

Q2 2016 Earnings Call

Company Participants

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

Other Participants

- Alberto Villa, Analyst
- Anna Adamo, Analyst
- Fulin Liang, Analyst
- Gianluca Ferrari, Analyst
- Giovanni Razzoli, Analyst
- Martin Leitgeb, Analyst
- Michael Werner, Analyst
- Michael van Wegen, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day and welcome to the Poste Italiane First Half 2016 Results Conference Call. Today's conference is being recorded. This call is hosted by Mr. Francesco Caio, the CEO; and Mr. Luigi Ferraris, the CFO. At this time, I'd like to turn the conference over to the Mr. Luigi Ferraris. Please go ahead, sir.

Luigi Ferraris {BIO 7424315 <GO>}

Thank you and good evening, ladies and gentlemen. We are pleased to report a solid set of numbers for the first-half 2016. Let me start by stating that these results have also been impacted by a positive one-off related to the Visa Europe disposal for €121 million, which I will better explain later on. In any case, the expected underlying trends confirm progress of execution as per our plans for each of our businesses.

More specifically, revenues for the period were up 11% at €17.7 billion. EBIT has grown 32% to €843 million. Without the above-mentioned Visa effect, growth would be 13% at €722 million. Net profit has grown 30% to €565 million. Without the above-mentioned Visa effect, growth would be 4% at €451 million. The solid set of figures generated robust funds from operation of €263 million that I will further detail in the following charts.

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Moving on to slide number three, here you have an overview of our key numbers. Consolidated revenues and profits were up, respectively, by about 11% and 32% over the period. This is mainly due to the following. Financial services, operating profit increased by more than 6% from €456 million to €485 million. This is mainly attributable to higher capital gains realized from active management of BancoPosta asset portfolio of about €77 million, in line with the delta already indicated in the first quarter.

The disposal to Visa Incorporated of our stake in Visa Europe for €121 million fully corresponding to the already-indicated capital gain booked in first-half 2016. This disposal is a consequence of Visa Incorporated acquisition of Visa Europe aimed at creating a single global company. Lower operating cost by 14%, which I will explain later on.

Furthermore, for financial services, all of this has been partially compensated by higher net recharges from the mail and parcel business unit of about €184 million as a direct consequence of the already-commented revenues growth.

Insurance and asset management, revenues increased by approximately 15% from €11.2 billion to €12.9 billion, and operating profit maintained a robust 9% growth year-on-year. This is mainly due to the ongoing positive performance of life gross written premium and an initial contribution on non-life assets and asset management products.

Mail and parcel, revenues were equal to €1.844 billion, down 2.5% on 2015. More specifically, Q2 revenues were flat versus the same period in the previous year, remarkably improving vis-à-vis the 5% reduction posted in the Q1 2016. This is a consequence of a better revenue mix with a higher contribution from parcels, partially offsetting the expected decline in traditional postal revenues. EBIT has been positively impacted by higher recharges to the financial division. Please bear in mind that we will account for our usual accruals on voluntary personnel reduction incentive schemes only in the final quarter of the year.

Before moving in to each specific business unit, let's have a look at our clients' asset breakdown on slide number four. Volumes increased by almost 3%, bringing total assets to €488 billion versus €476 (4:52) billion of last year. The mix continues to remain well-balanced with a clear resilience of postal savings collection and a material increase for about €3 billion in our current account deposits. The strengths and the reliability of our brand, the proximity to our customer base as well as enough range of simple and safe products continue to deliver an increasing asset base and profitability for the group.

Let's now move in to each specific business unit results, starting with our financial services revenues evolution on slide number five. Net of the already-commented contribution from the disposal of the Visa Europe stake, revenues have grown from €2.6 billion to €2.7 billion, mainly as a consequence of the realized capital gains on the active portfolio management, as well as the marked increase in financing products distribution. This has been partially offset by the expected lower postal savings collection and payment cards distribution fees.

As a general overview, let me also confirm that for the full-year 2016, we expect to generate returns from 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 have already realized approximately 80% of the total capital gains expected for the full year, as already indicated as of the end of March.

In more detail, slide number six provide you with a breakdown of the financial services business unit revenues. The major key points here are the following. First, returns on current account deposit, higher revenues are mainly due to the already-commented higher capital gains, along with increase in our average deposits. Second, fees from postal savings collection, the reduction is attributable to lower fees as a consequence of lower recognized communication marketing costs.

Third, fees from transaction banking, the 1% increase recorded in the second quarter substantially offset the already-commented Q1 reduction, which was mainly related to the public broadcaster's decision to adopt a new payment system for license fees.

