

S1 2018 Earnings Call

Company Participants

- Luigi Lubelli, Group Chief Financial Officer
- Philippe Donnet, Managing Director and Group Chief Executive Officer
- Spencer Horgan, Group Head of Investor and Rating Agency Relations
- Timothy Ryan, Group Chief Investment Officer and CEO Asset & Wealth Management

Other Participants

- Andrew Ritchie, Analyst
- Farooq Hanif, Analyst
- Gianluca Ferrari, Analyst
- James Shuck, Analyst
- Johnny Vo, Analyst
- Mark Cathcart, Analyst
- Michael Huttner, Analyst
- Nick Holmes, Analyst
- Peter Eliot, Analyst
- Roger Sachs, Analyst
- Steven Haywood, Analyst
- Thomas Seidl, Analyst

Presentation

Operator

Good day and welcome to the Generali First Half 2018 Results Q&A session. 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 and Rating Agency Relations. Please go ahead, sir.

Spencer Horgan {BIO 4241901 <GO>}

Good morning, everybody. Welcome to our first half 2018 results Q&A call. As usual, we are going to have around one hour to answer your questions. Also, as usual, before we begin, I'll hand it over to our Group CEO, Philippe Donnet for some opening remarks. Philippe?

Philippe Donnet {BIO 4657671 <GO>}

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Thank you, Spencer. Good morning, everyone and thank you for joining us. We hope you have had a chance to read our announcements on the organizational changes and the half year results and to see our briefing video on the Generali corporate website. We are very proud of the financial results we have presented today. They reflect the successful execution of our industrial turnaround strategy as we meet or even over deliver in some case on our pre-established targets. Our new organizational structure, on the other hand will better position our Group to meet the challenges of the next few years.

We announced changes that make our head office simpler and more focused as well as improve the integration among head office business units and global business lines and involve the next strategy of value creating growth by leveraging our managerial talent.

Generali will have the structure needed for the execution of the next 2019-2021 strategic plan, which will be presented as you know, at the Investor Day in November in Milan and more exactly here in CityLife, where we have our new Head Officer and I'm looking forward to welcome you there. So, thank you again for joining this call and now Luigi and I would like to invite you to ask your questions and we will be happy to answer you. Thank you.

Questions And Answers

Operator

Thank you. (Operator Instructions) We can now take our first question from Peter Eliot from Kepler Cheuvreux. Please go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much. The first one was on the life flows. I mean you've seen very strong flows continuing in H1. I'm wondering if you could just sort of comment on the current momentum you're seeing in the business and maybe the outlook and was that -- there has been any sort of changes in the situation over the last couple of months? And then I had a few questions on the asset management. I mean, I guess there's some very good results that we're seeing there. I'm wondering to what extent it benefited from the insurance mandate pricing review and what, I mean, I'm assuming there's no net benefit to the Group, but perhaps you can correct me.

I'm wondering, how sustainable the cost-income ratio is of sort of 51%, and I mean a lot of the prongs of your planned structure there are playing out. The only thing, we haven't seen is maybe sort of significant growth in third-party asset and I'm just wondering if you tell us what it was about. Thank you very much.

A - Philippe Donnet {BIO 4657671 <GO>}

Good morning, Peter. So the first one -- momentum in life flows, indeed, we are actually -- especially pleased with the inflows that we saw in the first half of this year, because that figure, which is basically the same as the one we had in the first half of last year was achieved, despite the fact the second quarter saw some volatility, despite the fact that

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we're continuing to reorient our sales towards our targeted goals. And also it must be said, despite the fact that in one of the relevant countries of the Group which is Germany, we are in a transition phase on distribution. So, we were especially pleased for that.

In terms of the main drivers you are seeing in those figures, especially in Q2, you can see, France, which is moving very strongly from one year to the other. That's because a year ago, we did have some political concerns there which we no longer have this year. We also have some tax incentives and on top of this, we have the very sales efforts of the country, which are developing very well. We did have a strong second quarter in China and that actually is something we look forward to in the rest of the year. Italy, despite the reduction in savings, flows thus very well in unit linked, it renewed its catalog in the second quarter and that should also be contributing to good performance in the second half of the year. So, these I would say, are the main drivers. So, actually overall in terms of the quality and trends, we are -- we are pleased with what we saw in the first half of the year. Yes.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much.

A - Philippe Donnet {BIO 4657671 <GO>}

So you would like to take it. Okay. Would you like to take it. Okay. So, with regards to the question on asset management and third party funds, our Group Chief Investment Officer will take the question. Mr. Tim Ryan?

A - Timothy Ryan {BIO 17528640 <GO>}

Good morning, everyone, it's Tim Ryan. Thank you for the question Peter, on the asset management side. So, as you remember, the plan is to increase by 2020, the contribution to the Group over 150 million net. And to your question about the different criteria and where we stand. We are on plan. We have said that we have a linear progression and we are on that, D&O path. The element that you raise about, if I look at the increase of the contribution that we have on asset management to the rest of the Group on that improvement from the first half of this year versus the first half of last year 75% is a net contribution to the Group. So that's, to answer that question.

