

Q4 2015 Earnings Call

Company Participants

- Francesco Caio, Chief Executive Officer, Director & GM
- Luca Torchia, Head-Investor Relations
- Luigi Ferraris, Chief Financial Officer

Other Participants

- Alberto Villa, Analyst
- Anna Adamo, Analyst
- Gianluca Ferrari, Analyst
- Giovanni Razzoli, Analyst
- Michael van Wegen, Analyst

MANAGEMENT DISCUSSION SECTION

Francesco Caio {BIO 1516226 <GO>}

Good evening, ladies and gentlemen. We're here today to provide you with some details of our full year results for 2015. We are pleased to report a solid set of numbers for our first full year results after listing. Revenues for the full year are just above €30.7 billion, growing at about 8%. EBIT has grown 27% to €880 million, and net profit has more than doubled to €552 million also as a result on a change in tax rate as Luigi will explain to you later.

As we announced, the Board has approved a dividend payout of 80% of net profit, which translates into €0.34 per share and a total amount of €444 million of cash distribution. And as you know, this approval of the Board will be submitted to our AGM in May for final approval.

I think it's important to emphasize, in addition to numbers, that – as I said, we've looked at a robust set of numbers. The quality of the earnings is consistent with the overall proposition we brought to the market when we listed Poste Italiane. You may remember that we positioned the company as a profitable cash-generative service infrastructure with specific drivers of value for each of the businesses we operate, particularly for transaction banking and asset gathering to emphasize the superior returns.

You see that in 2015, the return on equity on that part of the business moved north to 30% from 24% the year before. As you remember, we're not in the lending business and therefore we don't have credit risk. In insurance (02:06) and asset management, we

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identified growth of the driver value. And if you look at how gross written premium has moved, we had a growth of 17% in 2015 over 2014.

And last but not least, the traditional post and Parcel services are characterized in terms of driving value, the combination of turnaround in Mail and growth in Parcels. And we reported here a couple of highlights; operating cost on that side of the company have decreased by just above 4% versus 2014, and the volume in Parcels has continued to grow to 12% in the year.

So EBIT €880 million, profitable service infrastructure €444 million of cash distributed, cash profitable and cash generative infrastructure. So we see this – this, as you know, is the second time we report our results to the market as a further step in confirming our commitment to the execution of the plan that we presented to you last year.

Luigi will now take you through the details of the number, and I will come back for some closing remarks.

Luigi Ferraris {BIO 7424315 <GO>}

Thank you, Francesco, and good evening, ladies and gentlemen. Let me start with an overview of our key numbers before entering the details of each specific business unit. And I am chart number four.

Consolidated revenues and profits increased respectively by about 8% and 27% in the period. This is mainly due to the following. When it comes to financial services, operating profit increased by 21% from €766 million to €930 million. This increase is mainly attributable to lower net recharges from the Mail and Parcel business units of about €270 million, higher capital gains realized from the active management of BancoPosta's asset portfolio of about €40 million. All of this has been partially compensated by lower transaction fees and lower returns from current account deposits.

Insurance services revenues increased by approximately 14% from €18.8 billion to €21.4 billion, and operating profit maintained a robust 17% growth year-on-year mainly due to the ongoing positive performance of life gross written premium. Mail and Parcels revenues were €3.9 billion, down 4% on 2014. This expected decline mainly relates to a reduction of traditional postal volumes, which I will better detail later on in the following chart.

Before moving into each specific business unit, let me comment chart number five. Let's look at our client asset breakdown. Total volumes increased by more than 3%, bringing total asset to €476 billion versus €462 billion in 2014. The mix remains substantially stable and well balanced with a clear (05:29) postal savings collection. Despite recent turbulence in the Italian banking industry, the strengths and reliability of our brand, coupled with simple and safe products in line with the typical profile of our client base, continue to deliver an increasing asset base and profitability for the growth.

Let's now move into specific business unit results on chart number six. Starting with our financial service revenues evolution on slide number six, revenues have grown in two areas that are essential to our strategy: payment cards mainly due to the increase of Postepay cards; distribution fees of consumer-lending products mainly due to a better performance on personal loans and other personal financing products.

There are instead three different drivers behind each of the segment that have registered some decline in revenues. On return in current accounts, it was our decision not to have any gains realized in Q4 as we did not see need or opportunity to reshape our portfolio. On postal savings, it is due to the one-off adjustment that we booked in Q4 2014 when the new agreement with Cassa Depositi e Prestiti was signed. And finally, Transaction Fees have declined as a result of lower volume in tax payments.

In more detail - and I'm on chart number seven - the measure of key points here are the following. First, return on current accounts deposits. Lower revenues are mainly due to an overall portfolio returns reduction of about 27 basis points. Higher capital gains mitigated the effects of the interest rates decline. Second, fees from postal savings, as mentioned in the previous slide, the slight decline in revenues is due to the one-off adjustment that we booked in Q4 2014 with the new CDP agreement.

Third, fees from transaction banking revenues decrease is mainly attributable to volume reduction of the F24 tax form. Fourth, distribution fees, as indicated in this slide, we recorded a better performance on personal loans and other personal financing products. This is mainly due to higher upfront fees as a consequence of offer simplification, as well as a more long-term strategic approach to partnerships. And fifth, payment card fees mainly due to the outstanding performance of the new Postepay Evolution cards, which has reached 2 million cards issued today.

