Q1 2016 Earnings Call

Company Participants

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

Other Participants

- Anna Adamo, Analyst
- Ashik Musaddi, Analyst
- Gianluca Ferrari, Analyst
- Maura Garbero, Analyst
- Michael Werner, Analyst
- Michael van Wegen, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good evening and welcome to the Poste Italiane 2016 First Quarter Results Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Luigi Ferraris, Chief Financial Officer. Please go ahead, sir.

Luigi Ferraris {BIO 7424315 <GO>}

So, good evening, ladies and gentlemen. We are pleased to report a solid set of numbers for the first quarter 2016. As anticipated in our full-year call, the evolution of our quarterly earnings is a function of the timing of our portfolio management. Q1 has benefited from such a timing. The underlying trends are, however, aligned with our expectations and confirm for each of our business progress of execution as per our plans.

Revenues for the period are close to €10 billion, growing at 14%. EBIT has grown 16% to €562 million. Net profit has grown 18% to €367 million. This solid set of figures generated robust funds from operation in the region of €250 million that I will further explain in the following charts.

Moving into the next slide, here, you have an overview of our key numbers. Consolidated revenues and profits increased respectively by about 14% and 16% over the period. This is mainly due to the following: Financial Services operating profit increased by 7% from €250 million to €267 million. This increase is mainly attributable to higher capital gains realized from active management of BancoPosta asset portfolio of about €72 million and lower operating cost by 26%. All of this has been partially compensated by higher net recharges from the Mail & Parcel business units of about €76 million.

Insurance Services revenues increased by approximately 20% from €6 billion to €7.2 billion, and operating profit maintained a robust 11% growth year-on-year mainly due to the ongoing positive performance of the segment. Mail & Parcel revenues were equal to €936 million, down 5% from 2015. This expected decline mainly relates to a reduction of traditional postal volume. And as for EBIT, please bear in mind that we will account for our usual accruals only in the final course of the year. As you know, this business once reached full-year operating breakeven for some time, but I will better detail this trend in the later chart.

Before moving into each specific business units, let's have a look at our client's asset breakdown on slide number four. Total volumes increased by more than 2%, bringing total asset to €486 billion versus €476 billion in 2015. The mix remains substantially stable and well balanced with a clear resilience of postal savings collection and a material increase for about €3 billion in our current account deposits.

In the contest of recent turbulence in the Italian banking industry, the strength and reliability of our brands, coupled with simple, safe (03:46) products, continue to deliver an increasing asset base and profitability for the growth.

Let's now move into each specific business unit results. Starting with our Financial Service revenues evolution on slide number five. Revenues have grown mainly as a consequence of realized capital gains, amounted to €386 million. Let me remind you that during the course of 2016, we expect to generate through the active management of our portfolio, total revenues in the region of €2 billion, as a combination of capital gains and yield. Within this framework, please note that in the first quarter, we already realized approximately 80% of the total capital gains expected for the full year.

In more detail, slide number six provides you with a breakdown of the Financial Services business units revenues. The major key points here are the following. First, returns on current account deposits. Higher revenues are mainly due to the already commented higher capital gains. Second, fees from postal savings collection and administration. Although net collection was higher than in first quarter 2015, fees were lower, as this year they do not include revenues for ancillary services developments. Third, fees from transaction banking. Revenue decrease is mainly driven by the public broadcasters decision to adapt a new payment system for license fees, resulting approximately 9 million payment slips less than 2015.

Distribution fees, as indicated in the slide, we recorded growing revenues in personal loans and other personal financing products. This is an area of development for BancoPosta that has recently renewed its offer range in this sector and launched a marketing campaign.

Fifth, payment card fees, the reduction is mainly due to a lower subscription fee applying to debt and prepaid cards. Here, the performance has to be assessed taken into account the positive contribution of about €1 billion debt/prepaid cards have on BancoPosta deposits.

Let's now move to slide number seven. On active portfolio management, let me point out the following major items. An increase in average deposits of BancoPosta accounts moving to €48 billion from €45 billion in 2015, 7% up. The unrealized capital gains amount to €5 billion vis-à-vis €6 billion of the previous years. Let me also remind you that as of the end of 2015, our realized capital gains amounted to €5.4 billion.

