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Interim management statements as of 31 March 2016 – Press release

Video presentation transcript

ALBERTO MINALI, GENERAL MANAGER AND GROUP CFO

Good morning, this is Alberto Minali, General Manager and CFO of Generali. I am pleased to report to you this morning our first quarter results. The group has performed well: even if we did not match the unusually high result of last year, this is due to our decision to realise a lower level of gains in volatile financial markets, while underlying technical profitability has been excellent. This demonstrates the benefits of our continuing focus on technical discipline, in what is clearly a challenging environment for the insurance industry.

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Key 1Q 2016 financials at a glance

The total operating result of the period reached almost 1.2 billion, down 12.3% year on year, mainly due to a weaker investment result of the life segment, attributable to lower realised gains. Our decision has been to take a more cautious stance on capital gains in current market conditions, also in order to preserve future returns. I would highlight that the overall stock of unrealised gains has continued to grow.

Despite this, the annualised operating ROE was broadly stable at 13.3%, and remains above our target level.

The decision to take lower realised gains is also evident in the non-operating result, leading the overall net result of the period down by 13.8 percent to 588 million euro, and earnings per share which are down by the same amount.

Shareholders' equity is up 5.8 percent from year end 2015, to 24.9 billion euro, mainly driven by the increased stock of unrealised bond gains attributable to shareholders as I mentioned before.

The Solvency II ratio remains strong at 188 percent, even if decreasing 14 percentage points from year end 2015, driven by adverse financial market conditions. This is in line with the indications we gave to the market in the middle of March, and the sensitivities we published with the full year results.

Operating result by segment

Looking at the operating result by segments,

The Life operating result posted a 8.2 percent decline to 756 million euro;

Property & Casualty showed a 1.4 percent decline, due to lower investment income and to other components, which offset a very strong underwriting result.

The segment Holding & Other Businesses had a negative performance with 38 million euro losses, compared to a 54 million profit of last year. This was mainly due to some specific items in the first quarter of last year, namely the exceptionally strong performance of Banca Generali, and some gains on private equity and real estate funds, none of which was repeated in the first quarter of this year.

From operating result to net profit

Let's then see the journey from operating result to the bottom line:

Non-operating investment income had a neutral contribution to net profits, as compared to the strongly positive contribution of last year. In line with volatile financial markets, the quarter experienced 108 million lower realised gains and 42 million higher impairments.

Non-operating holding expenses increased by 5.3 percent to 197 million euro, due to 11 million higher interest costs. This increase in interest expenses is temporary, and is linked to the 1.25 billion subordinated bond issued last October to pre-finance the June 2016 call date.



Other non-operating expenses decreased by 101 million euro, mainly due to some provisions in the prior year number which did not recur.

The tax rate was 30.9 percent, while minority interests were 41 million euro lower, due to the lower contribution of Banca Generali as previously mentioned, and the presence of realised gains on equity investments in China during the first quarter of last year, which did not recur in this quarter.

Shareholders' equity

Let us now turn to look at the balance sheet. Shareholders' equity increased by 5.8 percent, reaching 24.9 billion euro.

The mark to market of available for sale assets resulted in a 1.1 euro billion gain. The positive impact of reduced interest rates on unrealised bond gains was the main driver, slightly offset by the negative evolution of other asset classes.

The net result of the period contributed for 588 million euro, as you have already seen.

Other items are 352 million negative and derive primarily from the negative effect on our German pension liabilities as a result of the reduced interest rates in the quarter, but also from the decrease of currency translation reserves due to the depreciation of the Swiss Franc and Argentine Pesos.

Solvency II: Internal Model View

Our solvency ratio remains strong, even if financial markets pushed the number down from the levels seen at year end. In line with the indication we gave in the middle of March, the decline was 14 percentage points to 188% by the end of the quarter. I would say that result is very much consistent with the sensitivities we provided within our full year 2015 results presentation. The main drivers were the lower reference rates and equity markets, and increased market volatilities, partially offset by organic capital generation.

These effects pushed the Eligible Own Funds down by 1.7 billion Euros to 39.7 billion euros. The resulting reduction in the loss absorbing capacity of deferred taxes was the main contributor to a 600 million increase in the SCR.

