# Capital Management

## Solvency II:
## optimising stock and flow

Chris Figee, CFO

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# a.s.r. at a glance

Founded in 1720; deeply rooted in Dutch society

#3

Leading market positions and strong #3 overall

a.s.r.

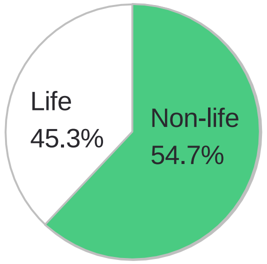
ARDANTA

Ditzo

europeesche verzekeringen

DE AMERSFOORTSE De Ondernemersverzekeraar

Multi-brand and multi-channel distribution; focus on intermediaries




Business mix by GWP €4.4bn 2016

3,500

Employees(fte)

1,500,000

Households (Retail customers and SME)

Value over volume

key strategic principle

Organic & inorganic growth

to enhance capital generation

2008

Nationalized; no state aid received

2016

successful IPO

2017

Privatization completed

# Disciplined execution and delivering on medium-term targets (communicated at IPO)

| Solvency II (SF) | Operating return on equity | S&P rating (insurance business) |
|---|---|---|
| 196%* | 15.6% | Single A |
| **>160%** medium-term target | **Up to 12%** medium-term target | **Single A** medium-term target |

| Combined ratio Non-life | Operating expenses | Financial leverage |
|---|---|---|
| 95.1% | € 584m | 25.3% |
| **<97%** medium-term target | absorbing cost base of acquisitions; on track for medium-term target | **<30%** medium-term target |

*Excluding a.s.r. Bank and after proposed dividend

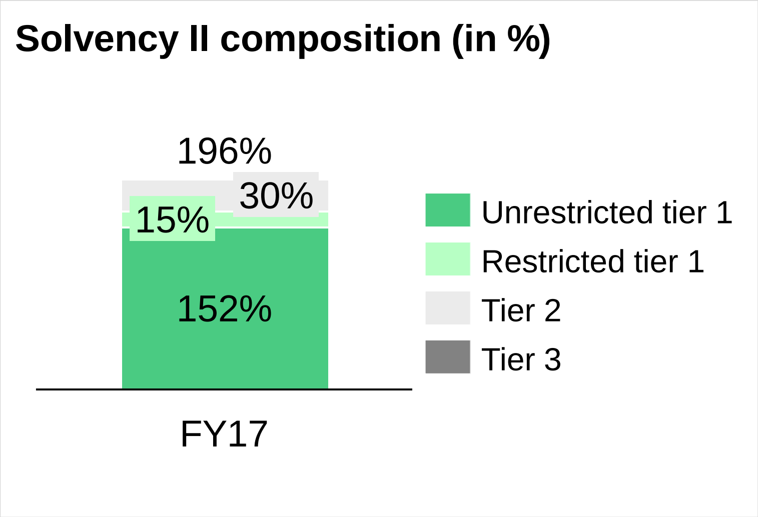
# Strategy to create value for customer and shareholder

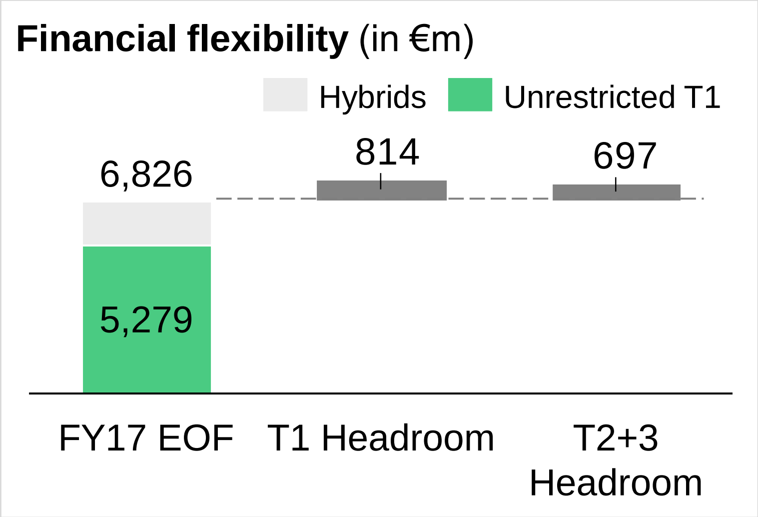
- Meeting customers' needs
- Excellence in pricing, underwriting and claims handling
- Cost effectiveness
- Solid financial framework

