From the CFO's desk

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Main changes between IFRS 4 and IFRS 17
Our perspective

- IFRS 17 allows less flexibility in preparation of financial statements due to …
  - stricter regulations under the standard, more granular disclosures and
  - process-related restrictions, esp. driven by the more granular accounting on the level of GICs (Groups of Insurance Contracts)
- The accounting guidance of IFRS 17 partially enables benchmarking with Solvency II figures such that flexibility is also limited in this regard
  - Measures taken under one regime influence handling under the other regime
- Nevertheless, IFRS 17 requires accounting decisions which apply on or after transition (from IFRS 4 to IFRS 17)
  - A (quantitative) comprehensive impact assessment will be available in 2019, with lots of single analysis on the way, qualitative analysis has been considered up to now – but perhaps the target is still moving

Transition: IFRS 17 accounting decisions

Potential future decision-making principles and steering options

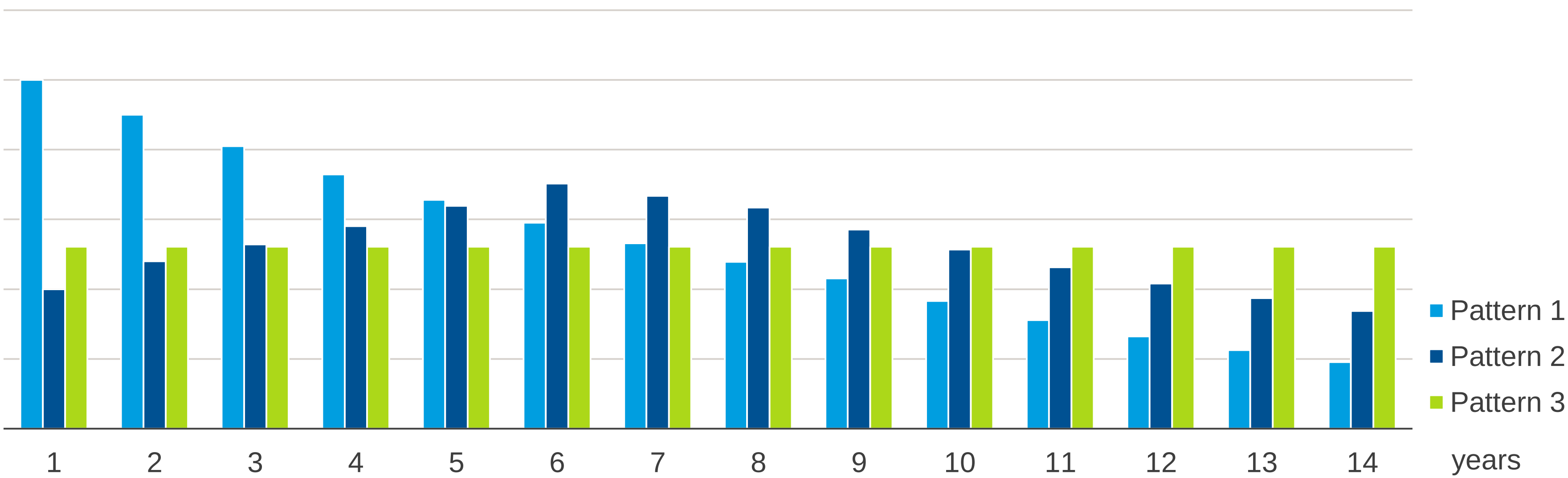
Accounting decision	Pro's & Con's
More or less equity? e.g. impacted by transition approach chosen, measurement of cash flows	+ High equity: higher equity ratio, buffer for onerous business at inception - Higher equity means lower CSM* going forward, less buffer for onerous contracts - High equity leads to lower RoE
High profits after transition? e.g. impacted by determination of risk adjustment, amount of CSM at transition, coverage units	+ High profits from already existing business - High pressure on required profit from new business to show attractive future return
Presentation of onerous contracts? e.g. use of conservative options (?)	+ Profits can be shifted into the future by showing more onerous contracts at inception - Onerous contracts issued will be disclosed in the annual report
High discount rates?	+ High CSM due to high discounting effect + Lower fulfillment CF (for LRC* compensated by the higher CSM; see above) - High insurance finance expenses (hence, primarily a shift within P&L = higher insurance service result, lower insurance finance result)
IFRS 17 reserves similar to Solvency II?	+ Solvency II reserves are a known measure and may facilitate the understanding of IFRS reserves - Link to Solvency II reserve prevents exploitation of potential positive effects of IFRS 17 - May result in higher volatility of future P&C earnings due to loss of smoothing redundancy cushion
P&L or OCI*?	+ OCI* smoothens P&L - High ALM requirements dependent on IFRS 9 - Operationally highly complex
Disclosure granularity – IFRS 8 segments?	+ IFRS 8 segments are determined and known - Disclosure of very detailed information

* Contractual Service Margin (CSM); Liability for Remaining Coverage (LRC); Other Comprehensive Income (OCI)

Future emergence of earnings

Release of the Contractual Service Margin (CSM)

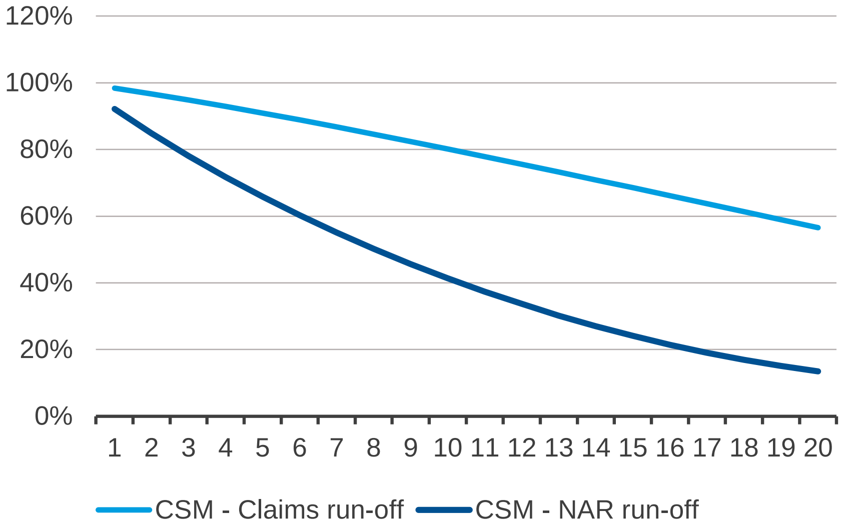
- No predetermined technique in IFRS 17 regarding the release of the CSM
- The release pattern (front-ended or back-ended) will influence the expected emergence of earnings
- A strong front-ended approach could increase the likelihood of a cohort of contracts becoming onerous in case of adverse changes due to experience or assumption changes in subsequent years



