Postel SpA: mainly relating to receivables deriving from the delivery of Bulk Mail by Poste Italiane SpA and collected by the subsidiary (€40 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 (<i>€m</i>)	Balance at 31 December 2016	Balance at 31 December 2015
Universal Service compensation	139	334
Publisher tariff and electoral subsidies	83	83
Remuneration of current account deposits	8	15
Payment for delegated services	28	28
Distribution of euro converters	6	6
Other	3	3
Provision for doubtful debts due from the MEF	(31)	(147)
Total	236	322
of which attributable to BancoPosta RFC	36	43

Specifically:

Universal Service compensation includes the following:

TAB. A7.4.1 - UNIVERSAL SERVICE COMPENSATION RECEIVABLE

Item (€m)	Balance at 31 December 2016	Balance at 31 December 2015
Balance for 2016	_	-
Remaining balance for 2015	67	198
Remaining balance for 2014	41	55
Remaining balance for 2012	23	23
Remaining balance for 2011	-	50
Remaining balance for 2005	8	8
Total	139	334

In 2016, collections for the entire period amounted to €262 million. Moreover:

- The outstanding balance of the compensation for 2015 has been provided for in the state budget for 2017. The €131 million provided for in the state budget for 2015 was collected in March 2016.
- The outstanding balance of the compensation for 2014 has been provided for in the state budget for 2017. €14 million was collected in 2016.
- With reference to the services rendered in 2012, AGCom has recognised a net cost incurred by the Company of €327 million, compared with compensation of €350 million calculated by the Company. 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. On 29 July 2016, AGCom published Resolution 166/16/CONS, launching a public consultation on the draft ruling concerning assessment of the net cost of the universal postal service in 2013 and 2014, in which the cost of universal provision was estimated to be €345 million for 2013 and €365 million for 2014, compared with revenue of €343 and €277 million, respectively, recognised in the Company's statement of profit or loss for services rendered in those years. The Company submitted its observations to the public consultation on 27 September 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.
- The remuneration of current account deposits refers entirely to amounts accruing in 2016 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, which expired on 31 December 2016 and is in the process of being renewed.

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 2015	Net provisions	Deferred revenue	Uses	Balance at 31 December 2015	Net provisions	Deferred revenue	Uses	Balance at 31 December 2016
Provisions for doubtful debts	166	(68)	49	_	147	(7)	(109)	_	31
Total	166	(68)	49	_	147	(7)	(109)	-	31
of which attributable to BancoPosta RFC	-	-	_		-	_	_	-	_

Provisions for doubtful debts due from the MEF reflect the lack of funding in the state budget, which makes it difficult to collect certain receivables recognised on the basis of legislation, contracts and agreements in force at the time of recognition. The release of provisions and previously deferred revenue recognised in 2016, totalling €116 million, reflects new provision in the state budget for 2017.

A8 - Other receivables and assets

This item breaks down as follows:

TAB. A8 - OTHER RECEIVABLES AND ASSETS

Item	Note	Balance a	at 31 Decem	nber 2016	Balance a	at 31 Decemb	oer 2015
(€m)		Non- current assets	Current assets	Total	Non- current assets	Current assets	Total
Substitute tax paid		861	527	1,388	716	503	1,219
Receivables relating to fixed-term contract settlements		121	89	210	144	95	239
Amounts due from social security agencies and pension funds (excl. fixed-term contract settlements)		-	88	88	-	77	77
Amounts restricted by court rulings		-	71	71	-	68	68
Accrued income and prepaid expenses from trading transactions and other assets		_	6	6	-	6	6
Tax assets		-	_	-	_	1	1
Other amounts due from subsidiaries		-	60	60	-	3	3
Sundry receivables		8	103	111	6	90	96
Provisions for doubtful debts due from others		-	(59)	(59)	-	(57)	(57)
Other receivables and assets		990	885	1,875	866	786	1,652
Amount due from MEF following cancellation of EC Decision of 16 July 2008	[B2]	-	6	6	_	_	-
Interest accrued on IRES refund	[C10]	-	46	46	-	46	46
Total		990	937	1,927	866	832	1,698
of which attributable to BancoPosta RFC		861	601	1,462	716	565	1,281

Specifically:

- Substitute tax paid, attributable to BancoPosta RFC, primarily regards:
 - €861 million charged to holder of Interest bearing Postal Certificates for stamp duty at 31 December 2016⁽¹⁰⁰⁾. 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);
 - €329 million relating to stamp duty to be paid in virtual form in 2017 and to be recovered from customers;
 - €154 million relating to stamp duty to be charged to Postal Savings Book holders, which the Company pays in virtual form as required by law;
 - €16 million in withholding tax on interest paid to current account holders for 2016, which is to be recovered from customers;
 - €5 million in refundable stamp duty paid in virtual form in 2016.
- 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 €210 million from staff, from INPS and pension funds recoverable in the form of variable instalments, the last of which is due in 2040.

⁽¹⁰⁰⁾ 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).

Details of the individual agreements are provided below:

TAB. A8.1 - RECEIVABLES FROM FIXED-TERM CONTRACT SETTLEMENTS

Item	Baland	ce at 31 D	ecemb	er 2016	Balance at 31 December 2015			
(€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	4	2	6	6	6	3	9	9
due from staff under agreement of 2008	38	13	51	56	47	16	63	69
due from staff under agreement of 2010	35	7	42	54	40	8	48	61
due from staff under agreement of 2012	30	7	37	46	34	7	41	52
due from staff under agreement of 2013	4	1	5	6	5	1	6	7
due from staff under agreement of 2015	5	1	6	7	6	2	8	8
due from former IPOST	_	42	42	42	-	42	42	42
due from INPS	5	11	16	18	6	11	17	19
due from pension funds	_	5	5	5	_	5	5	5
Total	121	89	210		144	95	239	

- Amounts that **cannot be drawn on due to court rulings** include €58 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.
- Amounts due from subsidiaries regard €56 million due to Poste Italiane SpA, as the consolidating entity in the tax consolidation arrangement (note 2.3 Summary of significant accounting standards and policies), from the subsidiary, Poste Vita SpA.
- The amount due from the MEF following cancellation of EC Decision 16/07/08, totalling €6 million, is described in section B2.
- Accrued interest on IRES refund, amounting to €46 million, refers to interest accruing up to 31 December 2016 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 been disputed and, on 24 November 2016, the Provincial Tax Tribunal for Rome upheld Poste Italiane's appeal, ordering the tax authorities in Rome to refund the amounts claimed. With regard to the remaining overall tax credit, amounting to €50 million (i.e. including current tax assets and related interest), described in note 2.4 Use of estimates, there is uncertainty over the time necessary to collect the amount due.
- Movements in the related **provisions for doubtful debts** are as follows:

TAB. A8.2 - MOVEMENTS IN PROVISIONS FOR DOUBTFUL DEBTS DUE FROM OTHERS

<i>(€m)</i>	Balance at 1 January 2015	Net provisions	Uses	Balance at 31 December 2015	Net provisions	Uses	Balance at 31 December 2016
Public Administration entities for sundry services	13	-	_	13	_	(1)	12
Receivables from fixed-term contract settlements	6	1	_	7	_	_	7
Other receivables	36	1	_	37	4	(1)	40
Total	55	2	_	57	4	(2)	59
of which attributable to BancoPosta RFC	19	1	_	20	2	_	22

A9 - Cash and deposits attributable to BancoPosta

Details of this item are as follows:

TAB. A9 - CASH AND DEPOSITS ATTRIBUTABLE TO BANCOPOSTA

Balance at 31 December 2016	Balance at 31 December 2015
2,269	2,943
225	218
2,494	3,161
	2,269 225

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 (€753 million) and companies that provide cash transportation services whilst awaiting transfer to the Italian Treasury (€1,516 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 €223 million.

A10 - Cash and cash equivalents

Details of this item are as follows:

298 TAB. A10 - CASH AND CASH EQUIVALENTS

Item (<i>€m</i>)	Balance at 31 December 2016	Balance at 31 December 2015
Deposits with the MEF	1,310	391
Bank deposits and amounts held at the Italian Treasury	1,395	1,120
Cash and cash equivalents in hand	10	9
Total	2,715	1,520
of which attributable to BancoPosta RFC	1,321	401

At 31 December 2016, cash deposited with the MEF - held in the so-called buffer account - include approximately €1,071 million in customers' deposits subject to investment restrictions but not yet invested (see "Information on BancoPosta RFC").

Bank deposits and amounts held at the Italian Treasury include €12 million whose use is restricted by court orders related to different disputes.

A11 - Non-current assets held for sale

This item primarily consists of the carrying amount of the investments in BancoPosta Fondi SpA SGR and Banca del Mezzogiorno-MedioCreditoCentrale SpA, totalling €384 million, as described in greater detail in section A4.

Equity

Poste Italiane SpA's available and distributable reserves are shown below. Retained earnings include profit for 2016 of €625 million.

legal reserve 38 A B - legal reserve 299 - BancoPosta RFC reserve 1,000 - - Fare value reserve 905 - - Cash flow hedge reserve (18) - retained earnings 110 - retained earnings 949 - retained earnings 1,745 A B after-tax actuarial gains/(losses) (136) - - retained earnings 2,668 Total 6,160	(<i>€m</i>)	Amount at 31 December 2016	Potential use
legal reserve 38 A B - legal reserve 299 - BancoPosta RFC reserve 1,000 - - Fare value reserve 905 - - Cash flow hedge reserve (18) - retained earnings 110 - retained earnings 949 - retained earnings 1,745 A B after-tax actuarial gains/(losses) (136) - - retained earnings 2,668 Total 6,160	Share capital	1,306	
legal reserve 299 - BancoPosta RFC reserve 1,000 - - Fare value reserve 905 - - Cash flow hedge reserve (18) - retained earnings 110 - retained earnings 949 - retained earnings 1,745 A B after-tax actuarial gains/(losses) (136) - - retained earnings 2,668 Total 6,160	Revenue reserves:		
- legal reserve 299 - BancoPosta RFC reserve 1,000 - - Fare value reserve 905 - - Cash flow hedge reserve (18) - retained earnings 110 - retained earnings 949 - retained earnings 1,745 A B after-tax actuarial gains/(losses) (136) - - retained earnings 2,668 Total 6,160	legal reserve	261	В
- BancoPosta RFC reserve 1,000 - - Fare value reserve 905 - - Cash flow hedge reserve (18) - retained earnings 110 - retained earnings 949 - retained earnings 1,745 A B after-tax actuarial gains/(losses) (136) - - retained earnings 2,668 Total 6,160	legal reserve	38	ABD
- Fare value reserve 905 - - Cash flow hedge reserve (18) - retained earnings 110 - retained earnings 949 retained earnings 1,745 A B after-tax actuarial gains/(losses) (136) - - retained earnings 2,668 Total 6,160	- legal reserve	299	
- Cash flow hedge reserve (18) - retained earnings 110 - retained earnings 949 - retained earnings 1,745 A B after-tax actuarial gains/(losses) (136) - - retained earnings 2,668 Total 6,160	- BancoPosta RFC reserve	1,000	
retained earnings 110 - retained earnings 949 - retained earnings 1,745 A B after-tax actuarial gains/(losses) (136) - - retained earnings 2,668 Total 6,160	- Fare value reserve	905	
retained earnings 949 retained earnings 1,745 A B after-tax actuarial gains/(losses) (136) retained earnings 2,668 Total 6,160	- Cash flow hedge reserve	(18)	
retained earnings 1,745 A B after-tax actuarial gains/(losses) (136) retained earnings 2,668 Total 6,160	retained earnings	110	
after-tax actuarial gains/(losses) (136) — - retained earnings 2,668 Total 6,160	retained earnings	949	С
- retained earnings 2,668 Total 6,160	retained earnings	1,745	ABD
Total 6,160	after-tax actuarial gains/(losses)	(136)	
	- retained earnings	2,668	
	Total	6,160	
of which distributable 1,783	of which distributable	1,783	

A: for capital increases

B1 - Share capital

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 2016, 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.

B2 – Shareholder transactions

In accordance with the resolution adopted by shareholders at the Annual General Meeting held on 24 May 2016, on 22 June 2016, the Company paid dividends of €444 million (a dividend per share of €0.34).

Regarding shareholder transactions, as described more extensively in the Annual Report for 2015, following the ruling of the General Court of the European Union dated 13 September 2013, which found in Poste Italiane's favour, the Company has a residual claim on the MEF of €45 million, relating to the return of sums paid in the past to the MEF out of retained earnings. At 31 December 2016, the sum of €6 million, previously recognised in the MEF's letter of 7 August 2015, has been earmarked in the state budget for 2017 and has, therefore, been recognised in "Other receivables and assets" (101).

B: to cover losses

C: to cover BancoPosta losses

D: for shareholder distributions

⁽¹⁰¹⁾ Deferred tax assets of approximately €2 million on this amount have already been used; the overall impact on equity thus amounts to approximately €4 million. Absent further recognition of claims by the MEF, in line with the past, at 31 December 2016, the component of the Company's equity relating to the residual receivable of approximately €39 million is shown with a nil balance.

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B3 - Reserves

TAB. B3 - RESERVES

Legal reserve	BancoPosta RFC reserve	Fair value reserve	Cash flow hedge reserve	Total
299	1,000	1,587	48	2,934
-	-	1,531	13	1,544
-	-	(454)	(4)	(458)
-	_	(383)	(71)	(454)
-	_	123	23	146
-	_	114	-	114
-	-	931	(39)	892
_	_	_	-	_
299	1,000	2,518	9	3,826
-	1,000	2,500	8	3,508
-	_	(1,637)	(16)	(1,653)
_	_	466	4	470
-	_	(578)	(22)	(600)
_	_	136	7	143
-	_	(1,613)	(27)	(1,640)
-	_	-	-	-
299	1,000	905	(18)	2,186
-	1,000	889	(17)	1,872
	299	reserve RFC reserve 299 1,000 299 1,000 - 1,000 - 1,000 299 1,000	reserve RFC reserve reserve 299 1,000 1,587 - - 1,531 - - (454) - - (383) - - 123 - - 114 - - 931 - - - 299 1,000 2,500 - - (1,637) - - (578) - - (1,613) - - (1,613) - - - 299 1,000 905	reserve RFC reserve reserve reserve hedge reserve 299 1,000 1,587 48 - - 1,531 13 - - (454) (4) - - (383) (71) - - 123 23 - - 114 - - - 931 (39) - - - - 299 1,000 2,518 9 - 1,000 2,500 8 - - (1,637) (16) - - 466 4 - - (578) (22) - - 136 7 - - (1,613) (27) - - - - 299 1,000 905 (18)

Details are as follows:

- the fair value reserve regards changes in the fair value of available-for-sale financial assets. The decrease of €1,637 million occurred during 2016 reflects:
 - a net decrease of €1,634 million in available-for-sale financial assets attributable to BancoPosta RFC, due to the combined effect of a loss on securities of €1,643 million and a gain of €9 million on equity instruments;
 - €3 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 2016, net fair value losses of €16 million include €13 million relating to the value of derivative financial instruments attributable to BancoPosta RFC and €3 million regarding the value of financial instruments held outside the ring-fence.

Information on the BancoPosta RFC reserve is provided in the section "Information on BancoPosta RFC".

Liabilities

B4 - Provisions for risks and charges

Movements in provisions for risks and charges are as follows:

TAB. B4 – MOVEMENTS IN PROVISIONS FOR RISKS AND CHARGES MOVEMENTS IN PROVISIONS FOR RISKS AND CHARGES IN THE YEAR ENDED 31 DECEMBER 2016

ltem (€m)	Balance at 31 December 2015	Provisions	Finance costs	Released to profit or loss	Uses	Balance at 31 December 2016
Provisions for non-recurring charges	286	95	-	(10)	(17)	354
Provisions for disputes with third parties	357	42	-	(72)	(18)	309
Provisions for disputes with staff ⁽¹⁾	139	22	-	(12)	(31)	118
Provisions for personnel expenses	123	146	_	(27)	(48)	194
Provisions for restructuring charges	316	342	-	-	(316)	342
Provisions for expired and statute barred postal savings certificates	13	-	1	_	_	14
Provisions for taxation	4	-	-	-	-	4
Other provisions ⁽²⁾	60	19	_	_	(6)	73
Total	1,298	666	1	(121)	(436)	1,408
of which attributable to BancoPosta RFC	384	115	1	(11)	(27)	462
Overall analysis of provisions:						
- non-current portion	569					590
- current portion	729					818
	1,298					1,408

⁽¹⁾ Net provisions for personnel expenses total €4 million. Service costs (legal assistance) total €6 million.

MOVEMENTS IN PROVISIONS FOR RISKS AND CHARGES IN THE YEAR ENDED 31 DECEMBER 2015

Item (€m)	Balance at 31 December 2014	Provisions	Finance costs	Released to profit or loss	Uses	Balance at 31 December 2015
Provisions for non-recurring charges	270	49	-	(4)	(29)	286
Provisions for disputes with third parties	346	57	1	(22)	(25)	357
Provisions for disputes with staff ⁽¹⁾	181	15	-	(21)	(36)	139
Provisions for personnel expenses	106	74	_	(24)	(33)	123
Provisions for restructuring charges	257	316	_	_	(257)	316
Provisions for expired and statute barred postal savings certificates	13	_	_	_	_	13
Provisions for taxation	6	-	-	(2)	-	4
Other provisions	68	7	-	(5)	(10)	60
Total	1,247	518	1	(78)	(390)	1,298
of which attributable to BancoPosta RFC	358	71	1	(7)	(39)	384
Overall analysis of provisions:						
- non-current portion	543					569
- current portion	704					729
	1,247					1,298

⁽¹⁾ Net releases for personnel expenses total €12 million. Service costs (legal assistance) total €7 million, whilst other releases total €1 million.

⁽²⁾ Net provisions of €15 million are recognised in "Other operating costs" and of €4 million in "Finance costs".

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 to 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 garnisheedefendant. Provisions for the year, totalling €96 million, include €47 million to reflect a revised assessment of the liabilities relating to the estimated cost of the voluntary action taken to protect customers who purchased units issued by the Invest Real Security real estate fund (described in more detail in the section Risk management -Reputational risk). The remaining provisions reflect a revised estimate of other liabilities, primarily linked to risks related to investment instruments sold to customers in the past and whose performances have failed to meet expectations, fraud and risks related to delegated services. Uses, amounting to €17 million, relate to settlement of disputes and payment of other liabilities during the period. Releases to profit or loss, amounting to €10 million, relate to liabilities recognised in the past that have failed to materialise.
- 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 vear of €42 million reflect the estimated value of new liabilities measured on the basis of expected outcomes. The reduction of €72 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 €10 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. Uses of €31 million regard amounts used to cover the cost of settling disputes.
- 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 €146 million to reflect the estimated value of new liabilities and decreased as a result of past contingent liabilities that failed to materialise (€27 million) and settled disputes (€48 million).
- Provisions for restructuring charges reflect the estimated costs to be incurred by the Company for early retirement incentives, under the current redundancy scheme for employees leaving the Company by 31 December 2018. Use of €316 million was made during the year under review.
- Provisions for expired and statute barred Postal Certificates held by BancoPosta have been made 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 1998, in response to the Company's decision to redeem such certificates even if expired and statute barred. At 31 December 2016, the provisions represent the present value of total liabilities, based on a nominal value of €21 million, expected to be progressively settled by 2043.
- Provisions for taxation contributions have been made to cover potential future 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 €19 million for the year primarily regard the first two types of liability.

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B5 - Employee termination benefits

Movements in employee termination benefits are as follows:

TAB. B5 - MOVEMENTS IN PROVISIONS FOR EMPLOYEE TERMINATION BENEFITS

(<i>€m</i>)	2016	2015
Balance at 1 January	1,320	1,434
interest component	23	27
effect of actuarial gains/(losses)	49	(79)
Provisions for the year	72	(51)
Uses for the year ⁽¹⁾	(77)	(63)
Balance at 31 December	1,315	1,320
of which attributable to BancoPosta RFC	19	19

⁽¹⁾ For the purposes of reconciliation with the statement of cash flows, uses of the provisions in 2016, after transfers following the partial demerger of the fixed line telecommunications business ("Rete Fissa TLC") of the subsidiary, PosteMobile SpA, amount to €78 million.

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 €77 million, of which €75 million related to payments made to beneficiaries, €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 2016	At 30 June 2016	At 31 December 2015
Discount rate	1.31%	1.05%	2.03%
		1.50% for 2016	1.50% for 2016
		1.80% for 2017	1.80% for 2017
Inflation rate	1.50%	1.70% for 2018	1.70% for 2018
		1.60% for 2019	1.60% for 2019
		2.00% from 2020 on	2.00% from 2020 on
		2.625% for 2016	2.625% for 2016
		2.850% for 2017	2.850% for 2017
Annual rate of increase of employee termination benefits	2.625%	2.775% for 2018	2.775% for 2018
		2.70% for 2019	2.70% for 2019
		3.0% from 2020 on	3.0% from 2020 on

TAB. B5.2 - DEMOGRAPHIC ASSUMPTIONS

	At 31 December 2016
Mortality	RG48
Disability	INPS tables by age and sex
Pensionable age	Attainment of legal requirements for retirement

Actuarial gains and losses are generated by the following factors:

TAB. B5.3 - ACTUARIAL GAINS AND LOSSES

(€m)	At 31 December 2016	At 31 December 2015
Change in demographic assumptions	_	3
Change in financial assumptions	65	(66)
Other experience-related adjustments	(16)	(16)
Total	49	(79)

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 2016	Employee termination benefits at 31 December 2015
Inflation rate +0.25%	1,336	1,340
Inflation rate -0.25%	1,295	1,300
Discount rate +0.25%	1,283	1,288
Discount rate -0.25%	1,349	1,353
Turnover rate +0.25%	1,313	1,319
Turnover rate -0.25%	1,317	1,321

TAB. B5.5 - OTHER INFORMATION

	At 31 December 2016
Service Cost expected for 2016	-
Average duration of defined benefit plan	10.6
Average employee turnover	0.41%

B6 - Financial liabilities attributable to BancoPosta

This item breaks down as follows:

TAB. B6 - FINANCIAL LIABILITIES ATTRIBUTABLE TO BANCOPOSTA

Item	Balance a	t 31 Decembe	er 2016	Balance at 31 December 2015			
(€m)	Non- current assets	Current assets	Total	Non- current assets	Current assets	Total	
Payables deriving from postal current accounts	_	45,416	45,416	_	43,684	43,684	
Borrowings	4,151	1,230	5,381	3,384	1,511	4,895	
Borrowings from financial institutions	4,151	1,230	5,381	3,384	1,511	4,895	
MEF account, held at the Treasury	_	2,429	2,429	-	-	-	
Derivative financial instruments	2,259	46	2,305	1,546	1	1,547	
Cash flow hedges	80	21	101	82	(9)	73	
Fair value hedges	2,179	25	2,204	1,464	10	1,474	
Other financial liabilities	_	3,662	3,662	-	3,109	3,109	
Total	6,410	52,783	59,193	4,930	48,305	53,235	

Payables deriving from postal current accounts

These payables include net amounts accrued at 31 December 2016 and settled with customers in January 2017. The balance includes amounts due to Poste Italiane Group companies, totalling €291 million, with €159 million deposited in postal current accounts by Poste Vita SpA.

Borrowings

Borrowings from financial institutions

At 31 December 2016, borrowings from financial institutions amount to €5,381 million and regard repurchase agreements, having a total nominal value of €4,761 million, entered into with major financial institutions. These liabilities consist of:

- €3,904 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;
- €1,477 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 2016, the fair value⁽¹⁰²⁾ of the above borrowings amounts to €5,419 million.

⁽¹⁰²⁾ In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 2.

MEF account held at the Treasury

At 31 December 2016, the **MEF account held at the Treasury** has a debit balance of €2,429 million. This breaks down as follows:

TAB. B6.1 - MEF ACCOUNT HELD AT THE TREASURY

Item	Balance a	t 31 Decemb	per 2016	Balance at 31 December 2015		
(€m)	Non- current assets	Current assets	Total	Non- current assets	Current assets	Total
Balance of cash flows for advances	_	2,239	2,239	-	(1,693)	(1,693)
Balance of cash flows from management of postal savings	_	(4)	(4)	-	170	170
Amounts payable due to theft	-	159	159	-	158	158
Amounts payable for operational risks	-	35	35	-	34	34
Total	-	2,429	2,429	-	(1,331)	(1,331)

• The balance of cash flows for advances, amounting to €2,239 million, 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	Balance a	t 31 Decemb	er 2016	Balance at 31 December 2015		
(€m)	Non- current assets	Current assets	Total	Non- current assets	Current assets	Total
Net advances	-	2,239	2,239	-	(1,694)	(1,694)
MEF postal current accounts and other payables	_	671	671	-	672	672
Ministry of Justice – Orders for payment	-	-	-	-	1	1
MEF – State pensions	-	(671)	(671)	-	(672)	(672)
Total	-	2,239	2,239	-	(1,693)	(1,693)
Ministry of Justice – Orders for payment MEF – State pensions	- - -	(671)	(671)	- - -	1 (672)	

As a result of Legislative Decree 244/2016 (the so-called "Mille Proroghe" decree), the timing of pension payments was changed and the payment of pensions for January 2017 was postponed by one bank working day. Compared with 31 December 2015, therefore, deposit of the amount required to pay the pensions for January 2017 by the paying entity, INPS, took place on the first working day of the month of payment, rather than on the last working day in December 2016.

• The *balance of cash flows from the management of postal savings*, amounting to a positive €4 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 2016 consists of €92 million payable to Cassa Depositi e Prestiti, less €96 million receivable from the MEF for Interest-bearing Postal Certificates issued on its behalf.

• 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, totalling €159 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. Movements in this liability during the year are as follows:

TAB. B6.1.2 - MOVEMENTS IN AMOUNTS PAYABLE DUE TO THEFT

<i>(€m)</i>	Note	2016	2015
Balance at 1 January		158	159
Amounts payable for thefts during the year	[tab. C8]	8	6
Repayments made		(7)	(7)
Balance at 31 December		159	158

During 2016, Poste Italiane SpA made repayments to the Italian Treasury for thefts that took place up to 31 December 2015, amounting to \in 3 million, and in the first half of 2016, totalling \in 4 million.

• Amounts payable for operational risks (€35 million) 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 2016 are described in section A5.

Other financial liabilities

TAB. B6.2 - OTHER FINANCIAL LIABILITIES

Item	Balance a	at 31 Decemb	per 2016	Balance at 31 December 2015		
(€m)	Non- current liabilities	Current liabilities	Total	Non- current liabilities	Current liabilities	Total
Prepaid cards	-	2,161	2,161	-	1,454	1,454
Domestic and international money transfers	-	599	599	-	532	532
Cheques to be credited to postal savings books	-	284	284	-	508	508
Tax collection and road tax	-	153	153	-	106	106
Endorsed cheques	-	148	148	-	135	135
Amounts to be credited to customers	-	102	102	-	168	168
Other amounts payable to third parties	-	66	66	-	65	65
Guarantee deposits	-	32	32	-	81	81
Payables for items in process	-	117	117	-	60	60
Total	-	3,662	3,662	-	3,109	3,109

Specifically:

- Amounts due on prepaid cards relate to the electronic top-up of Postepay cards. The increase was due mainly
 to the Postepay Evolution product.
- Amounts due on domestic and international money transfers represent the exposure to third parties for:
 - domestic postal orders, totalling €536 million;
 - domestic and international transfers, totalling €63 million.

- Tax collection and road tax payables relate to amounts due to collection agents, the tax authorities and regional authorities for payments made by customers.
- Amounts to be credited to customers relate to payments of bills by payment slip in the process of being
 credited to beneficiaries' accounts, premiums collected and payments to be made on behalf of Poste Vita SpA
 and Poste Assicura, amounts to be paid for BancoPosta promotions, etc.
- Amounts payable for guarantee deposits, totalling €32 million, include €29 million received in relation to Asset swaps (collateral provided by specific Credit Support Annexes) and €3 million received from counterparties in relation to repurchase agreements covering fixed-income securities (collateral under specific Global Master Repurchase Agreements).

B7 – Financial liabilities

Financial liabilities break down as follows:

TAB. B7 - FINANCIAL LIABILITIES

Item	Balance	at 31 Deceml	per 2016	Balance at 31 December 2015		
(€m)	Non- current liabilities	Current liabilities	Total	Non- current liabilities	Current liabilities	Total
Borrowings	1,198	14	1,212	1,197	527	1,724
Bonds	798	14	812	797	14	811
Amounts due to Cassa Depositi e Prestiti for loans	-	_	-	_	1	1
Borrowings from financial institutions	400	-	400	400	512	912
Derivative financial instruments	47	4	51	48	3	51
Fair value hedges	40	4	44	43	3	46
Cash flow hedges	7	-	7	5	-	5
Financial liabilities due to subsidiaries	-	38	38	-	72	72
Other financial liabilities	1	-	1	-	1	1
Total	1,246	56	1,302	1,245	603	1,848

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⁽¹⁰³⁾.

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⁽¹⁰⁴⁾ of this borrowing at al 31 December 2016 is €799 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 section A6. The fair value⁽¹⁰⁵⁾ of this borrowing at 31 December 2016 is €52 million.

⁽¹⁰³⁾ 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.

⁽¹⁰⁴⁾ In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 1.

⁽¹⁰⁵⁾ 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	Balance a	at 31 Decemb	per 2016	Balance at 31 December 2015		
(€m)	Non- current liabilities	Current liabilities	Total	Non- current liabilities	Current liabilities	Total
Repurchase agreements	-	-	-	-	510	510
EIB fixed rate loan maturing 11 April 2018	200	-	200	200	-	200
EIB fixed rate loan maturing 23 March 2019	200	-	200	200	-	200
Accrued interest expense	-	-	_	-	2	2
Total	400	-	400	400	512	912

A number of debts relating to repurchase agreements outstanding at 31 December 2015 matured in 2016.

The fair value⁽¹⁰⁶⁾ of the two fixed rate EIB loans, totalling €400 million, is €404 million at 31 December 2016.

The carrying amount of the other financial liabilities in table B7 approximates to their fair value.

Credit facilities

At 31 December 2016, the following credit facilities are available:

- committed lines of €1,173 million;
- uncommitted lines of credit of €1,118 million;
- overdraft facilities of €81 million;
- unsecured guarantee facilities with a value of €377 million.

At 31 December 2016, the committed and uncommitted lines have not been used. Unsecured guarantees with a value of €212 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 €464 million, and the facility is unused at 31 December 2016.

The existing lines of credit and medium/long-term borrowings are adequate to meet expected financing requirements.

Derivative financial instruments

At 31 December 2016, these instruments have a fair value of €51 million (€51 at 31 December 2015). Movements in derivative financial instruments during 2016 are described in section A6.

⁽¹⁰⁶⁾ 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

Name	Balance at	t 31 December 201	16	Balance at 31 December 2015		
(€m)	Loans	Inter-company accounts	Total	Loans	Inter-company accounts	Total
Direct subsidiaries						
BancoPosta Fondi SpA SGR	_	4	4	_	2	2
EGI SpA	_	2	2	_	3	3
Poste Tutela SpA	_	1	1	_	5	5
Poste Vita SpA	_	-	-	_	36	36
Postecom SpA	_	2	2	_	-	-
PosteMobile SpA	_	29	29	_	26	26
Total	_	38	38	-	72	72

B8 - Trade payables

TAB. B8 - TRADE PAYABLES

Balance at 31 December 2016	Balance at 31 December 2015
895	784
269	250
208	185
12	10
1,384	1,229
87	65
	31 December 2016 895 269 208 12 1,384

Amounts due to suppliers

TAB. B8.1 - AMOUNTS DUE TO SUPPLIERS

Item (<i>€m</i>)	Balance at 31 December 2016	Balance at 31 December 2015
Italian suppliers	749	655
Overseas suppliers	18	15
Overseas counterparties ⁽¹⁾	128	114
Total	895	784
of which attributable to BancoPosta RFC	40	23

⁽¹⁾ 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

TAB. B8.2 - AMOUNTS DUE TO SUBSIDIARIES

Name (<i>€m</i>)	Balance at 31 December 2016	Balance at 31 December 2015
Direct subsidiaries		
CLP ScpA	111	101
Consorzio per i Servizi di Telefonia Mobile ScpA	9	38
EGI SpA	16	17
PatentiViaPoste ScpA	1	1
Poste Tributi ScpA	5	4
PosteTutela SpA	47	32
Postecom SpA	20	19
Postel SpA	21	17
PosteMobile SpA	3	3
PosteShop SpA	_	2
SDA Express Courier SpA	36	16
Total	269	250
of which attributable to BancoPosta RFC	35	32

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 (<i>€m</i>)	Balance at 31 December 2016	Balance at 31 December 2015
Overseas counterparties	123	92
Automated franking	53	60
Unfranked mail	14	12
Postage-paid mailing services	7	5
Other services	11	16
Total	208	185
of which attributable to BancoPosta RFC	-	-

B9 - Other liabilities

TAB. B9 - OTHER LIABILITIES

Item	Balance	at 31 Decem	ber 2016	Balance at 31 December 2015		
(€m)	Non- current liabilities	Current liabilities	Total	Non- current liabilities	Current liabilities	Total
Amounts due to staff	1	895	896	-	774	774
Social security payables	38	437	475	40	428	468
Other tax liabilities	861	133	994	716	172	888
Amounts due to the MEF	_	21	21	-	21	21
Other amounts due to subsidiaries	6	17	23	7	29	36
Sundry payables	84	28	112	84	31	115
Accrued expenses and deferred income from trading transactions	12	25	37	14	19	33
Total	1,002	1,556	2,558	861	1,474	2,335
of which attributable to BancoPosta RFC	936	61	997	792	100	892
<u> </u>						

Amounts due to staff

These items primarily regard accrued amounts that have yet to be paid at 31 December 2016. The following table shows a breakdown:

TAB. B9.1 - AMOUNTS DUE TO STAFF

Item	Balance a	at 31 Decem	ber 2016	Balance at 31 December 2015		
(€m)	Non- current liabilities	Current liabilities	Total	Non- current liabilities	Current liabilities	Total
Fourteenth month salaries	_	227	227	-	233	233
Incentives	1	533	534	-	411	411
Accrued vacation pay	-	53	53	-	53	53
Other amounts due to staff	-	82	82	-	77	77
Total	1	895	896	-	774	774
of which attributable to BancoPosta RFC	-	14	14	-	13	13

At 31 December 2016, incentives that at 31 December 2015 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	Balance a	at 31 Decem	ber 2016	Balance at 31 December 2015		
(€m)	Non- current liabilities	Current liabilities	Total	Non- current liabilities	Current liabilities	Total
INPS	_	348	348	-	340	340
Pension funds	_	81	81	_	80	80
INAIL	38	3	41	40	3	43
Other agencies	-	5	5	-	5	5
Total	38	437	475	40	428	468
of which attributable to BancoPosta RFC	-	7	7	-	6	6

Specifically:

- Amounts due to the *Istituto Nazionale per la Previdenza Sociale* (*INPS*, the National Institute of Social Security) primarily relate to amounts due on salaries paid and accrued at 31 December 2016. This item also includes provisions for employee termination benefits still to be paid.
- Amounts payable to pension funds relate to sums due to FondoPoste and other pension funds following the decision by certain of the Company's employees to join supplementary funds.
- Amounts due to the Istituto Nazionale per l'Assicurazione contro gli Infortuni sul Lavoro (INAIL, the National
 Occupational Injury Compensation Authority) relate to injury compensation paid to employees of the Company for
 injuries occurring up to 31 December 1998.

