Capital Management at a.s.r.

Solvency II
is all about stock and flow

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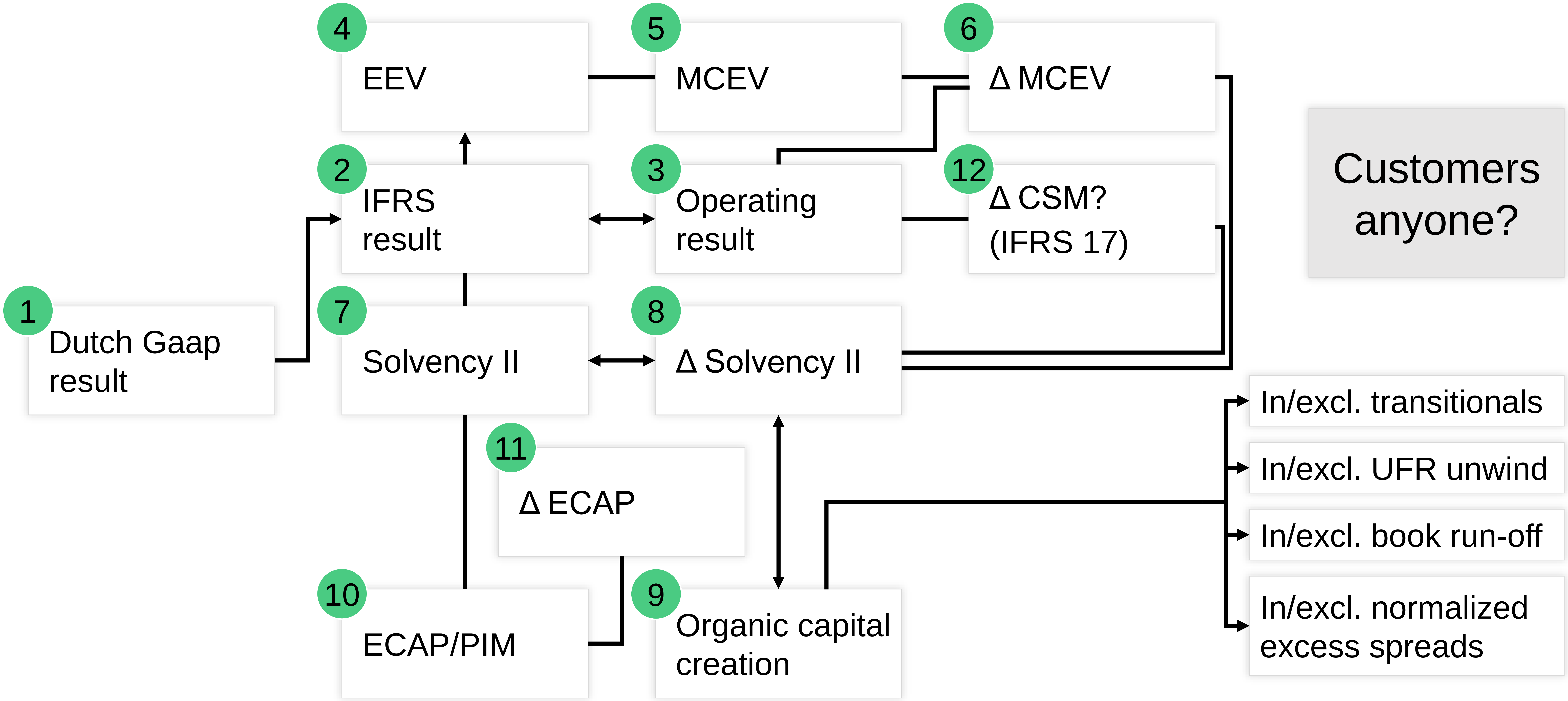
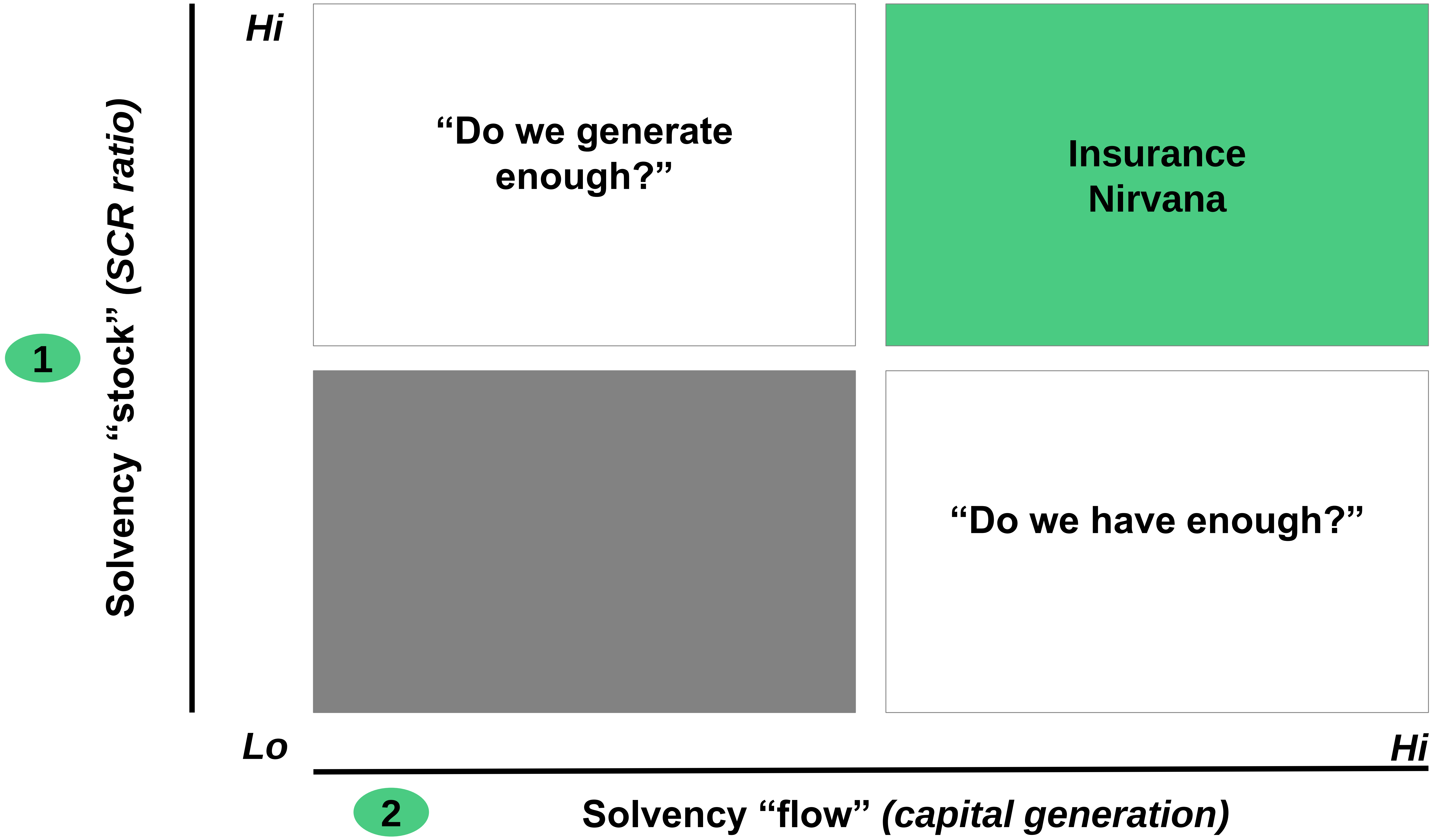
DNB Insurance Conference

