Y 2021 Earnings Call

Company Participants

- Andrea Novelli, Chief Executive Officer, Poste Vita
- Camillo Greco, Chief Financial Officer
- Laura Furlan, General Manager, PostePay
- Massimiliano R. Riggi, Head of Investor Relations
- Matteo Del Fante, Chief Executive Officer, General Manager & Director
- Monica Biccari, Chief Financial Officer, Poste Vita
- Unidentified Speaker

Other Participants

- Ashik Musaddi
- Domenico Santoro
- Elena Perini
- Gianmarco Bonacina
- Giovanni Razzoli
- Manuela Meroni

Presentation

Unidentified Speaker

Good afternoon, everyone, and thank you for joining us today. On behalf of Poste Italiane's management team, it is my pleasure to welcome you, hopefully, for the last time in virtual mode, to our Full Year 2021 and 21 -- 24SI Capital Markets Day Update. Today, we have this agenda, as you can see on screen. We will start with a strategic update from our CEO, Matteo Del Fante; and our CFO, Camillo Greco, will take you through key financials. You'll then have the opportunity to ask questions after Matteo's closing remarks, either by phone or through our webcast platform.

Before we start, and I'll start here with the disclaimer on screen, which is also included in the presentation pack on our website. Before we look more closely to our 24SI progress, let's look at the brief video showcasing some of our key highlights for 2021.

(Audio-Video Presentation)

Matteo Del Fante {BIO 6237992 <GO>}

Ladies and gentlemen, welcome to our full year 2021 results, and update on our strategy, as we are one year into our 24SI strategic cycle. It is great to be presenting to you all today, but I look forward to the next opportunity to meet you in person over the coming months or hopefully weeks. Let me start sharing our closeness to all those who suffered from the pandemic and the one that currently see their live shatter in tragic events.

Back to our agenda today, we will provide you with a clear picture of how Poste Italiane is uniquely positioned to create sustainable long-term value for all its stakeholders.

Moving to Slide 2. Since 2017, our businesses are undertaking a steady growth trajectory and lending a continued search for new opportunities exposed to favorable market trends. 2021 provides further evidence of this with results at the upper scale of our guidance, also confirming our confidence for 2022. 24SI plan implementation is ahead of schedule, supported by a very robust financial position, a clear strategy and a powerful brand.

While we are taking a stance on higher prices and interest rate scenario, we are proven to be very resilient in times of uncertainty. Unfortunately, here, we are back somehow to two years ago, when, for different reasons, we were starting to cross uncharted territories. The pandemic has been a tough experience, from which we have learned to adapt to changing conditions while preserving the continuity of our businesses, leveraging on our resilience and flexibility. Nevertheless, we maintained the key promises made to all our stakeholders. We have a proven track record of taking advantage of favorable market trends and pushing both organic and inorganic growth opportunities.

As a result, new value-creating initiatives have been already identified or implemented even beyond 24SI with a positive upside when compared to our original guidance. We've been bold in pursuing new opportunities. One prime example is the acquisition of LIS to extract new value going forward from our unmatched omnichannel distribution platform. Finally, Poste Italiane's solid capital position and dividends to shareholders remain a key priority for us. To that end, based on strong financial results, and on our confidence on the future growth path, we are proposing to the AGM an upward revision of dividend to EUR0.59 per share for 2021 with a remarkable 21% increase over last year DPS versus the originally expected increase of 14%. The long-term dividend policy has also been upgraded, now reflecting a 7% yield increase versus the previous 6%.

Moving to Slide 4. In 2017, we started our transformation journey, building on our historical competitive advantages with a clear strategy of growth and transformation, a transformation to benefit all our stakeholders, our communities, our shareholders and our people. Today, Poste Italiane has consolidated its role of strategic pillar for the country. Just to make a few examples, we are here for our communities, delivering some 13 million vaccine doses and enabling the vaccine booking platform for a third of Italians. We are here supporting the country digitalization through our 22 million digital identities, which enables citizens to access a growing number of services, leveraging on our state-of-the-art IT and digital properties.

Our people are key in implementing our strategy. Since 2017, we have renewed the workforce with over 15,000 new employees, circa 45% of whom are women and invested heavily in training and upskilling programs. Finally, our shareholders can appreciate our steady increase in operating profitability, up by a strong 64% since 2017 allowing us to increase shareholder remuneration with over EUR3.1 billion in dividends distributed between 2017 and 2021 and a total shareholder return of over 100%.

On Slide 5, let's now look at our strategic operational and financial achievements in 2021. In the first year of the 24SI plan, we have indeed delivered more than promised. We have refocused the mail and parcel business with organic and inorganic options and implemented a successful industrial turnaround. The execution risk of 24SI implementation has been significantly reduced already during the first year, accelerating the shift towards our integrated omnichannel platform and a comprehensive data-driven product offer.

Finally, the agreement with CDP, Cassa Depositi e Prestiti, on postal savings will be in place till 2024, ensuring visibility over the 24SI horizon, with an increasing share of recurring management fees. Operationally, in the mail and parcel business, the largest state-of-the-art automated sorting center in Northern Italy is now fully operational, and we have integrated Nexive ahead of our original plan. The new advisory model rollout is proving very successful in financial and insurance services whilst our wholesale telco contract is providing cost efficiencies. Looking at the 2021 financials, we have reached record results that are at the higher scale of the upgraded guidance communicated to the market in Q3 '21 and higher versus 2019 that you remember was our commitment.

Moving to Slide 6. You can appreciate our consistent delivery over the past five years. Every single year, we overachieved net profit targets set in our strategic plans, taking advantage of evolving conditions. In 2021, net profit reached EUR1.6 billion, exceeding the EUR1.4 billion target, almost doubling compared to 2017. Our ability to create value has allowed us to constantly share this achievement with our investors. We are proud of these achievements. And I want to thank again all of Poste Italiane 100,000-plus colleagues for their commitment and hard work.

On Slide 6, you see how the strategy set out in Deliver 2022, our original plan, is showing tangible results, both in terms of their growth and their quality and sustainability. The key takeaway is that we have successfully repositioned the company to benefit for emerging -- from emerging business trends. Five years ago, the company was overexposed to declining markets like mail and payment slips, which accounted for over 30% of revenues, while growing markets were underrepresented.

Our strategic efforts deployed over the last five years allowed us to overturn the situation, with expanding markets now providing 34% of our revenues and declining markets 23%. And if we look at the revenue stream, you can see that the recurring components, not directly relying on commercial efforts, are increasing from 43% to 48%, thanks to, for example, running management fees as opposed to upfront fees.

Moving to Slide 9, we present the key initiatives providing enhanced visibility on our long-term growth trajectory over and beyond 24SI plan. In the past, we have already talked about the universal service obligation agreement and the renewal of our contract with Amazon and our agreement with unions. Starting with postal savings distribution, the new agreement with CDP envisages a mix remuneration linked both to upfront and to annual management fees. We have already worked on new initiatives beyond the 24SI framework, which you can see on the right-hand side of the slide.

Through our strategic M&A, we will accelerate non-captive growth. We're very disciplined in our M&A in terms of strategic fit. Our objective is to optimize long-term value creation for shareholders. In payments, the acquisition of a paytech champion will boost our group's omnichannel strategy and accelerate the transition towards cash less and digital payments in Italy. Once we have finalized the acquisition in the next few months, we will dig more on the topic of LIS.

