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Q1 2021 Earnings Call

Company Participants

- Camillo Greco, Chief Financial Officer
- Massimiliano Riggi, Head of Investor Relations
- Matteo Del Fante, Chief Executive Officer & General Manager

Other Participants

- Alberto Cordara, Analyst
- Ashik Musaddi, Analyst
- Domenico Santoro, Analyst
- Fabrizio Bernardi, Analyst
- Gian Luca Ferrari, Analyst
- Manuela Meroni, Analyst

Presentation

Massimiliano Riggi {BIO 20490987 <GO>}

Good afternoon, ladies and gentlemen. Welcome to Poste Italiane's Financial Results for the First Quarter 2021 presented by our CEO, Matteo Del Fante; and our CFO, Camillo Greco. Following the presentation, we will be glad to answer your questions. And now, let me pass it over to Matteo, please.

Matteo Del Fante {BIO 6237992 <GO>}

Good afternoon, and thank you for joining us today. We're pleased to present Poste Italiane results for the first quarter of 2021. This is the first call after announcing our new strategic plan 2024 Sustain & Innovate. The results are strong and the implementation of our plan is well on track, as we are fully committed to delivering on our targets.

It has already been a year since the beginning of the COVID-19 emergency, Poste Italiane has emerged from the pandemic as an even stronger company with a resilient performance and a confirmation of its key role as a strategic pillar for Italy. Our reputation among our employees, customers and stakeholders has been further strengthened, having delivered critically important services. Indeed, we are currently supporting the roll out of the vaccination plan across Italy by leveraging on our unique technological and logistics capabilities. Let me start with the key highlights of Q1 2021, before handing over to our Group CFO, Camillo Greco, for a more detailed business review. After some closing remarks, I will then open the call for questions.

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Beginning on Slide 3, our diversified business model is continuing to deliver strong financial results, benefiting from positive commercial trends across all our segments. Despite restriction due to several regional lockdowns introduced over the course of the first quarter, we managed to expand our business in line with strategic priorities set with 2024 Sustain & Innovate.

Our operating profitability has proved to be very solid, also considering the impact of emergency related costs borne to ensure the highest safety standards for our customers and our employees. Each segment contributed to this robust performance. This was the best Q1 ever for our parcel business, with overall volumes growing more than 70% year-on-year, and almost doubling in the B2C segment.

Our strategic focus on wealth management resulted in positive net inflows on investment products with a strong increase on -- of our multi-class, a new Class 1 products. Our payment business is continuing to grow double-digit with a strong growth in card payments, supported by higher stock and increasing volumes. We have reconfirmed our role as a key strategic pillar for Italy, and we are grateful to our customers, our colleagues, and stakeholders, who once again demonstrated their trust in Poste Italiane, rewarding us with an increased reputation score.

Since last quarter, our reputation corporate, measured by RepTrak increased by 4.5 percentage points. This significant increase of our reputation score is a result of our continued support of the country and the Italian, especially during such a challenging period. Presenting our 24SI plan, we define our target as ambitious but achievable, with a focus on revenue growth to create and deliver higher and sustainable value to our stakeholders. Q1 results are indeed showing that our plan execution is progressing in the right direction.

Let me move over to group financial results on Slide 4. Group revenues grew by an impressive 9.8% year-on-year, highlighting that the group is now in full recovery mode. This result is even more remarkable, considering that throughout the quarter, Italy has been under several partial lockdowns, involving specific areas of the country and with different degrees of restrictions evolving over time. Nevertheless, we have adopted to a change world, while continuing to provide our services.

Our top line growth in Q1 2021 is an excellent starting point for the execution of the plan with our segments exposed to favorable business trends. Total cost increased by 3.7%, mainly due to variable costs directly linked to our business growth. As a result, EBIT grew by a strong 40.8% in Q1, reaching EUR620 million, a tangible sign of our strong commitment to deliver on our targets. Thanks to the robustness of our diversified business, net profit stands at EUR447 million in the first quarter, up 46% year-on-year.

The comparison with Q1 2020 is clearly impacted by the first full national lockdown of March 2020. But it is also fair to say that in 2021 we successfully adapted to ensure business continuity despite the several regional restriction and despite some EUR23 million cost burden in the quarter to face emergency. In fact, a quick comparison of this

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quarter results versus the same period of 2029 [ph] shows an improvement in both top line and margins.

