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ASR Nederland NV Corporate Analyst Meeting

Company Participants

- Dick Gort, CEO of Real Estate
- H. C. Figee, CFO & Member of Executive Board
- Jack Julicher, CEO of ASR Asset Management
- Jos P. M. Baeten, Chairman of the Executive Board & CEO
- K. T. V. Bergstein, Member of Executive Board
- M. H. Verwoest, Member of Executive Board
- Michel HÃ¼lters, Head of IR and Ratings
- Patrick Klijnsmit, Director of Accounting, Reporting & Control
- Philippe Wits, MD of Innovation and Digital

Other Participants

- Benoit Petrarque, Head of Benelux Equity Research
- Claudia Gaspari, Director & Analyst
- Cor Kluis, Analyst
- Darius Satkauskas, Associate
- Farooq Hanif, Head of Insurance Research in Europe
- Farquhar Charles Murray, Partner, Insurance and Banks
- Hadley Cohen, Research Analyst
- Jason Kalamboussis, Equity Analyst
- Johnny Vo, MD
- Matthias De Wit, Analyst
- Robin van den Broek, Banca di credito finanziario S.p.A., Research Division
- Steven Haywood, Analyst
- Unidentified Participant, Analyst

Presentation

Michel HÃ¼lters

Good morning, ladies and gentlemen. Welcome to have you with us. Welcome to be at the a.s.r. Capital Markets Day. And I'm delighted to have you with us. I believe that most if you attended our welcome dinner yesterday evening. So I should say welcome back to you. I hope you found the evening enjoyable and informative as well. We're really delighted to have you here with us today. And we have here in the room shareholders and analysts that have been covering the company right since IPO and those that became part of our journey later on. Good to have you here. I would also like to welcome the

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investors that are watching this on the live webcast. Glad you're joining us in this digital way as well.

I'm Michel HÃ¼lters, as you may know, I'm the Head of Investor Relations. I'll be the moderator for today. And I'll make sure we'll keep the program on schedule.

I'm sure you can imagine that this is a very exciting day for us. It's the first Capital Markets Day since our IPO 2.5 years ago. And we have a full program lined up for you. And I'll first introduce the speakers of today. I'll start with the members of the Executive Board. Jos Baeten, our CEO, he will give you an update of the strategy. And he will discuss the medium-term targets that we already announced earlier this morning. Then our second speaker today is Chris Figee. Chris, he will give you an update and talk about how we use the strong balance sheet to execute on the strategy. Then we have Michel Verwoest and Karin Bergstein, both are COOs. And they will present the developments and the opportunities they see in the businesses for the coming years.

Then this afternoon, we have 4 other speakers lined up for you as well, in order of the program. Philippe Wits, Philippe is the Chief of Innovation at the company. And he will discuss how we apply and harness the advantages of artificial intelligence and robotics in our organization. Then we have Jack Julicher. Jack is the CEO of a.s.r. Asset Management. And he will discuss our asset management platform and how we use that platform for our own account also to come up with propositions for third-party assets. After Jack, we have Dick Gort. Dick is the CEO of a.s.r. Real Estate. And he will also talk about the platform that we have and how we use that to capture third-party assets. And finally, last but not least, I should say we have Patrick Klijnsmit. He's the Director of Group Accounting, Reporting and Control. And he will present IFRS 17 and its impact on our financial accounts to the extent that we know today. And he will also provide additional disclosures for our Life segments. So those are the speakers.

We have scheduled also ample time for Q&A. So any questions that you may have during the presentation, please preserve those for those specific Q&A slots. And we've also scheduled in some breaks for your and our convenience.

In addition to the speakers, in the room present and available for any questions you may have is also the senior leadership of the various business units. You may have met some of them already during dinner last night. But again, today, they are available for questions. So please feel free to reach out to them during the coffee break or lunch or perhaps drinks after the program.

My final introduction is the IR team, besides myself. And let's see if they're still bright and shiny; it's been long hours in the past couple of weeks. Barth Scholten and Vincent Uriot, also available here today for any questions that you may have.

Before we get started, I have 2 requests to make. First, we have a disclaimer on any forward-looking statements in -- it's in the back of your presentations. So if you could have a look at that as well. And secondly is if you could please make sure to switch off the

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sound of your mobile device. So the program will not be interrupted by any bleeps or (bloops) or what have you.

With that said, ladies and gentlemen, I know that the speakers are eager and ready to present their story. I hope you are ready. Let's go. Jos?

Jos P. M. Baeten {BIO 2036695 <GO>}

Thank you very much, Michel. Ladies and gentlemen, also from my side, welcome to our first Capital Markets Day after our IPO in 2016. And today, hopefully, for all of you, we have a full and exciting program.

And as said, our journey started as a listed company roughly 2.5 years ago. And by then, when we internally prepared our IPO, some of you may know, one of my hobbies is riding roller coasters. And the faster, the higher and the more turns, the more I love it. And internally, I always tend to compare preparing a IPO with riding in roller coasters. And when we did the analyst presentation in April 2016, I wanted to start with this comparison. And as you know, when you prepare an IPO, you have lots of bankers and lawyers. And they all came to me, "Don't do it, don't do it. Investors won't like a comparison of an IPO with riding a roller coaster." However, since we've IPO-ed and during the IPO, I have experienced the same as I experienced riding a roller coaster in the U.S. My favorite roller coaster is the Kingda Ka in Six Flags Great Mountain -- Magic Mountains (sic) (Mountain). I experienced our IPO the same as riding that coaster. Having said that, now we are IPO-ed, I think since our IPO, we had quite of a smooth ride. And our -- and that was based on our strategy and the way we executed it. And we intend to continue that going forward.

So let's have a look at how we introduced a.s.r. at the IPO. And I believe on this slide, you will find all the key topics that have been discussed during the 2.5 years of our listing. As said, we became listed in 2016. And within a time frame of only 15 months, we fully executed the privatization from the Dutch government. And this journey, some people referred to it as a textbook IPO. And we're proud on that. Most of you have been with us the whole journey. Some of you regrettably have joined us later. But I'm sure you will recognize all the words on this slide. This is, in a nutshell, our equity story. And I can add, we are very pleased with the strong support we get from all of our investors.

Today our focus will be, as you can expect, mostly on financial issues and on the business aspects of a.s.r. However, running an insurance company comprises more than only the financials. It's also about creating the right culture and develop very strong corporate values.

So allow me to address a few words on something fundamental to the success of a.s.r. And Steve Jobs once said, "A company needs to have a why." The why of a.s.r. is we are here to help customers. Without customers, we are nowhere. We help them to live their lives and to mitigate risks they are not willing or not able to bear themselves. And we help them to accumulate wealth for future use, for example, in our pension area. And all 3,800 employees at a.s.r. are committed to deliver the services for our customers.

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Yesterday evening, we had this dinner. And those of you who were present were able to meet 3 enthusiastic young talents of a.s.r., who each of them make the difference on a day-by-day base within a.s.r. But I'm equally proud of all the more senior colleagues, being in the 40s, 50s and even some of them in their 60s, they put forward their best skills to deliver to our customers. And we all within a.s.r. act according to a number of, to my opinion, very important corporate values. They are our behavioral compass. And those are quite simple: we are helpful; we think ahead; and we act decisively. These corporate values have created the winning culture at a.s.r. And I'm -- quite frankly, I'm proud on the achievements we have delivered together.

So now let's have a look at what is a.s.r. today. a.s.r. is one of the most diversified insurance companies in the Netherlands, with roughly 60% of top line in Non-life and 40% in Life. Our history goes back almost 300 years. And we are deeply rooted in the Dutch society. We're a leading insurance company in the Netherlands with a very clear top 3 position. We run the business with very well-known brands. And we have a leading position in the still dominant broker distribution in the Netherlands. And finally, we are able to serve over 1.5 million families and corporates in the Netherlands.

In the Netherlands, we have to operate in a very fast-moving and highly regulated environment. So we have to stay on top of all the trends we see today in the economy, in digitalization and also in all kind of regulatory trends. And I'm not going to talk you through all of those. But let me mention 2 of them.

Technological developments affect the industry and drive the development of new business models. Philippe Wits this afternoon will talk about how we approach those technical developments within a.s.r. Secondly, we see lots of socio-demographic developments. And also there, one example, in the Netherlands today, out of the 7 million people in the workforce, 1 million of them are no longer employees, they have become self-employed. And this number is growing rapidly. Those individuals require different services and tailor-made insurance solutions from insurance companies. And we are perfectly positioned and well placed to benefit from this macro trend. And Michel Verwoest will talk about this, this morning. And therefore, adaptability has become one of our distinctive characteristics. The proof is -- of that is in how the people that know a.s.r. already, for more than 10 years, the proof of our ability to change is in the change we have gone through since our nationalization in 2008. And therefore, I think the investment proposition that we presented in 2016 is still intact.

And let me give 2 examples of our investment proposition and why we think it is still valid and will remain in place also going forward. First of all, we combine a very robust stock of capital with a high return on equity and very attractive capital generation track record. Secondly. And that's another example, we've been proving that integration of bolt-on acquisitions is in the DNA of a.s.r.

(technical difficulty)

(ability) together. We aim to achieve a combined ratio in the range of 94% to 96%. We have decided to exclude Health from the target because, as you may know, Health is a

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product line that is more prone to political scrutiny. And our targets for Health remains where it is at 99%.

And why do we introduce this range? Firstly, the range reflects our leadership to manage these products in a profitable way and, at the same time, realize growth. It allows us to remain competitive and to protect our in-force portfolio. The range allows us to absorb normal storm and large claims. And for example, in a year that we see the normal storms that we have assumed, the normal large claims and large fires, we assume that we will be able to deliver the 96%. And in years that are much better, for example, like last year, 2017, we had hardly any big storms, hardly any big fires, then we are probably able to deliver closer to the 94%.

Importantly, this combined ratio target goes hand-in-hand with our Non-life growth targets. As you know, the Dutch markets in Non-life is not a growing market. Despite that, we intend to grow inorganic -- sorry, organically between 3% and 5% over the next three years. So the combined ratio target should be seen in connection with our growth targets. And together, this will create value also from a shareholder perspective going forward. So we think we are comfortable taking market share and, at the same time, remaining a very profitable Non-life business in the Netherlands.

Then let's move to Life. In Life, we also have 2 metrics. First of all, we intend, despite the declining Individual life book, to keep our operating result in Life stable compared to 2017. And by then, the Life returns was EUR 633 million. And we remain confident that in terms of earnings, we can maintain the level of 2017, as said, for the next three years. And secondly, in Life, we are very focused on managing our costs. And we target to lower them from the current 57 basis points on our reserves to safely within the range of between 45 and 55 basis points on basic provision. And last but not least, we also introduced fee generation business at our IPO. And this business is growing very significant and has an increased absolute contribution to our net operating profit. And in this area, we target to achieve at least EUR 40 million of operating results of the combination of the 2 segments, Distribution on the one hand and Asset Management on the other hand. And this is, by the way, excluding our banking activities. And I will talk about them in a minute. And after we have reached the EUR 40 million level, we aim at a growth of at least 5% per annum going forward. And of course, as you know us, we will not refrain from beating our growth targets if opportunities of growth appear.

In my introduction, I already talked about the other stakeholders. And we think it is important as an insurance company deeply rooted in Dutch society that we also need to introduce a number of nonfinancial targets as well. And those are all also for the medium term. First of all, for our customers. As you may know, we on a day by day measure how happy customers are with the interaction with our colleagues. And last year, we already had a very high score, a positive Net Promoter Score of 40 points. And we aim to grow this already very positive from a Net Promoter Score towards 44 points in 2021. And that will be hard work.

The second nonfinancial target we introduced today is on our investment portfolio. And specifically to the measurement of the carbon footprint and the level of impact investments we can do with our portfolio in the next three years. We explore

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opportunities to further reduce the carbon footprint of our investment portfolio going forward. And that will be in line with the Paris Agreement. a.s.r. already measures and evaluates the results of its effects with the final goal to support the global energy transition. We already measure the carbon footprint in as well our sovereigns and corporate portfolio, as well as in equities and in credits. And we will now add real estate and mortgages to that. And our objective is that 95% of our total investment portfolio is measured regularly by 2021. And I believe we are the first insurance company that announced such a target going forward. And in addition to the target, we aim to invest up to EUR 1.2 billion in impact investment. And this can be done within our return requirements.

And thirdly, yesterday evening, we talked about the culture within a.s.r. We stimulate our employees to help local society and communities by allocating part of their -- of our employees' time to help individuals, families and groups with financial issues. We for example provide financial courses for children. We help families to improve their financial planning and assist communities more generally. And we aim to grow in this area by 5% per annum.

Let's now talk about how we aim to deliver on those targets. And our plans can be categorized in these 3 buckets. First of all, we maintain our financial discipline. It has gotten us where we are today. Secondly, we manage the value from our existing business. And with that, we mean both the robust capital-generative service books as well as the existing Non-life business. That positions us altogether so uniquely as a true composite in the Dutch market. And thirdly, we have identified a number of areas for growth. Today, we'd -- we want to focus on the areas of growth. So in the presentations of Michel, Karin, Jack and Dick, we will talk about the areas of growth. And value over volume, by the way, does not mean for us that we are shrinking to glory. But we deploy our capital in a rational manner to pursue profitable growth volumes and earnings growth in the selected areas, being P&C, Disability, Asset Management and Pension DC.

And let me take you through our financial disciplines and how we intend to deploy capital in pursuit of profitable growth and extract value from the existing business. First and foremost, our disciplined approach to manage the business is what defines us. And this has proven to be successful. And we do not adjust this going forward. Value over volume, as said, continues to be our key principle when selling products and services. We of course pursue volume growth. But we'll only do this if it is value accretive. Maintaining our discipline in terms of cost efficiency is key to not return to past mistakes of the industry. Opportunities to consolidate in markets will be continued to look at, as will certain expansions of our product and services portfolio will be considered. This -- and I want to be clear about it, this at all times evaluated against an ambitious hurdle rate of at least 12% return on our investments.

And maintaining a strong balance sheet with room to maneuver. Capital is allocated rational. And this takes me to the next slide about capital deployment. We will continue to allocate capital in a rational way, as said. And we continue to use our Solvency ladder. You never want to be below the 100%. 120% is the risk appetite. 140% is the level where we will be able to pay cash dividends. And if we are above -- safely above the 160%, we will be able to be entrepreneurial going forward. You are quite familiar with this ladder. It

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hasn't changed. And if and when we are in the entrepreneurial zone, we focus on growth opportunities. And we use this zone to adopt regulatory changes, like the lower UFR from 4.2% in the direction of 3.65%. And with the current reported Solvency ladder of -- Solvency level of 194%, we for sure are in the entrepreneurial zone. So the question raised here, the answer to that is a clearly yes, we are above that zone. And we are on the lookout for profitable growth.

And we see 3 ways to deploy our capital going forward. First of all, organic growth. As you have seen, we feel comfortable with a growing market share, especially in the non-life area. And we have growth ambitions in the area of distribution and services and in asset management. Another value-additive way to grow the business at a.s.r. is to add books of business, especially in the life area. We are already the consolidator of the funeral market. And we intend to become the consolidator of the individual market in the -- individual life market in the Netherlands as well. And last but not the least, we have a robust level of Solvency. And we do see room to increase our exposure to certain market risks. And Chris will talk about this in depth later today because we are fully aware of where we are in the cycle. And if -- let me make it clear, if there are no opportunities to deploy capital for further growth, we -- and we can't meet our ROE target anymore, we will not hesitate, we are not capital hoarders, to return capital in the most shareholder-friendly way we can imagine. And also, Chris will give some guidance on that later today.

And this matrix where we plot our business is familiar to you. And it changed a little bit. So let me talk you through it. In the top left, where you will find the Non-life segment, we focus on to continue our organic growth in P&C and Disability. And if we see inorganic opportunities there, we will certainly consider them. Health insurance, which was at the right side, is now added in the quadrant left upper. And it's now combined with our growth target in the Disability business. So we think having a health insurance company needs to be linked to our Disability business. And together, we will be able to accumulate growth there. Selected Distribution and Services, which were also on the right side, are now on the upper left. We have acquired those companies over the last few years. And they will facilitate further grow going forward. And they will be helpful to become an even more service-oriented company. Our proximity to the end customer has reduced. And this, we feel, is key to be adaptive to all of the trends we discussed earlier.

The Life segment basically could be split into 2 areas. First of all, the bottom left, where you will find our service books, which we adequately have capitalized and managed to lower the cost and to variablize the cost and to deliver excellent service. We have moved Funeral to this section. For both Funeral and Individual life, we will be actively on the lookout for opportunities to add books of business. And I will come later on in my presentation on what are the opportunities we still see in the Dutch market. Then in the top right, we have our growth opportunities that exist primarily out of the Life segment, being Asset Management and Pension DC. And to conclude on this slide, we also have non-core. We had it in the past. And we recently decided that we need to move the bank to this area. And we are in the middle of a process of evaluating opportunities for ASR Bank going forward. But as from today, we consider the bank to be non-core.

Now let us zoom a little bit into Non-life, followed by Life and Asset Management. Let me start with P&C. The foundation, the reason why we are successful in this area and are able

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to grow profitably in the Dutch very competitive market lies in the following unique selling points. First of all, our insurance craftsmanship. And with that, we mean, first of all, our underwriting skills does comprise risk selection and pricing; claims management; and running an operation in a very efficient way. Secondly, we have a leading position in the still dominant broker distribution in the Netherlands. Today, out -- every 1 out of 3 policies that is -- that comes through the broker distribution ends up with a.s.r. So our market share in that area has increased towards roughly 30% to 33%. And we have learned how we can maintain a superior combined ratio while, at the same time, show organic growth. And we now today have learned how to integrate portfolios on our IT system. And our IT systems can onboard more business going forward without increasing costs significantly.

And where should the P&C growth come from going forward? First of all, organically, as said, by gaining market share at the targeted combined ratio. If we can't make the combined ratio between 94 and 96, we will probably decide not to grow. And if and when available, we are willing to onboard small and medium-sized P&C books without, as said, increasing our operational costs going forward. We will benefit from the created economies of scale on our new platform. And Michel will talk about that later on today. And further on, we will be able to increase the share of wallet within our acquired distribution partners going forward.

Then Disability. Actually, the foundation is comparable to the P&C foundation, a strong knowledge of underwriting, pricing and claims handling. But we also have become the owners of an evolving disability platform. And Michel will explain this later in detail. But today, we own a number of distribution companies. We now -- we own added services that help people to remain healthy. We have in-house claim prevention services. And we have actually disability treatment and reintegration businesses. And that all together enables us to build a platform going forward to capture the growth in Disability.

So we will be able, going forward, to serve customers through the whole value chain. And we will own lots of customer data from all of those angles. And this will be helpful to price the business adequately but also to help customers to remain healthy and to bring down the combined ratio. And as a result of that, we will be able to improve customer services and as said, especially in the area of self-employed people that has become increasingly important, between 40 -- 94 and 96.

So now the Life segment. Life premiums, as said, represent roughly 40% of our total premiums. But the contribution of operational result and capital generation is and will remain large for longer. The robust capitalized books that we manage and service book that we have comprise the traditional DB Pensions, the Life Individual business and the Funeral book. Our Funeral book, by the way, is not closed for new production. But sales have reduced since the commission ban that was introduced by the government in 2006. Our foundation for the successful Life business lies in that we are able to run this business effectively. And we have been able to implement simplified processes with low and variable costs. And Karin will talk about that later today. We've been able to excel in the migration and conversion of books. And we have become specialists in how we can migrate portfolios, complex portfolios, simplify them and bring them over to our platform. And lastly but not less important, we have been able to optimize Solvency II capital and investment returns on our own books and acquired books.

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So what are the growth opportunities we see in this area? As said, we are a consolidator in the Funeral area. And we intend to become the consolidator of Individual life books in the Netherlands, something that the market is already, for more than 10 years, looking for. But until now, nobody was successful in that area. And please refer again to the stated targets. We intend to keep our operational profit at least stable compared to last year's, the EUR 633 million. And we intend to lower the cost from 57 basis points to 45 -- to between 45 and 55 of basic provisions.

Then lastly, the -- our growth pursued in the Asset Management area. Growth of our Asset Management businesses was already targeted when we IPO-ed the business. Basically, at that moment in time, our asset managers were only focusing on managing our own insurance assets. And we have been able, since then, to grow organically and inorganically our assets under management. And we did it in a profitable way.

The foundation of our success in Asset Management lies in, first of all, we have a very long-lasting experience in liability-driven investment management based on managing our own insurance assets. Niches like Dutch mortgages and real estate and ESG-related assets are also -- have also become one of the successful aspects in our Asset Management business. And we have introduced a range of capital-light Pension DC products over the last few years. And we have been able to grow in that area. So we see clear opportunities going forward. And Jack and Dick will talk about it extensively later today, to grow in the Asset Management segment. And we will continue to build and buy on -- sorry, we will continue our build-and-buy strategy in this area to add scale and skills as well at the same time. And we aim to achieve, as said, an operating result from this segment of at least EUR 20 million by 2021; and from there, 5% growth per annum.

During my presentation, I, a number of times, mentioned that we still see significant inorganic growth opportunities in the Netherlands. And as you know, we prefer -- and we prefer to look at bolt-on acquisitions. And how we define them going forward, let me talk you through this. We've used the DNB statistics to prepare this graph. And we have excluded the traditional top 5, being Achmea, NN-Delta Lloyd, us, Aegon and VIVAT. And this leaves us with the following opportunities in the Dutch market. And we've identified per segment at least 12 to 14 companies that may be well available going forward. Within the P&C mid-market, we have identified roughly EUR 3 billion of premiums, which is 30% of the Dutch P&C Non-life market. Within Disability, in the mid-market, we have identified roughly EUR 1 billion out of the EUR 3.5 billion, which represents -- which is -- which could become available going forward. And within Life, the group of mid-market insurance companies which own roughly EUR 20 billion of provisions. So all in all, in those 3 areas, we think there are still 12 to 14 insurance companies available that may need to find a safe home going forward.

And what are the drivers for consolidation today? First of all, the regulatory Solvency II framework. Going forward, also IFRS 17 may create opportunities to consolidate the market. But the most important, especially in the life market, is every small and medium-sized life insurance company faces the decrease of the cost coverage. And they all need to find a solution for the lower costs coverage in their products. And as we all know, there is an end in cost cutting. So we expect that a number of those companies will need to find a safe home.

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When and how much this potential will occur. So to speak, is uncertain. It is difficult to predict. And we will not try to guide you on that. We merely want to stress that inorganic growth, like the bolt-ons that we have done over the last few years, is a real possibility to grow a.s.r.'s business. And as you well know, we prefer the M&A strategy in terms of bolt-on and smaller acquisition. And we never have been focused on large transformational transactions.

And the question will inevitably be raised today. So let me preempt it a little bit. If and when we see a possibility to do a large-scale transformational transaction, we from a management perspective feel obliged that we at least need to look at it. But in all cases, we will stick within our financial framework. And as you know, one of the important criteria in our financial framework is a transaction has to meet the 12% return on investment. So yes, if and when VIVAT will become available for sales. And we've seen all the press release recently, we will take a look at it. And the jury is out whether we will be able to pursue such a transaction within our own criteria.

So let me conclude. And what are the key messages I would like you to remember? We have delivered on our targets. And we continue to build on this very strong track record of delivery. We have defined a very ambitious set of new targets for the period of 2018 to 2021. And I like you to remember, those are targets we have to realize in a competitive Dutch market. So compare our targets with all the targets of our competitors. We are uniquely positioned to leverage our capabilities. And we have -- that we have to grow the business as well organically and inorganically going forward. And underlying our strategic principle will remain to be value over volume. And we deploy capital for profitable growth. And we remain committed to our financial discipline. And last but not least, what you get today is a.s.r. as it is plus our pursuit of profitable growth.

Thank you very much. I would like to hand over to Chris, who will elaborate on capital management.

H. C. Figee

Jos, thank you very much. Ladies and gentlemen. Good morning. Great to have all of you in this room. It's large -- a large number. And great to have -- could you stand up, please? Also great to have people on our webcast.

For those of you who picked up a booklet when you came in, there's some information on the art in our room. We're joined here by the 2 brothers, the Witts. And...

Unidentified Participant

Sorry, can you (speak up louder)?

H. C. Figee

Is the sound on? Sorry. Okay. Okay. Apologies, guys. I'll be re-mic-ed, it appears. Okay. Yes. Not yet? I guess we are. Very good.

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So I was trying to say we're joined here today by 2 gentlemen, 2 distinguished gentlemen, the 2 brothers, the Witts. The guy on the left-hand side is Jan de Witt, where he was the first actuary in the Netherlands living in around 1600s. So when I'm talking about the Solvency II, ex UFR, ex VA, with the DTA-adjusted tiering margin, at least one of them is in this room will enjoy that composition. Secondly, sorry to say, they -- ironically, he didn't live very long. He was beheaded by the relevant authorities at that time. So when you talk about vigilant regulators and a tough DNB, life isn't so bad today.

Having said that, let me start with my presentation. It's called a quality balance sheet enabling the pursuit of future growth. The 3 words to remember is quality, a quality balance sheet; enabling because, ultimately, the finance function, the risk function should enable the development of the business; and the word profit, profitable. We aim to achieve profitable value-creating growth for our group. And of course, I'm going to talk about a.s.r. as what we do today using the familiar terms of stock and of flow. I think I'd love you to remember a.s.r. as an and company, not an or company. And I mean, a.s.r. is a company that is able to deliver actually the returns and invest in the business and return to shareholders. It's not an or company. It's not or invest in our business or return to our shareholders. We're an and company. We're a company that creates a continuous flow of profits of capital on already strong stock of capital that we can deploy in our business organically and inorganically and return to shareholders. We're an and company, not an or company.

