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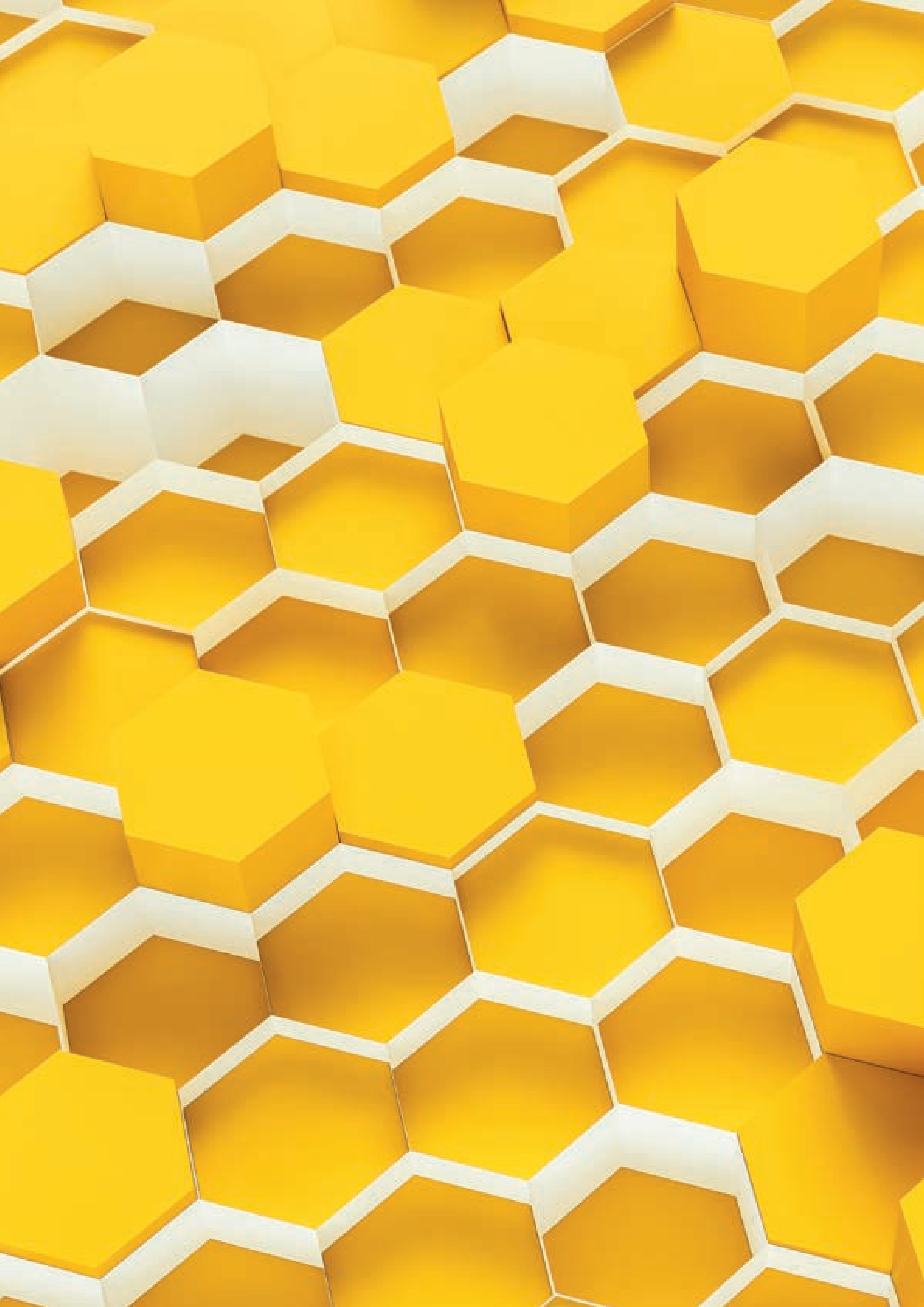
FINANCIAL STATEMENTS OF POSTE ITALIANE
AT 31 DECEMBER 2019



02 FINANCIAL STATEMENTS OF POSTE ITALIANE AT 31 DECEMBER 2019

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FINANCIAL STATEMENTS OF POSTE ITALIANE AT 31 DECEMBER 2019

1. Introduction

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

Poste Italiane's shares have been listed on the Mercato Telematico Azionario (the MTA, an electronic stock exchange) since 27 October 2015. At 31 December 2019, 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. At 31 December 2019, the Parent Company holds 5,257,965 of its treasury shares (equal to 0.4026% of the share capital).

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's business is assessed and presented on the basis of four operating segments: (i) Mail, Parcels and Distribution, (ii) Payments, Mobile and Digital (PMD), (iii) Financial Services and (iv) Insurance Services.

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

This section of the Annual Report for the year ended 31 December 2019 includes the consolidated financial statements of the Poste Italiane Group, the separate financial statements of Poste Italiane SpA and BancoPosta RFC's Separate Report. The Report has 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, 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.

The consolidated and separate financial statements contain notes applicable to both sets of financial statements, providing information on matters common to both the Group and Poste Italiane SpA. The relevant matters specifically regard

- the basis of presentation used and accounting standards adopted;
- disclosure of the sources and the procedures used in determining fair value;
- financial risk disclosures;
- a summary of the principal proceedings pending and relations with the authorities at 31 December 2019;
- and, in general, certain additional disclosures required by accounting standards, whose presentation in a single section is designed to provide the reader with better information (e.g. the analysis of net debt, key performance indicators for investee companies, etc.).

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

2. Basis of preparation and significant accounting policies

2.1 Compliance with IAS/IFRS

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 5 March 2020, the date on which the Board of Directors of Poste Italiane SpA approved the annual accounts.

2.2 Basis of presentation

The accounting standards described below reflect the Group's and Poste Italiane SpA's **full operating performance** in the foreseeable future and are applied on a **going concern** basis.

The statement of financial position has been prepared on the basis of the **"current/non-current distinction"**[37]. In the statement of profit or loss, expenses are classified according to their nature. The cash flow statement has been prepared under the **indirect method**[38].

The accounting standards and the recognition, measurement and classification criteria adopted in these annual accounts are consistent with those used to prepare the annual accounts at 31 December 2018, without prejudice to the changes introduced to the body of accounting standards, applied from the year under review; please refer to note 2.6 - *New Accounting standards and interpretations and those soon to be effective* and, with regard to the new accounting rules on lease contracts (IFRS 16), to note 3 - *Changes to accounting policies*.

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

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

In order to allow for a uniform comparison with the figures for 2019, certain figures and notes for the comparison year have been reclassified.

37. 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).
38. Under the indirect method, net cash from operating activities is determined by adjusting profit/(loss) for the year to reflect the impact of non-cash items, any deferment or provisions for previous or future operating inflows or outflows, and revenue or cost items linked to cash flows from investing or financing activities

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

With regard to the interpretation and application of newly published, or revised, international accounting standards, and to certain aspects of taxation[39] where the related interpretations are based on examples of best practice or case-law that cannot yet be regarded as exhaustive, the financial statements have 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. This cost is increased for charges directly related to the purchase or construction of the asset, including - where identifiable and measurable - that relating to employees involved in the planning and/or preparation for use phase. Interest expense incurred by the Group for loans specifically for the acquisition or construction of property, plant and equipment is capitalised together with the value of the asset; all other interest expense is recognised as finance costs in profit and loss for the year in question. Costs incurred for routine and/or cyclical maintenance and repairs are recognised directly in profit or loss in the related year. 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 estimated useful life and value to be recognised and amortised 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. Land is not depreciated.

39. 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. In addition, the new standards are subject to the rules contained in the endorsement tax decrees issued by the Ministry of the Economy and Finance, in application of the provisions of Law no. 10 of 26 February 2011 (Decreto milleproroghe).

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	3-10
Furniture and fittings	3-8
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.

At each reporting date, property, plant and equipment is analysed in order to identify the existence of any indicators of impairment (in accordance with IAS 36 - *Impairment of Assets*; please refer to the treatment of impairment of assets).

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. The initial book value is adjusted for accumulated amortisation, where an amortisation process is envisaged, and for any impairment losses.

In particular, **Industrial patents, intellectual property rights**, licences and similar rights are initially valued at purchase cost. This cost is increased for charges directly related to the purchase or preparation for use of the asset. Interest expense that the Group may incur for loans specifically for the purchase of industrial patents, intellectual property rights, licenses and similar rights are capitalised together with the value of the asset; all other interest expense is recognised as finance costs in profit and loss for the year. Amortisation starts once the asset is available for use. Amortisation is applied on a straight-line basis, in order to distribute 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.

Industrial patents, intellectual property rights, licenses and similar rights include costs directly associated with the internal production of unique and identifiable software products that will generate future economic benefits with a time horizon of more than one year. Direct costs include - where identifiable and measurable - the charge related to employees involved in software development. Costs incurred for the maintenance of internally developed software products are charged to profit and loss for the year in question. Amortisation begins when the asset is available for use and extends, systematically and on a straight-line basis, over its estimated useful life (normally 3 years). Any research costs are not capitalised.

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

Leased assets

The accounting treatment for lease arrangements, modified following the entry into effect of the new accounting standard IFRS 16 - Leasing, is described in note 3, "Changes to accounting policies".

The Group avails itself of the option granted by the principle of non-application of the new provisions to short-term contracts (with a duration of no more than twelve months) and to contracts in which the individual underlying asset is of low value (up to $5,000); for these contracts, the Group continues to adopt IAS 17 by recognising on a straight-line basis in the profit and loss lease payments as matching entry to short-term trade payables.

Impairment of assets

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

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

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

An impairment loss is recognised in profit or loss for the amount by which the net carrying amount of the asset, or the CGU to which it belongs, exceeds its recoverable amount. In particular, if the impairment loss regards goodwill and is higher than the related carrying amount, the remaining amount is allocated to the assets included in the CGU to which the goodwill has been allocated, in proportion to their carrying amount[40]. Except in the case of goodwill, if the impairment indicators no longer exist, the carrying amount of the asset or CGU is reinstated and the reversal recognised in profit or loss. The reversal must not exceed the carrying amount that would have been determined had no impairment loss been recognised and depreciation or amortisation been charged.

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

Investments

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

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

Financial instruments

In accordance with IFRS 9 - Financial instruments, the classification of financial assets and liabilities is determined at the time of initial recognition and at the relative fair value, according to the purpose for which they were acquired. The purchase and sale of financial instruments is recognised by category, either on the date on which the Group commits to purchase or sell the asset (the transaction date), or, in the case of insurance transactions and BancoPosta's operations, at the settlement date[41]. Any changes in fair value between the transaction date and the settlement date are recognised in the financial statements.

On the other hand, trade receivables are recognised at their transaction price, in accordance with IFRS 15 - Revenue from Contracts with Customers.

On initial recognition, **financial assets** are classified in one of the following categories, based on the business model adopted to manage them and the characteristics of their contractual cash flows.

- Financial assets measured at amortised cost
  This category reflects financial assets held to collect the contractual cash flows (the held to collect or HTC business model) representing solely payments of principal and interest (SPPI). These assets are measured at amortised cost, that is the value assigned to the financial asset or liability on initial recognition, net of any principal reimbursement, plus or minus the cumulative amortisation by using the effective interest rate method on the difference between the initial value and the value at maturity, after deducting any impairment. The business model on which the classification of financial assets is based permits the sale of such assets; if the sales are not occasional, and are not immaterial in terms of value, consistency with the HTC business model should be assessed.
- Financial assets measured at fair value through other comprehensive income (FVTOCI)
  This category includes financial assets held both to collect the relevant contractual cash flows and for sale (the held to collect and sell or HTC&S business model), with the contractual cash flows representing solely payments of principal and interest.
  These financial assets are measured at fair value and, until they are derecognised or reclassified, gains or losses from valuation are recognised in other comprehensive income. Exceptions to this are gains and losses due to impairment and foreign exchange gains and losses recognised in the profit and loss in the year in question. If the financial asset is derecognised, the accumulated gains/(losses) recognised in OCI are recycled to profit or loss.
  This category also includes equity instruments that would otherwise be recognised through profit or loss, for which the irrevocable election was made to recognise changes in fair value through OCI (the FVTOCI option). This option entails the recognition of dividends alone through profit or loss.

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

- Financial assets measured at fair value through profit or loss
  This category includes: (a) financial assets primarily held for trading; (b) those that qualify for designation at fair value through profit or loss, exercising the fair value option; (c) financial assets that must be recognised at fair value through profit or loss; (d) derivative instruments, with the exception of the effective portion of those designated as cash flow hedges. Financial assets belonging to the category in question are measured at fair value and the related changes are recognised in profit and loss. 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.; positive and negative fair values deriving from transactions with the same counterparty are offset during the collateralisation/liquidation phase, where contractually provided for.

The classification as "current" or "non-current" of financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income depends on the contractual maturity of the instrument, since current assets are those whose realisation is expected within twelve months of the reporting date. Financial assets measured at fair value through profit or loss are, on the other hand, classified as "current" if held for trading and are expected to be sold within twelve months of the reporting date.

An expected credit loss (ECL) provision must be made for financial assets recognised at amortised cost and financial assets at fair value through OCI, as follows: (i) specific provisions for doubtful debts are made for expected losses on financial assets measured at amortised cost; (ii) expected losses on financial assets measured at fair value through other comprehensive income are recognised in profit or loss, with a contra entry in the fair value reserve in equity. The method utilised is the "General impairment model", whereby:

- If on the reporting date the credit risk of a financial instrument has not increased significantly since initial recognition, a 12-month ECL is recognised (stage 1). Interest on the instrument is calculated on the gross carrying amount (amortised cost inclusive of the ECL);
- If on the reporting date the credit risk of the financial instrument has increased significantly since initial recognition, a lifetime ECL is recognised (stage 2). Interest on the instrument is calculated on the gross carrying amount (amortised cost inclusive of the ECL);
- If a financial instrument is already impaired on initial recognition or shows objective evidence of impairment as at the reporting date, lifetime expected losses are recognised. Interest is calculated on amortised cost (stage 3), i.e. on the basis of the exposure value - determined on the basis of the effective interest rate - adjusted for expected losses.

In determining whether credit risk has increased significantly, it is necessary to compare the risk of default of the financial instrument as at the reporting date with the risk of default of the financial instrument on initial recognition. However, there is a rebuttable default presumption if the financial instrument is more than 90 days past due, unless there is reasonable and supportable information to demonstrate that a default criterion with greater lag is more appropriate. Regarding trade receivables, a simplified approach is applied to measure the expected credit loss, if these receivables do not contain a significant financing component pursuant to IFRS 15. The simplified approach is based on a matrix of observed historical losses.

In the very rare circumstance in which the entity decides to modify its business model, previously recognised financial assets are reclassified to the new accounting category; the effects of the reclassification are recognised only prospectively, and therefore, the previously recognised gains/losses and interest must not be restated. The effects of the reclassification are as follows:

- if the financial asset is reclassified from amortised cost to fair value through profit or loss, the fair value of the asset is determined on the reclassification date. Gains and losses resulting from the difference between the previous amortised cost and fair value are recognised through profit or loss;
- if the financial asset is reclassified from fair value through profit or loss to amortised cost, the fair value on the reclassification date becomes the new gross carrying amount;
- if the financial asset is reclassified from amortised cost to fair value through other comprehensive income, the fair value of the asset is determined on the reclassification date. Gains and losses resulting from the difference between the previous amortised cost and fair value are recognised through other comprehensive income. The effective interest rate and the expected credit loss are not adjusted following reclassification;
- if the financial asset is reclassified from fair value through other comprehensive income to amortised cost, the cumulative gain (loss) recognised previously through other comprehensive income is derecognised from equity through an adjustment to the fair value of the financial asset on the reclassification date. Consequently, the financial asset is reported as though it had always been reported at amortised cost, by not changing the effective interest rate and the expected credit loss;
- if the financial asset is reclassified from fair value through profit or loss to fair value through other comprehensive income, the financial asset continues to be measured at fair value;
- if the financial asset is reclassified from fair value through other comprehensive income to fair value through profit or loss, the financial asset continues to be measured at fair value. The cumulative gain (loss) recognised previously through other comprehensive income is recycled to profit or loss on the reclassification date.

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. If it is not possible to ascertain the substantial transfer of risks and benefits, financial assets are derecognised if no control is maintained over them. Finally, assets sold are derecognised if the contractual right to receive their cash flows is maintained. However, at the same time a contractual obligation is assumed to pay said flows to a third party, without delay and only to the extent of those received.

In addition, for impaired financial assets, derecognition may take place following write-off thereof, following the acknowledgement that there are no reasonable expectations of recovery (e.g. prescription).

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.

When required by the applicable IFRS (e.g. in the case of derivative liabilities), or when the irrevocable fair value option is exercised, financial liabilities are recognised at fair value through profit or loss. In this case, changes in fair value attributable to changes in own credit risk are recognised directly in equity, unless this treatment creates or enhances an accounting asymmetry, whereby the residual amount of the changes in the fair value of liabilities is recognised through profit or loss.

Financial liabilities are derecognised when they are extinguished or when the obligation specified in the contract expires, is cancelled or discharged.

For **hedge accounting transactions**, the Poste Italiane Group has elected to use the option made available by IFRS 9 and has retained the accounting treatments provided for by IAS 39. In accordance with this standard, 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 IAS 39 – Financial Instruments: Recognition and Measurement, as 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 designation of each derivative instrument as hedging instrument, and during its life.

- Fair value hedge[42]
  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 hedge[43]
  The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges after initial recognition is recognised in a specific equity reserve, with movements in the reserve accounted for in "Other comprehensive income" (the "Cash flow hedge reserve"). A hedging transaction is generally considered highly effective if, both at inception of the hedge and on an ongoing basis, changes in the expected future cash flows of the hedged item are substantially offset by changes in the fair value of the hedging instrument. If the hedging transaction is not fully effective, the gain or loss arising from a change in fair value relating to the ineffective portion is recognised in profit or loss for the period. Amounts accumulated in equity are recycled to profit or loss in the period in which the hedged item affects profit or loss. In particular, in the case of hedges associated with a highly probable forecast transaction (such as the purchase of fixed

42. 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.
43. 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.

income debt securities), the reserve is reclassified to profit or loss in the period or in the periods in which the asset or liability, subsequently accounted for and connected to the aforementioned transaction, will affect profit or loss (for example, an adjustment to the return on the security).
If, during the life of the derivative, the forecast hedged transaction is no longer expected to occur, the related gains and losses accumulated in the cash flow hedge reserve are immediately reclassified to profit or loss for the period. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the related gains and losses accumulated in the cash flow hedge reserve at that time remain in equity and are recognised in profit or loss at the same time as the original underlying.

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.

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 paragraphs 39 and 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 taxation and accounting standards take account of the effects of Poste Italiane SpA's participation in the national tax consolidation scheme, for which the option has been exercised in accordance with the law, together with the following subsidiaries: Poste Vita SpA, SDA Express Courier SpA, Poste Air Cargo Srl, Postel SpA, Risparmio Holding SpA (liquidated in the first half of 2019), Europa Gestioni Immobiliari SpA, Poste Welfare Servizi Srl, Poste Assicura SpA, BancoPostaFondi SpA SGR and PostePay SpA. The tax consolidation arrangement is governed by Group regulations based on the principles of neutrality and equality of treatment, which are intended to ensure that the companies included in the tax consolidation are in no way penalised as a result. Following adoption of the tax consolidation arrangement, the Parent Company's tax expense is determined at consolidated level on the basis of the tax expense or tax losses for the period for each company included in the consolidation, taking account of any withholding tax or advances paid. Poste Italiane SpA posts its IRES tax expense to income taxes for the period, after adjustments to take account of the positive or negative impact of tax consolidation adjustments. Should the reductions or increases in tax expense deriving from such adjustments be attributable to the companies included in the tax consolidation, Poste Italiane SpA attributes such reductions or increases in tax expense to the companies in question. The economic benefits deriving from the offset of tax losses transferred to the consolidating entity by the companies participating in the tax consolidation arrangement are recognised in full by Poste Italiane SpA. Other taxes not related to income are included in "Other operating costs".

Inventories

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

In the case of properties held for sale[44], if present, 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[45].

Green Certificates (Emission Allowances)

With reference to Group companies subject to these rules[46], Green Certificates (or Emission Allowances) are a means of reducing greenhouse gas emissions, introduced into Italian and European legislation by the Kyoto Protocol with the aim of improving the technologies used in the production of energy and in industrial processes.

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

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

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

44. These are properties held by EGI SpA and not accounted for in "Investment property" as they were purchased for sale or subsequently reclassified as held for sale.
45. 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.
46. The subsidiary Poste Air Cargo Srl.

Cash and deposits attributable to BancoPosta

Cash and securities held at post offices, and bank deposits attributable to the operations of BancoPosta RFC, are accounted for separately from cash and cash equivalents as they derive from deposits subject to investment restrictions, or from advances from the Italian Treasury to ensure that post offices can operate. This cash may only be used in settlement of these obligations.

Cash and cash equivalents

Cash and cash equivalents refer to cash in hand, deposits held at call with banks, amounts that at 31 December 2019 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 is 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. The economic values of discontinued operations are also shown for the years under comparison.

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

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

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

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

Equity

Share capital

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

Reserves

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

Retained earnings/(Accumulated losses)

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

Insurance contracts

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

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

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

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

- insurance premiums are accounted for when the policies are written, recognised as income and classified in revenue; 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. The changes in the technical provisions and the charges relating to claims are as follows and recorded with the relevant sign as positive income components.

In the case of contracts for separately managed accounts with discretionary participation features[47] (as defined in Appendix A of IFRS 4), IFRS 4 makes reference to national GAAP. The contracts are classified as "financial", but accounted for as "insurance" as follows:

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

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

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 contractual obligations, the level of minimum returns guaranteed at the time of concluding the contract and any financial guarantees provided.

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 valuesand takes into account the risks specific to the liability. With regard to the risks for which the occurrence of a liability is only possible, specific information is provided without making any provision. 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 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.

There are two types of **post-employment benefit**:

- Defined benefit plans
  Defined benefit plans include employee termination benefits payable to employees in accordance with article 2120 of the Italian Civil Code.
  As a result of the supplementary pension reform, for all companies with at least 50 employees, from 1 January 2007 vesting employee termination benefits (TFR) 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[48]. In the case of companies with less than 50 employees, vested employee termination benefits continue to fully increase the accumulated liability for the company.
  Under these plans, given that the amount of the benefit to be paid is only quantifiable following the termination of employment, the related effects on profit or loss or the financial position are recognised on the basis of actuarial calculations in compliance with IAS 19. In particular, the liability to be paid on cessation of employment is calculated using the projected unit credit method and then discounted to recognise the time value of money prior to the liability being settled. The liability recognised in the financial statements is based on calculations performed by independent actuaries. The calculation takes into account the employee termination benefits accrued for work already performed and is based on actuarial assumptions that mainly concern: 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 at the end of each reporting period, based on the difference between the carrying amount of the liability and the present value of the Group's obligations at the end of the period, due to changes in the actuarial assumptions, are recognised directly in Other comprehensive income.

- 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.

48. 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.

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

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

Share-based payments

Share-based payment transactions may be settled in cash, equity instruments, or other financial instruments. Goods or services received or acquired through a share-based payment transaction are recognised at their fair value.

In the case of cash-settled share-based payment transactions:

- a liability is recognised as a matching entry at cost;
- if the fair value of the goods or services received or acquired cannot be reliably determined, this value must be estimated indirectly on the basis of the fair value of the liability;
- the fair value of the liability must be remeasured at the end of each reporting period, recognising any changes in fair value in profit or loss for the period.

In the case of equity-settled share-based payment transactions:

- an increase in shareholders' equity is recorded as a matching entry at cost;
- if the fair value of the goods or services received or acquired cannot be reliably determined, this value must be estimated indirectly on the basis of the fair value of the equity instruments granted at the grant date.

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

In accordance with IFRS 15 – Revenue from Contracts with Customers, revenue is recognised to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services (the transaction price).

Revenue is recognised on the basis of a 5-step framework, which consists of the following:

- identify the contract with the customer (sales contracts except lease contracts, insurance contracts, financial instruments and non-monetary exchanges);
- identify the performance obligations, which can be defined as the explicit or implicit promise to transfer a distinct good or service to the customer;
- determine the transaction price;

- in the case of bundles of goods or services involving different performance obligations, allocate the transaction price to the performance obligation; to that end, it is necessary to estimate the stand-alone selling price of each component;
- recognise revenue when or as the entity fulfils the performance obligation, that is upon delivery of the good or service to the customer. Performance obligations can be fulfilled:
  – "at a point in time": in the case of obligations fulfilled at a point in time, revenue is recognised only as control over the good or service is passed to the customer. In that respect, consideration is given not only to the significant exposure to the risks and benefits related to the good or service but also physical possession, customer's acceptance, the existence of legal rights, etc.;
  – "over time": in the case of obligations fulfilled over time, the measurement and recognition of revenue reflect, virtually, the progress of the customer's satisfaction. An appropriate approach is defined to measure progress of the performance obligation (the output method).

Every single supplier obligation with the customer is considered, measured and recognised separately. This approach involves a preliminary accurate analysis of the contract to identify every "single product/service" or every "single component" of a product/service that the supplier promises to provide, attributing to each the relevant consideration, and to monitor each such obligation during the life of the contract (in terms both of manner and timing of fulfilment and the customer's level of satisfaction)

For revenue recognition purposes, the principle provides for the identification and quantification of the so-called variable components of the consideration (discounts, rebates, price concessions, incentives, penalties and other similar) to include them to supplement or adjust the transaction price. Of the elements of variable consideration, particularly important are penalties (other than those related to compensation for damages), for which IFRS 15 provides for an innovative accounting discipline with respect to the pre-existing one: these negative income components are recorded as a direct decrease in revenue, instead of allocating them to a provision for risks and charges.

In the presence of multiple performance obligations, the total transaction price is allocated to each performance obligation to the extent of the consideration that the entity is entitled to receive for the transfer of the relevant goods and services to the customer. The transaction price will be allocated on the basis of the standalone selling price of the goods and services associated with the performance obligation. The standalone selling price is the price at which an entity would sell the goods and services separately to the customer, under similar circumstances and to similar customers. If the standalone selling price is not observable, the Company would need to estimate it considering all the information available (market conditions, information on the customer or the class of customers) and the estimation methods used in similar circumstances.

The incremental costs of obtaining a contract are capitalised and amortised over the useful life of the contract, if longer than 12 months, while any non-incremental costs of obtaining a contract are expensed as incurred. Costs incurred to fulfil performance obligations related to a contract that do not qualify for treatment under other standards (IAS 2 – Inventories, IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets) are capitalised only if the following conditions are met:

- the costs related directly to a contract (general and administrative costs are not capitalised);
- the costs generate or enhance resources;
- the costs are expected to be recovered.

The Group recognises the obligation to transfer to the customer goods or services for which payment has already been obtained (or for which the customer's consideration is due before the goods and services are provided) classified as liability deriving from the contract.

Revenue from activities carried out in favour of or on behalf of the state 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 provisions 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 Eurozone government securities, in which deposits paid into accounts by private customers are invested

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. Grants are recognised in profit and loss under Other operating income as follows: operating grants in proportion to the costs actually incurred for the project and accounted for and approved 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 project and whose costs have been accounted for and approved 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 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. Otherwise, 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[49].

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.

2.4 Basis of consolidation

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

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

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

The consolidated financial statements have been specifically prepared at 31 December 2019, 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 are not included within the scope of consolidation.

49. 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.

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

Investments in subsidiaries that are not significant and are not consolidated, and those in companies over which the Group exerts significant influence (assumed when the Group holds an interest of between 20% and 50%), hereinafter “associates”, and joint ventures are accounted for using the equity method. At the time of acquisition, the investment is accounted for using the equity method. Any difference between the cost of acquisition of the investment and the net fair value of the investee’s identifiable assets and liabilities is accounted for as follows:

a. goodwill related to an associate or a joint venture is included in the carrying amount of the investment. Amortisation of such goodwill is not permitted;
b. in determining the initial value of the entity’s investment, any excess of the entity’s interest in the net fair value of investee’s identifiable assets and liabilities over cost is recognised as income in determining the acquirer’s interest in the profit (loss) for the period of the associate or joint venture in the period in which the interest is acquired.

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

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

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

Subsidiaries and joint ventures	31/12/2019	31/12/2018
Consolidated on a line-by-line basis	15	14
Accounted for using the equity method	4	6
Total companies	**19**	**20**

2.5 Use of estimates

Preparation of the annual accounts requires the application of accounting standards and methods that are at times based on complex subjective judgements 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 final amounts reported in the financial statements and related disclosures. 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

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 accounting periods after the period ended 31 December 2019 to reflect variations in estimates, due to future regulatory enactments or following the finalisation of expired agreements to be renewed.

At 31 December 2019, Poste Italiane Group's receivables outstanding with central and local authorities amounted to €693 million (€881 million at 31 December 2018), gross of provisions for doubtful debts.

The table below summarises receivables due from the State.

Receivables (€m)	**31/12/2019**	**31/12/2018**
Universal Service expense	31	31
Remuneration of current account deposits	28	39
Delegated services	15	28
Electoral subsidies	1	1
Other	2	1
Trade receivables due from the MEF	**77**	**100**
Shareholder transactions:		
Amount due from MEF following cancellation of Decision EC 16/07/2008	**39**	**39**
Total amounts due from the MEF	**116**	**139**
Receivables due from Ministries and Public Administration entities: Chair of the Board of Ministers for editorial benefits	50	104
Receivables due from Ministries and Public Administration entities: Ministry for Econ. Dev.	80	78
Other trade receivables due from Public Administration entities	390	490
Trade receivables due from Public Administration entities	**520**	**672**
Other receivables and assets:		
Sundry receivables due from Public Administration entities	**1**	**3**
Amounts receivable for IRES refund	55	55
Amounts receivable for IRAP refund	1	12
Current tax assets and related interest	**56**	**67**
Total receivables due from MEF and the Public Administration	**693**	**881**

At 31 December 2019, provisions for doubtful debts reflect receivables for which no provision had been made in the state budget and uncertainty regarding past due amounts due from the Public Administration. For further details, see notes A8 - Trade receivables and A9 - Other receivables and assets.

Revenue from contracts with customers

The main factors in the recognition of revenue from contracts with customers include elements of variable consideration, particularly penalties (other than those related to compensation for damages). Elements of variable consideration are identified at the inception of the contract and estimated as of every close of the accounts for the entire contract term, to take into account new circumstances and changes in the circumstances already considered for the previous estimations. Elements of variable consideration include refund liabilities.

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 and stage allocation for financial instruments

For the purposes of calculating impairment and determining the stage allocation, the main factors estimated by the Poste Italiane Group are as follows, relating to the internal model developed for Sovereign, Banking and Corporate counterparties:

- estimates of ratings by counterparty;
- estimation of the probability of default "PD" for counterparties.

Impairment tests of goodwill, cash generating units and equity investments

Goodwill and other non-current assets are tested for impairment in accordance with IAS 36 – Impairment of Assets. Impairment testing involves the use of estimates based on variable factors over time, potentially resulting in effects that may be significantly different from prior year estimates.

The impairment tests at 31 December 2019 were performed on the basis of the five-year business plans of the CGUs (cash generating units) concerned or the latest available projections. Where required, the Discounted Cash Flow (DCF) method was applied to the resulting amounts. 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).[50]

For the Parent Company, the impairment test was carried out on the cash flow generating unit represented by the Mail, Parcels and Distribution segment to which Goodwill is not allocated. Each of the other Group companies is considered a separate CGU.

50. In the test carried out at 31 December 2019, use was made of an assumed long-term growth rate of between 1.14% and 1.32%, while the WACCs, determined in accordance with best market practices and for each operating segment, ranged from a minimum of 5.21% to 7.28%. The cost of equity (Ke) is estimated as 7.18% for banking activities and 7.54% for asset management activities.

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

In particular, with regard to the impairment test of the investment in FSIA Investimenti Srl, given the absence of reliable medium-term projections, the fair value of the investment at 31 December 2019 was determined (level 3 in the hierarchy) using market multiples. To identify the market multiple to use, reference was made to a study of a comparable company by a leading investment bank. The multiple used was 16.5 based on EV/EBITDA for 2020. Figures from the last year of the plan, or the latest available projections, were used in determining the terminal value.

Impairment test of the Mail, Parcels and Distribution segment

The current environment - 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, at 31 December 2019, in part in view of the content of the Group's Strategic Plan for 2018-2022, approved by the Parent Company's Board of Directors on 26 February 2018, and the ongoing decline of the postal sector, the Parent Company's Mail, Parcels and Distribution CGU was tested for impairment in order to determine a value in use to compare with the total carrying amount of net invested capital. In estimating the CGU's value in use, reference was made to revenue and cost projections in the Strategic Plan for 2018-2022, updated to take into account the actual results for 2019 and best estimates for 2020[51]. The terminal value, on the other hand, which was determined on the basis of data for the latest explicit projection period, was based on normalised earnings, taking into account the existence of potential positive elements whose value was not reflected in the explicit projections over the life of the plan. Reference was also made to the transfer prices that BancoPosta RFC is expected to pay for the services provided by Poste Italiane's distribution network. A WACC of 5.21% was used. The impairment test determined that the related carrying amounts are fair.

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

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

The cost of these assets is depreciated or amortised on a straight-line basis over the estimated useful life of the asset. The useful life is determined at the time of acquisition and is based on historical experience of similar investments, market conditions and expectations regarding future events that may have an impact, such as technological developments. The actual useful life may, therefore, differ from the estimated useful life.

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.

51. Approved by the Board of Directors of Poste Italiane SpA on 5 March 2020.

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.

Technical provisions for insurance business

The measurement of technical provisions for the insurance business is based on estimates made by actuaries employed by Poste Vita SpA, based on a series of material assumptions, including technical, actuarial, demographic and financial assumptions, as well as on projections of future cash flows from the insurance contracts entered into by Poste Vita and Poste Assicura and effective at the end of the year.

In order to verify the adequacy of the technical provisions, the Liability Adequacy Test (LAT) is performed periodically. It measures the ability of future cash flows from insurance contracts to cover liabilities to the policyholder. 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.

Share-based payments

As further described in Note 14 - Additional information - Share-based payment arrangements, the valuation of the share-based payment arrangements in place within the Poste Italiane Group at the close of these financial statements was based on the conclusions reached by actuaries external to the Group. 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 liquidity requirements. For these reasons, measurement of the liability, equity reserve and the corresponding economic effects 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.

Employee termination benefits

The measurement of Employee termination benefits is also based on calculations performed by independent actuaries. The calculation takes account of termination benefits accrued for the period of service to date and is based on various demographic and economic-financial assumptions. These assumptions, which are based on the Group's experience and relevant best practices, are subject to periodic reviews.

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

Accounting standards and interpretations applied from 1 January 2019

The following are applicable from 1 January 2019:

- **IFRS 16 -** Leases, adopted with Regulation (EU) no. 2017/1986. The new standard intends to improve the accounting representation of lease contracts, giving a basis for users of financial statements to assess the effect on the financial position, operating performance and cash flows of the entity. The main change regards lease liability contracts by introducing, for the lessee, a unified model for the different types of leasing (both financial and operating). A detailed description of the main changes introduced by the standard is provided in the paragraph, "Changes to accounting policies".
- **Annual improvements to IFRS: Cycle 2015 - 2017,** adopted by Regulation (EU) no. 2019/412. The amendments concerned:
  - **IFRS 3 - Business Combinations:** an entity remeasures its previous interest in a Joint Operation when it obtains control of the business.
  - **IFRS 11 - Joint Arrangements:** an entity does not remeasure its previous interest in a Joint Operation when it obtains joint control of the business.
  - **IAS 12 - Income Taxes:** an entity shall recognise the tax effects of dividends for income tax purposes in profit or loss, other comprehensive income or equity, depending on where the entity originally recognised the transactions that generated distributable profits.
  - **IAS 23 - Financial costs:** an entity determines the amount of financial costs eligible for capitalisation by excluding financial costs applicable to loans obtained specifically for the purpose of acquiring a qualifying asset, until all the operations necessary for the asset to be usable or sellable are completed.
- **Amendments to IAS 19: Amendment, curtailment or settlement of the plan**, adopted by Regulation (EU) no. 2019/402. After an amendment, curtailment or settlement of a defined benefit plan, the entity shall update its assumptions and remeasure its defined benefit liability or asset. The company shall use the updated assumptions to measure the current service cost and net interest for the remainder of the reporting period after the event.
- **Amendments to IAS 28: Long-term interests in associates and joint ventures**, adopted by Regulation (EU) no. 2019/237. An entity applies IFRS 9 to those interests in associates and joint ventures for which it does not apply the equity method, including long-term interests and which are essentially part of the net investment in those associates and joint ventures.

- **IFRIC 23 - Uncertainty of Income Tax Treatment**, adopted by Regulation (EU) no. 2018/1595. An entity should consider whether the competent authority is likely to accept any tax treatment, or group of tax treatments, that it has used or plans to use in its tax return. If the entity considers it likely that a particular tax treatment will be accepted, the entity shall determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistent with the tax treatment included in its tax records. If the entity concludes that it is not probable that a particular tax treatment will be accepted, the entity shall use the most probable amount or expected value of the tax treatment in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The decision should be based on which method provides better predictions of uncertainty resolution.
- **Amendments to IFRS 9 – Financial Instruments - Prepayment Features with Negative Compensation** adopted with Regulation (EU) no. 2018/498. Some financial assets with negative compensation may be valued at amortised cost. The assets concerned, which include certain loans and debt securities, would otherwise be measured at fair value through profit or loss (FVTPL). Negative netting arises where the contractual terms allow early repayment of the instrument before the contractual due date, but the amount of the prepayment may be less than the unpaid principal and interest. However, to obtain the amortised cost valuation, the negative compensation must be 'reasonable' for early termination of the contract. An example of such reasonable remuneration is an amount reflecting the effect of the change in the reference interest rate. In addition, for the purpose of measurement at amortised cost, the asset must be held within a "Hold to collect" business model.

Accounting standards and interpretations soon to be effective

The following are applicable from 1 January 2020:

- Amendments to references to the Conceptual Framework in the body of IFRS. The amendments update some of the references and citations in IFRS standards and interpretations so that they refer to the revised Conceptual Framework or specify the version of the Conceptual Framework to which they refer.
- Amendments to **IAS 1 - Presentation of Financial Statements and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors** aimed at clarifying the definition of "material" in order to make it easier for companies to make judgements about materiality and to improve the relevance of information in the notes to the financial statements.
- Amendments to **IFRS 9 - Financial Instruments, IAS 39 - Financial Instruments: Recognition and Measurement and IFRS 7 - Financial Instruments: additional disclosure**, which introduced temporary and limited exceptions to the application of the hedge accounting provisions so that companies can continue to comply with the provisions assuming that the reference indices for the determination of existing interest rates are not changed as a result of the Interest Rate Benchmark Reform[52]. The purpose of the derogations is to avoid the effects of discontinuing due to the mere uncertainty of the interest rate reform. In particular, for the evaluation of the economic relation, the amendments introduced require that the entity must assume that the reference index for the determination of the interest rates of the hedged instrument and of the hedging instrument is not changed following the reform of the rates. The amendments in question, in force since 5 February 2020, must obligatorily be applied from 1 January 2020, unless applied in advance, which the Group has not made use of for the purposes of preparing the financial statements at 31 December 2019.

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

- IFRS 17 - Insurance Contracts;
- Amendments to IFRS 3 - Business Combinations;
- Amendments to IAS 1 - Presentation of Financial Statements: Classification of Liabilities as Current or Non-current.

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.

52. The *reform of reference indices for the determination of interest rates* refers to the reform, which concerns the entire market, of a reference index for the determination of interest rates, including the replacement of a reference index for the determination of interest rates by an alternative reference rate, such as that resulting from the recommendations contained in the July 2014 report of the Financial Stability Board "Reforming Major Interest Rate Benchmarks".

3. Changes to accounting policies

3.1 Basis of preparation

On 1 January 2019, the new accounting standard for the regulation of lease contracts, IFRS 16 - Leases, issued by Regulation (EU) no. 2017/1986, came into force. The main amendments introduced relate to the rules governing lease contracts, with regard to which the new general criteria for accounting and presentation in the financial statements, the impact of initial application on the statement of financial position, in accordance with the simplified retrospective method, and the amounts recognised in the financial statements at 31 December 2019 of both the Poste Italiane Group and Poste Italiane SpA are described below.

3.1.1 IFRS 16 – Leases

Initial assessment of the agreement

Under the new accounting rules, at the inception of the contract, the Group assesses whether a contract is, or contains, a lease: the contract is, or contains, a lease if in exchange for a consideration it confers the right to control the use of a specified asset for a period of time. The activity is usually specified as explicitly stated in the contract or when it is available for use by the Group. The right of control is evaluated on the basis of the right to obtain substantially all the economic benefits deriving from the use of the asset and the right to decide on its use.

The initial assessment is only reviewed during the term of the contract if there are modifications to the contract conditions with substantial impact on the right to control the underlying asset. If the lease contract also contains a non-lease component, the Group separates and treats said component in accordance with the relevant accounting standard (for example, in the context of property leases, the lease component is separated from accessory/condominium or utility charges, which are classified in the accounts as service costs and recognised on an accruals basis). An exception is made for cases where separation cannot be achieved on the basis of objective criteria: in such cases, the Group does not separate the lease and non-lease components and submits them jointly to the accounting rules of the lease..

Right-of-use asset

On the contract commencement date, a right to use the leased asset is recorded, equal to the initial value of the corresponding lease liability, plus payments due before or at the same time as the contract commencement date (e.g. agency fees). Subsequently, said right of use is measured less accumulated depreciation and any accumulated impairment losses. Depreciation starts on the commencement date of the lease and extends over the shorter of the lease term and the useful life of the underlying asset.

Right-of-use assets are presented as a separate line item in the statement of financial position.

Lease liability

The lease liability, which is in the nature of a financial liability, is initially recorded at the present value of the lease instalments not paid on the date the contract commences; for the purposes of calculating the present value, the Group uses the marginal lending rate, defined by loan period and for each Group company.

The payments included in the initial measurement of the lease liability include:

- fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date (e.g. ISTAT indexes);
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option.

Variable lease payments that do not depend on an index or a rate are, in contrast, not included in the initial measurement of the lease liability. These payments are recognised as a cost in the statement of profit or loss in the period in which the event or the condition giving rise to the obligation occurs.

The lease liability is subsequently reduced to reflect the lease payments made and increased to reflect interest on the remaining amount.

The Group remeasures the lease liability (and accordingly adjusts the related right-of-use asset) when there is a change in:

- the lease term (for example, in the case of early termination of the contract or an extension of the lease);
- the assessment of a purchase option for the underlying asset; in these cases, lease payments due are reviewed on the basis of the revised lease term and to take account of the change in the amounts payable in view of the purchase option;
- future lease payments deriving from a change in the index or rate used to determine the payments (e.g. ISTAT), or as a result of a renegotiation of the financial conditions.

Only in the case of a significant change in the lease term or in future lease payments does the Group remeasure the remaining lease liability with reference to the incremental borrowing rate at the date of the modification; in all other cases, the lease liability is remeasured using the initial discount rate.

Lease liabilities are presented in Financial liabilities in the statement of financial position.

3.2 Use of estimates in relation to IFRS 16

The following is a description of the main estimates used by the Poste Italiane Group at 31 December 2019 in accordance with IFRS 16.

Incremental borrowing rate

For the purpose of discounting back unpaid lease instalments at the date the contract commences, the Group avails itself of the option granted by the standard to use the marginal borrowing rate, instead of the interest rate implicit in the lease, since the latter cannot be reliably determined. The incremental borrowing rate or IBR is determined in line with a hypothetical loan obtained in the current economic environment, and applied to groups of contracts with similar remaining terms and to similar companies. In particular, each IBR takes account of the risk-free rate identified on the basis of factors such as the economic environment, currency, contract term and credit spread reflecting the companies' organisation and financial structure.

The IBR associated with the commencement of the contract will be reviewed whenever there is a lease modification, meaning any substantial and significant changes to the contract conditions over the life of the agreement (e.g. the lease term or the amount of future lease payments).

The IBR table defined for groups of contracts with similar residual duration and for similar reference companies is periodically monitored and updated at least once during the year.

Contract duration IFRS 16

For property lease agreements, on the commencement date or on a later date (in the case of substantial and significant changes to the contract conditions), the Group determines the duration of IFRS 16 by resorting to a valuation approach based primarily on the expected duration of the obligation as per the agreement between the parties and/or in the legal framework of reference (Law 392 of 27 July 1978), and it expects an extension of the lease due to an interpretation/forecast of events, circumstances and future intentions, including of a strategic nature, of both the lessor and the lessee. For the purposes of the valuation, leased properties were previously classified in three distinct clusters: properties where the lease is subject to legal restrictions and high commercial-value properties; properties for civilian use, such as the company accommodation for Group employees and executives; and other properties used in operations. The properties leased by municipalities or other public bodies have also been brought back to this structure; although they can be classified within a separate regulatory framework, the measures and specific agreements undertaken between the parties and historical practices and trends allow them to be considered as a lease between private individuals.

A set of rules has therefore been defined for each cluster to determine the lease term, although subject to the occurrence of specific cases (for example, the exercise of the early termination option by one of the parties, disclosed at the valuation date, the existence of significant penalties by one or both parties in the event of early termination of the agreement, the existence of improvements to third-party assets of significant value, historical trends, requests/understandings by the lessor formally disclosed at the valuation date). At 31 December 2019, as a result of the estimated time extension, the financial liability IFRS 16 for property lease agreements of the Parent Company alone (€1,043 million) is almost double the value that would have been recorded considering the regulatory/legal duration of the agreements (€482 million).

The determination of the IFRS 16 duration for all lease agreements other than property leases is instead equal to the duration of the obligation agreed upon between the parties, in keeping with future intent in wanting and being able to complete the term and past experience. The choice derives from the fact that, in such cases, the contract provides for a final expiration date that cannot be extended (or, in any case, can be extended non-automatically and for a limited number of periods, even with monthly validity), beyond which the relationship with the lessor can continue only by virtue of a new agreement.

3.3 Effects of first-time adoption of IFRS 16

Practical expedients adopted

On first-time adoption of IFRS 16, the Group used some of practical expedients permitted by the standard; in particular:

- regarding the identification of contracts in scope, the Group elected not to remeasure contracts outstanding at the date of transition classified previously as leases or as containing a lease component. As a result of this expedient, lease contracts or contracts containing a lease component, which had been accounted for in accordance with IAS 17, now fall within the scope of IFRS 16;
- non-lease components were not separated from the lease components in rental contracts for the corporate fleet and vehicles for personal use;
- non-application of the new accounting rules to short-term contracts (with a duration of no more than twelve months) and to contracts in which the individual underlying asset is of low value (up to €5,000); for these contracts, the Group continues to adopt IAS 17 (recognition of lease payments in profit and loss as matching entry in short-term trade payables).

Transition method

At 1 January 2019, the Group recognised the following types of agreements/assets included within the scope of application of the standard:

- Properties used in operations (e.g. those used as post offices or operational sites);
- Properties not used in operations, providing accommodation for employees and executives;

- Leased vehicles for the corporate fleet;
- Leased vehicles for personal use by staff;
- Aircraft used by the Group's airline;
- IT equipment and devices of various type.

Of the methods allowed for the transition to IFRS 16, the Poste Italiane Group opted for the simplified retrospective approach that requires the recognition of:

the financial liability of the lease starting from the date of initial application and taking into account future lease payments until contract expiration;

the right-of-use asset at an amount equal to the financial liability of the lease as adjusted for any prepayments or accrued liabilities related to the leases reported in the statement of financial position immediately prior to first-time adoption.

The approach does not require the restatement of comparative data and allows the use of practical expedients to calculate financial liabilities and right-of-use assets at the transition date.

Poste Italiane Group

At 1 January 2019, the Group recognised right-of-use assets of €1,374 million, in relation to leases previously classified as operating leases under IAS 17, and financial liabilities totalling €1,373 million, equal to the present value of remaining payments discounted; the difference regards adjustments to right-of-use assets due to prepayments or accrued liabilities at 31 December 2018 on leases recognised under IAS 17 immediately prior to first-time adoption of IFRS 16.

The following statement shows the impact of first-time adoption on the Poste Italiane Group's statement of financial position.

Statement of financial position at 1 January 2019

Assets	Balance at 31 December 2018	Effects of IFRS 16	Balance at 1 January 2019
Non-current assets			
Property, plant and equipment	1,945	-	1,945
Investment property	48	-	48
Intangible assets	545	-	545
Right-of-use assets	-	1,374	1,374
Investments accounted for using the equity method	497	-	497
Financial assets	170,922	-	170,922
Trade receivables	7	-	7
Deferred tax assets	1,368	-	1,368
Other receivables and assets	3,469	-	3,469
Technical provisions attributable to reinsurers	71	-	71
Total	**178,872**	**1,374**	**180,246**
Current assets			
Inventories	136	-	136
Trade receivables	2,192	-	2,192
Current tax assets	117	-	117
Other receivables and assets	1,111	(2)	1,109
Financial assets	19,942	-	19,942
Cash and deposits attributable to BancoPosta	3,318	-	3,318
Cash and cash equivalents	3,195	-	3,195
Total	**30,011**	**(2)**	**30,009**
Non-current assets and disposal groups held for sale	**-**	**-**	**-**
Total assets	**208,883**	**1,372**	**210,255**

Liabilities and equity	Balance at 31 December 2018	Effects of IFRS 16	Balance at 1 January 2019
Equity			
Share capital	1,306	-	1,306
Reserves	1,531	-	1,531
Retained earnings / (Accumulated losses)	5,268	-	5,268
Total equity attributable to owners of the Parent	**8,105**	**-**	**8,105**
Equity attributable to non-controlling interests			
Total	**8,105**	**-**	**8,105**
Non-current liabilities			
Technical provisions for insurance business	125,149	-	125,149
Provisions for risks and charges	656	-	656
Employee termination benefits	1,187	-	1,187
Financial liabilities	7,453	1,146	8,599
Deferred tax liabilities	701	-	701
Other liabilities	1,379	-	1,379
Total	**136,525**	**1,146**	**137,671**
Current liabilities			
Provisions for risks and charges	863	-	863
Trade payables	1,583	-	1,583
Current tax liabilities	12	-	12
Other liabilities	2,319	(1)	2,318
Financial liabilities	59,476	227	59,703
Total	**64,253**	**226**	**64,479**
Total equity and liabilities	**208,883**	**1,372**	**210,255**

The table below show the reconciliation between the lease commitments at 31 December 2018 and the amount of the lease liabilities recognised at 1 January 2019.

Reconciliation of financial liabilities/commitments for leases at 1 January 2019	(€m)
Description	
Operating lease commitments at 31 December 2018	780
Exclusion from the scope of contracts for short-term leases at 31 December 2018	(5)
Exclusion from the scope of contracts for low value leases at 31 December 2018	(5)
Lease liabilities at 31 December 2018 within scope of IFRS 16	**770**
Adjustment following different treatment of extension and termination options	760
Undiscounted lease liabilities at 1 January 2019	**1,530**
Adjustment for discounted lease liabilities at 1 January 2019	(157)
Lease liabilities resulting from application of IFRS 16 at 1 January 2019	**1,373**

The average incremental borrowing rate used at the date of first-time adoption is 2.2%.

Poste Italiane SpA

At 1 January 2019, the Parent Company recognised right-of-use assets of €1,230 million, in relation to leases previously classified as operating leases under IAS 17, and financial liabilities totalling €1,230 million (equal to the present value of remaining payments). Deferred income or accrued liabilities that at 31 December 2018 related to leases recognised in accordance with IAS 17 at the date of first-time adoption of IFRS 16 have been adjusted to reflect the right of use.

The following statement shows the impact of first-time adoption on Poste Italiane SpA's statement of financial position.

Statement of financial position at 1 january 2019

Assets (€m)	Balance at 31 December 2018	Effects of IFRS 16	Balance at 1 January 2019
Non-current assets			
Property, plant and equipment	1,834	-	1,834
Investment property	48	-	48
Intangible assets	448	-	448
Right-of-use assets	-	1,230	1,230
Investments	2,198	-	2,198
Financial assets attributable to BancoPosta	51,543	-	51,543
Financial assets	815	-	815
Trade receivables	6	-	6
Deferred tax assets	863	-	863
Other receivables and assets	1,288	-	1,288
Total	**59,043**	**1230**	**60,273**
Current assets			
Trade receivables	2,255	-	2,255
Current tax assets	89	-	89
Other receivables and assets	866	(2)	864
Financial assets attributable to BancoPosta	12,320	-	12,320
Financial assets	168	-	168
Cash and deposits attributable to BancoPosta	3,318	-	3,318
Cash and cash equivalents	2,127	-	2,127
Total	**21,143**	**(2)**	**21,141**
Non-current assets held for sale	**-**	**-**	**-**
Total assets	**80,186**	**1,28**	**81,414**

Liabilities and equity (€m)	Balance at 31 December 2018	Effects of IFRS 16	Balance at 1 January 2019
Equity			
Share capital	1,306	-	1,306
Reserves	1,546	-	1,546
Retained earnings / (Accumulated losses)	2,607	-	2,607
Total	**5,459**	**-**	**5,459**
Non-current liabilities			
Provisions for risks and charges	608	-	608
Employee termination benefits	1,158	-	1,158
Financial liabilities attributable to BancoPosta	7,376	-	7,376
Financial liabilities	77	1,034	1,111
Deferred tax liabilities	376	-	376
Other liabilities	1,343	-	1,343
Total	**10,938**	**1,034**	**11,972**
Current liabilities			
Provisions for risks and charges	823	-	823
Trade payables	1,488	-	1,488
Current tax liabilities	6	-	6
Other liabilities	1,771	(2)	1,769
Financial liabilities attributable to BancoPosta	59,383	-	59,383
Financial liabilities	318	196	514
Total	**63,789**	**194**	**63,983**
Total equity and liabilities	**80,186**	**1,228**	**81,414**

The table below show the reconciliation between the lease commitments at 31 December 2018 and the amount of the lease liabilities recognised at 1 January 2019.

Reconciliation of financial liabilities/commitments for leases at 1 January 2019

(€m)	
Description	
Operating lease commitments at 31 December 2018	680
Exclusion from the scope of contracts for short-term leases at 31 December 2018	(5)
Exclusion from the scope of contracts for low value leases at 31 December 2018	(25)
Lease liabilities at 31 December 2018 within scope of IFRS 16	**650**
Adjustment following different treatment of extension and termination options	723
Undiscounted lease liabilities at 1 January 2019	**1,373**
Adjustment for discounted lease liabilities at 1 January 2019	(143)
Lease liabilities resulting from application of IFRS 16 at 1 January 2019	**1,230**

3.4 Impact of the adoption of Ifrs 16 at 31 December 2019

Poste Italiane Group

The following table shows the statement of financial position and profit and loss effects generated by lease contracts at 31 December 2019 for the Poste Italiane Group.

tab. A4 - Change to right-of-use assets

(€m)	Properties used in operations	Company fleet	Vehicles for mixed use	Other assets	Total
Balance at 1 January 2019	**1,233**	**121**	**12**	**8**	**1,374**
Changes during the year					
New contract acquisitions	79	12	7	20	118
Adjustments	(16)	2	(1)	(1)	(16)
Reclassifications	-	-	-	8	8
Contract terminations	(8)	-	-	-	(8)
Depreciation, amortisation and impairments	(149)	(60)	(5)	(8)	(222)
Balance at 31 December 2019	**(94)**	**(46)**	**1**	**19**	**(120)**
Cost	1,285	135	18	43	1,481
Accumulated depreciation, amortisation and impairments	(146)	(60)	(5)	(16)	(227)
Balance at 31 December 2019	**1,139**	**75**	**13**	**27**	**1,254**

Additions during the year primarily refer to the Parent Company (€95 million) and regard new property leases (€63 million), the lease of IT equipment (€18 million) and the lease of company vehicles (€14 million). The item adjustments refers to contractual changes during the year (changes in duration due to termination or extension, revision of economic conditions, etc.).

Amounts booked as profit and loss at 31 December 2019	(€m)
Description	
Amortisation of right-of-use asset	222
Interest expense on financial liabilities	28
Costs relating to short-term leases	6
Costs relating to low value asset leases	15
Costs relating to intangible asset leases	43
Other costs outside the scope of IFRS 16	32
Total	**346**

The item *Costs relating to the lease of low-value assets* mainly refers to agreements for the rental of IT equipment (e.g. letter carrier terminals, multifunction printers, etc.). The residual item *Other costs outside the scope of IFRS 16* refers instead to costs for non-deductible VAT on lease agreements under IFRS 16 which, starting from the entry into force of the new accounting standard, have been reclassified by nature under *Other operating* costs and to service costs related to leased assets which, in line with the provisions of the standard, have been separated from the lease component and recognised in line with the reference accounting standards.

Total lease cash outflows, outgoing in 2019, amounted to €217 million, while the time distribution of the lease liability at 31 December 2019 is shown in the table below:

	31/12/2019			
Liquidity risk - lease liabilities (€m)	Within 12 months	Between 1 and 5 years	Over 5 years	Total
Lease liabilities	219	538	522	1,279

Poste Italiane SpA

The following table shows the statement of financial position and profit and loss effects generated by lease contracts at 31 December 2019 for the Parent Company.

Change to right-of-use asset

(milioni di euro)	Properties used in operations	Company fleet	Vehicles for mixed use	Other assets	Total
Cost	1,116	105	9	-	1,230
Accumulated depreciation	-	-	-	-	-
Impairment losses	-	-	-	-	-
Balance at 1 January 2019	**1,116**	**105**	**9**	**-**	**1,230**
Period changes					
Additions	63	7	7	18	95
Adjustments	(18)	3	(1)	-	(16)
Depreciation	(128)	(54)	(4)	(3)	(189)
Total changes	**(83)**	**(44)**	**2**	**15**	**(110)**
Cost	1,160	115	15	18	1,308
Accumulated depreciation	(127)	(54)	(4)	(3)	(188)
Impairment losses	-	-	-	-	-
Balance at 31 December 2019	**1,033**	**61**	**11**	**15**	**1,120**

Amounts booked as profit and loss at 31 December 2019	(€m)
Description	
Amortisation of right-of-use asset	189
Interest expense on financial liabilities	25
Costs relating to short-term leases	5
Costs relating to low value asset leases	22
Costs relating to intangible asset leases	38
Other costs outside the scope of IFRS 16	29
Total	**308**

	31/12/2019			
Liquidity risk - lease liabilities (€m)	Within 12 months	Between 1 and 5 years	Over 5 years	Total
Lease liabilities	189	473	487	1.149

4. Material events during the year

4.1 Principal corporate actions

Investment in FSIA

On 14 March 2019, FSIA Investimenti Srl, an investment vehicle 30% owned by Poste Italiane (the remaining 70% is indirectly controlled by CDP Equity via FSI Investimenti), announced its intention to exercise its call option on 7.934% of the shares in SIA SpA held by UniCredit and Intesa SanPaolo. On 28 May 2019, the relevant purchase and sale agreement was signed, which was finalised after FSIA obtained the necessary authorisations from the Antitrust Authority and the Bank of Italy, the latter received on 24 October 2019. Moreover, on 27 May 2019, the shareholders agreements that gave FSIA Investimenti, together with other shareholders, joint control of SIA expired. Following these events, the CDP Group acquired sole control of FSIA Investimenti, which in turn holds 57.4% of the share capital of SIA SpA. Poste Italiane's indirect investment in SIA SpA (via FSIA Investimenti) rose from 14.85 to 17.23%.

At 31 December 2019, Poste Italiane's investment in FSIA Investimenti was classified as connecting link, in place of the previous joint control.

Joint venture with sennder GmbH

On 7 May 2019, Poste Italiane entered into a partnership with the German digital road-freight-forwarder, sennder GmbH, with the goal of establishing a joint venture in Italy in line with the Deliver 2022 Strategic Plan, to boost the efficiency of long-haul logistics operations (so called Full Track Load).

On 24 September 2019 was the signing of the final agreements governing the arrangements for collaboration in the Full Track Load sector, the joint venture's operating and governance mechanisms. In addition, an investment by Poste Italiane in the capital of sennder GmbH was completed on 11 November 2019 with the subscription by Poste Italiane to a reserved capital increase following which Poste Italiane holds a 1.63% investment in the share capital of the German company. Finally, on 12 February 2020, Poste Italiane subscribed a capital increase at nominal value in the Italian joint venture, called sennder Italia Srl, acquiring a 75% investment in the share capital.

Partnership with MFM Investments Ltd (Moneyfarm)

On 2 August 2019, Poste Italiane, in line with the Deliver 2022 Strategic Plan, launched a partnership with the digital asset management company MFM Investments Ltd (Moneyfarm) to offer innovative digital investment and asset management services. The agreement provides that Poste Italiane will distribute an asset management service in Exchange Traded Funds (ETF) with 7 investment lines of which 2 developed exclusively for its customers. As part of this partnership, on 9 August 2019, Poste Italiane signed a contract with MFM Holding Ltd (the company that controls 100% of Moneyfarm) which provides for a capital increase by the latter for a value of approximately €40 million (GBP 36 million) through the issue of convertible preference shares to be subscribed by Poste Italiane, as lead investor, and Allianz Asset Management GmbH (the minority shareholder of Moneyfarm Holding Ltd). The capital increase involves two phases. In the first phase, which ended in August 2019, Poste Italiane subscribed shares in MFM Holding Ltd for a total value of €15 million, representing 9.70% of voting rights (10.36% of equity rights). The second phase will be finalised in the course of 2020 when the necessary authorisations will be obtained by the supervisory authorities of Germany (Bafin) and the United Kingdom (FCA).

Partnership with Tink AB (Tink)

On 20 December 2019, Poste Italiane signed agreements for the establishment of a strategic partnership with the Swedish company Tink AB, one of the leading Open banking[53] platforms in Europe. These agreements provide, in addition to the commercial provision of PSD2 technology solutions, for long-term strategic collaboration as an enabling factor for the expansion of the Poste Group's digital service offering, including through the sharing of technological developments and the joint development of solutions and services. The agreements also provide for the Poste Italiane Group to join with other investors in an increase in the Company's capital with an investment of around €20 million, following which the Group will hold a 4.8% stake in Tink. The subscription of the capital increase will be completed by the first quarter of 2020.

The following material events also took place during 2019:

- On 12 April 2019, Poste Assicura established Poste Insurance Broker Srl, an insurance brokerage company, to operate as a distributor and insurance and reinsurance broker.
- On 5 June 2019, the company, Risparmio Holding, which was already in liquidation, was struck off the Companies' Register.
- On 20 June 2019, an Extraordinary General Meeting of SDA Express Courier's shareholders and, on 27 June 2019, the Board of Directors of Poste Italiane approved the partial demerger of the business unit responsible for commercial and customer care activities relating to SDA's Express Parcel Delivery services to Poste Italiane. The transaction is part of the plan to create a "Single Offering", with the aim of boosting the competitiveness and effectiveness of the Group's positioning in the Express Delivery market by putting in place a single, comprehensive offering for all customers, with the reorganisation of the sales force and customer support. The demerger became effective on 1 November 2019.
- On 25 June, an agreement was signed that will result in the transfer of SDA Express Courier's Information and Communication Technology business unit to Poste Italiane. The transfer, which came into effect on 1 July 2019, is aimed at improving the efficiency of subsidiaries' ICT processes by centralising these activities within Poste Italiane.
- With effect from 1 October 2019, the company Mistral Air Srl, following the change of the corporate mission, changed its name to Poste Air Cargo Srl.

On 12 December 2019, the Board of Directors of Poste Italiane approved the acquisition of the business units of Poste Vita, Poste Assicura and Poste Welfare Servizi relating to ICT management activities. The operation, which has already been approved by the decision-making bodies, will take effect from 1 March 2020.

4.2 Other material events

The following material events also occurred in 2019:

Poste Italiane SpA: authority to purchase and hold treasury shares

On 29 May 2018, the Ordinary and Extraordinary General Meeting of Poste Italiane SpA's shareholders had authorised the Company to purchase and hold up to 65.3 million of the Company's ordinary shares, representing approximately 5% of the share capital, at a total cost of up to €500 million. Following the aforementioned authorisation, in the period between 4 February 2019 and 29 March 2019, Poste Italiane SpA began and completed the buyback programme[54] through direct purchases on the MTA market. On completion of the programme, Poste Italiane holds 5,257,965 treasury shares with a total value of €40 million (an average price of €7.608), equal to 0.4026% of the share capital.

53. Open banking is sharing of data between different players in the banking ecosystem. With the entry into force of the European PSD2 Digital Payments Directive, European banks are obliged to open up their API (Application Program Interface) to fintech companies and other companies involved in financial products and services. This will allow external companies (third parties) access to payment data thus increasing competition.
54. The purchases were made in execution of the shareholder resolution and in compliance with art. 144-*bis*, paragraph 1, letter B) of CONSOB Regulation 11971/1999 and the applicable provisions, so as to ensure equal treatment for all shareholders pursuant to art. 132 of the Consolidated Law on Finance, and in accordance with the operating procedures established in the organisational and management regulations of Borsa Italiana SpA.

Poste Italiane SpA: interim dividend 2019

On 5 November 2019, the Board of Directors of Poste Italiane, in light of the Parent Company's performance and financial position in the first half of 2019 and in line with prevailing practice, decided to advance part of the ordinary dividend for 2019 as an interim dividend. To this end, the Company has prepared a Report and Financial Statements pursuant to article 2433 bis of the Italian Civil Code, which show that the Company's financial position, results of operations and cash flows allow such distribution. The opinion of the independent auditors was obtained on these documents.

The advance of €0.154 per share, gross of any withholding taxes, was made with effect from 20 November 2019. Based on the number of shares outstanding of 1,300,852,035, the total amount of the advance payment was €200 million.

Poste Italiane SpA and Poste Vita SpA: admission to the Collaborative Compliance regime

On 16 January 2020, at the end of the positive assessment carried out by the Revenue Agency on the Tax Control Framework of companies, which includes the system for the recognition, management, control and mitigation of tax risk, Poste Italiane and the subsidiary Poste Vita were admitted the Collaborative Compliance regime with the tax authorities.

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FINANCIAL STATEMENTS OF POSTE ITALIANE AT 31 DECEMBER 2019

5. Poste Italiane Group Financial statements for the year ended 31 December 2019

5.1 Consolidated financial statements

Consolidated statement of financial position

Assets (€m)	Note	31 December 2019	*of which, related party transactions*	31 December 2018	*of which, related party transactions*
Non-current assets					
Property, plant and equipment	[A1]	2,015	-	1,945	-
Investment property	[A2]	44	-	48	-
Intangible assets	[A3]	648	-	545	-
Right-of-use assets	[A4]	1,254		-	
Investments accounted for using the equity method	[A5]	617	617	497	497
Financial assets	[A6]	194,207	4,522	170,922	5,101
Trade receivables	[A8]	5	-	7	-
Deferred tax assets	[C14]	1,199	-	1,368	-
Other receivables and assets	[A9]	3,729	1	3,469	1
Technical provisions attributable to reinsurers		58	-	71	-
Total		**203,776**		**178,872**	
Current assets					
Inventories	[A7]	140	-	136	-
Trade receivables	[A8]	2,166	664	2,192	661
Current tax assets	[C14]	52	-	117	-
Other receivables and assets	[A9]	938	2	1,111	7
Financial assets	[A6]	24,727	7,220	19,942	6,004
Cash and deposits attributable to BancoPosta	[A10]	4,303	-	3,318	-
Cash and cash equivalents	[A11]	2,149	495	3,195	1,306
Total		**34,475**		**30,011**	
Total assets		**238,251**		**208,883**	

Liabilities and equity (€m)	Note	31 December 2019	*of which, related party transactions*	31 December 2018	*of which, related party transactions*
Equity					
Share capital	[B2]	1,306	-	1,306	-
Reserves	[B4]	2,646	-	1,531	-
Treasury shares		(40)		-	
Retained earnings		5,786	-	5,268	-
Total equity attributable to owners of the Parent		**9,698**		**8,105**	
Equity attributable to non-controlling interests		-	-	-	-
Total		**9,698**		**8,105**	
Non-current liabilities					
Technical provisions for insurance business	[B5]	140,261	-	125,149	-
Provisions for risks and charges	[B6]	501	58	656	58
Employee termination benefits	[B7]	1,135	-	1,187	-
Financial liabilities	[B8]	13,964	132	7,453	20
Deferred tax liabilities	[C14]	887	-	701	-
Other liabilities	[B10]	1,525	-	1,379	-
Total		**158,273**		**136,525**	
Current liabilities					
Provisions for risks and charges	[B6]			863	12
Trade payables	[B9]	717	98	1,583	150
Current tax liabilities	[C14]	1,627	-	12	-
Other liabilities	[B10]	274	74	2,319	75
Financial liabilities	[B8]	2,110	4,820	59,476	3,970
Total		**65,552**		**64,253**	
Total equity and liabilities		**238,251**		**208,883**	

Consolidated statement of profit or loss

(€m)	Note	2019	*of which, related party transactions*	2018	*of which, related party transactions*
Revenue from Mail, Parcels & other	[C1]	3,492	498	3,579	249
Revenue from Payments, Mobile & Digital	[C2]	664	59	628	30
Revenue from Financial Services	[C3]	5,213	1,998	5,186	979
of which, non-recurring income		-		*120*	
Revenue from Insurance Services after movements in technical provisions and other claims expenses	[C4]	1,669	16	1,471	8
Insurance premium revenue		17,913	-	16,720	-
Income from insurance activities		5,478	16	3,604	8
Net change in technical provisions for insurance business and other claims expenses		(21,463)	-	(17,111)	-
Expenses from insurance activities		(259)	-	(1,742)	-
Net operating revenue		**11,038**		**10,864**	
Cost of goods and services	[C5]	2,287	169	2,343	206
Expenses from financial activities	[C6]	79	5	46	3
Personnel expenses	[C7]	5,896	50	6,137	43
Depreciation, amortisation and impairments	[C8]	774	-	570	-
of which, non-recurring costs/(income)		-		*33*	
Capitalised costs and expenses	[C9]	(31)	-	(17)	-
Other operating costs	[C10]	200	3	239	6
Impairment loss/(reversal) on debt instruments, receivables and other assets	[C11]	59	-	47	-
Operating profit/(loss)		**1,774**		**1,499**	
Finance costs	[C12]	73	2	71	-
Finance income	[C12]	105	-	106	-
Impairment loss/(reversal) on financial instruments		46	-	20	-
of which, non-recurring expense/(income)		*46*		-	
Profit/(Loss) on investments accounted for using the equity method	[A5]	112	-	(24)	-
of which, non-recurring income/(expense)		*88*		-	
Profit/(Loss) before tax		**1,872**		**1,490**	
Income tax expense	[C14]	530	-	91	-
of which, non-recurring expense/(income)		-		*(351)*	
NET PROFIT FOR THE PERIOD		**1,342**		**1,399**	
of which, attributable to owners of the Parent		1,342		1,399	
of which, attributable to non-controlling interests		-		-	
Earnings per share	**[B1]**	**1.032**		**1.071**	
DiNet profit/(loss) for the period		**1.032**		**1.071**	

Consolidated statement of comprehensive income

(€m)	Note	2019	2018
Net profit/(loss) for the period		**1,342**	**1,399**
Items to be reclassified in the Statement of profit or loss for the year			
FVOCI debt instruments			
Increase/(decrease) in fair value during the year	[tab. B4]	1,767	(1,946)
Transfers to profit or loss	[tab. B4]	(244)	(396)
Increase/(Decrease) for expected credit loss		(2)	(1)
Cash flow hedges			
Increase/(decrease) in fair value during the year	[tab. B4]	95	191
Transfers to profit or loss	[tab. B4]	(59)	19
Taxation of items recognised directly in, or transferred from, equity to be reclassified in the Statement of profit or loss for the year		(445)	609
Share of after-tax comprehensive income/(loss) of investees accounted for using equity method		(1)	-
After-tax increase/(decrease) in reserves related to group of assets and liabilites held for sale	[tab. B4]	-	-
Items not to be reclassified in the Statement of profit or loss for the year			
FVOCI equity instruments			
Increase/(decrease) in fair value during the period		1	-
Transfers to equity		-	-
Actuarial gains/(losses) on provisions for employee termination benefits	[tab. B7]	(70)	16
Taxation of items recognised directly in, or transferred from, equity not to be reclassified in the Statement of profit or loss for the year		20	(4)
Share of after-tax comprehensive income/(loss) of investees accounted for using equity method		-	-
Total other comprehensive income		**1,062**	**(1,511)**
Total comprehensive income for the year		**2,404**	**(112)**
of which, attributable to owners of the Parent		**2,404**	(112)
of which, attributable to non-controlling interests		-	-

Consolidated statement of changes in equity

	Equity											
	Share capital	Own shares	Reserves						Retained earnings / (Accumulated losses)	Total equity attributable to owners of the Parent	Equity attributable to non-controlling interests	Total equity
(€m)			Legal reserve	BancoPosta RFC reserve	Fair value reserve	Cash flow hedge reserve	Reserve for investees accounted for using equity method	Reserve for incentive plans				
Balance at 1 January 2018	**1,306**	**-**	**299**	**1,000**	**1,604**	**(61)**	**2**	**-**	**4,616**	**8,766**	**-**	**8,766**
Total comprehensive income for the year	-	-	-	-	(1,673)	150	-	-	1,411*	(112)	-	(112)
Dividends paid	-	-	-	-	-	-	-	-	(549)	(549)	-	(549)
Other changes	-	-	-	210	-	-	-	-	(210)	-	-	-
Balance at 31 December 2018	**1,306**	**-**	**299**	**1,210**	**(69)**	**89**	**2**	**-**	**5,268**	**8,105**	**-**	**8,105**
Total comprehensive income for the year	-	-	-	-	1,087	26	(1)	-	1,292*	2,404	-	2,404
Incentive plans	-	-	-	-	-	-	-	2		2	-	2
Dividends paid	-	-	-	-	-	-	-	-	(574)	(574)	-	(574)
Acconto dividendi	-	-	-	-	-	-	-	-	(200)	(200)	-	(200)
Other changes	-	(40)	-		-	-	1	-		(39)	-	(39)
Balance at 31 December 2019	**1,306**	**(40)**	**299**	**1,210**	**1,018**	**115**	**2**	**2**	**5,786**	**9,698**	**-**	**9,698**

* This item includes profit for the period of €1,342 million and actuarial losses on provisions for employee termination benefits of €50 million, after the related current and deferred taxation.

Consolidated statement of cash flow

(€m)	Note	FY 2019	FY 2018
Cash and cash equivalents at beginning of year		**3,195**	**2,428**
Profit/(Loss) before tax		1,872	1,490
Depreciation, amortisation and impairments	[tab. C8]	774	537
Goodwill impairment	[tab. A3]	-	33
Net provisions for risks and charges	[tab. B6]	394	579
Use of provisions for risks and charges	[tab. B6]	(696)	(656)
Provisions for employee termination benefits	[tab. B7]	1	1
Employee termination benefits	[tab. B7]	(140)	(92)
(Gains)/Losses on disposals		1	(120)
Impairment loss/(reversal) on financial instruments	[tab. C13]	46	20
(Dividends)	[tab. C12.1]	-	-
Dividends received		-	-
(Finance income realised)	[tab. C12.1]	(7)	(7)
(Finance income in form of interest)	[tab. C12.1]	(94)	(95)
Interest received		95	94
Interest expense and other finance costs	[tab. C12.2]	68	66
Interest paid		(23)	(59)
Losses and impairment losses/(Reversals of impairment losses) on receivables	[tab. C11]	62	46
Income tax paid	[tab. C14.3]	(252)	(351)
Other changes		(104)	42
Cash flow generated by operating activities before movements in working capital	**[a]**	**1,997**	**1,528**
Movements in working capital:			
(Increase)/decrease in Inventories	[tab. A7]	(4)	(2)
(Increase)/decrease in Trade receivables		(40)	(201)
(Increase)/decrease in Other receivables and assets		(16)	(428)
Increase/(decrease) in Trade payables		43	222
Increase/(decrease) in Other liabilities		(197)	104
Cash flow generated by /(used in) movements in working capital	**[b]**	**(214)**	**(305)**
Increase/(decrease) in liabilities attributable to financial activities, payments, cards and acquiring and insurance		7,980	4,513
Net cash generated by/(used for) financial assets attributable to financial activities, payments, cards and acquiring and insurance		(10,904)	(8,445)
(Increase)/decrease in cash and deposits attributable to BancoPosta	[tab. A10]	(984)	(122)
Increase/(decrease) in net technical provisions for insurance business		7,456	6,369
(Income)/Expense and other non-cash components		(4,211)	(941)
Cash generated by/(used for) financial assets/liabilities attributable to financial activities, payments, cards and acquiring and insurance	**[c]**	**(663)**	**1,374**
Net cash flow from /(for) operating activities	**[d]=[a+b+c]**	**1,120**	**2,597**
- of which related party transactions		**248**	**(1,484)**
Investing activities:			
Property, plant and equipment	[tab. A1]	(391)	(260)
Investment property	[tab. A2]	(1)	-
Intangible assets	[tab. A3]	(342)	(278)
Investments		(15)	(30)
Other financial assets		(17)	-
Disposals:			
Property, plant and equipment, investment property, intangible assets and assets held for sale		4	2
Investments		1	120
Other financial assets		29	165
Net cash flow from /(for) investing activities	**[e]**	**(732)**	**(281)**
- of which related party transactions		**3**	**254**
Proceeds from/(Repayments of) long-term borrowings		573	-
(Increase)/decrease in loans and receivables		-	-
Increase/(decrease) in short-term borrowings		(1,193)	(1,000)
(Purchase)/Sale of treasury shares		(40)	-
Dividends paid	[B3]	(774)	(549)
Net cash flow from/(for) financing activities and shareholder transactions	**[f]**	**(1,434)**	**(1,549)**
- of which related party transactions		**(492)**	**(405)**
Net increase/(decrease) in cash	**[g]=[d+e+f]**	**(1,046)**	**767**
Cash and cash equivalents at end of year	[tab. A11]	**2,149**	**3,195**
Cash and cash equivalents at end of year	[tab. A11]	2,149	3,195
Restricted cash and cash equivalents at end of year		(884)	(1,556)
Unrestricted cash and cash equivalents at end of year		**1,265**	**1,639**

5.2 Notes to the statement of financial position

Assets

A1 – Property, plant and equipment (€2,015 million)

The following table shows movements in property, plant and equipment in 2019:

tab. A1 - Movements in property, plant and equipment

(€m)	Land	Properties used in operations	Plant and machinery	Industrial and commercial equipment	Leasehold improvements	Other assets	Assets under construction and advances	Total
Cost	76	2,999	2,198	319	515	1,909	55	8,071
Accumulated amortisation	-	(1,871)	(1,857)	(291)	(315)	(1,710)	-	(6,044)
Impairment losses	-	(58)	(10)	(1)	(11)	(2)	-	(82)
Balance at 1 January 2019	**76**	**1,070**	**331**	**27**	**189**	**197**	**55**	**1,945**
Changes during the year								
Additions	-	45	110	19	51	75	91	391
Reclassifications	-	9	35	-	6	7	(56)	1
Disposals	-	-	-	-	-	(1)	-	(1)
Depreciation	-	(112)	(75)	(9)	(40)	(88)	-	(324)
(Impairments)/Reversal of impairments	-	3	-	-	2	(1)		4
Balance at 31 December 2019	**-**	**(55)**	**70**	**10**	**19**	**(8)**	**34**	**70**
Cost	76	3,055	2,296	331	567	1,969	89	8,383
Accumulated amortisation	-	(1,984)	(1,886)	(293)	(350)	(1,777)		(6,290)
Impairment losses	-	(56)	(10)	(1)	(9)	(2)	-	(78)
Balance at 31 December 2019	**76**	**1,015**	**400**	**37**	**208**	**190**	**89**	**2,015**

At 31 December 2019, 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 €40 million.

Capital expenditure of €391 million in 2019 consists largely of:

- €45 million relating to extraordinary maintenance of post offices and local head offices around the country (€26 million) and mail sorting offices (€14 million);
- €110 million relating to plant, with the most significant expenditure made by the Parent Company, of which €44 million was for plant and equipment related to buildings, €24 million for the purchase of equipment for use in the sorting of letters and processing of parcels, €22 million for the purchase of telecommunications infrastructure and €11 million for the installation of ATMs;
- €51 million invested in the upgrade of plant (€28 million) and the structure (€23 million) of properties held under lease;
- €75 million relating to "Other assets", of which €49 million incurred by the Parent Company was for the purchase of new computer hardware for post offices and head offices and the consolidation of storage systems and €11 million incurred by PostePay SpA for the purchase of electronic devices to be used in the provision of electronic postman services (€4 million) and of PosteMobile Casa devices (€7 million);

Investments in progress amount to €91 million, including €61 million incurred by the Parent Company and related for €25 million to restyling work on the post offices, €14 million for the purchase of hardware and other technological equipment not yet included in the production process and €13 million for renovation work on the CPD (Primary Distribution Centres);

Reclassifications from assets under construction, totalling €56 million, relate primarily to the acquisition cost of assets that became available and ready for use during the year; in particular, they refer to the Parent Company for the completion of restyling activities on leased and owned buildings and the activation of hardware (€25 million) and to the subsidiary SDA Express Courier SpA for the multi-product sorting plant located in the new Bologna Hub that became operational in the second half of 2019 (€27 million).

A2 – Investment property (€44 million)

Investment property relates to service accommodation owned by Poste Italiane SpA in accordance with Law 560 of 24 December 1993 and residential accommodation previously used by post office directors. Movements in provisions for risks and charges are as follows:

tab. A2 - Movements in investment property

(€m)	FY 2019
Cost	139
Accumulated amortisation	(91)
Impairment losses	-
Balance at 1 January	**48**
Changes during the year	
Additions	1
Disposals	-
Depreciation	(4)
(Impairments)/Reversal of impairments	-
Total changes	**(3)**
Cost	139
Accumulated amortisation	(95)
Impairment losses	-
Balance at 31 December	**44**
Fair value at 31 December	100

The fair value of investment property at 31 December 2019 includes €66 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 market price estimates computed internally by the Company[55].

Most of the properties included in this category are subject to lease agreements classifiable as operating leases, given that the Group retains substantially all of 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.

55. 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 (€648 million)

The following table shows movements in intangible assets in 2019:

tab. A3 - Movements in intangible assets

(€m)	Industrial patents and intellectual property rights, concessions, licences, trademarks and similar rights	Assets under construction and advances	Goodwill	Other	Total
Cost	3,109	156	120	101	3,486
Accumulated depreciation, amortisation and impairments	(2,743)	-	(102)	(96)	(2,941)
Balance at 1 January 2019	**366**	**156**	**18**	**5**	**545**
Changes during the year					
Additions	155	183	-	4	342
Reclassification	106	(115)	-	1	(8)
Transfer and disposals	(1)	(2)	-	-	(3)
Depreciation, amortisation and impairments	(224)	-	-	(4)	(228)
Balance at 31 December 2019	**36**	**66**	**-**	**1**	**103**
Cost	3,354	221	120	106	3,801
Accumulated depreciation, amortisation and impairments	(2,951)	-	(102)	(100)	(3,153)
Balance at 31 December 2019	**403**	**221**	**18**	**6**	**648**

Investment in Intangible assets during 2019 amounts to €342 million, including about €25 million in software and the related expenses developed within the Group, primarily relating to personnel expenses (€16 million). Development costs, other than those incurred directly to produce identifiable software used, or intended for use, within the Group, are not capitalised.

The increase in **industrial patents, intellectual property, rights, concessions, licences, trademarks and similar rights** totals €155 million, before amortisation for the period, and relates primarily to the purchase and entry into service of new software programmes and the acquisition 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 conducted by the Parent Company, primarily regarding the development for software relating to the infrastructure platform (€83 million), for BancoPosta services (€52 million), for use in providing support to the sales network (€35 million), for the postal products platform (€24 million) and for the engineering of reporting processes (€17 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 €115 million, reflecting the completion and commissioning of software and the upgrade of existing software.

The item **Goodwill** refers to the subsidiary Poste Welfare Servizi Srl on which the analyses provided for by IAS 36 were carried out and, based on the information available and the impairment tests performed, there was no need to recognise impairment losses on the goodwill recognised.

A4 – Right-of-use assets (€1,254 million)

Movements in this item during the year are shown in note 3 – Changes to accounting policies.

A5 - Investments accounted for using the equity method (€617 million)

tab. A5 - Investments

Description (€m)	Balance at 31/12/2019	Balance at 31/12/2018
Investments in associates	615	214
Investments in subsidiaries	2	2
Investments in joint ventures	-	281
Total	**617**	**497**

tab. 5.1 - Movements in investments in FY 2019

Investments	Saldo al 01.01.19	Riclassifiche	Increases / (Decreases)	Impairment losses accounted for using the equity method	Impairment losses dividend adjustments	Balance at 31/12/2019
in associates						
Anima Holding SpA	214	-	1	13	(6)	221
Fsia Investimenti Srl	-	280	14	99	-	393
Total associates	**214**	**280**	**15**	**112**	**(6)**	**615**
in subsidiaries						
Kipoint SpA	1	-	-	-	-	1
Indabox Srl	1	-	-	-	-	1
Risparmio Holding SpA - in liquidation	1	-	(1)	-	-	-
Total subsidiaries	**3**	**-**	**(1)**	**-**	**-**	**2**
in joint ventures						
Fsia Investimenti Srl	280	(280)	-	-	-	-
Total joint ventures	**280**	**(280)**	**-**	**-**	**-**	**-**
Total	**497**	**-**	**14**	**112**	**(6)**	**617**

The item **Investments in associates** (valued using the equity method) refers to the companies Anima Holding and FSIA Investimenti Srl. The latter, as described in Significant Events (Note 4), at 31 December 2019 is classified as an associate investment, in place of the previous joint control.

- The changes in the year of the associate Anima Holding are due to the net positive adjustment to the carrying amount of about €7 million (including an increase of €13 million for the portion attributable to the investee company's results earned between 30 September 2018 and 30 September 2019, the date of the last available financial statements, reduced by €6 million due to dividends received from the 2018 result). At 31 December 2019, given the performance of Anima Holding SpA's shares, the value of goodwill implicit in the carrying amount of the investment was tested for impairment. Based on the prospective information available[56], there was no need to recognise an impairment loss on the goodwill accounted for at the time of acquisition of the investment.
- The changes during the year of the associated company FSIA Investimenti are attributable to the net positive adjustment of the relative book value for the year:
  - €15 million to the capital contribution made by the Parent Company on 4 October 2019;
  - €61 million to the revaluation of the investment in SIA SpA, already held by FSIA Investimenti, following the acquisition of exclusive control (step up acquisition);
  - €27 million in income from the exercise of call options on 7.934% of SIA SpA shares held by UniCredit and Intesa Sanpaolo;
  - €11 million in the share of the joint venture's results, after amortisation of the intangible assets identified at the time of the purchase price allocation;
  - €1 million in negative items recognised directly against shareholders' equity.

56. Value in use was determined using a cost of equity (Ke) of 7.54% (8.51% at 31 December 2018) and a growth rate of 1.14% (1.475% at 31 December 2018).

The value of intangible assets and goodwill allocated to the investment in FSIA Investimenti Srl at the time of the purchase price allocation is shown below:

FSIA Investimenti Srl

Description (€m)	Balance at 31/12/2019	Balance at 31/12/2018	Acquisition-date values
Intangible assets	**83**	**95**	**115**
Customer relationships	46	49	55
Backlog	25	29	36
Software	12	16	24
Deferred tax liabilities	**(23)**	**(26)**	**(30)**
Goodwill	**254**	**254**	**254**

During 2018, Poste Italiane SpA proceeded with tax redemption pursuant to art. 15, paragraph 10 ter of Law Decree 185 of 2008, of the higher values resulting from the notes to the consolidated financial statements of Poste Italiane at 31 December 2017, attributed to goodwill and other intangible assets relating to the acquisition of the investment in FSIA Investimenti Srl.

In order to qualify for the relief, in 2018, the Company paid substitute tax (IRES and IRAP) of approximately €32 million, equal to 16% of the amounts to which the relief applies, totalling approximately €198 million. Specifically, the amount qualifying for relief consists of the following:

(€m)	
Goodwill	103
Customer relationships	48
Backlog	32
Software	15
Total	**198**
Substitute tax paid	**32**

This process will allow the Parent Company to deduct tax amortisation of the revalued amounts from the tax bases for IRES and IRAP from the second tax period following the one in which the substitute tax was paid (from 2020).

The substitute tax paid has been accounted for in current tax assets. The asset in question will be deducted from 2020 within the deadline and according to the procedures for the deduction of amortisation relating to amounts qualifying for tax relief.

A list of subsidiaries, joint ventures and associates accounted for using the equity method is provided in Additional information – Key information on investments (note 14).

A6 - Financial assets (€218,934 million)

tab. A6 - Financial assets

Description (€m)	Balance at 31/12/2019 Non-current assets	Current assets	Total	Balance at 31/12/2018 Non-current assets	Current assets	Total
Financial assets at amortised cost	25,260	16,061	41,321	22,965	9,904	32,869
Financial assets at FVTOCI	131,560	8,284	139,844	118,994	8,761	127,755
Financial assets at FVTPL	37,318	378	37,696	28,753	1,074	29,827
Derivate financial instruments	69	4	73	210	203	413
Total	**194,207**	**24,727**	**218,934**	**170,922**	**19,942**	**190,864**

Description (€m)	Balance at 31/12/2019 Non-current assets	Current assets	Total	Balance at 31/12/2018 Non-current assets	Current assets	Total
Financial services	**58,285**	**18,092**	**76,377**	**51,575**	**12,143**	**63,718**
Financial assets at amortised cost	23,637	15,765	39,402	21,507	9,714	31,221
Financial assets at FVTOCI	34,508	2,323	36,831	29,808	2,263	32,071
Financial assets at FVTPL	71	-	71	50	8	58
Derivate financial instruments	69	4	73	210	158	368
Insurance services	**135,448**	**6,385**	**141,833**	**118,778**	**7,688**	**126,466**
Financial assets at amortised cost	1,586	156	1,742	1,420	85	1,505
Financial assets at FVTOCI	96,615	5,851	102,466	88,655	6,492	95,147
Financial assets at FVTPL	37,247	378	37,625	28,703	1,066	29,769
Derivate financial instruments	-	-	-	-	45	45
Postal and business services	**474**	**135**	**609**	**569**	**58**	**627**
Financial assets at amortised cost	37	25	62	38	52	90
Financial assets at FVTOCI	437	110	547	531	6	537
Payment services and card payments	**-**	**115**	**115**	**-**	**53**	**53**
Financial assets at amortised cost	-	115	115	-	53	53
Total	**194,207**	**24,727**	**218,934**	**170,922**	**19,942**	**190,864**

Financial assets by operating segment break down as follows:

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

Financial services

Financial assets at amortised cost

Movements in financial assets measured at amortised cost are shown below:

tab. A6.1 - Movements in financial assets at amortised cost

(€m)	Receivables	Fixed income instruments	Total
Balance at 1 January 2019	**8,349**	**22,872**	**31,221**
Purchases		2,449	2,449
Changes in amortised cost	-	(52)	(52)
Changes in fair value through profit or loss	-	1,902	1,902
Changes in cash flow hedges transactions (*)	-	40	40
Changes in impairment	-	1	1
Net changes	5,989		5.989
Effects of sales on profit or loss	-	(11)	(11)
Accruals	-	177	177
Sales, redemptions and settlement of accrued income		(2,314)	(2,314)
Balance at 31 December 2019	**14,338**	**25,064**	**39,402**

* The item, "Changes in cash flow hedges", relates to the purchase of forward contracts in relation to cash flow hedge transactions and reflects changes in the fair value of these forward contracts between the date of purchase and the settlement date, with a matching entry in equity, in the cash flow hedge reserve.

