Q4 2015 Earnings Call - Pre-Recorded

Company Participants

- Alberto Minali
- Gabriele Galateri di Genola e Suniglia
- Philippe Donnet

MANAGEMENT DISCUSSION SECTION

Gabriele Galateri di Genola e Suniglia

Good morning and welcome to our 2015 Full Year Results Presentation. I'm Gabriele Galateri, Chairman of Generali. It is with pride that I am reporting today on the financial performance and strategic progress of our group over the past year. These are the best set of results since I became Chairman in 2011, achieved against an enormously challenging backdrop and I take no less pride that in the launch last May of the next phase in our strategic transformation.

With the full support of the board, this new strategy was developed entirely by Generali people from around the world and marked the beginnings of a new, exciting period for the group. I'm also pleased to confirm that yesterday we announced that Philippe Donnet, current head of our business in Italy, as the next CEO of Generali.

Philippe has been with Generali for several years now, following many years of experience in the insurance sector around the world. He has been an inspirational leader and highly successful in transforming our Italian operations. So it is with great enthusiasm and confidence in his considerable abilities that we appoint him to this role.

I will start with a brief summary of Generali's financial performance in 2015. There are two key metrics I would like to highlight in the first instance. These are the operating return on equity and net profit. I'm satisfied with our continued strong improvement in operating return on equity, which stood at 14% for the year, above our 13% target. This is an excellent indicator of the operational strength of our business, and obviously, a core part of the promises we have made to our shareholders.

Also looking at the bottom line, we have taken another step in the right direction with an increased year-on-year of 22% in net profits. This is at the level not seen since 2008. Alberto Minali, our CFO, will talk in more detail on how we achieved this. But as I look around our businesses, I see a solid momentum driven by focus on our customers, a keen eye for being lean and efficient, and the drive to be the best in the market for products and services.

This energy and commitment also gives us the confidence in the future prospects for our group. I know that I speak not only for myself, but also on behalf of all of my fellow board members when I said that we are committed to ensuring that Generali remains an attractive long-term investment. A key part of this is to pay a dividend that is both sustainable and progressive. The result is that we are recommending a dividend of €0.72 per share, an increase of 20% on last year.

On this slide, you'll see cornerstones on which we base this recommendation: best-in-class profitability, solid growth in our cash flow and a sound solvency position. Our target of a cumulative €5 billion in dividends by 2018 is firmly in sight.

Let me now turn to strategy. Over my time here, I have witnessed a fundamental transformation at Generali. The pace of this has accelerated in recent years, culminating in 2015 with the closing of one important chapter in our history and the opening of a new one. 2015 marked the end of our initial turnaround, where the group simplified its governance, bringing it in line with international best practice, rationalized its operations and gave it clear strategic focus on its core insurance business, and took the balance sheet issue off the table by bringing our solvency position in line with our peers.

Then, having delivered on this a year ahead of plan, we developed a clear vision for the next phase in Generali's transformational journey. On this slide, you see the key aspects of what we intend to do in the coming years. It builds on our heritage as an international group and plays to our strength and as a retail leader. Generali is a company with agility and a track record of leveraging on technologies such as telematics, where we are a market leader, and now, with exciting new products in the health and wellness space such as Vitality, which will be launched in Germany later this year.

I started by mentioning my sense of pride and I would like to conclude with the sense of excitement that all of us share with what has been achieved, the direction the business has taken, and the opportunities which lie ahead for us going forward.

You see here the financial results we are targeting in the years ahead. Although the global outlook continues to be challenging, especially as low interest rates seem set for the foreseeable future, at least in Europe, we remain confident in the underlying resilience of our business and our ability to deliver on our promises.

To do so requires the commitment of all our 77,000 people, so it is appropriate to finish by stating that what makes the deepest impression on me is the caliber and commitment of those who deliver in our business every day.

Thank you to them and to all of you who are watching. I wish you all the best for the year ahead.

Philippe Donnet {BIO 4657671 <GO>}

Good morning. My name is Philippe Donnet, CEO of Generali. I know that many of you will have already seen the news of my appointment yesterday evening and will want to focus on the year-end results announced earlier today. So I will keep my comments brief. I'm sure I will have the opportunity to meet many of you in person in the coming weeks and months.

