Change in recommendation
22 January 2015

Delta Lloyd

Cash flow metrics need improvement: HOLD

We downgrade Delta Lloyd to HOLD and cut the TP from €21.5 to €19.0. The recent CMD offered the following positives: (1) a new profit definition, better aligned with economic reality, lifting EPS capacity to >€3.0, vs the c.€2.0 run-rate based on the old definition; and (2) Solvency 2 range comfort resulting in unchanged near-term dividend ambitions. As negatives we see: (1) Holding FCF yield (c.5% in 2013) lagging its peers, resulting in (2) total capital return over 2015-17F being the lowest among Benelux peers. We need better guidance on: (1) the remittance ratio; and (2) timing of full-cash dividend and long-term capital return ambitions.

Definition change of operational net profit is a good step forward, but more guidance is required on cash conversion. By using the actual investment spread, we see EPS capacity of well over €3.0 for 2015-17F compared to an old definition run rate closer to €2.0 (LTIR concept). How capital generation at the subsidiary level translates into Holding cash flows, and ultimately capital return to shareholders, was not well addressed at the CMD. Hence, we think investors are unlikely to value DL by simply applying a multiple on the new operational profit concept (EPS >€3.0), but will rather apply a multiple on operational FCF of €2.0-2.2 per share (excl. holding & finance costs), for which the run rate actually is in line with the old operational net profit concept. More clarity is thus required before any stock re-rating, despite 'cheap' headline PER multiples.

Dividend yield is decent but... The message on dividend ambitions in the near term remained unchanged and in the longer term is guided to remain stable at €1.03 per share. DL aims to reduce the scrip premium in two steps from 4% to 2% (final 2014 dividend) and from 2% to zero, followed by a share buyback (SBB) to neutralise scrip dilution (INGF: interim dividend in 2016). This results in dividend yield of 5.8%.

…total capital return to shareholders is lagging. In the current low-yield environment, the absolute level of capital return to shareholders is one of the most important valuation drivers. We see DL's current Holding FCF generation of c.6% as being too low when compared to its peers. At best, we see DL catching up with the 7-8% levels of its Benelux peers. Over 2015-17F we see total capital return at 5.8% versus peers at c.7-10%.

We downgrade DL from Buy to HOLD as: (1) low interest rates undermine the pension buyout market, and lacklustre employment conditions and low wage inflation restrain growth in existing defined-benefit schemes. In the longer term, we remain positive on the buyout market, but not in the near term; (2) we expect visibility on the future remittance ratio (cash flows) to improve, but not before Solvency 2 models are improved by the regulator (expected late 2015); and (3) the disagreement with regulator DNB brings additional uncertainty. **On cash metrics, Ageas ranks best followed by AEGON.**

Forecasts and ratios

Year end Dec	2012	2013	2014F	2015F	2016F
IFRS net operating profit (€m)	404	430	384	404	425
Net profit IFRS (€m)	(1,495)	168	336	505	521
Reported EPS IFRS (€)	(8.63)	0.92	1.72	2.55	2.56
Dividend per share (€)	1.03	1.03	1.03	1.03	1.03
PER, IFRS (x)	n/a	19.5	10.4	7.0	7.0
Dividend yield (%)	5.8	5.8	5.8	5.8	5.8
Price/embedded value (x)	0.75	0.78	0.75	0.72	0.68
Price/book (x)	1.4	1.3	1.3	1.2	1.1
IFRS net op income ROE (%)	13.0	17.1	14.2	14.2	13.4

Source: Company data, ING estimates

Hold (previously Buy)

Price (20/01/15)
€17.90

Target price (12-mth)
€19.00 (previously €21.50)

Forecast total return
11.9%

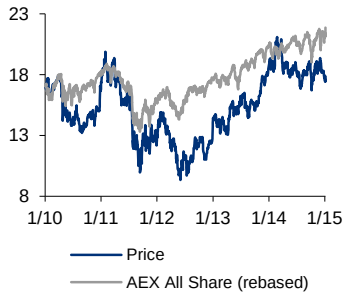
Insurance
Netherlands
Bloomberg: DL NA
Reuters: DLL.AS

Share data

Avg daily volume (3-mth)	997,919
Free float (%)	100.0
Market cap (€m)	3,566.5
Dividend yield (1F, %)	5.8

Source: Company data, ING estimates

Share price performance



Source: ING

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CMD: all the right moves except clarity on cash flow remittance

Remitted cash ratio is what matters: DL made all the right moves during its capital markets day last November. It provided more insight into capital generation, with the exception of the Holding cash flow remittance ratio. In our view, this is a missed opportunity, and very important for investors as it helps provide a better understanding of potential cash returns over coming years. While disclosure by competitors has improved over recent years and we ultimately expect DL to follow, guidance is unlikely to be obtained before 'S2' models are approved, likely by year-end. We see DL bridging the gap in terms of Holding FCF yield, but current visibility is too low and total shareholder return not convincing enough.

Guidance on future Holding cash flow (remittance ratio) required

We believe that DL does not manage excess cash/capital at the Holding level, as some of its peers do, but instead manages solvency at the subsidiary level. It up-streams what is required to fund cash dividends and Holding expenses, and to manage double leverage at the Holding level. Hence simply netting cash up-streamed in 2013 with Holding expenses gives a wrong view of free cash flow generation, in our view. That said, this metric does attract investor attention and is important to monitor. DL's main peers provide better guidance, resulting in better visibility. Based on disclosure for 2013, the yield is 5% (based on market cap at the time of the CMD), low compared to Benelux peers at c.7-10%. In our view, 2013 should not be taken as a guide for the future. However, future guidance is insufficient to increase comfort and positively change expectations with respect to capital return to shareholders (dividend growth and share buybacks).

In order to achieve a better understanding of true cash-return capacity, we hope that DL will provide more guidance on the framework as shown below. We expect this to happen, but not before end-2015F, after approval of internal Solvency 2 models. In our view, this would increase confidence in cash and dividend paying capacity.

Fig 1 Cash flow generation (€m): template example

Gross expected free surplus	XXX
o/w Life	
o/w GI	
o/w Bank	
o/w Asset Management	
o/w Finance costs (subsidiary level)	
Remitted cash per line of business	XXX
Remittance ratio per line of business (%)	XX
Holding costs and finance costs (Holding level)	XXX
Net free cash flow before dividend	XXX
Cash dividend	XXX
Payout ratio/coverage ratio (x)	XX

Source: ING estimates

During the CMD, DL presented the overview in Figure 2 below (see slide 23 of the presentation *Investor Day Delta Lloyd*, 21 November 2014), which in our view was not very helpful, as it is: 1) backward looking; and 2) seemed to suggest only €200m free cash flow, ie, c.5% FCF yield.

Fig 2 Cash dividend coverage (based on slide 23 of the CMD presentation) (€m)

Net upstream subsidiaries	**300**
Life	213
GI	20
Bank	48
AM	19
Holding expenses	**(103)**
Holding finance costs	(28)
Holding costs	(75)
Free cash flow	**197**
Yield at the time of CMD (% of market cap)	**5**
Cash dividend	68
Payout ratio (%)	**35**

Source: Company data, ING estimates

Holding FCF yield of c.5% in 2013 is not a good indication per se…

Without more guidance, it is hard to be more positive on capital return expectations. Firstly, the €129m gap between €300m and €171m (including €68m cash dividend) is added to what DL calls 'in-house funding'. This is mainly the cash balance held against Holding debt to keep group-level double leverage at an appropriate level. At the end of 1H14, this surplus stood at €498m (from €313m at end-2013, €46m at end-2012 and -€10m at end-2011) with double leverage at 106.3%. Following the surprising sale of the Belgian bank for €219m (a fair price in our view, at a PBV of 0.64x) to Anbang (regulatory approval pending) and the recently announced sale of the German business (please refer page 25), any remaining concern that the market may have on double leverage looks to have been addressed. That said, guidance on double leverage would be appreciated, and is needed to change expectations for the better.

…with no guidance, market expectations on capital return will not change

Secondly, in our view the €300m is not an indication of maximum cash remittance. The normalised run rate should be €350-375m, even after allowing for funding of new business growth. This run rate would mean that DL is on a par with its Benelux peers in terms of Holding free cash flow yield.

If this materialises, coverage (in case of a full-cash dividend) would be comfortable at c.1.3x. For this, we assume a group remittance ratio of c.70% versus AEGON at c.100%. This would be despite allowing its subsidiary solvency ratios to grow or with funding growth of new business (difficult in the current low-yield environment).

Fig 3 Remittance ratio estimates: Life dividend up-stream most uncertain

Cash flow to equity holders (€m)	2010	2011	2012	2013	2014F	2015F	2016F	2017F
Life-in-force	51	624	578	533	481	507	531	561
Life new business strain	(121)	(254)	(104)	(87)	(87)	(96)	(105)	(116)
Life operating cash flow	**(70)**	**370**	**474**	**446**	**394**	**411**	**426**	**445**
General insurance result	128	77	64	77	59	77	85	89
Banking and fund management	108	72	37	69	67	58	62	65
Other	-	-	-	-	-	-	-	-
Total operating cash flow	**166**	**519**	**575**	**592**	**520**	**547**	**572**	**599**
Movement in capital requirement	-	-	-	-	-	-	-	-
Life in-force	271	123	71	54	45	45	45	45
Life new business strain	(127)	(135)	(150)	(94)	(87)	(96)	(105)	(116)
Life movement in capital requirement	**144**	**(12)**	**(79)**	**(40)**	**(42)**	**(51)**	**(60)**	**(71)**
General insurance	(8)	(24)	17	2	20	20	20	20
Banking and fund management	-	(19)	(21)	44	20	10	10	10
Total movement in capital requirement	**136**	**(55)**	**(83)**	**6**	**(2)**	**(21)**	**(30)**	**(41)**
Other	(54)	(74)	(6)	(28)	(21)	(21)	(21)	(21)
Operational cash generated (free cash flow)	**248**	**390**	**486**	**570**	**497**	**505**	**521**	**537**
Life	36	306	391	386	338	346	351	359
General	104	31	79	71	73	91	98	103
Bank & AM	108	53	16	113	87	68	72	75
Total	**248**	**390**	**486**	**570**	**497**	**505**	**521**	**537**
Net upstream								
Life	n/a	n/a	n/a	213	169	190	193	198
General	n/a	n/a	n/a	19	66	91	98	103
Bank & AM	n/a	n/a	n/a	68	78	68	72	75
o/w Bank	n/a	n/a	n/a	*20*	*20*	*20*	*20*	*20*
o/w AM	n/a	n/a	n/a	*48*	*58*	*48*	*52*	*55*
Net upstream from subsidiaries	**n/a**	**n/a**	**n/a**	**300**	**313**	**349**	**363**	**376**
Remittance (%)								
Life (%)	n/a	n/a	n/a	55	50	55	55	55
General (%)	n/a	n/a	n/a	27	90	100	100	100
Bank & AM (%)	n/a	n/a	n/a	60	90	100	100	100
Total remittance ratio (%)	**n/a**	**n/a**	**n/a**	**53**	**63**	**69**	**70**	**70**

Source: Company data, ING estimates

DL reports one of the highest operating free cash flow yields among Benelux peers, while its Holding free cash flow is one of the lowest. In 2013, the Holding free cash flow yield was low at c.5.6%. In our view, this should be closer to 7-8% when normalised. This requires an improvement in remittance ratio from c.50-55% to c.70%.

