# Acquisition of Loyalis N.V. by ASR Nederland N.V. Call

## Company Participants

- Chris H. Figee, Chief Financial Officer
- Jos P. M. Baeten, Chairman-Executive Board & Chief Executive Officer
- Michel Hülters, Head-Investor Relations & Ratings



## Other Participants

- Albert Ploegh, Analyst
- Bart Jooris, Analyst
- Benoît Pétrarque, Analyst
- Cor Kluis, Analyst
- Farooq Hanif, Analyst
- Robin Eduard van den Broek, Analyst
- Steven Haywood, Analyst

## MANAGEMENT DISCUSSION SECTION

### Operator

Good day, and welcome to the a.s.r. Conference Call on the acquisition of Loyalis. Today's call is being recorded. And at this time, I would like to turn the call over to Michel Hülters. Please go ahead, sir.

### Michel Hülters

Thank you, operator. Good morning, everybody. Welcome to the a.s.r. conference call on the acquisition of Loyalis that we announced earlier this morning. On the call are Jos Baeten, CEO; and Chris Figee, CFO. And they will talk you through the transaction highlights from a strategic rationale and the financial metrics, and also (00:39). After that, we'll open up for Q&A. And as is customary, please review the disclaimer that we have in the back of the presentation as well as any forward-looking statements that we have.

So, with that, Jos, the floor is yours.

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

Thank you, Michel, and good morning, everybody. I'm sure you all have seen the announcement this morning, so let's not waste too much time. I'll briefly mention the highlights of the transaction before we take any questions you may have. As you can understand, we are very pleased to announce this transaction shortly after our CMD of the

10th of October, in which we detailed our plan to actively pursue profitable and inorganic growth, next to the normal organic growth, especially aiming for bolt-on acquisitions in the SME space. I believe we have been able to present an offer that beyond an effective financial package, also resonated well with our strategic principle of putting clients first.

This transaction truly ticks all the relevant boxes, and we will discuss that during the Q&A, from a strategic point of view as well as financially. With Loyalis, we significantly strengthened our position in a disability market. We gained unique access to an important cluster of customer groups and expands the product offering. In Disability, we grow our market share to 28%. In Life, the acquisition fits very well with our strategy to consolidate service groups. We can unlock the synergies by rationalizing and migrating these groups to the software-as-a-service platform what we already had.

As you can see on this slide, the transaction that comfortably meets the financial criteria, we maintained for M&A and demonstrates our ability to deploy capital to enhance the value of the organization. Pro forma impact on Solvency II ratio of a.s.r. at closing is minus 9% solvency points, so equal to the Generali transaction. And when the integration were successfully done in 2022, the impact is minus 8% solvency points.

Return on investment is expected at well above 12% on all metrics. This is calculated on a fungible capital investment of roughly €200 million. The transaction is expected to contribute €40 million to the net operating results, and €35 million organic capital creation in 2022. This represents an EPS equation of more than 8%, based on our last full year results in 2017. The transaction will temporarily be financed with a short dated bridge loan, so a.s.r. maintains a very strong financial flexibility. The financial leverage of a.s.r. will, due to this transaction, increase to roughly 29%, well below our target of maximum of 35%. This short-term financing basically means that we keep our options open for developments in other strategic areas going forward.

So, let's move to the next slide, where I will provide a overview about Loyalis. As you may know, Loyalis is an insurance company currently owned by APG and is located in the Heerlen, a town in the south of the Netherlands. It employs roughly 300 employees. Loyalis is mainly a non-life company with €161 million gross written premium in non-life, and €105 million of gross written premium in life.

The IFRS earnings of Loyalis were €71 million in 2017. There are some difference in accounting standards. Loyalis, for instance, applies fair value accounting, where market movements including interest flow through, therefore, this is not a number you should expect going forward. Estimated standalone run-rate of net operating earnings is approximately €30 million, and this is based on a.s.r.'s accounting standards.

Loyalis' balance sheet is just above €3.3 billion and is fairly well capitalized with strong Solvency II ratios for the operating companies. Important to note is that Loyalis carries no debt. The cooperation between Loyalis and APG will be continued and is covered on the long-term agreements with APG. The cooperation pertains to knowledge sharing on the sector, which enables Loyalis to develop insurance products in the future and will remain closely related to the collective labor agreements of the sectors Loyalis and APG currently serve.