To that matter, I'll start with earnings. Looking back on the last year since IPO, we've delivered a significant growth in the earnings of our group. Whether you look at IFRS earnings or operating earnings, growth substantially north of 10% per annum. And if you were to strip out the benefits from shadow account and in capital release, there is underlying earnings growth of this group by any metric, which also translated into strong earnings per share and dividends per share. We were able to translate the earnings growth in the group into attractive returns to shareholder, with over EUR 750 million of cash distributed to our shareholders since 2015. So the group has had a good historic performance, good historic track record of growing our earnings.

That actually is, of course, founded in our business. If you look at our business portfolio using the 4 quadrants that Jos already mentioned, the matrix that Jos produced, each of those 4 segments have shown attractive earnings levels in an absolute terms and growing earnings levels over time. Whether you look at our Non-life businesses, whether you've also plotted the distribution businesses or whether you look at our service books or the Asset Management operations, all of those businesses have shown growth. And I'm very pleased that the Asset Management business is now also -- it's small. But it's growing and starts to contribute meaningfully to our bottom line

The box at the bottom right is our non-core operations. In 2015, pre-IPO, we made additional reservation for the Leidsche Rijn Centrum development that has been fully, fully provided for. That was a real estate development activity that we have inherited from the old Fortis organization and that we're rounding off this year, fully provided for and we've moved to the bank, to the non-core segment as well. In terms of earnings, the bank has been relatively flat in the past year. So think about a 0 plus 1, minus 1 type of result in the past year. So the bank has been included to the non-core graph. But the actual numbers are relatively small.

And the Asset Management business is now a EUR 10 million sustainably, 50-50 split between real estate business and the classical capital markets, Asset Management business. But it's clear to us that all quadrants have been contributing to our earnings and all quadrants have been showing attractive level of earnings and attractive growth in earnings, which yield a very strong return on equity on a growing stock of equity. Despite about 9.5% growth in equity or a 10% growth in operating equity, the ROE of the group has been above 14%, sometimes even above 16%, 17% in very specific quarters. So we've been able to deliver a good ROE on a growing stock of equity.

That also poses a slight numerical challenge because, in the long term, the denominator in the ROE calculation will catch up. That is the E, the average equity in the ROE will continue to grow over time. And at a pace where we should be adding results and adding earnings, the E will catch up, putting some kind of mathematical pressure on the ROE simply because the denominator will increase. That's the main reason why we put the ROE range in a 12% to 14% range. We will not drop below 12%. If you do some numbers analysis on last year's earnings, for our ROE to drop below 12%, the E would need to be above EUR 4.4 billion. And it will take quite some time before we get there. But the ROE range of 12% to 14% basically says we can continue to run at the existing high level of earnings, we can add some earnings growth to it. But ultimately, there is an E component that needs to catch up, which will gradually erode the ROE. But 12% to 14% is the range that is still consistent with creating value, still much above the cost of capital and the level that we feel is consistent with outperforming businesses as we're running it. So strong ROE on a growing book of equity. And we'll continue to have an ROE substantially north of the cost of capital.

Let me then move to capital. The terms we use, I guess you know, flow and stock. So the question, does one have enough capital? Does one generate enough capital? And those who can say yes to those questions are positioned on the top right quarter. We labeled the Insurance Nirvana, those people have reached a higher level of karma, where you get -- you have lots of capital. And you create capital. And you have this positive flow where adding strong stock creates more capital, gives you more stock, creates more capital. And of course, we'd love to position ourselves to get further into this nirvana state of mind.

Let me talk about stock, let me talk about flow in terms of our capital position. Our stock of capital, like our IFRS earnings, like our IFRS capital, has been growing diligently in the past years. As a matter fact, the owned funds that we have, whether it's the complete owned funds or the unrestricted Tier 1 owned funds, have been growing at a rate almost double the rate of the required capital growth. So we've outgrown the required capital twice in terms of availability of funds. This actually caused the Solvency II ratio to increase over time from 180% in 2015 to 194% at the end of last year, in spite giving back EUR 750 million of cash to our shareholders. So a strong growth in available capital.

The required capital has also grown about 2% a year, growth mostly driven by insurance risk and market risk. As you can see on the graph on the left, the insurance risk growth, half of it was in Non-life or at least P&C. The P&C business, the growth in the P&C

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business, the acquisition of Generali added Non-life capital requirement. The other half is 50-50 between Disability and Life. And the Life growth and required capital in Life mostly was for longevity. And it's a technical thing. If interest rates fall, the charts for longevity risk goes up. So if you think about the growth in our insurance risk capital, 1/2 of it is P&C, 1/4 of it is Non-life Disability and 1/4 of it is the increased longevity charge due to falling rates.

Secondly, you've seen our market risk increase over time. Our equity position actually has remained stable. But we've added real estate to our market risk portfolio, added mortgages and added credit. Today, our market risk is about 43% of our pre-diversification capital. We think we could go theoretically up to 50%. We don't want to be north of 50% because we're an insurance company, not an investment fund. So we'll not go north of 50%. Today, I don't think we'll actually reach the 50%. We have no plans to get there. But there's flexibility to add market risk if we see opportunities to do that. The small rerisking program that we announced in the half year will move to 43%, somewhere to the 44%, 45%. And that's a level that we're actually quite comfortable with. So I would love to say I'll let you take on that. We can add market risk. We will probably not go to the full amount. The maximum is 50%. And we'll do it very diligently and with very much in mind with where the market actually is. But in summary, owned funds outgrowing, by any metric, outgrowing our required capital in spite of us returning capital to shareholders.

Today, by any measure, our stock of solvency is strong. Whether you take the solvency as is, simply the solvency number that were produced, exceeds 160% entrepreneurial norm by a significant margin. And also, if you were -- you take into account the mandatory unavoidable decline in the UFR, our Solvency II level today would be at 183%. So if we were to account a UFR of 3.6%, the target UFR that we appear to be kind of driving to, our Solvency II would be 183%, significantly over the 160%.

The second metric, the more economic view, i.e. take a UFR that's consistent with our investment returns, a UFR of 2.4%, our Solvency II would be at 154%, 158% mark, depending on a bit how you work with tiering, the official number is 154%, substantially above 120%. So whether you take the headline number or you take economic number, both ratios actually show you a.s.r. has sufficient stock of solvency. A third perspective, the S&P perspective is not on this chart. But the redundancy capital from an S&P perspective nears the AAA range, at least mathematically.

And fourthly, if you take the regulatory exit value, a metric that's being discussed in our industry, where the definition seems to gyrate towards solvency ex UFR, ex VA, ex DTA, that ratio would still also be in the 110%, 120% range. So the owned funds ex UFR, ex VA with no DTA at all will also be north of EUR 3 billion. So whatever perspective you take, the headline number, our own economic number, or you take S&P's view, or you take the exit value view, our stock of solvency is strong and able to withstand shocks.

We've shown on this page sensitivities, as we show typically. Difference this time, we've taken out the VA effect. So these are really the growth sensitivities of various movements, spread movements in sovereign bonds, corporate spread movements, rate movements in equities and real estate. You can show the various implications of adverse market movements. We could absorb those adverse market movements. Actually, if you were to add up these movements. So if you took on this sovereign spread, the credit spread

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impact, 100 basis points lower yield and equity is minus 20; and real estate, minus 10, that together would be less than 30% to keep our solvency still substantially above 160%, not taking into account the benefit from the VA that would come with that. These are gross numbers ex any VA impact. So our solvency is at the level that we think we can sustain market shocks, that we would not enjoy those stocks (sic) (shocks), definitely have a bad night sleep over those shocks. But the group would have been able to sustain those shocks and still be safely over 160%. So a resilient solvency ratio also in line with our market exposures.

Limit dependency on group level diversification. Solvency is not only strong at holdco. But also strong at opco. We have a deliberate policy to keep capital at the opcos and keep our opcos strongly capitalized. As a matter of fact, the delta between the solvency of the largest opcos, Life and Non-life. And the solvency of the group has been around 10% to 11% in the past years, reflecting a Level 3 diversification. Our group does not depend on a huge amount of diversification that kind of shows a great level of group solvency not found within the business solvency. In our situation, solvency is strong at the business and at the group. There's a 10-points Level 3 diversification. But that is not the driver of the solvency of a.s.r. Solvency is strong at group and at opcos. Of course, there's diversification inside the operating entities. Even if you were to strip out all diversification benefits, recognize no diversification at all, our solvency ratio would still be north of 160%. So diversification helps, it benefits but doesn't drive the number. The number is found into a hard solvency in the operating entities.

To add to that, we have also flexibility to add capital. We've got flexibility to raise capital going forward. Whether you take the solvency perspective or the IFRS perspective or the S&P perspective, our group has the flexibility to add more capital going forward. And this metric, we think, the balance sheet, the IFRS balance sheet drives the quantum of capital you can raise. Solvency drives the instrument you can you choose.

If you look at our leverage, we report a leverage today of 25%. We think that leverage could increase if we wanted to. The leverage actually is quite overstated because of our shadow accounting methodology. That does not yield -- the realized capital gains are not included in this number. For most peers, it actually is. So if you were to recalculate our number, including the shadow accounting reserves. And make an adjustment for the LAT, the adjusted leverage ratio would be around 20%. So a comparable number to peers. Because most of us in the industry use realized capital gains as part of equity, the adjusted number would be around 20% compared to peers. That's why we're saying we can think we can actually live with a 10% higher leverage number, either 25% to 30%; or in a comparable terms, 20% to 30% is something we could actually sustain.

Now we're going to lever up just for the fun of it. Leverage is not a goal in itself. But it shows you we've got flexibility to raise capital in the capital markets if we were to deploy it if we knew we were to find attractive ways to spend that money. And our Solvency II regime allows us to pick and choose instrument. We have had room in each and every instrument out there, whether it's a Tier 1 or Tier 2 instrument, a perp Tier 2 or a data Tier 2, we have flexibility to pick and choose the instrument we like. So we can raise capital. We have got the flexibility to raise capital. And we've got the room to choose the instrument we like.

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And for illustrative purposes, if we were to go to the upper end of our leverage range to 35%, that would mean around EUR 900 million of additional hybrid capital we could raise. The interest cover in that situation would still be around 6.5x also saved in a single (earnings). So think about EUR 500 million to EUR 900 million of leverage we could add/raise to deploy if that would be needed, if that would be required.

Finally, closing off on stock and flow, let me bring together the left and right-hand side of our balance sheet, asset leverage and financial leverage. Because in -- as part of prudent and responsible financial management, you should look at both indicators in sync, how much asset risk does one have, how much financial risk does one have? Starting on the asset risk side. Our market risk at the end of 2017 was about 46% of total risk, in line with the industry. We've made an analysis. And IR can share with you some of our Life industry peers. And we found that most of us run between 46%, 47%, 48% of our risk allocated to market risk.

If you then zoom in on that market risk and relate that to your own funds. So the asset leverage, meaning risky assets or yieldy assets, divided by your own funds, we're actually kind of slightly less then where the market is. And by risky assets, we define equities; real estate, excluding rural. Rural real estate land is a different asset class. It's qualified as real estate. But it's not as risky as classical asset real estate. So we look at equities, real estate land, plus any bonds that are noninvestment grade or not rated. That, lumped together as a risky asset group related to our Tier 1 capital, is about 100%. So 1x unrestricted Tier 1 is our high yield asset book, compared to the industry where you're more looking at 140%, 150%. So our market risk is in line with -- just slightly less than our peers.

On the financial leverage side, it's clear that by any perspective, whether you use a Solvency II perspective or you use the IFRS perspective, our leverage ratios are less than our peers. We have more unrestricted Tier 1 in our asset base and we have less financial leverage on our IFRS balance sheet. And again here it is the unadjusted number. And comparable you would actually use 20% for us and 28% for our peers. So in summary, our balance sheet has low financial leverage, an average to slightly below-average market asset leverage. So in combination, it shows you a robust and very solid balance sheet.

Now of course, we could rerisk our business. We had some discussions yesterday evening. Are you willing or able planning to massively rerisk your business? We could. But probably, we won't. We've indicated by the half year numbers that we're adding some risk to our investment book, think about 4% or 5% in terms of solvency ratio, EUR 80 million of capital. That EUR 80 million of capital buys you around EUR 150 million of equities and EUR 500 million of investment-grade credit. That's why you can afford spending EUR 80 million of capital. That would bring your market risk or our market risk to about 44% of total risk. That would bring the asset leverage from 105% to around 107%. So it's very much in the same range.

If we were to move our market risk to the full 50%, then you talk about EUR 350 million more required capital. Then you're talking about 15 to 20 points of solvency that you'd spend. Now it's unlikely that we do -- that we'd spend that amount over time. Think more of a gradual continuous optimization of your investment portfolio, in line with the few points that we're doing this year. Think about investing in real estate, think about investing in mortgages, because the 2 asset classes that we feel comfortable with, even if we're late cycle today, the Dutch real estate market is well underpinned, the Dutch mortgage market, especially if you're a buy-and-hold investor, is still valued very attractive for us. So we can see some continuous optimization on market risk. But by far and by sure, another big asset play going forward.

And furthermore we've developed a number of tools that will allow us to optimize the return on capital in the investment grade space. So a tool that says, if you look at rating categories, issue categories and maturities, where do you get most bang for your buck, where do you get most return on solvency capital on sub-asset class and submaturities. And we find there is room to optimize the credit portfolio to optimize the return on solvency capital further. So in terms of market risk, expect a gradual small increase of market risk, not moving to the 50%, something similar to what we've done this year, possibly a bit less. If we do anything, focused on real estate and mortgages and focusing on further within the current capital consumption optimizing our asset mix.

Moving from stock to flow. The flow of capital is kind of always difficult to determine, because the solvency ratio from one year to another, you look at the difference between 2 ratios, where the numerator of the ratio is an NPV number. So dividing that up in 2 buckets is always a challenge, it's a calculatory challenge. Jan de Witt would have loved it. We always take 3 perspectives to give the full story. There is not one number that you can use to identify the flow of a.s.r.. But we look at what the business capital generates. So the business cap generation; we look at the organic cap generation. So business plus the release of the book; and we look at the total amount of owned funds that the group generates.

And this chart, by now you know. We look at what the business generates. So the honest capital from underwriting results, from fee income, from excess returns. We look at the capital from the organic cap generation, which is the business cap gen plus the release of capital from our book. And we look out how much owned funds we generate. Irrespective of what the required capital does, is the group able to say sustainably and considerably and structurally add owned funds over time? Those 3 metrics drive or determine your view on a.s.r., determine your view on how we're actually doing. And those numbers have shown favorable development over time. Here, you can see the business capital generation, the organic capital generation and the total EOF accretion over time.

The business shows -- the business cap gen, underwriting results, fees and spreads, then you can add the book release to get organic cap gen, or you can look at the total owned funds generation over time. And the latter is, of course, a bit more volatile. There are more mobile changes in there. There is market valuations in there. But ultimately, we want to make sure that our group generates owned funds consistently over time, irrespective of what you do with the required capital.

Going forward, we'll make one change in methodology. And I promise you it's the only one to do today. The only mobile change today is that when we dive -- when we're diving into our business capital generation, we found that we used to risk margin on the new business as part of business cap gen, whereas most of our peers actually net that risk margin on new business with the risk margin release from the existing book. So we found

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it's probably better reflection of reality to give on the business capital generation number, excluding the risk margin on the new business stream. And going forward, report that new risk margin on new business as a net number for the risk margin release in the book.

It's all optics, the numbers at -- in total don't change, it's through the allocation of risk margin consumption from one bucket to the other. So going forward, we will report business capital generation under a newer definition that we think is more representative, more reasonable to look at our business.

Organic cap generation, which is a business cap generation plus the return to the book, has developed favorably. We believe EUR 430 million is feasible in 2021. So EUR 430 million of organic capital generation in 2021. Please note there is no model change here, no methodology change here. We've had various discussion with you on the using of our long-term investment margin, LTIMs. This is using the existing model, the existing assumptions.

In the past, when we look back, when we compare to the LTIMs -- the spread assumptions we used, when you compare it to the actuals, in practice, the actuals were higher than the LTIMs we used. In 2017, on average the organic cap gen understated the actual number by about EUR 2 million a quarter, about EUR 9 million for the full year. In last -- in this year, the understatement was about EUR 7 million in the first six months.

So historically, the long-term investment margins that we use have underscored, underrepresented the actual investment returns we made, at least from a fixed income perspective. So we feel very comfortable with this number because the actual investment spreads actually will give you a higher number than that this year. But again, no modeling changes when we announced the target. The target is according to the existing way of working. We believe we can move to EUR 430 million in 2021. And the key drivers are on the left-hand side of this page.

And again, that will be founded, of course, in real business achievements. Ultimately, finance is a function of the business. What finance presents is produced by the business. So all capital that's being generated ultimately is generated by the business. And if you can see on this graph, each of the 4 segments contribute to generation of capital. I always say jokingly, there are very few nonalcoholic things in life that give you so much joy as a combined ratio below 100%. And of course, our business does that. Our combined ratio in the Non-life business has been below 100% for the last few years. And on a growing book. And we've added fee income to the Non-life business.

Our service books have increased our spread income, have achieved and delivered on the synergies of recent acquisitions. The asset management businesses have delivered fee income over time. And on our non-core businesses, we have contained the risks. We've sold the largest part of the Leidsche, of the real estate development business. Leidsche Rijn Centrum is yet to come. And we moved the bank into noncore. So ultimately, whatever business capital generation or organic capital generation we produce, it is founded in what the business produces. And the business have actually delivered on producing results that are in line with capital generation.

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Which is also shown if you go into the numbers. This chart shows you the capital allocated to the various business lines and the ROE produced at the various business lines. All of our businesses, all of our core operations have returns that exceed the cost of capital. ROE, substantially above 10%. In Non-life, between 9% and 12%. The 9% actually is a storm number in the first half of the year. Excluding that storm number, the ROE on Non-life would have been 14% in H1. This number also includes the health insurance business, which is a bit of a drag on the ROE, that business in itself. If you were to exclude health, you'd also add 1% to the ROE of the Non-life business. So Non-life safely in the value-creating zone.

Life business, also ROE is 12% to 13% on an operating basis; including capital gains on an IFRS basis, north of 15%. The asset management business, ROE is 11%, growing to 25%. You can see a benefit of scale. Once you get through a certain hurdle, once you get the scale, the ROE of asset management goes up very quickly. And you can also see the non-core business is simply a business that doesn't meet our return hurdles. The ROE of those businesses are simply lower and don't meet what we want our business to achieve. So again, capital consumption and value creation are in line with our strategy. All of our core businesses contribute to the creation of value to our shareholders. All of our businesses contribute to the generation of next capital.

And of course, it will convert into earnings. Ultimately, we love to give share -- capital back to shareholders. With a payout ratio of 54 -- 45% to 55%, we can pay out EUR 230 million of earnings. And we can also test that level with the business cap generation or organic cap generation. And you get implied payout ratio at between 50% and 75%. So effectively, we're paying out, no matter how you look at it, more than half of the capital we generate. But not more than 75%. So there is also room to grow, room to increase our payout going forward.

We just confirmed, historically, if you look at the long-term view in 2016 and 2017, the payout ratio was about 45% of our operating profit. Related to the business cap gen, it was about 60% to 70%. Related to organic cap gen, we're talking about 50% to 60%. So a fair distribution of what we're generating capital to our shareholders. But also with some upside going forward. Clearly in line with, how Jos stated, a stably growing dividend over time.

A few words on holding cash, a much debated topic. Does having holding cash make a difference? We think it doesn't. Our opcos are strongly as sufficiently capitalized. Our group is sufficiently capitalized. We are in one country, one jurisdiction with one regulator. The board of the group is the same as the board of the opcos. So there's no disciplinary rationale for us to upstream capital. And there's no financial rationale to upstream capital. We like to keep the cash and the capital at our holdcos. There is opco cash, of course. But that's cash as a function of our business.

So the opco cash is there to cover the next 12 months of holding cost, cover hybrid expenses, cover known dividends. And that is sufficient. So our holding cash function cash policy is a function of our business objectives, cover holding costs, cover hybrid expenses. With that, we can actually very safely communicate to you and manage our holding cash. By the way, this is excluding our credit facility. I don't think borrowing

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money to keep holding cash is a good idea. But if you want to, you could add the undrawn holding cash facility to our holding cash, which is north of EUR 300 million. It's undrawn. But it could be seen as cash or near cash because we could have access to it anytime we want it. At least in the past, we never had any impediments to upstream cash to our group.

So the cash upstreams have been significant, have been stable. In the course of this year, every entity has actually contributed to upstreams, whether it's the asset management business, whether it's the distribution business, they all have been able to upstream cash to the holding. So we've had no impediments to move cash from opco to holdco as a function of what we do of the holding cash.

And as you can see as well, because the owned funds accretion has been strong. Because of our stock has been strong, we have been able to upstream, actually, even a bit more than our organic capital generation over time. So cash over OCC has been north of 100%, which is a function of the broad capital generation that we've achieved in our businesses.

This then begs the question, "Dear a.s.r., what are you going to do with all this capital? How are you going to deploy this in the most value-creating, most value-enhancing way?" The 2 numbers to remember are 10% and 12%. In our philosophy, the cost of capital, the cost of equity ought to be very precise. The cost of unrestricted Tier 1, we assume at 10%. And the hurdle for return on new investment is 12%. That's the way we look at our capital allocations. Ideally, we invest in organic growth. Organic growth is very value-creating. You can see from the returns that our business deliver, new business in our Non-life and asset management is value-creating business. We love to grow our capital, our business organically. That doesn't consume much capital. But of course, that's priority #1.

Opportunity 2 is we could invest in market risk. Again, the return on the diversified capital should be substantially north of 10%, meaning we are here to meet or exceed the cost of equity. So when you invest at market risk, the return on the diversified market risk capital allocation should be north of 10%. We've done that in the past. Last year and this year, we spent the number of solvency points investing in market risk, also cognizant of where our markets where. So for example, in the first half of 2017, we halted our market risk program simply because spreads were too tight, valuations were too high and didn't make sense to allocate capital. After the Italian budget crisis. So thanks to Italy, we think there is actually room again to invest into market risk. But on a very measured basis.

Then finally, we believe we're going to invest in inorganic growth opportunities. Jos alluded to those. But again, only and always have the return on investment, the return on unrestricted Tier 1, actually, it's 12%. That's the hurdle. That's the norm for investing into inorganic opportunities. And of course, these large-scale commitments of capital will always be tested against a reasonable payback period and will always be tested against what would happen if we bought back shares for the same amount? Could -- does the acquisition stand up, is it robust in light of the obvious alternative? So a disciplined framework for allocating capital, 10% and 12%. And 3 areas where we can invest our money.

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If no deployment of capital is foreseen, we will not sit on it. We are not capital hoarders. So and I'm going to read this chart aloud because it's important. When the SCR ratio according to the standard formula exceeds what is needed. And from a reasonable perspective and no profitable deployment is foreseen for a reasonable period of time. And the increase is not driven by economic factors, we will return to shareholders. So when we look at the standard formula, there is a reasonable upper limit that we're going to be above for a long time. And we don't know where to spend it. And the increase is not driven by an artificial increase in the VA, for example -- imagine a situation where the budget situation in Italy will deteriorate, spreads would blow out, the VA would go up, our solvency would go up, that would be the wrong indicator for giving back capital. But if there's an honest genuine increase, retained increase in our solvency ratio and we can spend it, yes, of course, we'll give it back to the shareholders.

And many of you have asked us, where is the number? At what number will you start giving back capital to shareholders? Unfortunately, I can't give it to you. That number is -- it's a bit like the Higgs particle in physics. You know it exists. But this can't be observed. And when you see it, it's gone. By definition, you can't see it. Although we know it, you can infer its existence, you know roughly where it is. But you have to build a multibillion CERN tunnel to find out where it is. But we know, of course, where the range is, where the area is where you can start to give back capital. There is an area, that's a range that's indicative for -- it's hard to spend all this capital.

Now that range we can develop, we think, together. And that range I can give to you. It's a 3-digit number; a 3-digit number that indicates where the discussion on capital returns should start. And the 3-digit number, I think it's us, for management, to set the first number. We think it's a 2. The second number, we allow our shareholders to set. I think it's a pretty low number, a 0 or a 1. And the third number, well, if we agree on these principles, the third number actually is completely irrelevant.

So from our perspective, there is an area by which we can consume -- return capital. There's no precise adverse number to pick it. But it's a number -- low 200s is when it's fair to start the discussion on returning capital to shareholders, provided it's not economic and provided there's not a range of very attractive investment opportunities out there that we could spend the money in and then create value for you. But again, trust us, we're not capital hoarders. We're very much aware there is a situation where returning capital to shareholders is becoming a very important discussion topic.

Having said that, the clock's ticking, I'm way overdue. This is my final slide. It shows you I'm a poor presenter because my entire presentation is summarized in this one slide. I could have done with one slide in 5 seconds. We generate capital from any perspective. OCC or UT1, whatever you take. We opportunistically raise capital. We have flexibility to add capital if we want to. We can deploy capital, either in re-risking or in acquisitions. And we can give capital back to shareholders. We're an and company. But not an or company. Generate capital, raise capital, deploy capital and give it back to shareholders.

We conclude to this page. But again, it's a summary. Business driven flow of new capital on already strong stock of capital. And at the end of the day, discipline and ability to invest and deploy is the name of the game.

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That concludes my presentation. I guess Jon would have enjoyed it, hope you did too. Ready for questions.

Questions And Answers

A - Michel HÃ¼lters

Absolutely, yes. So Chris, thank you, very interesting presentation. We have the first Q&A session. Jos, can I also please invite you to the stage? I'm sure, ladies and gentlemen, you have many interesting questions. If you please could raise your hand if you have a question. Wait for the microphone, Barth and Vincent are in the room with the microphone. So everybody in the audience can hear. But also the viewers on the live webcast. Please state your name, your company name. (Operator Instructions)

Yes? So I see Benoit already raising his hand. So...