Moving to Page 5, we provide an update on main initiatives for all our segments which paved the way to a successful execution of 24SI. Starting from Mail and Parcel, our JV with Sengi, is delivering excellent results in parcel, having reached 7 million parcel in Q1, contributing to an increased diversification of our client base and greater international volumes. A new fully automated hub is now operational in Northern Italy, with a sorting capacity of around 270,000 parcel per day additional. This allow our logistics network to continue to deliver more parcel volumes in an efficient way.

In the mail business, Nexive's integration is progressing according to plan, with the reorganization of its activities within Poste Italiane announced today. Our role in the vaccination plan is confirmed and continues to expand. On the other hand, our state-of-the-art cloud-based IT platform is tracking every step of the vaccination and managing booking appointments via our digital properties, our ATMs network, our contact centers, and also with the help of our 30,000 Postini. In this way, we're contributing to the potential vaccination and to the vaccination of over 37% of the Italian population.

Financial Services segment has continued to act as a central brain in planning and governing distribution on financial products throughout our omni-channel network. During Q1, the new customer needs model has been deployed to further support our financial advisor sub. In clear sign of increased productivity, an enhanced performance have already been achieved as demonstrated by the shift of the investment mix towards a multi-class life insurance products.

We offer setup to purchase tax credit related to government incentives from small business and individuals has proven to be very successful. Leveraging on an agile digital procedure, committing to purchase around EUR1.5 billion of tax credit as of today. This offers significant opportunity in terms of increased customer satisfaction and sale of other financial products, starting from QR code and full acquiring, for example. And we are confident that this will lead to further growth, thanks to our new corporate current account which has been recently launched. As a part to our remote advisory model, we introduced a new automated digital offer for postal savings, which we believe will contribute to enhance accessibility and we increase our range of available products for clients.

In Life Insurance, our offer has been enhanced in the quarter with the launch of Class 1 products, a new bundle solution integrating life and protection features. As demonstrated by strong results achieved in the quarter, these offers are well responding to emerging customer needs and are contributing to the diversification of our insurance reserves with a beneficial effect on our solvency position. The lapse rate remains very low, contributing to strong net insurance inflows among the best ever for Q1, about EUR2 billion. Our modular offer is the engine for growth in our B2C business -- B2C businesses, sorry, highlighting strong customers approvals for this flexible marked and tailored solution for protection needs, which are perceived by Italian's as increasingly important.

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Moving to Payment & Mobile. A new broadband solution has been launched, for the time being, targeted only to Poste employees. These represent a milestone in our product offering in order to capture growth expected in the Italian fiber and broadband market. The full roll out of our offer to our customer base is planned by the end of May. As you are aware, we also signed a new contract with Vodafone, which allow us to reduce variable cost of our MVNO business in the second quarter from the second half -- sorry, of 2021.

As you can see on Slide 6, commercial activity showed positive sign of recovery through the quarter, notwithstanding regional lockdowns, with a remarkable increase in digital and third-party network transactions accounting for up to almost one-third of overall transaction. New channels continued growth is a positive sign for the sustainable development of our platform businesses. Parcel volume growth continues to break recent records, exceeding 1 million daily deliveries in March, doubling last year's figure. Decline in mail volumes stopped in January and February, as a combined effect of Nexive's contribution and regional lockdowns in 2021, while volume increased by 36% in March, which was the first month in 2020 impacted by the first national lockdown. Volumes on higher tariff products are still subdued with a partial recovery starting from Q2.

Moving to Slide 7, in Q1, we achieved remarkable commercial result in financial and insurance services, as well as in payments and mobile. Daily gross inflows in investment products increased year-on-year, though deteriorating over the quarter due to the tightening of restrictions and were above pre pandemic levels, with a strong performance of life multiclass products which accounted for 46% of the quarter gross written premiums, confirming life insurance at the heart of the group wealth management strategy.

Sales of new P&C product increased year-on-year versus pre-pandemic levels and more than double in March. Our distinctive modular offer is fueling the growth, showing early positive sign in line with 24SI strategic targets on P&C expansion. In payments, PostePay daily average e-commerce transaction grew steadily, up to 56% year-on-year in March, embracing evolving customer spending habits. Telco customer base continue to increase with a 6% growth since last year, reaching 4.8 million users. Thanks to a very loyal customer base.