Fourth, distribution fees. We recorded a very strong growth in personal loans and other personal financing products. Let me underline that this represents an area of strategic growth, which is mainly based on the recently-renewed offer range supported by an important marketing campaign.

Fifth, payment card fees, the increase is mainly due to the already-commented impact of the Visa Europe disposal. Net of these effects, fees decreased by about 3%, partially recovering the Q1 reduction, which was related to lower subscription fees applied to debit (8:10) and prepaid cards due to a cap (8:14) in the interchange fees decided by the European Union.

To conclude on these charts, I would like to underline that excluding the Visa Europe impact, first-half 2016 revenues are up 1.7% versus the previous years. Let me also remind you once again that on this business unit, we keep on remaining fully focused on stability, on revenues and profitability.

Let's now move to slide number seven. Regarding our active portfolio management, let me point out the following major items. Average deposits of BancoPosta account grow to €48 billion from €45 billion in 2015, up almost 7%.

Our realized capital gains amount to €4.2 billion, vis-à-vis €3.5 billion of the previous year, mostly as a consequence of lower interest rates despite higher B2B to boom (9:18) spreads recorded over the period.

Let's now move to BancoPosta regulatory framework and capital position on slide number eight. Inasmuch as BancoPosta capital adequacy is concerned, let me stress four major

key points. First, BancoPosta regulatory framework continues to be fully aligned to European standards.

Second, first-half 2016 Tier 1 ratio reached 16%, substantially doubling the minimal regulatory requirements. Third, first-half 2016 leverage ratio stands at 2.9% as a consequence of higher assets under management. Should the growth of BancoPosta asset under management continue, we are, in any case, prepared to recapitalize BancoPosta with no impact on our dividend policy.

Fourth, first-half profitability recorded a remarkable 36% return on equity versus 31% for the full-year 2015. Without considering the already-mentioned Visa effect, return on equity is 33%. All of this, coupled with a zero lending risk profile, makes BancoPosta a unique, superior return fee-based revenues player in the Italian financial industry.

Let's now move to insurance and asset management on slide number nine. Gross written premium increased by 11%, driven primarily by the continued increase of our life business, confirming Poste Vita as the number-one life insurance in the Italian market. Moreover, we have also benefited from double-digit growth, even if from a small base, in our non-life offering premiums, whose results will become more and more material going forward.

Inasmuch as asset management operations are concerned, let me underline that asset under management increased by close to 16%, reaching over €6 billion, confirming this area as one of our key strategic growth pillars.

With regards to our investment portfolio breakdown, let me highlight the increase of investment in multi-asset funds, which moved from 8% in 2015 to 11% in 2016, confirming our diversification strategy towards a more adequate risk to return profile. This, of course, continue to be fully aligned with our capital requirements. Let's now move to slide number 10 on the mail and parcel business unit.

On volumes, let me highlight here, on the one hand, traditional mail volumes fell 10% year-on-year, while revenues decreased about 3.5%, as a consequence of the positive pricing effect as a result of the new regulatory framework in place since October the 1, 2015. On the other hand, parcel volumes increased by 14% year-on-year, accelerating versus Q1, confirming the positive momentum, mainly driven by the growing e-commerce penetration in Italy. Revenues increased more than 7%, mainly thanks to the improvement of our offering range, which partially counterbalanced the ongoing pricing pressure within the industry.

Moving to slide number 11, first, let me remind you that that infra (12:55) segment revenues increased by approximately 8%, mainly due to higher revenues driven by capital gain and the Visa disposal effect recorded by the financial service business unit as well as higher gross written premium collection.

At the same time, operating costs have decreased by 0.7% period-over-period, thanks to our continuing cost management actions. Specifically, mail and parcel operating costs have been further reduced by €29 million over the period, mainly as a result of lower cost

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of goods sold, which decreased almost 2%, primarily due to lower IT operational expenses and lower cost on vehicles and logistics.

I will comment on overall labor cost dynamics in the following charts. Let me now move to slide number 12 to discuss group operating costs. Focusing on our cost structure and consolidated level, overall, group operating cost structure remains substantially stable. The already-mentioned reduction in cost of goods sold has been partially compensated by higher D&A related to previous years' CapEx. Let me confirm here that we expect the full impact of our new managerial action in terms of cost reduction to be fully implemented starting from the year-end and onwards.

Let's move to slide number 13, labor costs remain substantially stable year-on-year at €3 billion. As you're fully aware of, we have already launched a voluntary pre-retirement plan, and we expect about 5,000 people to leave the group through this plan by year-end. As of the end of June, about 3,900 people have already signed up to this pre-retirement scheme. We will therefore see the full impact on payroll in 2017, in line with our plan.

