Q1 2015 Earnings Call - Pre-recorded

Company Participants

- Alberto Minali, Group Chief Financial Officer

MANAGEMENT DISCUSSION SECTION

Alberto Minali {BIO 16909383 <GO>}

Good morning. This is Alberto Minali, Group CFO of Generali. I am pleased to report to you this morning an encouraging set of first quarter 2015 results. Let me start with a brief overview while noting that, as before, prior year's figures have been restated throughout the whole presentation to reflect the current geographical perimeter of the group.

The total operating result of the period reached over €1.3 billion, thanks to robust performances of all business segments. The net result of the period is up 3.3% to €682 million. Excluding discontinued operations, profit after tax is up 10%, and net operating earning per share is up 9.7%. The operating return on equity has improved by 40 basis point, from 3.5% to 3.9% year-on-year.

Shareholders' equity is up 12.5% from year-end 2014 to €26.1 billion. The Solvency I ratio consequently improved by 12 percentage points from the end of 2014, reaching 168% at the end of March, or 177% pro forma for the sale of BSI. Overall operating result increased by 6%.

Looking at the segment in more detail, the Life operating result posted a strong 8.2% increase to €823 million. Property & Casualty showed a 4.6% decline, which was mainly due to an increase in nat cat burden. The segment Holding & Other Businesses had a positive performance with €54 million profits, driven by very strong result of Banca Generali.

Let's then see the journey from operating result to the bottom line. Non-operating investment income increased slightly by €14 million to €140 million. Non-operating holding expenses decreased by 10.5% to €187 million, thanks to €24 million lower interest costs. I remind you that last week we reimbursed a further €500 million of senior debt, reducing further the interest expense prospectively.

Other non-operating expenses increased by €18 million, due to €23 million higher restructuring costs. The tax rate remained pretty stable year-on-year at 30.2%. Overall, net result increased by 3.3%, while on our current group perimeter, profit after tax from continuing operations performed a strong 10% growth.

Let us now turn to look at the balance sheet. Shareholders' equity increased by 12.5%, reaching €26.1 billion. The mark to market of available for sale assets was a strong positive factor, €2.1 billion, benefiting from the good performance of all asset classes and, in particular, of bond investments.

The net result of the period contributed for €682 million, as you have already seen. Other items are €129 million positive and are the result of a balance between a positive impact from currency movement, and in particular from the appreciation of the Swiss franc towards the euro, and the negative effect on our German pension liabilities deriving from reduced interest rates in the quarter.

Following the good development in shareholders' equity, our Solvency I ratio increased by 12 percentage points from the end of 2014 to 168%. On the positive side, four percentage points contribution derived from the net result, while the previously mentioned appreciations of investment accounted for 13 percentage points. On the other side, we had an increase of our required margin, driven by the underlying growth of our Life business and by exchange rate effects, with five percentage points negative impact on the ratio.

In the coming months, we should finalize the sale of BSI. This should add nine percentage points to our Solvency I ratio, bringing it to 177%. As far as Solvency II is concerned, the group is continuing to work hard on the implementation of its new model. From this disclosure onwards, we will not provide any more figures based on the old model since the new one is now fully running and producing results. I will provide you with the relevant figures at our Investor Day, but overall, we feel confident to be in a comfortable position and at the Solvency level which, as at the end 2014, would be higher than the one we reported on the old model.

Let me focus now on our business segments starting with Life. Overall, Life premium increased strongly by 12.7% to €13.7 billion, driven by a positive trend of all business lines. Worth mentioning is the continuing growth of unit-linked production that posted a 24.6% increase with a particularly strong contribution of Italy.

Life net inflows also continued their strongly positive trend, growing 49.1% year-on-year and reaching €4.3 billion. The Life operating result went up 8.2%. New business value was down 2.6% at €322 million, notwithstanding a 9.8% APE growth due to a 2.9 percentage points margin contraction.

