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02 FINANCIAL STATEMENTS OF POSTE ITALIANE AT 31 DECEMBER 2020

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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 2020, 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 2020, 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 and Mobile, (iii) Financial Services and (iv) Insurance Services.

In addition to 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 the other segments in which the Group operates.

The Payment and Mobile Services Sector includes the activities of payment management, e-money services and mobile and fixed-line telephone services by Postepay SpA. Starting in 2020, and in line with the organisational changes that in 2019, saw the transfer of the digital channel control activities within the Mail, Parcels and Distribution Services Sector, the name of the Payments, Mobile and Digital Sectors has been updated to Payments and Mobile.

The Financial Services Sector regards the activities of BancoPosta RFC, which include the collection of all forms of savings deposits, the provision of payment services (of which some are outsourced to the Payments and Mobile sector), 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.

The Insurance Services Sector regards 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 2020 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 consolidated statement of financial position, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated 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 2020;
- 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 in force at 31 December 2020, regarding which no derogations were made.

2.2 Basis of presentation

the accounting standards reflect the **full operations** of the Group and Poste Italiane SpA in the foreseeable future. As a going concern, Poste Italiane Group companies prepare their financial statements on a **going concern** basis, taking account, among other things, of the Group's economic and financial outlook, as reflected in the "2024 Sustain & Innovate" strategic plan approved by the Board of Directors at its meeting of 18 March 2021.

The statement of financial position has been prepared on the basis of the **"current/non-current distinction"**[73]. In the Statement of profit (loss) for the year, the **classification criterion based on the nature of the cost components** has been adopted; details of interest income calculated using the effective interest criterion, as well as gains and losses deriving from the derecognition of financial assets measured at amortised cost (as per IAS 1 - *Presentation of Financial Statements* paragraph 82) are provided in section 5.3 Notes to the Statement of profit or loss. The cash flow statement has been prepared under the **indirect method**[74].

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 2019.

The disclosures provided in these annual financial statements as well as the accounting standards adopted are in accordance with the guidelines and recommendations of the European regulatory and supervisory bodies and standard setters (ESMA, Consob and IFR Foundation)[75] published in 2020 and 2021 in order to provide a guideline in the current economic context, which is heavily influenced by the pandemic. The accounting implications of complying with these recommendations are described in section 2.5 - *Use of estimates*.

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

73. 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, par. 68).
74. 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.
75. Public statement ESMA 32-63-951 of 25 March 2020 "Accounting implications of the Covid-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9"; IASB document of 27 March 2020 "IFRS 9 and Covid-19 - Accounting for expected credit losses applying IFRS 9 - Financial Instruments in the light of current uncertainty resulting from the Covid-19 pandemic"; Public statement ESMA 32-63-1041 of 28 October 2020 "European common enforcement priorities for 2020 annual financial reports"; Consob Notice of attention no. 1/21 of 16 February 2021.

also shows, where applicable and of significant amount, **income and expenses deriving from non-recurring transactions**, or transactions that occur infrequently in the normal course of business. Detailed information about non-recurring events and transactions, including their impact on the financial position, results of operations and cash flows of the company and/or the group, is provided in the section "*Material non-recurring events and/or transactions*".

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

In this regard, it should be noted that the presentation of the positive and negative income components relating to the financial business has been revised in the Consolidated Statement of Profit or Loss, in order to allow for a convergent interpretation with the presentation in the banking financial statements in accordance with Bank of Italy regulations; this presentation method also ensures greater consistency with respect to the current presentation of the positive and negative income components relating to the insurance business. In detail, and in accordance with IAS 1, the consolidated statement of profit or loss for the year ended 31 December 2020 includes the item "Net revenue from financial services", defined as the sum of "Revenue from financial services" and "Expenses from financial activities", previously separately represented respectively under "Net operating revenue" and under costs, as a proportion of the Operating profit/(loss) and net trading income[76]. In order to ensure the same set of information as in previous Financial Reports, the item is accompanied by details of the individual positive and negative components that contribute to the margin shown.

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[77], 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 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 or 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 compa-

76. The individual components contributing to net revenue from financial services will continue, in the Consolidated Statement of Profit or Loss, to move the same items presented through 2019 and be separately presented under the new revenue item. The approach does not involve any change in key measures of the financial statements such as the Operating profit/(loss) and trading income and Net profit.
77. 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).

nies 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.

In 2020, as part of the broader process of updating the Business Plan, which included a strategic analysis of the Group's assets, a complex evaluation and articulation of the real estate portfolio was carried out in homogeneous clusters with the technical/specialist support of a third party, which required the update of the useful lives and residual values of certain categories of fixed assets. For details of the useful life of the main classes of property, plant and equipment of the Group and for the analysis of the effects deriving from this activity, reference should be made to Note 2.5 - *Use of estimates*.

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. For details on the useful life of the Group's investment property, please refer to Note 2.5 - *Use of estimates*.

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 carrying amount 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 or 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 or 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".

Lease arrangements

At the conclusion of the contract, the actual existence of a lease component is assessed. The contract is, or contains, a lease if in return for 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 customer. 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 latter is separated and treated in accordance with the relevant accounting standard. However, if separation cannot be achieved on the basis of objective criteria, the lease and non-lease component are submitted jointly to the accounting rules of the lease.

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.

The lease liability is initially recorded at the present value of the lease instalments not paid on the date the contract commences[78], discounted using the incremental borrowing rate, defined by loan period and for each Group company. The lease liability is subsequently reduced to reflect the lease payments made and increased to reflect interest on the remaining amount.

The lease liability is restated (resulting in a right-of-use adjustment) in the event of 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, the remaining lease liability is remeasured 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.

If events or changes in circumstances indicate that the carrying amount of the right of use cannot be recovered, this asset is tested for impairment in accordance with the provisions of IAS 36 - *Impairment of Assets*.

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 or loss lease payments as matching entry to short-term trade payables.

78. 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.

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[79]. 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.

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[80]. 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*.

79. 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.
80. This is possible for transactions carried out on organised markets (the "regular way").

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 or 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.

- 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 or 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 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).

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 event of a change in the 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.

Financial liabilities, including loans, 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[81]
  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 financial 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.

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

- Cash flow hedge[82]
  The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges after initial recognition is recognised in a specific equity reserve, with movements in the reserve accounted for in "*Other comprehensive income*" (the "Cash flow hedge reserve"). A hedging transaction is generally considered highly effective if, both at inception of the hedge and on an ongoing basis, changes in the expected future cash flows of the hedged item are substantially offset by changes in the fair value of the hedging instrument. If the hedging transaction is not fully effective, the gain or loss arising from a change in fair value relating to the ineffective portion is recognised in profit or loss for the period.
  Amounts accumulated in equity are recycled to profit or loss in the period in which the hedged item affects profit or loss. In particular, in the case of hedges associated with a highly probable forecast transaction (such as the purchase of fixed income debt securities), the reserve is reclassified to profit or loss in the period or in the periods in which the asset or liability, subsequently accounted for and connected to the aforementioned transaction, will affect profit or loss (for example, an adjustment to the return on the security).
  If, during the life of the derivative, the forecast hedged transaction is no longer expected to occur, the related gains and losses accumulated in the cash flow hedge reserve are immediately reclassified to profit or loss for the period. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the related gains and losses accumulated in the cash flow hedge reserve at that time remain in equity and are recognised in profit or loss at the same time as the original underlying.

Repurchase agreements

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 in these financial statements. Consequently, in the case of securities purchased under a resale agreement, the amount paid is recognised as an amount due from customers or banks under Financial assets measured at amortised cost; in the case of securities sold under a repurchase agreement, the liability is recognised as an amount due to banks or customers under Financial liabilities measured at amortised cost. The transactions described are subject to offsetting if, and only if, they are carried out with the same counterparty, have the same maturity and offsetting is provided for in the contract.

Receivables acquired with reference to the relaunch decree no. 34/2020

Since it is not possible to identify an accounting framework directly applicable to this case, in compliance with the provisions of IAS 8, an *accounting policy* was defined suitable for providing relevant and reliable information aimed at ensuring a faithful representation of the financial position, income and cash flows and which reflects the economic substance and not merely the form of the transaction for the receivables acquired with reference to the relaunch decree no. 34/2020 (later converted into Law no. 77 of 17 July 2020). On the basis of the analyses carried out and the documents published by the main Italian supervisory bodies (Joint Document of the Bank of Italy, IVASS and Consob), although the definition of financial assets in IAS 32 is not directly applicable to this case, since:

- at inception, an asset as defined by the Conceptual Framework arises in the transferee's financial statements
- they may be used to offset a payable that is usually settled in cash (tax payables), and exchanged for other financial assets on terms that may be potentially favourable to the entity
- a business model can be identified (Hold to Collect, Hold to Collect and Sell)

An accounting model based on IFRS 9 has been developed, and consequently receivables are recorded at the date of purchase at their fair value (coinciding with the price paid) and subsequently measured on the basis of amortised cost.

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

Classification of receivables and payables attributable to BancoPosta RFC

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

Own use exemption

The standards establishing the principles for the recognition and measurement of financial instruments are also applied to derivative contracts to buy or sell non-financial items that are settled net in cash or in another financial instrument, with the exception of contracts entered into, and that continue to be held, for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements (the own use exemption). This exemption applies to the recognition and measurement of forward electricity contracts entered into by the subsidiary EGI SpA if the following conditions have been met:

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

Taxes

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, Europa Gestioni Immobiliari SpA, Poste Welfare Servizi Srl, Poste Assicura SpA, BancoPostaFondi SpA SGR, PostePay SpA and as of 20 November 2020, Poste Insurance Broker Srl. 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[83], 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[84].

Green Certificates (Emission Allowances)

With reference to Group companies subject to these rules[85], 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.

Business Combinations

Business combinations are recognised using the acquisition method. The consideration transferred in a business combination is equal to the sum of the fair values, at the acquisition date, of the assets transferred, the liabilities incurred, and any interest issued by the acquirer. Costs directly attributable to the transaction are recognised in the Statement of profit or loss.

The amount transferred is allocated by recognising the identifiable assets, liabilities and contingent liabilities of the acquiree at the related fair values at the acquisition date.

83. 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.
84. 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.
85. The subsidiary Poste Air Cargo Srl.

Any positive difference between the carrying amount of the asset and its recoverable value is recognised as goodwill and recorded under intangible assets:

- the sum of the consideration transferred, measured at fair value at the acquisition date, the amount of any non-controlling interest, and, in the case of business combinations achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree; and
- the net value of the amounts, at the acquisition date, of the assets acquired and liabilities assumed that are identifiable in the acquiree measured at fair value.

In the event of a negative difference, this surplus represents the profit from a purchase on favourable terms and is recognised in the statement of profit or loss.

If at the time of preparing the financial statements the fair value of the assets, liabilities and contingent liabilities arising from the transaction can only be determined provisionally, the business combination is recognised using these provisional values. Any adjustments resulting from the completion of the valuation process are recognised retrospectively within twelve months of the acquisition date.

In the case of a business combination achieved in stages, the interests previously held in the acquiree are remeasured at fair value at the new acquisition date and any difference (positive or negative) is recognised in the statement of profit or loss or in the statement of comprehensive income if appropriate.

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 2020 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, and transfers from other equity reserves, when they have been released from the restrictions to which they were subjected. In the consolidated financial statements, the item also includes any effects arising from transactions with minority shareholders.

Insurance contracts

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

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

Under IFRS 4, contracts that transfer significant insurance risk are considered insurance contracts. These contracts are accounted for and valued in accordance with the principles used to prepare the separate financial statements, observing the applicable laws and regulations[86].

86. In detail, reference is made to the provisions of Legislative Decrees no. 173/2997 and no. 209/2005 as well as ISVAP Regulations no. 16, no. 21 and no. 22 (as amended and supplemented by ISVAP measure no. 2771 of 29 January 2010, ISVAP measure no. 2845 of 17 November 2010 and IVASS measure no. 53 of 6 December 2016).

Insurance risk is significant if, and only if, an insured event could cause the insurer to pay significant additional economic benefits under any circumstances, other than those that have no identifiable effect on the economic aspect of the transaction, even if the insured event is highly unlikely. The reference accounting standard does not provide a specific indication of the level of significance. Therefore, it is up to the Group insurance companies to define a threshold beyond which the additional payment in the event of the insured event may generate the transfer of a significant insurance risk[87].

The separation of a contract, classified as insurance, into deposit component and insurance component is mandatory in some circumstances and optional in others. In the case of separation, which can only occur under certain conditions, the deposit component falls under IFRS 9, while the insurance component falls under IFRS 4. Group insurance companies do not perform this breakdown.

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 Non-life insurance contracts. These products are accounted for as follows:

- insurance premiums are accounted for when the policies are written, recognised as income and classified in revenue; 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[88] (DPF, as defined in Appendix A of IFRS 4), IFRS 4 makes reference, as illustrated above, to national GAAP. The contracts are classified as "financial", but accounted for as "insurance" as follows:

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

The calculation technique used in applying the shadow accounting method is based on the prospective yield on each separately managed account, considering a hypothetical realisation of unrealised gains and losses over a period which is consistent with the characteristics of the assets and liabilities held in the portfolio. The amount to be recognised as a deferred liability also takes account, for each separately managed account, of 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, where the time effect of money is relevant, at a rate that reflects current market values and takes into account the risks specific to the liability. Provisions are reviewed at each reporting date and are adjusted to reflect the best estimate of the expected charge to meet existing obligations at the reporting date. Any effect of the passage of time and the effect of changes in interest rates are shown in the statement of profit or loss. 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.

87. This threshold, defined by aggregating individual contracts into homogeneous categories based on the nature of the risk transferred to the Company, has been set by Poste Vita SpA's Board of Directors at 5%.
88. A contractual right of investors to receive returns on the separately managed account. This category includes contracts relating to the life business and referring to Class I and Class V products that envisage clauses for the revaluation of the insured benefit based on the returns achieved by a separately managed account.

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[89]. 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
  Employee termination benefits fall within the scope of defined contribution plans provided the benefits vested subsequent to 1 January 2007 and were paid into a Supplementary Pension Fund or a Treasury Fund at INPS. Contributions to defined contribution plans are recognised in profit or loss when incurred, based on their nominal value.

Termination benefits 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.

89. 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.

Share-based payments

Share-based payment transactions may be settled in cash, with equity instruments, or with 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 bonds, in which deposits paid into accounts by private customers are invested.

For details on the distinction between revenue from contracts with customers recognised at a point in time or over time, see section 5.3 Notes to the Statement of profit or loss.

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 or 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[90].

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.

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

2.4 Basis of consolidation

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

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

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

The consolidated financial statements have been specifically prepared at 31 December 2020, 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.

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.

During the year, the Parent Company concluded the following business combinations by virtue of which it acquired control of the entities.

sennder Italia Srl

As part of the collaboration with the German digital carrier sennder GmbH, on 12 February 2020, Poste Italiane subscribed a capital increase of €255 thousand in the company sennder Italia Srl, acquiring 75% (25% is held by sennder GmbH). On 25 February 2020, to support business needs in the start-up phase, Poste Italiane made an additional capital contribution of €3 million.

Below is the carrying amount of the assets acquired and liabilities assumed at the date of acquisition:

(€k)	Carrying amount
Net assets acquired	
Property, plant and equipment	149
Trade and other receivables and other assets	332
Cash and cash equivalents	224
Employee termination benefits	(18)
Trade and other payables	(639)
Total net assets acquired	**48**
Equity attributable to non-controlling interests	12
Portion of net assets acquired by the Group	**36**
Goodwill	***219***
Total fee	**255**

Below are the economic values of the acquired company included in the consolidated profit or loss statement from the date of acquisition:

(€k)	From the date of acquisition to 31 December 2020
Revenue	126,606
Operating income	1,346
Profit/(loss) for the period	**929**

MLK Deliveries SpA

As part of its collaboration with technology start-up company Milkman SpA, which specialises in the management of "last mile" logistics for advanced delivery services in Italy, on 24 April 2020, Poste Italiane subscribed a capital increase of €15 million in MLK Deliveries SpA, acquiring 70%; the remaining 30% is held by Milkman SpA.

Moreover, the acquisition includes purchase and sale options that will allow Poste Italiane, starting from the second quarter of 2023, to purchase the additional 30% of MLK Deliveries SpA and ownership of the Milkman technology for e-commerce applications. The exercise price of these options is not fixed, but determined on the basis of a formula that provides for the application of a multiplier to certain economic/equity targets of MLK Deliveries SpA.

As a result of this acquisition, the following were recognised in the consolidated financial statements:

- portions of equity attributable to non-controlling interests;
- the financial liability estimated to take account of the possible exercise of the options, as a balancing entry to Group shareholders' equity. Subsequent changes in the value of the financial liability are reflected in the Group's PL statement.

Below is the carrying amount of the assets acquired and liabilities assumed at the date of acquisition:

(€k)	Carrying amount
Net assets acquired	
Intangible assets	193
Property, plant and equipment	49
Trade and other receivables and other assets	755
Cash and cash equivalents	15,000
Employee termination benefits	(145)
Trade and other payables	(878)
Total net assets acquired	**14,974**
PPA adjustments	(193)
Total net assets acquired after PPA adjustments	**14,781**
Equity attributable to non-controlling interests	4,434
Portion of net assets acquired by the Group	**10,346**
Goodwill	**4,654**
Total fee	**15,000**

Below are the economic values of the acquired company included in the consolidated profit or loss statement from the date of acquisition:

(€k)	From the date of acquisition to 31 December 2020
Revenue	14,037
Operating income	(3,671)
Profit/(loss) for the period	**(2,787)**

At the date of preparation of this annual report, the definitive difference between the consideration paid to the seller and the net value at the acquisition date of the identifiable assets acquired and liabilities assumed, measured in accordance with IFRS 3 in proportion to the recognised amounts of the identifiable net assets acquired, is equal respectively to:

- sennder Italia Srl: €219 thousand and
- MLK Deliveries SpA: €4,654 thousand.

This difference has been recognised entirely under Goodwill.

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

Subsidiaries	31/12/2020	31/12/2019
Consolidated on a line-by-line basis	16	15
Accounted for using the equity method	4	4
Total companies	**20**	**19**

During the year, in addition to the transactions described above, which led to the entry of the subsidiaries, sennder Italia and MLK Deliveries, into the scope of consolidation, the liquidation of Poste Tributi ScpA was concluded with consequent removal from the Register of Companies.

A list of companies consolidated on a line-by-line basis and using the equity method is provided in Note 13 - *Additional information – Key information on investments.*

2.5 Use of estimates

The preparation of financial information requires the use of estimates and assumptions that can have a significant effect on the final values indicated in the financial statements and in the disclosure provided. The preparation of these estimates involves the use of available information and the adoption of subjective assessments, also based on historical experience, used for the formulation of reasonable assumptions for the recognition of operating events. 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. Due to their nature, the estimates and assumptions used may vary from year to year and, therefore, it cannot be excluded that in subsequent years, the values recorded in these Financial Statements may also vary significantly as a result of changes in the subjective valuations used.

The following section describes the accounting treatments that require greater subjectivity in the preparation of estimates and for which a change in the conditions underlying the assumptions used could have a material impact on the financial statements, also taking account (in line with ESMA requirements and the related Consob warnings[91]) of the effects of the health emergency linked to the spread of the Covid-19 pandemic, which has had a significant impact on the economic and social context and makes it difficult to make realistic forecasts regarding the economic and financial performance of the market and the Poste Italiane Group.

Revenue and amounts 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 or 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 2020 to reflect variations in estimates, due to future regulatory enactments or following the finalisation of expired agreements to be renewed.

At 31 December 2020, Poste Italiane Group's receivables outstanding with central and local authorities amounted to €629 million (€693 million at 31 December 2019), gross of provisions for doubtful debts.

91. Public statement ESMA32-63-951 of 25 March 2020, Public statement ESMA 32-63-1041 of 28 October 2020 and Consob Notice of attention no. 1/21 of 16 February 2021.

The table below summarises amounts due from the State.

Receivables (€m)	31/12/2020	31/12/2019
Universal Service expense	31	31
Remuneration of current account deposits	30	28
Delegated services	5	15
Electoral subsidies	1	1
Other	2	2
Trade receivables due from the MEF	**69**	**77**
Shareholder transactions:		
Due from the MEF following cancellation of Decision EC 16/07/2008	39	39
Total amounts due from the MEF	**108**	**116**
Due from Ministries and Public Administration entities: Chair of the Board of Ministers for editorial benefits	67	50
Due from Ministries and Public Administration entities: Ministry for Econ. Dev.	82	80
Other trade receivables due from Public Administration entities	315	390
Trade receivables due from Public Administration entities	**464**	**520**
Other receivables and assets:		
Sundry receivables due from Public Administration entities	**1**	**1**
Amounts receivable for IRES refund	55	55
Amounts receivable for IRAP refund	1	1
Current tax assets and related interest	**56**	**56**
Total due from MEF and Public Administration entities	**629**	**693**

At 31 December 2020, 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:

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

With regard to trade receivables, on the other hand, the Poste Italiane Group does not apply stage allocation in accordance with the Simplified Approach. Impairment, for these items in the Financial Statements, is based on:

- analytical impairment: when a defined credit threshold is exceeded, the individual credit position is analytically monitored on the basis of internal or external evidence; or
- on flat-rated basis: elaboration of a provision matrix for historical losses.

For further details, see Note 6 - Risk management.

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 current environment - which has resulted in highly volatile markets and great uncertainty with regard to economic projections, further aggravated by the ongoing pandemic, and the decline of the postal market in which the Group operates, make it complex to produce reliable economic/financial forecasts.

The impairment tests at 31 December 2020 were performed on the basis of the business plans of the CGUs (cash generating units) concerned or the latest available projections (except as specified below). 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), determined in accordance with the Operating Segment of reference and considering best market practices.

The impairment tests performed at 31 December 2020 refer to:

Mail, Parcels and Distribution CGU

In view of the continuing negative economic results, the decline in the postal market and the current macroeconomic scenario characterised by the health emergency caused by Covid-19, the Mail, Parcels and Distribution CGU was subjected to an impairment test in order to determine a value in use comparable with the overall carrying amount of net invested capital.

The radical transformation of the Mail, Parcels and Distribution segment in recent years, deriving from the transformation of SDA Express Courier and PosteAir Cargo into operational companies, the acquisition of sennder Italia and MLK Deliveries, and the centralisation of the main personnel functions at the Parent Company, has led management to revise the methodological approach used to carry out the impairment tests which, starting from the year in question, and in line with as represented on the market, was carried out at consolidated level, including the companies belonging to the same operating sector.

The value in use of the CGU was estimated on the basis of the economic forecasts contained in the "2024 Sustain & Innovate" strategic plan approved by Poste Italiane SpA's Board of Directors on 18 March 2021. In determining the terminal value, calculated on the basis of the last year of explicit forecasts, income was normalised. 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 long-term growth rate of 1.23% and a WACC of 4.14% were used. The analysis made it possible to conclude positively on the appropriateness of the figures of the financial statements, as well as the related sensitivity analyses on the significant variables that have confirmed the carrying amounts.

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.

Investment in Anima Holding SpA

With reference to the impairment test of the investment in Anima Holding SpA, the value in use was determined taking into account available 2021-2022 forecasts, a long-term growth rate of 0.92% (1.14% at 31 December 2019) and a cost of equity (ke) of 6.51% (compared to 7.54% used at 31 December 2019).

At 31 December 2020, there was no need for any further impairment adjustments, in addition to the negative adjustments of €19 million to consolidated profit or loss and €11 million to Poste Italiane SpA's profit or loss, already recognised in 2020.

Investment in FSIA Investimenti Srl

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 2020 was determined (level 3 in the hierarchy) using market multiples. To identify the market multiple to use, reference was made to studies of comparable companies by leading investment banks. The multiple used was 12x based on EBITDA for 2021. The test result did not reveal any critical issues.

Investment in Poste Welfare Servizi Srl

With reference to the impairment test of the investment in Poste Welfare Servizi Srl, the value in use was determined taking into account the available forecasts for the years 2021-2024, a long-term growth rate of 1.23% and a WACC of 4.14%. Based on the test results, there was no need to adjust the carrying amount of the investment at 31 December 2020.

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.

As a result of the strategic analysis carried out on the Group's real estate assets in 2020, with the technical and specialist support of a third party, the residual economic-technical life of certain categories of assets was revised in accordance with the reference accounting standards and the relative residual value was recalculated.

The useful life of the main asset classes of the Group, restated as a result of the above analyses, is detailed in the following table:

Property, plant and equipment	Years (until 31 December 2019)	Years (from 1 January 2020)
Buildings	25-33	40-59
Structural improvements to own properties	20	18-31
Plant	4-10	8-23
Light constructions	10	10
Equipment	3-10	3-10
Furniture and fittings	3-8	3-8
Electrical and electronic office equipment	3-10	3-10
Motor vehicles, automobiles, motorcycles	4-10	4-10
Leasehold improvements	estimated lease term*	estimated lease term*
Other assets	3-5	3-5

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

Investment property	Years (until 31 December 2019)	Years (from 1 January 2020)
Property	25-33	39-42
Structural improvements to own properties	20	17-18

The Group's amortisation and depreciation for the year ended 31 December 2020, calculated in accordance with the restated values at 1 January, is approximately €120 million lower than the amortisation and depreciation that would have been determined on the basis of forecasts of useful lives and residual values estimated in previous years.

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

Deferred tax assets

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

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[92]. 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

92. For example, with reference to the Life business, the approach adopted for the quantification of technical items useful for the implementation of the LAT consists in the development, for each product line, of a calculation model that replicates the (probable) economic commitments of the Group insurance company over the entire projection horizon coinciding with the residual duration of the contracts. The projections of future cash flows take into account the general and special policy conditions, with particular reference to the time structure of premiums, insured benefits, payments per claim, maturities or redemptions, as well as revaluation clauses and any other contractual options present. Future assumptions express reliable estimates of the probability of exit for the various causes, impacting future cash flows of investment returns, policyholder participation rates, and levels of acquisition and operating expenses.

of the reporting period, based on appropriate assumptions regarding the cause of termination (death, surrender, redemption, reduction) and the performance of claim expenses. If necessary, technical provisions are topped up and the related cost charged to profit or loss.

Share-based payments

As described in more detail in Note 14 - *Additional information - Share-based payment arrangements,* for the valuation of the Poste Italiane Group's Share-based payment arrangements in place at closing of these financial statements, an internal pricing tool was used, which adopts simulation models that meet the requirements of the relevant accounting standards and take account of the specific characteristics of the Plans. An exception to this is the valuation of the "ESOP2020" Stock Option Plan of MLK Deliveries SpA, for which the conclusions reached by actuaries external to the Group were used. 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.

Determination of the lease liability

To determine the financial lease liability, the Group has opted to use an incremental borrowing rate or (IBR) 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 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.

With regard instead to determination of the lease term at the commencement date or of the remaining term at a later date (in the event of substantial and significant changes to contract conditions) and, in particular, for property leases, the Group uses 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. This has resulted in a set of rules for determining the lease term, to be applied to leased properties classified previously 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 lease term for all of the other agreements was set as 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.

Options on minority interests[93]

As mentioned in Note 2.4 - Basis of consolidation, as part of the transaction that led to the holding of 70% of the share capital of MLK Deliveries SpA, purchase and sale options are envisaged that will allow Poste Italiane to purchase a further 30% of the company, the exercise price of which is determined on the basis of a formula that provides for the application of a multiplier to certain economic/equity targets of MLK Deliveries SpA. In the consolidated financial statements, a financial liability has been recognised (in addition to the portion of equity attributable to non-controlling interests), to take account of the possible exercise of options, as matching entry to Group's equity, the value of which depends on estimates made internally and which could change even significantly in the current and future years. Subsequent changes in the value of the financial liability will be reflected in the Group's PL statement.

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

Accounting standards and interpretations 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 that 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 express opinions about materiality of information in the notes to the financial statements. The concept of "obscured information" has also been introduced, clarifying that information is "obscured" if it has been described in such a way as to produce an effect similar to that which would have been produced if said information had been omitted or incorrect.
- 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[94]. The purpose of the exceptions is to avoid possible interruptions in hedging operations due to interest rate reforms.
- Amendments to **IFRS 3 - Business Combinations** providing clarification on the definition of business activities in order to simplify practical implementation.

It should also be noted that on 12 October 2020 an amendment to **IFRS 16 - Leases -** *Covid-19-Related Rent Concessions* was published in the Official Journal of the European Union. The document provides lessees with the right to account for the reductions in fees related to Covid-19 without having to evaluate, through contract analysis, whether the definition of lease modification of IFRS 16 is respected. Therefore, lessees that apply this option may account for the effects of the reductions in the lease fees directly in the statement of profit or loss on the effective date of the reduction. The application of this amendment, which was introduced with effect from 1 June 2020 for years beginning on or after 1 January 2020, has not been reflected in this Annual Report nor are significant effects expected from its future application.

93. An option contract that allows an entity to purchase the interests of minority shareholders of a subsidiary in exchange for cash or other financial assets gives rise to a financial liability in the consolidated financial statements for the present value of the amount payable. Any change in the financial liability from the date of recognition is accounted for with a different balancing entry depending on whether it refers to:
    - minority shareholders directly interested in the performance of the subsidiary's business with regard to the transfer of risks and benefits on the shares subject to the option. One of the indicators of this interest is the fair value measurement of the option exercise price. In addition to the presence of this indicator, the Group makes a case-by-case assessment of the facts and circumstances that characterise existing transactions. In this case, the discounted value of the option is initially deducted from the Group's equity reserves. Any subsequent changes in the valuation of the exercise price of the option are reflected in the PL statement.
    - minority shareholders not directly interested in the performance of the business (e.g. exercise price of the predetermined option). The exercise price of the option, duly discounted, is deducted from the corresponding amount of Capital and Reserves pertaining to third parties. Any subsequent changes in the valuation of the option exercise price follow the same logic, with no impact on the PL statement.
94. 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".

Accounting standards and interpretations soon to be effective

The following are applicable from 1 January 2021:

- Amendments to **IFRS 4 - Insurance Contracts** by which the temporary exemption to the application of IFRS 9 by insurance companies and financial conglomerates principally engaged in insurance business is extended until 1 January 2023. Entities that have decided to take advantage of this exemption may therefore continue to apply IAS 39 instead of IFRS 9 until that date (coinciding with the presumed effective date of the new standard IFRS 17 on insurance contracts).
- Amendments to certain accounting standards following the reform of interbank rates. The planned amendments, the purpose of which is to take account of the consequences of effectively replacing the existing interest rate reference indices with alternative reference rates, relate to the following standards:
  - **IFRS 9 - Financial instruments** introduces a practical expedient for accounting for changes in the basis on which contractual cash flows of financial assets and liabilities are calculated, in order to allow the effective interest rate to be adjusted, thus avoiding changes to the carrying amount;
  - **IAS 39 - Financial Instruments: Recognition and Measurement** envisages exemptions relating to the termination of hedging that may occur as a result of the reform;
  - **IFRS 7 - Financial Instruments: Disclosures** requires additional disclosures to enable readers of the financial statements to better understand the effect of the reform on benchmark interest rates, financial instruments and an entity's risk management strategy;
  - **IFRS 4 - Insurance Contracts** allows insurance companies that chose to postpone the adoption of IFRS 9 to apply the amendments to IAS 39 necessary to comply with the rate reform;
  - **IFRS 16 - Leases** allows leases that specifically refer to an IBOR rate to be amended to refer to an alternative rate resulting from rate reform.

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 IAS 1 - Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - Deferral of Effective Date;
- Amendments to IFRS 3 - Business Combinations: Reference to the Conceptual Framework;
- Amendments to IAS 16 - Property, Plant and Equipment: Proceeds before Intended Use;
- Amendments to IAS 37 - Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts-Cost of Fulfilling a Contract;
- Annual Improvements 2018-2020 that include amendments to the following standards:
  - IFRS 1 First-time Adoption of International Financial Reporting Standards,
  - IFRS 9 Financial Instruments,
  - IAS 41 Agriculture
  - Illustrative Examples of IFRS 16 Leases.
- Amendments to IAS 1 - Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies;
- Amendments to IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates;
- Amendments to IFRS 16 Leases: Covid-19-Related Rent Concessions.

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.

3. Material events during the year

3.1 Principal corporate actions

sennder Italia Srl

As part of the collaboration with the German digital carrier sennder GmbH, on 12 February 2020, Poste Italiane subscribed a capital increase of €255 thousand in the company sennder Italia Srl, acquiring an investment of 75% of the share capital (25% is held by sennder GmbH). Moreover, on 25 February 2020, on the basis of agreements between the parties to support business needs in the start-up phase, Poste Italiane made an additional capital contribution of €3 million. (For accounting, equity and income details of the investment acquired, refer to paragraph 2.4 - Basis of consolidation).

sennder GmbH

In January 2021, Poste Italiane took part in a new capital increase promoted by sennder GmbH, investing €7.5 million and increasing its holding in the German company to 2.0% (1.8% on a fully diluted basis).

Partnership with Tink AB

During the first quarter of 2020, as part of the agreements signed in December 2019 with the Swedish company Tink AB, one of the leading Open Banking platforms[95] in Europe, the Poste Group, through its subsidiary Postepay SpA and other investors, subscribed to a capital increase in TINK with an investment of approximately €20 million, acquiring an investment of 5.1% in the share capital issued, or 4.8% on a fully diluted basis in Tink capital. The subscription of the capital increase was completed on 10 March 2020.

Subsequently, on 18 June 2020, PostePay participated in a new capital increase with an investment of €0.63 million, keeping the investment of 4.8% unchanged. This capital increase by Tink was carried out to partially finance the acquisition of the Spanish company Eurobits Technologies S.L, Tink competitor in the open banking technology solutions market, which includes among its customers the main financial institutions in its reference market.

On 11 December 2020, PostePay took part in a new capital increase at Tink with an investment of €1.5 million, keeping its interest in the company's share capital virtually unchanged (4.7% on a fully diluted basis).

95. 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.

MLK Deliveries SpA

As part of its collaboration with technology start-up company Milkman SpA, which specialises in the management of "last mile" logistics for advanced delivery services in Italy, on 24 April 2020, Poste Italiane subscribed a capital increase of €15 million in MLK Deliveries SpA, acquiring 70%. The remaining 30% of MLK Deliveries is owned by Milkman SpA. At the same time, Poste Italiane acquired about 7% in the share capital of Milkman by participating in a capital increase with an investment of €5 million. Purchase and sale options are provided that will allow Poste Italiane, starting from the second quarter of 2023, to purchase the additional 30% of MLK Deliveries and ownership of the Milkman technology for e-commerce applications. (For accounting, equity and income details of the investment acquired, refer to paragraph 2.4 - Basis of consolidation).

Partnership with MFM Investments Ltd (Moneyfarm)

On 2 August 2019, Poste Italiane launched a partnership with the digital asset management company MFM Investments Ltd (Moneyfarm) to offer innovative digital investment and asset management services. 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 involved 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). In the second, additional MFM Holding shares were subscribed for a total value of approximately €9.6 million, with an increase in the investment of up to 14.10% of voting rights (15.16% of property rights). The latter was finalised on 13 May 2020 when the necessary authorisations were obtained by the supervisory authorities of Germany (Bafin) and the United Kingdom (FCA).

Partnership with Volante Technologies Inc

On 26 June 2020, PostePay signed the agreements for the establishment of a strategic partnership with Volante Technologies Inc (Volante), a US company specialising in the development of technological solutions underlying payment processes. In addition to the provision to Poste Italiane under perpetual license of the Volpay payment platform for enabling instant bank transfers (SEPA Credit Transfer Instant) and the development of payments based on QR Code, these agreements also provide for the launch of a long-term strategic collaboration aimed at developing new solutions in the world of payments to enrich the Poste Italiane Group offer to customers.

As part of these agreements, Postepay also adhered, with other investors, to a capital increase in Volante with an investment of approximately $5 million for an interest of 3.5% in the share capital issued, or 2.9% on a fully diluted basis. The operation will take effect on 2 July.

Nexive Group Srl

On 16 November 2020, Poste Italiane SpA signed a preliminary agreement ("Agreement") with the Dutch company PostNL European Mail Holdings B.V. ("PostNL") and the German company Mutares Holding - 32 GmbH ("Mutares Holding"), for the purchase by Poste Italiane of the entire share capital of Nexive Group Srl ("Nexive").

On 29 January 2021, the transaction was completed and Poste Italiane acquired the entire share capital of Nexive from PostNL and Mutares at a price of €34.4 million, based on an enterprise value of €50 million and net debt of €15.6 million.

The transaction was carried out pursuant to article 75 of Law Decree no. 104 of 14 August 2020 (converted into Law no. 126 of 13 October 2020), which provides that certain concentration transactions shall be considered authorised upon indication to the Antitrust Authority (AGCM) of suitable measures to prevent the risk of imposition of prices or other contractual conditions that could be costly for the user as a result of the transaction.

BNL Finance

On 23 December 2020, Poste Italiane SpA and BNL Gruppo BNP Paribas signed a binding framework agreement to strengthen their partnership in the sector of loans secured by the assignment of one-fifth of salary or pensions ("CQ Credits"). The framework agreement calls for Poste Italiane to acquire a 40% interest in BNL Finance, a company belonging to BNL Gruppo BNP Paribas and a leader in the CQ Credits market, for a consideration of €40 million.

Under the terms of the transaction, Poste Italiane will acquire a stake in BNL Finance following the demerger, by Poste Italiane in favour of its parent, BNL SpA, of its non-perimeter assets, primarily consisting of around €2 billion in loans compared with a total loan portfolio of over 2.8 billion at the end of 2020.

BNL Finance, as the product manufacturer, will distribute its CQ Credits through the post office network on the basis of a ten-year commercial agreement with Poste Italiane - BancoPosta RFC, in continuity with the existing commercial agreement.

The transaction is subject to regulatory approval and closing is expected by the end of the first half of 2021.

Sengi Express Limited

On 19 January 2021, Poste Italiane SpA and Cloud Seven Holding Limited signed a binding framework agreement for strengthening the partnership in the e-commerce market between China and Italy. The framework agreement provides for the acquisition by Poste Italiane of 51% of the voting capital of Sengi Express Limited ("Sengi Express"), a company wholly owned by Cloud Seven Holding Limited based in Hong Kong. Sengi Express is a leading company in the creation and management of cross-border logistics solutions for Chinese e-commerce merchants active in the Italian market, with a pro-forma turnover of approximately €80 million in 2020. The closing of the transaction was completed on 1 March 2021.

The following material events also took place during 2020.

- The sale of Poste Vita, Poste Assicura and Poste Welfare Servizi ICT management business units to Poste Italiane took effect on 1 March 2020. The transaction is part of the process of making Poste Group ICT processes more efficient by centralising the management of the subsidiaries' information systems at the Parent Company.
- On 19 May 2020, the General Shareholders' Meeting of Poste Tributi ScpA in liquidation approved the Company's final liquidation financial statements and on 26 May 2020, the Company was removed from the Register of Companies.
- On 25 May 2020, the Board of Directors of Consorzio Logistica Pacchi S.c.p.A. approved the sale of the business unit "CLP Mercato" in favour of Poste Italiane SpA. The transaction is effective from 1 July 2020.
- On 30 June 2020, the Board of Directors of SDA Express Courier SpA approved the sale of 5% of the shares held in Consorzio Logistica e Pacchi S.c.p.A. to Poste Assicura SpA The transaction will take effect as of 30 June 2020.
- On 23 September 2020, the Board of Directors of PostePay SpA approved the sale of the ICT business unit dedicated to telecommunications and Electronic Postman services to Poste Italiane SpA. The transaction took effect on 1 October 2020.
- On 7 December 2020, the Board of Directors of Conio Inc. approved a capital increase of approximately $13.8 million, which included a new shareholder in the company's shareholding structure. Poste Italiane's shareholding at 31 December 2020 has been reduced from 19.7% to 17.6% as it did not participate in the above increase.
- On 27 January 2021, Poste Italiane's Board of Directors approved an amendment to BancoPosta RFC resulting in the removal of the restriction on the assets, properties and legal relationships that make up the Debit Business, to be submitted for final approval by Poste Italiane's Extraordinary Shareholders' Meeting, after obtaining all the authorisations required by current legislation and regulations; on 4 February 2021, PostePay's Extraordinary Shareholders' Meeting approved, among other things, a divisible capital increase to be subscribed and paid up by 30 September 2021 via the contribution in kind of the Debit Business by Poste Italiane.

3.2 Other material events

The following material events also occurred in 2020:

- Poste Italiane SpA: interim dividend 2020
  On 11 November 2020, Poste Italiane's Board of Directors, in light of the Parent Company's performance and financial position in the first half of 2020 and in line with prevailing practice, decided to advance part of the ordinary dividend for 2020 as an interim dividend. The advance of €0.162 per share, gross of any withholding taxes, was paid with effect from 25 November 2020 for a total of €211 million.

- Poste Italiane SpA: bond issue
  As part of Poste Italiane's €2 billion Euro Medium Term Notes (EMTN) Programme, with a rating of "BBB" from Standard and Poor's and "Baa3" from Moody's, the Parent Company issued a senior unsecured bond with a total nominal value of €1 billion on 10 December 2020 in two tranches, placed in public form with institutional investors. The first tranche of €500 million matures on 10 December 2024, has an above-par issue price of 100.10 with fixed annual coupon of 0.00% and an effective yield to maturity of -0.025%; the second tranche of €500 million matures on 10 December 2028, with an issue price below par of 99.758, a fixed annual coupon of 0.50% and an effective yield to maturity of 0.531%. The securities are listed on the regulated market managed by the Luxembourg Stock Exchange.

Marta - Customer assistance

4. POSTE ITALIANE GROUP FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

4. Poste Italiane Group Financial statements for the year ended 31 December 2020

4.1 Consolidated financial statements

Consolidated statement of financial position

Assets (€m)	Notes	31 December 2020	of which related parties	31 December 2019	of which related parties
Non-current assets					
Property, plant and equipment	[A1]	2,134	-	2,015	-
Investment property	[A2]	31	-	44	-
Intangible assets	[A3]	755	-	648	-
Right-of-use assets	[A4]	1,200	-	1,254	-
Investments accounted for using the equity method	[A5]	615	615	617	617
Financial assets	[A6]	217,877	3,879	194,207	4,522
Trade receivables	[A8]	2	-	5	-
Deferred tax assets	[C13]	1,123	-	1,199	-
Other receivables and assets	[A9]	3,868	2	3,729	1
Technical provisions attributable to reinsurers		54	-	58	-
Total		**227,659**		**203,776**	
Current assets					
Inventories	[A7]	165	-	140	-
Trade receivables	[A8]	2,373	582	2,166	664
Current tax assets	[C13]	187	-	52	-
Other receivables and assets	[A9]	1,060	3	938	2
Financial assets	[A6]	30,006	7,617	23,569	7,220
Cash and deposits attributable to BancoPosta	[A10]	6,391	-	4,303	-
Cash and cash equivalents	[A11]	4,516	1,992	2,149	495
Total		**44,698**		**33,317**	
Total assets		**272,357**		**237,093**	

Liabilities and equity	Notes	31 December 2020	of which related parties	31 December 2019	of which related parties
Equity					
Share capital	[B2]	1,306	-	1,306	-
Reserves	[B4]	3,909	-	2,646	-
Treasury shares		(40)	-	(40)	-
Retained earnings		6,327	-	5,786	-
Total equity attributable to owners of the Parent		**11,502**		**9,698**	
Equity attributable to non-controlling interests		5	-	0	-
Total		**11,507**		**9,698**	
Non-current liabilities					
Technical provisions for insurance business	[B5]	153,794	-	140,261	-
Provisions for risks and charges	[B6]	625	59	501	58
Employee termination benefits	[B7]	1,030	-	1,135	-
Financial liabilities	[B8]	18,366	241	13,964	132
Deferred tax liabilities	[C13]	1,229	-	887	-
Other liabilities	[B10]	1,576	-	1,525	-
Total		**176,620**		**158,273**	
Current liabilities					
Provisions for risks and charges	[B6]	771	13	717	12
Trade payables	[B9]	1,837	56	1,627	98
Current tax liabilities	[C13]	13	-	274	-
Other liabilities	[B10]	1,745	74	2,110	74
Financial liabilities	[B8]	79,864	4,373	64,394	4,820
Total		**84,230**		**69,122**	
Total liabilities and equity		**272,357**		**237,093**	

Consolidated statement of profit or loss

(€m)	Notes	FY 2020	of which related parties	FY 2019	of which related parties
Revenue from Mail, Parcels and other	[C1]	3,201	400	3,492	498
Revenue from Payments and Mobile	[C2]	737	48	664	59
Net revenue from Financial Services	[C3]	4,945	2,017	5,134	1,993
Revenue from Financial Services		5,151	2,022	5,213	1,998
Expenses from financial activities		(206)	(5)	(79)	(5)
Revenue from Insurance Services after changes in technical provisions and other claim expenses	[C4]	1,643	15	1,669	16
Insurance premium revenue		16,865	-	17,913	-
Income from insurance activities		4,065	15	5,478	16
Change in technical provisions for insurance business and other claim expenses		(18,767)	-	(21,463)	-
Expenses from insurance activities		(520)	-	(259)	-
Net operating revenue		**10,526**		**10,959**	
Cost of goods and services	[C5]	2,523	159	2,287	169
Personnel expenses	[C6]	5,638	75	5,896	50
Depreciation, amortisation and impairments	[C7]	700	-	774	-
Capitalised costs and expenses	[C8]	(37)	-	(31)	-
Other operating costs	[C9]	103	3	200	3
Impairment losses/(reversals of impairment losses) on debt instruments, receivables and other assets	[C10]	75	2	59	-
Operating profit/(loss)		**1,524**		**1,774**	
Finance costs	[C11]	75	3	73	2
Finance income	[C11]	123	-	105	-
Impairment losses/(reversals of impairment losses) on financial assets	[C12]	1	-	46	-
of which, non-recurring costs/(income)		-		46	
Profit/(Loss) on investments accounted for using the equity method	[A5]	5	-	112	-
of which, non-recurring income (costs)		-		88	
Profit/(Loss) before tax		**1,576**		**1,872**	
Income tax expense	[C13]	370	-	530	-
of which, non-recurring costs/(income)		(96)		-	
Net profit for the year		**1,206**		**1,342**	
of which attributable to owners of the Parent		1,207		1,342	
of which attributable to non-controlling interests		(1)		-	
Earnings per share	[B1]	**0.927**		**1.032**	
Diluted earnings per share		**0.927**		**1.032**	

Consolidated statement of comprehensive income

(€m)	Notes	FY 2020	FY 2019
Profit/(Loss) for the year		**1,206**	**1,342**
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]	2,016	1,767
Transfers to profit or loss	[tab. B4]	(263)	(244)
Increase/(decrease) for expected losses		7	(2)
Cash flow hedges			
Increase/(decrease) in fair value during the year	[tab. B4]	(28)	95
Transfers to profit or loss	[tab. B4]	5	(59)
Taxation of items recognised directly in, or transferred from, equity to be reclassified in the Statement of profit or loss for the year		(495)	(445)
Share of after-tax comprehensive income/(loss) of investees accounted for using equity method		-	(1)
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		17	1
Transfers to equity		-	-
Actuarial gains /(losses) on employee termination benefits	[tab. B7]	(5)	(70)
Taxation of items recognised directly in, or transferred from, equity not to be reclassified in the Statement of profit or loss for the year		1	20
Share of after-tax comprehensive income/(loss) of investees accounted for using equity method		-	-
Total other comprehensive income		**1,255**	**1,062**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,461**	**2,404**
of which attributable to owners of the Parent		2,462	2,404
of which attributable to non-controlling interests		(1)	-

Consolidated statement of changes in equity

	Equity											
	Share capital	Treasury shares	Reserves						Retained earnings	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	Incentive plans reserve				
Balance at 1 January 2019	**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)
Interim dividend	-	-	-	-	-	-	-	-	(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**
Total comprehensive income for the year	-	-	-	-	1,276	(17)	-	-	1,203*	2,462	(1)	2,461
Dividends paid	-	-	-	-	-	-	-	-	(402)	(402)	-	(402)
Interim dividend	-	-	-	-	-	-	-	-	(211)	(211)	-	(211)
Transactions with minority shareholders	-	-	-	-	-	-	-	-	(49)	(49)	-	(49)
Incentive plans	-	-	-	-	-	-	-	4	-	4	-	4
Change in scope of consolidation	-	-	-	-	-	-	-	-	-	-	6	6
Balance at 31 December 2020	**1,306**	**(40)**	**299**	**1,210**	**2,294**	**98**	**2**	**6**	**6,327**	**11,502**	**5**	**11,507**

* This item includes profit for the year (Group portion) of €1,207 million and actuarial losses on provisions for employee termination benefits of €4 million, after the related current and deferred taxation.

Consolidated statement of cash flows

(€m)	Notes	FY 2020	FY 2019
Cash and cash equivalents at beginning of year		**2,149**	**3,195**
Profit/(Loss) before tax		1,576	1,872
Depreciation, amortisation and impairments	[tab. C7]	700	774
Goodwill impairment	[tab. A3]	-	-
Net provisions for risks and charges	[tab. B6]	566	394
Use of provisions for risks and charges	[tab. B6]	(388)	(696)
Provisions for employee termination benefits	[tab. B7]	2	1
Employee termination benefits	[tab. B7]	(120)	(140)
(Gains)/Losses on disposals		(2)	1
Impairment losses/(reversals of impairment losses) on financial assets	[tab. C12]	-	46
(Dividends)	[tab. C11.1]	-	-
Dividends received		-	-
(Finance income realised)	[tab. C11.1]	(1)	(7)
(Finance income in form of interest)	[tab. C11.1]	(108)	(94)
Interest received		112	95
Interest expense and other finance costs	[tab. C11.2]	62	68
Interest paid		(28)	(23)
Losses and impairment losses/(reversals of impairment losses) on receivables	[tab. C10]	61	62
Income tax paid	[tab. C13.3]	(823)	(252)
Other changes		7	(104)
Cash flow generated by operating activities before movements in working capital	**[a]**	**1,616**	**1,997**
Movements in working capital:			
(Increase)/decrease in Inventories	[tab. A7]	(26)	(4)
(Increase)/decrease in Trade receivables		(262)	(40)
(Increase)/decrease in Other receivables and assets		(162)	(16)
Increase/(decrease) in Trade payables		209	43
Increase/(decrease) in Other liabilities		(436)	(197)
Cash flow generated by /(used in) movements in working capital	**[b]**	**(677)**	**(214)**
Increase/(decrease) in liabilities attributable to financial activities, payments, cards and acquiring and insurance		14,469	7,980
Net cash generated by/(used for) financial assets attributable to financial activities, payments, cards and acquiring and insurance		(15,961)	(10,904)
(Increase)/decrease in cash and deposits attributable to BancoPosta	[tab. A10]	(2,088)	(984)
Increase/(decrease) in net technical provisions for insurance business		7,813	7,456
(Income)/Expense and other non-cash components		(3,255)	(4,211)
Cash generated by/(used for) financial assets/liabilities attributable to financial activities, payments, cards and acquiring and insurance	**[c]**	**978**	**(663)**
Net cash flow from /(for) operating activities	**[d]=[a+b+c]**	**1,917**	**1,120**
- of which related party transactions		**(39)**	**248**
Investing activities:			
Property, plant and equipment	[tab. A1]	(300)	(391)
Investment property	[tab. A2]	(1)	(1)
Intangible assets	[tab. A3]	(379)	(342)
Investments		(1)	(15)
Other financial assets		(35)	(17)
Disposals:			
Property, plant and equipment, investment property, intangible assets and assets held for sale		6	4
Investments		-	1
Other financial assets		109	29
Net cash flow from /(for) investing activities	**[e]**	**(601)**	**(732)**
- of which related party transactions		**(28)**	**3**
Proceeds from/(Repayments of) long-term borrowings	[tab. B8.4]	1,248	573
(Increase)/decrease in loans and receivables		-	-
Increase/(decrease) in short-term borrowings	[tab. B8.4]	415	(1,193)
(Purchase)/sale of treasury shares		-	(40)
Dividends paid	[B3]	(613)	(774)
Other transactions with minority shareholders		1	-
Net cash flow from/(for) financing activities and shareholder transactions	**[f]**	**1,051**	**(1,434)**
- of which related party transactions		**(388)**	**(492)**
Net increase/(decrease) in cash	**[g]=[d+e+f]**	**2,367**	**(1,046)**
Cash and cash equivalents at end of year	[tab. A11]	**4,516**	**2,149**
Cash and cash equivalents at end of year	[tab. A11]	**4,516**	**2,149**
Restricted cash and cash equivalents at end of year		(1,705)	(884)
Unrestricted cash and cash equivalents at end of year		**2,811**	**1,265**

4.2 Notes to the statement of financial position

Assets

A1 - Property, plant and equipment (€2,134 million)

The following table shows movements in property, plant and equipment in 2020:

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	3,055	2,296	331	567	1,969	89	8,383
Accumulated depreciation	-	(1,984)	(1,886)	(293)	(350)	(1,777)	-	(6,290)
Impairment losses	-	(56)	(10)	(1)	(9)	(2)	-	(78)
Balance at 1 January 2020	**76**	**1,015**	**400**	**37**	**208**	**190**	**89**	**2,015**
Changes during the year								
Additions	-	37	68	12	45	58	80	300
Reclassifications	-	27	31	-	10	9	(65)	12
Disposals	-	-	-	-	(1)	-	(1)	(2)
Depreciation	-	(27)	(46)	(13)	(39)	(85)	-	(210)
(Impairments)/Reversal of impairments	-	20	-	-	1	(1)		20
Balance at 31 December 2020	**-**	**57**	**53**	**(1)**	**16**	**(19)**	**14**	**120**
Cost	76	3,160	2,354	340	616	1,987	103	8,636
Accumulated depreciation	-	(2,052)	(1,892)	(303)	(384)	(1,813)		(6,444)
Impairment losses	-	(36)	(9)	(1)	(8)	(4)	-	(58)
Balance at 31 December 2020	**76**	**1,072**	**453**	**36**	**224**	**170**	**103**	**2,134**

At 31 December 2020, 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 €44 million.

Investments of €300 million in 2020 consists largely of:

- €37 million relating to extraordinary maintenance of Post Offices and local head offices around the country (€15 million), personnel offices (€13 million) and mail sorting offices (€9 million);
- €68 million for plants, with the most significant expenditure made by the Parent Company, of which €39 million for the realisation of plant and equipment related to buildings, €11 million for the realisation and extraordinary maintenance of connectivity systems and €8 million for the installation of ATMs;
- €45 million invested in the upgrade of plant (€22 million) and the structure (€22 million) of properties held under lease;
- €58 million relating to Other assets, of which €42 million incurred by the Parent Company for the purchase of hardware for the renewal of technological equipment at the post offices and head offices and the consolidation of storage systems and €13 million incurred by PostePay SpA mainly for the purchase of electronic devices to be used in the provision of Electronic Postman services (€5 million), "PosteMobile Casa" devices (€5 million) and equipment for the offer of rental telephones (€1 million).

Investments in progress amounted to €80 million, including €51 million incurred by the Parent Company, of which €29 million for extraordinary maintenance and the provision of infrastructure for the commercial and production network, €8 million for the provision and maintenance of active and passive infrastructure for the security and remote surveillance network at sites and €7 million for the acquisition of industrial parcel processing equipment.

Reclassifications from tangible assets under construction amount to €65 million and mainly refer to the purchase cost of assets that have become available and ready for use during the year; in particular, they refer to the Parent Company for the conclusion of extraordinary renovations of owned properties and improvements to leased properties (€33 million) and to the subsidiary SDA Express Courier SpA mainly for the commissioning of the new automated sorting system of the Centre Hub, which entered the production process in December 2020 (€19 million).

With regard to the revision of the residual useful lives and residual values of the main categories of fixed assets, reference should be made to paragraph 2.5 - Use of estimates.

A2 - Investment property (€31 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 2020
Cost	139
Accumulated depreciation	(95)
Impairment losses	-
Balance at 1 January	**44**
Changes during the year	
Additions	1
Reclassifications	(12)
Disposals	(1)
Depreciation	(1)
Total changes	**(13)**
Cost	86
Accumulated depreciation	(55)
Impairment losses	-
Balance at 31 December	**31**
Fair value at 31 December	**75**

The fair value of investment property at 31 December 2020 includes €64 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[96].

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.

With regard to the revision of the residual useful lives and residual values of the main categories of fixed assets, reference should be made to paragraph 2.5 - Use of estimates.

96. 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 (€755 million)

The following table shows movements in intangible assets in 2020:

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	3,354	221	120	106	3,801
Accumulated amortisation and impairments	(2,951)	-	(102)	(100)	(3,153)
Balance at 1 January 2020	**403**	**221**	**18**	**6**	**648**
Changes during the year					
Additions	245	131	5	3	384
Reclassifications	190	(190)	-	-	-
Transfers and disposals	-	(1)	-	-	(1)
Amortisation and impairments	(273)	-	-	(3)	(276)
Balance at 31 December 2020	**162**	**(60)**	**5**	**-**	**107**
Cost	3,790	161	125	109	4,185
Accumulated amortisation and impairments	(3,225)	-	(102)	(103)	(3,430)
Balance at 31 December 2020	**565**	**161**	**23**	**6**	**755**

Investments in Intangible assets during 2020 amounted to €384 million, including about €33 million in software development activities and the related expenses developed within the Group, primarily relating to personnel expenses (€26 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 and intellectual property rights, concessions, licences, trademarks and similar rights** totals €245 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 (€80 million), for BancoPosta services (€39 million), for use in providing support to the sales network (€24 million), for the postal products platform (€10 million) and for the engineering of reporting processes (€6 million).

During the year the Group effected reclassifications from intangible assets under construction to industrial patents and intellectual property rights, concessions, licences, trademarks and similar rights, amounting to €190 million, reflecting the completion and commissioning of software and the upgrade of existing software.

The breakdown of the item Goodwill is as follows:

tab. A3.1 - Goodwill

Description (€m)	Balance at 31/12/2020	Balance at 31/12/2019
SBU Insurance Services		
Poste Welfare Servizi Srl	18	18
Mail, Parcels and Distribution SBU		
MLK Deliveries SpA	5	-
sennder Italia Srl	-	-
Total	**23**	**18**

The balance of €23 million refers to goodwill allocated to the Insurance Services SBU and the Mail, Parcels and Distribution SBU.

Goodwill related to the Insurance Services SBU, referring to the subsidiary Poste Welfare Servizi Srl, has been tested for impairment as required by IAS 36. Based on the information available and the impairment tests conducted, there has been no need for impairment on the goodwill recognised.

The value of goodwill attributable to the Mail, Parcels and Distribution SBU comprises the final difference between the consideration paid to the seller and the net value at the acquisition date of the identifiable assets acquired and liabilities assumed, measured in accordance with IFRS 3, for the Parent Company's acquisitions of the subsidiaries MLK Deliveries SpA and sennder Italia Srl, both made during the first half of 2020. This difference amounted to €4,654 thousand and €219 thousand respectively. For details of the transactions, refer to paragraph 2.4 - Basis of consolidation. With reference to the impairment test on goodwill and cash generating units, please refer to paragraph 2.5 - Use of estimates.

A4 - Right-of-use assets (€1,200 million)

tab. A4 - Movements in right-of-use assets

(€m)	Properties used in operations	Company fleet	Vehicles for mixed use	Other assets	Total
Cost	1,285	135	18	43	1,481
Accumulated depreciation and impairments	(146)	(60)	(5)	(16)	(227)
Balance at 1 January 2020	**1,139**	**75**	**13**	**27**	**1,254**
Changes during the year					
New contract acquisitions	139	38	5	19	201
Adjustments	2	-	-	-	2
Contract terminations	(25)	-	(1)	-	(26)
Accumulated depreciation and impairments	(146)	(67)	(6)	(12)	(231)
Balance at 31 December 2020	**(30)**	**(29)**	**(2)**	**7**	**(54)**
Cost	1,399	173	22	60	1,654
Accumulated depreciation and impairments	(290)	(127)	(11)	(26)	(454)
Balance at 31 December 2020	**1,109**	**46**	**11**	**34**	**1,200**

Acquisitions during the year refer to the Parent Company (€135 million) and relate to new contracts and renewal of existing contracts at the beginning of the year of a real estate nature (€83 million), hire of company vehicles (€42 million) and hire of IT equipment (€10 million) and to the subsidiary SDA Express Courier (€65 million) mainly for new contracts and renewal of existing contracts of a real estate nature. The item "Adjustments" refers to contractual changes during the period in question, e.g. for changes in duration due to extension, revision of economic conditions, etc.

A5 - Investments accounted for using the equity method (€615 million)

tab. A5 - Investments

Description (€m)	Balance at 31/12/2020	Balance at 31/12/2019
Investments in associates	613	615
Investments in subsidiaries	2	2
Total	**615**	**617**

tab. 5.1 - Movements in investments

Investments	Balance at 01/01/2020	Increases / (Decreases)	Impairment losses accounted for using the equity method	Impairment losses dividend adjustments	Balance at 31/12/2020
in associates					
Anima Holding SpA	221	-	(3)	(8)	210
Fsia Investimenti Srl	393	1	8	-	402
Total associates	**615**	**1**	**5**	**(8)**	**613**
in subsidiaries					
Kipoint SpA	1	-	1	-	2
Indabox Srl	1	-	(1)	-	-
Total subsidiaries	**2**	**-**	**-**	**-**	**2**
Total	**617**	**1**	**5**	**(8)**	**615**

The item **Investments in associates** (valued using the equity method) mainly refers to the companies Anima Holding and FSIA Investimenti Srl.

The changes in the year in the associate Anima Holding are due to a net negative adjustment to the carrying amount of about €11 million, of which:

- an increase of €16 million for the share of the economic results achieved by the investee company between 30 September 2019 and 30 September 2020, the date of the last financial statements available;
- a decrease of €8 million due to dividends received from the result for 2019;
- an impairment adjustment of €19 million, recognised in the first half of 2020, following the impairment test carried out on the value of the goodwill implicit in the value of the investment.

The changes during the year of the associate FSIA Investimenti are attributable to the net positive adjustment of the relative carrying amount for the year of around €9 million:

- an increase of €1.5 million related to the capital contribution made by the Parent Company on 23 June 2020;
- an increase of €8 million for the share of the joint venture's results, after amortisation of the intangible assets identified at the time of the purchase price allocation.

Following the transactions that led FSIA Investimenti Srl, at the end of the 2019 financial year, to acquire sole control of SIA SpA (step up acquisition), it became necessary for FSIA to initiate a new process of purchase price allocation of the assets and liabilities of SIA at the date of the acquisition of control, in line with the provisions of IFRS 3 - Business Combinations[97]. The following table shows the values of intangible assets and goodwill identified at the time of the purchase price allocation, distinguishing the values resulting from the new allocation (balance at 1 January 2020) from the original values.

FSIA Investimenti Srl

Description (€m)	Balance at 31/12/2020	Balance at 01/01/2020	Balance at 31/12/2019	Acquisition-date values
Intangible assets	**172**	**184**	**83**	**116**
Customer relationships	123	125	46	55
Backlog	39	46	25	36
Software	10	13	12	24
Deferred tax liabilities	**(48)**	**(51)**	**(23)**	**(30)**
Goodwill	**358**	**358**	**254**	**254**

During 2018, Poste Italiane SpA proceeded with tax redemption pursuant to art. 15, paragraph 10-ter of Law Decree no. 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 franked, referring to the values that emerged at the time of acquisition of the equity investment in 2017, is made up as follows:

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

The substitute tax paid has been accounted for in current tax assets.

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).

97. During 2020, the value of intangible assets and goodwill was recalculated in the FSIA reporting package prepared in accordance with IFRS 10 - Consolidated Financial Statements for the purposes of Poste Italiane's consolidated financial statements, compared with the value identified in the original purchase price allocation.