The past two-and-a-half years have been some of the most exciting of my professional career. Through my work as head of Italy and also as a member of the Group Management Committee, I saw an amazing level of passion and commitment in rising to the challenge of a complex financial turnaround. That this was successfully achieved in such a short time is a testament to the level of commitment you find across this group.

A priority for me will be to ensure that we maintain that excellent positive momentum as we move forward. I see two important factors in being able to do that. One, we have a clear and sound strategy developed by the people of Generali, and those people are fully committed and enthusiastic to see its implementation. That strategy aims to take our business forward as a retail leader, to be simpler and smarter, more agile at serving our customers and generous in rewarding our shareholders.

And equally important is the quality and dedication of the senior management team. Alberto Minali will play a key role, and I am particularly glad for having him alongside me, as well as my other colleagues on the Group Management Committee and across the wider management team.

It is with enormous pride and a great sense of responsibility that I am addressing you today as CEO. Generali is a special place because of our people, our rich heritage, and what we have achieved over the past few years. We are energized and focused on the exciting challenge that lies ahead and I am honored to lead this group as we continue in that journey.

With that, I will leave you to Alberto Minali who will review the 2015 year end results.

Alberto Minali {BIO 16909383 <GO>}

Good morning. This is Alberto Minali, CFO of Generali. I'm pleased to report to you this morning our full year 2015 results. Generali has continued to perform strongly. Looking at the headline figures, the net result of the period is up 21.6% to €2 billion, and the operating return on equity has improved by 80 basis points to 14%, comfortably above our target level.

The total operating result of the period increased 6.1% to €4.8 billion, driven mainly by the strong performance of the Property and Casualty segment. Net operating cash generation at the parent company level is up significantly, to €1.6 billion, a 30% increase year-on-year. Shareholders' equity increased 1.5% from year end 2014.

Before I move on to look at the business performance of the group in more detail, let me first cover the important topic of Solvency II. As I promised at last May's Investor Day, we are providing today much more disclosure on this topic. I also indicated in May that as a first step, we would apply only for a partial internal model. I'm very happy to confirm that our application, covering the most important operations of the group, has received regulatory approval. This gives us further confidence as we seek to expand the scope of the model approval over time.

I would like to thank my colleagues in the risk and finance areas who have worked tirelessly to make this possible in a relatively short time.

Now, to the numbers. Let me start by looking at the ratio according to the full internal model view. We consider this view as extremely important. Firstly, because of the planned expansion of approval scope, if successful, the regulatory view of our Solvency position will very closely match this one in the future.

Secondly, it is a model which has been built rigorously, from the bottom-up, to best reflect the economic realities of Generali's business profile. And so, from the point of view of steering and managing the group, we deem it to be the most appropriate tool.

The full internal model number is also the one you are most familiar with, as it is the one we have been publishing in the recent quarters. In order to update you on this number, I will introduce our first new piece of disclosure, which is an analysis of the movement.

The chart you see here is showing that the overall Solvency ratio has improved from the 186% we disclosed at the end of 2014, up to 202% at the end of 2015. The biggest driver of change is the normalized earnings power of the group, as measured under Solvency II principles, which for 2015 amounts to approximately €3 billion, or 16 percentage points.

The cost of the proposed dividend, which is fully accrued at year end, is five Solvency ratio points. In other words, the normal generation of Solvency II capital has covered the dividend by almost three times. I repeat what I said at the last Investor Day. Solvency is not a constraint for dividends at the current level or in view of the generation of Solvency capital. The main upside to our dividends comes instead from our work to improve cash generation, and I will revert to these shortly.

The last point I would cover on this slide is variances. Of course, it will be quite normal under Solvency II to see variances emerge in each period, either due to financial market trends, operational variances or other changes in assumptions or modeling. In the case of 2015, we had positive variances of €600 million, mainly driven by the favorable impact of financial conditions on own funds during the year, the increase in the reference rate curve, the narrowing of government spreads, together with the increase of equity markets generated the positive impact. In addition, there have been some updates of operating assumptions and model refinements.

If we turn to look at the components of the Solvency ratio, you can see the increase has been driven by the growth of Eligible Own Funds, from €38.4 billion to €41.3 billion, mainly due to the normalized earnings power of the group, as I described before.

