

Q3 2017 Earnings Call

Company Participants

- Matteo Del Fante, Chief Executive Officer & Managing Director
- Roberto Giacchi, Chief Financial Officer

Other Participants

- Anna Adamo, Analyst
- Ashik Musaddi, Analyst
- Emanuele Borghetti, Analyst
- Giovanni Razzoli, Analyst
- Michael van Wegen, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, and welcome to the Poste Italiane Nine Months 2017 Results Conference Call. For your information, today's conference is being recorded.

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

Matteo Del Fante {BIO 6237992 <GO>}

Thank you. Good afternoon, ladies and gentlemen. We're pleased to report the results for the first nine months of 2017. Revenues for the period were up €524 million, 2% over last year, reaching €26 billion.

EBIT in the first nine months is equal to €1.176 billion, down €20 million or 2% from €1.196 billion of last year. I would like to emphasize the EBIT in the first nine months of 2016 last year result was impacted by the positive one-off effect related to the Visa Europe disposal, which accounted for €121 million and made the consolidation at the time of the BdM-MCC bank activities for €30 million, while the nine months of 2017 EBIT has been impacted on the opposite by some accruals related to real estate funds posted in the Financial segment.

Net of this non-ordinary effect, our nine months 2017, we call it normalized EBIT would have been €1.237 billion versus the €1.045 billion of last year, posting an increase of more than 18%.

Net profit is down €83 million versus last year, which is 10% to €724 million, mainly as a consequence of the already mentioned accrual, plus the Alitalia write-off for around €70 million impacting the tax level. Excluding the above mentioned one-off effect, also the net profit would have been higher at €839 million with an increase of 25% versus the €672 million posted last year.

In the presentation today, we will start introducing some new KPIs and items that allow the management and the stakeholders and investors to follow the deployment of the new plan of next year. And clearly, we'll go more into the details of this new KPIs.

Moving to slide number 3, the Financial Services, the first segment, posted revenues down by 3%, because in 2016, we had Visa capital gain and the BdM-MCC bank consolidation. And again, net of this effect, the first nine months of 2017 results would have been up 0.6% versus last year.

Operating profit decreased by €99 million, minus 14%, mainly due to the lower revenues that we describe and the negative impact of the €50 million provision for the real estate fund. Net of the non-recurring items, the first nine months of 2017 EBIT would have been €666 million, which would have been up 2% versus €651 million of last year.

Insurance and Asset Management revenues increased by €700 million or 4% versus last year in terms of revenues from €18.7 billion to €19.5 billion and operating profit posted a robust 28% growth year-on-year. This is mainly due to the ongoing positive performance of life written premium and initial contribution on non-life and asset management products.

On the last segment, Mail and Parcels, revenues were down €68 million, minus 2.5% to €2.66 billion. The expected reduction mainly related to the decline in traditional Mail volume, partially compensated by the increase in parcel revenues that we will explain better later on.

In the first nine months of 2017, EBIT is down versus last year, due mainly to lower intersegment revenues, so it's the flip side of the reduction revenues that we have seen in the Financial Services, as we will describe more in detail in the following slides.

Moving to our total assets under management. We posted an increase from the end of 2016 in nine months of €12 billion, up 2.5% versus the €493 billion of end of 2016. The mix continues to be well balanced. We experienced a slight reduction in postal savings, collection and a significant increase on our current account deposit and in fund and net technical reserves.

As you can see from 2014, we confirm our growth path in total asset under management or administration. These remarkable results underline the strength and reliability of our brand and our networks. The proximity to our customer base, as well as of the range of simple and safe products is really appreciated by our clients.

Let me now hand over to Roberto Giacchi, Group CFO, that will go into detail of every specific business segment. Thank you.

Roberto Giacchi {BIO 20101579 <GO>}

Thank you, Matteo and good afternoon, everybody. Let's now move into each specific business unit results. Starting from our Financial Services revenues evolution on slide number 5. As you all know, BancoPosta business model is similar to asset gathering and supported by transaction banking and distribution of third-party products. Our revenues overview, as a consequence, follow the structure. Overall, in nine months 2017, we're down revenues by 3.1% versus prior year. For the same period, normalized revenues, net of MCC and Visa effect, were up by approximately €23 million or plus 0.6% year-on-year. In October, we had also experienced a recovery in the distribution revenues.

Let's now look into each specific segment, moving on to slide number 6. On current account deposit, let me point out the following major items. An increase in average deposits of BancoPosta accounts moving to €55 billion from €49 billion in 2016, up 13%, a stable customer base with over 6.3 million current accounts, a decrease in net interest income for €35 million versus nine months 2016, more than compensated by the increase in posted capital gains.

