2019 General Meeting

Group CFO,
Cristiano BOREAN

7 May 2019, Trieste

Address by the Group CFO

Good morning, ladies and gentlemen.
It's a pleasure and an honour to be here with you for the first time as CFO of this Group of which you are shareholders.
The CEO has just illustrated the results of Generali's operations in 2018 and our positioning to achieve the ambitious goals of the new strategic plan, *Generali 2021*.

What I want to do is examine certain aspects of the performance of the Group and the parent Assicurazioni Generali, whose financial statements we are presenting for your approval today.
The rigorous execution of our strategy enabled us to achieve all the objectives of the 2015-2018 strategic plan.
Before looking at the results for 2018, allow me to remind you that as usual, the comparative figures for 2017 are expressed on a like-for-like basis, to reflect application of the IFRS 5 reporting standard.

Key Group indicators: Volumes

Let's begin with the growth in our volumes, summing up the main levers. 2018 was a very positive year for Generali with important industrial results that demonstrate our ability to grow in the Life, P&C and Asset Management segments.
Our business volumes rose, in terms of both overall premium income and assets under management. Specifically, overall Group premiums amounted to 66.7 billion EUR, reflecting growth of 4.9%.
Despite unfavourable financial markets, in the Life segment, net cash inflows increased to 11 billion EUR, making us one of the best groups on the market. Premiums also increased, to 46.1 billion EUR, keeping a business mix focused on capital-light products.
Life technical reserves grew too, to 343 billion EUR.
In the P&C segment, I want to stress our excellent performance in premium income, which gained 3.3% to reach 20.6 billion Euro, thanks to growth in both the Motor and Non-Motor lines.
Total assets under management amounted to 488 billion EUR, an increase of 0.4% despite the adverse situation on the financial markets.

Life: Net inflows, direct premiums and technical reserves

Now we can look at Life volumes in detail.
First I want to talk about net inflows, which rose by 5.2% to 11.4 billion EUR. Net inflows are premiums collected less outflows for policy maturities and redemptions. This indicator reflects the actual growth of the Life segment. It's important also to examine the composition of net inflows, which reflects management's rigour in executing the Group's objectives at a time of high volatility on the financial markets. The focus is on unit-linked products and protection (pure risk and health), and on continuing the selective approach to underwriting savings products with low capital absorption. The main drivers of our net inflows continue to be Italy, France and Germany.

The strong 5.5% growth in direct premiums in the Life segment is sustained by the main countries in which the Group operates, notably Italy, thanks to in-force management measures, and France and Germany, thanks to unit-linked, pure risk and health products. Growth was also reported in China, on both savings products and pure risk and health products.
The overall growth in net inflows was reflected in a 2.2% improvement in Life technical reserves, to 343.4 billion EUR.

P&C: premium income

Now let's look at the P&C segment.
In 2018 gross premiums written amounted to 20.6 billion EUR, a like-for-like increase of 3.3%.
The result arose from the combined increases of 3.4% on the Motor line and 2.7% on the Non-Motor lines. The main drivers were Austria and Central Eastern Europe (+4.8%) as well as the International area (+9.2%). Italy reported a persistent slight downturn of 1.6% due to strong competition on prices and more rigorous underwriting criteria in the Global Corporate and Commercial line.

Key Group indicators: Profitability

Now let's move on to our profitability indicators and sum up the main levers.
Operating profit rose 3% to 4.857 billion EUR, confirming our technical excellence, with a Life New Business Margin at 4.35% and a 93% Combined Ratio in the P&C segment. These indicators confirm Generali as the best-in-class in technical performance compared with our direct competitors. I also want to highlight the strong growth in Asset Management, which was up 24%, thanks to the acceleration of the segment in Europe and the first benefits from application of the strategy.
Profit for the year was 2.309 billion EUR, up 9.4% from 2017, after the improvement in operating profit and the positive contribution from sales, which offset the negative impact of financial market volatility.
The improvement in volumes was not to the detriment of profitability; on the contrary, profit margins increased.
All this guarantees the creation of value over the long term in line with our strategy projections, and means today we can propose a 5.9% increase in the dividend, to 0.90 Euro per share.

Operating profit by segment:

All the segments made a positive contribution to the growth of the operating profit.
In Life, operating profit rose by 2.8%, to 3.67 billion EUR. Net of insurance management expense, the positive development of the technical margin – particularly significant in France with the improvement of the effect of longevity risk and in Italy thanks to the positive contribution of unit-linked products – more than counterbalanced the downturn in the result of investments, due to lower realised gains and an increase in impairment losses, especially in the last quarter.

