

Q4 2017 Earnings Call

Company Participants

- Matteo Del Fante, Chief Executive Officer & Managing Director
- Roberto Giacchi, Chief Financial Officer

Other Participants

- Anna Adamo, Analyst
- Ashik Musaddi, Analyst
- Elena Perini, Analyst
- Emanuele Borghetti, Analyst
- Gianluca Ferrari, Analyst
- Giovanni Razzoli, Analyst
- Matija Gergolet, Analyst
- Michael Werner, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, and welcome to the Poste Italiane Full Year 2017 Preliminary Results Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Mr. Matteo Del Fante, CEO. Please go ahead, sir.

Matteo Del Fante {BIO 6237992 <GO>}

Good afternoon, ladies and gentlemen. We're pleased to present the 2017 preliminary results of Poste Italiane. As you know, I was appointed CEO in May last year. We have all worked hard since to lay the foundation of our strategy. We're presenting our preliminary results today ahead of the Capital Markets Day, allowing you to focus on the new plan starting from a base of sheer (00:00:55) results. We have already delivered key milestones such as the agreement with the unions, the partnership with Anima, and the agreement with CDP to revamp our business.

2017 ended with a sound €689 million net profit, increasing by 11% compared to previous year. On a normalized basis, the progression is even stronger at 42%, and a net profit of €722 million. Operating performance improved significantly by over 20%, excluding non-recurring items, resulting in EBIT of €1.1 billion. As promised, we confirm the distribution of 80% of our preliminary net profit, corresponding to a dividend of €0.42 per share, up

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8% from 2016. I look forward to seeing you the 27 in May (sic) [February] (00:02:06), next week, when we will have the pleasure to introduce my management team that I have strengthened by appointing the right people with the right experience both from inside and outside the organization.

Moving to slide number 3, here you have an overview of our key figures by business unit. As mentioned during the nine months result presentation, we launched a new business unit for Payments Mobile & Digital, which would be responsible for the development of the payment system where we are the market leader in Italy. We intend to consolidate our position, leveraging on the opportunities coming from the digitalization which is changing the way people use these services. In Financial Services, revenues were broadly flat compared to last year, net of the disposal of the BdM-MCC bank. Operating profit decreased mainly due to higher provision for risk and liabilities related to real estate funds. On a normalized basis level, 2017 EBIT would have been slightly higher than last year.

Insurance and Asset Management revenues increased by €0.6 billion or 2.4% versus last year thanks to our simple and attractive life products. Operating profits show a robust 32% growth year-on-year, mirroring the positive performance of life, gross written premiums, and the growing contribution of non-life and asset management products.

In Mail and Parcels, segment revenues were down by €191 million or 5% to €3.6 billion. But considering the positive one-off in 2016, the reduction is lower of about 2%, which is slightly above our expectations. This reduction is in line and relates to traditional main volumes mitigated by increasing parcel revenues. In 2017, operating profit was down €80 million or 18.4% due to a one-off revenue effect of €108 million. Closing 2016, we had a universal service obligation especially in the last quarter, and second reason was a one-off cost of €23 million in Q4 of 2017 related to a fine from the antitrust which we are appealing against. Net of this regulatory one-off effect, operating profit of Mail and Parcel improved by around €50 million versus 2016, confirming the restructuring.

Moving to slide number 4, total financial assets increased by €40 billion to €506 billion, which is 2.7% up versus 2016. The mix remains balanced, with an increase in postal bonds compensating the decrease in postal saving books and a material increase both in our current account deposit and life product technical reserves. Let me highlight that we continue to benefit from a strong track record over the past years in increasing our assets under management. We're confident that we will keep this pace going forward, leveraging on our ability and quality products and the country's largest distribution network. Customers trust our brand, our people, and our proximity, and we're going to continue to serve them in the best possible way, preserving the solidity and sustainability of our business.

Let me now hand over to the CFO, Roberto Giacchi, who will comment on each specific business unit results. Thank you.