Topics

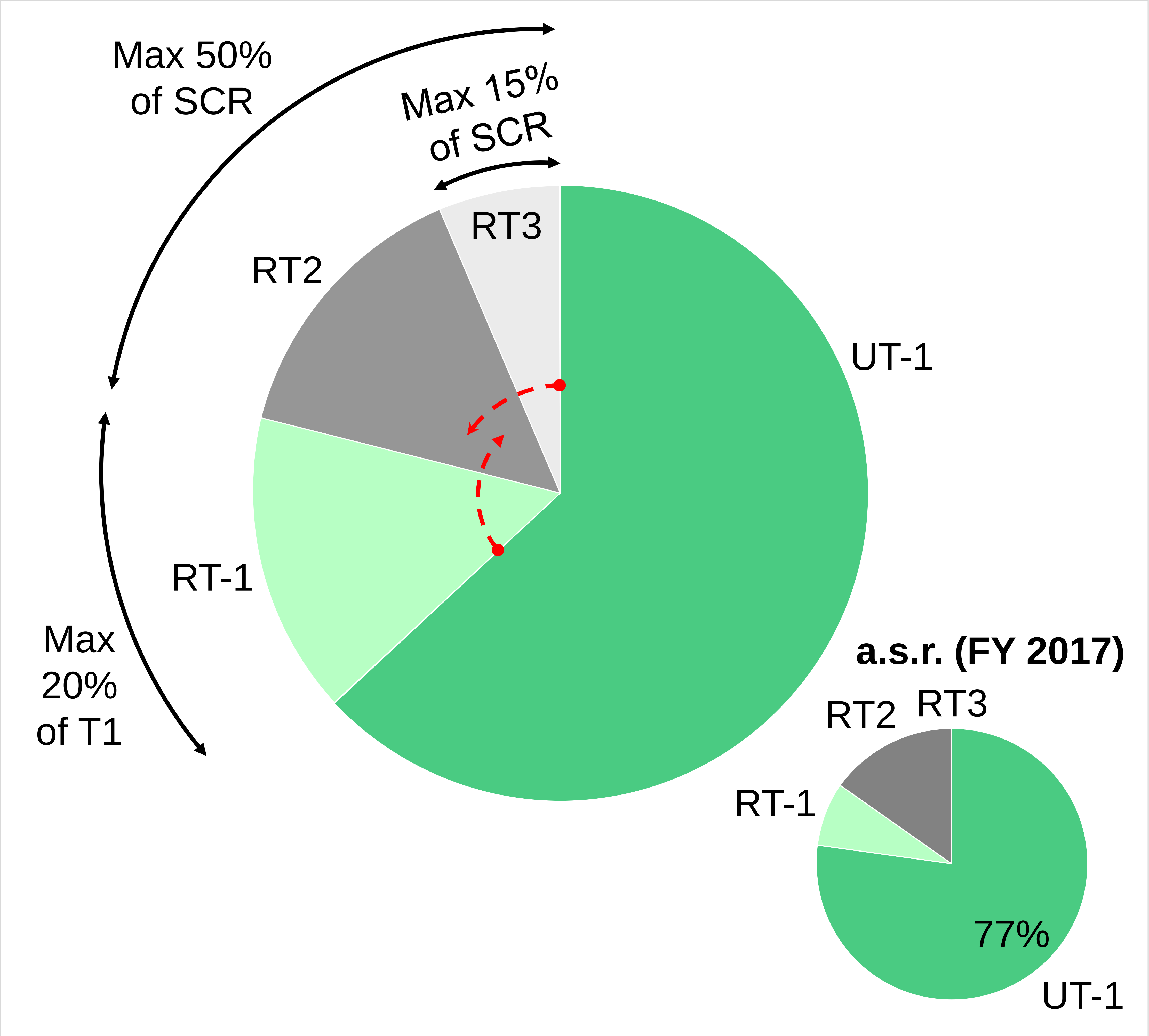
Evolution of insurance metrics



Dynamics of Solvency II: balancing stock and flow



Quality of Capital: The next focus point



RT2 / RT3 headroom is effectively a function of required capital including market risk

DTA's will consume RT3 space; eventually also reducing eligibility of RT2 capital

Upon decline of UT1, RT1 will move into RT2 category

Ineligibility not a problem in "all is well scenario", but may become a serious issue in case of asset losses, interest rate increases etc.

Beware of the spiral accelerating effect; down is dangerous!

