Capital Markets Day

Company Participants

- Chris H. Figee, Chief Financial Officer
- Dick Gort, Chief Executive Officer, a.s.r real estate
- Jack Julicher, CEO-a.s.r. asset management
- Jos P. M. Baeten, Chairman-Executive Board & Chief Executive Officer
- Karin T. V. Bergstein, Chief Operating Officer
- Michel H. Verwoest, Member-Executive Board & Chief Operating Officer
- Michel Hülters, Head-Investor Relations & Ratings
- Patrick Klijnsmit, Director, Group Accounting, Reporting and Control
- Philippe Wits, Chief Innovation Officer

Other Participants

- Benoît Pétrarque, Analyst
- Claudia Gaspari, Analyst
- Cor Kluis, Analyst
- Darius Satkauskas, Analyst
- Farooq Hanif, Analyst
- Farquhar C. Murray, Analyst
- Hadley Cohen, Analyst
- Jason Kalamboussis, Analyst
- Johnny Vo, Analyst
- Matthias de Wit, Analyst
- Robin Eduard van den Broek, Analyst
- Steven Haywood, Analyst

MANAGEMENT DISCUSSION SECTION

Michel Hülters

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 of you attended our welcome dinner yesterday evening. So I'd just 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 the journey later on. Good to have you here. I would also like to welcome the investors that are watching this on the live webcast. Glad you're joining us in this digital way as well.

I'm Michel Hülters. 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 our COOs, and they will present the developments and opportunities they see in the businesses for the coming years. And then this afternoon, we have four 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 robotic 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 segment.

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 you 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 two requests to make. First, we have a disclaimer with any forward-looking statements. It's in the back of your presentations or if you would have a look at that as well. And secondly is if you could please make sure to switch off the sound of your mobile device, so the program will not be interrupted by any bleeps or blowings (04:00) 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're 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 the comparison of an IPO with riding a roller coaster.

However, since with IPO, 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 Magic Mountains. 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 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 these slides you will find all the key topics that have been discussed during the two-and-a-half years of our listing. As said, we became listed in 2016 and within a timeframe 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.

Yesterday evening, we had this dinner and those of you who were present were able to meet three energetic (08:15) 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 the 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 topline 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 three 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 two 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 social 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 of that is in how the people that know a.s.r. are 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 two 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 records. Secondly, and that's another example, we've been proving that integration of bolt-on acquisitions is in the DNA of a.s.r. It proves our ability to grow not only organically, but also inorganically and getting more operational efficiency out of that. A lot more can be shed about this slide, but will become more apparent during the rest of the day.

The four strategic principles on this slide maybe well-known to you, and they will remain the driver of the value of our organization. The overarching strategic principle is and will be also in the future, value over volume. We can subsequently differentiate this into four key principles and that's the way how we steer a.s.r.

First of all, as said, we are here to serve customers, period. Two, to remain competitive in the Dutch market, which, as you may know, is not a very fast-growing market, it is key that you as an insurance company, are disciplined in pricing, underwriting, and claims handling. And we want to be the best in that in the Netherlands.

Third, we apply a no-waste principle in how we approach costs. Cost effectiveness is not something you do every once in a while. Cost effectiveness in the Netherlands needs to be part of your DNA. It is the fundamental under a sustainable business model going forward.

And the fourth, we are a capital-generative company and that's derived from our very resilient and well-diversified balance sheet with a very strong solvency. Our solid capital base enables us to be able to absorb shocks to capture future growth through, as well, acquisitions, as organic growth. These four principles, as said, drive the value of a.s.r.

So, let's have a look at the targets we presented at the time we IPO-ed the business and our delivery. To cut it short, we managed to beat or to achieve every single of those targets. Our Solvency II ratio is comfortably above 160%, while we were able to absorb bolt-on acquisitions and regulatory change, for example, the acquisition of Generali did cost 9 solvency points.

We beated (15:15) our up to 12% operating return on equity consistently. And without further large storms in the rest of this year, we will also beat the combined ratio targets of 97% for the full year. The medium term is not over yet. It will last until the end of the year, but we are pretty sure that we will be able to beat our OpEx reduction target of €50 million by the end of this year

And one obviously does see the impact of adding businesses and portfolio on our total operational expenses. This performance resulted in favorable returns for our shareholders. We are proud that we have been able, over the last two-and-a-half year, to distribute a growing dividend since the IPO. In this period, we have distributed over €750 million of capital to shareholders. And out of that €750 million, over €250 million was used to support the smooth exit from the government by buying back €9 million shares. It is our ambition to grow our dividend per share while maintaining in the area of 45% to 55% of our net operating result after deduction of the hybrid debt expenses.

And if we do not see enough profitable opportunities to deploy capital, we will not hesitate from investigating in which way to distribute capital over and above our dividend policy. Besides this, most of our investors have been with us from the beginning and I think all of you benefited from the development of our share price since then.

So, let's now move on to the targets that we have set for the next three years. And I'm aware, this is what most of you are waiting for. Let me start with the group targets we announced today this morning with our press release at 7:00. We will continue to run a.s.r. with a strong capital position and a target Solvency II ratio comfortably above the 160% for the coming years that is still based on a standard formula. This enables us to deploy capital for organic and inorganic growth for entrepreneurial purposes.

Given the strong performance in recent years and the confidence we have in our business for the medium term, we increased the target operating return on equity to a range of 12% to 14%. This is in line with our hurdle rate of at least 12% when we do inorganic growth. And to be clear, the 14% should not be read as an upper limit. Organical (sic) [organic] (18:34) capital creation is a newly introduced target. We aim for an OCC to rise from last year's €377 million, in 2021 to €430 million. And this is based on the current assumed excess returns and increasing forward rates and it's based on a.s.r. as it is.

Then our dividend policy, we keep it unchanged and at, as set (19:05), a stable growing dividends per share going forward. And no surprise I think is that we like to be in the single A area in terms of the S&P rating so that is unchanged.

Regarding financial leverage, there has been a lot of discussion about our leverage target of 30%. We have decided to increase the maximum level to 35% and we are comfortable with reflecting the view we take on this. We believe the new target brings us in absolute terms more in line with our peers and is based on the underlying basis that better reflect some of a.s.r. specifics, like, for example, our shadow accounting.

We also announced new business targets, and those are, given the markets we are in, very, very challenging. And P&C and Disability 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 product line that is more prone to political scrutiny and our target 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 (20:49) 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 target. As you know, the Dutch market in Non-life is not a growing market. Despite that, we intend to grow organically between 3% and 5% over the next three years. So, the combined ratio targets 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 two 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 €633 million. We remain confident that in terms of earnings, we can maintain the level of 2017, I said (22:38), for the next three years. And secondly, in Life, we are very focused on managing our cost 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 €40 million of operating results of the combination of the two 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 €40 million level, we aim at a grow 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 of positive Net Promoter Score of 40 points, and we aim to grow this already very positive 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 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 measured the carbon footprint and as well our sovereigns and corporate portfolio, as well in equities and as 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 announces such a target going forward. And in addition to that target, we aim to invest up to €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 our employees' time to help individuals, families, 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 three 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 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, I said (28:48), continues to be our key principal when selling products and services. We, of course, pursue volume growth but will 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 market will be continued to look at, as well 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 I said (29:53), 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 that 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 familiar with this level. It 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% (30:31). And with the current report solvency level of 194%, we for sure are in the entrepreneurial zone. So, the question raised here, the answer to that is clearly, yes, we are above that zone and we are on the lookout for profitable growth.

And we see three 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 & Services and in Asset Management. And other value additive way to growth that 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 life market in the Netherlands as well.

And last but not 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 and we can't meet our re-target (32:11) 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 at its – 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.

Selective Distribution & 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 two 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 at the very – to realize 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 (sic) [Pensions DC] (34:43).

And to conclude on this slide, we also have noncore. We had it in the past, and we recently decided that we need to move the Bank to this area. We are in the middle of a process of evaluating opportunities for a.s.r. Bank going forward. But as from today, we consider the Bank to be noncore.

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 to grow profitably in the Dutch very competitive markets lies in the following unique selling points. First of all, our insurance craftsmanship, and with that we mean, first of all, our underwriting skills – those 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 one out of three policy studies that come 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 cost 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 cost 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, altogether, 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 asset (38:51), especially in the area of self-employed people that has become increasingly important. And to repeat our targets for the Non-life insurance, we have a growth target of 3% to 5%, and that within a combined ratio target of between 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 comprised, 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 owned books and acquired books.

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 € 633 million. And we intend to lower the cost from 57 basis point to 45 – to between 45 basis points and 55 basis points of basic provisions.

And then, lastly, our growth pursuit in the Asset Management area. Growth of our Asset Management businesses was already targeted when we IPO'd 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 (sic) [Pensions (42:41) 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 this 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. And we aim to achieve asset and operating results from this segment of at least €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 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, (44:07), 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-markets, we have identified roughly €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 €1 billion out of the €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 €20 billion of provisions. So, all in all, in those three 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 cost 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.

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 when 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'd 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.

Chris H. Figee {BIO 18815839 <GO>}

Jos, thank you very much. Ladies and gentlemen, good morning. Great to have all of you in this room. It is a large number. And great to have – could you sound off please? Well, it's great to have people on our webcast.

For those of you who've picked up a booklet when you came in, there's some information on the art in the room. We're joined here by the two brothers de Witt (49:31) and [Technical Difficulty] (49:33-49:42)

Is the sound on? Sorry. [Technical Difficulty] (49:44-49:49) Okay. Okay.

Apologies, guys. I'll be re-mic'ed, it appears.

Okay. Yeah. Not yet? I guess we are. Very good.

So, I was trying to say, we're joined here today by two gentlemen, two distinguished gentlemen, the two brothers de Witt (50:19). They guy on the left-hand side is Jan de Witt (50:21), where he was the first actuary in the Netherlands living here in 1600s. So, when I'm talking about the Solvency II actuary of our XVA (50:30) with the DTA-adjusted tier margin (50:32), at least one of it is in this room who will enjoy that conversation.

Secondly, sorry to say, they – he actually didn't live very long. He was beheaded by the relevant authorities at that time. So, when you talk about vigilant regulators in the top DMB (50:47), life ain'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 three 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 and-company than an or-company. And I mean, a.s.r. is a company that is able to deliver actually 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 shareholders. We're an and-company. We're a company that creates a continuous flow of profits of capital on an 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 accounting and capital release, there's 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 €750 million of cash distributed to our shoulders since 2015. So, the group 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 four quadrants that Jos already mentioned, the matrix that Jos produced, each of those four segments have shown attractive earnings levels in an absolute terms and growing earnings levels over time. Whether you look at our Non-life businesses, where we also plotted the Distribution businesses, whether do 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 noncore operations. In 2015, pre-IPO, we made additional renovation 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 noncore segment as well.