The Solvency capital requirement is slightly lower at €20.5 billion compared to €20.7 billion last year, despite the higher business volumes. This is, in part, thanks to our strategy on focusing new production on less capital-intensive products and services, like hybrid products, as compared to the more mature business already on the books, which is more capital-intensive but running off over time. In addition, higher interest rates at the yearend have given some relief.

Also on this slide, you see the sensitivity to different financial market scenarios. Let me touch interest rate risk first, and in a downside scenario, you see that a 50-basis-point reduction in yields would reduce the Solvency ratio by 8 percentage points. This is a quite manageable number, and in fact, it is considerably lower than the sensitivity we had indicated back in May.

Why is this? It is due to a number of factors. An important one is that the overall better financial market conditions have led to a strengthening of the position of some of the life funds of the group, and therefore, made them more resilient to a protracted decline in rates. Linked to this, I would add that the new business going onto the books is less market-sensitive than the in-force book, and this should have a beneficial effect also over time, gradually reducing volatility.

Lastly, there have been some model changes as we have been through the model process, for example, on the treatment of ZZR, which have reduced the sensitivity that we reported previously.

Looking at equity market risk, a 20% drop in the market would correspond to an 11-percentage-point fall in Solvency. Today, I also show you for the first time the sensitivity to corporate bonds, taking a comprehensive definition which includes covered bonds. Here, you can see that 100-basis-point widening in spreads would consume around five Solvency points. This sensitivity includes the effect of the volatility adjuster, which mitigates the overall negative impact of spread widening.

In terms of government exposures, clearly, Italy is the largest one, reflecting our business mix. For this exposure, you see that 100 bps increase in spreads has a cost of 11 Solvency points, where of course, the benefit of the volatility adjuster is not so strong as on corporate bonds.

Lastly, we also show the sensitivity to changes in the ultimate forward rate, where 100 bps reduction would reduce Solvency by 9 percentage points. This is, again, quite a manageable number, a reflection of the overall shorter duration of our life book, particularly in Italy.

Let us now zoom in on the elements that make up both the own funds and the Solvency capital requirement. I will start with the numerator of the ratio, the own funds. And on this slide, you see a very important analysis which is the tiering of capital.

89% of our own funds comprises Tier 1 capital. That means our capital requirements are 1.8 times covered by Tier 1 capital alone, and if I compare that to the overall industry in

Europe, I think we are very well-positioned. Tier 2 capital is 11% of the total, and Tier 3 capital is close to zero.

I want to stress that this is a very important view of the quality of our capital base, and is more economic than other measures based on, for example, IFRS book values or Solvency I capital. I would say a capital mix like the one we have is quite an appropriate or even conservative one. This is true either looked at in isolation, where we are far away from any regulatory limits, or if I compare it to our peers within Europe. This confirms our strong financial flexibility.

Let us now turn to look at the construction of the denominator of the Solvency ratio, the Solvency capital requirement. We start with the gross capital requirement of the group before diversification and other effects, which totals €31.1 billion. On the chart to the right, you see how this breaks down. On the first pie chart, you see that the split of capital requirements by geography is very much as you might expect, roughly following the overall business mix of the group. By risk type, 43% of the capital requirements come from credit risk. This category also includes spread widening risk on credit assets, as well as their risk of default, rating migration risk, and other counterparty risks. Other financial market risks account for 29% of the total, while underwriting risks in our Property and Casualty and Life insurance businesses account for one-fifth of the requirement.

Now, there are some adjustments to this gross total we have to make to get to the overall net Solvency capital requirement for the group. First of all is diversification of risks since the wide variety of risks the group faces are not fully correlated.

The diversification benefit we have is €5.7 billion, so less than 20% of the gross Solvency capital requirement. We are then deducting an allowance for taxes of €6.2 billion, and this gets us to a net Solvency capital requirement for the insurance operations of €19.2 billion. Finally, we add back the capital requirement for businesses outside of Solvency II, meaning the French IORP business, asset management and banking operations. The capital requirement of €1.3 billion for these businesses are calculated under the different regulatory regimes applying to each one.

With that, I think you have quite a detailed insight into our numbers. On this next slide, we are providing you with some additional details on the framework of the model. I will not go through all the points of this slide, but let me emphasize some aspects.