So, let's have a closer look at Disability and Life, starting with Disability. Loyalis strengthens a.s.r.'s competitive position and sustainable employability segments as it offers a broad portfolio of Disability products with a strong emphasis on WIA accounting for 86%; 68% of gross written premium in 2017. Out of the total earnings of Loyalis, 80% is in a non-life predictable earnings stream.

With Loyalis, we also will have meaningful access to new customer groups, government and in education offering the opportunity for a.s.r.'s disability suite. Complementary to a.s.r.'s strong proposition in the disability market, particularly for individuals and small companies, is Loyalis' strong presence in the area of mid to larger size corporates with over 100 employees.

Our objective is to safeguard current profitable proposition. To do so, we aim to continue running the business from Heerlen. At such, it will be only a partial integration of staff functions and IT rationalization. The relation with APG on knowledge sharing, product development and efficient client solutions will continue. We will keep the Loyalis brand intact being well recognized in the sector they service.

As you can see, there is also a relative small absenteeism portfolio which will be managed as a closed book and now future offering will come via the a.s.r. product line.

Turning to Life, this part will be fully integrated into a.s.r.'s platform ambulatory (07:43). Migration expected mid-2020. As mentioned, this fits very well with our strategy to consolidate the individual Life market, and here, we can actually lever our proven integration and migration skills and experience. Loyalis at scale through our existing service books and increases the cost average. Also, we will manage the €2 billion investment portfolio in Life.

Let's move to slide 5, and for those who attended our CMD in October, this is a familiar slide. It depicts how we look at the various players and roles around sustainable employability. It is an entire ecosystem in which we have a strong and unique position with various entities that we either fully or partially own or with companies which we work closely together. With Loyalis, we strengthened our position in underwriting and targeting significant classes of customers with products that meet their needs. This ecosystem will continue to develop and I will expect us to continue our aim to further expand this in the future. As it is shown on the right-hand side, Loyalis will increase our market share to 28% and become co-leader in the Disability market.

So, now turning to the impact on Solvency II, that's slide 6. As you can see, the pro forma impact on Solvency II when all capital and cost synergies are taken into account amounts roughly 8 points. I will briefly run you through the major changes. Day one pro forma Solvency impact is 9 points, and this consists of the purchase price, as you have read, it is €450 million cash out, partially offset by capital synergies, which include diversification, ineligible capital, as well as the alignment of the assumptions and the impact of combining the businesses. Given the fact that Loyalis already has very strong balance sheet, the impact of the level is close to zero.

At legal merger, the impact is minus 1 point, reflecting the remaining capital synergies and further alignment of assumptions. After the legal merger, we will pursue the realized cost synergies which are expected to increase the Solvency II ratio with 2 points. This number includes the capitalized cost benefits, and it's partially offset by non-recurring restructuring expenses.

When determining the return on this transaction, we look at the amount of capital which is required based on a.s.r. Solvency II level above the dividend threshold for the operating companies. Fungible capital deployment amounts to €200 million. This number takes into account the capitalized cost synergies we expect to realize. Excluding these capitalized cost synergies, the fungible capital investment amounts up to €260 million.

Now, let's turn to snapshots of the financial metrics on this transaction, and that's on slide 7. The acquisition of Loyalis is expected to deliver a return on investment of well over 12% based on operational and capital synergies. Loyalis is expected to contribute €40 million to the net operating result as from 2022 after realizing all the cost synergies. Loyalis is expected to contribute €35 million to the OCC to be realized in 2022. I'm sure you will understand we are very, very pleased with this acquisition not do only all the financials ticks the boxes, but also this acquisition is in the core of our strategy.

Having said this, I would like to conclude this presentation, and let's go over to Q&A.



# Q&A

## Operator

Thank you. We will now take our first question, this comes from Cor Kluis from ABN AMRO. Please go ahead.

## Q - Cor Kluis {BIO 3515446 <GO>}

Good morning. Cor Kluis, ABN AMRO. Congratulations with this acquisition. A couple of...

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

(12:35) it's midnight for you, I believe?

## Q - Cor Kluis {BIO 3515446 <GO>}

That's correct, but no problem. Yeah, this is regarding the question about the difference between the €450 million and the €200 million, could you help us a little bit more with the pieces between there, if we see the slide number 6, of course, but give a little bit more granularity on (13:01) which probably is not at the Loyalis excess capital which we will see their (13:10) where you're a little bit more conservative than they are. So, a little bit more granularity for that gap between those two figures?

