

## **Speech by the GROUP CFO**

**Alberto Minali**

I have the honour of presenting to Shareholders the consolidated financial statements of the Group and the financial statements of the parent company. I will do so with a slide presentation, giving brief explanations of these complex financial statements, which I have personally closed and signed off for the first time.

As you know, I am a member of the new management team; I joined Generali on 1st October last year, although I had already worked for Generali at the beginning of my career.

I should like the first lens through which you view these financial statements to be the operating profit. The operating profit is the quantity that we, in the Group, use to guide and coordinate the Group's activities. The operating profit, which exceeds € 4.2 billion, has grown by 10.5%, and as Mario Greco has said, our target is to reach an operating profit of over € 5 billion by 2015. This result demonstrates the operational and industrial strength of our Group, on the basis of which the activities of Generali and the corresponding measurement can be expressed as a series of economic indicators.

The first indicator we use in the Group is the operating return on equity, which represents the culmination of a long chain that runs from the operating profit to the profitability of the capital invested by shareholders. At the end of 2012 the profitability of the capital was around 11.9%, but our objective, in accordance with the Industrial Plan, is to reach 13%. This will certainly be a long journey, and a very interesting one, but it will be essential to raise more capital before embarking on it. We are less capitalised than other international groups, and our capital structure is weaker.

The activities we have performed in the last few months, including divestments and endogenous generation of capital, serve to reinforce the Solvency I and Solvency II indexes, which are currently rather weak.

We need capital to focus our activities on the insurance business. However, we are well aware that a company can encounter numerous difficulties if it does not have enough cash. The new management therefore has a very strong focus on cash flows. In this context, the new function of the holding company will be to govern the cash flows conveyed from the various geographical locations of the Group to the parent company more effectively. Our objective is to increase the cash flow to over € 2 billion in 2015, and we have already begun to set up a centralised treasury in Trieste for this purpose.

It is now important to start looking at the financial statements from the top line, as financial analysts call it, namely premiums. As you will see, the Group's premium income grew by about 3% in 2012, in both the non-life business and the life business.

These are very important figures, bearing in mind the economic context in which the Company has operated and in which our networks have sold our policies. They are therefore highly prestigious figures, which demonstrate the industrial strength of our Group.

The 3% increase in the life business must be interpreted by breaking down the production into traditional business on the one hand and pension plans on the other. However, there has been a 6% decrease in production relating to unit-linked and index-linked policies, which are inevitably affected by adverse trends on the financial markets.

Growth of over 3% was recorded in the non-life sector. This growth is very favourable, because the non-vehicle business grew far more (by 4.6%) than the vehicle business, which accounts for 40% of the global volume of non-life premiums. This growth is therefore qualitatively good, and promises a favourable trend for the future, already confirmed by the initial data for the first quarter.

It is clear that if we stopped at the top-line result, ie. premiums, no account would be taken of the value we have generated, namely the operating profit.

The operating profit of the life business represents about two-thirds of our portfolio. That figure has grown by 9.7% despite the implementation of the major derisking measures that the Board of Directors decided to pursue in 2012, involving a reduction of exposure to peripheral government bonds in the non-peripheral portfolios, such as Germany and France. This activity has definitely improved the Group's risk profile, leading to a reduction of about 10 basis points in profitability which, however, was immediately recovered by means of a suitable policy for allocating the sums previously disposed of.

There is clearly also a strong growth component in the operating profit of the non-life business, as already stated by Mario Greco. Around 2015 we shall be able to balance our profit and loss account against the operating profit of the non-life sector, aiming for it to consist of 50% from the life sector and 50% from the non-life sector. This decision is based on the fact that non-life business generates more cash than life business, and is much less dependent on the trend of the financial markets.

The Group we wish to present to you in 2015 will have higher, better-quality profitability, which is less influenced by the results of the financial markets.

It should also be noted that this operating profit was achieved in a very difficult context of economic crisis, and in some cases, recession. Nevertheless, our networks have made a concerted effort and above all maintained the overall profitability, with the aid of the control activities performed by the holding company here in Trieste.

We are also growing in the financial segment. This result was made possible by the brokerage margins of Banca Generali and BSI, which grew as a result of our colleagues' ability to attract funds and offer services.

I will now illustrate the long journey that begins at the operating profit and arrives at the net profit: an operating profit of € 4.2 billion, and a net profit of only € 90 million. If this is compared with last year's figure, amounting to € 856 million, you might think that this is a Group in difficulty, but this is absolutely not the case. This is a group that has restored order to its financial statements, as emphasised by Mario Greco, by analysing all its investments.

Two items in the financial statements are particularly significant in this respect: the impairments, amounting to over € 1.3 billion, which were made in very decisive way, to realign our standards with the best international practices, and the strong tax impact.

The average tax rate paid by the Group is not more than 36/37% but, as impairments are not tax-deductible, it unfortunately rose to 77%. There has consequently been a significant decline in this year's profit, due not only to the impairments performed by the new management, but also to their tax impact, as most of the impairments are non-deductible.

The impairments only affected the non-operating result, further demonstrating the quality of the Group's operating result. These impairments have only had a very slight effect on the Group's net equity, because many of them were already covered by a net equity reserve. Our activities have therefore led to rebalancing of the portfolio and a correct interpretation of its values, in accordance with the best international practice.