A6 - Financial assets (€247,883 million)

tab. A6 - Financial assets

Description (€m)	Balance at 31/12/2020			Balance at 31/12/2019		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Financial assets at amortised cost	33,465	17,212	50,677	25,260	14,903	40,163
Financial assets at FVTOCI	144,256	12,455	156,711	131,560	8,284	139,844
Financial assets at FVTPL	40,081	335	40,416	37,318	378	37,696
Derivative financial instruments	75	4	79	69	4	73
Total	**217,877**	**30,006**	**247,883**	**194,207**	**23,569**	**217,776**

Financial assets by type of activity Description (€m)	Balance at 31/12/2020			Balance at 31/12/2019		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Financial services	**68,436**	**22,976**	**91,412**	**58,285**	**16,934**	**75,219**
Financial assets at amortised cost	31,596	16,994	48,590	23,637	14,607	38,244
Financial assets at FVTOCI	36,693	5,978	42,671	34,508	2,323	36,831
Financial assets at FVTPL	72	-	72	71	-	71
Derivative financial instruments	75	4	79	69	4	73
Insurance services	**149,308**	**6,472**	**155,780**	**135,448**	**6,385**	**141,833**
Financial assets at amortised cost	1,811	68	1,879	1,586	156	1,742
Financial assets at FVTOCI	107,488	6,069	113,557	96,615	5,851	102,466
Financial assets at FVTPL	40,009	335	40,344	37,247	378	37,625
Derivative financial instruments	-	-	-	-	-	-
Postal and business services	**97**	**425**	**522**	**474**	**135**	**609**
Financial assets at amortised cost	58	17	75	37	25	62
Financial assets at FVTOCI	39	408	447	437	110	547
Financial assets at FVTPL	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-
Payment services and card payments	**36**	**133**	**169**	**-**	**115**	**115**
Financial assets at amortised cost	-	133	133	-	115	115
Financial assets at FVTOCI	36	-	36	-	-	-
Total	**217,877**	**30,006**	**247,883**	**194,207**	**23,569**	**217,776**

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)	Loans and receivables	Fixed income instruments	Total
Balance at 1 January 2020	**13,180**	**25,064**	**38,244**
Purchases		9,734	9,734
Changes in amortised cost	-	(92)	(92)
Transfers to equity reserves	-	-	-
Changes in fair value through equity	-	1,708	1,708
Changes in cash flow hedges*	-	-	-
Changes due to impairment	(1)	(7)	(8)
Net changes	1,362		1,362
Effects of sales on profit or loss	-	63	63
Accruals	-	235	235
Sales, redemptions and settlement of accruals		(3,451)	(3,451)
Other changes	795	-	795
Balance at 31 December 2020	**15,336**	**33,254**	**48,590**

* 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 31/12/2020			Balance at 31/12/2019		
Description (€m)	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Loans	-	1	1	-	-	-
Receivables	-	15,335	15,335	-	13,180	13,180
Deposits with the MEF	-	7,336	7,336	-	7,064	7,064
Receivables	-	7,340	7,340	-	7,066	7,066
Provisions for doubtful amounts deposited with MEF	-	(4)	(4)	-	(3)	(3)
Other financial receivables	-	7,999	7,999	-	6,116	6,116
Total	**-**	**15,336**	**15,336**	**-**	**13,180**	**13,180**

The item **Loans** refers to reverse repurchase agreements of €364 million entered into with Cassa di Compensazione e Garanzia SpA (hereinafter the Central Counterparty) for the temporary use of liquidity from private inflows. These transactions are guaranteed by securities for a total notional amount of €360 million. Financial assets and liabilities relating to repurchase agreements managed through the Central Counterparty that meet the requirements of IAS 32 are offset. The effect of netting at 31 December 2020, already included in the exposure to net balances, amounted to €363 million (€1,158 million at 31 December 2019).

Receivables include:

- **Deposits with the MEF**, including public customers' current account deposits, which earn a variable rate of return, calculated on a basket of government bonds[98]. The deposit has been adjusted to reflect accumulated impairments of approximately €4 million, to reflect the risk of counterparty default (€3 million at 31 December 2019). During 2020, in the phase of increasing returns following the onset of the pandemic, the Parent Company entered into (operating) hedging derivative contracts on the 10-year indexed remuneration component. The hedging transaction was carried out through forward purchases of the 10-year BTP with settlement of the differential between the pre-set price of the security and its market value.
- **Other financial receivables**, including €7,494 million in deposits as collateral for amounts paid to counterparties for interest rate swap transactions (collateral provided under specific Credit Support Annexes).

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 €26,157 million. Their carrying amount of €33,254 million reflects the amortised cost of unhedged fixed income instruments, totalling €11,380 million, the amortised cost of fair-value hedged fixed income bonds, totalling €17,485 million, increased by €4,389 million to take into account the effects of the hedge. Fixed income instruments measured at amortised cost are adjusted to take into account the related impairments. Accumulated impairments at 31 December 2020 amount to approximately €15 million (€8 million at 31 December 2019).

At 31 December 2020, the fair value[99] of these securities was €34,760 million (including €235 million in accrued income).

The change in fair value in profit or loss for the positive amount of €1,708 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 nominal €3,000 million, issued by Cassa Depositi e Prestiti SpA and guaranteed by the Italian government (at 31 December 2020, their carrying amount totals €3,300 million).

98. The variable rate in question is calculated as follows: 50% is based on the average return on 6-month BOTs recognised monthly and the remaining 50% is based on the average ten-year BTP return recognised monthly.
99. In terms of the fair value hierarchy, which reflects the relevance of the sources used to measure assets, €31,188 million of the total amount qualifies for inclusion in level 1 and €3,572 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 2020	**36,831**
Purchases	15,983
Transfers to equity reserves	(224)
Changes in amortised cost	(42)
Changes in fair value through equity	1,946
Changes in fair value through profit or loss	1,698
Changes in cash flow hedges*	(49)
Effects of sales on profit or loss	302
Accruals	293
Sales, redemptions and settlement of accruals	(14,067)
Balance at 31 December 2020	**42,671**

* 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 €33,600 million.

Total fair value fluctuation for the year was positive for €3,644 million, with gains of €1,946 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 €1,698 million recognised through profit or loss in relation to the hedged portion.

Accumulated impairments at 31 December 2020 amount to €18 million (€11 million at 31 December 2019).

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 2020	**-**	**71**	**71**
Purchases		-	-
Changes in fair value through profit or loss	-	1	1
Net changes	-		-
Accruals	-	-	-
Effects of sales on profit or loss	-	-	-
Sales, redemptions and settlement of accruals		-	-
Balance at 31 December 2020	**-**	**72**	**72**

Equity instruments

Equity instruments include:

- for €34 million, 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 6.853[100] ordinary shares for each C share, minus a suitable illiquidity discount. These shares can be converted into several tranches starting from the fourth year after closing and up to the twelfth year. On 21 June 2020 (the fourth year after closing), the process of determining the proportion of convertibility and related rate of Visa Incorporated Series C Convertible Participating Preferred Stock commenced, partially concluded on 24 September 2020 with the grant of 2,199 preference shares of Visa Incorporated Series A Preferred Stock;
- for €38 million, the fair value of 2,199 Visa Incorporated preference shares (Series A Preferred Stock); these shares are convertible into ordinary shares on the basis of a ratio of one hundred ordinary shares for every share of Class A Preferred Stock.

Net fair value gains in the year under review, amounting to €1 million, have been recognised in profit or loss in the items Income and Expenses from financial activities.

Given the conversion rate at 31 December 2020, the VISA Incorporated preference shares (Series A and C) held in the portfolio correspond to 439,600 VISA Incorporated ordinary shares.

In 2019, the Parent Company entered into a forward sale agreement for 400,000 Visa Incorporated ordinary 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 fair value of the forward sale has decreased by €5 million in the reporting year, reflecting movements in both the price of the shares in US dollars and the euro/dollar exchange rate. This reduction has been recognised in profit or loss in "Expenses 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 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 2020	**-**	**-**	**1,280**	**(36)**	**1,670**	**(4)**	**25,690**	**(5,439)**	**-**	**-**	**-**	**(15)**	**28,640**	**(5,494)**
Increases/(decreases) *	100	4	2,645	(71)	50	40	9,214	(3,434)	165	11	-	(6)	12,174	(3,456)
Gains/(Losses) through profit or loss **	-	-	-	-	-	-	-	(2)	-	-	-	-	-	(2)
Transactions settled ***	(100)	(4)	(1,857)	53	-	(36)	(3,870)	764	(165)	(11)	-	1	(5,992)	767
Balance at 31 December 2020	**-**	**-**	**2,068**	**(54)**	**1,720**	**-**	**31,034**	**(8,111)**	**-**	**-**	**-**	**(20)**	**34,822**	**(8,185)**
Of which:														
Derivative assets	**-**	**-**	**268**	**-**	**725**	**68**	**1,220**	**11**	**-**	**-**	**-**	**-**	**2,213**	**79**
Derivative liabilities	**-**	**-**	**1,800**	**(54)**	**995**	**(68)**	**29,814**	**(8,122)**	**-**	**-**	**-**	**(20)**	**32,609**	**(8,264)**

* Increases/(decreases) refer to the nominal value of new transactions and changes in the fair value of the overall portfolio during the period.
** Income/(expense) recognised in 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 €1,720 million and €2,068 million, respectively.

Cash flow interest rate hedges recorded a total net fair value loss of €27 million on the effective portion, reflected in the cash flow hedge reserve.

100. 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 interest rate swaps are used to hedge:

- securities classified at amortised cost with a nominal value of €15,420 million and securities classified at FVTOCI with a nominal value of €14,714 million; overall, they underwent a net effective negative fair value change of €3,434 million during the year, taking into account the net positive fair value change of €3,405 million in hedged securities (Table A6.1 and A6.2) net of €29 million for differentials paid;
- repurchase agreements classified at amortised cost with a nominal value of €900 million. These transactions, entered into in 2020, allow a portion of repurchase agreement transactions to be transformed to a variable rate, thereby reducing exposure to interest rate risk. The fair value at 31 December 2020 is not significant.

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

- forward and settlement purchases with a nominal amount of €100 million;
- forward sales for a nominal amount of €2,645 million and settlement for €1,857 million, of which €1,280 million outstanding at 1 January 2020;
- new interest rate swaps designated as cash flow hedges with a nominal value of €50 million;
- new fair value hedge interest rate swaps with a nominal amount of €9,214 million, including €900 million in hedges for repurchase agreement transactions;
- settlement of fair value hedge interest rate swaps on securities sold, whose fair value changes were hedged, for a notional amount of €3,870 million.

In addition, the Parent Company entered into and settled forward purchases for a total nominal value of €165 million (recognised at fair value through profit or loss), aimed at blocking the return, for 2020, on the investment of inflows from public customers on the deposit with the parent company (MEF), remunerated at a variable rate (table A6.1.1). These transactions had a positive impact of €11 million on profit or loss for the year (tab. C.3.1.1).

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)	Loans and receivables	Fixed income instruments	Total
Balance at 1 January 2020	**13**	**1,729**	**1,742**
Purchases		251	251
Changes in amortised cost	-	3	3
Changes in fair value through equity	-	-	-
Changes in cash flow hedges	-	-	-
Changes due to impairment	-	-	-
Net changes	8		8
Effects of sales on profit or loss	-	-	-
Accruals	-	18	18
Sales, redemptions and settlement of accruals		(143)	(143)
Balance at 31 December 2020	**21**	**1,858**	**1,879**

Receivables

Financial receivables of €21 million mainly regard receivables for management commissions of Poste Vita internal funds.

Fixed income instruments

Fixed income instruments at amortised cost at 31 December 2020 have a carrying amount of €1,858 million. These instruments exclusively relate to the free capital of Poste Vita SpA and Poste Assicura SpA. At 31 December 2020, the fair value[101] of these instruments is €2,191 million.

Fixed income instruments recognised at amortised cost are adjusted to take into account the related impairments. Accumulated impairments at 31 December 2020 amount to approximately €1 million (unchanged compared to 31 December 2019).

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 2020	**101,928**	**539**	**102,467**
Purchases	19,416	-	19,416
Transfers to equity reserves	(178)	-	(178)
Changes in amortised cost	141	-	141
Changes in fair value through equity	5,974	1	5,975
Changes in fair value through profit or loss	8	-	8
Changes in cash flow hedges	-	-	-
Effects of sales on profit or loss	21	-	21
Accruals	752	-	752
Sales, redemptions and settlement of accruals	(15,045)	-	(15,045)
Balance at 31 December 2020	**113,017**	**540**	**113,557**

These financial instruments have recorded a fair value gain of €5,975 million. This includes €5,899 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 €76 million reflected in a matching positive movement in the related equity reserve.

Fixed income instruments

At 31 December 2020, fixed income instruments relate to investments primarily held by Poste Vita SpA for €112,762 million (a nominal value of €96,549 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 €605 million.

Total fair value fluctuation for the year was positive for €5,982 million, with gains of €5,974 million (€5,899 million transferred to policyholders) recognised in the relevant equity reserve in relation to the portion of the portfolio not hedged by fair value hedges, and a gain of €8 million recognised through profit or loss in relation to the hedged portion.

Accumulated impairments at 31 December 2020 amount to €59 million, almost entirely transferred to policyholders using the shadow accounting method (at 31 December 2019, impairments amounted to €37 million, almost entirely transferred to policyholders using the shadow accounting method).

101. In terms of the fair value hierarchy, which reflects the relevance of the sources used to measure assets, €1,875 million of the total amount qualifies for inclusion in level 1 and €316 million for inclusion in level 2.

Other investments

At 31 December 2020, Cassa Depositi e Prestiti's private placement of a Constant Maturity Swap, classified as at FVTOCI, amounts to €540 million. The increase in fair value of €1 million during the period was transferred to policyholders using the shadow accounting method.

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	Units of mutual investment funds	Equity instruments	Other investments	Total
Balance at 1 January 2020	**-**	**1,500**	**35,927**	**177**	**21**	**37,625**
Purchases		843	5,583	163	-	6,589
Changes in fair value through profit or loss	-	27	847	4	1	879
Net changes	15					15
Effects of sales on profit or loss	-	(6)	(33)	(15)	-	(54)
Accruals	-	26	-	-	-	26
Sales, redemptions and settlement of accruals		(398)	(4,209)	(129)	-	(4,736)
Balance at 31 December 2020	**15**	**1,992**	**38,115**	**200**	**22**	**40,344**

Receivables

This item refers to contributions by way of subscription and capital calls on mutual funds of which the corresponding units have not yet been issued.

Fixed income instruments

At 31 December 2020, fixed income instruments of €1,992 million consist of €50 million in coupon stripped and Zero Coupon bonds, while the balance of €1,942 million is primarily made up of corporate bonds issued by blue-chip companies. Corporate financial instruments totalling €1,584 million are linked to separately managed accounts, €285 million covers contractual obligations arising on Class III insurance policies and the remaining €73 million relates to securities in which the Company's free capital has been invested.

Units of mutual investment funds

At 31 December 2020, units of mutual investment funds amounting to €38,115 million include €33,789 million to cover Class I separately managed account products and €4,320 million to cover Class III products. The remaining €6 million relates to investment of the company's free capital (see note 13 – *Additional information - Unconsolidated structured entities*). Net investment in the funds during the period amounts to €1,374 million and the fair value has increased by approximately €847 million, almost entirely transferred to Class I policyholders using the shadow accounting method. At 31 December 2020, the investments which primarily regard equity funds total €34,830 million, units in mutual real estate funds total €1,959 million, and mutual funds that primarily invest in bonds total €1,326 million.

Equity instruments

Equity instruments amount to €200 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 investments of approximately €34 million, the effects from sales of approximately €15 million and fair value gains of approximately €4 million.

Other investments

Other investments of €22 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 2020, Poste Vita had forward sales of fair value hedges on BTPs for a notional amount of €1,260 million. The value of the derivative at 31 December 2020 was negative for €10 million, entirely transferred to policyholders through the shadow accounting method, as it refers to financial instruments included in separately managed accounts.

Postal and business services

Financial assets at amortised cost

Financial assets at amortised cost refer to loans and financial receivables totalling €75 million. This item breaks down as follows:

tab. A6.8 - Loans and receivables at amortised cost

	Balance at 31/12/2020			Balance at 31/12/2019		
(€m)	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Loans	21	-	21	-	-	-
Receivables	37	17	54	37	25	62
Guarantee deposits	-	15	15	-	23	23
Due from the purchasers of service accommodation	3	2	5	4	2	6
Due from others	34	20	54	33	20	53
Provisions for doubtful debts	-	(21)	(21)	-	(20)	(20)
Total	**58**	**17**	**75**	**37**	**25**	**62**

The item **Loans** of €21 million refers to the loan granted to the associate FSIA Investimenti Srl on 23 June 2020 and repayable in a single instalment on 29 September 2023, in order to repay the Bank Loan subscribed by the company and finance current operations.

Receivables for **Guarantee deposits** include €11 million for amounts paid to counterparties for interest rate swap transactions and €4 million for amounts paid to counterparties with whom repurchase transactions on fixed-income securities are in place.

Amounts due from others 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[102].

102. 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 2020	**524**	**23**	**547**
Purchases	-	15	15
Transfers to equity reserves	-	-	-
Changes in amortised cost	-	-	-
Changes in fair value through equity	(6)	7	1
hanges in fair value through profit or loss	(11)	-	(11)
Changes in cash flow hedges	-	-	-
Effects of sales on profit or loss	-	-	-
Accruals	5	-	5
Sales, redemptions and settlement of accruals	(105)	(5)	(110)
Balance at 31 December 2020	**407**	**40**	**447**

Fixed income instruments

This item entirely regards BTPs with a total nominal value of €400 million. Of these, instruments with a value of €375 million have been hedged using interest rate swaps designated as fair value hedges. In November 2020, securities with a nominal value of €100 million matured.

The overall fluctuation in fair value in the year in question was negative for €6 million and recognised in the specific equity reserve.

Certain securities are encumbered as they have been delivered to counterparties for use as collateral in connection with loans, as described in note 13 – *Additional information*.

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;
- for €25 million the investment in MFM Investments Ltd, acquired on 9 August 2019 for the first tranche of €15 million and on 13 May 2020 for the second tranche of €9.6 million;
- for €10 million the investment in sennder GmbH acquired on 11 November 2019;
- €5 million for the investment in Milkman SpA acquired on 24 April 2020.

Lastly, on 9 April 2020, the company, Innovazione e Progetti ScpA, which was already in liquidation, was removed from the Register of Companies.

Fair value gains in the year under review, amounting to €7 million, have been recognised in the specific Equity reserve.

Corporate actions during 2020, are described in note 3.1 – *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[103], whose value at 31 December 2020 is zero.

Derivative financial instruments

tab. A6.10 - Movements in derivative financial instruments

	FY 2020			
(€m)	Cash Flow hedges	Fair value hedges	Fair value through profit or loss	Total
Balance at 1 January 2020	**(6)**	**(16)**	**-**	**(22)**
Increases/(decreases)	(1)	-	-	(1)
Gains/(Losses) through profit or loss	-	-	-	-
Transactions settled*	2	11	-	13
Balance at 31 December 2020	**(5)**	**(5)**	**-**	**(10)**
of which:				
Derivative assets	-	-	-	-
Derivative liabilities	(5)	(5)	-	(10)

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

At 31 December 2020, 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 variable rate of the bond, which at 31 December 2020 was 0.703%;
- 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;
- three swap contracts entered into in 2020, of which two are outstanding at 31 December, to cover fuel costs relating to the air transport of mail carried out via the subsidiary, Poste Air Cargo Srl, for the three-year period 2020-2022.

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 €133 million.

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income of €36 million relate to investments in Tink AB for €32 million and Volante for €4 million (see also Note 4.1 - *Principal corporate actions*). Fair value gains in the year under review, amounting to €10 million, have been recognised in the specific Equity reserve.

103. 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 (€165 million)

tab. A7 - Inventories

Description	Balance at 31/12/2019	Increase / (decrease)	Reclassifications	Balance at 31/12/2020
Properties held for sale	123	5	-	128
Work in progress, semi-finished and finished goods and goods for resale	9	-	2	11
Raw, ancillary and consumable materials	8	20	(2)	26
Total	**140**	**25**	**-**	**165**

Properties held for sale refer entirely to the portion of EGI SpA's real estate portfolio to be sold, whose fair value[104] at 31 December 2020 amounts to approximately €297 million.

The change in raw, ancillary and consumable materials mainly refers to protective equipment, disinfectant gel and other materials purchased during the year and which will be used in 2021.

A8 - Trade receivables (€2,375 million)

tab. A8 - Trade receivables

	Balance at 31/12/2020			Balance at 31/12/2019		
Description (€m)	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Due from customers	2	2,331	2,333	5	2,113	2,118
Due from the Parent company (MEF)	-	36	36	-	45	45
Due from subsidiaries, associates and joint ventures	-	1	1	-	1	1
Prepayments to suppliers	-	5	5	-	7	7
Total	**2**	**2,373**	**2,375**	**5**	**2,166**	**2,171**

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

Amounts due from customers

tab. A8.1 - Due from customers

Description (€m)	Balance at 31/12/2020 Non-current assets	Current assets	Total	Balance at 31/12/2019 Non-current assets	Current assets	Total
Ministries and Public Administration entities	-	464	464	-	520	520
Cassa Depositi e Prestiti	-	432	432	-	451	451
Parcel express courier and express parcel services	-	624	624	-	327	327
Overseas counterparties	-	455	455	-	357	357
Unfranked mail delivered and other value added services	-	228	228	17	240	257
Overdrawn current accounts	-	42	42	-	38	38
Amounts due for other BancoPosta services	-	84	84	-	105	105
Other trade receivables	2	546	548	1	587	588
Provisions for doubtful debts due from customers	-	(544)	(544)	(13)	(512)	(525)
Total	**2**	**2,331**	**2,333**	**5**	**2,113**	**2,118**

Specifically[105]:

- 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 authorities, amounting to €108 million.
  - Reimbursement of the costs associated with the management of property, vehicles and security incurred on behalf of the Ministry for Economic Development, totalling €81 million[106], including €62 million involved in legal action brought by Poste Italiane in order to claim sundry costs resulting from the use of properties. On 30 April 2020, a partially favourable judgement was published for Poste Italiane; the judgement was notified to MiSE and the latter appealed before the Court of Appeal with a request for suspension. On 3 December 2020, the request was not granted and a decision is now pending in the second instance.
  - Unfranked mail services provided on credit, totalling €67 million, to central and local government authorities.
  - Compensation for Publisher tariff subsidies, due from the Presidenza del Consiglio dei Ministri - Dipartimento dell'Editoria (Cabinet Office – Publishing Department), amounting to €67 million, of which €53 million accrued during the year. These receivables are shown gross of the collection of an unavailable amount of €24 million, relating to the tariff subsidies applied in the first half of 2020, deposited by the Cabinet Office - Publishing Department, during the year, in a non-interest-bearing account held by the Company with the State Treasury and for this reason recorded under Payables for advances received. Release of the amount deposited and extinguishment of the receivables in question are awaiting approval from the European Commission. A further €17 million, without financial coverage in the State Budget, was entirely impaired. In February 2021, €11 million, which was not available, was collected related to tariff subsidies charged in the third quarter of 2020.
  - The payment of pensions and vouchers on behalf of INPS (the National Institute of Social Security), totalling €25 million.
- Amounts due from Cassa Depositi e Prestiti refer to fees for BancoPosta's deposit-taking activities during 2020.
- **Parcels, express courier and express parcel** receivables relate to shipments carried out by the Parent Company and services provided by the subsidiary SDA Express Courier SpA.
- Amounts due 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.

105. At 31 December 2020, the balance of trade receivables includes €11 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.
106. See "Revenue and amounts due from the State", showing overall amounts due from the Ministry for Economic Development (€82 million), including amounts due for postal and other services.

- **Other trade receivables** include mainly: €91 million from Postepay SpA primarily in relation to the sale of TLC subscription services, acquiring services and other services provided to customers in the telecommunications sector, in the payment circuit and money transfer sectors €47 million in relation to the Posta Time service, €33 million relating to the Posta Contest service, €27 million relating to the Posta Target service, €24 million relating to non-universal mail services, €19 million relating to telegraphic services, €19 million relating to the Raccomandata Market service and €14 million relating to the service for the notification of judicial documents.

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[107] and soliciting requests for appropriations.

Provisions for doubtful debts due from customers are described in note 6 – *Risk management*.

Amounts due from the Parent Company

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

tab. A8.2 - Due from the Parent Company

Description (€m)	Balance at 31/12/2020	Balance at 31/12/2019
Universal Service compensation	31	31
Delegated services	30	28
Remuneration of current account deposits	5	15
Publisher tariff and electoral subsidies	1	1
Other	2	2
Provision for doubtful debts due from the Parent company	(33)	(32)
Total	**36**	**45**

Specifically:

- **Universal Service compensation** includes:

tab. A8.2.1 - Universal Service compensation receivable

Description (€m)	Balance at 31/12/2020	Balance at 31/12/2019
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. The amount of compensation was recognised based on the terms of the new 2020-2024 Service Contract, effective 1 January 2020. On 1 December 2020, the European Commission approved the compensation for public service obligations envisaged in the new Service Contract, in the amount of €262 million per year, as it was deemed to be fully in line with the relevant EU rules on state aid.

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.

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

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

- Receivables for **delegated services** relate to fees accrued solely in 2020 for treasury services performed by BancoPosta on behalf of the State in accordance with a specific agreement with the MEF signed on 22 May 2020 for the three-year period 2020-2022.
- The **remuneration of current account deposits** refers entirely to amounts accruing in 2020 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 due from the Parent Company are described in note 6 – *Risk management*.

A9 - Other receivables and assets (€4,928 million)

tab. A9 - Other receivables and assets

Description (€m)	Balance at 31/12/2020			Balance at 31/12/2019		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Substitute tax paid	3,759	545	4,304	3,645	548	4,193
Due from social security agencies and pension funds (excl. fixed-term contract settlements)	-	176	176	-	94	94
Receivables relating to fixed-term contract settlements	57	79	136	66	81	147
Receivables for amounts that cannot be drawn on due to court rulings	-	78	78	-	79	79
Accrued income and prepaid expenses from trading transactions	-	12	12	-	12	12
Receivables Relaunch Decree 34/2020	29	6	35	-	-	-
Tax assets	-	67	67	-	17	17
Interest accrued on IRES refund	-	47	47	-	47	47
Sundry receivables	25	194	219	19	205	224
Provisions for doubtful debts due from others	(2)	(144)	(146)	(1)	(145)	(146)
Total	**3,868**	**1,060**	**4,928**	**3,729**	**938**	**4,667**

Specifically:

- **Substitute tax paid** refers mainly to:
  - €2,262 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[108];
  - €1,496 million charged to holders of Interest-bearing Postal Certificates and Class III and V insurance policies for stamp duty at 31 December 2020[109]; 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);
  - €320 million relating to advances paid in relation to stamp duty to be paid in virtual form in 2021 and charged to customers and to be recovered from customers by Poste Italiane;
  - €118 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 social security agencies and pension funds** refer for €57 million to sums relating to periods of suspension or reduction of work for Covid-19, which the Company has advanced to its employees and which, following access to the benefits of the Bilateral Solidarity Fund at INPS, enabled by the signing of the labour union agreements of 30 April 2020 and 21 December 2020, will be recovered by means of an adjustment with the contributions due to the Social Security Agency.

108. Of the total amount, €250 million, assessed on the basis of provisions at 31 December 2020, has yet to be paid and is accounted for in "Other taxes payable" (tab. B10.3).
109. 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 no. 201 of 6 December 2011, on stamp duty on current accounts and financial products (Official Gazette 127 of 1 June 2012).

- **Receivables relating to 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 personnel previously employed on fixed-term contracts. This item refers to receivables with a present value of €136 million from personnel, from INPS and pension funds recoverable in the form of variable instalments, the last of which is due in 2042. This item includes a receivable of €42 million from INPS (formerly IPOST) under a specific agreement entered into with IPOST on 23 December 2009, consisting of six instalments of €6.9 million each, falling due between 30 June 2012 and 31 December 2014. Negotiations are underway to recover this amount and, should the outcome prove unsuccessful, Poste Italiane reserves the right to take all necessary steps to protect its rights.
- **Amounts that cannot be drawn on due to court rulings** include €65 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.
- Receivables under **Relaunch Decree no. 34/2020** refer to receivables acquired in the last months of 2020 under the provisions of the aforementioned decree later converted with amendments into Law no. 77 of 17 July 2020. These receivables will be used to offset, in the years from 2021 to 2030, tax, social security or tax payables on the basis of as provided by the Revenue Agency with reference to the characteristics of the individual receivables.
- **Interest accrued on IRES refund**, refers to interest accruing up to 31 December 2020 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 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 no. 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. Elements of uncertainty about the final outcome of the case are taken into account in determining the provision for doubtful debts due from others.

Provisions for doubtful debts due from others are described in note 6 – *Risk management*.

A10 - Cash and deposits attributable to BancoPosta (€6,391 million)

tab. A10 - Cash and deposits attributable to BancoPosta

Description (€m)	Balance at 31/12/2020	Balance at 31/12/2019
Cash and cash equivalents in hand	3,027	3,487
Bank deposits	3,364	816
Total	**6,391**	**4,303**

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 (€1,198 million) and service companies that provide cash transportation services[110] whilst awaiting transfer to the Italian Treasury (€1,829 million). The increase in the item Bank deposits is due to temporary excess liquidity deriving from private customer deposits on the account opened with the Bank of Italy, intended for interbank settlements, and not yet invested.

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

A11 - Cash and cash equivalents (€4,516 million)

tab. A11 - Cash and cash equivalents

Description (€m)	Balance at 31/12/2020	Balance at 31/12/2019
Bank deposits and amounts held at the Italian Treasury	2,503	1,638
Deposits with the MEF	1,991	495
Cash and cash equivalents in hand	22	16
Total	**4,516**	**2,149**

The balance of cash and cash equivalents at 31 December 2020 includes restricted cash of approximately €1,705 million, of which €929 million relates to funds on deposit with the MEF, known as the “Buffer” account, collected from customers and subject to a restriction on their use, €718 million consisting of liquidity used to cover insurance technical provisions, €24 million deposited by the Cabinet Office - Publishing Department in a non-interest-bearing account with the State Treasury as an advance on payments for reductions in publisher fees granted by the Company (note A8), €21 million restricted as a result of judicial decisions regarding disputes of various kinds and €13 million for cash on delivery collections and other restrictions.

Equity

B1 - Equity (€11,507 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

(€m)	Equity at 31/12/2020	Changes in equity during 2020	Net profit/(loss) for 2020	Equity at 31/12/2019
Financial statements of Poste Italiane SpA	**7,239**	**586**	**325**	**6,328**
- Balance of profit (loss) of consolidated subsidiaries	6,319	-	1,035	5,284
- Investments accounted for using the equity method	120	-	5	115
- Balance of FV and CFH reserves of investee companies	103	61	-	42
- Actuarial gains and losses on employee termination benefits of investee companies	(6)	(1)	-	(5)
- Fees to be amortised attributable to Poste Vita SpA and Poste Assicura SpA	(34)	-	3	(37)
- Effects of intercompany transactions	(75)	-	-	(75)
- Derecognition of infra-group dividends	(2,464)	-	(164)	(2,300)
- Elimination of adjustments to value of consolidated companies	598	-	12	586
- Amortisation/depreciation until 1 January 2004/Impairment of goodwill	(156)	-	-	(156)
- Impairments of disposal groups held for sale	(40)	-	-	(40)
- Recognition of liabilities for call options	(46)	(49)	3	-
- Other consolidation adjustments	(56)	-	(12)	(44)
Equity attributable to owners of the Parent	**11,502**	**597**	**1,207**	**9,698**
- Equity attributable to non-controlling interests (excluding profit/(loss))	6	6	-	-
- Net profit/(loss) attributable to non-controlling interests	(1)	-	(1)	-
Equity attributable to non-controlling interests	**5**	**6**	**(1)**	**-**
Total consolidated equity	**11,507**	**603**	**1,206**	**9,698**

At 31 December 2020, earnings per share were €0.927 (€1.032 at 31 December 2019), calculated as the ratio of the profit for the year of €1,206 million to the number of outstanding shares of 1,300,852,035.

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 2020, 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 approved by the General Shareholders' Meeting of 15 May 2020, on 24 June 2020, the Parent Company distributed dividends of €402 million (dividend per share equal to €0.309) as the balance for 2019, taking into account the interim dividend of €200 million (dividend per share equal to €0.154) already paid in November 2019. In addition, on 11 November 2020, Poste Italiane's Board of Directors resolved to advance part of the ordinary dividend for 2020 as an interim dividend. The interim dividend of €211 million was distributed on 25 November 2020 (unit dividend of €0.162).

B4 - Reserves (€3,909 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 2020	**299**	**1,210**	**1,018**	**115**	**2**	**2**	**2,646**
Increases/(decreases) in fair value during the year	-	-	2,033	(28)	-	-	2,005
Tax effect of changes in fair value	-	-	(576)	7	-	-	(569)
Transfers to profit or loss	-	-	(263)	5	-	-	(258)
Tax effect of transfers to profit or loss	-	-	75	(1)	-	-	74
Increase/(decrease) for expected losses	-	-	7	-	-	-	7
Share of after-tax comprehensive income/(loss) of investees accounted for using equity method	-	-	-	-	-	-	-
Gains/(losses) recognised in equity	-	-	1,276	(17)	-	-	1,259
Reserves related to disposal groups and liabilities held for sale	-	-	-	-	-	-	-
Incentive plans	-	-	-	-	-	4	4
Other changes	-	-	-	-	-	-	-
Balance at 31 December 2020	**299**	**1,210**	**2,294**	**98**	**2**	**6**	**3,909**

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 €2,033 million during 2020 reflects:
  - a net increase of €1,946 million in financial assets attributable to the Group's Financial Services segment;
  - a net increase of €76 million in financial assets attributable to the Group's Insurance Services segment;
  - a net increase of €1 million in financial assets attributable to the Group's Postal and Business Services segment;
  - a net increase of €10 million in financial assets attributable to the Group's Payment and Mobile 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 2020, the fair value loss of €28 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 and the MBO short-term incentive plan, carried out on the basis of the provisions of IFRS 2.

Liabilities

B5 - Technical provisions for insurance business (€153,794 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 31/12/2020	Balance at 31/12/2019
Mathematical provisions	129,796	123,820
Outstanding claims provisions	801	663
Technical provisions where investment risk is transferred to policyholders	4,975	3,930
Other provisions	17,986	11,641
for operating costs	70	79
for deferred liabilities to policyholders	17,916	11,562
Technical provisions for claims	236	207
Total	**153,794**	**140,261**

The technical provisions borne by reinsurers are shown under assets in the balance sheet and amount to a total of €54 million.

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

The **provisions for deferred liabilities 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 2020 and, to a lesser extent, on financial instruments at fair value through profit or loss.

B6 - Provisions for risks and charges (€1,396 million)

Movements in provisions for risks and charges are as follows:

tab. B6 - Movements in provisions for risks and charges for FY 2020

Description (€m)	Balance at 1 January 2020	Provisions	Finance costs	Transfers to profit or loss	Uses	Balance at 31/12/2020
Provisions for operational risks	241	26	-	(88)	(40)	139
Provisions for disputes with third parties	313	30	-	(43)	(33)	267
Provisions for disputes with staff*	54	12	-	-	(16)	50
Provisions for personnel expenses	68	223	-	(29)	(32)	230
Provisions for early retirement incentives	421	416	-	-	(261)	576
Provisions for taxation/social security contributions	22	1	-	(3)	(2)	18
Other provisions for risks and charges	99	25	-	(4)	(4)	116
Total	**1,218**	**733**	**-**	**(167)**	**(388)**	**1,396**
Overall analysis of provisions:						
- non-current portion	501					625
- current portion	717					771
	1,218					**1,396**

* Net provisions for personnel expenses amount to €8 million. Service costs (legal assistance) total €4 million.

Specifically:

- **Provisions for operational risks,** which primarily regard liabilities deriving from transactions carried out by BancoPosta, primarily reflect risks linked to the distribution of postal savings products issued in previous years, adjustments and settlements of income for previous years, estimated risks for charges and expenses to be incurred as a result of seizures suffered by BancoPosta, primarily in its capacity as a third party in foreclosure, and fraud. Provisions for the year totalling €26 million mainly reflect risks associated with the distribution of postal savings products issued in previous years and expenses to be incurred as a result of seizures suffered by BancoPosta mainly as a third party. Transfers to profit or loss are due to the elimination of liabilities identified in the past and refer mainly to the revised estimate of certain risks associated with the distribution of postal savings products and the conclusion of voluntary protection initiatives undertaken for the Europa Immobiliare I and Obelisco funds. Uses are primarily attributable to risks linked to the distribution of postal savings products and to liabilities defined in favour of customers subscribing to the Obelisco fund who have taken part in the above initiative.
- **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. Provisions of €12 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 €223 million to reflect the estimated value of new liabilities and decreased as a result of past contingent liabilities that failed to materialise (€29 million) and settled disputes (€32 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 2022. The provisions made at 31 December 2019, amounting to €261 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 for risks and charges** cover probable liabilities of various type, including: estimated liabilities deriving from the risk that specific legal actions undertaken in order to reverse seizures of the Parent Company's assets may be unable to recover the related amounts, claims for rent arrears on properties used free of charge, claims for payment of accrued interest expense due to certain suppliers, frauds and expenses for reclamation of owned land.

B7 - Employee termination benefits (€1,030 million)

The following movements in employee termination benefits took place in 2020:

tab. B7 - Movements in provisions for employee termination benefits

(€m)	FY 2020
Balance at 1 January	**1,135**
Current service cost	2
Interest component	8
Effect of actuarial (gains)/losses	5
Uses for the period	(120)
Balance at 31 December 2020	**1,030**

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

	31/12/2020
Discount rate	0.300%
Inflation rate	1.500%
Annual rate of increase of employee termination benefits	2.625%

B7.2 - Demographic assumptions

	31/12/2020
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:

tab. B7.3 - Actuarial gains and losses

	31/12/2020
	Employee termination benefits
Change in demographic assumptions	-
Change in financial assumptions	22
Other experience-related adjustments	(17)
Total	**5**

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

tab. B7.4 - Sensitivity analysis

	31/12/2020
	Employee termination benefits
Inflation rate +0.25%	1,044
Inflation rate -0.25%	1,016
Discount rate +0.25%	1,008
Discount rate -0.25%	1,053
Turnover rate +0.25%	1,028
Turnover rate -0.25%	1,032

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

B7.5 - Other information

	31/12/2020
Expected service cost	1
Average duration of defined benefit plan	8.76
Average employee turnover	0.146%

B8 - Financial liabilities (€98,230 million)

tab. B8 - Financial liabilities

	Balance at 31/12/2020			Balance at 31/12/2019		
Description (€m)	**Non-current liabilities**	**Current liabilities**	**Total**	**Non-current liabilities**	**Current liabilities**	**Total**
Financial liabilities at amortised cost	10,174	79,727	89,901	8,424	64,344	72,768
Postal current accounts	-	58,810	58,810	-	48,317	48,317
Loans	9,154	7,727	16,881	7,364	4,296	11,660
Bonds	1,046	-	1,046	50	-	50
Due to financial institutions	8,108	7,727	15,835	7,314	4,296	11,610
Lease payables	1,019	216	1,235	1,060	219	1,279
MEF account held at the Treasury	-	3,588	3,588	-	4,542	4,542
Other financial liabilities	-	9,387	9,387	-	6,970	6,970
Financial liabilities at FVTPL	46	-	46	-	-	-
Financial liabilities for purchase of minority interests	46	-	46	-	-	-
Derivative financial instruments	8,146	137	8,283	5,540	50	5,590
Cash flow hedges	53	73	126	76	31	107
Fair value hedges	8,093	44	8,137	5,449	18	5,467
Fair value through profit or loss	-	20	20	15	1	16
Total	**18,366**	**79,864**	**98,230**	**13,964**	**64,394**	**78,358**

Postal current accounts

They represent BancoPosta's direct deposit. These payables include net amounts accrued at 31 December 2020 and settled with customers in January 2021.

Loans

Other than the guarantees described in the following notes, loans 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. EIB loans are subject to the maintenance of a minimum rating level of BBB- (or equivalent) by the two rating agencies of Poste, without prejudice to the bank's right to request guarantees or an increase in the margin, or in the event of failure to agree immediate early repayment of the loan. Standard negative pledge provisions do apply, however[111].

Bonds

The item **Bonds** refers to two loans issued by the Parent Company as part of the €2 billion Euro Medium Term Notes (EMTN) Programme promoted by the Company during the 2013 financial year on the Luxembourg Stock Exchange. Specifically:

a senior unsecured loan with a total nominal value of €1 billion issued on 10 December 2020 in two tranches, placed in public form with institutional investors. The first tranche of €500 million matures on 10 December 2024, has an above-par issue price of 100.10 with fixed annual coupon of 0.00% and an effective yield to maturity of -0.025%; the second tranche of €500 million matures on 10 December 2028, with an issue price below par of 99.758, a fixed annual coupon of 0.50% and an effective yield to maturity of 0.531%. At 31 December 2020, the fair value[112] of the loan was €1,004 million;

a loan with a nominal value of €50 million, privately placed and issued at par on 25 October 2013. The term to maturity of the loan is ten years and the interest rate is 3.5% for the first two years and variable thereafter (EUR Constant Maturity Swap rate plus 0.955%, with a cap of 6% and a floor of 0%). The interest rate risk exposure was hedged as described in note A6 – *Financial assets*. At 31 December 2020, the fair value[113] of the loan was €51 million.

Amounts due to financial institutions

tab. B8.1 - Due to financial institutions

Description (€m)	Balance at 31/12/2020 Non-current liabilities	Current liabilities	Total	Balance at 31/12/2019 Non-current liabilities	Current liabilities	Total
Repurchase agreements	7,285	7,476	14,761	6,741	4,295	11,036
EIB fixed rate loan maturing 12/03/2026	173	-	173	173	-	173
EIB fixed rate loan maturing 16/10/2026	400	-	400	400	-	400
Other loans	250	250	500	-	-	-
Accrued interest expense	-	1	1	-	1	1
Total	**8,108**	**7,727**	**15,835**	**7,314**	**4,296**	**11,610**

Amounts due to financial institutions are subject to standard negative pledge clauses[114].

111. 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.
112. In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 1.
113. In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 2.
114. 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.

At 31 December 2020, outstanding liabilities of €15,123 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 €13,856 million. €7,083 million of this amount regards Long Term Repos and €8,040 million to ordinary loan operations, the resources from both invested in Italian fixed income government securities and as funding for incremental deposits used as collateral. At 31 December 2020, repurchase agreements with a nominal value of €900 million were the subject of fair value hedge transactions executed to hedge interest rate risk. Finally, financial assets and liabilities relating to repurchase agreements managed through the Central Counterparty that meet the requirements of IAS 32 are offset. The effect of netting at 31 December 2020, already included in the exposure to net balances, amounted to €362 million (€1,158 million at 31 December 2019).

The fair value[115] of the repurchase agreements in question at 31 December 2020 is €14,743 million.

At 31 December 2020, the fair value[116] of the two EIB loans totalling €573 million is €604 million.

At 31 December 2020, the fair value[117] of the medium- and long-term loan, repaid in advance in January 2021, is €258 million.

For information regarding the Poste Group's credit lines and available liquidity at 31 December 2020, reference should be made to note 6 - *Risk management - Financial risks - Liquidity risk*.

Lease payables

Lease liabilities at 31 December 2020 amount to €1,235 million. Total cash outflows for leases in 2020 amount to €248 million.

MEF account held at the Treasury

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

	Balance at 31/12/2020			Balance at 31/12/2019		
Description (€m)	**Non-current liabilities**	**Current liabilities**	**Total**	**Non-current liabilities**	**Current liabilities**	**Total**
Balance of cash flows for advances	-	3,602	3,602	-	4,397	4,397
Balance of cash flows from management of postal savings	-	(192)	(192)	-	(47)	(47)
Amounts payable due to theft	-	159	159	-	158	158
Amounts payable for operational risks	-	19	19	-	34	34
Total	**-**	**3,588**	**3,588**	**-**	**4,542**	**4,542**

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 31/12/2020			Balance at 31/12/2019		
Description (€m)	**Non-current liabilities**	**Current liabilities**	**Total**	**Non-current liabilities**	**Current liabilities**	**Total**
Net advances	-	3,603	3,603	-	4,397	4,397
MEF postal current accounts and other payables	-	670	670	-	670	670
MEF - State pensions	-	(671)	(671)	-	(670)	(670)
Total	**-**	**3,602**	**3,602**	**-**	**4,397**	**4,397**

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

The decrease in the item Net advances, compared to 31 December 2019, is mainly due to the advance payment, made in the last working days of December, of the January pension accrual due to the provisions of the Ordinance of the Head of the Civil Protection Department no. 680 of 10 December 2020 in order to comply with the measures to contain the spread of the COVID-19 virus.

The **balance of cash flows from management of postal savings**, amounting to a positive €192 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 2020 consists of €146 million receivable from Cassa Depositi e Prestiti, less €46 million receivable from the MEF for Interest-bearing Postal Certificates issued on its behalf.

Amounts payable due to thefts from Post Offices of €159 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 €19 million regard the portion of advances obtained to fund the operations of BancoPosta, in relation to which asset under recovery is certain or probable.

Other financial liabilities

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

tab. B8.3 - Other financial liabilities

	Balance at 31/12/2020			Balance at 31/12/2019		
Description (€m)	**Non-current liabilities**	**Current liabilities**	**Total**	**Non-current liabilities**	**Current liabilities**	**Total**
Prepaid cards	-	6,979	6,979	-	5,053	5,053
Domestic and international money transfers	-	917	917	-	668	668
Guarantee deposits	-	392	392	-	112	112
Endorsed cheques	-	382	382	-	140	140
Payables for items in process	-	186	186	-	246	246
Other amounts payable to third parties	-	149	149	-	164	164
Amounts to be credited to customers	-	139	139	-	168	168
Cashed cheques	-	135	135	-	255	255
Tax collection and road tax	-	79	79	-	139	139
Other	-	29	29	-	26	26
Totale	**-**	**9.387**	**9.387**	**-**	**6.970**	**6.970**

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

The increase in the item **Domestic and international money transfers** is mainly due to the greater use of money orders and transfers by customers in the last days of December.

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).

Financial liabilities for purchase of minority interests

The item refers to the estimate of the amount (purchase and sale options) that will allow Poste Italiane, starting from the second quarter of 2023, to purchase the additional 30% of MLK Deliveries SpA and ownership of the Milkman technology for e-commerce applications. The exercise price of these options is not fixed, but determined on the basis of a formula that provides for the application of a multiplier to certain economic/equity targets of MLK Deliveries SpA.

Derivative financial instruments

Movements in derivative financial instruments during 2020 are described in note A6 – *Financial assets*.

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 31/12/2019	Net cash flow from/ (for) financing activities	Net cash flow from/ (for) operating activities*	Non-cash flows	Balance at 31/12/2020
Loans	11,660	1,908	2,516	797	16,881
Bonds	50	996	-	-	1,046
Due to financial institutions	11,610	912	2,516	797	15,835
Lease payables	1,279	(248)	-	204	1,235
Other financial liabilities	6,970	3	2,368	46	9,387
Total	**19,909**	**1,663**	**4,884**	**1,047**	**27,503**

* The total amount of €4,884 million is included in the cash flow from/(for) operating activities, the balance of which in the statement of cash flows amounts to €1,917 million and regards loans and other financial liabilities not attributable to financing activities.

B9 - Trade payables (€1,837 million)

tab. B9 - Trade payables

Description (€m)	Balance at 31/12/2020	Balance at 31/12/2019
Due to suppliers	1,368	1,274
Contract liabilities	461	345
Due to subsidiaries	2	1
Due to associates	6	7
Total	**1,837**	**1,627**

Amounts due to suppliers

tab. B9.1 - Due to suppliers

Description (€m)	Balance at 31/12/2020	Balance at 31/12/2019
Italian suppliers	1,217	1,129
Overseas suppliers	17	34
Overseas counterparties*	134	111
Total	**1,368**	**1,274**

* 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 1 January 2020	Change due to recognition of revenue for period	Other changes	Balance at 31 December 2020
Prepayments and advances from customers	274	(1)	108	381
Other contract liabilities	48	(74)	78	53
Liabilities for fees to be refunded	20	43	(39)	24
Liabilities for volume discounts	3	-	(1)	3
Total	**345**	**(31)**	**147**	**461**

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 31/12/2020	Balance at 31/12/2019
Prepayments from overseas counterparties		275	196
Automated franking		40	38
Advances for Publishing from PCM	[tab. A8.1]	24	-
Unfranked mail		17	16
Postage-paid mailing services		6	6
Other services		19	18
Total		**381**	**274**

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 (€3,321 million)

tab. B10 - Other liabilities

	Balance at 31/12/2020			Balance at 31/12/2019		
Description (€m)	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Due to staff	19	696	715	21	786	807
Social security payables	26	442	468	30	500	530
Other taxes payable	1,496	504	2,000	1,370	699	2,069
Sundry payables	29	67	96	94	93	187
Accrued liabilities and deferred income	6	36	42	10	32	42
Total	**1,576**	**1,745**	**3,321**	**1,525**	**2,110**	**3,635**

Amounts due to staff

tab. B10.1 - Due to staff

Description (€m)	Balance at 31/12/2020 Non-current liabilities	Current liabilities	Total	Balance at 31/12/2019 Non-current liabilities	Current liabilities	Total
Fourteenth month salaries	-	210	210	-	219	219
Incentives	19	380	399	21	358	379
Accrued vacation pay	-	45	45	-	56	56
Other amounts due to staff	-	61	61	-	153	153
Total	**19**	**696**	**715**	**21**	**786**	**807**

The reduction in **Other amounts due to staff** is due to the one-off payment to cover the 2019 contractual *vacatio*, which occurred in April 2020.

Social security payables

tab. B10.2 - Social security payables

Description (€m)	Balance at 31/12/2020 Non-current liabilities	Current liabilities	Total	Balance at 31/12/2019 Non-current liabilities	Current liabilities	Total
INPS	1	335	336	2	393	395
Pension funds	-	87	87	-	87	87
INAIL	25	-	25	28	-	28
Other agencies	-	20	20	-	20	20
Total	**26**	**442**	**468**	**30**	**500**	**530**

The decrease in **amounts due to INPS** is partly due to the payment of the one-off contribution component mentioned above.

Other taxes payable

tab. B10.3 - Other taxes payable

Description (€m)	Balance at 31/12/2020 Non-current liabilities	Current liabilities	Total	Balance at 31/12/2019 Non-current liabilities	Current liabilities	Total
Stamp duty payable	1,496	52	1,548	1,370	8	1,378
Tax due on insurance provisions	-	250	250	-	487	487
Withholding tax on employees' and consultants' salaries	-	95	95	-	92	92
VAT payable	-	41	41	-	39	39
Substitute tax	-	31	31	-	36	36
Withholding tax on postal current accounts	-	10	10	-	10	10
Other taxes due	-	25	25	-	27	27
Total	**1,496**	**504**	**2,000**	**1,370**	**699**	**2,069**

Specifically:

- **Stamp duty payable** represents the amount payable to the tax authorities for stamp duty in virtual form, before the adjustment applied in 2021 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 2020 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 2021 as withholding agents.

Sundry payables

tab. B10.4 - Sundry payables

Description (€m)	Balance at 31/12/2020 Non-current liabilities	Current liabilities	Total	Balance at 31/12/2019 Non-current liabilities	Current liabilities	Total
Sundry payables attributable to BancoPosta	-	5	5	74	8	82
Guarantee deposits	12	8	20	12	1	13
Other payables	17	54	71	8	84	92
Total	**29**	**67**	**96**	**94**	**93**	**187**

The decrease in the item **Sundry payables attributable to BancoPosta** compared with 31 December 2019 is due to the settlement of prior year items resulting from a comprehensive review of estimates completed during the year, with the resulting positive impact recognised in the statement of profit or loss.

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.).

4.3 Notes to the statement of profit or loss

Revenue from contracts with customers

Description (€m)	Notes	FY 2020		FY 2019	
Revenue from Mail, Parcels and other	**[C1]**	**3,201**		**3,492**	
of which Revenue from contracts with customers			**3,132**		**3,439**
recognised at a point in time			259		509
recognised over time			2,873		2,930
Revenue from Payments and Mobile	**[C2]**	**737**		**664**	
of which Revenue from contracts with customers			**737**		**664**
recognised at a point in time			241		287
recognised over time			497		377
Net revenue from Financial Services	**[C3]**	**4,945**		**5,135**	
Revenue from Financial Services		5,151		5,213	
Expenses from financial activities		(206)		(79)	
of which Revenue from contracts with customers			**2,847**		**3,033**
recognised at a point in time			315		412
recognised over time			2,532		2,621
Revenue from Insurance Services after changes in technical provisions and other claim expenses	**[C4]**	**1,643**		**1,669**	
Insurance premium revenue		*16,865*		*17,913*	
Income from insurance activities		*4,065*		*5,478*	
Change in technical provisions for insurance business and other claim expenses		*(18,768)*		*(21,463)*	
Expenses from insurance activities		*(520)*		*(259)*	
of which Revenue from contracts with customers			**9**		**9**
recognised at a point in time			-		-
recognised over time			9		9
Total		**10,526**		**10,960**	

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. In addition, revenue not arising from contracts with customers are accounted for in accordance with IFRS 16 - *Leases* and IAS 20 - *Accounting for Government Grants and Disclosure of Government Assistance*.
- **Revenue from payments and mobile** refers to:
  - 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;
  - 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 and mobile services;
- 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.

- **Net revenue from financial services** refers to:
  - 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 commissions on payment of bills by payment slip: 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 not from contracts with customers accounted for in accordance with IFRS 9 - *Financial Instruments*.

C1 - Revenue from mail, parcels and other (€3,201 million)

This item breaks down as follows:

tab. C1 - Revenue from Mail, Parcels & other

Description (€m)	FY 2020	FY 2019
Mail	1,582	2,134
Parcels	1,160	852
Other revenue	144	185
Total external revenue	**2,886**	**3,171**
Universal Service compensation	262	262
Publisher tariff subsidies	53	59
Total revenue	**3,201**	**3,492**

External revenue showed a decrease due to the decrease in revenue from Mail, partially offset by the increase in revenue from Parcels, mainly due to the increase in e-commerce shipments. This trend reflects the critical issues that emerged as a result of the health emergency that has affected Italy since March 2020 and has had a significant impact on normal operations.

Universal Service compensation relates to amounts paid by the MEF to cover the costs of fulfilling the USO. The amount of the annual compensation of €262 million is defined in the 2020-2024 Service Contract, effective as of 1 January 2020 and approved by the European Commission, which has determined that the state compensation granted to the Company is in line with EU state aid rules.

Publisher tariff subsidies[118] 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 2020 State Budget.

118. 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 and mobile (€737 million)

This item breaks down as follows:

tab. C2 - Revenue from Payments and Mobile

Description	FY 2020	FY 2019
Electronic money	376	338
Fees for issue and use of prepaid cards	301	277
Acquiring	3	2
Other fees	72	59
Mobile	283	240
Transaction Banking	77	86
Payment Slips	1	2
Commissions for processing tax payments using forms F23/F24	47	61
Money transfers	29	23
Other operating income	1	-
Total	**737**	**664**

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

C3 - Net revenue from financial services (€4,945 million)

This item breaks down as follows:

tab. C3 - Net revenue from Financial Services

Description (€m)	FY 2020	FY 2019
Financial services	4,532	4,766
Income from financial activities	516	384
Other operating income	103	63
Expenses from financial activities	(206)	(79)
Total	**4,945**	**5,134**

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

The item **Other operating income** includes the effects related to the derecognition of items previously recorded under liabilities, resulting from a comprehensive review of estimates completed during the year under review.

Revenue from Financial Services breaks down as follows:

tab. C3.1 - Revenue from financial services

Description (€m)	FY 2020	FY 2019
Fees for collection of postal savings deposits	1,851	1,799
Income from investment of postal current account deposits	1,590	1,635
Other revenue from current account services	396	417
Commissions on payment of bills by payment slip	297	390
Distribution of loan products	168	294
Income from delegated services	103	97
Mutual fund management fees	97	100
Money transfers	16	21
Other	14	13
Total	**4,532**	**4,766**

Revenue from financial services showed a decrease compared to the 2019 due to the health emergency that has affected our country since March 2020 and that has significantly affected normal operations. The largest decreases refer to revenue from commissions on payment of bills by payment slip and commissions for the distribution of loan products.

In particular:

- **Fees for 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 expired 31 December 2020 and being renewed.
- **Income from 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 2020	FY 2019
Income from investments in securities	1,546	1,570
Interest income on securities at amortised cost	649	535
Interest income on securities at FVOCI	894	1,012
Interest income (expense) on asset swaps of CFH on securities at FVOCI and AC	21	4
Interest income (expense) on asset swaps of FVH on securities at FVOCI and AC	(58)	(27)
Interest income on repurchase agreements	40	46
Income from deposits held with the MEF	43	64
Remuneration of current account deposits (deposited with the MEF)	32	64
Differential on derivatives stabilising returns	11	-
Other income	1	1
Total	**1,590**	**1,635**

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 2020	FY 2019
Income from financial assets at FVOCI	399	353
Realised gains	399	353
Income from equity instruments at FVTPL	8	27
Fair value gains	8	25
Realised gains	-	2
Income from financial assets at amortised cost	102	-
Realised gains	102	-
Remuneration of own liquid funds entered under finance income		
Foreign exchange gains	6	4
Realised gains	6	4
Other income	1	-
Total	**516**	**384**

- Other income from financial activities increased by €132 million compared to 2019, mainly due to higher profits from the sale of financial assets at FVTOCI (+€46 million) and at amortised cost (+€102 million), partly offset by the lower profits from fair value measurement of instruments at FVTPL (-€17 million).

tab. C3.3 - Expenses from financial activities

Description (€m)	FY 2020	FY 2019
Expenses from financial instruments at FVTPL	6	15
Fair value losses	5	15
Realised losses	1	-
Expenses from financial assets at FVOCI	97	3
Realised losses	97	3
Expenses from equity instruments at FVTPL	6	-
Fair value losses	5	-
Realised losses	1	
Expenses from financial assets at amortised cost	38	11
Realised losses	38	11
Expenses from fair value hedges	3	4
Fair value losses	3	4
Foreign exchange losses	5	-
Fair value losses	5	-
Interest expense	51	46
in customers' deposits	3	11
Interest expense on repurchase agreements	6	9
due to the Parent company	6	5
on guarantee deposits	36	21
Total	**206**	**79**

Expenses from financial activities showed an increase of €127 million compared to 2019, mainly due to higher realised losses from financial assets at FVTOCI (+€94 million) and at amortised cost (+€27 million).

C4 - Revenue from insurance services after changes in technical provisions and other claim expenses (€1,643 million)

This item breaks down as follows:

tab. C4 - Revenue from Insurance Services after changes in technical provisions and other claim expenses

Description (€m)	FY 2020	FY 2019
Insurance premium revenue	16,865	17,913
Income from insurance activities	4,065	5,478
Change in technical provisions for insurance business and other claim expenses	(18,767)	(21,463)
Expenses from insurance activities	(520)	(259)
Total	**1,643**	**1,669**

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

tab. C4.1 - Insurance premium revenue

Description (€m)	FY 2020	FY 2019
Class I	15,898	15,702
Class III	681	1,939
Classes IV and V	82	91
Gross “life” premiums	**16,661**	**17,732**
Outward reinsurance premiums	(10)	(12)
Net “life” premiums	**16,651**	**17,720**
Non-life premiums	235	222
Outward reinsurance premiums	(21)	(29)
Net “Non-life” premiums	**214**	**193**
Total	**16,865**	**17,913**

Gross life premiums amounted to €16,661 million, down 6% on the previous year, with a significant contribution from Multi-class products, mainly as a result of the health emergency that affected Italy from March 2020.

Although marginal in relation to total net inflows, the contribution of net premiums pertaining to the Non-Life segment was up from €193 million in 2019 to the current €214 million.

Income from insurance activities is as follows:

tab. C4.2 - Income from insurance activities

Description (€m)	FY 2020	FY 2019
Income from financial assets at amortised cost	5	4
Interest	5	4
Income from financial assets at FVTPL	1,501	2,669
Interest	351	418
Fair value gains	1,096	2,171
Realised gains	54	80
Income from financial assets at FVOCI	2,481	2,741
Interest	2,397	2,526
Realised gains	84	215
Other income	78	64
Total	**4,065**	**5,478**

The decrease in income from insurance activities (-€1,413 million compared with 2019) primarily reflects a decrease in income from financial assets at FVTPL, reflecting the negative performance of the financial markets at 31 December 2020, compared with 31 December 2019 impacted by the known health emergency. These valuation gains, which are almost exclusively related to investments included in separately managed accounts, were almost entirely transferred to policyholders through shadow accounting.

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

tab. C4.3 - Change in technical provisions for insurance business and other claim expenses

Description (€m)	FY 2020	FY 2019
Claims paid	10,896	13,966
Change in mathematical provisions	5,999	4,421
Change in outstanding claim provisions	138	(117)
Change in Other technical provisions	599	1,862
Change in technical provisions where investment risk is transferred to policyholders	1,045	1,278
Total change in technical provisions for insurance business and other claim expenses: Life	**18,677**	**21,410**
Portion ceded to reinsurers: Life	**(3)**	**(7)**
Total change in technical provisions for insurance business and other claim expenses: Non-life	**102**	**65**
Portion ceded to reinsurers: Non-life	**(8)**	**(5)**
Total	**18,768**	**21,463**

The change in technical provisions for the insurance business and other claim expenses primarily reflect:

- claims paid, policies redeemed, expiries and the related expenses incurred by Poste Vita SpA during the year;
- the change in mathematical provisions reflecting increased obligations to policyholders;
- the change in Other technical provisions is entirely attributable to the change recorded in the period in the DPL reserve, related to the valuation of securities included in the separately managed accounts and classified in the FVTPL category;
- 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 2020	FY 2019
Expenses from financial assets at FVTPL	380	121
Fair value losses	213	69
Realised losses	167	52
Expenses from financial assets at FVOCI	71	98
Interest	7	5
Realised losses	64	93
Impairment losses/reversals of impairment losses due to credit risk	22	(4)
Other expenses	47	44
Total	**520**	**259**

The increase in Expenses from insurance activities (+€261 million compared to 2019) was mainly attributable to the negative financial market dynamics experienced in 2020, which resulted in the recognition of Expenses from financial activities at FVTPL of €380 million compared to €121 million in 2019.

C5 - Cost of goods and services (€2,523 million)

tab. C5 - Cost of goods and services

Description (€m)	FY 2020	FY 2019
Service costs	2,262	2,086
Lease expense	98	77
Raw, ancillary and consumable materials and goods for resale	163	124
Total	**2,523**	**2,287**

Costs of goods and services increased by a total of €236 million compared to 2019 mainly due to extraordinary expenses incurred to deal with the health emergency (€106 million for the purchase of personal protective equipment, plexiglass screens, sanitisation expenses, extraordinary cleaning of premises, communication expenses, etc.) and higher variable costs related to business development and in particular parcel costs.

Service costs

tab. C5.1 - Service costs

Description (€m)	FY 2020	FY 2019
Transport of mail, parcels and forms	816	677
Routine maintenance and technical assistance	243	239
Outsourcing fees and external service charges	202	217
Mobile telecommunication services for customers	171	119
Credit and debit card fees and charges	121	121
Personnel services	116	137
Energy and water	110	125
Cleaning, waste disposal and security	110	74
Transport of cash	79	89
Advertising and promotions	65	63
Mail, telegraph and telex	55	58
Telecommunications and data transmission	52	49
Asset management fees	37	32
Consultants' fees and legal expenses	21	23
Electronic document management, printing and enveloping services	19	20
Remuneration of Statutory Auditors	1	1
Other	44	42
Total	**2,262**	**2,086**

Lease expense

tab. C5.2 - Lease expense

Description (€m)	FY 2020	FY 2019
Equipment hire and software licences	61	54
Real estate leases and ancillary costs	14	8
Vehicle leases	2	2
Other lease expense	21	13
Total	**98**	**77**

Lease expense include €20 million for short-term leases and €15 million for low-value leases.

