Q2 2018 Earnings Call

Company Participants

- Andrea Novelli, Head & Chairman - BancoPosta Fondi SGR
- Marco Siracusano, Head - Payment, Mobile and Digital
- Massimo Molinari, Chief Financial Officer - Poste Vita Group
- Matteo Del Fante, Chief Executive Officer & Managing Director
- Tiziano Ceccarani, Head-Planning, Controlling & Financial Reporting

Other Participants

- Alberto Villa, Analyst
- Anna Adamo, Analyst
- Anna Maria Benassi, Analyst
- Ashik Musaddi, Analyst
- Gianluca Ferrari, Analyst
- Giovanni Razzoli, Analyst
- Manuela Meroni, Analyst
- Matija Gergolet, Analyst
- Michael van Wegen, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day and welcome to the Poste Italiane Second Quarter and First Half Results 2018 Conference Call. Today's conference is being recorded.

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

Matteo Del Fante {BIO 6237992 <GO>}

Good morning, ladies and gentlemen. We're pleased today to present the Poste Italiane second quarter and first half 2018 results, as well as an update on Deliver 2022. As presented during our Capital Market Day in February, we are undertaking Deliver 2022, a group-wide transformation program with a focus on Poste Italiane people and system leveraging on our unique franchise.

As you will see today, we are really on track with our financial targets and KPIs underpinned by a renewed focus on operational performance in all segments. We closed the second quarter with a net profit of €250 million, resulting in the first half 2018 net profit of €735 million, up by a strong 44%.

The key initiatives included in Deliver 2022 are already in place, reducing the execution risk related to the achievement of our targets. Today, we will provide you evidence of strong trend in Parcel and B2C in particular. We will also give you more visibility on the power of our distribution network deleveraging on our trusted brand in loans and mortgages, as well as in asset management.

Customers are benefiting from our constantly enlarging product offering at competitive conditions, and our numbers for the first half of the year already reflect such significant commercial efforts. We're also able to confirm our focus on cost discipline with a cost base in line with our 2018 target after including the €400 million early retirement charges expected for the fourth quarter of 2018.

Let's move please to slide number 4 for an overview of the financial results for the second quarter of 2018. We keep working hard in all segments toward our target. The first sign of our execution are delivering intangible results as shown in the first half numbers. Revenues were above €2.5 billion in the quarter or €5.4 billion in the first half, and the underlying evolution is proceeding in line with our plans as we will detail later.

Total costs amounted at about €2.2 billion in the second quarter or €4.4 billion in the first half, down year-on-year thanks to our cost discipline efforts, while benefiting from non-recurring items booked last year. As a result, EBIT was €350 million in the second quarter, leading to €1.53 billion in the first half of 2018, up 24% year-on-year. Our EBIT margin reached 13.8% in the second quarter and 19% in the first half. We have also included for your information EBIT adjusted, which is excluding capital gains, early retirement charges, and real estate fund provisions as we did during our Capital Market Day to highlight the operational performance that kept strengthening in the quarter. As already said, reported net profit amounted to €250 million in the second quarter, leading to a strong €735 million in the first half. As a result, earnings per share increased to €0.19 in the quarter and to €0.56 in the first half.

Let's please move to slide number 5 where you can appreciate the trend I just mentioned, regarding the progress of operating profitability across our business lines. Mail, Parcel & Distribution revenues in the second quarter benefited from capital gains in 2017, while in 2018 we entirely booked them in the first quarter as you know. Net of this effect, the operating profit of the second quarter confirms a significant improvement. On the cost side and in line with last year, early retirement charges will be booked in the fourth quarter.

Financial Services EBIT improved by over 24% both on a quarterly and on a half year basis, supported by sustainable trends of operating profitability. Payment, Mobile & Digital confirms a positive trend with EBIT continuing to grow year-on-year, supported by card payments and telecom as you will see more detail later on.

EBIT for Insurance Services increased by 5.4% in the second quarter and by 2.9% in the first half of 2018. Revenues were resilient with lower Gross Written Premium in life class one, offset by savings and lower distribution cost. For each business unit, we confirm that we are well on track to meet our targets for 2018.

Let's move to slide number 6, please. We present an overview for each business unit, with some key performance indicators we used to steer our business. And more in detail starting with the Mail, Parcel & Distribution, we have streamlined our organizational structure, reducing regions from nine to six operating regions. This organization is also relevant for the effectiveness of our distribution network.

The roll-out of the Joint Delivery Model is well on-track. In the next slide, we will give you more detail update on the agreement with Amazon and with FIT, the Italian federation of tobacconists. Both deals are supporting the refocus of our business. Operating results are improving with revenues at €1.8 billion in the first half and EBIT at €200 million, confirming the €3.5 billion revenue target for 2018 and an operating loss of about €400 million in 2018 considering the €400 million charges for early retirement to be booked in the first quarter.

The focus on Payment, Mobile & Digital segment is to capitalize an opportunity arising from the convergence in the sector while also supporting a group-wide digital vision. The digitalization process is key in the future of Poste especially in the fast growing and innovative e-payment space.

We will maximize market penetration as we already receive the authorization to launch our e-money institution which will go live in the last quarter of the year.

As announced on April 11, this year, we signed an agreement with Intesa who will accept the traditional bollettino payment slips and allow top up of postpaid, prepaid cards in their 20,000 points of sales across the bank (00:08:31) network. Revenues are growing at a sustained pace with €300 million in the first half and the operating profit of a €100 million in line with 2018 targets of revenues of €600 million EBIT and €200 million – revenues of €600 million and €200 million of EBIT.

In financial services, we are capitalizing on our strong distribution capabilities. We laid the fundamentals of Deliver 2022 back last year as you know with a new agreement with CDP to revamp postal savings and with a strengthened relationship with Anima as a preferred partner in asset management. The distribution network is (00:09:22) to Deliver 2022 presented in February. That is why we signed a distribution agreement with Intesa on loan mortgage and mutual funds.

Our people are key to our strategy. We are hiring 500 graduates in 2018 for customer relationship management roles. Lastly, we have just signed a distribution agreement with UniCredit Bank on salary backed loans, a profitable segment of the market further supporting the achievement of our targets for 2022 Segment revenues in the first half were €2.7 billion and net profit €300 million, fully on track to meet our targets for 2018 with a visible rebalancing of profitability from capital gain to distribution revenues.

In Insurance Services, we aim to retain our leadership position in life and develop our non-life offer, providing our customers with the highest variety of products like new Class I and multi-asset life products and earthquake insurance. Our Insurance business has confirmed its market leadership in the first half. We're fully on track to meet 2018 target and leveraging revenues at €1.5 billion and net profit of around €600 million for the year.

