

Q2 2017 Earnings Call

Company Participants

- Matteo del Fante, Chief Executive Officer & General Manager
- Roberto Giacchi, Chief Financial Officer

Other Participants

- Anna Adamo, Analyst
- Elena Perini, Analyst
- Emanuele Borghetti, Analyst
- Gianluca Ferrari, Analyst
- Giovanni Razzoli, Analyst
- Manuela Meroni, Analyst
- Matija Gergolet, Analyst
- Michael Werner, Analyst
- Michael van Wegen, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, and welcome to the Poste Italiane 2017 Interim Results Conference Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Matteo del Fante, CEO. Please go ahead, sir.

Matteo del Fante {BIO 6237992 <GO>}

Thank you. Good evening, ladies and gentlemen. I'm pleased to report a solid set of numbers for the half of 2017. Let me start by stating that in the first half of 2016 last year, the results were impacted by a positive one-off related to the Visa Europe disposal for €121 million, while during the first half of 2017, some accruals were posted in the financial segment that would be further explained later on.

Negative effect; the first half of 2017 EBIT would be €912 million versus €722 million of the first half of 2016, posted an increase of 26%. More specifically, stated result show revenue for the period up €347 million, plus 2% of last year reaching €18 billion. EBIT has grown €4 million, 0.5%, to €847 million, fully compensating the decrease reported in the first quarter of this year.

Net profit is down €55 million, minus 10%, to €510 million, mainly as a consequence of the already mentioned accrual, plus the (01:47) Atlante write-off for around €70 million impact at the tax level. Excluding the above-mentioned one-off effects, the net profit would be €624 million with an increase of 38% versus €451 million posted last year. The solid set of figures generated robust funds from operation for €293 million that we will further explain in the following charts.

Looking more into the details and the key numbers. Revenues and operating profit were up respectively, up to €347 million plus 2% and €4 million 0.5% plus over the period. And this is mainly due in our segment reporting. Financial Services were operating profit decreased by €95 million, minus 20% from €485 million to €390 million. This is mainly due to higher capital gains realized from active management of BancoPosta asset portfolio for about €147 million versus last year, that

more than compensated the Visa Europe one-off positive impact of €121 million for the first half of 2016. And then negative impact coming from additional provisions, mainly on real estate funds for around €100 million. In light of these non-recurring items, the first half EBITDA would have been substantially flat versus last year in Financial Services.

Insurance and Asset Management revenues increased by approximately €400 million plus 3% from €12.9 billion to €13.3 billion. And operating profit posted a robust 37% growth year-on-year. This is mainly due to the ongoing positive performance of life gross written premium and an initial contribution of non-life and asset management products.

Let me add that as of last week, I am personally the new CEO of Poste Vita and we are completing our management team in this strategic company.

Mail & Parcels. Revenues were down €72 million, 3.8% down to €1.812 billion. And this expected reduction mainly relates to the client in traditional mail volumes, partially compensated by increase in parcel revenues that will be better explained later on in this presentation. The first half EBIT is slightly better versus last year, thanks to the operating cost reduction that compensated the both mentioned effect on the revenue side.

Please bear in mind that as in the past, we hold account for our accruals on voluntary personnel reduction (05:28) schemes only in the final quarter of the year where we have a strategy on the HR schemes for the following period.

Before moving into specific business unit analysis, let me have a quick look with you of how our clients' asset break down.

Volume increased by €7 billion which is a plus 1.4%, reaching for the first time the remarkable target in total asset of €0.5 trillion versus €493 billion at the end of 2016. The mix continues to remain well balanced with a slight reduction in total savings, collection, and a material increase for about €5 million, both in our current account deposit and in net debt in excess (06:28).

In 2016, both the (06:32) in market share in all the asset classes. The strength (06:38) is a singular customer base, as well as our other range of simple and safe products continue to deliver an increasing asset base and profitability for the group.

Let me now introduce and hand over to Roberto Giacchi, who's the new group CFO that will comment on each specific business unit.

Roberto Giacchi {BIO 20101579 <GO>}

Thank you, Matteo. And good evening, everybody. Starting with our Financial Services revenues evolution on slide number 5. The revenues are substantially in line with the previous year despite the one-off Visa Europe 2016 effect that has been more than compensated by the active portfolio of capital gains realized in the first half 2017.

