S1 2019 Earnings Call

Company Participants

- Guido Maria Nola, Chief Financial Officer
- Matteo Del Fante, Chief Executive Officer, General Manager

Other Participants

- Anna Adamo, Analyst
- Federico Braga, Analyst
- Gian Luca Ferrari, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to today's 2Q and First Half 2019 Financial Results. At this time, all participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session. (Operator Instructions) I must advise you that this conference is being recorded today, Wednesday, the 31st of July, 2019.

I would now like to hand the conference over to your speaker today, Matteo Del Fante. Please go ahead, sir.

Matteo Del Fante {BIO 6237992 <GO>}

Good morning, ladies and gentlemen. Thank you for joining us this morning as we present Poste Italiane results for the second quarter and first half of 2019. I will take you through the key highlights before handing over to our CFO, Guido Nola, for a more detailed business review. I will then provide some closing remarks, before we open the call for questions.

Let's start with a quick overview on Slide 3. The first half of the year, operating profit was up 2.6% to EUR1.1 billion, resulting in net profit for the first half of EUR0.8 billion, in line with 2019 targets. All segments provided a positive contribution to revenue growth. In particular, strong parts of revenue growth continues to offset the mail decline in our core logistic business, supported by the ongoing industrial transformation on which I will update you later.

Recurring revenue growth is also visible across all other segments. In particular, insurance revenues were supported by strong multi-class and P&C growth. Multi-class products now represent over one-third of new production. In the medium- to long-term, this transition in mix will contribute to increase recurring profitability and reduce capital absorption.

Our Solvency II ratio increased in the quarter with levels in line with our managerial ambition through the cycle. Our focus on cost discipline is confirmed, both in terms of HR and non-HR costs, while we continue to deploy CapEx to support our Deliver 2022 strategic plan. As a result, we confirm our 2019 guidance, which we announced at our Capital Markets Day in March for both the Group and all segments. In order to align with market best practice, we have decided to introduce an interim dividend policy and we have started all necessary steps to allow payment in Q4.

Moving to Group financial results on Slide 4. Revenues increase in the quarter and in the year, demonstrating our continued ability to capitalize on our distribution network. Thanks to our ongoing cost discipline, operating costs remain broadly unchanged and in line with expectation, with lower FTEs offsetting the 2019 salary increase as well as higher cost related to increased business activity. As a result, EBIT is up by over EUR100 million in the quarter, thanks to our Deliver 2022 operational efforts.

EBIT for the first half stood at EUR1.08 billion, on track to meet our 2019 targets. We remind you that, as usual, every year, early retirement charges will be booked in the last quarter of the year. Below EBIT, there is no significant impact on our profitability, given that we have practically no debt. Reported net profit in the second quarter increased by almost 30% to EUR324 million, leading to EUR763 million in the first half. We continue to deliver on a quarter-by-quarter basis and remain focus on consistently meeting the milestones laid out in our strategic plan.

Moving please to Slide 5. All segments contributed to quarterly revenues growth, driven by Group-wide Deliver 2022 operational and commercial initiatives. Mail, parcel and distribution revenues recovered in the second quarter with double-digit parcel revenue growth, more than offsetting mail decline. Payment, mobile and digital revenues were also up double-digits, driven by card payments, which are growing at a pace double the market, while financial services continue to show progress on an adjusted basis.

And in insurance services, life gross written premium increased by 14% in the first half, thanks to mainly the performance of multi-asset products. Guido will go deeper into the segments performance, which produced a solid progression both in life and P&C revenues. In addition, we took advantage of the market in the second quarter to book investment income as per 2019 objectives.

Let's now move to EBIT by segment on slide number 6. Here you can see that adjusted operating profitability increased in the first half across all segments. Guido will give you more details of the segment financials on an adjusted basis, net of non-recurring items such as capital gains. Let me just highlight that operating profitability benefits of the significant diversification effect of our businesses. One year ago, for example, the solid progression of operation profitability was mainly driven by financial services, while positive trend this year is led by the insurance services. Our segments are all supporting our Deliver 2022 journey. And this clear progression, which matches the evolution of the top line allow us to confirm all segments 2019 EBIT targets.