Q - Benoit Petrarque {BIO 15997668 <GO>}

Yes, Benoit Petrarque from Kepler Cheuvreux. So I was wondering why you're not able to link the dividend payout to the capital generation? I mean, the IFRS 17 is coming. So the IFRS figure will not become relevant. So I'm a bit kind of wondering if the market will not lose faith in this payout ratio. So what is your view on that? And the second one will be just on the bank strategy. I think banks are very important to grow mortgage books. And now you put it on noncore. Just wondering, in terms of implication for growing the mortgage portfolio and plug it to your balance sheet, or what will be the implication of that?

A - H. C. Figee

Okay. Benoit, thank you. On the dividend question, at some point, we will, not yet. I think at some point, the industry will move dividend distribution as a function of capital generation rather than IFRS profits. I would think, today, it's a bit too early. I mean, IFRS profit is still is an audit number. The definition of cap gen having -- so we've made one small definition change. But that needs to be completely settled and stable before you go there. At some point, we'll go there. I think especially if you go to IFRS 17, the first year, we'll all be massively confused and produce a number that's going to be very hard to interpret. So I think by that time, we and probably the rest of the industry, by that time, will have moved to dividend as a function of cap gen. What we intend to do is, as we did today, show to you the trail of numbers relating dividend to the various capital numbers. And at some point, we'll formally go over to a new model. But give you guys a history and an audit trail of capital relative to various capital numbers. So you'll get used to the ratios that are linked to that. And at some point, when we go over, it feels very natural.

A - Jos P. M. Baeten {BIO 2036695 <GO>}

And Benoit, to your second question. Actually, there is no relationship between the bank and our mortgage business. Yes. It is the same management team. But a balance sheet of the bank on which we decided that it will become noncore doesn't mean that we are not anymore in the mortgage business. So our origination of mortgage will continue as it has been in the past. And as you know, we have a fund, a mortgage fund. And we put some

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mortgage on our own balance sheet. So the coming noncore of the bank doesn't affect our ability to originate mortgages going forward.

A - Michel HÃ¼lters

Okay. Johnny Vo?

Q - Johnny Vo {BIO 5509843 <GO>}

It's Johnny Vo from Goldman Sachs. Just the first question, just in terms of gearing of assets to unrestricted Tier 1. I mean, if I just think about a.s.r. 11, you had about EUR 5 billion of unrestricted Tier 1 in there, a little bit over EUR 5 billion of unrestricted Tier 1. Most of your double leverage, your hybrid you inject down there is equity. So about EUR 1.5 billion. So if you remove the EUR 1.5 billion, you're about EUR 3.5 billion. You have EUR 2.6 billion of equity sitting in that entity against EUR 3.5 billion of genuine equity. If I look at the gearing of assets and risky assets within the portfolio, there's a lot that sits in there. And it's a -- I'm not saying that this is a problem. But this is part of your business model. Your business model is consuming capital by effectively taking on risk assets and generating it through capital generation. So can you respond to that? The second thing is just in terms of capital generation of the target that you've given. How much of that or what are your long-term investment assumptions in that number? Because obviously that can help you to get to that number very quickly.

A - H. C. Figee

Yes. Look, Johnny Vo, your point in it -- if you look at the a.s.r. Life business in it the investment returns are an important component of that business. I think it's commensurate to running a effectively closed Individual Life book, where the returns from cost, returns from underwriting results gradually fade away as your book shrinks. But your asset base stays significant for longer. So in terms of our business model, you're completely correct. So a portion of our business is actually generate investment returns from our Life business. We look at asset leverage as a very -- as a secondary measure. Prime measure is how much capital is in the assets that we make, how much capital is held against it, using the standard formula which is quite penalizing compared to an internal model. So the fact that we're holding 43% of a standard formula gives me a hint that it's reasonable. And the asset leverage similarly is a secondary indicator. You don't want us to be exploring at group level. And whether you allocate assets to the Life or the Non-life entity that's actually â€" there's more fungible in assets. But to your point, our Life business as part of a Life book is effectively into runoff that actually becomes over time -- much more an investment business over time. And as to the cap gen, we've used long-term investment assumptions. It's basically 330 basis points of our swaps for equities, 300 for real estate, 110 for mortgages. It's about 50 for credits -- sorry, 70 for credit, 50 for peripheral governments and it's flat to kind of noncore -- for core governments. That is the margin that we use. We believe they are consistent with our long-term, across-the-cycle assumptions. And we use a VA of 20. So we accrue our liabilities in that model of VA of 20. If you compare to the actuals today, the mortgage returns actually exceed the long-term investment returns. Credits is kind of where it is, 70 is roughly what you make. And on govies, peripherals are today exceeding, depending on which peripheral you take (achieving) the 50 basis points. And we underscore on core governments because they trade at minus significant amount. That whole bundle together, including the VA and also

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the entire fixed income book, our long-term investment margins underscore the actual spreads we make. And I don't take into account total returns on equity and fixed income -- equity and real estate. So that's why I said last year, the actuals versus LTMs were about EUR 9 million in the full year and EUR 7 million in the half year. So I feel comfortable that we're not kind of -- we're not eating into ourself or promising returns that we can't make in the OCC number.

Q - Farooq Hanif {BIO 4780978 <GO>}

It's Farooq Hanif from CrÃ©dit Suisse. Going to M&A, what you've done really successfully since IPO is using cash to buy things that probably a lot of us analysts didn't know existed and added portfolios and it was small and you were able to sort of digest it. Very, very accretive, as you've shown. So what is your preference? And what is it extra that you need for something that's really big to make it worthwhile and make it digestible for you? And the second related question to that is about funding mix. So you've presented a little bit more potential leverage. I mean, you've talked about in the past that it's not rocket science. But clearly there's a range of funding mix out there. And so if you think the market is amenable, would you rather just use equity if it's really, really big?

A - Jos P. M. Baeten {BIO 2036695 <GO>}

Well Farooq, to your first question, what is the preference, what we've tried to convene today is that our preference is and remains small; and medium-size bolt-on acquisitions. We're for sure we're good at it, we're able to integrate them in a very fast mode and I think the proof is out there that we have done it. The areas where we focus at. First of all, the funeral market is already consolidated for the larger part. But we still think there are opportunities out there. So we would love to finalize the consolidation of the funeral market. It has been proven to be very value creative. Secondly, the Dutch market is for a prolonged period seeking for an opportunity to consolidate the Individual Life market. All of our books are shrinking to levels that we can't afford anymore. We have a EUR 15 billion book in our Individual Life market. But if you run a company with a balance sheet of roughly EUR 150 million or even EUR 500 million, you will reach within a number of years the level where you can't make the cost that you need to run the business anymore. So we think it's time to create a Dutch consolidation in the Individual Life market. So that will be our second aim in terms of consolidation. Thirdly, our key aim to grow our Non-life business is organic growth. Of course, we can set the premiums, we can set the acceptance criteria, do our own underwriting. But if and when there would be books in the disability or P&C area, which let me say are not yet beyond repair in the area of 105, 106 combined ratio and we would be able to buy them to add our cost levels to put them on our platform and to be able to bring back the combined ratio within a foreseeable term to our levels, then we would also love to do some M&A in the P&C and disability area. And finally, we have acquired 2 medium-size and small asset managers. We have a feeling that at the moment asset managers are quite expensive. So we would love to do more on that. But we are also realistic at the current price level that, that could be a challenge. So our preference medium-size to small bolt-ons. And as said, if there are any larger transformational opportunities, we feel the Dutch market needs to consolidate further that we are -- that we need to look at it. But within the same financial criteria and operational criteria as we have done and will do going forward for the medium-size and small ones. And on financing, that's your hobby, Chris.

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A - H. C. Figee

I think the point I want to make is we've got financing flexibility. So ideally we'd fund acquisition with cash or debt. That's the most value accretive way to finance it, especially in today's credit markets. And I think we have got the instruments out there and the rating and the capital market reputation out there to do so. You don't have to look into about what are you buying. So most small and midsized insurance companies come with 100% equity balance sheets. So they would be ideally suited to fund with cash or fund with debt. If you think about larger insurance companies, they tend to come with debt on their balance sheets. There's some with a lot of debt on their balance sheet. So if you then take a pro forma like newco perspective, larger companies that bring -- that have their own debt already are less prone or less qualifying to do equity -- debt financing. So think about small and bolt-ons continue in the cash and debt financing approach. Think about larger transactions, especially those that have significant amount of debt on their balance sheet, they have to be equity financing. They just don't let themselves to use financing against it.

A - Michel HÃ¼lters

Okay. Cor?

Q - Cor Kluis {BIO 3515446 <GO>}

Yes, Cor Kluis, ABN. Question on the partial internal model. Are you already doing something internally to work little bit on the internal model, especially as there might be some delay on IFRS 17? And in the past I think you've said, it's about -- it would take 1.5 years or something to implement such a system. Yes. Is it still the planning or have you already done something in that respect? Other question is on Generali, especially the Non-life business that some of the (elevated) combined ratios there progressing in time, do you feel comfortable that you can bring that combined ratio to an attractive level in a short time? Or what's your experience it or some disappointments or did something go better than expected there?

A - H. C. Figee

Yes. On the internal model, I think if you -- our capital today, we don't need an internal model to boost our capital ratio, it's already fairly strong. And just moving to an internal model to get to a higher solvency number, that would be not the right thing to do for shareholders. But if you think, the cash out -- the cost that it requires to build an internal model, you're looking at something north of EUR 30 million. I mean, you can borrow and leverage from the skills that are out there, the consulting firms that have done it before. So you can fast track it. But the used task work, the documentation work, we still think it's EUR 30 million project. So one point of Solvency. Just spending that money until you have a higher Solvency ratio overnight doesn't do good for anyone. I don't think you can assume that we're immediately giving it back to shareholders. So you need to have a deployment of that model. The deployment could come in the form of a large acquisition. If you make a larger acquisition and you have to re-risk a big balance sheet, then an internal model might be a very efficient way to raise the capital to fund the re-risking. Then suddenly EUR 30 million becomes a very cheap cost of capital, if you can use the capital to re-risk something. Or if you build a strong of acquisitions, then in a couple of years' time you find yourself with a bigger balance sheet, also then an internal model

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might be a very cost-efficient way to fund that. a.s.r. is standalone, we probably don't need it in a big M&A or a string multiple small M&As, at some point it might become realistic. Where are we today? We're of course doing pre-work, it is always good to think about to do some analysis on what would it mean to us, what would a project look like, how much time will it take, how we organize ourselves so that if and when the time comes, we're ready to start. So we're in a, the preparation of the preparation phase, if you wish. Which is identifying what would it take, what would the rough impact be, who would be involved. If IFRS 17 gets postponed, that would make life a lot easier. If IFRS 17 would canceled, that would make life really lot easier. But I don't think that's going to be given to us. At this point, we still work on the presumptions that IFRS 17 starts on time because we haven't had any formal guidance that it's not going to be the case. But again we have to wait and see. But there is the preparation work for the preparation phase is ongoing.

A - Jos P. M. Baeten {BIO 2036695 <GO>}

And on your Generali question, Cor, the combined of the Generali book of Non-life business was 101.4 for the first half 2018. What that a surprise? Not really. We -- during the due diligence, we already have seen what the quality of the book was. However, between signing and closing, they have written some additional business which didn't add value, to put it in a mild way. So where are we in the progress? Actually the book is -- exists out of 2 pieces. First of all, there is mandatory broker business that is already included and managed by a.s.r.. So that's fully integrated in the mandatory broker business of a.s.r. However, the portfolio is not yet at the quality we want to have it. So we have started with repricing, reevaluating the business and having discussions with the mandatory brokers. Then there is the so-called provincial part of the portfolio that is foreseeing that we will integrate that into the a.s.r. framework latest First Quarter next year. We also will have to look at repricing and using the wheel. And I'm not going to mow all the grass for Michel, he will talk about it later today, to get towards our own combined ratios. We think it is doable. It will cost some top line. Out of the EUR 180 million, we expect that we will use a part of that. The number, I don't have this famous glass bowl so I don't know how high that number will be. But we prefer value over volume, as you know. So if you -- if we need to get rid of parts of the business because we can't really reprice them, we will do so.

A - Michel HÃ¼lters

Okay. Claudia?

Q - Claudia Gaspari {BIO 15148414 <GO>}

Claudia Gaspari from Barclays. Just one question on the financials criterias for M&A. You keep going back to this 12% ROI hurdle rate. But would you not require a higher ROI for a larger deal given the larger execution raise, potentially longer time to integrate, especially if it then comes also with a lot of debt on balance sheet. And how do you think about that?

A - Jos P. M. Baeten {BIO 2036695 <GO>}

I think, Claudia, that it is a very realistic view. What we always do -- the 12% is the minimum hurdle rate. And we take into account what are the operational risk, how long will it take. And you only can do that after you have done thorough due diligence on a certain M&A

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transaction. So if and when something big would happen and our judgment is that it -- that more risk is involved, we will definitely take that into account in our decision. And whether the hurdle becomes 12.5% or 13% or even 14%. And what we allow ourselves that -- I can't comment on that today. It depends on what you see during the due diligence and how you are able to -- how fast you are able to integrate and what the perceived risks are.

A - Michel HÃ¼lters

Maybe just on that topic, can you also comment on the governance that we have in place, where we are looking at consolidation?

A - Jos P. M. Baeten {BIO 2036695 <GO>}

Yes. And I think we've told it before to some of you. Within our strict financial criteria, the first thing we always do as an executive board when somebody comes up with an idea, well, this company may be for sale or I had a conversation, then we start to write a letter to our supervisory board. And we say, well, we have identified this opportunity, we're going to take a look at it and please, dear supervisory board, remember us. Those are the criteria. They are on culture. They are on the financials. They are on integration risks. And if and when we decide to bring out a binding offer, we discuss this with the supervisory board. And they will remember us to the final outcome compared to the initial financial criteria. And by the way, they never had to remember us, because every file we brought to the supervisory board table was within those financial criteria. But we have a governance framework in place that if we come -- if we would become overexcited during a transaction then there is this on a distant supervisory board that will remember us what we have said before we started.

A - Michel HÃ¼lters

Okay. In the back, Robin?

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

Robin van den Broek from Mediobanca. First question is on the operating result for Life. EUR 633 million is your reference point. Think you printed EUR 340 million in H1 '18 already. I appreciate that has public equity dividends in there elevating H1 versus H2. But you still have some synergies to reap from Generali, you are re-risking. So I was just wondering what are the driving forces to basically go back to the 2017 level? And the second question is on the 12 to 14 mid-market players you've anonymously identified in your slides. I was just wondering how the dialogue is progressing with these players? I mean, UFR is coming down. So I guess some players are seeing a little bit more pressure on the capital side. What additional -- basically, how is the dialogue evolving with these players? Are they more open to talking to you? So also in perspective what you said, I mean your preference is to basically look at these rather than doing something large. Yes. If the dialogue is basically heating up with these players, how would you look at this larger animal as well?

A - H. C. Figee

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Yes. On the live results, Robin, I think the factors at play are, as you've pointed out, the first half results tend to be higher than the second half for Life, the seasonality effect, dividend season in Q2. So that's a normal phenomenon. Secondly, we are re-risking somewhat. But that will kick in over time. Third phenomenon is on the investment side. There is some downward push, because, for example, the older vintages and mortgages are running out. I mean, the 2008, 2009 vintages and mortgages were extremely profitable where you're looking at spreads of over 300% at that time. They are being refinanced today. So on the yield side, there's always a natural pressure down because of the nature of the book. And the older vintages and mortgages or credits that you acquired years ago gradually run out. And you renew them at lower spread. So effect (that plays), seasonality effects, re-risking helps, kicks in time -- over time. There is some older return that gradually run out. And thirdly, as the book gradually declines, the dynamics are such that you get less cost coverage from your clients. And Karin will talk about it much more. We think we're able to counter that with cost reductions. So the cost result would probably keep stable. But that's already accretive even when you see a book line. The result on mortality will have a downward push. I can't compensate lower mortality results because our book declines. So you see the Life business gradually moving towards more investment results over time, cost result stable, some downward pressure on mortality result. And on the investment result, you need to work hard to keep the yield up, because the book -- the older vintages years run off and then you have to benefit from a lower required interest. That whole mix together, various moving parts gives us the guidance that we put on the screen.

A - Jos P. M. Baeten {BIO 2036695 <GO>}

Okay. And on your second question, well, hopefully you understand, we cannot comment on individual cases on which we are or not working. But let me answer the question a bit more anecdotal. two years ago, when we identified potential companies that we would love to bring to a.s.r.. And we picked up the phone and we gave them a call, they didn't pick up the phone and let us waiting. Today, we see an adverse development. We even get calls from companies with which we start to engage and start to have a discussion. That always takes more time, especially with the smaller; and medium-sized companies that already are owned for a long time, for example BioFoundation, it's more a discussion about emotions of giving up on their own future. So it always takes more time to engage with those type of companies. But what we see today is that there is -- that there are more opportunities and more companies willing to have a discussion with us on parts of the portfolio or on the whole company or on a complete book. So we see an upcoming trend that -- and that has created our statement of today, we think that the time is there to start to consolidate the Individual Life market. And to continue consolidating the funeral market. How would that interfere with a possible large transaction? I think, we're in the midst of finalizing the Generali transaction, that will, in general, not interfere with any further M&A. We haven't announced anything today. So one can assume, if you start a conversation, it takes time to negotiate, then you have the time between signing and closing. So before any transaction will be announced, we hopefully are in -- on our way in finalizing finally the Generali transaction. So Generali will not interfere with that. And if and when we at the same day had to do 2 transactions then we probably would have some sleepless nights. It is not impossible. But it would not be our preference. But doing 1 or 2 smaller, medium size thing, especially if they are in one area, for example, in the funeral area that probably will not directly interfere with a larger transactions. But at a point in time that we see the opportunity, we have to make a final judgment whether we

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dare to do 1 small and at the same time look at something bigger. So I can't predict it. But our feeling is that if the timing is right, it's not impossible.

A - H. C. Figee

Maybe to add on that, Jos, if you go back a few years, we acquired Axent and De Eendragt. Some of you will maybe remember that Axent was a funeral business, De Eendragt was a pension business. We effectively announced those deals on the same day or the Friday afternoon and the Monday morning. And we did it on purpose because one was a longevity book, the other was a mortality book. So together it was a fantastic deal. So we were able to conclude to sign those 2 small transactions almost effective the same day. The people at M&A looked pretty miserable the next morning. But actually it was doable, NOC integration was doable because one was a pension business, the other one was a funeral business. So I think there is no reason to say we can't work on multiple streams at the same time, especially a few smaller ones you can combine then you have to play at how things go. Obviously, to your point, Robin, on the Life businesses, we do the see, (I agree that I think) we see in terms of the declining Individual Life book lapses were up last year, they are down a bit this year. But still on an elevated level. Everybody experiences that. The UFR will go down, everybody experiences that. If you look at the outlook for your balance sheet, somewhere in 2020-ish, you will see a gradually slower contribution from SCR risk margin release, right. That's the point where that contribution to capital slows down. So if you have a EUR 15 billion life book, it's tough. But it's okay. If you get EUR 1 billion life book, the combination of UFR going down, less organic cap generation from high risk margin SCR release in the next -- that point coming near, cost pressure, then it becomes obvious that for the smaller Life players things are getting difficult. And I think that realization is now sinking in.

A - Michel HÃ¼lters

Okay. Matthias, in the back.

Q - Matthias De Wit {BIO 15856815 <GO>}

Matthias De Wit from Kempen. Only one question from me on the capital generation target for 2021 of EUR 430 million. I had a slightly higher number in mind considering that you are already at EUR 377 million for '17, excluding Generali. So at the growth you foresee in Non-life, the re-risking, UFR drag goes down. So I got to a slightly higher number. So is there anything you can share on the key building blocks like can you bridge it? I also wondered on what assumption it is based for interest rates? You referred to forward trades into -- during your presentation. So can you be a bit more specific there, please?

A - H. C. Figee

Yes. So we assess these targets from 2 perspectives, bottom up and top down. Bottom up starts with where we are today, because if you take today's cap gen or the cap gen for the first half year, adjust for storms, add Generali to it, add the UFR unwind to it. And add some tax benefit to it, see where you get and we have a balance sheet plan, basically assumes the rates are where they are today. The top-down approach is you got take a balance sheet line as you assume the forward curve materializes. I don't know what the interest rates are going to be in 2021. If I knew, I probably wouldn't be here. But let's

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assume the forward curve materializes and we run the numbers on that, those 2 numbers converge. But the top-down number is slightly higher than the bottom-up number actually. And we felt at that point the EUR 430 million is probably a good -- really conservative pick on what the cap generation 2021 could be. The kind of the key unknown is what at that point in time the risk margin and SCR release will be, because that's a function of the decline of the book and I think it's also a function of the forward curve at that time. And so I reckon with the fact that in 2021, the risk margin and SCR release will be a bit less than what we experience today. So you see earnings growth, fee income will be higher, combined ratio, the Non-life earnings will be higher. We can see some benefit from increased investment returns. There is the UFR unwind. The unknown is indeed what does the book return deliver at that time. And I -- we have to work on the presumption in 2021, 2022, you will see a gradual decline of that capital release from the book. So that's kind of the biggest factor in there. (We're then) affected by what the rate -- the forward curve will be at that time. Secondly, I think this -- the OCC number is on a reasonable asset mix. I don't want to give a number that hinges on a drastic re-risking of the business, because at that point, I don't want to be kind of forced to re-risk the business to meet a target that we've given. So it's also based on a reasonable asset mix assumption like we have today. In 2021, where, why might it be different, if in the capital release might be different, if we de-risked our book, because markets are different, then the number would change. For the rest, I feel comfortable that the EUR 430 million is very well attainable having tested it from a bottom-up and a top-down perspective.

A - Michel HÃ¼lters

Okay. Any further questions? Yes. Steven?

Q - Steven Haywood {BIO 15743259 <GO>}

Steven Haywood from HSBC. Following up on the previous question about the Life business and the stable earnings outlook. You've mentioned a 45 to 55 basis points Life operating expense target. And is that coming down from 57 or 75? I just wanted to confirm that. And...

A - H. C. Figee

57.

Q - Steven Haywood {BIO 15743259 <GO>}

57. And how is this achieved and is this required, this improvement to maintain that stable Life earnings target? Then secondly, on the -- you already mentioned that 14% ROE is not an upper limit. With regards to the other targets, the EUR 0.55 payout ratio, the 94% combined ratio, the EUR 0.05 Non-life growth and the stable Life earnings, are these upper limit as well for the company?

A - H. C. Figee

Well the 45% to 55%, I think the -- we're coming down from 57%. Assume that the midrange of that is what you need to meet our return target, the bottom end of that range is what you will outperform actually that level.

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A - Jos P. M. Baeten {BIO 2036695 <GO>}

And to your second question, I think target setting in itself, it's always fun to exceed targets. So if we announce a target, it's not that we, let's say, if we have reached the target in September that we send everybody home and start early holidays. So it's fun to try to exceed. But I think you also have to be realistic. And as said in my presentation several times, we are in a very competitive Dutch market and it's all a balancing act between adding value, serving customers and at the same time try to grab growth in a declining market. So I think they're pretty well balanced. They are challenging. But also we feel they are realistic and it's doable.

A - H. C. Figee

I think on the dividend side, Steven, the 55% at this point is the upper limit on ordinary dividends. But of course, there's no reason why you can't do supplementary distributions if you'd get there. So if you feel that you've got more capital to give back to shareholders, we'll be happy to do it through specials or buybacks depending on where value is at that time, depending on what our shareholders would like at that time. So there's -- on dividend, the ordinary dividend, think of that range. But if we have got capital to spend, we'll figure out a way to give it back to shareholders. That's not the biggest problem.

A - Michel HÃ¼lters

Okay. In the back, Jason?

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Jason Kalamboussis, KBC. The first thing is on your targets. Do you find that if you were to do a larger acquisition, you would try to stick to most of them? And the second thing is on the internal model, is it fair to assume that's about two years that you would need to develop?

A - Jos P. M. Baeten {BIO 2036695 <GO>}

On your first question, all the targets are based on the a.s.r. as it is today. We didn't included yet any M&A in that. So if and when we would do large M&A, we at least have to reconsider what will be the effects and it would be great to remain on those targets, for example the 12% to 14% we have stated clearly. It starts at 12% depending on the risk. It even could move up a little bit. But I think the real answer only can be given if you have analyzed all the numbers of the company you acquired. And in general, what we have seen at the combined ratio at Generali, we need some time to repair it and to bring it towards our level. So maybe during the integration period, you have to accept that your combined will deteriorate a little bit. But at the end of the day, you want to run the business at the levels where we run it. We think this is necessary to run a sustainable, healthy company going forward. And on your internal model question, I think Chris already stated, we may need 1 to 1.5 years to build the model and then you have to prove that you used the model and the model works. And it will probably cost another 1 to 1.5 years. So in total, we expect that an internal model may need somewhere between 2 and three years before we get agreement with the regulator that we can use the internal model.

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A - Michel HÃ¼lters

Okay. Any further questions? Open for second round. Oh, you have. Yes?

Q - Steven Haywood {BIO 15743259 <GO>}

Steven Haywood from HSBC again. When you say safely above 160% Solvency II ratio, what do you mean by safely above there? How much scope downwards do you have there? Obviously, you've got plenty of debt headroom as well. If you take EUR 900 million, plus the EUR 200 million potentially that you're redeeming, there's plenty of debt headroom to come. Then secondly with regards to the DNB and their focus has been on the Life insurance companies on their costs. Is this focus going to continue from the DNB, do you think? And will this be driving M&A? What kind of solutions is the DNB suggesting for these companies?