Firstly, on scope, our model is covering materially all of the insurance entities of the group. As I mentioned above, entities regulated under different frameworks than Solvency II are included based on the capital requirements dictated by those frameworks.

Sovereign risk is fully accommodated for within the model for spread widening, default, and rating migration risks, for all bonds including domestic ones. At the same time, we are applying a dynamic volatility adjuster, calculated in line with the EIOPA formula, but with assumptions reflecting the Generali portfolio. From next year, we will change also the portfolio assumption to match the standard EIOPA ones, but we are not expecting this change to have a material effect. In fact, most likely, given the exposure we have and market condition at year-end, our current approach is slightly more conservative.

Lastly, I would highlight that all of the group's existing Tier 1 and most of the Tier 2 bonds are to be grandfather under Solvency II. The €1.25 billion Tier 2 bond issued in October 2015 is Solvency II compliant.

So, that completes the picture of the full internal model. Now, let's dive a bit deeper into the regulatory approval process. For the 2015 year-end, as we indicated last May, the group has applied for and received a partial internal model approval, with the parts outside of the approval package calculated on the standard formula. This situation is dynamic, in the sense that we will continue to work with our regulators to expand the scope of approval over time. Our ambition is to arrive close to 100% internal model approval at the end of the process.

For the 2015 year-end, we already have the majority of the big operations in the approved internal model scope. They are Italy, Germany and the Czech Republic. For France, only P&C is currently in the approved scope. You see these account for slightly more than half of the SCR in 2015. Remaining insurance operations account for 41% of the SCR, and then business which are in regulatory regimes outside of Solvency II, for example, banking and asset management operation, and the IORP (20:37) business in France, account for only 6%.

Looking at numbers. Combining the entities under current internal model approval and those under standard formula, we arrive at Solvency ratio 175% at year-end 2015, so around 25 percentage points lower than the full internal model view. Model approval for the French Life business, which again is our current priority, would already meaningfully reduce this gap. Assuming we then go on to receive all the approvals that we are working to achieve, any remaining gap between the approved scope and full internal model is expected to be negligible.

Let me close the chapter on Solvency II by giving you some insight into the group capital management process. And I think here our approach is a rigorous but quite standard one. In stressed scenarios where the Solvency ratio is falling, we have different limits at which we may take different actions to manage the capital base according to the situation. These are board-approved limits set by reference to the internal model view, and there are pre-defined escalation mechanisms depending on the severity of the scenario.

At levels where the Solvency ratio is above 160% according to the internal model, the Solvency position is clearly no problem at all, and everything is business as usual. At around 160% level, the so-called soft limit, we may think to take risk reduction measures to help restore the Solvency position above 160% and to mitigate the risk of further downside. The actions we might take would depend on our assessment of the situation at the time, why we arrived at that point and how close or far below we were to the soft limit. But under Solvency II, the range of effective measures is quite wide, and you see some examples listed.

An important point to repeat is the organic capital generation of the group, which, as I have explained, is quite powerful. The actions we would take around this soft limit should significantly mitigate the risk of the Solvency ratio moving into much thinner territory.

Nevertheless, there is also specified hard limit at 130%, where we will clearly need to take action to restore Solvency in a more urgent manner. This could still include executing on many of the tools I referred to before, but in addition, we may consider taking action we would normally like to take, for example, cutting dividend. I would also add that the incentive schemes for the senior management of the group are not automatically executable, if the Solvency ratio is below the hard limit.

Let me finish with one important point on this slide, because I would not like to leave the impression that we will be inactive on capital management unless we get to one of these limits. You can be confident that we are continuously looking at ways that we can further optimize the capital position, manage volatility and safeguard the fungibility of cash flows across the group.

Let's now move back to the business performance, and I will start with the operating profit by segment. Let me first mention to you a further measure we have taken. Starting from this closing, we have required our subsidiaries to pay royalties to the parent for the use of the Generali brand. For the fiscal year 2015, these amounted to €69 million and were entirely charged in the last quarter of the year. From 2016, these fees will be spread evenly over the quarters.

The benefit has been booked within the Holding and Other business segment, netting operating holding expenses for that amount. The related offsetting cost of these has been charged to our Life and P&C business segments.