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 2020	FY 2019
Consumables, advertising materials and goods for resale		136	68
Fuels and lubricants		47	52
Printing of postage and revenue stamps		4	7
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)
Change in inventories of raw, ancillary and consumable materials	[tab. A7]	(20)	-
Change in property held for sale	[tab. A7]	(5)	(3)
Total		**163**	**124**

The increase in consumables is due to the health emergency that has made it necessary to procure personal protective equipment (such as masks, gloves, detergent gels and disinfectants) in order to guarantee the maintenance of operations both at post offices and at mail processing and sorting sites.

C6 - Personnel expenses (€5,638 million)

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

tab. C6 - Personnel expenses

Description (€m)	Note	FY 2020	FY 2019
Wages and salaries		3,869	4,122
Social security contributions		1,114	1,200
Employee termination benefits: current service cost	[tab. B7]	1	1
Employee termination benefits: supplementary pension funds and INPS		240	250
Agency staff		22	17
Remuneration and expenses paid to Directors		2	2
Early retirement incentives		20	17
Net provisions (reversals) for disputes with staff	[tab. B6]	7	4
Provisions for early retirement incentives	[tab. B6]	416	370
Amounts recovered from staff due to disputes		(8)	(10)
Share-based payments		6	12
Other personnel expenses/(cost recoveries)		(51)	(89)
Total		**5,638**	**5,896**

Personnel expenses decreased by €258 million overall compared to 2019, mainly due to the ordinary component of personnel expenses, which was affected by the reduction in the average workforce during the period (approximately 4,500 FTE less than 2019). The reduction is also affected by the mobilisation of the Solidarity Fund, the estimated effects of which amount to about €57 million. The decrease in the ordinary component was partly offset by the increase in the cost of early retirement incentives.

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

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

tab. C6.1 - Number of employees

	Average		Year end	
Category	**FY 2020**	**FY 2019**	**31/12/2020**	**31/12/2019**
Executives	697	674	675	675
Middle managers	14,838	15,078	14,704	14,705
Operational staff	96,397	103,181	92,689	98,975
Back-office staff	4,954	2,175	4,641	4,168
Total employees on permanent contracts*	**116,886**	**121,108**	**112,709**	**118,523**

* Figures expressed in Full Time Equivalent terms.

Furthermore, taking account of personnel on flexible contracts, the average number of full-time equivalent personnel is 124,695 (in 2019: 129,243).

C7 - Depreciation, amortisation and impairments (€700 million)

This item breaks down as follows:

tab. C7 - Depreciation, amortisation and impairments

Description (€m)	**FY 2020**	**FY 2019**
Depreciation of property, plant and equipment	210	324
Properties used in operations	27	112
Plant and machinery	46	75
Industrial and commercial equipment	13	9
Leasehold improvements	39	40
Other assets	85	88
Impairments/recoveries/adjustments of property, plant and equipment	(20)	(4)
Depreciation of investment property	1	4
Depreciation of right-of-use assets	231	222
Properties used in operations	146	149
Company fleet	67	60
Vehicles for mixed use	6	5
Other assets	12	8
Impairments/recoveries/adjustments of right of use	2	-
Amortisation and impairments of intangible assets	276	228
Industrial patents and intellectual property rights,concessions, licenses, trademarks and similar rights	273	224
Other	3	4
Total	**700**	**774**

Amortisation, depreciation, and impairments decreased by €74 million compared to 2019, due mainly to lower depreciation (-€120 million) recognised as a result of the revision of the residual useful lives and residual values of the main categories of non-current assets (for more details, see paragraph 2.5 - Use of Estimates), offset in part by higher amortisation of intangible assets (+€48 million) resulting from the completion and commissioning of new software programs and the development of existing ones.

C8 - Capitalised costs and expenses (€37 million)

Capitalised costs and expenses break down as follows:

tab. C8 - Increases relating to assets under construction

Description (€m)	Note	FY 2020	FY 2019
Property, plant and machinery:	**[A1]**	**4**	**6**
Cost of goods and services		3	5
Personnel expenses		1	1
Intangible assets:	**[A3]**	**33**	**25**
Cost of goods and services		5	8
Personnel expenses		26	16
Amortisation		2	1
Total		**37**	**31**

C9 - Other operating costs (€103 million)

Other operating costs break down as follows:

tab. C9 - Other operating costs

Description (€m)	Note	FY 2020	FY 2019
Operational risk events		39	34
Thefts		6	4
Loss of BancoPosta assets, net of recoveries		1	-
Other operating losses of BancoPosta		32	30
Net provisions for risks and charges made/(released)		(54)	21
for disputes with third parties	[tab. B6]	(13)	7
for operational risks	[tab. B6]	(62)	12
for other risks and charges	[tab. B6]	21	2
Capital losses		1	2
Municipal property tax, urban waste tax and other taxes and duties		61	98
Other current expenses		56	45
Total		**103**	**200**

The decrease of €97 million in Other operating costs is due mainly to the net reversal of provisions for risks and charges (-€54 million), for which reference is made to note B6 - *Provisions for risks and charges*.

C10 - Impairment losses/(reversals of impairment losses) on debt instruments, receivables and other assets (€75 million)

tab. C10 - Impairment losses/(Reversals of impairment losses) on debt instruments, receivables and other assets

Description (€m)	FY 2020	FY 2019
Net impairments and losses on receivables and other assets (uses of provisions)	61	62
Impairment losses/(reversals of impairment losses) due from customers	48	48
Impairment losses/(reversals of impairment losses) sundry receivables	13	14
Impairment losses/(reversals of impairment losses) financial operations	1	-
Impairment losses/(reversals of impairment losses) debt instruments at FVTOCI	6	(2)
Impairment losses/(reversals of impairment losses) debt instruments at amortised cost	7	(1)
Total	**75**	**59**

The increase of €16 million compared to 2019 is mainly due to higher impairment of securities at FVTOCI and securities at amortised cost (+€14 million), offset in part by lower impairment of other receivables. The estimates were partly influenced by the effect of the crisis triggered by the current health emergency. For further details, reference should be made to Note 6 - Risk management.

C11 - Finance income (€123 million) and costs (€75 million)

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

Finance income

tab. C11.1 - Finance income

Description (€m)	FY 2020	FY 2019
Income from financial assets at FVOCI	38	36
Interest	48	40
Accrued differentials on fair value hedges	(11)	(11)
Realised gains	1	7
Income from financial assets at amortised cost	56	54
Interest	56	54
Income from financial assets at FVTPL	3	3
Income from financial liabilities at FVTPL	2	-
Other finance income	9	8
Finance income on discounted receivables	3	4
Late payment interest	20	15
Impairment of amounts due as late payment interest	(19)	(15)
Other income	5	4
Foreign exchange gains	15	4
Total	**123**	**105**

For the purposes of reconciliation with the statement of cash flows, in 2020 finance income after both realised gains and foreign exchange gains amounted to €108 million (€94 million in 2019).

Finance costs

tab. C11.2 - Finance costs

Description (€m)	Note	FY 2020	FY 2019
Finance costs on financial liabilities		40	41
on bonds		1	10
on due to financial institutions		11	2
on lease payables		26	28
on derivative financial instruments		2	1
Finance costs on provisions for employee termination benefits and pension plans	[tab. B7]	8	17
Other finance costs		14	9
Foreign exchange losses		13	5
Total		**75**	**73**

For the purposes of reconciliation with the statement of cash flows, in 2020 finance costs after foreign exchange losses amounted to €62 million (€68 million in 2019).

C12 - Impairment losses/(reversals of impairment losses) on financial assets (€1 million)

tab. C12 - Impairment losses/(Reversals of impairment losses) on financial assets

Description (€m)	FY 2020	FY 2019
Impairment losses/(reversals of impairment losses) on other assets	1	1
Impairment of interest accrued on IRES refund	-	46
Total	**1**	**46**

The item at 31 December 2019 included the impairment of the receivable for interest accrued on IRES refund, see in this regard as reported in Note A9 - *Other receivables and assets*.

C13 - Income tax expense (€370 million)

The nominal IRES rate has been 24% since 1 January 2017, while the Group's theoretical average IRAP rate is 6.01%[119]. The breakdown of income taxes for the year is as follows.

tab. C13 - Income tax expense

Description (€m)	FY 2020			FY 2019		
	IRES	IRAP	Total	IRES	IRAP	Total
Current tax expense	350	97	447	464	141	605
Deferred tax assets	(72)	(11)	(83)	33	13	46
Deferred tax liabilities	6	-	6	(94)	(27)	(121)
Total	**284**	**86**	**370**	**403**	**127**	**530**

Income taxes decreased by €160 million compared to the previous year and include the positive non-recurring effect of €96 million, including €81 million relating to the "Patent Box" for the years 2015-2019, of which €58 million was recognised by Poste Vita and Poste Assicura and €23 million by the Parent Company. Agreements to recognise the economic contribution were entered into with the Revenue Agency on 16 December 2020 for Poste Vita, 21 December 2020 for Poste Italiane and 22 December 2020 for Poste Assicura. The remaining €15 million refers to the tax benefit for the Parent Company related to the Aid to Economic Growth (ACE), referring to the 2015-2016 financial years for which, in the year under review, the uncertainties associated with the quantification no longer exist.

The tax rate for 2020, before recognition of non-recurring income, was 29.56%; however, the effective tax rate for the year was 23.49%.

tab. C13.1 - Reconciliation between theoretical and effective IRES rate

Description (€m)	FY 2020		FY 2019	
	IRES	Tax Rate	IRES	Tax Rate
Profit before tax	*1,577*		*1,873*	
Theoretical tax charge	378	24.0%	449	24.0%
Effect of increases/(decreases) on theoretical tax charge				
Adjustments to equity investments measured using the equity method	(1)	-0.07%	(26)	-1.44%
Realignment of tax bases and carrying amounts and taxation for previous years	(4)	-0.24%	(19)	-1.01%
Non-deductible out-of-period losses	7	0.42%	6	0.33%
Net provisions for risks and charges and doubtful debts	(10)	-0.61%	6	0.30%
Non-deductible taxes	4	0.28%	4	0.22%
Realised gains on investments	-	0.00%	-	-0.02%
Other	(10)	-0.67%	(17)	-0.84%
Effective tax (before Patent Box and ACE tax effect)	**364**	**23.10%**	**403**	**21.54%**
Patent Box and ACE tax effect	(80)	-5.07%	-	0.00%
Effective tax charge	**284**	**18.03%**	**403**	**21.54%**

119. 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).

tab. C13.2 - Reconciliation between theoretical and effective IRAP rate

Description (€m)	FY 2020		FY 2019	
	IRAP	Tax Rate	IRAP	Tax Rate
Profit before tax	*1,577*		*1,873*	
Theoretical tax charge	95	6.01%	109	5.84%
Effect of increases/(decreases) on theoretical tax charge				
Non-deductible personnel expenses	13	0.84%	14	0.72%
Net provisions for risks and charges and doubtful debts	1	0.09%	7	0.38%
Impairment losses/(reversals of impairment losses) on financial assets	-	-0.01%	2	0.11%
Adjustments to equity investments measured using the equity method	-	-0.02%	(5)	-0.27%
Realignment of tax bases and carrying amounts and taxation for previous years	(4)	-0.29%	(1)	-0.05%
Other	(3)	-0.17%	1	0.04%
Effective tax (before Patent Box tax effect)	**102**	**6.46%**	**127**	**6.77%**
Patent Box tax effect	(16)	-1.00%	-	0.00%
Effective tax charge	**86**	**5.46%**	**127**	**6.77%**

Current tax expense

tab. C13.3 - Movements in current tax assets /(liabilities)

Description (€m)	Current tax 2020		
	IRES "Assets/ (Liabilities)"	IRAP "Assets/ (Liabilities)"	Total
Balance at 1 January	**(160)**	**(62)**	**(222)**
Payments	631	192	823
for payments on account for the current year	428	113	541
for balance payable for the previous year	203	79	282
Provisions to profit or loss	(350)	(97)	(447)
current tax	(430)	(113)	(543)
Patent Box tax effect	80	16	96
Provisions to equity	1	-	1
Other	19	-	19
Balance at 31 December	**141**	**33**	**174**
of which:			
Current tax assets	143	44	187
Current tax liabilities	(2)	(11)	(13)

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 2020, current tax assets/(liabilities) include:

- the asset of €87 million deriving from IRES and IRAP advances paid and the positive effect of the Patent Box tax benefit for the 2017-2019 financial years (€53 million in total, including €38 million relating to the Poste Vita and Poste Assicura companies and €15 million to the Parent Company), net of IRES and IRAP provisions for the year;
- assets totalling €43 million (including €20 million recognised by the Poste Vita and Poste Assicura companies and €23 million by the Parent Company), relating to participation in the Patent Box scheme and the tax benefit for the Parent Company linked to the Aid to Economic Growth (ACE) for 2015-2016. These assets will become compensable after the submission of the relevant supplementary tax returns;
- the substitute tax credit of €27 million relating to the redemption carried out by the Parent Company during 2018, pursuant to art. 15, paragraph 10-ter of Law Decree no. 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 A5 - *Investments accounted for using the equity method*);
- assets totalling €9 million recognised as a result of the responses received to two petitions filed with the Revenue Agency concerning the correct implementation of IFRS 9 and 15. These assets will become compensable after the submission of the relevant supplementary tax returns;
- 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 no. 185 of 29 November 2008 and art. 2 of Law Decree no. 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. C13.4 - Deferred taxes

Description (€m)	Balance at 31/12/2020	Balance at 31/12/2019
Deferred tax assets	1,123	1,199
Deferred tax liabilities	(1,229)	(887)
Total	**(106)**	**312**

Movements in deferred tax assets and liabilities are shown below:

tab. C13.5 - Movements in deferred tax assets and liabilities

Description (€m)	FY 2020	FY 2019
Balance at 1 January	**312**	**667**
Net income/(expense) recognised in profit or loss	77	74
Net income/(expense) recognised in equity	(495)	(429)
Balance at 31 December	**(106)**	**312**

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

tab. C13.6 - Movements in deferred tax assets

Description	Property, plant and equipment and intangible assets	Depreciation and amortisation	Financial assets and liabilities	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 2020	**50**	**15**	**233**	**100**	**263**	**38**	**408**	**92**	**1,199**
Income/(expense) recognised in profit or loss	1	(1)	-	3	74	-	18	(12)	83
Income/(expense) recognised in equity	-	-	(159)	-	-	-	-	-	(159)
Balance at 31 December 2020	**51**	**14**	**74**	**103**	**337**	**38**	**426**	**80**	**1,123**

tab. C13.7 - Movements in deferred tax liabilities

Description	Financial assets and liabilities	Other	Total
Balance at 1 January 2020	**846**	**41**	**887**
Expense/(income) recognised in profit or loss	(7)	13	6
Expense/(income) recognised in equity	336	-	336
Balance at 31 December 2020	**1,175**	**54**	**1,229**

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

tab. C13.8 - Income/(expense) recognised in equity

Description (€m)	FY 2020	FY 2019
Fair value reserve for financial assets at FVTOCI	(501)	(435)
Cash flow hedge reserve for hedging instruments	6	(10)
Actuarial gains /(losses) on employee termination benefits	-	16
Total	**(495)**	**(429)**

4.4 Operating segments

The identified operating segments, which are in line with the Group's new strategic guidelines reflected in the 2024 Sustain & Innovate Strategic Plan, are as follows:

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

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

The Payment and Mobile Services Sector includes the activities of payment management, e-money services and mobile and fixed-line telephone services by Postepay SpA. Starting in 2020, and in line with the organisational changes that in 2019, saw the transfer of the digital channel control activities within the Mail, Parcels and Distribution Services Sector, the name of the Payments, Mobile and Digital Sectors has been updated to Payments and Mobile.

The Financial Services segment includes the activities of BancoPosta RFC, and BancoPosta Fondi SpA SGR.

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 2020 (€m)	Mail, Parcels and Distribution	Payments and Mobile	Financial Services	Insurance Services	Adjustments and eliminations	Total
Net external revenue from ordinary activities	3,201	737	4,945	1,643	-	10,526
Net intersegment revenue from ordinary activities	4,634	341	665	1	(5,641)	-
Net operating revenue	**7,835**	**1,078**	**5,610**	**1,644**	**(5,641)**	**10,526**
Depreciation, amortisation and impairments	(667)	(25)	(1)	(8)	1	(700)
Non-cash expenses	(60)	(5)	33	(3)	-	(35)
Total non-cash expenses	**(727)**	**(30)**	**32**	**(11)**	**1**	**(735)**
Operating profit/(loss)	**(588)**	**258**	**866**	**988**	**-**	**1,524**
Finance income/(costs)	(35)	-	(7)	90	-	48
(Impairment losses)/reversal of impairment losses on debt instruments, receivables and other assets	-	-	-	(1)	-	(1)
Profit/(Loss) on investments accounted for using the equity method	-	8	(3)	-	-	5
Intersegment finance income/(costs)	46	1	1	(48)	-	-
Income tax expense	158	(73)	(210)	(245)	-	(370)
Net profit/(loss) for the year	**(419)**	**194**	**647**	**784**	**-**	**1,206**
Assets	**12,867**	**8,735**	**104,229**	**160,243**	**(13,717)**	**272,357**
Non-current assets	7,002	484	70,254	152,302	(2,383)	227,659
Current assets	5,865	8,251	33,975	7,941	(11,334)	44,698
Non-current assets and disposal groups held for sale	-	-	-	-	-	-
Liabilities	**10,885**	**8,193**	**98,948**	**154,953**	**(12,129)**	**260,850**
Non-current liabilities	4,519	304	18,290	154,300	(793)	176,620
Current liabilities	6,366	7,889	80,658	653	(11,336)	84,230
Liabilities related to assets held for sale	-	-	-	-	-	-
Other information						
Capital expenditure	658	20	1	1	-	680
Investments accounted for using the equity method	3	402	210	-	-	615
External revenue from contracts with customers	**3,132**	**737**	**2,847**	**9**	**-**	**6,726**
Recognition at a point in time	259	241	315	-	-	815
Recognition over time	2,873	497	2,532	9	-	5,911

FY 2019 (€m)	Mail, Parcels and Distribution	Payments and Mobile	Financial Services	Insurance Services	Adjustments and eliminations	Total
Net external revenue from ordinary activities	3,492	664	5,134	1,669	-	10,959
Net intersegment revenue from ordinary activities	4,723	375	691	1	(5,790)	-
Net operating revenue	**8,215**	**1,039**	**5,825**	**1,670**	**(5,790)**	**10,959**
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 losses)/reversal of impairment losses 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**	**664**	**3,033**	**9**	**-**	**7,145**
Recognition at a point in time	509	287	412	-	-	1,208
Recognition over time	2,930	377	2,621	9	-	5,937

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 2020, 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.

4.5 Related party transactions

Impact of related party transactions on the financial position and profit or loss

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

Impact of related party transactions on the statement of financial position at 31 December 2020

	Balance at 31/12/2020						
Name (€m)	**Financial assets**	**Trade receivables**	**Other assets Other receivables**	**Cash and cash equivalents**	**Financial liabilities**	**Trade payables**	**Other liabilities**
Subsidiaries							
Address Software Srl	-	-	-	-	-	1	-
Kipoint SpA	-	-	-	-	1	1	-
Associates							
Anima Holding Group	-	-	-	-	-	7	-
FSIA Srl	21		-	-	-		-
Related parties external to the Group							
MEF	7,340	145	12	1,991	3,592	4	8
Cassa Depositi e Prestiti Group	3,863	433	-	-	-	1	-
Enel Group	-	24	-	-	-	4	-
Eni Group	-	2	-	-	-	9	-
Leonardo Group	-	1	-	-	-	25	-
Montepaschi Group	248	4	-	1	1,018	-	-
Other related parties external to the Group	50	13	-	-	3	4	66
Provision for doubtful debts due from external related parties	(26)	(40)	(7)	-	-	-	-
Total	**11,496**	**582**	**5**	**1,992**	**4,614**	**56**	**74**

At 31 December 2020, 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 €71 million (€70 million at 31 December 2019).

Impact of related party transactions on the statement of financial position at 31 December 2019

Name (€m)	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	-
Indabox	-	-	-	-	-	-	-
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 due from external related parties	(24)	(39)	-	-	-	-	-
Total	**11,742**	**664**	**3**	**495**	**4,952**	**98**	**74**

Impact of related party transactions on profit or loss in FY 2020

Name (€m)	Balance at 31/12/2020												
	Revenue					Costs							
	Revenue from sales and services	Revenue from Payments and Mobile	Revenue from Financial Services	Revenue from Insurance Services after changes in technical provisions and other claim expenses	Finance income	Investments		Current expenditure					
						Property, plant and equipment	Intangible assets	Cost of goods and services	Personnel expenses	Other operating costs	Expenses from financial activities	Impairment losses/ (reversals of impairment losses) on debt instruments, receivables and other assets	Finance costs
Subsidiaries													
Kipoint SpA	-	-	-	-	-	-	-	2	-	-	-	-	-
Associates													
Anima Holding Group	3	-	-	-	-	-	-	27	-	-	-	-	-
FSIA Srl	-				-	-	-	-	-	-			-
Related parties external to the Group													
MEF	313	48	93	-	-	1	-	2	-	-	5	2	1
Cassa Depositi e Prestiti Group	2	-	1,921	15	-	-	-	7	-	-	-	-	2
Enel Group	40	-	4	-	-	-	-	25	-	-	-	-	-
Eni Group	12	-	2	-	-	-	-	29	-	-	-	-	-
Equitalia Group	-	-	-	-	-	-	-	-	-	-	-	-	-
Leonardo Group	-	-	-	-	-	-	13	32	-	-	-	-	-
Montepaschi Group	16	-	2	-	-	-	-	-	-	-	-	-	-
Other related parties external to the Group	14	-	-	-	-	-	-	34	75	1	-	-	-
Total	**400**	**48**	**2,022**	**15**	**-**	**1**	**13**	**159**	**75**	**1**	**5**	**2**	**3**

At 31 December 2020, 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 about €1 million (€1 million at 31 December 2019).

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

	Balance at 31/12/2019												
	Revenue					Costs							
						Investments		Current expenditure					
Name (€m)	Revenue from sales and services	Revenue from Payments and Mobile	Revenue from Financial Services	Revenue from Insurance Services after changes in technical provisions and other claim expenses	Finance income	Property, plant and equipment	Intangible assets	Cost of goods and services	Personnel expenses	Other operating costs	Expenses from financial activities	Impairment losses/ (reversals of impairment losses) on debt instruments, receivables and other assets	Finance costs
Subsidiaries													
Address Software Srl	-	-	-	-	-	-	-	1	-	-	-	-	-
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	-	-	-	-	-
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**

The nature of the Parent Company's principal related party transactions 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.

Related party transactions have been carried out on terms equivalent to those prevailing in arm's length transactions between independent parties.

Impact of related party transactions or 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 31/12/2020			Balance at 31/12/2019		
Financial position						
Financial assets	247,883	11,496	4.6	217,776	11,742	5.4
Trade receivables	2,375	582	24.5	2,171	664	30.6
Other receivables and assets	4,928	5	0.1	4,667	3	0.1
Cash and cash equivalents	4,516	1,992	44.1	2,149	495	23.0
Provisions for risks and charges	1,396	72	5.2	1,218	70	5.7
Financial liabilities	98,230	4,614	4.7	78,358	4,952	6.3
Trade payables	1,837	56	3.0	1,627	98	6.0
Other liabilities	3,321	74	2.2	3,635	74	2.0
Liabilities related to assets held for sale	-		n.a.			n.a.

	Balance at 31/12/2020			Balance at 31/12/2019		
Profit or loss						
Revenue from Mail, Parcels & other	3,201	400	12.5	3,492	498	14.3
Revenue from Payments and Mobile	737	48	6.5	664	59	8.9
Net revenue from Financial Services	4,945	2,017	40.8	5,134	1,993	38.8
Revenue from Insurance Services after changes in technical provisions and other claim expenses	1,643	15	0.9	1,669	16	1.0
Cost of goods and services	2,523	159	6.3	2,287	169	7.4
Personnel expenses	5,638	75	1.3	5,896	50	0.8
Other operating costs	103	3	2.9	200	3	1.5
Finance costs	75	3	4.0	73	2	2.7
Finance income	123	-	n.a.	105	-	n.a.
Cash flow						
Net cash flow from /(for) operating activities	1,917	(39)	n.a.	1,120	248	22.1
Net cash flow from /(for) investing activities	(601)	(28)	4.7	(732)	3	n.a.
Net cash flow from/(for) financing activities and shareholder transactions	1,051	(388)	n.a.	(1,434)	(492)	34.3

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 (€k)	Balance at 31/12/2020	Balance at 31/12/2019
Remuneration to be paid in short/medium term	10,625	12,505
Post-employment benefits	544	510
Other benefits to be paid in longer term	3,162	1,855
Termination benefits	-	1,704
Share-based payments	2,176	4,906
Total	**16,507**	**21,480**

Remuneration of Statutory Auditors

Name (€k)	Balance at 31/12/2020	Balance at 31/12/2019
Remuneration	1,124	1,235
Expenses	12	45
Total	**1,136**	**1,280**

The remuneration paid to members of the Parent Company's Supervisory Board for 2020 amounts to approximately €96 thousand. 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 2020, Group companies do not report receivables in respect of loans granted to key management personnel.

Transactions with personnel 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.

Cristiana - Business and Public Administration Sales

5. POSTE ITALIANE SPA FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

5. Poste Italiane SpA Financial Statements for the year ended 31 December 2020

5.1 Financial Statements

Statement of Financial position

ASSETS (figures in €)	Notes	31 December 2020	of which related parties	31 December 2019	of which related parties
Non-current assets					
Property, plant and equipment	[A1]	1,986,743,453	-	1,886,540,623	-
Investment property	[A2]	30,687,475	-	44,128,398	-
Intangible assets	[A3]	718,601,813	-	561,731,422	-
Right-of-use assets	[A4]	1,033,550,702	-	1,119,172,897	-
Investments	[A5]	2,214,927,360	2,214,927,360	2,204,509,011	2,204,509,011
Financial assets attributable to BancoPosta	[A6]	68,406,294,179	3,287,955,544	58,251,783,573	3,934,272,101
Financial assets	[A7]	377,272,520	334,658,403	740,256,035	299,846,801
Trade receivables	[A9]	665,532	-	5,342,396	-
Deferred tax assets	[C12]	578,754,129	-	674,374,767	-
Other receivables and assets	[A10]	1,575,661,316	1,586,649	1,434,680,477	1,465,574
Total		**76,923,158,479**		**66,922,519,599**	
Current assets					
Inventories	[A8]	21,099,271	-	-	-
Trade receivables	[A9]	2,983,421,633	1,467,425,998	2,385,157,946	1,138,628,308
Current tax assets	[C12]	142,699,497	-	45,551,784	-
Other receivables and assets	[A10]	902,315,974	44,291,307	1,020,012,494	259,081,401
Financial assets attributable to BancoPosta	[A6]	23,046,288,863	7,667,988,635	16,985,734,851	7,269,242,445
Financial assets	[A7]	494,656,142	69,986,697	201,153,077	66,578,886
Cash and deposits attributable to BancoPosta	[A11]	6,390,872,209	-	4,302,784,484	-
Cash and cash equivalents	[A12]	4,029,413,235	1,992,153,562	1,206,344,232	494,646,677
Total		**38,010,766,824**		**26,146,738,868**	
TOTAL ASSETS		**114,933,925,303**		**93,069,258,467**	

LIABILITIES AND EQUITY (figures in €)	Notes	31 December 2020	of which related parties	31 December 2019	of which related parties
Equity					
Share capital	[B1]	1,306,110,000	-	1,306,110,000	-
Treasury shares		(39,999,994)	-	(39,999,994)	-
Reserves	[B2]	3,819,911,251	-	2,617,378,839	-
Retained earnings		2,153,083,896	-	2,444,407,492	-
Total		**7,239,105,153**		**6,327,896,337**	
Non-current liabilities					
Provisions for risks and charges	[B4]	578,215,975	58,654,291	433,333,017	58,175,681
Employee termination benefits	[B5]	1,003,134,681	-	1,107,576,437	-
Financial liabilities attributable to BancoPosta	[B6]	15,426,111,473	234,329,405	12,262,575,528	123,088,330
Financial liabilities	[B7]	2,752,442,336	45,326,831	1,600,683,086	46,662,705
Deferred tax liabilities	[C12]	981,429,453	-	665,691,092	-
Other liabilities	[B9]	1,534,388,905	15,155	1,505,000,678	5,070,470
Total		**22,275,722,823**		**17,574,859,838**	
Current liabilities					
Provisions for risks and charges	[B4]	730,570,386	12,804,269	697,112,713	12,316,411
Trade payables	[B8]	2,121,325,455	824,344,244	1,598,377,722	497,270,191
Current tax liabilities	[C12]	5,682,281	-	199,316,209	-
Other liabilities	[B9]	1,455,279,361	212,994,212	1,455,449,570	109,149,934
Financial liabilities attributable to BancoPosta	[B6]	79,519,833,708	12,023,409,221	64,515,976,368	10,394,940,206
Financial liabilities	[B7]	1,586,406,136	734,667,067	700,269,710	509,569,892
Total		**85,419,097,327**		**69,166,502,292**	
Total Liabilities and Equity		**114,933,925,303**		**93,069,258,467**	

Statement of Financial position (continued)

Supplementary Statement showing BancoPosta RFC at 31 December 2020

ASSETS (figures in €)	Notes	Capital outside the ring-fence	BancoPosta RFC	Eliminations	Total
Non-current assets					
Property, plant and equipment		1,986,743,453	-	-	1,986,743,453
Investment property		30,687,475	-	-	30,687,475
Intangible assets		718,601,813	-	-	718,601,813
Right-of-use assets		1,033,550,702	-	-	1,033,550,702
Investments		2,214,927,360	-	-	2,214,927,360
Financial assets attributable to BancoPosta	[A5]	-	68,406,294,179	-	68,406,294,179
Financial assets		377,272,520	-	-	377,272,520
Trade receivables		665,532	-	-	665,532
Deferred tax assets	[C12]	449,120,844	129,633,285	-	578,754,129
Other receivables and assets	[A8]	101,529,749	1,474,131,567	-	1,575,661,316
Total		**6,913,099,448**	**70,010,059,031**	**-**	**76,923,158,479**
Current assets					
Inventories		21,099,271	-	-	21,099,271
Trade receivables	[A9]	1,931,065,640	1,052,355,993	-	2,983,421,633
Current tax assets		142,699,497	-	-	142,699,497
Other receivables and assets	[A10]	353,609,515	548,706,459	-	902,315,974
Financial assets attributable to BancoPosta	[A5]	-	23,046,288,863	-	23,046,288,863
Financial assets		494,656,142	-	-	494,656,142
Cash and deposits attributable to BancoPosta	[A11]	-	6,390,872,209	-	6,390,872,209
Cash and cash equivalents	[A12]	2,020,848,707	2,008,564,528	-	4,029,413,235
Total		**4,963,978,772**	**33,046,788,052**	**-**	**38,010,766,824**
Non-current assets held for sale		**-**	**-**	**-**	**-**
Intersegment relations net amount		**-**	**293,207,342**	**(293,207,342)**	**-**
TOTAL ASSETS		**11,877,078,220**	**103,350,054,425**	**(293,207,342)**	**114,933,925,303**

LIABILITIES AND EQUITY (figures in €)	Notes	Capital outside the ring-fence	BancoPosta RFC	Eliminations	Total
Equity					
Share capital		1,306,110,000	-	-	1,306,110,000
Treasury shares		(39,999,994)	-	-	(39,999,994)
Reserves	[B2]	329,153,464	3,490,757,787	-	3,819,911,251
Retained earnings		384,181,633	1,768,902,263	-	2,153,083,896
Total		**1,979,445,103**	**5,259,660,050**	**-**	**7,239,105,153**
Non-current liabilities					
Provisions for risks and charges	[B4]	415,936,395	162,279,580	-	578,215,975
Employee termination benefits	[B5]	1,000,265,372	2,869,309	-	1,003,134,681
Financial liabilities attributable to BancoPosta	[B6]	-	15,426,111,473	-	15,426,111,473
Financial liabilities		2,752,442,336	-	-	2,752,442,336
Deferred tax liabilities	[C12]	2,765,139	978,664,314	-	981,429,453
Other liabilities	[B9]	58,881,466	1,475,507,439	-	1,534,388,905
Total		**4,230,290,708**	**18,045,432,115**	**-**	**22,275,722,823**
Current liabilities					
Provisions for risks and charges	[B4]	679,351,492	51,218,894	-	730,570,386
Trade payables	[B8]	1,727,900,424	393,425,031	-	2,121,325,455
Current tax liabilities		5,682,281	-	-	5,682,281
Other liabilities	[B9]	1,374,794,734	80,484,627	-	1,455,279,361
Financial liabilities attributable to BancoPosta	[B6]	-	79,519,833,708	-	79,519,833,708
Financial liabilities		1,586,406,136	-	-	1,586,406,136
Total		**5,374,135,067**	**80,044,962,260**	**-**	**85,419,097,327**
Intersegment relations net amount		**293,207,342**	**-**	**(293,207,342)**	**-**
TOTAL LIABILITIES AND EQUITY		**11,877,078,220**	**103,350,054,425**	**(293,207,342)**	**114,933,925,303**

Statement of Financial position (continued)

Supplementary Statement showing BancoPosta RFC at 31 December 2019

ASSETS (figures in €)	Notes	Capital outside the ring-fence	BancoPosta RFC	Eliminations	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]	-	16,985,734,851	-	16,985,734,851
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**	**23,201,133,028**	**-**	**26,146,738,868**
Non-current assets held for sale		**-**	**-**	**-**	**-**
Intersegment relations net amount		**(234,020,934)**	**-**	**234,020,934**	**-**
TOTAL ASSETS		**9,713,328,075**	**83,121,909,458**	**234,020,934**	**93,069,258,467**

LIABILITIES AND EQUITY (figures in €)	Notes	Capital outside the ring-fence	BancoPosta RFC	Eliminations	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		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]	-	64,515,976,368	-	64,515,976,368
Financial liabilities		700,269,710	-	-	700,269,710
Total		**4,395,782,567**	**64,770,719,725**	**-**	**69,166,502,292**
Intersegment relations net amount		**-**	**(234,020,934)**	**234,020,934**	**-**
TOTAL LIABILITIES AND EQUITY		**9,713,328,075**	**83,121,909,458**	**234,020,934**	**93,069,258,467**

Statement of profit or loss

(figures in €)	Notes	FY 2020	of which related parties	FY 2019	of which related parties
Revenue from sales and services	[C1]	8,226,155,731	3,436,943,759	8,540,946,485	3,523,917,698
Other income from financial activities	[C2]	515,879,936	-	383,707,355	-
Other operating income	[C3]	299,410,351	166,701,128	478,311,303	358,299,023
Total revenue		**9,041,446,018**		**9,402,965,143**	
Cost of goods and services	[C4]	2,318,026,994	1,418,738,314	1,854,255,032	921,806,625
Expenses from financial activities	[C5]	235,035,464	34,072,989	99,906,997	26,550,722
Personnel expenses	[C6]	5,445,824,661	72,744,411	5,702,348,094	57,722,241
Depreciation, amortisation and impairments	[C7]	621,516,414	6,253,027	674,243,350	-
Capitalised costs and expenses		(31,911,771)	-	(20,982,783)	-
Other operating costs	[C8]	67,224,421	15,608,551	195,995,317	6,351,404
Impairment losses/(reversals of impairment losses) on debt instruments, receivables and other assets	[C9]	55,397,720	1,823,962	40,830,116	749,805
Operating profit/(loss)		**330,332,115**		**856,369,020**	
Finance costs	[C10]	79,404,195	14,345,983	58,769,029	2,775,255
Finance income	[C10]	82,067,483	55,952,358	70,444,039	54,180,877
Impairment losses/(reversals of impairment losses) on financial assets	[C11]	182,593	266,741	45,457,823	32,571
of which non-recurring costs		-	-	45,443,654	-
Profit/(Loss) before tax		**332,812,810**		**822,586,207**	
Income tax expense	[C12]	8,057,433	-	162,054,754	-
of which, non-recurring costs/(income)		(37,902,133)	-	-	-
PROFIT/(LOSS) FOR THE YEAR		**324,755,377**		**660,531,453**	

Statement of comprehensive income

(figures in €)	Notes	FY 2020	FY 2019
Profit/(loss) for the year		**324,755,377**	**660,531,453**
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		1,940,703,867	1,703,465,640
Transfers to profit or loss	[tab. B2]	(259,887,094)	(242,941,853)
Increase/(decrease) for expected losses	[tab. B2]	6,083,233	(1,692,638)
Cash flow hedges			
Increase/(decrease) in fair value during the year	[tab. B2]	(27,841,189)	95,566,193
Transfers to profit or loss	[tab. B2]	4,642,832	(58,881,475)
Taxation of items recognised directly in, or transferred from, equity to be reclassified in the Statement of profit or loss for the year		(472,484,919)	(426,498,199)
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 year		6,861,133	1,203,368
Transfers to equity		-	(112,089)
Actuarial gains /(losses) on employee termination benefits	[tab. B5]	(4,760,823)	(68,414,816)
Taxation of items recognised directly in, or transferred from, equity not to be reclassified in the Statement of profit or loss for the year		1,575,193	19,202,952
Total other comprehensive income		**1,194,892,233**	**1,020,897,083**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,519,647,610**	**1,681,428,536**

Statement of changes in equity

	Equity									
	Share capital	Treasury shares	Reserves						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 2019	**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**
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
Total comprehensive income for the year	-	-	-	-	1,214,829,318	(16,559,421)	-	-	321,377,713*	1,519,647,610
Balance dividends paid on FY 2019 profits	-	-	-	-	-	-	-	-	(401,963,279)	(401,963,279)
Interim dividend on FY 2020 profits	-	-	-	-	-	-	-	-	(210,738,030)	(210,738,030)
Incentive plans	-	-	-	-	-	-	4,262,515	-	-	4,262,515
Balance at 31 December 2020	**1,306,110,000**	**(39,999,994)**	**299,234,320**	**1,210,000,000**	**2,190,764,913**	**99,009,777**	**5,994,777**	**14,907,464**	**2,153,083,896**	**7,239,105,153**
of which attributable to BancoPosta RFC	-	-	-	1,210,000,000	2,182,204,891	97,997,544	555,352	-	1,768,902,263	5,259,660,050

* This item includes profit for the period of €325 million, actuarial losses on provisions for employee termination benefits of €5 million, after the related current and deferred taxation.

Statement of cash flows

(€k)		Notes	FY 2020	FY 2019
Cash and cash equivalents at beginning of year			**1,206,344**	**2,127,300**
Profit/(Loss) before tax			332,813	822,586
Depreciation, amortisation and impairments		[tab. C7]	621,516	674,242
Impairments/(Reversals of impairments) of investments		[tab. A5.1]	11,868	32,435
Net provisions for risks and charges		[tab. B4]	553,288	379,449
Use of provisions for risks and charges		[tab. B4]	(373,561)	(680,613)
Employee termination benefits paid		[tab. B5]	(118,623)	(137,496)
(Gains)/losses on disposals		[tab. C8]	(2,201)	(1,260)
Impairment losses/(reversals of impairment losses) on financial assets			178	45,456
(Dividends)			(7,825)	(6,309)
Dividends received			7,825	6,309
(Finance income in form of interest)		[tab. C10.1]	(61,721)	(59,424)
Interest received			69,236	66,189
Interest expense and other finance costs		[tab. C10.2]	57,012	55,042
Interest paid			(26,992)	(12,771)
Losses and impairment losses/(reversals of impairment losses) on receivables		[tab. C9]	40,547	43,843
Income tax paid		[tab. C12.3]	(637,677)	(226,545)
Other changes			4,179	1,698
Cash flow generated by operating activities before movements in working capital	**[a]**		**469,862**	**1,002,831**
Movements in working capital:				
(Increase)/decrease in Inventories		[A8]	(21,099)	-
(Increase)/decrease in Trade receivables			(619,353)	(111,819)
(Increase)/decrease in Other receivables and assets			364,979	202,440
Increase/(decrease) in Trade payables			503,889	110,266
Increase/(decrease) in Other liabilities			(85,860)	(310,203)
Cash flow generated by /(used in) movements in working capital	**[b]**		**142,556**	**(109,316)**
Increase/(decrease) in Financial liabilities attributable to BancoPosta			14,675,606	7,439,890
Net cash generated by/(used for) financial assets			(8,198,108)	(527,361)
(Increase)/decrease in other financial assets attributable to BancoPosta			(1,383,598)	(5,864,049)
(Increase)/decrease in Cash and deposits attributable to BancoPosta			(2,088,088)	(984,385)
(Income)/Expense and other non-cash components from financial activities			(1,471,076)	(908,131)
Cash generated by/(used for) financial assets and liabilities attributable to BancoPosta	**[c]**		**1,534,736**	**(844,036)**
Net cash flow from /(for) operating activities	**[d]=[a+b+c]**		**2,147,154**	**49,479**
- of which related party transactions			*2,312,976*	*780,467*
Investing activities:				
Property, plant and equipment		[tab. A1]	(246,139)	(339,021)
Investment property		[tab. A2]	(698)	(733)
Intangible assets		[tab. A3]	(365,433)	(303,190)
Investments		[tab. A5.1]	(19,755)	(40,817)
Other financial assets			(56,860)	(39,182)
Disposals:				
Property, plant and equipment, investment property and assets held for sale			6,466	1,771
Investments			-	1,437

(€k)	Notes	FY 2020	FY 2019
Other financial assets		113,625	69,463
Mergers		(61,353)	(86,078)
Net cash flow from /(for) investing activities	**[e]**	**(630,147)**	**(736,350)**
- of which related party transactions		*(40,845)*	*(50,441)*
Proceeds from/(Repayments of) long-term borrowings	[B7.3]	1,246,345	573,000
Increase/(decrease) in short-term borrowings	[B7.3]	672,418	6,922
Dividends paid	[B3]	(612,701)	(774,007)
Sale/(purchase) of treasury shares		-	(40,000)
Net cash flow from/(for) financing activities and shareholder transactions	**[f]**	**1,306,062**	**(234,085)**
- of which related party transactions		*(210,879)*	*(60,060)*
Net increase/(decrease) in cash	**[g]=[d+e+f]**	**2,823,069**	**(920,956)**
Cash and cash equivalents at end of year	**[tab. A12]**	**4,029,413**	**1,206,344**
Cash and cash equivalents at end of year	**[tab. A12]**	**4,029,413**	**1,206,344**
Restricted net cash and cash equivalents at end of year		(1,599,172)	(141,950)
Unrestricted net cash and cash equivalents at end of year		**2,430,241**	**1,064,394**

5.2 Information on BancoPosta RFC

As required by art. 2, paragraphs 17-*octies* et seq. of Law 10 of 26 February 2011, converting Law Decree 225 of 29 December 2010, in order to identify ring-fenced capital for the purposes of applying the Bank of Italy's prudential requirements to BancoPosta's operations and for the protection of creditors, at the General Meeting held on 14 April 2011 Poste Italiane SpA's shareholder approved the creation of ring-fenced capital to be used exclusively in relation to BancoPosta's operations (BancoPosta Ring-fenced Capital or BancoPosta RFC), as governed by Presidential Decree 144 of 14 March 2001, and established the assets and contractual rights to be included in the ring-fence as well as By-laws governing its organisation, management and control. BancoPosta RFC was provided originally with an initial reserve of €1 billion through the attribution of Poste Italiane SpA's retained earnings. The resolution of 14 April 2011 became effective on 2 May 2011, the date on which it was filed with the Companies' Register. 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 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[120], 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 no. 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.

120. 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 card payments and payment services, in order to enable the latter to operate as an Electronic Money Institution (EMI)[121].

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 Eurozone government securities[122]. 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, expired on 31 December 2020 and being renewed. In addition, under the agreement with the MEF, renewed on 22 May 2020 for the three-year period 2020-2022, 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)[123] 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.

121. 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 Contracts: 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.
122. 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.
123. 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 Eurozone (the biggest banks in all the Eurozone 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[124] 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 Guidelines, which expired on 31 December 2020 and are being renewed for the two-year period 2021-2022, were notified to the Bank of Italy pursuant to the Supervisory Provisions and the 60-day period within which the authority could initiate the administrative prohibition procedure has elapsed.

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
Post Office Network	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 and Organisation	
External Relations	
Administration, Finance and Control	Fees by professional role based on market benchmarks
Purchases	
Internal Auditing	
Anti-Money Laundering	
Compliance	

Important Operational Functions   Control Functions

The relevant transactions, profit or 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.

124. The Regulation was revised on 12 May 2020.

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 12 May 2020, 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[125].

Reconciliation of separate equity

(€m)

Item in supplementary statement	Separate Report item	110 Valuation reserves	140 Reserves	180 Profit for the year
Reserves	3,491	2,280	1,211	-
BancoPosta RFC reserve	1,210	-	1,210	-
Fair value reserve	2,182	2,182	-	-
Cash flow hedge reserve	98	98	-	-
Incentive plans reserve	1	-	1	-
Retained earnings/(Accumulated losses)	1,769	(2)	1,142	629
Profit	1,771	-	1,142	629
Cumulative actuarial gains/(losses) on defined benefit plans	(2)	(2)	-	-
Total	**5,260**	**2,278**	**2,353**	**629**

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.

125. 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[126] 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 (...)".

126. Converted into Law 10 of 26 February 2011.

5.3 Notes to the Statement of Financial position

Assets

A1 - Property, plant and equipment (€1,987 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	2,902	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 1 January 2020	**75**	**982**	**361**	**36**	**207**	**156**	**70**	**1,887**
Changes during the year								
Additions	-	37	61	11	44	42	51	246
Extraordinary transactions	-	-	-	-	-	7	1	8
Reclassifications	-	27	10	-	10	8	(43)	12
Disposals	-	-	-	-	(1)	(1)	(1)	(3)
Depreciation	-	(26)	(41)	(13)	(38)	(67)	-	(185)
(Impairments)/Reversal of impairment losses	-	21	-	-	1	-	-	22
Total changes	**-**	**59**	**30**	**(2)**	**16**	**(11)**	**8**	**100**
Cost	75	3,006	2,118	337	612	1,803	78	8,029
Accumulated depreciation	-	(1,930)	(1,726)	(302)	(381)	(1,658)	-	(5,997)
Impairment losses	-	(35)	(1)	(1)	(8)	-	-	(45)
Balance at 31 December 2020	**75**	**1,041**	**391**	**34**	**223**	**145**	**78**	**1,987**

None of the above items is attributable to BancoPosta RFC.

At 31 December 2020, 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 €44 million.

Investments of €246 million in 2020 consists largely of:

- €61 million for plants, of which €39 million for the realisation of plant and equipment related to buildings, €11 million for the realisation and extraordinary maintenance of connectivity systems and €8 million for the installation of ATMs (automated teller machines);
- €44 million invested in the upgrade of plant (€22 million) and the structure (€22 million) of properties held under lease;
- €42 million relating to "Other assets", including €32 million for the purchase of new computer hardware for post offices and head offices and the consolidation of storage systems;
- €37 million relating to extraordinary maintenance of Post Offices around the country (€15 million), personnel offices (€13 million) and mail sorting offices (€9 million).

Investments in progress amounted to €51 million, of which €29 million for extraordinary maintenance and the provision of infrastructure for the commercial and production network, €8 million for the provision and maintenance of active and passive infrastructure for the security and remote surveillance network at sites and €7 million for the acquisition of industrial parcel processing equipment.

Reclassifications from property, plant and equipment under construction amounted to €43 million and refer mainly to the purchase cost of assets that became available and ready for use during the year; in particular, €33 million refer to the completion of extraordinary renovations of owned properties and improvements of leased properties.

With regard to the revision of the residual useful lives and residual values of the main categories of fixed assets, reference should be made to paragraph 2.5 - *Use of estimates*.

A2 - Investment property (€31 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 2020
Cost	139
Accumulated depreciation	(95)
Impairment losses	-
Balance at 1 January	**44**
Changes during the year	
Additions	1
Adjustments	-
Reclassifications	(12)
Disposals	(1)
Depreciation	(1)
Total changes	**(13)**
Cost	86
Accumulated depreciation	(55)
Balance at 31 December	**31**
Fair value at 31 December	**75**

The fair value of investment property at 31 December 2020 includes €64 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[127].

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.

With regard to the revision of the residual useful lives and residual values of the main categories of fixed assets, reference should be made to paragraph 2.5 - *Use of estimates*.

127. 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 (€719 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	3,003	2	212	3,218
Accumulated amortisation and impairments	(2,654)	(2)	-	(2,656)
Balance at 1 January 2020	**349**	**-**	**212**	**562**
Changes during the year				
Additions	238	-	128	366
Extraordinary transactions	43	-	7	50
Reclassifications	187	-	(187)	-
Amortisation and impairments	(258)	-	-	(258)
Total changes	**210**	**-**	**(52)**	**158**
Cost	3,659	2	160	3,821
Accumulated amortisation and impairments	(3,100)	(2)	-	(3,102)
Balance at 31 December 2020	**559**	**-**	**160**	**719**

None of the above items is attributable to BancoPosta RFC.

Investments in Intangible assets during 2020 amounted to €366 million, including €31 million in internal software development activities and the related expenses, primarily relating to personnel expenses (€26 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 €238 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 (€80 million), for BancoPosta services (€39 million), for use in providing support to the sales network (€24 million), for the postal products platform (€10 million) and for the engineering of reporting processes for other Business functions and personnel (€6 million).

During the year the Group effected reclassifications from intangible assets under construction to industrial patents and intellectual property rights, concessions, licences, trademarks and similar rights, amounting to €187 million, reflecting the completion and commissioning of software and the upgrade of existing software.

Extraordinary transactions, totalling €50 million, regard the acquisition of application software and licences already in use (€43 million) and application software that has not yet been integrated into the production process (€7 million) deriving from the IT businesses sold by Poste Vita SpA, Poste Assicura SpA, Poste Welfare Servizi Srl and PostePay SpA.

A4 - Right-of-use assets (€1,034 million)

tab. A4 - Movements in right-of-use asset

(€m)	Properties used in operations	Company fleet	Vehicles for mixed use	Other assets	Total
Cost	1,159	115	15	18	1,307
Accumulated depreciation	(126)	(54)	(4)	(3)	(187)
Impairment losses	-	-	-	-	-
Balance at 1 January 2020	**1,033**	**61**	**11**	**15**	**1,120**
Changes during the year					
Additions	83	38	4	10	135
Extraordinary transactions	-	-	-	7	7
Adjustments	(2)	-	-	-	(2)
Disposals	(26)	(1)	(1)	-	(28)
Depreciation	(126)	(61)	(4)	(7)	(198)
Total changes	**(71)**	**(24)**	**(1)**	**10**	**(86)**
Cost	1,214	152	18	46	1,430
Accumulated depreciation	(252)	(115)	(8)	(21)	(396)
Balance at 31 December 2020	**962**	**37**	**10**	**25**	**1,034**

Acquisitions during the year refer mainly to new contracts and renewals of contracts existing at the beginning of the year for real estate (€83 million), the rental of company vehicles (€42 million) and the rental of computer equipment (€10 million). The item "Adjustments" refers to contractual changes during the year in question, e.g. for changes in duration due to extension, revision of economic conditions, etc.

A5 - Investments (€2,215 million)

This item includes the following:

tab. A5 - Investments

Description (€m)	Balance at 31/12/2020	Balance at 31/12/2019
Investments in subsidiaries	1,716	1,697
Investments in associates	499	508
Total	**2,215**	**2,205**

No investments are attributable to BancoPosta RFC.

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

tab. A5.1 - Movements in investments in FY 2020

Investments (€m)	Balance at 01/01/2020	Additions			Reductions			Impairment losses		Balance at 31/12/2020
		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	-	-	-	-	-	-	-	(1)	1
MLK Deliveries SpA	-	15	-	-	-	-	-	-	-	15
PatentiViaPoste ScpA	-	-	-	-	-	-	-	-	-	-
Poste Air Cargo Srl	1	-	-	-	-	-	-	-	-	1
Poste Tributi ScpA	-	-	-	-	-	-	-	-	-	-
Poste Vita SpA	1,219	-	2	-	-	-	-	-	-	1,221
Postel SpA	82	-	-	-	-	-	-	-	-	82
PostePay SpA	200	-	-	-	-	-	-	-	-	200
SDA Express Courier SpA	14	-	-	-	-	-	-	-	-	14
sennder Italia Srl	-	3	-	-	-	-	-	-	-	3
Total subsidiaries	**1,697**	**18**	**2**	**-**	**-**	**-**	**-**	**-**	**(1)**	**1,716**
in associates										
Anima Holding SpA	214	-	-	-	-	-	-	-	(11)	203
Conio Inc.	-	-	-	-	-	-	-	-	-	-
FSIA Investimenti Srl	294	2	-	-	-	-	-	-	-	296
ItaliaCamp Srl	-	-	-	-	-	-	-	-	-	-
Total associates	**508**	**2**	**-**	**-**	**-**	**-**	**-**	**-**	**(11)**	**499**
Total	**2,205**	**20**	**2**	**-**	**-**	**-**	**-**	**-**	**(12)**	**2,215**

The following movements occurred in 2020:

- Subscription on 24 April 2020 of the paid share capital increase of MLK Deliveries SpA totalling €15 million, resulting in the acquisition of a 70% stake (the remaining 30% is held by Milkman SpA). Moreover, the acquisition includes purchase and sale options that will allow Poste Italiane, starting from the second quarter of 2023, to purchase the additional 30% of MLK Deliveries SpA and ownership of the Milkman technology for e-commerce applications;
- Subscription on 12 February 2020 of the paid share capital increase of sennder Italia Srl for a total of €0.255 million and consequent acquisition of a 75% stake (the remaining 25% is held by sennder GmbH). Moreover, on 25 February 2020, on the basis of agreements between the parties to support business needs in the start-up phase, Poste Italiane SpA made an additional capital contribution totalling €3 million;
- Capital contribution in favour of FSIA Investimenti Srl of a total of €2 million made on 23 June 2020;
- Sale, on 26 February 2020, of the Information Technology business units of Poste Vita SpA, Poste Assicura SpA and Poste Welfare Servizi Srl to Poste Italiane with effect from 1 March 2020;
- On 26 May 2020, the company Poste Tributi ScpA, already in liquidation, was removed from the register of companies;
- Sale, on 24 June 2020, of the business unit relating to services for the “gamma BOX and Ioinvio” market (Market Business) of Consorzio Logistica e Pacchi in favour of Poste Italiane with effect from 1 July 2020;
- Sale, on 28 September 2020, of the IT business unit relating to mobile telecommunication services and the Electronic Postman platform of PostePay SpA to Poste Italiane with effect from 1 October 2020.

The following material events also took place during 2020:

- In July, ItaliaCamp resolved to increase its share capital, following which a new shareholder joined the company. The transaction resulted in a reduction in Poste Italiane SpA's interest from 20% to 19.40%;
- On 7 December, the Board of Directors of Conio Inc. approved a capital increase, the subscription of which was completed by 31 January 2021. Following subscription of the capital increase by a third party, Poste Italiane SpA's shareholding was diluted from 19.74% to 17.62% as the latter did not subscribe to the capital increase.

Further details of the main corporate actions during 2020, are provided in notes 3.1 – *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[128], the value of the investments was reduced overall by €12 million. Specifically:

- for the subsidiary Indabox Srl, whose investment was impaired by €1 million, 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;
- for the associate Anima Holding SpA, the recoverable amount of the investment, identified as its value in use and determined on the basis of the available 2021-2022 forecasts, was lower than its carrying amount and the investment was impaired by €11 million in the first half of 2020.

The following table shows a list of investments in subsidiaries and associates at 31 December 2020:

tab. A5.2 - List of investments

Name (€k)	% share	Share capital*	Net profit/ (loss) for the year	Carrying amount of equity	Share of equity	Carrying amount at 31/12/2020	Difference between equity and carrying amount
in subsidiaries							
BancoPosta Fondi SpA SGR	100.00	12,000	20,477	51,785	51,785	8,400	43,385
CLP ScpA	51.00	516	-	788	402	313	89
Consorzio PosteMotori	58.12	120	-	120	70	70	-
Consorzio per i Servizi di Telefonia Mobile ScpA	51.00	120	-	116	59	61	(2)
EGI SpA	55.00	103,200	262	238,669	131,268	169,893	(38,625)
Indabox Srl**	100.00	50	-	313	313	410	(97)
MLK Deliveries SpA	70.00	333	(2,787)	12,564	8,795	15,000	(6,205)
PatentiViaPoste ScpA	69.65	120	-	124	86	84	2
Poste Air Cargo Srl	100.00	1,000	1,880	3,023	3,023	845	2,178
Poste Vita SpA**	100.00	1,216,608	740,158	5,083,885	5,083,885	1,220,527	3,863,358
Postel SpA	100.00	20,400	1,926	85,507	85,507	81,988	3,519
PostePay SpA	100.00	7,561	184,560	436,915	436,915	201,046	235,869
SDA Express Courier SpA	100.00	5,000	45,457	59,488	59,488	14,177	45,311
sennder Italia Srl	75.00	40	929	5,266	3,950	3,255	695
in associates							
Anima Holding SpA***	10.35	7,292	103,258	1,258,657	130,271	203,001	(72,730)
Conio Inc.** ****	17.62	3,115	(150)	2,748	484	486	(2)
FSIA Investimenti Srl*****	30.00	20	26,165	1,338,048	401,414	295,370	106,044
ItaliaCamp Srl******	19.40	150	444	1,391	270	2	268

* 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.
*** Figures taken from the company's latest interim financial statements at 30 September 2020, as approved by its board of directors.
**** Data from the Company's reporting package at 31 December 2019.
***** Figures of the reporting package 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 2019, the latest approved by the company.

128. The method applied and the criteria used in conducting impairment tests at 31 December 2020, are described in note 2.5 – *Use of estimates, with regard to the impairment testing of goodwill, cash generating units and investments*.

A6 - Financial assets attributable to BancoPosta (€91,453 million)

tab. A6 - Financial assets attributable to BancoPosta

	Balance at 31/12/2020			Balance at 31/12/2019		
Description (€m)	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Financial assets at amortised cost	31,597	17,067	48,664	23,638	14,657	38,295
Financial assets at FVTOCI	36,662	5,976	42,638	34,474	2,325	36,799
Financial assets at FVTPL	73	-	73	71	-	71
Derivative financial instruments	75	3	78	69	4	73
Total	**68,407**	**23,046**	**91,453**	**58,252**	**16,986**	**75,238**

The assets 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 5.2 - *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 and receivables	Fixed income instruments		TOTAL
	Carrying amount	Nominal value	Carrying amount	Carrying amount
Balance at 1 January 2020	**13,231**	**21,175**	**25,064**	**38,244**
Purchases		7,781	9,733	9,734
Changes in amortised cost		-	(92)	(92)
Transfers to equity reserves		-	-	-
Changes in fair value through profit or loss		-	1,707	1,7078
Changes in cash flow hedges*		-	-	-
Changes due to impairment	(1)	-	(7)	(8)
Net changes	1,384	-	-	1,362
Effects of sales on profit or loss		-	64	63
Accruals		-	236	235
Sales, redemptions and settlement of accruals		(2,799)	(3,450)	(3,451)
Other changes	795	-	-	795
Balance at 31 December 2020	**15,409**	**26,157**	**33,255**	**48,664**

* 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

Description (€m)	Balance at 31/12/2020 Non-current assets	Current assets	Total	Balance at 31/12/2019 Non-current assets	Current assets	Total
Loans	-	1	1	-	-	-
Deposits with the MEF	-	7,336	7,336	-	7,064	7,064
Credit	-	7,340	7,340	-	7,067	7,067
Provisions for doubtful amounts deposited with MEF	-	(4)	(4)	-	(3)	(3)
Other financial receivables	-	8,072	8,072	-	6,167	6,167
Total	**-**	**15,409**	**15,409**	**-**	**13,231**	**13,231**

The item **Loans** refers to repurchase agreements of €364 million entered into with Cassa di Compensazione e Garanzia SpA (hereinafter the Central Counterparty) for the temporary use of liquidity from private inflows. These transactions are guaranteed by securities for a total notional amount of €360 million. Financial assets and liabilities relating to repurchase agreements managed through the Central Counterparty that meet the requirements of IAS 32 are offset. The effect of netting at 31 December 2020, already included in the exposure to net balances, amounted to €363 million (€1,158 million at 31 December 2019).

Receivables includes:

- **Deposits with the MEF**, including public customers' current account deposits, which earn a variable rate of return, calculated on a basket of government securities[129]. The deposit has been adjusted to reflect accumulated impairments of approximately €4 million, to reflect the risk of counterparty default (€3 million at 31 December 2019). During 2020, in the phase of increasing returns following the onset of the pandemic, the Company entered into (operating) hedging derivative contracts on the 10-year indexed remuneration component. The hedging transaction was carried out through forward purchases of the 10-year BTP with settlement of the differential between the pre-set price of the security and its market value.
- Other financial receivables, including €7,494 million in deposits as collateral for amounts paid to counterparties for interest rate swap transactions (collateral provided under specific Credit Support Annexes) and €72 million in amounts due from the subsidiary, PostePay SpA, in respect of amounts primarily charged in the first few days of 2021.

Fixed income instruments

These regard investments in fixed income Eurozone government securities, consisting of bonds issued by the Italian government and securities guaranteed by the Italian government, having a nominal value of €26,157 million. At 31 December 2020, the balance of €33,255 million refers to the amortised cost of unhedged fixed income instruments, totalling €11,380 million, and fair-value hedged fixed income instruments, totalling €17,485 million, increased by €4,390 million to take into account the effects of the hedge (€1,707 million in 2020). The value of these securities was adjusted to take into account the related impairments. Accumulated impairments at 31 December 2020 amount to approximately €15 million (€8 million at 31 December 2019). At 31 December 2020, the fair value[130] of these securities was €34,760 million (including €236 million in accrued income).

This category of financial asset includes fixed rate instruments, for a total nominal amount of €3,000 million, issued by Cassa Depositi e Prestiti SpA and guaranteed by the Italian government (at 31 December 2020, their carrying amount totals €3,300 million).

129. The variable rate in question is calculated as follows: 50% is based on the average return on 6-month BOTs recognised monthly and the remaining 50% is based on the average ten-year BTP return recognised monthly.
130. In terms of the fair value hierarchy, which reflects the relevance of the sources used to measure assets, €31,188 million of the total amount qualifies for inclusion in level 1 and €3,572 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 2020	**31,170**	**36,799**
Purchases	15,152	15,983
Transfers to equity reserves	-	(224)
Changes in amortised cost	-	(42)
Changes in fair value through equity	-	1,947
Changes in fair value through profit or loss	-	1,698
Changes in cash flow hedges*	-	(49)
Effects of sales on profit or loss	-	302
Accruals	-	292
Sales, redemptions and settlement of accruals	(12,753)	(14,068)
Balance at 31 December 2020	**33,569**	**42,638**

* 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 €33,569 million. Total fair value gains for the year amount to €3,645 million, recognised in the relevant equity reserve in relation to the portion of the portfolio not hedged by fair value hedges (€1,947 million) and recognised through profit or loss in relation to the hedged portion (€1,698 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 2020 amount to €18 million (€11 million at 31 December 2019).

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 13 – *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 2020	**-**	**71**	**71**
Purchases	-	-	-
Changes in fair value through profit or loss	-	2	2
Net changes	-	-	-
Effects of sales on profit or loss	-	-	-
Sales, redemptions and settlement of accruals	-	-	-
Balance at 31 December 2020	**-**	**73**	**73**

Equity instruments

Equity instruments include:

- for €34 million, 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 6.853[131] ordinary shares for each C share, minus a suitable illiquidity discount. These shares can be converted into several tranches starting from the fourth year after closing and up to the twelfth year. On 21 June 2020 (the fourth year after closing), the process of determining the proportion of convertibility and related rate of Visa Incorporated Series C Convertible Participating Preferred Stock commenced, partially concluded on 24 September 2020 with the grant of 2,199 preference shares of Visa Incorporated Series A Preferred Stock;
- for €39 million, the fair value of 2,199 Visa Incorporated preference shares (Series A Preferred Stock); these shares are convertible into ordinary shares on the basis of a ratio of one hundred ordinary shares for every share of Class A Preferred Stock.

Net fair value gains in the year under review, amounting to €2 million, have been recognised in profit or loss in the items Income and Expenses from financial activities.

