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Consolidated results as of 30 June 2018

Video presentation transcript
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Good morning, and welcome to our 2018 first-half results.

Key messages

I am proud to say that the first six months of 2018 have confirmed that the Generali Group is executing its strategic plan with discipline and success.

There are now 5 months left to the completion of our turnaround. We are on track to reach our targets and in some cases we even overdeliver.

The 2015-2018 plan is an industrial strategy with the aim to strengthen Generali's business leadership. My first key message to you is that in the first half of this year we have made further progress. For instance, we continued to steer our portfolio towards capital-light solutions. This, and many of the other actions we have undertaken, contributed to our operating profit and net profit, both of which continued to grow.

The second key message is that we nearly completed the optimization of our geographical footprint. We want to be strong in the selected markets where we are convinced that we can have a role as a leader.

The third key message is that we are confident we will reach our 2015-2018 targets by the end of this year.

Continued excellent technical performance & profitability

I would like to focus on a few high-level KPIs that highlight the Group's profitability in the first six months. Shortly Luigi will give you a more detailed overview of our financials.

The disciplined implementation of our strategy was reflected in the operating result, which rose by 2.7% compared to the same period last year to more than 2.5 billion Euro.

The net result rose by nearly 9% to 1.3 billion. This is the best first half net result in 10 years.

Our technical performance remains excellent. Our Property & Casualty Combined Ratio improved by 0.8 percentage points to 92%. This positive trend was achieved even with significant natural catastrophes in France and Germany. Excluding the Nat-Cat impact, the underlying improvement was even higher at 1.3 percentage points.

In the Life segment, our New Business Margin has been steadily improving and is now at 4.5% from 4.1% in the first half of 2017.

2015 – 2018 Strategy status: On target (1)

Let me update you on where we stand relative to our key strategic targets.

I am pleased to report that we are either on track to meet them or we have already met them and are looking to exceed them.

Let's go through them one by one. To optimize our international footprint, we have signed

deals for about 1.5 billion Euro in total, well above our 1 billion target.
I will give you more insight on this shortly. As part of our plan to rationalize the operating machine, at the end of 2017 we already achieved our target of 200 million Euro of net cost reduction in mature markets one year ahead of our revised plan. We were able to take advantage of many synergies and consequently we are now more efficient and agile.
As regards the enhancement of our technical capabilities in the first half our Combined Ratio improved significantly, as we saw before. Also, we shifted our life business mix away from guaranteed policies. Our average guarantee on new traditional business is now only 14 basis points with a decreasing trend and very close to our 0% target. In the Euro-area, it's only 1 basis point.

2015 – 2018 Strategy status: On target (2)

As part of our portfolio rebalancing, we said we wanted a 30 basis point reduction in the average guarantee of our entire portfolio to 1.5% by the end of 2018. I am happy to show you that, as of the end of June, we exceeded this target. The average guarantee was down by 42 basis points compared to the end of 2015 and stood at 1.39%.
We are also making our reserves more capital-light. In fact, from 2015 to June this year, the portion of capital-light reserves has increased by 8.4 percentage points – exceeding our initial target. Both of these targets were significantly accelerated by the agreement we recently announced regarding Generali Leben to which I will return in a moment.
Our Asset Management business plays a key role and we expect it to contribute 150 million Euro of additional profit to the Group by 2020. We are on track to meet this goal. In the first half of this year, our Asset Management activities in Europe generated 88 million Euro of net result, an impressive 56% increase compared to the same period last year. This resulted in an additional contribution of 36 million Euro to the Group compared to the first half of our base year of comparison, 2016.
Moving on to the next strategic pillar, I would like to give you an update on our innovative programs to increase customer retention. We continue to implement our Net Promoter Score initiative to reach out to clients, collect their feedback and act upon it. As of today, 90% of our customers are covered by the program. On average, the number of promoters of our brand has improved by 15% in the business units where the program has been live for more than 5 quarters. We also started a dedicated NPS program for our distributors.
With the Mobile Hub, we allow clients to perform insurance transactions on their mobiles and with the Digital Agent we equip distributors with a platform that leverages social media, data and artificial intelligence to boost their business opportunities and improve their communications with clients.
Coming to our last strategic pillar, we are strengthening our brand to increase preference by 3 percentage points in mature markets. The plans we are executing to accelerate this target, such as the shift from traditional to more cost-efficient and engaging digital marketing, have proven effective, with a positive momentum on brand preference.
Recently, we have signed an important deal with Germany's largest distribution network, DVAG, which will sell only Generali-branded insurance products going forward.

Focus on: Optimization of geographical footprint

Now let me talk you through the optimization of our geographical footprint.