Loans and receivables

This item breaks down as follows:

tab. A6.1.1 - Loans and receivables at amortised cost

	Balance at 31/12/2019			Balance at 31/12/2018		
Description (€m)	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Loans	-	1,158	1,158	-	251	251
Receivables	-	13,180	13,180	-	8,098	8,098
Deposits with the MEF	-	7,064	7,064	-	5,927	5,927
Receivables	-	7,066	7,066	-	5,930	5,930
Provisions for doubtful amounts deposited with MEF	-	(3)	(3)	-	(3)	(3)
Other financial receivables	-	6,116	6,116	-	2,171	2,171
Total	**-**	**14,338**	**14,338**	**-**	**8,349**	**8,349**

Loans refer to outstanding repurchase agreements with a total nominal value of €1,086 million, entered into with Cassa di Compensazione e Garanzia SpA (the Central Counterparty)[57].

57. The Central Counterparty is an entity that acts as an intermediary in a transaction between two parties, avoiding the parties' exposure to the risk that one of the counterparties to the agreement may default and guaranteeing successful completion of the transaction.

Receivables include:

- **Amounts deposited with MEF**, including public customers' current account deposits, which earn a variable rate of return, calculated on a basket of government bonds and money market indices[58]. The deposit is adjusted by an impairment provision of around €3 million to take account of the counterparty default risk.
- **Other financial receivables** include: guarantee deposits of €5,660 million, including €5,181 million provided to counterparties with which there are interest rate swap transactions (with collateral provided by specific Credit Support Annexes), €208 million provided to counterparties with which there are repurchase agreements on fixed income securities (with collateral contemplated by specific Global Master Repurchase Agreements) and €271 million in collateral deposited with the Central Counterparty, in relation to the clearing system (i.e. the (Default Fund)[59].

Fixed income instruments

These are Eurozone fixed income instruments held by BancoPosta RFC, consisting of government securities issued by the Italian government and securities guaranteed by the Italian government with a nominal value of €21,175 million. Their carrying amount of €25,064 million reflects the amortised cost of unhedged fixed income instruments, totalling €10,047 million, the amortised cost of fair-value hedged fixed income bonds, totalling €12,146 million, increased by €2,871 million to take into account the effects of the hedge. Fixed income instruments recognised at amortised cost are adjusted to take into account the related impairments. Accumulated impairments at 31 December 2019 amount to approximately €8 million (€9 million at 31 December 2018).

At 31 December 2019, the fair value[60] of these securities was €24,686 million (including €177 million in accrued income).

The change in fair value in profit and loss for the positive amount of €1,902 million refers to changes in the value of the securities subject to fair value hedge during the year.

This category of financial asset includes fixed rate instruments, amounting to €3,750 million, issued by Cassa Depositi e Prestiti SpA and guaranteed by the Italian government (at 31 December 2019, their carrying amount totals €3,946 million).

58. 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 ten-year BTP return.
59. A guarantee fund established with payments from participants in the derivative, equity and bond markets, as a further guarantee for the transactions carried out. The fund can be used to meet the charges arising from any participant default.
60. In terms of the fair value hierarchy, which reflects the relevance of the sources used to measure assets, €20,613 million of the total amount qualifies for inclusion in level 1 and €4,073 million for inclusion in level 2.

Financial assets at fair value through other comprehensive income

Movements in financial assets at fair value through other comprehensive income (FVTOCI) are shown below:

tab. A6.2 - Movements in financial assets at FVTOCI

(€m)	Fixed income instruments
Balance at 1 January 2019	**32,071**
Purchases	12,170
Transfers to equity reserves	(291)
Changes in amortised cost	(6)
Fair value gains and losses through equity	1,702
Changes in fair value through profit or loss	2,056
Changes in cash flow hedges transactions (*)	225
Effects of sales on profit or loss	350
Accruals	318
Sales, redemptions and settlement of accrued income	(11,764)
Balance at 31 December 2019	**36,831**

* The item, "Changes in cash flow hedges", relates to the purchase of forward contracts in relation to cash flow hedge transactions and reflects changes in the fair value of these forward contracts between the date of purchase and the settlement date, with a matching entry in equity, in the cash flow hedge reserve.

Fixed income instruments

These are Eurozone fixed income instruments held primarily by BancoPosta RFC, consisting of government securities issued by the Italian government with a nominal value of €31,201 million.

Total fair value fluctuation for the year was positive for €3,758 million, with gains of €1,702 million recognised in the relevant equity reserve in relation to the portion of the portfolio not hedged by fair value hedges, and a gain of €2,056 million recognised through profit and loss in relation to the hedged portion.

Accumulated impairments at 31 December 2019 amount to €11 million (€13 million at 31 December 2018).

Certain securities are encumbered as they have been delivered to counterparties for use as collateral in connection with loans and hedging transactions, as described in note 14 – Additional information.

Financial assets at fair value through profit or loss

Below are the movements in financial assets at fair value through profit or loss:

tab. A6.3 - Movements in financial assets at FVTPL

(€m)	Receivables	Equity instruments	Total
Balance at 1 January 2019	**8**	**50**	**58**
Purchases		-	-
Fair value gains and losses through profit or loss	-	25	25
Net changes	(8)		(8)
Accruals	-	-	-
Effects of sales on profit or loss	-	1	1
Sales, redemptions and settlement of accrued income		(5)	(5)
Balance at 31 December 2019	**-**	**71**	**71**

Receivables

In June 2019, the outstanding amount of €8 million due to the Parent Company following the sale of its Visa Europe Ltd. share to Visa Incorporated was collected.

Equity instruments

This item, totalling €71 million, reflects 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 in 2016. These shares are convertible at the rate of 13,884[61] 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. Fair value gains in the year under review, amounting to €25 million, have been recognised in profit or loss in "Revenue from financial activities".

In 2019, the Parent Company entered into a forward sale agreement for 400,000 ordinary Visa Incorporated shares at a price of US$153.46 per share and at an exchange rate of 1.2037. The total consideration is €51 million and the settlement date is 1 March 2021. The ordinary shares involved in the forward sale amount to approximately 28,810 Visa Incorporated (series C) preference shares held in portfolio at the applicable conversion rate at 31 December 2019. The fair value of the forward sale has decreased by €15 million in the reporting year, reflecting movements in both the price of the shares in US dollars and the euro/dollar exchange rate (tab. A6.4). This reduction has been recognised in profit or loss in "Expenses from financial activities".

Finally, in 2019, Poste Italiane sold its previous holding of 11,144 class C Visa Incorporated shares following their prior conversion into class A shares. The transaction in question resulted in a total gain of €1.4 million recognised in profit or loss in "Other income from financial activities".

Derivative financial instruments

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

tab. A6.4 - Movements in derivative financial instruments

	Cash flow hedges						Fair value hedges		FVTPL		Total	
	Forward purchases		Forward sales		Interest rate swaps		Interest rate swaps		Forward sales			
(€m)	nominal	fair value	nominal	fair value	nominal	fair value	nominal	fair value	nominal	fair value	nominal	fair value
Balance at 1 January 2019	**1,545**	**94**	**1,340**	**61**	**1,610**	**(57)**	**23,590**	**(1,559)**	**-**	**-**	**28,085**	**(1,461)**
Increases/(decreases)*	875	120	1.670	(46)	505	24	2,525	(3,971)	7	(15)	5,582	(3,888)
Gains/(Losses) through profit or loss**	-	-	-	-	-	-	-	(4)	-	-	-	(4)
Transactions settled***	(2,420)	(214)	(1,730)	(51)	(445)	29	(425)	95	(7)	-	(5.027)	(141)
Balance at 31 December 2019	**-**	**-**	**1.,280**	**(36)**	**1,670**	**(4)**	**25,690**	**(5,439)**	**-**	**(15)**	**28,640**	**(5,494)**
Of which:												
Derivative assets	-	-	-	-	775	62	745	11	-	-	1,520	73
Derivative liabilities	-	-	1.280	(36)	895	(66)	24,945	(5,450)	-	(15)	27,120	(5,567)

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

Cash flow hedges in the form of interest rate swaps and forward sales relate to instruments classified as FVTOCI, with nominal values of €1,670 million and €1,280 million, respectively.

Cash flow interest rate hedges recorded a total fair value gain of €98 million on the effective portion, reflected in the cash flow hedge reserve.

61. 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.

Fair value hedges in the form of interest rate swaps regard instruments classified as at amortised cost, with a nominal value of €11,295 million, and instruments classified as FVTOCI, with a nominal value of €14,395 million.

Fair value hedges recorded a net fair value loss on the effective portion of €3,971 million, whilst the hedged securities recorded a net fair value gain of €3,958 million, with the difference of €13 million due to paid differentials.

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

- forward purchases for a nominal amount of €875 million and settlement for €2,420 million, of which €1,545 million outstanding at 1 January 2019;
- forward sales for a nominal amount of €1,670 million and settlement for €1,730 million, of which €1,340 million outstanding at 1 January 2019;
- new interest rate swaps designated as cash flow hedges with a nominal value of €505 million;
- new interest rate swaps designated as fair value hedges with a nominal value of €2,525 million;
- a forward sale agreement for 400,000 ordinary Visa Incorporated shares (described above).

Insurance services

Financial assets at amortised cost

Movements in financial assets measured at amortised cost are shown below:

tab. A6.5 - Movements in financial assets at amortised cost

(€m)	Receivables	Fixed income instruments	Total
Balance at 1 January 2019	**38**	**1,467**	**1,505**
Purchases		283	283
Changes in amortised cost	-	8	8
Changes in fair value through profit or loss	-	-	-
Changes in cash flow hedges*	-	-	-
Changes in impairment	-	-	-
Net changes	(25)		(25)
Effects of sales on profit or loss	-	-	-
Accruals	-	18	18
Sales, redemptions and settlement of accrued income		(47)	(47)
Balance at 31 December 2019	**13**	**1,729**	**1,742**

Receivables

Financial receivables of €13 million regard receivables for management commissions of Poste Vita internal funds.

Fixed income instruments

Fixed income instruments at amortised cost at 31 December 2019 have a carrying amount of €1,729 million. These instruments exclusively relate to the free capital of Poste Vita SpA and Poste Assicura SpA. At 31 December 2019, the fair value[62] of these instruments is €1,955 million.

Fixed income instruments recognised at amortised cost are adjusted to take into account the related impairments. Accumulated impairments at 31 December 2019 amount to approximately €0.6 million (unchanged compared to 31 December 2018).

Financial assets at fair value through other comprehensive income

Movements in financial assets at fair value through other comprehensive income are shown below:

tab. A6.6 - Movements in financial assets at FVTOCI

(€m)	Fixed income instruments	Other investments	Total
Balance at 1 January 2019	**94,622**	**525**	**95,147**
Purchases	26,786	-	26,786
Transfers to equity reserves	52	-	52
Changes in amortised cost	227	-	227
Fair value gains and losses through equity	7,665	14	7,679
Effects of sales on profit or loss	130	-	130
Accruals	742	-	742
Sales, redemptions and settlement of accrued income	(28,297)	-	(28,297)
Balance at 31 December 2019	**101,927**	**539**	**102,466**

These financial instruments have recorded a fair value gain of €7,679 million. This includes €7,617 million primarily due to income from the measurement of securities held by Poste Vita SpA and transferred to policyholders, with a contra-entry made in technical provisions in accordance with the shadow accounting method, and a portion of €62 million reflected in a matching positive movement in the related equity reserve.

Fixed income instruments

At 31 December 2019, fixed income instruments relate to investments primarily held by Poste Vita SpA for €101,712 million (a nominal value of €91,472 million) issued by European governments and European blue-chip companies. These instruments are mainly intended to cover products related to separately managed accounts, and therefore, the related gains and losses are transferred in full to policyholders and recognised in technical provisions using the shadow accounting method. These fixed income instruments comprise bonds issued by CDP SpA, with a fair value of €716 million.

Accumulated impairments at 31 December 2019 amount to €37 million, almost entirely transferred to policyholders using the shadow accounting method (at 31 December 2018, impairments amounted to €41 million, almost entirely transferred to policyholders using the shadow accounting method).

Other investments

At 31 December 2019, Cassa Depositi e Prestiti's private placement of a Constant Maturity Swap, classified as at FVTOCI, amounts to €539 million. The increase in fair value of €14 million during the period was transferred to policyholders using the shadow accounting method.

62. In terms of the fair value hierarchy, which reflects the relevance of the sources used to measure assets, €1,659 million of the total amount qualifies for inclusion in level 1 and €296 million for inclusion in level 2.

Financial assets at fair value through profit or loss

Below are the movements in financial assets at fair value through profit or loss:

tab. A6.7 - Movements in financial assets at FVTPL

(€m)	Receivables	Fixed income instruments	Other instruments	Equity instruments	Other investments	Total
Balance at 1 January 2019	**59**	**1,571**	**27,952**	**166**	**21**	**29,769**
Purchases		830	7,360	103	-	8,293
Fair value gains and losses through profit or loss	-	65	2,016	25	-	2,106
Net changes	(59)					(59)
Effects of sales on profit or loss	-	-	37	17	-	54
Accruals	-	18	-	-	-	18
Sales, redemptions and settlement of accrued income		(985)	(1,437)	(134)	-	(2,556)
Balance at 31 December 2019	**-**	**1,499**	**35,928**	**177**	**21**	**37,625**

Receivables

This item referred to receivables for contributions made in the form of subscriptions and payment of mutual investment funds. At 31 December 2019, the corresponding units had been issued and the related receivables settled.

Fixed income instruments

At 31 December 2019, fixed income instruments of €1,499 million consist of €57 million in coupon stripped and Zero Coupon bonds, while the balance of €1,442 million is primarily made up of corporate bonds issued by blue-chip companies. Financial instruments totalling €1,098 million are linked to separately managed accounts, €348 million covers contractual obligations arising on Class III insurance policies and the remaining €53 million relates to securities in which the company's free capital has been invested.

Units of mutual investment funds

At 31 December 2019, units of mutual investment funds amounting to €35,928 million include €32,648 million to cover Class I separately managed account products and €3,223 million to cover Class III products. The remaining €57 million relates to investment of the company's free capital (see note 14 – Additional information - Unconsolidated structured entities). Net investment in the funds during the period amounts to €5,923 million and the fair value has increased by approximately €2,016 million, almost entirely transferred to Class I policyholders using the shadow accounting method. At 31 December 2019, the investments primarily regard equity funds, totalling €33,275 million, units in real estate funds, totalling €1,714 million, and funds that primarily invest in bonds, totalling €939 million.

Equity instruments

Equity instruments amount to €177 million, and cover the contractual obligations arising on Class I products linked to separately managed accounts and Class III policies. The change over the period reflects the combined effect of net sales of approximately €31 million, the proceeds from sales of approximately €17 million and fair value gains of approximately €25 million.

Other investments

Other investments of €21 million relate to a Constant Maturity Swap placed by Cassa Depositi e Prestiti (a nominal value of €22 million) and covering products linked to separately managed accounts.

Derivative financial instruments

At 31 December 2019, the warrants executed by Poste Vita SpA to cover contractual obligations deriving from Class III policies amount to zero as the policies have been repaid in full.

In addition, at 31 December 2019, Poste Vita had forward sales of fair value hedges on BTPs for a notional amount of €120 million. The value of this derivative was negative for €1 million at 31 December 2019.

Postal and business services

Financial assets at amortised cost

Financial assets at amortised cost refer solely to financial receivables totalling €62 million. This item breaks down as follows:

tab. A6.8 - Receivables at amortised cost

	Balance at 31/12/2019			Balance at 31/12/2018		
(€m)	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Guarantee deposits	-	23	23	-	30	30
Due from the purchasers of service accommodation	4	2	6	5	2	7
Due Other	33	20	53	33	40	73
Provisions for doubtful debts	-	(20)	(20)	-	(20)	(20)
Total	**37**	**25**	**62**	**38**	**52**	**90**

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

Other receivables for €50 million refer to the remaining amount due from Invitalia SpA as a result of the sale of Banca del Mezzogiorno-MedioCreditoCentrale SpA (BdM) on 7 August 2017[63]. Following the finalisation of the agreement between the parties in January 2019, €20 million of this amount was collected on 27 February 2019.

63. Of a total consideration of €387 million, €158 million was collected in 2017 and €159 million in early 2018. As regards the remaining amount receivable, on 31 October 2018, Invitalia informed Poste Italiane that the Bank of Italy had requested the buyer not to proceed with the reduction of BdM's capital scheduled for 2018, and preparatory to payment of a €40 million tranche of the related consideration. On 16 January 2019, in line with the contractual provisions, Poste and Invitalia defined in good faith alternative methods for the payment of the aforementioned fee. Based on the agreement signed, on 27 February 2019, Invitalia paid Poste Italiane €20 million. The remaining €20 million will be paid from the dividends to be paid by BdM in 2018, 2019 and 2020. Payment of the remaining €30 million is expected to take place between 30 June 2021 and 30 June 2022 once certain conditions have been met.

Financial assets at fair value through other comprehensive income

tab. A6.9 - Movements in financial assets at FVTOCI

(€m)	Fixed income instruments	Equity instruments	Total
Balance at 1 January 2019	**532**	**5**	**537**
Purchases	-	17	17
Transfers to equity reserves	-	-	-
Changes in amortised cost	-	-	-
Fair value gains and losses through equity	2	1	3
Changes in fair value through profit or loss	(10)	-	(10)
Changes in cash flow hedges*	-	-	-
Effects of sales on profit or loss	-	-	-
Accruals	5	-	5
Sales, redemptions and settlement of accrued income	(5)	-	(5)
Balance at 31 December 2019	**524**	**23**	**547**

Fixed income instruments

This item entirely regards BTPs with a total nominal value of €500 million. Of these, instruments with a value of €375 million have been hedged using interest rate swaps designated as fair value hedges. Accumulated impairments at 31 December 2019 amount to €0.2 million (unchanged with respect to 31 December 2018).

Equity instruments

The item includes:

- for €75 million the investment in CAI SpA (formerly Alitalia CAI SpA), acquired in 2013 and written off in 2014;
- €16 million for the investment in MFM Investments Ltd acquired on 9 August 2019;
- €4.5 million for the historical cost of the 15% investment in Innovazione e Progetti ScpA in liquidation;
- €2 million for the investment in sennder GmbH acquired on 11 November 2019.

Corporate actions during 2019, are described in note 4.1 – Principal corporate actions.

Financial assets at fair value through profit or loss

This item consists of equity instruments (as defined by art. 2346, paragraph 6 of the Italian Civil Code) resulting from the conversion of Contingent Convertible Notes[64], whose value at 31 December 2019 is zero.

Derivative financial instruments

tab. A6.10 - Movements in derivative financial instruments

	FY 2019			
(€m)	Cash Flow hedges	Fair value hedges	Fair value through profit or loss	Total
Balance at 1 January 2019	**(5)**	**(26)**	**-**	**(31)**
Increases/(decreases)	(2)	(1)	-	(3)
Gains/(Losses) through profit or loss	-	-	-	-
Transactions settled*	1	11	-	12
Balance at 31 December 2019	**(6)**	**(16)**	**-**	**(22)**
of which:				
Derivative assets	-	-	-	-
Derivative liabilities	(6)	(16)	-	(22)

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

At 31 December 2019, derivative financial instruments include:

- a cash flow hedging interest rate swap contract entered into in 2013 to protect the cash flows of the €50 million bond issued on 25 October 2013 (Note B.8 - Financial liabilities); with this transaction, the Parent Company assumed the obligation to pay the fixed rate of 4.035% and sold the floating rate of the bond, which at 31 December 2019 was 0.953%;
- nine interest rate 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.

Payment services and card payments

Financial assets at amortised cost

Financial assets at amortised cost refer solely to financial receivables due to the ring-fenced EMI, amounting to €115 million.

64. These are Contingent Convertible Notes with an original value of €75 million, a twenty-year term to maturity and issued by Midco SpA, which in turn owns 51% of the airline Alitalia SAI SpA. The Notes were subscribed for by Poste Italiane SpA on 23 December 2014, in connection with the strategic transaction that resulted in Etihad Airways' acquisition of an equity interest in Alitalia SAI, without giving rise to any involvement on the part of Poste Italiane in the management of the issuer or its subsidiary. Interest and principal payments were provided for in the relevant terms and conditions if, and to the extent that, there was available liquidity. On the fulfilment of certain negative pledge conditions, in 2017 the loan was converted into equity instruments (as defined by art. 2346, paragraph 6 of the Italian Civil Code), carrying the same rights associated with the Notes.

A7 - Inventories (€140 million)

tab. A7 - Inventories

Description (€m)	Balance at 31/12/2018	Increase / (decrease)	Balance at 31/12/2019
Properties held for sale	120	3	123
Work in progress, semi-finished and finished goods and goods for resale	8	1	9
Raw, ancillary and consumable materials	8	-	8
Total	**136**	**4**	**140**

Properties held for sale refer entirely to the portion of EGI SpA's real estate portfolio to be sold, whose fair value[65] at 31 December 2019 amounts to approximately €297 million.

A8 - Trade receivables (€2,171 million)

tab. A8 - Trade receivables

	Balance at 31/12/2019			Balance at 31/12/2018		
Description (€m)	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Receivables due from customers	5	2,113	2,118	7	2,115	2,122
Receivables due from Parent company (MEF)	-	45	45	-	68	68
Receivables due from subsidiaries, associates and joint ventures	-	1	1	-	4	4
Prepayments to suppliers	-	7	7	-	5	5
Total	**5**	**2,166**	**2,171**	**7**	**2,192**	**2,199**

Receivables due from customers

tab. A8.1 - Receivables due from customers

	Balance at 31/12/2019			Balance at 31/12/2018		
Description (€m)	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Ministries and Public Administration entities	-	520	520	-	672	672
Cassa Depositi e Prestiti	-	451	451	-	440	440
Parcel express courier and express parcel services	-	327	327	-	352	352
Overseas counterparties	-	357	357	-	304	304
Unfranked mail delivered and other value added services	17	240	257	18	252	270
Overdrawn current accounts	-	38	38	-	154	154
Amounts due for other BancoPosta services	-	105	105	-	83	83
Property management	-	8	8	-	7	7
Other trade receivables	1	579	580	3	452	455
Provisions for doubtful debts	(13)	(512)	(525)	(14)	(601)	(615)
Total	**5**	**2,113**	**2,118**	**7**	**2,115**	**2,122**

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

Specifically[66]:

- 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 €177 million.
  - Reimbursement of the costs associated with the management of property, vehicles and security incurred on behalf of the Ministry for Economic Development, totalling €79 million[67], including €62 million involved in legal action brought by Poste Italiane in order to claim sundry costs resulting from the use of properties. At the hearing of 13 November 2019, the Judge held the case back in judgement with the allocation of time limits for closing arguments and replies. The judgement is therefore expected to be filed by the first half of 2020.
  - Unfranked mail services provided on credit, totalling €73 million, to central and local government entities.
  - Compensation for the discounts applied to publishers, due from the Presidenza del Consiglio dei Ministri - Dipartimento dell'Editoria (Cabinet Office – Publishing department), amounting to €50 million, of which €45 million accrued during the year. Of these receivables, approximately €13 million were not covered in the State's Budget and were written down at 31 December 2019. On 22 July 2019, pursuant to EU state aid regulations, the European Commission approved public service compensation for the years 2017 to 2019, of €171.74 million, in line with the related state appropriations, acknowledging that the level of compensation had not exceeded the amount necessary to cover the net cost incurred by the Company in providing the service. Following the decision of the European Commission on 6 September 2019, collections for offsetting purposes relating to the financial years 2017-2018 for a total amount of €99 million, which up to that date were recorded under other liabilities, were offset against the related receivables as a result of the disappearance of the unavailability constraint. A further €26 million were collected in February 2020.
  - The payment of pensions and vouchers on behalf of INPS (the National Institute of Social Security), totalling €12 million. Moreover, in February 2019, having conducted a joint assessment, Poste Italiane and INPS signed an agreement that, among other things, has settled the respective past outstanding trade receivables (note B6). These positions were settled in April 2019.
- Receivables due from **Cassa Depositi e Prestiti** refer to fees for BancoPosta's deposit-taking activities during 2019.
- 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 from **overseas counterparties** relate to postal services carried out by the Parent Company for overseas postal operators.
- Receivables arising from **unfranked mail delivered and other value added services** refer to bulk mail services and other added value services.
- Receivables for **overdrawn current accounts** derive almost exclusively from overruns due to the debiting of BancoPosta's periodic fees. During the year under review, upon completion of a process of analysis and a series of activities undertaken with regard to these receivables, it was found that it was not possible to recover these amounts, also taking into account the small amount of each receivable, in accordance with the provisions of IFRS 9, a total of €121 million was written off by using the provision for doubtful debts set aside at the time.
- **Other trade receivables** include mainly: €84 million related to Postepay SpA, primarily for sales of terminals, subscriptions for telecommunications services, services rendered to other operators and for the sale of top-ups through other channels in addition to receivables accrued for commercial payments to third-party partners, €45 million for the Posta Time service, €24 million for referrals to the Posta Target service, €22 million for receivables relating to the Posta Contest service, €17 millions receivables for non-universal mailing services, €12 million relating to the Notification of Legal Process service and €11 million for telegraphic services.

In general, there are delays in collecting amounts due from central and local government entities due primarily to the fact that no provision has been made in the related budgets or to the execution of contracts or agreements. In this regard, actions continue aimed at renewing expired agreements[68] and soliciting requests for appropriations.

Provisions for doubtful debts relating to customers are described in note 7 – Risk management.

66. At 31 December 2019, the balance of trade receivables includes €10 million, net of the related provisions for doubtful accounts, relating to rental income falling within the scope of IFRS 15 – Revenue from Contracts with Customers.
67. See "Revenue and receivables due from the State", showing overall amounts due from the Ministry for Economic Development (€80 million), including amounts due for postal and other services.
68. The principal agreements that have expired regard those governing relations with the tax authorities in relation to the collection and reporting of payments.

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. A8.3 - Receivables due from the Parent Company

Description (€m)	Balance at 31/12/2019	Balance at 31/12/2018
Universal Service compensation	31	31
Delegated services	28	28
Remuneration of current account deposits	15	39
Publisher tariff and electoral subsidies	1	1
Other	2	1
Provision for doubtful debts due from Parent company	(32)	(32)
Total	**45**	**68**

Specifically:

- **Universal Service compensation** includes:

  ### tab. A8.3.1 - Universal Service compensation receivable

Description (€m)	Balance at 31/12/2019	Balance at 31/12/2018
Remaining balance for 2012	23	23
Remaining balance for 2005	8	8
Total	**31**	**31**

  In the year under review, the Group received €262 million in accrued compensation for the period.
  With reference to the amount receivable for 2012, AGCom has recognised a net cost incurred by the Company of €327 million, compared with compensation of €350 million originally recognised. Provision has not been made in the state budget for the remaining €23 million. The Company appealed AGCom's decision on 13 November 2014 before the Regional Administrative Court (TAR).
  The outstanding receivable relating to compensation for 2005 was subject to cuts in the budget laws for 2007 and 2008. Provisions for doubtful debts have been made for the full amount of the above receivables.

- Payments for **delegated services**, collected in January 2020, to fees accrued solely in 2019 for treasury services performed by BancoPosta on behalf of the state in accordance with a special agreement with the MEF, expired on 31 December 2019 and being renewed.
- The **remuneration of current account deposits** refers entirely to amounts accruing in 2019 and almost entirely relates to the deposit of funds deriving from accounts opened by Public Administration entities and attributable to BancoPosta RFC.
- Receivables arising from **electoral subsidies** refer to compensation for previous years, for which provision has been made in the state budget.

Provisions for doubtful debts relating to the Parent Company are described in note 7 – Risk management.

A9 - Other receivables and assets (€4,667 million)

A9 - Other receivables and assets (€4,667 million)

Description (€m)	Note	Balance at 31/12/2019 Non-current assets	Current assets	Total	Balance at 31/12/2018 Non-current assets	Current assets	Total
Substitute tax paid		3,645	548	4,193	3,371	549	3,920
Receivables due from social security agencies and pension funds (excl. fixed-term contract settlements)		-	94	94	-	109	109
Receivables relating to fixed-term contract settlements		66	81	147	82	85	167
Receivables for amounts that cannot be drawn on due to court rulings		-	79	79	-	78	78
Accrued income and prepaid expenses from trading transactions		-	12	12	-	11	11
Tax assets		-	17	17	-	8	8
Interest accrued on IRES refund		-	47	47	-	47	47
Interest accrued on IRAP refund		-	-	-	-	3	3
Sundry receivables		19	205	224	16	317	333
Provisions for doubtful debts due from others		(1)	(145)	(146)	-	(96)	(96)
Total		**3,729**	**938**	**4,667**	**3,469**	**1,111**	**4,580**

Specifically:

- **Substitute tax** paid refers mainly to:
  - €2,274 million on non-current receivables paid in advance by Poste Vita SpA for the financial years 2014-2019, relating to withholding and substitute tax paid on capital gains on life policies[69];
  - €1,370 million charged to holders of Interest-bearing Postal Certificates and Class III and V insurance policies for stamp duty at 31 December 2019[70]; 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);
  - €312 million relating to advances paid in relation to stamp duty to be paid in virtual form in 2020 and charged to customers and to be recovered from customers by Poste Italiane;
  - €120 million relating to stamp duty charged to Postal Savings Books, which Poste Italiane SpA pays in virtual form as required by law.
- **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, 30 July 2015 and 19 June 2018 between Poste Italiane SpA and the labour 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 €148 million from staff, from INPS and pension funds recoverable in the form of variable instalments, the last of which is due in 2042. The item includes €42 million receivable from INPS (formerly IPOST), covered by a specific agreement with IPOST dated 23 December 2009. Payment of this amount consists of six instalments of €6.9 million each, falling due between 30 June 2012 and 31 December 2014 and deemed to be collectible in full. Negotiations for the recovery of the same are underway and, in the event of a negative outcome, Poste Italiane reserves the right to take all necessary measures to better protect its rights.
- **Amounts that cannot be drawn on due to court rulings** include €66 million in amounts seized and not assigned to creditors, in the process of recovery, and €13 million in amounts stolen from the Parent Company in December 2007 as a result of an attempted fraud and that have remained on deposit with an overseas bank. The latter sum may only be recovered once the legal formalities are completed. The risks associated with collection of these items are taken into account in the provisions for doubtful debts due from others.
- **Accrued interest on IRES refund**, refers to interest accruing up to 31 December 2019 in relation to the tax credit determined by an unreported deduction from the IRES tax base of IRAP paid on labour costs and almost entirely attributable to the Parent Company. With regard to the remaining overall tax credit, amounting to €55 million, two disputes were brought

69. Of the total amount, €487 million, assessed on the basis of provisions at 31 December 2019, has yet to be paid and is accounted for in "Other taxes payable" (tab. B10.3).
70. 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 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).

before the Provincial Tax Tribunal of Rome, which upheld Poste Italiane's appeals, ordering the tax authorities in Rome to refund the amounts claimed. The tax authorities appealed both rulings before the Regional Tax Tribunal and, on 23 March 2018, the Tribunal upheld the tax authorities' appeal against one of the rulings. Poste Italiane has appealed this ruling before the Supreme Court of Cassation. In the last quarter of 2019, however, the Supreme Court of Cassation had the opportunity to rule on other proceedings concerning the operation of the reimbursement pursuant to Law Decree 201/11; with respect to the judgement issued, there is a homogeneity of legal-formal circumstances that lead to the conclusion that the principle of law, referred to in the aforementioned judgement of the Court of legitimacy, can also have its effects in existing judgements. The introduction of the new and additional elements of uncertainty regarding the final outcome of the case was taken into account in the determination of the provision for doubtful debts with an allocation of €46 million, recorded in profit and loss under the item Impairment losses/(reversals of impairment losses) on financial assets (Table C.13).
Provisions for doubtful debts due from others are described in note 7 – Risk management.

A10 – Cash and deposits attributable to BancoPosta (€4,303 million)

tab. A10 - Cash and deposits attributable to BancoPosta

Description (€m)	Balance at 31/12/2019	Balance at 31/12/2018
Cash and cash equivalents in hand	3,487	2,967
Bank deposits	816	351
Total	**4,303**	**3,318**

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 (€853 million) and companies that provide cash transportation services whilst awaiting transfer to the Italian Treasury (€2,634 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 €814 million.

A11 – Cash and cash equivalents (€2,149 million)

tab. A11 - Cash and cash equivalents

Description (€m)	Balance at 31/12/2019	Balance at 31/12/2018
Bank deposits and amounts held at the Italian Treasury	1,638	1,877
Deposits with the MEF	495	1,306
Cash and cash equivalents in hand	16	12
Total	**2,149**	**3,195**

The balance of cash and cash equivalents at 31 December 2019 includes restricted cash and cash equivalents totalling about €885 million, including €856 million in liquid assets held to cover insurance technical provisions, €20 million restricted as a result of court decisions concerning other types of disputes and €9 million for cash on hand and other restrictions.

Equity

B1 – Equity (€9,698 million)

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

tab. B1 - Reconciliation of equity

Description (€m)	Equity at 31/12/2019	Changes in equity during 2019	Net profit/(loss) for 2019	Equity at 31/12/2018
Financial statements of Poste Italiane SpA	**6,328**	**208**	**661**	**5,459**
Undistributed profit (loss) of consolidated companies	5,188	-	891	4,297
Investments accounted for using the equity method	115	-	112	3
Balance of FV and CFH reserves of investee companies	19	44	-	(25)
Actuarial gains and losses on employee termination benefits of investee companies	(5)	(1)	-	(4)
Fees to be amortised attributable to Poste Vita SpA and Poste Assicura SpA	(34)	-	5	(39)
Effects of contributions and transfers of business units between Group companies	(70)	-	(1)	(69)
Effects of intercompany transactions (including dividends)	(2,233)	-	(355)	(1,878)
Elimination of adjustments to value of consolidated companies	583	-	32	551
Amortisation until 1 January 2004/Impairment of goodwill	(138)	-	-	(138)
Impairments of disposal groups held for sale	(40)	-	-	(40)
Other consolidation adjustments	(15)	-	(3)	(12)
Equity attributable to owners of the Parent	**9,698**	**251**	**1,342**	**8,105**
Equity attributable to non-controlling interests	-	-	-	-
(excluding profit/(loss))				
Net profit/(loss) attributable to non-controlling interests	-	-	-	-
Equity attributable to non-controlling interests	**-**	**-**	**-**	**-**
Total consolidated equity	**9,698**	**251**	**1,342**	**8,105**

At 31 December 2019, earnings per share is €1.032 (€1.071 at 31 December 2018).

B2 – Share capital (€1,306 million)

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

At 31 December 2019, the Parent Company holds 5,257,965 of its treasury shares (equal to 0.4026% of the share capital). All the shares in issue are fully subscribed and paid up. No preference shares have been issued.

B3 – Shareholders transactions

As resolved at the General Meeting of shareholders held on 28 May 2019, on 26 June 2019, the Parent Company paid dividends totalling €574 million, based on a dividend per share of €0.441. In addition, on 5 November 2019, the Board of Directors of Poste Italiane resolved to advance part of the ordinary dividend for 2019 as an interim dividend. The interim dividend of €200 million was distributed on 20 November 2019 (unit dividend of €0.154).

B4 – Reserves (€2,646 million)

tab. B4 - Reserves

(€m)	Legal reserve	BancoPosta RFC reserve	Fair value reserve	Cash flow hedge reserve	Reserve for investees accounted for using equity method	Incentive plans reserve	Total
Balance at 1 January 2019	**299**	**1,210**	**(69)**	**89**	**2**	**-**	**1,531**
Increases/(decreases) in fair value during the year	-	-	1,768	95	-	-	1,863
Tax effect of changes in fair value	-	-	(505)	(27)	-	-	(532)
Transfers to profit or loss	-	-	(244)	(59)	-	-	(303)
Tax effect of transfers to profit or loss	-	-	70	17	-	-	87
Increase/(Decrease) for expected credit loss	-	-	(2)	-	-	-	(2)
Share of after-tax comprehensive income/(loss) of investees accounted for using equity method	-	-	-	-	(1)	-	(1)
Gains/(losses) recognised in equity	-	-	1,087	26	(1)	-	1,112
Reserves related to disposal groups and liabilities held for sale	-	-	-	-	-	-	-
Incentive plans	-	-	-	-	-	2	2
Other changes	-	-	-	-	1	-	1
Balance at 31 December 2019	**299**	**1,210**	**1,018**	**115**	**2**	**2**	**2,646**

This item breaks down as follows:

- the **fair value reserve** regards changes in the value of financial assets at fair value through other comprehensive income. The increase of €1,768 million during 2019 reflects:
  – a net increase of €1,702 million in financial assets attributable to the Group's Financial Services segment;
  – a net increase of €62 million in financial assets attributable to the Group's Insurance Services segment;
  – a net increase of €3 million in 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 2019, the fair value gain of €95 million was primarily attributable to the value of BancoPosta RFC's derivative financial instruments.
- the **Incentive Plans reserve** includes the estimate of the valuations for the period relating to the long-term "ILT Performance Share" incentive plan, carried out on the basis of the provisions of IFRS 2.

Liabilities

B5 – Technical provisions for insurance business (€140,261 million)

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

tab. B5 - Technical provisions for insurance business

Description (€m)	Balance at 31/12/2019	Balance at 31/12/2018
Mathematical provisions	123,820	119,419
Outstanding claims provisions	663	780
Technical provisions where investment risk is transferred to policyholders	3,930	2,652
Other provisions	11,641	2,115
for operating costs	79	108
for deferred liabilities to policyholders	11,562	2,007
Technical provisions for claims	207	183
Total	**140,261**	**125,149**

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 financial assets at FVTOCI at 31 December 2019 and, to a lesser extent, on financial instruments at fair value through profit or loss.

B6 - Provisions for risks and charges (€1,218 million)

Movements in provisions for risks and charges are as follows:

tab. B6 - Movements in provisions for risks and charges for FY 2019

Description (€m)	Balance at 1 January 2019	Provisions	Finance costs	Transfers to profit or loss	Uses	Balance at 31/12/2019
Provisions for operational risk	423	35	-	(23)	(194)	241
Provisions for disputes with third parties	335	42	1	(35)	(30)	313
Provisions for disputes with staff*	65	8	-	(1)	(18)	54
Provisions for personnel expenses	125	63	-	(71)	(49)	68
Provisions for early retirement incentives	447	370	-	-	(396)	421
Provisions for taxation/social security contributions	18	6	-	(2)	-	22
Other provisions for risks and charges	106	15	-	(13)	(9)	99
Total	**1,519**	**539**	**1**	**(145)**	**(696)**	**1,218**
Overall analysis of provisions:						
- non-current portion	656					501
- current portion	863					717
	1,519					**1,218**

* Net provisions for personnel expenses amount to €4 million. Service costs (legal assistance) total €4 million. Releases amount to one million.

Specifically:

- The **provisions for operational risk**, mostly relating to liabilities arising from BancoPosta's operations, mainly reflects the definition of items arising from the reconstruction of the operating accounts at the date of incorporation of the Parent Company, risks associated with the distribution of postal savings products issued in past years, risks associated with customer requests for investment products whose performance is not in line with expectations, adjustments and settlements of income from previous years and estimated risks for charges and expenses to be incurred as a result of foreclosures suffered by BancoPosta mainly as a third party. Provisions for the year, totalling €35 million, mainly reflect risks associated with the distribution of postal savings products issued in previous years and the adjustment of liabilities due to adjustments and settlements to income from previous years. Utilisations totalling €194 million refer for €100 million to liabilities defined in favour of customers subscribing to the Immobiliare Obelisco (due to expire on 31 December 2018) and Europa Immobiliare I funds, in relation to the voluntary protection initiatives approved by the Board of Directors of Poste Italiane and undertaken during 2019, and for €67 million to liabilities defined in favour of INPS, following the agreement signed between the parties in February 2019.
- **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. Movements during the year primarily regard updated estimates of liabilities and uses to cover liabilities settled.
- **Provisions for disputes with staff** regard liabilities that may arise following labour litigation and disputes of various types. Net provisions of €7 million regard 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.
- **Provisions for personnel expenses** are made to cover expected liabilities arising in relation to the cost of labour, which are certain or likely to occur but whose estimated amount is subject to change. They have increased by €63 million to reflect the estimated value of new liabilities and decreased as a result of past contingent liabilities that failed to materialise (€71 million) and settled disputes (€49 million).
- **Provisions for early retirement incentives** reflect the estimated costs to be incurred as a result of the Company's binding commitment to pay early retirement incentives on a voluntary basis, under the current redundancy scheme agreed with the labour unions for a determinate number of employees who will leave the Company by 31 December 2021. The provisions made at 31 December 2018, amounting to €396 million, were utilised during the year.
- **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, charges to be incurred for reclamation works on owned land, claims for rent arrears on properties used free of charge by the Parent Company, claims for payment of accrued interest expense due to certain suppliers and frauds.

B7 – Employee termination benefits (€1,135 million)

The following movements in employee termination benefits took place in 2019:

tab. B7 - Movements in provisions for employee termination benefits

(€m)	FY 2019
Balance at 1 January	**1,187**
Current service cost	1
Interest component	17
Effect of actuarial (gains)/losses	70
Uses for the period	(140)
Balance at 31 December 2019	**1,135**

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

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

B7.1 - Economic and financial assumptions

	31/12/2019
Discount rate	0.550%
Inflation rate	1.500%
Annual rate of increase of employee termination benefits	2.625%

B7.2 - Demographic assumptions

	31/12/2019
Mortality	ISTAT 2018 differentiated by gender
Disability	INPS 1998 table differentiated by gender
Rate of employee turnover	Specific table with rates differentiated by length of service
Advance rate	Specific table with rates differentiated by length of service
Pensionable age	In accordance with rules set by INPS

Actuarial gains and losses are generated by the following factors:

B7.3 - Actuarial gains and losses

	31/12/2019
	Employee termination benefits
Change in demographic assumptions	-
Change in financial assumptions	68
Other experience-related adjustments	2
Total	**70**

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

tab. B7.4 - Sensitivity analysis

	31/12/2019
	Employee termination benefits
Inflation rate +0.25%	1,151
Inflation rate -0.25%	1,120
Discount rate +0.25%	1,111
Discount rate -0.25%	1,161
Turnover rate +0.25%	1,133
Turnover rate -0.25%	1,137

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

tab. B7.5 - Other information

	31/12/2019
Expected service cost	1
Average duration of defined benefit plan	8.96
Average employee turnover	0.135%

B8 - Financial liabilities (€79,516 million)

tab. B8 - Financial liabilities

	Balance at 31/12/2019			Balance at 31/12/2018		
Description (€m)	**Non-current liabilities**	**Current liabilities**	**Total**	**Non-current liabilities**	**Current liabilities**	**Total**
Postal current accounts	-	48,317	48,317	-	46,240	46,240
Borrowings	7,364	5,454	12,818	5,654	3,832	9,486
Bonds	50	-	50	50	762	812
Borrowings from financial institutions	7,314	5,454	12,768	5,604	3,070	8,674
Lease payables	1,060	219	1,279	-	-	-
MEF account, held at the Treasury	-	4,542	4,542	-	3,649	3,649
Financial derivatives	5,540	50	5,590	1,798	61	1,859
Cash flow hedges	76	31	107	53	58	111
Fair value hedges	5,449	18	5,467	1,745	3	1,748
Fair value through profit or loss	15	1	16	-	-	-
Other financial liabilities	-	6,970	6,970	1	5,694	5,695
Total	**13,964**	**65,552**	**79,516**	**7,453**	**59,476**	**66,929**

Postal current accounts

They represent BancoPosta's direct deposit. These payables include net amounts accrued at 31 December 2019 and settled with customers in January 2020.

Loans

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

The item refers to a loan recognised at an amortised cost of €50 million issued by Poste Italiane under the EMTN – Euro Medium Term Note programme of €2 billion listed by the Company in 2013 on the Luxembourg Stock Exchange. The loan was issued through a private placement in 2013; the term to maturity of the loan is ten years and the interest rate is 3.5% for the first two years and variable thereafter (EUR Constant Maturity Swap rate plus 0.955%, with a cap of 6% and a floor of 0%). The interest rate risk exposure was hedged as described in note A6 – *Financial assets*; the fair value[71] of this borrowing at 31 December 2019 is €51 million.

A five-year bond issue with a nominal value of €750 million, issued by Poste Vita on 30 May 2014, matured and was repaid in May 2019.

Borrowings from financial institutions

tab. B8.1 - Borrowings from financial institutions

Description (€m)	Balance at 31/12/2019			Balance at 31/12/2018		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Repurchase agreements	6,741	5,453	12,194	5,604	2,869	8,473
EIB fixed rate loan maturing 12/03/2026	173	-	173	-	-	-
EIB fixed rate loan maturing 16/10/2026	400	-	400	-	-	-
EIB fixed rate loan maturing 23/03/2019	-	-	-	-	200	200
Accrued interest expense	-	1	1	-	1	1
Total	**7,314**	**5,454**	**12,768**	**5,604**	**3,070**	**8,674**

Financial institutions borrowings are subject to standard negative pledge clauses[72].

At 31 December 2019, outstanding liabilities of €12,194 million relate to repurchase agreements entered into by the Parent Company with major financial institutions and Central Counterparties, amounting to a total nominal value of €11,150 million. €6,075 million of this amount regards Long Term Repos and €6,119 million to ordinary borrowing operations, the resources from both invested in Italian fixed income government securities and as funding for incremental deposits used as collateral. The fair value[73] of the repurchase agreements in question at 31 December 2019 is €12,205 million.

71. In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 2.
72. 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.
73. In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 2

An EIB loan of €200 million granted to the Parent Company at the time, reached maturity and was repaid in March 2019, whilst an EIB credit facility granted in 2016, amounting to €173 million, was used in full. The new loan is subject to a fixed rate of interest of 0.879% and matures in March 2026. At 31 December 2019, the fair value[74] of this loan is €185 million.

On 3 October 2019, a new loan of €400 million was signed with the EIB. The loan disbursed on 18 October 2019 provides interest at a fixed rate of 0.29% and matures in October 2026. At 31 December 2019, the fair value[75] of this loan is €413 million.

At 31 December 2019, the following credit facilities are available:

- committed lines of €2,173 million, with €173 million used at 31 December 2019;
- uncommitted lines of credit of €1,964 million, including €1,009 million that may be used for short-term loans, €173 million in overdraft facilities and €782 million (including €675 million available to the Parent Company), of which guarantees with a value of €356 million have been used in favour of third parties.

At 31 December 2019, the uncommitted credit lines for short-term loans have not been used. No collateral has been provided to secure the lines of credit obtained.

The uncommitted lines of credit are also available for overnight transactions entered into by BancoPosta RFC.

In addition, from 7 May 2019, BancoPosta's assets may access a short-term committed facility granted by Cassa Depositi e Prestiti for repurchase agreements up to a maximum of €5 billion and with a duration of 12 months that may be extended.

Finally, the Bank of Italy has granted BancoPosta RFC access to intraday credit in order to fund intraday interbank transactions. Collateral for this credit facility is provided by securities with a nominal value of €889 million, and the facility is unused at 31 December 2019.

The existing lines of credit and medium/long-term borrowings are adequate to meet expected financing requirements

Lease payables

The item is commented on in note 3 – Changes to accounting policies.

MEF account held at the Treasury

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

	Balance at 31/12/2019			Balance at 31/12/2018		
Description (€m)	**Non-current liabilities**	**Current liabilities**	**Total**	**Non-current liabilities**	**Current liabilities**	**Total**
Balance of cash flows for advances	-	4,397	4,397	-	3,546	3,546
Balance of cash flows from management of postal savings	-	(47)	(47)	-	(89)	(89)
Amounts payable due to theft	-	158	158	-	157	157
Amounts payable for operational risks	-	34	34	-	35	35
Total	**-**	**4,542**	**4,542**	**-**	**3,649**	**3,649**

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

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

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

	Balance at 31/12/2019			Balance at 31/12/2018		
Description (€m)	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Net advances	-	4,397	4,397	-	3,546	3,546
MEF postal current accounts and other payables	-	670	670	-	670	670
MEF - State pensions	-	(670)	(670)	-	(670)	(670)
Total	**-**	**4,397**	**4,397**	**-**	**3,546**	**3,546**

The **balance of cash flows from the management of postal savings**, amounting to a positive €47 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 2019 consists of €25 million payable to Cassa Depositi e Prestiti, less €72 million receivable from the MEF for Interest-bearing Postal Certificates issued on its behalf.

Amounts payable due to thefts from post offices of €158 million regard the Company's liability to the MEF on behalf of the Italian Treasury for losses resulting from theft and fraud. This liability derives from cash withdrawals from the Treasury to make up for the losses resulting from these criminal acts, in order to ensure that post offices can continue to operate.

Amounts payable for operational risks for €34 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 2019 are described in note A6 – *Financial assets*.

Other financial liabilities

Other financial liabilities have a fair value that approximates to their carrying amount.

tab. B8.3 - Other financial liabilities

	Balance at 31/12/2019			Balance at 31/12/2018		
Description (€m)	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Prepaid cards	-	5,193	5,193	-	4,027	4,027
Domestic and international money transfers	-	668	668	-	688	688
Tax collection and road tax	-	19	19	-	19	19
Guarantee deposits	-	112	112	-	70	70
Cashed cheques	-	255	255	-	243	243
Endorsed cheques	-	140	140	-	163	163
Amounts to be credited to customers	-	147	147	-	220	220
Other amounts payable to third parties	-	164	164	-	145	145
Payables for items in process	-	246	246	-	85	85
Other	-	26	26	1	34	35
Total	**-**	**6,970**	**6,970**	**1**	**5,694**	**5,695**

Liabilities for **prepaid card management** refer to the subsidiary PostePay SpA.

Amounts payables for guarantee deposits refer to amounts received from counterparties in repurchase agreements on fixed income instruments (collateral provided by specific Global Master Repurchase Agreements).

Changes in liabilities arising from financing activities

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

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

Description (€m)	Balance at 31/12/2018	First-time adoption IFRS 16	Net cash flow from/(for) financing activities	Net cash flow from/ (for) operating activities*	Non-cash flows	Balance at 31/12/2019
Borrowings	9,486	1,373	(606)	3,721	123	14,097
Bonds	812	-	(762)	-	-	50
Borrowings from financial institutions	8,674	-	373	3,721	-	12,768
Lease payables	-	1.373	(217)	-	123	1,279
Other financial liabilities	5,695	-	(14)	1,289	-	6,970
Total	**15,181**	**1,373**	**(620)**	**5,010**	**123**	**21,067**

* The total amount of €5,010 million is included in the cash flow from/(for) operating activities, the balance of which in the statement of cash flows amounts to €1,120 million and regards borrowings and other financial liabilities not attributable to financing activities.

B9 – Trade payables (€1,627 million)

tab. B9 - Trade payables

Description (€m)	Balance at 31/12/2019	Balance at 31/12/2018
Amounts due to suppliers	1,274	1,192
Contract liabilities	345	365
Amounts due to subsidiaries	1	2
Amounts due to associates	7	4
Amounts due to joint ventures	-	20
Total	**1,627**	**1,583**

Amounts due to suppliers

tab. B9.1 - Amounts due to suppliers

Description (€m)	Balance at 31/12/2019	Balance at 31/12/2018
Italian suppliers	1,129	1,058
Overseas suppliers	34	24
Overseas counterparties*	111	110
Total	**1,274**	**1,192**

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

Contract liabilities

tab. B9.2 - Movements in contract liabilities

Description (€m)	Balance at 01 January 2019	Change due to recognition of revenue for period	Other changes	Balance at 31 December 2019
Prepayments and advances from customers	297	-	(23)	274
Other contract liabilities	39	(35)	44	48
Liabilities for fees to be refunded	26	20	(26)	20
Liabilities for volume discounts	4	-	(1)	3
Total	**365**	**(14)**	**(6)**	**345**

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. B9.2.1 - Prepayments and advances from customers

Description (€m)	Balance at 31/12/2019	Balance at 31/12/2018
Prepayments from overseas counterparties	196	149
Automated franking	38	36
Advances from the Cabinet Office - Publishing and Information department	-	72
Unfranked mail	16	16
Postage-paid mailing services	6	7
Other services	18	17
Total	**274**	**297**

Other contract liabilities primarily regard Postamat and Postepay Evolution card fees collected in advance.

Liabilities for fees to be refunded represent the estimated liability linked to the refund of fees on loan products sold after 1 January 2018, under the terms of which the related fees must be refunded if the customer opts for early cancellation of the agreement.

B10 - Other liabilities (€3,635 million)

tab. B10 - Other liabilities

Description (€m)	Balance at 31/12/2019 Non-current liabilities	Current liabilities	Total	Balance at 31/12/2018 Non-current liabilities	Current liabilities	Total
Amounts due to staff	21	786	807	12	978	990
Social security payables	30	500	530	33	454	487
Other taxes payable	1,370	699	2,069	1,231	734	1,965
Other amounts due to subsidiaries	-	-	-	-	1	1
Sundry payables	94	93	187	93	94	187
Accrued liabilities and deferred income	10	32	42	10	58	68
Total	**1,525**	**2,110**	**3,635**	**1,379**	**2,319**	**3,698**

Amounts due to staff

tab. B10.1 - Amounts due to staff

Description (€m)	Balance at 31/12/2019 Non-current liabilities	Current liabilities	Total	Balance at 31/12/2018 Non-current liabilities	Current liabilities	Total
Fourteenth month salaries	-	219	219	-	232	232
Incentives	21	358	379	12	626	638
Accrued vacation pay	-	56	56	-	57	57
Other amounts due to staff	-	153	153	-	63	63
Total	**21**	**786**	**807**	**12**	**978**	**990**

The reduction in the item **Incentives** is mainly due to the combined effect of the settlements made and the new liabilities which, recorded at 31 December 2018 in the provisions for early retirement incentives, can be determined with reasonable certainty during the year.

The increase in the item **Other personnel items** is due to the allocation of one-off provisions to cover the 2019 contractual vacancy defined by an agreement with the labour unions signed on 18 February 2020.

Social security payables

tab. B10.2 - Social security payables

Description (€m)	Balance at 31/12/2019 Non-current liabilities	Current liabilities	Total	Balance at 31/12/2018 Non-current liabilities	Current liabilities	Total
INPS	2	393	395	2	347	349
Pension funds	-	87	87	-	88	88
Health funds	-	-	-	-	4	4
INAIL	28	-	28	31	4	35
Other agencies	-	20	20	-	11	11
Total	**30**	**500**	**530**	**33**	**454**	**487**

The increase in **payables to INPS** is partly due to the one-off contribution component mentioned above.

Other taxes payable

tab. B10.3 - Other taxes payable

	Balance at 31/12/2019			Balance at 31/12/2018		
Description (€m)	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Stamp duty payable	1,370	8	1,378	1,231	11	1,242
Tax due on insurance provisions	-	487	487	-	518	518
Withholding tax on employees' and consultants' salaries	-	92	92	-	106	106
VAT payable	-	39	39	-	31	31
Substitute tax	-	36	36	-	48	48
Withholding tax on postal current accounts	-	10	10	-	3	3
Other taxes due	-	27	27	-	17	17
Totale	**1,370**	**699**	**2,069**	**1,231**	**734**	**1,965**

Specifically:

- **Stamp duty** represents the amount payable to the tax authorities for stamp duty in virtual form, before the adjustment applied in 2020 pursuant to note 3-*bis* to art. 13 of the Tariff introduced by Presidential Decree 642/1972. The non-current portion of the stamp duty mainly relates to the amount accrued at 31 December 2019 on Interest-bearing Postal Certificates outstanding and on Class III and V insurance policies pursuant to the new law referred to in note A9 – Other receivables and assets.
- **Tax due on insurance provisions** relates to Poste Vita SpA and is described in note A9.
- **Withholding tax on employees' and consultants' salaries** relates to amounts paid to the tax authorities by Group companies in January and February 2020 as withholding agents.

Sundry payables

tab. B10.4 - Sundry payables

	Balance at 31/12/2019			Balance at 31/12/2018		
Description (€m)	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Sundry payables attributable to BancoPosta	74	8	82	75	6	81
Guarantee deposits	12	1	13	10	1	11
Other payables	8	84	92	8	87	95
Totale	**94**	**93**	**187**	**93**	**94**	**187**

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

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.).

5.3 Notes to the statement of profit or loss

Revenue from contracts with customers

Description (€m)	Note	FY 2019		FY 2018	
Revenue from Mail, Parcels and other	**[C1]**	**3,492**		**3,579**	
of which Revenue from contracts with customers			**3,439**		**3,504**
recognised at a point in time			509		605
recognised over time			2,930		2,899
Revenue from Payments, Mobile and Digital	**[C2]**	**664**		**628**	
of which Revenue from contracts with customers			**664**		**320**
recognised at a point in time			287		87
recognised over time			377		233
Revenue from Financial Services	**[C3]**	**5,213**		**5,186**	
of which Revenue from contracts with customers			**3,033**		**3,388**
recognised at a point in time			412		513
recognised over time			2,621		2,875
Revenue from Insurance Services after movements in technical provisions and other claims expenses	**[C4]**	**1,669**		**1,471**	
Insurance premium revenue		*17,913*		*16,720*	
Income from insurance activities		*5,478*		*3,604*	
Movement in technical provisions for insurance business and other claims expenses		*(21,463)*		*(17,111)*	
Expenses from insurance activities		*(259)*		*(1,742)*	
of which Revenue from contracts with customers			**9**		**10**
recognised at a point in time			-		-
recognised over time			9		10
Total		**11,038**		**10,864**	

Revenue from contracts with customers breaks down as follows:

- **Revenue from mail, parcels and other** refer to services provided to customers through the retail and business channels; revenue generated through the retail channel is recognised at a point in time given the number of transactions handled through the various sales channels (post offices, call centres and online) and measured on the basis of the rates applied; revenue generated through the business channel is generally earned as a result of annual or multi-annual contracts and is recognised over time using the output method determined on the basis of shipments requested and handled. These contracts include elements of variable consideration (primarily volume discounts and penalties linked to the quality of service provided) estimated using the expected value method and recognised as a reduction from revenue.
- **Revenue from payments, mobile and digital** refers to:
  - Mobile and fixed line telecommunications services, including: revenue from “standard telecommunications offerings” recognised over time using the output method and based on the traffic offered (voice, text and data) to the customer; revenue generated by the fixed line “PosteMobile Casa” offering, recognised over time using the output method and based on the fee charged to the customer; revenue in the form of SIM activation fees recognised at a point in time when the SIM card is handed over to the customer. Within the Poste Italiane Group, the only mobile and fixed line telecommunications contracts used are in the form of bundles combining two performance obligations to which the implicit discount is allocated on the basis of the related fair value. The revenue from this type of offer, however, is not significant in terms of total revenue from payments, mobile and digital.
  - card payments, relating primarily to the cards issued by Postepay recognised at a point in time when issued and the services linked to them recognised over time as the service is used by the customer. These services include interchange fees recognised by international circuits on payment transactions with debit cards detected over time.
  - Payment services relating to revenue from the processing of tax payments using forms F23/F24 are recognised over time based on the level of service rendered.

- **Revenue from financial services**, which breaks down as follows:
  – revenue from placement and brokerage: these are recognised over time and measured on the basis of the volumes placed, quantified on the basis of commercial agreements with financial institutions. In terms of payment for the collection of postal savings, the agreement entered into with Cassa Depositi e Prestiti envisages payment of a variable consideration on achieving certain levels of inflows, determined annually on the basis of the volume of inflows and expected redemptions; certain commercial agreements, entered into with leading financial partners for the placement of financial products, envisage the return of placement fees in the event of early termination or surrender by the customer;
  – revenue from current account and related services: these are recognised over time, measured on the basis of the service rendered (including the related services, e.g. bank transfers, securities deposits, etc.) and quantified on the basis of the contract terms and conditions offered to the customer;
  – revenue from fees on the processing of payment slips: these are recognised at a point in time given the number of transactions handled by post offices and quantified on the basis of the terms and conditions in the contract of sale.

C1 – Revenue from Mail, Parcels and other (€3,492 million)

This item breaks down as follows:

tab. C1 - Revenue from Mail, Parcels & other

Description (€m)	FY 2019	FY 2018
Mail	2,134	2,297
Parcels	852	761
Other revenue	185	198
Total external revenue	**3,171**	**3,256**
Universal Service compensation	262	262
Publishing subsidies	59	61
Total	**3,492**	**3,579**

During the year under review, to allow easier reading of the item **Revenue from mail, parcels and other**, a different breakdown of this item is provided to allow a more immediate assessment of the economic and financial performance by segment of operations.

External revenue shows a slight decrease due to the decrease in revenue from Mail, largely offset by the increase in revenue from Parcels, mainly due to the increase in e-commerce shipments.

Universal Service compensation relates to amounts paid by the MEF to cover the costs of fulfilling the USO. Annual compensation, amounting to €262 million, is established in the Contratto di Programma (Service Contract) for 2015-2019, which expired 31 December 2019. On 30 December 2019, the new Contract for the years 2020-2024 was signed, which was formally notified to the European Commission for the usual assessments, still in progress, related to the European framework on State aid.

Publisher tariff subsidies[76] relate to the amount receivable by Poste Italiane from the Presidenza del Consiglio dei Ministri - Dipartimento dell'Editoria (Cabinet Office - Publishing department) as compensation for the discounts applied to publishers and non-profit organisations when sending mail. The compensation is determined on the basis of the tariffs set in the decree issued by the Ministry for Economic Development, in agreement with the Ministry of the Economy and Finance, on 21 October 2010 and Law Decree 63 of 18 May 2012, as converted into Law 103 of 16 July 2012. In this regard, it should be noted that for the year under review, the amount of subsidies that the Company has granted is partially covered in the 2019 State Budget.

76. Law Decree 162 of 30 December 2019 - as converted by Law no. 8 of 28 February 2020 - ordered that reimbursements of publishing tariff subsidies to Poste Italiane continue "*for a duration equal to that of the universal postal service*" (i.e. until April 2026). The application of the regulation is subject to approval by the European Commission.

C2 – Revenue from Payments, Mobile and Digital (664 milioni di euro)

This item breaks down as follows:

tab. C2 - Revenue from Payments, Mobile & Digital

Description (€m)	FY 2019	FY 2018
E-Money	338	269
Fees for issue and use of prepaid cards	277	238
Acquiring	2	7
Other fees	59	24
Mobile	240	217
Transaction Banking	86	142
Payment Slips	2	56
Commissions for processing tax payments using forms F23/F24	61	62
Money transfers	23	20
Other products and services	-	4
Total	**664**	**628**

This item primarily regards revenue from the mobile telecommunications services and card payment and payment services provided by Postepay SpA.

C3 – Revenue from financial services (€5,213 million)

This item breaks down as follows:

tab. C3 - Revenue from Financial Services

Description (€m)	Esercizio 2019	Esercizio 2018
Financial services	4,766	4,636
Income from financial activities	384	418
Other operating income	63	132
Total	**5,213**	**5,186**

Revenue from financial services regard services provided mainly within the Parent Company's BancoPosta RFC and the subsidiary BancoPosta Fondi SGR.

Revenue from Financial Services breaks down as follows:

tab. C3.1 - Revenue from financial services

Description (€m)	FY 2019	FY 2018
Fees for collection of postal savings deposits	1,799	1,827
Income from investment of postal current account deposits	1,635	1,554
Other revenue from current account services	417	382
Commissions on payment of bills by payment slip	390	412
Distribution of loan products	294	237
Mutual fund management fees	100	89
Income from delegated services	97	100
Money transfers	21	17
Commissions from securities trading	4	4
Securities custody	3	4
Other products and services	6	10
Total	**4,766**	**4,636**

In particular:

- **Fees for the collection of postal savings deposits** relates 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 14 December 2017 to cover the three-year period 2018-2020.
- **Income from the investment of postal current account deposits** breaks down as follows:

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

Description (€m)	FY 2019	FY 2018
Income from investments in securities	1,570	1,488
Interest income on securities at amortised cost	535	485
Interest income on securities at FVOCI	1,012	981
Interest income (expense) on asset swaps of CFH on securities at FVOCI and CA	4	9
Interest income (expense) on asset swaps of FVH on securities at FVOCI and CA	(27)	(2)
Interest income on repurchase agreements	46	15
Income from deposits held with the MEF	64	65
Other	1	1
Total	**1,635**	**1,554**

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 A6 – *Financial assets*. *Income from deposits held with the MEF* primarily represents accrued interest for the year on amounts deposited by Public Administration entities.

- Revenue from **current account services** primarily relates to charges on current accounts, fees on amounts collected and on statements of account sent to customers, annual fees on debit cards and related transactions

- Revenue from the **distribution of loan products** relates to commissions received by the Parent Company on the placement of personal loans and mortgages on behalf of third parties

tab. C3.2 - Income from financial activities

Description (€m)	FY 2019	FY 2018
Income from financial assets at FVOCI	353	400
Interest	-	-
Realised gains	353	400
Income from equity instruments at FVTPL	27	9
Fair value gains	25	9
Realised gains	2	-
Income from financial assets at amortised cost	-	4
Realised gains	-	4
Foreign exchange gains	4	4
Fair value gains	-	-
Realised gains	4	4
Other income	-	1
Total	**384**	**418**

Other income from financial activities decreased by €34 million compared to 2018, mainly due to lower profits from the sale of financial assets to FVTOCI (-€47 million), partly offset by the increase in the fair value of the preferred shares of Visa Incorporated (+€16 million).

C4 – Revenue from insurance services after movements in technical provisions and other claims expenses (€1,669 million)

This item breaks down as follows:

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

Description (€m)	FY 2019	FY 2018
Insurance premium revenue	17,913	16,720
Income from insurance activities	5,478	3,604
Net change in technical provisions for insurance business and other claim expenses	(21,463)	(17,111)
Expenses from insurance activities	(259)	(1,742)
Total	**1,669**	**1,471**

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

tab. C4.1 - Insurance premium revenue

Description (€m)	FY 2019	FY 2018
Class I	15,702	15,782
Class III	1,939	740
Classes IV and V	91	88
Gross “life” premiums	**17,732**	**16,610**
Outward reinsurance premiums	(12)	(18)
Net “life” premiums	**17,720**	**16,592**
P&C premiums	222	168
Outward reinsurance premiums	(29)	(40)
Net “P&C” premiums	**193**	**128**
Total	**17,913**	**16,720**

Life gross premiums totalled €17,732 million, up 7% on the previous year, with a significant contribution from Multi-class products.

Income from insurance activities is as follows:

tab. C4.2 - Income from insurance activities

Description (€m)	FY 2019	FY 2018
Income from financial assets at amortised cost	4	3
Interest	4	3
Realised gains	-	-
Income from financial assets at FVTPL	2,669	778
Interest	418	565
Fair value gains	2,171	166
Realised gains	80	47
Income from financial assets at FVOCI	2,741	2,789
Interest	2,526	2,548
Realised gains	215	241
Other income	64	34
Total	**5,478**	**3,604**

The increase in income from insurance activities (€1,874 million compared with 2018) primarily reflects an increase in income from financial assets at FVTPL, reflecting the positive performance of the financial markets at 31 December 2019, compared with 31 December 2018. These fair value gains have almost entirely been transferred to policyholders.

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

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

Description (€m)	FY 2019	FY 2018
Claims paid	13,966	10,734
Movement in mathematical provisions	4,421	8,419
Movement in outstanding claim provisions	(117)	149
Movement in Other technical provisions	1,862	(1,326)
Movement in technical provisions where investment risk is transferred to policyholders	1,278	(878)
Total movement in technical provisions for insurance business and other claims expenses: Life	**21,410**	**17,098**
Portion ceded to reinsurers: Life	**(7)**	**(10)**
Total movement in technical provisions for insurance business and other claims expenses: P&C	**65**	**35**
Portion ceded to reinsurers: P&C	**(5)**	**(12)**
Total	**21,463**	**17,111**

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

- claims paid, policies redeemed and the related expenses incurred by Poste Vita SpA during the period;
- the change in mathematical provisions reflecting increased obligations to policyholders;
- the change in technical provisions where investment risk is transferred to policyholders so-called Class D.

Expenses from insurance activities break down as follows:

tab. C4.4 - Expenses from insurance activities

Description (€m)	FY 2019	FY 2018
Expenses from financial assets at FVTPL	121	1,673
Fair value losses	69	1,610
Realised losses	52	63
Expenses from financial assets at FVOCI	98	29
Interest	5	4
Realised losses	93	25
Impairments	(4)	(2)
Other expenses	44	42
Total	**259**	**1,742**

The reduction in expenses from insurance activities (€1,483 million compared with 2018) is linked to the positive performance of the financial markets at 31 December 2019, compared with 31 December 2018.

C5 - Cost of goods and services (€2,287 million)

tab. C5 - Cost of goods and services

Description (€m)	FY 2019	FY 2018
Service costs	2,086	1,911
Lease expense	77	312
Raw, ancillary and consumable materials and goods for resale	124	120
Total	**2,287**	**2,343**

The cost of goods and services is down €56 million compared with 2018, due primarily to a reduction in lease expense (following the application of IFRS 16 – Leases from 1 January 2019), partially offset by an increase in variable costs linked to the growth in turnover, above all in the parcels business.

Services

tab. C5.1 - Service costs

Description (€m)	FY 2019	FY 2018
Transport of mail, parcels and forms	677	584
Routine maintenance and technical assistance	239	231
Outsourcing fees and external service charges	217	196
Personnel services	137	140
Energy and water	125	122
Mobile telecommunication services for customers	119	97
Credit and debit card fees and charges	121	84
Transport of cash	89	91
Cleaning, waste disposal and security	74	73
Mail, telegraph and telex	58	58
Telecommunications and data transmission	49	54
Advertising and promotions	63	67
Electronic document management, printing and enveloping services	20	24
Consultants' fees and legal expenses	23	26
Asset management fees	32	21
Remuneration of Statutory Auditors	1	1
Other	42	42
Total	**2,086**	**1,911**

Lease expense

tab. C5.2 - Lease expense

Description (€m)	FY 2019	FY 2018
Real estate leases and ancillary costs	8	179
Vehicle leases	2	59
Equipment hire and software licences	54	48
Other lease expense	13	26
Total	**77**	**312**

Raw, ancillary and consumable materials and goods for resale

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

Description (€m)	Note	FY 2019	FY 2018
Consumables, advertising materials and goods for resale		68	65
Fuels and lubricants		52	51
Printing of postage and revenue stamps		7	4
SIM cards and scratch cards		1	1
Change in inventories of work in progress, semi-finished and finished goods and goods for resale	[tab. A7]	(1)	2
Change in inventories of raw, ancillary and consumable materials	[tab. A7]	-	1
Change in property held for sale	[tab. A7]	(3)	(4)
Other		-	-
Total		**124**	**120**

C6 - Expenses from financial activities (€79 million)

This item breaks down as follows:

tab. C6 - Expenses from financial activities

Description (€m)	FY 2019	FY 2018
Expenses from financial assets at FVTPL	15	-
Fair value losses	15	
Realised losses	-	-
Expenses from financial assets at FVOCI	3	22
Realised losses	3	22
Expenses from financial assets at amortised cost	11	3
Realised losses	11	3
Expenses from fair value hedges	4	2
Fair value losses	4	2
Interest expense	46	19
Interest on customers' deposits	11	5
Interest expense on repurchase agreements	9	7
Interest due to MEF	5	3
Interest on guarantee deposits	21	4
Total	**79**	**46**

Expenses from financial activities increased by €33 million compared to 2018, mainly due to the increase in interest expense (+€27 million) and valuation charges (+€15 million) on forward sales of preference shares of Visa Incorporated (Note A6), partly offset by the decrease in realised losses from financial assets at FVTOCI at 31 December 2019 (-€19 million).

C7 - Personnel expenses (€5,896 million)

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

tab. C7 - Personnel expenses

Description (€m)	Nota	FY 2019	FY 2018
Wages and salaries		4,122	4,115
Social security contributions		1,200	1,178
Employee termination benefits: current service cost	[tab. B7]	1	1
Employee termination benefits: supplementary pension funds and INPS		250	256
Agency staff		17	9
Remuneration and expenses paid to Directors		2	2
Early retirement incentives		17	173
Net provisions (reversals) for disputes with staff	[tab. B6]	4	2
Provisions for early retirement incentives	[tab. B6]	370	444
Amounts recovered from staff due to disputes		(10)	(5)
Share-based payments		12	5
Other personnel expenses/(cost recoveries)		(89)	(43)
Total		**5,896**	**6,137**

The personnel expenses decreased by a total of €241 million compared to 2018, mainly due to lower costs for early retirement incentives and higher recovery of personnel costs due to changes in estimates made in previous years. The ordinary component of the personnel expenses reflects the reduction in the average number of staff employed (more than 5 thousand FTE less than 2018), which almost entirely offset the increase in the cost per capita linked to the effect of the latest contract renewal (2016-2018 National Collective Labour Contract), as well as the recognition of an all-inclusive amount to cover the entire year 2019 established by an agreement with the labour unions signed on 18 February 2020.

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

Other personnel expenses/(cost recoveries) include the release of liabilities of €45 million allocated in previous years to support unprotected early retirement.

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

tab. C7.1 - Number of employees

	Average		Year end	
Category	FY 2019	FY 2019	FY 2019	FY 2019
Executives	674	690	675	672
Middle managers	15,078	15,582	14,705	15,192
Operational staff	103,181	109,279	98,975	105,892
Back-office staff	2,175	600	4,168	909
Total employees on permanent contracts *	**121,108**	**126,151**	**118,523**	**122,665**

* Figures expressed in Full Time Equivalent terms.

Furthermore, taking account of staff on flexible contracts, the average number of full-time equivalent staff is 129,243 (in 2018: 134,360).

C8 - Depreciation, amortisation and impairments (€774 million)

This item breaks down as follows:

tab. C8 - Depreciation, amortisation and impairments

Description (€m)	FY 2019	FY 2018
Property, plant and equipment	324	321
Properties used in operations	112	113
Plant and machinery	75	72
Industrial and commercial equipment	9	9
Leasehold improvements	40	32
Other assets	88	95
Impairments/recoveries/adjustments of property, plant and equipment	(4)	(4)
Depreciation of investment property	4	4
Amortisation of right-of-use assets	222	-
Properties used in operations	149	-
Company fleet	60	-
Vehicles for mixed use	5	-
Other assets	8	-
Amortisation and impairments of intangible assets	228	216
Industrial patents and intellectual property rights,concessions, licenses, trademarks and similar rights	224	212
Other	4	4
Goodwill impairment	-	33
Total	**774**	**570**

Depreciation, amortisation and impairments are up €204 million compared with 2018, due to depreciation of right-of-use assets (IFRS 16).

C9 - Capitalised costs and expenses (€31 million)

Capitalised costs and expenses break down as follows:

tab. C9 - Increases relating to assets under construction

Description (€m)	Nota	FY 2019	FY 2018
Property, plant and machinery:	**[A1]**	**6**	**2**
Cost of goods and services		5	2
Personnel expenses		1	-
Intangible assets:	**[A3]**	**25**	**15**
Cost of goods and services		8	4
Personnel expenses		16	11
Depreciation and amortisation		1	-
Total		**31**	**17**

C10 - Other operating costs (€200 million)

Other operating costs break down as follows:

tab. C10 - Other operating costs

Description (€m)	Note	FY 2019	FY 2018
Operational risk events		34	46
Thefts		4	5
Loss of BancoPosta assets, net of recoveries		-	1
Other operating losses of BancoPosta		30	40
Net provisions for risks and charges made/(released)		21	81
for disputes with third parties	[tab. B6]	7	7
for operational risks	[tab. B6]	12	78
for expired and statute barred postal certificates	[tab. B6]	-	(15)
for other risks and charges	[tab. B6]	2	11
Capital losses		2	2
Municipal property tax, urban waste tax and other taxes and duties		98	70
Other recurring expenses		45	40
Total		**200**	**239**

The reduction of €39 million in other operating costs is primarily due to a reduction in provisions for operational risk events and the charges and operating losses incurred by BancoPosta RFC, partially offset by higher costs for non-deductible VAT on lease agreements, reclassified by nature at 31 December 2019, due to the application of IFRS 16.

C11 – Impairment losses/(reversals of impairment losses) on debt instruments, receivables and other assets (€59 million)

tab. C11 - Impairment losses/(Reversals of impairment losses) on debt instruments, receivables and other assets

Description (€m)	FY 2019	FY 2018
Net provisions and losses on receivables and other assets (uses of provisions)	62	46
Provisions (reversal of provisions) for receivables due from customers	48	23
Provisions (reversal of provisions) for receivables due from the MEF	-	(1)
Provisions (reversal of provisions) for sundry receivables	14	23
Credit losses	-	1
Impairment/(reversal) on financial assets at FVOCI	(2)	(1)
Impairment/(reversal) on financial assets at amortised cost	(1)	2
Total	**59**	**47**

The increase of €12 million compared with 2018 is mainly due to higher impairment of trade receivables (+€16 million), offset in part by lower impairment of other receivables.

C12 – Finance income (€105 million) and costs (€73 million)

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

Finance income

tab. C12.1 - Finance income

Description (€m)	FY 2019	FY 2018
Income from financial assets at FVOCI	36	40
Interest	40	44
Accrued differentials on fair value hedges	(11)	(11)
Realised gains	7	7
Income from financial assets at amortised cost	54	54
Income from financial assets at FVTPL	3	1
Other finance income	8	6
Finance income on discounted receivables	4	5
Other	4	1
Foreign exchange gains	4	5
Total	**105**	**106**

For the purposes of reconciliation with the statement of cash flows, in 2019 finance income after both realised gains and foreign exchange gains amounted to €94 million (€95 million in 2018).

Finance costs

tab. C12.2 - Finance costs

Description (€m)	Note	FY 2019	FY 2018
Finance costs on financial liabilities		41	38
on bonds		10	36
on borrowings from financial institutions		2	1
on lease payables		28	-
on derivative financial instruments		1	1
Finance costs on provisions for employee termination benefits and pension plans	[tab. B7]	17	20
Finance costs on provisions for risks	[tab. B6]	1	1
Other finance costs		9	5
Foreign exchange losses		5	5
Total		**73**	**71**

For the purposes of reconciliation with the statement of cash flows, in 2019 finance costs after foreign exchange losses amounted to €68 million (€66 million in 2018).

Bond charges decreased by €26 million following the repayment in 2018 of the €750 million nominal bond issued by the Parent Company in 2013, partly offset by the increase in charges on lease payables following the application from 1 January 2019 of IFRS 16 - Leases.

C13 – Impairment losses/(reversals of impairment losses) on financial assets (€46 million)

tab. C13 - Impairment losses/(Reversals of impairment losses) on financial assets

Description (€m)	FY 2019	FY 2018
Impairment/(reversal) on financial assets at amortised cost	-	20
Impairment of interest accrued on IRES refund	46	-
Total	**46**	**20**

The impairment of the receivable for interest income on IRES repayment is commented on in note A9.

C14 – Income tax expense (€530 million)

The nominal IRES rate has been 24% since 1 January 2017, while the Group's theoretical average IRAP rate is 5.84%[77]. The breakdown of income taxes for the year is as follows.

tab. C14 - Income tax expense

Description (€m)	FY 2019			FY 2018		
	IRES	IRAP	Total	IRES	IRAP	Total
Current tax expense	463	141	604	250	64	314
Deferred tax assets	34	13	47	(397)	2	(395)
Deferred tax liabilities	(94)	(27)	(121)	136	36	172
Total	**403**	**127**	**530**	**(11)**	**102**	**91**

Income taxes increased by €439 million compared with the previous year. It should be noted that 2018 benefited from the positive effect of deferred tax assets recognised by Poste Vita (€351 million in non-recurring income for 2010-2017) on the temporary differences arising from the introduction of the new rule on deferred taxation on changes in insurance technical provisions (paragraph 1-bis of art. 111 of the Consolidated Income Tax Act).

77. The nominal IRAP rate is 3.90% for most taxpayers, 4.20% for companies that operate under concession arrangements other than motorway and tunnel construction and operating companies, 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 tax rate for 2019 is 28.31% and consists of:

tab. C14.1 - Reconciliation between theoretical and effective IRES rate

Description (€m)	FY 2019		FY 2018	
	IRES	Tax Rate	IRES	Tax Rate
Profit before tax	*1,873*		*1.490*	
Theoretical tax charge	449	24.0%	358	24.0%
Effect of changes with respect to theoretical rate				
Adjustments to equity investments measured using the equity method	(26)	-1.44%	6	0.39%
Realignment of tax bases and carrying amounts and taxation for previous years	(19)	-1.01%	(9)	-0.58%
Non-deductible out-of-period losses	6	0.33%	4	0.27%
Net provisions for risks and charges and bad debts	6	0.30%	4	0.28%
Non-deductible taxes	4	0.22%	6	0.39%
Assessment of deferred tax assets on non-deductible change in technical provisions	-	0.00%	(351)	-23.53%
Realised gains on investments	-	-0.02%	(27)	-1.78%
Other	(17)	-0.84%	(1)	-0.16%
Effective tax charge	**403**	**21.54%**	**(11)**	**-0.73%**

tab. C14.2 - Reconciliation between theoretical and effective IRAP rate

Description (€m)	FY 2019		FY 2018	
	IRES	Tax Rate	IRES	Tax Rate
Profit before tax	*1,873*		*1,490*	
Theoretical tax charge	109	5.84%	88	5.92%
Effect of changes with respect to theoretical rate				
Non-deductible personnel expenses	14	0.72%	14	0.92%
Net provisions for risks and charges and bad debts	7	0.38%	4	0.25%
Impairment loss/(reversal) on financial instruments	2	0.11%	6	0.43%
Adjustments to equity investments measured using the equity method	(5)	-0.27%	1	0.10%
Realignment of tax bases and carrying amounts and taxation for previous years	(1)	-0.05%	(2)	-0.16%
Realised gains on investments	-	0.00%	(5)	-0.35%
Other	1	0.04%	(4)	-0.25%
Effective tax charge	**127**	**6.77%**	**102**	**6.84%**

Current tax expense

tab. C14.3 - Movements in current tax assets /(liabilities)

Description (€m)	Current tax 2019		
	IRES Assets/(Liabilities)	IRAP Assets/(Liabilities)	Total
Balance at 1 January	**83**	**22**	**105**
Payment of	191	61	252
payments on account for the current year	180	47	227
balance payable for the previous year	11	14	25
Claim for IRAP refund	-	(8)	(8)
Provisions to profit or loss	(463)	(141)	(604)
Provisions to equity	-	3	3
Other	29*	1	30
Balance at 31 December	**(160)**	**(62)**	**(222)**
of which:			
Current tax assets	40	12	52
Current tax liabilities	(200)	(74)	(274)

* This item mainly refers to receivables for withholding taxes.

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.

At 31 December 2019, current tax assets/(liabilities) include:

- the liability of €263 million determined by IRES and IRAP provisions for the year net of IRES and IRAP advances paid and IRES receivables from the previous year;
- the substitute tax credit of €32 million relating to the redemption carried out by the Parent Company during 2018, pursuant to art. 15, paragraph 10 ter of Law Decree 185 of 29 November 2008, of goodwill and other intangible assets relating to the acquisition of the investment in FSIA Investimenti Srl (as further described in note A4 - *Investments accounted for using the equity method*);
- the remaining IRES receivable of €8 million to be recovered on the failure to deduct IRAP resulting from the requests filed pursuant to art. 6 of Law Decree 185 of 29 November 2008 and art. 2 of Law Decree 201 of 6 December 2011, which provided for a partial deductibility of IRAP for IRES purposes (in this regard, see as reported on receivables for related interest in Note A9).

Deferred tax assets and liabilities

tab. C14.4 - Deferred taxes

Description (€m)	Balance at 31/12/2019	Balance at 31/12/2018
Deferred tax assets	1,199	1,368
Deferred tax liabilities	(887)	(701)
Total	**312**	**667**

Movements in deferred tax assets and liabilities are shown below:

tab. C14.5 - Movements in deferred tax assets and liabilities

Description (€m)	FY 2019	FY 2018
Balance at 1 January	**667**	**(160)**
Net income/(expense) recognised in profit or loss	74	223
Net income/(expense) recognised in equity	(429)	604
Balance at 31 December	**312**	**667**

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

tab. C14.6 - Movements in deferred tax assets

Description (€m)	Property, plant and equipment and intangible assets	Depreciation and amortisation.	Depreciation and amortisation	Provisions to cover expected losses	Provisions for risks and charges	Discounting of provisions for employee termination benefits	Technical provisions for insurance business	Other	Total
Balance at 1 January 2019	**49**	**17**	**370**	**103**	**339**	**22**	**385**	**83**	**1,368**
Income/(expense) recognised in profit or loss	1	(2)	1	(3)	(76)	-	23	9	(47)
Income/(expense) recognised in equity	-	-	(138)	-	-	16	-	-	(122)
Balance at 31 December 2019	**50**	**15**	**233**	**100**	**263**	**38**	**408**	**92**	**1,199**

tab. C14.7 - Movements in deferred tax liabilities

Description (€m)	Financial assets and liabilities	Other	Total
Balance at 1 January 2019	**662**	**39**	**701**
Income/(expense) recognised in profit or loss	(123)	2	(121)
Income/(expense) recognised in equity	307	-	307
Balance at 31 December 2019	**846**	**41**	**887**

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

tab. C14.8 - Income/(expense) recognised in equity

Description (€m)	FY 2019	FY 2018
Fair value reserve for FVTOCI financial assets	(435)	669
Cash flow hedge reserve for hedging instruments	(10)	(60)
Actuarial gains/(losses) on provisions for employee termination benefits	16	(5)
Total	**(429)**	**604**

5.4 - Operating segments

The identified operating segments, which are in line with the Group's new strategic guidelines reflected in the Strategic Plan for the period 2018-2022 and the organisational changes, are as follows:

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

In addition to managing the mail and parcel service, the Mail, Parcels and Distribution segment also includes the activities of the distribution network and the activities of Poste Italiane SpA corporate functions that provide services to BancoPosta RFC and the other segments in which the Group operates. In this regard, separate General Operating Guidelines have been approved by Poste Italiane SpA's Board of Directors which, in implementation of BancoPosta Regulations for ring-fenced capital, identify the services provided by Poste Italiane SpA functions to BancoPosta and determines the manner in which they are remunerated.

The Payments, Mobile and Digital segment includes the activities of PostePay SpA and the mobile telecommunications services.

The Financial Services segment includes the activities of BancoPosta RFC, BancoPosta Fondi SpA SGR and Poste Tributi ScpA (in liquidation).

The Insurance Services segment includes the activities carried out by the Poste Vita Group.

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

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

FY 2019 (€m)	Mail, Parcels and Distribution	Payments, Mobile and Digital	Financial Services	Insurance Services	Adjustments and eliminations	Total
Net external revenue from ordinary activities	3,492	664	5,213	1,669	-	11,038
Net intersegment revenue from ordinary activities	4,723	375	713	1	(5,812)	-
Net operating revenue	**8,215**	**1,039**	**5,926**	**1,670**	**(5,812)**	**11,038**
Depreciation, amortisation and impairments	(724)	(27)	-	(24)	1	(774)
Non-cash expenses	(77)	(4)	(46)	(7)	-	(134)
Total non-cash expenses	**(801)**	**(31)**	**(46)**	**(31)**	**1**	**(908)**
Operating profit/(loss)	**(347)**	**241**	**874**	**1,006**	**-**	**1,774**
Finance income/(costs)	(40)	-	(5)	77	-	32
(Impairment loss)/reversal on debt instruments, receivables and other assets	(46)	-	-	-	-	(46)
Profit/(Loss) on investments accounted for using the equity method	-	99	13	-	-	112
Intersegment finance income/(costs)	49	-	(1)	(48)	-	-
Income tax expense	78	(69)	(241)	(298)	-	(530)
Net profit/(loss) for the year	**(306)**	**271**	**640**	**737**	**-**	**1,342**
Assets	**10,704**	**6,437**	**85,279**	**146,263**	**(10,432)**	**238,251**
Non-current assets	7,032	464	60,177	138,477	(2,374)	203,776
Current assets	3,672	5,973	25,102	7,786	(8,058)	34,475
Non-current assets and disposal groups held for sale	-	-	-	-	-	-
Liabilities	**8,336**	**5,958**	**81,292**	**141,811**	**(8,844)**	**228,553**
Non-current liabilities	3,135	298	14,869	140,967	(996)	158,273
Current liabilities	5,201	5,660	66,423	844	(7,848)	70,280
Liabilities related to assets held for sale	-	-	-	-	-	-
Other information						
Capital expenditure	685	25	1	23	-	734
Investments accounted for using the equity method	3	393	221	-	-	617
External revenue from contracts with customers	**3,439**	**663**	**3,033**	**9**	**-**	**7,144**
Recognition at a point in time	509	286	412	-	-	1,207
Recognition over time	2,930	377	2,621	9	-	5,937

FY 2018 (€m)	Mail, Parcels and Distribution	Payments, Mobile and Digital	Financial Services	Insurance Services	Adjustments and eliminations	Total
Net external revenue from ordinary activities	3,579	628	5,186	1,471	-	10,864
Net intersegment revenue from ordinary activities	4,632	338	909	1	(5,880)	-
Net operating revenue	**8,211**	**966**	**6,095**	**1,472**	**(5,880)**	**10,864**
Depreciation, amortisation and impairments	(528)	(25)	-	(17)	-	(570)
Non-cash expenses	9	(10)	(121)	-	-	(122)
Total non-cash expenses	**(519)**	**(35)**	**(121)**	**(17)**	**-**	**(692)**
Operating profit/(loss)	**(430)**	**204**	**859**	**866**	**-**	**1,499**
Finance income/(costs)	(26)	-	(2)	64	-	36
(Impairment loss)/reversal on debt instruments, receivables and other assets	20	-	-	-	-	20
Profit/(Loss) on investments accounted for using the equity method	-	5	(29)	-	-	(24)
Intersegment finance income/(costs)	15	-	(2)	(13)	-	-
Income tax expense	89	(56)	(209)	84	-	(92)
Net profit/(loss) for the year	**(372)**	**153**	**617**	**1.001**	**-**	**1,399**
Assets	**9,302**	**5,075**	**72,738**	**131,280**	**(9,513)**	**208,882**
Non-current assets	5,726	350	53,495	121,658	(2,357)	178,872
Current assets	3,576	4,725	19,243	9,622	(7,155)	30,011
Non-current assets and disposal groups held for sale	-	-	-	-	-	-
Liabilities	**6,721**	**4,831**	**69,827**	**127,323**	**(7,924)**	**200,778**
Non-current liabilities	1,592	282	9,685	125,739	(773)	136,525
Current liabilities	5,129	4,549	60,142	1,584	(7,151)	64,253
Liabilities related to assets held for sale	-	-	-	-	-	-
Other information						
Capital expenditure	487	27	-	25	-	539
Investments accounted for using the equity method	3	281	214	-	-	498
External revenue from contracts with customers	**3,504**	**320**	**3,388**	**10**	**-**	**7,222**
Recognition at a point in time	605	87	513	-	-	1,205
Recognition over time	2,899	233	2,875	10	-	6,016

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 2019, all the entities consolidated on a line-by-line basis are based in Italy and customers are mainly located in Italy: revenue from foreign customers 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.