On slide number 7, I want to spend a few minutes talking about the most recent developments in our Mail and Parcel business, as we continue to accelerate the industrial turnaround. Let me start with sorting. On the 16th of July, the President the Republic of Italy together with senior government representative, inaugurated our new automated parcel sorting center in Bologna. This state-of-the-art plan is a key piece of infrastructure as we transform our call postal business to capitalize on the high growth potential of e-commerce. This 50 million facility is now operating adding sorting capacity of 250,000 parcels per day to our network. It is a remarkable facility and we will be hosting a dedicated site visit for analysts and investors on September 19. You will receive invitations shortly.

There are also been some further developments. Let me just mention a few of them. Logistics; Mistral Air now supports B2C parcel distribution with new routes. The restructuring has been successfully completed and our air cargo division as register a positive EBIT every month of the year so far. Moving to customer experience, both existing and new partners are seeing the value in our enhanced offer center on each shopper's needs. In particular, our improved customized delivery options including same-day delivery are critical to our Amazon partnership, while easier, parcel returns are a key component our new exclusive agreement with Zalando. We are constantly improving our customer offer with the regular introduction of new services. Last week for example, we launched a new schedule delivery pilot project, which allow us to deliver parcel in a time slot, agreed in advance with customers.

Moving to delivery, the rollout of our joint delivery model is progressing according to plan, with 80% of targeted delivery centers now operating under the new model, well on track to reach a 100% by the end of 2019. We're now able to offer around 3,500 alternative delivery points across Italy meeting the full target envisage for 2019 a well ahead of schedule. Thanks to the more than 2,000 location introduce in Q2. This another initiatives are made possible by our strong capital expenditure plan. CapEx for the Group, was up 50% in the first quarter, totaling EUR230 million of which 80% was in mail, parcel and distribution.

Our Deliver 2022 CapEx plan ensures we are effectively meeting any challenges presented by constantly evolving competitive environment, and we will be the foundation of continued successful delivery of our plan.

Before I hand over to Guido, I would like to announce that Poste Italiane will have a dedicated Investor Relations point of contact, for our North American investor base effective from September. We have ask Giacomo Riccitelli, our former Head of M&A, a member of the IR team in Rome to relocate to Boston as a further demonstration of our ongoing commitment to keep a transparent and constructive dialog with the financial community. That's all from me now. Guido will now take you through a more detailed business review. I will then provide some final comments before we open the session to your question. Thank you. Please, Guido.

Guido Maria Nola {BIO 20719012 <GO>}

Thank you, Matteo. And good morning everyone. Let me take you through each business segment starting with Mail, Parcel and Distribution on Slide 9. With strong B2C and B2B parcel performance offset the decline of mail revenues. Overall segment revenues were up 1.5% in the quarter and broadly stable in the first half on track to meet the 2019 targets. Mail revenues recovered, leading to a first half down 3% in line with 2019 targets. The quarter benefited from mail volumes related to the European elections. Please also bear in mind that starting from the third quarter year-on-year comparison will no longer see the benefit of the mail products repricing, which became effective in July 2018.

Parcel revenues continue to grow strongly, and were up 12% in the quarter and 13% in the first half, supported by B2C and B2B, as we capitalize on the ongoing industrial turnaround. Other revenues include the contribution from Mistral Air, the successful restructuring of which has resulted in positive EBIT performance for the year-to-date.

Reported EBIT for the first half was down by EUR103 million due to higher costs, mainly related to increased business activity. Nevertheless, EBIT continues to progress in line with our target for 2019.

On Slide 10, we look at the core, volume and price trends for Mail and Parcels. Starting from the left hand side, overall mail volumes recovered from the first quarter and were down by less than 8% in the second quarter and 9.4% in the first half. As mentioned in the first quarter, volumes for higher margins and more predictable items such as recorded mail as well as corporate and public administration related products, proved to be more resilient. These higher value products are more directly linked to our commercial efforts and offer more visibility on forward volumes.

Average price in mail were up 7% in the quarter and in the first half. Thanks to the positive volume mix effect just described as well as the repricing of several products in July 2018. Overall, Parcel volumes increased in the second quarter by over 16% and almost 18% in the first half, boosted by a significant increase in B2C volumes up by about 30%. Updated market data for the first half of 2019 is not currently available, but our internal estimate suggest that the trend seen in 2018 continues and we are growing at a faster pace than the rest of the market.

