FINAL

Bloomberg Transcript

S1 2021 Earnings Call

Company Participants

- Annemiek van Melick, Chief Financial Officer
- Jos Baeten, Chief Executive Officer
- Michel Hulters, Investor Relations Director

Other Participants

- Andrew Baker
- Benoit Petrarque
- Cor Kluis
- Fulin Liang
- Michael Huttner
- Robin van den Broek
- Steven Haywood

Presentation

Operator

Good day, and welcome to the ASR Nederland Investor Call Interim Results 2021. This call is being recorded.

At this time, I would like to turn the conference over to Michel Hulters. Please go ahead sir.

Michel Hulters {BIO 19111905 <GO>}

Thank you operator. Good morning ladies and gentlemen. Thank you for joining us today. Welcome to the ASR conference call on our first half 2021 results. On the call with me are Jos Baeten, our CEO; and Annemiek van Melick, our CFO. Jos as customary will kick off with some of the highlights of our financial results, and he will also discuss the business performance of course. Annemiek will then talk about the developments in our capital position and solvency, and after that we'll open up for Q&A. We've got scheduled for a full hour for this call, including the presentation and the Q&A. And as usual please do review the disclaimer that we have in the back of the presentation slide for any forward-looking statements.

So having said that Jos -- over to Jos.

FINAL

Bloomberg Transcript

Jos Baeten {BIO 2036695 <GO>}

Thanks, Michel. And also from my side good morning to everybody and thanks for joining us on this call. I've understood some of you are calling in from their holiday addresses so that has become in the meantime the importance of this of this call for you. I hope you're doing well. I noticed that we are the only insurance company today with results. So I guess this must be a pretty relaxing day for an analyst covering the insurance sector.

I'm sure you will understand that we are very pleased to present the strong set of results for the first half of this year. Momentum in our operation has remained strong, driven by happy and loyal customers. Our financial performance exceeds last year's record results with a considerable margin. We continue to operate our business with very strong balance sheet with a robust solvency.

I want to thank our employees who are the driving force behind this performance. I'm proud of the fact that our employees have continued to keep morale high in this challenging period. In a recent survey executed by Effectory, ASR is chosen as the best employer in the Netherlands.

Now, without further ado, let's turn to Slide 2, and take a closer look at our financial results. I presume you all have seen the data we released this morning. So I only will highlight the most important developments. As this dashboard shows, our performance in the first half of 2021 has been really strong. The substantial increase of 20% in the operating results to EUR536 million is driven by higher results in all of our segments, combined ratio stood at 90.2%, well ahead of our targets of between 94% and 96%, excluding COVID by the way, the combined ratio improved to 94.1% from 94.5% H1 last year at a lower end of our target range. Our Solvency II ratio continues to be robust at 197% still at the standard formula, after interim dividend and share buyback and absorbing the impact from the lowering of the UFR.

Of course, Annemiek will provide further detail on this. The OCC improved by EUR74 million to EUR372 million, which means we are well on track of achieving our midterm target of EUR500 million of OCC by the end of this year. The increase is a result of strong business performance and slightly increased investment returns. Operating return of 17.8% remains high and very well above the target of 12% to 14%. The increase in IFRs net result reflects the higher operating results in the absence of large negative incidents and one-offs which we have seen in the first half of 2020. We are happy to offer an interim dividend of EUR0.82 per share which is an increase of almost 8%, and represents 40% of last year's dividend.

Let's now move to our non-financial targets on slide number 3. As I'm sure you are aware, we are committed to deliver sustainable value to all of our stakeholders, specifically our customers investors employees and the society at large. Our ongoing focus on customer satisfaction has led to a solid net promoter score of 48 and already well above the medium-term target of 44.

FINAL

We are well on track to achieve the objective of measuring the CO2 footprint of 95% of our investment portfolio, and our impact investments are already ahead of this year's objectives -- objective. Due to the lockdown restrictions and social distancing rules, our employees have not been able to do many of the activities we typically do for society. As soon as the social distancing measures are relieved we will scale up again.

As we focus on sustainable long-term value creation for all stakeholders, we are very pleased with the recognition and ESG benchmarks. Sustainalytics assigned ASR 10 points in its ESG risk rating, which makes us today the worldwide leader in our industry. In addition, to being included in the Dow Jones sustainability world index is a welcoming recognition.

Let me now highlight some key developments and achievements in executing our business strategy on Slide number 4. Some business developments I would like to highlight. The non-life business is performing very well with strong organic growth, positive developments in our reintegration company and a successful conversion to a new IT platform within our commercial P&C business.

In the Life department, we delivered on creating synergies by reducing the number of applications and converting the systems to a software-as-a-service platform, in April this year, we have decided on centralizing and modernizing our main pension IT system, to key lanes software-as-a-service platform Plexus which by the way is the same provider as our individual Life business already is. With this, ASR takes an important step in the preparation for the national pension reforms which will be fully effective from the 1st of Jan 2026.

Furthermore, we achieved good revenue growth in the WerknemersPensioen, which was up 31% in the first half and transfers the pension scheme of our own employees from a DB to DC scheme. Our fee based businesses are also doing very well. Third-party assets under management have increased by EUR1.5 billion to EUR25.8 billion, mainly driven by growth in a mortgage fund and Pension DC funds. Our mortgage origination amounted EUR2.6 billion in the first half of 2021 on track to exceed last year's production of EUR4.6 billion. And lastly, we now have fully finished the divestments we set out at our CMD of 2018 and therefore have no current divestments.

