Q4 2016 Earnings Call - Pre-recorded

Company Participants

- Luigi Lubell, Group Chief Financial Officer
- Philippe Donnet, Managing Director and Chief Executive Officer

MANAGEMENT DISCUSSION SECTION

Philippe Donnet {BIO 4657671 <GO>}

Good morning, everyone, and welcome to the presentation of our 2016 results. There are four key messages that I would like you to take away today. First, Generali delivered their highest operating result in its history despite the unfavorable market conditions. Second, thanks to our strong cash generation and solid capital position, we will propose to shareholders a dividend of €0.80 per share, up by 11% from the previous year.

Third, these results confirm that Generali is operationally among the best-in-class, and that it is delivering improved performance across all the business units. Finally, with our strengthened management team in place and our progress to-date, we are in a position to deliver all our strategic levers and, in particular, to accelerate on the achievement of our cost reduction targets.

In 2016, Generali's operating result was the highest in the history of our company at more than €4.8 billion. This excellent performance is driven by both Life and Non-Life, and has been achieved thanks to our continuing improvement in technical discipline and also to our success in driving down costs.

The quality of our earnings has also improved. This is the result of conscious management decisions and the execution of our strategy. The evidence is that we achieved almost €2.1 billion net profit, but using significantly less capital gains. This excellent performance has been achieved despite unfavorable market conditions with persistently low interest rates and high equity market volatility. We have been successful in achieving the key goal of improving cash generation from operations.

I'm very pleased to see the net operating cash grow significantly once again in 2016 from less than €1.7 billion to almost €1.9 billion. We remain strongly capitalized. The Regulatory Solvency II ratio has improved to 177%, reflecting the successful approval of the internal model for the French Life business.

Our Economic Solvency ratio is 194%, well within our comfort zone. The gap between the Regulatory and Economic Solvency ratios is narrowing. Thanks to our strong cash generation and solid solvency position, we will propose to shareholders a dividend of €0.80 per share, up by 11% versus previous year.

We are well on track to deliver on our financial targets for 2018. The €3.5 billion cumulative operating cash generated and €2.4 billion dividend proposed demonstrate that we are making strong progress to deliver our targets of €7 billion operating cash and €5 billion cumulative dividends between 2015 and 2018. We are confident and remain committed to achieving the remaining half of the target by the end of 2018.

Halfway through the plan, we are at an average 13.8% return on equity, well above the 13% threshold we committed to. Our performance is best-in-class among our peer group. Our management team is absolutely committed to improving performance across all our businesses.

In 2016, Generali posted the highest Life net inflows in the peer group, exceeding €12 billion. We are very pleased with the quality of these inflows; 44% are unit-linked despite the tough market conditions at the start of the year.

Protection and savings equally account for the rest. I'd like to point out that the savings portion registered a very low average guarantee. Therefore, the profitability of our Life business is very solid in terms of new business margin and among the best in the peer group.

In the Property & Casualty segment, the combined ratio is down by 0.7 percentage points, starting from the already excellent levels of last year and is the best among our peers. The level of efficiency of our operations measured by the Property & Casualty expense ratio and the Life administrative ratio is again the best among peers.

At the Investor Day in November, we said that we aim to reach excellence everywhere, every time, and in everything we do. We are not satisfied to be the best on average. Generali is already doing well across all key metrics, but we want to do more by fully exploiting the potential in each of our markets. I am particularly proud to see how all our main business units posted improvements in 2016. Our Chief Financial Officer, Luigi Lubelli, will deep-dive into the numbers in a moment, but let me give the key high level points.

In Life, the new business margin increased across all our geographies, leading to an overall improvement of 4.8 percentage points. In Non-Life, the improvement of 0.7 percentage points in our group combined ratio reflected a strong performance in all markets and improving in many, especially in Germany, where it was down by 2.5 percentage points.

In France, the combined ratio fell below the 100% threshold for the first time in recent years. This is an important achievement, but, of course, we are not satisfied and we think more can be done. In Italy, our strict underwriting discipline limited the negative impact of the market cycle, resulting in a 0.9 percentage point increase in combined ratio, which, nevertheless, remained at excellent levels below 90%.

