

Speech by Managing Director
Giovanni Perissinotto

Ladies and gentlemen,

2011 was a particularly difficult year for the European economies due to the continued financial crisis, which highlighted risks associated with the sustainability of the sovereign debt of some peripheral countries of the eurozone.

The tensions that initially affected Greece, Portugal and Ireland acquired a systemic nature during the summer, following the involvement of the private sector in the strategy to solve the Greek crisis. The fears of the financial markets rapidly spread to Spain and Italy too.

In Italy in particular, the differential between the return on ten-year BTPs and the corresponding German securities increased during the year from 1.2% in April 2011 to 5.5% last November, then gradually declined.

In this unstable scenario the financial markets, which initially did not even consider the eventuality, subsequently attributed an increasing probability to default by one or more eurozone countries.

In this context, life insurance suffered due to:

- the deterioration in the economic context of various countries in which the Group operates;
- a high level of short-term interest rates, which made alternative products to insurance more attractive; and
- changes in the tax deductions allowed on life products in some countries.

The non-life insurance market, however, presented a generally favourable trend, mainly due to tariff increases, especially in the vehicle segment.

We consider that a solution to the serious situation of the eurozone can only be achieved by new governance and greater integration of the area, accompanied by the issue of European government bonds, or Eurobonds, comparable, for example, to the treasury bonds issued by the USA.

Amid this financial upheaval our actions were aimed firstly at protecting our shareholders' assets, and secondly at creating the prerequisites for the Group's strategic development. The measures taken have achieved the expected results.

The stock market capitalisation of our shares, which amounted to €18.1 billion at the end of December, consequently exceeded the net equity, which then stood at €15.5 billion, at a time when that of other competitors was much lower, in some cases by as much as 50%. I refer in particular to our main competitors, confirming that the financial markets appreciate the soundness of our Group.

As regards strategic investments, the most significant are those relating to the Eastern European countries and VTB. As regards the joint venture in Eastern Europe, I would emphasise the results we have achieved during this period.

We have risen from fifth place to market leader in the Czech Republic, from seventh to third place in Slovakia, and from 13th to ninth place in Poland, and have consolidated our second place in Hungary.

In geographical terms we have extended our presence in twelve countries in the area: the Czech Republic, Hungary, Slovakia, Poland, Romania, Bulgaria, Russia, Serbia, Slovenia, Croatia, Kazakhstan and Belarus.

Before the joint venture at the end of 2006, the Generali Group was present in ten countries with around 4 million customers, aggregate premium income of just over €1 billion, and a net profit of around €48 million.

Today, PPF contributes €4 billion to the Group's premium income, and the operating profit has risen to €503 million.

Above all, the high profitability of the Generali PPF business has emerged, expressed by a combined ratio of 89.5%, the best on all the markets on which the Group operates.

In fact, the total combined ratio of the Generali Group has already improved by 2.3%, from 96.5% at the year end.

This means that for every €100 of premiums in that area, we earn €10.5 from the technical standpoint, before the investment results of our reserves.

Looking at the life market, which is extremely promising, because it is

only just beginning, the profitability of new business remains the highest in the Group due to a profitable business mix, with a new business margin of 35.8%, as against a new business margin of 20.4% for the Generali Group as a whole.

As regards the other investment, in Russian bank VTB, it is part of our insurance business development strategy, leaving a door open, as it is the second-largest bank in terms of branches, so if one day economic conditions so require, we have a bank that we know well, which is close to us. Moreover, the bank ended its financial year a few days ago with a record profit, which has grown by 65%.

The 2011 financial year was therefore characterised by two factors:

- a very favourable technical trend in both the life and the non-life sectors, confirming that our managers did a good job, in Italy and abroad;
- major impairments, mainly on Greek government bonds and the Telco securities, which led to a considerable reduction in the profit for the year, amounting to €856 million.