Now, let's move to Slide 5, to elaborate a little bit on our non-life result. A record first half in non-life with our operating result, increasing to EUR179 million, driven by an improvement of claims in disability and strong organic growth in all product lines. In disability, we have seen considerable improvement also in sickness leave, despite some reserve strengthening, driven by the adverse trends in absenteeism from stress and burnouts.

We have started a new campaign to make people more aware of these risks. Also, we have invested in our reintegration service which aims to help both in prevention and reintegration. And as you can see in the numbers that worked out quite well over the first half.

Bloomberg Transcript

FINAL

Bloomberg Transcript

P&C saw a favorable claims experience, partially offset by a one-off reserve strengthening related to motor vehicle liability, including lowering of the actuarial interest rates related to a recent court-ruling. Weather related calamities were on a low level in the first six months of this year. We currently estimate the impact from the floods in the beginning of Q3 in Limburg, somewhere between EUR20 million and EUR30 million and this will be included in the results for the second half of this year.

Combined ratio improved by 2.6 points to 90.2 for P&C and disability combined, beating the target of 94 to 96, excluding COVID-19 related effects the combined ratio asset is 94.1%, compared to the 94.5% in H1 last year and therefore at a lower end of our target range.

Organic growth in GWP in disability and P&C amounted to 5.2 above our target of three to five per annum. And finally, the increase in health gross written premium of 43% reflects the commercial success of the benefit in current insurance product which we launched at the end of 2019, and a non-recurring premium that was received from the health insurance act.

So let's talk about our Life business at slide number 6. Some highlights to mention on our Life segment here operating results of the Life segment increased by EUR18 million to EUR379 with a less negative impact of COVID-19, amounting to a negative of EUR30 million compared to a negative of EUR25 million last year. The increase in operating result is mostly driven by a higher investment margin, reflecting the recovery of the financial markets with higher dividend income, rerisking benefits on a lower required interest due to the run-up of higher guarantees in the life book.

Gross written premium of our Life business fell by 8% to 928. This is due to different impacts within our pension scheme and non-recurring single premium paid in the first half of 2020 as well as timing differences in premium income, related to the transition from DB to DC, which will show a catchup in the second half of the year.

At the same time, we achieved good growth in our pension DC product, which show an increase in premiums of 31% to EUR342 million of the first half. Furthermore, our cost efficiency improved to 42 bps, a share of the basic nominal provision which is below our target range for 2021. This is driven by lower costs through efficiency from earlier conversions and lower operating expenses, in addition to a higher nominal provision due to the strong inflow in DC.

Let's now turn to Slide 7 for the other segments. The operating result on the two fee generating segments, asset management and distribution and services combined amounts EUR34 million, up from EUR28 million in the first half of last year, so a growth of 21%.

This confirms that we are running comfortably ahead of the medium-term target for 2021 of 5% growth per annum. Asset management results improved by EUR3 million, which was driven by continued growth in the mortgage fund and to a lesser extent to the growth in the DC pension product.

FINAL

Operating results of the distribution and services segment increased EUR3 million, mainly driven by small acquisitions and organic growth due to the expansion of services provided. Operating result of the holding amounted to a minus EUR56 million as already announced at full year 2020, this is mainly due to the fact that as of the beginning of this year our pension plan for ASR employees moved to a DC product resulting in lower costs.

So now let's turn to slide number 8 about our capital management. I'm always keen to show this slide as it displays our strong discipline and track record in offering attractive returns to our shareholders. This half year we announced an interim dividend per share of EUR0.82, an increase of almost 8% compared to the interim dividend of EUR0.76 at the half year 2020, and equals 40% of the regular dividend over 2020, in line with our dividend policy.

Since our IPO in 2016, we have been committed to offering shareholders attractive returns in dividends and supplemented by share buybacks. During this period, ASR showed growth in DPS of over 12% per year and returned around EUR1.7 billion of capital to our shareholders, this roughly equals 38% of our market cap at June 30. We continue to allocate our capital in a rational manner, as we have shown in the past, with a strong balance sheet and robust solvency position.

Having said that, I will wrap up after Annemiek has told you through all the solvency numbers and the OCC numbers. So I'm happy to hand over to you, Annemiek.

Annemiek van Melick {BIO 20317450 <GO>}

Thanks, Jos. Let's turn to Slide 10, then for stock solvency. As you can see, our solvency ratio remains very robust at 197%, which as you all know, is based on a standard model. This figure includes the interim dividend of EUR111 million as well as a buyback, we executed earlier this year. It also absorbs the further UFR decline of 4 percentage points.

Unrestricted Tier 1 capital represents 74% of our own funds and hence, we continue to have ample headroom available within the Solvency II framework. We have around EUR1 billion of restricted Tier 1 and over EUR500 million in Tier 2 and Tier 3 headroom, as you can see. SCR decreased by around EUR28 million, primarily driven by the decrease in insurance risk for life and health due to higher interest rates.

Now let's turn to flow on Page 11. Obviously, we started the year at 199% and lost around 1 percentage points from the impact of acquisitions, mainly related to the Brand New Day IORP acquisition. OCC came in very strong with EUR372 million or 9% point in solvency, driven by strong business capital generation in all segments and on loan specifically. And I'll talk about the OCC in more detail on the next slide later on.