Last year, we referred to devaluation criteria which reflected the rule that "an asset is devalued if it loses more than 50% of its value or loses value for more than 36 months"; whereas this year, we followed the criterion that "an asset is devalued if it loses more than 30% of its value for 12 months", thus bringing the financial statements much closer to the international standards, and making them more informative for shareholders.

I will now briefly illustrate the analysis of the life sector, and explain the facts behind the figures. The life mathematical reserves amount to over € 300 billion, and are growing. In the life sector, payments for claims, expiries and surrenders amount to over € 30 billion: these are large figures, which the Group has been able to cover because our investment policy provided the resources needed to pay out on these policies.

This is precisely the function of finance for an insurance company: to provide resources to pay out on policies when payments are due. This value, namely the operating profit, which has grown by 9.7%, is increasing in terms of both the technical component and the financial component, despite the unfavourable context in which we have operated.

At the same time, we have avoided extending the maturity or average financial duration of our investments, thus avoiding the interest rate risk and the curve risk in the portfolio, and have maintained the duration gap, namely the difference between

assets and liabilities, in a very limited interval, to protect the financial statements of the life business against the volatility of the financial markets.

Non-life business has grown exceptionally, due to the technical component. These figures include about € 300 million of catastrophe claims, about € 144 of which originated in Italy due to the earthquake in Emilia Romagna, where we hold a 22% share of the market. Nevertheless, the catastrophe claims have not had a significant impact on the economic front, partly due to the reinsurance policy adopted.

An extremely significant figure is the growth of the operating profit, which is not associated with accounting expedients or release of reserves. Once again, the reserves on the current generation are better than those of past generations, and the release of reserves is favourable. This indicator is very important, because it means that the reserve policy and stock are adequate and prudent.

I will now analyse the financial segment, in which our colleagues have skilfully generated brokerage margins and exploited the facilities available for management of liquidity on the capital markets. The figures also show an increase in the assets managed on behalf of third parties; a reduction in the cost rate, namely the ratio of costs to revenues, has consequently been observed due to the increased business.

Our Group's investments amount to about € 490 billion. The breakdown of these figures includes investments to cover commitments towards the insured, with whom which we have a very strong fiduciary relationship, and assets to cover investments for unit- and index-linked policies. We also manage assets on behalf of third parties.

The average profitability for our policyholders is around 4%. It is important to note that the Group has reserves of unexpressed value, which we must regenerate in the next few years. A value reserve is expressed by the quantity of cash that we have in the insurance portfolios, amounting to about € 20 billion, which we will invest in the next few months. This is the time to reinvest the cash obtained from the derisking policy to generate new profitability for policyholders and profitability for shareholders.

I will close this presentation by illustrating the Group's net equity trend. Of course, the new management cannot take the credit for this. Group assets amount to about € 19.8 billion, but the main boost derives from movements of the AFS (Available for Sale) reserve, which indicates the market value of the assets we hold in the portfolio. When the swap curve falls, and the 10-year interest rate falls by about 170 basis points as it did in 2012, or the government bond spread narrows, the values of these assets rise, and we record this movement in the capital.

We must now add the value of our portfolio to arrive at the quantity which, in the insurance business, is called the embedded value. This figure, defined as the total value of the company without the new business value, amounts to over € 23 billion, namely about € 15.4 per share.

This is the presentation of the consolidated financial statements.

The profit we pay in the form of a dividend is the profit of the parent company, which conducts direct insurance business, with ordinary and extraordinary operations in Italy. In July this year the parent company will become a holding company, and conduct reinsurance business. The amounts of capital and cash it receives will not only be premiums, as is the case today, but dividends from our operating units and cash flows from our reinsurance business.

Here again there has been strong growth of premiums, a significant reduction in the combined ratio, now standing at very impressive values, and a net profit which has again been partly affected by impairments. We therefore have a consolidated net profit of € 90 million and a parent company profit of € 131 million; we distribute a dividend of € 311 million, amounting to 20 cents a share, and withdraw the sum of € 180 million needed to pay the dividend from the parent company's ample capital reserves.

This is a result that clearly reflects everything done in 2012, but also already incorporates the activities of the new management. We have been very decisive in announcing these activities to the market, because we must demonstrate the soundness and industrial strength of our Group to the market, to shareholders, to you, to equity investors and to everyone who buys our debt.

Observing the trend of the Generali shares in the second half of 2012, you will see that they outperformed any index you care to name. It is true that there was an accommodating monetary policy and that Assicurazioni Generali suffered to some extent from the volatility of the markets and our country's policies, but we also performed much better than the others.

The figures reflect growing interest in the shares by investors, and above all, very strong communication activities. We have met new investors every week: more than 250 people, and more than 200 financial institutions. We have returned to the London and New York markets to present the new Group and explain our strategy. And I must say that investors have confidence in us. This is very encouraging, and we shall obviously continue along these lines.

I will now close my presentation by assuring you of the utmost commitment by the Group CEO, our colleagues in the Investor Relations Department and my team to demonstrating the greatness of our Group and the industrial strength of the Company, so that the Group returns to the levels I firmly believe it deserves.

Thank you, Ladies and Gentleman.