Q4 2018 Earnings Call - Pre-recorded

Company Participants

- Cristiano Borean, Group Chief Financial Officer
- Frédéric de Courtois, General Manager
- Philippe Donnet, Group Chief Executive Officer, Managing Director & Director

MANAGEMENT DISCUSSION SECTION

Philippe Donnet {BIO 4657671 <GO>}

Good morning and welcome to the presentation of Generali's 2018 full year results. In 2018, Generali successfully completed its industrial turnaround and achieved or even overachieved all its 2015-2018 financial targets. The group posted a strong net result increasing by 9.4% year-on-year coupled with solid growth of the operating results. Generali's technical performance in terms of Life margin and combined ratio continues to be best in class in the industry. A dividend of €0.90 per share, almost 6% higher than last year, will be proposed to shareholders. With the turnaround completed, Generali is now well positioned to leverage its strength and accelerate its growth according to Generali 2021, the strategic plan we announced recently.

I would like to show you how Generali performed against its main 2015-2018 financial targets. We said we would generate cumulative net operating cash amounting to more than €7 billion and we delivered €8 billion. We stated that cumulative dividend would be in excess of €5 billion and we will distribute €5.1 billion subject to the shareholders' approval of the 2018 dividend proposal. And finally, we targeted an average operating return on equity of over 13% during the plan period. The actual figure is 13.4%. This is a successful closure of the previous plan. From now on, we will commit to completely new set of financial targets. I take pride in our ability to deliver despite the challenging environment. I want to thank all the teams for their hard work and commitment which made these achievements possible. In 2018, Generali posted significant improvement across all of the most important financial indicators. The operating result increased by 3% to almost €4.9 billion.

The group net result came at €2.3 billion, a 9.4% increase compared to one year before. Generali was able to achieve strong results even within a challenging environment with the last quarter of 2018 characterized by natural catastrophes, man-made losses and negative financial markets and without resorting to additional capital gains consistent with an approach that favors long term sustainable results.

This year, again, an increase of the dividend per share will be proposed to shareholders. Furthermore, Generali's capital position is more solid than ever as reflected in the 9 percentage points improvement of the solvency ratio. Frédéric and Cristiano will give you more details in their respective presentations. The entire organization is proud of the 2015-2018 strategy plan achievements, but we are not complacent.

Now everyone is fully dedicated to the execution of Generali 2021. We aim to become a life-time partner to customers, offering innovative personalized solutions thanks to our unmatched distribution network. Generali will lead the European insurance market for individuals, professionals and SMEs while building a focused and global Asset Management platform and pursuing opportunities in high potential markets. The Generali 2021 strategy is built upon three pillars and three enablers. First, Generali will grow its bottom line, thanks to profitable growth in the insurance business, both in Europe and in selected high potential markets, as well as in the Asset Management. Second, the group will manage its capital to optimize its financial position by increasing capital generation, enhancing cash remittance and reducing the debt amount and cost. Third, Generali will invest in innovation and digital transformation of the distribution and operating model to ensure it becomes a life-time partner to customers.

Empowered people, a strong brand and commitment to sustainability serve as the three enablers of Generali 2021. The group is already starting to deliver tangible results. For example, it placed a €500 million subordinated bond in January which attracted the demand 30 times the offer and contributed to the reduction of the debt cost. Additional proof is the continued effort to digitalize solutions. Half of the new policies sold in Italy are now paperless.

Another example, in the Asset Management segment, the group has started to build a global platform by integrating boutiques all around the world. As I mentioned before, Generali has set three new high-level financial targets that it aims to achieve by 2021. First, earnings per share will increase by 6% to 8% per year on average. Second, dividend will increase while preserving a 55% to 65% payout ratio and ensuring its sustainability in the long term. Third, higher returns for shareholders will be delivered thanks to a return on equity above 11.5% on average. The group aims to ensure its success in the long run while generating a positive impact on all stakeholders. This clearly goes way beyond any three-year plan. Generali is driven by long term purpose to enable people to shape a safer future by caring for their lives and dreams.

By taking this purpose into account in all our daily actions and behaviors, I am very confident Generali will deliver increased value to investors, customers, distributors, employees, communities and all other stakeholders for many years to come. Thank you.