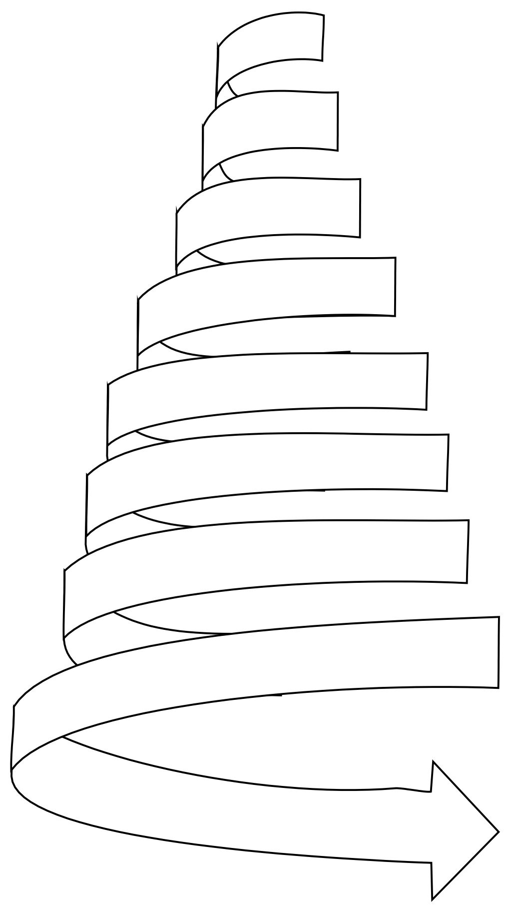
- Reduced capital requires de-risking, reducing future capital generation capacity

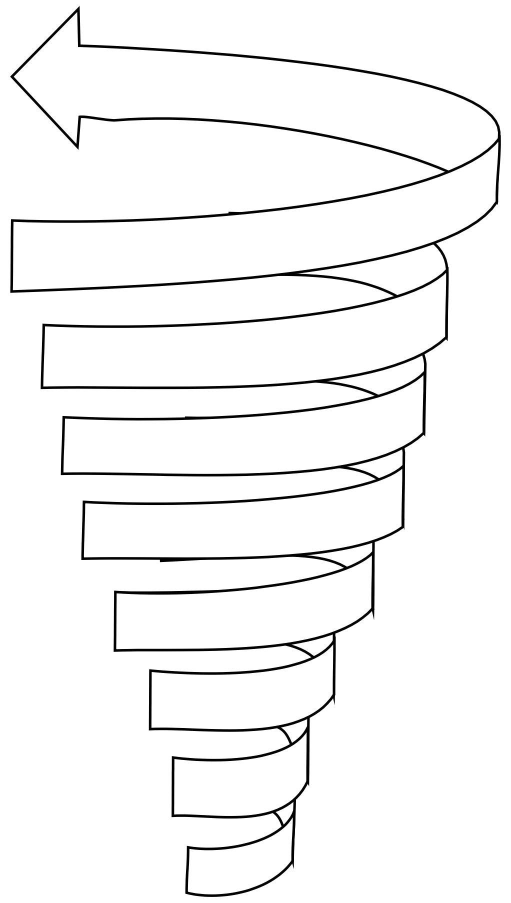
- Evaporation of vulnerable LACDT components

"Sudden" ineligibility of:

  RT1 / RT3 due to negative market developments

  RT2 / RT3 due to de-risking





- Capital enables generation of flow that creates future capital

- Excess returns continue to be realized

- Invest in value enhancing opportunities

Indicators of “positive/negative spiral” potential

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Restricted Tier 2/3 capacity fully utilized	LACDT dependent on current and future fiscal profits
Underperformance BEL assumptions	Market risk largest source of required capital

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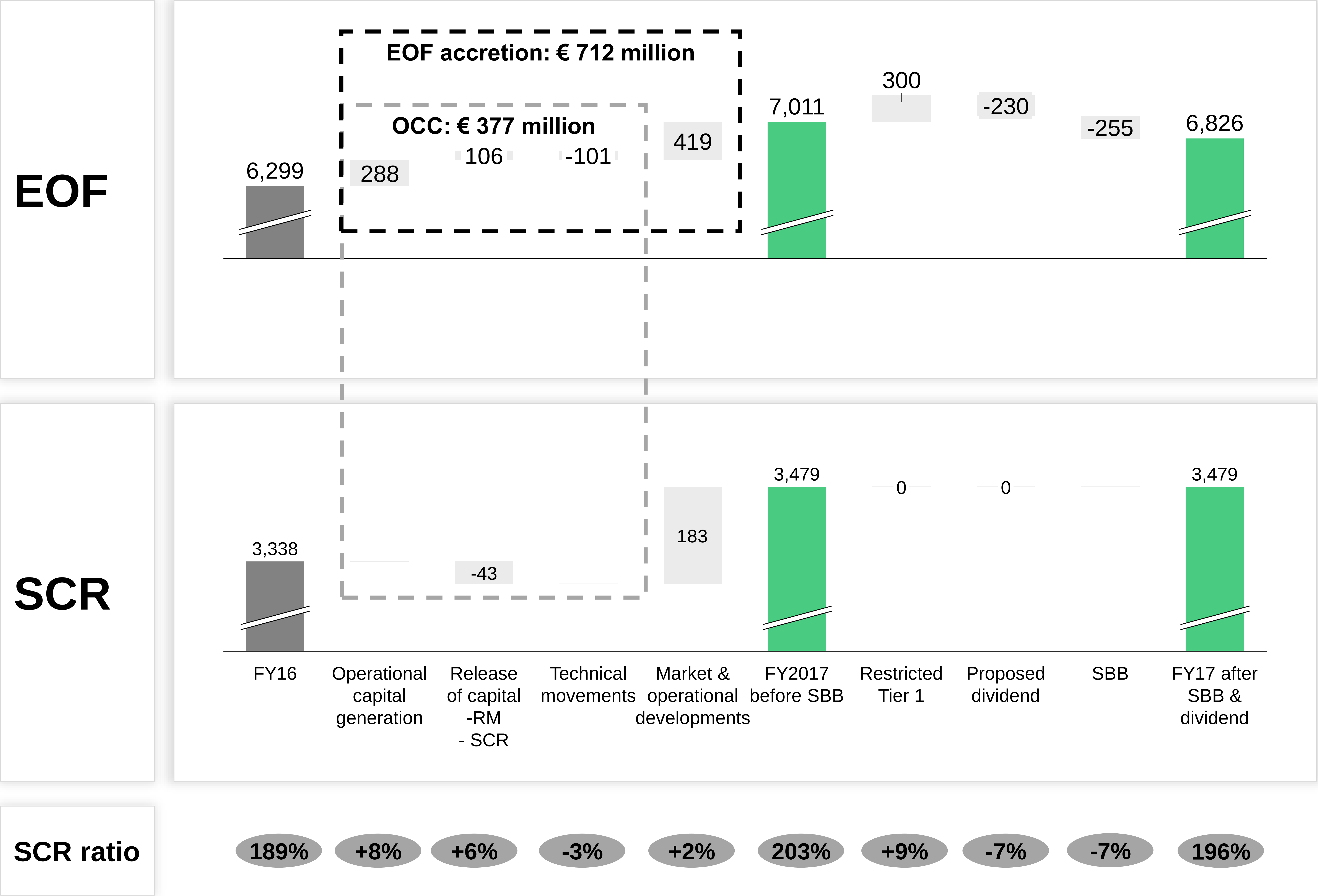
Headroom in Restricted Tier 2/3 capacity	LACDT founded in tangible claims against tax authorities
Outperformance BEL assumptions	Underwriting and counterparty risk largest source of required capital