Roberto Giacchi {BIO 20101579 <GO>}

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Thank you, Matteo, and good afternoon, everybody. Let's now move into each specific business unit results, starting from our Financial Services revenues evolution on slide number 5. As you all know, BancoPosta is an asset gatherer, a capital-light business supported by transaction banking and distribution of third party products. Overall, revenue in 2017 were resilient, with one-offs offsetting each other, namely capital gains from the disposal of our stake in BdM-MCC bank, Visa and MasterCard. In particular, third parties' product distribution and transaction bank fees were resilient on a normalized basis, excluding the effect of the disposal of MCC. In 2017 we accounted for €54 million lower revenues. Postal savings fees amounted to €1.6 billion in 2017, in line with 2016. Interest income and gross capital gains were stable at around €2 billion.

Moving to slide 6. Let's now look into the specific current account. On credit account deposit, let me point out the following major items. An increase in average deposits to €56 billion from €50 billion in 2016, up 12%. A solid customer base with over 6.3 million current accounts. A decrease in interest income of €32 million or 2.1% versus 2016, more than compensated by higher capital gains. The average return, excluding capital gains, decrease by 40 basis points. At year-end 2017, unrealized capital gains stood at €1.6 billion, whilst as of today they have reached €2 billion mainly as a consequence of the spread decrease. The portfolio duration has also decreased from 5.5 years in 2016 to 5.2 years in 2017.

Let's now move to postal saving collection on slide number 7. In 2017 average postal saving deposits decreased by 1.4% whilst fees were resilient at €1.6 billion. In the second half of the year we started new commercial activities, reversing the negative trend experienced in the first half of the year. As already communicated in December, we had also renewed our agreement with CDP, with favorable terms to mitigate the negative trend of postal savings and to increase the fees we received starting from the beginning of 2018. Going ahead, to maximize the level of fees, we need to reach specific annual targets. Overall, these targets are pragmatic, and we're confident to be above €1.8 billion fees already in 2018, leveraging on our stable customer base with over 30 million postal saving books holders at the end of 2017.

Let's now move to BancoPosta regulatory framework and capital position on slide number 8. In terms of BancoPosta capital adequacy, let me stress four major key points. BancoPosta regulatory framework continues to be fully aligned to European Union standards. 2017 CET1 ratio reached 17%, well above the minimum regulatory requirements. 2017 leverage ratio stands at 3%, in line with the regulatory requirements. In 2018 we will implement a recapitalization of BancoPosta to align the leverage ratio to the stricter internal rule. Full year profitability recorded a remarkable 28.4% return on equity. All of this coupled with a zero lending risk profile makes BancoPosta a unique superior returns fee-based revenues players in the Italian financial industry.

Let's continue with transaction banking revenues on slide number 9. The cards and acquiring business contributed €274 million, increasing by €49 million, more than offsetting the decline in payment fees. Other banking services were stable at around €370 million. This factor is undertaking a deep transformation to digital payment. And as you will see during our Capital Markets Day on February 27, we will also leverage on our new division to maximize the opportunity from this segment. We are a leading player in

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payments and we can leverage on our positioning, our skills, and our capabilities to seize the material market opportunities arising from this business in the coming years.

Let's now move to the transaction banking volumes on slide number 10. Here you can see several KPIs to better understand the drivers of our transaction banking business. The cards and acquiring business reported a very solid growth both in terms of cards and transaction value. This is definitely a growth area both in terms of revenues and margin. With respect, I would like to mention the continuing success of the PostePay Evolution card that at the end of 2017 had more than 5.2 million cards issued since the launch in July 2014; around 1.6 million new cards in 2017 alone. Today we have around 18 million active PostePay cards. Within payments, bank, and money transfer business, payments slips declined by 4.2% whilst bank and money transfer transactions grew by 5%.

Let's now look at an overview of the digitalization process in transaction banking on slide number 11. Allow me to take this opportunity to highlight the achievement we reached so far in our digitalization process. In 2017 we have reached 15 million registered users, plus 20% versus 2016. And our mobile apps have been downloaded 15 million times, plus 50% versus 2016. The digital channels are currently used by more than 1 million clients daily. Taking also into consideration our retail postal network, 1.5 million daily visitors, we can count on more than 2.5 million customer daily visits. The transaction value using our apps reached €2.3 billion. I believe everybody is able to appreciate this remarkable number.