In this regard, let me remind you that, as I have already indicated previously, we will account for an amount in the region of €400 million as per our usual accruals on voluntary personnel reduction incentive schemes only in the final quarter of the year. As for 2016, we will pursue further reduction in head count versus 2015. However, please bear in mind that during the course of the year, we shall finalize the renegotiation of the national labor contract.

Let's now run through our profit and loss evolution below the EBIT line on slide number 14. Net income for the period equaled €565 million, recorded an increase of approximately 30% from €435 million recorded in the first half of 2015.

On top of the already-commented positive EBIT evolution from 2015 to 2016, this performance is also related to net financial income equal to €15 million. Taxes for a total consideration of €293 million corresponding to a tax rate of about 34% in further reduction versus 2015.

For the full-year 2016, we expect a normalized tax rate substantially in line with last year in the region of 40%. As I said before, let me stress once more that the net income benefit from the already-mentioned Visa capital gain, which is subject to taxation in the region of 6%. That's why we have such a lower tax rate at the end of the semester.

Let's move on to slide number 15, commenting CapEx. The optimization of the overall investment program for the period is part of the restructuring program. More specifically, the majority of the investment program is mainly related to information technology and digital platforms. The balance is related to a selected upgrade of facilities, construction data center buildings and postal logistic operations.

Looking at the net financial position on slide number 16, first, let me highlight the positive contribution of our funds from operation as the results of the already-commented operating performance. On the other side, negative change in working capital is mainly

due to the expected capital gain dynamics recorded during the first half, including the impact of Visa deal that will be absorbed in the second part of the year.

On the dividend and equity movement front, the €176 million inflow is the result of €620 million coming from our BancoPosta ring-fence capital and dividends from other participations, partially compensated by payment of the dividend to our shareholders for a total consideration of €444 million. On past receivable, we expect to complete the cash in by year-end with a consequence relevant impact on the change in the working capital.

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

Francesco Caio {BIO 1516226 <GO>}

Thank you very much, Luigi, and good evening to everybody on the call. It is just about slightly more than a year since we first came to the market to illustrate our company. We positioned Poste, as you may remember, as a profitable cash-generative platform with value-creation potential through a combination of growth and transformation. Having for each of the businesses we are in a clear understanding of the drivers of value, we believe the results of the first half provide a good evidence of our capability to deliver against this strategy and this value proposition through a rigorous and disciplined execution.

And quickly, let me run through what I and we as a team consider the highlight of this first half and that particular alignment with our strategic priorities, starting from financial services. In his remarks, Luigi had already commented our focus on yield, profitability and return on equity. The first half saw a return on equity well above the 30%. It's 36% if you take into account the disposal of the Visa run-off. It is actually 33% without that impact.

We see stability in the NII combined with growth in current account deposit. We've seen very material growth in personal loans as the result of the effort we've put in to rearrange the product that we're offering and the material alignment of our systems, training and advertising. And we continue in our digitization program where we have the benefit of more than 3.5 million apps downloaded in the Postepay App on mobile. So, strong profitability and stability of revenues.

In insurance and asset management, we highlighted growth as the key value driver, well, we have delivered growth with an 11% in gross written premium in life. But as Luigi mentioned, we're already seeing some interesting accelerating growth in non-life, which is almost, albeit from a small base, recorded a 60% growth, whilst we continue to see momentum in asset management with some good performance of the funds that we have developed together with Anima as part of our partnership.

Finally, something that we are comforted by is the progress in mail and parcels. You've seen the revenue declines substantially slowing as a result of two drivers: the impact of positive re-pricing in correspondence in mail; and some real good traction in parcels, where we see an opportunity to strengthen our position not just in the B2B, but increasingly in the B2C as we leverage the prospect and the opportunity to have a postal

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network serving specific B2C traffic of small parcels driven by e-commerce that, as you might have noticed, is benefiting from very substantial growth eventually in Italy as well.

We, at the same time, have started a deployment of the new delivery process. Some of you might be familiar with what we described to the market as the alternate day deliveries in low-density areas. The program officially got the rollout – the execution rollout at the beginning of April, and we're pleased to report that notwithstanding the inevitable learning process and fine-tuning of the process, we are growing increasingly confident in our ability to deploy these new systems. And as you have heard from Luigi, we continue in receiving good signing from our people in terms of the voluntary retirement program we're on.