And my second question is about the APG contract, can you just talk about long-term contract, could you elaborate a little bit more on how does it works? How long can you contact new APG clients or can you transform their website or how does it work ? My last question is about the OCC, which piece – the €35 million, which piece is a capital release SCR effect, because I think the Life will be shrinking somewhat there, so to what extent is that included in that and probably the disability thesis (14:03) my questions?

## A - Chris H. Figee {BIO 18815839 <GO>}

Thank you, Cor. Good morning. This is Chris. I will take your – half of your question on the capital spend. There is couple of points to note. This is a business that is well, well capitalized. If you look at the own funds that are present in the two operating entities, Loyalis Life or Loyalis Schade and excluding any adjustments we make or may not make, but as it is today, the own fund in this business are €560 million, so you could argue of being €460 million or €560 million of own funds.

Now, that's of course a value that will become (14:30) adjustment, but it shows you that these businesses are well capitalized running at (14:46) levels of standalone €172 million in Loyalis Schade, €175 million in Loyalis Life. This is one.

Second thing what I like about this business, we are buying effectively a Non-life earnings business. If you look at the profits of this business and also especially on a.s.r. accounting standards, a.s.r. – 80% of the profit of the business is Non-life. So, it's a Non-life earning stream. So, we are acquiring own funds with a very little bit UFR or VA sensitivity. These are, as I said, the own funds (15:22) the business are €560 million. If you took out the UFR and VA as a whole, that would drop to €520 million, but before any adjustments.

So, we're looking at a business with sufficient and a significant amount of capital in there which have limited UFR or VA sensitivity. So, then the walk from the €450 million to €200 million is, we've paid cash out €450 million at this point. In our assessment, there is €100 million of (15:48) fungible capital that we acquired. You can say we're paying a euro for euro, but as this capital is in this business based on our own dividends and our capital management (15:59). So, we're paying €450 million for €100 million of additional fungible capital (16:02).

Then there's about €90 million, 9-0, of net capital synergies. They consist of diversification benefits as DTA, and it will leverage (16:18) more, but those are the main components. That brings you to €260 million of spends of capital, and then there is about €60 million of capitalized cost benefit, and solvency is the lower expense charges in the Solvency II, which brings you to the €200 million. So, the breakup is €450 million, minus €100 million, minus €90 million, brings you to €260 million and if you take out €60 million, you'd get to €200 million.

In those capital synergies, as I said the dominant one is diversification benefits. I mean, Disability is a risk factor that naturally diversifies very well in existing insurance book. Next to mortality is the second best diversifier in your risk base, and effectively 20% of this business is mortality and 80% is Disability.

Secondly, there is an ineligible DTA on the Loyalis (17:13) it will become eligible in our side (17:15). And then there are a few smaller ones were on the negative side, we'll have some adjustments on the mortality assumptions in the Loyalis book while we have a slightly different approach on quantifying and reserving for mortality risks. The small negative from dealing with profit sharing where we don't follow their methodology yet on high yield count for profit sharing and the (17:43) low absorbing capacity of technical provision (17:46) don't apply and then there is small amendment on the interest rate with charge and small positives on further synergy and disability solvency.

So, in summary, diversification and DTA are the main drivers, then small number of adjustments for mortality and profit sharing those are the negative actuarial functional alignment, and then the number of positives known mostly around reserve and achievement of (18:18) expenses. But the core complicit is that you will pay €450 million for business with north of €500 million own funds, ex-VA, ex-UFR is still north of €500 million own funds.

So, we take it out some-hundred-million of where – we're paying a euro for euro. That brings to €350 million, take out €90 million of clear capital synergies that will be there already, actually very quickly within the first six months and then there is about €60 million of opportunity on reserving which will show up if and when we complete the integration that will take a bit more time, but we've got confident that we will deliver on those.

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

And on the contract.

## A - Chris H. Figee {BIO 18815839 <GO>}

Sorry, go ahead.

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

And on the contract...

## Q - Cor Kluis {BIO 3515446 <GO>}

Thank you.

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

We aim that it will be an indefinite contract. However, we have agreed that we – every five years we will evaluate how the collaboration works. So, of the five years we have the first evaluation of how we have worked together over the last five years and then a (19:31) of the contract going further.

The aim of the contract is to keep up offering current product suite of Loyalis under the Loyalis brand, which mainly is WIA business, as I said 86% of their Non-life portfolio is in WIA business, and there is a small (19:53) portfolio in involved also, but they are not currently offering active sickness leaves. We have agreed that we will be able to build on their current customer portfolio and offer also other a.s.r.'s products. So for example, they don't offer any sickness leave today, we could decide to start on offering sickness leave and all kinds of other additional products too.