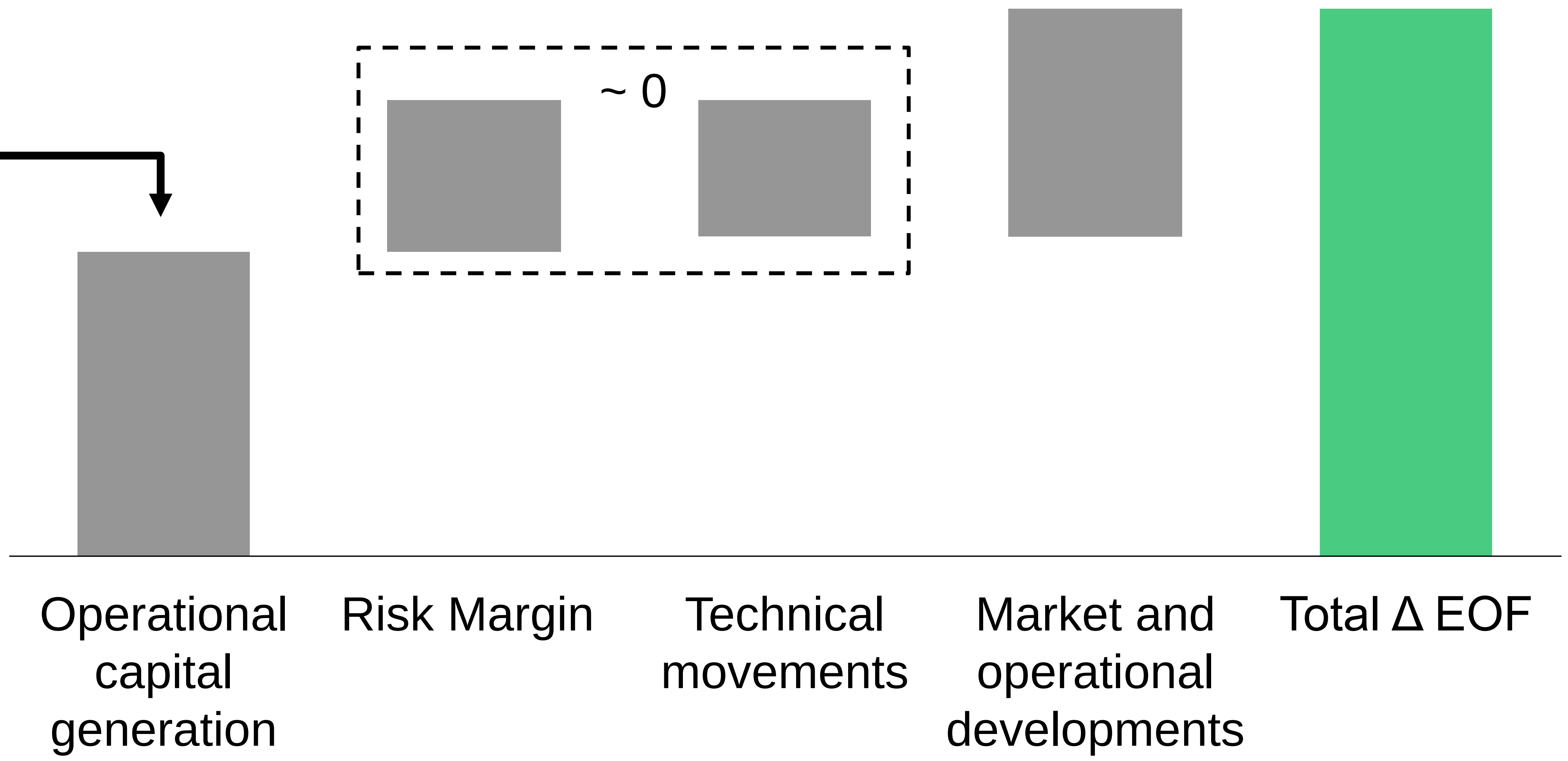
Flow perspective: OCC & EOF accretion



How to positively impact ‘flow’