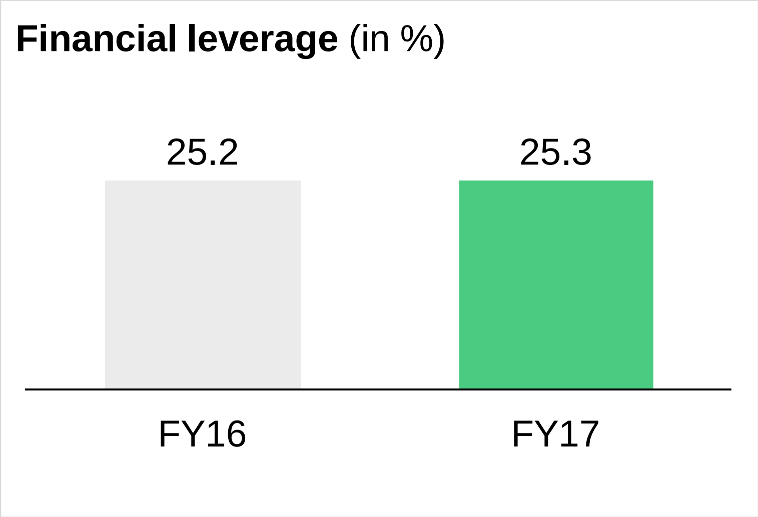
**Our principles drive value in our business portfolio**

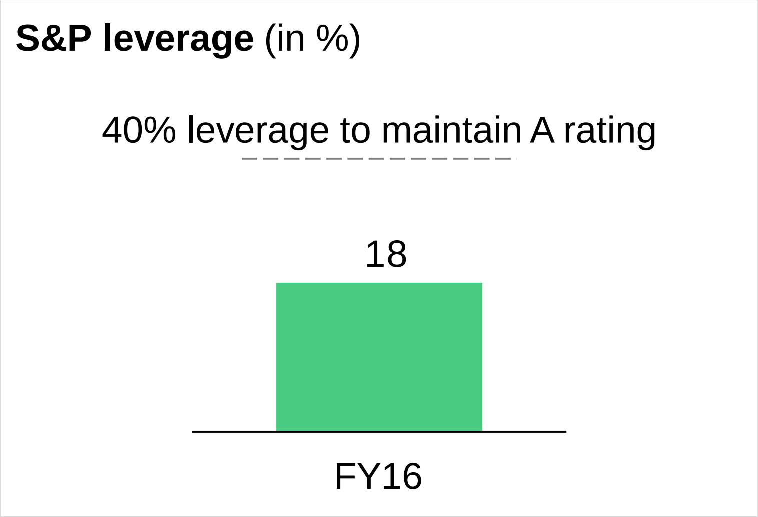
- Stable cash flows and value generating businesses
- Robust and predictable back books
- Business enhancement opportunities