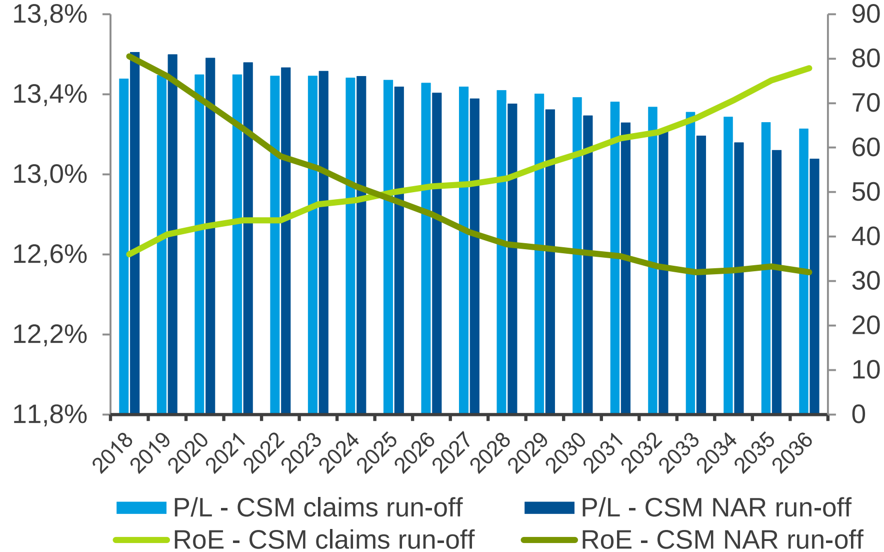
Example 1: CSM release pattern for mortality business

Use of claims or Net Amount at Risk (NAR) results in different earnings emergence

Potential CSM release patterns



P&L & RoE under different CSM release patterns

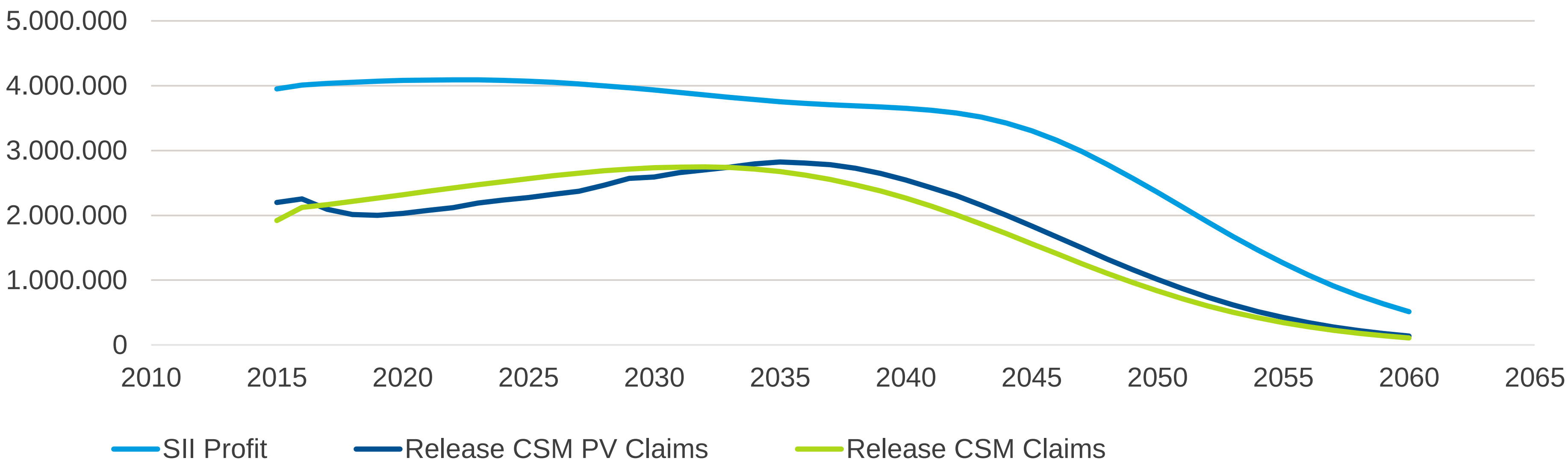


- Use of NAR as CSM run-off driver appears to be too aggressive, relatively small portion of CSM remains in the later years to provide buffer against claims experience volatility
  - Likewise, RoE is front-loaded when using Net Amount at Risk (NAR) to run off CSM

	2018	2019	2020	2021	2022	2027	2032	2037	2042	2047	2052
RoE – Claims	12.60%	12.70%	12.74%	12.77%	12.77%	12.95%	13.21%	13.55%	14.37%	15.13%	16.05%
RoE - NAR	13.59%	13.49%	13.36%	13.23%	13.09%	12.71%	12.54%	12.45%	12.97%	13.43%	14.14%

Example 2: CSM release pattern for longevity business

Profit vs. CSM Release



- Assumption: SII profit shown here equals the current IFRS 4 technical result (net of administration expenses)
- CSM release excludes the future explicit risk adjustment release
- Preliminary assessment implies use of the present value claims as a CSM run-off pattern to ensure an emergence of earnings comparable with current IFRS 4

IFRS 17 political developments

Identified conceptual weaknesses - challenges for EU endorsement

EFRAG initiated field test
(full study with 11 participants;
simplified study with 49 participants)

! Complex transition/implementation

! High implementation costs

- EFRAG has identified the following issues meriting further consideration and informed the IASB accordingly on 3 September 2018
  - Acquisition costs
    (for costs incurred in expectation of contract renewals)
  - CSM amortization
    (impact on contracts that include investment services)
  - Reinsurance (several inconsistencies)
  - Transition
    (extent of relief offered by modified retrospective approach and challenges in applying fair value approach)
  - Annual cohorts
    (cost-benefit trade-off, including for VFA contracts)
  - Balance sheet presentation
    (cost-benefit trade-off of separate disclosure of groups in an asset position and groups in a liability position and non-separation of receivables and/or payables)

IFRS 17 reinsurance inconsistencies

Main concern: onerous underlying contracts - what is the issue?