Let's move to slide number 12, key metrics for our Insurance and Asset Management business. Operating profitability increased by €204 million thanks to stable subscription fees in life insurance and private pension plans along with higher management fees related to technical reserves. On private pension plans, it's worth mentioning that in 2016 we booked an extraordinary item worth €57 million. We recorded a positive and increasing contribution on P&C technical margin thanks to the significant growth in gross written premium. Also, asset management is showing a 42% increase in subscription and management fees due to the relative increase in assets. It's worth mentioning and overall reduction in cost of approximately 2%. This allows us to post a 32% increase in operating profit, reaching €814 million.

Let's now move to Insurance and Asset Management gross written premiums on slide 13. In 2017 group gross written premium increased by around €0.5 billion to a total of €20.4 billion, up 2% from 2016. As you can see in the slide, this growth has been recorded in all our products: life, private pension plans, and P&C products. At the same time, our customer base has grown substantially in all three business areas, reaching 3.6 million customers in the life business, 0.9 million customers in the private pension plan business, and almost 1 million customers in P&C business. In particular, we have benefited from double-digit growth in our non-life premium, whose results will increase going forward in a relative underpenetrated market. The combined ratio fell to 56% from 76% percent in 2016 thanks to an improved loss ratio from lower claims and a reduced expenses. The continued growth of our life business is confirming Poste Italiane group as the number one life insurance in Italy.

Let's now move on slide number 14. In 2017 life premium net inflows were equal to €9.4 billion. The significant outflow in class III is attributable to €3.5 billion maturities on capital

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guaranteed products. Furthermore, let me underline that our 2017 lapse rate was equal to 2.89%, decreasing 3 basis point versus last year, a figure which is far lower than the market benchmark of 6.7% registered in 2006, highlighting our loyal customer base.

Let's now move to slide 15. Group technical reserves increased by €10 billion, up 9% percent from 2016, benefiting from the continual growth of insurance business. Our realized capital gain reached €8.2 billion, a reduction from €9.3 billion at the end of the 2016. This value will allow us to continue offering higher than market returns to policyholders, strengthening our market leadership. With regards to our investment portfolio breakdown, the increase of investments in multi-asset funds, which moved from 14% at the end of 2016 to 19% in 2017, confirm our diversification strategy towards a more adequate risk to return profile. At the same time, the average minimum guaranteed in class I policy has been reduced from 1% to 0.9%. Bear in mind that the current class I policy we are selling have no minimum guaranteed return, while the return realized in 2017 is in line to 2016 at 3.03%.

Let's move to slide number 16. Asset Management increased by close to 10% year-on-year, reaching €8 billion, with the customer base increasing by 22% to more than 660,000 customers. As you can see, with lower bond market investment return, our customers' risk return profile have shifted towards more balanced/flexible and equity products. The recently signed agreement with Anima that includes a broader product offering and extensive training from our network is more suited to offer these products to our customers. We are convinced that we will boost our position in the asset management space in the coming years.

Let's now move to slide number 17, an overview of Solvency II. Regarding Solvency II of PosteVita at the end of 2017, eligible own funds were equal to €8.5 billion, up €0.5 billion versus €8 billion at the end of 2016. The increase of eligible own funds is mainly due to higher business and a higher interest rate environment. On the other side, the Solvency capital requirements increased from €2.7 billion to €3 billion at the end of 2017. Consequently, the Solvency II ratio for PosteVita at the end of December 2017 is equal to 280% versus 295% registered at the end of 2016.

Let's move to slide number 18, cross-selling. In this slide you can see the results of our monitoring program that has been internally established relative to the cross-selling index. This index is a clear measure of our ability to extract value from our customer base. This index will be a key driver for Poste Italiane future strategic growth. As you can see, the index is showing a solid growth quarter-after-quarter. We will be focused on keeping this growth going forward as a key driver of our industrial plan.

Moving to Mail and Parcel on slide number 19. Parcels revenue increase to €693 million, up about 6.7%; mitigating the Mail revenues decline now standing at €2.7 billion, down by 8.8%. This percentage is affected by one-off revenues in 2016 from universal service obligation, a €108 million year-on-year effect of regulation. Without this effect, this one-off effect, the Mail revenues reduction would have been about minus 5%. Infrasegment revenues, stable versus 2016, are mainly related to BancoPosta distribution commission. Bear in mind that we have a positive one-off for €180 million from the higher parcel service obligation in 2016 and a negative one-off of €23 million related to the provision

made in respect of the Italian antitrust authority fine against which we are appealing. Operating profitability improves thanks to our managerial action and cost discipline.

