Q4 2017 Earnings Call - Q&A

Company Participants

- Luigi Lubelli, Group Chief Financial Officer
- Philippe Donnet, Managing Director and Group Chief Executive Officer
- Spencer Lee Horgan, Group Head-Investor & Rating Agency Relations

Other Participants

- Andrew J. Ritchie, Analyst
- Farooq Hanif, Analyst
- Gianluca Ferrari, Analyst
- James A. Shuck, Analyst
- Michael Huttner, Analyst
- Niccolò C. Dalla Palma, Analyst
- Nick Holmes, Analyst
- Peter D. Eliot, Analyst
- Ralph Hebgen, Analyst
- Steven Haywood, Analyst
- Thomas Seidl, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day and welcome to the Generali Group Full Year 2017 Results Q&A Session Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Mr. Spencer Horgan, Group Head of Investor & & Rating Agency Relations. Please go ahead, sir.

Spencer Lee Horgan {BIO 4241901 <GO>}

Hello to everybody. Welcome to our Full Year 2017 Results Q&A Call. As usual, with me on the call, I have Philippe Donnet, Group Chief Executive Officer and Luigi Lubelli, Group CFO.

We can have about one hour for your questions. Before we get on with that, I'm going to hand it over to Philippe for some very short opening comments and then we'll be happy to answer all the questions you have. Philippe?

FINAL

Bloomberg Transcript

Philippe Donnet {BIO 4657671 <GO>}

Thank you, Spencer. Good morning, everyone, and thank you for joining this conference. I hope you have a chance to read our full-year 2017 results announcement from this morning and to see our briefing video on the Generali corporate website, we are definitely proud of these results, of the results we have presented today. They definitely reflect the successful execution of the industrial turnaround we started two years ago and we are very confident that we will reach all the objective and achieve all the targets by the end of 2018.

We look forward to seeing all of you at our Investor Day in Milan on November 21st this year and on this day, we will be able to unveil the next phase of our development to – we will be able to present you our new strategy which will be based on transformation and profitable growth. So thank you again for joining our call today.

I will be – answer to your question together with Luigi and a few other colleagues and we would like to invite you to start asking your question.

Q&A

Operator

We will take our first question from James Shuck from Citi. Please go ahead, your line is open.

Q - James A. Shuck {BIO 3680082 <GO>}

Good morning, everybody. Thank you for taking my questions. I had three questions, please. Firstly, on the normalized capital generation. So, I think this is the first year you're actually breaking out into the own funds developments and the SCR. I can see that the SCR is a negative move, i.e., a release and that looks to have been the case last year as well. I presume that's one reason why your operating capital generation is so strong. Really, my question is how sustainable is that SCR development. And if you're able to break it out into the SCR that runs off from the back book versus the incremental requirements on new business, that would be helpful.

Second question, on the net cash remittances. So each year now, I think since 2012, you're showing a very healthy balance as you're remitting capital or cash up to the holdco where it pays the central costs and then funds the dividend. If I add up what's happened since 2012 and there's another €900 million net of dividend that's added to 2017 is about €4 billion of increase in central liquidity. Could you kind of just confirm where you are in terms of the stock of liquidity at the holdco and exactly what you intend to use that for?

It looks like you're accumulating cash at the holdco. But really, I just want to get some insight into whether there are other demands on that surplus or if it is actually available to be paid out. And kind of connected with that, the €2.5 billion of gross remittances, is that a normal run rate that we can expect or is there any kind of running down of free surplus anywhere? I appreciate there is a small number, €0.2 billion from France. But is there any running down of surplus elsewhere? Final question just is around the free surplus emergence. In your own funds supplementary information, you used to split out the free surplus emergence by bucket. So you can actually see how that emerges into cash. And you stopped doing that now and really I had a question around how quickly it emerges into cash because 2016, it shows a very fast runoff. About 60% of the free surplus emerges in the first 10 years, which looks very fast versus others. And really I was interested to know the reason for that and also request that you actually return that disclosure, that would be helpful. Apologies for that length of questionings, but those are it for now. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. Hi, James, good afternoon. This is Luigi speaking. By the way, welcome everyone on the line. So your first question is on the SCR. Actually in the analyst presentation, we do split that. So you can see on slide 23...

Q - James A. Shuck {BIO 3680082 <GO>}

Yeah.

A - Luigi Lubelli {BIO 4108780 <GO>}

...the consumptions from life new business and the other variation. As you know, I mean this – I think should not be surprising the fact that we are having benefit from SCR reduction because that reflects our strategy. You know that our strategy has a clear declared focus of moving towards capital-light products and that's one outcome. I would say that complementing that, you also have the ever greater focus or on risk-adjusted performance in investment selection, which also contributes to that. I would say those would be the main drivers at the fringe, possibly also while they are disposed of, the disposal of companies also have some impact on that, but those would be the main drivers of the SCR. Sustainability, clearly to the extent that we continue replacing, let's say "old portfolio" with new business, you're bound to be seeing some gap of this kind going forward. Clearly asymptotically, this will be reduced. Your...

Q - James A. Shuck {BIO 3680082 <GO>}

So would you expect SCR to decline going forward, continue to decline over the medium term?

A - Luigi Lubelli {BIO 4108780 <GO>}

Yeah, I mean these are not a massive decline, we're talking about, right, but clearly with the replacement, there is some decline, yes. Your question on the net cash remittances. I'm glad you like them. I'd say as – actually thank you for the question because basically, can I say that both your second and third question are somehow connected. So indeed, that's been an ongoing focus of Generali, increasing the remittance from subsidiary. Last year, we had an increase of €400 million year-on-year and this year, we added €200 million. Indeed, there is an operation in France, which adds, let's say, about €250 million to this increase and going forward, we'll certainly have an increasing focus. But clearly once you work on this kind of transaction, such as the one in France, it doesn't necessarily mean, they'll always come from the same place. So, I'd say that seen from your perspective, from the perspective or an analyst or an investor, I would rather focus on the total amount rather than where it comes from because clearly, in terms of location, there can be differences. I would then say we are running down surplus. If all our companies continue to be well capitalized, on balance everywhere where we operate, but clearly these remittances and the capital transactions that we may perform clearly reflect the existence of surplus, yes.