Fig 4 Holding cash flow (€m)

	2010	2011	2012	2013	2014F	2015F	2016F	2017F
Net upstream from subsidiaries	n/a	n/a	n/a	300	313	349	363	376
Holding costs	n/a	n/a	n/a	(28)	(35)	(35)	(35)	(35)
Holding expenses	n/a	n/a	n/a	(75)	(50)	(50)	(50)	(50)
Holding company free cash flow	n/a	n/a	n/a	**197**	**227**	**264**	**278**	**290**
Dividend per share (€)	n/a	n/a	n/a	1.03	1.03	1.03	1.03	1.03
Nominal dividend costs	n/a	n/a	n/a	198	204	210	210	210
Cash dividend	n/a	n/a	n/a	68	71	105	136	136
Scrip dividend	n/a	n/a	n/a	130	133	105	0	0
Scrip take-up (%)	n/a	n/a	n/a	64	65	50	35	35
Share buyback for neutralisation scrip (ie, cash outflow)	n/a	n/a	n/a	0	0	0	**73**	**73**
Nominal dividend coverage (x)	n/a	n/a	n/a	**1.0**	**1.1**	**1.3**	**1.3**	**1.4**
Cash (+SBB) coverage (x)	n/a	n/a	n/a	**2.9**	**3.2**	**2.5**	**1.3**	**1.4**
Operating free cash flow yield (%)	n/a	n/a	n/a	**16.1**	**14.1**	**13.9**	**14.3**	**14.7**
Holding company free cash flow yield (%)	n/a	n/a	n/a	**5.6**	**6.4**	**7.2**	**7.6**	**8.0**
Operating free cash flow growth (%)	n/a	n/a	n/a	17	-13	2	3	3
Holding company free cash flow growth (%)	n/a	n/a	n/a	n/a	15.3	16.2	5.2	4.6
Operational cash minus Holding finance and expenses	n/a	n/a	n/a	**467**	**412**	**420**	**435**	**452**
Per share (€)	n/a	n/a	n/a	2.55	2.11	2.12	2.14	2.22
IFRS EPS (€)	3.75	(1.85)	(8.63)	0.92	1.72	2.55	2.56	2.64

Source: Company data, ING estimates

Double leverage has been reduced in recent years, which has indeed reduced Holding free cash flow. In our view leverage is now adequate. Guidance from management on Holding leverage would be helpful.

Fig 5 Double leverage (€m)

	2010	2011	2012	2013	2014F	2015F	2016F	2017F
Shareholders' equity (including non-controlling)	4,956	4,170	2,613	2,930	2,873	3,294	3,659	3,986
Perpetual subordinated convertible loan (FNO)	179	179	179	138	138	138	138	138
Perpetual subordinated loan	-	-	-	-	743	743	743	743
Delta Lloyd group capital	**5,135**	**4,349**	**2,792**	**3,068**	**3,754**	**4,175**	**4,540**	**4,867**
Eurobond	575	575	575	575	575	575	575	575
Commercial paper	162	40	93	95	95	95	95	95
In-house funding (surplus) on balance	(102)	10	(46)	(313)	(469)	(847)	(915)	(996)
Value of subsidiaries (incl. non-controlling interests)	**5,770**	**4,974**	**3,414**	**3,425**	**3,955**	**3,997**	**4,295**	**4,541**
Double leverage at Group level (%)	**112.4**	**114.4**	**122.3**	**111.6**	**105.3**	**95.7**	**94.6**	**93.3**

Source: Company data, ING estimates

No dividend growth to be expected before past dilution is made good?

DL mentioned that it aims for a stable dividend per share of €1.03. Moreover, the outgoing CEO mentioned a preference for buybacks to rectify past dilution (11% since the IPO, or c.€400m to neutralise) in the event of excess cash generation (this position may change with the new CEO). These remarks could well be seen in a conservative context of a transition to Solvency 2 and CEO succession. That said, even in this context, DL could have provided more guidance on remittance ratio ambitions and allowed the market to draw its own conclusions.

In our view, the incoming CEO is likely to continue with the stable dividend policy but offer more explicit timing on: 1) the return to full-cash dividend (neutralisation of scrip take-up via share buybacks); 2) additional share buybacks to neutralise dilution from past scrip dividends; and 3) actual growth of dividends. However, this is likely to only occur once the internal Solvency 2 model is approved, which we expect by end-2015.

New definition of operational results – a good step forward

Improved clarity on earnings power link missing, with remittance ratio remaining tough

DL will change its concept of operational results from 1 January 2015 to better reflect operational performance (ie, capital generation). DL will replace its 'long term investment yield' concept with 'investment spread'. In our view, this step is positive as it improves clarity on earnings power of the group and is better aligned with capital generation. That said, we missed the link between capital generation at subsidiary level and Holding FCF generation, which we believe will be addressed in 2015.

The investment spread is the difference between direct yield and cost of liabilities. DL disclosed that, based on 1H14 results, the impact would be c.15%. In our view, this understates the impact. Since the summer of 2014, interest rates have fallen dramatically. This means that that the cost of liabilities has fallen significantly as the collateralised AAA curve has fallen to c.1.2% versus from more than 2% in 1H14 (1Q14: 2.85%, 2Q14: 2.46%). This drop more than offsets the impact from increased insurance liabilities and pressure on direct yield (a slow process, given long duration). This means that the interest required to write up the reserves has fallen significantly.

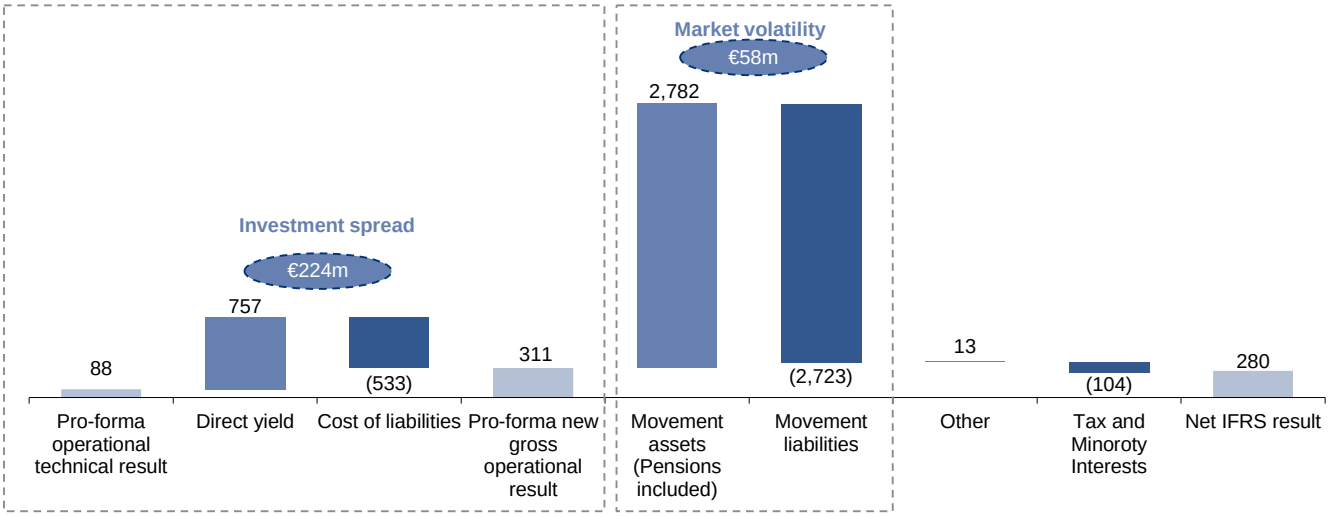
Under the new definition, EPS is well over €3.0 in 2015-17F, if current low rates remain unchanged

In Figure 9 we show the calculation of earnings under the new concept. Our conclusion is that DL will show a significant improvement in operational net result under the new definition. We see EPS well over €3.0 in 2015-17F, in line with the conclusion we drew in our note including the CMD preview: *Rate sensitivity (about) to be demystified*, 11 November 2014.

That said, this is a point-in-time measurement, as reinvestment will gradually be impacted by the fall in direct yield. Hence, ceteris paribus, EPS will revert over time, which makes

sense. We believe that this will be through the P&L 'market volatility' (the difference between movement of assets and liabilities) line item, to reconcile net operational net profit with IFRS net profit.

Fig 6 From new operational result to IFRS capital generation (1H14) (€m)



Source: Company data

This brings IFRS net profit in line with what we believe is actually the operational capital generation power of the group, which makes conventional sense. In our view, this implies an IFRS profit run rate of c.€500m per annum, also aligned with the higher end of capital generation guidance of 12-24ppt under Solvency 1 provided by management in the last 2 years (€2bn required capital x 24% = c.€0.5bn). We hope DL will provide more guidance on capital generation by its subsidiaries and on remittance to Holding cash flows.

In conclusion, we think investors are unlikely to value DL by simply using the new operational EPS (well over €3.0) concept, but will rather apply a multiple on operational cash flow generation, which we estimate to be closer to €2.0-2.2 per share (or closer to €1.2-1.4 per share on Holding free cash flow generation). This highlights the importance of providing guidance on operational capital generation and on remittance, as we fear that otherwise the new operational profit concept will diminish in value.

Fig 7 New operational EPS of >€3.0 given low rates; operational capital generation closer to €2.0 per share

	2012	2013	1H14	2H14	2014F	2015F	2016F	2017F
Operational cash generated (free cash flow), (€m)	**248**	**390**	**486**	**570**	**497**	**505**	**521**	**537**
Operational cash minus Holding finance and expenses (€m)	n/a	n/a	n/a	467	412	420	435	452
Net profit before market volatility & other (€m)	283	486	222	375	598	774	754	727
Net profit IFRS (€m)	**(1,495)**	**168**	**280**	**56**	**335**	**505**	**521**	**537**
Per share (€)								
Operational cash generated (free cash flow)	1.43	2.13	2.53	2.92	2.55	2.55	2.56	2.64
Operational cash minus Holding finance and expenses	**n/a**	**n/a**	**n/a**	**2.55**	**2.11**	**2.12**	**2.14**	**2.22**
Operational net profit (new concept)	**1.63**	**2.66**	**1.16**	**1.92**	**3.06**	**3.91**	**3.70**	**3.57**
IFRS net profit	(8.63)	0.92	1.46	0.29	1.72	2.55	2.56	2.64

Source: Company data, ING estimates

In Figure 8, we show the net Holding cash per share in relation to dividend per share. Increasing remittance over time should improve coverage of dividends. This illustrates the importance of getting a better understanding for future remittance.

Fig 8 Holding cash per share c.€1.2-1.4 versus dividend of €1.03

	2013	2014F	2015F	2016F	2017F
Operational cash generated (free cash flow), (€m)	**570**	**497**	**505**	**521**	**537**
Net upstream from subsidiaries (€m)	300	313	349	363	376
Remittance ratio (%)	**53**	**63**	**69**	**70**	**70**
Net Holding cash flow less Holding finance and expenses (€m)	197	227	264	278	290
Per share (€)					
Net Holding cash flow per share	**1.01**	**1.16**	**1.34**	**1.36**	**1.43**
Dividend per share	1.03	1.03	1.03	1.03	1.03

Source: Company data, ING estimates

Below, we show the new P&L format, pointing to new operational EPS of well over €3.0 for 2015-17F.