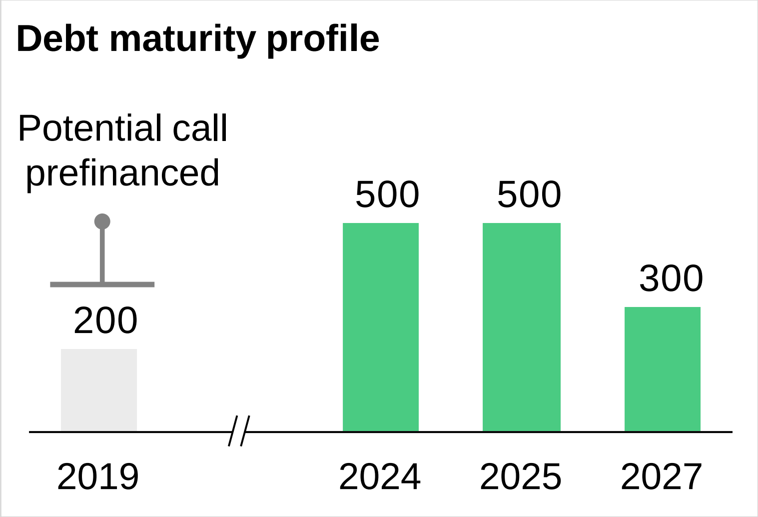
# Strong and resilient balance sheet

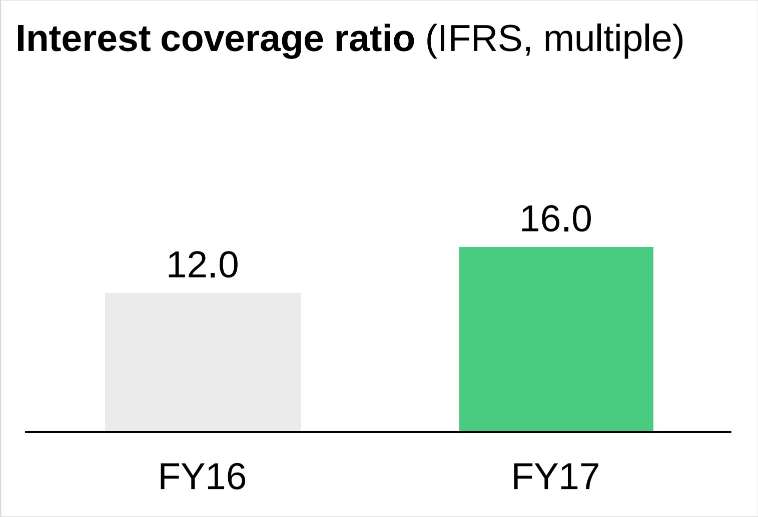


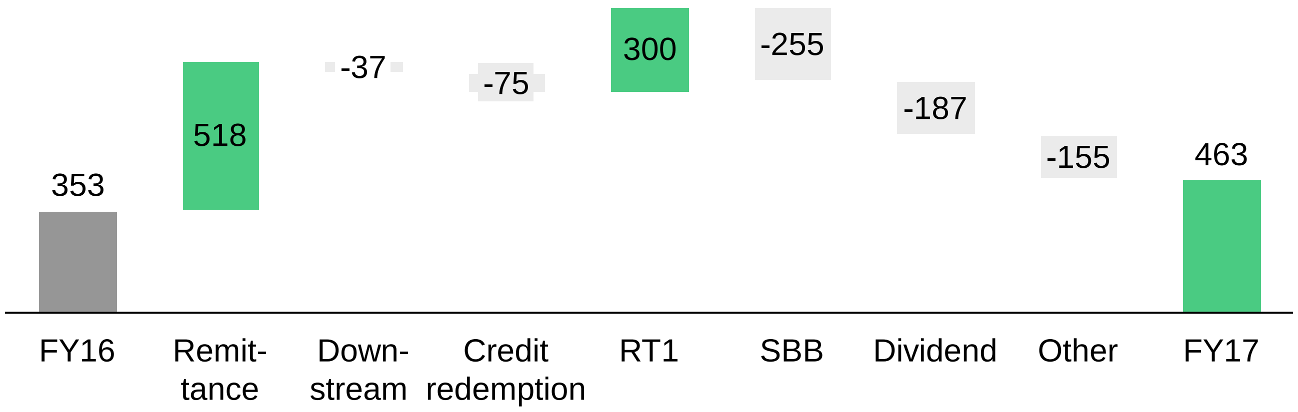



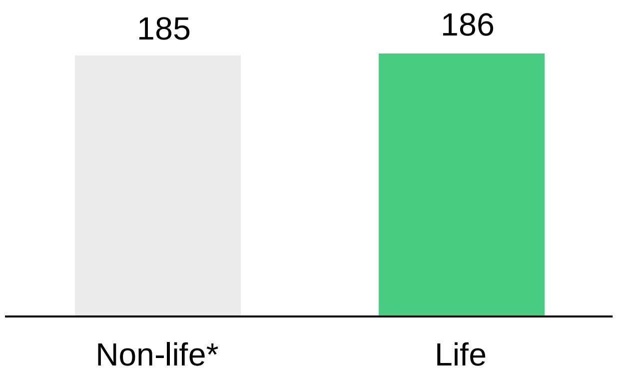



# Unencumbered access to pools of liquidity

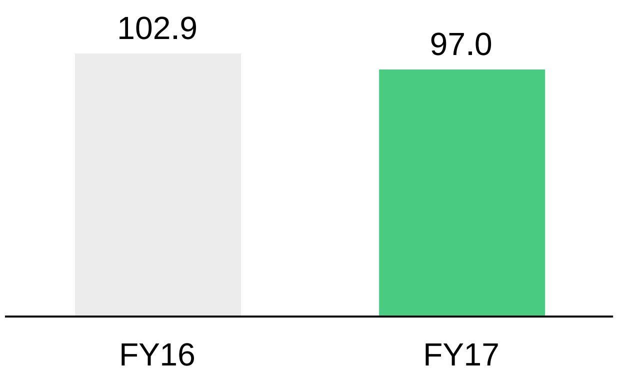
**Cash remittance** (in €m)