We deliver these results due to the extremely high attention we pay to the execution of our strategy. We are very vigilant in terms of performance monitoring and we are strongly focused on executing at pace and with discipline. In March 2016, as soon as I was appointed, we started accelerating the execution. And in November, the Investor Day, we presented the strategic initiatives with measurable KPIs.

Today, we can already see the positive impact of our accelerated strategy execution, simpler, smarter, and faster. First, regarding the optimization of our geographical footprint, we have activated the processes on each of the main components of our disposal program targeting at least €1 billion of proceeds.

Second, on the rationalization of our operating machine, we have brought the cost level down by €70 million in absolute terms.

Third, we have further consolidated our leading position in terms of operational and technical performance among peers. With our focus on technical excellence, we have improved the combined ratio by 0.7 percentage points. In Life, we brought down the guarantee levels of new business by 7 basis points, reaching now 0.4% on average. Let me remind how guaranteed business represents an ever smaller portion of our overall Life business.

Fourth, our average guarantee on existing business has also fallen by 7 basis points, and we expect this pace of decline to accelerate as we implement the measures to manage our in-force portfolio. Let me point out that overall, our average guarantee is lower than peers. As a result, our capital-light reserves increased by 2 percentage points.

Finally, as a very retail-focused organization, we are pleased by our improving client retention, which is key to achieve better profitability, where we have recorded 1.2 percentage point increase and an improvement of 0.5 percentage point in brand preference. These are real achievements early on in our plan execution. They are driven by specific and focused decisions defined by our CEOs around the world with the support of all our people.

You have seen that we have made a series of changes in our top management team to make sure that we have the right people in the right position to drive change. Our stronger team and more dynamic governance and the quality of the execution and implementation of our strategy allow us to be more ambition and accelerate further on the costs.

So it's just four months since we announced our strategic plan and we are in good shape across the board. Given the positive momentum we already achieved, we feel confident that we can deliver the cost reduction target by 2018, a year ahead of what originally planned. Of course, we will not stop there. We are continuously looking for opportunities to accelerate and do more across all strategic levers and we will, of course, update you when we see such opportunities.

Before concluding, let me quickly reiterate the four key points that compose our investment thesis. First, Generali is an international group uniquely positioned in Europe, the largest profit pool in the world. Our franchise is particularly distinguished by our scale, with top five position in 10 markets out of 20.

Second, control over distribution and real customer relationships are key. We have an excellent distribution model, with 150,000 dedicated agents and sales people around the world. This network ensure the best relationship with clients based on trust, expertise, and understanding.

Third, Generali consistently delivers best-in-class operating performance, coupled with a strong balance sheet, and with clear plans and determination to improve our profitability further.

Fourth, we have fully embraced developing technology in a concrete way, with a focus on Connected Insurance. For example, we have the largest Connected Insurance platform among peers, with 1.3 million connected cars and a product range that spans from home to health.

Last, but not least, Generali has a streamlined governance and a focus on execution that allows its CEOs around the world to be truly empowered to deliver on the strategy in an effective way. So, these are very strong results on an absolute and relative basis. Our team is on board and we are very excited by what we can do with Generali, first, in delivering this plan, but also beyond that.

I want to underline that the very positive results we are presenting today are just the starting point of our journey. We have a clear program that aims at excellence and at making Generali the preferred insurance company for its clients, agents and distributors, employees, and for its shareholders.

I will now hand it over to Luigi Lubelli, who we welcomed recently to our management committee as our new Group CFO. He will go more in details through the numbers.

Luigi Lubell {BIO 4108780 <GO>}

Good morning, everyone. Let me begin by saying that I'm greatly honored and pleased to be able to present to you Generali's 2016 financial results, my first results presentation to you after my appointment as Group CFO in January of this year.

As Philippe has just explained, 2016 has been a great year for the group, in which we have made strong progress in implementing our strategic initiatives in spite of a challenging operating environment. I will dive into the details in a moment, but let me recap the main financial highlights.