In the P&C segment, the improvement in financial operations and other operating components was reflected in an operating profit of 1.992 billion EUR, up 2.5%.
As we said earlier, there was significant growth in the Asset Management segment, with an operating profit of 335 million EUR. Staring from financial year 2018, this segment is accounted for separately from the “Holding and Other Businesses” segment to better reflect its results in line with the Group strategy.
There was an improvement for “Holding and Other Businesses” from 2017, with the loss reduced from 163 million EUR to 70 million EUR in 2018. This progress was made possible in particular by the income of some private equity funds and real estate investments.
The change in inter-segment eliminations was due to higher dividends and intragroup realised gains.
The actions described translated into 3% growth in the Group operating profit to 4.857 billion EUR, enabling us to close the 2015-2018 period with an average operating ROE of 13.4%, beating the Plan target of 13%.

Life: analysis of new business value

Now we can look at profitability on Life new business. Before beginning, I want to point out that the 2017 comparative figures include discontinued operations. The changes on the other hand are on a like-for-like basis.
The 26 basis point improvement in the new business margin to 4.35% was largely due to managerial action to optimise the product mix, and to higher profit margins on capital-light new products.
As a result, new business value also rose, by 4.3% from 2017, to 1.877 billion EUR.
The main drivers in this growth were Italy, France and the International area.

P&C: underwriting result

The Group combined ratio, obtained by dividing the sum of incurred losses and expenses by earned premiums, was 93.0%, the best result in our peer group, despite a small rise of 0.1 p.p. from the end of 2017.
The loss ratio, at 65.1%, was in line with the 2017 result. This arose from two contrasting effects: on one hand, the 0.4 p.p. improvement in the catastrophe current loss ratio in a positive year with fewer natural events, on the other an increase of 0.4 p.p. in the non-catastrophe current loss ratio. The latter ratio was affected by an increase in large claims in the Global Corporate & Commercial line, whose impact was particularly favourable the previous year. Not considering catastrophe claims and large claims, the current loss ratio would have improved by 0.2 p.p.
The slight increase in the expense ratio (+0.1 p.p.) arose largely from acquisition expenses in Italy to support the Non-Motor lines, and in Central Eastern Europe, France and Europ Assistance as a consequence of the growth in Non-Motor premiums.

Asset Management

Operating profit in the Asset Management segment increased 28% to 335 million EUR at the end of 2018. This improvement, and the consequential increase in net profit (+24%), was driven by a variety of factors, including the development of the Third Party and Unit-Linked business, the rise in investment volumes in Real Assets – such as real estate, private equity – the improvement in cost efficiencies and the renegotiation of commissions on the insurance mandates of the Group companies.

General operating expense

Another area on which management focused strongly during the year was cost management. This enabled us to continue reducing the cost base on the mature markets, by a further 90 million EUR. This area continues to be a priority.

From operating profit to net profit

Now we can look at the transition from the operating profit to the net profit. The first item, the non-operating result of investments, had a negative effect of 155 million EUR compared with a positive effect of 65 million EUR in 2017. This was due to impairment losses of 431 million EUR arising largely as a result of the downturn on the stock markets in the last quarter and lower net realised gains, which reflect the policy to support future investment yields. Realised gains amounted to 265 million EUR, down by 45 million EUR from the previous year.

Holding non-operating expenses increased by 40 million EUR to 795 million EUR, chiefly as a result of the closure of the branch in Japan and the restructuring of the operations of Generali Employee Benefit, which transferred its main office from Brussels to Luxembourg. At the same time, interest expense on financial debt decreased. Consistently with the goals of the Strategic Plan, this reduction will be even stronger in 2019 after the transactions conducted to date on debt.

The heading "Net other non-operating expense" was 411 million EUR, consisting mainly of non-recurring costs such as restructuring expense totalling 211 million EUR, linked to the acceleration of the restructuring in Germany, other expenses relating to local projects, IT costs and costs associated with Group projects. In future, a progressive reduction is expected on these non-recurring items. The heading also includes the gain of 77 million EUR realised on the sale of operations in Panama and amortisation of 98 million on acquired portfolios.

The Group tax rate was 32.6%, in line with 2017.

"Discontinued operations" reflected profit of 173 million EUR. This included 49 million EUR of gains on the sale of the Irish operations, as well as the profit of other discontinued operations, such as Belgium, Guernsey and Generali Leben in Germany, whose sales had not been finalised at closure of the 2018 financial year. All these transactions were completed before the date of today's meeting.

Profit attributable to minorities was substantially in line with 2017.

The trends I've described so far generated a profit for the year of 2.309 billion EUR, an increase of 9.4%.

Development of the dividend

In the last few years, the Group's growing financial solidity and industrial transformation, which have enhanced our cash generating ability, mean we have been able to raise our dividend in a constant, sustainable way. This year once again, we are proposing another increase in the dividend, to 0.90 Euro per share, up by 5.9%; if the dividend is approved, we shall be able to exceed the Strategic Plan target of 5 billion EUR of cumulative dividends in the four years 2015-2018.