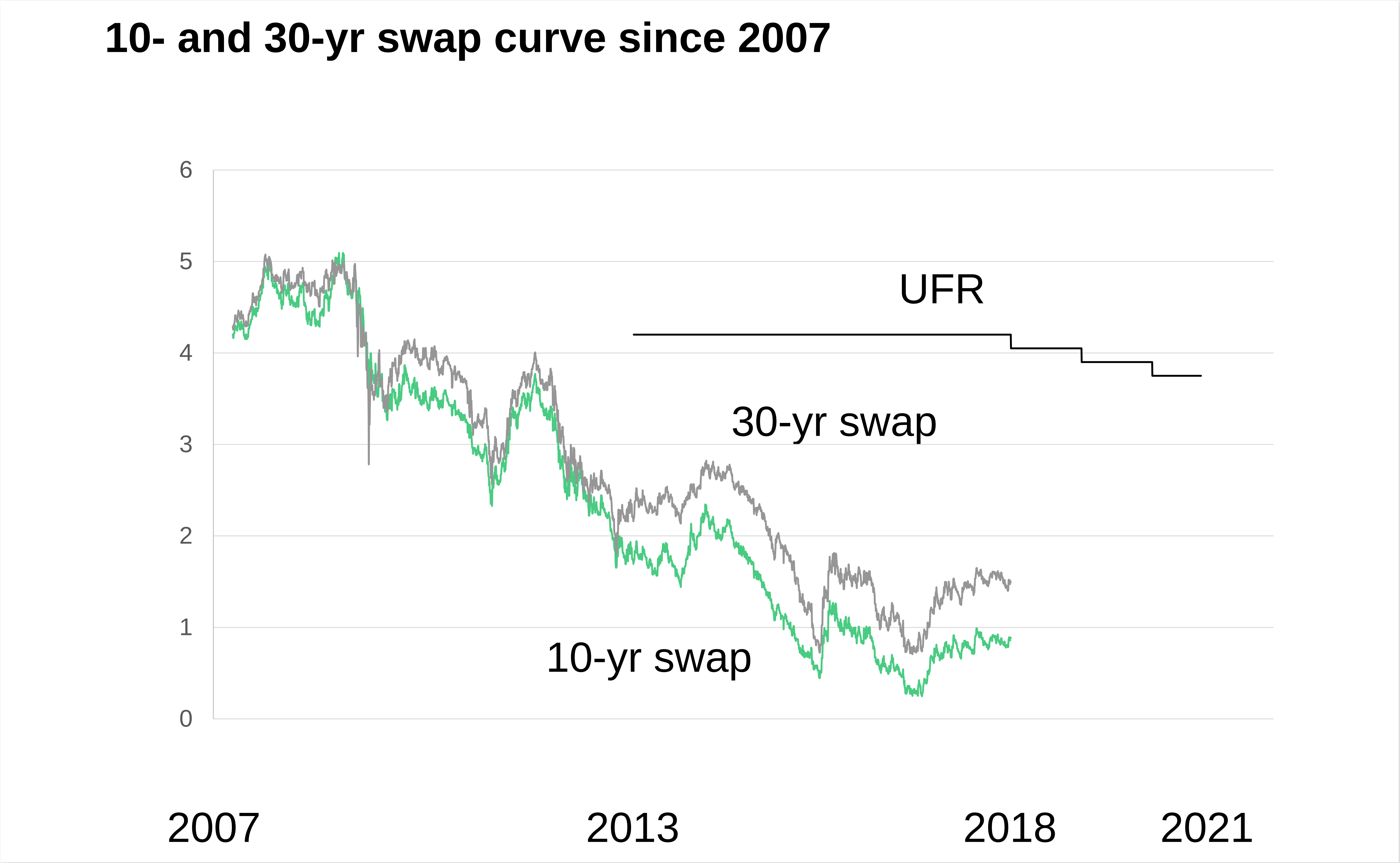
- Re-risk investment portfolio with focus on investment returns
- Increase investment portfolio
- Write profitable new business
- Increase capital light and/or fee-business
- Reduce financing and holding cost
- Improve operating and underwriting performance Non-Life

a.s.r. EOF bridge



- Increase total investment return
- Outperform BEL assumptions (esp. Life)
- Realize cost and capital synergies

What about the UFR?