Then, you were asking me about the cash at the parent company. There, the figures can be found in the individual accounts. In terms of the cash surplus emergence, we have always given the figures on new business and they continue to be in this report (00:09:09) as well. The certainly part of disclosure we're looking to enhance and we possibly may do so the next year.

Q - James A. Shuck {BIO 3680082 <GO>}

Are you able to comment just on the speed of the release of free surplus at least based on 2016 when it's the last time you disclosed it? Because it looks like about 60% emerges within 10 years, it looks very fast.

A - Luigi Lubelli {BIO 4108780 <GO>}

Excuse me what looks very fast?

Q - James A. Shuck {BIO 3680082 <GO>}

The emergence of free surplus into cash. So the – or the free surplus emergence as shown in 2016, you have 60% of it emerges in the first 10 years, which looks very fast and I can't see that number in the 2017 disclosure anyway, but I'm just intrigued why it's – it releases into cash so quickly.

A - Luigi Lubelli {BIO 4108780 <GO>}

I can tell you it's broadly similar this year in terms of behavior.

Q - James A. Shuck {BIO 3680082 <GO>}

Got it. Okay. Thanks very much.

A - Luigi Lubelli {BIO 4108780 <GO>}

You're welcome.

Operator

We will now take our next question from Peter Eliot from Kepler Cheuvreux. Please go ahead. Your line is open.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Thank you very much. I guess the first one was on M&A. I mean, I was very pleased to see some of your comments that you expect to conclude all of your disposals within the next few months. I was wondering if you could just sort of give a general comment on the sort of the environment for M&A both in terms of potential – the partners and also regulatory backdrop. I mean, I appreciate that Generali Leben is not included in your original strategy disposals, but any comment you can make about the environment would be very helpful.

Secondly, on the Non-Life, your acquisition expense ratio ticked up, which you attributed to investments. I'm just wondering if you could mention what the outlook for that is. I mean, should we expect those investments to fall away or is there an ongoing element there?

And then finally perhaps on the solvency move, which I mean is a very strong solvency ratio and I guess a lot higher than was reported at Q3. I'm just wondering if you can explain the moves in particular across the last quarter of the year and maybe in particular how much was from real estate and I'm not sure if you're able to give any comments on the proposal recommendations from you over the couple of weeks ago, whether those might have any impact on your regulatory ratio? Thank you very much.

A - Philippe Donnet {BIO 4657671 <GO>}

Thank you. I will start answering on the M&A and then I will let Luigi answer the other questions. Our disposal programs is proceeding very well, absolutely in line with our targets. We are quite confident that we will be able to complete this disposal program by the end of this year. As you know, we already announced a few disposals and definitely there is more to come quite soon. We are quite satisfied with the prices. You probably remember that we said that we were expecting €1 billion as the proceeds of these disposals. I am – I can tell you today that we will definitely exceed this €1 billion. On the acquisition cost on P&C business and Solvency II, I will let Luigi answer.

A - Luigi Lubelli {BIO 4108780 <GO>}

Yes. Good afternoon, Peter. In terms of the acquisition expenses, I would say that what you see this year is very consistent with what you saw in 2016 and what you have been seeing throughout this year. Yes indeed, Generali has a strategic focus declared, strategic focus of seeking to enlarge the proportion of non-motor business coming in its sales and that has a different commissioning grade. I mean, I wouldn't say it's s super major variation in terms of the expense. It's really ticked up a bit. I wouldn't say it's tremendously large, but indeed there was one and certainly in terms of strategic intention by the group going forward, it's something that I cannot tell you to what extent, but – and how it will impact. It's also a matter of mix and so it's not necessary there's higher rates, but to the extent that the mix in sales swings towards non-motor business, you are bound to have some variations of these kind.

So the last question was about the Solvency move. The Solvency move, in terms of the drivers year-on-year, I encourage you to read the (00:14:51) report because there it's explaining in detail. The last quarter, in addition to the normal capital generation, you had primarily operating variances and a minor contribution from financial variances due to higher rates.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Okay. Thank you very much. Is there any comment you can give on the (00:15:19) recommendations?

A - Luigi Lubelli {BIO 4108780 <GO>}

Yes. And I mean, still assessing it, we wouldn't anticipate any terribly significantly impact from that.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Thanks very much.

A - Philippe Donnet {BIO 4657671 <GO>}

Yes, maybe, sorry I forgot to say a word about Generali Leben. As you know, Generali Leben has been put in your runoff as it was announced last year. We are still in the process of evaluating two options. One of them is the internal management of the runoff, the other option, which is still on the table, is the disposal of Generali Leben and I, quite confident that we are very close to make a final decision on this. And definitely, as you mentioned, this was not part of the list of the companies to be sold.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Okay. Thank you very much.

Operator

The next question comes from Thomas Seidl from Bernstein. Please go ahead, your line is open.

Q - Thomas Seidl {BIO 17755912 <GO>}

Yeah. Thank you. Good afternoon. First question is on the strategic program, 2016 to 2018, I think at the Investor Day 2016, you indicated operating profit should grow 5% now. Two years into this program, it's 2.4% accumulated and you specifically focused on technical excellence. Now, when I look at the two probably most important metrics here in P&C, the underlying loss ratio in light, the technical margin, both are actually stable and in light, actually it's slightly declining. So I wonder how you would assess progress on technical excellence and should we expect now technical excellence to accelerate in the final year of the program, that's point one? Point two, on the reserve releases, 7.1%, I think it was in H2. I mean, you are basically running a pretty short-tailed P&C book. So I wonder what is the source of such a high reserve release and how sustainable this high-level of reserve releases on a short-tail retail P&C book in Europe? I mean, this is much higher than we see it elsewhere in P&C retail in Europe. And thirdly, on the gains, a bit surprised. You told us one, two years ago that you are going down on realized gains now 2017, net gains, so net of impairments is 1.7%, which is close to all-time high. So, I wonder what has made you change your mind and going back to very high level of realized gains. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi, Thomas. Good afternoon.