5.5 Related party transactions

Impact of related party transactions on statement of financial position and profit and 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 2019

Name	Balance at 31/12/2019						
	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	1	-
Associates							
Anima Holding Group	-	-	-	-	-	7	-
Related parties external to the Group							
MEF	7,066	191	3	495	4,546	9	8
Cassa Depositi e Prestiti Group	4,508	453	-	-	-	1	-
Enel Group	-	25	-	-	-	4	-
Eni Group	-	8	-	-	-	10	-
Equitalia Group	-	-	-	-	-	-	-
Leonardo Group	-	1	-	-	-	47	-
Montepaschi Group	143	9	-	-	400	-	-
Other related parties external to the Group	49	16	-	-	5	18	66
Provision for doubtful debts owing from external related parties	(24)	(39)	-	-	-	-	-
Total	**11,742**	**664**	**3**	**495**	**4,952**	**98**	**74**

At 31 December 2019, 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 amounted to €70 million (€71 million at 31 December 2018).

Impact of related party transactions on the financial position at 31 December 2018

Name	Balance at 31/12/2018						
	Financial assets	Trade receivables	Other assets Other receivables	Cash and cash equivalents	Financial liabilities	Trade payables	Other liabilities
Subsidiaries							
Address Software Srl	-	-	-	-	-	1	-
Kipoint SpA	-	-	-	-	-	1	-
Risparmio Holding SpA	-	-	-	-	-	-	1
Joint ventures							
FSIA Group	-	4	-	-	-	20	-
Associates							
Anima Holding Group	-	-	-	-	-	4	-
Related parties external to the Group							
MEF	5,930	199	9	1,306	3,653	44	8
Cassa Depositi e Prestiti Group	5,087	441	-	-	-	1	-
Enel Group	-	27	-	-	-	4	-
Eni Group	-	5	-	-	-	11	-
Equitalia Group	-	-	-	-	-	-	-
Leonardo Group	-	-	-	-	-	42	-
Montepaschi Group	44	4	-	-	337	-	-
Other related parties external to the Group	69	20	-	-	-	22	66
Provision for doubtful debts owing from external related parties	(25)	(39)	(1)	-	-	-	-
Total	**11,105**	**661**	**8**	**1,306**	**3,990**	**150**	**75**

Impact of related party transactions on profit or loss in FY 2019

Name	Balance at 31/12/2019												
	Revenue					Costs							
						Capital expenditure		Current expenditure					
	Revenue from sales and services	Revenue from Payments, Mobile & Digital	Revenue from Financial Services	Revenue from Insurance Services after movements in technical provisions and other claims expenses	Finance income	Property, plant and equipment	Intangible assets	Cost of goods and services	Personnel expenses	Other operating costs	Expenses from financial activities	Impairment loss/(reversal) on debt instruments, receivables and other assets	Finance costs
Subsidiaries													
Kipoint SpA	-	-	-	-	-	-	-	2	-	-	-	-	-
Associates													
Anima Holding Group	3	-	-	-	-	-	-	25	-	-	-	-	-
FSIA Srl	-	-	-	-	-	-	-	4	-	-	-	-	-
Related parties external to the Group													
MEF	349	58	124	-	-	-	-	-	-	1	5	-	1
Cassa Depositi e Prestiti Group	3	-	1,873	16	-	-	-	6	-	-	-	1	1
Enel Group	59	1	-	-	-	-	-	31	-	-	-	-	-
Eni Group	19	-	-	-	-	-	-	35	-	-	-	-	-
Equitalia Group	-	-	-	-	-	-	-	-	-	-	-	-	-
Leonardo Group	-	-	-	-	-	-	3	21	-	-	-	-	-
Montepaschi Group	22	-	1	-	-	-	-	-	-	-	-	-	-
Other related parties external to the Group	43	-	-	-	-	-	-	44	50	1	-	-	-
Total	**498**	**59**	**1.998**	**16**	**-**	**-**	**3**	**169**	**50**	**2**	**5**	**1**	**2**

At 31 December 2019, 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 amounted to €1 million (€2 million at 31 December 2018).

Impact of related party transactions on profit or loss in FY 2018

	Balance at 31/12/2018													
	Revenue					Costs								
						Capital expenditure		Current expenditure						
Name	Revenue from sales and services	Revenue from Payments, Mobile & Digital	Revenue from Financial Services	Revenue from Insurance Services after movements in technical provisions and other claims expenses	Finance income	Property, plant and equipment	Intangible assets	Cost of goods and services	Cost of goods and services	Other operating costs	Expenses from financial activities	Impairment loss/(reversal) on debt instruments, receivables and other assets	Finance costs	Impairment loss/ (reversal) on financial instruments
Subsidiaries														
Address Software Srl	-	-	-	-	-	-	-	1	-	-	-	-	-	-
Kipoint SpA	-	-	-	-	-	-	-	2	-	-	-	-	-	-
Joint ventures														
FSIA Group	-	-	-	-	-	-	3	37	-	-	-	-	-	-
Associates														
Anima Holding Group	2	-	120	-	-	-	-	10	-	-	-	-	-	-
Related parties external to the Group														
MEF	359	40	125	-	-	-	-	3	-	5	3	(4)	-	-
Cassa Depositi e Prestiti Group	2	-	1,890	16	-	-	-	6	-	-	-	1	-	-
Enel Group	56	6	2	-	-	-	-	30	-	-	-	-	-	-
Eni Group	18	2	1	-	-	-	-	33	-	-	-	-	-	-
Equitalia Group	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Leonardo Group	-	-	-	-	-	-	12	31	-	-	-	-	-	-
Montepaschi Group	23	-	1	-	-	-	-	-	-	-	-	-	-	-
Other related parties external to the Group	30	-	-	-	-	-	-	53	43	1	-	-	-	20
Total	**490**	**48**	**2,139**	**16**	**-**	**-**	**15**	**206**	**43**	**6**	**3**	**(3)**	**-**	**20**

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

- Amounts received from the MEF relate primarily to payment for carrying out the USO, the management of postal current accounts, as payment for delegated services, the franking of mail on credit, and for the integrated notification service.
- Amounts received from CDP SpA primarily relate to payment for the collection of postal savings deposits.
- Amounts received from the Enel Group primarily relate to payment for bulk mail shipments, unfranked mail, franking of mail on credit and postage paid mailing services. The costs incurred primarily relate to the supply of gas and electricity.
- Amounts received from the ENI Group primarily regard payment for mail shipments. The costs incurred relate to the supply of gas and of fuel for motorcycles and vehicles.
- Purchases from the Leonardo Group primarily relate to the supply, by Leonardo SpA, of equipment, maintenance and technical assistance for mechanised sorting equipment, and systems and IT assistance regarding the creation of document storage facilities, specialist consulting services and software maintenance, and the supply of software licences and of hardware.
- Amounts received from the Monte dei Paschi di Siena group primarily regard payment for mail shipments.

Impact of related party transactions and positions

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

Impact of related party transactions

Description (€m)	Total in financial statements	Total related parties	Impact (%)	Total in financial statements	Total related parties	Impact (%)
	Balance at 31/12/2019			Balance at 31/12/2018		
Financial position						
Financial assets	218,934	11,742	5.4	190,864	11,105	5.8
Trade receivables	2,171	664	30.6	2,199	661	30.1
Other receivables and assets	4,667	3	0.1	4,580	8	0.2
Cash and cash equivalents	2,149	495	23.0	3,195	1,306	40.9
Provisions for risks and charges	1,218	70	5.7	1,519	70	4.6
Financial liabilities	79,516	4,952	6.2	66,929	3,990	6.0
Trade payables	1,627	98	6.0	1,583	150	9.5
Other liabilities	3,635	74	2.0	3,698	75	2.0
Liabilities related to assets held for sale	-		n.a.			n.a.
	Balance at 31/12/2019			Balance at 31/12/2018		
Profit or loss						
Revenue from Mail, Parcels & other	3,492	498	14.3	3,579	249	7.0
Revenue from Payments, Mobile & Digital	664	59	8.9	628	30	4.8
Revenue from Financial Services	5,213	1,998	38.3	5,186	979	18.9
Revenue from Insurance Services after movements in technical provisions and other claims expenses	1,669	16	1.0	1,471	8	0.5
Cost of goods and services	2,287	169	7.4	2,343	206	8.8
Expenses from financial activities	79	5	6.3	46	3	6.5
Personnel expenses	5,896	50	0.8	6,137	43	0.7
Other operating costs	200	3	1.5	239	6	2.5
Finance costs	73	2	2.7	40	-	n.a.
Finance income	105	-	n.a.	54	-	n.a.
Cash flow						
Net cash flow from /(for) operating activities	1,120	248	n.a.	2,597	(1,484)	n.a.
Net cash flow from /(for) investing activities	(732)	3	n.a.	(281)	254	n.a.
Net cash flow from/(for) financing activities and shareholder transactions	(1,434)	(492)	34.3	(1,549)	(405)	26.1

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

Description (€000)	Balance at 31/12/2019	Balance at 31/12/2018
Remuneration to be paid in short/medium term	12,505	13,127
Post-employment benefits	510	532
Other benefits to be paid in longer term	1,855	1,223
Termination benefits	1,704	2,075
Share-based payments	4,906	2,840
Total	**21,480**	**19,797**

Remuneration of Statutory Auditors

Name (€000)	Balance at 31/12/2019	Balance at 31/12/2018
Remuneration	1,235	1,268
Expenses	45	52
Total	**1,280**	**1,320**

The remuneration paid to members of the Parent Company's Supervisory Board for 2019 amounts to approximately €84 thousand at 31 December 2019. 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 period and, at 31 December 2019, Group companies do not report receivables in respect of loans granted to key management personnel.

Transactions with staff pensions funds

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

06

POSTE ITALIANE SPA
FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2019

6. Poste Italiane SpA Financial statements for the year ended 31 December 2019

6.1 Financial statements

Statement of financial position

Assets (figures in €)	Note	31 December 2019"	*of which, related party transactions*	31 December 2018"	*of which, related party transactions*
Non-current assets					
Property, plant and equipment	[A1]	1,886,540,623	-	1,835,085,847	-
Investment property	[A2]	44,128,398	-	47,574,867	-
Intangible assets	[A3]	561,731,422	-	448,088,183	-
Right-of-use assets	[A4]	1,119,172,897	-	-	-
Investments	[A5]	2,204,509,011	2,204,509,011	2,197,594,888	2,197,594,888
Financial assets attributable to BancoPosta	[A6]	58,251,783,573	3,934,272,101	51,543,254,591	4,526,820,159
Financial assets	[A7]	740,256,035	299,846,801	814,445,003	278,590,031
Trade receivables	[A8]	5,342,396	-	5,636,510	-
Deferred tax assets	[C12]	674,374,767	-	862,844,852	-
Other receivables and assets	[A9]	1,434,680,477	1,465,574	1,288,241,050	1,465,574
Total		**66,922,519,599**		**59,042,765,791**	
Current assets					
Trade receivables	[A8]	2,385,157,946	1,138,628,308	2,255,638,007	1,048,869,525
Current tax assets	[C12]	45,551,784	-	88,209,983	-
Other receivables and assets	[A9]	1,020,012,494	259,081,401	865,889,249	31,862,570
Financial assets attributable to BancoPosta	[A6]	18,143,931,029	7,269,242,445	12,319,498,283	6,157,734,608
Financial assets	[A7]	201,153,077	66,578,886	168,104,149	130,884,144
Cash and deposits attributable to BancoPosta	[A10]	4,302,784,484	-	3,318,398,871	-
Cash and cash equivalents	[A11]	1,206,344,232	494,646,677	2,127,300,260	1,306,085,900
Total		**27,304,935,046**		**21,143,038,802**	
Non-current assets held for sale		**-**	**-**	**1,100**	**-**
Total assets		**94,227,454,645**		**80,185,805,693**	

Liabilities and equity (figures in €)	Note	31 December 2019	*of which, related party transactions*	31 December 2018	*of which, related party transactions*
Equity					
Share capital	[B1]	1,306,110,000	-	1,306,110,000	-
Treasury shares		(39,999,994)	-	-	-
Reserves	[B2]	2,617,378,839	-	1,545,714,349	-
Retained earnings / (Accumulated losses)		2,444,407,492	-	2,606,922,919	-
Total		**6,327,896,337**		**5,458,747,268**	
Non-current liabilities					
Provisions for risks and charges	[B4]	433,333,017	58,175,681	607,844,228	58,301,383
Employee termination benefits	[B5]	1,107,576,437	-	1,158,106,279	-
Financial liabilities attributable to BancoPosta	[B6]	12,262,575,528	123,088,330	7,375,813,984	20,101,464
Financial liabilities	[B7]	1,600,683,086	46,662,705	77,034,598	-
Deferred tax liabilities	[C12]	665,691,092		376,216,879	-
Other liabilities	[B9]	1,505,000,678	5,070,470	1,342,776,666	6,035,435
Total		**17,574,859,838**		**10,937,792,634**	
Current liabilities					
Provisions for risks and charges	[B4]	697,112,713	12,316,411	823,220,052	12,399,743
Trade payables	[B8]	1,598,377,722	497,270,191	1,488,112,389	387,167,971
Current tax liabilities	[C12]	199,316,209		5,548,039	-
Other liabilities	[B9]	1,455,449,570	109,149,934	1,771,013,379	276,231,265
Financial liabilities attributable to BancoPosta	[B6]	65,674,172,546	10,394,940,206	59,382,968,337	8,903,501,544
Financial liabilities	[B7]	700,269,710	509,569,892	318,403,595	112,130,122
Total		**70,324,698,470**		**63,789,265,791**	
Total equity and liabilities		**94,227,454,645**		**80,185,805,693**	

Statement of financial position (continued)

Supplementary statement showing BancoPosta RCF at 31 December 2019

Assets (figures in €)	Note	Capital outside the ring-fence	BancoPosta RFC	Adjustments	Total
Non-current assets					
Property, plant and equipment		1,886,540,623	-	-	1,886,540,623
Investment property		44,128,398	-	-	44,128,398
Intangible assets		561,731,422	-	-	561,731,422
Right-of-use assets		1,119,172,897			1,119,172,897
Investments		2,204,509,011	-	-	2,204,509,011
Financial assets attributable to BancoPosta	[A6]	-	58,251,783,573	-	58,251,783,573
Financial assets		740,256,035	-	-	740,256,035
Trade receivables		5,342,396	-	-	5,342,396
Deferred tax assets	[C12]	362,423,461	311,951,306	-	674,374,767
Other receivables and assets	[A9]	77,638,926	1,357,041,551	-	1,434,680,477
Total		**7,001,743,169**	**59,920,776,430**	**-**	**66,922,519,599**
Current assets					
Trade receivables	[A8]	1,525,303,201	859,854,745	-	2,385,157,946
Current tax assets		45,551,784	-	-	45,551,784
Other receivables and assets	[A9]	476,398,448	543,614,046	-	1,020,012,494
Financial assets attributable to BancoPosta	[A6]	-	18,143,931,029	-	18,143,931,029
Financial assets		201,153,077	-	-	201,153,077
Cash and deposits attributable to BancoPosta	[A10]	-	4,302,784,484	-	4,302,784,484
Cash and cash equivalents	[A11]	697,199,330	509,144,902	-	1,206,344,232
Total		**2,945,605,840**	**24,359,329,206**	**-**	**27,304,935,046**
Non-current assets held for sale		**-**	**-**	**-**	**-**
Intersegment relations net amount		**(234,020,934)**	**-**	**234,020,934**	**-**
Total assets		**9,713,328,075**	**84,280,105,636**	**234,020,934**	**94,227,454,645**

Liabilities and equity (figures in €)	Note	Capital outside the ring-fence	BancoPosta RFC	Adjustments	Total
Equity					
Share capital		1,306,110,000	-	-	1,306,110,000
Treasury shares		(39,999,994)	-	-	(39,999,994)
Reserves	[B2]	322,329,576	2,295,049,263	-	2,617,378,839
Retained earnings / (Accumulated losses)		778,509,508	1,665,897,984	-	2,444,407,492
Total		**2,366,949,090**	**3,960,947,247**	**-**	**6,327,896,337**
Non-current liabilities					
Provisions for risks and charges	[B4]	169,715,903	263,617,114	-	433,333,017
Employee termination benefits	[B5]	1,104,752,137	2,824,300	-	1,107,576,437
Financial liabilities attributable to BancoPosta	[B6]	-	12,262,575,528	-	12,262,575,528
Financial liabilities		1,600,683,086	-	-	1,600,683,086
Deferred tax liabilities	[C12]	4,080,022	661,611,070	-	665,691,092
Other liabilities	[B9]	71,365,270	1,433,635,408	-	1,505,000,678
Total		**2,950,596,418**	**14,624,263,420**	**-**	**17,574,859,838**
Current liabilities					
Provisions for risks and charges	[B4]	633,471,000	63,641,713	-	697,112,713
Trade payables	[B8]	1,469,601,116	128,776,606	-	1,598,377,722
Current tax liabilities		199,316,209	-	-	199,316,209
Other liabilities	[B9]	1,393,124,532	62,325,038	-	1,455,449,570
Financial liabilities attributable to BancoPosta	[B6]	-	65,674,172,546	-	65,674,172,546
Financial liabilities		700,269,710	-	-	700,269,710
Total		**4,395,782,567**	**65,928,915,903**	**-**	**70,324,698,470**
Intersegment relations net amount		**-**	**(234,020,934)**	**234,020,934**	**-**
Total equity and liabilities		**9,713,328,075**	**84,280,105,636**	**234,020,934**	**94,227,454,645**

Statement of financial position (continued)

Supplementary statement showing BancoPosta RCF at 31 December 2018

Assets (figures in €)	Note	Capital outside the ring-fence	BancoPosta RFC	Adjustments	Total
Non-current assets					
Property, plant and equipment		1,835,085,847	-	-	1,835,085,847
Investment property		47,574,867	-	-	47,574,867
Intangible assets		448,088,183	-	-	448,088,183
Investments		2,197,594,888	-	-	2,197,594,888
Financial assets attributable to BancoPosta	[A5]	-	51,543,254,591	-	51,543,254,591
Financial assets		814,445,003	-	-	814,445,003
Trade receivables		5,636,510	-	-	5,636,510
Deferred tax assets	[C12]	355,920,150	506,924,702	-	862,844,852
Other receivables and assets	[A8]	89,767,184	1,198,473,866	-	1,288,241,050
Total		**5,794,112,632**	**53,248,653,159**	**-**	**59,042,765,791**
Current assets					
Trade receivables	[A7]	1,364,913,372	890,724,635	-	2,255,638,007
Current tax assets		88,209,983	-	-	88,209,983
Other receivables and assets	[A8]	322,000,531	543,888,718	-	865,889,249
Financial assets attributable to BancoPosta	[A5]	-	12,319,498,283	-	12,319,498,283
Financial assets		168,104,149	-	-	168,104,149
Cash and deposits attributable to BancoPosta	[A9]	-	3,318,398,871	-	3,318,398,871
Cash and cash equivalents	[A10]	809,105,752	1,318,194,508	-	2,127,300,260
Total		**2,752,333,787**	**18,390,705,015**	**-**	**21,143,038,802**
Non-current assets held for sale		**1,100**	**-**	**-**	**1,100**
Intersegment relations net amount		**(356,676,897)**	**-**	**356,676,897**	**-**
Total assets		**8,189,770,622**	**71,639,358,174**	**356,676,897**	**80,185,805,693**

Liabilities and equity (figures in €)	Note	Capital outside the ring-fence	BancoPosta RFC	Adjustments	Total
Equity					
Share capital		1,306,110,000	-	-	1,306,110,000
Reserves	[B2]	318,855,702	1,226,858,647	-	1,545,714,349
Retained earnings / (Accumulated losses)		955,113,892	1,651,809,027	-	2,606,922,919
Total		**2,580,079,594**	**2,878,667,674**	**-**	**5,458,747,268**
Non-current liabilities					
Provisions for risks and charges	[B4]	190,877,886	416,966,342	-	607,844,228
Employee termination benefits	[B5]	1,154,793,669	3,312,610	-	1,158,106,279
Financial liabilities attributable to BancoPosta	[B6]	-	7,375,813,984	-	7,375,813,984
Financial liabilities		77,034,598	-	-	77,034,598
Deferred tax liabilities	[C12]	4,165,110	372,051,769	-	376,216,879
Other liabilities	[B9]	68,114,916	1,274,661,750	-	1,342,776,666
Total		**1,494,986,179**	**9,442,806,455**	**-**	**10,937,792,634**
Current liabilities					
Provisions for risks and charges	[B4]	728,930,480	94,289,572	-	823,220,052
Trade payables	[B8]	1,329,467,833	158,644,556	-	1,488,112,389
Current tax liabilities		5,548,039	-	-	5,548,039
Other liabilities	[B9]	1,732,354,902	38,658,477	-	1,771,013,379
Financial liabilities attributable to BancoPosta	[B6]	-	59,382,968,337	-	59,382,968,337
Financial liabilities		318,403,595	-	-	318,403,595
Total		**4,114,704,849**	**59,674,560,942**	**-**	**63,789,265,791**
Intersegment relations net amount		**-**	**(356,676,897)**	**356,676,897**	**-**
Total equity and liabilities		**8,189,770,622**	**71,639,358,174**	**356,676,897**	**80,185,805,693**

Statement of profit or loss

(figures in €)	Note	FY 2019	of which, related party transactions	FY 2018	*of which, related party transactions*
Revenue from sales and services	[C1]	8,540,946,485	3,523,917,698	8,418,637,346	3,221,472,952
Other income from financial activities	[C2]	383,707,355	-	418,410,968	-
Other operating income	[C3]	478,311,303	358,299,023	452,027,254	394,007,364
of which, non-recurring income			-	116,400,000	-
Total revenue		**9,402,965,143**		**9,289,075,568**	
Cost of goods and services	[C4]	1,854,255,032	921,806,625	1,725,383,442	584,671,424
Expenses from financial activities	[C5]	99,906,997	26,550,722	50,289,658	7,168,015
Personnel expenses	[C6]	5,702,348,094	57,722,241	5,946,572,100	47,829,321
Depreciation, amortisation and impairments	[C7]	674,243,350	-	473,835,028	-
Capitalised costs and expenses		(20,982,783)	-	(12,479,459)	-
Other operating costs	[C8]	195,995,317	6,351,404	305,942,657	6,150,031
Impairment loss/(reversal) on debt instruments, receivables and other assets	[C9]	40,830,116	749,805	21,563,259	(3,211,838)
Operating profit/(loss)		**856,369,020**		**777,968,883**	
Finance costs	[C10]	58,769,029	2,775,255	69,963,475	356,260
Finance income	[C10]	70,444,039	54,180,877	44,290,759	29,389,665
Impairment loss/(reversal) on financial instruments	[C11]	45,457,823	32,571	19,878,102	19,885,407
of which, non-recurring costs		45,443,654		-	
Profit/(Loss) before tax		**822,586,207**		**732,418,065**	
Income tax expense	[C12]	162,054,754	-	148,651,799	-
Profit for the year		**660,531,453**		**583,766,266**	

Statement of comprehensive income

(figures in €)	Note	FY 2019	FY 2018
Net profit/(loss) for the year		**660.531.453**	**583.766.266**
Items to be reclassified in the Statement of profit or loss for the year			
FVOCI debt instruments			
Increases/(decreases) in fair value during the year	[tab. B3]	1,703,465,640	(1,897,523,762)
Transfers to profit or loss		(242,941,853)	(384,662,933)
Increase/(Decrease) for expected credit loss		(1,692,638)	(769,501)
Cash flow hedges			
Increases/(decreases) in fair value during the year	[tab. B3]	95,566,193	191,444,411
Transfers to profit or loss		(58,881,475)	19,285,494
Taxation of items recognised directly in, or transferred from, equity to be reclassified in the Statement of profit or loss for the year		(426,498,199)	591,321,895
Items not to be reclassified in the Statement of profit or loss for the year			
FVOCI equity instruments			
Increases/(decreases) in fair value during the year		1,203,368	-
Transfers to equity		(112,089)	105,354
Actuarial gains/(losses) on provisions for employee termination benefits	[tab. B5]	(68,414,816)	16,402,715
Taxation of items recognised directly in, or transferred from, equity not to be reclassified in the Statement of profit or loss for the year		19,202,952	(4,674,568)
Total other comprehensive income		**1,020,897,083**	**(1,469,070,895)**
Total comprehensive income for the year		**1,681,428,536**	**(885,304,629)**

Statement of changes in equity

	Equity									
	Share capital	Treasury shares	Riserve						Retained earnings / (Accumulated losses)	Total
(figures in €)			Legal reserve	BancoPosta RFC reserve	Fair value reserve	Cash flow hedge reserve	Incentive plans reserve	Merger surplus reserve		
Balance at 1 January 2018	**1,306,110,000**	**-**	**299,234,320**	**1,000,000,000**	**1,563,748,577**	**(61,271,616)**	**-**	**2,284,401**	**2,769,889,352**	**6,879,995,034**
Total comprehensive income for the year	-	-	-	-	(1,631,547,110)	150,642,714	-	-	595,599,767	(885,304,629)
Dividends paid	-	-	-	-	-	-	-	-	(548,566,200)	(548,566,200)
Merger contribution	-	-	-	-	-	-	-	12,623,063	-	12,623,063
Injection of fresh capital into BancoPosta RFC	-	-	-	210,000,000	-	-	-	-	(210,000,000)	-
Balance at 31 December 2018	**1,306,110,000**	**-**	**299,234,320**	**1,210,000,000**	**(67,798,533)**	**89,371,098**	**-**	**14,907,464**	**2,606,922,919**	**5,458,747,268**
of which attributable to BancoPosta RFC	-	-	-	1,210,000,000	(71,408,519)	88,267,166	-	-	1,651,809,027	2,878,667,674
Total comprehensive income for the year	-	-	-	-	1,043,734,128	26,198,100	-	-	611,496,308*	1,681,428,536
2018 dividends paid	-	-	-	-	-	-	-	-	(573,675,747)	(573,675,747)
Interim dividend on FY 2019 profits	-	-	-	-	-	-	-	-	(200,331,213)	(200,331,213)
Purchase of treasury shares	-	(39,999,994)	-	-	-	-	-	-	(4,775)	(40,004,769)
Incentive plans	-	-	-	-	-	-	1,732,262	-	-	1,732,262
Balance at 31 December 2019	**1,306,110,000**	**(39,999,994)**	**299,234,320**	**1,210,000,000**	**975,935,595**	**115,569,198**	**1,732,262**	**14,907,464**	**2,444,407,492**	**6,327,896,337**
of which attributable to BancoPosta RFC	-	-	-	1,210,000,000	969,900,776	115,060,097	88,390	-	1,665,897,984	3,960,947,247

* This item includes profit for the period of €661 million and actuarial losses on provisions for employee termination benefits of €68 million, after the related current and deferred taxation.

Consolidated statement of cash flows

(€000)	Note	FY 2019	FY 2018
Cash and cash equivalents at beginning of year		**2,127,300**	**2,038,504**
First-time adoption IFRS 9		-	(7)
Cash and cash equivalents at beginning of year		**2,127,300**	**2,038,497**
Profit/(Loss) before tax		822,586	732,418
Depreciation, amortisation and impairments	[tab. C7]	674,242	473,835
Impairments/(Reversals of impairments) of investments	[tab. A5.1]	32,435	121,156
Net provisions for risks and charges	[tab. B4]	379,449	563,971
Use of provisions for risks and charges	[tab. B4]	(680,613)	(669,368)
Employee termination benefits paid	[tab. B5]	(137,496)	(88,652)
(Gains)/losses on disposals	[tab. C8]	(1,260)	(115,563)
Impairment loss/(reversal) on financial instruments		45,456	19,867
(Dividends)		(6,309)	(16,981)
Dividends received		6,309	16,981
(Finance income in form of interest)	[tab. C10.1]	(59,424)	(23,061)
Interest received		66,189	20,466
Interest expense and other finance costs	[tab. C10.2]	55,042	65,732
Interest paid		(12,771)	(59,378)
Losses and impairment losses/(Reversals of impairment losses) on receivables	[tab. C9]	43,843	20,649
Income tax paid	[tab. C12.3]	(226,545)	(268,048)
Other changes		1,698	-
Cash generated by operating activities before movements in working capital	**[a]**	**1,002,831**	**794,024**
Movements in working capital:			
(Increase)/decrease in Trade receivables		(111,819)	(216,303)
(Increase)/decrease in Other receivables and assets		202,440	144,191
Increase/(decrease) in Trade payables		110,266	286,399
Increase/(decrease) in Other liabilities		(310,203)	137,009
Cash flow generated by /(used in) movements in working capital	**[b]**	**(109,316)**	**351,296**
Increase/(decrease) in financial liabilities attributable to BancoPosta		7,439,890	4,722,213
Net cash generated by/(used for) financial assets		(527,361)	(1,771,796)
(Increase)/decrease in other financial assets attributable to BancoPosta		(5,864,049)	(935,205)
(Increase)/decrease in cash and deposits attributable to BancoPosta		(984,385)	(122,308)
(Income)/Expense and other non-cash components from financial activities		(908,131)	(1,063,845)
Cash generated by/(used for) financial assets and liabilities attributable to BancoPosta	**[c]**	**(844,036)**	**829,059**
Net cash flow from /(for) operating activities	**[d]=[a+b+c]**	**49,479**	**1,974,379**
- of which related party transactions		*780,467*	*2,607,150*
Investing activities:			
Property, plant and equipment	[tab. A1]	(339,021)	(215,798)
Investment property	[tab. A2]	(733)	(430)
Intangible assets	[tab. A3]	(303,190)	(242,345)
Investments		(40,817)	(242,344)
Other financial assets		(39,182)	(11,432)

(€000)		Note	FY 2019	FY 2018
Disposals:				
Property, plant and equipment, investment property and assets held for sale			1,771	2,129
Investments			1,437	120,000
Other financial assets			69,463	187,269
Mergers			(86,078)	4,140
Net cash flow from /(for) investing activities	**[e]**		**(736,350)**	**(398,811)**
- of which related party transactions			*(50,441)*	*130,415*
Proceeds from/(Repayments of) long-term borrowings			573,000	-
Increase/(decrease) in short-term borrowings			6,922	(938,200)
Dividends paid		[B1]	(774,007)	(548,565)
Sale/(purchase) of treasury shares			(40,000)	-
Net cash flow from/(for) financing activities and shareholder transactions	**[f]**		**(234,085)**	**(1,486,765)**
- of which related party transactions			*(60,060)*	*(408,638)*
Net increase/(decrease) in cash	**[g]=[d+e+f]**		**(920,956)**	**88,803**
Cash and cash equivalents at end of year		**[tab. A11]**	**1,206,344**	**2,127,300**
Cash and cash equivalents at end of year		**[tab. A11]**	**1,206,344**	**2,127,300**
Cash subject to investment restrictions			(123,810)	(930,168)
Escrow account with the Italian Treasury			-	(71,654)
Amounts that cannot be drawn on due to court rulings			(18,140)	(17,910)
Unrestricted net cash and cash equivalents at end of year			**1,064,394**	**1,107,568**

6.2 Information on BancoPosta RFC

As required by art. 2, paragraphs 17-*octies et seq*. of Law 10 of 26 February 2011, converting Law Decree 225 of 29 December 2010, in order to identify ring-fenced capital for the purposes of applying the Bank of Italy's prudential requirements to BancoPosta's operations and for the protection of creditors, at the General Meeting held on 14 April 2011 Poste Italiane SpA's shareholder approved the creation of ring-fenced capital to be used exclusively in relation to BancoPosta's operations (BancoPosta Ring-fenced Capital or BancoPosta RFC), as governed by Presidential Decree 144 of 14 March 2001, and established the assets and contractual rights to be included in the ring-fence as well as By-laws governing its organisation, management and control. BancoPosta RFC was provided originally with an initial reserve of €1 billion through the attribution of Poste Italiane SpA's retained earnings. The resolution of 14 April 2011 became effective on 2 May 2011, the date on which it was filed with the Companies' Register. Following on from the Board of Directors' resolution of 25 January 2018 and the subsequent Extraordinary General Meeting of Poste Italiane SpA's shareholders, on 27 September 2018, Poste Italiane injected €210 million of fresh capital of into BancoPosta RFC.

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 authorisations

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[78], with the exception of activities linked to card payments and payment services, carried out by the subsidiary, PostePay SpA. More details on this aspect are provided below:

- 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.

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

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

Following the receipt of clearance from the Bank of Italy, the General Meeting of Poste Italiane held on 29 May 2018 approved the proposed removal of the assets, liabilities and contractual rights attributable to the card payments and payment services business unit from the ring-fence that applies to BancoPosta RFC. On 1 October 2018, this business unit was transferred to the subsidiary PostePay SpA, in assets earmarked for monetics and payment services, in order to enable the latter to operate as an Electronic Money Institution (EMI)[79].

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[80]. 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, in accordance with a specific agreement with the MEF regarding treasury services, renewed on 6 May 2019 and covering the two-year period 2019-2020. In addition, under the agreement with the MEF, expired on 31 December 2019 and being renewed, 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)[81] rate.

Cost and revenue allocation and measurement of operations contracted out by BancoPosta RFC

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 RFC of all relevant revenue 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 RFC's separate report after adjusting for deferred taxation.
- Reconciliation of BancoPosta's separate books to Poste Italiane's general ledger.

79. The business unit consists of assets and contractual rights linked to:
Own products: prepaid cards (card payments), payment services, acquiring services, tax payments using forms F23/F24 and international money transfers (Moneygram) forming part of the operations carried out independently by the EMI. In particular, these products are issued by the EMI, which is responsible for their conception, development and management, whilst BancoPosta RFC acts as distributor of the products through the Group's physical distribution network.
Products handled under service agreements: payment products and services and money transfers carried out exclusively within the scope of BancoPosta RFC's operations, as they are "reserved to" the ring-fence by Presidential Decree 144/01. In particular, with the aim of leveraging the infrastructure of the hybrid EMI, BancoPosta has outsourced operations relating to payment products and services issued by BancoPosta, and distributed by BancoPosta through Poste Italiane's physical network, to the EMI under an outsourcing agreement between BancoPosta and the EMI.
80. 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.
81. 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).

Part IV of Chapter 1 of the Supervisory Standards in Bank of Italy Circular 285/2013, addressing specific aspects relating to Poste Italiane in respect of BancoPosta RFC's operations, govern the process of contracting out BancoPosta's corporate functions to Poste Italiane, whilst the outsourcing of operations to entities external to Poste Italiane is covered by the regulations applicable to banks.

In compliance with the Circular, the Regulation governing BancoPosta RFC's contracting out and outsourcing process approved by the Board of Directors[82] these services are in turn classified as essential and non-essential control and operating functions.

BancoPosta RFC may therefore both outsource operating activities, entering into agreements with third parties, and contract out certain operating or control activities to Poste Italiane functions, agreeing "Specific Operating Guidelines" with the heads of the various functions. The Operating Guidelines establish, among other things, the applicable levels of service and transfer prices and are effective following an authorisation process involving the relevant functions, the Chief Executive Officer and, where required, the Company's Board of Directors. 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. 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 such a case, an adequate mark-up, defined on the basis of appropriate analyses of comparable subjects, shall be applied. The prices set in each Operating Guidelines can be reduced in the presence of operating losses of the activities outsourced or in case of penalties due to the failure to achieve pre-established service levels, as measured by specific performance indicators. The Disciplines, in force until 31 December 2020, are reviewed every two years.

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

Function	Allocation key
Post Office Network	Percentage of net income generated by product/service category
Information Technology	Fixed component: recharge of costs based on direct and indirect drivers Variable component: determined with reference to the maintenance of operating performance
Back-office and Customer Care	Fees by professional role based on market benchmarks + recharge of external costs Market prices for similar services
Postal and logistics services	Prices for mail sent to customers and internal mail
Real Estate	Market prices with reference to floor space and maintenance costs
Legal Affairs	Fees by professional role based on market benchmarks + recharge of external costs
Group Risk Governance and Security and Safety	
Human Resources, Organisation	
External Relations	
Chief Financial Office	Fees by professional role based on market benchmarks
Purchases	
Internal Auditing	
Anti-Money Laundering	
Compliance	

Important Operational Functions   Control Functions

The relevant transactions, profit and loss and statement of financial position 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.

82. The Regulation was revised on 31 January 2019.

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, and subsequently amended on 31 January 2019, provides that, where necessary, 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[83].

(€m)

Item in supplementary statement / Separate Report item		110 Valuation reserves	140 Reserves	180 Profit for the year
Reserves	2,295	1,085	1,210	-
BancoPosta RFC reserve	1,210	-	1,210	-
Fair value reserve	970	970	-	-
Cash flow hedge reserve	115	115	-	-
Retained earnings / (Accumulated losses)	1,666	(2)	1,057	611
Profit	1,668	-	1,057	611
Cumulative actuarial gains/(losses) on defined benefit plans	(2)	(2)	-	-
Total	**3,961**	**1,083**	**2,267**	**611**

Exclusively for the purposes of the presentation of the Separate Report, the transactions between BancoPosta RFC and the Company's functions not included therein are reported. In this document they are accurately and completely represented, together with the positive and negative income components that generated them.

83. 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 110 of Liabilities).

Further regulatory aspects

Pursuant to art. 2, paragraph 17-*undecies* of Law Decree 225[84] of 29 December 2010, 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 portion of BancoPosta RFC, as shown in the related statement, taking account of its specific rules and, in particular, the need to comply with prudential supervisory capital requirements (...)".

84. Converted into Law 10 of 26 February 2011.

6.3 Notes to the statement of financial position

Assets

A1 – Property, plant and equipment (€1,887 million)

Movements in property, plant and equipment are as follows:

tab. A1 - Movements in property, plant and equipment

(€m)	Land	Properties used in operations	Plant and machinery	Industrial and commercial equipment	Leasehold improvements	Other assets	Assets under construction and advances	Total
Cost	75	2,852	1,997	317	510	1,722	34	7,507
Accumulated depreciation	-	(1,756)	(1,677)	(290)	(311)	(1,567)	-	(5,601)
Impairment losses	-	(59)	(1)	(1)	(11)	-	-	(72)
Balance at 1 January 2019	**75**	**1,037**	**319**	**26**	**188**	**155**	**34**	**1,834**
Changes during the year								
Additions	-	43	105	18	51	61	61	339
Extraordinary transactions	-	-	-	-	-	4	-	4
Reclassifications	-	7	7	1	6	4	(25)	-
Depreciation	-	(108)	(70)	(9)	(40)	(68)	-	(295)
(Impairments)/Reversal of impairment losses	-	3	-	-	2	-	-	5
Total changes	**-**	**(55)**	**42**	**10**	**19**	**1**	**36**	**53**
Cost	75	2,902	2,081	329	562	1,781	70	7,800
Accumulated depreciation	-	(1,864)	(1,719)	(292)	(346)	(1,625)	-	(5,846)
Impairment losses	-	(56)	(1)	(1)	(9)	-	-	(67)
Balance at 31 December 2019	**75**	**982**	**361**	**36**	**207**	**156**	**70**	**1,887**

None of the above items is attributable to BancoPosta RFC.

At 31 December 2019, property, plant and equipment includes assets located on land held under concession or sub-concession, which are to be handed over free of charge at the end of the concession term. These assets have a total carrying amount of €40 million.

Capital expenditure of €339 million in 2019 consists largely of:

- €105 million relating to plant, of which €44 million was for plant and equipment related to buildings, €24 million for the purchase of equipment for use in the sorting of letters and processing of parcels, €22 million for the purchase of telecommunications infrastructure and €11 million for the installation of ATMs (Automated Teller Machines);
- €61 million relating to Other assets, including €49 million for the purchase of new computer hardware for Post Offices and head offices and the consolidation of storage systems;
- €51 million invested in the upgrade of plant (€28 million) and the structure (€23 million) of properties held under lease;
- €43 million relating to extraordinary maintenance of Post Offices and local head offices around the country (€26 million) and mail sorting offices (€14 million).

Investments in progress amount to €61 million, including €25 million for restyling work on the Post Offices, €14 million for the purchase of hardware and other technological equipment not yet included in the production process and €13 million for renovation work on the CPD (Primary Distribution Centres).

Reclassifications from property, plant and equipment under construction amounted to €25 million and refer mainly to the purchase cost of assets that became available and ready for use during the year; in particular, they refer to the completion of restyling work on leased and owned buildings and the activation of hardware stored in warehouse.

A2 – Investment property (€44 million)

Investment property primarily regards former service accommodation owned by Poste Italiane SpA pursuant to Law 560 of 24 December 1993, and residential accommodation previously used by Post Office directors. None of the above items is attributable to BancoPosta RFC.

tab. A2 - Movements in investment property

(€m)	FY 2019
Cost	139
Accumulated depreciation	(91)
Impairment losses	-
Balance at 1 January	**48**
Changes during the year	
Additions	1
Depreciation	(4)
Total changes	**(3)**
Cost	139
Accumulated depreciation	(95)
Balance at 31 December	**44**
Fair value at 31 December	**100**

The fair value of investment property at 31 December 2019 includes €66 million representing the sale price applicable to the Parent Company's former accommodation in accordance with Law 560 of 24 December 1993, while the remaining balance reflects market price estimates computed internally by the Company[85].

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.

85. 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 (€562 million)

The following table shows movements in intangible assets:

tab. A3 - Movements in intangible assets

(€m)	Industrial patents, intellectual property rights, concessions, licences, trademarks and similar rights	Concessions, licences, trademarks and similar rights	Assets under construction and advances	Total
Cost	2,743	2	146	2,891
Accumulated amortisation and impairments	(2,441)	(2)	-	(2,443)
Balance at 1 January 2019	**302**	**-**	**146**	**448**
Changes during the year				
Additions	126	-	177	303
Extraordinary transactions	2	-	-	2
Reclassifications	110	-	(110)	-
Disposals	-	-	(1)	(1)
Depreciation, amortisation and impairments	(191)	-	-	(191)
Total changes	**47**	**-**	**66**	**113**
Cost	3,003	2	212	3,218
Accumulated amortisation and impairments	(2,654)	(2)	-	(2,656)
Balance at 31 December 2019	**349**	**-**	**212**	**562**

None of the above items is attributable to BancoPosta RFC.

Investment in Intangible assets during 2019 amounts to €303 million, including €20 million in internal software development costs and the related expenses, primarily relating to personnel expenses (€16 million). Research and development costs, other than those incurred directly to produce identifiable software used, or intended for use, within the Company, are not capitalised.

The increase in **industrial patents and intellectual property rights**, totalling €126 million, before amortisation for the year, relates 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 regarding the development for software relating to the infrastructure platform (€83 million), for BancoPosta services (€52 million), for use in providing support to the sales network (€35 million), for the postal products platform (€24 million) and for the engineering of reporting processes (€17 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 €110 million, reflecting the completion and commissioning of software and the upgrade of existing software.

A4 – Right-of-use assets (€1,119 million)

Movements in this item during the year are shown in note 3 – *Changes to accounting policies*.

A5 – Investments (€2,205 million)

This item includes the following:

tab. A5 - Investments

Description (€m)	Balance at 31/12/2019	Balance at 31/12/2018
Investments in subsidiaries	1,697	1,705
Investments in joint ventures	-	279
Investments in associates	508	214
Total	**2,205**	**2,198**

No investments are attributable to BancoPosta RFC.

Changes in equity investments in subsidiaries and associates are shown below:

Tab. A5.1 - Change in investments in FY 2019

Investments (€m)	Balance at 01/01/2019	Additions			Reductions			Impairment losses		Balance at 31/12/2019
		Subscriptions /Payments on capital a/c	Purchases, mergers	Reclass. Non-current assets held for sale	Incentive plans	Sales, liquidations, mergers, de- mergers	Reclass. Non-current assets held for sale	Write- back	(Write- down)	
in subsidiaries										
BancoPosta Fondi SpA SGR	9	-	-	-	-	-	-	-	-	9
CLP ScpA	-	-	-	-	-	-	-	-	-	-
Consorzio PosteMotori	-	-	-	-	-	-	-	-	-	-
Cons. per i Servizi di Telefonia Mobile ScpA	-	-	-	-	-	-	-	-	-	-
EGI SpA	170	-	-	-	-	-	-	-	-	170
Indabox Srl	2	-	-	-	-	-	-	-	-	2
Poste Air Cargo Srl	1	-	-	-	-	-	-	-	-	1
PatentiViaPoste ScpA	-	-	-	-	-	-	-	-	-	-
Poste Tributi ScpA (in liquidation)	-	-	-	-	-	-	-	-	-	-
Poste Vita SpA	1,219	-	-	-	-	-	-	-	-	1,219
Postel SpA	82	-	-	-	-	-	-	-	-	82
PostePay SpA	200	-	-	-	-	-	-	-	-	200
SDA Express Courier SpA	22	25	-	-	-	(1)	-	-	(32)	14
Total subsidiaries	**1,705**	**25**	**-**	**-**	**-**	**(1)**	**-**	**-**	**(32)**	**1,697**
in associates										
FSIA Investimenti Srl	279	15	-	-	-	-	-	-	-	294
ItaliaCamp Srl	-	-	-	-	-	-	-	-	-	-
Anima Holding SpA	214	-	-	-	-	-	-	-	-	214
Conio Inc.	-	-	-	-	-	-	-	-	-	-
Total associates	**493**	**15**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**508**
Total	**2,198**	**40**	**-**	**-**	**-**	**(1)**	**-**	**-**	**(32)**	**2,205**

The following movements occurred in 2019:

- Payment to SDA Express Courier SpA of a total of €25 million to cover losses incurred through 30 September 2019, reduction and simultaneous replenishment of share capital of €5 million and creation of an available reserve, as approved by the subsidiary's extraordinary general meeting of 27 November 2019;
- Capital contribution in favour of FSIA Investimenti Srl of a total of €15 million made on 4 October 2019. In addition, as described in Note 4 - Significant events during the year, at 31 December 2019, the investment was classified as an associate instead of the previous joint control;
- Sale, on 25 June 2019, of the Information & Communication Technology business unit of SDA Express Courier SpA to Poste Italiane with effect from 1 July 2019;
- Completion, on 21 October 2019, of the partial de-merger of SDA Express Courier SpA in favour of Poste Italiane, the business unit relating to the commercial and customer service activities of Express Courier and Parcels. The legal, accounting and tax effects of the transaction start on 1 November 2019;
- On 5 June 2019, the company Risparmio Holding SpA, already in liquidation, was removed from the register of companies.

Finally, with effect from 1 October 2019, the company Mistral Air Srl, following the change of the corporate mission, changed its name to Poste Air Cargo Srl.

The main corporate actions during 2019, are described in notes 4.1 – Principal corporate actions.

The impairment tests required by the related accounting standards have been conducted in order to identify any evidence of impairment. Based on the available information and the results of the impairment tests carried out[86], the value of the investment in SDA Express Courier SpA was reduced by €32 million. In particular, in the valuation, shareholders' equity was taken as the best approximation of the value in use, which, in the circumstances, was considered not lower than the recoverable value of the companies.

Poste Italiane SpA has committed to providing financial support to the subsidiaries, SDA Express Courier SpA and Poste Air Cargo Srl, for 2020 and Poste Tributi ScpA throughout its liquidation.

86. The method applied and the criteria used in conducting impairment tests at 31 December 2019, are described in note 2.5 – Use of estimates, with regard to the impairment testing of goodwill, cash generating units and investments.

The following table shows a list of investments in subsidiaries and associates at 31 December 2019:

tab. A5.2 - List of investments

Name (€000)	% share	Share capital*	Net profit/ (loss) for the year	Carrying amount of equity	Share of equity	Carrying amount at 31/12/2019	Difference between equity and carrying amount
in subsidiaries							
BancoPosta Fondi SpA SGR	100.00	12,000	16,145	47,516	47,516	8,400	39,116
CLP ScpA	51.00	516	-	738	376	263	113
Consorzio PosteMotori	58.12	120	(170)	120	70	70	-
Consorzio per i Servizi di Telefonia Mobile ScpA	51.00	120	-	116	59	61	(2)
EGI SpA	55.00	103,200	755	238,413	131,127	169,893	(38,766)
Indabox Srl** ***	100.00	50	(143)	171	171	1,550	(1,379)
PatentiViaPoste ScpA	69.65	120	-	124	86	84	2
Poste Air Cargo Srl	100.00	1,000	395	1,213	1,213	845	368
Poste Tributi ScpA (in liquidation)**	88.89	2,325	-	(1,788)	(1,589)	-	(1,589)
Poste Vita SpA**	100.00	1,216,608	680,403	4,294,623	4,294,623	1,218,481	3,076,142
Postel SpA	100.00	20,400	383	83,798	83,798	81,984	1,814
PostePay SpA	100.00	7,561	172,636	382,223	382,223	200,614	181,609
SDA Express Courier SpA	100.00	5,000	(32,091)	14,177	14,177	14,177	-
in associates							
FSIA Investimenti Srl****	30.00	20	326,802	1,307,895	392,369	293,870	98,499
ItaliaCamp Srl*****	20.00	10	311	947	189	2	187
Anima Holding SpA******	10.04	7,293	102,036	1,236,372	124,132	213,729	(89,597)
Conio Inc.**	19.74	3,115	(150)	2,748	542	486	56

* Consortium fund in the case of consortia. The registered offices of all the companies are located in Rome, with the exception of Anima Holding SpA and FSIA Investimenti Srl, whose registered offices are in Milan, and Conio Inc., whose registered office is in California (USA).

** These amounts have been calculated under IFRS and, therefore, may not be consistent with those included in the investee company's annual financial statements prepared in accordance with the Civil Code and Italian GAAP and, in the case of Conio Inc., in accordance with US GAAP.

*** Data derived from the accounts for the period ended 30 June 2019, the latest approved by the company.

**** Figures of the reporting package of the company at 31 December 2019, as approved by its board of directors, and including measurement of the SIA group using the equity method and recognition of the related effects with regard to Purchase Price Allocation.

***** Data derived from the accounts for the period ended 31 December 2018, the latest approved by the company.

****** Figures taken from the company's latest interim financial statements at 30 September 2019, as approved by its board of directors.

A6 – Financial assets attributable to BancoPosta (€76,396 million)

tab. A6 - Financial assets attributable to BancoPosta

Description (€m)	Balance at 31/12/2019			Balance at 31/12/2018		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Financial assets at amortised cost	23,638	15,815	39,453	21,507	9,890	31,397
Financial assets at FVTOCI	34,474	2,325	36,799	29,777	2,263	32,040
Financial assets at FVTPL	71	-	71	50	8	58
Financial derivatives	69	4	73	209	159	368
Total	**58,252**	**18,144**	**76,396**	**51,543**	**12,320**	**63,863**

The activities in question concern the financial transactions carried out by the Company pursuant to Presidential Decree no. 144 of 14 March 2001, as amended, which, as from 2 May 2011, fall within the scope of RFC (see note 6.2 - Information on BancoPosta RFC).

Financial assets at amortised cost

Movements in financial assets measured at amortised cost are shown below:

tab. A6.1 - Movements in financial assets at amortised cost

Securities (€m)	Loans	Receivables	Fixed income instruments		Total
	Carrying amount	Carrying amount	Nominal value	Carrying amount	Carrying amount
Balance at 1 January 2019	**251**	**8,274**	**20,935**	**22,872**	**31,397**
Purchases	66,692		2,305	2,449	69,141
Changes in amortised cost	-		-	(52)	(52)
Changes in fair value through profit or loss	-		-	1,902	1,902
Changes in cash flow hedge transactions*	-		-	40	40
Changes in impairment	-		-	1	1
Net changes	-	4,957	-	-	4,957
Effects of sales on profit or loss	-	-	-	(11)	(11)
Accruals	-		-	177	177
Sales, redemptions and settlement of accrued income	(65,785)		(2,065)	(2,314)	(68,099)
Balance at 31 December 2019	**1,158**	**13,231**	**21,175**	**25,064**	**39,453**

* The item, Changes in cash flow hedges, relates to the purchase of forward contracts in relation to cash flow hedge transactions and reflects changes in the fair value of these forward contracts between the date of purchase and the settlement date, with a matching entry in equity, in the cash flow hedge reserve.

Loans

The item refers to outstanding repurchase agreements entered into with Cassa di Compensazione e Garanzia SpA (the Central Counterparty)[87]. These transactions are guaranteed by securities for a total notional amount of €1,086 million.

87. The Central Counterparty is an entity that acts as an intermediary in a transaction between two parties, avoiding the parties' exposure to the risk that one of the counterparties to the agreement may default and guaranteeing successful completion of the transaction.

Receivables

This item breaks down as follows:

tab. A6.1.1 - Receivables at amortised cost

Description (€m)	Balance at 31/12/2019			Balance at 31/12/2018		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Deposits with the MEF	-	7,064	7,064	-	5,927	5,927
Credit	-	7,067	7,067	-	5,930	5,930
Provisions for doubtful amounts deposited with MEF	-	(3)	(3)	-	(3)	(3)
Other financial receivables	-	6,167	6,167	-	2,347	2,347
Total	**-**	**13,231**	**13,231**	**-**	**8,274**	**8,274**

Receivables include:

- **Amounts deposits with the MEF**, including public customers' current account deposits, which earn a variable rate of return, calculated on a basket of government bonds[88]. The deposit has been adjusted to reflect accumulated impairments of approximately €3 million, to reflect the risk of counterparty default (unchanged compared to 31 December 2018).
- **Other financial receivables** include (i) guarantee deposits of €5,660 million, of which €5,181 million provided to counterparties for interest rate swap transactions (with collateral provided by specific Credit Support Annexes), €208 million provided to counterparties for repurchase agreements on fixed income securities (with collateral contemplated by specific Global Master Repurchase Agreements) and €271 million in collateral deposited with the Central Counterparty, in relation to the clearing system (i.e. the Default Fund)[89] and (ii) €50 million in amounts due from the subsidiary PostePay SpA, primarily in the first few days of 2020.

Fixed income instruments

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 €21,175 million. At 31 December 2019, the balance of €25,064 million refers to the amortised cost of unhedged fixed income instruments, totalling €10,047 million, and fair-value hedged fixed income instruments, totalling €12,146 million, increased by €2,871 million to take into account the effects of the hedge (€1,902 million in 2019). The value of these securities was adjusted to take into account the related impairments. Accumulated impairments at 31 December 2019 amount to approximately €8 million (€9 million at 31 December 2018). At 31 December 2019, the fair value[90] of these securities was €24,686 million (including €177 million in accrued income).

This category of financial asset includes fixed rate instruments, for a total nominal amount of €3,750 million, issued by Cassa Depositi e Prestiti SpA and guaranteed by the Italian government (at 31 December 2019, their carrying amount totals €3,946 million).

88. 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 ten-year BTP return.
89. A guarantee fund established with payments from participants in the derivative, equity and bond markets, as a further guarantee for the transactions carried out. The fund can be used to meet the charges arising from any participant default.
90. In terms of the fair value hierarchy, which reflects the relevance of the sources used to measure assets, €20,613 million of the total amount qualifies for inclusion in level 1 and €4,073 million for inclusion in level 2.

Financial assets at fair value through other comprehensive income

Movements in financial assets at fair value through other comprehensive income (FVTOCI) are shown below:

tab. A6.2 - Movements in financial assets at FVTOCI

Securities (€m)	Fixed income instruments	
	Nominal value	*Fair value*
Balance at 1 January 2019	**30,229**	**32,040**
Purchases	11,870	12,170
Transfers to equity reserves	-	(291)
Changes in amortised cost	-	(7)
Changes in fair value through equity	-	1,702
Changes in fair value through profit or loss	-	2,056
Changes in cash flow hedge transactions*	-	225
Effects of sales on profit or loss	-	350
Accruals	-	318
Sales, redemptions and settlement of accrued income	(10,929)	(11,764)
Balance at 31 December 2019	**31,170**	**36,799**

* The item, Changes in cash flow hedges, relates to the purchase of forward contracts in relation to cash flow hedge transactions and reflects changes in the fair value of these forward contracts between the date of purchase and the settlement date, with a matching entry in equity, in the cash flow hedge reserve.

Fixed income instruments

These are Eurozone fixed income instruments, consisting of government securities issued by the Italian government with a nominal value of €31,170 million. Total fair value gains for the year amount to €3,758 million, recognised in the relevant equity reserve in relation to the portion of the portfolio not hedged by fair value hedges (€1,702 million) and recognised through profit and loss in relation to the hedged portion (€2,056 million). These instruments are subject to impairments recognised in profit or loss with a matching entry in the relevant equity reserve. Accumulated impairments at 31 December 2019 amount to €11 million (€13 million at 31 December 2018).

Certain securities are encumbered as they have been delivered to counterparties for use as collateral in connection with loans and hedging transactions, as described in note 12 – Additional information.

Financial assets measured at fair value through profit or loss

Below are the movements in financial assets at fair value through profit or loss (FVTPL):

tab. A6.3 - Movements in financial assets at FVTPL

	Receivables	Equity instruments	Total
(€m)	*Fair value*	*Fair value*	*Fair value*
Balance at 1 January 2019	**8**	**50**	**58**
Purchases		-	-
Changes in fair value through profit or loss	-	25	25
Net changes	(8)		(8)
Effects of sales on profit or loss	-	1	1
Sales, redemptions and settlement of accrued income	-	(5)	(5)
Balance at 31 December 2019	**-**	**71**	**71**

Receivables

In June 2019, the outstanding amount of €8 million due following the sale of Visa Europe Ltd. share to Visa Incorporated was collected.

Equity instruments

This item, totalling €71 million, reflects the fair value of 32,059 Visa Incorporated preference shares (Series C Convertible Participating Preferred Stock) received for the sale of the Visa Europe Ltd. share to Visa Incorporated on 21 June 2016; these shares are convertible at the rate of 13,884[91] 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). Fair value gains in the year under review, amounting to €25 million, have been recognised in profit or loss in "Revenue from financial activities".

In 2019, the Company entered into a forward sale agreement for 400,000 ordinary Visa Incorporated shares at a price of US$153.46 per share and at an exchange rate of 1.2037. The total consideration is €51 million and the settlement date is 1 March 2021. The ordinary shares involved in the forward sale amount to approximately 28,810 Visa Incorporated (series C) preference shares held in portfolio at the applicable conversion rate at 31 December 2019. The fair value of the forward sale has decreased by €15 million in the reporting year, reflecting movements in both the price of the shares in US dollars and the euro/dollar exchange rate (tab. A6.4). This reduction has been recognised in profit or loss in "Expenses from financial activities".

Finally, in 2019, Poste Italiane sold its previous holding of 11,144 class C Visa Incorporated shares following their prior conversion into class A shares. The transaction in question resulted in a total gain of €1.4 million recognised in profit or loss in "Other income from financial activities".

91. 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

Below are movements in derivative financial instruments:

tab. A6.4 - Movements in derivative financial instruments

	Cash flow hedging						Fair value hedging		FV vs CE				Total	
	Forward purchases		Forward sales		Interest rate swap		Asset swap		Forward purchases		Forward sales			
(€m)	nominal	fair value	nominal	fair value	nominal	fair value	nominal	fair value	nominal	fair value	nominal	fair value	nominal	fair value
Balance at 1 January 2019	**1,545**	**94**	**1,340**	**61**	**1,610**	**(57)**	**23,590**	**(1,559)**	**-**	**-**	**-**	**-**	**28,085**	**(1,461)**
Increases/ (decreases)*	875	120	1,670	(46)	505	24	2,525	(3,971)	-	-	7	(15)	5,582	(3,888)
Gains/(Losses) through profit or loss**	-	-	-	-	-	-	-	(4)	-	-	-	-	-	(4)
Transactions settled***	(2,420)	(214)	(1,730)	(51)	(445)	29	(425)	95	-	-	(7)	-	(5,027)	(141)
Balance at 31 December 2019	**-**	**-**	**1,280**	**(36)**	**1,670**	**(4)**	**25,690**	**(5,439)**	**-**	**-**	**-**	**(15)**	**28,640**	**(5,494)**
Of which:														
Derivative assets	**-**	**-**	**-**	**-**	**775**	**62**	**745**	**11**	**-**	**-**	**-**	**-**	**1,520**	**73**
Derivative liabilities	**-**	**-**	**1,280**	**(36)**	**895**	**(66)**	**24,945**	**(5,450)**	**-**	**-**	**-**	**(15)**	**27,120**	**(5,567)**

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

Cash flow hedge transactions refer to interest rate swaps for a nominal value of €1,670 million (securities hedged at FVTOCI) and forward sales with for nominal value of €1,280 million; the instruments in question underwent an overall net positive change in fair value during the year, due to the effective component of the hedge of €98 million reflected in the cash flow hedge reserve.

Fair value hedges in interest rate swaps refer to securities classified at amortised cost with a nominal value of €11,295 million and securities classified at FVTOCI with a nominal value of €14,395 million; overall, they underwent a net effective negative fair value change of €3,971 million during the year, taking into account the net positive fair value change of €3,958 million in hedged securities (Table A6.1 and A6.2) net of €13 million for differentials paid.

In the year under review, the Company entered into:

- forward purchases for a nominal amount of €875 million and settlement for €2,420 million, of which €1,545 million outstanding at 1 January 2019;
- forward sales for a nominal amount of €1,670 million and settlement for €1,730 million, of which €1,340 million outstanding at 1 January 2019;
- new interest rate swaps designated as cash flow hedges with a nominal value of €505 million;
- new interest rate swaps designated as fair value hedges with a nominal value of €2,525 million;
- a forward sale agreement for 400,000 ordinary Visa Incorporated shares (described above).

Fair value hierarchy of BancoPosta's financial assets

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

tab. A6.5 - Fair value hierarchy

Description (€m)	31/12/2019				31/12/2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets at FVTOCI	36,506	293	-	36,799	31,780	260	-	32,040
Fixed income instruments	36,506	293	-	36,799	31,780	260	-	32,040
Equity instruments	-	-	-	-	-	-	-	-
Financial assets at FVTPL	-	-	71	71	-	13	45	58
Equity instruments	-	-	71	71	-	5	45	50
Receivables	-	-	-	-	-	8	-	8
Financial derivatives	-	73	-	73	-	368	-	368
Total assets at fair value	**36,506**	**366**	**71**	**36,943**	**31,780**	**641**	**45**	**32,466**

There were no transfers of the related financial instruments measured at fair value on a recurring basis between level 1 and level 2 in 2019.

A7 – Financial assets (€941 million)

tab. A7 - Financial assets

Description (€m)	Balance at 31/12/2019			Balance at 31/12/2018		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Financial assets at amortised cost	303	91	394	283	163	446
Financial assets at FVTOCI	437	110	547	532	5	537
Total	**740**	**201**	**941**	**815**	**168**	**983**

Financial assets at amortised cost

Movements in financial assets measured at amortised cost are shown below:

tab. A7.1 - Movements in financial assets at amortised cost

	Borrowings	Receivables	Total
(€m)	Carrying amount	Carrying amount	Carrying amount
Balance at 1 January 2019	**355**	**91**	**446**
Purchases	22		22
Changes in amortised cost	-	-	-
Changes in fair value through profit or loss	-		-
Changes in cash flow hedge transactions*	-		-
Changes in impairment	-	-	-
Net changes	-	(34)	(34)
Effects of sales on profit or loss	-		-
Accruals	2		2
Sales, redemptions and settlement of accrued income	(42)		(42)
Balance at 31 December 2019	**337**	**57**	**394**

* The item, Changes in cash flow hedges, relates to the purchase of forward contracts in relation to cash flow hedge transactions and reflects changes in the fair value of these forward contracts between the date of purchase and the settlement date, with a matching entry in equity, in the cash flow hedge reserve.

Loans

This item breaks down as follows:

tab. A7.1.1 - Borrowings at amortised cost

Name	Balance at 31/12/2019			Balance at 31/12/2018		
(€m)	Borrowings	correspondence a/c	Total	Borrowings	correspondence a/c	Total
Direct subsidiaries						
Poste Air Cargo Srl	-	13	13	-	15	15
Poste Vita SpA	251	-	251	251	-	251
Postel SpA	-	13	13	-	12	12
SDA Express Courier SpA	21	39	60	-	77	77
Total	**272**	**65**	**337**	**251**	**104**	**355**

The item includes:

- €251 million relating to an irredeemable subordinated loan, issued to Poste Vita SpA in order to bring the subsidiary's capitalisation into line with expected growth in earned premiums, in compliance with the specific regulations governing the insurance sector;
- €21 million for a loan granted to the subsidiary SDA Express Courier SpA in 2019 and repayable in a single instalment on 2 August 2027, to support the construction of the new plant for the automated HUB in Bologna;
- €65 million regarding overdrafts on intercompany current accounts granted to subsidiaries, paying interest on an arm's length basis.

These loans have been adjusted to reflect accumulated impairments of approximately €0.4 million, to reflect the risk of counterparty default (€0.3 million at 31 December 2018).

Receivables

tab. A7.1.2 - Receivables at amortised cost

Description (€m)	Balance at 31/12/2019			Balance at 31/12/2018		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Guarantee deposits	-	23	23	-	30	30
Due from the purchasers of service accommodation	4	1	5	5	2	7
Due from Other	29	20	49	29	45	74
Provisions for doubtful debts	-	(20)	(20)	-	(20)	(20)
Total	**33**	**24**	**57**	**34**	**57**	**91**

Guarantee deposits relate to collateral provided to counterparties for interest rate swap transactions.

Other receivables, with a nominal value of €50 million, regard the remaining amount due from Invitalia SpA as a result of the sale of Banca del Mezzogiorno-MedioCreditoCentrale SpA on 7 August 2017[92]. Following the finalisation of the agreement between the parties in January 2019, €20 million of this amount was collected on 27 February 2019.

Financial assets at fair value through other comprehensive income

Movements in financial assets at fair value through other comprehensive income (FVTOCI) are shown below:

tab. A7.2 - Movements in financial assets at FVTOCI

(€m)	Fixed income instruments		Equity instruments	Total
	Nominal value	Fair value	Fair value	Fair value
Balance at 1 January 2019	**500**	**532**	**5**	**537**
Purchases	-	-	17	17
Transfers to equity reserves	-	-	-	-
Other changes in equity	-	-	-	-
Changes in amortised cost	-	-	-	-
Changes in fair value through equity	-	2	1	3
Changes in fair value through profit or loss	-	(10)	-	(10)
Changes in cash flow hedge transactions(*)	-	-	-	-
Effects of sales on profit or loss	-	-	-	-
Accruals	-	5	-	5
Sales, redemptions and settlement of accrued income	-	(5)	-	(5)
Balance at 31 December 2019	**500**	**524**	**23**	**547**

* The item, Changes in cash flow hedges, relates to the purchase of forward contracts in relation to cash flow hedge transactions and reflects changes in the fair value of these forward contracts between the date of purchase and the settlement date, with a matching entry in equity, in the cash flow hedge reserve.

92. Of a total consideration of €387 million, €158 million was collected in 2017 and €159 million in early 2018. As regards the remaining amount receivable, on 31 October 2018, Invitalia informed Poste Italiane that the Bank of Italy had requested the buyer not to proceed with the reduction of BdM's capital scheduled for 2018, and preparatory to payment of a €40 million tranche of the related consideration. On 16 January 2019, in line with the contractual provisions, Poste and Invitalia defined in good faith alternative methods for the payment of the aforementioned fee. Based on the agreement signed, on 27 February 2019, Invitalia paid Poste Italiane €20 million. The remaining €20 million will be paid from the dividends to be paid by BdM in 2018, 2019 and 2020. Payment of the remaining €30 million is expected to take place between 30 June 2021 and 30 June 2022 once certain conditions have been met.

Fixed income instruments

This item regards BTPs with a total nominal value of €500 million. Of these, instruments with a value of €375 million have been hedged using interest rate swaps designated as fair value hedges. Accumulated impairments at 31 December 2019 amount to €0.2 million (unchanged with respect to 31 December 2018).

Equity instruments

The item includes:

- for €75 million the investment in CAI SpA (formerly Alitalia CAI SpA), acquired in 2013 and written off in 2014;
- €16 million for the investment in MFM Investments Ltd acquired on 9 August 2019;
- €4.5 million for the historical cost of the 15% investment in Innovazione e Progetti ScpA in liquidation;
- €2 million for the investment in sennder GmbH acquired on 11 November 2019.

Corporate actions during 2019, are described in note 4.1 – Principal corporate actions.

Financial assets at fair value through profit or loss

This item consists of equity instruments (as defined by art. 2346, paragraph 6 of the Italian Civil Code) resulting from the conversion of Contingent Convertible Notes[93] whose value at 31 December 2019 is zero.

Derivative financial instruments

tab. A7.3 - Change in financial derivatives

	FY 2019		
(€m)	Cash Flow hedging	Fair value hedging	Total
Balance at 1 January	**(5)**	**(26)**	**(31)**
Increases/(decreases)	(2)	(1)	(3)
Gains/(Losses) through profit or loss	-	-	-
Transactions settled*	1	11	12
Balance at 31 December	**(6)**	**(16)**	**(22)**
of which:			
Derivative assets	**-**	**-**	**-**
Derivative liabilities	**(6)**	**(16)**	**(22)**

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

93. These are Contingent Convertible Notes with an original value of €75 million, a twenty-year term to maturity and issued by Midco SpA, which in turn owns 51% of the airline Alitalia SAI SpA. The Notes were subscribed for by Poste Italiane SpA on 23 December 2014, in connection with the strategic transaction that resulted in Etihad Airways' acquisition of an equity interest in Alitalia SAI, without giving rise to any involvement on the part of Poste Italiane in the management of the issuer or its subsidiary. Interest and principal payments were provided for in the relevant terms and conditions if, and to the extent that, there was available liquidity. On the fulfilment of certain negative pledge conditions, in 2017 the loan was converted into equity instruments (as defined by art. 2346, paragraph 6 of the Italian Civil Code), carrying the same rights associated with the Notes.

At 31 December 2019, derivative financial instruments include:

- a cash flow hedging interest rate swap contract entered into in 2013 to protect the cash flows of the €50 million bond issued on 25 October 2013 (Note B.7 - Financial liabilities); with this transaction, the Company assumed the obligation to pay the fixed rate of 4.035% and sold the floating rate of the bond, which at 31 December 2019 was 0.953%;
- nine interest rate 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.

Fair value hierarchy of financial assets

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

tab. A7.4 - Fair value hierarchy

Description (€m)	31/12/2019				31/12/2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets at FVTOCI	524	-	23	547	532	-	5	537
Fixed income instruments	524	-	-	524	532	-	-	532
Equity instruments	-	-	23	23	-	-	5	5
Financial derivatives	-	-	-	-	-	-	-	-
Total	**524**	**-**	**23**	**547**	**532**	**-**	**5**	**537**

There were no transfers of the related financial instruments measured at fair value on a recurring basis between level 1 and level 2 in 2019.

A8 – Trade receivables (€2,390 million)

tab. A8 - Trade receivables

Description (€m)	Balance at 31/12/2019			Balance at 31/12/2018		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Receivables due from customers	5	1,859	1,864	6	1,790	1,796
Receivables due from subsidiaries, associates and joint ventures	-	481	481	-	397	397
Receivables due from Parent company	-	45	45	-	68	68
Total	**5**	**2,385**	**2,390**	**6**	**2,255**	**2,261**
of which attributable to BancoPosta RFC	-	*860*	*860*	-	*891*	*891*

Receivables due from customers

tab. A8.1 - Receivables due from customers

Description (€m)	Balance at 31/12/2019			Balance at 31/12/2018		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Ministries and Public Administration entities	-	513	513	-	663	663
Cassa Depositi e Prestiti	-	451	451	-	440	440
Overseas counterparties	-	357	357	-	304	304
Unfranked mail delivered	17	133	150	18	145	163
Overdrawn current accounts	-	39	39	-	154	154
Amounts due for other BancoPosta services	-	104	104	-	82	82
Other trade receivables	1	662	663	2	483	485
Provisions for doubtful debts	(13)	(400)	(413)	(14)	(481)	(495)
Total	**5**	**1,859**	**1,864**	**6**	**1,790**	**1,796**
of which attributable to BancoPosta RFC	-	*576*	*576*	-	*600*	*600*

Specifically[94]:

- 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 €177 million.
  - Reimbursement of the costs associated with the management of property, vehicles and security incurred on behalf of the Ministry for Economic Development, totalling €79 million[95], including €62 million involved in legal action brought by Poste Italiane in order to claim sundry costs resulting from the use of properties. At the hearing of 13 November 2019, the Judge held the case back in judgement with the allocation of time limits for closing arguments and replies. The judgement is therefore expected to be filed by the first half of 2020.
  - Unfranked mail services provided on credit, totalling €73 million, to central and local government entities.
  - Compensation for the discounts applied to publishers, due from the *Presidenza del Consiglio dei Ministri - Dipartimento dell'Editoria* (Cabinet Office – Publishing department), amounting to €50 million, of which €45 million accrued during the year. Of these receivables, approximately €13 million were not covered in the State's Budget and were written down at 31 December 2019. On 22 July 2019, pursuant to EU state aid regulations, the European Commission approved public service compensation for the years 2017 to 2019, of €171.74 million, in line with the related state appropriations, acknowledging that the level of compensation had not exceeded the amount necessary to cover the net cost incurred by the Company in providing the service. Following the decision of the European Commission on 6 September 2019, collections for offsetting purposes relating to the financial years 2017-2018 for a total amount of €99 million, which up to that date were recorded under other liabilities, were offset against the related receivables as a result of the disappearance of the unavailability constraint. A further €26 million were collected in February 2020.
  - The payment of pensions and vouchers on behalf of INPS (the National Institute of Social Security), totalling €12 million. Moreover, in February 2019, having conducted a joint assessment, Poste Italiane and INPS signed an agreement that, among other things, has settled the respective past outstanding trade receivables (note B4). These positions were settled in April 2019.
- Receivables due from **Cassa Depositi e Prestiti** refer to fees for BancoPosta's deposit-taking activities during 2019.
- 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 €58 million in amounts due from customers who use the service on their own behalf and €92 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.

94. At 31 December 2019, the balance of trade receivables includes €17 million, net of the related provisions for doubtful accounts, relating to rental income falling within the scope of IFRS 15 – Revenue from Contracts with Customers.
95. See Revenue and receivables due from the State, showing overall amounts due from the Ministry for Economic Development (€80 million), including amounts due for postal and other services.

- Receivables for **overdrawn current accounts** derive almost exclusively from overruns due to the debiting of BancoPosta's periodic fees. During the year under review, upon completion of a process of analysis and a series of activities undertaken with regard to these receivables, it was found that it was not possible to recover these amounts, also taking into account the small amount of each receivable, in accordance with the provisions of IFRS 9, a total of €121 million was written off by using the provision for doubtful debts set aside at the time.
- **Other trade receivables** primarily include €189 million generated by parcel post operations, €45 million for Posta Time services, €24 million for Posta Target services, €22 million for Posta Contest services, €17 million for non-universal postal services, €12 million related to the Notification of Legal Process service and €11 for telegraphic services.

In general, there are delays in collecting amounts due from central and local government entities due primarily to the fact that no provision has been made in the related budgets or to the execution of contracts or agreements. In this regard, actions continue aimed at renewing expired agreements[96] and soliciting requests for appropriations.

Provisions for doubtful debts relating to customers are described in note 7 – *Risk management*.

Receivables due from subsidiaries and joint ventures

tab. A8.2 - Receivables due from subsidiaries, associates and joint ventures

Name (€m)	Balance at 31/12/2019	Balance at 31/12/2018
Direct subsidiaries		
BancoPosta Fondi SpA SGR	22	16
CLP ScpA	14	15
Consorzio PosteMotori	21	15
EGI SpA	1	1
PatentiViaPoste ScpA	6	6
Poste Air Cargo Srl	4	3
Poste Tributi ScpA (in liquidation)	5	5
Poste Vita SpA	147	143
Postel SpA	46	42
PostePay SpA	122	103
SDA Express Courier SpA	85	40
Indirect subsidiaries		
Poste Assicura SpA	8	8
Total	**481**	**397**
of which attributable to BancoPosta RFC	*239*	*224*

These trade receivables include:

- Poste Vita SpA: primarily regarding fees deriving from the sale of insurance policies through Post Offices and attributable to BancoPosta RFC (€141 million);
- PostePay SpA: primarily for the distribution of products relating to payment services (€54 million) and for the provision of card payment and payment services (€27 million).

96. The principal agreements that have expired regard those governing relations with the tax authorities in relation to the collection and reporting of payments.

Receivables from parent company

This item relates to trade receivables due from the Ministry of the Economy and Finance:

tab. A8.3 - Receivables due from the Parent Company

Description (€m)	Balance at 31/12/2019	Balance at 31/12/2018
Universal Service compensation	31	31
Delegated services	28	28
Remuneration of current account deposits	15	39
Publisher tariff and electoral subsidies	1	1
Other	2	1
Provision for doubtful debts due from Parent company	(32)	(32)
Total	**45**	**68**
of which attributable to BancoPosta RFC	*45*	*67*

- **Universal Service compensation** includes:

tab. A8.3.1 - Universal Service compensation receivable

Description (€m)	Balance at 31/12/2019	Balance at 31/12/2018
Remaining balance for 2012	23	23
Remaining balance for 2005	8	8
Total	**31**	**31**

In the year under review, the Group received €262 million in accrued compensation for the period. With reference to the amount receivable for 2012, AGCom has recognised a net cost incurred by the Company of €327 million, compared with compensation of €350 million originally recognised. Provision has not been made in the state budget for the remaining €23 million. The Company appealed AGCom's decision on 13 November 2014 before the Regional Administrative Court (TAR).

The outstanding receivable relating to compensation for 2005 was subject to cuts in the budget laws for 2007 and 2008.

Provisions for doubtful debts have been made for the full amount of the above receivables.

- Payments for **delegated services**, collected in January 2020, to fees accrued solely in 2019 for treasury services performed by BancoPosta on behalf of the state in accordance with a special agreement with the MEF, expired on 31 December 2019 and being renewed.
- The **remuneration of current account deposits** refers entirely to amounts accruing in 2019 and almost entirely relates to the deposit of funds deriving from accounts opened by Public Administration entities and attributable to BancoPosta RFC.
- Receivables arising from **electoral subsidies** refer to compensation for previous years, for which no provision has been made in the state budget.

Provisions for doubtful debts relating to the Parent Company are described in note 7 – Risk management.

A9 – Other receivables and assets (€2,455 million)

This item breaks down as follows:

tab. A9 - Other receivables and assets

Description (€m)	Note	Balance at 31/12/2019			Balance at 31/12/2018		
		Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Substitute tax paid		1,357	471	1,828	1,198	470	1,668
Receivables relating to fixed-term contract settlements		66	82	148	82	85	167
Receivables due from social security agencies and pension funds (excl. fixed-term contract settlements)		-	93	93	-	109	109
Receivables for amounts that cannot be drawn on due to court rulings		-	79	79	-	78	78
Accrued income and prepaid expenses from trading transactions		-	5	5	-	7	7
Tax assets		-	4	4	-	-	-
Receivables due from subsidiaries		-	257	257	-	25	25
Interest accrued on IRES refund	[C12]	-	46	46	-	46	46
Interest accrued on IRAP refund	[C12]	-	-	-	-	3	3
Sundry receivables		13	90	103	8	106	114
Provisions for doubtful debts due from others		(1)	(107)	(108)	-	(63)	(63)
Total		**1,435**	**1,020**	**2,455**	**1,288**	**866**	**2,154**
of which attributable to BancoPosta RFC		*1,357*	*544*	*1,901*	*1,198*	*544*	*1,742*

Specifically:

- **Substitute tax** paid, attributable to BancoPosta RFC, primarily regards:
  - €1,357 million charged to holder of Interest-bearing Postal Certificates for stamp duty at 31 December 2019[97]; 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);
  - €312 million relating to stamp duty to be paid in virtual form in 2020 and to be recovered from customers;
  - €120 million relating to stamp duty to be charged to Postal Savings Book holders, which the Company pays in virtual form as required by law;
  - €8 million in withholding tax on interest paid to current account holders for 2019, 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, 30 July 2015 and 19 June 2018 between Poste Italiane SpA and the labour 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 €148 million from staff, from INPS and pension funds recoverable in the form of variable instalments, the last of which is due in 2042. A breakdown of the receivables by individual agreement is provided below:

97. 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 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).

tab A9.1 - Receivables from fixed-term contract settlements

Description (€m)	Balance at 31/12/2019 Non-current assets	Current assets	Total	Non-current assets	Balance at 31/12/2018 Non-current assets	Current assets	Total	Non-current assets
Receivables								
due from staff under agreement of 2006	-	1	1	1	1	1	2	3
due from staff under agreement of 2008	14	10	24	26	21	12	33	35
due from staff under agreement of 2010	25	6	31	37	28	7	35	42
due from staff under agreement of 2012	19	5	24	30	22	6	28	34
due from staff under agreement of 2013	2	1	3	3	2	1	3	4
due from staff under agreement of 2015	2	1	3	3	3	1	4	4
due from staff under agreement of 2018	1	-	1	1	1	-	1	1
due from INPS (former IPOST)	-	42	42	42	-	42	42	42
due from INPS (Social security)	3	11	14	14	4	10	14	15
due from pension funds	-	5	5	5	-	5	5	5
Total	**66**	**82**	**148**		**82**	**85**	**167**	

The item includes €42 million receivable from INPS (formerly IPOST), covered by a specific agreement with IPOST dated 23 December 2009. Payment of this amount consists of six instalments of €6.9 million each, falling due between 30 June 2012 and 31 December 2014 and deemed to be collectible in full. Negotiations for the recovery of the same are underway and, in the event of a negative outcome, the Company reserves the right to take all necessary measures to better protect its rights.

- **Amounts that cannot be drawn on due to court rulings** include €66 million in amounts seized and not assigned to creditors in the process of recovery, and €13 million in amounts stolen from the Company in December 2007 as a result of an attempted fraud and that have remained on deposit with an overseas bank. The latter sum may only be recovered once the legal formalities are completed. The risks associated with collection of these items are taken into account in the provisions for doubtful debts due from others.
- Amounts due from **subsidiaries** include €242 million in amounts receivable from subsidiaries by Poste Italiane SpA, as the consolidating entity in the tax consolidation arrangement (note 2.3 – *Summary of significant accounting policies and measurement criteria*). The related amounts are mainly due from the subsidiaries, Poste Vita SpA and PostePay SpA.
- **Accrued interest on IRES refund**, refers to interest accruing up to 31 December 2019 in relation to the tax credit determined by an unreported deduction from the IRES tax base of IRAP paid on personnel expenses. With regard to the remaining overall tax credit, amounting to €50 million, two disputes were brought before the Provincial Tax Tribunal of Rome, which upheld Poste Italiane's appeals, ordering the tax authorities in Rome to refund the amounts claimed. The tax authorities have appealed both rulings before the Regional Tax Tribunal and, on 23 March 2018, the Tribunal upheld the tax authorities' appeal against one of the rulings. Poste Italiane has appealed this ruling before the Supreme Court of Cassation. In the last quarter of 2019, however, the Supreme Court of Cassation had the opportunity to rule on other proceedings concerning the operation of the reimbursement pursuant to Law Decree 201/2011; with respect to the judgement issued, there is a homogeneity of legal-formal circumstances that lead to the conclusion that the principle of law, referred to in the aforementioned judgement of the Court of legitimacy, can also have its effects in existing judgements. The introduction of the new and additional elements of uncertainty regarding the final outcome of the case was taken into account in the determination of the provision for doubtful debts with an allocation totalling €45 million, recorded in profit and loss under the item Impairment losses/(reversals of impairment losses) on financial assets (Table C.11).

Provisions for doubtful debts due from others are described in note 7 – Risk management.

A10 – Cash and deposits attributable to BancoPosta (€4,303 million)

This item breaks down as follows:

tab. A10 - Cash and deposits attributable to BancoPosta

Description (€m)	Balance at 31/12/2019	Balance at 31/12/2018
Cash and cash equivalents in hand	3,487	2,967
Bank deposits	816	351
Total	**4,303**	**3,318**

This item relates exclusively to BancoPosta RFC assets.

The cash and cash equivalents on hand are derived from deposits made in postal current accounts and postal savings products (subscription of postal savings bonds and payments into Post Office savings books), or from advances withdrawn from the State Treasury to guarantee the operations of Post Offices. These funds, which are held at Post Offices (€853 million) and at service[98] companies (€2,634 million), may not be used for purposes other than to repay obligations contracted in the transactions described above. Bank deposits include amounts deposited in an account with the Bank of Italy to be used in interbank settlements (€814 million).

A11 – Cash and cash equivalents (€1,206 million)

This item breaks down as follows:

tab. A11 - Cash and cash equivalents

Description (€m)	Balance at 31/12/2019	Balance at 31/12/2018
Bank deposits and amounts held at the Italian Treasury	698	810
Deposits with the MEF	494	1,306
Cash and cash equivalents in hand	14	11
Total	**1,206**	**2,127**
of which attributable to BancoPosta RFC	*509*	*1,318*

Bank deposits and amounts held at the Italian Treasury include €20 million whose use is restricted by court orders related to different disputes.

Cash held on **deposit with the MEF** at 31 December 2019 include approximately €123 million in amounts deposited with the MEF in a so-called buffer account, consisting of customer deposits subject to restrictions on their use and yet to be invested (note – 6.2 – Information on BancoPosta RFC).

98. They carry out transport and custody of valuables awaiting payment to the State Treasury.

Equity

B1 – Share capital (€1,306 million)

Poste Italiane SpA's share capital consists of 1,306,110,000 no-par value ordinary shares, of which Cassa Depositi e Prestiti SpA (CDP) holds 35% and the Ministry of the Economy and Finance holds 29.3%, while the remaining shares are held by institutional and retail investors.

At 31 December 2019, the Company holds 5,257,965 treasury shares (equal to 0.4026% of the share capital). All the shares in issue are fully subscribed and paid up. No preference shares have been issued.

B2 – Reserves (€2,618 million)

tab. B2 - Reserves

(€m)	Legal reserve	BancoPosta RFC reserve	Fair value reserve	Cash flow hedge reserve	Incentive plans reserve	Merger surplus	Total
Balance at 1 January 2018	**299**	**1,000**	**1,564**	**(61)**	**-**	**2**	**2,804**
Increases/(decreases) in fair value during the year	-	-	(1,897)	191	-	-	(1,706)
Tax effect of changes in fair value	-	-	541	(55)	-	-	486
Transfers to profit or loss	-	-	(385)	20	-	-	(365)
Tax effect of transfers to profit or loss	-	-	110	(5)	-	-	105
Increase/(Decrease) for expected credit loss	-	-	(1)	-	-	-	(1)
Gains/(losses) recognised in equity	-	-	(1,632)	151	-	-	(1,481)
Merger contribution	-	-	-	-	-	13	13
Injection of fresh capital into BancoPosta RFC	-	210	-	-	-	-	210
Balance at 31 December 2018	**299**	**1,210**	**(68)**	**90**	**-**	**15**	**1,546**
of which attributable to BancoPosta RFC	-	1,210	(71)	88	-	-	1,227
Increases/(decreases) in fair value during the year	-	-	1,705	96	-	-	1,801
Tax effect of changes in fair value	-	-	(486)	(28)	-	-	(514)
Transfers to profit or loss	-	-	(243)	(59)	-	-	(302)
Tax effect of transfers to profit or loss	-	-	69	17	-	-	86
Increase/(Decrease) for expected credit loss	-	-	(1)	-	-	-	(1)
Gains/(losses) recognised in equity	-	-	1,044	26	-	-	1,070
Incentive plans	-	-	-	-	2	-	2
Balance at 31 December 2019	**299**	**1,210**	**976**	**116**	**2**	**15**	**2,618**
of which attributable to BancoPosta RFC	-	*1,210*	*970*	*115*	-	-	*2,295*

This item breaks down as follows:

- the fair value reserve regards changes in the value of financial assets at fair value through other comprehensive income. The increase of €1,705 million during 2019 reflects:
  - a net increase of €1,702 million in financial assets measured at fair value through other comprehensive income and attributable to BancoPosta RFC;
  - a net increase of €3 million in financial assets measured at fair value through other comprehensive income held 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 2019, the fair value gain of €96 million reflects a net gain of €98 million on derivative financial instruments attributable to BancoPosta RFC and a net loss of €2 million on the value of financial instruments held outside the ring-fence;
- the **Incentive Plans reserve** includes the estimate of the valuations for the period relating to the long-term ILT Performance Share incentive plan, carried out on the basis of the provisions of IFRS 2.

B3 – Availability and distributability of reserves

The following table shows the availability and distributability of Poste Italiane SpA's reserves. Retained earnings include the profit for 2019 of €661 million

During the year, dividends were distributed using retained earnings for a total of €774 million, based on the following resolutions:

- on 28 May 2019, the General Meeting approved a dividend distribution of €574 million (dividend per share equal to €0.441) on 26 June 2019;
- On 5 November 2019, the Board of Directors of Poste Italiane resolved to advance part of the ordinary dividend for 2019 as an interim dividend. The interim dividend of €200 million was distributed on 20 November 2019 (unit dividend of €0.154).

tab. B3 - Availability and distributability of reserves

(€m)	31/12/2019		Potential use
Share capital		**1,306**	
Treasury shares		**(40)**	
Reserves			
- legal reserve		**299**	
legal reserve	261		B
legal reserve	38		A B D
- BancoPosta RFC reserve		**1,210**	**- -**
- fair value reserve		**976**	**- -**
- cash flow hedge reserve		**116**	**- -**
- incentive plans reserve		**2**	**- -**
- merger surplus		**15**	**A B D**
Retained earnings / (Accumulated losses)		**2,444**	
retained earnings / (accumulated losses)	85		- -
retained earnings / (accumulated losses)	1,127		C
retained earnings / (accumulated losses)	1,364		A B D
Unrealised gains/(losses) on financial assets at FVTPL net of tax effect	43		B C
after-tax actuarial gains/(losses)	(175)		- -
Total		**6,328**	
of which distributable		*1,417*	

A: for capital increases
B: to cover losses
C: to cover BancoPosta losses
D: for shareholder distributions

Liabilities

B4 – Provisions for risks and charges (€1,131 million)

Movements in provisions for risks and charges are as follows:

tab. B4 - Movements in provisions for risks and charges

Description (€m)	Balance at 01/01/2019	Provisions	Finance costs	Released to profit or loss	Uses	Balance at 31/12/2019
Provisions for operational risk	415	33	-	(23)	(193)	232
Provisions for disputes with third parties	302	22	1	(26)	(25)	274
Provisions for disputes with staff *	64	8	-	(1)	(17)	54
Provisions for personnel expenses	124	58	-	(71)	(48)	63
Provisions for early retirement incentives	444	369	-	-	(394)	419
Provisions for taxation	3	-	-	-	-	3
Other provisions for risks and charges	79	12	-	(2)	(3)	86
Total	**1,431**	**502**	**1**	**(123)**	**(680)**	**1,131**
of which attributable to BancoPosta RFC	511	42	-	(25)	(201)	327
Overall analysis of provisions:						
- non-current portion	608					434
- current portion	823					697
	1,431					**1,131**

* Net provisions for Personnel expenses amount to €4 million. Service costs (legal assistance) total €4 million. Releases come to €1 million.