Fig 9 P&L new format (€m)

	2012	2013	1H14	2H14	2014F	2015F	2016F	2017F
Life	131	149	52	93	145	155	161	167
General insurance	37	42	28	20	47	75	78	82
Bank	(22)	21	13	12	25	14	15	16
Asset management	63	59	24	31	55	59	63	67
Other	8	(17)	(7)	(9)	(16)	(16)	(16)	(16)
Technical profit	**217**	**254**	**109**	**147**	**256**	**286**	**301**	**316**
Long-term investment return (LTIR)	372	365	163	126	289	292	306	321
Gross operational result	**589**	**619**	**272**	**273**	**546**	**579**	**607**	**637**
Lat changes	(44)	(50)	(21)	(21)	(42)	(42)	(42)	(42)
LTIR	(372)	(365)	(163)	(126)	(289)	(292)	(306)	(321)
New operational technical results	**173**	**204**	**88**	**126**	**214**	**244**	**259**	**274**
Investment spread	251	489	224	333	557	788	749	700
New gross operational result	**424**	**693**	**312**	**459**	**772**	**1,032**	**1,008**	**974**
Illustrative tax	(112)	(169)	(69)	(79)	(148)	(238)	(235)	(228)
Net profit before minorities	**312**	**524**	**243**	**380**	**624**	**794**	**773**	**746**
Minorities	(30)	(38)	(21)	(5)	(26)	(20)	(19)	(19)
Net profit before market volatility & other	**283**	**486**	**222**	**375**	**598**	**774**	**754**	**727**
New gross operational result	**424**	**693**	**312**	**459**	**772**	**1,032**	**1,008**	**974**
Market volatility	(2,423)	(453)	58	(386)	(328)	(350)	(304)	(248)
Other	-	-	13	-	13	-	-	-
Tax & minorities	504	(72)	(104)	(18)	(121)	(178)	(183)	(189)
Net profit IFRS	**(1,495)**	**168**	**280**	**56**	**335**	**505**	**521**	**537**
EPS IFRS (€)	**(8.63)**	**0.92**	**1.46**	**0.29**	**1.72**	**2.55**	**2.56**	**2.64**
Operational EPS: new definition (€)	**1.63**	**2.66**	**1.16**	**1.92**	**3.06**	**3.91**	**3.70**	**3.57**
Operational EPS: old definition (€)	**2.3**	**2.35**	**1.00**	**0.99**	**1.97**	**2.05**	**2.09**	**2.19**
Uplift profit versus LTIR concept (%)	**-30**	**13**	**17**	**95**	**56**	**91**	**77**	**63**
DPS (€)	**1.03**	**1.03**	**0.42**	**0.61**	**1.03**	**1.03**	**1.03**	**1.03**
Dividend growth (%)	0	0	0	0	0	0	0	0
Pay-out ratio EPS IFRS (%)	-12	112	29	214	60	40	40	39
Pay-out ratio Operational EPS (%)	63	39	36	32	34	26	28	29

Source: ING estimates

To be prudent, we have included DNB's fine of €22.9m (no tax-offset) in our 2015F forecasts. Given the current legal dispute, we assume DL will not include the fine in its 2014F accounts.

Investment spread: new concept

The investment spread may widen further in 2H14F

In our view, the investment spread will widen substantially in 2H14F. The cost of liabilities has fallen substantially since 1Q14 as the yield on collateralised AAA 13-year has dropped by over 116bp. The direct yield has been rather stable due to duration of assets and changes in investment mix (shift from sovereigns to mortgages). Of its own risk assets, 27% is allocated to sovereigns and 20% to mortgages.

Fig 10 Investment spread to replace LTIR (€m)

	2010	2011	2012	2013	2014F	2015F	2016F	2017F
Coupon on fixed income	n/a	n/a	907	951	1,001	924	874	818
Interest income from mortgages	n/a	n/a	220	218	267	269	276	279
Dividend income	n/a	n/a	159	177	119	122	125	127
Rental income	n/a	n/a	119	112	115	115	117	118
Direct yield	**n/a**	**n/a**	**1,405**	**1,458**	**1,503**	**1,431**	**1,392**	**1,343**
Insurance liabilities: own risk	n/a	n/a	n/a	(30,000)	(38,140)	(41,988)	(41,988)	(41,988)
Collateralised AAA curve (13y-point) (%)	n/a	n/a	n/a	2.85	1.17	1.17	1.17	1.17
Required interest: Life	**n/a**	**n/a**	**n/a**	**(854)**	**(794)**	**(491)**	**(491)**	**(491)**
Required interest: Income and Protection	n/a	n/a	n/a	(9)	(18)	(18)	(18)	(18)
Finance costs	n/a	n/a	n/a	(106)	(134)	(134)	(134)	(134)
Cost of liabilities	**n/a**	**n/a**	**(1,154)**	**(969)**	**(945)**	**(643)**	**(643)**	**(643)**
Investment spread	**n/a**	**n/a**	**251**	**489**	**557**	**788**	**749**	**700**

Source: ING estimates

The cost of liabilities is calculated by multiplying the opening balance of insurance liabilities by the level of the collateralized AAA curve at the beginning of the quarter (13-year point). This means that for 2Q14, the end-March level of 2.46% was used (end September 2014: 1.62%, end June 2014: 1.62%). The level of rates has fallen dramatically since then to 1.17% at the end of December 2014.

Fig 11 Cost of liabilities (€m)

	2013	1Q14	2Q14	3Q14	4Q14F	2014F	2015F	2016F	2017F
Insurance liabilities: own risk	(30,000)	(33,547)	(34,737)	(36,358)	(38,140)	(38,140)	(41,988)	(41,988)	(41,988)
Change			(1,190)	(1,621)	(1,783)	(4,593)	(3,848)	-	-
Collateralised AAA curve (13yr) (%)	2.85	2.85	2.46	2.06	1.62	1.17	1.17	1.17	1.17
Required interest: Life	**(854)**	**(239)**	**(214)**	**(187)**	**(154)**	**(794)**	**(491)**	**(491)**	**(491)**

Source: Company data, ING estimates

The direct yield is rather stable. Reinvestment at a lower effective yield will result in pressure over time, but this is a slow process. We have assumed this in our forecasts of the direct yield.

Fig 12 Breakdown of direct yield (€m)

	2010	2011	2012	2013	2014F	2015F	2016F	2017F
Fixed income								
Growth portfolio (%)	n/a	-	26	1	13	4	4	4
Fixed income portfolio	n/a	22,203	28,027	28,375	32,197	33,485	34,824	36,217
Direct yield: fixed income (%)	n/a	4.0	3.2	3.4	3.1	2.8	2.5	2.3
Coupon income from fixed income	**n/a**	**896**	**907**	**951**	**1,001**	**924**	**874**	**818**
Mortgages								
Growth portfolio (%)	n/a	-	2	25	13	4	4	4
Mortgage portfolio	n/a	3,856	3,940	4,936	5,572	5,795	6,027	6,268
Direct yield: mortgages (%)	n/a	4.6	5.6	4.4	4.8	4.7	4.6	4.5
Interest income from mortgages	**n/a**	**177**	**220**	**218**	**267**	**269**	**276**	**279**
Equity								
Growth portfolio (%)	n/a	-	-22	-20	-1	2	2	2
Equity portfolio	n/a	5,545	4,319	3,457	3,424	3,492	3,562	3,634
Direct yield: equity (%)	n/a	3.0	3.7	5.1	3.5	3.5	3.5	3.5
Dividend income	**n/a**	**167**	**159**	**177**	**119**	**122**	**125**	**127**
Property								
Growth portfolio (%)	n/a	-	-11	1	-4	-2	-2	-2
Property portfolio	n/a	2,445	2,166	2,181	2,090	2,049	2,008	1,967
Direct yield: property (%)	n/a	5.2	5.5	5.1	5.5	5.6	5.8	6.0
Rental income	**n/a**	**127**	**119**	**112**	**115**	**115**	**117**	**118**
Cash	n/a	1,070	987	648	1,058	1,058	1,059	1,059
Direct yield	**n/a**	**1,367**	**1,405**	**1,458**	**1,503**	**1,431**	**1,392**	**1,343**
Annualised total direct yield (%)	**n/a**	**3.9**	**3.6**	**3.7**	**3.4**	**3.1**	**2.9**	**2.7**

Source: Company data, ING estimates

2014F preview

Curve movements once more hurt IGD ratio (S1)

Event: 2014 results are due on 24 February, with an analyst meeting at 1130h CET.

Conclusion: We believe the market's views on capital generation are unlikely to change post the release. We continue to expect neutralisation of scrip dividend by 2016F interim dividend, after transition to Solvency 2. The further decline in interest rates and change in spread (ECB swap) is likely to have had a negative impact on the IGD ratio (S1), but we think to a lesser extent than in 3Q14. Solvency 1 loses its relevance with the transition to Solvency 2, but will draw headline attention in our view. We estimate the IGD ratio at 189%, with risk on the downside.

DL maintained its guidance that technical insurance profits will be at the same level as 2013. This means a 2014 level of €254m (INGF: €256m).

We see operational net profit down by 11% YoY to €384m, using long term investment return (LTIR, old method). Under the new definition, we see operational net profit of €598m for 2014F, a YoY increase of 23%.

It is unlikely that we will get new insights into the disagreement between DL and its regulator DNB. The outcome of summary proceedings over the publication of DNB's motivation for the imposed fine and its demand for the CFO's dismissal is expected in the short term. DL has requested that the motivation of the fine by DNB not be published. An appeal is not possible for summary proceedings. DL will contest the fine and the demand for CFO dismissal in a separate case.

Headline IGD ratio (S1) seen at 189% (3Q14: 196%), risk on the downside

Highlights:

- The IGD ratio has likely been hurt once more by spread widening. It is estimated at 189% (3Q14: 196%) The decrease in the ECB AAA curve results in higher required capital. The decrease in the swap curve results in higher value of assets but not a full offset, as the spread between the ECB AAA curve and the swap curve has widened again. The impact is likely a lower IGD ratio than in 3Q14.
- In 3Q14, Aegon's NL IGD ratio declined by 25ppt due to a valuation methodology change for Dutch mortgages. We understand this is a sector-wide discussion. Hence we see risk that DL could make an adjustment in 4Q14. As the size of its mortgage book is 1/5 of Aegon, the impact could be a negative c.4-5ppt.
- The sale of the Belgian bank is likely to impact profits, with a book loss of €123m. The cash proceeds of €219m will positively impact the IGD ratio by 10ppt, but is only expected to be visible in 2015F if the deal is closed and settled. The impact on IGD is neutral in 4Q14, due to recognition of lower required capital for the business.
- Dividends are expected in line with guidance for 2014 at €1.03 per share. The step change expected in scrip premium is a drop from 4% to 2%, in line with comments made during the recent CMD.
- Holding free cash flow is in focus. We expect €313m to be up-streamed, versus €300m in 2013 (higher from General segment balanced by lower from Life). Post Holding costs, Holding free cash flow is seen at €227m.

Fig 13 Preview (old definition), (€m)

	2014F	3Q14	1H14	2013	2012
Shareholders' funds	2,554	2,734	2,826	2,621	2,306
Net IFRS result (after tax and minorities)	335	n/a	280	168	(1,495)
Net operational result (after tax and minority interests; old definition)	**384**	**n/a**	**191**	**430**	**404**
Life: European embedded value (gross of minorities)	4,718	n/a	4,539	4,403	4,210
Group IGD solvency ratio (%)	**189**	**196**	**207**	**184**	**177**

Source: Company data, ING estimates

DL maintained its guidance that technical insurance profits will be similar to 2013. This implies a 2014 level of €254m (INGF: €256m). In Figure 14 we show the old and new style operational net result. The management accounting change has also had a small impact on technical profit, while the net IFRS result is not impacted.

Fig 14 Old versus new concepts (€m)

	2012	2013	1H14	2H14	2014F	2015F	2016F	2017F
Gross operational result (old)	**589**	**619**	**272**	**274**	**546**	**580**	**610**	**641**
Illustrative tax	(155)	(151)	(60)	(77)	(137)	(155)	(166)	(175)
Net profit before minorities	434	468	212	198	409	424	444	466
Minorities	(30)	(38)	(21)	(5)	(26)	(20)	(19)	(19)
Operational net result (old definition)	**404**	**430**	**191**	**193**	**384**	**404**	**425**	**447**
Operational net result (new definition)	**283**	**486**	**222**	**375**	**598**	**774**	**754**	**727**
Technical results (old)	**217**	**254**	**109**	**147**	**256**	**286**	**301**	**316**
Technical results (new)	**173**	**204**	**88**	**126**	**214**	**244**	**259**	**274**
IFRS net profit (old=new concept)	**(1,495)**	**168**	**280**	**56**	**335**	**505**	**521**	**537**

Source: Company data, ING estimates

Old versus new forecasts (old concept)

Below, we show our updated forecast based on IFRS net profit and operational result concept based on LTIR (ie, old concept). From 1 January 2015, DL will change its definition of operational result, which we expect will bring greater transparency. In Figure 15, we show our revised forecast under the current concept.