Q - Thomas Seidl {BIO 17755912 <GO>}

Good afternoon.

A - Luigi Lubelli {BIO 4108780 <GO>}

So, I would say you have to bear in mind the figures this year, right? If you look at the technical results, bear in mind, I mean, if you crudely look at it the way it is, you have to acknowledge the fact that you have a higher level of Cat losses this year than you had a year ago.

And we also had, at the end of last quarter of the year, some legal developments in France, which have an impact on that. I would say that in terms of what was pursued, in terms of performance by the group, say, be it the margins that we are having on new business in Life, the combined ratio which is industry-leading in terms of level and overall, the – I would say precision in the execution of our strategy in terms of the steering of sales towards what we announced strategically, I would say that all of that is very well in check.

Then the variations, the exact numerical variations by year will have to be seen, we still have a year to go. And as I say, this year is affected by some elements, which are, well, volatile in nature. But I would say that the quality of what is steering the results this year and last year as well is there and is very precisely traceable to management actions in that regard. Thank you for asking the question on the reserve release because I think it's a question that it's very legitimate and we saw that in the initial reactions and it's very good as you bring it up.

I also take the opportunity to discuss in terms of the overall performance of the combined ratio. I'd say what the figures that we're showing tell you is that the loss ratio of the recurring business this year has improved. This is actually in line with what we discussed now in the sense that the group holds very well in check the – its underwriting. We had more Nat Cat, it's a random factor. The prior-year release, although to a minor extent, was a smaller amount than it was a year ago, but certainly we had less contribution from that. I encourage you to look at the annual report (00:21:08) information on the annual report that you have the triangles, you will see that the performance on triangles of the group is very consistent and I will repeat exactly the same explanation I gave a year ago. Simply we – Generali is a group that is disciplined whenever it has to reserve a claim and certainly no shortage of care when doing that and what happens is simply that when we will liquidate the claims, the claims end up costing us less and this is what is being reflected here. If it were a depletion of reserves, we would not have the runoffs we show in our triangles. We – although it's a less precise gauge, also the claims to reserves ratio is pretty stable at around 150%. You will find that information as well in the management report.

So I'd say that all of this gives you a picture of a group that simply is careful about its underwriting and holds its current performance in check; that's my reading of the Non-Life - on the Non-Life performance, but anyway of course, very willing to go deeper into that. I am a bit surprised by your statement on realization gains because actually the impact on the profit of the year, I mean, the actual bottom line of the realization gains this year is smaller than it was last year.

We are about €30 million less on the bottom line from realization gains. You have to realize that most of the - you do see I think, I mean if you look at it gross, I'd say that the figure, you are right. But bear in mind that that gross is gross of policyholder shares. So most of those gains stay in the life account and don't accrue to the shareholder.

So actually no, I would say that this year, this year, the impact of gains is, for the shareholders, smaller, and actually I also take the opportunity of your question to highlight something that is very relevant is that the level of impairments this year is the lowest in five years and it follows a decreasing trend on five years. The figure this year is half the figure it was a year ago and that I think is undoubtedly a positive development.

Q - Thomas Seidl {BIO 17755912 <GO>}

I mean maybe just one follow-up if I may on the gains, I'm talking here, gains net of impairments and so last year, this was about €1 billion, this year, it's €1.7 billion and the percentage policyholders get is roughly stable at 79.6%. So I would say then the bottom line impact gains net of impairments must be, what is it, €140 million higher, 20% of the €700 million must be higher this year, no?

A - Luigi Lubelli {BIO 4108780 <GO>}

Yeah, but it actually is smaller, Thomas, than a year ago.

Q - Thomas Seidl {BIO 17755912 <GO>}

All right. And maybe on the PYD on the reserve releases, is it correct to assume this is mainly from the very good Italian years 2012 to 2014, or is it, you say evenly spread on, let's say, 10 years?

A - Luigi Lubelli {BIO 4108780 <GO>}

I mean, the actual figure by country is not disclosed, but I'd say that qualitatively in order to answer your question, Generali is very well reserved everywhere and I wouldn't say that Italy is certainly a country that is well reserved. But I wouldn't say that Italy stands out as the best country. It's a country which is certainly very okay, but it's across geographical presence.

Q - Thomas Seidl {BIO 17755912 <GO>}

All right. Thank you very much, Luigi.

A - Luigi Lubelli {BIO 4108780 <GO>}

You're welcome.

Operator

The next question comes from Farooq Hanif from Credit Suisse. Please go ahead, your line is open.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi. Thank you very much for taking my questions. I wanted to go back on the comment that, Philippe, you just made about the confidence on the €1 billion. Could you just remind us where you are to date and when you say the implication from the way you were saying it, maybe it's my reading of it, was that you'd be materially bigger than €1 billion.

Could you just comment on that? Secondly, on the capital generation numbers and the dividend, I take it - I mean I understand that you've got these targets for 2018, but it seems to me that there is this big opportunity of convergence in cash - in sort of liquidity, ability to pay dividends and this theoretical capital generation number. Is this going to be a big theme in November? I mean is this something that you expect to happen so potentially much better dividend growth going forward?

And then finally, you've got €250 million of debt I think in 2018, hybrid capital, another €750 million in 2019. Are you able to allow this debt to essentially mature without refinancing you in (00:26:24) that position? Thank you.