So, going forward, it is keeping the current product in place and adding new products that are not offered yet by Loyalis.

And all the Non-life business runs at a very profitable combined ratio. If we would supply our own way of calculating the combined ratio, their combined ratio is already in the target level of a.s.r.'s combined ratio for Disability, so in the very low-90s and sometimes even below 90. So, having said that, keep the business in place, that's what we have arranged with the contract and expand the business going forward.

## A - Chris H. Figee {BIO 18815839 <GO>}

Cor, and to your question on the OCC, what's in there? As I said, this is 80% a Non-life business. The profit in 2017 was €71 million, but that's on fair value accounting which we don't apply. So the numbers in 2017 when spread narrowed and overstate, especially the Life earnings when you compare (21:38) on our standard, it's 80% Non-life profit, about 20% Life profit, it also shows up in the OCC, so the OCC really is all about underwriting result and new business result in the Non-life business.

Think about your risk margin release of €2 million to €4 million in the first year, SCR release of €3 million to €4 million in the first year, so about €5 million to €7 million of capital release and the remainder is insurance business reference (22:08). Over time, you can see the risk margin to decline gradually from €4 million to around €2 million in 2022, and the SCR release will also be around €3 million.

Please note that in the OCC assumption is also – assumes a reasonable amount of new business, so the capital release is actually netted which gives you about €2 million to €4 million of net contribution from risk margin in SCR release, in the long run, it would stop writing new business, which as long as not a good (22:42) if we were to do that, then the OCC will jump about €105 million. And I think the key point to make is that, out of say the €30 million or €35 million of capital release, OCC will see in 2021 only up to €5 million is really book release, and the other €30 million is underwriting business (23:00).

## Q - Cor Kluis {BIO 3515446 <GO>}

Okay. Wonderful. Thank you very much. Thank you.

## Operator

Thank you. I will now move on to our next question, and this comes from Farooq Hanif from Credit Suisse. Please go ahead.

## Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, there. I hope you can hear me. I'm calling from home. Just on two questions. Firstly, on the debt – the short-term debt that you raised, what is your intention there, so if you need to fund another deal, what would you convert that into? And if you find you don't need to fund another deal, what are you going to do in terms of the kind of a long-term leverage? That's question one.

And the second question is, on some of the things you haven't talked about, so the uplift from looking at their investment portfolio and the uplift from cross-selling other products that's not currently on the suite. What kind of case study can you show us in the past that might be relevant here and the potential uplift? Thank you.

## A - Chris H. Figee {BIO 18815839 <GO>}

Farooq, it's Chris. First of all, congratulations. When I dial in from home, you hear dogs barking, kids screaming, so well done in keeping your house under control.

## Q - Farooq Hanif {BIO 4780978 <GO>}

(24:17).

## A - Chris H. Figee {BIO 18815839 <GO>}

So, well done (24:22), so I'm leaving the chart there. On the debt side, look, we think this business lends itself very well for hybrid financing, I mean it's a €450 million cash out acquiring a stable and predictable Non-Life earnings stream with long-term client relationship than a good combine (24:42). So, this thing smells, greet, eats hybrid financing. And we will hybrid finance this transaction in the long run. However, the instrument itself, the choice of instrument is something that hinged a bit on the other M&A files that are out there, and I don't want to have a core on other files.

But please note that if Loyalis would be the last acquisition we do, this thing would be finance a little bit Tier 2 (25:12) instrument. Hybrid capital keeps the Solvency stable at the lowest cost possible. However, if you take into account that there are potential other transactions out there that may or may not start that we may or may not buy and – who knows, but it might be the case in other transaction (25:29) Tier 1 financing to protect your Tier 3, had to protect your Tier 3 space.

In a year from now, we will know better or we'll know what the optimal financing against the strategy is. Would we use a Tier 2, which should take on a standalone (25:48) basis or would you rather issue a Tier 1 instrument which may make sense if you include other transactions out there?

So, with that in mind, it's (25:57) with a hybrid financing, so our Solvency will be stable against this transaction over the instrument itself, it's fair to choose, better to choose in a year from now than to choose the day in order to protect and preserve optionality. With that in mind, we are going for a short-term financing or one-year financing. Options there could be either a public or one-year senior in the capital markets or a group financing with a bank. We have until closing to do that. I think I hypothesis is that a group financing with a bank is slightly more – offers more flexibility in the phase of flexibility, what we're looking for. And a bit of cost of financing today are relatively low, most banks have fair on (26:44) liquidity and are willing to extend short-term credit at an attractive rate.