The other part on the cost-income ratio that you raised, our target, by 2020 is to be below 55% and we are below 55%, the number that you raise 51% is beyond the asset management focus on Europe, because it includes as well, the overall asset management business, including Asia. So the focus on 55% is on Europe and we are today at 54% on this trajectory. So just below the target and we will continue to aim to be below 55%. So that's just enabled in merger[ph] . I hope I answered your question, Peter.

Q - Peter Eliot {BIO 7556214 <GO>}

Yeah, that's great. Yeah. And thanks very much and wish you (inaudible). Thanks very much.

A - Philippe Donnet {BIO 4657671 <GO>}

Thank you.

Operator

Our next question comes from Thomas Seidl from Bernstein. Please go ahead.

Q - Thomas Seidl {BIO 17755912 <GO>}

Thank you. Good afternoon or good morning. First question is on non-life. Pretty good improvement in the underlying loss ratio there, despite your past comments about pricing being in line with claims, and so I wonder what have been -- has been the driver of this market improvement year-on-year. Any segment or regions or product been out here. That's the first question. Second, shareholder equities significantly down and it is probably going to continue and that increases your leverage ratio to maybe some 33%. I wonder how you will think about the leverage ratio. Is it, at the moment at a level where you are very comfortable or is this something you would like to address going forward? And the third question is on the reorganization, I just wonder if you could outline or explain what led to the decision to demote the CFO function of Generali to a third level into management hierarchy, it's quite unusual and I just wonder what the considerations have been for such a decision at the Generali Group. Thank you.

A - Philippe Donnet {BIO 4657671 <GO>}

Thanks, Thomas. Well, generally speaking, I would say that the underwriting result of the non-life business is basically in line with the -- with what we observed in the first quarter. We told you in the first quarter that, that quarter was exceptionally good. We stated that would moderate but still is -- we are having a good development generally speaking on the current loss experience, diversified across many, many countries. We do have some especially weather-related losses. Those we have some in France. The increase, we have an increase in loss ratio in France, because of that it's especially strong in Germany and they somehow overshadow the good underlying performance.

There, I'm looking at my notes, but generally speaking is generalized across the board. Simply good, good experience in terms of the loss ratio in the year. The previous years are basically stable and so that's the main driver. We also have some savings on admin expenses which contribute to the reduction in the combined ratio. I wonder if that covers your question.

Q - Thomas Seidl {BIO 17755912 <GO>}

Yeah. Just wondering if you could elaborate maybe on Latin America, is there a particularly positive development?

A - Philippe Donnet {BIO 4657671 <GO>}

Well Latin America, if you remember a year ago we appropriated 40 million, because of the inflation impact in reserves, that's actually quite interesting -- a quite useful question, thanks for that, Thomas, because it does affect two measures there. So, if you exclude

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that the combined ratio in Latin America would have been around 103%. So, even discounting that, the combined ratio falls year-on-year and that is due to a good performance in Brazil. The other elements that I think interesting for you and for the other listeners into this call is the fact that, that adjustment last year was to on let's say the prior year's element. So actually if you adjusted for -- if you bear that in mind, the prior year's component actually is falling year-on-year adjusting for this. So that is what went on in Latin America. Everything, okay.

Q - Thomas Seidl {BIO 17755912 <GO>}

Yes, to elaborate on this evo [ph] question please.

A - Philippe Donnet {BIO 4657671 <GO>}

Yes, sure. On the financial leverage, yes, we have the debt to equity ratio, higher than our competitors, are we concerned about this? Not that much. Nevertheless we should do something about this. We should work also on the cost of our debt. As you know, we already decided to pay -- to reimburse 260 million of subordinated loan this year without refinancing. So I think it will paired with our cash and reduce our debt to equity ratio. I would say that this is a first step, and we will disclose our strategy -- our overall strategy on debt management during our Investor Day on November 21st.

Talking about the reorganization of our management team, the main objective of this reorganization is to have an organization which is functional to our new strategy. Our new strategy will require more coordination of the different head office functions and more coordination between head office and business units, because there will be -- compared to the purchase plan, there will be more Group initiatives than before. So, we decided to create this position of General Manager responsible for a significant part of the of the head office. I decided to appoint Frederic de Courtois in this position, not only, because of his knowledge of the business, of his deep knowledge of the insurance -- in the reinsurance business, but also because of his strong experience in background and track record as CFO. Frederic used to be the CFO of AXA Re Life right after September 11. So, he has been in charge of turning around the reinsurance company that was basically destroyed by September 11. After that he has been the CFO of AXA in Japan, who is an important life insurance company in Japan. And he's been driving the financial turnaround of this important life insurance company in Japan in context in environment of very low interest rates. So I know, so many people has this kind of experience and we are -- Generali is an important life insurance company in zero interest rate environment and it happens that the few people who have this background and this experience are in Generali and are not in the other companies.

On top of that, we appoint, because we -- is living the company we appoint Cristiano Borean who is currently the CFO for France and Cristiano Borean is a very talented person. He has been an excellent CFO for France. And as you remember, because you told this many times to me during the past few years, what are you doing in France, what are you doing in France, but as you see the numbers are much better in France and the contribution of Cristiano as the CFO in France to the improvement of France has been quite significant for Cristiano. He is one of the very good talents of our Group. He has a very good track record, as the CFO of France, he is joining our Group Executive

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Committee as the Group CFO and we are very happy to make this internal promotion, because it's also an evidence of the depth of our management and the quality of our management.