In mail and parcel, we're building our competitive advantage by acquiring a leading healthcare logistics and medical data storage player. This is an example of what we learned through the pandemic. At the peak of the crisis, we built, in record time, an integrated IT and logistics platform for vaccines, booking, operations and delivery. This experience has enabled us to identify new ways of diversifying from logistics business into higher-margin markets compared, for example, to the traditional B2C parcel business. As part of our support to Italy's recovery measures approved by the government, following the pandemic, tax credit purchase activity performed very well.

Finally, as part of our journey towards carbon neutrality, we are progressing on structural initiatives to achieve the ambitious target that we have set on our new energy offer that will further accelerate such a transaction. Poste will become the energy supplier for the entire group, sourcing 100% of power from renewable, contributing to our decarbonization strategy. The bedrock of these activities continues to be our people. In 2021, we launched the Insieme 24SI initiatives, which invest in internal ideas from Poste people. We're building an environment in which people from all backgrounds feel included and valued and supported by fair processes and equal opportunities.

Moving to Slide 10. The new agreement with CDP confirms Poste Italiane unique role as exclusive distributor of postal savings products. This underpins the key role of postal savings within our financial offer and guarantees the sustainability of targets and profitability across the 24SI plan. Indeed, the agreement now envisages a net remuneration, both upfront and running, with management fees increasing to 84% at the end of the plan.

Moving to Slide 11. I would like to provide you with some impressive figures of our omnichannel footprint. Poste Italiane model is based on a strong integration of physical and remote channels with our app being the most downloaded financial app again in 2021. Specifically, today, 94% of Italians live within five minutes from a post office or a PuntoPoste touch point. Fully integrating our channel allow us to follow customers from engagement to sale through a data-driven service model, supported by tech-intensive processes and custom operations.

This model also contributes to the country digitalization and reduces the digital divide. Through its omnichannel interaction platform, Post Italiane manages 20 million daily interactions with clients, of which 6.7 million from digital channels. We live in an increasingly interconnected world with infinite physical and digital touch points, rapidly evolving towards instant and real-time interaction. In this context, Post Italiane is ready to become the largest omnichannel platform in Italy, providing access to services and products at the same time.

On Slide 12, let's focus on the new channels, enabling our -- being enabled by our digital properties and our B2B2C franchise networks. Starting on the left side of the slide, average daily interaction reached 20 million at the end of this last January. New channels represent a remarkable 64% of total network interactions, a great value generation potential for transaction and, more importantly, for revenue generation going forward.

Moving to the central graph, we represent the share of transactions such as Postepay or sim-card top-ups currently managed on our new channels, where we are well on track to reach the target share of 40% by the end of the plan. This will also allow our physical network of 30,000 tellers to focus increasingly on value-added services.

Moving to the graph on the right-hand side of the slide, we see that the new channels generate 18% of 2021 relevant revenues, increasing by 6% year-on-year and more than doubling versus 2019. Again, we're already nearing our 2024 goal of over 20%, an encouraging sign of a success strategy. But let me alight that this is not a different way of doing the same business. It is a mindset transformation allowing Poste to build a best-in-class business platform.

Moving to Slide 13, please. We focus on the LIS as a strong accelerator of the above-mentioned omnichannel strategy. LIS is a leading paytech champion, which will further contribute to consolidate Postepay growth in the proximity payment business and move through acquiring an SME product offering. But why did we buy LIS? The acquisition, we believe, is a perfect fit as we generate 70% of our revenues in the B2B2C franchise space. Finally, LIS will also support our non-cash strategy push through the acquiring proposition of its 54,000 points of sale.

Our integrated strategy will be given an additional boost through this acquisition. The process of engaging, selling and managing the wholesale with our customer will be made available through a seamless customer journey. The LIS acquisition is integrated into Poste Italiane omnichannel strategy, digital channel and third-party networks playing the role of satellites to the physical network, creating hybrid leads, while post offices are supporting digitalization through digital onboarding.

Moving to Slide 14, please. As you may remember, we started to purchase tax credits in the second half of 2020. A change in Italian law in the second half of 2021 enabled us to significantly accelerate the business by investing a portion of client deposits, providing further flexibility to our active portfolio management and enhancing the yield of our investments. At the same time, this was an opportunity to widen our retail customer offer.

Indeed, we reached EUR7.4 billion tax credits stock at the end of last year, and we expect to near our capacity by year-end. This activity has already generated some EUR70 million of additional revenues in 2021, outperforming our original expectation and contributing to the improvement of 2022 group guidance as Camillo will tell you later in detail. With current yields and stable deposits, we expect to gain around EUR20 million extra NII per year for each additional EUR1 billion of tax credits purchased.

Moving to Slide 15, please. In 24SI, we have defined a clear and ambitious roadmap towards a 30% reduction in total CO2 emissions by 2025 and carbon neutrality by 2030, in line with the Paris Agreement, the recent 2021 Glasgow Climate Pact and the European Green Deal. Over the past year, we worked on new initiatives to further accelerate our transition to a certified carbon-neutral company. Across all our businesses, we are implementing strategic and structural changes to achieve the targets we have set. We continue reducing emission by renewing our company fleet, reaching now 10,000 low-emission delivery vehicles, the one used by our postini.

In relation to the energy efficiency our buildings, we further progressed on the installation of photovoltaic panels and smart building solution in our real estate assets to guarantee a centralized energy consumption monitoring and management. Our payment and telco clients are also contributing to this, choosing 100% green payment cards and buying eco-friendly sim cards from Postepay.

Finally, on top of our commitment to purchase offsetting carbon credits, our transition journey towards a carbon neutrality company will be further accelerated by our new energy offering. As anticipated, Postepay will, in fact, become the energy supplier for the entire group sourcing 100% of power from renewable sources and offsetting 100% of CO2 emissions.

Moving to Slide 16. We summarize the key 2021 ESG achievements. There is no sustainable financial growth without a firm and sustainable society. I've already detailed our support during the pandemic to the country. We have further progressed on diversity and inclusion policies. As a matter of fact, Poste Italiane entered the global top-100 ranking on gender equality promoted by Equileap. We're officially among the 19 companies worldwide that have addressed the gender pay gap, helping to make Italy, together with the United Kingdom and Spain, a leader in the space.

We've also been included for the third consecutive year in the Bloomberg Equality Index, achieving a well above average score. In line with best practices, we continue to pay attention to the social and environmental aspects of our supply chain by adopting an internal ESG model to rate our suppliers. We believe that the transparent procurement process is key to constantly improve services offered to our customers.

Moving to Slide 17, you can call Poste Italiane an anti-fragile market player. When we faced the pandemic two years ago, we managed not only to withstand the shock but actually improve our business by harnessing evolving market trends and refocusing our attention to the areas of growth. Even in today's geopolitical turmoil, our business structure allow us to continue our work along our strategic directions. For example, in the payment sector, cash payments are still largely dominating the space in Italy, leaving us with untapped opportunities.

We've always mentioned that our customer asset allocation is biased towards capital guaranteed products. During this crisis, it comes as an advantage because they are less affected by market turbulence, with 93% of our customers' total financial assets not exposed to market volatility. Looking in more detail into our customer investment portfolio, our exposure to Russia and Ukraine was around 0.1% of total financial assets as of end of last year. Finally, given the current inflationary pressure, our non-HR costs base is partly protected against increasing prices expectations until the end of this year by hedging strategy for jet fuel and energy cost.