A - H. C. Figee

Well safely over 160%, we don't want to drop below 160%. In our capital, we take the actual capital into account. So not the potential we could raise in managing our group. So it's good that we have flexibility. We look at the capital actually inside the company. Safely for practical purposes, I would say, the UFR decline will shave about 10, 11 points of our solvency the next three years. So you want to make sure that with that in mind you stay above 160%. So safely above 160% effectively means 171%, because that's roughly the UFR decline that we're going to experience, assuming we don't generate any new capital at all in that period. So -- but very conservative thinking, if you're 171% in three years' time, we will still be above 160% barring any unforeseen circumstances. On DNB's question, what's DNB going to do? I think, you should ask them.

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A - Jos P. M. Baeten {BIO 2036695 <GO>}

Maybe we can make 1 comment from that. The role of DNB is protecting policyholders. And what you would see in general, if they think a company is not viable going forward, the first thing they tend to do is stop writing new business. That is, in general, a first signal that companies run into difficulties. Then they start to pressure on de-risking the balance sheet and then they start probably to discuss with management whether they shouldn't look at safe homes or put the business in runoff. And I think everything that Chris already said in terms of Solvency II, decreasing books, difficulties to meet the cost levels that's all helpful at least from our perspective to bring companies in a position that they start to think about their future. And DNB probably never will comment on that publicly.

A - H. C. Figee

But I think the discussion on cost. And what your cost assumption and your best estimate is a very important one. If your book is shrinking, do you presume that all costs are variable? What does that mean for when the last policy leaves the building or if there's 1 policy left, does this 1 poor client bare all the cost of your operation. So I think is that cost assumption and your best estimates is a very important determinant of your long-term variability -- viability. So I think the discussion in the industry on what do you assume the cost variability and your best estimates? Today and in 10 years' time or in five years' time combined with the actual tangible cost experience, that will become I think a thing of focus.

A - Michel HÃ¼lters

Okay. Jason?

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Jason Kalamboussis, KBC. Just a quick follow-up on what was asked just on the -- are you -- how many companies are you aware of that are in that phase, where the -- there is pressure from the DNB to derisk, et cetera, et cetera, in the Individual Life where you're looking to add some books?

A - H. C. Figee

We really don't know. They never tell. That -- what we can do is reading annual reports. And in last year's annual reports, you sometimes already see soft wording on discussions and difficulties. But the honest answer is we don't know.

A - Michel HÃ¼lters

Okay. Yes, Darius?

Q - Darius Satkauskas {BIO 19724328 <GO>}

Darius Satkauskas with KBW. Within your 94%, 96% combined ratio target, what's your assumption for disability growth here, because it had decent combined ratios there?

A - H. C. Figee

Sorry, what is...

Q - Darius Satkauskas {BIO 19724328 <GO>}

What's your assumption for disability growth within the combined ratio target of 94% to 96%?

A - H. C. Figee

Disability growth? Or...

Q - Darius Satkauskas {BIO 19724328 <GO>}

Yes.

A - H. C. Figee

Okay. For disability, we assume a little lower number than in the P&C business. So that is, let's say, between 2% to -- it's roughly 2% to 3%. And in the P&C business, the growth number might be a little bit higher.

A - Michel HÃ¼lters

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All right, any final questions? Final opportunity. Gone. So thank you for your questions. So we have now break, coffee break till 11:30. If you could be here in the room ready for the next set of presentations. Thank you very much.

(Break)

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All right, ladies and gentlemen, welcome back. Please have a seat. Thank you. Everybody comfortable. Wonderful, thank you. So we now have 2 other speakers as announced already this morning. We have Michel Verwoest, who will discuss the Non-life developments and opportunities that we see. And then we have Karin Bergstein, also CEO, who will then follow-up with a presentation on the opportunity we see in Life. After that, again, we have a Q&A session. So Michel?

A - M. H. Verwoest

Good morning. Is it working?

A - Michel HÃ¼lters

Yes.

A - M. H. Verwoest

I would like to start this Non-life session with a short overview of the Non-life segment. And then I will zoom in on the most important businesses in that segment. Our Non-life segment consists of 3 businesses: the P&C business, the health business and the disability business. And I will also take you along a few of our distribution businesses, which Jos told too, are most of the time active in the Non-life department.

Our health business is a self-supporting business when it comes to the capital management. And from a strategic perspective, our health business is supportive to disability and to P&C direct. In this presentation, I will zoom in on the disability and P&C business. And our focus within these businesses is leveraging on our specific skills to achieve strong combined ratio in the range of 94% to 96%. And at the same time, we aim to have growth of 3% to 5% per annum in the next coming three years, holding on to our value over volume strategy.

So let me first start with P&C. What I would like you to remember from this session is the following: Within P&C, we have a well-diversified profitable portfolio and with strong positions in several segments. Due to our craftsmanship and our value over volume strategy, we are capable to outperform the market in combined ratio and growth. We have been doing it. And we will be doing it. We have a reliable and low-cost organization and because our excellent results and the way we are managing these books, we are positioned to grow organically or if possible, inorganically.

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So let's have a few on the market. The P&C market is a competitive market. And as a result, we have a strong #3 position in that market with market share of 15%, including the Generali GDP. The dominant distribution channel in the P&C market remains the intermediary channel. The intermediary channel does about 50% of the sales and has 80% of the portfolio. And the intermediary channel can be characterized by longer customer relationships, which is very important; by lower claim ratios. And what you can see compared, for example, to the direct channel that the churn in the intermediary channel is much lower than it is in the direct channel. So therefore, you see more sales in the direct than you see in intermediary. But the portfolio stays around that 80%.

As you see on the bottom left side, a.s.r., we are focused on retail and SME. And as Jos told you for example, within the dominant intermediary channel, our retail percentage of new business is 33% at the moment. So 1 on 3 new policies in the intermediary channel retail is sold via a.s.r. That's what we are in the market. Let me show you how we are managing our business successfully.

If you look at P&C business, it's all about revenue business at a combined ratio lower than 100%. And that seems to be very simple. But to be honest, it's hard and complex. And the key questions are, do you know what you are underwriting? Are you asking the right price for that underwriting? Do you managing your claims according that price? And do you have cost-efficient organization which services your customers well? And to be competitive and value driven, do you need to understand the risks you are underwriting. And because the 2 most differentiating elements you can see are mass claims and the price you are asking for the risks. And the real knowledge is in managing those mass claims. And we have -- we happen to outperform the market in this field.

The volatility of the results in the P&C business is mainly driven by calamities. And we take into our pricing, into account that there are certain calamities in a year. So there is no world without a storm. There are some storms in the year. And we take it into account in our pricing when we set our prices to the market. And of course we have large claims, especially fires, which will influence our combined ratio. If the market is competitive as it is, it will allow us just to earn a few cents on euro. So you had to be cost effective, you have to really understand what you are doing. Then you need to be absolutely disciplined in what we call the total of the performance wheel. And how does this wheel work? I will show you now.

Here you see the performance wheel. And in the center of this wheel is our craftsmanship, the expertise of our people. And at first it starts with portfolio management. And that means that we continuously assess, reassess our portfolio. We are continuously using the data coming out of the wheel to improve our pricing, to improve our underwriting, to improve our claims. As mentioned, claim management is key. And for example, at a.s.r., we choose not to outsource claim management but to keep it in our own house instead of outsourcing it. And we are very disciplined in claim handling. We are the best-in-class in bodily injury claims handling and demonstrated by our average claim there is 23% lower than the market average. The number of claims managed by our own employees is 8% higher than the market average. And last but not least, the handling time is 10% plus. And that's good for our customers, too. There you can make a difference if you want to have a very good combined ratio.

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Thirdly, we are managing and monitoring our combined ratio. For example by the profitability, looking at the profitability of product, product groups, looking at the profitability of our distribution channels. So we look into a single distribution partner how he is working and how he contributes to our combined ratio. What we -- besides that, we are rationalizing our portfolio. So rationalizing our processes, our products, our IT system, to be cost competitive because if you just can earn a few cents on a euro, you need to be very cost competitive; and to increase our response to the market -- to the changes in the markets.

And finally in the wheel, with these group results and this approach, you can improve your competitive position in the target markets, in the targeted group where you want to be and make a profit. So when you -- and when you also have your services right, which is shown at an NPS, a Net Promoter Score of 55, you can either grow and still have a good retention rate. And that's good for our business. Having and using advanced data is key in this wheel. And we have direct access to all the data because we are managing this chain in our own house for many years. So only with such an integrated approach, our P&C business is able to underwrite the right risk at the right price with the right service. And that is in the end beneficial for both the customer and for us as an insurer.

And this slide shows you the result of that integrated approach. As well the combined ratio as the growth rate have been outperforming the market. The combined ratio has been 4% to 7% better than last year's. And the growth rate has been 3% to 12% higher than the market average. So as said, with our knowledge, with our data, we are capable of underwriting the right risk at the right price with the right service. That's a powerful performance wheel indeed.

And when we look at claims, because I just told you, it's one of the most important things when you're managing your P&C business, there are 3 kinds of claims: we have bulk, we have large claims and we have the calamities. And the performance of our claims is driven by the way we manage our billed claims. And that's quite a flat line when you look at the billed claims because the volatility is in the large claims. And if you look at our claims, you can see that it's quite stable. And in only 3 quarters out of the past 14, the claim ratio was little bit higher and mostly due to severe storms in that. When there are more storms, of course we have a reinsurance program to a certain amount. So our combined ratio is, to a certain amount, protected by our reinsurance program.

So now I talked about claims, let me talk with you about our cost management. For P&C, our IT platform is key from a data perspective and from a cost perspective. And as part of our combined ratio, we are managing our cost to have a sustainable combined ratio. And as Jos told you, we are really cost focused. But we are managing our cost to manage our combined ratio. And this means that sometimes we invest in claim handlers; sometimes we invest in more underwriters or more IT just to improve the combined ratio and balancing with cost and combined ratio. That is the way we look at our portfolio.

We're now finalizing the implementation of the SaaS platform, Software as a Service platform, with Quinity. And that system will enable us to improve our -- to use our data in a better way for underwriting and pricing and claims handling. It will also provide us with better service to our customers and to our -- the intermediaries. And last but not least, it is

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reducing our IT cost and variablizing those costs. To further manage our costs, we are continuously rationalizing and simplifying our portfolio. And we have been doing this in front of the IT migration. And we will complete the migration for this platform in 2020 and 2019 all our retail businesses already on the platform. And we have been doing this whilst we were growing and decreasing our cost, as you can see on the right hand of the slide.

So let me show you the growth of our business. To start here, we only grow there where it's at value to a.s.r. And in the last years, we've been growing rapidly in a shrinking to stable market whilst we terminated also EUR 77 million of nonprofitable business. So within this figure, we also terminated EUR 77 million of nonprofitable business. And the growth is a result of our performance wheel because we have a competitive pricing, we have a dominant position with the dominant distribution channel, the intermediary. And we have good product features. And we have a good package. And we're reaching an average of 285 packages a day sold with an average premium of EUR 520. And we're managing that on a day-to-day basis.

Other factors that made our growth possible were: our selective growth in SME market, also there, value over volume, understand the risk in our underwriting. So it goes slow. But it gives growth. The capture fallout, the Delta Lloyd acquisition, the uplift of the economic cycle and of course, some of our acquisitions, which I will talk later on to you.

As said, we also acquired some intermediaries in this market. And let's have a look at them. Last year, we acquired Corins. That is a authorized agency in the coinsurance market. We acquired Van Kampen Group. That is a large service provider and general service provider in the market. And with the acquisition of Generali, we got ANAC, also a service provider but specialized -- more specialized. The strategic reasons for us to acquire these intermediaries were forward integration. We really want to understand and be closer to the customer. The second one is we want to learn: to learn more how does the distribution channel work, to learn how we can influence the intermediary channel, to learn how we can offer better services to them, to learn how we can improve our ratios with the mandatory brokers. So learning, learning, learning. And last but not least, they are adding value in our portfolio by earning fees.

And for example, we acquired Van Kampen, we have -- with Van Kampen, we have access to 2,900 intermediaries in the Netherlands, which most of that business bring to Van Kampen. And we do also pilots with these intermediaries. With Van Kampen, for example, we did the pay how you drive pilot. In the big building here, it sometimes is difficult to have a pilot like that. When you do it at Van Kampen, you can have it in an environment, which is smaller. You can trial and error and learn and when it's working. And it's sustainable. Then you can bring it out in the larger portfolio of a.s.r. With Corins, we bought â€" we recorded and bought the player in the coinsurance market. And by the acquisition of Generali, it doubled. And now with Corins, we have 5% to 6% market share in a market of EUR 1 billion of coinsurance. And we are the largest Dutch player in that field. So this was a quick view on the acquisitions in the intermediary channel.

Let me now give you an example of innovation within P&C by making use of internal and external data. And there is FRISS. And FRISS is an external web-based IT solution that enables us to detect fraud at an early stage by an automated process. And FRISS makes

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use of artificial intelligence and machine learning by connecting both internal and external data. But that's free, available on the market. What is really making it suitable for us is that we define ourselves the knowledge rules in that machine. So that our knowledge rules are running in FRISS. And those rules make them unique competence to a.s.r., even though the software is -- it is a software-based machine, which is available on the market.

And I would like to give you some examples. But they are limited because I don't want to give -- to disclose our competitive advantage in this field. But for example, clients with heavy debts are recognized when they are asked for insurance. And why? Clients with heavy debts have a larger risk of no payment or -- and a larger risk of claims. Another example, when a person wants to ensure a car. But at the same address, there's also a company established, we don't accept this automatically because a company car has a higher risk than a personal car. Small things and so there are a lot of rules. But with those rules, we are able to -- in an early stage, to prevent fraud or to prevent risks we don't want to have at the price we are asking.

So I've shown you a little bit how we are managing our business. But I would also like to show you how we are integrating businesses. And in the past, we've acquired portfolios that we have migrate in several ways, technically, commercially, with robotics. And Philippe will -- this afternoon, will show you one of our robotics migrations. And examples of integrated and migrated portfolios are the base portfolio, the Ditzo but also part of the AvÃ©ro portfolio, which we bought last year. But the largest so far is Generali. And that is migrated and integrated as we speak.

And actually, we are ahead on plan. The legal merger has been completed. We moved the direct business to our Ditzo platform. The authorized agents, one of the largest parts of that portfolio has been integrated. And now we are operational integrating the last part. And we will finish that during 2019. Then all the Generali products are in our environment, in our control. And our new IT platform, Quinity. And the performance wheel gives us the opportunity to acquire these portfolios and to improve the combined ratio to the levels we desire. And we can do that in a period of 2 to three years. We're very experienced on that.

So let's summarize this P&C chapter. We have a well-diversified and profitable portfolio. And thanks to the craftsmanship which we use in the performance wheel and our value-over-volume strategy. We have a scalable and cost-effective operation with low and variable costs. And this allows us to grow in the markets, organic or inorganically. And at the same time, we keep the value in the company. This was P&C.

Let me take you now into the business of Disability. And the Disability business in the Netherlands is not the same as it is in the rest of the world. So I would like to shortly tell you what about -- something about the Disability market. It's also detailed in the slides of the Appendix. And this disability product is aimed at the self-employed, the individual, the self-employed or at the employer. And in the latter case, we speak of group disability. And when we zoom in on the self-employed, for the self-employed in the Netherlands, there is no Social Security. There's -- so when someone becomes sick or disabled, there's no Social Security for the self-employed. So the self-employed has to decide for himself if he wants insuring, for what amount, for what period. And if he has an insurance and he

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becomes sick or disabled, the payment depends on the insurance, of course. And the percentage of disability. And that is between the 20% or 100%.

When we look at the group disability, in the Netherlands, employers are responsible for the sickness leave in the first 2 year of their employees. And an employer can choose to bear the risk himself; he can go through the governmental institution, the UWV; or he can go through the private place like a.s.r. After two years of illness, the employer is no longer responsible. But a lot of employers offer insurance to their employees as part of the secondary benefit package to bridge the gap between the last salary and the Social Security payment after two years.

For both the self-employed, the individual part and group, the employer part, prevention of illness and fast integration is key for both the customer and our combined ratio. So having you introduced in the world of disability, let me talk you through the specifics of our business. Starting with the key highlights: we have a very strong #2 position. And we are a top performer for years in the Dutch Disability market. And that is thanks to our specific multidisciplinary approach and our craftsmanship, which is recognized in our underwriting, our claims handling, our pricing but also our reintegration skills. We achieved an excellent performance. And that is shown in our long-term, best-in-class claim ratios and thereby, also in our combined ratios, which is secured by our value-over-volume strategy. And I will show you in this presentation that we are perfectly placed to benefit for the increased demand for sustainable employability. And as last but not least, we are in a good position for further growth, organically and, if possible, inorganically.

Let's start by looking at the market. The Disability market in the Netherlands is approximately EUR 3.7 billion in size and has been relatively stable over the years. The market is moderately concentrated, the top 3 players having a market share of around 70%. And the disability product. But I think that's clear from my introduction, is quite a complex problem -- product. And therefore, the intermediary channel is the distribution channel to sell this product via. Sustainable employability is becoming key to the labor markets. And by -- there are some underlying macro trends, the increased flexibilization of workforces. So short-term contracts, the use of more self-employed. We also told you that the self-employed group in the Netherlands is increasing rapidly. There are technological developments and the aging population.

And for example, the aging population, people need to work longer. And we know from our data, when people become older, the chance of being sick or becoming disabled are higher. So during the later stage of their working life, they're starting to get more problems. And also, people need -- nowadays needs more mobility. In the past, you had 1 career because you were working, you finished the working at the same employer with the same job. Today, the environment is changing so rapidly that you need to have 2 or 3 careers. So you have to constantly move on and develop yourself. To avoid sickness and disability is very important -- to avoid sickness and disability, it's very important to have preventive measures and to stimulate a healthy living and working.

So let's move to the next slide where I will demonstrate you how we are managing our business. And on this slide, you see to 2 -- you can see the 2 triangles. And sometimes in our house, we call that our golden triangles. A key in the triangle is that we have our own

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competencies in our own house. And you can see that in the top triangle. We have our own claims experts. We have our own job-related experts, our vocational experts. We have our own medical-related experts, our medical advisers. And they are at our payroll. And that's quite unique in the market that we have them at our own payroll.

And if you look, for example, to the group of the entrepreneurs, when an entrepreneur has a problem, starting to get sick or is sick or whatever, we have a multidisciplinary team with all those roles sit and wait to become active. And they sit. And they find a solution together from day 1. And therefore, we are able to make the period of sickness and disability very short. For group disability, the bottom triangle, we have a similar process. But there, we have reintegration and sickness leave outsourced to third parties, which we have a strong relationship with.

All in all, we focus on avoiding and minimizing the periods of absence caused by sickness or disability. And within disability, we are managing our business with the same performance wheel as I have told you about with P&C. And the way of working results in very attractive combined ratios also due to our excellent claim ratios demonstrated on the next slide. And we have very strong and stable combined -- stable claim ratios, as you can see on the slide. And we price our products at a claim ratio of 75%. But most of the times, we outperform this number. 11 out of the 14 quarters, our target -- we outperformed our target of 75%. This is the result of the triangles, of our golden triangles. And as you can see, there is some seasonality -- seasonable pattern in it that is mainly caused by the flu.

So if you look at the disability market, it's easy to write new business and to grow in market share. You just turn on the pricing button. And you will get the market. However, for profitable business, we stick to our value-over-volume principle. And I will demonstrate that in some cases which will follow. And for example, we had the BeZaVa case. In 2016, legislation changed. And the employer became also responsible for the temporary employees, which is a large group, 10% to 15% of the working force. And it's attractive to ensure them, too. But we had, at the time, the competition of the governmental institution, the UWV. And the prices of the UWV didn't meet our prices, which we found they were sustainable to have a good combined ratio. And therefore, we withdraw of that market. And we're now waiting because in 2019, '20, those customers are coming back on the market. And I think we will get them back at prices we really get our -- suitable for us. But we didn't go for the volume. We went back just to stay with our value-over-volume strategy.

Secondly, let me briefly talk to you about the sickness leave case. When the economy goes up, sickness leave goes up, too. It's strange. But it's happening. And that's what our data say. And when our prices doesn't meet the claim ratio anymore, we are looking for improvements, improvements in the reintegration, et cetera. And if that doesn't meet our expectations, we increase our prices. And last year, we increased our prices on average with 20% to have again a healthy portfolio.

And finally, I would like to discuss the disability case. We as a.s.r. have a very strong position in the risk classes 1 to 3 that are the so-called white-collar classes. And we have less of a strong position in the classes 4 or 5, the so-called blue collar. But we are there where we can add and collect value. Nevertheless, we want to be present. And we want to be good in 4 and 5, too. But the current products, including the prices, are not suitable for us. So we have seen this problem. And we decided to find a solution.

And we decide a new product. And we introduced it a few months ago. And the product is called Langer Mee in Dutch. And that means something like longer -- with us longer working. And it's the first disability product where the customer is required to accept services, services on preventing -- on prevention. And as long as the customer is working with us on those prevention measures, he can be insured at a reasonable price. So this is beneficial for the customer because we're helping him during his working load. And it's beneficial for us because we are reducing our claim ratios. And we are getting really to interact with our customer and building up the relationship.

Another example of a product innovation is Doorgaan, the keep on going, which is unique in the Dutch market. And we introduced that a few years ago. a.s.r. is one of the few Dutch insurers, which has both a health insurance and a disability insurance. And we are the only one who is combining this 2 in 1 product. And by combining these 2, we offer the entrepreneur and the employer the so-called Doorgaan proposition.

And what does this bring to the customer? It brings integrated product and services aimed at preventing and shortening the sickness leave and disability. For example, we are providing more physiotherapy. We are providing more mental health care. We are providing childcare. And we're doing that at an early stage even before the person becomes sick or disabled. That's what we are offering to our customers. Besides that, we offer a better service. And we offer a better premium and there is no overlap between the products of health and disability. And the logic behind this is that we better invest at the start of something happening with physiotherapy or with mental health care than waiting until someone becomes sick. It's much cheaper to do it in front, to help the person than to do it afterwards. And that is a real win-win. And therefore, we expect this concept to further growth because it's good for the customer, it's good for us and it's good for society.

So I've been talking with you about our business. I've been talking the way we are managing our business, talking with you about the new products we introduced to the market. But what's really exciting me is what's happening in the field of sustainable employability. And how this change -- changes the demand of our customers from an insurance-only to insurance with all kind of services behind it related to sustainable employability. And let me tell you what that landscape of sustainability looks like. In the landscape of sustainability, sustainable employability, it's all about productivity: productivity now, productivity tomorrow. But also productivity over 10, 20, 30 years when the person has to work. And the combination of that productivity question, combining with the macro trends as earlier discussed, lead to the increasing demand of services. And it all starts for the person with having the right job, having the right competencies for the job and being in a good condition, mentally and physically.

And to stay productive during your working life, it's necessary to develop yourself on and on, day after day, to be the best a company can get. And today, the environment of your working life is changing very rapidly. And the combination with the increasing retirement age -- in combination with the increasing retirement age, therefore companies and

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employees are looking for services to help them to fill in their own responsibility for sustainable employability. And it's needed to accommodate the businesses and people and to -- so that they can remain productive. And we are in a perfect place because we have access to all the services and products in the field of sustainable employability.

For example, we have access to distribution. In this field, the intermediary network is the distribution part. And we have also access to Boval and to SuperGarant, 2 large players, which we acquired in the last years, which are specialized in this field. But we have also a stake in the largest occupational health company, Human Total Care, which services 1.5 million customers in the Netherlands with company doctors. And we are the largest self-employed network organization in the Netherlands, ZZP Netherlands, self-employed Netherlands.

In the field of prevention and added services, ZZP Netherlands, Human Total Care have -- and our own prevention services, which I showed in the triangle, are there. And in the field of claims management, getting back the customer to work as soon as possible, we can rely on the Keerpunt, that's a joint venture with Nationale-Nederlanden; Human Total Care; and of course, again, our own expert. And last but not least, because we have all those services around when someone is starting to get sick, when a person is sick, when he has to reintegrate. But sometimes it really goes wrong. Then we have our disability insurer, which provides the financial backup. And we have our health insurer. This provide us with early interventions on the health side.

And if we are able to integrate -- in the coming years, if we are able to integrate those services and use the data coming out of those services in an advanced way, we will be really capable of outperforming the market and getting people back to their work and keeping people productive. And thereby, we will be lowering our claims. We will be lowering our combined ratio. And we can grow in this market segment. This unique platform sets us up for profitable growth. Going forward, we also â€“ we're still looking for partnerships in the field of fidelity because we also believe that to promote a healthy way of living and working is essential in this framework. And with all these partnerships, we are perfectly positioned to fulfill the increasing demand from sustainable employability.

And that brings me to the conclusion. First of all, we want to leverage on our leading market position, whilst we're continuing our excellent performance using the multidisciplinary triangles and the performance wheel. We also committed to keep our combined ratio attractive by sticking to our value-over-volume strategy. And besides that I've just showed you that we have access to unique platform in the value chain aimed at building an ecosystem centered around sustainable employability. And finally we will actively seek for opportunities to grow organically or inorganically.

This ends my presentation on the Disability. And it also is finishing my presentation on the P&C. In the P&C business -- in the Non-life business, our P&C and Disability business have a target of 94% to 96%. And at the same time, we have a growth objective of 3% to 5%. This is doable. But this is doable because of our partnership, because of the triangles and because of the wheel we are using. We are perfectly placed. And we have the persons in our company.

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I would like to thank you and now hand over to Karin, which takes us along the Life business.

A - K. T. V. Bergstein

Thank you, Michel. So check, is it working? Yes. Are we still alive? We're going through the Life book just before lunch.