We don't need to find a CFO on the market, because we have the people, we have the expertise internally. The fact that Cristiano will report to Frederic is very positive because Cristiano will be able to benefit the strong and the deep experience of Frederic as the CFO. The combination of the talent, the potential and the experience will be extremely powerful. So, it's definitely not demotion of the Group CFO position. Once again this position will be part -- is still part of our Executive Committee. And having said that, there are a few other important financial institutions, where those in Italy and in France for example were the Group CFO, doesn't report to the Group CEO. I could give you the example of UniCredit in Italy and the example of BNP Paribas in France. I can comment if you want but your question was more focused on the Group CFO. But I would be happy to comment the rest of the organization -- the reorganization, when we will meet. And I hope we'll have opportunities to meet quite soon.

Q - Thomas Seidl {BIO 17755912 <GO>}

All right, thank you very much.

Operator

We can now take our next question from Farooq Hanif from Credit Suisse. Please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, there. Thank you very much. Just going back to the question of organizational change. Firstly, I mean, who is going to be responsible for -- or accountable in investors eyes for the financial strategy. So, the person that will communicate that and help to drive that, is that going to be General Manager or CFO, is question one? My question two, given Frederic's background and given kind of you're talking about growth initiative, does this sort of imply that you are now more seriously looking at M&A as part of the growth plan? And then lastly, just going back to the comment on benign experience. I know that you had very good, kind of large loss experience in Q1 and Q2. Could you provide some sort of quantification around what benefits it has had on the underlying loss ratio? Thank you.

A - Philippe Donnet {BIO 4657671 <GO>}

The first question is -- difficult to understand and to answer the first question. I don't know, which is the financial strategy. I mean we have one strategy for the Group. We are now implementing successfully our current strategic plan. We will disclose on November 23rd our new strategy. And with this organization we put the company in this situation to be ready to implement successfully the new strategic plan. I guess I am responsible for the execution of the -- for the definition, and the execution of the strategy as the Group CEO. There is not a financial strategy independently from the Group strategy. That's the first answer. Having said that, we have very clear position. We have a Group CFO. So the Group CFO, is in charge of everything which is under the responsibility of the Group CFO. He has the responsibility to sign the balance sheet of the Group and he's reporting to the

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General Manager who is reporting to me. It's quite -- it's quite simple. So it's not very difficult to find in our organization, people who are accountable for what we are doing well or what we are doing wrong.

On growth we will define what we intend exactly, by growth, during the Investor Day. So to the question, are we more seriously looking at M&A, we always said that we were looking seriously at M&A, because for us M&A is an accelerator of the implementation of our strategy. So, if M&A helps implementing our strategy, we look at them. If they don't help accelerating our strategy. We don't look at them. So we are always serious when we look at M&A. We are very opportunistic, we are very disciplined. Obviously, the difference between now and a couple of years ago is that we have a different capital position and a different cash position. This is absolutely true.

But the question is how are we doing to relocate these resources and we will say it during the Investor Day. We will allocate them in a very disciplined way and in the best interest of the shareholders.

Q - Farooq Hanif {BIO 4780978 <GO>}

If I may just, sorry if I may just -- come back on what I meant by my first question. It was more organizational in the sense that when you meet investors and when you meet the shareholders [ph] in your Group meetings, will it be General Manager and yourself struggling or will it be your CFO who will be part of that direct contact with investors? Thank you.

A - Philippe Donnet {BIO 4657671 <GO>}

Okay. Now I understand the question that those of them will meet you in some case I will meet you together with both of them. So we will be -- the three of us, or that it will be the two of them.

A - Luigi Lubelli {BIO 4108780 <GO>}

So with regard to your question on the loss ratio, let's say, the large losses were smaller in motor and larger in corporate and commercial. Overall kind of HI neutralizes the other. So it's not a major impact overall. So there is a slight -- very slight increase in the motor and there was a decrease in motor. So overall they're satisfied.

Q - Farooq Hanif {BIO 4780978 <GO>}

Sorry to interrupt again to what you are saying but -- just going back on your comment, the comment is that you've had benign experience, I mean that's what you said, but?

A - Luigi Lubelli {BIO 4108780 <GO>}

Yeah, but I wasn't referring to the large claims specifically. I was referring to the loss ratio at large. So that means that the improvement in, what is, let's say, the retail and smaller claims component of the loss experience overcame what was the development in the large losses.

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Q - Farooq Hanif {BIO 4780978 <GO>}

Can you quantify that, I mean, you must say that you must have a view on where it would be in a normalized quarter?

A - Luigi Lubelli {BIO 4108780 <GO>}

There is no such thing as a normalized quarter, let's say that what actually to your point I would refer to what you see now is a normalized quarter-to-quarter volatility in a year which is providing -- proving to be good on the loss experience front. So it's -- honestly there was nothing special to report, except for the weather losses that I already referred to. It was just a normal quarterly development in a year, which is relatively good.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very much.

A - Luigi Lubelli {BIO 4108780 <GO>}

You're welcome.

Operator

Next question comes from James Shuck from Citi. Please go ahead.