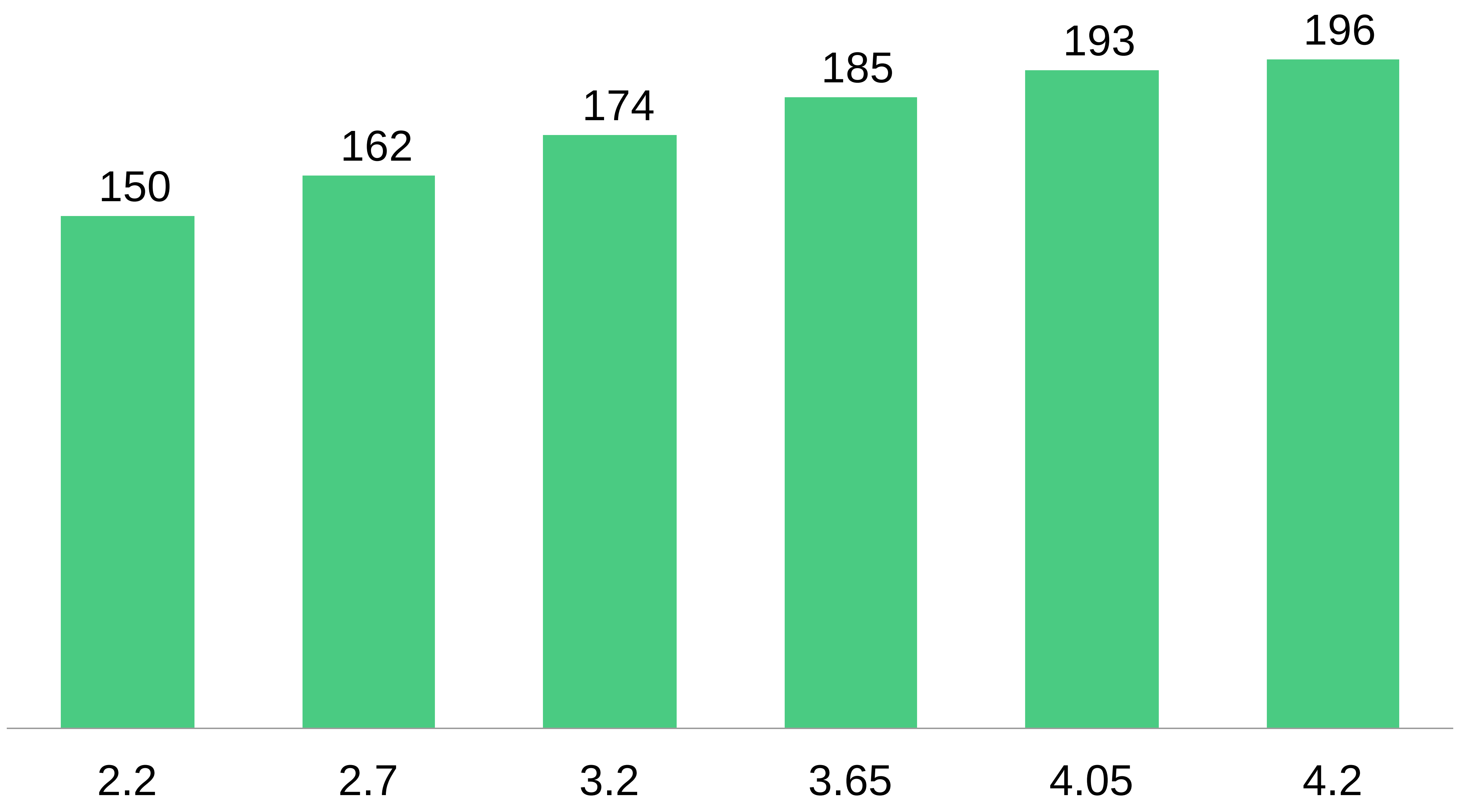


As from 1/1/2018 the UFR is decreased with 15bps from 4.2% to 4.05% and further downwards thereafter in steps of 15bps

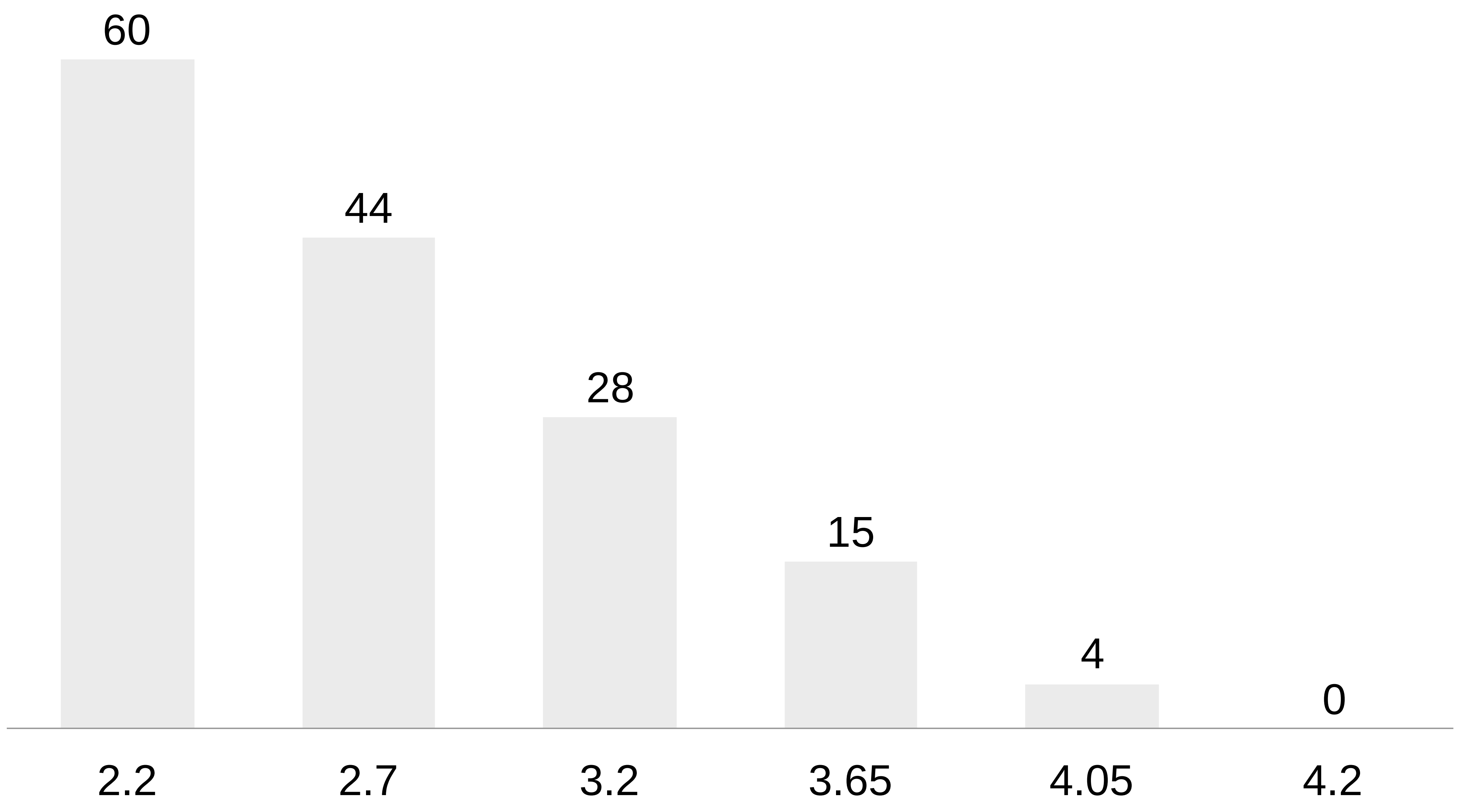
- Current target of 3.65%, to be realized in 2021

Indifferent to UFR?

Stock of SII* (in %)



Additional annual OCC (“flow”) of SII from lower UFR unwind (in € mln)



* Excluding a.s.r. Bank.

Capital distribution capacity and UFR effect assessed via 3 perspectives

How much room to distribute capital?