The Life operating result remained stable from last year at €3 billion, notwithstanding very strong inflows, particularly in unit linked, with associated increased acquisition costs.

Property & Casualty showed a 8.5% increase, confirming a good technical momentum. Underwriting profitability has continued to show a positive development, despite heavier losses from natural catastrophes and still very competitive markets.

This segment, Holding and Other businesses, improved by €64 million to a €59 million profit, mainly thanks to a good performance of Banca Generali and other businesses, but also benefiting from the above mentioned royalties on the Generali brand.

Let's then see the walk from operating result to the bottom line. Non-operating investment income was positive €159 million, although around €90 million lower than at the end of last quarter. This difference is mainly attributable to a €110 million impairment of our BTG Pactual stake. In addition, given the market conditions in Q4, we considered it again wise to take a cautious approach with respect to realized gains.

Non-operating holding expenses decreased by 6.7% to €764 million, thanks to €58 million lower interest costs. Other non-operating expenses increased by €271 million versus the same period last year. This increase was, as you remember, mostly linked to the good progression of the German restructuring program, where we already recorded the expected restructuring charges, in addition to some other provisions, mainly in the first half of the year.

Also benefiting from a slightly lower tax rate, the overall net result increased by 21.6% to more than €2 billion.

Let me turn to cash generation, and here, we have changed our disclosure partially to make things simpler, and also because the traditional measure of free surplus, which the industry has used in the past, becomes a less relevant measure under Solvency II, in our opinion.

On this slide, we are showing you as we did before, the dividends coming from the main operating entities of the group. What we have changed is that, instead of comparing to free surplus, we compare simply to the after tax operating profit of each country. Now, of course, operating profit does not necessarily equal cash or distributable values. But hopefully, what you can get from this is a sense of the relatively safety of dividends, given the level of after tax operating profitability each country has.

And you can see that, in each country, the dividends we are paying are comfortably covered by operating earnings in each case. So I would say, we do not see any major issues in terms of dividend paying capacity, relative to the earnings being generated.

Now, turning to the dividends: I am happy with what we've been able to achieve here, especially in France, where the very ongoing recovery in performance means that we have been able to recommence dividend payments. And in addition, in CEE, we were previously constrained by the agreement with our joint venture partner. This is no longer the case. So overall, dividends paid by our subsidiaries have increased from €1.7 billion to €2 billion.

Turning to the second slide on cash, you can see how this fits into the overall parent company operating cash view. So here, at the top, you see the dividends received from the subsidiaries, as shown on the previous slide. Then, we added the after tax earnings of reinsurance activities at the parent level, and lastly, deduct the overhead expenses and interest costs paid by the parent, after applying a normalized tax rate. This gives what we call the net operating cash generation.

As a result of the higher dividends from the subsidiary, as well as the slightly lower level of interest costs, our net operating cash has grown very nicely, from €1.2 billion last year to €1.6 billion this year. It is a very good start to our ambition of delivering €7 billion by the end of 2018.

Turning now to the balance sheet, shareholders' equity increased 1.5% from the prior year level. The €2 billion positive contribution of net profits has been partially offset by the negative evolution of available for sale assets and in particular, of bond investments.

The dividend payment in May has reduced shareholders' equity by €934 million, while other items were €305 million negative. This negative amount was the result of offsetting items. On the positive side, the movement of currency translation reserve due to the appreciation of the Swiss Franc towards the Euro and the development of pension liabilities deriving from increased interest rates. On the negative side, the closing of the BSI transaction led to a reduction in shareholders' equity of €623 million.

Although there has been a decline in the available for sale reserve in shareholders' equity, I would like to reflect one moment on the topic of unrealized gains. As you see here, the stock of unrealized gains we have remains very sizeable, at €42 billion gross. Mainly, it exists on fixed income assets, which are the vast majority of our investments, but also I would draw attention to the good level of gains we have, for example, in the real estate.

Now, it may appear tempting to use these gains to boost results. In fact, we have sometimes taken advantage of market conditions, for example, when we thought spreads were too narrow. And in addition, sometimes we will book gains in the normal course of managing some of the Life portfolios. But we will continue to adopt cautious on this, especially in fixed income securities where in many cases, realizing gains would be uneconomic and out of line with the liability driven investment approach we follow.