Life key financial indicators

Turning now to look at the life segment in more detail: Overall life premiums decreased by 1.3 percent to 13.4 billion euro. Volatile financial markets witnessed in the first quarter caused a 15.4% drop of the unit linked production year on year, in particular in Italy and CEE.

Despite this, life net inflows continued their positive trend, growing 6.4 percent to reach 4.5 billion euro.

New business value increased by 12.7 percent to 361 million euro, notwithstanding a 6.9 percent APE drop, thanks to a 4.8 percentage points margin improvement.

Life Operating result by driver

Let me dive into the single drivers of the life operating result, which overall fell 8%.

The Technical Margin posted an 88 million increase, mainly thanks to higher technical profits on group policies in Italy, but also higher margins on loadings in France and CEE.

The Investment result decreased by 125 million euro, despite a growing current income. This is explained by almost 650 million lower net realised gains, gross of policyholders share, compared to last year. In 2015, market conditions combined with the tactical decision to take profits on some overvalued asset classes, led to the highest quarterly contribution of capital gains of the recent past.

Expenses increased slightly, due to increased acquisition costs and the royalties component which has been charged to subsidiaries from the Group head office, starting from the fourth quarter of 2015.

Life inflows and technical reserves

Let's return to net inflows, and as I mentioned, we started with a positive trend, reaching 4.5 billion euro in the first quarter of the year. Volatile market conditions led to a contraction of the Unit Linked component, representing 30% of total net inflows. Even with this deviation, we confirm our strategy focused on increasing the share of more capital efficient products, and in addition, we will work on enhancing the flexibility of the unit linked business, also to offer less volatile funds. In any case I emphasize once more that even the traditional savings



products we are selling right now are designed on a prudent and profitable basis.

Looking on a country basis:

In Italy, we have 2.4 billion euro positive net inflows, thanks to a moderately positive premium growth, up 2 percent, and reduced outflows. However, after almost two years of very strong growth rates, hybrid products showed a contraction year on year, due to the volatile equity markets.

In France we see positive but decreasing net inflows, which went down from 208 million to 151 million. The reduction is again related to current market volatility which negatively affected the Unit Linked component. This did not affect the profitability of our new business, which on the contrary has improved, as you will see later on.

Germany also posted positive inflows in absolute terms, but 30 percent below last year. In this case the decrease was linked to the planned reduction of single premium savings business.

The decrease in EMEA is mainly explained by higher outflows in Austria, and lower sales in Switzerland that should be mitigated by the launch of new products in the following quarters. Lastly, in Asia we experienced a strong increase in net inflows, mainly coming from China and linked to the exceptional level of sales reached through our banking sales partners. We expect this will slow through the remainder of the year, as I will explain in a moment.

These strong net inflows contributed to an overall 0.8 percent increase of life technical reserves over the first three months, to 372 billion euro.

Life investment performance

Life general account investments reached 347 billion euro, up 4.4 percent from the year end 2015, also driven by positive mark to market performance of available for sale bond investments.

Total Life current returns are stable at 80 basis points for the first quarter. As always, this is not an annualised figure. In absolute terms, current income increased by 91 million euro.

This stability is driven by fixed income current returns which remained broadly unchanged, also at 80 basis points. Current returns on equity instruments showed a substantial increase thanks to dividends from private equity funds, compared to an exceptionally low number in the first quarter of last year.

In terms of asset allocation, you can see that we had a tactical increase of cash instruments, representing 4.5% of invested assets at the end of the period, and which we have already started to reinvest.

In the first quarter of the year, we invested pre-existing cash, net inflows, bond redemptions and coupons at an average yield of 2.5 percent in the life segment, mainly in corporate and government bonds.

Life new business analysis

Turning to new business, we see that APE is down 6.9 percent, like for like, to 1.3 billion euro, mainly explained by the drop of the unit linked component which is down 22.8%, due to the poor financial market conditions. As I said before, we hope this to be temporary, also because we are investigating ways in which we can also protect the unit linked portion of our products to make them more able to withstand volatility.