Let's now move to slide number 20 with some details on the Mail and Parcel business. Parcel volumes increased by almost 17% year-on-year, up to almost 113 million pieces, confirming the positive trend driven by the growing e-commerce penetration in Italy. In 2017 main volumes reach 2.2 billion items (sic) [3.3 billion items] (00:25:52), down 7.7% versus the same period last year, mainly due to a substitution effect. Mail repricing tariffs has allowed us to mitigate the decline in revenues. Parcel price reduction is related to the strong increase of B2C e-commerce flows which, as you all know, have a lower revenues per unit index.

Let's move to slide number 21 to discuss group operating costs. Overall group operating costs fell by €268 million, down by 3% versus last year, as a consequence of our continued cost management discipline. With regard to cost management action, we are streamlining the group organization, processes generating structural savings, savings which are decreasing the group cost base. We are continuing our early voluntary retirement incentive policy, in line with previous year, with particular focus on the Mail and Parcel division. Lower labor costs for €137 million are due to lower full-time equivalent, in particular in the Mail and Parcel division.

Let's move to slide number 22. As you have seen in the previous slide, total labor costs are down to €5.6 billion or minus 2.4% thanks to the reduction in the average number of employees from 141,000 in 2016 to 138,000 in 2017. Let me also remind you that at the end of December 2017, approximately 4,700 people left the company thanks to our voluntary early retirement plan. The results in term of head count reduction for the 2017 highlight management effectiveness to reduce on an ongoing basis the work force. We will discuss these trends in greater detail during our Capital Markets Day.

Slide number 23. Net income for the period was equal to €689 million versus €622 million in 2016. On top of the already commented EBIT evolution, this performance is related to net financial loss equal to €56 million composed by positive net financial income for €38 million, and Alitalia and Atlante write-off for €94 million, taxes for a total consideration of €378 million, corresponding to a tax rate of about 35.4%. Excluding the abovementioned one-off effects, net profit would be €722 million with an increase of 42% versus last year.

Slide 24, the new management team believe in investments as an enabler for the transformation we are going to implement at Poste Italiane. As a consequence, group CapEx was €467 million in 2017, up €16 million. The majority of the investment program is mainly related to information technology and digital platform to the development and redesign of postal and logistics mechanization systems and to investment in workplace safety. This figure show the management commitment to speak (00:30:25) our transformation program, which will also be tackled during our Capital Markets Day.

Slide 25, the industrial net cash position reached €1.029 billion at 21st December 2017. The biggest moving parts are capital expenditure and net dividends, showing that after rewarding our shareholders, we are able to generate fresh resources to be invested within

the company in order to remain competitive and to anticipate our customer changing behavior and mix.

Finally, let me quickly walk you through our new segment reporting in the next couple of slides. Poste Italiane transformation has already begun with a comprehensive review of our divisional organization, enhancing visibility and transparency on key value drivers for each business division.

In terms of the key changes, a new Payments Mobile & Digital division has been established. Asset Management shift from Insurance to Financial Services to better reflect its role within BancoPosta focus on wealth management products. Mail and Parcel is now known as Mail, Parcel & Distribution, reflecting the distribution revenues received from the other business segment. By February 21, we will publish on our website an Excel file with our data on full years 2016 and 2017 according to the new perimeter in line with our plan and our disclosure going forward.

On slide 27, you can see how Insurance business will be reported. On this slide, we highlight another change, which will be in place already starting from our Capital Markets Day and that we will apply on an ongoing basis going forward in our financial communication. In line with best market practice, premiums and financial income in the Insurance business will be reported net of technical reserve and other expense already starting from our presentation in Q1 2018.

Moving to slide 28, you can see here the effect of the implementation of the new perimeter on the way results will be stated. The main difference is the way Insurance revenues will be present, net of technical results, besides the changing mix from Asset Management moving into Financial Services will be implemented. Based on 2017 numbers, total revenues in Financial Services will be equal to €4.956 million instead of €5.245 million. At the same time, the new business unit, Payments Mobile & Digital will command €586 million of market revenues for 2017.