On 7 November, unrealized capital gains reached almost €3 billion, mainly as a consequence of the spread decrease. I can confirm that for full year 2017, we expect to generate returns on current account deposit in the region of €2 billion, as a combination of capital gains and portfolio yield. Within this framework, please note that in the first half of the year, we have realized all the capital gains expected for the full year.

Let's now move to postal savings in the following slide. Up to the end of September 2017, average postal savings deposits decreased by minus 1.6%, and the related fees remained almost stable at €1.172 billion. At the end of May, we widened our product offering with a three-year postal bonds, with a nearly gross return of 0.7% and this has strongly contributed to improve net inflow in postal bonds in the third quarter 2017. At the end of the first nine months 2017, we can count on a very stable customer base, with over €30 million of postal savings books.

Let's now move to the transaction banking on slide number 8. Here, we are introducing some of the new KPIs that Matteo mentioned at the beginning, which should enable you to better understand the key drivers of our transaction banking business. The cards and acquiring business has accounted a very solid growth both in terms of cards and transaction value. This is definitely a growth area both in terms of revenues and margins for our group in the future.

To this respect, I would like to mention the continuing success of Postepay Evolution card that, in the first nine months 2017, has more than 4.8 million cards issued from the launch in July 2014, with around 1.2 million cards in the first nine months of 2017.

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The payment bank and money transfer business has registered a decline in payment slips minus 3.7% and the growth in bank and money transfer transaction 4.4%.

Let's now have a look to the transaction banking revenues on slide number 9. Here you can see the revenues related to the key drivers I described in the previous slide, are slightly growing year-on-year, in particular, the reduction in payment slips for €39 million has been more than offset by the increase in the cards and acquiring business for €42 million.

Let's move now to slide number 10. Allow me to take this opportunity to introduce you and highlight the extremely positive achievements we reached so far in our digitalization process. At the end of September of this year, we had 14.2 million registered users, plus 2.6 million or plus 22% versus September 2016 while in terms of mobile apps we recorded 13.3 million downloads, plus 4.5 million versus September 2016, the digital channels are currently used by around 1 million clients a day. Taking also into consideration our retail postal network with around 1.5 million visitors per day, we can count on around 2.5 million customers visit per day. I believe everybody is able to appreciate this remarkable numbers.

Let's now move to BancoPosta regulatory framework on slide number 11. And as much as BancoPosta capital adequacy is concerned, let me stress four major key points. BancoPosta regulatory framework continues to be fully aligned with EU standards. Nine months 2017 CET1 ratio reached 17.1%, almost doubling the normal regulatory requirements. Nine months 2017 leverage ratio stands at 3%. Nine months profitability recorded a remarkable 28% return on equity. All these numbers coupled with a zero lending risk profile makes BancoPosta a unique superior returns (14:56) fee-based revenues player in the Italian financial industry.

Let's move to Insurance and Asset Management business in the following slide. As you can appreciate, we are providing you for the first time with the key metrics of our Insurance and Asset Management business. Let's start from life fees, which increased more than 18% in nine months 2017. This is due to the increase in gross written premium and in technical reserves.

On private pension plans, total fees are up year-on-year by €8 million or 20%. Last year, we also booked an extraordinary item for €55 million. We recognized a positive and increasing contribution of P&C technical margin, thanks to the significant growth in gross written premium. Also Asset Management is showing an important 50% increase in fees, due to the relative increase in assets. On cost side, you can appreciate the limited 2.1% increase in the first nine months 2017. These allows us to post a 28% or €120 million increase in the divisional EBIT, reaching €556 million versus the €436 million of last year.

Let's move to slide number 13. Group gross written premium. In nine months 2017, group's gross written premium increased by around €1 billion, for a total amount of €16.4 billion (17:05), up 6.1% from the same period in 2016, driven primarily by the continued growth of our life business, confirming Poste Italiane Group as the number one life insurer in the Italian market.

As you can see in this slide, this growth has been recorded in all our products, Life, Private Pension Plans and P&C products. At the same time, our customer base has grown substantially in all these three business areas reaching 3.6 million customers in the Life business, 0.9 million customers in private pension plan business and almost 1 million customers in P&C business. In particular, we have benefited from double-digit growth even from the small base in our non-life premiums, whose results will become more and more material going forward.