- At initial recognition, mismatches arise from different treatment of reinsurance gains vs. losses on underlying contracts

Current IFRS 17…

- Loss on onerous underlying insurance contract issued is recognised immediately in P&L,

  but

- Corresponding gain on the related outwards reinsurance contract must be recognised as a CSM (i.e. over the coverage period)

… as a consequence

- Relief from reinsurance contract is delayed, which tends not to represent appropriately the insurer's - i. e. cedant's - economic net risk position
  - Corresponding effects for our own retrocession
  - Contradictory to the subsequent measurement as set out in IFRS 17.66(c)(ii)
    - Whereby: If the underlying contract becomes onerous after initial recognition because of adverse changes in estimates relating to future service, the corresponding changes in reinsurance cash flows can be recognized in P&L to "offset" the loss

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Our IFRS cash flow statement

Valuable source of information or just formality?

Why is cash flow an important financial indicator?
In the long run only cash counts

1. Liquidity is an important survival condition for enterprises
2. Not debt overload but illiquidity is main reason for bankruptcy
3. Significant differences between insurers and non-financial industries
4. Direct vs. indirect methodology to calculate and present

Liquidity at all times is a 'Must'

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Insurance company's cash flow characteristics

Investing cash flow as a residual

Operating cash flow	Includes: - underwriting cash flow - interest and dividends received - Interest expenses on hybrid and senior bonds
+	
Financing cash flow	Mostly affected by: - dividend payments and - capital measures
−	
Change in cash	Largely unchanged over time
=	
Investing cash flow	Excess cash will be invested

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Cash flow derived indirectly from net income as starting point

Operating cash flow in 1H/2018 once again very strong

in EUR thousand	1.1.–30.6.2018
Net premium earned	8,345,642
Ordinary investment income	632,476
Profit/loss from investments in associated companies	1,792
Realised gains and losses on investments	53,380
Change in fair value of financial instruments	19,561
Total depreciation, impairments and appreciation of investments	21,060
Other investment expenses	56,347
Net income from investments under own management	629,802
Income/expense on funds withheld and contract deposits	113,796
Net investment income	743,598
Other technical income	76
Total revenues	9,089,316
Total technical expenses	8,245,146
Other income and expenses	63,111
Operating profit (EBIT)	907,281
Financing costs	37,684
Net income before taxes	869,597
Taxes	273,373
Net income	596,224

in EUR thousand	1.1.–30.6.2018
I. Cash flow from operating activities	
Net income	596,224
Appreciation/depreciation	31,638
Net realised gains and losses on investments	(53,380)
Change in fair value of financial instruments (th	(19,561)
Realised gains and losses on deconsolidation	(2,978)
Amortisation of investments	5,521
Changes in funds withheld	(230,649)
Net changes in contract deposits	(69,445)
Changes in prepaid reinsurance premium (net)	775,540
Changes in tax assets/provisions for taxes	5,748
Changes in benefit reserve (net)	(21,356)
Changes in claims reserves (net)	677,797
Changes in deferred acquisition costs	(201,089)
Changes in other technical provisions	67,573
Changes in clearing balances	(741,473)
Changes in other assets and liabilities (net)	197,124
Cash flow from operating activities	1,017,234

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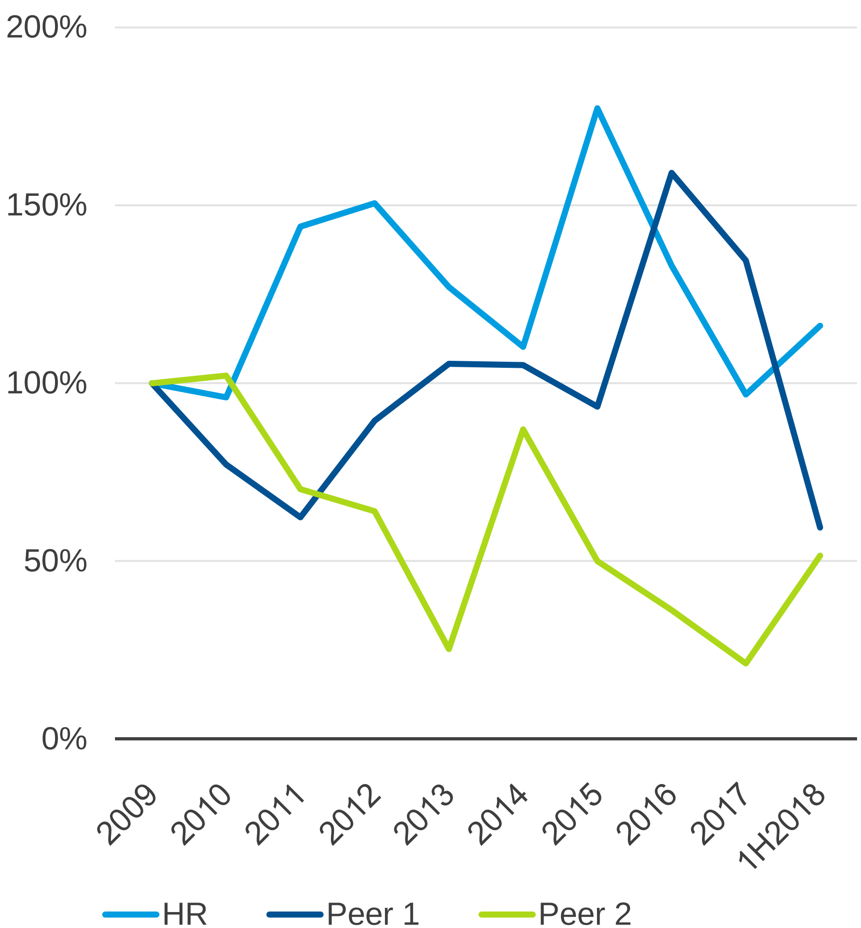
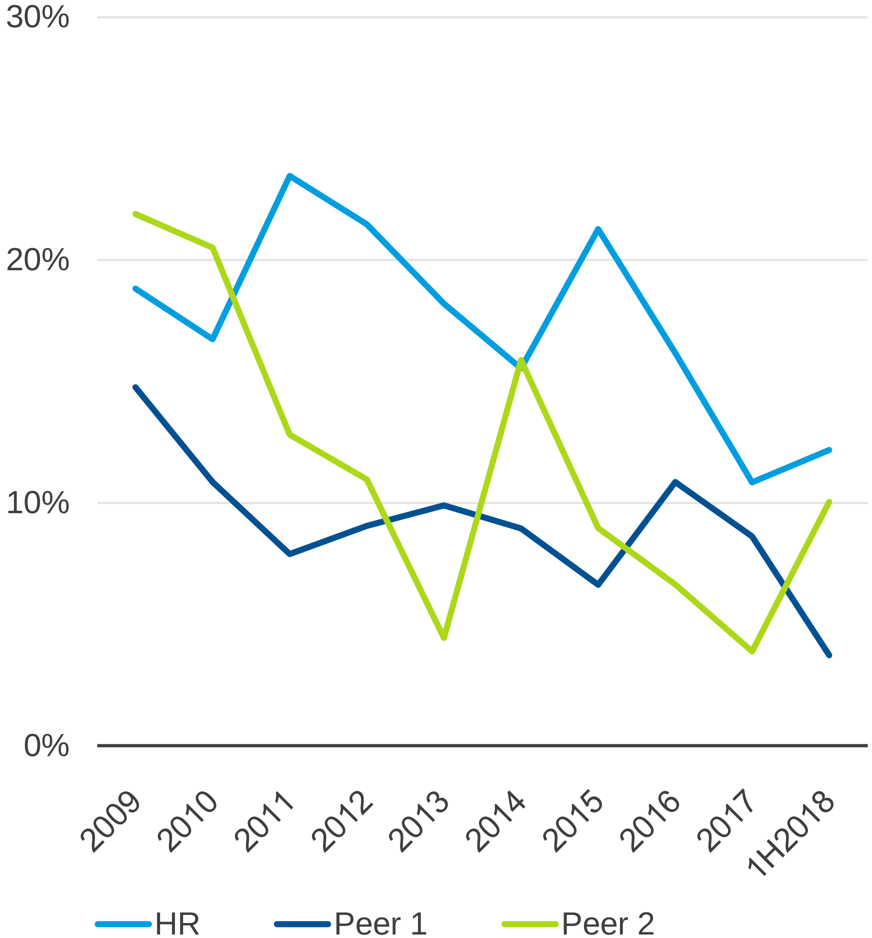
A peer review: 10-year development of operating cash flows