The minus 5% for market and operational development includes the impact of the lowering of the UFR at around 4% points and the other market and operational developments of roughly offsetting each other with some positive impact from interest rates and spread movements as well as real estate valuations being offset by negative impacts from lower VA, some near adjustments and impact of rising equity markets due to

Bloomberg Transcript

the equity dampener. Before capital distribution, our solvency stood at 202% and after deducting the interim dividend and share buyback, we executed in H1, we get to 197%.

Now onto Slide 12 for some detail on the OCC. As said, the OCC came in at EUR372 million, which is an increase of 25% or EUR74 million compared to the first half of last year, which is mainly driven by a strong increase in business capital generation, which added EUR58 million versus H1 last year. The increase in business capital generation was primarily driven by improved performance in the non-life segment and higher excess returns. Within non-life, we saw a larger positive contribution from COVID than last year. However, this was largely offset by additional reserve strengthening as already mentioned.

Underlying, we really saw a better performance of both P&C and Disability, for disability specifically and sickness, better operating performance, as well as the impact of repricing and disability. The higher excess returns were driven by re-risking mainly by increased exposure in mortgages and partly in other illiquid credits and an increase in equity and real estate valuations. The increase in capital release was mainly driven by SCR release due to interest rate movements.

Now, please bear in mind that in the second half of the year, we always absorb an additional new business stream from renewals in our Disability business and to a lesser extent in our Health business. H2 last year this led to hardly any capital release for instance.

Interest rate in the first half of the year went up which almost fully absorbed the negative UFR echo from last year, hence reflect technical movement that you can see on the slide. Given the result in H1, we're obviously very comfortable in achieving our target of EUR500 million OCC at the end of this year. As mentioned before you can't just take H1 OCC and multiply that by 2 for the full year, given the new business stream seasonality we typically have in H2 and given the strong non-life results in H1.

If we probably be more appropriate to take H2 of 2020 as a base, and the EUR200 million we had in the second half of last year, and adjust that for current circumstances like lower rates and the impact from the July flooding. And then obviously, it depends a bit on what will happen with COVID for the remainder of the year, et cetera, obviously where interest rates would go.

All in all very strong OCC, improved underlying performance in non-life, higher investment returns as well as a benefit from COVID, and us being quite comfortable obviously on the full-year guidance for OCC.

Now let's go to Slide 13 for a few words on balance sheet. Balance sheet remains very strong, as said, we have ample financial flexibility, financial leverage decreased by 2% to 26.3%, due to an increase in equity interest coverage increases well, mostly due to the improved IFRS results, and our S&P rating was confirmed in June.

FINAL
Bloomberg Transcript

On liquidity on Slide 14. Holding liquidity ended at EUR456 million, which is in line with our policy of maintaining capital at the operating companies and upstream cash to cover dividends, coupons and holding expenses for the current year.

Last year, due to the COVID uncertainties, we didn't remit from the non-life entity and this year, we've remitted EUR73 million from the non-life entity and EUR251 million from Life with the remaining EUR32 million coming from other segments. Our debt maturity profile as you can see is very robust with the next maturity date in 2024. Solvency group, we already discussed, robust at 197%, ratios for non-life and life entities are 166 and 188 respectively, after remittance and both are well above our targets of 150% and 160% respectively.

And with that, I'd like to hand it back to Jos.

Jos Baeten {BIO 2036695 <GO>}

Thank you, Annemiek. And to conclude, ASR remains in a very strong position and has delivered a very strong performance in the first half of 2021, which we're generally proud of. Looking ahead, we are positive about the commercial and operational outlook for ASR in the second half of 2021 and delivering on our 2021 target.

Now, I guess, you'll be looking how to arrive at a sensible full year estimate. In doing so, I should caution you to not multiply the outstanding performance of the first half by two. I guess a reasonable starting point for your analysis would be to look at the operating result of the second half of last year being or 40%. I also having said this kindly invite you to our investor update, which is scheduled for the 7th of December, where we will elaborate on our new medium-term strategy, including an update on our financial and non-financial targets.

Ladies and gentlemen, this concludes the presentation of Annemiek and myself, and we are very happy to take your questions now.

Questions And Answers

Operator

(Question And Answer)

Thank you, sir. (Operator Instructions) We'll now take our first question from Cor Kluis. Please go ahead.

Q - Cor Kluis {BIO 3515446 <GO>}

Good morning, I'm Cor Kluis of ABN AMRO, and congratulations with the results obviously. And got a couple of questions, first of all, disability insurance -- and better combined ratio of 92.1% in H1. Could you help us a little bit to give an idea of the trend how that went through the first half of the year? And somewhat higher combined ratios

FINAL
Bloomberg Transcript

FINAL

and (inaudible) EBIT came down due to lower level, (inaudible) you said continuing in July and August after when the first COVID period just on disability combined ratio improvement.

And second question is also about Non-life. We see health premiums went up by I think 44% quite in the past you always mentioned is important and combined ratios now are great actually, in this business line. How do you feel about the profitability going forward and in which product lines are you growing? Because that deviates a little bit strong as the growth trend that we have seen in the past and got then a question about the OCC, especially the direct going forward, I did some back of the envelope calculations, but maybe you to help us a little bit through it, but I think in H1 your (inaudible) 2 million I would say for H2 including the attrition for H1 I think it's minus 120 and for next year, I would say, if rates would not change minus 220 that maybe you could help us share through that a little bit? And the last question is about M&A of course, you cannot commit too much about it to during COVID special bit more difficult for me to enter in such kind of stocks, any comments on that will be, which would be appreciated because since the IPO ASR always have been yes quite good in doing acquisitions, but is it easier now those kind of questions. Those are my questions. Thank you.