Since the start of our plan, we have signed, or concluded, a number of important deals.

We have put into run-off our operations in Japan and signed deals to dispose of our operations in Tunisia and Belgium as well as to sell Generali Worldwide and Generali Link.

We have completed the disposals of Generali PanEurope and of our operations in Guatemala, the Netherlands, Panama and Colombia. As a result, the cash proceeds that we have received or we are going to receive amount to approximately 1.5 billion Euro, well above our announced target of 1 billion. My colleagues and I will provide you with more details on the use of these proceeds as part of our presentation at the Investor Day next November in Milan.

Agreement on Generali Leben

As previously announced, we have signed an agreement to sell a majority stake in Generali Leben. The disposal of Generali Leben was not part of our geographic optimization program. We are clearly committed to the German market, where we remain the leaders in capital-light products and we want to strengthen our position as the second-largest insurer.

Generali Leben accounts for approximately 37 billion Euro of traditional, capital-absorbing policies with high guaranteed rates. This transaction, if approved by the German regulator, will have no precedent in the insurance industry and has a positive impact on the risk profile of the Generali Group reducing exposure to interest rate fluctuations and shifting the business mix to capital-light solutions as per our strategic framework. This transaction benefits us and the policyholders. The buyer – Viridium – is an industry player with a proven track record to manage this type of portfolio. We will seek the best opportunities to re-invest part of these proceeds to innovate and grow our German business.

Nearing completion of the industrial turn-around

Generali is nearing the completion of its industrial turnaround. The Group is working with passion and dedication to deliver on its targets. At the same time, we are designing the next phase of our journey. From 2012 to 2015, we completed our financial turnaround and strengthened our capital position. From 2016 to 2018, we have been focusing on our industrial levers to improve the operating performance and to create long-term value.

The goal we are pursuing is not to become the biggest, but the best, the goal we are pursuing is excellence. Next November, at our Investor Day in Milan, we will present a new plan of value-creating growth. We are defining a 3-year strategic plan around 3 key pillars: one, capital management and financial optimization, two, profitable expansion, three, innovation and transformation. We will show you how we will improve the management of our balance sheet and allocate our available cash and capital in the most value creative way possible. We will also show you how we intend to grow our business by developing our offering in innovative business lines, as well as by launching disruptive solutions that employ digitalization and ecosystems. We will show you how we will further enhance our operating model and cost control and strengthen our human capital, brand equity and corporate culture of sustainability. We will build our new strategic plan based on our strengths, including best-in-class technical profitability, solid risk capital position, unrivalled distribution network and strong drive in innovation.

Investor Day

I very much look forward to unveiling our next chapter and welcoming you all to our 2018 Investor Day in Milan on November 21st.

In conclusion, today's financials show that we are delivering the results that we promised, and that our performance trajectory is healthy and robust. We are confident that we will meet our stakeholders' expectations. I would like to take this opportunity to recognize the managerial talent that we have around the world. Thanks to the contribution of more than 70 thousand colleagues, we aim for excellence in everything we do, every day, everywhere.
I am very proud of the results we have achieved thus far.
Next, our Group CFO Luigi will give you more details on our financials.
Thank you.

LUIGI LUBELLI, GROUP CFO

Good morning everyone,

Today I have the pleasure of guiding you through the main figures of our 2018 first half results. As Philippe has already commented, Generali is entering the final phase of its current strategic plan with a solid set of numbers.

Key messages

Before I begin, let me remind you that, as usual, comparative results have been restated to reflect current changes to the Group's consolidation scope and the application of IFRS 5, which in this year's first half have a larger impact due to the strong momentum of the disposals process over the last 12 months. The figures for those entities, which we have agreed to sell but are yet to be transferred to their new owners are presented as discontinued operations. Specifically, the first half of 2018 saw the largest number of this kind of disposal, due to transactions that were either announced in 2017 and closed this year or that have been agreed so far in 2018. On one hand, this requires devoting a bit more time to understanding the figures; on the other, this quarter can be seen as an especially significant intermediate step towards the improvement of risk-adjusted profitability going forward. Let me also remind you that, since January, the ACEER region includes Austria, CEE and Russia. I will begin with a summary overview of our performance in the first six months of the year.

Firstly, let's have a look at growth. In Life, our net inflows closed the semester at 5.7 billion Euros, in line with last years' strong result. This figure, to me, is especially significant, as such a large volume of new inflows was achieved while continuing to drive the composition of our portfolio towards our target products and despite the more volatile markets observed during the second quarter.