The operating result was the highest since the introduction of this metric back in 2007, exceeding €4.8 billion. Our net result also improved to reach almost €2.1 billion. I must note that both of these results have been achieved with significantly lower capital gains. Net operating cash generation has been very strong, reaching almost €1.9 billion and supporting an 11% increase of our dividend. This positions us on a good trajectory for meeting our cumulative cash and dividend targets.

On Solvency II, our regulatory capital position has benefited from the approval to apply the internal model to our Life business in France. As a consequence, the gap between the regulatory and the internal model of use of capital have almost halved. Both ratios remain at very comfortable levels and are supported by the high level of organic capital generation of the business.

So let me get straight into the detail, starting with a look at the operating result by segments. Our relentless management focus on technical excellence and cost efficiency offset the impact of declining investment results, translating into growing operating profits in both Life and Non-Life. And, as you will see, the improvements were consistent across markets.

The segment holding and other businesses had a negative performance, with €91 million losses compared to €59 million profit over last year. This was mainly due to lower performance fees of Banca Generali in 2016 compared to a very strong previous year, and some gains on private equity and real estate funds in 2015, which were not repeated to the same extent this year.

Moving from operating result to net profit. In line with what was observed in the first half, we can see that non-operating investment items have swung from a positive contribution of €159 million last year to a €217 million negative result this year, reflecting a €336 million reduction in realized gains, which were a little more than half the prior year level.

Impairments amounted to €543 million, €40 million above the previous year, despite the impairment charge for BTG being in the comparative. In 2016, and especially in the fourth quarter, we have taken action to conservatively value our exposures to the Italian banking industry. This includes both our investment in the Atlanta fund, to which we applied a 52% haircut, leading to a €37 million non-operating impact, as well as to other holdings in a number of Italian banks, which affected the non-operating investment income for an additional €141 million. Our overall exposure to Italian banks remains modest at €4.2 billion, mainly in the Life segment.

Non-operating holding expenses increased to €794 million, due to €39 million higher interest costs on our financial debt. This increase of interest expense is temporary and relates to the pre-financing of two bonds with call dates respectively in June 2016 and February 2017. Without this double accounting effect, which amounted to €53 million, overall interest expenses would have decreased by €40 million, broadly in line with the underlying decrease in this line.

Other non-operating expenses decreased by almost €200 million. I wish to highlight a €93 million reduction in restructuring expenses, which were especially large in Germany in 2015, and due to some exceptional provisions in the prior year number, which has not recurred.

The overall income statement effective tax rate was 29.1%. The decrease with respect to 2015 is mainly due to lower corporate rates in France and Spain, as well as to recoveries from previous years in Germany. Minority interests were €71 million lower due to the smaller contribution from Banca Generali, as previously mentioned, and the presence of realized gains on equity investments in China in 2015, which did not recur this year.

Let me now turn to cash generation. On this slide, we show you the dividends coming from the main operating entities of the group. The overall gross amounts remitted by our subsidiaries increased over 20% to €2.4 billion year-on-year, which is a very positive development. To repeat what Philippe has said, I think that the striking feature of the chart on the right is that the increased remittances are coming from all of the main regions of the group, and this is testament to the consistent approach we have had to implementing strategic actions to improve cash generation.

Let me turn to the second slide on cash. To get to our net operating cash metric, we add the following items at parent company level. The operating earnings of reinsurance activities, less overhead expenses and interest costs paid, net of a normalized tax rate. This result in almost €1.9 billion of net operating cash generation, and that positions us well on our track to achieve our cumulated €7 billion net operating cash and our cumulated €5 billion dividend targets by the end of 2018.

Let us now turn to look at the balance sheet. Shareholders' equity increased by 4.2% reaching €24.5 billion. The increase of €1 billion is primarily the straightforward result of the net income achieved of €2.1 billion, less the €1.1 billion dividends we paid in the second quarter. Apart from this, two lesser effects offset each other, the mark-to-market of available for sale fixed income and equity instruments, which resulted in a small €252 million positive effect, and the other item, whose net balance was €230 million negative, and that derived mainly from the effect of declining interest rates on our pension liabilities.