Let me dive now into the single drivers of the Life operating result. The technical margin posted a slight increase thanks to higher margins on loadings and increased unit-linked fees. The investment result increased by €140 million, partially due to the growth of the invested asset base, but also thanks to a positive impact from the appreciation of assets held at fair value through profit and loss, worth €94 million, and higher realized gains in particular on government bonds and, to a lesser extent, on equities.

I would add that part of this profit had been used to increase our policyholder reserves, such as the strengthening of the PPE in France by €196 million or the ZZR in Germany by

€27 million, net of policyholders' participation.

Expenses increased by 8.7% mainly due to increased acquisition costs, while the overall Life expense ratio declined 0.6 percentage points to 9.1% year-on-year.

Life net inflows started also this year with a very positive trend, reaching €4.3 billion in the first quarter of the year. Our continued focus on increasing the share of more capital-efficient products enable us to have, again, an over-proportional contribution from unit-linked business, with a 47% share of total net inflows.

Looking on a country basis, in Italy, we have a particularly strong increase of net inflows at €2.1 billion, doubling the amount of the first quarter of 2014. The growth has once again been driven by unit-linked business thanks to the success of our hybrid products.

In France, we see the continuation of the recovery trends started in the second half of 2014, with over €200 million positive net inflows, driven by a strong unit-linked production, up 44% and reduced surrenders.

After a year of falling net inflows in Germany, linked to the planned reduction of single premium savings business, in the first quarter of this year, net inflows showed an almost 30% increase driven by the unit-linked component of new hybrid products.

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 4% increase of Life technical reserves over the first three months to €361 billion. It is worth highlighting the particular positive development of unit-linked reserve, up 11.1%, to €75 billion.

Life general current investments reached €339 billion, up 5.8% from the year-end 2014, also driven by positive mark-to-market performance of available for-sale investments. Total Life current returns are down 10 basis points to 80 basis points for the first quarter.

As always, this is not an analyzed figure. In absolute terms, current income increased slightly, reaching almost €2.6 billion. Fixed income current returns, in particular, declined by 10 basis points to 80 basis points, both due to asset base appreciation and the impact from lower investment rates.

Also here, current income increased by €82 million, or 3.7%, in the first quarter of the year. We invested pre-existing cash net inflows, bond redemption, and coupons at an average yield of 2.5% in the Life segment, mainly in financial and non-financial corporate bonds.

Turning to new business, APE is up 9.8%, like-for-like, to €1.4 billion, driven by strong performances of unit-linked and protection, up 40% and 28%, respectively, while savings business posted 3.5% decline. Unit-linked production weighted for 24.4% of APE versus 19% in the first quarter of 2014. Protection business increased its share to 18.6% from 15.6% in Q1 last year. This demonstrates our focus on redirecting our production towards more capital-efficient products.

Looking at our main countries, in Italy, APEs increased 3.2% driven by a strong performance of unit-linked production, whose weight on APE strongly increased from 5.5% to 20.6%, thanks to the continuing success of the hybrid products. At the same time, guaranteed saving business declined by 14.2%.

We saw a strong development in France whose APEs increased 37.6%. The biggest contribution came from unit-linked, up 57% and protection business, up 53%.

Germany grew by 11.9%, driven by a 60% increase of unit-linked production and an 8% growth in protection. Traditional savings business decreased by 4%, notwithstanding a positive one-off effect deriving from a booming production in the last days of 2014, booked as 2015 production and linked to the reduction of the technical interest rate at the turn of the year.

New business profitability declined by 2.9 percentage points to 22.5%, due to the fall of savings business profitability. This has been mainly the consequence of a sharp decrease of the reference rate, down 141 basis points compared to the first quarter of last year. Reduced new business guarantees at 0.71% in the euro area, and an improved business mix only partially mitigated the overall margin decline. As a consequence of this profitability contraction, the new business value decreased by 2.6% on a like-for-like basis to €322 million.

Now, let's turn to look at P&C. Gross written premiums are overall stable, on a like-for-like basis at €6.5 billion. Looking at business lines, primary motor posted 2.6% decline, mainly driven by Italy and France as I will explain later. Primary non-motor went up 0.9%. The combined ratio deteriorated by 0.7 percentage points due to a 1.3 percentage points increase in nat cat burden. As a consequence of this, the operating result declined by 4.6%.