Frédéric de Courtois

Thank you, Philippe. Good morning, everyone. I'm pleased to take you through the main business results of Assicurazioni Generali Group for 2018. Last year marked the successful conclusion of the industrial turnaround phase which started in 2016 and paved the way for our Generali 2021 strategy. 2018 was a positive year for Generali with a powerful industrial performance laying the foundations for the new strategic cycle.

In Life, the group achieved robust growth in net inflows and maintained a business mix focused on capitalized business lines such as unit-linked and protection. In addition, we achieved growth in the margin of our new business production. In P&C, Generali saw positive business growth and maintained best in class technical performance. We achieved such performance despite incurring exceptionally high man-made catastrophe losses in the second half of the year. Asset Management continued to deliver positive results in line with the target set within the new strategy presented in May 2017.

The group maintained its focus and discipline on cost efficiency, keeping general expenses under control. Finally, the non-operating result has been affected by the adverse equity market movements during the last quarter of 2018 which led to increased impairments versus the prior year. However, the group decided not to offset this accounting effect by leveraging realized gains in order to preserve future value generation. By the end of 2018, the group achieved all targets of the accelerated industrial turnaround which started in 2016.

Our international footprint optimization was completed, exceeding expectations. In terms of proceeds, we generated €1.5 billion of cash versus a target of €1 billion. As a result, Generali is now focused on markets where it has relevant positions or where potential for growth is high. In mature markets, operating expenses had been reduced by €290 million. This target has been overachieved. In P&C, our combined ratio maintained a 4 percentage points average outperformance with respect to our main peers.

In Life new business guarantees reached the 0 basis point threshold in the Eurozone and were even 4 basis point negative in the retail Euro-area space, beating our target of guarantees at maximum 0%. Our Life portfolio has been optimized. Average guarantees are down to 1.36% with the weight of capital-light reserves at 8.6 percentage points. Both achievements are better than the targets.

In 2018, the Asset Management business contributed €235 million to the net result of the related P&L segment. The Asset Management business unit increased its contribution to group net result by €57 million in 2018.

While focusing on operating and technical aspects, Generali also improved its customer relationships. By the end of 2018, our NPS program covered 58 Generali business units, its success proven by a 2 percentage point increase in customer retention. Finally, preference for the Generali brand grew by 3% overall.

Our emphasis on execution will continue in the next strategic cycle which is focused on leveraging strength to accelerate growth. Generali has now optimized its international footprint with the latest closings of Belgium and Guernsey taking place in early 2019. Proceeds were around €1.5 billion, exceeding the €1 billion target set in 2016. In addition, the group delivered a significant and innovative transaction by selling Generali Leben in Germany to Viridium. The deal was valued at €1 billion on 100% basis, bringing overall proceeds from disposals up to €2.5 billion. The sale of Generali Leben brought positive financial impact and showed our ability to improve business results and reduce risks.

Most recently, we started deploying resources into value-accretive geographies and business lines. The acquisitions are consistent with our M&A policy which is built around three pillars, financial discipline, strategic fit and cultural fit. The group made acquisitions and reinforced existing ventures in Eastern Europe, in India and in the Asset Management space following our multi-boutique strategy. We also acquired within the ecosystem of Europ Assistance, the global leader in care and assistance services.

On the cost side, we beat our €200 million target with operating expenses in mature markets decreasing by about €290 million. As announced at our Investor Day, Generali will maintain a strong focus on managing cost in order to support resource deployment to value accretive initiatives and to sustain P&L bottom line growth. In Life, net inflows grew in 2018 totaling €11.4 billion, up 5.2% year-on-year. This performance is particularly impressive considering very volatile financial markets, especially in the last quarter.

In terms of business mix, Generali confirmed its target composition with the dominant contribution of capital-light products such as unit-linked and protection. The excellent quality of our net inflows is demonstrated by two attractive features of our new business settings. First, the new business has very low guarantees, largely at 0% or lower in some European countries. Secondly, large part of the traditional new business has a guarantee only at maturity, in particular in Italy where such products represent about two-thirds of total savings new business premiums. In Italy, net inflows decreased from €5.7 billion to €4.8 billion, also driven by a targeted contraction of traditional new business.