What I'd like to present to you today and leave you with just before lunch with the next 4 key messages. And I have to push the button myself. So. We manage our Life book on a very low-cost operation. But at the same time, we focus on good customer service. Good customer service is very important for our retention rates, as it will reduce our unnatural lapses. We have customers with us for over 30 years. So good customer service is really at the heart of our strategy in Life. This is why we don't call our books, back books. But we call it service books. And this is a crucial difference from, for example, situation in the U.K.

I will provide you with an overview of the development of the total Life book, including the average duration of the composite Life book and explain why this book is robust and provides us a strong base for realizing investment margin in the years to come. I will give an insight in our acquisitions over the past three years and will present to you how we have been able to unlock the synergies. We have 3 sources of synergies: cost synergies, capital synergies and re-risking the assets we acquire. And if we look at these 3 key messages, we believe that we have a proven track record to have set up a flexible organization that is able to adopt change. That is why we believe that a.s.r. is well-positioned for the next consolidation wave.

But let me start with providing an overview of what is in this Life segment. In the Life segment, we have 3 lines of business: Funeral, Individual Life and Pension. And all of our people working, all the managers focus on the same things. They focus on the efficient operations with strong customer service; they focus to rationalize a product portfolio. And by doing that simplifying our operations; and applying these 2 skills, we can also apply this on the books we acquire because most of the books have similar characteristics.

In M&A, our main focus is on Funeral and Individual Life. But we also have skills to integrate Pension books. As already mentioned this morning with the acquisition of De Eendragt, we also have integrated a Pension book. And meanwhile, we continue to manage the unit-linked file. Total reserves of the Life book add up to EUR 38 billion at the end of 2017. And if we include Generali book, this increases to almost EUR 42 billion. Operating result, as Jos presented, was EUR 633 million. And it's our target to deliver a stable operating result for the period 2019-2021.

Let me provide you an overview of the drivers of this operating result. This slide describes the drivers of -- the 3 sources of the operating result of the Life book. The main driver of the uplift of the operating result over the past years has been the increase in the investment margin. And this afternoon, after lunch, Jack Julicher will give you a detailed presentation on the investment income. But also the technical result has improved. And this has mainly been the result of our acquisitions. The cost result is a hard work. It's a hard work to keep the cost result in positive figures. And it's important to know that in the

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costs, it also includes the cost we make for our investments. So the costs of real estate and investment management are included in the cost result. But all in all, what Chris was also mentioning this morning, we only can realize these results if we have customers. And this is why we have a strong focus on good customer service because it will increase our retention levels.

And digitalization is key. Our customers demand the latest technology to be implemented. We have invested, therefore, in client portals in all 3 lines of business: in Funeral, Individual Life and also in Pensions. Digital communication is really what customers demand for. And you need size in order to be able to implement these services. We also have implemented the chatbot. And Philippe will show it to you this afternoon. But also in operations, we make use of the latest technologies. We try to implement as much straight-through processing as possible. But if we are not able to apply straight-through processing, we are also implementing robotics. And by implementing robotics, we can reduce sort of boring and repetitive tasks of our call agents, freeing them up for the real customer service.

But let me go to M&A and some -- and explain to you a little bit how we are integrating all these acquisitions. Over the past years, in Funeral -- let me start with Funeral. Funeral is a relatively simple product. The acquired books have been successfully integrated into one platform. It's an IT platform, which has a stable cost base. We first have migrated all of a.s.r. policies towards this platform. We did this before we IPO-ed. So it was done, finalized in 2011, 2012. And we thought, well, if we have the skill of migrating all of our own books to one stable platform, we can also acquire books in the market. And we announced the first acquisition of Axent. This was really a share deal. It was a complete company we acquired. It had 2.2 million policies. And it took us 18 months to integrate this organization, close down Groningen entity. And move all policies to Enschede, which in -- which is like a 2-hours travel away from Groningen. And so all of the staff we had to release. And we built up only some additional staff in Enschede. And this is where the cost synergies really start to kick in.

But we had a challenge because at the same time, in the same year, we closed the deal with NIVO. And with NIVO is a company we had already discussions going on for five years. So when we announced the acquisition of Axent, the former owner became a bit nervous. But that wasn't a problem because we made the deal with the former owner that he would serve the contracts for additional 12 months. So it was like an outsourcing contract. Then after we had closed the migration of Axent, we started on the migration of NIVO.

And as you can see in the graph, it took us only 12 months in this case. And Generali was a composite book. But it also included some Funeral contracts. And it took us only five months to migrate these contracts. And only 10 days ago, we closed and migrated the portfolio of PC (Holt). And although it was only 15,000 policies, migration and paying for this book took place on the same day. So what you see is that we are on a steep learning curve.

Each integration, lessons learned are evaluated and we take them along with the next migration. So in Funeral, we have a fixed IT platform, it's good to remember. And adding

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more policies to the platform. We can't disclose. But IT costs have been stable since 2010. So that is a relatively nice business case.

Then we thought, can we do the same in Individual Life? And again, we started with our own books. a.s.r. has come from 7 different life insurance companies. They were all bought long, long time ago. But the products were still on legacy systems. And in the past, each feature of a product required a new product. And this is why we had over 1,800 different products in these 7 portfolios. And that's when we thought we do not only have to migrate these policies, we have to rationalize them. And with the selection of our IT platform, we look for 2 things. First of all, we wanted variable costs. So we selected a partner who offered a SaaS solution. And we pay a cost per policy. So we're fully variable in our IT costs after migration. But secondly, the system needs to be more modern so that we could have more of the similar features in 1 core product. So we rationalized 1,800 different features and products to 12 core products. And this rationalization, I believe, is one of the key strategic assets of which we have done over the past years.

We started this whole rationalization process in 2013. And besides the product features, we have also rationalized the funds. And as you can see in the graph, on the bottom right-hand side, we reduced the funds from 270 to 34 core funds, most of them managed by our own investment team. So remember, rationalization decisions are crucial. But the interesting thing is that all of the Dutch players have more or less sold the same products. So when we acquired the Generali portfolio, we only had to make 8 additional rationalization decisions. So the skill we have built up on this rationalization, we can also apply it now on the book we acquired.

But let me first give you an update on where we are with our own migrations. For some of you who were here at IPO, I showed you our plan on the migrations. And I'm happy to tell you that we're more or less on track. We have migrated 5 out of 7 books. And at the end of this month. And we're quite sure that, that will happen by -- being on -- already on the 10th of October, we're going to migrate the sixth book. Then we have one more book, which was planned for the First Quarter of 2019. But now we have decided to migrate the Generali book first. And this is because the HLS book was outsourced to Infosys so we have to insource it. And we still -- we have a contract through 2020. So from an economic perspective, it was more interesting to integrate and migrate the Generali book first. And we will integrate and migrate -- or insource and migrate HLS book in the second half of 2019. So it is our aim to finalize both the migrations of Generali and our own books in 2019.

What is interesting of the Generali (cases) is that for us, it was the first time that we have bought a composite life book. So it was not a monoline life -- funeral book or a monoline individual life book. But was a composite life book. And we already gave you an update in the June call. But let me give you an update on where we are with the Generali integration on the life book. I'm happy to tell you that everything is going slightly ahead of schedule. We have migrated the funeral book in the 1st of July. It was planned for October. But again we knew the PC health book was coming as well. So we were able to accelerate the migration of the funeral book to the 1st of July. So that's finalized. 'Individual Life is on track. I showed you before, we are planning to migrate this in the first

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half of 2019. But all rationalization decisions have been made. And we're now in the process of data cleaning and preparing for the migration.

For Pensions, it's slightly more complex. But we have sent out offers to all of our Defined Contribution customers already in this year. And some of the customers have already agreed to move over to our a.s.r. DC proposition. This is a commercial migration. And Jack Julicher will explain to you this afternoon what our DC proposition looks like. But we have very positive responses from the Generali customers. With the closed book, it's -- their defined benefit portfolio was already closed book for several years. That would be a technical migration. And it's planned to happen 2019 and early 2020.

So Generali was an example of where we have split up the book between our 3 lines of business. We have disentangled the holding quite swiftly by moving all of the staff towards Utrecht in the first -- within three months after closing. And having everybody: the people managing Funeral with Funeral, Individual with Individual Life and Pension with Pension; you accelerate the speed of integration because all of the staff of Generali, when they moved over to the building here in Utrecht, they immediately started in the department where they were supposed to work after migration. So physically or from an FTE perspective, from a personnel perspective, everybody has joined the new teams. And having a very tight labor market, it also helped us because we had a lot of vacancies in Individual Life and Pension. And we were able to offer our new Generali colleagues the positions, which were vacant. So having a flexible workforce now helps us also in realizing the cost synergies.

That about Generali. But let me sum up the total of the value creation from the acquisitions we have done in the past years. As said we have 3 sources of synergies: it's cost synergies. And as you can see and add up the numbers, you are much better at that than I am. But it's over 3 million policies which we have migrated onto the IT platforms of a.s.r. And this has created not only significant IT synergies but also synergies in operating the books as we no longer have to overhead over the books. Capital synergies, being part of a composite insurer and buying a monoline funeral book gives capital synergies which we can unlock as soon as the migration is finalized. And re-risking the assets. We have added over EUR 7 billion of assets. And we were able to re-risk those assets and realize higher investment margins. Having a robust capital position, we are able to re-risk and increase the investment income if opportunities to do so come by.

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Furthermore, we added 220 million of gross written premium. And this is helping us to keep the book and top line relatively stable, creating a robust book. So all the effort we have done in realizing effective cost operation, we can apply on -- also in these acquisitions. And this is why we have an ambitious target on further cost reduction. In half year 2018, we already have announced that we had additional EUR 8 million of decline in our costs in Life.

I will explain a little bit what the graph is about because we had to find a metric for our cost reductions. And we decided that we want a metric which was related to our -- to the basic provision as we do acquisitions. But also, there might be a decline in the basic provision. And we said we want to have a target of 45 to 55 basis points of basic provision. But let me explain. The basic provision is what -- the technical provision minus

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the famous shadow accounting reserve. And the green line is showing our basic provision over the past years. And the uplift you see is the acquisition of Generali.

The gray line shows you the operating expenses. And these are the operating expenses including the costs we have to make for our investment departments. And as you see, these costs are declining. This is partly the effect of migrating our own books and partly the effect of the cost synergies from the acquisitions. Going forward, we think we will also be able to realize cost synergies further, cost synergies from the Generali integration. And we expect -- therefore, we expect to go even further down from the 57 basis points, further down towards the range between 45 and 55.

Then I also would like to show you our development. But this is from a Solvency II perspective. So as with -- the former graph was on IFRS basis, now we switch to Solvency II. If we look on our best estimate liability. And that's measured at market value under the assumption of a forward interest curve, including the VA and UFR, we expect the book for Funeral and Pension to be relatively stable, as average durations in Pensions are 18 years; and in Funeral, even 36 years. So this gives us a stable best estimate liability. But in Individual Life, you see the decline. And this is what all of the market is experiencing. So imagine that you are a single Individual Life player. You really have a challenge. And this is why we believe that the market will start to consolidate. And in Q&A, Jos and Chris were already talking about this.

So let's focus on the possibilities we see for M&A. And again in this graph, the top 5 is top of the graph. But we believe that in the mid-market. So the medium, small-sized companies, there is roughly EUR 20 billion of assets and provisions. And having all these regulatory developments, they really put pressure on this medium-sized companies. So we believe that out of the 13 companies, some of them will come to the market. And as said, we can't give you any details on discussions we are having or -- but this gives you an idea of the possibilities there are. So in the meanwhile, we'll continue to migrate the Generali portfolio. But if there will be possibilities, we are ready to look at these files.

So let me conclude with the things I would like to leave with you before going to Q&A. a.s.r. is running the life book on a very low cost. But in the meanwhile, we focus on good customer service. It's a robust and predictable service book, provides a strong basis for realizing investment margin. And this is why we are targeting our operating income to stay on the level of 2017. We have a track record in consolidation. And we're not only the good buyer but also the good owner of the books we buy. And this is why we believe we are very well positioned for the next consolidation wave.

This is where I end my presentation. And we'll go over to Q&A.

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A - Michel HÃ¼lters

Thank you, Karin. Thank you very much for your excellent presentation.

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A - K. T. V. Bergstein

Thanks.

A - Michel HÃ¼lters

Can I have Michel and Jos also, please, to the podium for Q&A? Again, ladies and gentlemen, if you have a question, raise your arm -- for your hand. Wait for the mic. There's already a couple of heads popping up already. Please state your name, your company name and then -- we're ready for that. All right. Who's first? I think Hadley was actually first so...

A - Jos P. M. Baeten {BIO 2036695 <GO>}

Don't fight.

A - Michel HÃ¼lters

Then we have Farooq and then we have...

Q - Hadley Cohen {BIO 18331131 <GO>}

It's Hadley Cohen from Deutsche Bank. A question for Michel, please. You're -- the 3% to 5% growth guidance that you're -- or target that you're giving, how sustainable do you think that is? And I guess within that, what are you assuming your competitors are doing? Is there any assumption that your competitors are catching up with your craftsmanship and what have you? And if not how big could that growth be if you assume your competitors were to stand still and do nothing? Then a question for Karin, please. I know it's a slightly alien concept in the Dutch market. And I can -- for obvious reasons. But is there any prospect around new business, writing new business and how you're thinking about that?

A - Michel HÃ¼lters

Okay. Thank you. Michel?

A - M. H. Verwoest

How sustainable is our growth rate? We think it's very sustainable because our sustainable -- our advantage at the moment is not an advantage which is standing still. We are continuously improving our skills, our data, our wheel and therefore, we think that we can aim at that growth in the market and still having the value in that growth. The only problem which can occur is that there are a lot of competitors which are not rationalized pricing. And if that's happening, we don't have our growth rate. But we'd still remain to our value and to our combined ratio. But I think most of the market is, at this moment, more rational than it has been in the past.

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A - Michel HÃ¼lters

Okay.

A - K. T. V. Bergstein

Yes. And on Life, I think there are 3 angles where we see potential growth. First of all, in DC Pension markets. And Jack Julicher will talk about this, this afternoon. Because we have it in the quadrants of asset management, we made a split between the service book and the DC book. And we have a strong market position there. And we're now clearly the #3, with the consolidation of Delta Lloyd and NN. And that is really a market where we are still growing. In Funeral, we do have cross-selling on the existing portfolio. So there is some additional sales. However, we do see that it's more limited than before the panel commissions. And thirdly. But this is a bit further away but we are thinking about that in our innovation department, that you could have a combination between healthier living and term life. This is what we see in other countries. But this is really further away. So we haven't stopped thinking about it. And we have the knowledge base and we'll continue to look for possibilities. But there is nothing decided yet today.

A - Michel HÃ¼lters

Okay. Farooq?

Q - Farooq Hanif {BIO 4780978 <GO>}

Farooq Hanif from CrÃ©dit Suisse. What is it now about Individual Life that's making you interested? Is it just that you now have the platform? Is it litigation risk? IFRS 17? What is it? Why now? Because you didn't talk about it before, I would have thought you didn't always have all your systems in place. So why now? Then secondly, in coinsurance, obviously that's a bigger market share amount than I thought. So and that's obviously more the slightly bigger ticket commercial business, I guess. So what's your appetite there? Because that's clearly something you've not done before. You've got skills in what you do. You've built skills in what you do. I mean why not develop that too?

A - K. T. V. Bergstein

Okay. Shall I start with the Life, Farooq? And the questions -- good questions. Thank you. I think we first wanted to build up the capability with our own books. So from 2013 onwards, we really started with the rationalization. And with the rationalization, you do it through all of your books because if you change -- if you make a decision, you have to do it for all the books at the same time. And that was quite a complex thinking. I think it took us two years with the product rationalization board to make all the decisions on the products. And we made them through all of the portfolios. Then we started to migrate them one by one. But the hard thinking I think was done between 2013 and 2015. And because most of the Dutch insurance companies have had similar products, we now have that capability in-house and we can apply it to other portfolios. And we have the proof that we can also do the migration successfully. So it's a little bit of doing it first with our own books. And then we can also apply it on books we are buying. And secondly, I think that the problem for the other companies is now sort of appearing. We knew that we had to act. And we had our study in -- already in 2011, that we knew that if we did nothing, we would have an issue to come. By having this plan of rationalization and migration, we have lowered our cost base and we have made it more variable. So that helped us. But the others, they run into the same sort of challenge. And apparently yes, if they haven't thought of something themselves, they might come to us.

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A - Michel HÃ¼lters

Okay. Question...

A - M. H. Verwoest

When it comes to your question about coinsurance, the 5% to 6%, we are not the -- as a.s.r., we are not the underwriter of all that business. So but we are tending to do is to get more of that business but the very slowly, understanding the market, knows what risks we are underwriting. But part of the 5%, 6% has been brought to international players or other Dutch players. So it's not all on our books.

A - Michel HÃ¼lters

Okay. I think Benoit is actually first.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Benoit Petrarque from Kepler Cheuvreux. A couple of questions on disability. There have been lot of complaints from self-employed that pricing is relatively high. I think a lot of self-employed in this country are actually not buying the products. At the same time, you have a quite high profitability, I think 91% combined ratio. So how do you reconcile that to the role of adviser in the Dutch society? And do you see also more longer-term hurdles in terms of return on equity on this business line? Or do you have objective in terms of lowering this return on equity on disability? And also at this stage of the cycle, which is extremely good, employment -- unemployment is very low, do expect some pricing pressure on this segment? Then on the P&C, I've been surprised by the premium growth coming from intermediary. I think this has been growing 5%, 6% last year. Longer term, do you think this is sustainable to grow in this segment?

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A - Michel HÃ¼lters

Those were 3 questions.

A - M. H. Verwoest

Okay. Yes. On disability, starting with first one. It's correct that in the Dutch market, there are complaints about certain groups which are not able to ensure themselves because the price is too high. What I showed through my presentation is that, that are the classes, the blue-collar classes 3 to 5. And why is it possible to have a good combination of price and product over there? That's because most of those workers are not seeking for a disability product. But it's more like a pension product because those roles they have end up at 55 or 60 years to become disabled. What we have -- are doing now is changing the world and changing our approach by helping those customers by preventing that they will become disabled at 55. That was the Langer Mee. So we add services to it. So they are working on their competencies, the way they are working during their younger years, we are looking at that. And therefore, we can offer them prices which are suitable for them and also have a profitable insurance. So that's the main way because there is too much differentiation in the market and the white collar doesn't want to pay for the blue collar. The combined ratios as they are, are good and we need them because there's also a cost of capital in between. It's long-tail business. And in long-tail business, you have to be a

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little bit careful with the business you are writing. The unemployment, does that give pressure to the prices? I think that the pressure on the prices will -- the prices will increase because of the economic uplift. There's more sickness leave. And as a matter of fact, when the economy goes down, the sickness to leave goes down also. So it's just the other way around. So I think it will be an increase in price instead of a decrease in price. And the growth in the P&C business, we are growing quite sufficiently because we're just growing there where we can add value and collect value. And with our wheel, we have the knowledge to target groups, to target products, which is bringing us value and bringing value to the customer. And there's a lot of data behind that. And there's a lot of professionalism in the wheel. We -- our people, our underwriters, our claim handlers, our commercial people are constantly assessing together what's happening in the markets. And we have that all in our old house. And using that data and that performance gives us the opportunity to be ahead of the competition. And I think that will stay an advantage because it's our main goal. But it's hard in a shrinking to stable market.

A - Jos P. M. Baeten {BIO 2036695 <GO>}

To add on, on the discussion on the self-employed, as said there are currently roughly 1 million self-employed. And there is a generic discussion on whether they are able to pay, to get disability insurance at a reasonable rate. But if you zoom in to this population, roughly 1/3 of that 1 million self-employed are providing income to families. The remaining 600,000 are partially working. And their families are not dependent on the income of this part of the self-employed population. So there is a debate going on whether there should be an obligation to buy insurance. And from our perspective, it's not going to work for the 350,000 that are currently out there. It may work. But as you can understand, we are not -- we don't prefer to sell business because people are obliged to buy it. And that's why in the newspapers, the discussion is always about the whole group. And the people that can afford a decent insurance are mostly the 600,000 that have partial jobs. And the people that can afford, Michel already explained how we approach them to help them to pay an affordable premium going forward.

A - Michel HÃ¼lters

Okay. I think Johnny Vo was -- and then Farquhar.

Q - Johnny Vo {BIO 5509843 <GO>}

It's Johnny Vo from Goldman Sachs. Just the first question, to Karin, just in relation to the product features and the fund rationalization that's happening, I mean what is the conduct risk there, that you're forcing policyholders effectively to take a.s.r. funds? So that's the first question. And the second question just relates to the competitive advantage of a consolidation strategy. What is -- given that you outsource your IT, what is your competitive advantage against a closed block consolidator who could come in the market where you see more and more private equity coming in? So is this sustainable over the long run?

A - K. T. V. Bergstein

Yes. Yes, on the first question, that's a good question because I think I forgot to tell that we always stated the rationalization decisions based on 3 parameters which is: customer

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interest, the customer always has similar or better conditions because, otherwise here you get conduct issues; then we look at it from an operational perspective; and of course from a financial perspective. But we always look at it in that order. Then on the competitive advantage we have, we have had the insights in all of the products and the products features already from our own books. And as explained, I think we have a competitive advantage in this thinking work, had the work from the rationalization board, which consists of actuaries, people from compliance, legal, product managers and marketeers. And they all work together in yes, how can we rationalize? Because I think if you don't rationalize and only migrate the books, then it's much harder to get the real benefits out of it. And by having done it on 7 legacy books. And now 8 with the Generali with it, we have built up quite some insights.

A - Jos P. M. Baeten {BIO 2036695 <GO>}

And on the PE part of your question, Johnny, over the last 10 years, I think there is not one insurance company in the Netherlands that didn't have a conversation with PE, whether they were willing to sell their books to PE, like happened in the U.K. And until now none of us have seen a reasonable price which is better than how we think we are able to serve those service books going forward. So I think yes, there is competition from PE. But also from a regulatory point of view, Dutch regulator has stated on several occasions that if and when there is a challenge for end market consolidation, there is a preference for end market consolidation.

A - Michel HÃ¼lters

Farquhar?

Q - Farquhar Charles Murray {BIO 15345435 <GO>}

Farquhar Murray, Autonomous Research. Just 3 questions, just 2 on the Non-life side. Just on -- you mentioned on the broker channel, which is obviously where you're mainly focused, kind of loyalty. But I just wondered if you could give us some numbers around the level of churn and how that's trended in recent years in terms of what you see on the Non-life side in the broker channel. Then just in terms of channel discussions on Non-life, was wondering if you could give a sense of how the broker channel's standing versus direct distribution in the Dutch market over recent years and where you see things going from here. Then just coming briefly to Karin on the Life side, I can very much see the kind of skill set you've built up in terms of integrating in the Life businesses and how that clearly brings you to somewhere kind of new in terms of what potentially comes next. I just wondered how you deal with the kind of background unit-linked issue in terms of pricing and thinking about those kind of issues on the (build) blocks that might ultimately come forward.

A - M. H. Verwoest

Should I start?

A - Michel HÃ¼lters

Okay, yes.

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A - M. H. Verwoest

First, to the broker business. We're -- often, we discuss this like an intermediary is just advice and we have directs. That's not the case. Most of the professional intermediaries are multichannel. So the Dutch market is going direct. But a lot of it is going via the intermediary because he has the relationship but he's selling his product also direct. And sometimes he sees the customers. So it's a multi-channel approach they have. The churn. And the last figure I know, the churn in the direct channel is more than twice higher -- more than 2x higher than it is in the intermediary channel. And therefore. And there is some kind of a correlation between the duration of a customer and the claims. In the first years, customers claim more than in the latter years. So with the direct channel, you have more claims. In the first years, you have more acquisition costs for that. And therefore you see more sales in the direct channel. But it's more going around in the direct -- in the real direct channel instead of that is coming from the intermediary channel. Your question is how does the intermediary channel develop? I think the intermediary channel is consolidating in the Dutch market. So they're becoming larger. They're getting service providers. That's one of the reasons, strategic reasons, why we bought 2 of these companies, to better understand what they are doing. And they are very professional organizations, which are multichannel-oriented, high craftsmanship on that. And we really believe that in the business of P&C and the disability for sure, they will remain the dominant channel. And besides that we have our own expertise and experience in the direct channel because we have Ditzo. But we're not growing very fast in the digital channel because it's not the -- I would prefer to grow in the intermediary channel because it brings us better returns and better value. But if it's necessary, we can grow in the direct any time. But we only do that when it brings value.

A - Michel HÃ¼lters

Okay.

Q - Farquhar Charles Murray {BIO 15345435 <GO>}

Just a follow-up on that. I mean can you actually give us the numbers in terms of churn? (I understand) you're giving us 2x versus 1. But can you actually give us the level?

A - M. H. Verwoest

I have to seek for it and then we will...

Q - Farquhar Charles Murray {BIO 15345435 <GO>}

And how's the trend in that been? As you say the intermediaries themselves are changing. But is that having any change in terms of churn behavior that you've seen in recent years?

A - M. H. Verwoest

No. We see -- what I've been seeing is that it is slightly going down. But it's not with the large bank because the relationship of the customer with the intermediary is much bigger than just one product. What you see in the direct channel, that's another thing. In the direct channel, there's a lot of single product buyers. In the intermediary channel, the customer first buys more packages. And besides that, he also has his mortgage or his

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other insurance brought by the intermediary. And therefore the retention is much higher. And in the direct channel, people are looking for the cheapest or -- every year and year again. I'll seek it for you and we'll give it later on.

A - Michel HÃ¼lters

Then the question on...