Looking at the components of this operating profit decline, we can see a technical margin at €288 million, down 16.4%, a slightly positive moving investment result, as a result of an overall stable current income and reduced interest expenses on operational debt, and an improving residual other items line that increased by €27 million.

Let's look now at gross written premium development within our core countries. Italy is down 3.9%, at €1.4 billion, still driven by the highly competitive environment of motor. Primary motor still decreased by 9.2%, mainly due to reduced average premiums. Primary non-motor is overall stable, with a slightly declining health business compensated by growing personal lines.

France declined by 4% to €834 million due to the competitive market environment and the continuation of strict underwriting guidelines and pruning activities. Primary motor continued its negative trend with a 7.9% decrease driven by an ongoing pruning of unprofitable fleet and garage-related contracts and by a still soft retail market, but with first positive signs in terms of number of contracts in the retail segment. Non-motor is down 3.1%, mainly due to contract cancellation in the commercial construction and general liability business.

In Germany, premiums went down slightly by 0.9%. The reason for this is that the motor business, down 1.7%, is also this year affected by the ongoing shift from the main renewal date from January to other months in the course of the year. As in 2014, we expect that this effect will be level during the rest of the year, benefiting also from relatively good market conditions with average portfolio premiums still rising. Non-motor has been overall flat.

Moving to the profitability analysis, the combined ratio deteriorated by 0.7 percentage points year-on-year to 93.3%, in presence of 1.3 percentage points higher nat cats. This was driven, in particular, by Storm Mike and Niklas, affecting mainly Germany, and also winter storm Anton, which caused losses in Italy.

Looking at the single drivers, the loss ratio improved by 0.2 percentage points, thanks to an improving current year results, down 1.4 percentage points, which more than compensated the increased nat cat burden. Prior years' releases are overall stable. The expense ratio increased by 0.9 percentage points, mainly driven by higher acquisition costs and by exchange rates.

Looking at the combined ratio in our main countries, in Italy, our combined ratio improved further to an excellent 89.3%, down 1.3 percentage points, driven by still improving current year loss ratio and despite higher weather-related nat cats for 1.7 percentage points.

In France, the combined ratio improved 2.9 percentage points to 100.3%, thanks to a 3.8 percentage points lower loss ratio, helped by the absence of nat cats, which last year costed 2.7 percentage point, as well as by better current year results. The expense ratio increased by 0.9 percentage points due to lower net earned premiums. This development of the denominator of the ratio did more than offset the positive impact of decreasing expenses.

In Germany, we had a substantially stable combined ratio of 93.8% despite higher nat cats. CEE confirms outstanding profitability levels with a 83.7% combined ratio.

Overall, P&C investments reached €40 billion, up 3.5% from the end of 2014, also thanks to positive market movements of available for sale assets. In terms of investment returns, total P&C not generalized (16:35) current returns are pretty stable at 80 basis points. Fixed income current returns decreased to 80 basis point, down 10 bps year-on-year, partially compensated by increased current returns on real estate. The average of investment rate in P&C during the first quarter of the year has been of 2.1%.

Let me, finally, turn to our Holding & Other businesses segment whose overall contribution to the group operating result increased from €24 million to €54 million. This improvement has been entirely driven by the positive contribution of financial businesses that posted a €54 million improvement, and in particular of Banca Generali that doubled its contribution.

Operating holding expenses increased from €96 million to €116 million year-on-year, but are below the level reached during the fourth quarter of last year. Other businesses are more or less stable.

In summary, we have had a good start to the year with a very strong quarter in Life, helped by market, but also with very encouraging trends in terms of the business mix across countries. The profitability of P&C remains good, despite heavier natural catastrophe losses this year.

The balance sheet has further strengthened on a Solvency I view, and we are continuing to make excellent progress in our preparation for Solvency II, where we also expect to be well-capitalized.

Thank you very much for your attention.