Let's now move to BancoPosta regulatory framework and capital position on slide number eight. In as much as BancoPosta capital adequacy is concerned, let me stress four major key points. First BancoPosta regulatory framework continues to be fully aligned to European standards. Second, first quarter 2016 Tier 1 ratio reached 15.2%, substantially doubling the minimum regulatory requirements.

Third, first quarter 2016 leverage ratio stands at 3%, as a consequence of higher assets under management. Should the growth of BancoPosta asset under management continue, we are in any case prepared to recapitalize BancoPosta with no impact on our dividend policy. Fourth, first quarter profitability recorded a 36% return on equity versus 30% for the full-year 2015.

All of this, coupled with a zero lending risk profile, makes BancoPosta a unique superior return fees based revenues players in the Italian financial industry.

Let's now move to Insurance Services on slide number nine. Gross written premium increased by 24%, driven primarily by the continued increase of our life gross written premium collection, confirming Poste Vita as a number one life insurance in the Italian markets. However, we have also benefited from double-digit growth albeit from a small base in our non-life offering, where we are executing a development strategy, whose results will become more and more material moving towards the final parts of the plan period.

In as much as our investment portfolio breakdown is concerned, let me highlight the increase of investments in equity multi-asset products which moved from 6% in 2015 to 11% in 2016, confirming our diversification strategy towards a more adequate risk to return profile. This continues to be fully in line with our capital requirement.

Let's now move to slide number 10. On the Mail & Parcel business units, volumes, let me highlight here that on the one hand, traditional mail volumes fell close to 10% year-on-year, slightly slowing down the negative trend versus the 10.2% decline recorded last year. On the other hand, Parcel volumes increased by 10% year-on-year, confirming the positive momentum mainly driven by the growing e-commerce penetration in Italy. More specifically, the 6% decrease in Mail revenues, vis-à-vis a 10% reduction in volumes, demonstrates the positive impact of the new regulation which has led to a shift in volumes from J plus 1 to J plus 4 (10:21) products. Thus, benefiting from the positive regulated price increase.

Moving to slide number 11. Well, first, let me remind you that intrasegment revenues increased by approximately 6%, mainly due to the higher revenues, driven by capital gains recorded by the Financial Service business unit as well as higher gross written premium collection. At the same time, operating costs have decreased by 1.2% period-over-period, as a result of continued cost management action.

Specifically, Mail & Parcel operating costs have been further reduced by €25 million over the period, mainly as a result of lower cost of goods sold which decreased almost 2% primarily due to lower IT operation expenses and lower cost on vehicles and logistics. I will comment on overall labor cost dynamics in the following charts.

Let me now move to slide number 12 to discuss group operating costs. Focusing on our cost structure at a consolidating level, overall group operating cost structure remains substantially stable. The already mentioned reduction in costs of goods sold has been partially compensated by higher D&A related to previous year's CapEx. Let me confirm here that we expect the full impact of our new managerial (11:58) action in terms of costs reduction to be fully implemented starting from the year-end onwards.

And now moving to slide number 13, labor costs remained substantially stable year-on-year at €1.5 billion, but you know that we have launched a voluntary pre-retirement plan, and we expect 5,000 people to leave the group through this plan. As of the end of March, about 2,300 people have already signed up to the pre-retirement scheme, and they will leave the group by the end of the year. We will, therefore, see the full impact on payroll in 2017 in line with our plan.

As for 2016, we will pursue further reduction in head count versus 2015. However, please bear in mind that during the course of the year, we will finalize the renegotiation of the National Labor Contract.

Let's now run through how our profit and loss evolution is below the EBIT line on slide number 14. Net income for the period equaled €367 million, recording an increase of approximately 18% from €311 million recorded last year, in the first quarter of last year.

On top of the already commented positive EBIT evolution from 2015 to 2016, this performance is related to net financial income equal to €6 million, taxes for a total consideration of €200 million corresponding to a tax rate of about 35%, a further reduction versus last year. For the full-year 2016, we expect a normalized tax rate in line with full year 2015, i.e., 39%.