The main change is a move away from LTIR towards an operational result based on investment spread (direct asset returns minus actual cost of liabilities). This means that IFRS P&L, balance sheet and capital generation will be more aligned. The issue with LTIR is that in the current very low interest rate environment, it understates the actual 'locked-in' direct yield of its own risk asset portfolio. The new direct yield approach is more stable and better reflects the long-term nature of the business.

Fig 15 Old versus new concepts (€m)

		New			Change (%)	
	2014F	2015F	2016F	2014F	2015F	2016F
Total operating profit	546	580	610	-3	-6	-7
- long-term investment return	(289)	(292)	(306)	-4	-5	-6
+ actual return after profit sharing/interest accrual	289	292	306	-4	-5	-6
+/- fair value adj. liabilities	(2,731)	395	399	13	-21	-23
+/- non-operational items	(52)	0	0	0	nm	nm
Results before tax from continuing operation	**458**	**682**	**704**	**-41**	**-16**	**-17**
Current tax	(96)	(158)	(164)	-47	-22	-23
Discontinued operations after tax	0	0	0	-100	-100	-100
Other	0	0	0	nm	nm	nm
Net result	**362**	**525**	**540**	**-39**	**-14**	**-15**
Minorities	(26)	(20)	(19)	-13	10	-1
Net results attributable to shareholders	**336**	**505**	**521**	**-41**	**-15**	**-16**
Total operating profit	546	580	610	-3	-6	-7
Illustrative tax	(137)	(155)	(166)	0	-8	-7
Net profit before minorities	**409**	**424**	**444**	**-3**	**-6**	**-6**
Minorities	(26)	(20)	(19)	-13	10	-1
Net profit attributable to shareholders	**384**	**404**	**425**	**-3**	**-6**	**-7**
Life	279	290	300	-4	-2	-3
General insurance	59	77	85	0	-9	-9
Bank	26	14	14	0	-48	-49
Asset management	41	44	47	0	0	0
Other	(21)	(21)	(21)	0	0	0
Operational profit	**384**	**404**	**425**	**-3**	**-6**	**-7**
Per share data						
Reported basic EPS (€), IFRS	**1.72**	**2.55**	**2.56**	**-39**	**-11**	**-12**
Operating EPS basic (€) (old concept)	**1.97**	**2.05**	**2.09**	**-1**	**-2**	**-2**
Growth (%)	-16	4	2	39	-29	1
Dividend per share (€)	**1.03**	**1.03**	**1.03**	**0**	**0**	**-3**

Source: Company data, ING estimates

Downgrade to HOLD

Downgrade from Buy to HOLD

We downgrade Delta Lloyd from Buy to HOLD and cut our target price from €21.5 to €19.0.
Post the CMD, our confidence has increased that earnings under the new definition are more aligned with capital generation. However, in the current low-yield environment, focus is on capital return to shareholders in the near term. On cash flow metrics, DL screens weakest of its Benelux peers. DL's Holding cash generation is too low, and visibility on remittance ratio improvement is also low. It will likely take until the interim dividend of 2016 before DL neutralises dilution from its scrip dividend. Moreover, DL indicated that it prefers neutralising past dilution (from scrip) to growing the dividend. Hence, no growth of dividend (per share) is to be expected in coming years. Total return to shareholders will thus be maintained at c.6% yield (€1.03 DPS) versus its closest Benelux peers at c.7-10%. We expect visibility on future remittance ratio (cash flows) to improve, but not before Solvency 2 models are improved by the regulator (expected late 2015).

Further, court proceedings against regulator DNB, related to the fine imposed of €1.2m, repayment of €21.6m financial gain and demanded dismissal of the CFO by 1 January 2016 at the latest, brings additional uncertainty. We see no winner in this unusual public debate. We hope to see this dispute resolved quickly, but it is hard to predict. In our view, this court proceeding does not present a major legal overhang, but could hamper re-rating of the stock in the near term. We do not expect the proceedings to influence decisions related to DL's internal Solvency 2 model approval or decisions related to dividends (remittance from subsidiaries to Holding and payout to shareholders).

Target price cut to €19.0

We roll forward our valuation to 2016 and cut our target price from €21.5 to €19.0. In our view, the most important catalyst would be an improvement of Holding free cash flow generation as this would change market views on potential for capital return. In our view, concrete steps to move towards full-cash dividend would be considered a strong positive.

Fig 16 Delta Lloyd: sum-of-the-parts valuation, 2016F (€m)

	Life	General	Bank	AM
Net profit	369	108	14	47.1
Equity	3,374	670	286	103.4
ROE (%)	10.9	16.1	5.0	0.5
COE (%)	11.0	9.5	9.5	9.0
Perpetuity (%)	0.0	1.0	0.0	1.0
P/B (x)	1.0	1.8	0.5	5.5
PER (x)	9.1	11.0	10.5	12.2
P/LEEV (x)	0.6			
Life EEV	5,386			
AUM (€bn)				85.0
Third party AUM (€bn)				30.2
Third party AUM as a %				1.9
Valuation	**3,355**	**1,186**	**151**	**573**
Total operating entities (A)	**5,265**			
Corporate Centre				
Holding costs and finance expenses post tax	(763)			
PER (x)	12.0			
Holding co debt	(1,551)			
Multiple (x)	1.0			
Holding cash	915			
Multiple (x)	1.0			
Valuation: Corporate centre (B)	**(1,398)**			
Total valuation (A+B)	**3,867**			
Number of shares, end 2016 (m)	204			
Fair value per share = target price (€)	**19.0**			

Source: ING estimates

DL is one of the 'cheapest' insurers based on headline IFRS PE multiples, trading at 7.2x 2015F versus the sector median at 11.1x, and its closest peers Aegon (10.3x) and Ageas (9.7x; adjusted for net cash: 7.7x).

However, on Holding free cash flow metrics, which we believe matter more in the current environment, DL screens weakest of its Benelux peers. On our forecasts, we expect DL to bridge the gap, at best with its Benelux peers, but measured in total capital return over 2015-17F, this gap is unlikely to be closed. We see DL returning c.14% of its current market cap over 2015-17F, versus AEGON at c.20% and Ageas at c.33%. We expect visibility on remittance ratio (cash flows) to improve, which is very important, but not before Solvency 2 models are improved by the regulator, expected in late 2015.

Fig 17 Key valuation metrics

	2014F	2015F	2016F	2017F
Based on current share price				
PER (IFRS, reported) (x)	10.6	7.2	7.0	6.8
PER operational (new definition) (x)	5.9	4.7	4.8	5.0
PER operational (old definition) (x)	9.1	8.8	8.6	8.2
P/TE (x)	1.6	1.4	1.2	1.1
P/BV (x)	1.4	1.2	1.1	1.0
P/Operating FCF(x)	7.1	7.0	6.8	6.6
P/Holding FCF (x)	15.6	13.4	12.7	12.2
Dividend yield (%)	5.8	5.8	5.8	5.8
Holding company FCF yield (%)	6.4	7.2	7.6	8.0
Operational FCF yield (%)	14.1	13.9	14.3	14.7
Nominal dividend coverage (x)	1.1	1.3	1.3	1.4
Cash (+SBB) coverage (x)	3.2	2.5	1.3	1.4
Based on target price				
PER (IFRS, reported) (x)	11.5	7.7	7.4	7.2
PER operational (new definition) (x)	6.5	5.0	5.1	5.3
PER operational (old definition) (x)	9.7	9.3	9.1	8.7
P/TE (x)	1.8	1.5	1.3	1.2
P/BV (x)	1.5	1.3	1.2	1.1
P/Operating FCF(x)	7.8	7.7	7.4	7.2
P/Holding FCF (x)	17.0	14.6	13.9	13.3
Implied dividend yield (%)	5.4	5.4	5.4	5.4
Holding company FCF yield (%)	5.9	6.8	7.2	7.5
Operational FCF yield (%)	12.9	13.1	13.5	13.9

Source: ING estimates

Relative valuation: 'cheap' on headline PER, but…

DL is one of the cheapest EU insurance companies measured on headline IFRS PER (7.2x 2015F). On dividend yield, it is trading at a premium to its Benelux and EU peers, but dividend is not full-cash and as we will show later on, DL lags its Benelux peers on total capital return expectations (including share buybacks).

In Figure 18, ROEs for AEGON are based on its underlying earnings definition (excluding AFS), for Ageas on insurance profit (excluding AFS) and for NN (on an adjusted equity basis).

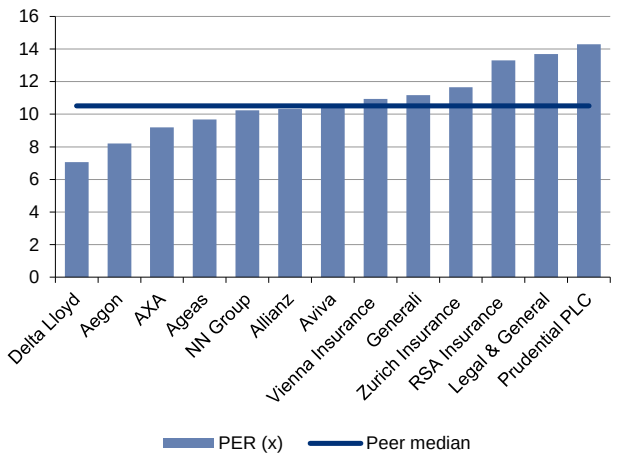
Fig 18 EU peer group overview

		Share	PER (x)			P/B (x)			ROE (%)			Div. yield (%)		
Company name	**BBG Ticker**	**price (lc)**	**2014F**	**2015F**	**2016F**	**2014F**	**2015F**	**2016F**	**2014F**	**2015F**	**2016F**	**2014F**	**2015F**	**2016F**
Delta Lloyd NV	**DL NA Equity**	**17.90**	**10.6**	**7.0**	**7.0**	**1.4**	**1.2**	**1.1**	**15.0**	**13.6**	**12.7**	**5.8**	**5.8**	**5.8**
Premium/(discount) to EU median (%)			-19.5	-37.0	-32.6	-0.2	-7.4	-11.2	24.4	15.0	5.5	53.9	33.4	23.4
EU Peers														
Aegon	AGN NA Equity	6.23	10.8	8.3	7.8	0.8	0.8	0.7	7.6	9.2	9.5	3.7	3.9	4.1
Allianz	ALV GR Equity	142.67	10.2	10.4	10.2	1.1	1.1	1.0	12.2	10.9	10.4	4.7	4.8	4.9
Aviva	AV/LN Equity	517.00	11.1	10.6	9.7	1.7	1.6	1.4	16.5	15.2	16.1	3.3	3.9	4.6
AXA	CS FP Equity	20.16	9.8	9.2	8.9	0.9	0.9	0.8	9.7	9.5	9.7	4.4	4.7	5.1
Ageas	AGS BB Equity	29.97	13.7	9.7	8.9	0.7	0.7	0.6	11.5	10.4	10.7	5.3	5.5	6.0
Generali	G IM Equity	17.72	13.0	11.2	10.4	1.2	1.1	1.1	10.0	10.7	10.9	3.3	4.1	4.5
Legal & General	LGEN LN Equity	255.70	15.0	13.7	12.7	2.5	2.4	2.2	17.4	17.6	17.9	4.4	5.0	5.4
Prudential	PRU LN Equity	1,539.00	16.1	14.3	12.9	3.6	3.1	2.7	21.9	21.4	20.8	2.3	2.5	2.8
RSA Insurance	RSA LN Equity	447.60	18.2	13.3	11.5	1.1	1.1	1.1	10.4	9.5	10.5	1.6	3.4	4.2
Vienna Insurance	VIG AV Equity	37.68	11.6	10.9	10.1	1.0	0.9	0.9	8.4	8.2	8.5	3.7	3.9	4.1
Zurich Insurance	ZURN VX Equity	291.70	12.9	11.7	11.3	1.4	1.4	1.3	11.5	11.9	11.9	5.4	5.7	5.8
NN Group	NN NA Equity	24.12	15.0	10.3	10.0	0.9	0.8	0.8	7.9	7.5	7.9	2.1	4.4	4.5
Mean			**13.1**	**11.1**	**10.4**	**1.4**	**1.3**	**1.2**	**12.1**	**11.8**	**12.1**	**3.7**	**4.3**	**4.7**
Median			**12.9**	**10.7**	**10.2**	**1.1**	**1.1**	**1.0**	**10.9**	**10.6**	**10.6**	**3.7**	**4.2**	**4.6**