So, our view is, one, solvency of the deal will be unchanged because we will fund this with hybrid inside the leverage ratio that we have. However, it's not wise to choose a date with instrument deal (27:00) and to preserve optionality take one-year loan at a very low rate. The option doesn't cost a lot these days. And that actually provides time and room to pick the final instruments over there.

## Q - Farooq Hanif {BIO 4780978 <GO>}

Sorry, just to interrupt, if you don't mind, when you say solvency will be neutral, I mean, actually it will go up wouldn't it? Have you raised say through the (27:24) Tier 1 of (27:27) saying?

## A - Chris H. Figee {BIO 18815839 <GO>}

Yes, exactly, yes. So the – yeah.

## Q - Farooq Hanif {BIO 4780978 <GO>}

Okay.

## A - Chris H. Figee {BIO 18815839 <GO>}

So the €450 million will be met by (27:35) at least the €450 million (27:35). For example, your Tier 2 is going benchmark size of €500 million, so you would expect if you issue a Tier 2 bond, you'd issue a €500 million Tier 2 bond which nearly perfectly matches the cash out (27:47).

## Q - Farooq Hanif {BIO 4780978 <GO>}

Okay.

## A - Chris H. Figee {BIO 18815839 <GO>}

So – and do you want a little bit more – I mean, there will be less (27:54) from what I have benchmarked Q1 bond is, but it's probably in the same order of magnitude. So, the (28:00) issues.

## Q - Farooq Hanif {BIO 4780978 <GO>}

Okay.

## A - Chris H. Figee {BIO 18815839 <GO>}

And to the other point, uplift of the investment portfolio, there could be a small uplift in there. It's not in the numbers yet. Their portfolio bears a reasonable amount of asset risk. It's slightly less yielded than our portfolio. There is some room to add mortgages and real estate. If you compare the Loyalis investment portfolio to ours, (28:26) not in the numbers at this point in time. Similar to Generali, we think that re-risking an asset book is never the key reason to do a deal or to justify doing a transaction. So, the ROIs that you see are solely based on operating and underwriting synergies. Re-risking itself is the icing on the cake, which is not justify the case.

So you're looking at relatively single-digit numbers. If you look at the asset base and what you can do, there's a couple of million we could add probably, but that's not going to move the dial. And in terms of the cross-sell, something similar, we can see opportunities for cross-sell, but we haven't quantified them yet, maybe Jos you can elaborate on those.

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

Yeah. I would – you know us as very conservative, so we haven't issued any topline cross-sell assumptions going forward as (29:19) and closing, we will start developing plans with the management team on what the product demand from their customers is, which we can add back, for the time being we have said let's assume no further additional growth to justify the business case. So this business case is based on the current product suite without any future cross-sell involved.

## Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. That's very clear. Thank you very much.

## Operator

Thank you. Now we move on now to our next question, which comes from Robin van den Broek from Mediobanca. Please go ahead.

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

Yes. Good morning, gentlemen. Congratulations on the deal. My first question is what kind of cost per financing have you assumed in the €35 million of OCC you've guided for? That will be question one. The second one is, you lean back on the 140% Solvency II ratio. I think that was also the rebase you used in the Generali Nederland's deal.

Now, I was also wondering this doesn't really talk about the quality of capital. Loyalis clearly has no debt on the balance sheet, so that that 140% for them is a lot better than it would be for potentially other assets. So I was just wondering if you could explain to us how your rebalancing act on the capital position works if there would be more leverage in place. And on the last question is on whether this deal makes you come closer to the potential incremental model validation process? Thank you.

## A - Chris H. Figee {BIO 18815839 <GO>}

Robin, I will ask quick question, and a bit a little more clarity and clarification on the second question. So, on the first question we assume a small couple of million cash out for the year, with a funding (31:10) at the bank loan work. The all-in funding for a one-year bank loan including commitment fee, renewal fee, interest rate fees is probably up to 70 basis points (31:20) which mean our negotiations haven't been closed. So we will not (31:23) there yet, so think about €2 million to €3 million of financing cost can be – and you have seen in the first year, for latter years we have not yet included those as they depend on the transactions – on the final deal we will make, but in principals you've got €2 million to €3 million in the first year?