In terms of earnings, the Bank has been relatively flat in the past year. So, think about a 0+1-1 type of result in the past year. So, the Bank has been included in the noncore graph, but the actual numbers are relatively, relatively small.

And the Asset Management business is now at €10 million sustainably, 50/50 spread between real estate business and the classical capital market estimate of the 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%. Somebody who loves IFRS 17% (54:32) 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 to the pace at which we've been adding results and adding earnings, the E will catch up, putting something a 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 the 12% to 14% range. We will not drop below 12%. We did some numbers analysis on last year's earnings. For ROE to drop below 12%, the E would need to be above €4.4 billion. It will take quite some time before we get there.

But the ROE range is 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 outperform businesses as we're running it. So, strong ROE on a growing book of equity, and we continue to have an ROE substantially north of the cost of capital.

Let me now 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 – and a strong stock creates more capital, gives you more stock to create 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 of fact, the own funds that we have, whether it's the complete owned funds or the unrestricted T1 owned funds, have been growing at the rate almost double the rate of the required capital growth. So, we've outgrown the required capital twice in term of availability of funds. It did actually cost the Solvency II ratio to increase over time, from 180% in 2015 to 194% at the end of last year, in spite giving back €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 business, the acquisition of Generali, added Non-life capital requirements. The other half is 50/50 in Disability and Life. And the Life growth in required capital in Life mostly was for longevity. And that's a technical thing.

If interest rates fall, the charge from longevity risk goes up. So, if you think about the growth in our insurance risk capital, half of it is P&C; a quarter of it is Non-life Disability; and a quarter of it is the increased longevity charge due to the 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 its 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 actually reached the 50%. We have no plans to get there. But there is flexibility to add market risk if we see opportunities to do that. The small re-risking program that we announced in the half-year will move to 43%, somewhere to the 44% or 45%. So, that's a level that we're actually quite comfortable with.

So, I would love to say, I'll leave your (58:53) take on that. We can add market risk. We will probably not go to the full amount, the maximum 50%, and we'll do it very diligently and with very much in mind with where the market actually is. But in summary, own funds are growing 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. Would you take the solvency as is? Simply, solvency number that we produce exceeds 160% entrepreneurial norm by a significant margin. And also, if you already take into account the mandatory unavoidable decline in the UFR, our Solvency II level today would be at 183%. So, if we already took into account a UFR of 3.6%, the target UFR that we appear to be driving to, our Solvency II would be 183%, significantly over the 160%.

The second method, the more economic view, i.e., take a UFR that's consistent with our investment returns, a UFR of 2.4%, Solvency II would be 154%, 158% mark depending a bit how you work off tearing (01:00:05). The official number is 154%, substantially above 120%. So, whether you take the headline number or you take the 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 (01:00:41), that ratio would still should be in the 110%, 120% range. So, the own funds ex-UFR, ex-VA with no DT (01:00:50) at all would also be north of €3 billion.

So, whatever perspective you take, the headline number, our own economic number, when you take S&P 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 growth sensitivities of various movements, spread movements in sovereign bonds, corporates spread movements, rate movements, and equities and real estate. You can show the various implications of an adverse market movement. We could absorb those adverse market movements. Actually, if you were to add up these movements, so if you took on the sovereign spread, the credit spread impact 100 basis points lower yield and equities 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. I definitely have bad night's sleep over those stock – over those shocks. But the group would be 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 (01:02:41).

Our group does not depend on a huge amount of diversification. That shows a great level – group solvency not founded into business solvency in our situation. Solvency is strong at the business and at the group. There is a 10 points level 3 diversification (01:02:58), but that is not the driver of the solvency of a.s.r. Solvency is strong at group and 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 founded into 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 (01:03:41) 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 that you can raise. Solvency drives the instrument you can choose.

If you look at our leverage, we reported 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 the adjustment for the LAT (01:04:22), the adjusted solvency (01:04:24) 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. Not 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 do – we were to find attractive ways to spend that money.

And our Solvency II regime allowed us to pick and choose instrument. We have had room in each and every instance 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. And for illustrative purposes, if we were to go to the upper end of our leverage range to 35%, that would mean around €900 million of additional hybrid capital we could raise. The interest cover at that situation would still be around 6.5 times, also safe in the singe A ratings. So, think about €500 million to €900 million of leverage we could add, raised 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 as part of prudent and responsible financial management, you should look at those other indicators in sync, how much asset risk this one have, how much financial risk this 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 I 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 than where the market is. And by risky assets, we define equities, real estate excluding rural. Rural with 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 non-investment grade or not rated. That, lumped together as risky asset group related to our Q1 capital, is about 100%. So, 1 times (01:07:16) 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 the Solvency II perspective or 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 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 and average to slightly below average market – asset leverage. So, combination, it shows you a robust and very solid balance sheet.

Now, of course, we could re-risk our business. We had some discussion yesterday evening: are you willing or able planning to massively re-risk 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, €80 million of capital. That €80 million of capital buys you around €150 million of equities and €500 million of investment grade credits. That's what you can afford spending €80 million of capital. That would bring your market risk or our market risk to about 44% of total risk. That will bring the asset leverage from 105% to 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 €350 million more required capital. Then, you're talking about 15 points to 20 points of solvency that you'd spend. Now, it's unlikely that we'd spend that amount over time. Think more of a gradual continuous optimization of your investment portfolio in line with the viewpoints that we're doing this year. Think about investing in real estate, think about investing in mortgages, because they're two 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 continued optimization of market risk, but by far and by and by sure another (01:09:33) big asset play going forward. And furthermore, we've developed a number of tools that allow us to optimize the return on capital in the investment grade space. So, a toolkit 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 said asset class and said maturities? 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 with 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 (10:10:29) always difficult to determine, because the solvency ratio from one year to another, you look at the difference between two ratios where the numerator of the ratio was an NPV number. So, dividing that up into buckets is always a challenge, is a calculatory challenge. The Jan de Witt (01:10:43) would have loved it.

We always take three perspectives to give the full story. There's not one number that you can use to identify the flow of a.s.r. But we look at what the business capital generates or the business cap generation. We look at the organic cap generation for business plus the release of the book, and we look at the total amount of own funds that the group generates.

At 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 today it is the business cap gen, plus the release of capital from our book. And we look at how much own funds we generate, irrespective of what the required capital does, is the group able to sustainably and considerably and structurally add own funds over time. Those three metrics drive or determine your view on a.s.r., determine the view on how we're actually doing. And those numbers have shown favorable developments 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 own funds generation over time. And the latter's 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 own funds consistently over time, irrespective of what you do with the required capital.

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

So, we found it's fully better reflection of reality to give on the business cap 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 on the book. It all uptakes the numbers in total don't change, it's through the allocation of risk margin consumption from one book into 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 the business cap generation plus the returns of the book, has developed favorably. We believe €430 million is feasible in 2021. So, €430 million of organic capital generation in 2021.

Please note, there's no model change here, no methodology change here. We've had further discussion review 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 about €2 million a quarter, about €9 million for the full year. And last in this year, the understatement was about €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 on a fixed income perspective. So, we feel very comfortable with this number because the actual investment spreads actually would give you a higher number there this year. But again, no modeling changes when announced the target. The target is according to existing way of working.

We believe we can move to €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 is being generated, ultimately, is generated by the business. And if you can see on this graph, each of the four segments contribute to the generation of capital.

I would say, jokingly, there are very few non-alcoholic 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 these acquisitions. The Asset Management businesses have delivered fee income over time. And on non-core businesses, we have contained the risks, we've sold the largest part of the Leidsche of the real estate development business, Leidsche sentiments yet to come, and we move the Bank into non-core.

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. Which is also shown if you go into the numbers. This chart shows you that capital allocated to the various business lines and the ROE produced in 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 (01:16:22) number in the first half of the year. Excluding that storm (01:16:26) 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 would also add 1% to the ROE of the Non-life business. So, Non-life, safely in the value-creating zone.

Life business, also ROE's 12% to 13% in operating basis, including capital gains on an IFRS basis more than 15%. The Asset Management business, ROE's 11% going to 25%. You can see a benefit of scale. Once you get to a certain huddle, once you get the scale, the ROE of Asset Management goes up very quickly. And you can also see the noncore 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, will convert into earnings. Ultimately, we'd love to give capital back to shareholders. With a pay-out ratio of 45% to 55%, we can pay out €230 million of earnings. And we can also test that level with the business cap generation or the organic cap generation, and you get implied pay-out ratio 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's also room to grow, room to increase our pay-out going forward.

We just confirmed, historically, if you look at the long-term view in 2016 and 2017, the pay-out ratio was around 45% of our operating profits. 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, fair distribution of what we generate in capital to our shareholders but also with some upside going forward clearly in line with, I just stated, a stable growing dividends over time.

A few words on holding cash, a much debated topic, this having holding cash make a difference. We think it doesn't. Our opcos are strongly and sufficiently capitalized. Our group is efficiently capitalized. We're one country, one jurisdiction with own 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 fundamental rationale to upstream capital. We like to keep the cash and the capital at our holdcos.

There is opco cash, of course, but as 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 cost, 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. Well, I don't think borrowing money to keep holding cash is a good idea. But if you want to, you could add the undrawn holding cash facility to a holding cash, which is north of €300 million. It's undrawn but it could be continuous cash or near cash, because you would get 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, where 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 with the holding cash.

And as you can see as well, because the own 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. So, in our perspective, holding cash is a business – has a business function, but a signaling function, and cash is readily available to upstream if and when we need it.

This embarks (01:20:48) the question, the areas are, what are you going to do with all these capital? How are you going to deploy these in a most value-creating, most value-enhancing way? The two numbers to remember are and 10% and 12%. In our philosophy, the cost of capital, the cost of equity – or to be very precise, the cost of unrestricted Tier 1 – we assume at 10%; and a 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 area in Non-life and Asset Management is value-creating business. We'd love to grow our capital or business organically. That doesn't consume much capital but, of course, it's priority number one.

Opportunity, too, is we could invest in market risk. Again, the return on the underdiversified capital should be substantially north of 10%. I mean, we are here to meet or exceed the cost of equity. So, when you invest in market risk, the return on the diversified market risk cap allocation should be north of 10%. We've done that in the past. Last year and this year, we've spent a number of solvency points investing in market risk, also cognizant to where markets were. 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.

And finally, we believe we can invest in inorganic growth opportunities. Jos alluded to those. But again, only and always if the return on investment, the return on unrestricted Tier 1, exceeds 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 the reasonable payback periods and will always be tested against what would happen if we bought back shares for the same amount. Because does (01:22:49) the acquisition stand-up is robust in light of the obvious alternative? So, a disciplined framework for allocating capital, 10% and 12%, and three areas where we can invest our money.

If no deployment of capital is foreseen, we will not sit on it. We are not capital hoarders. So, I'm now 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 (01:23:34) 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 would deteriorate, spreads will 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't spend it, yes, of course, we'll give it back to shareholders.