As a general overview, let me also confirm that for the full year 2017, we expect to generate return on current account deposits in the region of €2 billion, as a combination of capital gains and portfolio yield. Within this framework, please note that in the first half of the year, we had already realized nearly all the capital gains expected for the full year.

In more detail in slide number 6, it provides you with the breakdown of the Financial Services business units' revenue. The major key point here are the following: Returns on current accounts deposits. Higher revenues are mainly due to the already commented higher capital gains, along

with the increase in our average deposit. Fees from postal savings collection, substantial in line with last year, recovering the decline posted in the first quarter 2017.

Fees from transaction banking, the 3.1% reduction is mainly due to the lower revenues from payment slips. Distribution fee recorded a decrease of around 2% due to a slow down in the growth of personal loans and a decrease in Banca del Mezzogiorno revenue. Payment card fees, net of the Visa effect, we posted an increase of 26% year-on-year due to the result of the consolidated success of the Postepay Evolution card.

At the end of June, Postepay Evolution card issue reached €4.3 million with around 800,000 distributed in the first half 2017. Let me also remind you once again that on this business unit, we keep or remain fully focused on stability of revenues, profitability and return on equity.

Let's now move to slide number 7. On active portfolio management, let me point out the following major item: an increase in average deposits of BancoPosta accounts moving to €55 billion from €48 billion in 2016, up almost 14%. We have unrealized capital gains amount to about €1.4 billion versus €2.9 billion, a rough year end 2016. This is mainly due to the spread and interest rate dynamics, as well as the realized capital gain in the first half 2017. At the end of July, the unrealized capital gain reached around €2 billion, most due to the decrease in the spreads.

Let's now move to BancoPosta regulatory framework. As much as BancoPosta capital adequacy is concerned, let me stress four major key points: BancoPosta regulatory framework continues to be fully aligned to European Union standard. First half 2017, CET1 ratio reached 16.9%, substantially doubling the minimum regulatory requirement.

First half 2017, leverage ratio stands at 3.1%; 3% is the minimum regulatory leverage ratio, due to BancoPosta recapitalization decided at the end of 2016 and executed in April 2017 as a consequence of higher asset under management, with no impact on our dividend policy. First half profitability recorded a remarkable 27% return on equity.

Let's now move to the Insurance and Asset Management on slide 9. Gross written premiums increased by €0.5 billion, up 5% driven primarily by the continued growth of our life business and reversing the decrease posted in the first quarter, confirming Poste Vita as the number one life insurer in the Italian market. Group technical reserves increased by €5 billion, up 4%, benefiting from the continual growth of our life business and delineated (12:32) but double-digit growth of non-life premiums, whose performance I'm going to comment in the next slide.

With regards to our investment portfolio breakdown, the increase of investments in most of the assets fund, which move from 14% at year end 2016 to 17% in the first half 2017, confirm our diversification of strategy towards a more adequate return profile. This continues to be fully aligned with our capital requirements.

Let's now move to slide number 10. On non-life business and asset management. In our non-life business, we have benefit from double-digit gross written premiums growth, even if from a small (13:28) whose results will become more and more material going forward.

As much as asset management operation are concerned, let me underline that asset under management increased by close to 24% year-on-year, reaching €8 billion, confirming this area as one of our key strategic growth pillar. Like we say that we remain extremely focused on asset management and aim to maximize shareholder's value and retain investor interest across current and future partnership. The group's new strategic plan will specify the details of our future strategy.

Let's now move to slide number 11, Mail & Parcels business unit. On volumes, let me highlight here, as already indicated from the beginning of 2016, Poste has decide to drop the service for

unaddressed mail, which is characterized by high volumes but very low size. As the result of this, in order to correctly represent the structural decline in traditional mail volumes, unaddressed mail has to be neutralized.

Negative effect in the first half 2017, volumes show a 7.6% adjusted decline versus first half 2016. On the other hand, Parcels volumes increased by almost 20% year-on-year, confirming the positive momentum mainly driven by the growing of e-commerce penetration in Italy.

Let's move to slide number 12. Let me remind you that infrasegment revenues increased by approximately 1%, mainly due to higher revenues, driven by capital gains, recorded by the Financial Services business unit as well as higher gross written premiums collection. Mail & Parcels total revenues instead posted a decrease of €72 million, down 3.8%. The Parcels revenues increased of €28 million, about 9% was not able to fully compensate the decline in Mail revenues. At the same time, operating costs have decreased by 1.4% period over period, thanks to a decrease in labor cost and continued cost management actions.