B2B volumes also rose by a significant 14% in the first half. The average price index for parcel was down 4% in both the quarter and in the first half, reflecting the overall change -- changing volume mix to fast growing B2C. Looking at each product for Q2, prices increased for B2B, while for B2C they were broadly stable.

Moving to payment, mobile and digital on Slide 11. Continued revenue growth was supported by the rise in both card volumes and transactions. Revenues grew by over 11% in the quarter and 9% in the first half. Card payments we're up by 25% in the quarter driven by higher number of Postepay cards and a strong increase of payment volumes in both physical and digital channels. We are also gaining market share in this space.

As we are growing at a pace which is about double the rest of the market. As you know last November, we launched Postepay Connect, an innovative, integrated offer which bundles payments and mobile services, allowing both B2B payments and giga transfer within the community. Cost of Postepay Connect volumes grew with average daily sales of 1,200 units.

On average 6,000 PostePay Evolution and 3,800 SIM cards were sold each day, leading to a stock of 4.4 million mobile and fixed lines, up by more than 7% year-on-year. These figures contributed to the resilience of telco revenues, as we continue to successfully manage a competitive environment with commercial initiatives aimed at strengthening customer loyalty.

On the payment revenues, which include traditional payment services including money transfers were down 3% mainly related to decreased bollettino and tax payments, in line with the trend embedded in Deliver 2022.

EBIT for payments mobile and digital increased by over 22% in the quarter and almost 10% in the first half, benefiting from positive non-recurring items related to the release of VAT provisions mentioned in the previous quarter. Other variable costs grew related to increased business and commercial initiatives in telco. Overall, we confirm, we are on track with our 2019 targets, both in terms of revenues and operating profitability.

We recently signed an MoU with Eni, which aims to leverage Poste Italiane's over 26 million debit and prepaid cards in Eni's footprint. 4,300 service station with over 1 million daily investors, sorry -- 1 million daily visitors and the more than 8 million gas and electricity clients that generate over 41 million utility bills per year. Poste and Eni are working to identify new solutions to maximize security and ease of use for both physical and digital transactions at Eni service stations, including withdrawal and bill payments, while other initiatives in the pipeline include a new utilities build system using block chain technology.

Moving to financial services, on Slide 12. Segment revenues were stable in the quarter and up on an adjusted basis in the first half, demonstrating a continued improvement in sustainable revenue generation, leveraging on our unrivaled distribution network and Deliver 2022 commercial initiatives. Taking advantage of favorable market conditions, we have already secured, about 40 million additional capital gains to be booked in Q4, in line with 2019 target, and at the same time we secured a relevant portion of the capital gains envisage for 2020. As you can see in the appendix, unrealized losses at the of June improved to EUR2 billion versus EUR3 billion at the end of March. As of today this figure has improved further to about EUR0.6 billion.

Net interest income was up 10% for the first half, benefiting from our proactive portfolio management approach. As we anticipated 2019 maturities of the back book and new deposit inflows expected for the year. This included about EUR7.7 billion of investments between the third quarter 2018 and the first quarter 2019 in a wider Italian credit spread environment, contributing to an increase in the average return of our BTP portfolio by 6 basis points year-on-year. These actions provide us with more visibility on the NII target for 2019 and 2020. Fees from postal savings, distribution in the first half are in line with our target of EUR1.8 billion for 2019. While we are monitoring the potential challenges presented by a low rate for longer scenario.

Third-party loan and mortgage distribution fees continue to increase up 20% in first half supported by higher volumes. The implementation of agreement signed with Intesa and UniCredit are expected to provide further benefit starting from year-end. Transaction banking was down 2% in the half due to the envisaged decline of traditional payments by retail clients. As a result, reported EBIT rose in both the quarter and the half in line with 2019 targets. Adjusted EBIT in the quarter was down as the second quarter '18 included approximately EUR17 million non-recurring provision on real estate funds, while the second quarter 2019 was impacted by a small number of specific items mainly related to IFRS 9 valuation of financial instruments and negative rates on derivatives collaterals.