A - Philippe Donnet {BIO 4657671 <GO>}

Well, on the first one, yes. When I look at what we have already solved, when I look at what we are - when I look at the negotiations that are undergoing, I couldn't confirm you that we will definitely exceed the €1 billion and when I say this, once again to be clear, I am excluding potential disposal of Generali Leben. So excluding potential disposal of Generali Leben, we will definitely exceed the €1 billion. I'm not going to tell you how much we're going to exceed the €1 billion because I don't know that. But I confirm that we will exceed the €1 billion.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. So in terms of capital generation, I - we are not, clearly not yet going to say what we're going to discuss at the Investor Day. But I think this is an easy one. This of course capital and cash, all the management of capital and cash will surely be among the subjects we will cover in our Investor Day. Of course the content of what we're going to disclose you, you will see by then. As I said before, when answering the question on the remittance from subsidiaries, I think that it is evident from our actions rather than from our words that we are clearly working on this consistently and with increasing results, so that is something we are continuing to do. Sorry, questions, the...

Tax, yeah.

A - Philippe Donnet {BIO 4657671 <GO>}

Yes. The – for the moment, we have announced the repayment of the €250 million. With respect to the rest of debt, we'll be updating you going forward in terms of the action that we take. Because this of course depends also on the employment of cash for different purposes due to the group's growth.

Q - Farooq Hanif {BIO 4780978 <GO>}

But just – if I might be a bit cheeky and ask again on that last question. I mean, are you able today? Obviously you might have other uses for capital, but are you able to also retire the €750 million in 2019?

A - Luigi Lubelli {BIO 4108780 <GO>}

Well, in terms of theoretically, if there were only, I mean, just to use a back-of-the-envelope number. Mr. Donnet just told you of the €1 billion proceeds, if you use €250 million of that to retire this €250 million, you precisely have €750 million, no, so, in terms of actual availability of cash, yes, the fact is there are other uses of cash and it's a decision that is taken as part of the overall cash management policy of the group.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay, that's clear. Thank you very much.

Operator

The next question comes from Nick Holmes from Société Générale. Please go ahead, your line is open.

Q - Nick Holmes {BIO 3387435 <GO>}

Hi there (00:30:16). Thank you very much. Two questions, just wanted to come back on disposals. You do sound a lot more optimistic about a Generali Leben disposal and I wonder and obviously it's limited what you can say. But I wonder could you tell us more about what would make you choose a disposal rather than keeping the business? And then the second question is just an update on the timing of the full regulatory approval for the Economic Solvency Ratio, what sort of timescale do you see there? Thank you.

A - Philippe Donnet {BIO 4657671 <GO>}

Yes, on Generali Leben I am just realistic, so I know that to manage internally, the runoff is an option, we have it, we have this option. And I know that we also have another option. So we will decide according to some rationales, which will be financials obviously, but not only financials. We also want to make sure that our customers will be managed properly. We are not exiting the German market, it's proper, the opposite. We are doing this to strengthen our position, our distribution, our brand in Germany. We are strengthening our market position in Germany. So we will make a decision. We will make the best decision in the interest of the shareholders and the policyholders of our company. And once again, we will take this decision quite soon.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

With regards to...

Q - Nick Holmes {BIO 3387435 <GO>}

On the regulatory approval - yeah.

A - Luigi Lubelli {BIO 4108780 <GO>}

Yes, with regard to the regulatory approval, I mean this is a popular question, which tends to receive the answer. In addition to regulatory compliance, we will develop a discipline that's called regulatory forecasting. But the - as you know, we have the usual process - the IMR processes that are ongoing for the countries in which we apply. And our answer remains the same. We have ongoing processing and over the next two, three years, we trust that we will be receiving the approvals, but as I say, we trust it's a decision that ultimately rests in the hand of the supervisors we apply to.

Q - Nick Holmes {BIO 3387435 <GO>}

Thank you, Luigi. Just sorry to be clear. Did you mention two to three years or I thought it might be sooner than that?

A - Luigi Lubelli {BIO 4108780 <GO>}

Well, last year it was three. So that is why I'm saying two, three, because we ran another year.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay. Okay. Fair enough. Thank you very much.

A - Luigi Lubelli {BIO 4108780 <GO>}

You're welcome.

Operator

The next question comes from Gianluca Ferrari from Mediobanca. Please go ahead. Your line is open.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Yes. Hi, good morning, guys. Three questions. The first one is on the real estate portfolio. If you run an appraisal of the portfolio and if the market value has grown in 2017 and if this is the reason why you reported €1 billion of economic variances in equities and real estate. The second question is on the 66% increase in the operating profit of the Asset

Management business. I was wondering if this is coming from revenues or from lower costs and in the case of revenues, if there is a component linked to performance fees explaining this result. The third and last question is on the sensitivity of your Economic Solvency II corporate bonds and in particular the fact that the sensitivity is still three points, but for a 50 bps widening in spreads, while last year, it was 3 points for 100 bps of spreads widening? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. So the - your first question, the market value has grown and also the stock of - by €1 billion and also the, let's say, stock of investments has grown. You were asking us when we value them. Basically we have every year about one-third is revalued and the rest is valued according to a desk valuation and it's rolled every year.

The increase in the operating profit of Asset Management was mainly driven by this shift towards real assets and the commissions thereof, as we said, in our - when we announced a strategy about Asset Management, it was not a matter of performance fees. The sensitivity to corporate bonds, the actual numerical figures we would have to dig into. I can tell you qualitatively that this year, you can appreciate a shift in the composition of our investment portfolio away from corporate bonds and into government bonds. Within corporate bonds, there also has been a shift towards, let's say, comparatively less volatile categories. And there's also a larger - lastly to explain your - to answer your question, there's a larger absorption by liabilities.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Okay, thank you.