Moving to Slide 18. Our solid 2021 performance and our delivery track record gives us the confidence to revise upward our 2022 guidance with an EBIT now at EUR2 billion. Net profit will land at around EUR1.4 billion, a 9% increase versus the original target. Looking forward, in an unaffected market scenario with the boost on new initiatives such as tax credits but mostly driven by our proven cost management discipline, we envisage an additional EUR0.2 billion upside to the original EUR2.2 billion target for EBIT in 2024.

As you can see on Slide 20, all of our segments are contributing to the implementation of 24SI. In particular, in mail and parcel, we are successfully pursuing our path towards a fully fledged logistic operator. On the one hand, three automated sorting parcel hubs are up and running, contributing to our leadership in the B2C market. On the other hand, we have already started to identify new areas to strengthen our business model, developing specialized verticals also through M&A.

Moving to financial and insurance services, the upgrade of our service model is proving successful, balancing investments and capital guaranteed products to best meet our customer needs. At the same time, our P&C offer keeps on growing. The payment and mobile division is showing a solid revenue and EBIT growth with digital payments growing steadily and a resilient telco business with a low churn rate.

So now, we briefly review our businesses, starting with mail and parcel. We entered the B2C market basically in 2017, also thanks to our partnership with a large operator, Amazon. After our transformation journey, we've learned our job becoming an independent leader in B2C and generating additional EUR500 million parcel revenue with our customer, more than doubling versus 2017. In particular, in B2C, other customer revenues increased by five times to almost EUR0.4 billion.

Starting now from this strong position in B2C. We're now focusing on value-added services in a highly competitive market segment. We're working to build on our competitive advantages to develop our franchise in specialized segments to become a fully-fledged logistics operator. We are all aware that the global supply chain is currently under stress with driver shortages and fuel prices increase. However, it is fair to say, and let me say, that we are much better positioned than our peers. For example, we have renewed our group-level contract until December 2023, gaining visibility on the HR cost base going forward. Even though forecast do not look particularly reliable in such an uncertain environment, we have already factored in current inflationary pressure in our guidance today, with only 15% of our cost base exposed today to inflation.

Moving on to Slide 22. In the mail and parcel business, we have the opportunity to leverage on our successful experience in supporting the public sector during the pandemic with our logistics, IT and digital capabilities. The acquisition of Plurima, a domestic leader in healthcare logistics, is an example of how we're transforming into a fully-fledged logistics player and, in particular, diversifying into specialized logistic verticals. COVID has forced the transformation of the healthcare logistics business with an increased trend in outsourcing hospital logistics and micro logistics, where we will be able to generate economies of scale. Considering that the health care sector is becoming of increasing importance to local health authorities, combining with our historical relationship with the public administration, we believe that we will benefit from a higher addressable market.

Moving to Slide 23. Our financial advisory network continues to transform as we invest in training and upskilling and constantly work to attract new talent. This is key to our strategy across financial P&C and investment product distribution. Figures on this slide highlight our landmark transformation. In 2017, out of 8,000 financial advisors with an average age of 45 years, only 26 held a university degree. Women are the majority, a gender mix that is projected to remain stable over the plan. Today, over half of our financial advisors hold a university degree and the average age decreased significantly to just over 41 years.

On Slide 24, we show that the ambitious targets set last year on top of our financial asset evolution are well on track in terms of both volumes and quality. Our TFAs grew 3% last year, ahead of the compound growth embedded in 24SI, reaching EUR586 million in 2021, leveraging on record high gross inflows of EUR57 billion in the year.

As you may recall, three years ago, we updated our service model, focusing on growing private and affluent client base. As you can see on the right-hand side of the slide, the higher value private and affluent client segments experienced an evident growth, with private total financial assets, in particular, increasing 13%. Poste Premium, a dedicated advisory model for private clients, is a clear sign of this transformation in place, as you will see on the next slide. In the coming years, we will strengthen the focus on customer portfolio diversification and further segmentation with an enhanced product offering and optimized risk return profile and a specific focus on ESG.

Moving to Slide 25, on Poste Premium, which was launched only two years ago as a fee-based service for our wealthy clients. The service is based on the fully-transparent remuneration structure, providing access to dedicated financial advisors and to investment in tailor-made products supported by BlackRock's Aladdin platform. This allows us to optimize our clients' risk return profile, enabling them to size market opportunity with an improved per client profitability for Poste.

This offering has attracted clients across the entire Poste Italiane customer base, including mass market clients. Indeed, in 2021, over 60% of new premium clients were not even identified as private. Looking at the private segment, net inflows in 2021, premium clients were the vast majority, despite representing only 10% of the relevant customer base. This service model will be fully operational by year-end, with over 200 dedicated financial advisors selected within our top resources and distributed throughout Italy.

Let's move to Slide 26 on life insurance, where we have been able to achieve significant volume growth with a more sustainable and profitable business mix, thanks mainly to our successful launch of the multi-class offer. As I already mentioned, our products attract strong demand even in uncertain times, resulting in 2021 in significant net inflows above EUR8 billion and total life reserves approaching EUR140 billion. At the same time, the share of multi-class new production already reached 58% of gross written premium, ahead of the plan of 2024.

As we have shown on the right-hand side of the slide, this translates into higher profitability with new products in the 120 or 150 basis points on Class I and multiclass products, respectively, contributing to a significant improvement of margins. On average, up to 105 basis points from the 88 basis points only one year ago, helped also by a positive market effect and almost in line with our 2024 target.

On Slide 27, we move to the fast-growing non-life business. On the retail side, our modular offer is growing both in terms of average ticket and daily production. On the corporate side, our health insurance is growing faster than expected, contributing to build up economies of scale for the business, both retail and corporate. As we can see from the per capita managed claims, a key efficiency indicator. As a result, protection gross written premium increased by almost 30% with further positive signs emerging this year in terms of performance.

Moving to Slide 28. As you remember, the payments and mobile division, PosteMobile, was created in Postepay in 2018. And since then all the financial and KPIs have shown a consistent growth over time. The convergence strategy between payment and telco is proving to be successful, as you can appreciate from the strong increase of card transaction and e-wallets along with a loyal customer base in telco. As a result, both revenues and EBIT increased by a strong 14% on average since 2018. These trends are expected to continue over the plan horizon and will allow the self-finance ready to be launch energy business. Bear in mind that this projection clearly do not take into account the positive financial contribution from LIS integration.

Moving to Slide 29, on the energy business, we're getting ready to launch our offer on the market. At the same time, we acknowledge that the energy market scenario has changed. As a consequence, while we confirm our ambitious to 2024, we expect a more gradual entry in the market. Based on a careful assessment of market conditions, which we are constantly monitoring, we are (inaudible) to launch our offer in 2022.

Let's move to Slide 30, please. While improving our already generous dividend policy, the new baseline is set at EUR0.59 per share on 2021 results, up by remarkable 21% versus 2020 compared to the original plan to increase DPS by 14%. Moving forward, as a sign of confidence in our strategy, we are committing to a new 7% per annum growth through 2024 as opposed to the previously stated 6% growth. This means that the payout ratio will increase to around 60% by the end of 24SI. We will continue delivering value to our shareholders with a dividend policy that is sustainable and in line with group performance. The implied payout is also sustainable and we remain committed to a competitive dividend policy versus our peer group.