Premiums are growing faster than in the first half of 2017. In the Life business, they are compounded by 1.2 billion Euros from a specific in force management initiative in Italy. In P&C, growth accelerated to 2.1 percentage points, with positive momentum in both Motor and Non-motor. This was achieved while continuing to improve the combined ratio.

Life technical reserves grew by 1.8%, reflecting the strong net inflows, and despite the market volatility I mentioned earlier.

The operating result increased by 2.7 percent to over 2.5 billion Euros, translating into a 12.5 percent Operating ROE. This KPI continues to remain on average at 13.4% from the end of 2015, which is above its 13 percent target. The redeployment of the proceeds from the disposals into higher-yielding investments will contribute to the growth in the Group's results going forward. This is a topic that will be covered at the Investor Day in November.

The net result of 1.3 billion Euros was up 8.8 percent from the previous year, including some special items which I will come back to in a moment.

Our distribution effectiveness and careful underwriting approach bore fruit again this year. On one hand, we further expanded our new business margin on the Present Value of New Business Premiums even higher to 4.5 percentage points. Likewise, our combined ratio

improved by 0.8 percentage points, reaching an excellent 92 percent. The underlying improvement, without considering the impact from natural catastrophes, would have been even better at 1.3 percentage points.
The development of solvency is especially pleasing, given that, despite market volatility, we only lost ten percentage points since the first quarter of this year. This is a testimony to the many initiatives taken to control the Group's capital requirements and enhance the resilience of its solvency levels.

Operating result by segment

The Operating Result reached 2.53 billion Euros, with a 2.7 percent increase that has been achieved thanks to a good performance across all business lines, which I will explain in greater detail later on. The comparatively larger consolidation adjustments are mostly driven by the recognition in the first half of intragroup proceeds from investment funds, which in 2017 were booked in the second part of the year. Therefore, the magnitude of this adjustment should level downwards by year end.

From operating result to net profit

To move from operating result to net result, we start with the Non-operating investment income, which had a 20 million positive contribution, compared with a 7 million negative balance last year. This result includes a 113-million-euro positive gain from the disposal of our participation in Italo, that has been more than offset by our decision to reduce harvesting on other financial instruments while market volatility persists.
Non-operating holding expenses decreased by 3 million to 388 million Euros, driven by marginally lower interest expenses on our financial debt.
Net other non-operating expenses slightly decreased by 4 million to 171 million Euros. This variation is the balance of a number of positive and negative impacts. The main positive item was a realisation gain from the disposal of our Panama operations of 77 million. Among negative items, we saw slightly higher restructuring expenses at 68 million and additional local project and IT costs in Switzerland and Germany. In addition, the first half of 2017 saw 26 million of positive adjustments in defined benefit pension schemes, which were not repeated this year.
The overall effective tax rate of the Group was 32.4 percent, 1.6 percentage points higher compared to last year. This increase is mainly explained by an additional amount of around 10 million Euros from the US "repatriation tax", as well as the absence of positive tax refunds we experienced during the same period of 2017.
In the discontinued operations line, we have a 103 million profit, which includes a 49 million Euro gain from the sale of our Irish operations, in addition to the profit arising from other operations whose disposal has still to be finalised. These are Belgium, Guernsey and Generali Leben in Germany.
Minority interests were in line, at 104 million Euros and this takes us to a net income for the year of 1 billion 329 million Euros, up 8.8 percent year on year.

Shareholders' equity

Let us now turn to look at the balance sheet. Shareholders' equity decreased by 5.8 percent, to 23.6 billion Euros. The positive contribution from the net result has been more than offset by the 2017 dividend paid in May and by 1.3 billion Euros negative development of our available for sale reserve, reflecting primarily market volatility during the second quarter of the year.

Solvency II: Internal model vs regulatory

Our solvency position remained above 200% on both the regulatory and internal model views, confirming its resilience.

Solvency II: Regulatory View – capital generation

Let's focus on the regulatory ratio and the movement since the beginning of the year. On the positive side, we have about 2 percentage points coming from the disposal of non-strategic subsidiaries and 8 percentage points from internal capital generation. They were offset primarily by a negative variation of 14 percentage points mainly coming from the higher spreads, plus a further 3 percentage points coming from the accrual of dividends.

Life Key financial indicators

Now I will turn to look at the performance of the individual business segments during the first half of the year, starting with Life. We will look at these figures in detail in the next pages. On this one, I would like to explain the growth in premiums. The total increase was just shy of 1.8 billion. Of these, 1.2 came from in-force management activities on group business in Italy. The remainder came primarily from: France, which is experiencing good growth across all lines, especially unit-linked; and from Asia, especially savings and protection business in China and Hong Kong.