Regarding Solvency II, at the end of the nine months 2017, eligible owned funds were equal to €8.5 billion, up €1 billion versus the €7.5 billion at nine months 2016. On the other side, Solvency capital requirements increased by €1 billion to €3 billion. As a consequence, the Solvency II ratio at the end of September 2017 is equal to 283% versus the 380% registered at the end of September 2016.

Let's move to slide number 14. In the first nine months, life premium net inflows were equal to €7 billion. The significant outflow in Class III is attributable to the €3.7 billion maturities on guaranteed index linked products, with no impact on our P&L. The majority of this amount has been reinvested by our customers in Class I guaranteed product.

Furthermore, let me underline that at the end of September, our remarkable lapse rate was equal to 2.82%, decreasing 6 basis points versus last year, a figure which is far lower than the market benchmark of 4.6% registered at the end of 2016.

Let's move to slide number 15, technical reserves evolution. Group technical reserves increased by €7 billion, up 6% from September 2016, benefiting from the continual growth of insurance business. On the 7th of November, our realized capital gains reached €9.3 billion growing from the €7.8 billion at the end of September 2017. This value will allow us to continue offering higher than market returns to policyholders and, therefore, a continual growth in the insurance business strengthening our market leadership.

With regard to our investment portfolio breakdown, the increase of investments in multi-asset funds, which moved from 13% at the end of September 2016 to 17% at the end of September 2017, confirm our diversification strategy towards a more adequate risk return profile. At the same time, the average minimum guarantee in Class I policy has been reduced from 1% to 0.9%.

Let's move to slide number 16 for some key ratios. Here we have the Asset Management business. And as much as Asset Management operation, let me underline that assets under management increased by close to 14% year-on-year, reaching €8 billion, with our customer base increasing by 26% to more than 600,000 customers. As you can see, with lower investment returns in the bond market, our customer risk return profile has shifted towards more balance/flexible and equity products.

Let's move to slide number 17. In this slide are shown the results of the monetary program that has been internally established relative to the cross-selling index. This index is a clear measure of our ability to extract value from our customer base. This index will be a key driver for the future strategic plan and for the future strategic growth of Poste Italiane. As

you can see, the index is showing a solid growth quarter-after-quarter. We will be focused on keeping this growth going forward.

Let's move to slide number 18. Total revenues and operating profit for Mail and Parcels business. Intra-segment segment revenues decreased by approximately 2.4% or €83 million mainly due to the lower commissioning received from the Financial Services business unit. This commissioning reduction is related to the previously described revenues reduction accounted in this business unit.

Mail and Parcels, total market revenues instead posted a decrease of €58 million (24:10) down 2.5%. The Parcels revenues increased by €41 million, up about 9%. This increase in revenues was not able yet to compensate the overall 5.8% decline in Mail revenues. The reduction of the operating profit is completely related to the lower commissioning accounted.

Slide number 19, volume and market price for Mail and Parcels business. On volumes, let me highlight here, in the first nine months, Mail volumes reached 2.3 billion items down approximately 8% versus the same period last year. The decline is mainly due to the e-substitution effect and the drop in direct marketing volumes. As we know, the drop in direct marketing volumes has a limited impact on our revenues.

As I commented previously, revenues decreased only 5.8% as a result of the tender pricing discipline and the ongoing re-pricing effect in recorded mail starting from January 2017. On the other hand, Parcels volumes increased by almost 19% year-on-year, confirming the excellent momentum mainly driven by the growing e-commerce penetration in Italy. The Parcels price reduction is related to the strong increase of B2C e-commerce flows characterized by lower price per unit.

Slide number 20, group operating cost. Overall, group operating costs fell by €162 million, down by minus 2.5% versus last year, as a consequence of our continued cost management action and lower labor cost. With regard to cost management actions, we have streamlined the group's organization and reducing the number of active companies. This process is generating structural savings which are decreasing the group's cost base. We expect the new strategic plan to focus on additional efficiencies and cost optimization.

Slide number 21. This is a focus on labor cost, as you can see. As you have seen in the previous slide, total labor cost is down to €4.241 billion or minus 2.2% (sic) [2.1%] (27:26), thanks to the reduction in the average number of employees. Let me remind you that at the end of September, approximately 4,000 people have already signed our pre-retirement plan and that are not accounted yet in the average workforce that I mentioned you. The result in terms of head count reduction for the first nine months 2017 confirm the management commitment to reduce year-after-year the workforce. We are also in the negotiation phase of the national labor contract. Details about this contract will be given as soon as the agreement will be signed.