Let's move to slide number 13. Overall, group operating cost fell by €87 million, down by almost 2% versus last year as a consequence of our continued cost management actions and lower labor cost. With regard to cost management actions, we have streamlined the group's organization with the reduction of the number of legal entity. Specifically, we have closed Postecom and we are in the process of closing other minor legal entities. This process is generating structural savings which are decreasing the group cost base. We expect the new strategic plan to focus on additional efficiency and cost optimization.

Moving to slide number 14. Labor costs fell by almost 2% year-on-year mainly as a consequence of about 5,700 people that left the group in 2016 according to our voluntary prepayment plan. For 2017, we expect around additional 4,000 people to leave the group through this plan. As of the end of June 2017, about 3,100 people have already signed up to the pre-retirement scheme and they will leave the group by year-end. We will therefore see the full impact in 2018 in line with our plan.

Slide 15. Let's now run through with our P&L evolution below the EBIT line. Net income for the period is equaled €510 million versus €565 million in first half 2016. On top of the already commented EBIT evolution, this performance is related to net financial losses equal to €75 million, composed by positive net financial income for €19 million and Alitalia and Atlante write-offs of €94 million. Taxes for total consideration of €252 million corresponding to a tax rate of about 34% in-line with the first half 2016. For the full year 2017, we expect a normalized tax rate of around 38%.

Let's move on slide 16, commenting on CapEx. In first half 2017, group CapEx was €183 million, up €32 million or 21%. The increase is specifically related to information technology and digital platforms with the concentration of some licensing contracts in the first half 2017 and a selected upgrade of facilities, data center, and postal logistics operation.

Finally, let's focus on the industrial net financial position on slide 17. First, let me highlight the positive contribution of our funds from operations as a result of the already commented operating performance. On the other side, negative change in working capital is mainly due to the cash out related to the early retirement plan finalized in 2016 and the ordinary seasonality of our working capital variation which usually worsens in the first half of each year. On top of our recurring CapEx in first half 2017, we recorded a cash out for around €278 million related to the payment of the (21:04).

On the dividend and equity movement fronts, the €42 million outflow is the result of €466 million coming from our BancoPosta ring fenced capital and dividend from Anima, compensated by the payment of the dividends to our shareholders for an amount equal to €509 million.

Thank you for your attention. And let me hand over to Matteo for some closing remarks.

Matteo del Fante {BIO 6237992 <GO>}

Thank you, Roberto. From the beginning of mandate, which is now exactly three months today, the two principal areas of my attention has been implementation of my management team and a very specific focus on drafting strategies to deliver value growth for our stakeholders.

I can say that now, the team is basically in place. The team is busy on the day-to-day operations and working on a new strategic plan, which we aim to present as we committed to the market at the beginning of 2018.

The main focuses of the plan are going to be on the insurance and asset management sector, we aim at broadening our product offering as well as enhancing opportunities to create value to offer unique distribution network, also strengthening our partnership in the asset management space.

In Financial Services, we aim at concentrating and reinforcing our payment system focus, leveraging on our client base and our recent acquisition of the SIA stake. Furthermore, we will give more impetus in developing innovative services for the public administration.

In Mail and Parcels, we will continue to strengthen our Parcel business using the e-commerce accelerator and constantly improving postal services quality through the design and implementation of a new delivery system.

All these will continue to strengthen the group cash generation in support of our 2017 dividend policy which we confirm to be in line with the last two years.

And now I think we are ready to take questions from investors. Thank you.

Q&A

Operator

Certainly. Thank you. We'll now take our first question for today which comes from Gianluca Ferrari of Mediobanca. Please go ahead.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Yes. Hi. Good evening, everybody. I have three questions. The first one is on the insurance business. I was wondering if you have any indication on the Solvency II at the end of the first half, what were the moving parts behind that and why you are so successful and much better than the market in terms of collecting premiums. I think you are certainly on the opposite side compared to what the Italian markets are dealing in the second quarter?

Second question is on the merger of BancoPosta Fondi with Anima. I was wondering if you are confirming that the full paper deal is still what you are working at or you might reshape that deal announced a few months ago.