Let's now move to slide number eight. On active portfolio management, let me point out the following major items. An increase in average deposits of BancoPosta accounts moving to €45.2 billion from €44 billion in 2014, up almost 3%. The unrealized capital gains amount to €5.4 billion vis-à-vis €4.5 billion of the previous year. This is mainly due to the favorable Italian spread reduction over the periods.

Let's now move to BancoPosta regulatory framework and capital position. And I am on chart number nine. Inasmuch as BancoPosta capital adequacy, let me stress the three major key points indicated in the chart. First, BancoPosta regulatory framework is fully aligned to European standards. Second, full year 2015 Tier 1 ratio reached 15.5%, substantially doubling the minimum regulatory requirements. Third, as already stated by the CEO, full year profitability recorded a solid 30% to return on equity versus 24% in the previous year. All of these, coupled with the a zero lending risk profile, makes BancoPosta a unique, superior returns fee-based revenues player in the Italian financial industry.

Let's now move to insurance services on slide number 10. Gross written premium increased by 80%, driven not only by the ongoing increase of our life gross premium collection, confirming Poste Vita as the number one life insurance in the Italian market, but also by the improvement of our P&C operations. Inasmuch as our investment portfolio

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breakdown is concerned, let me highlight the remarkable increase of investment in alternative products, which moved from 4% in 2014 to 11% in 2015, confirming our diversification strategy towards a more adequate risk-to-return profile. This is fully in line with our capital requirements.

Let's now move to slide number 11. Starting from the January 1, 2016, the Solvency II ratio has been adopted by the insurance business. Our Solvency II model is based on the standard formula, are proved externally and covers 100% of the Poste Vita business. As you can see, Poste Vita has a significant benefit in terms of capital, moving from the Solvency I to Solvency II. Our Solvency II ratio at the end of 2015 is 405%, strongly improving versus Solvency I, which was set at 113%. Under the Solvency II ratio, Poste Vita benefits from a simultaneous increase in available capital and a reduction in the required capital.

The most significant factors in the difference between the two regimes are: first, the increase of the available margin, mainly due to the inclusion of future profits as an element of Tier 1; two, reduction of the required capital that is explained by high loss absorption capacity of our liabilities due to the low levels of minimum guarantees that characterize Poste Vita products; third, low financial risk characterizing the Poste Vita investment portfolio.

Specifically, the old funds increased from €4 billion to €6.8 billion and simultaneously decreased the solvency capital required from €3.6 billion to €1.7 billion. The excess capital will provide not only Poste Vita with more cash for further growth in higher yielding assets, but also to the parent company with cash to sustain an adequate dividend policy. Finally, in this chart, you can see represented some relevant estimated sensitivities of our coverage ratio.

Let's now move to slide number 12 on the Mail and Parcels unit. On volumes, let me highlight here. On the one end, traditional Mail volumes fell 9% year-on-year, slowing down the negative trend versus the 13% decline recorded in 2014. On the other end, Parcel volumes increased by 12.4% year-on-year confirming the positive momentum, mainly driven by the growing e-commerce penetration in Italy.

Let me remind you that on October 1, the new universal service regulation was introduced. These rules imply a new and more flexible pricing structure based on a J+4 regulated products and on a J+1 free price priority products, as well as a new distribution scheme based on alternative day delivery, which will be applied to 25% of Italian municipalities once at regime.

The new regulatory framework will enable us to better cope with the new delivery needs of our customers and to accelerate the implementation of our turnaround product. More specifically, the 5.4% decrease in Mail revenues, vis-à-vis a 9% reduction in volumes, demonstrate that the new regulation is able to support the company in its turnaround path.

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First, let me remind you that intra-segment revenues decreased by approximately 6% in a – sorry, I'm on chart number 13. As I said, the intra-segment revenues decreased approximately 6% mainly due to the implementation of the new internal pricing scheme related to the recharge of the network costs to the financial services business units. We have already commented on market revenues and the impact of the new regulatory framework.

Now, I would like to lead your attention through the outcome of our relevant managerial action aimed at reducing our operating costs. Specifically, Mail and Parcel operating costs have been further reduced by about €380 million over the period, mainly as a result of lower labor costs, which have been cut by about €90 million. This is the outcome with the ongoing restructuring program mainly based on operating cost reduction, which I can confirm is in line with our plan. On top of that, we are also executing on other operating cost reduction amounted to €290 million vis-à-vis 2014.

But let's have a better look on group operating cost on slide number 14. On a consolidated basis, particularly focusing on our cost structure, overall, we have cut group operating cost by about 2.5% mainly as a result of our actual labor cost, which I will comment in the following slides. As per other costs, they have been cut by about €60 million over the period as an initial impact of new relevant managerial action, whose effects will be optimized during the course of 2016 and onwards.

Moving to slide number 15, labor costs are down 1.3% versus previous year. As I already said, savings are mainly related to Mail and Parcel and are the results of the implementation of our restructuring program based on the execution of an ongoing early retirement incentive scheme. Furthermore, as for 2016, we envisage to continue to pursue further reduction labor costs versus 2015, even if this might be partially offset by the renegotiation of the national labor contracts.