Also on a cash flow basis we compare favourably

Indexed cash flow



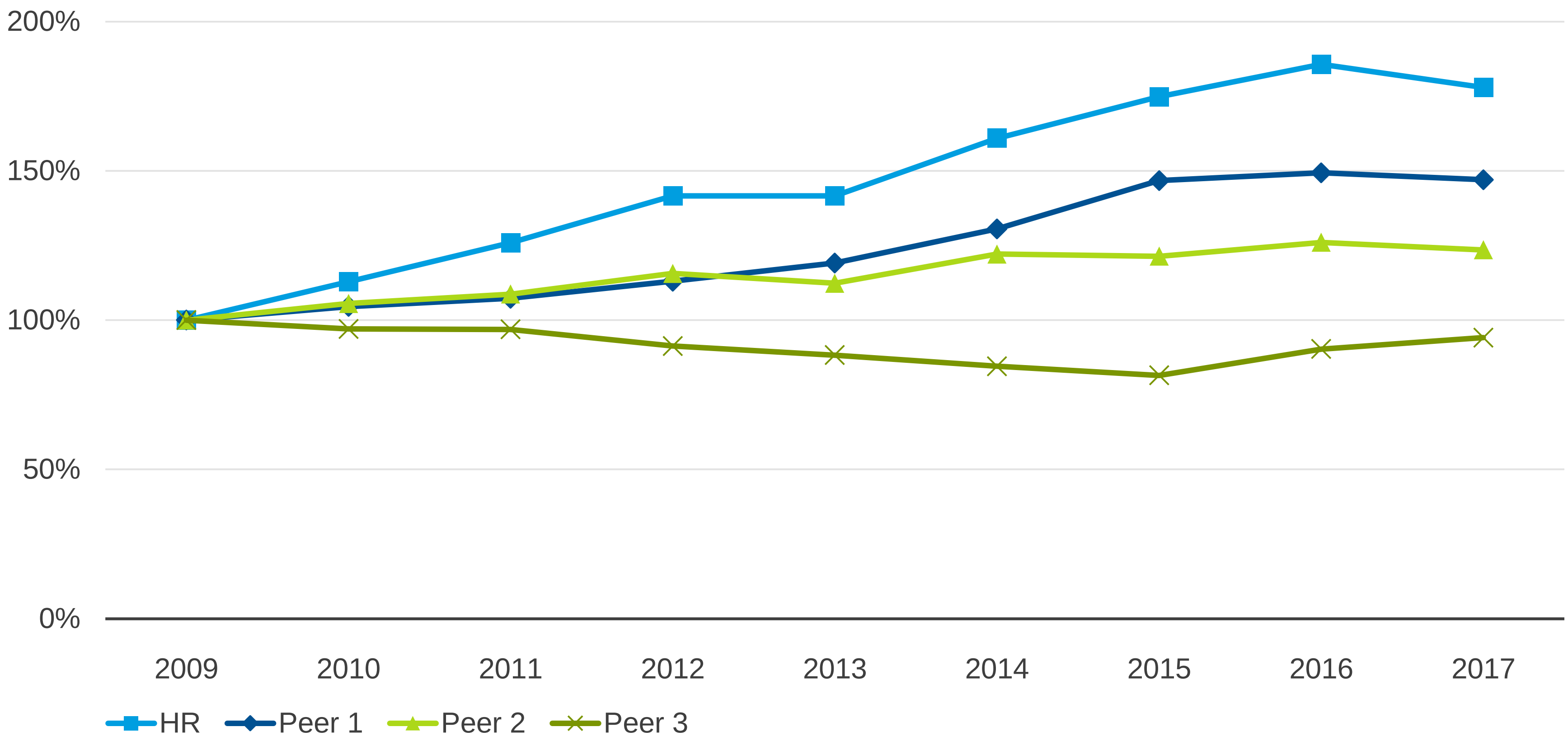
Operating cash flow per net premium



Peers: Munich Re, SCOR (in alphabetic order)