Indeed, I would say we have taken a cautious approach also compared to the industry. This may be hard to evidence, but for example, if I look at the remaining stock of unrealized gains relative to the overall invested assets, and I compare that to peers, then what I see is that our stock of gains is higher than average, and indeed, higher than each peer.

And in fact, the gap has grown. In addition to our relatively prudent approach to realizing gains, I would also underline that our comprehensive mark-to-market investment return has also been higher than peers, consistently in each of the last three years, and this has clearly been a contributing factor to the position.

Another hot topic at the moment is the extent to which the insurance industry may be exposed to various asset classes. You can find as usual our exposure to the high level sectors in the backup material we provide, but let me spend one moment to explain our exposure to some of the most frequently talked about topics in recent weeks.

First of all, of course, we have all witnessed some quite heavy volatility in the public equity markets. But I would like to highlight our exposure to listed equities is relatively low at only 3% of our assets, including equities held through funds, as well as directly owned equities.

Then if we look at our credit exposure to individual sectors, clearly, the decline in the price of oil has generated some concerns around the energy sector. However, our credit exposure to it is only a little above 1% of assets. In commodities, too, our exposure is low at less than 1% of assets. And lastly, Italian banks, once again, our fixed income exposure is low, at a little above 1% of the invested assets of the group, and mainly senior debt and Tier 2 securities.

For all of these asset classes, the majority of the exposure, 80% to 90% in all cases, are within the life books, and hence very much in line with the overall mix of investments by our business segments.

So individually, you can see that our exposure to each of these sectors under discussion is quite small. This is also evidence of the work we've done in recent years, to reduce concentration risks and to diversify our exposure by geography and sector.

Let me focus now on our business segments, starting with Life. To summarize our performance, overall Life premiums increased strongly by 6.2% to €53.3 billion, driven by a positive trend of all business lines, especially protection and unit linked. Life net inflows also continued a strongly positive trend growing 15.5% and with almost half in unit linked. The Life operating result is overall stable and just below €3 billion.

New business value was down 13% to €1.1 billion due to a 3.1-percentage-point margin contraction. This was due to particularly bad financial scenarios at the end of March affecting second quarter values. The financial environment and results materially improved in the following quarters, as I will show you in a moment. But as you can already see on this slide, in the fourth quarter of the year, our new business value increased 10.8% compared to the same quarter last year, with a margin of 23.8%.

Let me first show you the single drivers of the Life operating result. The technical margin posted a robust 6.8% increase thanks to higher loadings in CEE and Asia, higher risk results in Italy and Germany and increased unit linked fees in Italy and France. This is a result of our constant effort to gradually shift the Life business mix towards unit linked and protection lines.

The investment result increased 0.9%, mainly thanks to the growth of the invested asset base. The contribution from net realized gains was marginally lower than during the corresponding period of 2014, and especially in the second part of the year, as I mentioned before. This was linked to our tactical decisions in the market condition which we observed.

Expenses increased by 8.5% mainly due to increased acquisition and administration costs, the consequence of the strong growth in volume, but the overall Life expense ratio reduced slightly to 9.6%, from 9.7% last year. Also, the newly introduced brand royalties had a negative impact on Life expenses for around €50 million.

Let's look at this €15 billion of inflows in more detail. The growth trend has continued with inflows up from €12.7 billion in the previous year. As I mentioned before, our continuing focus on increasing the share of capital-efficient products is important, and I especially highlight unit linked, which accounted for 48% of the total.

Looking on a country basis, in Italy, we have a particularly strong net inflows at €7.6 billion, up 34% year-on-year. These have been driven by the less capital-intensive hybrid products which represent 80% of the total.

In France, we reached more than €1.1 billion positive net inflows, almost doubling 2014 numbers, driven by strong unit linked and risk components which were offset by the net outflows in the savings component.

In Germany, net inflows have been stable, but again, with strong contribution from protection and unit linked, and almost €1 billion net outflows in the savings business. I'm also pleased to highlight the good performance of our Asian units whose net inflows exceeded €0.9 billion this year, thanks to a very strong performance of China. We do not expect similar growth rates in 2016, but nevertheless, we are happy to see that our enhanced efforts in Asia are starting to translate into tangible results.