Looking at our main countries:

In Italy APEs were overall flat, but as the result of a decreasing production of hybrid products, compensated by traditional ones. The share of Unit Linked on total APEs therefore dropped from 20.6 percent last year, to a current 11.9 percent. We confirm nevertheless our strategy to focus on hybrid products and are already taking actions to reduce the temporary increased exposure to traditional products experienced during this quarter. I would also add that even on the savings portion, guarantees have continued to fall sharply in Italy, down to only 27 basis points in the first quarter.

In France we had a 21.6 percent drop in APEs driven primarily by savings business, down 25 percent. Unit Linked had a more limited, 6 percent decrease, increasing its weight from 18 to 21.6 percent.

In Germany we saw a similar trend to France, with APEs declining by 21.8 percent and driven down by the savings component that dropped by 37.3 percent. Unit linked and protection sales have correspondingly increased their weight to reach almost two thirds of the total, which had a strong positive impact on margins.



If we turn to look at new business profitability at the Group level, we see the margin improved by 4.8 percentage points to 27.3 percent. A number of factors have driven this. The higher level of swap rate and lower swaption volatility – since we are using beginning of period assumptions – contributed to a positive effect from financial markets. Unfortunately we can already see that this will not be the case also in the second quarter, when the margins will be calculated using financial market inputs as at the first of April.

The further reduction in new business guarantees resulted in additional momentum. The average guarantee we sell has continued to decline, to only 46 basis points in the Euro area, down from 60 basis points for full year 2015.

In Germany and France, the shift of new business mix as mentioned before has also had a positive effect on the margins.

The last point to note is around 90 basis points of improvement which is explained by a change in methodology. Beginning from this quarter, we have aligned the reference rates and required capital calculations with the Solvency II framework. The latter, in particular, was previously based on the maximum of Solvency I and Solvency II capital, and so we see some uplift as we move onto a fully Solvency II basis.

So overall, the margin trend is a positive one. An exception is the “Americas & Asia” region: Here, you see a large increase in APE, but with a new business value which is close to zero, or even slightly below. This effect is mainly coming from our operation in China. While the margin is to a degree a peculiarity of the MCEV methodology, it is fair to say that interest rates in China have been under substantial downward pressure, and this has challenged the economics of some lines of business. Our response has been to put significant restrictions on the sales of certain contract types, and as a consequence, you should not expect to see the same high volumes, but also not the same poor margin, later in the year.

Apart from this anomaly, at the group level the overall margin improvement more than offset a negative APE trend, allowing our new business value to grow by 12.7 percent, to 361 million euro

Now let's turn to look at P&C

P&C key financial Indicators

Gross written premiums decreased by 0.6 percent, on a like for like basis, to 6.3 billion euro.

Primary Motor posted a 0.9 percent decline, mainly driven by Italy, as I will explain later.

Primary non motor decreased by 0.3 percent.

The combined ratio improved by 1.3 percentage points, thanks to the absence of nat cat burden.

The operating result decreased by 1.4 percent, due to lower investment income and to other components.

P&C Operating result by driver

Looking at the components of the operating profit, we can see a particularly strong technical result at 369 million euro, up 27.9 percent, and a declining investment result driven by lower reinvestment yields. The residual other items line worsened by 55 million euro versus the first quarter of last year, partially reflecting the payment of brand fees to the parent company and some higher indirect tax items. The prior year was also affected by some minor positive one-offs. Overall, the level of the first quarter 2016 is quite consistent with the average of previous quarters once brand fees are taken into account.

P&C gross written premiums trends

Let's look now at gross written premium developments within our core countries.

Italy is down 6.2 percent, at 1.3 billion euro. Primary motor decreased by 11 percent, but mainly due to the cancellation of some large fleet contracts. Without this effect, the drop would have been 3.8 percent, and therefore on an underlying basis, is on an improving trend compared to that seen during 2015. Primary Non Motor is down 3.4 percent, reflecting the overall weak economic environment.

France declined overall by 1.7 percent to 819 million euro. Primary motor was flat, notwithstanding continuing pruning activities on the fleet business portfolio. Primary non motor decreased moderately, due to the competitive market environment and the continuation of strict underwriting guidelines and pruning activities.