**SII entities** (in %)



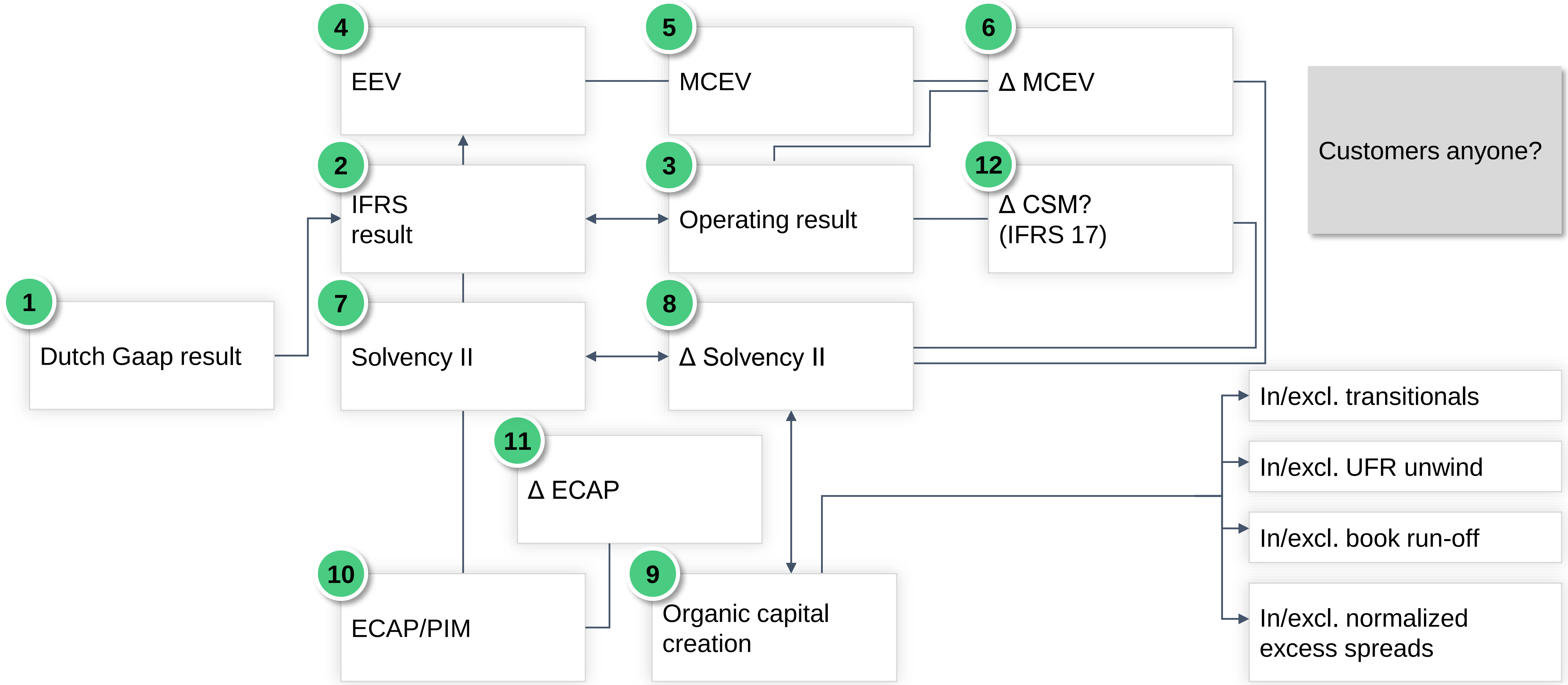

**Double leverage** (in %)



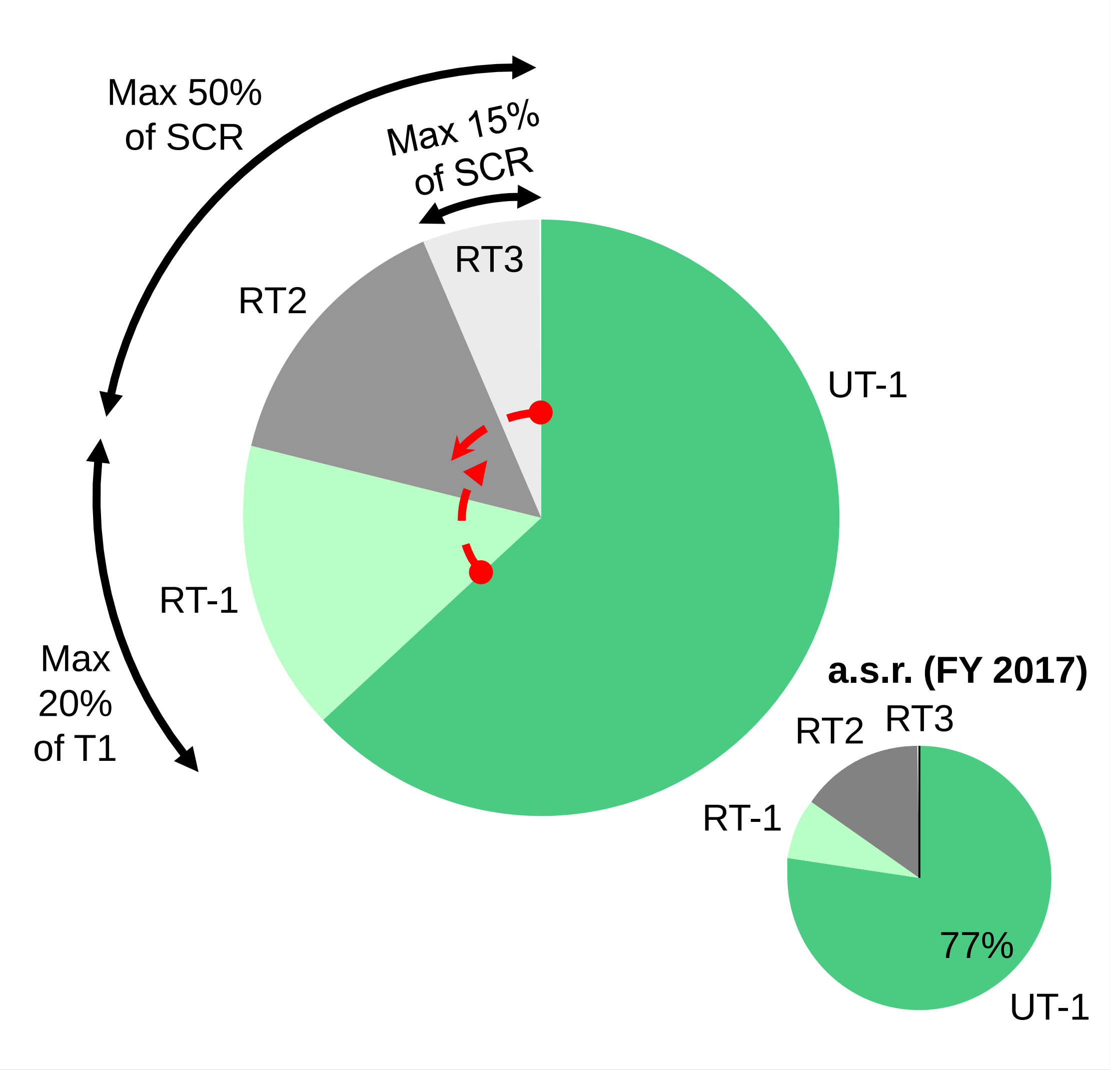

- Holding cash of € 463m at year-end 2017, safely above the year-end target of € 350m
- Total shareholder return of € 442m in 2017
- Strongly capitalised operating companies:
  - Strong track record of operating companies upstreaming cash
  - Remittance of operating companies exceeded OCC
  - Remittance of operating companies exceeded the net result after tax and hybrids
  - Low double leverage
- The a.s.r. policy is to maintain cash where it can yield, therefore a.s.r. will only upstream cash if applicable
- Other cash remittance consisted primarily of holding costs and hybrids costs

* Excluding a.s.r. Health

# Evolution of insurance metrics



# 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.**

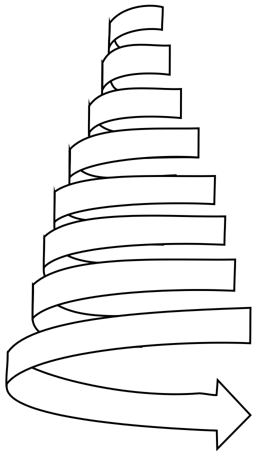
# Beware of the spiral accelerating effect; down is dangerous!