Operator

The next question comes from Steven Haywood from HSBC. Please go ahead. Your line is open.

Q - Steven Haywood {BIO 15743259 <GO>}

Hello. Thanks for taking my questions. You've already achieved or you've achieved in 2018 your €200 million cost target. Could you tell us if there's more to come in 2018, the rest of this year or do we have to wait until another target might be announced at the Investor Day? And then on your Asset Management business, your net result has increased nearly €70 million. That's nearly half of the target that you've got and this is only in one year and the target's still 2020. So are we expecting another business to sort of beat its targets here or is there harder improvements to come in the future? And then following up from an earlier question, I know you provide the net operating cash generation and it's very strong number. Could you tell us sort of what goes on below the operating cash generation, whether you have any one-off items in terms of remittances for disposals or injections into other businesses here as well? Because it's very difficult to see or to get a picture of the kind of movement in all of your cash position, then tell us - potentially tell us maybe now or maybe at the Investor Day what the actual cash position is or the actual stock on the balance sheet is. Thank you.

A - Philippe Donnet {BIO 4657671 <GO>}

See, on the cost, we are very happy we are able to achieve the target with two years in advance compared to the initial plan. I remember that at the beginning, we said we would achieve those €200 million of cost reduction in the major markets by 2019. Then last year, we decided to anticipate one year and finally we're able to achieve thanks to the strong actions of all the business units, all the countries, we're able to achieve the target as soon as 2017.

Doesn't change the target for 2018, so the target for 2018 is still valid. And definitely, when we will disclose our new strategy in November, we will talk again about cost, but it will be a different story. Talking about, I would say same thing about Asset Management, yes, we are quite successful in 2017. As of today, we can confirm that we are confident we will achieve the 2020 target of an additional net result of €550 million, so but we will probably update you on those targets in – we will update you on those targets in November.

A - Luigi Lubelli {BIO 4108780 <GO>}

With respect to the net operating cash generation, that simply takes into account the remittance from the subsidiaries and then it also takes into account the results at the parent company in terms of reinsurance net of its expenses. So this year, there was – you also have available on our webpage the individual accounts of the parent company this year. We had better underwriting results on the reinsurance activities of the parent company that contributes to the increase in cash. And there were some smaller interest expenses and some cost savings, but you will see that part of the improvement in cost savings achieved by the group was achieved at the holding company although I wouldn't say this was terribly material in the overall amount of the net operating cash generated. That's – those drivers are basically the same every year. This year, you have a better reinsurance result and a better remittance.

Q - Steven Haywood {BIO 15743259 <GO>}

Thank you.

A - Philippe Donnet {BIO 4657671 <GO>}

Sorry, wanted...

Q - Steven Haywood {BIO 15743259 <GO>}

Sorry.

A - Philippe Donnet {BIO 4657671 <GO>}

...to come back on my answer on the Asset Management, because of my bad pronunciation, I wanted to make it clear that what is in the plan today is an additional net result coming from the Asset Management by 2020 of €150 million. So I confirm that we are very confident we will achieve this target and we will update you on this in November.

Q - Steven Haywood {BIO 15743259 <GO>}

Thank you, Phillip. Luigi, if I could follow up on the cash generation, I'm more looking towards the non-operating items. So I don't want to see the gross remittances. I want to see the sort of net remittances. If there's any capital injections into business and as you have achieved more than half of your disposal target, there's €0.5 billion, I guess, coming into parent company as well from non-operating items.

A - Luigi Lubelli {BIO 4108780 <GO>}

Right. I can see where your question is coming from – I don't think I can answer your question based on disclosure. I can answer your question based on quality development obviously, like any group in which you have a parent company centralizing the Treasury movements. Clearly, there is a use of cash from the parent company in order to finance growth as subsidiaries; it doesn't all – not all the cash stays there. It goes back into the business, that's one of the reasons for which obviously, like in any other group, we have the role of the parent company. Unfortunately, in terms of figures I have, using disclosure, it's more difficult for me to answer you precisely in terms of numbers.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. Thank you.

Operator

The next question comes from Michael Huttner from JPMorgan. Please go ahead. Your line is open.

Q - Michael Huttner {BIO 1556863 <GO>}

Fantastic. Thank you very much and well done for delivering on track, this is so lovely. On the dividend, I think the way I'd put it to your colleagues earlier this morning is, you seem to have had a cappuccino moment when you decided on growth in the dividend, when the cash flow, et cetera, was more like an espresso moment and I just wondered if that is indeed the case, you kind of felt, very well (00:43:16), let's go easy here. That's the figure which really kind of stands out. On the LTIPs, I received this email last night. I wonder if you can explain this LTIPs, is it new and is it relating to the new business plan, which will be announced in November or is it the – does it reset – does it set now or does it set tomorrow?

And on the Generali Leben, last year in 2016 from the SFCR report, one could see that Generali Leben absorbed €155 million of cash, it was from the embedded value, not the SFCR. And I just wondered what the figure was in 2017 as to kind of try and guess what could be the consequence ultimately of either moving to runoff or disbursing of this unit? And then finally on the cash, there seems to be a lot of cash in the group that is not in the parent. I just wondered where it is, so the parent cash seems to have gone down quite a bit; so it's gone down from €7.5 billion to €6.8 billion; this is the figures on page 86. The group figure of cash consolidated has gone up from €10 billion to €13 billion. And I just wondered maybe you can give a little bit of feeling and I know it's qualitative and I understand that it might be in different parts? Sorry for many questions and again very well done. Amazing delivery.