Many of you have asked us, where is the number and what number will you start giving back capital to shareholders? Unfortunately, I can't give it to you. That number is – we got – it's a bit like the Higgs particle in physics, you know it exists but it can't be observed. And when you see it, it's gone by definition and you can't see it. And we know it exist, you can infer its existence, you know roughly where it is. But you have to build a multibillion certain tunnel directly tied 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, there's a range that's indicative for it's hard to spend all these capital. Now, that range we can develop, we think, together. And that range, I can give to you. It's a three-digit number, the three-digit number that indicates where the discussion on capital returns should start.

And the three-digit number, I think, it's us for management to set the first number. We think it's a two. The second number, we allow our shareholders to set. I think it's a pretty low number, a zero or a one. 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 cannot consume – return capital. There's no precise address number to tick 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 is not a range of very attractive investment opportunities out there that we could spend the money 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 tipping. 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 five seconds.

We generate capital from any perspective; OCC, UT1 (01:26:01), whatever do you take. We opportunistically raise capital. We have the 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, not an or-company. Generate capital, raise capital, deploy capital, and give it back to the shareholders.

We conclude to this page, but again, it's a summary, a 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.

That concludes my presentation. I guess Jan (01:26:39) would have enjoyed it. Hope you did, too. I'm ready for questions.

Michel Hülters

Absolutely. Yeah. So, Chris. Thank you. Very interesting presentation. We have our first Q&A session. Jos, can I also please invite you to the stage?

Q&A

A - Michel Hülters

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 (01:27:01) are in the room with a microphone, so everybody in the audience can hear, but also the viewers of the live webcast. Please state your name, your company name, and allow for two questions for each person per round, so everybody has an opportunity to ask a question.

Yeah? So, I see Benoit already raising his hands up.

Q - Benoît Pétrarque

Yes. Benoit Pétrarque from Kepler Cheuvreux. So, I was wondering why you're not able to link the dividends 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's strategy. I think banks are very important to grow the mortgage books. Now, you put it on noncore. Just wondering, in terms of implications for growing the mortgage portfolio and plug it to your balance sheet, what will be the implication of that? Thanks.

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

Okay, Benoît. 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. We think that today is a bit too early. I mean, IFRS properties still in operate using audited number. The definition of cap gen, having – we've made one small definition change. But that needs to be completely settled and stabled before you go there. At some point, we'll go there. I think, especially if you go to IFRS 17, in 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 the 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. 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 can get used to the ratios that are linked to that. And some point, when we go over, it feels very natural.

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

And Benoît, to your second question. Actually there is no relationship between the Bank and our mortgage business. Yes, it is the same management team, but the balance sheet of the Bank on which we decided that will become noncore doesn't mean that we are not any more in the mortgage business. So, our origination of mortgages will continue as it has been in the past. And as you know, we have a mortgage front, and we put some mortgages on our own balance sheet. So, the coming noncore of the Bank doesn't affect our ability to originate mortgages going forward.

A - Michel Hülters

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 €5 billion of unrestricted Tier 1 in there, a little bit over €5 billion of unrestricted Tier 1. Most of your double leverage, your hybrid, you inject down there is equity. It's about €1.5 billion. So, if you remove the €1.5 billion, you're about €3.5 billion. You have €2.6 billion of equities sitting in that entity against €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 – 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 get to that number very quickly. Thanks.

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

Look, Johnny, on your point, indeed if you look at the a.s.r. Life business, indeed 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 of underwriting result, will 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. See, a portion of our business is actually generating investment returns from our Life business. We look at asset leverage as versus the (01:31:44) secondary measure. Primary use, how much capital is in the assets that we make, how much capital is held against it, using the standard from without just 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 to me is a secondary indicator. You don't want us to be exploring it at group-level.

And where do you allocate assets to the Life or the Non-life entity? That's actually -that's more fungible in essence. But to your point, our Life business, as is part of (01:32:17) our Life book is effectively into runoff, that actually becomes over time much more an investment business over time. After the cap gen, we view these long-term investment assumptions. It's vis-à-vis 330 basis points over swaps for equities, 300 basis points for real estates, 110 basis points for mortgages, it's about 50 basis points for credits...

(01:32:44)

... 50 basis points for peripheral governments, and it's flat to noncore – for core governments. That is the marks that we use. We believe they are consistent with our long-term across the cycle assumptions, and we use a VA of 20 basis points. So, we accrue our liabilities in that model with a VA of 20 basis points.

If you compare to the actuals today, the mortgage returns actually exceed the long-term investment returns. Credits is kind of where it is. The 70 basis points is roughly what you make. And on govies, peripherals are today exceeding depending on which peripheral you take, seeing 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 the entire fixed income book, our long term investment margins underscore the actual spreads we make. And don't take into account total returns and equity in fixed income – equity in real estate. So, as I said, last year, the actuals versus LTIMs were about €9 million in the full-year and €7 million this half-year. So, I feel comfortable that we're not eating it to ourselves or promising returns that we can't make in the OCC number.

Q - Johnny Vo {BIO 5509843 <GO>}

Okay.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi. It's Farooq Hanif from Credit Suisse. Going to M&A, what you've done really successfully since IPO is using cash to buy things that probably a lot of VA I found out (01:34:16) didn't know existed, and added portfolios and it was small, and you're able to self-digest it very, very accretive as you've shown. So, what is your preference and what is that extra that you need from something that's really big to make it worthwhile and make it digestible for you?

And a 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 it in the past, so 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? Thank you.

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

Well, Farooq, to your first question, what is the preference? And what we've tried to convene today is that our preference is and remains small and medium-sized bolt-on acquisitions where, 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 what we have done it. And 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 our books are shrinking to levels that we can't afford anymore. We have a €15 billion book in our individual life market. But if you run a company with a balance sheet of roughly €150 million or even €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, because 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 level, 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 two medium-sized 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, 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 we'll do going forward for the medium-size and smallers.

And on financing, that's your hobby, Chris.

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

Well. I think the point I want to make is we've got financing flexibility. So, ideally, we'd fund the acquisition with cash or debt. That's the most value-accretive way to finance 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 didn't have to look at to go (01:38:21), what are you buying? So, those smaller mid-sized insurance companies come with 100% in their 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 sheet, and some has a lot of debt on their balance sheets. So, if you then take a pro forma like new core (01:38:42) perspective, larger companies that bring – that have their own debt already are a less prone or less qualifying to do equity debt financing.

So, think about smaller bolt-ons continue on a 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-financed. They don't lend themselves to use financing against it.

A - Michel Hülters

Okay. Cor?

Q - Cor Kluis {BIO 3515446 <GO>}

Yeah. Cor Kluis, ABN. Question on the partial internal model, are you already doing something internally to work a little bit on the internal model especially if there might be some delay on the IFRS 17? And in the past, I think you've said it's about to be take one-and-half years or something to implement such a system. Yeah. Is that still the planning or have you already done something in that respect?

And other question is on Generali, especially the Non-life business that some of that IFRS (01:39:44) 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 there or some disappointments or did something go better than expected there?

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

Yeah. 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 because we think that the cash out, the cost it requires to build an internal model, looking at something north of €30 million.

I mean, you can borrow and leverage some of the skills that are out there. There are consulting firms that have done it before so you can fast track it. But to use that work (01:40:30), the document work, we still think that's a €30 million project. It's one point of Solvency. Just spending that money to have a higher solvency ratio overnight doesn't do good for anyone. I don't think you can assume that we're merely 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, that internal model might be a very efficient way to raise the capital to fund the re-risking, then suddenly €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 (01:41:09) acquisitions in a couple of years' time, you find yourself with a bigger balance sheet, also then an internal model might be a very cost-efficient way to fund that. These are standalone; probably don't need it. In a big M&A or a string of multiple small M&As, at some point, it might become realistic.

Where are we today? We're, of course, doing pre-work. It's always good to think about to do some analysis on what would it mean to us, what would the 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 the preparation of the preparation phase, if you wish, (01:41:46) 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 be 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 IFRS 17 starts on time because we haven't had any formal guidance that it's going to be the case. But again, we have to wait and see, but there's – 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 year 2018. Was that a surprise? Not really, 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 exists out of two 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 re-pricing, re-evaluating the business and having discussions with the mandatory brokers. Then there is the so-called provincial part of the portfolio that is foreseen that we will integrate that into the a.s.r. framework latest first quarter next year.

We also will have to look at re-pricing 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 topline. Out of the €180 million, we expect that we will use a part of that. The number, I don't have this famous glass ball, so I don't know how high the number will be, but we prefer value over volume, as you know. So, if we need to get rid of parts of the business because we can't really re-price them, we will do so.

A - Michel Hülters

Okay. Claudia?

Q - Claudia Gaspari {BIO 15148414 <GO>}

Thank you, Claudia Gaspari from Barclays. Just one question on the financial criterias for M&A. You keep going back to this 12% ROI hurdle rate, but would you not require a higher ROI for larger deal given the larger execution risk, 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 is 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 it after you have done thorough due diligence on a certain M&A transaction.

So, if and when something big would happen and our judgment is that more risking is involved, we will definitely take that into account in our decision. And whether the hurdle rate becomes 12.5% or 13% or even 14% and what we allow ourselves, 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're able to integrate and what the perceived risks are.

A - Michel Hülters

Maybe Jos on that topic, can you also comment on the governance that we have in place when we're looking at consolidation?

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

Yeah. 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 ahead of conversation (01:46:05), 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 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 Hülters

Okay. In the back. Robin?

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

Yes, sir. Thank you. Robin van den Broek from Mediobanca. First question is on the operating results for Life. €633 million is your reference point. I think you printed €340 million in H1 2018 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, (01:47:59) 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 of what you said, I mean, your preference is to basically look at these rather than doing something large. Yeah. If the dialogue is basically heating up with these players, how would you look at this larger animal as well? Thank you.

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

Yeah, on the live results, Robin, I think the factors at play are, as you 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 some of them, 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, in 2008-2009, vintages and mortgages were extremely profitable. We're looking at spreads of over 300% at that time. They're 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 lowest spreads. So, affects at least (01:49:14) seasonality effects, re-risking helps, kicks in over time. There is some older returns 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 a great achievement when you see a book decline.

The result on mortality, how will it 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 results stable, some downward pressure on mortality result. And on the investment result, you need to work hard to keep the yield up because the older vintages years (01:50:02) 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 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 own for a long time, for example, by a Foundation. It's more a discussion about the 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 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 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 the 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're hopefully are on our way in finalizing finally the Generali transaction. So Generali will not interfere with debt.

And if and when we, at the same day, had to do two transactions, then we probably would have some sleepless nights. It is not impossible but it would not be our preference, but doing one or two smaller medium-sized 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 dare to do one small and, at the same time, look at something bigger. And so, I can't predict it. But our feeling is that if the timing is right, it's not impossible.