A - K. T. V. Bergstein

Yes, on the unit linked. Like I explained to Johnny, the -- for our customers, it's always a similar condition or better. Yes. So in migrations, the unit linked issue is not affected. All of our customers have been activated to make a decisive choice. Should we stay or do we go to an alternative product? This has also made that we had some more natural lapses. And that whole program has been finalized. And if we do due diligence, this is always one of the key items we have to look at. So we look at several portfolios. And like Jos was explaining, we have strict financial criteria. And sometimes we decide not to acquire a book and that could be because of the unit linked issue in due diligence. So we look at it in due diligence. And we are obliged to do so because we migrate and integrate the books. And for our policyholders, we should not increase the risks. So this is a important item in due diligence.

A - Michel HÃ¼lters

Okay. With that, I see that we're already running into our lunchtime. So if you have any further questions, can I please refer to when we're meeting at lunch? With that, we are -- thank you for this session. Thank you for your questions. We're reconvening at 1:30. So if you could be back in the room by that time, wonderful. Enjoy your lunch.

(Break)

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Welcome back, everybody. Welcome back. If you could all please take a chair. Sit comfortably, please. Thank you. All right.

Okay, ladies and gentlemen, welcome back for the afternoon program where we have, again, 4 speakers lined up. We'll start with the presentation of Philippe Wits, as I said, about innovation and digital; Jack Julicher on our Asset Management platform; Dick Gort on real estate; and finally, Patrick Klijnsmit on IFRS 17 and additional life disclosures. So with that, Philippe?

A - Philippe Wits

Thank you, Michel. Good afternoon, everyone. A couple of weeks ago, I was sitting with my youngest son on the couch and he was looking at a YouTube video of a SpaceX rocket blasting off into space, launching a satellite. And he turned to me and he said, "Dad, why aren't we able to put people on the moon anymore?" And I thought, wow, that is actually a very good question. Why aren't we? Clearly, we have made huge advancements in technology. But all this exponential growth in technology, surely, we should be able to do that and yet we still use and so use Russian rockets from the '60s to put people into space. I wouldn't go in there actually.

So that made me thinking. And what is true for innovation is also true for the innovation approach of a.s.r.. And it's actually not about technology or not about technology alone. I think you need 2 things. You need a clear purpose, something you're really passionate about, something you're really dying for to solve in a market. And secondly, you have to realize that innovation and the application of technology is just a lot of hard work. It needs humans to get it running. A robot doesn't do stuff on its own. AI is really not that intelligent, sorry to burst the bubble.

So in the 20 minutes I have for this presentation, I'm going to talk to you about all -- not all the hard work a.s.r. is doing, that would simply take too long. So I'm going to talk to you about what a.s.r. is doing today and give you very concrete examples. And shortly touch upon what we are preparing for tomorrow. So -- and after this 20 minutes I hope you leave this -- well, you don't leave this room. But I'll leave you with these 4 messages. And actually that our approach to innovation is very customer-centric. We really look closely at customer paying points and trying to solve the unmet customer needs. You'd probably like this as well, we don't throw good money after bad. We use stage gate funding to get our innovations done. Thirdly, we partner with specialists in the field of venture capital funds to find the best technology and the best startups. And finally, we have a very nimble and agile IT architecture to cater for the ever-increasing technology.

So if you look at the market, it is very clear that a lot of markets are being disrupted. And a lot of people actually think that it is because of technology. And they're right. I mean, it's part -- for sure, it is technology, the Internet, the Internet of Things. But actually what these companies are really doing well, they're finding pain points where customers really find it very difficult or even didn't know that it was an unmet customer need. They solve it so well that these consumers fluctuate. And they get exponential growth. And that is only logical. And so what we call disruption as an industry, customers actually call it a sigh of relief. Finally, someone who is understanding what I want.

On my latest trip to Valencia, I was with my kids. So I have 3 kids. And my oldest daughter loved to drive a motorcycle or scooter. And she said, "Can we rent a scooter?" And I -- and you all know you dread -- I mean, renting a scooter or a car is very cumbersome. I really didn't look forward to it. I went down my apartment and beyond -- behold, there was a scooter in front of my apartment shared by a sharing platform by cooperative model, unlocked by an app, paid by the minute. I loved it. I used it. And there is no wonder that the taxi and the travel industry has been revolutionized this way. But again, it's not about the great app, it's not the fact that I unlocked the scooter and retrieved the helmet by the app. It is because these cooperative models are able to instill and thrive trust through cooperation that actually makes the customer want to share stuff in videos or taxis, homes or whatever.

Now what is the great news about this? a.s.r. and all insurance models are actually the mother of all cooperations. We actually invented cooperation. And we thrive and rely on trust. The only thing we need to keep doing is keep getting relevance to our customers

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and keep showing that we are actually cooperating and that they are actually cooperating with us. So -- but we don't have to develop that on our own as well. We have multiple companies who are helping in that space.

And another trend we're looking at is data. So data, of course, is the big promise of big data. And I'll give you a couple of examples later on. But big data is also about big relevance. So it's not only about the data, people are looking for the relevance. And the debate on data being not allowed to share through GDPR is right. I mean, we should protect the right of customers. But actually from our research and engaging with customers, they're more than happy to share their data if they get relevance in return and if they get control over the data. So those are just 2 important trends we are looking at and are investigating.

Now staying on the topic of data. Data, of course, is key. And this looks like a very complicated graph, it's not. So the left-hand side, I will get you through it. Starting on the left-hand side is actually what we have been -- what we are doing the entire day. We have a plethora of engagement with customers, literally thousands and thousands of phone calls, emails, letters, maybe even faxes, I don't know, keep coming in to this company every day. And it's only limited by human scalability of it. But as a huge database and huge insights, we can derive from these customers. And on the right-hand side of the graph. And Michel and Karin have been talking about it extensively, is they've been migrating diligently to new platforms, to the SaaS solutions. And rationalizing that landscape has provided us with flexibility and cost, that is a great thing. But it has also unlocked something else. And that is that these structures and these systems are much more open architecture, being able to unlock by APIs and by integration layers.

Now how do you combine these 2 things. And that is where the magic happens. The magic happens in the middle. And actually that is the digital asset a.s.r. has been building over these last couple of years. And that digital asset is combining these human interventions with the systems, providing and we've been building a digital conversational algorithm. And the use cases are fantastic. And I'll give you just one example. And that example is the chatbot.

So imagine this, you're an insurance company and you have a lot of things to tell to your customers, you build thousands and thousands of pages, you probably notice a.s.r. was like that as well. We loved our website; our customers didn't like it so much. 50% of our customers were not finding the answer they were looking for on our website, pretty dreadful percentage if you ask me. 50% of the customers that left either never went to the website again or starting calling the call centers and sending letters and complaint engine actually on the website. And that's the only thing you see. And that's actually the website of a.s.r. today. You can just type in a question and get your answers. Sounds pretty easy, right? I mean, chatbot, how hard can it be? But actually, it turns out it is very difficult and we have been solving this.

So why is it so difficult? Just let me give you a very small anecdotal example. If a customer would type in, "Can I actually transfer money to my bank?" You would think, well, easy answer. Well actually bank, as in a lot of languages, in Dutch means bank as well. But it also means another thing. It means actually a sofa or a couch. So and it actually

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happened. Imagine that the customer would get a response, "Yes. You can buy a couch at IKEA, it's 3 kilometers from here." Imagine what would happen in the call centers, not happy at all. So it took a lot of hard work to program the chatbot to really get the customer and give it a context in an insurance environment. And we succeeded in this. Since the launch of our chatbot, 25% increase in customer interaction with our website. And the best thing is now 73% of the customers actually find their answers online, which is great. And we got awarded by the Lovie Awards, the European prestigious prize for Best Internet Site; and the Webby Award, which is an international award. We ended up in the top 18% of the best homepages. Now -- and although I love these prizes, photos being taken. But the best prize we got is that customers valued our Internet site with a 40% increase in Net Promoter Score.

So this chatbot actually used to be the best technology last year. But remember that we're also building this nimble and IT architecture. Actually, at the beginning of this year, we migrated to a much better chatbot. But the good thing is we kept the digital interface, the algorithm for ourselves, that is our IP. And we were able to plug in a new chatbot with zero migration costs or almost zero migration costs and no service interruption. And the customer, therefore, didn't even notice it.

But we also realized that the customer is never happy enough. And that we compete not only with other insurance companies. But mainly with the likes of Coolblue or Amazon or Apple where you get better customer service. So we imagine that what if the era of voice is coming. And actually it is already there. Probably you guys maybe have a Google Home at home or you'll use an Alexa app as I have at home or you use Siri from Apple. That is actually fantastic technology. I mean, it is great AI. I mean, it's very impressive what these companies are already doing. And it's probably going to change the face of what we do and we may not use a website anymore. But just converse with these devices.

There's one thing that these things are not very good at or are pretty bad at actually. And it is Dutch. They don't understand the Dutch language. So when I was preparing this presentation, unfortunately, Google Home had just announced that they'll be handling Dutch as well. And I say unfortunately. But of course, we already knew. The only thing is that Google Home or the Dutch language is not very good in an insurance context. So we have on the back of our digital asset already been building a voice bot, where we actually could handle this as well the same as we have with the chatbot.

Now specifically for you, for your audience, I've asked my team to build a English bot. And I will show you this example. And please bear in mind, this is a prototype. It works not very well in English. I promise you, it works really well in Dutch. Here we go. Go video.

(presentation)

Thank you. So this is what we're looking at. So again, this is great technology. I think we have the digital asset. Now we have to find out whether our customers want to interact with our chatbot, with a human or with our voice bot.

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So I want to stay with you with the bots. We're not quite finished yet with our bots. So robots in movies are often cute or walk on 2 legs or do scary stuff and end the world, the Terminator. Our bots are extremely boring. They don't do those kind of stuff. And actually when you see on the left-hand side -- on the right-hand side on the screen, you see a robot working 24/7. And that's exactly what they should be doing. So are robots being boring? Yes. They take over boring tasks, they take over repetitive processes where humans are not really good at and robots much better, therefore, freeing up time for our agents to engage in human interactions where you need more emotions.

An example, actually right here and Michel was talking about it is actually the P&C example. So in P&C, when we took over the AvÃ©ro portfolio, this robot was actually helping us to become the consolidator in the market. And we're actually going to use this robot in the Generali transfer as well. So what is this robot doing on its own? The robot is actually taking the data and the products from the AvÃ©ro, which is very different than our product offer, taking that curated data and actually automatically making a policy offer, which is exactly personalized for the customer, automatically transferred to the system, the intermediary. Intermediary only needs to do one thing, push the button, Accept. And the policy is on.

And as it is shown here in this P&C for this particular process, there's a 93% reduction in the handling time. And that's pretty impressive. Although I must say that before everybody starts calculating that all humans within a.s.r. become obsolete, that's not true. I mean, I love people. So that's not going to happen for one reason. And that is -- that robots are actually employees, too. And robots need attention, they need training and maybe they even need a lot of tender loving care as well. And actually when I said there's one reason, there's a second one as well actually some process we even don't want robots to handle because you just want human interaction as well and not all processes are able to be handled by a robot as well.

So those were very concrete examples of what we are doing today. Let me tell you a little bit on what we are working on for tomorrow. And actually, we -- when we focus our energy, time and resources, we focus on 2 themes which are derived actually by the trends Jos, our CEO, was mentioning as well. And that is living longer and prevention. It is very clear that people tend to live longer because of a lot of things, better nutrition, better health care, better medical care. So people live longer, have to save longer and have to work longer as well. So we are looking on how can we improve the physical, financial and mental vitality of people. And for that, we are looking at ways how can we nudge people in better behavior, in better health. And are looking at DNA and DNA data on how could we actually provide people with personalized food programs or personalized exercise programs. And the second one is about prevention. I mean, clearly, the data we're getting in and the data which is out there promises personalized risk profiling and promises also for us to be able to detect risks further -- earlier and also therefore to prevent risks rather than just being out of financial amount.

Now -- and as you have maybe been looking at the landscape of fintech and startups, there's so many startups in fintech companies out there. And it's very difficult to focus and it's very difficult or not so easy -- or it is easy to spend a lot of money. And as I said, we don't do that. We take a very diligently approach in innovation and only innovation we do.

And we use a stage gate approach with very clear KPIs and very clear results, which targets need to be met before the next round of funding is brought in there. So we use actually a VC approach for innovation internally as well.

And secondly, on that diligently getting the costs for innovation in the brackets we wanted to be in is that we are actually cooperating with venture capital funds to invest in startups and in fintech companies. And the reason for it that we thought about setting up our own investment fund. And we could, I mean. But the problem is you'd probably go through a steep learning curve and you'd probably spend a lot of money before you learn that you may or may not very be very good at it. So we decided differently. We invested in 2 funds. Aquiline on the left-hand side, which is also called Redwood in the States, mainly covering European and U.S. assets; and Finch Capital, mainly covering Europe and Asia.

So these funds are -- these venture capital funds are looking through the markets. And in the thousands and thousands of options of technologies or startups, they provide us with the best and the top 3. So we get 2 results out of this relationship. One, we get obviously a result on our investment. And secondly, they provide us with the investments, with proprietary information and in-depth knowledge of the companies they're showing us. And we are done also and better able to assess whether this technology or the company is worth cooperating with.

So just name 2 examples of Aquiline. Actually, one of them Michel already talked about. And that is FRISS. So Aquiline is invested in FRISS. And we are cooperating with them. The other interesting company Aquiline has invested in is Kryon. Kryon is an Israeli fintech company in robotics. And it's a deep learning robot. Most of the robotic companies, you have to program the robot because deep learning -- this robot embeds itself into the process, looks at thousands and thousands of situations and then comes up to the best process and start working on it. Finch Capital has been investing in Trussle and Ikbenfrits, which are both online mortgage brokerage platforms. Trussle is in England and Ikbenfrits in the U.K. -- sorry, in the Netherlands. And Komparu is an interesting company, is a SaaS platform for comparison sites.

But we don't invest only at arm's length in startups outside. We also invest internally in our own startups and we work on certain things we want to improve on in the Dutch markets. If you have been joining our dinner yesterday, (Tima) has been talking about to take the vehicles to insure the world, our sustainability startup. I want to mention just 2 of -- out of many we're doing.

So one is forward thinking. Forward thinking is a platform which is helping our customers solve the wealth accumulation problem. The issue with wealth accumulation is that in the industry, we love to talk about money, customers don't. They love to talk about their lives. So the forward-thinking community is getting a lot of traction is because we talk about their lives. And actually what is funny, there's a lot of customers bringing up problems. But also solutions. There are already lots of solutions out there which are not mainly wealth accumulated money related but other solutions. And the great thing is they bring the solution and the solution is just not very well designed, it's not very scalable. And that's where we come in as a startup. We make this solution scalable and very well designed. And especially with a.s.r. with all the knowledge behind it, we could leverage on that.

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And the second example I want to give you is the young entrepreneur disability bot we built. So young entrepreneurs have a -- there's a paying point for young entrepreneurs, they're very young so they don't know a lot of risks and they don't care about it. And they're entrepreneurs so they don't think anything will happen to them. So we needed a different approach to attract these young entrepreneurs. And actually, we custom-built a bot for them, which is mobile-only, very customer-friendly and with virtually almost no threshold. It's very easy to get a disability product.

So those were just 2 examples of our startups. I want to leave you with a final note. I trust that I've shown you that we are very customer-orientated, always looking for the paying points and unmet customer needs. We take good care of your money which is invested in us and from our customers. We don't throw good money after bad. We invest in the -- in venture capital funds because they are the specialists. And finally, we keep our IT architecture agile and nimble.

I want to thank you for your attention. I would give the floor to Jack Julicher. He's going to talk about asset management.

A - Jack Julicher {BIO 5943222 <GO>}

Can I have the slides on this monitor? Ladies and gentlemen, asset management for third parties is a perfect example how we catch the growth opportunity in the financial markets. And it is also a perfect example of the success of our bolt-on acquisition strategy. And what we did is we followed, as from the IPO, a strategy of buy and build. We in-sourced assets. And we also grow and grew organically.

Let me sum up the key messages of today for third-party asset management. In the first place, we are a strong asset manager that is leveraging upon the key competences we have developed in our 300-year history as the asset manager for the insurance companies of a.s.r. And secondly, we build 2 specific platforms, which service a growing asset base. And we are a typical Dutch player, focusing on institutional investors and professional investors. So insurance companies, pension funds, government-related parties, wealth funds, et cetera. We strive for a diversified growth. And we have a distinctive proposition, distinctive with respect to sustainability, distinctive with respect to LDI and matching and also with a lot of knowledge in specific asset classes like residential mortgages. And lastly but very important, we are fully equipped to capture the assets in our changing pension landscape.

Let me show you how we developed the skills as a third-party asset manager. We in-sourced assets. We in-sourced assets that were outsourced to external parties. And secondly, as I said, we followed a buy-and-build strategy. What we did is that we acquired niche asset players and that we added EUR 7 billion of assets of service books to the asset portfolio. And thirdly, as I said, we grew organically. We were very successful in the market. We were able to grow organically in LDI, in balance mandates, in residential mortgages and in other aspects of the traditional capital market products.

Let me show the performance. We delivered as we promised. We delivered. And that is in the table at the right. We delivered a long-term investment margins. We showed to you,

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we presented to you the process of the IPO. We delivered -- we outperformed a long-term investment margins that are underlying the operational capital creation. Looking to the other portfolios, we were able to outperform consistently our benchmarks. Whether we talk about credits or severance or equities, we consistently outperformed. We follow a strategy of passive plus. That means that we are able to have a small tracking error against our benchmarks. In general, we use broad benchmarks. And we are allowed to have small tracking error to compensate on one hand for the sustainable policy, I will go into that later. But also to compensate for the cost of the investment management organization.

Let me continue to the growing asset base. As you can see, our asset base has grown by 17% since the IPO. And when we concentrate first on the assets managed for the internal insurance companies, then we see growth of 13%. And that is showing the success of the bolt-on acquisition strategy. We added about EUR 6.7 billion of assets related to service books. And when we looked at the strategy, the investment strategy we followed for the insurance companies, there are 2 elements. The first element that we strive for, diversification, further optimization, diversification of the portfolio. And secondly, that we were in a process of shifting the portfolio step by step from liquid assets to less liquid assets. And what we did is we harvested some of the illiquidity premium in the portfolio. And that means that we invested the biggest share of the portfolio in somewhat less liquid assets like residential mortgages. But also in financials, subordinated financials, somewhat in private loans. But also that we further internationally diversified our fixed income portfolio.

And when we look to our market view, we view agility grow that is still substantial. We are also in a market environment of very low interest rates. But there is a tendency to upward pressure on these interest rates as a consequence of the withdrawal of the ECB as tightening of the monetary policy. And on the other hand, what can be seen is uncertainty, event risk. Still on a local basis, event risk like Brexit, like Italy, like Turkey, like local crisis at emerging markets as a consequence of a strengthening dollar and the threat of a trade war. But we feel that it is too early to derisk our portfolio. It's too early to derisk our portfolio. That means that we still are in the process of further optimizing our portfolio for the insurance companies. That means that we are on pace of a slight re-risking and optimizing of the portfolio. We kept back, we held back somewhat at the beginning of this year around the crisis in Italy and the uncertainty about Turkey. But as markets normalized, we decided to continue to go back to the original plan of a slight re-risking of our portfolio.

The asset management for the insurance companies gives us a perfect basis for a third-party asset management. And let me move to the platforms that we developed for third-party asset management. We developed 2 specific unique platforms. One platform, which will be dealt with by Dick Gort, is the a.s.r. real estate platform. And the other one is the more traditional capital markets a.s.r. asset management platform.

And let me go into what -- some more detail with respect to the contribution of the third-party asset management platforms to the operating income of a.s.r. What we can see as a result of our buy-and-build strategy of in-sourcing and of organic growth that we are contributing to the operating result of a.s.r. a substantial amount. We are contributing EUR 10 million in the first half of this year. You can't multiply it by 2 because there's some

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seasonality in the costs that we are starting from scratch that we are now able to deliver a distinctive amount to the operating income of a.s.r. And what is illustrating this success is that we also have inflow. In the first half, we had inflow of new assets in the third-party asset manager of EUR 1.2 billion. We had inflow in those past years in LDI, in balance mandate, in the mortgage fund, et cetera. And that means that we present to you. And Jos announced that this morning, that we present to you that we expect and we target that we can contribute to the operating result in 2021 more than EUR 20 million. And the moment that we are reaching the EUR 20 million, we will grow 5% annually thereafter.

Let me continue to the success of the proposition. What makes our proposition distinctive? In the first place, what is shown in this matrix is, on one hand, the products we offer and, on the other hand, the clients groups we service. And what we offer is mortgages, mortgage fund, ESG funds, balanced mandates and LDI products, overlay products. And what is important that we only offer that to our clients, that we are skilled in, (expertised) in, that we are the best in that we can service our clients best. And the propositions that we can't offer because we don't have the skills, we don't offer. So we focus on the propositions we are skilled for. And that means that we were able to attract in our mortgage fund, EUR 1.2 billion of assets; that we were able to attract in our ESG funds. So sustainable funds, more than EUR 3.5 billion of assets; that we were able to keep stable the more traditional balanced mandates and funds; and that we were able to increase the inflow in the LDI matching propositions with EUR 1 billion.

And what makes our propositions so distinctive? Of course, we are a Dutch player. We focus on our expertise. We have a lot of knowledge of regulation for pension funds and insurers. But one of these distinctive elements is our ESG proposition. So our sustainable proposition, our proposition for social, responsible investing. And what we do is, of course, exclusions. Everyone is doing exclusions. You cannot be distinctive then. But it's important, it's the basis, the foundation of our ESG policy. But what we are doing is that we internalized the sustainable policy. So the ESG policy in our investment policy. We internalized it. And we did that by following an approach of active voting. But also of active engagement; informal engagement with the companies and the governments and the sovereigns that we are investing in.

And moreover, we added to this an approach of positive selection. And one of the successes of positive selection is illustrated in the graph below. And that is our ESG credit fund. Because of the positive selection. And we believe that companies that have high score in ESG, that in the long term these things companies will perform better. And that is an investment belief. But it is an important investment belief. And it is illustrated, it is proved by this graph. What we see is that in the credit fund -- ESG credit fund, the carbon footprint is decreased by 1/3 compared to the benchmark. And the benchmark is (ibox) benchmark. And that is shown here. The carbon footprint is reduced.

And Jos announced this morning 2 non-financial targets. And the first one was that he said that we are going to invest and have a budget in 2021, EUR 1.2 billion impact investments. Then we're talking about climate bonds, green bonds. For example, our agreement with Triodos, where we have sustainable agreement for granting sustainable private loans. But also that we support pioneers and innovators in the field of impact investing. And moreover, the second nonfinancial target is the measurement of the

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carbon footprint in our portfolio. We will be able to measure 95% of our total portfolio with respect to the carbon footprint. And that is the first step, the first step with respect to integrating climate change in the investment policy and to integrate the Paris Treaty in our investment policy. And we are one of the first movers there because we work together with Ortec and some institutional investors in the Netherlands. But as the only insurer and scientific bureaus in the world, to integrate climate change, temperature increase in the economic scenarios that we use for our investment policy.

Let me move to the second distinctive proposition we have. And that is in the area of LDI and matching. Of course, we have a long experience in constructing a portfolio to match cash flows, to match liabilities on the basis of a benchmark, a swap benchmark, UFR benchmark, of course. But what we can offer is a complete product proposition. A product proposition that also can offer the monitoring as well we can offer reporting and even can offer the risk management function. And what we see at this slide is that we have a complete range of products for pension funds and for insurance companies. We can -- for big pension fund, we can offer a tailor-made mandate with a tailor-made infrastructure for the use of derivatives. But we can also offer tailor-made products for the clients that want to participate in the general pension fund in the RPF. And we can also offer fund structures for small and medium-sized pension funds, fund structures that are tax-efficient, that are cost-sharing and that are using collective management of infrastructure for the use of derivatives.

Third distinctive product proposition. In the area of residential mortgage, residential Dutch mortgages, what we offer is 2 funds. One fund with mortgages with a kind of government guarantee. So NHG guarantee; and a fund without that guarantee. And what we offer is, on the one hand, these mortgages with that NHG guarantee, less risky with somewhat less return and spread. On the other hand, somewhat more risky proposition with higher return and somewhat higher risk. Then to understand that residential mortgage in the Netherlands are one of the safest asset classes. When we use the Moody's technology, then we can say that the internal rating that can be associated with this asset class is in the high-rated area.

And what distinguishes this product in the market? What gives us our proposition is that we are a famous brand in the market with a loyal distribution channel through the intermediaries. But also that we use vertical slicing. That means that there's no conflict of interest, that we allot exactly the same portfolio concerning the features to the fund as we allocate to the insurance companies. We already attracted more than 30 pension funds and insurance companies. And we committed almost EUR 2 billion of assets in this residential mortgage fund. And we started last year, we launched this fund last year.

Then a growth area where we feel that there are lot of possibilities. And that is the area of capital-light DC pension business. As you know, there is a tendency in pension market of a shift to -- from defined benefits to defined contribution, a shift from solidarity to individualized products, a shift that employers want to have impact. They want to have control over the premiums they have to pay. On the other hand, employees that want to have influence on the investment policy. And what we did is that we launched in 2018 a new product in the DC area. And what distinguished this product is that we launched it on a completely new platform. So without any legacy that we introduce it with a customized

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portal for the different categories of customers. So for small and medium-sized companies but also for the somewhat bigger companies. And that we fully integrated the ESG component in the life cycle -- in the underlying life cycles. And that makes that this product is very successful. We were able to attract EUR 600 million of assets under management in a period of less than one year. And we feel that we are in the center of, let's say. And fully equipped to exploit the desire in the market for solutions -- capital-light solutions in the pension landscape. We were able to attract more than EUR 100 million of premiums. And I think we can be very proud of that.