In Germany premiums fell by 1.7 percent. The reason for this is that the motor business, down 1.7 percent is, similar to last year, also affected by the ongoing shift of the main



renewal date from January to other months in the year. So, we expect that this effect will be levelled during the remaining nine months, also benefitting from relatively good market conditions. Non motor declined by 1.5 percent due to ongoing pruning activities in the broker channel and on non performing agencies.

EMEA showed a good increase of 3.2%, mainly due to the solid performance we achieved in Spain.

Combined ratio analysis

Moving to the analysis of underwriting performance, you can see the combined ratio improved by 1.3 percentage points year on year to 92 percent. The main driver behind the improvement from an already excellent combined ratio was the absence of nat-cats.

Looking at the single drivers, the loss ratio improved by 1.3 percentage points, thanks to the above mentioned benign nat-cat environment. The current year loss ratio excluding nat-cat deteriorated slightly, by 50 basis points, although I would underline the unusually low number we experienced in the first quarter of last year. Prior years releases are overall stable.

The expense ratio remained flat. Reducing administration costs were compensated by higher acquisition costs, mainly linked to the effort to develop more profitable non motor business lines, also through new partnerships in France.

Combined ratio by country

Looking at the combined ratio by country:

In Italy the performance improved further to an excellent 88.7 percent, down 0.6 percentage points, driven by the lack of nat-cats, and making it the best combined ratio of our major countries and regions.

In France the combined ratio improved by 50 basis points to 99.7 percent as a result of our turnaround exercise, although this number, like last year, benefits from the absence of nat-cat.

In Germany we experienced an excellent 90.4 percent combined ratio, again helped by the absence of nat-cat, which was relatively severe during the first quarter of 2015.

In CEE, our combined ratio was once again very good at 89.7%, although still negatively affected by regulatory changes that were introduced last year in the Polish market. We started to increase our motor tariffs in Poland already during the second half of 2015 and have just recently executed further actions to adapt to this new environment, hoping that the rest of the market will behave in a similarly rational way. Our priority, as always, remains the preservation of sound underwriting discipline.

In Americas, our combined ratio has improved by 7.8 percentage points, mainly thanks to the strong actions we have taken to restore profitability in Brazil.

P&C investment performance

Overall P&C investments reached 41 billion euro, up 3 percent from the end of 2015.

Total P&C current returns on a non-annualised basis decreased by 10 basis points, year on year, to 70 bps, mainly driven by the fixed income trend.

The average reinvestment rate in P&C during the first quarter of the year has been 1.3 percent. As well as reflecting the overall interest rate environment, the figure is also explained by the asset classes we invested in during the first quarter, which were mainly government bonds. I would also highlight that the amount of money invested in this quarter has been relatively low in absolute terms.

Focus on Holding & other business segment

Let me finally turn to our "Holding & other businesses segment", whose overall contribution to the group operating result decreased from a profit of 54 million Euro, to a 38 million Euro loss.

This decline has been mostly driven by the lower profitability of Banca Generali, which was particularly strong in the first quarter of last year.

In addition to that, the "Other businesses line" benefitted last year from gains on private equity and real estate investments that are not present this quarter.



Final remarks

That concludes my analysis of the figures. Let me sum up by saying that, even if we were not able to repeat the unusually high result of last year, I think the Group has performed well in what are clearly very challenging financial and insurance markets.

A sharp focus on technical profitability remains of critical importance in these conditions. I think you can see the evidence and benefits of that in our numbers, and it will continue to be our top priority in the coming period.

I am happy to say that our solvency position remains a very comfortable one, and well above the thresholds we have defined. This is despite the clear headwinds from the financial markets which impacted not only us, but the whole insurance industry in the first quarter.

I therefore also reiterate our commitment of delivering on the promise of attractive returns to our shareholders

Thank you for your attention.

THE GENERALI GROUP

The Generali Group is one of the largest global insurance providers with 2015 total premium income of more than €74 billion. With above 76,000 workers in the world, present in over 60 Countries, the Group has a leading position in Western European Countries and an ever more significant presence in the markets of Central and Eastern Europe and in Asia. In 2015, Generali was the sole insurance company included among the 50 smartest companies in the world by the MIT Technology Review.