On slide 30, you can see the new EBIT breakdown, and the new Payments Mobile & Digital division carved out from the Financial Services and merged it with PosteMobile will record €195 million for full year 2017. The Financial Services will encompass the Asset Management business so that on 2017 figures, it will show an operating profit of €646 million.

This is in summary the segment view (00:34:59) we are going to work with over the coming years. That's all for our results. Thank you for your attention. Let me hand over to CEO, Matteo Del Fante, for some closing remarks.

Matteo Del Fante {BIO 6237992 <GO>}

Thank you, Roberto. So, we have presented today what we consider strong operating results in management vision (00:35:30) year where we kept the pace of cost discipline, we kept the pace of our voluntary early retirement plan, and we kept the pace of investing in CapEx.

In July 2017, we committed with investors with stable dividend and a stable dividend policy, and today, we're keeping up with our promise with an 8% increase versus 2016. In the meantime, we closed two agreements with unions, one important update of the CDP distribution contract and reached a positive agreement with Anima, our strategic partner, which was appreciated by investors in terms of market reaction.

I think now, we can take questions from investors and analysts, and if possible, if we can limit two question maximum per person, and we would then, obviously, have more time to expand our strategy next week on the 27th of February in Milan. Thank you.

Q&A

Operator

Thank you. We are taking the first question from Kunal Zaveri from JPMorgan.

Q - Ashik Musaddi {BIO 15847584 <GO>}

This is Ashik here from JP Morgan. I'm on using Kunal's line. Good afternoon by the way. Just a couple of questions. One is on Insurance business. It looks like your technical reserve went up by 10% in 2017 versus 2016, whereas the management fee that has gone up is around more than 25%. So, can we get some color on what's going on that? Are you trying to increase the margin on an ongoing management fees and Insurance?

And secondly is if I look at the current account average return without capital gains, it went down by 40 basis point in 2017 versus 2016, so 3.1% going down to 2.7%. Is that a good run rate going forward as well, the decline, assuming interest rate remains where it is at the moment? So, any thoughts on these two questions would be very good. Thank you.

A - Roberto Giacchi {BIO 20101579 <GO>}

I take the first question on Insurance. The management fees actually is a percentage of technical reserve and is currently stable. So, the increase that you have seen in management fees revenue is basically based on the increase of technical reserves. So, we didn't change the percentage of the management fees, just that increase the amount, the total amount of technical reserves.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. But if I look at the technical...

A - Roberto Giacchi {BIO 20101579 <GO>}

Without the...

Q - Ashik Musaddi {BIO 15847584 <GO>}

Sorry. I was just saying if I look at the technical...

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A - Roberto Giacchi {BIO 20101579 <GO>}

Yeah, please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

...reserve on slide number 15, it went up by 9%, whereas management fees went up by 25%. I think what I might be missing is the average technical reserve might have gone up more than 10%. Is that the case?

A - Roberto Giacchi {BIO 20101579 <GO>}

I mean, the total increase of technical reserve has a different composition of classes. So, it's an increase in class I products, an increase in class III products. The overall effect of the increase is the one that you see on revenues.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. Got it. Yeah.

A - Roberto Giacchi {BIO 20101579 <GO>}

Okay. Then going to the interest income, the reduction of the interest income and the reduction of the yield is due to the interest rate environment that we are facing. And as you will see at our Capital Market Day, we have carefully forecasted the interest income for the coming years, and we will show exactly the trend that we are expecting for the coming years for interest rate and capital gains (00:41:00).

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. So, probably I'll wait for that. Yeah.

A - Roberto Giacchi {BIO 20101579 <GO>}

Yeah, we have also to remember that if we are taking around €400 million to €500 million capital gains per year in our income statement, what remains as an average

yield to the portfolio even in stable markets is trending down, but this is going to be detailed (00:41:29) in our five-year plan.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Thanks. That's all what I look for. Thank you. Thanks a lot.