Q - James Shuck {BIO 3680082 <GO>}

Hi, good morning. Good afternoon. Three questions from me, please. Firstly on the Life business values are up 4% at the first half of the year. If I look regionally at the breakdown of that, there's been a very sharp decline in Germany, a decline in international, a very large pickup in Italy. Could you just comment a little bit about on some of those trends? And particularly on Italy, I'd just like to get some insight into the sustainability of the growth rate of the new business profit initially. So, at some stage the banks said right -- is going to start normalizing. And I'm just interested, now the interaction between the hybrid products that you're selling and bank savings account. So i.e, is there a risk -- the new business profit initially starts to decline as the interest rate environment normalizes? And second question, as you're referring back to Q1, Luigi I had a question about the insurance distribution directive and how that would impact life sales, particularly due to the inability to really pay commission and enhanced disclosure. I think you said you gave me an update at H1, so I'm just returning to that question please. Third, final question, Philippe, happy birthday for last week. I think you're 58 years old now. Could you just remind me about the mandatory retirement age initially as CEO and just give some reassurance that you'll actually be around to see the full implementation of the next strategic plan? Thank you very much.

A - Philippe Donnet {BIO 4657671 <GO>}

If I can start with the third question. First of all, thank you very much. I'm very happy that you thought about me last week. Yes, you're right, I'm 58. I don't know exactly about the retirement age for heroes in Italy. I think it's very valuable by the way. So, definitely I will be happy to present the new strategy on November during the Investor Day. I obviously

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would be very happy to be the one implementing this new strategy. As you know, the Board have -- generally the whole Board will end at April at the next shareholders' meeting, April or May, next year. And the whole Board will be renewed. Definitely I'm -- I candidate to be the one to implement the next -- the next strategy. You know, I think the next strategy will be for CEO, because you give me the opportunity to talk a little bit about me. So, the next strategy will be quite exciting to implement.

But the next strategy is possible, because we've been implementing, what we are doing now until the end of the year in a very disciplined way. We are now in a very different situation and I think that we have many opportunities and we are in a situation to be able to catch hold these opportunities. I would be happy to be the one to do it. Does it answer your question?

Q - James Shuck {BIO 3680082 <GO>}

Yes. That's helpful. Thank you very much.

A - Luigi Lubelli {BIO 4108780 <GO>}

So in terms of the life new business value, talking about Italy, it's I would say the variation is mostly reflecting changes in channel mix in the sense that we have a comparatively greater proportion of agents based sales over bancassurance that I would say is the main driver year-on-year. Plus, as you can imagine, I mean, Italy and everywhere else, we of course have an ongoing work on both product design emphasis on sales efforts on certain products and also the work on the guarantees. I think basically the guarantees in the first half have gone down to an absolute zero. So that also contributes improvements across the places. But in case of the Italy, we had a comparatively greater weight of agents based sale. Germany, it's -- I wouldn't be overly concerning the center. As I said before Germany is in a transition phase, actually there are positive news from Germany, in the sense that the move in the sales force to the new layout is actually progressing at a faster speed than initially envisaged. So that actually is positive and you should be seeing the outcome on that going forward.

International, basically, it's falling down because two of the companies that were sold are there, Ireland and Guernsey, and so in those companies, we saw a reduction in sales. Those companies also have comparatively lower margins than the rest of the Group. That's actually another -- your question allows me to highlight another element although here, they have not separated the bottom line is that the businesses, which you should expect given the strategic focus on them. The overall the businesses that are leading the ropes have lower marginality compared to what remains. So, that is also positive for the future development of business.

As far as the IDD [ph] is concerned, simple answer, if you can accept that let's say that with what we can see now with the present layout with the product mix, we still continue to see scope for growth even under the new directive. So that we are not seeing any large issues on that front, with there still room to move and grow.

Q - James Shuck {BIO 3680082 <GO>}

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Maybe just on -- just returning to that the Italian business profits. I was just interested in this linkage between the bank savings rates and the illustrative rates that you show within the hybrid products standing from the traditional products, we sure kind of hooked to get people into those products. Whether it's the IDD and commissions and disclosure in general, or whether it's a normalization of the bank rate do you see the Italian new business profit as being vulnerable to those trends?

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A - Luigi Lubelli {BIO 4108780 <GO>}

With regards to margins, that's a question that we have been asked quarter-after-quarter. I've always said, margins have to be taken in a context in the sense that margins are not an absolute figure which stays there as a watermark. It's a figure that moves in relation to market variables and competition behavior. I've always told you the same. I think what counts is that Generali has revised both its product offering and the distribution approach in a way that we trust positions it in any market environment at the top of its peer group.

Then of course this will move from quarter to quarter but that's -- that's the explanation, we've always given you. Italy has a very solid distribution layout. It's our biggest strength, it has products that are -- let's say, at the cutting edge of what can be offered today in the market, their transparency is already very high. So, they are comparatively less exposed to the risk perhaps than others. So, it's an overall good outlook on what we can deliver now.

Q - James Shuck {BIO 3680082 <GO>}

Okay, thank you very much.

A - Philippe Donnet {BIO 4657671 <GO>}

You are very welcome.

Operator

Next question comes from Mark Cathcart from Jefferies. Please go ahead.