So, let me wrap it up here. It's a good execution of a working strategy that is delivering the growth that we're aiming at and, more importantly, continue to provide us with a cash flow to pay the dividends that I remind you Posta (22:45) for this year are targeting the 80% of our net profit for the full year.

I would stop here and hand it over to Luca Torchia, our Head of Investor Relations, to manage questions that you might have. Thank you.

Q&A

A - Luca Torchia {BIO 19160880 <GO>}

Yes. Thank you very much. We already started the (23:10) session. I understand that the first question is coming from Gianluca Ferrari, Mediobanca. So, please, Gianluca, go ahead.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Yes. Hi. Good afternoon, everybody. Three questions from my side. The first one is if we have any update on the potential acquisition in payment systems you mentioned a few months ago.

The second one is that modeling personnel costs next year, we have basically three big moving parts: the early retirement packages; the hiring; and you mentioned during the speech the renewal of the national labor contract. Can you help us in understanding what kind of change year-on-year in personnel costs we should expect for 2017?

The last question is 3,900 early retirements signed so far. What is your expectation for full-year 2016 in terms of head count reduction? Thank you.

A - Luigi Ferraris {BIO 7424315 <GO>}

So, Gianluca, this is Luigi. Well, so far, we do not have any update on the acquisition side. Of course, as we said many times, this is one area of interest. But as of now, we do not have any update. When it comes to the personnel costs, I do confirm what I said before.

First of all, we are targeting for the current year 5,000 people in terms of exit from the group on the basis of this voluntary retirement program.

We said that we are going to see the full impact in terms of profit or loss on the cost side next year. On average, the cost of one person is in the region of €40,000, €45,000, so you can imagine what we are talking about.

We have also to consider one element, which is not irrelevant. There might be some absorption costs related to some temporary injection, because, on one hand, we have the exit of the people on the basis of the age. But on the other hand, we are also adapting our organization. So there might be a sort of time delay in fully benefiting the reduction of the work force. But I would say that the 5,000 next year should start producing full effect, as we said.

National labor contract, the contract will be negotiated and finalized if everything goes right. Of course, it's not only on our side. It is expected to be discussed during the course of this year. We do not make any projection at this level for obvious reasons. So I think that - we are assuming that starting from next year, we should see anyway the positive impact of our workforce reduction even after the finalization of the national contract. But of course, I cannot be more specific there than that.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Okay. Thank you.

A - Luca Torchia {BIO 19160880 <GO>}

The next question is coming from Mr. Mike Werner from UBS. Please, Mike, go ahead.

Q - Michael Werner {BIO 4790902 <GO>}

Thank you. I've got two questions. First, on the unit-linked business that you established I believe during the quarter, I was wondering if you could disclose anything about the sales and inflows that you saw during the quarter from that business.

And then second, on mail, actually, I guess two sub-questions here. One, we did see a downtick in terms of volumes for mail in the second quarter versus the first quarter and we did see something similar, I think, last year. So, there appears to be some seasonality. I was wondering if you could help explain the seasonality of the business as well as what we should see in the second half. And then secondly in the mail and parcels business, we did see parcels volumes up around 14%, but revenues attributed to this part of the business was up only 7%. So, I was just wondering if this was a mix shift or if this was a result of declining pricing potentially due to a competitive environment. Thank you.

A - Luigi Ferraris {BIO 7424315 <GO>}

Well, let me start by - from the second question related to the mail, specifically. Yes, you're right, if we look at the volumes dynamic in the second quarter, yes, we're talking about - if I'm not wrong, about 11% decline versus 2015. But also, if we look at the second

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half of the year in 2015 and therefore, if we assume that 2016 is going to follow the same trend, well, the second half is normally better than the first part. So, we should expect - we have a sort of seasonality. You have to consider that normally and particularly in the last quarter, we see an increase in volumes because of Christmas, because of the holidays, of the period. So, the trend should be like that.

When it comes to parcel, the fundamental point is that it is true that we have seen an increase of about 14% in the first half of this year; 18%, by the way, in the second quarter. If we transform this into revenues, on average, in the first half of the year, we have seen an increase of 7%. But if we look at the revenues in the second quarter, this number goes up to about 11%. What does that mean? Means that what exactly Francesco was saying before, so we are working in managing our contracts, and we start seeing some positive impact in terms of price dynamics. The sector is under pressure, but we have seen different dynamics. So, we are not so far, in particular in the second quarter, to see a sort of convergence between the dynamic of the growth of revenues versus the growth of volumes. We are not yet there, but we're working to turn completely into revenues the growth that we see in the volumes.