On the next few slides, let me focus on the key areas of progress of Mail, Parcel & Distribution. Over the past year, we have taken outright decision in the segment refocusing the business from Mail to Parcel to seize the opportunity arising from the fast growing eCommerce business in Italy. We're working hard to offer innovative delivery product which makes Poste an efficient partner in B2C logistics with competitive offer compared to potential new entrants in the market. This is growing to be a winning strategy already bearing fruit. In fact, B2C volumes continue to progress at a sustained pace, increasing by 40% in the first half of the year if we include also international packets.

Moving to slide 7, we focus on the key initiative of Mail, Parcel & Distribution enabling the execution of Deliver 2022. The first and most important is an update on the implementation of the new joint delivery model started in mid-April. The roll-out of the model has been flawless and a significant improvement in the level of quality has already been reached across Mail and Parcel products. As you remember this model envisage three different approaches based on the distinctive characteristics of each area, mailing trend in terms of drop density and competition level in large metropolitan areas.

The new joint delivery model will improve service level in order to meet the needs of eCommerce market, provide increased flexibility through afternoon and weekend deliveries, and reduce costs. We will reorganize more than 350 delivery centers during 2018 out of our targets of 800. As of today, 226 delivery centers have been rolled out under the new model. More than 1,700 municipalities are already up to speed.

On the right hand of the slide, we focus on the latest agreement signed in Mail, Parcel & Distribution. With FIT, Federazione Italiana tobacconists, a network of 48,000 point of sales across the Italian territory. We have agreed to further enhance our distribution reach for e-mail and eCommerce services. Our widespread network is unique. And after this agreement, we will expand our footprint rolling out hundreds of Poste points within the tobacconist network.

With Amazon, we have reached a 3+2 agreement offering an innovative delivery service with enriched offer in terms of products and time of delivery extended to evenings and weekends. The Joint Delivery Model, our express courier SDA and our airline company now completely dedicated to cargo from the July 1, 2018, allow us to offer competitive and efficient deliveries for our partners.

The Joint Delivery Model, the agreement with Amazon and with FIT are all significant milestones of our story, allowing us to reach a hundred million parcel delivery by our but our postino and postini in 2022 targeting an increasing market share in B2C in a booming environment for eCommerce in Italy.

I would like now to hand over to the head of our business units who will explain these trends more in detail. Today, you will hear again from Massimo Rosini, Head of Mail & Parcel; from Marco Siracusano, Head of Payment, Mobile, and Digital; and from Andrea Novelli, COO of Banco Posta who will share more details on the results of the financial services. Tiziano Ceccarani, Head of Administration, Planning, and Control, will walk you through the insurance segment and the cost side of our results, jointly with the CFO of Poste Vita, Massimo Molinari.

Let me please wish you also a warm welcome to Guido Nola, who has been appointed the Chief Financial Officer of Poste Italiane. Guido, over the past year with myself and the team, has worked as an adviser very hard on the plan. So he knows our trajectory and he has already been working very closely with all the team members of the management team. Guido has an outstanding experience of working with financial institution, which is a perfect fit with our business. I'm confident that his knowledge of financial markets will be recognized and appreciated by all of you in the investor community.

This is also the opportunity to sincerely thank the former CFO, Roberto Giacchi, for his contribution to the Post Italiane group during the years in the different roles he cover. We all wish all the best future opportunity in the professional domain to Roberto Giacchi.

Over to you, Massimo, please.

Massimo Molinari {BIO 20355944 <GO>}

Thank you, Matteo. In Mail, Parcel & Distribution, our effort to refocus this segment continue to show tangible results. Segment revenue decreased by 3.9% in the second quarter leading production of 2.8% in the first half 2018. The performance of Mail revenue was in line with our strategic plan, down by 5% in the second quarter while the decrease in the first half was equal to 3%. Into (00:17:35) July, a tariff increase has been introduced, mitigating the further decline of revenues. The related impact is already embedded in our plan. Parcel revenue accelerated with an increase of over 5% in the second quarter fueled by B2C revenues up 26%.

The item order includes the contribution from our airline carrier, Mistral, which is (00:18:11) passenger business to focus on cargo supporting the business of our joint delivery model. A strong cost discipline allowed us to continue to improve our operating profitability, delivering an EBIT of a minus €79 million in the second quarter.

The first half of 2018 recorded an EBIT of €184 million benefiting from the positive impact of capital gains. While early retirement incentives charges will be booked in the fourth quarter. All in all, we confirm our target of negative operating profit of €0.4 billion in 2018.

Let's move to slide 10, here you can see volumes in price trends for Mail and Parcels. Mail volumes decreased by 3.8% in the second quarter or 3.4% in the first half. The decrease is mainly related to lower margin products such as direct marketing.

Average prices in Mail were stable in the quarter and up by 1% in the first half, thanks to positive volume mix effect. A repricing on several products took place early in July, which will help to mitigate the secular trend of Mail revenues. Parcel volumes increased by 11.1% in the second quarter or 7.3% in the first half, boosted by a significant increase of the B2C volumes.

Volumes in B2C were up 23% in the first half and revenues increased by 22%. Parcel revenues are not accounting for the significant increase of packets and small parcels related to eCommerce transactions coming from aboard that are distributed through our postal network, which are booked under the Mail business.

Including these effects, Parcel volumes in the first half are up 16% and B2C volumes are up 40%, all confirming the relevance of the phenomenon of eCommerce for Italy and for Poste. Average Parcel price were down about 3.5% in the second quarter and 4% in the half, reflecting the changing volume mix from C2C, B2B to B2C.

Thank you for your attention. I will be available for any question during the Q&A part of this call. Let me now hand over to Marco Siracusano.

Marco Siracusano {BIO 20101643 <GO>}

Thank you, Massimo. I will take you through the highlights for the Payments, Mobile and Digital segment, where Poste Italiane benefits from clear leadership in a fast growing market. Revenues continue to grow by over 10% in the second quarter and the first half, mainly supported by card payments, leading to an operating profit of €44 million in the quarter and €101 million in the first half, increasing respectively by 10% and 6.3%. In card payments, we had revenues were up by 26% in the quarter and by 23.5% in the first half, supported by an increase in stock of postpaid cards and higher transaction volumes both in physical and digital channels.

In other payments like bollettino, revenues amounted to €44 million in the second quarter and €76 million in the first half after positive seasonality in utility bills registered in the first quarter. In telecoms, we have registered revenue of €57 million, increasing by 7.5% in the quarter and by 6% in the first half. Thanks to successful commercial actions to anticipate expected higher competition in Italy.

Looking at EBIT, we reached €44 million in the quarter and €101 million in the first half with a strong progression of 10% and 6.3% respectively, allowing us to confirm 2018 targets.

Let's move to slide 12 to have a closer look at the drivers underlining this business. I'm proud to show you that all our KPIs continue to keep a strong pace in the first of 2018. In card payments, we reached €18.6 million PostePay prepaid cards outstanding, increasing 8.8% year-on-year. In particular, our higher margin PostePay Evolution totaled €5.4 million, up to 35% year-on-year.