Turning now to our solvency ratio, we can see that it remains strong. Actually, if we were to exclude the impact of regulatory changes, it has strengthened over the year. A relevant and welcome development compared to 2015 has been the approval to extend the scope of our partial internal model scope to include the French Life business within the regulatory ratio. The gap between this ratio and the view under our full internal model has, therefore, narrowed materially to 17 percentage points from 31 percentage points last year.

Looking at the full internal model view, the ratio decreased modestly to 194%, mainly due to the implementation of the new EIOPA portfolio for the calculation of the volatility adjuster and negative economic variances. Although, I would point out that these variances turned positive in the second half of the year.

On this slide you can also see the sensitivity of the ratio to various financial markets movements, which have remained broadly unchanged compared to the previous year, save for a slight widening with respect to interest rates and the narrowing with respect to equity markets and corporate credit spreads.

Looking into more detail at the roll-forward of the internal model ratio, we can see that starting from the opening position of 202% we disclosed last year, we have negative 10 points coming from regulatory and other model changes. By far, the biggest driver here is the modified calculation of the volatility adjuster to take account of the EIOPA reference portfolio, as we highlighted in our third quarter results call.

Normalized capital generation remains robust, adding back 17 points to the ratio, reflecting the very strong underlying technical profitability of the business and improved economics of the new contracts we are writing. Financial variances and other movements were 9 percentage points negative, driven primarily by interest rates and spread movements.

Finally, the 2016 proposed dividend recognized in the 2016 full year ratio during the fourth quarter will absorb 6 points of solvency, leaving the final ratio at 194%. So, in short, on the solvency ratio, I think what is clear here is that our strategic focus on technical and cost excellence is benefiting not only the bottom line, but also our ability to generate solvency capital. Even after dividends, the underlying increase of our solvency ratio was over 10 percentage points in 2016 before financial market movements and regulatory changes.

We also enjoy a strong quality of capital and I would like to devote a few words to it. Firstly, on this slide the tiering of our solvency capital under the regulatory view. Total economic own funds are only €500 million lower under this view compared to the full internal model view, primarily because of the higher risk margin deriving from the higher SCR.

As you can see, the vast majority of our capital is unrestricted Tier 1, the highest quality form of capital under Solvency II. And in fact, this source of capital alone already covers our capital requirements by 1.4 times. I believe our quality of capital is strong and compares well with the direct peers in the industry.

Another way to look at the quality of capital is to see how close we are to the various limits that exist under the Solvency II framework. And as you can see once again, our picture looks very comfortable indeed. We are at less than half the limit for restricted Tier 1 and for non-Tier 1 capital. Furthermore, we have almost no Tier 3 capital, reflecting the fact that deferred tax assets on our Solvency II balance sheet are not material.

We, therefore, have a headroom of approximately €10 billion as compared to the maximum limit under Solvency II, providing us with significant financial flexibility. So, I trust you will share my view that Generali is in a very comfortable position with respect to its own funds, both in terms of level and quality.

With that encouraging conclusion on the balance sheet, I will now turn to look at the operational performance of the group. But before discussing the individual segments, I would like to address the issue of our overall cost base. First of all, I would like to take you back to our 2013 Investor Day, where we made two commitments to be achieved by 2016; firstly, that we will generate €1 billion of gross cost savings, and secondly, that we would keep the overall nominal cost base flat in constant currencies as compared to the

2012 baseline. In other words, having used the €1 billion gross savings to fund inflation and to invest in business transformation initiatives, I'm happy to confirm that we have delivered also on these commitments. The €1 billion of savings have been achieved. And indeed, the overall cost base is almost exactly at the same level as 2012. This underpins our expense ratio performance, which ranks among the best in our peer group.

But what should you expect in the future? I remind you of what we committed to more recently in our November 2016 Investor Day. Then, we communicated that we wanted to shift our focus away from gross cost savings and instead concentrate on the net nominal expense base of the group. Therefore, we will not refer anymore to gross savings numbers in the future.