When it comes to the unit-linked, the question, if I'm not wrong, was how much we're talking about in the first half of the year, about €500 million.

Q - Michael Werner {BIO 4790902 <GO>}

Thank you.

A - Luca Torchia {BIO 19160880 <GO>}

Thank you. The next question is coming from Mr. Alberto Villa, Intermonte.

Q - Alberto Villa {BIO 16005221 <GO>}

Good afternoon. A few questions from my side as well. The first one is on the Atlante 2 project. Can you comment a little bit more in details what is, I mean, your commitment in terms of eventually taking part to this project?

A - Luigi Ferraris {BIO 7424315 <GO>}

We are looking at this through our subsidiary, Poste Vita. As you remember, Poste Vita was a member of Atlante 1 with €260 million. As you know, the closing of Atlante 2 at the moment is forecast to be by August the 8. We see through Poste Vita an opportunity to reallocate some of our assets in line with our asset strategy evolution. And therefore, we will be finalizing terms, conditions and the amount of participation in the next few days if all the compliance and the financial criteria that we adopt through Poste Vita for investment are there.

Q - Alberto Villa {BIO 16005221 <GO>}

Right. The investment you made in the first, I mean, vehicle, is that, let's say, an indication of what you could eventually invest in the second vehicle?

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A - Francesco Caio {BIO 1516226 <GO>}

Probably, it's going to be less than that. But as I said, it would be finalized in the next few days based on the closing process that is run by the partner (31:59).

Q - Alberto Villa {BIO 16005221 <GO>}

Thank you. And the second one, I don't know if you can comment, but there were rumors on the press about the fact that board of directors today could have taken into consideration the timing and, let's say, some of the details about the potential placement of the treasury stake that is expected by the end of the year. I don't know if there is anything that you can share with us at this point in time.

A - Francesco Caio {BIO 1516226 <GO>}

We can only confirm that we're working with our key shareholder, the treasury, in the execution of their plan that, as you know, they have published with the objective of having a second tranche of their equity listed on the Stock Exchange by the end of this year.

Q - Alberto Villa {BIO 16005221 <GO>}

Thank you. The last one, if I may, is more of a business question on the industrial (32:56) side. Given the level of interest rates and their investment rate you are now facing due to the market conditions, would you think to slow down the new business into the life traditional policies? And compared to when you drafted the business plan, do you think that the profitability could be - when you finish to harvest the capital gain, could be a little bit lower due to the investment rate environment - the interest rate environment or not?

A - Francesco Caio {BIO 1516226 <GO>}

Well, as we said, we see life insurance still as a growth opportunity. We have a solvency ratio of almost 400%, which is well in excess of the minimum requirements. We carry on behalf of our customers an unrealized capital gain of about €12 billion.

And we continue to believe that we are competitively positioned to continue to explore growth whilst we are gradually reallocating our capital, whilst we build the platform and the base to differentiate our asset management capability in other products. So, we feel very comfortable with continued growth in the sector.

Q - Alberto Villa {BIO 16005221 <GO>}

Also, on the banking side, I mean, running off the capital gains would not create a major drop in the prospective profitability.

A - Francesco Caio {BIO 1516226 <GO>}

Well, we have been very clear throughout, we have on the - Luigi was very clear, we continue to benefit from carry in excess of €4 billion of annualized capital gains. You've seen at the other end of the spectrum, the growth, albeit from a small base, that we're benefiting from in financial product distribution.

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Therefore, we feel we have all the time in the coming years to develop alternative sources as we continue to benefit from the NII that we have indicated in the region of \$2 billion as an element of our P&L.

Q - Alberto Villa {BIO 16005221 <GO>}

Thank you very much for the answers.

A - Luca Torchia {BIO 19160880 <GO>}

Thank you. The next question is coming from Martin Leitgeb, Gold – at (35:28) Goldman Sachs.

Q - Martin Leitgeb {BIO 17568539 <GO>}

Yes. Hello. Good afternoon. Three questions on my side. The first one is just on the dividend, dividend policy and the capital gains. If you can just confirm, so the dividend policy, 80% payout, will be based on the reported net income, or will it strip out capital gains? And also along the same lines, whether you expect or whether we should expect any further sizeable deals – material deals in the second half of the year?

Second question is on the mail side. So, looking at the volume evolution of mail, while the total numbers are falling by 10%, it seems to me that the high-value items such as unrecorded mail and recorded mails are falling by only 1% to 2% in the first half of the year despite the price increases. Are you seeing there a little bit of a change in trend? Are we hitting, in a way, the bottom for this type of mail at the current levels? And perhaps if you could give us a little bit of color for what you expect for the second half.