Poste Italiane carried out more than a €0.5 billion payment card transduction, up by 27.1% year-on-year. In the fast growing environment of eCommerce, we reached over 93 million transactions, increasing by 19% year-on-year. In telecoms, we have sold about 598,000 new lines, mobile and fixed, growing by 5.1% year-on-year. Finally, the success of our Digital PostePay e-wallets is confirmed, reaching €2.2 million in the first half, 83.3% higher than last year.

Let's move to slide 13. The continued increase in user accessing our digital footprint confirms our leadership in the digital ecosystem in Italy. Let me mention just a couple of examples. For mobile apps, we have reached 17.9 million downloads, up 48% year-on-year. We have also seen a very solid growth in the number of electronic identification system released (00:25:51) reaching 2.3

million identities at the end of the first half, up 77% year-on-year. This property will be key in the positioning in payment system success in the next competition (00:26:08) the payment.

On the right side of the slide, you can see the synergies between our physical and digital channels. Daily online users reached 1.4 million, close to the number of physical visits to our post offices of 1.5 million per day. This is just the beginning of our journey. We expect our e-money institution to be fully operational by October 2018.

Let me now hand over to Andrea Novelli.

Andrea Novelli {BIO 15185958 <GO>}

Thank you, Marco. Let's start from slide 14 with our segment key financials. Here we show financial services revenue including net capital gains. Revenue decreased by 7% in the second quarter and by 2% in the first half, amounting to €1.2 billion and €2.7 billion respectively. But the underlying operating profitability is progressing at a sustained pace. In fact, in the second quarter, we didn't book any capital gains as we did last year resulting in €134 million lower revenue.

At the same time, loan and mortgage distribution revenue in 2017 were impacted by two items. First, the contribution of BdM-MCC equal to €25 million in the second quarter and €49.7 million in the first half. Second, the introduction of accounting principle, IFRS 15, from 2018 required us to book rebates for early redemption of loans netting the revenue line as opposed to book them in the cost line as we used to do until 2017.

As a result, net in capital gains, the changes for accounting principles and the disposal of BdM-MCC, revenue increased by 7.2% in the second quarter and by 7.6% in the first half. This highlights our ability to replace nonrecurring revenue such as capital gains with more sustainable items, one of our most important commitments for 2022.

Postal savings fees were up both on a quarterly and semi-annual basis, progressing in line with our target of €1.8 billion fees for 2018. Interest income was up, thanks to higher average volume, offsetting the negative impact of lower rates both in the second quarter and in the first half. Neutralizing the items I mentioned earlier, loan and mortgage distribution revenue increased by 28%. We are reducing the reliance on upfront fees on assets under management, while running management fees are increasing faster than underlying volumes. EBIT and net profit growth outperformed the revenue trend just described. Also thanks to lower provisions for real estate funds. So overall, our targets for 2018 are confirmed.

Let's now look more in detail at the evolution of total financial assets on the slide 15. Total financial assets confirmed a solid positive trend over time and show an increase of 1% in the first half with a €4 billion increase in assets since the beginning of 2018.

We registered positive net inflows in life insurance, deposits and mutual funds. Moreover, retail net inflows improved by more than €1.5 billion year-on-year. Postal savings negative net inflows continue to improve, reaching minus €4.5 billion in the first half, thanks to new commercial initiatives, mitigated by €3.7 billion positive effect related to the accrual of interests on postal bonds.

Current accounts balance was up by €3.7 billion, mainly related to temporary increase in public administration deposits while retail deposits were resilient. Mutual funds posted positive net inflows above €300 million, thanks to new products offering resulting from new distribution agreements. Net inflows in insurance were equal to €4.9 billion, of which €0.4 billion related to unit linked products and multi-assets Class III products. Let's see these components more in details over the next slides.

Slide 16 focuses on postal savings where we can see the results of the new remuneration scheme agreed with CDP. The average stock largely increased year-on-year, thanks to the interest accrual on postal bonds, mitigating the negative flows as shown before. Negative net sales came above €2 billion in the second quarter, strongly improving versus the previous year. And in the second half, we expect the traditional positive seasonality. This is in line with our guidance of progressively improving negative net inflows, keeping an average of minus €4 billion between 2018 and 2020.

In the first half, we continued our efforts in launching new products as we introduce the three new postal bonds and new campaign on pass-books aimed at attracting fresh money. We also invested in an extensive TV, press and web advertising campaign to debunk misconceptions about postal savings. Fee from postal savings came to €444 million in the second quarter, up 6.7% year-on-year and €894 million in the first half, up by 15.9%. This is well on track towards our target of €1.8 billion for 2018.

Let's move to slide 17. Average current accounts reached €58 billion in the first half 2018, up by 6.6%, thanks to all components.

Interest income from the Govies portfolio into which we must reinvest (00:33:31) deposits was €386 million excluding capital gains, up by 7%, while in the first half, it was equal to €747 million, up 3%, thanks to higher volumes offsetting lower returns.

We realized the expected capital gains for 2018 in the first quarter also securing the most of the capital gains that we plan to book in 2019. So in the second quarter, we were net buyers of Govies, taking advantage of higher spreads. Underlying gains at the end of June was impacted by higher spread in the region of 2.4 percentage points. Annualized losses shown our gross of the tax effect. And it is important to stress that such amount is the balance of a part of the portfolio still carrying significant annualized gains and other part carrying losses.

In terms of interest rate sensitivity, a parallel increase of 10 basis points BTP bond spread implies lower annualized gains by around €500 million. The sensitivity of net interest income to interest rates is less significant and is around €10 million on a yearly basis.

Moving to slide 18 where we focus on asset management. Assets under management increased reaching €9.5 billion including multi-asset Class III and unit-linked insurance products with a change of mix from bonds and cash towards other asset classes with a higher share of equity. The distribution agreements we have in place are providing positive results supported by an improved product offering to our customers.

In the first half of 2018, we registered positive net inflows for €710 million, thanks to the launch of new successful products. We succeeded in increasing our market share in a challenging environment for asset managers, thanks to a low penetration of asset management products on TFA and a prudent approach on the suggested asset allocation for our customers.

Our people and our systems are now operational in terms of MIFID II guided advisory platform in all post offices and we are investing in training our sales force with the help of our partners as envisaged in Deliver 2022.

We registered fees for €22 million in the second quarter leading to €44 million in the first half with running management fees increasing year-over-year, faster than assets under management reflecting the change in mix.

Please bear in mind that in this revenue line we will book the capital gain related to be delegated portfolio management activities being transferred to Anima for about €70 billion. The agreement was announced back in December 2017 and will be effective in the fourth quarter of 2018 with a capital gain of €120 million.

Moving to loans and mortgages on slide 19, in the second quarter 2018, distribution continue to increase at a sustained pace.

In the second quarter, volume increased by 26.2% year-on-year, leading to higher revenue by 46%. The increase in volume is the result of high growth in personal and salary backed loans, while on mortgages, we expect a meaningful ramp up in the second half of the year, thanks to the agreement with Intesa.