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

Finally, let's focus on the industrial net financial position on slide number 16. First, let me highlight the positive contribution of our funds from operation as a result of the already commented operating performance. On the other side, negative change in working capital is mainly due to the capital gain dynamics recorded during the quarter, and specifically during the month of March, which will be paid by BancoPosta to the parent company during the course of the year.

Furthermore, let me also remind you the usual seasonality of our working capital variation which usually worsens in the first quarter of each year. On cash (15:07) receivable, we expect to complete the cash in by year end with a consequent relevant impact on the change in working capital. Thank you for your attention and let me hand over to the CEO, Francesco Caio for some closing remarks. Francesco?

Francesco Caio {BIO 1516226 <GO>}

Thank you very much, Luigi, and good evening to all of you on the call, and we've seen a good quarter of further progress in the execution of our plan and we look at it as a sound base for moving forward with quarters of execution again in the rest of the year.

In Financial Services as Luigi has indicated, we booked about 80% of the capital gains that we have planned for the year, and we've seen a growth of about €3 billion in current account deposits. Now the focus is on continued growth in other services, primarily the personal loans, the cross-selling and hopefully consolidating the good results of net inflows of current account deposits.

In Insurance Services and Asset Management, we have continued to grow the premium trend with a growth rate year-on-year of more than 20%, but the same time as Luigi mentioned a moment or so ago, we begin to see some momentum in non-Life and Asset Management products. As you know, this is an important element of our mid-term plan and we would expect to see some interesting numbers by the end of this year. There is a lot of effort going on in terms of training our sales force, making sure our branches are ready to respond to the challenge, and as I said, the non-Life and Asset Management begins to show up in our books.

In Mail & Parcels clearly the challenge ahead is the scaling up of our new delivery process of alternate days. That is instrumental to make sure that the cost optimization target that we have will be delivered starting in 2017, and we remind you again that the restructuring charges for the year ahead will be booked as in previous years in Q4. Therefore, in assessing the overall performance of this sector, you have to keep in mind that Q4 will bear the cost of the restructuring charges. All of that putting it together give us a good financial position, good robust cash generation and that kind of solidity that we need to support our CapEx plan, pay for the dividends that as you know are still planned to be 80% of net earnings for this year and over time, give us some flexibility in at least considering some potential strategic options, obviously to the extent that they make sense from a shareholder's standpoint in creating additional value.

So that was what we were keen to share with you, a good progress versus plan and continued focus on execution, and now I guess there is some time for a Q&A session and therefore I will hand it over to the moderator for the questions. Thank you very much.

Operator

Thank you.

Luigi Ferraris {BIO 7424315 <GO>}

Thank you very much.

Q&A

Operator

Thank you. I will now hand the conference over to Luca Torchia, Head of Investor Relations, to host the Q&A session.

A - Luca Torchia {BIO 19160880 <GO>}

Thank you. The first question is coming from Gianluca Ferrari, Mediobanca. Please, Gianluca, go ahead.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Yes, good evening. I have a few questions. The first one is on the €936 million revenues from Mail & Parcels. I was wondering if you can give us the data for Mail, I think in your financial report, you will highlight that so it would be useful to have it now.

Second question is on the early retirement. You updated on the exits in Q1 and what you expect for the full year. Can you also update us on the hiring you made in Q1 and what do you expect for the full year?

My third question is on P&C, you mentioned the double-digit growth in premiums, and we know also the combined ratio of this business you garnered in Q1. The fourth and final question is on a focus on Life Insurance, did I understand correctly that you are launching now a unit-linked policy. If this is correct, can you elaborate a bit on what kind of product it is, what are the underlying assets and the margins linked to this product? Thank you.

A - Luigi Ferraris {BIO 7424315 <GO>}

So, let me try to address the first question, revenues made in Parcel, as of the end of first quarter, the revenues related to the Mail are in the region of €720 million, €730 million. The remaining portion is Parcel plus some other revenues. When it comes to the hiring, in the first quarter, we have hired about 500 people and basically we expect that these should be the entire program for 2016. So, we do not expect additional hiring during the course of the year...