Q - Mark Cathcart {BIO 1891927 <GO>}

Yeah. I've got two questions please. The first one is, I just wondered if you could update on when you might get internal model approval. There's something like a 20 gap between standard and internal or economic solvency. And I'm wondering when you present the market on your capital plan. We have assumptions there that the internal model will basically be accepted or will you be more cognizant of the standard model when discussing how much excess capital you have? That's my first question. The second question is in relation to capital gains potential on the life business. The investment result kind of dropped a bit in the first half. I just wondered if that was because you were taken off guard by market volatility in the second quarter, and you intend to kind of make up the difference during the second half of the year or is it more structure that we can expect lower capital gains contribution within life on a going forward basis? Thank you.

A - Philippe Donnet {BIO 4657671 <GO>}

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Hi, Mark. So in terms of the internal model, it's similar tone. We are reasonably confident that the approvals on the extension of the scope of internal model will be achieved over the next few years. So that's in line with what we told you in previous releases but, let's say, it also has to be added, that so far so good. We're, of course, keeping the interaction with the supervisory authorities, and we are happy with the development of this interaction. So it's going smoothly, which means that shouldn't fingers -- as far as talking about something, we cannot -- we do not and cannot control, but let's say that the experience so far is positive. So it should be over the next few years.

With regards to the capital gains, rather than off guard, I would say that we've been caught on guard in the sense that the market environment was such that with the volatility in the second quarter, it did not seem as the best moment to harvest. So given that we can certainly withstand it as we did there wasn't any -- there was just a very prudent approach to harvesting in Q2. I wouldn't say there's any detriments to the Group's ability to do so going forward. As you know, generally speaking, however -- and it's a recurring behavior of Generali so far at least over the last two years, we are taking a prudent stance to the realization of gains. There's also an impact in terms of really the timing of realization gains in Germany, which is a big contributor to this. And last year, there were comparatively more realization gains in the first half of the year and that is something that is affecting the comparison year-on-year, but as I say -- but I would say absolutely nothing fundamental to tell you about this.

Q - Mark Cathcart {BIO 1891927 <GO>}

Nice. So therefore you would move more from Germany in the second half, is that what you're saying?

A - Philippe Donnet {BIO 4657671 <GO>}

It could be or not, it depends at this stage, it has to be assessed. I would say possibly there could be more, but if they're going to be much more is yet to be seen. We cannot tell you yet.

Q - Mark Cathcart {BIO 1891927 <GO>}

Okay. And then in relation to your answer on the importance you attach to formulas to -- and your internal model where you just said it will take you another two to three years to get approval. When you present your plan and state what you believe your excess capital position is, will you link it to formulas to or will you link it to the internal solvency models?

A - Philippe Donnet {BIO 4657671 <GO>}

Well, I think that -- I would take that as an interesting suggestion about the information we have to provide you at Investor Day and it's a valid recommendation to be borne in mind when we convey that information to you. We don't yet have the documents for the Investor Day. But this is certainly a valuable input.

Q - Mark Cathcart {BIO 1891927 <GO>}

Okay. Thank you.

A - Philippe Donnet {BIO 4657671 <GO>}

Thank you.

Operator

Next question comes from Nick Holmes from Societe Generale. Please go ahead.

Q - Nick Holmes {BIO 3387435 <GO>}

Hi, there. Thanks. With your 8 percentage points of capital generation, I wondered if you could tell us how much comes from the release of capital from the life back book? And what are your expectations for this to grow? I guess what I'm really wondering is, your capital-light strategy capable of growing the 8 percentage points, is that something that is at the moment relatively low in the context of future potential? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi. Sorry for the delay. Nick, I was just checking the figures. In terms of -- good morning to you. In terms of the generation that you see, it's been coming fundamentally from the new business. So that was on the positive side of the capital variation the main driver in this first half.

Q - Nick Holmes {BIO 3387435 <GO>}

Right. So the actual capital release from the back book isn't[ph] particularly increasing. It has reduced capital intensity of new business. Is that correct?

A - Philippe Donnet {BIO 4657671 <GO>}

Can you can you ask your question once again, please?

Q - Nick Holmes {BIO 3387435 <GO>}

Sorry, I was just wondering what the driver of the life capital generation is, is it more -- I mean that's been a release of capital ongoing obviously for the decades from the back book. But I wondered whether that was accelerating now because I think you don't give these numbers, do you at the moment? And I wondered whether it was acceleration of release from the back book or whether it was a significant reduction in capital intensive new business that was driving capital generation on the life side which of those two? Is that an expense?

A - Philippe Donnet {BIO 4657671 <GO>}

I think you may be talking about the development -- development of the solvency ratio perhaps rather than capital generation. So let's say as on one hand outgoing business which is maturing and that business is going out. If you look at the figures, especially for the full year but also now you will see that the figure, the business is going out at a comparatively higher SCR than the business that's coming in. So let's say that the -- if that is the question you're asking, let's say sales financing ability of the new business is greater

than the one of the business that's going out. So there is a net positive contribution to solvency from the new business that is being written.

Q - Nick Holmes {BIO 3387435 <GO>}

Yeah. Right. That is very helpful. And then, just following on --

A - Luigi Lubelli {BIO 4108780 <GO>}

Your question to rather than capital generation you're asking us about the development of the solvency ratio.

Q - Nick Holmes {BIO 3387435 <GO>}

Yes, I think you are correct, the difference between cash and (inaudible).