A - Jos Baeten {BIO 2036695 <GO>}

Okay. Thank you, Cor. I think the question on disability and non-life, I will take like M&A and OCC will be covered by Annemiek. On disability, where does the increase in results come from and what is the trend? Well, a couple of things. First of all, we significantly increase premiums in sickness leave for the 1st of Jan recently, and also seen a premium increase in an individual disability for new customers. So that was helpful. Secondly, in the first half last year, we weren't able to do the things necessary to help people to return to work and already in the second half that we were able to pick up again and that's continued in the first half even despite the lockdowns we had to deal with. Without already projecting the full year result, but the positive vibe in the disability business, which we have seen in the first half, seems to continue. So the negative result on sickness leave which we had last year, probably will not be the case in the full year this year as far as we can judge today, so the positive trend started in the last half of last year seems to continue going forward. On non-life, on health -- the growth in health we were happy with that. We're still doing this business on very strict targets in terms of combined ratio. And as far as we are able to judge now this business line will be able to deliver on those on the combined ratio targets and health is for us -- has become more important because of the connection with disability. And as you may have noticed, we've seen significant growth in disability in the first half, but also last year and that's partially related to the fact that we offer combined products between health and disability. And part of your question was where do you see the growth going forward, I think we aim at continuing the growth as we have seen in the first half. So in pension DC, P&C and disability, so the main growth drivers should come from those business lines.

And maybe, Annemiek you can elaborate a little bit on OCC and I will come back on M&A.

A - Annemiek van Melick {BIO 20317450 <GO>}

Bloomberg Transcript

FINAL

The calculation that you made on high-level work that seems about right to us and probably to give some -- to give a bit of a sensitivity a figure I think we also provided at last year. If interest rates compared to the June 30 figures that represent that if interest rates could go down by around 50 bps. We would lose around EUR55 million in OCC which is basically driven by a plus EUR70 million and partially mitigated by a bit higher capital release. Now with interest rates not having gone down 50, but around 30 bps, your (inaudible) estimate is about right.

A - Jos Baeten {BIO 2036695 <GO>}

Thank you. And on M&A, you rightfully said that we've done lot of M&A transactions actually 15 over the last couple of years. It is still part of our strategy 2020 ended up being difficult to start conversations with potential targets. And as we all know, there is a bit more -- there are more possibilities to meet people again. So it remains an important part of our strategy and we are aiming at possibilities, but it's always difficult to give any comments, whether we are having conversations right now or we are looking forward to have a conversation, but you can be assured it is an important part of our strategy also going forward.

Q - Cor Kluis {BIO 3515446 <GO>}

Thank you very much. Very clear.

Operator

Andrew Baker. Please go ahead. Your line is open.

Q - Andrew Baker {BIO 3694545 <GO>}

Great. Thanks for taking my questions. So three from me, please. First one is just on the non-life business. If there was a net COVID benefit in the first half about EUR 16 million, just curious, how you are thinking about that developing in the second half? And then just secondly again back to M&A, I guess, how rational are you seeing the pricing of deals right now, especially as we recently saw one of your peers, I guess accept a lower return on a distribution business which presumably with a business that you will say looking at? And then, finally, if I just in terms of sort of capital deployment, obviously a solvency in excess of your threshold for additional capital distribution, your capital generation's been strong. So just curious how you're thinking right now about your -- I guess preference and likelihood of M&A versus buyback in the near-term for that excess capital. Thank you.

A - Jos Baeten {BIO 2036695 <GO>}

Well on your on your non-life question, it's -- to be honest, it's difficult to predict, it is our feeling that and if we look at for example, traffic in the Netherlands, I think it has roughly returned to quite normal. So, one could argue that the benefit from a lower traffic level will disappear in the second half. On the other hand, more people keep on working from home, for example, ASR now has decided that our employees have to come to the office at least two days per week. So, that would mean that they are allowed to work from home for the other two or three days. So, there's also an argument that traffic will remain a bit lower than it has been in the past. We don't know yet whether we can put a number on

Bloomberg Transcript

FINAL

that, but I think there are arguments to expect that the pressure on that traffic will be lower going forward. And whether that will result in significant numbers in the results, because on the other hand, we do see more pressure on bodily injury claims and whether that will level out or at the end of the day, will be a positive is to be seen, but we're following on that of course, it's also important for the 7th of December, where we have to shared new targets on our combined ratio, for example, and those kind of questions are taken into account in all the discussions we're having on the new targets going forward.

On your question, how rational we remain in terms of M&A, especially in the distribution area, of course, we have seen the decision of one of our beloved competitors. You can imagine that we have looked at the same opportunity and from our perspective, it was difficult to meet our hurdles and that is probably the reason that we then did end up being the buyer. On the other hand, we can imagine the decision of the management of our competitor. We already started a couple of years ago to build a strong distribution franchise, they however hadn't any significant distribution franchise, so probably so, probably they looked at our strategy and are happy to copy this part of our strategy and then you have to make significant investments to pick up. So, from a rational point -- from an investment point of view, I think it's a tough decision, but from a competitive point of view, I can imagine.