The third and final question is on the pressure I see on the price per unit in the Parcel business. If I'm not wrong, price per unit was down 10% year-on-year, which is a bit above what I was expecting. Can you comment a bit about the competition in the Parcels segment and what is outlook for margins going forward? Thank you.

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

Okay. I would take the second and the third and leave to Roberto the Solvency and the Mail and Parcels question. On the growth of our Premia, we're clearly going a bit against the market, but I believe that this is structural faster related to the client base and our ongoing and, if I may say, traditional commercial strategy. The number of clients that we're reaching with our retail network is extremely large and any new commercial initiative will need to take the right amount of time to be channeled through the retail network.

So every change has to be managed with time and a lot of care. So given the very meaningful success of penetration of like products, we let that momentum going and slowly we will add additional products as long as our clients can bear the risk.

In terms of the potential partnership with Anima, as we stated that we're working with a new plan and all options are on the table, and we have a specific focus on this partnership given we aim, as we stated, to reinforce our asset management guidance. And that is done with the aim of refracting the maximum value for our retail network. Bear in mind also the changes that MiFID II is bringing into place. And bear in mind also the specific experience or inexperience of our clients in the space.

Roberto, do you want to answer on Solvency II and then on Parcel?

A - Roberto Giacchi {BIO 20101579 <GO>}

On Parcel. Yeah. Regarding Solvency II, quantified with the same methodologies used for the full year 2016, at the end of the first half 2017, eligible owned funds might (28:31) equal to €8.4 billion, up €314 million from the previous period. On the other side, Solvency capital requirement increased by €135 million to €2.9 billion at first half 2017 due to the growth of the business and before the underwriting risk. As a consequence, the Solvency II ratio at the end of June 2017 is equal to 292%, almost in-line with the 295% registered at the end of 2016.

Then the question about Parcel, first of all, let me say that we have introduced a strong discipline on parcel pricing. The volumes that I described to you before show a situation where the B2C parcel is growing strongly and the unit price is lower than the B2B market. So as a consequence, we are reducing our price per unit, but this more a consequence of the volume mix than the competitive environment effect.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Okay. Thank you very much.

Operator

Thank you. We'll now take our next question which comes from Giovanni Razzoli of Equita. Please go ahead.

Q - Giovanni Razzoli {BIO 7269718 <GO>}

Good afternoon to everybody. A couple of questions on my side. The first one, if you can please just clarify the amount of realized trading profits at the BancoPosta unit in the first half? I may have missed them. If I'm not mistaken, they were something like €397 million in the Q1. So if you can clarify this point.

And from a strategic point of view, I was wondering whether it's your aim as the part of the business plan, the medium, long-term perspective to substitute with, I would say, volatile component of your P&L with the more stable contribution from the recurring business of the asset management. Whether this is going to become a kind of a strategic priority business, change in the mix of revenues?

And the second question, instead related to the seasoned postal savings, if I'm not mistaken, the second Q, you have recorded the significant pick up of the fees which were in excess of €400 million, implying an average margin of deposit of 50 basis points. You have partly anticipated this in the Q1 conference call. I was wondering whether this €400 million-plus level is sustainable going forward if there is some one-off in the average margin of the fees on the postal savings. Thank you.

And sorry, follow-up question if you can update us with the sensitivity of the unrealized capital gains of the BancoPosta you need to rising sovereign strength. Thank you.

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

If we heard correctly, the first question was how much we realize in our portfolio of BTT (32:29) in the first half of 2017, and the answer is €500 million. The second question is in the plan, and by the way, as we've stated, this is more or less all we intend to do for the full year of 2017. As far as the second question is in doing the plan, how we are planning to support and eventually slowly replace this item. I can call it the double the share price question or the €1 billion question, that is exactly what we are working on. We haven't found the (33:24) but it will be a combination of action on the revenue and on the cost side, but this is actually the focus of the new plant.

The third question on cost of savings is I think misunderstood the potential impact of the new agreement with CDP because there is no new agreement in place so we are still working with the same distribution agreement. And the next three months up to the summer in parallel with the new plan will tell us what we can count on for the strategic plan we'll present in January.

On the sensitivity, you ask for the BTT (34:36) spread, i.e., for the difference in (34:46) in between the Italian and German sovereign for around 10 basis points was taking around €400 million spreads, mark-to-market impact.