Strong cash flow fuels growth in invested assets

Development of assets under own management (incl. cash)



Peers: Munich Re, SCOR, Swiss Re (in alphabetic order)

Much better development of investments at HR

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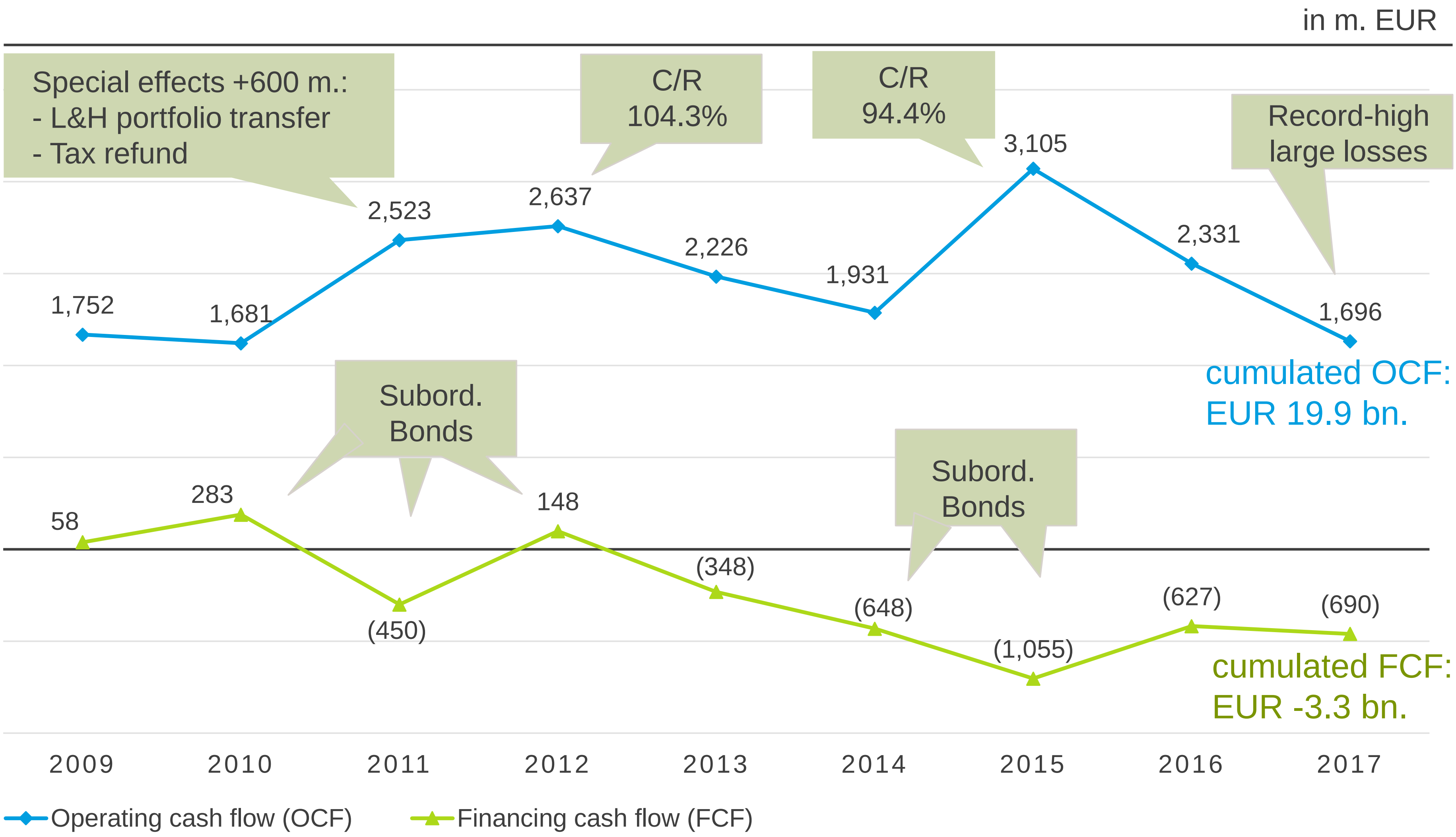
Contribution of operating cash flow to our AuM