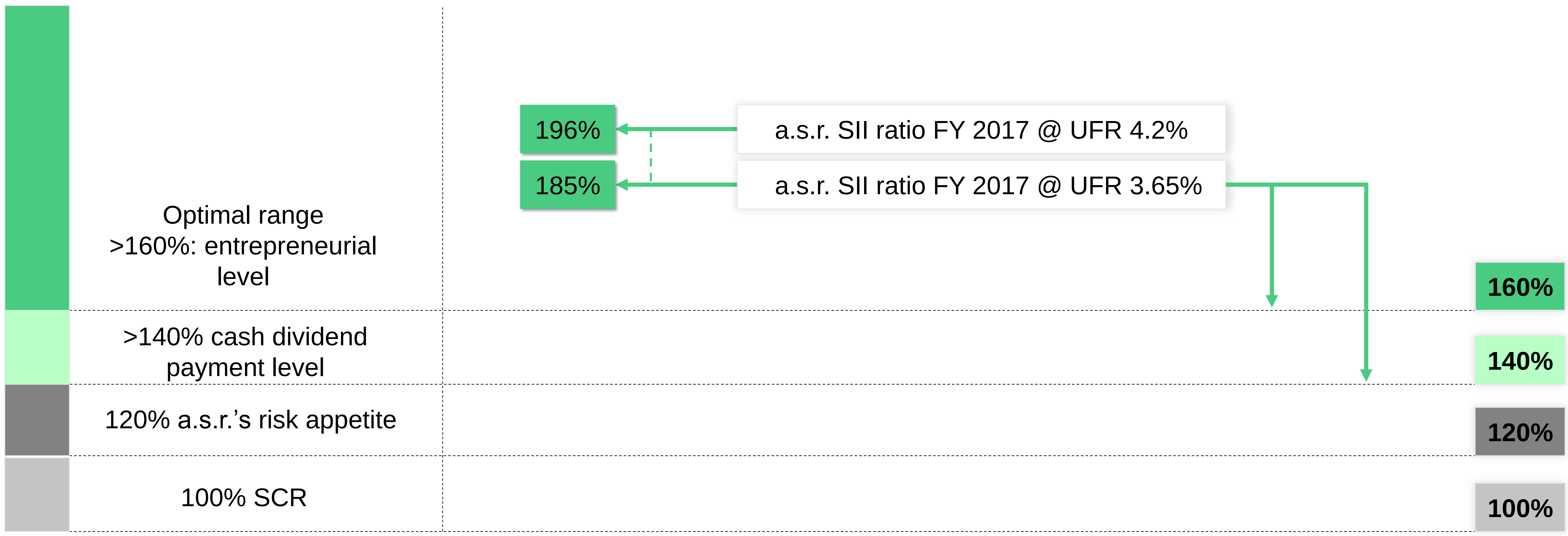
	1	2	3
Based on…	Headline SII ratio at "nominal" UFR	Economic UFR, representing achieved investment results	Available capital based on "exit" scenario
vs what norm	Capital management ladder	Substantially above 100% norm (120% soft limit?)	Capital level at exit value safely above zero
Useful for	Ordinary, across the cycle typical dividends	All distributions to shareholders	All distributions to shareholders

Current a.s.r. practice (1, 2) — **Additional perspective** (3)

Dividend capacity according to perspective #1
“Nominal” UFR

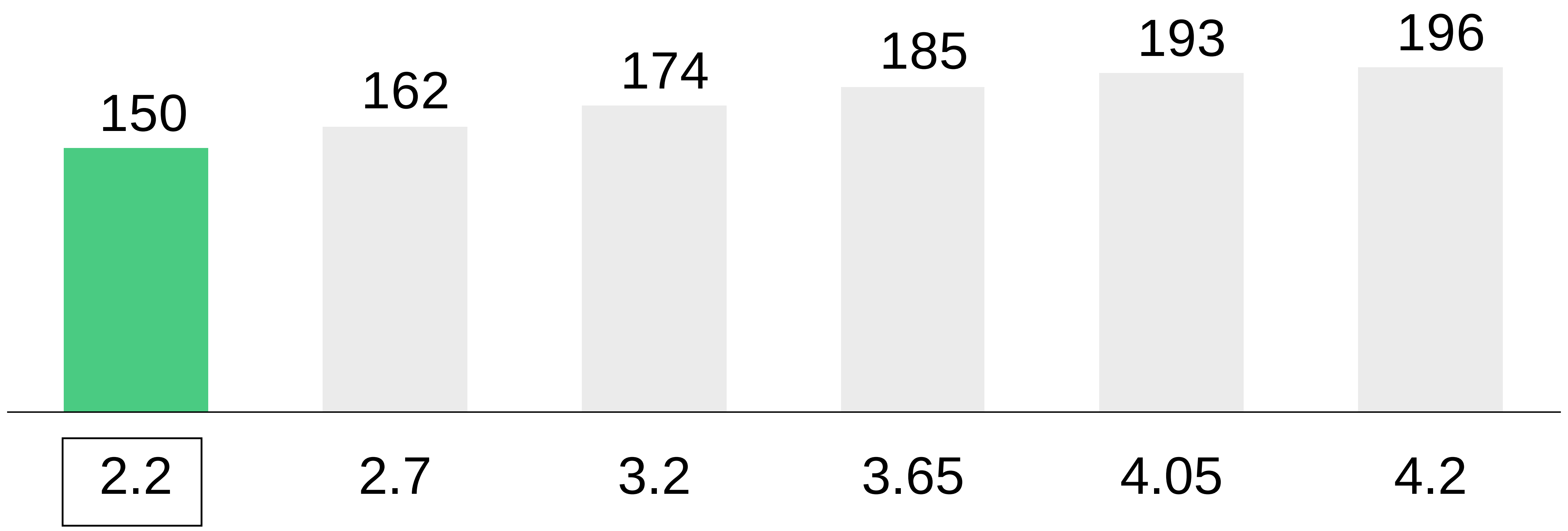
Across the cycle dividends

Solvency II management ladder (based on standard model and UFR of 4.2%)