Let's now run through our profit and loss evolution, before the EBIT line on slide number 16. Net income for the period equal €552 million, including accrual of €316 million to support the previously mentioned early retirement incentive scheme program, recording an increase of about 160% from €212 reported in 2014 financial statements.

On top of the already commented positive EBIT evolution from 2014 to 2015, this positive performance is related to net financial income equal to €53 million. This is mainly related to the nice returns from Poste Vita free capital and taxes for a total consideration of €381 million, corresponding to a tax rate of about 41% in strong reduction versus the previous year, when it was equal to 70%, mainly due to a new tax regulation on IRAP related to the deductibility of personnel costs from the taxable basis.

Let's spend a few words about our CapEx on chart number 17. The optimization of the whole investment program for the period is part of the restructuring program. More specifically, the majority of the investment program is mainly related to information technology and digital platforms. The balance is related to some selected upgrade of facilities, construction data center buildings and post-logistic operations.

On top of that, relevant action have been targeted towards an upgrade of our post office mainly through the introduction of free Wi-Fi and an innovative queue management system. And even if this is not strictly related to CapEx, let me stress that the qualified staff training program for more than 2.3 million hours cumulated in the year has been executed during the course of 2015. Please bear also in mind that the amount of €210 million related to the acquisition of 10% stake in Anima is not included in the figures.

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Looking at cash generation on slide number 18. The positive operational performance, which is a result of the delivery of efficiency improvements and CapEx optimization, allows the company to generate cash for about €611 million before working capital variation. Higher CapEx here includes a €20 million amount paid for the acquisition of 100% of SDS by Poste Vita to support our strategic growth in PNC operations.

Let me stress once again that 2015 CapEx does not include the acquisition of 10% stake in Anima. Of course, we expect future cash flow dynamics to be influenced by the timing of expected group's personnel terminations. The cash will be available to support our reward and dividend policies, which, as previously stated by our CEO, will continue to be based on a minimum 80% payout over the net consolidated profits of 2016.

Finally, let's focus on the industrial net financial position on slide number 19. As per the positive evolution of our industrial net financial position, let me underline here that this very good outcome is mainly related to the cash in of the relevant chunk of past due receivable from Public Administration and Ministry of Finance.

Specifically, out of the total amount of €2.4 billion as of the end of September 2015, during the last quarter of the last year, we cashed in about €1.6 billion, out of which €1 billion of receivables are related to past universal savings compensation, as well as €550 million are related to other receivables. We expect about €800 million to be cashed in during this year, thus normalizing our working capital valuation year-on-year, with a positive impact on the expected evolution of our cash generation.

Thank you for your attention and let me hand over to the CEO, Francesco Caio, for some closing remarks.

Francesco Caio {BIO 1516226 <GO>}

Thank you, Luigi. Very good. As you've seen, these set of results is now due (22:08) evidence of our commitment to execution, and it provides us with a solid foundation for the journey ahead. If I look at how the New Year started, the first part of 2016 confirms direction of travel. We've seen net inflow of funds towards postal savings and current accounts. We continued to see growth in insurance, and we have launched first new asset management products.

And in the traditional part of our business, we have began the deployment of the new delivery process for ultimate day delivery in some regions, which as you know, will give us an opportunity to continue on streamlining our operations. And in that regard, we expect

about 35% of the voluntary pre-retirements that we plan for the year, as signing – and signed by at the end of the first quarter.

Now, as we look ahead, obviously, the evolution of quarterly earnings would be function of the timing of how we manage our portfolio and the booking of technical reserves in insurance. But for 2016, we continue to focus on the execution of the plan and are confirming tonight that our objective is to sustain and reach a dividend of a minimum 80% of net earnings.

So, that was what we wanted to share with you. And I think it's now time for you to ask questions.

Q&A

Operator

A - Luca Torchia {BIO 19160880 <GO>}

Okay. Thank you very much. The first question is coming from Alberto Villa, Intermonte. Please, Alberto, go ahead.

Q - Alberto Villa {BIO 16005221 <GO>}

Hi. Good evening, and congratulation for the results. I have a few questions, if I may. The first one is on the one-off cost you charged on 2015 for the restructuring plan, if you can give us a figure on that. And on the total number of employees that has gone down slight in 2015. Can we have an indication of what we can expect entering 2016 and 2017 in terms of total head count?

The second question is, you are confirming the dividend policy of 80% of net profit. I just wondering if you can give us a sort of an indication of what you are expecting in terms of EBIT and net profit for the year, if you just can give us indication if you expect an increase?

And the third question is on the expected evolution in terms of net inflows this year. You did very well in terms of life policies, for example, in terms of net inflows in 2015. I was wondering if you can sustain this kind of growth going forward, given that the segregated fund returns are obviously impacted by the very low interest rates environment. So, if you maybe are considering a significant change in mix towards unit linked.

And finally, my last question is if you can give us an update on the unrealized capital gains you have at the end of the year.

A - Luigi Ferraris {BIO 7424315 <GO>}

Okay. Shall I take – okay, let's start from your first question about how much we have accrued in term of restructuring cost for future pre-retirement program. The impact on

2015 has been equal to €316 million, basically a little bit below what we have accrued last year. Substantially in line – wait, that's right.

Second, when it comes to the number of employees that let the company during the course of 2015, we have a couple of number to take into consideration. The first one is related to the real exits, and we are talking about 3,000 plus people. But since the reorganization is ongoing, so it's not fully implemented but is part, as Francesco said, of our transformation program. We have hired temporary workers to support this major change.