That brings me to the conclusion of my presentation. Let me sum up the key messages. We are a very strong asset manager using the key competencies that we have built up in our long history as asset manager of the insurance companies. We created 2 unique platforms to service the growing asset base. We are a typical Dutch player, a typical Dutch player working for pension funds, insurers, government-related institutions and wealth funds. We strive for a diversified growth with a distinctive product proposition, especially in SRI, LDI and with an extensive knowledge of certain asset classes like residential mortgages. And last but not least, we are fully equipped to capture the assets in the changing pension landscape and in the changing pension market.

Thank you. That concludes my presentation. And I want to give the floor to our CEO of real estate, that is Dick Gort.

A - Dick Gort {BIO 16118720 <GO>}

Okay. Thank you, Jack. My name is Dick Gort. I'm responsible for real estate within a.s.r.. And I'm going to give you a short presentation about a.s.r. real estate.

We have been investing in real estate for more than 125 years, which resulted in a really beautiful high-quality real estate portfolio of which we are very proud. We take a look at the rural portfolio that we have is portfolio of EUR 1.4 billion invested in the Netherlands, a really beautiful portfolio with long lease terms and a -- which give us a very good hedge against inflation. We've got a strong track record of significant and stable investment income. And by building our real estate platform, we are being acknowledged by a large group of investors, not only from the Netherlands. But also from an international base like Europe and Asia. By having that platform, we see that the fee income we have is increasing, especially from third-party investors.

Well if you take a look at our real estate platform, actually, we are one of the largest real estate investment management companies of the Netherlands. We have about EUR 5.2 billion invested. And we have about 150 employees. We have invested in residential investments, retail investments, office investments and rural investments. Well our people are very skilled. We work on a daily basis with real estate. So the 150 people we have are very skilled. We're very proud of them. And we are very lucky that we can work in this industry.

If we take a look at our business model, it's actually quite simple and very focused business model. We have our own fund asset and property management. We do it ourselves as much as we can because we believe we want to be in close contact with our

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tenants, with our investors and with our other stakeholders. So we want to be on top of business. And that is what we do.

Well these 3 asset classes we have, we opened them for third-party investors by structuring real estate funds. So we have a retail fund, a residential fund and an office fund. And besides those 3 funds, we have a rural portfolio. The rural portfolio is for 100% owned by a.s.r.. And I'd like to zoom in on the rural portfolio with you. Later on I will zoom in on the details of the real estate funds.

But first, the rural portfolio. The rural portfolio is about EUR 1.4 billion in size. It is a very well-diversified portfolio across the Netherlands. It has very long lease contracts, contracts of 30 or 40 years per contract are very common. And it gives us a very good hedge against inflation. As Mark Twain once said, "Buy land, they don't make it anymore." It's a saying in which we believe very much. Although we are an active asset manager because we don't buy just to buy, we're always looking at the performance. So we also sell on a daily basis.

The portfolio or the rural portfolio can be characterized as follows: It has a very different correlation compared to the other asset classes we have. So that's why we are -- we like it so much. If we take a look to the direct return we have, it's very stable. We've got attractive capital growth. We've got long lease contracts and we've got a good hedge against inflation. So that's why we like it as much. If we take a look at the graph on the left side, we see actually a graphic of the Netherlands, it's the map of the Netherlands. We see all kinds of black dots there. All those black dots are actual areas of land we own. And as you can see, it's all over the Netherlands. And all those dots look like if the Netherlands has got the measles. But we're everywhere on this map.

If you take a look at the graph at the top right, we see the green bars indicate the areas of land we own over the last 15 years. And in 2003, we owned about 24,000 hectares of land, which grew year-by-year to 37,000 hectares of land, which makes us the largest privately owned -- landowner of the Netherlands. And it just didn't grow by buying land. As I told you, we are an active asset manager. So we buy and sell land every day. But this the net result of the portfolio.

If we take a look at the graph at the bottom right, we see those green bars which indicate the direct return of the portfolio over the last 15 years. And we have added a black dotted line which indicates the average return, the direct return which is 2.5% over the last 15 years. And if we take a look at the red line, which is the line for the CPI index, the inflation line, we see that the direct return gives a very good hedge against the inflation. If we even take a look at the total return of the portfolio over the last 15 years, it has been 9% per annum. So that's quite impressive, I think, especially if we take the low risk characteristics of the fund with it. So a very attractive portfolio, which we are very proud. We are more or less the only investor in the Netherlands who is investing in this segment. And we will keep doing that for many, many years I'm sure.

So if I go back to the core funds we have, since 2011, we've set up 3 real estate funds. We started with the retail fund in 2011; 2013, we structured the residential fund; and in 2016,

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we structured our office fund. The reason we set up these funds is by doing this in this way, it made the asset class real estate more liquid because it is in itself a more or less illiquid asset class. And by structuring these funds, we could add liquidity to it. So a.s.r. is and was able to derisk and re-risk its real estate exposure more easily by just selling or buying shares in the funds. Another reason why we set up these funds is that we -- by doing this could improve our real estate platform, attract other investors to our platform. We could expand our assets under management by the new money, which came to the platform. And we could benefit from the economies of scales by setting up our asset management company.

If we take a look at the funds more in depth, we see that retail fund, which we structured in 2011, is about EUR 1.5 billion of assets under management. We have a very strict strategy there. We focus on high street locations. So 2/3 of the portfolio is invested in high street, in the top 20 cities of the Netherlands and about 1/3 of the portfolio is invested in convenient shopping centers like district shopping centers and supermarkets. I'm convinced this is the best retail fund of the Netherlands by far. And it is acknowledged by a lot of investors. So we are very proud of it and we have that portfolio because we are working on it for many, many decades to get this quality.

If we take a look at the residential fund, we structured it in 2013, as I said. It's about EUR 1.2 billion. It's a low-risk portfolio. We invest in urban areas, very attractive areas in which the rent levels we focus on are mid-level. So very affordable, low risk. And if we take a look to the vacancy, it's less than 2%., more or less the same as our retail fund. So very proud of that as well.

And in 2016, December, we bought the office portfolio of the Dutch Railways company. We believe in offices. But offices need to be located on the right location. So we believe in mobility hubs like intercity stations in the largest cities in the Netherlands. And the portfolio we brought was located on those positions, very rare portfolio and we bought it. We've got a lot of office buildings right on top of those intercity stations. But also in the direct vicinity of it. So vacancy also very low, below 5%, a very good investment of which we are very proud. And we are trying to get more assets under management there over the years. But as for all investments within a.s.r., it's also about value over volume.

Well by setting up the platform and building those real estate funds, we attracted a lot of international clients to our platform of which we are very proud. When we started in 2011, we worked only for a.s.r. But with our first closing in the retail fund, the ASR Dutch Prime Retail Fund, we started with 2 Dutch pension funds, the U.K. pension fund and the Belgium insurer. And afterwards, we had many, many closings. So in total, 25 closings. We added a lot of clients to our platform. This is a selection of the clients we have, all pension funds, insurance companies, banks and foundations not only from the Netherlands but also from other countries in Europe like Switzerland, France, Italy. But also Asia, Japan.

So a very nice combination of clients, of which we are very proud. And we were able to provide these clients very attractive returns. As we can see in the graph in the bottom right, we see the total returns of our funds over the last three years. So for example, in 2015, the total return for the core residential fund was 12.7%; in 2016, it was 14.5%; in 2016 (sic) (2017), it was 14.4%; and the first half of 2018, we've got 6.9%. So these are all non-

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leveraged returns because we try to use less leverage in our fund as possible. So very impressive results, we think ourselves and also the other funds are doing very, very well.

If we take a look at the top-right graph, we see that the assets under management within the funds are growing as well. So also by active asset management, selling and buying and capital appreciation there. But it's all growing in all those funds. If we take a look at the graph at the bottom left, we see the gray bars, which indicate the amount of investments, which are brought by third-party investors. So we're seeing the funds quite impressive that the third-party investors are taking a big share in the funds. And we see it increasing over time. Then we see 2 green bars. The first bar on the left is the a.s.r. PF, the a.s.r. Property Fund, which is actually the fund we have for policyholders. So it's not open for third-party investors. And we see the rural portfolio, which is 100% owned by a.s.r.

As I told you, we are an active asset manager. And we are always looking for new opportunities. Recently, we decided to invest in European non-listed real estate. And we are the cornerstone investor in the BlackRock euro property fund, which was just launched a few months ago. And we decided to invest more in European-listed real estate. So that's a new activity we're working on.

If we take a look at the assets under management. This graph gives you a picture of 2011 when we started with our real estate funds. So in the first half of 2011, EUR 3.7 billion assets under management. And in 2017 (sic) (2018), we see that the assets under management are EUR 5.2 billion. If we take a look at the green bars, we see that a.s.r. had EUR 3.7 billion in 2011. And if we look at the bar at 2017 (sic) 2018 , we see that a.s.r. still has more or less EUR 3.6 billion, EUR 3.7 billion assets under management. So the gray bar we added is the capital raised by third-party investors. And altogether, it amounts to EUR 5.2 billion, which is approximately 30% of the total assets under management.

Well the lower graph gives us a picture of the fee income, well, obviously, in 2011 we started with 0 third-party fee income. And if we take a look at the bar on the right, we see that in 2017, it is EUR 11 million, which is also approximately 30% of our fee income. So we have been building a real estate platform for a long time. We worked in real estate for 125 years. And we've been able to attract institutional investors to our platform, of which we are very proud.

So this brings me to my conclusion. We've been working in real estate for 125 years. That's a really long time. But that means that we're very dedicated and very hardworking on real estate with our 150 colleagues. So the portfolio is at the moment EUR 5.2 billion. We've been investing in retail, the a.s.r. Dutch Prime Retail Fund, which invests in high-street locations and convenience shopping centers. We've been investing in residential, the a.s.r. Dutch Prime Core Residential Fund, which is investing in low-risk houses for mid-level rent apartments and houses. Offices right on top of the intercity stations, we're very well located. The rural portfolio, EUR 1.4 billion with very long lease terms, which gives a good hedge against inflation. And we are investing in non-listed real estate funds on a European basis.

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Besides that, we have a very strong track record of significant and stable investment income. We attracted a lot of institutional investors to our platform, not only from the Netherlands but also from Europe and Asia. And we've got a very reliable and increasing amount of fee income, which is increasingly coming from third-party investors.

I thank you very much for your attention. And this was my presentation. And I would like to give the hand to Patrick Klijnsmit, who would tell you more about life disclosures and IFRS 17.

A - Patrick Klijnsmit

Thank you, Dick, for your introduction. And thank you all for sticking with me for the final presentations of today. And as Dick already mentioned, I will talk a little bit about IFRS 17. So that is the future of insurance accounting. But I will start out with the life disclosures, some focus on the future life earnings. And as you know, there has been already a lot of things said about those life earnings in the previous presentations. So I'll -- what I will try to do is give some additional perspectives on that.

Turning to our life disclosures first. In terms of key messages, there are really 2 key messages to remember. First of all, we have a significant life service book. And that significant life service book has actually been growing over the past couple of years. And that of course is due to our bolt-on acquisition strategy. So whereas you would expect a life service book to be shrinking, our service books have been growing. And another important message here is that the primary profit driver of the service books is the investment margin. And the investment margin in the case of a.s.r. is supported by our shadow accounting methodology, aiming to keep the investment margin as stable as possible.

On the next slide, you can see the development of the life service books and more specifically, the basic provision. And the basic provision, as was already mentioned, is the provision excluding the shadow accounting and capital gain reserves. So the basic provision here in the last, what is it, 3.5 years has grown with about EUR 6 billion. And that EUR 6 billion was supported by the acquisitions, the acquisitions of Axent, NIVO, Eendragt and of course, Generali. They added about EUR 7.5 billion in total. So if you do the subtraction, then you end up with an underlying decrease of about EUR 1.5 billion, which is an undeniable decrease but still it is a relatively small decrease if you see it in the perspective of the total portfolio.

If you look at the profitability in the portfolio, as mentioned, primarily investment margin. And for the first half of 2018, the investment margin was about 85% of the operating results in the Life segment. So a very important part driven by the investment margin. But of course, there are other sources of profitability too. And those sources of profitability are very carefully managed, reflected, for instance in the presentations of Karin but also reflected in one of our targets which really focuses on the operational costs in our Life segment.

On our next slide, we can see some actual numbers. So it's nice for a financial to have some numbers. And what you could see here that the investment margin has been

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growing quite rapidly over the last three years. And actually there are a couple of reasons for that. One is an obvious reason. Of course, the book itself has been growing. So with the growing book, you have a growing investment margin. But that seems kind of logical. Second reason is that there has been a successful, active search for yields in the portfolio. For instance, in the end of 2017, we had quite a bit more mortgages in the portfolio compared to the beginning of 2015 or the end of 2014. That was also shown in the presentation of Jack.

And the third reason why it has been growing is a bit more a peculiar reason. Quite a few years ago, we had a rather large swaption portfolio, which we sold at that time at a quite significant capital gain. Based on our shadow accounting methodology, that capital gain was put into our capital gain reserve. And it started to get released from that capital gain reserve from 2015, 2016 onwards, which was the time that the original swaption would have turned into a swap. So that was the moment based on our methodology when it is released into the P&L. And that has really supported the investment income -- or the investment margin in the last few years. And it actually worked a bit like a double whammy because we did not only get the release of the capital gain reserve but we also got â€" well, or did not have any more actually the right of the swaption premium. So that added together to create a quite substantial growth in the investment margin over the last couple of years.

We do not expect this type of growth to continue. We expect the investment margin to increase a little bit. It will be supported by the shadow accounting release, or the release of the capital gains reserve that will be about EUR 300 million annually going forward. So about the level of 2017. It will continue -- the investment margin continues to grow a little bit because of the acquisition of Generali that needs to be embedded for a full year in the portfolio. But the growth rates that we've seen in the past are -- well, there's -- on a standalone basis, that is not likely to happen.

If you look at the technical result and the results on costs, we think it will experience a little bit of pressure. It was already mentioned. We are focusing on trying to keep the result on cost. You can also see that the result on costs already is -- experienced some pressure here. The technical result is actually still going strong. But that was because of the additional bolt-on acquisitions that we did. Towards the future, we think it will get some pressure. But you should remember, the pressure is only -- well, only 15% of the operating result. So pressure is a relative thing here. And if we combine the investment result and the technical result, we think that overall it will be fairly stable in the years to come. It will give a good proxy for profitability in -- well, up until the IFRS 17 implementation.

Well say you want to model this yourself, you can also assume that it will be stable. But say you want to model this yourself, we suggest to use -- can be practical about this. But if you want to model this yourself, we suggest to use the basic provision as the denominator. So if you want to model the investment margin, you can do that by using the development of the basic provision. But using basic provision excluding unit linked simply because with unit linked, the investment margin ends up with the policyholder, not the company. And for the technical result, you can use the basic provision including unit linked.

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What you should not take into account is the size of the cap gains reserve and the shadow accounting reserve. The size of those reserves are very relevant in terms that they -- that is the pot of reserves yet to be released into the P&L. But it does not give you any indication about the pattern in which it will be released simply because that has much more to do with the investment income and with the development of the basic provision. So it should not include those elements.

And that quickly brings me back to our key messages and just trying to get another focus or another perspective on the life earnings for the future. We think the combination of a service book, which has been growing, we've been able to carefully manage that in the last few years, plus an investment margin that is really supported by the shadow accounting methodology, make it very stable. Plus our focus, a continuous focus on cost and keeping the technical result will render a very stable foundation for the life book or the life earnings in the coming years. And we think that will be the case up until the introduction of IFRS 17, when it is in 2021.

And what happens when IFRS 17 comes, well, is in my next short presentation. IFRS 17 was introduced in May 2017. It's the new standard on insurance liabilities. And actually, IFRS 17 is a relatively small standard. It's only about 60 pages or so. It's highly principle based. And that basically means that we need to do all the work. We need to make the analysis. We need to make the choices. And what we do know is that IFRS 17 will mean a complete overhaul of insurance reporting. And that is also the reason why we decided to defer the implementation of IFRS 9 up until the moment that IFRS 17 will be introduced, simply to avoid 2 major accounting changes in consecutive years in our books. So we defer IFRS 9. IFRS 9, however, is already in force from the beginning of this year, has already been implemented by banks.

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What we want to do today is just give you a bit of an understanding of the choices that we need to make, the impact that IFRS 17 probably has and more or less, a direction of travel. What we do not give or cannot give at the moment, simply because we don't have them yet, are final numbers or -- so more a direction of travel. And you should remember, as it is a principle-based standard, we can make choices in that standard up until IFRS 17 is implemented. And actually, the time until implementation may be even longer than we now expect because the IFRS 17 endorsement process at the EU has run into some delay. And that may actually mean that we will not implement it in 2021 but perhaps 1 or two years later.

Well on the next slide, there's the impact of IFRS 17. And when we started out with this project, we thought, well, IFRS 17 is a market value standard. Solvency II is a market value standard as well. So how hard can this be? Unfortunately, there are quite some differences between Solvency II and IFRS 17. For instance, IFRS 17 uses an economical discount rate, whatever that is. But an economical discount rate is required. Solvency II uses the UFR. And many would argue that the UFR is not the most economical of discount rates. Then there are differences in the way we deal with costs. There are differences in the way we deal with contract boundaries. And in Solvency II, we have a risk margin. In IFRS 17, we have a risk adjustment, which actually seem similar and the purpose of them is similar. And actually the methodology under the standard model is kind of similar. But there are differences. For instance, the cost of capital assumption in the Solvency II risk margin is 6%. And I'm not sure -- not quite sure that we will use that under IFRS 17.

The most noticeable difference between IFRS 17 and Solvency II, however, is the way we deal with future profits. So in Solvency II, future profits are part of your own funds, of your equity, if you will. In IFRS 17, they are part of the liabilities in a so-called contractual service margin. And the contractual service margin, as you may know, is the present value of the future profits of a policy based on current assumptions. And that present value will be released -- or the future profits will be released into your P&L over the lifespan of the policy. So IFRS 17 and Solvency II being very different on that aspect.

We've also tried to get a bit of understanding of what IFRS 17 means when you compare it to IFRS 4. And when we start out with our IFRS 4 insurance liability of EUR 38.2 billion, it's in the bottom right side of the slide, by the way. But if we start out with the EUR 38.2 billion that you've seen in other presentations already, you first need to take out -- or you need to get to IFRS 4 at pure tariff rates. And to do that you first need to take out all shadow accounting-related elements because shadow accounting is really an IFRS 4 phenomenon. It was actually used in IFRS 4 to make IFRS 4 more market value based. But IFRS 17 is already market value. So no need for that anymore. So you take out the shadow accounting reserve, you take out the capital gain reserve and you move that to equity. So that's good. But unfortunately the release of these reserves will not support your P&L anymore. So that will not be the case anymore in IFRS 17.

But then the next step to get to IFRS 4 at tariff rates is to take out our own pension scheme because our own pension scheme in a consolidated level, on a group level, it is not an insurance liability but it is an IAS 19 defined benefit obligation. So you take it out to get to the pure external tariff rates IFRS 4 liability. So that's the EUR 30.2 billion that you see in the middle of the slide.

Then to bridge from those IFRS 4 at pure tariff rates to IFRS 17, we add about EUR 8.6 billion. And these are 2015 figures. It's based on an analysis where we used a lot of Solvency II figures. We have a discount rate of a UFR set at 2.2% in there. So there are many things you can say about this. But this gives a bit of an indication and a feel where it's going. But you add EUR 8.6 billion, which is a combination of a contractual service margin that you add, you add a risk adjustment. And the most important thing that you add is the impact of the current discount rate and the impact of the current assumptions on your portfolio, on your provision. So from that we add up with the IFRS 17 liability.

If you look at the historical CSM which is created here in the transition, we think the historical CSM will be highly dependent on the transition approach that we take. There are many choices, there are different choices to make there. And I will come back to that on a separate slide because that's a very significant choice to make on the onset of IFRS 17. If you look at the CSM, the contractual service margin, going forward. So from transition onwards, new production, we think it will be somewhat higher in funeral. We will -- think it will be somewhat higher in disability. We think it will be somewhere in the middle of the pack for Individual Life. And it will be lower or absent, in some cases, in the DB pension space. And this may also be an additional reason for a shift from DB to DC because under IFRS 17, if you make any loss-making contracts, it will be immediately

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visible in your P&L. So no margin of error there anymore. So perhaps that will give an additional drive.

If we go to the next slide, we go to the first choice that I need to -- I want to discuss. And actually this is the easiest of choices. But it is an important one. It is about the measurement approach. There are a couple of ways to deal with the insurance liabilities. And basically, well, what's in the name, the general model is the model which is used most often. The general model is the model that we will use for life insurance, that we will use for disability. And the life -- the general model is the complete model which also creates contractual service margin.

What is also an option is to use the premium allocation approach in case you have short-term insurance business. And the premium allocation approach, the bad thing is that it does not create CSM. But the good thing is that it's much, much simpler than the implementation of the general approach. So at a.s.r., we will very likely choose to use the premium allocation approach for both P&C and for health, making IFRS 17 â€“ that is the takeaway of the slide, making IFRS 17 really about the long-tail business. There's also, by the way, a variable fee approach. And the variable fee approach is for DC products for unit linked. So having a separate category for that. So the noninsurance part of the business more or less.

On the next slide, we have one of the most important decisions to make. And that decision is about the transition approach. The very interesting thing about IFRS 17 is that the IASB thought, well, how can we make IFRS 17 really complicated? Well we need to do a full retrospective application of it. That seems to be the base case of IFRS 17. So in IFRS 17, what you should do is have a full retrospective approach. That means that you go back to your inception date of your policy then figure out whatever your data and your assumptions were at that time, then calculate the CSM based on that. Follow that CSM up until transition. And whatever is left of that CSM, put that in your balance sheet.

And actually that is feasible in some cases. For instance, if you acquire an insurance portfolio, then the acquisition date for the acquiring company becomes the new inception date of the portfolio. So that means, for Generali, we acquired Generali at the 5th of February 2018. So the inception date for IFRS 17 purposes of Generali portfolio is the 5th of February 2018. So a full retrospective approach is feasible there. But you can imagine if you would have written a funeral policy in the 1980s, there would be very, very few insurance companies that would have thought about keeping all the data and keeping all the assumptions because they won't need to transfer to IFRS 17 3 or 4 decades later.

So in many cases, the full retrospective approach is theoretically very interesting but practically not feasible. And in those cases, you can move to the modified approach. And the modified approach, there we stay as close as possible to the full retrospective approach. But we can make some shortcuts here and there. And at a.s.r., we will probably do that for our funeral book. And we will probably do that for our disability book or at least part of our disability book. And in both cases, that will render a significant CSM.

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What you can also do is that you will use the fair value approach. And in the fair value approach, you basically say, what would be the value of the liabilities if I would sell them to a third party upon transition? So you would determine what a third party would ask for the liabilities when you transfer to IFRS 17. So what you do is you take the fulfillment value of the cash flows, you add to that a risk adjustment. And you add to that a CSM because a third party, when they take over your policies, they want to make money on that.

And the interesting dynamic that happens here, that if you have a loss-making DB book, for instance, then that DB book becomes profitable from the moment that we transfer to IFRS 17 onwards. So currently, loss-making book will become profitable again. But of course that will really give a beating to your equity because the CSM needs to come from somewhere. And in this case, it will be -- will come from your equity. We will probably use the fair value approach for the individual -- part of the Individual Life book and part of our DB book. Because it's also one of the simpler approaches, you don't need a lot of historical data for that.

What is the interesting -- or what is good to know about the a.s.r. business, we luckily have a relatively small DB book. We're not the biggest DB player in the Netherlands. We have adopted the value-over-volume strategy quite a long time ago. And another important benefit for a.s.r. is that we do have the shadow accounting and the capital gain reserve moving from liability to equity upon transition, really mitigating the impacts thereof.

Final choice that I want to discuss is the choice for the discount rate. The discount rate is -- should be an economical discount rate. But other than that, there's not much described in IFRS 17. So basically everything you could sell to your auditor, you can use. We think that the choice for the discount rate is highly dependent on the composition of your portfolio. That's really because the discount rate is a distributor between equity and future profits. So if you have a low discount rate, you will have high future profits but low equity. And of course, it will be the other way around with a high discount rate. So that makes insurance companies highly incomparable. The good thing for you is that we need to disclose the discount rates. So you can make some calculations and make us comparable again. The bad news is, there's always bad news again, that all the changes in the discount rates can be accounted for either through equity or through OCI or through the P&L. And that makes insurance companies relatively incomparable again.

At a.s.r., we currently have a very stable earnings pattern. We have -- under IFRS 4, we have shadow accounting, keeping it predictable and stable and we'd strive to do that under IFRS 17 as well, although IFRS 17 is a market value standard. But we think in the combination of IFRS 4 and IFRS 17, especially in the discount rate space, there are quite some opportunities to do some matching and to take the volatility out as much as we can. And we are currently investigating that.

So quickly to my next slide, to keep up with the time, the next slide is on the a.s.r. project. I think, overall, we're well underway with the project. We already made quite some decisions on, for instance, the systems architecture. We are implementing a new general ledger, working hard on a cash flow projection model serving both Solvency II and IFRS 17. So trying to be as efficient as possible. We have also analyzed the full standard, made our initial choices. We are currently working on a first complete dry run, actually, in the final stages of that. And so moving forward pretty well. We do, however, know that this will be a long project. It will also be a tough project. And we know it will also be a relatively costly project. We expect it to be as much as the Solvency II project has been in terms of cost.

If the EU would postpone, that may alleviate some of the pressure on the project. Not quite sure I'm really happy with that because over the past 1.5 years, we got a good dynamic in the project moving forward pretty well. And it seems that we are, well, at least a bit ahead in the pack or somewhat in front of the pack. And if we now have a postponement it may also feel like, well, being ahead in the race and then the safety car entering the track and the whole pack comes back together again. But well, it's out of our hands, we'll see what happens.