A - Luigi Lubelli {BIO 4108780 <GO>}

That it for the moment we've seen we have a trend which will last for a while that where let's say you have a marginal benefit from the greater capital efficiency of the new business being written replacing the business going out. So I, it's kind of asymptotic in terms of behavior that's going to be a day where this difference is not going to be large, but for the moment it will last for a while.

Q - Nick Holmes {BIO 3387435 <GO>}

Finally, are you worried that unit linked sales might fall off a bit, because they've been amazingly strong, haven't they?

A - Luigi Lubelli {BIO 4108780 <GO>}

Yes, the unit linked sales as a matter of fact are doing okay, if not very well. Two elements for you to understand them. One was in Italy. The fact that I said before, other was a renewal in the sales catalog that had some impact, which is just a timing issue. So nothing to worry about. Remember also that Ireland the company we sold was a unit linked producer. So it not only had smaller sales, but it also went out of scope. So that does have an impact on the unit linked performance. Overall, actually we are quite happy, it's been a good satisfactory second half -- second quarter. Second quarter was better than the first quarter in terms of sales and we are holding up. We are holding up in a diversified way. Unit linked continue to meet success and distribution. So overall we're happy with that.

Q - Nick Holmes {BIO 3387435 <GO>}

That's great. Thank you very much, Luigi.

A - Luigi Lubelli {BIO 4108780 <GO>}

You're welcome.

Operator

Next question comes from Gianluca Ferrari from Mediobanca. Please go ahead.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Hi, good morning. Three questions from me. Three weeks ago you published a press release announcing the deal for Generali Leben, you mentioned an industrial partnership with Viridium. Can you elaborate a bit on this partnership? Are you going to invest in Viridium for example? Second question is on M&A. I think so far you mentioned P&C and asset management as the preferred areas where you would like to invest. Could you tell us is asset gathering in Italy, so financial advisers is included in your definition of asset management? So it is an area where you might evaluate deals? Third question is if you can breakdown the 2.3 billion inflows in Italy in life in Q1 and Q2 and if you can give us the contribution of Allianz through the two quarters? Thank you.

A - Philippe Donnet {BIO 4657671 <GO>}

Okay. On Generali Leben, yes, we will invest in Viridium, we said it. We said we would invest in Viridium we are working on it. I think it's -- not only it's a good investment, but we also want to be part of building this management platform -- this liabilities management platform. We want to be part of this solution for the German market. Our initiative to sell the Generali Leben is obviously an important one on the German market and we want to be part of that. We also want to not only we -- as you know we retain 10.1% of Generali Leben and we will continue sitting on the Board of Generali Leben, but also we will probably have a stake in Viridium and it's also a way for for us to continue taking care of our customers -- of the customers of Generali Leben, But I think this is, this is important. We always said that this transaction was a good one not certainly for our Group, both for all stakeholders and we, feel responsible for the way our customers will be treated and we will still be be part of this process.

So yes, we will enter a partnership with Viridium. On M&A, once again we are very opportunistic. Definitely we long to further diversify our Group geographically in terms of business lines, which means that we would be very interested in looking at good property casualty opportunities as well as good asset management opportunities. Do we consider asset gathering business in Italy as asset management, the answer is no. It's different. Asset management is factory[ph], asset gathering is a distribution business. So and to -- to increase our exposure on the distribution business in Italy is not our top priority.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Okay, thanks.

A - Philippe Donnet {BIO 4657671 <GO>}

On the net (inaudible) Luigi?

A - Luigi Lubelli {BIO 4108780 <GO>}

Good afternoon. The information is not in public disclosure. So I unfortunately cannot tell you. I would say in terms of the quarter it's been -- as I said before in previous answers, it's been a good quarter. We have -- as I said they were mainly the usual trend on the

savings side, and on unit linked, there was a minor impact from this renewal in the product offering. In terms of Generali Italia versus Allianz they were good and broadly similar in terms of contribution to the performance. So from -- as far as I can give you a qualitative answer there wasn't anything to make Allianz stand out especially compared to Generali Italia.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Thank you very much.

Operator

We can now take our next question Michael Huttner of JPMorgan. Please go ahead.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you very much. And I had two questions, the first one is on the discontinued or the operations which have been sold, if you could give us an annual figure for the no more[ph] contribution into operating profit and maybe split it life and non-life that would help easily? It made -- the comparison of results in the first half were very noisy. So that was my first question. And on the second, I just wondered, if you can say a word on cash flow, you've touched on all the other metrics, and they're fantastic and really well done. You have done in terms maybe not at the speed of (inaudible) you have been very impressive. On the cash flow you do have a target and that you've kind of also indicated that the numbers would be growing because new business impacts subsequent years. It doesn't come in early, but I wonder if you could give us a feel for how we're doing this year compared with last? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. Hi, Michael. Good afternoon. So it's a very fair question, basically, you can see a gap, which is kind of around 120 million between the figure that was released a year ago in the first half and the figure that we stated the year and that reflects these operations. So you have to bear in mind that -- in there, you have operations that were quite volatile. So especially the Dutch, and German, were operations that are quite volatile in performance. So as much as the guidance can be given to you the -- let's say there's not an even underlying pattern in the past that can guide the comparison going forward.

With this in mind roughly, it's going to be the second -- the second half should be slightly less than the first half in terms of the operating impact in the first so less than twice, which would be the usual calculation. Slightly less than that.