Operator

We are now taking our next question from Gianluca Ferrari from Mediobanca. Your line is open. Please go ahead.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

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Yes. Hi. Good afternoon. I have a couple of questions. The first one is on the Insurance business. I was wondering if the derisking you were making on government bonds is over given that the amount is still there at 66%. And linked to the life insurance, I noticed there is not any longer (00:42:08) business activity to higher interest rates. If you could give us an update on your solvency ratio in the case of 50 bps higher level of rates.

And on asset management, given that you gave us the picture of flows in postal savings in first half and in second half last year, if you could give us also the level of inflows or outflows in asset management products and mutual funds in first half and second half last year. Thank you.

A - Roberto Giacchi {BIO 20101579 <GO>}

So, question about sensitivity. An increase for 50 basis point on government spread. Their market value of investment decreased by €3 billion. The own funds level decreased by about €500 million. The solvency ratio level moved down from 280% to 247%. If we have an increase of 50 basis point of spread corporate bond, the market value of investment decrease by €600 million about (00:43:46), the own funds level increase by €146 million, and the solvency ratio level moves from 280% to 293%.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Thank you.

A - Matteo Del Fante {BIO 6237992 <GO>}

On the derisking of the technical reserves is keeping its lower base. We are defining our strategic asset allocation for 2018, but clearly, current market condition and very high valuation in most of the asset classes are not pushing for an acceleration of that, but in terms of your last question, I would probably keep it, move to the next question, and if possible, we'll try to answer you before the end of the call.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Thank you very much.

Operator

We are now moving to Emanuele Borghetti from Intermonte. You may now go ahead.

Q - Emanuele Borghetti {BIO 19118661 <GO>}

Yes. Good evening to everybody and congratulations for the results. A couple of questions from my side. The first one is on the cost of labor that you booked some one-off related to the bonus for the workforce in the fourth quarter. And if you could provide us with a sort of guidance for the average increase in the wages cost for next year as a consequence of the new agreement with the labor union. And secondly, if you could provide us with a guidance on the early retirement plan costs for next year. Thank you.

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A - Roberto Giacchi {BIO 20101579 <GO>}

About the numbers of next year and the following years, we will answer at the Capital Market Day, also to give you a full picture of - a full and detailed picture of all these aspects. About the cost of labor, basically, we do expect increase in wages in line with inflation. Today, we have an assumption at around 1.7%.

Q - Emanuele Borghetti {BIO 19118661 <GO>}

All right. Thanks.

Operator

The next question comes from Giovanni Razzoli from Equita. Your line is open. Please go ahead.

Q - Giovanni Razzoli {BIO 7269718 <GO>}

Good afternoon. And I apologize if my question were already answered during the conference call but got the press release quite later. So, my first question is on the performance of the Mail and Parcel division in the Q4. If I'm not mistaken, there is a slight deterioration in Q4 compared with the Q4 of 2016 even if I net the EBIT performance of the €23 million of one-off. I was wondering whether my understanding is correct or if there is something else.

And if you can share with us what was the extraordinary cost related to the early retirement plans in the Mail and Parcel division for the Q4. And another question on the Insurance performance in the Q4, which looks extremely strong compared with the previous quarter and also with last year of 2016. I was wondering whether there have been some acceleration in terms of investment portfolio strategy impact in the Q4 performance. Thank you.

A - Roberto Giacchi {BIO 20101579 <GO>}

Okay. So, let's start from the Q4 performance. The Mail and Parcel division in the Q4 experienced a decrease of revenues for €123 million, Q4 2017 versus Q4 2016. Also, bear in mind that here, we have had in the Q4 2016 the €108 million extraordinary one-off related to universal service obligation.

EBIT was also deteriorating by €39 million, Q4 2017 versus Q4 2016. Again, here we have on top of the €108 million one-off, we have also the €23 million fine. We have (00:49:23) in 2017.

Very good (00:49:28) the performance of the Insurance and Asset Management business, revenues were almost stable, but there was a strong increase in EBIT. EBIT was in the Insurance and Asset Management business in the Q4 equal to €284 million versus the €200 million in 2016. So, plus €84 million.

Q - Giovanni Razzoli {BIO 7269718 <GO>}

Thank you. And now, we wonder whether this performance in the Q4 of the Insurance and Asset Management is also reflecting some one-offs or non-recurring contributions of some kind.