Let's move to slide number 22. Here, we have the evolution from the group EBIT to the group net income. Net income for the period was equal to €724 million. On top of the

already commented EBIT evolution, the performance is related to net financial losses equal to €70 million, composed by positive net financial income for €24 million and Alitalia and Atlante write-off for almost €100 million. Taxes for a total consideration of €383 million, corresponding to a tax rate of about 34.6%. As stated before, excluding the above mentioned one-off effect, net profit would have been €839 million with a strong increase plus 25% versus last year.

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Let's move to slide number 23, capital expenditure. In the first nine months of 2017, Group CapEx was equal to €283 million, up €31 million or 12% from last year. The vast majority of the investment program is mainly related to information technology and digital platforms. The balance is related to select upgrade of facility data and logistics centers. This figures show without any doubt that the recent management changes in Poste Italiane Group has not reduced the commitment and the speed of our profound transformation program.

Let's move on slide 24. Finally, let's focus on the industrial net financial position. The industrial net financial position reached €417 million at the end of September 2017. The negative change in working capital that you can see in the slide is due to the cash-out related to the early retirement plan finalized in 2016 and the reduction in trade payables. On the dividend and equity movement fronts, the €43 million outflow is the result of €466 million coming from our BancoPosta ring-fenced capital and dividends from participation compensated by the payment of the dividend to our shareholders for an amount equal to €509 million.

On top of our recurring CapEx, in the first nine months 2017, we have recorded in our M&A activities an inflow of €106 million related to the partial cash-in of MCC disposal and the cash-out for €278 million for the SIA stake.

Thank you for your attention and let me hand over to the CEO, Matteo Del Fante for some closing remarks.

Matteo Del Fante {BIO 6237992 <GO>}

Thank you, Roberto. Just some final remarks on our principal area of focus at the moment. As you know, we recently announced and created in October a new business unit, a new segment named Mobile Digital And Payments (sic) [Mobile and Digital Payments] (32:40). The aim and the strategy behind this decision is to unify the offer to retain the business clients and public administration in the space, to increase our competitiveness in a faster growing digital channel, creating an agile space to keep up the speed of the market and to offer high tech solution and convergence between physical and digital channels and customer experience.

We believe that this new business unit will give a strong contribution going forward to the growth of the group and to enhance shareholders' value. A second important step for us is clearly the ongoing restructuring plan of the Mail and Parcels segment. The process is on track. We are focusing on savings and efficiency and the quality of the service we offer to our customers.

Finally, as you know, we are finalizing our new strategic business plan which we aim to present to the financial markets in the first month of 2018. We believe that all these efforts will lay the foundation to create an important long-term value proposition for our shareholders.

Thank you very much for your attention. And we can open up to Q&A. Thank you.

Q&A

Operator

Thank you. And we will take our first question from Giovanni Razzoli of Equita. Please go ahead. Your line is open.

Q - Giovanni Razzoli {BIO 7269718 <GO>}

Yes. Hi, everybody. I want to ask a couple of questions from my side. First of all, I'd like to ask whether it is a target of the plan to substitute credit (34:51) income of BancoPosta with more recurring revenues? And my second question is about alternative day delivery, in particular, how is the implementation strategy evolving? And last, can you provide us an updated yield spread sensitivity for BancoPosta? Thank you.

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

Yeah. Thank you, Giovanni. It's not yet a target to replace the capital gain with recurring items, but we're clearly well aware of the fact that the multiple that the market is recognizing to Poste is clearly - bank debt is clearly taking a hit because of this factor. The second question is for the CFO.

A - Roberto Giacchi {BIO 20101579 <GO>}

I'll make a comment on the overall restructuring Mail and Parcels business, part of which is the alternative delivery model. For the Parcels business, we aim to take further advantage of the growing e-commerce segment, which represents a great opportunity both for domestic and cross-border flows, in order to increase our market share.

In the Mail business, we want, on the other side, to confirm our market share to the constant improvement in quality, while at the same time, supporting business sustainability to efficiency initiatives. With particular reference to the new delivery model and the alternate delivery model, after completing the plan implementation for 2016, we are now considering some adjustments, needed to maximize both speed and efficiency and customer satisfaction. We expect to complete the full implementation of the new delivery models in 2018 and about this at the moment the negotiation with unions is in progress.

The efficiency objectives are also (37:43) by leveraging on other initiatives such as for example, the reengineering, sorting and sequencing processes, and a lean manufacturing approach. Thanks.

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

And I think the third question was on the yield on our investment portfolio.