Let me now, please hand over to Camilo for the key financials of today's presentation, please.

Camillo Greco {BIO 21978163 <GO>}

Thank you, Matteo. Good afternoon, everyone. Let me start my presentation by walking you through the key financial milestones of the past several years, then we'll move over to look at the macro backdrop against which Poste Italiane business operates. I will then break down the key figures across our business segments and discuss our plans with respect to cost discipline and capital allocation. Finally, I will show you how we are planning to achieve the ambitious targets set last year in our 24SI plan.

Let's now start on Slide number 2. As already mentioned by Matteo, in the past five years, we have consistently delivered our promises and achieved the ambitiously set goals time and time again. In 2021, we reached a record high historical performance of EUR1.58 billion of net profit, well ahead of the target set during last year's Capital Market Day. Our ability to effectively manage the business with the flexibility to funnel investments in areas of growth allowed us to successfully navigate through difficult macro scenarios and repeatedly deliver value to our shareholders.

Turning to Slide number 3. Matteo mentioned that strong business performance in 2021 allowed us to upgrade the guidance for 2022 by 9% in terms of both operating profitability and net profit when compared to the original plan. The key drivers behind this guidance update are the new tax credit investment and lower FTE base that we achieved in 2021. We estimate that the combined effect of these two efforts will bring an upside of EUR0.2 billion to our operating profit in 2024 in an affected market conditions. Our new projections are based on the current macroeconomic scenarios and inflation expectations. And given a robust and diverse business model, we are well-positioned to weather the inflationary pressures expected by the market. Of course, given the recent geopolitical situation, it is too early to assess the full impact of the situation.

Let's now turn to the financial results and new targets for each business segment. Starting with Mail, Parcels and Distribution on Slide number 4. In 2021, Parcel revenues reached a record high level amounted to EUR1.4 billion, ahead by EUR0.1 billion to the original target. Although this growth was jump-started in 2020 by the pandemic, we expect this segment to continue to expand on a normalized trajectory also in 2022. Most product lines grew year on year, including B2B, B2C and international with the lion share coming from B2C. Mail revenues increased by 10% in 2021 supported by both Nexive integration and post pandemic organic volume recovery mostly from higher margin products. We expect to see continuous positive contribution also in 2022. Distribution revenues also grow in 2021 supported by higher value-added products, thanks to BancoPosta's increased commercial activity. In line with 24SI, we still expect revenues to increase by 2% annually over the plan, which translates into EUR3.8 billion of revenues in 2022 when compared to the original target of EUR3.7 billion. Thanks to successful industrial transformation and cost discipline, this accelerated growth demonstrated that Mail, Parcels and Distribution is indeed becoming sustainable business, positively contributing to the group EBIT ahead of the original plan.

Let's look in detail on Slide number 5 to EBIT evolution of Mail, Parcels and Distribution. Thanks to organic revenue growth and flexible cost management strategy, combined with continuous industrial transformation and Nexive synergy, we now expect to reach positive EBIT already in

2024, one year ahead of the plan. Among other drivers, we also expect higher inter-company revenues with an increase in distribution fees paid to the network.

Moving to Slide number 6, on Financial Services. We are now upgrading our total revenue target in 2024 to EUR6.1 billion, EUR0.2 billion above the original plan. Gross revenues were largely in line with last year results, but with a higher quality revenue mix supported by investments in tax credits. Net interest income amounted to EUR1.49 billion in 2021, driven by higher deposit and contribution from investment in tax credit. This new asset class also permits reinvestment of maturities. Sorry, this new asset class permits an investment of maturity and disposal of BTPs, enhancing flexibility in our active portfolio management and allowing us to upgrade financial targets over the plan horizon. Taking advantage of market opportunities, we already locked in all active portfolio management contribution for 2022 and around half of 2023.

Despite postal saving distribution fees falling 5% year-on-year, the underlying remuneration scheme has improved, thanks to a higher proportion of recurring management fees over upfront fees allowing us to confirm an EBIT contribution in line with 24SI. The secular decline of traditional payment slips continue with transaction banking fees down 12% in fiscal year 2021 partially mitigated by the reprising activity of August last year. From 2022, we expect operating profit to remain stable over the plan due to higher intersegment cost related to an increased commercial effort.

Moving to Slide number 7. We now expect revenues from investments to increase in 2022 supported by tax credit and interest rate fluctuations. Over time, we demonstrated our ability to effectively manage our portfolio in different market environments with returns steadily above market yields over the past years, changing the mix between NII and active portfolio management contribution. Also, thanks to the upside from investment in tax credit, we expect to reach EUR1.5 billion of net interest income in 2022, an increase of EUR0.3 billion versus our original estimates.

Moving to Slide number 8. You can see the results of our usual sensitivity analysis on investment portfolio returns under different interest rate stress test. We assume that parallel shocks applied to the swap rate would last one year with the rates increased by 100 basis points and decreased by 50 basis points and the spreads increased by 100 basis points. As you can see, the yellow and blue bars demonstrate the total investment portfolio revenues remain resilient under all assumed scenarios. Let me remind you, that this stress test do not take into account any tactical portfolio management, which would implement in any given scenario to enhance our returns. The gray areas show that under most scenarios we would have a significant buffer from gross unrealized capital gains.

Moving to Slide number 9 on Insurance. We have -- we had a very strong 2021 with total revenues increasing by 14%, reaching impressive EUR1.7 billion driven by a successful commercial push of our multi-class business. Life revenues increased 16%, mainly driven by higher investment margin benefiting from the volume growth outpacing the market and higher returns on segregated funds. Finally, after almost 15 years of investment yield reduction due to the ultra-low rates, the returns are now stabilizing. In non-life, revenues were down 8% in 2021 due to several one-off items, and as Matteo has mentioned to a mix more skewed towards corporate health insurance.

As a result, P&C combined ratio increased to 86% in 2021. Excluding one-off charges related to dormant policies and COVID protection claims recognized to our employees, but still lower than the market average. EBIT increased double-digit outpacing higher distribution fees paid to the network required by greater focus on advisory and commercial effort to sell higher value-added life insurance products. Both life and non-life segments are expected to grow, supported by higher gross return premiums and a share of multi-class life products ahead of expectations. In conclusion, we are confirming our ambitious original targets, revenue and profitability for the segments.

On Slide number 10, we look at our life insurance business in more detail. Over the last few years, we started to focus on the diversification or investment portfolio. As you can see on the left-hand side chart, we reduced our exposure to government bonds with an increase in both corporate bonds and alternatives, including private assets. Going ahead, we plan to further reduce the weight of government bonds, increasing investments in corporate and real assets, which will contribute to a lower volatility of solvency ratio, as well as to improve our investment portfolio diversification. Investment returns are well above the average minimum guaranteed return of our portfolio. And we expect this to further improve by 2024. Thanks to the stabilization of returns I just mentioned and the gradual runoff of policies embedding a minimum guaranteed return.

Moving to Slide number 11. Our solvency capital position remains robust with solvency ratio at 261% as of December 2021, above our managerial ambition, while it is in the 240-250 range at present. We are reconfirming our managerial ambition of a solvency ratio above 200% of the cycle. We are also on track to gradually reduce solvency volatility through investment portfolio diversification and improvement of the product mix also supported by favorable market conditions. Finally, we continue to optimize our capital structure to support the strong growth of our Insurance business.

