

NOTES TO THE INCOME STATEMENT

INCOME

26 Net earned premiums

Net earned premiums

(€ million)	Gross amount		Reinsurers' share		Net amount	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Non-life earned premiums	20,701	20,489	-1,040	-1,043	19,661	19,446
Premiums written	20,746	20,503	-999	-995	19,747	19,508
Change in the provision for unearned premiums	-45	-14	-41	-49	-86	-63
Life premiums	45,662	46,244	-719	-746	44,943	45,498
Other premiums written	0	0	0	0	0	0
Total	66,363	66,733	-1,759	-1,789	64,604	64,944

27 Fee and commissions income and income from financial service activities

Fee and commissions income from financial services activities

(€ million)	31/12/2017	31/12/2016
Fee and commission income from banking activity	167	137
Fee and commission income from asset management activity	742	655
Fee and commission income related to investment contracts	135	134
Fee and commission income related to pension funds management	18	19
Other fees and commission income	17	15
Total	1,080	959

28 Net income from financial asset at fair value through profit and loss

Net income from financial asset at fair value through profit or loss

(€ million)	Financial investments held for trading		Financial investments back to policies where the investment risk is borne by the policyholders and related to pension funds		Financial investments designated at fair value through profit or loss		Total financial investments at fair value through profit or loss	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Interest income	10	41	530	401	404	489	944	931
Realized gains	539	401	498	367	54	23	1,091	791
Realized losses	-213	-287	-267	-453	-69	-91	-549	-832
Unrealized gains	1,241	949	5,525	5,291	541	629	7,308	6,868
Unrealized losses	-913	-1,389	-2,180	-3,898	-375	-686	-3,468	-5,973
Total	664	-286	4,107	1,706	555	364	5,326	1,784

The net income from financial assets at fair value through profit or loss mainly referred to the life segment (€ 5,197 million). This item is not material for non-life segment (€ 114 million) and for the holding and other businesses segment (€ 14 million).

29 Income and expenses from subsidiaries, associated companies and joint venture

Income and expenses from subsidiaries, associated companies and joint ventures

(€ million)	31/12/2017	31/12/2016
Dividends and other income	110	111
Realized gains	22	7
Reversal of impairment	3	14
Total	135	131

30 Income from other financial instruments and land and buildings (investment properties)

Income from other financial instruments and land and buildings (investment properties)

(€ million)	31/12/2017	31/12/2016
Interest income	9,542	9,878
Interest income from held to maturity investments	88	93
Interest income from loans and receivables	1,459	1,671
Interest income from available for sale financial assets	7,953	8,067
Interest income from other receivables	10	6
Interest income from cash and cash equivalents	32	42
Other income	2,221	2,043
Income from land and buildings (investment properties)	868	852
Other income from available for sale financial assets	1,353	1,190
Realized gains	2,881	2,604
Realized gains on land and buildings (investment properties)	163	169
Realized gains on held to maturity investments	0	0
Realized gains on loans and receivables	332	345
Realized gains on available for sale financial assets	2,385	2,088
Realized gains on other receivable	0	0
Realized gains on financial liabilities at amortised cost	2	2
Reversal of impairment	237	258
Reversal of impairment of land and buildings (investment properties)	54	88
Reversal of impairment of held to maturity investments	1	1
Reversal of impairment of loans and receivables	22	39
Reversal of impairment of available for sale financial assets	77	37
Reversal of impairment of other receivables	82	92
Total	14,880	14,782

31 Other income

Other income

(€ million)	31/12/2017	31/12/2016
Gains on foreign currencies	1,064	1,085
Income from tangible assets	372	190
Reversal of other provisions	297	164
Leasing fees	0	0
Income from service and assistance activities and recovery of charges	590	559
Income from non-current assets or disposal group classified as held for sale	0	0
Other technical income	705	827
Other income	151	91
Total	3,180	2,916

EXPENSES

32 Net insurance benefits and claims

Net insurance benefits and claims

(€ million)	Gross amount		Reinsurers' share		Net amount	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Non-life net insurance benefits and claims	13,874	13,020	-1,071	-357	12,804	12,663
Claims paid	13,331	13,116	-738	-552	12,593	12,564
Change in the provisions for outstanding claims	502	-67	-332	194	170	127
Change in claims paid to be recovered	11	-55	0	1	11	-54
Change in other insurance provisions	30	26	0	0	30	26
Life net insurance benefits and claims	53,500	51,538	-556	-584	52,945	50,954
Claims payments	36,722	35,375	-510	-531	36,212	34,844
Change in the provisions for outstanding claims	281	363	-32	-37	249	326
Change in the mathematical provisions	7,099	11,754	-15	3	7,084	11,757
Change in the provisions for policies where the investment risk is borne by the policyholders and provisions for pension funds	8,557	3,406	0	1	8,558	3,407
Change in other insurance provisions	841	640	1	-20	842	620
Total	67,374	64,558	-1,626	-942	65,748	63,616