In particular, the impairment of Greek government bonds, mainly owned by our life subsidiaries in France and Germany, where banks and insurance companies have invested massively in these bonds, reduced the profit by €472 million, while the impairment of the Telco shares reduced the profit by €307 million. The total impact on the net profit of “extraordinary impairments”, which should not be repeated next year, exceeded €1 billion.

I should specify that the purchases of Greek bonds were made by the end of 2007, and represented about 1.5% of the bond investments of the Group which, as you know, seeks to diversify its investments.

While the German and French internal market offered very low yields, those securities offered coupons of over 4%, with an A3 rating which was maintained until 2010.

I should add that many experts believed that the EU would not allow a member state to default, as this would totally contradict the Solvency rules, which consider government bonds to be risk-free.

Exposure was therefore reduced as long as the liquidity of the market allowed.

Another important point, which I must stress, is that these impairments had hardly any impact on policyholders, due to specific reserves built up over time, in both France and Germany, to deal with stress situations of this kind.

This is demonstrated by the fact that the return on the French products fell from 3.8% in 2010 to 3.2% in 2011, in line with the market.

The same applies to German products, which remained stable on average at between 4% and 4.3%, also in line with the competition.

As I said, we do not expect such a poor scenario this year; we therefore look forward to 2012 with more confidence, and forecast that the net profit will grow well compared with 2011.

From 31 December 2010 to yesterday's closing, Generali's shares recorded a decline in line with that of the Italian FTSE MIB index, from €14.2 to €10.5.

1. – We will now take a more detailed look at the summary of the results which, as usual, we will illustrate graphically in a multiannual context, to give a clear overview of the medium-term development.

As already stated, premium income amounted to a total of €69.2 billion, a decline of 5.5% compared with the 2010 financial year.

This final figure comprises a 3.1% increase in non-life premiums and a 9.2% reduction in life premiums which, as stated, were more affected by the economic/financial situation.

Confirming the international bias which has always characterised our Group, 70.8% of premiums were earned abroad and 29.2% in Italy, where we firmly retained our market leadership.

We earned 77.8% of our premium income in the four main areas in which the Group operates (Italy, Germany, France and the Eastern European countries), and are gradually consolidating our presence on emerging markets.

In particular, among the operations performed in emerging countries during the year:

- we strengthened the bancassurance agreement with leading Mexican bank Banorte, and extended its duration to 2036;
- we prepared an ambitious development plan for the Group's business in Brazil.

2. – As I have already said, in 2011 the Group recorded good industrial management results in both the life and the non-life sector.

In particular, in the life sector:

- the technical margin grew by 3.8% to €6.2 billion due to a business mix oriented towards risk products and recurring-premium policies;
- net premium income, namely the value of the premiums received net of outgoings chargeable to the period, amounted to €5.8 billion; this was again the highest figure in the industry, mainly due to the Group's business in Italy and Germany.
- the new business margins, namely the profitability of the business produced, grew by 0.7% to 20.4%.

3. – The non-life segment showed the best performance in recent years, with strong development of the *technical result*, which grew from €485 million to €669 million due to the efficacy of the tariff, underwriting and settlement policies, which led to a reduction in the cost of claims in the main countries in which the Group operates, reflected by a 2.3% improvement in the loss ratio.

The proportion of management costs to total costs remained substantially stable, so the combined ratio (the index that shows how much we spend on claims and costs per €100 of premiums) showed a significant decline of 2.3 percentage points, to 96.5%.

4. – The consolidated operating profit amounts to a total of €3,928 million, a limited decline of 3.7% compared with the figure at the end of 2010, representing the difference between a significant improvement in the result of the non-life segment, which increased by 38.3%, and a decline in the life segment, which fell by 16.0%, strongly influenced by impairments on securities.

We should also mention the good performance of the asset management segment, which presents a result substantially in line with that of 2010, despite the difficult economic trend.

5. – The non-operating result has worsened, from a loss of €1.2 billion at the end of 2010 to a loss of €2 billion, mainly due to value adjustments on stocks and bonds in the non-life segment and free assets, as well as the non-operational assets of the life sector.