Pricing as of 20 January 2015

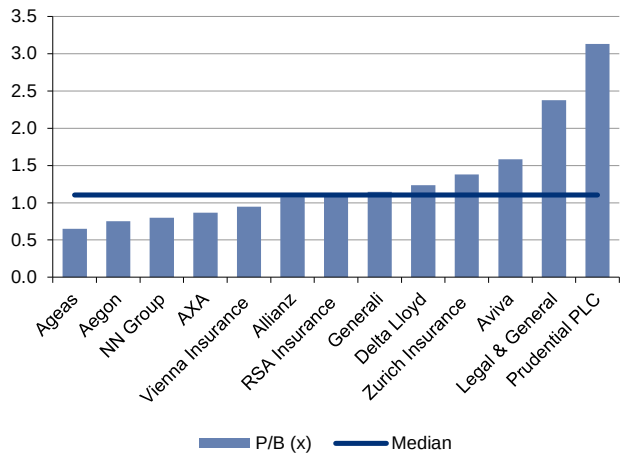
Source: ING estimates for Delta Lloyd (Hold), Aegon (Buy) and Ageas (Buy); Bloomberg consensus for all other (unrated) companies

Fig 19 PER (x)



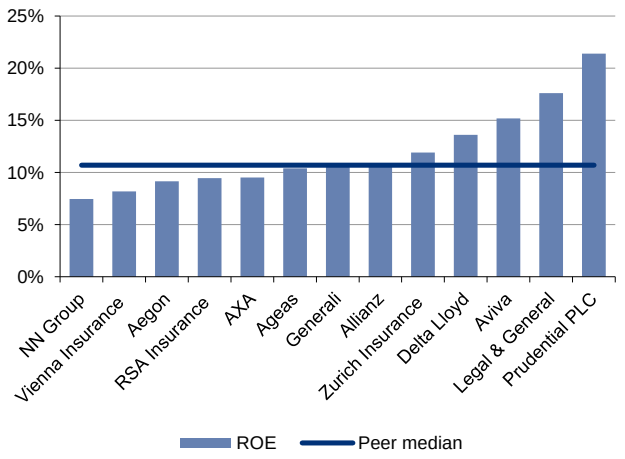
Source: ING estimates for Delta Lloyd, Aegon and Ageas, Bloomberg consensus for all other (unrated) companies

Fig 20 P/B (x)



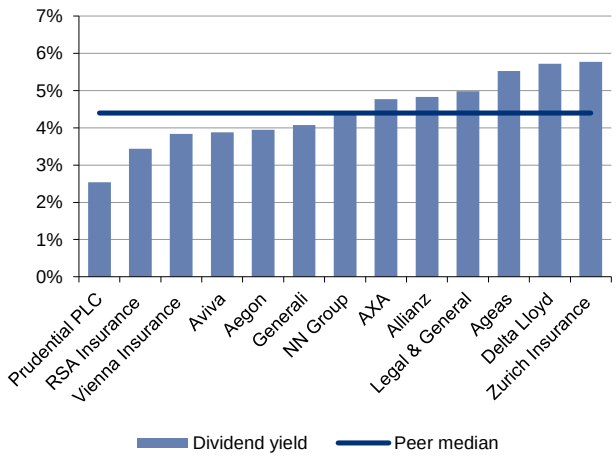
Source: ING estimates for Delta Lloyd, Aegon and Ageas, Bloomberg consensus for all other (unrated) companies

Fig 21 ROE (%)



Source: ING estimates for Delta Lloyd, Aegon and Ageas, Bloomberg consensus for all other (unrated) companies

Fig 22 Dividend yield (%)



Source: ING estimates for Delta Lloyd, Aegon and Ageas, Bloomberg consensus for all other (unrated) companies

DL in the context of Benelux peers

Cash returns matter and attract investors to the insurance sector. In the current low-yield environment, sectors offering an above-average dividend yield are attractive. We believe insurance companies screen well on dividend yield metrics and exhibit potential for special dividends and share buybacks. Total capital return yield is seen at 6% per annum for DL (bearing in mind that scrip dilution is not fully neutralised, the earliest being in 1H16), 7% for AEGON (scrip dilution fully neutralised) and AGEAS at c.10% (market cap adjusted for net cash: c.12%). The relatively high returns might seem counterintuitive, as low interest rates, in theory, are not positive, especially for life insurance companies - duration of liabilities is longer than that of assets. That said, given the lack of growth opportunities for new business (capital-consuming), capital released from back books (in-force portfolio) cannot be easily reinvested. This means that capital generation is strong and is likely to be returned to shareholders in the form of dividends, supplemented by share buybacks or special dividends. **DL screens the weakest of its Benelux peers on total capital return potential (cash metrics) and we downgrade our recommendation to HOLD.**

The sector has learned its lessons and is better able to cope with low yields

Since the credit crisis emerged, the sector has taken measures to strengthen risk controls to improve the quality of capital, paving the way to return capital today. Tangible equity in the sector has increased and so have absolute capital levels, in anticipation of Solvency 2. Also, volatility in capital has decreased due to improved asset & liability management (duration gap narrowed), de-risked investment portfolios and significant lowering of guaranteed interest rate levels.

That said, in a very prolonged period of low interest rates, the impact will still be negative as in-force portfolios continue to shrink (diminishing profit pool) as hardly any new profitable business is added. Insurers try to offset this impact by improving cost efficiency, focusing more on fee-based business (lower than no-guarantee or less capital intense business) and offering products tailored for the at-retirement market (asset de-accumulation phase versus an historical focus on accumulation).

For the next couple of years we believe that the impact from low rates for life insurance companies is manageable for Benelux players. The main risks we identify include a sudden increase in credit spreads, on which the sector remains vulnerable. Chances of this happening in Europe appear low, given expected quantitative easing from the ECB, which might ultimately involve buying asset classes other than sovereigns. Another risk is introduction of Solvency 2, although we believe the sector, on balance, is prepared.

Dividend yield still above average for sector, but the sector is no longer 'cheap'

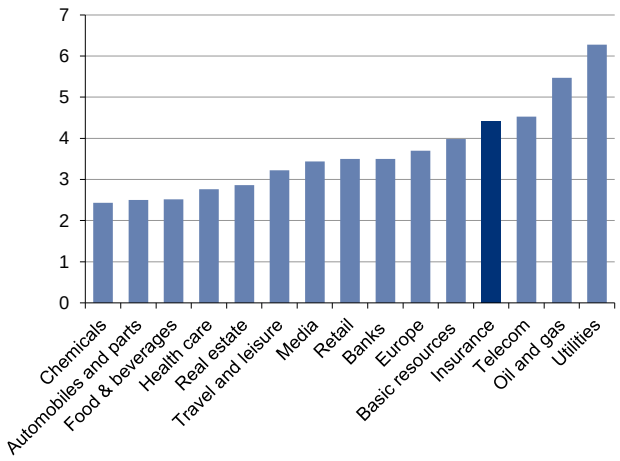
The dividend yield for the EU insurance sector is c.4.3%, and thus attractive. That said, the sector is not trading at cheap PE multiples in a historical context.

Over the past two years, the insurance sector index (SXIP) increased by c.44%, outperforming the Stoxx 600 index (SXXP) by c.21% and the banks index (SX7P) by c.36%. Over 2014, the outperformance was c.6% and c.13%, respectively.

Given current valuation levels, the continuation of this trend might become more challenging. However, the above-average dividend yield outlook will attract interest and continue to make the sector attractive in the current low-growth and low-yield

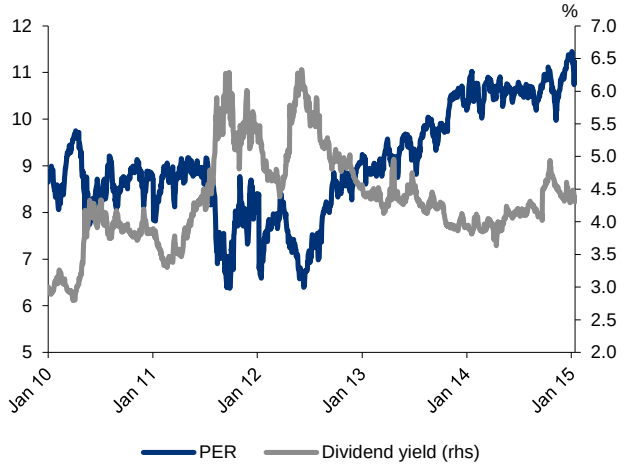
environment. Thus we could see the re-rating and outperformance continue, albeit likely at a slower pace.

Fig 23 Insurance sector: attractive dividend yield (%)



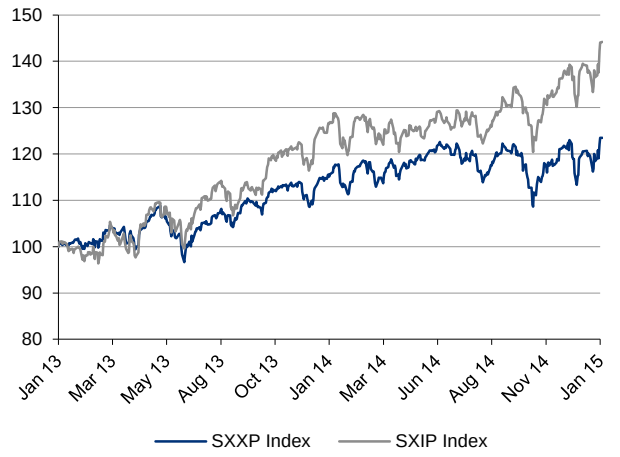
Source: Bloomberg, ING estimates

Fig 24 Insurance sector: PER (x) vs dividend yield (%)



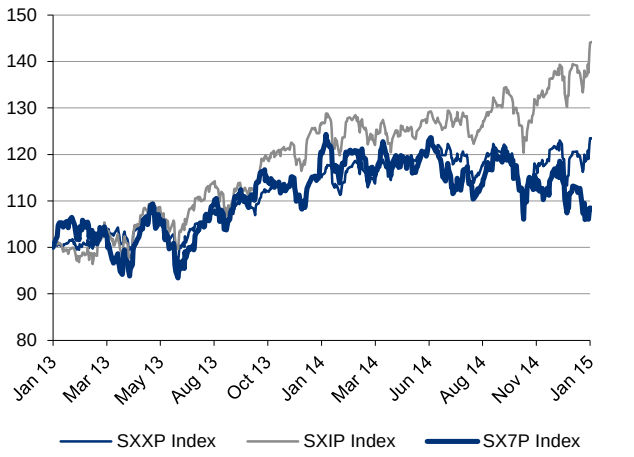
Source: Bloomberg, ING estimates

Fig 25 Insurance (SXIP) vs Stoxx600 (SXXP) – 2 years



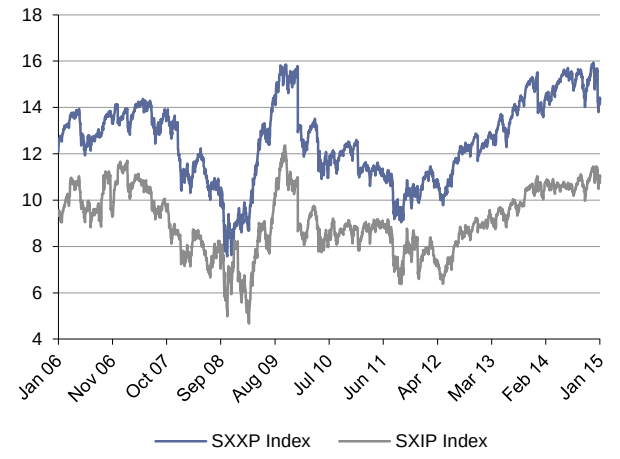
Source: Bloomberg

Fig 26 Insurance versus Stoxx 600 and Banks (SX7P)