Slide 8 shows how revenues are increasing in line with the trajectory set with our new 24SI plan. Parcel, insurance and payments, have been the growth engines during the quarter. While March growth rates are impacted by the national lockdown in place last year, January and February performance are clearly highlighting a structural pickup in revenues versus pre-pandemic levels, despite regional restrictions still in place partially. Mail, parcel and distribution revenues increased 19% year-on-year. Thanks to accelerated growth in parcel and stabilization in mail due to the Nexive consolidation.

Financial Services revenue declined 4%, mainly due to low interest rates and continued decline of payment slips volumes. Insurance services grew by an impressive 40% year-on-year, with strong results, both in life and P&C. Payments and mobile is consistently delivering growth, with segment revenues increasing 16% in Q1, highlighting the ability of PostePay to lead market trends in the space.

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Let me now hand over to Camillo, who will take you through a more detail business review. Thank you. Over to you, Camillo.

Camillo Greco {BIO 21978163 <GO>}

Thank you, Matteo, and good afternoon everyone. Let's move to a quick overview of each segment's revenues, starting with Mail, Parcel & Distribution on Slide number 10. In Q1, we witnessed a very strong revenue growth of 19% year-on-year. Indeed, this is the best quarter we ever had in terms of yearly revenue progression. This robust performance is mainly driven by record organic revenue increasing parcel, supported by both market trends in our own business focus. Exceptional revenue growth in parcel, coupled with a rigorous cost discipline led us to a positive EBIT, which increased by EUR93 million since last year.

Looking at revenue breakdown. The mail component in Q1 was down 1% year-on-year, supported by Nexive consolidation of EUR46 million additional revenues, mostly in registered and non-registered mail. Looking at parcels, all products supported record high revenues, up by strong 75%. Distribution revenues grew 1.2%, consistently with the recovery of commercial activities and taking into account the stricter lockdown measures introduced in March 2021. As already mentioned, Q1 EBIT improved EUR93 million, reaching EUR57 million from a negative EUR36 million last year. Thanks to both strong parcel revenue growth and HR cost reduction.

On Slide 11 we look at Mail & Parcel volume and pricing trends. Parcel volumes increased by 72%, supported by all products, with the highest growth registered in B2C, where volumes almost doubled year-on-year. The average B2C parcel tariff was down 10 percentage points, mainly impacted by lower tariff volumes from China which grew 4 times year-on-year. Let me remind you that inbound volumes from China are key to our strategy to diversify our customer base and increase international revenues. We have recently invested in a JV with Sengi, which will allow us to in-source the entire logistic chain, resulting higher future margins.

C2X volumes increased 41% in the quarter, driven by a new offer model that meets customer needs, in terms of multichannel access, proximity and speed, guaranteeing an excellent user experience, integrated within physical and digital channels. Overall, mail volumes rose 6% in Q1, with the consolidation of Nexive mitigating the structural mail decline. The average mail tariff was down 7% due to a lower margin product mix. On one hand, Nexive mail volumes are mostly concentrated in lower tariff recorded -- in our recorded mail. On the other hand, higher tariff products are not yet back to normal due to the postponement of tax bill notifications, which we now expect later this year.

Moving to Financial Services on Slide 12. The segment delivered resilient performance compared to the pre-pandemic levels of January and February 2020, though declining over the quarter due to commercial activities impacted by regional lockdowns. As Matteo mentioned, the launch of our new customer needs model supported advisors in enhancing quality of inflows. Gross revenues were broadly stable in Q1, decreasing by only 1%. Net interest income was down 7% on persistently low interest rates. This reduction was partially mitigated by higher volumes coming from new deposits.

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Contribution from active portfolio management amounted to EUR222 million, while a similar amount has already been secured and will be booked in H2. Postal saving distribution fees were stable, as we are continuing to render the service on the ground of the essential provisions of the previous agreement, while negotiating for the new ones are still ongoing.

In loan and mortgage, we consolidated our market share. Compared to last year, when both January and February showed very strong results, Q1 '21 volumes are continuing to recover from the past three quarters. Transaction banking fees were down 8%, with lower physical payment slips volumes partially mitigated by digital and third-party volumes. Asset management fees increased 14% year-on-year, thanks to a positive net inflows. Inter-segment distribution revenues increased 25%, mainly thanks to stronger gross inflows in insurance. EBIT is down 8% in the quarter due to lower revenues and a flat cost base.