Other tax liabilities

Other tax liabilities break down as follows:

TAB. B9.3 - OTHER TAX LIABILITIES

Item	Balance	at 31 Decem	ber 2016	Balance at 31 December 2015		
(€m)	Non- current liabilities	Current liabilities	Total	Non- current liabilities	Current liabilities	Total
Withholding tax on employees' and consultants' salaries	-	108	108	-	108	108
Withholding tax on postal current accounts	_	3	3	-	7	7
Stamp duty payable	861	-	861	716	43	759
Substitute tax	-	1	1	-	-	-
Other taxes due	-	21	21	-	14	14
Total	861	133	994	716	172	888
of which attributable to BancoPosta RFC	861	11	872	716	59	775

Specifically:

- Withholding tax on employees' and consultants' salaries relates to amounts paid to the tax authorities by the Company in January and February 2017 as the withholding agent.
- Withholding tax due on postal current accounts refers to amounts withheld by BancoPosta RFC on interest accrued during the year on customer current accounts.
- Stamp duty represents the accrued amount payable to the tax authorities at 31 December 2016 on Interestbearing Postal Certificates outstanding, as referred to in section A8.

Amounts due to the MEF

This item includes:

- €12 million, reflecting payables arising from pension payments made by the MEF to former Poste Italiane SpA employees between 1 January 1994 and 31 July 1994;
- €9 million, relating to the return of the extraordinary contribution, pursuant to article 2 Law 778/85, previously received by the Company from the MEF to cover shortfalls of the pension fund of the former Postal and Telecommunications Administration.

The items in question were reviewed by a joint working group created with the MEF - Department of Treasury and General Accounting Department, resulting in the letter dated 7 August 2015.

Other amounts due to subsidiaries

TAB. B9.4 - OTHER AMOUNTS DUE TO SUBSIDIARIES

Item	Balance	at 31 Decem	ber 2016	Balance at 31 December 2015		
(€m)	Non- current liabilities	Current liabilities	Total	Non- current liabilities	Current liabilities	Total
Direct subsidiaries						
Mistral Air Srl	1	1	2	-	2	2
Poste Vita SpA	_	-	-	-	12	12
Postel SpA	1	6	7	-	3	3
PosteShop SpA	_	-	-	1	1	2
SDA Express Courier SpA	4	10	14	6	11	17
Total	6	17	23	7	29	36
of which attributable to BancoPosta RFC	-	-	_	-	-	_

This item primarily regards the amount payable by Poste Italiane SpA, as the consolidating entity in the tax consolidation arrangement (note 2.3 - Summary of significant accounting standards and policies), to subsidiaries for the benefits linked to tax losses transferred by subsidiaries during the year.

Sundry payables

This item breaks down as follows:

TAB. B9.5 - SUNDRY PAYABLES

Item	Balance	at 31 Decemb	per 2016	Balance at 31 December 2015		
(€m)	Non- current liabilities	Current liabilities	Total	Non- current liabilities	Current liabilities	Total
Sundry payables attributable to BancoPosta	75	7	82	76	8	84
Guarantee deposits	9	-	9	8	-	8
Other	-	21	21	-	23	23
Total	84	28	112	84	31	115
of which attributable to BancoPosta RFC	75	8	83	76	8	84

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

Item	Balance	at 31 Decem	ber 2016	Balance at 31 December 2015		
(€m)	Non- current liabilities	Current liabilities	Total	Non- current liabilities	Current liabilities	Total
Accrued expenses	-	2	2	-	2	2
Deferred income	12	23	35	14	17	31
Total	12	25	37	14	19	33
of which attributable to BancoPosta RFC	-	21	21	-	14	14

Deferred income outside the ring-fence primarily regards:

- €8 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 (€21 million) regards fees on Postemat and Postepay Evolution cards collected in advance.

Statement of profit or loss

C1 - Revenue from sales and services

Revenue from sales and services, amounting to €8,219 million, breaks down as follows:

TAB. C1 - REVENUE FROM SALES AND SERVICES

Item (<i>€m</i>)	For the year ended 31 December 2016	For the year ended 31 December 2015
Postal Services	3,032	3,044
BancoPosta services	5,114	5,087
Other sales of goods and services	73	74
Total	8,219	8,205

Postal Services

Revenue from Postal Services breaks down as follows:

TAB. C1.1 - REVENUE FROM POSTAL SERVICES

Item (<i>€m</i>)	For the year ended 31 December 2016	For the year ended 31 December 2015
Unfranked mail	1,068	1,111
Automated franking by third parties and at post offices	790	827
Stamps	190	224
Integrated services	207	220
Postage-paid mailing services	102	115
Overseas mail and parcels	150	127
Telegrams	40	40
Other postal services	114	101
Total market revenue	2,661	2,765
Universal Service compensation	371	279
Total	3,032	3,044

In particular:

- Unfranked mail relates to revenue from the mailing of correspondence by large customers from the post office network, including those conducted using the Bulk Mail formula.
- Automated franking by third parties or at post offices relates to revenue from the mailing of correspondence franked by customers or at post offices using a franking machine.
- Stamps relates to the sale of stamps through post offices and authorised outlets, and sales of stamps used for
- Integrated services relate primarily to the delivery of administrative notices and fines (€182 million).
- Postage-paid mailing services relate to revenue from the delivery of publications and mail-order goods on behalf of publishers.
- Revenue from telegrams primarily relates to the telegram service provided by phone or at post offices, and amounting to €16 million and €7 million, respectively.

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• 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. The remaining amount due of €371 million reflects revenue previously written down in provisions for doubtful debts due from the MEF, after the Ministry made new provision to honour previous contractual obligations. In this regard, reference is made to note 2.4 – Use of estimates and A7.4 – Due from the MEF.

BancoPosta Services

This revenue breaks down as follows:

TAB. C1.2 – REVENUE FROM BANCOPOSTA SERVICES

Item (<i>€m</i>)	For the year ended 31 December 2016	For the year ended 31 December 2015
Fees for collection of postal savings deposits	1,577	1,610
Income from investment of postal current account deposits	1,509	1,546
Revenue from current account services	486	510
Commissions on payment of bills by payment slip	463	456
Insurance brokerage	455	418
Distribution of loan products	203	134
Fees for issue and use of prepaid cards	151	130
Income from delegated services	107	123
Money transfers	41	45
Distribution of investment funds	29	22
Securities custody	6	8
Commissions from securities placements and trading	4	5
Other products and services	83	80
Total	5,114	5,087

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 covering the five-year period 2014-2018. In 2016, a number of conditions provided for in the Agreement of 4 December 2014 covering the five-year period 2014-2018 were confirmed, requiring the parties to renegotiate existing agreements in good faith. Whilst awaiting the agreement of new terms and conditions, Poste Italiane has recognised revenue from the services rendered in 2016 on the basis of the Agreement of 4 December 2014. Any impact of a new agreement on the Company's operating results, not as yet foreseeable, will be taken into account, on an accruals basis, once such an impact can be reasonably assessed.

DEPOSITS

TAB. C1.2.1 - INCOME FROM INVESTMENT OF POSTAL CURRENT ACCOUNTS

Item (<i>€m</i>)	For the year ended 31 December 2016	For the year ended 31 December 2015
Income from investments in securities	1,489	1,508
Interest income on held-to-maturity financial assets	541	573
Interest income on available-for-sale financial assets	974	930
Interest income on securities held for trading	-	1
Interest income on asset swaps of available-for-sale financial assets	(33)	4
interest on repurchase agreements	7	-
Income from deposits held with the MEF	20	38
Remuneration of current account deposits (deposited with the MEF)	20	34
Differential on derivatives stabilising returns	-	4
Total	1,509	1,546

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 section 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 (€115 million), annual fees on debit cards (€26 million) and related transactions (€48 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 (€45 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) (€73 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 €27 million and income from call centre services, amounting to €6 million.

C2 - Other income from financial activities

TAB. C2 - OTHER INCOME FROM FINANCIAL ACTIVITIES

Realised gains 473 42 Realised gains on other investments 121 Dividends from other investments 1 Income from fair value hedges - Fair value gains - Foreign exchange gains 4	<u>Item</u> (<i>€m</i>)	For the year ended 31 December 2016	For the year ended 31 December 2015
Realised gains on other investments Dividends from other investments Income from fair value hedges Fair value gains Foreign exchange gains 121 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	Income from available-for-sale financial assets	595	426
Dividends from other investments Income from fair value hedges Fair value gains Foreign exchange gains 1 4	Realised gains	473	426
Income from fair value hedges – Fair value gains – Foreign exchange gains 4	Realised gains on other investments	121	-
Fair value gains – Foreign exchange gains 4	Dividends from other investments	1	-
Foreign exchange gains 4	Income from fair value hedges	_	2
343	Fair value gains	-	2
Harris Production	Foreign exchange gains	4	5
Unrealised gains –	Unrealised gains	-	1
Realised gains 4	Realised gains	4	4
Total 599 43	Total	599	433

Realised gains on other equity instruments refer to the gain on disposal of the equity interest in Visa Europe Ltd., as described in section A5.

C3 - Other operating income

This item regards the following:

TAB. C3 - OTHER OPERATING INCOME

Item (<i>€m</i>)	For the year ended 31 December 2016	For the year ended 31 December 2015
Dividends from subsidiaries	423	331
Recoveries of contract expenses and other recoveries	19	16
Lease rentals	16	15
Government grants	11	14
Recovery of cost of seconded staff	4	3
Gains on disposals	1	5
Other income	4	15
Total	478	399

Dividends from subsidiaries

TAB. C3.1 - DIVIDENDS FROM SUBSIDIARIES

Name (<i>€m</i>)	For the year ended 31 December 2016	For the year ended 31 December 2015
Poste Vita SpA	340	150
BancoPosta Fondi SpA SGR	32	20
Banca del Mezzogiorno-MedioCredito Centrale SpA	26	34
PosteMobile SpA	18	25
Postecom SpA	7	30
EGI SpA	_	72
Total	423	331

Lease rentals

TAB. C3.2 - LEASE RENTALS

Item (<i>€m</i>)	For the year ended 31 December 2016	For the year ended 31 December 2015
Rental income from investment property	2	2
Residential properties	2	2
Rental income on commercial property	9	9
Intercompany rentals	5	5
Antenna sites	1	1
Other rental income	3	3
Recovery of expenses, transaction costs and other income ⁽¹⁾	5	4
Total	16	15

This item primarily regards the recovery of expenses incurred directly by Poste Italiane SpA and passed on to tenants. This category does not include extraordinary maintenance costs. (1)

Under the relevant lease 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. No significant extraordinary maintenance costs were transferred to tenants via increases in rents.

C4 – Cost of goods and services

This item breaks down as follows:

TAB. C4 - COST OF GOODS AND SERVICES

Item (<i>€m</i>)	For the year ended 31 December 2016	For the year ended 31 December 2015
Services	1,323	1,360
Lease expense	283	300
Raw, ancillary and consumable materials and goods for resale	98	107
Interest expense	30	52
Total	1,734	1,819

Cost of services

This item breaks down as follows:

TAB. C4.1 - COST OF SERVICES

Item (<i>€m</i>)	For the year ended 31 December 2016	For the year ended 31 December 2015
Transport of mail, parcels and forms	203	196
Routine maintenance and technical assistance	184	185
Outsourcing fees and external service charges	154	139
Personnel services	146	155
Energy and water	118	130
Transport of cash	92	88
Credit and debit card fees and charges	83	73
Mail, telegraph and telex	67	64
Cleaning, waste disposal and security	66	66
Advertising and promotions	65	79
Telecommunications and data transmission	59	82
Printing and enveloping services	45	44
Consultants' fees and legal expenses	23	39
Insurance premiums	9	10
Agent commissions and other	7	8
Securities custody and management fees	2	2
Total	1,323	1,360

Lease expense

Lease expense breaks down as follows:

TAB. C4.2 – LEASE EXPENSE

Item (€m)	For the year ended 31 December 2016	For the year ended 31 December 2015
Property rentals	163	165
Lease rentals	155	157
Ancillary costs	8	8
Vehicle leases	62	74
Equipment hire and software licenses	52	56
Other lease expense	6	5
Total	283	300

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

This item breaks down as follows:

TAB. C4.3 - RAW, ANCILLARY AND CONSUMABLE MATERIALS AND GOODS FOR RESALE

Item (<i>€m</i>)	For the year ended 31 December 2016	For the year ended 31 December 2015
Fuels and lubricants	43	48
Stationery and printed matter	22	23
Printing of postage and revenue stamps	6	8
Consumables and goods for resale	27	28
Total	98	107

Interest expense

This item refers to the following:

TAB. C4.4 - INTEREST EXPENSE

Item (<i>€m</i>)	For the year ended 31 December 2016	For the year ended 31 December 2015
Interest on customers' deposits	12	30
Interest expense on repurchase agreements	17	21
Interest paid to MEF	2	1
Portion of interest expense on own liquidity (finance costs)	(1)	_
Total	30	52

Compared to the previous year, interest paid to customers decreased, mainly as a result of a fall in the interest rates paid on certain types of postal current account.

C5 – Other expenses from financial activities

Other expenses relating to BancoPosta RFC's operations consist of the following:

TAB. C5 - OTHER EXPENSES FROM FINANCIAL ACTIVITIES

Item (<i>€m</i>)	For the year ended 31 December 2016	For the year ended 31 December 2015
Expenses from financial instruments at fair value through profit or loss	-	2
Realised losses	_	2
Expenses from fair value hedges	1	-
Fair value losses	1	_
Foreign exchange losses	1	-
Fair value losses	1	_
Expenses incurred on repurchase agreements	7	_
Other expenses	6	1
Total	15	3

C6 – Personnel expenses

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

	For the year ended 31 December 2016	For the year ended 31 December 2015
Wages and salaries	4,117	4,163
Social security contributions	1,166	1,173
Provisions for employee termination benefits: supplementary pension funds and INPS	254	258
Agency staff	_	1
Remuneration and expenses paid to Directors	1	1
Redundancy payments	165	76
Net provisions (reversals) for disputes with staff [tab. B4]	4	(12)
Provisions for restructuring charges [tab. B4]	342	316
Amounts recovered from staff for disputes	(9)	(6)
Other staff costs/(cost recoveries)	(48)	(64)
Total expenses	5,992	5,906
Income from fixed-term contract settlements	_	(11)
Total	5,992	5,895

Net provisions for disputes with staff and provisions to restructuring charges are described in section B4.

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

Permanent workforce	Average v	workforce	Year-end workforce		
	2016	2015	At 31 December 2016	At 31 December 2015	
Executives	608	612	588	612	
Middle managers (A1)	6,489	6,447	6,360	6,392	
Middle managers (A2)	8,248	8,175	8,084	8,065	
Grades B, C, D	116,200	118,934	112,532	117,244	
Grades E, F	1,005	1,346	873	1,079	
Total permanent workforce(*)	132,550	135,514	128,437	133,392	

^(*) Figures expressed in full-time equivalent terms

Furthermore, taking account of staff on flexible contracts, the average number of full-time equivalent staff in 2016 is 136,928 (in 2015: 139,133).

C7 - Depreciation, amortisation and impairments

This item breaks down as follows:

TAB. C7 - DEPRECIATION, AMORTISATION AND IMPAIRMENTS

Item (<i>€m</i>)	For the year ended 31 December 2016	For the year ended 31 December 2015
Property, plant and equipment	319	314
Properties used in operations	108	106
Plant and machinery	80	88
Industrial and commercial equipment	10	9
Leasehold improvements	32	29
Other assets	89	82
Impairments/recoveries/adjustments of property, plant and equipment ⁽¹⁾	(14)	(12)
Depreciation of investment property	4	5
Amortisation and impairments of intangible assets	195	178
Industrial patents and intellectual property rights	195	178
Total	504	485

⁽¹⁾ See section A1.

C8 - Other operating costs

Other operating costs break down as following:

TAB. C8 - OTHER OPERATING COSTS

Item (€m)	Note	For the year ended 31 December 2016	For the year ended 31 December 2015
Net provisions and losses on doubtful debts (uses of provisions)		10	(63)
Provisions for receivables due from customers	[tab. A7.2]	13	3
Provisions (reversal of provisions) for receivables due from MEF	[tab. A7.5]	(7)	(68)
Provisions (reversal of provisions) for sundry receivables	[tab. A8.3]	4	2
Operational risk events		42	39
Thefts during the year	[tab. B6.1.2]	8	6
Reversal of BancoPosta assets, net of recoveries		1	5
Other operating losses of BancoPosta		33	28
Net provisions for risks and charges made/(released)		71	82
for disputes with third parties	[tab. B4]	(30)	35
for non-recurring charges incurred by BancoPosta	[tab. B4]	86	45
for other risks and charges	[tab. B4]	15	2
Losses		2	2
Other taxes and duties		67	61
Municipal property tax		27	27
Urban waste tax		20	22
Other		20	14
Net provisions for tax and social security liabilities made/ (released)	[tab. B4]	-	(2)
Impairments of investments	[tab. A4.1]	33	77
Other recurring expenses		30	28
Total		255	226

Impairment losses on investments in subsidiaries are described in section A4.

C9 - Finance income and costs

Finance income

TAB C9.1 - FINANCE INCOME

Item (<i>€m</i>)	For the year ended 31 December 2016	For the year ended 31 December 2015
Income from subsidiaries and associates	25	20
Interest on loans	16	18
Interest on intercompany current accounts	1	2
Dividends from associates ⁽¹⁾	8	-
Income from available-for-sale financial assets	7	10
Interest on fixed-income instruments	17	19
Accrued differentials on fair value hedges	(10)	(9)
Other finance income	11	22
Interest from the MEF	_	2
Finance income on discounting receivables ⁽²⁾	7	11
Overdue interest	9	13
Impairment of amounts due as overdue interest	(9)	(13)
Interest on IRES refund	-	5
Adjustment of interest on IRES refund	_	(1)
Interest income on Contingent Convertible Notes	3	3
Income from financial assets at fair value through profit or loss	_	1
Other	1	1
Foreign exchange gains ⁽¹⁾	2	6
Total	45	58

⁽¹⁾ For the purposes of reconciliation with the statement of cash flows, in 2016 finance income after foreign exchange gains and dividends from associates amounts to €35 million (€52 million in 2015).

⁽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 and 2013.

Finance costs

TAB. C9.2 - FINANCE COSTS

Item (€m)	For the year ended 31 December 2016	For the year ended 31 December 2015
Finance costs on financial liabilities	30	38
on bonds	27	27
on financial institutions borrowings	2	8
on derivative financial instruments	1	1
on amounts payable to subsidiaries	_	2
Finance costs on provisions for employee termination benefits [tab. B5]	23	27
Finance costs on provisions for risks [tab. B4]	1	1
Remuneration of Poste Italiane's own liquidity [tab. C4.4]	1	-
Impairment of investments in joint ventures [tab. B4]	4	_
Other finance costs	4	4
Foreign exchange losses ⁽¹⁾	2	6
Total	65	76

⁽¹⁾ For the purposes of reconciliation with the statement of cash flows, in 2016 financial costs after foreign exchange losses amount to €63 million (€70 million in 2015).

C10 - Income tax expense

This item breaks down as follows:

TAB. C10 - INCOME TAX EXPENSE

Item (<i>€m</i>)	For the year ended 31 December 2016			he year ended ecember 2015		
	IRES	IRAP	Total	IRES	IRAP	Total
Current tax expense	129	29	158	121	27	148
Deferred tax income	3	(5)	(2)	21	(26)	(5)
Deferred tax expense	(3)	-	(3)	2	-	2
Total	129	24	153	144	1	145

The tax rate for 2016 is 19.72% and consists of:

TAB. C10.1 - RECONCILIATION BETWEEN THE THEORETICAL IRES TAX RATE AND THE **EFFECTIVE IRES TAX RATE**

ltem (€m)	For the year ended 31 December 2016		For the year ended 31 December 2015		
	IRES	Tax rate	IRES	Tax rate	
Profit before tax	779		596		
Theoretical tax charge	214	27.5%	164	27.5%	
Effects of increases/(decreases) on theoretical tax charge					
Adjustments to investments	9	1.17%	21	3.54%	
Dividends from investee companies	(113)	-14.45%	(87)	-14.63%	
Realised gains on other investments	(32)	-4.07%	-	-	
Non-deductible out-of-period losses	6	0.69%	7	1.15%	
Non-deductible taxes	6	0.77%	6	1.01%	
Net provisions for risks and charges and bad debts	26	3.36%	10	1.72%	
Taxation for previous years	(5)	-0.66%	(3)	-0.42%	
Deduction from IRES of IRAP on personnel expenses	-	-	(4)	-0.63%	
Adjustments for change in IRES tax rate introduced by 2016 Stability Law	14	1.83%	20	3.36%	
Adjustment of IRES refund claimed	-	-	9	1.52%	
Non-recurring income/(expenses) for deferred taxes recycled to profit or loss	_	_	7	1.11%	
Other	4	0.44%	(6)	-1.00%	
Effective tax charge	129	16.59%	144	24.24%	

TAB. C10.2 - RECONCILIATION BETWEEN THE THEORETICAL IRAP TAX RATE AND THE **EFFECTIVE IRAP TAX RATE**

<u>Item</u> (<i>€m</i>)	For the year ended 31 December 2016		For the year ended 31 December 2015	
	IRAP	Tax rate	IRAP	Tax rate
Profit before tax	779		596	
Theoretical tax charge	35	4.55%	27	4.57%
Effect of increases/(decreases)on theoretical tax charge				
Non-deductible personnel expenses	6	0.78%	26	4.32%
Dividends from investee companies	(19)	-2.52%	(15)	-2.53%
Net provisions for risks and charges and bad debts	1	0.15%	(14)	-2.31%
Non-deductible out-of-period losses	1	0.09%	1	0.19%
Finance income and costs	(1)	-0.05%	(1)	-0.18%
Non-deductible taxes	1	0.16%	2	0.21%
Taxation for previous years	(4)	-0.49%	(1)	-0.12%
Non-recurring income/(expenses) for deferred taxes recycled to profit or loss	-	-	(24)	-3.97%
Other	4	0.45%	-	-0.06%
Effective tax charge	24	3.13%	1	0.11%

Current tax expense

The table below shows movements in current tax expense for the period under review:

TAB. C10.3 - MOVEMENTS IN CURRENT TAX ASSETS/(LIABILITIES)

Item (€m)	Current taxes for the year ended 31 December 2016			Current taxes for the year ended 31 December 2015		
	IRES	IRAP	Total	IRES	IRAP	Total
	Assets/ (Liabilities)	Assets/ (Liabilities)		Assets/ (Liabilities)	Assets/ (Liabilities)	
Balance at 1 January	(28)	28	_	575	29	604
Payments of	190	-	190	189	30	219
prepayments for the current year	183	-	183	189	30	219
balance payable for the previous year	7	-	7	-	-	-
Collection of IRES refund claimed	_	-	_	(518)	_	(518)
Adjustment of IRES refund claimed	_	-	_	(9)	-	(9)
Provisions to profit or loss	(129)	(29)	(158)	(112)	(27)	(139)
Provisions to equity	20	2	22	(22)	(4)	(26)
Tax consolidation	(129)	-	(129)	(136)	-	(136)
Other	8(*)	-	8	5	-	5
Balance at 31 December	(68)	1	(67)	(28)	28	-
of which:						
Current tax assets	5	1	6	5	28	33
Current tax liabilities	(73)	-	(73)	(33)	-	(33)

^(*) 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 2016 primarily regard:

- €72 million in provisions for IRES and IRAP for the year after payments on account for IRES, IRAP tax credits from previous years and IRES withholding tax incurred;
- 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 section A8).

Deferred tax assets and liabilities

Details of this item at 31 December 2016 are shown in the following table:

TAB. C10.4 - DEFERRED TAXES

Item (€m)	Balance at 31 December 2016	Balance at 31 December 2015
Deferred tax assets	672	503
Deferred tax liabilities	(536)	(978)
Total	136	(475)
of which attributable to BancoPosta RFC		
Deferred tax assets	321	130
Deferred tax liabilities	(530)	(967)

The nominal tax rate for IRES is 27.5% for 2016 and 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 4.55%. Movements in deferred tax assets and liabilities are shown below:

TAB. C10.5 - MOVEMENTS IN DEFERRED TAX ASSETS AND LIABILITIES

Item (<i>€m</i>)	Note	2016	2015
Balance at 1 January		(475)	(275)
Deferred tax income/(expense) recognised in profit or loss		19	6
Non-recurring income/(expense) recognised in profit or loss		-	17
Non-recurring income/(expense) recognised in profit or loss due to adjustment to IRES rate		(14)	(20)
Income/(expense) recognised in equity	[tab. C10.8]	606	(312)
Non-recurring income/(expense) recognised in equity due to adjustment to IRES rate	[tab. C10.8]	-	109
Balance at 31 December		136	(475)

330

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

ltem (€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 2015	16	112	111	266	34	44	583
Income/(Expenses) recognised in profit or loss	1	_	(19)	16	_	3	1
Non-recurring income/(expenses) recognised in profit or loss	-	-	_	24	_	-	24
Income/(expenses) recognised in profit or loss due to adjustment to IRES rate	(2)	_	(2)	(11)	-	(5)	(20)
Income/(expenses) recognised in equity	_	(76)	_	-	_	-	(76)
Income/(expenses) recognised in equity due to adjustment to IRES rate	-	(4)	_	-	(4)	(1)	(9)
Balance at 31 December 2015	15	32	90	295	30	41	503
Income/(Expenses) recognised in profit or loss	1	-	(6)	18	-	3	16
Income/(expenses) recognised in profit or loss due to adjustment to IRES rate	-	-	(9)	(5)	_	-	(14)
Income/(expenses) recognised in equity	_	174	_	_	(5)	(2)	167
Balance at 31 December 2016	16	206	75	308	25	42	672

TAB. C10.7 - MOVEMENTS IN DEFERRED TAX LIABILITIES

Item (<i>€m</i>)	Financial assets and liabilities	PPE	Other	Total
Balance at 1 January 2015	856	2	-	858
Income/(Expenses) recognised in profit or loss	-	-	(5)	(5)
Non-recurring income/(expenses) recognised in profit or loss	-	-	7	7
Income/(expenses) recognised in equity	236	-	-	236
Income/(expenses) recognised in equity due to adjustment to IRES rate	(118)	-	-	(118)
Balance at 31 December 2015	974	2	2	978
Income/(Expenses) recognised in profit or loss	-	(1)	(2)	(3)
Income/(expenses) recognised in equity	(439)	-	-	(439)
Balance at 31 December 2016	535	1	_	536

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 section B3.

At 31 December 2016, deferred tax assets and liabilities recognised directly in equity are as follows:

TAB. C10.8 - DEFERRED TAX ASSETS AND LIABILITIES RECOGNISED IN EQUITY

Year ended 31 December 2016	Year ended 31 December 2015
	December 2010
602	(217)
11	19
(5)	(4)
(2)	(1)
606	(203)
	(5)

Additional information

D1 - 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 2016

Name	Balance at 31 December 2016										
(€m)	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		

IMPACT OF RELATED PARTY TRANSACTIONS ON THE FINANCIAL POSITION AT 31 **DECEMBER 2015**

Name				Balance at	31 December	2015			
(€ m)	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	-	200	4	-	-	5	-	-	-
BancoPosta Fondi SpA SGR	-	-	12	-	-	3	2	-	-
CLP ScpA	-	_	21	-	-	5	-	101	-
Consorzio PosteMotori	-	-	9	-	-	23	-	-	-
Consorzio Servizi Telef. Mobile ScpA	-	-	-	-	-	-	-	38	-
EGI SpA	-	-	1	-	-	12	3	17	-
Mistral Air Srl	-	6	1	-	-	1	-	-	2
PatentiViaPoste ScpA	-	1	4	-	-	4	-	1	-
Poste Tributi ScpA	-	6	6	-	-	1	-	4	-
PosteTutela SpA	-	-	-	-	-	21	5	32	-
Poste Vita SpA	-	454	137	-	-	118	36	-	12
Postecom SpA	-	-	7	1	-	5	_	19	-
Postel SpA	-	44	58	-	-	3	-	17	3
PosteMobile SpA	-	-	15	1	-	16	26	3	-
PosteShop SpA	-	1	1	-	-	1	-	2	2
SDA Express Courier SpA	-	97	12	1	-	4	-	16	17
Indirect subsidiaries									
Poste Assicura SpA	-	-	5	-	-	1	-	-	-
Related parties external to the Group									
Ministry of the Economy and Finance	7,186	3	537	13	391	-	-	102	21
Cassa Depositi e Prestiti Group	1,500	_	397	_	-	-	1	11	-
Enel Group	-	_	38	-	-	-	-	12	-
Eni Group	-	-	15	_	-	-	-	11	-
Equitalia Group	-	-	55			-	-	1	8
Leonardo Group	-	-	-	_	-	-	-	30	-
Other related parties external to the Group	-	_	3	-	-	-	_	3	61
Provisions for doubtful debts from external related parties	-	-	(156)	(9)	-	-	_	-	-
Total	8,686	812	1,182	7	391	223	73	420	126

At 31 December 2016, 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 €60 million (€60 million at 31 December 2015).

IMPACT OF RELATED PARTY TRANSACTIONS ON PROFIT OR LOSS

Name		Year ended 31 December 2016									
(€m)		Revenue				Cos	ts				
	Revenue	Other	Finance	Capital	expenditure	Current expenditure		penditure	ire		
	from sales and services	operating income	income '	Property, plant and equipment	Intangible assets	Cost of goods and services	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	-	-	-	3	-	(6)	1		
Cassa Depositi e Prestiti Group	1,588	-	-	-	5	23	-	-	-		
Enel Group	81	-	-	-	-	-	-	-	-		
Eni Group	23	-	-	-	-	31	-	-	-		
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	657	44	1	1		

IMPACT OF RELATED PARTY TRANSACTIONS ON PROFIT OR LOSS

Name				Year ende	ed 31 Decembe	er 2015			
(€m)		Revenue				Cos	ts		
	Revenue	Other	Finance	Capital ex	penditure	Current expenditure			
	from sales and services	operating income	income	Property, plant and equipment	Intangible assets	Cost of goods and services	Personnel expenses	Other operating costs	Finance costs
Direct subsidiaries									
Banca del Mezzogiorno-MedioCredito Centrale SpA	2	34	2	-	-	-	-	-	-
BancoPosta Fondi SpA SGR	23	20	-	-	-	-	-	-	-
CLP ScpA	13	1	-	4	3	173	-	1	-
Consorzio PosteMotori	39	-	-	-	-	-	-	-	-
Consorzio Servizi Telef. Mobile ScpA	-	-	-	-	-	99	-	-	-
EGI SpA	-	72	-	-	-	7	-	-	-
Mistral Air Srl	-	-	_	-	-	-	-	-	-
PatentiViaPoste ScpA	24	-	_	-	-	-	-	1	-
Poste Energia SpA	-	-	-	-	-	101	-	-	-
Poste Tributi ScpA	4	-	_	_	-	-	-	4	-
PosteTutela SpA	-	1	_	-	-	96	-	-	-
Poste Vita SpA	419	150	16	_	_	-	_	-	2
Postecom SpA	-	32	_	1	16	37	1	-	-
Postel SpA	8	2	1	_	1	32	_	-	-
PosteMobile SpA	15	27	_	-	-	3	1	-	-
PosteShop SpA	1	-	-	-	-	-	-	-	-
SDA Express Courier SpA	3	3	1	-	-	45	1	-	-
Indirect subsidiaries									
Italia Logistica Srl	-	-	-	-	-	-	-	-	-
Poste Assicura SpA	16	-	-	-	-	-	-	-	-
Related parties external to the Group									
Ministry of the Economy and Finance	560	1	2	-	-	2	-	(64)	-
Cassa Depositi e Prestiti Group	1,612	-	-	-	2	21	-	-	-
Enel Group	97	-	_	-	_	5	-	_	-
Eni Group	29	-	-	-	-	31	-	-	-
Equitalia Group	54	-	-	-	-	4	-	3	-
Leonardo Group	1	1	-	-	12	32	-	-	-
Other related parties external to the Group	17	1	-	-	-	16	40	-	-
Total	2,937	345	22	5	34	704	43	(55)	2

At 31 December 2016, 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 €6 million (€9 million at 31 December

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 and for the collection and processing of tax returns and, with reference to previous years alone, the reimbursement of electoral tariff reductions and subsidies.

- Amounts received from CDP SpA primarily relate to payment for the collection of postal savings deposits.
- The costs incurred with the CDP Group refer mainly to software maintenance and electronic payment card management services performed by SIA SpA.
- 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 Equitalia Group primarily relate to payment for the integrated notification service and for unfranked mail. The costs incurred primarily relate to electronic transmission of tax collection data.
- 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.

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	At 31 D	ecember 20	16	At 31 D	ecember 20	15
(€m)	Total in financial statements	Total related parties	Impact (%)	Total in financial statements	Total related parties	Impact (%)
Financial position						
Financial assets attributable to BancoPosta	58,052	7,698	13.3	54,622	8,686	15.9
Financial assets	1,344	631	46.9	1,530	812	53.1
Trade receivables	2,099	1,071	51.0	2,142	1,182	55.2
Other receivables and assets	1,927	71	3.7	1,698	7	0.4
Cash and cash equivalents	2,715	1,310	48.3	1,520	391	25.7
Provisions for risks and charges	1,408	60	4.3	1,298	60	4.6
Financial liabilities attributable to BancoPosta	59,193	2,747	4.6	53,235	223	0.4
Financial liabilities	1,302	38	2.9	1,848	73	4.0
Trade payables	1,384	464	33.5	1,229	420	34.2
Other liabilities	2,558	113	4.4	2,335	126	5.4
Profit or loss						
Revenue from sales and services	8,219	2,910	35.4	8,205	2,937	35.8
Other operating income	478	440	92.1	399	345	86.5
Cost of goods and services	1,734	657	37.9	1,819	704	38.7
Personnel expenses	5,992	44	0.7	5,895	43	0.7
Other operating costs	255	7	2.7	226	(46)	n,a,
Finance costs	65	1	1.5	76	2	2.6
Finance income	45	24	53.3	58	22	37.9
Cash flow						
Net cash flow from/(for) operating activities	2,422	3,599	n,a,	2,303	(1,617)	n,a,
Net cash flow from/(for) investing activities	(240)	112	n,a,	(518)	(28)	5.4
Net cash flow from/(for) financing activities and shareholder transactions	(987)	(477)	48.3	(1,251)	(419)	33.5

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 2016	Year ended 31 December 2015
Remuneration to be paid in short/medium term	13,503	18,241
Post-employment benefits	552	634
Other benefits to be paid in longer term	452	392
Termination benefits	3,845	-
Share-based payments	812	-
Total	19,164	19,267

REMUNERATION OF STATUTORY AUDITORS

Item (€000)	Year ended 31 December 2016	Year ended 31 December 2015
Remuneration	228	134
Expenses	1	2
Total	229	136

The remuneration paid to members of the Company's Supervisory Board who, since 24 May 2016 are no longer the same as the members of the Board of Statutory Auditors, amounts to approximately €51 thousand for the period from the date they took up office to 31 December 2016. 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 2016, 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 non-managerial staff. As indicated in article 14, paragraph 1 of Fondoposte's By-laws, the representation of members among the various officers and boards (the General Meeting of delegates, the Board of Directors, Chairman and Deputy Chairman, Board of Statutory Auditors) is shared equally between the workers and the companies that are members of the Fund. The Fund's Board of Directors takes decisions about matters including:

- the general criteria for the allocation of risk in terms of investments and investment policies;
- the choice of fund manager and custodian bank.