Specifically:

- The **provisions for operational risk**, relating to liabilities arising from BancoPosta's operations, mainly reflects the definition of items arising from the reconstruction of the operating accounts at the date of incorporation of the Company, risks associated with the distribution of postal savings products issued in past years, risks associated with customer requests for investment products whose performance is not in line with expectations, adjustments and settlements of income from previous years and estimated risks for charges and expenses to be incurred as a result of foreclosures suffered by BancoPosta mainly as a third party. Provisions for the year, totalling €33 million, mainly reflect risks associated with the distribution of postal savings products issued in previous years and the adjustment of liabilities due to adjustments and settlements to income from previous years. Utilisations totalling €193 million refer for €100 million to liabilities defined in favour of customers subscribing to the Immobiliare Obelisco (due to expire on 31 December 2018) and Europa Immobiliare I funds, in relation to the voluntary protection initiatives approved by the Board of Directors of Poste Italiane and undertaken during 2019, and for €67 million to liabilities defined in favour of INPS, following the agreement signed between the parties in February 2019.
- **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. Movements during the year primarily regard updated estimates of liabilities and uses to cover liabilities settled.
- **Provisions for disputes with staff** regard liabilities that may arise following labour litigation and disputes of various types. Net provisions of €7 million regard 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.
- **Provisions for personnel expenses** are made to cover expected liabilities arising in relation to the cost of labour, which are certain or likely to occur but whose estimated amount is subject to change. They have increased by €58 million to reflect the estimated value of new liabilities and decreased as a result of past contingent liabilities that failed to materialise (€71 million) and settled disputes (€48 million).

- **Provisions for early retirement incentives** reflect the estimated costs to be incurred as a result of the Company's binding commitment to pay early retirement incentives on a voluntary basis, under the current redundancy scheme agreed with the labour unions for a determinate number of employees who will leave the Company by 31 December 2021. The provisions made at 31 December 2018 were utilised for €394 million.
- **Provisions for taxation** have been made to cover estimated tax liabilities.
- **Other provisions for risks and charges** are likely to cover liabilities of various kinds, including the claim of prior rentals on assets used free of charge by the Company, the recognition of interest expense accrued in favour of certain suppliers, fraud, estimated risks that specific legal action to be taken for the release of certain foreclosures suffered by the Company is insufficient to recover the amounts and charges to be incurred for reclamation work on owned land. Provisions of €12 million for the year primarily regard the last two types.

B5 – Employee termination benefits (€1,107 million)

Movements in employee termination benefits are as follows:

tab. B5 - Movements in provisions for employee termination benefits

(€m)		FY 2019
Balance at 1 January		**1,158**
interest component	17	
effect of actuarial gains/(losses)	68	
Provisions for the year		85
Uses for the period		(136)
Balance at 31 December		**1,107**
of which attributable to BancoPosta RFC		*3*

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 €135 million, €3 million to substitute tax and €2 million to transfers from a number of Group companies (of which €1 million from the partial de-merger of the business unit of the subsidiary SDA Express Courier SpA).

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

tab. B5.1 - Economic and financial assumptions

	31/12/2019
Discount rate	0.55%
Inflation rate	1.50%
Annual rate of increase of employee termination benefits	2.625%

tab. B5.2 - Demographic assumptions

	31/12/2019
Mortality	ISTAT 2018 differentiated by gender
Disability	INPS 1998 differentiated by gender
Rate of employee turnover	Specific table with rates differentiated by length of service. The average length of service for participants corresponds to an annual rate of 0.11%
Advance rate	1.25% for lengths of service of at least 8 years
Pensionable age	In accordance with rules set by INPS

Actuarial gains and losses are generated by the following factors:

tab. B5.3 - Actuarial gains and losses

(€m)	31/12/2019
Change in demographic assumptions	-
Change in financial assumptions	66
Other experience-related adjustments	2
Total	**68**

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 31/12/2019
Inflation rate +0.25%	1,123
Inflation rate -0.25%	1,092
Discount rate +0.25%	1,083
Discount rate -0.25%	1,133
Turnover rate +0.25%	1,105
Turnover rate -0.25%	1,109

tab. B5.5 - Other information

	31/12/2019
Expected service cost	-
Average duration of defined benefit plan	8,90
Average employee turnover	0.11%

B6 – Financial liabilities attributable to BancoPosta (€77,937 million)

tab. B6 - Financial liabilities attributable to BancoPosta

Description (€m)	Balance at 31/12/2019			Balance at 31/12/2018		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Postal current accounts	-	53,880	53,880	-	51,139	51,139
Borrowings	6,741	5,453	12,194	5,604	2,869	8,473
Borrowings from financial institutions	6,741	5,453	12,194	5,604	2,869	8,473
MEF account held at the Treasury	-	4,542	4,542	-	3,649	3,649
Derivative financial instruments*	5,522	45	5,567	1,772	57	1,829
Cash flow hedges	71	31	102	49	58	107
Fair value hedges	5,436	14	5,450	1,723	(1)	1,722
Fair value through profit or loss	15	-	15	-	-	-
Other financial liabilities	-	1,754	1,754	-	1,669	1,669
Total	**12,263**	**65,674**	**77,937**	**7,376**	**59,383**	**66,759**

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

Postal current accounts

These payables include net amounts accrued at 31 December 2019 and settled with customers in January 2020. The balance includes amounts due to Poste Italiane Group Companies, totalling €5,494 million, with €5,219 million relating to postal current accounts in the name of PostePay SpA and €227 million deposited in postal current accounts by Poste Vita SpA.

Borrowings

Borrowings from financial institutions

At 31 December 2019, outstanding liabilities of €12,194 million relate to repurchase agreements entered into by the Company with major financial institutions and Central Counterparties, amounting to a total nominal value of securities committed for €11,550 million. €6,075 million of this amount regards Long Term Repos and €6,119 million to ordinary borrowing operations, the resources from both invested in Italian fixed income government securities and as funding for incremental deposits used as collateral.

At 31 December 2019, the fair value[99] of the above borrowings amounts to €12,205 million.

99. 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

tab. B6.1 - MEF account held at the Treasury

Description (€m)	Balance at 31/12/2019			Balance at 31/12/2018		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Balance of cash flows for advances	-	4,397	4,397	-	3,546	3,546
Balance of cash flows from management of postal savings	-	(47)	(47)	-	(89)	(89)
Amounts payable due to theft	-	158	158	-	157	157
Amounts payable for operational risks	-	34	34	-	35	35
Total	**-**	**4,542**	**4,542**	**-**	**3,649**	**3,649**

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

tab. B6.1.1 - Balance of cash flows for advances

Description (€m)	Balance at 31/12/2019			Balance at 31/12/2018		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Net advances	-	4,397	4,397	-	3,546	3,546
MEF postal current accounts and other payables	-	670	670	-	670	670
MEF - State pensions	-	(670)	(670)	-	(670)	(670)
Total	**-**	**4,397**	**4,397**	**-**	**3,546**	**3,546**

The **balance of cash flows from the management of postal savings**, amounting to a positive €47 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 2019 consists of €25 million payable to Cassa Depositi e Prestiti, less €72 million receivable from the MEF for Interest-bearing Postal Certificates issued on its behalf.

Amounts payable due to thefts from Post Offices of €158 million regard the Company's liability to the MEF on behalf of the Italian Treasury for losses resulting from theft and fraud. This liability derives from cash withdrawals from the Treasury to make up for the losses resulting from these criminal acts, in order to ensure that Post Offices can continue to operate.

Amounts payable for operational risks for €34 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 2019 are described in note A6.

Other financial liabilities

tab. B6.2 - Other financial liabilities

Description (€m)	Balance at 31/12/2019			Balance at 31/12/2018		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Domestic and international money transfers	-	668	668	-	689	689
Amounts to be credited to customers	-	257	257	-	235	235
Cashed cheques	-	255	255	-	243	243
Other amounts payable to third parties	-	164	164	-	145	145
Endorsed cheques	-	140	140	-	163	163
Guarantee deposits	-	112	112	-	70	70
Tax collection	-	19	19	-	19	19
Payables for items in process	-	139	139	-	105	105
Total	**-**	**1,754**	**1,754**	**-**	**1,669**	**1,669**

Payables for guarantee deposits refer to amounts received from counterparties in repurchase agreements on fixed income instruments (collateral provided by specific Global Master Repurchase Agreements). **Payable for items in process** regard €3 million in amounts credited to the subsidiary, PostePay SpA, primarily in early 2020.

B7 – Financial liabilities (€2,301 million)

tab. B7 - Financial liabilities

Description (€m)	Balance at 31/12/2019			Balance at 31/12/2018		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Borrowings	623	1	624	50	200	250
Bonds	50	-	50	50	-	50
Borrowings from financial institutions	573	1	574	-	200	200
Lease payables	959	190	1,149	-	-	-
Derivative financial instruments*	18	4	22	26	5	31
Fair value hedges	12	4	16	22	4	26
Cash flow hedges	6	-	6	4	1	5
Financial liabilities due to subsidiaries	-	505	505	-	112	112
Other financial liabilities	1	-	1	1	1	2
Total	**1,601**	**700**	**2,301**	**77**	**318**	**395**

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

Borrowings

Other than the guarantees described in the following notes, borrowings are unsecured and are not subject to financial covenants, which would require the Company to comply with financial ratios or maintain a certain minimum rating. Standard negative pledge provisions do apply[100].

100. A commitment given to creditors by which a borrower undertakes not to give senior security or other restrictions on assets to other lenders ranking pari passu with creditors, unless the same degree of protection is also offered to them.

Bonds

Bonds with an amortised cost of €50 million, issued by the Company under its €2 billion EMTN – Euro Medium Term Note programme and listed by the Company in 2013 on the Luxembourg Stock Exchange. These bonds were issued through a private placement on 25 October 2013. The term to maturity of the loan is ten years and the interest rate is 3.5% for the first two years and variable thereafter (EUR Constant Maturity Swap rate plus 0.955%, with a cap of 6% and a floor of 0%). The interest rate risk exposure was hedged as described in note A7 – *Financial assets*. At 31 December 2019, the fair value[101] of this liability is €51 million.

Borrowings from financial institutions

tab. B7.1 - Borrowings from financial institutions

Description (€m)	Balance at 31/12/2019			Balance at 31/12/2018		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
EIB fixed rate loan maturing 12/03/2026	173	-	173	-	-	-
EIB fixed rate loan maturing 16/10/2026	400	-	400	-	-	-
EIB fixed rate loan maturing 23/03/2019	-	-	-	-	200	200
Accrued interest expense	-	1	1	-	-	-
Total	**573**	**1**	**574**	**-**	**200**	**200**

An EIB loan of €200 million reached maturity and was repaid in March 2019, whilst an EIB credit facility granted in 2016, amounting to €173 million, was used in full. The new loan is subject to a fixed rate of interest of 0.879% and matures in March 2026. At 31 December 2019, the fair value[102] of this loan is €185 million.

On 3 October 2019, a new loan of €400 million was signed with the EIB. The loan disbursed on 18 October 2019 provides interest at a fixed rate of 0.29% and matures in October 2026. At 31 December 2019, the fair value[103] of this loan is €413 million.

The carrying amount of the other financial liabilities in table B7 approximates to their fair value.

Credit facilities

At 31 December 2019, the following credit facilities are available:

- committed lines of €2,173 million, with €173 million used at 31 December 2019;
- uncommitted lines of credit of €1,857 million, including €1,009 million for short-term loans, €173 million for overdraft and €675 million in the form of personal guarantee facilities.

At 31 December 2019, the uncommitted credit lines for short-term loans have not been used. Unsecured guarantees with a value of €275 million have been used on behalf of Poste Italiane SpA and with a value €47 million, on behalf of Group companies. No collateral has been provided to secure the lines of credit obtained.

The uncommitted lines of credit are also available for overnight transactions entered into by BancoPosta RFC.

In addition, from 7 May 2019, BancoPosta's assets may access a short-term committed facility granted by Cassa Depositi e Prestiti for repurchase agreements up to a maximum of €5 billion and with a duration of 12 months that may be extended.

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

Finally, the Bank of Italy has granted BancoPosta RFC access to intraday credit in order to fund intraday interbank transactions. Collateral for this credit facility is provided by securities with a nominal value of €889 million, and the facility is unused at 31 December 2019.

The existing lines of credit and medium/long-term borrowings are adequate to meet expected financing requirements.

Lease payables

The item is commented on in note 3 – Changes to accounting policies.

Derivative financial instruments

Movements in derivative financial instruments during 2019, are described in note A7 – Financial assets.

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

Description (€m)	Balance at 31/12/2019	Balance at 31/12/2018
Direct subsidiaries		
BancoPosta Fondi SpA SGR	3	15
Poste Vita SpA	103	79
PostePay SpA	399	18
Total	**505**	**112**

Changes in liabilities arising from financing activities

The following disclosures are provided in accordance with IAS 7, following the amendments introduced by EU Regulation 1990/2017 of 6 November 2017.

tab. B7.3 - Changes in liabilities arising from financing activities

Description (€m)	Balance at 31/12/2018	Net cash flow from/(for) financing activities	Non-cash flows	Balance at 31/12/2019
Borrowings	250	373	1	624
Bonds	50	-	-	50
Borrowings from financial institutions	200	373	1	574
Lease payables	-	(184)	1,333	1,149
Financial liabilities due to subsidiaries	112	393	-	505
Other financial liabilities	2	(1)	-	1
Total	**364**	**581**	**1,334**	**2,279**

B8 – Trade payables (€1,598 million)

tab. B8 - Trade payables

Description (€m)	Balance at 31/12/2019	Balance at 31/12/2018
Amounts due to suppliers	881	878
Amounts due to subsidiaries, associates and joint ventures	418	281
Contract liabilities	299	329
Total	**1,598**	**1,488**
of which attributable to BancoPosta RFC	*129*	*159*

Amounts due to suppliers

tab. B8.1 - Amounts due to suppliers

Description (€m)	Balance at 31/12/2019	Balance at 31/12/2018
Italian suppliers	747	753
Overseas suppliers	24	15
Overseas counterparties*	110	110
Total	**881**	**878**
of which attributable to BancoPosta RFC	*13*	*18*

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

Amounts due to subsidiaries and joint ventures

tab. B8.2 - Amounts due to subsidiaries and joint ventures

Name (€m)	Balance at 31/12/2019	Balance at 31/12/2018
Direct subsidiaries		
BancoPosta Fondi SpA SGR	12	1
CLP ScpA	105	80
Consorzio PosteMotori	2	1
Consorzio per i Servizi di Telefonia Mobile ScpA	29	14
EGI SpA	10	15
PatentiViaPoste ScpA	1	1
Poste Vita SpA	1	1
Postel SpA	25	33
PostePay SpA	88	83
SDA Express Courier SpA	145	46
Indirect subsidiaries		
Poste Assicura SpA	-	1
Joint ventures		
FSIA Group	-	5
Total	**418**	**281**
of which attributable to BancoPosta RFC	*89*	*108*

The increase in amounts due to subsidiaries is primarily attributable to the subsidiary SDA Express Courier SpA, as a result of the new agreement entered into following the de-merger of the business unit on 1 November 2019, relating to the commercial offering of domestic and international express products.

Contract liabilities

tab. B8.3 - Contract liabilities

Description (€m)	Balance at 01/01/2019	Increases / (Decreases)	Change due to recognition of revenue for period	Balance at 31/12/2019
Prepayments and advances from customers	296	(23)	-	273
Liabilities for fees to be refunded	26	(26)	20	20
Liabilities for volume discounts	4	(1)	-	3
Deferred income from trading transactions	3	-	-	3
Total	**329**	**(50)**	**20**	**299**
of which attributable to BancoPosta RFC	*33*	*(27)*	*20*	*26*

Prepayments and advances from customers

This item refers to amounts received from customers as prepayment for the following services to be rendered:

tab. B8.3.1 - Prepayments and advances from customers

Description (€m)		Balance at 31/12/2019	Balance at 31/12/2018
Prepayments from overseas counterparties		196	149
Advances from the Cabinet Office - Publishing and Information department	[tab.A7.1]	-	72
Automated franking		38	36
Unfranked mail		16	16
Postage-paid mailing services		6	7
Other services		17	16
Total		**273**	**296**
of which attributable to BancoPosta RFC		-	-

Liabilities for fees to be refunded represent the estimated liability linked to the refund of fees on loan products sold after 1 January 2018, under the terms of which the related fees must be refunded if the customer opts for early cancellation of the agreement.

B9 – Other liabilities (€2,960 million)

tab. B9 - Other liabilities

Description (€m)	Balance at 31/12/2019			Balance at 31/12/2018		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Amounts due to staff	17	769	786	11	962	973
Social security payables	30	486	516	33	441	474
Other taxes payable	1,357	131	1,488	1,198	131	1,329
Other amounts due to subsidiaries	5	36	41	6	204	210
Sundry payables	86	31	117	85	29	114
Accrued liabilities and deferred income	10	2	12	10	4	14
Total	**1,505**	**1,455**	**2,960**	**1,343**	**1,771**	**3,114**
of which attributable to BancoPosta RFC	*1,434*	*62*	*1,496*	*1,274*	*39*	*1,313*

Amounts due to staff

These items primarily regard accrued amounts that have yet to be paid at 31 December 2019. The breakdown is as follows:

tab. B9.1 - Amounts due to staff

Description (€m)	Balance at 31/12/2019			Balance at 31/12/2018		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Fourteenth month salaries	-	211	211	-	224	224
Incentives	17	357	374	11	625	636
Accrued vacation pay	-	54	54	-	55	55
Other amounts due to staff	-	147	147	-	58	58
Total	**17**	**769**	**786**	**11**	**962**	**973**
of which attributable to BancoPosta RFC	*3*	*5*	*8*	*1*	*11*	*12*

The reduction in the debt for **Incentives** is due to the combined effect of the settlements made and the new liabilities which, recorded at 31 December 2018 in the provisions for early retirement incentives, can be determined with reasonable certainty during the year.

The increase in the item **Other personnel items** is due to the allocation of one-off provisions to cover the 2019 contractual vacancy defined by an agreement with the labour unions signed on 18 February 2020.

Social security payables

tab. B9.2 - Social security payables

Description (€m)	Balance at 31/12/2019			Balance at 31/12/2018		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
INPS	2	382	384	1	338	339
Pension funds	-	85	85	-	85	85
Health funds	-	5	5	-	5	5
INAIL	28	3	31	32	3	35
Other agencies	-	11	11	-	10	10
Total	**30**	**486**	**516**	**33**	**441**	**474**
of which attributable to BancoPosta RFC	-	*3*	*3*	-	*3*	*3*

The increase in **payables to INPS** is partly due to the one-off contribution component mentioned above.

Other taxes payable

tab. B9.3 - Other taxes payable

Description (€m)	Balance at 31/12/2019			Balance at 31/12/2018		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Withholding tax on employees' and consultants' salaries	-	87	87	-	102	102
Withholding tax on postal current accounts	-	10	10	-	3	3
Stamp duty payable	1,357	8	1,365	1,198	11	1,209
Other taxes due	-	26	26	-	15	15
Total	**1,357**	**131**	**1,488**	**1,198**	**131**	**1,329**
of which attributable to BancoPosta RFC	*1,357*	*25*	*1,382*	*1,198*	*19*	*1,217*

Specifically:

- **Withholding tax on employees’ and consultants’ salaries** relates to amounts paid to the tax authorities by Group companies in January and February 2020 as withholding agents.
- **Stamp duty** represents the amount payable to the tax authorities for stamp duty in virtual form, before the adjustment applied in 2020 pursuant to note 3-*bis* to art. 13 of the Tariff introduced by Presidential Decree 642/1972. The non-current portion of stamp duty payable primarily regards the amount due at 31 December 2019 on interest-bearing postal certificates in circulation, in compliance with the legislation referred to in note A9 – Other receivables and assets.

Other amounts due to subsidiaries

tab. B9.4 - Other amounts due to subsidiaries

Name (€m)	Balance at 31/12/2019			Balance at 31/12/2018		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Direct subsidiaries						
Poste Vita SpA	-	-	-	-	114	114
PostePay SpA	-	21	21	-	73	73
SDA Express Courier SpA	5	12	17	6	12	18
BancoPosta Fondi SpA SGR	-	2	2	-	2	2
Poste Air Cargo Srl	-	-	-	-	1	1
Postel SpA	-	1	1	-	1	1
Risparmio Holding SpA	-	-	-	-	1	1
Total	**5**	**36**	**41**	**6**	**204**	**210**
of which attributable to BancoPosta RFC	-	*21*	*21*	-	-	-

This item partly regards the amount payable to subsidiaries by Poste Italiane SpA, as the consolidating entity in the tax consolidation arrangement (note 2.3 – Summary of significant accounting policies and measurement criteria), to whom the subsidiaries have transferred tax assets in the form of payments on account, withholding taxes and taxes paid overseas, after deducting IRES payable to the Parent Company by the subsidiary BancoPosta Fondi SpA SGR and the benefit connected with the tax loss contributed by SDA Express Courier SpA in 2019.

During 2019, the amount due to the subsidiary, PostePay SpA, of €72 million generated by the transfer of the monetics and payment services business unit to the latter on 1 October 2018, was settled.

Sundry payables

This item breaks down as follows:

tab. B9.5 - Sundry payables

Description (€m)	Balance at 31/12/2019			Balance at 31/12/2018		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Sundry payables attributable to BancoPosta	74	8	82	75	6	81
Guarantee deposits	12	-	12	10	-	10
Other payables	-	23	23	-	23	23
Total	**86**	**31**	**117**	**85**	**29**	**114**
of which attributable to BancoPosta RFC	*74*	*8*	*82*	*75*	*6*	*81*

Specifically:

- **Sundry payables attributable to BancoPosta's operations** primarily relate to prior period balances currently being verified.
- **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.).

6.4 Notes to the statement of profit or loss

C1 – Revenue from sales and services (€8,541 million)

tab. C1 - Revenue from sales and services

Description (€m)	FY 2019	FY 2018
Postal Services	2,929	2,925
of which Revenue from contracts with customers	2,929	2,925
recognised at a point in time	490	589
recognised over time	2,439	2,336
BancoPosta services	5,435	5,419
of which Revenue from contracts with customers	3,796	3,863
recognised at a point in time	412	505
recognised over time	3,384	3,358
Other sales of goods and services	177	75
of which Revenue from contracts with customers	177	75
recognised at a point in time	1	1
recognised over time	176	74
Total	**8,541**	**8,419**

Revenue from contracts with customers breaks down as follows:

- **Revenue from Postal Services** refer to services provided to customers through the retail and business channels; revenue generated through the retail channel is recognised at a point in time given the number of transactions handled through the various sales channels (Post Offices, call centres and online) and measured on the basis of the rates applied; revenue generated through the business channel is generally earned as a result of annual or multi-annual contracts and is recognised over time using the output method determined on the basis of shipments requested and handled. These contracts include elements of variable consideration (primarily volume discounts and penalties linked to the quality of service provided) estimated using the expected value method and recognised as a reduction from revenue.
- **Revenue from BancoPosta Services**, which breaks down as follows:
  - revenue from placement and brokerage: these are recognised over time and measured on the basis of the volumes placed, quantified on the basis of commercial agreements with financial institutions. In terms of payment for the collection of postal savings, the agreement entered into with Cassa Depositi e Prestiti envisages payment of a variable consideration on achieving certain levels of inflows, determined annually on the basis of the volume of inflows and expected redemptions; certain commercial agreements, entered into with leading financial partners for the placement of financial products, envisage the return of placement fees in the event of early termination or surrender by the customer;
  - revenue from current account and related services: these are recognised over time, measured on the basis of the service rendered (including the related services, e.g. bank transfers, securities deposits, etc.) and quantified on the basis of the contract terms and conditions offered to the customer;
  - revenue from fees on the processing of payment slips: these are recognised at a point in time given the number of transactions handled by Post Offices and quantified on the basis of the terms and conditions in the contract of sale.

Revenue from Postal Services

tab. C1.1 - Revenue from Postal Services

Description (€m)	FY 2019	FY 2018
Mail	2,169	2,277
Parcels	431	318
Philately	8	7
Total external revenue	**2,608**	**2,602**
Universal Service compensation	262	262
Publishing subsidies	59	61
Total revenue	**2,929**	**2,925**

During the year under review, to allow easier reading of the item **Revenue from Postal Services**, a different breakdown of this item is provided to allow a more immediate assessment of the economic and financial performance by segment of operations.

External revenue, substantially in line with 2018, show a decrease in revenue from Mail, offset by the increase in revenue from the Parcels segment, mainly due to the sale of express parcel courier services and pre- and after-sales assistance to customers acquired following the partial de-merger of SDA Express Courier SpA and the increase in shipments resulting from the partnership with Amazon and other main operators.

Universal Service compensation relates to amounts paid by the MEF to cover the costs of fulfilling the USO. Annual compensation, amounting to €262 million, is established in the *Contratto di Programma* (Service Contract) for 2015-2019, which expired 31 December 2019. On 30 December 2019, the new Contract for the years 2020-2024 was signed, which was formally notified to the European Commission for the usual assessments, still in progress, related to the European framework on State aid.

Publisher tariff subsidies[104] relate to the amount receivable by the Company from the *Presidenza del Consiglio dei Ministri - Dipartimento dell'Editoria* (Cabinet Office - Publishing department) as compensation for the discounts applied to publishers and non-profit organisations when sending mail. The compensation is determined on the basis of the tariffs set in the decree issued by the Ministry for Economic Development, in agreement with the Ministry of the Economy and Finance, on 21 October 2010 and Law Decree 63 of 18 May 2012, as converted into Law 103 of 16 July 2012. In this regard, it should be noted that for the year under review, the amount of subsidies that the Company has granted is partially covered in the 2019 State Budget.

104. Law Decree 162 of 30 December 2019 - as converted by Law no. 8 of 28 February 2020 - ordered that reimbursements of publishing tariff subsidies to Poste Italiane continue "for a duration equal to that of the universal postal service" (i.e. until April 2026). The application of the regulation is subject to approval by the European Commission.

BancoPosta services

tab. C1.2 - Revenue from BancoPosta services

Description (€m)	FY 2019	FY 2018
Fees for collection of postal savings deposits	1,799	1,827
Income from investment of postal current account deposits	1,638	1,556
Insurance brokerage	437	407
Other revenue from current account services	457	497
Commissions on payment of bills by payment slip	390	412
Distribution of loan products	327	262
Distribution of payment products and services	191	47
Income from delegated services	97	101
Distribution of investment funds	62	51
Money transfers	21	29
Commissions from securities trading	4	4
Securities custody	3	4
Fees for issue and use of prepaid cards	-	173
Other products and services	9	49
Total	**5,435**	**5,419**

Revenue from BancoPosta Services, substantially in line with 2018, include the decrease in commissions on the issue and use of prepaid cards due to the transfer of products in the monetics and payments segment to the subsidiary PostePay, with effect from 1 October 2018. This decrease is offset by the commissions received from the same following the contract entered into on the same date for the placement of payment products and services.

Specifically:

- **Fees for the collection of postal savings deposits** relates 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 14 December 2017 to cover the three-year period 2018-2020.
- **Income from the investment of postal current account deposits** breaks down as follows

tab. C1.2.1 - Income from investment of postal current account deposits

Description (€m)	FY 2019	FY 2018
Income from investments in securities	1,570	1,488
Interest income on securities at amortised cost	535	485
Interest income on securities at FVTOCI	1,012	981
Interest income (expense) on asset swaps of CFH on securities at FVOCI and CA	4	9
Interest income (expense) on asset swaps of FVH on securities at FVOCI and CA	(27)	(2)
Interest on repurchase agreements	46	15
Income from deposits held with the MEF	64	65
Remuneration of current account deposits (deposited with the MEF)	64	63
Differential on derivatives stabilising returns	-	2
Other	4	3
Total	**1,638**	**1,556**

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 A6 – Financial assets attributable to BancoPosta.

Income from deposits held with the MEF primarily represents accrued interest for the year on amounts deposited by Public Administration entities.

- **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 current account services** primarily relates to charges on current accounts (€216 million), fees on amounts collected and on statements of account sent to customers (€108 million), annual fees on debit cards (€21 million) and related transactions (€28 million).
- 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 the **distribution of payment products** and services regards fees received in return for distributing and promoting the products issued by the subsidiary, PostePay SpA.
- **Income from delegated services** primarily regards amounts received by the Company for the payment of pensions and vouchers issued by INPS (€36 million), and for the provision of treasury services on the basis of the agreement with the MEF (€58 million).

Other sales of goods and services

The main revenue items include: income recognised from the subsidiary PostePay SpA, for cash and payment transactions (€114 million) and income from call centre services (€7 million).

C2 – Other income from financial activities (€384 million)

tab. C2 - Other income from financial activities

Description (€m)	FY 2019	FY 2018
Income from equity instruments at FVTPL	27	9
Fair value gains	25	9
Realised gains	1	-
Dividends from other equity investments	1	-
Income from financial instruments at FVTOCI	353	400
Realised gains	353	400
Income from financial assets at amortised cost	-	4
Realised gains	-	4
Foreign exchange gains	4	4
Realised gains	4	4
Other income	-	1
Total	**384**	**418**

Other income from financial activities decreased by €34 million compared to 2018, mainly due to lower profits from the sale of financial assets to FVTOCI (-€47 million), partly offset by the increase in the fair value of the preferred shares of Visa Incorporated (+€16 million).

C3 – Other operating income (€478 million)

tab. C3 - Other operating income

Description (€m)	FY 2019	FY 2018
Dividends from subsidiaries	348	262
Recoveries of contract expenses and other recoveries	16	12
Rentals	12	14
Government grants	8	10
Gains on disposals	2	117
Recovery of cost of seconded staff	1	6
Other income	91	31
Total	**478**	**452**

The increase in Other operating income is due to the recognition of income deriving from non-existent liabilities defined as a result of analyses carried out on the transitional accounts used as part of the operations of BancoPosta RFC.

Dividends from subsidiaries

tab. C3.1 - Dividends from subsidiaries

Name (€m)	FY 2019	FY 2018
Poste Vita SpA	285	238
PostePay SpA	33	9
BancoPosta Fondi SpA SGR	30	15
Total	**348**	**262**

Gains on disposals

Name (€m)	FY 2019	FY 2018
Gains on disposal of investments	2	116
Gains on disposal of investment property	-	1
Total	**2**	**117**

For the purposes of reconciliation with the statement of cash flows, in 2019 this item amounts to €1 million, after losses of €1 million. In 2018, this item, after losses of €2 million, amounted to €115 million.

C4 – Cost of goods and services (€1,854 million)

tab. C4 - Cost of goods and services

Name (€m)	FY 2019	FY 2018
Service costs	1,678	1,361
Lease expense	74	270
Raw, ancillary and consumable materials and goods for resale	102	94
Total	**1,854**	**1,725**

The increase of €129 million compared with 2018 is mainly due to higher service costs, partly offset by the decrease in Lease and rental costs (following the application from 1 January 2019 of IFRS 16 - Leases).

Services

tab. C4.1 - Service costs

Description (€m)	FY 2019	FY 2018
Outsourcing fees and external service charges	483	208
Transport of mail, parcels and forms	387	243
Routine maintenance and technical assistance	196	194
Personnel services	131	133
Energy and water	116	108
Transport of cash	89	91
Cleaning, waste disposal and security	67	68
Mail, telegraph and telex	58	58
Advertising and promotions	53	57
Telecommunications and data transmission	36	43
Electronic document management, printing and enveloping services	28	46
Consultants' fees and legal expenses	15	21
Insurance premiums	9	9
Agent commissions and other	5	6
Credit and debit card fees and charges	3	74
Securities custody and management fees	2	2
Total	**1,678**	**1,361**

The increase in Outsourcing fees and external service charges is primarily due to the cost of services provided by the subsidiary PostePay SpA, which in 2018 will only be affected from 1 October 2018, the effective date of the contract to outsource the management of service products.

Lease expense

tab. C4.2 - Lease expense

Description (€m)	FY 2019	FY 2018
Property rentals	6	155
Vehicle leases	2	57
Equipment hire and software licences	60	54
Other lease expense	6	4
Total	**74**	**270**

Raw, ancillary and consumable materials and goods for resale

tab. C4.3 - Raw, ancillary and consumable materials and goods for resale

Description (€m)	FY 2019	FY 2018
Fuels and lubricants	47	45
Consumables and goods for resale	30	28
Stationery and printed matter	18	17
Printing of postage and revenue stamps	7	4
Total	**102**	**94**

C5 – Expenses from financial activities (€100 million)

tab. C5 - Expenses from financial activities

Description (€m)	FY 2019	FY 2018
Interest expense	67	23
Interest on customers' deposits	32	10
Interest on guarantee deposits	21	4
Interest expense on repurchase agreements	9	6
Interest due to MEF	5	3
Expense from financial instruments at FVTOCI	3	22
Realised losses	3	22
Expenses from financial assets at amortised cost	11	3
Realised losses	11	3
Expenses from fair value hedges	4	2
Fair value losses	4	2
Expenses from financial assets at FVTPL	15	-
Fair value losses	15	-
Total	**100**	**50**

Charges from financial operations increased by €50 million compared to 2018 mainly due to the increase in interest expense (+€44 million) and valuation charges on forward sales of preference shares of Visa Incorporated (+€15 million) partly offset by the decrease in realised losses from financial assets at FVTOCI (-€19 million).

C6 – Personnel expenses (€5,702 million)

tab. C6 - Personnel expenses

Description (€m)	Note	FY 2019	FY 2018
Wages and salaries		3,978	3,976
Social security contributions		1,154	1,137
Employee termination benefits: supplementary pension funds and INPS		241	248
Agency staff		15	8
Remuneration and expenses paid to Directors		2	2
Share-based payments		11	4
Early retirement incentives		16	173
Net provisions (reversals) for disputes with staff	[tab. B4]	4	2
Provisions for early retirement incentives	[tab. B4]	369	444
Amounts recovered from staff due to disputes		(10)	(5)
Other personnel expenses/(cost recoveries)		(78)	(42)
Total		**5,702**	**5,947**

The personnel expenses decreased by a total of €245 million compared to 2018, mainly due to lower costs for early retirement incentives and higher recovery of personnel costs due to changes in estimates made in previous years. The ordinary component of the personnel expenses reflects the reduction in the average number of staff employed (more than 5 thousand FTE less than 2018), which almost entirely offset the increase in the cost per capita linked to the effect of the latest contract renewal (2016-2018 National Collective Labour Contract), as well as the recognition of an all-inclusive amount to cover the entire year 2019 established by an agreement with the labour unions signed on 18 February 2020.

Net provisions for disputes with staff and provisions for restructuring charges are described in note B4 – Provisions for risks and charges.

Other personnel expenses/(cost recoveries) include the release of liabilities of €45 million allocated in previous years to support unprotected early retirement.

The following table shows the Company's average and year-end headcounts by category:

tab. C6.1 - Number of employees

	Average		Year end	
Permanent workforce	FY 2019	FY 2018	31/12/2019	31/12/2018
Executives	550	573	547	549
Middle managers (A1)	6,173	6,389	6,092	6,184
Middle managers (A2)	7,818	8,130	7,597	7,879
Grades B, C, D	101,163	107,149	97,071	103,820
Grades E, F	2,161	580	4,156	891
Total employees on permanent contracts*	**117,865**	**122,821**	**115,463**	**119,323**

* Figures expressed in full-time equivalent terms.

Furthermore, taking account of staff on flexible contracts, the average number of full-time equivalent staff is 125,894 (in 2018: 130,867).

C7 – Depreciation, amortisation and impairments (€674 million)

tab. C7 - Depreciation, amortisation and impairments

Description (€m)	FY 2019	FY 2018
Depreciation of property, plant and equipment	295	297
Properties used in operations	108	111
Plant and machinery	70	68
Industrial and commercial equipment	9	9
Leasehold improvements	40	32
Other assets	68	77
Impairments/recoveries/adjustments of property, plant and equipment	(5)	(6)
Depreciation of investment property	4	4
Amortisation of right-of-use assets	189	-
Properties used in operations	128	-
Company fleet	54	-
Vehicles for mixed use	4	-
Other assets	3	-
Amortisation and impairments of intangible assets	191	179
Industrial patents and intellectual property rights	191	179
Total	**674**	**474**

Depreciation, amortisation and impairments are up €200 million compared with 2018, almost entirely due to depreciation of right-of-use assets (IFRS 16).

C8 – Other operating costs (€196 million)

tab. C8 - Other operating costs

Description (€m)	Note	FY 2019	FY 2018
Operational risk events		34	46
Thefts	[tab. B6.1.2]	4	5
Loss of BancoPosta assets, net of recoveries		-	1
Other operating losses of BancoPosta		30	40
Net provisions for risks and charges made/(released)		16	72
for disputes with third parties	[tab. B4]	(4)	2
for operational risks	[tab. B4]	10	79
for expired and statute barred postal certificates	[tab. B4]	-	(15)
for other risks and charges	[tab. B4]	10	6
Capital losses		1	2
Other taxes and duties		88	64
Municipal property tax		26	25
Urban waste tax		21	21
Other		41	18
Impairments of investments	[tab. A5.1]	32	94
Other recurring expenses		25	28
Total		**196**	**306**

The decrease of €110 million compared with 2018 is mainly due to lower net provisions for risks and charges (-€56 million), lower operating losses on BancoPosta RFC (-€10 million) and lower impairment of investments (-€62 million), partly offset by higher costs for non-deductible VAT on lease agreements, reclassified by nature at 31 December 2019, as a result of the application of IFRS 16.

C9 – Impairment losses/(reversals of impairment losses) on debt instruments, receivables and other assets (€41 million)

tab. C9 - Impairment losses/(Reversals of impairment losses) on debt instruments, receivables and other assets

Description (€m)	FY 2019	FY 2018
Net provisions and losses on receivables and other assets (uses of provisions)	43	21
Provisions (reversal of provisions) for receivables due from customers	37	8
Provisions (reversal of provisions) for receivables due from the MEF	-	(1)
Provisions (reversal of provisions) for sundry receivables	6	14
Net impairment losses on debt instruments and receivables attributable to financial activities	(2)	1
Impairment/(reversal) on debt instruments at FVTOCI	(1)	(1)
Impairment/(reversal) on debt instruments at amortised cost	(1)	2
Total	**41**	**22**

The increase of €19 million compared with 2018 is mainly due to higher impairment of trade receivables (+€29 million), offset in part by lower impairment of other receivables (-€8 million).

C10 – Finance income (€70 million) and costs (€59 million)

Finance income

tab C10.1 - Finance income

Description (€m)	FY 2019	FY 2018
Income from subsidiaries and associates	53	29
Interest on loans	7	6
Interest on intercompany current accounts	1	1
Dividends from associates*	6	17
Other finance income	39	5
Income from financial instruments at FVTOCI	5	5
Interest on fixed-income instruments	16	16
Accrued differentials on fair value hedges	(11)	(11)
Other finance income	7	6
Finance income on discounting receivables**	4	5
Late payment interest	14	13
Impairment of amounts due as late payment interest	(14)	(13)
Other	3	1
Foreign exchange gains*	5	4
Total	**70**	**44**

* For the purposes of reconciliation with the statement of cash flows, in 2019 finance income after foreign exchange gains and dividends from associates amounts to €59 million (€23 million in 2018).
** Finance income on discounted receivables regards interest on amounts due from staff and INPS under the fixed-term contract settlements of 2006, 2008, 2010, 2012, 2013, 2015 and 2018.

The increase of €26 million compared with 2018 is due mainly to commissions for non-utilisation of committed credit lines provided to certain subsidiaries, offset in part by lower dividends received from associates.

Finance costs

tab. C10.2 - Finance costs

Description (€m)	Note	FY 2019	FY 2018
Finance costs on financial liabilities		29	15
on lease payables		25	-
on borrowings from financial institutions		2	1
on bonds		1	13
on derivative financial instruments		1	1
Finance costs on provisions for employee termination benefits and pension plans	[tab. B5]	17	19
Finance costs on provisions for risks	[tab. B4]	1	-
Impairment of investments in joint ventures		-	27
Other finance costs		8	5
Foreign exchange losses*		4	4
Total		**59**	**70**

* For the purposes of reconciliation with the statement of cash flows, in 2019 finance costs after foreign exchange losses amounted to €55 million (€66 million in 2018).

The decrease of €11 million compared with 2018 is due mainly to lower charges on bond issues following the redemption in June 2018 of a bond issue with nominal value of €750 million (-€12 million), the absence of impairment of investments in associates (-€27 million), offset in part by higher charges on lease obligations (+€25 million).

C11 – Impairment losses / (reversals of impairment losses) on financial assets (€45 million)

tab. C11 - Impairment losses/(Reversals of impairment losses) on financial assets

Description (€m)	FY 2019	FY 2018
Net impairment losses on financial receivables	-	20
Impairment losses/(Reversals of impairment losses) on financial receivables	-	20
Impairment of the receivable for interest income on IRES	45	-
Total	**45**	**20**

The impairment of the receivable for interest income on IRES repayment is commented on in note A9.

C12 – Income tax expense (€162 million)

The nominal tax rate for IRES is 24%, 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 4.49%.

tab. C12 - Income tax expense

Description (€m)	FY 2019			FY 2018		
	IRES	IRAP	Total	IRES	IRAP	Total
Current tax expense	60	34	94	119	35	154
Deferred tax assets	59	10	69	(7)	2	(5)
Deferred tax liabilities	(1)	-	(1)	(1)	-	(1)
Total	**118**	**44**	**162**	**111**	**37**	**148**

The tax rate for 2019 is 19.7% and consists of:

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

Description (€m)	FY 2019		FY 2018	
	IRES	Tax Rate	IRES	Tax Rate
Profit before tax	823		732	
Theoretical tax charge	198	24.0%	176	24.0%
Effect of increases/(decreases)on theoretical tax charge				
Dividends from investee companies	(81)	-9.83%	(64)	-8.68%
Taxation for previous years	(6)	-0.74%	(7)	-0.95%
Realised gains on investments	(1)	-0.04%	(27)	-3.62%
Adjustments to investments	8	0.95%	29	3.97%
Net provisions for risks and charges and bad debts	6	0.73%	3	0.37%
Non-deductible out-of-period losses	5	0.59%	3	0.41%
Non-deductible taxes	3	0.40%	5	0.67%
Other	(14)	-1.74%	(7)	-0.93%
Effective tax charge	**118**	**14.32%**	**111**	**15.24%**

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

Description (€m)	FY 2019		FY 2018	
	IRAP	Tax Rate	IRAP	Tax Rate
Profit before tax	823		732	
Theoretical tax charge	37	4.49%	33	4.49%
Effect of increases/(decreases)on theoretical tax charge				
Dividends from investee companies	(16)	-1.94%	(13)	-1.71%
Non-deductible personnel expenses	13	1.53%	12	1.69%
Net provisions for risks and charges and bad debts	6	0.73%	2	0.29%
Impairment loss/(reversal) on financial instruments	2	0.25%	6	0.87%
Taxation for previous years	-	-	(3)	-0.35%
Other	2	0.32%	(1)	-0.23%
Effective tax charge	**44**	**5.38%**	**36**	**5.06%**

Current tax expense

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

Description (€m)	Current tax 2019		
	IRES Assets/(Liabilities)	IRAP Assets/(Liabilities)	Total
Balance at 1 January	**80**	**3**	**83**
Payment of	181	46	227
payments on account for the current year	181	38	219
balance payable for the previous year	-	8	8
Claim for IRAP refund	-	(8)	(8)
Provisions to profit or loss	(60)	(34)	(94)
Provisions to equity	-	3	3
Tax consolidation	(385)	-	(385)
Other	21*	-	21
Balance at 31 December	**(163)**	**10**	**(153)**
of which:			
Current tax assets	36	10	46
Current tax liabilities	(199)	-	(199)

* This item refers to receivables for withholding taxes.

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 2019 primarily regard:

- a tax liability of €190 million relating to all the companies participating in the tax consolidation arrangement and reflecting payments of IRES and IRAP on account and refundable IRAP from the previous year, after provisions for IRES and IRAP for 2019;
- the substitute tax credit of €32 million relating to the redemption carried out by the Company during 2018, pursuant to art. 15, paragraph 10 ter of Law Decree 185 of 29 November 2008, of the higher values resulting from the notes to the consolidated financial statements at 31 December 2017, of goodwill and other intangible assets relating to the acquisition of the investment in FSIA Investimenti Srl;
- the remaining IRES receivable of €4 million to be recovered on the failure to deduct IRAP resulting from the requests filed pursuant to art. 6 of Law Decree 185 of 29 November 2008 and art. 2 of Law Decree 201 of 6 December 2011, which provided for a partial deductibility of IRAP for IRES purposes (in this regard, see as reported on receivables for related interest in Note A9).

Deferred tax assets and liabilities

Details of this item at 31 December 2019 are shown in the following table:

tab. C12.4 - Deferred taxes

Description (€m)	Balance at 31/12/2019	Balance at 31/12/2018
Deferred tax assets	675	863
Deferred tax liabilities	(666)	(376)
Total	**9**	**487**
of which attributable to BancoPosta RFC		
Deferred tax assets	312	507
Deferred tax liabilities	(662)	(372)

Movements in deferred tax assets and liabilities are shown below:

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

Description (€m)	Note	FY 2019
Balance at 1 January		**487**
Net income/(expense) recognised in profit or loss		(68)
Net income/(expense) recognised in equity	[tab. C12.8]	(411)
Extraordinary transactions*		1
Balance at 31 December		**9**

* Extraordinary transactions relate to the balance of deferred tax assets transferred to Poste Italiane SpA following the partial de-merger of the business unit of the subsidiary SDA Express Courier SpA, on 1 November 2019.

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

tab. C12.6 - Movements in deferred tax assets

Description (€m)	Investment property	Financial assets and liabilities	Provisions to cover expected losses	Provisions for risks and charges	Discounting of provisions for employee termination benefits	Contract liabilities	Other	Total
Balance at 1 January 2019	**17**	**370**	**89**	**313**	**19**	**10**	**45**	**863**
Income/(expense) recognised in profit or loss	1	1	(5)	(76)	-	3	7	(69)
Income/(expense) recognised in equity	-	(137)	-	-	17	-	-	(120)
Extraordinary transactions	-	-	1	-	-	-	-	1
Balance at 31 December 2019	**18**	**234**	**85**	**237**	**36**	**13**	**52**	**675**

tab. C12.7 - Movements in deferred tax liabilities

Description (€m)	Financial assets and liabilities	Other	Total
Balance at 1 January 2019	**373**	**2**	**375**
Income/(expense) recognised in profit or loss	-	(1)	(1)
Income/(expense) recognised in equity	291	-	291
Balance at 31 December 2019	**664**	**1**	**665**

At 31 December 2019, deferred tax assets and liabilities recognised directly in equity are as follows:

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

Description (€m)	Increases/(decreases) in equity	
	FY 2019	FY 2018
Fair value reserve for financial assets at FVTOCI	(417)	651
Cash flow hedge reserve	(11)	(60)
Actuarial gains /(losses) on employee termination benefits	17	(5)
Total	**(411)**	**586**

6.5 Related party transactions

Impact of related party transactions on statement of financial position and profit and loss

Impact of related party transactions on the financial position at 31 December 2019

	Balance at 31/12/2019								
Name (€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									
BancoPosta Fondi SpA SGR	-	-	22	-	-	16	3	12	2
CLP ScpA	-	-	14	-	-	1	-	105	-
Consorzio PosteMotori	-	-	21	-	-	44	-	2	-
Consorzio Servizi Telef. Mobile ScpA	-	-	-	-	-	-	-	29	-
EGI SpA	-	-	1	1	-	13	43	10	-
Poste Air Cargo Srl	-	13	4	1	-	-	-	-	-
PatentiViaPoste ScpA	-	-	6	-	-	12	-	1	-
Poste Tributi ScpA (in liquidation)	-	-	5	-	-	2	-	-	-
Poste Vita SpA	-	251	147	207	-	237	103	1	-
Postel SpA	-	13	46	1	-	7	-	25	1
Postepay SpA	50	-	121	40	-	5,222	398	88	21
SDA Express Courier SpA	-	60	85	2	-	4	-	145	17
Indirect subsidiaries									
Kipoint SpA	-	-	-	-	-	1	-	-	-
Poste Assicura SpA	-	-	8	4	-	8	-	-	-
Poste Welfare Servizi Srl	-	-	-	-	-	8	-	-	-
Related parties external to the Group									
MEF	7,066	-	188	4	495	4,542	4	9	8
Cassa Depositi e Prestiti Group	3,948	-	452	-	-	-	-	-	-
Enel Group	-	-	25	-	-	-	-	-	-
Eni Group	-	-	8	-	-	-	-	9	-
Leonardo Group	-	-	1	-	-	-	-	45	-
Monte dei Paschi di Siena Group	143	-	8	-	-	400	-	-	-
Invitalia Group	-	49	2	-	-	-	-	-	-
Other related parties external to the Group	-	-	12	-	-	-	5	15	64
Provision for doubtful debts owing from external related parties	(4)	(20)	(40)	-	-	-	-	-	-
Total	**11,203**	**366**	**1,136**	**260**	**495**	**10,517**	**556**	**496**	**113**

Impact of related party transactions on the financial position at 31 December 2018

Name (€m)	Balance at 31/12/2018								
	BancoPosta's financial assets	Financial assets	Trade receivables	Other receivables and assets	Cash and cash equivalents	BancoPosta's financial liabilities	Financial liabilities	Trade payables	Other liabilities
Direct subsidiaries									
BancoPosta Fondi SpA SGR	-	-	16	-	-	20	15	1	2
CLP ScpA	-	-	15	-	-	1	-	80	-
Consorzio PosteMotori	-	-	15	-	-	45	-	1	-
Consorzio Servizi Telef. Mobile ScpA	-	-	-	-	-	1	-	14	-
EGI SpA	-	-	1	-	-	7	-	15	-
Mistral Air Srl	-	15	3	1	-	-	-	-	1
PatentiViaPoste ScpA	-	-	6	-	-	9	-	1	-
Poste Tributi ScpA (in liquidation)	-	-	5	-	-	1	-	-	-
Poste Vita SpA	-	256	143	-	-	539	79	1	114
Postel SpA	-	12	42	1	-	6	-	33	1
PostePay SpA	174	-	103	17	-	4.291	18	83	73
Risparmio Holding SpA	-	-	-	-	-	-	-	-	1
SDA Express Courier SpA	-	77	40	2	-	3	-	46	18
Indirect subsidiaries									
Poste Assicura SpA	-	-	8	4	-	5	-	1	-
Poste Welfare Servizi Srl	-	-	-	-	-	9	-	-	-
Joint ventures									
SIA Group	-	-	-	-	-	-	-	5	-
Related parties external to the Group									
MEF	5.930	-	197	11	1.306	3.649	-	43	8
Cassa Depositi e Prestiti Group	4.541	-	440	-	-	-	-	-	-
Enel Group	-	-	26	-	-	-	-	-	-
Eni Group	-	-	5	-	-	-	-	12	-
Leonardo Group	-	-	-	-	-	-	-	41	-
Monte dei Paschi Group	44	-	3	-	-	337	-	-	-
Invitalia Group	-	69	2	-	-	-	-	-	-
Other related parties external to the Group	-	-	18	-	-	-	-	10	64
Provisions for doubtful debts from external related parties	(5)	(20)	(39)	(3)	-	-	-	-	-
Total	**10.684**	**409**	**1.049**	**33**	**1.306**	**8.923**	**112**	**387**	**282**

At 31 December 2019, total provisions for risks and charges made to cover probable liabilities arising from transactions with related parties external to the Company and attributable primarily to trading relations amount to €70 million (€71 million at 31 December 2018).

Impact of related party transactions on profit or loss

Name (€m)	FY 2019										
	Revenue			Costs							
	Revenue from sales and services	Other operating income	Finance income	Capital expenditure		Current expenditure					
				Property, plant and equipment	Intangible assets	Cost of goods and services	Expenses from financial activities	Personnel expenses	Other operating costs	Impairment losses/ (Reversals of impairment losses) on debt instruments, receivables and other assets	Finance costs
Direct subsidiaries											
BancoPosta Fondi SpA SGR	66	30	-	-	-	11	-	(1)	-	-	-
CLP ScpA	5	-	-	4	2	171	-	-	3	-	-
Consorzio PosteMotori	42	-	-	-	-	-	-	-	2	-	-
Consorzio Servizi Telef. Mobile ScpA	-	-	-	-	2	23	-	-	-	-	-
EGI SpA	-	-	-	-	-	97	-	-	-	-	1
Poste Air Cargo Srl	-	-	-	-	-	-	-	-	-	-	-
PatentiViaPoste ScpA	26	-	-	-	-	-	-	-	-	-	-
Poste Tributi ScpA (in liquidation)	-	-	-	-	-	-	-	-	-	-	-
Poste Vita SpA	445	285	46	-	-	-	-	-	-	-	-
Postel SpA	10	2	-	-	-	32	-	3	-	-	-
Postepay SpA	397	36	-	-	-	326	22	-	-	-	-
Risparmio Holding SpA	-	1	-	-	-	-	-	-	-	-	-
SDA Express Courier SpA	17	2	1	-	-	210	-	8	-	-	-
Indirect subsidiaries				-							
Poste Assicura SpA	40	-	-	-	-	-	-	-	-	-	-
Associates				-							
Anima Group	3	-	6	-	-	-	-	-	-	-	-
Related parties external to the Group				-							
MEF	466	-	-	-	-	1	5	-	1	-	-
Cassa Depositi e Prestiti Group	1.875	-	-	-	-	-	-	-	-	1	1
Enel Group	57	-	-	-	-	-	-	-	-	-	-
Eni Group	19	-	-	-	-	26	-	-	-	-	-
Leonardo Group	-	-	-	-	3	19	-	-	-	-	-
Monte dei Paschi Group	16	-	-	-	-	-	-	-	-	-	-
Invitalia Group	1	-	-	-	-	-	-	-	-	-	-
Other related parties external to the Group	38	-	-	-	-	3	-	49	-	-	-
Total	**3.523**	**356**	**53**	**(4)**	**7**	**920**	**27**	**59**	**6**	**1**	**2**

Impairment loss/(reversal) on financial instruments

	FY 2018										
	Revenue			Costs							
				Capital expenditure		Current expenditure					
Name (€m)	Revenue from sales and services	Other operating income	Finance income	Property, plant and equipment	Intangible assets	Cost of goods and services	Expenses from financial activities	Personnel expenses	Other operating costs	Impairment losses/ (Reversals of impairment losses) on debt instruments, receivables and other assets	Impairment loss/ (reversal) on financial instruments
Direct subsidiaries											
BancoPosta Fondi SpA SGR	53	15	-	-	-	-	-	-	-	-	-
CLP ScpA	5	-	-	2	-	152	-	-	3	-	-
Consorzio PosteMotori	40	-	-	-	-	-	-	-	1	-	-
Consorzio Servizi Telef. Mobile ScpA	-	-	-	-	2	24	-	-	-	-	-
EGI SpA	-	1	-	-	-	96	-	-	-	-	-
Mistral Air Srl	-	1	-	-	-	-	-	-	-	-	-
PatentiViaPoste ScpA	25	-	-	-	-	-	-	-	-	-	-
Poste Vita SpA	412	239	11	-	-	-	-	1	-	-	-
Postel SpA	4	2	-	-	-	47	-	2	-	-	-
Postepay SpA	108	11	-	-	-	83	4	1	-	-	-
SDA Express Courier SpA	9	4	1	-	-	87	-	2	-	-	-
Indirect subsidiaries											
Kipoint SpA	-	-	-	-	-	1	-	-	-	-	-
Poste Assicura SpA	31	-	-	-	-	-	-	-	-	-	-
Joint ventures											
SIA Group	-	-	11	-	3	27	-	-	-	-	-
Associates											
Anima Group	2	116	6	-	-	-	-	-	-	-	-
Related parties external to the Group											
MEF	513	5	-	-	-	3	3	-	-	(4)	-
Cassa Depositi e Prestiti Group	1.892	-	-	-	-	-	-	-	-	1	-
Enel Group	58	-	-	-	-	-	-	-	-	-	-
Eni Group	20	-	-	-	-	30	-	-	-	-	-
Leonardo Group	-	-	-	-	12	28	-	-	-	-	-
Monte dei Paschi Group	20	-	-	-	-	-	-	-	-	-	-
Invitalia Group	2	-	-	-	-	-	-	-	-	-	20
Other related parties external to the Group	27	-	-	-	-	7	-	42	-	-	-
Total	**3.221**	**394**	**29**	**2**	**17**	**585**	**7**	**48**	**4**	**(3)**	**20**

At 31 December 2019, total provisions for risks and charges made to cover probable liabilities arising from transactions with related parties external to the Company and primarily attributable to trading relations amount to €1 million (€2 million at 31 December 2018).

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 (Universal Service) USO, the management of postal current accounts, as payment for delegated services, the franking of mail on credit, and for the integrated notification service.
- Amounts received from CDP SpA primarily relate to payment for the collection of postal savings deposits.
- Amounts received from the Enel Group primarily relate to payment for bulk mail shipments, unfranked mail, franking of mail on credit and postage paid mailing services. The costs incurred primarily relate to the supply of gas and electricity.
- Amounts received from the ENI Group primarily regard payment for mail shipments. The costs incurred relate to the supply of gas and of fuel for motorcycles and vehicles.
- Purchases from the Leonardo Group primarily relate to the supply, by Leonardo SpA, of equipment, maintenance and technical assistance for mechanised sorting equipment, and systems and IT assistance regarding the creation of document storage facilities, specialist consulting services and software maintenance, and the supply of software licences and of hardware.
- Amounts received from the Monte dei Paschi di Siena group primarily regard payment for mail shipments.

Impact of related party transactions and positions

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

Impact of related party transactions

Description (€m)	31/12/2019 Total in financial statements	31/12/2019 Total related parties	31/12/2019 Impact (%)	31/12/2018 Total in financial statements	31/12/2018 Total related parties	31/12/2018 Impact (%)
Financial position						
Financial assets attributable to BancoPosta	76,396	11,203	14.7	63,863	10,684	16.7
Financial assets	941	367	39.0	983	409	41.6
Trade receivables	2,385	1,139	47.8	2,261	1,049	46.4
Other receivables and assets	2,455	260	10.6	2,150	33	1.5
Cash and cash equivalents	1,206	495	41.0	2,127	1,306	61.4
Provisions for risks and charges	1,130	70	6.2	1,431	71	5.0
Financial liabilities attributable to BancoPosta	77,937	10,518	13.5	66,759	8,923	13.4
Financial liabilities	2,301	557	24.2	395	112	28.4
Trade payables	1,598	497	31.1	1,488	387	26.0
Other liabilities	2,961	114	3.9	3,114	282	9.1
Profit or loss						
Revenue from sales and services	8,541	3,524	41.3	84,719	3,221	3.8
Other operating income	478	358	74.9	448	394	87.9
Cost of goods and services	1,854	922	49.7	1,725	585	33.9
Expenses from financial activities	100	27	27.0	50	7	14.0
Personnel expenses	5,702	58	1.0	5,947	48	0.8
Other operating costs	196	6	3.1	306	4	1.3
Finance costs	59	3	5.1	70	-	n.a.
Finance income	70	54	77.1	44	29	65.9
Cash flow						
Net cash flow from /(for) operating activities	49	780	n.a.	1,974	2,607	n.a.
Net cash flow from /(for) investing activities	(736)	(50)	6.8	(399)	130	n.a.
Net cash flow from/(for) financing activities and shareholder transactions	(234)	(60)	25.6	(1,487)	(409)	27.5

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

Description (€000)	31/12/2019	31/12/2018
Remuneration to be paid in short/medium term	12,505	13,127
Post-employment benefits	510	532
Other benefits to be paid in longer term	1,855	1,223
Termination benefits	1,704	2,075
Share-based payments	4,906	2,840
Total	**21,480**	**19,797**

Remuneration of Statutory Auditors

Description (€000)	31/12/2019	31/12/2018
Remuneration	247	270
Expenses	20	19
Total	**267**	**289**

The remuneration paid to members of the Company's Supervisory Board for 2019 amounts to €84 thousand. In determining the re, the amounts paid to managers of Poste Italiane who are members of the Supervisory Board is not taken into account, as this remuneration is passed on to the employer.

No loans were granted to key management personnel during the year and, at 31 December 2019, the Company does not report receivables in respect of loans granted to key management personnel.

Transactions with staff pensions funds

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

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7. Risk management

Introduction

The note on Risk management is common to both the Group and Poste Italiane SpA. It deals with both financial risk (as defined by IFRS 7) and other types of risk that the Group deems it appropriate or necessary to disclose. Quantitative disclosures for Poste Italiane SpA alone are provided in the specific section of this note, unless otherwise indicated.

Financial risk

Information on financial risk management at 31 December 2019 is provided below, in accordance with the requirements of the international financial reporting standard, IFRS 7 – Financial Instruments: Disclosures.

Responsibility for coordinating and managing investment and hedging strategies related to BancoPosta RFC and Poste Italiane has been assigned to BancoPosta Fondi SpA SGR respectively from 1 January and 1 July 2019.

Poste Italiane SpA's financial activities, related to treasury management, medium-term funding transactions, including capital market transactions, and extraordinary and subsidised finance are the responsibility of the Parent Company's Administration, Finance and Control function.

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[105], 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 the use of a 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. Management of the relationship between the structure of deposits and investments is handled through an appropriate Asset & Liability Management system. 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[106], which, among other things, requires definition of a Risk Appetite Framework (RAF[107]), 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.
  With reference to BancoPosta RFC, following the positive development in revenue volumes and the change in the market scenario, the Leverage Ratio fell during the year to 3.0% at 31 December 2019, taking into account the increase in capital deriving from the calculation of part of the 2019 profits, no subject to distribution.

105. The funds raised by private customers on postal current accounts must be used in euro area government securities and, for a portion not exceeding 50% of the funds raised, in other securities backed by the Italian government guarantee.
106. See in particular the provisions laid down in Part I – Section IV – Chapter 3.
107. 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.

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 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). In the case of policies sold in previous years, the company has guaranteed a minimum return payable at maturity on such products (at 31 December 2019, this minimum return on existing policies ranged between 0% and 1.5%). Gains and losses resulting from measurement are attributed in full to policyholders and accounted for in specific technical provisions under the shadow accounting method. The calculation technique used by the Group in applying this method is based on the prospective yield on each separately managed account, considering a hypothetical realisation of unrealised gains and losses over a period of time that matches the assets and liabilities held in the *portfolio* (see note 2.3 in relation to "Insurance contracts").
  The impact of financial risk on investment performance can be absorbed in full or in part by the insurance provisions based on the level and structure of the guaranteed minimum returns and the profit-sharing mechanisms of the "separate *portfolio*" for the policyholder. The company determines the sustainability of minimum returns through periodic analyses using an internal financial-actuarial (Asset-Liability Management) model which simulates, for each separate *portfolio*, the change in value of the financial assets and the expected returns under a "central scenario" (based on current financial and commercial assumptions) and under stress and other scenarios based on different sets of assumptions. This model makes it possible to manage the risks assumed by Poste Vita SpA on a quantitative basis, thereby fostering reduced earnings volatility and optimal allocation of financial resources.
  Unit-linked products, relating to Class III insurance products, regard policies where the premium is invested in mutual investment funds. The Company constantly monitors the evolution of the risk profile of individual products.
  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 of **Poste Vita SpA** on 22 May 2019. 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, the focus is on the management of liquidity in order to meet claims.

Within the above context, balanced financial management and monitoring of the main risk/return profiles are carried out and ensured by dedicated organisational structures that operate separately and independently. In addition, specific processes are in place governing the assumption and management of and control over financial risks, including the progressive introduction of appropriate information systems.

In this regard, on 19 February 2018, the Board of Directors of Poste Italiane SpA adopted a revised version of the Guidelines for Internal Control and Risk Management System (SCIGR), which contains integrated guidelines for Poste Italiane SpA's Internal Control and Risk Management System.

From an organisational viewpoint, the model consists of:

- the **Audit, Risk and Sustainability Committee**, established in 2015, whose role, based on adequate research activity, is to act in an advisory capacity and make recommendations to support the Board of Directors in assessing and making decisions regarding Poste Italiane SpA's internal control and risk management system and, from February 2018, issues relating to Poste Italiane SpA's sustainability.
- the **Financial and Insurance Services Committee**, established on 19 March 2018 to replace the previous Finance, Savings and Investment Committee, with the aim of overseeing the process of developing the products and services distributed by BancoPosta, in order to take a uniform, integrated view of the entire offering and to monitor the performance of the financial investments in which private customer deposits are invested.
- an **Investment Committee established at the Group's insurance Company, Poste Vita SpA**, which, based on analyses by the relevant functions, provides advice to senior management on the development, implementation and oversight of investment strategy;
- appropriate functions established within the Parent Company and the subsidiaries providing financial and insurance services (BancoPosta Fondi SGR SpA and Poste Vita SpA) that perform Risk Measurement and Control activities, ensuring the organisational separation of risk assessment from risk management activities; the results of these activities are examined by the relevant advisory Committees, which are responsible for carrying out an integrated assessment of the main risk profiles.

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.

Poste Italiane Group

Fair value interest rate risk

This is the risk that the value of a financial instrument fluctuates as a result of movements in market interest rates.

This refers to the effects of changes in interest rates on the price of fixed rate financial instruments or variable rate financial instruments converted to fixed rate via cash flow hedges and, to a lesser degree, the effects of changes in interest rates on the fixed components of floating rate financial instruments or fixed rate financial instruments converted to variable rate via fair value hedges. The impact of these effects is directly related to the financial instrument's duration.

The following interest rate sensitivity analysis was based on changes in fair value with a parallel shift in the forward yield curve of +/- 100 bps. The sensitivities data shown by the analysis provide a base scenario that can be used to measure potential changes in fair value, in the presence of changes in interest rates.

The table below shows the sensitivity analysis for the fair value interest rate risk at 31 December 2019 for the Poste Italiane Group's positions.

Poste Italiane Group - Fair value interest rate risk

Description (€m)	Risk exposure		Change in value		Effect on liability toward policyholders		Profit/(Loss) before tax		Equity reserves before taxation	
	Nominal	*Fair value*	+100bps	-100bps	+100bps	-100bps	+100bps	-100bps	+100bps	-100bps
2019 effects										
Financial assets										
Financial assets at FVTOCI	123,884	139,821	(7,638)	7,625	(6,550)	6,550	-	-	(1,088)	1,075
Fixed income instruments	123,384	139,282	(7,635)	7,622	(6,547)	6,547	-	-	(1,088)	1,075
Other investments	500	539	(3)	3	(3)	3	-	-	-	-
Financial assets at FVTPL	1,431	2,459	(281)	281	(278)	278	(3)	3	-	-
Fixed income instruments	1,396	1,499	(58)	58	(55)	55	(3)	3	-	-
Other investments*	35	960	(223)	223	(223)	223	-	-	-	-
Financial liabilities										
Financial derivatives	1,450	(43)	72	(77)	4	(4)	-	-	68	(73)
Fair value though profit or loss	-	-	-	-	-	-	-	-	-	-
Cash flow hedges	1,330	(42)	68	(73)	-	-	-	-	68	(73)
Fair value hedges	120	(1)	4	(4)	4	(4)	-	-	-	-
Variability at 31 December 2019	**126,765**	**142,237**	**(7,847)**	**7,829**	**(6,824)**	**6,824**	**(3)**	**3**	**(1,020)**	**1,002**
2018 effects										
Financial assets										
Financial assets at FVTOCI	123,693	127,751	(5,967)	5,923	(5,132)	5,132	-	-	(835)	791
Fixed income instruments	123,193	127,226	(5,965)	5,921	(5,130)	5,130	-	-	(835)	791
Other investments	500	525	(2)	2	(2)	2	-	-	-	-
Financial assets at FVTPL	1,579	2,207	(232)	232	(232)	232	-	-	-	-
Fixed income instruments	1,550	1,571	(29)	29	(29)	29	-	-	-	-
Other investments*	29	636	(203)	203	(203)	203	-	-	-	-
Financial derivatives	2,885	155	(4)	4	-	-	-	-	(4)	4
Cash flow hedges	2,885	155	(4)	4	-	-	-	-	(4)	4
Fair value hedges	-	-	-	-	-	-	-	-	-	-
Financial liabilities						-				
Financial derivatives	50	(5)	2	(2)	-	-	-	-	2	(2)
Fair value though profit or loss	-	-	-	-	-	-	-	-	-	-
Cash flow hedges	50	(5)	2	(2)	-	-	-	-	2	(2)
Fair value hedges	-	-	-	-	-	-	-	-	-	-
Variability at 31 December 2018	**128,207**	**130,108**	**(6,201)**	**6,157**	**(5,364)**	**(5,364)**	**-**	**-**	**(837)**	**793**

* For Other investments relative to Mutual investment funds, the nominal value indicates the number of units held without taking into account the face value of the equity security.

In terms of **financial assets recognised at fair value through other comprehensive income**, the risk in question primarily relates to:

- fixed income government bonds held by Poste Vita SpA, totalling €84,998 million; of this amount, €83,112 million is used to cover Class I and V policies linked to separately managed funds, and €1,886 million relates to the company's free capital;
- €36,799 million in fixed income government bonds held by BancoPosta RFC, which consist of: fixed rate bonds amounting to €14,944 million; variable rate bonds converted into fixed rate bonds via interest rate swaps designated as cash flow hedges, totalling €2,076 million, inflation-linked securities amounting to €2,303 million, and fixed or variable rate bonds converted to variable rate positions via fair value hedges amounting to €17,476 million (including €15,555 million in forward starts);
- €16,714 million in non-government debt instruments held by Poste Vita SpA, used mainly to meet obligations towards policyholders.

Financial assets at fair value through profit or loss, which are recognised at risk, are held almost entirely by Poste Vita SpA and are primarily used to cover commitments to policyholders. These relate to a portion of investments in fixed income instruments totalling €1,499 million and the position in Other investments consisting mainly of units in mutual funds amounting to €938 million.

Within the context of **derivative financial instruments**, the risk in question primarily concerns:

- forward sales of government bonds with a nominal value of €1,280 million, classified as cash flow hedges, entered into by BancoPosta RFC;
- a derivative contract entered into by the Parent Company to protect cash flows relating to the €50 million variable rate bond;
- forward sale of a government bond with a nominal value of €120 million, classified as fair value hedge and entered into during the year by Poste Vita SpA.

At 31 December 2019, with reference to the interest rate risk exposure determined by the average duration[108], the duration of BancoPosta's overall investments went from 5.18 to 5.53. 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 6.18 at 31 December 2018 to 7.02 at 31 December 2019, whilst the duration of the liabilities went from 8.18 to 9.24 (assessment of the duration was carried out using the new Coherent Duration method[109]. The financial instruments intended to cover the technical provisions for Class III policies have maturities that match those of the liabilities.

Spread risk

This is the risk of a potential fall in the value of bonds held, following deterioration in the creditworthiness of issuers. This is due to the importance that the impact of the spread of returns on government securities had on the fair value of euro zone government and corporate securities, reflecting the market's perception of the credit rating of issuers.

The value of the *portfolio* of bonds issued or guaranteed by the Italian government is much more sensitive to the credit risk associated with the Italian Republic than to changes in so-called risk-free interest rates. This is due to the fact that changes in credit spreads are not hedged and regard the entire securities *portfolio*, meaning both the fixed and variable rate components. In this latter case, in fact, fair value derivatives, used to convert variable rate instruments, hedge only the risk-free interest rate risk and not credit risk. This means that a change in the credit spread has an equal impact on both fixed and variable instruments.

The 2019 financial year was characterised by a reduction in yields on Italian government bonds (the 10-year BTP fell from 2.7% to 1.4%), which brought the BTP-Bund spread to 160 basis points compared to 250 last year.

The performance of the Group's *portfolio* in the period under review is as follows:

i. the *portfolio* of *financial assets at fair value through other comprehensive income* held by Poste Italiane SpA (notional amount of approximately €32 billion) has undergone an overall net increase in fair value of approximately €3.7 billion: this change was partly recognised in the profit and loss for a positive amount of approximately €2 billion relating to the change in the fair value of securities hedged against interest rate risk, whilst the positive change in the fair value of unhedged securities and the spread risk component (not hedged) was reflected in consolidated equity for approximately €1.7 billion;
ii. an overall net increase of approximately €7.7 billion in the Poste Vita Group's *financial assets at fair value through other comprehensive income* (a nominal value of the fixed income instruments of approximately €92 billion), almost entirely passed on to policyholders and recognised in specific technical provisions under the shadow accounting mechanism.

The sensitivity to the spread has been calculated by applying a shift of +/- 100 bps to the yield curve for Italian government bonds.

108. Duration is the indicator used to estimate the percentage change in price in response to a shift in market returns.
109. The Coherent Duration of assets and liabilities is defined as changes in the value of assets and liabilities, in proportion to the total amount of assets exposed to interest rate risk, following parallel shocks raising and lowering interest rates by 10 basis points.

The table below shows the results of the analysis of sensitivity[110] to spread risk of the most significant positions in the *portfolios* of both the Parent Company and the Poste Vita Group at 31 December 2019.

Poste Italiane SpA - Effect of credit spread on fair value

Description (€m)	Risk exposure		Change in value		Equity reserves before taxation	
	Nominal	*Fair value*	+100bps	-100bps	+100bps	-100bps
2019 effects						
Financial assets						
Financial assets at FVTOCI	31,670	37,323	(3,464)	4,062	(3,464)	4,062
Fixed income instruments	31,670	37,323	(3,464)	4,062	(3,464)	4,062
Other investments	-	-	-	-	-	-
Financial liabilities						
Financial derivatives	1,280	(36)	70	(74)	70	(74)
Fair value though profit or loss	-	-	-	-	-	-
Cash flow hedges	1,280	(36)	70	(74)	70	(74)
Variability at 31 December 2019	**32,950**	**37,287**	**(3,394)**	**3,988**	**(3,394)**	**3,988**
2018 effects						
Financial assets						
Financial assets at FVTOCI	30,729	32,572	(2,598)	3,036	(2,598)	3,036
Fixed income instruments	30,729	32,572	(2,598)	3,036	(2,598)	3,036
Other investments	-	-	-	-	-	-
Financial derivatives	2.885	155	(4)	4	(4)	4
Cash flow hedges	2.885	155	(4)	4	(4)	4
Fair value hedges	-	-	-	-	-	-
Variability at 31 December 2018	**33,614**	**32,727**	**(2,602)**	**3,040**	**(2,602)**	**3,040**

For the purposes of full disclosure, a movement in the spread would have no accounting effect on financial assets measured at amortised cost, but would only impact unrealised gains and losses. In other words, fixed income instruments measured at amortised cost attributable entirely to BancoPosta, which at 31 December 2019 amounted to €25,064 million (nominal value of €21,175 million) and have a fair value of €24,686 million, would be reduced in fair value by approximately €2.7 billion following an increase in the spread of 100 bps, with the change not reflected in the accounts.

Movements in the spread have no impact on BancoPosta RFC's ability to meet its capital requirements, as the fair value reserves are not included in the computation of own funds for supervisory purposes.

110. For sensitivity purposes, the swap rate curve and the BTP curve were used (10-year swap rate of 21 bps and the spread of the BTP compared to the 10-year swap rate of 120 bps).

Poste Vita Group - Effect of credit spread on fair value

Description (€m)	Risk exposure		Change in value		Effect on liability toward policyholders		Profit/(Loss) before tax		Equity reserves before taxation	
	Notional	*Fair Value*	+100bps	-100bps	+100bps	-100bps	+100bps	-100bps	+100bps	-100bps
2019 effects										
Financial assets										
Financial assets at FVTOCI	92,183	102,466	(8,118)	8,118	(8,013)	8,013	-	-	(105)	105
Fixed income instruments	91,683	101,927	(8,098)	8,098	(7,993)	7,993	-	-	(105)	105
Other investments	500	539	(20)	20	(20)	20	-	-	-	-
Financial assets at FVTPL	1,431	2,459	(555)	555	(543)	543	(12)	12	-	-
Fixed income instruments	1,396	1,499	(331)	331	(319)	319	(12)	12	-	-
Other investments*	35	960	(224)	224	(224)	224	-	-	-	-
Financial liabilities										
Financial derivatives	120	(1)	4	(4)	4	(4)	-	-	-	-
Fair value though profit or loss	-	-	-	-	-	-	-	-	-	-
Cash flow hedges	-	-	-	-	-	-	-	-	-	-
Fair value hedges	120	(1)	4	(4)	4	(4)	-	-	-	-
Variability at 31 December 2019	**93,734**	**104,924**	**(8,669)**	**8,669**	**(8,552)**	**8,552**	**(12)**	**12**	**(105)**	**105**
2018 effects										
Financial assets										
Financial assets at FVTOCI	92,933	95,147	(5,818)	5,806	(5,753)	5,753	(12)	-	(53)	53
Fixed income instruments	92,433	94,622	(5,792)	5,780	(5,727)	5,727	(12)	-	(53)	53
Other investments	500	525	(26)	26	(26)	26	-	-	-	-
Financial assets at FVTPL	1,579	2,206	(235)	235	(234)	234	(1)	1	-	-
Fixed income instruments	1,550	1,571	(30)	30	(29)	29	(1)	1	-	-
Other investments*	29	635	(205)	205	(205)	205	-	-	-	-
Variability at 31 December 2018	**94,512**	**97,353**	**(6,053)**	**6,041**	**(5,987)**	**5,987**	**(13)**	**1**	**(53)**	**53**

* For Other investments relative to Mutual investment funds, the nominal value indicates the number of units held without taking into account the face value of the equity security.

For the purposes of full disclosure, following an increase in the spread of 100 bps, the Poste Vita Group's fixed income instruments measured at amortised cost, which at 31 December 2019 amounted to €1,729 million (nominal value of €1,697 million) and have a fair value of €1,955 million, would be reduced in fair value by approximately €136 million, with the change not reflected in the accounts.

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 following table shows the maximum potential loss computed at 31 December 2019, limited, in terms of materiality, to the financial assets held by the Parent Company and the Poste Vita Group.

Poste Italiane SpA - VAR analysis

Description (€m)	Risk exposure		
	Nominal	*Fair value*	*SpreadVaR*
2019 effects			
Financial assets			
Financial assets at FVTOCI	31,670	37,323	308
Fixed income instruments	31,670	37,323	308
Other investments	-	-	-
Variability at 31 December 2019	**31,670**	**37,323**	**308**
2018 effects			
Financial assets			
Financial assets at FVTOCI	30,729	32,572	380
Fixed income instruments	30,729	32,572	380
Other investments	-	-	-
Financial derivatives	1,545	94	24
Cash flow hedges	1,545	94	24
Fair value hedges	-	-	-
Variability at 31 December 2018	**32,274**	**32,666**	**404**

* The VAR indicated for derivative financial instruments only refers to forward purchases, whilst the VAR relating to fixed income instruments also takes into account forward sales.

Poste Vita Group - VAR analysis

Description (€m)	Risk exposure		
	Nominal	*Fair value*	*SpreadVaR*
2019 effects			
Financial assets			
Financial assets at FVTOCI	92,183	102,466	981
Fixed income instruments	91,683	101,927	1,003
Other investments	500	539	-
Financial assets at FVTPL	1,431	2,459	8
Fixed income instruments	1,396	1,499	7
Other investments*	35	960	1
Variability at 31 December 2019	**93,614**	**104,925**	**980**
2018 effects			
Financial assets			
Financial assets at FVTOCI	92,933	95,147	1,655
Fixed income instruments	92,433	94,622	1,655
Other investments	500	525	1
Financial assets at FVTPL	1,459	2,206	3
Fixed income instruments	1,430	1,571	2
Other investments*	29	635	1
Variability at 31 December 2018	**94,392**	**97,353**	**1,657**

* For Other investments relative to Mutual investment funds, the nominal value indicates the number of units held without taking into account the face value of the equity security.

Cash flow interest rate risk

This is defined as the uncertainty related to the generation of future cash flows, due to interest rate fluctuations. It may result from the misalignment - in terms of interest rates, indexation methods and maturities - of financial assets and liabilities that tend to remain in place until their contractual and/or expected maturity (so-called banking book) which, as such, generate economic effects in terms of net interest income, reflecting on the income results of future periods.

The following analysis refers to the uncertainty over future cash flows generated by variable rate instruments and variable rate instruments created through fair value hedges following fluctuations in market interest rates.

Sensitivity to cash flow interest rate risk relating to these instruments is calculated by assuming a parallel shift in the yield curve of +/- 100 bps.

Sensitivity to cash flow interest rate risk at 31 December 2019 on the Poste Italiane Group's positions is shown in the table below.

Poste Italiane Group - Cash flow interest rate risk

Description (€m)	Risk exposure	Change in value		Effect on liability toward policyholders		Profit/(Loss) before tax	
	Nominal	+100 bps	-100 bps	+100 bps	-100 bps	+100 bps	-100 bps
2019 effects							
Financial assets							
Financial assets at amortised cost							
Receivables							
Deposits with the MEF	7,066	71	(71)	-	-	71	(71)
Other financial receivables	5,683	57	(57)	-	-	57	(57)
Fixed income instruments	2,560	26	(26)	-	-	26	(26)
Financial assets at FVTOCI							
Fixed income instruments	12,677	127	(127)	83	(83)	44	(44)
Other investments	500	5	(5)	5	(5)	-	-
Financial assets at FVTPL							
Fixed income instruments	40	-	-	-	-	-	-
Other investments	21	-	-	-	-	-	-
Cash and deposits attributable to BancoPosta							
Bank deposits	816	8	(8)	-	-	8	(8)
Cash and cash equivalents							
Bank deposits	1.597	16	(16)	6	(6)	10	(10)
Deposits with the MEF	495	5	(5)	-	-	5	(5)
Financial liabilities							
Other financial liabilities	(112)	(1)	1	-	-	(1)	1
Variability at 31 December 2019	**31,343**	**314**	**(314)**	**94**	**(94)**	**220**	**(220)**

Description (€m)	Risk exposure	Change in value		Effect on liability toward policyholders		Profit/(Loss) before tax	
	Nominal	+100 bps	-100 bps	+100 bps	-100 bps	+100 bps	-100 bps
2018 effects							
Financial assets							
Financial assets at amortised cost							
Receivables							
Deposits with the MEF	5,930	59	(59)	-	-	59	(59)
Other financial receivables	1,682	17	(17)	-	-	17	(17)
Fixed income instruments	425	4	(4)	-	-	4	(4)
Financial assets at FVTOCI							
Fixed income instruments	14,018	140	(140)	110	(110)	30	(30)
Other investments	500	5	(5)	5	(5)	-	-
Financial assets at FVTPL							
Fixed income instruments	35	-	-	-	-	-	-
Other investments	21	-	-	-	-	-	-
Cash and deposits attributable to BancoPosta							
Bank deposits	351	4	(4)	-	-	4	(4)
Cash and cash equivalents							
Bank deposits	1,720	17	(17)	9	(9)	8	(8)
Deposits with the MEF	1,306	13	(13)	-	-	13	(13)
Financial liabilities							
Other financial liabilities	(71)	(1)	1	-	-	(1)	1
Variability at 31 December 2018	**25,917**	**258**	**(258)**	**124**	**(124)**	**134**	**(134)**

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 €7,066 million;
- receivables of €5,683 million, reflecting collateral posted to secure liabilities arising in relation to derivative financial instruments and repurchase agreements held by BancoPosta RFC, amounting to €5,660 million;
- a portion of the securities *portfolio* held by Poste Vita SpA, with a total nominal value of €9,253 million;
- fixed rate government bonds held by the Parent Company and swapped into variable rate through fair value hedges, with a total nominal amount of €6,400 million (including €4,385 million in securities hedged against changes in fair value, where the hedges will begin to have an effect on profit or loss in the 12 months after the end of the period under review); in addition to an inflation-linked bond issued by the Italian Republic, with a nominal value of €100 million, both of which have been hedged against changes in its fair value.

In relation to **cash and cash equivalents**, cash flow interest rate risk primarily relates to the bank deposits of Poste Italiane SpA and Poste Vita SpA, in addition to amounts deposited by the Parent Company with the MEF and held in the so-called buffer account.

Credit risk

This is the risk of default of one of the counterparties to which there is an exposure, with the exception of equities and units of mutual funds.

Credit risk management practices: inputs, assumptions and estimation techniques

The impairment model applicable to financial instruments measured at amortised cost and at fair value through other comprehensive income is based on Expected Credit Losses (ECL). Below, the methods adopted to manage credit risk are described.

General description of the models utilised

The Group uses the general impairment model in accordance with risk ratings estimated on the basis of the type of counterparty:

- Securities/deposits with Sovereign, Banking and Corporate counterparties: internal risk rating estimation models;
- Public Administration and Central Counterparties: risk ratings provided by an external provider and average default rates for the sector.

The simplified approach is applied to trade receivables, as described in greater detail later.

Significant increase in credit risk

Based on the impairment model adopted by the Poste Italiane Group to meet the requirements of the new accounting standard, any significant increase in credit risk associated with the financial instruments held, other than trade receivables, is determined on the basis of a change in the relevant credit rating between the time of the initial investment and the reporting date.
This change in notches is compared with a threshold that takes into account the following factors:

- the rating of the financial instrument at the time of investment;
- the rating of the financial instrument at the reporting date;
- the seniority of the position within the *portfolio* (vintage factor);
- an additive factor to mitigate the non-linearity of PD with respect to the rating classes[111];
- a judgmental factor to be used only in the presence of sudden changes in the creditworthiness not yet reflected by the rating[112].

The ratings used in stage allocation derive from internal models in the case of banking, sovereign and corporate counterparties, and external models in the case of Public Administration and Central Counterparties. Based on the above information, the Poste Italiane Group rebuts the presumption that there have been significant increases in credit risk following initial recognition, when financial assets are more than 30 days past due.

The Poste Italiane Group decided not to adopt the Low Credit Risk Exemption and to proceed instead with stage allocation of the financial instruments concerned.

Regarding trade receivables, given the adoption of the simplified approach under the new accounting standard, expected credit losses are determined throughout the lifetime of the instrument.

111. The additive factor is built in view of the rating level at the reporting date, where the better the final rating the higher the threshold for the transition to Stage 2.
112. The judgmental factor can summarise significant aspects in determining the significant increase of credit risk, considering such elements as:
    - an actual or expected significant change of the internal/external credit rating of the financial instrument;
    - actual or expected negative changes in economic, financial or business conditions that might cause a significant change in the borrower’s ability to honour its obligations, such as an actual or expected increase in interest rates or an actual or expected significant increase in the unemployment rate.

Definition of default

The Poste Italiane Group defines default on the basis of ad hoc assessments that take into account:

- any payment delays;
- market information such as a default rating by the rating agencies;
- internal analyses of specific exposures.

Collective and individual provisions

The collective impairment of a homogenous group of financial assets defines the expected credit loss (ECL) of the instrument, even though it cannot be associated with a specific exposure. Grouping takes place in relation to the type of counterparty on the basis of the estimated PD.

Individual provisions are considered only following the review of trade receivables for amounts in excess of a given threshold and only in relation to single receivables.

Forward looking information

According to the standard, the ECL calculation must also factor in forward looking components based on broad consensus scenarios.

The Poste Italiane Group incorporates forward looking information directly in the PD estimation. In particular, the internal approach adopted allows completion of the input dataset necessary to calculate PD starting from a number of scenario values related to the approach. The objective of the approach is to estimate the unknown variables by using the historical correlation of the available information[113].

Estimation techniques used

Since events of default cannot be used, as they are not very frequent, to develop credit scoring models for Sovereign, Banking and Corporate counterparties, a shadow rating approach has been adopted.

This method entails the use of target variables related to the level of external rating produced by the agencies. The target could be directly the rating or, alternatively, the default rate linked to the rating level.

The target was constructed on the basis of a rating agency selected as reference, considering both the large number of counterparties rated and the availability of historical data over a time horizon considered adequate.

The models have been constructed by extracting and utilising the following types of data for each country in the sample:

- macroeconomic data;
- market data: domestic equity indices, global energy/non-energy indices, Eurostoxx and S&P 500;
- financial statement data.

The internal model estimate used a definition of default based on the following approach:

- Government financial instruments – payment delays, including also for one day, or debt renegotiation;
- Corporate and Banking financial instruments – 90-day payment delays.

113. In particular, the use of such approach is limited to situations where, actually, the available data are deemed to be no longer representative of the counterparty's risk.

ECL measurement

Expected credit losses (ECL) are determined over a time horizon consistent with the stage level (12 months or lifetime) on the basis of the following factors:

- Probability di Default (PD);
- Loss Given Default (LGD);
- Exposure at Default (EAD);
- Time Factor (TF).

The main assumptions/choices adopted in the determination of the factors are as follows:

- PD: as indicated from the start a Point in Time (PIT) or forward-looking PD has been adopted, depending on the stage of the exposure;
- LGD: use has been made of the Internal Ratings-Based (IRB) approach under the Basel guidelines (45% for senior risk assets, 75% for subordinated risk assets);
- EAD: exposure calculated prospectively until maturity of the instrument, starting from the development of projected cash flows. In the development account was taken of specific indexation assumptions for every asset class (fixed income securities, floating-rate securities, inflation-indexed securities, etc.);
- TF: the effective interest rate of each exposure was used as discount factor.

Trade receivables

The Group adopts the simplified approach to test for the impairment of trade receivables, on the basis of which provisions for credit losses are determined for an amount equal to expected losses throughout the lifetime of the receivable. Such approach is implemented through the following process:

- based on total revenue or the historical credit exposure, all receivables or credit exposures exceeding a certain pre-established credit threshold are assessed analytically. The analytical evaluation of the exposures entails an analysis of the borrower's credit quality and solvency, as determined on the basis of internal and external supporting evidence;
- for receivables falling below the threshold set, through the preparation of a matrix with the different impairment percentages determined on the basis of historical losses, or on the historical pattern of collections. In constructing the impairment matrix, receivables are grouped by homogeneous categories, based on their characteristics, to take into account the historical loss experience.

Exposure to credit risk

With regard to the **financial assets** exposed to this risk and to which the accounting rules governing impairment apply, the following table shows the Poste Italiane Group's exposure at 31 December 2019, relating to financial assets measured at amortised cost and at fair value through other comprehensive income, for which a general deterioration model was used. The analysis shows the exposure by financial asset class by stages. The amounts refer to the gross carrying amount (amortised cost before ECL), unless otherwise indicated, and do not take into account guarantees or other credit enhancements.