Moving to Slide 13, TFA reached EUR572 billion, up by significant EUR33 billion year-on-year, and up by EUR3 billion compared to December 2020. Net inflows were up EUR2.7 billion. Deposits, as well as new capital-light and multi-class life insurance products accounted for EUR2 billion of the above mentioned growth. More in general, all components of TFAs grew steadily. Parcel savings benefited from market effect, with accrued interest more than compensating outflows.

Net technical provisions increased by EUR0.7 billion, with new production more than offsetting the negative performance related to higher interest rates compared to December 2020. Deposits increased by EUR1.7 billion, supported by customer's preference for liquidity and higher inflows from corporates. Mutual funds contribution was positive, thanks to ESG fund inflows.

Moving to Slide 14. Insurance Services posted a robust performance, confirming the key role of this segment within our wealth management strategy. Life revenues were up 44%, thanks to EUR5.7 billion total gross written premiums, with almost half related to multi-class products. The lapse rate continue to be lower than the market, contributing to positive net inflows of EUR2 billion. Life revenues grew supported by both increasing volumes and higher profitability. Almost all of the revenue increase is explained by the improvement in the financial margin due to higher volumes in the improved profitability. Non-life revenues were up across all lines. Thanks to the modular offer and welfare products.

Our modular offer on personnel and property protection continues to grow, reconfirming key role in our P&C commercial offer. The combined ratio increased for a pure mixed effect, related to an increasing share of welfare in the business mix. Operating profit was up by a robust 54% or by over EUR100 million. The biggest contribution to EBIT progression at group level in this quarter.

Let's move to Slide 15. Poste Vita group's Solvency II ratio stood at 301%. The Solvency II ratio increased in the quarter, benefiting from higher rates and lower spreads across all asset classes. Transitional measures provide additional 31 percentage points to address potential market volatility.

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Moving to Slide 16. Payments & Mobile revenues continue to increase, up by strong 16% in Q1, confirming the steady progression of this business over time. Card payment revenues went up by material 20% in Q1, supported by an increasing number of PostePay Evolution cards, as well as the increase of over 50% of transactions value year-on-year. Other payments increased 34% in the quarter, thanks to the recovery of tax-related payments.

Telco revenues grew 9% in the quarter, benefiting from a loyal customer base, both on mobile and fixed lines. As Matteo mentioned earlier, we are going to further enlarge our telco services, with a new fiber offer by the end of May. EBIT is up by 3% in Q1, despite lower payment slips contributions booked in the segment revenues and increasing telco costs related to the increased data usage. Starting from the second half of the year, the new wholesale telco traffic contract with Vodafone will result in cost savings.

On Slide 17, you can appreciate our Poste Italiane's workforce transformation is progressing. Over the course of last year, our average headcount decreased by over 3,000 from 126,000 to below 123,000 FTEs. This once again demonstrates our ability to effectively adjust our workforce in a flexible way. While we still confirm our target for 2021, since December 2020, we registered 6,100 exits and we hired 2,200 hundred FTEs. Further, 2,200 FTEs relate to temporary workers in Nexive workforce. As a final remark, the value added per FTE increased year-on-year, even though the comparison is affected by the impact of strict lockdown of 2020.

Moving to group HR cost on Slide 18. Lower FTEs resulted in EUR47 million savings in HR costs, with an overall reduction of 3% in Q1, despite additional costs for EUR11 million related to the consolidation of Nexive. The most significant KPI here is the ordinary HR cost on revenues, which went down from 53% to 46% year-on-year, confirming our focus on growing the business.

On Page 19, let's review non-HR costs. As a tangible sign of efficiency, the ratio between variable costs related to business volumes and the related revenues was down 2 percentage points year-on-year, now landing at 72% in Q1 from 74% last year. The increase of total cost is due to the variable component of COGS to support the growth related to volume increasing parcel, telco and payments. Additional EUR35 million are related to the consolidation of Nexive. As a final remark, Q1 costs include EUR23 million of emergency related one-off costs, as we continue to provide all the necessary protective equipment in sanitization to ensure highest health and safety standards for workplaces, employees and customers.

Now let's move to Slide 20, showing a positive operating profit progression in Q1. This is a very significant milestone, which confirms that we are well on track with the fusion of our plan, 24SI. Even more so, considering that local restrictions have been still in place in 2021.

Let me now hand back to Matteo for some closing remarks. Thank you.