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

Maybe to add on that, Jos, if you go back a few years, when we acquired AXENT and De Eendracht, some of you who may remember that AXENT was a Funeral business, De Eendracht 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 the 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 two small transactions. And it was effective the same day. The people at M&A looked pretty (01:53:45) the next morning. Basically (01:53:48), it was doable. And also, integration was doable because the 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, and then you have to play at how things come.

Also to your point, Robin, on the Life businesses, we do see – I think we see (01:54:09) declining Individual life book. Lapses were up last year; they're 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 and risk margin release, right? That's the point where that contribution to capital slows down.

If you have a €15 billion Life book, it's tough but it's okay. If you got a €1 billion Life book, the combination of UFR going down, less organic cap generation from risk margin and SCR release in the next – at 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 Hülters

Okay. Matthias in the back.

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

Matthias de Wit from Kempen. Only one question for me on the capital generation target for 2021 of €430 million. I have a slightly higher number in mind, considering that you're already at €377 million for 2017, excluding Generali. So if I add the growth you foresee in Non-life, the re-risking, UFR drag goes down. So, I go 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 rates during your presentation. So, can you be a bit more specific there, please?

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

Yeah. So, we assess these targets from two perspective, bottom-up and top-down. Bottom-up starts with where we are today because if you speak of 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, add some tax benefit to it, see where you get, and we have a balance sheet plan. But basically, assumed rates are where they are today. The top-down approach is you take a balance sheet plan and that's to (01:56:17) 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 assume the forward curve materializes, and we run the numbers on that. Those two numbers converge, the top-down number is slightly higher than the bottom-up number actually. And we felt at that point the €430 million is probably a good, reasonably conservative pick on what the cap generation in 2021 could be.

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, 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 experienced 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 we have to work on the presumption in 2021, 2022 you'll see a gradual decline of that capital release from the book. So, that's kind of the biggest factor in there. We've been affected by what the forward curve will be at that time.

Secondly, I think 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 and what might be different, if indeed the capital release might be different, if we de-risk our book because markets are different, then the number would change for the rest. I feel comfortable that the €430 million is very well attainable, having tested it from a bottom-up and a top-down perspective.

A - Michel Hülters

Okay? Any further questions? Yeah? Steven.

Q - Steven Haywood {BIO 15743259 <GO>}

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

A - Michel Hülters

57 basis points

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? And then, secondly, you've already mentioned that 14% ROE is not an upper limit. With regards to the other targets, the 55% payout ratio, the 94% combined ratio, the 5% Non-life growth and a stable Life earnings, are these upper limits as well for the company? Thank you.

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

Well, the (01:59:24) the 55%, I think 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 – we'll outperform actually that level.

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

And to your second question, I think target setting, in itself, it's always fun to achieve targets. So, if we announce a target, it's not that we – let's say, if we have reached the target in September, then 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 I 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 - Chris H. Figee {BIO 18815839 <GO>}

I think on the dividend side, Steven, the 55% at this point is the upper limit in 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 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 the time. So, 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 Hülters

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 a.s.r. as it is today. So, 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 will be great to remain on those targets, for example, the 12% to 14%. We've 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 a 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 one to one-and-a-half year to build the model and then you have to prove that you use the model and the model works, and it will probably cost another one to one-and-a-half year. So, in total, we expect that an internal model may need somewhere between two and three years before we get agreement with the regulator that we can use the internal model.

A - Michel Hülters

Okay? Any further questions? Open for second rounds. There, we have, yeah.

Q - Steven Haywood {BIO 15743259 <GO>}

Thank you. Steven Haywood from HSBC again. When you say safely above 160% solvency 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 €900 million plus the €200 million potentially that you're redeeming there's plenty of debt headroom to come.

And 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? Thank you.

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

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, too, we have flexibility. We look at the capital actually inside the company, safely for all practical purposes, I would say.

The UFR decline will shave about 10, 11 points of our Solvency in 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. Because everybody is thinking if you're 171% in three years' time, we'll still be above 160%, barring any unforeseen circumstances.

On DNB's question, what's DNB going to do? I think you should ask them. We could say – yeah.

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

Maybe we can make one comment on that.

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

We can make.

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

The role of DNB is protecting policyholders. And what you'll 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 - Chris H. Figee {BIO 18815839 <GO>}

But I think the discussion on cost, much of (02:05:53) cost assumption in 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 there's one policy left, does this one poor client bear all the cost of your operation?

So, I think the cost assumption in your best estimates is a very important determinant of your long-term viability. So, I think the discussion in the industry on what do you assume as the cost variability in 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 Hülters

Okay. Jason?

Q - Jason Kalamboussis {BIO 4811408 <GO>}

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

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

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

FINAL

Bloomberg Transcript

A - Michel Hülters

Okay. Yeah. Darius?

Q - Darius Satkauskas {BIO 19724328 <GO>}

Hi. Yeah. Darius Satkauskas from KBW. Within your 94%-96% combined ratio target, what's your assumption for Disability growth here because you had decent combined ratios there?

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

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

The Disability growth or...

Q - Darius Satkauskas {BIO 19724328 <GO>}

Yeah.

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

Okay. For Disability, we assume a lower number than in the P&C business or 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 Hülters

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

[Break] (02:08:24-02:29:29)

All right, guys. Guys, have a seat. Have a seat. Have a seat. All right, ladies and gentlemen, welcome back. Please have a seat. Thank you. Everybody comfortable? Wonderful. Thank you. So, we now have two other speakers as announced already this morning. We have Michel Verwoest who will discuss the Non-life developments and opportunities that we're seeing. And then we have Karin Bergstein, also COO. We will then follow up with a presentation on the opportunities we see in Life.

After that, again, we have a Q&A session. So, Michel?

A - Michel H. Verwoest {BIO 18240879 <GO>}

Good morning. Is it working?

A - Michel Hülters

Yes.

A - Michel H. Verwoest {BIO 18240879 <GO>}

I would like to start this Non-life section 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 three 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 you'll stall through our (02:30:37) – 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 a 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 variable and (02:31:55) low-cost optimization and because our excellent results and the way we are managing these books, we are positioned to grow organically, or if possible inorganically.

So let's have a view on the market. P&C market is a competitive market, and at a.s.r., we have a strong number three position in that market with a market share of 15% including the Generali guinea pig (02:32:23). 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. What you can see, compare 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 one on three 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 running your 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 to their price, and do you have a cost-efficient organization which services your customers well?

And to be competitive and value-driven, you need to understand the risks you are underwriting. And because the two most differentiating elements you can see are the mass claims, in the price, you are asking for the risks. And the real knowledge is in managing those mass claims. And 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 a year, and we take that 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 as competitive as it is, it will allow us just to earn a few cents on a euro. So you have to be cost effective, you have to really understand what you are doing. And 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. That means that we continuously assess and 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 handing. We are the best-in-class in bodily injury claims handling, demonstrated by our average claim there is 23% lower than the market average. The number of claims managed by our own employees is 80% higher (02:36:29) than the market average. And last but not least, the handling time is 10% faster. And that's good for our customers too. So there you can make a difference if you want to have a very good combined ratio.

Thirdly, we are managing and monitoring our combined ratio, for example by the profitability – looking at the profitability of 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. 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 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 and the targets group where you (02:37:37) want to be and make a profit. So when you – and then also your service is 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 has been outperforming the market. The combined ratio has been 4% to 7% better than last years' and the growth rate has been 3% to 12% higher than the market average. So I 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 as Jos talked (02:39:12) this is one of the most important things when you're managing your P&C business, there are three kinds of claims. We have bulk, we have large claims, and we have calamities. And the performance of our claims is driven by the way we manage our bulk claims. And that's quite a flat line when you look at the bulk 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 claims ratio was a 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 costs to have a sustainable combined ratio. And as Jos told you, we really are cost-focused, but we are managing our costs 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, the 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 would also provide us with better service to our customers and to our intermediaries. And last but not least, it is reducing our IT costs and (02:41:31) 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 to the platform in 2020 and 2019, all our retail business is already on the platform. And we have been doing this whilst we were growing and decreasing our costs as you can see on the right hand of the slide.

So, let me show you the growth of our business. To start, we only grow there where it adds value to a.s.r. And in the last years we've been growing rapidly in a shrinking sustainable (02:41:21) market, whilst we terminated also €77 million of nonprofitable business. So, within this figure, we also terminated €77 million of nonprofitable business.

And the growth is a result of our performance 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. We have an average premium of €520. And we're managing that on a day-to-day basis.

Other factors that made our growth possible were our selective growths in SME market, also the value-over-volume, understand the risk you are underwriting. So it goes slow but it did grow. The capital fall-out, Delta Lloyd acquisition, the uplift of the economic cycle, and of course some of our acquisitions, I will account (02:43:26) later on to you.

As said, we also acquired some intermediaries in these markets. Let's have a look at them. Last year we acquired Corins, that is an authorized agent in the co-insurance market; we acquired Van Kampen Groep (02:43:47),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 the 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 (02:44:59) pilot. In the big building here (02:45:02), sometimes it's difficult to have a pilot like that. When you do with the 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 on in the larger portfolio of ASR.

With Corins, we bought a player in the car insurance market. And by the acquisition of Generali, it doubled. And now with Corins, we have 5% to 6% market share in a market of €1 billion of car insurance, and we are the largest Dutch player in that field. So, this was a quick view on 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 use of artificial intelligence and machine learning by connecting both internal and external data. But that's free available on the market.

What's really making it suitable for us is that we define ourself the knowledge rules in that machine, so that our knowledge rules are running in FRISS. And those rules make it a 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 an insurance. And why? Clients with heavy debt have a larger risk of no payment and a larger risk of claims.

Another example, when a person wants to insure 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 risk 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 migrated in several ways, technically, commercially with robotics and Philippe will this afternoon will show you one of our robotics migrations.

And examples of integrating the migrated portfolios are the Europay's (02:48:13) portfolio, the Ditzo but also part of the Avéro 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 to 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 – in 2019. And 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 could do that in a period of two 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 variable portfolio strategy, we have a scalable, a cost-effective ratio with low and variable costs, and this allows us to grow in a market 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 something about the Disability market. It's also detailed in the slides of the Appendix. And the 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. 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 to insure him, for what amount, for what period. And if he has an insurance and he 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 two year of their employees. And an employer can choose to bear the risk himself, he can go to the governmental institution, the UWV, or he can go to 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 number two position and we are a top performer for years in the Dutch disability market. And that is thanks to our specific multi-disciplinary 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 that increased demand for sustainable employability. And the last but not the 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 €3.7 billion in size and has been relatively stable over the years. The market is moderately concentrated. The top three players having a market share of around 70%, and the Disability products – but I think that's clear from my introduction – is quite a complex product and therefore the intermediary channel is the distribution channel to sell this product via. (02:32:20)

Sustainable employability is becoming key to the labor market, and there are some underlying macro trends. The increased flexibilization of workforces – so short-term contracts, the use of more self-employed – I just told you that the self-employed group (0:32:38) 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 need more mobility. In the past, you have one career. Because you are working, you will finish working at the same employer with the same job. To-date, (02:33:22) the environment is changing so rapidly that you need to have two or three 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 can see the two triangles. And sometimes, in our house, we called it our golden triangles. A key in the triangle is that we have our own competencies in our own house, and you can see that in that top triangle. We have our own claims expert. 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 multi-disciplinary team with all those roles, sit and wait to become active. And they sit and they find a solution together from day one. 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 a reintegration and sickness leave outsourced to third parties, which we have a strong relationship with. All in all, we focus on avoiding and minimalizing the periods of absence caused by sickness or disability. And within disability, we are managing our business with the same performance wheel as I told you about with P&C. And the way of working results in very effective combined ratios, also due to our excellent claim ratios demonstrated on the next slide.