Poste Italiane Group - Credit risk - Credit risk concentration

Description (€m)	from AAA to AA+		from A+ to BBB-		from BB+ to C		Not rated	Hedge accounting effects	Total
	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2			
2019 effects									
Financial assets at amortised cost									
Borrowings	-	-	1,158	-	-	-			1,158
Receivables	1,532	-	11,026	-	265	-			12,823
Fixed income instruments	-	-	23,932	-	-	-			23,932
Other investments	-	-	-	-	-	-			-
Gross carrying amount - Total	**1,532**	**-**	**36,116**	**-**	**265**	**-**			**37,913**
Provision to cover expected losses	-	-	(32)	-	-	-			(32)
Total amortised cost at 31 December 2019	**1,532**	**-**	**36,084**	**-**	**265**	**-**	**569**	**2,871**	**41,321**
2018 effects									
Financial assets at amortised cost									
Borrowings	-	-	251	-	-	-			251
Receivables	13	-	7,690	-	15	-			7,718
Fixed income instruments	-	-	23,356	-	-	-			23,356
Other investments	-	-	-	-	-	-			-
Gross carrying amount - Total	**13**	**-**	**31,297**	**-**	**15**	**-**			**31,325**
Provision to cover expected losses	-	-	(33)	-	-	-			(33)
Total amortised cost at 31 December 2018	**13**	**-**	**31,264**	**-**	**15**	**-**	**584**	**993**	**32,869**

Description (€m)	from AAA to AA+		from A+ to BBB-		from BB+ to C		Not rated	Hedge accounting effects	Total
	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2			
2019 effects									
Financial assets at FVTOCI									
Fixed income instruments	1,986	-	121,158	-	1,409	9			124,562
Other investments	-	-	500	-	-	-			500
Gross carrying amount - Total	**1,986**	**-**	**121,658**	**-**	**1,409**	**9**			**125,062**
Carrying amount - Fair value at 31 December 2019	**2,125**	**-**	**136,241**	**-**	**1,448**	**9**	**-**		**139,823**
2018 effects									
Financial assets at FVTOCI									
Fixed income instruments	1,591	-	121,268	35	743	21			123,658
Other investments	-	-	500	-	-	-			500
Gross carrying amount - Total	**1,591**	**-**	**121,768**	**35**	**743**	**21**			**124,158**
Carrying amount - Fair value at 31 December 2018	**1,688**	**-**	**125,281**	**36**	**725**	**20**	**-**		**127,750**

The following table shows the counterparty concentration of credit risk by financial asset class. Amounts refer to the gross carrying amount.

Poste Italiane Group - Credit risk - Credit risk concentration

Description (€m)	31/12/2019 Gross Carrying amount	31/12/2019 Provision to cover expected losses	31/12/2018 Gross Carrying amount	31/12/2018 Provision to cover expected losses
Financial assets at amortised cost	37,913	(32)	31,325	(33)
Borrowings	1,158	-	251	-
Sovereign	-	-	-	-
Corporate	1,158	-	251	-
Banking	-	-	-	-
Receivables	12,823	(23)	7,718	(23)
Sovereign	7,066	(3)	5,930	(3)
Corporate	1,105	(20)	410	(20)
Banking	4,652	-	1,378	-
Fixed income instruments	23,932	(9)	23,356	(10)
Sovereign	20,151	(8)	18,827	(10)
Corporate	3,770	(1)	4,518	-
Banking	11	-	11	-
Financial assets at FVTOCI	125,062	(48)	124,158	(14)
Fixed income instruments	124,562	(48)	123,658	(14)
Sovereign	108,464	(37)	108,393	(14)
Corporate	9,461	(9)	8,265	-
Banking	6,637	(2)	7,000	-
Other investments	500	-	500	-
Sovereign	-	-	-	-
Corporate	-	-	-	-
Banking	500	-	500	-
Total	**162,975**	**(80)**	**155,483**	**(47)**

Collateral held and other credit enhancements

Principles and processes involved in measuring and managing guarantees and other credit risk mitigation instruments

The Poste Italiane Group uses instruments to mitigate credit risk and counterparty risk. Specifically:

- as regards Poste Italiane SpA, primarily in relation to BancoPosta RFC, the credit and counterparty risks associated with hedging derivatives and repurchase agreements are mitigated by entering into a master netting agreement and requiring collateral in the form of cash or government bonds;
- the Poste Vita Group invests in, among other things, corporate bonds that are guaranteed in order to mitigate the overall exposure to credit risk;
- in terms of trade receivables, the Poste Italiane Group credit terms are extended for customers, requesting, in certain cases, guarantees or sureties issued by prime banks or insurance companies.

At 31 December 2019, the Group does not hold financial assets secured by guarantees or other risk mitigation instruments for which no loss provisions have been made (except for the temporary use of liquidity in repurchase agreements).

The main types of instrument used to mitigate credit risk are described below:

Fixed income instruments

Debt instruments held by the Group and secured by guarantees or other risk mitigation instruments are as follows:

- bonds issued by CDP SpA guaranteed by the Italian State and subscribed by BancoPosta RFC, amounting to a nominal value of €3,750 million at 31 December 2019. These are recognised as financial assets measured at amortised cost and, in determining the associated expected credit losses, account was taken of the PD of the Italian Republic;
- bonds held by the Poste Vita Group, amounting to a nominal value of €3,845 million at 31 December 2019. In these cases, the guarantee covers 100% of the nominal value of the securities. The guarantees securing these financial instruments are as follows:
  - corporate bonds backed by personal guarantees provided the parent company or another associate, amounting to a nominal value of €3,458 million;
  - covered bonds backed by mortgages, primarily property mortgages, amounting to a nominal value of €282 million;
  - bonds guaranteed by sovereign states, amounting to a nominal value of €105 million.

In the case of instruments backed by personal guarantees provided by a sovereign state or one or more companies, expected losses are calculated on the basis of the credit rating of the guarantor. With regard to covered bonds, the underlying guarantees were considered through the recognition of upgrades according to the type of guarantee.

Derivative financial instruments and repurchase agreements

In order to limit the counterparty risk exposure, Poste Italiane SpA has concluded standard ISDA master agreements (with attached CSA) and GMRAs which govern the collateralization of derivative transactions and repurchase agreements, respectively.

In addition, in order to mitigate counterparty risk and gain easier access to the market, from December 2017, BancoPosta RFC has entered into repurchase agreements with the Central Counterparty, the Cassa di Compensazione e Garanzia.

The calculation of positions in derivatives and repurchase agreements and the related risk mitigation instruments are illustrated in the paragraph Offsetting financial assets and liabilities.

Trade receivables

To mitigate the risks arising from the extension of credit terms to its customers, the Poste Italiane Group has implemented a policy and suitable guidelines that govern the management of trade receivables, the terms and conditions of payment applicable to customers and defines the corporate process aimed at checking the customer's creditworthiness, as well as the sustainability of the business risk inherent in the contract involving extended payment terms.

Depending on the evaluations, the contracts entered into with customers may require a suitable guarantee. Guarantees are also requested if they are required by rules and regulations and/or implementing rules of specific services.

The Poste Italiane Group accepts mainly guarantees issued by primary banks or insurance companies. Alternatively, upon request of the customer and after a risk analysis, it accepts sureties issued by other institutions, security deposits or the opening of a postal escrow account.

The Poste Italiane Group, as a rule, exempts the Public Administration from the provision of guarantees to secure trade receivables arising from transactions with it, save for the cases when such guarantees are mandatory by law or due to implementing rules of specific services.

For all the exposures evaluated individually, to calculate loss provisions, guarantees reduce the amount of the exposure at risk.

ECL measurement

The following tables show, for each class of financial instrument, the reconciliation between the opening and closing balances of the ECL provisions required by IFRS 9.

Financial assets

Poste Italiane Group - Credit risk - Details of the provision to cover expected losses on financial instruments at amortised cost

Description (€m)	Amortised cost		Total
	Receivables	Fixed income instruments	
	Stage 1	Stage 1	
Balance at 1 January 2019	**23**	**10**	**33**
Impairment of securities / receivables held at the beginning of the period	-	-	-
Reversal of securities / receivables held at the beginning of the period	-	(2)	(2)
Impairment of securities / receivables purchased/paid in the period	-	1	1
Reversal for write-off	-	-	-
Reversal due to sale / collection	-	-	-
Balance at 31 December 2019	**23**	**9**	**32**

At 31 December 2019, estimated expected losses on financial instruments at amortised cost amount to approximately €32 million, substantially in line with the provision made at 1 January 2019.

Poste Italiane Group - Credit risk - Details of the provision to cover expected losses on financial instruments at FVTOCI

Description (€m)	FVTOCI		Total
	Receivables	Fixed income instruments	
	Stage 1	Stage 1	
Balance at 1 January 2019	**-**	**14**	**14**
Impairment of securities / receivables held at the beginning of the period	-	-	-
Reversal of securities / receivables held at the beginning of the period	-	(3)	(3)
Impairment of securities / receivables purchased/paid in the period	-	2	2
Reversal for write-off	-	-	-
Reversal due to sale / collection	-	(1)	(1)
Balance at 31 December 2019		**12**	**12**

At 31 December 2019, estimated expected losses on financial instruments measured at fair value through other comprehensive income amount to approximately €12 million, substantially in line with the provision made at 1 January 2019.

Trade receivables

The Poste Italiane Group's exposure to credit risk, in relation to each class of **trade receivable** at 31 December 2019, is shown separately depending on whether or not the model used to estimate ECL is based on an individual or a collective assessment.

Poste Italiane Group - Credit risk - Trade receivables impaired on the analytical basis

	31/12/2019		31/12/2018	
Description (€m)	**Gross Carrying amount**	**Provision to cover expected losses**	**Gross Carrying amount**	**Provision to cover expected losses**
Trade receivables				
Receivables due from customers	1,621	305	1,889	422
Cassa Depositi e Prestiti	451	-	440	-
Ministries and public entities	322	124	501	107
Overseas counterparties	229	2	201	4
Private customers	619	179	747	311
Receivables due from the Parent Company	74	31	100	32
Other receivables	1	-	4	-
Total	**1,696**	**336**	**1,993**	**454**

Poste Italiane Group - Credit risk - Trade receivables impaired on the basis of the simplified matrix

	31/12/2019		31/12/2018	
Range of past due (€m)	**Gross Carrying amount**	**Provision to cover expected losses**	**Gross Carrying amount**	**Provision to cover expected losses**
Not past due trade receivables	555	8	413	5
Past due 0 - 1 year	158	7	193	7
Past due 1 - 2 years	85	12	32	8
Past due 2 - 3 years	19	9	22	10
Past due 3 - 4 years	14	9	12	8
Past due > 4 years	64	63	49	49
Positions subject to legal recovery and/or insolvency proceedings	139	114	132	106
Total	**1,034**	**222**	**853**	**194**

Movements in the expected credit loss provisions for trade receivables (due from customers and the MEF) are as follows:

Details of the provision to cover expected losses on trade receivables

Item (€m)	Balance at 31 December 2018	Net provisions	Uses	Balance at 31 December 2019
Trade receivables				
Receivables due from customers	615	63	(153)	525
Public administration entities	147	16	(1)	162
Overseas postal operators	9	3	-	12
Private customers	406	30	(145)	291
Interest on late payments	53	14	(7)	60
Receivables due from the MEF	32	-	-	32
Total	**647**	**63**	**(153)**	**557**

The provision for doubtful debts includes amounts set aside as part of BancoPosta's operations to cover the risk of non-recovery of numerous individually immaterial amounts due from current account holders with a debit balance; this provision, which was used during the year for €153 million (of which €121 million related to the elimination of receivables due from current account holders with a debit balance), amounted to €557 million at 31 December 2019.

The provision for doubtful debts for the Public Administration relate to items that may in part not be recoverable as a result of legislation limiting public spending and delays in payment and problems with a number of debtor entities. Credit loss provisions for amounts due from the MEF reflect the absence of funds in the state budget, meaning it is not possible to collect certain amounts receivable, recognised on the basis of legislation or contracts and agreements in effect at the time of recognition.

Other receivables and assets

Movements in the credit loss provisions for other receivables and assets are shown below.

Poste Italiane Group - Movements in Provisions for doubtful debts due from others

Description (€m)	Balance at 31/12/2018	Net provisions	Uses	Balance at 31/12/2019
Interest accrued on IRES refund	-	46	-	46
Public Administration entities for sundry services	3	(1)	(1)	1
Receivables relating to fixed-term contract settlements	10	3	-	13
Other receivables	83	11	(8)	86
Total	**96**	**59**	**(9)**	**146**

More detailed information about the provision of €46 million for Interest income receivables on IRES reimbursement is provided in Table A9 - Other receivables and assets.

Offsetting financial assets and liabilities

In compliance with IFRS 7 – Financial instruments: Disclosures, this section provides details of financial assets and liabilities that are subject to master netting agreements or similar arrangements, regardless of whether the financial instruments have been offset in keeping with paragraph 42 of IAS 32[114].

In particular, the disclosures in question concern the following positions relating to Poste Italiane SpA at 31 December 2019:

- derivative assets and liabilities and related collateral, represented both by cash and government securities;
- repurchase agreements and reverse repurchase agreements and the related collateral, represented both by cash and government securities.

The positions in question are subject to standard bilateral netting agreements that allow, in the event of the counterparty's default, the offsetting of debit and credit positions covered by ISDA contracts and repurchase agreements, for which GMRA agreements have been entered into.

In order to present the tables in compliance with the requirements of IFRS 7, repurchase agreements are shown at amortised cost, whilst derivative transactions are shown at fair value; the relevant financial guarantees are measured at fair value.

Financial assets offset in the financial statements or subject to framework master netting agreements or similar arrangements

Technical form (€m)	Gross amount of financial assets * (a)	Amount of financial liabilities offset in financial statements (b)	Financial assets, net (c=a-b)	Related amounts not subject to offset in the financial statements		Financial assets/ (liabilities), net (f=c-d-e)
				Collateral		
				Financial instruments (d)	Cash deposits provided/(received) as collateral(e)	
FY 2019						
Financial assets attributable to BancoPosta						
Derivatives	73	-	73	73	-	-
Repurchase agreements	1.158	-	1.158	1.158	-	-
Other	-	-	-	-	-	-
Financial assets						
Derivatives	-	-	-	-	-	-
Repurchase agreements	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total at 31 December 2019	**1.231**	**-**	**1.231**	**1.231**	**-**	**-**
FY 2018						
Financial assets attributable to BancoPosta						
Derivatives	368	-	368	353	14	1
Repurchase agreements	251	-	251	251	-	-
Other	-	-	-	-	-	-
Financial assets						
Derivatives	-	-	-	-	-	-
Repurchase agreements	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total at 31 December 2018	**619**	**-**	**619**	**604**	**14**	**1**

114. Paragraph 42 of IAS 32 provides that "A financial asset and a financial liability can be offset and the net amount presented in the statement of financial position when, and only when, an entity:
a. currently has a legally enforceable right to set off the recognised amounts; and
b. intends either to settle on a net basis or to realise the asset and settle the liability simultaneously".

Financial liabilities offset in the financial statements or subject to master netting agreements or similar arrangements

Technical form (€m)	Gross amount of financial liabilities* (a)	Amount of financial assets offset in financial statements (b)	Financial liabilities, net (c=a-b)	Related amounts not subject to offset in the financial statements - Collateral - Securities provided/ (received) as collateral (f)	Cash deposits provided/ (received) as collateral (g)	Financial assets/ (liabilities), net (h=d+e+f+g)
FY 2019						
Financial liabilities attributable to BancoPosta						
Derivatives	5.552	-	5.552	573	4.979	-
Repurchase agreements	12.194	-	12.194	12.185	9	-
Other	-	-	-	-	-	-
Financial liabilities						
Derivatives	22	-	22	-	22	-
Repurchase agreements	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total at 31 December 2019	**17.768**	**-**	**17.768**	**12.758**	**5.010**	**-**
FY 2018						
Financial liabilities attributable to BancoPosta						
Derivatives	1.829	-	1.829	500	1.326	3
Repurchase agreements	8.473	-	8.473	8.423	50	-
Other	-	-	-	-	-	-
Financial liabilities						
Derivatives	30	-	30	-	30	-
Repurchase agreements	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total at 31 December 2018	**10.332**	**-**	**10.332**	**8.923**	**1.406**	**3**

* 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.

Liquidity risk

This is the risk that an entity may have difficulties in raising sufficient funds, at market conditions, to meet its obligations deriving from financial instruments.

In order to minimise this risk, the Poste Italiane Group applies a financial policy based on diversification of the various forms of short-term and long-term borrowings and counterparties; availability of relevant lines of credit in terms of amounts and the number of banks; gradual and consistent distribution of the maturities of medium/long-term borrowings; and use of dedicated analytical models to monitor the maturities of assets and liabilities.

The following tables compare the Poste Italiane Group's liabilities and assets at 31 December 2019, in terms of liquidity risk.

Poste Italiane Group - Liquidity Risk - Liabilities

Description (€m)	31/12/2019 Within 12 months	Between 1 and 5 years	Over 5 years	Total	31/12/2018 Within 12 months	Between 1 and 5 years	Over 5 years	Total
Flows from Poste Vita Group's policies	13,000	34,452	108,125	155,577	15,154	35,121	124,600	174,875
Financial liabilities	38,137	16,147	18,408	72,692	28,882	14,057	22,164	65,103
Postal current accounts	18,062	12,438	17,827	48,327	15,973	9,702	20,577	46,252
Borrowings	8,557	3,705	578	12,840	6,303	3,191	10	9,504
Other financial liabilities	11,518	4	3	11,525	6,606	1,164	1,577	9,347
Trade payables	1,627	-	-	1,627	1,583	-	-	1,583
Other liabilities	2,112	1,510	18	3,640	2,320	1,361	22	3,703
Total	**54,876**	**52,109**	**126,551**	**233,536**	**47,939**	**50,539**	**146,786**	**245,264**

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 2019. The liabilities of Poste Vita SpA and Poste Assicura SpA are reflected in Flows from Poste Vita Group's policies.

Poste Italiane Group - Liquidity risk - Assets

	31/12/2019				31/12/2018			
Description (€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	30,298	53,302	160,095	243,695	22,461	63,877	164,746	251,084
Trade receivables	2,166	3	2	2,171	2,192	4	3	2,199
Other receivables and assets	950	3,702	35	4,687	1,110	3,446	41	4,597
Cash and deposits attributable to BancoPosta	4,303	-	-	4,303	3,318	-	-	3,318
Cash and cash equivalents	2,149	-	-	2,149	3,195	-	-	3,195
Total Assets	**39,866**	**57,007**	**160,132**	**257,005**	**32,276**	**67,327**	**164,790**	**264,393**

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. In order to mitigate liquidity risk in the event of extreme market scenarios, during the year, BancoPosta RFC entered into a contract that provides for the granting by Cassa Depositi e Prestiti of a short-term committed line of credit for repurchase agreements up to a maximum of €5 billion and a 12-month extension period.

The key point of note is the liquidity risk associated with the investment of customers' current account balances and with the Class I and V policies issued by Poste Vita SpA.

In terms of BancoPosta RFC's specific operations, the liquidity risk regards current account deposits and prepaid cards[115], the related investment of the deposits in Eurozone government securities and /or securities guaranteed by the Italian government, and the margins on derivative transactions. The potential risk derives from a mismatch between the maturities of investments in securities and those of liabilities, represented by current accounts where the funds are available on demand, thus compromising the 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.

115. Since 1 October 2018, prepaid cards are the responsibility of PostePay SpA. The liquidity raised through these cards is transferred to BancoPosta, which invests the funds raised in euro area government bonds or bonds guaranteed by the Italian State. As such, for the purposes of specific risk analyses, the rationales related to each model underlying the different types of deposit inflow continue to apply.

Price risk

This is the risk that the value of a financial instrument fluctuates as a result of market price movements, deriving from factors specific to the individual instrument or the issuer, and factors that influence all instruments traded on the market.

Price risk relates to financial assets classified as measured at fair value through other comprehensive income ("FVTOCI") or measured at fair value through profit or loss (FVTPL), and certain derivative financial instruments where changes in value are recognised in profit or loss.

The sensitivity analysis at 31 December 2019 took into account positions potentially exposed to fluctuations in value. Financial statement balances have been subjected to a stress test, based on actual volatility during the year, considered to be representative of potential market movements. The results of the sensitivity analysis carried out as at 31 December 2019 for the Poste Italiane Group are shown in the following table.

Poste Italiane Group - Price risk

Description (€m)	Risk exposure	Change in value		Effect on liability toward policyholders		Profit/(Loss) before tax		Equity reserves before taxation	
		+ Vol	- Vol	+ Vol	- Vol	+ Vol	- Vol	+ Vol	- Vol
2019 effects									
Financial assets									
Financial assets at FVTPL	35,237	2,457	2,457	2,443	(2,443)	14	(14)	-	-
Equity instruments	248	55	55	41	(41)	14	(14)	-	-
Other investments	34,989	2,402	2,402	2,402	(2,402)	-	-	-	-
Financial derivatives	(16)	(12)	12	-	-	(12)	12	-	-
Fair value through profit or loss	-	-	-	-	-	-	-	-	-
Fair value through profit or loss (liabilities)	(16)	(12)	12	-	-	(12)	12	-	-
Variability at 31 December 2019	**35,221**	**2,445**	**(2,445)**	**2,443**	**(2,443)**	**2**	**(2)**	**-**	**-**
2018 effects									
Financial assets									
Financial assets at FVTPL	27,555	1,096	(1,096)	1,082	(1,082)	14	(14)	-	-
Equity instruments	217	58	(58)	45	(45)	13	(13)	-	-
Other investments	27,338	1,038	(1,038)	1,037	(1,037)	1	(1)	-	-
Financial derivatives	45	8	(8)	8	(8)	-	-	-	-
Fair value through profit or loss	45	8	(8)	8	(8)	-	-	-	-
Fair value through profit or loss (liabilities)	-	-	-	-	-	-	-	-	-
Variability at 31 December 2018	**27,600**	**1,104**	**(1,104)**	**1,090**	**(1,090)**	**14**	**(14)**	**-**	**-**

In relation to **financial assets measured at fair value through profit or loss**, price risk concerns the following:

- investments in units of mutual investment funds held by Poste Vita SpA, with a fair value of €34,989 million, including approximately €31,709 million used to cover Class I policies, approximately €3,223 million used to cover Class III policies and a residual amount relating the free capital;
- equity instruments held by Poste Vita SpA, totalling €177 million, used to cover Class I policies linked to separately managed accounts and to cover Class III policies;
- Visa Incorporated (Series C Convertible Participating Preferred Stock) preference shares held by BancoPosta RFC for a total of €71 million. For the purpose of the sensitivity analysis, the equities are matched with the corresponding amount of the Class A shares, considering the volatility of the shares listed on the NYSE.

In the area of **Derivative Financial Instruments**, price risk mainly relates to the forward sale contract for 400,000 of *Visa Incorporated* ordinary shares entered into by the Parent Company during the year.

Lastly, during 2019, shares in MoneyGram and sennder, classified as **financial assets measured at fair value through other comprehensive income** and not subject to sensitivity in the table above, were acquired by the Parent Company, as described in further detail in the notes above.

Cash flow inflation risk

This is defined as the uncertainty related to future cash flows due to changes in the rate of inflation observed in the market.

The table below analyses the sensitivity of future cash flows for the Poste Italiane Group's financial assets at 31 December 2019.

Poste Italiane Group - Cash flow inflation risk

Description (€m)	Risk exposure		Change in value		Effect on liability toward policyholders		Profit/(Loss) before tax	
	Nominal	Carrying amount	+100bps	-100bps	+100bps	-100bps	+100bps	-100bps
2019 effects								
Financial assets								
Financial assets at amortised cost	127	156	-	-	-	-	-	-
Fixed income instruments	127	156	-	-	-	-	-	-
Financial assets at FVTOCI	11,428	13,236	41	(41)	39	(39)	2	(2)
Fixed income instruments	11,428	13,236	41	(41)	39	(39)	2	(2)
Variability at 31 December 2019	**11,555**	**13,392**	**41**	**(41)**	**39**	**(39)**	**2**	**(2)**
2018 effects								
Financial assets								
Financial assets at amortised cost	142	173	-	-	-	-	-	-
Fixed income instruments	142	173	-	-	-	-	-	-
Financial assets at FVTOCI	12,258	12,957	44	(44)	42	(42)	2	(2)
Fixed income instruments	12,258	12,957	44	(44)	42	(42)	2	(2)
Variability at 31 December 2018	**12,400**	**13,130**	**44**	**(44)**	**42**	**(42)**	**2**	**(2)**

At 31 December 2019, cash flow inflation risk relates to inflation-linked government securities not subject to cash flow hedges or fair value hedges. Of the total nominal value, securities totalling €9,638 million are held by Poste Vita SpA and securities totalling €1,875 million by BancoPosta RFC.

Foreign exchange risk

This is the risk that the value of a financial instrument fluctuates as a result of movements in exchange rates for currencies other than the functional currency.

Sensitivity analysis of the items subject to foreign exchange risk was based on the most significant positions, assuming a stress scenario determined by the levels of exchange rate volatility applicable to each foreign currency position. The test applies an exchange rate movement based on volatility during the year, which was considered to be representative of potential market movements.

The table below shows the sensitivity to foreign exchange risk of the Poste Italiane Group's most significant positions at 31 December 2019.

Poste Italiane Group - Foreign exchange risk

Description (€m)	Position in GBP	Position in USD	Position in Euro	Change in value		Profit/(Loss) before tax		Equity reserves before taxation	
				+ Vol 260 days	- Vol 260 days	+ Vol 260 days	- Vol 260 days	+ Vol 260 days	- Vol 260 days
2019 effects									
Financial assets									
Financial assets at FVTOCI	14	1	17	1	(1)	-	-	1	(1)
Equity instruments	14	-	16	1	(1)	-	-	1	(1)
Fixed income instruments	-	1	1	-	-	-	-	-	-
Financial assets at FVTPL	-	153	137	6	(6)	6	(6)	-	-
Equity instruments	-	79	71	3	(3)	3	(3)	-	-
Other investments	-	74	66	3	(3)	3	(3)	-	-
Financial derivatives	-	(17)	(15)	(1)	1	(1)	1	-	-
Fair value through profit or loss	-	-	-	-	-	-	-	-	-
Fair value through profit or loss (liabilities)	-	(17)	(15)	(1)	1	(1)	1	-	-
Variability at 31 December 2019	**14**	**137**	**139**	**6**	**(6)**	**5**	**(5)**	**1**	**(1)**
2018 effects									
Financial assets									
Financial assets at FVTPL	-	123	107	8	(8)	8	(8)	-	-
Equity instruments	-	58	50	4	(4)	4	(4)	-	-
Other investments	-	65	57	4	(4)	4	(4)	-	-
Variability at 31 December 2018	**-**	**123**	**107**	**8**	**(8)**	**8**	**(8)**	**-**	**-**

The risk in question relates to equities held by the Parent Company and units in certain alternative investment funds in which Poste Vita SpA has invested.

Foreign exchange risk refers to the net receivable/(payable) position in SDRs, a synthetic currency resulting from the weighted average of the exchange rates of four major currencies (the euro, US dollar, British pound and Japanese yen) held by Poste Italiane SpA and used worldwide to settle debts and credits among postal operators.

Poste Italiane Group - Foreign exchange risk/SDR

Description (€m)	Position in DSP	Position in Euro	Change in value		Profit/(Loss) before tax		Equity reserves before taxation	
			+ Vol 260 days	- Vol 260 days	+ Vol 260 days	- Vol 260 days	+ Vol 260 days	- Vol 260 days
2019 effects								
Current assets in SDRs	164	203	5	(5)	5	(5)	-	-
Current liabilities in SDRs	(148)	(182)	(4)	4	(4)	4	-	-
Variability at 31 December 2019	**16**	**21**	**1**	**(1)**	**1**	**(1)**	**-**	**-**
2018 effects								
Current assets in SDRs	145	176	6	(6)	6	(6)	-	-
Current liabilities in SDRs	(124)	(150)	(5)	5	(5)	5	-	-
Variability at 31 December 2018	**21**	**26**	**1**	**(1)**	**1**	**(1)**	**-**	**-**

Poste Italiane SpA

For the purposes of full disclosure, information on Poste Italiane SpA's exposure to financial risk is reported below if not already covered in the above information regarding the Poste Italiane Group.

Fair value interest rate risk

Fair value interest rate risk

Description (€m)	Risk exposure		Change in value		Profit/(Loss) before tax		Equity reserves before taxation	
	Nominal	*Fair Value*	+100bps	-100bps	+100bps	-100bps	+100bps	-100bps
2019 effects								
Financial assets attributable to BancoPosta								
Financial assets at FVTOCI	31,170	36,799	(1,016)	1,003	-	-	(1,016)	1,003
Fixed income instruments	31,170	36,799	(1,016)	1,003	-	-	(1,016)	1,003
Financial derivatives	-	-	-	-	-	-	-	-
Cash flow hedge	-	-	-	-	-	-	-	-
Financial assets								
Financial assets at FVTOCI	500	524	(2)	2	-	-	(2)	2
Fixed income instruments	500	524	(2)	2	-	-	(2)	2
Financial liabilities attributable to BancoPosta								
Financial derivatives	1,280	(36)	67	(71)	-	-	67	(71)
Cash flow hedge	1,280	(36)	67	(71)	-	-	67	(71)
Financial liabilities								
Financial derivatives	50	(6)	2	(2)	-	-	2	(2)
Cash flow hedge	50	(6)	2	(2)	-	-	2	(2)
Variabilità al 31 dicembre 2019	**33,000**	**37,281**	**(949)**	**932**	**-**	**-**	**(949)**	**932**
2018 effects								
Financial assets attributable to BancoPosta								
Financial assets at FVTOCI	30,229	32,040	(798)	753	-	-	(798)	753
Fixed income instruments	30,229	32,040	(798)	753	-	-	(798)	753
Financial derivatives	2,885	155	(4)	4	-	-	(4)	4
Cash flow hedge	2,885	155	(4)	4	-	-	(4)	4
Financial assets								
Financial assets at FVTOCI	500	532	(3)	3	-	-	(3)	3
Fixed income instruments	500	532	(3)	3	-	-	(3)	3
Financial liabilities								
Financial derivatives	50	(5)	2	(2)	-	-	2	(2)
Cash flow hedge	50	(5)	2	(2)	-	-	2	(2)
Variability at 31 December 2018	**33,664**	**32,722**	**(803)**	**758**	**-**	**-**	**(803)**	**758**

Cash flow interest rate risk

Cash flow interest rate risk

Description (€m)	Risk exposure	Change in value		Profit/(Loss) before tax	
	nominal	+100 bps	-100 bps	+100 bps	-100 bps
2019 effects					
Financial assets attributable to BancoPosta					
Financial assets at amortised cost					
Receivables					
Amounts due from MEF	7,067	71	(71)	71	(71)
Other financial receivables	5,660	56	(56)	56	(56)
Fixed income instruments	2,560	26	(26)	26	(26)
Financial assets at FVTOCI					
Fixed income instruments	3,565	36	(36)	36	(36)
Financial assets					
Financial assets at amortised cost					
Borrowings	337	3	(3)	3	(3)
Receivables					
Other financial receivables	23	-	-	-	-
Financial assets at FVTOCI					
Fixed income instruments	375	4	(4)	4	(4)
Cash and deposits attributable to BancoPosta					
Bank deposits	816	8		8	(8)
Cash and cash equivalents					
Deposits with the MEF	495	5	(5)	5	(5)
Bank deposits	683	7	(7)	7	(7)
Financial liabilities attributable to BancoPosta					
Other financial liabilities	(112)	(1)	1	(1)	1
Financial liabilities					
Borrowings	-	-	-	-	-
Financial liabilities due to subsidiaries	(505)	(5)	5	(5)	5
Other financial liabilities	-	-	-	-	-
Variability at 31 December 2019	**20,964**	**210**	**(210)**	**210**	**(210)**
2018 effects					
Financial assets attributable to BancoPosta					
Financial assets at amortised cost					
Receivables					
Amounts due from MEF	5,930	59	(59)	59	(59)
Other financial receivables	1,652	17	(17)	17	(17)
Fixed income instruments	425	4	(4)	4	(4)
Financial assets at FVTOCI					
Fixed income instruments	1,740	17	(17)	17	(17)
Financial assets					
Financial assets at amortised cost					

Description (€m)	Risk exposure	Change in value		Profit/(Loss) before tax	
	nominal	+100 bps	-100 bps	+100 bps	-100 bps
Borrowings	354	4	(4)	4	(4)
Receivables					
Other financial receivables	30	-	-	-	-
Financial assets at FVTOCI					
Fixed income instruments	375	4	(4)	4	(4)
Cash and deposits attributable to BancoPosta					
Bank deposits	351	4	(4)	4	(4)
Cash and cash equivalents					
Deposits with the MEF	1,306	13	(13)	13	(13)
Bank deposits	686	7	(7)	7	(7)
Financial liabilities attributable to BancoPosta					
Other financial liabilities	(70)	(1)	1	(1)	1
Financial liabilities					
Borrowings	-	-	-	-	-
Financial liabilities due to subsidiaries	(112)	(1)	1	(1)	1
Other financial liabilities	(1)	-	-	-	-
Variability at 31 December 2018	**12,666**	**127**	**(127)**	**127**	**(127)**

Credit risk

Credit risk - Rating for BancoPosta RFC

Description (€m)	from AAA to AA+		from A+ to BBB-		from BB+ to C			Not Rated	Hedge accounting effects	Total
	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 3			
2019 effects										
Financial assets at amortised cost										
Borrowings	-	-	1,159	-	-	-	-			1,159
Receivables	1,532	-	10,944	-	251	-	-			12,727
Fixed income instruments	-	-	22,202	-	-	-	-			22,202
Gross carrying amount - Total	**1,532**	**-**	**34,305**	**-**	**251**	**-**	**-**			**36,088**
Provision to cover expected losses	-	-	(11)	-	-	-	-	-	-	(11)
Total amortised cost at 31 December 2019	**1,532**	**-**	**34,294**	**-**	**251**	**-**	**-**	**507**	**2,870**	**39,454**
2018 effects										
Financial assets at amortised cost										
Borrowings	-	-	251	-	-	-	-			251
Receivables	13	-	7,554	-	15	-	-			7,582
Fixed income instruments	-	-	21,888	-	-	-	-			21,888
Gross carrying amount - Total	**13**	**-**	**29,693**	**-**	**15**	**-**	**-**			**29,721**
Provision to cover expected losses	-	-	(12)	-	-	-	-			(12)
Total amortised cost at 31 December 2018	**13**	**-**	**29,681**	**-**	**15**	**-**	**-**	**695**	**993**	**31,397**

Description (€m)	from AAA to AA+		from A+ to BBB-		from BB+ to C			Not Rated	Hedge accounting effects	Total
	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 3			
2019 effects										
Financial assets at FVTOCI										
Fixed income instruments	-	-	32,907	-	-	-				32,907
Gross carrying amount - Total	**-**	**-**	**32,907**	**-**	**-**	**-**				**32,907**
Provision to cover expected losses - OCI	-	-	(11)	-	-	-				(11)
Carrying amount - Fair value at 31 December 2019	**-**	**-**	**36,798**	**-**	**-**	**-**		**-**	**-**	**36,798**
2018 effects										
Financial assets at FVTOCI										
Fixed income instruments	-	-	31,590	-	-	-				31,590
Gross carrying amount - Total	**-**	**-**	**31,590**	**-**	**-**	**-**				**31,590**
Provision to cover expected losses - OCI	-	-	(13)	-	-	-				(13)
Carrying amount - Fair value at 31 December 2018	**-**	**-**	**32,040**	**-**	**-**	**-**		**-**	**-**	**32,040**

Credit risk - Ratings for assets outside the ring-fence

Description (€m)	from AAA to AA+		from A+ to BBB-		from BB+ to C			Not Rated	Hedge accounting effects	Total
	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 3			
2019 effects										
Financial assets at amortised cost										
Borrowings	-	-	337	-	-	-	-			337
Receivables	-	-	64	-	8	-	-			72
Gross carrying amount - Total	**-**	**-**	**401**	**-**	**8**	**-**	**-**			**409**
Provision to cover expected losses	-	-	(20)	-	-	-	-	-	-	(20)
Total amortised cost at 31 December 2019	**-**	**-**	**381**	**-**	**8**	**-**	**-**	**5**	**-**	**394**
2018 effects										
Financial assets at amortised cost										
Borrowings	-	-	356	-	-	-	-			356
Receivables	-	-	104	-	-	-	-			104
Gross carrying amount - Total	**-**	**-**	**460**	**-**	**-**	**-**	**-**			**460**
Provision to cover expected losses	-	-	(20)	-	-	-	-	-	-	(20)
Total amortised cost at 31 December 2018	**-**	**-**	**440**	**-**	**-**	**-**	**-**	**6**	**-**	**446**

Description (€m)	from AAA to AA+		from A+ to BBB-		from BB+ to C			Not Rated	Hedge accounting effects	Total
	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 3			
2019 effects										
Financial assets at FVTOCI										
Fixed income instruments	-	-	505	-	-	-	-			505
Gross carrying amount - Total	**-**	**-**	**505**	**-**	**-**	**-**	**-**			**505**
Carrying amount - Fair value at 31 December 2019	**-**	**-**	**524**	**-**	**-**	**-**	**-**	**-**	**-**	**524**
2018 effects										
Financial assets at FVTOCI										
Fixed income instruments	-	-	505	-	-	-	-			505
Gross carrying amount - Total	**-**	**-**	**505**	**-**	**-**	**-**	**-**			**505**
Carrying amount - Fair value at 31 December 2018	**-**	**-**	**532**	**-**	**-**	**-**	**-**	**-**	**-**	**532**

BancoPosta RFC - Credit risk - Concentration

Description (€m)	31/12/2019		31/12/2018	
	Gross Carrying amount	Provision to cover expected losses	Gross Carrying amount	Provision to cover expected losses
Financial assets at amortised cost	36,086	(11)	29,721	(12)
Borrowings	1,158	-	251	-
Sovereign	-	-	-	-
Corporate	1,158	-	251	-
Banking	-	-	-	-
Receivables	12,726	(3)	7,582	(3)
Sovereign	7,066	(3)	5,930	(3)
Corporate	1,040	-	303	-
Banking	4,620	-	1,349	-
Fixed income instruments	22,202	(8)	21,888	(9)
Sovereign	18,440	(7)	17,378	(9)
Corporate	3,762	(1)	4,510	-
Banking	-	-	-	-
Financial assets at FVTOCI	32,907	(11)	31,590	(13)
Fixed income instruments	32,907	(11)	31,590	(13)
Sovereign	32,907	(11)	31,590	(13)
Corporate	-	-	-	-
Banking	-	-	-	-
Total at 31 December 2019	**68,993**	**(22)**	**61,311**	**(25)**

Assets outside the ring-fence - Credit risk - Concentration

Description (€m)	31/12/2019		31/12/2018	
	Gross Carrying amount	Provision to cover expected losses	Gross Carrying amount	Provision to cover expected losses
Financial assets at amortised cost	415	(20)	466	(20)
Borrowings	338	-	355	-
Sovereign	-	-	-	-
Corporate	338	-	355	-
Banking	-	-	-	-
Receivables	77	(20)	111	(20)
Sovereign	-	-	-	-
Corporate	47	(20)	81	(20)
Banking	30	-	30	-
Financial assets at FVTOCI	505	-	510	-
Fixed income instruments	505	-	510	-
Sovereign	505	-	510	-
Corporate	-	-	-	-
Banking	-	-	-	-
Total at 31 December 2019	**920**	**(20)**	**976**	**(20)**

BancoPosta RFC - Credit risk - Details of the provision to cover expected losses on financial instruments at amortised cost

Description (€m)	Amortised cost		Total
	Receivables	Fixed income instruments	
	Stage 1	Stage 1	
Balance at 1 January 2019	**2,609**	**9,345**	**11,954**
Impairment of securities / receivables held at the beginning of the period	4	-	4
Reversal of securities / receivables held at the beginning of the period	-	(1,489)	(1,489)
Impairment of securities / receivables purchased/paid in the period	-	900	900
Reversal due to sale / collection	-	(777)	(777)
Reversal for write-off	-	-	-
Balance at 31 December 2019	**2,613**	**7,979**	**10,592**

BancoPosta RFC - Credit risk - Details of the provision to cover expected losses on financial assets at FVTOCI

Description (€m)	FVTOCI		Total
	Receivables	Fixed income instruments	
	Stage 1	Stage 1	
Balance at 1 January 2019	**-**	**13,107**	**13,107**
Impairment of securities / receivables held at the beginning of the period		-	-
Reversal of securities / receivables held at the beginning of the period	-	(2,406)	(2,406)
Impairment of securities / receivables purchased/paid in the period	-	1,983	1,983
Reversal due to sale / collection	-	(1,228)	(1,228)
Reversal for write-off	-	-	-
Balance at 31 December 2019	**-**	**11,456**	**11,456**

Assets outside the ring-fence - Credit risk - Details of the provision to cover expected losses on financial instruments at amortised cost

Description (€m)	Amortised cost					Total
	Borrowings	Receivables			Fixed income instruments	
	Stage 1	Stage 1	Stage 2	Total	Stage 1	
Balance at 1 January 2019	**320**	**20,057**	**326**	**20,383**	**-**	**20,703**
Impairment of securities / receivables held at the beginning of the period	73	21	-	21	-	94
Reversal of securities / receivables held at the beginning of the period	(19)	(20)	(4)	(24)	-	(43)
Impairment of securities / receivables purchased/paid in the period	-	-	-	-	-	-
Reversal due to sale / collection	-	-	-	-	-	-
Reversal for write-off	-	-	-	-	-	-
Balance at 31 December 2019	**374**	**20,058**	**322**	**20,380**	**-**	**20,754**

Assets outside the ring-fence - Credit risk - Details of the provision to cover expected losses on financial assets at FVTOCI

Description (€m)	FVTOCI					Total
	Borrowings	Receivables			Fixed income instruments	
	Stage 1	Stage 1	Stage 2	Total	Stage 1	
Balance at 1 January 2019	**-**	**-**	**-**	**-**	**218**	**218**
Impairment of securities / receivables held at the beginning of the period	-	-	-	-	-	-
Reversal of securities / receivables held at the beginning of the period	-	-	-	-	(41)	(41)
Impairment of securities / receivables purchased/paid in the period	-	-	-	-	-	-
Reversal due to sale / collection	-	-	-	-	-	-
Reversal for write-off	-	-	-	-	-	-
Balance at 31 December 2019	-	-	-	-	**177**	**177**

Credit risk - Trade receivables adjusted for individual impairments

Description (€m)	31/12/2019		31/12/2018	
	Gross Carrying amount	Provisions for doubtful debts	Gross Carrying amount	Provisions for doubtful debts
Trade receivables				
Receivables due from customers	1,434	(259)	1,666	(364)
Cassa Depositi e Prestiti	451	-	440	-
Ministries and public entities	300	(110)	482	(96)
Overseas counterparties	229	(2)	201	(4)
Private customers	454	(147)	543	(264)
Receivables due from the Parent Company	74	(32)	99	(31)
Receivables due from Group companies	482	-	397	-
Total	**1,990**	**(291)**	**2,162**	**(395)**

Credit risk - Trade receivables adjusted on the basis of the provision matrix

Range of past due (€m)	31/12/2019		31/12/2018	
	Gross Carrying amount	Provisions for doubtful debts	Gross Carrying amount	Provisions for doubtful debts
Not past due trade receivables	477	(6)	310	(3)
Past due 0 - 1 year	127	(4)	148	(5)
Past due 1 - 2 years	79	(9)	24	(5)
Past due 2 - 3 years	16	(7)	17	(6)
Past due 3 - 4 years	10	(7)	7	(4)
Past due > 4 years	53	(52)	42	(42)
Positions subject to legal recovery and/or insolvency proceedings	85	(72)	80	(68)
Total	**847**	**(157)**	**628**	**(133)**

Details of the provision to cover expected credit losses on trade receivables

(€m)	Balance at 01/01/2019	Net provisions	Uses	De-merger of the BU SDA SpA	Balance at 31/12/2019
Trade receivables					
Receivables due from customers	450	37	(130)	4	361
Private customers	300	18	(129)	4	193
Public administration entities	141	17	(1)	-	157
Overseas postal operators	9	2	-	-	11
Interest on late payments	46	14	(8)	-	52
Receivables due from the MEF	32	-	-	-	32
Total	**528**	**51**	**(138)**	**4**	**445**
of which attributable to BancoPosta RFC	152	10	(122)	-	40

Details of the provision to cover expected credit losses due from others

(€m)	Balance at 01/01/2019	Acc.ti netti	Utilizzi	Balance at 31/12/2019
Public Administration entities for sundry services	3	-	(1)	2
Interest accrued on IRES refund	-	45	-	45
Receivables relating to fixed-term contract settlements	10	2	-	12
Other receivables	50	4	(5)	49
Total	**63**	**51**	**(6)**	**108**
of which attributable to BancoPosta RFC	27	2	-	29

Liquidity risk

Liquidity risk - Liabilities

Item (€m)	31/12/2019 Within 12 months	31/12/2019 Between 1 and 5 years	31/12/2019 Over 5 years	31/12/2019 Total	31/12/2018 Within 12 months	31/12/2018 Between 1 and 5 years	31/12/2018 Over 5 years	31/12/2018 Total
Financial liabilities attributable to BancoPosta	34,993	17,512	19,882	72,387	27,764	13,329	23,849	64,942
Postal current accounts	20,142	13,870	19,879	53,891	16,365	10,942	23,845	51,152
Borrowings	8,551	3,638	-	12,189	6,088	2,384	-	8,472
Other financial liabilities	6,300	4	3	6,307	5,311	3	4	5,318
Financial liabilities	700	540	1,064	2,304	317	58	-	375
Trade payables	1,598	-	-	1,598	1,488	-	-	1,488
Other liabilities	1,456	1,491	18	2,965	1,772	1,325	22	3,119
Total	**38,747**	**19,543**	**20,964**	**79,254**	**31,341**	**14,712**	**23,871**	**69,924**

Liquidity risk - Assets

Description (€m)	31/12/2019 Within 12 months	31/12/2019 Between 1 and 5 years	31/12/2019 Over 5 years	31/12/2019 Total	31/12/2018 Within 12 months	31/12/2018 Between 1 and 5 years	31/12/2018 Over 5 years	31/12/2018 Total
Financial assets attributable to BancoPosta								
Financial assets at amortised cost								
Borrowings	1,158	-	-	1,158	251	-	-	251
Receivables	13,261	-	-	13,261	8,379	-	-	8,379
Deposits with the MEF	7,094	-	-	7,094	6,032	-	-	6,032
Other financial receivables	6,167	-	-	6,167	2,347	-	-	2,347
Fixed income instruments	1,838	2,684	24,431	28,953	1,749	4,695	23,478	29,922
Financial assets at FVTOCI	4,399	7,904	30,535	42,838	3,001	10,312	30,011	43,324
Fixed income instruments	4,399	7,904	30,535	42,838	3,001	10,312	30,011	43,324
Financial assets at FVTPL								
Receivables	-	-	-	-	8	-	-	8
Financial assets	241	576	324	1,141	213	731	313	1,257
Trade receivables	2,385	3	2	2,390	2,256	3	3	2,262
Other receivables and assets	1,020	1,414	35	2,469	866	1,265	41	2,172
Cash and deposits attributable to BancoPosta	4,303	-	-	4,303	3,318	-	-	3,318
Cash and cash equivalents	1,206	-	-	1,206	2,127	-	-	2,127
Total Assets	**29,811**	**12,581**	**55,327**	**97,719**	**22,168**	**17,006**	**53,846**	**93,020**

Price risk

Price risk

Description (€m)	Risk exposure	Change in value		Profit/(Loss) before tax		Equity reserves before taxation	
		+ Vol	- Vol	+ Vol	- Vol	+ Vol	- Vol
2019 effects							
Financial assets attributable to BancoPosta							
Financial assets at FVTPL	71	14	(14)	14	(14)	-	-
Equity instruments	71	14	(14)	14	(14)	-	-
Financial liabilities attributable to BancoPosta							
Financial derivatives	(15)	(12)	12	(12)	12	-	-
Fair value through profit or loss	(15)	(12)	12	(12)	12	-	-
Variability at 31 December 2019	**56**	**2**	**(2)**	**2**	**(2)**	**-**	**-**
2018 effects							
Financial assets attributable to BancoPosta							
Financial assets at FVTPL	50	13	(13)	13	(13)	-	-
Equity instruments	50	13	(13)	13	(13)	-	-
Variability at 31 December 2018	**50**	**13**	**(13)**	**13**	**(13)**	**-**	**-**

Foreign exchange risk

Foreign exchange risk/USD

Description (€m)	Position in USD	Position in Euro	Change in value		Profit/(Loss) before tax		Equity reserves before taxation	
			+ Vol 260 days	- Vol 260 days	+ Vol 260 days	- Vol 260 days	+ Vol 260 days	- Vol 260 days
2019 effects								
Financial assets attributable to BancoPosta								
Financial assets at FVTPL	79	71	3	(3)	3	(3)	-	-
Equity instruments	79	71	3	(3)	3	(3)	-	-
Financial liabilities attributable to BancoPosta								
Financial derivatives	17	(15)	(1)	1	(1)	1	-	-
Fair value through profit or loss	17	(15)	(1)	1	(1)	1	-	-
Variability at 31 December 2019	**96**	**56**	**2**	**(2)**	**2**	**(2)**	**-**	**-**
2018 effects								
Financial assets attributable to BancoPosta								
Financial assets at FVTPL	58	50	4	(4)	4	(4)	-	-
Equity instruments	58	50	4	(4)	4	(4)	-	-
Variability at 31 December 2018	**58**	**50**	**4**	**(4)**	**4**	**(4)**	**-**	**-**

Foreign exchange risk/GBP

Description (€m)	Position in GBP	Position in Euro	Change in value		Profit/(Loss) before tax		Equity reserves before taxation	
			+ Vol 260 days	- Vol 260 days	+ Vol 260 days	- Vol 260 days	+ Vol 260 days	- Vol 260 days
2019 effects								
Financial assets								
Financial assets at FVTOCI	14	16	1	(1)	1	(1)	-	-
Equity instruments	14	16	1	(1)	1	(1)	-	-
Variability at 31 December 2019	**14**	**16**	**1**	**(1)**	**1**	**(1)**	**-**	**-**
2018 effects								
Financial assets								
Financial assets at FVTOCI	-	-	-	-	-	-	-	-
Equity instruments	-	-	-	-	-	-	-	-
Variability at 31 December 2018	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Poste Italiane SpA - Currency risk DSP

Description (€m)	Position in DSP	Position in Euro	Change in value		Profit/(Loss) before tax		Equity reserves before taxation	
			+ Vol 260 days	- Vol 260 days	+ Vol 260 days	- Vol 260 days	+ Vol 260 days	- Vol 260 days
2019 effects								
Current assets in SDRs	164	203	5	(5)	5	(5)	-	-
Current liabilities in SDRs	(148)	(182)	(4)	4	(4)	4	-	-
Variability at 31 December 2019	**16**	**21**	**1**	**(1)**	**1**	**(1)**	**-**	**-**
2018 effects								
Current assets in SDRs	145	176	6	(6)	6	(6)	-	-
Current liabilities in SDRs	(124)	(150)	(5)	5	(5)	5	-	-
Variability at 31 December 2018	**21**	**26**	**1**	**(1)**	**1**	**(1)**	**-**	**-**

Other risks

The other principal risks to which the Poste Italiane Group is exposed at 31 December 2019 are described below.

Operational risk

Operational risk refers to the risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events. This category of risk includes losses resulting from fraud, human error, business disruption, systems failures, breach of contracts and natural disasters. Operational risk includes legal risk.

To protect against this form of risk, BancoPosta RFC has formalised a methodological and organisational framework to identify, measure and manage the operational risk related to its products/processes.

The framework, which is based on an integrated (qualitative and quantitative) measurement model, makes it possible to monitor and manage risk on an increasingly informed basis.

In 2019, activities continued to refine the operational risk management framework, with the aim of making the process of recording operational losses more efficient and mitigating such risks by cross-functional working groups. Support has also been provided to the specialist units and the owner of the process of analysing and assessing IT risk, in keeping with the approach adopted in 2018.

At 31 December 2019, 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	32
External fraud	49
Employee practices and workplace safety	7
Customers, products and business practices	31
Damage caused by external events	4
Business disruption and system failure	10
Execution, delivery and process management	115
Total at 31 December 2019	**248**

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.

Poste Vita SpA and Poste Assicura SpA have also drawn up and finalised their own framework for identifying, assessing and managing operational risks. The adopted approach reflects the specific nature of the processes and operational risk events typical of an insurance company. The process of assessing operational risk exposure is carried out in keeping with the related solvency requirements, and involves both qualitative and quantitative analysis, conducted through a structured process for identifying internal losses and assessing potential risks in terms of frequency, impact and mitigation. Overall, exposure to risks is limited, although in 2019, there were a number of cases of fraud involving the settlement of life insurance policies (a total of €1.5 million, of which approximately €0.6 million for positions already reactivated by Poste Vita and approximately €0.8 million allocated to the provision for risks and charges). Organisational and control measures to mitigate risk have been reviewed.

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.

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 2019, 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. With reference to these products, a comparison is periodically made between actual deaths and those predicted by the demographic bases adopted for pricing. 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. 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 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 (a surrender rate of approximately 2.75% in 2019).

Poste Assicura SpA is exposed to the following insurance risks:

- Underwriting risk: the risk deriving from the conclusion of insurance contracts associated with the events insured, the processes followed when pricing and selecting risks and unfavourable claims trends compared with previous estimates. This risk can be divided into the following categories:
    - Pricing risk: the risk linked to the company's pricing of its policies which depends on the assumptions used in order to calculate premiums. If prices are based on inadequate assumptions, the insurer may be exposed to the risk of being unable to meet its contractual obligations to policyholders. These risks include those related to disability-morbidity, or the risk associated with the payment of benefits or claims for illness and/or injury. Pricing risk also includes the risk that the premiums charged are not sufficient to cover the actual costs incurred in the management of the contract and the risk of excessive growth in operations associated with poor selection of risks or the absence of resources sufficient to keep up with the pace of growth.
    - Provisioning risk: referring to the risk that technical provisions are not sufficient to meet obligations to policyholders. This insufficiency may be due to incorrect estimates by the company and/or changes in the general environment.
- Catastrophe risk: the risk that extreme and exceptional events have a negative impact that has not been taken into account when pricing the policies.
- Anti-selection risk: this relates to the company's unwillingness to insure an event not classified as future, uncertain and damaging.

As regards Poste Assicura SpA's insurance business, which commenced operations in 2010, the expected growth of the *portfolio* and the different degrees of risk associated with the products distributed has required the company to adopt a highly prudent approach to reinsurance. In particular, it has entered into pro rata reinsurance treaties with major reinsurance providers, establishing the amounts to be ceded based on the specific type and size of the risk to be assumed, backed up by excess-loss or stop-loss treaties to cover risks of a certain size (such as accident policies or so-called catastrophic risks). In addition, when defining the guarantees offered, the assumption of specific types of risk has been mitigated by limiting the size of pay-outs in the event of certain specific types of claim.

With reference to non-life risks, the Group performs specific analyses including, among other things, stress tests to determine the Company's solvency also under adverse market conditions.

Reputational risk

The main element of reputational risk to which the Group is, by its nature, exposed is linked to market performance and primarily associated with the placement of postal savings products and investment products issued by third-party entities (bonds, certificates and real estate funds) or by Group companies (insurance policies issued by the subsidiary, Poste Vita SpA, and mutual funds managed by BancoPosta Fondi SpA SGR).

In particular, with regards to real estate funds sold in the period 2002-2005, which have given rise to a number of complaints and disputes, the Company is closely monitoring performance through to the respective maturities, assessing the potential impact on the provisions for risks and charges accounted for in the financial statements. During the year ended 31 December 2019, the estimate of the liabilities deriving from risks linked to disputes with customers regarding certain financial instruments and investment products, sold in previous years and that have not yet reached maturity, whose performance is not in line with expectations, was prudently revised. It should be noted that, on 16 January 2017, the Board of Directors of Poste Italiane SpA passed a resolution aimed at protecting all 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. All provisions made to cover the cost of this initiative were used in 2017. In addition, with a view to consolidating the Company's historical customer relationships, based on trust and transparency, on 19 February and 28 June 2018, the Board of Directors of Poste Italiane SpA approved an initiative designed to protect customers who, in 2004, against a different economic and regulatory backdrop compared with today's, purchased units issued by the Europa Immobiliare 1 fund and who still held the units at 31 December 2017, the date of the fund's maturity. This initiative, the aim of which 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 "Final Liquidation Distribution", was launched on 24 September 2018 and came to a conclusion on 7 December 2018. With a resolution of 28 February 2019, the Board of Directors of Poste Italiane defined the launch of a second window for customers who had not yet joined the Initiative. The initiative was launched on 23 May 2019 and was concluded on 13 July 2019.

The Obelisco Real Estate Fund placed by Poste Italiane in December 2005 had an original maturity date at the end of December 2015. This was later extended for an additional 3 years and the fund matured on 31 December 2018. On 16 July 2019, the management company of reference announced that the fund's final liquidation report had been approved and confirmed that, given that the liquidation proceeds amounted to zero, there would be no distribution of either income or capital.

In this context, the Board of Directors of Poste Italiane, with a resolution of 30 July 2019, defined an initiative called PosteIniziativa Obelisco in favour of customers holding units in the Obelisco Real Estate Fund at 31 December 2018 to recover the initial value invested. The initiative was launched on 30 September 2019 and was concluded on 6 December 2019.

8. Determination of fair value

8.1 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 2018 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 measured at fair value and measured at cost or amortised cost, for which fair value is required to be disclosed in the notes) are classified with reference to a hierarchy that reflects the materiality of the sources used for their valuation.

The hierarchy consists of three levels.

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

Bonds quoted on active markets:

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

Equity securities and ETFs (Exchange Traded Funds) listed on active markets: the valuation is made considering the price resulting from the last contract traded on the day on the relevant stock exchange.

Quoted open-end 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, interest rate 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 the following categories of financial instrument apply:

Bonds either quoted on inactive markets or not at all:

- **Straight Italian and international government and non-government bonds**: 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.
- **Structured bonds**: valuation is based on a building block approach, entailing decomposition of a structured position into its basic components: the bond and option components. 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.

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

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

Derivative financial instruments:

- **Interest Rate Swaps:**

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

  Interest rate swaps with an embedded option: valuation is based on a building block approach, entailing decomposition of a structured position into its basic components: the linear and option components. The linear component is measured using the discounted cash flow techniques described for plain vanilla interest rate swaps above. Using the derivatives held in Poste Italiane's *portfolio* as an example, the option component is derived from interest rate or inflation rate risks and is valued using a closed form expression, as with classical option valuation models with underlyings exposed to such risks.
- **Bond forwards**: valuation is based on the present value of the differential between the forward price of the underlying instrument as of the measurement date and the settlement price.
- **Warrants**: considering the features of the securities held, measurement is based on the local volatility model. In particular, considering that buyback agreements have been entered into with the counterparties that structured these warrants, and that such counterparties use valuation models consistent with those used by the Group, these instruments are measured on the basis of the bid price quoted by the counterparties.
- **Currency forwards**: valuation is based on the differential between the reciprocal currency registered at the measurement date and the reciprocal currency fixed at the trade date.

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

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

Reverse Repos: are valued using discounted cash flow techniques involving the computation of future contractual cash flows. Repos may also be used for collateral and in such cases fair value need not be adjusted for the counterparty's credit risk.

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

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

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

Fixed and variable rate loans: the measurement is carried out using discounted cash flow techniques. 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.

Closed-end unquoted 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.

Unquoted shares: 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.

8.2 Fair value hierarchy

The following table shows an analysis of financial instruments measured at fair value at 31 December 2019, classified by level in the fair value hierarchy.

Fair value hierarchy

Description (€m)	31/12/2019 Level 1	31/12/2019 Level 2	31/12/2019 Level 3	31/12/2019 Total	31/12/2018 Level 1	31/12/2018 Level 2	31/12/2018 Level 3	31/12/2018 Total
Financial assets								
Financial assets at FVTOCI	130,322	9,499	23	139,844	119,159	8,591	5	127,755
Equity instruments	-	-	23	23	-	-	5	5
Fixed income instruments	130,322	8,960	-	139,282	119,159	8,066	-	127,225
Other investments	-	539	-	539	-	525	-	525
Financial assets at FVTPL	3,234	30,614	3,848	37,696	1,091	26,074	2,662	29,827
Receivables	-	-	-	-	-	8	59	67
Equity instruments	177	-	71	248	165	5	46	216
Fixed income instruments	1,308	191	-	1,499	671	900	-	1,571
Other investments	1,749	30,423	3,777	35,949	255	25,161	2,557	27,973
Financial derivatives	-	73	-	73	-	413	-	413
Total	**133,556**	**40,186**	**3,871**	**177,613**	**120,250**	**35,078**	**2,667**	**157,995**
Financial liabilities								
Financial liabilities at fair value	-	-	-	-	-	-	-	-
Financial derivatives	-	(5,575)	(15)	(5,590)	-	(1,859)	-	(1,859)
Total	**-**	**(5,575)**	**(15)**	**(5,590)**	**-**	**(1,859)**	**-**	**(1,859)**

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

Transfers from Level 1 to Level 2

Description (€m)	From Level 1 to Level 2 Level 1	From Level 1 to Level 2 Level 2	From Level 2 to Level 1 Level 1	From Level 2 to Level 1 Level 2
Transfers of financial assets	**(40)**	**40**	**291**	**(291)**
Financial assets at FVTOCI				
Equity instruments	-	-	-	-
Fixed income instruments	(40)	40	72	(72)
Other investments	-	-	-	-
Financial assets at FVTPL				
Receivables	-	-	-	-
Equity instruments	-	-	-	-
Fixed income instruments	-	-	1	(1)
Other investments	-	-	218	(218)
Net transfers	**(40)**	**40**	**291**	**(291)**

Reclassifications from level 1 to level 2 relate to financial instruments whose value, at 31 December 2019, is not observable in a liquid and active market, as defined in the Group's Fair Value Policy. Reclassifications from level 2 to level 1, on the other hand, relate to financial instruments whose value, at 31 December 2019, is observable in a liquid and active market.

Movements in level 3 during the year are shown below:

Movements in financial instruments - level 3

Description (€m)	Financial assets			
	Financial assets at FVTOCI	Financial assets at FVTPL	Financial derivatives	Total
Balance at 1 January 2019	**5**	**2,662**	**-**	**2,667**
Purchases/Issues	17	2,454	-	2,471
Sales/Extinguishment of initial accruals	-	(1,360)	-	(1,360)
Redemptions	-	-	-	-
Changes in fair value through profit or loss	-	25	-	25
Changes in fair value through equity	1	-	-	1
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	-	-	-	-
Write-off	-	67	-	67
Other movements (including accruals at end of period)	-	-	-	-
Balance at 31 December 2019	**23**	**3,848**	**-**	**3,871**

Financial instruments classified in level 3 are held primarily by Poste Vita SpA and, to a residual extent, by Poste Italiane SpA.

In the case of the Group's insurance Company, instruments in level 3 regard funds that invest primarily in unlisted instruments, whose fair value measurement is based on the latest available NAV (Net Asset Value) as announced by the fund manager. This NAV is adjusted according to the capital calls and reimbursements announced by the managers and occurring between the latest NAV date and the measurement date. These financial instruments primarily consist of investments in private equity funds and, to a lesser extent, real estate funds associated entirely with Class I products related to separately managed accounts. Movements during the period regard the purchase of new investments, redemptions of units of unquoted close-end funds and changes in fair value during the year.

Level 3 changes in the fair value hierarchy during the year also affected financial liabilities after the Parent Company, Poste Italiane SpA, entered into a forward contract for the sale of 400,000 Visa Incorporated ordinary shares. The fair value of the forward sale has decreased by €15 million in the reporting year, reflecting movements in both the price of the shares in US dollars and the euro/dollar exchange rate.

9. Hedging transactions

Below is a description of the hedging transactions entered into by the Poste Italiane Group, as distinguished between fair value hedges and cash flow hedges, which are accounted for as per IAS 39 – Financial Instruments: Recognition and Measurement. The fair value hedges and cash flow hedges described below refer mainly to fixed income instruments held by BancoPosta.

Hedging transactions - Fair value hedges

The Poste Italiane Group has a government bond *portfolio* – made up of fixed-rate BTPs and inflation-linked BTPs – subject to movements in fair value due to changes in interest rates and in the inflation rate.

To limit the effects of interest rates on fair value, BancoPosta RFC enters into Over the Counter (OTC) interest rate swaps to hedge the fair value of the bonds held in the *portfolio*. The objective of these transactions is to have instruments that can offset changes in fair value of the *portfolio* due to interest rate fluctuations and the rate of inflation. The credit risk of the Italian Republic is not hedged and is set for the duration of the swap.

Full hedges and partial hedges are implemented, with the start date equal to the date of purchase of the instrument (swap spot start) and after the purchase of the instrument (swap forward start), respectively.

The Group evaluates the effectiveness of every hedging relationship in offsetting movements in fair value through a retrospective effectiveness test and a prospective effectiveness test[116], using the approaches illustrated in the following notes.

The retrospective effectiveness test is run by utilising the "dollar offset approach through the hypothetical derivative[117]". With this approach, consideration is given to the hedge ratio of the change in fair value of the actual derivative to the change in fair value of the hypothetical derivative occurred between inception and the valuation date. The hedge is considered effective if the hedge ratio falls in the interval between 80% and 125%. The hypothetical derivative and the actual hedging instrument have a settlement date consistent with the hedge inception (spot or forward start) and differ solely in their spread which is considered, as already indicated, the main source of ineffectiveness[118]. The partial ineffectiveness of the hedge, equal to the difference between the changes in value of the two derivatives (hypothetical and actual) represents the net effect of the hedge recognised separately in profit or loss.

In the case of the subsidiary Poste Vita, this effect is reversed to policyholders through the shadow accounting mechanism, as it relates to financial instruments included in separate operations.

116. IAS 39 requires two effectiveness tests:
    - prospective effectiveness test: attests that the hedging relationship is expected to be highly effective in future periods;
    - retrospective effectiveness test: attests that the hedging relationship has been effective from inception to the reporting date.

    For a hedge to be effective, the prospective effectiveness test must show that the hedge is highly effective in offsetting fair value or cash flow movements attributable to the hedged instrument during the designation period, while the result of the retrospective test must show offset ratios ranging from 80% to 125%.
    A hedge can be ineffective when the hedging instrument and the hedged item: are in different currencies; have different maturities; use different underlying interest rates; are exposed to different counterparty risks; and when the derivative is not equal to zero at inception.
117. The dollar offset approach is a quantitative method that involves a comparison between movements in the fair value or cash flow of the hedging instrument and the movements in the fair value or cash flow of the hedged instrument attributable to the risk hedged. Depending on the policy selected, this approach can be used:
    - on a cumulative basis, by observing the performance of the hedge since inception;
    - on a periodic basis, by comparing the hedge performance with that of the last test.

    The dollar offset approach can be implemented through a hypothetical derivative, that is by constructing a theoretical derivative to compare the relevant theoretical movements in far value or cash flow with those of the hedged instrument (actual derivative).
118. For the hypothetical derivative use is made of the mid-market spread, which makes the present value at the settlement date equal to zero, and for the actual derivative the interest rate agreed upon with the counterparty.

For the purposes of the prospective effectiveness test, different approaches have been adopted, depending on the characteristics of the hedging instrument. Specifically:

- the "Critical terms[119]" approach for swap spot start, for which it has been determined at inception that the characteristics of the fixed leg make it possible to replicate exactly the fixed cash flows generated by the hedged item;
- the "Dollar offset through the hypothetical derivative" approach for forward start swaps and forward sales of the subsidiary Poste Vita, for which the prospective effectiveness test is performed by calculating the hedge ratio between the change in fair value of the hypothetical derivative and the change in fair value of the actual derivative[120]. The hedge is considered effective if the hedge ratio falls in the interval between 80% and 125%.

Hedging transactions – Cash flow hedges

To limit the exposure to interest rate risk deriving from the need to reinvest the cash generated by maturing bonds held in *portfolio*, BancoPosta RFC enters, if necessary, into forward purchases. In addition, to pursue the stabilisation of returns, forward sales are entered into. These derivatives qualify as cash flow hedges of forecast transactions.

In addition, the Group has a *portfolio* of inflation-linked BTPs subject to cash flow variability in relation to inflation.

To limit the effects of interest rates on cash flows, the Group enters into OTC interest rate swaps or inflation swaps to hedge the cash flows of the bonds held in *portfolio*. The objective of these transactions is to stabilise until maturity the return of the instrument, regardless of movements of the variable parameter.

The Group evaluates the effectiveness of the designated derivative in every hedging relationship through a retrospective effectiveness test and a prospective effectiveness test.

With regards to the hedges of forecast transactions, the retrospective effectiveness test involves the calculation of a hedge ratio defined as the ratio of the difference between the fair value of the forward transaction entered into with the counterparty on the test and inception date and the present value of the difference between the theoretical forward price of the BTP calculated as of the test and inception date. Assuming a perfect match between the forward prices of the counterparties and the theoretical forward prices, the hedge ratio is always equal to 100%. As such, there are no sources of ineffectiveness.

For the purposes of the prospective effectiveness test, the critical terms approach is applied, considering at inception the consistency between the hedging instrument and the hedged item on the basis of the qualitative characteristics of the contracts[121].

With respect to inflation-linked bonds, the retrospective effectiveness test considers the hedge ratio between the change in fair value of the actual derivative to the change in fair value of the hypothetical derivative occurred between the date of inception and the valuation date. The hedge is considered effective if the hedge ratio falls in the interval between 80% and 125%.

The hypothetical derivative and the actual derivative have the settlement date that matches the inception of the hedge and differ in terms of their fixed income component[122]. Moreover, for the derivatives used to hedge inflation-linked BTP, the fair value at the settlement date reflects also the interest accrued of the instrument accrued from the latest interest payment date to the date of settlement of the derivative. As such, both are considered the main sources of ineffectiveness.

The hypothetical derivative uses the fixed rate, which makes the present value at the settlement date equal to zero, while the actual derivative uses the interest rate agreed upon with the counterparty.

119. The critical terms approach involves a comparison between the critical terms of the hedging instrument with those of the hedged item. The hedging relationship is highly effective when all the critical terms of the two instruments match perfectly and there are no features or options that might invalidate the hedge. Critical terms include, for example: notional amount of the derivative and principal of the underlying, credit risk, timing, currency of the cash flows.
120. Calculated by assuming a parallel shift of + / - 100 bps of the yield curves.
121. The notional amount of the forward contract must be set, at the settlement date, as equal to the nominal amount of the instrument in case of purchase, and equal or lower than the nominal amount of the instrument in case of sale. The underlying of the forward contract must coincide with the instrument that must be purchased or sold (in this case it must be an instrument in the *portfolio*) at the settlement date. The settlement date must be the same as the date on which the cash flow to be hedged is expected, in case of forward purchase, or must be related to the year in which the total return must be stabilised, in case of forward sale.
122. The hypothetical derivative uses the fixed rate, which makes the present value at the settlement date equal to zero, while the actual derivative uses the interest rate agreed upon with the counterparty.

For the purposes of the prospective effectiveness test, different approaches have been applied, depending on the characteristics of the hedging swap. Specifically:

- the "Critical terms" approach for derivatives for which it has been determined at inception that the characteristics of the indexed leg of the swap make it possible to replicate exactly the variable cash flows generated by the hedged item;
- the "Dollar offset through the hypothetical derivative" approach for derivative contracts with a fixed rate applicable to a nominal amount growing constantly at six-month intervals until the derivative expires. For these contracts the prospective effectiveness test is performed by calculating the hedge ratio between the change in fair value of the hypothetical derivative and the change in fair value of the actual derivative[123]. The hedge is considered effective if the hedge ratio falls in the interval between 80% and 125%.

Bond hedges - Cash flow hedges

The Poste Italiane Group is exposed to the risk of cash flow volatility in relation to the €50 million bond issue of 25 October 2013, which calls for annual variable interest payments.

The exposure to this risk is hedged through an interest rate swap to hedge cash flows whereby the Parent Company took on the obligation to pay a fixed rate and sold the variable interest payable by the bond. The hedge covers the interest rate risk while the implicit credit risk is not hedged.

The effectiveness of the hedges is tested retrospectively and prospectively by using the "Dollar offset through the hypothetical derivative" approach.

Effects of hedging transactions on profit or loss and financial position

The table below shows the hedging instruments by expiration date. The average interest rate of the interest rate swaps shown represents the contractually expected average fixed rate of the hedging transaction by maturity band.

Time distribution based on remaining duration of cash flow hedge contracts

	Maturity			
(€m)	**Up to 1 year**	**1 - 5 years**	**Over 5 years**	**Total**
Cash flow hedges - Rate risk				
Forward sales				
Nominal	1,280		-	1,280
Settlement price	1,504		-	1,504
Interest rate swaps				
Nominal	-	490	1,230	1,720
Average rate %	-	4.949%	4.106%	4.346%

123. Calculated by assuming a parallel shift of + / - 100 bps of the yield curves.

Time distribution based on remaining duration of fair value hedge contracts

(€m)	Maturity: Up to 1 year	Maturity: 1 - 5 years	Maturity: Over 5 years	Total
Fair value hedges - Rate risk				
Forward sales				
Nominal	120	-	-	120
Settlement price	-	-	-	-
Interest rate swaps				
Nominal	-	400	25,665	26,065

The table below shows the effects of hedging transactions, broken down by type, on profit or loss and the financial position.

Fair value hedges - Interest rate risk

(€m)	Nominal	Carrying amount*		Accumulated amount of fair value hedge adjustments on the hedged item		Change in value used for calculating hedge ineffectiveness	Accumulated amount of fair value hedge adjustments on the hedged item in case of discontinuing
		Assets	Liabilities	Assets	Liabilities		
Hedged items							
Fixed income instruments, of which:		33,016	-	2,871	-	3,914	-
at amortised cost		15,022	-	2,871	-	1,884	-
at FVTOCI		17,995	-		-	2,030	-
Hedging instruments							
Interest rate swaps	26,065	11	(5,466)			(3,918)	
Forward sales	120	-	(1)				
Hedging gain/(loss) recognised in P&L						**(4)**	

* Not including credit loss provisions

Cash flow hedges - Rate risk

(€m)	Nominal	Carrying amount		Change in value used for calculating hedge ineffectiveness	Cash flow hedge	
		Assets	Liabilities		Hedge reserve	Discontinued
Hedged items						
Fixed income instruments, of which:			-	54		
at amortised cost		-	-	-		
at FVTOCI		3,560	-	54		
Bonds		-	(50)	1		
Forward purchases instruments				-		
Hedging instruments						
Forward purchases	-	-	-	-	191	-
Forward sales	1,280	-	(36)	(36)	(36)	-
Interest rate swaps	1,720	62	(72)	(19)	7	-
Hedging gain/(loss) recognised in P&L				**-**		

The table below shows the effects of cash flow hedges on other comprehensive income.

Impact on OCI of cash flow hedges - Rate risk

(€m)	Hedging gain/(loss) recognised in OCI period fair value (inc./dec.)	Transfers to profit or loss: Hedge accounting effects	Transfers to profit or loss: Discontinued
Fixed income instruments	97	(60)	-
Bonds	(2)	1	-
Total	**95**	**(59)**	**-**

10. Proceedings pending and principal relations with the authorities

The following information is provided in accordance with accounting standard IAS 37 – Provisions, Contingent Liabilities and Contingent Assets.

Tax disputes

In November 2011, the tax authorities notified EGI SpA of three notices of assessment for the years 2006, 2007 and 2008, resulting in the identification of the same irregularity in each of the three years. This concerned the application, for the purposes of IRES, of art. 11, paragraph 2 of Law 413/1991 to properties of historical and artistic interest owned by EGI and leased by it to third parties.

On 30 January 2019, the Board of Directors of the Company resolved to adhere to the facilitated definition pursuant to art. 6 of Law Decree no. 119 of 2018 converted into Law no. 136 of 2018 with a tax charge of €0.367 million, paid on 19 April 2019. On 15 May 2019, the documentation certifying the settlement of the dispute and the relative request for suspension of proceedings was filed at the Registry of the Tax Section of the Court of Cassation.

Between 2009 and 2011, the Regional Tax Office for Large Taxpayers (Agenzia delle Entrate - Direzione Regionale del Lazio - Ufficio Grandi Contribuenti) notified **Poste Vita** of a number of alleged violations of the VAT regulations in the 2004, 2005 and 2006 tax years, resulting in fines of approximately €2.3 million for the alleged failure to pay VAT on invoices for service commissions. With regard to these disputes, currently pending before the Supreme Court of Cassation, the company, bearing in mind the Court's by now consistent approach with regard to such matters, decided to take advantage of the option granted by Law Decree 119 of 23 October 2018. This involved settlement of the existing disputes in return for concessions via the payment of a sum amounting to €0.35 million, equal to 15% of the total penalties imposed in relation to the three alleged violations. The evaluation of adhering to the faculty granted by the aforementioned Law Decree 119/2018 is supported by the participation in the collaborative compliance regime with the tax authorities provided for by Law Decree 128 of 5 August 2015 (Cooperative Compliance). Considering that the decision to turn down the request for a settlement may be notified to the company at any time up to 31 July 2020 and that the case will be discharged if a request for a hearing is not presented by 31 December 2020, the company has deemed it appropriate to continue to reflect the likely outcome of the dispute in determining provisions for risks and charges.

With reference to **Postel**, an audit regarding income tax and withholding tax came to an end on 8 October 2015, with delivery of a tax audit report, contesting the right to deduct VAT and the deductibility of IRAP, in relation to the alleged failure to pay social security contributions for employees and/or contractors used by a supplier between 2010 and 2014. In relation to the notices of assessment for the 2010 and 2011 periods, Postel has decided to avail itself of the facilitated definition pursuant to article 11 of the Law Decree 50 of 24 April 2017, while with regard to the other assessment periods, the tax authorities have notified:

- with regard to the 2012 tax year, on 25 November 2016, additional IRES, IRAP, VAT and withholding tax of €0.1 million, plus penalties and interest. On 19 January 2017, the company appealed the assessment notice, at the same time paying a provisional amount equal to approximately half of the requested amount. At the hearing held on 13 February 2018, the appeal was upheld and the tax authorities were ordered to pay costs. As notified on 3 October 2018, the tax authorities appealed to the Regional Tax tribunal in Rome. Postel appeared before the Tribunal to argue its case on 30 November 2018. A date for the appeal hearing has yet to be scheduled;
- with regard to the 2013 tax year, on 24 July 2017, additional IRES, IRAP, VAT and withholding tax of €0.2 million, plus penalties and interest. Postel filed appeal against the claim on 23 October 2017, at the same time provisionally paying a sum equal to approximately half the tax claimed. The appeal was upheld at the hearing held on 26 September 2019. The judgement may be appealed by the tax authorities by the deadline of 21 April 2020;
- With regard to the 2014 tax year, on 19 April 2019, the tax authorities requested the payment of additional VAT, IRES, IRAP and withholdings amounting to a total of approximately €0.25 million, plus penalties and interest. Postel filed appeal against the claim on 10 June 2019, at the same time provisionally paying a sum equal to approximately half the tax claimed. A date for the appeal hearing has yet to be scheduled.

On 19 April 2018, the tax Authorities in Rome (Guardia di Finanza – Nucleo di Polizia economico-finanziaria) entered the offices of **SDA Express Courier**. The purpose of the inspection was to verify the company's compliance with the requirements regarding VAT, income tax, IRAP and withholding tax for the years 2014, 2015 and 2016, pursuant to and for the purposes of articles 52 and 63 of Presidential Decree 633/72, art. 33 of Presidential Decree 600/73, art. 2 of Legislative Decree 68/2001 and Law 4/1929. On 29 November 2018, the audit was formally declared at an end. The main finding in final notice of assessment for about €1 million regards the deduction of VAT relating to the adjustment entries issued by the company in connection with discounts granted to customers following an increase in the number of shipments. These discounts become price reductions, originally applied by the company when the shipment is handled, and are therefore classified as rebates or discounts under the related contract. Subsequently, on 5 December 2019, a notice of assessment for the year 2014 alone was notified with a total claim of €0.4 million, which, referring to the Formal Tax Audit Report (PVC), mainly contests the VAT deducted. On 3 February 2020, the Company appealed against this notice and provided for the provisional payment of the fine imposed.

In November 2018, **Consorzio Postemotori** received notice of an order issued by the Criminal Court in Rome and of a precautionary seizure regarding the consortium, amounting to €4.6 million. This was accompanied by precautionary measures concerning both the people under investigation and real property. On 8 March 2019, the consortium was notified of the Court of Rome decree regarding the scheduling of the preliminary hearing and the corresponding indictment request issued by the Public Prosecutor on 27 February 2019. On 13 May 2019, the Court, having reviewed the evidence, ruled that there was insufficient evidence to proceed against the current Executive Director and revoked the precautionary seizure previously ordered; this judgement became irrevocable on 17 July 2019.

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** some payment orders, for a total amount payable of €21 million at 31 December 2019. According to INPS, this amount represents social security contributions funding income support, extraordinary income support, unemployment benefit and family benefits not covered by the contributions paid to IPOST. Appeals against these requests were brought before the Court of Genoa. In support of the arguments of Postel in a memo issued on 20 October 2016, the Ministry of Labour stated that the social security contributions system applicable to Poste Italiane also applies to all the other Group companies, with the sole exception of those that provide air transport, banking and express delivery services.

Some of the judgements have already been decided by the Court of Genoa and, on their outcome, against debit notices totalling €13.2 million, the Company was ordered to pay only the CUAF contributions of 0.68%, less the family allowances paid by Postel to employees, amounting to €0.3 million, while nothing was deemed to be due under the CIG, CIGS and mobility being at the time Postel wholly owned by the State through Poste Italiane (a requirement existing up to the date of listing of Poste Italiane) and therefore included among the industrial enterprises of the State for which the law excludes the obligation to pay redundancy and mobility. INPS filed an appeal for the first tranche of requests made (€9.16 million), contesting the merits of the judgement at first instance and the sum arrived at. In the view of INPS, the rate applicable for contributions for family benefits, in line with recent guidance issued by INPS, should have been 4.40% in place of the 0.68% applied in the payment notices involved in the court action. In two judgements dated 28 December 2018, the Court of Appeal in Genoa confirmed in full the judgements at the first instance, rejecting INPS's appeals, who filed an appeal in Cassation notified to Postel on 28 June 2019, which appeared before the court.

Other cases are still pending and are still at the preliminary stage, relating to the appeals filed by Postel SpA against the payment orders for the periods from May 2009 to July 2019.

Finally, on 8 October 2019, INPS requested to regularise contributions from September 2014 to September 2019 at the non-harmonised CUAF rate of 4.40% of taxable income for social security purposes. Therefore, as of October 2019, Postel has adjusted to the payment of the CUAF contribution in the amount of 4.40%, subject to repetition reserve. For the previous period from September 2014 to the end of 2015, Postel appealed through administrative channels against the debt notices received from INPS with a request for payment of 4.40% by the CUAF. Taking into account the judgements at the first instance, the reasons given for the judgements and the latest appeals brought by INPS, the Company has adjusted its provisions for risks and charges based on the opinion of its legal advisors.

Provisions recognised in the financial statements at 31 December 2019 amount to €12.25 million.

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** 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 January 2009 Poste Italiane SpA paid €443 million plus interest of €41 million to the MEF. In implementation of the European Court's (by then definitive) decision, in accordance with art. 1 paragraph 281 of the 2015 Budget Law, (Law 190 of 23 December 2014), on 13 May 2015, the Company collected the amount of €535 million from its then sole shareholder, the MEF. Following the European Court's decision, however, the European Commission reopened its review and appointed an external expert to determine whether (in accordance with art. 1, paragraph 31 of the 2006 Budget Law - Law 266 of 23 December 2005) the rates of interest earned by the Company on deposits with the MEF during the period from 1 January 2005 to 31 December 2007 were in line with market rates. The external expert has provided the Commission, on a preliminary basis, with an updated version of the analysis originally performed by the Commission. On 2 August 2019, the European Commission ruled that the remuneration of deposits with the MEF for the years 2005-2007 does not constitute State aid within the meaning of European legislation.

Autorità Garante della Concorrenza e del Mercato (AGCM - the Italian Antitrust Authority)

On 9 March 2015, the Authority notified **Poste Italiane** of an investigation of BancoPosta RFC for alleged violation of articles 20, 21 and 22 of the Consumer Code, regarding the Libretto Smart product. On 21 December 2015, the AGCM notified Poste Italiane of its final ruling in which it deemed the Company's conduct unfair and imposed a fine of €0.54 million, limited to a tenth of the maximum applicable amount taking into account the mitigating circumstance that Poste Italiane had adopted initiatives aimed at allowing customers to benefit from the bonus rate. Poste Italiane lodged an appeal against this ruling before the Lazio Regional Administrative Court, which has adjourned the case until a hearing on the merits to be set.

On 3 October 2018, **Poste Italiane** proceeded to pay the fine of €23 million plus interest imposed by the *Autorità Garante della Concorrenza e del Mercato* (AGCM - the Antitrust Authority) following its ruling, in January 2018, that Poste Italiane had abused its dominant market position in the period from 2014 to 2017, as per art. 102 of the TFEU. This did not constitute acceptance or admission of liability in relation to the alleged misconduct and does not affect the Company's right to defend its position through the appropriate channels.

On 4 March 2019, the AGCM notified the Company that it was satisfied that the actions taken by **Poste Italiane** to remedy the earlier issues had been effective and that the Company was in compliance with the regulations, ruling therefore that: (i) no further fine would be imposed; (ii) Poste Italiane can continue to offer competing alternative operators a service equivalent to Posta Time; (iii) Poste Italiane, within 30 days of notice of the ruling, must inform the regulator in writing of the degree to which the Posta Time equivalent service has been extended. On 4 April 2019, Poste Italiane sent the authority a report confirming the actions taken in order to comply. Poste Italiane has challenged the above measure before the Lazio Regional Administrative Court (TAR). The court merit is set for 20 April 2020.

On 8 October 2018, the AGCM notified **Poste Italiane** of the launch of investigation **PS11215** – pursuant to art. 27, paragraph 3 of Legislative Decree 206/05 (the Consumer Code) and art. 6 of the Regulation for Investigations – with an accompanying request for information pursuant to art. 12, paragraph 1 of the above Regulation. The investigation is in response to complaints filed on 24 July 2018 by Altroconsumo and on 8 August 2018 by *Centro Tutela Consumatori e Utenti* (two consumers' associations). The Authority is primarily looking into an advertising campaign called *Buoni e libretti – Buono a sapersi*, promoting Interest-bearing Postal Certificates and Postal Savings Books via TV and press adverts. The investigation relates to the alleged violation of articles 21 and 22, paragraph 1 and 4 letter a) of the Consumer Code, as the effect of taxation was, in the Authority's view, not clearly indicated.

On 29 October 2018, Poste Italiane replied to the request for information and, following the hearing held at the AGCM on 28 November 2018, sent the Authority the form for the presentation of commitments - pursuant to art. 27 paragraph 7 of the Consumer Code, art. 8 paragraph 7 of Legislative Decree 145/2007 and art. 9 of the aforementioned Regulation on investigation procedures - subsequently supplemented on 11 January 2019. On 1 April 2019, the Authority notified Poste Italiane that the investigation was closed and that it had accepted the commitments, which are now obligatory, without imposing a fine.

Autorità per le Garanzie nelle Comunicazioni (AGCOM - the Italian Communications Authority)

Law Decree 201 of 6 December 2011, converted into Law 214 of 22 December 2011, transferred responsibility for regulation and supervision of the postal sector to the Italian Communications Authority (AGCom).

Following transposition into Italian law of the third European postal services directive (Directive 2008/6/EC), the so-called "net avoided cost" method has been applied in quantifying the cost of the universal service"[124]. In this regard:

i. AGCom Resolution 214/19/CONS regarding "Assessment of the net cost of the universal postal service for 2015 and 2016" was published on 2 July 2019. In addition to acknowledging that the cost is unfair, the Resolution quantified the cost of providing the Universal Postal Service in 2015 and 2016, respectively, as €389 million and €356 million, compared with compensation of €329 million and €262 million provided for in the Contratto di Programma. AGCom did not establish a Compensation Fund for 2015 and 2016, so it has not been possible to recover the difference between compensation provided by the state and the costs quantified by AGCom. On the same date, the regulator announced that it had initiated an assessment of the net cost for 2017 and 2018. On 2 October 2019, the Company challenged this resolution by filing an appeal before the Lazio Regional Administrative Court (TAR).

ii. AGCom Resolution 298/17/CONS regarding "Assessment of the net cost of the universal postal service for 2013 and 2014" was published on 6 September 2017. In addition to acknowledging that the cost is unfair, the Resolution quantified the cost of providing the Universal Postal Service in 2013 and 2014, respectively, as €393 million and €409 million, compared with compensation of €343 million and €336 million provided for in the Contratto di Programma. Again, no Compensation Fund was established for 2013 and 2014 and, on 6 November 2017, Poste Italiane had filed a legal challenge before the Lazio Regional Administrative Court against the above resolution (the case is still pending).

iii. AGCom Resolution 412/14/CONS regarding "Assessment of the net cost of the universal postal service for 2011 and 2012" was published on 31 July 2014. In addition to acknowledging that the cost is unfair, the Resolution quantified the cost of providing the Universal Postal Service in 2011 and 2012, respectively, as €381 million and €327 million for fees originally recognised by Poste Italiane for €357 and €350 million respectively. The Authority has also established that no compensation fund was established for 2012 and on 13 November 2014, Poste Italiane filed an appeal before the Lazio Regional Administrative Court against the above resolution (still pending).

Bank of Italy

On 23 May 2019, the Bank of Italy began inspections of specific post offices with the aim of verifying fulfilment of the obligations in terms of banking transparency. The inspections were concluded in the following month of July and the related Report has not been received yet. The inspections mentioned above, although territorial in nature, also concerned areas that can be traced back to the inspections carried out by the Authority in 2015 at the head office and mainly related to aspects such as the filing of contractual documentation, the management of unilateral amendment proposals to customers, as well as the handling of complaints and the application of economic conditions through the dedicated company system.

With regard to the inspection conducted by the Bank of Italy in 2017, with the aim of assessing the governance, control and operational and IT risk management systems in relation to BancoPosta's operations, the process of implementing the relevant compliance initiatives is still in progress and work is proceeding according to the established timing.