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Matteo Del Fante {BIO 6237992 <GO>}

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Thank you. Camillo. Before taking your question, let me reiterate with some key messages on Slide 21 please. At the beginning of the first hardest lockdown back in March last year, we have shown confidence in our ability to weather an unprecedented situation and crisis, fully aware of our systemic role for the country in these critical times. Thanks to our diversified business model. We are now targeting revenue growth, leveraging on our core competencies and favorable business trends. On this solid grounds, we're making our first steps towards 2024, with a strong commitment to deliver.

Let's move to the Q&A session please. And over to you, Massi.

Questions And Answers

A - Massimiliano Riggi {BIO 20490987 <GO>}

Thank you. We will now begin the Q&A session. (Operator Instructions) Now the first question is from Domenico Santoro, HSBC. Please go ahead, Domenico.

Q - Domenico Santoro {BIO 5023365 <GO>}

Hello. Hi, good afternoon. Thanks for the presentation. Domenico, HSBC here. I do have a number of questions. First of all, everybody is of course worried about the inflation risk, so the steepening of the yielding curve is a topic. I just wonder what are the -- if you could remember as the transmission channels to your P&L. You might benefit, of course, in terms of NII given that you swapped part of your bond portfolio into variable rates, but any other impact on the P&L, if you could just give some color? That will be great.

Then there are two divisions in my view, in which we are doing very well. So I'm just wondering if you let understand us a bit more on the splitting crews of the revenues. First of all, mail and parcel, I mean, analyzing Q1, this is probably the question of everybody. We get a number, which is well ahead of your target for this year. So I just wonder what we should consider over the next quarters and whether there is any seasonality?

And then on the insurance side, I mean, the gross premium in the quarter, they're pretty stronger, but the multi-class are 46% you said of the new production. I just wonder, how this could evolve going forward in order to understand a little bit the evolution of revenue. So I remember number, in the plan, you gave us a target of more than 60%?

Then, apologize if I'm mistaken, but I understand that you mentioned purchase of EUR1.5 billion of tax credits at the beginning of the presentation. So I just wonder if you could give us the economics attached to this? And then, just can you give us an update of all the measures that you have in place in order to reduce the sensitivity of your solvency ratio to BTP spread and other factors, in particular, regarding the building up of the internal model? Thank you very much.

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

Okay. Thank you, Domenico. I'll try with the help of Camilo to go step by step. Steepening of the yield curve, I think, we are fresh enough from our plan presentation, and you

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remember that in section three on our March presentation, we were showing the difference in between the maturity and the duration of our portfolio, which is quite significant. And in the same graph on Page 18, we were also showing the percentage of swap portfolio versus the fixed rate balance. So we benefit from the steepening in a very significant way on the mark-to-market of the asset swaps. The swap leg clearly has a very positive impact. Should yield curve move up also in the short, and obviously, we have a lot of short-term re-fixing benefit as well.

The second question, I think, is the stuff, because, yes, we had a tremendous Q1 in parcel, a very strong mail. Q1, can we extrapolate for the rest of the year? I think, we need to be a bit cautious. We have certainly some tailwind in parcel. I mean, the good news that -- is that as Camilo has shown is widespread and is healthy growth in parcel, because there is a strong component of B2C related to China becoming a very significant portion of our business, and this is clearly you know allowing diversification in B2C, which is important for us. There is a strong growth in B2B, which has a price which is almost the double as an average and this clearly helps. And there is also the component of the C2X which lower but growing well.

So in summary, in parcel very healthy, maybe one can be a bit more optimist versus year end, but on the other side, you know with mail, we have to keep our, you know (inaudible) our cautiousness that probably could balance the two factors together.

Multi-class is an easy question. We're doing better than we expected. We set ourselves in the plan, an above 60% target for 2024 on multi-class versus Class 1. We already have 46%. I'm very, very, very happy, either you remember that we had, I think, you know 30% target back in 2018 for 2022. So we're in 2021 at 46%, and I think, we will be at 60% by the end of next year, and the product is doing extremely well with our network.

It is correct, I did mention the 1.4 in between the committed and the actual already paid. The economics are in the space of 10% discount versus nominal value, and this business is growing very well. I mean, it's not a 10% that we will book in 2021, but it will be either spread over the course of the tax credit, which is three to five years or should we decide to sell, then you bring it to the income statement. But at the moment, we have enough tax capacity to keep the position in tax credit.