France saw strong growth of net inflows up by 64%, reaching almost €1.6 billion. The main drivers for this performance was strong unit-linked inflows and the reduction in surrenders in the savings business. In Germany, there was a 7.8% increase mainly driven by the unit-linked component. In Austria, CEE and Russia lower net inflows were mainly due to higher maturities especially in Austria and Hungary, coupled with higher claims payments in protection. In the International business, the year ended with a strong development in Asia primarily thanks to China's performance with strong growth in new business and a lower level of surrenders than in 2017.

Moving on to new business, the margin has increased by 26 basis points to 4.35%. We owe most of this improvement to management actions to steer the business towards more profitable and less capital-intensive products combined with the continuous improvement of new product features such as the reduction of new business guarantees. Overall, profitability improvement more than compensated a slight volume contraction leading to 4.3% new business value increase on a like-for-like basis. This comes to almost €1.9 billion. Italy, France and the International business have been driving this positive trend. In Italy, present value of new business premiums had a 3.5% decrease driven by the contraction of traditional savings business. This development has been overcompensated by a strong margin expansion at 58 basis points explained by the good profitability of our hybrid products. This led to an 8.3% new business value increase.

In France, with 2.9% volume expansion driven by protection and unit-linked combined with a slightly improving margins, generated a 4.1% NBV growth. The 4.5% NBV growth of International has been mainly driven by a strong margin expansion in Spain explained by a greater weight of protection business and by reducing the business guarantees. The 6.2%

decrease of new business value in Germany was linked to new business volume developments due to the runoff process at Generali Leben whose figures are still included in these numbers.

A positive trend has already started thanks to the full integration of the former Generali Leben sales force into DVAG to enhance the commercial reach. Austria, CEE and Russia showed 36 basis points margin decrease but always keeping its margin at excellent levels. In P&C, the group accelerated profitable growth with premiums at 3.3%. The positive trend was seen in both motor and non-motor business lines. Italy's top line was down 1.6% at €5.45 billion but with an improving trend in the second part of the year. Motor business top line decreased by 1.7% due reduction in the number of policies following a stricter underwriting policy. Average premiums are stabilizing. Primary non-motor was down 1.5% mostly due to the evolution of the Global Corporate & Commercial business but also partly to some pruning (00:18:33) activities to protect profitability.

In terms of profitability, Italy confirmed its outstanding levels with a 91% combined ratio. The slight worsening versus prior year was driven by increased acquisition cost aimed at sustaining profitable non-motor lines. This result is very strong if we consider an above average concentration of large man-made claims in the Global Corporate & Commercial business in the second half of the year.

In France, the top line grew significantly with premiums up 3.1% to over €2.7 billion. Motor grew 4.2% thanks to tariff optimization and new commercial initiatives. Non-motor performed positively with premiums up 2.7%. The overall combined ratio worsened by 1.4 percentage points to 99.9% mainly due to increased cat-nat losses and a few man-made claims in the Global Corporate/Commercial (sic) [Global Corporate & Commercial] (00:19:44) business line. Without the contribution from the Global Corporate & Commercial business line impacted by an exceptionally high number of man-made claims, the French combined ratio would have improved by 1.1 percentage points to 97.1%.

In Germany, premiums increased by 1.3%. This positive performance was driven by the combination of a stable motor business and non-motor increasing by 1.8%. The combined ratio experienced a 0.2%-point deterioration due to higher nat-cat losses. Austria, CEE and Russia delivered a very strong performance once again, showing a 4.8% premium increase driven by CEE countries. The combined ratio was outstanding at 88.1%, 1 point lower than the previous year.

International businesses delivered strong growth at 9.2%, reaching more than €4.8 billion of premiums, many thanks to the strong performances of the Americas and of Europ Assistance. The overall combined ratio stood at 95.6%, down by 2.3 percentage points. Asset Management increased its operating result by 28% from €261 million at year-end 2017 to €335 million in 2018. It experienced the same positive trend for the net result which reached €235 million with a 24% jump year-on-year. The growth in profitability was achieved thanks to multiple factors. First, the review of insurance mandate pricing; second, larger volume of investments in real assets, which drove the increase of non-recurring fees; third, the development of the third-party and unit-linked businesses; finally, higher revenues coupled with disciplined cost management drove off cost income ratio down to 46% from 54%. These positive developments are in line with the financial and industrial targets announced for the Asset Management business by 2021.