And then lastly, third question will be more on the financial services. So, in the second quarter, there seems to be some change in the patterns of your asset gathering; a bit less life insurance on a quarterly basis, a bit more third-party distribution which has run quite nicely. Now, what should we expect for the second half of the year? Now, clearly, the trends of the first quarter and the second quarter are quite different. So, could you give us some color about what should we expect for the second half of the year? Thank you.

A - Luigi Ferraris {BIO 7424315 <GO>}

Martin, this is Luigi. Let me cover the first question...

Q - Martin Leitgeb {BIO 17568539 <GO>}

Dividend.

A - Luigi Ferraris {BIO 7424315 <GO>}

... what dividend policy is applied? The 80% is applied to the reported net income. Therefore, that will be the number including this Visa capital gain. Then I think when it comes to that (37:23), Francesco, if you want to...

A - Francesco Caio {BIO 1516226 <GO>}

No. Go ahead.

A - Luigi Ferraris {BIO 7424315 <GO>}

When it comes to the mail side, well, I said something about before, because if we look at the seasonality effect, we should expect in the second quarter of the year some slowdown in the decline. I don't know if it's too early to say that we are close to the bottom. I think it is too early. The positive message, I think, is that the revenues are showing resilience, the decline in revenues is in the region of 3%. And this is definitely very positive as an outcome of the change in the regulatory framework.

So, let's see the second half of the year. For sure, it looks a little bit better than what we should assume, but it is too early to say. I would be very prudent when it comes to the conclusion. Let's wait a couple quarters first.

When it comes to the financial services, well, I think the trend that you have described is taking place. We expect in the second part to deliver on the positive sign an increase in fees of the distribution of personal loan, for instance, where we have reported a very robust first-half results. In terms of size, we have seen an increase of about 49% versus the previous year, which has been producing to an increase of 23% in terms of fees. So it's doing quite well.

And we expect substantial stability when it comes to the other element, i.e. the revenues related to the active portfolio management in the region of €2 billion. As I said during the presentation, 80% of the total capital gain plans have been already released, so we are just looking for a remaining portion of about €100 million to be finalized in the second part of the year. So, I think we are basically there.

Q - Martin Leitgeb {BIO 17568539 <GO>}

Thanks. Sorry. On life insurance, quite a different trend in Q2 versus Q1?

A - Francesco Caio {BIO 1516226 <GO>}

I would look at the two quarters combined.

A - Luigi Ferraris {BIO 7424315 <GO>}

Yeah.

A - Francesco Caio {BIO 1516226 <GO>}

And as I was saying before, life insurance continues to be the center of gravity, if you wish, of the insurance management side. Obviously, we're very pleased to see that the funds that we've put on our shelves, some of them developed with Anima, are gaining traction along the lines of the gradual migration of the revenue mix we expect. But it's more of a mid- to long-term mix shift than something that we would regard as imminent in the second half.

Q - Martin Leitgeb {BIO 17568539 <GO>}

Okay. Very clear. Thank you very much.

A - Luigi Ferraris {BIO 7424315 <GO>}

Pleasure (40:14).

A - Luca Torchia {BIO 19160880 <GO>}

Okay. Now, Mr. Giovanni Razzoli, Equita SIM.

Q - Giovanni Razzoli {BIO 7269718 <GO>}

Good afternoon to everybody. A couple of clarifications on the quarterly results. If I'm not mistaken, you mentioned that you plan to unlock something like €100 million of trading profits in the second half of the year. Is this correct? And if you can share with us what was booked in the first half? If I'm not mistaken in the Q1, you had something like €380 million. So if you can share with us what was the Q2 contribution?

The second question is a more a strategic flavor. The first one is on Poste Mobile. We read some rumors on the press reporting of a possible disposal process of this business unit. If you can give us a little bit more indication on these.

And the last one again on your strategy, you do have a strong (41:16) in the processing business, in the document management business as well. You do have also strong labor force, which are all elements, which, in my view, fit quite well with the possible - increasing the volume in the NPL business, where we learn that there is a lot of document management business that is involved. And I was wondering whether this can be for Poste Italiane a possible business opportunity going forward. Thank you.

A - Luigi Ferraris {BIO 7424315 <GO>}

So, let me cover the first question. Yes, I confirm that we are targeting another €100 million by the end of the year. At the end of June, we are at about €380 million in terms of capital gain related to the active portfolio management, to which you have to add the €120 million Visa. So without the Visa, we are talking about the active portfolio management. We have reported €380 million in line with what we have reported in the first quarter. So we are projecting €480 million by the end of the year. That's the number. Francesco, I don't know if you want to cover...