And we look at it, certainly is a nice revenue generation item which was not in our plan to be fair. But more importantly to us, it is an excellent opportunity to bring many new clients on this SMEs and on the private side and the individual side for thousands of clients that are coming to us with the credits and this is a tremendous client development and franchise development opportunity for us.

On the solvency activities to diversify, I would let Camilo help me.

A - Camillo Greco {BIO 21978163 <GO>}

Thank you, Matteo. So as we had also mentioned back in March, we are actively working to reduce volatility of the Solvency II ratio, and the things we had talked about at the time was reduction of weight of government bonds. We had discussed information around

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capital-light products which observed less capital in obviously, the internal model. We confirm that we have progressing on all of those directions. And with respect to the internal model specifically, which was the question, we are pressing ahead, but we are not yet ready to share a timeline as this will take time and interaction with a relevant outages.

Q - Domenico Santoro {BIO 5023365 <GO>}

Thanks for that. Sorry, can I follow-up very quickly on the tax credit, please. So my understanding is that, they are not revenues, not in the P&L yet, this is my understanding, can you let us understand what the economics in terms of revenues as well that may emerge over the next quarters of this stock of around EUR1.4 billion?

A - Camillo Greco {BIO 21978163 <GO>}

So I think that Matteo did refer to around -- a stock of around EUR1.5 billion. And he did say that, we are getting those at around EUR0.90 -- EUR0.90 on average. These tax credits are into three different buckets are, one year, five years, and ten years, depending on the specific use. We are more skewed towards the middle in terms of average maturity. So you should do the math for EUR1.5 billion and 90% and distribute them over 10 years with the average maturity be in five.

Q - Domenico Santoro {BIO 5023365 <GO>}

Understand. Thank you very much for your help. Thanks for the clarification.

A - Massimiliano Riggi {BIO 20490987 <GO>}

The next question comes from Alberto Cordara, Bank of America. Please, Alberto.

Q - Alberto Cordara {BIO 7441341 <GO>}

Thank you very much. So for me a couple of questions and also a clarification. The first question related to the discussion that you've been entertaining with the CDP. So if you can give us an update on this discussion?

The second question is related to the results that you have delivered. The bottom line is incredibly strong, and if one look at it, I mean, you're already consistent, if you want with the 2024 earnings target of EUR1.6 billion. I know that, I mean, clearly, we are not yet there yet, because during the quarter you had some capital gains. So you have some element and a bit of one-off. But given the framework of your target for the year, which is EUR1.2 billion ex-SIA or EUR1.4 billion including SIA. Can we say that you feel comfortable enough that to beat this target for the year?

So the clarification I just wanted to ask is, you have a baseline dividend of EUR0.55 in 2021, and then it is increasing by 6% every year up until 2024. Is this EUR0.55 a fixed amount or is a result of payout on earnings? And if the second possibility is the true one, if we need to re-benchmark all the future of EPS based on potentially higher EPS for the year than EUR0.55? Thank you.

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

Okay. The upgrade -- sorry, the update on the CDP agreement, we're making good steps towards the agreement. I think, the good news is that, as we have shown again on Page 19 of our March presentation, we are keeping our commitment on the product. So you remember that page which was showing the V-shape of positive inflows up to a certain period, then there was 2015, 2016 and 2017 of very significant outflows in the region of EUR10 billion. And then, since the new board took the responsibility, there was a clear change of focus in the network for the product.

In Q1, we kept that focus. So we have very good results also for Q1 net inflows. And this is, finally I think bringing us to a good agreement with CDP, where we're now looking at maximizing the fees which is reasonable, but we are looking for stability and commitment.

On the second two questions, I could have a very short answer to the two question that Alberto you allow me to summarize. Are you ready based on the very good results of Q1 to revise your guidance? Are you ready based on the very good results of Q1 to revise your dividend policy? The answer is, we will announce eventually a new guidance when we will announce a new guidance and we will review the dividend policy when we will review the dividend policy. So there is clearly positive signs, but let's -- you know the style we have been together on this project for over four years.

So we want to take commitments that we then have all the tools to bring home for our stakeholders and investors, but I can reassure you and the investor base that the moment that we see the opportunity for an upgrade on guidance and dividend is probably easier. The moment we decide, we will do it, and we know this is something that the market is appreciating, but it is not today the day we're doing the review. Sorry.