Secondly, while it is critical to maintain vigilance on costs everywhere, we shall focus our attention on mature markets, where cost efficiency can drop more directly to the bottom line. In growing markets, stable or even increasing expenses may be more tolerable, as long as they deliver a net positive contribution to the earnings.

Strict discipline remains just as important, of course, and we shall be absolutely convinced of these returns before allowing any increase in cost. The target we set out at the last Investor Day was to reduce nominal expenses in mature markets by €200 million to €5.3 billion by 2019. But as Philippe said, actually we're making better progress than we expected. We, therefore, feel confident to bring our ambition forward and to deliver the nominal cost reduction by next year.

Let us now turn to the segment performance, starting with Life. The overall picture of our Life segment shows the effectiveness of the management initiatives we've undertaken. We have continued to take actions to improve our product mix, limiting or ending sales of products not meeting our risk adjusted profitability requirements.

Therefore, while volumes look generally somewhat weaker, also driven by the volatility in financial markets at the beginning of the year, the new business margin has been significantly positively affected by our actions by far outweighing the negative volume trend and contributing to an overall 14.6% increase in the new business value.

This is a consequence of our very deliberate strategy and is directly benefiting the quality of earnings and our solvency position. I would also highlight the resilience of our Life operating margin on investments that remained stable at 74 basis points, notwithstanding the low yield environment.

Let me dive, first of all, into the drivers of the 5.5% increase in the Life operating results. The technical margin posted €118 million increase, mainly thanks to improved technical profit as a consequence of actions taken within our Technical Excellence program in core markets. This was particularly notable in France, where management fees have been restructured and the business mix shifted into higher fee products.

Also, Asia registered a strong improvement, following the growth in trend in volumes. The investment result decreased by €175 million. Current income was stable, but we booked almost €700 million lower net realized gains, as well as €371 million higher impairments, both gross of policyholders share. This was in contrast to the prior year, where we had unusually high levels of gains. Expenses decreased by €218 million, driven by reduced acquisition costs in Italy and Germany, offsetting the increase in Asia, which again reflected increased volumes.

Our net inflows closed the year at over €12 million, a figure we are particularly satisfied with, as it is both above the levels achieved by our main peers, as well as above our own average over the last five years. This was achieved despite our decision to actively cap or cease sales of some products, given the interest rate environment, with a particularly notable effect in the second half.

In terms of mix, unit-linked amounted 44% of total net inflows, slightly lower than last year, but up from 37% at June 2016, that is recovering in the second half, thanks to the introduction of volatility controlled funds and less erratic market less erratic market, and the lower sales of traditional savings products in line with our strategy, as I mentioned.

Looking at the main countries, in Italy net inflows decreased modestly from €7.6 billion to €7.2 billion, reflecting the difficult situation of the Italian equity market, especially in the first half, but remaining at the high level. In our other main markets in Europe, we see a consistent theme repeating, strongly positive net inflows in unit-linked and protection business, offset by an increasing rate of outflows in traditional savings business. This is the case in France, Germany and EMEA, and is a consequence of the management actions taken in line with our strategy.

Lastly, in Asia, we experienced a strong increase in net inflows, which are mainly coming from China, thanks to larger sales of single premium savings business through the bancassurance channels. Overall, these strong net inflows contributed 3.2 percentage points of the total 4.5% increase of Life technical reserves to €386 billion.

Turning specifically to look at the new business, we see similar trends. APE is down 6.6% to €4.8 billion, driven by the drop of both savings and unit-linked new production, but with a strong recovery of the latter, particularly in Italy, during the last quarter of the year.

On the other hand, if we turn to look at new business profitability at the group level, we see the margin improving 4.8 percentage points to 25.9%. This margin expansion has been entirely driven by active management actions on business mix, minimum guarantees, and product design, with an overall 8 percentage points positive impact, which has been partially offset by 3.2 percentage points negative economic variances. The overall margin improvement more than offsets the negative APE trend, allowing our new business value to grow by 14.6% up to almost €1.3 billion.

Looking at the individual countries, in Italy, APEs declined by 8.3% as the result of a decreasing production of both traditional and hybrid products. In the first case, as a consequence of a deliberate management action aimed at limiting the amount of non-capital-light products being sold.