And we have very strong and stable combined – a 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 outperformed this number; 11 out of 14 quarters, our targets, we outperformed our target of 75%. This is the result of their triangles, of our golden triangles. And as you can see, there is some seasonality – seasonable pattern in it that's mainly caused by the flu.

So, if you look at the disability market, is it 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, the legislation changed and the employer becomes also responsible for the temporary employees, which is a large group of 10% to 15% of the working force, and it's effective to insure them, too. But we had, at that 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 off that market and we're now waiting because, in 2019, 2020, those customers are coming back on the market, and I think we will get them back at prices we really get and (02:37:27) 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 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 re-integration, et cetera. And if that doesn't meet our expectations, we increased 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, 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 that a few months ago. And the product is called [Foreign Language] (02:38:57) in Dutch and it 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 prevention. And as long as the customer is working with us, 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 life and beneficial for us because we are reducing our claim ratios, and we are getting really to interact with our customer and building up a relationship.

Another example of a product innovation is Doorgaan, and they 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 these two in one product. And by combining these two, we offer the entrepreneur and the employer the so-called Doorgaan proposition.

And what does this bring to the customer? It brings an 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 healthcare, we are providing child care, 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 has 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 healthcare, 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 that this concept (02:41:14) to further growth because it's good for the customer, it's good for us, and it's good for the 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 to 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 a 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 a 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 is necessary to develop yourself on and on, day after day, to be the best the company can get. And today, the environment of your working life is changing very rapidly. And in combination with the increasing retirement age, therefore, companies and 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 its people and to show 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, two large players which we acquired the last years which are specialized in this field. But we have also a stake in the largest occupational health company, Human Total Care, and which services 1.5 million customers in the Netherlands with company doctors. And we own the largest self-employed network organization in the Netherlands, ZZP Nederland, self-employed Netherlands.

In the field of prevention and added services, ZZP Nederland and Human Total Care have and our own prevention services, which are showed in the triangle, are there. And in the field of claims management, getting back to customer to work as soon as possible, we can rely on Keerpunt, that's a joint venture with Nationale-Nederlanden, Human Total Care, and of course again, our own expert.

And last, but not the 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. And then, we have our disability insurer which provides the financial backup, and we have our health insurer which provides 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're still looking for partnerships in the field of vitality 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're also committed to keep our combined ratio attractive by sticking to our value over volume strategy. And besides that, I've just shown you that we have access to a 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 Disability, and it also is finishing my presentation on the P&C. In the P&C business that's 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 (02:47:19) and because of the wheel we are using. We are perfectly placed and we have the persons in our company.

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

A - Karin T. V. Bergstein {BIO 17036723 <GO>}

Thank you, Michel. So check, is it working? Yes. Are we still alive? We're going to the Life book but just before lunch. What I like to present to you today and leave you with just before lunch with the next four 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, the situation in the UK.

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 three sources of synergies: cost synergies, capital synergies and re-risking the assets we acquire. And if we look at these three 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 the Life segment. In the Life segment, we have three lines of business: Funeral, Individual Life, and Pension. And all of our people working, all managers focused on the same things: the focus on an efficient operations with strong customer service; the focus to rationalize a product portfolio and by doing that, simplifying our operations; and applying these two 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 and with the acquisition of the De Eendracht, we also have integrated a pension book. And meanwhile, we continue to manage the unit-linked fund. Total reserves of the life book add up to €38 billion at the end of 2017. And if we include Generali book, this increases to almost €42 billion. Operating results, as Jos presented, was €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 results. This slide describes the drivers of the three 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 you give 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 results in positive figures. And it's important to know that in the cost, it also includes the cost we make for our investments. So, the cost 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 three 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 a 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 co-agents freeing them up for the real customer service. But let me go to M&A 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'd. 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 (03:15:45) entity and move all policies to Ardanta (03:15:48) which is like a two-hour travel away from (03:15:52). So all of the staff we had to release and we build up only some additional staff in Ardanta (03:16:00), 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 the problem because we made a deal with the former owner that he would serve the contracts for additional 12 months. So, it was like an outsourcing contract and then after we have 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. In Generali, it 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 03:17:00 Health. And although it was only 15,000 policies, migrating and paying for this book took place on the same day. So, what you see 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 more policies to the platform. We can 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 gone from seven 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 seven portfolios. And that's why we thought we do not only have to migrate these policies but we have to rationalize them. And with the selection of our IT platform, we look for two 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 cost after migration. But, secondly, the system needs to be more modern so that we could have more of the similar features in one 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 number of 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 acquire the Generali portfolio, we only had to make eight additional rationalization decisions. So, the skill we have built up on is 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 five out of seven books and at the end of this month – and we're quite sure that that will happen by being 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 to 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 (03:21:08) is that, for us, it was the first time that we have bought an composite life book. So, it was not a mono-line life Funeral book or mono-line 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 and was planned for October. But again, we knew the P&C 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 half of 2019, but all rationalization decisions have been made, and we're now in a 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, 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 three lines of business. We have disentangled the holding quite swiftly, by moving all of the staff towards Utrecht 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, from a FTE perspective, from a personal perspective, everybody has joined their new teams. And having a very tight labor market, it also helped us because we have 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 three sources of synergies. It's cost synergies and as you can see and add up the numbers, you're 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 the 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 €7 billion of assets and we were able to re-risk those assets and realized 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.

Furthermore, we added €220 million of gross written premium. And this is helping us to keep the book in the top line relatively stable, creating a robust book. So, all the effort we have done in realizing effective cost operation, we can apply also in these acquisitions. And this is why we have an ambitious target on further cost reduction. In the half year 2018, we already have announced that we had additional €8 million of decline in our cost 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 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 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 grey line shows you the operating expenses and these are the operating expenses including the cost 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 generates further, cost synergies from the Generali integration. And therefore, we expect to go even further down from the 57 basis points further down towards the range between 45 basis points and 55 basis points.

Then I also would like to show you 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 efforts 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 five is the top of the graph that we believe that in the midmarket, so the medium, small-sized companies, there is roughly €20 billion of assets and provisions. And having all these regulatory developments, they really put pressure on these 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're having 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.

A - Michel Hülters

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

A - Karin T. V. Bergstein {BIO 17036723 <GO>}

Thanks.

A - Michel Hülters

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, your hand, wait for the mic. Oh, there's already a couple of hands popping up already. Please state your name, your company name, and then we're ready for that. All right, you first. I think (03:30:46).

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

Don't fight.

A - Michel Hülters

And then we have Farooq. And then we have...

Q - Hadley Cohen {BIO 18331131 <GO>}

It's Hadley Cohen from Deutsche Bank. Question for Michel, please. The 3% to 5% growth guidance that you'll 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?

And then a question for Karin, please. I know it's a slightly alien concept in the Dutch market for obvious reasons, but is there any prospect around new business – writing new business, and how you're thinking about that (03:31:45)? Thanks.

A - Michel Hülters

Okay. Thank you. Michel?

A - Michel H. Verwoest {BIO 18240879 <GO>}

How sustainable is our growth rate? We think it's very sustainable because 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 a lot of competitors which are not rationalized pricing, and if that's happening we don't have our growth rate but we will still remain to our value and to our combined ratio. But I think most of the market at this moment more rational than it has been in the past.

A - Michel Hülters

Okay.

A - Karin T. V. Bergstein {BIO 17036723 <GO>}

Yeah. And on the Life, I think there are three 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 quadrant 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 number three with the consolidation of Delta Lloyd and NN, and that's really a market where we're 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 ban on 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 will continue to look for possibilities. But there is nothing decided yet today.

A - Michel Hülters

Okay. Farooq?

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi. Thank you very much. Farooq Hanif from Credit 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?

And then secondly, in co-insurance, yeah, obviously, that's a bigger market share than I thought. So I mean, 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 on what you do, you've built skills on what you do. I mean, why not develop that too? Thanks.

A - Karin T. V. Bergstein {BIO 17036723 <GO>}

Okay. Shall I start with Life, Farooq? And the question is a good question. Thank you. I think we first wanted to build up the capability with our own books. So, from 2013 onwards, we really started this rationalization and, with the rationalization, you do it through all of your books and 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. And 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 to prove 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 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, if they haven't thought of something themselves, they might come to us.

A - Michel Hülters

Okay. Question?

A - Michel H. Verwoest {BIO 18240879 <GO>}

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, what we are tending to do is to get more of that business, but very slowly understanding the market, knows what risk we are underwriting. But part of the 5% to 6% has been brought to international players or other Dutch players. So, it's not all on our books.

A - Michel Hülters

Okay. I think Benoît is actually first. Yeah.

Q - Benoît Pétrarque

Benoît Pétrarque from Kepler Cheuvreux. Couple of questions on Disability. There have been a 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 product. 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 a.s.r. 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 has extremely good employment, unemployment is very low. Do you expect some pricing pressure on this segment? And then on the P&C, I've been surprised by the premium growth coming from intermediary. I think that's been growing 5%, 6% last year. Longer term, do you think this is sustainable to grow in this segment? Thanks.

A - Michel H. Verwoest {BIO 18240879 <GO>}

There were three questions.

A - Michel Hülters

Okay. Yeah. On Disability?

A - Michel H. Verwoest {BIO 18240879 <GO>}

Starting with the 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 to my presentation is that that are the classes, the blue collar classes three to five? 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 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 (03:39:09) So we add services to it, so they are working on their competencies. The way they are working during the 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 good and we need them because there's also a cost of capital in between its long tail business, and in long tail business, you have to be a 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 is more sickness leave. And as a matter of fact when the economy goes down, the sickness 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 will, 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 will.

Our people, our underwriters, our claim handlers, our commercial people, are constantly assessing together what's happening in the market. And we have that all in our own house. And using that data and that performance gives us the opportunity to be ahead of 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 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 one-third of that 1 million self-employeds 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're 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't 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 Hülters

Okay. I think Johnny Vo is – 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 is 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 book consolidator, who could come into the market? We see more and more private equity coming in. So, is this sustainable over the long run?