Moving to Group total financial assets on Slide 13. Total financial assets increased by over EUR16 billion since December, driven by contributions from all product lines and positive market effects. Deposits were up EUR6.4 billion related to a positive contribution from public administration current accounts and Postepay. Insurance products registered EUR2.4 billion of net inflows, thanks to the significant commercial efforts related to multi-class products. More than a third of the new life production is in multi-class, in line with the long-term target plan for 2022.

Mutual funds posted positive net inflows in the first half of EUR224 million, in a market environment characterized by a negative flows and customers looking for safer and more liquid options for their assets. Postal saving flows are negative as expected and are in-line with target for 2019. Overall in a fast changing market environment, we continue to demonstrate our ability to propose the right product for our customer, thanks to our diversified offering.

Moving to Slide 14, on Insurance Services. Segment revenues increased by 27% in the quarter and 16% in the first half. As already highlighted the strong performance in the quarter and the half was supported by both Life and non-life products confirming the ongoing successful diversification of our business. Life insurance revenues were up, thanks to business growth and the successful diversification to multi-class offer embedding enhanced margins. Higher margins on our Life Insurance products allow for lower cost provisioning, as future costs are more than covered by future revenues. Furthermore, revenues benefited from the front-loading of investment income envisage for the full year 2019, as the company took advantage of positive market conditions.

Revenue contributions related to P&C grew strongly, up 24% in the first half underpinned by solid growth across all product offered. EBIT grew 40% in the quarter and 26% in the half. Based on performance in the first half, we continue our EBIT -- we confirm our EBIT guidance for insurance services for 2019 of EUR0.9 billion.

To close on product mix in the first half, we experienced EUR7.6 billion outflows mainly related to traditional product such as Class 1 policies which embedded a minimum guaranteed return. At the same time we placed EUR10 billion in gross written premiums with no minimum guaranteed return and over one-third being capital-light multi-class product. This significantly different mix means that in the medium to long-term, we will be benefiting from higher recurring management fees on new products, coupled with lower capital absorption, which will help stabilize Solvency II ratio over the plan.

Let's move to Slide 15, on our solvency at the end of June. Solvency II stood at 242% as the reduction caused by lower interest rate was more than offset by earnings, better financial conditions, as well as the positive impact of managerial actions. The reduction of BTP spread on the risk free rates resulted in higher unrealized gains in the investment portfolio valued at EUR7.7 billion at the end of June. As a result, underwriting risk also decreased.

To briefly align the key managerial action which provided for the support, we revised intra-Group distribution commissioning terms from insurance to financial services. PosteVita is no longer liable to pay management fees to BancoPosta in the unlikely event portfolio returns are below the minimum guarantee. This amendment does not impact business today or in the future, but this new distribution terms resulted in a positive impact on solvency capital requirements. Besides the activity, the active management of our investment portfolio from equities, corporates allowed us to take advantage of positive market conditions resulting in lower capital requirements.

Let me also remind you that our solvency ratio benefits from the previously announced decision to limit the dividend upstream from PosteVita to Poste Italiane to 50%, which allow us to retain flexibility while ensuring our Group dividend policy remains unchanged. Putting all these things together, we can say that our aim to build a structurally resilience solvency position over the course of the plan is on track.

Moving to solvency II sensitivities on Slide 16. We stand at 242% at the end of June in line with our managerial ambition through the cycle. This ratio embeds that BTP spread over the risk free rate of some 200 basis points on the 10-year maturity. On this slide we have outlined the impact of various scenarios, all of them confirm that we are well position against potential market volatility.

All the managerial actions that we have been undertaking over the past quarters have strengthened our capital position, providing us with a significant buffer. In fact, in the event of a widening spread on Italian government bonds up to about 400 basis points, our solvency ratio would still be in line with our managerial ambition through the cycle of 200%. Let me flag two relevant items which contribute to these outcomes.

First of all, the impact of government credit spread is not linear, because of the country volatility adjustment, which triggers as an add-on discount factor to liabilities beyond a given threshold, mitigating the reduction of assets. This also explains why in the event of a spread widening by 60 basis points the Solvency II ratio would provide a similar result to the plus 200 basis point scenario. In fact, with a plus 60 basis point scenario, the country volatility adjustment would not be triggered, analyzing assets versus liabilities.