Lastly, the decrease in EMEA is mainly explained by a contraction in the sale of wealth protection products in Europe through our platform in Ireland and by increased maturities in Austria. These strong net inflows contributed to an overall 6.4% increase of Life technical reserves over the year to €370 billion, and with unit linked, in particular, growing 10.5%.

Life general account investments increased 3.7% compared to the end of 2014 to €332 billion. Total Life current returns are down 20 basis points to 340 basis points, of course, in relation to the low interest rate environment. But in absolute terms, current income increased by almost €200 million, reaching €11.1 billion. Cash, net inflows, bond redemptions and coupons have been reinvested during the year 2015 at an average yield of 2.5% in the Life segment, mainly in financial and non-financial corporate bonds and government bonds. Even during the last quarter of the year, the reinvestment yield stood relatively stable at 2.4%.

Turning to new business, APE is flat at €5.2 billion, as a result of different and opposite trends. We can see again the consistent theme of shifting business mix away from traditional savings and towards unit linked and protection, as we saw in the net inflows. Specifically, protection and unit linked are up 22% and 15%, respectively, while savings business posted 10% decline.

In Italy, APEs decreased by 6.8% due to a positive group business one-off in 2014. Net of this one-off, APEs would have risen by 6%. We see a continuing strong performance of unit linked production, whose weight on APE strongly increased from 11.5% to 18.1%, thanks again to the continuing success of hybrid products. At the same time, the weight of guaranteed savings business declined almost 7 points.

We saw a strong development in France where APEs increased 16%. The biggest contribution to growth came from protection business, up 46%, and unit linked, up 42%. Savings decreased by 4%. Germany decreased by 5% as a result of a 21% decrease of traditional savings business, a stable protection business, and a 19% increase of unit linked production.

Focusing on profitability, the new business margin experienced 3.1% points decrease, to 21%. The positive impact on the margin from the change in business mix, as well as further reduced minimum guarantees, was much more than offset by a worsened financial scenario. As you remember, this was particularly an issue of the second quarter, with a new business margin at 11.9%. Looking at the fourth quarter, we can see a much healthier 23.8% in new business margin.

It is also worth highlighting that the average minimum guarantee of new business, in the Euro area, declined to 60 basis points, and that almost 60% of Euro area APEs have no guarantee or just a capital one. Overall, I am very satisfied with the development of the new business and the quality of the mix in 2015, and this bodes well for future results.

Of course, the interest rate environment we are in poses a big challenge for the whole insurance industry, and we are not immune from that. This requires very careful management of the guarantees not only on the new business, but also the in-force book. Let's look at this topic a little more.

On the in-force book, first of all, as I mentioned when we looked at investments, the current yield on the Life portfolio fell by 20 basis points to 3.4%. However, what you also see on the left-hand chart on this slide is that the average guarantee in the portfolio has also dropped, in fact, at the same rate in 2015, so by 20 basis points to 180 basis points. This means the margin between the two is stable at 160 basis points. I would add this is a somewhat conservative view, since the investment return is calculated by reference to the IFRS book value of the assets, which is higher than the amount of policy reserves carrying guarantees.

On new business, as I mentioned before, guarantees are coming down strongly. If I look at new business premiums instead of APE, since premiums reflect the actual cash flows, we can see that on those policies which carry a guarantee, the average has fallen also by a little under 20 basis points, now, at a very low level of 51 basis points. The current yield generated by new money invested in fixed income assets during 2015 was, as I mentioned, 2.5%. So the gap between guarantees and the reinvestment rates on the new business is approximately 200 basis points, and therefore, even wider than the gap on the in-force book.

So to conclude on Life, I think the environment is a very challenging one, no doubt. But careful management of the in-force business, combined with innovation and discipline on new business, means we are well-positioned to tackle it.

Now, let's turn to look at P&C. Gross written premiums are up 0.8%, to €20.9 billion. Primary Motor posted a 0.2% increase, but grew 4% during the fourth quarter of the year, mainly driven by Germany, CEE and Spain. Primary Non-Motor increased by 1.1%. The combined ratio improved by 60 basis points, notwithstanding a 40-basis-point increase of nat cat burden.