The profit for the year, before tax and third-parties' profit, therefore amounts to €1.9 billion, a decline of 33.5% compared with the figure at the end of 2010.

Taxes amounted to €762 million.

The average tax rate for the period was 36%, an increase on the figure of 31% in 2010, due to increased fiscal pressure in some countries in which the Group operates, including Italy, and higher capital losses on non-tax-deductible shares.

The profits payable to third parties amount to €297 million; the profit for the period therefore amounts to €856 million, as against €1,702 million in the preceding year.

6. – The Group's net equity at the year end amounted to €15.5 billion.

The 11.5% decline is attributable to the poor trend on the markets, which affected not only the profit for the year, but also the trend of the reserve for latent capital gains on securities, which fell from a loss of €184 million at the end of 2010 to a loss of €2.2 billion.

The decline of €2 billion is due to the following causes:

- a €1.2 billion decline in the bond compartment, affecting both the corporate bond component and government bonds, which were significantly impacted, especially in the fourth quarter of the year, by the growth of interest rates, mainly applicable to Italian bonds;
- a €659 million decline in the share component.

However, these losses are unrealised, and may therefore change; the better trend on the financial markets in general, and the bond market in particular, in the first two months of 2012, means that the latent capital gains reserve has recovered approx. €2.4 billion since 31 December 2011, rising from a deficit of €2.2 billion to a surplus of approx. €200 million.

7. – The Group's solvency always remained adequate in 2011.

Despite the extraordinary volatility of the financial markets, the Group's Solvency 1 ratio, defined as the ratio between the available margin and the required margin, amounted to 117% at the end of 2011.

I should mention that following the partial improvement in the bond markets and share prices recorded in the first two months of 2012, the ratio as at 1 March 2012 was 132%, in line with the figure at the end of 2010.

Economic solvency, amounting to 160% at the end of 2010 and 124% at the end of 2011, improved to 141% in the first two months of the year.

In the meantime, new legislation approved by the Regulator, which brings us more into line with the rules applied in the majority of European countries, will eliminate much of the volatility from the solvency index, which we deem appropriate and favourable for the insurance industry.

8. – The total investments amounted to € 467 billion, a limited decline of 0.9% compared with the 2010 figure.

In particular:

- €97.5 billion consists of assets managed on behalf of third parties, which were substantially stable compared with 2010;
- the Group's insurance investments amount to €369 billion, €58 billion of which is represented by assets underlying internal funds where the risk is born by the insured, and €311 billion by investments where the risk is borne by the Group.

In more detail, of that €311 billion, as at 31 December 2011:

- bond investments accounted for 77.6% of the total, down 2.4% since the end of 2010;
- the proportion of liquid assets stood at 7.9%, an increase of 4%, because it was preferred to increase the liquidity component to cover possible surrenders, which have not yet occurred;
- exposure to share instruments amounted to 5.5%, down 2% compared with the 2010 result.

Bank shareholdings accounted for under 6% of the share compartment and only 0.4% of the total investments; they are held pursuant to bancassurance agreements.

Apart from those agreements, the investments fell within the normal asset management activities, and we sold a significant number of bank shares in the last two financial years.

9 – We will now move on to real estate which, as you know, is recorded at cost in accordance with the applicable accounting standards. It accounted for 4.9% of costs, an increase of 0.1% on the 2010 figure, and represents a valuable diversification of our investments, with income linked to inflation.

This is a segment we have always believed in, which has brought some very good results: the current profitability for the 2011 financial year was 7.7% at book values and 5.7% at market values.

These results are appreciated by various multinational institutional investors, which have asked us to form partnerships with them so that they can benefit from our expertise.

I should also mention our investment in Citylife, in which our Group initially participated with three other investors; we are currently co-investors with another insurance group, Allianz, holding a 2/3rds interest, while Allianz holds 1/3rd.