Other related party disclosures

On 11 October 2016, Poste Italiane's Board of Directors, having obtained the consent of the Related and Connected Parties Committee, authorised the execution of short-term repurchase agreements with Cassa Depositi e Prestiti with a total nominal amount of up to, but no more than, €2.5 billion, Whilst meeting CONSOB's definition of greater significance, the transaction is ordinary in nature and, therefore, again according to the same CONSOB regulations, is exempted from the decision-making procedures for such transactions.

The first loans were granted in accordance with the above agreement in early 2017.

D2 - Other information on financial assets and liabilities

Analysis of net debt/(funds)

An analysis of the Company's net debt/(funds) at 31 December 2016 is provided below, showing the portion attributable to capital outside the ring-fence and BancoPosta RFC:

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)	_
MEF account held at the Treasury	-	(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 assets/(liabilities)	(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	

NET DEBT/(FUNDS)

Balance at 31 December 2015 (<i>€m</i>)	Capital outside ring-fence	BancoPosta RFC	Eliminations	Poste Italiane SpA	of which related party transactions
Financial liabilities	(2,425)	(53,328)	670	(55,083)	
Postal current accounts	-	(43,763)	79	(43,684)	(215)
Bonds	(811)	-	-	(811)	-
Borrowings from financial institutions	(912)	(4,895)	-	(5,807)	-
Loans from Cassa Depositi e Prestiti	(1)	-	-	(1)	(1)
Derivative financial instruments	(51)	(1,547)	-	(1,598)	-
Other financial liabilities	(73)	(3,109)	-	(3,182)	(80)
Intersegment financial liabilities	(577)	(14)	591	-	_
Financial assets	1,544	55,199	(591)	56,152	
Loans and receivables	950	8,811	_	9,761	7,998
Held-to-maturity financial assets	-	12,886	-	12,886	-
Available-for-sale financial assets	580	32,597	-	33,177	1,500
Derivative financial instruments	-	328	_	328	-
Intersegment financial assets	14	577	(591)	-	_
Net financial assets/(liabilities)	(881)	1,871	79	1,069	
Cash and deposits attributable to BancoPosta	_	3,161	_	3,161	_
Cash and cash equivalents	1,198	401	(79)	1,520	391
Net (debt)/funds	317	5,433	_	5,750	

At 31 December 2016, the fair value reserves related to available-for-sale financial assets amount to €1,241 million (€3,455 million at 31 December 2015), inclusive of the relevant taxation.

ESMA net financial indebtedness

An analysis of the industrial net funds/(debt) attributable to capital outside the ring-fence at 31 December 2016, in accordance with ESMA guidelines, computed on the basis of paragraph 127 of the recommendations contained in ESMA document 319 of 2013, is provided below:

ESMA NET FINANCIAL INDEBTEDNESS FOR CAPITAL OUTSIDE RING-FENCE

(€m)	At 31 December 2016	At 31 December 2015
A. Cash	1	1
B. Other cash equivalents	1,460	1,197
C. Securities held for trading	_	-
D. Liquidity (A+B+C)	1,461	1,198
E. Current loans and receivables	243	577
F. Current bank borrowings	_	(510)
G. Current portion of non-current debt	(14)	(16)
H. Other current financial liabilities	(42)	(77)
I. Current financial liabilities (F+G+H)	(56)	(603)
J. Current net debt (I+E+D)	1,648	1,172
K. Non-current bank borrowings	(400)	(400)
L. Bond issues	(798)	(797)
M. Other non-current liabilities	(48)	(48)
N. Non-current net debt (K+L+M)	(1,246)	(1,245)
O. Industrial net debt (ESMA guidelines) (J+N)	402	(73)
Non-current financial assets	1,101	953
Industrial net debt	1,503	880
Intersegment loans and receivables	14	14
Intersegment financial liabilities	(630)	(577)
Industrial net debt for capital outside ring-fence including intersegment transactions	887	317

Determination of fair value

The fair value measurement techniques used by the Company are described in note 2.5 - Determination of fair value. This section provides information regarding determination of the fair value of the financial assets and liabilities recognised at their fair value. The additional information related to financial assets and liabilities recognised at their amortised cost is provided in the respective notes.

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The table below breaks down the fair value of financial assets and liabilities by level in the fair value hierarchy:

FAIR VALUE HIERARCHY

Item	At 31 December 2016				At 31 December 2015			
(€m)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets attributable to BancoPosta	35,280	2,147	27	37,454	30,648	2,166	111	32,925
Available-for-sale financial assets	35,280	1,956	27	37,263	30,648	1,838	111	32,597
Fixed-income instruments	35,280	1,879	-	37,159	30,648	1,767	-	32,415
Equity instruments	_	77	27	104	_	71	111	182
Financial instruments at fair value through profit or loss	-	_	_	_	_	_	_	_
Derivative financial instruments	_	191	-	191	_	328	-	328
Financial assets	569	-	5	574	575	-	5	580
Available-for-sale financial assets	569	-	5	574	575	-	5	580
Fixed-income instruments	562	-	-	562	569	-	-	569
Equity instruments	_	_	5	5	_	-	5	5
Other investments	7	_	-	7	6	_	_	6
Derivative financial instruments	_	_	-	_	-	-	_	-
Total financial assets at fair value	35,849	2,147	32	38,028	31,223	2,166	116	33,505
Financial liabilities attributable to BancoPosta	_	(2,305)	-	(2,305)	_	(1,547)	-	(1,547)
Derivative financial instruments	_	(2,305)	_	(2,305)	_	(1,547)	_	(1,547)
Financial liabilities	-	(51)	_	(51)	_	(51)	_	(51)
Derivative financial instruments	-	(51)	_	(51)	_	(51)	_	(51)
Total financial liabilities at fair value	-	(2,356)	-	(2,356)	-	(1,598)	-	(1,598)
Total financial liabilities at fair value	-	(2,356)	-	(2,356)	-	(1,598)	-	(1,59

There were no transfers of financial instruments measured at fair value between Level 1 and Level 2 of the hierarchy on a recurring basis in 2016.

Movements in Level 3 of the hierarchy include the sale of the Company's investment in Visa Europe Ltd. (at 31 December 2015, accounted for at a fair value of €111 million), as described in note A5.2, and the recognition of the Series C Visa Inc. convertible preferred stock received as partial payment. The fair value of the Series C Visa Inc. convertible preferred stock (at 31 December 2016, equal to €27 million) is 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 34%.

Offsetting 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(107).

⁽¹⁰⁷⁾ 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."

In particular, the disclosures in question concern the following positions at 31 December 2016:

- derivative assets and liabilities and related collateral, represented by both cash and government securities;
- 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	Gross	Gross	Amount of		Related	Financial		
(€m)	amount of financial	amount of financial	financial (liabilities)/	assets/ (liabilities),	Financial	Colla	ateral	assets/
	assets(*) (a)	liabilities ^(*) (b)	assets that have been offset (c)	net (d=a+b+c)	instruments transferred or provided as collateral (e)	Securities provided/ (received) as collateral (f)	Cash deposits provided/ (received) as collateral (g)	net (h=d+e+f+g)
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)
Year ended 31 December 2015								
Financial assets/(liabilities) attributable to BancoPosta								
Derivatives	328	(1,547)	-	(1,219)	-	349	850	(20)
Repurchase agreements	417	(4,895)	-	(4,478)	4,477	-	-	(1)
Other	_	-	-	_	-	-	-	-
Financial assets/(liabilities)								
Derivatives		(51)	-	(51)	-	-	51	-
Repurchase agreements	-	(510)		(510)	510	-	(1)	(1)
Other				_	-	-	-	-
Total at 31 December 2015	745	(7,003)	-	(6,258)	4,987	349	900	(22)

The gross amount of financial assets and liabilities includes financial instruments offset in the statement of financial position or subject to a master netting agreement or similar arrangements, regardless of whether they are offset.

Transfer 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 2016, these assets concern reverse repurchase agreements entered into with primary financial intermediaries.

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TRANSFER OF FINANCIAL ASSETS THAT ARE NOT DERECOGNISED

Item	Note	At 31	December 2	2016	At 31 December 2015			
(€m)		Nominal value	Carrying amount	Fair value	Nominal value	Carrying amount	Fair value	
Financial assets attributable to BancoPosta	[A5]							
Held-to-maturity financial assets		4,596	4,688	5,276	4,072	4,101	4,621	
Available-for-sale financial assets		165	206	206	497	544	544	
Financial liabilities attributable to BancoPosta	[B6]							
Financial liabilities arising from repos		(5,379)	(5,381)	(5,419)	(4,885)	(4,895)	(4,949)	
Financial assets	[A6]							
Available-for-sale financial assets		_	-	-	450	510	510	
Financial liabilities	[B7]							
Financial liabilities arising from repos		_	-	-	(510)	(510)	(510)	
Total		(618)	(487)	63	(376)	(250)	216	

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 Company and as collateral for SEPA Direct Debits.

FINANCIAL ASSETS SUBJECT TO ENCUMBRANCES

Item	At 31 Decem	ber 2016	At 31 December 2015		
(<i>€m</i>)	Nominal value	Carrying amount	Nominal value	Carrying amount	
Financial assets attributable to BancoPosta					
Loans and receivables	1,435	1,435	864	864	
Receivables used as collateral provided by CSAs	1,391	1,391	857	857	
Receivables used as collateral provided by GMRAs	44	44	7	7	
Held-to-maturity financial assets	5,765	5,909	4,993	5,057	
Securities used for repurchase agreements	4,596	4,688	4,072	4,101	
Securities used as collateral provided by CSAs and GMRAs	676	716	345	373	
Securities used as collateral for intraday credit from the Bank of Italy and for Sepa Direct Debits	493	505	576	583	
Available-for-sale financial assets	165	206	497	544	
Securities used for repurchase agreements	165	206	497	544	
Financial assets					
Loans and receivables	50	50	52	52	
Receivables used as collateral provided by CSAs	50	50	52	52	
Available-for-sale financial assets	-	-	450	510	
Securities used for repurchase agreements	_	-	450	510	
Total financial assets subject to encumbrances	7,415	7,600	6,856	7,027	

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D3 - Other information

Postal savings deposits

The following table provides a breakdown of postal savings deposits collected by the 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 (<i>€m</i>)	At 31 December 2016	At 31 December 2015
Postal savings books	118,938	118,721
Interest-bearing Postal Certificates	203,962	206,114
Cassa Depositi e Prestiti	134,121	135,497
Ministry of the Economy and Finance	69,841	70,617
Total	322,900	324,835

Commitments

PURCHASE COMMITMENTS

Item (€m)	At 31 December 2016	related to Group companies	At 31 December 2015	related to Group companies
Property leases	515	13	539	19
Property, plant and equipment	43	2	54	2
Intangible assets	30	3	32	_
Vehicle leases	260	-	61	-
Other contracts	18	4	26	14
Total	866	22	712	35

The increase in purchase commitments relating to the lease of fleet vehicles is due to the Company's renewal of the related contract during the year.

Future commitments related to property leases, which may generally be terminated with six months' notice, break down by due date as follows:

PROPERTY LEASE COMMITMENTS

ltem (€m)	At 31 December 2016	related to Group companies	At 31 December 2015	related to Group companies
Lease rentals due:				
within 1 year of the reporting date	146	7	150	8
between 2 and 5 years after the reporting date	316	5	338	11
more than 5 years after the reporting date	53	1	51	-
Total	515	13	539	19

Guarantees

Unsecured guarantees issued by Poste Italiane SpA are as follows:

GUARANTEES

Item (<i>€m</i>)	At 31 December 2016	At 31 December 2015
Sureties and other guarantees issued:		
by banks in the interests of Poste Italiane SpA in favour of third parties	212	162
by Poste Italiane SpA in the interests of subsidiaries in favour of third parties	59	54
letters of patronage issued by Poste Italiane SpA in the interests of subsidiaries	1	1
Total	272	217

Third-party assets

Specifically:

THIRD-PARTY ASSETS

Item (<i>€m</i>)	At 31 December 2016	At 31 December 2015
Securities subscribed by customers held at third-party banks	5,262	5,992
Other assets	4	6
Total	5,266	5,998

Assets in the process of allocation

At 31 December 2016, the Company has paid a total of €96 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.

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Disclosure of fees paid to the independent auditors in accordance with art. 149 duodecies of the "CONSOB Regulations for Issuers"

The following table shows fees, classified in accordance with art. 149 *duodecies* of the "CONSOB Regulations for Issuers", payable to the Company's auditors, PricewaterhouseCoopers SpA, and companies within its network for 2016:

DISCLOSURE OF FEES PAID TO INDEPENDENT AUDITORS

Type of service (€000)	Supplier of service	Fees ^(*)
Poste Italiane SpA		
Audit	PricewaterhouseCoopers SpA	1,239
	Rete PricewaterhouseCoopers	-
Attestation services	PricewaterhouseCoopers SpA	458
	Rete PricewaterhouseCoopers	-
Other services	PricewaterhouseCoopers SpA	453
	Rete PricewaterhouseCoopers	-
Subsidiaries of Poste Italiane SpA		
Audit ^(**)	PricewaterhouseCoopers SpA	1,207
	Rete PricewaterhouseCoopers	-
Attestation services	PricewaterhouseCoopers SpA	346
	Rete PricewaterhouseCoopers	-
Other services	PricewaterhouseCoopers SpA	22
	Rete PricewaterhouseCoopers	-
Total		3,725

^(*) The above amounts do not include incidental expenses and charges.

Auditing services are expensed as incurred and reported in the audited financial statements.

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 at the same time 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.

^(**) The amounts shown do not include fees for auditing services performed in respect of funds managed by BancoPostaFondi SGR SpA and payable by investors, amounting to €103 thousand.

Beneficiaries

The beneficiaries of the Plan are: Poste Italiane's Chief Executive Officer, in his role as General Manager, certain managers within the Poste Italiane Group and Material Risk Takers who work for BancoPosta RFC, including key management personnel.

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.

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 the level of the Poste Italiane Group. 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.

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 and BancoPosta RFC's Material Risk Takers, they 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

The total number of Phantom stocks awarded to the 51 Beneficiaries of the First Cycle of the Plan amounted to 654,319. The fair value of each stock at 31 December 2016 was estimated to be €5.435 with regard to the plan for the Chief Executive Officer and General Manager and for BancoPosta RFC personnel, and €5.721 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 based on best market practices. The cost recognised for 2016 is approximately €1.2 million, equivalent to the liability recognised in personnel expenses.

Risk management

E1 - Financial risks

Introduction

Responsibility for coordinating and managing the investment strategy and the hedging of capital market risks has been assigned to the Company's Coordination of Investment Management function, which aims to ensure a uniform approach across the Group's various financial entities. Treasury management for the Company and on a centralised basis, definition of the capital structure for Poste Italiane SpA, 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 Company's financial transactions and of the associated risks relates mainly to the operations of BancoPosta RFC, asset financing and investment of the Company's liquidity.

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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(108), 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 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⁽¹⁰⁹⁾, which, among other things, requires definition of a Risk Appetite Framework (RAF⁽¹¹⁰⁾), 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.

During 2016, BancoPosta RFC's leverage ratio (the ratio of its Common Equity Tier1 and total assets) declined as a result of the significant increase in activity, linked to the positive performance of deposits and the related investments.

At 31 December 2016, the ratio is just below the limit of 3%, fixed by Poste Italiane SpA's Board of Directors. As a result, at the date on which it will approve these financial statements, the Board of Directors proposes to strengthen BancoPosta RFC's capital position in order to restore the ratio to the target level set out in the Risk Appetite Framework.

Operations not covered by BancoPosta RFC, primarily relating to management of the Company's 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.

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.

Against this backdrop, Poste Italiane SpA's Board of Directors has adopted regulations containing integrated guidelines for Poste Italiane SpA's Internal Control and Risk Management System (Guidelines for Internal Control and Risk Management System or "SCIGR").

From an organisational viewpoint, the model consists of:

- the **Risk and Control 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;
- the **Finance, Savings and Investment Committee,** which is responsible for establishing policies governing management of the savings of retail customers, as well as strategies to be applied in managing financial assets. In view of the matters dealt with, the Committee is divided into three sections:
 - **Finance**, with the role of defining and overseeing the financial strategy;
 - Savings, with responsibility for establishing guidelines to be applied in the development of savings products;
 - Financial investment strategies, with the role of ensuring effective governance and the greatest possible alignment with strategic decisions regarding the allocation and management of financial assets.

⁽¹⁰⁸⁾ 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 customers' 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.

⁽¹⁰⁹⁾ See in particular the provisions laid down in Part I – Section IV – Chapter 3.

⁽¹¹⁰⁾ 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.

- appropriate functions established within the Poste Italiane 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 Poste Italiane SpA's CEO and General Manager. Other permanent members are the Head of BancoPosta and the heads of the functions within the Company involved with BancoPosta.

The risk environment is defined on the basis of the framework established by IFRS 7 – Financial Instruments: Disclosures, which distinguishes between four main types of risk (a non-exhaustive classification):

- market risk;
- credit risk;
- liquidity risk;
- cash flow interest rate 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
- 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 became a major component of market risk in 2011-2012. Spread risk 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 securities, reflecting the market's perception of the credit rating of sovereign issuers.

Credit risk is the risk of default of one of the counterparties to which there is an exposure.

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, for example, derive from the inability to sell financial assets quickly at an amount close to fair value or the need to raise funds on excessively onerous terms or, in extreme cases, the inability to borrow on the market.

Cash flow interest rate risk refers to 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.

Cash flow inflation risk reflects the uncertainty related to future cash flows due to changes in the rate of inflation observed in the market.

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

Price risk relates to financial assets that the Company 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 following sensitivity analysis relates to the principal positions potentially exposed to fluctuations in value. Financial statement balances at 31 December 2016 have been subjected, where applicable, to a stress test, based on one-year historical volatility, considered to be representative of potential market movements.

The principal financial assets subject to price risk and the results of the analysis carried out as at 31 December 2016 for the Company are shown in the following table.

PRICE RISK

Item (<i>€m</i>)	Position Change in value		Pre-tax profit		Equity reserves before taxation		
	_	+ Vol	– Vol	+ Vol	– Vol	+ Vol	– Vol
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)
2015 effects							
Financial assets attributable to BancoPosta							
Available-for-sale financial assets	182	15	(15)	-	-	15	(15)
Equity instruments	182	15	(15)	-	_	15	(15)
Financial assets					-		
Available-for-sale financial assets	6	1	(1)	-	_	1	(1)
Other investments	6	1	(1)	-	_	1	(1)
Variability at 31 December 2015	188	16	(16)	_	_	16	(16)

Available-for-sale financial assets exposed to the risk in question regard primarily equities.

At 31 December 2016, equity instruments include:

- equities held by BancoPosta RFC, consisting of Class B Mastercard Incorporated shares, totalling €74 million, Visa Incorporated preference shares (Series C Convertible Participating Preferred Stock), totalling €27 million, and Class C VISA Incorporated shares, amounting to €3 million. For the purposes of the sensitivity analysis, the shares held in the portfolio are matched with the corresponding amount of the Class A shares, considering the volatility of the shares listed on the NYSE;
- units of mutual investment funds, amounting to €7 million, held outside the ring-fence as "Other investments".

Foreign exchange risk

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 historical volatility, which was considered to be representative of potential market movements.

At 31 December 2016, this item primarily refers to equity instruments denominated in US dollars and Special Drawing Rights. The table below shows the sensitivity to foreign exchange risk at 31 December 2016 of the Company's financial assets.

FOREIGN EXCHANGE RISK/USD

Item (<i>€m</i>)	Position in USD	Position in Euro	Change in value		Pre-tax profit		Equity reserves before taxation	
			+ Vol 260dd	- Vol 260dd	+ Vol 260dd	- Vol 260dd	+ Vol 260dd	- Vol 260dd
2016 effects								
Financial assets attributable to BancoPosta								
Available-for-sale financial assets	110	104	9	(9)	_	_	9	(9)
Equity instruments	110	104	9	(9)	-	_	9	(9)
Variability at 31 December 2016	110	104	9	(9)	-	-	9	(9)
2015 effects								
Financial assets attributable to BancoPosta								
Available-for-sale financial assets	77	71	9	(9)	-	-	9	(9)
Equity instruments	77	71	9	(9)	-	-	9	(9)
Variability at 31 December 2015	77	71	9	(9)	-	-	9	(9)

The foreign exchange risk relates to the shares denominated in US dollars.

FOREIGN EXCHANGE RISK/SDR

ltem (€m)	Position in SDR	Position in Euro	Change in value		Pre-tax profit		Equity reserves before taxation	
			+ Vol 260dd	- Vol 260dd	+ Vol 260dd	- Vol 260dd	+ Vol 260dd	- Vol 260dd
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)	-	-
2015 effects								
Current assets in SDRs	75	95	5	(5)	5	(5)	-	_
Current liabilities in SDRs	(72)	(92)	(5)	5	(5)	5	_	_
Variability at 31 December 2015	3	3	_	_	-	_	-	_

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) and used worldwide to settle debits and credits among postal operators.

Fair value interest rate risk

This 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 change 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 duration.

The following interest rate sensitivity analysis was based on changes in fair value with a parallel shift in the forward yield curve of \pm 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 2016 for the Company's positions.

FAIR VALUE INTEREST RATE RISK

Item (<i>€m</i>)	Positi	Position		Change in value		profit	Equity reserves before taxation	
	Nominal	Fair Value	+100bps	-100bps	+100bps	-100bps	+100bps	-100bps
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
2015 effects								
Financial assets attributable to BancoPosta								
Available-for-sale financial assets	26,428	32,415	(1,283)	1,308	-	-	(1,283)	1,308
Fixed-income instruments	26,428	32,415	(1,283)	1,308	-	-	(1,283)	1,308
Financial assets								
Available-for-sale financial assets	500	569	(2)	2			(2)	2
Fixed-income instruments	500	569	(2)	2	_	_	(2)	2
Financial liabilities								
Derivative financial instruments	(50)	(5)	3	(4)	_	_	3	(4)
Cash flow hedges	(50)	(5)	3	(4)	-	-	3	(4)
Variability at 31 December 2015	26,878	32,979	(1,282)	1,306	_	_	(1,282)	1,306

- €35,650 million in government bonds held by BancoPosta RFC, which consist of: fixed rate bonds amounting to €12,324 million, variable rate bonds converted into fixed rate bonds via asset swaps used as cash flow hedges, amounting to €1,758 million, variable rate securities amounting to €2,776 million (of which €2,605 million in inflation-linked instruments and €171 million CCTeus, which are variable rate Italian treasury certificates indexed to Euribor), fixed or variable rate bonds converted to variable-rate positions via fair value hedges, amounting to €18,792 million (of which €16,087 million in forward starts);
- €1,509 million in fixed rate bonds issued by CDP, and guaranteed by the Italian government, held by BancoPosta
- €562 million in investments held outside the ring-fence.

Within the context of **derivative financial instruments**, the risk in question concerns the following:

- a forward purchase contracts for government bonds registering fair value gains of €6 million (a nominal value of €200 million) and forward purchase contract for government bonds registering fair value losses of €3 million (a nominal value of €200 million), entered into by BancoPosta RFC;
- fair value losses of €7 million on a derivative contract, held outside the ring-fence and entered into by the Company in 2013 to hedge the cash flows of the bond with a nominal value of €50 million issued on 25 October 2013 (tab.
- With reference to the interest rate risk exposure determined by the average duration of the portfolios, in 2016 the duration⁽¹¹¹⁾ of BancoPosta's overall investments went from 5.58 to 5.56.

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 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.

The progressive deterioration in the market perception of Italy's sovereign credit rating in 2016, despite the Quantitative Easing carried out by the ECB, has had a negative influence on the price of Italian government bonds. Indeed, the spreads between ten-year Italian government bonds and German bunds is approximately 161 bps at 31 December 2016 (97 bps at 31 December 2015).

Over the period under review, the fall in Italian government bond prices, linked to movements in the spread and the reduction in risk-free interest rates to close to all-time lows, has led to a reduction in the fair value of BancoPosta RFC's available-for-sale portfolio (a nominal value of approximately €32 billion) of approximately €0.8 billion. The increase in the fair value of instruments hedged against interest rate risk, amounting to approximately €0.8 billion, was offset by a reduction 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 €1.6 billion).

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.

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⁽¹¹¹⁾ Duration is the indicator used to estimate the percentage change in price of in response to a shift in market returns (i.e. + 100 bps).

The table below shows the results of the analysis of sensitivity to country risk of the most significant positions in the Company's portfolios at 31 December 2016.

EFFECT OF CREDIT SPREAD ON FAIR VALUE

Item (<i>€m</i>)	Position		Change	Change in value		c profit	Equity reserves before taxation	
_	Nominal	Fair Value	+100bps	-100bps	+100bps	-100bps	+100bps	-100bps
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
2015 effects								
Financial assets attributable to BancoPosta								
Available-for-sale financial assets	26,428	32,415	(3,036)	3,599	_	-	(3,036)	3,599
Fixed-income instruments	26,428	32,415	(3,036)	3,599	_	-	(3,036)	3,599
Financial assets								
Available-for-sale financial assets	500	569	(22)	23	_	-	(22)	23
Fixed-income instruments	500	569	(22)	23	-	-	(22)	23
Variability at 31 December 2015	26,928	32,984	(3,058)	3,622	_	_	(3,058)	3,622

In addition to using the above sensitivity analysis, the Company monitors 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 Company's portfolio at 31 December 2016, solely with reference to spread risk.

VAR ANALYSIS

Item	Position	n	SpreadVaR
(€m)	Nominal	Fair Value	
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
2015 effects			
Financial assets attributable to BancoPosta			
Available-for-sale financial assets	26,428	32,415	260
Fixed-income instruments	26,428	32,415	260
Financial assets			
Available-for-sale financial assets	500	569	4
Fixed-income instruments	500	569	4
Variability at 31 December 2015	26,928	32,984	262

In addition, taken as whole, **BancoPosta RFC's** financial assets and liabilities are subject to potential maximum losses of €468 million.

Poste Italiane SpA estimates the VaR for available-for-sale financial assets and derivative instruments, also taking into account the combined effects of fair value interest rate risk and spread risk (also in this case the VaR is estimated on statistical bases over a 1-day time horizon and at a 99% confidence level). The analysis reveals the following:

- BancoPosta RFC is subject to potential maximum losses of €440 million at 31 December 2016 (€332 million at 31 December 2015);
- assets held **outside the ring-fence** are subject to potential maximum losses of €3 million at 31 December 2016 (€4 million at 31 December 2015).

The changes that have occurred with respect to 31 December 2015 depend on the higher volatility of risk factors in 2016.

Credit risk

Credit risk refers to all financial instruments, except shares and units of mutual funds. Overall, this risk is managed as follows:

- minimum rating requirements for issuers/counterparties, based on the type of instrument;
- the monitoring of concentrations per issuer/counterparty;
- monitoring of changes in the ratings of counterparties.

In 2016, the ratings revised by the main agencies resulted in changes in the weighted average rating of the Company's exposures, which, for investments other than Italian government bonds, was A2 at 31 December 2016, an improvement on the rating of A3 assigned at 31 December 2015.

The Company's **financial assets** exposed to credit risk at 31 December 2016 are shown in the table below. The ratings reported in the table have been assigned by Moody's.

CREDIT RISK ON FINANCIAL ASSETS ATTRIBUTABLE TO BANCOPOSTA

Item	Balar	nce at 31 d	lecember	2016	Balance at 31 december 2015			
(€m)	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 attributable to BancoPosta								
Loans and receivables	161	7,386	368	7,915	96	8,094	621	8,811
Loans	-	-	-	-	-	204	213	417
Receivables	161	7,386	368	7,915	96	7,890	408	8,394
Held-to-maturity financial assets	-	12,683	-	12,683	-	12,886	_	12,886
Fixed-income instruments	-	12,683	_	12,683	-	12,886	_	12,886
Available-for-sale financial assets	-	37,159	-	37,159	-	32,415	_	32,415
Fixed-income instruments	-	37,159	_	37,159	-	32,415	_	32,415
Derivative financial instruments	20	149	22	191	25	256	48	329
Cash flow hedges	-	39	_	39	3	44	_	47
Fair value hedges	20	110	22	152	22	212	48	282
Fair value through profit or loss	_	_	_	_	_	_	_	_
Total	181	57,377	390	57,948	121	53,651	669	54,441

CREDIT RISK ON FINANCIAL ASSETS

Item	Balance at 31 december 2016				Balance at 31 december 2015			
(<i>€m</i>)	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	_	51	719	770	-	55	895	950
Loans	-	_	712	712	-	_	887	887
Receivables	-	51	7	58	_	55	8	63
Held-to-maturity financial assets	-	-	-	-	-	_	_	_
Fixed-income instruments	_	-	-	-	_	_	-	-
Available-for-sale financial assets	_	562	-	562	-	569	-	569
Fixed-income instruments	_	562	-	562	-	569	_	569
Derivative financial instruments	_	_	_	_	_	_	_	_
Cash flow hedges	-	_	_	-	-	_	_	_
Fair value hedges	-	-	-	-	_	_	_	_
Fair value through profit or loss	-	-	-	-	_	-	_	_
Total	-	613	719	1,332	_	624	895	1,519

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).

The entire process of managing **trade receivables** is conducted in accordance with the Company's "Trade Receivable Policy", approved on 30 July 2012. The policy provides guidelines for managing trade receivables throughout customer relationships, from measurement, when entering into new contracts and in contract renewals, the sustainability of credit risk associated with the proposed contract and the customer's creditworthiness, through to settlement and credit recovery. The policy is accompanied by specific operational procedures that, partly in accordance with Legislative Decree 231/2001, provide detailed guidance for the monitoring of outstanding receivables and the conduct of efforts at amicable recovery and of legal action.

The Company's exposure to credit risk for the various categories of trade receivable at 31 December 2016 is shown in the table below.

CREDIT RISK ON TRADE RECEIVABLES

Description	At 31 dece	ember 2016	At 31 dece	mber 2015
(€m)	Carrying amount	Specific impairments	Carrying amount	Specific impairments
Trade receivables				
Due from customers	1,573	(342)	1,527	(328)
Cassa Depositi e Prestiti	364	-	397	_
Ministries and public entities	472	(115)	461	(112)
Overseas postal operators	280	-	233	_
Private customers	457	(227)	436	(216)
Due from MEF	236	(31)	322	(147)
Due from subsidiaries	290	-	293	_
Due from associates	_	-	-	_
Total	2,099		2,142	
of which past due	327		421	

In relation to "Revenue and receivables due from the state", the nature of the Company's customers, the structure of revenue and the method of collection limit the risk of default on trade receivables. However, as explained in note 2.4, in the case of certain of the 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 Company's **other receivables and assets** exposed to the risk in question at 31 December 2016 are shown in the table below.

CREDIT RISK ON OTHER RECEIVABLES AND ASSETS

Description	At 31 dece	mber 2016	At 31 december 2015		
(€ <i>m</i>)	Carrying amount	Specific impairments	Carrying amount	Specific impairments	
Other receivables and assets					
Due from tax authorities – tax withholdings	1,388	-	1,219	-	
Receivables due from staff under fixed-term contract settlements	204	(7)	232	(6)	
Accrued income and prepaid expenses from trading transactions	6	-	6	_	
Tax assets	_	-	1	-	
Due from subsidiaries	59	-	3	_	
Other receivables	218	(52)	191	(50)	
Amount due under 2015 Stability Law implementing EU Court sentence	6	-	_	_	
Interest accrued on IRES refund	46	-	46	-	
Total	1,927		1,698		
of which past due	46		45		

Lastly, 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, Poste Italiane SpA's exposure to sovereign debt(112) at 31 December 2016 is shown in the table below, which provides details of the nominal value, carrying amount and fair value of each type of portfolio.

EXPOSURE TO SOVEREIGN DEBT

Item	At 31	december	2016	At 31 december 2015			
(€m)	Nominal value	Carrying amount	Fair value	Nominal value	Carrying amount	Fair value	
Financial assets attributable to BancoPosta							
Italy	43,070	48,334	50,098	37,540	43,801	45,972	
Held-to-maturity financial assets	12,392	12,683	14,447	12,612	12,886	15,057	
Available-for-sale financial assets	30,678	35,651	35,651	24,928	30,915	30,915	
Financial assets at FV through profit or loss	-	-	-	-	-	-	
Financial assets							
Italy	500	562	562	500	569	569	
Held-to-maturity financial assets	-	_	-	-	-	-	
Available-for-sale financial assets	500	562	562	500	569	569	
Financial assets at FV through profit or loss	-	-	-	_	-	-	
Total	43,570	48,896	50,660	38,040	44,370	46,541	

Liquidity risk

In order to minimise the risk of experiencing difficulties in raising sufficient funds, at market conditions, to meet its obligations, the Company 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;

^{(112) &}quot;Sovereign debt" includes bonds issued by, and loans provided to, central and local governments and government bodies.

- 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 Company liabilities and assets at 31 December 2016, in terms of liquidity risk.

LIQUIDITY RISK - LIABILITIES

(€m)	At 31 december 2016 At 31 december 2015					ber 2015		
	Within 12 months	Between 1 and 5 years	Over 5 years	Total	Within 12 months	Between 1 and 5 years	Over 5 years	Total
Financial liabilities attributable to BancoPosta	21,923	13,540	21,455	56,918	22,370	12,351	17,129	51,850
Postal current accounts	16,095	8,739	20,611	45,445	18,699	8,510	16,600	43,809
Borrowings	1,226	4,155	_	5,381	1,504	3,428	_	4,932
Other financial liabilities	4,602	646	844	6,092	2,167	413	529	3,109
Financial liabilities	66	1,184	54	1,304	615	1,209	56	1,880
Trade payables	1,384	-	-	1,384	1,229	-	-	1,229
Other liabilities	1,557	977	30	2,564	1,475	833	35	2,343
Total liabilities	24,930	15,701	21,539	62,170	25,689	14,393	17,220	57,302

The above table shows expected cash outflows at the date of the financial statements, broken down by maturity. The maturities of postal current account deposits are based on a statistical/econometric model of typical postal current account interest rates and maturities, in turn based on a prudent projection of the future volume of deposits. 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 2016.