Having said that, the next average number of monthly reduction during the course of 2015 has been in the range of 1,000. It is very important to appreciate that the exit that I mentioned are going to impact also the future cost of personnel once the transformation program and the reorganization will be fully implemented. Of course, it's a matter of time, and it will take a little bit of that.

We are – when it comes to your third question, we are not going to provide any guidance with regards to 2016 results. As of today, we have confirmed the sustainability of our 80% dividend policy. And I think the robust cash flow that we have generated during the course of 2015 and that what we expect to generate, of course, also during the course of this year, will definitely support a reward and dividend policy, as Francesco already said.

When it comes to the sustainability of the mix in the insurance business, and in particular, of the gross premium on life insurance type of product, well, I think, according to what we see in the first part of this year, we see that the trend continues to be very, very positive and sustainable, because as you understood from – as you have seen on my presentation when it comes to the chart-related to the Solvency II ratio, we have margin in terms of capital available. But also, if we look the way we are managing the assets of our customers, 75% of that is still related to govies. And when it comes to these govies, the performance and the return expected on this investment is similar to what we have seen for BancoPosta. And therefore, we have margin to sustain further growth, and in the meantime, to address portion of our investments to more risky products with IR return (29:30) given also the level of capital structure that we have. So, I think it's going to be sustainable, of course.

We said that we are going to work in the distribution also in the sales of other products. In particular, when we talk about the unit-linked products, this is something that we're working on. The first outcome in 2016 are therefore encouraging. We will be more specific on the first quarter. But I think when it comes to this part of the business, I would say that the transformation also here is starting to take place.

Reduction of – in profitability on – if I understand correctly, on the active portfolio management. While it is not a mystery, we said many time that we are invested in Italian govies. The expected on-average return that we have today in our portfolio is 4.4% versus 4.6% of last year. But I would like to address your attention on the level of unrealized gains. This is a calculation performed at the end of last year.

Q - Alberto Villa {BIO 16005221 <GO>}

We're looking at page?

A - Luigi Ferraris {BIO 7424315 <GO>}

Page 8.

Q - Alberto Villa {BIO 16005221 <GO>}

8?

A - Luigi Ferraris {BIO 7424315 <GO>}

Page 8. We have reported that €5.4 billion of unrealized gain. And you can also appreciate that we have extended the portfolio duration up to 5.6 years. Even if we look at what happened or occurred in the last three months, I think we are still there, because in the first months of this year, we have seen, first, an increase of the spreads, which are, of course, a little bit reduced the level on realized gains, which has been fully regained after Mr. Draghi decision occurred a few weeks ago.

Q - Alberto Villa {BIO 16005221 <GO>}

Thank you very much. Have you get any net inflows targets for the life policies this year?

A - Luigi Ferraris {BIO 7424315 <GO>}

As I said, we don't provide ...

Q - Alberto Villa {BIO 16005221 <GO>}

Okay. Okay.

A - Luigi Ferraris {BIO 7424315 <GO>}

...with guidance for it.

Q - Alberto Villa {BIO 16005221 <GO>}

Fair enough.

A - Luigi Ferraris {BIO 7424315 <GO>}

I'm sorry.

Q - Alberto Villa {BIO 16005221 <GO>}

Thank you.

A - Luigi Ferraris {BIO 7424315 <GO>}

Thank you.

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Q - Alberto Villa {BIO 16005221 <GO>}

Thank you. Bye-bye.

A - Francesco Caio {BIO 1516226 <GO>}

Bye. Thank you.

A - Luca Torchia {BIO 19160880 <GO>}

Next is coming from Gianluca Ferrari, Mediobanca.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Yes. Hi. Good evening. I have some questions as well. The first one is on your Solvency II number. I was wondering if you can update us on your application for internal model? I was also curious to know if there's any risk weight applied on Italian (32:18)? And if so, if you can share with us how much is the risk weight? And lastly, on life, if you have calculated the embedded value in the fees (32:27) of your life portfolio?

My second question is fees on the 41% tax rate. I was wondering if you are having benefits in 2016 or 2017 from lower IRAPs. So, if you can give a guidance on tax rate going forward?

The last question is on the new unit linked. You mentioned before. I was wondering if you can tell us which kind of management fees are going to pay clients, and the net margin for you after having paid the third party fund managers? Thank you.

A - Francesco Caio {BIO 1516226 <GO>}

Let me start from the third one. We're not disclosing these set of numbers, but it's also important for you to understand that for the next few quarters, we would like to see some movement, but the bulk of our revenues and our asset gathering will continue to be centered, as you know, around the traditional portfolio of instruments we carry. This is just to qualify, we are encouraged by what we see. We start from a very low base, and we will see that growing, hopefully, quarter-by-quarter, but it's not going to be making a material difference to our economics at least for 2016. Luigi?

A - Luigi Ferraris {BIO 7424315 <GO>}

Well, a few words about the tax rates in the following years. When it comes to the positive impact of the change in the IRAP area, this is going to be confirmed in 2016, i.e. that we had a positive impact 2015 versus 2014, but that will continue to be confirmed like that. Of course, we will take advantage also in the change of the corporate taxes, which will be applied starting from 2017. And we do expect a 3% decline which should be fully applicable to our profit before taxes.