Life Operating result by driver

We recorded a 47 million Euro increase in the technical result, which reflected the positive contribution of hybrid product sales and associated fees, especially in Italy, and business growth in Asia, mainly relating to China. These positive developments were partially offset by a larger amount of profit sharing at Generali Employee Benefits and a voluntary acceleration of a required adjustment to new mortality tables in France.

The investment result decreased slightly due to a still declining current income and lower realised gains. The expense result contributed positively, with savings from mature markets out-weighing ongoing investments in Asia.

Life business mix rapidly shifting 1/2

Our net inflows were at 5.7 billion Euros for the first half, in line with last years' strong result, but with an even better business mix. The stability in this figure was especially significant as such new inflows were achieved while continuing to drive the composition of our portfolio towards our target segments, with a further increase in the weight of unit-linked and protection, and despite more volatile markets during the second quarter.

In Italy, net inflows decreased from 3.1 to 2.3 billion, mainly driven by lower traditional savings and pension products sales, but with a significantly improved business mix.

France experienced a very strong progression of net inflows, up to almost one billion Euros, from less than 200 million one year ago, with strong unit linked and protection sales, which offset traditional savings and pension flows that remained negative. In Germany, we also saw a 5.3% increase, while the lower inflows in ACEER were mainly driven by maturities in Austria. In our International businesses, the second quarter saw strong growth in bancassurance in China and a further positive contribution from the development of the new company in Hong Kong. At cumulative level, however, this could not yet fully offset the impact of the net outflows of traditional savings business in China in the first quarter of this year.

Life business mix rapidly shifting 2/2

Due to the strongly positive net inflows, our Life technical reserves increased by 1.8 percent over the first six months to 342 billion Euros. We are steering the mix of liabilities as planned: Capital light business has increased its weight on total reserves by 8.4 percentage points since the baseline of year-end 2015, so already outperforming the 6-percentage point shift we promised to deliver over the three years from then until 2018. The organic change has been so far equal to 5.2 percentage points, with the rest coming from the disposals we announced in the recent past, and in particular from the reclassification as a discontinued operation of Generali Leben.

Life new business analysis by business line

Moving to new business, let me first clarify that IFRS 5 does not apply to embedded value indicators and that new business figures have therefore not been adjusted to reflect those disposals that have been announced, but not executed yet. This is consistent also with the Solvency II position, of which the new business forms part.

The overall Present Value of New Business Premiums declined by 3.9 percent to 21.4 billion Euros, with a mix that marginally improved from the good one already achieved during the same period of last year. The overall margin increased even further, up 33 basis points on a like for like basis to 450 basis points, which represents a new high. This improvement has been driven in equal terms by management actions on business mix steering, product enhancements and minimum guarantees, as well as by improved financial market inputs. Margins in unit linked were broadly stable. Protection margins increased by 75 basis points year on year, mainly due to a strong improvement in France reflecting new products, better operating assumptions following positive experience, and some model refinements. The margin in savings business also increased, by 39 basis points, mainly due to Italy as a result of ongoing product development initiatives and further reduced guarantees.

This margin expansion overcompensated the reduction in volumes, leading to a new business value that reached 965 million Euros, up by 3.6% over the previous year. Even if the figures were adjusted for discontinued businesses, the new business value would still slightly exceed 0.9 billion, and the new business margin would be slightly higher, since the businesses earmarked for disposal have lower margins.

Life new business analysis by geographical area

By region, we see further margin expansion in Italy, France and International, mitigated by reductions in Germany and ACEER, although the latter remains at very good levels and indeed is the most profitable region of the Group.

The decrease of new business you can see in Germany is explained by the run off process that has been started at Generali Leben, a company that is still included in these numbers, as I explained before. With the full integration of the salesforce into DVAG a reverting trend is expected going forward. The margin erosion, on the other hand, was related to worsened operating assumptions.

Life investment performance

Let's look now to the Life investment portfolio: General account investments remained substantially flat at 301 billion Euros. In terms of asset mix, in this context of very tight spreads, we continued with our de-risking activity by marginally reducing the weight of corporate bonds, while the weight of government bonds and equities slightly increased. Cash balances within the investment portfolio were moderately lower at the end of the first half as compared to year end 2017. Current investment returns stabilised at around 1.6 percent, even if current income in absolute terms continued to decline by 138 million Euros gross of policyholder share. The new money reinvestment rate in Life amounted to two percent, compared to 1.9 percent during the same period of last year.