A - Francesco Caio {BIO 1516226 <GO>}

It's not marginal...

A - Luigi Ferraris {BIO 7424315 <GO>}

...It's not marginal, but this is the vast majority of costs. Then, we have when it comes to the Life Insurance, when it comes to the premiums, and let's say the progress, say, in gross written premium, we had double-digit growth and this is definitely correct, and, I mean we are still confident and positive on the evolution of debt.

A - Francesco Caio {BIO 1516226 <GO>}

Combined ratio is 77%.

A - Luigi Ferraris {BIO 7424315 <GO>}

The combined ratio is about 77%. I mean, new unit-linked, it is true, we have launched these new products. When it comes in terms of risk, I would say we are talking about a moderate risk (21:53) approach, in line with our strategy and with our, let's say poise. The unit margin (22:00) is in the region of, say, 1%, and the recurring fee is in the region of more or less the same amount, so 1.1%.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Are the underlying funds entirely coming from Anima or also other third-party parcel managers (22:20)?

A - Luigi Ferraris {BIO 7424315 <GO>}

I would say Anima for the vast majority, yes.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Okay. Thank you.

A - Luca Torchia {BIO 19160880 <GO>}

The next question is coming from Kunal Zaveri, JPMorgan.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Hi. This is Ashik Musaddi from Kunal's line. Just a couple of questions, first of all if I look at your investment portfolio and in the Insurance business, it looks like you have 11% of assets into equity funds. Now if I look at the first quarter, there was a point in February when equity markets in Italy was down 25%, so is it fair to say that at that point you had wiped out around, say, 40% of your capital in the Insurance business. Is it a fair way to think about it, because you look pretty highly levered in terms of how much equity you have in the guaranteed business versus how much capital you have in Insurance under Solvency II, for the first one? Second one is, if I look at the banking revenues, can you just give a bit more color about what's going on with postal savings, transaction banking, payment card fees, because Q-on-Q – sorry, year-on-year all these items declined, is there any sort of seasonality or this is what we should expect going forward as well? Thank you.

A - Luigi Ferraris {BIO 7424315 <GO>}

Well, let me address the first question first. I mean, we have named this 11% equity, the real equity content is in the region of 10% to this 11%. So, we are talking about 1% or 2% as really relating of the total technical reserve to the equity.

In reality, we are talking about multi-assets. So the risk exposure is minimum and of course, we have not been impacted by the fluctuation in the performance of the equity market that occurred during the course of the first quarter.

In terms of – as a consequence but not only for that, in terms of capital requirement absorption, Poste Vita is in a good shape. We are still there, we have reported at the end of last year a Solvency II ratio of 405% and we, at the end of the first quarter I would say that we're basically there. So we are 404%. So, still...

Q - Ashik Musaddi {BIO 15847584 <GO>}

Can you give a bit more clarity on what this equity fund hang (24:45) – because I thought it is equity, equity fund means equity, but can you give us a bit more color what – if on an underlying basis, what these assets are?

A - Luigi Ferraris {BIO 7424315 <GO>}

We are talking about – let's say, the multi-asset class is mainly corporate bonds plus as I said there is an equity portion of 10% of the total. The exposure (25:17) I would say, well-balanced in terms of also on final investments, we are talking about high yield with low risk profile, we have corporate bonds and we have also – so we're, I would say, well-balanced.

As of today – as of the end of March, if I'm not wrong, we can say that there are no major risks for our customers as a consequence of this allocation.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Okay. Thanks a lot. That's clear. And just on the banking part?

A - Luigi Ferraris {BIO 7424315 <GO>}

Yeah, exactly. You had also another question related to the evolution of our banking revenues. I mean, when it comes to current accounts we have been very clear since the beginning. We see underlying yield declining, so net-net of the capital gain, the remuneration is in the region of 3.2%, which is showing a decline versus last year, which was 3.6%, 3.5% to be precise, but that's in line with our expectation, so we do not have a surprise and that's – we said that thanks to the portfolio that we have and thanks to the unrealized profit that we have in our hands, we can guarantee €2 billion revenues this year and I will also say that if the general environment doesn't change, so we still, we are going to stay in a zero-rating interest scenario, it will continue to be like that also in the coming two years or three years.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes. Okay.