Q - Giovanni Razzoli {BIO 7269718 <GO>}

Yes.

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

As you have seen on page 16, we experienced a marginal decrease in interest income that was more than compensated by additional capital gains for 2017 versus 2016. And the effect is, basically, the flip side of the increase, if you look at the last few months of the unrealized gains we have in the portfolio. So we put on page 6 end of September 2017 €1.6 billion of unrealized gains. As of yesterday, this figure is slightly above €3 billion. So when rates going down, we have a negative effect on the interest income of the new investments we do where we have a positive effect on our investment portfolio.

Q - Giovanni Razzoli {BIO 7269718 <GO>}

Okay. Thank you.

Operator

We will take our next question from Michael van Wegen of Bank of America Merrill Lynch. Please go ahead. Your line is open.

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

Thank you. Good afternoon. Thank you. Good afternoon. A couple of questions. First of all, on the one-offs that you highlighted for the nine-month, can you specify how much they are for each of them and can you also clarify which ones or how much of that is related to Q3 specifically? That's question number one.

Question number two, looking at your new insurance disclosure and, particularly, the management fees that you show for life insurance, they're up 30% year-over-year where your technical provisions are up only 6%. So can you help me understand why that management fee is growing considerably faster than technical provisions are growing?

And then, finally, your Solvency II ratio in Q3 dropped by about 10 points. Can you help us understand what the moving parts were in the quarter and what the sensitivities of that Solvency II ratio are going forward? Thank you very much.

A - Roberto Giacchi {BIO 20101579 <GO>}

Okay. I'll take the first one. And I do a summary of the one-off in cards in the nine months of 2017 versus the same period last year. During this period, we have had - during the first nine months 2017, we have had the following one-off. Real estate fund distributed by BancoPosta for €61 million, the low EBIT Alitalia write-off for €81 million. In the same

period of last year, we have had only one capital gain related to the disposal of Visa for €121 million.

About your question on net technical reserves, I'm going back to the slide that we showed you. So we are basically saying that our management fees are increasing by 29.8% in life business and 23.5% in private pension plans business. And this is related both to the increase of the net technical reserves and to the pricing structure of the products that we place in the network.

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

And I think the sensitivity on the Solvency II, we can tell you that a 100% increase, if we look simply at our exposure in the portfolio to (43:30) a 100% increase in yield has an impact of 40 basis points in terms of unrealized - of Solvency. And the same increase of the spread between Italian registry and bond of 100 basis points has an impact of 75 basis points.

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

To clarify, interest rates going up is a negative of 48 (44:12) percentage points or a positive or negative?

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

It is negative.

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

(44:17)

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

(44:19) yes. We show on page, unrealized gain on the portfolio - the investment portfolio, if you go to page 15, we're showing 30th of September, a figure of €7.840 billion, that figure revise (44:50) for the decrease in interest rate is now above today €9 billion.

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

And can you help us understand (45:03) capital in the quarter from Q2 to Q3? Thank you.

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

If you agree, we can take this question offline.

A - Roberto Giacchi {BIO 20101579 <GO>}

Michael...

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

Sure, no problem.

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A - Roberto Giacchi {BIO 20101579 <GO>}

We'll give you the answer by mail, okay.

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

Thank you.

A - Roberto Giacchi {BIO 20101579 <GO>}

Thank you.

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

Thank you and sorry.

Operator

Our next question comes from Ashik Musaddi of JPMorgan. Please go ahead. Your line is open.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi. Good afternoon. Just a couple of questions. One, can you give us the yield to majority of the bond portfolio on the BancoPosta business? And secondly, you mentioned on the previous question that you have changed some pricing structure on the insurance back book. Can you give some more color on that, what pricing stuff, what have you changed, because it's a material increase in terms of profits from management fees? And the last one would be, you have done some asset derisking in the Insurance business again. So how much more can you do? Is there any target you have? Thank you.

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

Ashik, I'm sorry, we have a really hard time to hear. I just ask you to...

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah, sir. There is a voice...

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

...repeat your question, the quality of the - sorry.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah, the voice is having some problem, maybe we'll take it offline. I'll speak to you later on. There is some issue with the voice. Thanks.

Operator

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We will take our next question from Anna Adamo of Autonomous Research. Please go ahead. Your line is open.

Q - Anna Adamo {BIO 16893946 <GO>}

Good afternoon and thank you for taking my question. You rightly mentioned that there were a number of (47:10) one-offs as recorded in the (47:12). And I'm wondering (47:17) expect that the portfolio would be based on adjusted earnings (47:25) earnings. In other words I would like to (47:27) dividend of 2017 (47:32) for the dividend of 2017?