P&C key financial Indicators

Let us now turn to P&C and on this slide I would like to focus on gross written premiums, which increased by 2.1 percent to 11 billion Euros. Trends were positive in both Motor insurance, driven primarily by Latin America and Eastern Europe, and by Non-Motor, which benefited from growth in Europ Assistance, Eastern Europe and France.

P&C Operating result by driver

The operating result showed a 3.8 percent increase. Looking in more detail at its components, we see that this positive performance is driven entirely by an improved technical result, up by 67 million Euros, which in turn reflects the favourable development in the combined ratio. The investment result remained stable, with higher proceeds from investment funds making up for the fall in current income. Lastly, the result from "Other" worsened by 24 million Euros, mainly due to decreased margins on service activities and higher indirect taxes.

P&C gross written premiums and combined ratio by country

Italy's top line was down 3.3 percent, at 2.6 billion Euros. Motor decreased by 4.1 percent, still affected by a soft market and by a reduction in the number of policies, due to our persistent strict underwriting criteria. Primary Non-Motor is down 2.7 percent, particularly driven by the evolution of the Global Corporate & Commercial business, partly due also to some pruning activities to protect profitability. Notwithstanding these top line numbers, we are starting to see underlying improving trends. In terms of profitability, Italy again confirmed its outstanding levels with a 90.1 percent combined ratio. France is having a good top line performance with premiums up 2.7 percent to over 1.4 billion Euros. Motor grew 2.1 percent, thanks to tariff optimisation and new commercial initiatives. Primary Non-Motor performed even better with premiums up 2.7 percent. The combined ratio worsened by 0.6 percentage points to 98.9 percent, mainly due to increased nat-cat losses and other weather-related large claims not reaching the nat-cat definition threshold. In Germany, premiums increased by 0.6 percent. This was driven by the combination of a stable Motor business and primary Non-Motor increasing by 1.1 percent. The combined ratio experienced a 0.4 percentage point deterioration, entirely due to higher nat-cat losses which were not fully compensated by the improving underlying trends. ACEER delivered a very strong performance once again, showing a 4 percent premium increase driven by CEE countries. The combined ratio was outstanding at 88.2 percent, 1.7 points lower than the previous year. Our International businesses delivered strong growth of 7 percent on a like for like basis, reaching almost 2.7 billion of premiums, mainly thanks to the strong performances of the Americas and of Europe Assistance. The overall combined ratio here stood at 94.5 percent, down 3.1 percentage points year on year.

Combined ratio analysis

The loss ratio improved by 0.6 percentage points notwithstanding a 0.5 percentage points higher impact from nat-cat losses at 1.4 percentage points. The counterbalancing improvement came from the current year result, down 0.9 percentage points, which is a particularly pleasing result, although, as we mentioned, the first quarter was particularly benign in terms of large losses outside of Nat Cat. The contribution from prior year development was substantially in line with the previous year, at 4.8 percent. The expense ratio also improved by 0.2 percentage points, driven by a lower administration expense ratio.

P&C investment performance

P&C investments increased slightly, compared to the end of last year, to 39 billion Euros.
There has been a slight decrease in both corporate and government bonds counterbalanced by increasing cash instruments. Total P&C current returns, on a 6-month basis, were relatively stable at 1.6 percent. This stability has been driven by improved current returns on equity investments, with higher proceeds from investment funds, while fixed income returns have continued to decline slightly, reflecting the persisting low interest rate environment.
The average reinvestment rate in P&C during the first six months of the year was 1.5 percent, in line with what was achieved last year.

Focus on Holding & other business segment

Let me finally turn to our “Holding & other businesses segment”, whose overall contribution to the Group operating result improved from 39 million Euros last year, to 74 million Euros in this closing. This result has been driven by the strong performance of Asset Management Europe, only partially mitigated by a 7 percent decrease of Banca Generali’s operating result.

Focus on Asset Management

Asset Management Europe saw an increase of 53% in operating result and 56% growth in the net result as compared to the first half of last year. This notable increase in profitability reflects a larger volume of investments into Real Assets, a review of insurance mandate pricing, the development of the Third Party business and the increase of internally managed Unit Linked AuM. Larger revenues drove our cost income ratio down by 9 percentage points to 54%. These positive developments position Generali well to reaching the target it announced for 2020.

Conclusion

In summary, we have produced another strong set of results, with growing profitability, industry-leading technical KPIs and a strong balance sheet, which has comfortably been able to absorb the market volatility observed in the second quarter.

Moreover, we have made very significant and transforming steps towards the achievement of all our strategic initiatives, which place Generali well to close successfully its current plan by the end of 2018 and lay the grounds for profitable growth under the new plan that will be announced in November.

Thank you for your attention.