33 Fee and commissions expenses and expenses from financial service activities

Fee and commissions expenses and expenses from financial service activities

(€ million)	31/12/2017	31/12/2016
Fee and commission expenses from banking activity	379	334
Fee and commission expenses from asset management activity	155	192
Fee and commission expenses related to investment contracts	62	74
Fee and commission expenses related to pension funds management	12	11
Total	608	611

34 Expenses from subsidiaries, associated companies and joint ventures

Expenses from subsidiaries, associated companies and joint ventures

(€ million)	31/12/2017	31/12/2016
Realized losses	4	17
Impairment losses	14	27
Total	18	43

35 Expenses from other financial instruments and land and buildings (investment properties)

Expenses from other financial instruments and land and buildings (investment properties)

(€ million)	31/12/2017	31/12/2016
Interest expense	1,029	1,088
Interest expense on subordinated liabilities	558	605
Interest expense on loans, bonds and other payables	361	345
Interest expense on deposits received from reinsurers	15	17
Other interest expense	94	120
Other expenses	388	350
Other expenses on financial instruments	0	0
Depreciation of land and buildings (investment properties)	184	173
Expenses from land and buildings (investment properties)	205	177
Realized losses	612	471
Realized losses on land and buildings (investment properties)	12	27
Realized losses on held to maturity investments	0	0
Realized losses on loans and receivables	51	15
Realized losses on available for sale financial assets	546	424
Realized losses on other receivables	3	4
Realized losses on financial liabilities at amortized cost	0	0
Impairment losses	755	1,494
Impairment of land and buildings (investment properties)	27	41
Impairment on held to maturity investments	3	1
Impairment of loans and receivables	207	264
Impairment of available for sale financial assets	479	1,136
Impairment of other receivables	40	52
Total	2,784	3,403

36 Acquisition and administration costs

Acquisition and administration costs

(€ million)	Non-life segment		Life segment		Holding and other businesses	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Net acquisition costs and other commissions	4,381	4,186	3,741	3,778	0	0
Investment management expenses(*)	78	66	307	326	82	46
Other administration costs	1,103	1,139	1,019	974	453	433
Total	5,562	5,390	5,067	5,079	535	479

(*) Before the elimination of intra-group transactions between segments.

The item "other administration costs" includes expenses related to real estate activity which, overall, increased amounting to € 63 million (€ 53 million at 31 December 2016), focusing mainly in the holding and other businesses segment for an amount of € 46 million.

In the Property&Casualty segment, non-insurance administration expenses, equal to € 14 million, increased compared to the previous year (€ 8 million at 31 December 2016) following the trend of the expenses related to real estate activity, amounting to € 12 million (€ 6 million at 31 December 2016), partially due to the increase of brokerage and promotional expenses related to the Citylife commercial pole.

Within "other administrative costs" of the Life segment, the investment management expenses amounted to € 62 million (€ 61 million at 31 December 2016), the non-insurance management expenses amounted to € 6 million (€ 7 million at 31 December 2016) and are mainly refer to real estate activities.

37 Other expenses

Other expenses

(€ million)	31/12/2017	31/12/2016
Amortization and impairment of intangible assets	325	344
Amortization of tangible assets	85	91
Expenses from tangible assets	172	159
Losses on foreign currencies	1,999	801
Restructuring charges, termination employee benefit expenses and allocation to other provisions	714	433
Other taxes	221	209
Expenses from service and assistance activities and charges incurred on behalf of third parties	342	372
Expenses from non-current assets or disposal group classified as held for sale	0	0
Other technical expenses	499	653
Holding costs	537	529
Other expenses	597	441
Total	5,493	4,032

38 Income taxes

This item shows the income taxes due by the Italian and the foreign consolidated companies by applying the income tax rates and rules in force in each country.

The components of the income tax expense for 2017 and 2016 are as follow:

Income taxes		
(€ million)	31/12/2017	31/12/2016
Income taxes	829	1,021
Deferred taxes	344	-106
Total taxes of period	1,173	915
Income taxes on discontinued operations	1,306	1,061
Total income taxes	2,479	1,977

In Italy, with respect to the 2017 fiscal year, income taxes are calculated by using the ordinary corporate income tax rate of 24%. Furthermore, income taxes of Italian companies include the regional tax on productive activities (IRAP), which was computed – in respect of insurance companies – at the ordinary tax rate generally equal to 6.82%.

Income realised in Germany is subject to the corporate income tax - which is calculated on a rate of 15% plus a solidarity surcharge of 5.5% - and the trade tax (Gewerbesteuer). The trade tax rate varies depending on the municipality in which the company is situated. In 2017 the weighted average tax rate remained substantially unchanged at approximately 16.2%.