On 20 June 2019, the Bank of Italy requested to ensure that the procedures used in handling complaints regarding Interest-bearing Postal Certificates were fit for purpose. The Bank also requested information on the fraudulent use of payment instruments. The Company carried out the appropriate investigations and provided feedback to the Authority on both issues on 30 September 2019, subject to approval, as requested by the Authority, by the Board of Directors and the Board of Statutory Auditors. At the date of preparation of this Report, the Company does not believe it necessary to revisit its approach to handle disputes regarding Interest-bearing Postal Certificates and, as a result, the criteria to estimate the related provisions for risks and charges. The amount set aside, determined on the basis of the historical series of operating losses, represents the best estimate of directors of the charge required to settle the probable liabilities. Any changes to the aforesaid estimate may only be made after the Authority has agreed to changes to the practices currently adopted, taking into account the decisions that will be made by both the Financial Banking Arbitrator (ABF) and the Ordinary Judicial Authority (AGO).

124. 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.

CONSOB

On 12 February 2019, the CONSOB requested clarification regarding the measures adopted to ensure compliance with the rules of conduct for dealing with customers with reference to: i) the provision of advice on insurance investment products; ii) obligations regarding Product Governance and the incentive scheme for network personnel in relation to the distribution of insurance investment products. The above information was provided in a specific response submitted to the regulator on 15 February 2019.

Later, on 18 April 2019, the CONSOB requested further clarification regarding the notes submitted by BancoPosta between September 2018 and February 2019 and the "Report on the conduct of investment services and activities" relating to: (i) concerns regarding compliance with the above legislation; (ii) aspects where there is a need for precise clarification in order assess compliance with industry regulations; (iii) updates on matters for which information on initiatives in progress was previously provided. The above information was provided in a specific response submitted to the regulator on 3 June 2019.

On 23 May 2019, the CONSOB requested additional information on the closed-end real estate fund, Obelisco, which matured on 31 December 2018, and any initiatives to be adopted by Poste Italiane in order to protect investors, similar to the action taken with regard to the closed-end real estate funds, IRS and Europa Immobiliare 1. The Company responded on 16 June 2019.

On 31 May 2019, the CONSOB requested information on the disclosure made to customers on the cost and expense statement, ex ante (pre-contractual information) and ex post (annual report), which was replied to on 1 July 2019 (for information ex ante) and 22 July 2019 (for information ex post). On 27 June 2019, the CONSOB requested further clarifications regarding the measures adopted to ensure compliance with regulatory provisions with reference to the planned controls in terms of experience and knowledge of the sales network employees. The related reply was sent on 17 July 2019 and contains detailed information on the training course aimed at maintaining and updating knowledge and skills with the related final verification test, assessments carried out on the results of the final verification tests, an illustration of the results achieved by the new resources placed in the role for the year 2018 and 2019, as well as clarifications on the specialist supervision in support of the network.

On 7 August 2019 a request was received from the Authority concerning data and information relating to the provision of investment services in the regions of Emilia Romagna, Marche and Umbria and in the province of Pescara. The reply was sent by the Company on 18 September 2019 together with, as requested, the names of the employees who have taken over responsibility for the areas concerned since 2016.

On 10 October 2019, the CONSOB requested, by way of short notice, some clarifications on the report received from the company Sagitta SGR on 5 August regarding the representation of the information relating to the Obelisco real estate fund in the statement of account of the Customer Securities Dossier. The reply was sent by the Company on 17 October 2019.

On 29 October 2019, the CONSOB requested information on the correct fulfilment of transaction reporting obligations. The reply was sent by the Company on 13 December 2019.

In January 2020, the CONSOB launched an inspection of a general nature pursuant to article 6-ter, paragraph 1, of Legislative Decree 58 of 24 February 1998, aimed at ascertaining the state of adaptation to the new MiFID 2 legislation.

Garante per la protezione dei dati personali (the Data Protection Authority)

On 15 January 2014, at the end of an investigation launched in 2009, the Authority imposed a fine of €0.34 million on **Postel**, 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. The Company appealed against the above judgement before the Court of Cassation for the part of the sanction not annulled by the Court. Postel has not yet been notified of the verdict at the conclusion of the Council Chamber hearing held on 12 November 2019. On 21 March 2017, the tax authorities notified the company of a payment order in which, in addition to requesting payment of a fine of €0.24 million, as reduced by the judgement from the Court of Rome, it also applied, among other things, an additional amount of €0.12 million. Postel appealed the order, resulting in cancellation of the fine of €0.12 million by the Court of Rome. The Guarantor appealed against this judgement to the Court of Cassation, notified on 3 August 2018, and Postel took steps to duly institute legal proceedings. The company has filed a formal request with the Authority in order to recover the sums in question (already paid by Postel following the Authority's seizure of the related amounts from a third party) and, has also applied to the tax authorities for a refund, a response to which has yet to be received.

11. Material non-recurring events and/or transactions

A brief summary of the impact of material non-recurring events and transactions[125] involving the Poste Italiane Group in 2019, is provided below, as required by CONSOB ruling DEM/6064293 of 28 July 2006:

- Income of €88 million relating to the revaluation of the investment in SIA SpA, already held by FSIA Investimenti, following the acquisition of sole control (step up acquisition) and the income deriving from the exercise of purchase options on 7.934% of the shares in SIA SpA held by UniCredit and Intesa Sanpaolo.
- Impairment of €46 million, including €45 million relating to the Parent Company, in respect of interest income on IRES reimbursement, as described in Note A9 - Other receivables and assets.

12. 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[126] in 2019.

13. Events after the end of the reporting period

At present it is not possible to make a reasonable estimate of the possible medium-term impacts of the spread in Italy of the COVID-19 coronavirus. However, it is important to note that in its response to this situation Poste Italiane will be able to bring to bear various specific strengths relating to its multi-channel structure and the growth of its digital business, which ensure that service is also available outside traditional post office channels. The majority of the Group's overall revenue will not be linked to short-term commercial activities and the business model of BancoPosta is capital light, not assuming credit risk. In addition, its cash flow generation is solid and it continues to hold net cash. The Group is actively involved in daily monitoring of the evolution of the virus, for the proactive management of the relative effects.

Other events after the end of the reporting period are described in the above notes and no further significant events have occurred after 31 December 2019.

125. 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.
126. 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.

14. Additional information

This note provides information applicable to both the Poste Italiane Group's consolidated financial statements and Poste Italiane SpA's separate financial statements, including qualitative and quantitative disclosures on matters required by accounting standards, not specifically dealt with in the previous notes.

Analysis of net debt/(funds)

The net debt/(funds) of the Poste Italiane Group and Poste Italiane SpA at 31 December 2019 are analysed below.

Poste Italiane Group

Net debt/(funds) at 31 December 2019

Balance at 31/12/2019 (€m)	Mail, Parcels and Distribution	Payments, Mobile and Digital	Financial Services	Insurance Services	Eliminations	Consolidated	of which, related party transactions
Financial liabilities	**3,061**	**5,539**	**78,219**	**295**	**(7,598)**	**79,516**	
Postal current accounts	-	-	48,794	-	(477)	48,317	1
Bonds	50	-	-	-	-	50	-
Borrowings from financial institutions	574	-	12,194	-	-	12,768	265
Other borrowings	-	-	-	-	-	-	-
Lease payables	1,251	1	-	27	-	1,279	9
MEF account, held at the Treasury	-	-	4,542	-	-	4,542	4,542
Financial derivatives	22	-	5,567	1	-	5,590	123
Other financial liabilities	11	5,193	1,751	15	-	6,970	12
Intersegment financial liabilities	1,153	345	5,371	252	(7,121)	-	-
Technical provisions for insurance business	**-**	**-**	**-**	**140,261**	**-**	**140,261**	**-**
Financial assets	**(1,395)**	**(5,645)**	**(77,078)**	**(141,936)**	**7,120**	**(218,934)**	
Financial assets at amortised cost	(62)	(115)	(39,402)	(1,742)	-	(41,321)	(11,181)
Financial assets at FVTOCI	(547)	-	(36,831)	(102,466)	-	(139,844)	(539)
Financial assets at FVTPL	-	-	(71)	(37,625)	-	(37,696)	(21)
Financial derivatives	-	-	(73)	-	-	(73)	(1)
Intersegment financial assets	(786)	(5,530)	(701)	(103)	7,120	-	-
Technical provisions attributable to reinsurers	**-**	**-**	**-**	**(58)**	**-**	**(58)**	**-**
Net financial liabilities/(assets)	**1,666**	**(106)**	**1,141**	**(1,438)**	**(478)**	**785**	
Cash and deposits attributable to BancoPosta	-	-	(4,303)	-	-	(4,303)	-
Cash and cash equivalents	(851)	(96)	(518)	(1,161)	477	(2,149)	(495)
Net debt/(funds)	**815**	**(202)**	**(3,680)**	**(2,599)**	**(1)**	**(5,667)**	

Net debt/(funds) at 31 December 2018

Balance at 31/12/2018 (€m)	Mail, Parcels and Distribution	Payments, Mobile and Digital	Financial Services	Insurance Services	Eliminations	Consolidated	*of which, related party transactions*
Financial liabilities	1,259	4,307	67,022	1,034	(6,693)	66,929	
Postal current accounts	-	-	47,160	-	(920)	46,240	-
Bonds	50	-	-	762	-	812	-
Borrowings from financial institutions	201	-	8,473	-	-	8,674	308
Other borrowings	-	-	-	-	-	-	-
Lease payables	-	-	-	-	-	-	-
MEF account, held at the Treasury	-	-	3,649	-	-	3,649	3,649
Financial derivatives	30	-	1,829	-	-	1,859	20
Other financial liabilities	20	4,027	1,634	14	-	5,695	13
Intersegment financial liabilities	958	280	4,277	258	(5,773)	-	-
Technical provisions for insurance business	**-**	**-**	**-**	**125,148**	**-**	**125,148**	**-**
Financial assets	**(1,417)**	**(4,097)**	**(64,578)**	**(126,545)**	**5,773**	**(190,864)**	
Financial assets at amortised cost	(89)	(53)	(31,221)	(1,506)	-	(32,869)	(10,530)
Financial assets at FVTOCI	(538)	-	(32,071)	(95,146)	-	(127,755)	(525)
Financial assets at FVTPL	-	-	(58)	(29,769)	-	(29,827)	(21)
Financial derivatives	-	-	(368)	(45)	-	(413)	(29)
Intersegment financial assets	(790)	(4,044)	(860)	(79)	5,773	-	-
Technical provisions for insurance business	**-**	**-**	**-**	**(71)**	**-**	**(71)**	**-**
Net financial liabilities/(assets)	**(158)**	**210**	**2,444**	**(434)**	**(921)**	**1,141**	
Cash and deposits attributable to BancoPosta	-	-	(3,318)	-	-	(3,318)	-
Cash and cash equivalents	(973)	(246)	(1,323)	(1,574)	921	(3,195)	(1,306)
Net debt/(funds)	**(1,131)**	**(36)**	**(2,197)**	**(2,008)**	**-**	**(5,372)**	

Total net funds at 31 December 2019 amounts to €5,667 million, up from €5,372 million at 31 December 2018. The change of €295 million during the period primarily reflects a decrease in net working capital, an increase in the fair value of investments classified as FVTOCI, the recognition of financial liabilities required by the adoption, from 1 January 2019, of the new IFRS 16 accounting standard (€1,279 million at 31 December 2019) and the distribution of dividends totalling €774 million.

An analysis of the net funds of the Mail, Parcels and Distribution segment at 31 December 2019, in accordance with ESMA recommendation 319/2013, is provided below:

ESMA net debt/(funds)

(€m)	At 31 December 2019	At 31 December 2018
A. Liquidity	**(851)**	**(973)**
B. Current loans and receivables	**(135)**	**(57)**
C. Current bank borrowings	1	201
D. Current lease payables	215	-
E. Current portion of non-current debt	-	-
F. Other current financial liabilities	15	23
G. Current financial debt (C+D+E+F)	**231**	**224**
H. Current net debt/(funds) (A+B+G)	**(755)**	**(806)**
I. Non-current bank borrowings	573	-
L. Bonds issued	50	50
M. Non-current lease payables	1,036	-
N. Other non-current liabilities	18	27
O. Non-current financial debt (I+L+M+N)	**1,677**	**77**
P. Net debt/(funds) (ESMA) (H+O)	**922**	**(729)**
Non-current financial assets	(474)	(570)
Net debt/(funds)	**448**	**(1,299)**
Intersegment loans and receivables and financial liabilities	367	168
Net debt/(funds) including intersegment transactions	**815**	**(1,131)**

Poste Italiane SpA

Net debt/(funds)

Balance at 31/12/2019 (€m)	Capital outside ring-fence	BancoPosta RFC	Eliminations	Poste Italiane SpA	*of which, related party transactions*
Financial liabilities	**2,948**	**77,995**	**(705)**	**80,238**	
Postal current accounts	-	53,938	(58)	53,880	5,573
Bonds	50	-	-	50	-
Borrowings from financial institutions	574	12,194	-	12,768	265
Lease payables	1,149	-	-	1,149	-
MEF account held at the Treasury	-	4,542	-	4,542	4,542
Financial derivatives	22	5,567	-	5,589	123
Other financial liabilities	506	1,754	-	2,260	571
Intersegment financial liabilities	647	-	(647)	-	-
Financial assets	**(941)**	**(77,043)**	**647**	**(77,337)**	
Financial assets at amortised cost	(394)	(39,453)	-	(39,847)	(11,568)
Financial assets at FVTOCI	(547)	(36,799)	-	(37,346)	-
Financial assets at fair value through profit or loss	-	(71)	-	(71)	-
Financial derivatives	-	(73)	-	(73)	(1)
Intersegment financial assets	-	(647)	647	-	-
Liabilities/(net financial assets)	**2,007**	**952**	**(58)**	**2,901**	
Cash and deposits attributable to BancoPosta	-	(4,303)	-	(4,303)	-
Cash and cash equivalents	(753)	(511)	58	(1,206)	(495)
Net debt/(funds)	**1,254**	**(3,862)**	**-**	**(2,608)**	

Net debt/(funds)

Balance at 31/12/2018 (€m)	Capital outside ring-fence	BancoPosta RFC	Eliminations	Poste Italiane SpA	*of which, related party transactions*
Financial liabilities	**1,238**	**66,838**	**(922)**	**67,154**	
Postal current accounts	-	51,204	(65)	51,139	4,903
Bonds	50	-	-	50	-
Borrowings from financial institutions	200	8,473	-	8,673	308
MEF account held at the Treasury	-	3,649	-	3,649	3,649
Financial derivatives	31	1,829	-	1,860	29
Other financial liabilities	114	1,669	-	1,783	34
Intersegment financial liabilities	843	14	(857)	-	-
Financial assets	**(997)**	**(64,706)**	**857**	**(64,846)**	
Financial assets at amortised cost	(446)	(31,397)	-	(31,843)	(11,064)
Financial assets at FVTOCI	(537)	(32,040)	-	(32,577)	-
Financial assets at fair value through profit or loss	-	(58)	-	(58)	-
Financial derivatives	-	(368)	-	(368)	(29)
Intersegment financial assets	(14)	(843)	857	-	-
Liabilities/(net financial assets)	**241**	**2,132**	**(65)**	**2,308**	
Cash and deposits attributable to BancoPosta	-	(3,318)	-	(3,318)	-
Cash and cash equivalents	(875)	(1,318)	65	(2,128)	(1,306)
Net debt/(funds)	**(634)**	**(2,504)**	**-**	**(3,138)**	

Total net funds of the Company at 31 December 2019 amounts to €2,608 million, down compared to 31 December 2018 (cash of €3,138 million). The change of €530 million during the year primarily reflects the recognition of financial liabilities resulting from the first-time adoption, from 1 January 2019, of the new accounting standard, IFRS 16 (€1,149 million at 31 December 2019), the payment of dividends totalling €774 million and the increase in the fair value of financial instruments at FVTOCI for €1,462 million. The fair value reserve relating to these instruments, before the related taxation, is positive for €1,348 million.

An analysis of the net funds of the Parent Company outside the ring-fence at 31 December 2019, in accordance with ESMA recommendation 319/2013, is provided below:

ESMA net financial indebtedness for capital outside ring-fence

(€m)	At 31 December 2019	At 31 December 2018
A. Liquidity	**(753)**	**(875)**
B. Current loans and receivables	**(201)**	**(168)**
C. Current bank borrowings	-	200
D. Current lease payables	190	-
E. Current portion of non-current debt	1	-
F. Other current financial liabilities	509	118
G. Current financial debt (C+D+E+F)	**700**	**318**
H. Current net debt/(funds) (A+B+G)	**(254)**	**(725)**
I. Non-current bank borrowings	573	-
L. Bonds issued	50	50
M. Non-current lease payables	959	-
N. Other non-current liabilities	19	27
O. Non-current debt/(funds) (I+L+M+N)	**1,601**	**77**
P. Net debt/(funds) (ESMA) (H+O)	**1,347**	**(648)**
Non-current financial assets	(740)	(815)
RFC net debt/(funds)	**607**	**(1,463)**
Intersegment financial receivables and payables	647	829
Industrial net debt for capital outside ring-fence including intersegment transactions	**1,254**	**(634)**

Transfers of financial assets that are not derecognised

In accordance with IFRS 7 - Financial Instruments: Disclosures, this section provides additional information on the transfer of financial assets that are not derecognised (continuing involvement).

At 31 December 2019, these assets concern reverse repurchase agreements entered into with primary financial intermediaries and entirely attributable to the Parent Company.

Transfers of financial assets that are not derecognised

Description (€m)	Note	31 December 2019			31 December 2018		
		Nominal value	Carrying amount	Fair value	Nominal value	Carrying amount	Fair value
Financial assets attributable to BancoPosta	**[A5]**						
Financial assets at amortised cost		4,929	5,179	5,207	3,424	3,527	3,363
Financial assets at FVTOCI		6,621	7,329	7,329	4,742	5,179	5,179
Financial liabilities attributable to BancoPosta	**[B6]**						
Financial liabilities arising from repos		(12,201)	(12,194)	(12,205)	(8,477)	(8,473)	(8,484)
Financial assets	**[A6]**						
Financial assets at FVTOCI		-	-	-	-	-	-
Financial liabilities	**[B7]**						
Financial liabilities arising from repos		-	-	-	-	-	-
Total		**(651)**	**314**	**331**	**(311)**	**233**	**58**

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 interest rate 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

Description (€m)	31 December 2019		31 December 2018	
	Nominal value	Carrying amount	Nominal value	Carrying amount
Financial assets attributable to BancoPosta				
Financial assets at amortised cost				
Loans and receivables	5,660	5,660	1,651	1,651
Receivables used as collateral provided by CSAs	5,181	5,181	1,332	1,332
Receivables used as collateral provided by GMRAs	208	208	185	185
Receivables in the form of guarantee deposits (Clearing House margin requirements)	271	271	134	134
Fixed income instruments	5,457	5,706	3,671	3,773
Securities involved in repurchase agreements	4,929	5,179	3,424	3,527
Securities used as collateral provided by CSAs and GMRAs	528	527	247	246
Securities used as collateral for intraday credit from the Bank of Italy and for Sepa Direct Debits	-	-	-	-
Financial assets at FVTOCI				
Fixed income instruments	7,557	8,290	5,314	5,809
Securities involved in repurchase agreements	6,621	7,329	4,742	5,179
Securities used as collateral for intraday credit from the Bank of Italy and for Sepa Direct Debits	936	961	572	630
Financial assets				
Financial assets at amortised cost				
Loans and receivables	23	23	30	30
Receivables used as collateral provided by CSAs	23	23	30	30
Financial assets at FVTOCI				
Fixed income instruments	-	-	-	-
Securities involved in repurchase agreements	-	-	-	-
Total financial assets subject to encumbrances	**18,697**	**19,679**	**10,666**	**11,263**

At 31 December 2019, the Parent Company has received financial assets as collateral for repurchase agreements, having a nominal value of €1,085 million and a fair value of €1,165 million.

Exposure to sovereign debt

With regard to financial assets, as required by Communication DEM/11070007 of 28 July 2011, implementing Document 2011/266 published by the European Securities and Markets Authority (ESMA) and later amendments, the Group's exposure to sovereign debt at 31 December 2019 is shown in the table below.

Poste Italiane Group - Exposure to sovereign debt

Description (€m)	31/12/2019			31/12/2018		
	Nominal value	Carrying amount	Market Value	Nominal value	Carrying amount	Market Value
Italy	**125,322**	**143,188**	**143,000**	**125,501**	**130,596**	**129,231**
Financial assets at amortised cost	19,100	22,825	22,637	17,934	19,778	18,413
Financial assets at FVTOCI	106,170	120,308	120,308	106,745	109,995	109,995
Financial assets at FVTPL	52	55	55	822	823	823
Austria	**-**	**-**	**-**	**15**	**15**	**15**
Financial assets at amortised cost	-	-	-	-	-	-
Financial assets at FVTOCI	-	-	-	15	15	15
Financial assets at FVTPL	-	-	-	-	-	-
Belgium	**89**	**107**	**107**	**89**	**92**	**92**
Financial assets at amortised cost	-	-	-	-	-	-
Financial assets at FVTOCI	89	107	107	89	92	92
Financial assets at FVTPL	-	-	-	-	-	-
Finland	**-**	**-**	**-**	**15**	**15**	**15**
Financial assets at amortised cost	-	-	-	-	-	-
Financial assets at FVTOCI	-	-	-	15	15	15
Financial assets at FVTPL	-	-	-	-	-	-
France	**151**	**203**	**203**	**151**	**173**	**173**
Financial assets at amortised cost	-	-	-	-	-	-
Financial assets at FVTOCI	151	203	203	151	173	173
Financial assets at FVTPL	-	-	-	-	-	-
Germany	**52**	**62**	**62**	**49**	**57**	**57**
Financial assets at amortised cost	-	-	-	-	-	-
Financial assets at FVTOCI	50	60	60	47	56	56
Financial assets at FVTPL	2	2	2	2	1	1
Ireland	**10**	**13**	**13**	**10**	**11**	**11**
Financial assets at amortised cost	-	-	-	-	-	-
Financial assets at FVTOCI	10	13	13	10	11	11
Financial assets at FVTPL	-	-	-	-	-	-
Spain	**1,159**	**1,780**	**1,781**	**1,167**	**1,440**	**1,440**
Financial assets at amortised cost	3	3	4	3	3	3
Financial assets at FVTOCI	1,156	1,777	1,777	1,164	1,437	1,437
Financial assets at FVTPL	-	-	-	-	-	-
USA	**1**	**1**	**1**	**1**	**1**	**1**
Financial assets at amortised cost	-	-	-	-	-	-
Financial assets at FVTOCI	1	1	1	1	1	1
Financial assets at FVTPL	-	-	-	-	-	-
Other countries	**20**	**20**	**20**	**-**	**-**	**-**
Financial assets at amortised cost	-	-	-	-	-	-
Financial assets at FVTOCI	20	20	20	-	-	-
Financial assets at FVTPL	-	-	-	-	-	-
Total	**126,804**	**145,374**	**145,187**	**126,998**	**132,400**	**131,035**

Below are details for Poste Italiane

Credit risk - Exposure to sovereign debt

Description (€m)	31 December 2019			31 December 2018		
	Nominal value	Carrying amount	Market Value	Nominal value	Carrying amount	Market Value
Financial assets attributable to BancoPosta						
Italy	**48,595**	**57,917**	**57,505**	**46,664**	**50,373**	**48,897**
Financial assets at amortised cost	17,425	21,118	20,706	16,435	18,333	16,857
Financial assets at FVTOCI	31,170	36,799	36,799	30,229	32,040	32,040
Financial assets						
Italy	500	524	524	500	532	532
Financial assets at FVTOCI	500	524	524	500	532	532
Total	**49,095**	**58,441**	**58,029**	**47,164**	**50,905**	**49,429**

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 fall within the definition of 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

ISIN - Name (€m)	Nature of entity	Activity of the Fund	NAV		
			% investment	Ref. date	Amount
LU1379774190 - MULTIFLEX-DIVERSIFIED DIS-CM	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	31/12/19	5,885
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	31/12/19	4,979
LU1407712287 - MULTIFLEX - Strategic Insurance Distribution	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	31/12/19	4,712
LU1407711800 - MULTIFLEX - Dynamic Multi Asset Fund	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	31/12/19	4,225
LU1193254122 - MFX - GLOBAL FUND - ASSET GLOBAL FUND (PIMCO MULTI ASSET)	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	31/12/19	4,108
LU1500341240 - MULTIFLEX-LT OPTIMAL M/A-CM	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	31/12/19	716
LU1808838863 - MULTIFLEX-OLYMPIUM OPT MA-CM	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	31/12/19	588
LU1808839242 - MULTIFLEX-OLYMP INSURN MA-CM	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	31/12/19	582
LU1500341752 - MULTIFLEX-DYNAMIC LT M/A-CM	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	31/12/19	560
LU2051218035 - OLYMPIUM SEVERUM FUND	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	31/12/19	500
PRIMA HEDGE PLATINUM GROWTH ISIN IE00BK1KDS71	Non-harmonised fund of hedge funds	Pursuit of absolute returns, with low long-term volatility and correlation with the main financial markets	100	30/11/19	439

ISIN - Name (€m)	Nature of entity	Activity of the Fund	% investment	NAV Ref. date	Amount
IT0005174450 - DIAMOND EUROZONE FUND OFFICE UBS	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	30/09/19	377
LU1500341166 - MULTIFLEX-OLYMPIUM DYNAMIC-MULTIASSET FUND	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	31/12/19	306
IT0005247819 - Diamond Core	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	30/06/19	304
QU0006738052 - Prima EU Private Debt Opportunity Fund	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	30/09/19	249
QU0006744795 - Prima European Direct Lending 1 Fund	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	30/09/19	179
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	30/06/19	158
QU0006738854 - Prima Credit Opportunity Fund	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	29/11/19	128
IT0005215113 - CBRE DIAMOND FUND	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 in units of alternative real estate funds	100	30/09/19	126
IT0005210387 - DIAMOND EUROZONE RETAIL PROPERTY FUND	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	30/06/19	104
QU0006745081 - Prima Real Estate Europe Fund I	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	30/09/19	102
LU1081427665 - SHOPPING PROPERTY FUND 2	Closed-end harmonised fund	Invests in the Shopping Property Fund 2: master fund which invests primarily in commercial properties and, marginally, in office buildings and alternative sectors. It does not invest in property debt	65	30/06/19	83
LU1581282842 - Indaco SICAV SIF - Indaco CIFC US Loan	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	29/11/19	81
IT0005210593 - DIAMOND OTHER SECTOR ITALY	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	30/06/19	70
QU0006742476 - PRIMA GLOBAL EQUITY PARTNERS FUND	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	30/09/19	58
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	30/09/19	25

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. Certain details are provided below.

ISIN - Name (€m)	Classification	Carrying amount	Maximum loss exposure*	Difference between carrying amount and maximum loss exposure	Method to determine maximum loss exposure
LU1379774190 - MULTIFLEX-DIVERSIFIED DIS-CM	Financial assets at FVTPL	5,885	432	5,453	VaR 99.5% over a 1-year time horizon
LU1407712014 - MULTIFLEX - Global Optimal Multi Asset Fund	Financial assets at FVTPL	4,979	356	4,624	Provided by fund management company
LU1407712287 - MULTIFLEX - Strategic Insurance Distribution	Financial assets at FVTPL	4,712	331	4,380	Provided by fund management company
LU1407711800 - MULTIFLEX - Dynamic Multi Asset Fund	Financial assets at FVTPL	4,225	236	3,989	Provided by fund management company
LU1193254122 - MFX - GLOBAL FUND - ASSET GLOBAL FUND (PIMCO MULTI ASSET)	Financial assets at FVTPL	4,108	319	3,790	Provided by fund management company
LU1500341240 - MULTIFLEX-LT OPTIMAL M/A-CM	Financial assets at FVTPL	716	68	648	Provided by fund management company
LU1808838863 - MULTIFLEX-OLYMPIUM OPT MA-CM	Financial assets at FVTPL	588	41	547	Provided by fund management company
LU1808839242 - MULTIFLEX-OLYMP INSURN MA-CM	Financial assets at FVTPL	582	41	541	Provided by fund management company
LU1500341752 - MULTIFLEX-DYNAMIC LT M/A-CM	Financial assets at FVTPL	560	31	530	Provided by fund management company
LU2051218035 - OLYMPIUM SEVERUM FUND	Financial assets at FVTPL	500	0	500	VaR 99.5% over a 1-year time horizon
PRIMA HEDGE PLATINUM GROWTH ISIN IE00BK1KDS71	Financial assets at FVTPL	439	38	401	Provided by fund management company
IT0005174450 - DIAMOND EUROZONE FUND OFFICE UBS	Financial assets at FVTPL	377	142	235	VaR 99.5% over a 1-year time horizon
LU1500341166 - MULTIFLEX-OLYMPIUM DYNAMIC-MULTIASSET FUND	Financial assets at FVTPL	306	15	291	VaR 99.5% over a 1-year time horizon
IT0005247819 - Diamond Core	Financial assets at FVTPL	304	76	228	VaR 99.5% over a 1-year time horizon
QU0006738052 - Prima EU Private Debt Opportunity Fund	Financial assets at FVTPL	249	34	214	VaR 99.5% over a 1-year time horizon
QU0006744795 - Prima European Direct Lending 1 Fund	Financial assets at FVTPL	179	44	135	VaR 99.5% over a 1-year time horizon
IT0005212193 - DIAMOND ITALIAN PROPERTIES	Financial assets at FVTPL	158	48	109	VaR 99.5% over a 1-year time horizon
QU0006738854 - Prima Credit Opportunity Fund	Financial assets at FVTPL	128	47	81	VaR 99.5% over a 1-year time horizon
IT0005215113 - CBRE DIAMOND FUND	Financial assets at FVTPL	126	42	84	VaR 99.5% over a 1-year time horizon
IT0005210387 - DIAMOND EUROZONE RETAIL PROPERTY FUND	Financial assets at FVTPL	104	26	78	VaR 99.5% over a 1-year time horizon
QU0006745081 - Prima Real Estate Europe Fund I	Financial assets at FVTPL	102	47	55	VaR 99.5% over a 1-year time horizon
LU1581282842 - Indaco SICAV SIF - Indaco CIFC US Loan	Financial assets at FVTPL	81	29	52	VaR 99.5% over a 1-year time horizon
IT0005210593 - DIAMOND OTHER SECTOR ITALY	Financial assets at FVTPL	70	18	52	VaR 99.5% over a 1-year time horizon
LU1081427665 - SHOPPING PROPERTY FUND 2	Financial assets at FVTPL	54	22	32	VaR 99.5% over a 1-year time horizon
QU0006742476 - PRIMA GLOBAL EQUITY PARTNERS FUND	Financial assets at FVTPL	58	31	27	Provided by fund management company
IT0004597396 - ADVANCE CAPITAL ENERGY FUND	Financial assets at FVTPL	22	12	10	VaR 99.5% over a 1-year time horizon

Risk nature

The company's investments in the funds in question are reported at fair value (mainly level 2 of the fair value hierarchy), on the basis of the NAV reported from time to time by the fund manager. These investments were made in connection with Class I policies and, as such, any changes in fair value are passed on to the policyholder under the shadow accounting mechanism.

The table below shows the types of financial instrument in which the funds invest and the main markets of reference at 31 December 2019.

Asset class (€m)	Fair Value
Financial instruments	
Corporate bonds	11,967
Government bonds	10,886
Other investments net of liabilities	4,214
Equity instruments	1,403
Cash	1,294
Financial derivatives	
Swaps	(8)
Futures	27
Forwards	(139)
Total	**29,644**

Market traded on and UCITS (€m)	Fair Value
Germany (Frankfurt, Berlin, Munich)	5,598
Dublin	1,843
New York	2,692
Trace	2,613
London	1,828
Paris	566
Euronext	1,571
Tokyo	845
Singapore	562
Euromtf	421
Luxembourg	197
Eurotlx	544
Hong Kong	117
Other	8,741
Funds	1,506
Total	**29,644**

Share-based payment arrangements

Long-term incentive scheme: phantom stock plan

Poste Italiane Group

The Annual General Meeting of Poste Italiane SpA's shareholders held on 24 May 2016 approved the information circular for the Long-term Incentive Plan for 2016-2018 (LTIP) – Phantom Stock Plan, prepared in accordance with art. 84-*bis* of the Regulations for Issuers. The LTIP, set up in line with market practices, aims to link a portion of the variable component of remuneration to the achievement of earnings targets and the creation of sustainable shareholder value over the long term.

Description of the Plan

The ILT Phantom Stock 2016-2018 Plan provides for the assignment to the Beneficiaries of rights to receive units representing the value of the Poste Italiane share (the so-called Phantom Stock), and the related bonus in cash, at the end of a vesting period. The number of phantom stocks awarded to each Beneficiary is dependent on achieving some conditions and 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. The key characteristics of the Plan are described below.

Beneficiaries

The Beneficiaries are: Poste Italiane's Chief Executive Officer, in his role as General Manager, certain managers within the Poste Italiane Group, including key management personnel, 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 including personnel belonging to the Poste Vita insurance Group, the RORAC registered by the Poste Vita insurance Group over a three-year period, used for the LTIP with the aim of taking into account the continuity and sustainability of the long-term performance after appropriately adjusting for risk.

All Beneficiaries must be measured against an indicator of shareholder value creation, based on the Total Shareholder Return, used to measure performance based on the value created for Poste Italiane's shareholders compared with other FTSE MIB-listed companies.

Vesting of the Phantom Stocks is subject to achievement of the Performance Hurdle, designed to ensure sustainability of the Plan at Group level. The Performance Hurdle corresponds with achievement of a certain target for the Group's cumulative

EBIT over a three-year period at the end of each Performance Period. In addition, in the case of the General Manager (and Chief Executive Officer) and BancoPosta RFC's Risk Takers, vesting of the Phantom Stocks is also subject to achievement of Qualifying Conditions, designed to ensure the stability of BancoPosta RFC's capital and liquidity position, as follows:

- Indicator of capital adequacy, based on CET 1 at the end of the period;
- Indicator of short-term liquidity, based on LCR at the end of the period;
- Indicator of risk-adjusted earnings, based on RORAC at the end of the period; this indicator has been introduced from the 2017-2019 cycle and only for the General Manager (and Chief Executive Officer).

For personnel belonging to the Poste Vita insurance Group, vesting of the Phantom Stocks, in addition to achievement of the Performance Hurdle (Group's cumulative EBIT over a three-year period), is subject to achievement of the specific Qualifying Condition, namely the Solvency II ratio at the end of the period.

The Phantom Stocks will be awarded by the end of the year following the end of the Performance Period, and immediately converted into cash. In the case of the General Manager, BancoPosta RFC's Risk Takers and the Poste Vita Insurance Group's personnel, they are subject to a one-year retention period, before they can be converted into cash, following confirmation that the Qualifying Conditions for each plan have been met.

Determination of fair value and effects on profit or loss

An independent expert, external to the Group, was appointed to measure the value of the stocks and this was done using Monte Carlo simulations.

First Cycle 2016-2018

The total number of phantom stocks awarded to the 11 Beneficiaries of the First Cycle of the Plan outstanding at 31 December 2019 amounted to 139,604. The cost recognised for 2019 is approximately €0.9 million, whilst the liability recognised in amounts due to staff is approximately €1.4 million. Following the accrual of rights by certain Poste Italiane Group managers, other than the BancoPosta RFC's Risk Takers and the Poste Vita Insurance Group's personnel, and the General Manager, payments of €2.1 million were made during 2019.

Second Cycle 2017-2019

At 31 December 2019, the total number of phantom stocks awarded to the 49 Beneficiaries of the Second Cycle of the Plan amount to 549,561. The cost recognised for 2019 is approximately €3.8 million, whilst the liability recognised in amounts due to staff is approximately €6.2 million.

Third Cycle 2018-2020

At 31 December 2019, the total number of phantom stocks awarded to the 70 Beneficiaries of the Third Cycle of the Plan amount to 649,801. The cost recognised for 2019 is approximately €3.2 million, whilst the liability recognised in amounts due to staff is approximately €4.4 million.

Poste Italiane SpA

The effects on profit or loss of the above Long-Term Incentive scheme at 31 December 2019 for Poste Italiane SpA are shown below.

First Cycle 2016-2018

The total number of phantom stocks awarded to the 6 Beneficiaries of the First Cycle of the Plan outstanding at 31 December 2019 amounted to 92,293. The cost recognised for 2019 is approximately €0.7 million, whilst the liability recognised in amounts due to staff is approximately €0.9 million. Following the accrual of rights by certain Poste Italiane Group managers, other than the BancoPosta RFC's Risk Takers and the Poste Vita Insurance Group's personnel, payments of €2.1 million were made during 2019.

Second Cycle 2017-2019

At 31 December 2019, the total number of phantom stocks awarded to the 43 Beneficiaries of the Second Cycle of the Plan amount to 499,228. The cost recognised for 2019 is approximately €3.4 million, whilst the liability recognised in amounts due to staff is approximately €5.7 million.

Third Cycle 2018-2020

At 31 December 2019, the total number of phantom stocks awarded to the 63 Beneficiaries of the Third Cycle of the Plan amount to 596,246. The cost recognised for 2019 is approximately €3 million, whilst the liability recognised in amounts due to staff is approximately €4.1 million.

Long-term incentive scheme: performance share plan

Poste Italiane Group

The Annual General Meeting of Poste Italiane SpA's shareholders held on 28 May 2019 approved the information circular for the Equity-based incentive plan (ILT) – Performance Share Plan, prepared in accordance with art 84-bis of the Regulations for Issuers. This incentive scheme, 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

The ILT Performance Share Plan, as described in the relevant Information Circular, provides for the assignment of Rights to the ordinary shares of Poste Italiane. The number of Rights to be granted to Beneficiaries is subject to the achievement of Performance Targets over a three-year period, following confirmation of achievement of the Hurdle, the Qualifying Conditions and compliance with the Malus Provisions (the latter for BancoPosta Beneficiaries, hereinafter BP Beneficiaries including then General Manager). The Plan covers a medium- to long-term period. In particular, the Plan includes two award cycles, corresponding to the financial years 2019 and 2020, each with a duration of three years. Shares are awarded if performance targets are met or after a Retention Period. The key characteristics of the Plan are described below.

Beneficiaries

The Beneficiaries are: Poste Italiane's Chief Executive Officer, in his role as General Manager, certain managers within the Poste Italiane Group, including key management personnel, and some resources of BancoPosta RFC.

Plan terms and conditions

The Performance Targets, common to all Beneficiaries, to which the vesting of the Rights and, therefore, the allocation of the Shares is conditioned, are highlighted below:

- a profitability indicator identified in the Group's three-year cumulative EBIT used to recognise the continuity and sustainability of profitability results over the long term;
- an indicator of shareholder value creation, based on the relative Total Shareholder Return, used to measure performance based on the value created for Poste Italiane's shareholders compared with the FTSE MIB Index[127].

Vesting of the Rights and the therefore the awarding of the Shares 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 Beneficiaries, 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, (CET 1) at the end of the period;
- Indicator of short-term liquidity, (LCR) at the end of the period;
- RORAC risk-adjusted earnings at the end of the period.

The Shares will be awarded by the end of the year following the end of the Performance Period as follows:

- for BP Beneficiaries (including the General Manager) for 40% up-front and for the remaining 60% in two equal portions, deferred respectively for 2 and 4 years from the end of the Performance Period. A further Retention Period of one year will be applied to both the up-front and deferred portions;
- for the Other Beneficiaries, the granting of Poste Italiane Shares is entirely up front at the end of a three-year Performance Period, with 60% of the Shares subject to a further two-year Lock-up Period.

In addition, for BP Beneficiaries (including the General Manager), the deferred shares will be awarded following the verification of the existence of capitalisation and liquidity levels.

Determination of fair value and effects on profit or loss

An independent expert, external to the Group, was appointed to measure the value of the stocks and this was done using Monte Carlo simulations.

First Cycle 2019-2021

The total number of Rights to receive Shares assigned for the First Cycle of the Plan concerns 109 Beneficiaries and was 656,996 units, whose unit fair value at the grant date (28 May 2019 for the General Manager and 7 October 2019 for the BP Beneficiaries and Other Beneficiaries) was €6.19, €8.29 and €8.88, respectively. The cost recognised for 2019 is approximately €1.7 million, equivalent to the equity reserve specifically created for this case. Finally, the unit fair value of each right is equal to its nominal value at the grant date (determined on the basis of stock exchange prices), discounted by the expected dividend rate and the risk-free interest rate.

127. The objective linked to the relative Total Shareholder Return (rTSR) includes a negative threshold provision: if Poste Italiane's TSR is negative, despite being higher than the TSR registered by the index, the number of vested Rights (linked to rTSR) is reduced to the minimum threshold of 50%.

Poste Italiane SpA

At 31 December 2019, the total number of Rights to receive Shares assigned for the First Cycle of the Performance Share Plan concerns 105 Beneficiaries and was 644,495 units, whose unit fair value at the grant date (28 May 2019 for the General Manager and 7 October 2019 for the BP Beneficiaries and Other Beneficiaries) was €6.19, €8.29 and €8.88, respectively. The cost recognised for 2019 is approximately €1.7 million, equivalent to the equity reserve specifically created for this case. The unit fair value of each right is equal to its nominal value at the grant date (determined on the basis of stock exchange prices), discounted by the expected dividend rate and the risk-free interest rate.

Short-term incentive schemes: MBO

On 27 May 2014, the Bank of Italy issued specific Supervisory Standards for BancoPosta (Part IV, Chapter I, BancoPosta including in Circular 285 of 17 December 2013 Prudential supervisory standards for banks) which, in taking into account BancoPosta's specific organisational and operational aspects, has extended application of the prudential standards for banks to include BancoPosta. This includes the standards relating to remuneration and incentive policies (Part I, Title IV, Chapter 2 Remuneration and incentive policies and practices in the above Circular 285). These standards provide that a part of the bonuses paid to BancoPosta RFC's Risk Takers may be awarded in the form of financial instruments over a multi-year timeframe.

With regard to the management incentive schemes adopted for BancoPosta RFC MBO for 2017 and 2018, where the incentive is above a certain materiality threshold, the MBO management incentive scheme envisages the award of 50% of the incentive in the form of phantom stocks, representing the value of Poste Italiane's shares, and application of the following deferral mechanisms:

- 60% of the award to be deferred for a 5-year period on a pro-rata basis, in the case of Material Risk Takers who are beneficiaries of both the short-term incentive scheme and the third cycle 2018-2020 of the LTI Phantom Stock Plan;
- 40% of the award to be deferred for a 3-year period on a pro-rata basis for the remaining Material Risk Takers.

The new short-term management incentive scheme (MBO 2019), approved by the General Meeting of Poste Italiane SpA's shareholders on 28 May 2019, provides, where the incentive exceeds a materiality threshold, for the payment of a portion of the bonus accrued in the form of shares in Poste Italiane SpA and the application of deferral mechanisms:

- 60% of the incentive over 5 years pro-rata, for the General Manager and the head of the BancoPosta function;
- 40% over 5 years pro-rata for the Senior Management Beneficiaries;
- 40% over 3 years pro-rata for the Other Beneficiaries.

The allocation of Phantom Stocks (MBO 2017 and 2018) and Rights to receive Shares (MBO 2019) is subject to the existence of a Performance Hurdle (Group Profitability): EBIT) and Qualifying Conditions as follows:

- Capital adequacy: CET 1, risk tolerance level approved in the Risk Appetite Framework (RAF);
- Short-term liquidity: LCR, risk tolerance level approved in the Risk Appetite Framework (RAF).

The General Manager is also expected to apply an additional Qualifying Condition, in addition to those set out above, linked to the Solvency Ratio of the Poste Vita Insurance Group.

Shares allocated in the form of Phantom Stock or Shares are subject to a Retention Period for both up-front and deferred shares.

Payment of the deferred portion will take place each year, provided that BancoPosta RFC's minimum regulatory capital and liquidity requirements have been met. The effects on profit or loss and on equity are recognised in the period in which the instruments vest.

Determination of fair value and effects on profit or loss

At 31 December 2019, the number of Phantom Stocks relating to the 2017 and 2018 MBO plans in place was 212,367, relating mainly to personnel employed by the Parent Company. An independent expert, external to the Group, was appointed to measure the value of the stocks, based on best market practices. The liability recognised at 31 December 2019 is €2 million, and payments of €77 thousand were also made during 2019.

At 31 December 2019, the number of Rights to receive Shares, deriving from the new short-term MBO 2019 incentive plan, estimated on the basis of the best information available, pending the actual finalisation of the system in order to record the cost of the service received, was 57,335, mainly relating to personnel employed by the Parent Company. The amount recognised in profit and loss in 2019 is €0.5 million.

Severance payments on termination of employment

Severance payments to BancoPosta RFC's Risk Takers on early termination are paid in accordance with the same procedures applied to short-term variable remuneration as regards deferral, payment in financial instruments and verification of the minimum regulatory capital and liquidity requirements for BancoPosta RFC.

The number of phantom stocks outstanding at 31 December 2019 totals 180,100. The liability recognised is €1.7 million while payments made during the year amounted to €0.9 million.

Key information on investments

This item breaks down as follows:

List of investments consolidated on a line-by-line basis

Name (Registered office) (€000)	% interest	Share capital	Net profit / (loss) for the year	Equity
BancoPosta Fondi SpA SGR (Rome)	100.00%	12,000	16,145	47,516
Consorzio Logistica Pacchi ScpA (Rome)	100.00%	516	-	738
Consorzio per i Servizi di Telefonia Mobile ScpA (Rome)	100.00%	120	-	116
Consorzio PosteMotori (Rome)	80.75%	120	(170)	120
Europa Gestioni Immobiliari SpA (Rome)	100.00%	103,200	755	238,413
Poste Air Cargo Srl (Rome)**	100.00%	1,000	395	1,213
PatentiViaPoste ScpA (Rome)	86.86%	120	-	124
PostePay SpA (Rome)	100.00%	7,561	172,636	382,223
Poste Tributi ScpA - in liquidation (Rome)* **	100.00%	2,325	-	(1,788)
Poste Vita SpA (Rome)*	100.00%	1,216,608	680,403	4,294,623
Poste Assicura SpA (Rome)*	100.00%	25,000	49,346	194,730
Postel SpA (Rome)	100.00%	20,400	383	83,798
SDA Express Courier SpA (Rome)**	100.00%	5,000	(32,091)	14,177
Poste Welfare Servizi Srl (Rome)	100.00%	16	3,545	14,287
Poste Insurance Broker Srl	100.00%	600	(39)	561

* The figures shown for these companies were prepared in accordance with IFRS and, as such, may vary from those contained in the respective financial reports, which were prepared in accordance with the Italian Civil Code and Italian GAAP.

** Poste Italiane SpA has committed to providing financial support to the subsidiaries, SDA Express Courier SpA and Poste Air Cargo Srl, for 2019 and 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 from sales and services	Net profit / (loss) for the year
Address Software Srl (Rome)	Subsidiary	293	51.00%	1,078	502	576	1,168	49
Anima Holding SpA (Milan) (a)	Associate	221,202	10.04%	2,212,239	975,867	1,236,372	738,458*	102,036
Conio Inc. (San Francisco)	Associate	368	19.74%	1,611	551	1,060	180	(1,155)
FSIA Investimenti Srl (Milan) (b)	Associate	393,166	30.00%	1,391,413	83,518	1,307,895	359,370**	326,802
Indabox Srl (Rome) (c)	Subsidiary	782	100.00%	-	152	171	56	(143)
ItaliaCamp Srl (Rome) (d)	Associate	147	20.00%	1,985	1,038	947	2,325	311
Kipoint SpA (Rome)	Subsidiary	1,169	100.00%	3,317	2,148	1,169	5,341	334
Uptime SpA - in liquidation (Rome) (e)	Subsidiary	-	100.00%	771	4,702	(3,931)	-	(598)
Other SDA Express Courier associate (f)	Associates	4						

a. Data derived from the latest consolidated interim accounts for the period ended 30 September 2019 approved by the company's board of directors.
b. Figures of the reporting package of the company at 31 December 2019 (including measurement of the SIA Group using the equity method and recognition of the related effects with regard to Purchase Price Allocation).
c. Data derived from the accounts for the period ended 30 June 2019, the latest approved by the company.
d. Data derived from the accounts for the period ended 31 December 2018, the latest approved by the company.
e. Data derived from the accounts for the period ended 31 December 2017, the latest approved by the company.
f. The other associates of the SDA Express Courier group are Eurodis and Speedy Express Courier Srl in liquidation.
* The amount includes commissions, interest income and other similar income.
** The amount includes the amount represented by dividends and measurement of the investments at equity.

Disclosure required by Law 124/2017

The information required by art. 1, paragraphs 125 and 129 of Law 124 of 4 August 2017 is provided below.

The information is provided in thousands of euros and on a cash basis, indicating the Group company that received and/or disbursed the grant. In addition, given the numerous interpretative doubts, the following information is provided on the basis of the best interpretation of the legislation available to date, in the light of the guidance provided by Assonime in Circular 5 of 22 February 2019.

Group companies (€000)	Grantor/beneficiary	Purpose	Amount disbursed/received
Grants received			
Poste Italiane	Ministry of Education, Universities and Research	Financed training and research projects	671
Total			**671**
Grants disbursed			
PostePay	Fondazione Poste Insieme Onlus	Donation	50
Poste Italiane	Fondazione Poste Insieme Onlus	Donation	105
Poste Italiane	Fondazione Italia Sociale	Donation	50
Poste Italiane	Canovalandia Onlus	Donation	30
Poste Italiane	Associazione Mus-e Roma Onlus	Donation	20
Poste Italiane	Comunita di S. Egidio Acap Onlus	Donation	20
Poste Italiane	Associazione Andrea Tudisco Onlus	Donation	13
Poste Italiane	Fondazione Wanda Vecchi Onlus	Donation	10
Poste Italiane	Associazione A.S.D. Laboratorio 0246 no-profit	Donation	10
Total			**308**

Postal savings

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

Description (€m)	31/12/2019	31/12/2018
Post office savings books	101,842	105,771
Interest-bearing Postal Certificates	227,163	219,512
Cassa Depositi e Prestiti	165,548	154,231
MEF	61,615	65,281
Total	**329,005**	**325,283**

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 €9,442 million at 31 December 2019 (€8,119 million at 31 December 2018).

Commitments

The Group's purchase commitments break down as follows:

Commitments

Description (€m)	31/12/2019	31/12/2018
Lease arrangements	50	780
Contracts to purchase property, plant and equipment	94	95
Contracts to purchase intangible assets	54	29
Total	**198**	**904**

Moreover, at 31 December 2019, EGI SpA has given commitments to purchase electricity, with a total value of €23 million, on regulated forward markets in 2020. At 31 December 2019, the corresponding market value is €20 million.

Poste Italiane SpA's purchase commitments break down as follows.

Description (€m)	31/12/2019	*related to Group companies*	31/12/2018	*related to Group companies*
Lease arrangements	54	11	680	43
Contracts to purchase property, plant and equipment	95	1	96	-
Contracts to purchase intangible assets	56	1	29	-
Total	**205**	**13**	**805**	**43**

At 31 December 2019, the item **Lease contracts** includes commitments that do not fall under IFRS 16 - *Leases.*

Guarantees

Unsecured guarantees issued by the Group and Poste Italiane SpA are as follows:

Guarantees

Description (€m)	31/12/2019	31/12/2018
Sureties and other guarantees issued:		
by banks/insurance companies in the interests of Group companies in favour of third parties	357	283
by the Group in its own interests in favour of third parties	55	21
Total	**412**	**304**

Guarantees

Description (€m)	31/12/2019	31/12/2018
Sureties and other guarantees issued:		
by banks in the interests of Poste Italiane SpA in favour of third parties	275	182
by Poste Italiane SpA in the interests of subsidiaries in favour of third parties	47	59
letters of patronage issued by Poste Italiane SpA in the interests of subsidiaries	55	21
Total	**377**	**262**

Third-party assets

Third-party assets held by Group companies are shown below. This type of asset refers solely to the Parent Company, Poste Italiane SpA.

Description

Description (€m)	31/12/2019	31/12/2018
Bonds subscribed by customers held at third-party banks	3,375	3,093
Total	**3,375**	**3,093**

In addition to the above, at 31 December 2019, Poste Italiane SpA holds a further €2 million in assets belonging to Group companies.

Assets in the process of allocation

At 31 December 2019, the Parent Company has paid a total of €97 million in claims on behalf of the Ministry of Justice, for which, under the agreement between Poste Italiane SpA and the MEF, it has already been reimbursed by the Treasury, whilst awaiting acknowledgement of the relevant account receivable from the Ministry of Justice.

Disclosure of fees paid to independent auditors pursuant to art. 149 *duodecies* of the CONSOB's regulations for issuers

The following table shows fees payable to the Parent Company's auditor, PricewaterhouseCoopers SpA, and companies within its network for 2019, presented in accordance with art. 149 *duodecies* of the CONSOB's Regulations for Issuers:

Disclosure of fees paid to Independent Auditors

Type of service (€000)	Entity providing the service	Fees *
Poste Italiane SpA		
Audit	PricewaterhouseCoopers SpA	1,206
	PricewaterhouseCoopers network	-
Attestation services	PricewaterhouseCoopers SpA	380
	PricewaterhouseCoopers network	-
Other services	PricewaterhouseCoopers SpA	55
	PricewaterhouseCoopers network	-
Subsidiaries of Poste Italiane SpA		
Audit	PricewaterhouseCoopers SpA	1,009
	PricewaterhouseCoopers network	-
Attestation services	PricewaterhouseCoopers SpA	535
	PricewaterhouseCoopers network	-
Other services	PricewaterhouseCoopers SpA	-
	PricewaterhouseCoopers network	20
Total		**3,205**

* The above amounts do not include incidental expenses and charges.

Auditing services are expensed as incurred and reported in the audited financial statements[128]. With regard to the Parent Company, the item "Audit" includes additional fees of €60 thousand subject to approval by the Annual General Meeting of shareholders on 16 April 2020.

128. Any audit or attestation services relating to accounts prior to the reporting date are recognised on an accruals basis, following engagement of the auditor, in the year in which the services are rendered, applying the percentage of completion method.

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BANCOPOSTA RFC SEPARATE REPORT FOR THE YEAR **ENDED 31 DECEMBER 2019**

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BANCOPOSTA RFC SEPARATE REPORT FOR THE YEAR **ENDED 31 DECEMBER 2019**

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Financial Statements

Statement of financial position

Assets (figures in €)		31 December 2019	31 December 2018
10.	Cash and cash equivalents	4,313,694,951	3,327,674,415
20.	Financial assets measured at fair value through profit or loss	70,661,465	58,041,524
	a) financial assets held for trading	-	-
	b) financial assets designated at fair value	-	-
	c) other financial assets mandatorily measured at fair value	*70,661,465*	*58,041,524*
30.	Financial assets measured at fair value through other comprehensive income	36,798,745,848	32,040,011,924
40.	Financial assets measured at amortised cost	40,950,230,817	33,743,062,105
	a) due from banks	*4,694,045,131*	*1,400,368,286*
	b) due from customers	*36,256,185,686*	*32,342,693,819*
50.	Hedging derivatives	72,776,189	367,749,406
60.	Adjustments for changes in hedged financial assets *portfolio* (+/-)	-	-
70.	Investments	-	-
80.	Property, plant and equipment	-	-
90.	Intangible assets	-	-
	of which:	-	-
	- goodwill	-	-
100.	Tax assets	311,951,306	506,924,701
	a) current	-	-
	b) deferred	*311,951,306*	*506,924,701*
110.	Non-current assets and disposal groups held for sale	-	-
120.	Other assets	2,491,763,796	2,445,137,509
Total assets		**85,009,824,372**	**72,488,601,584**

Statement of financial position

Liabilities and equity (figures in €)		31 December 2019	31 December 2018
10.	Financial liabilities measured at amortised cost	71,537,041,487	64,202,714,720
	a) due to banks	*7,186,265,048*	*5,984,821,231*
	b) due to customers	*64,350,776,439*	*58,217,893,489*
	c) debt securities in issue	-	-
20.	Financial liabilities held for trading	14,701,804	-
30.	Financial liabilities designated at fair value	-	-
40.	Hedging derivatives	5,552,045,402	1,828,670,521
50.	Adjustments for changes in hedged financial liabilities portfolio (+/-)	-	-
60.	Tax liabilities	661,611,070	372,051,769
	a) current	-	-
	b) deferred	*661,611,070*	*372,051,769*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-
80.	Other liabilities	2,953,394,233	2,691,928,376
90.	Employee termination benefits	2,824,300	3,312,610
100.	Provisions for risks and charges:	327,258,828	511,255,914
	a) commitment and guarantees given	-	-
	b) pensions and similar obligations	-	-
	c) other provisions	*327,258,828*	*511,255,914*
110.	Valuation reserves	1,083,146,195	14,833,603
120.	Redeemable shares	-	-
130.	Equity instruments	-	-
140.	Reserves	2,267,115,140	2,267,025,485
150.	Share premium reserve	-	-
160.	Share capital	-	-
170.	Treasury shares (-)	-	-
180.	Profit/(Loss) for the year (+/-)	610,685,913	596,808,586
Total liabilities and equity		**85,009,824,372**	**72,488,601,584**

Statement of profit or loss

Items (figures in €)		FY 2019	FY 2018
10.	Interest and similar income	1,639,759,421	1,555,587,952
	of which: interest income calculated using the effective interest method	*1,639,759,421*	*1,555,587,952*
20.	Interest expense and similar charges	(74,238,340)	(28,570,167)
30.	**Net interest income**	**1,565,521,081**	**1,527,017,785**
40.	Fee income	3,794,094,221	3,861,199,639
50.	Fee expenses	(335,262,925)	(139,560,667)
60.	**Net fee and commission income**	**3,458,831,296**	**3,721,638,972**
70.	Dividends and similar income	429,921	445,281
80.	Profits/(Losses) on trading	(11,070,181)	5,670,610
90.	Profits/(Losses) on hedging	(4,496,098)	(1,777,493)
100.	Profits/(Losses) on disposal or repurchase of:	339,308,445	378,997,561
	a) financial assets measured at amortised cost	*(10,460,322)*	*1,377,576*
	b) financial assets measured at fair value through other comprehensive income	*349,768,767*	*377,619,985*
	c) financial liabilities	-	-
110.	Profits/(Losses) on other financial assets/liabilities measured at fair value through profit or loss	26,531,023	9,199,912
	a) financial assets and liabilities designated at fair value	-	-
	b) other financial assets mandatorily measured at fair value	*26,531,023*	*9,199,912*
120.	**Net interest and other banking income**	**5,375,055,487**	**5,641,192,628**
130.	Net losses/recoveries due to credit risk on:	(9,234,870)	(21,388,521)
	a) financial assets measured at amortised cost	*(10,886,543)*	*(22,158,069)*
	b) financial assets measured at fair value through other comprehensive income	*1,651,673*	*769,548*
140.	Profits//Losses from contract amendments without termination	-	-
150.	**Net income from banking activities**	**5,365,820,617**	**5,619,804,107**
160.	Administrative expenses:	(4,537,811,729)	(4,686,171,866)
	a) personnel expenses	*(35,844,313)*	*(82,419,369)*
	b) other administrative expenses	*(4,501,967,416)*	*(4,603,752,497)*
170.	Net provisions for risks and charges	(16,219,668)	(72,295,107)
	a) commitment and guarantees given	-	-
	b) other net provisions	*(16,219,668)*	*(72,295,107)*
180.	Net losses/recoveries on property, plant and equipment	-	-
190.	Net losses/recoveries on intangible assets	-	-
200.	Other operating income/(expense)	32,420,978	(31,424,095)
210.	**Operating expenses**	**(4,521,610,419)**	**(4,789,891,068)**
220.	Profits/(Losses) on investments	-	-
230.	Profits/(Losses) on fair value measurement of property, plant and equipment and intangible assets	-	-
240.	Impairment of goodwill	-	-
250.	Profits/(Losses) on disposal of investments	-	-
260.	**Income/(Loss) before tax from continuing operations**	**844,210,198**	**829,913,039**
270.	Taxes on income from continuing operations	(233,524,285)	(233,104,453)
280.	**Income/(Loss) after tax from continuing operations**	**610,685,913**	**596,808,586**
290.	Income/(Loss) after tax from discontinued operations	-	-
300.	**Profit/(Loss) for the year**	**610,685,913**	**596,808,586**

Statement of comprehensive income

Items (figures in €)		FY 2019	FY 2018
10.	**Profit/(Loss) for the year**	**610,685,913**	**596,808,586**
	Other components of comprehensive income after taxes not reclassified to profit or loss		
20.	Equity instruments measured at fair value through other comprehensive income	-	-
30.	Financial liabilities designated at fair value through profit or loss (changes in own credit rating)	-	-
40.	Hedges of equity instruments measured at fair value through other comprehensive income	-	-
50.	Property, plant and equipment	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	210,366	372,965
80.	Non-current assets and disposal groups held for sale	-	-
90.	Share of valuation reserve attributable to equity-accounted investments	-	-
	Other components of comprehensive income after taxes reclassified to profit or loss		
100.	Hedges of foreign investments	-	-
110.	Foreign exchange differences	-	-
120.	Cash flow hedges	26,792,931	150,316,827
130.	Hedges (elements not designated)	-	-
140.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income	1,041,309,295	(1,622,947,631)
150.	Non-current assets and disposal groups held for sale	-	-
160.	Share of valuation reserve attributable to equity-accounted investments	-	-
170.	**Total other components of comprehensive income after taxes**	**1,068,312,592**	**(1,472,257,839)**
180.	**Comprehensive income (Items 10+170)**	**1,678,998,505**	**(875,449,253)**

Statement of changes in equity

	31 December 2019									
	Share capital		Share premium reserve	Reserves		Valuation reserves	Equity instruments	Treasury shares	Profit/(Loss) for the year	Equity
(figures in €)	ordinary shares	other shares		retained earnings	other*					
Balance at 31/12/2018	**-**	**-**	**-**	**1,057,025,485**	**1,210,000,000**	**14,833,603**	**-**	**-**	**596,808,586**	**2,878,667,674**
Adjustments to opening balances	-	-	-	-	-	-	-	-	-	-
Balance at 01/01/2019	**-**	**-**	**-**	**1,057,025,485**	**1,210,000,000**	**14,833,603**	**-**	**-**	**596,808,586**	**2,878,667,674**
Attribution of retained earnings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(596,808,586)**	**(596,808,586)**
Reserves	-	-	-	-	-	-	-	-	-	-
Dividends and other attributions	-	-	-	-	-	-	-	-	(596,808,586)	(596,808,586)
Changes during the year	**-**	**-**	**-**	**1,265**	**88,390**	**1,068,312,592**	**-**	**-**	**610,685,913**	**1,679,088,160**
Movements in reserves	-	-	-	1,265	88,390	-	-	-	-	89,655
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 2019	-	-	-	-	-	1,068,312,592	-	-	610,685,913	1,678,998,505
Equity at 31/12/2019	**-**	**-**	**-**	**1,057,026,750**	**1,210,088,390**	**1,083,146,195**	**-**	**-**	**610,685,913**	**3,960,947,248**

* This item represents the Reserve for BancoPosta RFC of €1,210 million and also includes the Reserve for Incentive Plans of €0.1 million among the changes during the year.

	31 dicembre 2018									
	Share capital		Share premium reserve	Reserves		Valuation reserves	Equity instruments	Treasury shares	Profit/(Loss) for the year	Equity
(figures in €)	ordinary shares	other shares		retained earnings	other*					
Balance at 31/12/2017	**-**	**-**	**-**	**1,058,999,822**	**1,000,000,000**	**114,941,270**	**-**	**-**	**584,979,647**	**2,758,920,739**
Adjustments to opening balances	-	-	-	(2,073,696)	-	1,372,150,172	-	-	-	1,370,076,476
Balance at 01/01/2018	**-**	**-**	**-**	**1,056,926,126**	**1,000,000,000**	**1,487,091,442**	**-**	**-**	**584,979,647**	**4,128,997,215**
Attribution of retained earnings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(584,979,647)**	**(584,979,647)**
Reserves	-	-	-	-	-	-	-	-	-	-
Dividends and other attributions	-	-	-	-	-	-	-	-	(584,979,647)	(584,979,647)
Changes during the year	**-**	**-**	**-**	**99,359**	**210,000,000**	**(1,472,257,839)**	**-**	**-**	**596,808,586**	**(665,349,894)**
Movements in reserves	-	-	-	99,359	210,000,000	-	-	-	-	210,099,359
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 2019	-	-	-	-	-	(1,472,257,839)	-	-	596,808,586	(875,449,253)
Equity at 31/12/2018	**-**	**-**	**-**	**1,057,025,485**	**1,210,000,000**	**14,833,603**	**-**	**-**	**596,808,586**	**2,878,667,674**

* This item corresponds to the BancoPosta RFC reserve.

Statement of cash flows

Indirect method

(figures in €)	FY 2019	FY 2018
A. OPERATING ACTIVITIES		
1. Cash flow from operations	**754,202,690**	**707,840,222**
- profit/(loss) for the year (+/-)	610,685,913	596,808,586
- gains/(losses) on financial assets held for trading and on assets and liabilities measured at fair value through profit or loss (-/+)	(12,308,652)	(9,638,688)
- gains/(losses) on hedging activities (-/+)	4,496,098	1,777,492
- net losses/recoveries due to credit risk (+/-)	9,234,870	21,388,521
- net losses/recoveries on property, plant and equipment and intangible assets (+/-)	-	-
- net provisions and other expenses/income (+/-)	136,284,751	147,682,241
- unpaid taxes and duties (+)	233,524,282	233,104,452
- net losses/recoveries on discontinued operations after tax (+/-)	-	-
- other adjustments (+/-)	(227,714,572)	(283,282,382)
2. Cash flow from/(used for) financial assets	**(6,387,366,249)**	**(4,480,855,905)**
- financial assets held for trading	-	-
- financial assets designated at fair value	-	-
- other financial assets mandatorily measured at fair value	13,911,081	-
- financial assets measured at fair value through other comprehensive income	(1,038,739,773)	1,253,773,199
- financial assets measured at amortised cost	(5,390,775,250)	(5,332,798,567)
- other assets	28,237,693	(401,830,537)
3. Cash flow from/(used for) financial liabilities	**7,215,992,681**	**4,258,506,041**
- financial liabilities measured at amortised cost	7,337,199,419	4,565,926,545
- financial liabilities held for trading	-	-
- financial liabilities designated at fair value	-	-
- other liabilities	(121,206,738)	(307,420,504)
Net cash flow from/(used for) operating activities	**1,582,829,122**	**485,490,358**
B. INVESTING ACTIVITIES		
1. Cash flow from	**-**	**-**
- disposal of investments	-	-
- dividends received on investments	-	-
- disposal of property, plant and equipment	-	-
- disposal of intangible assets	-	-
- disposal of business division	-	-
2. Cash flow used for	**-**	**-**
- acquisition of investments	-	-
- acquisition of property, plant and equipment	-	-
- acquisition of intangible assets	-	-
- acquisition of business division	-	-
Net cash flow from / (used for) investing activities	**-**	**-**
C. FINANCING ACTIVITIES		
- issuance/purchase of treasury shares	-	-
- issuance/purchase of equity instruments	-	-
- dividends and other payments	(596,808,586)	(374,979,647)
Net cash flow from / (used for) financing activities	**(596,808,586)**	**(374,979,647)**
NET CASH FLOW GENERATED / (USED) DURING THE YEAR	**986,020,536**	**110,510,711**

KEY:
(+) from (-) used for

Reconciliation

Items (figures in €)	FY 2019	FY 2018
Cash and cash equivalents at beginning of the year	3,327,674,415	3,217,163,704
Net cash flow generated/(used) during the year	986,020,536	110,510,711
Cash and cash equivalents: effect of exchange rate fluctuations	-	-
Cash and cash equivalents at end of the year	**4,313,694,951**	**3,327,674,415**

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 5 March 2020, the date on which the Board of Directors of Poste Italiane SpA approved the BancoPosta RFC Separate Report as part of Poste Italiane SpA's Annual Report.

Accounting standards and interpretations applicable from 1 January 2019 and those soon to be effective

The relevant information is provided in note 2.6 – New Accounting standards and interpretations and those soon to be effective – in the section – financial statements of Poste Italiane – of this Annual Report.

Section 2 – Basis of preparation

The Separate Report has been prepared in application of the 6th update of Bank of Italy Circular 262 of 22 December 2005 – "Banks' Financial Statements: Layouts and Preparation", 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 2019, has been prepared in euros and consists 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 explanatory notes. The statement of financial position, statement of profit or loss 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, statement of profit or loss and statement of comprehensive income for the sake of completeness. The cash flow statement has been prepared under the indirect method[129]. All figures in the notes are stated in millions of euros. Notes and account analysis have not been included for nil balances.

129. Under the indirect method, net cash from operating activities is determined by adjusting profit/(loss) for the year to reflect the impact of non-cash items, any deferment or provisions for previous or future operating inflows or outflows, and revenue or cost items linked to cash flows from investing or financing activities.

The accounting policies and the recognition, measurement and classification criteria adopted in this Report are consistent with those used to prepare the Separate Report at 31 December 2018.

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 RFC'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 are described in this Part A and are relevant to all of BancoPosta RFC's operations.

Section 3 – Events after the end of the reporting period

Regarding to the possible medium-term impacts of the spread in Italy of the COVID-19, see note 13 – Events after the end of the reporting period - in the section – financial statements of Poste Italiane – of this Annual Report.

The other events after the end of the reporting period of this Separate Report are described in the Notes below and no other significant events have occurred after 31 December 2019.

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 2019 as shown below:

(€m)		31/12/2019	*of which intersegment*	31/12/2018	*of which intersegment*
	Assets				
10.	Cash and cash equivalents	4.314	-	3.328	-
20.	Financial assets measured at fair value through profit or loss	71	-	58	-
	a) financial assets held for trading	-	-	-	-
	b) financial assets measured at fair value	-	-	-	-
	c) other financial assets mandatorily measured at fair value	*71*	-	*58*	-
30.	Financial assets measured at fair value through other comprehensive income	36.799	-	32.040	-
40.	Financial assets measured at amortised cost	40.950	651	33.743	844
	a) due from banks	*4.694*	-	*1.400*	-
	b) due from customers	*36.256*	*651*	*32.343*	*844*
50.	Hedging derivatives	73	-	368	-
100.	Tax assets	312	-	507	-
120.	Other assets	2.491	83	2.445	2
	A Total assets	**85.010**	**734**	**72.489**	**846**
	Liabilities and equity				
10.	Financial liabilities measured at amortised cost	71.537	58	64.203	79
	a) due to banks	*7.186*	-	*5.985*	-
	b) due to customers	*64.351*	*58*	*58.218*	*79*
	c) debt securities in issue	-	-	-	-
20.	Financial liabilities held for trading	15	-	-	-
40.	Hedging derivatives	5.552	-	1.829	-
60.	Tax liabilities	662	-	372	-
80.	Other liabilities	2.953	442	2.692	410
90.	Employee termination benefits	3	-	3	-
100.	Provisions for risks and charges	327	-	511	-
110.	Valuation reserves	1.083	-	15	-
140.	Reserves	2.267	-	2.267	-
180.	Profit/(Loss) for the year (+/-)	611	-	597	-
	B Total liabilities and equity	**85.010**	**500**	**72.489**	**489**
	A-B Net intersegment balances		**234**		**357**

The provision of services to BancoPosta RFC by Poste Italiane SpA functions is governed by the specific Regulation governing BancoPosta RFC's contracting out and outsourcing process, approved by the Board of Directors of Poste Italiane SpA[130].

These Regulations, in execution of the provisions set out in the Regulations for ring-fenced capital, govern and formalise the process of outsourcing BancoPosta's Corporate Functions to Poste Italiane in accordance with the relevant regulations, identifying the operational phases, roles and responsibilities of the Bodies and Corporate Functions involved in various ways. 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, the applicable levels of service and transfer prices and are effective following an authorisation process involving the relevant Functions, the Chief Executive Officer and, where required, the Company'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 2018, 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 prices set in each Operating Guidelines can be reduced in the presence of operating losses of the activities outsourced or in case of penalties due to the failure to achieve pre-established service levels, as measured by specific performance indicators. The Guidelines in force were effective as of 1 October 2018 and will expire on 31 December 2020. The transfer prices so defined are revised every year in connection with the planning and budget process.

For the purposes of oversight of the unbundled accounts, in 2019, the Board of Statutory Auditors conducted the relevant audit activities during 3 meetings, reporting its conclusions in its annual report to shareholders for the year ended 31 December 2019.

4.2 Proceedings pending and principal relations with the authorities

Relations with the authorities

Autorità Garante della Concorrenza e del Mercato (AGCM - the Italian Antitrust Authority)

On 9 March 2015, the Authority notified Poste Italiane of an investigation of BancoPosta RFC for alleged violation of articles 20, 21 and 22 of the Consumer Code, regarding the Libretto Smart product. On 21 December 2015, the AGCM notified Poste Italiane of its final ruling in which it deemed the Poste Italiane's conduct unfair and imposed a fine of €0.54 million, limited to a tenth of the maximum applicable amount taking into account the mitigating circumstance that Poste Italiane had adopted initiatives aimed at allowing customers to benefit from the bonus rate. Poste Italiane lodged an appeal against this ruling before the Lazio Regional Administrative Court, which has adjourned the case until a hearing on the merits to be set.

On 8 October 2018, the AGCM notified Poste Italiane, with reference to BancoPosta RFC, of the launch of investigation PS11215 – pursuant to art. 27, paragraph 3 of Legislative Decree 206/05 (the Consumer Code) and art. 6 of the Regulation for Investigations – with an accompanying request for information pursuant to art. 12, paragraph 1 of the above Regulation. The investigation is in response to complaints filed on 24 July 2018 by Altroconsumo and on 8 August 2018 by Centro Tutela Consumatori e Utenti (two consumers' associations). The Authority is primarily looking into an advertising campaign called Buoni e libretti – Buono a sapersi, promoting Interest-bearing Postal Certificates and Postal Savings Books via TV and press adverts. The investigation relates to the alleged violation of articles 21 and 22, paragraph 1 and 4 letter a) of the Consumer Code, as the effect of taxation was, in the Authority's view, not clearly indicated.

On 29 October 2018, Poste Italiane replied to the request for information and, following the hearing held at the AGCM on 28 November 2018, sent the Authority the form for the presentation of commitments - pursuant to art. 27 paragraph 7 of the

130. In its meeting of 31 January 2019, the Board of Directors approved the Regulation governing BancoPosta RFC's contracting out and outsourcing process, combining the guidelines outlined separately in the General guidelines governing the process of contracting out BancoPosta's corporate functions to Poste Italiane and the Guidelines governing BancoPosta RFC's outsourcing process.

Consumer Code, art. 8 paragraph 7 of Legislative Decree 145/2007 and art. 9 of the aforementioned Regulation on investigation procedures - subsequently supplemented on 11 January 2019. On 1 April 2019, the Authority notified Poste Italiane that the investigation was closed and that it had accepted the commitments, which are now obligatory, without imposing a fine.

Bank of Italy

On 23 May 2019, the Bank of Italy began inspections of specific post offices with the aim of verifying fulfilment of the obligations in terms of banking transparency. The inspections were concluded in July and the related Report has not been received yet. The inspections mentioned above, although territorial in nature, also concerned areas that can be traced back to the inspections carried out by the Authority in 2015 at the head office and mainly related to aspects such as the filing of contractual documentation, the management of unilateral amendment proposals to customers, as well as the handling of complaints and the application of economic conditions through the dedicated company system.

With regard to the inspection conducted by the Bank of Italy in 2017, with the aim of assessing the governance, control and operational and IT risk management systems in relation to BancoPosta's operations, the process of implementing the relevant compliance initiatives is still in progress and work is proceeding according to the established timing.

On 20 June 2019, the Bank of Italy requested to ensure that the procedures used in handling complaints regarding Interest-bearing Postal Certificates were fit for purpose. The Bank also requested information on the fraudulent use of payment instruments. Poste Italiane carried out the appropriate investigations and provided feedback to the Authority on both issues on 30 September 2019, subject to approval, as requested by the Authority, by the Board of Directors and the Board of Statutory Auditors. At the date of preparation of this Report, it was not deemed necessary to revisit its approach to handle disputes regarding Interest-bearing Postal Certificates and, as a result, the criteria to estimate the related provisions for risks and charges. The amount set aside, determined on the basis of the historical series of operating losses, represents the best estimate of directors of the charge required to settle the probable liabilities. Any changes to the aforesaid estimate may only be made after the Authority has agreed to changes to the practices currently adopted, taking into account the decisions that will be made by both the Financial Banking Arbitrator (ABF) and the Ordinary Judicial Authority (AGO).

CONSOB

On 12 February 2019, the CONSOB requested clarification regarding the measures adopted to ensure compliance with the rules of conduct for dealing with customers with reference to: i) the provision of advice on insurance investment products; ii) obligations regarding Product Governance and the incentive scheme for network personnel in relation to the distribution of insurance investment products. The above information was provided in a specific response submitted to the regulator on 15 February 2019.

Later, on 18 April 2019, the CONSOB requested further clarification regarding the notes submitted by BancoPosta between September 2018 and February 2019 and the "Report on the conduct of investment services and activities" relating to: (i) concerns regarding compliance with the above legislation; (ii) aspects where there is a need for precise clarification in order assess compliance with industry regulations; (iii) updates on matters for which information on initiatives in progress was previously provided. The above information was provided in a specific response submitted to the regulator on 3 June 2019.

On 23 May 2019, the CONSOB requested additional information on the closed-end real estate fund, Obelisco, which matured on 31 December 2018, and any initiatives to be adopted by Poste Italiane in order to protect investors, similar to the action taken with regard to the closed-end real estate funds, IRS and Europa Immobiliare 1. Poste Italiane responded on 16 June 2019.

On 31 May 2019, the CONSOB requested information on the disclosure made to customers on the cost and expense statement, ex ante (pre-contractual information) and *ex post* (annual report), which was replied to on 1 July 2019 (for information ex ante) and 22 July 2019 (for information *ex post*). On 27 June 2019, the CONSOB requested further clarifications regarding the measures adopted to ensure compliance with regulatory provisions with reference to the planned controls in terms of experience and knowledge of the sales network employees. The related reply was sent on 17 July 2019 and contains detailed information on the training course aimed at maintaining and updating knowledge and skills with the related final verification test, assessments carried out on the results of the final verification tests, an illustration of the results achieved by the new resources placed in the role for the year 2018 and 2019, as well as clarifications on the specialist supervision in support of the network.

On 7 August 2019 a request was received from the Authority concerning data and information relating to the provision of investment services in the regions of Emilia Romagna, Marche and Umbria and in the province of Pescara. The reply was sent by Poste Italiane on 18 September 2019 together with, as requested, the names of the employees who have taken over responsibility for the areas concerned since 2016.

On 10 October 2019, the CONSOB requested, by way of short notice, some clarifications on the report received from the company Sagitta SGR on 5 August regarding the representation of the information relating to the Obelisco real estate Fund in the statement of account of the Customer Securities Dossier. The reply was sent by Poste Italiane on 17 October 2019.

On 29 October 2019, the CONSOB requested information on the correct fulfilment of transaction reporting obligations. The reply was sent by Poste Italiane on 13 December 2019.

In January 2020, the CONSOB launched an inspection of a general nature pursuant to article 6-*ter*, paragraph 1, of Legislative Decree 58 of 24 February 1998, aimed at ascertaining the state of adaptation to the new MiFID 2 legislation.

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 measured at fair value through profit or loss

a) recognition

Financial assets measured at fair value through profit or loss 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. Changes in fair value between the trade date and the settlement date are recognised.

b) classification

This item includes all financial assets other than those classified as “Financial assets measured at fair value through other comprehensive income” and as “Financial assets measured at amortised cost”. In particular, this item includes: a) financial assets purchased and held mainly for trading; b) financial assets designated as such on initial recognition, thanks to the fair value option; c) financial assets mandatorily measured at fair value through profit or loss.

This item comprises:

- debt securities and loans that are classified in the “Other/Trading” business model (thus not in the “Hold to Collect” and “Hold to Collect and Sell” business models) or fail to meet the SPPI test[131];
- equity instruments held for trading or that were not initially recognised at fair value through other comprehensive income;
- derivative contracts, except those designated as hedges, that are classified as assets or liabilities held for trading, depending on whether their fair value is positive or negative; positive and negative fair values arising from transactions with the same counterparties are offset during collateralisation/liquidation, where allowed by contract

c) measurement and recognition of gains and losses

These financial assets are recognised at fair value with any changes in fair value recognised in profit or loss in line “Item 80 - Profits/(Losses) on trading” and in line “Item 110 – Profits/(Losses) on other financial assets/liabilities measured at fair value through profit or loss”.

131. The acronym SPPI - Solely Payments of Principal and Interest defines financial assets held solely to collect the relevant contractual cash flows, as represented by payments of principal and interest accrued on the principal outstanding at specified dates. The SPPI test is intended to check that the characteristics of the instruments are consistent with this objective.

d) derecognition

These 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.

2 – Financial assets measured at fair value through other comprehensive income

a) recognition

Financial assets measured at fair value through other comprehensive income are initially recognised on the settlement date. These assets are initially recognised at fair value which is generally the price paid. Changes in fair value between the trade date and the settlement date are recognised.

b) classification

This item includes financial assets held in connection with a business model where financial instruments are held to collect contractual cash flows and for sale (“Hold to Collect and Sell” business model), with the relevant contract calling for the payment, at specified dates, of principal and interest accrued on the principal outstanding (SPPI).

In addition to debt securities that meet the aforementioned characteristics, this item comprises also equity instruments that would otherwise be measured at fair value through profit or loss, for which the election was made to report any subsequent changes in fair value through other comprehensive income (FVTOCI option).

c) measurement and recognition of gains and losses

Financial assets other than equity instruments are measured at fair value and any subsequent change in fair value is recognised through other comprehensive income (OCI) until the financial asset is either derecognised or reclassified, except for currency gains and losses recognised in the statement of profit or loss in “Item 80 – Profits/(Losses) on trading”. When the financial asset is derecognised, the related cumulative gains and losses recognised in OCI are reclassified to profit and loss in “Item 100 – Profits/Losses on disposals or repurchases”.

The effects of the application of amortised cost are recognised in profit and loss in Item 10 - Interest and similar income.

Expected credit losses are calculated in relation to these financial assets, as illustrated in the specific section. These expected losses are recognised in profit and loss in “Item 130 – Net losses/recoveries due to credit risk” with a counter-entry made under the Item 110 – Valuation reserves.

Equity securities elected to be classified in this item are measured at fair value and any changes in such fair value are recognised in line Item 110 – Valuation reserves without subsequent recycling to profit or loss, not even in case of disposal. The only component that is reported in profit and loss is the related dividends.

d) derecognition

These 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.

3 – Financial assets measured at amortised cost

a) recognition

Financial assets measured at amortised cost are initially recognised on (i) the settlement date for debt securities and investments and (ii) the date on which the service is rendered for trade receivables. They are initially recognised at fair value which is generally the price paid for debt securities or at the contractual value of the service rendered for all the other receivables. Changes in fair value between the trade date and the settlement date are recognised.

b) classification

This item includes financial assets held in connection with a business model where the objective is the collection of the relevant cash flows (Hold to Collect - HTC business model), represented by payments, at specified dates, of principal and interest accrued on the principal outstanding (SPPI). The business model on which the classification of financial assets is based permits the sale of such assets; if the sales are not occasional, and are not immaterial in terms of value, consistency with the HTC business model should be assessed.

In addition to debt securities that reflect the characteristics outlined above, this item comprises mainly deposits at the MEF and the trade receivables.

c) measurement and recognition of gains and losses

These assets are measured at amortised cost, that is the value assigned to the financial asset on initial recognition, net of any principal reimbursement, plus or minus the cumulative amortisation by using the effective interest rate method on the difference between the initial value and the value at maturity, after deducting any impairment. Any gains or losses are recognised in profit or loss in line Item 10 - Interest and similar income.

The carrying amount of financial assets measured at amortised cost is adjusted to take into account expected credit losses, as illustrated in the specific section. These expected credit losses are recognised in profit and loss in line Item 130 – Net losses/recoveries due to credit risk.

d) derecognition

These 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 – Hedges

The Poste Italiane Group elected, in accordance with IFRS 9, to continue to apply hedge accounting in line with IAS 39 to all its hedging transactions.

a) recognition and classification

Derivative hedges are initially recognised on conclusion of the relevant contract. There are two types of hedge:

- fair value hedges: 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 a recognised asset or liability or with a highly probable forecast transaction, and that could have an impact on profit or loss.

b) measurement and recognition of gains and losses

Derivatives are initially recognised at fair value on the date the derivative contract is executed. If derivative financial instruments qualify for hedge accounting, gains and losses arising from changes in fair value after initial recognition are accounted for in accordance with the specific policies described below. The relationship between each hedging instrument and the hedged item is documented, as well as the risk management objective, the strategy for undertaking the hedge transaction and the methods used to assess effectiveness. Assessment of whether the hedging derivative is effective takes place both at designation of each derivative instrument as hedging instrument, and during its life.

Fair value hedge

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. Any difference represents the ineffective portion of the hedge and is accounted for as a loss or gain, recognised separately in line "Item 90 - Profits/(Losses) on hedging".

Cash flow hedge

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, within line Item 110 – Valuation reserve). A hedging transaction is generally considered highly effective if, both at inception of the hedge and on an ongoing basis, changes in the expected future cash flows of the hedged item are substantially offset by changes in the fair value of the hedging instrument. If the hedging transaction is not fully effective, the gain or loss arising from a change in fair value relating to the ineffective portion is recognised in line Item 90 - Profits/(Losses) on hedging.

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

If, during the life of the derivative, the forecast hedged transaction is no longer expected to occur, the related gains and losses accumulated in the cash flow hedge reserve are immediately reclassified 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.

9 – 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.

10 – 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. With regard to the risks for which the occurrence of a liability is only possible, specific information is provided without making any provision. Under the option granted by the relevant accounting standards, limited disclosure is provided when, in rare cases, disclosure of some or all of the information regarding the risks in question could seriously prejudice BancoPosta RFC's position in a dispute or in ongoing negotiations with third parties.

11 – Financial liabilities measured at amortised cost

a) recognition and classification

BancoPosta RFC has no outstanding debt securities and has not issued any such securities since its establishment. The sub-items Due to banks and Due to 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 they are extinguished or when the obligation specified in the contract expires, is cancelled or discharged.

12 – Financial liabilities held for trading

a) classification and recognition

Financial liabilities held for trading consist 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 and recognition of gains and losses

Financial liabilities held for trading are measured at fair value though profit or loss in “Item 80 - Profits/(Losses) on trading”

c) derecognition

Financial liabilities on trading are derecognised when they are extinguished or when the obligation specified in the contract expires, is cancelled or discharged.

14 – 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 measured 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.

15 – Other information

Revenue recognition

Revenue deriving from contracts with customers reflects the consideration to which the entity expects to be entitled in exchange for those goods and services (transaction price).

In accordance with IFRS 15, revenue is recognised on the basis of a 5-step framework, which consists of the following:

1. identify the contract with the customer (sales contracts except lease contracts, insurance contracts, financial instruments and non-monetary exchanges);
2. identify the performance obligations, which can be defined as the explicit or implicit promise to transfer a distinct good or service to the customer;
3. determine the transaction price;
4. in the case of bundles of goods or services involving different performance obligations, allocate the transaction price to the performance obligation; to that end, it is necessary to estimate the stand-alone selling price of each component;
5. recognise revenue when or as the entity fulfils the performance obligation, that is upon delivery of the good or service to the customer. Performance obligations can be fulfilled:
   - “at a point in time”: in the case of obligations fulfilled at a point in time, revenue is recognised only as control over the good or service is passed to the customer. In that respect, consideration is given not only to the significant exposure to the risks and benefits related to the good or service but also physical possession, customer’s acceptance, the existence of legal rights, etc.;
   - “over time”: in the case of obligations fulfilled over time, the measurement and recognition of revenue reflect, virtually, the progress of the customer’s satisfaction. An appropriate approach is defined to measure progress of the performance obligation (the output method).

Every single supplier obligation with the customer is considered, measured and recognised separately. This approach involves a preliminary accurate analysis of the contract to identify every “single product/service” or every “single component” of a product/service that the supplier promises to provide, attributing to each the relevant consideration, and to monitor each such obligation during the life of the contract (in terms both of manner and timing of fulfilment and the customer’s level of satisfaction).

For revenue recognition purposes, so-called variable components of the consideration (discounts, rebates, price concessions, incentives, penalties and other similar) are included to supplement or adjust the transaction price. Among the variable components of the consideration, of particular importance are the penalties (other than those provided for compensation for damages), which IFRS 15 provides to be recorded as a direct decrease in revenues, instead of allocating them to a provision for risks and charges.

In the presence of multiple performance obligations, the total transaction price is allocated to each performance obligation to the extent of the consideration that the entity is entitled to receive for the transfer of the relevant goods and services to the customer. The transaction price will be allocated on the basis of the standalone selling price of the goods and services associated with the performance obligation. The standalone selling price is the price at which an entity would sell the goods and services separately to the customer, under similar circumstances and to similar customers. If the standalone selling price is not observable, it would be estimated considering all the information available (market conditions, information on the customer or the class of customers) and the estimation methods used in similar circumstances.

Revenue from activities carried out in favour of or on behalf of the state 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 provisions 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.

Moreover, dividends are recognised in profit or loss when the right to receive payment is established, which generally corresponds with approval of the distribution by the shareholders of the investee company.

Impairment

Loans and receivables and debt securities classified under "Financial assets measured at amortised cost" and "Financial assets measured at fair value through other comprehensive income" are tested for impairment in accordance with the Expected Credit Losses (ECL) model. The Poste Italiane Group applies the General Deterioration Approach on the basis of varying risk estimate parameters, depending on the counterparty. Specifically:

- If on the reporting date the credit risk of a financial instrument has not increased significantly since initial recognition, a 12-month ECL is recognised (stage 1). Interest on the instrument is calculated on the gross carrying amount (amortised cost inclusive of the ECL);
- If on the reporting date the credit risk of the financial instrument has increased significantly since initial recognition, a lifetime ECL is recognised (stage 2). Interest on the instrument is calculated on the gross carrying amount (amortised cost inclusive of the ECL);
- if the financial instrument is impaired since initial recognition, or shows objective evidence of impairment at the reporting date, impairment will continue to be recognised over the lifetime of the financial instrument (stage 3). Interest is calculated on amortised cost.

In determining whether credit risk has increased significantly, it is necessary to compare the risk of default of the financial instrument as at the reporting date with the risk of default of the financial instrument on initial recognition.

However, there is a rebuttable default presumption if the financial instrument is more than 90 days past due, unless there is reasonable and supportable information to demonstrate that a default criterion with greater lag is more appropriate.

On the other hand, a simplified approach to measure the loss provisions is applied to trade receivables that do not contain a significant financing component pursuant to IFRS 15. The simplified approach is based on a matrix of observed historical losses. No significant increase in credit risk is determined but the loss allowance is based on lifetime expected losses.

The Group did not use the low credit risk exemption.

For a detailed description of the approaches, reference is made to Part E – Section 1 – Credit risk.