Generali closed 2018 as focused, profitable, disciplined insurance and Asset Management group. For the next three years we have a clear strategy that leverages strength to accelerate growth. Generali 2021 plan has ambitious and sustainable financial targets underpinned by three pillars, profitable growth, capital management and financial optimization, innovation and digital transformation. We will keep monitoring progress and results. We have set out specific industrial KPIs which are aligned to the strategic pillars. On this page, you can find a summary of our industrial ambition.

Let me conclude by providing two 2018 baseline numbers for Generali's 2021 financial targets. Our 2018 adjusted net result net of gains and losses related to disposals amounted to €2,233 million. This translates to €1.43 adjusted EPS. In addition, the starting point of our debt reduction effort is €11.5 billion.

Thank you for your attention.

Cristiano Borean {BIO 15246531 <GO>}

Good morning to all. Philippe and Frédéric have already provided you with our key strategic and industrial achievements. I will now present our 2018 financial results from both a P&L and a capital perspective. 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. The figures for both entities where we have signed a sale agreement but at the year-end have not yet been transferred to their new owners are presented as discontinued operations as we will see in more detail later.

I will begin with an overview of our performance in 2018. Without repeating what Frédéric has already explained to you from an industrial perspective, I would make two high level remarks. Firstly, the 2018 numbers demonstrate that we are able to grow our top lines in both Life and P&C at a satisfactory pace. And in Life, this trend also includes net inflows and technical reserves notwithstanding unfavorable financial markets.

Secondly, we have not sacrificed technical result for growth as demonstrated by our best in class combined ratio and Life new business margin. All this led to an operating result that increased by 3% to almost €4.9 billion translating into a 12.6% operating return on equity. This number has been influenced negatively by our disposal program and related IFRS 5 accounting principles. The redeployment of the proceeds from the disposal into higher yielding investment will contribute to the growth in the group's result going forward.

On that basis, considering also normalized operating result from discontinuing operations, this ratio would have been equal to 13%. In any case, this KPI continued to remain on average at 13.4% from the end of 2015 which is above our 13% target. As you know, with the new plan and from the next reporting period, we will no longer use this metric focusing our effort on a all-in return on equity.

The net result of €2.3 billion was up 9.4% from the previous year reflecting the development of the operating machine, the disposal and the negative impact from financial market volatility which I will come back to in a moment. Net operating cash was stable compared to last year's level at €2.2 billion. The dividend per share increased by almost 6% to €0.90 per share. Our Regulatory Solvency Ratio reached a solid 216%, up 9 percentage points versus the end of 2017.

The operating result was close to €4.9 billion with a 3% increase that was achieved, thanks to good performances across all business lines, which I will explain in greater detail later on. The comparatively larger consolidation adjustments are mostly driven by the recognition of higher intra-group proceeds from investment funds.

Now, I will turn to look at the performance of the individual business segments starting with Life. On this slide, I would like to explain the growth in premiums, which went up strongly by 5.7%. The positive momentum came from Italy, benefiting from in-force management actions on group businesses; and from France and Germany, both driven by unit-linked and protection business lines. The remainder came primarily from Asia, especially saving and protection business in China.

Our Life operating results increased by 2.8% to €3.1 billion. This was entirely driven by the good performance of the technical result, up $389 million. This increase can mostly be explained by a good performance of France, where we experienced an improvement of effects coming from longevity risk combined with an improved risk result. Italy also performed well, reflecting the positive contribution of hybrid product sales and associated fees. And our business also grew in Asia, mainly in China.

The investment result decreased by €264 million due to a heavy impairment burden, mainly concentrated in the last quarter of 2018. This was the result of negative equity markets and the consequence of our strict impairment criteria. Realized gains also decreased compared to 2017 as we decided not to compensate impairment losses with realized gains in order to preserve the long-term profitability of our portfolios. The expense result decreased slightly mainly due to increased acquisition cost in Germany to support profitable growth.

Moving to Life new business, let me first remind you that IFRS 5 does not apply to the officially disclosed new business figures, which include the contribution of entities disposed during 2018 or to be disposed during 2019, coherently, with the Solvency II framework. Year-on-year changes have, however, been normalized thereby neutralizing the impact of the entities sold during 2018, such as the operations in Ireland and the Netherlands. In this framework, the overall present value of new business premiums declined by 1.8% to €43.2 billion, with a substantially unchanged favorable business mix. Saving business contraction down 3.7% and the positive development of our protection business up 2.1% are aligned with our strategy. This strategy aims at shifting our production towards more profitable and less capital-intensive product lines.