LIQUIDITY RISK - ASSETS

Description	At	31 decemb	per 2016		At 31 december 2015				
(€m)	Within 12 months	Between 1 and 5 years	Over 5 years	Total	Within 12 months	Between 1 and 5 years	Over 5 years	Total	
Financial assets attributable to BancoPosta									
Loans	-	-	-	-	417	-	-	417	
Receivables	7,932	8	_	7,940	8,394	-	_	8,394	
Deposits with the MEF	6,214	-	_	6,214	5,899	-	-	5,899	
Other financial receivables	1,718	8	_	1,726	2,495	_	_	2,495	
Held-to-maturity financial assets	1,399	6,389	7,837	15,625	1,864	6,544	7,689	16,097	
Fixed-income instruments	1,399	6,389	7,837	15,625	1,864	6,544	7,689	16,097	
Available-for-sale financial assets	2,005	9,087	36,522	47,614	1,657	9,047	30,059	40,763	
Fixed-income instruments	2,005	9,087	36,522	47,614	1,657	9,047	30,059	40,763	
Financial assets	-	740	482	1,222	584	83	1,148	1,815	
Trade receivables	2,095	1	3	2,099	2,137	2	3	2,142	
Other receivables and assets	937	952	66	1,955	832	820	81	1,733	
Cash and deposits attributable to BancoPosta	2,494	_	-	2,494	3,161	-	_	3,161	
Cash and cash equivalents	2,715	_	-	2,715	1,520		_	1,520	
Total assets	19,577	17,177	44,910	81,664	20,566	16,496	38,980	76,042	

Assets, broken down by maturity, are shown above at nominal value and increased, where applicable, by interest receivable. Investments in fixed income securities are shown on the basis of expected cash flows, which consist of principal and interest paid at the various payment dates.

In terms of BancoPosta RFC's specific operations, the liquidity risk regards current account deposits, the related investment of the deposits in Eurozone government securities 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 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.

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 Eurozone government securities are highly liquid assets and can be used as collateral in interbank reverse repurchase agreements to obtain short-term financing. This practice is normally adopted by BancoPosta.

Cash flow interest rate risk

Cash flow interest rate risk 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 2016 on the Company's positions is shown in the table below.

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CASH FLOW INTEREST RATE RISK

Item	Position	Change in	n value	Pre-tax profit		
(<i>€m</i>)	Nominal	+100 bps	-100 bps	+100 bps	-100 bps	
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)	
2015 effects						
Financial assets attributable to BancoPosta						
Receivables						
Amounts due from MEF	5,855	59	(59)	59	(59)	
Other financial receivables	864	9	(9)	9	(9)	
Available-for-sale financial assets						
Fixed-income instruments	1,335	13	(13)	13	(13)	
Financial assets						
Loans	805	8	(8)	8	(8)	
Receivables						
Other financial receivables	52	1	(1)	1	(1)	
Available-for-sale financial assets						
Fixed-income instruments	375	4	(4)	4	(4)	
Cash and deposits attributable to BancoPosta						
Bank deposits	218	1	(1)	1	(1)	
Cash and cash equivalents						
Deposits with the MEF	391	4	(4)	4	(4)	
Bank deposits	29	_	_	_	-	
Financial liabilities attributable to BancoPosta						
Other financial liabilities	(81)	(1)	1	(1)	1	
Financial liabilities						
Financial liabilities due to subsidiaries	(72)	(1)	1	(1)	1	
Other financial liabilities	(1)		-	-		
Variability at 31 December 2015	9,770	97	(97)	97	(97)	

Specifically, with respect to **financial assets attributable to BancoPosta**, the cash flow interest rate risk primarily relates to:

- investment 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 €6,189 million; fixed and variable rate government bonds with a total nominal value of €170 million, as well as fixed rate bonds swapped into variable rate through fair value hedges, with a total nominal amount of €1,965 million; and an inflation-linked bond issued by the Italian Republic, with a nominal value of €100 million, which has been hedged against changes in its fair value;
- receivables of €1,435 million reflecting collateral posted to secure liabilities arising in relation to derivative financial instruments.

With respect to **financial assets**, the cash flow interest rate risk primarily relates to:

- loans to other Group companies, totalling €630 million;
- fixed rate government bonds swapped into variable rate bonds via fair value hedges, amounting to a total nominal amount of €375 million.

In relation to **cash and cash equivalents**, cash flow interest rate risk primarily regards amounts deposited with the MEF and held in the so-called buffer account (€1,310 million).

Cash flow inflation risk

At 31 December 2016, cash flow inflation rate risk regards inflation-linked government securities not subject to cash flow hedges held by BancoPosta RFC for a nominal amount of €2,120 million and a fair value of €2,605 million. A sensitivity analysis showed negligible effects.

E2 - Other risks

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.

At 31 December 2016, 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
	25
Internal fraud	33
External fraud	52
Employee practices and workplace safety	8
Customers, products and business practices	37
Damage to tangible assets	4
Business disruption and system failure	7
Process execution, management and delivery	164
Total at 31 december 2016	307

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.

Reputational risk

The main element of exposure to this risk is the fact that the Company's business is by its nature exposed to elements of reputational risk, linked to market performance and primarily associated with the placement of 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, the Company 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 Company'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 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. In this regard, on 16 January 2017, Poste Italiane's Board of Directors passed a resolution aimed at consolidating its historical customer relationships, based on trust and transparency. This will involve taking steps to protect all the customers who, in 2003, purchased units issued by the Invest Real Security real estate fund, against a different economic and regulatory backdrop compared with today's, and still held the units at 31 December 2016, the date of the Fund's maturity. The aim was 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 "Interim Liquidation Distribution" (the "Difference"). To anyone having reached the age of 80 at 31 December 2016, Poste Italiane has committed to pay, from its own resources, the Difference in the form of an amount to be credited to a current account or a postal savings book; other customers will be offered the option of taking out a Class I life insurance policy in which to invest the proceeds received from the Fund. To ensure that the value of the policy, which has a duration of 5 years, reaches the amount representing the Difference on maturity, Poste Italiane has committed to topping up the amount invested from its own resources. The estimated liabilities resulting from this initiative have been recognised in "Provisions for risks and charges" (section B.4).

Information on categories of reputational risk other than those linked to the sale of financial products is provided below.

A call for tenders was launched in 2015 to select a Customer Service provider for the Group. On completion of the tender process, the companies to which SDA Express Courier had outsourced the services until the end of 2015 -Uptime SpA and Gepin Contact SpA (the other shareholder in Uptime SpA) – were not awarded the contract and, on 30 December 2015, SDA terminated its relationships with these companies, as provided for in the relevant contracts with effect from 1 July 2016.

With the regard to the transaction's impact on jobs, on 16 March 2016, an Ordinary General Meeting of Uptime SpA's shareholders determined, with the vote of the majority shareholder (Gepin) alone, to terminate operations and windup the company. The shareholder, SDA, abstained. Following the start of the process that will make all 93 employees redundant, on 31 May 2016, Poste Italiane and labour unions representing most of the workers involved reached agreement on the redeployment of the workers involved. This envisages, among other things, that Poste Italiane will hire all former Uptime employees who have failed to find alternative employment by 31 December 2016 on permanent part-time contracts.

In the second half of February 2017, following the outplacements provided for in the above agreement, the process of finding positions at Poste Italiane for personnel who have failed to find alternative employment began. As regards Gepin, efforts are being made, in collaboration with the Ministry for Economic Development, to find solutions for the company's personnel.

Strictly in terms of employment law, in recent months, a number of former employees of Uptime/Gepin have filed a claim for wrongful dismissal, despite the agreements reached and the negotiations in progress.

From a civil law standpoint, Gepin and Uptime SpA have brought a number of legal actions. Gepin has filed a claim for damages from SDA, amounting to €15.5 million, due 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 that were in any event not provided. SDA has challenged the claims in court.

Finally, on 21 December 2016, Poste Italiane and SDA were served a writ of summons by Gepin and Uptime, containing joint and several claims for approximately €66.4 million, as compensation for the damages incurred by Uptime as a result of the alleged unjustified termination of the above contract, and for approximately €16.2 million, as compensation for the damages incurred by Gepin as a result of the alleged reduction in the value of its investment. These claims will also be opposed in court.

Proceedings pending and relations with the authorities

F1 - Proceedings pending and relations with the authorities

Proceedings pending and relations with the authorities are the same, where referring to Poste Italiane SpA, as those reported on in the specific section of the consolidated financial statements.

Material non-recurring events and/or transactions

G1 - Material non-recurring events and/or transactions

A brief summary of the impact of material non-recurring events and transactions, involving Poste Italiane in 2016, is provided below, as required by CONSOB ruling DEM/6064293 of 28 July 2006. In this regard, 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:

- the sale of the share in Visa Europe Ltd to Visa Incorporated, resulting in the Company's recognition of a non-recurring realised gain, accounted for in "Other income from financial activities" at a total fair value of €121 million. The impact on profit or loss and the financial position are described in detail in section A5;
- the 2016 Stability Law, which has reduced the IRES rate from 27.5% to 24% with effect from 1 January 2017.
 Non-recurring charges of €14 million were recognised in the period under review, following a reassessment of
 deferred tax assets due to the occurrence of temporary taxable differences that differed from those estimated in
 2015.

Exceptional and/or unusual transactions

H1 - Exceptional and/or unusual transactions

Under the definition provided by the CONSOB ruling of 28 July 2006, Poste Italiane did not conduct any exceptional and/or unusual transactions in 2016.

In this regard, 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.

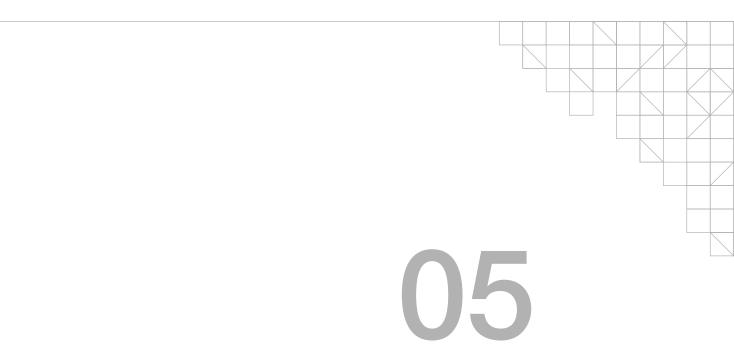
Events after the end of the reporting period

I1 – Events after the end of the reporting period

Other events after the end of the reporting period are described in the notes.

BancoPosta RFC Separate Report

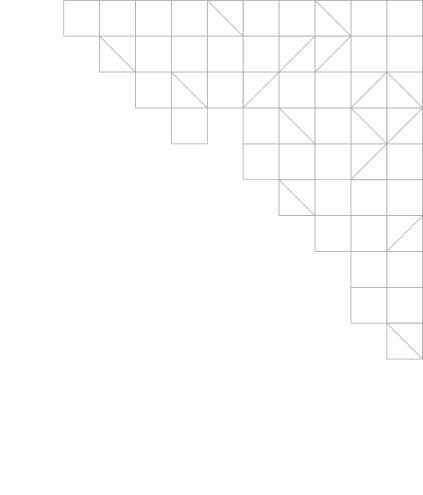
for the year ended 31 December 2016



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Financial statements

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER

	Assets (€)	2016	2015
10.	Cash and cash equivalents	2,510,820,434	3,168,696,276
20.	Financial assets held for trading	_	-
30.	Financial assets designated at fair value	_	-
40.	Available-for-sale financial assets	37,263,441,355	32,597,102,765
50.	Held-to-maturity financial assets	12,682,587,907	12,886,100,728
60.	Due from banks	1,314,337,052	1,210,783,397
70.	Due from customers	9,004,203,937	9,023,554,259
80.	Hedging derivatives	190,911,119	327,730,373
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:	320,870,907	129,913,647
	a) current	_	-
	b) deferred	320,870,907	129,913,647
	of which Law 214/2011	-	_
140.	Non-current assets held for sale and discontinued operations	-	-
150.	Other assets	1,765,994,097	1,625,831,275
	Total assets	65,053,166,808	60,969,712,720

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STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER

	Liabilities and equity (€)	2016	2015
10.	Due to banks	5,798,577,802	5,259,019,447
20.	Due to customers	50,373,852,771	45,469,047,813
30.	Debt securities in issue	-	-
40.	Financial liabilities held for trading	-	-
50.	Financial liabilities designated at fair value	-	-
60.	Hedging derivatives	2,304,549,533	1,547,084,115
70.	Adjustments for changes in hedged financial liabilities portfolio (+/-)	-	-
80.	Tax liabilities:	530,290,120	967,192,292
	a) current	-	-
	b) deferred	530,290,120	967,192,292
90.	Liabilities associated with non-current assets held for sale and discontinued operations	-	_
100.	Other liabilities	2,178,775,258	2,281,885,504
110.	Employee termination benefits	18,556,806	19,037,777
120.	Provisions for risks and charges:	462,396,773	384,292,349
	a) post-employment benefits	-	-
	b) other provisions	462,396,773	384,292,349
130.	Valuation reserves	868,891,183	2,506,187,180
140.	Redeemable shares	-	-
150.	Equity instruments	-	-
160.	Reserves	1,948,999,822	1,948,996,672
170.	Share premium reserve	-	-
180.	Share capital	-	-
190.	Treasury shares (–)	_	_
200.	Profit/(Loss) for the year (+/-)	568,276,740	586,969,571
	Total liabilities and equity	65,053,166,808	60,969,712,720

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER

	Income/(Expense) (€)	2016	2015
10.	Interest and similar income	1,542,998,078	1,544,985,186
20.	Interest and similar expense	(73,840,796)	(54,907,970)
30.	Net interest income	1,469,157,282	1,490,077,216
40.	Fee and commission income	3,602,704,357	3,538,129,910
50.	Fee and commission expense	(66,084,130)	(54,748,272)
60.	Net fee and commission income	3,536,620,227	3,483,381,638
70.	Dividends and similar income	690,388	478,412
80.	Profits/(Losses) on trading	3,133,641	8,648,747
90.	Fair value adjustments in hedge accounting	(910,193)	338,982
100.	Profits/(Losses) on disposal or repurchase of:	587,484,549	426,100,371
	a) loans and advances	-	-
	b) available-for-sale financial assets	593,952,484	426,100,371
	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	5,596,175,894	5,409,025,366
130.	Net losses/recoveries on impairment of:	(6,363,522)	(10,955,347)
	a) loans and advances	(6,363,522)	(10,955,347)
	b) available-for-sale financial assets	-	-
	c) held-to-maturity financial assets	_	-
	d) other financial transactions	-	-
140.	Net income from banking activities	5,589,812,372	5,398,070,019
150.	Administrative expenses:	(4,653,115,006)	(4,443,019,490)
	a) personnel expenses	(98,478,270)	(95,364,883)
	b) other administrative expenses	(4,554,636,736)	(4,347,654,607)
160.	Net provisions for risks and charges	(94,802,615)	(60,108,188)
170.	Net losses/recoveries on property, plant and equipment	_	-
180.	Net losses/recoveries on intangible assets	-	-
190.	Other operating income/(expenses)	(39,373,904)	(37,100,929)
200.	Operating expenses	(4,787,291,525)	(4,540,228,607)
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	802,520,847	857,841,412
260.	Taxes on income from continuing operations	(234,244,107)	(270,871,841)
270.	Income/(Loss) after tax from continuing operations	568,276,740	586,969,571
280.	Income/(Loss) after tax from discontinued operations	_	
290.	Profit/(Loss) for the year	568,276,740	586,969,571

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER

	Income/(Expense) (€)	2016	2015
10.	Profit/(Loss) for the year	568,276,740	586,969,571
	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	(422,365)	667,332
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	(25,835,153)	(39,552,689)
100.	Available-for-sale financial assets	(1,611,038,479)	926,865,737
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	(1,637,295,997)	887,980,380
140.	Comprehensive income (Items 10+130)	(1,069,019,257)	1,474,949,951

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STATEMENT OF CHANGES IN EQUITY

(€)					at 31	December 2016				
	Share ca	apital	Share	Res	serves	Valuation	Equity	Treasury	Profit/(Loss)	Equity
	ordinary shares	other shares	premium reserve	retained earnings	other (*)	reserves	instruments	shares	for the year	
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

(€)					at 31	December 2015				
	Share ca	apital	Share	Res	erves	Valuation	Equity	Treasury	Profit/(Loss)	Equity
	ordinary shares	other shares	premium reserve	retained earnings	other (*)	reserves	instruments	shares	for the year	
Closing balances at 31 December 2014	-	-	-	798,990,000	1,000,000,000	1,618,206,800	-	-	439,664,565	3,856,861,365
Adjustments to opening balances	-	-	-	-	-	-	-	-	-	-
Opening balances at 1 January 2015	-	-	-	798,990,000	1,000,000,000	1,618,206,800	-	-	439,664,565	3,856,861,365
Attribution of retained earnings	-	-	-	150,000,000	-	-	-	-	(439,664,565)	(289,664,565)
Reserves	-	-	-	150,000,000	-	-	-	-	(150,000,000)	-
Dividends and other attributions	-	-	-	-	-	-	-	-	(289,664,565)	(289,664,565)
Movements during the year	-	-	-	6,672	-	887,980,380	-	-	586,969,571	1,474,956,623
Movements in reserves	-	-	-	6,672	-	-	-	-	-	6,672
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 2015	-	-	-			887,980,380		-	586,969,571	1,474,949,951
Equity at 31 December 2015	_	-	_	948,996,672	1,000,000,000	2,506,187,180	_	-	586,969,571	5,042,153,423

 $[\]ensuremath{^{(7)}}\textsc{This}$ item corresponds to the BancoPosta RFC reserve.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER Indirect method

	(€)	2016	2015
A.	OPERATING ACTIVITIES		
1.	Cash flow from operations	650,037,706	712,635,151
	- profit/(loss) for the year (+/-)	568,276,740	586,969,571
	 gains/(losses) on financial assets held for trading and on assets and liabilities designated at fair value (-/+) 	68,387	(2,233,704)
	- gains/(losses) on hedging activities (-/+)	910,193	(338,982)
	- net losses/recoveries on impairment (+/-)	6,363,522	10,955,347
	- net losses/recoveries on property, plant and equipment (+/-)	0,303,322	10,900,047
	- net provisions and other expenses/income (+/-)	398,219,073	252,210,138
	- unpaid taxes and duties (+)		
	- net losses/recoveries on discontinued operations after tax (+/-)	234,017,820	270,871,841
		(FE7.010.000)	(405 700 060)
0	- other adjustments (+/-)	(557,818,029)	(405,799,060)
2.	Cash flow from/(used for) financial assets	(5,941,565,182)	(3,687,945,062)
	- financial assets held for trading		
	- financial assets designated at fair value	(F 407 004 00F)	(0.700.000.4.44)
	- available-for-sale financial assets	(5,467,991,805)	(2,723,802,144)
	- due from banks: on demand	(399,288)	2,255,643
	- due from banks: other	(103,403,902)	(387,971,864)
	- due from customers	20,821,972	(447,817,062)
	- other assets	(390,592,159)	(130,609,635)
3.	Cash flow from/(used for) financial liabilities	5,041,164,367	2,359,509,304
	- due to banks: on demand	101,623,433	(3,119,823)
	- due to banks: other	437,934,922	(288,643,679)
	- due to customers	4,904,804,958	2,901,878,024
	- debt securities in issue	-	-
	- financial liabilities held for trading	-	_
	- financial liabilities designated at fair value	-	_
	- other liabilities	(403,198,946)	(250,605,218)
Net	cash flow from/(used for) operating activities	(250,363,109)	(615,800,607)
B.	INVESTING ACTIVITIES		
1.	Cash flow from	1,300,000,002	1,196,000,003
	- disposal of investments	-	_
	- dividends received on investments	-	-
	- disposal of held-to-maturity financial assets	1,300,000,002	1,196,000,003
	- disposal of property, plant and equipment	-	-
	- disposal of intangible assets	-	_
	- disposal of business division	-	-
2.	Cash flow used for	(1,120,543,164)	-
	- acquisition of investments	-	-
	- acquisition of held-to-maturity financial assets	(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	179,456,838	1,196,000,003
C.	FINANCING ACTIVITIES		
	- issuance/purchase of own shares	_	_
	- issuance/purchase of equity instruments	_	_
	- dividends and other payments	(586,969,571)	(289,664,565)
Net	cash flow from / (used for) financing activities	(586,969,571)	(289,664,565)
	T CASH FLOW GENERATED / (USED) DURING THE YEAR	(657,875,842)	290,534,831
	The second secon	(55. ,57 5,5 72)	

KEY:

(+) from

(-) used for

Reconciliation for the year ended 31 December

Item (€)	2016	2015
Cash and cash equivalents at beginning of the year	3,168,696,276	2,878,161,445
Net cash flow generated/(used) during the year	(657,875,842)	290,534,831
Cash and cash equivalents: foreign exchange effect	_	-
Cash and cash equivalents at end of the year	2,510,820,434	3,168,696,276

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 15 March 2017, the date on which the Board of Directors of Poste Italiane SpA approved the BancoPosta RFC Separate Report as part of the Company's Annual Report.

Accounting standards and interpretations applicable from 1 January 2016

The relevant information is provided in note 2.6 – New Accounting standards and interpretations and those soon to be effective – in this section – Poste Italiane financial statements – of the Annual Report.

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, 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 2016, 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 of comprehensive income for the sake of completeness. The statement of cash flows has been prepared using the indirect method⁽¹¹³⁾. All figures in the notes are stated in millions of euros. Notes and account analysis have not been included for nil balances.

Certain reclassifications have been made in the financial statements and notes to assure the consistency of comparatives with the figures for 2016.

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

No material events occurred after the end of the reporting period for this Separate Report for the year ended 31 December 2016.

⁽¹¹³⁾ 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.

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 2016 as shown below:

		December 2016	intersegment	December 2015	of which intersegment
	Assets				
10.	Cash and cash equivalents	2,511	-	3,169	-
40.	Available-for-sale financial assets	37,263	-	32,597	-
50.	Held-to-maturity financial assets	12,683	-	12,886	-
60.	Due from banks	1,314	_	1,211	-
70.	Due from customers	9,004	632	9,023	580
80.	Hedging derivatives	191	_	328	-
130.	Tax assets	321	-	130	-
150.	Other assets	1,766	29	1,626	-
	A Total assets	65,053	661	60,970	580
	Liabilities and equity				
10.	Due to banks	5,799	-	5,259	-
20.	Due to customers	50,374	82	45,469	93
60.	Hedging derivatives	2,305	-	1,547	-
80.	Tax liabilities	530	_	967	-
100.	Other liabilities	2,178	297	2,283	273
110.	Employee termination benefits	19	_	19	-
120.	Provisions for risks and charges	462	-	384	-
130.	Valuation reserves	869	-	2,506	-
160.	Reserves	1,949	_	1,949	_
200.	Profit/(Loss) for the year (+/-)	568	_	587	
	B Total liabilities and equity	65,053	379	60,970	366
	A-B Net intersegment balances		282		214

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 2015, 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. The resulting transfer prices are reviewed annually.

For the purposes of oversight of the unbundled accounts, in 2016 the Board of Statutory Auditors conducted the relevant audit activities during 4 meetings, reporting its conclusions in its annual report to shareholders for the year ended 31 December 2016.

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. Specifically, the Authority claimed that, in advertising campaigns in February 2015, emphasis was placed on returns offered by Libretto Smart without providing details of the offer the advertised returns were associated with. On 12 June 2015, the Authority notified its rejection of the proposed set of commitments and its intention to ascertain whether any violation had occurred. On 3 July 2015, the Authority notified its intention to extend the investigation to include Cassa Depositi e Prestiti SpA. 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 (RG 2288/16) on 24 February 2016. At the hearing held on 23 March 2016, the court adjourned the case until a hearing on the merits. In addition, on 7 March 2016, the AGCM, as part of a compliance audit, sent a request for information on the nature of the Libretto Smart product from 1 July 2015 and on the related "Supersmart" offering. Poste Italiane replied to the Authority on 22 March 2016, and on 24 June 2016 AGCM informed Poste Italiane that insufficient evidence is currently available to conduct an investigation.

On 13 March 2017, the AGCM notified Poste Italiane SpA of the launch of investigation pursuant to art. 27, paragraph 3 of the Consumer Code, with the aim of assessing whether or not the unilateral changes to the *Bancopostaclick* contract and to the fees applicable to the Postamat payment card constitute unfair commercial practices.

Above all, the Authority intends to investigate whether Poste Italiane has failed to provide accurate information regarding the free nature of the Postamat card for *Bancopostaclick* current account customers, wrongfully inducing account holders to accept the additional cost of the Postamat card, not granting them the right to withdraw from the part of the contract relating to the Postamat card alone and providing for withdrawal from the current account package as a whole.

Bank of Italy

On 10 February 2017, the Bank of Italy ordered an inspection of Poste Italiane SpA in relation to BancoPosta RFC's operations, in accordance with art. 54 of Legislative Decree 385 of 1 September 1993. The inspection will look at governance and control systems and the management of operational and IT risks.

CONSOB

The process of preparing for the introduction of the new "guided consultancy" service provided for in the Plan submitted to the CONSOB, following the inspection completed in 2014, has been completed. In line with the related plan submitted to the CONSOB on 1 June 2016, the new IT platform for the "guided consultancy" service was rolled out in 5 "pilot" post offices on 17 October. The platform was then implemented in a further 100 offices during the last quarter of 2016.

The new "guided consultancy" platform has introduced standardised procedures designed to aid in identifying the best investment solution for the customer, keeping a systematic record of manager-customer relations. In this regard, as set out in the information provided to the CONSOB in December 2016, the platform is to be gradually rolled out in all post offices according to a programme that will be completed at the end of 2017. Priority is being given to the "MiFID offices with consulting rooms" (approximately 3,900, covering 83% of the target customers), which will migrate to the new platform in the first half of 2017.

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

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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(114) 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.

⁽¹¹⁴⁾ 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.

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.

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

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. In those rare cases, in which disclosure of some or all of the information regarding the risks in question could seriously prejudice BancoPosta RFC's position in a dispute or in ongoing negotiations with third parties, BancoPosta RFC exercises the option granted by the relevant accounting standards to provide limited disclosure.

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 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 have been 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.

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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⁽¹¹⁵⁾, 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 financial statements is based on calculations performed by independent actuaries. The termination of employment (TFR) 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. As the 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.

Termination benefits

Termination benefits payable to employees are recognised as a liability when the entity decides 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. Generally, there is not the same degree of uncertainty regarding the measurement of other long-term employee benefits as there is in relation to post-employment benefits. As a result, IAS 19 permits use of a simplified method of accounting: 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 based on 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

⁽¹¹⁵⁾ 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.

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 Part A, Section A.4.1.

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 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.

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Share-based payments

As more fully described in Part I – Share-based payment arrangements, on 24 May 2016, the Annual General Meeting of Poste Italiane SpA's shareholders approved the "Long-term Incentive Plan for 2016-2018 (LTIP) – Phantom Stock Plan". 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, based partly on the conclusions reached by independent actuaries, 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 principles and rules to be applied in measuring the fair value of financial instruments 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.

In compliance with IFRS 13 - Fair Value Measurement, as endorsed by EU Regulation 1255/2012 of 11 December 2012, 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 quoted on the MTS (wholesale electronic market for government securities). 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.

- 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 paver legs of the swap. The construction of vield 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.

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
- 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 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 34%.

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.

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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	At 31	December	2016	At 31	December :	2015
(€m)	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	35,280	1,956	27	30,648	1,838	111
4. Hedging derivatives	_	191	_	-	328	-
5. Property, plant and equipment	_	-	_	-	-	-
6. Intangible assets	_	-	_	-	-	-
Total	35,280	2,147	27	30,648	2,166	111
1. Financial liabilities held for trading	_	_	_	-	_	-
2. Financial liabilities designated at fair value	-	-	_	-	-	-
3. Hedging derivatives	-	2,305	-	-	1,547	-
Total	-	2,305	-	-	1,547	_

^(*) 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)

(€ <i>m</i>)	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	-	-	111	-	_	-
2. Increases	-	-	27	-	-	-
2.1. Purchases	-	_	25	-	-	-
2.2. Profit recognition:	-	_	2	-	-	-
2.2.1. Profit or loss	-	_	-	-	-	-
- of which gains	-	-	-	-	_	_
2.2.2. Equity	Х	Х	2	-	-	-
2.3. Transfers from other levels	-	_	-	-	-	-
2.4. Other increases	-	-	-	-	_	_
3. Decreases	_	-	(111)	-	_	_
3.1. Disposals	-	_	(111)	-	-	-
3.2. Repayments	_	-	-	-	_	_
3.3. Impairment recognition:	-	_	-	-	-	-
3.3.1. Profit or loss	_	-	-	-	_	_
- of which loss	-	-	-	-	_	_
3.3.2. Equity	Х	Х	-	-	_	-
3.4. Transfers to other levels	-		-	_		_
3.5. Other decreases	_		_	-	_	_
4. Closing balance	_	_	27	_	_	_

Movements during the period in question include the sale of the investment in Visa Europe Ltd. (at 31 December 2015, accounted for at a fair value of €111 million), as described in Part B, Section 4 of Assets and the recognition of the Series C Visa Inc. Convertible Preferred Stock received as partial payment.

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

ir value or not measured at		ioc at or D	ecember 20)16	Balance at 31 December			ber 2015		
value on a recurring basis by	Carrying Fair Value			Carrying	Fair Value					
value level	amount ⁻	Level 1	Level 2	Level 3	amount -	Level 1	Level 2	Level 3		
Held-to-maturity financial assets	12,683	14,447	_	-	12,886	15,057	_	_		
Due from banks	1,314	_	-	1,314	1,211	_	417	794		
Due from customers	9,004	_	-	9,004	9,023	_	_	9,023		
Property, plant and equipment held for investment purposes	_	_	_	-	_	_	_	-		
Non-current assets held for sale and discontinued operations	_	_	_	_	_	_	_	_		
al	23,001	14,447	-	10,318	23,120	15,057	417	9,817		
Due to banks	5,799	_	5,419	418	5,259	_	4,949	364		
Due to customers	50,374	-	-	50,374	45,469	_	_	45,469		
Debt securities in issue	_	_	_	-	_	_	_	_		
Liabilities associated with non- current assets held for sale and discontinued operations	_	_	-	_		_	_			
al	56,173	-	5,419	50,792	50,728	-	4,949	45,833		
	Held-to-maturity financial assets Due from banks Due from customers Property, plant and equipment held for investment purposes Non-current assets held for sale and discontinued operations al Due to banks Due to customers Debt securities in issue Liabilities associated with noncurrent assets held for sale and discontinued operations	Held-to-maturity financial assets Due from banks 1,314 Due from customers 9,004 Property, plant and equipment held for investment purposes Non-current assets held for sale and discontinued operations al 23,001 Due to banks 5,799 Due to customers 50,374 Debt securities in issue Liabilities associated with non-current assets held for sale and discontinued operations -	Held-to-maturity financial assets 12,683 14,447 Due from banks 1,314 - Due from customers 9,004 - Property, plant and equipment held for investment purposes Non-current assets held for sale and discontinued operations 23,001 14,447 Due to banks 5,799 Due to customers 50,374 - Liabilities associated with non-current assets held for sale and discontinued operations	Held-to-maturity financial assets 12,683 14,447 Due from banks 1,314 Property, plant and equipment held for investment purposes Non-current assets held for sale and discontinued operations 23,001 14,447 Due to banks 5,799 5,419 Due to customers 50,374 Liabilities associated with non-current assets held for sale and discontinued operations Liabilities associated with non-current assets held for sale and discontinued operations	Held-to-maturity financial assets 12,683 14,447 Due from banks 1,314 Due from customers 9,004 Property, plant and equipment held for investment purposes Non-current assets held for sale and discontinued operations 23,001 14,447 10,318 Due to banks 5,799 5,419 418 Due to customers 50,374 Debt securities in issue Liabilities associated with non-current assets held for sale and discontinued operations	Held-to-maturity financial assets 12,683 14,447 12,886 Due from banks 1,314 1,314 1,211 Due from customers 9,004 9,004 9,023 Property, plant and equipment held for investment purposes	Level 1 Level 2 Level 3 Level 1 Level 2 Level 3 Level 1 Level 1 Level 2 Level 3 Level 1 Level 1 Level 2 Level 3 Level 3 Level 1 Level 2 Level 3 Leve	Held-to-maturity financial assets 12,683 14,447 12,886 15,057 - Due from banks 1,314 1,314 1,211 - 417 Due from customers 9,004 9,004 9,023 Property, plant and equipment held for investment purposes Non-current assets held for sale and discontinued operations 50,374 50,374 45,469 Debt securities in issue Liabilities associated with non-current assets held for sale and discontinued operations		

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

IAS 39 requires financial instruments to be initially recognised at fair value, which is equal to the "transaction price". The fair value of financial instruments not designated at fair value through profit or loss at the date of recognition normally coincides with the transaction price (the amount collected or paid). In the case of financial instruments designated at fair value through profit or loss and classifiable in level 3 (fair value determined with reference to unobservable inputs), any difference between the fair value and the transaction price generates a so-called "day one profit/loss". This difference is recognised in profit or loss if it arises from changes in the factors on which market participants base their considerations in setting prices (including time). 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 2016	Balance at 31 December 2015
a) Cash	2,288	2,953
b) Central bank deposits	223	216
Total	2,511	3,169

[&]quot;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 €9 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 2016 or 31 December 2015.

BancoPosta RFC also entered into transactions to acquire and immediately dispose of debt securities and equities on behalf of certain customers.

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").

4.1 Available-for-sale financial assets: analysis

Section 4 – Available-for-sale financial assets – Item 40

	ansaction Type/Amounts	Balance a	Balance at 31 December 2016			Balance at 31 December 2015			
(€r	n)	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3		
1.	Debt securities	35,280	1,879	-	30,648	1,767	-		
	1.1 Structured securities	-	_	-	_	_	_		
	1.2 Other debt securities	35,280	1,879	-	30,648	1,767	-		
2.	Equity instruments	-	77	27	_	71	111		
	2.1 At fair value	-	77	27	_	71	111		
	2.2 At cost	-	_	-	_	_	_		
3.	UCIs	-	_	-	_	-	-		
4.	Loans	-	-	-	_	-	-		
To	otal	35,280	1,956	27	30,648	1,838	111		

Debt securities carried at fair value total €37,159 million (€331 million of which being accrued interest). At 31 December 2016, securities with a nominal value of €165 million and a fair value of €206 million are encumbered, as they have been delivered to counterparties for use as collateral in connection with repurchase agreements.

Equity instruments comprise:

- €74 million, reflecting the fair value of 756,280 Class B shares of Mastercard Incorporated. These shares are not traded on an organised exchange but are convertible into an equal number of Class A shares, which are listed on the New York Stock Exchange, if disposal is desired;
- €27 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. In exchange for the share in Visa Europe Ltd. (116), Poste Italiane received a consideration of €121 million (a sum recognised as non-recurring income and entered in the income statement as "Profits/(Losses) on disposal or repurchase – Item 100"), consisting of:
 - €88 million in cash;
 - €25 million, representing the fair value of 32,059 Visa Incorporated preference shares (Series C Convertible Participating Preferred Stock), convertible at the rate of 13.952(117) 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;
 - €8 million payable by Visa Incorporated after three years from the closing of the transaction;
- €3 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.