The 2016 new production of hybrid products, however, also suffered due to the volatility of capital markets in the first part of the year. The share of unit-linked on total APEs, therefore, dropped from 18% last year to 16% in 2016, but I would add it was in the region of 20% in the second half of the year when market conditions were calmer.

I would also add that even on the savings portion, guarantees have continued to fall sharply, down to only 26 basis points weighted by APE from 42 basis points the year before. This helped contribute to increasing margin, up from 25.4% to 27.2%.

In France, we had an almost flat APE development as the result of opposite trends. Protection business increased strongly by almost 22%, thanks to the new A&I (30:34) regulation counterbalanced by declining savings business, down 11.8%, and unit-linked business decreasing 5.9%, but with a reverting trend in the last quarter of the year. Actions taken to improve product pricing and reduce guarantees even to below zero net of fees has significantly helped to improve the new business margin. And overall, new business value rose 37%.

In Germany, we saw a 14.2% APE reduction, driven by a fall of almost 35% in the savings component due to the cessation of the sales of certain guaranteed products, in line with our strategy. The weight of traditional savings is now less than 30% and correspondingly unit-linked and protection sales have increased their weight reaching 70% of the total. This shift in mix had a strongly positive impact on margin.

In EMEA, APE fell by 15.4% due also to product steering away from traditional savings products, especially in Austria and Switzerland. Again, these actions resulted in a strong improvement in new business margin, rising from 27% to 39%, and thereby generating a 23.3% increase in new business value despite the lower headline volumes. Lastly, in Americas and Asia, we have seen good growth in APEs, up 32.8%, with the largest contributor being China. New business margins in the region were stable.

Let's look now to the Life investment portfolio. Life general account investments reached €349 billion, up 5.1% from the year-end 2015. A higher balance of investments more than counteracted the decreased investment results, which fell from 3.4% to 3.2%, driven primarily by fixed income investments, which make up the vast majority of the portfolio.

Current return on equity instrument showed a substantial increase, thanks to dividends from private equity funds compared to an exceptionally low number in 2015. Net of these effects, current income was overall broadly stable. The new money reinvestment rate in Life amounted to 2% and has been relatively stable between the first and the second half.

If we turn to look at this number more closely in the context of guarantees, we can see that the picture remains quite healthy. Guarantees on our existing reserves have also continued to drop to 173 basis points, down 7 basis points year-on-year, a pace that we expect to accelerate as we implement the additional initiatives that were presented at our recent Investor Day, a good margin between this and the current yield on the investment portfolio remains.

If we think about flows of new money, as I mentioned before, average guarantees on new business premiums continue to come down. We can see that on those policies which carry a guarantee, the average has fallen to 44 basis points, down from 51 basis points at the end of last year when measured by new business premiums, with a spread of 158 basis points compared to the fixed income reinvestment rate. Therefore, still wider than the spread on our existing portfolio.

Turning to Property & Casualty. Gross written premiums increased by 2.1% on a like-for-like basis to €20.8 billion. This recovery trend is particularly evident in the Motor business, as I will return to in a moment. The combined ratio improved by 0.7 percentage points.

Looking more in detail at the components of the operating profit, we can see a particularly strong technical result at almost €1.4 billion, up 15% year-on-year, significantly outpacing the declining investment result driven by lower yields. The residual other items line worsened by €55 million, mainly due to a one-off release of provisions in 2015, which did not repeat as you already saw in our first half numbers.

Let's look now at gross written premium developments with our core countries. Italy is down 4.1% at €5.7 billion. Primary Motor decreased by 5.2%, still affected by the decline in average premium, but also due to the cancellation of some large fleet contracts. Without this latter effect, the drop in Motor would have been 3.3%. Therefore, on an underlying basis, the trend is improving compared to 2015. Primary Non-motor is down 3.6%, reflecting the overall weak economic environment.