The unit-linked business decline is driven by our repositioning in Germany after the runoff and sale of Generali Leben and by the contraction in Italy caused by the non-renewal of a bancassurance agreement with a local bank. Excluding Generali Leben, the group present value of new business premium would have remained stable. But more importantly, our margin on present value in the business premium increased by 26 basis points to 4.35%. This improvement came mainly from protection and savings and was mainly driven by our actions in term of geographical mix, product mix, and product restyling.

As evidence of that, I remind you that the average guarantee in the euro area has been further decreased to a zero level. And in addition, the weight of capital-light products on PVNBP worldwide has been increased from 86.6% to 88%. This profitability enhancement led to an overall €1.9 billion new business value, up 4.3% year-on-year. Due to the strong positive net inflows, our Life technical reserves increased by 2.2% to over €343 billion. We are steering the mix of liabilities as planned. Capital-light business has increased its weight on total reserves by 8.6 percentage points since the baseline of year-end 2015. We outperformed this 6-percentage-point shift we promised to deliver over the three years until 2018. The organic change has, so far, been equal to 5.4 percentage points with the rest coming from the disposal we announced recently and, in particular, from the reclassification of Generali Leben as a discontinued operation.

Let's now look to the Life investment portfolio. General account investments remained flat at €301 billion. In terms of asset mix in the context of very tight spreads, we continued our de-risking activity by marginally reducing the weight of corporate bonds. While the weight of government bonds and equities slightly increased, our exposure to Italian government bonds remained broadly stable in nominal terms compared to the end of 2017.

Cash balances within the investment portfolio were moderately lower at the end of the period as compared to year-end 2017. Current investment returns marginally decreased at around 3.1% with a current income in absolute terms declining by €188 million gross of policyholder share. The new money reinvestment rate in Life amounted to 2% compared to 1.8% during the same period of last year. I would like to highlight that we are managing our business, keeping the primary focus on our liabilities. Returns remained healthy in the context of our liabilities since guarantees or reserves have also dropped by 25 basis points year-on-year to 136 basis points, also benefiting from the disposal of Generali Leben. Therefore, the gap between yields and guarantees widens by 17 basis points, preserving a good margin.

We also exceeded the overall target for 2018 of maximum 150 basis points guarantee on our Life portfolio. If we think about flows of new money, we can see that the average guarantee on new business policies is down to 12 basis points from 22 basis points at the end of last year. Let me also remind you that we exceeded our target of zero guarantee on retail business in the euro area. The spread on new production also increased, up 31 basis points at 189 basis points over the fixed income reinvestment trade and therefore still wider than the spread on our existing portfolio.

Let us now turn to P&C. On this slide, I would like to focus on gross written premiums, which increased by 3.3% to €20.6 billion. Trends were positive in both motor and non-motor insurance, with the main drivers being Eastern Europe, France, Latin America and Europ Assistance. We have achieved profitable growth without sacrificing sound underwriting. The operating resolve showed a 2.5% increase.

Looking in more details at each component, we see that the technical result slightly decreased but remained at remarkably strong levels. The investment result marginally improved with higher proceeds from investment funds compensating the fall in current income. Lastly, the result from Other improved by €69 million, mainly due to lower allocation to non-technical provision, primarily in Germany. The combined ratio remained close to stable with only a 0.1 percentage point increase to 93%. Looking at the components, we can see that the loss ratio remains stable at 65.1%. This was the result of offsetting movements, a more benign nat cat environment, 0.4 percentage points lower year-on-year has been offset by a 0.4 percentage points higher current year loss ratio.

This was driven by a particularly high concentration of large man-made catastrophe losses during the second half of the year, affecting the group Corporate & Commercial business. Without considering nat cat and man-made losses, the loss ratio development would have improved by 0.2 percentage points. The contribution from prior year's development was in line with the previous year at 5.6%. I would like to highlight once more our particularly strong reserve adequacy. The expense ratio worsened by 0.1 percentage points due to a 0.4-percentage-point higher acquisition costs component linked to Italy, supporting non-motor business mix and to a minor extent Austria, Central Eastern Europe and Russia.