⁽¹¹⁶⁾ On 21 December 2015, Visa Europe informed its Principal Members that each of them would receive a consideration for the purchase, and subsequent merger with and into the US-registered Visa Incorporated, of Visa Europe Ltd (in which Poste Italiane held an equity interest assigned to it when the company was incorporated).

⁽¹¹⁷⁾ 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

Tra (€n	nsaction Type/Amounts	Balance at 31 December 2016	Balance at 31 December 2015
1.	Debt securities	37,159	32,415
	a) Governments and Central Banks	35,650	30,915
	b) Other public entities	_	-
	c) Banks	_	_
	d) Other issuers	1,509	1,500
2.	Equity instruments	104	182
	a) Banks	_	-
	b) Other issuers	104	182
	- insurance companies	_	-
	- finance companies	104	182
	- non-finance companies	_	_
	- other	_	_
3.	UCIs	_	-
4.	Loans	_	-
	a) Governments and Central Banks	_	-
	b) Other public entities	_	-
	c) Banks	-	
	d) Other entities	_	-
Tot	al	37,263	32,597

Securities issued by other issuers with a fair value of €1,509 million regard two fixed rate securities with a nominal value of €750 million each. The securities pay six-monthly interest, have terms to maturity of 4 and 5 years, respectively, were issued by Cassa Depositi e Prestiti and are guaranteed by the Italian government.

4.3 Micro-hedged available-for-sale financial assets

Tra (€m	nsaction Type/Amounts	Balance at 31 December 2016	Balance at 31 December 2015
1.	Micro-fair value hedged financial assets	18,792	14,927
	a) Rate risk	18,792	14,927
	b) Price risk	_	_
	c) Foreign exchange risk	_	_
	d) Credit risk	_	-
	e) Multiple risks	_	_
2.	Micro-cash flow hedged financial assets	1,758	2,177
	a) Rate risk	1,758	2,177
	b) Foreign exchange risk	_	-
	c) Other	_	_
Tot	al	20,550	17,104

4.4 Available-for-sale financial assets: movements during the year

(€m)		Debt securities	Equity instruments	UCIs	Loans	Total
A.	Ope	ning balance	32,415	182	-	_	32,597
B.	Incre	eases	8,897	33	-	-	8,930
	B.1	Purchases	8,766	25	-	_	8,791
	B.2	Increases in fair value	51	8	-	_	59
	B.3	Recoveries	_	-	-	_	_
		- through profit or loss	_	-	-	_	_
		- through equity	_	-	-	_	_
	B.4	Transfers from other portfolios	_	-	-	_	_
	B.5	Other increases	80	-	-	_	80
C.	Dec	reases	(4,153)	(111)	-	_	(4,264)
	C.1	Disposals	(2,525)	(111)	-	_	(2,636)
	C.2	Repayments	(686)	-	-	_	(686)
	C.3	Decreases in fair value	(838)	-	-	_	(838)
	C.4	Impairments	_	-	-	_	_
		- through profit or loss	_	-	-	_	_
		- through equity	_	_	-	_	_
	C.5	Transfers to other portfolios				_	_
	C.6	Other decreases	(104)	-	-	_	(104)
D.	Clos	ing balance	37,159	104			37,263

There was a net reduction of €787 million in the fair value of debt securities, for which a fair value hedge was not arranged, during the period under review, with a loss of €1,643 million recognised in a separate equity reserve, and a net gain of €856 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 share in Visa Europe Ltd., 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 2016				Balance at 31 December 2015			
		Carrying amount	Fair Value			Carrying	Fair Value		
			Level 1	Level 2	Level 3	amount	Level 1	Level 2	Level 3
1.	Debt securities	12,683	14,447	-	-	12,886	15,057	-	-
	- structured	-	-	-	_	-	-	-	-
	- other	12,683	14,447	-	-	12,886	15,057	-	-
2.	Loans	-	-	-	-	-	_	-	-

At 31 December 2016, €170 million of the aggregate fair value of the held-to-maturity portfolio was accrued interest.

Securities with a nominal value of €5,765 million are encumbered as follows:

€4,596 million, carried at an amortised cost of €4,688 million (Part B, Other information, Table 2) and delivered to counterparties in connection with repurchase agreements concluded prior to 31 December 2016;

- €676 million, carried at an amortised cost of €716 million (Part B, Other information, Table 2) and delivered to counterparties for use as collateral for asset swaps and repurchase agreements;
- €464 million, carried at an amortised cost of €475 million and delivered to the Bank of Italy as collateral for intraday credit granted;
- €29 million, carried at an amortised cost of €30 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

Tran (€m)	nsaction Type/Amounts	Balance at 31 December 2016	Balance at 31 December 2015
1.	Debt securities	12,683	12,886
	a) Governments and Central Banks	12,683	12,886
	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	_	-
Tota	al	12,683	12,886
Tota	al fair value	14,447	15,057

5.3 Micro-hedged held-to-maturity financial assets

Nil.

5.4 Held-to-maturity financial assets: movements during the year

(€m	7)	Debt securities	Loans	Total
A.	Opening balance	12,886	-	12,886
В.	Increases	1,143	-	1,143
	B.1 Purchases	1,121	-	1,121
	B.2 Recoveries	-	-	_
	B.3 Transfers from other portfolios	-	-	-
	B.4 Other increases	22	-	22
C.	Decreases	(1,346)	_	(1,346)
	C.1 Disposals	-	_	-
	C.2 Repayments	(1,300)	-	(1,300)
	C.3 Impairment	-	-	-
	C.4 Transfers to other portfolios	-	-	-
	C.5 Other decreases	(46)	-	(46)
D.	Closing balance	12,683	-	12,683
				,

Section 6 - Due from banks - Item 60

6.1 Due from banks: analysis

Transaction Type/Amounts	Bala	nce at 31 D	ecember 20	016	Balance at 31 December 2015			
(€ m)	Carrying		Fair Value		Carrying		Fair Value	
	amount -	Level 1	Level 2	Level 3	amount -	Level 1	Level 2	Level 3
A. Due from Central Banks	-				_			
1. Time deposits	_	Х	Х	х	-	Х	Х	х
2. Compulsory reserves	_	Х	Х	х	-	Х	Х	х
3. Reverse repurchase agreements	_	Х	Х	х	-	Х	Х	X
4. Other	_	Х	Х	Х	_	Х	Х	X
B. Due from banks	1,314				1,211			
1. Loans	1,314				1,211			
1.1 Current accounts and demand deposits	4	Х	Х	X	3	Х	Х	X
1.2 Time deposits	_	Х	Х	X	_	Х	Х	Х
1.3 Other loans:	1,310	Х	Х	X	1,208	Х	Х	X
 Reverse repurchase agreements 	_	х	х	×	417	х	х	×
– Finance leases	_	Х	Х	Х	_	Х	Х	Х
– Other	1,310	Х	Х	X	791	Х	Х	Х
2. Debt securities	_				_			
2.1 Structured securities	_	х	Х	X	_	Х	Х	X
2.2 Other debt securities	_	Х	Х	X	_	Х	Х	X
Total	1,314	-	_	1,314	1,211	_	417	794

"Other loans, Other" includes cash collateral held by counterparties for asset swaps (€1,182 million as collateral pursuant to Credit Support Annexes), entered into for cash flow and fair value hedging purposes by BancoPosta RFC, and repurchase agreements (€44 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	Balance at 31 December 2016						Balance at 31 December 2015					
(€m)	Ca	arrying amount			Fair value		С	arrying amount			Fair value	
	Performing	Non-perfor	ming	Level 1	Level 2	Level 3	Performing	Non-perfor	rming	Level 1	Level 2	Level 3
	,	Assets purchased	Other					Assets purchased	Other			
Loans	9,004	-	-				9,023	-	-			
Current accounts	9	-	-	Х	Х	Х	10	-	-	Х	Х	Х
Reverse repurchase agreements	-	-	-	X	Х	Х	-	-	-	Х	Х	Х
3. Term loans	-	-	-	X	Х	Х	-	-	_	Х	Х	Х
Credit cards, personal and salary loans	_	-	_	Х	Х	Х	-	-		Х	Х	Х
5. Finance leases	-	-	-	X	Х	Х	-	-	_	Х	Х	Х
6. Factoring	-	-	-	Х	Х	Х	-	-	_	Х	Х	Х
7. Other transactions	8,995	-	-	Х	Х	Х	9,013	-	_	Х	Х	Х
Debt securities	-	-	-				-	-	-			
Structured securities	-	-	-	Х	Х	Х	-	-		Х	Х	Х
9. Other debt securities	-	-	-	Х	Х	Х	-	-	_	Х	Х	Х
Total	9,004	-	-	-	-	9,004	9,023	-	-	-	-	9,023

"Other transactions" primarily consist of:

- €6,198 million, €9 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(118);
- €1,309 million, €1 million of which being accrued interest, in deposits at the MEF (the "Buffer account"), remunerated at the EONIA rate⁽¹¹⁹⁾;
- €364 million in fees receivable from Cassa Depositi e Prestiti during the year in connection with postal savings, which under the agreement signed on 4 December 2014 are invoiced on a quarterly basis;
- €209 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:
- €632 million in amounts receivable from Poste Italiane SpA's functions outside the ring-fence, €629 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.

⁽¹¹⁸⁾ 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.

⁽¹¹⁹⁾ 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

	action type/Amounts	Balance	at 31 Decembe	r 2016	Balance	at 31 December	2015
(€m)		Performing	Non-perfo	rming	Performing	Non-perfor	ming
			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. L	oans to:	9,004	-	-	9,023	-	-
a)	Governments	7,544	-	-	7,637	-	_
b)) Other public entities	57	-	-	60	-	-
c)	Other entities	1,403	-	-	1,326	-	_
	- non-finance companies	652	-	-	607	-	_
	- finance companies	609	-	-	569	-	_
	- insurance companies	134	-	-	140	-	-
	- other	8	-	_	10	-	_
Total		9,004	_	-	9,023	-	_
Total	– other		-			-	

Section 8 – Hedging derivatives – Item 80

8.1 Hedging derivatives by type of hedge and fair value level

(€m)	Fair value a	at 31 Decem	nber 2016	Notional(*)	Fair value a	at 31 Decem	ber 2015	Notional
	Level 1	Level 2	Level 3	amount at 31 December 2016	Level 1	Level 2	Level 3	amount at 31 December 2015
A. Financial derivatives	-	191	_	3,980	-	328	-	4,010
1) Fair Value	-	152	-	3,585	-	281	-	3,635
2) Cash flow	_	39	_	395	_	47	-	375
3) Net foreign investments	-	-	-	_	_	-	-	-
B. Credit derivatives	-	-	-	-	_	-	-	-
1) Fair Value	-	-	-	-	_	-	-	-
2) Cash flow	_	-	-	-	-	-	_	-
Total	-	191	-	3,980	_	328	_	4,010

The settlement price for derivatives involving the exchange of principal (securities or other assets) has been indicated, as required by Bank of Italy

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8.2 Hedging derivatives by hedged portfolio and type of hedge

Transaction type/Type of hedge			Fair \	Value			Cash flow		Net foreign
(€m)			Micro			Macro	Micro	Macro	investment
	Interest rate risk	Foreign exchange risk	Credit risk	Price risk	Multiple risks				
Available-for-sale financial assets	152	-	-	-	-	Х	33	Х	Х
2. Loans	-	-	-	Х	-	Х	-	Х	Х
3. Held-to-maturity financial assets	Х	-	-	Х	-	Х	-	Х	Х
4. Portfolio	Х	Х	Х	Х	Х	-	Х	-	Х
5. Other transactions	-	-	-	-	-	Х	-	Х	-
Total assets	152	-	-	-	-	- '	33	-	-
1. Financial liabilities	-	-	-	Х	-	Х	-	Х	Х
2. Portfolio	Χ	Х	Х	Х	Χ	-	Х	-	Х
Total liabilities	-	-	-	-	-	- '	-	-	-
Expected transactions	Х	Х	Х	Х	Х	Х	6	Х	Х
2. Portfolio of financial assets and financial liabilities	Х	Х	Х	Х	Х		Х	-	-

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.

13.1 Deferred tax assets: analysis

Description (€m)	assets	Financial assets and liabilities		Hedging derivatives		Provisions for doubtful debts		Provisions for risks and charges		Total IRAP
	IRES	IRAP	IRES	IRAP	IRES	IRAP	IRES	IRAP		
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
Deferred tax assets through profit or loss	-			-	23	-	63	12	86	12
Deferred tax assets through equity	3	-	24	5	-	-	-	-	27	5
2015 total	3	-	24	5	23	-	63	12	113	17

13.2 Deferred tax liabilities: analysis

Description (€m)	Financial as		Hedging de	erivatives	Total IRES	Total IRAP
	IRES	IRAP	IRES	IRAP		
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
Deferred tax liabilities through profit or loss	-	-	-	-	-	-
Deferred tax liabilities through equity	786	149	27	5	813	154
2015 total	786	149	27	5	813	154

13.3 Movements in deferred tax assets through profit or loss

(€m	1)		Balance at 31 December 2016	Balance at 31 December 2015
1.	Opening balance		98	99
2.	Increases		29	6
	2.1 Deferred tax assets recognised in the	e year	29	6
	a) relating to previous years		_	_
	b) due to changes in accounting (policies	_	-
	c) write-backs		_	_
	d) other		29	6
	2.2 New taxes or tax rate increases		_	_
	2.3 Other increases		_	-
3.	Decreases		(13)	(7)
	3.1 Deferred tax assets derecognised in	the year	(10)	-
	a) reversals		(10)	_
	b) write-downs of non-recoverabl	e items	_	-
	c) due to changes in accounting p	policies	-	_
	d) other		_	-
	3.2 Reduction of tax rate		(3)	(7)
	3.3 Other decreases:		-	-
	a) transformation into tax credit p	ursuant to Law 214/2011	-	-
	b) other		-	_
4.	Closing balance		114	98

13.4 Movements in deferred tax liabilities through profit or loss

Nil.

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13.5 Movements in deferred tax assets through equity

(€m		Balance at 31 December 2016	Balance at 31 December 2015
1.	Opening balance	32	113
2.	Increases	185	11
	2.1 Deferred tax assets derecognised in the year	185	11
	a) relating to previous years	_	_
	b) due to changes in accounting policies	_	_
	c) other	185	11
	2.2 New taxes or tax rate increases	_	_
	2.3 Other increases	_	_
3.	Decreases	(10)	(92)
	3.1 Deferred tax assets derecognised in the year	(10)	(88)
	a) reversals	(8)	(11)
	b) write-downs of non-recoverable items	_	_
	c) due to changes in accounting policies	_	_
	d) other	(2)	(77)
	3.2 Reduction of tax rate	_	(4)
	3.3 Other decreases	_	
4.	Closing balance	207	32
٦.	Closing balance	201	'

13.6 Movements in deferred tax liabilities through equity

(€m		Balance at 31 December 2016	Balance at 31 December 2015
1.	Opening balance	(967)	(851)
2.	Increases	(22)	(394)
	2.1 Deferred tax liabilities recognised in the year	(19)	(393)
	a) relating to previous years	_	-
	b) due to changes in accounting policies	_	_
	c) other	(19)	(393)
	2.2 New taxes or tax rate increases	(3)	(1)
	2.3 Other increases	_	-
3.	Decreases	459	278
	3.1 Deferred tax liabilities derecognised in the year	459	161
	a) reversals	145	149
	b) due to changes in accounting policies	_	_
	c) other	314	12
	3.2 Reduction of tax rate	-	117
	3.3 Other decreases	_	_
4.	Closing balance	(530)	(967)

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 $(\in m)$	Balance at 31 December 2016	Balance at 31 December 2015
Tax assets other than those included in item 130	357	326
Items in process	203	281
- items in transit between local branches	8	8
- other	195	273
Current account cheques being settled, drawn on other banks	100	85
Current tax assets receivable from Poste Italiane SpA outside the ring-fence	29	-
Other items	1,077	934
Total	1,766	1,626

Tax receivables primarily relate to tax payments on account, €329 million of which for virtual stamp duty payable in 2017 and €16 million for withholding tax on interest paid to current account holders for 2016.

"Items in process, other" includes:

- customer postal cheques of €2 million in collection from banks;
- uses of debit cards issued by BancoPosta to be debited to customer accounts, totalling €14 million;
- €40 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 €29 million, and processing payments slips, totalling €24 million, to be credited to beneficiaries;
- unsettled debit card payments made at post offices, totalling €37 million;
- account maintenance and custody fees of €6 million to be debited to customers.

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Movements in current tax assets and liabilities receivable from and payable to Poste Italiane SpA outside the ring-fence are shown below:

Description (€m)		es for the year ecember 2016	ended 31		es for the year of ecember 2015	ended 31
	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	(73)	(11)	(84)	(61)	6	(55)
Payments of	303	52	355	236	13	249
prepayments for the current year	230	41	271	163	13	176
balance payable for previous year	73	11	84	73	-	73
Collection of IRES refund claimed	-	-	-	(12)	-	(12)
Provisions to profit or loss for	(211)	(40)	(251)	(240)	(30)	(270)
current tax expense	(212)	(40)	(252)	(240)	(31)	(271)
adjustments to prior period taxes	1	-	1	-	1	1
Provisions to equity	-	-	-	-	-	-
Other (*)	9	_	9	4	_	4
Closing balance	28	1	29	(73)	(11)	(84)
of which:						
Current tax assets receivable from Poste Italiane SpA outside the ring-fence (item 150 Assets)	28	1	29	-	_	-
Current tax liabilities payable to Poste Italiane SpA outside the ring-fence (item 100 Liabilities)	_	-	-	(73)	(11)	(84)

Primarily due to amounts receivable following the payment of withholding tax on fees received.

"Other items" include:

- €861 million in stamp duty accrued to 31 December 2016 payable by holders of outstanding Interest-bearing Postal Certificates⁽¹²⁰⁾. 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;
- €154 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 €18 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.

⁽¹²⁰⁾ 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 $(\in m)$	Balance at 31 December 2016	Balance at 31 December 2015
Due to Central Banks	-	-
2. Due to banks	5,799	5,259
2.1 Current accounts and demand deposits	385	283
2.2 Time deposits	_	_
2.3 Loans	5,381	4,895
2.3.1. Repurchase agreements	5,381	4,895
2.3.2. Other	_	_
2.4 Obligations to repurchase equity instruments	_	_
2.5 Other payables	33	81
Total	5,799	5,259
Fair value - level 1	_	_
Fair value - level 2	5,419	4,949
Fair value - level 3	418	364
Total fair value	5,837	5,313

At 31 December 2016, \in 5,381 million is due to banks under the terms of repurchase agreements involving securities with a total nominal value of \in 4,761 million. These regard:

- €3,904 million (€3 million of which being accrued net interest) 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;
- €1,477 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.

BancoPosta RFC has uncommitted overnight lines of credit amounting to €1,118 million and overdraft arrangements of €81 million provided by Poste Italiane SpA, both undrawn at 31 December 2016. 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 €464 million and the facility is unused at 31 December 2016.

Section 2 – Due to customers – Item 20

2.1 Due to customers: analysis

	Balance at 31 December 2016	Balance at 31 December 2015
Current accounts and demand deposits	45,097	43,093
Time deposits	-	384
Loans	2,443	14
3.1 Repurchase agreements	-	-
3.2 Other	2,443	14
Obligations to repurchase equity instruments	-	_
Other payables	2,834	1,978
ral	50,374	45,469
r value - level 1	-	-
r value - level 2	-	-
r value - level 3	50,374	45,469
al fair value	50,374	45,469
	Time deposits Loans 3.1 Repurchase agreements 3.2 Other Obligations to repurchase equity instruments	Current accounts and demand deposits Current accounts and demand deposits Time deposits Loans 3.1 Repurchase agreements 3.2 Other Obligations to repurchase equity instruments Other payables cal r value - level 1 r value - level 2 r value - level 3 December 2016 45,097 Augustians to repurchase equity instruments

"Current accounts and demand deposits" include €68 million in postal current accounts held by Poste Italiane SpA outside the ring-fence.

"Loans, Other" refers to the following:

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- the net amount of €2,429 million deposited in the MEF account held at the Treasury(121), which breaks down as follows:
 - the balance of cash flows for advances, amounting to €2,239 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 €4 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 2016 consists of €92 million payable to Cassa Depositi e Prestiti, less €96 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 €159 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 €2,141 million in prepaid PostePay card balances payable to customers and domestic postal orders, amounting to €536 million.

The fair value of this line item approximates to its carrying amount and it is consequently classified as Level 3.

⁽¹²¹⁾ At 31 December 2015, the accounts had a credit balance of €1,331 million and was presented in item 70 "Due from customers" under Assets; the change compared with the previous year is due to the different timing of pension payments, introduced by Legislative Decree 244/2016 (the so-called "Mille Proroghe" decree), which postponed the payment of pensions for January 2017 by one bank working day (from the first to the second working day). Consequently, compared with 31 December 2015, therefore, deposit of the amount required to pay the pensions for January 2017 by the paying entity, INPS, took place on the first working day of the month of payment, rather than on the last working day in December 2016.

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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 2016 or 31 December 2015.

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

(€m)	Fair Value at 31 December 2016		Notional(*) amount	Fair Value at 31 December 2015			Notional amount	
	Level 1	Level 2	Level 3	at 31 December 2016	Level 1	Level 2	Level 3	at 31 December 2015
A. Financial derivatives	-	2,305	-	13,976	-	1,547	-	9,445
1) Fair value	-	2,204	-	12,565	-	1,474	-	8,120
2) Cash flow	-	101	-	1,411	-	73	_	1,325
3) Net foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	_	-	-	-	-
1) Fair value	_	_	-	_	_	_	_	-
2) Cash flow	-	_	-	_	-	_	-	-
Total	-	2,305	-	13,976	-	1,547	-	9,445

^(*) 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.

6.2 Hedging derivatives by hedged portfolio and type of hedge

Transaction type/Type of hedge		Fair Value						Cash flow	
(€m)		Micro					Micro	Macro	investments
	Interest rate risk	Foreign exchange risk	Credit risk	Price risk	Multiple risks				
Available-for-sale financial assets	2,204	-	-	-	-	Х	98	Х	Х
2. Loans	-	-	-	Х	-	Х	-	Х	Х
3. Held-to-maturity financial assets	Х	-	-	Х	-	Х	-	Х	Х
4. Portfolio	Х	Х	Х	Х	Х	-	Х	-	Х
5. Other transactions	-		-	-	-	Х	-	Х	-
Total assets	2,204	-	-	-	-	-	98	-	-
1. Financial liabilities	-	-	-	Х	-	Х	-	Х	Х
2. Portfolio	Х	Х	Х	Х	Х	-	Х	-	Х
Total liabilities	-	-	-	-	-	- [-	-	-
Expected transactions	Х	Х	Х	Х	Х	Х	3	Х	Х
2. Portfolio of financial assets and liabilities	Х	Х	Х	Х	Х		Х	-	-

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 $(\in m)$	Balance at 31 December 2016	Balance at 31 December 2015
Tax liabilities other than those included in item 80	1,026	881
Items in process:	555	872
- amounts to be credited to Postal Savings Books	284	508
- items in transit between local branches	4	4
- other	267	360
Amounts payable to Poste Italiane SpA outside the ring-fence:	294	271
- for services rendered	294	187
- for current tax liabilities	_	84
Amounts due to customers	64	73
Trade payables	90	65
Due to employees	21	19
Accrued expenses and deferred income	21	14
Other items	107	87
Total	2,178	2,282

"Tax liabilities other than those included in Item 80" primarily include:

- €861 million in stamp duty accrued to 31 December 2016 on outstanding Interest-bearing Postal Certificates in accordance with the requirements referenced in Part B, Assets, Table 15.1;
- €153 million regarding taxes and road tax payable to collection agents, the tax authorities and regional authorities for payments made by customers;
- €3 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 €61 million, and unpaid postal cheques of €47 million.

"Amounts due to suppliers" include €3 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 €21 million, refer to fees collected in advance on Postamat and "Postepay Evolution" cards.

"Other items" relate to prior year balances currently being verified.

Information on movements in current tax liabilities due to functions outside the ring-fence is provided in Section 15 in Assets.

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 2016	Balance at 31 December 2015
A.	Opening balance	19	20
B.	Increases	1	1
	B.1 Provisions for year	_	_
	B.2 Other increases	1	1
C.	Decreases	(1)	(2)
	C.1 Benefits paid	(1)	(1)
	C.2 Other decreases	_	(1)
D.	Closing balance	19	19

[&]quot;Other increases" were the result of transfers from Poste Italiane SpA or other Group companies and actuarial losses recognised as a contra-entry in equity (Part D). 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.

Uses of provisions to pay benefits include the substitute tax withheld.

Other decreases were caused by transfers to certain Group companies.

 $Measurement\ of\ the\ liability\ entails\ actuarial\ computations\ for\ which\ the\ following\ assumptions\ were\ used\ in\ 2016\ and\ 2015:$

Key economic and financial assumptions

	At 31 December 2016	At 30 June 2016	At 31 December 2015
Discount rate	1.31%	1.05%	2.03%
		1.50% for 2016	1.50% for 2016
		1.80% for 2017	1.80% for 2017
Inflation rate	1.50%	1.70% for 2018	1.70% for 2018
		1.60% for 2019	1.60% for 2019
		2.00% from 2020 on	2.00% from 2020 on
		2.625% for 2016	2.625% for 2016
		2.850% for 2017	2.850% for 2017
Annual rate of increase of employee termination benefits	2.625%	2.775% for 2018	2.775% for 2018
		2.700% for 2019	2.700% for 2019
		3.000% from 2020 on	3.000% from 2020 on

Demographic assumptions

	At 31 December 2016
Mortality	RG48
Disability	INPS tables by age and sex
Pensionable age	Attainment of legal requirements for retirement

Actuarial gains/(losses)

(<i>€m</i>)	At 31 December 2016	At 31 December 2015
Change in demographic assumptions	_	-
Change in financial assumptions	1	(1)
Other experience-related adjustments	_	-
Total	1	(1)

Sensitivity analysis

(<i>€m</i>)	Employee termination benefits at 31 December 2016	Employee termination benefits at 31 December 2015
Inflation rate +0.25%	19	19
Inflation rate -0.25%	18	19
Discount rate +0.25%	18	19
Discount rate -0.25%	19	20
Turnover rate +0.25%	19	19
Turnover rate -0.25%	19	19

410 Other information

	At 31 December 2016	At 31 December 2015
Service Cost	_	-
Average duration of defined benefit plan	10.3	10.3
Average employee turnover	0.41%	0.41%

Section 12 - Provisions for risks and charges - Item 120

12.1 Provisions for risks and charges: analysis

Transaction type/Amounts (ϵm)	Balance at 31 December 2016	Balance at 31 December 2015
Provisions for retirement benefits	_	_
2. Other provisions	462	384
2.1 litigation	90	83
2.2 personnel expenses	3	1
2.3 other	369	300
Total	462	384

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	Total	
A.	Oper	ning balance	-	384	384
B.	Incre	eases	-	116	116
	B.1	Provisions for the year	-	115	115
	B.2	Increases due to passage of time	_	1	1
	B.3	Increases due to changed discount rates	-	-	-
	B.4	Other increases	_	_	_
C.	Decr	eases	-	(38)	(38)
	C.1	Uses during the year	-	(27)	(27)
	C.2	Decreases due to changed discount rates	-	-	-
	C.3	Other decreases	-	(11)	(11)
D.	Clos	ing balance	-	462	462

[&]quot;B.1 Provisions for the year" includes personnel expenses of €10 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 2016 Balance at 31 December 2015
Litigation	90 83
Provisions for disputes with third parties	90 83
Provisions for disputes with staff	
Provisions for personnel expenses	3 1
Other provisions	369 300
Provision for non-recurring charges	355 286
Provisions for expired and statute barred Postal Certificates	14 14
Total	462 384

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, compensation and adjustments to 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.

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Provisions for expired and statute barred Postal Certificates held by BancoPosta have been made to cover the cost of redeeming certificates relating to specific issues, the value of which was recognised in revenue in Poste Italian SpA's profit or loss in the years in which the certificates became invalid. The provisions were made in 1998 following the decision to redeem such certificates even if expired and statute barred. At 31 December 2016, the provisions represent the present value of total liabilities, based on a nominal value of €21 million, expected to be progressively paid off by 2043.

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

14.3 Capital - Other information

14.4 Revenue reserves: other information

At 31 December 2016, undistributed earnings total €949 million. Other revenue reserves include the initial reserve of €1 billion provided to BancoPosta RFC on its creation.

Other information

1. Guarantees and commitments

Guarantees/Commitments (€m)	Balance at 31 December 2016	Balance at 31 December 2015
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	-	400
Total	416	400

Irrevocable commitments to disburse funds where disbursement is certain regard forward purchases of securities with a nominal value of €400 million, for which the settlement price is shown.

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2. Assets pledged as collateral for liabilities and commitments

	Portfolio (€m)		Balance at 31 December 2015
1.	Financial assets held for trading	_	-
2.	Financial assets designated at fair value	_	-
3.	Available-for-sale financial assets	206	544
4.	Held-to-maturity financial assets	5,404	4,474
5.	Due from banks	_	-
6.	Due from customers	_	-
7.	Property, plant and equipment	_	-

[&]quot;Held-to-maturity financial assets", carried at amortised cost, relate to 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

Sei (€n	vice)	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	49,832
	a) third party securities in custody: related to depository bank operations (excluding portfolio management)	_
	securities issued by the reporting bank	-
	2. other securities	-
	b) third party securities in custody (excluding portfolio management): other	5,262
	securities issued by the reporting bank	-
	2. other securities	5,262
	c) third-party securities deposited with third parties	5,262
	d) own securities deposited with third parties	44,570
4.	Other transactions	239,149
	a) Postal Savings Books	118,930
	b) Interest-bearing Postal Certificates	120,219

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 framework netting arrangements or similar agreements

Tecl (€m)	hnical form)	Amount of gross financial			Amount of net financial assets reported in financial statements (c=a-b)	financial of net	Related am subject to o financial st	ffset in the	Net amount at 31 December	Net amount at 31 December
		assets (a)	offset in financial statements (b)	Financial instruments (d)		Cash collateral received (e)	2016 (f=c-d-e)	2015		
1.	Derivatives	191	-	191	163	28	-	-		
2.	Repurchase agreements	-	-	-	-	-	-	-		
3.	Securities lending	-	-	-	-	-	-	-		
4.	Other	-	-	-	-	-	-	-		
Tota	al at 31 December 2016	191	-	191	163	28	-	х		
Tota	al at 31 December 2015	745	_	745	672	73	х	_		

6. Financial liabilities offset in the financial statements or subject to framework netting arrangements or similar agreements

Tecl (€m)	hnical form)	Amount of gross financial	Amount of financial assets offset	Amount of net financial	Related amounts not subject to offset in the financial statements		Net amount at 31 December	Net amount at 31 December
		liabilities (a)	in financial statements (b)	liabilities reported in financial statements (c=a-b)	Financial instruments (d)	Cash collateral given (e)	2016 (f=c-d-e)	2015
1.	Derivatives	2,305	-	2,305	877	1,391	37	20
2.	Repurchase agreements	5,381	-	5,381	5,374	7	-	1
3.	Securities lending	-	-	-	-	-	-	-
4.	Other	_	-	-	_	-	-	-
Tota	al at 31 December 2016	7,686	-	7,686	6,251	1,398	37	х
Tota	al at 31 December 2015	6,442	-	6,442	5,571	850	х	21

BancoPosta RFC is not a party to enforceable master netting arrangements or similar agreements 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.

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Part C - Information on the Income statement

Section 1 - Interest - Items 10 and 20

1.1 Interest and similar income: analysis

Ass (€m	set/Technical form)	Debt securities	Loans	Other transactions	For the year ended 31 December 2016	For the year ended 31 December 2015
1.	Financial assets held for trading	_	-	-	-	1
2.	Available-for-sale financial assets	974	_	-	974	930
3.	Held-to-maturity financial assets	541	_	-	541	573
4.	Due from banks	_	_	-	-	_
5.	Due from customers	_	20	-	20	36
6.	Financial assets designated at fair value	_	_	-	-	_
7.	Hedging derivatives	Х	Х	-	-	4
8.	Other assets	X	Х	8	8	1
Tot	al	1,515	20	8	1,543	1,545

The sub-item, "Other assets, Other transactions" includes €7 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

Diff (€m	erential	For the year ended 31 December 2016	For the year ended 31 December 2015
Α.	Positive hedge differentials	_	35
B.	Negative hedge differentials	_	(31)
C.	Net (A–B)	-	4

1.3 Interest and similar income: other information

Nil.

1.4 Interest and similar expense: analysis

Liabil (€m)	lity/Technical form	Debts	Securities	Other transactions	For the year ended 31 December 2016	For the year ended 31 December 2015
1. [Due to Central Banks	_	Х	_	-	-
2. [Due to banks	(23)	Х	-	(23)	(22)
3. [Due to customers	(13)	Х	-	(13)	(31)
4. [Debt securities in issue	Х	_	-	_	-
5. F	Financial liabilities held for trading	-	-	-	_	_
6. F	Financial liabilities designated at fair value	_	-	-	_	-
7. (Other liabilities and provisions	Х	Х	(5)	(5)	(2)
8. H	Hedging derivatives	Х	Х	(33)	(33)	-
Total		(36)	_	(38)	(74)	(55)

[&]quot;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

ltem (€m		For the year ended 31 December 2016	For the year ended 31 December 2015
Α.	Positive hedge differentials	25	_
В.	Negative hedge differentials	(58)	_
C.	Net (A-B)	(33)	-

Section 2 - Fees and commissions - Items 40 and 50

2.1 Fee and commission income: analysis

Se (€n	rvice/Amounts n)	For the year ended 31 December 2016	For the year ended 31 December 2015
a)	Guarantees issued	-	_
b)	Credit derivatives	_	_
c)	Management, brokerage and advisory services:	2,285	2,210
	1. Financial instrument trading	-	_
	2. FX trading	1	1
	3. Portfolio management:	-	_
	3.1 Individual	_	_
	3.2 Collective	-	_
	4. Securities custody and administration	6	8
	5. Depository banking	_	_
	6. Securities placements	29	22
	7. Order receipt and transmission	4	4
	8. Advisory services:	_	_
	8.1 Relating to investments	_	_
	8.2 Relating to financial structuring	_	_
	9. Arrangement of third-party services:	2,245	2,175
	9.1 Portfolio management:	_	_
	9.1.1 Individual	_	_
	9.1.2 Collective	_	_
	9.2 Insurance products	455	418
	9.3 Other products	1,790	1,757
d)	Collection and payment services	1,070	1,080
e)	Securitisation servicing	-	_
f)	Factoring services	-	_
g)	Tax collection	-	_
h)	Multilateral trading services	-	_
i)	Current account maintenance and management	237	239
j)	Other services	11	9
Tot	al	3,603	3,538

[&]quot;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 €1,577 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, covering the five-year period 2014-2018. In 2016, a number of conditions provided for in the Agreement of 4 December 2014 covering the five-year period 2014-2018 were confirmed, requiring the parties to renegotiate existing agreements in good faith. Whilst awaiting the agreement of new terms and conditions, BancoPosta RFC has recognised revenue from the services rendered in 2016 on the basis of the Agreement of 4 December 2014. Any impact of a new agreement on the operating results, not as yet foreseeable, will be taken into account, on an accruals basis, once such an impact can be reasonably assessed.