A - Roberto Giacchi {BIO 20101579 <GO>}

Sorry. It was not clear. Can you say it again, please?

Q - Giovanni Razzoli {BIO 7269718 <GO>}

Yeah. Sorry. I was wondering whether this strong acceleration that you have mentioned in the Insurance and Asset Management EBIT performance in the Q4 is reflecting some non-recurring contributions of some kind in terms of either performance of the portfolio, investment portfolio or...

A - Roberto Giacchi {BIO 20101579 <GO>}

So, I tried to understand - I mean, your question is if we have non-recurring item in Insurance you mean?

Q - Giovanni Razzoli {BIO 7269718 <GO>}

Yeah, in the Insurance, you've mentioned €284 million of EBIT, which is up €85 million (sic) [€84 million] (00:51:09) year-on-year.

A - Roberto Giacchi {BIO 20101579 <GO>}

In Q4, we have not accounted extraordinary item in Insurance. So, they are all ordinary numbers.

Q - Giovanni Razzoli {BIO 7269718 <GO>}

Okay. Thank you.

Operator

We are now taking a question from Matija Gergolet from Goldman Sachs. Your line is open. Please go ahead.

Q - Matija Gergolet {BIO 3561672 <GO>}

Yes. Hello. Good afternoon. Two questions from my side. The first one is relating to Parcels. Just in the fourth quarter, if I did my numbers correctly, I think you had a decline in revenues in Parcels as well, which is perhaps a little bit surprising given that there should be fairly good growth opportunity in Parcels particularly on the Christmas season with the growth in B2C. Could you elaborate a bit what happened there?

And then secondly, just in terms of exceptionals in this quarter, so you talked about, okay, last year, the €108 million of extraordinary compensation, the €23 million fine. Then can you talk about the Mastercard capital gain that was booked in this quarter, €91 million or

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was there something that I was missing from the past? And if there was any other, say, exceptional items that you think is worth (00:52:35) for this quarter? Thank you.

A - Roberto Giacchi {BIO 20101579 <GO>}

On the first question, on page 19, we specified that Parcel revenues are growing from €649 million to €693 million, so that's an increase of €6.7 million.

Q - Matija Gergolet {BIO 3561672 <GO>}

Now, okay, but if you look at your nine-month figures, I think for your nine months, you're already €41 million ahead. Now, you are €44 million ahead, which is, let's say, fairly (00:53:20) flattish or in a market we should be growing quite nicely.

A - Roberto Giacchi {BIO 20101579 <GO>}

I mean, we have had a very good quarter in 2016. The Q4 was very good in 2016, and we have had a good quarter also in 2017. On top of this, we had to consider that we have had a labor strike in our express courier business unit that at the end, generated a revenue loss or about €15 million. So, adding this €15 million, we have had a more solid growth quarter-on-quarter.

Q - Matija Gergolet {BIO 3561672 <GO>}

Okay.

A - Roberto Giacchi {BIO 20101579 <GO>}

We have always to keep in mind that this kind of labor strike are quite common in the industry, and we have been affected in the last quarter as well as other competitor has been affected. Going to the other question that you made, the one-off recap (00:54:43), I can tell you that Mastercard was accounted in 2017 for €91 million and that in 2016, we accounted for the Visa sale, and the capital gain account in 2016 was €121 million. So, the net effect is minus €30 million

Q - Matija Gergolet {BIO 3561672 <GO>}

Okay. And so, can I just on that Visa, Mastercard, do you have any shares outstanding of those two or is that now all gone?

A - Roberto Giacchi {BIO 20101579 <GO>}

We have a limited amount of shares still outstanding in Visa, but it will take several years before that we can dispose and monetize. So, it's both immaterial and not an item that will materialize soon.

Q - Matija Gergolet {BIO 3561672 <GO>}

Okay. Thank you.

Operator

We are now taking a question from Elena Perini from Banca IMI. Your line is open. Please go ahead.

Q - Elena Perini {BIO 4202240 <GO>}

Yes. Good afternoon. I have only one last question about the combined ratio of the P&C business because I couldn't get the properly the figure about it. And I was also wondering that if on the decline of the last ratio, there were some extraordinary items or one-off and so on (00:56:43)? Thank you.