A - Francesco Caio {BIO 1516226 <GO>}

On Poste Mobile, we have read what you have read. We continue to be very happy with that asset. There are no news on that front. And then there was the question on NPL. Well, we have present in - as you were saying, in document management and in that kind of thing, but we take a fairly broad view as an opportunity. We do not have at the moment any specific plan to build just on that particular business. We regard that business as one of the many industries we're serving, and we continue to believe that we have a very

strong value proposition not just for NPL, for a number of applications that we are seeing at the moment.

Q - Giovanni Razzoli {BIO 7269718 <GO>}

Thank you.

A - Luca Torchia {BIO 19160880 <GO>}

Thank you. We have now Ms. Fulin Liang, Morgan Stanley.

Q - Fulin Liang {BIO 21126177 <GO>}

Hi. I have two questions please. The first one is about the product. So, the question is actually what's the profitability difference between your unit-linked product and the traditional life insurance product? And if I understand your traditional product was by - you can earn 100 bps spread at the minimum. Is that the same for unit-linked products?

And also, what's the average guarantee rate of your current and traditional life product portfolio? I'm sorry if the question is a bit long, but is on the product side. And the second one is, could you actually give us a bit of comments on how the interest rate - the low interest rate is going to impact your pension - your staff pension scheme costs? And that's the two questions. Thank you.

A - Luigi Ferraris {BIO 7424315 <GO>}

So, let me start from the second question. We do not have, as a managed team, a private pension scheme, and we are not for now offering to our customer pension scheme - pension products. What could impact the remuneration, the return for our customer is in particular the dynamic of the spreads or, if you want, of the interest rate.

As Francesco said before, we have about €12 billion of unrealized gain as of today. And this number, I would say, can change in particular if we have a significant change in the CDS or in the spread between the Italian - 10 years B2B and the boom (45:38), or if there is a change in the interest rate.

In such a case, you might see a reduction in the stated gain. But according to the current scenario, the €12 billion are expected to remain substantially stable. And therefore - and I go to one of your questions, we are in a position to offer our customers a return on average in the region of 1.5% to 2%, I would say.

As of the 1st of July 2015, we guarantee basically zero return. The average portfolio guarantee is in the region of 1.1%. When it comes to the fee that we gain when we offer products like the traditional one, well, we have an upfront fee of 2% and we have a recurring fee in the region of 0.8%, 0.9%.

When it comes to the unit fees, we have an upfront of 0.9%, so basically 50% of the traditional one. And a recurring a little bit higher in the region of 1.1%, 1.2%. I think those

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are the numbers. Thank you.

Q - Fulin Liang {BIO 21126177 <GO>}

Okay. Thank you. Sorry, my second question is just - sorry for the confusion. My second question is about your staff pension cost, not the pension product you provided to the customer. It's about your internal pension scheme.

A - Francesco Caio {BIO 1516226 <GO>}

Understood. We do not carry any pension liability on our books.

Q - Fulin Liang {BIO 21126177 <GO>}

Okay. Thank you.

A - Luca Torchia {BIO 19160880 <GO>}

Next question is now from Anna Adamo, Autonomous Research (47:44).

Q - Anna Adamo {BIO 16893946 <GO>}

Hi. Thanks for taking my questions. My first question relates to the revenue coming from the postal savings business. I can see there has been a material growth (47:53) reduction in revenues year-on-year in €2 billion of outflows from the stock of postal savings quarter on quarter. And also the fee margin has dropped by at (48:06) 45 basis points versus the 52 basis points that you have previously guided. And will you give a bit more color around this business and what we should be expecting in terms of fee margins from postal savings?

And the second question is if you can just give us an update on the Solvency II position of Poste Vita, that would be great. Thank you.

A - Luigi Ferraris {BIO 7424315 <GO>}

So, this is Luigi. Let me start from the first question. Let me clarify a little bit the numbers related to the postal savings. First of all, the number that we have reported when we talk about the stock under administration on our side, they include also the interests in the period, which are not subject to fee, of course, and therefore to revenues from the CDP.

There are no change in terms of fee, so we are talking about 52 basis points, applied to the stock net of the interest. There is a difference versus previous year, because this year we had lower revenues related to the recognition of marketing expenses that we have not basically recorded, because we have not spent the money. So you have minus revenues, minus costs in terms of margin. The effect is the same.