Key Group indicators: Capital and Equity

Now let's take a look at the Group’s key capital and equity indicators.

First, I should point out the increase in the regulatory Solvency II ratio, an overall indicator of our solvency. This indicator has risen by 9 p.p. to 216%, in a difficult financial market climate. We have also benefited from the fact that in November 2018 Generali obtained regulatory authorisation to extend its internal capital model to Austria and Switzerland, with a benefit of about 15 p.p. on the solvency ratio.

Meanwhile, equity fell by 5.9% to 23.6 billion EUR. The main cause of this downturn was the decrease of the reserve for gains and losses on available-for-sale financial assets, which was down 2.3 billion EUR due to the situation on the financial markets.

This market trend also had an impact on total assets, which amounted to 516 billion EUR.

Investments: Breakdown by asset class

Investments amounted to 416 billion EUR. The main category continued to be fixed-income instruments, which accounted for 72% of the total. I should point out that investment value is given net of discontinued operations classified under “Non-current assets or assets of a discontinued group held for sale” amounting to 55.9 billion EUR.

Parent Company figures: Business indicators

I want to close by illustrating the figures for the Parent Company, whose financial statements are submitted for your approval today.

Premium data first.

Gross premiums written amounted to 3.311 billion EUR. The small reduction of 1.7% is attributable to the downturn in the Life segment as a result of the termination of the reinsurance agreement with Generali Levensverzekering Maatschappij N.V., our operating subsidiary in the Netherlands, which has been sold to a third party, and to the physiological contraction in run-off inward reinsurance volumes from the subsidiary Alleanza Assicurazioni S.p.A.

P&C premiums grew by 1.1% to 1.680 billion EUR.

The profit on ordinary operations, which reflects the balance on industrial operations, ordinary financial operations and other ordinary income and expense, rose by 6.0%. Performance was particularly positive for ordinary financial operations, thanks to increased dividends from the subsidiaries, offset in part by the decrease in industrial operations. This arose from a reduction in reinsurance acceptances in both the Life and the P&C segments. In the Life segment, this was due to the termination of reinsurance contracts with our operating subsidiary in the Netherlands and the physiological contraction in run-off treaties with the subsidiary Alleanza Assicurazioni S.p.A. The P&C segment was also down due to a higher frequency of large claims. The combined ratio rose by 0.5 p.p. to 92.4%. Nonetheless, this is still a very healthy result.

The improvement in the result of ordinary operations contributed to the 4.9% increase in profit for the year to 1.473 billion EUR.

Now let's analyse the other components of parent company profit for the year, besides the result of ordinary operations.

The reduction in the contribution of extraordinary operations was largely attributable to higher charges for tax on previous years.

The positive tax factor arose mainly from the growth in income for IRES for the year.

Parent Company figures: Key equity indicators

Before closing, I want to look at the main equity indicators for the parent company.

Assets stood at 45.3 billion EUR and consisted mainly of Group equity investments for 29.5 billion EUR, slightly down on 2017, due to the sales of Generali PanEurope, Colombia and the merger by incorporation of the Dutch subsidiary Generali Finance B.V. The decrease in assets arose chiefly in the class D Investments caption after the reduction in the reinsurance deposits of Generali PanEurope as a result of its sale.

External debt was approximately 11.2 billion EUR, up 9.9% as a result of the increase in subordinated linked to the merger of Generali Finance B.V.. On a like-for-like basis, the item would have been down 250 million EUR from the previous year.

Net technical reserves stood at nearly 8.1 billion EUR, down from the previous year due to the termination of reinsurance contracts after the previously mentioned sales, and the physiological contraction in the run-off portfolio with the subsidiary Alleanza Assicurazioni S.p.A.

Equity was almost 15 billion EUR, a small increase as a result of the improvement in profit for the year, which more than offset the dividend paid during 2017.

Finally, parent company regulatory solvency was substantially unchanged from the previous year (256.9%).

Concluding remarks

I would like to end by summing up the main points and key observations concerning the Group's results:

1. 2018 was a positive year for Generali, with important industrial results demonstrating that we are able to grow sustainably, boosting profitability in all operating segments, despite a difficult and volatile general context. The ability to maintain best-in-class profit margins in our business is the best guarantee for our future growth;
2. we have successfully completed the industrial transformation of the Group, to become more efficient and capable of generating more cash from our operations. Now we are focusing on executing the *Generali 2021* Plan and our proven capability to achieve our objectives makes me confident about the successful implementation of the new industrial plan;

3. our regulatory solvency is solid, and was 216% at the end of 2018;
4. all these elements mean that, as our CEO has already said, we can propose an additional increase in the dividend to 0.90 EUR per share.

I want to thank all our employees, the commercial network, our managers, collaborators and their families, who are the real strength of our Lion. It is thanks to their talent and constant commitment that we have been able to achieve the results I have just illustrated.

Thank you.