A - Luigi Lubelli {BIO 4108780 <GO>}

Thank you very much, Michael. I didn't - quite because the sound comes across not entirely clear. But let's say answering your first question, I would say using your tone, we are brewing our dividend slowly. So it's very sad we're (00:45:05) using a different brew than the one you have in mind. No, jokes aside. Our dividends are, at this moment, reflecting our strategic pronouncements about that. So we are delivering in accordance to that. And this year, the dividend is aligned to that. We have a commitment that runs out next year and with respect to our dividend policy going forward, we will be updating you at the Investor Day. I would say that all in all, frankly comparing our pay-outs to that of our peers, I would say it's been a pretty good cup of coffee so far. So whether it's an espresso or cappuccino, it tastes good so far.

In terms of your second question, I'm sorry, but the noise was kind of - it wasn't exactly clear. Could you repeat it please?

Q - Michael Huttner {BIO 1556863 <GO>}

Sure, of course. So, last night, there was an email which I received saying that you've got an LTIP program and I just wondered this LTIP program, does it price yesterday, does it price tomorrow? Is it based on the new strategic plan, is it the old strategic plan? In a funny way, in London when always things (00:46:28) is the management setting itself target of starting today going forward or is it today looking backwards, just to try and understand what this relates to? And the email was sent by Media - Generali Media Relations...

A - Luigi Lubelli {BIO 4108780 <GO>}

No, no. Sorry, it's just a matter of the Long-Term Incentive Program you're referring to.

Q - Michael Huttner {BIO 1556863 <GO>}

Yes, that's correct. Yeah.

A - Luigi Lubelli {BIO 4108780 <GO>}

Yeah, well, but that's an ordinary announcement we do with the AGM. This forms part of the ordinary announcements of the long-term incentives. The disclosure of that, you will find in the latest AGM in terms of what was approved in that regard and this reflects that. So - and of course there's going to be an update of the LTIP this year as is the case always.

Q - Michael Huttner {BIO 1556863 <GO>}

Okay.

A - Luigi Lubelli {BIO 4108780 <GO>}

It's nothing. I mean it's just an ordinary announcement that goes to the AGM because it's the approval for such payments is required, it has to be granted by the AGM.

Q - Michael Huttner {BIO 1556863 <GO>}

Okay.

A - Luigi Lubelli {BIO 4108780 <GO>}

So in terms of the cash in the group, of course, I mean, making judgments of what is the cash and where it is based on a snapshot at a given date is always risky, right, in the sense that that's just a picture of the – of one day which is the day where you close the balance sheet. Bear also in mind that we have two kinds of cash. We have the operating cash and the cash which pertains to policyholders and these figures are put together in the figures of our (00:48:24) cash.

Generally speaking, I would say, because I think this is a question that came up in from other analysts and thank you for that. I think that what can be said at large is that clearly the group is focusing on generating more cash. I mean, all our activities are conducive to that. We are writing a business that is more cash-generative than it was in the past. We are cutting on expenses. So – and also, we are increasingly focusing on moving this cash and having this cash moved from below to above. So I think that, say, beyond what the figures because a figure at year end is informative only to a point. I would say that the actions we are undertaking are clearly all conducive firstly to a larger cash generation and secondly to a better upstreaming of that cash.

I have to say also the fourth question, you must forgive me, I didn't get it very well.

Q - Michael Huttner {BIO 1556863 <GO>}

Yeah. So, Generali Leben. When I looked at the embedded value report for that subsidiary last year, there was a €155 million injection of cash and capital and I understand that came from its two sister companies (00:49:49) and Cosmos. And I just wondered what the figure was in 2017. And the reason I ask is to better understand what will be the consequence of closing the business – the company to new business and/or selling it off?

A - Luigi Lubelli {BIO 4108780 <GO>}

Right. I think you are maybe referring to the SFCR. So, we don't have had yet any updated disclosure on that. But generally speaking, I mean, there wasn't any irrelevant movement on Generali Leben in this year in this regard. But of course, in terms of figures, I don't have any disclosure to back my statements.

Q - Michael Huttner {BIO 1556863 <GO>}

Okay, got it. Thank you very much.

Operator

The next question comes from Ralph Hebgen from KBW. Please go ahead, your line is open.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Hi guys. Thanks for taking my question. I think just a general observation perhaps and all my questions are in the context of this observation. I think we may be getting to the point where it will be interesting to discuss your philosophy, whether you would prefer share buybacks or whether you would prefer M&A? And the reason I say this – and this is (00:51:05) my question set in, you seem to be generating a lot of cash, which is also not, strictly speaking, operating in nature. So the question [Technical Difficultly] (00:51:12 to 00:51:17) which are very high in the second half...

A - Philippe Donnet {BIO 4657671 <GO>}

Ralph, sorry, we lost you for one minute there, could you sort of rewind a few seconds?

Q - Ralph Hebgen {BIO 6297020 <GO>}

Oh, okay.

A - Luigi Lubelli {BIO 4108780 <GO>}

(00:51:23) cash not necessarily operating, that's where we lost you.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Okay. Cool. Yeah. So these things such as now, examples of what I see to be non-operating cash. So first in the P&C segment, that is strong reserve releases in both second half this year and second half last year. And Luigi, I heard of course your comments on this. So my first question is, what do you think the broad dynamics are here? You are clearly very well reserved in P&C. So do you see some excess reserves in that segment which you are allowing to release over time, contributing to, what I call, non-operating cash?

And the second example of non-operating cash has emerged this year in the form of the repayment of internal debt in France of around €0.2 billion, I think you mentioned that on one of the slides. So again, my question is broader in dynamics here. Do you think that is going to continue, not necessarily in France, but elsewhere, is your capital management of the group going to be of a type that you are going to identify excess debt positions held in surplus capital at the local entities? Are you going to upstream this and is that going to be part of the strategy to be revealed on November 21? So that was question number two, if you're still with me. And this all leads into one general point which I'd like to explore with you which is, if all of this is happening, we can expect good strong ongoing cash momentum. What are you going to do with this cash? This year, you appear to have paid out a lower proportion of the overall cash generated than last year. Is this caution because you're trying to hold back some cash in a central liquidity pool? Are you going to gear up for M&A? How are you going to deploy this cash in the future? What is your preference, higher dividends, share buybacks, M&A? I hope that wasn't too long, but that's the sort of framework I'd like to explore.