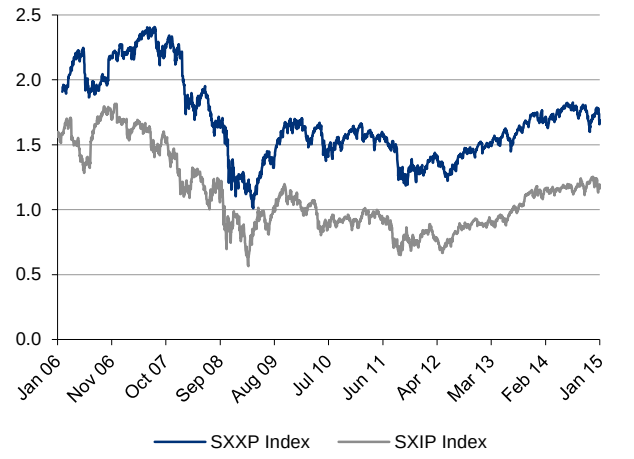
Source: Bloomberg

Fig 27 5-year forward PER (x)



Source: Bloomberg

Fig 28 5-year forward P/B (x)



Source: Bloomberg

Capital and balance sheet

Quality and level of capital improved

With the transition to Solvency 2 capital framework, Solvency 1 ratios start to lose their relevance. However as Solvency 1 ratios are disclosed, they will continue to attract attention. With DL, we fear that headline IGD ratios will again look weak over 4Q14F, undermining potential confidence in capital generation and ability to improve capital return to shareholders.

Dutch regulator likely to remain conservative

For the sector as a whole, there remain uncertainties on some important issues concerning Solvency 2, including the discount rate used for liabilities, internal model approval process (calibration) and equivalence approach (eg, US). Overall discussions are heading in the right direction, in our view. That said, we expect the Dutch regulator to continue to take a conservative approach. Given the transition phase, we believe DNB will consider it undesirable to see major changes in dividend policy (making it more onerous) as models need to be approved and monitored for stability (reduced volatility). We expect DNB to approve the change in scrip take-up premium from 4% to 2%, with the announcement of full-year dividend unchanged at €1.03 per share

Solvency 2 remains a risk but Benelux names appear prepared

In Figure 29, we present an overview of publicly available data provided by Benelux names. DL and AEGON have provided guidance on Solvency 2, for which the range seems comfortable. Ageas said it would provide Solvency 2 guidance during its capital markets day in September 2015. We expect clarity from Benelux insurers in the fall of 2015 once local regulators approve internal Solvency 2 models. DL's Solvency 2 numbers are based on 3Q14 results, which include the step fall in interest rates seen after the summer. Numbers provided by competitors are based on 2013 results.

Fig 29 Solvency 1 IGD ratios and Economic Solvency 2-based ratios

	S1 Group (%)	Comment	S1 Insurance (%)	Comment	Period	S2 (%)	Comment	Period
Delta Lloyd	196	Group IGD ratio	228	Insurance IGD ratio	3Q14	160	Economic Solvency ratio, mid-point 140-180% ambition level	3Q14
Ageas	206	Group IGD ratio	214	Insurance IGD ratio	3Q14	n/a	S2 guidance 3Q15	
AEGON	202	Group IGD ratio	c.220	IGD ratio Netherlands	3Q14	150-200	S2 ratio	FY13
NN	283	Group IGD ratio	252	NN Life IGD ratio	3Q14	19%	Economic Solvency ratio	FY13

Source: Company data

Tangible equity improved and debt leverage reduced

Benelux-based insurance companies have improved the quality of their balance sheets and levels of capital since the credit crisis broke. Tangible equity is close to 100% (only deducting goodwill). Clean tangible equity (deducting gross DAC, VOBA and other intangibles) improved for most names, to c.80%. The exception is AEGON, largely due to its large DAC balance in the UK and US. Debt leverage also reduced in recent years, especially at AEGON where much effort has been expended. DL on the other hand, has increased its leverage. For DL, we show ratios based on reported shareholders' equity and on traditional accounting. In our view, the latter has been prepared in anticipation of Solvency 2.

Fig 30 3Q14 balance sheet metrics (€m)

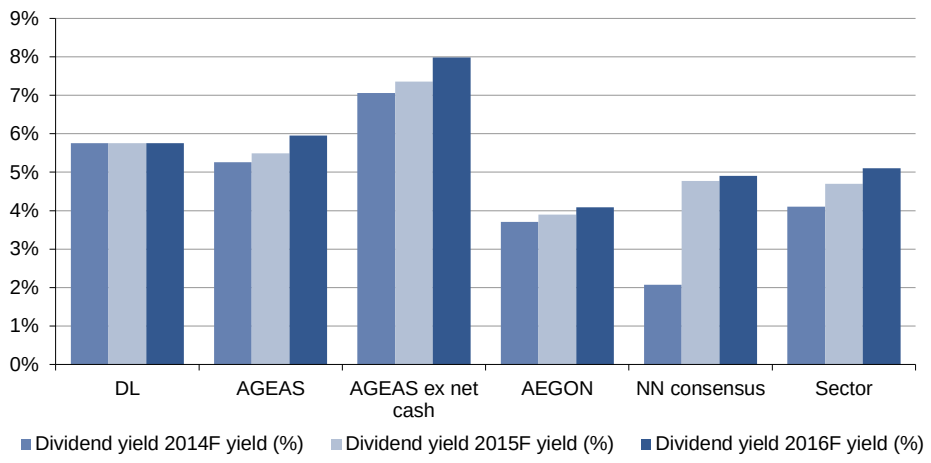
	Delta Lloyd	Ageas	AEGON	NN
Equity (excluding minorities)	2,734	9,900	21,919	18,344
Subordinated debt (including T2)	1,654	2,011	4,544	2,823
Senior debt	575	0	2,991	400
Total	4,963	11,911	29,454	21,567
o/w total debt leverage (%)	**45**	**17**	**26**	**15**
Shareholders' equity trad. accounting	3,846			
o/w total debt leverage trad. Accounting (%)	**37**			
Shareholders' equity	2,734	9,900	21,919	18,344
Goodwill	283	727	211	0
DAC (gross)	151	884	10,883	1,431
VOBA	15	339	1,742	0
Intangibles	81	358	259	360
Total assets	84,494	101,463	399,321	160,186
Assets/equity (x)	**31**	**10**	**18**	**9**
Assets/equity (x) trad. accounting	**22**			
Tangible equity (GW) (%)	**90**	**93**	**99**	**100**
Tangible equity (DAC, GW & Intangibles, VOBA) (%)	81	80	48	90

Source: Company data, ING estimates

Zooming in on Benelux names – DL needs to step up

Of ING Benelux coverage, Ageas ranks highest on dividend yield, while it is net cash (c.1.7bn). Adjusted for this, the yield would be even higher. DL ranks high, but it has an optional dividend and is currently not neutralising dilution via share buybacks as AEGON does. Clearly, the intention is to do so, and we expect this to be effective from 1H16 interim dividend onwards, after transition to Solvency 2.

Fig 31 Benelux names: dividend yield (%)



Source: Bloomberg, ING estimates

DL in line with dividend yield but at the low end on total capital return basis (share buybacks)

From a total return perspective, including dividends, share buybacks and special dividends, the picture changes. DL screens lowest at c.6%, versus AEGON at 7% and Ageas at close to 10%.

In addition, DL has indicated that it intends to make good past dilution from scrip dividend. This suggests that it might prefer to execute share buybacks before growing its dividend. As we see a gap between nominal dividend costs (100% cash) and Holding free cash flow at c.€60-85m, we expect this may take many years to materialise.

Fig 32 Making good past dilution requires c.€0.4bn SBB

2009 number of shares at IPO (m)	**165.6**
1H14 ordinary shares outstanding (m)	191.5
Scrip take-up at interim dividend (m)	3.3
Total FY14 number of ordinary shares (m)	**194.8**
Share issuance, 2012 (m)	(4)
Conversion NutsOhra, 2012 (m)	(3)
Past dilution (m)	**22**
Share price (€)	17.9
SBB (€m)	**397**
% market cap	11

Source: Company data, ING estimates

That said, we believe market expectations are low for DL in terms of capital return in excess of a flat annual dividend per share (€1.03) and a move to full-cash dividend.

Ageas ranks best among total-capital-return expectations. AEGON ranks well on total capital return as well, but it remains very dependent on implementation of share buyback promises and recovery of UK cash flows. In our view, this should be possible (€0.4bn impact), but at end 2015 at the earliest, once internal Solvency 2 models are approved by the Dutch Central Bank (expected in 3Q15 or 4Q15).

Fig 33 Yield breakdown by insurance company (€m)

	DL	AGEAS	AGEAS net cash adj.	AEGON	NN (consensus)
Cash dividend		YES	YES		YES
Optional dividend	YES			YES	
Scrip neutralisation	NO (=objective)			YES	
DPS 2014F (€)	1.03	1.58	1.58	0.23	0.50
DPS 2015F (€)	1.03	1.64	1.64	0.24	1.06
DPS 2016F (€)	1.03	1.78	1.78	0.25	1.08
SBB 2014F	0	250	250	0	n/a
SBB 2015F	0	250	250	400	n/a
SBB 2016F	0	250	250	400	n/a
Dividend yield, 2014F (%)	5.8	5.3	7.1	3.7	2.1
Dividend yield, 2015F (%)	5.8	5.5	7.4	3.9	4.4
Dividend yield, 2016F (%)	5.8	6.0	8.0	4.1	4.5
SBB 2014F yield (%)	0.0	3.7	5.0	0.0	n/a
SBB 2015F yield (%)	0.0	3.7	5.0	3.0	n/a
SBB 2016F yield (%)	0.0	3.7	5.0	3.0	n/a
Total shareholders' return, 2014F (%)	**5.8**	**9.0**	**12.0**	**3.7**	n/a
Total shareholders' return, 2015F (%)	**5.8**	**9.2**	**12.3**	**6.9**	n/a
Total shareholders' return, 2016F (%)	**5.8**	**9.7**	**13.0**	**7.1**	n/a

Source: ING estimates for Delta Lloyd, Aegon and Ageas, Bloomberg consensus for NN

For DL, we assume no growth in dividends, in line with company statements. Ageas should be able to grow dividends by c.8-10% per annum, while for AEGON we see a 5% CAGR over 2013-16F. A step change is possible if the UK business unit delivers on cash flow promises and if Dutch cash flows are not impacted by Solvency 2 (we assume €250m pa).