I think Francesco covered a little bit the other question that you had. When it comes to the Solvency II, what I can tell you is that we are applying the standard formula, therefore, this is definitely public, I think. So, this is part of the external set of rules fixed by the authority,

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by the regulator. We don't provide disclosure when it comes to the embedded value. We have done for – during the IPO, but we are not repeating that.

Of course, if we look at what I said in terms of capital robustness of the company, we are moving forward and better than originally planned. I mean, the margin that we have is quite substantial. We are talking about €5 billion difference when it comes to the solvency II application. So, this is going to support us also in addressing, as I said before, our investment in more risky type of assets, providing us with more return.

We don't disclose the level of commission that we retain. We are talking about, of course, market commission when it comes to the unit-linked type of products that we sell to our customer, but we don't disclose that now.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Okay. Thank you.

A - Luigi Ferraris {BIO 7424315 <GO>}

Thank you.

A - Luca Torchia {BIO 19160880 <GO>}

Next question is coming from Michael van Wegen, Bank of America Merrill Lynch.

Q - Michael van Wegen {BIO 6435238 <GO>}

Yeah. Hi. Good evening. Mike van Wegen, Bank of America Merrill Lynch. A couple of things I wanted to run by you. First of all, maybe a clarification. The €800 million MEF payment in 2016, can you confirm that all of that is related to past due receivables?

Secondly, the mail volumes have held up, I think, relatively well given the price increases you've put through. Can you talk a little bit about what you've seen year-to-date, whether that trend is changing, and whether most of the contracts are now reflecting the price increase, or still a significant part needs to be done?

Then on financial services, I know that you said earlier you wouldn't be providing guidance. But is there anything you can say about the level of capital gains harvesting that you aim for, if such a thing exists for 2016?

And then lastly, on the insurance side, can you, first of all, explain what kind of assets you're buying in the, what you call, alternative assets, what yield it provide and what percentage of your book you want to grow that to?

And then secondly, the Solvency II ratio, 405%, obviously, is an incredible number, I think, in many respects. Because if you look at slide 11 and you look at the volatility that is seen in that number, if spreads or interest rates move – first of all, can you clarify that interest rate increase of 100 basis points, is that risk free? And if so, why does it have a negative impact

on your Solvency II ratio? And with such a volatility, what's the right level of capital to have? Thank you.

A - Francesco Caio {BIO 1516226 <GO>}

Let me start perhaps with the Mail capital observation, on your questions on revenue evolution of Mail. Just to remind you, the new pricing scheme got into action, really, the last few weeks of 2015. So, Q1 is really the right observation window for the effect. What we could say tonight is that probably speaking, we see a neutral to believe (38:35) modestly positive impact of this pricing.

Last year, the difference that you've seen between decline in volume and decline in revenues has been a result of an activity we've done on mix and on quality. We would expect that to continue for this year and afford to contain the reduction in revenue for Mail about the single-digit that we kind of were talking about starting from last year.

A - Luigi Ferraris {BIO 7424315 <GO>}

All right. Let me start from - with your first question about the €800 million past due receivable. We are talking about past due receivables. So, those are related to the bulk of receivable that we had at the end of 2014 and which was equal to €3.4 billion and now is down to €800 million. And we do expect to cash in that portion of assets of receivable by the end of 2016. So, I think we have seen definitely quite effective work done by the Ministry of Finance...

A - Francesco Caio {BIO 1516226 <GO>}

The treasury.

A - Luigi Ferraris {BIO 7424315 <GO>}

... the Treasury, all together by the Public Administration. And I think it's one of the positive of this privatization. When it comes to the financial services level of capital gain. Let me recall what we said during also the IPO process, and why we are reporting here a number which is the unrealized gains, which I think is going to be very relevant for you to understand what could be the future evolution.

We are definitely fully aware that, of course, in a zero-rate interest scenario, we expect that the return on these govies is going to be reduced during the course of the next four years, five years. But we have the advantage that our portfolio assets is in a position to generate also a capital gain for a total consideration of €5.4 billion, given the current zero-rate interest scenario. Which means, in other words that we expect from the management of this portfolio about €2 million, on average, per annum.

And in light of the results that I have just reported previously, I think we feel confident this is going to be repeated this year as well. The only possibility is that you're going to see an expected rebound of the interest rate -more than the interest rate, I would say, the spreads in a short timeframe, because we have also hedged a portion of our portfolio losses in order to face any potential rebound of the interest rate. And therefore, about

30% of our total portfolio asset is today swapped into variables started from different dates. So, I think that we'd feel confident. And after the most recent decision adopted by the Central Bank, this is an even stronger than it was a few weeks ago.

A - Francesco Caio {BIO 1516226 <GO>}

And in fact, if you look at the duration of portfolio, a year ago and today, we moved one year on, and duration is still the same. And the annualized capital gain seems the same. So, what Luigi is saying in terms of the monetary policy implemented by Frankfurt, this is actually providing us more breathing space and more visibility going forward around that €2 billion mark that we've identified as the income associated the management of that portfolio.

A - Luigi Ferraris {BIO 7424315 <GO>}

When it comes to the authority of assets, I mean, we are talking about different type of assets which have different level of capital absorption. Just to provide you with an example, what we are talking about is a possibility of investing in infrastructure type of fund, which provides high yield compared to the one that we can find in the bond markets but are related to regulated business, for instance, with a level risk in line with our policy.