Given the conversion rate at 31 December 2020, the VISA Incorporated preference shares (Series A and C) held in the portfolio correspond to 439,600 VISA Incorporated ordinary shares.

In 2019, the Company entered into a forward sale agreement for 400,000 Visa Incorporated ordinary 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 fair value of the forward sale has decreased by €5 million in the reporting year, reflecting movements in both the price of the shares in US dollars and the euro/dollar exchange rate. This reduction has been recognised in profit or loss in "Expenses from financial activities".

131. 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		FVTPL				Total	
	Forward purchases		Forward sales		Interest rate swap		Interest rate swaps		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 2020	**-**	**-**	**1,280**	**(36)**	**1,670**	**(4)**	**25,690**	**(5,439)**	**-**	**-**	**-**	**(15)**	**28,640**	**(5,494)**
Increases/ (decreases)*	100	4	2,645	(71)	50	40	9,214	(3,434)	165	11	-	(6)	12,174	(3,456)
Gains/(Losses) through profit or loss **	-	-	-	-	-	-	-	(2)	-	-	-	-	-	(2)
Transactions settled ***	(100)	(4)	(1,857)	53	-	(36)	(3,870)	764	(165)	(11)	-	1	(5,992)	767
Balance at 31 December 2020	**-**	**-**	**2,068**	**(54)**	**1,720**	**-**	**31,034**	**(8,111)**	**-**	**-**	**-**	**(20)**	**34,822**	**(8,185)**
Of which:														
Derivative assets	-	-	268	-	725	68	1,220	10	-	-	-	-	2,213	78
Derivative liabilities	-	-	1,800	(54)	995	(68)	29,814	(8,121)	-	-	-	(20)	32,609	(8,263)

* Increases/(decreases) refer to the nominal value of new transactions and changes in the fair value of the overall portfolio during the period.
** Income/(expense) recognised in 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 €1,720 million (securities hedged at FVTOCI) and forward sales with for nominal value of €2,068 million; the instruments in question underwent an overall net negative change in fair value during the year, due to the effective component of the hedge of €27 million reflected in the cash flow hedge reserve.

Fair value hedges in interest rate swaps are used to hedge:

- securities classified at amortised cost with a nominal value of €15,420 million and securities classified at FVTOCI with a nominal value of €14,714 million; overall, they underwent a net effective negative fair value change of €3,434 million during the year, taking into account the net positive fair value change of €3,405 million in hedged securities (Table A6.1 and A6.2) net of €29 million for differentials paid;
- repurchase agreements classified at amortised cost with a nominal value of €900 million. These transactions, entered into in 2020, allow a portion of repurchase agreement transactions to be transformed to a variable rate, thereby reducing exposure to interest rate risk. The fair value at 31 December 2020 is not significant.

In the year under review, the Company entered into:

- forward and settlement purchases with a nominal amount of €100 million;
- forward sales for a nominal amount of €2,645 million and settlement for €1,857 million, of which €1,280 million outstanding at 1 January 2020;
- new interest rate swaps designated as cash flow hedges with a nominal value of €50 million;
- new fair value hedge interest rate swaps with a nominal amount of €9,214 million, including €900 million in hedges for repurchase agreement transactions;
- settlement of fair value hedge interest rate swaps on securities sold, whose fair value changes were hedged, for a notional amount of €3,870 million.

In addition, the Company entered into and settled forward purchases for a total nominal value of €165 million (recognised at fair value through profit or loss), aimed at blocking the return, for 2020, on the investment of inflows from public customers on the deposit with the parent company (MEF), remunerated at a variable rate (table A6.1.1). These transactions had a positive impact of €11 million on profit or loss for the year (tab. C1.2.1).

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)	31/12/2020				31/12/2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets at FVTOCI	42,324	314	-	42,638	36,506	293	-	36,799
Fixed income instruments	42,324	314	-	42,638	36,506	293	-	36,799
Financial assets at FVTPL	-	39	34	73	-	-	71	71
Equity instruments	-	39	34	73	-	-	71	71
Derivative financial instruments	-	78	-	78	-	73	-	73
Total assets at fair value	**42,324**	**431**	**34**	**42,789**	**36,506**	**366**	**71**	**36,943**

During 2020, as a result of the commencement of the Visa Incorporated Series C Convertible Participating Preferred Stock convertibility process, as described in Note A6.3, €31 million was reclassified from Level 3 to Level 2. Moreover, during the reporting year, there were no transfers of the related financial instruments measured at fair value on a recurring basis between level 1 and level 2.

A7 - FINANCIAL ASSETS (€872 million)

tab. A7 - Financial assets

Description (€m)	Balance at 31/12/2020			Balance at 31/12/2019		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Financial assets at amortised cost	337	87	424	303	91	394
Financial assets at FVTOCI	40	407	447	437	110	547
Derivative financial instruments	-	1	1	-	-	-
Total	**377**	**495**	**872**	**740**	**201**	**941**

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

	Loans	Receivables	Total
(€m)	Carrying amount	Carrying amount	Carrying amount
Balance at 1 January 2020	**337**	**57**	**394**
Purchases	42		42
Changes in amortised cost	-	1	1
Changes in fair value through profit or loss	-		-
Changes in cash flow hedges*	-		-
Changes due to impairment	(1)	-	(1)
Net changes	-	(9)	(9)
Effects of sales on profit or loss	-		-
Accruals	2		2
Sales, redemptions and settlement of accruals	(5)		(5)
Balance at 31 December 2020	**375**	**49**	**424**

* 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 - Loans at amortised cost

	Balance at 31/12/2020			Balance at 31/12/2019		
Name (€m)	Loans	correspondence a/c	Total	Loans	correspondence a/c	Total
Direct subsidiaries						
FSIA Investimenti Srl	21	-	21	-	-	-
Poste Air Cargo Srl	-	11	11	-	13	13
Poste Vita SpA	251	-	251	251	-	251
Postel SpA	-	16	16	-	13	13
SDA Express Courier SpA	35	37	72	21	39	60
sennder Italia Srl	5	-	5	-	-	-
	312	**64**	**376**	**272**	**65**	**337**
Provision for impairment of intercompany loans	(1)	-	(1)	-	-	-
Total	**311**	**64**	**375**	**272**	**65**	**337**

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;
- for €35 million to three loans granted to the subsidiary SDA Express Courier SpA in the financial years 2019 and 2020, to support the construction of the new plant for the automated HUB in Bologna, repayable in a single instalment on 2 August 2027, 28 April 2028 and 16 April 2029 respectively;
- €21 million for a loan granted to the associate FSIA Investimenti Srl in 2020 and repayable in a single instalment on 29 September 2023, in order to repay the Bank Loan subscribed by the company and finance current operations;

- €5 million for the use of a revolving revocable credit line provided to the subsidiary sennder Italia Srl on 26 May 2020 for a maximum amount of €25 million and maturity on 24 November 2021;
- €64 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 €1 million, to reflect the risk of counterparty default (€0.4 million at 31 December 2019).

Receivables

tab. A7.1.2 - Receivables at amortised cost

	Balance at 31/12/2020			Balance at 31/12/2019		
Description (€m)	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Guarantee deposits	-	15	15	-	23	23
Due from the purchasers of service accommodation	3	2	5	4	1	5
Due from others	29	20	49	29	20	49
Provisions for doubtful debts	-	(20)	(20)	-	(20)	(20)
Total	**32**	**17**	**49**	**33**	**24**	**57**

Receivables for **Guarantee deposits** include €11 million for amounts paid to counterparties for interest rate swap transactions and €4 million for amounts paid to counterparties with whom repurchase transactions on fixed-income securities are in place.

Amounts due from others, 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[132].

132. 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

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

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

	Fixed income instruments		Equity instruments	Total	
(€m)	Nominal value	Fair value	Fair value	Nominal value	Fair value
Balance at 1 January 2020	**500**	**524**	**23**	**500**	**547**
Purchases	-	-	15	-	15
Transfers to equity reserves	-	-	-	-	-
Other changes in equity	-	-	-	-	-
Changes in amortised cost	-	-	-	-	-
Changes in fair value through equity	-	(6)	7	-	1
Changes in fair value through profit or loss	-	(11)	-	-	(11)
Changes in cash flow hedges*	-	-	-	-	-
Effects of sales on profit or loss	-	-	-	-	-
Accruals	-	5	-	-	5
Liquidations	-	-	(5)	-	(5)
Sales, redemptions and settlement of accruals	(100)	(105)	-	(100)	(105)
Balance at 31 December 2020	**400**	**407**	**40**	**400**	**447**

* 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

This item regards BTPs with a total nominal value of €400 million. Of these, instruments with a value of €375 million have been hedged using interest rate swaps designated as fair value hedges. In November 2020, securities with a nominal value of €100 million matured.

Certain securities are encumbered as they have been delivered to counterparties for use as collateral in connection with loans, as described in note 13 – *Additional information*.

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;
- for €25 million the investment in MFM Investments Ltd, acquired on 9 August 2019 for the first tranche of €15 million and on 13 May 2020 for the second tranche of €9.6 million;
- for €10 million the investment in sennder GmbH acquired on 11 November 2019;
- €5 million for the investment in Milkman SpA acquired on 24 April 2020.

Lastly, on 9 April 2020, the company, Innovazione e Progetti ScpA, which was already in liquidation, was removed from the Register of Companies.

Fair value gains in the year under review, amounting to €7 million, have been recognised in the specific Equity reserve.

Further details of the main corporate actions during 2020, are provided in notes 3.1 – *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[133], whose value at 31 December 2020 is zero.

Derivative financial instruments

tab. A7.3 - Movements in derivative financial instruments

		FY 2020			
(€m)	Notes	Cash Flow hedging	Fair value hedging	FVTPL	Total
Balance at 1 January		**(6)**	**(16)**	**-**	**(22)**
Increases/(decreases)		(1)	(1)	1	(1)
Gains/(Losses) through profit or loss		-	-	-	-
Transactions settled*		2	11	-	13
Balance at 31 December		**(5)**	**(6)**	**1**	**(10)**
of which:					
Derivative assets		-	-	1	1
Derivative liabilities		(5)	(6)	-	(11)

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

At 31 December 2020, 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 2020 was 0.703%;
- 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;
- three swap contracts entered into in 2020, of which two are outstanding at 31 December, to cover fuel costs relating to the air transport of mail carried out via the subsidiary, Poste Air Cargo Srl, for the three-year period 2020-2022;
- purchase and sale options that will allow Poste Italiane, starting from the second quarter of 2023, to purchase the additional 30% of MLK Deliveries SpA and ownership of the Milkman technology for e-commerce applications. The exercise price of these options is not fixed, but determined on the basis of a formula that provides for the application of a multiplier to certain economic/equity targets of MLK Deliveries SpA. At 31 December 2020, the value of the options was zero as there were no significant deviations from the initial estimates.

133. 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.

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)	31/12/2020				31/12/2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets at FVTOCI	407	-	40	447	524	-	23	547
Fixed income instruments	407	-	-	407	524	-	-	524
Equity instruments	-	-	40	40	-	-	23	23
Derivative financial instruments	-	1	-	1	-	-	-	-
Total	**407**	**1**	**40**	**448**	**524**	**-**	**23**	**547**

There were no transfers of the related financial instruments measured at fair value on a recurring basis between level 1 and level 2 in 2020.

A8 - Inventories (€21 million)

The item Inventories relating to Raw, ancillary and consumable materials refers to protective equipment, disinfectant gel and other materials purchased during the year and which will be used in 2021.

A9 - Trade receivables (€2,984 million)

tab. A9 - Trade receivables

Description (€m)	Balance at 31/12/2020			Balance at 31/12/2019		
	Non-current passets	Current assets	Total	Non-current passets	Current assets	Total
Due from customers	1	2,057	2,058	5	1,859	1,864
Due from subsidiaries and associates	-	890	890	-	481	481
Due from the Parent company	-	36	36	-	45	45
Total	**1**	**2,983**	**2,984**	**5**	**2,385**	**2,390**
of which attributable to BancoPosta RFC	-	1,052	1,052	-	860	860

Amounts due from customers

tab. A9.1 - Due from customers

Description (€m)	Balance at 31/12/2020 Non-current passets	Current assets	Total	Balance at 31/12/2019 Non-current passets	Current assets	Total
Ministries and Public Administration entities	-	464	464	-	513	513
Overseas counterparties	-	455	455	-	357	357
Cassa Depositi e Prestiti	-	432	432	-	451	451
Unfranked mail delivered	-	124	124	17	133	150
Amounts due for other BancoPosta services	-	84	84	-	104	104
Overdrawn current accounts	-	42	42	-	39	39
Receivables for parcel delivery services	-	541	541	-	189	189
Other trade receivables	1	344	345	1	473	474
Provisions for doubtful debts due from customers	-	(429)	(429)	(13)	(400)	(413)
Total	**1**	**2,057**	**2,058**	**5**	**1,859**	**1,864**
of which attributable to BancoPosta RFC	-	547	547	-	576	576

Specifically[134]:

- 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 authorities, amounting to €108 million.
  - Reimbursement of the costs associated with the management of property, vehicles and security incurred on behalf of the Ministry for Economic Development, totalling €81 million[135], including €62 million involved in legal action brought by Poste Italiane in order to claim sundry costs resulting from the use of properties. On 30 April 2020, a partially favourable judgement was published for Poste Italiane; the judgement was notified to MiSE and the latter appealed before the Court of Appeal with a request for suspension. On 3 December 2020, the request was not granted and a decision is now pending in the second instance.
  - Unfranked mail services provided on credit, totalling €67 million, to central and local government authorities.
  - Compensation for Publisher tariff subsidies, due from the Presidenza del Consiglio dei Ministri - Dipartimento dell'Editoria (Cabinet Office – Publishing Department), amounting to €67 million, of which €53 million accrued during the year. These receivables are shown gross of the collection of an unavailable amount of €24 million, relating to the tariff subsidies applied in the first half of 2020, deposited by the Cabinet Office - Publishing Department, during the year, in a non-interest-bearing account held by the Company with the State Treasury and for this reason recorded under Payables for advances received. Release of the amount deposited and extinguishment of the receivables in question are awaiting approval from the European Commission. A further €17 million, without financial coverage in the State Budget, was entirely impaired. In February 2021, €11 million, which was not available, was collected related to tariff subsidies charged in the third quarter of 2020.
  - The payment of pensions and vouchers on behalf of INPS (the National Institute of Social Security), totalling €25 million.
- Amounts due from **overseas counterparties** primarily relates to postal services carried out by the Company for overseas postal operators.
- Amounts due from **Cassa Depositi e Prestiti** refer to fees for BancoPosta's deposit-taking activities during 2020.
- Receivables arising from **Unfranked mail delivered** include €70 million in amounts due from customers who use the service on their own behalf and €54 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.
- Receivables for **overdrawn current accounts** derive almost exclusively from overruns due to the debiting of BancoPosta's periodic fees.
- Receivables for **parcel delivery services** refer to amounts due from customers using the "national and international express courier" service.

134. At 31 December 2020, the balance of trade receivables includes €22 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*.
135. See "Revenue and amounts due from the State", showing overall amounts due from the Ministry for Economic Development (€82 million), including amounts due for postal and other services.

- **Other trade receivables** primarily include: €47 million receivables relating to the Posta Time service, €33 million receivables relating to the Posta Contest service, €27 million receivables relating to the Posta Target service, €24 million receivables for non universal postal services, €19 million receivables for telegraphic services, €19 million for receivables relating to the Raccomandata Market service and €14 million for receivables for services for the notification of judicial documents.

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[136] and soliciting requests for appropriations.

Provisions for doubtful debts due from customers are described in note 6 – *Risk management*.

Due to subsidiaries and associates

tab. A9.2 - Due to subsidiaries and associates

Name (€m)	Balance at 31/12/2020	Balance at 31/12/2019
Direct subsidiaries		
BancoPosta Fondi SpA SGR	23	22
CLP ScpA	2	14
Consorzio PosteMotori	13	21
EGI SpA	1	1
PatentiViaPoste ScpA	9	6
Poste Air Cargo Srl	1	4
Poste Tributi ScpA	-	5
Poste Vita SpA	244	147
Postel SpA	40	46
PostePay SpA	459	122
SDA Express Courier SpA	78	85
Indirect subsidiaries		
Poste Assicura SpA	19	8
Poste Welfare Servizi Srl	2	-
rovisions for doubtful debts	(1)	-
Total	**890**	**481**
of which attributable to BancoPosta RFC	470	239

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 (€214 million);
- PostePay SpA: primarily for product placement services relating to the payments business (€215 million), payment transactions (€130 million), the delivery service for bulk mail (€64 million) and commercial and call centre services (€18 million).

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

Amounts due from parent company

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

tab. A9.3 - Due from the Parent Company

Description (€m)	Balance at 31/12/2020	Balance at 31/12/2019
Universal Service compensation	31	31
Delegated services	30	28
Remuneration of current account deposits	5	15
Publisher tariff and electoral subsidies	1	1
Other	2	2
Provision for doubtful debts due from the Parent company	(33)	(32)
Total	**36**	**45**
of which attributable to BancoPosta RFC	35	45

- **Universal Service compensation** includes:

tab. A9.3.1 - Universal Service compensation receivable

Description (€m)	Balance at 31/12/2020	Balance at 31/12/2019
Remaining bance for 2012	23	23
Remaining bance for 2005	8	8
Total	**31**	**31**

In the year under review, the Group received €262 million in accrued compensation for the period. The amount of compensation was recognised based on the terms of the new 2020-2024 Service Contract, effective 1 January 2020. On 1 December 2020, the European Commission approved the compensation for public service obligations envisaged in the new Service Contract, in the amount of €262 million per year, as it was deemed to be fully in line with the relevant EU rules on state aid.

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.

- Receivables for **delegated services** relate to fees accrued solely in 2020 for treasury services performed by BancoPosta on behalf of the State in accordance with a specific agreement with the MEF signed on 22 May 2020 for the three-year period 2020-2022.
- The **remuneration of current account deposits** refers entirely to amounts accruing in 2020 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 due from the Parent Company are described in note 6 – *Risk management*.

A10 - Other receivables and assets (€2,478 million)

This item breaks down as follows:

tab. A10 - Other receivables and assets

Description (€m)	Notes	Balance at 31/12/2020 Non-current passets	Current assets	Total	Balance at 31/12/2019 Non-current passets	Current assets	Total
Substitute tax paid		1,474	482	1,956	1,357	471	1,828
Due from social security agencies and pension funds (excl. fixed-term contract settlements)		-	175	175	-	93	93
Receivables relating to fixed-term contract settlements		57	79	136	66	82	148
Receivables for amounts that cannot be drawn on due to court rulings		-	78	78	-	79	79
Interest accrued on IRES refund	[C12]	-	46	46	-	46	46
Due from subsidiaries		-	42	42	-	257	257
Receivables Relaunch Decree 34/2020		29	6	35	-	-	-
Tax assets		-	31	31	-	4	4
Accrued income and prepaid expenses from trading transactions		-	7	7	-	5	5
Sundry receivables		17	73	90	13	90	103
Provisions for doubtful debts due from others		(1)	(117)	(118)	(1)	(107)	(108)
Total		**1,576**	**902**	**2,478**	**1,435**	**1,020**	**2,455**
of which attributable to BancoPosta RFC		1,474	549	2,023	1,357	544	1,901

Specifically:

- **Substitute tax paid**, attributable to BancoPosta RFC, primarily regards: :
  - €1,474 million charged to holder of Interest-bearing Postal Certificates for stamp duty at 31 December 2020[137]; 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);
  - €320 million relating to stamp duty to be paid in virtual form in 2021 and to be recovered from customers;
  - €118 million relating to stamp duty to be charged to Postal Savings Book holders, which the Company pays in virtual form as required by law;
  - €11 million in withholding tax on interest paid to current account holders for 2020, which is to be recovered from customers.
- Amounts due from **social security agencies and pension funds** refer for €57 million to sums relating to periods of suspension or reduction of work for Covid-19, which the Company has advanced to its employees and which, following access to the benefits of the Bilateral Solidarity Fund at INPS, enabled by the signing of the labour union agreements of 30 April 2020 and 21 December 2020, will be recovered by means of an adjustment with the contributions due to the Social Security Agency.

137. 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).

- **Receivables relating to 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 personnel previously employed on fixed-term contracts. This item refers to receivables with a present value of €136 million from personnel, 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:

tab A10.1 - Receivables from fixed-term contract settlements

Description (€m)	Balance at 31/12/2020				Balance at 31/12/2019			
	Non-current passets	Current assets	Total	Nominal value	Non-current passets	Current assets	Total	Nominal value
Receivables								
due from staff under agreement of 2006	-	1	1	1	-	1	1	1
due from staff under agreement of 2008	10	9	19	20	14	10	24	26
due from staff under agreement of 2010	23	6	29	34	25	6	31	37
due from staff under agreement of 2012	17	5	22	27	19	5	24	30
due from staff under agreement of 2013	1	1	2	2	2	1	3	3
due from staff under agreement of 2015	2	-	2	3	2	1	3	3
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	10	13	14	3	11	14	14
due from pension funds	-	5	5	5	-	5	5	5
Total	**57**	**79**	**136**		**66**	**82**	**148**	

The receivable of €42 million from INPS (formerly IPOST) under a specific agreement entered into with IPOST on 23 December 2009, consisting of six instalments of €6.9 million each, falling due between 30 June 2012 and 31 December 2014. Negotiations are underway to recover this amount and, should the outcome prove unsuccessful, the Company reserves the right to take all necessary steps to protect its rights.

- **Amounts that cannot be drawn on due to court rulings** include €65 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.
- **Interest accrued on IRES refund**, refers to interest accruing up to 31 December 2020 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 no. 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. Elements of uncertainty about the final outcome of the case are taken into account in the provision for doubtful debts due from others.
- Receivables under **Relaunch Decree no. 34/2020** refer to receivables acquired in the last months of 2020 under the provisions of the aforementioned decree later converted with amendments into Law no. 77 of 17 July 2020. These receivables will be used to offset, in the years from 2021 to 2030, tax, social security or tax payables on the basis of as provided by the Revenue Agency with reference to the characteristics of the individual receivables.

Provisions for doubtful debts due from others are described in note 6 – *Risk management*.

A11 - Cash and deposits attributable to BancoPosta (€6,391 million)

This item breaks down as follows:

tab. A11 - Cash and deposits attributable to BancoPosta

Description (€m)	Balance at 31/12/2020	Balance at 31/12/2019
Cash and cash equivalents in hand	3,027	3,487
Bank deposits	3,364	816
Total	**6,391**	**4,303**

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 (€1,198 million) and at service[138] companies (€1,829 million), may not be used for purposes other than to repay obligations contracted in the transactions described above. The increase in the item Bank deposits is due to temporary excess liquidity deriving from private customer deposits on the account opened with the Bank of Italy, intended for interbank settlements, and not yet invested.

A12 - Cash and cash equivalents (€4,029 million)

This item breaks down as follows:

tab. A12 - Cash and cash equivalents

Description (€m)	Balance at 31/12/2020	Balance at 31/12/2019
Bank deposits and amounts held at the Italian Treasury	2,022	698
Deposits with the MEF	1,991	494
Cash and cash equivalents in hand	16	14
Total	**4,029**	**1,206**
of which attributable to BancoPosta RFC	2,009	509

Cash held on **deposit with the MEF** at 31 December 2020 include approximately €1,553 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 – 5.2 – *Information on BancoPosta RFC*).

Bank deposits and amounts held at the Italian Treasury include €24 million deposited by the Presidenza del Consiglio dei Ministri - Dipartimento dell'Editoria (Cabinet Office – Publishing Department) in a non-interest bearing escrow account with the Italian Treasury in 2020 as advance payment for publisher tariff subsidies due to the Company (note A9). Bank deposits and amounts held at the Italian Treasury include €21 million whose use is restricted by court orders related to different disputes.

138. 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 2020, 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 (€3,820 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 2019	**299**	**1,210**	**(68)**	**90**	**-**	**15**	**1,546**
Increase/(decrease) 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 losses	-	-	(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
Increase/(decrease) in fair value during the year	-	-	1,948	(28)	-	-	1,920
Tax effect of changes in fair value	-	-	(553)	8	-	-	(545)
Transfers to profit or loss	-	-	(260)	4	-	-	(256)
Tax effect of transfers to profit or loss	-	-	74	(1)	-	-	73
Increase/(decrease) for expected losses	-	-	6	-	-	-	6
Gains/(losses) recognised in equity	-	-	1,215	(17)	-	-	1,198
Incentive plans	-	-	-	-	4	-	4
Balance at 31 December 2020	**299**	**1,210**	**2,191**	**99**	**6**	**15**	**3,820**
of which attributable to BancoPosta RFC	-	1,210	2,182	98	1	-	3,491

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 €1,948 million during 2020 reflects:
  - a net increase of €1,947 million in financial assets measured at fair value through other comprehensive income and attributable to BancoPosta RFC;
  - a net increase of €1 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 2020, the fair value loss of €28 million reflects a net loss of €27 million on derivative financial instruments attributable to BancoPosta RFC and a net loss of €1 million on the value of financial instruments held outside the ring-fence;
- the **Incentive Plans reserve** includes the estimate of the valuations for the year relating to the long-term "ILT Performance Share" incentive plans and the MBO short-term 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 2020 of €325 million.

During the year, dividends were distributed for a total of €613 million, based on the following resolutions:

- on 15 May 2020, the General Shareholders' Meeting resolved to distribute dividends of €402 million (unit dividend of €0.309) on 24 June 2020, as the balance for the 2019 financial year, taking into account the interim dividend of €200 million (unit dividend of €0.154) already paid in November 2019;
- on 11 November 2020, Poste Italiane's Board of Directors, in line with the Group dividend policy approved in 2019, resolved to advance part of the ordinary dividend for 2020 as an interim dividend. The interim dividend of €211 million was distributed on 25 November 2020 (unit dividend of €0.162).

tab. B3 - Availability and distributability of reserves

(€m)	31/12/2020		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		**2,191**	**- -**
- cash flow hedge reserve		**99**	**- -**
- incentive plans reserve		**6**	**- -**
- merger surplus		**15**	**A B D**
Retained earnings / (Accumulated losses)		**2,153**	
retained earnings / (accumulated losses)	84		- -
retained earnings / (accumulated losses)	1,177		C
retained earnings / (accumulated losses)	1,025		A B D
Unrealised gains/(losses) on financial instruments at FVTPL net of tax effect	45		B C
after-tax actuarial gains/(losses)	(178)		- -
Total		**7,239**	
of which distributable		1,078	

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

Liabilities

B4 - Provisions for risks and charges (€1,309 million)

Movements in provisions for risks and charges are as follows:

tab. B4 - Movements in provisions for risks and charges

Description (€m)	Balance at 01/01/2020	Previsions	Released to profit or loss	Uses	Balance at 31/12/2020
Provisions for operational risks	232	24	(88)	(37)	131
Provisions for disputes with third parties	274	25	(30)	(32)	237
Provisions for disputes with staff*	54	11	-	(15)	50
Provisions for personnel expenses	63	220	(29)	(27)	227
Provisions for early retirement incentives	419	414	-	(259)	574
Provisions for taxation	3	-	-	-	3
Other provisions for risks and charges	86	9	(3)	(5)	87
Total	**1,131**	**703**	**(150)**	**(375)**	**1,309**
of which attributable to BancoPosta RFC	327	35	(103)	(46)	213
Overall analysis of provisions:					
- non-current portion	434				578
- current portion	697				731
	1,131				**1,309**

* Net provisions for Personnel expenses amount to €7 million. Service costs (legal assistance) total €4 million.

Specifically:

- **Provisions for operational risks**, which regard liabilities deriving from transactions carried out by BancoPosta, primarily reflect risks linked to the distribution of postal savings products issued in previous years, adjustments and settlements of income for previous years, estimated risks for charges and expenses to be incurred as a result of seizures suffered by BancoPosta, primarily in its capacity as a third party in foreclosure, and fraud. Provisions for the year totalling €24 million mainly reflect risks associated with the distribution of postal savings products issued in previous years and expenses to be incurred as a result of seizures suffered by BancoPosta mainly as a third party. Transfers to profit or loss are due to the elimination of liabilities identified in the past and refer mainly to the revised estimate of certain risks associated with the distribution of postal savings products and the conclusion of voluntary protection initiatives undertaken for the Europa Immobiliare I and Obelisco funds. Uses are primarily attributable to risks linked to the distribution of postal savings products and to liabilities defined in favour of customers subscribing to the Obelisco fund who have taken part in the above initiative.
- **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. Provisions of €11 million regard an update of the estimate of the liabilities and the related legal expenses, taking account of 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 €220 million to reflect the estimated value of new liabilities and decreased as a result of past contingent liabilities that failed to materialise (€29 million) and settled disputes (€27 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 2022. The provisions made at 31 December 2019 were utilised for €259 million.
- **Provisions for taxation** have been made to cover estimated tax liabilities.

- **Other provisions for risks and charges** cover probable liabilities of various type, including: estimated liabilities deriving from the risk that specific legal actions undertaken in order to reverse seizures of the Company's assets may be unable to recover the related amounts, claims for rent arrears on properties used free of charge by the Company, claims for payment of accrued interest expense due to certain suppliers, frauds and expenses for reclamation of owned land.

B5 - Employee termination benefits (€1,003 million)

Movements in employee termination benefits are as follows:

tab. B5 - Movements in provisions for employee termination benefits

(€m)		FY 2020
Balance at 1 January		**1,107**
interest component	8	
effect of actuarial gains/(losses)	5	
Provisions for the year		13
Uses for the period		(117)
Balance at 31 December		**1,003**
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 personnel termination benefits regard disbursements of €116 million, the levying of substitute tax of €2 million and transfers from Poste Vita SpA, Poste Welfare Servizi Srl and PostePay SpA amounting to €1 million following the sale of Information Technology business units during the year.

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

tab. B5.1 - Economic and financial assumptions

	31/12/2020	31/12/2019
Discount rate	0.30%	0.55%
Inflation rate	1.50%	1.50%
Annual rate of increase of employee termination benefits	2.625%	2.625%

tab. B5.2 - Demographic assumptions

	31/12/2020
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)	31/12/2020
Change in demographic assumptions	-
Change in financial assumptions	22
Other experience-related adjustments	(17)
Total	**5**

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 31/12/2020
Inflation rate +0.25%	1,017
Inflation rate -0.25%	990
Discount rate +0.25%	982
Discount rate -0.25%	1,025
Turnover rate +0.25%	1,001
Turnover rate -0.25%	1,005

tab. B5.5 - Other information

	31/12/2020
Expected service cost	-
Average duration of defined benefit plan	8.70
Average employee turnover	0.11%

B6 - Financial liabilities attributable to BancoPosta (€94,946 million)

tab. B6 - Financial liabilities attributable to BancoPosta

	Balance at 31/12/2020			Balance at 31/12/2019		
Description (€m)	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Postal current accounts	-	66,462	66,462	-	53,880	53,880
Loans	7,285	7,063	14,348	6,741	4,295	11,036
Due to financial institutions	7,285	7,063	14,348	6,741	4,295	11,036
MEF account held at the Treasury	-	3,588	3,588	-	4,542	4,542
Derivative financial instruments*	8,141	122	8,263	5,522	45	5,567
Cash flow hedges	49	73	122	71	31	102
Fair value hedges	8,092	29	8,121	5,436	14	5,450
Fair value through profit or loss	-	20	20	15	-	15
Other financial liabilities	-	2,285	2,285	-	1,754	1,754
Total	**15,426**	**79,520**	**94,946**	**12,263**	**64,516**	**76,779**

* In terms of fair value hierarchy, w hich 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 2020 and settled with customers in January 2021. The balance includes amounts due to Poste Italiane Group companies, totalling €7,619 million, of which €7,044 million relating to postal current accounts in the name of PostePay SpA mainly relating to the deposit of income from prepaid cards and €484 million deposited in postal current accounts by Poste Vita SpA.

Loans

Amounts due to financial institutions

At 31 December 2020, outstanding liabilities of €14,711 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 €13,456 million. €7,083 million of this amount regards Long Term Repos and €7,628 million to ordinary loan operations, the resources from both invested in Italian fixed income government securities and as funding for incremental deposits used as collateral. At 31 December 2020, repurchase agreements with a nominal value of €900 million were the subject of fair value hedge transactions executed to hedge interest rate risk. Finally, financial assets and liabilities relating to repurchase agreements managed through the Central Counterparty that meet the requirements of IAS 32 are offset. The effect of netting at 31 December 2020, already included in the exposure to net balances, amounted to €363 million (€1,158 million at 31 December 2019).

At 31 December 2020, the fair value[139] of the above payables amounts to €14,743 million.

MEF account held at the Treasury

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

	Balance at 31/12/2020			Balance at 31/12/2019		
Description (€m)	**Non-current liabilities**	**Current liabilities**	**Total**	**Non-current liabilities**	**Current liabilities**	**Total**
Balance of cash flows for advances	-	3,602	3,602	-	4,397	4,397
Balance of cash flows from management of postal savings	-	(192)	(192)	-	(47)	(47)
Amounts payable due to theft	-	159	159	-	158	158
Amounts payable for operational risks	-	19	19	-	34	34
Total	**-**	**3,588**	**3,588**	**-**	**4,542**	**4,542**

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

	Balance at 31/12/2020			Balance at 31/12/2019		
Description (€m)	**Non-current liabilities**	**Current liabilities**	**Total**	**Non-current liabilities**	**Current liabilities**	**Total**
Net advances	-	3,602	3,602	-	4,397	4,397
MEF postal current accounts and other payables	-	671	671	-	670	670
MEF - State pensions	-	(671)	(671)	-	(670)	(670)
Total	**-**	**3,602**	**3,602**	**-**	**4,397**	**4,397**

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

The decrease in the item Net advances, compared to 31 December 2019, is mainly due to the advance payment, made in the last working days of December, of the January pension accrual due to the provisions of the Ordinance of the Head of the Civil Protection Department no. 723 of 10 December 2020 in order to comply with the measures to contain the spread of the COVID-19 virus.

The **balance of cash flows from the management of postal savings**, amounting to a positive €192 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 2020 consists of €146 million receivable from Cassa Depositi e Prestiti, and a receivable of €46 million from the MEF for Interest-bearing Postal Certificates issued on its behalf.

Amounts payable due to thefts from Post Offices of €159 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 €19 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

Changes in derivative financial instruments during 2020 are described in note A6.

Other financial liabilities

tab. B6.2 - Other financial liabilities

	Balance at 31/12/2020			Balance at 31/12/2019		
Description (€m)	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Domestic and international money transfers	-	917	917	-	668	668
Guarantee deposits	-	392	392	-	112	112
Endorsed cheques	-	382	382	-	140	140
Other amounts payable to third parties	-	148	148	-	164	164
Cashed cheques	-	135	135	-	255	255
Amounts to be credited to customers	-	120	120	-	276	276
Payables for items in process	-	191	191	-	139	139
Total	**-**	**2,285**	**2,285**	**-**	**1,754**	**1,754**

The increase in the item **Domestic and international money transfers** is mainly due to the greater use of money orders and transfers by customers in the last days of December.

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

The item **Amounts to be credited to customers** included at 31 December 2019, amounts related to the protection initiative for customers subscribing to the Obelisco Fund, which were settled in January 2020.

B7 - Financial liabilities (€4,339 million)

tab. B7 - Financial liabilities

	Balance at 31/12/2020			Balance at 31/12/2019		
Description (€m)	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Loans	1,869	664	2,533	623	1	624
Bonds	1,046	-	1,046	50	-	50
Due to financial institutions	823	664	1,487	573	1	574
Lease payables	878	187	1,065	959	190	1,149
Derivative financial instruments*	5	6	11	18	4	22
Fair value hedges	-	6	6	12	4	16
Cash flow hedges	5	-	5	6	-	6
Financial liabilities due to subsidiaries	-	729	729	-	505	505
Other financial liabilities	1	-	1	1	-	1
Total	**2,753**	**1,586**	**4,339**	**1,601**	**700**	**2,301**

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

Loans

Loans are unsecured and are not subject to financial covenants, which would require the Company to comply with financial ratios. EIB loans are subject to the maintenance of a minimum rating level of BBB- (or equivalent) by the two rating agencies of Poste Italiane, without prejudice to the bank's right to request guarantees or an increase in the margin, or in the event of failure to agree immediate early repayment of the loan. Standard negative pledge provisions do apply, however[140].

Bonds

The item **Bonds** refers to two loans issued by Poste Italiane SpA as part of the €2 billion Euro Medium Term Notes (EMTN) Programme promoted by the Company during the 2013 financial year on the Luxembourg Stock Exchange. Specifically:

- a senior unsecured loan with a total nominal value of €1 billion issued on 10 December 2020 in two tranches, placed in public form with institutional investors. The first tranche of €500 million matures on 10 December 2024, has an above-par issue price of 100.10 with fixed annual coupon of 0.00% and an effective yield to maturity of -0.025%; the second tranche of €500 million matures on 10 December 2028, with an issue price below par of 99.758, a fixed annual coupon of 0.50% and an effective yield to maturity of 0.531%. At 31 December 2020, the fair value[141] of the loan was €1,004 million;
- a loan with a nominal value of €50 million, privately placed and issued at par on 25 October 2013. The term to maturity of the loan is ten years and the interest rate is 3.5% for the first two years and variable thereafter (EUR Constant Maturity Swap rate plus 0.955%, with a cap of 6% and a floor of 0%). The interest rate risk exposure was hedged as described in note A7 – *Financial assets*. At 31 December 2020, the fair value[142] of the loan was €51 million.

140. 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.
141. In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 1.
142. In terms of fair value hierarchy, which reflects the relevance of the sources used to measure assets, this amount qualifies for level 2.

Amounts due to financial institutions

tab. B7.1 - Due to financial institutions

Description (€m)	Balance at 31/12/2020 Non-current liabilities	Current liabilities	Total	Balance at 31/12/2019 Non-current liabilities	Current liabilities	Total
Repurchase agreements	-	412	412	-	-	-
Loans	250	250	500	-	-	-
EIB fixed rate loan maturing 12/03/2026	173	-	173	173	-	173
EIB fixed rate loan maturing 16/10/2026	400	-	400	400	-	400
Other payables	-	1	1	-	-	-
Accrued interest expense	-	1	1	-	1	1
Total	**823**	**664**	**1,487**	**573**	**1**	**574**

TF: Fixed rate loan.

At 31 December 2020, the Group had outstanding liabilities of €412 million in respect of repurchase agreements with leading financial operators for a total nominal amount of securities committed of €400 million, entered into during the year in question with the aim of optimising profitability and meeting any temporary liquidity requirements. The fair value[143] of the repurchase agreements at 31 December 2020 amounted to €412 million.

In addition, during 2020, in order to have additional liquidity and to cope with any adverse scenarios related to the COVID-19 pandemic, the Company entered into three medium-term loans for €750 million, two of which were repaid early in November and December for a total of €500 million, and used uncommitted credit lines for short-term loans for a total of €660 million, of which €250 million were outstanding at 31 December 2020.

At 31 December 2020, the fair value[144] of the medium/long-term loan, repaid in advance in January 2021, was €258 million and the fair value[145] of the two EIB loans totalling €573 million was €604 million.

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

At 31 December 2020, the committed and uncommitted credit lines are as follows:

Description (€m)	Balance at 31/12/2020	Balance at 31/12/2019
Committed credit lines	**1,750**	**2,000**
Short-term loans	1,750	2,000
Uncommitted credit lines	**1,785**	**1,857**
Short-term loans	1,017	1,009
Current account overdrafts	148	173
Unsecured loans	620	675
Total	**3,535**	**3,857**
Committed uses	**-**	**-**
Short-term loans	-	-
Uncommitted uses	**602**	**322**
Short-term loans	250	-
Unsecured loans*	352	322
Total	**602**	**322**

* At 31 December 2020, unsecured loans have been used for €295 million on behalf of Poste Italiane SpA and for €57 million on behalf of Group companies.

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

No collateral has been provided to secure the credit lines available.

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

In addition, from 26 June 2020, BancoPosta's assets may access a 3-year committed facility granted by Cassa Depositi e Prestiti for repurchase agreements up to a maximum of €4.25 billion, unused at 31 December 2020.

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 €880 million, and the facility is unused at 31 December 2020.

Lease payables

Lease payables at 31 December 2020 amounted to €1,065 million. Total cash outflows for leases in the year amounted to €214 million.

Derivative financial instruments

Changes in the item in 2020, 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 31/12/2020	Balance at 31/12/2019
Direct subsidiaries		
BancoPosta Fondi SpA SGR	3	3
EGI SpA	2	-
Poste Vita SpA	174	103
PostePay SpA	550	399
Total	**729**	**505**

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 31/12/2019	Net cash flow from/ (for) financing activities	Non-cash flows	Balance at 31/12/2020
Loans	624	1,909	-	2,533
Bonds	50	996	-	1,046
Due to financial institutions	574	913	-	1,487
Lease payables	1,149	(214)	130	1,065
Financial liabilities due to subsidiaries	505	224	-	729
Other financial liabilities	1	-	-	1
Total	**2,279**	**1,919**	**130**	**4,328**

B8 - Trade payables (€2,121 million)

tab. B8 - Trade payables

Description (€m)	Balance at 31/12/2020	Balance at 31/12/2019
Due to suppliers	924	881
Due to subsidiaries and associates	787	418
Contract liabilities	410	299
Total	**2,121**	**1,598**
of which attributable to BancoPosta RFC	393	129

Amounts due to suppliers

tab. B8.1 - Due to suppliers

Description (€m)	Balance at 31/12/2020	Balance at 31/12/2019
Italian suppliers	777	747
Overseas suppliers	13	24
Overseas counterparties*	134	110
Total	**924**	**881**
of which attributable to BancoPosta RFC	10	13

* 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 associate

tab. B8.2 - Due to subsidiaries and associates

Name (€m)	Balance at 31/12/2020	Balance at 31/12/2019
Direct subsidiaries		
BancoPosta Fondi SpA SGR	4	12
CLP ScpA	97	105
Consorzio PosteMotori	1	2
Consorzio per i Servizi di Telefonia Mobile ScpA	43	29
EGI SpA	13	10
Milkman Deliveries SpA	3	-
PatentiViaPoste ScpA	-	1
Poste Vita SpA	1	1
Postel SpA	23	25
PostePay SpA	377	88
SDA Express Courier SpA	224	145
Indirect subsidiaries		
Kipoint SpA	1	-
Total	**787**	**418**
of which attributable to BancoPosta RFC	354	89

These trade payables include:

- PostePay SpA: mainly for collection and payment services under the service contract (€349 million) and for acquiring services (€24 million);
- SDA Express Courier SpA: mainly for the pick-up, sorting and delivery service of products in the domestic and international express range following the agreement signed on 1 November 2019.

Contract liabilities

tab. B8.3 - Contract liabilities

Description (€m)	Balance at 01/01/2020	Increases / (Decreases)	Change due to recognition of revenue for period	Balance at 31/12/2020
Prepayments and advances from customers	273	108	-	381
Liabilities for fees to be refunded	20	(39)	43	24
Liabilities for volume discounts	3	(1)	-	2
Deferred income from trading transactions	3	-	-	3
Total	**299**	**68**	**43**	**410**
of which attributable to BancoPosta RFC	26	(40)	43	29

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 31/12/2020	Balance at 31/12/2019
Prepayments from overseas counterparties		276	196
Advances for Publishing from PCM	[tab.A9.1]	24	-
Automated franking		40	38
Unfranked mail		17	16
Postage-paid mailing services		6	6
Other services		18	17
Total		**381**	**273**
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 (€2,990 million)

tab. B9 - Other liabilities

	Balance at 31/12/2020			Balance at 31/12/2019		
Description (€m)	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Due to staff	17	678	695	17	769	786
Social security payables	26	427	453	30	486	516
Other taxes payable	1,474	177	1,651	1,357	131	1,488
Other amounts due to subsidiaries	-	140	140	5	36	41
Sundry payables	11	31	42	86	31	117
Accrued liabilities and deferred income	7	2	9	10	2	12
Total	**1,535**	**1,455**	**2,990**	**1,505**	**1,455**	**2,960**
of which attributable to BancoPosta RFC	1,476	80	1,556	1,434	62	1,496

Amounts due to staff

These items primarily regard accrued amounts that have yet to be paid at 31 December 2020. The breakdown is as follows:

tab. B9.1 - Due to staff

	Balance at 31/12/2020			Balance at 31/12/2019		
Description (€m)	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Fourteenth month salaries	-	202	202	-	211	211
Incentives	17	377	394	17	357	374
Accrued vacation pay	-	43	43	-	54	54
Other amounts due to staff	-	56	56	-	147	147
Total	**17**	**678**	**695**	**17**	**769**	**786**
of which attributable to BancoPosta RFC	1	4	5	3	5	8

The reduction in **Other amounts due to staff** is due to the one-off payment to cover the 2019 contractual *vacatio*, which occurred in April 2020.

Social security payables

tab. B9.2 - Social security payables

	Balance at 31/12/2020			Balance at 31/12/2019		
Description (€m)	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
INPS	1	324	325	2	382	384
Pension funds	-	85	85	-	85	85
Health funds	-	5	5	-	5	5
INAIL	25	3	28	28	3	31
Other agencies	-	10	10	-	11	11
Total	**26**	**427**	**453**	**30**	**486**	**516**
of which attributable to BancoPosta RFC	-	3	3	-	3	3

The decrease in **amounts due to INPS** is partly due to the payment of the one-off contribution component mentioned above.

Other taxes payable

tab. B9.3 - Other taxes payable

	Balance at 31/12/2020			Balance at 31/12/2019		
Description (€m)	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Withholding tax on employees' and consultants' salaries	-	91	91	-	87	87
Withholding tax on postal current accounts	-	10	10	-	10	10
Stamp duty payable	1,474	52	1,526	1,357	8	1,365
Other taxes due	-	24	24	-	26	26
Total	**1,474**	**177**	**1,651**	**1,357**	**131**	**1,488**
of which attributable to BancoPosta RFC	1,474	68	1,542	1,357	25	1,382

Specifically:

- **Withholding tax on employees' and consultants' salaries** relates to amounts paid to the tax authorities by the Company in January and February 2021 as withholding agents.
- **Stamp duty payable** represents the amount payable to the tax authorities for stamp duty in virtual form, before the adjustment applied in 2021 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 2020 on interest-bearing postal certificates in circulation, in compliance with the legislation referred to in note A10 – *Other receivables and assets*.

Other amounts due to subsidiaries

tab. B9.4 - Other amounts due to subsidiaries

	Balance at 31/12/2020			Balance at 31/12/2019		
Name (€m)	**Non-current liabilities**	**Current liabilities**	**Total**	**Non-current liabilities**	**Current liabilities**	**Total**
Direct subsidiaries						
Poste Vita SpA	-	135	135	-	-	-
PostePay SpA	-	-	-	-	21	21
SDA Express Courier SpA	-	-	-	5	12	17
BancoPosta Fondi SpA SGR	-	-	-	-	2	2
Postel SpA	-	1	1	-	1	1
EGI SpA	-	1	1	-	-	-
Indirect subsidiaries						
Poste Assicura SpA	-	3	3	-	-	-
Total	**-**	**140**	**140**	**5**	**36**	**41**
of which attributable to BancoPosta RFC	-	-	-	-	21	21

This item regards the amount due 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 subsidiaries. In addition, the amount due to the subsidiary, Poste Vita SpA, includes the receivable transferred to Poste Italiane as a result of the agreement reached with the tax authorities, in December 2020, regarding recognition of a financial contribution in the event of direct use of intangible assets (Patent Box); see in this regard as outlined in note C12 - *Income Tax Expense*.

Sundry payables

This item breaks down as follows:

tab. B9.5 - Sundry payables

Description (€m)	Balance at 31/12/2020			Balance at 31/12/2019		
	Non-current liabilities	Current liabilities	Total	Non-current liabilities	Current liabilities	Total
Sundry payables attributable to BancoPosta	-	6	6	74	8	82
Guarantee deposits	11	-	11	12	-	12
Other payables	-	25	25	-	23	23
Total	**11**	**31**	**42**	**86**	**31**	**117**
of which attributable to BancoPosta RFC	-	6	6	74	8	82

The decrease in the item **Sundry payables attributable to BancoPosta** compared with 31 December 2019 is due to the settlement of prior year items resulting from a comprehensive review of estimates completed during the year, with the resulting positive impact recognised in the statement of profit or loss (tab. C3 - *Other operating income*).

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.).

5.4 Notes to the statement of profit or loss

C1 - Revenue from sales and services (€8,226 million)

tab. C1 - Revenue from sales and services

Description (€m)	FY 2020	FY 2019
Postal Services	2,846	2,929
of which Revenue from contracts with customers	2,846	2,929
recognised at a point in time	221	490
recognised over time	2,625	2,439
BancoPosta services	5,177	5,435
of which Revenue from contracts with customers	3,584	3,796
recognised at a point in time	315	412
recognised over time	3,269	3,384
Other sales of goods and services	203	177
of which Revenue from contracts with customers	203	177
recognised at a point in time	1	1
recognised over time	202	176
Total	**8,226**	**8,541**

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** refers to:
  - 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 commissions on payment of bills by payment slip: 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 not from contracts with customers accounted for in accordance with IFRS 9 - *Financial Instruments*.

Revenue from Postal Services

tab. C1.1 - Revenue from Postal Services

Description (€m)	FY 2020	FY 2019
Mail	1,604	2,169
Parcels	919	431
Philately	7	8
Total external revenue	**2,530**	**2,608**
Universal Service compensation	262	262
Publisher tariff subsidies	54	59
Total revenue	**2,846**	**2,929**

External revenue shows a decrease due to the decrease in revenue from Mail, partially offset by the increase in revenue from Parcels. This trend reflects the critical issues that emerged as a result of the health emergency that has affected Italy since March 2020 and has had a significant impact on normal operations.

Universal Service compensation relates to amounts paid by the MEF to cover the costs of fulfilling the USO. The amount of the annual compensation of €262 million is defined in the 2020-2024 Service Contract, effective as of 1 January 2020 and approved by the European Commission, which has determined that the state compensation granted to the Company is in line with EU state aid rules.

Publisher tariff subsidies[146] 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 2020 State Budget.

BancoPosta services

tab. C1.2 - Revenue from BancoPosta services

Description (€m)	FY 2020	FY 2019
Fees for collection of postal savings deposits	1,851	1,799
Income from investment of postal current account deposits	1,593	1,638
Insurance brokerage	439	437
Other revenue from current account services	432	457
Commissions on payment of bills by payment slip	297	390
Distribution of loan products	192	327
Distribution of payment products and services	180	191
Income from delegated services	103	97
Distribution of investment funds	57	62
Money transfers	16	21
Other products and services	17	16
Total	**5,177**	**5,435**

146. 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.

Revenue from BancoPosta services showed a decrease compared to the 2019 due to the health emergency that has affected our country since March 2020 and that has significantly affected normal operations. The largest decreases refer to revenue from commissions on payment of bills by payment slip and commissions for the distribution of loan products.

Specifically:

- **Fees for 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 expired 31 December 2020 and being renewed.
- **Income from 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 2020	FY 2019
Income from investments in securities	1.546	1.570
Interest income on securities at amortised cost	649	535
Interest income on securities at FVTOCI	894	1.012
Interest income (expense) on asset swaps of CFH on securities at FVOCI and AC	21	4
Interest income (expense) on asset swaps of FVH on securities at FVOCI and AC	(58)	(27)
interest on repurchase agreements	40	46
Income from deposits held with the MEF	43	64
Remuneration of current account deposits (deposited with the MEF)	32	64
Differential on derivatives stabilising returns	11	-
Other income	4	4
Total	**1.593**	**1.638**

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 (€218 million), fees on amounts collected and on statements of account sent to customers (€112 million), annual fees on debit cards (€18 million) and related transactions (€17 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.
- Revenue 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 INPS direct debit transfers (€37 million), and for the provision of services on the basis of the agreement with the MEF (€61 million).

Other sales of goods and services

The main revenue items include: income from the subsidiary PostePay SpA, for cash and payment transactions (€122 million) and income from call center services (€10 million).

C2 - Other income from financial activities (€516 million)

tab. C2 - Other income from financial activities

Description (€m)	FY 2020	FY 2019
Income from equity instruments at FVTPL	8	27
Fair value gains	8	25
Realised gains	-	1
Dividends from other equity investments	-	1
Income from financial instruments at FVTOCI	399	353
Realised gains	399	353
Income from financial instruments at amortised cost	102	-
Realised gains	102	-
Foreign exchange gains	6	4
Realised gains	6	4
Other income	1	-
Total	**516**	**384**

Other income from financial activities increased by €132 million compared to 2019, mainly due to higher profits from the sale of financial assets at FVTOCI (+€46 million) and at amortised cost (+€102 million), partly offset by the lower profits from fair value measurement of instruments at FVTPL (-€17 million).

C3 - Other operating income (€299 million)

tab. C3 - Other operating income

Description (€m)	FY 2020	FY 2019
Dividends from subsidiaries	156	348
Recoveries of contract expenses and other recoveries	13	16
Rentals	12	12
Government grants	7	8
Gains on disposals	3	2
Recovery of cost of seconded staff	1	1
Positive accounting effects of the discharge of sundry payables relating to BancoPosta operations	114	-
Negative accounting effects of the discharge of sundry payables relating to BancoPosta operations	(39)	-
Net accounting effects of the discharge of sundry payables relating to BancoPosta operations	75	-
Other income	32	91
Total	**299**	**478**

The item **Other operating income** includes the effects related to the derecognition of items previously recorded under liabilities, resulting from a comprehensive review of estimates completed during the year under review.

Dividends from subsidiaries

tab. C3.1 - Dividends from subsidiaries

Name (€m)	FY 2020	FY 2019
Poste Vita SpA	-	285
PostePay SpA	140	33
BancoPosta Fondi SpA SGR	16	30
Total	**156**	**348**

Gains on disposals

tab. C3.2 - Gains on disposals

Description (€m)	FY 2020	FY 2019
Gains on disposal of investment property	3	-
Gains on disposal of investments	-	2
Total	**3**	**2**

For the purposes of reconciliation with the statement of cash flows, in 2020 this item amounted to €2 million, after losses of €1 million. In 2019, this item, after losses of €1 million, amounted to €1 million.

C4 - Cost of goods and services (€2,318 million)

tab. C4 - Cost of goods and services

Description (€m)	FY 2020	FY 2019
Service costs	2,094	1,678
Lease expense	82	74
Raw, ancillary and consumable materials and goods for resale	142	102
Total	**2,318**	**1,854**

The increase in **Costs of goods and services** of a total of €464 million compared to 2019 is mainly due to extraordinary expenses incurred to deal with the health emergency of €106 million for the purchase of personal protective equipment, plexi-glass screens, sanitation expenses, extraordinary cleaning of premises, communication expenses, etc.) and costs incurred for services rendered by the subsidiary SDA Express Courier SpA following the agreement signed on 1 November 2019, relating to products in the domestic and international express range.

Service costs

tab. C4.1 - Service costs

Description (€m)	FY 2020	FY 2019
Transport of mail, parcels and forms	847	387
Outsourcing fees and external service charges	447	483
Routine maintenance and technical assistance	211	196
Personnel services	111	131
Cleaning, waste disposal and security	101	67
Energy and water	100	116
Transport of cash	79	89
Advertising and promotions	53	53
Mail, telegraph and telex	48	58
Telecommunications and data transmission	41	36
Electronic document management, printing and enveloping services	23	28
Consultants' fees and legal expenses	15	15
Insurance premiums	10	9
Agent commissions and other	6	5
Securities custody and management fees	2	2
Credit and debit card fees and charges	-	3
Total	**2,094**	**1,678**

Lease expense

tab. C4.2 - Lease expense

Description (€m)	FY 2020	FY 2019
Equipment hire and software licences	63	60
Property rentals	8	6
Vehicle leases	2	2
Other lease expense	9	6
Total	**82**	**74**

Lease and rental costs include €9 million for low-value leases and €6 million for short-term leases.

Raw, ancillary and consumable materials and goods for resale

tab. C4.3 - Raw, ancillary and consumable materials and goods for resale

Description (€m)	FY 2020	FY 2019
Fuels and lubricants	41	47
Consumables and goods for resale	103	30
Change in inventories of raw, ancillary and consumable materials	(21)	-
Stationery and printed matter	15	18
Printing of postage and revenue stamps	4	7
Total	**142**	**102**

The increase in consumables is due to the health emergency that has made it necessary to procure personal protective equipment (such as masks, gloves, detergent gels and disinfectants) in order to guarantee the maintenance of operations both at Post Offices and at mail processing and sorting sites.

C5 - Expenses from financial activities (€235 million)

tab. C5 - Expenses from financial activities

Description (€m)	FY 2020	FY 2019
Interest expense	80	67
Interest on customers' deposits	32	32
Interest on guarantee deposits	36	21
Interest expense on repurchase agreements	6	9
Interest due to MEF	6	5
Expense from financial instruments at FVTOCI	97	3
Realised losses	97	3
Expenses from financial instruments at amortised cost	38	11
Realised losses	38	11
Expenses from fair value hedges	3	4
Fair value losses	3	4
Expenses from equity instruments at FVTPL	6	-
Fair value losses	6	-
Expenses from financial instruments at FVTPL	6	15
Fair value losses	5	15
Realised losses	1	-
Foreign exchange losses	5	-
Fair value losses	5	-
Total	**235**	**100**

Expenses from financial activities increased by €135 million compared to 2019 mainly due to higher realised losses from financial assets at FVTOCI (+€94 million), and at amortised cost (+€27 million).

C6 - Personnel expenses (€5,446 million)

tab. C6 - Personnel expenses

Description (€m)	Notes	FY 2020	FY 2019
Wages and salaries		3,736	3,978
Social security contributions		1,073	1,154
Employee termination benefits: supplementary pension funds and INPS		231	241
Agency staff		20	15
Remuneration and expenses paid to Directors		2	2
Share-based payments		5	11
Early retirement incentives		18	16
Net provisions (reversals) for disputes with staff	[tab. B4]	7	4
Provisions for early retirement incentives	[tab. B4]	414	369
Amounts recovered from staff due to disputes		(8)	(10)
Other personnel expenses/(cost recoveries)		(52)	(78)
Total		**5,446**	**5,702**

Personnel expenses decreased by €256 million overall compared to 2019, mainly due to the ordinary component of personnel expenses, which was affected by the reduction in the average workforce during the year (approximately 4.4 thousand FTE less than 2019). The reduction is also affected by the mobilisation of the Solidarity Fund, the estimated effects of which amount to about €57 million. The decrease in the ordinary component was partly offset by the increase in the cost of early retirement incentives.

Net provisions for disputes with staff and provisions for restructuring charges are described in note B4 – *Provisions for risks and charges*.

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 2020	FY 2019	31/12/2020	31/12/2019
Executives	572	550	552	547
Middle managers (A1)	6,196	6,173	6,212	6,092
Middle managers (A2)	7,660	7,818	7,505	7,597
Grades B, C, D	94,483	101,163	90,759	97,071
Grades E, F	4,936	2,161	4,630	4,156
Total employees on permanent contracts*	**113,847**	**117,865**	**109,658**	**115,463**

* Figures expressed in full-time equivalent terms.

Furthermore, taking account of personnel on flexible contracts, the average number of full-time equivalent personnel is 121,530 (in 2019: 125,894).

C7 - Depreciation, amortisation and impairments (€622 million)

tab. C7 - Depreciation, amortisation and impairments

Description (€m)	FY 2020	FY 2019
Depreciation of property, plant and equipment	185	295
Properties used in operations	26	108
Plant and machinery	41	70
Industrial and commercial equipment	13	9
Leasehold improvements	38	40
Other assets	67	68
Impairments/recoveries/adjustments of property, plant and equipment	(22)	(5)
Depreciation of investment property	1	4
Depreciation of right-of-use assets	198	189
Properties used in operations	126	128
Company fleet	61	54
Vehicles for mixed use	4	4
Other assets	7	3
Impairments/recoveries/adjustments of right of use	2	-
Amortisation and impairments of intangible assets	258	191
Industrial patents and intellectual property rights	258	191
Total	**622**	**674**

Amortisation, depreciation, and impairments decreased by €52 million compared to 2019, due mainly to lower depreciation (-€115 million) recognised as a result of the revision of the residual useful lives and residual values of the main categories of non-current assets (for more details, see paragraph 2.5 - *Use of Estimates*), offset in part by higher amortisation of intangible assets (+€67 million) resulting from the completion and commissioning of new software programs and the development of existing ones.

C8 - Other operating costs (€67 million)

tab. C8 - Other operating costs

Description (€m)	Notes	FY 2020	FY 2019
Operational risk events		39	34
Thefts	[tab. B6.1.2]	6	4
Loss of BancoPosta assets, net of recoveries		1	-
Other operating losses of BancoPosta		32	30
Net provisions for risks and charges made/(released)		(62)	16
for disputes with third parties	[tab. B4]	(5)	(4)
for operational risks	[tab. B4]	(64)	10
for other risks and charges	[tab. B4]	7	10
Capital losses		1	1
Other taxes and duties		55	88
Municipal property tax		27	26
Other taxes and duties		28	62
Impairments of investments	[tab. A5.1]	1	32
Other current expenses		33	25
Total		**67**	**196**

The decrease of €129 million in Other operating costs is due mainly to the net reversal of provisions for risks and charges (-€62 million), for which reference is made to note B4 - *Provisions for risks and charges*.

C9 - Impairment losses/(reversals of impairment losses) on debt instruments, receivables and other assets (€55 million)

tab. C9 - Impairment losses/(Reversals of impairment losses) on debt instruments, receivables and other assets

Description (€m)	FY 2020	FY 2019
Net impairment losses trade receivables and other assets	40	43
Impairment losses/(reversals of impairment losses) due from customers	30	37
Impairment losses/(reversals of impairment losses) sundry receivables	10	6
Net Impairment debt instruments and receivables of financial operations	15	(2)
Impairment losses/(reversals of impairment losses) receivables of financial operations	1	-
Impairment losses/(reversals of impairment losses) debt instruments at FVTOCI	7	(1)
Impairment losses/(reversals of impairment losses) debt instruments at amortised cost	7	(1)
Total	**55**	**41**

The increase of €14 million compared to 2019 is attributable to higher impairment on debt instruments at FVTOCI and at amortised cost (+€15 million). The estimates were partly influenced by the effect of the crisis triggered by the current health emergency. For further details, reference should be made to Note 6 - Risk management.

C10 - Finance income (€82 million) and costs (€79 million)

Finance income

tab C10.1 - Finance income

Description (€m)	FY 2020	FY 2019
Income from subsidiaries and associates	56	53
Interest on loans	8	7
Interest on intercompany current accounts	-	1
Dividends from associates*	8	6
Other finance income	40	39
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	9	7
Finance income on discounting receivables**	3	4
Late payment interest	18	14
Impairment of amounts due as late payment interest	(18)	(14)
Other income	6	3
Foreign exchange gains*	12	5
Total	**82**	**70**

* For the purposes of reconciliation with the statement of cash flows, in 2020 finance income after foreign exchange gains and dividends from associates amounts to €62 million (€59 million in 2019).
** Finance income on discounted receivables regards interest on amounts due from staff and INPS under the fixed-term contract settlements.

The increase of €12 million compared to 2019 is primarily due to higher realised gains from the adjustment, at year-end exchange rates, of foreign currency items.

Finance costs

tab. C10.2 - Finance costs

Description (€m)	Notes	FY 2020	FY 2019
Finance costs on financial liabilities		36	29
on lease payables		23	25
on due to financial institutions		11	2
on bonds		1	1
on derivative financial instruments		1	1
Finance costs on provisions for employee termination benefits and pension plans	[tab. B5]	8	17
Finance costs on provisions for risks	[tab. B4]	-	1
Impairment of investments in joint ventures*		11	-
Other finance costs		12	8
Foreign exchange losses*		12	4
Total		**79**	**59**

* For the purposes of reconciliation with the statement of cash flows, in 2020 finance costs after foreign exchange losses amounted to €56 million (€55 million in 2019).

The increase of €20 million compared to 2019 is mainly due to higher impairment losses on investments in associates (+€11 million), higher interest on amounts due to financial institutions (+€9 million), partly offset by the reduction in financial expenses on the provision for employee termination benefits.