Operator

Thank you. We'll now move to our next question which comes from Matija Gergolet of Goldman Sachs. Please go ahead.

Q - Matija Gergolet {BIO 3561672 <GO>}

Yes. Hello and good evening. Two questions on my side. Firstly, with regards to, say, SIA, I will be quite interested to know if you can give us a bit more color about your, say, longer-term thinking about the stake. Would you consider potential increase in that stake in the future or are you happy with the current stake?

Secondly, I'm talking about distribution as a follow-up to one of the questions. So the distribution fees in BancoPosta are down 2%. Well, they used to grow quite nicely in the past. You mentioned that this is due to lower revenues from Banca del Mezzogiorno. What was, so to say, the organic growth in distribution fees? Is that still a growing business or was this still growing in the first half of the year? And if you could quantify, how much? Thank you.

A - Roberto Giacchi {BIO 20101579 <GO>}

Thank you very much for your questions. In terms of SIA, it's a bit premature, but I believe that it's going to be one of our key pillars in the new business plan in terms of development of our future strategy in payments. You know that the space is very tough at the moment with very interesting multiples and we recently created a new business unit last month which we focus specifically on this. It's going to be a spin-off of the BancoPosta payments or secured system with a focus on mobile. Many payments were now in this space, will come from the mobile space, and we have an interoperating space. Our digital efforts and our payment effort to create a vertically integrated

offer for our clients, and this will touch SIA at the bottom of the chain with the unique, I would say, expertise in development and processing that SIA is bringing to the table.

This new business unit will mark also on the opportunities and in the trending in our space also in the new environment of the new PSD2 directive that, as you know, will slowly come into play starting from January 2018. And we believe that SIA will play an important role as a technological accelerator and partner for us in this space, but I need to ask you to wait for our plan to have more details on what we're going to do with the stake, also in conjunction with our shareholders CDP that is jointly controlling SIA with Postepay at the moment.

Q - Matija Gergolet {BIO 3561672 <GO>}

Okay. Thank you.

A - Operator

In terms of the second question on distribution fees being slightly down. We stated that the Postepay and Postepay Evolution card provided a stronger growth to the system so we have a bottom line. And the distribution of loans also has supported the activity and we see it growing and we have plans to widen that business with a stronger process. Certainly the Banca del Mezzogiorno loss of contribution played a role in the bottom line marginal reduction.

Q - Matija Gergolet {BIO 3561672 <GO>}

Okay. Are we still talking about double -digit growth for the revenues ex-Banca del Mezzogiorno in the division approximately?

A - Roberto Giacchi {BIO 20101579 <GO>}

You mean...

Q - Matija Gergolet {BIO 3561672 <GO>}

The distribution fees. Yeah.

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

We haven't looked at that specific figure, but if you want, we can take this question offline with our operator that is listening.

Q - Matija Gergolet {BIO 3561672 <GO>}

Sure. Okay. Okay. Thank you. Thank you very much.

Operator

Thank you. We'll now move to our next question which comes from Michael van Wegen of Bank of America Merrill Lynch. Please go ahead.

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

Yeah. Hi. Good evening. A couple of questions. First of all on the Mail business. Looking at the first half of the year, revenues are down about 10%. I think you indicated that excluding sort of the unaddressed Mail part that you're stepping away from, it's about minus 7.5% year-to-date. Can you talk about what the outlook is for Mail revenues for the full-year? That's question number one.

Question number two, on the Insurance business, your Q2 profit makes quite a noticeable jump versus either Q1 or Q2 last year. Can you talk us through what the moving parts are there and to what degree does this have to do with operating leverage and how fixed issue or cost base in the

Insurance business? And I would like also to put in a request. On insurance accounting that you or disclosure that you provide, would be very much appreciated with the new management team now in place if we could get for the Insurance business more conventional Insurance disclosures. Thank you.

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

I'll start with the insurance. I fully agree on your final request as one of our aim to have more readable and in line with market practice insurance business disclosure. We believe with the standard results (42:35) there is also some accounting directive that is going in that direction. And ideally, we should try to do that in conjunction with the launch of a new plan. This is the aim. And we'll do our best to do it, but it's also depends from the general accounting framework.