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 post-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 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 consist of two types:

- Defined benefit plans
  Defined benefit plans include employee termination benefits payable to employees in accordance with art. 2120 of the Italian Civil Code for the part accrued until 31 December 2006. In fact, following the reform of the supplementary pension fund, from 1 January 2007 vesting employee termination benefits (TFR) must be paid into a supplementary pension fund or into a Treasury Fund set up by INPS. Accordingly, BancoPosta RFC's defined benefit liability is applicable only to the provisions made up to 31 December 2006[132].
  Under these plans, given that the amount of the benefit to be paid is only quantifiable following the termination of employment, the related effects on profit or loss or the financial position are recognised on the basis of actuarial calculations in compliance with IAS 19. In particular, the liability to be paid on cessation of employment is calculated using the projected unit credit method and then discounted to recognise the time value of money prior to the liability being settled. The liability recognised in the Separate Report is based on calculations performed by independent actuaries. The calculation takes into account the employee termination benefits accrued for work already performed and is based on actuarial assumptions that mainly concern: demographic assumptions (such as employee turnover and mortality) and financial assumptions (such as rate of inflation and a discount rate consistent with that of the liability). As BancoPosta RFC is not liable for employee termination benefits accruing after 31 December 2006, the actuarial calculation of employee termination benefits no longer takes account of future salary increases. Actuarial gains and losses are recognised directly in equity at the end of each reporting period, based on the difference between the carrying amount of the liability and the present value of the BancoPosta RFC's obligations at the end of the period, due to changes in the actuarial assumptions.
- Defined contribution plans
  Employee termination benefits payable pursuant to art. 2120, Italian Civil Code fall within the scope of defined contribution plans provided they vested subsequent to 1 January 2007 and were paid into a Supplementary Pension Fund or a Treasury Fund at INPS. Contributions to defined contribution plans are recognised in profit or loss when incurred, based on their nominal value.

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

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

Share-based payments

Share-based payment transactions may be settled in cash, equity instruments, or other financial instruments. In the event of share-based payment transactions BancoPosta RFC is required to measure the goods or services acquired and the liability incurred at fair value.

In the case of cash-settled share-based payment transactions:

- a liability is recognised as a matching entry at cost;
- if the fair value of the goods or services received or acquired cannot be reliably determined, this value must be estimated indirectly on the basis of the fair value of the liability;
- the fair value of the liability must be remeasured at the end of each reporting period, recognising any changes in fair value in profit or loss for the period.

132. 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 Company 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.

In the case of equity-settled share-based payment transactions:

- an increase in shareholders' equity is recorded as a matching entry at cost;
- if the fair value of the goods or services received or acquired cannot be reliably determined, this value must be estimated indirectly on the basis of the fair value of the equity instruments granted at the grant date.

In the event of benefits granted to employees, recognition should take place in "Item 160 a) – Personnel expenses" over the period in which the employees render service and the expense accounted for.

Classification of the costs for services provided by Poste Italiane SpA

Service costs charged by Poste Italiane SpA's functions outside the ring-fence are normally recognised in Item 160 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 judgements 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 BancoPosta RFC's Separate Report.

Impairment and stage allocation

For the purposes of calculating impairment and determining the stage allocation, the main factors estimated are as follows, relating to the internal model developed for Sovereign, Banking and Corporate counterparties:

- estimates of ratings by counterparty;
- estimation of the probability of default "PD" for counterparties.

Revenue from contracts with customers

The main factors in the recognition of revenue from contracts with customers include elements of variable consideration, particularly penalties (other than those related to compensation for damages). Elements of variable consideration are identified at the inception of the contract and estimated as of every close of the accounts for the entire contract term, to take into account new circumstances and changes in the circumstances already considered for the previous estimations. Elements of variable consideration include refund liabilities.

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.

Provisions for risks and charges

Provisions for risks and charges represent probable liabilities in connection with personnel, suppliers, third parties and, in general, 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 amounts to be provided involves the use of estimates based on current knowledge of factors that may change over time, potentially resulting in outcomes that may be significantly different from those taken into account when preparing this Separate Report.

Share-based payments

As further described in Part I - Additional information - Share-based payment arrangements, the valuation of the share-based payment arrangements in place within the Poste Italiane Group at the close of these financial statements was based on the conclusions reached by actuaries external to the Group. 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 liquidity requirements. For these reasons, measurement of the liability, equity reserve and the corresponding economic effects 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.

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 used

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 are unchanged with respect to 31 December 2018 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 valuation techniques used are described below.

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

The hierarchy consists of three levels.

Level 1: this level is comprised of fair values determined with reference to unadjusted prices quoted in active markets for identical assets or liabilities to which the entity has access on the measurement date. For BancoPosta RFC, the financial instruments included in this category consist of bonds issued by the Italian government, the valuation of which is based on the bid prices, according to a hierarchy of sources where the MTS (the wholesale electronic market for government securities) ranks first, MILA (Milan Stock Exchange) second, for bonds intended for retail customers, and the CBBT (Composite Bloomberg Bond Trader) third. 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 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 BancoPosta RFC, these include the following types of financial instrument:

- Straight Italian and international government and non-government bonds, quoted on inactive markets or unquoted: 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.

- Fixed income bonds which are measured with the discounted cash flow method, that is by calculating the present value of all future contractual cash flows. The credit spread for the counterparty is incorporated by using yield curves constructed on the basis of the bond prices specific to the issuer.
- Derivative financial instruments:
  - Plain vanilla interest rate swaps: valued using discounted cash flow techniques, involving the computation of the present value of future differentials between the receiver and payer legs of the swap. The construction of yield curves to estimate future cash flows indexed to market parameters (money market rates and/or inflation) and computation of the present value of future differentials are carried out using techniques commonly used in capital markets.
  - Interest rate swaps with an embedded option: valuation is based on a building block approach, entailing decomposition of a structured position into its basic components: the linear and option components. The linear component is measured 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.
- Reverse Repos: are valued using discounted cash flow techniques involving the computation of future contractual cash flows. Reverse Repos may also be used for collateral and in such cases fair value need not be adjusted for the counterparty's credit risk.
- Financial liabilities either quoted on inactive markets or not at all, consisting of repurchase agreements used to raise finance are valued using discounted cash flow techniques involving the computation of future contractual cash flows. Repos may also be used for collateral and in such cases fair value need not be adjusted for the counterparty's credit risk.

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. In BancoPosta RFC's case, this category includes equity instruments 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.

A.4.2 Measurement processes and sensitivities

The processes used in recurring and non-recurring fair value measurements of instruments classified in Level 3 are described in paragraphs A.4.1 and A.4.5, respectively, of Part A.

Sensitivity analysis of recurring fair value measurements classified in Level 3 of the hierarchy is conducted for the Series C Visa Incorporated Convertible Participating Preferred Stock. Measurement of these financial instruments is in fact subject to change following alterations that may occur in the discount factor applied in determining fair value, in order to take into account the illiquid nature of the shares. This discount factor, estimated using an internal valuation technique, is above all influenced by the annual volatility of the underlying shares. Applying the maximum volatility according to the technique used, the potential reduction in fair value could reach approximately 11%.

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(h) and 96.

Quantitative information

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis by fair value level

Assets/Liabilities measured at fair value (€m)	31/12/2019			31/12/2018		
	Level 1	Level 2	Level 3*	Level 1	Level 2	Level 3*
1. Financial assets measured at fair value through profit or loss	-	-	71	-	13	45
a) financial assets held for trading	-	-	-	-	-	-
b) financial assets designated at fair value	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	-	-	71	-	13	45
2. Financial assets measured at fair value through other comprehensive income	36,506	293	-	31,780	260	-
3. Hedging derivatives	-	73	-	-	368	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**36,506**	**366**	**71**	**31,780**	**641**	**45**
1. Financial liabilities held for trading	-	15	-	-	-	-
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	5,552	-	-	1,829	-
Total	**-**	**5,567**	**-**	**-**	**1,829**	**-**

* Notes on this position are provided in Part B, Assets, Table 2.5.

The derivatives held in BancoPosta RFC's *portfolio* may be pledged as collateral and the fair value, consequently, need not be adjusted for the counterparty's credit risk (Part A, Section A.4.1).

A.4.5.2 Movements during the year in assets measured at fair value on a recurring basis (Level 3)

(€m)	Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily measured at fair value				
1. Opening balance	**45**	**-**	**-**	**45**	**-**	**-**	**-**	**-**
2. Increases	**26**	**-**	**-**	**26**	**-**	**-**	**-**	**-**
2.1. Purchases	-	-	-	-	-	-	-	-
2.2. Profit recognition:	26	-	-	26	-	-	-	-
2.2.1. Profit or loss	26	-	-	26	-	-	-	-
- of which gains	-	-	-	-	-	-	-	-
2.2.2. Equity	-	X	X	X	-	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-	-	-
2.4. Other increases	-	-	-	-	-	-	-	-
3. Decreases	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1. Sales	-	-	-	-	-	-	-	-
3.2. Redemptions	-	-	-	-	-	-	-	-
3.3. Impairment recognition:	-	-	-	-	-	-	-	-
3.3.1. Profit or loss	-	-	-	-	-	-	-	-
- of which loss	-	-	-	-	-	-	-	-
3.3.2. Equity	-	X	X	X	-	-	-	-
3.4. Transfers to other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	-	-	-	-	-	-	-	-
4. Closing balance	**71**	**-**	**-**	**71**	**-**	**-**	**-**	**-**

In the period under review, changes of €26 million relate to the change in fair value of Series C Visa Incorporated Convertible Participating Preferred Stock.

A.4.5.3 Movements during the year in liabilities measured at fair value on a recurring basis (Level 3)

Nil.

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by fair value level

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis (€m)	Total at 31/12/2019				Total at 31/12/2018			
	Carrying amount	Fair Value			Carrying amount	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Financial assets measured at amortised cost	40,950	20,613	5,231	14,728	33,743	16,780	4,660	10,620
2. Property, plant and equipment held for investment purposes	-	-	-	-	-	-	-	-
3. Non-current assets and disposal groups held for sale	-	-	-	-	-	-	-	-
Total	**40,950**	**20,613**	**5,231**	**14,728**	**33,743**	**16,780**	**4,660**	**10,620**
1. Financial liabilities measured at amortised cost	71,537	-	12,205	59,343	64,203	-	8,488	55,729
2. Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-	-
Total	**71,537**	**-**	**12,205**	**59,343**	**64,203**	**-**	**8,488**	**55,729**

In determining the fair values shown in the table, the following criteria were used:

- debt securities measured at amortised cost were recognised applying the same rules as those used in the fair value measurement of financial assets measured at fair value through other comprehensive income; these instruments are shown in Level 1 of the fair value hierarchy;
- the fair value of repurchase agreements was measured using the discounted cash flow techniques described in paragraph A.4.1; these financial instruments are shown in Level 2 of the fair value hierarchy;
- the carrying amount of other financial assets and liabilities represents a reasonable approximation of fair value and is shown in the column corresponding to Level 3 in the fair value hierarchy.

A.5 – Information on day one profit/loss

This form of profit or loss is not applicable to BancoPosta RFC.

Part B – Information on the statement of financial position

Assets

Section 1 – Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: breakdown

(€m)	Total at 31/12/2019	Total at 31/12/2018
a) Cash	3,500	2,980
b) Central bank deposits	814	348
Total	**4,314**	**3,328**

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 foreign banknotes equivalent to €12 million.

Section 2 – Financial assets measured at fair value through profit or loss – Item 20

2.1 Financial assets held for trading: breakdown by type

BancoPosta RFC had no financial instruments in the trading book either at 31 December 2019 or 31 December 2018.

BancoPosta RFC entered into transactions to acquire and immediately dispose of debt and equity securities on behalf of certain customers.

2.2 Financial assets held for trading: breakdown by debtor/issuer/counterparty

Nil.

2.3 / 2.4 Financial assets measured at fair value: breakdown by type and by debtor/issuer

There are no financial assets measured at fair value under the fair value option in *portfolio*.

2.5 Other financial assets mandatorily measured at fair value: breakdown by type

Items/Amounts (€m)	Total at 31/12/2019			Total at 31/12/2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equity instruments	**-**	**-**	**71**	**-**	**5**	**45**
3. UCIs	**-**	**-**	**-**	**-**	**-**	**-**
4. Loans	**-**	**-**	**-**	**-**	**8**	**-**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	8	-
Total	**-**	**-**	**71**	**-**	**13**	**45**

Investments in equity instruments, totalling €71 million, reflect the fair value of 32,059 Visa Incorporated preference shares (Series C Convertible Participating Preferred Stock) received for the disposal of the Visa Europe Ltd. share to Visa Incorporated in 2016. These shares are convertible at the rate of 13,884[133] 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. The overall change in fair value during the year is a positive €26 million and is recorded in profit and loss under "Item 110 - Profits (Losses) of other financial assets and liabilities mandatorily measured at fair value through profit or loss".

In 2019, BancoPosta RFC entered into a forward sale agreement for 400,000 ordinary Visa Incorporated shares at a price of US$153.46 per share and at an exchange rate of 1.2037. The total consideration is €51 million and the settlement date is 1 March 2021. The ordinary shares involved in the forward sale amount to approximately 28,810 Visa Incorporated (Series C) preference shares held in *portfolio* at the applicable conversion rate at 31 December 2019. The fair value of the forward sale has decreased by €15 million in the reporting period, reflecting movements in both the price of the shares and the euro/dollar exchange rate. This reduction has been recognised in profit or loss in "Item 80 - Profits/(Losses) on trading".

Finally, in 2019, BancoPosta RFC sold its previous holding of 11,144 class C Visa Incorporated shares following their prior conversion into class A shares. This transaction generated a capital gain of €1 million recognised in profit and loss under "Item 110 - Profits (Losses) of other financial assets and liabilities mandatorily measured at fair value through profit or loss".

133. 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.

2.6 Other financial assets mandatorily measured at fair value: breakdown by debtor/issuer

(€m)	Total at 31/12/2019	Total at 31/12/2018
1. Equity instruments	**71**	**50**
of which: banks	-	-
of which: other financial companies	71	50
of which: non-financial companies	-	-
2. Debt securities	**-**	**-**
a) Central banks	-	-
b) Public Administration entities	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
3. UCIs	**-**	**-**
4. Loans	**-**	**8**
a) Central banks	-	-
b) Public Administration entities	-	-
c) Banks	-	-
d) Other financial companies	-	8
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**71**	**58**

In June 2019, the outstanding amount of €8 million due following the disposal of Visa Europe Ltd. share to Visa Incorporated was collected.

Section 3 – Financial assets measured at fair value through other comprehensive income – Item 30

3.1 Financial assets measured at fair value through other comprehensive income: breakdown by type

Items/Amounts	Total at 31/12/2019			Total at 31/12/2018		
(€m)	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**36,506**	**293**	**-**	**31,780**	**260**	**-**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	36,506	293	-	31,780	260	-
2. Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**36,506**	**293**	**-**	**31,780**	**260**	**-**

Investments in debt securities are recognised at fair value, for €36,799 million (of which €318 million in accrued interest).

3.2 Financial assets measured at fair value through other comprehensive income: breakdown by debtor/issuer

Items/Amounts (€m)	Total at 31/12/2019	Total at 31/12/2018
1. Debt securities	**36,799**	**32,040**
a) Central banks	-	-
b) Public Admin. entities	36,799	32,040
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity instruments	**-**	**-**
a) Banks	-	-
b) Other issuers:	-	-
- other financial companies	-	-
of which: insurance companies	-	-
- non-financial companies	-	-
- other	-	-
3. Loans	**-**	**-**
a) Central banks	-	-
b) Public Admin. entities	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**36,799**	**32,040**

Debt securities issued by governments include Eurozone fixed income government bonds, represented by Italian government bonds with a nominal value of €31,170 million. Total fair value fluctuation for the period was positive for €3,758 million, with gains of €1,702 million recognised in the relevant equity reserve in relation to the portion of the *portfolio* not hedged by fair value hedges, and a gain of €2,056 million recognised through profit and loss in relation to the hedged portion.

Securities with a nominal value of €7,557 million are encumbered as follows:

- €6,621 million, carried at fair value for €7,329 million (Part B, Other Information, Table 3), and delivered to counterparties in connection with repurchase agreements concluded prior to 31 December 2019;
- €889 million, carried at fair value for €913 million, and delivered to the Bank of Italy to secure an intraday line of credit;
- €47 million carried at fair value for €48 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.

3.3 Financial assets measured at fair value through other comprehensive income: gross amount and overall impairment losses/reversals

(€m)	Gross amount				Total impairments			Total partial write-offs*
	Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	36,810	-	-	-	11	-	-	-
Loans	-	-	-	-	-	-	-	-
Total at 31/12/2019	**36,810**	**-**	**-**	**-**	**11**	**-**	**-**	**-**
of which: purchased or originated credit impaired financial assets	X	X	-	-	X	-	-	-

* Amount reported for disclosure purposes.

Fixed income instruments recognised at FVTOCI are adjusted for impairment through the relevant equity reserve, with a matching entry in profit or loss. Accumulated impairments at 31 December 2019 amount to €11 million (€13 million at 31 December 2018).

Section 4 – Financial assets measured at amortised cost – Item 40

4.1 Financial assets measured at amortised cost: breakdown of receivables due from banks by type

Transaction type/Amounts (€m)	Total at 31/12/2019						Total at 31/12/2018					
	Carrying amount		of which: purchased or originated credit impaired	Fair Value			Carrying amount		of which: purchased or originated credit impaired	Fair Value		
	Stage 1 and 2	Stage 3		Level 1	Level 2	Level 3	Stage 1 and 2	Stage 3		Level 1	Level 2	Level 3
A. Due from Central Banks	**-**	**-**	**-**				**-**	**-**	**-**			
1. Time deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Compulsory reserves	-	-	-	X	X	X	-	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Due from banks	**4,694**	**-**	**-**				**1,400**	**-**	**-**			
1. Loans	4,694	-	-				1,400	-	-			
1.1 Current accounts and demand deposits	4	-	-	X	X	X	5	-	-	X	X	X
1.2 Time deposits	-	-	-	X	X	X	-	-	-	X	X	X
1.3 Other loans:	4,690	-	-	X	X	X	1,395	-	-	X	X	X
- Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
- Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
- Other	4,690	-	-	X	X	X	1,395	-	-	X	X	X
2. Debt securities	**-**	**-**	**-**				**-**	**-**	**-**			
2.1 Structured securities	-	-	-	X	X	X	-	-	-	X	X	X
2.2 Other debt securities	-	-	-	X	X	X	-	-	-	X	X	X
Total	**4,694**	**-**	**-**	**-**	**-**	**4,694**	**1,400**	**-**	**-**	**-**	**-**	**1,400**

"Other loans, Other" includes cash collateral held by counterparties for interest rate swaps (€4,581 million as collateral pursuant to Credit Support Annexes), entered into for cash flow and fair value hedging purposes by BancoPosta RFC, and repurchase agreements (€39 million as collateral pursuant to specific Global Master Repurchase Agreements).

In addition, "Other loans, Other" includes trade receivables for €70 million arising from contracts with customers, accounted for in accordance with IFRS 15 (€46 million at 31 December 2018) mainly relating to financial services and personal loan distribution.

4.2 Financial assets measured at amortised cost: breakdown of loans to customers by type

Transaction type/Amounts (€m)	Total at 31/12/2019						Total at 31/12/2018					
	Carrying amount		of which: purchased or originated credit impaired	Fair Value			Carrying amount		of which: purchased or originated credit impaired	Fair Value		
	Stage 1 and 2	Stage 3		Level 1	Level 2	Level 3	Stage 1 and 2	Stage 3		Level 1	Level 2	Level 3
1. Loans	**11,192**	**-**	**-**				**9,471**	**-**	**-**			
1.1 Current accounts	8	-	-	X	X	X	9	-	-	X	X	X
1.2 Reverse repurchase agreements	1,158	-	-	X	X	X	251	-	-	X	X	X
1.3 Term loans	-	-	-	X	X	X	-	-	-	X	X	X
1.4 Credit cards, personal and salary loans	-	-	-	X	X	X	-	-	-	X	X	X
1.5 Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
1.6 Factoring	-	-	-	X	X	X	-	-	-	X	X	X
1.7 Other loans	10,026	-	-	X	X	X	9,211	-	-	X	X	X
2. Debt securities	**25,064**	**-**	**-**				**22,872**	**-**	**-**			
2.1 Structured securities	-	-	-	X	X	X	-	-	-	X	X	X
2.2 Other debt securities	25,064	-	-	X	X	X	22,872	-	-	X	X	X
Total	**36,256**	**-**	**-**	**20,613**	**5,231**	**10,034**	**32,343**	**-**	**-**	**16,780**	**4,660**	**9,220**

A description of "Loans" is provided below.

The sub-item "Reverse repurchase agreements" refers to transactions for a total nominal amount of €1,158 million entered into with *Cassa di Compensazione e Garanzia* SpA (hereinafter Central Counterparty)[134]. These transactions are guaranteed by securities for a total notional amount of €1,086 million. At 31 December 2019 the fair value of reverse repurchase agreements is €1,158 million and is shown in Level 2 of the fair value hierarchy.

"Other loans" primarily consist of:

- €7,081 million, €17 million 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[135]. The deposit has been adjusted to reflect accumulated impairments of approximately €3 million, to reflect the risk of counterparty default (unchanged compared to 31 December 2018);
- €1,040 million in guarantee deposits provided to counterparties for interest rate swaps in the amount of €600 million (with collateral provided by specific Credit Support Annexes) entered into for cash flow and fair value hedging purposes by BancoPosta RFC, repurchase agreement with a Central Counterparty for €169 million and for collateral deposited with the Central Counterparty, in relation to the clearing system, in the amount of €271 million (i.e. (Default Fund)[136];
- €651 million in amounts receivable from Poste Italiane SpA's functions outside the ring-fence, €650 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;

134. The Central Counterparty is an entity that acts as an intermediary in a transaction between two parties, avoiding the parties' exposure to the risk that one of the counterparties to the agreement may default and guaranteeing successful completion of the transaction.
135. 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 ten-year BTP return.
136. A guarantee fund established with payments from participants in the derivative, equity and bond markets, as a further guarantee for the transactions carried out. The fund can be used to meet the charges arising from any participant default.

- €493 million, €2 million of which being accrued net interest expense, in deposits at the MEF (the "Buffer account"), remunerated at the EONIA rate[137];
- €451 million in fees receivable from Cassa Depositi e Prestiti during the year in connection with postal savings;
- €12 million in amounts due for the payment of pensions and vouchers on behalf of INPS (the National Institute of Social Security). Moreover, in February 2019, having conducted a joint assessment, Poste Italiane and INPS signed an agreement that, among other things, has settled the respective past outstanding trade receivables (Section 10 of Liabilities). These positions were settled in April 2019.

Receivables arisen from contracts with customers, which fall within the scope of IFRS 15, amount to 782 million (€837 million at 31 December 2018). These are mainly due to financial services, pension payments, interest on postal deposits, and personal loan distribution, net of any loss provisions for €40 million (€152 million at 31 December 2018). Information on the dynamics of total value adjustments is described in Part E, Section 1.

"Other debt securities" include Italian fixed income government bonds and securities guaranteed by the Italian State for €21,175 million. Their carrying amount of €25,064 million reflects the amortised cost of unhedged fixed income instruments, totalling €10,047 million, the amortised cost of fair-value hedged fixed income bonds, totalling €12,146 million, increased by €2,871 million to take into account the effects of the hedge (€1,902 million related to 2019). The value of these securities was adjusted to take into account the related impairments. Accumulated impairments at 31 December 2019 amount to approximately €8 million (€9 million at 31 December 2018).

At 31 December 2019 the total fair value of these instruments, inclusive of €177 million in accrued interest, amounts to €24,686 million, of which €20,613 million classified in Level 1 of the fair value hierarchy and €4,073 million classified in Level 2.

Securities with a nominal value of €5,457 million are encumbered as follows:

- €4,929 million, measured at amortised cost for €5,179 million (Part B, Other Information, Table 3), and delivered to counterparties in connection with repurchase agreements concluded at 31 December 2019;
- €528 million, measured at amortised cost for €527 million (Part B, Other Information, Table 3), and delivered to counterparties in connection with interest rate swaps and repurchase agreements concluded in the year under review.

137. The rate applied in overnight lending and calculated as the weighted average of overnight rates for transactions on the interbank market reported to the European Central Bank by a panel of banks operating in the euro zone (the biggest banks in all the Euro zone countries).

4.3 Financial assets measured at amortised cost: breakdown of receivables due from customers by debtor/issuer

Transaction type/Amounts (€m)	Total at 31/12/2019			Total at 31/12/2018		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit impaired assets	Stage 1 and 2	Stage 3	of which: purchased or originated credit impaired assets
1. Debt securities	**25,064**	**-**	**-**	**22,872**	-	-
a) Public Admin. entities	21,118	-	-	18,333	-	-
b) Other financial companies	3,946	-	-	4,539	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	-	-	-	-	-	-
2. Loans to:	**11,192**	**-**	**-**	**9,471**	**-**	**-**
a) Public Admin. entities	7,625	-	-	7,375	-	-
b) Other financial companies	2,881	-	-	1,217	-	-
of which: insurance companies	147	-	-	148	-	-
c) Non-financial companies	680	-	-	871	-	-
d) Households	6	-	-	8	-	-
Total	**36,256**	**-**	**-**	**32,343**	**-**	**-**

Securities related to “Other financial companies” for an amortised cost of €3,946 million refer to fixed-rate securities for a total nominal amount of €3,750 million issued by Cassa Depositi e Prestiti and guaranteed by the Italian State.

4.4 Financial assets measured at amortised cost: gross amount and overall impairment losses/reversals

Items/Amounts (€m)	Gross amount				Rettifiche di valore complessive			Total partial write-offs*
	Stage 1		Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
		of which: Instruments with low credit risk						
Debt securities	25,072	-	-	-	8	-	-	-
Loans	15,037	-	908	13	3	56	13	-
Total at 31/12/2019	**40,109**	**-**	**908**	**13**	**11**	**56**	**13**	**-**
Total at 31/12/2018	**32,872**	**-**	**1.049**	**13**	**12**	**166**	**13**	**-**
of which: purchased or originated credit impaired financial assets	X	X	-	-	X	-	-	-

* Amount reported for disclosure purposes.

Section 5 – Hedging derivatives – Item 50

5.1 Hedging derivatives by type of hedge and fair value level

(€m)	Fair value at 31/12/2019			Notional amount* at 31/12/2019	Fair value at 31/12/2018			Notional amount* at 31/12/2018
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives	**-**	**73**	**-**	**1,520**	**-**	**368**	**-**	**8,230**
1) Fair value	-	11	-	745	-	163	-	4,420
2) Cash flow	-	62	-	775	-	205	-	3,810
3) Net foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flow	-	-	-	-	-	-	-	-
Total	**-**	**73**	**-**	**1,520**	**-**	**368**	**-**	**8,230**

* The settlement price of derivatives involving the exchange of principal (securities or other assets) has been indicated, as required by Bank of Italy Circular 262/2005.

5.2 Hedging derivatives by hedged *portfolio* and type of hedge

Transaction type/Type of hedge (€m)	Fair Value							Cash flow		Net foreign investment
	Micro						Macro	Micro	Macro	
	Debt securities and interest rates	Equity instruments and equity indexes	Currencies and gold	Credit	Commodities	Other				
1. Financial assets measured at fair value through other comprehensive income	9	-	-	-	X	X	X	62	X	X
2. Financial assets measured at amortised cost	2	X	-	-	X	X	X	-	X	X
3. *Portfolio*	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**11**	**-**	**-**	**-**	**-**	**-**	**-**	**62**	**-**	**-**
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. *Portfolio*	X	X	X	X	X	X	-	X	-	X
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. *Portfolio* of financial assets and financial liabilities	X	X	X	X	X	X	-	X	-	-

Section 6 – Adjustments for changes in hedged financial assets *portfolio* – Item 60

No macro-hedges have been arranged at the reporting date.

Section 7 – Investments – Item 70

There are no investments in subsidiaries, joint arrangements or companies subject to significant influence.

Section 8 – Property, plant and equipment – Item 80

BancoPosta does not own property, plant and equipment either for operating or investment purposes.

Section 9 – Intangible assets – Item 90

There are no intangible assets.

Section 10 – Tax assets and liabilities – assets Item 100 and liabilities Item 60

Current tax assets and liabilities form part of intersegment relations and are shown in "Other assets" (Item 120 in Assets) and "Other liabilities" (Item 80 in Liabilities), as they are settled with Poste Italiane SpA's functions outside the ring-fence, within the scope of internal relations with Poste Italiane SpA, as the sole taxable entity.

Deferred tax assets and liabilities are analysed below:

10.1 Deferred tax assets: breakdown

Description (€m)	Financial assets and liabilities		Hedging derivatives		Provisions for doubtful debts		Provisions for risks and charges		Total IRES	Total IRAP
	IRES	IRAP	IRES	IRAP	IRES	IRAP	IRES	IRAP		
Deferred tax assets through profit or loss	-	1	-	-	14	-	54	10	68	11
Deferred tax assets through equity	167	31	30	5	-	-	-	-	197	36
2019 total	**167**	**32**	**30**	**5**	**14**	**-**	**54**	**10**	**265**	**47**
Deferred tax assets through profit or loss	-	-	-	-	24	-	95	18	119	18
Deferred tax assets through equity	286	54	25	5	-	-	-	-	311	59
2018 total	**286**	**54**	**25**	**5**	**24**	**-**	**95**	**18**	**430**	**77**

10.2 Deferred tax liabilities: breakdown

Description (€m)	Financial assets and liabilities		Hedging derivatives		Total IRES	Total IRAP
	IRES	IRAP	IRES	IRAP		
Deferred tax liabilities through profit or loss	-	-	-	-	-	-
Deferred tax liabilities through equity	496	93	61	12	557	105
2019 total	**496**	**93**	**61**	**12**	**557**	**105**
Deferred tax liabilities through profit or loss	-	-	-	-	-	-
Deferred tax liabilities through equity	258	49	55	10	313	59
2018 total	**258**	**49**	**55**	**10**	**313**	**59**

10.3 Movements in deferred tax assets through profit or loss

(€m)	Total at 31/12/2019	Total at 31/12/2018
1. Opening balance	**137**	**140**
2. Increases	**2**	**12**
2.1 Deferred tax assets recognised in the year	2	12
a) relating to previous years	1	-
b) due to changes in accounting policies	-	1
c) write-backs	-	-
d) other	1	11
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**(60)**	**(15)**
3.1 Deferred tax assets derecognised in the year	(60)	(15)
a) reversals	(7)	(10)
b) write-downs of non-recoverable items	(5)	-
c) due to changes in accounting policies	-	-
d) other	(48)	(5)
3.2 Reduction of tax rate	-	-
3.3 Other decreases:	-	-
a) transformation into tax credit pursuant to Law 214/2011	-	-
b) other	-	-
4. Closing balance	**79**	**137**

10.3 bis Movements in deferred tax liabilities under Law 214/2011

Nil.

10.4 Movements in deferred tax liabilities through profit or loss

Nil.

10.5 Movements in deferred tax assets through equity

(€m)		Total at 31/12/2019	Total at 31/12/2018
1.	**Opening balance**	**370**	**266**
2.	**Increases**	**11**	**364**
	2.1 Deferred tax assets recognised in the year	11	364
	a) relating to previous years	-	-
	b) due to changes in accounting policies	-	71
	c) other	11	293
	2.2 New taxes or tax rate increases	-	-
	2.3 Other increases	-	-
3.	**Decreases**	**(148)**	**(260)**
	3.1 Deferred tax assets derecognised in the year	(148)	(260)
	a) reversals	(11)	(31)
	b) write-downs of non-recoverable items	-	-
	c) due to changes in accounting policies	-	(227)
	d) other	(137)	(2)
	3.2 Reduction of tax rate	-	-
	3.3 Other decreases	-	-
4.	**Closing balance**	**233**	**370**

10.6 Movements in deferred tax liabilities through equity

(€m)		Total al 31.12.2019	Total al 31.12.2018
1.	**Opening balance**	**(372)**	**(308)**
2.	**Increases**	**(416)**	**(755)**
	2.1 Deferred tax assets recognised in the year	(416)	(755)
	a) relating to previous years	-	-
	b) due to changes in accounting policies	-	(686)
	c) other	(416)	(69)
	2.2 New taxes or tax rate increases	-	-
	2.3 Other increases	-	-
3.	**Decreases**	**126**	**691**
	3.1 Deferred tax assets derecognised in the year	126	690
	a) reversals	96	129
	b) due to changes in accounting policies	-	293
	c) other	30	268
	3.2 Reduction of tax rate	-	1
	3.3 Other decreases	-	-
4.	**Closing balance**	**(662)**	**(372)**

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.

10.7 Other information

Nil.

Section 11 – Non-current assets held for sale and discontinued operations and associated liabilities – Assets Item 110 and liabilities Item 70

There are no non-current assets held for sale or discontinued operations at the reporting date.

Section 12 – Other assets – Item 120

12.1 Other assets: breakdown

Items/Amounts (€m)	Total at 31/12/2019	Total at 31/12/2018
Tax receivables from revenue agency	336	326
Items in process:	554	737
Current tax assets receivable from Poste Italiane SpA outside the ring-fence	77	2
Other items	1,525	1,380
Total	**2,492**	**2,445**

Tax receivables refer mainly to advances paid to the tax authorities, of which: €312 million for stamp duty to be paid virtually in 2020 and €8 million for withholding tax on interest payable to current account holders in 2019, both advances to be recovered from customers.

The sub-item "Items in process" includes:

- amounts due from the commercial partners for providing PostePay top-ups for €95 million;
- €67 million in withdrawals from BancoPosta ATMs yet to be debited to customer accounts or awaiting settlement;
- amounts to be charged to PostePay SpA for €50 million (mainly in the first few days of 2020).

Movements in current tax assets and liabilities receivable from and payable to Poste Italiane SpA outside the ring-fence are shown below:

Description (€m)	Current tax 2019 IRES Assets/ (Liabilities) due from and to Poste Italiane outside the ring-fence	Current tax 2019 IRAP Assets/ (Liabilities) due from and to Poste Italiane outside the ring-fence	Current tax 2019 Total	Current tax 2018 IRES Assets/ (Liabilities) due from and to Poste Italiane outside the ring-fence	Current tax 2018 IRAP Assets/ (Liabilities) due from and to Poste Italiane outside the ring-fence	Current tax 2018 Total
Opening balance	**(14)**	**2**	**(12)**	**27**	**-**	**27**
Payment of	206	38	244	156	39	195
payments on account for the current year	192	38	230	156	39	195
balance payable for the previous year	14	-	14	-	-	-
Amount recognised in profit or loss	(145)	(31)	(176)	(197)	(37)	(234)
current tax	(145)	(30)	(175)	(197)	(37)	(234)
changes in current taxation for previous years	-	(1)	(1)	-	-	-
Amount recognised in equity	-	-	-	-	-	-
Other*	21	-	21	-	-	-
Closing balance	**68**	**9**	**77**	**(14)**	**2**	**(12)**
of which:						
Current tax assets due from Poste Italiane outside the ring-fence (Item 120 Assets)	68	9	77	-	2	2
Current tax liabilities due to Poste Italiane outside the ring-fence (Item 80 Liabilities)	-	-	-	(14)	-	(14)

* Mainly due to receivables for withholdings incurred.

"Other items" include mainly:

- €1,357 million in stamp duty accrued to 31 December 2019 payable by holders of outstanding Interest-bearing Postal Certificates[138]. An equal amount has been recognised in "Other liabilities" as tax payables (Part B, Liabilities, Table 8.1) until expiration or early extinguishment of Interest-bearing Postal Certificates, which is the date on which the tax must be paid to the authorities;
- €120 million relating to stamp duty charged to Postal Savings Books, which BancoPosta RFC pays in virtual form as required by law.

138. 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).

Liabilities

Section 1 – Financial liabilities measured at amortised cost – Item 10

1.1 Financial liabilities measured at amortised cost: breakdown of due to banks by type

Transaction type/Amounts (€m)	Total at 31/12/2019				Total at 31/12/2018			
	Carrying amount	Fair Value			Carrying amount	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Due to Central Banks	**-**	**X**	**X**	**X**	**-**	**X**	**X**	**X**
2. Due to banks	**7,186**	**X**	**X**	**X**	**5,985**	**X**	**X**	**X**
2.1 Current accounts and demand deposits	383	X	X	X	589	X	X	X
2.2 Time deposits	-	X	X	X	-	X	X	X
2.3 Loans	6,690	X	X	X	5,323	X	X	X
2.3.1 Repurchase agreements	6,690	X	X	X	5,323	X	X	X
2.3.2 Other	-	X	X	X	-	X	X	X
2.4 Obligations to repurchase equity instruments	-	X	X	X	-	X	X	X
2.5 Lease payables	-	X	X	X	-	X	X	X
2.6 Other payables	113	X	X	X	73	X	X	X
Total	**7,186**	**-**	**6,699**	**496**	**5,985**	**-**	**5,336**	**662**

At 31 December 2019, €6,690 million is due to banks under “Loans, Repurchase agreements” entered into with primary financial institutions involving securities with a total nominal value of €6,298 million. These regard €5,302 million in Long Term Repos and €1,388 million in ordinary loan transactions, with the resulting proceeds invested in Italian fixed income government securities and utilised as funding for incremental deposits used as collateral.

Repurchase agreements are classified as fair value Level 2 loans, whereas the fair value of other types of transaction included in this line item approximates to their carrying amounts and they are classified as Level 3.

The sub-item “Other payables” includes €112 million in guarantee deposits relating to sums paid to counterparties with which Repo transactions are in place (collateral provided for by specific Global Master Repurchase Agreements).

BancoPosta RFC has uncommitted overnight lines of credit amounting to €1,009 million, overdraft facilities for €173 million and arrangements for the issue of personal guarantees for €675 million granted to Poste Italiane SpA, undrawn at 31 December 2019.

In addition, from 7 May 2019, BancoPosta’s assets may access a short-term committed facility granted by Cassa Depositi e Prestiti for repurchase agreements up to a maximum of €5 billion and with a duration of 12 months that may be extended.

Finally, the Bank of Italy has granted BancoPosta RFC access to intraday credit in order to fund intraday interbank transactions. Collateral for this credit facility is provided by securities with a nominal value of €889 million, and the facility is unused at 31 December 2019.

1.2 Financial liabilities measured at amortised cost: breakdown of due to customers by type

Transaction type/Amounts (€m)	Total at 31/12/2019				Total at 31/12/2018			
	Carrying amount	Fair Value			Carrying amount	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Current accounts and demand deposits	53,555	X	X	X	50,618	X	X	X
2. Time deposits	-	X	X	X	-	X	X	X
3. Loans	10,046	X	X	X	6,813	X	X	X
3.1 Repurchase agreements	5,504	X	X	X	3,150	X	X	X
3.2 Other	4,542	X	X	X	3,663	X	X	X
4. Obligations to repurchase equity instruments	-	X	X	X	-	X	X	X
5. Lease payables	-	X	X	X	-	X	X	X
6. Other payables	750	X	X	X	786	X	X	X
Total	**64,351**	**-**	**5,506**	**58,847**	**58,217**	**-**	**3,152**	**55,067**

The sub-item “Current accounts and demand deposits” include €5,219 million in postal current accounts held by PostePay SpA, €227 million in postal current accounts held by PosteVita SpA and €58 million in current accounts held by Poste Italiane outside the ring-fence.

At 31 December 2019 “Loans, Repurchase agreements” amount to €5,504 million, reflecting transactions entered into with Central Counterparty in relation to securities with a nominal amount of €5,252 million. These regard €773 million in Long Term Repos and €4,731 million in ordinary loan transactions, with the resulting proceeds invested in Italian fixed income government securities and utilised as funding for incremental deposits used as collateral.

The sub-item “Loans, Other” consist of the net amount of €4,542 million deposited in the MEF account held at the Treasury, which breaks down as follows:

- the balance of cash flows for advances, amounting to €4,397 million, represents the net amount payable as a result of advances from the MEF to meet the cash requirements of BancoPosta;
- net cash flow receivable for postal savings management of €47 million, due to the excess repayments on deposits made in the last two days of the year in question and settled in the first few days of the following year; at 31 December 2019, the balance consisted of a payable of €25 million owed to Cassa Depositi e Prestiti and a receivable of €72 million owed to the MEF for issues of postal savings bonds attributable to Cassa Depositi e Prestiti;
- liabilities in connection with robberies suffered by Post Offices of €158 million, relating to obligations assumed towards the MEF on behalf of the Treasury as a result of theft and embezzlement; these obligations derive from withdrawals made from the Treasury, which are necessary to replenish the cash shortfall due to these criminal events so as to ensure the continuity of the Post Offices’ operations;
- amounts payable for operational risks for €34 million regard the portion of advances obtained to fund operations, in relation to which asset under recovery is certain or probable.

The sub-item “Other payables” primarily consist of domestic postal orders, amounting to €600 million, and postal money orders for €139 million.

The Level 2 fair value refers to the repurchase agreements while the fair value of the remaining instruments of this line item approximates to its carrying amount and it is consequently classified as Level 3.

1.3 Financial liabilities measured at amortised cost: breakdown of outstanding securities by type

There are no securities in issue.

Nil.

1.4 Detail of subordinated debt/securities

Nil.

1.5 Detail of structured debt

Nil.

1.6 Lease payables

Nil.

Section 2 – Financial liabilities held for trading – Item 20

Transaction type/Amounts (€m)	Total at 31/12/2019					Total at 31/12/2018				
	Nominal or notional amount	Fair Value			Fair Value*	Nominal or notional amount	Fair Value			Fair Value*
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
A. On-balance sheet liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivative instruments										
1. Financial derivatives	-	-	15	-	-	-	-	-	-	-
1.1 Trading	X	-	-	-	X	X	-	-	-	X
1.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	15	-	X	X	-	-	-	X
2. Credit derivatives	-	-	-	-	-	-	-	-	-	-
2.1 Trading	X	-	-	-	X	X	-	-	-	X
2.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**-**	**-**	**15**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B)	**-**	**-**	**15**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Financial liabilities held for trading relate to a forward sale agreement for 400,000 ordinary shares of Visa Incorporated (discussed in Section 2 of Assets).

Section 3 – Financial liabilities measured at fair value – Item 30

No financial liabilities are held in *portfolio* measured at fair value through profit or loss (the "fair value option").

Section 4 – Hedging derivatives – Item 40

4.1 Hedging derivatives by type and fair value level

(€m)	Notional amount* at 31/12/2019	Fair value at 31/12/2019			Notional amount* at 31/12/2018	Fair value at 31/12/2018		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Financial derivatives	**27,344**	**-**	**5,552**	**-**	**20,105**	**-**	**1,829**	**-**
1) Fair value	24,945	-	5,450	-	19,170	-	1,722	-
2) Cash flow	2,399	-	102	-	935	-	107	-
3) Net foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flow	-	-	-	-	-	-	-	-
Total	**27,344**	**-**	**5,552**	**-**	**20,105**	**-**	**1,829**	**-**

* The settlement price of derivatives involving the exchange of principal (securities or other assets) has been indicated, as required by Bank of Italy Circular 262/2005.

4.2 Hedging derivatives by hedged *portfolio* and type of hedge

Transaction type/Type of hedge (€m)	Fair Value							Cash flow		Net foreign investment
	Micro						Macro	Micro	Macro	
	Debt securities and interest rates	Equity instruments and equity indexes	Currencies and gold	Credit	Commodities	Other				
1. Financial assets measured at fair value through other comprehensive income	2,574	-	-	-	X	X	X	66	X	X
2. Financial assets measured at amortised cost	2,876	X	-	-	X	X	X	-	X	X
3. *Portfolio*	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**5,450**	**-**	**-**	**-**	**-**	**-**	**-**	**66**	**-**	**-**
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. *Portfolio*	X	X	X	X	X	X	-	X	-	X
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Expected transactions	X	X	X	X	X	X	X	36	X	X
2. *Portfolio* of financial assets and financial liabilities	X	X	X	X	X	X	-	X	-	-

Section 5 – Adjustments for changes in hedged financial liabilities *portfolio* – Item 50

No macro-hedges have been arranged at the reporting date.

Section 6 – Tax liabilities – Item 60

Please refer to Assets, Section 10.

Section 7 – Liabilities associated with non-current assets held for sale and discontinued operations– Item 70

There are no such liabilities at the reporting date.

Section 8 – Other liabilities – Item 80

8.1 Other liabilities: breakdown

Items/Amounts (€m)	Total at 31/12/2019	Total at 31/12/2018
Tax payables to revenue agency	1,402	1,236
Items in process:	844	728
- amounts to be credited to Postal Savings Books	212	204
- other	632	524
Amounts payable to Poste Italiane outside the ring-fence:	441	409
- for services rendered by Poste Italiane SpA	441	322
- current tax liabilities	-	14
- contribution of card payments and payment services unit	-	73
Amounts due to customers	52	68
Amounts due to suppliers	103	126
Amounts due to staff	10	16
Contract liabilities	26	33
Other items	75	76
Total	**2,953**	**2,692**

The sub-item “Tax payables to revenue agency” mainly includes:

- €1,357 million in stamp duty accrued to 31 December 2019 on outstanding Interest-bearing Postal Certificates in accordance with the requirements referenced in Part B, Assets, Table 12.1;
- €19 million regarding taxes payable to collection agents, the tax authorities and regional authorities for payments made by customers;
- €10 million in tax withholdings on current account interest earned by customers.

“Items in process, various” refer, among other things, to domestic and foreign transfers and BancoPosta’s operations for amounts to be credited to customers, mainly in the first few days of 2020.

During 2019, BancoPosta paid the contribution payable of €73 million to PostePay SpA.

“Contract liabilities” are mainly due to the placement of loan products, as shown in the following table:

Description (€m)	Balance at 31/12/2018	Increases / (Decreases)	Change due to recognition of revenue for period	Balance at 31/12/2019
Liabilities for volume discounts	4	(1)	-	3
Liabilities for fees to be refunded	26	(26)	20	20
Deferred income from trading transactions	3	-	-	3
Total	**33**	**(27)**	**20**	**26**

Liabilities for commissions to be relegated refer to the estimate of the commissions to be relegated to partners for the contractually agreed early repayment of loan products placed after 1 January 2018.

“Other items” relate to prior year balances currently being verified.

Section 9 – Employee termination benefits – Item 90

Movements in employee termination benefits during the year under review are shown below:

9.1 Employee termination benefits: annual changes

(€m)		Total at 31/12/2019	Total at 31/12/2018
A.	**Opening balance**	**3**	**17**
B.	**Increases**	1	**-**
	B.1 Provisions for the year	-	-
	B.2 Other changes	1	-
C.	**Decreases**	**(1)**	**(14)**
	C.1 Benefits paid	-	(1)
	C.2 Other changes	(1)	(13)
D.	**Closing balance**	**3**	**3**

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.

The other decreases are due to transfers to the same or other Group Companies and actuarial gains.

9.2 Other information

Measurement of the liability entails actuarial computations for which the following assumptions were used in 2019 and 2018:

Economic and financial assumptions

	31/12/2019
Discount rate	0.550%
Inflation rate	1.50%
Annual rate of increase of employee termination benefits	2.625%

Demographic assumptions

	31/12/2019
Mortality	ISTAT2018 differentiated by gender
Disability	INPS 1998 differentiated by gender
Rate of employee turnover	Specific table with rates differentiated by length of service. The average length of service for participants corresponds to an annual rate of 0.19%
Advance rate	1.25% for lengths of service of at least 8 years
Pensionable age	In accordance with rules set by INPS

Actuarial gains/(losses)

	31/12/2019	31/12/2018
Change in demographic assumptions	-	-
Change in financial assumptions	0.2	-
Other experience-related adjustments	(0.5)	(0.5)
Total	**(0.3)**	**(0.5)**

Sensitivity analysis

	Employee termination benefits at 31/12/2019
Inflation rate +0.25%	3
Inflation rate -0.25%	3
Discount rate +0.25%	3
Discount rate -0.25%	3
Turnover rate +0.25%	3
Turnover rate -0.25%	3

Other information

	31/12/2019
Service Cost	-
Average duration of defined benefit plan	12.2
Average employee turnover	0.19%

Section 10 – Provisions for risks and charges – Item 100

10.1 Provisions for risks and charges: breakdown

Items/Amounts (€m)	Total at 31/12/2019	Total at 31/12/2018
1. Provisions for credit risk relating to financial commitments and guarantees given	-	-
2. Provisions for other commitments and guarantees given	-	-
3. Provisions for retirement benefits	-	-
4. Other provisions for risks and charges	327	511
4.1 litigation	95	95
4.2 personnel expenses	1	1
4.3 Other	231	415
Total	**327**	**511**

The composition of "Other provisions" is provided in Table 10.6, below.

10.2 Provisions for risks and charges: annual changes

(€m)	Provisions for other commitments and guarantees given	Provisions for retirement benefits	Other provisions for risks and charges	Total
A. Opening balance	**-**	**-**	**511**	**511**
B. Increases	**-**	**-**	**42**	**42**
B.1 Provisions for the year	-	-	42	42
B.2 Changes due to passage of time	-	-	-	-
B.3 Changes due to changed discount rates	-	-	-	-
B.4 Other changes	-	-	-	-
C. Decreases	**-**	**-**	**(226)**	**(226)**
C.1 Uses during the year	-	-	(201)	(201)
C.2 Changes due to changed discount rates	-	-	-	-
C.3 Other changes	-	-	(25)	(25)
D. Closing balance	**-**	**-**	**327**	**327**

The main changes are commented in the remainder of this section.

10.3 Provisions for credit risk relating to financial commitments and guarantees given

Nil.

10.4 Provisions for other commitments and guarantees given

Nil.

10.5 Company defined benefit pension plan

Nil.

10.6 Provisions for risks and charges - other provisions

Description (€m)	Total at 31/12/2019	Total at 31/12/2018
Litigation	**95**	**95**
Provisions for disputes with third parties	95	95
Provisions for disputes with staff	-	-
Provisions for personnel expenses	**1**	**1**
Other provisions	**231**	**415**
Provisions for operational risk	231	415
Total	**327**	**511**

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, administrative and penal sanctions and compensation payable to customers. During the year, net provisions of €7 million regard 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.

Provisions for disputes with staff regard liabilities that may arise following labour litigation and disputes of various types.

Provisions for personnel expenses are made to cover expected liabilities arising in relation to the cost of labour.

Provisions for operational risks reflect mainly risks for claims by customers in relation to investment products whose performance is not in line with expectations, compensation and adjustments to income for previous years, the liabilities arising from the reconstruction of operating ledger entries at the time of Poste Italiane SpA's incorporation, risks linked to the distribution of postal saving products created in past years, and probable frauds and estimated risks for charges and expenses to be incurred in connection with seizures effected by BancoPosta as garnishee-defendant.

Provisions for 2019, totalling €33 million, mainly reflect risks associated with the distribution of postal savings products issued in previous years and the adjustment of liabilities due to adjustments and settlements to income from previous years. During the year, the provision in question was utilised for a total of €193 million: (i) €100 million refer to liabilities defined in favour of customers subscribing to the Immobiliare Obelisco (expired on 31 December 2018) and Europa Immobiliare I funds, in relation to the voluntary protection initiatives approved by the Board of Directors of Poste Italiane and undertaken during 2019; (ii) €67 million refer to liabilities defined in favour of INPS, following the agreement signed between the parties in February 2019.

Section 11 – Redeemable shares – Item 120

Nothing to report.

Section 12 – Equity – Items 110, 130, 140, 150, 160, 170 and 180

12.1 Capital and treasury shares: breakdown

Nil.

12.2 Capital – Number of shares: annual changes

Nil.

12.3 Capital – Other information

Nil.

12.4 Profit reserves: other information

At 31 December 2019, undistributed earnings total €1,057 million. Other profit reserves amount to €1,210 million, including the initial reserve of €1,000 million provided to BancoPosta RFC on its creation and €210 million in additional capital contributions by Poste Italiane SpA in 2018.

12.5 Equity instruments: breakdown and annual changes

Nil.

12.6 Other information

Nil.

Other information

1. Commitments and guarantees given (other than those measured at fair value)

Nil.

2. Other commitments and guarantees given

Nil.

3. Assets pledged as collateral for liabilities and commitments

Portfolio (€m)		Total at 31/12/2019	Total at 31/12/2018
1.	Financial assets measured at fair value through profit or loss	-	-
2.	Financial assets measured at fair value through other comprehensive income	7,329	5,179
3.	Financial assets measured at amortised cost	5,707	3,773
4.	Property, plant and equipment	-	-
	of which: property, plant and equipment qualifying as inventories	-	-

"Financial assets measured at fair value through other comprehensive income" relate to securities used as collateral in repurchase agreements. "Financial assets measured at amortised cost" relate to securities used as collateral in repurchase agreements and securities provided as collateral to counterparties in interest rate swaps with negative fair value and in repurchase agreements.

4. Brokerage and management on behalf of third parties

Service (€m)	Amount
1. Execution of orders on behalf of customers	**-**
a) purchase	-
1. settled	-
2. not settled	-
b) sale	-
1. settled	-
2. not settled	-
2. Individual *portfolio* management	**-**
3. Custody and administration of securities	**55,720**
a) third party securities in custody: associated with depositary bank services (excluding *portfolio* management)	-
1. securities issued by the reporting bank	-
2. other securities	-
b) other third party securities in custody (excluding *portfolio* management): other	3,375
1. securities issued by the reporting bank	-
2. other securities	3,375
c) third-party securities deposited with third parties	3,375
d) own securities deposited with third parties	52,345
4. Other transactions	**242,741**
a) Postal Savings Books	101,832
b) Interest-bearing Postal Certificates	140,909

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 master netting agreements or similar arrangements

Technical form (€m)	Gross amount of financial assets (a)	Amount of financial liabilities offset in financial statements (b)	Amount of net financial assets reported in financial statements (c=a-b)	Related amounts not subject to offset in the financial statements		Net amount at 31 December 2019 (f=c-d-e)	Net amount at 31 December 2018
				Financial instruments (d)	Cash collateral received (e)		
1. Derivatives	73	-	**73**	73	-	**-**	**1**
2. Repurchase agreements	1,158	-	**1,158**	1,158	-	**-**	**-**
3. Securities lending	-	-	**-**	-	-	**-**	**-**
4. Other	-	-	**-**	-	-	**-**	**-**
Total at 31/12/2019	**1,231**	**-**	**1,231**	**1,231**	**-**	**-**	**x**
Total at 31/12/2018	**619**	**-**	**619**	**604**	**14**	**x**	**1**

6. Financial liabilities offset in the financial statements or subject to master netting agreements or similar arrangements

Technical form (€m)	Gross amount of financial liabilities (a)	Amount of financial assets offset in financial statements (b)	Amount of net financial liabilities reported in financial statements (c=a-b)	Related amounts not subject to offset in the financial statements		Net amount at 31 December 2019 (f=c-d-e)	Net amount at 31 December 2018
				Financial instruments (d)	Cash collateral given (e)		
1. Derivatives	5,552	-	**5,552**	573	4,979	**-**	**3**
2. Repurchase agreements	12,194	-	**12,194**	12,185	9	**-**	**-**
3. Securities lending	-	-	**-**	-	-	**-**	**-**
4. Other	-	-	**-**	-	-	**-**	**-**
Total at 31/12/2019	**17,746**	**-**	**17,746**	**12,758**	**4,988**	**-**	**x**
Total at 31/12/2018	**10,302**	**-**	**10,302**	**8,923**	**1,376**	**x**	**3**

The tables under review have been compiled in accordance with IFRS 7 - Financial Instruments: Disclosures, which requires specific disclosures whether or not financial instruments have been offset in the financial statements.

BancoPosta RFC is not a party to enforceable master netting agreements or similar arrangements meeting the requirements of IAS 32, paragraph 42 for offsetting in the financial statements but used standard bilateral netting agreements that allow, in the event of the counterparty's default, the offsetting of debit and credit positions in relation to derivative financial instruments and securities financing transactions (SFT). In particular, there are ISDA agreements for derivative transactions and GMRAs for repurchase agreements.

To compile the tables – in line with the IFRS 7 and the update of the Circular of the Bank of Italy 262 relating to the provisions governing banks' financial statements – it is noted that repurchase agreements are measured at amortised cost while derivative transactions are measured at fair value. The relevant financial guarantees are measured at fair value.

7. Securities lending

Nil.

8. Information on joint venture activities

Nil.

Part C – Information on profit and loss

Section 1 – Interest – Items 10 and 20

1.1 Interest and similar income: breakdown

Items/Technical forms (€m)	Debt securities	Loans	Other transactions	FY 2019	FY 2018
1. Financial assets measured at fair value through profit or loss	**-**	**-**	**-**	**-**	**-**
1.1 Financial assets held for trading	-	-	-	-	-
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	-	-	-	-	-
2. Financial assets measured at fair value through other comprehensive income	**1,012**	**-**	**x**	**1,012**	**981**
3. Financial assets measured at amortised cost	**535**	**65**	**-**	**600**	**549**
3.1 Due from banks	-	-	-	-	1
3.2 Due from customers	535	65	-	600	548
4. Hedging derivatives	**x**	**x**	**(23)**	**(23)**	**7**
5. Other assets	**x**	**x**	**-**	**-**	**-**
6. Financial liabilities	**x**	**x**	**x**	**51**	**18**
Total	**1,547**	**65**	**(23)**	**1,640**	**1,555**
of which: interest income on impaired financial assets	-	-	-	-	-
of which: interest income on financial leases	-	-	-	-	-

The sub-item Financial liabilities reflects mainly interest income accruing during the year on reverse repos.

1.2 Interest and similar income: other information

Nil.

1.2.1 Interest income on foreign-denominated financial assets

Nil.

1.3 Interest expense and similar charges: breakdown

Items/Technical forms (€m)	Payables	Securities	Other transactions	FY 2019	FY 2018
1. Financial liabilities measured at amortised cost	**(60)**	**-**	**-**	**(60)**	**(21)**
1.1 Due to Central Banks	-	X	X	-	-
1.2 Due to banks	(22)	X	X	(22)	(10)
1.3 Due to customers	(38)	X	X	(38)	(11)
1.4 Debt securities in issue	X	-	X	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
3. Financial liabilities designated at fair value	**-**	**-**	**-**	**-**	**-**
4. Other liabilities and provisions	**X**	**X**	**-**	**-**	**-**
5. Hedging derivatives	**X**	**X**	**-**	**-**	**-**
6. Financial assets	**X**	**X**	**X**	**(14)**	**(7)**
Total	**(60)**	**-**	**-**	**(74)**	**(28)**
of which: interest expense on lease payables	-	-	-	-	-

The sub-item Financial assets includes interest expense to RFC totalling €4 million and interest expense accrued during the year for repurchase agreements totalling €5 million.

1.4 Interest expense and similar charges: other information

Nil.

1.4.1 Interest expense on foreign-denominated financial liabilities

Nil.

1.5 Differentials related to hedge transactions

Items (€m)	FY 2019	FY 2018
A.. Positive hedge differentials	8	12
B.. Negative hedge differentials	(31)	(5)
C. Net (A-B)	**(23)**	**7**

Section 2 – Fees and commissions – Items 40 and 50

2.1 Commission income: breakdown

Service/Amounts (€m)	FY 2019	FY 2018
a) guarantees given	-	-
b) credit derivatives	-	-
c) management, brokerage and advisory services:	2,837	2,617
1. financial instrument trading	-	-
2. FX trading	1	1
3. individual *portfolio* management:	-	-
4. securities custody and administration	3	4
5. depository banking	-	-
6. securities placements	1	1
7. order receipt and transmission	4	3
8. advisory services:	-	-
8.1 relating to investments	-	-
8.2 relating to financial structuring	-	-
9. arrangement of third-party services:	2,828	2,608
9.1 *portfolio* management:	-	-
9.1.1 individual	-	-
9.1.2 collective	-	-
9.2 insurance products	437	407
9.3 other products	2,391	2,201
d) collection and payment services	703	994
e) securitisation servicing	-	-
f) factoring services	-	-
g) tax collection	-	-
h) multilateral trading services	-	-
i) current account maintenance and management	242	239
j) other services	12	11
Total	**3,794**	**3,861**

"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 €1,799 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 14 December 2017, for the three-year period 2018-2020.

The decrease in "Collection and payment services" is primarily due to revenue from monetics relating to the issue of Postepay cards and related services, as they are included, with effect from 1 October 2018, in the business transferred to PostePay.

Revenue from contracts with customers

Description (€m)	FY 2019	FY 2018
Management, brokerage and advisory services	**2,837**	**2,617**
Recognised at a point in time	1	1
Recognised over time	2,836	2,616
Collection and payment services	**703**	**994**
Recognised at a point in time	409	502
Recognised over time	294	492
Current account maintenance and management	**242**	**239**
Recognised at a point in time	-	-
Recognised over time	242	239
Other services	**12**	**11**
Recognised at a point in time	-	-
Recognised over time	12	11
Total	**3,794**	**3,861**

Revenue from contracts with customers relate mainly to: (i) revenue from management, brokerage and advisory services these are recognised over time and measured on the basis of the volumes placed, quantified on the basis of commercial agreements with financial institutions. With regard to the remuneration for postal savings deposits, the agreement entered into with Cassa Depositi e Prestiti provides for the payment of a variable fee when certain levels of funding are reached, the quantification of which is determined annually on the basis of volumes of deposits and early redemptions; certain commercial agreements, entered into with leading financial partners for the placement of loan products, provide for the relegation of placement fees in the event of early redemption or subrogation by customers; (ii) revenue for collection and payment services: recognised at point in time on the basis of the number of transactions accepted at the counter (e.g. commissions on postal current account slips) and valued on the basis of the contractual terms of sale and recognised over time based on the customer's use of the service, mainly with reference to commissions on delegated services and debit cards; (iii) revenue for current account management and maintenance services: recognised over time, measured on the basis of the service rendered and valued on the basis of the contractual terms offered to customers.

2.2 Fee and commission income by product and service distribution channel

Channel/Amounts (€m)	FY 2019	FY 2018
A. Own counters:	**2,829**	**2,609**
1. *portfolio* management	-	-
2. securities placements	1	1
3. third-party products and services	2,828	2,608
B. door-to-door:	**-**	**-**
1. *portfolio* management	-	-
2. securities placements	-	-
4. third-party products and services	-	-
C. other distribution channels:	**-**	**-**
1. *portfolio* management	-	-
2. securities placements	-	-
3. third-party products and services	-	-

Own counters means Poste Italiane SpA's post office network.

2.3 Commission expense: breakdown

Service/Amounts (€m)	FY 2019	FY 2018
a) guarantees received	-	-
b) credit derivatives	-	-
c) management and brokerage services:	(2)	(2)
1. financial instrument trading	-	-
2. FX trading	-	-
3. *portfolio* management:	-	-
3.1 own	-	-
3.2 for third parties	-	-
4. securities custody and administration	(1)	(1)
5. financial instrument placements	(1)	(1)
6. door-to-door marketing of financial instruments, products and services	-	-
d) collection and payment services	(331)	(136)
e) other services	(2)	(2)
Total	**(335)**	**(140)**

The increase in the item is primarily due to the cost of services provided by PostePay SpA, which in 2018 will only be affected from 1 October 2018, the effective date of the contract to outsource the management of service products.

Section 3 – Dividends and similar income – Item 70

3.1 Dividends and similar income: breakdown

During the year, BancoPosta RFC received dividends of €0.4 million on its shares in Visa Incorporated, accounted for in "Financial assets measured at fair value through profit or loss".

Section 4 – Profits/(losses) on trading – Item 80

4.1 Profits/(losses) on trading: breakdown

Transactions/Profit component (€m)	Gains (A)	Trading income (B)	Losses (C)	Trading losses (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**-**	**4**	**-**	**-**	**4**
1.1 Debt securities	-	-	-	-	-
1.2 Equity instruments	-	-	-	-	-
1.3 UCIs	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	4	-	-	4
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and financial liabilities: exchange differences	**x**	**x**	**x**	**x**	**-**
4. Derivative instruments	**-**	**-**	**(15)**	**-**	**(15)**
4.1 Financial derivatives:	-	-	(15)	-	(15)
- on debt securities and interest rates	-	-	-	-	-
- on equity instruments and share indices	-	-	(15)	-	(15)
- on foreign exchange and gold	x	x	x	x	-
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected with the fair value option	x	x	x	x	-
Total	**-**	**4**	**(15)**	**-**	**(11)**

Section 5 – Profits/(losses) on hedging – Item 90

5.1 Profits/(losses) on hedging: breakdown

Profit component/Amounts (€m)	FY 2019	FY 2018
A. Income on:		
A.1 Fair value hedge derivatives	11	6
A.2 Hedged financial assets (fair value)	3,935	700
A.3 Hedged financial liabilities (fair value)	-	-
A.4 Cash flow hedge derivatives	-	-
A.5 Foreign currency assets and liabilities	-	-
Gross hedging income (A)	**3,946**	**706**
B. Cost of:		
B.1 Fair value hedge derivatives	(3,939)	(702)
B.2 Hedged financial assets (fair value)	(11)	(6)
B.3 Hedged financial liabilities (fair value)	-	-
B.4 Cash flow hedge derivatives	-	-
B.5 Foreign currency assets and liabilities	-	-
Gross hedging cost (B)	**(3,950)**	**(708)**
C. Profits/(Losses) on hedging (A – B)	**(4)**	**(2)**
of which: result of hedges of net positions	-	-

Section 6 – Profits/(losses) on disposal or repurchase – Item 100

6.1 Profits/(Losses) on disposal or repurchase: breakdown

Items/Profit component (€m)	FY 2019			FY 2018		
	Profit	Loss	Net result	Profit	Loss	Net result
A. Financial assets						
1. Financial assets measured at amortised cost	-	(10)	(10)	4	(3)	1
1.1 Due from banks	-	-	-	-	-	-
1.2 Due from customers	-	(10)	(10)	4	(3)	1
2. Financial assets measured at fair value through other comprehensive income	352	(3)	349	400	(22)	378
2.1 Debt securities	352	(3)	349	400	(22)	378
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**352**	**(13)**	**339**	**404**	**(25)**	**379**
B. Financial liabilities measured at amortised cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities in issue	-	-	-	-	-	-
Total liabilities (B)	**-**	**-**	**-**	**-**	**-**	**-**

Section 7 – Profits/(losses) on other financial assets and liabilities measured at fair value through profit or loss – Item 110

7.1 Net change in value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of financial assets and liabilities measured at fair value

Nil.

7.2 Net change in value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial assets mandatorily measured at fair value

Transactions/Profit component (€m)	Gains (A)	Realised gains (B)	Losses (C)	Realised losses (D)	Net result [(A+B)-(C+D)]
1. Financial assets	**24**	**1**	**-**	**-**	**25**
1.1 Debt securities	-	-	-	-	-
1.2 Equity instruments	24	1	-	-	25
1.3 UCIs	-	-	-	-	-
1.4 Loans	-	-	-	-	-
2. Financial assets in foreign currencies: exchange differences	**x**	**x**	**x**	**x**	**2**
Total	**24**	**1**	**-**	**-**	**27**

Section 8 – Net losses/recoveries due to credit risk – Item 130

8.1 Net losses/recoveries due to credit risk related to financial assets measured at amortised cost: breakdown

Transactions/Profit component (€m)	Impairment losses (1)			Reversals of impairment losses (2)		FY 2019	FY 2018
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3		
		Write-off	Other				
A. Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Loans	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-
of which: purchased or originated credit impaired loans	-	-	-	-	-	-	-
B. Due from customers	**(14)**	**-**	**-**	**3**	**-**	**(11)**	**(22)**
- Loans	(13)	-	-	1	-	(12)	(20)
- Debt securities	(1)	-	-	2	-	1	(2)
of which: purchased or originated credit impaired loans	-	-	-	-	-	-	-
Total	**(14)**	**-**	**-**	**3**	**-**	**(11)**	**(22)**

8.2 Net losses/recoveries due to credit risk related to financial assets measured at fair value through other comprehensive income: breakdown

Transactions/Profit component (€m)	Impairment losses (1)			Reversals of impairment losses (2)		FY 2019
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3	
		Write-off	Other			
A. Debt securities	**(2)**	**-**	**-**	**4**	**-**	**2**
B. Loans	**-**	**-**	**-**	**-**	**-**	**-**
- to customers	-	-	-	-	-	-
- to banks	-	-	-	-	-	-
of which: purchased or originated credit impaired financial assets	-	-	-	-	-	-
Total	**(2)**	**-**	**-**	**4**	**-**	**2**

Section 9 – Profits/(losses) from contract amendments without termination – Item 140

Not applicable

Section 10 – Administrative expenses – Item 160

10.1 Personnel expenses: breakdown

Expense/Amounts (€m)	FY 2019	FY 2018
1) Employees	(36)	(82)
a) wages and salaries	(24)	(53)
b) social security	(7)	(14)
c) employee termination benefits	(1)	(3)
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	(1)	(1)
i) other employee benefits	(2)	(10)
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	**(36)**	**(82)**

The reduction in this item is mainly attributable to the BancoPosta staff reorganisation projects under which, from 1 October 2018, back office and anti-money laundering activities were centralised in the Chief Operating Office function for RFC and, on the same date, the staff of the monetics and payments services business unit was transferred to PostePay (Table 10.2 of this Section).

10.2 Average number of employees by category*

	FY 2019	FY 2018
Employees	**426**	**1.343**
a) executives	32	48
b) middle managers	304	426
c) other employees	90	869
Other employees	**-**	**-**
Total	**426**	**1.343**

* Figures expressed in full time equivalent terms.

10.3 Post-employment defined benefit plans: costs and revenue

Nil.

10.4 Other employee benefits

This primarily relates to redundancy payments.

10.5 Other administrative expenses: breakdown

Expense/Amounts (€m)		FY 2019	FY 2018
1)	Cost of services provided by Poste Italiane SpA	(4,476)	(4,509)
2)	Cost of goods and non-professional services:	(1)	(41)
	- printing and postage	(1)	(35)
	- credit and debit card supply services	-	(6)
3)	Advisory and other professional services	(12)	(44)
4)	Taxes, penalties and duties	(13)	(10)
5)	Other expenses	-	-
Total		**(4,502)**	**(4,604)**

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 11 – Net provisions for risks and charges – Item 170

11.1 Net provisions for credit risk related to commitments to disburse funds and financial guarantees given: breakdown

Nil.

11.2 Net provisions related to other commitments and other guarantees given: breakdown

Nil.

11.3 Net provisions for other risks and charges: breakdown

Items/Profit component (€m)	Provisions	Reversals	Net result
Provisions for litigation	(7)	1	(6)
Provisions for risks and charges	(33)	23	(10)
Total	**(40)**	**24**	**(16)**

The main provisions and releases are discussed in Part B – Section 10 of Liabilities.

Section 12 – Net losses/recoveries on property, plant and equipment – Item 180

Nothing to report.

Section 13 – Net losses/recoveries on intangible assets – Item 190

Nothing to report.

Section 14 – Other operating income/(expense) – Item 200

14.1 Other operating expense: breakdown

Profit component/Amounts (€m)	FY 2019	FY 2018
1. Burglaries and theft	(4)	(5)
2. Other expenses	(31)	(41)
Total	**(35)**	**(46)**

The sub-item "Other expenses" relates primarily to operating losses.

14.2 Other operating income: breakdown

Profit component/Amounts (€m)	FY 2019	FY 2018
1. Other revenue from contracts with customers	2	2
2. Other operating income	65	13
Total	**67**	**15**

The increase in the sub-item "Other operating income" refers to revenue recorded as a result of certain analyses carried out on the transitional accounts used as part of BancoPosta RFC operations, which resulted in non-existent liabilities.

The sub-item "Other revenue from contracts with customers" includes income recognised at point time for copying documents and prescription of certified cheques.

Section 15 – Profits/(losses) on investments – Item 220

Nothing to report.

Section 16 – Profits/(losses) on fair value measurement of property, plant and equipment and intangible assets – Item 230

Nothing to report.

Section 17 – Impairment of goodwill – Item 240

Nothing to report.

Section 18 – Profits/(losses) on disposal of investments – Item 250

Nothing to report.

Section 19 – Income tax expense on continuing operations – Item 270

19.1 Income tax expense on continuing operations: breakdown

Profit component/Amounts (€m)		FY 2019	FY 2018
1.	Current taxes (-)	(175)	(234)
2.	Increase/(decrease) in current taxes of prior period taxation (+/-)	(1)	-
3.	Reduction in current taxes (+)	-	-
3. *bis*	Reduction in current taxes due to tax credit pursuant to Law 214/2011 (+)	-	-
4.	Increase/(decrease) in deferred tax assets (+/-)	(58)	1
5.	Increase/(decrease) in deferred tax liabilities (+/-)	-	-
6.	**Tax expense for the year (-) (-1+/-2+3+3 bis+/-4+/-5)**	**(234)**	**(233)**

19.2 Reconciliation between theoretical tax charge at statutory rate and effective tax charge

Description (€m)	FY 2019		FY 2018	
	IRES	Tax Rate	IRES	Tax Rate
Profit before tax	*844*		*826*	
Theoretical tax charge	202	24.0%	198	24.0%
Effect of increases/(decreases) on theoretical tax charge				
Net provisions for risks and charges and impairments of receivables	3	0.4%	1	0.1%
Other	(9)	-1.1%	(5)	-0.6%
Effective tax charge	**196**	**23.3%**	**194**	**23.5%**

Description (€m)	FY 2019		FY 2018	
	IRES	Tax Rate	IRES	Tax Rate
Profit before tax	*844*		*826*	
Theoretical tax charge	38	4.5%	37	4.5%
Effect of increases/(decreases) on theoretical tax charge				
Provisions for risks and charges	-	0.0%	1	0.1%
Effective tax charge	**38**	**4.5%**	**38**	**4.6%**

Section 20 – Profit/(loss) after tax from discontinued operations – Item 290

Nothing to report.

Section 21 – Other information

All information has been presented above.

Section 22 – Earnings per share

Nothing to report.

Part D – Comprehensive income

Analysis of comprehensive income

Items (€m)		FY 2019	FY 2018
10.	**Profit/(Loss) for the year**	**611**	**597**
	Other components of comprehensive income not reclassified to profit or loss		
20.	Equity instruments measured at fair value through other comprehensive income:	-	-
	a) movements in fair value	-	-
	b) transfers to other equity	-	-
30.	Financial liabilities designated at fair value through profit or loss (changes in own credit rating):	-	-
	a) movements in fair value	-	-
	b) transfers to other equity	-	-
40.	Hedges of equity instruments measured at fair value through other comprehensive income:	-	-
	a) movements in fair value (hedged instrument)	-	-
	b) movements in fair value (hedging instrument)	-	-
50.	Property, plant and equipment	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	-	-
80.	Non-current assets and disposal groups held for sale	-	-
90.	Share of valuation reserve attributable to equity-accounted investments	-	-
100.	Tax expense on other comprehensive income not reclassified to profit or loss	-	-
	Other components of comprehensive income after taxes reclassified to profit or loss		
110.	Hedges of foreign investments:	-	-
	a) movements in fair value	-	-
	b) reclassified to profit or loss	-	-
	c) other movements	-	-
120.	Foreign exchange differences:	-	-
	a) movements in fair value	-	-
	b) reclassified to profit or loss	-	-
	c) other movements	-	-
130.	Cash flow hedges:	38	210
	a) movements in fair value	98	192
	b) reclassified to profit or loss	(60)	18
	c) other movements	-	-
	of which: result of net positions	-	-
140.	Hedges (elements not designated):	-	-
	a) movements in fair value	-	-
	b) reclassified to profit or loss	-	-
	c) other movements	-	-
150.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income:	1,457	(2,272)
	a) movements in fair value	1,702	(1,886)
	b) reclassified to profit or loss	(245)	(386)
	- losses due to credit risk	(2)	(1)
	- realised gains/(losses)	(243)	(385)
	c) other movements	-	-
160.	Non-current assets and disposal groups held for sale:	-	-
	a) movements in fair value	-	-
	b) reclassified to profit or loss	-	-
	c) other movements	-	-
170.	Share of valuation reserve attributable to equity-accounted investments	-	-
	a) movements in fair value	-	-
	b) reclassified to profit or loss	-	-
	- impairment losses	-	-
	- realised gains/(losses)	-	-
	c) other movements	-	-
180.	Tax expense on other comprehensive income reclassified to profit or loss	(427)	589
190.	**Total other comprehensive income**	**1,068**	**(1,473)**
200.	**Comprehensive income (Items 10+190)**	**1,679**	**(876)**

Part E – Information on risks and related hedging policies

Introduction

BancoPosta's operations, conducted in accordance with Presidential Decree 144/2001, consist in the management of liquidity generated by postal current account deposits, carried out in the name of BancoPosta but subject to statutory restrictions, and collections and payments on behalf of third parties.

The funds raised by private customers on postal current accounts must be used in euro area government securities and, for a portion not exceeding 50% of the funds raised, in other securities backed by the Italian government guarantee[139], whilst deposits by Public Administration entities are deposited with the MEF.

In 2019, 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.

The 2019 financial year was characterised by a reduction in yields on Italian government bonds (the 10-year BTP fell from 2.7% to 1.4%), which brought the BTP-Bund spread to 160 basis points compared to 250 last year.

With reference to BancoPosta RFC, following the positive development in revenue volumes and the change in the market scenario, the Leverage Ratio fell during the year to 3.0% at 31 December 2019, taking into account the increase in capital deriving from the calculation of part of the 2019 profits, no subject to distribution.

The investment profile is based, among other things, on the constant monitoring of habits of current account holders and a use of a leading market operator's statistical/econometric model of typical postal current account interest rates and maturities, based on a prudent projection of the future volume of deposits. The above-mentioned model is thus the general reference for the investments (the limits of which are determined by specific guidelines approved by the Board of Directors) in order to limit exposure to interest rate and liquidity risks.

Financial risk management

Balanced financial management and monitoring of the main risk/return profiles are carried out and ensured by dedicated organisational structures, both within and without the BancoPosta ring-fence, that operate separately and independently. In addition, specific processes are in place governing the assumption and management of and control over financial risks, including through the progressive implementation of adequate IT tools. In this regard, on 19 February 2018, the Board of Directors of Poste Italiane SpA adopted a revised version of the Guidelines for Internal Control and Risk Management System (SCIGR), which contains integrated guidelines for Poste Italiane SpA's Internal Control and Risk Management System. From an organisational viewpoint, the model consists of:

- the **Audit, Risk and Sustainability Committee** established in 2015 to support – thanks an adequate research, recommendation and advisory activity - the assessments and decisions of the Board of Directors on the internal control system, risk management and, starting from February 2018, issues pertaining to Poste Italiane's sustainability;
- the Financial and **Insurance Services Committee**, established on 19 March 2018 to replace the previous Finance, Savings and Investment Committee, with the aim of overseeing the process of developing the products and services distributed by BancoPosta, in order to take a uniform, integrated view of the entire offering and to monitor the performance of the financial investments in which private customer deposits are invested;

139. 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).

- Poste Italiane SpA's **Coordination of Investment Management function**, the work of which is regulated by specific operating guidelines, 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. As of 1 January 2019, the coordination and management of investments and risk hedging related to BancoPosta RFC have been assigned by means of a specific mandate to the specialist functions of BancoPosta Fondi SpA SGR, a Poste Italiane Group company;
- the **BancoPosta's Risk Management function**, responsible for measuring and controlling risk and duly observing the independence of control functions from management.

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;
- application of the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP).

The RAF consists of a framework that defines, in keeping with the maximum acceptable risk, the business model and strategic plan, the risk appetite, risk tolerance thresholds, risk limits and risk management policies, together with the processes needed to define and implement them.

Section 1 – Credit risk

Credit risk regards the types of risk described below.

Credit risk is defined as the possibility that a change in the creditworthiness of a counterparty, to which the entity is exposed, could result in a matching change in the value of the amount due. It thus represents the risk that the debtor is partially or entirely unable to repay the principal and interest due.

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 investments in Government securities and its deposits at the MEF. Credit risk models, explained below, show, however, that for capital requirements this type of investment does not determine capital absorption.

2. Credit risk management policies

2.1 Organisational aspects

The role of BancoPosta RFC's Risk Management function is the management and control of credit, counterparty and concentration risks.

Monitoring credit risk is particularly focused on the following exposures:

- euro area government securities or other securities backed by the Italian State for the use of liquidity collected through current accounts from private customers;
- 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 progress: cheque clearing, use of electronic cards, collections;
- temporarily overdrawn postal current accounts caused by debiting fees: limited to those which were not classified as impaired since the accounts were in funds in early 2020;
- 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);
- cash collateral provided to the guarantee fund of the Central Counterparty "Casa di Compensazione e Garanzia" for repurchase agreement transactions;
- securities provided as collateral in accordance with agreements intended to mitigate counterparty risk (CSAs and GMRAs);
- trade receivables payable by partners in relation to financial/insurance product placement.

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 limits referred to above have been established by the Guidelines on Poste Italiane SpA's financial management[140] for BancoPosta RFC. Specifically, as regards rating limits, transactions are allowed solely with investment grade counterparties and euro area government issuers with a rating at least equal to that of the Italian Republic.

With reference to the monitoring thresholds of concentration risk, the limits set by prudential regulations are applied[141].

The standardised approach[142] as defined by EU Regulation 575/2013, is used by BancoPosta to measure credit and counterparty risks. Application of this method entails the use of Standard & Poor's, Moody's, Fitch and DBRS for the computation of counterparty credit rating classes.

140. On 18 October 2018 the Board of Directors of Poste Italiane SpA approved the updated version of the Guidelines on Poste Italiane SpA's financial management, upon proposal of the CEO and with the consent of the Control, Risk and Sustainability Committee.
141. According to prudential regulations, with reference to the rules on Large Exposures, risk-weighted assets must remain below 25% of own funds. As a rule, exposures are recognised at nominal value, taking into consideration any credit risk mitigation techniques. To take into account the lower risk related to the nature of the borrower, more favourable weighting factors are applied.
142. The standardized approach entails risk weightings in accordance with the nature of the exposure and the identity of the counterparty and the counterparty's external credit rating.

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[143], is used for interest rate swaps and forward purchases of government securities;
- Credit Risk Mitigation (CRM) techniques, the Full Method , are used for repurchase transactions"[144].

Concentration risk is measured using the method described in EU Regulation 575/2013 with regard to large exposures.

2.3 Measurement of expected credit losses

The Expected Credit Loss (ECL) method introduced by IFRS 9 applies to financial assets measured at amortised cost and to financial assets measured at fair value through other comprehensive income.

For financial assets other than trade receivables, BancoPosta RFC applies the General deterioration approach, with models to estimate risk parameters depending on the type of counterparty:

- Internal risk parameter estimation models for debt securities and deposits with Sovereign, Banking and Corporate counterparties;
- risk ratings provided by an external provider and average default rates for the sector for Public Administration and Central Counterparties.

Expected credit losses are determined either over a 12-month horizon or a lifetime horizon, depending on the stage of the exposure, on the basis of the following metrics:

- Probability of Default (PD);
- Loss Given Default (LGD);
- Exposure at Default (EAD);
- Time Factor (TF).

Below, the main assumptions adopted in determining the single factors are illustrated:

- PD: as indicated from the standard a Point in Time (PIT) or forward-looking PD has been adopted, depending on the stage of the exposure;
- LGD: use has been made of the Internal Ratings-Based (IRB) approach under the Basel guidelines (45% for senior risk assets, 75% for subordinated risk assets);
- EAD: exposure calculated prospectively until maturity of the instrument, starting from the development of projected cash flows. In the development account was taken of specific indexation assumptions for every asset class (fixed income securities, floating-rate securities, inflation-indexed securities, etc.);
- TF: the effective interest rate of each exposure was used as discount factor.

The collective impairment of a homogenous group of financial assets defines the expected credit loss (ECL) of the instrument, even though it cannot be associated with a specific exposure. Grouping takes place in relation to the type of counterparty on the basis of the estimated PD.

BancoPosta RFC elected not to adopt the low risk credit exemption and to proceed instead with the staging allocation of the financial instruments concerned.

Based on the impairment models described above, to allocate properly performing exposures in stage 1 or stage 2, the significant increase in exposures other than trade receivables is determined on the basis of the change in notches between the rating at the time of investment and the rating at the reporting date.

143. The Market Value method to measure the risk inherent in derivatives entails summing two components: the current replacement cost, represented by fair value, if positive, and an add-on equal to the product of the nominal value and the probability that the fair value, if positive, increases the value or, if negative, turns positive.
144. The full CRM method entails reducing risk exposure by the value of the guarantee. Specific rules are applied to take into account market price volatility of the guaranteed asset as well as the collateral received.

This change in notches is compared with a threshold that takes into account the following factors:

- the rating of the financial instrument at the time of investment;
- the rating of the financial instrument at the reporting date;
- the seniority of the position within the *portfolio* (vintage factor);
- an additive factor to mitigate the non-linearity of the PD vis-à-vis the rating classes[145];
- a judgemental factor to be used only in the presence of sudden changes in the creditworthiness not yet reflected by the rating[146].

Based on the above information, BancoPosta RFC does not apply the presumption that an exposure past due for over 30 days indicates automatically significant increases in credit risk after initial recognition.

BancoPosta RFC defines a default on the basis of ad hoc assessments that take into consideration:

- any payment delays;
- market information such as a default rating by the rating agencies;
- internal analyses of specific credit exposures.

With respect to payment delays, the definition of default is based on the following approach:

- late payments, even by one day, or debt renegotiation for financial instruments with sovereign counterparties;
- payments 90 days past due, for financial instruments with banking and corporate counterparties.

In keeping with the accounting standard, in determining ECL consideration was given also to forward looking elements based on broad-consensus scenarios.

The approach followed involves inclusion of forward-looking information in the estimation of the PD. In particular, the internal approach adopted allows completion of the input dataset necessary to calculate PD starting from a number of scenario values related to the approach. The objective of the approach is to estimate the unknown variables by using the historical correlation of the available information[147].

As to the estimation techniques used, it is noted that since the approaches to calculate the PD for Sovereign, Banking and Corporate counterparties cannot use default events, as they are not frequent, a shadow rating approach was adopted.

This method entails the use of target variables related to the level of external rating produced by the agencies. The target could be directly the rating or, alternatively, the default rate linked to the rating level. The target was constructed on the basis of a rating agency selected as reference, considering both the large number of counterparties rated and the availability of historical data over a time horizon considered adequate.

The models have been constructed by extracting and utilising the following types of data for each country in the sample:

- macroeconomic data;
- market data: domestic equity indices, global energy/non-energy indices, Eurostoxx and S&P 500;
- financial statement data.

For trade receivables BancoPosta applies the simplified approach, where no significant increase in credit risk is expected. However, the loss provisions are calculated for an amount equal to lifetime expected credit loss.

145. The additive factor is built in view of the rating level at the reporting date, where the better the rating the higher the threshold for the transition to Stage 2.
146. The judgemental factor can summarise significant aspects in determining the significant increase of credit risk, considering such elements as:
    - an actual or expected significant change of the internal/external credit rating of the financial instrument;
    - actual or expected negative changes in economic, financial or business conditions that might cause a significant change in the borrower's ability to honour its obligations, such as an actual or expected increase in interest rates or an actual or expected significant increase in the unemployment rate.
147. In particular, the use of such approach is limited to situations where, actually, the available data are deemed to be no longer representative of the counterparty's risk.

Such approach is implemented through the following process:

- based on total revenue or the historical credit exposure, a credit threshold is identified beyond which the single receivables or the single exposure is evaluated. The analytical evaluation of the exposures entails an analysis of the borrower's credit quality and solvency, as determined on the basis of internal and external supporting evidence;
- for receivables falling below the threshold set, through the preparation of a matrix with the different impairment percentages determined on the basis of historical losses, or on the historical pattern of collections. In constructing the impairment matrix, receivables are grouped by homogeneous categories, based on their characteristics, to take into account the historical loss experience.

2.4 Credit risk mitigation techniques

BancoPosta RFC adopts credit and counterparty risk mitigation techniques. Specifically:

- regarding hedging derivatives and repurchase agreements, credit and counterparty risks are mitigated by entering into a master netting agreement and requiring collateral in the form of cash or government bonds;
- in relation to trade receivables credit terms are extended for customers, requesting, in certain cases, guarantees or sureties issued by prime banks or insurance companies.

At 31 December 2019, BancoPosta RFC does not hold financial assets secured by guarantees or other credit risk mitigating instruments for which no loss provisions have been made (except for the temporary use of liquidity in reverse repurchase agreements).

The main types of instrument used by BancoPosta RFC to mitigate credit and counterparty risk are described below:

Fixed income instruments

Debt securities secured by guarantees or other credit risk mitigation instruments are bonds issued by CDP SpA guaranteed by the Italian State and subscribed by BancoPosta RFC, amounting to a nominal value of €3,750 million at 31 December 2019. These are recognised as financial assets measured at amortised cost and, in determining the associated expected credit losses, account was taken of the PD of the Italian Republic.

Derivative financial instruments and repurchase agreements

In order to limit the counterparty risk exposure, BancoPosta RFC has concluded standard ISDA master agreements (with attached CSA) and GMRAs which govern the collateralization of derivative transactions and repurchase agreements, respectively.

In addition, in order to mitigate counterparty risk and gain readier access to the market, from December 2017, BancoPosta RFC has begun to enter into repurchase agreements with the Central Counterparty, the Cassa di Compensazione e Garanzia.

The calculation of positions in derivatives and repurchase agreements and the related risk mitigation instruments are illustrated in Part B – Other Information, tables 5 and 6, to which reference is made.

Trade receivables

To mitigate the risks arising from the extension of credit terms to its customers, BancoPosta RFC has implemented a policy and suitable guidelines that govern the management of trade receivables, the terms and conditions of payment applicable to customers and defines the corporate process aimed at checking the customer's creditworthiness, as well as the sustainability of the business risk inherent in the contract involving extended payment terms.

Depending on the evaluations, the contracts entered into with customers may require a suitable guarantee. Guarantees are also requested if they are required by rules and regulations and/or implementing rules of specific services.

BancoPosta RFC accepts mainly guarantees issued by primary banks or insurance companies. Alternatively, upon request of the customer and after a risk analysis, it accepts sureties issued by other institutions, security deposits or the opening of postal escrow account.

Considering the limited risk of insolvency of government customers, BancoPosta RFC as a rule exempts the Public Administration from the provision of guarantees to secure trade receivables arising from transactions with it, save for the cases when such guarantees are mandatory by law or due to implementing rules of specific services.

Accordingly, the guarantees held are related mainly to private customers.

For all the credit exposures evaluated individually, to calculate loss provisions, guarantees reduce the amount of the exposure at risk.

At 31 December 2019, unsecured trade receivables minus the relevant loss provisions amount to €852 million.

3. Non performing exposure

BancoPosta RFC holds a single non-performing financial asset, which relates to items illegally taken away but that are now being recovered. The relevant amount of €13 million has been impaired for €13 million.