P&C investment slightly decreased compared to the end of 2017 to €37.8 billion. There was a small decrease in both corporate and government bonds counterbalanced by increasing other fixed income, mainly loans together with real estate and cash instruments. Total P&C current returns increased somewhat year-on-year from 3% to 3.1%. This result was driven by improved current returns on equity and alternative equity investments. The average 2018 reinvestment rate in P&C was 1.7% compared to 1.6% during the same period of last year.

Let me now turn to our new Holding and other businesses segment, which no longer includes the Asset Management business. The overall contribution to the group operating result improved, reducing the operating loss from minus €163 million last year to €70 million. This positive evolution came mainly from the line Other businesses and in particular from good proceeds from some of our private equity and real estate investments. Operating holding expenses increased by almost 3% due mainly to additional costs related to the disposal of Generali Leben in Germany and to the implementation of our asset management strategy.

To move from operating result to net result, we start with the non-operating investment income, which made up €155 million negative contribution compared with a €65 million positive contribution last year. This was mainly the consequence of negative equity markets during the last quarter of the year, but led to €431 million of impairments. Coherently with what I said about our Life funds, here, we also decide not to compensate impairments with realized gains on other asset classes in order to preserve future current returns.

Realized gains were equal to €265 million and decreased by €45 million year-on-year. Non-operating holding expenses increased by €40 million to €795 million notwithstanding lower interest expenses on our financial debt, which declined by €7 million. The interest expenses will accelerate their decreasing trajectory during 2019 based on the transactions performed in early 2019 when we refinanced €500 million at a good rate and exercised calls were €750 million.

The overall increase is mainly due to the restructuring of our Generali Employee Benefit operation, including the relocation of its headquarter from Brussels to Luxemburg, and the closure of our branch in Japan. Net other non-operating expenses slightly decreased by €7 million to €411 million. This amount included the realized gain from the disposal of our Panama operations of €77 million. Among the negative items, there is the recurrent amortization of intangible assets equal to €98 million. Then there are non-recurring costs as restructuring expenses of €211 million also linked to acceleration of ongoing restructuring activity in Germany and other expenses related to local projects and IT costs in different geographies, and costs related to group projects, as for example, our geographical footprint optimization exercise.

Going forward, you should expect a progressive reduction of these non-recurring components. The overall effective tax rate of the group was 32.6% in line with the previous year. In the discontinued operation line, we have a €173 million profit, which includes a €49 million gain from the sale of our Irish operations in addition to the profit arising from our disposal, which had yet to be finalized at the year-end 2018. These were Belgium, Guernsey and Generali Leben in Germany. Minority interest were in line at €189 million, and this takes us to a net income for the year of €2.309 billion, up 9.4% year-on-year.

Let me turn to cash generation. On this slide, you can see the gross remittance coming from the main operating entities of the group. There was an increase of 6% year-on-year to €2.8 billion. Remittances are similar to last year with the positive exception of Italy and France. In France, in line with our enhanced capital and cash management framework, we executed another excess capital upstream exercise of approximately €0.1 billion. This operation underscores our capital management approach, which focuses on maintaining our subsidiaries capitalized at healthy levels, upstreaming any resources that are not required according to their risk profile. This will be an area of increasing focus in the future.

Finally, let me point out that International is a wide area, which also includes emerging markets, where the group is committed to grow. Therefore, you can see a proportional lower contribution in terms of dividend upstream in this area.

To move from dividend received to our net operating cash metric, first, we add the after tax operating earnings of reinsurance activities. These had a lower result compared to last year, primarily due to higher man-made losses and lower net earned premiums. We then deduct overhead and interest expenses, again, net of a normalized tax rate. This results in €2.2 billion of net operating cash generation, aligned with the previous year. Our goal of €7 billion for the four years ending 2018 was more than exceeded, reaching almost €8 billion of cumulated net operating cash, 14% higher than our initial target.

Let us now turn to look at the balance sheet. Shareholders' equity decreased by 5.9% to €23.6 billion. The positive contribution from the net result was more than offset by the 2017 dividend paid in May and by €2.3 billion negative development of our available-for-sale reserve, reflecting market volatility during the second half of the year. Our Regulatory Solvency position was confirmed as very strong, reaching 216%. I remind you that in November 2018, Generali received their regulatory authorization to extend the scope of its internal capital model to Austria and Switzerland, with a 15 percentage points benefit to the Regulatory Ratio. With this approval, the gap between full internal model and regulatory view has almost closed and from now on we will communicate only the regulatory view.