A - Luigi Ferraris {BIO 7424315 <GO>}

So, the trend is stability here. Transaction banking, we are going to this year to see the impact of – as I said, of the broadcast in change payment which has been changing (27:11), that will be absorbed during the course of 2017, I would say, in 2016 that difference will remain as it is. When it comes to the payment card fees, we have seen a decline despite a significant increase in volumes because of a change in the interchange fees decided by the European Community, and again we put in place a plan, thanks to which we do expect to recover, I would say during the course of the year, to go back to the same level of 2015 revenues.

Postal savings, I mean, the volumes are showing improvement versus last year, and we have a slight decline in the remuneration because we have a premium component that was part of the calculation last year which has not been repeated this year as a consequence of the decline that we have seen in postal savings particularly at the end of 2015.

A - Luca Torchia {BIO 19160880 <GO>}

Thank you. The next question is...

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay.

A - Luigi Ferraris {BIO 7424315 <GO>}

Thank you.

A - Luca Torchia {BIO 19160880 <GO>}

...from Michael van Wegen, Bank of America Merrill Lynch. Please, Michael, go ahead.

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

Yes. Thank you. All right. Good evening everybody. Couple of things, starting with the Mail business or the Mail & Parcel business. If you look at slide 10, the breakdown that you gave of the Mail volumes, the unrecorded mail is pretty much flat, but your direct marketing and unaddressed mail plus the other bucket are the ones that are materially under pressure, can you talk a little bit about what – yeah, how you're able to keep the unrecorded mail stable, and what the outlook is for the two buckets that are particularly under pressure, should we continue to expect similar volume declines going forward or how and when do you expect that to tail off. The other thing is, if I look at volume versus revenue development then it looks like the price increases that you've been able to put through in Q1 are considerably lower than the price increase – increases that were announced in October, can you talk a little bit about how repricing is coming through the numbers and how much is still to be expected or whether we're seeing a full impact there? Then a final question on the Mail business. If you look at page – let me see, sorry, for the – yeah, that's on page 28, if you look at the other operating expenses for your Mail & Parcel business, that's down 6% year-over-year, is that representative of the developments that you're making or should we not extrapolate that? And I think you talked about less IT investments and some lower cost of vehicles, is that the explanation, that is (30:18), is that sustainable?

Then two questions on the Insurance business. Premium levels are incredibly strong in Q1. How comfortable are you in maintaining this kind of level of production? You're essentially offering a quite attractive crediting rate for new business, but that could harm you – you could suffer from your own success in the sense that the more new business you write, the more pressure that comes on the overall investment return and the crediting rate, so what kind of volume of new business are you prepared to take in? And then finally, sorry, on the Insurance operating expenses. If you strip out the technical provision to changes in your expenses, there's a very material increase in the Insurance operating expenses. I think it doubles up roughly year-over-year. What's driving that, please? Thank you.

A - Luigi Ferraris {BIO 7424315 <GO>}

So, I will try to address the question that you raised, so let me start from the first one, how is Mail business volumes. I mean, when it comes to the – our recorded mail, we have to assume that this will continue to suffer of the late (31:38) substitution. So, we do not expect a change in the trends. All in all, when we talk about that volumes of the Mail, we still see for the current year, I mean, a double-digit decline. So a 10% decline is something that unfortunately it looks likely to continue during the course of this year.

Of course, when it comes to the price, and therefore to the revenues, the trend is different, because the change in the regulation and in particular in the pricing has allowed us to basically reduce the volume decline down to slightly less than 5%, four point something. I mean, if I'm not wrong, during the course of the IPO, Francesco and I've said that basically we expected a decline in the revenues as a consequence of the implementation of the regulatory change in the region of 4% to 5%. So, I think we are still there. So I do not see any major changes for now. And as we said also during the full-year results presentation, the elasticity for the first quarter, it seems to be close to zero.