And the second question on the...

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

Anna, sorry. Can you repeat the question slowly, the line is very bad. I don't know why. If you can...

Q - Anna Adamo {BIO 16893946 <GO>}

I know. I'm hearing my voice.

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

Can you repeat it please?

Q - Anna Adamo {BIO 16893946 <GO>}

I just want to understand whether the dividend policy for 2017 will be based on adjusted earnings rather than state of earnings.

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

Okay.

Q - Anna Adamo {BIO 16893946 <GO>}

Because obviously you mentioned there are a number of one-offs (48:10) nine months results.

A - Roberto Giacchi {BIO 20101579 <GO>}

But Anna, we are really sorry, but the line is very bad, so we got just part of the question. We understood that you are making a question about the dividend policy, and if this is the right questions, we have already stated the dividend policy for this year. And we will provide the dividend policy for the following years as soon as we will present at the beginning of next year our industrial plan.

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

But I think maybe I got the question sorry, the dividend policy which stated for 2017 is...

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Q - Anna Adamo {BIO 16893946 <GO>}

(48:59) whether this dividend policy is based on adjusted earnings.

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

Yes. I was about to say, yes, exactly, is on stated profits, okay, is on accounting profits.

Q - Anna Adamo {BIO 16893946 <GO>}

Okay. Thank you. And lastly, just on the restructuring expenses in the fourth quarter, can you remind us about how much the restructuring expenses will be recorded in the total business?

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

That specific item relates to the amount of people that will exit the firm over the course of the plan and there would be an accounting item in the last quarter. But given we are in process of discussing on the one hand with the unions, on the other, obviously, on the plan, unfortunately, Anna, we understood the question, but we're not in a position of giving a precise answer at this point in time. Sorry.

Q - Anna Adamo {BIO 16893946 <GO>}

Okay. Thank you.

Operator

Our next question comes from Emanuele Borghetti of Intermonte. Please go ahead. Your line is open.

Q - Emanuele Borghetti {BIO 19118661 <GO>}

Good evening, everybody. Just a couple of questions from my side. The first one regards the duration of the BancoPosta portfolio bonds. I mean I saw some changes in the – even a slight changes in the duration of the bond portfolio. If you could provide us with, I don't know, some kind of guidance or I mean kind of target you have in mind for the duration of the bond portfolio.

And second question regards the insurance investments, if you could provide us with the average reinvestment yield you are currently obtaining on the new flows of investments and an update on assets and liabilities directions on that side?

And finally, regarding the cost of labor, if in third quarter the cost of labor includes some elements regarding the negotiation of the national labor agreement with the unions?
Thank you.

A - Roberto Giacchi {BIO 20101579 <GO>}

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Okay. Yes. I'll take your first question in terms of portfolio duration. As we stated, we decreased by 0.3 years the portfolio duration and that was on the back of some of the capital gains that has been realized over the course of the last 12 months. And obviously, the interest rate environment that does not suggest taking duration risk at this point in time.

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

Yes. I'll answer to your second and third question. I'll start from the third one on labor contract. Clearly, the negotiation is undergoing. So we cannot yet provide specific numbers. Anyhow, the value is in line with the usual market negotiation and the labor cost that we posted in the first nine months 2017 do include the accounting that we will have to pay based on our estimation for the negotiation.

About insurance and technical reserves, given the current market expectation and in line with investment strategy defined in the medium term by the board of directors, our investment decisions will continue to be focused on conservative targets with our technical reserves mainly invested in govies and corporate bonds. Anyhow, keeping a moderate risk appetite, our investment diversification process will continue in the coming years should increase in multi-assets and alternative investments.

Q - Emanuele Borghetti {BIO 19118661 <GO>}

Okay. If I may, there is one more question regarding your partnership with ANIMA Investment Management, I would like to know if there is any update on the negotiation or on the strategy regarding this side of the business? Thank you.

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

No specific update. Sorry, but we keep working.

Q - Emanuele Borghetti {BIO 19118661 <GO>}

Thank you.

Operator

As we have no further questions, I would like to turn the call back to the speakers for any additional or closing remarks.

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

We thank again everybody for the attention and the time you spent analyzing our share and obviously feel free to contact us directly and we will do the follow-up offline of the two questions and analysts that unfortunately couldn't hear well and couldn't answer on the spot. And thank you very much everybody.

Operator

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

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