A - Roberto Giacchi {BIO 20101579 <GO>}

Yes. So, as I said before, the combined ratio fell to 56% from 76% in 2016, thanks to an improved loss ratio from lower (00:57:04) and reduced expenses ratio. Loss ratio had lower claims than expected for 7% and for 7% of the overall loss ratio, we released claims reserves coming from the previous year. So, overall, the loss ratio improved by 14%. The expense ratio improved by 6% and this was mainly related to the cost discipline within this company. So, the sum of the two, the 6% of the expense ratio and the 14% of the loss ratio moved the combined ratio from 76% to 56%.

Q - Elena Perini {BIO 4202240 <GO>}

Okay. Thank you very much.

Operator

We are now moving to Anna Adamo from Autonomous. Please go ahead.

Q - Anna Adamo {BIO 16893946 <GO>}

Hi. Thank you for taking my question. My first question is on BancoPosta. You mentioned during the presentation that you are looking to recapitalize BancoPosta in order to boost the leverage ratio higher than the current 3.1%. And could you share with us how much would be the size of this capital increase and how will it be financed? That's my first question. And my second question is on the sensitivity of PosteVita solvency ratio to government spreads. If I look at the same sensitivity, which was disclosed at the end of last year, your sensitivity was much higher, was 115 percentage points, 400 basis points (00:59:06) of widening of the spread. And now, it's only 60 (00:59:12). So, what have you done to basically reduce the sensitivity of this Solvency II that much? Thank you.

A - Matteo Del Fante {BIO 6237992 <GO>}

I'll take the first one on BancoPosta. As you know, we already did the capital injection in BancoPosta in 2017 for €110 million. At the Capital Market Day, the 27th of February, we will give you a full description and detailed description of the capital structure of the group and the capital required by BancoPosta to sustain its business development. For what it concerned your second question, the reduced sensitivity is basically related to a more diversified portfolio of investment activities.

Q - Anna Adamo {BIO 16893946 <GO>}

Okay. Thank you.

A - Roberto Giacchi {BIO 20101579 <GO>}

If there are no other questions, we had a follow-up answer to Mr. Ferrari of Mediobanca which was inflow and outflow from mutual funds. We are in the position of giving you a net figure for 2017, which is positive €700 million, and we'll give more details Capital Market Day strategy.

Operator

We are taking a question from Mike Werner from UBS.

Q - Michael Werner {BIO 4790902 <GO>}

Actually, all my questions have been answered. Thank you.

Operator

We have a follow-up question from Matija Gergolet from Goldman Sachs.

Q - Matija Gergolet {BIO 3561672 <GO>}

Yes. Hello. Good evening. One more question from me quickly just on the portfolio of government bonds in your Financial Services. Could you provide us a sensitivity at year-end to change in spread and to change in interest rates, maybe what will be the change in capital gains for roughly 100 basis point change in interest rates or spreads, please as of the end of December? Thank you.

A - Roberto Giacchi {BIO 20101579 <GO>}

You're referring to the investment portfolio on which...

Q - Matija Gergolet {BIO 3561672 <GO>}

Yeah. (01:02:23).

A - Roberto Giacchi {BIO 20101579 <GO>}

...sensitivities. Yeah, what kind of sensitivity you're looking for?

Q - Matija Gergolet {BIO 3561672 <GO>}

If you have like 50 basis points of change in the spread and 50 basis points of change in interest rates.

A - Roberto Giacchi {BIO 20101579 <GO>}

Yeah, I think what we can do the best way to answer this question is the following if you agree. We can tell you that today versus the figure we posted in the presentation, the capital gain is above €2 billion and that in terms of sensitivities, we are running even

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stronger sensitivities for the Capital Markets Day, stronger, I mean, higher in terms of dimension. And we will give overall scenario sensitivities next week on the overall portfolio if that's satisfactory for you.

Q - Matija Gergolet {BIO 3561672 <GO>}

Yeah. That's okay. We'll be looking forward to next week then. Thank you.

Operator

There are no further questions.

A - Matteo Del Fante {BIO 6237992 <GO>}

Thank you very much, everybody, and see you next week, Tuesday, 11:00 AM, Poste Italiane, Milan. Thank you. Bye.

Operator

This will conclude today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.

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