When it comes to the other expenses on chart 28, I mean the vast majority of the savings that I mentioned at the group level are definitely concentrated in the Mail & Parcel, because here we have all the Mail business, and also the postal office businesses, so the concentration is there.

Is 6% something that we can assume during the course of the year? I mean, I think that the trend will continue. I cannot guarantee that will be 6%, but for sure we do expect a decline – one-digit decline probably will be a little bit lower than this one, than the 6% that you see over here. But of course, we are working hard on that in order to – trying to match these results. When it comes to the Insurance business and therefore to the sustainability of the growth of our business – Life business, Life Insurance business. Well, I mean, we are – I think we are still in a position to support this growth, because first of all, as you might recall, we have resolved on the 1st of July of last year to adopt – to guarantee zero return to our customers. We are in a position to maintain a minimum guarantee rate in the region of 1%, which is something that, what we have seen.

And if I look at our technical reserves and to our embedded profits or gain if you want that we have in particular on the 73% portion of our total assets invested in the Govies, well, I think we are in a position to support for sure another year like this one but probably also the following. And so, we are still in a position to support growth for this year for sure and very likely for next year as well.

The last question was I think, Insurance expense, sorry. The issue related to the growth of the operational expenses in the Insurance business. Well, first, let me remind you that we're a little bit complicated in terms of legal structure in terms of reporting, but that's the way we are. What I want to say is that when we have an increase in our revenues and therefore in our premiums in the Insurance business, the vast majority of the fees that we receive at the very beginning or in the moment that we open a new position, a new customer goes back to the Financial Services, to BancoPosta. Therefore, the portion that remains in the end of Poste Vita is low. This is going to be a cost for Poste Vita.

When it comes to the Insurance business per se, in terms of operating costs, it's very, very limited and it is definitely a function of the additional activities that we are doing, but they are very, very cheap because the cost – the real cost (36:11) proceeds in our postal office business, which is we charge it, as you know, to that mechanism – intersegment mechanism, to the Financial business and also to the Insurance business. I think I basically covered all the questions.

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

Thank you.

A - Luca Torchia {BIO 19160880 <GO>}

Thank you. We now have Helen Averini, Banca INI (36:30)

Q - Operator

Yes. Good evening. I have two questions. The first one is on the Insurance business and, what, I was wondering if you could give us the amount of the capital gains and the total revenues of the segment for the first quarter?

And the second question is on the mutual funds. As I can argue, your mutual funds should amount to approximately €6 billion at the end of March. So, I was wondering if you can elaborate a little bit on your partnership with Anima. How it is going on and what could you – could you expect for the remaining part of the year? Thank you.

A - Luigi Ferraris {BIO 7424315 <GO>}

Okay. So, let me start from the first question, I mean, we do not have capital gain in the results related to the Insurance business. What I said is, if we look at the technical reserves and the way they are invested, and particularly in Govies, we have in this part of assets embedded capital gain, I think for something close to €10 billion, even more that are belonging to our customer, not to us, but which are there to support the remuneration of our customer in the future. That's why we feel confident that we are in a position to support additional growth in the Life business.

When it comes to the mutual funds, while the €6 billion are the total assets on the manifest of our operating company S.G.A. (38:29), but the portion belonging to Anima is by far lower, of course the partnership has started a few months ago. We are definitely quite happy about the way it's going on, both in terms of operational partnership, in particular they are strongly supporting us in training our sales force. And when it comes to the size, in the first three months of the year, they have – we have basically placed about, if I'm not wrong, €400 million – €300 million of Anima products, let me put it this way.

So, we are doing – net, of course, we're talking about net flow, €330 million of net flow at the end of March 2016. It is continuing so, April is showing very robust performance, so it's going up and we are happy with that. I mean we are happy both in terms of size, reach, and in terms also of support that they are giving us in particular in training our services (39:35).

A - Luca Torchia {BIO 19160880 <GO>}

Thank you. We now have Mike Werner from UBS.