A - Karin T. V. Bergstein {BIO 17036723 <GO>}

Yeah. Yeah. On the first question, it's a good question because I think I forgot to tell that. We always stick to the rationalization decisions based on three parameters, which is customer interest. The customer always has similar or better conditions because, otherwise, you get conduct issues. Then we look at it from operational perspective and of course from a financial perspective. But we always look at it in that order.

And then on the competitive advantage we have, we have had the insights in all of the products and the product 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 the actuaries, people from compliance, legal, product managers and marketers, and they all worked together in, yeah, 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 seven legacy books and now eight 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 UK. 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, that regulator has stated on several occasions that if and when there is a challenge for in-market consolidation, there is a preference for in-market consolidation.

A - Michel Hülters

Farquhar.

Q - Farquhar C. Murray {BIO 15345435 <GO>}

Hi there. I'm Farquhar Murray, Autonomous Research. Just three questions, just two on Non-life side. Just on – you mentioned on the broker channel, it's obviously where you're mainly focused, kind of loyalty, but I just wonder 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 and the broker channel. And then just in terms of channel discussions on Non-life, I just wonder if you could give us a sense of how the broker channel is standing versus direct distribution in the Dutch market over recent years and where you see things going from here.

And then just coming briefly to carrying on the life side, I can very much see the kind of skills set you built up in terms of integrating in the Life businesses and how that clearly brings you to some work and new in terms of what potentially comes next. I just wonder how you deal with the kind of background unit linked issue in terms of pricing and thinking about those kind of issues on the 03:25:13 blocks that might ultimately come forward. Thanks.

A - Michel H. Verwoest {BIO 18240879 <GO>}

Should I start?

A - Michel Hülters

Okay. Yeah.

A - Michel H. Verwoest {BIO 18240879 <GO>}

First, to the broker business. Often, we discuss this like an intermediary is just advise and we have direct. 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 customer. So that's a multichannel approach they have.

The churn and the last figure I know that the churn in the direct channel is more than twice higher, more than two times higher than it is in the intermediary channel. And therefore, there is some kind of a correlation between the duration of a customer and the claims. In the first years, customers claimed more than in the latter years. So with the direct channel, you have more claims in the first year. 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 real direct channel instead of that is coming from the intermediary channel.

Your question is how does the intermediary channel develop? I think that the intermediary channel is consolidating in the Dutch market. So, they're becoming larger and they're getting service providers. That's one of the reasons, strategic reasons why we bought two of these companies to better understand what they are doing. And they are very professional organizations which are multichannel oriented, high craftsmanship on there, 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 digital. But we're not growing very fast in the digital channel because it's not the – I won't prefer to grow in the intermediary channel because it brings us better returns and better value. But if it's necessary we can grow into directs any time, but we only do that when it brings value.

A - Michel Hülters

Okay.

Q - Farquhar C. Murray {BIO 15345435 <GO>}

Just a follow-up on that, I mean, can you actually give us the numbers in terms of churn? Obviously, you're giving us 2 times versus 1 but can you actually give us the level?

A - Michel H. Verwoest {BIO 18240879 <GO>}

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

Q - Farquhar C. 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 - Michel H. Verwoest {BIO 18240879 <GO>}

What I've been seeing is that it is slightly going down, but it's not with a 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, there's another thing. In the direct channel, there are 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 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 Hülters

Then the question on...

A - Karin T. V. Bergstein {BIO 17036723 <GO>}

Then on unit-linked, yeah, like I explained for our customers, there's always a similar condition or better. 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 do an alternative product. This has also meant 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 have – sometimes, we decide not to acquire book and that could be because of the unit-linked issue and 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 important item in due diligence.

A - Michel Hülters

Okay. With that, I see that we're already running into our lunchtime. So, if you have any further question, can I please refer to our meeting at lunch? With that, we thank you for the 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] (03:51:39-04:30:03)

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 four speakers lined up. We'll start with a presentation of Philippe Wits, as I said, about innovation in digital; Jack Julicher on our asset management platform; Dick Gort on real estate; and finally, Patrick Klijnsmit on IFRS 17 and additional life disclosure.

So, with that, Philippe?

A - Philippe Wits

Thank you, Michel. Good afternoon, everyone. A couple of weeks ago I was sitting with my younger 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 these exponential growth in technology, surely we should be able to do that, and yet we still use Russian rocket from the 1960s 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 two 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 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.

And after this 20 minutes, I hope you leave this – well, you don't leave this room, but I'll leave you with these four messages and actually that our approach to innovation is very customer-centric. We really look closely at customer pain points and trying to solve the unmet customer needs. You 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 start-ups. 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, sure – 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 for customers who 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 flock to it and they get exponential growth. And that is only logical. And so, what we call disruption as an industry, customers actually call a sigh of relief. Finally, someone who is understanding what I want.

On my latest trip to Valencia, I was with my kids. I have three kids and my oldest daughter loved to drive a motorcycle or scooter. And she said, can we rent a scooter? 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 behold, there was a scooter in front of my apartment shared by a sharing platform, by a 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 have 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 either 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 and keep showing that we are actually cooperating and that they're actually cooperating with us. 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 two 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've been – what we are doing the entire day. We have a plethora of engagement with customers, literally thousands and thousands of phone calls, e-mails, 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 has 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 that we've been migrating diligently to new platforms, to the SaaS solutions. And rationalizing that landscape has provided us with the flexibility in 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 at being able to unlock the APIs and by integration layers.

Now, how do you combine these two 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 have 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 built thousands and thousands of pages. You probably noticed 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 in our website, pretty dreadful percentage, if you ask me. 50% of the customers that left here never went to the website again or started calling the call centers and sending letters and complaint e-mails.

So, we imagined a much better way. We thought what if we could build a search engine actually on the website and it'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? Well, 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. And it actually happens, imagine that the customer will get a response, yes, you can buy a couch at IKEA, it's three kilometers from here. Imagine what would happen to the call centers. Not happy at all. So, it took a lot of hard work to program the chatbot to really get a 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 Awards, 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 are also building this nimble 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 our self, that is our IP, and we were able to plug in a new chatbot with zero migration cost or almost zero migration cost 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 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 has 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 a digital asset already been building a voicebot 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 Englishbot, 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.

[Video Presentation] (03:42:45-03:44:02)

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 chatbots, with a human or with our voicebot.

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 two legs or do scary stuff and end the world, The Terminator. Our bots are extremely boring. They don't do that kind of stuff. And actually, when you see 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, our 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 Avéro 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 Avéro, 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 transfer it to the system as the intermediary. The 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, a lot of people said that's not going to happen for one reason and/or that is that robots are actually I'm pleased 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 that 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, when we focus our energy, time and resources, we focus on two 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 healthcare, 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 and 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 risk rather than just paying out a financial amount.

Now, and as if you maybe have been looking at the landscape of fintech and start-ups, there's so many start-ups and 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 – in all the 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 start-ups 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 probably go through a steep learning curve and you probably spend a lot of money before you learn that you may or may not be very good at it.

So, we decided differently. We invested in two 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 venture capital funds are looking through the market and in the thousands and thousands of options of technology for start-ups. They provide us with the best and the top three. So, we get two 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 then also better able to assess whether this technology or the company is worth cooperating with.

So, just name two examples of Aquiline. Actually, one of them Michel already talked about, and that is FRISS. So, Aquiline has 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 robots because the deep learning in these robots embeds itself into the process, looks at thousands and thousands of iterations, and then comes up with 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 Netherlands. And Komparu is an interesting company. It's a SaaS platform for comparison sites.

But we don't invest only at arm's length in start-ups outside. We also invest internally in our own start-ups, and we work on certain things we want to improve on in the Dutch market. If you have been joining our dinner yesterday, Timah (04:51:27) has been talking about Verzeker de wereld (04:51:31) to ensure the world our sustainability startup. I want to mention just two of out of many we're doing.

So, one is forward thinking. Forward thinking is a platform, which is helping our customers solve their 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 tractions 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 start-up. We make the solution scalable and very well-designed, and especially with a.s.r., with all the knowledge behind it, we could leverage on that.

And the second example I want to give you is the young entrepreneur disability bot we built. So, young entrepreneurs have a – there is a pain point for young entrepreneurs. They're young, so they don't know a lot of risk, so 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 two examples of our start-ups. I want to leave you with the final notes. I trust that I've shown you that we are very customer-orientated, always looking for the pain 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 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 insourced 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 competencies we have developed in our 300-year history as the asset manager for the insurance companies of a.s.r.

And, secondly, we built two specific platforms, which serves 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 develop the skills as a third-party asset manager. We insource assets. We insource assets that were outsourced to external parties. And secondly, as I said, we followed our buy-and-build strategy. What we did is that we acquired niche asset players and that we added €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 the long-term investment margins we showed to you, we presented to you in the process of the IPO. We delivered – we outperformed the 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 our strategy of best-of-class. 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 a small tracking error to compensate, on the 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 €6.7 billion of assets related to service books.

And then we looked at the strategy, the investment strategy we followed for the insurance companies. There are two elements. The first elements 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 a bigger 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 a GDP grow that is still substantial. We are also in a market environment of very low interest rates. But there is a tendency to put 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 threats of a trade war, but we feel that it is too early to de-risk our portfolio. It's too early to de-risk our portfolio.

That means that we still are in a process of further optimizing our portfolio for the insurance companies. That means that we are on a pace of a slight re-risking and optimizing of the portfolio. We kept back. We have backed somewhat at the beginning of this year around the crisis in Italy and the uncertainty around 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 two 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 and to add 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 is a result of our buy-and-build strategy, of insourcing and of organic growth that we are contributing to the operating result of a.s.r. a substantial amount. We are contributing €10 million in the first half of this year. You can't multiply that by two because there is some seasonality in the cost. But 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 management of €1.2 billion. We had inflow in those past years in LDI, in balanced 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 €20 million. And at the moment that we are reaching the €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 these metrics is, on the 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 proposition that we can't offer because we don't have 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 €1.2 billion of assets, that we were able to attract in our ESG funds, so sustainable funds, more than €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 €1 billion.

And what makes our proposition 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 a high score in ESG that in the long term, these companies will perform better, and that is an investment belief. But it is an important investment belief.

And it is illustrated – is proved by this graph. What we see is that in the credit fund, ESG credit fund, the carbon footprint is decreased by one-third compared to the benchmark, and the benchmark is IBoxx benchmark. And that is shown here. The carbon footprint is reduced.

And Jos announced this morning two non-financial targets. The first one was that he said that we are going to invest and have a budget in 2021, €1.2 billion impact investments. And 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 non-financial target is the measurement of the 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 movers (05:09:12) 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, (05:09:46) benchmark, of course. But what we can offer is a complete product proposition, a product proposition where we also can offer the monitoring and where we can offer the 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 a 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 (05:10:28), 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 a qualitative (05:10:41) 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 two fronts: one front with mortgages with kind of a government guarantees or energy (05:11:04) guarantee, and a fund without that guarantee. And what we offer is, on the one hand, these mortgages with that energy (05:11:18) guarantee, less risky with somewhat less return and spread. On the other hand, somewhat more risky proposition with a higher return and somewhat higher risk.