C11 - Impairment losses / (reversals of impairment losses) on financial assets (-€ million)

tab. C11 - Impairment losses/(Reversals of impairment losses) on financial assets

Description (€m)	FY 2020	FY 2019
Impairment of interest accrued on IRES refund	-	45
Total	**-**	**45**

The item at 31 December 2019 included the impairment of the receivable for interest accrued on IRES refund, see in this regard as reported in Note A10 - *Other receivables and assets*.

C12 - Income tax expense (€9 million)

The nominal IRES rate is 24%, while the Company theoretical average IRAP rate is 4.49%[147] The breakdown of income taxes for the year is as follows:

tab. C12 - Income tax expense

Description (€m)	FY 2020			FY 2019		
	IRES	IRAP	Total	IRES	IRAP	Total
Current tax expense	47	22	69	60	34	94
Deferred tax assets	(51)	(12)	(63)	59	10	69
Deferred tax liabilities	-	3	3	(1)	-	(1)
Total	**(4)**	**13**	**9**	**118**	**44**	**162**

Income taxes for the year include the positive non-recurring effect of a total of €38 million relating, for €23 million, to the adoption of the "Patent Box" regime following the agreement entered into on 21 December 2020 with the Revenue Agency for the recognition of the economic contribution, referred to the 2015-2019 financial years, and for €15 million to the tax benefit connected with the Aid to Economic Growth (ACE), referred to the 2015-2016 financial years for which, in the year under review, the uncertainties connected with the quantification no longer exist.

147. 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 tax rate for 2020, before recognition of non-recurring income, is 13.81%; however, the effective tax rate is 2.42% and is comprised of the following:

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

Description (€m)	FY 2020		FY 2019	
	IRES	Tax Rate	IRES	Tax Rate
Profit before tax	*333*		*823*	
Theoretical tax charge	80	24.0%	198	24.0%
Effect of increases/(decreases) on theoretical tax charge				
Dividends from investee companies	(37)	-11.25%	(81)	-9.83%
Taxation for previous years	(3)	-1.02%	(6)	-0.74%
Realised gains on investments	-	-	(1)	-0.04%
Adjustments to investments	3	0.86%	8	0.95%
Net provisions for risks and charges and doubtful debts	(10)	-2.91%	6	0.73%
Non-deductible out-of-period losses	5	1.58%	5	0.59%
Non-deductible taxes	3	1.03%	3	0.40%
Other	(11)	-3.18%	(14)	-1.74%
Effective tax (before recognition of the Patent Box and ACE tax effect)	**30**	**9.10%**	**118**	**14.32%**
Patent Box and ACE tax effect	(34)	-10.35%	-	-
Effective tax charge	**(4)**	**-1.25%**	**118**	**14.32%**

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

Description (€m)	FY 2020		FY 2019	
	IRAP	Tax Rate	IRAP	Tax Rate
Profit before tax	*333*		*823*	
Theoretical tax charge	15	4.49%	37	4.49%
Effect of increases/(decreases) on theoretical tax charge				
Dividends from investee companies	(7)	-2.21%	(16)	-1.94%
Non-deductible personnel expenses	12	3.52%	13	1.53%
Net provisions for risks and charges and doubtful debts	1	0.13%	6	0.73%
Impairment losses/(reversals of impairment losses) on financial assets	-	-0.03%	2	0.25%
Taxation for previous years	(4)	-1.28%	-	0.00%
Other	-	0.09%	2	0.32%
Effective tax (before recognition of the Patent Box tax effect)	**17**	**4.71%**	**44**	**5.38%**
Patent Box tax effect	(4)	-1.04%	-	-
Effective tax charge	**13**	**3.67%**	**44**	**5.38%**

Current tax expense

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

Description (€m)	Current tax 2020 IRES Assets/ (Liabilities)	IRAP Assets/ (Liabilities)	Total
Balance at 1 January	**(163)**	**10**	**(153)**
Payments	625	13	638
for payments on account for the current year	428	13	441
for balance payable for the previous year	197	-	197
Provisions to profit or loss	(47)	(22)	(69)
for current liabilities	(81)	(26)	(107)
for Patent Box and ACE tax effect	34	4	38
Provisions to equity	1	-	1
Tax consolidation	(279)	-	(279)
Balance at 31 December	**137**	**1**	**138**
of which:			
Current tax assets	138	5	143
Current tax liabilities	(1)	(4)	(5)

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 2020, current tax assets/(liabilities) include:

- a tax asset totalling €58 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 and the positive effect deriving from the tax benefit of the Patent Box for the years 2017-2019 (€15 million), after provisions for IRES and IRAP for the year 2020;
- assets totalling €39 million, including €23 million related to the tax benefit recognised to the Company in respect of the Patent Box and ACE for 2015-2016 and €16 million in respect of the Patent Box receivable transferred from the subsidiary, Poste Vita SpA, to Poste Italiane. These assets will become compensable after the submission of the relevant supplementary tax returns;
- the residual substitute tax credit of €27 million relating to the redemption carried out by the Company during 2018, pursuant to art. 15, paragraph 10-*ter* of Law Decree no. 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;
- assets totalling €9 million recognised as a result of the responses received to two petitions filed with the Revenue Agency concerning the correct implementation of IFRS 9 and 15. These assets will become compensable after the submission of the relevant supplementary tax returns;
- 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 no. 185 of 29 November 2008 and art. 2 of Law Decree no. 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 A10).

Deferred tax assets and liabilities

Details of this item at 31 December 2020 are shown in the following table:

tab. C12.4 - Deferred taxes

Description (€m)	Balance at 31/12/2020	Balance at 31/12/2019
Deferred tax assets	579	675
Deferred tax liabilities	(982)	(666)
Total	**(403)**	**9**
of which attributable to BancoPosta RFC		
Deferred tax assets	130	312
Deferred tax liabilities	(979)	(662)

Movements in deferred tax assets and liabilities are shown below:

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

Description (€m)	Notes	FY 2020
Balance at 1 January		**9**
Net income/(expense) recognised in profit or loss		60
Net income/(expense) recognised in equity	[tab. C12.8]	(472)
Balance at 31 December		**(403)**

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 2020	**18**	**234**	**85**	**237**	**36**	**13**	**52**	**675**
Income/(expense) recognised in profit or loss	-	-	2	69	-	1	(9)	63
Income/(expense) recognised in equity	-	(159)	-	-	-	-	-	(159)
Balance at 31 December 2020	**18**	**75**	**87**	**306**	**36**	**14**	**43**	**579**

tab. C12.7 - Movements in deferred tax liabilities

Description (€m)	Financial assets and liabilities	Gains	Other	Total
Balance at 1 January 2019	**373**	**-**	**2**	**375**
Expense/(income) recognised in profit or loss	-	-	(1)	(1)
Expense/(income) recognised in equity	291	-	-	291
Balance at 1 January 2020	**664**	**-**	**1**	**665**
Expense/(income) recognised in profit or loss	2	1	-	3
Expense/(income) recognised in equity	313	-	-	313
Balance at 31 December 2020	**979**	**1**	**1**	**981**

At 31 December 2020, 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 2020	FY 2019
Fair value reserve for financial assets at FVTOCI	(479)	(417)
Cash flow hedge reserve	7	(11)
Actuarial gains /(losses) on employee termination benefits	-	17
Total	**(472)**	**(411)**

5.5 Related party transactions

Impact of related party transactions on Statement of financial position and profit or loss

Impact of related party transactions on Statement of financial position at 31 December 2020

	Balance at 31/12/2020								
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	-	-	23	1	-	26	4	4	-
CLP ScpA	-	-	2	-	-	-	-	97	-
Consorzio PosteMotori	-	-	13	-	-	27	-	1	-
Consorzio Servizi Telef. Mobile ScpA	-	-	-	1	-	-	-	43	-
EGI SpA	-	-	1	-	-	1	46	13	1
Poste Air Cargo Srl	-	11	2	-	-	-	-	-	-
PatentiViaPoste ScpA	-	-	9	-	-	17	-	-	-
Poste Vita SpA	-	251	244	-	-	492	174	1	136
Postel SpA	-	16	40	1	-	2	-	23	1
PostePay SpA	72	-	459	26	-	7,049	550	377	-
SDA Express Courier SpA	-	72	78	14	-	4	-	225	1
sennder Italia SpA	-	5	-	-	-	-	-	-	-
Milkman Deliveries SpA	-	-	-	-	-	-	-	3	-
Indirect subsidiaries									
Kipoint SpA	-	-	-	-	-	1	-	1	-
Poste Assicura SpA	-	-	19	-	-	18	-	-	2
Poste Welfare Servizi Srl	-	-	2	-	-	14	-	-	-
Poste Insurance Broker	-	-	-	-	-	1	-	-	-
Associates									
FSIA Investimenti Srl	-	21	-	-	-	-	-	-	-
Related parties external to the Group									
MEF	7,340	-	143	3	1,991	3,588	3	4	8
Cassa Depositi e Prestiti Group	3,302	-	432	-	-	-	-	-	-
Enel Group	-	-	23	-	-	-	-	-	-
Eni Group	-	-	2	-	-	-	-	8	-
Leonardo Group	-	-	1	-	-	-	-	24	-
Monte dei Paschi Group	248	-	3	-	1	1,018	-	-	-
Invitalia Group	-	50	1	-	-	-	-	-	-
Other related parties external to the Group	-	-	11	-	-	-	3	-	64
Provisions for doubtful debts from related parties	(6)	(21)	(40)	-	-	-	-	-	-
Total	**10,956**	**405**	**1,468**	**46**	**1,992**	**12,258**	**780**	**824**	**213**

Impact of related party transactions on Statement of financial position at 31 December 2019

Name (€m)	Balance at 31/12/2019								
	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 from external related parties	(4)	(20)	(40)	-	-	-	-	-	-
Total	**11,203**	**366**	**1,136**	**260**	**495**	**10,517**	**556**	**496**	**113**

At 31 December 2020, total provisions for risks and charges made to cover probable liabilities arising from transactions with related parties external to the Company and attributable primarily to trading relations amount to €71 million (€70 million at 31 December 2019).

Impact of related party transactions on profit or loss

	FY 2020										
	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	Finance costs
Direct subsidiaries											
BancoPosta Fondi SpA SGR	62	17	-	-	-	13	-	(1)	-	-	-
CLP ScpA	1	-	-	3	-	233	-	-	3	-	-
Consorzio PosteMotori	39	-	-	-	-	-	-	-	1	-	-
Consorzio Servizi Telef. Mobile ScpA	-	-	-	-	2	26	-	-	-	-	-
EGI SpA	-	1	-	-	-	82	-	-	-	-	1
Indabox Srl	-	-	-	-	-	-	-	-	1	-	-
PatentiViaPoste ScpA	24	-	-	-	-	-	-	-	-	-	-
Poste Vita SpA	463	-	47	-	-	-	-	(1)	-	-	-
Postel SpA	11	2	-	-	-	30	-	3	-	-	-
PostePay SpA	367	144	-	-	-	317	29	-	-	-	-
SDA Express Courier SpA	15	2	1	-	-	660	-	(2)	-	-	-
Milkman Deliveries SpA	-	-	-	-	-	-	-	-	3	-	-
Indirect subsidiaries											
Poste Assicura SpA	43	-	-	-	-	-	-	-	-	-	-
Poste Welfare Servizi Srl	2	-	-	-	-	-	-	-	-	-	-
Associates											
Anima Group	3	-	8	-	-	-	-	-	-	-	11
Related parties external to the Group											
MEF	401	-	-	1	-	2	5	-	-	2	1
Cassa Depositi e Prestiti Group	1,922	-	-	-	-	-	-	-	-	-	2
Enel Group	42	-	-	-	-	-	-	-	-	-	-
Eni Group	13	-	-	-	-	24	-	-	-	-	-
Leonardo Group	-	-	-	-	13	28	-	-	-	-	-
Monte dei Paschi Group	15	-	-	-	-	-	-	-	-	-	-
Invitalia Group	1	-	-	-	-	-	-	-	-	-	-
Other related parties external to the Group	12	-	-	-	-	-	-	74	-	-	-
Total	**3,436**	**166**	**56**	**4**	**15**	**1,418**	**34**	**73**	**8**	**2**	**15**

Impact of related party transactions on profit or loss

	FY 2019											
	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	Finance costs	Impairment losses/ (reversals of impairment losses) on financial assets
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	-
PatentiViaPoste ScpA	26	-	-	-	-	-	-	-	-	-	-	-
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												
Kipoint SpA	-	-	-	-	-	1	-	-	-	-	-	-
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**	**-**

At 31 December 2020, 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 (€1 million at 31 December 2019).

The nature of the Company's principal related party transactions external to the Company 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.

Related party transactions have been carried out on terms equivalent to those prevailing in arm's length transactions between independent parties.

Impact of related party transactions or 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

	31/12/2020			31/12/2019		
Description (€m)	**Total in financial statements**	**Total related parties**	**Impact (%)**	**Total in financial statements**	**Total related parties**	**Impact (%)**
Financial position						
Financial assets attributable to BancoPosta	91,453	10,956	12.0	76,396	11,203	14.7
Financial assets	872	405	46.4	941	367	39.0
Trade receivables	2,984	1,468	49.2	2,385	1,139	47.8
Other receivables and assets	2,478	46	1.9	2,455	260	10.6
Cash and cash equivalents	4,029	1,992	49.4	1,206	495	41.0
Provisions for risks and charges	1,309	71	5.4	1,130	70	6.2
Financial liabilities attributable to BancoPosta	94,946	12,258	12.9	77,937	10,518	13.5
Financial liabilities	4,339	780	18.0	2,301	557	24.2
Trade payables	2,121	824	38.8	1,598	497	31.1
Other liabilities	2,990	213	7.1	2,961	114	3.9
Profit or loss						
Revenue from sales and services	8,226	3,436	41.8	8,541	3,524	41.3
Other operating income	299	166	55.4	478	358	74.9
Cost of goods and services	2,318	1,419	61.2	1,854	922	49.7
Expenses from financial activities	235	34	14.5	100	27	27.0
Personnel expenses	5,446	73	1.3	5,702	58	1.0
Other operating costs	67	16	23.8	196	6	3.1
Finance costs	79	14	17.6	59	3	5.1
Finance income	82	56	68.3	70	54	77.1
Cash flow						
Net cash flow from /(for) operating activities	2,147	2,231	n.a.	49	780	n.a.
Net cash flow from /(for) investing activities	(630)	(41)	6.5	(736)	(50)	6.8
Net cash flow from/(for) financing activities and shareholder transactions	(1,306)	(211)	16.2	(234)	(60)	25.6

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 (€k)	31/12/2020	31/12/2019
Remuneration to be paid in short/medium term	10,625	12,505
Post-employment benefits	544	510
Other benefits to be paid in longer term	3,162	1,855
Termination benefits	-	1,704
Share-based payments	2,176	4,906
Total	**16,507**	**21,480**

Remuneration of Statutory Auditors

Description (€k)	31/12/2020	31/12/2019
Remuneration	267	247
Expenses	-	20
Total	**267**	**267**

The remuneration paid to members of the Company's Supervisory Board for 2020 amounts to approximately €96 thousand. In determining the remuneration, the amounts paid to managers of Poste Italiane who are members of the Supervisory Board is not taken into account, as this remuneration is passed on to the employer.

No loans were granted to key management personnel during the year and, at 31 December 2020, the Company does not report receivables in respect of loans granted to key management personnel.

Transactions with personnel 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.

6. 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.

Additional information about other risks, particularly with regard to the Covid risk, is provided in the section of the Report on Operations entitled "Management of the Covid-19 Pandemic" in Chapter 5 "Risks and Opportunities.

In addition, the information provided complies with the provisions of the ESMA Public Statements published during the 2020 financial year[148].

Financial risk

Information on financial risk management at 31 December 2020 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.

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 Eurozone government bonds[149], 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,

148. ESMA Notice of 25 March 2020 "Public Statement 32-63-951. Accounting implications of the Covid-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9".
ESMA Notice of 28 October 2020 "Public Statement 32-63-1041. European common enforcement priorities for 2020 annual financial reports."
149. The funds raised by private customers on postal current accounts must be used in Eurozone government bonds and, for a portion not exceeding 50% of the funds raised, in other securities backed by the Italian government guarantee (as provided by the Law no. 296 of 27 December 2006 and subsequent amendments provided by the 2015 Stability Law no. 190 of 23 December 2014.

required to establish a system of internal controls in line with the provisions of Circular 285[150], which, among other things, requires definition of a Risk Appetite Framework (RAF), the containment of risks within the limits set by the RAF[151], 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, mainly due to the effect of the pandemic that resulted in an increase in account balances, and the change in the market scenario, the Leverage Ratio fell during the year to 2.65% at 31 December 2020, taking into account the increase in capital deriving from the calculation of part of the 2020 profits, not subject to distribution.

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 2020, this minimum return on existing policies ranged between -1.4% and 2.13%). 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 (for newly issued policies a guaranteed minimum return is not foreseen) 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 28 July 2020. 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, Poste Italiane SpA's Board of Directors adopted a revised version of the Guidelines for Internal Control and Risk Management System (SCIGR), which contains integrated guidelines for Poste Italiane SpA's Internal Control and Risk Management System.

150. See in particular the provisions laid down in Part I – Section IV – Chapter 3.
151. 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.

From an organisational viewpoint, the model consists of:

- the **Control and Risk 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 the internal control and risk management system and regarding the approval of financial and non-financial periodic reports.
- the **Financial and Insurance Services Committee**, established on 19 March 2018, 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 2020 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
2020 effects										
Financial assets										
Financial assets at FVTOCI	131,294	156,635	(10,061)	10,068	(8,669)	8,669	-	-	(1,392)	1,399
Fixed income instruments	130,794	156,095	(10,058)	10,065	(8,666)	8,666	-	-	(1,392)	1,399
Other investments	500	540	(3)	3	(3)	3	-	-	-	-
Financial assets at FVTPL	1,930	3,339	(325)	325	(322)	322	(3)	3	-	-
Fixed income instruments	1,890	1,992	(89)	89	(86)	86	(3)	3	-	-
Other investments*	40	1,347	(236)	236	(236)	236	-	-	-	-
Derivative financial instruments	268	-	19	(20)	-	-	-	-	19	(20)
Cash flow hedges	268	-	19	(20)	-	-	-	-	19	(20)
Financial liabilities										
Derivative financial instruments	3,110	(69)	237	(254)	74	(74)	-	-	163	(180)
Cash flow hedges	1,850	(59)	163	(180)	-	-	-	-	163	(180)
Fair value hedges	1,260	(10)	74	(74)	74	(74)	-	-	-	-
Variability at 31 December 2020	**136,602**	**159,905**	**(10,130)**	**10,119**	**(8,917)**	**8,917**	**(3)**	**3**	**(1,210)**	**1,199**
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										
Derivative financial instruments	1,450	(43)	72	(77)	4	(4)	-	-	68	(73)
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**

* 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 securities held by Poste Vita SpA, totalling €94,802 million; of this amount, €92,577 million is used to cover Class I and V policies linked to separately managed funds, and €2,225 million relates to the Company's free capital;
- fixed income government securities held by BancoPosta RFC for fair value totalling €42,638 million, which consist of: fixed rate bonds amounting to €17,190 million; variable rate bonds converted into fixed rate bonds via interest rate swaps designated as cash flow hedges, totalling €2,257 million, inflation-linked securities amounting to €2,657 million, and fixed or variable rate bonds converted to variable rate positions via fair value hedges amounting to €20,535 million (including €18,096 million in forward starts);
- €18,500 million total fair value in other non-government debt instruments held by Poste Vita SpA, used mainly to meet obligations towards policyholders;
- fixed income government securities held by Poste Assicura SpA with a total fair value of €204 million.

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 €1,992 million and the position in Other investments consisting mainly of units in mutual funds amounting to €1,347 million.

Within the context of **derivative financial instruments**, the risk in question primarily concerns:

- forward sales of government securities with a nominal value of €1,800 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 nominal value €50 million variable rate bond;
- five fair value hedge forward sales transactions on the "BTPS 0.85%" government bond with a nominal value of €1,260 million entered into by Poste Vita SpA during the year.

At 31 December 2020, with reference to the interest rate risk exposure determined by the average duration[152], the duration of BancoPosta's overall investments went from 5.53 to 6.16. 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 7.02 at 31 December 2019 to 7.72 at 31 December 2020, whilst the duration of the liabilities went from 9.24 to 10.24 (assessment of the duration was carried out using the new Coherent Duration method[153]). 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 Eurozone 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.

Due to the monetary policy measures adopted by the ECB to mitigate the impact of the Coronavirus pandemic on the Eurozone economy, financial year 2020 was characterised by a reduction in yields on Italian government securities (the 10-year BTP fell from 1.4% to 0.5%), which brought the BTP-Bund spread to 111 basis points compared to 160 last year. These changes led to an increase in the price of the securities and a consequent reduction in their yield

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 €34 billion) has undergone an overall net increase in fair value of approximately €4 billion: this change was partly recognised in the profit or 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 €2 billion;
ii. an overall net increase of approximately €6 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 €97 billion), almost entirely passed on to policyholders and recognised in specific technical provisions under the shadow accounting method.

The sensitivity to the spread has been calculated by applying a shift of +/- 100 bps to the yield curve for Italian government bonds.

152. Duration is the indicator used to estimate the percentage change in price in response to a shift in market returns.
153. 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[154] to spread risk of the most significant positions in the portfolios of both the Parent Company and the Poste Vita Group at 31 December 2020.

Poste Italiane SpA – Fair value spread risk

Description (€m)	Risk exposure		Change in value		Equity reserves before taxation	
	Nominal	Fair Value	+100bps	-100bps	+100bps	-100bps
2020 effects						
Financial assets						
Financial assets at FVTOCI	33,969	43,046	(4,377)	5,228	(4,377)	5,228
Fixed income instruments	33,969	43,046	(4,377)	5,228	(4,377)	5,228
Derivative financial instruments	268	-	19	(21)	19	(21)
Cash flow hedges	268	-	19	(21)	19	(21)
Financial liabilities						
Derivative financial instruments	1,800	(54)	170	(188)	170	(188)
Cash flow hedges	1,800	(54)	170	(188)	170	(188)
Variability at 31 December 2020	**36,037**	**42,992**	**(4,188)**	**5,019**	**(4,188)**	**5,019**
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
Financial liabilities						
Derivative financial instruments	1,280	(36)	70	(74)	70	(74)
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**

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 2020 amounted to €33,254 million (nominal value of €26,157 million) and have a fair value of €34,760 million, would be reduced in fair value by approximately €4.3 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.

154. For sensitivity purposes, the swap rate curve and the BTP curve were used (10-year swap rate of -26.4 bps and the spread of the BTP compared to the 10-year swap rate of 80.7 bps

Poste Vita Group – Fair value spread risk

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
2020 effects										
Financial assets										
Financial assets at FVTOCI	97,294	113,557	(9,456)	9,456	(9,346)	9,346	-	-	(110)	110
Fixed income instruments	96,794	113,017	(9,441)	9,441	(9,331)	9,331	-	-	(110)	110
Other investments	500	540	(15)	15	(15)	15	-	-	-	-
Financial assets at FVTPL	1,930	3,339	(346)	346	(343)	343	(3)	3	-	-
Fixed income instruments	1,890	1,992	(109)	109	(106)	106	(3)	3	-	-
Other investments*	40	1,347	(237)	237	(237)	237	-	-	-	-
Financial liabilities										
Derivative financial instruments	1,260	(10)	74	(74)	74	(74)	-	-	-	-
Fair value hedges	1,260	(10)	74	(74)	74	(74)	-	-	-	-
Variability at 31 December 2020	**100,484**	**116,886**	**(9,728)**	**9,728**	**(9,615)**	**9,615**	**(3)**	**3**	**(110)**	**110**
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										
Derivative financial instruments	120	(1)	4	(4)	4	(4)	-	-	-	-
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**

* 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 2020 amounted to €1,858 million (nominal value of €1,794 million) and have a fair value of €2,191 million, would be reduced in fair value by approximately €175 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 2020, 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		SpreadVaR
	Nominal	Fair value	
2020 effects			
Financial assets			
Financial assets at FVTOCI*	33,969	43,046	231
Fixed income instruments	33,969	43,046	231
Variability at 31 December 2020	**33,969**	**43,046**	**231**
2019 effects			
Financial assets			
Financial assets at FVTOCI*	31,670	37,323	308
Fixed income instruments	31,670	37,323	308
Variability at 31 December 2019	**31,670**	**37,323**	**308**

* 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		SpreadVaR
	Nominal	Fair value	
2020 effects			
Financial assets			
Financial assets at FVTOCI*	97,294	113,557	364
Fixed income instruments	96,794	113,017	384
Other investments	500	540	-
Financial assets at FVTPL	1,930	3,339	7
Fixed income instruments	1,890	1,992	4
Other investments**	40	1,347	3
Variability at 31 December 2020	**99,224**	**116,896**	**365**
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**

* 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.
** 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 2020 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
2020 effects							
Financial assets							
Financial assets at amortised cost							
Receivables							
Deposits with the MEF	7,340	73	(73)	-	-	73	(73)
Other financial receivables	7,509	75	(75)	-	-	75	(75)
Fixed income instruments	4,070	41	(41)	-	-	41	(41)
Financial assets at FVTOCI							
Fixed income instruments	13,672	137	(137)	68	(68)	69	(69)
Other investments	500	5	(5)	5	(5)	-	-
Financial assets at FVTPL							
Fixed income instruments	53	1	(1)	1	(1)	-	-
Other investments	22	-	-	-	-	-	-
Cash and deposits attributable to BancoPosta							
Bank deposits	3,364	34	(34)	-	-	34	(34)
Cash and cash equivalents							
Bank deposits	1,019	10	(10)	2	(2)	8	(8)
Deposits with the MEF	1,991	20	(20)	-	-	20	(20)
Financial liabilities							
Loans							
Due to financial institutions	(1,150)	(11)	11	-	-	(11)	11
Other financial liabilities	(392)	(4)	4	-	-	(4)	4
Variability at 31 December 2020	**37,998**	**381**	**(381)**	**76**	**(76)**	**305**	**(305)**

Descrizione (milioni di euro)	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							
Loans							
Other financial liabilities	(112)	(1)	1	-	-	(1)	1
Variability at 31 December 2020	**31,343**	**314**	**(314)**	**94**	**(94)**	**220**	**(220)**

Specifically, with respect to **financial assets**, the cash flow interest rate risk primarily relates to:

- a portion of the investment portfolio held by Poste Vita SpA, with a total nominal value of €7,791 million;
- receivables totalling €7,509 million, reflecting collateral posted to secure liabilities arising in relation to derivative financial instruments and repurchase agreements mainly held by BancoPosta RFC;
- 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 €7,340 million;
- fixed rate government securities held by the Parent Company and swapped into variable rate through fair value hedges, with a total nominal amount of €10,374 million (including €5,740 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.

In order to comply with the provisions of IFRS 9, which requires the inclusion of a forward looking approach in the calculation of expected losses on financial instruments, also taking into account the effects of the Covid-19 pandemic, the Group deemed it appropriate to update the forecast scenarios to take into account new elements based on the EU Commission's estimates for the year 2020, which led to a change in the PD of Italy and the other Sovereign counterparties compared to what was used in the assessments of the Annual Report at 31 December 2019. With regard to Corporate and Banking counterparties, the methodology used for this purpose is to increase PD in line with the increase in sectoral risk recorded by the rating agencies in 2020 for each rating level.

With regard to trade receivables, in order to reflect the effects of the Covid-19 pandemic, the following steps were taken:

- for trade receivables subject to analytical impairment, the level of PD was increased in line with the increase in sectoral risk recorded by the rating agencies in 2020;
- for trade receivables subject to on flat-rated basis, on the other hand, in order to calculate expected losses, homogeneous customer clusters representing the composition of the receivable portfolio were identified. Each cluster was associated with different on flat-rated basis percentages, broken down by past due age bands, which varied on the basis of the increase in risk historically recorded during phases of acute stress.

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 parameters deriving from agency ratings or 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[155];

155. 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

- a judgmental factor to be used only in the presence of sudden changes in the creditworthiness not yet reflected by the rating[156].

The ratings used in stage allocation derive from internal models in the case of banking, sovereign and corporate counterparties, and external infoproviders 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.

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[157].

156. 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.
157. In particular, the use of such approach is limited to situations where, actually, the final figures are deemed to be no longer representative of the counterparty's risk.

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.

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) and forward-looking valuation has been adopted;
- LGD: use has been made of the Internal Ratings-Based (IRB) Base 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 2020, 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 – Ratings

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			
2020 effects									
Financial assets at amortised cost									
Loans	-	-	21	-	-	-			21
Receivables	827	-	14,107	-	-	-			14,934
Fixed income instruments	-	-	30,739	-	-	-			30,739
Other investments	-	-	-	-	-	-			-
Gross carrying amount - Total	**827**	**-**	**44,867**	**-**	**-**	**-**			**45,694**
Provision to cover expected losses	-	-	(40)	-	-	-			(40)
Total amortised cost at 31 December 2020	**827**	**-**	**44,827**	**-**	**-**	**-**	**634**	**4,389**	**50,677**
2019 effects									
Financial assets at amortised cost									
Loans	-	-	-	-	-	-			-
Receivables	1,532	-	11,026	-	265	-			12,823
Fixed income instruments	-	-	23,932	-	-	-			23,932
Other investments	-	-	-	-	-	-			-
Gross carrying amount - Total	**1,532**	**-**	**34,958**	**-**	**265**	**-**			**36,755**
Provision to cover expected losses	-	-	(32)	-	-	-			(32)
Total amortised cost at 31 December 2019	**1,532**	**-**	**34,926**	**-**	**265**	**-**	**569**	**2.871**	**40,163**

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			
2020 effects									
Financial assets at FVTOCI									
Fixed income instruments	1,692	-	129,199	-	1,792	82			132,765
Other investments	-	-	500	-	-	-			500
Gross carrying amount - Total	**1,692**	**-**	**129,699**	**-**	**1,792**	**82**			**133,265**
Carrying amount - Fair value at 31 December 2020	**1,823**	**-**	**152,914**	**-**	**1,813**	**85**	**-**		**156,635**
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**

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)	31.12.2020 Gross Carrying amount	31.12.2020 Provision to cover expected losses	31.12.2019 Gross Carrying amount	31.12.2019 Provision to cover expected losses
Financial assets at amortised cost	45,694	(40)	36,755	(32)
Loans	21	-	-	-
Sovereign	-	-	-	-
Corporate	21	-	-	-
Banking	-	-	-	-
Receivables	14,934	(24)	12,823	(23)
Sovereign	7,340	(4)	7,066	(3)
Corporate	1,290	(20)	1,105	(20)
Banking	6,304	-	4,652	-
Fixed income instruments	30,739	(16)	23,932	(9)
Sovereign	27,708	(14)	20,151	(8)
Corporate	3,020	(2)	3,770	(1)
Banking	11	-	11	-
Financial assets at FVTOCI	133,265	(77)	125,062	(48)
Fixed income instruments	132,765	(77)	124,562	(48)
Sovereign	114,884	(58)	108,464	(37)
Corporate	10,502	(17)	9,461	(9)
Banking	7,379	(2)	6,637	(2)
Other investments	500	-	500	-
Sovereign	-	-	-	-
Corporate	-	-	-	-
Banking	500	-	500	-
Total	**178,959**	**(117)**	**161,817**	**(80)**

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 securities;
- 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.

There were no impacts from the Covid-19 pandemic on guarantees and other credit risk mitigation instruments.

At 31 December 2020, 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 €3,000 million at 31 December 2020. 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 €4,352 million at 31 December 2020. 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 by the parent company or another associate, amounting to a nominal value of €3,708 million;
  - covered bonds backed by mortgages, primarily property mortgages, amounting to a nominal value of €256 million;
  - bonds guaranteed by sovereign states, amounting to a nominal value of €388 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 - Receivables - Stage 1	Amortised cost - Fixed income instruments - Stage 1	Total
Balance at 1 January 2020	**23**	**9**	**32**
Impairment of securities / receivables held at the beginning of the period	1	3	4
Reversal of securities / receivables held at the beginning of the period	-	-	-
Impairment of securities / receivables purchased/paid in the period	-	5	5
Reversal for write-off	-	-	-
Reversal due to sale / collection	-	(1)	(1)
Balance at 31 December 2020	**24**	**16**	**40**

At 31 December 2020, estimated expected losses on financial instruments measured at amortised cost amount to approximately €40 million. The increase in the provision to cover expected losses takes account of the increased risk caused by the current pandemic.

Poste Italiane Group – Credit risk – Details of the provision to cover expected losses on financial instruments at FVTOCI

Description (€m)	FVTOCI - Receivables - Stage 1	FVTOCI - Fixed income instruments - Stage 1	Total
Balance at 1 January 2020	**-**	**13**	**13**
Impairment of securities / receivables held at the beginning of the period	-	4	4
Reversal of securities / receivables held at the beginning of the period	-	-	-
Impairment of securities / receivables purchased/paid in the period	-	4	4
Reversal for write-off	-	-	-
Reversal due to sale / collection	-	(2)	(2)
Balance at 31 December 2020	**-**	**19**	**19**

At 31 December 2020, estimated expected losses on financial instruments measured at fair value through other comprehensive income amount to approximately €19 million. The increase in the provision to cover expected losses takes account of the increased risk caused by the current pandemic.

The value of ECL recorded in the financial statements derives mainly from exposures to the Italian Republic. In the calculation of the ECL, the sensitive parameter is the Probability of Default (PD) which, in the case of the Italian Republic, is estimated through the application of an internal model dedicated to sovereign counterparties that uses macroeconomic variables as inputs. The sensitivity of the PD, and therefore of the ECL, to these macroeconomic factors can be assessed by comparing the PD value of the Italian Republic in two forecast scenarios for 2021. At 31 December 2020, the following sensitivity analysis was performed on financial instruments relating to BancoPosta RFC:

- the application of the model to a scenario characterised by an increase in the Debt/GDP ratio of 4% would result in an increase in the PD of the Italian Republic of 9%, with a negative effect on the Fund to cover expected losses of approximately €3 million;

- the application of the model to a scenario characterised by a decrease in the Debt/GDP ratio of 4% would determine a decrease in the PD of the Italian Republic of 19% with a consequent positive effect of approximately €6 million on the Fund to cover expected losses.

The above sensitivity analysis was not carried out on the financial instruments relating to the Poste Vita insurance group, as the related provision to cover expected losses is almost entirely passed on to policyholders via shadow accounting.

Trade receivables

The Poste Italiane Group's exposure to credit risk, in relation to each class of **trade receivables** at 31 December 2020, 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

Description (€m)	31.12.2020 Gross Carrying amount	31.12.2020 Provision to cover expected losses	31.12.2019 Gross Carrying amount	31.12.2019 Provision to cover expected losses
Trade receivables				
Due from customers	1,755	305	1,621	305
Cassa Depositi e Prestiti	432	-	451	-
Ministries and public entities	305	132	322	124
Overseas counterparties	316	2	229	2
Private customers	702	171	619	179
Due from the Parent Company	66	31	74	31
Due from others	1	-	1	-
Total	**1,822**	**336**	**1,696**	**336**

Poste Italiane Group – Credit risk – Trade receivables impaired on the basis of the simplified matrix

Range of past due (€m)	31.12.2020 Gross Carrying amount	31.12.2020 Provision to cover expected losses	31.12.2019 Gross Carrying amount	31.12.2019 Provision to cover expected losses
Not past due trade receivables	607	10	555	8
Past due 0 - 1 year	228	17	156	7
Past due 1 - 2 years	63	18	85	11
Past due 2 - 3 years	29	14	19	9
Past due 3 - 4 years	10	8	13	9
Past due > 4 years	57	57	63	63
Positions subject to legal recovery and/or insolvency proceedings	136	116	138	114
Total	**1,129**	**240**	**1,030**	**221**

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

Description (€m)	Balance at 31.12.2019	Net provisions	Uses	Balance at 31.12.2020
Trade receivables				
Due from customers	525	66	(47)	544
Public administration entities	162	5	-	167
Overseas postal operators	12	-	-	12
Private customers	291	42	(39)	294
Interest on late payments	60	19	(8)	71
Due from the Parent Company	32	1	-	33
Total	**557**	**67**	**(47)**	**577**

At 31 December 2020, the provision for doubtful debts due from customers includes about €12 million set aside to account for the increased risk caused by the ongoing pandemic. Uses for the year mainly refer to the write-off of receivables following agreements signed with certain customers or following the conclusion of bankruptcy proceedings.

The provision for doubtful debts due from 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 31.12.2019	Net provisions	Uses	Balance at 31.12.2020
Interest accrued on IRES refund	46	-	-	46
Public Administration entities for sundry services	1	-	-	1
Receivables relating to fixed-term contract settlements	12	7	-	19
Other receivables	87	5	(12)	80
Total	**146**	**12**	**(12)**	**146**

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[158].

In particular, the disclosures in question concern the following positions relating to Poste Italiane SpA at 31 December 2020:

- 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.

Repurchase agreement positions managed through the Central Counterparty, which meet the requirements of IAS 32, are shown net of offsetting.

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 master netting agreements or similar arrangements

Technical forms (€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 – Collateral: Financial instruments (d)	Related amounts not subject to offset in the financial statements – Collateral: Cash deposits provided/ (received) as collateral (e)	Financial assets/ (liabilities), net (f=c-d-e)
FY 2020						
Financial assets attributable to BancoPosta						
Derivatives	78	-	78	78	-	-
Repurchase agreements	364	363	1	1	-	-
Financial assets						
Derivatives	-	-	-	-	-	-
Repurchase agreements	-	-	-	-	-	-
Total at 31 December 2020	**442**	**363**	**79**	**79**	**-**	**-**
FY 2019						
Financial assets attributable to BancoPosta						
Derivatives	73	-	73	73	-	-
Repurchase agreements	1,158	1,158	-	-	-	-
Financial assets						
Derivatives	-	-	-	-	-	-
Repurchase agreements	-	-	-	-	-	-
Total at 31 December 2019	**1,231**	**1,158**	**73**	**73**	**-**	**-**

158. 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 forms (€m)	Gross amount of financial assets* (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)	Related amounts not subject to offset in the financial statements – Collateral – Cash deposits provided/(received) as collateral (g)	Financial assets/ (liabilities), net (h=d+e+f+g)
FY 2020						
Financial liabilities attributable to BancoPosta						
Derivatives	8,243	-	8,243	867	7,376	-
Repurchase agreements	14,711	363	14,348	14,359	(12)	1
Financial liabilities						
Derivatives	11	-	11	-	11	-
Repurchase agreements	412	-	412	408	4	-
Total at 31 December 2020	**23,377**	**363**	**23,014**	**15,634**	**7,379**	**1**
FY 20201920						
Financial liabilities attributable to BancoPosta						
Derivatives	5,552	-	5,552	573	4,979	-
Repurchase agreements	12,194	1,158	11,036	11,027	9	-
Financial liabilities						
Derivatives	22	-	22	-	22	-
Repurchase agreements	-	-	-	-	-	-
Total at 31 December 2019	**17,768**	**1,158**	**16,610**	**11,600**	**5,010**	**-**

* 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 loans and counterparties; availability of relevant credit lines 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.

At 31 December 2020, unrestricted cash and cash equivalents amounted to €2.3 billion (of which €2.2 billion related to the Parent Company). The committed and uncommitted credit lines available to the Group and the related utilisations are summarised in the table below.

Description (€m)	Balance at 31.12.2020	Balance at 31.12.2019
Committed credit lines	**1,750**	**2,000**
Short-term loans	1,750	2,000
Uncommitted credit lines	**1,893**	**1,964**
Short-term loans	1,017	1,009
Current account overdrafts	148	173
Unsecured loans*	728	782
Total	**3,643**	**3,964**
Uncommitted uses	**633**	**356**
Short-term loans	250	-
Unsecured loans	383	356
Total	**633**	**356**

* At 31 December 2020, the Parent Company had €620 million in unsecured loans (€675 million at 31 December 2019).

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

During 2020, in order to have additional liquidity and to cope with any adverse scenarios related to the COVID-19 pandemic, the Parent Company entered into three medium-term loans for €750 million, two of which were repaid early in November and December for a total of €500 million, and used uncommitted credit lines for short-term loans for a total of €660 million, of which €250 million were outstanding at 31 December 2020. The remaining medium-term loan of €250 million was repaid in advance in January 2021.

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

In addition, from 26 June 2020, BancoPosta's assets may access a 3-year committed facility granted by Cassa Depositi e Prestiti for repurchase agreements up to a maximum of €4.25 billion.

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 €880 million, and the facility is unused at 31 December 2020.

At 31 December 2020, the Parent Company had an EMTN - Euro Medium Term Note program of €2 billion in place, thanks to which the Group can raise an additional €0.95 billion on the capital market. As part of this programme, in 2013, Poste Italiane placed a 10-year loan of €50 million on the Luxembourg Stock Exchange and in December 2020, it placed a further senior unsecured loan with a total nominal value of €1 billion.

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

Moreover, the following tables compare the Poste Italiane Group's liabilities and assets at 31 December 2020, in terms of liquidity risk.

Poste Italiane Group – Liquidity Risk – Liabilities

Description (€m)	31.12.20 Within 12 months	Between 1 and 5 years	Over 5 years	Total	31.12.19 Within 12 months	Between 1 and 5 years	Over 5 years	Total
Flows from Poste Vita group's policies	10,369	36,925	129,524	176,818	13,000	34,452	108,125	155,577
Financial liabilities	46,691	18,994	24,638	90,323	38,356	16,685	18,930	73,971
Postal current accounts	22,968	13,110	22,737	58,815	18,062	12,438	17,827	48,327
Loans	10,521	5,674	1,082	17,277	8,557	3,705	578	12,840
Financial liabilities for leases	216	205	815	1,236	219	538	522	1,279
Other financial liabilities	12,986	5	4	12,995	11,518	4	3	11,525
Trade payables	1,839	-	-	1,839	1,627	-	-	1,627
Other liabilities	1,747	1,564	14	3,325	2,112	1,510	18	3,640
Total Liabilities	**60,646**	**57,483**	**154,176**	**272,305**	**55,095**	**52,647**	**127,073**	**234,815**

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 2020. 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

Description (€m)	31.12.20 Within 12 months	Between 1 and 5 years	Over 5 years	Total	31.12.19 Within 12 months	Between 1 and 5 years	Over 5 years	Total
Financial assets	35,829	62,257	184,952	283,038	30,298	53,302	160,095	243,695
Trade receivables	2,375	2	-	2,377	2,166	3	2	2,171
Other receivables and assets	1,076	3,833	44	4,953	950	3,702	35	4,687
Cash and deposits attributable to BancoPosta	6,391	-	-	6,391	4,303	-	-	4,303
Cash and cash equivalents	4,516	-	-	4,516	2,149	-	-	2,149
Total Assets	**50,187**	**66,092**	**184,996**	**301,275**	**39,866**	**57,007**	**160,132**	**257,005**

In the case of assets, cash inflows are broken down by maturity, shown at nominal value and increased, where applicable, by interest receivable. Held-to-maturity and available-for-sale financial assets include financial instruments held by BancoPosta RFC and the Group's insurance companies, shown on the basis of expected cash flows, consisting of principal and interest paid at the various payment dates.

The key point of note is the liquidity risk associated with the investment of customers' current account balances and with the Class I and V policies issued by Poste Vita SpA.

In terms of BancoPosta RFC's specific operations, the liquidity risk regards current account deposits and prepaid cards[159], 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.

159. Since 1 October 2018, prepaid cards have been the responsibility of PostePay SpA. The liquidity raised through these cards is transferred to BancoPosta, which invests the funds raised in Eurozone government bonds or other securities 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.

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 Eurozone 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.

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 2020 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 at 31 December 2020 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
2020 effects									
Financial assets									
Financial assets at FVTPL	37,061	7,265	(7,265)	7,233	(7,233)	32	(32)	-	-
Equity instruments	272	120	(120)	89	(89)	31	(31)	-	-
Other investments	36,789	7,145	(7,145)	7,144	(7,144)	1	(1)	-	-
Derivative financial instruments	(20)	(31)	31	-	-	(31)	31	-	-
Fair value through profit or loss	-	-	-	-	-	-	-	-	-
Fair value through profit or loss (liabilities)	(20)	(31)	31	-	-	(31)	31	-	-
Variability at 31 December 2020	**37,041**	**7,234**	**(7,234)**	**7,233**	**(7,233)**	**1**	**(1)**	**-**	**-**
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)	-	-	-	-
Derivative financial instruments	(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)**	**-**	**-**

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 €36,789[160] million, including approximately €32,464 million used to cover Class I policies, approximately €4,320 million used to cover Class III policies and a residual amount relating to the free capital;
- equity instruments held by Poste Vita SpA, totalling €200 million, used to cover Class I policies linked to separately managed accounts and to cover Class III policies;
- shares held by BancoPosta RFC, totalling €72 million, consisting of €34 million in Visa Incorporated preference shares (Series C Convertible Participating Preferred Stock) and €38 million in Visa Incorporated preference shares (Series A Preferred Stock). 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.

Lastly, during 2019 and in the first months of 2020, shares in Moneyfarm, sennder GmbH, Milkman, Tink and Volante, 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 and PostePay, as described in further detail in the table 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 2020.

Poste Italiane Group – Cash flow inflation risk

	Risk exposure		Change in value		Effect on liability toward policyholders		Profit/(Loss) before tax	
Description (€m)	**Nominal**	**Carrying amount**	**+100bps**	**-100bps**	**+100bps**	**-100bps**	**+100bps**	**-100bps**
2020 effects								
Financial assets								
Financial assets at amortised cost	243	264	-	-	-	-	-	-
Fixed income instruments	243	264	-	-	-	-	-	-
Financial assets at FVTOCI	11,752	14,223	43	(43)	41	(41)	2	(2)
Fixed income instruments	11,752	14,223	43	(43)	41	(41)	2	(2)
Variability at 31 December 2020	**11,995**	**14,487**	**43**	**(43)**	**41**	**(41)**	**2**	**(2)**
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)**

At 31 December 2020, 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 €9,805 million are held by Poste Vita SpA and securities totalling €2,143 million by BancoPosta RFC.

160. Not included in the scope of the analysis in question are €1,325 million of mutual funds with a predominantly bond composition.

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 2020.

Poste Italiane Group – Foreign exchange risk

	Position in GBP	Position in USD	Position in Euro	Change in value		Profit/(Loss) before tax		Equity reserves before taxation	
Description (€m)				+ Vol 260 days	- Vol 260 days	+ Vol 260 days	- Vol 260 days	+ Vol 260 days	- Vol 260 days
2020 effects									
Financial assets									
Financial assets at FVTOCI	22	5	29	2	(2)	-	-	2	(2)
Equity instruments	22	5	29	2	(2)	-	-	2	(2)
Fixed income instruments	-	-	-	-	-	-	-	-	-
Other investments	-	-	-	-	-	-	-	-	-
Financial assets at FVTPL	-	157	133	10	(10)	10	(10)	-	-
Equity instruments	-	89	72	5	(5)	5	(5)	-	-
Other investments	-	68	61	5	(5)	5	(5)	-	-
Derivative financial instruments	-	(24)	(20)	(1)	1	(1)	1	-	-
Fair value through profit or loss	-	-	-	-	-	-	-	-	-
Fair value through profit or loss (liabilities)	-	(24)	(20)	(1)	1	(1)	1	-	-
Variability at 31 December 2020	**22**	**138**	**142**	**11**	**(11)**	**9**	**(9)**	**2**	**(2)**
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	-	-	-	-	-	-
Other investments	-	-	-	-	-	-	-	-	-
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)	-	-
Derivative financial instruments	-	(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)**

The risk in question relates to equities held by the Parent Company and PostePay 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
2020 effects								
Current assets in SDRs	244	287	11	(11)	11	(11)	-	-
Current liabilities in SDRs	(249)	(293)	(11)	11	(11)	11	-	-
Variability at 31 December 2020	**(5)**	**(6)**	**-**	**-**	**-**	**-**	**-**	**-**
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)**	**-**	**-**

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
2020 effects								
Financial assets attributable to BancoPosta								
Financial assets at FVTOCI	33,569	42,638	(1,299)	1,306	-	-	(1,299)	1,306
Fixed income instruments	33.569	42,638	(1,299)	1,306	-	-	(1,299)	1,306
Derivative financial instruments	268	-	19	(20)	-	-	19	(20)
Cash flow hedge	268	-	19	(20)	-	-	19	(20)
Financial assets								
Financial assets at FVTOCI	400	407	-	-	-	-	-	-
Fixed income instruments	400	407	-	-	-	-	-	-
Financial liabilities attributable to BancoPosta								
Derivative financial instruments	1,800	(54)	162	(179)	-	-	162	(179)
Cash flow hedge	1,800	(54)	162	(179)	-	-	162	(179)
Financial liabilities								
Derivative financial instruments	50	(5)	1	(1)	-	-	1	(1)
Cash flow hedge	50	(5)	1	(1)	-	-	1	(1)
Variability at 31 December 2020	**36,087**	**42,986**	**(1,117)**	**1,106**	**-**	**-**	**(1,117)**	**1,106**
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
Derivative financial instruments	-	-	-	-	-	-	-	-
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								
Derivative financial instruments	1,280	(36)	67	(71)	-	-	67	(71)
Cash flow hedge	1,280	(36)	67	(71)	-	-	67	(71)
Financial liabilities								
Derivative financial instruments	50	(6)	2	(2)	-	-	2	(2)
Cash flow hedge	50	(6)	2	(2)	-	-	2	(2)
Variability at 31 December 2019	**33,000**	**37,281**	**(949)**	**932**	**-**	**-**	**(949)**	**932**

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
2020 effects					
Financial assets attributable to BancoPosta					
Financial assets at amortised cost					
Receivables					
Deposit with the MEF	7,340	73	(73)	73	(73)
Other financial receivables	7,494	75	(75)	75	(75)
Fixed income instruments	4,070	41	(41)	41	(41)
Financial assets at FVTOCI					
Fixed income instruments	6,029	60	(60)	60	(60)
Financial assets					
Financial assets at amortised cost					
Loans	374	4	(4)	4	(4)
Receivables					
Other financial receivables	15	-	-	-	-
Financial assets at FVTOCI					
Fixed income instruments	375	4	(4)	4	(4)
Cash and deposits attributable to BancoPosta					
Bank deposits	3,364	34	(34)	34	(34)
Cash and cash equivalents					
Bank deposits	573	6	(6)	6	(6)
Deposits with the MEF	1,991	20	(20)	20	(20)
Financial liabilities attributable to BancoPosta					
Loans	-	-	-	-	-
Due to financial institutions	(899)	(9)	9	(9)	9
Other financial liabilities	(392)	(4)	4	(4)	4
Financial liabilities					
Loans	-	-	-	-	-
Due to financial institutions	(250)	(3)	3	(3)	3
Financial liabilities due to subsidiaries	(729)	(7)	7	(7)	7
Variability at 31 December 2020	**29,355**	**294**	**(294)**	**294**	**(294)**

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					
Deposit with the 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					
Loans	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	(8)
Cash and cash equivalents					
Bank deposits	683	7	(7)	7	(7)
Deposits with the MEF	495	5	(5)	5	(5)
Financial liabilities attributable to BancoPosta					
Other financial liabilities	(112)	(1)	1	(1)	1
Financial liabilities					
Financial liabilities due to subsidiaries	(505)	(5)	5	(5)	5
Variability at 31 December 2019	**20,964**	**210**	**(210)**	**210**	**(210)**

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			
2020 effects										
Financial assets at amortised cost										
Loans	-	-	1	-	-	-	-			1
Receivables	823	-	14,012	-		-	-			14,835
Fixed income instruments	-	-	28,880	-	-	-	-			28,880
Gross carrying amount - Total	**823**	**-**	**42,893**	**-**	**-**	**-**	**-**			**43,716**
Provision to cover expected losses	-	-	(19)	-	-	-	-	-	-	(19)
Total amortised cost at 31 December 2020	**823**	**-**	**42,874**	**-**	**-**	**-**	**-**	**577**	**4,390**	**48,664**
2019 effects										
Financial assets at amortised cost										
Loans	-	-	-	-	-	-	-			-
Receivables	1,532	-	10,944	-	251	-	-			12,727
Fixed income instruments	-	-	22,202	-	-	-	-			22,202
Gross carrying amount - Total	**1,532**	**-**	**33,146**	**-**	**251**	**-**	**-**			**34,929**
Provision to cover expected losses	-	-	(11)	-	-	-	-			(11)
Total amortised cost at 31 December 2019	**1,532**	**-**	**33,135**	**-**	**251**	**-**	**-**	**507**	**2,870**	**38,295**

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			
2020 effects										
Financial assets at FVTOCI										
Fixed income instruments	-	-	35,925	-	-	-	-			35,925
Gross carrying amount - Total	**-**	**-**	**35,925**	**-**	**-**	**-**	**-**			**35,925**
Provision to cover expected losses - OCI	**-**	**-**	**(18)**	**-**	**-**	**-**	**-**			**(18)**
Carrying amount - Fair value at 31 December 2020	**-**	**-**	**42,638**	**-**	**-**	**-**	**-**	**-**	**-**	**42,638**
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**

Credit Risk – Ratings for capital 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			
2020 effects										
Financial assets at amortised cost										
Loans	-	-	376	-	-	-	-			376
Receivables	4	-	60	-		-	-			64
Gross carrying amount - Total	**4**	**-**	**436**	**-**	**-**	**-**	**-**			**440**
Provision to cover expected losses	-	-	(21)	-	-	-	-	-	-	(21)
Total amortised cost at 31 December 2020	**4**	**-**	**415**	**-**	**-**	**-**	**-**	**5**	**-**	**424**
2019 effects										
Financial assets at amortised cost										
Loans	-	-	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**

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			
2020 effects										
Financial assets at FVTOCI										
Fixed income instruments	-	-	405	-	-	-	-			405
Gross carrying amount - Total	**-**	**-**	**405**	**-**	**-**	**-**	**-**			**405**
Carrying amount - Fair value at 31 December 2020	**-**	**-**	**407**	**-**	**-**	**-**	**-**	**-**	**-**	**407**
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**

BancoPosta RFC – Credit Risk – Concentration

Description (€m)	31.12.2020 Gross Carrying amount	31.12.2020 Provision to cover expected losses	31.12.2019 Gross Carrying amount	31.12.2019 Provision to cover expected losses
Financial assets at amortised cost	43,716	(19)	34,928	(11)
Loans	1	-	-	-
Sovereign	-	-	-	-
Corporate	1	-	-	-
Banking	-	-	-	-
Receivables	14,835	(4)	12,726	(3)
Sovereign	7,340	(4)	7,066	(3)
Corporate	1,206	-	1,040	-
Banking	6,289	-	4,620	-
Fixed income instruments	28,880	(15)	22,202	(8)
Sovereign	25,868	(14)	18,440	(7)
Corporate	3,012	(1)	3,762	(1)
Banking	-	-	-	-
Financial assets at FVTOCI	35,925	(18)	32,907	(11)
Fixed income instruments	35,925	(18)	32,907	(11)
Sovereign	35,925	(18)	32,907	(11)
Corporate	-	-	-	-
Banking	-	-	-	-
Total	**79,641**	**(37)**	**67,835**	**(22)**

Capital outside the ring-fence – Credit Risk – Concentration

Description (€m)	31.12.2020 Gross Carrying amount	31.12.2020 Provision to cover expected losses	31.12.2019 Gross Carrying amount	31.12.2019 Provision to cover expected losses
Financial assets at amortised cost	445	(21)	415	(20)
Loans	376	(1)	338	-
Sovereign	-	-	-	-
Corporate	376	(1)	338	-
Banking	-	-	-	-
Receivables	69	(20)	77	(20)
Sovereign	-	-	-	-
Corporate	54	(20)	47	(20)
Banking	15	-	30	-
Financial assets at FVTOCI	405	-	505	-
Fixed income instruments	405	-	505	-
Sovereign	405	-	505	-
Corporate	-	-	-	-
Banking	-	-	-	-
Total	**850**	**(21)**	**920**	**(20)**

BancoPosta RFC – Credit Rsk – 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 2020	**3**	**8**	**11**
Impairment of securities / receivables held at the beginning of the period	1	3	4
Reversal of securities / receivables held at the beginning of the period	-	-	-
Impairment of securities / receivables purchased/paid in the period	-	5	5
Reversal for write-off	-	-	-
Reversal due to sale / collection	-	(1)	(1)
Balance at 31 December 2020	**4**	**15**	**19**

BancoPosta RFC – 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 2020	**-**	**11**	**11**
Impairment of securities / receivables held at the beginning of the period	-	4	4
Reversal of securities / receivables held at the beginning of the period	-	-	-
Impairment of securities / receivables purchased/paid in the period	-	5	5
Reversal for write-off	-	-	-
Reversal due to sale / collection	-	(2)	(2)
Balance at 31 December 2020	**-**	**18**	**18**

Capital 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
	Loans	Receivables	Fixed income instruments	
	Stage 1	Stage 1	Stage 1	
Balance at 1 January 2020	**-**	**20**	**-**	**20**
Impairment of securities / receivables held at the beginning of the period	1	-	-	1
Reversal of securities / receivables held at the beginning of the period	-	-	-	-
Impairment of securities / receivables purchased/paid in the period	-	-	-	-
Reversal for write-off	-	-	-	-
Reversal due to sale / collection	-	-	-	-
Balance at 31 December 2020	**1**	**20**	**-**	**21**

Capital outside the ring-fence – Credit Risk – Details of the provision to cover expected losses on financial instruments at FVTOCI

Description (€m)	FVTOCI			Total
	Loans	Receivables	Fixed income instruments	
	Stage 1	Stage 1	Stage 1	
Balance at 1 January 2020	**-**	**-**	**-**	**-**
Impairment of securities / receivables held at the beginning of the period	-	-	-	-
Reversal of securities / receivables held at the beginning of the period	-	-	-	-
Impairment of securities / receivables purchased/paid in the period	-	-	-	-
Reversal for write-off	-	-	-	-
Reversal due to sale / collection	-	-	-	-
Balance at 31 December 2020	**-**	**-**	**-**	**-**

Credit Risk – Trade receivables impaired on the analytical basis

Description (€m)	31.12.2020		31.12.2019	
	Gross Carrying amount	Provisions for doubtful debts	Gross Carrying amount	Provisions for doubtful debts
Trade receivables				
Due from customers	1,507	256	1,434	259
Cassa Depositi e Prestiti	432	-	451	-
Ministries and public entities	283	114	300	110
Overseas counterparties	316	2	229	2
Private customers	476	140	454	147
Due from the Parent Company	66	31	74	32
Due from Group companies	891	1	482	-
Total	**2,464**	**288**	**1,990**	**291**

Credit Risk – Trade receivables impaired on the basis of the simplified matrix

Range of past due (€m)	31.12.2020		31.12.2019	
	Gross Carrying amount	Provisions for doubtful debts	Gross Carrying amount	Provisions for doubtful debts
Not past due trade receivables	556	8	477	6
Past due 0 - 1 year	203	14	127	4
Past due 1 - 2 years	56	13	79	9
Past due 2 - 3 years	26	12	16	7
Past due 3 - 4 years	8	7	10	7
Past due > 4 years	46	46	53	52
Positions subject to legal recovery and/or insolvency proceedings	88	75	85	72
Total	**983**	**175**	**847**	**157**

Details of the provision to cover expected losses on trade receivables

(€m)	Balance at 01.01.20	Net provisions	Uses	Changes from extraordinary operations	Balance at 31.12.20
Trade recevaibles					
Due from customers	361	30	(30)	5	366
Private customers	193	24	(30)	2	189
Public administration entities	157	5	-	3	165
Overseas postal operators	11	1	-	-	12
Interest on late payments	52	19	(8)	-	63
Due from the Parent company	32	1	-	-	33
Due from Group companies	-	1	-	-	1
Total	**445**	**51**	**(38)**	**5**	**463**
of which attributable to BancoPosta RFC	40	7	(1)	-	46

Details of the provision to cover expected credit losses due from others

(€m)	Balance at 01.01.20	Net provisions	Uses	Balance at 31.12.20
Public administration entities for sundry services	2	-	-	2
Interest accured on IRES refund	45	-	-	45
Receivables relating to fixed-term contract settlements	12	7	-	19
Other receivaibles	49	3	-	52
Total	**108**	**10**	**-**	**118**
of which attributable to BancoPosta RFC	29	-	-	29

Liquidity risk

Liquidity risk – Liabilities

	31.12.2020				31.12.2019			
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 liabilities attributable to BancoPosta	41,671	19,671	25,700	87,042	34,983	17,512	19,882	72,377
Postal current accounts	25,956	14,816	25,696	66,468	20,142	13,870	19,879	53,891
Loans	9,851	4,850	-	14,701	8,551	3,638	-	12,189
Other financial liabilities	5,864	5	4	5,873	6,290	4	3	6,297
Financial liabilities	1,587	941	1,844	4,372	700	540	1,064	2,304
Trade payables	2,121	-	-	2,121	1,598	-	-	1,598
Other liabilities	1,456	1,523	14	2,993	1,456	1,491	18	2,965
Total Liabilities	**46,835**	**22,135**	**27,558**	**96,528**	**38,737**	**19,543**	**20,964**	**79,244**

Liquidity risk – Assets

	31.12.2020				31.12.2019			
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 attributable to BancoPosta	23,573	10,984	62,710	97,267	20,656	10,588	54,966	86,210
Financial assets	494	82	337	913	241	576	324	1,141
Trade receivables	2,983	1		2,984	2,385	3	2	2,390
Other receivables and assets	903	1,547	44	2,494	1,020	1,414	35	2,469
Cash and deposits attributable to BancoPosta	6,391	-	-	6,391	4,303	-	-	4,303
Cash and cash equivalents	4,029	-	-	4,029	1,206	-	-	1,206
Total Assets	**38,373**	**12,614**	**63,091**	**114,078**	**29,811**	**12,581**	**55,327**	**97,719**

Price risk

Poste Italiane SpA – Price risk

Description (€m)	Risk exposure	Change in value		Profit/(Loss) before tax		Equity reserves before taxation	
		+ Vol	- Vol	+ Vol	- Vol	+ Vol	- Vol
2020 effects							
Financial assets attributable to BancoPosta							
Financial assets at FVTPL	73	31	(31)	31	(31)	-	-
Equity instruments	73	31	(31)	31	(31)	-	-
Financial liabilities attributable to BancoPosta							
Derivative financial instruments	(20)	(31)	31	(31)	31	-	-
Fair value through profit or loss	(20)	(31)	31	(31)	31	-	-
Variability at 31 December 2020	**53**	**-**	**-**	**-**	**-**	**-**	**-**
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							
Derivative financial instruments	(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)**	**-**	**-**

Foreign exchange risk

Poste Italiane SpA – Currency 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
2020 effects								
Financial assets attributable to BancoPosta								
Financial assets at FVTPL	89	73	5	(5)	5	(5)	-	-
Equity instruments	89	73	5	(5)	5	(5)	-	-
Financial liabilities attributable to BancoPosta								
Derivative financial instruments	(24)	(20)	(1)	1	(1)	1	-	-
Fair value through profit or loss	(24)	(20)	(1)	1	(1)	1	-	-
Variability at 31 December 2020	**65**	**53**	**4**	**(4)**	**4**	**(4)**	**-**	**-**
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								
Derivative financial instruments	(17)	(15)	(1)	1	(1)	1	-	-
Fair value through profit or loss	(17)	(15)	(1)	1	(1)	1		
Variability at 31 December 2020	**62**	**56**	**2**	**(2)**	**2**	**(2)**	**-**	**-**

Poste Italiane SpA – Currency 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
2020 effects								
Financial assets								
Financial assets at FVTOCI	22	24	2	(2)	-	-	2	(2)
Equity instruments	22	24	2	(2)	-	-	2	(2)
Variability at 31 December 2020	**22**	**24**	**2**	**(2)**	**-**	**-**	**2**	**(2)**
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)**

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
2020 effects								
Current assets in SDRs	244	287	11	(11)	11	(11)	-	-
Current liabilities in SDRs	(249)	(293)	(11)	11	(11)	11	-	-
Variability at 31 December 2020	**(5)**	**(6)**	**-**	**-**	**-**	**-**	**-**	**-**
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)**	**-**	**-**

Other risks

The other principal risks to which the Poste Italiane Group is exposed at 31 December 2020 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 2020, activities continued to refine the operational risk management framework, with the aim of making the process of recording operational losses more efficient, monitoring, reporting 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 2019.