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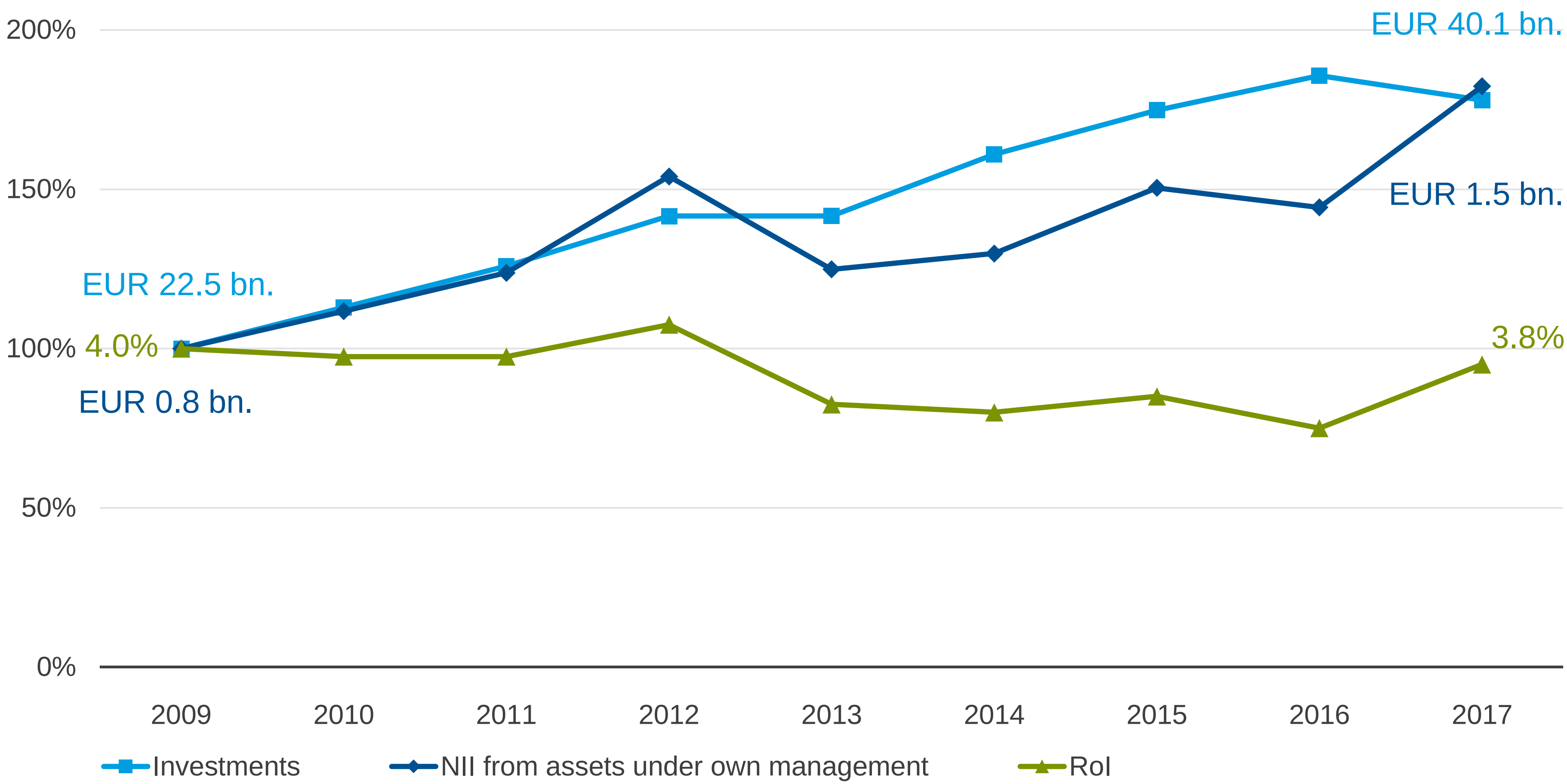
Increasing investments as well as net investment income (NII) ...
... despite slightly decreasing RoI



NII increase mainly volume-related and supported by operating cash flow

Investment update

Barbell targets achieved, start to "diversify"

Stabilise liquidity, reducing spread duration, geo-shifting and lower credit risks

- Increase group-wide liquid assets
- Barbell credit risks
  - either AAA
  - or BBB and lower
- Increase spread durations
- Invest in credit structures at lower end
- Avoid the middle segment of ratings
- Increase real estate funds
- Develop private equities in line with portfolio growth
- Use volatility in listed equity opportunistically

- Keep group-wide liquid assets stable
- Diversify credit risks across rating spectrum
  - Lower spread durations from increased level
    - Increase rating quality of credit structures and loan portfolios
    - Diversify credits into whole world (EM)
    - Stabilise, slightly increase real estates
  - Stabilise, slightly increase private equity
- Use volatility in listed equity opportunistically

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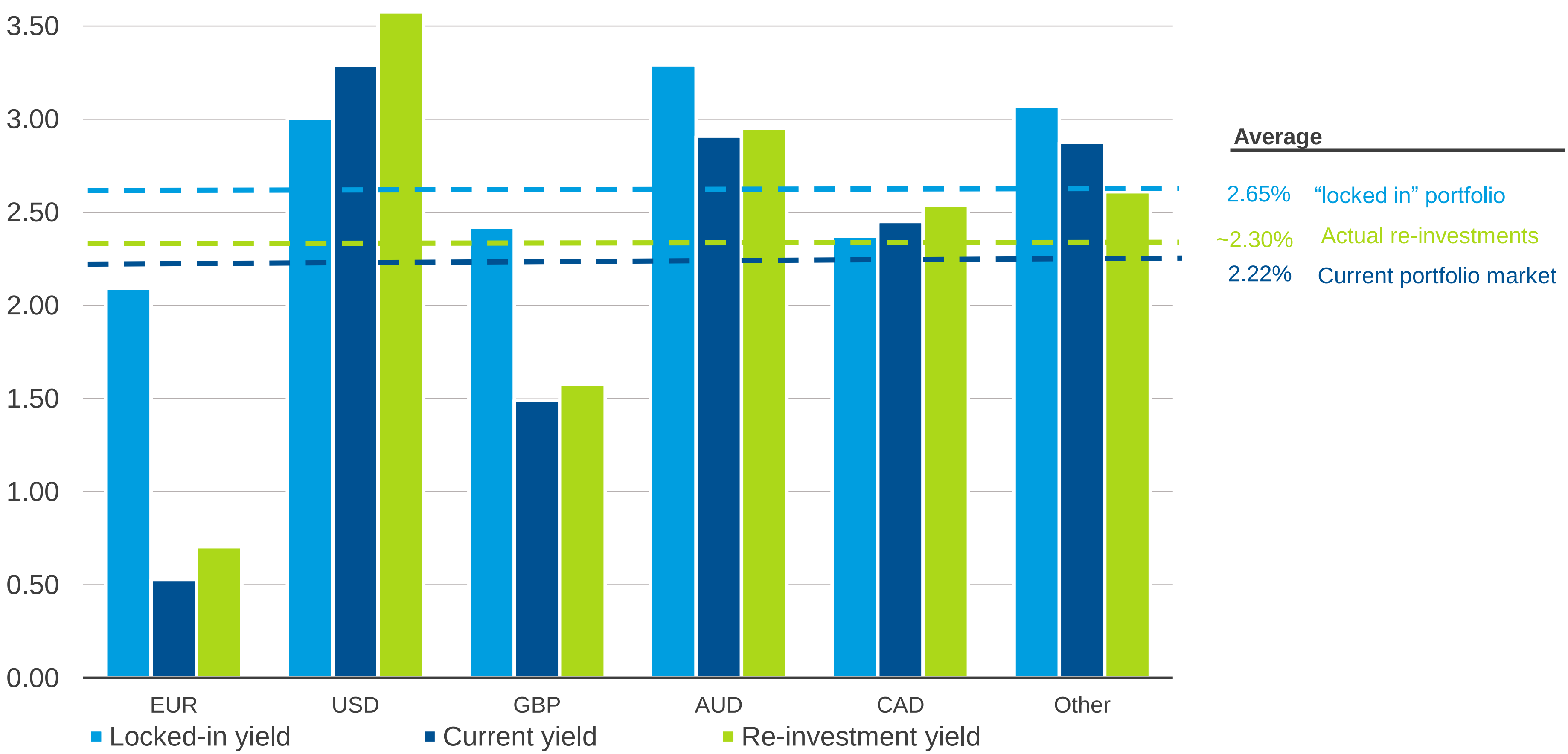
Large differences between currencies