Q - Michael Huttner {BIO 1556863 <GO>}

And on cash flow?

A - Luigi Lubelli {BIO 4108780 <GO>}

Yes, in terms of cash flow, just for me to understand, I imagine you are referring to the 7 billion target. Is that what you are referring to? Is that the figure you're talking about?

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Q - Michael Huttner {BIO 1556863 <GO>}

Yes, that's right. And I think I don't have my paper in front of me but last year it was about 2.4 billion or something.

A - Luigi Lubelli {BIO 4108780 <GO>}

Right. So I would say two answers to that. As we we have said in the public disclosure, we are looking forward to the satisfactory meeting of the targets that have been announced. In a broader way, the cash generation and cash remittance to the holding company of the Group is I would say one of the key areas of management focus. There has been continuous -- and continuous to be efforts to improve generation in many ways of the companies in order that we have higher margins, better underwriting, lower expenses. So there is lot of initiatives, which allow the subsidiaries to generate more cash. And there are clearly many initiatives in order to ensure that generally speaking remittance are larger towards the holding company. So in terms of development there, clearly shouldn't be less than in the past, going forward. That's what I can tell you at this point.

Q - Michael Huttner {BIO 1556863 <GO>}

Got it. Okay, thank you. Thank you very much.

A - Luigi Lubelli {BIO 4108780 <GO>}

You're welcome.

Operator

Next question comes from Andrew Ritchie from Autonomous. Please go ahead.

Q - Andrew Ritchie {BIO 18731996 <GO>}

I have three quick questions, i think. Philippe in your -- in the press release yesterday and today again, you used the word challenges in respect to the next plan. I mean are you referring to the anticipated level of ambition in that plan or maybe is the operating environment, what do you see as the key challenges when you are thinking about using -- use of that word for the next plan? Second question, quick one, what -- are there any major hurdles for regulatory approval for the sale of Generali Leben and is there any rough timetable or expected timetable on that? And the final one, I noticed, I think it was in the life business, you sold some corporate bonds by government and implied that you're looking to do some de-risking. What is the kind of current investment strategy? Overseas markets have been a bit volatile, reinvestment rates haven't really moved much. Are you actually looking to derisk and what will that be? Thanks.

A - Philippe Donnet {BIO 4657671 <GO>}

Well, the first challenge as you -- as you mentioned will be the level of ambition of our plan. This plan will be ambitious, definitely. We want it to be ambitious. Because, once again I think we will have great opportunities to take -- to catch, because we are in a very different -- a very different situation. Of course, I expect the environment to be challenging. But I would say normally -- normally challenging in the past few years, the

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environment has been challenging, we've been through many things. Now, I think that our company is used to work in a very low interest rate environment. Since I was appointed I've been through the referendum in Italy. The crisis of the Italian banks. The Brexit, the election of Trump and so on. And more recently, there were some changes in the Italian politics. So we are quite used and trained to cope with challenging environments. So we're -- I still expect some volatility, I still expect some geopolitical uncertainty.

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Having said that, if your question is more specific about Italy, my answer is very clear on this. I'm not concerned about Italy. I'm not concerned, because, first of all, we will have a clear view in September when the budget will be discussed. And then I know, Italy quite well. I have been living here 10 -- and working 10 years in Italy now, and the basics of the economy are strong and Italy is a great country with strongest situation. Then we will be able to protect the basics of the economy because, in Italy, economies matters more than politics. So I'm -- I don't think that Italian politics will be our main challenge in the next -- in the next year. So if -- I would retain the level of ambition as our main challenge. So it's a challenge that we decide ourselves and it's definitely a challenge that we will be happy to win.

On the second question, there is no time timetable -- no expected timetable. I mean, it's an important transaction. The BaFin, the local regulator -- German regulator, BaFin, wants to make sure that policy holders will be treated in a fair way, and I think that this is their job and we will do our best to make to ensure that our policy holders would be treated the right way. It will take they need and I just cannot anticipate what will be this time, but we will -- we probably will provide them all the information, they are going to request. So I expect this approval to be a normal and smooth one, but it will take some time.

A - Luigi Lubelli {BIO 4108780 <GO>}

Regarding your third question. Yes, indeed, it's part of the normal -- I mean just bear in mind, when we indicate variations this cannot be massive on a portfolio of our scale, let's say trend, which of course they are fundamentally motivated by relative value. So indeed, there was let's say, comparatively lower weight on corporate bonds and comparative weight on -- a larger weight on government bonds. But also remember that we have an execution of the strategy of greater weight of real assets. So, part of our new money is going into these assets. So that of course -- at the rates and proportions that you can expect on our portfolio. But you will see a marginal decrease of other investment components and a marginal increase of the real assets.

Q - Andrew Ritchie {BIO 18731996 <GO>}

You're talking real estate equities, infrastructure that kind of assets?

A - Philippe Donnet {BIO 4657671 <GO>}

Exactly, indeed.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay, great. Thanks for -- thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Welcome. Thank you.

Operator

Next question comes from Steven Haywood from HSBC. Please go ahead.