The activities carried out in 2020 also included assessments of the risk profile associated with the outsourcing of BP RFC and the ex-ante assessments of the risk profile associated with innovation in the BP offering and/or specific project initiatives.

At 31 December 2020, the risk map prepared in accordance with the aforementioned framework shows the type of operational risks BancoPosta RFC products are exposed to. In particular:

Event Type	Number of types
Internal fraud	29
External fraud	44
Employee practices and workplace safety	7
Customers, products and business practices	34
Damage caused by external events	4
Business disruption and system failure	7
Execution, delivery and process management	108
Total a 31 December 2020	**233**

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, the exposure to risks is in line with that recorded in 2019 and the main operational losses relate to customer litigation expenses.

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.). Mortality, longevity and surrender risks are relevant here.

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 2020, 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 2.55% in 2020).

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.

The reinsurance strategy allows:

- mitigating risks, stabilising the variability of insurance business results and ensuring the technical balance of the portfolio;
- mitigating risks arising from peak exposures;
- strengthening financial soundness, if possible and/or necessary, optimising costs in terms of capital allocation and optimisation.

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 policies for accidents, fire, general liability and other damage to property, as well as catastrophic risks such as earthquake). Furthermore, when defining the guarantees offered in order to mitigate the assumption of specific types of risk and particularly unfavourable technical trends, compensation limits have been introduced (stop loss) in the case of certain specific types of loss. The latter approach is used, for example, for the main health risks (retail and corporate), including the credit protection segment.

Poste Assicura defines, on each occasion, the risk quota and reinsurance structure deemed most appropriate in relation to the characteristics of the risk in question.

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).

7. Determination of fair value

7.1 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 general principles for measuring financial instruments at fair value have been updated since 31 December 2019 primarily to review roles and responsibilities in the process of establishing and implementing the Policy and to integrate, among others, the models supporting the valuation of unlisted shares described below. These general principles have been identified in compliance with the indications from the reference accounting standards and from the various Regulators (banking and insurance), ensuring uniformity in the valuation techniques adopted within the Group. 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[161]. For the Poste Italiane Group the following categories of financial instrument apply:

161. 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, for example, quoted prices provided by third parties (pricing or brokerage services), yield and inflation curves, 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.

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.

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 (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.

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

Unquoted equity instruments: this category includes shares for which no price is observable directly or indirectly in the market. For these types of instruments, fair value is determined by considering the implicit valuation at the time of acquisition, adjusted by value adjustments to take account of any changes in price resulting from significant transactions[162] observable on the market in the 12 months prior to the reporting date. Alternatively, and in the absence of significant transactions, the fair value of the share is determined using alternative methods (verification of financial data that can be inferred from the company's Business Plans if available and analysis of the company's performance, multiple market use, etc.).

162. A relevant transaction in this context is defined as a minimum investment of €10 million or at least 5% of the share capital of the investee entity over the last twelve months from the reporting date.

7.2 Fair value hierarchy

The following table shows an analysis of financial instruments measured at fair value at 31 December 2020, classified by level in the fair value hierarchy.

Fair value hierarchy

Description (€m)	31.12.20				31.12.19			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Financial assets at FVTOCI	146,155	10,480	76	156,711	130,322	9,499	23	139,844
Equity instruments	-	-	76	76	-	-	23	23
Fixed income instruments	146,155	9,940	-	156,095	130,322	8,960	-	139,282
Other investments	-	540	-	540	-	539	-	539
Financial assets at FVTPL	4,164	31,572	4,680	40,416	3,234	30,614	3,848	37,696
Receivables	-	-	15	15	-	-	-	-
Equity instruments	200	38	34	272	177	-	71	248
Fixed income instruments	1,829	163	-	1.992	1,308	191	-	1.499
Other investments	2,135	31,371	4,631	38,137	1,749	30,423	3,777	35,949
Derivative financial instruments	-	79	-	79	-	73	-	73
Total	**150,319**	**42,131**	**4,756**	**197,206**	**133,556**	**40,186**	**3,871**	**177,613**
Financial liabilities								
Financial liabilities at fair value	-	-	-	-	-	-	-	-
Derivative financial instruments	-	(8,263)	(20)	(8,283)	-	(5,575)	(15)	(5,590)
Total	**-**	**(8,263)**	**(20)**	**(8,283)**	**-**	**(5,575)**	**(15)**	**(5,590)**

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		From Level 2 to Level 1	
	Level 1	Level 2	Level 1	Level 2
Transfers of financial assets	**(112)**	**112**	**341**	**(341)**
Financial assets at FVTOCI				
Equity instruments	-	-	-	-
Fixed income instruments	(105)	105	333	(333)
Other investments	-	-	-	-
Financial assets at FVTPL				
Receivables	-	-	-	-
Equity instruments	-	-	-	-
Fixed income instruments	(7)	7	8	(8)
Other investments	-	-	-	-
Net transfers	**(112)**	**112**	**341**	**(341)**

Reclassifications from level 1 to level 2 relate to financial instruments whose value, at 31 December 2020, 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 2020, is observable in a liquid and active market.

Movements in level 3 during the year are shown below:

Changes in financial instruments – level 3

Description (€m)	Financial assets			
	Financial assets at FVTOCI	Financial assets at FVTPL	Derivative financial instruments	Total
Balance at 1 January 2020	**23**	**3,848**	**-**	**3,871**
Purchases/Issues	41	1,187	-	1,228
Sales/Extinguishment of initial accruals	-	(213)	-	(213)
Redemptions	-	-	-	-
Changes in fair value through profit or loss	-	(111)	-	(111)
Changes in fair value through equity	17	-	-	17
Transfers to profit or loss	-	-	-	-
Gains/Losses in profit or loss due to sales	-	-	-	-
Transfers to level 3	-	-	-	-
Transfers to other levels	-	(31)	-	(31)
Changes in amortised cost	-	-	-	-
Write-off	-	-	-	-
Other changes (including accruals at end of period)	(5)	-	-	(5)
Balance at 31 December 2020	**76**	**4,680**	**-**	**4,756**

Financial instruments classified in level 3 are held primarily by Poste Vita SpA and, to a residual extent, by Poste Italiane SpA.

With respect to the Parent Company, as a result of the 24 September 2020 conversion of a portion of the Visa Series C shares into Visa Series A Preferred Stock, approximately 31 million of the C shares were reclassified from Level 3 to Level 2.

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, private debt and 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.

8. 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 transactions involving fixed-income or inflation-linked securities held by BancoPosta.

Hedging transactions – Fair value hedges

Hedging transactions on fixed income and inflation-linked government securities

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[163], using the approaches illustrated in the following notes.

The retrospective effectiveness test is run by utilising the "dollar offset approach through the hypothetical derivative[164]". 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[165]. 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.

163. 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.

164. 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).

165. 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[166]" 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[167]. The hedge is considered effective if the hedge ratio falls in the interval between 80% and 125%.

Finally, the Poste Vita Group has entered into forward sales agreements in order to protect unrealised gains on government bonds held by the Separately Managed Account, Posta ValorePiù, against unexpected changes in interest rates and/or credit risk. For the retrospective and prospective effectiveness test, the company adopts the "dollar offset through the hypothetical derivative" approach".

Hedging transactions on repurchase agreements

The Poste Italiane Group engages in repurchase agreements, in euro government bonds or securities guaranteed by the Italian government, for a variety of purposes, including investing in government securities, meeting liquidity requirements deriving from the funding of current accounts, actively managing treasury positions and managing deposits as collateral in collateralisation transactions. These transactions are mainly at fixed rates and are therefore exposed to changes in fair value due to fluctuations in interest rates.

To limit the effects of interest rates on fair value, the Group enters into Interest Rate Swaps (IRC) Over the Counter (OTC) to hedge the fair value of the repurchase agreements held in portfolio.

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, using the approaches illustrated in the following notes.

For the retrospective effectiveness test, the Group adopts the "dollar offset through the hypothetical derivative" approach. 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 and differ solely in the fixed rate component which is therefore considered the main source of ineffectiveness[168]. 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.

For the purposes of the prospective effectiveness test, the Group adopts the "dollar offset through the hypothetical derivative" approach 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[169]. The hedge is considered effective if the hedge ratio falls in the interval between 80% and 125%.

166. 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.
167. Calculated by assuming a parallel shift of + / - 100 bps of the curves.
168. The hedge is carried out by defining the variable rate component simply indexed to Euribor and the fixed rate component that instead incorporates market conditions. The hypothetical derivative uses the mid-market 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.
169. Calculated by assuming a parallel shift of + / - 100 bps of the curves.

Hedging transactions – Cash flow hedges

Hedging transactions on inflation-linked government securities and forecast transactions

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[170].

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[171]. 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[172]. The hedge is considered effective if the hedge ratio falls in the interval between 80% and 125%.

170. 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.
171. 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.
172. Calculated by assuming a parallel shift of + / - 100 bps of the curves.

Variable rate bond 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 time distribution based on the remaining contract duration. 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 - Interest rate risk				
Forward sales				
Nominal	2,068	-	-	2,068
Settlement price	2,449	-	-	2,449
Interest rate swaps				
Nominal	200	290	1,280	1,770
Average rate %	4.75	4.949%	4.106%	4.346%

Time distribution based on remaining duration of fair value hedge contracts

	Maturity			
(€m)	Up to 1 year	1 - 5 years	Over 5 years	Total
Fair value hedges - Interest rate risk				
Forward sales				
Nominal	1,260	-	-	1,260
Settlement price	1,302	-	-	1,302
Interest rate swaps				
Nominal	375	925	30,109	31,409

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 use to recognise ineffective portion of hedge	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:		44,105	-	4,389	-	3,255	-
at amortised cost		21,884	-	4,389	-	1,658	-
at FVTOCI		22,221	-		-	1,596	-
Repurchase agreements		-	(901)		-	-	
Hedging instruments							
Interest rate swaps	31,409	11	(8,127)			(3,248)	
Forward sales	1,260	-	(10)			(10)	
Profits/(losses) on hedging recognised in P&L						**(3)**	

* Not including provision to cover expected losses.

Cash flow hedges - Rate risk

(€m)	Nominal	Carrying amount		Change in value use to recognise ineffective portion of hedge	Cash flow hedge		
		Assets	Liabilities		Hedge reserve	Discontinued	
Hedged items							
Fixed income instruments, of which:			-	50			
at amortised cost		-	-	-			
at FVTOCI		4,786	-	50			
Bond		-	(50)	1			
Forward purchases instruments				-			
Hedging instruments							
Forward purchases	-	-	-	-	167	-	-
Forward sales	2,068	-	(54)	(55)	(54)	-	-
Interest rate swaps	1,770	68	(74)	4	25	-	-
Profits/(losses) on hedging 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)	Profits/(losses) on hedging recognised in OCI period fair value (inc./dec.)	Transfers to profit or loss:	
		Hedge accounting effects	Discontinued
Fixed income instruments	(27)	3	-
Bond	(1)	2	-
Total	**(28)**	**5**	**-**

Reform of the reference indices for determining interest rates

A reform of the main interest rate benchmarks known as the “IBOR (InterBank Offered Rate) Reform” is underway globally, involving the replacement of certain interbank rates with alternative risk-free rates. Regulatory bodies in various jurisdictions around the world, have initiated a substitution process and working groups have developed the alternative reference rates as well as guidelines to update the contract models.

Currently, the main benchmark indices for the Eurozone are:

- the Euro Short Term Rate - ESTR (administered by the European Central Bank and published from 2 October 2019) which replaces the Euro OverNight Index Average (EONIA - no longer quoted from 1 January 2022) redefining it as ESTR plus 8.5 bps;
- the EURIBOR (administered by the European Money Market Institute), whose reform process ended in November 2019.

The Group has financial instruments indexed to EURIBOR, which continues to be quoted daily and the related cash flows continue to be exchanged with counterparties as usual. There is therefore no uncertainty regarding this parameter resulting from the IBOR reform at 31 December 2020. These instruments are subject to daily collateralisation remunerated to EONIA which, as mentioned above, will be replaced from next year by ESTR.

In addition, the Group holds interest rate swaps designated as fair value hedges with a floating “leg” indexed to EURIBOR and a notional value of €31,034 million, almost entirely held by BancoPosta RFC.

9. 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 until 31 December 2020. As of today, the Court of Cassation has not set a hearing for the purpose of declaring the discontinuance of the matter in dispute.

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 no. 119/2018 is supported by the participation in the collaborative compliance regime with the tax authorities provided for by Law Decree no. 128 of 5 August 2015 (Cooperative Compliance). Since by the deadline of 31 July 2020 (deadline set forth in paragraph 12 of art. 6 of Law Decree no. 119/2918) the Company has not received any denial notices from the tax authorities, the settlement of the disputes can be considered correctly completed. The Company then released the amount set aside in the provision for risks.

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 Law Decree no. 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. On 24 June 2020, after the deadline for the appeal had expired, the decision in favour of the Company became final;
- 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. At the hearing held on 30 September 2020, the Provincial Tax Tribunal of Rome, having acknowledged the measure of full annulment in self defence issued by the Revenue Agency to annul the contested assessment notice in its entirety with a concurrent request for the extinction of the proceedings due to the discontinuance of the dispute and compensation for litigation expenses, reserved the right to decide. With a ruling dated 22 October 2020, the Regional Tax Tribunal of Rome fully upheld the appeal filed on behalf of the Company and cancelled the assessment notice issued in relation to the 2014 tax year.

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. The hearing originally scheduled for 17 February 2021, for which a request for oral arguments was sent on 21 January 2021, has not yet been discussed nor has any news been received regarding the date of postponement.

In November 2018, **Consorzio Postemotori** received notice of an order issued by the Criminal Court in Rome containing a precautionary seizure regarding the consortium, amounting to €4.6 million. On 13 May 2019, the G.U.P. of the Ordinary Court of Rome downsized the original charges establishing the committal for trial only in relation to part of the charges relating to the liability invoicing transactions of a subcontractor and a tax consultant of one of the partners. The Consortium mandated an external criminal lawyer to file a petition for release from seizure with respect to the criminal seizure ordered against the Consortium.

Social security disputes

Since 2012 and until 31 December 2020, 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 €25.1 million. 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 2020.

Moreover, 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. With regard to the latter claim, the company settled differently depending on the period under consideration:

- for October, November and December 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;
- for the year 2018 and the first 7 months of 2019, two Notices of Debit were served with the request for payment of the CUAF at 0.68% and minor contributions CIG, CIGS to Postel, which it paid, subject to repetition reserve awaiting the decision of the appeal pending in Cassation;
- with effect from January 2020, Postel pays the CUAF rate to INPS at 0.68% instead of 4.40%, as a result of the provisions of art. 11, paragraph 5 *bis* of Law Decree no. 162 of 2019, converted into Law no. 8 of 28 February 2020.

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 also based on the opinion of its legal advisors.

Provisions recognised in the financial statements at 31 December 2020 amount to €11.25 million.

Principal proceedings pending and 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 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. Poste Italiane has challenged the above measure before the Lazio Regional Administrative Court (TAR). The hearing on the merits scheduled for 8 April 2020 was postponed to 20 July 2020 at which time the hearing was postponed to a date to be determined.

On 19 November 2019, the AGCM initiated proceedings **PS11563** against **Poste Italiane** in order to ascertain allegedly unfair commercial practice in the delivery of mail and, in particular, registered mail, in possible violation of articles 20, 21 and 22 of the Consumer Code. In particular, according to some customers: i) the advertised features of the “registered mail delivery” service are not reflected in the service actually provided; ii) the advertising for the “digital registered mail collection” service does not make it clear that the service may no longer be free of charge in the near future and that, in any case, there are restrictions on its use, since it can only be accessed if the sender has authorised it. In January 2020, a number of consumer associations were admitted to the proceedings. At the conclusion of the proceedings, by way of a measure notified on 15 September 2020, the Authority imposed an administrative fine of €5 million, payment of which was made on 5 January 2021. Poste Italiane has appealed this decision to the Lazio Regional Administrative Court, and the hearing on the merits has been set for 26 May 2021.

On 6 April 2020, pursuant to art. 9, paragraph 3-*bis* of Law 192/98 and art. 14 of Law 287/90, the AGCM initiated proceedings **A539** against **Poste Italiane**, following a complaint by a third-party supplier that Poste Italiane had presumably imposed unjustifiably burdensome contractual clauses. In particular, following the termination of contractual relations in mid-2017, the supplier was not, in fact, able to otherwise offer the services it was providing on the market because of the obligation to comply with rules and organisational parameters considered such as to make the company structure excessively rigid, making it unsuitable to operate with parties other than Poste Italiane. A hearing was held on 8 June 2020 at which Poste Italiane stated its position and, subsequently, the Authority requested the delivery of documentation. Additional hearings were held on 30 November 2020 and 3 February 2021. The proceedings are still in the pre-trial phase.

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"[173]. In this regard:

i. During 2020, the procedure for verifying the net cost of the universal postal service for the year 2019 was launched. In particular, with a communication dated 8 July 2020, AGCom extended to 2019 the objective scope of the net cost verification procedure of the universal postal service for the years 2017 and 2018, previously initiated with Resolution 215/19/CONS of 2 July 2019.

ii. 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 2 October 2019, Poste Italiane challenged this resolution by filing an appeal before the Lazio Regional Administrative Court (still pending).

iii. (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).

iv. 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).

On 8 October 2020, with Notice of Objection **30/20/DSP**, AGCom notified **Poste Italiane** that it had breached its obligation to provide continuity in the provision of the universal service, in relation to the failure to open certain Post Offices, concentrated almost entirely in Trentino Alto Adige, due to the sudden absence of personnel, in the period from 1 January to 21 February 2020. Poste Italiane sent its defence briefs to the Authority on 6 November 2020. By way of Resolution 48/21/CONS, published on 8 March 2021, at the conclusion of the proceedings in question, the Authority imposed an administrative fine of €1.06 million (€10 thousand for each of the disputed events), equal to the same amount that the Company would have paid if it had availed itself of reduced payment. At 31 December 2020, the Company has taken into account the penalty in the determination of the Provisions for risks and charges, the payment of which is due by 5 April 2021.

173. This method defines the cost incurred as the difference between the net operating cost incurred by a designated universal service provider when subject to universal service obligations and the net operating cost without such obligations.

Bank of Italy

On 26 February 2020, the Bank of Italy launched an ordinary and general inspection of BancoPosta Fondi SpA SGR, in accordance with article 6-*ter* of Legislative Decree no. 58 of 24 February 1998. Subsequently, on 22 May 2020, the Authority communicated the interruption of the inspection, in relation to the impossibility - due to the health emergency in progress - to remotely complete some verification activities and that for the above reasons, the delivery of an ordinary inspection report is not expected.

On 5 May 2020, a communication from the Bank of Italy was received containing the results of the transparency audits it carried out from 23 May to 19 July 2019 at 24 Post Offices and headquarters, which concerned, among other things: the organisational structure of BancoPosta, the Group and the territorial network, the management of relations with external partners, and the management of payment not approved. In response to the feedback of the Bank of Italy, the Company has prepared a plan containing the corrective measures to be put in place with an indication of the implementation methods and timing, which was communicated to the Bank of Italy on 3 July 2020.

CONSOB

In January 2020, the Consob launched an inspection of a general nature pursuant to article 6-*ter*, paragraph 1, of Legislative Decree no. 58 of 24 February 1998, aimed at ascertaining the state of adaptation to the new MiFID 2 legislation. The inspection was completed on 23 October 2020. The Company is awaiting feedback from the Authority.

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

On 19 February 2020, IVASS notified **Poste Vita** of a complaint concerning the alleged delay in the liquidation of life insurance policies. The Company filed its defence briefs, the filing deadline for which, set at 60 days from the date of notification, was suspended from 23 February to 15 April 2020 and further extended to 15 May 2020 due to the entry into force of Law Decree no. 23 of 8 April 2020, published in the Official Gazette no. 94 of 8 April 2020. Subsequently, on 25 August 2020, IVASS notified Poste Vita of a further complaint regarding the alleged delay in settling life insurance policies. The Company filed its defence briefs within the prescribed time.

It should also be noted that on 14 December 2020, IVASS launched an ordinary audit on the assessment of governance, management and control of investments and financial risks, the activities of which are still ongoing.

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, for the part of the fine not annulled by the Court, to the Court of Cassation, which rejected the appeal filed by the Company and upheld the fine of €0.34 million. We are waiting for the Data Protection Authority to summarise the judgement before the Court of Rome, as pronounced by the Court of Cassation.

Despite the pending judgement at the Court of Cassation referred to above, 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 Authority appealed against this judgement to the Court of Cassation, notified on 3 August 2018, and Postel took steps to duly institute legal proceedings. The Court of Cassation, fully adhering to the Company's arguments, declared the appeal filed by the Authority inadmissible, also ordering it to reimburse the legal costs.

10. Material non-recurring events and/or transactions

A brief summary of the impact of material non-recurring events and transactions[174] involving the Poste Italiane Group in 2019, is provided below, as required by Consob ruling DEM/6064293 of 28 July 2006:

- income of €96 million relating, for €81 million, to the "Patent Box", covering the years 2015-2019, of which €58 million recognised by Poste Vita and Poste Assicura and €23 million by the Parent Company. Agreements to recognise the economic contribution were entered into with the Revenue Agency on 16 December 2020 for Poste Vita, 21 December 2020 for Poste Italiane and 22 December 2020 for Poste Assicura. The remaining €15 million refers to the tax benefit for the Parent Company related to the Aid to Economic Growth (ACE), referring to the 2015-2016 financial years for which, in the year under review, the uncertainties associated with the quantification no longer exist.

11. 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[175] in 2020.

174. 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.
175. 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.

12. Events after the end of the reporting period

The events that occurred after the reporting date are described below. For a complete description of these events, please refer to paragraph 3.1 - *Principal corporate actions.*

- **sennder GmbH**

In January 2021, Poste Italiane took part in a new capital increase promoted by sennder GmbH, investing €7.5 million and increasing its holding in the German company to 2.0% (1.8% on a fully diluted basis).

- **Nexive Group Srl**

As part of the agreement between Poste Italiane SpA and the Dutch company PostNL European Mail Holdings B.V. ("PostNL") and the German company Mutares Holding - 32 GmbH ("Mutares Holding"), on 29 January 2021, Poste Italiane acquired from PostNL and Mutares the entire share capital of Nexive at a price of €34.4 million, based on an Enterprise Value of €50 million and net debt of €15.6 million.

- **Sengi Express Limited**

On 19 January 2021, Poste Italiane SpA and Cloud Seven Holding Limited entered into a framework agreement under which Poste Italiane will acquire 51% of the voting capital of Sengi Express Limited ("Sengi Express"), a company wholly owned by Cloud Seven Holding Limited based in Hong Kong. The closing of the transaction was completed on 1 March 2021.

- **PostePay: Debit business**

On 27 January 2021, Poste Italiane's Board of Directors approved an amendment to BancoPosta RFC resulting in the removal of the restriction on the assets, properties and legal relationships that make up the Debit Business, to be submitted for final approval by Poste Italiane's Extraordinary Shareholders' Meeting, after obtaining all the authorisations required by current legislation and regulations; on 4 February 2021, PostePay's Extraordinary Shareholders' Meeting approved, among other things, a divisible capital increase to be subscribed and paid up by 30 September 2021 via the contribution in kind of the Debit Business by Poste Italiane.

13. 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 residually 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 2020 are analysed below.

Poste Italiane Group

Net debt/(funds) at 31 December 2020

Balance at 31.12.20 (€m)	Mail, Parcels and Distribution	Payments and Mobile	Financial Services	Insurance Services	Eliminations	Consolidated	of which related parties
Financial liabilities	**5,438**	**7,459**	**95,295**	**304**	**(10,266)**	**98,230**	
Financial liabilities at amortised cost	3,757	7,085	79,756	41	(738)	89,901	4,379
Postal current accounts	-	-	59,548	-	(738)	58,810	1
Bonds	1,046	-	-	-	-	1,046	-
Due to financial institutions	1,488	-	14,347	-	-	15,835	-
Other borrowings	-	-	-	-	-	-	-
Lease payables	1,211	-	-	24	-	1,235	7
MEF account held at the Treasury	-	-	3,588	-	-	3,588	3,588
Other financial liabilities	12	7,085	2,273	17	-	9,387	783
Financial liabilities at FVTPL	46	-	-	-	-	46	-
Financial liabilities for purchase of minority interests	46	-	-	-	-	46	-
Derivative financial instruments	10	-	8,263	10	-	8,283	234
Intersegment financial liabilities	1,625	374	7,276	253	(9,528)	-	-
Technical provisions for insurance business	**-**	**-**	**-**	**153,794**	**-**	**153,794**	**-**
Financial assets	**(1,310)**	**(7,753)**	**(92,385)**	**(155,953)**	**9,518**	**(247,883)**	
Financial instruments at amortised cost	(75)	(133)	(48,590)	(1,879)	-	(50,677)	(10,934)
Financial instruments at FVTOCI	(447)	(36)	(42,671)	(113,557)	-	(156,711)	(540)
Financial instruments at FVTPL	-	-	(72)	(40,344)	-	(40,416)	(22)
Derivative financial instruments	-	-	(79)	-	-	(79)	-
Intersegment financial assets	(788)	(7,584)	(973)	(173)	9,518	-	-
Technical provisions attributable to reinsurers	**-**	**-**	**-**	**(54)**	**-**	**(54)**	**-**
Net financial liabilities/(assets)	**4,128**	**(294)**	**2,910**	**(1,909)**	**(748)**	**4,087**	
Cash and deposits attributable to BancoPosta	**-**	**-**	**(6,391)**	**-**	**-**	**(6,391)**	**-**
Cash and cash equivalents	**(2,254)**	**(16)**	**(2,020)**	**(964)**	**738**	**(4,516)**	**(1,992)**
Net debt/(funds)	**1,874**	**(310)**	**(5,501)**	**(2,873)**	**(10)**	**(6,820)**	

Net debt/(funds) at 31 December 2019

Balance at 31.12.19 (€m)	Mail, Parcels and Distribution	Payments and Mobile	Financial Services	Insurance Services	Eliminations	Consolidated	of which related parties
Financial liabilities	**3,061**	**5,539**	**77,061**	**295**	**(7,598)**	**78,358**	
Financial liabilities at amortised cost	1,886	5,194	66,123	42	(477)	72,768	4,829
Postal current accounts	-	-	48,794	-	(477)	48,317	1
Bonds	50	-	-	-	-	50	-
Due to financial institutions	574	-	11,036	-	-	11,610	265
Other borrowings	-	-	-	-	-	-	-
Lease payables	1,251	1	-	27	-	1,279	9
MEF account held at the Treasury	-	-	4,542	-	-	4,542	4,542
Other financial liabilities	11	5,193	1,751	15	-	6,970	12
Derivative financial instruments	22	-	5,567	1	-	5,590	123
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)**	**(75,920)**	**(141,936)**	**7,120**	**(217,776)**	
Financial instruments at amortised cost	(62)	(115)	(38,244)	(1,742)	-	(40,163)	(11,181)
Financial instruments at FVTOCI	(547)	-	(36,831)	(102,466)	-	(139,844)	(539)
Financial instruments at FVTPL	-	-	(71)	(37,625)	-	(37,696)	(21)
Derivative financial instruments	-	-	(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)**	

Total net debt/(funds) at 31 December 2020 showed funds of €6,820 million, up €1,153 million from 31 December 2019 (€5,667 million). This change was primarily attributable to positive operating income of €2.1 billion (including €1,206 million attributable to profit for the period) and the increase in the fair value of investments classified as FVTOCI held by the Financial Services SBU relating to the portion not hedged by fair value hedges amounting to €1.7 billion, partially offset by the negative change in working capital of about €1 billion, investments for €680 million and the distribution of dividends totalling €613 million.

An analysis of the net funds of the Mail, Parcels and Distribution segment at 31 December 2020, in accordance with ESMA recommendation 319/2013, is provided below:

ESMA net debt/(funds)

(€m)	At 31 December 2020	At 31 December 2019
A. Liquidity	**(2,254)**	**(851)**
B. Current financial receivables	**(425)**	**(135)**
C. Current due to banks	665	1
D. Current lease payables	212	215
E. Current portion of non-current debt	-	-
F. Other current borrowings	17	15
G. Current debt/(funds) (C+D+E+F)	**894**	**231**
H. Current net debt/(funds) (A+B+G)	**(1,785)**	**(755)**
I. Non-current due to banks	823	573
L. Bonds issued	1,046	50
M. Non-current lease payables	999	1,036
N. Other non-current payables	51	18
O. Non-current debt/(funds) (I+L+M+N)	**2,919**	**1,677**
P. Net debt/(funds) (ESMA) (H+O)	**1,134**	**922**
Non-current financial assets	(97)	(474)
Net debt/(funds)	**1,037**	**448**
Intersegment financial receivables and borrowings	837	367
Net debt/(funds) including intersegment transactions	**1,874**	**815**

Poste Italiane SpA

Net debt/(funds)

Balance at 31.12.20 (€m)	Capital outside ring-fence	BancoPosta RFC	Eliminations	Poste Italiane SpA.	of which related parties
Financial liabilities	**5,237**	**95,086**	**(1,038)**	**99,285**	
Postal current accounts	-	66,602	(140)	66,462	7,641
Bonds	1,046	-	-	1,046	-
Due to financial institutions	1,487	14,348	-	15,835	-
Lease payables	1,065	-	-	1,065	38
MEF account held at the Treasury	-	3,588	-	3,588	3,588
Derivative financial instruments	11	8,263	-	8,274	234
Other financial liabilities	730	2,285	-	3,015	1,536
Intersegment financial liabilities	898	-	(898)	-	-
Financial assets	**(872)**	**(92,351)**	**898**	**(92,325)**	
Financial instruments at amortised cost	(424)	(48,664)	-	(49,088)	(11,361)
Financial instruments at FVTOCI	(448)	(42,638)	-	(43,086)	-
Financial instruments at fair value through profit or loss	-	(73)	-	(73)	-
Derivative financial instruments	-	(78)	-	(78)	-
Intersegment financial assets	-	(898)	898	-	-
Liabilities/(net financial assets)	**4,365**	**2,735**	**(140)**	**6,960**	
Cash and deposits attributable to BancoPosta	**-**	**(6,391)**	**-**	**(6,391)**	
Cash and cash equivalents	**(2,159)**	**(2,010)**	**140**	**(4,029)**	**(1,992)**
Net debt/(funds)	**2,206**	**(5,666)**	**-**	**(3,460)**	

Net debt/(funds)

Balance at 31.12.19 (€m)	Capital outside ring-fence	BancoPosta RFC	Eliminations	Poste Italiane SpA	of which related parties
Financial liabilities	**2,948**	**76,837**	**(705)**	**79,080**	
Postal current accounts	-	53,938	(58)	53,880	5,573
Bonds	50	-	-	50	-
Due to financial institutions	574	11,036	-	11,610	265
Lease payables	1,149	-	-	1,149	-
MEF account held at the Treasury	-	4,542	-	4,542	4,542
Derivative financial instruments	22	5,567	-	5,589	123
Other financial liabilities	506	1,754	-	2,260	571
Intersegment financial liabilities	647	-	(647)	-	-
Financial assets	**(941)**	**(75,885)**	**647**	**(76,179)**	
Financial instruments at amortised cost	(394)	(38,295)	-	(38,689)	(11,568)
Financial instruments at FVTOCI	(547)	(36,799)	-	(37,346)	-
Financial instruments at fair value through profit or loss	-	(71)	-	(71)	-
Derivative financial instruments	-	(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)**	

Total net funds of the Company at 31 December 2020, as described above, amounted to €3,460 million, up €852 million compared to 31 December 2019 (funds of €2,608 million). The main factors contributing to this change were a positive operating result of approximately €1 billion and an increase in the fair value of financial instruments at FVTOCI of €1.7 billion partially offset by investments of €612 million, distribution of dividends totalling €613 million and a negative change in net working capital of €377 million.

An analysis of the net funds of the Parent Company outside the ring-fence at 31 December 2020, in accordance with ESMA recommendation 319/2013, is provided below:

ESMA net financial indebtedness for capital outside ring-fence

(€m)	At 31 December 2020	At 31 December 2019
A. Liquidity	**(2,159)**	**(753)**
B. Current financial receivables	**(495)**	**(201)**
C. Current due to banks	663	-
D. Current lease payables	187	190
E. Current portion of non-current debt	1	1
F. Other current borrowings	735	509
G. Current debt/(funds) (C+D+E+F)	**1,586**	**700**
H. Current net debt/(funds) (A+B+G)	**(1,068)**	**(254)**
I. Non-current due to banks	823	573
L. Bonds issued	1.046	50
M. Non-current lease payables	878	959
N. Other non-current payables	6	19
O. Non-current debt/(funds) (I+L+M+N)	**2,753**	**1,601**
P. Net debt/(funds) (ESMA) (H+O)	**1,685**	**1,347**
Non-current financial assets	(377)	(740)
RFC net debt/(funds)	**1,308**	**607**
Intersegment financial receivables and payables	898	647
Net debt/(funds) for capital outside ring-fence including intersegment transactions	**2,206**	**1,254**

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 2020, 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)	Notes	31 December 2020			31 December 2019		
		Nominal value	Carrying amount	Fair value	Nominal value	Carrying amount	Fair value
Financial assets attributable to BancoPosta	**[A6]**						
Financial assets at amortised cost		5,930	6,366	7,079	4,929	5,179	5,207
Financial assets at FVTOCI		7,526	8,883	8,883	6,621	7,329	7,329
Financial liabilities attributable to BancoPosta	**[B6]**						
Financial liabilities arising from repos		(14,717)	(14,711)	(14,743)	(12,201)	(12,194)	(12,205)
Financial assets	**[A7]**						
Financial assets at FVTOCI		400	407	407	-	-	-
Financial liabilities	**[B7]**						
Financial liabilities arising from repos		(414)	(412)	(412)	-	-	-
Total		**(1,275)**	**533**	**1,214**	**(651)**	**314**	**331**

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 2020		31 December 2019	
	Nominal value	Carrying amount	Nominal value	Carrying amount
Financial assets attributable to BancoPosta				
Loans and receivables				
Loans and receivables	7,494	7,494	5,660	5,660
Receivables used as collateral provided by CSAs	7,494	7,494	5,181	5,181
Receivables used as collateral provided by GMRAs	-	-	208	208
Receivables in the form of guarantee deposits (Clearing House margin requirements)	-	-	271	271
Fixed income instruments	6,427	6,969	5,457	5,706
Securities involved in repurchase agreements	5,930	6,366	4,929	5,179
Securities used as collateral provided by CSAs and GMRAs	497	603	528	527
Securities used as collateral for intraday credit from the Bank of Italy and for Sepa Direct Debits	-	-	-	-
Financial assets at FVTOCI				
Fixed income instruments	8,615	9,992	7,557	8,290
Securities involved in repurchase agreements	7,526	8,883	6,621	7,329
Securities used as collateral provided by CSAs and GMRAs	172	178	-	-
Securities used as collateral for intraday credit from the Bank of Italy and for Sepa Direct Debits	917	931	936	961
Financial assets				
Financial assets at amortised cost				
Loans and receivables	15	15	23	23
Receivables used as collateral provided by CSAs	11	11	23	23
Receivables used as collateral provided by GMRAs	4	4	-	-
Financial assets at FVTOCI				
Fixed income instruments	400	407	-	-
Securities involved in repurchase agreements	400	407	-	-
Total financial assets subject to encumbrances	**22,951**	**24,877**	**18,697**	**19,679**

At 31 December 2020, the Parent Company has received financial assets as collateral for repurchase agreements and reverse repurchase agreements, having a nominal value of €375 million and a fair value of €379 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 2020 is shown in the table below.

Gruppo Poste Italiane - Esposizione in titoli di debito sovrano

Description (€m)	31.12.20			31.12.19		
	Nominal value	Carrying amount	Market Value	Nominal value	Carrying amount	Market Value
Italy	**136,818**	**166,952**	**168,620**	**125,322**	**143,188**	**143,000**
Financial assets at amortised cost	24,929	31,791	33,459	19,100	22,825	22,637
Financial assets at FVTOCI	111,842	135,111	135,111	106,170	120,308	120,308
Financial assets at FVTPL	47	50	50	52	55	55
Belgium	**132**	**162**	**162**	**89**	**107**	**107**
Financial assets at amortised cost	-	-	-	-	-	-
Financial assets at FVTOCI	132	162	162	89	107	107
Financial assets at FVTPL	-	-	-	-	-	-
France	**151**	**229**	**229**	**151**	**203**	**203**
Financial assets at amortised cost	-	-	-	-	-	-
Financial assets at FVTOCI	151	229	229	151	203	203
Financial assets at FVTPL	-	-	-	-	-	-
Germany	**242**	**272**	**272**	**52**	**62**	**62**
Financial assets at amortised cost	-	-	-	-	-	-
Financial assets at FVTOCI	242	272	272	50	60	60
Financial assets at FVTPL	-	-	-	2	2	2
Ireland	**10**	**14**	**14**	**10**	**13**	**13**
Financial assets at amortised cost	-	-	-	-	-	-
Financial assets at FVTOCI	10	14	14	10	13	13
Financial assets at FVTPL	-	-	-	-	-	-
Spain	**1,230**	**2,001**	**2,002**	**1,159**	**1,780**	**1,781**
Financial assets at amortised cost	3	3	4	3	3	4
Financial assets at FVTOCI	1,227	1,998	1,998	1,156	1,777	1,777
Financial assets at FVTPL	-	-	-	-	-	-
USA	**25**	**25**	**25**	**1**	**1**	**1**
Financial assets at amortised cost	-	-	-	-	-	-
Financial assets at FVTOCI	25	25	25	1	1	1
Financial assets at FVTPL	-	-	-	-	-	-
Other countries	**83**	**84**	**84**	**20**	**20**	**20**
Financial assets at amortised cost	-	-	-	-	-	-
Financial assets at FVTOCI	83	84	84	20	20	20
Financial assets at FVTPL	-	-	-	-	-	-
Total	**138,691**	**169,739**	**171,408**	**126,804**	**145,374**	**145,187**

Below are details for Poste Italiane.

Credit Risk – Exposure to sovereign debt

Description (€m)	31 December 2020			31 December 2019		
	Nominal value	Carrying amount	Market Value	Nominal value	Carrying amount	Market Value
Financial assets attributable to BancoPosta						
Italy	**56,726**	**72,593**	**73,932**	**48,595**	**57,917**	**57,505**
Financial assets at amortised cost	23,157	29,955	31,294	17,425	21,118	20,706
Financial assets at FVTOCI	33,569	42,638	42,638	31,170	36,799	36,799
Financial assets						
Italy	**400**	**407**	**407**	**500**	**524**	**524**
Financial assets at FVTOCI	400	407	407	500	524	524
Total	**57,126**	**73,000**	**74,339**	**49,095**	**58,441**	**58,029**

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	% investment	NAV Ref. date	NAV Amount
LU1379774190 - MULTIFLEX-DIVERSIFIED DIS-CM	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	31/12/20	6,037
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	31/12/20	5,129
LU1407712287 - MULTIFLEX - Strategic Insurance Distribution	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	31/12/20	4,886
LU1407711800 - MULTIFLEX - Dynamic Multi Asset Fund	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	31/12/20	4,321
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	31/12/20	4,191
LU1808839242 - MULTIFLEX-OLYMP INSURN MA-CM	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	31/12/20	909
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	31/12/20	884
LU1808838863 - MULTIFLEX-OLYMPIUM OPT MA-CM	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	31/12/20	614
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	31/12/20	567
LU2051218035 - OLYMPIUM SEVERUM FUND	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	31/12/20	495
IT0004937691 - 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	31/12/20	447
IT0005174450 - DIAMOND EUROZONE FUND OFFICE UBS	Italian-registered, closed-end alternative real estate investment funds	Investment in "core" and "core plus" real estate assets for retail use, located in the Eurozone and euro-denominated	100	30/09/20	383
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	30/09/20	328
LU1500341166 - MULTIFLEX-OLYMPIUM DYNAMIC-MULTIASSET FUND	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	31/12/20	312
IT0005247819 - Diamond Core	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	30/06/20	276
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	30/09/20	275
IT0005386666 - Fund i3-Dante segment Convivio	Italian-registered, closed-end multi-segment alternative real estate investment fund	Investment in "core" and "core plus" income real estate assets located in the central areas of the main Italian cities, starting with Rome and Milan	100	31/12/20	249

ISIN - Name (€m)	Nature of entity	Activity of the Fund	NAV		
			% investment	Ref. date	Amount
IT0005212193 - DIAMOND ITALIAN PROPERTIES	Italian-registered, closed-end alternative real estate investment funds	Investment in real estate assets, real property rights, including those resulting from property lease-translational arrangements, concessions and other similar rights in accordance with the legislation from time to time in effect	100	30/06/20	156
QU0006738854 - Prima Credit Opportunity Fund	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	30/11/20	140
IT0005215113 - CBRE DIAMOND FUND	Italian-registered, closed-end alternative real estate investment funds	Investment in real estate assets, real property rights, including those resulting from property lease arrangements, participating interests in property companies and in units of alternative real estate funds	100	30/09/20	135
IT0005210593 - DIAMOND OTHER SECTOR ITALY	Italian-registered, closed-end alternative real estate investment funds	Investment in real estate assets, real property rights, including those resulting from property lease arrangements, participating interests in property companies and the professional management and development of the fund's assets	100	30/06/20	110
QU0006746865 - ALC Prima European Private Credit Feeder Fund	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	30/09/20	107
IT0005210387 - DIAMOND EUROZONE RETAIL PROPERTY FUND	Italian-registered, closed-end alternative real estate investment funds	Investment in "core" and "core plus" real estate assets for office use, located in the Eurozone and euro-denominated	100	30/09/20	101
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	30/09/20	100
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	30/11/20	80
QU0006742476 - PRIMA GLOBAL EQUITY PARTNERS FUND	Open-end harmonised UCITS	Investment in a mix of asset classes (corporate bonds, government bonds and equities)	100	30/09/20	77
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	30/09/20	70
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	30/09/20	17

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. The entities primarily regard open-end harmonised funds that invest in a mix of assets, such as corporate bonds, government bonds and equities, and closed-end real estate funds that invest in property and property rights. Certain details are provided below.

Nature of risk

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	6,037	1,356	4,681	Annual VaR 99.5% over a 5-year time horizon and 1-year half life
LU1407712014 - MULTIFLEX - Global Optimal Multi Asset Fund	Financial assets at FVTPL	5,129	919	4,209	Annual VaR 99.5% over a 5-year time horizon and 1-year half life
LU1407712287 - MULTIFLEX - Strategic Insurance Distribution	Financial assets at FVTPL	4,886	1,037	3,849	Annual VaR 99.5% over a 5-year time horizon and 1-year half life
LU1407711800 - MULTIFLEX - Dynamic Multi Asset Fund	Financial assets at FVTPL	4,321	645	3,676	Annual VaR 99.5% over a 5-year time horizon and 1-year half life
LU1193254122 - MFX - GLOBAL FUND - ASSET GLOBAL FUND (PIMCO MULTI ASSET)	Financial assets at FVTPL	4,191	904	3,287	Annual VaR 99.5% over a 5-year time horizon and 1-year half life
LU1808839242 - MULTIFLEX-OLYMP INSURN MA-CM	Financial assets at FVTPL	909	176	733	Annual VaR 99.5% over a 5-year time horizon and 1-year half life
LU1500341240 - MULTIFLEX-LT OPTIMAL M/A-CM	Financial assets at FVTPL	884	235	650	Annual VaR 99.5% over a 5-year time horizon and 1-year half life
LU1808838863 - MULTIFLEX-OLYMPIUM OPT MA-CM	Financial assets at FVTPL	614	136	477	Annual VaR 99.5% over a 5-year time horizon and 1-year half life
LU1500341752 - MULTIFLEX-DYNAMIC LT M/A-CM	Financial assets at FVTPL	567	80	486	Annual VaR 99.5% over a 5-year time horizon and 1-year half life
LU2051218035 - OLYMPIUM SEVERUM FUND	Financial assets at FVTPL	495	174	322	VaR at 99.5% over a time horizon of 1 year calculated from SII sensitivity markets
IT0004937691 - PRIMA HEDGE PLATINUM GROWTH ISIN IE00BK1KDS71	Financial assets at FVTPL	447	30	418	Provided by fund management company
IT0005174450 - DIAMOND EUROZONE FUND OFFICE UBS	Financial assets at FVTPL	383	174	209	VaR at 99.5% over a time horizon of 1 year calculated from SII sensitivity markets
QU0006744795 - Prima European Direct Lending 1 Fund	Financial assets at FVTPL	328	82	246	VaR at 99.5% over a time horizon of 1 year calculated from SII sensitivity markets
LU1500341166 - MULTIFLEX-OLYMPIUM DYNAMIC-MULTIASSET FUND	Financial assets at FVTPL	312	31	281	Annual VaR 99.5% over a 5-year time horizon and 1-year half life
IT0005247819 - Diamond Core	Financial assets at FVTPL	276	91	185	VaR at 99.5% over a time horizon of 1 year calculated from SII sensitivity markets
QU0006738052 - Prima EU Private Debt Opportunity Fund	Financial assets at FVTPL	275	36	238	VaR at 99.5% over a time horizon of 1 year calculated from SII sensitivity markets
IT0005386666 - Fund i3-Dante segment Convivio	Financial assets at FVTPL	249	62	186	VaR at 99.5% over a time horizon of 1 year calculated from SII sensitivity markets
IT0005212193 - DIAMOND ITALIAN PROPERTIES	Financial assets at FVTPL	156	47	109	VaR at 99.5% over a time horizon of 1 year calculated from SII sensitivity markets

ISIN - Name (€m)	Classification	Carrying amount	Maximum loss exposure	Difference between carrying amount and maximum loss exposure	Method to determine maximum loss exposure
QU0006738854 - Prima Credit Opportunity Fund	Financial assets at FVTPL	140	55	85	VaR at 99.5% over a time horizon of 1 year calculated from SII sensitivity markets
IT0005215113 - CBRE DIAMOND FUND	Financial assets at FVTPL	135	52	84	VaR at 99.5% over a time horizon of 1 year calculated from SII sensitivity markets
IT0005210593 - DIAMOND OTHER SECTOR ITALY	Financial assets at FVTPL	110	34	75	VaR at 99.5% over a time horizon of 1 year calculated from SII sensitivity markets
QU0006746865 - ALC Prima European Private Credit Feeder Fund	Financial assets at FVTPL	107	17	91	VaR at 99.5% over a time horizon of 1 year calculated from SII sensitivity markets
IT0005210387 - DIAMOND EUROZONE RETAIL PROPERTY FUND	Financial assets at FVTPL	101	36	65	VaR at 99.5% over a time horizon of 1 year calculated from SII sensitivity markets
QU0006745081 - Prima Real Estate Europe Fund I	Financial assets at FVTPL	100	45	54	VaR at 99.5% over a time horizon of 1 year calculated from SII sensitivity markets
LU1581282842 - Indaco SICAV SIF - Indaco CIFC US Loan	Financial assets at FVTPL	80	29	51	VaR at 99.5% over a time horizon of 1 year calculated from SII sensitivity markets
QU0006742476 - PRIMA GLOBAL EQUITY PARTNERS FUND	Financial assets at FVTPL	77	42	35	VaR at 99.5% over a time horizon of 1 year calculated from SII sensitivity markets
LU1081427665 - SHOPPING PROPERTY FUND 2	Financial assets at FVTPL	46	20	25	VaR at 99.5% over a time horizon of 1 year calculated from SII sensitivity markets
IT0004597396 - ADVANCE CAPITAL ENERGY FUND	Financial assets at FVTPL	15	8	6	VaR at 99.5% over a time horizon of 1 year calculated from SII sensitivity markets

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.

Asset class (€m)	Fair Value
Financial instruments	
Corporate bonds	14,043
Government bonds	10,214
Other investments net of liabilities	3,181
Equity instruments	1,719
Cash	2,412
Derivative financial instruments	
Swaps	5
Futures	(28)
Forwards	(150)
Total	**31,396**

Market traded on and UCITS (€m)	Fair Value
Germany (Frankfurt, Berlin, Munich)	5,421
Dublin	1,920
New York	3,275
Trace	3,520
London	2,129
Paris	549
Euronext	1,662
Tokyo	988
Singapore	798
Euromtf	365
Luxembourg	138
Eurotlx	508
Hong Kong	411
Other	8,190
Funds	1,522
Total	**31,396**

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

The valuation was carried out using an internal pricing tool that adopts simulation models consistent with the requirements of the reference accounting standards and takes into account the specific characteristics of the Plan.

First Cycle 2016-2018

At the end of the one-year retention period to which the 139,604 Phantom Stocks deriving from the finalisation of the Plan, which matured in 2018, were subject, the cash equivalent of the units fully paid out during the year amounted to approximately €1.5 million. The cost recognised for the first half of the year was about €0.1 million.

Second Cycle 2017-2019

Also the Second Cycle of the "Phantom Stock LTIP", awarded in 2017 (2017-2019), vested in 2019. The final number of phantom stocks awarded under the Plan totals 645,673, including 207,320 stocks subject to a one-year retention period. The cash value of the stocks granted in the year was approximately €4.7 million. The cost recognised in the period was approximately €0.3 million, whilst the liability recognised in amounts due to staff was approximately €1.7 million.

Third Cycle 2018-2020

At 31 December 2020, the total number of phantom stocks awarded to the 68 Beneficiaries of the Third Cycle of the Plan amount to 624,869 to the target. The cost recognised for 2020 was approximately €1.5 million, whilst the liability recognised in amounts due to staff was approximately €6 million.

Poste Italiane SpA

The effects on profit or loss of the above Long-Term Incentive scheme at 31 December 2020 for Poste Italiane SpA are shown below.

First Cycle 2016-2018

At the end of the one-year retention period to which the 100,683 Phantom Stocks deriving from the finalisation of the Plan, which matured in 2018, were subject, the cash equivalent of the units fully paid out during the year amounted to approximately €1.1 million. The cost recognised for the first half of the year was about €0.1 million.

Second Cycle 2017-2019

Also the Second Cycle of the "Phantom Stock LTIP", awarded in 2017 (2017-2019), vested in 2019. The final number of phantom stocks awarded under the Plan totals 595,131, including 156,778 stocks subject to a one-year retention period. The cash value of the stocks granted in the year was approximately €4.7 million. The cost recognised in the period was approximately €0.3, whilst the liability recognised in amounts due to staff was approximately €1.3 million.

Third Cycle 2018-2020

At 31 December 2020, the total number of phantom stocks awarded to the 63 Beneficiaries of the Third Cycle of the Plan amount to 584,656 to the target. The cost recognised for 2020 was approximately €1.5 million, whilst the liability recognised in amounts due to staff was approximately €5.6 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:

- 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[176].

Vesting of the Rights and 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

The valuation was carried out using an internal pricing tool that adopts simulation models consistent with the requirements of the reference accounting standards and takes into account the specific characteristics of the Plan.

First Cycle 2019-2021

The total number of Rights to receive Shares assigned for the First Cycle of the Plan concerns 106 Beneficiaries and was 632,679 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 2020 was approximately €2.3 million, whilst the specific equity reserve was approximately €4 million. The unit fair value of each Right at the valuation date is equal to its nominal value at the grant date (determined on the basis of stock market prices), discounted by the expected dividend rate and the risk-free interest rate and updated taking into account the best estimate of service conditions and performance (non-market based performance conditions) considering the best estimate of the service conditions and performance conditions (non-market based performance conditions).

176. 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%.

Second Cycle 2020-2022

The total number of Rights to receive Shares assigned for the Second Cycle of the Plan concerns 113 Beneficiaries and was 931,041 units, whose unit fair value at the grant date (5 March 2020 for the General Manager and 12 November 2020 for the BP Beneficiaries and Other Beneficiaries) was €5.42, €3.91 and €4.64, respectively. The cost recognised for 2020 was approximately €1.5 million, equivalent to the equity reserve specifically created. The unit fair value of each Right at the valuation date is equal to its nominal value at the grant date (determined on the basis of stock market prices), discounted by the expected dividend rate and the risk-free interest rate and updated taking into account the best estimate of service conditions and performance (non-market based performance conditions) considering the best estimate of the service conditions and performance conditions (non-market based performance conditions).

Poste Italiane SpA

The effects on profit or loss of the above Performance Share Long-Term Incentive scheme at 31 December 2020 for Poste Italiane SpA are shown below.

First Cycle 2019-2021

At 31 December 2020, the total number of Rights to receive Shares assigned for the First Cycle of the Performance Share Plan concerns 102 Beneficiaries and was 620,178 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 2020 was approximately €2.3 million, whilst the specific equity reserve was approximately €4 million. The unit fair value of each Right at the valuation date is equal to its nominal value at the grant date (determined on the basis of stock market prices), discounted by the expected dividend rate and the risk-free interest rate and updated taking into account the best estimate of service conditions and performance (non-market based performance conditions) considering the best estimate of the service conditions and performance conditions (non-market based performance conditions).

Second Cycle 2020-2022

The total number of Rights to receive Shares assigned for the Second Cycle of the Plan concerns 108 Beneficiaries and was 909,910 units, whose unit fair value at the grant date (5 March 2020 for the General Manager and 12 November 2020 for the BP Beneficiaries and Other Beneficiaries) was €5.42, €3.91 and €4.64, respectively. The cost recognised for 2020 was approximately €1.5 million, equivalent to the equity reserve specifically created. The unit fair value of each Right at the valuation date is equal to its nominal value at the grant date (determined on the basis of stock market prices), discounted by the expected dividend rate and the risk-free interest rate and updated taking into account the best estimate of service conditions and performance (service conditions) considering the best estimate of the service conditions and performance conditions (non-market based performance conditions).

Long-term incentive schemes: Stock Options

MLK delivery's long-term incentive scheme, which was approved by the subsidiary's Board of Directors on 10 December 2020, provides for the grant, free of charge, of a maximum number of stock options that entitle holders to subscribe for class Z shares of MLK delivery, i.e., shares issued to service the Plan without dividend and voting rights. The Plan has a total duration of five years and will end with the assignment of all Stock Options.

The cost recognised for 2020 is approximately €0.3 million, equivalent to the equity reserve specifically created for this case.

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 the specific organisational and operational aspects of BancoPosta and Poste Italiane SpA, 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, only applicable to the Parent Company Poste Italiane SpA 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 was 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:

- for 60% of the 5-year pro-rata incentive, for key personnel who benefit from both the short-term incentive system and the long-term incentive plan "Phantom Stock ILT 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 most recent short-term management incentive schemes (MBO 2019 and MBO 2020) provide, where the incentive exceeded 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 and 2020) 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

The valuation was carried out using an internal pricing tool that adopts simulation models consistent with the requirements of the reference accounting standards and takes into account the specific characteristics of the Plan.

At 31 December 2020, the number of Phantom Stocks relating to the 2017 and 2018 MBO plans in place was 170,613, relating mainly to personnel employed by the Parent Company. During the year, a cost adjustment of approximately €0.2 million was recognised, payments of €0.4 million were made and the liability recognised amounted to approximately €1.3 million.

The number of Rights to receive Shares, deriving from the new short-term MBO 2019 and 2020 incentive plan (the latter 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 89,133, mainly relating to personnel employed by the Parent Company. During the year, a cost of approximately €0.2 million was recognised and at 31 December 2020, a specific Shareholders' Equity reserve of approximately €0.4 million and a liability of approximately €0.3 million were recognised.

Severance payments on termination of employment

Severance payments to BancoPosta RFC Risk Takers on early termination are paid in accordance with the same procedures applied to short-term variable remuneration (MBO 2017) 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 2020 totals 117,725. During the year, a cost adjustment of approximately €0.3 million was recognised, payments of €0.5 million were made and the liability recognised amounted to approximately €0.9 million.

Key information on investments

This item breaks down as follows:

List of investments consolidates on a line-by-line basis

Name (Registered office) (€m)	% share	Share capital	Net profit / (loss) for the year	Equity
BancoPosta Fondi SpA SGR (Rome)	100.00%	12,000	20,477	51,785
Consorzio Logistica Pacchi ScpA (Rome)	100.00%	516	-	788
Consorzio per i Servizi di Telefonia Mobile ScpA (Rome)	100.00%	120	-	116
Consorzio PosteMotori (Rome)	80.75%	120	-	120
Europa Gestioni Immobiliari SpA (Rome)	100.00%	103,200	262	238,669
MLK Deliveries SpA (Milan)	70.00%	333	(2,787)	12,564
Poste Air Cargo Srl (Rome)	100.00%	1,000	1,880	3,023
PatentiViaPoste ScpA (Rome)	86.86%	120	-	124
PostePay SpA (Rome)	100.00%	7,561	184,560	436,915
Poste Tributi ScpA - in liquidation (Rome)* **	100.00%	-	901	-
Poste Vita SpA (Rome)*	100.00%	1,216,608	740,158	5,083,885
Poste Assicura SpA (Rome)*	100.00%	25,000	38,942	237,467
Postel SpA (Rome)	100.00%	20,400	1,926	85,507
SDA Express Courier SpA (Rome)	100.00%	5,000	45,457	59,488
sennder Italia Srl (Milan)	75.00%	40	929	5,266
Poste Welfare Servizi Srl (Rome)	100.00%	16	2,379	16,737
Poste Insurance Broker Srl (Rome)	100.00%	600	(96)	465

* 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.

** On 26 May 2020, the company was cancelled from the Register of Companies.

List of investments accounted for using yhe equity method

Name (Registered office) (€m)	Nature of investment	Carrying amount	% share	Assets	Liabilities	Equity	Revenue from sales and services	Net profit / (loss) for the year
Address Software Srl (Rome)	Subsidiary	372	51.00%	1,272	542	730	1,161	154
Anima Holding SpA (Milan) (a)	Associate	210,046	10.35%	2,147,129	888,472	1,258,657	714,722*	103,258
Conio Inc. (San Francisco) (b)	Associate	382	17.62%	1,611	551	1,060	180	(1,155)
FSIA Investimenti Srl (Milan) (c)	Associate	402,212	30.00%	1,418,869	80,821	1,338,048	26,623**	26,165
Indabox Srl (Rome)	Subsidiary	410	100.00%	557	244	313	430	-
ItaliaCamp Srl (Rome) (b)	Associate	147	19.40%	2,878	1,487	1,391	2,840	444
Kipoint SpA (Rome)	Subsidiary	1,476	100.00%	3,137	1,661	1,476	2,865	307
Uptime SpA - in liquidation (Rome) (b)	Subsidiary	-	100.00%	3,147	2,972	175	-	(2)
Other SDA Express Courier associate (d)	Associate	4						

a. Data derived from the latest consolidated interim accounts for the period ended 30 September 2020 approved by the company's board of directors.
b. Figures taken from the company's latest financial statements approved by the Board at 31.12.2019.
c. Figures including measurement of the SIA Group using the equity method and recognition of the related effects with regard to Purchase Price Allocation.
d. It refers to 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 (€m)	Grantor/beneficiary	Purpose	Amount disbursed/ received
Grants received			
Poste Italiane	Ministry of Education, Universities and Research	Financed training and research projects	460
Poste Italiane	Lazio Region	Financed training and research projects	36
Total			**496**
Grants disbursed			
PostePay	Fondazione Poste Insieme Onlus	Donation	223
Poste Vita	Fondazione Poste Insieme Onlus	Donation	223
Poste Italiane	Fondazione Poste Insieme Onlus	Donation	425
Poste Italiane	Biomedical University Foundation 2020	Donation	50
Poste Italiane	Casa Internazionale delle Donne	Donation	50
Poste Italiane	Associazione Telefono Rosa Onlus	Donation	50
Poste Italiane	Presidenza Consiglio Ministri - Protezione Civile	Donation	45
Poste Italiane	Fondazione Dynamo Camp Onlus 2020	Donation	30
Poste Italiane	Comunità San Patrignano SOC.COOP.SO	Donation	30
Poste Italiane	Vicariato di Roma Fondo Gesù Divino Salvatore	Donation	30
Poste Italiane	Save the children Italia Onlus	Donation	25
Poste Italiane	Associazione Rondine Cittadella della Pace	Donation	15
Poste Italiane	Fondazione Intercultura Onlus	Donation	14
Poste Italiane	Canovalandia Onlus 2020	Donation	10
Poste Italiane	Asd Laboratorio 0246	Donation	10
Total			**1,230**

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)	31.12.20	31.12.19
Post office savings books	103,715	101,842
Interest-bearing Postal Certificates	231,417	227,163
Cassa Depositi e Prestiti	173,584	165,548
MEF	57,833	61,615
Total	**335,132**	**329,005**

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 €10,063 million at 31 December 2020 (€9,442 million at 31 December 2019).

Commitments

The Group's purchase commitments break down as follows.

Commitments

Description (€m)	31.12.20	31.12.19
Lease arrangements	26	50
Contracts to purchase property, plant and equipment	45	94
Contracts to purchase intangible assets	29	54
Total	**100**	**198**

At 31 December 2020, the item Lease contracts includes commitments that do not fall under IFRS 16 - *Leases*.

In addition, at 31 December 2020, EGI SpA had substantially ceased its activities as an electricity wholesaler and did not purchase electricity on regulated futures markets.

Poste Italiane SpA's purchase commitments break down as follows.

Commitments

Description (€m)	31.12.20	related to Group companies	31.12.19	related to Group companies
Lease arrangements	26	2	54	11
Contracts to purchase property, plant and equipment	46	1	95	1
Contracts to purchase intangible assets	28	-	56	1
Total	**100**	**3**	**205**	**13**

At 31 December 2020, 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)	31.12.20	31.12.19
Sureties and other guarantees issued:		
by banks/insurance companies in the interests of Group companies in favour of third parties	391	357
by the Group in its own interests in favour of third parties	55	55
Total	**446**	**412**

Guarantees

Description (€m)	31.12.20	31.12.19
Sureties and other guarantees issued:		
by banks in the interests of Poste Italiane SpA in favour of third parties	295	275
by Poste Italiane SpA in the interests of subsidiaries in favour of third parties	57	47
letters of patronage issued by Poste Italiane SpA in the interests of subsidiaries	55	55
Total	**407**	**377**

Third-party Assets

The Group's third-party assets include, in addition to the amounts detailed in the table below for the Parent Company, material for the Covid-19 emergency within the scope of the Civil Protection contract for €3 billion, held in the warehouses of the subsidiary SDA Express Courier SpA.

Third-party Assets

Description (€m)	31.12.20	31.12.19
Bonds subscribed by customers held at third-party banks	2,592	3,375
Total	**2,592**	**3,375**

In addition to the above, at 31 December 2020, Poste Italiane SpA holds a further €2 million in assets belonging to Group companies.

Assets in the process of allocation

At 31 December 2020, 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 Regulations ror issuers

The following table shows[177] payable to the Parent Company's auditor, Deloitte & Touche, and companies within its network for 2020, presented in accordance with art. 149 duodecies of the CONSOB's Regulations for Issuers:

Disclosure of fees paid to independent Auditors

Type of services (€m)	Entity providing the service	2020 fees
Poste Italiane SpA		
Audit	Deloitte & Touche SpA	1,159
Attestation services	Deloitte & Touche SpA	463
Other services	Deloitte & Touche SpA	17
Other services	Deloitte & Touche network	25
Subsidiaries of Poste Italiane SpA		
Audit*	Deloitte & Touche SpA	1,509
Attestation services	Deloitte & Touche SpA	569
Other services	Deloitte & Touche SpA	-
Total		**3,742**

* Includes costs for the audit of funds managed by BPF SGR charged to savers for a total fee of €195 thousand.

177. Auditing services are expensed as incurred and reported in the audited financial statements. Any 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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14. BANCOPOSTA RFC'S SEPARATE REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

14.