On, Slide number 12, Payments and Mobile. Yet again, our Payments and Mobile business has performed particularly well with all product lines displaying strong revenue growth and driving exposure to fast-growing payments market in Italy. Payments are at the core of the business, integrating our unrivaled physical post office digital channel in B2B2C omni-channel strategy. The resilience and growth of our telco revenues, despite a highly competitive market is evidence of the strength of our brand and the trust of our loyal customer base. We are further built on this loyalty with the successful launch of the final offer, which will be followed by the upcoming energy offer.

Other payments are up year-on-year to EUR115 million in 2021, thanks to the strong increase in transactions directly managed by Postepay as payment service provider. Going-forward, the structural decline of traditional payment slips will impact intersegment revenues, but will be partially offset by the growth of the above mentioned directly manage transactions. We expect to see revenues up to EUR1 billion in 2022 with the lion's share coming from card payments. EBIT is expected to grow to EUR0.3 billion in 2022, more than offsetting the structural decline of the additional payments such as payment slips and the startup cost of our new energy business. We can also confirm that the energy business will positively contribute to EBIT from 2025.

On Slide number 13, you can see how our omni-channel strategic approach has been significantly boosted by the acquisition of LIS, the Italian paytech champion with over 54,000 affiliated points of sale, active in the Italian proximity payment market. The strategic fit is perfect for us. LIS has been our long-standing partner for many years with the lion's share of our B2B2C revenues, where we have witnessed a doubling of transactions since 2019. As a result, post-closing, we will have full control of a state-of-the-art proprietary paytech platform consolidating positive pay growth in the proximity payment business. The total consideration of EUR700 million for 100% of lease with the deal closing expected in the third quarter of this year.

Moving to Slide 14, where we will discuss the evolution of our group workforce. In 2021, the number of FTEs decreased around 121,000 people, well ahead of the original target. We expect this trend to continue over the plan horizon, remaining the key driver of our labor force reduction cost. This further decrease of FTEs net of new hirings will be supported by the natural demographics of our workforce subsidized exit and fixed term contract flexibility. Let me highlight that in 2022, we expect to reach 120,000 FTEs already over achieving the original target by 1,400 FTEs.

Moving to Slide number 15, we'll discuss HR cost management. Ordinary HR cost decreased year-on-year, reaching EUR5.24 billion in 2021, even taking into account the 2020 was not representative as a year as it benefited from a number of positive one-off items. With lower FTE base, we are able to fully offset salary and benefit increases both in 2021 and 2022. Early retirement charges were also lower in 2021, and are expected to stay in line in 2022. To sum up, we maintained a tight control on HR cost, reducing total cost both in 2021 and 2022. As you can see, the most significant indicator is the ordinary HR costs or revenues, which is decreasing for 53% in 2017 to 46% in 2022.

On Slide number 16, we look at non-HR costs. In order to support the business growth and ongoing industrial revolution, non-HR costs expected to increase are mostly related to partial payments and energy services. Let me highlight that over the plan, we estimate that the ratio between variable cost in a rated variable revenues would certainly decrease from 77% in 2017 to 67% in 2020, anticipating the 2024 target.

Turning to Slide number 17, given the current macroeconomic environment with the inflation figures at the highest level in the last 30 years, we implemented a number of mitigating measures to shield our businesses from rising costs. Thanks to the HR labor contract signed in June last year and in place until the end of 2023, we have a clear visibility on HR cost evolution. To mitigate the rising non-HR cost, in 2020, we hedged our exposure to (inaudible) until the end of 2022. Real estate energy confirms are also locked in until 2023. We confirm that the telco and payment costs are currently impacted by inflationary pressures. And their management, as a result, thanks to our efficient business management and some timely actions under -- all costs are under control up to 85%.

Turning to Slide number 18. The group will grow shareholders' equity over the plan. Each business segment is sufficiently capitalized and will contribute to our sustainable and competitive dividend policy achieving an even stronger balance sheet with an efficient group capital structure.

Let's now move to Slide number 19, where Mail, Parcels --

Matteo Del Fante {BIO 6237992 <GO>}

I will take over. In Slide 19, focus on the net financial position of Mail, Parcels and Distribution, our net financial position you can see on the page improved to minus EUR1.3 billion in 2021, while it is expected to reach minus EUR2.3 billion in 2022, as a result mainly of the M&A activity, with strong cash generation and total financial debt remaining well within our untapped debt capacity.

Turning to Slide 20, please. Consistently with 24SI, we continue to increase our capital expenditures in key areas of development to support our business transformation. On the right side of the slide, you can see the key areas of focus and I would like to point out that more than 60% of the initiatives and investment are ESG related.

Finally on Slide 21. We continue to invest and forge relationship with several partners to boost growth across all our segments. In this slide, you can find an overview of our group key strategic shareholdings that will support us in pushing and delivering our business targets. At the same time, they represent a financial lever that strengthens our flexibility so that we can respond promptly to emerging business opportunities and trends. And now, on remuneration, let me first cover our remuneration strategy, which has always been aimed at actively supporting the creation of long-term sustainable value for all stakeholders, ensuring a full alignment of incentives and targets.

We adopt an integrated approach combining ESG and financial targets to ensure a sustainable growth. All performance measures are set at a challenging levels to ensure self-financing of MBOs and long-term incentive schemes. The long-term incentive payout provides for up to 10 years performance, deferral and retention periods. Investors, as a matter of fact, recognize that our remuneration strategy is best in class with an approval rate close to 100% at last year AGM. We committed the highest level of transparency and focus our reward strategy strictly on merit. Indeed, our executive remuneration is below our PR median, but our brand and our standing are very strong. And we're, therefore, able to attract and retain the best talents in the market nevertheless. This year, to further strengthen our commitment to gender diversity, we approved a new LTI plan for the '22-'24 period that include a gender diversity KPI within our management succession plan.

And finally, before taking your questions, let us conclude with some key messages. In May this year, Poste Italiane will celebrate its 160 year anniversary. Happy birthday, Poste. Our unique heritage has always allowed us to address challenges and guide the future of our communities. 2021 results, once again, prove Poste Italiane's ability to deliver its promises while navigating through difficult times ensuring value for employees, customer and shareholders. Our plan implementation, as we have shown is running ahead of schedule while our multi-channel approach and the new incremental opportunity size over the past few months will further enforce our sustainable value creation. Finally, our investor will be rewarded with a generous and visible dividend policy, whilst our commitment to keep it competitive over time is confirmed today. (Foreign Language)

Let's now open the floor to questions. Over to you, Massi.

Questions And Answers

Operator

(Question And Answer)

A - Massimiliano R. Riggi {BIO 20490987 <GO>}

Thank you, Matteo. May I just remind you to keep to a maximum of two questions and state your name and company when asking a question. For any topics not covered, feel free to contact me and my team. We will get back as soon as possible. Thank you. So, the first question is from Giovanni Razzoli from Deutsche Bank. Please, Giovanni.