A - Annemiek van Melick {BIO 20317450 <GO>}

And then your question on excess capital let me kind of break it down and first focus on this year. And as you know, we have a dividend policy that also includes a payout ratio of at the minimum 45%. As you can judge by our stories today, we're quite bullish on the full year operating results. And hence, I wouldn't rule out a very healthy dividend to come out of that based on that 45% payout ratio. In addition, we also said that provided that solvency ratio will be above 180%. We will also continue with the buyback program, which is still scheduled for one year ahead. And I want that solvency but obviously, rates have come down since June, since we reported 197% -- has come down a bit as well. So, there will be some pressure just from market movements on solvency will obviously dividend out quite a healthy chunk, but all in all, we remain comfortable that we can also perform the buyback asset. So for this year, I think, we're looking at a healthy capital return from our perspective. Now going forward and on what level will base of capital return and how to deal with the quality of the underlying earnings as this year, we obviously have the COVID benefit in there et cetera. What will happen with the buyback program that's all the topic that's scheduled to be discussed on the 7th of December. But for this year, I think we're quite confident with the capital returns.

Q - Andrew Baker {BIO 3694545 <GO>}

Right. Thank you very much.

Operator

Michel Huttner. Please go ahead. Your line is open. Michael Huttner. Please go ahead. Your line is open.

Q - Michael Huttner {BIO 21454754 <GO>}

Bloomberg Transcript

FINAL

Bloomberg Transcript

Fantastic. Can you hear me?

A - Jos Baeten {BIO 2036695 <GO>}

Yes.

Q - Michael Huttner {BIO 21454754 <GO>}

Yes. Fantastic. Thank you so much and congratulations on a fantastic number. I have three questions. The first one is you mentioned some observing on motor liability and I just wondered, if you could, maybe explain a little bit, if there's any concerns or what the trends are here and then you mentioned it a little bit? The second is, you focused a lot on the capital strength and the show, I think it's normal, it's not, because I thought I get confused. But you seem to have EUR1.5 billion of headroom, if you wish to do a deal. And here my question is with EUR1.5 billion of headroom how much business can that buy? How big a portfolio can you buy? I don't know if you can answer that in any way because it's supposed the question's a bit vague. And then you remark of 10 on ESG sounds like a amazing gold medal kind of Olympic score. What does it actually mean in terms of -- it's wonderful to be green and I think what does it mean in terms of benefit to you in terms of how investors perceive or your customers or your employees? Is it a real topic of conversation because it brings stuff or is it kind of just a nice thing to have with people just tick? Thank you.

A - Annemiek van Melick {BIO 20317450 <GO>}

Thanks for all your questions. Let me start with the start with the additional reserving that we did on the P&C side. It's really driven it's really related to the motor and vehicle liability. That was ruining where basically the actuality of interest rate is set to also, possibly become negative. So in our reserving, we have to take care of that negative actuarial interest rate, which led to some additions and also, in terms of bodily injury we see lots of you know, people jumping into that market and the claims tend to drag along a bit longer and it's an area that the Dutch industry for the last couple of years really had to take some additional reserve strengthening to deal with that part, I think we're fully there now on the old years, et cetera. And quite frankly this year also provided a very good reputation and opportunity to definitely look at that reserve strengthening.

In terms of headroom, the EUR1.5 billion it's not cumulative. If you do, if you want hearing you add a bit then you have less room on the other -- so it's not necessarily cumulative. And what you can buy for it obviously depends on the price multiples on the distribution side of business tends to be a bit higher than obviously multiples for instance a life book. On the other end, life book requires a lot more capital, so it really depends on the opportunity that you're looking at. I think in general, it's fair to say that if we see a very effective opportunity, we would have ample room to transact on it either by our current solvency or by actually using a bit of the headroom that we have there. And in addition to that, there are some other ways that we could create some more headroom in our capital structure for instance by longevity transactions etcetera. So it's we're in a comfortable position to have that headroom to support either inorganic or organic growth.

A - Jos Baeten {BIO 2036695 <GO>}

FINAL

Bloomberg Transcript

And on your last question on -- sorry go ahead, Michael.

Q - Michael Huttner {BIO 21454754 <GO>}

No, no. No, it's just you're so kind of -- I'm interrupting but is it big enough that you can buy out the (inaudible) business?

A - Jos Baeten {BIO 2036695 <GO>}

It depends on the price slide has gone up for it.

A - Annemiek van Melick {BIO 20317450 <GO>}

If we could buy it out with this headroom we would definitely like to have a conversation with (inaudible). And I think our shareholders would welcome them as well.

A - Jos Baeten {BIO 2036695 <GO>}

On your last question on the 10 points on the ESG at Sustainalytics the way sustainalytics looks at those kinds of ratings is they try to get a weight on the risk that companies run from a climate change perspective, they take into account, the governance of company, the portfolio of company, the assets that are owned by the company et cetera and the lower the number, the higher the score. So, we were quite proud and happy with the outcome that we ended up at this moment in time being the number one of all insurance companies worldwide and how important is it to us. When we IPO days -- we already said we want to become the most sustainable insurance company in the Netherlands and I think by now different ratings prove that we are the most sustainable company from our own. The way we run our buildings et cetera, but also from a portfolio and business perspective. In the first couple of years after the IPO, nobody discussed it, it wasn't important, it wasn't important for investors, but over time and also given the recent new reporting on climate, it's becoming increasingly important.