Q - Steven Haywood {BIO 15743259 <GO>}

Thanks very much and three questions please. You mentioned in your transport[ph] comments that Italy motor is still softening and you're pulling back here, obviously. Is there any turnaround you expect later this year or next year or whether you're still going to be pulling back out of this market? And secondly, you say that you have nearly completed the geographical optimization. So, can I ask what is left to do and how many more businesses might be under review for the potential disposal? And then lastly on Mediobanca's comments this morning about them a stake sale in -- by June 2019. Have they been in contact with you about this and do you know any more details? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi, Steven. So in terms of of Italian motor, let's say that the situation is kind of stable where it is, perhaps some marginal improvements, but yet to say whether it is going to be a strong continuation in the first half. So let's say, I would say relative stability on the sales outlook. Geographical optimization is -- Philippe is going to take a look at it.

A - Philippe Donnet {BIO 4657671 <GO>}

We completed the geographical optimization, I would say at 99%. There are very smaller assets remaining on the lease. But let's say it's completed. So nothing significant to be announced. On Mediobanca owns 13% of Generali. They are the first shareholder of Generali. They sit in the Board of Directors. So I have I would say a normal relationship with our main shareholders. I am not discussing their strategy with them -- I mean the disposal, the potential disposal of 3% of Generali by Mediobanca is part of Mediobanca's strategy. I'm not discussing this strategy with them. I'm discussing our strategy with our Board of Directors.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay, thank you very much.

Operator

Next question comes from Roger Sachs[ph] from Societe Generale. Please go ahead.

Q - Roger Sachs {BIO 15099814 <GO>}

Thanks for taking my question. Just a quick one on life in your business again. Can you give us some more detail why protection business -- new business, the PVNBP has declined in the first semester? And also you're talking in about assumption change -- operational assumption changes in Germany, can you give us some more detail on what

these were? And finally regarding the sale of Generali Leben, can you give us some more detail what will be the impact on the SCR at the moment? The SCR is heavily overweight on market and credit risks. How much will that decline following the closing of that transaction? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. The -- excuse me, I'm sorry. As of in terms of protection business we saw some decrease in France in this quarter. In Germany, there can be a marginal impact that is coming from Leben that is selling as you can imagine much less business, almost nothing this year. So that is having an impact. In Germany, regarding assumptions, there are changes that are not so significant. The mix perhaps has had greater impact overall on the profitability. And there are no more -- there is no more information on the SCR with regard to what we already said in the disclosure when we announced the deal. It is roughly -- Generali Leben represents roughly 1 billion of SCR.

Q - Roger Sachs {BIO 15099814 <GO>}

Okay. Thank you.

Operator

Next question comes from Johnny Vo from Goldman Sachs. Please go ahead.

Q - Johnny Vo {BIO 5509843 <GO>}

Yes. Thank you very much. A lot of my questions have been asked, but just a couple of more questions. Just in regards to Generali Leben, is there any risk here that if BaFin looks at various things that there could be some risk on the -- any of the disposal proceeds? And is there a risk that some of the proceeds will have to stay in the German unit? That's the first question. And just on Page 45, I guess, it shows the debt schedule -- on Slide 45, given the disposal proceeds and the likely proceeds will probably be received for Leben maybe in 2019. Can you talk about whether some of the debt will be refinanced or some of the proceeds will be used to pay down the debt as you've done with the 250 million coming up? Thank you.

A - Philippe Donnet {BIO 4657671 <GO>}

Well, good, it's very likely that BaFin will ask many question, I don't think they're going to raise issues, but they're are going to ask questions. Once again they want to make sure that the way Viridium is going to treat policy holders will not put policy holders at risk. We are going to help them to provide all the information. Having said that, it's a regulatory approval process. We are not in control of it. I'm expecting more questions than issues, but we will -- we will see. You know this is a long story. The disposal of Generali Leben is something that happens now but that we started preparing two years ago. So we've been working on every step -- every single step. We had to find the distribution solution for the agents. We have to decide to put Generali Leben in the run-off. The decision had to be made by the Supervisory Board of Generali in Germany. As you know the Generali Supervisory Board in Germany includes the representatives of the employees.

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So it's a very long and very complex process, and all stakeholders have already been involved in this process since the very beginning. So, I think that now the deal is on the table of BaFin, but they know everything about it. We will provide all the additional requested information, but it's a very mature process. Having said that, BaFin can always raise issues and ask questions. On the debt you want to -- we are going to use our cash to yes, pay back the first call -- the call we have this year of 250 million of hybrid bonds. Yes we're going to use our cash, whether it's coming from the proceeds of the disposals in the ordinary business.

Q - Johnny Vo {BIO 5509843 <GO>}

Yeah, I'm just talking about the forward debt from 2019 to 2022.

A - Philippe Donnet {BIO 4657671 <GO>}

Okay. So we will comment this on November 21st during the Investor Day.

Q - Johnny Vo {BIO 5509843 <GO>}

Okay, thank you.

Operator

There are no further questions in the queue at this time, I would now like to turn the call back to Luigi for any additional or closing remarks.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay, thank you. Well, as you know, this is the last time I present the Generali quarterly results. It has been a great experience and an honor running the finance function of Generali and having the pleasure of representing the company before you. I thank you for your attention. I look forward to meeting you again in the future, and of course, I wish Philippe and Generali, the best. Bye.

Operator

Thank you. That concludes today's conference. Thank you for your participation ladies and gentlemen. You may now disconnect.

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