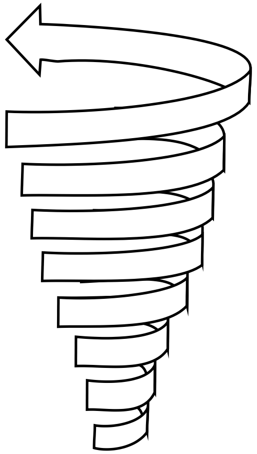
- Reduced capital requires de-risking, reducing future capital generation capacity
- Evaporation of vulnerable LACDT components

“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

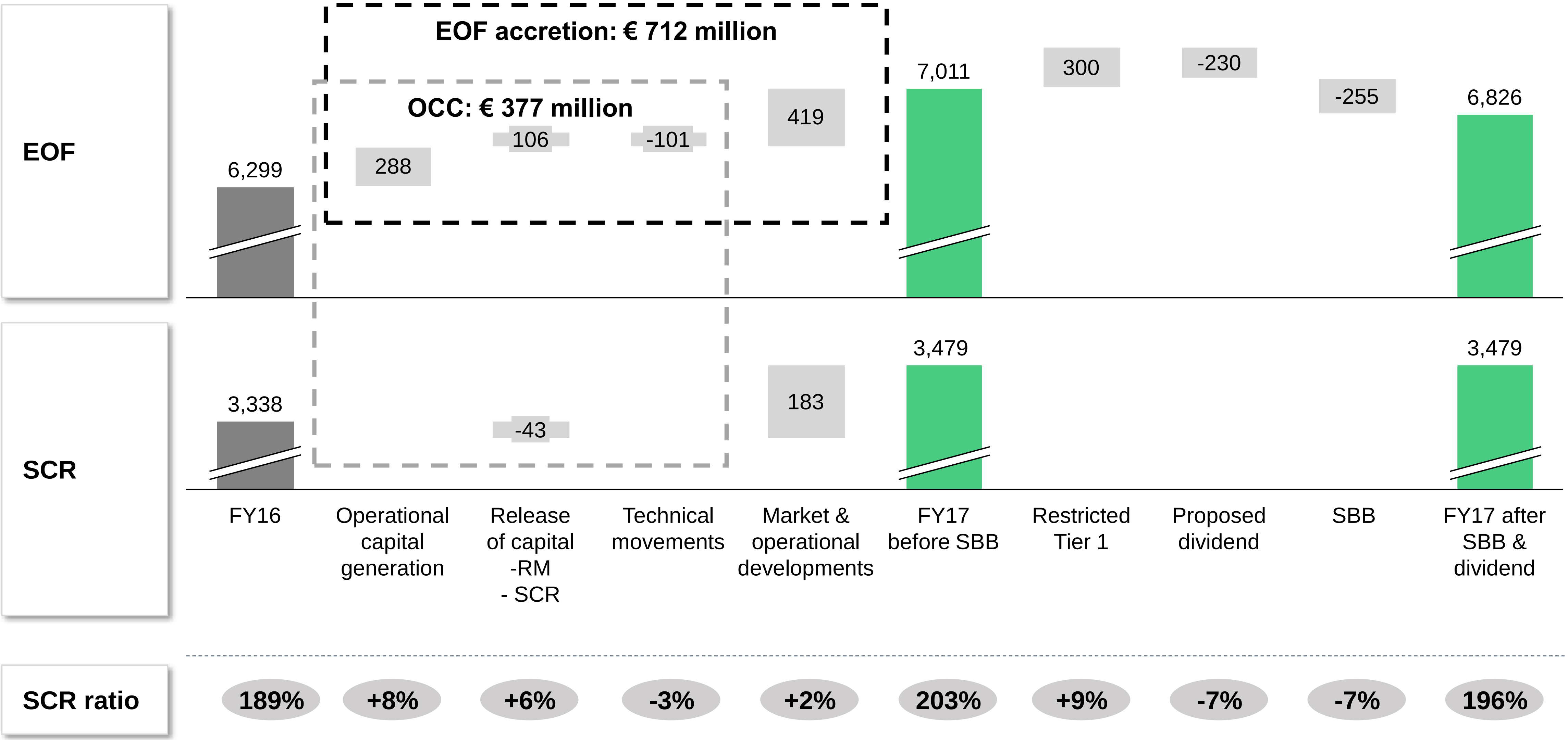
**−**

| | |
|---|---|
| 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 |

**+**

| | |
|---|---|
