

## Outlook

The International Monetary Fund has forecast global growth of 3.4% in 2017, compared to 3.1% in 2016. In particular, the Eurozone, United Kingdom and Chinese economies are expected to slow down, while the US economy should accelerate and Russia and Brazil are expected to exit their recessions. In the Eurozone, GDP growth is expected to decline from 1.7% in 2016 to 1.4% in 2017, primarily as a result of weaker economic performance in Germany and Spain, while inflation in the Eurozone is expected to rise from 0.3% to 1.1%, driven by a modest price recovery in some commodities. In this context of economic weakness, the ECB will maintain an accommodating position, although towards the end of the year speculation will rise on the exit of the Central Bank from its quantitative easing programme. In 2017, US interest rates are expected to rise, driven by the Fed's gradual exit from quantitative easing, and long-term rates in the Eurozone should increase as well, especially towards the end of the year.

Combined with a high degree of uncertainty on the political front, these elements will once again create a challenging environment for investors. Forecasts point to a modest recovery in the Eurozone equity market and less brilliant performance than last year in the United States.

In 2017, within the insurance sector, the main countries of the Eurozone (Italy, Germany, France and Spain) are expected to show a good performance in the P&C business, which should recover in Italy as well. The life segment, influenced by low interest rates, will show signs of difficulty once again in 2017, except in Italy, where life premiums are expected to improve compared to 2016.

To be noted is that the catastrophic events occurring all over the world in 2016 did not have a significant impact on the reinsurance industry. The continuing absence of economic impacts from significant catastrophic events has generated a prolonged reduction in reinsurance costs. Within a similar context, the Generali Group has benefited from the favourable market trend, obtaining competitive coverage renewals for the year 2017.

In the **life segment**, the Group will continue to deal with a range of dynamic restrictions deriving from the market environment, such as the Solvency 2 directive, the IMD2 rules more restrictively governing transparency in the distribution of insurance products, and in general, financial markets characterized by continuing low interest rates. It will further strengthen its focus on the Techex program initiatives, both at Group level and in the business units, aiming to strengthen the combined portfolio value by taking a simplification and innovation approach for the range of product solutions. Income trends will continue to reflect careful underwriting policies, in line with the common Group goals, driven by the risk appetite framework and the focus on the value of the products. Initiatives dedicated to portfolio enhancement will continue with renewed emphasis:

- in terms of in-force business through dedicated actions for improving the degree of persistency of valuable portfolios, particularly thanks to the reinforcement of active liability management actions;
- in the creation of new business thanks to the selective development of certain business lines, such as protection and unit-linked products (particularly based on volatility-controlled unit-linked funds), as an alternative to investments in traditional type funds, which are still sustainable only if they are capital-light. The development of these business lines will aim at offering a wide range of insurance solutions adapted to risk and investment profiles for the benefit of both the policyholders and the Group.

In **property&casualty**, total premium income is expected to grow in the Generali Group's main geographical areas, in line with the relative GDP developments, although this growth will take place within an environment of strong competitive pressure. Competition is also expected to accelerate in terms of distribution; digital transformation will create more space for non-traditional or non-exclusive distribution networks (such as aggregators), with possible impacts on portfolio volatility and, from the

business perspective, a decline in volumes and profits. To deal with this situation, the Group is intensifying its implementation of a series of initiatives launched previously in order to offset the effects on profitability (especially in the motor segment, particularly fleets, but not only) with anti-cyclical measures, a disciplined approach to setting rates and risk selection, improving customer profiling, promoting long-term relationships and developing products with a modular system to take up non-motor cross-selling opportunities.

Property&Casualty segment management will therefore continue to play a key role in the implementation of the strategy of the Group, which aims to become a leader in the retail segment in Europe thanks to the degree of capital absorption of those products which allows for efficient allocation.

The **Group investments policy** will continue to be based on an asset allocation strategy aimed at consolidating current returns and safeguarding consistency with liabilities to the policyholders.

The investment strategy for fixed-income investments

aims at portfolio diversification, in both government bonds and corporate bonds. This is in order to ensure adequate profitability for the policyholders and a satisfactory return on capital, while maintaining a controlled risk profile.

Alternative investments are considered appealing due to their contribution to portfolio diversification, but overall investment volumes are impacted by the limited supply and the high quality characteristics required by investment policies.

Equity exposure will be kept substantially stable.

New investments in the real estate sector will be primarily oriented towards the European market and, only as opportunities arise, other geographical areas in order to improve the overall diversification of the portfolio. In addition, attention is focused on the efficiency of existing portfolio management to boost overall returns.

Despite the challenging environment and the high volatility of the financial markets, in 2017 the Group expects to increase shareholder remuneration, consistently with the strategic plan presented to the market.

Milan, 15 March 2017

**THE BOARD OF DIRECTORS**