2.2 Fee and commission income by product and service distribution channel

Cha (€m)		/Amounts	For the year ended 31 December 2016	For the year ended 31 December 2015
A.	Ow	n counters:	2,274	2,197
	1.	Portfolio management	_	-
	2.	Securities placements	29	22
	3.	Third-party products and services	2,245	2,175
B.	Do	or-to-door:	_	-
	1.	Portfolio management	_	_
	2.	Securities placements	_	-
	3.	Third-party products and services	_	-
C.	Oth	er distribution channels:	_	-
	1.	Portfolio management	_	_
	2.	Securities placements	_	-
	3.	Third-party products and services	_	_

[&]quot;Own counters" means Poste Italiane SpA's post office network.

2.3 Fee and commission expense: analysis

For the year ended 31 December 2016	For the year ended 31 December 2015
_	_
_	_
(2)	(2)
_	_
_	_
_	_
_	_
_	_
(1)	(1)
(1)	(1)
_	_
(63)	(51)
(1)	(2)
(66)	(55)
	ended 31 December 2016 (2) (1) (1) (63) (1)

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 yea		For the year ended 31 December 2015	
		Dividends	UCI distributions	Dividends	UCI distributions
A.	Financial assets held for trading	_	-	-	-
В.	Available-for-sale financial assets	1	_	-	-
C.	Financial assets designated at fair value	_	-	-	-
D.	Investments	_	Х	-	Х
Tot	al	1	-	-	-

Section 4 – Profits/(Losses) on trading – Item 80

4.1 Profits/(Losses) on trading: analysis

Ass (€m	set-Liability/Profit component)	Gains (A)	Trading income (B)	Losses (C)	Trading losses (D)	Net income/ (loss) [(A+B) – (C+D)]
1.	Financial assets held for trading	-	3	-	-	3
	1.1 Debt securities	-	-	-	-	-
	1.2 Equity instruments	_	_	_	_	_
	1.3 UCls	-	-	_	-	-
	1.4 Loans	-	-	_	-	-
	1.5 Other	-	3	_	-	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	-
4.	Derivative instruments	-	_	-	-	-
	4.1 Financial derivatives:	_	-	-	-	-
	- on debt securities and interest rates	_	_	-	-	-
	 on equity instruments and share indices 	-	_	_	_	-
	– on foreign exchange and gold	Х	Х	Х	Х	_
	- other	_	_	-	_	_
	4.2 Credit derivatives	-	_	-	_	_
Tot	tal	_	3	-	_	3

Section 5 – Fair value adjustments in hedge accounting – Item 90

5.1 Fair value adjustments in hedge accounting: analysis

Pro (€m)	it component/Amounts	For the year ended 31 December 2016	For the year ended 31 December 2015
A.	Income on:		
	A.1 Fair value hedge derivatives	84	469
	A.2 Hedged financial assets (fair value)	940	36
	A.3 Hedged financial liabilities (fair value)	-	-
	A.4 Cash flow hedge derivatives	_	-
	A.5 Foreign currency assets and liabilities	_	-
Gro	ss hedging income (A)	1,024	505
В.	Cost of:		
	B.1 Fair value hedge derivatives	(941)	(37)
	B.2 Hedged financial assets (fair value)	(84)	(468)
	B.3 Hedged financial liabilities (fair value)	_	-
	B.4 Cash flow hedge derivatives	-	-
	B.5 Foreign currency assets and liabilities	_	-
Gro	ss hedging cost (B)	(1,025)	(505)
C.	Net hedging income (A – B)	(1)	-

Section 6 – Profits/(Losses) on disposal or repurchase – Item 100

6.1 Profits/(Losses) on disposal or repurchase: analysis

Asset-Liability/Profit component $(\in m)$	For the year	For the year ended 31 Decemb 2016		For the year ended 31 December 2015		
	Profit	Loss	Net profit	Profit	Loss	Net profit
Financial assets						
1. Due from banks	_	-	-	-	_	_
2. Due from customers	-	-	-	-	_	_
3. Available-for-sale financial assets	594	-	594	426	_	426
3.1 Debt securities	473	-	473	426	_	426
3.2 Equity instruments	121	-	121	-	-	-
3.3 UCIs	-	-	-	-	_	_
3.4 Loans	_	-	-	-	_	-
4. Held-to-maturity financial assets	-	-	-	_	_	-
Total assets	594	-	594	426	_	426
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

	et-Liability/Profit component	Impairment losses			Recoveries				For the year	For the year
(€m)	•	Specif	ic	Collective	Spec	ific	Collec	tive	ended 31 December	ended 31 December
		Write-off	Other		Interest	Other	Interest	Other	2016	2015
A.	Due from banks	-	-	-	-	-	-	-	-	-
	- Loans	-	-	-	-	-	-	-	-	-
	- Debt securities	-	-	-	_	-	-	-	-	-
B.	Due from customers	-	-	(11)	-	-	-	5	(6)	(11)
	Non-performing loans purchased	-	-	-	-	-	-	-	-	-
	- Loans	-	-	-	-	-	-	-	-	-
	- Debt securities	-	-	_	-	-	-	-	-	-
	Other amounts owing	-	-	(11)	-	-	_	5	(6)	(11)
	- Loans	-	-	(11)	_	-	-	5	(6)	(11)
	- Debt securities	-	-	-	_	-	_	_	-	-
C.	Total	-	-	(11)	_	-	-	5	(6)	(11)

Section 9 – Administrative expenses – Item 150

9.1 Personnel expenses: analysis

Expense/Amounts (€m)	For the year ended 31 December 2016	For the year ended 31 December 2015
1) Employees	(98)	(95)
a) wages and salaries	(68)	(67)
b) social security	(18)	(17)
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	(7)	(6)
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	(98)	(95)

9.2 Average number of employees by category(*)

	For the year ended 31 December 2016	For the year ended 31 December 2015
Employees	1,827	1,845
a) executives	54	52
b) middle managers	460	450
c) other employees	1,313	1,343
Other employees	_	_
Total	1,827	1,845

^(*) 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

Exp (€m	pense/Amounts	For the year ended 31 December 2016	For the year ended 31 December 2015
1)	Cost of services provided by Poste Italiane SpA:	(4,457)	(4,251)
	- commercial services	(4,092)	(3,898)
	- support services	(302)	(299)
	- staff services	(63)	(54)
2)	Cost of goods and non-professional services:	(42)	(41)
	- printing and postage	(33)	(31)
	- credit and debit card supply services	(9)	(10)
3)	Advisory and other professional services	(52)	(51)
4)	Taxes, penalties and duties	(4)	(5)
5)	Other expenses	-	-
Tot	al	(4,555)	(4,348)

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 $(\in m)$	Provisions	Reversals	Net provision
Provisions for litigation	(10)	1	(9)
Provisions for risks and charges	(96)	10	(86)
Total	(106)	11	(95)

Provisions for the year, totalling €96 million, include €47 million to reflect a revised assessment of the liabilities relating to the estimated cost of the voluntary action taken to protect customers who purchased units issued by the Invest Real Security real estate fund. The remaining provisions reflect a revised estimate of other liabilities, primarily linked to risks related to investment instruments sold to customers in the past and whose performances have failed to meet expectations⁽¹²²⁾, fraud and risks related to delegated services. Releases to profit or loss, amounting to €10 million, relate to liabilities recognised in the past that have failed to materialise.

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

Prof (€m)	fit component/Amounts	For the year ended 31 December 2016	For the year ended 31 December 2015
1.	Burglaries and theft	(8)	(6)
2.	Other charges	(34)	(34)
Tota	al	(42)	(40)

[&]quot;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 2015
1.	Statute barred money orders	_	_
2.	Other operating income	3	3
Tot	ral	3	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.

⁽¹²²⁾ On 16 January 2017, Poste Italiane SpA's Board of Directors passed a resolution aimed at taking steps to protect 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 aim was 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 "Interim Liquidation Distribution" (the "Difference"). To anyone having reached the age of 80 at 31 December 2016, BancoPosta RFC has committed to pay, from its own resources, the Difference in the form of an amount to be credited to a current account or a postal savings book; other customers will be offered the option of taking out a Class I life insurance policy in which to invest the proceeds received from the Fund. To ensure that the value of the policy, which has a duration of 5 years, reaches the amount representing the Difference on maturity, BancoPosta RFC has committed to topping up the amount invested from its own resources.

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 o	component/Amounts	For the year ended 31 December 2016	For the year ended 31 December 2015
1.	Current taxes (-)	(252)	(271)
2.	Increase/(decrease) in current taxes of prior period taxation (+/-)	1	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 (+/-)	17	(1)
5.	Increase/(decrease) in deferred tax liabilities (+/-)	_	_
6.	Taxation for year (-) (-1+/-2+3+/-4+/-5)	(234)	(271)

18.2 Reconciliation between theoretical tax charge at statutory rate and effective tax charge

Description (€m)	For the year December		For the year ended 31 December 2015	
	IRES	% rate	IRES	% rate
Income before tax	803		858	
Theoretical tax charge	221	27.5%	236	27.5%
Effect of increases/(decreases) on theoretical tax charge				
Adjustments for change in IRES tax rate introduced by 2016 Stability Law	3	0.4%	8	0.9%
Non-recurring (income)/expense for taxes charged to profit or loss	_	0.0%	3	0.3%
Net provisions for risks and charges and impairments of receivables	6	0.7%	4	0.5%
Taxation for previous years	(1)	-0.1%	_	0.0%
Capital gains and dividends	(32)	-4.0%	_	0.0%
Other	_	0.0%	(9)	-1.0%
Effective tax charge	197	24.5%	242	28.2%

Art. 1, paragraph 61 of the 2016 Stability Law (208/2015) has reduced the IRES tax rate from 27.5% to 24% with effect from periods of assessment commencing after 31 December 2016 (from 1 January 2017). Deferred tax expense of €3 million was recognised in the income statement in 2016, following application of the new IRES rate to deferred tax liabilities recognised on differences that will be taxable after 2016

Description (€m)	For the year ended 31 December 2016		For the year ended 31 December 2015	
	IRAP	% rate	IRAP	% rate
Income before tax	803		858	
Theoretical tax charge	37	4.6%	39	4.6%
Non-recurring (income)/expense for taxes charged to profit or loss	-	0.0%	(10)	-1.2%
Effective tax charge	37	4.6%	29	3.4%

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.

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Part D - Comprehensive income

Analysis of comprehensive income

Items (€m)		Gross amount	Tax on income	Net amount
10.	Profit/(Loss) for the year	Х	Х	568
	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:	(36)	10	(26)
	a) changes in fair value	(13)	4	(9)
	b) reversal to profit or loss	(23)	6	(17)
	c) other movements	_	-	-
100.	Available-for-sale financial assets:	(2,212)	601	(1,611)
	a) changes in fair value	(1,634)	468	(1,166)
	b) reversal to profit or loss	(578)	136	(442)
	– impairments	_	-	-
	- realised gains/(losses)	(578)	136	(442)
	c) other movements	_	(3)	(3)
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	(2,248)	611	(1,637)
140.	Comprehensive income (Items 10+130)	X	Х	(1,069)

Part E – Information on risks and related hedging policies

Background

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⁽¹²³⁾, with the option of investing up to 50% of the deposits in securities guaranteed by the Italian government⁽¹²⁴⁾, whilst deposits by Public Administration entities are deposited with the MEF. In 2016, 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.

Despite the ECB's Quantitative Easing, the overall climate of market uncertainty drove the yields on Italian government bonds upwards in 2016, resulting in a 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.

During 2016, BancoPosta RFC's leverage ratio (the ratio of its Common Equity Tier1 and total assets) declined as a result of the significant increase in activity, linked to the positive performance of deposits and the related investments. At 31 December 2016, the ratio is just below the limit of 3% fixed by Poste Italiane SpA's Board of Directors. As a result, at the date on which it will approve these financial statements, the Board of Directors proposes to strengthen BancoPosta RFC's capital position in order to restore the ratio to the target level set out in the Risk Appetite Framework.

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 risk 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, Poste Italiane SpA's Board of Directors has adopted regulations containing integrated guidelines for Poste Italiane SpA's Internal Control and Risk Management System (Guidelines for Internal Control and Risk Management System or "SCIGR"). These guidelines provide a detailed, organic and efficient view of BancoPosta RFC'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;
- the Finance, Savings and Investment Committee, which is responsible for establishing policies governing management of the savings of retail customers, as well as strategies to be applied in managing financial assets. In view of the matters dealt with, the Committee is divided into three sections:
 - **Finance**, with the role of defining and overseeing the financial strategy;
 - Savings, with the role of establishing guidelines to be applied in the development of savings products;

⁽¹²³⁾ From 1 April 2015, the match between BancoPosta's private customer deposits and the related investments, verified on a quarterly basis, is assessed with reference to the amortised cost computed on the basis of the outright price of the instruments in portfolio. Prior to this, the match was assessed with reference to the nominal value of the instruments in portfolio.

⁽¹²⁴⁾ 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).

- Financial investment strategies, with the role of ensuring effective governance and the greatest possible alignment with strategic decisions regarding the allocation and management of financial assets;
- 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.
- BancoPosta's Risk Management unit, 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 the Company'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 refers to counterparty, credit and concentration risks, as explained 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.

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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 2017;
- 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
- 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, which also contain rating limits that only permit dealings with investment grade counterparties, whilst concentration limits are applied as required by prudential regulations for banks⁽¹²⁵⁾.

The standard method⁽¹²⁶⁾, 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(127) is used for asset swaps and forward purchases of government securities;
- Credit Risk Mitigation (CRM) techniques, the Full Method(128), are used for repurchase transactions.

Concentration risk is measured using the method described in EU Regulation 575/2013 with regard to large exposures.

⁽¹²⁵⁾ 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.

⁽¹²⁶⁾ 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.

⁽¹²⁷⁾ The "Market Value" method to measure the risk inherent in derivatives entails summing two components: the current substitution 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.

⁽¹²⁸⁾ The full CRM method entails reducing risk exposure by the value of guarantee. Specific rules are applied to take into account market price volatility of the guaranteed asset as well as the collateral received.

2.3 Credit risk mitigation techniques

In order to limit the counterparty risk's 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 or government securities as collateral.

2.4 Impaired financial assets

There were no impaired financial assets on BancoPosta RFC's books at 31 December 2016.

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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

Po (€m)	tfolio/Credit quality	Doubtful loans	Unlikely to pay	Non- performing past-due	Performing past-due	Other performing exposures	Total
1.	Available-for-sale financial assets	-	-	-	-	37,159	37,159
2.	Held-to-maturity financial assets	-	-	-	-	12,683	12,683
3.	Due from banks	-	-	-	-	1,314	1,314
4.	Due from customers	-	-	-	-	9,004	9,004
5.	Financial assets designated at fair value	_	_	_	_	-	_
6.	Financial assets held for sale	-	_	-	_	-	-
Tot	al at 31 December 2016	-	-	-	-	60,160	60,160
Tot	al at 31 December 2015	_	_	_	_	55,535	55,535

A.1.2 Distribution of gross and net credit exposure by portfolio and credit quality

Portfolio/Credit quality		ality Non-performing				Total		
(€m)	Gross exposure	Specific provisions	Net exposure	Gross exposure	Collective provisions	Net exposure	(net exposure)
1.	Available-for-sale financial assets	-	-	-	37,159	-	37,159	37,159
2.	Held-to-maturity financial assets	-	-	-	12,683	-	12,683	12,683
3.	Due from banks	-	-	-	1,314	-	1,314	1,314
4.	Due from customers	-	-	-	9,166	162	9,004	9,004
5.	Financial assets designated at fair value	-	-	-	Χ	Χ	-	-
6.	Financial assets held for sale	-	-	-	-	-	-	-
Tota	al at 31 December 2016	-	-	-	60,322	162	60,160	60,160
Tota	al at 31 December 2015	-	-	-	55,692	157	55,535	55,535

Portfolio/Credit quality		Assets of evidently low credit quality			
	Cumulative losses				
Financial assets held for trading	_	_	-		
2. Hedging derivatives	-	_	191		
Total at 31 December 2016	-	-	191		
Total at 31 December 2015	_	-	328		

A.1.3 On and off-balance sheet credit exposure to banks: gross and net amounts and past-due

	pe of exposure/Amounts		C	ross exposure			Specific	Collective	Net
(€n	m)		Non-per	forming		Performing	provisions	provisions	exposure
		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	-	-	-	-	Χ	-	Х	_
	- of which: forborne exposures	-	-	-	-	Χ	-	Χ	-
b)	Unlikely to pay	-	-	-	-	Χ	-	Х	-
	- of which: forborne exposures	-	-	-	-	Χ	-	Χ	-
c)	Non-performing past-due exposures	-	-	-	-	Х	-	Х	-
	- of which: forborne exposures	-	-	-	-	Χ	-	Χ	-
d)	Performing past-due exposures	Х	Χ	Χ	Χ	-	Χ	-	-
	- of which: forborne exposures	Χ	Χ	Χ	Χ	-	Χ	-	-
e)	Other performing exposures	Χ	Χ	Χ	Χ	1,314	Χ	-	1,314
	- of which: forborne exposures	Χ	Χ	Χ	Χ	-	Χ	-	-
TO	OTAL A	-	-	-	-	1,314	-	-	1,314
В.	Off-balance sheet exposures								
a)	Non-performing	-	-	-	-	Χ	-	Х	-
b)	Performing	Х	Χ	Χ	Χ	1,004	Х	-	1,004
TO	OTAL B	-	-	-	-	1,004	-	-	1,004
TO	OTAL A+B	_	-	-	-	2,318	-	-	2,318

[&]quot;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)(129) 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.

categories

⁽¹²⁹⁾ As defined in the prudential requirements.

A.1.6 On and off-balance sheet credit exposure to customers: gross and net amounts and pastdue categories

	pe of exposure/Amounts		0	Gross exposure			Specific	Collective	Net
(€n	n)		Non-per	forming		Performing	provisions	provisions	exposure
		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	-	-	-	-	Х	-	Х	-
	- of which: forborne exposures	-	-	-	-	Χ	-	Χ	-
b)	Unlikely to pay	-	-	-	-	Χ	-	Χ	-
	- of which: forborne exposures	-	-	-	-	Χ	-	Χ	-
C)	Non-performing past-due exposures	-	-	-	-	Х	-	Х	-
	- of which: forborne exposures	-	-	-	-	Χ	-	Χ	-
d)	Performing past-due exposures	Х	Х	Х	Х	-	Х	-	-
	- of which: forborne exposures	Χ	Χ	Χ	Χ	-	Χ	-	-
e)	Other performing exposures	Х	Х	Х	Х	59,008	Х	162	58,846
	- of which: forborne exposures	Χ	Χ	Χ	Χ	-	Χ	-	-
TO	TALE A	-	-	-	-	59,008	-	162	58,846
В.	Off-balance sheet exposures								
a)	Non-performing	-	-	-	-	Х	_	Х	-
b)	Performing	Х	Х	Х	Х	416	Х	-	416
TO	OTAL B	-	-	-	-	416	-	-	416
TO	TAL A+B	-	_	_	-	59,424	-	162	59,262

[&]quot;Off-balance sheet exposures, Performing" relates to the credit risk associated with the debtors underlying forward purchases, recognised at the settlement value.

A.1.7/ A.1.8 On-balance sheet credit exposure to customers: changes in gross non-performing exposures and in total adjustments

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

A. On-balance sheet credit exposure 1 1,402 58,306 451 60,1 B. Derivatives - 28	Exposure		E	xternal rati	ng classes			Not	Total
exposure 1 1,402 58,306 - - - 451 60,1 B. Derivatives - 28 - - - - - B.1 Financial derivatives - 28 -	(€m)	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	rated	
B.1 Financial derivatives - 28 -		dit 1	1,402	58,306	-	-	-	451	60,160
B.2 Credit derivatives	B. Derivatives	-	28	-	-	-	-	-	28
C. Guarantees issued – – – – – – – – – – D. Commitments to disburse	B.1 Financial derivative	s –	28	-	-	-	-	-	28
D. Commitments to disburse	B.2 Credit derivatives	-	-	-	-	-	-	-	-
	C. Guarantees issued	-	-	-	-	-	-	-	-
		urse –	-	-	_	_	-	-	_
E. Other 125 231 1,036 1,3	E. Other	125	231	1,036	-	-	-	-	1,392
Total 126 1,661 59,342 451 61,5	Total	126	1,661	59,342	_	_	_	451	61,580

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		Collat	eral (1)						Personal guar	rantees (2)				Total
	exposure	Mortgages	Finance	Securities	Other		Cred	t derivatives	;			Unsecu	red		(1)+(2)
			leases		collateral	CLN		Other deriva	tives		Governments	Other	Banks	Other	
							Governments and central banks	Other public entities	Banks	Other counter-parties	and central banks	public entities		counter- parties	
Guaranteed on-balance sheet credit exposures:															
1.1 guaranteed in full	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially guaranteed	-	-	-	-		-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Guaranteed off-balance sheet credit exposures:															
2.1 guaranteed in full	28	-	-	-	28	-	-	-	-	-	-	-	-	-	28
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially guaranteed	-	-	-	-	-	-	-	-	-	-	-	-		-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.3.2 Guaranteed credit exposures to customers

	exposure	Mortgages	Finance leases	Securities	Other		0								(1)+(2)
			leases				Cre	dit derivative	S			Unsecure	d		(7 (7
					collateral	CLN		Other deriva	atives		Governments	Other	Banks	Other	
							Governments and central banks	Other public entities	Banks	Other counter-parties	and central banks	public entities		counter- parties	
anteed on-balance sheet it exposures:															
uaranteed in full	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
artially guaranteed	1,509	-	-	-		-	-	-	-	-	1,500	-	-	-	1,500
of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
anteed off-balance sheet t exposures:															
uaranteed in full	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
artially guaranteed	-	-	-	-	-	-	-	-	-	-	-	-		-	-
of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
it u c a	exposures: aranteed in full of which non-performing ritially guaranteed of which non-performing nteed off-balance sheet exposures: aranteed in full of which non-performing ritially guaranteed	exposures: aranteed in full - f which non-performing - rtially guaranteed 1,509 of which non-performing - nteed off-balance sheet exposures: aranteed in full - f which non-performing - rtially guaranteed -	exposures: aranteed in full	exposures: - - aranteed in full - - of which non-performing - - nif which non-performing - - niteed off-balance sheet exposures: - - aranteed in full - - - of which non-performing - - - rtially guaranteed - - -	exposures: - - - aranteed in full - - - of which non-performing - - - nitwich non-performing - - - nteed off-balance sheet exposures: - - aranteed in full - - - of which non-performing - - - rtially guaranteed - - -	exposures: aranteed in full - - - of which non-performing - - - nitally guaranteed 1,509 - - of which non-performing - - - exposures: - - - aranteed in full - - - - of which non-performing - - - - rtially guaranteed - - - -	exposures: -	exposures: aranteed in full - - - of which non-performing - - - rially guaranteed 1,509 - - - of which non-performing - - - - rinteed off-balance sheet exposures: aranteed in full - - - - of which non-performing - - - - rially guaranteed - - - - -	exposures: arranteed in full - - - - of which non-performing - - - - rially guaranteed 1,509 - - - - of which non-performing - - - - - nteed off-balance sheet exposures: arranteed in full - - - - - of which non-performing - - - - - rtially guaranteed - - - - - -	exposures: arranteed in full - - - - - of which non-performing - - - - - rially guaranteed 1,509 - - - - - of which non-performing - - - - - - exposures: - - - - - - arranteed in full - - - - - - of which non-performing - - - - - - rially guaranteed - - - - - - -	exposures: aranteed in full - - - - - of which non-performing - - - - - rially guaranteed 1,509 - - - - - of which non-performing - - - - - - exposures: aranteed in full - - - - - - of which non-performing - - - - - - rially guaranteed - - - - - - -	exposures: aranteed in full -	exposures: aranteed in full -	exposures: aranteed in full -	exposures: aranteed in full -

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

Expo (€m)	osures/Counterparty	G	overnmer	nts	Other	public e	ntities	Finar	nce comp	anies	Insura	ince com	panies		lon-finand companie		0	ther entit	ies
		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.	
A.	On-balance sheet exposures																		
A.1	Doubtful loans	-	-	Χ	-	-	Χ	-	-	Х	-	-	Χ	-	-	Χ	-	-	Х
	- of which: forborne exposures	-	-	Χ	-	-	Χ	-	-	Χ	-	-	Χ	-	-	Χ	-	-	Х
A.2	Unlikely to pay	-	-	Χ	-	-	Χ	-	-	Χ	-	-	Χ	-	-	Χ	-	-	Х
	- of which: forborne exposures	-	-	Χ	-	-	Χ	-	-	Χ	-	-	Χ	-	-	Χ	-	-	Х
A.3	Non-performing exposures	-	-	Χ	-	-	Χ	-	-	Χ	-	-	Χ	-	-	Χ	-	-	Х
	- of which: forborne exposures	-	-	Χ	-	-	Χ	-	-	Χ	-	-	Χ	-	-	Χ	-	-	Χ
A.4	Performing exposures	55,877	Χ	7	57	Χ	5	2,118	Χ	-	134	Χ	-	652	Χ	19	8	Х	131
	- of which: forborne exposures	-	Χ	-	-	Χ	-	-	Χ	-	-	Χ	-	-	Χ	-	-	Χ	-
TOT	AL A	55,877	-	7	57	-	5	2,118	-	-	134	-	-	652	-	19	8	-	131
В.	Off-balance sheet exposures																		
B.1	Doubtful loans	-	-	Х	-	-	Χ	-	-	Χ	-	-	Χ	-	-	Χ	-	-	Χ
B.2	Unlikely to pay	-	-	Χ	-	-	Χ	-	-	Χ	-	-	Χ	-	-	Χ	-	-	Χ
B.3	Other non-performing assets	-	-	Х	-	-	Χ	-	-	Χ	-	-	Χ	-	-	Χ	-	-	Х
B.4	Performing exposures	416	Χ	-	-	Χ	-	-	Χ	-	-	Χ	-	-	Χ	-	-	Х	-
TOT	AL B	416	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOT	AL (A+B) at 31 December 2016	56,293	-	7	57	-	5	2,118	-	-	134	-	-	652	-	19	8	-	131
TOT	AL (A+B) at 31 December 2015	51,439	-	10	60	-	3	2,069	-	-	140	-	-	606	-	20	10	-	124

B.2 Distribution of on and off-balance sheet credit exposures to customers by geographic area and carrying amount

Exposures/Geographic area (€m)	ITAL	.Y	OTHI EUROF COUNT	EAN	AMERI	CAS	ASI	A	REST OF WOR	
	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	58,628	162	210	-	8	_	_		_	-
TOTAL A	58,628	162	210	-	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	416	_	_	-	_	_	_		_	-
TOTAL B	416		_		-					_
TOTAL (A+B) at 31 December 2016	59,044	162	210	-	8	-	_	-	-	-
TOTAL (A+B) at 31 December 2015	54,176	157	148	-	-	-	-	-	-	-

B.2 Distribution of on and off-balance sheet credit exposures to customers by geographic area and carrying amount

Exposures/Geographic area (ϵm)	ITALY, NORT	HWEST	ITALY, NORT	HEAST	ITALY, CE	NTRE	ITALY, SOUT ISLAND	
·	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	4	4	1	15	58,619	135	4	8
TOTAL A	4	4	1	15	58,619	135	4	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	-	_	-		416	_	_	-
TOTAL B	-		-	- [416	_	-	-
TOTAL (A+B) at 31 December 2016	4	4	1	15	59,035	135	4	8
TOTAL (A+B) at 31 December 2015	10	3	1	15	54,161	133	4	6

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

	osures/ graphic area	ITAL	.Y	OTHI EUROF COUNT	PEAN	AMERI	CAS	ASI	Α	REST OI WOR	
		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	248	_	1,066	_	-	_	_	_	_	-
ТОТ	AL A	248	_	1,066	-	_	-	_		_	-
B.	Off-balance sheet exposures										
B.1	Doubtful loans	-	_	_	_		_		_		-
B.2	Unlikely to pay	-	-	-	-	-	-	-	-	-	-
B.3	Other non-performing assets	_	-	-	-	-	-	-	-	-	-
B.4	Performing exposures	316	_	566	_	_	_	_	_	_	_
ТОТ	AL B	316	-	566	-	_	_	_	_	_	-
ТОТ	AL (A+B) at 31 December 2016	564	_	1,632	_	-	-	-	_	-	-
ТОТ	AL (A+B) at 31 December 2015	666	-	1,065	-		-	-	-	-	-

B.3 Distribution of on and off-balance sheet credit exposures to banks by geographic area and carrying amount

Geo	osures/ ographic area	ITALY, NORT	HWEST	ITALY, NORT	HEAST	ITALY, CEI	NTRE	ITALY, SOUT ISLANI	
(€m)	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	120	_	_		128	_	_	-
TO	TAL A	120	_	-		128	_	-	-
B.	Off-balance sheet exposures								
B.1	Doubtful loans	_	_	-	-	-	_	_	_
B.2	Unlikely to pay	_		_		-		_	-
B.3	Other non-performing assets	-	-	-	-	-	-	-	-
B.4	Performing exposures	316	_	-	-	-	_	-	-
TOT	TAL B	316	-	-	- [-	-	-	-
TOT	TAL (A+B) at 31 December 2016	436	-	-	-	128	-	-	-
TOT	TAL (A+B) at 31 December 2015	210	-	-	-	456	-	-	-

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 85% 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.

Larg	ge exposures	
a)	Carrying amount (€m)	66,963
b)	Weighted amount (€m)	2,357
C)	Number	14

C. Securitisations

Nil.

D. Information on unconsolidated structured entities (other than securitisation vehicles)

Nil.

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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

Asse Port (€m)	folio		ncial as for trad		desig	ncial as nated a value		Availa finan	ble-for- cial ass		Held-to financi				ue fron banks	1		ue fron stome		То	tal
		A	В	С	A	В	C	A	В	С	A	В	С	A	В	С	A	В	С	At 31 December 2016	At 31 December 2015
A.	On balance sheet assets	-	-	-	-	-	-	206	-	-	4,688	-	-	-	-	-	-	-	-	4,894	4,645
1.	Debt securities	-	-	-	-	-	-	206	-	-	4,688	-	-	-	-	-	-	-	-	4,894	4,645
2.	Equity instruments	-	-	_	-	-	-	-	-	-	Х	Χ	Χ	Χ	χ	χ	Χ	χ	Χ	-	-
3.	UCIs	-	-	_	-	-	_	_	-	-	Х	Χ	Χ	Χ	χ	χ	Χ	χ	Χ	-	-
4.	Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
В.	Derivative instruments	-	-	-	χ	Χ	X	Χ	χ	Χ	Х	Χ	χ	Χ	χ	χ	χ	χ	Χ	-	-
TOT	AL AT 31 DECEMBER 2016	-	-	-	-	-	-	206	-	-	4,688	-	-	-	-	-	-	-	-	4,894	Х
of wh	nich non-performing:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	χ
TOT	AL AT 31 DECEMBER 2015	-	-	_	-	-	-	544	-	-	4,101	-	-	-	-	-	-	-	-	Х	4,645
of wh	nich 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

		/ ortfolio	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	e to customers	-	_	_	-	-	_	-
	a)	asset fully recognised	_	_	_	-	_	_	-
	b)	asset partially recognised	_	_	_	-	-	_	-
2.	Due	e to banks	-	_	206	5,175	_	_	5,381
	a)	asset fully recognised	_		206	5,175	_		5,381
	b)	asset partially recognised	_	_		-	-		-
ТО	TAL /	AT 31 DECEMBER 2016	-	_	206	5,175	_	_	5,381
ТО	TAL A	AT 31 DECEMBER 2015	_		516	4,379	_		4,895

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 2016. Poste Italiane SpA's financial operations guidelines 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 instruments that are originally fixed rate, or converted into fixed rate bonds via asset swaps used as cash flow hedges. In this regard, a significant part of the fixed rate instruments, with a fair value of €16,087 million, have been hedged using fair value hedges of the forward start type. 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. The progressive deterioration in the market perception of Italy's sovereign credit rating in 2016, despite the Quantitative Easing carried out by the ECB, has had a negative influence on the price of Italian government bonds. Indeed, the spreads between ten-year Italian government bonds and German bunds is approximately 161 bps at 31 December 2016 (97 bps at 31 December 2015).

Over the period under review, the fall in Italian government bond prices, linked to movements in the spread and the reduction in risk-free interest rates to close to all-time lows, resulted in a net reduction in the fair value of BancoPosta RFC's available-for-sale portfolio (a nominal value of approximately \in 32 billion) of approximately \in 0.8 billion. The increase in the fair value of instruments hedged against interest rate risk, amounting to approximately \in 0.8 billion, was offset by a reduction 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 \in 1.6 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 made greater use of this type of transaction in 2016, 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.

Quantitative information

1. Banking book: distribution of residual terms to maturity of financial assets and liabilities by repricing date

Currency: Euro

	et – Liability / Residual term to urity	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	8,873	3,284	172	4,889	9,117	13,947	19,876	_
1.1	Debt securities	-	1,849	172	4,889	9,109	13,947	19,876	_
	 with prepayment option 	-	_	_	_	_	_	_	-
	- other	-	1,849	172	4,889	9,109	13,947	19,876	-
1.2	Due from banks	86	1,226	_	_	_	_	_	_
1.3	Due from customers	8,787	209	_	_	8	_	_	_
	- current accounts	8	_	_	_	_	_	_	_
	- other loans	8,779	209	_	_	8	_	_	_
	 with prepayment option 	_	-	_	-	-	-	_	_
	- other	8,779	209	_	_	8	_	_	_
2.	On-balance sheet liabilities	50,075	1,130	129	-	4,154	-	-	-
2.1	Due to customers	49,690	_	_	_	_	_	_	_
	- current accounts	45,097	_	_	_	_	_	_	_
	- other deposits	4,593	_	_	_	-	_	_	_
	 with prepayment option 	-	_	_	_	_	-	_	_
	- other	4,593	_	_	_	_	_	_	_
2.2	Due to banks	385	1,130	129	_	4,154	-	-	_
	- current accounts	-	_	_	_	_	_	-	_
	other deposits	385	1,130	129	_	4,154	_	_	_
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	_	_	_	_	_	24	397	_
	+ short positions	_	416	_		_	_	_	_
3.2	Without underlying securities								
	- Options								
	+ long positions	_	_	_	_	-	_	_	
	+ short positions	_	_	_	_	_	_	_	-
	- Other derivatives								
	+ long positions	_	2,065	_	170	11,695	3,435	175	_
	+ short positions	_	1,455	_	200	_	1,800	14,085	-
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: US dollar

	et – Liability / Residual term to urity)	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

Asse matu (€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 2016 had a duration of 5.79 (31 December 2015: 5.89). 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 banking		Equity reser	
		_	+100bps	-100bps	+100bps	-100bps	+100bps	-100bps
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	200	6	(28)	33	-	_	(28)	33
Financial liabilities held for trading	-	-	-	_	_	_	_	-
Liability – Hedging derivatives	(200)	(3)	(26)	31	-	_	(26)	31
31 December 2016 variability	32,178	37,162	(1,153)	1,095	_	_	(1,153)	1,095
2015 effect								
Available-for-sale financial assets								
Debt securities	26,428	32,415	(1,283)	1,308	_	_	(1,283)	1,308
Financial assets held for trading	-	_	_	_	_	_	_	-
Asset – Hedging derivatives	_	_	_	_	_	_	_	-
Financial liabilities held for trading	-	-	-	_	-	_	-	-
Liability – Hedging derivatives	-	-	-	_	_	_	_	-
31 December 2015 variability	26,428	32,415	(1,283)	1,308	_		(1,283)	1,308

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 \pm 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 banking		Equity reser	
		_	+100bps	-100bps	+100bps	-100bps	+100bps	-100bps
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	200	6	(28)	33	_	_	(28)	33
Financial liabilities held for trading	-	-	_	_	_	_	_	-
Liability – Hedging derivatives	(200)	(3)	(26)	31	_	_	(26)	31
31 December 2016 variability	32,178	37,162	(3,669)	4,356	-	_	(3,669)	4,356
2015 effect								
Available-for-sale financial assets								
Debt securities	26,428	32,415	(3,036)	3,599	_	_	(3,036)	3,599
Financial assets held for trading	-	_	_	_	_	_	_	-
Asset – Hedging derivatives	-	_	_	_	_	_	_	-
Financial liabilities held for trading	-	-	-	_	_	_	_	-
Liability – Hedging derivatives	-	-	_	_	_	_	_	-
31 December 2015 variability	26,428	32,415	(3,036)	3,599	_		(3,036)	3,599

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.