Quantitative information

A. Credit quality

A.1 Performing and non performing credit exposures: balance, impairment, developments, dynamics and business distribution

A.1.1 Distribution of financial assets by *portfolio* and credit quality (carrying amount)

***Portfolio*/Credit quality (€m)**	**Bad loans**	**Unlikely to pay**	**Non-performing past-due exposures**	**Performing past-due exposures**	**Other performing exposures**	**Total**
1. Financial assets measured at amortised cost	-	-	-	47	40,903	**40,950**
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	36,799	**36,799**
3. Financial assets designated at fair value	-	-	-	-	-	**-**
4. Other financial assets mandatorily measured at fair value	-	-	-	-	-	**-**
5. Financial assets held for sale	-	-	-	-	-	**-**
Total at 31/12/2019	**-**	**-**	**-**	**47**	**77,702**	**77,749**
Total at 31/12/2018		**-**	**-**	**43**	**65,748**	**65,791**

A.1.2 Distribution of credit exposure by *portfolio* and credit quality (gross and net amounts)

Portfolio/Credit quality (€m)	Non-performing				Performing			Total (net exposure)
	Gross exposure	Total impairments	Net exposure	Total partial write-offs*	Gross exposure	Total impairments	Net exposure	
1. Financial assets measured at amortised cost	13	13	-	-	41,017	67	40,950	**40,950**
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	36,810	11	36,799	**36,799**
3. Financial assets designated at fair value	-	-	-	-	X	X	-	**-**
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	-	**-**
5. Financial assets held for sale	-	-	-	-	-	-	-	**-**
Total at 31/12/2019	**13**	**13**	**-**	**-**	**77,827**	**78**	**77,749**	**77,749**
Total at 31/12/2018	**13**	**13**	**-**	**-**	**65,974**	**191**	**65,791**	**65,791**

* Amount reported for disclosure purposes.

Portfolio/Credit quality (€m)	Assets of evidently low credit quality		Other assets
	Cumulative losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	-
2. Hedging derivatives	-	-	73
Total at 31/12/2019	**-**	**-**	**73**
Total at 31/12/2018		**-**	**368**

A.1.3 Distribution of financial assets by past due categories (carrying amount)

Portfolio/stages of risk (€m)	Stage 1			Stage 2			Stage 3		
	Between 1 and 30 days	30 - 90 days	Over 90 days	Between 1 and 30 days	30 - 90 days	Over 90 days	Between 1 and 30 days	30 - 90 days	Over 90 days
1. Financial assets measured at amortised cost	-	-	-	18	26	3	-	-	-
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
Total at 31/12/2019	**-**	**-**	**-**	**18**	**26**	**3**	**-**	**-**	**-**
Total at 31/12/2018		**-**	**-**	**25**	**5**	**13**	**-**	**-**	**-**

A.1.4 Financial assets, commitments to disburse funds and financial guarantees given: overall impairment losses/reversals and overall provisions

Causes/stages of risk (€m)	Total impairments													Total provisions for commitments to disburse funds and financial guarantees given			Total
	Assets in stage 1				Assets in stage 2				Assets in stage 3				of which: purchased or originated credit impaired financial assets				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	of which: individual impairment	of which: collective impairment	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	of which: individual impairment	of which: collective impairment	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	of which: individual impairment	of which: collective impairment		Stage 1	Stage 2	Stage 3	
Opening balance	**12**	**13**	**-**	**25**	**166**	**-**	**147**	**19**	**13**	**-**	**13**	**-**	**-**	**-**	**-**	**-**	**204**
Increases in financial assets acquired or originated	1	2	-	3	2	-	-	2	-	-	-	-	-	-	-	-	5
Derecognitions other than write-offs	(1)	(1)	-	(2)	-	-	-	-	-	-	-	-	-	-	-	-	(2)
Net losses/ recoveries due to credit risk (+/-)	(1)	(3)	-	(4)	9	-	6	3	-	-	-	-	-	-	-	-	5
Contract amendments without termination	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in estimation method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-off	-	-	-	-	(121)	-	(121)	-	-	-	-	-	-	-	-	-	(121)
Other changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance	**11**	**11**	**-**	**22**	**56**	**-**	**32**	**24**	**13**	**-**	**13**	**-**	**-**	**-**	**-**	**-**	**91**
Recovery of amounts on written-off financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly in profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

During the year under review, upon completion of a process of analysis and a series of activities undertaken with regard to receivables for current accounts with debtor balance, it was found that it was not possible to recover these amounts, also taking into account the small amount of each receivable, in accordance with the provisions of IFRS 9, a total of €121 million was written off by using the provision for doubtful debts set aside at the time.

Stage 2 reflects mainly value adjustments related to trade receivables for which the loss provisions are measured in accordance with the simplified approach.

A.1.5 Financial assets, commitments to disburse funds and financial guarantees given: transfers between the different credit risk stages (gross and nominal amounts)

Nil.

A.1.6 On- and off-balance-sheet credit exposures to banks: gross and net amounts

Type of exposure/Amounts (€m)	Gross exposure		Total impairments and total provisions	Net exposure	Total partial write-offs*
	Non-performing	Performing			
A. On-balance sheet exposures					
a) Bad loans	-	X	-	**-**	-
- of which forborne exposures	-	X	-	**-**	-
b) Unlikely to pay	-	X	-	**-**	-
- of which forborne exposures	-	X	-	**-**	-
c) Non-performing past-due exposures	-	X	-	**-**	-
- of which forborne exposures	-	X	-	**-**	-
d) Performing past-due exposures	X	30	-	**30**	-
- of which forborne exposures	X	-	-	**-**	-
e) Other performing exposures	X	4,664	-	**4,664**	-
- of which forborne exposures	X	-	-	**-**	-
Total A	**-**	**4,694**	**-**	**4,694**	**-**
B. Off-balance sheet exposures					
a) Non-performing	-	X	-	**-**	-
b) Performing	X	778	-	**778**	-
Total B	**-**	**778**	**-**	**778**	**-**
Total A+B	**-**	**5,472**	**-**	**5,472**	**-**

* Amount reported for disclosure purposes.

"Off-balance sheet exposures, Performing" relates to the counterparty risk associated with derivatives registering fair value gains, gross of any netting agreements[148], securities provided as collateral under counterparty risk mitigation agreements and for Repo financing with Securities Financing Transactions (SFT)[149] margins.

A.1.7 On- and off-balance-sheet credit exposures to customers: gross and net amounts

Type of exposure/Amounts (€m)	Gross exposure		Total impairments and total provisions	Net exposure	Total partial write-offs*
	Non-performing	Performing			
A. On-balance sheet exposures					
a) Bad loans	-	X	-	**-**	-
- of which forborne exposures	-	X	-	**-**	-
b) Unlikely to pay	-	X	-	**-**	-
- of which forborne exposuresi	-	X	-	**-**	-
c) Non-performing past-due exposures	13	X	13	**-**	-
- of which forborne exposures	-	X	-	**-**	-
d) Performing past-due exposures	X	73	56	**17**	-
- of which forborne exposures	X	-	-	**-**	-
e) Other performing exposures	X	73,060	22	**73,038**	-
- of which forborne exposures	X	-	-	**-**	-
Total A	**13**	**73,133**	**91**	**73,055**	**-**
B. Off-balance sheet exposures					
a) Non-performing	-	X	-	**-**	-
b) Performing	X	6	-	**6**	-
Total B	**-**	**6**	**-**	**6**	**-**
Total A+B	**13**	**73,139**	**91**	**73,061**	**-**

* Amount reported for disclosure purposes.

148. BancoPosta RFC is not a party to enforceable master netting agreements or similar arrangements meeting the requirements of IAS 32, paragraph 42 for offsetting in the financial statements but used standard bilateral netting agreements that allow, in the event of the counterparty's default, the offsetting of debit and credit positions in relation to derivative financial instruments.
149. As defined in the prudential requirements.

"Off-balance sheet exposures, Performing" relates to the counterparty risk associated with derivatives registering fair value gains, gross of any existing netting agreements.

A.1.8 On-balance-sheet credit exposures to banks: trends in gross non-performing exposures

Nil.

A.1.8 bis On-balance sheet credit exposures to banks: trends in gross forborne exposures granted by credit quality

Nil.

A.1.9 On-balance sheet credit exposures to customers: trends in gross non-performing exposures

Causes/Categories (€m)	Bad loans	Unlikely to pay	Non-performing past-due
A. Opening gross exposure	**-**	**-**	**13**
- of which: transferred and not derecognised	-	-	-
B. Increases	**-**	**-**	**-**
B1. Transfers from performing exposures	-	-	-
B2. Transfers from acquired or originated impaired financial assets	-	-	-
B3. Transfers from other categories of non-performing exposure	-	-	-
B4. Contract amendments without termination	-	-	-
B5. Other increases	-	-	-
C. Decreases	**-**	**-**	**-**
C1. Transfers to performing exposures	-	-	-
C2. Write-off	-	-	-
C3. Collections	-	-	-
C4. Proceeds on disposal	-	-	-
C5. Losses on disposal	-	-	-
C6. Transfers to other categories of non-performing exposure	-	-	-
C7. Contract amendments without termination	-	-	-
C8. Other decreases	-	-	-
D. Closing gross exposure	**-**	**-**	**13**
- of which: transferred and not derecognised	-	-	-

A.1.9*bis* On-balance sheet credit exposures to customers: trends in gross forborne exposures granted by credit quality

Nil.

A.1.10 On-balance-sheet non-performing credit exposures to banks: trends in overall impairment losses/reversals

Nil.

A.1.11 On-balance-sheet non-performing credit exposures to customers: trends in overall impairment losses/reversals

Causes/Categories (€m)	Bad loans		Unlikely to pay		Non-performing past-due	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Total opening adjustments	**-**	**-**	**-**	**-**	**13**	**-**
- of which: transferred and not derecognised	-	-	-	-	-	-
B. Increases	**-**	**-**	**-**	**-**	**-**	**-**
B1. Value adjustments to acquired or originated impaired financial assets	-	X	-	X	-	X
B2. Other value adjustments	-	-	-	-	-	-
B3. Losses on disposal	-	-	-	-	-	-
B4. Transfers from other categories of non-performing exposure	-	-	-	-	-	-
B5. Contract amendments without termination	-	-	-	-	-	-
B6. Other increases	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**-**	**-**	**-**
C1. Write-backs on valuation	-	-	-	-	-	-
C2. Write-backs on collection	-	-	-	-	-	-
C3. Proceeds on disposal	-	-	-	-	-	-
C4. Write-off	-	-	-	-	-	-
C5. Transfers to other categories of non-performing exposure	-	-	-	-	-	-
C6. Contract amendments without termination	-	-	-	-	-	-
C7. Other decreases	-	-	-	-	-	-
D. Total closing adjustments	**-**	**-**	**-**	**-**	**13**	**-**
- of which: transferred and not derecognised	-	-	-	-	-	-

A.2 Classification of financial assets, commitments to disburse funds and financial guarantees issued based on external and internal ratings

BancoPosta RFC has no lending policies as it does not grant loans to the public. It also uses internal models only for the measurement of expected losses as required by IFRS 9, but not for the quantification of capital requirements for credit risk.

A.2.1 Distribution of financial assets, commitments to disburse funds and financial guarantees given by external rating classes (gross amounts)

Exposures (€m)	External rating classes						Unrated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortised cost	**869**	**2,714**	**35,320**	**1**	**139**	**-**	**1,987**	**41,030**
- Stage 1	869	2,671	34,810	1	139	-	1,619	40,109
- Stage 2	-	43	510	-	-	-	355	908
- Stage 3	-	-	-	-	-	-	13	13
B. Financial assets measured at fair value through other comprehensive income	**-**	**-**	**36,810**	**-**	**-**	**-**	**-**	**36,810**
- Stage 1	-	-	36,810	-	-	-	-	36,810
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
Total (A + B + C)	**869**	**2,714**	**72,130**	**1**	**139**	**-**	**1,987**	**77,840**
of which: purchased or originated credit impaired financial assets	-	-	-	-	-	-	-	-
D. Commitments to disburse funds and financial guarantees given	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
Total (D)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A + B + C + D)	**869**	**2,714**	**72,130**	**1**	**139**	**-**	**1,987**	**77,840**

Stage 2 reflects mainly financial assets represented by trade receivables for which loss provisions are measured with the simplified approach.

Financial assets allocated to stage 1 in the "Unrated" category refer mainly to the exposure to the Central Counterparty, Cassa di Compensazione e Garanzia.

The rating agency equivalents of credit rating classes are shown below:

Credit rating class	Fitch	Moody's	S&P	DBRS
1	from AAA to AA-	from Aaa to Aa3	from AAA to AA-	from AAA to AAL
2	from A+ to A-	from A1 to A3	from A+ to A-	from AH to AL
3	from BBB+ to BBB-	from Baa1 to Baa3	from BBB+ to BBB-	from BBBH to BBBL
4	from BB+ to BB-	from Ba1 to Ba3	from BB+ to BB-	from BBH to BBL
5	from B+ to B-	from B1 to B3	from B+ to B-	from BH to BL
6	CCC+ and below	Caa1 and below	CCC+ and below	CCC

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 on- and off-balance-sheet credit exposures to banks

Nil.

A.3.2 Guaranteed on- and off-balance-sheet credit exposures to customers

	Collateral (1)	Net exposure	Collateral (1)				Personal guarantees (2)									Total (1)+(2)
			Mortgages	Finance leases	Securities	Other collateral	Credit derivatives					Unsecured				
							CLN	Other derivatives				Public Admin. entities	Banks	Other financial companies	Other entities	
(€m)								Central counterparties	Banks	Other financial companies	Other entities					
1. Guaranteed on-balance sheet credit exposures:																
1.1 guaranteed in full	1.908	1.908	-	-	1.159	-	-	-	-	-	-	750	-	-	-	**1.909**
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
1.2 partially guaranteed	3.197	3.196	-	-	-	-	-	-	-	-	-	3.000	-	-	-	**3.000**
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
2. Guaranteed off-balance sheet credit exposures:																
2.1 guaranteed in full	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
2.2 partially guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**

B. Distribution and concentration of credit exposures

B.1 Distribution of on and off-balance sheet credit exposures to customers by economic sector

Exposures/Counterparty (€m)	Public Administration entities		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Net exposure	Total impairments	Net exposure	Total impairments	Net exposure	Total impairments	Net exposure	Total impairments	Net exposure	Total impairments
A. On-balance sheet exposures										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
- of which forborne exposures	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
- of which forborne exposures	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-	-	-	13	-	-
- of which forborne exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	65,542	26	6,827	2	-	-	680	26	6	24
- of which forborne exposures	-	-	-	-	-	-	-	-	-	-
Total A	**65,542**	**26**	**6,827**	**2**	**-**	**-**	**680**	**39**	**6**	**24**
B. Off-balance sheet exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	-	-	6	-	-	-	-	-	-	-
Total B	**-**	**-**	**6**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) at 31/12/2019	**65,542**	**26**	**6,833**	**2**	**-**	**-**	**680**	**39**	**6**	**24**
Total (A+B) at 31/12/2018	**59,238**	**31**	**5,812**	**3**	**-**	**-**	**872**	**41**	**8**	**129**

B.2 Geographical distribution of on- and off-balance sheet credit exposures to customers

Exposures/Counterparty (€m)	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
	Net exposure	Total impairments	Net exposure	Total impairments	Net exposure	Total impairments	Net exposure	Total impairments	Net exposure	Total impairments
A. On-balance sheet exposures										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	13	-	-	-	-	-	-	-	-
A.4 Performing exposures	72,455	78	600	-	-	-	-	-	-	-
Total A	**72,455**	**91**	**600**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Off-balance sheet exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	-	-	6	-	-	-	-	-	-	-
Total B	**-**	**-**	**6**	**-**	-	-	**-**	**-**	-	-
Total (A+B) at 31/12/2019	**72,455**	**91**	**606**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) at 31/12/2018	**65,817**	**203**	**105**	**1**	**8**	**-**	**-**	**-**	**-**	**-**

B.2 Geographical distribution of on- and off-balance sheet credit exposures to customers

Exposures/geographic area (€m)	ITALY, NORTHWEST		ITALY, NORTHEAST		ITALY, CENTRE		ITALY, SOUTH AND ISLANDS	
	Net exposure	Total impairments	Net exposure	Total impairments	Net exposure	Total impairments	Net exposure	Total impairments
A. On-balance sheet exposures								
A.1 Bad loans	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	13	-	-	-	-
A.4 Performing exposures	2	8	1	3	72,447	40	5	27
Total A	**2**	**8**	**1**	**16**	**72,447**	**40**	**5**	**27**
B. Off-balance sheet exposures								
B.1 Non-performing exposures	-	-	-	-	-	-	-	-
B.2 Performing exposures	-	-	-	-	-	-	-	-
Total B	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) at 31/12/2019	**2**	**8**	**1**	**16**	**72,447**	**40**	**5**	**27**
Total (A+B) at 31/12/2018	**4**	**27**	**1**	**29**	**65,808**	**76**	**4**	**71**

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 Geographical distribution of on and off-balance sheet credit exposures to banks

Exposures/geographic area (€m)	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
	Net exposure	Total impairments	Net exposure	Total impairments	Net exposure	Total impairments	Net exposure	Total impairments	Net exposure	Total impairments
A. On-balance sheet exposures										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	664	-	4,030	-	-	-	-	-	-	-
Total A	**664**	**-**	**4,030**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Off-balance sheet exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	413	-	208	-	-	-	-	-	-	-
Total B	**413**	**-**	**208**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) at 31/12/2019	**1,077**	**-**	**4,238**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) at 31/12/2018	**464**	**-**	**1,490**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

B.3 Geographical distribution of on and off-balance sheet credit exposures to banks

Exposures/geographic area (€m)	ITALY, NORTHWEST		ITALY, NORTHEAST		ITALY, CENTRE		ITALY, SOUTH AND ISLANDS	
	Net exposure	Total impairments	Net exposure	Total impairments	Net exposure	Total impairments	Net exposure	Total impairments
A. On-balance sheet exposures								
A.1 Bad loans	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-	-	-	-
A.4 Performing exposures	133	-	-	-	531	-	-	-
Total A	**133**	**-**	**-**	**-**	**531**	**-**	**-**	**-**
B. Off-balance sheet exposures								
B.1 Non-performing exposures	-	-	-	-	-	-	-	-
B.2 Performing exposures	411	-	-	-	2	-	-	-
Total B	**411**	**-**	**-**	**-**	**2**	**-**	**-**	**-**
Total (A+B) at 31/12/2019	**544**	**-**	**-**	**-**	**533**	**-**	**-**	**-**
Total (A+B) at 31/12/2018	**343**	**-**	**-**	**-**	**121**	**-**	**-**	**-**

B.4 Large exposures

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 84% of the total carrying amount. The remaining exposures regard primary counterparties represented by European Banks and other central counterparties in Italy. However, in view of the fact that it cannot lend to the public, the Bank of Italy has exempted BancoPosta RFC from application of the requirements regarding limits on large exposures. No further exemptions from the remaining obligations have been granted.

Large exposures	
a) Carrying amount (€m)	82,307
b) Weighted amount (€m)	5,410
c) Number	16

C. Securitisations

Nil.

D. Information on unconsolidated structured entities (other than securitisation vehicles)

Nil.

E. Disposal of assets

A. Financial assets sold but not fully derecognised

Qualitative information

In the case of BancoPosta RFC, this category only regards Italian government securities provided as collateral for repurchase agreements. BancoPosta uses these transactions to access the interbank market to raise funds, with the aim of funding the purchase of government securities and the deposits necessary for margin lending.

Quantitative information

E.1 Financial assets sold recognised in full and associated financial liabilities: carrying amounts

	Full recognition of financial assets sold				Related financial liabilities		
(€m)	Carrying amount	of which: securitised	of which: subject to repurchase agreements	of which non-performing	Carrying amount	of which: securitised	of which: subject to repurchase agreements
A. Financial assets held for trading	**-**	**-**	**-**	**X**	**-**	**-**	**-**
1. Debt securities	-	-	-	X	-	-	-
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets designated at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**7,329**	**-**	**7,329**	**-**	**7,228**	**-**	**7,228**
1. Debt securities	7,329	-	7,329	-	7,228	-	7,228
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost	**5,179**	**-**	**5,179**	**-**	**4,966**	**-**	**4,966**
1. Debt securities	5,179	-	5,179	-	4,966	-	4,966
2. Loans	-	-	-	-	-	-	-
Total at 31/12/2019	**12,508**	**-**	**12,508**	**-**	**12,194**	**-**	**12,194**
Total at 31/12/2018	**8,706**	**-**	**8,706**	**-**	**8,473**	**-**	**8,473**

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 will fluctuate because of movements in market interest rates;
- interest rate risk of future cash flows: the risk that the cash flows will fluctuate because of movements in inflation rates in the market.

2.1 Interest rate and price risks - supervisory trading book

At 31 December 2019, there were financial liabilities for trading deriving exclusively from the stipulation of a forward contract for the sale of 400 thousand ordinary shares of Visa Incorporated for the purpose of stabilising their yield. This transaction does not meet the trading intent requirement, as defined by art. 104 of Regulation (EU) no. 575/2013, for classification in the "Regulatory trading book"; this intent is, however, excluded from the Guidelines on Poste Italiane SpA's financial management for BancoPosta RFC.

Information on the market risks associated with this transaction is provided in the Banking Book section.

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 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. The impact of these effects is directly related to the financial instrument's duration[150].

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[151], 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.

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 the Board of Directors of Poste Italiane SpA.

150. Duration is the indicator used to estimate the percentage change in price in response to a shift in market returns.
151. Since 1 October 2018, prepaid cards are the responsibility of Postepay SpA. The liquidity raised through these cards is transferred to BancoPosta, which invests the funds raised in euro area government bonds or bonds guaranteed by the Italian State. As such, for the purposes of specific risk analyses, the rationales related to each model underlying the different types of deposit inflow continue to apply.

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 financial assets measured at fair value through other comprehensive income 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 commitments in Euro area government securities or guaranteed by the Italian government and classified as financial assets measured at fair value through other comprehensive income. 2019 witnessed an average decrease in the yields on Italian government bonds compared with the previous year and, at 31 December 2019, the spread between ten-year Italian government bonds and German bunds is approximately 160 bps, down on the figure for the previous year (250 bps at 31 December 2018).

In the reporting period, as described above resulted in the *portfolio* of financial assets measured at fair value through other comprehensive income (notional of around €31 billion), held by BancoPosta RFC, an overall net increase in fair value of approximately €3.7 billion: this change was partly recognised in the profit and loss for a positive amount of approximately €2 billion relating to the change in the fair value of securities hedged against interest rate risk, whilst the positive change in the fair value of unhedged securities and the spread risk component (not hedged) was reflected in equity for approximately €1.7 billion.

Price risk

Price risk relates to financial assets measured at fair value through profit or loss.

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.

Quantitative information

1. Banking Book: Time-to-maturity (repricing date) of financial assets and financial liabilities

Currency: Euro

Type/ Residual term to maturity (€m)		Demand	3 months or less	3 - 6 months	6 months - 1 year	1 - 5 years	5 - 10 years	Over 10 years	Unspecified maturity
1.	**On-balance sheet assets**	**14,724**	**6,447**	**1,029**	**1,833**	**6,284**	**11,192**	**36,236**	**-**
1.1	Debt securities	-	5,289	1,029	1,833	6,284	11,192	36,236	-
	- with prepayment option	-	-	-	-	-	-	-	-
	- other	-	5,289	1,029	1,833	6,284	11,192	36,236	-
1.2	Due from banks	4,691	-	-	-	-	-	-	-
1.3	Due from customers	10,033	1,158	-	-	-	-	-	-
	- current accounts	8	-	-	-	-	-	-	-
	- other loans	10,025	1,158	-	-	-	-	-	-
	- with prepayment option	-	-	-	-	-	-	-	-
	- other	10,025	1,158	-	-	-	-	-	-
2.	**On-balance sheet liabilities**	**58,601**	**3,266**	**586**	**1,603**	**6,740**	**-**	**-**	**-**
2.1	Due to customers	58,106	2,310	586	1,074	1,535	-	-	-
	- current accounts	53,554	-	-	-	-	-	-	-
	- other deposits	4,552	2,310	586	1,074	1,535	-	-	-
	- with prepayment option	-	-	-	-	-	-	-	-
	- other	4,552	2,310	586	1,074	1,535	-	-	-
2.2	Due to banks	495	956	-	529	5,205	-	-	-
	- current accounts	383	-	-	-	-	-	-	-
	- other deposits	112	956	-	529	5,205	-	-	-
2.3	Debt securities	-	-	-	-	-	-	-	-
	- with prepayment option	-	-	-	-	-	-	-	-
	- other	-	-	-	-	-	-	-	-
2.4	Other liabilities	-	-	-	-	-	-	-	-
	- with prepayment option	-	-	-	-	-	-	-	-
	- other	-	-	-	-	-	-	-	-
3.	**Financial derivatives**								
3.1	With underlying securities								
	- Options								
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
	- Other derivatives								
	+ Long positions	-	1,504	-	-	-	-	-	-
	+ Short positions	-	-	-	-	835	649	-	-
3.2	Without underlying securities								
	- Options								
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
	- Other derivatives								
	+ Long positions	-	4,195	-	1,930	19,055	1,375	805	-
	+ Short positions	-	1,360	-	575	-	450	24,975	-
4.	**Other off-balance sheet transactions**								
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-

1. Banking Book: Time-to-maturity (repricing date) of financial assets and financial liabilities

Currency: US dollar

	Type/ Residual term to maturity (€m)	Demand	3 months or less	3 - 6 months	6 months - 1 year	1 - 5 years	5 - 10 years	Over 10 years	Unspecified maturity
1.	**On-balance sheet assets**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1	Debt securities	-	-	-	-	-	-	-	-
	- with prepayment option	-	-	-	-	-	-	-	-
	- other	-	-	-	-	-	-	-	-
1.2	Due from banks	1	-	-	-	-	-	-	-
1.3	Due from customers	-	-	-	-	-	-	-	-
	- current accounts	-	-	-	-	-	-	-	-
	- other loans	-	-	-	-	-	-	-	-
	- with prepayment option	-	-	-	-	-	-	-	-
	- other	-	-	-	-	-	-	-	-
2.	**On-balance sheet liabilities**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1	Due to customers	-	-	-	-	-	-	-	-
	- current accounts	-	-	-	-	-	-	-	-
	- other deposits	-	-	-	-	-	-	-	-
	- with prepayment option	-	-	-	-	-	-	-	-
	- other	-	-	-	-	-	-	-	-
2.2	Due to banks	-	-	-	-	-	-	-	-
	- current accounts	-	-	-	-	-	-	-	-
	- other deposits	-	-	-	-	-	-	-	-
2.3	Debt securities	-	-	-	-	-	-	-	-
	- with prepayment option	-	-	-	-	-	-	-	-
	- other	-	-	-	-	-	-	-	-
2.4	Other liabilities	-	-	-	-	-	-	-	-
	- with prepayment option	-	-	-	-	-	-	-	-
	- other	-	-	-	-	-	-	-	-
3.	**Financial derivatives**								
3.1	With underlying securities								
	- Options								
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
	- Other derivatives								
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
3.2	Without underlying securities								
	- Options								
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
	- Other derivatives								
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
4.	**Other off-balance sheet transactions**								
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-

1. Banking Book: Time-to-maturity (repricing date) of financial assets and financial liabilities

Currency: Swiss franc

	Type/ Residual term to maturity (€m)	Demand	3 months or less	3 - 6 months	6 months - 1 year	1 - 5 years	5 - 10 years	Over 10 years	Unspecified maturity
1.	**On-balance sheet assets**	**2**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1	Debt securities	-	-	-	-	-	-	-	-
	- with prepayment option	-	-	-	-	-	-	-	-
	- other	-	-	-	-	-	-	-	-
1.2	Due from banks	2	-	-	-	-	-	-	-
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 *portfolio*: 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. The sensitivities data shown by the analysis provide a base scenario that can be used to measure potential changes in fair value, in the presence of changes in interest rates.

BancoPosta's financial assets measured at fair value through other comprehensive income at 31 December 2019 had a duration of 5.30 (31 December 2018: 4.80). The sensitivity analysis is shown in the table.

Fair value interest rate risk

Analysis date (€m)	Nominal value*	Fair value	Change in value		Net interest and other banking income		Equity reserves before taxation	
			+100bps	-100bps	+100bps	-100bps	+100bps	-100bps
2019 effects								
Financial assets measured at fair value through other comprehensive income								
Fixed income instruments	31,170	36,799	(1,016)	1,003	-	-	(1,016)	1,003
Assets - Hedging derivatives	-	-	-	-	-	-	-	-
Liabilities - Hedging derivatives	(1,504)	(36)	67	(71)	-	-	67	(71)
Variability at 31 December 2019	**29,666**	**36,763**	**(949)**	**932**	**-**	**-**	**(949)**	**932**
2018 effects								
Financial assets measured at fair value through other comprehensive income								
Fixed income instruments	30,229	32,040	(798)	753	-	-	(798)	753
Assets - Hedging derivatives	3,135	155	(4)	4	-	-	(4)	4
Liabilities - Hedging derivatives	-	-	-	-	-	-	-	-
Variability at 31 December 2018	**33,364**	**32,195**	**(802)**	**757**	**-**	**-**	**(802)**	**757**

* The settlement price of derivatives involving the exchange of principal (securities or other assets) has been indicated, as required by Bank of Italy Circular 262/2005.

All of BancoPosta RFC's investments are classified as either Financial assets measured at amortised cost or Financial assets measured at fair value through other comprehensive income. The sensitivity analysis shown above is for the last of these categories.

In particular, the risk in question concerns:

- In relation to financial assets measured at fair value through other comprehensive income, fixed income Government bonds for €36,799 million, consisting of fixed income bonds for €14,944 million, floating-rate bonds swapped into fixed income bonds through interest rate swaps of cash flow hedges for €2,076 million, inflation-indexed bonds for €2,303 million and fixed income bonds swapped into floating rate instruments through fair value hedge derivatives for €17,476 million (of which €15,555 million with forward starts);
- In relation to hedge derivatives, forward sales of government bonds for a notional amount of €1,504 million, classified as cash flow hedges.

Spread risk

Spread risk reflects the impact of the difference between yields on sovereign debt and the fair value of euro area government bonds, where such difference, or spread, reflects the perception of markets regarding issuers' creditworthiness.

The value of the *portfolio* of Italian government securities or backed by the guarantee of the Italian State 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 sensitivity to the spread[152] has been calculated by applying a shift of +/- 100 bps to the risk factor that affects the different types of bonds held represented by the yield curve of Italian government bonds.

The sensitivity analyses are shown below.

Fair value spread risk

Analysis date (€m)	Nominal value*	Fair value	Change in value		Net interest and other banking income		Equity reserves before taxation	
			+100bps	-100bps	+100bps	-100bps	+100bps	-100bps
2019 effects								
Financial assets measured at fair value through other comprehensive income								
Fixed income instruments	31,170	36,799	(3,458)	4,056	-	-	(3,458)	4,056
Assets - Hedging derivatives	-	-	-	-	-	-	-	-
Liabilities - Hedging derivatives	(1,504)	(36)	70	(74)	-	-	70	(74)
Variability at 31 December 2019	**29,666**	**36,763**	**(3,388)**	**3,982**	**-**	**-**	**(3,388)**	**3,982**
2018 effects								
Financial assets measured at fair value through other comprehensive income								
Fixed income instruments	30,229	32,040	(2,587)	3,025	-	-	(2,587)	3,025
Assets - Hedging derivatives	3,135	155	(4)	4	-	-	(4)	4
Liabilities - Hedging derivatives	-	-	-	-	-	-	-	-
Variability at 31 December 2018	**33,364**	**32,195**	**(2,591)**	**3,029**	**-**	**-**	**(2,591)**	**3,029**

* The settlement price of derivatives involving the exchange of principal (securities or other assets) has been indicated, as required by Bank of Italy Circular 262/2005.

It is worthy of note that any change in the spread would not entail any accounting effect on financial assets measured at amortised cost but would affect solely unrealised gains/losses. In other words, fixed income instruments measured at amortised cost, which at 31 December 2019 amounted to €25,064 million (nominal value of €21,175 million) and have a fair value of €24,686 million, would be reduced in fair value by approximately €2.7 billion following an increase in the spread of 100 bps, with the change not reflected in the accounts.

Movements in the spread have no impact on BancoPosta RFC's ability to meet its capital requirements, as the fair value reserves are not included in the computation of own funds for supervisory purposes.

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.

152. For sensitivity purposes, the swap rate curve and the BTP curve were used (10-year swap rate of 21 bps and the spread of the BTP compared to the 10-year swap rate of 120 bps).

Spread risk - VaR analyses

Analysis date (€m)	Risk exposure		SpreadVaR
	Nominal value*	Fair value	
2019 effects			
Financial assets measured at fair value through other comprehensive income			
Fixed income instruments**	31,170	36,799	307
Assets - Hedging derivatives**	-	-	-
Liabilities - Hedging derivatives**	-	-	-
Variability at 31 December 2019	**31,170**	**36,799**	**307**
2018 effects			
Financial assets measured at fair value through other comprehensive income			
Fixed income instruments**	30,229	32,040	377
Assets - Hedging derivatives**	1,491	94	24
Liabilities - Hedging derivatives**	-	-	-
Variability at 31 December 2018	**31,720**	**32,134**	**401**

* The settlement price of derivatives involving the exchange of principal (securities or other assets) has been indicated, as required by Bank of Italy Circular 262/2005.
** The VAR indicated for derivative financial instruments refers solely to forward purchases while the VAR related to fixed-income bonds takes into account also forward sales.

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 financial assets measured at fair value through other comprehensive income and the relevant derivative financial instruments (except forward purchases), taking into account the variability of both risk factors:

(€m)	2019	2018
Average VaR	(412)	(417)
Minimum VaR	(270)	(189)
Maximum VaR	(637)	(822)

Taking into account both financial assets measured at fair value through other comprehensive income (including the related hedges outstanding) and forward purchases and sales, the combined analysis of spread risk and fair value interest rate risk at 31 December 2019 results in a potential loss of €336 million (VaR at the end of the period). The decrease in VaR at the end of the period, compared with the €402 million at 31 December 2018, primarily reflects the decrease in market volatility.

Cash flow interest rate risk

The sensitivity to cash flow interest rate risk at 31 December 2018 and 31 December 2019 is summarised in the table below and was computed assuming a +/- 100 bps parallel shift in the market forward interest rate curve.

Cash flow interest rate risk

	2019			2018		
	Risk exposure Notional	Net interest and other banking income		Risk exposure	Net interest and other banking income	
(€m)		+100 bps	-100 bps		+100 bps	-100 bps
Cash						
- Account held at Bank of Italy	814	8	(8)	348	3	(3)
Financial assets measured at amortised cost						
Due from banks						
- Collateral guarantees	4,620	46	(46)	1,349	13	(13)
- Deposits	4	-	-	5	-	-
Due from customers						
- Deposits at MEF (PA deposits)	7,066	71	(71)	5,930	59	(59)
- Deposits at MEF (private customer deposits)	495	5	(5)	1,306	13	(13)
- Collateral guarantees	1,040	10	(10)	303	3	(3)
- Due from Poste Italiane SpA outside the ring-fence	647	6	(6)	843	8	(8)
- Fixed income instruments	2,560	26	(26)	425	4	(4)
Financial assets measured at fair value through other comprehensive income						
- Fixed income instruments	3,565	36	(36)	1,740	17	(17)
Financial liabilities measured at amortised cost						
Due to banks						
- Collateral guarantees	(112)	(1)	1	(70)	(1)	1
Due to customers						
- Due to Poste Italiane SpA outside the ring-fence	-	-	-	(14)	-	-
Total variability	**20,699**	**207**	**(207)**	**12,165**	**119**	**(119)**

Cash flow interest rate risk at 31 December 2019 was primarily due to:

- the placement of Public Administration deposits with the MEF;
- fixed income bonds issued by the Italian State swapped in floating-rate bonds through fair value hedge derivatives for a total nominal amount of €6,125 million mainly including: (i) Italian government bonds for €4,385 million, whose fair value hedge will start to take effect in the 12 months following the period under review; (ii) inflation-linked bonds issued by the Italian Republic with a nominal amount of €100 million;
- receivables for a total amount of €5,660 million for security deposits provided as collateral for derivative liabilities and repurchase agreements.

Cash flow inflation risk

Cash flow inflation rate risk at 31 December 2019 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 €1,875 million and a fair value of €2,381 million. The effects of sensitivity analysis are immaterial.

Price risk

The sensitivity of financial instruments to price risk is analysed using a variability stress calculated with reference to one-year historical volatility, considered to be representative of potential market movements.

Price risk

Analysis date (€m)	Exposure	Change in value		Net interest and other banking income		Equity reserves before taxation	
		+ Vol	- Vol	+ Vol	- Vol	+ Vol	- Vol
2019 effects							
Financial assets measured at fair value through profit or loss							
Equity instruments	71	14	(14)	14	(14)	-	-
Financial liabilities held for trading	(15)	(12)	12	(12)	12	-	-
Variability at 31 December 2019	**56**	**2**	**(2)**	**2**	**(2)**	**-**	**-**
2018 effects							
Financial assets measured at fair value through profit or loss							
Equity instruments	50	13	(13)	13	(13)	-	-
Financial liabilities held for trading	-	-	-	-	-		
Variability at 31 December 2018	**50**	**13**	**(13)**	**13**	**(13)**	**-**	**-**

Notes on the related equity instruments (shares) are contained in Part B, Assets, Table 2.5.

The preference Visa Incorporated shares (Series C Convertible Participating Preferred Stock) held in *portfolio* were sensitivity tested using similar Class A shares, after adjusting for the volatility of the shares traded on the NYSE. This volatility was mitigated by the partial forward sale of approximately 90% of Visa Incorporated ordinary shares in 2019. The shares' price risk is also monitored through the computation of VaR.

The VaR sensitivity analyses are shown below:

(€m)	2019	2018
Closing VaR	-	(3)
Average VaR	(1)	(2)
Minimum VaR	-	(1)
Maximum VaR	(3)	(3)

2.3 Foreign exchange risk

Qualitative information

A. Generalities, management policies and foreign exchange risk measurement methods

Foreign exchange risk relates to losses that could be incurred on foreign currency positions, regardless of *portfolio*, through fluctuations in foreign exchange rates. In BancoPosta RFC's case, this risk primarily derives from foreign currency bank accounts, foreign currency cash and VISA shares[153].

Foreign exchange risk is controlled by the Risk Management unit using the measurement of exposure to the risk in accordance with financial operations guidelines which restrict currency trading to the foreign exchange service and international bank transfers.

Foreign exchange risk is measured using the Bank of Italy prudential methodology currently recommended for banks (see EU Regulation 575/2013). Furthermore, sensitivity stress tests are regularly conducted for the most important exposures with reference to hypothetical levels of exchange rate volatility for each currency position. Movements in exchange rates equal to the historical volatility are assumed to emulate market fluctuations.

153. The exchange rate risk relating to VISA shares was mitigated through a forward sale transaction carried out during 2019.

B. Foreign exchange hedges

Quantitative information

1. Distribution of assets, liabilities and derivatives by currency

Voci (€m)	Currency					
	US Dollar	Swiss Franc	GB Sterling	Japanese Yen	Tunisian Dinar	Other currencies
A. Financial assets	**72**	**2**	**-**	**-**	**-**	**-**
A.1 Debt securities	-	-	-	-	-	-
A.2 Equity instruments	71	-	-	-	-	-
A.3 Due from banks	1	2	-	-	-	-
A.4 Due from customers	-	-	-	-	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**7**	**3**	**2**	**-**	**-**	**-**
C. Financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Due to banks	-	-	-	-	-	-
C.2 Due to customers	-	-	-	-	-	-
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**
E. Financial derivatives						
- Options						
+ Long positions	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
Other derivatives						
+ Long positions	51	-	-	-	-	-
+ Short positions	65	-	-	-	-	-
Total assets	**130**	**5**	**2**	**-**	**-**	**-**
Total liabilities	**65**	**-**	**-**	**-**	**-**	**-**
Net position (+/-)	**65**	**5**	**2**	**-**	**-**	**-**

“Other assets” relate to foreign currencies held in post offices for the foreign exchange service.

2. Internal models and other methods of sensitivity analysis

Application of the foreign exchange rate volatility during the period to the most important equity instruments held by BancoPosta are shown in the following table.

Foreign exchange risk - US dollar

	USD position ($000)	EUR position (€000)	Change in value		Net interest and other banking income		Equity reserves before taxation	
Analysis date (€m)			+ Vol 260 days	- Vol 260 days	+ Vol 260 days	- Vol 260 days	+ Vol 260 days	- Vol 260 days
2019 effects								
Financial assets measured at fair value through profit or loss								
Equity instruments	79	71	4	(4)	4	(4)	-	-
Liabilities held for trading	(17)	(15)	(1)	1	(1)	1	-	-
Variability at 31 December 2019	**62**	**56**	**3**	**(3)**	**3**	**(3)**	**-**	**-**
2018 effects								
Financial assets measured at fair value through profit or loss								
Equity instruments	58	50	4	(4)	4	(4)	-	-
Liabilities held for trading	-	-	-	-	-	-	-	-
Variability at 31 December 2018	**58**	**50**	**4**	**(4)**	**4**	**(4)**	**-**	**-**

Section 3 – Derivative instruments and hedging policies

3.1 Trading derivative instruments

A. Financial derivatives

A.1 Trading financial derivatives: year-end notional amounts

Underlyings / Type of derivative (€m)	Total at 31/12/2019				Total at 31/12/2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt securities and interest rates	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity instruments and equity indexes	**-**	**51**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	51	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**51**	**-**	**-**	**-**	**-**	**-**	**-**

A.2 Trading financial derivatives: gross positive and negative fair value - breakdown by product

Type of derivative (€m)	Total at 31/12/2019				Total at 31/12/2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Positive fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	-	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2. Negative fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	-	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	(15)	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**(15)**	**-**	**-**	**-**	**-**	**-**	**-**

A.3 OTC trading financial derivatives: notional amounts, gross positive and negative fair value by counterparty

Underlying asset (€m)	Central counterparties	Banks	Other financial companies	Other entities
Contracts not falling within the scope of netting agreements				
1) Debt securities and interest rates				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) Equity instruments and equity indexes				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Currencies and gold				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Commodities				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts falling within the scope of netting agreements				
1) Debt securities and interest rates				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Equity instruments and equity indexes				
- notional amount	-	51	-	-
- positive fair value	-	-	-	-
- negative fair value	-	(15)	-	-
3) Currencies and gold				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC trading financial derivatives: notional amounts

Underlyings/Residual term to maturity (€m)	1 year or less	1 - 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	-	-	-	-
A.2 Financial derivatives on equity instruments and equity indexes	-	51	-	51
A.3 Financial derivatives on currencies and gold	-	-	-	-
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total at 31/12/2019	**-**	**51**	**-**	**51**
Total at 31/12/2018		**-**	**-**	**-**

B. Credit derivatives

Nothing to report.

3.2 Hedge accounting

BancoPosta RFC has fair value and cash flow hedge policies for which it elected, under IFRS 9, to maintain the accounting treatment provided for by IAS 39.

Qualitative information

A. Fair value hedges

BancoPosta RFC has a government bond *portfolio* – made up of fixed income BTPs and inflation-linked BTPs – subject to movements in fair value due to changes in interest rates and in the inflation rate.

To limit the effects of interest rates on fair value, BancoPosta RFC enters into interest rate swaps Over the Counter (OTC) to hedge the fair value of the bonds held in *portfolio*. The objective of these transactions is to have instruments that can offset changes in fair value of the *portfolio* due to interest rate fluctuations and the rate of inflation.

B. Cash flow hedges

BancoPosta RFC enters into:

- **forward purchases** of government bonds, to limit the exposure to interest rate risk deriving from the need to reinvest the cash generated by maturing bonds held in *portfolio*;
- **forward sales** of government bonds to pursue the stabilisation of returns.

These derivatives qualify as cash flow hedges of forecast transactions.

In addition, BancoPosta RFC has a *portfolio* of inflation-linked BTPs subject to cash flow variability in relation to inflation.

To limit the effects of interest rates on cash flows, BancoPosta RFC enters into OTC interest rate swaps to hedge the cash flows of the bonds held in *portfolio*. The objective of these transactions is to stabilise until maturity the return of the instrument, regardless of movements of the variable parameter.

C. Hedges of foreign operations

BancoPosta RFC does not have a policy for hedges of foreign operations.

D. Hedging instruments

Regarding fair value hedge instruments, the main source of ineffectiveness is the use of different spreads in determining the fair value of the hypothetical derivative and the derivative actually entered into. In particular, to evaluate the effectiveness of the hedge relationship, for the hypothetical derivative use is made of the mid-market spread, which makes the present value at the settlement date equal to zero, and for the actual derivative the interest rate agreed upon with the counterparty.

As to cash flow hedge instruments, the main source of ineffectiveness is the use of the fixed income component used in determining the fair value of the hypothetical derivative and the actual derivative. In particular, to evaluate the effectiveness of the hedge relationship use is made, for the hypothetical derivative, the fixed rate that makes the present value at the settlement date equal to zero while for the actual derivative the calculation is performed with the interest rate agreed upon with the counterparty.

With respect to the hedges of forecast transactions, no source of ineffectiveness was identified, as the forward prices of the counterparties were assumed to be perfectly equal to the theoretical forward prices.

E. Hedged items

BancoPosta RFC designates as hedged items:

- fixed income and index-linked bonds, in connection the fair value hedge policy;
- inflation-linked bonds and forecast transactions, in connection with cash flow hedge policies.

In particular, in fair value hedges, the credit risk of the Italian Republic is not hedged and is set for the duration of the swap. In addition, full hedges and partial hedges are implemented, with the start date equal to the date of purchase of the instrument (swap spot start) and after the purchase of the instrument (swap forward start), respectively.

Regarding fair value hedges, BancoPosta RFC evaluates the effectiveness of every hedging relationship in offsetting movements in fair value through a retrospective effectiveness test and a prospective effectiveness test[154], using the approaches illustrated in the following notes.

The retrospective effectiveness test is run by utilising the “dollar offset approach through the hypothetical derivative[155]. With this approach, consideration is given to the hedge ratio of the change in fair value of the actual derivative to the change in fair value of the hypothetical derivative occurred between inception and the valuation date. The hedge is considered effective if the hedge ratio falls in the interval between 80% and 125%.

The hypothetical derivative and the actual hedging instrument have a settlement date consistent with the hedge inception (spot or forward start) and differ solely in their spread which is considered, as already indicated, the main source of ineffectiveness. The partial ineffectiveness of the hedge, equal to the difference between the changes in value of the two derivatives (hypothetical and actual) represents the net effect of the hedge recognised separately in profit or loss.

154. IAS 39 requires two effectiveness tests:
 • prospective effectiveness test: attests that the hedging relationship is expected to be highly effective in future periods;
 • retrospective effectiveness test: attests that the hedging relationship has been effective from inception to the reporting date.
 For a hedge to be effective, the prospective effectiveness test must show that the hedge is highly effective in offsetting fair value or cash flow movements attributable to the hedged instrument during the designation period, while the result of the retrospective test must show offset ratios ranging from 80% to 125%.
 A hedge can be ineffective when the hedging instrument and the hedged item: are in different currencies; have different maturities; use different underlying interest rates; are exposed to different counterparty risks; and when the derivative is not equal to zero at inception.
155. The dollar offset approach is a quantitative method that involves a comparison between movements in the fair value or cash flow of the hedging instrument and the movements in the fair value or cash flow of the hedged instrument attributable to the risk hedged. Depending on the policy selected, this approach can be used:
 • on a cumulative basis, by observing the performance of the hedge since inception;
 • on a periodic basis, by comparing the hedge performance with that of the last test.
 The dollar offset approach can be implemented through a hypothetical derivative, that is by constructing a theoretical derivative to compare the relevant theoretical movements in far value or cash flow with those of the hedged instrument (actual derivative).

For the purposes of the prospective effectiveness test, different approaches have been applied, depending on the characteristics of the hedging swap. Specifically:

- the "Critical terms[156]" approach for swap spot start, for which it has been determined at inception that the characteristics of the fixed leg make it possible to replicate exactly the fixed cash flows generated by the hedged item;
- the "Dollar offset through the hypothetical derivative" approach for forward start swaps, for which the prospective effectiveness test is performed by calculating the hedge ratio between the change in fair value of the hypothetical derivative and the change in fair value of the actual derivative[157]. The hedge is considered effective if the hedge ratio falls in the interval between 80% and 125%.

Regarding cash flow hedges, BancoPosta RFC evaluates the effectiveness of the designated derivative in every hedging relationship through a retrospective effectiveness test and a prospective effectiveness test.

With regards to the hedges of forecast transactions, the retrospective effectiveness test involves the calculation of a hedge ratio defined as the ratio of the difference between the fair value of the forward transaction entered into with the counterparty on the test and inception date and the present value of the difference between the theoretical forward price of the BTP calculated as of the test and inception date. Assuming a perfect match between the forward prices of the counterparties and the theoretical forward prices, the hedge ratio is always equal to 100%. As such, there are no sources of ineffectiveness.

For the purposes of the prospective effectiveness test, the critical terms approach is applied, considering at inception the consistency between the hedging instrument and the hedged item on the basis of the qualitative characteristics of the contracts [158].

With respect to inflation-linked bonds, the retrospective effectiveness test considers the hedge ratio between the change in fair value of the actual derivative to the change in fair value of the hypothetical derivative occurred between the date of inception and the valuation date. The hedge is considered effective if the hedge ratio falls in the interval between 80% and 125%.

The hypothetical derivative and the actual derivative have the settlement date that matches the inception of the hedge and differ in terms of their fixed income component. Moreover, for the derivatives used to hedge inflation-linked BTP, the fair value at the settlement date reflects also the interest accrued of the instrument accrued from the latest interest payment date to the date of settlement of the derivative. As such, both are considered the main sources of ineffectiveness.

The change in fair value of the actual derivative is recognised through equity, for the effective portion of the hedge, while the change in fair value of the ineffective portion is recognised through profit or loss.

For the purposes of the prospective effectiveness test, different approaches have been applied, depending on the characteristics of the hedging swap. Specifically:

- the "Critical terms" approach for derivatives for which it has been determined at inception that the characteristics of the indexed leg of the swap make it possible to replicate exactly the variable cash flows generated by the hedged item;
- the "Dollar offset through the hypothetical derivative" approach for derivative contracts with a fixed rate applicable to a nominal amount growing constantly at six-month intervals until the derivative expires. For these contracts the prospective effectiveness test is performed by calculating the hedge ratio between the change in fair value of the hypothetical derivative and the change in fair value of the actual derivative[159]. The hedge is considered effective if the hedge ratio falls in the interval between 80% and 125%.

156. The critical terms approach involves a comparison between the critical terms of the hedging instrument with those of the hedged item. The hedging relationship is highly effective when all the critical terms of the two instruments match perfectly and there are no features or options that might invalidate the hedge. Critical terms include, for example: notional amount of the derivative and principal of the underlying, credit risk, timing, currency of the cash flows.
157. Calculated by assuming a parallel shift of + / - 100 bps of the yield curves.
158. The notional amount of the forward contract must be set, at the settlement date, as equal to the nominal amount of the instrument in case of purchase, and equal or lower than the nominal amount of the instrument in case of sale. The underlying of the forward contract must coincide with the instrument that must be purchased or sold (in this case it must be an instrument in the *portfolio*) at the settlement date. The settlement date must be the same as the date on which the cash flow to be hedged is expected, in case of forward purchase, or must be related to the year in which the total return must be stabilised, in case of forward sale.
159. Calculated by assuming a parallel shift of + / - 100 bps of the yield curves.

Quantitative information

A. Hedging financial derivatives

A.1 Hedging financial derivatives: year-end notional amounts

Underlyings / Type of derivative (€m)	Total at 31/12/2019				Total at 31/12/2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt securities and interest rates	**-**	**28,864**	**-**	**-**	**-**	**28,335**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	27,360	-	-	-	25,200	-	-
c) Forwards	-	1,504	-	-	-	3,135	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity instruments and equity indexes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
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	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**28,864**	**-**	**-**	**-**	**28,335**	**-**	**-**

A.2 Hedging financial derivatives: gross positive and negative fair value – breakdown by product

Type of derivative (€m)	Fair value gains and losses								Change in value used to recognise ineffective portion of hedge	
	Total at 31/12/2019				Total at 31/12/2018				Total at 31/12/2019	Total at 31/12/2018
	Over the counter			Organised markets	Over the counter			Organised markets		
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties				
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements			
1. Positive fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	73	-	-	-	213	-	-	24	(106)
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	155	-	-	-	155
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	**-**	**73**	**-**	**-**	**-**	**368**	**-**	**-**	**24**	**49**
2. Negative fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	(5,516)	-	-	-	(1,829)	-	-	(3,969)	(590)
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	(36)	-	-	-	-	-	-	(36)	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	**-**	**(5,552)**	**-**	**-**	**-**	**(1,829)**	**-**	**-**	**(4,005)**	**(590)**

A.3 OTC hedging financial derivatives: notional amounts, gross positive and negative fair value by counterparty

Underlying asset (€m)		Central counterparties	Banks	Other financial companies	Other entities
Contracts not falling within the scope of netting					
1)	**Contracts not falling within the scope of netting agreements**				
	- notional amount	X	-	-	-
	- positive fair value	X	-	-	-
	- negative fair value	X	-	-	-
2)	**Equity instruments and equity indexes**				
	- notional amount	X	-	-	-
	- positive fair value	X	-	-	-
	- negative fair value	X	-	-	-
3)	**Currencies and gold**				
	- notional amount	X	-	-	-
	- positive fair value	X	-	-	-
	- negative fair value	X	-	-	-
4)	**Commodities**				
	- notional amount	X	-	-	-
	- positive fair value	X	-	-	-
	- negative fair value	X	-	-	-
5)	**Other**				
	- notional amount	X	-	-	-
	- positive fair value	X	-	-	-
	- negative fair value	X	-	-	-
Contracts falling within the scope of netting agreements					
1)	**Debt securities and interest rates**				
	- notional amount	-	24,834	4,030	-
	- positive fair value	-	67	6	-
	- negative fair value	-	(4,975)	(577)	-
2)	**Equity instruments and equity indexes**				
	- notional amount	-	-	-	-
	- positive fair value	-	-	-	-
	- negative fair value	-	-	-	-
3)	**Currencies and gold**				
	- notional amount	-	-	-	-
	- positive fair value	-	-	-	-
	- negative fair value	-	-	-	-
4)	**Commodities**				
	- notional amount	-	-	-	-
	- positive fair value	-	-	-	-
	- negative fair value	-	-	-	-
5)	**Other**				
	- notional amount	-	-	-	-
	- positive fair value	-	-	-	-
	- negative fair value	-	-	-	-

A.4 Residual life of OTC hedging financial derivatives: notional amounts

Underlyings/Residual term to maturity (€m)		1 year or less	1 - 5 years	Over 5 years	Total
A.1	Financial derivatives on debt securities and interest rates	1,504	465	26,895	28,864
A.2	Financial derivatives on equity instruments and equity indexes	-	-	-	-
A.3	Financial derivatives on currencies and gold	-	-	-	-
A.4	Financial derivatives on commodities	-	-	-	-
A.5	Other financial derivatives	-	-	-	-
Total at 31/12/2019		**1,504**	**465**	**26,895**	**28,864**
Total at 31/12/2018		**3,580**	**440**	**24,315**	**28,335**

B. Hedging credit derivatives

Nothing to report.

C. Non-derivative hedging instruments

Nothing to report.

D. Hedged instruments

D.1 Fair value hedges

(€m)		Specific hedges: carrying amount	Specific hedges - net positions: balance sheet value of assets or liabilities (before netting)	Specific hedges			Specific hedges: carrying amount
				Accumulated movements in fair value of hedged instrument	Termination of the hedge: residual cumulative changes in fair value	Change in value use to recognise ineffective portion of hedge	
A.	**Assets**						
1.	**Financial assets measured at fair value through other comprehensive income - hedging:**						
	1.1 Debt securities and interest rates	17,476	-	2,552	-	2,040	X
	1.2 Equity instruments and equity indexes	-	-	-	-	-	X
	1.3 Currencies and gold	-	-	-	-	-	X
	1.4 Receivables	-	-	-	-	-	X
	1.5 Other	-	-	-	-	-	X
2.	**Financial assets measured at amortised cost - hedging:**						
	1.1 Debt securities and interest rates	15,017	-	2,870	-	1,883	X
	1.2 Equity instruments and equity indexes	-	-	-	-	-	X
	1.3 Currencies and gold	-	-	-	-	-	X
	1.4 Receivables	-	-	-	-	-	X
	1.5 Other	-	-	-	-	-	X
Total at 31/12/2019		**32,493**	**-**	**5,422**	**-**	**3,923**	**-**
Total at 31/12/2018		**25,727**	**-**	**1,561**	**-**	**694**	**-**
B.	**Liabilities**						
2.	**Financial liabilities measured at amortised cost - hedging:**						
	1.1 Debt securities and interest rates	-	-	-	-	-	X
	1.2 Currencies and gold	-	-	-	-	-	X
	1.3 Other	-	-	-	-	-	X
Total at 31/12/2019		**-**	**-**	**-**	**-**	**-**	**-**
Total at 31/12/2018		**-**	**-**	**-**	**-**	**-**	**-**

D.2 Cash flow and hedges of net investments in foreign operations

(€m)	Change in value use to recognise ineffective portion of hedge	Hedge reserve	Termination of hedge: residual value of hedge reserve
A. Cash flow hedges			
1. Assets			
1.1 Debt securities and interest rates	54	161	-
1.2 Equity instruments and equity indexes	-	-	-
1.3 Currencies and gold	-	-	-
1.4 Receivables	-	-	-
1.5 Other	-	-	-
2. Liabilities			
1.1 Debt securities and interest rates	-	-	-
1.2 Currencies and gold	-	-	-
1.3 Other	-	-	-
Total (A) at 31/12/2019	**54**	**161**	**-**
Total (A) at 31/12/2018	**(155)**	**123**	**-**
B. Hedges of net investments in foreign operations	X	-	-
Total (A + B) at 31/12/2019	**54**	**161**	**-**
Total (A + B) at 31/12/2018	**(155)**	**123**	**-**

E. Effects of hedging transactions through equity

E.1 Reconciliation of equity components

	Cash flow hedge reserve					Hedge reserve of net investments in foreign operations				
(€m)	Debt securities and interest rates	Equity instruments and equity indexes	Currencies and gold	Receivables	Other	Debt securities and interest rates	Equity instruments and equity indexes	Currencies and gold	Receivables	Other
Opening balance	**123**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Movements in fair value (effective portion)	98	-	-	-	-	-	-	-	-	-
Reclassifications to profit or loss	(60)	-	-	-	-	-	-	-	-	-
of which: future transactions no longer expected	-	-	-	-	-	X	X	X	X	X
Other changes	-	-	-	-	-	-	-	-	-	-
of which: transfers to initial carrying amount of hedged instruments	-	-	-	-	-	X	X	X	X	X
Closing balance	**161**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

3.3 Other information on trading and hedging derivatives

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair value by counterparty

At 31 December 2019 Banco Posta RFC had no master netting or similar agreements in place that meet the requirements of IAS 32, paragraph 42, regarding offsetting financial assets and liabilities.

Section 4 – 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 loans and counterparties;
- gradual and consistent distribution of the maturities of medium/long-term borrowings;
- use of dedicated analytical models to monitor the maturities of assets and liabilities;
- the availability of the interbank markets as a source of repurchase agreement finance, with collateral in the form of securities held in *portfolio*, due to the fact that such assets consist of financial instruments deemed to be highly liquid assets by current standards.

In order to mitigate liquidity and market risk in the event of extreme market scenarios, during 2019 BancoPosta RFC entered into a contract that provides for the granting by Cassa Depositi e Prestiti of a short-term committed facility for repurchase agreements up to a maximum of €5 billion and a 12-month extension period.

In terms of BancoPosta RFC's specific operations, liquidity risk regards the investment of current account and prepaid card[160] deposits in bonds issued by euro area government securities and/or other securities backed by guarantee of the Italian Republic, 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:

- long-term repos, amounting to an outstanding €6.1 billion;
- short-term deposits created through repurchase agreements as funding for incremental deposits used as collateral for interest rate swaps and Repos (collateral provided, respectively, under CSAs and GMRAs).

BancoPosta RFC's maturity mismatch approach entails an analysis of the mismatch between cash in and outflows for each time band of the maturity ladder.

BancoPosta RFC's cash is dynamically managed by treasury for the timely and continual monitoring of private customer postal current account cash flows and the efficient management of short-term cash shortfalls and excesses. In order to assure flexible investments in securities consistent with the dynamic nature of current accounts, BancoPosta RFC can also use the MEF buffer account within certain limits and subject to payment of a fee.

Details on the risk management model are contained in the note on financial risk at the beginning of this Part E.

The liquidity risk resulting from contract terms requiring the provision of additional collateral in the event of a downgrade of Poste Italiane SpA is negligible. Such contracts include those for margin lending of derivatives, which require the threshold

160. Since 1 October 2018, prepaid cards are the responsibility of Postepay SpA. The liquidity raised through these cards is transferred to BancoPosta, which invests the funds raised in euro area government bonds or bonds guaranteed by the Italian State. As such, for the purposes of specific risk analyses, the rationales related to each model underlying the different types of deposit inflow continue to apply.

amount[161] 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 Basel 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. Taking into account the capital structure of BancoPosta RFC characterised by the presence of a high amount of EU government securities and deposits mainly made up of retail deposits, these indicators are well above the limits imposed by 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 and subsequent updates), 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.

161. 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

Items/Residual terms to maturity (€m)		Demand	1 - 7 days	7 - 15 days	15 days - 1 month	1 - 3 months	3 - 6 months	6 months - 1 year	1 - 5 years	Over 5 years	Unspecified maturity
A.	**On-balance sheet assets**	**9,124**	**6,818**	**3**	**-**	**2,028**	**562**	**2,219**	**6,975**	**42,135**	**13**
A.1	Government bonds	-	-	3	-	2,006	549	1,434	6,975	39,135	-
A.2	Other debt securities	-	-	-	-	22	13	785	-	3,000	-
A.3	UCIs	-	-	-	-	-	-	-	-	-	-
A.4	Loans	9,124	6,818	-	-	-	-	-	-	-	13
	- Banks	71	4,620	-	-	-	-	-	-	-	-
	- Customers	9,053	2,198	-	-	-	-	-	-	-	13
B.	**On-balance sheet liabilities**	**59,231**	**119**	**151**	**1,526**	**1,581**	**585**	**1,601**	**6,734**	**-**	**-**
B.1	Deposits and current accounts	53,938	-	-	-	-	-	-	-	-	-
	- Banks	383	-	-	-	-	-	-	-	-	-
	- Customers	53,555	-	-	-	-	-	-	-	-	-
B.2	Debt securities	-	-	-	-	-	-	-	-	-	-
B.3	Other liabilities	5,293	119	151	1,526	1,581	585	1,601	6,734	-	-
C.	**Off-balance sheet transactions**										
C.1	Financial derivatives with exchange of principal										
	- Long positions	-	-	-	-	1,504	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	730	550	-
C.2	Financial derivatives without exchange of principal										
	- Long positions	-	-	-	2	37	6	58	-	-	-
	- Short positions	-	-	-	-	45	2	82	-	-	-
C.3	Deposits and loans to be received										
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.4	Commitments to disburse funds										
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.5	Financial guarantees given	-	-	-	-	-	-	-	-	-	-
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

Items/Residual terms to maturity (€m)		Demand	1 - 7 days	7 - 15 days	15 days - 1 month	1 - 3 months	3 - 6 months	6 months - 1 year	1 - 5 years	Over 5 years	Unspecified maturity
A.	**On-balance sheet assets**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
A.1	Government bonds	-	-	-	-	-	-	-	-	-	-
A.2	Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3	UCIs	-	-	-	-	-	-	-	-	-	-
A.4	Loans	1	-	-	-	-	-	-	-	-	-
	- Banks	1	-	-	-	-	-	-	-	-	-
	- Customers	-	-	-	-	-	-	-	-	-	-
B.	**On-balance sheet liabilities**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1	Deposits and current accounts	-	-	-	-	-	-	-	-	-	-
	- Banks	-	-	-	-	-	-	-	-	-	-
	- Customers	-	-	-	-	-	-	-	-	-	-
B.2	Debt securities	-	-	-	-	-	-	-	-	-	-
B.3	Other liabilities	-	-	-	-	-	-	-	-	-	-
C.	**Off-balance sheet transactions**										
C.1	Financial derivatives with exchange of principal										
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.2	Financial derivatives without exchange of principal										
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.3	Deposits and loans to be received										
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.4	Commitments to disburse funds										
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.5	Financial guarantees given	-	-	-	-	-	-	-	-	-	-
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

	Items/Residual terms to maturity (€m)	Demand	1 - 7 days	7 - 15 days	15 days - 1 month	1 - 3 months	3 - 6 months	6 months - 1 year	1 - 5 years	Over 5 years	Unspecified maturity
A.	**On-balance sheet assets**	**2**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
A.1	Government bonds	-	-	-	-	-	-	-	-	-	-
A.2	Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3	UCIs	-	-	-	-	-	-	-	-	-	-
A.4	Loans	2	-	-	-	-	-	-	-	-	-
	- Banks	2	-	-	-	-	-	-	-	-	-
	- Customers	-	-	-	-	-	-	-	-	-	-
B.	**On-balance sheet liabilities**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1	Deposits and current accounts	-	-	-	-	-	-	-	-	-	-
	- Banks	-	-	-	-	-	-	-	-	-	-
	- Customers	-	-	-	-	-	-	-	-	-	-
B.2	Debt securities	-	-	-	-	-	-	-	-	-	-
B.3	Other liabilities	-	-	-	-	-	-	-	-	-	-
C.	**Off-balance sheet transactions**										
C.1	Financial derivatives with exchange of principal										
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.2	Financial derivatives without exchange of principal										
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.3	Deposits and loans to be received										
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.4	Commitments to disburse funds										
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.5	Financial guarantees given	-	-	-	-	-	-	-	-	-	-
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 5 – Operational risk

Qualitative information

A. Generalities, management policies and operational risk measurement methods

Operational risk refers to the risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events. This category of risk includes losses resulting from fraud, human error, business disruption, systems failures, breach of contracts and natural disasters. Operational risk includes legal risk, but not strategic and reputational risks.

To protect against this form of risk, BancoPosta RFC has formalised a methodological and organisational framework to identify, measure and manage the operational risk related to its products/processes.

The framework, which is based on an integrated (qualitative and quantitative) measurement model, makes it possible to monitor and manage risk on an increasingly informed basis.

In 2019, activities continued to refine the operational risk management framework, with the aim of making the process of recording operational losses more efficient and mitigating such risks by cross-functional working groups. Support has also been provided to the specialist units and the owner of the process of analysing and assessing IT risk, in keeping with the approach adopted in 2018.

Quantitative information

At 31 December 2019, 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:

Operational risk

Event type	Number of types
Internal fraud	32
External fraud	49
Employee practices and workplace safety	7
Customers, products and business practices	31
Damage caused by external events	4
Business disruption and system failure	10
Execution, delivery and process management	115
Total at 31 December 2019	**248**

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[162].

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[163]. Compliance with the objective, threshold and limit system established by the RAF influences decisions regarding profit distributions as part of capital management.

162. With effect from 1 January 2018, EU Regulation no. 2017/2395 came into force, which amends the so-called CRR and introduces, inter alia, transitional provisions to mitigate the impact of the introduction of IFRS 9 on own funds. BancoPosta RFC has availed itself of the possibility, recognised by these regulations, to adopt a "transitional approach" (so-called (phase-in) of recording the effects of adjustments for expected losses over a transitional period of 5 years, sterilising the impact in CET1 by applying decreasing percentages over time.
163. A definition of the RAF is provided in the Introduction to Part E.

B. Quantitative information

B.1 Company's equity: breakdown

Items/Amounts (€m)	Total at 31/12/2019	Total at 31/12/2018
1. Share capital	-	-
2. Share premium reserve	-	-
3. Reserves	2,267	2,267
- retained earnings	1,057	1,057
a) legal	-	-
b) required by articles of association	-	-
c) treasury shares	-	-
d) other	1,057	1,057
- other	1,210	1,210
4. Equity instruments	-	-
5. (Treasury shares)	-	-
6. Valuation reserves	1,083	15
- Equity instruments measured at fair value through other comprehensive income	-	-
- Hedges of equity instruments measured at fair value through other comprehensive income	-	-
- Financial assets (other than equity instruments) measured at fair value through other comprehensive income	970	(71)
- Property, plant and equipment	-	-
- Intangible assets	-	-
- Hedges of net investments in foreign operations	-	-
- Cash flow hedges	115	88
- Hedging instruments (undesignated elements)	-	-
- Translation differences	-	-
- Non-current assets and disposal groups held for sale	-	-
- Financial liabilities designated at fair value through profit or loss (changes in own credit rating)	-	-
- Actuarial profits/(losses) on defined benefit plans	(2)	(2)
- Valuation reserves relating to equity accounted investments	-	-
- Special revaluation laws	-	-
7. Profit/(Loss) for the year	611	597
Total	**3,961**	**2,879**

"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 and the €210 million equity injection, resolved by the Extraordinary General Meeting of 29 May 2018, through the allocation of Poste Italiane SpA's available reserves.

B.2 Valuation reserves for financial assets measured at fair value through other comprehensive income: breakdown

Asset/Amounts (€m)	Total at 31/12/2019		Total at 31/12/2018	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	1,461	(491)	773	(844)
2. Equity instruments	-	-	-	-
3. Loans	-	-	-	-
Total	**1,461**	**(491)**	**773**	**(844)**

B.3 Valuations reserves for financial assets measured at fair value through other comprehensive income: annual changes

(€m)	Debt securities	Equity instruments	Loans
1. Opening balance	**(71)**	**-**	**-**
2. Increases	**1,393**	**-**	**-**
2.1 Increases in fair value	1,374	-	-
2.2 Losses due to credit risk	2	X	-
2.3 Reclassification to profit or loss of negative reserve for realised losses	17	X	-
2.4 Transfers to other equity (equity instruments)	-	-	-
2.5 Other changes	-	-	-
3. Decreases	**(352)**	**-**	**-**
3.1 Decreases in fair value	(157)	-	-
3.2 Recoveries due to credit risk	(4)	-	-
3.3 Reclassification to profit or loss of positive reserve for realised gains	(191)	X	-
3.4 Transfers to other equity (equity instruments)	-	-	-
3.5 Other changes	-	-	-
4. Closing balance	**970**	**-**	**-**

B.4 Valuation reserves for defined benefit plans: annual changes

(€m)	Total at 31/12/2019	Total at 31/12/2018
Opening actuarial gains/(losses)	**(2)**	**(2)**
Actuarial gains/(losses)	-	-
Taxation of actuarial gains/(losses)	-	-
Closing actuarial gains/(losses)	**(2)**	**(2)**

Section 2 – Own funds and capital ratios

BancoPosta RFC's own funds are all Common Equity Tier 1 (CET 1) and consist 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[164];
- undistributed earnings, being BancoPosta RFC's profits appropriated on approval of Poste Italiane SpA's financial statements.

At 31 December 2019, CET 1 amounted to €2,388 million, €85 million of which was calculated from the profit for 2019 (in compliance with the provisions of art. 26 of Regulation (EU) no. 575/2013) and €36 million deriving for €28 million from the application of the transitional provisions to mitigate the effects of IFRS 9 and for the remainder from the application to BancoPosta RFC of prudential supervisory institutions.

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[165]), equal to 10.5% (8% being the minimum requirement and 2.5% being the capital conservation buffer);
- Common Equity Tier 1 ratio (the ratio of CET1 to total risk weighted assets - RWAs): equal to 7.0% (4.5% being the minimum requirement and 2.5% being the capital conservation buffer);
- Tier 1 ratio (the ratio of Tier 1 to total risk weighted assets - RWAs): equal to 8.5% (6.0% being the minimum requirement and 2.5% being the capital conservation buffer).

At 31 December 2019, BancoPosta RFC complies with the prudential requirements, with a CET1 ratio of 18.3%.

For more details, reference is made, as provided for by Circular no 262 of the Bank of Italy, to the information on own funds and capital adequacy contained in the public disclosure (Pillar 3).

Part G – Business combinations

No business combinations took place either during or subsequent to the period under review.

Part H – Related party transactions

1. Payments to key management personnel

Key management personnel consist of Directors of Poste Italiane SpA and first-line managers, whose compensation before social security and welfare charges and contributions are disclosed in table 4.4.5 in the notes on Poste Italiane SpA's financial statements and have been charged to BancoPosta RFC as part of the services provided by Poste Italiane functions outside the ring-fence (see Part C, Table 9.5). The charges are calculated in accordance with specific operating guidelines (Part A, paragraph A.1, Section 4).

164. Contributions from non-controlling shareholders to BancoPosta RFC are excluded, as they are not provided for in the special regulations governing the ring-fence.
165. Risk weighted assets, or RWAs, are calculated by applying a risk weighting to the assets exposed to credit, counterparty, market and operational risks.

2. Related party transactions

Impact of related party transactions on the financial position at 31 December 2019

Name (€m)	Total at 31/12/2019						
	Financial assets	Due from banks and customers	Hedging derivative assets and liabilities	Other assets	Financial liabilities	Due to banks and customers	Other liabilities
Poste Italiane SpA	-	651	-	83	-	58	442
Direct subsidiaries							
BancoPosta Fondi SpA SGR	-	17	-	-	-	15	11
CLP ScpA	-	-	-	-	-	1	-
Consorzio PosteMotori	-	18	-	-	-	44	-
Consorzio Servizi Telef. Mobile ScpA	-	-	-	-	-	-	-
EGI SpA	-	-	-	-	-	13	-
Indabox Srl	-	-	-	-	-	-	-
Poste Air Cargo Srl	-	-	-	-	-	-	-
PatentiViaPoste ScpA	-	-	-	-	-	12	-
Poste Tributi ScpA (in liquidation)	-	2	-	-	-	2	-
Poste Vita SpA	-	141	-	-	-	237	-
Postel SpA	-	-	-	-	-	7	1
PostePay SpA	-	55	-	53	-	5,219	101
SDA Express Courier SpA	-	-	-	-	-	4	-
Indirect subsidiaries							
Address Software Srl	-	-	-	-	-	-	-
Kipoint SpA	-	-	-	-	-	1	-
Poste Assicura SpA	-	6	-	-	-	8	-
Poste Welfare Servizi Srl	-	-	-	-	-	8	-
Poste Insurance Broker	-	-	-	-	-	1	-
Uptime SpA (in liquidation)	-	-	-	-	-	-	-
Associates							
Conio Inc	-	-	-	-	-	-	-
Anima Group	-	-	-	-	-	-	-
ItaliaCamp Srl	-	-	-	-	-	-	-
Related parties external to the Group							
MEF	-	7,616	-	-	-	4,542	-
Cassa Depositi e Prestiti Group	3,947	451	-	-	-	-	-
Enel Group	-	-	-	-	-	-	-
Eni Group	-	-	-	-	-	-	-
Leonardo Group							
Monte dei Paschi Group	-	142	(134)	-	-	265	-
Invitalia Group	-	-	-	-	-	-	-
Other related parties external to the Group	-	-	-	-	-	-	-
Provision for doubtful debts owing from external related parties	(1)	(5)	-	-	-	-	-
Total	**3,946**	**9,094**	**(134)**	**136**	**-**	**10,437**	**555**

Impact of related party transactions on the financial position at 31 December 2018

Name (€m)	Total at 31/12/2018						
	Financial assets	Due from banks and customers	Hedging derivative assets and liabilities	Other assets	Financial liabilities	Due to banks and customers	Other liabilities
Poste Italiane SpA	-	844	-	2	-	79	410
Direct subsidiaries							
BancoPosta Fondi SpA SGR	-	15	-	-	-	20	-
CLP ScpA	-	-	-	-	-	1	-
Consorzio PosteMotori	-	13	-	-	-	45	-
Consorzio Servizi Telef. Mobile ScpA	-	-	-	-	-	1	-
EGI SpA	-	-	-	-	-	7	-
Indabox Srl	-	-	-	-	-	-	-
Poste Air Cargo Srl	-	-	-	-	-	-	-
PatentiViaPoste ScpA	-	-	-	-	-	9	-
Poste Tributi ScpA (in liquidation)	-	2	-	-	-	1	-
Poste Vita SpA	-	140	-	-	-	539	-
Postel SpA	-	-	-	-	-	6	25
PostePay SpA	-	47	-	176	-	4,271	103
SDA Express Courier SpA	-	-	-	-	-	3	-
Indirect subsidiaries							
Address Software Srl	-	-	-	-	-	-	-
Kipoint SpA	-	-	-	-	-	-	-
Poste Assicura SpA	-	7	-	-	-	5	-
Poste Welfare Servizi Srl	-	-	-	-	-	9	-
Poste Insurance Broker	-	-	-	-	-	-	-
Uptime SpA (in liquidation)	-	-	-	-	-	-	-
Associatesv							
Conio Inc	-	-	-	-	-	-	-
Anima Group	-	-	-	-	-	-	-
ItaliaCamp Srl	-	-	-	-	-	-	-
Related parties external to the Group							
MEF	-	7,312	-	4	-	3,649	1
Cassa Depositi e Prestiti Group	4,541	440	-	-	-	-	1
Enel Group	-	-	-	-	-	-	-
Eni Group	-	-	-	-	-	-	-
Leonardo Group							
Monte dei Paschi Group	-	15	9	-	-	317	-
Invitalia Group	-	-	-	-	-	-	-
Other related parties external to the Group	-	-	-	-	-	-	-
Provision for doubtful debts owing from external related parties	(2)	(5)	-	-	-	-	-
Total	**4,539**	**8,830**	**9**	**182**	**-**	**8,962**	**540**

* On 26 September 2018, PosteMobile was entered in the Register of electronic money institutions (article 114–*quater* of the Consolidated Banking Act) and, as of 1 October 2018, changed its name to PostePay SpA.

Impact of related party transactions on profit or loss for the year ended 31 December 2019

Name (€m)	FY 2019							
	Interest and similar income	Interest expense and similar charges	Fee income	Fee expenses	Dividends and similar income	Net losses/ recoveries on impairments	Administrative expenses	Other operating income/ (expense)
Poste Italiane SpA	-	(4)	-	-	-	-	(4,476)	-
Direct subsidiaries								
BancoPosta Fondi SpA SGR	-	-	63	-	-	-	(11)	-
CLP ScpA	-	-	-	-	-	-	-	-
Consorzio PosteMotori	-	-	38	-	-	-	-	-
Consorzio Servizi Telef. Mobile ScpA	-	-	-	-	-	-	-	-
EGI SpA	-	-	-	-	-	-	-	-
Indabox Srl	-	-	-	-	-	-	-	-
Poste Air Cargo Srl	-	-	-	-	-	-	-	-
PatentiViaPoste ScpA	-	-	-	-	-	-	-	-
Poste Tributi ScpA (in liquidation)	-	-	-	-	-	-	-	-
Poste Vita SpA	1	-	432	-	-	-		
Postel SpA	-	-	-	-	-	-	(1)	-
PostePay SpA	1	(22)	192	(317)	-	-	-	(4)
SDA Express Courier SpA	-	-	-	-	-	-	-	-
Indirect subsidiaries								
Address Software Srl	-	-	-	-	-	-	-	-
Kipoint SpA	-	-	-	-	-	-	-	-
Poste Assicura SpA	-	-	38	-	-	-	-	-
Poste Welfare Servizi Srl	-	-	-	-	-	-	-	-
Poste Insurance Broker	-	-	-	-	-	-	-	-
Uptime SpA (in liquidation)	-	-	-	-	-	-	-	-
Associates								
Conio Inc	-	-	-	-	-	-	-	-
Anima Group	-	-	-	-	-	-	-	-
ItaliaCamp Srl	-	-	-	-	-	-	-	-
Related parties external to the Group								
MEF	64	(5)	60	-	-	-	1	-
Cassa Depositi e Prestiti Group	74	-	1,799	(1)	-	1	-	-
Enel Group	-	-	4	-	-	-	-	-
Eni Group	-	-	2	-	-	-	-	-
Leonardo Group	-	-	-	-	-	-	-	-
Monte dei Paschi Group	1	-	-	-	-	-	-	-
Invitalia Group	-	-	-	-	-	-	-	-
Other related parties external to the Group	-	-	-	-	-	-	-	-
Total	**141**	**(31)**	**2,628**	**(318)**	**-**	**1**	**(4,487)**	**(4)**

Impact of related party transactions on profit or loss for the year ended 31 December 2018

Name (€m)	FY 2018							
	Interest and similar income	Interest expense and similar charges	Fee income	Fee expenses	Dividends and similar income	Net losses/ recoveries on impairments	Administrative expenses	Other operating income/ (expense)
Poste Italiane SpA	-	(4)	-	-	-	-	(4.508)	-
Direct subsidiaries								
BancoPosta Fondi SpA SGR	-	-	51	-	-	-	-	-
CLP ScpA	-	-	-	-	-	-	-	-
Consorzio PosteMotori	-	-	36	-	-	-	-	-
Consorzio Servizi Telef. Mobile ScpA	-	-	-	-	-	-	-	-
EGI SpA	-	-	-	-	-	-	-	-
Indabox Srl	-	-	-	-	-	-	-	-
Poste Air Cargo Srl	-	-	-	-	-	-	-	-
PatentiViaPoste ScpA	-	-	-	-	-	-	-	-
Poste Tributi ScpA (in liquidation)	-	-	-	-	-	-	-	-
Poste Vita SpA	2	-	402	-	-	-	-	-
Postel SpA	-	-	-	-	-	-	(40)	-
PostePay SpA	-	(4)	48	(82)	-	-	(1)	1
SDA Express Courier SpA	-	-	-	-	-	-	-	-
Indirect subsidiaries								
Address Software Srl	-	-	-	-	-	-	-	-
Kipoint SpA	-	-	-	-	-	-	-	-
Poste Assicura SpA	-	-	29	-	-	-	-	-
Poste Welfare Servizi Srl	-	-	-	-	-	-	-	-
Poste Insurance Broker	-	-	-	-	-	-	-	-
Uptime SpA (in liquidation)	-	-	-	-	-	-	-	-
Associates								
Conio Inc	-	-	-	-	-	-	-	-
Anima Group	-	-	-	-	-	-	-	-
ItaliaCamp Srl	-	-	-	-	-	-	-	-
Related parties external to the Group								
MEF	62	(3)	99	-	-	-	(2)	4
Cassa Depositi e Prestiti Group	64	-	1.827	-	-	1	(24)	-
Enel Group	-	-	7	-	-	-	-	-
Eni Group	-	-	3	-	-	-	-	-
Leonardo Group	-	-	-	-	-	-	-	-
Monte dei Paschi Group	1	-	-	-	-	-	-	-
Invitalia Group	-	-	-	-	-	-	-	-
Other related parties external to the Group	-	-	-	-	-	-	(4)	-
Total	**129**	**(11)**	**2.502**	**(82)**	**-**	**1**	**(4.579)**	**5**

* On 26 September 2018, PosteMobile was entered in the Register of electronic money institutions (article 114–*quater* of the Consolidated Banking Act) and, as of 1 October 2018, changed its name to PostePay SpA.

Part I – Share-based payment arrangements

A. Qualitative information

1. Description of share-based payment arrangements

Long-term incentive scheme: Phantom Stock Plan

The Annual General Meeting of Poste Italiane SpA's shareholders held on 24 May 2016 approved the information circular for the Long-term Incentive Plan for 2016-2018 (LTIP) – Phantom Stock Plan, prepared in accordance with art. 84-*bis* of the Regulations for Issuers. The LTIP, set up in line with market practices, aims to link a portion of the variable component of remuneration to the achievement of earnings targets and the creation of sustainable shareholder value over the long term.

Description of the Plan

The ILT Phantom Stock 2016-2018 Plan provides for the assignment to the Beneficiaries of rights to receive units representing the value of the Poste Italiane share (the so-called Phantom Stock), and the related bonus in cash, 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 delivery date for the phantom stocks, after the retention period (as specified below). The key characteristics of the Plan are described below.

Beneficiaries

The beneficiaries of the Plan are BancoPosta RFC's 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, awarding and delivery of the Rights are 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

An independent expert was appointed to measure the value of the stocks and this was done using Monte Carlo simulations.

First Cycle 2016-2018

The total number of phantom stocks awarded to the 4 Beneficiaries of the First Cycle of the Plan outstanding at 31 December 2019 amounted to 39,294.

Second Cycle 2017-2019

The total number of phantom stocks awarded to the 6 Beneficiaries of the Second Cycle of the Plan amounted to 47,595 units.

Third Cycle 2018-2020

The total number of phantom stocks awarded to the 8 Beneficiaries of the Third Cycle of the Plan amounted to 54,635 units.

The total cost for 3 cycles recognised for 2019 is approximately €0.7 million, whilst the liability recognised in amounts due to staff is approximately €1.2 million.

Long-term incentive scheme: performance share plan

The Annual General Meeting of Poste Italiane SpA's shareholders held on 28 May 2019 approved the information circular for the Equity-based incentive plan (ILT) – Performance Share Plan, prepared in accordance with art 84-bis of the Regulations for Issuers. This incentive scheme, 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

The ILT Performance Share Plan, as described in the relevant Information Circular, provides for the assignment of Rights to the ordinary shares of Poste Italiane. The number of Rights to be granted to Beneficiaries is subject to the achievement of Performance Targets over a three-year period, following confirmation of achievement of the Hurdle, the Qualifying Conditions and compliance with the Malus Provisions. The Plan covers a medium- to long-term period. In particular, the Plan includes two award cycles, corresponding to the financial years 2019 and 2020, each with a duration of three years. Shares are awarded if performance targets are met or after a Retention Period. The key characteristics of the Plan are described below.

Beneficiaries

The beneficiaries of the Plan are some BancoPosta RFC resources.

Plan terms and conditions

The Performance Targets, common to all Beneficiaries, to which the vesting of the Rights and, therefore, the allocation of the Shares is conditioned, for the first award cycle are highlighted below:

- a profitability indicator identified in the Group's three-year cumulative EBIT used to recognise the continuity and sustainability of profitability results over the long term;
- an indicator of shareholder value creation, based on the relative Total Shareholder Return, used to measure performance based on the value created for Poste Italiane's shareholders compared with the FTSE MIB index[166].

Vesting of the Rights and the therefore the awarding of the Shares 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, 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, (CET 1) at the end of the period;
- Indicator of short-term liquidity, (LCR) at the end of the period;
- RORAC risk-adjusted earnings at the end of the period.

The allocation of the Shares (both for the up-front and deferred portions) will take place following the verification of the existence of capitalisation and liquidity levels.

The Shares will be awarded by the end of the year following the end of the Performance Period as follows:

- 40% up-front;
- the remaining 60% in two portions, with deferral periods of 2 and 4 years, respectively.

A further Retention Period of one year will be applied to both the up-front and deferred portions.

Finally, the delivery of the shares, both for up-front and deferred portions, is subject to the fulfilment of the Qualifying Conditions on the date of delivery of the shares.

Determination of fair value and effects on profit or loss

An independent expert, external to the Group, was appointed to measure the value of the stocks and this was done using Monte Carlo simulations.

First Cycle 2019-2021

The total number of Rights to receive Shares assigned for the First Cycle of the Plan concerns 9 Beneficiaries and was 35,671 units, whose unit fair value at the grant date (7 October 2019) was €8.29. The cost recognised for 2019 is approximately €0.1 million, equivalent to the equity reserve specifically created for this case. Finally, the unit fair value of each right is equal to its nominal value at the grant date (determined on the basis of stock exchange prices), discounted by the expected dividend rate and the risk-free interest rate.

166. The objective linked to the relative Total Shareholder Return (rTSR) includes a "negative threshold" provision: if Poste Italiane's TSR is negative, despite being higher than the TSR registered by the index, the number of vested Rights (linked to rTSR) is reduced to the minimum threshold of 50%.

Short-term incentive schemes: MBO

On 27 May 2014, the Bank of Italy issued specific Supervisory Standards for BancoPosta (Part IV, Chapter I, BancoPosta including in Circular 285 of 17 December 2013 Prudential supervisory standards for banks) which, in taking into account BancoPosta's specific organisational and operational aspects, has extended application of the prudential standards for banks to include BancoPosta RFC. This includes the standards relating to remuneration and incentive policies (Part I, Title IV, Chapter 2 Remuneration and incentive policies and practices in the above Circular 285). These standards provide that a part of the bonuses paid to BancoPosta RFC's Risk Takers may be awarded in the form of financial instruments over a multi-year timeframe.

With regard to the management incentive schemes adopted for BancoPosta RFC MBO for 2017 and 2018, where the incentive is above a certain materiality threshold, the MBO management incentive scheme envisages the award of 50% of the incentive in the form of phantom stocks, representing the value of Poste Italiane's shares, and application of the following deferral mechanisms:

- 60% of the award to be deferred for a 5-year period on a pro-rata basis, in the case of Material Risk Takers who are beneficiaries of both the short-term incentive scheme and the third cycle 2018-2020 of the LTI Phantom Stock Plan;
- 40% of the award to be deferred for a 3-year period on a pro-rata basis for the remaining Material Risk Takers.

The new short-term management incentive scheme (MBO 2019), approved by the General Meeting of Poste Italiane SpA's shareholders on 28 May 2019, provides, where the incentive exceeds a materiality threshold, for the payment of a portion of the bonus accrued in the form of shares in Poste Italiane SpA and the application of deferral mechanisms:

- 60% of the incentive over 5 years pro-rata for the head of the BancoPosta function;
- 40% over 5 years pro-rata for the Senior Management Beneficiaries;
- 40% over 3 years pro-rata for the Other Beneficiaries.

The allocation of Phantom Stocks (MBO 207 and 2018) and Rights to receive Shares (MBO 2019) is subject to the existence of a Performance Hurdle (Group Profitability EBIT) and Qualifying Conditions as follows:

- Capital adequacy, (CET 1);
- Short-term liquidity, (LCR).

Shares allocated in the form of Phantom Stock or Shares are subject to a Retention Period for both up-front and deferred shares.

Payment of the deferred portion will take place each year, provided that BancoPosta RFC's minimum regulatory capital and liquidity requirements have been met. The effects on profit or loss and on equity are recognised in the period in which the instruments vest.

Determination of fair value and effects on profit or loss

An independent expert, external to the Group, was appointed to measure the value of the stocks, based on best market practices.

At 31 December 2019, the number of Phantom Stocks relating to the 2017 and 2018 MBO plans in place was 92,639. The liability recognised at 31 December 2019 amounts to €0.8 million.

At 31 December 2019, the number of Rights to receive Shares, deriving from the new short-term MBO 2019 incentive plan, estimated on the basis of the best information available, pending the actual finalisation of the system in order to record the cost of the service received, was 36,791. The amount recognised in profit and loss in 2019 is €0.3 million.

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.

Part M – Information on leases

During the reporting period, BancoPosta RFC did not carry out any transactions in accordance with IFRS 16 relating to Leases.