Q - Giovanni Razzoli {BIO 22114144 <GO>}

Good afternoon to everybody and thank you for taking my questions. I'll ask only two. One, you can please clarify what could be the synergies that you expect from the acquisition of LIS. If we're not mistaken, the company has a EUR40 million of EBIT in 2021. What could be the incremental contribution to your group EBIT in 2024, thanks to the synergies that you have indicated the number of points of contacts with the company? So if you can, please clarify this. And the second question, we are seeing the increasing number of questions by investors about the impact of IFRS 17 on the Insurance business. I don't know whether this is your opportunity to ask for this, but if you can please clarify what could be the impact of IFRS 17 on your 2024 targets, if any? Thank you.

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

Okay. If you allow me, I will ask the General Manager of PostePay with Laura Furlan to come on stage to answer the first question. As an introduction to answer, I would like to point out that the acquisition of LIS is still in the makings. We done the signing, but we have a few more weeks to close it. The company will remain a standalone company with a very strong business plan. Laura, please.

A - Laura Furlan {BIO 19298558 <GO>}

Thank you, Matteo, and thank you Giovanni. So as Matteo said, we are currently focused on the closing the deal -- the closing of the deal is expected by Q3 and it implies many activities such that regulatory authorization for among others. So now what can we say, for sure, LIS acquisition is key in consolidating our proximity payment business and also strengthen our omni-channel strategy as we said. But LIS is not only a leader in its space, which is, by the way, growing space. It is also paytech champion and that will allow us to accelerate our acquiring an SME's business using their proprietary paytech platform that will be adapted to our needs. So to -- so far for the evaluation, I would say that LIS is also profitable company with about EUR40 million EBITDA and it's fair to say, at the time, that you can project the same growth as possibly it has in the plan.

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

Thank you, Laura. The second question is a question that has some deep technical aspects. So I would like, please the CFO of Poste Vita, Ms.Monica Biccari to take this question, please and Camillo, if you want to add on in the end. We will ask -- we let Monica, please.

A - Monica Biccari

Thank you, Matteo. Good afternoon, everyone. Thanks for the question. Our preparation is in progress. We've already carried out some impact assessment and the preliminary results are in line with our expectations. So we don't expect reasonably material impact of a future P&L statement and we estimate that the IFRS 17 transition approach could determine a significant stock of future profits in portfolio at the inception date to be released in P&L over coming years. These preliminary results are mainly due to the following factors. First of all, the characteristics of our insurance contracts, especially in terms of minimum guarantees and remaining life. Second, our conservative and forward-looking management of assets and related liabilities in portfolio.

Then since 2018, Poste Vita has been the first insurance company as adopter of IFRS 9, the standard regarding the measurement and evaluation of financial instruments. So we've already experienced the management, the implications of the value approach on the underlying items in terms of an increasing trend of P&L volatility and related impacts over liabilities as requested by the new accounting standard. And finally, since 2018, we have already adopted a top-line representation by insurance margin in our consolidated P&L statement and this actual representation is in line with the new concept of insurance service result under IFRS 17 that is the difference between revenues and expenses deriving from Insurance business.

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

Thank you, Monica. Please, Massi.

Q - Giovanni Razzoli {BIO 22114144 <GO>}

Thank you.

A - Massimiliano R. Riggi {BIO 20490987 <GO>}

And the next question is from Elena Perini, Banca IMI. Please Elena.

Q - Elena Perini {BIO 4202240 <GO>}

Yes. Good afternoon. I've got two questions. The first one is about your Insurance revenues, which in life grow by 16% year-on-year. But in the first half, the growth was even higher. So I was wondering if you can tell us some details about the second half. And -- and then the second question is about your unit linked business. You know that when the markets are suffering, usually investors -- retail investors are more cautious. So what's your feeling after this first month of war and intentions on financial markets? Thank you very much.

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

Okay. Yes, we'll start with the second question. And then ask CEO of Poste Vita to take the stage to go more into details on the first one. As a matter of fact, we are experiencing an additional shift to non-capital protected products, even beyond the 58% mix of multiclass versus class 1 products that we recorded in 2021. So, even in the last few weeks of market turmoil, the story that Poste Italiane is perceived as a safe harbor for Italian savers is confirming that -- is confirming real. Because again, we are seeing more selling in terms of mix of non-capital protected in the last few weeks that we actually recorded last year. On the first question of the margins, I think, I have the answer, but maybe Andrea can be more specific. Please Andrea.

A - Andrea Novelli {BIO 15185958 <GO>}

Thank you, Matteo, and good afternoon to everyone. So as you remember, revenues were frontloaded in Q1 and Q2 2001 due to higher commercial activity and the positive market effect on the investment margin, which was mainly coming from higher inflation. And the latter, so higher investment margin and inflation positively impacted the EBIT as well during the first half. Then this was partly reversed in the second half through higher rebates to policyholders. But if we look specifically at Q4 2021, investment margin was actually higher than Q3 and higher than Q4 last year. And this was again thanks to positive net inflows and higher margins due to the success of our multi-class offering.

Also, as we usually do in Q4 each year, we booked a negative charge of EUR34 million on other reserves, which are linked to the growth of our business and which had a negative impact on EBIT during the second part of the year. So fully notice, bear in mind that we could have some seasonality between quarters due to these effects, but overall our 2021 investment margins was, one, in line with our expectations and it has been at the end the main factor supporting our strong growth in the Insurance segment. Going into 2022, as you have seen, we have reconfirmed our revenues and EBIT targets and we are very confident in reaching them. The reason behind this is that we expect investment margin to keep growing steadily and this is, once again, due to the fact that we have a higher quality positive net inflows coming and a favorable market effect coming from integration as well be shown as well. And so in May, when we will present Q1 results, you will clearly see all of these in our numbers.

Q - Elena Perini {BIO 4202240 <GO>}

Thank you.

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

Thank you, Andrea. Please, Massi.

A - Massimiliano R. Riggi {BIO 20490987 <GO>}

Yes. The next question is from Ashik Musaddi from Morgan Stanley. Please a Ashik.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thank you, and good afternoon, Matteo. Good afternoon, Camillo. Just a couple of questions. So first of all, if I look at the Slide number 40 and Slide number 41 on the CMD presentation, I'm just trying to understand your interest rate assumption and its impact on NII. Now based on what I'm understanding is, you're assuming interest rates 10 years swap rate at 30 basis point, whereas we are at about 113 basis points at the moment. So is it fair to say that if interest rates remain here, then you'll be earning about EUR300 million higher NII in 2022 because that's what is suggested by the next slide, Slide number 41. So that's the first question.

And just related to that is, if interest rate continue to remain at the current levels like no change for 2020 and 2024. Is it fair to say that you'll be earning 300 million higher again in 2024 versus your guidance? Just because your reinvestment yield would be higher and then at the same time assuming the shock scenario of 100 basis points higher rates versus your assumption of 79 basis point. So, getting clarity on this would be very helpful because it's a material number, like, we're talking about 300 million higher earnings.

The second question is, Parcels revenue went down in fourth quarter by about 3%, 4%. How would you categorize that going forward like in 2022 and going forward? Do you see a risk that year-on-year in 2022 Parcels revenue could go down because this remains one of the topical thing at the moment because people are suggesting that, okay, COVID -- getting out of COVID means lower Parcels revenues going forward. So would you say that, you still stick with the guidance that you're giving on Parcels revenue to still grow? Or would you say there is a risk that it might go backwards a bit because of normalizing on COVID? Thank you.