EUR still at unhealthy low yields

Current analysis per currency of fixed-income portfolio*

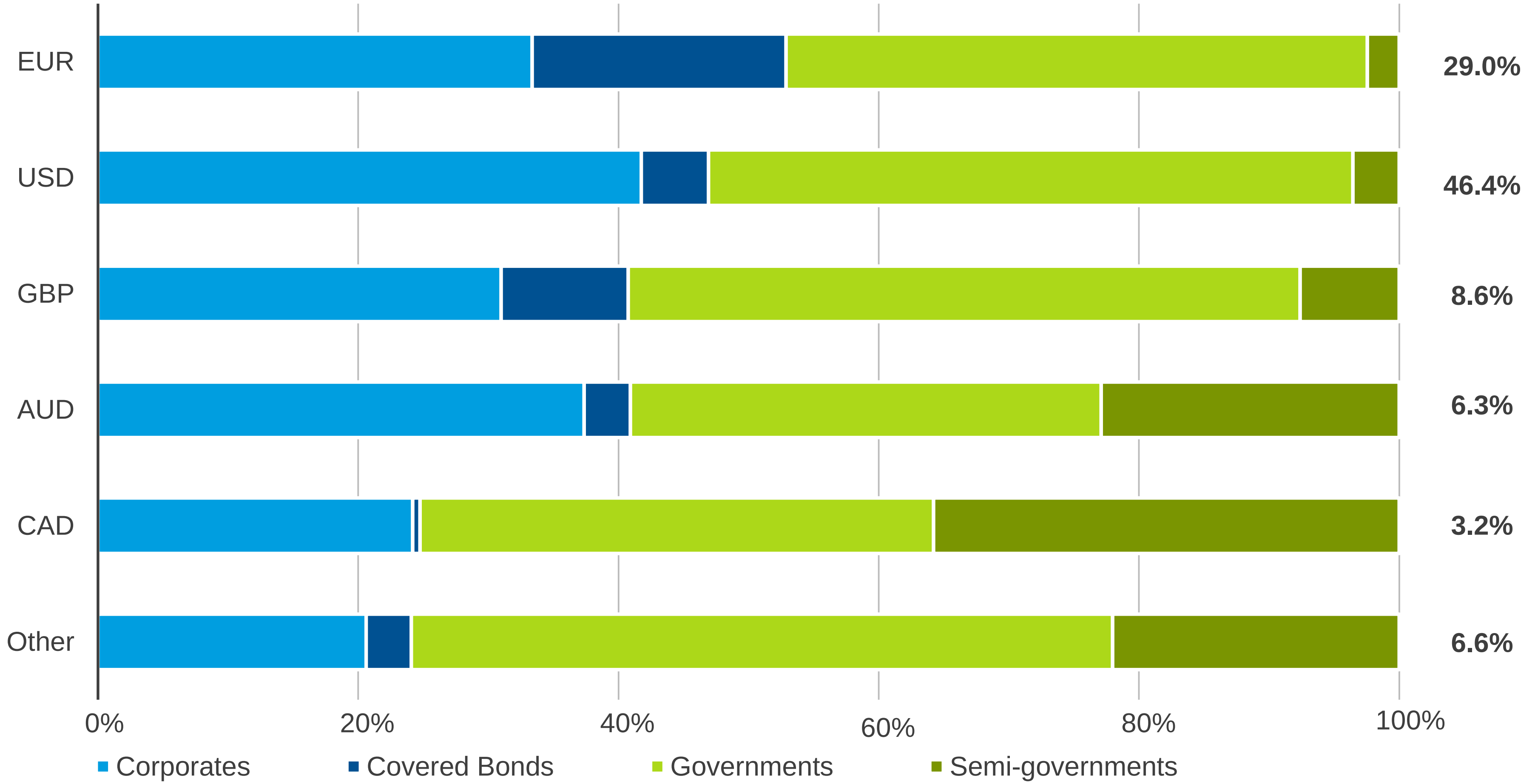


* As at Jun 2018, excluding short-term investments and cash

Hence, fixed-income allocation varies significantly per currency

Allocation of fixed income portfolio* per currency

EUR 36 bn.