A - Philippe Donnet {BIO 4657671 <GO>}

Well, Ralph, I'm going to answer quite briefly to your question on our philosophy and telling you what we're going to do this year. First of all, we are paying a dividend which is increasing by 6% compared to last year. It's a significant improvement of the dividend, the dividend yield is quite high. And definitely, we can confirm that we will achieve the initial target of paying at least €5 billion of dividends by the end of 2018. On top of this, this year, because I am happy to comment what's going to happen this year. This year, we're going to pay back the two maturities of the subordinated debt for a total amount of €250 million and we're going to pay back this as a cash payment with no refinancing of these and then to – we'll be happy to exchange with you on the buyback M&A debt and capital on November 21, in Milan, because this is definitely, this will be definitely a significant part of our new strategic plan.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Okay, that's lovely. Thank you. Just as a follow-up, in P&C, in the P&C reserve releases, do they reflect a position that you are very comfortably, if not, over-reserved in P&C, now you're planning to release similar sorts of amount sustainably in future?

A - Luigi Lubelli {BIO 4108780 <GO>}

Right. I was just about to answer that your question was not (00:56:05). The – look, firstly I disagree on the non-operating nature of the cash in the sense that of those movements because you may call it a difference in timing. I mean it's that the fact that you have reserved claim and then you later pay a claim and then the claim turns out to be slightly less than what you reserved it for, to me is 100% operating, there's nothing non-operating in that, then we may have an interpretation of that, but that's simply the ordinary activity of running a Non-Life business.

So to me it's absolutely 100% non-operating, but then perceptions and opinions fortunately are free. I think that – but certainly that's the way how I see it. So, there is no such thing as a plan to release the reserves. We have a reserve in position. We told you that the group is well reserved. You have, I trust, plenty of information in our Annual Report where you can check how our Non-Life business develops. You have consistently, year-after-year triangles, which show you that this is not chance. This is simply a group that runs its operations well and we handle our claims well and that's nothing more I can say or would say about that. It's simply that we are running our Non-Life business well and there's no plan nor anything in that respect.

Likewise, is the repayment of debt in France non-operating? I suspect if they can do it is because their operations are running well, right. So they're not generating their cash out of the year. They're generating cash from their operations. They – it's a well-run company. Actually, it allows me to make a mention about France because France I think this year, especially on the Life side, but also on the Non-Life side is one of the major, if not, the major turnaround that we're showing in our accounts. So the fact that they find themselves in a better technical position, hence generating more operating cash and in a better Solvency position, to me, sounds in nature all operating. But as I say, this is a matter of perception.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Luigi, can I just interject?

A - Luigi Lubelli {BIO 4108780 <GO>}

Absolutely.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Non-operating is a word. It is a label. I don't care about it. What I am alluding to you is that you are well reserved in P&C than...

A - Luigi Lubelli {BIO 4108780 <GO>}

(00:58:54) yes.

Q - Ralph Hebgen {BIO 6297020 <GO>}

...you are well – and that your capital position is now extremely comfortable, that allows you to release some cash and that is my question, is that release of cash through repayment of internal debt through release from P&C comfortable reserve position going to be ongoing and sustainable?

A - Luigi Lubelli {BIO 4108780 <GO>}

Well, you are asking me for a forecast, which I will not give at this point, in the sense, if you're asking me the question is our reserve position comfortable? The answer is absolutely yes. Are we going to, going forward, as I said in the beginning, seek to optimize the capital position of our subsidiaries and if there's an opportunity to do so, make upstreams? Not of the same – necessarily of the same kind, but anyway, an optimization of the capital employed in our companies with the – within upstream towards the parent, the answer also is yes. To what extent there's going to – but what I cannot give you is a plan or expected figures, but yes, the – if you accept this answer, then it's my answer.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Yes, that's great. Thank you very much.

Operator

The next question comes from Andrew Ritchie from Autonomous. Please go ahead, your line is open.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

Well, hi there. I'll try and keep it brief. First question, just on debt, in terms of the metrics you look at, you mentioned in the slide pack the Solvency II headroom, which obviously is a considerable €11 billion, but at the same time, you've decided to redeem that. So I'm right in thinking, you're not just looking at a Solvency II headroom, but you're also still taking into account straight IFRS leverage and/or straight IFRS interest cover. Is that how I should think about it, so you're balancing all three, just to clarify?

Second question, Italian P&C growth (01:01:07) less in the second half, considerably less, is this a price effect or is it a commercial effort effect on new business, just clarify that?

And a final simple question, tax. Your tax rate was inflated this year in 2017 because you had some negative one-offs, particularly France and U.S. Some of those one-offs related to the fact that ongoing tax rates are coming down. I think you've guided to €34.5 million as a kind of average tax rate for the group. Can that start to fall or am I looking realistically not before sort of 2020? Thanks.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. Good afternoon, Andrew, or good morning I should say. The metrics we look at, yes, the - let's say the - like last year, this year, that slide on the presentation is meant to illustrate our flexibility, not necessarily that we're going to use it. What it tells you, I think there are two very relevant qualitative development this year is that our tiering has been reinforced, especially in Tier 1, unrestricted Tier 1. So that was a very welcome, I would say, qualitative development in the composition of our Solvency II capital.

Obviously, the fact that we have Solvency II doesn't mean at all that we have forgotten the IFRS accounts. So - and the measure is based on the IFRS accounts. We continue to be a rated entity and we continue to have a dialogue with the debt capital market; so of course, we continue to look at leverage and interest coverage measures.