For DL, we assume no growth in dividends, in line with company guidance

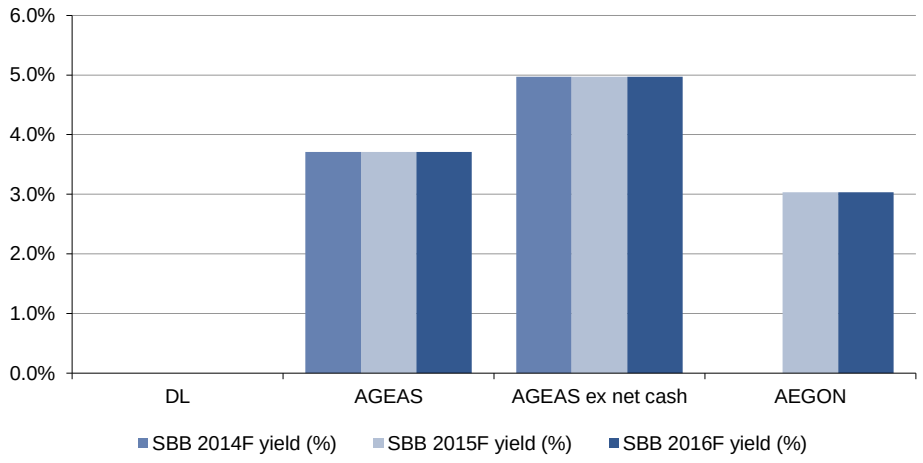
Fig 34 Dividend per share (€)

	2009	2010	2011	2012	2013	2014F	2015F	2016F	CAGR 2013-16F (%)
Delta Lloyd	0.50	1.00	1.03	1.03	1.03	1.03	1.03	1.03	0
AEGON	0.00	0.00	0.10	0.21	0.22	0.23	0.24	0.25	5
Ageas	0.80	0.80	0.80	1.20	1.40	1.58	1.64	1.78	8
NN	n/a	n/a	n/a	n/a	n/a	0.5	1.15	1.18	nm

Source: ING estimates for Delta Lloyd, Aegon and Ageas, Bloomberg consensus for NN

For DL, expectations for capital return in excess of normal ordinary dividends seem non-existent at present. For Ageas, we see share buybacks continuing at a level of c.€250m per annum for the next few years, reflecting its net cash position, lack of alternative growth opportunities (and M&A activity) and valuation discount (P/B). This could change depending on developments with respect to litigation. That said, we believe this could be a long process and settlement appears complex (multiple periods/cases). We expect management to remain disciplined with regard to potential M&A.

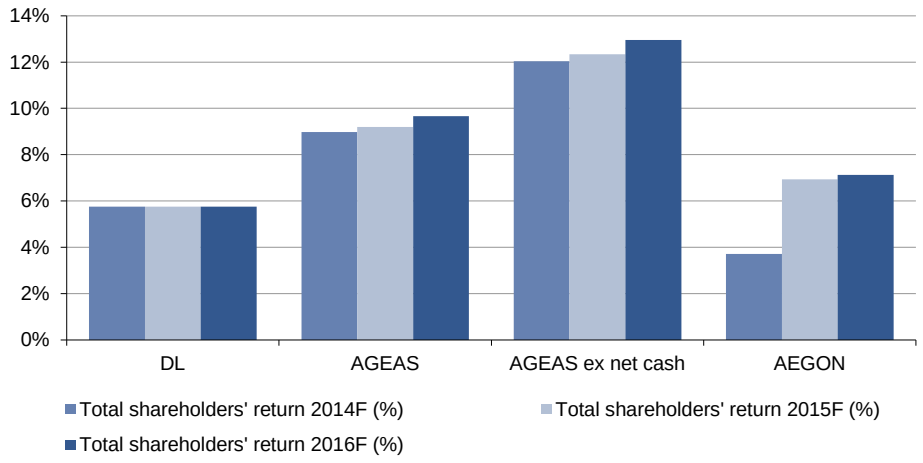
Fig 35 Share buyback and special dividend expectations (yield %)



Source: ING estimates

This results in total yield of c.6% for DL (ordinary dividend only), 7% for AEGON (ordinary dividend and SBB) and a significant 10% for Ageas (ordinary dividend and SBB). In our view, the high total return of Ageas is also a function of litigation fears (INGF: €500m).

Fig 36 Total return (dividend yield plus SBB) (%)



Source: ING estimates

Improving remittance key for any DL re-rating

Key for re-rating of DL is to increase Holding cash flow yield

In our view, the key to re-rating DL is increasing Holding cash flow yield. The high operating cash flow generation and likely improvement in the current low remittance ratio should help DL close the gap with that of its closest peers.

In our view, this should be possible over time. In our Benelux coverage DL shows the highest operating free cash flow yield. Only AGEAS ranks higher, when its market capitalisation is adjusted for net cash. AEGON shows the lowest operating cash flow

generation versus its direct peers, mostly due to the UK, where we expect improvement in coming years. If DL can demonstrate ability to improve its remittance ratio, we see a fast re-rating. The starting point, and related expectations, is low. c.52% remittance over 2013 leaves ample room for improvement, as we believe local solvency levels have improved and initial guidance on Solvency 2 looks comforting.

The low remittance over 2013 translated into a low 5% yield at Holding company level over 2013. In our view, by increasing the remittance ratio over time, the Holding FCF yield should be in line with its Benelux peers at a c.7-8% run-rate.

Figure 37 highlights that in our projections we see DL closing the gap in terms of Holding FCF yield. The valuation on P/Holding FCF is in line with its peers at 13.4x for 2015F, but its total shareholders' return is low (5.8% versus 7-10%). We believe this is a more relevant valuation yardstick than headline PE multiplies, where DL screens cheap.

Fig 37 Cash flow metrics per share (€)

	Delta Lloyd	AGEAS	AGEAS net cash adj. (2014F)	AEGON
Operating FCF, 2014F	2.55	3.30	3.30	0.56
Operating FCF, 2015F	2.55	3.24	3.24	0.62
Operating FCF, 2016F	2.56	3.53	3.53	0.64
Holding FCF, 2014F	1.16	1.43	1.43	0.32
Holding FCF, 2015F	1.34	1.58	1.58	0.44
Holding FCF, 2016F	1.36	1.73	1.73	0.55
P/Operating FCF, 2014F (x)	7.0	9.1	6.8	11.1
P/Operating FCF, 2015F (x)	7.0	9.3	7.3	10.0
P/Operating FCF, 2016F (x)	7.0	8.5	6.9	9.7
P/Holding FCF, 2014F (x)	**15.4**	**20.9**	**15.6**	**19.7**
P/Holding FCF, 2015F (x)	**13.4**	**18.9**	**14.9**	**14.0**
P/Holding FCF, 2016F (x)	**13.1**	**17.3**	**14.2**	**11.3**
Operating FCF yield (%), 2014F	14.1	11.0	14.7	9.0
Operating FCF yield (%), 2015F	13.9	10.8	13.8	10.5
Operating FCF yield (%), 2016F	14.3	11.8	14.4	10.8
Holding FCF yield (%), 2014F	6.4	4.8	6.4	5.1
Holding FCF yield (%), 2015F	7.2	5.3	6.7	7.1
Holding FCF yield (%), 2016F	7.6	5.8	7.1	8.8
Remittance ratio, 2014F (%)	63	42	42	84
Remittance ratio, 2015F (%)	69	59	59	91
Remittance ratio, 2016F (%)	70	58	58	104
Total shareholders' return, 2014F (%)	**5.8**	**9.0**	**12.0**	**3.7**
Total shareholders' return, 2015F (%)	**5.8**	**9.2**	**12.3**	**6.9**
Total shareholders' return, 2016F (%)	**5.8**	**9.7**	**13.0**	**7.1**

Source: ING estimates

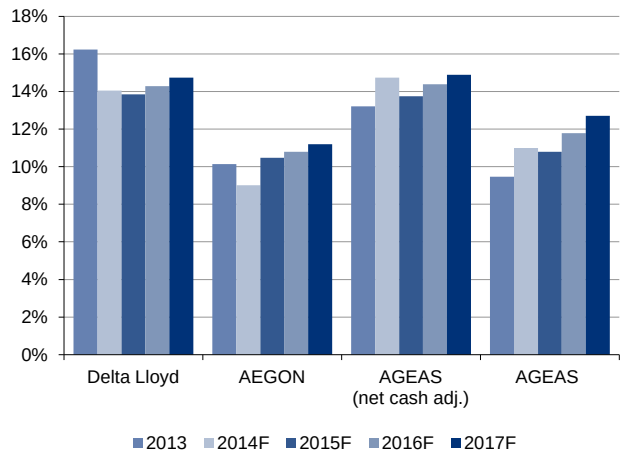
DL is cheap on headline PER, but not on cash flow multiples and total shareholder return

AEGON's Holding FCF yield is in line with peers but its remittance ratio is the highest, hence expectations are unlikely to change much (they are already quite high). Over 2014, the yield looks low, as we do not expect a dividend payment from the Dutch unit, explained by the cautious approach in the transition to Solvency 2. Normalised, the Holding FCF yield would be 7.0%.We conclude that it is only a matter of time before DL returns to full-cash and can grow dividend (or at least buy back shares to neutralise past dilution from scrip take-up) as indicated at its recent CMD. Any guidance from DL on timing would be very welcome.

The absence of share buyback expectations makes DL screen the lowest on total capital return (cash dividends and share buybacks). Over 2015-17F we see DL returning c.14%, versus AEGON's 20% and Ageas' 28% (market cap adjusted for net cash: 33%). As mentioned earlier, we have assumed a continuation of share buybacks of c.€250m per annum for Ageas and €400m per annum for AEGON.

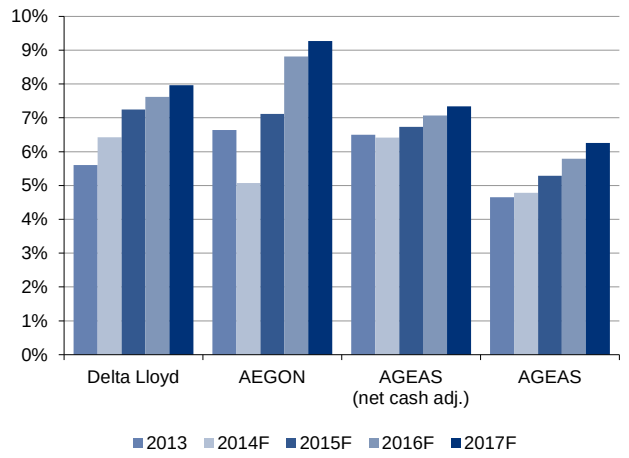
We illustrate the aforementioned in charts below, showing the low expectations for DL.

Fig 38 Operating FCF yield (%): DL highest



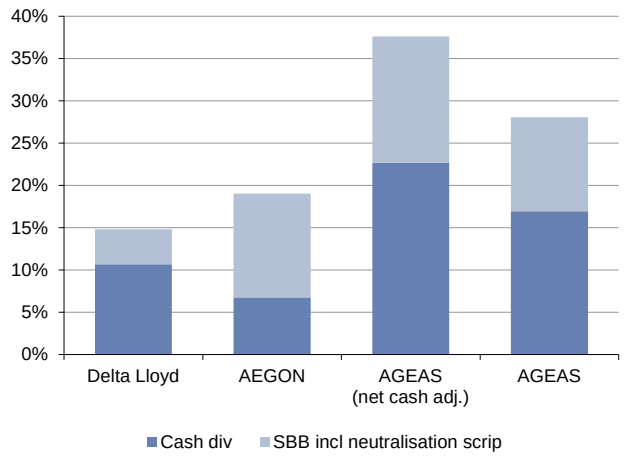
Source: ING estimates

Fig 39 Holding FCF yield (%): DL inline, over time



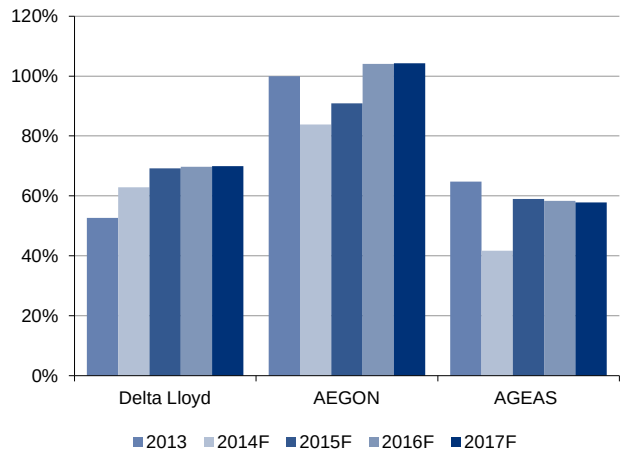
Source: ING estimates

Fig 40 Total capital return 2015-17F (% mkt cap)