And 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 channels for the intermediaries but also that we use vertical slicing. That means there is no conflict of interest, that we allot the 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 €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 a 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 distinguish this product is that we launched it on a completely new platform. So without any legacy, that we introduce it with a customized 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 integrate it, the ESG component in the lifecycle – in the underlying lifecycles and that makes this product very (05:14:13) successful.

We were able to attract €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, capitalized solutions in the pension landscape. We were able to attract more than €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 competences that we have built up in our long history as asset manager of the insurance companies. We created two unique platforms to serve 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.

If we take a look at the rural portfolio that we have, it is portfolio of €1.4 billion invested in the Netherlands, a really beautiful portfolio with long lease terms and a – which gives 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 €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 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 a 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 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 three asset classes we have, we open then 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 three funds, we have a rural portfolio. The rural portfolio is 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 €1.4 billion in size. It is a fairly well-diversified portfolio across the Netherlands. It has very long lease contracts. Contracts of 30 or 40 year 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, but 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 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 a map of the Netherlands. We see all kinds of black dots there. And 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 that map.

If we 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 as active as asset manager so we buy and sell land every day, but this is 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, and we're more or less the only investor in the Netherland 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 have set up three real estate funds. We started with a retail fund in 2011; 2013, we structured the residential fund; and in 2016, we structured our office fund. The reason we've 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 rerisk 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, attracts 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 €1.5 billion of assets under management. We have a very strict strategy there. We focus on high-street locations, so two-third of the portfolio is invested in high-street in the top 20 cities of the Netherlands and about one-third of the portfolio is invested in convenience 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 €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 a Dutch railway company (05:25:12). 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 bought 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 two Dutch pension funds, a UK pension fund and a Belgian insurer. And afterwards, we have 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] (05:27:37) it was 14.4%, and the first half of 2018, we've got 6.9%. So these are all non-leveraged returns because we try to use as 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, 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 see in 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 two green bars. The first bar on the left is the ASR PF, it is our 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.

Well, 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 (05:29:13) 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 you 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, €3.7 billion assets under management, and in 2017 (sic) [2018] (05:29:46), we see that the assets under management are €5.2 billion. If we take a look at the green bars, we see that a.s.r. had €3.7 billion (sic) [€3.07 billion] in 2011. And if we look at the bar at 2017 (sic) [2018] (05:30:01), we see that a.s.r. still has more or less €3.6 billion, €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 €5.2 billion, which is approximately 30% of the total assets under management.

While the lower graph gives us a picture of the fee income, well, obviously, in 2011, we started with zero third-party fee income. And if we take a look at the bar on the right, we see that in 2017 it is €11 million (05:30:41), which is also approximately 30% of our fee income. So, we have been building a real estate platform for a long time. We work 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 are very dedicated and very hard working on real estate with our 150 colleagues. So, the portfolio is at the moment €5.2 billion. We've been investing in retail, the ASR Dutch Prime Retail Fund, which invest in high-street locations and convenience shopping centers. We've been investing in residential, the ASR Dutch Prime Core Residential Fund (05:31:37), which is investing in low-risk houses for midlevel rent apartments and houses, offices right on top of the intercity stations. We're very well located. The rural portfolio, €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.

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.

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

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 said – a lot of things said about those Life earnings in the previous presentations, so what I will try to do is to give some additional perspective on that.

Turning to our Life disclosures first, in terms of key messages, there are really two 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 acquisitions 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 €6 billion, and that €6 billion was supported by the acquisitions, the acquisitions of Axent, NIVO, Eendracht, and of course Generali. They added about €7.5 billion in total. So, if you do the subtraction, then you end up with a underlying decrease of about €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 result 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 cost in our Life segment.

On our next slide, we can see some actual numbers. It's always nice for our financial to have some numbers. And what you could see here that the investment margin has been 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 a growing book, you have a growing investment margin, but that seems kind of logical. Second reason is that there has been a successful and active search for yield 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 that 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 – well – or did not have any more, actually, the right of the structured 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 €300 million annually going forward or 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 – there's – on a standalone basis, that is not likely to happen.

If you look at the technical result and the results on cost, we think it will experience a little bit of pressure. As was already mentioned, we are focusing on trying to keep the result on cost. You can also see that the result on cost already has experienced some pressure here. And 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 on 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. And we'll give a good proxy for profitability in – well, up until the IFRS 17 implementation.

And let's 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 – you 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 use the basic provision excluding unit-linked simply because, with unit-linked, the investment margin ends up with the policyholder not with the company. For the technical result, you can use the basic provision, including unit-linked.

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 part 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 provisions. So, you 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 – our 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, it's 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've decided to defer the implementation of IFRS 9 up until the moment that IFRS 17 will be introduced, simply to avoid two major accounting changes in consecutive years in our books. So, we defer IFRS 9. IFRS 9, however, is already enforced from the beginning of this year, has already been implemented by banks.

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 the direction of travel. What we do not give or cannot give at the moment simply because we don't have them yet are our 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 ran into some delay and that may actually mean that we will not implement it in 2021, but perhaps one or two years later.

Well, 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? And 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.

And 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 seemed 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 those 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.

And 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 €38.2

billion, it's on the bottom-right side of the slide, by the way. If we start out with the €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 the capital gain reserve and you move that to equity. So, that's good and – 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. And so, that's the €30.2 billion that you see in the middle of the slide.

And then, to bridge from those IFRS 4 at pure tariff rates to IFRS 17, we add about €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 – we can say about this. But this gives a bit of an indication and the feel where it's going. When you add €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 end 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 there'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 and we will – and 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 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.

And 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 in 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 – and it's 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 non-insurance 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 ISB (05:49:55) 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 is have a full retrospective approach. That means that you back to your inception date of your policy, then figure out whatever your data and your assumptions were at that time, then calculate a 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 February 5, 2018. So, the inception date for IFRS 17 purposes of Generali portfolio is February 5, 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 three or four 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. In 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.

What you can also do is that you will use the fair value approach. And in the fair value approach, you basically say, well, 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 – it 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 and 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 gains reserve moving from liability to equity upon transition, really mitigating the impacts thereof.

And the 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 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.

And so, quickly to my next slides, 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're currently working on our 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. I'm not quite sure I'm really happy with it because, over the past and a half years, we've 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 a 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'll give it back to Michel for Q&A. Thank you.

A - Michel Hülters

Thank you, Patrick. That's about finishing on a high on IFRS 17. So, 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?

All right. So, the end is nearing. Final Q&A and – well, you know the drill. So, it's like two questions per round, plus speaker name and stuff like that. So, Johnny Vo?

Q - Johnny Vo {BIO 5509843 <GO>}

Yeah. Hi. 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 three levers you can do to try and grow assets. That's distribution, probably pricing in terms of cost or in terms of maybe alpha. Which are you using to grow to grow your asset base? What are you trying to do to get your assets up of those three?

The second question is related to – you sort of said, mildly, you can increase the risk even the (05:58:10) book of the insurance business. What type of assets look good today, given where we are in the cycle?

And just the 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 on IFRS 17 to align the earnings closer to the capital generation. Why would you not choose that? Thanks.

A - Michel Hülters

Okay. First question, Jack?

A - Jack Julicher {BIO 5943222 <GO>}

Yeah. First question, I think we use all three aspects. So, in the first place, distribution, example is the DC product, but also the – using the expertise when we distribute, for example, the residential fund proposition, that's one. Pricing of – always, you have to be competitive in this market. It's a very competitive market, so you have to deliver added value to your customers or else they won't select you. That's very easy.

And then, alpha. Yeah, 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>}

Yeah. The assets to increase in your insurance, so you said that we could...

A - Jack Julicher {BIO 5943222 <GO>}

Yeah...

Q - Johnny Vo {BIO 5509843 <GO>}

Increase the risk for insurance liabilities?

A - Jack Julicher {BIO 5943222 <GO>}

Yeah. 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 two parts. One part is a slight re-risking. So, Chris explained that we have to go with 3 percentage 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.

Across 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 basis points to 180 basis points. The remuneration for illiquidity is around 40 basis points to 70 basis points. And that is an asset class where I think there is some value in.

In general, you can say real estate is another class where there is some value in. In general, you can say certain classes in, for example, infrastructure debt because of the attractive treatment on the Solvency II. But in general, I can say markets are relatively expensive, almost all markets. And where we're underweight is certainly is in severance, for example. Equities are also fairly expensive, relatively.

And when you look for credits, we are on a neutral pace, so no underweight, no overweight. And, yeah, looking to the more illiquid asset classes, you can add some value there, precluded that you are very selective, okay?

A - Michel Hülters

And then Chris?

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

(06:02:54) Just to build on it, Johnny, I think we look at it from a couple of perspectives. We need to have an asset that you – 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. It's part of a portfolio, but not as a unique skill. I think we produce our own real estate.

Dick sources our own assets. We source our own mortgages. So, those are assets where I can look my shareholders in the eye and say, I'm actually doing something with your money because I'm sourcing assets that you can't probably source yourselves. Or you have to be a really good owner. Infrastructure debt is in the current solvency treatment. We're a relatively good owner for that because there's some subsidy from (06:03:35). 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 (06:03:46) of loading up on illiquid assets or doing bank loans. If you go that market, I'd be very hesitant to add anything that is, like, single B private equity-backed covenant live 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 asset classes, we're going to be a bit restrained.

On your question on IFRS 17, that's a very good point. I mean, the issue is that the 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 centigrade. 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 the development of earnings in IFRS 17 will be more similar, more akin to Solvency II. So, today, you can have a 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? And if you divide €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 the number I can grab. I will have an audit trail by that time. And now, honestly, we need to see what the centigrade, 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 earnings. So, that's a good part of it.

A - Michel Hülters

Okay. Hadley?

Q - Hadley Cohen {BIO 18331131 <GO>}

Thanks very much. 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 in the UK particularly that high street stores are closing down and the value of UK retail REITs is reducing. And how do you think ultimately the high street needs to evolve, I guess, to become more food and entertainment-orientated? And how are you thinking about that with regards to your portfolio going forward?

And then I guess linked to Johnny's question on IFRS 17 for Patrick or Chris. But 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 of the realized gain reserve which is about 40% of your operating profit?

And I guess 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?

A - Michel Hülters

Okay. Dick, first question?

A - Dick Gort {BIO 16118720 <GO>}

Yeah. Well, I think, of course, there's a lot of doubts about retail internationally and especially if you look to the UK, 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 retail on the High Street but on the best High Street location of the Netherlands because there are a lot of High Street locations in different cities which we're not investing in. So we're 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 are 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 food and beverages. We see it also in high street. So, 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 Hülters

Okay. And a second question, Chris. I think it's for you.

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

Let me start, and, Patrick, you complement. 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 relatively to fulfillment cash flows.