And the second question, well, I'll pick up your third one, both as being as close to an internal model, a tiny step but not the final step so to speak. So it has a €3 billion AUM portfolio to our assets, the re-risking will be done in areas of mortgages, and real estate that, to some extent, are less affected by the internal model; real estate a bit more. Internal model helps, but this is not moving to dial or making the final call on requiring internal model (32:18). It still works standalone with or without an internal model.

And your second question, could you elaborate – I couldn't (32:26).

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

I mean, Loyalis, basically, all the own funds are – is on unrestricted Tier 1. If you would look at – I guess the big elephant in the room here is (32:37) you have a lot more Tier 1 and Tier 2 capital in there as well. If you then would do a rebase of capital towards 140%, you could even argue that, yeah, (32:48) has excess capital. So, just wondering how leverage basically is affecting that excess capital within these M&A frameworks.

## A - Chris H. Figee {BIO 18815839 <GO>}

(33:00) Robin, I think I'll – let's keep this call to Loyalis, not hypothesize or speculate on a file that may or may not come. On the Loyalis situation, look, this business is actually fully debt-free. And what I find very important is not so much on the leverage, but also specifically about the VA and UFR. Loyalis, our estimate, if you exclude the UFR, exclude the VA, it would still have, for example, in Life, a solvency north of 140%. In IFRS, Loyalis Life solvency, (33:34) 149%. And in P&C, it would still be around the 170% mark.

So, I think at this point, we think it's fair to assume that, for this transaction, we did a normalized business, not sensitive to UFR, not sensitive to VA, that our existing management letter is fully consistent and could be applied in this case. And in essence, I am more looking at sensitivity to assumptions, mostly UFR and VA, to be set to 140% level of business. If you would buy (34:06) different leverage situation, we may want to revisit it, but in (34:11) transaction both Generali and the Loyalis business without leverage and we are very limited to UFR, VA sensitivity, we think the 140% makes perfect sense.

By the way, if you were to run the number at say 160%, that means our capital commitment, the fungible capital would be roughly €60 million higher. So, we did (34:37) what if we did not defined fungibility on 140%, but on 160%, this €200 million ultimate capital commitment would become €260 million, (34:49) €260 million, the deal still holds. So, even if you do the transaction, the numbers on 160% basis, it's still the north of 12% ROI. And secondly, you still are north of beating, for example, spending the same of capital on buying back our own shares. So, in short summary, we talk about Loyalis-only sensitivity to UFR and VA is more important than leverage at this point in time. The 140% holds for us, holds for them, holds for Generali, but also at 160%, the deal is still (35:28).

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

Thanks for that, Chris. I agree with you by the way.

## Operator

Thank you. We will move on to our next question, and this comes from Albert Ploegh from ING Bank. Please go ahead.

## Q - Albert Ploegh {BIO 3151309 <GO>}

Yes. Good morning, gentlemen. Two questions from my side. First one is, maybe on the customer base currently of the Loyalis (35:56) I think it was mentioned. Yeah. What percentage is that basically, what you would call, civil servants? Because I guess Loyalis is also opening up to, let's say, (36:08) customer base as well. And you mentioned retention rates are still high. Can you give a bit more color what they are and what the trend has been in recent years as far as you have to post that information?

And the second question is related to the cost synergy potential of €10 million, €15 million, and let's say, the guidance of OCC and net operating result of €35 million to €40 million, where you put a year 2022, of course, still some years away. So, can you maybe give us a bit more color on the phasing of that? I guess, (36:46) largely due to the let's say consolidation of total Life portfolios. Little bit more color would be helpful there. Thank you.

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

To your first question, roughly 80% is in the area of universities, schools and civil servants of the portfolio, mainly Disability portfolio, and 20% is in the area of large corporate institutions like, for example, some hospitals. So, hopefully that answers your first question. And that's the area where we aim at further growth going forward, but what is not yet included in the deal specifics and in the financials. And, Chris?

## A - Chris H. Figee {BIO 18815839 <GO>}

Yes. On the synergies, I think about the only worry is in the initial set of synergies in 2019, mainly around the asset management stage, where in-house – the asset management today is done by APG. We'll bring back the asset management to our own business and that of course is highly capable activities.

Secondly, there are some cost allocations from services provided by APG to Loyalis that (38:09) a.s.r. So, in essence, there will be some savings early in the year one, think about something like up to €5 million in 2019. That will move to around €8 million in 2020. When you think about in 2021, you're pretty close to the run rate of up to €50 million synergies. So, in the first year, it's savings on services provided by APG, that a.s.r. will take on board with very limited additional cost, and then further cost savings will commence in 2020 and mostly 2021. And with that 2021, you will be looking at closer to €50 million run rate synergies.