And with that, I'm back at my key messages. And I give back to Michel for Q&A. Thank you.

A - Michel HÃ¼lters

Thank you, Patrick. That's about finishing on a high on the IFRS 17. That's new. Can I please invite the other speakers as well for the final Q&A session for today. So Chris, Philippe, Dick and Jack?

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All right. So the end is nearing. Final Q&A. And well, you know the drill. So I'll just â€“ like 2 questions per round per speaker, name and stuff like that. So Johnny Vo?

Q - Johnny Vo {BIO 5509843 <GO>}

It's Johnny Vo from Goldman Sachs. Just a few questions. First question to Jack. I mean with growing your asset management business, I mean there's probably 3 levers you can do to try and grow assets. There's distribution, probably pricing in terms of costs or in terms of maybe alpha. Which are you using to grow your asset base? And what are you trying to do to get your assets up, of those 3? The second question is related to, you sort of said mildly you can increase the risk within the book of the insurance business. What type of assets look good today given where we are in the cycle? And just a final question just on IFRS 17. But actually to Chris, just look, Chris, you said about the fact that in the future, probably dividend payments would be correlated to capital generation. Here's an opportunity in IFRS 17 to align the earnings closer to the capital generation. Why would you not choose that?

A - Michel HÃ¼lters

Okay, first question. Jack?

A - Jack Julicher {BIO 5943222 <GO>}

Yes, first question. I think we use all 3 aspects. So in the first place, distribution, example is the DC product but also using the expertise when we distribute, for example, the residential fund proposition, that's one. Pricing of -- always, you have to be competitive in

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this market. It's a very competitive market. So you have to deliver added value to your customers, else they won't select you. That's very easy. Then alpha. Yes, of course, alpha. You have to be very clear in what is distinctive. So we lever upon the sustainability proposition, that is a real distinctive proposition. And there we create the alpha in the portfolios. So in all the ESG funds, we have a very specific policy integrated where we can show our clients that we create alpha given, of course, the benchmarks and the parameters for the ESG proposition. Then the second question?

Q - Johnny Vo {BIO 5509843 <GO>}

Yes. The assets to increase in your insurance. So you said that we could increase the risk for insurance liability.

A - Jack Julicher {BIO 5943222 <GO>}

Yes. What we do is we have -- what I said was that we were on a pace -- the original pace of re-risking the portfolios for the insurance companies. That means that we have 2 paths. One path is a slight re-risking. So Chris explained that we have to go with 3percentage of SCR. We are on a pace there. And the second way we are doing it is optimizing the portfolio. So Chris explained hurdle rate is at least 10% or more return on the allocated capital. So on the market risk capital, that is allocated to the market risk, we have to make a return of at least 10%. So that's the basis. But what we have developed is tools, not only looking to return and volatility but also looking to optimization in a broad spectrum of all available asset classes where we can create an optimum with respect to excess returns related to the capital consumption. When you ask me what asset classes are attractive, at the moment what is attractive is we feel you have to be very selective. In many cases, you are not adequately rewarded for the liquidity risk you take. And liquidity, that is the essence of the play. So you have to be very selective. That means that a lot of classes in private loans are not feasible to select. A class that is to a certain extent. And Chris said it already, is -- that is attractive is, for example, residential market still. Spreads are at levels of 140 to 180 basis points. The remuneration for illiquidity is around 40 to 70 basis points. And that is asset class where I think there is some value in. In general you can say real estate is in other class where there is some value in. In general you can say certain class is in, for example, infrastructure debt because of the attractive treatment in the Solvency II. But in general I can say markets are relatively expensive, almost all markets. And where we're underweight certainly is in sovereigns, for example. Equities are also fairly expensive relatively. And when you look for credits, we are on a neutral base. So no underweight, no overweight. And yes, looking to the more illiquid asset classes, you can add some value there precluded that you are very selective.

A - Michel HÃ¼lters

Okay. Then, Chris?

A - H. C. Figee

Just to build on it, Johnny, I think we look at it from a couple of perspective. We either have an asset that the -- either you're a good producer or you're a good owner. I mean, our shareholders don't hire us to buy equities, to manage equities in principle, right. It's part of a portfolio but not as a unique skill. I think we produce our own real estate. Dick

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sources the own -- our own assets. We source our own mortgages. So those are assets where I can look my shareholders in the eye and say, look, you're doing something with your money because I'm sourcing an asset that you can't probably source yourselves. Or you have to be a real good owner. Infrastructure debt is in the current solvency treatment. We're a relatively good owner for that because there's some subsidy from EIOPA to holding that. So you see that at this point in time, that perspective and valuations coincide. So that's actually where we want to grow our business. We're not so much as the others in the path of loading up on illiquid asset or doing bank loans. If you go to that market, I'd be very hesitant to add anything that is like single B private equity-backed covenant light loans. Even if yields are high, that's a segment that we don't want to be in from a risk perspective and a return on capital perspective. So I think it's Dutch mortgages, it's real estate, it's infrastructure where we think there is value to be added. Other class assets, we're going to be a bit restrained. On your question IFRS 17, that's a very good point. I mean the issue is that reality doesn't change because of IFRS 17. It's almost like you're starting to measure temperature from Celsius into Fahrenheit but then present it in Sanskrit. So nobody knows what it's going to look like. But it's going to be a funny number. So what it's actually going to be, we don't know. I think the level or at least development of earnings in IFRS 17 will be more similar, more akin to Solvency II. So today, you can have situation where your cap gen goes up, earnings go down or the other way around. I think the direction of earnings will be similar. The point is I have no hard number today that I can base my payout on, right. If you divide EUR 230 million by the IFRS 17 earnings, that might be 10%, might be 90%, I don't know what the payout ratio is. So I guess the safest thing for us to do is to gradually shift towards a Solvency II cap gen-based payout ratio because that's a number I can grab. I will have an audit trail by that time. And now honestly, we need to see what that Sanskrit Fahrenheit number looks like when we get there. And I guess at that point in time, the direction of earnings, it will give probably similar messages, similar direction as the solvency ratio. That's a good part of it.

A - Michel HÃ¼lters

Okay. Hadley?

Q - Hadley Cohen {BIO 18331131 <GO>}

Hadley Cohen from Deutsche Bank. Question for Dick, please, first. On your retail fund, how are you thinking about that on a medium to longer term sort of view? I mean I guess I get the point that it's a very high-quality asset. But ultimately, the retail model is changing, right? People are shopping online and what have you. And you're seeing it in the U.K., particularly that high-street stores are closing down and the value of U.K. retail REITs is reducing. How are you -- ultimately, the high street needs to evolve, I guess, to become more food and entertainment orientated. How are you thinking about that with regards to your portfolio going forward? Then, I guess, linked to Johnny's question on IFRS 17, for Patrick or Chris. But the -- one of the main profit measures, targets that you've given to us today is the ROE target and you've had an ROE target since IPO effectively. How important is that really? Because I guess under IFRS 17, you're going to have to get rid of the amortization and the realized gain reserve, which is about 40% of your operating profit. And I guess is -- do you think that there is enough flexibility within IFRS 17 to be able to fully offset that? Does it matter? But if not, presumably your ROE goes down. So optically it looks a lot lower. But as you said, economically it doesn't change anything. But how are you thinking about all that? Does it really matter?

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A - Michel HÃ¼lters

Okay. Dick, first question.

A - Dick Gort {BIO 16118720 <GO>}

Yes. Well I think, of course, there's a lot of doubts about retail internationally. And especially if you look to the U.K., you see some difficulties with retail companies. I think in the Netherlands, if you look to the retail market, it's very depending on which kind of retail you're focusing. So we are focusing on the high -- on the retail on the high street. But on the best high street locations of the Netherlands because there are a lot of high street locations in different cities which we are not investing in. So we are only investing in the top 20 cities. And what we have seen over the last years, even during the crisis, that the valuations of those locations went up. So we're very selective on it. So we are in the inner city of Amsterdam, the inner city of Utrecht, inner city of Rotterdam. So we're very specific in where we invest. So I think if you select on the right place, the retail market is doing very well. And still retailers are fighting to get in our retail units. And I agree with you that in retail locations, you see much more blurring with the food and beverages. We see it also in the high street. So it -- I think it gives something extra to the high street market. So retailers want to invest in those places where it's very busy and crowded. And that is in the best high street locations.

A - Michel HÃ¼lters

Okay. Then second question, Chris? I think it's the...

A - H. C. Figee

Yes, let me start. And Patrick, you complement. It's -- when you move from IFRS 4 to IFRS 17, we will lose the contribution from shadow accounting to our reported earnings. We'll get something back in return, which is the release of CSM. So the CSM amortization will go to P&L. That isn't there today. And by luck or by skill, I think we have a number of portfolios that will have -- that are likely to have a CSM that can be amortized. I mean funeral has a significant CSM relative to fulfillment cash flows. Individual Life and disability have significant CSM relative to fulfillment cash flows. So I think we will lose shadow accounting contribution, you get see CSM in return. And comparatively speaking, our CSM qualifying portfolio. So the non-DB side of a.s.r., is relatively large compared to the industry. So I think that will look relatively well. And it's all optics. I mean, it is -- obviously, it's optics. But the CSM contribution will be good. What will the ROE be? I don't know. Personally, I think you go back almost to the embedded value time where people look like, what's the delta EV? So the new -- I'm talking abbreviations here. But the new ROE is like the delta equity. And your delta equity could be the next metric people will follow. The one thing that you need to be mindful that the amount of equity you hold is a function of discount rate you choose for your fulfillment cash flows. So that's something where companies have a fair degree of freedom to steer. So I guess the challenge for us and for you will be to figure out, is there a comparable level of discount rate, what's the equity and can we harmonize it and then what's the delta equity that people will generate. But I would presume that delta equity or a percentage growth in equity is the new ROE in that time frame. Patrick, do you want to add to that?

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A - Patrick Klijnsmit

Yes. I think in terms of the number of the ROE, Chris talked a little bit about the R. But there's also the E. And we implement IFRS 9 at the same time. And the equity there probably goes up a little bit simply because we now have quite some investments, which are on amortized costs. And well, they will get some added value. Of course we also had the impact, as you saw of the liabilities going up. So I'm not quite sure what the equity will do. That's an unknown as well. So with that, you end up with a question, does it really matter? Now it is a new base point. And from there on, we'll see what happens.

A - Michel HÃ¼lters

Okay. Can we have, first, Farquhar, please?

Q - Farquhar Charles Murray {BIO 15345435 <GO>}

Farquhar Murray, Autonomous Research. Just a couple of questions firstly to Dick. I think on Slide 135 of your presentation, you were kind of showing revenues, investments under management within the AuM business. I mean on the third party side it's obviously rising. But on the fees revenue side, we weren't really seeing fee income improving. Is that just -- obviously, the numbers are slightly small. Is that just noise? Or is there a kind of genuine fee pressure in that slide? Then just secondly, on the EUR 1.7 billion on retail, just to follow up Hadley's question, how much of that is very clearly in a city prime exposure and how much is obviously potentially secondary-type locations? Then a quick one just to Jack. On the mortgage market, obviously, you're saying 140 to 180 basis points is attractive. Can I just ask what level of margin would be unattractive? And also what kind of volume aspirations would you have from here?

A - Michel HÃ¼lters

Okay. Start with Dick.

A - Dick Gort {BIO 16118720 <GO>}

Yes, okay. If I understand your question correctly, you were talking about fee pressure on the slide?

Q - Farquhar Charles Murray {BIO 15345435 <GO>}

On the third-party AuM. It looks like -- on the third-party AuM, it's like, it's about EUR 10 million for three years. And obviously, AuM is going up a little bit. It could be noise. Or is it fee pressure?

A - Dick Gort {BIO 16118720 <GO>}

No. I don't understand exactly what you mean.

Q - Farquhar Charles Murray {BIO 15345435 <GO>}

So I think if you look at Slide 135, you're showing revenues by third parties. And it's about EUR 10 million, EUR 11 million each year for last three years, I think. And at the same time, obviously, third-party AuM is actually going up. So it feels like maybe there's possibly

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some fee pressure. But the numbers are obviously in the range that it could be a bit of a noise. I'm just trying to understand, is there fee pressure in that picture?

A - Dick Gort {BIO 16118720 <GO>}

No. There is no fee pressure because our fees are linked to the assets under management. So there's a direct correlation with it.

Q - Farquhar Charles Murray {BIO 15345435 <GO>}

Okay. So why has the revenue number not gone up then?

A - Dick Gort {BIO 16118720 <GO>}

Well I think we are also selling assets as well because we want to be very -- on top of the market. And if we foresee, for example, in the retail market that we have an asset we don't want to have anymore, we sell it. The assets under management go down and our fee goes down as well. So it's -- there's a direct correlation with it. The second question you had about retail was which amount of assets is invested in those high street locations?

Q - Farquhar Charles Murray {BIO 15345435 <GO>}

I think just try and play it straightly. I mean you've got EUR 1.7 billion at retail. And I'm just -- you're obviously saying it's all kind of lovely inner cities that are wonderful. I'm just trying to get a sense, can you be a little bit specific about how much of that is obviously genuine prime retail in inner cities, which I think we'd all agree they're probably pretty solid versus kind of second relocations where maybe we've got legitimate concerns?

A - Dick Gort {BIO 16118720 <GO>}

Yes, yes, yes. Okay. So 2/3 of the Dutch Prime Retail fund is invested in those high street locations, in those 20 -- top 20 cities. So about 95% of high street is located in those top 20 cities. And 1/3 of the assets under management within the fund are invested in district shopping centers. So convenience shopping centers like supermarkets and small shops around it. But the core of the -- those investments are supermarkets, yes.

A - Jack Julicher {BIO 5943222 <GO>}

Yes. Then the question on mortgages, at what level it wouldn't be attractive, what we do is we use cost price model. So that means that we calculate for the credit risk, that we calculate for the capital consumption, that we calculate for the options that are in the mortgage product. But a main indicator would be the remuneration for illiquidity risk. And as I said, it is now between 40 and 70. I would give it a very close glance at the moment that we would be at levels of 20 to 40. Then what you are asking with respect to volumes, yes, we target on total production volumes of EUR 2 billion to EUR 2.5 billion in total for the insurance companies and for external parties. And in general, you can say you need for external parties EUR 1 billion to EUR 1.5 billion. That is what we target for the coming years.

A - Michel HÃ¼lters

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Okay. Can we have Benoit?

Q - Benoit Petrarque {BIO 15997668 <GO>}

Benoit Petrarque from Kepler Cheuvreux. Two questions on the asset management, one on the real estate. So on the asset management, could you -- on the EUR 20 million target, could you come back on the earnings model behind the improvement of your purchasing results? I was thinking about guidance on inflows -- third-party inflows, fee margin expected. And also on the cost side, do you expect also costs to improve? And the second question on asset management was around the, I think you have EUR 8.2 billion of balanced funds in your third-party AuMs. How much of that is linked to the unit linked individual life book? Is that included? And do you expect some runoff from that? Then the last one was on the Slide 131, on the rural portfolio. If I do the math correctly, you value your rural portfolio at EUR 4 per square meter. I mean just doing the math on the Slide 131, you generate 2% yield. It's probably linked to the price you get from the -- on the lands. But how much capital gains do you make on the top of the kind of 2.2% yield every year? For sure, when the third parties want to develop, you get a nice price for that. So how much cap gains you do on -- through the cycle every year on the top of the 2.2%?

A - Michel HÃ¼lters

First question is on for you, Jack.

A - Jack Julicher {BIO 5943222 <GO>}

Yes. The percentage unit linked and, yes, all kinds of policies of the insurance there, that is 31%. And yes, the model behind the EUR 20 million, you can say we have different flows of assets. So we have the in-sourced assets. We have the balanced mandates and the ESG funds. And in general the expected fees are between 15 and 18 basis points. And yes, depends on the costs, how we manage at the cost side. We expect that we can leverage upon the scale of the insurance companies in the sense that we have an organization that has a scale. So that means that, yes, we expect -- that we are able to do that with a fairly stable cost base.

Q - Benoit Petrarque {BIO 15997668 <GO>}

And the inflows in (DMs), how much would that be?

A - Jack Julicher {BIO 5943222 <GO>}

That depends. That is -- but I explained was one main part are the mortgages. So EUR 1 billion to EUR 1.5 billion. And we expect, let's say, EUR 0.5 billion to EUR 1 billion in other mandates, balanced mandates, et cetera.

A - H. C. Figee

I think, Benoit, it's fair to assume that the business model of the asset management functions and real estate, it's all about fees are stable and expand your assets under management. And the AuM is more a function of how many interesting objects you can acquire. I think there is quite a pipeline of investors that have either committed capital or are wanting to commit capital. And the bottleneck really is can you find things that you

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want to invest in, that you want to hold in your fund? So but as there are a lot, you're growing your AuM base by acquiring attractive new buildings, locations, et cetera. So in real estate, it's all about AuM. So the growth in real estate earnings is really growth in AuM. And the cost base is reasonably flexible. But again real estate is a business where -- I don't mind running a slightly higher cost base in real estate because it's such a high-margin, high-value-add business. So in real estate, it's not such a scalable business but the AuM that comes in gives you good margins. On the -- on Jack's business, on the capital markets asset management business, I think there will be a -- I wouldn't be surprised if there's slight margin pressure on some of the products, simply on the mortgage business. There are multiple mortgage funds out there. I think we have a successful one we've grown significantly. But I wouldn't surprise there would be some small margin pressure on the mortgage funds. But in earnings rise, AuM will allow us to grow that business. So that's a scalable business. So adding another billion of mortgages doesn't require a single more -- additional FTEs. So it's a scalable business. Some top-level margin pressure. But then cost scalability, which can be exacerbated by in-sourcing some assets that are done by third parties we're going to bring back home.

A - Michel HÃ¼lters

Okay. Then the question on the rural portfolio and the returns.

A - Dick Gort {BIO 16118720 <GO>}

Yes. Thank you. Well the EUR 4 per square meter is about right. It's a good math. I think that's the -- more or less the agricultural value for land on average. Our focus within the portfolio is to rent the land to farmers. So that is our main focus. And due to the fact that our portfolio is very large, we are sometimes lucky when something special happens, somebody wants to buy it or government needs it for something. So overall, there are some moments in time that we've been very lucky. But overall, we focus on lending the land to farmers for a long period of time. And we want to be very trustworthy on that. The direct return is about 2.5% over the last 15 years. And the total return has been 9%. So there's -- a part of it is capital appreciation on top those moments of luck we had. But I don't know by heart which -- what the amount is exactly.

A - H. C. Figee

But the land is really not held to develop. It's farmland. So if someone wants to develop it, that's -- you stumble into it. But we don't acquire land with the purpose of redeveloping. It's really -- it's a rural agricultural business. So our clients are farmers, actually. And so I think the price appreciation is when farmers want to expand, they want to grow their farm and buy land or trade land. Then there is land scarcity, that's actually what causes a gradual uplift in value. It's not a development play.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Because you assume a 300 bps excess return on your real estate. So I mean it's quite low versus what you could expect in a normal real estate. But it's probably linked to this relatively low return you make on your lands, right?

A - H. C. Figee

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Well 2 things. First, the non-land business has a 4% to 5% direct return still, right, excluding capital gains. So the non-land, the office are highest and residential houses are lowest and retail is in the middle. So the non-land business has a 4% to 5% in direct return. The land business has a 2.5% return. But historically, as Dick said, we've been delivering 9% total return over how long a period?

A - Dick Gort {BIO 16118720 <GO>}

15 years. (Or it can be longer).

A - H. C. Figee

15 years. The -- there is no sign that -- I can't predict whether it's going to be 9% or not. But there is still sufficient comfort that there's value appreciation of land, maybe not 9%. But there is -- we definitely made more than 2.5% because the history and the trends in the farm market is such, in the agricultural market are such that are still looking -- people are still looking for land.

A - Michel HÃ¼lters

Okay. Before we â€“ yes, I know, Farooq. So before go over to Jos for a wrap-up, time for one final question. Farooq, you've been holding up your hand for quite a while already.

Q - Farooq Hanif {BIO 4780978 <GO>}

Philippe, can you just say a little bit about the Individual Life service book? Because you've got a lot of customers, maybe some of them you often not talk to a lot. What solutions do you have? Or what are you thinking about in terms of retaining those customers? I was wondering if that's something you could possibly comment on. Then the second question for Jack, about infrastructure. I mean, you seem to be doing some. But your focus is elsewhere. But it's also very attractive under Solvency II. So I'm thinking, why not more? Is it because you're happy with your mortgages and your real estate business? Is it because it's just not available in the Netherlands to the extent you want with duration? If you could comment on that, that'd be quite useful.

A - Philippe Wits

Yes. So on the life service book, how do we retain customers? That was your question?

Q - Farooq Hanif {BIO 4780978 <GO>}

Yes, because obviously (inaudible) you hold the money and (a do-it conclusion) might be a good way.

A - Philippe Wits

Yes, no, absolutely. So one of the things we're doing. And that is also the reason why the chatbots or the voicebots is there, is to actually take out all kinds of stuff which customers can actually handle online. And where it actually comes to surrender, I mean I don't think you want surrenders or conversation with customers to be handled by chatbots and a straight-through process customers in and out of the door. So actually, what we are doing

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is we're actually building there, one, we're actually using big data to actually assess and see whether we can predict when customers are actually surrendering. And actually, it's -- you can already predict a couple of months ahead, actually. That's one. And second, we want these customers to be able to talk to our customer agents to have that human interaction and actually to assess whether they are be able -- enable them to live in the product or give them a better product, as Karin was explaining, for example, in unit linked. I mean sometimes it's better that a customer surrenders into another product. So those are just 2 examples on how we are thinking about it and what we're doing.

A - Michel HÃ¼lters

Jack?

A - Jack Julicher {BIO 5943222 <GO>}

Yes. Yes. We look to all asset classes. So that means that infrastructure debt is one of them. But as I mentioned, there are also others. And when you look to specific infrastructure, what is important to know is that the duration is often very long. So that's also why it fits with the balance sheet of an insurer. But that means that nevertheless, the fact that it's a preferential treatment under Solvency II, still the solvency charge is relatively high. So you need a substantial margin. And what we see in the big infrastructure projects, that there is a compression with margins. So then you don't need that hurdle for return on equity. So but where the sweet spot is in the somewhat medium-sized projects. And there is a sweet spot. And that's the spot we are looking at.

A - H. C. Figee

Because you have to look very hard. If you go to the -- you do the European landscape of infrastructure funds, the bulk of it is in the U.K. I mean the U.K. had to develop infrastructure market or the U.S. And given all developments on Brexit, we don't want to be overexposed to the U.K. infrastructure market. So you'd be looking for Eurozone infrastructure product. Unfortunately, everybody else is, too. So margins are relatively thin. There are attractive funds out there or attractive solutions out there. But you need to work very hard to be very selective. Because you just go blind into an infrastructure solution, you get to what Jack says, lower-yielding funds and the lender actually exploits your capital charge and he takes all the benefit by paying a very low yield. So we are looking for Eurozone infrastructure product and be very selective. And you look for very specific partners, often in the smaller size or very niche markets to get the infrastructure product that gives you the yield that you want. Unfortunately, it's hard to deploy EUR 2 billion. You have to kind of collect and gather mandates every day, slowly but surely. So it's a function of how effectively can you deploy the money in Eurozone infrastructure at an attractive rate. But for example, we've got one of the big reinsurance in Europe has decided to turn its reinsurance engineering skills into an infrastructure fund, which we like a lot. We know bridges. We know toll roads. We reinsure these all the time. So we can also build an infrastructure fund and open that fund for reinsurance clients. Well that's a great solution. So there you partner with someone you know very well. And you've got more or less proprietary access to infrastructure fund. So that's the type of solutions we look for rather than pursuing just the ninth or tenth whatever investment bank infrastructure fund. That's actually not very attractive.

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A - Michel HÃ¼lters

Okay. We have to end the Q&A for this session right now. We are around for drinks. So if you have any further questions, I mean, everybody is still around for -- if you add to the queue that you still have. Thank you for this session, gentlemen.

Then the wrap-up for Jos. So.

A - Jos P. M. Baeten {BIO 2036695 <GO>}

So ladies and gentlemen, some final words on hopefully what was for all of you an interesting and, at least for us, what was an exciting day. We were very proud that we were able to present a.s.r. to you in the way as we did it today. We delivered over the past 2.5 years what we have promised to our investors and even more since the IPO in 2016. We will continue on our journey going forwards. And we will continue to aim a delivery of our new today announced ambitious targets for the next three years. We hope investors here and on the webcast stay with us to have this journey together with us going forward.

And in a nutshell, what you have heard today is you will keep a.s.r. as it is with upped targets in terms of return on equity, with upped targets in terms of OCC delivery. And on top of that, organic growth, profitable organic growth in nonlife, opportunities in consolidation of the life business and potentially some opportunities in the nonlife business also, a position -- so a position as consolidator for the life market, a stable fee generative business and a growing fee business in the asset management and in the real estate. And we have positioned ourselves today as the provider of sustainable employability needs increase, especially in the self-employed markets. And I hope we also have given you the proof that we will be able to deliver this going forward, whether it is through our excellent business performance, our capital management expertise, the way we deal with innovation and digitalization, our unique asset management capabilities and last but not least, the way we are able to onboard regulatory changes.

So having said that, this concludes our first Capital Markets Day. Thank you for being with us, also to people that were, during the whole day, following us on the webcast, over 200 people were with us and are with us until now. So that's quite a success. We have appreciated all your questions. We like dialogue. My personal belief is real gold shouldn't fear the melting pot. So going forward, keep asking questions to us. It keeps us sharp and it helps us to be on top of the delivery.

You're all invited to join us for drinks. And hopefully, we will be able to get some feedback from you, how you enjoyed or not enjoyed our first Capital Markets Day. Thank you very much.

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