Q - Michael Werner {BIO 4790902 <GO>}

Hello, hi. And good evening. Thank you for taking my questions. I have two questions, one actually to follow up on the previous speaker, just looking at the training involved between Anima and the Poste sales force, how far along is that process? Is that something that will continue to develop as we go through this year, therefore in theory, can we expect I guess a bit of ramp-up in terms of those net flows? And that's my first question.

And then, on the – my second question is related to expenses in the mail business, and if you look on slide 11, if you take a look at the intersegment costs and other costs, that accounted for a very strong portion of the decline in the year-on-year operating costs within the Mail & Parcels business. So, I was just wondering what specifically was accounting for that decline from the €48 million last year to €24 million in the first quarter of this year? Thank you.

A - Francesco Caio {BIO 1516226 <GO>}

Let me ask you – let me answer the question on the training and on the relationship with Anima. This is definitely an ongoing mid- to long-term process. We are determined to equip ourselves with a nationwide capability in our branches to address customers' requirements for products that could potentially have some yield in the zero-interest world, and because as you know, we come from a world of certainty and protection of capital and yield, there is a massive effort to make sure that we are transparent and very clear in the explanation of the risk return profile that our customers might be willing to undertake when buying this products that are relatively new for them.

Back to the second part of your first question which is, are we expecting growth? Yes, we are expecting growth. We're not going to be expecting numbers that are going to be moving the needle materially in terms of the asset base when it comes to the end of this year. But as Luigi was saying, we're seeing month to month some progress from a relatively lowest base (41:56) and I would emphasize that, but it's a double-digit growth and that's why we're investing in training and other systems to make sure that in the horizon 2018 to 2019, we'd begin to see some material impact on our asset base.

A - Luigi Ferraris {BIO 7424315 <GO>}

Well, when it comes to the second question, I mean, if we look at the composite – the different components of this €2 billion plus cost, we also have something related to accrual or mainly related to litigation. And if we compare the first quarter of this year versus last year, we have a decline in this net accrual of the difference that you see over a year, so we are talking about something close to €25 million, something like that.

Q - Michael Werner {BIO 4790902 <GO>}

Thank you.

A - Luca Torchia {BIO 19160880 <GO>}

Thank you. We now have Anna Adamo, Autonomous.

Q - Anna Adamo {BIO 16893946 <GO>}

Hi. Good afternoon, everyone. And thanks for taking my questions. Just I was wondering if you can give us an update on the Solvency II position of Poste Vita. And the second question is regarding to BancoPosta, I mean, the leverage ratio in BancoPosta is approaching the regulatory minimum of 3%. And if I understood it correctly, during the call, you mentioned that you will be recapitalized BancoPosta in the future, can you just tell us other source of funding with regards to this potential recapitalization of BancoPosta? Thank you very much.

A - Luigi Ferraris {BIO 7424315 <GO>}

Well, let me start with the first question regarding Solvency II ratio, I mean if we go through an update of what we have reported at the end of last year with the same – with the same formula and with the same criteria, we are substantially stable. So, we stood at the end of last year at 405%, we are at 404%, so no major changes here, no particular capital absorption. When it comes to the leverage ratio of BancoPosta, I mean as I said, should this growth of this BancoPosta assets under management continue during the course of the year, because we need also to check if this is going to be stable, at the end of this year, we are prepared to allocate portion of the net profit of BancoPosta for the benefit of the recapitalization of the increase of this portion of capital.

I also said that this is not going to affect our dividend policy or our dividends in terms of size because this is only an effect on the legal entity in which BancoPosta is – which is Poste Italiane SpA, which is one that has to pay the dividends. So, it's going to impact the – let's say, the statutory account in terms of income available to support, not the consolidated dividend, but the payment of dividend as a local holding company. We are not concerned about them because we are in a position to further increase the dividend flow from the subsidiaries to the holding company, and I mean just to give you a number, here, we are talking about something in the region of €80 million, €90 million maximum, should the increase in the asset under management remain as it is today.

Q - Anna Adamo {BIO 16893946 <GO>}

Okay. That's very clear. Thank you.

A - Luigi Ferraris {BIO 7424315 <GO>}

You're welcome.