## Q - Albert Ploegh {BIO 3151309 <GO>}

Okay. Thanks very much.

## Operator

Thank you. We will now move on to our next question. That is from Steven Haywood from HSBC. Please go ahead.

## Q - Steven Haywood {BIO 15743259 <GO>}

Thank you, and good morning. Just to clarify on one point that you mentioned about a low 90s combined ratio. Could you be a bit more specific on that combined ratio, whether that's been achieved or whether that's sort of the forecast you expect to get from Loyalis?

And then, secondly, on your service book consolidation process, can you remind me of where we are, particularly with regard to your internal books, your Generali Nederland book, and then what – where the Loyalis book will come in to the sort of consolidation process here?

And then, finally, is there any chance you can give us a.s.r. standalone Solvency II ratio or sort of guidance towards what it should be for the end of Q3 or even for the end of November? Thank you.

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

Hi, Steven. This is Jos. On the combined ratio (39:54) we recalculated their combined ratio based on our way of calculating the combined ratio, and they had been in the space between 85% and 90%. So, if I say low-90%, I actually mean it's 90% or even a bit lower. And that's within the target range of our own Disability targets going forward being between 92% and 94%. So, this perfectly fits in our Disability targets going forward, and we don't have to do a lot of repairing on that like we had to do in the Non-Life business of Generali, for example, where the combined was above 100%. So, it's a healthy portfolio.

On your second question, Steven, where are we in the integration of the different individual Life books, we had finalized all the own books except one, that was actually an outsourced book to India. We're now considering whether we should insource that again and bring it over to our own Software-as-a-Service platform. If and when we decide to do so, then it will be gone half 2019. So, the half is next year.

Also, the Generali integration will be finalized somewhere in the second or third quarter next year. So, if we take three to four months for closing the transaction of Loyalis, preparing the integration of the Loyalis book, we will be able to start the integration of the Loyalis book as from the end of 2019 and finalize it, as I said in my introduction, in 2020.

## A - Chris H. Figee {BIO 18815839 <GO>}

And to your question, Steven, on solvency for Q3, well, we don't disclose solvency on a quarterly level, so let's not go into there. But the numbers you can see on the pack were on the pro forma half year numbers. Without disclosing too much, I think you'll be very safe to work with these numbers and the ranges.

## Q - Steven Haywood {BIO 15743259 <GO>}

Okay. Thanks very much.

## Operator

Thank you. We will now move on to our next question. And this comes from Bart Jooris from Degroof Petercam. Please go ahead.

## Q - Bart Jooris {BIO 3470300 <GO>}

Yes. Good morning. Thank you for taking my question. Only one strategic like and another one is more of a little bit detailed. So, first, on the Life for Loyalis, is there any unit-linked, any DC in there? Or should we just see this as additional service books that will be run off? And how is the maturity hedging of the liabilities regarding the reserves?

Talking about reserve, there are €3.4 billion, while in the press release, you're talking about asset managers of €3.1 billion. Could you explain the difference? And then finally, probably on the cost savings, there will be some restructuring charges. So what is the amount and the timing of this? Thank you.

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

Bart, could you please repeat your first question, because we were already...

## Q - Bart Jooris {BIO 3470300 <GO>}

(43:19)

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

That was on?

## Q - Bart Jooris {BIO 3470300 <GO>}

On the Life...

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

Yeah. Yeah. On the Life portfolio. Yeah.

## Q - Bart Jooris {BIO 3470300 <GO>}

Yeah.

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

We have looked into the Life portfolio, there is a small – a very small amount of unit life policies involved. Hardly any legal cases on them, and they have delivered on all the agreements that were made with the government and with AFM to deliver on compensation. So, from a risk profile of the transaction, our judgment is that we are not onboarding additional risk on the unit-linked file.

And then, on the difference between the €3.1 billion and the €3.3 billion, the €3.1 billion is the assets we are going to manage ourselves. And if you look at their balance sheet, there is some liquidity and the difference between the €3.1 billion and €3.3 billion is mainly liquidity.

## Q - Bart Jooris {BIO 3470300 <GO>}

Okay. (44:35) maturity hedged liabilities assets?