Similar results were achieved in the first half with revenue up by 28%, thanks to volume increasing by 14.2%. Here as well, we are growing faster than the market, thanks to our efforts to increase productivity and increase the number of post offices actively selling loans. We also launched a new multichannel advertising campaign to increase the awareness of this product line.

Revenue are growing faster than volume, thanks to the new distribution agreements and some repricing of the existing ones. As I said earlier, stated numbers shown below are not representative from a commercial perspective due to a change in accounting principle starting from January 2018 and from the disposal of BdM-MCC in August 2017.

Let me stress that thanks to the partnerships in asset management and loan and mortgage distribution, we are able to offer better products and better terms for our customers. This is our main goal and the reason why we are growing faster than the market.

That's all for me. Thank you for your attention. Let me hand over to Tiziano to talk Insurance Services and other group topics.

Tiziano Ceccarani {BIO 15307786 <GO>}

Thank you, Andrea. I'm Tiziano Ceccarani, Head of Planning, Control & Financial Reporting. Let's start from slide 20 with the Insurance business results. Revenues were resilient despite lower Gross Written Premiums in life, with an ongoing rebalance of insurance offer in line with Deliver 2022 targets.

In the first half, life insurance revenues decreased by 6%, while private pension plan and P&C increased by 21% and 32% respectively. On the other side, EBIT increased in the first half by €10 million or 2.9%, thanks to P&C contribution for both higher Gross Written Premiums and a lower combined ratio. In line with Deliver 2022, we confirm that fully year 2018 results will be broadly stable year-on-year.

Let's now move to slide number 21. On Gross Written Premiums, we see the gradual rebalance of our insurance business is taking place in line with full year 2018 targets, envisaging a reduction of about €3 billion compared to 2017 results.

Gross Written Premiums on life products are down by 21% year-on-year with a steady increase in unit linked and multi-asset premiums. Gross Written Premiums for private pension plans increased by 5% in the first half to €510 million, while our P&C business increased by 32% to €96 million supported by all business line. In P&C, as you can see in the slide, we have experienced not only a strong performance in premium growth but also a low combined ratio level at 55.4% in the first six months of 2019. Looking at Gross Written Premiums as a whole, the trend is in line as anticipated with our expectation for the full year 2018 results.

Let's now move to slide number 22, with the focus on the net technical provisions which increased by €5.9 billion or 5% compared to the first half 2017. Since the beginning of the year, net inflows amounted to €4.9 billion, thanks to the positive contribution of whole products, more than offsetting negative flows from unit linked and index linked product affected by expiring. It's important to notice that unrealized capital gain effect was about €4 billion which is the results of the second quarter market volatility without any impact on the P&L results.

The minimum return guaranteed to customers decreased by 9 basis points year-on-year reflecting the gradual one-off of this type of policies. Please bear in mind that the current level of minimum return of guarantee is below our competitors and we're further expecting improvement due to the increasing weight of new business. Class I return was down by 17 basis points year-on-year due to a persisting low interest rate environment but we confirm again in line with our year-end targets.

Let's now move to slide number 23 for overview of the capital and regulatory requirements for the Insurance business. PosteVita Group solvency ratio at the end of June stood 185% basically affected by market volatility, especially the one coming from the Italian government bonds. The ratio is above regulatory requirements and the value and the level of risk tolerance set by our risk capital framework. More in details, the decrease of own funds impacted the solvency ratio by 40 percentage points, impacted basically by asset price despite of the business growth.

The increasing capital requirement reduced the solvency ratio by 54 percentage points. Again, market risk was the most impacting component mainly due to market volatility. It is important to note that at the end of June, the solvency ratio has now become much more stable the future movements of Italia and government spread.

In fact, a further increase of 100 basis points of government spread would impact our solvency by almost 27 percentage points compared to an impact of 60 percentage points when you start from December 2017 results. In fact, further enlargements of the spread would trigger volatility readjustments. This means that if the stress on Italian Govies increased significantly from the average of the euro area the discounts rate apply to liability would increase, mitigating the impact on solvency.

That's all on our business segment breakdown. Let's now move to group post-analysis on slide number 24. Here you can see cost for the quarter and half results, which were lower versus last year results and even more important in line with our 2018 target. HR costs amounted to €2.8 billion in the first half, down 3% versus last year. This consider, as already mentioned, during the first quarter results that almost €60 million savings are related to temporary effects on cost per FTE, which we will comment later on in slide number 25. And again, as anticipated by our CEO, remember that we expect to book early retirement incentives in the fourth quarter 2018 for approximately €400 million.

Moving to non-HR operating cost. We accounted €1.5 billion in the first half, down 6% on the adjustment measure. Again, please note that there were some non-recurring items and costs in the first half that it's important to consider when looking at the trend and the yearly 2018 targets and results.

In details, we booked approximately €48 million higher provision in 2017 due to the real estate funds, then you have to include the deconsolidation of the BdM-MCC deal during 2017 for €46 million as anticipated by Andrea. And then, again, there is the effect of IFRS 15, which included a higher cost in the first half of 2017 were approximately €12 million.

Let's now move to slide 25 to go into details of FTE. As anticipated by Massimo Rosini, we are on track with the implement of the joint delivery model with 65% of the delivery centers already working under the new model. This is the main reason for the reduction in the total head count year-on-year of 2,700 FTEs, which is line with historical average of head count (00:48:30) reduction for the last two years. This reduction is important to mention has taken place after the Union agreement and in the context of a very important industrial organization with improving KPIs on quality. As anticipated, if you look at the labor costs or FTE, you can see we are at €41,800 per FTE which is the number we discussed for the Deliver 2022 and in line with full year 2018 target.

Let's now move to slide 26 to match up on our net cash position. Net cash position stood at €407 million at the end of June 2018, which is €438 million reduction versus December 2017 results. It's important to mention that this is mainly due to seasonal effects on net working capital. Entering to the details, funds from operations stood at €229 million compared to the end of 2017. Change in working capital was mainly related to lower debt to personal. As you know, most of the payments coming from early retirement incentives and the 14-month salary installment have been paid in the first quarter and first half 2018.

Capital expenditure absorbed €128 million with investments ramping up in the second quarter and with a further expected pick up over the rest of the year. Important to mention then on the equity movements and other item, the second quarter payment of dividends to our shareholder for €548 million confirming the strength of our cash position.

That's all for the financial results, let me now hand over to the CEO for some closing remarks.

Matteo Del Fante {BIO 6237992 <GO>}

Thank you, Tiziano, and thank you, everyone. Before taking your questions, let me just to reiterate some key points. Poste Italiane achieved strong results in the first half of 2018. Underlying revenues increased with a sustainable mix with EBIT progressing also thanks to focus on cost discipline. This performance was underpinned by renewed commercial focus, which is gradually ramping up quarter by quarter, and we're just at the beginning of the plan and the refocusing of the strategy is already taking place and showing results in the top line.