There is a little bit of pressure. We have seen in the first half of this year a trend which is substantially in line with the previous year. The dynamic has been a little bit different. The first quarter has been very positive because of an increase that we have seen in the postal savings. We had a decrease in the second quarter. But year-on-year, we are basically in

line. The fee is the same. The difference is related to the lower recognized cost, as I said before.

When it comes to...

A - Francesco Caio {BIO 1516226 <GO>}

Solvency II.

A - Luigi Ferraris {BIO 7424315 <GO>}

...an update of Solvency II, what we have reported 404% at the end of last year. As of June, we are not very far. We are in the region of 385%, so definitely very robust and solid. As you have seen also in the chart that I reported which is related to the invested capital, the incidence of the (50:41) has declined, about 73%. We had an increase of bonds and some unit-linked products in particular, which of course absorbed a little bit more capital. But I think we are definitely in a good shape with the ratio which is very close to 400% even at the end of June. So, as I said before, as Francesco said, we have margin for increasing our risk appetite profile.

Q - Anna Adamo {BIO 16893946 <GO>}

Okay. Thank you very much.

A - Luigi Ferraris {BIO 7424315 <GO>}

You're welcome.

A - Luca Torchia {BIO 19160880 <GO>}

Thank you. The next question is coming from Michael van Wegen, Bank of America Merrill Lynch.

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

Yeah. Hi. Good evening, guys. One question. Looking at your financial services business, we see quite strong growth in the average deposit base from €45 billion to €48 billion in six months. To what degree is that driven by your own efforts to grow that or to what degree is that a flight to safety? And how do you expect this to develop going forward given the situation in the Italian banking sector? And I guess, related to that, to what degree do you think you can redirect that - those deposits into, yes, richer-margin products? Thank you.

A - Francesco Caio {BIO 1516226 <GO>}

Well, there is no doubt that there is a component of flight to safety. We are a very robust, financially sound company. People know it. We've been traditionally associated with the notion of trust, proximity, and therefore, it's not surprise that given the evolution, this is what we've seen. But in fairness, we've seen also somehow different dynamics on the postal savings. There was a surge at the beginning of the year, whilst these surges now

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kind of go back to normal, whilst the current account deposit seems to be substantially stickier than other products.

And as a combination of digitization of processes, the reduction in time for queuing our offices, a broader range, and let's not forget that there are some cross-selling impact and some lowering churn (52:53) impact through the development we're seeing in the personal loans, for instance. They tend to go hands-in-hands with a stronger loyalty and the more opportunity to do business with us. We're also seeing at the same time growth in people and customers that have with us, more than 75,000. And therefore, it's part of a combination of the effort we're making to upgrade our position in the market and broadening the appeal of BancoPosta.

Bear in mind that this is an interesting news just in terms of, if you wish, a benchmark of how well we're doing in money gathering, but also has obviously some impact on P&L and cash flow, because we tend to invest this deposit, as you know, by statutory requirements into European government-backed bonds. And if you take an average of 1.3%, 1.4% (54:01) yield that we can do with this portfolio, this is all good news.

My last point is that contributing to this growth is also the very healthy development of Postepay evolution, which is some of you are familiar with that. The upgrade of our pre-charge debit card where people can have payment transactions, they have their salary debited and all the rest of that, so - credited, rather. It is - for all intents and purposes, it's an entry point for a current account that is proving very popular. We sold more than 2.5 million of these cards in about two years.

And that's because the number of transaction per card is higher. The number of - the amount of money that people tend to preload on this charge is higher that is having an impact that all-in-all adds to another probably slightly more than €1 billion in terms of deposits.

So, it's a combination of the very massive effort we are deploying in our financial services to position ourselves as a trust and reputable leader in transaction banking.

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

Thank you.

A - Luca Torchia {BIO 19160880 <GO>}

Okay. Next question from Gianluca Ferrari, Mediobanca.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Yes. Sorry. Very, very quick one. You clarified that the one-off gain from Visa is distributable profits. I understood you have a legal dispute underway with H3G. They are asking you a compensation of approximately €100 million, and I think Tar (55:37) is due to present a verdict soon. Any chance a negative verdict could lead you to provision €100 million, and that might negatively offset the €120 million one-off gain from Visa?

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A - Francesco Caio {BIO 1516226 <GO>}

We believe that we acted completely in compliance. So, we don't have any comment to add to this question.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Okay. Thanks.

A - Luca Torchia {BIO 19160880 <GO>}

Okay. I understand there are no more questions queuing in the line, so thank you very much again. And of course, the Investor Relations team is available for any further request. Thank you again and have a good night.

Operator

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

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