Dividend capacity according to perspective #2
"Economic" UFR

Solvency II ratio FY 2017



- Economically, a UFR that is in line with long term investment results would be optimal way to measure capital base (and compare to >100% threshold)
- Typical current direct investment return a.s.r. portfolio >2.2%
- Internally and at current yields, a.s.r. increasingly monitors SCR at UFR of 2.2% as metric for long term financial health

Dividend capacity according to perspective #3
“Exit” scenario

Economic assumption

- Immediate freeze
- De-risk business
- Protecting the rights of the policyholder

Basic modelling assumptions

- Solvency II ratio ex. UFR
- Solvency II ratio ex. VA
- Solvency II ratio ex. DTA
- Capture small but relevant illiquidity premium / capped VA

“Enhanced” modelling assumptions

- *Soften risk margin charges (CoC)*
- *Immediate expense reduction*
- *Recoverability measures*
- *Synergies from arms-length transaction*

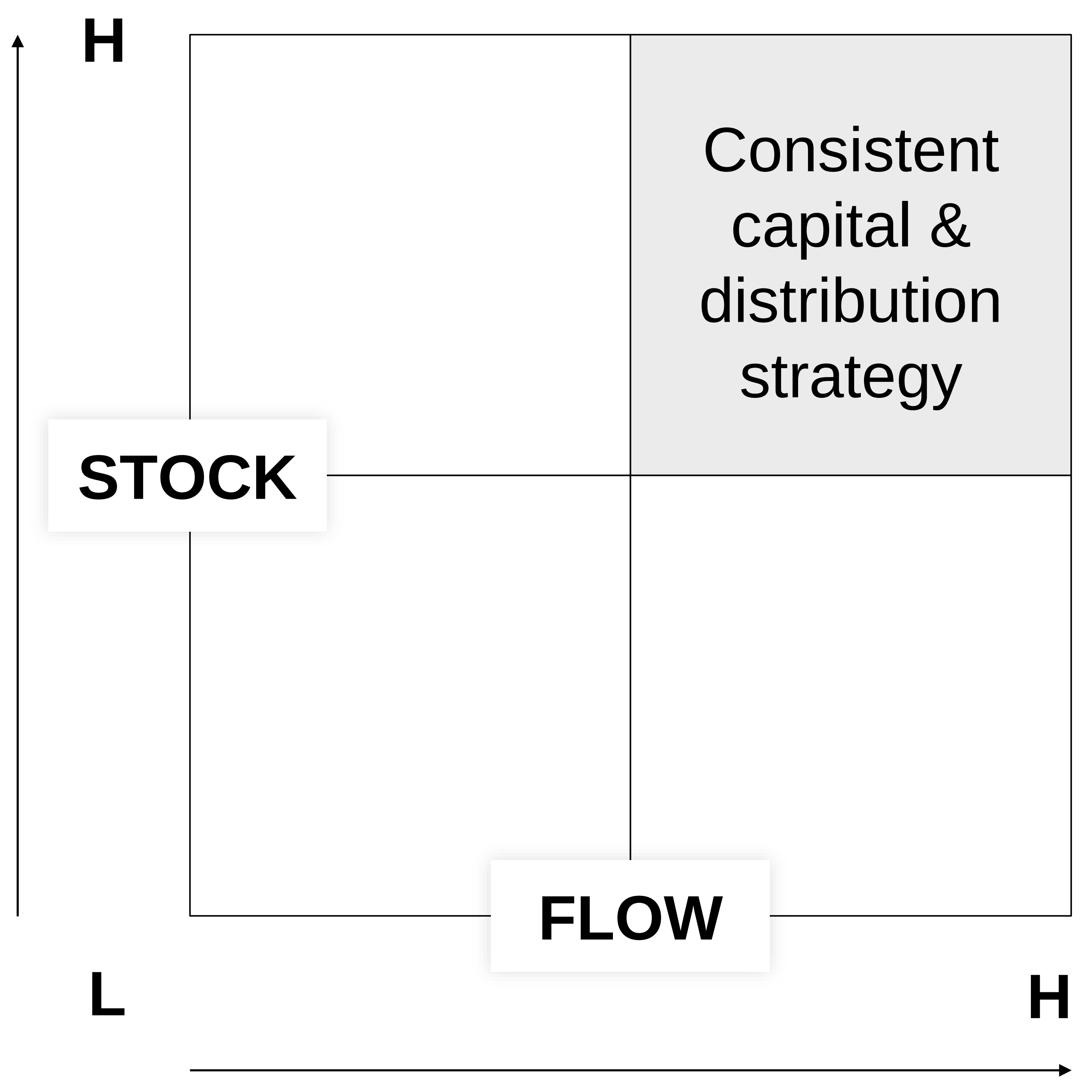
?

Current a.s.r. (w.i.p.) perspective on exit value scenario: Total EOF safely above € 0

Summary: stock & flow, it’s all about the trade-off

- Tier 1 / 2 / 3 contribution
- Assumptions in BEL
- Sensitivities
- Standard formula vs. PIM
- Other …

Quality of capital “STOCK”



Contri-bution of capital generation “FLOW”

- Excess returns
- Underwriting results
- Managing of costs
- Realizing synergies

Afterthought… themes for coming years

Best estimate assumptions

- What assumptions in COR, cost level are embedded in your BEL? Especially in LT liabilities
- As time passes, are you meeting or matching these? Will you be able to outperform your BEL assumptions?

Balance sheet metrics

- With IFRS 17 inevitable approaching, what metrics will you steer your balance sheet on going forward?
- Interest cover based on OCC? Financial leverage related to UFR-adjusted EOF?

Tiering and capital eligibility

- Under what scenario's will you face ineligible capital (RT2, RT3)?
- What if rates go up, create DTA's and diminish RT3 and RT2 space?
- If you'd take a Solvency II hit and have to de-risk, would that eliminate RT2 eligibility?

EOF growth

- Will (sustainable) growth in EOF become the relevant "next generation" metric?
- How does UFR unwind relate to risk margin release?