Second, at the end of June, our investment portfolio embedded EUR7.7 billion of unrealized gains. A significant buffer against potential redemptions under the stress scenario simulated, contributing to reduce underwriting risk. The last scenario presented envisage the risk free rate down by 25 basis point which implies negative rates on the 10-year maturity. In this case we show a significant resilience implying Solvency II ratio of 227%. So under all different scenarios presented our Solvency II ratio remains consistent with managerial ambitions through the cycle.

Moving to Group cost on Slide 17. HR costs were stable in the first half as we continue to effectively manage the evolution of our workforce. The impact of higher wages agreed to support our Deliver 2022 transformation and more specifically introduction of the more flexible joined delivery model as well as costs related to new hires were offset by the ongoing headcount reduction. Early retirement charges were just EUR9 million, as this charges are booked in the fourth quarter. Non-HR costs increased by 5%, in particular, net of the effect of the first time adoption of new accounting principle IFRS 16, the increase is related to higher variable cost to support increased business activity.

On Slide 18, we focus on the new hires and headcount reduction, which continue to support our ongoing Deliver 2022 transformation. Our average headcount stood below 130,000 FTEs at the end of June in line with our overall Deliver 2022 plan. This is the result of an average reduction of 6,800 or turnover and subsidized exit, as well as lower fixed term contracts. Our ability to actively manage headcount is confirmed and also supported by the pension reform legislation of Quattrocento.

In full year 2018, we have made on average 2,300 new hires such as last mile delivery, financial advisor and digital specialist. The average cost per FTE has increased since year-end 2018, so has the value-added per FTE, confirming the success of our work force strategy to support business growth.

Let me now hand back to Matteo for closing remarks on Page 19. Thank you very much.

Matteo Del Fante {BIO 6237992 <GO>}

Thank you, Guido. Before taking your questions, let me close with some key points. The results today demonstrate again our continued delivery against the commitments we laid out in Deliver 2022. They show the continued progression of our four sectors, and I must say the power of our diversified business model. A unique feature of the Poste Italiane investment case.

Let me take the chance to thank all my colleagues for their commitment to making Poste a successful story. We will continue our journey, on a step by step basis with a focus on flawless execution every day and every quarter. We are seeing the impact of our efforts to enhance our powerful distribution platform as demonstrated by the increase in profitability across all segments, and our cost discipline is also allowing us to support growth in a balanced way, while accelerating our CapEx plan, which is essential to power the ongoing industrial transformation in a digital era. As a result, the first half generated Group net profit of EUR0.8 billion well on track to meet our 2019 targets.

Thank you very much for your attention. Let's now open to questions, please.

Questions And Answers

Operator

Thank you, ladies and gentlemen. We will now begin the question-and-answer session. (Operator Instructions) Your first question comes from the line of Gian Luca Ferrari. Please ask your question.

Q - Gian Luca Ferrari

Yes. Good morning, everyone. And well done, again, with this result. First question is on flows. I think you are doing extremely well on the multi-class, another EUR1.5 billion in Q2. Asset gatherers reporting so far are saying that in June, July there is an increasing appetite coming from retail clients towards asset management product. I was wondering if you see these in the July flows. So the multi-class are even getting better in Q3 or not.

And linked to this, as part of that, you are at minus EUR3.7 billion in CDP products and if I'm not wrong you have an ambition of reducing outflows at roughly speaking EUR4 billion per year. And I also spotted some campaigns on air on the Supersmart Premium Libretto. So I was wondering if now there would be more focus on postal products just to match the EUR4 billion ambition for full year '19?

The second question is on NII. I mean you have also macro hedging in place at BancoPosta from the SGR. So I was wondering if -- with the current level of interest rate, the EUR400 million-ish NII per quarter is something you could confirm also for Q3 and Q4, and I know you have an official target of EUR1.5 billion NII in 2020 and probably, you don't want to upgrade it today, but could we say that EUR400 million per quarter could be the run rate also into 2020, despite the current level of interest rates.

And the final question is, if Matteo wants to make a comment on the Intesa-Sisal pay deal that press reported this morning. And if this is giving any kind of impact for Poste? Thank you.

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

Okay. Thank you very much for the questions. We still -- we see on the multi-class, as we highlighted, a change in mix, which we had already identified in the first quarter with confirm in the second and still there in July. Telling you that -- sorry in the second quarter. Telling you that it improved in July, I think it's a bit premature. Our network is moving very slowly and we're not too reactive to market performance. So I think it's solid on track.