So, there will be a more and more increase of equity, but not in a substantial way. Because, of course, the mix that you see today is 75% govies, 11% bonds, and the remaining alternative assets will - could change but not so dramatically. What we could see is an increase in terms of one digit in the alternative funds, because in the meantime, likely now, our level of reserve is moving up. And therefore, we can increase the amount of money invested. But the answer is more equity products with more absorption of capital. And that's why we feel confident in providing our customer with robust returns in terms of regularization of the policy, because we have the margin that I mentioned on chart number 11.

Well, when it comes to the risk related to the Italian evolution, when we talk about government spreads, for instance, up to 100 basis points, as you can see, the impact on coverage ratio is going to be higher than a pure simple change in the rate of interest. So, the reality is that the factor - you see factored in the GAAP spread change, the risk - the country risk - let me put it in this way. We are more sensible to a change in the spreads in the country risk, rather than a pure change in the interest rate. That's the fundamental truth, because we are definitely exposed to - for about 75% to Italian government bonds. But this is particular not only on Poste Vita but also Poste as a whole.

A - Francesco Caio {BIO 1516226 <GO>}

And you may remember that there is a bunch of unrealized capital gains in the - taken for reserves to Poste Vita as well. And as you can imagine, this is also the size of the capital gains, which is around €11 billion is a function of how the spread moves, hence, you see the sensitivity you see with the spread moving up, the amount of reserves coming down in that regard.

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Q - Michael van Wegen {BIO 6435238 <GO>}

Thank you. Maybe one clarification, if I can, on this. So, when I look at these sensitivities, should I perhaps interpretate the minus 91 points for interest rates up 100 basis points, split by minus 115 points for government spread, and then plus 24 points for risk free, or is that completely separate from - what I'm trying to understand is, is the interest rate up, is that risk-free up or is that overall-yields up?

A - Luigi Ferraris {BIO 7424315 <GO>}

It's risk free up. It's risk free.

Q - Michael van Wegen {BIO 6435238 <GO>}

Perfect. Thank you.

A - Luigi Ferraris {BIO 7424315 <GO>}

Okay. Thank you.

A - Luca Torchia {BIO 19160880 <GO>}

Okay. The next question is coming from Giovanni Razzoli, Equita.

Q - Giovanni Razzoli {BIO 7269718 <GO>}

Good evening to everybody. I have a couple of questions. The first one is on the performance of the postal collection. If I'm not mistaken in the Q4, the postal saving books were up by €2.8 billion compared with the 9 months. You are reporting €18.7 billion compared with the €15.9 billion out of September. So, you had basically €2.8 billion of increase on a quarter-on-quarter basis, which I presume reflects the increasing risk aversion of the savers at year-end. I was wondering whether this understanding is correct, and whether you can give us a feeling about these - the performance of this asset class in January and the February whether you have acceleration of this collection.

And regarded to this again, I had seen that the other deposits of the BancoPosta were basically flat on a quarter-on-quarter basis to €39.5 billion. I was wondering - well, it's actually the postal savings books that we have to look at as the kind of the main beneficiaries of the increase in risk aversion of the savers, if any? So, that's my first question. The second one is, if you can give us an idea of what were the trading profits realized in the Q4 by BancoPosta?

And lastly, a clarification on the new pricing scheme that you have already mentioned that was in place as of October, but we should see per your comments, the main effects as in the Q1. If I'm not mistaken, the IPO filing, you quantified into €130 million of additional revenue, the potential positive impact of this new pricing scheme. But based on your comment, my understanding is that you may probably be likely more conservative. Is my understanding correct, or is this €130 million as a full year impact assumption? Thank you.

A - Luigi Ferraris {BIO 7424315 <GO>}

FINAL

Well, let me start by the postal savings frame. First of all, we have to consider that when we compare year-end versus year-end, we are also to incorporate the interest capitalized, in particular, in the saving bonds that we have in our books. If we want to look at the flow, what we have to say that during the course on the pure flow - so without taking into account the impact over the interest, we have seen a decline during the course of 2015 twice.

Beginning of this year, we have seen definitely a change in the trend because we have seen customers looking for safe and guaranteed products like the postal saving side because by law they are guaranteed by the Italian government. So the trend in the first two or three months, it looks good.

If we look at the performance of the postal savings revenues year-on-year - I think it is, again, relevant to remind that in 2014, in particular in the last quarter of 2014, the group signed a new agreement with CDP, which started to take place retroactive on the January 1, whilst all the impact has been recorded in the fourth quarter.

So the performance of the fourth quarter with regards to the revenues related to the postal savings does not look good because in the fourth quarter of 2014, we have booked a shorter one-off item related to the agreement finalized in October of 2014. So if we strip this out, the performance year-on-year are substantially lighter, there's a slight decline of the revenues versus last year because of the volumes, ones that we have seen, instead, increasing in the first month of this year.

A - Francesco Caio {BIO 1516226 <GO>}

On the pricing.

A - Luigi Ferraris {BIO 7424315 <GO>}

On the pricing...