The operating result increased by 8.5%, driven by the technical result, which is up strongly at €1.2 billion, 12.2% above the prior year level, reflecting the strong underwriting performance. The investment result is overall stable at €1 billion and residual other items improved by €16 million.

Let us deep dive into the gross written premium developments within our core countries. Italy is down 3%, at €5.9 billion, still driven by the highly competitive environment of Motor. Primary Motor decreased by 7.3%, mainly due to reduced average premiums. Non-Motor is slightly negative, down 0.7%, reflecting the current macroeconomic scenario.

France declined slightly by 0.3% to €2.5 billion, due to the competitive market environment and the continuation of strict underwriting guidelines and pruning activities. Primary Motor continued its negative trend with a 3.8% decrease, driven by an ongoing pruning of unprofitable fleet and garage related contracts, and by retail market that, while still soft, showed continuing positive signs in terms of number of contracts. Non-Motor continued the recovery trend starting the third quarter 2015, growing 1.4% year-on-year, on a technically sound basis.

In Germany, premiums grew by 1.7%. Motor business grew by 2.7%, benefiting from a still good market momentum. Non-Motor rose by 1.1%.

Looking at the group's combined ratio in more detail, the level reached 93.1% in 2015, despite slightly higher nat cat activity. The main nat cat events were Storm Mike/Niklas, affecting mainly Germany, and storm Anton, which caused losses in Italy between March and April, the storm Siegfried, Thompson that affected Continental Europe in Italy and July (45:44) and the flood Côte d'Azur that hit France in early October.

Looking at the single drivers, the loss ratio improved by 0.8 percentage points. The increased nat cat burden has been more than offset by an improved current year result, and slightly higher prior year releases. This reserve development highlights once more our prudent bottom-up reserving policy. Going forward, we confirm nevertheless our long-term 3% to 4% expected range. The expense ratio increased by 0.2 percentage points, entirely driven by the acquisition cost component.

In Italy, our combined ratio remained broadly stable at an excellent 89.1%. And this notwithstanding nat cat losses that were worse by 0.5 percentage points, and of course, the still very competitive motor market. Here, the improving combined ratio in the Non-Motor business is continuing to compensate for the margin erosion we have seen in Motor.

In France, the combined ratio improved significantly, by 4.7 percentage points to 100.2%. Of this, 4.1 percentage points are due to the improvement of the combined ratio excluding nat cat and reflects the first signs of success of our turnaround efforts. Nat cat costs were 0.5-percentage-point lower than in the previous year.

In Germany, the combined ratio decreased by 0.2 percentage points, despite 1.2 percentage points higher nat cats.

In CEE, our combined ratio was once again very good at 90.1%, although not as good as in the preceding quarters. This is mainly due to the regulatory changes in Polish market, which you may be aware, primarily the new guidelines from KNF on claims in the Motor segment. These changes generated the need to book an exceptional addition to reserves in the fourth quarter of the year. In addition, claim costs will be higher prospectively, although we expect tariffs in the market should progressively increase accordingly in the coming quarters.

Overall P&C investments increased 2.8% at €40 billion, with respect to year end 2014. Total P&C current returns declined by 30 basis points to 320 basis points. The average reinvestment rate in P&C of the year has been 2.1%; 1.9% considering only the fourth quarter of 2015.

Let me finally turn to our Holding and Other businesses segment, whose overall contribution to the group operating result increased from a €5 million negative in 2014 to €59 million positive at the end of 2015.

Financial businesses posted a €60 million improvement, driven in particular by the good performance of Banca Generali, while Other businesses contributed to the growth with a €15 million increase. On the negative side, operating holding expenses increased moderately, from €418 million to €429 million year-on-year, but as previously explained, benefiting from the contribution of royalties on the Generali brand in the last quarter of the year.

That concludes my analysis of the results, so let me sum up. The business performance of the group has been very satisfactory I would say, with operating return on equity growing further to 14%, and our net result increasing by 22%. Net operating cash generation has also seen a significant year-on-year growth of 30%. Our capital position is strong and resilient to external stresses.

Our internal model shows a Solvency position in excess of 200%. We have succeeded in achieving the approval for the partial internal model we applied for, and we will work to expand the scope of approval to cover materially all of the group's businesses over time. These elements give us the confidence to propose a dividend of €0.72, up 20% from the previous year.

Thank you very much for your attention.