So, I think we'll lose shadow accounting contribution, you get CSM in return. And comparatively speaking, our CSM qualifying portfolio, actually, to 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 – honestly 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 have been what's the delta EV (06:10:19). 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 the 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 the delta equity or percentage growth in equity is the new ROE in that timeframe.

Patrick, do you want to add to that?

A - Patrick Klijnsmit

Yeah. And 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 cost and, well, we will get some added value.

And of course, we also had the impact as you see also 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? No. It is a new base point and from thereon, we'll see what happens.

A - Michel Hülters

Okay. Can we have first Farquhar, please?

Q - Farquhar C. Murray {BIO 15345435 <GO>}

Hi, there. Farquhar Murray, Autonomous Research. Just a couple of questions firstly to Dick. I think on slide 135 of your presentation, you're kind of showing revenues and assets under management within the AuM business. I mean, on the third-party side, it's obviously rising, but on the fees revenue side, you really aren't 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?

And then just secondly on the €1.7 billion of retail, just to follow up, I had this question, how much of that is very clearly in a city prime exposure and how much is obviously potentially second rate-type locations?

And then a quick one just to Jack. On the mortgage market, obviously, you're saying 140 to 180 basis points is attractive. Could I just ask what level of margin would be unattractive and also what kind of volume aspiration would you have from here? Thanks.

A - Jack Julicher {BIO 5943222 <GO>}

Okay. Start with Dick.

A - Dick Gort {BIO 16118720 <GO>}

Yeah. Okay. If I understand your question correctly, you were talking about fee pressure on the slide on...

Q - Farquhar C. Murray {BIO 15345435 <GO>}

On the third-party AuM.

A - Dick Gort {BIO 16118720 <GO>}

Yeah.

Q - Farquhar C. Murray {BIO 15345435 <GO>}

It looks like – on the third party AuM, it's like, it's about €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>}

I don't understand exactly what you mean.

Q - Farquhar C. Murray {BIO 15345435 <GO>}

So, I think if you look at slide 135, you're showing revenues by third party – by third parties, and it's about €10 million, €11 million each year for the last three years, I think.

A - Dick Gort {BIO 16118720 <GO>}

Yeah. Yeah.

Q - Farquhar C. Murray {BIO 15345435 <GO>}

And at the same time, obviously, third-party AuM is actually going up. So, it feels like maybe there's possibly some fee pressure, but the numbers are obviously in the range that it could be like the noise.

A - Dick Gort {BIO 16118720 <GO>}

Okay.

Q - Farquhar C. Murray {BIO 15345435 <GO>}

I'm just trying to understand, is there a 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 C. Murray {BIO 15345435 <GO>}

Okay. So, why is that revenue number not going up then?

A - Dick Gort {BIO 16118720 <GO>}

Well, I think we're 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 any more, we sell it. The assets under management go down and our fee goes down as well. So, there's a direct correlation with it.

Q - Farquhar C. Murray {BIO 15345435 <GO>}

Okay.

A - Michel Hülters

Okay. We'll go back to....

A - Dick Gort {BIO 16118720 <GO>}

And the second question you had about retail was which amount of assets is invested in those high street locations?

Q - Farquhar C. Murray {BIO 15345435 <GO>}

I think just trying to extrapolate straightly (06:14:25). I mean, you've got €1.7 billion at retail, and I'm just trying – you're obviously saying it's all kind of lovely inner cities, they're wonderful. I'm just trying, I guess, can you maybe a little bit specific about how much of that is obviously genuinely prime retail in inner cities which I think we'd all agree are probably pretty solid versus kind of secondary locations where maybe we've got legitimate concerns.

A - Dick Gort {BIO 16118720 <GO>}

Yeah. Okay. So two-third of the Dutch Prime Retail Fund is invested in those high street locations, in those top 20 cities. So, about 95% of high street is located in those top 20 cities. And one-third 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 those investments are supermarkets.

A - Michel Hülters

Yeah. Okay.

A - Jack Julicher {BIO 5943222 <GO>}

Yeah, then the question on mortgages, at what level it wouldn't be attractive? What we do is we use cost price models 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 (06:15:51). I would give it a very close glance at the moment that we would be at levels of 20 to 40 (06:15:58).

And then what you are asking with respect to volumes, yeah, we target on total production volumes of €2 billion to €2.5 billion in total for the insurance companies and for external parties. And in general, you can say you need for external parties €1 billion to €1.5 billion. That is what we target for the coming years.

A - Michel Hülters

Okay. Actually, can we have Benoît?

Q - Benoît Pétrarque

Benoît Pétrarque from Kepler Cheuvreux. Two questions on the asset management, one on the real estate. So, on the asset management, could you – on the €20 million target, could you come back on the earnings model behind the improvement of your operating results? I was thinking about guidance on inflows, third-party inflows, fee margins expected. And also, on the cost side, do you expect also cost to improve?

And the second question on asset management was around the – I think you have €8.2 billion of balance 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 run-off from that?

And 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 €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 lends (06:17:51). But how much capital gains do you make on the top of the kind of 2.2% yields every year? For sure, when we see participants to develop, you get a nice price for that. So, how much cap gains you do through this cycle every year on the top of the 2.2%? Thanks.

A - Michel Hülters

First question is for you, Jack.

A - Jack Julicher {BIO 5943222 <GO>}

Yeah. The percentage share unit-linked and, yeah, all kinds of policies of the insurance, that is 31%. And, yeah, the model behind the €20 million, you can say we have different flows of assets, so we have the in-sourced assets, we have the balance mandates and the ESG funds. And in general, the expected fees are between 15 basis points and 18 basis points.

And yeah, it depends on the costs and 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, yeah, we expect that we are able to do that with a fairly stable cost base.

Q - Benoît Pétrarque

(06:19:36)?

A - Jack Julicher {BIO 5943222 <GO>}

That depends, that is – what I explained was one main part are the mortgages. So, we're at €1 billion to €1.5 billion, and we expect, let's say, €0.5 billion to €1 billion in other mandates, balanced mandates, etcetera.

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

I think, Benoît, it's fair to assume that the business model of the asset management functions and real estate, it's all about fees are pretty 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 a 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 want to invest and that you want to hold in your fund? But (06:20:14) you're growing your AuM base by acquiring attractive new buildings, locations, etcetera, so in real estate, it's all about AuM. So, the growth in real estate earnings is really growth in AuM. Then 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 just a scalable business, but the AuM that comes in gives you good margins.

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 a slight margin pressure on some of the products. Simply (06:20:53) 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 be surprised there would be some small margin pressure on the mortgage funds.

But in earnings-wise, AuM will allow us to grow that business. So it's – and that's a scalable business. So adding another €1 billion of mortgages doesn't require a single, more additional FTE. So, it's a scalable business, some top-level margin pressure, but then there's cost scalability which can be exacerbated by insourcing some assets that are done by third parties who can bring that home (06:21:27).

A - Michel Hülters

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

A - Dick Gort {BIO 16118720 <GO>}

Yeah. Thank you. Well, the €4 per square meter is about right. That's good math, I think. That's 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 the 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. We then topped those moments of luck we had, but I don't know by heart what the amount is exactly.

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

But the land it's really not how to develop each (06:22:32) farmland. So, if someone's developed it, 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, and then there's land scarcity. That's actually what causes a gradual uplift in value. It's not a development play.

Q - Benoît Pétrarque

Because you assumed 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 book, but it's probably linked to this relatively low return you make on your lands, right?

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

Well, a few things first (06:23:18), the non-land business has a 4% to 5% direct return still, right? Actually in capital gains. So, the non-land, the office are highest and residential house 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, yes, as Dick said, we've been delivering 9% total return, over, how long a period?

A - Dick Gort {BIO 16118720 <GO>}

15 years.

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

15 years and...

A - Dick Gort {BIO 16118720 <GO>}

Or even longer.

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

...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 is value appreciation of land. Maybe not 9%, but there is – well, definitely maybe more than 2.5% because the history and the trends in the farm market as such, in the agricultural market as such that are still looking – people are still looking for land.

A - Michel Hülters

Okay. Before, we – yeah, I know, Farooq. So, before we 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>}

Thank you very much. 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 offered, not talked to a lot. What solutions do you have or what are you thinking about into retaining those customers? I was wondering if that's something you could possibly comment on.

And then the second question for Jack about infrastructure. I mean, you seem to be doing some, but your focus is elsewhere. But it's obviously very attractive on the 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 the duration? Could you comment on that? That would be quite useful. Thanks.

A - Philippe Wits

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

Q - Farooq Hanif {BIO 4780978 <GO>}

(06:25:16).

A - Philippe Wits

Yeah. I know, absolutely. So, one of the things we're doing and that is also the reason why the chatbot order or the voicebox is there is to actually take out all kinds of stuff which customer 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 a chatbot and straight-through process customers in and out of the door. So actually what we're doing is we're actually building their – one, we're actually using big data out 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 lead-in (06:26:10) the products or give them a better product as Karin was explaining, for example, unit-linked. I mean, sometimes it's better that a customer surrenders into another product. So, those are just two examples on how we are thinking about it and what we're doing.

A - Michel Hülters

Julicher?

A - Jack Julicher {BIO 5943222 <GO>}

Yeah. 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 a balance sheet of an insurer. But that means that nevertheless, the fact that it is a financial treatment on the 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 is a compression of margins. So then you don't meet that hurdle for a return on equity. But where the sweet spot is in the somewhat medium-sized projects and there's a sweet spot and that's the spot we are looking at.

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

But you have to look very hard. If you go to the European landscape of infrastructure funds, the bulk of it is in the UK. I mean, the UK had to develop infrastructure markets or the U.S. and given all developments on Brexit, we don't want to be overexposed to the UK infrastructure market. So, you'd be looking for Eurozone infrastructure products. 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 if you go blind into an infrastructure solution you get to, as Jack says, low-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 products, and we'll be very selective, and you look for very specific partners often in the smaller size or very niche markets to get infrastructure product that gives you the yield that you want.

Unfortunately, it's hard to deploy €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 reinsurers in Europe has decided to turn its reinsurance engineering skills into an infrastructure fund, which we like about. 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 park them with someone you know very well, and you've got more or less proprietary access to infrastructure funds. 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.

A - Michel Hülters

Okay. We have to end the Q&A for this session right now. We are around for drinks, so if you got any further questions, I mean everybody is still around to give you the A to the Q that you still have. Thank you for the session, gentlemen. You want to stay?

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

It looks like you rehearsed it pretty well. So...

A - Michel Hülters

And 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 it was an exciting day. We were very proud that we were able to present a.s.r. to you in a way as we did it today. We delivered over the past two and a half year what we have promised to our investors and even more since the IPO in

2016. We will continue our journey going forward 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 at-targets in terms of return on equity, with at-targets in terms of OCC delivery, and on top of that, profitable organic growth in Non-life, opportunities in consolidation of the Life business and potentially some opportunities in the Non-life business also.

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 the 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. And 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 entitled 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.