A - Francesco Caio {BIO 1516226 <GO>}

I think the pricing - just to remind everybody, the pricing adjustment comes in a two-fold kind of format. We were starting with just one product, the J+1 priced at €0.80 before the change in pricing. And then we move to two sets of products, J+4 at €0.95 and J+1 to €2.80. And therefore, the dynamics we are observing, as you can imagine, is a fundamental shift to J+4. That gave us also some flexibility on the way we deploy the delivery system.

But overall, the pricing - and on the regulated side of our shop, to have a bit of a positive income rather than conservative - not conservative, I would go back to what I was saying before. This is part of a bunch of initiatives that are aimed at retaining and containing the revenue decline into the single digits that continues to be one of the key underlying assumptions, I would say, objectives of this management to provide the right revenue context for the three- to four-year turnaround that we continue to work against.

FINAL

A - Luigi Ferraris {BIO 7424315 <GO>}

I think there was also one question about BancoPosta bank account performance. We have seen an increase in the bank accounts, on average, of BancoPosta. And let me remind you that the more we see an increase there, the more we can invest this money into govies according to the existing law and therefore, we can exploit there also through the increase of this amount of money.

In 2015, we have seen an increase versus last year. This is substantially due to the increase of volumes and some interest, a very marginal debt we have seen during the course of the...

A - Francesco Caio {BIO 1516226 <GO>}

But I think I would add, too, a couple of points, Luigi. One, you may remember that our overall proposition to the marketplace is that our founding values are trust and proximity. Obviously, at the time of turmoil and fear in the market, we tend to be playing the role of safe harbor for returning families and we've seen the benefits of that at the very end of last year and beginning of this year. As the store moves out, we will have to go back to this more normal kind of proactive competitive standing, but it was, as I was saying a moment ago, a good start of the year.

The second thing is that we also have some positive impacts and implication of the deployment of what Luigi was saying to you before of the €2 million Postepay Evolution. Postepay Evolution is a pre-charged debit card with transaction capability because there it has, at all intents and purposes, a current account. A plastic current account that people can come in our shops, buy for 10 years (53:53), put in their pockets and begin to operate.

This is driving further amount of money versus (54:01) coming into our bank and therefore providing further volume to invest. So these are overall positive trends we've seen. The first one, perhaps larger in volume but perhaps more transient in nature, because when the market goes back we go back. The second one, more of a steady growth that we, frankly, are banking on to continue to increase the deposit in our current accounts balance.

Q - Giovanni Razzoli {BIO 7269718 <GO>}

Thank you. And on...

A - Luca Torchia {BIO 19160880 <GO>}

And next question...

Q - Giovanni Razzoli {BIO 7269718 <GO>}

... on the trading income. Sorry.

A - Luigi Ferraris {BIO 7424315 <GO>}

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Well, the trading income, you mean on the capital gains?

A - Francesco Caio {BIO 1516226 <GO>}

Yes.

Q - Giovanni Razzoli {BIO 7269718 <GO>}

Yes.

A - Luigi Ferraris {BIO 7424315 <GO>}

Well, I mean, I think I can only repeat what I said before. We think today that we are in a safe position to count on revenues of about €2 billion, which is the outcome of the expected return on the govies that we are invested in, and on the expected capital gains that we have embedded in our portfolio, which at the end of 2015 was equal to €5.4 billion. And I confirm to you that if we look at that as of today, we are basically there.

And we are also extending our duration of about six months. So, I think we are in a position to guarantee a four, five year's visibility with regards to the remuneration of this portfolio with a stability of €2 billion. Of course, again, this is very much depending on the evolution of the interest rate.

A - Francesco Caio {BIO 1516226 <GO>}

And the €2 billion, so that everybody is up to speed, the two components: the yield of the portfolio and the capital gains. Last year, if I remember correctly was something like €1.6 billion and €400 million. The €1.6 billion tends to be obviously steadier through the year, so €400 million or €500 million or €300 million depending on the opportunity we have of the spread comes in batches. And we drive for the year end and we tend to be more opportunistic on a quarterly-by-quarterly basis. So we book them when we book them. So, this is the nature of the two components of those €2 billion or probably plus or minus.

A - Luigi Ferraris {BIO 7424315 <GO>}

Bottom line we work in order to stabilize this €2 billion.

A - Francesco Caio {BIO 1516226 <GO>}

Exactly

A - Luigi Ferraris {BIO 7424315 <GO>}

And that's what we foresee now.

A - Luca Torchia {BIO 19160880 <GO>}

Okay. Great. The next question is from (56:35) Goldman Sachs.

Q - Francesco Caio {BIO 1516226 <GO>}

Yes, hello. Good evening, and congratulations on the results. I have a couple of questions on the – quick questions – very quick questions actually on the numbers, and then to more topical. Just on the numbers, in terms of early retirement incentives, can you confirm it was 316 (56:49) for last year if I got that correctly?

Yes.

Thank you. Then on page 13 on the cost side, so can you just remind us what is that significant drop in the cost from €235 million to €32 million, which is in other costs? So it seems to be quite substantial, if you can just remind us of that? And also, just on the Mail side, if you could give us – well, either the percentage growth of revenues in Parcels or just the absolute amount of revenues in Parcels?

And then I have more two more, say, topical questions. So one is on the Parcel side. So you did 12% volume growth, do you think you are, say, growing, say, faster than the market overall? And do you think that growth is still sustainable? Do you see competitors reacting to your becoming more efficient? And then the other topical question would be about real estate. Is there any update? Anything that we should be aware of for the upcoming months? Thank you very much.