| 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 |

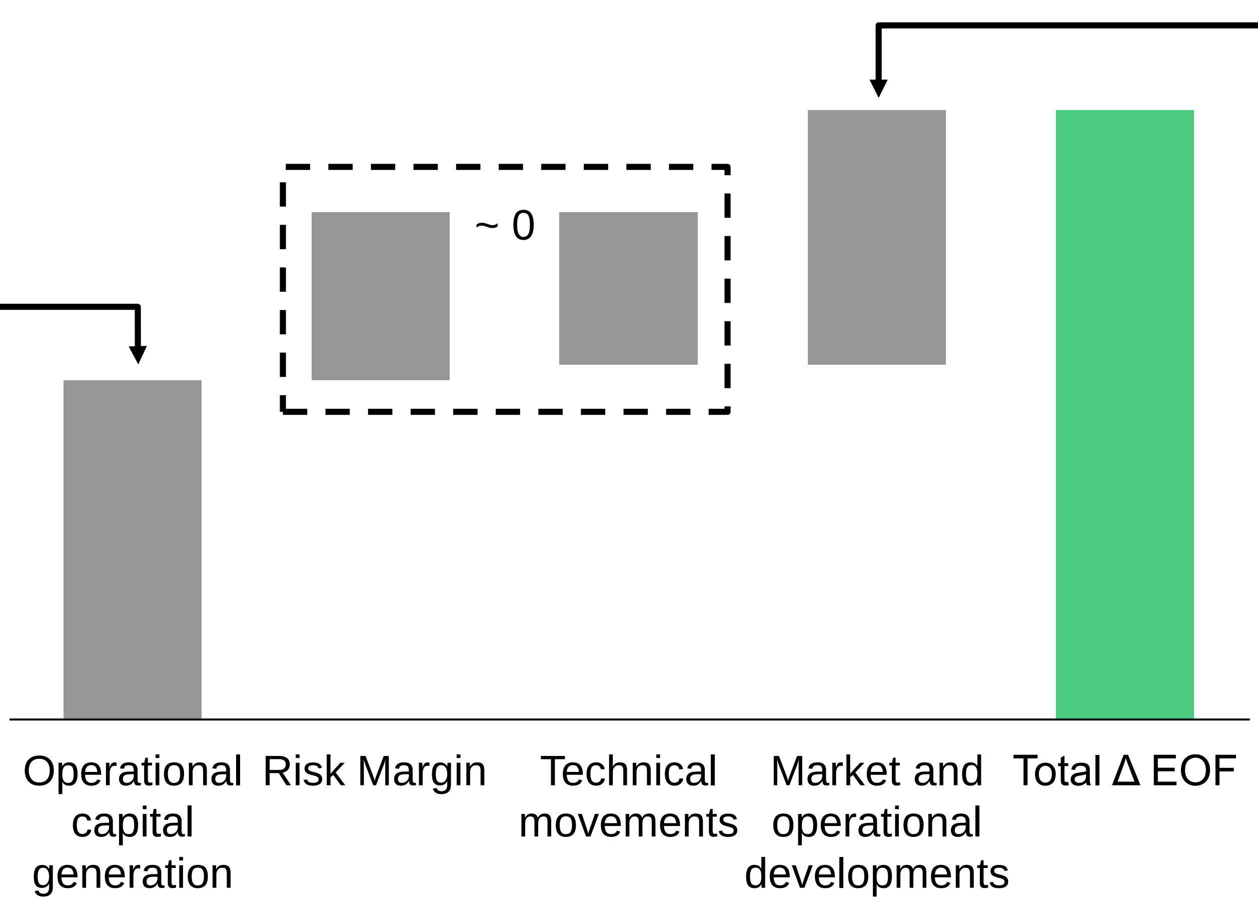
# Flow perspective: OCC & EOF accretion



# 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 over and above the LTIM
- Outperform BEL assumptions (esp. Life)
- Realize cost and capital 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?

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