France declined by 0.9% to €2.5 billion. Motor was slightly negative at minus 0.6%, mainly due to the continuing pruning activities on the fleet business, but also as a consequence of decreasing average premiums. Primary Non-motor decreased by 0.4% due to the competitive market environment in commercial business and the continuation of strict underwriting guidelines and pruning activities.

In Germany, premiums increased by 1.2%, driven by the 2.3% growth in the Motor business thanks to the continued rise in average premiums. The Non-motor portfolio posted a more modest 0.6% growth, still affected by the pruning activities in the broker channel and in non-performing agencies, but with an improving trend compared to the first half of the year. CEE accelerated, showing 3.8% growth, while EMEA confirmed a positive trend of 3.4%.

Technical profitability is absolutely a key for us and matters more than volumes. By looking at the combined ratio, it is evident that there is positive news everywhere. Italy confirmed its excellent profitability levels with an 89.9% combined ratio, even if showing a 90 basis points deterioration compared to 2015. This was mainly due to higher acquisition expenses linked to specific actions aimed at increasing the presentation (36:24) of the Non-motor business in our retail and SME client base.

We continue to see pressure on the combined ratio in Motor, but with the excellent profitability of Non-motor mitigating it. In France, the combined ratio improved by 80 basis points to 99.4%, so finally returning to a position of underwriting profitability for a financial year and providing further evidence of the actions we're taking to restore adequate returns.

Germany recorded an excellent 90% combined ratio, down 2.5 percentage points, driven by an improving current year loss ratio as well as by a falling cost base, showing the benefits of the ambitious restructuring program being implemented.

In the CEE, our combined ratio decreased by 0.6 percentage points, back below 90%. This was despite a worsening loss ratio, still negatively affected by the regulatory changes in the Polish Motor market, whose effect was more than compensated by actions taken to reduce the cost base.

In Americas, our combined ratio has improved by 3.5 percentage points, mainly thanks to the strong actions we have taken to restore profitability in Brazil. All of this translates to an overall 92.5% combined ratio, down 70 basis points compared to the previous year.

Looking at the drivers, the loss ratio improved by 0.8 percentage points to 65.1%. This reduction was driven by 110 basis points higher prior year's development. I want to be clear on one point. Our higher than usual run-off results is a consequence of the favorable claims development we are seeing and our Technical Excellence initiatives. I can confirm that we remain very prudently reserved and we will continue to be so.

Our group reserving ratio, which increased from 154% to 155%, provides some evidence of this. The expense ratio remained overall stable, showing a declining trend in administrative expenses throughout the year.

P&C investments decreased slightly to €39 billion, down 0.4% from the end of 2015. In terms of asset allocation, the weight of fixed income instruments increased by 6.5 percentage points, especially in government bonds at the expense of cash balances in order to reduce the impact of negative yields. And to a lesser degree, equities and real estate investments to reduce volatility. Total P&C current returns decreased by 20 basis points year-on-year to 300 basis points, mainly driven by fixed income returns. The average reinvestment rate in P&C during 2016 was 1.4%.

Let me finally turn to our holding and other businesses segment, whose overall contribution to the group operating result decreased from a profit of €59 million in 2015 to a €91 million loss this year. As I mentioned before, this decline has been mostly driven by the lower profitability of Banca Generali, which was particularly strong last year. In addition to that, in 2015, the other businesses line benefited from gains on private equity and real estate investments that are not present to the same extent this year.

To wrap up, we are very pleased with the results of 2016, which show with clarity the benefits of the strategy we are pursuing and the actions we are taking on the technical profitability of the group. This resulted in a record operating profit of over €4.8 billion, despite a reduction of €245 million in investment result in Life and P&C. Cash generation also reached new highs, driven by the substantial increase of dividends at all of our major subsidiaries, benefiting here, too, from the implementation of our strategy, that allows us to increase once again the dividend distributed to our shareholders. Our solvency position remains very strong and our regulatory solvency ratio has been boosted by our successful application to have the French Life business brought into the scope of our approved internal model.

Overall, these numbers confirm that our strategy is the right one. We will continue to push hard, even accelerating where we can, and we are comfortably on track to achieve all of our financial targets.

Thank you for your attention.