On this slide, you can also see key sensitivities to our Solvency Ratio, which are mostly in line with those provided to you one year ago, except for the sensitivity to the Italian BTP spread widening, which now shows a lower impact on our solvency compared to 2017. It was minus 12 percentage points one year ago and reduced now to minus 7 percentage points. This is due to the functioning of the country-specific volatility adjustment formula prescribed by EIOPA.

With the higher BTP spread at year-end 2018, almost at the country-specific VA activation, a further 100 basis points increase of this spread would trigger the activation. This is consistent with what was presented during Generali last Investor Day when we simulated a stress similar to the one we suffered during the worst moments of the 2018 (sic) [2011] (00:48:48) sovereign crisis, in particular among the other stresses, we considered a 550 basis points widening reached by the Italian BTP spread against the German Bund.

And at the same time, we simulated our internal model, a one full rating category downgrade of the rating of Italy. What I'm here telling you is that with these stresses, we implicitly consider the rating migration risk for Italian sovereign bonds, and despite the severity of the scenario that our solvency remained at healthy levels even after such an event.

Let me now explain the movement of our Solvency Ratio. The above-mentioned extension of the scope of our capital model combined with other minor model changes and the positive contribution of the geographical footprint exercise led to an overall 16 percentage points uplift. Normalized capital generation was, once again, strong at €3.5 billion, still mainly supported by our Life business and profitable new business written during the year, adding 18 points to the Regulatory Ratio.

This year, we also have a relatively large amount of negative variances totaling €3.6 billion, almost exclusively driven by own funds. Economic variances were the main cause with a €3.3 billion negative variance, driven by the already mentioned widening of the BTP spread not counterbalanced by the Italian volatility adjuster, which was not activated and by the negative performances of equity markets.

In addition, the remaining part of the variance is mainly explained by the progressive reduction of our regulatory allowance on French IORP pension business unrealized gains. The redemption of €250 million of subordinated bonds during the last quarter 2018 had a

1 percentage point negative impact on our solvency. Lastly, we deduct the proposed dividend of €1.4 billion worth 7 percentage points of solvency.

Let me come back to the normalized capital generation of €3.5 billion. And on this slide, we show this broken down by business segment, as well as my own funds and solvency capital requirement. Starting with Life, we had normalized capital generation of €3.1 billion, mainly reflecting the own funds generating €2.9 billion, with the usual significant contribution of the value of new business of €1.6 billion.

The in-force generation worth €1.3 billion is then simply the unwinding of the discount and the release of risk margins, time value of guarantees and the prudence in financial assumptions embedded in the market consistent approach. For the solvency capital requirement, you can see that writing new business consumed €1.3 billion of Solvency II capital but this was more than offset by €1.5 billion released from the runoff of the in-force portfolio, leading to a small net benefit of €0.2 billion.

In P&C, own funds generation was €1 billion, mainly stemming from the technical result of the year based on a best estimate rather than IFRS view regarding reserving. On the investment side, the picture is also different to IFRS because, in this view, for the asset backing liabilities, we have only the expected real-world spread and not the full return as in IFRS. The SCR basically does not vary from P&C. Holdings and sectorial contributed with a negative €0.6 billion, which reflects the interest costs paid and holding expenses offset partially by the result of the financial segment.

Lastly, I would like to highlight the tiering of capital under Solvency II. The picture of Generali's capital structure remained of absolute excellence. Notwithstanding adverse economic variances, a generous dividend and a retirement of subordinated debt, Generali continued to have a 88% weight of Tier 1 capital over total own funds. And our Solvency II capital requirement is covered 1.7 times by unrestricted Tier 1 capital alone, staying far away from any binding limits in terms of capital quality according to the Solvency II regulations.

In conclusion, these good 2018 numbers show the satisfactory pace of our top line growth in both Life and P&C. And our best-in-class margins show that this is profitable growth. Our Solvency II capital is strong and resilient supported by best-in-class capital generation. This makes me confident that Generali's new strategic plan will be implemented successfully and that all key financial targets of EPS growth, dividend payout and average return on equity will be met.

Thank you for your attention and we now look forward to your questions.