On the other hand, already a couple of years, even before the IPO, employees and customers do care about the profile of a company. Actually, it is for us in a difficult labor market increasingly simple to find people not on every people need we do have, but because of the profile we have in the Netherlands as a sustainable company, especially young people love to work for sustainable companies and also our customers for example, in the pension DC business. We see increasingly companies saying well we only want that the premium we pay will be invested on a sustainable way and then it is very helpful that there is independent proof from outside ASR, ASR is a sustainable company. So we're not only proud, but it is helping us in the business growth and as you have seen 31% growth in pension DC over the first half that is also driven by our profile as being the most sustainable company. Same happened in health, we've done a couple of surveys, why young people have chosen to take health insurance at ASR and the main answer is because you are a sustainable company. So it's helping the business also.

A - Annemiek van Melick {BIO 20317450 <GO>}

And to add to that is it helps on a DC side, but also on the asset management business side as Jos said, because we have around 26 billion that we manage for third parties and that's really we manage it for smaller Dutch pension funds for Dutch insurance companies and a lot of semi government and the niche that we are active there really ESG aside such mortgages and that real estate and there ESG profile needs to be sincere and it's definitely a selling item also with the increasing number of more American oriented investment companies in the Netherlands.

Q - Michael Huttner {BIO 21454754 <GO>}

That's helpful. Fantastic. Thank you.

Operator

Benoit Petrarque. Please go ahead. Your line is open.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Yes, good morning, Benoit Petrarque from Kepler Cheuvreux. The first one is on the very strong non-life 94% combined ratio ex COVID, and it's probably around the 91%, 92% while adjusting for the reserve strengthening you have done. So, is it kind of 91%, 92% clean figure for you in H1 and -- or did you kind of determine the COVID benefit you've guided for because it could be even potentially a bit more benefit actually in H1 from COVID, looking at the 91%, 92% level? And how do you think about kind of reconcile 91%, 92% to the 94%, 96% target I think it is pretty large gap there. Then, looking at the asset management strategy and we have seen disposal format and IP as well as -- how do you look at your kind of strategy? And I know you are more of a niche player and but scale is also important and you have EUR25 billion third-party assets. So, how do you think about asset management going forward? And I mean -- action, for example, the target for you or what do you think about M&A around asset management? And then the final one is on the excess investment return looking into H2, we have seen further spread tightening, a bit of widening on mortgages, but how do you see your investment returns moving in the second part of the year? Can you maintain the H1 level or do you see a bit of pressure and linked to that where you want the on the re-risking as well? Thank you.

A - Jos Baeten {BIO 2036695 <GO>}

Thanks, Benoit. Annemiek will talk you through the second and the third question. On your first question if I listened carefully, it's also asking how will, going forward, the combined ratio target look like? As you know on the 7th of December, we will talk about strategy and targets going forward. For the moment, we are comfortable with the 94% 96% target and if we take out all the so-called benefits from COVID, we're now at the lower end of the target as we have currently. When we introduced the start, we always have said in a year we don't see hardly any weather-related claims et cetera, we aimed at 94% in years where we do see average weather related claims et cetera, we might be more closely to 96%. You should take into account that first half, there were no weather related claims and in the second half, as you may know, we will have weather related claims the roughly EUR20 to EUR30 million, but then our projections we always do assume a certain amount of weather-related claims. So we think, we can be comfortable that we also for this year, if nothing strange is going to happen for the remainder of the year that we are able to meet, excluding COVID, the lower end of the 94% of combined

FINAL
Bloomberg Transcript

FINAL

ratio and how that will translate into targets for the future, that will be discussed on the 7th of December, if you are okay with that?

A - Annemiek van Melick {BIO 20317450 <GO>}

To go to your point on asset management, but obviously, we've also seen the news of an IP, and if we look at our own asset management business, a couple of things to note there: I think for us given the size that we have to actually have the knowledge that's on the that's really combining the knowledge of asset management and how to deal with solvency is very beneficial for us and it's a knowledge that we would like to keep in-house. Obviously, we will only keep that in-house if we can deliver that on a efficient basis and each year we review the efficiency of our asset management business we take on board some studies last year. We did it with BCG, we compare it with other captive affiliates and I have to say we score very well in terms of efficiency. So the actual cost benefit of outsourcing our asset management business is going to be very limited we expect.

In addition to that, it's a sustainable kind of low capital consuming fee business obviously that we have with the EUR26 billion of external party access on a management and its really niche focus out of the EUR26 billion, the majority is really for Dutch mortgages, Dutch real estate, which also -- which is also a business out of that we would like to have for our own investment portfolio. So keeping that fee business and keeping the relatively so far sustainable level of growth that we see in there, keeping the knowledge inside and being able to do that on a cost efficient way for us, and I was a reason to keep the asset management business within our -- within ASR. Could it be opportunities on the M&A side potentially, but I think it would be more related to getting some people or some fund managers, and some group of people stepping over to us, like we've also done last year from another asset manager to increase our experience of given the any liquid credits? So I would I would expect it to be more on that side rather than for us to go and acquire other smaller size asset management businesses.

Bloomberg Transcript

Q - Benoit Petrarque {BIO 15997668 <GO>}

Thank you.