BANCOPOSTA RFC'S SEPARATE REPORT
FOR THE YEAR ENDED
31 DECEMBER 2020

Contents

BANCOPOSTA RFC'S SEPARATE REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

Financial Statements

Balance sheet

Assets (figures in €)		**31 December 2020**	**31 December 2019**
10.	Cash and cash equivalents	6,404,127,761	4,313,694,951
20.	Financial assets measured at fair value through profit or loss	72,352,360	70,661,465
	a) financial assets held for trading	-	-
	b) financial assets designated at fair value	-	-
	c) other financial assets mandatorily measured at fair value	*72,352,360*	*70,661,465*
30.	Financial assets measured at fair value through other comprehensive income	42,638,326,216	36,798,745,848
40.	Financial assets measured at amortised cost	52,028,321,401	39,792,034,639
	a) due from banks	*6,344,289,302*	*4,694,045,131*
	b) due from customers	*45,684,032,099*	*35,097,989,508*
50.	Hedging derivatives	78,244,095	72,776,189
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	129,633,285	311,951,306
	a) current	-	-
	b) deferred	*129,633,285*	*311,951,306*
110.	Non-current assets and disposal groups held for sale	-	-
120.	Other assets	2,629,878,491	2,491,763,796
	Total assets	**103,980,883,609**	**83,851,628,194**

Balance sheet

Liabilities and equity (figures in €)		31 December 2020	31 December 2019
10.	Financial liabilities measured at amortised cost	86,109,541,953	70,378,845,309
	a) due to banks	*10,814,911,214*	*7,186,265,048*
	b) due to customers	*75,294,630,739*	*63,192,580,261*
	c) debt securities in issue	-	-
20.	Financial liabilities held for trading	19,813,389	14,701,804
30.	Financial liabilities designated at fair value	-	-
40.	Hedging derivatives	8,243,169,397	5,552,045,402
50.	Adjustments for changes in hedged financial liabilities portfolio (+/-)	-	-
60.	Tax liabilities	978,664,314	661,611,070
	a) current	-	-
	b) deferred	*978,664,314*	*661,611,070*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-
80.	Other liabilities	3,153,666,722	2,953,394,233
90.	Employee termination benefits	2,869,309	2,824,300
100.	Provisions for risks and charges:	213,498,475	327,258,828
	a) commitment and guarantees given	-	-
	b) pensions and similar obligations	-	-
	c) other provisions	*213,498,475*	*327,258,828*
110.	Valuation reserves	2,278,282,242	1,083,146,195
120.	Redeemable shares	-	-
130.	Equity instruments	-	-
140.	Reserves	2,352,582,101	2,267,115,140
150.	Share premium reserve	-	-
160.	Share capital	-	-
170.	Treasury shares (-)	-	-
180.	Profit/(Loss) for the year (+/-)	628,795,707	610,685,913
	Total liabilities and equity	**103,980,883,609**	**83,851,628,194**

Statement of Profit or loss

Items (figures in €)		FY 2020	FY 2019
10.	Interest and similar income	1,586,562,357	1,639,759,421
	of which: interest income calculated using the effective interest method	*1,586,562,357*	*1,639,759,421*
20.	Interest expense and similar charges	(89,265,394)	(74,238,340)
30.	**Net interest income**	**1,497,296,963**	**1,565,521,081**
40.	Fee income	3,582,077,042	3,794,094,221
50.	Fee expenses	(291,797,838)	(335,262,925)
60.	**Net fee and commission income**	**3,290,279,204**	**3,458,831,296**
70.	Dividends and similar income	406,922	429,921
80.	Profits/(Losses) on trading	6,530,477	(11,070,181)
90.	Profits/(Losses) on hedging	(2,146,775)	(4,496,098)
100.	Profits/(Losses) on disposal or repurchase of:	365,352,304	339,308,445
	a) financial assets measured at amortised cost	*63,032,233*	*(10,460,322)*
	b) financial assets measured at fair value through other comprehensive income	*302,320,071*	*349,768,767*
	c) financial liabilities	-	-
110.	Profits/(Losses) on other financial assets/liabilities measured at fair value through profit or loss	1,700,378	26,531,023
	a) financial assets and liabilities designated at fair value	-	-
	b) other financial assets mandatorily measured at fair value	*1,700,378*	*26,531,023*
120.	**Net interest and other banking income**	**5,159,419,473**	**5,375,055,487**
130.	Net losses/recoveries due to credit risk on:	(22,043,396)	(9,234,870)
	a) financial assets measured at amortised cost	*(15,818,813)*	*(10,886,543)*
	b) financial assets measured at fair value through other comprehensive income	*(6,224,583)*	*1,651,673*
140.	Profits//Losses from contract amendments without termination	-	-
150.	**Net income from banking activities**	**5,137,376,077**	**5,365,820,617**
160.	Administrative expenses:	(4,443,831,906)	(4,537,811,729)
	a) personnel expenses	*(33,902,283)*	*(35,844,313)*
	b) other administrative expenses	*(4,409,929,623)*	*(4,501,967,416)*
170.	Net provisions for risks and charges	69,288,109	(16,219,668)
	a) commitment and guarantees given	-	-
	b) other net provisions	*69,288,109*	*(16,219,668)*
180.	Net losses/recoveries on property, plant and equipment	-	-
190.	Net losses/recoveries on intangible assets	-	-
200.	Other operating income/(expense)	66,599,191	32,420,978
210.	**Operating expenses**	**(4,307,944,606)**	**(4,521,610,419)**
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**	**829,431,471**	**844,210,198**
270.	Taxes on income from continuing operations	(200,635,764)	(233,524,285)
280.	**Income/(Loss) after tax from continuing operations**	**628,795,707**	**610,685,913**
290.	Income/(Loss) after tax from discontinued operations	-	-
300.	**Profit/(Loss) for the year**	**628,795,707**	**610,685,913**

Statement of comprehensive income

Items (figures in €)		FY 2020	FY 2019
10.	**Profit/(Loss) for the year**	**628,795,707**	**610,685,913**
	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	(105,516)	210,366
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	(17,062,553)	26,792,931
130.	Hedges (elements not designated)	-	-
140.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income	1,212,304,116	1,041,309,295
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**	**1,195,136,047**	**1,068,312,592**
180.	**Comprehensive income (Items 10+170)**	**1,823,931,754**	**1,678,998,505**

Statement of changes in Equity

(figures in €)	31 December 2020									
	Share capital		Share premium reserve	Reserves		Valuation reserves	Equity instruments	Treasury shares	Profit/(Loss) for the year	Equity
	ordinary shares	other shares		retained earnings	other*					
Balance at 31/12/2019	**-**	**-**	**-**	**1,057,026,750**	**1,210,088,390**	**1,083,146,195**	**-**	**-**	**610,685,913**	**3,960,947,248**
Adjustments to opening balances	-	-	-	-	-	-	-	-	-	-
Balance at 01/01/2020	**-**	**-**	**-**	**1,057,026,750**	**1,210,088,390**	**1,083,146,195**	**-**	**-**	**610,685,913**	**3,960,947,248**
Attribution of retained earnings	**-**	**-**	**-**	**85,000,000**	**-**	**-**	**-**	**-**	**(610,685,913)**	**(525,685,913)**
Reserves	-	-	-	85,000,000	-	-	-	-	(85,000,000)	-
Dividends and other attributions	-	-	-	-	-	-	-	-	(525,685,913)	(525,685,913)
Changes during the year	**-**	**-**	**-**	**-**	**466,961**	**1,195,136,047**	**-**	**-**	**628,795,707**	**1,824,398,715**
Movements in reserves	-	-	-	-	466,961	-	-	-	-	466,961
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 2020	-	-	-	-	-	1,195,136,047	-	-	628,795,707	1,823,931,754
Equity at 31/12/2020	**-**	**-**	**-**	**1,142,026,750**	**1,210,555,351**	**2,278,282,242**	**-**	**-**	**628,795,707**	**5,259,660,050**

* This item represents the Reserve for BancoPosta RFC of €1,210 million and also includes the Incentive Plans Reserve of €0.6 million.

(figures in €)	31 December 2019									
	Share capital		Share premium reserve	Reserves		Valuation reserves	Equity instruments	Treasury shares	Profit/(Loss) for the year	Equity
	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 Incentive Plans Reserve of €0.1 million.

Statement of cash flows

Indirect method

(figures in €)		FY 2020	FY 2019
A.	**OPERATING ACTIVITIES**		
1.	**Cash flow from operations**	**689,520,140**	**754,202,690**
	- profit/(loss) for the year (+/-)	628,795,707	610,685,913
	- gains/(losses) on financial assets held for trading and on assets and liabilities measured at fair value through profit or loss (-/+)	8,809,605	(12,308,652)
	- gains/(losses) on hedging activities (-/+)	2,146,775	4,496,098
	- net losses/recoveries due to credit risk (+/-)	22,043,397	9,234,870
	- net losses/recoveries on property, plant and equipment and intangible assets (+/-)	-	-
	- net provisions and other expenses/income (+/-)	(53,807,805)	136,284,751
	- unpaid taxes and duties (+)	200,577,777	233,524,282
	- net losses/recoveries on discontinued operations after tax (+/-)	-	-
	- other adjustments (+/-)	(119,045,316)	(227,714,572)
2.	**Cash flow from/(used for) financial assets**	**(13,230,158,860)**	**(5,479,781,588)**
	- financial assets held for trading	-	-
	- financial assets designated at fair value	-	-
	- other financial assets mandatorily measured at fair value	9,483	13,911,081
	- financial assets measured at fair value through other comprehensive income	(2,342,172,617)	(1,038,739,773)
	- financial assets measured at amortised cost	(10,688,600,920)	(4,483,190,589)
	- other assets	(199,394,806)	28,237,693
3.	**Cash flow from/(used for) financial liabilities**	**15,156,757,443**	**6,308,408,020**
	- financial liabilities measured at amortised cost	15,730,722,989	6,429,614,758
	- financial liabilities held for trading	-	-
	- financial liabilities designated at fair value	-	-
	- other liabilities	(573,965,546)	(121,206,738)
Net cash flow from/(used for) operating activities		**2,616,118,723**	**1,582,829,122**
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 divisions	-	-
2.	**Cash flow used for**	**-**	**-**
	- acquisition of investments	-	-
	- acquisition of property, plant and equipment	-	-
	- acquisition of intangible assets	-	-
	- acquisition of business divisions	-	-
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	(525,685,913)	(596,808,586)
Net cash flow from / (used for) financing activities		**(525,685,913)**	**(596,808,586)**
NET CASH FLOW GENERATED / (USED) DURING THE YEAR		**2,090,432,810**	**986,020,536**

KEY:
(+) from
(-) used for

Reconciliation

Items (figures in €)	FY 2020	FY 2019
Cash and cash equivalents at beginning of the year	4,313,694,951	3,327,674,415
Net cash flow generated/(used) during the year	2,090,432,810	986,020,536
Cash and cash equivalents: effect of exchange rate fluctuations	-	-
Cash and cash equivalents at end of the year	**6,404,127,761**	**4,313,694,951**

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 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 in force at 31 December 2020, regarding which no derogations were made.

Accounting standards and interpretations applicable from 1 January 2020 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 have been prepared in accordance with the provisions of the sixth update of Bank of Italy Circular no. 262 of 22 December 2005 - "Bank's financial statements: layouts and preparation" and the Bank of Italy Communication of 15 December 2020 - Additions to the provisions of Circular no. 262 concerning the impact of Covid-19 and measures to support the economy and amendments to IAS/IFRS, where applicable, and have been prepared in accordance with the provisions 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 2020, has been prepared in euros and consists of the balance sheet, 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 balance sheet, 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 balance sheet, 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[178]. All figures in the notes are stated in millions of euros. Notes and account analysis have not been included for nil balances.

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

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. Poste Group companies, and thus BancoPosta RFC, as a going concern, prepare their financial statements on a going concern basis, taking account of the Group's economic and financial outlook, as reflected in the "2024 Sustain & Innovate" strategic plan approved by the Board of Directors on 18 March 2021.

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.

The disclosures provided in these Separate Report are in accordance, to the extent applicable, with the guidance and recommendations of European regulatory and supervisory bodies and standard setters (EBA, ECB and IFRS Foundation) published in 2020 to provide a guideline in the current economic environment, which is heavily influenced by the pandemic.

Section 3 – Events after the end of the reporting period

On 27 January 2021, Poste Italiane's Board of Directors approved an amendment to BancoPosta RFC resulting in the removal of the restriction on the assets, properties and legal relationships that make up the Debit Business, to be submitted for final approval by Poste Italiane's Extraordinary Shareholders' Meeting, after obtaining all the authorisations required by current legislation and regulations; on 4 February 2021, PostePay's Extraordinary Shareholders' Meeting approved, among other things, a divisible capital increase to be subscribed and paid up by 30 September 2021 via the contribution in kind of the Debit Business by Poste Italiane.

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

Section 4 – Other information

4.1 Intersegment relations

Balances relating to transactions between BancoPosta RFC and Poste Italiane SpA ("Intersegment transactions") are recognised in the balance sheet at 31 December 2020 as shown below:

€m		31/12/2020	*of which intersegment*	31/12/2019	*of which intersegment*
	Assets				
10.	Cash and cash equivalents	6,404	-	4,314	-
20.	Financial assets measured at fair value through profit or loss	72	-	71	-
	a) financial assets held for trading	*-*	*-*	*-*	*-*
	b) financial assets designated at fair value	*-*	*-*	*-*	*-*
	c) other financial assets mandatorily measured at fair value	*72*	*-*	*71*	*-*
30.	Financial assets measured at fair value through other comprehensive income	42,638	-	36,799	-
40.	Financial assets measured at amortised cost	52,028	902	39,792	651
	a) due from banks	*6,344*	*-*	*4,694*	*-*
	b) due from customers	*45,684*	*902*	*35,098*	*651*
50.	Hedging derivatives	78	-	73	-
100.	Tax assets	130	-	312	-
120.	Other assets	2,631	22	2,491	83
	A Total assets	**103,981**	**924**	**83,852**	**734**
	Liabilities and equity				
10.	Financial liabilities measured at amortised cost	86,110	140	70,379	58
	a) due to banks	*10,815*	*-*	*7,186*	*-*
	b) due to customers	*75,295*	*140*	*63,193*	*58*
	c) debt securities in issue	*-*	*-*	*-*	*-*
20.	Financial liabilities held for trading	20	-	15	-
40.	Hedging derivatives	8,243	-	5,552	-
60.	Tax liabilities	979	-	662	-
80.	Other liabilities	3,153	491	2,953	442
90.	Employee termination benefits	3	-	3	-
100.	Provisions for risks and charges	213	-	327	-
110.	Valuation reserves	2,278	-	1,083	-
140.	Reserves	2,353	-	2,267	-
180.	Profit/(Loss) for the year (+/-)	629	-	611	-
	B Total liabilities and equity	**103,981**	**631**	**83,852**	**500**
	A-B Net intersegment balances		**293**		**234**

The provision of services to BancoPosta RFC by Poste Italiane SpA functions is governed by the specific *Regulations governing the process of awarding and outsourcing of BancoPosta RFC*, approved by Poste Italiane SpA's Board of Directors[179].

These Regulations, in execution of the provisions set out in the *Regulations for ring-fenced capital*, govern and formalise the process of awarding 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 Regulations 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, as established in the Regulations, 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 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, 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 2019, 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 transfer prices defined in the Guidelines are revised every year in connection with the planning and budget process. The Guidelines, which expired on 31 December 2020 and are being renewed for the two-year period 2021-2022, were notified to the Bank of Italy pursuant to the Supervisory Provisions and the 60-day period within which the authority could initiate the administrative prohibition procedure has elapsed.

For the purposes of oversight of the unbundled accounts, in 2020, the Board of Statutory Auditors conducted the relevant audit activities during 2 meetings, reporting its conclusions in its annual report to shareholders for the year ended 31 December 2020.

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.

Bank of Italy

On 5 May 2020, a communication from the Bank of Italy was received containing the results of the transparency audits it carried out from 23 May to 19 July 2019 at 24 Post Offices and headquarters, which concerned, among other things: the organisational structure of BancoPosta, the Group and the territorial network, the management of relations with external partners, and the management of payment not approved. In response to the feedback of the Bank of Italy, Poste Italiane has prepared a plan containing the corrective measures to be put in place with an indication of the implementation methods and timing, which was communicated to the Bank of Italy on 3 July 2020.

179. At its meeting of 12 May 2020, the Board of Directors approved an update to the "Regulations governing the process of awarding and outsourcing of BancoPosta RFC", regulating and formalising both the process of awarding BancoPosta's Corporate Functions to Poste Italiane and the process of outsourcing to third parties outside Poste Italiane's organisation.

CONSOB

In January 2020, the Consob launched an inspection of a general nature pursuant to article 6-*ter*, paragraph 1, of Legislative Decree no. 58 of 24 February 1998, aimed at ascertaining the compliance with the new MiFID II legislation. The inspection was completed on 23 October 2020. Poste Italiane is awaiting feedback from the Authority.

4.3 Risks, uncertainties and impacts of the Covid-19 pandemic

For a description of the principal risks and uncertainties arising from Covid-19, reference should be made to the section *Risk management - Covid risk management at Poste Italiane* in the Report on Operations.

It should also be noted that the uncertainties caused by the current pandemic were taken into account in the determination of the expected credit losses calculated in accordance with IFRS 9. In particular, the models used to assess the expected credit losses on the financial assets of BancoPosta RFC take account of the various macroeconomic scenarios characterised by greater risk and uncertainty and, as a result, additional impairments of approximately €12 million have been recognised, primarily relating to the securities portfolio and deposits with the MEF.

With regard to the adjustments made to the models, more detailed information is provided in Part E - Credit Risk.

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 instruments, 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[180];
- 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, where allowed by contract.

180. 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.

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”.

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” - HTCS 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 or loss in “Item 100 – Profits/(Losses) on disposal or repurchase”.

The effects of the application of amortised cost are recognised in profit or 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 or 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 sale. The only component that is reported in profit or 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.

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 the deposits with 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 or 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.

4 – Hedges

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 with reference to hedge accounting.

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.

Derivative contracts that constitute effective hedging relationships are shown as assets or liabilities depending on whether the fair value is positive or negative.

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 hedges

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, where the time effect of money is relevant, at a rate that reflects current market values and takes into account the risks specific to the liability. Provisions are reviewed at each reporting date and are adjusted to reflect the best estimate of the expected charge to meet existing obligations at the reporting date. Any effect of the passage of time and the effect of changes in interest rates are shown in the statement of profit or loss under net provisions for the year. 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 the expected cash flows and they can be reliably estimated, the value of amounts due 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.

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 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 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.

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 Eurozone government bonds, 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 method utilised is the "General deterioration 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 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.

For a detailed description of the approaches, reference is made to Part E – Section 1 – Credit risk.

Repurchase agreements

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. Consequently, in the case of securities purchased under a resale agreement, the amount paid is recognised as an amount due from customers or banks under Financial assets measured at amortised cost; in the case of securities sold under a repurchase agreement, the liability is recognised as an amount due to banks or customers under Financial liabilities measured at amortised cost. The transactions described are subject to offsetting if, and only if, they are carried out with the same counterparty, have the same maturity and offsetting is provided for in the contract.

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[181].
  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.

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

The preparation of financial information requires the use of estimates and assumptions that can have a significant effect on the final values indicated in the financial statements and in the disclosure provided. The preparation of these estimates involves the use of available information and the adoption of subjective assessments, also based on historical experience, used for the formulation of reasonable assumptions for the recognition of operating events. 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. Due to their nature, the estimates and assumptions used may vary from year to year and, therefore, it cannot be excluded that in subsequent years, the values recorded in this Separate Report may also vary significantly as a result of changes in the subjective valuations used.

The following section describes the accounting treatments that require greater subjectivity in the preparation of estimates and for which a change in the conditions underlying the assumptions used could have a material impact on the Separate Report, also taking account of the effects of the health emergency linked to the spread of the Coronavirus pandemic, which has had a significant impact on the economic and social context and makes it difficult to make realistic forecasts regarding the economic and financial outlook for the market and the Poste Italiane Group.

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.

With regard to trade receivables, on the other hand, stage allocation is not applied in accordance with the Simplified Approach. Impairment, for these items in the financial statements, is based on:

- analytical impairment: when a defined credit threshold is exceeded, the individual credit position is analytically monitored on the basis of internal or external evidence; or
- on a flat-rate basis impairment: elaboration of a provision matrix for historical losses.

For further details, please refer to Part E - Credit Risk.

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.

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 described in detail in Part I, the valuation of the Poste Italiane Group's existing share-based payment arrangements at the end of this Separate Report has been carried out using an internal pricing tool that adopts simulation models that meet the requirements of the relevant accounting standards and take account of the specific characteristics of the Plans. 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 this Separate Report.

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.

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 general principles for measuring financial instruments at fair value have been updated since 31 December 2019 primarily to review roles and responsibilities in the process of establishing and implementing the policy. These general principles 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[182].

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.

182. Given the nature of BancoPosta RFC's operations, the observable data used as input to determine the fair value of the various instruments include, for example, quoted prices provided by third parties (pricing or brokerage services), yield and inflation curves, 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.

- 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 30.71%.

A.4.3 Fair value hierarchy

The primary factors contributing to transfers between fair value levels include changes in the observability of significant inputs and market conditions (including the liquidity parameter) and refinements in valuation models used in measuring fair value.

For all classes of assets and liabilities, the transfer from one level to another takes place on the date of the event or change in circumstances that led to the transfer.

Information on transfers during the period is provided in Part A.4.5 - 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: breakdown by fair value level

Assets/Liabilities measured at fair value (€m)		31.12.2020			31.12.2019		
		Level 1	Level 2	Level 3*	Level 1	Level 2	Level 3*
1.	Financial assets measured at fair value through profit or loss	-	38	34	-	-	71
	a) financial assets held for trading	-	-	-	-	-	-
	b) financial assets designated at fair value	-	-	-	-	-	-
	c) other financial assets mandatorily measured at fair value	-	*38*	*34*	-	-	*71*
2.	Financial assets measured at fair value through other comprehensive income	42,324	314	-	36,506	293	-
3.	Hedging derivatives	-	78	-	-	73	-
4.	Property, plant and equipment	-	-	-	-	-	-
5.	Intangible assets	-	-	-	-	-	-
Total		**42,324**	**430**	**34**	**36,506**	**366**	**71**
1.	Financial liabilities held for trading	-	20	-	-	15	-
2.	Financial liabilities designated at fair value	-	-	-	-	-	-
3.	Hedging derivatives	-	8,243	-	-	5,552	-
Total		**-**	**8,263**	**-**	**-**	**5,567**	**-**

* Notes on this position are provided in Part B, Assets, Table 2.5.

A.4.5.2 Changes 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	**71**	**-**	**-**	**71**	**-**	**-**	**-**	**-**
2. Increases	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1. Purchases	-	-	-	-	-	-	-	-
2.2. Profit recognition:	-	-	-	-	-	-	-	-
2.2.1. Profit or loss	-	-	-	-	-	-	-	-
- of which gains	-	-	-	-	-	-	-	-
2.2.2. Equity	-	x	x	x	-	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-	-	-
2.4. Other increases	-	-	-	-	-	-	-	-
3. Decreases	**(37)**	**-**	**-**	**(37)**	**-**	**-**	**-**	**-**
3.1. Sales	-	-	-	-	-	-	-	-
3.2. Redemptions	-	-	-	-	-	-	-	-
3.3. Impairment recognition:	(6)	-	-	(6)	-	-	-	-
3.3.1. Profit or loss	(6)	-	-	(6)	-	-	-	-
- of which losses	(6)	-	-	(6)	-	-	-	-
3.3.2. Equity	-	x	x	x	-	-	-	-
3.4. Transfers to other levels	(31)	-	-	(31)	-	-	-	-
3.5. Other decreases	-	-	-	-	-	-	-	-
4. Closing balance	**34**	**-**	**-**	**34**	**-**	**-**	**-**	**-**

During the reporting period, the changes that occurred include €6 million to the change in fair value of the Series C Visa Incorporated Convertible Participating Preferred Stock and €31 million to the transfer from Level 3 to Level 2 of a portion of the Visa Incorporated Series C Preferred Stock converted to Series A Preferred Stock on 24 September 2020, as described in Part B, Section 2 of Assets.

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 31/12/2020				Total at 31/12/2019			
	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	52,028	31,188	3,573	18,772	39,792	20,613	4,073	14,728
2. Property, plant and equipment held for investment purposes	-	-	-	-	-	-	-	-
3. Non-current assets and disposal groups held for sale	-	-	-	-	-	-	-	-
Total	**52,028**	**31,188**	**3,573**	**18,772**	**39,792**	**20,613**	**4,073**	**14,728**
1. Financial liabilities measured at amortised cost	86,110	-	14,380	71.762	70,379	-	11,047	59,343
2. Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-	-
Total	**86,110**	**-**	**14,380**	**71,762**	**70,379**	**-**	**11,047**	**59,343**

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 balance sheet

Assets

Section 1 – Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: breakdown

(€m)	Total at 31/12/2020	Total at 31/12/2019
a) Cash	3,042	3,500
b) Central Bank deposit	3,362	814
Total	**6,404**	**4,314**

"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 €15 million.

The increase in the sub-item "Central bank deposits" is due to temporary excess liquidity deriving from private customer deposits on the account opened with the Bank of Italy, intended for interbank settlements, and not yet invested.

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 2020 or 31 December 2019.

BancoPosta RFC entered into transactions to acquire and immediately dispose of debt securities and equities on behalf of certain customers.

2.3 / 2.4 Financial assets designated at fair value: breakdown by type and by debtor/issuer

There are no financial assets designated 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 31/12/2020			Total at 31/12/2019		
	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	**-**	**38**	**34**	**-**	**-**	**71**
3. UCIs	**-**	**-**	**-**	**-**	**-**	**-**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	**-**	**38**	**34**	**-**	**-**	**71**

Investments in equity securities refer to:

- for €34 million, 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 6.853[183] ordinary shares for each C share, minus a suitable illiquidity discount. These shares can be converted into several tranches starting from the fourth year after closing and up to the twelfth year. On 21 June 2020 (the fourth year after closing), the process of determining the proportion of convertibility and related rate of Visa Incorporated Series C Convertible Participating Preferred Stock commenced, partially concluded on 24 September 2020 with the grant of 2,199 preference shares of Visa Incorporated Series A Preferred Stock;
- for €38 million, the fair value of 2,199 Visa Incorporated preference shares (Series A Preferred Stock); these shares are convertible into ordinary shares on the basis of a ratio of one hundred ordinary shares for every share of Class A Preferred Stock.

The overall net change in fair value during the year is a positive €2 million and is recorded in profit or loss under "Item 110 - Profits (Losses) of other financial assets and liabilities measured at fair value through profit or loss".

Given the conversion rate at 31 December 2020, the VISA Incorporated preference shares (Series A and C) held in the portfolio correspond to 439,600 VISA Incorporated ordinary shares.

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 fair value of the forward sale has decreased by €5 million in the reporting year, reflecting movements in both the price of the shares in dollars and the euro/dollar exchange rate. This reduction has been recognised in profit or loss in "Item 80 - Profits (Losses) on trading".

2.6 Other financial assets mandatorily measured at fair value: breakdown by debtor/issuer

(€m)	Total at 31/12/2020	Total at 31/12/2019
1. Equity instruments	**72**	**71**
of which: banks	-	-
of which: other financial companies	72	71
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	**-**	**-**
a) Central banks	-	-
b) Public Administration entities	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**72**	**71**

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 (€m)	Total at 31/12/2020			Total at 31/12/2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**42,324**	**314**	**-**	**36,506**	**293**	**-**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	42,324	314	-	36.506	293	-
2. Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**42,324**	**314**	**-**	**36,506**	**293**	**-**

Investments in debt securities are recognised at fair value, for €42,638 million (of which €292 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 31/12/2020	Total at 31/12/2019
1. Debt securities	**42,638**	**36,799**
a) Central banks	-	-
b) Public Administration entities	42,638	36,799
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 Administration entities	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**42,638**	**36,799**

Debt securities issued by governments include Eurozone fixed income government bonds, represented by Italian government securities with a nominal value of €33,569 million. Total fair value fluctuation for the period was positive for €3,645 million, with gains of €1,947 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 €1,698 million recognised through profit or loss in relation to the hedged portion.

Securities with a nominal value of €8,615 million are encumbered as follows:

- €7,526 million, carried at fair value for €8,883 million (Part B, Other Information, Table 3), and delivered to counterparties in connection with repurchase agreements concluded prior to 31 December 2020;
- €172 million, carried at fair value for €177 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;
- €880 million, carried at fair value for €894 million, and delivered to the Bank of Italy to secure an intraday credit line;
- €37 million carried at fair value for €37 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

(€m)	Gross amount				Total impairment losses			*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	42,656	-	-	-	18	-	-	-
Loans	-	-	-	-	-	-	-	-
Total at 31/12/2020	**42,656**	**-**	**-**	**-**	**18**	**-**	**-**	**-**
of which: purchased or originated 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 2020 amount to €18 million (€11 million at 31 December 2019).

Section 4 – Financial assets measured at amortised cost – Item 40

4.1 Financial assets measured at amortised cost: breakdown of amounts due from banks by type

Type of transactions/Amounts (€m)	Total at 31/12/2020						Total at 31/12/2019					
	Carrying amount			Fair Value			Carrying amount			Fair Value		
	Stage 1 and 2	Stage 3	of which: purchased or originated impaired	Level 1	Level 2	Level 3	Stage 1 and 2	Stage 3	of which: purchased or originated impaired	Level 1	Level 2	Level 3
A. Due from Central Banks	**-**	**-**	**-**				**-**	**-**	**-**			
1. Time deposits	-	-	-	x	x	x	-	-	-	x	x	x
2. Compulsory reserve	-	-	-	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	**6,344**	**-**	**-**				**4,694**	**-**	**-**			
1. Loans	6,344	-	-				4,694	-	-			
1.1 Current accounts and demand deposits	4	-	-	x	x	x	4	-	-	x	x	x
1.2 Time deposits	-	-	-	x	x	x	-	-	-	x	x	x
1.3 Other loans:	6,340	-	-	x	x	x	4,690	-	-	x	x	x
- Reverse repurchase agreements	-	-	-	x	x	x	-	-	-	x	x	x
- Finance leases	-	-	-	x	x	x	-	-	-	x	x	x
- Other	6,340	-	-	x	x	x	4,690	-	-	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	**6,344**	**-**	**-**	**-**	**-**	**6,344**	**4,694**	**-**	**-**	**-**	**-**	**4,694**

"Other loans, Other" includes cash collateral held by counterparties for interest rate swaps (€6,289 million as collateral pursuant to Credit Support Annexes), entered into for cash flow and fair value hedging purposes by BancoPosta RFC.

In addition, "Other loans, Other" includes trade receivables for €52 million arising from contracts with customers, accounted for in accordance with IFRS 15 (€70 million at 31 December 2019) mainly relating to financial services and personal loan distribution.

4.2 Financial assets measured at amortised cost: breakdown of amounts due to customers by type

Type of transactions/Amounts (€m)	Total at 31/12/2020						Total at 31/12/2019					
	Carrying amount			Fair Value			Carrying amount			Fair Value		
	Stage 1 and 2	Stage 3	of which: purchased or originated impaired	Level 1	Level 2	Level 3	Stage 1 and 2	Stage 3	of which: purchased or originated impaired	Level 1	Level 2	Level 3
1. Loans	**12,429**	**-**	**-**				**10,034**	**-**	**-**			
1.1 Current accounts	5	-	-	x	x	x	8	-	-	x	x	x
1.2 Reverse repurchase agreements	1	-	-	x	x	x	-	-	-	x	x	x
1.3 Mortgages	-	-	-	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	12,423	-	-	x	x	x	10,026	-	-	x	x	x
2. Debt securities	**33,255**	**-**	**-**				**25,064**	**-**	**-**			
2.1 Structured securities	-	-	-	x	x	x	-	-	-	x	x	x
2.2 Other debt securities	33,255	-	-	x	x	x	25,064	-	-	x	x	x
Total	**45,684**	**-**	**-**	**31,188**	**3,573**	**12,428**	**35,098**	**-**	**-**	**20,613**	**4,073**	**10,034**

A description of "Loans" is provided below.

The sub-item "Reverse repurchase agreements" refers to agreements of €364 million entered into with the Cassa di Compensazione e Garanzia SpA (hereinafter the Central Counterparty) for the temporary use of liquidity from private customer deposits. These transactions are guaranteed by securities for a total nominal amount of €360 million. The fair value of Reverse repurchase agreements is shown in Level 2 of the fair value hierarchy.

Financial assets and liabilities relating to repurchase agreements managed through the Central Counterparty that meet the requirements of IAS 32 are offset. The effect of netting at 31 December 2020, already included in the exposure to net balances, amounted to €363 million (€1,158 million at 31 December 2019).

"Other loans" primarily consist of:

- €7,344 million, €8 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[184]. The deposit has been adjusted to reflect accumulated impairments of €4 million, to reflect the risk of counterparty default (€3 million at 31 December 2019). During 2020, in the phase of increasing returns following the onset of the pandemic, (operating) hedging derivative contracts were entered into on the 10-year indexed remuneration component. The hedging transaction was carried out through forward purchases of the 10-year BTP with settlement of the differential between the pre-set price of the security and its market value. These transactions generated positive effects of €11 million, recorded in the statement of profit or loss in "Item 80 - Profits/(Losses) on trading";
- €1,205 million in cash collateral held by counterparties for interest rate swaps (collateral pursuant to Credit Support Annexes), entered into for cash flow and fair value hedging purposes by BancoPosta RFC;
- €902 million in amounts receivable from Poste Italiane SpA's functions outside the ring-fence, €901 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;

- €1,988 million, €3 million of which being accrued net interest expense, in deposits at the MEF (the "Buffer account"), remunerated at the EONIA rate[185];
- €432 million in fees receivable from Cassa Depositi e Prestiti during the year in connection with postal savings;
- €220 million in amounts due from PostePay for services relating to the placement of payment products;
- €214 million from Poste Vita in respect of commissions deriving from the placement of insurance policies;
- €24 million in amounts due for the payment of pensions and vouchers on behalf of INPS (the National Institute of Social Security).

Receivables arisen from contracts with customers, which fall within the scope of IFRS 15, amount to €991 million (€782 million at 31 December 2019). These are mainly due to financial services, pension payments, interest on postal deposits, and personal loan distribution, net of any loss provisions for €47 million (€40 million at 31 December 2019). 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 €26,157 million. Their carrying amount of €33,255 million reflects the amortised cost of unhedged fixed income instruments, totalling €11,380 million, the amortised cost of fair-value hedged fixed income bonds, totalling €17,485 million, increased by €4,390 million to take into account the effects of the hedge (€2,871 million related to 2019). The value of these securities was adjusted to take into account the related impairments. Accumulated impairments at 31 December 2020 amount to approximately €15 million (€8 million at 31 December 2019).

At 31 December 2020 the total fair value of these instruments, inclusive of €236 million in accrued interest, amounts to €34,760 million, of which €31,188 million classified in Level 1 of the fair value hierarchy and €3,572 million classified in Level 2.

Securities with a nominal value of €6,427 million are encumbered as follows:

- €5,930 million, carried at amortised cost for €6,366 million (Part B, Other Information, Table 3), and delivered to counterparties in connection with repurchase agreements concluded at 31 December 2020;
- €497 million, carried at amortised cost for €603 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.

4.3 Financial assets measured at amortised cost: breakdown of amounts due from customers by debtor/issuer

Type of transactions/Amounts (€m)	Total at 31/12/2020			Total at 31/12/2019		
	Stage 1 and 2	Stage 3	of which: purchased or originated impaired assets	Stage 1 and 2	Stage 3	of which: purchased or originated impaired assets
1. Debt securities	**33,255**	**-**	**-**	**25,064**	**-**	**-**
a) Public Administration entities	29,955	-	-	21,118	-	-
b) Other financial companies	3,300	-	-	3,946	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	-	-	-	-	-	-
2. Loans to:	**12,429**	**-**	**-**	**10,034**	**-**	**-**
a) Public Administration entities	9,397	-	-	7,625	-	-
b) Other financial companies	2,111	-	-	1,723	-	-
of which: insurance companies	223	-	-	147	-	-
c) Non-financial companies	917	-	-	680	-	-
d) Households	4	-	-	6	-	-
Total	**45,684**	**-**	**-**	**35,098**	**-**	**-**

Securities related to “Other financial companies” for a carrying amount of €3,300 million refer to fixed-rate securities for a total nominal amount of €3,000 million issued by Cassa Depositi e Prestiti and guaranteed by the Italian State.

4.4 Financial assets measured at amortised cost: gross amount and total impairment

Items/Amounts (€m)	Gross amount				Total impairment			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	33,270	-	-	-	15	-	-	-
Loans	17,734	-	1.106	13	4	63	13	-
Total at 31/12/2020	**51,004**	**-**	**1.106**	**13**	**19**	**63**	**13**	**-**
Total at 31/12/2019	**38,951**	**-**	**908**	**13**	**11**	**56**	**13**	**-**
of which: purchased or originated 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 31/12/2020			Notional amount* at 31/12/2020	Fair value at 31/12/2019			Notional amount* at 31/12/2019
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives	**-**	**78**	**-**	**2,275**	**-**	**73**	**-**	**1,520**
1) Fair value	-	10	-	1,220	-	11	-	745
2) Cash flow	-	68	-	1,055	-	62	-	775
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flow	-	-	-	-	-	-	-	-
Total	**-**	**78**	**-**	**2,275**	**-**	**73**	**-**	**1,520**

* 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: breakdown by hedged portfolio and type of hedge

Transactions/Type of hedge (€m)	Fair Value							Cash flow		Foreign investments
	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	6	-	-	-	x	x	x	68	x	x
2. Financial assets measured at amortised cost	4	x	-	-	x	x	x	-	x	x
3. Portfolio	x	x	x	x	x	x	-	x	-	x
4. Other transactions	-	-	-	-	-	-	x	-	x	-
Total assets	**10**	**-**	**-**	**-**	**-**	**-**	**-**	**68**	**-**	**-**
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 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	-	2	-	-	13	-	34	6	47	8
Deferred tax assets through Equity	32	6	31	6	-	-	-	-	63	12
2020 total	**32**	**8**	**31**	**6**	**13**	**-**	**34**	**6**	**110**	**20**
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**

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	1	2	-	-	1	2
Deferred tax liabilities through Equity	769	144	53	10	822	154
2020 total	**770**	**146**	**53**	**10**	**823**	**156**
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**

10.3 Changes in deferred tax assets through Profit or loss

(€m)	Total at 31/12/2020	Total at 31/12/2019
1. Opening balance	**79**	**137**
2. Increases	**1**	**2**
2.1 Deferred tax assets recognised in the year	1	2
a) relating to previous years	-	1
b) due to changes in accounting policies	-	-
c) write-backs	1	1
d) other	-	-
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**(25)**	**(60)**
3.1 Deferred tax assets derecognised in the year	(25)	(60)
a) reversals	(19)	(55)
b) write-downs of non-recoverable items	-	(5)
c) due to changes in accounting policies	(6)	-
d) other	-	-
3.2 Reductions of tax rates	-	-
3.3 Other decreases:	-	-
a) transformation into tax credit pursuant to Law 214/2011	-	-
b) other	-	-
4. Closing balance	**55**	**79**

10.4 Changes in deferred tax liabilities through Profit or loss

(€m)	Total at 31/12/2020	Total at 31/12/2019
1. Opening balance	**-**	**-**
2. Increases	**(4)**	**-**
2.1 Deferred tax liabilities recognised in the year	(4)	-
a) relating to previous years	-	-
b) due to changes in accounting policies	(2)	-
c) other	(2)	-
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**1**	**-**
3.1 Deferred tax liabilities derecognised in the year	1	-
a) reversals	-	-
b) due to changes in accounting policies	-	-
c) other	1	-
3.2 Reductions of tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**(3)**	**-**

10.5 Changes in deferred tax assets through Equity

(€m)	Total at 31/12/2020	Total at 31/12/2019
1. Opening balance	**233**	**370**
2. Increases	**24**	**11**
2.1 Deferred tax assets recognised in the year	24	11
a) relating to previous years	-	-
b) due to changes in accounting policies	-	-
c) other	24	11
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**(182)**	**(148)**
3.1 Deferred tax assets derecognised in the year	(182)	(148)
a) reversals	(62)	(11)
b) write-downs of non-recoverable items	-	-
c) due to changes in accounting policies	-	-
d) other	(120)	(137)
3.2 Reductions of tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**75**	**233**

10.6 Changes in deferred tax liabilities through Equity

(€m)	Total at 31/12/2020	Total at 31/12/2019
1. Opening balance	**(662)**	**(372)**
2. Increases	**(448)**	**(416)**
2.1 Deferred tax liabilities recognised in the year	(448)	(416)
a) relating to previous years	-	-
b) due to changes in accounting policies	-	-
c) other	(448)	(416)
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**134**	**126**
3.1 Deferred tax liabilities derecognised in the year	134	126
a) reversals	134	96
b) due to changes in accounting policies	-	-
c) other	-	30
3.2 Reductions of tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**(976)**	**(662)**

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.

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 31/12/2020	Total at 31/12/2019
Tax receivables from revenue agency	349	336
Items in process	612	554
Current tax assets receivable from Poste Italiane SpA outside the ring-fence	15	77
Other items	1,654	1,525
Total	**2,630**	**2,492**

Tax receivables refer mainly to advances paid to the tax authorities, of which: €320 million for stamp duty to be paid virtually in 2021 and €11 million for withholding tax on interest payable to current account holders in 2020, 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 €14 million;
- €68 million in withdrawals from BancoPosta ATMs yet to be debited to customer accounts or awaiting settlement;
- amounts to be charged to PostePay SpA for €72 million (mainly in the first few days of 2021).

“Other items” include mainly:

- €1,474 million in stamp duty accrued to 31 December 2020 payable by holders of outstanding Interest-bearing Postal Certificates[186]. 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;
- €118 million relating to stamp duty charged to Postal Savings Books, which BancoPosta RFC pays in virtual form as required by law.

The sub-item “Current tax assets receivable from Poste Italiane SpA outside the ring-fence” is commented in Section 8 of Liabilities.

186. 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 amounts due to banks by type

Type of transactions/Amounts (€m)	Total at 31/12/2020				Total at 31/12/2019			
	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	**10,815**	**x**	**x**	**x**	**7,186**	**x**	**x**	**x**
2.1 Current accounts and demand deposits	720	x	x	x	383	x	x	x
2.2 Time deposits	-	x	x	x	-	x	x	x
2.3 Loans	9,701	x	x	x	6,690	x	x	x
2.3.1 Repurchase agreements	9,701	x	x	x	6,690	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	394	x	x	x	113	x	x	x
Total	**10,815**	**-**	**9,731**	**1,114**	**7,186**	**-**	**6,699**	**496**

At 31 December 2020, €9,701 million is due to banks under the terms of “Loans, repurchase agreements” entered into with primary financial institutions involving securities with a total nominal value of €8,856 million. These regard €5,109 million in Long Term Repos and €4,592 million in loans, with the resulting proceeds invested in Italian fixed income government securities and utilised as funding for incremental deposits used as collateral in collateralisation transactions. At 31 December 2020, repurchase agreements with a nominal value of €900 million were subject to fair value hedges, entered into during the year to hedge interest rate risk.

Repurchase agreements are classified as fair value Level 2 transactions, whereas the fair value of other types of transaction included in this line item approximates to their carrying amounts and they are classified as Level 3.

The sub-item “Other payables” includes €392 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 credit lines amounting to €1,017 million, overdraft facilities for €148 million and arrangements for the issue of personal guarantees for €620 million granted to Poste Italiane SpA, undrawn at 31 December 2020.

In addition, from 26 June 2020, it may access a 3-year committed facility granted by Cassa Depositi e Prestiti for repurchase agreements up to a maximum of €4.25 billion, unused at 31 December 2020.

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 €880 million, and the facility is unused at 31 December 2020.

1.2 Financial liabilities measured at amortised cost: breakdown of amounts due to customers by type

Type of transactions/Amounts (€m)	Total at 31/12/2020				Total at 31/12/2019			
	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	65,882	x	x	x	53,555	x	x	x
2. Time deposits	-	x	x	x	-	x	x	x
3. Loans	8,235	x	x	x	8,888	x	x	x
3.1 Repurchase agreements	4,647	x	x	x	4,346	x	x	x
3.2 Other	3,588	x	x	x	4,542	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	1,178	x	x	x	750	x	x	x
Total	**75,295**	**-**	**4,649**	**70,648**	**63,193**	**-**	**4,348**	**58,847**

The sub-item "Current accounts and demand deposits" include €7,044 million in postal current accounts held by PostePay SpA mainly relating to the deposit of income from prepaid cards, €484 million in postal current accounts held by PosteVita SpA and €140 million in current accounts held by Poste Italiane outside the ring-fence.

At 31 December 2020 "Loans, repurchase agreements" amount to €5,010 million, reflecting transactions entered into with Central Counterparty in relation to securities with a nominal amount of €4,599 million. These regard €1,974 million in Long Term Repos and €3,036 million in loans, with the resulting proceeds invested in Italian fixed income government securities and utilised as funding for incremental deposits used as collateral in collateralisation transactions.

Financial assets and liabilities relating to repurchase agreements managed through the Central Counterparty that meet the requirements of IAS 32 are offset. The effect of netting at 31 December 2020, already included in the exposure to net balances, amounted to €363 million (€1,158 million at 31 December 2019).

The sub-item "Loans, Other" consist of the net amount of €3,588 million deposited in the MEF account held at the Treasury, which breaks down as follows:

- the balance of cash flows for advances, amounting to €3,602 million, represents the net amount payable as a result of advances from the MEF to meet the cash requirements of BancoPosta;
- net balance of cash flows from the management of postal savings of €192 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 2020, the balance consisted of a receivable of €146 million owed to Cassa Depositi e Prestiti and a receivable of €46 million owed to the MEF for issues of Interest-bearing Postal Certificates attributable to Cassa Depositi e Prestiti;
- amounts payable due to thefts suffered by Post Offices of €159 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 €19 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 €784 million, and postal money orders for €381 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.

Section 2 – Financial liabilities held for trading – Item 20

Type of transactions/Amounts (€m)	Total at 31/12/2020					Total at 31/12/2019				
	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		-	20	-			-	15	-	
1.1 Trading	x	-	-	-	x	x	-	-	-	x
1.2 Connected to the fair value option	x	-	-	-	x	x	-	-	-	x
1.3 Other	x	-	20	-	x	x	-	15	-	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	**-**	**-**	**20**	**-**	**-**	**-**	**-**	**15**	**-**	**-**
Total (A+B)	**-**	**-**	**20**	**-**	**-**	**-**	**-**	**15**	**-**	**-**

* Fair value calculated excluding any changes in value due to changes in the credit standing of the issuer over the date of issue.

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 designated at fair value – Item 30

No financial liabilities are held in portfolio designated at fair value through profit or loss (the "fair value option").

Section 4 – Hedging Derivatives – Item 40

4.1 Hedging derivatives: breakdown by type of hedge and level

(€m)	Fair value at 31/12/2020			Notional amount* at 31/12/2020	Fair value at 31/12/2019			Notional amount* at 31/12/2019
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives	**-**	**8,243**	**-**	**32,928**	**-**	**5,552**	**-**	**27,344**
1) Fair value	-	8,121	-	29,814	-	5,450	-	24,945
2) Cash flow	-	122	-	3,114	-	102	-	2,399
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flow	-	-	-	-	-	-	-	-
Total	**-**	**8,243**	**-**	**32,928**	**-**	**5,552**	**-**	**27,344**

* 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: breakdown by hedged portfolio and type of hedge

Transactions/Type of hedge (€m)	Fair Value							Cash flow		Foreign investments
	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	3,698	-	-	-	x	x	x	68	x	x
2. Financial assets measured at amortised cost	4,423	x	-	-	x	x	x	-	x	x
3. Portfolio	x	x	x	x	x	x	-	x	-	x
4. Other transactions	-	-	-	-	-	-	x	-	x	-
Total assets	**8,121**	**-**	**-**	**-**	**-**	**-**	**-**	**68**	**-**	**-**
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	54	x	x
2. Portfolio of financial assets and 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 31/12/2020	Total at 31/12/2019
Tax payables to revenue agency	1,542	1,402
Items in process	599	844
- amounts to be credited to Postal Savings Books	104	212
- other	495	632
Amounts payable to Poste Italiane outside the ring-fence:	490	441
- for services rendered by Poste Italiane SpA	455	441
- current tax liabilities	35	-
Amounts payable to customers	119	52
Amounts payable to suppliers	364	103
Amounts payable to staff	8	10
Contract liabilities	29	26
Other items	3	75
Total	**3,154**	**2,953**

The sub-item “Tax payables to revenue agency” mainly includes:

- €1,474 million in stamp duty accrued to 31 December 2020 on outstanding Interest-bearing Postal Certificates in accordance with the requirements referenced in Part B, Assets, Table 12.1;
- €52 million in the payable for virtual stamp duty to the tax authorities;
- €10 million in tax withholdings on current account interest earned by customers.

The sub-item “Due to suppliers” primarily includes €349 million in trade payables due to PostePay for collection and payment services under the service contract.

“Items in process, other” 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 2021.

"Contract liabilities" are mainly due to the placement of loan products, as shown in the following table:

Description (€m)	Balance at 31/12/2019	Increases / (Decreases)	Change due to recognition of revenue for period	Balance at 31/12/2020
Liabilities for volume discounts	3	(1)	-	2
Liabilities for fees to be refunded	20	(39)	43	24
Deferred income from trading transactions	3	-	-	3
Total	**26**	**(40)**	**43**	**29**

Liabilities for fees to be refunded refer to the estimate of the commissions to be relegated to partners in case of the contractually agreed early repayment of loan products placed after 1 January 2018.

The decrease in the sub-item "Other items" compared to 31 December 2019 is due to the settlement of prior items resulting from an overall process of revision of estimates completed in the year under review, with consequent positive effects recognised in the statement of profit or loss in "Item 200 - Other operating income/(expenses)".

Movements in current tax assets and liabilities receivable from and payable to Poste Italiane SpA outside the ring-fence are shown below:

	Current tax 2020			Current tax 2019		
	IRES	IRAP	Total	IRES	IRAP	Total
Description (€m)	Assets/(Liabilities) due from and to Poste Italiane outside the ring-fence	Assets/(Liabilities) due from and to Poste Italiane outside the ring-fence		Assets/(Liabilities) due from and to Poste Italiane outside the ring-fence	Assets/(Liabilities) due from and to Poste Italiane outside the ring-fence	
Opening balance	**68**	**9**	**77**	**(14)**	**2**	**(12)**
Payments of:	57	21	78	206	38	244
account for the current year	57	21	78	192	38	230
balance payable for the previous year	-	-	-	14		14
Amount recognised in Profit or loss	(147)	(28)	(175)	(145)	(31)	(176)
current tax	(170)	(35)	(205)	(145)	(30)	(175)
changes in current taxation for previous years	23	7	30	-	(1)	(1)
Amount recognised in Equity	-	-	-	-	-	-
Other	-	-	-	21	-	21
Closing balance	**(22)**	**2**	**(20)**	**68**	**9**	**77**
of which:						
Current tax assets due from Poste Italiane outside the ring-fence (Item 120 Assets)	11	4	15	68	9	77
Current tax liabilities due to Poste Italiane outside the ring-fence (Item 80 Liabilities)	(32)	(3)	(35)	-	-	-

Current tax assets, totalling €15 million, refer to receivables recognised following the signing of the agreement on the Patent Box[187] in respect of the 2015-2016 financial years (€7 million) and the responses received to two requests on the correct application of IFRS 9 and 15 (€8 million). These assets will become compensable after the submission of the relevant supplementary tax returns.

187. On 21 December 2020, an agreement was entered into with the Revenue Agency to adhere to the "Patent Box" regime for the recognition of the economic contribution, referring to the 2015-2019 financial years with a positive effect in terms of tax benefit amounting to a total of €23 million, of which €16 million referring to the 2017, 2018 and 2019 financial years, used to offset taxes for the year.

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 31/12/2020	Total at 31/12/2019
A. Opening balance	**3**	**3**
B. Increases	**-**	**1**
B.1 Provisions for the year	-	-
B.2 Other changes	-	1
C. Decreases	**-**	**(1)**
C.1 Benefits paid	-	-
C.2 Other changes	-	(1)
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.

9.2 Other information

Measurement of the liability entails actuarial computations for which the following assumptions were used in 2020 and 2019:

Economic and financial assumptions

	31/12/2020
Discount rate	0.300%
Inflation rate	1.50%
Annual rate of increase of employee termination benefits	2.625%

Demographic assumptions

	31/12/2020
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 0.19%
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)

(€m)	31/12/2020	31/12/2019
Change in demographic assumptions	-	-
Change in financial assumptions	-	0.2
Other experience-related adjustments	0.1	(0.5)
Total	**0.1**	**(0.3)**

Sensitivity analysis

	Employee termination benefits at 31/12/2020
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

	31/12/2020
Service Cost	-
Average duration of defined benefit plan	12.3
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 31/12/2020	Total at 31/12/2019
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	213	327
4.1 litigation	81	95
4.2 personnel expenses	1	1
4.3 other	131	231
Total	**213**	**327**

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	**-**	**-**	**327**	**327**
B. Increases	**-**	**-**	**35**	**35**
B.1 Provisions for the year	-	-	35	35
B.2 Changes due to passage of time	-	-	-	-
B.3 Changes due to changed discount rates	-	-	-	-
B.4 Other changes	-	-	-	-
C. Decreases	**-**	**-**	**(149)**	**(149)**
C.1 Uses during the year	-	-	(46)	(46)
C.2 Changes due to changed discount rates	-	-	-	-
C.3 Other changes	-	-	(103)	(103)
D. Closing balance	**-**	**-**	**213**	**213**

The main changes are commented in the remainder of this section.

10.6 Provisions for risks and charges - other provisions

Description	Total at 31/12/2020	Total at 31/12/2019
Litigation	**81**	**95**
Provisions for disputes with third parties	81	95
Provisions for disputes with staff	-	-
Provisions for personnel expenses	**1**	**1**
Other provisions	**131**	**231**
Provisions for operational risks	131	231
Total	**213**	**327**

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, penalties and indemnities payable to customers. During the year, net provisions of €9 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 primarily reflect risks linked to the distribution of postal savings products issued in previous years, adjustments and settlements of income for previous years, estimated risks for charges and expenses to be incurred as a result of foreclosures suffered by BancoPosta, primarily in its capacity as a third party in foreclosure, and fraud.

In 2020, a total of €24 million was allocated to provision, mainly due to risks associated with the distribution of postal savings products issued in previous years and expenses to be incurred as a result of seizures suffered by BancoPosta mainly as a third party. Transfers to profit or loss for €88 million are due to the elimination of liabilities identified in the past and refer mainly to the revised estimate of certain risks associated with the distribution of postal savings products and the conclusion of voluntary protection initiatives undertaken for the Europa Immobiliare I and Obelisco funds. Uses are primarily attributable to risks linked to the distribution of postal savings products and to liabilities defined in favour of customers subscribing to the Obelisco fund who have taken part in the above initiative.

Section 11 – Redeemable shares – Item 120

Nothing to report.

Section 12 – Equity – Items 110, 130, 140, 150, 160, 170 and 180

12.4 Profit reserves: other information

At 31 December 2020, retained earnings amounted to €1,142 million, increased compared to 31 December 2019 by the allocation of €85 million, as approved by the General Shareholders' Meeting of 15 May 2020.

Other reserves amounted to €1,211 million, including the initial reserve of €1,000 million provided to BancoPosta RFC on its creation, €210 million in additional capital contributions in 2018, and €1 million for incentive plans reserves, described in Part I.

Regarding the availability and distributability of the reserves of BancoPosta RFC, reference should be made to the information provided in Section 5, Table B.3 - *Availability and distributability of reserves* - of this section - *Financial statements of Poste Italiane* - of the Annual Report.

Other information

3. Assets pledged as collateral for liabilities and commitments

Portfolios (€m)	Total at 31/12/2020	Total at 31/12/2019
1. Financial assets measured at fair value through profit or loss	-	-
2. Financial assets measured at fair value through other comprehensive income	9,060	7,329
3. Financial assets measured at amortised cost	6,969	5,707
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 and to securities provided as collateral to counterparties with which interest rate swap transactions with negative fair value are in place. "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

Type of services (€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	**62,318**
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	2,592
1. securities issued by the reporting bank	-
2. other securities	2,592
c) third-party securities deposited with third parties	2,592
d) own securities deposited with third parties	59,726
4. Other transactions	**248,727**
a) Postal Savings Books	103,710
b) Interest-bearing Postal Certificates	145,017

The “Custody and administration of third-party securities deposited with third parties” relates to customers’ securities held at primary market operators and presented at their nominal value. Orders received from customers are executed by qualified, designated credit institutions.

“Other transactions” include the principal of postal savings deposits accepted for and on behalf of Cassa Depositi e Prestiti and the MEF.

5. Financial assets offset in the financial statements or subject to master netting agreements or similar arrangements

Technical forms (€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 2020 (f=c-d-e)	Net amount at 31 December 2019
				Financial instruments (d)	Cash deposits received as collateral (e)		
1. Derivatives	78	-	78	78	-	-	-
2. Repurchase agreements	364	363	1	1	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total at 31/12/2020	**442**	**363**	**79**	**79**	**-**	**-**	**x**
Total at 31/12/2019	**1,231**	**1,158**	**73**	**73**	**-**	**x**	**-**

6. Financial liabilities offset in the financial statements or subject to master netting agreements or similar arrangements

Technical forms (€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 2020 (f=c-d-e)	Net amount at 31 December 2019
				Financial instruments (d)	Cash deposits provided as collateral (e)		
1. Derivatives	8,243	-	8,243	867	7.376	-	-
2. Repurchase agreements	14.711	363	14,348	14,359	(12)	1	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total at 31/12/2020	**22,954**	**363**	**22,591**	**15,226**	**7,364**	**1**	**x**
Total at 31/12/2019	**17,746**	**1,158**	**16,588**	**11,600**	**4,988**	**x**	**-**

The above tables have been compiled in accordance with IFRS 7, which requires a specific disclosure regardless of whether or not the financial instruments have been offset in the financial statements.

In particular, the tables show:

- the carrying amounts, before and after the effects of accounting offsetting, relating to repurchase agreements that meet the conditions necessary for the recognition of such effects;
- the carrying amounts relating to derivative transactions and repurchase agreements that do not meet these conditions but are governed by standardised bilateral netting agreements that allow, in the event of counterparty default, the offsetting of credit and debit positions (ISDA and GMRA agreements);
- the value of the collateral attached to them.

In order to present the tables and in compliance with the requirements of IFRS 7 and Bank of Italy Circular no. 262, repurchase agreements are shown at amortised cost, whilst derivative transactions are shown at fair value; the relevant financial guarantees are measured at fair value.

Part C – Information on Profit or 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 2020	FY 2019
1. Financial assets measured at fair value through profit or loss	**-**	**-**	**-**	**-**	**-**
1.1 Financial assets held for trading	-	-	-	-	-
1.2 Financial assets measured at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	-	-	-	-	-
2. Financial assets measured at fair value through other comprehensive income	**898**	**-**	**x**	**898**	**1,012**
3. Financial assets measured at amortised cost	**649**	**32**	**-**	**681**	**600**
3.1 Due from banks	-	-	-	-	-
3.2 Due from customers	649	32	-	681	600
4. Hedging derivatives	**x**	**x**	**(37)**	**(37)**	**(23)**
5. Other assets	**x**	**x**	**-**	**-**	**-**
6. Financial liabilities	**x**	**x**	**x**	**45**	**51**
Total	**1,547**	**32**	**(37)**	**1,587**	**1,640**
of which: interest income on impaired financial assets	-	-	-	-	-
of which: interest income on finance leases	-	-	-	-	-

The sub-item "Financial liabilities" reflects mainly interest income accruing during the year on repurchase agreements.

1.3 Interest expense and similar charges: breakdown

Items/Technical forms (€m)	Payables	Securities	Other transactions	FY 2020	FY 2019
1. Financial liabilities measured at amortised cost	**(77)**	**-**	**-**	**(77)**	**(60)**
1.1 Due to Central Banks	-	x	x	-	-
1.2 Due to banks	(35)	x	x	(35)	(22)
1.3 Due to customers	(42)	x	x	(42)	(38)
1.4 Debt securities in issue	x	-	x	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
3. Financial liabilities measured at fair value	**-**	**-**	**-**	**-**	**-**
4. Other liabilities and provisions	**x**	**x**	**-**	**-**	**-**
5. Hedging derivatives	**x**	**x**	**-**	**-**	**-**
6. Financial assets	**x**	**x**	**x**	**(12)**	**(14)**
Total	**(77)**	**-**	**-**	**(89)**	**(74)**
of which: interest expense on lease payables	-	-	-	-	-

The sub-item "Financial assets" mainly includes interest expense on the deposit at MEF (Buffer account) for €6 million and interest expense accrued during the year for repurchase agreements for €2 million.

1.5 Differentials related to hedge transactions

Items (€m)	FY 2020	FY 2019
A. Positive hedge differentials	26	8
B. Negative hedge differentials	(63)	(31)
C. NET (A-B)	**(37)**	**(23)**

Section 2 – Fees and commissions – Items 40 and 50

2.1 Commission income: breakdown

Type of services/Amounts (€m)	FY 2020	FY 2019
a) guarantees given	-	-
b) credit derivatives	-	-
c) management, brokerage and advisory services:	2,740	2,837
1. financial instrument trading	-	-
2. FX trading	-	1
3. individual portfolio management:	-	-
4. securities custody and administration	2	3
5.depository banking	-	-
6. securities placements	2	1
7. order receipt and transmission	5	4
8. advisory services:	-	-
8.1 relating to investments	-	-
8.2 relating to financial structuring	-	-
9. arrangement of third-party services:	2,731	2,828
9.1 portfolio management:	-	-
9.1.1 individual	-	-
9.1.2 collective	-	-
9.2 insurance products	439	437
9.3 other products	2,292	2,391
d) collection and payment services	589	703
e) securitisation servicing	-	-
f) factoring services	-	-
g) tax collection	-	-
h) multilateral trading services	-	-
i) current account maintenance and management	241	242
j) other services	12	12
Total	**3,582**	**3,794**

"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 €1,851 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 expired 31 December 2020 and being renewed.

The decrease compared to 2019 was primarily caused by the health emergency that affected our country starting in March 2020 and significantly affected normal operations. The largest decreases relate to commissions for collection and payment services, following the decline in volumes of payment slips, and commissions for the placement of financing products.

Revenue from contracts with customers

Description (€m)	FY 2020	FY 2019
Management, brokerage and advisory services	**2,740**	**2,837**
Recognised at a point in time	-	1
Recognised over time	2,740	2,836
Collection and payment services	**589**	**703**
Recognised at a point in time	312	409
Recognised over time	277	294
Current account maintenance and management	**241**	**242**
Recognised at a point in time	-	-
Recognised over time	241	242
Other services	**12**	**12**
Recognised at a point in time	-	-
Recognised over time	12	12
Total	**3,582**	**3,794**

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 maintenance and management 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

Channels/Amounts (€m)	FY 2020	FY 2019
A. own counters:	**2,733**	**2,829**
1. portfolio management	-	-
2. securities placements	2	1
3. third-party products and services	2,731	2,828
B. door-to-door:	**-**	**-**
1. portfolio management	-	-
2. securities placements	-	-
3. third-party products and services	-	-
C. other distribution channels:	**-**	**-**
1. portfolio management	-	-
2. securities placements	-	-
3. third-party products and services	-	-

"Own counters" means Poste Italiane SpA's post office network.