On the postal savings, the Risparmio Postale, we are on track, as stated by the CFO, with the first half of the year with the year-end result. You have to be aware that the postal savings have very strong seasonal monthly factor, which are highlighting, for example, usually the best month of the year is August, year-end is also very good. So looking at the first half and extrapolating the full year is not a good exercise, because you cannot take into consideration the monthly seasonal pattern.

On the target of EUR4 billion negative outflow that you mentioned is a target that we gave in February 2018 as an average for the three-year agreement with CDP. So it should not be taken as the target for this year.

On NII, yes, I can confirm that we have enough visibility today on second half to confirm the pattern of the first two quarters. You have to be aware that with the volatility that Italian registry experienced in the last few months, we invested short of EUR8 billion of cash and we invested it at above 3%. So that today the tenure is at 1.5 around. So we have put some good assets in the portfolio for certainly the second half and that gives us a decent level of confidence and visibility, also, for 2020, but that I think is premature to mention with more -- in more detail.

The last question on Intesa-Sisal, yes, we have seen the announcement on the press. We are in that space already, as you know, and the tobacconist, we have our own agreement with 40,000 of them. But for PostePay you need to think that the key element of the tobacconist agreement was the one of logistic. For us that -- country to -- the market that we have already 13,000 points, so 13,000 offices for payments and transactions in the financial space, the value adding an additional network is to make the e-commerce proposal of Poste Italiane more effective.

We mentioned the exclusive agreement with Zalando that has chosen Poste Italiane as the leader of e-commerce logistic in Italy, because of the return flexibility that the combination of the 13,000 post offices and the -- around 10,000 -- through deposit that we will add for return are giving us. So this is really the angle we are coming from, which is really the one of the logistic and in terms of the transaction payments the -- our PostePay recharge or the bollettino payments, we are already in the space. Thank you.

Q - Gian Luca Ferrari

Thank you.

Operator

Thank you. Your next question comes from the line of Anna Adamo. Please ask your question.

Q - Anna Adamo {BIO 16893946 <GO>}

Hi. Good morning. First of all, thank you for the level of disclosure this quarter, especially on the insurance capital position. I have three questions, please. Going back to the question on NII. And can you disclose your sensitivity to lower reinvestment yields, let's say, minus 50 basis points, how much impact will have on NII?

The second question is on the net revenues of the insurance business. Can you explain the main drivers behind the revenue strength in Q2 and whether there are any one-offs in the numbers?

And, lastly, I'm referring to Slide 35, and I see that there are EUR1.1 billion of reduction in SCR as a result of deferred tax assets. Can you explain the mechanics behind this benefit for Poste? Thank you.

A - Guido Maria Nola {BIO 20719012 <GO>}

Hi, Anna, this is Guido. On the first question what I can tell you is, we don't provide the full sensitivity, but a 50% or even 100% change in rates would be marginal for NII this year. You need to remember that most of our portfolio is fixed rate. We don't have a significant -- the significant part of our macro hedge is for -- starting from 2020. So that doesn't impact and therefore the only bid that has a floating leg is the deposit. We have the industry of finance.

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

I think if we understood correctly the second question, if there is any one-off item on Q2 on the insurance side, is the acceleration, call it front-loading of some of the margin revenues that are in the plan of 2019 is a component, but its not the total component of the increase growth of revenues and EBIT of the insurance segment, which is also due to higher volumes and revise product mix and patterns of fees which have been realigned on higher running fees again slower upfronts. And that is starting to pay in the portfolio, which as you've seen in terms of reserves keeps growing.

On the last question, Guido, yes.

A - Guido Maria Nola {BIO 20719012 <GO>}

So I guess you're referring to the LAC DT on Page 34, and that has nothing to -- well it's not related to DTAs that as you know is one of the components of the Solvency II ratio, that obviously moves with the -- has an effect that is normally contrary to the own funds. So in this case, we had a positive effect on all the other items, therefore, in this quarter, this has, let's say less of an absorbing effect, but it's not related to DTA.

Q - Anna Adamo {BIO 16893946 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) Your next question comes from the line of Federico Braga. Please ask your question.