In terms of the increase in profit, is mainly due to the ongoing increase in premium that we have for the last few years consistently generated. And I believe that's the main factor. There have been less at the same time accruals on the reserves side and on the expense side. We had also a margin of increase in profits generated by (43:56). So all in all this is justifying the increase in profitability in this level of our Poste Vita, and Roberto will take Parcel.

A - Roberto Giacchi {BIO 20101579 <GO>}

Mail and Parcel. For the Mail business, we expect for the full year 2017 to maintain more or less the same trend that we have seen in the first half. Of course, this is due to mainly the key substitution of paper-based communication by electronic makers. By the way, we expect the rate of each substitution to slow gradually over the next year.

For what it may concern Parcel, we are seeing a robust growth in the e-commerce business. And we forecast for the second half of 2017 the same kind of growth that we have had in the first half with the very positive December month.

And as I stated in my final remarks, obviously, the revenues of the size of the parts of business cannot compensate for the reduction in volumes of the traditional Mail. But we call it an accelerator. We use it as the mean to push in our retail distribution network a more efficient reorganization leveraging by using the support of the new businesses coming to Poste. And that, technically is basically separating part of the cost that we have on the traditional business.

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

Thank you.

Operator

Thank you. We'll now move to our next question which comes from Elena Perini of Banca IMI. Please go ahead. Your line is open.

Q - Elena Perini {BIO 4202240 <GO>}

Hello. Good afternoon and thank you for taking my questions. Actually, I have one last question which is about the amount of premiums that you had (46:54) in the first half of the year if you can give us some details on the figures. Thank you.

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

Sorry, Elena. (47:20) We have, at the moment, an outstanding of €232 million in the (47:38), and worth noticing that we launched at the 27th of June 2017, the (47:47) the individual plans or setting that in the first few days of distribution raise in excess of €33 billion is going extremely well.

Q - Elena Perini {BIO 4202240 <GO>}

Okay, thank you.

Operator

Thank you. We'll now move to our next question from Mike Werner of UBS. Please go ahead.

Q - Michael Werner {BIO 4790902 <GO>}

Good evening and thank you. Two questions. One, I guess, somewhat of a follow-up on that one. I just wanted to confirm I heard it correctly that you issued a newly – a new unit-linked product to the PIR funds, was that – did I hear that correctly? And then tied to that, are there plans to offer PIR fund to clients separately as part of a traditional investment management product in the second half?

And then secondly, I do believe that there was a tariff increase in the beginning of 2017, and I was just curious as to what you expect in terms of additional revenues this year, and if any of that was recorded in the first half? Thank you.

(49:07-49:14)

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

I'm not sure I got the second question. But as far as the first question is concerned, we are offering here the selling individual products to all our clients that have been identified by our specialized sales network in conjunction with all the other products of Asset Management and Life space. We're not allowed to sell PIRs in the general teller positions but this is showing anyway a very promising outlook for the first few days and July is also going extremely well.

Then, I think the second question is additional revenues on, I'm sorry...

Q - Michael Werner {BIO 4790902 <GO>}

Sorry, I believe there was – was there a tariff increase with regards to the Mail business in 2017?

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

The Mail business?

Q - Michael Werner {BIO 4790902 <GO>}

Yes.

(50:35-50:41)

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

Yeah. At the beginning of 2017, there's actually been an increase in tariffs for the Mail business. And due to the tariff increase, we have had a positive impact of around €20 million in the first half of 2017. For the full year 2017, we expect a total positive impact from the tariff increase to be around €35 million to €40 million.

Q - Michael Werner {BIO 4790902 <GO>}

Perfect. Thank you very much.

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

You're welcome.

Operator

Thank you. We'll now move to our next question which comes from Anna Adamo of Autonomous Research. Please go ahead.

Q - Anna Adamo {BIO 16893946 <GO>}

Hi. Thank you for taking my questions. The first one is on Asset Management. Can you please share with us the profitability of Poste (51:35) in the first half of the year? Should we assume that the business will be classified as held for sale in the next couple of quarters ahead of the disposal to Anima?

The second question is on real estate funds provisions. You mentioned during the call that you have taken €100 million extra provisions on close end of real estate funds. Should we assume that, from memory, you have sold roughly €500 million of this fund. So should we assume that the rest will also be impaired in the next couple of years?

And finally, on Insurance, can you share with us what was the embedded value of the Insurance business in June and how much of this was value of enforced (52:19) business? Thank you.