A - Annemiek van Melick {BIO 20317450 <GO>}

In terms of the investment return, if you look at the OCC, first half-year, the investment return increased. It was a combination of effects that we saw in there. Obviously, there was a negative impact from the decreasing spreads for that was kind of offset by the --, which also decreases, which has a positive impact on the OCC excess returns. So, if you adjust for that, the real increase comes from the equity increase, the value just increase in over that value. You just take the obviously 6.6 % return as well as the addition that we did to our mortgage book. Net, we added close to EUR800 million of mortgages in terms of derisking and that 800 million addition kind of more than covered for the degrees and spreads that we've seen on the mortgage business. We also added a bit of structured finance and private loans and we expect to continue that derisking and add I think at full year, we said that we aim to add around 1.3 billion net of mortgages. We're still on track to deliver that and we're looking to add around 2 billion in total for this year, being processed -- and part actually invested into private loans and structured finance. Now whether that ultimately will you additional access returns also, obviously the bit on where spreads are going or equity prices are going and where interest rate is going.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Great. Thank you.

Operator

Robin van den Broek. Please go ahead. Your line is open.

Q - Robin van den Broek {BIO 17002948 <GO>}

Yes, sir. Good morning, everybody. Thank you for taking my questions. More follow-up on questions already asked. The first one on the -- excess spread just directionally thinking I guess we should see a positive net impact on the back of today's feasibility other than the UFO track. Is that correctly I summarized that correctly from your answer just now. And secondly, the deals more for you and I appreciate you what you probably want to keep most of this reserved for 7th of December, but just directionally on the combined operating ratio targets it feels that the conservation in the market with mostly done by your big other than in Nederlands. It does feel like the pricing dynamics of become more disciplined. So directions speaking, we could be expecting better command opening ratios for the entire industry, may be on the back of that. And second to that it also seems that the narrative on travel could be a bit more positive compared to the targets you set out in this management plan. So let me just directionally thinking whether that's right. And lastly, just a small question and announce to the grocery premium in life is down, but considerably year-on-year, thinking the presentation, you flagged the timing issues, but can you just confirm that, when you look at 2021 versus 2020, you're not expecting a big drop there? Thank you.

A - Jos Baeten {BIO 2036695 <GO>}

I think the first one was for Annemiek.

A - Annemiek van Melick {BIO 20317450 <GO>}

Yes, that would follow up on the excess spread. And I mean, Robin is it's hard to guess, what will happen obviously in H2 other than the of our direct which, based on current interest rates, that's relatively, easy to -- race wouldn't, wouldn't move. So far it's looking good, but it's really dependent on what equity prices will do, because that will drive the kind of value of equity on which we put the access return, as well as the development on mortgage spreads, if they would continue to come down a bit further. And we, generate additional mortgages and maybe we cannot add out, if spreads improve a bit on mortgages then potentially that bit of access return coming out of there.

A - Jos Baeten {BIO 2036695 <GO>}

Okay, then on your second question, you actually already gave the answer in your question that I would love to go to answer this on the 7th of December. But in general, what we do see in the market, yes, there is more pricing discipline and over the last five

FINAL
Bloomberg Transcript

FINAL

years, I think ASR has been significantly ahead of competition in terms of managing the non-life business. And as you can imagine, also going forward, we want to be the leading provider of non-life business and we would have difficulties to give up our leading position and that will be taken into account in the discussion on what will be the combined ratio targets going forward. So, we will definitely take into account that we have been the leading party over the last couple of years that there is more discipline in the area of non-life than ever before and the difficult part will be projecting what will happen with traffic in the Netherlands now more companies allow their employees to work from home. So all those factors will be taken into account and the winning number will be presented on the 7th of December.

On your last question the GWP in life, I already mentioned it in the introduction the main reason that it looks like a big drop is the one off we had last year in the first half on our own pension contract. Timing differences if you want to predict -- predict it for the full year. I would take a look at Page 35, I've in the presentation where we show the runoff of the life book and our best guess for this year is that the winning number at the end of the year, will be roughly in line with the general run-off the life book, which is 2.7% per annum.

Q - Robin van den Broek {BIO 17002948 <GO>}

It's very clear. Thank you very much.

Operator

Fulin Liang. Please go ahead. Your line is open.

Q - Fulin Liang {BIO 21126177 <GO>}

Hello, thank you given the time. I'm just getting two questions. The first one is the de-risking. So you de-risking your assets to get the higher spread. I just wonder, actually how much you will see the first half kind of OCC is from, your de-risking? And how much we should expect going forward because Annemiek just said that, you're going to continue and doing the de-risking. So that's one thing. And then secondly is the, talking about M&A headrooms. You just mentioned about longevity hedge to increase your headroom. So just wonder, I guess two questions. The first one, what are the other kind of possibility? For example, would you consider like selling your asset management business to raise fund? And would you consider actually raising fund from the shareholders for all from the market to execute that? And also how quickly actually, if you want to do like longevity hedge. You want to respond how quickly, actually you can ramp up there the headrooms for larger M&As? Thank you.

A - Annemiek van Melick {BIO 20317450 <GO>}

Thanks, -- . In terms of every risking, I said, what we've done last year is around plus 8 of a lot of year, around EUR800 million of mortgages, we added. We also shifted a bit within credits where we reduced certain credits at the expense of adding close to 500 million into liquids and we reduce the bid our sovereign portfolio. Now, I think the total de-risking property added around 7 million of ROCC in H1, it goes gradually and obviously also specifically on the mortgage side kind of depends on the spread development how

Bloomberg Transcript

FINAL

Bloomberg Transcript

much we would make out of that in the second half of the year, but let's say that in a total, you could just multiply that and we're still as we said at full-year expect to generate versus last year in total around EUR15 million more, one-five million more OCC this year based on the derisking that we're doing.