This is one of the main developments in the Milan metropolitan area where residential, office, retail and public-sector properties are being built, with a mix that involves the construction of over 150,000 square metres of residential property, 110,000 sq.m of offices and 18,000 sq.m of retail premises.

The construction of over 500 apartments in the Adid and Liebeskind residential lots is under way, and the first handovers are scheduled for late 2012 or early 2013. Marketing has reached 60% and 35% respectively. These are the pre-sales figures.

As regards the office lot, clearance work and subway (underground railway) construction are in progress, as scheduled.

The tender procedure for the award of the contract for the Isozaky tower is in progress; work is scheduled to begin by summer 2012, and end in late 2014 or early 2015. The Group is evaluating the purchase for direct use to concentrate its Milan premises in the Isozaky tower, which would save around 50% of its operating costs.

Finally, the buildings which would be vacated in Milan would form the subject of a profit-generating process which would enable the Group to self-finance the investment. In terms of the return on the investment, a total EBITDA of approx. €800 million is forecast.

10. – The total net technical reserves amount to €347.2 billion, an increase of 1%, due to the favourable trend of the non-life and life reserves, up 1.2% and 1% respectively.

Financial indebtedness amounted to €12.2 billion, a slight reduction (-0.4%) compared with the end of 2010.

The mean weighted rate of financial debt was 5.37%, namely stable compared with the end of 2010, with an average duration of 5.9 years.

11. – We will now rapidly move onto the main figures for the parent company; its financial statements are already wholly included in the consolidated statements, but need to be approved prior to the distribution of the dividend.

The parent company was also characterised by good technical results in 2011, but a poor trend of financial investments.

In a nutshell:

- gross premiums amounted to €9.4 billion, a decline of 2.2% compared with the preceding year, comprising 2% growth of non-life premiums, amounting to €4 billion, and a 5.1% reduction in life premiums, amounting to €5.4 billion;
- new life business, expressed as annual premium equivalents (APE), amounts to €459 million, a reduction of 6.2%;
- the non-life combined ratio, amounting to 95.2%, improved by 4 percentage points, due to the combined effect of a reduction in the loss ratio, with a decrease of 3.7 percentage points, and a reduction of 0.3% in the expense ratio;
- the profit for the period, despite a significant improvement of €140 million in the industrial management balance, stands at €326 million, a 48.6% decline compared with the preceding year, mainly due to the poor financial result.

12. – We recommend that a unit cash dividend of 20 cents per share should be paid.

The payout, namely the ratio between the total recommended dividend and the consolidated profit, would be 36.4%.

In view of the exceptional scenario in which we have operated, we consider that this dividend is as much as we can afford bearing in mind the objectives of business growth and maintaining our Group's soundness in a context which is still very challenging.

We trust that when this payout is evaluated, it will be borne in mind that even at the worst moments of the crisis in recent years we have never called on our shareholders for funds, with requests for onerous capital increases; on the contrary, we have always distributed a dividend.

13. – I will conclude, as usual, with a preview of our business trend in the first quarter of 2012.

The Group's structure, its geographical diversification, designed to reduce costs, its distribution structure, based on proprietary networks, and the activities performed in recent years have enabled us to achieve good results during the quarter, despite the difficult macroeconomic context.

On the basis of the preliminary data as at the end of March, total premium income amounted to € 19.8 billion, an increase of 6.1% on a like-for-like basis, due to the favourable development of the life sector, which grew by 6.9% on a like-for-like basis, and the non-life sector, which grew by 4.7% on a like-for-like basis.

The good trend of the operating results in all business segments, namely the non-life, life and financial sectors, was confirmed in the first three months of the year; the non-life sectors in particular showed a further improvement.

The cost reduction trend also continued.

We have therefore made a good start, which we will endeavour to consolidate further during the year, thanks to the efforts of all our personnel at all levels, to whom we give our heartfelt thanks.

Thank you, Ladies and Gentleman.