Our group-wide transformation program is based on pragmatic targets as we stated in our Capital Markets Day. We're constantly monitoring the execution of the Deliver 2022 with clear KPIs, and we already see the intangible results and signs of our execution. Our journey to 2022 is keeping a sustained pace with all business segments fully focused on the effective execution of the plan. We will continue to provide progress updates on a quarterly basis.

Thank you very much for your attention and we're now ready to answer your questions.

Q&A

Operator

Thank you. We can now take our first question from Kunal Zaveri from JPMorgan. Please go ahead. Your line is open.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi. This is Ashik Musaddi. I'm using Kunal's line. I'm from JPMorgan. Just a few questions on Insurance business and one question on the financial services. So on insurance, is it possible to get some clarity as to why your required capital went up significantly I think around €900 million? So based on my understanding as an insurance analyst is, if interest rate is going up your liabilities go down, so your required capital should go down. So why has it gone up? So that's the one question.

The second thing, as you mentioned, the sensitivities have decreased because if solvency spreads go up, then volatility adjusted will go up as well. But then volatility adjusted depends on a lot of other things not just Italian bonds as well, not just Italian bonds. So, can you give us some color as to how much volatility adjusted are you expecting increase in volatility adjusted if bond yields has to go up, solvency spread has to go up? That's the second question.

The third one is, you have a net unrealized losses in the financial services portfolio. Can you give us some indication on the gross unrealized gains? Because in my view, basically over time, you can crystallize the gross unrealized gains and still meet your capital gains target. So can you give us some indication of how much gross unrealized gains you have? Thank you.

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

Thank you, Ashik. I will start with the last question and then we will answer the first two on Poste Vita. The gross capital gains as, Andrea Novelli stated, there is a significant amount of gains in the portfolio which we can say that it's above €1 billion. And obviously, there are capital losses that are greater than the capital gains on another portion of the portfolio and the net effect is a negative capital loss. But let me take the opportunity to stress one very important point.

In Deliver 2022, we took the challenge of taking the capital gains out of the picture. And we can already say that this goal has been achieved. As you remember, we had less than €1.4 billion capital gains in the plan, in the five-year plan where half the term into the five-year and we have already realized half of it. If you go back to our Deliver 2022 Capital Market Day presentation, there was one page, in section 5 page 13, where we're already showing the possible impact of a shock and this was February 27. We had the shock in April-May. And we're already showing that even under a shock scenario, the positive impact of the increase, in this case is an impact for a stress of increased spread, we were gaining from higher revenues from the net interest margin over the plan.

So, if you consider that already since May, we are investing at around 50 basis points above what was in our plan in February. And if you only assume that this level stays for, let's say, another year or so, we have calculated that we have another €300 million, €350 million additional revenues over the course of the plan. So adding this to what we have already realized, which is around half of the €1.4 billion for the five year, and adding to this the fact that, as per your question, we have more than €1 billion capital gains still in the portfolio, I really don't consider this factor as meaningful and that we're very confident that our objective of net interest margin and capital gains in the course of the plan will be achieved by the company.

As for the question on solvency, I'll hand it over to the CFO of Poste Vita please.

A - Massimo Molinari {BIO 20355944 <GO>}

Thank you, Matteo. Regarding your first question about the decrease – or about increase of SCR, basically you can explain this movement by the fact that with reducing the amount of unrealized gains due to market volatility, there is an increased value in the abandoned (00:58:39) option in our policies regarding minimum rate guarantees so – because the loss-absorbing (00:58:44) capacity is – gives in a little bit.

Regarding your second question about the expected sensitivity from now on, you can figure out with the volatility adjustment will double the sector with another movement of 100 basis points on Govies, mitigating much more of impact on the solvency.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. Just a follow-up on that. I mean at what point would you start getting worried on your solvency ratio? I mean based on my understanding, as long as the government don't default, you don't lose any economic value. But then there is a concept of bottleneck like solvency ratio could become a bottleneck even though you don't lose any economic value. So at what point do you think this is a solvency ratio beyond which we should start getting worried? Is 185% a right number or is there nothing right number?

A - Massimo Molinari {BIO 20355944 <GO>}

Thank you for the question, Ashik. If this was a question to a listed Poste Vita company, I think we probably would give you a different answer. But this question is for a company which is 100% owned by a holding that has under lever balance sheet. So, we tried in the Capital Markets Day to reassure market on solvency of insurance with the €1 billion commitment approved by the board of the holding company. But clearly, this is probably not reassuring enough markets.

So, what I can tell you is that it is not a capital problem for Poste Vita which again is part of the group that is under lever. And that as soon as we see that the level of provisions is not perceived by the market safe enough, we will cover what is needed to reassure markets. And what is the percentage your question, I think we will listen very carefully to investor's feedback and act on that basis.

Q - Ashik Musaddi {BIO 15847584 <GO>}

That's great. Thanks a lot, Matteo, and thanks, Massimo. Thank you.

Operator

Thank you. We can now take our next question from Anna Benassi from Kepler Cheuvreux. Please go ahead. Please ensure that your mute function is switched off, madam.

Q - Anna Maria Benassi {BIO 1557710 <GO>}

Hello. Do you hear me?

Operator

Please go ahead.

Q - Anna Maria Benassi {BIO 1557710 <GO>}

So, good morning. I have two questions. One question related to

your plan of closure of postal offices in small Italian towns. Can you comment what is exactly your speed in closures, the cost and the benefits of it?

The second question regards the fact that is the second quarter in a row that you exceed expectations including on cost in Mail and Parcel division and probably your budget to not just our estimate, but you keep maintaining your targets. You define your targets problematic targets? Can we maybe believe they are cautious targets instead? When you plan to update on the budget? Thank you.

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

Okay. Thank you, Anna Maria. The first question is a very hot topic also from an institutional standpoint. I mean there were important institutional events that in the last few days at this topic, at the top of the agenda. And yesterday, we had the Vice Prime Minister, Mr. Di Maio, confirming our line of a few months ago, that the Poste will not close any office in any small city. And the definition of small city for us, to be very clear, is cities that have 5,000 or lower inhabitants.

So there is no – and this was already announced a few months ago and the figures of the closure of the office, which were and you're right, in the previous plan and in the previous request from Poste to the government before the appointment of the current board has been taken out of our Deliver 2022 projections. So we are not closing and there is no impact in Deliver 2022 figures.

On the second question, I'll hand it over to Tiziano, please.

A - Tiziano Ceccarani {BIO 15307786 <GO>}

Anna Maria, thank you for your question. I agree with you that from the figures we presented it might seems that we are over performing the targets for 2018 results. We confirm targets of an EBIT of €0.4 billion negative. And the reason is that the first half results are positively affected by the capital gains accounted in the financial services which of course give a strong contribution even on the Mail, Parcel, & Distribution segment.