A - Luca Torchia {BIO 19160880 <GO>}

Great. I understand we have a follow-up from Gianluca Ferrari, Mediobanca.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Yes. Sorry for the follow-up. I was wondering if you can give us an update on how much receivables do you expect to cash in, and if it is correct to assume a net financial position – an industrial net financial position in between €800 million to €1 billion at year-end? And linked to this, also in the light of the potential recapitalization of BancoPosta you just mentioned, is it possible for you to go in the fixed income market to increase a bit your debt position given the attractive interest rates, also as a possibility to fund the potential M&A deals or you expect to use only the net cash you have in the balance sheet debt? Thank you.

A - Luigi Ferraris {BIO 7424315 <GO>}

Let me try to address your very articulated question. Well, when it comes to the past due receivables, at the end of last year, I said that we still have about €800 million of past due receivable to be cashed in during the course of the year. We have already cashed in, in the first quarter, something in the leisure of €130 million, and we expect to finalize the remaining portion of receivable during the course of this year, maximum beginning next year.

I would be prudent in saying that this means an increase of our net cash position of the same amount because we need to consider that we are going out also to pay some personnel costs, and also there will be some working capital arising during the course of the year. So, I would encourage you to be a little bit more prudent when it comes to the side that you are talking about.

The capitalization of BancoPosta is not affecting the cash position, it's affecting the dividend capability of old income, but as I said, during the course of the IPO process, we also have about €1 billion of available reserves distributed for reserves to pay dividend, but I don't think we're going to use that because we are in a position to further increase the dividend flow from our subsidiaries, particularly also the insurance business even the high level of capitalization that we had simply by taking advantage of the net profit that they are doing. (48:25) the markets to raise some funds in terms of bonds, I mean there is no need today, we saw there are no plan in the short term, of course, I mean, we are raising for Poste is a well-known player on the financial market. Should we need that, we can do without any major problem, but we are not planning to do that on a short-term basis.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Thank you.

A - Luca Torchia {BIO 19160880 <GO>}

Wait, we now have Maura Garbero, One Investment.

Q - Maura Garbero {BIO 2163705 <GO>}

Good evening, thanks for taking my questions. The first one is on the Financial Services, I'd have to come back on the trading gain. You said that in Q1 2016, you had a trading gain of €386 million, can you tell us what was the trading gain in Q1 of last year?

Second question is related to the Mail division and this time is on the restructuring costs. You said that this year, the restructuring costs will be all booked to the final quarter of the year. I was wondering if that was the case also in 2015, or we have changed the timing and strategy for those charges?

And the final question still on the Mail division is related to your pricing. Is the new pricing has been fully implemented or the benefit should still increase during the course of the year? Thank you very much.

A - Luigi Ferraris {BIO 7424315 <GO>}

All right. So, let me start with the first question. This year, we have reported, as you correctly said, €386 million of capital gain. Last year, we have reported €309 million, so €77 million plus versus last year. When it comes to the restructuring costs, in 2015, we have booked basically the entire accrual related to our efficiency program, and therefore, restructuring costs in the fourth quarter of 2015, as we said, both Francesco and I, this is going to happen again this year, so in the last quarter of 2016. And we do expect something in the region of €300 million and €350 million.

And third, the implementation of the new price in the mail business is done, so we are fully applying the new price structure. As I said, we have not seen any major impact in terms of elasticity. So we're basically seeing FX in line with our expectation. And just let we remind you that the new regulatory frame, where the new price started last year in the last quarter, just to be very clear. I think, I answered – I covered all the questions. Thank you.

Q - Maura Garbero {BIO 2163705 <GO>}

Yeah, thank you.

A - Luca Torchia {BIO 19160880 <GO>}

Thank you very much. I understand there are no more questions on the desk. So, thank you again for conveying, and of course, the Investor Relations team will remain available for any further request or inquiry. Thank you and good evening.

A - Luigi Ferraris {BIO 7424315 <GO>}

Thank you.

A - Francesco Caio {BIO 1516226 <GO>}

Bye, bye.

Operator

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