Q - Alberto Cordara {BIO 7441341 <GO>}

Thank you very much. This is a very clear answer. If you forgive me, just a follow-up. Can Q2 be a quarter when potentially we may have a look at the target for the year, at leas?.

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

Q2, you already have half of the year in the pocket, and you have more visibility to take decisions along those lines, yes.

Q - Alberto Cordara {BIO 7441341 <GO>}

Thanks a lot. Thank you.

A - Massimiliano Riggi {BIO 20490987 <GO>}

The next question is from Manuela Meroni, Banca IMI. Please Manuela.

Q - Manuela Meroni {BIO 1782610 <GO>}

Yes, good afternoon. Thank you for taking my questions. One on revenues and one on cost. The first one on revenues. I'm wondering if you could share with us the trend that you have seen in April following the easing of the lockdown, primarily mainly interested in parcel, cards and current account trends. So are these trend still accelerating or not?

The second question on cost -- is on HR costs. They declined significantly in the first quarter year-on-year and the best trend that you forecasted before the full year 2021. So I'm wondering if there are some non-recurring items there and if the renewal of the contract is already embedded in this number? So if you can please elaborate a bit more on the HR costs? Thank you.

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

Okay. Thank you, Manuela. I will let Camillo to give a specific answer. Thank you, Camillo.

A - Camillo Greco {BIO 21978163 <GO>}

Okay. I'll start from HR costs. It is fair to say that the first quarter came in with better numbers in terms of full time employees, but also due to consider there is an element of seasonality as we have the 6,100 exits in the first quarter of the year, and we have not yet fully reabsorbed those exits with an equal amount of hirings. So for the time being, we stick to the target of 125,000 FTEs, which is the number that we shared with you back in March as the year progresses and whether some of those exits become structural and we see that there is a margin on that front, we will update you, but for the time being, we stick to the guidance back in March.

With respect to your question, as to whether, in fact, we have yet already making a new labor contract, I think, that was the other question. I can only confirm that historically this management team and the group has other excellent relations with relevant stakeholders and that we are currently ongoing discussions with respect to the renewal of the labor contract. So that is with respect to costs.

With respect to revenues, I'd say that, first of all, to put into context, the first three months of the year, January and February were not clearly comparable to the tough months of last year, but were a touch [ph] less open than 2020 and March was not as much as last year, it was a difficult March too, but we still saw good trends. Trends are evolving positively in April. And specifically, we are seeing a bit of greater dynamism on the correspondents space, mail.

Your other question around cards, the progression of cards is consistent with our plan, and you might recall that we had the plan not a dramatic increase of the total stock of cards, but rather a continued switch from PostePay Standard to Postepay Evolution that is confirmed in our numbers. As parcels continue also to be in line with what we have in mind with around 1 million daily parcels.

And last but not least, you had a question also on bank accounts. We are progressing well on that front too, as a result of the credit purchase effort that Matteo described earlier. Thank you.

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A - Massimiliano Riggi {BIO 20490987 <GO>}

The next question is from Gian Luca Ferrari, Mediobanca. Please, Gian Luca.

Q - Gian Luca Ferrari

Yes, hi. Good afternoon, Matteo and Camillo. My first question is on the some sensitivities to the solvency ratio, they all improved with -- the one to interest rates down improved dramatically from 42 basis points to just 6 basis points decline. Now Camillo mentioned a potential change in the asset allocation with lower weight of BTP. In reality, if I look at page 43, the asset allocation is pretty much unchanged. So my question is, is that attributable to lower convexity given that the euro swap went up 33 bps in the quarter, and if this is the case, with an additional increase in rates plus the mentioned decline in the weight of BTPs, is there the possibility that your solvency ratio will become even less sensitive to change in rates, for example?

The second question is on the combined ratio, I presume it is all in non-motor here. Can you give us a discrete data for the welfare products as it seems to have had an impact in the overall combined ratio of the quarter? Thank you.

A - Camillo Greco {BIO 21978163 <GO>}

I think on the factors that we gone -- we're not appreciating that maybe we should do an effort to explain it better. Our multi-class product is a combination of a Class I and Class III, a unit linked product. But as opposed to put our investor on the target asset allocation on day one, we put in place an 18 months accumulation period. So let's assume that the target asset allocation is 40% equity, 60% Class 1 capital protected. On day one, you are basically 100% Class I, okay. After one year, you have the 40% divided by 18 months, so you have around 2.0 something percent of equity and -- after one month. The second month, you take another 2%, and so on, and so forth. So having started distributing this product, back in the end of '19, we are now starting to grow into asset allocation of all the products that we have been selling in the past, okay. So you have a certainly lag effect of this diversification of our capital commitments.