In France, income taxes are calculated by using an overall corporate income tax rate of 34.43%. In particular, this overall rate includes the basic rate expected in the tax on corporate income, equal to 33.33%, increased by an additional (contribution sociale) of 3.3% and a further additional temporary always calculated with reference the standard rate. In 2017, large corporations are subject to an extraordinary surcharge of 10%. As a result, with respect to such large corporations, income taxes are calculated by using an overall corporate income tax rate of 44.43%.

All other foreign subsidiaries apply their national tax rates, including: Austria (25%), Belgium (34%), Bulgaria (10%), China (25%), Czech Republic (19%), Netherlands (25%), Romania (16%), Spain (25%), Switzerland (22%) and United States (35%).

The following table shows a reconciliation from the theoretical income tax expense, by using the Italian corporate income tax rate of 24%, to the effective tax rate.

Reconciliation from theoretical income tax expenses to the effective tax rate

(€ million)	31/12/2017	31/12/2016
Expected income tax rate	24.0%	27.5%
Earning before taxes	3,686	3,115
Expected income tax expense	885	856
Effect of permanent differences and foreign tax rate differential	186	-170
Effect of fiscal losses	-4	-6
IRAP, trade tax and other local income taxes	154	164
Substitute taxes	69	74
Foreign withholding taxes not recoverable	49	20
Income taxes for prior years	-179	-58
Other	14	0
Tax expenses	1,173	915
Effective tax rate	31.8%	29.4%

With respect to the 2017 fiscal year, the effective tax rate increased to 2.4 basis points compared to the previous fiscal year and amounted to 31.8%. This increase is mainly due to the above mentioned extraordinary surcharge on large corporations in France and the extraordinary repatriation tax introduced in USA on undistributed foreign earnings.

Fiscal losses carried forward are recognised to the extent that future taxable income will be sufficient to offset the amount of the losses before their expiration.

Fiscal losses carried forward as of 31 December 2017 and 2016 are scheduled according to their expiry periods as follows.

Fiscal losses

(€ million)	31/12/2017	31/12/2016
2017	0	0
2018	0	0
2019	1	0
2020	2	0
2021	2	24
2022	28	0
2023	0	0
2024	12	0
2025 and over	28	0
Unlimited	890	944
Fiscal losses carried forward	963	968

With regards to fiscal losses, it is worth noting that Italian Law by Decree 98/2011 introduced that fiscal losses can be carried forward with no time limits (as opposed to the previous five year limitation). Losses from a given year may, however, only be used to offset up to 80% of the taxable income of any following fiscal year.

Deferred income taxes are calculated on the temporary differences between the carrying amounts of assets and liabilities reported in the financial statements and their tax base, by using the tax rates applicable at the expected time of realisation according to each country's current legislation. In particular, with regard to Italian companies, in 2017 fiscal year, the deferred taxes have been determined taking into account the reduction in the corporate income tax rate (IRES) at 24%, as provided by Law no. 208/2015.

The ultimate realisation of deferred tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible.

Furthermore, in making this assessment, management considers the scheduled reversal of deferred tax liabilities and tax planning strategies.

Assessments show that deferred tax assets will be recovered in the future through either (i) expected taxable income of each consolidated company or (ii) expected taxable income of other companies included in the same tax group (e.g. "Consolidato fiscale" in Italy, "Steuerliche Organschaft" in Germany and "Régime d'intégration fiscale" in France).

Deferred taxes as of 31 December 2017 and 2016 are related to the following assets and liabilities.

Net deferred tax assets

(€ million)	31/12/2017	31/12/2016
Intangible assets	113	119
Tangible assets	102	74
Land and buildings (investment properties)	563	614
Available for sale financial assets	4,980	5,552
Other investments	203	336
Deferred acquisition costs	11	16
Other assets	336	324
Fiscal losses carried forward	61	77
Allocation to other provisions and payables	487	623
Insurance provisions	488	538
Financial liabilities and other liabilities	729	976
Other	178	275
Total deferred tax assets	8,252	9,524
Netting	-6,161	-7,047
Total net deferred tax assets	2,091	2,477

Net deferred tax liabilities

(€ million)	31/12/2017	31/12/2016
Intangible assets	149	205
Tangible assets	98	102
Land and buildings (investment properties)	339	394
Available for sale financial assets	6,513	7,280
Other investments	313	247
Deferred acquisition costs	433	403
Other assets	44	52
Other provisions and payables	80	94
Insurance provisions	855	597
Financial liabilities and other liabilities	-147	173
Other	126	117
Total deferred tax liabilities	8,803	9,663
Netting	-6,161	-7,047
Total net deferred tax liabilities	2,642	2,616