## A - Chris H. Figee {BIO 18815839 <GO>}

Bart, it's Chris. We have a slightly different hedging profile, and the existing hedging profile by Loyalis is more aimed at protecting the IFRS balance sheet and less on Solvency II, because they were in IFRS mark-to-market balance sheet. So, their hedging strategy is slightly different from ours. (45:04) our strategy will, once we control the business, moving to our interest rate hedging policy, which effectively is a combination of duration of the maturity hedged.

We try to be as much as possible (45:17) in terms of our duration, but effectively, there will be some practicality that not only require you to completely (45:28) especially for long dated dues, but fair to say that the relatively short maturity book of Loyalis will be when it comes into our balance sheet, predominantly, be cash and maturity hedged.

## Q - Bart Jooris {BIO 3470300 <GO>}

And then, the cost of all this integration and restructuring? Thank you.

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

Then, on the timing, we assume that all the integration is done in end of – mostly it'll be done end of 2020, and well – on the cost – and the results of (46:18) 2021. And on the cost, we haven't yet disclosed an exact number, but given our experiences in integrations, you can assume that the numbers we have presented and those already includes the integration cost that they are fairly conservative.

## Q - Bart Jooris {BIO 3470300 <GO>}

Okay. Thank you very much.

## Operator

Thank you. And we will now take our next question from Benoît Pétrarque from Kepler. Please go ahead.

## Q - Benoît Pétrarque

Hi, there. Good morning. Just one on the combined ratio side, could you talk about the (47:07) cycle combined ratio for the business? Obviously, (47:12) business well particularly. So, just wondering how is the behavior in terms of combined ratio (47:21) that's seen in the books. And related to that, is the 85%, 90% kind of average cost of cycle or we kind of currently only expect in the current cycle? Thanks.

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

Thank you, Benoît. Over time, we have seen a relative stable development of the combined ratio of the last – by heart, over the last five years at least, which has been consistently based on our way of calculating the combined ratio between 85% and 90%, so it's a very healthy and stable portfolio going forward. And that's what we'd assume that we are able to continue to deliver going forward.

## Q - Benoît Pétrarque

Thank you.

## Operator

Thank you. Now, we'll move on to our next question. And this comes from Robin van den Broek from Mediobanca. Please go ahead.

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

Yes. Sorry to come back on the cost of financing question I asked before, but, Chris, if I understand your reasoning during the call correctly, you indicated that Tier 2 financing would be the most logical way to deal with Loyalis. I think Tier 2 correctly has a yield of 4%. And when I asked the question what's baked into that €35 million of OCC, you seemed to imply that that's not 4% of the potential financing, which would be roughly – yeah, probably more than half of the €35 million, if you pay 4% on the €500 million. So, am I seeing something wrong here or could you elaborate a little bit?

## A - Chris H. Figee {BIO 18815839 <GO>}

Yeah. (49:03) is no, indeed. We've baked in the one year (49:08) cost in the OCC. Going forward, the new realm, we haven't. Although at the same time, if you were to raise €500 million of hybrid, that would probably change the asset allocation for business somewhat because that will mean you'd have more capital spent on the (49:25) side. So today, we keep the asset mix as it is. And that's why we're spending 9% points of solvency on this.

If you were to fund it with a Tier 2 hybrid, which, for example, could cost you €4 million, you have say €500 million of capital value (49:40) supporting the further risk allocation that would also be added to the OCC. So, if you do the OCC number correctly, you take up some funding costs but you add more market risk income at the time, if you could have more €500 million of more capital in your base. In today's situation, we spend 8% of solvency points, but we keep the existing investment portfolio. So, both sides (50:07).

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

And you would assume that those sectors basically cancel out against each other, if I understand you reasoning correct?

## A - Chris H. Figee {BIO 18815839 <GO>}

Yeah.

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

Okay.

## A - Chris H. Figee {BIO 18815839 <GO>}

Yes.

## Operator

Thank you. As there are no further questions, I will now hand the call back to Jos Baeten for any additional remarks.

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

So, thanks for attending this call. As you can imagine, we're very happy with this transaction. Hopefully, we have clarified some of the questions that we got already this morning when we announced the transaction. We think from a strategic perspective, but also from a financial perspective, it is very, very value creative transaction, which perfectly fits in our strategy to build an ecosystem in the area of disability. And as you may expect from us, we will deliver on the integration targets that we have set and also we will deliver on the timeline.

So, this concludes, from our perspective, our call. And thank you for attending. And for those attending one of our colleagues in the U.S. have a great day in the U.S. the next week. Thank you very much.

## Operator

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.