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

Thank you, Ashik. And the plan we updated today was top line update, was not a pure revision top -- bottom up of the plan. So we revised guidance of 2022. We revised guidance upwards of 2024 with add-on factors and we mentioned mainly the cost discipline that we can count upon and the tax credit which was not included in March last year when we presented our current plan, which is '24 Sustain & Innovate. So all the assumptions behind the NII are the one we put in the plan one year ago. And therefore, you extrapolated significantly higher NII for 2024. I will not comment specifically on the figures you mentioned, but I can certainly say that if the interest rate scenario is going towards higher level where the forwards is telling us the market is going, certainly there is space. I don't know Camillo if you want to top up on this question and if you can take also the second question on Parcels revenues please.

A - Camillo Greco {BIO 21978163 <GO>}

Okay. First of all, Ashik, good to connect again. Look, I think, your point is a fair point. What I would add to what Matteo said is that the way we have prepared this sensitivity analogy that expects the relevant benchmark to go up for one year and then to return to our curve and by doing that the mix of active portfolio management and NII changes. So that's the way we have built the sensitivity. The second thing I would say is that, as you will recall, we have more than half of our portfolio, which is hedge to forward start. And yes, would in the outer years the base rate go up, we could benefit of that, obviously again at the expense of capital gains as -- when rates go up, we have a better NII, but our total cake of capital gain is reduced. What I would like you to take away from this slide is that, we are very confident with our projections and that we stick to them. Would the contest change, we will update you in due course.

With respect to the second question on our Parcel evolution. What I would say is that, obviously, as you can see, we have outperformed 2021 by EUR100 million, and we expect our Parcel business to continue to grow also in 2022 by another EUR100 million. That is mainly around B2C. What we also -- what I also would say is that going back to your specific point on Q4, yes, we had a marginally lighter Q4 compared to Q4 of the year before, but some time has passed, but remember that Q4 2020 we're still at least in Italy in lockdown as far as the Christmas period was concerned. So, it was a particularly challenging base to overcome as for '24 -- Q4 2020 is concerned.

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

Yeah. And Ashik, if I may try to bring a bit of perspective on our Parcel strategy, it's now, five year you've been following us, since we focus on, we started with the B2C proposition, our joint delivery model is now fully implemented. And if I look at 2021 B2C revenues versus 2017 B2C revenues, as I said in my presentation, we have increased by EUR500 million. Out of this 500 million revenues, so we created a sizable company in four and a half years. Out of this EUR500 million extra revenues, there is a big component that is coming from B2C not related to Amazon, which is -- which was and is still our biggest client in the Parcel space. And there is a contribution which is significant with an increase of 26% of the B2B. So all in all, we're trying to transform our business from a mail business into a B2C business and that's where we are today into a full logistic business to compensate for the long-term historical secular trend of mail decline.

That will probably mean that we will have some quarter or some periods of steady growth in volumes, but I can assure you that this is at the top of our agenda working on the transformation of our logistic space. And even if this quarter or this first half of the year, as we plan, we will register flattish, if not, marginally declining revenues in Parcel, we're still committed and we are confirming our plan to increase Parcel for the full year of 2022, and more importantly, we are confirming our commitment and our strategy of becoming a fully-fledged logistic player. And in becoming a fully-fledged logistic player, it means starting to generate revenues on warehousing. And last year was the first year, we reduce the revenues in the space of warehousing as opposed to express business. It means focusing on verticals and I mentioned the acquisition of Plurima, which is a small, but it is the domestic market leader in hospital and in health Logistics and there we're very optimistic about creating a leadership in the space with Plurima. So this is -- it's a long journey and unfortunately -- not every quarter we can give excellent news on all items on the income statement.

Operator

Thank you. The next question is from the Domenico Santoro from HSBC. Please Domenico.

Q - Domenico Santoro {BIO 20232719 <GO>}

Hi, good morning. Thanks for the presentation. Just a couple of follow-ups from my side. First of all, on the cost side, I mean, you are upgrading the revenues target for next year. I know that the world has changed so far, but my understanding is that you put some edges to control your cost base. So, I'm just wondering whether you have been over conservative again on cost for next year given that you had done better the year or there is any contingency plan you might want to comment on, again, on cost in case there's something that goes wrong. On the NII sensitivity. Am I correct? I was comparing the slides of this presentation with the plan last year? And I correct to see that your NII sensitivity to a move in the IRS has moved a little bit up. So I was just wondering whether you have changed a little bit the portion of your portfolio which is swapped or any changes that you want to comment.

And then on the Insurance. I've got the answer that you gave before to the colleagues, but I mean, on absolute terms, revenues in 2021, they are little bit behind the target that you presented in the plan. And given that you are instead confirming 2022, I was just wondering whether you expect at this point margins to be better going forward or there's anything else that we should factor in? Thank you.

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

We start with the last question. I think, Mr.Novelli confirmed our 2022 targets. And certainly, there is, again, probably a small degree of underperformance in 2021. But again, the 2022 targets are confirmed and there is, in the insurance space, we have learned on our skills also a lot of volatility due to the accounting standards that the CFO, Monica Biccari has detailed. So I think, this kind of topics of changing margins from one accounting period to another, maybe with IFRS 17 will be behind us.

On COGS, I will let Camillo answer more in detail or I can tell you is that when we hedge fuel, gas, electricity was exactly two years ago, you remember, you all remember that the energy markets in the middle of the pandemic were extremely, extremely weak in terms of value. Unfortunately, the forward markets in the energy space don't go beyond two years. So we basically cover up to what the -- forward market allow us to cover. But this is giving us confidence for this year and for a portion of next year. But maybe Camillo, you want to be more specific.

A - Camillo Greco {BIO 21978163 <GO>}

Yes thank you. So, first and foremost, yes, we have 85% of our cost base which is not linked directly to inflation, that is a result of around EUR5.5 billion on HR cost and part of the portfolio, which is not exposed as a result of hedges or long-term contracts we have in place. We have, however, revised our assumptions given the particularly complex environments we are in 2022. And we have tried to be as conservative as possible. But as Matteo said at the beginning of his speech, obviously, this is a very volatile environments, we'll update you on a quarterly basis on how the situation evolves.

More specifically, the cost item that is naturally the most exposed to inflationary pressure is related to fuel, whereas the jet fuel for our planes is hedged and we are in control for 2022. We have increased the estimate of cost for transporting fuel by the order of EUR30 million to EUR50 million compared to what we had originally last year. And we believe that the part of that additional cost we'll be able to transfer to our final customer part, we will absorb. But at this stage, I would not take from our statements that there is upside to this item, but rather we are managing it as carefully and cautiously as possible given the challenging environment. And also, perhaps, one other point on insurances, yes, there has been some evolution, but we also had specifically one-off items in P&C, which we have recorded that impacted the top line as -- would you add back some of those one-off items in P&C that have to do with COVID and other adjustments would be closer to the original target set to the market.

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

Thank you, Camillo. And I think, we missed one small answer in terms of sensitivity of the portfolio to the IRS spread, it's correct. We have increased the size of the portfolio which is hedged and therefore, you can see versus previous sensitivity analysis, an increase of sensitivity to the IRS spread.

A - Massimiliano R. Riggi {BIO 20490987 <GO>}

Thank you. And the next question is from Manuela Meroni, Banca IMI.