(52:24-52:31)

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

Okay. Let me start with a few easy answers. On the management (52:40) share, BancoPosta Fondi, we usually don't give the bottom line. But as you know, the company is mainly managing our fixed income technical reserves of Poste Vita.

So we're talking figures that are not very relevant for the year for the bottom line. In terms of the embedded value, the company practice which I have not been reviewing, but we know that our - to give that figure once a year and not today.

Q - Anna Adamo {BIO 16893946 <GO>}

Okay.

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

The other two questions in terms of the real estate funds that we provisioned in the first half of 2017, additional €65 million, and we believe we've been very cautious on this provision. So, we believe that we will not have to come to the board to ask for more funds. So, it's €65 million, the provision this first half that brings the total provision on the two funds that we had out in the market at €105 million.

Q - Anna Adamo {BIO 16893946 <GO>}

Okay. Perfect. Thank you.

Operator

Thank you. We'll now move to our next question from Manuela Meroni from Banca IMI. Please go ahead.

Q - Manuela Meroni {BIO 1782610 <GO>}

Yes, good evening. I have a couple of questions remaining. The first one is on the early retirement cost. I'm wondering if you can provide us with a guidance for full year 2017 on EBITDA. And the second question is on the industrial financial position. Again, I'm wondering if you can give us a guidance for December this year?

(55:15-55:22)

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

If you can repeat the second question. Sorry.

Q - Manuela Meroni {BIO 1782610 <GO>}

Yes. The second question concern the industrial financial position. I'm wondering if you can give us a guidance on the net financial position for full year 2017?

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

Yeah. I answer first on the industrial net financial position guidance. We expect to have at year end 2017, a net cash for around €800 million, taking into consideration the change in working capital is effect to move from the first half 2017 absorption of €652 million to a cash generation at the same level as last year or around €300 million.

In terms of the early retirement cost and the provisions, we are targeting for 2017 additional 4,000 people to leave the group. So, the €500 million provisions that we posted at the end of 2016 are a conservative assumption at this point in time.

Q - Manuela Meroni {BIO 1782610 <GO>}

Thank you.

Operator

Thank you. We will now take our next question which comes from Emanuele Borghetti of Intermonte. Please go ahead.

Q - Emanuele Borghetti {BIO 19118661 <GO>}

Yes, good evening. A couple of question from my side as well. First one regards the trend in current accounts. If you could provide us with a bit more color on the trend and I think it was because, if I'm not wrong, I saw a slowdown in second quarter. And if I was wondering if it is just the seasonal effect of - or if there is any other element beyond that?

And second one regard to the National Labour agreement that - if you could provide us with any update on the ongoing negotiation with the labor force?

And finally, third one is probably I missed that, if you said that is regarding the realized capital gains in the insurance segregated funds. If you could update us on that number of the realized capital gains at the end of July? Thank you.

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

Okay. I'll start with the National Labour contract. We are in the process of restarting the negotiations. We have signed in July the 2017 agreement with unions in terms of results-based incentive, which is a positive contract. We believe that there is ground to be able to sign this agreement just after the summer in the following few weeks. We hope and we have accounted for the potential increase in the labor cost already in the figures of the first half of the year and in our budgeting process. This is the second question.

In terms of the first question, if I understand correctly, you are pointing to the interest - the average interest that we have on our deposits, on our current deposits. And I can confirm that there's been a marginal decrease in the first half of 2017 versus the first half of 2016.

And the last question was on unrealized capital gains in the Poste Vita portfolio. And we can state that the end of June unrealized capital gain was €7.9 billion, which is lower than the €9.5 billion end of 2016 but is higher than the €7.6 billion of the end of Q1.

Q - Emanuele Borghetti {BIO 19118661 <GO>}

Okay. Thank you.

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

I'm sorry. If we take July to consideration, the €7.9 billion of end of June due to the spread compression on Italian (01:00:57), the annualized capital gain has grown to 8.3% end of July.

Operator

Thank you. This will now conclude today's Q&A session. I would now like to hand it back to our speaker, Mr. Del Fante, for any further additional closing remarks.

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

Thank you everybody for the time of this call and the time you spent analyzing our company and obviously we are all available for direct and one-on-one follow-up questions. Thank you.

Operator

Thank you, ladies and gentlemen. That concludes today's conference call. Thank you for your participation. You may now disconnect.

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