On the other hand, there will be this fourth quarter results affected by the early retirement incentives for approximately €0.4 billion. So if you consider these second €0.4 billion negative contribution at the end of the year and you state (01:06:01) out from the figures from the first half, the positive contribution, which is a one-off from capital gain, we are perfectly aligned with our 2018 targets. Thank you.

Operator

Thank you. We can now take our next question from Manuela Meroni from Banca IMI. Please go ahead.

Q - Manuela Meroni {BIO 1782610 <GO>}

Yes. Good morning. I have three questions. The first one is on financial services. The average return on current accounts excluding the capital gains is slightly increasing, something like 5 bps between the first quarter and first half 2018. So I'm wondering if we can say that the first quarter 2018 was the bottom for the average return and what we can expect in the next few quarters.

The second question is on Mail and Parcel business, revenues in Parcel increased by 5% year-on-year in the second quarter of 2018. I'm wondering if we can expect an acceleration of this trend in the next few quarters and what are the drivers for that.

And the third question is on staff, on the basis of the new rules on fixed-term contract foreseen in the Decreto Dignità currently under discussion. I'm wondering if there is a possibility that term contracts currently in place in Poste Italiane could be not renewed. And I'm wondering how many people would be potentially involved in this.

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

Okay. Thank you for your questions. Let's follow your order. So I would hand it to Andrea for financial services.

A - Andrea Novelli {BIO 15185958 <GO>}

Thank you, Matteo. As anticipated by this year, we are currently net buyers of Italian government bonds at rates which are higher than our expectations in the budget, even higher spreads. Moreover, the liquidity we deposit at the Ministry of Economy and Finance for deposits coming from Public Administrations being linked themselves as well to Italian government bonds, we are achieving a higher rate as well.

So if the spreads and the overall level of interest rates will continue to be what it is today as we see (01:08:46) anticipated, we expect a better trend in net interest income in the coming months.

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

On the second question on Parcel and the 5% growth in the second quarter, I think this is proving to be strong, but probably slightly weaker than we expected. But we have strong signals and we're confident that in the second half of the year this factor will improve, and that the target we have for 2018 will be achieved. Consider that versus 2017, we will benefit in the third and partially fourth quarter from the strike we experienced in 2017. And we have reabsorbed the clients and the volumes that we lost last year because of the strike.

And I think what is proving to be extremely strong in the Parcel space is the B2C component. As I stated, if you consider the international packets that are coming through the Mail line but are delivered as packets, we have booked in the first half of the year a 40% increase in volumes in the first half of 2018. I mean, 40% increase in volume in the words of logistic is – for those of you that are familiar with the space is enormous.

If you look at it on a revenue basis still a 32% increase in the B2C component. So, all in all, confident to match our 2018 targets and reassure that our strategy of the joint delivery model of focusing on parcel is clearly the right one for the firm, for the future.

In terms of the potential impact of the new Italian legislation on temporary contracts, as you know, we are implementing the joint delivery model, thanks to several agreements that have been signed with the unions. On the February 8, we signed the agreement that is allowing Poste to deliver in evenings and weekends, Saturday morning and Sundays.

We signed a new agreement on the June 13 where we confirm and the law was already in the making, so we already had the evidence of the law where we commit to the unions in the agreement to transform over 2,000 people from either temporary contracts or part-time contracts in full-time contracts. And in the agreement, as I mentioned before, there is also the hiring in the space of financial services as a financial consultant to boost our client service activities in all products of an additional 500 consultants graduated to support our postal office efforts.

So all in all, no impact on the new legislation and also in the space, on the cost side, we confirmed 2018 target.

Q - Manuela Meroni {BIO 1782610 <GO>}

Thank you.

Operator

Thank you. We can now take our next question from Gianluca Ferrari from Mediobanca. Please go ahead.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Yes. Hi. Good morning, all, Matteo. Three questions for me. The first one is a gain on the solvency of Poste Vita. Given that the situation in the market is still quite favorable for bond issuances, I was wondering why you are not out with an 81 placed by Poste Vita given the fact that some observators are assuming a potential turbulence in the market in September during the budget low. So why don't you take this still nice window opportunity to play some bond in the market instead of waiting for this year?

Second question is on the appointment of Mr. Nola. Am I right in saying that the hiring, the appointment of such a high profile person coming from investment banking could also be functional in getting a bit more value from your balance sheet? Do you appointed Mr. Nola also with AI (01:14:45) on getting more value from your balance sheet or am I wrong on this?

Third and final question is, we saw over the past few days some commentary from some politicians around the potential role of Poste Italiane in Alitalia, have you been approached by the government and can you make some comment on this? Thank you.

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

Okay. If I understood correctly (01:15:21) the first question is, Gianluca, why we were not taking the opportunity of tapping the market with subordinated debt in Poste Vita creating room. We have obviously looked at the market. We believe that current spreads are not justifying the price. And as I stated, we consider ourselves until somebody tell us and convince us that we are wrong an under levered group. And as such, we can support from the holding company with a subordinated debt, why not Poste Vita, which will be a transaction intragroup, okay. And there is actually a listed liability in the market that is expiring in 2019, which will probably consider for intragroup refinancing.

In terms of the Guido Nola hiring, I think it's a very simple story as I said in my opening. This is by Poste is by some of the parts basically around 100% a financial conglomerate. By activities is, let's call it, 75% a financial conglomerate. And therefore, the hiring of one person with a strong financial background is the reason why we took this decision. And there is nothing more than this, Gianluca.

As far as the last question, I haven't read anything and I haven't heard anything on the topic.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Okay. Thank you.

Operator

Thank you. We can now take our next question from Giovanni Razzoli from Equita. Please go ahead.

Q - Giovanni Razzoli {BIO 7269718 <GO>}

Good morning to everybody. I have a couple of questions. Sorry to bother you again on the Solvency II of the Poste Vita. But if I look at Q1 result presentation, you provided us a much lower sensitivity of the Solvency II to 100 basis points of spread widening. At the end of Q1, the Solvency II was 284% and you were assuming the solvency going down to 222% in case of a 100 basis point widening of the spread. We had something like 60, 70 basis points spared widening and Solvency II is now 185%. I understand there are a lot of moving parts in this calculation, but I was wondering what was the difference between what you were expecting in terms of sensitivity and what are you releasing today in terms of actual Solvency II.

And the second question, again on Solvency II, you have mentioned that you are in the past, you are ready to recapitalize Poste Vita, in case of need, clearly you pointed out correctly that this is more an issue of capital allocation that of releveraging or deleveraging. I was wondering, if I remember it correctly, you had a minimum threshold in terms of Solvency II of 130%. Is it correct or not?

Very two quick question again, the first one, can you share also with us what are the gross gains on the investment portfolio of Poste Vita? I've seen it were down from €9 billion to €3.5 billion, more or less can you share without the same comment that you have already made on the BancoPosta Carte (01:19:59) portfolio.

And the very last clarification, you mentioned that there are some extraordinary items in the FTE cost in the Q2. I was wondering whether this amount to €13 million (01:20:10) as you have pointed out in the slide number 23. This is important to understand the trend in the FTE, which in my view is one of the main positive element also of your operating performance in this quarter. Thank you.