On the convexity, I don't know Massi, you want to add something on the convexity of the potential rate (Multiple Speakers)

A - Massimiliano Riggi {BIO 20490987 <GO>}

You have seen the interest rates going up from a negative are to a significant -- significant jump. And in short, this has increased the loss absorbing capacity that is embedded in our model. So without going into technical details, this is enough for you to see a lower sensitivity, plus all the jobs that we have been doing over time as the fact that we are investing flows in a diversified portfolio out of government bonds, plus capital-light products, and multi-class products that Matteo was mentioning earlier.

Q - Gian Luca Ferrari

Very clear.

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

And on the wealth [ph] and the combined ratio, Camillo?

A - Camillo Greco {BIO 21978163 <GO>}

Yes, I think, the last question was around that. I think that the increase from 82% to 85% was planned as the cost of our welfare policy has increased.

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

Thank you.

Q - Gian Luca Ferrari

Okay, thank you.

A - Massimiliano Riggi {BIO 20490987 <GO>}

The next question is from Ashik Musaddi from JP Morgan. Please, Ashik.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Thank you, Massi, and good afternoon Matteo. Good afternoon, Camillo. Just one question I have is, on the cost side, if I look at your plan 2021, it feels like you have a 6% increase in cost expectation. But if I look at the first quarter numbers, the costs were flat. Now I agree that you have always mentioned that cost will go up in line with the revenue growth, but this time that did not happen. So what could be the delta for next nine months that cost will go up significantly and it feels like the cost has to go up by 10% or 7% or 8% for next nine months for you to meet those cost hurdles. So that would be good, because that could be a good source of positive upside for my numbers. That's why I'm thinking around these line. Thank you.

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

Well, yes, Camillo, please.

A - Camillo Greco {BIO 21978163 <GO>}

Thank you, Matteo. Well, first of all, you would have noticed that most of the COGS have gone up as a result of variable costs. So your question is well put. I think that you should also consider that in 2020, despite the exceptional challenges that we had in terms of the market environment, there were a number of items that were in a very less costly to us as a result of that specific market environment. Specifically, we had, as an example, 150 million plus of costs related to government support, reduction of costs related to employees.

And I think that for 2021, as we move to a more stabilized market, despite we're confirming the projections we made -- we made at the time with the understanding, as I said with respect to HR that if in the next months, we see that there is a positive evolution, we would obviously share that with you guys.

A - Massimiliano Riggi {BIO 20490987 <GO>}

And the last question comes from Fabrizio Bernardi from Bestinver. Please, Fabrizio.

Q - Fabrizio Bernardi {BIO 3565544 <GO>}

Hi, everybody. Two questions on my side. First is on Anima. Given your stake, I was wondering whether you may get the most from it going to, let's say, move more of the financial wealth of your clients into Anima given that, again, as far as I can remember, Anima indicated asset management is doing EUR25 million, EUR28 million of this quarterly, if I'm not mistaken.

And secondly, I'm asking you a question that -- two clients ask me to ask you about banking consolidation. There is a wave of speculations and rumors about a few banks that may be active in consolidation, given your main shareholders. I was asking if you have any interest in the banking assets in very general terms? Thank you.

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

Okay. I think the second question is easy, Fabrizio, which I think is not in the cards. The company were not aware of this being in the cards of our shareholder, and it would be technically I cannot say impossible, but certainly extremely difficult from a regulatory standpoint.

On Anima, yes, we keep growing the commitment in the business with Anima, but we have taken this decision to grow our non-capital protect that manage business with the multi-class product, and it's working very well. This was a decision taken back in 2017. We're sticking to that position. In the unit linked component, there is certainly room for Anima to bring their expertise to the table, but Poste Italiane has decided in 2017 not to be the network of distribution of funds from asset managers. Anima would be the obvious one, because we're a shareholder. So any other top asset manager will not have access directly to our network, because of the strategy of the group and because of the nature of our client base.

Q - Fabrizio Bernardi {BIO 3565544 <GO>}

Thank you.

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

Thank you everybody for your time. And obviously, we're all starting from our Head of IR, Massimiliano Riggi, always available for follow-up questions. Thank you very much.

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