Regarding your second question, it was primarily a price effect in the last quarter in Italy. And regarding the third question, actually thank you for asking that because the tax rate is complex and easy at the same time, let's say. Last year, we had a positive impact from - primarily from nonrecurring amounts in Germany and that lowered the rates. So if you grossed up that rate last year to the rate this year, you would come to figures that are more in line. So what happens on this backdrop? You have the two amounts of the U.S. and France. If you strip those out, you will have a tax rate that is going down by about 50 basis points kind of, in the region of. That is largely related to the reduction of the corporate tax rate in Italy IRES; that went down this year from 27.5% to 24%. So overall, our tax rate has fallen this year. I mean, the ongoing tax rate, the underlying tax rate has fallen by about 50 bps.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

And will it fall further, particularly because there was tax reform in France as well?

A - Luigi Lubelli {BIO 4108780 <GO>}

Well, yes. I was referring to France to the one-off. Yes France, there was this year a one-off of about 10 percentage points. Then it's going of course, well hopefully I would say, to fall next year - it's what is planned. And later on, there is also a continued corporate tax reduction in France. So, yes in France, it will continue to fall.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

So the normal rate is what 34% for 2018 and then maybe a bit less for 2019.

A - Luigi Lubelli {BIO 4108780 <GO>}

We have not quite published the figure of a normal rate. I think we're about, the balance sheet figure is about 32%. And that figure has in itself 2.5 percentage points coming from France and Germany – France and the United States.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

Sure. Yeah.

A - Luigi Lubelli {BIO 4108780 <GO>}

So if you strip those out, in my figures, you are around 29.3% this year in terms of P&L figure. So, I don't know how you get to the 34%, but the balance sheet figure is below 30%.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

Okay, I'll follow up, thanks.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay.

Operator

The next question comes from Dalla Palma from Exane BNP. Please go ahead. Your line is open.

Q - Niccolò C. Dalla Palma

Hi, good morning to everyone. Three questions for me. First one, a quick one on the reinsurance result in the operating cash generation. Could you just explain what drove the increase and what's the sustainable number, if there is any? But just to understand the big jump on that. Secondly, on your non-operating results, just wondered if you could help us understanding some of the components and it's quite, when you break it out, it's quite easy to see the investment part of it, the holding expenses part of it.

But then there's the net other non-operating expenses. Of that, you disclose how much is (01:06:29), how much is restructuring, how much is the UK runoff portfolio sale? And then you were still left with €225 million negative. What is that? What – where are those costs coming from and is that a running number or can that change? Lastly, I was wondering one of your peers disclosed the future profits included in the available financial resources for Solvency II. I want to know whether you could give us a similar indication or whether it is somewhere or maybe I haven't spotted that yet. Thank you.

A - Philippe Donnet {BIO 4657671 <GO>}

Good afternoon, Niccolò. So let me just gather a few slides so that I can guide you, just bear with me for a moment. While I look for the figure, in terms of the reinsurance impact, reinsurance impact was simply due to the fact that the – primarily the weather-related claims this year impacted on the parent company less than the previous year. Let's say, to explain it otherwise, where they occur, they occur to, in amounts that were below the threshold that would lead to a session to the parent company and that's why that happened.

So is it recurring, is it not recurring? I would say, if I have to judge by past year's figures, the figures is a bit on the high side, I would say, if that answers your question, but really I don't have a forecast for that. So now, let's see, your question is about the net other non-operating expenses. So there, I would say, it's indicated in the slide that the main impact is here, is from the restructuring in Germany; that's the biggest element that makes it swing with respect to last year. There is a minor reduction in the VOBA amortization that's because, but I think this is so low, it's almost inconsequential for the group. We had a goodwill that we – of VOBA that we stopped amortizing. We finished amortizing last year. So it's impacting less than that and indeed, we are...

Q - Niccolò C. Dalla Palma

It must be the other non-recurring items if you exclude the UK runoff?

A - Luigi Lubelli {BIO 4108780 <GO>}

Yeah, if you exclude the UK runoff, it is at a similar level to last year. It's basically the same amount because if you add that up, you have a €220 million, I think last year the figure was €200 million. And basically there, we have sundry expenses largely related to IT restructurings of this kind of items, there were several items of that kind.

Q - Niccolò C. Dalla Palma

Okay.

A - Luigi Lubelli {BIO 4108780 <GO>}

It's more or less the similar figure as a year ago.

Q - Niccolò C. Dalla Palma

And on the VIS or future profits in AFR, if you do have an indication or...?

A - Luigi Lubelli {BIO 4108780 <GO>}

We don't have – I think the figures that you will find similar to that is in the SFCR. You will find a disclosure that is kind of along those lines if I understand your question. In IFRS or own funds?

Q - Niccolò C. Dalla Palma

No, sorry in the own funds. So we're trying to understand if you could reconcile how much was the future profits, we can of course have some thumb rule by looking at what the tangible equity is, but...?

A - Luigi Lubelli {BIO 4108780 <GO>}

I'm afraid in our disclosure, we've not precisely split the number out. I mean you can...

Q - Niccolò C. Dalla Palma

Okay.

A - Luigi Lubelli {BIO 4108780 <GO>}

...you can kind of, I think, surmise it looking at the figures, but explicitly, it is not broken out.

Q - Niccolò C. Dalla Palma

Okay. Thank you.

Operator

That will conclude today's question-and-answer session. I'll now turn the call back to your host for any additional or closing remarks.

A - Philippe Donnet {BIO 4657671 <GO>}

Thank you very much everybody for joining. I think we answered most of your questions. Apologies we've run quite over time. I know there's a couple of you left in the queue, obviously myself and the whole Investor Relations team are available for any questions after this call. And with that again, thank you very much for joining and we hope to hear from you soon. Good bye.

Operator

That will conclude today's call. Thank you for your participation, ladies and gentlemen. You may now disconnect.