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

Okay. Thank you, Giovanni. I will hand over the – I will not repeat myself on the (01:20:42)

A - Tiziano Ceccarani {BIO 15307786 <GO>}

Okay. Good morning, Giovanni. Regarding your question about the difference between sensitivity shown in first quarter and the result we are showing today, as you said, any exercise in terms of sensitivity is always a proxy that has to be after check that we've (01:21:09) in this quarter, particularly when we have done the shock in the first quarter. We experienced roughly a shock of 100 basis points. But in detail, a shock that it was a little bit lower than the one we simulate in the first quarter when we think that the volatility adjustment would step in and stop a little bit of the effect.

While in the volatility, we have experienced of being only one day in which the volatility adjustment has been in place. So, due to a fact that it's a very complex algorithm, any simulation about the sensitivity has to be adjusted for the effect that we see in reality.

The second question was about our risk tolerance level that is - I can confirm you is 130%. And so basically, at 185%, we're very confident that it's a proper level for our solvency.

Yes. I will go for the question on HR costs. If I took properly the question the €88 million positive results in the half versus the €38 million in the quarter is coming from the basically two components. On one side, you have the FTE effect, which is the one coming from the 2,700 FTE (01:23:07) starting from January, 2018. And this is the effect that we think we might expect all over the 2018 results. So this is something we can confirm and it was part of the 2018 budget.

What is extraordinary are basically temporary effect is the cost effect on HR costs. As you can see, on slide 25, we are accounting cost at €41,800 per FTE when last year where we're €42,600 per FTE. This is just a temporary effect due to the fact that the contract with the Union has been signed end of November 2017. So last year, we accounted HR cost up to December based on estimate on this agreement. So at the end of the year, the effect must be considered the temporary effect you cannot rely on this value for 2018 target.

I hope the answer is in line with your question.

Q - Giovanni Razzoli {BIO 7269718 <GO>}

Yes. Actually there is one left for Massimo on the unrealized gains of the technical reserve of Poste Vita that were down to €3.3 billion. I guess these are net amount. If you can also share with us what is the gross gain.

A - Massimo Molinari {BIO 20355944 <GO>}

At the moment we are not showing this number, but I mean and it's referring to the overall portfolio of the company. But we're not giving the net.

Q - Giovanni Razzoli {BIO 7269718 <GO>}

Thank you.

Operator

Thank you. We can now take our next question from Anna Adamo from Autonomous. Please go ahead.

Q - Anna Adamo {BIO 16893946 <GO>}

Good morning. I have three questions. The first one is Poste Vita and going back to the solvency issue since 2015 the solvency issue of Poste Vita has come down from over 400% to 200%. Could you confirm that this significant volatility in solvency does not influence the ability of Poste Vita to upstream dividends to the holding?

And relates to this point, you mentioned earlier that you may inject €1 billion of capital in Poste Vita. Could you perhaps explain to us where this capital is coming from given that the cash position in the Mail and Parcel is only €400 million on slide 26? That's my first question. My second question is on the deposit of BancoPosta. There's been some limited growth in retail deposits and this has happened in a quarter where other asset gatherers have seen huge inflows in retail deposits.

Could you tell us why this is the case and why Poste is not benefiting from the ongoing flat quality? And finally could you perhaps comment on the management changes at Cassa Depositi and whether this could impact your distribution agreement? Thank you.

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

I'll start with the last question. No impact on the distribution agreement which was actually signed and worked for several months with Fabrizio Pagani that is now the CEO – Fabrizio Palermo is now the CEO of Cdp. So, no change. On the deposit, I'll leave it to Andrea and then we go back to Poste Vita, Anna.

A - Andrea Novelli {BIO 15185958 <GO>}

So, on your question about the impact on retail deposits and whatever we have seen flat quality effect, no, we are not seeing flat quality effect as Poste have seen at the time of the banking resolution crisis a couple of years ago. The good news for us is that the significant amount of deposits Poste was able to attract in that period are not going back. So we are keeping TFA within Poste. And, of course, then we – once we attract liquidity, we help our clients to diversify their portfolio and this is why you are seeing a significant positive net inflows going into life insurance and mutual funds products. And this is also why you are seeing a significant improvement overall in retail net inflows.

So I have to say we are back to normal trends. Yes, and moreover, if you compare our trends in asset management compared to the overall market, we are gaining market share because as you know, in the past couple of months, the market is experiencing negative flows, whereas we are experiencing a steady trend.

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

I will answer on the €1 billion availability. We have shown in the Capital Markets Day a net financial position of €0.8 billion, at the end of the year growing at €1.7 billion at the end of the plan. So it's growing steadily and it's more or less in our availability. But as I mentioned, we are an under level group, so we could obviously tap the market. We had a bond issue that went to maturity in June that we refinanced with our own cash and we had committed lines from the EIB and financial institution (01:29:53)

In terms of the Solvency, I'll hand it again to Massimo, Anna.

A - Massimo Molinari {BIO 20355944 <GO>}

Thank you, Matteo. As you said, from 2015, our Solvency has experienced a negative trajectory that it was due mainly to restructure of our balance sheet that was more than other competitor's pool of unrealized gains. And on one side, they give us for sure volatility in our Solvency. On the other side, as you can imagine, is a competitive advantage for doing business in life insurance product. So, when we have done our Deliver 2022 exercise, we have taken into account with this expected volatility and that's the reason why we have also really resolved (01:30:46) some kind of recovery intervention needed. But the actual trajectory is in line with our expectation and we don't see any impact from dividend policy of the company for the (01:31:01)

Q - Anna Adamo {BIO 16893946 <GO>}

Okay. Thank you.

Operator

Thank you. We can now take our next question from Matija Gergolet from Goldman Sachs. Please go ahead.

Q - Matija Gergolet {BIO 3561672 <GO>}

Yes. Hello. Good morning. A couple of topics from my side and this is getting quite a long call. But firstly, just on letter volumes. Remember, in Q1, we talked that the volumes were better than expected. And again in Q2, you have registered mail up 4% and traditional letters down only 1%. Was there any change in the trend that you are seeing? Is there any impact from GDPR in the quarter? What accounts for that?

Second question also still on Mail. If you could just quantify what do you expect from the price increase that you're implementing in July? What would be the incremental revenues or prices and also what are the revenues, net of volumes for the second half of the year?

And then the third topic is about the capital gains. I did go back to your page 13 from the Capital Markets Day, but from my understanding was that now even in the case of a spread shock of 150 basis points, you would still have unrealized capital gains. That's what the slide shows. But today it's actually we're seeing a €1.3 billion net capital loss. So were those gains shown just the gross gains or is actually the slide for the outcome a bit different to what you were saying back in February. How should we think about that? Thank you very much.