2.3 Commission expense: breakdown

Services/Amounts (€m)	FY 2020	FY 2019
a) guarantees received	-	-
b) credit derivatives	-	-
c) management and brokerage services:	(3)	(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	(2)	(1)
6. door-to-door marketing of financial instruments, products and services	-	-
d) collection and payment services	(287)	(331)
e) other services	(2)	(2)
Total	**(292)**	**(335)**

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 components (€m)	Gains (A)	Trading profits (B)	Losses (C)	Trading losses (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**-**	**6**	**-**	**-**	**6**
1.1 Debt securities	-	-	-	-	-
1.2 Equity instruments	-	-	-	-	-
1.3 UCIs	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	6	-	-	6
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: exchange differences	**x**	**x**	**x**	**x**	**(5)**
4. Derivative instruments	**-**	**11**	**(5)**	**-**	**6**
4.1 Financial derivatives:	-	11	(5)	-	6
- On debt securities and interest rates	-	11	-	-	11
- On equity instruments and share indices	-	-	(5)	-	(5)
- 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	**-**	**17**	**(5)**	**-**	**7**

Section 5 – Profits/(Losses) on hedging – Item 90

5.1 Profits/(Losses) on hedging: breakdown

Profit components/Amounts (€m)	FY 2020	FY 2019
A. Income on:		
A.1 Fair value hedge derivatives	10	11
A.2 Hedged financial assets (fair value)	3,268	3,935
A.3 Hedged financial liabilities (fair value)	-	-
A.4 Cash flow hedge derivatives	-	-
A.5 Foreign currency assets and liabilities	-	-
Gross hedging income (A)	**3,278**	**3,946**
B. Cost of:		
B.1 Fair value hedge derivatives	(3,270)	(3,939)
B.2 Hedged financial assets (fair value)	(10)	(11)
B.3 Hedged financial liabilities (fair value)	-	-
B.4 Cash flow hedge derivatives	-	-
B.5 Foreign currency assets and liabilities	-	-
Gross hedging cost (B)	**(3,280)**	**(3,950)**
C. Profits/(Losses) on hedging (A – B)	**(2)**	**(4)**
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

	FY 2020			FY 2019		
Items/Profit components (€m)	Profits	Losses	Net result	Profits	Losses	Net result
A. Financial assets						
1. Financial assets measured at amortised cost	101	(38)	63	-	(10)	(10)
1.1 Due from banks	-	-	-	-	-	-
1.2 Due from customers	101	(38)	63	-	(10)	(10)
2. Financial assets measured at fair value through other comprehensive income	399	(97)	302	352	(3)	349
2.1 Debt securities	399	(97)	302	352	(3)	349
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**500**	**(135)**	**365**	**352**	**(13)**	**339**
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

7.2 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 components (€m)	Gains (A)	Realised gains (B)	Losses (C)	Realised losses (D)	Net result [(A+B)-(C+D)]
1. Financial assets	**11**	**-**	**3**	**-**	**8**
1.1 Debt securities	-	-	-	-	-
1.2 Equity instruments	11	-	3	-	8
1.3 UCIs	-	-	-	-	-
1.4 Loans	-	-	-	-	-
2. Financial assets in foreign currencies: exchange differences	**x**	**x**	**x**	**x**	**(6)**
Total	**11**	**-**	**3**	**-**	**2**

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 components (€m)	Losses (1)			Recoveries (2)		FY 2020	FY 2019
	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 impaired loans	-	-	-	-	-	-	-
B. Due from customers	**(19)**	**-**	**-**	**3**	**-**	**(16)**	**(11)**
- Loans	(9)	-	-	2	-	(7)	(12)
- Debt securities	(10)	-	-	1	-	(9)	1
of which: purchased or originated impaired loans	-	-	-	-	-	-	-
Total	**(19)**	**-**	**-**	**3**	**-**	**(16)**	**(11)**

8.2 Net losses/recoveries due to credit risk related to financial assets measured at fair value through other comprehensive income: breakdown

Transactions/Profit components (€m)	Losses (1)			Recoveries (2)		FY 2020	FY 2019
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3		
		Write-off	Other				
A. Debt securities	**(8)**	**-**	**-**	**2**	**-**	**(6)**	**2**
B. Loans	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
of which: purchased or originated impaired financial assets	-	-	-	-	-	-	-
Total	**(8)**	**-**	**-**	**2**	**-**	**(6)**	**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

Type of expenses/Amounts (€m)	FY 2020	FY 2019
1) Employees	(34)	(36)
a) wages and salaries	(24)	(24)
b) social security	(6)	(7)
c) employee termination benefits	(1)	(1)
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)
i) other employee benefits	(2)	(2)
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	**(34)**	**(36)**

10.2 Average number of employees by category*

	FY 2020	FY 2019
Employees	**410**	**426**
a) executives	33	32
b) middle managers	296	304
c) other employees	81	90
Other employees	**-**	**-**
Total	**410**	**426**

* Figures expressed in full time equivalent terms.

10.4 Other employee benefits

This primarily relates to redundancy payments.

10.5 Other administrative expenses: breakdown

Type of expenses/Amounts (€m)	FY 2020	FY 2019
1) Cost of services provided by Poste Italiane SpA	(4,380)	(4,476)
2) Cost of goods and non-professional services:	-	(1)
- printing and postage	-	(1)
- credit and debit card supply services	-	-
3) Advisory and other professional services	(16)	(12)
4) Taxes, penalties and duties	(14)	(13)
5) Other expenses	-	-
Total	**(4,410)**	**(4,502)**

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

11.3 Net provisions for other risks and charges: breakdown

Items/Profit components (€m)	Provisions	Reversals	Net result
Provisions for litigation	(9)	14	5
Provisions for other risks and charges	(24)	88	64
Total	**(33)**	**102**	**69**

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/(expenses) – Item 200

14.1 Other operating expenses: breakdown

Profit components/Amounts (€m)	FY 2020	FY 2019
1. Burglaries and theft	(6)	(4)
2. Other expenses	(72)	(31)
Total	**(78)**	**(35)**

14.2 Other operating income: breakdown

Profit components/Amounts (€m)	FY 2020	FY 2019
1. Other revenue from contracts with customers	2	2
2. Other operating income	143	65
Total	**145**	**67**

The sub-items “Other expenses” and “Other operating income” mainly include the total net effects of €75 million related to the settlement of items previously recognised under “Other liabilities” resulting from a comprehensive review of estimates completed during the year.

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 components/Amounts (€m)		FY 2020	FY 2019
1.	Current taxes (-)	(205)	(175)
2.	Increase/(decrease) in current taxes of prior period taxation (+/-)	30	(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 (+/-)	(24)	(58)
5.	Increase/(decrease) in deferred tax liabilities (+/-)	(2)	-
6.	**Tax expense for the year (-) (-1+/-2+3+3 *bis*+/-4+/-5)**	**(201)**	**(234)**

The decrease in taxes is mainly due to the positive effect of the Patent Box agreement signed on 21 December 2020, which was recognised in current taxes in previous years.

19.2 Reconciliation between theoretical tax charge at statutory rate and effective tax charge

Description (€m)	FY 2020		FY 2019	
	IRES	Tax Rate	IRES	Tax Rate
Profit before tax	*829*		*844*	
Theoretical tax charge	199	24.0%	202	24.0%
Effect of increases/(decreases) on theoretical tax charge				
Net provisions for risks and charges and impairments of receivables	(10)	-1.2%	3	0.4%
Other	(3)	-0.4%	(9)	-1.1%
Effective tax (before recognition of the Patent Box tax effect)	**186**	**22.4%**	**196**	**23.3%**
Patent Box tax effect	(19)	-2.3%	-	0.0%
Effective tax charge	**167**	**20.1%**	**196**	**23.3%**

The decrease in the tax rate is mainly due to the effects deriving from the recognition of the Patent Box.

Description (€m)	FY 2020		FY 2019	
	IRAP	Tax Rate	IRAP	Tax Rate
Profit before tax	*829*		*844*	
Theoretical tax charge	37	4.5%	38	4.5%
Effect of increases/(decreases) on theoretical tax charge				
Provisions for risks and charges	(2)	-0.2%	-	0.0%
Other	3	0.4%	-	0.0%
Effective tax (before recognition of the Patent Box tax effect)	**38**	**4.6%**	**38**	**4.5%**
Patent Box tax effect	(4)	-0.5%	-	0.0%
Effective tax charge	**34**	**4.1%**	**38**	**4.5%**

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 2020	FY 2019
10.	**Profit/(Loss) for the year**	**629**	**611**
	Other components of comprehensive income not reclassified to Profit or loss		
20.	Equity instruments measured at fair value through other comprehensive income:	-	-
	a) changes in fair value	-	-
	b) transfers to other Equity	-	-
30.	Financial liabilities measured at fair value through Profit or loss (changes in own credit rating):	-	-
	a) changes in fair value	-	-
	b) transfers to other Equity	-	-
40.	Hedges of Equity instruments measured at fair value through other comprehensive income:	-	-
	a) changes in fair value (hedged instrument)	-	-
	b) changes 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 reclassified to Profit or loss		
110.	Hedges of foreign investments:	-	-
	a) changes in fair value	-	-
	b) reclassified to Profit or loss	-	-
	c) other changes	-	-
120.	Foreign exchange differences:	-	-
	a) changes in value	-	-
	b) reclassified to Profit or loss	-	-
	c) other changes	-	-
130.	Cash flow hedges:	(24)	38
	a) changes in fair value	(27)	98
	b) reclassified to Profit or loss	3	(60)
	c) other changes	-	-
	of which: result of net positions	-	-
140.	Hedges (elements not designated):	-	-
	a) changes in value	-	-
	b) reclassified to Profit or loss	-	-
	c) other changes	-	-
150.	Financial assets (other than Equity instruments) measured at fair value through other comprehensive income:	1,693	1,457
	a) changes in fair value	1,947	1,702
	b) reclassified to Profit or loss	(254)	(245)
	- losses due to credit risk	6	(2)
	- realised gains/(losses)	(260)	(243)
	c) other changes	-	-
160.	Non-current assets and disposal groups held for sale:	-	-
	a) changes in fair value	-	-
	b) reclassified to Profit or loss	-	-
	c) other changes	-	-
170.	Share of valuation reserves attributable to equity-accounted investments:	-	-
	a) changes in fair value	-	-
	b) reclassified to Profit or loss	-	-
	- losses	-	-
	- realised gains/(losses)	-	-
	c) other changes	-	-
180.	Tax expense on other comprehensive income reclassified to Profit or loss	(474)	(427)
190.	**Total other comprehensive income**	**1,195**	**1,068**
200.	**Comprehensive income (Items 10+190)**	**1,824**	**1,679**

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 Eurozone government bonds and, for a portion not exceeding 50% of the funds raised, in other securities backed by the Italian government guarantee[188], whilst deposits by Public Administration entities are deposited with the MEF.

In 2020, BancoPosta RFC's operations focused on investment of the significantly increased volume of current account deposits, the reinvestment of funds deriving from maturing government bonds and in the active management of financial instruments.

Due to the monetary policy measures adopted by the ECB to mitigate the impact of the Coronavirus pandemic on the Eurozone economy, financial year 2020 was characterised by a reduction in yields on Italian government securities (the 10-year BTP fell from 1.4% to 0.5%), which brought the BTP-Bund spread to 111 basis points compared to 160 last year.

With reference to BancoPosta RFC, following the positive development in revenue volumes, mainly due to the effect of the pandemic that resulted in an increase in account balances, and the change in the market scenario, the Leverage Ratio fell during the year to 2.65% at 31 December 2020, taking into account the increase in capital deriving from the calculation of part of the 2020 profits, not subject to distribution.

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 system is thus the general reference for the policy of 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, Poste Italiane SpA's Board of Directors adopted a revised version of the Guidelines for Internal Control and Risk Management System (SCIGR), which contains integrated guidelines for Poste Italiane SpA's Internal Control and Risk Management System. From an organisational viewpoint, the model consists of:

- the **Control and Risk 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 the internal control and risk management system and regarding the approval of financial and non-financial periodic reports;
- 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;
- the **BancoPosta's Risk Management function**, responsible for measuring and controlling risk and duly observing the independence of control functions from management.

188. Amendment of art. 1, paragraph 1097 of Law 296 of 27 December 2006, introduced by art. 1, paragraph 285 of the 2015 Stability Law (Law 190 of 23 December 2014).

The 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;

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:

- Eurozone government bonds 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 and private customer deposits are invested;
- any eventual amounts due from the 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 2021;
- 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 "Cassa 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 for BancoPosta RFC's financial transactions contain rating limits that only permit dealings with investment grade counterparties. The limits referred to above have been established by the "Guidelines on Poste Italiane SpA's financial management"[189] for BancoPosta RFC. Specifically, as regards rating limits, transactions are allowed solely with investment grade counterparties and Eurozone 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[190].

The standardised approach[191] 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.

189. On 24 March 2021, in the same meeting for approval of these draft financial statements, Poste Italiane SpA's Board of Directors 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 Audit and Risk Committee.
190. 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.
191. 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[192], is used for interest rate swaps and forward purchases of government bonds;
- Credit Risk Mitigation (CRM) techniques, the Full Method[193], are used for repurchase transactions.

Concentration risk is measured using the method described in EU Regulation 575/2013 with regard to large exposures.

2.3 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 parameters deriving from agency ratings or 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 start a Point in Time (PIT) and forward-looking valuation has been adopted;
- LGD: use has been made of the Internal Ratings-Based (IRB) Base 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 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.

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[194];
- a judgemental factor to be used only in the presence of sudden changes in the creditworthiness not yet reflected by the rating[195].

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 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[196].

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.

196. In particular, the use of such approach is limited to situations where, actually, the final figures 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.

Changes due to Covid-19

Measurement of expected losses

For the purposes of determining the forward-looking information to be included in the calculation of expected losses on financial instruments pursuant to IFRS 9, considering the effects of the Covid-19 pandemic, the Group, with reference to BancoPosta RFC, deemed it appropriate to continue to use the forecast scenarios, updated during preparation of the Interim Report, to take into account new elements based on the EU Commission's estimates for the year 2020, which led to a change in the PD of Italy and the other Sovereign counterparties compared to what was used in the assessments of the Separate Report at 31 December 2019. With regard to Corporate and Banking counterparties, the methodology used for this purpose is to increase PD in line with the increase in sectoral risk recorded by the rating agencies in the first eleven months of 2020 for each rating level.

With regard to trade receivables, in order to reflect the effects of the Covid-19 pandemic, the following steps were taken:

- for receivables subject to analytical impairment, the level of PD was increased in line with the increase in sectoral risk recorded by the rating agencies in 2020;
- for receivables subject to on a flat-rate basis impairment, on the other hand, in order to calculate expected losses, homogeneous customer clusters representing the composition of the receivable portfolio were identified. Each cluster was associated with different on a flat-rate basis impairment percentages, broken down by past due age bands, which varied on the basis of the increase in risk historically recorded during phases of acute stress.

The amount of expected losses on financial instruments in the RFC is mainly attributable to exposures to the Italian Republic. In the calculation of the ECL, the sensitive parameter is the PD which, in the case of the Italian Republic, is estimated through the application of an internal model dedicated to sovereign counterparties used in macroeconomic variable inputs. The sensitivity of the PD, and therefore of the ECL, to these macroeconomic factors can be assessed by comparing the PD value of the Italian Republic in two forecast scenarios for 2021.

At 31 December 2020, the following sensitivity analysis was performed on financial instruments relating to BancoPosta RFC:

- the application of the model to a scenario characterised by an increase in the Debt/GDP ratio of 4% would result in an increase in the PD of the Italian Republic of 9%, with a negative effect on the fund to cover expected losses of approximately €3 million;
- the application of the model to a scenario characterised by a decrease in the Debt/GDP ratio of 4% would determine a decrease in the PD of the Italian Republic of 19% with a consequent positive effect of approximately €6 million on the fund to cover expected losses.

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 securities;
- 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.

There were no impacts from the Covid-19 pandemic on guarantees and other credit risk mitigation instruments.

At 31 December 2020, 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 hedge credit and counterparty risk are described below:

Fixed income instruments

Debt instruments 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 €3,000 million at 31 December 2020. 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 exposures evaluated individually, to calculate loss provisions, guarantees reduce the amount of the exposure at risk.

At 31 December 2020, unsecured trade receivables minus the relevant loss provisions amount to €1,043 million.

3. Credit-impaired financial assets

BancoPosta RFC holds a single non-performing financial asset, which relates to items illegally taken away but that are now being recovered for €13 million.

Quantitative information

A. Credit quality

A.1 Non-performing and performing credit exposures: balance, impairment, trends and business distribution

A.1.1 Distribution of financial assets by portfolio and credit quality (carrying amounts)

Portfolios/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	-	-	-	70	51,958	52,028
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	42,638	42,638
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	-	-
5. Financial assets held for sale	-	-	-	-	-	-
Total at 31/12/2020	**-**	**-**	**-**	**70**	**94,596**	**94,666**
Total at 31/12/2019	**-**	**-**	**-**	**47**	**76,544**	**76,591**

A.1.2 Distribution of credit exposure by portfolio and credit quality (gross and net amounts)

Portfolios/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	-	-	52,110	82	52,028	52,028
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	42,656	18	42,638	42,638
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 31/12/2020	**13**	**13**	**-**	**-**	**94,766**	**100**	**94,666**	**94,666**
Total at 31/12/2019	**13**	**13**	**-**	**-**	**76,669**	**78**	**76,591**	**76,591**

* Amount reported for disclosure purposes.

Portfolios/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	-	-	78
Total at 31/12/2020	**-**	**-**	**78**
Total at 31/12/2019	**-**	**-**	**73**

A.1.3 Distribution of financial assets by past due categories (carrying amounts)

Portfolios/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		-	-	10	50	10	-	-	-
2. Financial assets measured at fair value through other comprehensive income		-	-	-	-	-	-	-	-
Total at 31/12/2020	**-**	**-**	**-**	**10**	**50**	**10**	**-**	**-**	**-**
Total at 31/12/2019	**-**	**-**	**-**	**18**	**26**	**3**	**-**	**-**	**-**

A.1.4 Financial assets, commitments to disburse funds and financial guarantees given: overall impairment losses/recoveries 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 impaired financial assets	Stage 1	Stage 2	Stage 3	
	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					
Opening balance	**11**	**11**	**-**	**22**	**56**	**-**	**32**	**24**	**13**	**-**	**13**	**-**	**-**	**-**	**-**	**-**	**91**
Increases in acquired or originated financial assets	5	5	-	10	-	-	-	-	-	-	-	-	-	-	-	-	10
Derecognitions other than write-offs	(1)	(2)	-	(3)	-	-	-	-	-	-	-	-	-	-	-	-	(3)
Net losses/ recoveries due to credit risk (+/-)	4	4	-	8	7	-	8	(1)	-	-	-	-	-	-	-	-	15
Contract amendments without termination	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in estimation method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-off	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance	**19**	**18**	**-**	**37**	**63**	**-**	**40**	**23**	**13**	**-**	**13**	**-**	**-**	**-**	**-**	**-**	**113**
Recovery of amounts on written-off financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly in profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

The increase in the provision to cover expected losses takes account of the increased risk caused by the current pandemic.

Stage 2 reflects mainly value adjustments related to trade receivables for which the loss provisions are measured in accordance with the simplified approach.

A.1.6 On- and off-balance-sheet credit exposures to banks: gross and net amounts

Types of exposures/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	8	-	8	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	6,336	-	6,336	-
- of which: forborne exposures	X	-	-	-	-
TOTAL A	**-**	**6,344**	**-**	**6,344**	**-**
B. Off-balance sheet exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	1,281	-	1,281	-
TOTAL B	**-**	**1,281**	**-**	**1,281**	**-**
TOTAL A+B	**-**	**7,625**	**-**	**7,625**	**-**

* 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[197], securities provided as collateral under counterparty risk mitigation agreements and for Repo financing with Securities Financing Transactions (SFT)[198] margins.

197. 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.
198. As defined in the prudential requirements.

A.1.7 On- and off-balance-sheet credit exposures to customers: gross and net amounts

Types of exposures/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	13	X	13	-	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past-due exposures	X	124	62	62	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	88,285	25	88,260	-
- of which: forborne exposures	X	-	-	-	-
TOTAL A	**13**	**88,409**	**100**	**88,322**	**-**
B. Off-balance sheet exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	415	-	415	-
TOTAL B	**-**	**415**	**-**	**415**	**-**
TOTAL A+B	**13**	**88,824**	**100**	**88,737**	**-**

* 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 existing netting agreements, and to spot purchases of government securities not yet settled (regular way).

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**	**-**	**-**	**-**
B.1	Transfers from performing exposures	-	-	-
B.2	Transfers from acquired or originated impaired financial assets	-	-	-
B.3	Transfers from other categories of non-performing exposures	-	-	-
B.4	Contract amendments without termination	-	-	-
B.5	Other increases	-	-	-
C.	**Decreases**	**-**	**-**	**-**
C.1	Transfers to performing exposures	-	-	-
C.2	Write-off	-	-	-
C.3	Collections	-	-	-
C.4	Proceeds on disposal	-	-	-
C.5	Losses on disposal	-	-	-
C.6	Transfers to other categories of non-performing exposures	-	-	-
C.7	Contract amendments without termination	-	-	-
C.8	Other decreases	-	-	-
D.	**Closing gross exposure**	**-**	**-**	**13**
	- of which: transferred and not derecognised	-	-	-

A.1.11 On-balance-sheet non-performing credit exposures to customers: trends in overall impairment losses/recoveries

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 impairment losses**	**-**	**-**	**-**	**-**	**13**	**-**
	- of which: transferred and not derecognised	-	-	-	-	-	-
B.	**Increases**	**-**	**-**	**-**	**-**	**-**	**-**
B.1	Impairment losses to acquired or originated impaired financial assets	-	X	-	X	-	X
B.2	Other impairment losses	-	-	-	-	-	-
B.3	Losses on disposal	-	-	-	-	-	-
B.4	Transfers from other categories of non-performing exposures	-	-	-	-	-	-
B.5	Contract amendments without termination	-	-	-	-	-	-
B.6	Other increases						
C.	**Decreases**	**-**	**-**	**-**	**-**	**-**	**-**
C.1	Reversal of impairment losses on valuation	-	-	-	-	-	-
C.2	Reversal of impairment losses on collection	-	-	-	-	-	-
C.3	Proceeds on disposal	-	-	-	-	-	-
C.4	Write-off	-	-	-	-	-	-
C.5	Transfers to other categories of non-performing exposures	-	-	-	-	-	-
C.6	Contract amendments without termination	-	-	-	-	-	-
C.7	Other decreases	-	-	-	-	-	-
D.	**Total closing impairment losses**	**-**	**-**	**-**	**-**	**13**	**-**
	- of which: transferred and not derecognised	-	-	-	-	-	-

A.2 Classification of financial assets, commitments to disburse funds and financial guarantees given 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	**1,866**	**4,496**	**44,591**	**1**	**-**	**-**	**1,169**	**52,123**
- Stage 1	1,866	4,465	44,109	1	-	-	563	51,004
- Stage 2	-	31	482	-	-	-	593	1,106
- Stage 3	-	-	-	-	-	-	13	13
B. Financial assets measured at fair value through other comprehensive income	**-**	**-**	**42,656**	**-**	**-**	**-**	**-**	**42,656**
- Stage 1	-	-	42,656	-	-	-	-	42,656
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
Total (A + B + C)	**1,866**	**4,496**	**87,247**	**1**	**-**	**-**	**1,169**	**94,779**
of which: purchased or originated 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)	**1,866**	**4,496**	**87,247**	**1**	**-**	**-**	**1,169**	**94,779**

Stage 2 reflects mainly financial assets represented by trade receivables for which loss provisions are measured with the simplified approach.

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.3.2 Guaranteed on- and off-balance-sheet credit exposures to customers

(€m)	Gross exposure	Net exposure	Collateral (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Unsecured loans				
			Mortgages	Finance leases	Securities	Other collateral	CLNs	Other derivatives				Public Administration entities	Banks	Other financial companies	Other entities	
								Controparti centrali	Banks	Other financial companies	Other entities					
1. Guaranteed on-balance sheet credit exposures:																
1.1 guaranteed in full	364	364	-	-	364	-	-	-	-	-	-	-	-	-	-	**364**
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
1.2 partially guaranteed	3,302	3,300	-	-	-		-	-	-	-	-	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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**

Fully guaranteed on-balance sheet credit exposures refer to repurchase agreements managed through the Central Counterparty that meet the requirements of IAS 32, and are therefore offset in the financial statements by €363 million.

Partly guaranteed on-balance sheet credit exposures refer to fixed-rate securities for a nominal amount of €3,000 million issued by Cassa Depositi e Prestiti and guaranteed by the Italian State.

B. Distribution and concentration of credit exposures

B.1 Distribution of on- and off-balance sheet credit exposures to customers by economic sector

Exposures/Counterparties (€m)	Public Administration entities		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Net exposure	Total impair-ments	Net exposure	Total impair-ments	Net exposure	Total impair-ments	Net exposure	Total impair-ments	Net exposure	Total impair-ments
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	81,990	43	5,411	2	223	-	917	26	4	29
- of which: forborne exposures	-	-	-	-	-	-	-	-	-	-
TOTAL A	**81,990**	**43**	**5,411**	**2**	**223**	**-**	**917**	**39**	**4**	**29**
B. Off-balance sheet exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	401	-	14	-	-	-	-	-	-	-
TOTAL B	**401**	**-**	**14**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL (A+B) at 31/12/2020	**82,391**	**43**	**5,425**	**2**	**223**	**-**	**917**	**39**	**4**	**29**
TOTAL (A+B) at 31/12/2019	**65,542**	**26**	**5,675**	**2**	**147**	**-**	**680**	**39**	**6**	**24**

B.2 Geographical distribution of on- and off-balance sheet credit exposures to customers

Exposures/geographic areas (€m)	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
	Net exposure	Total impair-ments	Net exposure	Total impair-ments	Net exposure	Total impair-ments	Net exposure	Total impair-ments	Net exposure	Total impair-ments
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	87,116	100	1,206	-	-	-	-	-	-	-
TOTAL A	**87,116**	**113**	**1,206**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Off-balance sheet exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	401	-	14	-	-	-	-	-	-	-
TOTAL B	**401**	**-**	**14**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL (A+B) at 31/12/2020	**87,517**	**113**	**1,220**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL (A+B) at 31/12/2019	**71,297**	**91**	**606**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

B.2 Geographical distribution of on- and off-balance sheet credit exposures to customers

Exposures/geographic areas (€m)		ITALY, NORTHWEST		ITALY, NORTHEAST		ITALY, CENTRE		ITALY, SOUTH AND ISLANDS	
		Net exposure	Total im-pairments	Net exposure	Total im-pairments	Net exposure	Total im-pairments	Net exposure	Total im-pairments
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	3	10	-	4	87,109	56	4	30
TOTAL A		**3**	**10**	**-**	**17**	**87,109**	**56**	**4**	**30**
B.	**Off-balance sheet exposures**								
B.1	Non-performing exposures	-	-	-	-	-	-	-	-
B.2	Performing exposures	-	-	-	-	401	-	-	-
TOTAL B		**-**	**-**	**-**	**-**	**401**	**-**	**-**	**-**
TOTAL (A+B) at 31/12/2020		**3**	**10**	**-**	**17**	**87,510**	**56**	**4**	**30**
TOTAL (A+B) at 31/12/2019		**2**	**8**	**1**	**16**	**71,289**	**40**	**5**	**27**

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 areas (€m)		ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
		Net exposure	Total impair-ments	Net exposure	Total impair-ments	Net exposure	Total impair-ments	Net exposure	Total impair-ments	Net exposure	Total impair-ments
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	908	-	5,436	-	-	-	-	-	-	-
TOTAL A		**908**	**-**	**5,436**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.	**Off-balance sheet exposures**										
B.1	Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2	Performing exposures	618	-	288	-	-	-	-	-	-	-
TOTAL B		**618**	**-**	**288**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL (A+B) at 31/12/2020		**1,526**	**-**	**5,724**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL (A+B) at 31/12/2019		**1,077**	**-**	**4,238**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

B.3 Geographical distribution of on- and off-balance sheet credit exposures to banks

Exposures/geographic areas (€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	122	-	1	-	785	-	-	-
TOTAL A	**122**	**-**	**1**	**-**	**785**	**-**	**-**	**-**
B. Off-balance sheet exposures								
B.1 Non-performing exposures	-	-	-	-	-	-	-	-
B.2 Performing exposures	618	-	-	-	-	-	-	-
TOTAL B	**618**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL (A+B) at 31/12/2020	**740**	**-**	**1**	**-**	**785**	**-**	**-**	**-**
TOTAL (A+B) at 31/12/2019	**544**	**-**	**-**	**-**	**533**	**-**	**-**	**-**

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)	104,192
b) Weighted amount (€m)	9,230
c) Number	20

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 related financial liabilities: carrying amounts

	Financial assets sold recognised in full				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 measured at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**8,883**	**-**	**8,883**	**-**	**8,406**	**-**	**8,406**
1. Debt securities	8,883	-	8,883	-	8,406	-	8,406
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost	**6,366**	**-**	**6,366**	**-**	**6,305**	**-**	**6,305**
1. Debt securities	6,366	-	6,366	-	6,305	-	6,305
2. Loans	-	-	-	-	-	-	-
TOTAL at 31/12/2020	**15,249**	**-**	**15,249**		**14,711**	**-**	**14,711**
TOTAL at 31/12/2019	**12,508**	**-**	**12,508**		**12,194**	**-**	**12,194**

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 2020, 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 EU Regulation 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, management policies 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[199].

199. Duration is the indicator used to estimate the percentage change in price in response to a shift in market returns.

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[200], 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 – 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 and the revaluation of the asset portfolio in response to adverse market scenarios.

Interest rate risk management and mitigation is based on the conclusions of the measurement of risk exposure and compliance - in line with the risk appetite and thresholds and limits established in the RAF - with financial operations guidelines as approved from time to time by Poste Italiane SpA's Board of Directors.

Details on the risk management model are contained in the note on financial risks in Part E.

BancoPosta RFC monitors market risk, including fair value interest rate and spread risks, inherent in 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 Eurozone government bonds or guaranteed by the Italian government and classified as financial assets measured at fair value through other comprehensive income. 2020 witnessed an average decrease in the yields on Italian government securities compared with the previous year and, at 31 December 2020, the spread between ten-year Italian government securities and German bunds is approximately 111 bps, down on the figure for the previous year (160 bps at 31 December 2019).

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 €34 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 or loss for a positive amount of approximately €1.7 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 €2 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.

200. 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 Eurozone government bonds or other securities 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.

Quantitative information

1. Banking Book: Time-to-maturity (repricing date) of financial assets and financial liabilities

Currency: Euro

Type/Time-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**	**18,769**	**7,945**	**1,000**	**611**	**6,630**	**11,143**	**48,928**	**-**
1.1	Debt securities	-	7,581	1,000	611	6,630	11,143	48,928	-
	- with prepayment option	-	-	-	-	-	-	-	-
	- other	-	7,581	1,000	611	6,630	11,143	48,928	-
1.2	Due from banks	6,342	-	-	-	-	-	-	-
1.3	Due from customers	12,427	364	-	-	-	-	-	-
	- current accounts	4	-	-	-	-	-	-	-
	- other loans	12,423	364	-	-	-	-	-	-
	- with prepayment option	-	-	-	-	-	-	-	-
	- other	12,423	364	-	-	-	-	-	-
2.	**On-balance sheet liabilities**	**70,594**	**2,740**	**1,296**	**3,393**	**7,282**	**-**	**-**	**-**
2.1	Due to customers	69,482	1,531	795	511	2,173	-	-	-
	- current accounts	65,881	-	-	-	-	-	-	-
	- other deposits	3,601	1,531	795	511	2,173	-	-	-
	- with prepayment option	-	-	-	-	-	-	-	-
	- other	3,601	1,531	795	511	2,173	-	-	-
2.2	Due to banks	1,112	1,209	501	2,882	5,109	-	-	-
	- current accounts	720	-	-	-	-	-	-	-
	- other deposits	392	1,209	501	2,882	5,109	-	-	-
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	-	1,513	401	936	-	-	-	-
	+ Short positions	-	401	-	-	277	1,625	627	-
3.2	Without underlying securities								
	- Options								
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
	- Other derivatives								
	+ Long positions	-	7,219	-	3,080	19,875	1,775	805	-
	+ Short positions	-	2,665	-	685	-	50	29,354	-
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/Time-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/Time-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: Other currencies

Type/Time-to-maturity (€m)		Demand	3 months or less	3 - 6 months	6 months - 1 year	1 - 5 years	5 - 10 years	Over 10 years	Unspecified maturity
1.	**On-balance sheet assets**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1	Debt securities	-	-	-	-	-	-	-	-
	- with prepayment option	-	-	-	-	-	-	-	-
	- other	-	-	-	-	-	-	-	-
1.2	Due from banks	1	-	-	-	-	-	-	-
1.3	Due from customers	-	-	-	-	-	-	-	-
	- current accounts	-	-	-	-	-	-	-	-
	- other loans	-	-	-	-	-	-	-	-
	- with prepayment option	-	-	-	-	-	-	-	-
	- other	-	-	-	-	-	-	-	-
2.	**On-balance sheet liabilities**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1	Due to customers	-	-	-	-	-	-	-	-
	- current accounts	-	-	-	-	-	-	-	-
	- other deposits	-	-	-	-	-	-	-	-
	- with prepayment option	-	-	-	-	-	-	-	-
	- other	-	-	-	-	-	-	-	-
2.2	Due to banks	-	-	-	-	-	-	-	-
	- current accounts	-	-	-	-	-	-	-	-
	- other deposits	-	-	-	-	-	-	-	-
2.3	Debt securities	-	-	-	-	-	-	-	-
	- with prepayment option	-	-	-	-	-	-	-	-
	- other	-	-	-	-	-	-	-	-
2.4	Other liabilities	-	-	-	-	-	-	-	-
	- with prepayment option	-	-	-	-	-	-	-	-
	- other	-	-	-	-	-	-	-	-
3.	**Financial derivatives**								
3.1	With underlying securities								
	- Options								
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
	- Other derivatives								
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
3.2	Without underlying securities								
	- Options								
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
	- Other derivatives								
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
4.	**Other off-balance sheet transactions**								
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-

2. Banking 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 2020 had a duration of 5.65 (31 December 2019: 5.30). 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
2020 effects								
Financial assets measured at fair value through other comprehensive income								
Fixed income instruments	33,569	42,638	(1,299)	1,306	-	-	(1,299)	1,306
Assets - Hedging derivatives	330	-	19	(20)	-	-	19	(20)
Liabilities - Hedging derivatives	(2,119)	(54)	162	(179)	-	-	162	(179)
Variability at 31 December 2020	**31,780**	**42,584**	**(1,118)**	**1,107**	**-**	**-**	**(1,118)**	**1,107**
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**

* 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 securities for €42,638 million, consisting of fixed income bonds for €17,190 million, floating-rate bonds swapped into fixed income bonds through interest rate swaps of cash flow hedges for €2,257 million, inflation-indexed bonds for €2,656 million and fixed income bonds swapped into variable rate instruments through fair value hedge derivatives for €20,535 million (of which €18,096 million with forward starts);
- In relation to hedge derivatives, forward sales of government securities for a notional amount of €2,449 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 Eurozone government bonds, where such difference, or spread, reflects the perception of markets regarding issuers' creditworthiness.

The value of the portfolio of Italian government bonds 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[201] has been calculated by applying a shift of +/- 100 bps to the yield curve for 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
2020 effects								
Financial assets measured at fair value through other comprehensive income								
Fixed income instruments	33,569	42,638	(4,376)	5,227	-	-	(4,376)	5,227
Assets - Hedging derivatives	330	-	19	(21)	-	-	19	(21)
Liabilities - Hedging derivatives	(2,119)	(54)	170	(187)	-	-	170	(187)
Variability at 31 December 2020	**31,780**	**42,584**	**(4,187)**	**5,019**	**-**	**-**	**(4,187)**	**5,019**
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**

* 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 2020 amounted to €33,255 million (nominal value of €26,157 million) and have a fair value of €34,760 million, would be reduced in fair value by approximately €4.3 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.

201. For sensitivity purposes, the swap rate curve and the BTP curve were used (10-year swap rate of 26.4 bps and the spread of the BTP compared to the 10-year swap rate of 80.7 bps).

Spread risk - VaR analyses

Analysis date (€m)	Risk exposure		SpreadVaR
	Notional	Fair value	
2020 effects			
Financial assets measured at fair value through other comprehensive income			
Fixed income instruments*	33,569	42,638	231
Variability at 31 December 2020	**33,569**	**42,638**	**231**
2019 effects			
Financial assets measured at fair value through other comprehensive income			
Fixed income instruments*	31,170	36,799	307
Variability at 31 December 2019	**31,170**	**36,799**	**307**

* The VAR for fixed-income securities also takes into account 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, taking into account the variability of both risk factors:

(€m)	2020	2019
Average VaR	(552)	(412)
Minimum VaR	(225)	(270)
Maximum VaR	(1,385)	(637)

Taking into account both financial assets measured at fair value through other comprehensive income (including the related hedges outstanding) and forward sales, the combined analysis of spread risk and fair value interest rate risk at 31 December 2020 results in a potential loss of €226 million (VaR at the end of the period). The decrease in VaR at the end of the period, compared to €336 million at 31 December 2019, is due to the decrease in volatility recorded in the markets determined mainly by the actions put in place by the ECB to address the Covid-19 emergency. During the year, at the start of the pandemic, market volatility was extremely high, so much so that in March a VaR of €1,385 million was recorded.

Cash flow interest rate risk

The sensitivity to cash flow interest rate risk at 31 December 2019 and 31 December 2020 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

	2020			2019		
	Risk exposure	Net interest and other banking income		Risk exposure	Net interest and other banking income	
(€m)		+100 bps	-100 bps		+100 bps	-100 bps
Cash						
- Deposits with Bank of Italy	3,362	34	(34)	814	8	(8)
Financial assets measured at amortised cost						
Due from banks						
- Collateral guarantees	6,289	63	(63)	4,620	46	(46)
- Deposits	4	-	-	4	-	-
Due from customers						
- Deposits at MEF *(PA deposits)*	7,340	73	(73)	7,066	71	(71)
- Deposits at MEF *(private customer deposits)*	1,991	20	(20)	495	5	(5)
- Collateral guarantees	1,205	12	(12)	1,040	10	(10)
- Due from Poste Italiane SpA outside the ring-fence	898	9	(9)	647	6	(6)
- Fixed income instruments	4,070	41	(41)	2,560	26	(26)
Financial assets measured at fair value through other comprehensive income						
- Fixed income instruments	6,029	60	(60)	3,565	36	(36)
Financial liabilities measured at amortised cost						
Due to banks						
- Collateral guarantees	(392)	(4)	4	(112)	(1)	1
- Repurchase agreements	(900)	(9)	9	-	-	-
Total variability	**29,896**	**299**	**(299)**	**20,699**	**207**	**(207)**

Cash flow interest rate risk at 31 December 2020 was primarily due to:

- the placement of Public Administration and private customer deposits with the MEF;
- deposits with the Bank of Italy of temporary excess of liquidity deriving from private customer deposits;
- fixed-rate securities issued by the Italian State swapped in floating-rate bonds through fair value hedge derivatives for a total nominal amount of €10,099 million mainly including: (i) Italian government securities for €5,740 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 €7,494 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 2020 relates to government inflation indexed bonds which were not hedged through the arrangement of cash flow hedges or fair value hedges entered into by BancoPosta RFC, having a nominal value of €2,143 million and a carrying amount of €2,844 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
2020 effects							
Financial assets measured at fair value through Profit or loss							
Equity instruments	72	31	(31)	31	(31)	-	-
Financial liabilities held for trading	(20)	(31)	31	(31)	31	-	-
Variability at 31 December 2020	**52**	**-**	**-**	**-**	**-**	**-**	**-**
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)**	**-**	**-**

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 and Series A 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 Series C ordinary shares in 2019. The shares' price risk is also monitored through the computation of VaR.

The VaR sensitivity analyses are shown below:

(€m)	2020	2019
Closing VaR	-	-
Average VaR	-	(1)
Minimum VaR	-	-
Maximum VaR	(1)	(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[202].

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.

202. 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

Items (€m)		Currency					
		US Dollar	Swiss Franc	GB Sterling	Japanese Yen	Tunisian Dinar	Other currencies
A.	**Financial assets**	**73**	**1**	**-**	**-**	**-**	**1**
	A.1 Debt securities	-	-	-	-	-	-
	A.2 Equity instruments	72	-	-	-	-	-
	A.3 Due from banks	1	1	-	-	-	1
	A.4 Due from customers	-	-	-	-	-	-
	A.5 Other financial assets	-	-	-	-	-	-
B.	**Other assets**	**8**	**4**	**3**	**-**	**-**	**-**
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	71	-	-	-	-	-
Total assets		**132**	**5**	**3**	**-**	**-**	**1**
Total liabilities		**71**	**-**	**-**	**-**	**-**	**-**
Net position (+/-)		**61**	**5**	**3**	**-**	**-**	**1**

“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**
2020 effects								
Financial assets measured at fair value through Profit or loss								
Equity instruments	89	72	5	(5)	5	(5)	-	-
Liabilities held for trading	(24)	(20)	(1)	1	(1)	1	-	-
Variability at 31 December 2020	**65**	**52**	**4**	**(4)**	**4**	**(4)**	**-**	**-**
2019 effects								
Financial assets measured at fair value through Profit or loss								
Equity instruments	79	71	3	(3)	3	(3)	-	-
Liabilities held for trading	(17)	(15)	(1)	1	(1)	1	-	-
Variability at 31 December 2019	**62**	**56**	**2**	**(2)**	**2**	**(2)**	**-**	**-**

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/Types of derivative (€m)	Total at 31/12/2020				Total at 31/12/2019			
	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**	**-**	**-**	**-**	**51**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	51	-	-	-	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**	**-**	**-**	**-**	**51**	**-**	**-**

A.2 Trading financial derivatives: gross positive and negative fair value - breakdown by product

Types of derivatives (€m)	Total at 31/12/2020				Total at 31/12/2019			
	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	-	(20)	-	-	-	(15)	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**(20)**	**-**	**-**	**-**	**(15)**	**-**	**-**

A.3 OTC trading financial derivatives: notional amounts, gross positive and negative fair value by counterparty

Underlying assets (€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	-	(20)	-	-
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 life (€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 31/12/2020	**51**	**-**	**-**	**51**
Total at 31/12/2019	**-**	**51**	**-**	**51**

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.

A reform of the main interest rate benchmarks known as the “IBOR (InterBank Offered Rate) Reform” is underway globally, involving the replacement of certain interbank rates with alternative risk-free rates. Regulatory bodies in various jurisdictions around the world, have initiated a substitution process and working groups have developed the alternative reference rates as well as guidelines to update the contract models.

Currently, the main benchmark indices for the Eurozone are:

- the Euro Short Term Rate - ESTR (administered by the European Central Bank and published from 2 October 2019) which replaces the Euro OverNight Index Average (EONIA - no longer quoted from 1 January 2022) redefining it as ESTR plus 8.5 bps;
- the EURIBOR (administered by the European Money Market Institute), whose reform process ended in November 2019.

BancoPosta RFC has financial instruments indexed to EURIBOR, which continues to be quoted daily and the related cash flows continue to be exchanged with counterparties as usual. There is therefore no uncertainty regarding this parameter resulting from the IBOR reform at 31 December 2020. These instruments are subject to daily collateralisation remunerated to EONIA which, as mentioned above, will be replaced from next year by ESTR.

Specifically, the RFC holds interest rate swaps designated as fair value hedges with a floating “leg” indexed to EURIBOR and a notional value of €31,034 million.

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.

Moreover, BancoPosta RFC engages in repurchase agreements, in euro government bonds or securities guaranteed by the Italian government, for a variety of purposes, including investing in government securities, meeting liquidity requirements deriving from the funding of current accounts and actively managing treasury positions and deposits as collateral. These transactions are mainly at fixed rates and are therefore exposed to changes in fair value due to fluctuations in interest rates.

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 repurchase agreements held in portfolio.

B. Cash flow hedges

BancoPosta RFC enters into:

- **forward purchases** of government securities, 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 securities 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/fixed rates[203] 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/fixed rate, 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.

203. For Repurchase Agreements, hedging is carried out by defining the variable rate component simply indexed to EURIBOR and the fixed rate component that instead incorporates market conditions.

E. Hedged items

BancoPosta RFC designates as hedged items:

- fixed income and index-linked portfolio securities and fixed-rate repurchase agreements, within the fair value hedge policy;
- inflation-linked bonds and forecast transactions, in connection with cash flow hedge policies.

In particular, in fair value hedges of government securities, 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.

With regard to fair value hedges of repurchase agreements, total hedges are in place, with an immediate start date.

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[204], using the approaches illustrated in the following notes.

The retrospective effectiveness test is run by utilising the "dollar offset approach through the hypothetical derivative[205]". 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 - for government securities only) and differ solely in their spread/fixed rate 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.

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[206]" 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 hedging swaps of the repurchase agreements 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[207]. 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.

204. 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.

205. 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, 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[208].

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[209]. The hedge is considered effective if the hedge ratio falls in the interval between 80% and 125%.

208. 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.
209. 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/Types of derivative (€m)	Total at 31/12/2020				Total at 31/12/2019			
	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	**-**	**35,203**	**-**	**-**	**-**	**28,864**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	32,754	-	-	-	27,360	-	-
c) Forwards	-	2,449	-	-	-	1,504	-	-
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	**-**	**35,203**	**-**	**-**	**-**	**28,864**	**-**	**-**

A.2 Hedging financial derivatives: gross positive and negative fair value – breakdown by product

Types of derivatives (€m)	Positive and negative fair value								Change in value used to recognise ineffective portion of hedge	
	Total at 31/12/2020				Total at 31/12/2019				Total at 31/12/2020	Total at 31/12/2019
	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	-	78	-	-	-	73	-	-	17	24
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	**-**	**78**	**-**	**-**	**-**	**73**	**-**	**-**	**17**	**24**
2. Negative fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	(8,189)	-	-	-	(5,516)	-	-	(3,272)	(3,969)
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	(54)	-	-	-	(36)	-	-	(54)	(36)
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	**-**	**(8,243)**	**-**	**-**	**-**	**(5,552)**	**-**	**-**	**(3,326)**	**(4,005)**

A.3 OTC hedging financial derivatives: notional amounts, gross positive and negative fair value by counterparty

Underlying assets (€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	-	28,908	6,295	-
- positive fair value	-	64	14	-
- negative fair value	-	(7,043)	(1,200)	-
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 life (€m)		1 year or less	1 - 5 years	Over 5 years	Total
A.1	Financial derivatives on debt securities and interest rates	2,649	1,165	31,389	35,203
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 31/12/2020		**2,649**	**1,165**	**31,389**	**35,203**
Total at 31/12/2019		**1,504**	**465**	**26,895**	**28,864**

B. Hedging credit derivatives

Nothing to report.

C. Non-derivative hedging instruments

Nothing to report.

D. Hedged instruments

D.1 Fair value hedges

(€m)	Micro-hedges: carrying amount	Micro-hedges - net positions: balance sheet value of assets or liabilities (before netting)	Micro-hedges			Micro-hedges: carrying amount
			Cumulative changes 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	20,535	-	3,686	-	1,599	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	21,874	-	4,390	-	1,658	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 31/12/2020	**42,409**	**-**	**8,076**	**-**	**3,257**	**-**
Total at 31/12/2019	**32,493**	**-**	**5,422**	**-**	**3,923**	**-**
B. Liabilities						
1. Financial liabilities measured at amortised cost - hedging:						
1.1 Debt securities and interest rates	901	-	-	-	-	X
1.2 Currencies and gold	-	-	-	-	-	X
1.3 Other	-	-	-	-	-	X
Total at 31/12/2020	**901**	**-**	**-**	**-**	**-**	**-**
Total at 31/12/2019	**-**	**-**	**-**	**-**	**-**	**-**

D.2 Cash flow hedges and hedges of foreign investments

(€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	50	137	-
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 31/12/2020	**50**	**137**	**-**
Total (A) at 31/12/2019	**54**	**161**	**-**
B. Hedges of foreign investments	**X**	**-**	**-**
Total (A + B) at 31/12/2020	**50**	**137**	**-**
Total (A + B) at 31/12/2019	**54**	**161**	**-**

E. Effects of hedging transactions through Equity

E.1 Reconciliation of equity components

(€m)	Cash flow hedge reserve					Hedge reserve of foreign investments				
	Debt securities and interest rates	Equity instruments and equity indexes	Cur-rencies and gold	Receiv-ables	Other	Debt securities and interest rates	Equity instruments and equity indexes	Cur-rencies and gold	Receiv-ables	Other
Opening balance	**161**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Changes in fair value (effective portion)	(27)	-	-	-	-	-	-	-	-	-
Reclassifications to Profit or loss	3	-	-	-	-	-	-	-	-	-
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	**137**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

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 2020 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, from 26 June 2020 BancoPosta RFC may access a 3-year committed facility granted by Cassa Depositi e Prestiti for repurchase agreements up to a maximum of €4.25 billion.

In terms of BancoPosta RFC's specific operations, liquidity risk regards the investment of current account and prepaid card[210] deposits in Eurozone government bonds 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 €7.1 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.

210. Since 1 October 2018, prepaid cards are the responsibility of PostPpay SpA. The liquidity raised through these cards is transferred to BancoPosta, which invests the funds raised in Eurozone government bonds or other securities 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.

The liquidity risk resulting from contract terms requiring the provision of additional collateral in the event of a downgrade of Poste Italiane SpA is negligible. Such contracts include those for margin lending of derivatives, which require the threshold amount[211] 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 bonds 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.

211. 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/Time-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	Unspec-ified maturity
A.	**On-balance sheet assets**	**11,342**	**7,495**	**55**	**300**	**3,408**	**163**	**1,926**	**6,726**	**49,290**	**13**
A.1	Government bonds	-	-	4	300	3,074	153	1,893	6,726	46,290	-
A.2	Other debt securities	-	-	-	-	22	10	33	-	3,000	-
A.3	UCIs	-	-	-	-	-	-	-	-	-	-
A.4	Due from	11,342	7,495	51	-	312	-	-	-	-	13
	- Banks	53	6,289	-	-	-	-	-	-	-	-
	- Customers	11,289	1,206	51	-	312	-	-	-	-	13
B.	**On-balance sheet liabilities**	**71,369**	**392**	**425**	**449**	**1,863**	**1,294**	**3,388**	**7,276**	**-**	**-**
B.1	Deposits and current accounts	66,601	-	-	-	-	-	-	-	-	-
	- Banks	720	-	-	-	-	-	-	-	-	-
	- Customers	65,881	-	-	-	-	-	-	-	-	-
B.2	Debt securities	-	-	-	-	-	-	-	-	-	-
B.3	Other liabilities	4,768	392	425	449	1,863	1,294	3,388	7,276	-	-
C.	**Off-balance sheet transactions**										
C.1	Financial derivatives with exchange of principal										
	- Long positions	-	-	482	346	685	400	936	-	-	-
	- Short positions	-	401	-	-	-	-	-	250	1,818	-
C.2	Financial derivatives without exchange of principal										
	- Long positions	-	-	-	3	63	6	98	-	-	-
	- Short positions	-	-	-	-	93	2	180	-	-	-
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/Time-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	Unspec-ified maturity
A.	**On-balance sheet assets**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
A.1	Government bonds	-	-	-	-	-	-	-	-	-	-
A.2	Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3	UCIs	-	-	-	-	-	-	-	-	-	-
A.4	Due from	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/Time-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	Unspec-ified maturity
A.	**On-balance sheet assets**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
A.1	Government bonds	-	-	-	-	-	-	-	-	-	-
A.2	Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3	UCIs	-	-	-	-	-	-	-	-	-	-
A.4	Due from	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: Other currencies

Items/Time-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	Unspec-ified maturity
A.	**On-balance sheet assets**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
A.1	Government bonds	-	-	-	-	-	-	-	-	-	-
A.2	Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3	UCIs	-	-	-	-	-	-	-	-	-	-
A.4	Due from	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	-	-	-	-	-	-	-	-	-	-

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 2020, activities continued to refine the operational risk management framework, with the aim of making the process of recording operational losses more efficient, monitoring, reporting 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 2019.

The activities carried out in 2020 also included assessments of the risk profile associated with the outsourcing of BP RFC and the ex-ante assessments of the risk profile associated with innovation in the BP offering and/or specific project initiatives.

With reference to the impacts of the Covid-19 emergency, it should be noted that no operational losses related to the health emergency were detected. In addition, in order to ensure greater control over operational risks deriving from the new working methods implemented (agile working), in addition to the normal persistence of all security measures already in place, Poste Italiane has undertaken additional initiatives aimed at further mitigating risks (for example, security tools for "Bring Your Own Device" stations; specific monitoring of VPNs with the production of daily/weekly reports; increased controls on VPN access and cyber posture in order to combat possible attacks/threats).

Quantitative information

At 31 December 2020, 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	29
External fraud	44
Employee practices and workplace safety	7
Customers, products and business practices	34
Damage caused by external events	4
Business disruption and system failure	7
Execution, delivery and process management	108
Total at 31 December 2020	**233**

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[212], 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[213].

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[214]. Compliance with the objective, threshold and limit system established by the RAF influences decisions regarding profit distributions as part of capital management.

212. Amended with Update no. 34 of 22 September 2020.
213. 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.
214. 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)	Amount at 31/12/2020	Amount at 31/12/2019
1. Share capital	-	-
2. Share premium reserve	-	-
3. Reserves	2,353	2,267
- profit	1,142	1,057
a) legal	-	-
b) required by articles of association	-	-
c) treasury shares	-	-
d) other	1,142	1,057
- other	1,211	1,210
4. Equity instruments	-	-
5. (Treasury shares)	-	-
6. Valuation reserves:	2,278	1,083
- 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	2,182	970
- Property, plant and equipment	-	-
- Intangible assets	-	-
- Hedges of foreign investments	-	-
- Cash flow hedges	98	115
- Hedging instruments (undesigneted elements)	-	-
- Translation differences	-	-
- Non-current assets and disposal groups held for sale	-	-
- Financial liabilites designated at fair value through profit or loss (changes in own credit rating)	-	-
- Actuarial gains/(losses) on defined benefit plans	(2)	(2)
- Share of valuation reserves relating to equity accounted investments	-	-
- Special revaluation laws	-	-
7. Profit/(Loss) for the year	629	611
Total	**5,260**	**3,961**

"Reserves, other" consists of: i) the initial reserve of €1 billion provided to BancoPosta RFC on its creation, through the attribution of Poste Italiane SpA's retained earnings increased by the €210 million equity injection, resolved by the Extraordinary Shareholders' Meeting of 29 May 2018, through the allocation of Poste Italiane SpA's available reserves; ii) €1 million profit reserves for incentive plans, described in Part I.

B.2 Valuation reserves for financial assets measured at fair value through other comprehensive income: breakdown

Assets/Amounts (€m)	Total at 31/12/2020		Total at 31/12/2019	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	2,275	(93)	1,461	(491)
2. Equity instruments	-	-	-	-
3. Loans	-	-	-	-
Total	**2,275**	**(93)**	**1,461**	**(491)**

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	**970**	**-**	**-**
2. Increases	**1,634**	**-**	**-**
2.1 Increases in fair value	1,513	-	-
2.2 Losses due to credit risk	8	x	-
2.3 Reclassification to profit or loss of negative reserve for realised losses	113	x	-
2.4 Transfers to other equity (equity instruments)	-	-	-
2.5 Other changes	-	-	-
3. Decreases	**(422)**	**-**	**-**
3.1 Decreases in fair value	(127)	-	-
3.2 Recoveries due to credit risk	(2)	-	-
3.3 Reclassification to profit or loss of positive reserve for realised gains	(293)	x	-
3.4 Transfers to other equity (equity instruments)	-	-	-
3.5 Other changes	-	-	-
4. Closing balance	**2,182**	**-**	**-**

B.4 Valuation reserves for defined benefit plans: annual changes

(€m)	Total at 31/12/2020	Total at 31/12/2019
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[215];
- undistributed earnings, being BancoPosta RFC's profits appropriated on approval of Poste Italiane SpA's financial statements.

At 31 December 2020, CET 1 was €2,449 million, of which €50 million from the profit for the 2020 financial year (in compliance with the provisions of article 26 of EU Regulation no. 575/2013) and €47 million including:

- €35 million from the application of the transitional provisions to mitigate the effects of IFRS 9 on financial assets measured at amortised cost[216];
- €12 million from the application to BancoPosta RFC of the prudential supervisory requirements relating to financial assets measured at fair value through other comprehensive income.

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[217]), 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 2020, BancoPosta RFC complies with the prudential requirements, with a CET1 ratio of 17.8%.

For more details, reference is made, as provided for by Bank of Italy Circular no. 262, to the information on own funds and capital adequacy contained in the public disclosure ("Pillar 3").

215. Contributions from non-controlling shareholders to BancoPosta RFC are excluded, as they are not provided for in the special regulations governing the ring-fence.
216. Of which €12 million relating to 2020 and calculated in accordance with the methods set out in EU Regulation 2020/873 ("Quick fix" CRR).
217. Risk weighted assets, or RWAs, are calculated by applying a risk weighting to the assets exposed to credit, counterparty, market and operational risks.

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 10.5). The charges are calculated in accordance with specific operating guidelines (Part A, paragraph A.1, Section 4).

2. Related party transactions

Related party transactions have been carried out on terms equivalent to those prevailing in arm's length transactions between independent parties.

Impact of related party transactions on the financial position at 31 December 2020

Name (€m)	Financial assets	Due from banks and customers	Hedging derivative assets and (liabilities)	Other assets	Financial liabilities	Due to banks and customers	Other liabilities
	Total at 31/12/2020						
Poste Italiane SpA	-	902	-	22	-	140	491
Direct subsidiaries							
BancoPosta Fondi SpA SGR	-	17	-	-	-	25	4
CLP ScpA	-	-	-	-	-	-	-
Consorzio PosteMotori	-	10	-	-	-	27	-
Consorzio Servizi Telef. Mobile ScpA	-	-	-	-	-	-	-
EGI SpA	-	-	-	-	-	1	-
Indabox Srl	-	-	-	-	-	-	-
Poste Air Cargo Srl	-	-	-	-	-	-	-
PatentiViaPoste ScpA	-	-	-	-	-	17	-
Poste Tributi ScpA (in liquidation)	-	-	-	-	-	-	-
Poste Vita SpA	-	214	-	-	-	484	7
Postel SpA	-	-	-	-	-	2	-
PostePay SpA	-	220	-	90	-	7,044	354
SDA Express Courier SpA	-	-	-	-	-	4	-
Indirect subsidiaries							
Address Software Srl	-	-	-	-	-	-	-
Kipoint SpA	-	-	-	-	-	1	-
Poste Assicura SpA	-	8	-	-	-	18	-
Poste Welfare Servizi Srl	-	-	-	-	-	14	-
Poste Insurance Broker	-	-	-	-	-	1	-
Related parties external to the Group							
MEF	-	9,376	-	-	-	3,588	-
Cassa Depositi e Prestiti Group	3,302	432	-	-	-	-	-
Enel Group	-	-	-	-	-	-	-
Eni Group	-	-	-	-	-	-	-
Leonardo Group	-	-	-	-	-	-	-
Monte dei Paschi Group	-	248	(245)	-	-	773	-
Other related parties external to the Group	-	-	-	-	-	-	1
Provision for doubtful debts due from external related parties	(2)	(6)	-	-	-	-	-
Total	**3,300**	**11,421**	**(245)**	**112**	**-**	**12,139**	**857**

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	-	-	-	225	10
Postel SpA	-	-	-	-	-	7	1
PostePay SpA	-	55	-	53	-	5,218	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	-
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	-
Other related parties external to the Group	-	-	-	-	-	-	-
Provision for doubtful debts due from external related parties	(1)	(5)	-	-	-	-	-
Total	**3,946**	**9,094**	**(134)**	**136**	**-**	**10,424**	**565**

Impact of related party transactions on profit or loss for the year ended at 31 December 2020

Name (€m)	FY 2020 Interest and similar income	Interest expense and similar charges	Fee income	Fee expenses	Dividends and similar income	Net (losses)/ recoveries on impairment	Administrative expenses	Other operating income/ (expense)
Poste Italiane SpA	1	-	-	-	-	-	(4,380)	-
Direct subsidiaries								
BancoPosta Fondi SpA SGR	-	-	58	(13)	-	-	-	-
Consorzio PosteMotori	-	-	35	-	-	-	-	-
Poste Vita SpA	1	-	429	-	-	-	-	-
Postel SpA	-	-	-	-	-	-	-	-
PostePay SpA	1	(29)	181	(273)	-	-	-	3
Indirect subsidiaries								
Poste Assicura SpA	-	-	34	-	-	-	-	-
Poste Insurance Broker	-	-	-	-	-	-	-	-
Related parties external to the Group								
MEF	32	(6)	61	-	-	(1)	-	-
Cassa Depositi e Prestiti Group	71	-	1,851	(2)	-	-	-	-
Enel Group	-	-	4	-	-	-	-	-
Eni Group	-	-	2	-	-	-	-	-
Leonardo Group	-	-	-	-	-	-	-	-
Monte dei Paschi Group	1	-	-	-	-	-	-	-
Invitalia Group	-	-	-	-	-	-	-	-
Other related parties external to the Group	-	-	-	-	-	-	(1)	-
Total	**107**	**(35)**	**2,655**	**(288)**	**-**	**(1)**	**(4,381)**	**3**

Impact of related party transactions on profit or loss for the year ended at 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 impairment	Administrative expenses	Other operating income/ (expense)
Poste Italiane SpA	-	(4)	-	-	-	-	(4,476)	-
Direct subsidiaries								
BancoPosta Fondi SpA SGR	-	-	63	-	-	-	(11)	-
Consorzio PosteMotori	-	-	38	-	-	-	-	-
Poste Vita SpA	1	-	432	-	-	-	-	-
Postel SpA	-	-	-	-	-	-	(1)	-
PostePay SpA	1	(22)	192	(317)	-	-	-	(4)
Indirect subsidiaries								
Poste Assicura SpA	-	-	38	-	-	-	-	-
Poste Insurance Broker	-	-	-	-	-	-	-	-
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)**

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 a 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

The valuation was carried out using an internal pricing tool that adopts simulation models consistent with the requirements of the reference accounting standards and takes into account the specific characteristics of the Plan.

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 2020 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 56,165 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 2020 is approximately €0.1 million, whilst the liability recognised in amounts due to staff is approximately €0.9 million, and payments were made for approximately €0.4 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[218].

Vesting of the Rights and 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

The valuation was carried out using an internal pricing tool that adopts simulation models consistent with the requirements of the reference accounting standards and takes into account the specific characteristics of the Plan.

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 2020 was approximately €0.1 million, whilst the specific equity reserve was approximately €0.2 million. The unit fair value of each Right at the valuation date is equal to its nominal value at the grant date (determined on the basis of stock market prices), discounted by the expected dividend rate and the risk-free interest rate and updated taking into account the best estimate of service conditions and performance (non-market based performance conditions).

Second Cycle 2020-2022

The total number of Rights to receive Shares assigned for the First Cycle of the Plan concerns 10 Beneficiaries and was 61,663 units, whose unit fair value at the grant date (12 November 2020) was €3.91. The cost recognised for 2020 is approximately €0.1 million, equivalent to the equity reserve specifically created for this case. The unit fair value of each Right at the valuation date is equal to its nominal value at the grant date (determined on the basis of stock market prices), discounted by the expected dividend rate and the risk-free interest rate and updated taking into account the best estimate of service conditions and performance (non-market based performance conditions).

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 most recent short-term management incentive schemes (MBO 2019 and MBO 2020) provide, 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 2017 and 2018) and Rights to receive Shares (MBO 2019 and 2020) 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

The valuation was carried out using an internal pricing tool that adopts simulation models consistent with the requirements of the reference accounting standards and takes into account the specific characteristics of the Plan. At 31 December 2020, the number of Phantom Stocks relating to the 2017 and 2018 MBO plans in place was 78,110. During the year, a cost adjustment of approximately €0.1 million was recognised, payments of approximately €0.2 million were made and the liability recognised amounted to approximately €0.6 million.

At 31 December 2020, the number of Rights to receive Shares, deriving from the short-term MBO 2019 and 2020 incentive plans (the latter 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 51,881. During the year, a cost of approximately €0.1 million was recognised and at 31 December 2020, a specific Equity reserve of approximately €0.3 million and a liability of approximately €0.1 million were recognised.

Part L – Operating segments

The economic flows generated by BancoPosta RFC's operations and the related performance are reported internally on a regular basis to the top management without identifying different 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*.

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