Q - Federico Braga {BIO 19916816 <GO>}

Yes. Good morning everyone. I have four questions if you don't mind. The first one, again on NII, just to understand if NII comes under pressure especially in 2020 more importantly in 2021 and beyond. Would you be willing to rely more on capital gains, then maybe originally planned. So would you be -- would you be willing to change a little bit your mix in order to offset some weaker than expected NII?

The second question is on postal savings revenues. There has been a quite severe decline quarter-on-quarter in Q2 this year versus the first quarter of 2019, like a EUR35 million sequential decline. So I was wondering if you could give us a little bit more on color -- more color on this considering that I was expecting the source of revenues to be a little bit more stable.

The third question is on the asset management revenues. The current run rate is at EUR25 million per quarter. So I was wondering if you're still confident in your 2020 target of EUR200 million of revenues in Asset Management, which would imply, basically the current run rate to double from current levels, and if yes, what would be the key driver behind this strong acceleration.

And the last question is on the number of FTEs. Is it possible to expect an increase in the number of FTEs in the second half of the year, considering that, if I'm not wrong, most of the new hires that you have planned in your 2022 targets should happen this year. So should we expect the number of FTEs to increase in the second half of the year. Thank you.

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

Okay. I think NII is certainly with the current rate environment and the increased liquidity and monetary easing that we see down the road topic that we need to be address in the plan, as I say to the previous question, we are, -- we have enough visibility for this year and basically next year to not be worried about lower rates for a longer period of time. You have to remember that we're not -- and the second question, sorry, was. Are you prepared to use capital gain to support lower NII? At the moment we stick to our capital gain policy. So we're not planning to use it as of today, part of the portfolio has capital gains of around EUR1.5 billion on a mark-to-market basis, and then obviously you know there is another portion, which is negative. But we have flexibility for that amount today, but it's not something that we plan, and when we will do next year budget and planning, we will give more details on this.

On postal savings we confirm our year end targets. Certainly here again lower rates are putting pressure on upfront products more than pass books, because the upfront products, generating upfront fees are getting less appealing for us, for investors. So there is certainly attention that we put in, but we are slightly ahead of plan Q2 and we follow this extremely closely and we don't anticipate any concern or any disappointment in the next two quarters. Guido if you want to take question three and four?

A - Guido Maria Nola {BIO 20719012 <GO>}

Yes. On question three, simple, you mentioned EUR200 million in -- but if you look back at the presentation we had in March at the Capital Markets Day, the target we gave is for EUR0.1 billion. So even with a run rate, like the one we had as of today we believe we'll hit the target. If you have in mind EUR0.2 billion is because you look -- you might be looking at 2018. But you need to remember that in that number, we had Anima included.

So on the fourth question though, I understood was on FTE, but I'm not sure, I got exactly what angle.

Q - Federico Braga {BIO 19916816 <GO>}

Yes. So actually, just to go back on the third question. I was referring to the 2020 targets. If I'm not wrong the EUR200 million of revenues in 2020. So, this is what imply...

A - Guido Maria Nola {BIO 20719012 <GO>}

Okay. Sorry I thought for the year. On 2020 we laid the ground 1.5 year ago on some targets we have already outperformed in 2018 on other targets we are online. On asset management, we will make up our mind on the way, sorry to be a bit evasive with this answer but reality as I said is that our clients and our distribution network is following to some extent markets and investor appetite that is mainly in reality, driven by the sales process network, which is according to me with the regulation than in the interest of the client. And therefore, if asset management is not the product that comes out of the -- that process and there has been more weight on for example multi-class as we experienced in the first half of the year that would be it. Okay.

So at the moment that we will revise the 2020 and we will do it beginning of next year. You will have the final answer to your question, I'm sorry.

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

So, I guess one last point on growth of FTE. What I can tell you is that again we confirm our number. You need to remember that there is some seasonal effect in that number. So we maintain that number and again, we have a number of hirings, we have planned, especially as I said in my speech before in certain areas, but again some of them are also seasonal.

Operator

There seems to be no further questions at this time, please continue.

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

If there are no additional questions. I thank everybody for today and for the time you put in on Poste and obviously, our team, and specifically the Head of IR Massimiliano Riggi is available for any follow-up. And thank you.

Operator

That does conclude our conference for today. Thank you for participating. You may all disconnect.