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

Okay. I'll start with the last question. The simulation of page 13 were done with a shock focus on the specific year of the plan and then coming back to the plan assumptions. This was the – and that explains why in the middle of the shock you might have a lower mark-to-market loss and then you assume you go back to the plan figures.

And obviously, the different simulation should you assume that the spread is there to stay for more than a year or when we ran the simulation, we looked at the 2009-2010 shock and we took the amount of days that shock took place. If you were to assume that the stock is longer, which is what we've simulated recently, so let's assume that we keep the current spread for a few more months. Let's assume that it goes all the way through 2018 and maybe 2019 for another 12 months, that is what I anticipated creating for the rest of the plan €350 million extra revenues in net interest margin. You have to assume that since the shock happened, we are investing from now to the last quarter of 2019 something like €8 billion to €10 billion, and therefore the fact that we are able to do it at a wider – at a higher rate is clearly supporting.

In terms of the Mail volumes, there were some Q1 positive effects due to probably GDPR or specific MiFID II communication from financial institution. And I think in terms of the price, this is the only meaningful trend I can highlight other than what you see directly in the volume page of page 10. Obviously, one important factor that we highlighted in the presentation is the increasing volume from what we call international packets, that is registered technically in the Mail component, but as a matter of fact, a Parcel increase.

In terms of the increase of the tariff that will take place from the July 1 of 2018. It was anticipated in the figures of our plan. So I can tell you more or less the value which is in the high single digits but is in the plan.

Q - Matija Gergolet {BIO 3561672 <GO>}

So, is it high single digit percentage or revenue impact that you have in mind? I presume a percentage.

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

No, I'm talking euro, million of euros.

Q - Matija Gergolet {BIO 3561672 <GO>}

Euro million, okay. I'm sorry, just a quick follow-up on the capital gains. So, even if you have say capital gains on the – unrealized capital gains on the balance sheet, you will still be happy say to run those for a number of years even the situation stayed as it is at the moment?

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

Yeah, that's exactly the point that we have. Like we have in the insurance portfolio, we had a pull to par effect that is in the portfolio making us extremely comfortable because, again, if I have put in the five-year plan €1.4 billion, I've already done €700 million. I'm investing at a higher rate as we speak and in the next few months I will deploy around €8 billion to €10 billion of investment at a higher rate. The possibility of not being able to do from now to the end of 2022, the balance of around €300 million, €350 million is clearly not a worry to us.

Q - Matija Gergolet {BIO 3561672 <GO>}

Okay.

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

So as we stated, today the component of unrealized capital gain with – on a gross basis is still the portfolio. That is clearly volatile. You might ask me what is the sensitivity of the component of portfolio which has today a positive capital gain that in aggregate is over €1 billion. Obviously, we don't need that information, but I can tell you that it's the shorter part of the portfolio, so it's clearly much less sensitive to the spread than the rest of the portfolio.

Q - Matija Gergolet {BIO 3561672 <GO>}

Okay. Relatively clear. Okay. Thank you.

Operator

Thank you. We can now take our next question from Alberto Villa from Intermonte. Please go ahead.

Q - Alberto Villa {BIO 16005221 <GO>}

Yes. Good morning. My question is not on solvency rate for a change, but this is rather on any update on the potential agreement on the P&C with the external partner. I was wondering if you can give us any thoughts on that and if the undergoing discussion has brought to anything different from what you were planning initially or any timing on this. Thank you.

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

Okay. On the second question, there is no news specific compared to what we already stated there. On solvency – there is no solvency. Okay. Thanks.

Q - Alberto Villa {BIO 16005221 <GO>}

No.

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

Okay. Thank you.

Q - Alberto Villa {BIO 16005221 <GO>}

It was just to understand if no news, but you're still sticking to your plans to find a partner, right, with the same kind of guidelines you gave us at the business plan.

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

Yes. The same kind of guidelines and approach and we are progressing. Thank you.

Q - Alberto Villa {BIO 16005221 <GO>}

Okay. Thanks.

Operator

Thank you. We can now take our next question from Michael van Wegen from Bank of America Merrill Lynch. Please go ahead.

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

Yeah. Hi. Good morning, guys. Two quick questions. I'm afraid I am going back to solvency. But just to check, Mr. Del Fante, I think you said earlier that you're willing to listen to the market about what the right level of solvency ratio is for Poste Vita. Does that mean that you're willing to recapitalize that business earlier than hitting your 130% target or volume at minimum level?

The second question, you talked about the €900 million increase in holdco cash that is targeted over the business plan period. If I'm not mistaken, the insurance business is a very important contributor to that growth with 90% payout over the next five years, contributing more than €2 billion. So how comfortable are you that at 185% or if spreads further widen at a lower solvency ratio you can actually still do that and make sure that you actually hit the €1.7 billion cash target without issuing debt? Thank you.

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

Yeah. I think are we prepared? We're not prepared. To be entirely honest, I wanted to - when I took the responsibility at the firm to take two topics out of the table of the conversation with investors because I wanted investors to understand the underlying industrial trends that I think are very strong in our firm.

And I didn't want to spend the time of investors on two subjects. I think I can say today that I have succeeded on one which was dividend. But I have probably fail on the second one, which was in my mind solvency. In the sense that again we are looking at a company which is part of a group where the holding company is under lever. So we're not having this investor call on Poste Vita listed company because if that was the case, obviously, you had all sort of consideration of do you need to increase the capital or do you need to issue a subordinated debt.

When the company is part of a group, which is under lever, the issue in my opinion should be much, much, much less relevant. Are we prepared? Obviously, we are looking at the solvency very closely and given the market attention, even more closely than in the past. As you know, we did not even consider notwithstanding the fact that we are the largest life company in the country, even the adoption of our internal model because we thought that even spending some money to develop internal model, no that would not work. But clearly, we are now opening that subject as well.

And in terms of the first part of your question, the ability of the insurance company to provide with the 90% payout, the stream of dividend to the holding company to fulfill the commitment that the holding company has taken to the market in terms of dividend over the course of the plan. At the current level of results, of the overall business, of all the business units in the firm, there is no worry in terms of the ability to match our commitments. But obviously, we monitor the situation very, very closely.

I think it's the last question now.

Operator

Thank you. We now can take our final question, a follow-up question from Kunal Zaveri from JPMorgan. Please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi. Sorry, Matteo. This is Ashik again. Coming back on solvency for Massimo discussion. Massimo, you mentioned that there's a bit of deviation between your sensitivity and the realized number. So just one simple question, is the deviation was in the own funds or was it in the SCR, because if it is to do with volatility adjusted I think the deviation must be on own funds, any thoughts on that?

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

Please, Massimo.

A - Massimo Molinari {BIO 20355944 <GO>}

Yes, you're right. Basically, it was on own funds.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. That's okay. Thank you.

Operator

Thank you. That will conclude the Q&A session for today. I'll turn the call back over to you for any additional or closing remarks.

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

So, thank you very much for your time, for your questions, for your interest. And have a good break and talk to you soon. Thank you.

Operator

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