Q - Manuela Meroni {BIO 1782610 <GO>}

Yes. Thank you for taking my questions. The first one is on cost. You already gave some details, but could you please provide us with more color on the 15% of your cost base that could be impacted by the inflation? And do you see any potential risk on revenue base coming from a high inflation scenario? The second question is on the Parcel business. You mentioned before that the fourth quarter had a very difficult comparison with the fourth quarter 2020. Also, the first half 2022 will compare with the very stronger first half 2021. So, I'm wondering if you can please elaborate on your strategy to reduce the dependence of Parcel revenues from the external factors rather than from a single client since you mentioned before about Amazon. And second, what we can expect in the first half 2022 in terms of Parcel?

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

Okay. I will take, again, this question on logistic. We brought the share of our largest client below 50% and it keeps going down. Our strategy to mitigate the external market volatility is to keep pushing our commercial efforts and gaining new clients. And as I told you over the last couple of years, we have completely restructured our sales force, and this is now fully in place and in action. So that's the best thing we can do together with more attention to pricing and margins because we have talked mainly about the top line.

But, for us, it's also important towards the target of the breakeven of Mail, Parcels and Distribution that the Parcel component gives a positive operating level contribution. So, we are refining the way we do pricing, we are refining the way we update pricing to clients and we are learning by the day how to optimize this effort. That has to go beyond B2C, by definition, as I say. And again, Q1 and Q2 compared to the very strong first half of 2021 would probably be on the weakish side. But we are comfortable that the full 2022 will be an increase also in Parcel. On the 15% cost that is exposed, Camillo, you want to take this please.

A - Camillo Greco {BIO 21978163 <GO>}

Yes. So the total cost base of the group is around -- estimated for 2022 is around EUR9.5 billion. Of these EUR9.5 billion, we have EUR5.5 billion, which is related to HR costs, which we said, as a result of the contract in place until 2022 -- 2023, apologize, are not inflation-linked. Secondly, we have around EUR900 million of D&A, which also will not be impacted by inflation. So, the bucket of COGS, which is in fact exposed to -- could be exposed to inflation is a bucket of around EUR3 billion -- EUR3 billion won. But part of it is not impacted as a result of hedges and other contracts we have in place and the cost impacted at around EUR1.3 billion. Within this EUR1.3 billion, I mentioned that we estimate an increase of around EUR30 million to EUR50 million in fuel and that has to do with around 10% of that cost base or EUR1.3 billion. So out of that EUR1.3 billion, there are around 10%, which is related to transport and fuel and that bakes in already an increase to EUR30 million to EUR50 million in absolute term for 2022 as a result of the inflation.

A - Massimiliano R. Riggi {BIO 20490987 <GO>}

Thank you. The next question is from Gianmarco Bonacina from Equita. Please, Gianmarco.

Q - Gianmarco Bonacina {BIO 4077284 <GO>}

Good afternoon. A couple of quick follow-ups for me. The first one on unrealized capital gains, if you can share with us the latest data you have as of last week or when available. The other one about the energy business, if you acknowledge given what happened in the recent months that maybe this business could have a higher risk profile than maybe what you thought when you launched this initiative last year? And if you basically can tell us what are the level of startup losses you expect for 2022? Thank you.

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

On the unrealized capital gain, as of closing of markets of last night we're short of EUR700 million. On energy, volatility and potential increase in market exposure, we've been observing over the last three to four weeks very closely the forward markets. And the forward markets are still resilient. So there is still a forward market notwithstanding the fact that the spot level are clearly out of control. There is a still a forward market with an inverted curve.

We have built a model where we basically would hedge with very frequent waves, the contract that we closed. So we don't anticipate an increase in market exposure due to current spot level volatility provided for markets remain active. But as I said in my comment, the reason why we're taking a bit more time to go to the market with such an important initiative is that we are trying to validate the debt of the forward markets for the very specific reason that we want to avoid any market risk on the underlying. In terms of startup cost, we have, 2021 and -- 2021 is around EUR15 million and 2022 is around EUR50 million.

Q - Gianmarco Bonacina {BIO 4077284 <GO>}

One-five?

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

15.

Q - Gianmarco Bonacina {BIO 4077284 <GO>}

Okay. 15 last year.

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

EUR15 million 2021, EUR50 million 2022.

Q - Gianmarco Bonacina {BIO 4077284 <GO>}

Okay.

A - Massimiliano R. Riggi {BIO 20490987 <GO>}

And we have a few questions from the web platform. So the first from Ferrari -- Mediobanca, Gian Luca. So what is the remittance ratio from Poste Vita? Is it still 50%? Any possible increase in near future? Then is it fair to assume that your -- you could have additional intake in the tax credit after reaching your EUR10 million cap as part of that -- as part of the total will mature in due course?

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

Let's take them one by one. Yes, the assumption in the plan is still a 50% payout from Poste Vita to Poste Italiane and there is no plan to change the uptake. In terms of the possibility of going through our legal limit of around EUR9.5 billion is not planned. And as a matter of fact, the numbers you have seen today are forecasting an activity in tax credit, which will basically absorb our platform during the course of 2022. We're actually running today at around 2,000 requests from clients on a daily basis. So we have a pace that gives us visibility for the rest of the year to basically finish our allotment and in the figures and in the strategy at the moment, there is no plan to increase that exposure.

A - Massimiliano R. Riggi {BIO 20490987 <GO>}

Finally, we have again Giovanni on the line for -- we have time for the last question. So I suggest you take it. Giovanni from Deutsche Bank, please.

Q - Giovanni Razzoli {BIO 22114144 <GO>}

Thank you for taking my follow-up. For Camillo, on NII, that your guidance of EUR1.5 billion for 2022, is that correct that it does not include the potential upside from the current rate environment, but it only includes the impact from the tax credit? I'm asking you this, because if I compare it on a year on year basis, and if I exclude the impact of the tax credit, you've seen that you're guiding got decreased in the NII, which I'm do not think consistent with the evolution of the forward curve. So I'm wondering whether it's my understanding correct. Thank you.

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

I think on the NII there is one big element that often we don't explain and it's clearly our fault, well enough. We have a portfolio that has high coupon BPTs. So government bonds that unfortunately are going to maturity over time. And therefore, the yield that we get notwithstanding the fact that now we have a higher rate scenario on their reinvestment is by definition lower than the one in the past. So this is a secular -- a structural feature of our portfolio. And you can see on Page 7 of Camillo presentation, the yield that the portfolio has shown a very clear declining path for this specific reason.

A - Camillo Greco {BIO 21978163 <GO>}

Yes. I mean, I can also add to say that in 2021, we have had the going to maturity around EUR9 billion of BTP and we're invested around EUR8 billion of BTP at the delta rate of around 100 basis points. So the portfolio is yielding less than it did before. And there is an element of upside that you do -- we don't want always to manage expectation too much. But there is clearly an element of upside that comes from the fact that if the ECB will take the stance following the fact and increase rates in the short term, then you have to remember that we have over 40 million of interest rate swaps, which means that we currently have in the figures you see in the NII the floating leg of the swaps. If the short end of the curve makes up because ECB and the market adjust to a higher level, we have a clear benefit in that space. That's clearly in the numbers, if it happens.

Q - Giovanni Razzoli {BIO 22114144 <GO>}

Thank you, Camillo and Matteo.

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

So there are no more question, I really would like to thank everybody for taking the time to listen to us, to ask questions. And as I said in my introduction, I really hope to see as many as you as possible in the next few weeks. I'm starting tomorrow the road show with CFO and Massimiliano. Thank you very much.

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