Analysis date	Risk ex	posure	SpreadVaR
(€m)	Nominal value	Fair value	
2016 effect			
Available-for-sale financial assets			
Debt securities	32,178	37,159	460
Asset – Hedging derivatives	200	6	4
Liability – Hedging derivatives	(200)	(3)	3
31 December 2016 variability	32,178	37,162	467
2015 effect			
Available-for-sale financial assets			
Debt securities	26,428	32,415	260
Asset – Hedging derivatives	-	-	-
Liability - Hedging derivatives	-	_	-
31 December 2015 variability	26,428	32,415	260

In addition, if considered as a whole, financial assets and liabilities are subject to maximum potential losses of €468 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)	2016	2015
Closing VaR	(434)	(332)
Average VaR	(397)	(373)
Minimum VaR	(278)	(201)
Maximum VaR	(587)	(664)

The increase in VaR at the end of the period, compared with 31 December 2015, primarily reflects the increase in market volatility.

Taking into account both available-for-sale financial assets (including the related hedges outstanding) and forward purchases (registering both fair value gains and losses), the combined analysis of spread risk and fair value interest rate risk at 31 December 2016 results in a potential loss of €440 million (VaR at the end of the period).

Cash flow interest rate risk

The sensitivity to cash flow interest rate risk at 31 December 2015 and 31 December 2016 is summarised in the table below and was computed assuming a \pm 100 bps parallel shift in the market forward interest rate curve.

Cash flow interest rate risk

<i>(€m)</i>		2016			2015	
	Nominal value	Net interest banking		Nominal value	Net interes banking	
		+100 bps	-100 bps		+100 bps	-100 bps
Cash						
- Account held at Bank of Italy	223	2	(2)	216	1	(1)
Due from banks	1,230	12	(12)	725	7	(7)
Due from customers						
- Deposits at MEF (Treasury)	6,189	62	(62)	5,855	59	(59)
- Buffer deposit at MEF	1,310	13	(13)	391	4	(4)
- Due from customers (collateral)	209	2	(2)	143	1	(1)
Due from customers (Poste Italiane SpA outside the ring-fence)	629	6	(6)	577	6	(6)
Financial assets available-for-sale						
- Debt securities	2,235	22	(22)	1,335	13	(13)
Due to banks	(32)	-	_	(81)	(1)	1
Due to customers (Poste Italiane SpA outside the ring-fence)	(14)	_	_	(14)		
Total variability	11,979	119	(119)	9,147	90	(90)

Cash flow interest rate risk at 31 December 2016 was primarily inherent in the placement of Public Administration deposits with the MEF.

Cash flow inflation rate risk

Cash flow inflation rate risk at 31 December 2016 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 €2,120 million and a fair value of €2,605 million. The effects of sensitivity analysis are immaterial.

Price risk

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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
2016 effect							
Available-for-sale financial assets							
Equity instruments	104	22	(22)	_	_	22	(22)
31 December 2016 variability	104	22	(22)	-	-	22	(22)
2015 effect							
Available-for-sale financial assets							
Equity instruments	182	15	(15)	-	_	15	(15)
31 December 2015 variability	182	15	(15)	_	_	15	(15)

Notes on the related equity instruments (shares) are contained in Part B, Assets, Table 4.1.

The Class B Mastercard Incorporated shares, 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 2016 volatility. The shares' price risk is also monitored through the computation of VaR.

The VaR sensitivity analyses are shown below:

<i>(€m)</i>	2016	2015
Closing VaR	(2)	(3)
Average VaR	(2)	(2)
Minimum VaR	(1)	(2)
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 MasterCard and 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 rate 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

Item	s		Currency										
(€m)		US Dollar	Swiss Franc	Sterling	Japanese Yen	Tunisian Dinar	Other currencies						
A.	Financial assets	105	1	-	-	-	-						
A.1	Debt securities	_	_	_	_	-	-						
A.2	Equity instruments	104	-	-	-	-	-						
A.3	Due from banks	1	1	_	-	-	_						
A.4	Due from customers	_	-	-	-	-	-						
A.5	Other financial assets	-	-	-	-	-	-						
B.	Other assets	5	2	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												
– Op	itions												
	+ Long positions	-	-	-	-	-	-						
	+ Short positions	-	_	-	-	-	-						
– Otl	ner derivatives												
	+ Long positions	-	_	_	_	-	-						
	+ Short positions	-	_	_	_	-	_						
Tota	l assets	110	3	2	_	_	_						
Tota	l liabilities	_	-	_	_	-							
Posi	tion (+/-)	110	3	2	_	-	-						

[&]quot;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 i	n 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
2016 Effect								
Available-for-sale Investments								
Equity instruments	110	104	9	(9)	-	- (9	(9)
31 December 2016 variability	110	104	9	(9)	-		9	(9)
2015 effect								
Available-for-sale Investments								
Equity instruments	77	71	9	(9)	-	_	9	(9)
31 December 2015 variability	77	71	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

Une (€m	derlyings / Type of derivative		31 December 016	Balance at 31 December 2015			
		Over the counter	Central counterparties	Over the counter	Central counterparties		
1.	Debt securities and interest rates	17,956	-	13,455	_		
	a) Options	_	-	-	_		
	b) Swaps	17,540	_	13,455	_		
	c) Forwards	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	-	-	-	_		
Tot	al	17,956	-	13,455			
Ave	erages	16,497	-	11,799	_		

A.2.2 Other derivatives

Nil.

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A.3 Financial derivatives: positive gross fair value by product

	ok/Type of derivative	Positive fair value							
(€m	1)		31 December 016	Balance at 31 December 2015					
		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	191	-	328	-				
	a) Options	_	_	-	_				
	b) Interest rate swaps	185	-	328	_				
	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	-	-		-				
Tot	al	191	-	328	_				

A.4 Financial derivatives: negative gross fair value by product

	ok/Type of derivative		Negative fair value							
(€m))		31 December 016		31 December 015					
		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	-	-	-	_					
В.	Banking book - hedging	2,305	-	1,547	_					
	a) Options	-	-	-	_					
	b) Interest rate swaps	2,302	-	1,547	_					
	c) Cross currency swaps	-	-	-	_					
	d) Equity swaps	-	-	-	_					
	e) Forwards	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	-	-	_	-					
Tota	al	2,305	-	1,547	-					

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

ntracts falling within the ope of netting agreements	Governments and Central Banks	Other public entities	Banks	Finance companies	Insurance companies	Non- finance companies	Other entities
Debt securities and interest rates							
- notional amount	-	-	15,073	2,883	_	_	_
- positive fair value	-	-	150	41	-	-	-
- negative fair value	-	-	(2,048)	(257)	_	_	-
Equity instruments and stock indices							
- notional amount	-	-	_	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	_	_	-
Currencies and gold							
- notional amount	_	-	_	-	_	_	_
- positive fair value	_	-	-	-	_	_	-
- negative fair value	_	-	_	-	_	_	_
Other							
- notional amount	_	_	_	-	_	_	_
- positive fair value	_	-	_	-	-	_	_
- negative fair value		-	_				_
	Debt securities and interest rates - notional amount - positive fair value - negative fair value Equity instruments and stock indices - notional amount - positive fair value Currencies and gold - notional amount - positive fair value Currencies and gold - notional amount - positive fair value - negative fair value - notional amount - positive fair value - negative fair value - negative fair value - negative fair value - negative fair value	Debt securities and interest rates - notional amount - positive fair value - negative fair value - notional amount - positive fair value - negative fair value - notional amount - positive fair value - notional amount - positive fair value - negative fair value - negative fair value - negative fair value - negative fair value - notional amount - positive fair value - notional amount - positive fair value - negative fair value	Debt securities and interest rates - notional amount	Debt securities and interest rates - notional amount	Debt securities and interest rates - notional amount	Debt securities and interest rates - notional amount	Debt securities and interest rates - notional amount

A.9 Residual terms to maturity of OTC financial derivatives: notional amounts

Unde (€m)	erlyings/Residual term to maturity	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:	586	645	16,725	17,956
B.1	Financial derivatives on debt securities and interest rates	586	645	16,725	17,956
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 2016	586	645	16,725	17,956
Total	at 31 December 2015	-	715	12,740	13,455

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	-	-	28	-	-	-	-
	- negative fair value	-	-	(1,926)	(216)	-	-	-
	- future exposure	-	_	92	16	_	_	_
	- net counterparty risk	-	_	9	_	_	_	_
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.

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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 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 risks 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⁽¹³⁰⁾ 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.

⁽¹³⁰⁾ 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

Asse (€m)	t - Liability/Residual terms to maturity	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-b	alance sheet assets	9,035	1,435	-	-	2,065	116	1,695	10,400	31,888	-
A.1	Government securities	-	-	-	-	2,065	111	1,695	8,892	31,888	-
A.2	Other debt securities	-	-	-	-	-	5	-	1,500	-	-
A.3	UCIs	-	-	-	-	-	-	-	-	-	-
A.4	Loans	9,035	1,435	-	-	-	-	-	8	-	-
	- Banks	86	1,226	-	-	-	-	-	-	-	-
	- Customers	8,949	209	-	-	-	-	-	8	-	-
On-b	alance sheet liabilities	50,760	32	196	353	553	128	4	4,151	-	-
B.1	Deposits and current accounts	45,482	-	-	-	-	-	-	-	-	-
	- Banks	385	-	-	-	-	-	-	-	-	-
	- Customers	45,097	-	-	-	-	-	-	-	-	-
B.2	Debt securities	-	-	-	-	-	-	-	-	-	-
B.3	Other liabilities	5,278	32	196	353	553	128	4	4,151	-	-
Off-b	alance sheet transactions										
C.1	Financial derivatives with exchange of principal										
	- Long positions	-	-	-	-	-	-	-	-	400	-
	- Short positions	-	-	-	-	416	-	-	-	-	-
C.2	Financial derivatives without exchange of principal										
	- Long positions	-	-	-	3	43	-	51	-	-	-
	- Short positions	-	-	-	-	62	-	99	-	-	-
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: US dollar

Asse (€m)	t – Liability/Residual terms to maturity	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-b	alance sheet assets	1	-	-	_	-	-	_	-	-	_
A.1	Government securities	-	-	-	-	-	-	-	-	-	-
A.2	Other debt securities	-	-	-	-	-	-	-	-	-	_
A.3	UCIs	-	-	-	-	-	-	-	-	-	-
A.4	Loans	1	_	_	_	-	-	-	_	-	_
	- Banks	1	-	-	_	_	_	_	-	-	_
	- Customers	-	_	_	-	_	_	_	_	-	_
On-b	alance sheet liabilities	_	-	-	_	_	_	_	_	_	_
B.1	Deposits and current accounts	-	_	-	_	_	_	_	_	_	_
	- Banks	_	_	_	_	_	_	_	_	_	_
	- Customers	_	_	_	_	_	_	_	_	_	
B.2	Debt securities	_	_	_	_	_	_	_	_	_	_
B.3	Other liabilities	_	_	_	_	_	_	_	_	_	_
Off-b	alance 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

Asse' (€m)	t – Liability/Residual terms to maturity	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-b	alance sheet assets	1	-	-	-	-	-	-	-	-	-
A.1	Government securities	-	-	-	-	-	-	-	-	-	-
A.2	Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3	UCIs	-	-	-	-	-	-	-	-	-	-
A.4	Loans	1	-	-	-	-	-	-	-	-	-
	- Banks	1	-	-	-	-	-	-	-	-	-
	- Customers	-	-	-	-	-	-	_	-	-	-
On-b	alance sheet liabilities	-	-	-	-	-	-	_	-	-	_
B.1	Deposits and current accounts	-	-	-	_	-	-	-	-	-	-
	- Banks	_	_	_	-	_	-	_	_	_	_
	- Customers	-	-	-	_	-	-	-	-	-	-
B.2	Debt securities	-	-	-	-	-	-	_	-	-	_
B.3	Other liabilities	-	-	-	-	-	-	_	-	-	_
Off-b	alance 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.

Quantitative information

At 31 December 2016, 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	52
Employee practices and workplace safety	8
Customers, products and business practices	37
Damage caused by external events	4
Business disruption and system failure	7
Execution, delivery and process management	164
Total at 31 December 2016	307

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(131). Compliance with the metrics established by the RAF influences decisions regarding profit distributions as part of capital management.

B. Quantitative information

B.1 Equity: analysis

	Equity accounts/Amounts (€m)		Balance at 31 December 2015
1.	Share capital	-	-
2.	Share premium reserve	-	-
3.	Reserves	1,949	1,949
	- revenue reserves	949	949
	a) legal	_	-
	b) required by articles	-	_
	c) treasury shares	-	-
	d) other	949	949
	- Other	1,000	1,000
4,	Equity instruments	-	-
5,	(Treasury shares)	-	-
6,	Valuation reserves	869	2,506
	- Available-for-sale financial assets	889	2,500
	- Property, plant and equipment	_	_
	- Intangible assets	-	_
	- Hedges of net investments in foreign operations	_	_
	- Cash flow hedges	(17)	8
	- Translation differences	-	_
	- Non-current assets held for sale	-	_
	- Actuarial profits/(losses) on defined benefit plans	(3)	(2)
	- Valuation reserves relating to equity accounted investments	-	_
	- Special revaluations laws	-	_
7.	Profit/(Loss) for the year	568	587
Tot	al	3,386	5,042

[&]quot;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.

⁽¹³¹⁾ A definition of the RAF is provided in the "Introduction" to Part E.

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B.2 Valuation reserve for available-for-sale financial assets: analysis

Asset/Amounts	Balance at 31 December 2016		Balance at 31 December 2015		
(€m)	Positive reserve	Negative reserve	Positive reserve	Negative reserve	
1. Debt securities	1,254	(439)	2,329	(8)	
2. Equity instruments	74	-	179	-	
3. UCIs	_	_	-	-	
4. Loans	_	_	-	-	
Total	1,328	(439)	2,508	(8)	
				-	

B.3 Valuation reserve for available-for-sale financial assets: movements during the year

(€m	1)	Debt securities	Equity instruments	UCIs	Loans
1.	Opening balance	2,321	179	-	-
2.	Increases	35	8	_	-
	2.1 Increases in fair value	35	8	-	-
	2.2 Reversal to income statement of negative reserve:	-	-	-	-
	- impairments	-	-	-	-
	- disposals	-	-	-	_
	2.3 Other increases	-	-	-	-
3.	Decreases	(1,541)	(113)	-	-
	3.1 Decrease in fair value	(1,209)	-	-	-
	3.2 Impairments	-	-	-	-
	3.3 Reversal to income statement of positive reserve on disposal	(332)	(110)	_	-
	3.4 Other increases		(3)		_
4.	Closing balance	815	74	_	_

B.4 Defined benefits plans valuation reserve: movements during the year

(€m)	Balance at 31 December 2016	Balance at 31 December 2015
Opening actuarial gains/(losses)	(2)	(3)
Actuarial gains/(losses)	(1)	1
Taxation of actuarial gains/(losses)	_	_
Closing actuarial gains/(losses)	(3)	(2)

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;

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(132);
- 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.

B. Quantitative information

Items/Amounts (€m)		Amount at 31 December 2016	Amount at 31 December 2015
A.	Common Equity Tier 1 - CET1, before application of prudential filters	1,949	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)	1,949	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)	1,949	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	_	_
Н.	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	-	-
Ο.	Transitional regime – Impact on T2 (+/–)	-	_
P.	Total Tier2 – T2 (M – N +/– O)	-	_
Q.	Total own funds (F + L + P)	1,949	1,949

⁽¹³²⁾ Contributions from non-controlling shareholders to BancoPosta RFC are excluded, as they are not provided for in the special regulations governing the ring-fence.

Profit for the year has not been computed in accordance with article 26 of EU Regulation 575/2013.

CET1 consists of the initial equity reserve of €1,000 million provided to BancoPosta RFC on its creation and retained

2.2 Capital adequacy

earnings of €949 million.

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⁽¹³³⁾), equal to 10.5% (8% being the minimum requirement and 2.5% being the capital conservation buffer⁽¹³⁴⁾);
- 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⁽¹³⁵⁾. 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⁽¹³⁶⁾. 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 MasterCard and VISA shareholdings. 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⁽¹³⁷⁾ as at the end of the reporting period.

⁽¹³³⁾ Risk weighted assets, or RWA, are calculated by applying a risk weighting to the assets exposed to credit, counterparty, market and operational risks.

⁽¹³⁴⁾ The capital conservation buffer is designed to ensure a minimum level of regulatory capital under adverse markets 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.

⁽¹³⁵⁾ See the previous description in Part E - Section 1, Credit risk.

⁽¹³⁶⁾ 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.

⁽¹³⁷⁾ 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		Weighted amounts/ Requirements	
		at 31 December 2016	at 31 December 2015	at 31 December 2016	at 31 December 2015
A.	RISK ASSETS				
A.1	Credit and counterparty risk	65,532	61,128	1,588	2,255
	1. Standardised approach	65,532	61,128	1,588	2,255
	2. Internal ratings based approach	_	-	_	-
	2.1 Basic	_	-	-	-
	2.2 Advanced	-	-	-	-
	3. Securitisations	_	_	_	_
B.	SUPERVISORY CAPITAL REQUIREMENTS				
B.1	Credit and counterparty risk			127	180
B.2	Risk of changes in credit ratings			14	12
B.3	Regulatory risk			-	-
B.4	Market risk			9	7
	1. Standard approach			9	7
	2. Internal models			-	-
	3. Concentration risk			_	-
B.5	Operational risk			823	810
	1. Basic approach			823	810
	2. Standardised approach			-	-
	3. Advanced approach			-	-
B.6	Other elements in the calculation			-	_
B.7	Total prudential requirements			973	1,009
C.	RISK ASSETS AND CAPITAL RATIOS				
C.1	Weighted risk assets			12,162	12,613
C.2	CET1 capital ratio			16.0%	15.5%
C.3	Tier 1 capital ratio			16.0%	15.5%
C.4	Total capital ratio			16.0%	15.5%

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 €118 million, whilst the remaining amount absorbed regards counterparty risk (€9 million). Market risk solely regards foreign exchange risk, which absorbs less than 1% of total capital requirements.

At 31 December 2016, 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'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 2016

Name	Balance at 31 December 2016								
(€m)	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 the financial position at 31 December 2015

Name	Balance at 31 December 2015								
(€m)	Financial assets	Due from banks and customers	Hedging derivatives	Other assets	Financial liabilities	Due to banks and customers	Other liabilities		
Poste Italiane SpA	-	580	-	-	_	93	273		
Direct subsidiaries									
Banca del Mezzogiorno MCC SpA	-	-	-	-	-	5	-		
BancoPosta Fondi SpA SGR	-	12	-	-	-	3	-		
CLP ScpA	-	-	-	_	-	5	27		
Consorzio PosteMotori	_	9	_	_	_	23	_		
EGI SpA	-	_	_	_	_	12	-		
Mistral Air Srl	_	_	_	_	_	1	_		
PatentiViaPoste ScpA	-	-	-	_	-	4	-		
Poste Tributi ScpA	-	3	_	_	_	1	_		
Poste Tutela SpA	-	-	-	_	-	21	-		
Poste Vita SpA	-	135	-	_	_	118	_		
Postecom SpA	-	-	-	_	-	5	3		
Postel SpA	-	-	-	-	-	3	-		
PosteMobile SpA	-	2	-	_	_	16	1		
PosteShop SpA	-	-	-	-	_	1	-		
SDA Express Courier SpA	_	_	-	_	_	4	-		
Indirect subsidiaries									
Poste Assicura SpA	_	5	_	-		1	-		
Related parties external to the Group									
Ministry of the Economy and Finance	-	7,646	-	-	-	-	-		
Cassa Depositi e Prestiti Group	1,500	397	-	-	-	-	-		
Enel Group	-	1	-	-	-	-	7		
Equitalia Group	-	-	-	_	-	-	1		
Other related parties external to the Group	_	_	_	_	_	_	10		
Provision for doubtful debts owing from external related parties	-	(10)	_	_			_		
Total	1,500	8,780	_	_	_	316	322		

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

Name	For the year ended 31 December 2016								
(€m)	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	-	-	15	-	-	-	-	-	
Eni Group	_	-	4	-	-	-	-	-	
Equitalia Group	_	-	-	-	-	-	(3)	-	
Other related parties external to the Group	-	_	-	-	-	-	(2)	-	
Total	50	(5)	2,261	-	-	2	(4,518)	-	

Impact of related party transactions on profit or loss for the year ended 31 December 2015

Name	For the year ended 31 December 2015							
(€m) -	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)	_	-	_	-	(4,251)	-
Direct subsidiaries								
BancoPosta Fondi SpA SGR	-	_	22	-	-	-	-	-
CLP ScpA	_	_	_	-	_	-	(28)	-
Consorzio PosteMotori	-	-	35	-	-	-	-	-
Poste Vita SpA	-	-	412	-	-	-	-	-
Postecom SpA	-	-	-	-	-	-	(4)	-
Postel SpA	-	-	-	-	-	-	(10)	-
PosteMobile SpA	-	-	2	-	-	-	(1)	_
Indirect subsidiaries								
Poste Assicura SpA	-	-	15	-	-	-	-	_
Related parties external to the Group								
Ministry of the Economy and Finance	34	(1)	130	-	-	(1)	-	-
Cassa Depositi e Prestiti Group	_	_	1,611	-	_	-	(8)	-
Enel Group	-	-	9	-	-	-	-	-
Eni Group	_	_	4	-	_	-	-	-
Equitalia Group	-	-	_	-	-	-	(4)	-
Other related parties external to the Group	-	-	3	-	-	-	(1)	-
Total	34	(2)	2,243	_	_	(1)	(4,307)	_

Other related party disclosures

On 11 October 2016, Poste Italiane's Board of Directors, having obtained the consent of the Related and Connected Parties Committee, authorised the execution of short-term repurchase agreements with Cassa Depositi e Prestiti with a total nominal amount of up to, but no more than, €2.5 billion. Whilst meeting CONSOB's definition of greater significance, the transaction is ordinary in nature and, therefore, again according to the same CONSOB regulations, is exempted from the decision-making procedures for such transactions.

The first loans were granted in accordance with the above agreement in early 2017.

Part I – Share-based payment arrangements

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

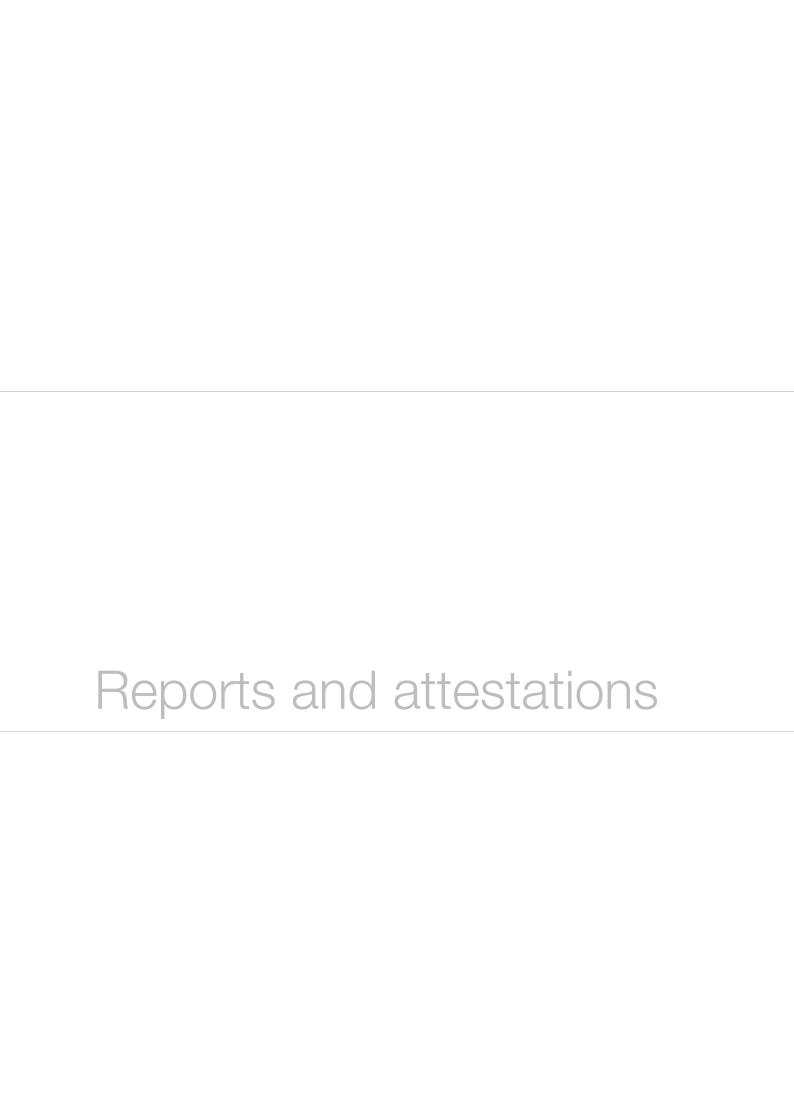
The total number of Phantom stocks awarded to the 4 Beneficiaries of the First Cycle of the Plan amounted to 36,190 units. The fair value of each stock at 31 December 2016 was estimated to be €5,435. An independent expert, external to the Group, was appointed to measure the value of the stocks and this was based on best market practices.

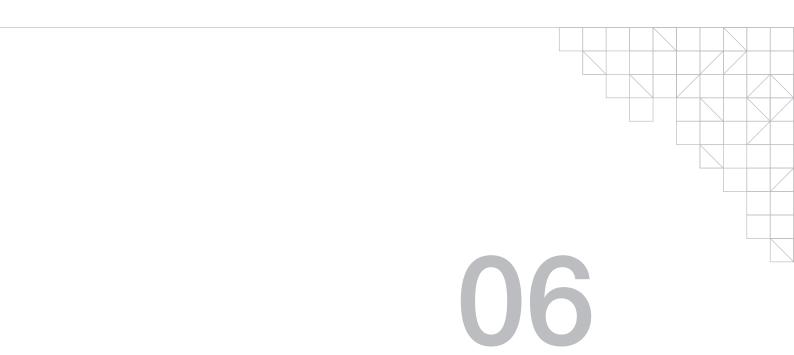
Part L – Operating segments

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.







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Attestation of the Poste Italiane Group's consolidated financial statements for the year ended 31 December 2016 pursuant to art. 154-bis, paragraph 5 of Legislative Decree 58/1998 and art. 81-ter of CONSOB Regulation 11971 of 14 May 1999

- 1. The undersigned, Francesco Caio, as Chief Executive Officer, and Luciano Loiodice, as Manager responsible for Poste Italiane SpA's financial reporting, having also taken account of the provisions of art.154-bis, paragraphs 3 and 4 of Legislative Decree 58 of 24 February 1998, hereby attest to:
 - the adequacy with regard to the nature of the Poste Italiane Group and
 - the effective application of the administrative and accounting procedures adopted in preparation of the Poste Italiane Group's consolidated financial statements during the period from 1 January 2016 to 31 December 2016.
- 2. In this regard, it should be noted that:
 - the adequacy of the administrative and accounting procedures adopted in preparation of the Poste Italiane Group's consolidated financial statements was verified by assessment of the internal control system over financial reporting. This assessment was conducted on the basis of the criteria contained in the Internal Control-Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO);
 - the assessment of the internal control system over financial reporting did not identify any material issues.
- 3. We also attest that:
- 3.1 the Poste Italiane Group's consolidated financial statements for the year ended 31 December 2016:
 - have been prepared in compliance with the International Financial Reporting Standards endorsed by the European Union through EC Regulation 1606/2002, issued by the European Parliament and by the Council on 19 July 2002;

 - are consistent with the underlying accounting books and records; give a true and fair view of the financial position and results of operations of the issuer and the companies included in the scope of consolidation.
- 3.2 the Directors' Report on Operations includes a reliable analysis of the operating and financial performance and situation of the issuer and the companies included in the scope of consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Rome, Italy 15 March 2017 Chief Executive Officer Manager responsible for financial reporting Francesco Caio Luciano Loiodice (original signed) (original signed)

(This certification has been traslated from the original which was issued in accordance with italian legislation)

Attestation of the separate financial statements for the year ended 31 December 2016 pursuant to art. 154-bis, paragraph 5 of Legislative Decree 58/1998 and art. 81-ter of CONSOB Regulation 11971 of 14 May 1999

- 1. The undersigned, Francesco Caio, as Chief Executive Officer, and Luigi Ferraris, as Manager responsible for Poste Italiane SpA's financial reporting, having also taken account of the provisions of art.154-bis, paragraphs 3 and 4 of Legislative Decree 58 of 24 February 1998, attest to:
 - the adequacy with regard to the nature of the Company and
 - the effective application of the administrative and accounting procedures adopted in preparation of the separate financial statements during the period from 1 January 2016 to 31 December 2016.
- 2. In this regard, it should be noted that:
 - the adequacy of the administrative and accounting procedures adopted in preparation of Poste Italiane SpA's separate financial statements was verified by assessment of the internal control system over financial reporting. This assessment was conducted on the basis of the criteria contained in the Internal Control-Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO);
 - the assessment of the internal control system over financial reporting did not identify any material issues.
- 3. We also attest that:

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- 3.1 the separate financial statements for the year ended 31 December 2016:
 - have been prepared in compliance with the International Financial Reporting Standards endorsed by the European Union through EC Regulation 1606/2002, issued by the European Parliament and by the Council on 19 July 2002;
 - b) are consistent with the underlying accounting books and records;
 - c) give a true and fair view of the financial position and results of operations of the issuer.
- 3.2 the Directors' Report on Operations includes a reliable analysis of the operating and financial performance and situation of the issuer, as well as a description of the main risks and uncertainties to which it is exposed.

15 March 2017	
Chief Executive Officer	Manager responsible for financial reporting
Francesco Caio	Luciano Loiodice
(original signed)	(original signed)

(This certification has been traslated from the original which was issued in accordance with italian legislation)

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BOARD OF STATUTORY AUDITORS' REPORT TO SHAREHOLDERS (pursuant to art. 2429, paragraph 2 of the Italian Civil Code)

Dear Shareholders,

During the year ended 31 December 2016, the Board of Statutory Auditors fulfilled its statutory duties in accordance with the Italian Civil Code and Legislative Decree 39/2010, as amended by Legislative Decree 135/2016, Legislative Decree 58/1998 (the Consolidated Law on Finance - Consolidated Law on Finance), pursuant to Presidential Decree 144/2001 "Regulations governing the services provided by BancoPosta", and in accordance with the provisions applied to BancoPosta by the relevant authorities. In conducting its duties, the Board also took into account the indications contained in CONSOB announcement DEM/1025564 of 6 April 2001, as amended by announcement DEM/3021582 of 4 April 2003 and then by announcement DEM/6031329 of 7 April 2006, and those in the Corporate Governance Code for Listed Companies, which the Company formally adopted with the Board of Directors' resolution of 31 July 2015. The oversight activities required by law were also conducted in accordance with the standards for boards of statutory auditors recommended by the Italian accounting profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili).

Election and activities of the Board of Statutory Auditors

The undersigned members of the current Board of Statutory Auditors was elected by the Annual General Meeting of shareholders held on 24 May 2016. The Board's members are Mauro Lonardo, Chairman, and Alessia Bastiani and Maurizio Bastoni, standing Auditors. This report also contains information on the audit activities conducted by the previous Board of Statutory Auditors between 1 January and 24 May 2016.

The Board of Statutory Auditors obtained the information necessary in order to carry out its appointed duties by examining key company documents obtained at the time the Board took office, by attending a number of induction session organised by the Company, by attending all Board of Directors' and Board Committee meetings, by holding meetings with the main functions within the Company and, above all, during meetings with internal auditing staff and with the Company's management, as well as through ongoing contact with the Manager responsible for financial reporting and with the Independent Auditors, PricewaterhouseCoopers SpA, who are responsible for auditing the separate and consolidated financial statements.

On 24 May 2016, responsibility for supervision of the Company, as defined by Legislative Decree 231/2001, previously carried out by the Board of Statutory Auditors, was assigned to a Supervisory Board established for this purpose. The newly elected Board of Statutory Auditors has held specific meetings with the Supervisory Board to examine matters of shared interest.

During the year, the Board of Statutory Auditors took part in a total of 79 meetings. The Board met on 22 occasions as the Board of Statutory Auditors, with the meetings having an average duration of approximately 2 hours and 30 minutes. We attended 16 Board of Directors' meetings, 14 meetings of the Audit and Risk Committee, 10 meetings of the Nominations Committee, 4 meetings of the Related and Connected Parties Committee, 12 meetings of the Remuneration Committee, attended by at least one Statutory Auditor, and 1 Ordinary General Meeting.

The Magistrate appointed by the Italian Court of Auditors to oversee Poste Italiane was always invited to attend meetings of the Board of Statutory Auditors.

Full texts of the minutes of Board of Statutory Auditors' meetings are periodically sent to the Chairwoman of the Board of Directors and to the Chief Executive Officer and General Manager, in order to ensure the correct and appropriate exchange of information within the Company.

Based on the activities conducted, the Board of Statutory Auditors reports the following.

Oversight of compliance with the law and the Company's By-laws and with correct corporate governance principles, the adequacy of the organisational structure and the administrative and accounting systems adopted by the Company, and with Legislative Decree 39/2010, as amended.