Now in terms of headroom as I just said in response to the question raised earlier on asset management, we don't anticipate selling the asset management that's definitely not on the table now, so we wouldn't expect any proceeds from there. The headroom in Tier 1, Tier 2, 3 that's relatively easily and readily available. We're ready to go there. Longevity is something that we always look at and given the fact that we're still awaiting the final language on the EIOPA review specifically surrounding the DVA because that actual language on DVA and how that's incorporated it kind of triggers the attractiveness of either moving -- or not. You want to have that in place, but if we were to do a longevity transaction longevity insurance rate, we would like to have a pick-up cause in there. Just in case we would move to a came in the future, we would kind of not have given, but I've given away part of the benefit already and paid for that. So, including a breakup clause it would be kind of mid-single digit, the positive impact of longevity transaction, which will probably take us around a year or something to execute. So, headroom easily available, longevity would take around half a year, a year to execute such a transaction. Obviously, if we were thinking about moving to a pin that has a longer lead time that would take from the point when you take the decision, it would take around three years to get that done. And that's not only to build the model but that's really related to the supervisory project that you would have to go through and use that you would have to demonstrate, et cetera.

Q - Fulin Liang {BIO 21126177 <GO>}

Thank you. Sorry just a just a follow-up on the headroom of raising capital. Would it be possible, if you want to raise equities more than that?

A - Annemiek van Melick {BIO 20317450 <GO>}

I think it would also be possible, but it would always be possible. What is kind of depends on the story that you raise the equity for, right? And that depends on the companion that of the nature we can then offer to our shareholders of the reason why we going to raise equity. And in the absence of any significant large M&A raise as we currently see there, there would definitely be no need to raise equities.

Q - Fulin Liang {BIO 21126177 <GO>}

Thank you.

Operator

Steven Haywood. Please go ahead. Your line is open.

Q - Steven Haywood {BIO 15743259 <GO>}

Good morning. Thank you very much. On your OCC, it's obviously given some very helpful guidance and it certainly was very notable and it looks like you're heading towards

FINAL

Bloomberg Transcript

EUR 550 million OCC for 2021 if you take second half in 2020 and deduct the flood losses. And is there anything additional that I should be thinking about, when looking at that EUR550 million starting point for the full year, when OCC and where should we be thinking about going forward 2022 and beyond? And obviously, learning UFR slightly helps raise the OCC and the non-life business is growing for how much of the life business offsets this growth in OCC? And secondly, from me, on the operating result for 2021 and obviously, you said it's significant increase and again, you can do the math to get through to it sort of EUR950 million pre-tax operating result for the first half, but is there -- encompasses the first half result and the second half of 2022 at -- 2021 and after the floods again. Is there anything else? Obviously similar question to the first question on the OCC, was there anything else that we should be thinking about progression in 2021, and related to this you've highlighted that it should be a healthy dividend or the year. My question is more about thoughts behind dividend policy and have you thought potentially by moving to a progressive DPS policy rather than a payout ratio? Thank you very much.

A - Annemiek van Melick {BIO 20317450 <GO>}

All right. To start off with your last point and obviously, I can understand the question of including a very positive year, including COVID benefits to them drop the payout on this to progressive the nature of the dividend but that's a topic definitely have on the agenda on the 7th of December. So that's too early to allude to that now. For now we just focus on this year's on this year's outlook. In terms of OCC that the EUR550 million target is your target that you just said that you just mentioned. I think what we've said on the OCC is for H2, and the look at last year's H2, which was around EUR200 million, the --your higher impact. I would say roughly is around 15 million as of today. And then also, look at the some of the COVID impacts that we, that we have in there as well, and especially look at the flooding that's still expected to come.

So, if you deduct for you over and around 15, if you deduct for the floods, let's take the midpoint do the post actually deduct another '20 year end at around 165 and then it's obviously a question how much positive COVID benefit will still be in there? And we'll probably have some additional benefit of -- as I just said, so that's a bit the outset that we -- the layout that we have for this year on COVID. And if you then -- and then on the 7th of December, we'll talk a bit more about what the underlying nature, and what the predictions on OCC is going forward is going to be. Similar goes a bit to the operating result outside where we also said just take last year H2 could be some positive impact from COVID coming, we obviously have some underlying business improvement, but as far as we can judge now, it'll be EUR20 million to EUR30 million of the floods. Adjust for that, you may end up net around the same number of last year depending on the COVID situation in the second half of the year, you get too close to EUR1 billion. That's kind of the math that we're doing and I guess, you are doing here as well. And with that, I can give you converted a last year that we would consider that a favorable improvement.

Q - Steven Haywood {BIO 15743259 <GO>}

Great.

Operator

Thank you. (Operator Instructions) There are currently no further --

A - Jos Baeten {BIO 2036695 <GO>}

Okay. I understand. There are no questions. So I think this is a record in terms of how long our calls take normally. I think -- and myself have reduced the introduction a little bit so it was very helpful to end up this call within an hour. Thanks for joining us. As said, we are proud on the results. We delivered not only in financial perspective, but also other points we have talked about today. Thank you for joining. We had hoped to start traveling at from tonight, that will not be the case, so hopefully the full year numbers will allow us to travel or even the update of the 7th of December Michel, Annemiek and myself are looking forward to meet you in person again and to talk about ASR end results. And having said that, for those who are still on holidays, we do wish a pleasant continuation of the holidays and for those who started working again, have fun.

Operator

Thank you. This concludes today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

FINAL
Bloomberg Transcript