Let me start on the Parcels side. The dynamics you're seeing is – we do not have yet full visibility of what other operators are recording. We need to have some data. I think it's important for you to have and to know that the volume growth is also an impact or a result of our foray in e-commerce that tends to be in the smaller end of the market and therefore, there is pricing pressure. So we're still working on balancing the cost base and the revenue progression. We are encouraged by the growth we see. We have further indication of our ability to compete. But as you know, pricing pressure is still very strong in that segment.

A - Luigi Ferraris {BIO 7424315 <GO>}

The question was related to the operating cost structure. If we look at the total bulk of the cost that we have over here, we have definitely the cost of personnel and the cost of goods sold that are under control, then we have the other cost here we are in the segment related to Mail and Parcel. So we have to consider also the inter-segment costs. But when we talk about other cost and we talk about a decline also in some valuation of assets that we had to adopt in terms of value in particular in 2014, and we have some write-off that we have done last year, plus we have had some G&A in the other cost.

Q - Francesco Caio {BIO 1516226 <GO>}

Okay.

A - Luigi Ferraris {BIO 7424315 <GO>}

Sorry. When it comes to real estate, well, as you have seen in our industrial financial position, we are back to cash. We are back to cash for €300 million, and we do expect to further improve this cash position during the course of the current year. So we are not in a hurry to value our portfolio of real estate. We are, if I may, working in order to optimize, as

we said a few months ago, the cost and the square meters that we use, which is one of the key condition to finalize on a successful basis also the valuation of the real estate assets.

So that is part of our plan. It's something that we are going to do. The timing is depending not only on market condition but also on the real cash need that we might have.

FINAL

Q - Francesco Caio {BIO 1516226 <GO>}

Okay. Thank you very much. And do you have, sorry, perhaps the number of the Parcels revenues for last year?

A - Luigi Ferraris {BIO 7424315 <GO>}

Well, we have - if I'm not wrong, we have reported here in the charts...

A - Francesco Caio {BIO 1516226 <GO>}

Only the split in volume and not in the revenue.

A - Luigi Ferraris {BIO 7424315 <GO>}

Only the splits (01:01:03).

Q - Francesco Caio {BIO 1516226 <GO>}

Okay. Okay.

A - Luigi Ferraris {BIO 7424315 <GO>}

Roughly speaking, we're talking about €600 million revenues.

Q - Francesco Caio {BIO 1516226 <GO>}

Okay. Thank you.

A - Luigi Ferraris {BIO 7424315 <GO>}

Your welcome.

A - Luca Torchia {BIO 19160880 <GO>}

Okay. The next question is coming from Anna Adamo, Autonomous.

Q - Anna Adamo {BIO 16893946 <GO>}

Hi. Good afternoon, everyone. Thanks for taking my questions. I have a question regarding your plan to growing asset gathering. Would you potentially be interested in increasing your stake in Anima in case this comes to the market?

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The second question is regarding the level of guarantee on the back book of Poste Vita. If I remember correctly, it was 1.2% at the end of last year. And given the new business at zero guarantee, I was wondering how much this average guarantee has come down in 2015. And, finally, I have a question on the CETI of BancoPosta. It was 16.4% in 1H, and I was wondering why there has been a 90 basis point decline at the end of 2015? Thank you very much.

FINAL

A - Francesco Caio {BIO 1516226 <GO>}

Thank you. On the asset gathering, we are very happy with our cooperation with Anima and our position at 10% in their equity. As you remember, our transaction last year gave us an opportunity to get into the syndicates with Banco Popolare, so we feel very comfortable with that partnership at the moment, and we have no particular plans.

The focus now is really or making sure that that partnership can be fully leveraged by distribution capabilities, and we are working closely with Anima to continue a very thorough training program to ensure that a growing number of offices are fully equipped to provide the most transparent explanation to our customers when they ask us for help in creating yield in the zero interest world, which is, if you wish, the market and if I may say, social value in accompanying the Italian families towards the kind of a new category of investments.

You were right and you are right on the evolution of currencies of Poste Vita, and on the...

A - Luigi Ferraris {BIO 7424315 <GO>}

Yes. When it comes to the expected return in the insurance business, 1.2% was in 2015 and we confirmed that 0% this year. We are starting from July of 2015, of course, sorry. So we are slightly moving down of about 20 basis points, something like that. But all in all, we confirm what we said.

When it comes to the slight changes we were referring to in the Tier 1 ratio of BancoPosta, yes, we had a slight decline, but this is mainly due to operational risk. Nothing structural. So it also depends on the fact that when you run this calculation in the middle of the year on a full year basis, you might have some slight differences.

Q - Anna Adamo {BIO 16893946 <GO>}

Okay. Thank you.

A - Luca Torchia {BIO 19160880 <GO>}

Great.

A - Luigi Ferraris {BIO 7424315 <GO>}

Thank you.

A - Luca Torchia {BIO 19160880 <GO>}

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Thank you very much. And at this time, there are no more questions on the line. So of course, the IR team will remain available for any further in depth. Good night, everybody. Thank you.

A - Luigi Ferraris {BIO 7424315 <GO>}

Thank you.

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