The Board of Statutory Auditors:

- a) verified compliance with the law and the By-laws;
- b) periodically obtained information from the Directors on the overall operating performance, the outlook for the Company and on the most significant transactions having an impact on the results of operations and financial position decided on and carried out by the Company and other Group companies during the year. The meetings were conducted in accordance with the By-laws, the related legislation and regulations governing their conduct and, within the scope of its responsibilities, the Board can provide reasonable assurance that the actions approved comply with the law, the By-laws and correct corporate governance principles and were not manifestly imprudent, risky or in conflict with resolutions approved by General Meeting, or such as to compromise the value of the Company; from the information provided during the Board of Directors' meetings, there is no evidence that the Directors have carried out transactions giving rise to a potential conflict of interest with the Company;
- c) is not aware of exceptional or unusual transactions with Group companies, third parties or other related parties;
- d) oversaw, within the scope of its responsibilities, the adequacy of the Company's organisational structure and, more generally, that of the Poste Italiane Group as a whole; work continued during the year on implementation of the Poste Italiane Group's "One Company" organisational model, with a view to enabling delivery of the strategy and targets set out in the Business Plan for the period 2015-2019. The process of bringing the operations of the Group's various subsidiaries under the control of specific Poste Italiane functions was completed during the year. With the aim of strengthening the Parent Company's management and coordination, the rationalisation of business support processes, and above all administrative services, continued. This included a radical, nationwide reorganisation of the latter services, based on the centralisation of specific activities within specialist units operating under the direction of Poste Italiane's relevant corporate functions, a process that was finalised in January 2017. The Board of Statutory Auditors wishes to stress that it is essential that the newly elected Board of Directors ensures both continuous monitoring of delivery of the Business Plan and its implementation, so that any elements of uncertainty or risk are promptly identified and adequately dealt with by the relevant bodies and functions, and that the business and the related sustainable profitability develop within the limits set by the Risk Appetite Framework defined by the Board of Directors and in compliance with the regulations in force;
- e) verified correct application of the criteria and procedures used by the Board of Directors to assess the independence of Directors; the assessment was also conducted taking into account the Board of Statutory Auditors' recommendation that independence be assessed, in part, on the basis of information available to the issuer on any economic or financial transactions and/or relationships between Poste Italiane Group companies, Directors and their related parties, in accordance with the provisions relating to independence requirements set out in art. 3.C.1, letter c) of the Corporate Governance Code. The Board of Directors conducted an assessment of the functionality, size and composition of the Board itself and of Board Committees with the support of a leading consulting firm, reporting on its findings in the "Annual Report on Corporate Governance and the Ownership Structure". With regard to assessment of the independence of the Board's members, the Board of Statutory Auditors verified that all its members meet the related requirements provided for in both the Consolidated Law on Finance and the Corporate Governance Code. The process also took into account the outcome of checks conducted by the issuer as was the case for Directors, at the Board's request with regard to any outstanding economic or financial transactions and/or relationships with Poste Italiane Group companies;
- f) examined and oversaw, within the scope of its responsibilities, the adequacy of the Company's administrative/accounting system in reliably representing operating activities, the effectiveness of the internal control and risk management system and the financial reporting process, by: (i) gathering information from the heads of the various functions, from the Independent Auditors and from the Manager responsible for financial

reporting; (ii) examining the annual report of the Manager responsible for financial reporting; (iii) taking part in the work of the Audit and Risk Committee and the Related and Connected Parties Committee; (iv) examining the annual report on the activities of Poste Italiane SpA's Internal Auditing function and on those of BancoPosta's Internal Auditing function; (v) examining the proposed Audit Plan for 2017, prepared by both Poste Italiane SpA's Internal Auditing function and BancoPosta's Internal Auditing function; (vi) examining reports prepared by Poste Italiane SpA's Internal Auditing function and BancoPosta's Internal Auditing function; (vii) by obtaining information and details of inspections and proceedings conducted by Italian government or European Union bodies and authorities, including those of an independent nature, details of which are provided in the section, "Proceedings pending and relations with the authorities", in the notes to the financial statements:

- g) with regard to the internal control and risk management system, the Board has noted the information on the system provided in the "Annual Report on Corporate governance and the Ownership Structure". We examined the Report for 2016 prepared by Poste Italiane SpA's Internal Auditing function, the corresponding report prepared by BancoPosta's Internal Auditing function and the document resulting from the assessment of the Group's internal control system conducted by Poste Italiane's Internal Auditing, according to which "no evidence has emerged, at the date of this report, of any shortcomings in Poste Italiane's internal control and risk management system, taken as a whole". In this regard, the Board of Statutory Auditors recommends, however, that the Company must continue to pay close attention to the prompt implementation of audit plans, monitoring any delays in resolving any identified shortcomings. In addition, the Board has highlighted the need for the Guidelines for the internal control and risk management system - approved by the Board of Directors in July 2015 - to be revised in order both to take into account the division of oversight responsibilities between the Supervisory Board and the Board of Statutory Auditors, and to implement additional risk-related information flows between corporate functions and the Board of Statutory Auditors. We have also recommended that Poste Italiane SpA should further strengthen its role in providing guidance, coordination and control in accordance with existing statutory requirements applicable to the Group companies for which it is responsible. In this regard, the Board wishes to highlight the fact that the Poste Italiane Group's organisational model, resulting from its Business Plan, is still in the process of being bedded down, and requires the definition and review of a number of documents governing relations between different functions and of cross-organisational roles, in order to ensure a unified approach to management of the Company's functions and its subsidiaries. We are not aware of critical situations or events that might suggest shortcomings in the internal control system, taken as a whole;
- h) in view of the application, from 17 June 2016, of Regulation (EU) 537/2014 on specific requirements regarding the statutory audit of public-interest entities, and the amendments to Legislative Decree 39/10 introduced by Legislative Decree 135/16, in force from 5 August 2016, in line with the Board of Statutory Auditors' recommendations, the Company has, under the Board's supervision, drawn up new Guidelines for the appointment of independent auditors, in accordance with the new regulations. The "Guidelines for the appointment of independent auditors" were submitted for examination by us and approved by the Board of Directors on 15 March 2017. The new guidelines govern the process of prior evaluation and approval of any non-audit engagements assigned to the Independent Auditors and monitoring of the cap on fees provided for in the EU Regulation at Group level;
- i) oversaw, partly with reference to compliance with the Supervisory Standards contained in Bank of Italy Circular 285/2013, and in close conjunction with the Remuneration Committee, correct application of the regulations governing the remuneration of the heads of the Company's control functions;
- j) the Independent Auditors have today issued their reports on the separate and consolidated financial statements for the year ended 31 December 2016, prepared pursuant to articles 14 and 16 of Legislative Decree 39/2010. The financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS) adopted by the European Union and in accordance with the regulations issued in

implementation of art. 9 of Legislative Decree 38/2005. The reports state that Poste Italiane SpA's separate financial statements and the Poste Italiane Group's consolidated financial statements for the year ended 31 December 2016 provide a true and fair view of the financial position, results of operations and cash flows of Poste Italiane SpA and the Poste Italiane Group at and for the year ended at that date. In their reports, the Independent Auditors express the opinion that the information in the Directors' Report on Operations and in the "Annual Report on Corporate governance and the Ownership Structure", as required by art. 123-bis, paragraph 4 of the Consolidated Law on Finance, is consistent with the information in the separate and consolidated financial statements for the year ended 31 December 2016;

- k) the Independent Auditors, with whom the Board held meetings on a periodic basis in compliance with art. 150, paragraph 3 of Legislative Decree 58/1998 (the Consolidated Law on Finance) in order to exchange information in the Board's possession, has not informed us of any actions or events deemed to merit criticism or to be of an irregular nature, requiring specific reports pursuant to art. 155, paragraph 2 of Legislative Decree 58/1998 (the Consolidated Law on Finance);
- I) the Independent Auditors have today issued the report prepared pursuant to art. 19, paragraph 3 of Legislative Decree 39/2010, of which the "Audit Plan 2016" and the "Letter of recommendations for 2016", previously presented to us by the Independent Auditors, are an integral part. The Board has already examined the contents of such documents during its meetings.
 - With regard to the internal control system over financial reporting, taking into account both the ongoing changes to the organisational structures of the Parent Company and its subsidiaries in 2014 and 2015, as part of the wider plan to list Poste Italiane SpA's shares on the stock exchange, which took place in October 2015, and the need to continuously monitor alignment of the internal control system with management's strategic objectives, as set out in the Group's Business Plan, and market best practices, and the commitments given by Poste Italiane SpA and Poste Vita SpA following the inspections conducted by the relevant authorities (the Bank of Italy, IVASS and the CONSOB), in the above report, the Independent Auditors provide recommendations on how to rectify a number of failings, above all regarding:
 - ✓ the need to further improve the adequacy of the design and effective functionality of the overall system of internal controls including those relating to information systems as it relates to the Company's and the Group's financial reporting, including, among other things, those relating to information systems and those involved in the assignment and periodic monitoring of signatory powers and powers of authorisation;
 - the need to strengthen implementation and development of the IT systems and supports used in the Company's and the Group's financial reporting, consolidating their integration and security in keeping with requirements regarding the segregation of functions and the consistency of roles and responsibilities, and those contained in existing Supervisory Standards applicable to the contracting out of key functions.

In remarking on key matters arising from their audit, the Independent Auditors note that, however, in light of the audit procedures performed by the auditors, they are not aware of any elements that would lead them to judge that the assertions made by the Company's management, in preparing the separate and consolidated financial statements for the year ended 31 December 2016, are not reasonable and appropriate, or that the disclosures provided in the financial statements are not adequate.

The Board of Statutory Auditors, within the scope of its responsibilities, concurs with the recommendations expressed by the Independent Auditors and recommends their implementation by the Board of Directors. With particular reference to the "Letter of recommendations 2016", the Board notes that the Independent Auditors have discussed the content of the letter with the Company's management, which, in the same document, expressed its own observations and identified the remedial actions taken and to be taken;

m) the Board notes the Attestations, dated 15 March 2017, of the separate and the consolidated financial statements for the year ended 31 December 2016 pursuant to art.154-bis, paragraph 5 of Legislative Decree 58/1998 and art. 81-ter of CONSOB Regulation 11971 of 14 May 1999, in which the Chief Executive Officer 482

and the Manager responsible for financial reporting declare, among other things, that the separate and consolidated financial statements:

- √ have been prepared in compliance with the International Financial Reporting Standards endorsed by the European Union through EC Regulation 1606/2002, issued by the European Parliament and by the Council on 19 July 2002;
- are consistent with the underlying accounting books and records:
- ✓ give a true and fair view of the financial position and results of operations of the issuer and the companies included in the scope of consolidation.

The Chief Executive Officer and the Manager responsible for financial reporting also declare that the Directors' Report on Operations includes a reliable analysis of the operating and financial performance and situation of the issuer and the companies included in the scope of consolidation, as well as a description of the main risks and uncertainties to which they are exposed;

- n) attached to the notes to the Company's separate financial statements is a section entitled "Disclosure of fees paid to the Independent Auditors in accordance with art. 149 duodecies of the CONSOB Regulations for Issuers", which includes a table showing the fees payable to the Independent Auditors, PricewaterhouseCoopers SpA, and companies within its network for the year under review. In view of:
 - √ the declaration of independence issued by PricewaterhouseCoopers SpA pursuant to art. 17, paragraph 9 of Legislative Decree 39/2010 and the transparency report prepared by them pursuant to art. 18, paragraph 1 of the same decree and published on their website;
 - √ the engagements assigned to the Independent Auditors and companies within its network by Poste Italiane SpA and Group companies;

the Board is not aware of any situations in which the Independent Auditors' independence has been compromised.

- o) pursuant to art. 149, paragraph 1, letter c-bis of the Consolidated Law on Finance, the Board oversaw the procedures involved in effective implementation of the rules provided for in the Corporate Governance Code adopted by the Board of Directors. In this regard, the Board has invited the competent bodies:
 - i. with reference to application criterion 1.C.1., letter f), to draw up guidance for the identification of transactions, carried out by the issuer and its subsidiaries, of strategic, economic or financial importance for the Parent Company, to be submitted for examination and/or approval by the Parent Company's Board
 - ii. with reference to art. 3 "Independent Directors", to draw up specific guidelines setting out the adopted procedure for assessing independence referred to in point e), using the occasion to define the materiality threshold for trading, financial or professional relations;

In addition, the Board of Statutory Auditors:

- iii. welcomes the fact that the Company has, during the year, included specific items in the agendas for Board of Directors' meetings requiring the chairs of the Board Committees to report to the Board of Directors on the activities of the various Board Committees, in compliance with application criterion 4.C.1., letter d) of art. 4 "Establishment and functioning of board committees";
- iv. welcomes the setting up, in October 2016, of a specific Related and Connected Parties Committee (whose role was previously carried out by the Audit and Risk Committee) and hopes that the Board of Directors will consider setting up a specific Corporate Governance Committee, with the role of assisting the Board of Directors by reviewing, making recommendations and advising on decisions regarding the Company's and the Group's corporate governance:
- v. recommends supervision of issues relating to the sustainability of the Company's operations, as indicated in the comments in the above art. 4 of the Corporate Governance Code, evaluating the eventual establishment of a specific committee (to be potentially combined with the Corporate Governance

Committee) or, as an alternative, combining or distributing the related functions among the other Board Committees.

The Board of Statutory Auditors, within the scope of its responsibilities, and in accordance with the Corporate Governance Code, also verified the content of the above "Annual Report on Corporate governance and the Ownership Structure", prepared by the Directors and approved by the Board of Directors at their meeting of 15 March 2017, which was prepared in accordance with the instructions contained in Borsa Italiana SpA's Market Regulations and in the Consolidated Law on Finance;

- p) held meetings with the boards of statutory auditors of the principal Group companies. In particular, the Board has noted the Company's issue of attestations regarding its binding commitment to provide financial support, in 2017, for companies in the SDA Express Courier SpA group and for Mistral Air Srl and Poste Tributi ScpA (in liquidation). On 20 March 2017, the subsidiary, Poste Vita, was notified that IVASS (the insurance regulator) was to begin an inspection pursuant to art. 189 of Legislative Decree 209/2005 (the Private Insurance Code Codice delle Assicurazioni Private), with a view to checking the company's best estimates of its liabilities and the assumptions used in computing the necessary technical provisions and its present and future Solvency Capital Requirement (SCR);
- q) in October 2016, the Board of Directors approved revised "Guidelines for transactions with related and connected parties", drawn up in accordance with CONSOB Regulation 17221 "Regulations containing provisions regarding related party transactions", as amended, and the requirements contained in Bank of Italy Circular 263/06, Section V, Chapter 5 "Risk assets and conflicts of interest in respect of connected parties" applied to Poste Italiane with regard to transactions carried out by BancoPosta with Poste Italiane's connected parties; these guidelines, as approved by the Board of Directors, with the prior consent of the Related and Connected Parties Committee and subject to a detailed, reasoned opinion from the Board of Statutory Auditors in compliance with the requirements of the Supervisory Standards applied to BancoPosta, comply with statutory and regulatory requirements and with the standards governing substantive and procedural fairness, and transparency in the decision-making process. The Board oversaw effective implementation of the rules governing related party transactions, by attending meetings of the Committee with responsibility for related and connected party transactions. Towards the end of 2016, the Company implemented an IT platform to manage its database of related parties. In this regard, the Board has also recommended development of an IT solution for managing related party transactions for the purposes of auditing and reporting transactions that fall within the scope of application:
- r) partly in view of the approaching re-election of the Board of Directors, the Board of Statutory Auditors recommends that the combined provisions governing the delegation of authority by the Board of Directors, the guidelines for strategically important transactions, revision of the document setting out group interrelations and any other measure should be such as to guarantee that the Board of Directors can exercise effective, prior oversight of strategically important transactions for the Parent Company and its subsidiaries;
- s) during the year and through to today's date, the Board has received nine complaints pursuant to art. 2408 of the Italian Civil Code, all filed by the same shareholder (Mr. Tommaso Marino);
 - i. The complaint dated 2 January 2016, received by the Board of Statutory Auditors previously in office and connected with the fine imposed by the AGCM (Autorità Garante della Concorrenza e del Mercato the Antitrust Authority): this regards an administrative fine of €540,000 imposed on Poste Italiane in a ruling dated 28 December 2015, in relation to unfair commercial practices regarding advertisements promoting the "Libretto Smart" product. The Board, with the aid of the competent Company functions, looked into the matter (as described, moreover, in last year's report to shareholders), concluding that there are no irregularities to report; in relation to the AGCM's investigation, the latest information provided to us indicates that the date of the hearing on the merits of the Company's appeal against the fine, lodged with the Lazio Regional Administrative Court, has yet to be fixed.

- ii. The complaint dated 11 January 2016, requesting the Board of Statutory Auditors previously in office to investigate, on the basis of press reports, the presence of obstacles to competition / deterioration in services in Calabria/ the indiscriminate withdrawal of services in Friuli. The Board proceeded to look into the accusations in collaboration with the specific Company functions (as described, moreover, in last year's report to shareholders), finding no evidence of irregularities.
- iii. The third complaint, dated 9 June 2016 and resulting from an article in the press, regarded the AGCM's investigation of alleged anti-competitive behaviour in respect of Nexive in multi-item ordinary mail delivery markets. In response, the Board held several meetings with the Legal Affairs unit, who reported that, at various hearings before the AGCM, the Company had repeatedly denied that it was involved in any anticompetitive practices, presenting the related defence briefs, copies of which the Board obtained. Based on the meetings held and the documentation obtained, the Board of Statutory Auditors has found no evidence of irregularities. We will, however, continue to monitor developments as the investigation, which is expected to reach a conclusion by the end of 2017, proceeds.
- iv. The next complaint of 28 June 2016 referred to Resolution 188/16/CONS issued by AGCom (Autorità per le Garanzie nelle Comunicazioni - the Italian Communications Authority), imposing a fine of €150,000 on Poste Italiane for violation of its obligations relating to the notification of legal process. This refers, in particular, to delays in handling acknowledgements of receipt. We have been informed that in response to this and other fines imposed by the regulator for the same violation, the Company has lodged legal challenges before Lazio Regional Administrative Court. We have been informed of the grounds for the challenges. Following an investigation, the Board has discovered that the Company processes acknowledgements of receipt of legal process electronically. We have, to date, found no evidence of irregularities and have, in any event, ensured that the audit plan for 2017 includes specific checks in relation to this matter.
- The fifth complaint of 5 July 2016 alleges that Poste Italiane has failed to comply with Law 68/99 (Norme per il diritto al lavoro dei disabili - Legislation regulating the employment rights of disabled people), based on press reports covering the hiring and subsequent handling of a manager. Our investigation of the Company's conduct, based on the computer records provided by the Head of Human Resources, has not revealed evidence of irregularities in the application of Law 68/99.
- vi. The following complaint, dated 30 July 2016, regarded unjustified pay rises for a manager at Poste Italiane. We looked into the complaint, including in the course of meetings held to examine the results of an audit carried out in order to investigate this specific matter. Without prejudice to the ongoing investigation being conducted by the investigating magistrates, the Board has identified a number of shortcomings relating to the selection, hire and appraisal of management and, as a result, have recommended that the relevant Company functions take prompt remedial action. In particular, among other initiatives, the Company is in the process of reviewing the procedures involved in selection and annual performance appraisals. We have also obtained the opinion of an independent law firm regarding the fact that art. 18, paragraph 2 of Law Decree 112/2008 is not applicable to the Company.
- The seventh complaint of 12 September 2016 requests the Board of Statutory Auditors to examine the dispute with the mobile operator, H3G, which is suing Poste Italiane for compensation as a result of its failure to offer this company, 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. Moreover, the AGCM ruling of 16 December 2015 deemed that Poste Italiane, at variance with the provisions of art. 8, paragraph 2 quater of Law 287/90, had in fact failed to offer such access. We investigated this matter in the course of various meetings with the head of Legal Affairs and were informed that: i) the Authority has not imposed any fine on the Company; ii) H3G has submitted a writ of summons to the Court of Rome, citing Poste Italiane and PosteMobile and requesting that the latter be ordered to pay compensation for damages incurred. Based

on an investigation and documents relating to the dispute, as described in the specific section of the financial statements for 2016, the Board has not found evidence of operational irregularities. We will, however, continue to monitor developments as they occur.

- viii. The eighth complaint, dated 24 September 2016, regarded a number of press reports on disruption to services resulting from adoption of the alternate-day delivery model and the model's alleged incompatibility with EU legislation. In this regard, based on the clarification provided by the Legal Affairs unit, the Board has been made aware of AGCOM Resolution 395/15/CONS, in which the regulator authorises Poste Italiane to adopt a new alternate-day delivery model for mail within the scope of the universal service in three consecutive stages, from October 2015 through to February 2018. The above AGCOM Resolution has been challenged before Lazio Regional Administrative Court by the Italian Federation of Newspaper Publishers (FIEG), the newspaper, Avvenire, the consumers association, Codacons, and finally the Piedmont branch of the National Confederation of Local Authorities (ANCI), together with 41 municipalities in the Piedmont region. The latter challenge was suspended on 29 April 2016, as the Regional Administrative Court, in declaring that the grounds submitted by the plaintiff were without basis and upholding the legality of the aforementioned resolution, had referred the challenge to the European Court of Justice for a preliminary ruling on the compatibility of Italian legislation with the European postal directive. In view of recent developments, the proceeding before the European Court of Justice has been put on hold. We have also been informed, by the Head of Legal Affairs, that Poste Italiane, in the briefs filed with Lazio Regional Administrative Court and the European Court of Justice, plans to introduce the alternate-day delivery model in certain sparsely populated areas, in line with the European directive on regulation of the sector, which makes reference to "exceptional geographical circumstances or conditions". Whilst the Board is aware that the related proceedings are still in progress, following an investigation of this matter with the aid of the competent Company functions, the Board does not believe that the Company's conduct can be criticised.
- ix. On 31 March 2017, the same shareholder filed a complaint pursuant to art. 2408 of the Italian Civil Code, relating to alleged irregularities in managing the shareholder register, the failure to computerise the register and the resulting shortcomings regarding its update. In response, the Board has conducted an investigation, involving discussions with the Company's management. Based on the initial information available, at the date of publication of this report, it would appear that the Company has acted in accordance with the applicable regulations, having met its statutory requirements.

Opinions issued pursuant to the law and internal regulations

During the year, the Board of Statutory Auditors was required to issue a number of opinions in accordance with Regulation (EU) 537/2014, applied from 17 June 2016, and in accordance with the Company's policy on "The assignment of appointments to Poste Italiane's Independent Auditors" (replaced, with effect from March 2017, by the new "Guidelines for the appointment of the Poste Italiane Group's independent auditors"), on the appointment of the Independent Auditors to carry out non-audit engagements, as described in point h).

Oversight of BancoPosta RFC

The complex process of ensuring progressive compliance with the Supervisory Standards applied to BancoPosta by the Bank of Italy in its third revision, issued on 27 May 2014, of Circular 285 of 17 December 2013 continued ruing 2016. The revised Circular contains a new Part IV "Particular intermediaries", Chapter 1 "BancoPosta". In particular, in part in order to comply with the provisions of Title V, Chapter 5 of Bank of Italy Circular 263/2006, with regard to governance, the new Related and Connected Parties committee was set up in 2016. The Committee's role was previously carried out by the Audit and Risk Committee. As a result, the related procedure was also amended, following a reasoned opinion from the Board of Statutory Auditors on the procedure's overall consistency with the objectives behind the requirements set out in Circular 263/2006.

The Board of Directors also approved new whistleblowing guidelines during the year, including a specific section relating to BancoPosta, in line with the Supervisory Standards.

The following were also drawn up and approved by the Board of Directors in early 2017: i) the new "Regulations for BancoPosta's organisation and operations"; ii) the new "General Guidelines governing the process of contracting out BancoPosta's corporate functions to Poste Italiane"; iii) the "BancoPosta RFC guidelines for the contracting out of services"; iv) the investment services procedure; v) the "Market abuse guidelines"; vi) the "Guidelines for personal trading in financial instruments by relevant persons"; and vii) the "Guidelines for conflict of interest transactions".

It should be noted that, on 10 February 2017, the Bank of Italy began an inspection pursuant to art. 54 of Legislative Decree 385 of 1993 (the Consolidated Banking Law), with the aim of assessing the governance, control and operational and IT risk management systems in relation to BancoPosta's operations. The inspection is still in progress

The Board of Statutory Auditors oversaw BancoPosta RFC in accordance with:

- Presidential Decree 144/2001 "Regulations governing the services provided by BancoPosta", the relevant regulations contained in the Consolidated Banking Law and in the Consolidated Law on Finance and the implementing regulations for banks, deemed applicable to BancoPosta by the relevant authorities, and in compliance with the BancoPosta RFC Regulation approved by the General Meeting of shareholders held on 14 April 2011 and amended by the Extraordinary General Meeting of 31 July 2015. As required by the above By-laws, the Board of Statutory Auditors examined the specific issues regarding BancoPosta RFC separately, reporting the results in the minutes of Board meetings;
- the new Supervisory Standards issued by the Bank of Italy on 27 May 2014, with regard to both compliance with the standards already in effect in 2015, and the steps undertaken by Banco Posta in order to comply, within the required deadline, with the standards whose application was deferred.

Based on the information received from the Manager responsible for financial reporting, the Independent Auditors, the management of BancoPosta and the heads of BancoPosta's control functions, and the Board's examination of the annual report of the Manager responsible for the internal control system relating to financial reporting, it should be noted that:

- i) BancoPosta RFC's organisation and accounts have been unbundled with respect to the Company's operations. In preparing the Separate Report for BancoPosta RFC, in compliance with the provisions of Law Decree 225/10, converted into Law 10/11, which established BancoPosta RFC, requiring the accounting separation provided for in articles 2214 et seq. of the Italian Civil Code and preparation of a separate report, the Company introduced a specific dedicated system. The separate report is, where applicable, prepared in application of Bank of Italy Circular 262 of 22 December 2005, as amended; the level of control over management of BancoPosta RFC's accounts is adequate;
- ii) at a number of meetings, the Board examined the criteria used in assessing the costs associated with the activities contracted out by BancoPosta to Poste Italiane functions, verifying that they reflect the real contribution to BancoPosta RFC's operations. The Board also following the process of drawing up the Operating Guidelines establishing the contractual terms and conditions applicable to the services provided to BancoPosta by Poste Italiane functions in 2016. The Board recommended a more timely definition of the Operating Guidelines for future years. To this end, in early 2017, the Company, in line with the Board's recommendations, is drawing up the Operating Guidelines for the years 2017 and 2018, a process that has included a revision of the benchmarks used, partly in view of the potential future operations of Bancoposta Fondi and Anima Holding.

The Board periodically received information from BancoPosta's control functions and studied the outcomes of their audit activities, examining the annual reports prepared by the functions, which it oversaw in accordance with CONSOB Resolution 17297 of 2010.

Based on the activities carried out, the Board reports that:

i) in 2016, the structure of internal controls was further strengthened, including measures already implemented;

ii) with regard to control activities contracted out to Poste Italiane functions, the Board of Statutory Auditors, in line with the relevant Supervisory Standards, examined the costs, risks and benefits of the contract, with the aim of assessing whether or not the overall analysis conducted in 2015, on first-time adoption of the terms and conditions based on the Operating Guidelines, was still valid. The Board had concurred with the results of the analysis;

iii) in terms of measures designed to combat money laundering, despite the high degree of "inherent risk" exposure deriving from the nature and extent of BancoPosta's operations, the processes and procedures adopted and reinforced over time have resulted in a low level of "residual risk". The Board recommends implementation of the initiatives that BancoPosta has proposed to carry out in 2017, regarding adequate customer checks and profiling, enhanced risk assessment, the reporting of suspect transactions, the financing of terrorism and training;

iv) the Compliance and Risk Management functions have periodically prepared their respective reports on compliance risk and significant risk exposures for BancoPosta, and on the state of progress of the initiatives undertaken as a result of the commitments given to the Bank of Italy, following a general audit and other checks on compliance conducted in 2012, and the checks carried out in 2015 in relation to the transparency of transactions, the fairness of relations with customers and money laundering, and to the CONSOB in respect of investment services, following the inspection completed in 2014.

In 2016, BancoPosta's Compliance function continued to implement the action plan drawn up in response to issues identified during earlier checks. In this regard, in addition to recommending that the function be expanded and provided with greater IT support, the Board recommends implementation of all the corrective measures identified in relation to banking and payment services (with particular regard to strengthening procedures designed to ensure the security of online payments), investment services, insurance broking, postal savings, IT (above all with regard to the definition of Data Governance standards), Business Continuity Management, cash management, tax and Occupational Health and Safety. In particular, whilst Business Continuity Management has been progressively improved in compliance with the related Supervisory Standards, the Board recommends that completion of the improvement programme, scheduled for 2018, be speeded up.

The Board has been notified of the start of work on implementing the requirements contained in major new European directives regarding investment services (MiFID2), insurance broking (IDD2) and the security of payment services (PSD2), which are due to be implemented from 2018. Considering the significant demands that will be placed on the Company in order to effectively implement the necessary changes to its systems and processes, within the required deadlines, the Board recommends that progress in delivering on the specially developed Master Plans should be continuously monitored;

v) the Risk Management function reported periodically on its monitoring activities and developments affecting BancoPosta's significant risk exposures. At 31 December 2016, indicators of capital adequacy show a high capital ratio (CET1 of 16.0%) and a high level of own funds which, thanks to a reduction in the exposure to interest rate risk, are sufficient to cover the Pillar 2 capital requirement (41.4%).

The Board recommends continuous and close monitoring of the key indicators set out in the Company's Risk Appetite Framework ("RAF") for 2017, with particular regard to the leverage ratio and the cost of operational risks, which rose during 2016. Operational risk losses recognised in profit or loss for the year were higher than in 2015, primarily due to past events (above all, the issue of real estate funds). The losses need to be closely monitored, as future decisions by the Board of Directors may lead to additional capital requirements and have an impact on reputational risk. The Board shares the Risk Management function's concerns regarding the need to further reinforce BancoPosta's capital position, primarily in order to ensure that its leverage ratio remains within the objectives established in the Risk Appetite Framework. In addition, the Board recommends

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that the Supervisory Board pay close attention to the need to monitor financial risks, including on a projected, multi-year basis, given that 2016 witnessed an increase in yields on Italian government bonds and above all in the spread between 10-year Treasury Notes (BTPs) and German Bunds, resulting in reduced gains on the securities recognised in the financial statements, which were partially realised in profit or loss (€0.47 billion) as part of the strategy of ensuring a stable overall return on the portfolio.

In view of the assessment carried out, the ICAAP report for 2015/2016, approved in April 2016, shows that BancoPosta RFC's capital is adequate with respect to its current and future risk profile and under stress conditions. This reflects its ability to boost its capital by generating own funds, linked to strong earnings and resilience under stress scenarios.

The Board has also recommended a review of the Financial Management Guidelines approved in March 2015, in response to persistently falling interest rates, the high degree of uncertainty that continues to affect the global financial markets and spread risk. The latter risk, which is monitored on a daily basis, above all in terms of its impact on unrealised gains, should be given due importance, above all over a multi-year time frame, by the Audit and Risk Committee.

vi) in compliance with Bank of Italy's Supervisory Standards, the Board has conducted an assessment of its own adequacy in terms of authority, functionality and composition, disclosing the outcome of its assessment in a specific report.

Opinions issued pursuant to the law and internal regulations

During the year, the Board of Statutory Auditors was requested to provide opinions pursuant to Bank of Italy Circular 263/06, Title V, Chapter 5, Section III, Paragraph 2.2, on the "Guidelines for transactions with related and associated parties".

Based on the results of the oversight activities conducted during the year, the Board is not aware of any reason that should prevent approval of Poste Italiane SpA's separate financial statements or the Poste Italiane Group's consolidated financial statements for the year ended 31 December 2016, or of the Board of Directors' proposal to distribute a dividend.

4 April 2017

- Chairman Mauro Lonardo

Alessia Bastiani - Auditor

Maurizio Bastoni - Auditor

(This certification has been traslated from the original which was issued in accordance with italian legislation)



INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE N° 39 OF 27 JANUARY 2010

POSTE ITALIANE SPA

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016



INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE N° 39 OF 27 JANUARY 2010

To the Shareholders of Poste Italiane SpA

Report on the consolidated financial statements as of 31 December 2016

We have audited the accompanying consolidated financial statements of the Poste Italiane Group, which comprise the consolidated statement of financial position as of 31 December 2016, the consolidated statement of profit and loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of Poste Italiane SpA are responsible for the preparation of consolidated financial statements that give a true and fair view in compliance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree n° 38/2005.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to article 11 of Legislative Decree n° 39 of 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view, in order to plan and perform audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

PricewaterhouseCoopers SpA

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Poste Italiane Group as of 31 December 2016 and of the result of its operations and cash flows for the year then ended in compliance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree n° 38/2005.

Report on compliance with other laws and regulations

Opinion on the consistency with the consolidated financial statements of the report on operations and of certain information set out in the report on corporate governance and ownership structure

We have performed the procedures required under auditing standard (SA Italia) n° 720B in order to express an opinion, as required by law, on the consistency of the report on operations and of the information set out in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree n° 58/98, which are the responsibility of the directors of Poste Italiane SpA, with the consolidated financial statements of the Poste Italiane Group as of 31 December 2016. In our opinion, the report on operations and the information in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of the Poste Italiane Group as of 31 December 2016.

Rome, 4 April 2017

PricewaterhouseCoopers SpA

Signed by

Monica Biccari (Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers. We have not examined the translation of the financial statements referred to in this report.

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INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE N° 39 **OF 27 JANUARY 2010**

POSTE ITALIANE SPA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016





INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE N° 39 OF 27 JANUARY 2010

To the shareholders of Poste Italiane SpA

Report on the financial statements as of 31 December 2016

We have audited the accompanying financial statements of Poste Italiane SpA, which comprise the statement of financial position as of 31 December 2016, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of Poste Italiane SpA are responsible for the preparation of financial statements that give a true and fair view in compliance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree n° 38/2005.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to article 11 of Legislative Decree n° 39 of 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

${\it Price waterhouse Coopers\,SpA}$

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Poste Italiane SpA as of 31 December 2016 and of the result of its operations and cash flows for the year then ended in compliance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree no 38/2005.

Report on compliance with other laws and regulations

Opinion on the consistency with the financial statements of the report on operations and of certain $information\ set\ out\ in\ the\ report\ on\ corporate\ governance\ and\ ownership\ structure$

We have performed the procedures required under auditing standard (SA Italia) n° 720B in order to express an opinion, as required by law, on the consistency of the report on operations and of the information set out in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree no 58/98, which are the responsibility of the directors of Poste Italiane SpA, with the financial statements of Poste Italiane SpA as of 31 December 2016. In our opinion, the report on operations and the information in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of Poste Italiane SpA as of 31 December 2016.

Rome, 4 April 2017

PricewaterhouseCoopers SpA

Signed by

Monica Biccari (Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers. We have not examined the translation of the financial statements referred to in this report.



Poste Italiane SpA

Registered office: Viale Europa, 190 - Rome Fully paid-up share capital: €1,306,110,000.00 Tax Code and Rome Companies' Register no. 97103880585/1996 Business Registration Number in Rome: REA 842633 VAT no. 01114601006

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