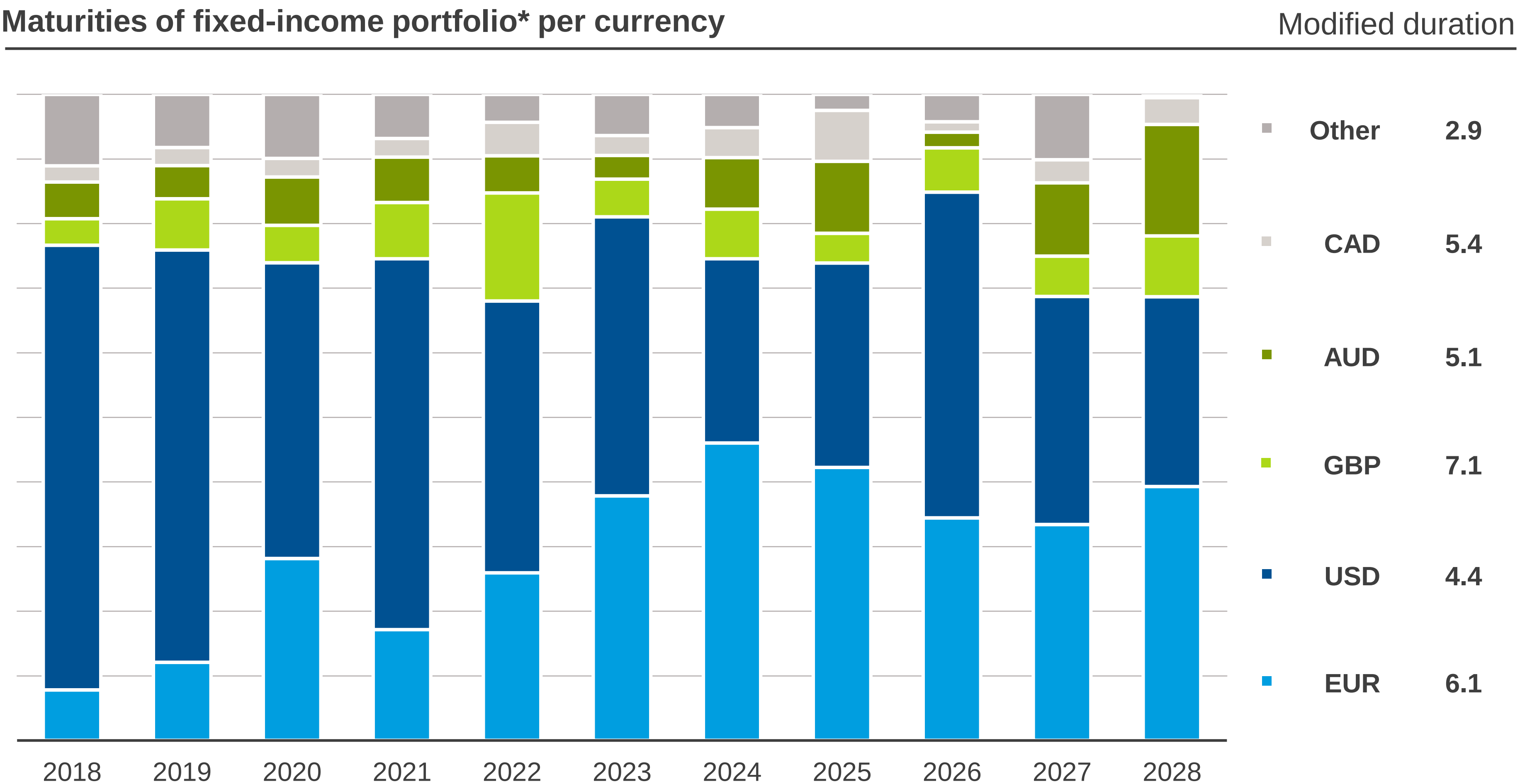


* Analysis as at 30 Jun 2018, excluding short-term investments and cash

Maturity profile per currency varies remarkably

... faster turnover in USD compared to EUR

Maturities of fixed-income portfolio* per currency

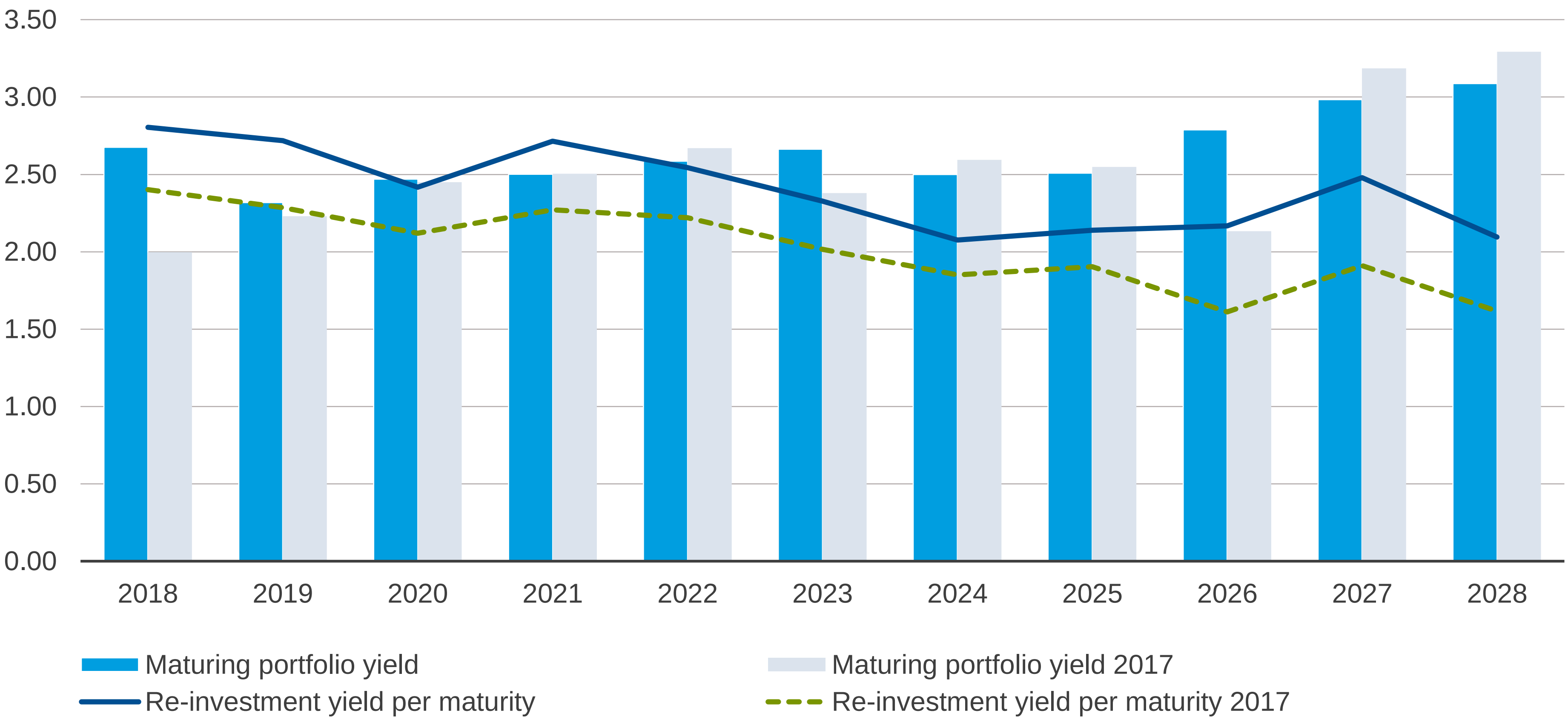


* Analysis as at 30 Jun 2018, excluding short-term investments and cash

Ordinary fixed-income return stabilises, even with strategic shift

Decrease in credit exposure should affect ordinary by <10bps p.a.

Projection of fixed-income portfolio maturing vs. re-investment yield*



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