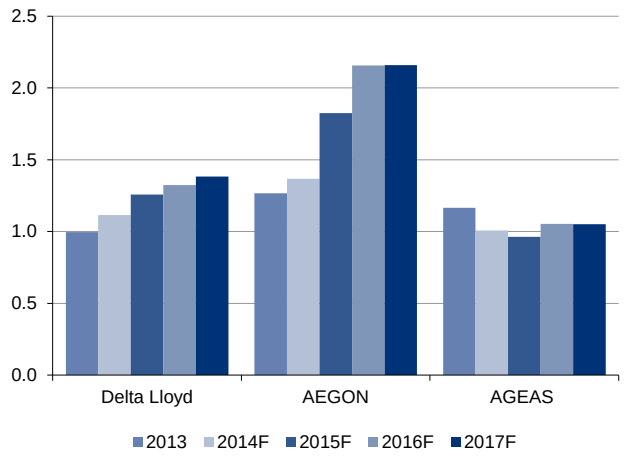
Source: ING estimates

Fig 41 Remittance ratio: upside for DL



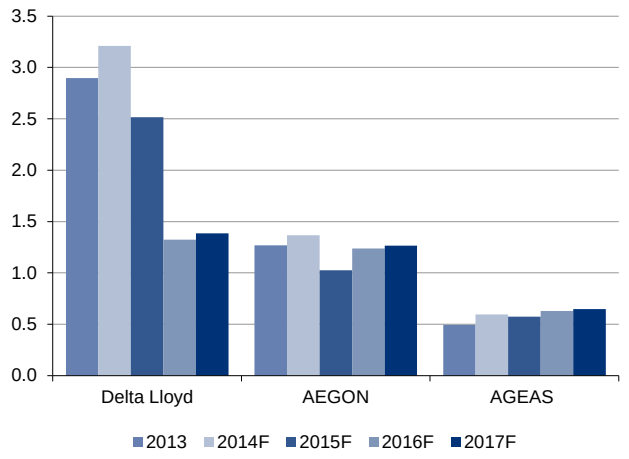
Source: ING estimates

Fig 42 Nominal dividend coverage (x)



Source: ING estimates

Fig 43 Cash part dividend and SBB coverage (x)



Comment: DL – fall in 2016-17F assumes full-cash dividend, AGEAS – use of Holding cash for SBB

Source: ING estimates

Disagreement with regulator: court ruling on DNB measures and dismissal of CFO are unusual

On 22 December 2014, DL issued a press release where it announced the commencement of court proceeding against its regulator, the Dutch Central Bank (DNB).

The disagreement with DNB is clearly not in the interest of parties concerned

The disagreement with DNB is clearly not in the interest of the parties concerned and is likely to bring uncertainty. Given the harsh accusations, fine and demand to dismiss its CFO, DL's decision to go to court is understandable. It is hard to predict the outcome at this stage. We expect the legal proceedings to take at least several months and depending on the ruling, appeals may follow.

Despite increased uncertainty, we do not expect these proceedings to influence decisions related to DL's internal Solvency 2 model approval or decisions related to dividends (remittance from subsidiaries to the Holding company).

Event:

- The Dutch Central Bank (DNB) fined DL Levensverzekering €22.8m (fine: €1.2m, repayment of financial gain: €21.6m).
- DNB requested that DL dismiss its CFO by 1 January 2016 at the latest.
- DL believes the measures are based on incorrect assumptions and considers them disproportionate.
- A review by DL's Supervisory Board (including external legal and accountancy experts) did not reveal any impropriety by DL.

Background: On 2 July 2012 the DNB introduced a fixed interest rate to be used when calculating insurance liabilities. This resulted in a 15ppt solvency relief for DL at the time: "DNB will adjust the method for extrapolating the interest rate curve using an Ultimate Forward Rate (UFR), which is set at 4.2%, to be reached in 40 years from the point of 20 years. This will result in a more stable interest rate for long maturities, reducing the degree of fluctuation in insurers' solvency positions. In making this adjustment DNB anticipates Solvency II for insurers". A week ahead of the decision, DL changed its interest rate hedging, resulting in DNB accusing DL of having used confidential information.

DNB claims that Delta Lloyd acted in order to gain an advantage from confidential information

DNB outcome: DNB is of the opinion that the decision-making concerning the reduction by Delta Lloyd of its interest rate risk hedges was conducted without due care. DNB found that Delta Lloyd should not have reduced its hedges at that time and that this was inconsistent with its risk policy. DNB claims that Delta Lloyd acted in order to gain an advantage from confidential information. DNB places its conclusions in the context of its critical view of Delta Lloyd's risk management. On the basis of the facts that were investigated, DNB also reassessed the 'suitability' of Delta Lloyd's CFO Emiel Roozen, and concluded that Delta Lloyd should dismiss him by 1 January 2016 the latest. DNB has concluded that Emiel Roozen's 'integrity' is beyond dispute.

Supervisory Board: DL's actions were not in contravention of the law or regulations, consistent with its risk policy

Supervisory Board reaction: DL believes that its actions were not in contravention of the law or regulations, and were consistent with its risk policy. DL intends to appoint a CRO. The Supervisory Board considers DNB's far-reaching measures, including the dismissal of the CFO, unjustified and disproportionate. DL has decided to contest DNB's measures in court and request it to rule on the interpretation of the facts and circumstances and associated conclusions, including the 'dismissal' of the CFO and the calculation of the total fine. It has full confidence in its CFO.

Sale of German life operations: positive for Solvency 2

On 15 January 2015, DL announced the sale of its German life business (run-off) to Bermuda-based Athene Holding, subject to regulatory approval.

The impact on the IGD ratio is lower than we had expected (c.5-8ppt). Positives from the transaction are: 1) that under Solvency 2, German activities under transitional rules (16 years) would have required a 'capital injection' going forward; 2) freeing up of management time; and 3) that the unit is hardly profitable and does not pay dividends to the group.

We estimate a positive impact on the IGD group ratio by 2ppt (3Q: 196%). DL expects a small positive impact and estimates a -5% impact on shareholders' funds. We estimate an entity book value of c.€180m, implying a P/B multiple of 0.25x. Required capital is estimated at c.€180m (4% of technical liabilities).

In September 2011, Delta Lloyd announced the sale of its German business to Nomura. The business was in run-off since March 2010. The assets and liability transaction was indicated at the time to have a 12ppt positive impact on the group IGD ratio. A significant part of the solvency relief was related to tax benefits, which are not included in the current transaction, and a potentially positive impact is considered to be remote.

Highlights:

- The German life activities were in run-off since 2010
- The previous sale process (in 2011) was blocked by the German regulator
- A 2ppt positive impact in IGD ratio is lower than expected (INGF: 6-8ppt)
- A 5% negative impact on shareholders' funds (based on 9M2014)
- Closing expected in 3Q15F

Risks

Downside risks

- Unstable financial markets could negatively impact solvency development, asset/liability matching and hedging effectiveness. Moreover, the trend towards greater transparency is exerting pressure on margins. Given the long duration of pension activities, longevity is a major risk for the group.
- The Solvency 2 capital framework is expected, and management appears to be relatively comfortable on this topic. However, a rise in capital requirements poses a downside risk.
- Acquisition risk: We expect further consolidation in the Dutch and Belgian insurance markets. One of the main reasons for an IPO is that it could enable Delta Lloyd to participate in capital markets, although given the current share price, we feel the possibilities are limited. Delta Lloyd has made a clear statement about not actively participating in Dutch insurance sector consolidation, referring to the Dutch auction process of Vivat (SNS Reaal's insurance operations), and has stated that it would remain disciplined on acquisitions.
- Unit-linked litigation risks continue to be an issue in the Netherlands.
- Regulation risk, impacting capital and margins.
- Court proceeding against DNB related to imposed fine of €22.8m and demanded 'dismissal' of the CFO by 1 January 2016 the latest.
- DNB requested the dismissal of the CFO post investigation of hedging decisions made in the past. DL is contesting this in court. The situation brings about uncertainty.
- DL is yet to obtain regulatory approval for the sale of its Belgian Bank and German life book.

Upside risks:

- Sharp improvement of remittance ratio, changing the market view of potential capital return.
- A faster-than-expected move to full-cash dividend, ie, share buybacks to neutralise dilution of scrip dividend (INGF: 1H16).

Financials (€m)

Year end Dec	2009	2010	2011	2012	2013	2014F	2015F	2016F
Income statement								
Gross written premiums	**6,422**	**5,228**	**5,872**	**5,206**	**5,017**	**4,632**	**4,796**	**4,967**
Property & casualty	2,780	1,479	1,550	1,650	1,428	1,287	1,352	1,419
Life	3,642	3,749	4,321	3,555	3,589	3,345	3,445	3,548
Segmental operating profits								
Life	(120)	610	(169)	(1,175)	144	359	505	384
Property & casualty	148	120	51	(122)	46	25	88	96
Asset management	29	88	34	44	40	40	43	47
Other businesses	14	(33)	(8)	(61)	(14)	54	13	14
Net interest	0	0	0	0	0	0	0	0
Corporate expenses/consolidation	(282)	49	(325)	(698)	23	(19)	33	163
Operating profit	**(211)**	**834**	**(416)**	**(2,011)**	**239**	**458**	**682**	**704**
Net capital gains (losses)	0	0	0	0	0	0	0	0
Non-operating income (expense)	0	0	0	0	0	0	0	0
Pre-tax profit	**(211)**	**834**	**(416)**	**(2,011)**	**239**	**458**	**682**	**704**
Tax	56	(206)	131	534	(34)	(96)	(158)	(164)
Minorities	(43)	(50)	(29)	(30)	(38)	(26)	(20)	(19)
Other post-tax items	72	43	(0.4)	12	1	0	0	0
Net profit	**(126)**	**621**	**(315)**	**(1,495)**	**168**	**336**	**505**	**521**
IFRS net operating profit	**365**	**422**	**481**	**404**	**430**	**384**	**404**	**425**
Effective tax rate (%)	23.4	23.4	26.8	26.4	24.4	25.1	26.8	27.2
EEV income statement								
Life new business value	31	34	46	57	77	96	100	104
EEV operating profit	717	142	40	(306)	334	337	349	362
Tax	0	0	0	0	0	0	0	0
EEV net profit	680	119	165	(306)	350	337	349	362
Opening embedded value	3,446	4,224	4,736	4,891	4,210	4,402	4,718	5,045
Closing embedded value	4,225	4,735	4,890	4,211	4,402	4,718	5,045	5,386
Balance sheet								
Opening shareholders funds	**3,999**	**4,165**	**4,332**	**3,943**	**2,586**	**2,546**	**2,567**	**2,988**
Retained earnings	(124)	621	(313)	(1,495)	168	56	505	521
Distributions to shareholders	0	(122)	(127)	(111)	(68)	(35)	(84)	(156)
Share capital increase (decrease)	0.5	0	0	0	0.8	0	0	0
Unrealised capital gains (losses)	612	273	0	0	8	130	0	0
Currency translation	0	0	0	0	0	0	0	0
Other items	0	0	0	0	0	0	0	0
Closing shareholders funds	**4,487**	**4,937**	**3,893**	**2,337**	**2,696**	**2,697**	**2,988**	**3,352**
Ordinary equity	4,487	4,937	3,893	2,337	2,696	2,697	2,988	3,352
Hybrid capital	0	0	0	0	0	0	0	0
Preferred equity	0	0	0	0	0	0	0	0
Equity	**4,487**	**4,937**	**3,893**	**2,337**	**2,696**	**2,697**	**2,988**	**3,352**
Minorities	320	334	309	307	309	319	319	319
Total equity	**4,807**	**5,271**	**4,203**	**2,644**	**3,005**	**3,016**	**3,307**	**3,672**
Total debt	1,178	1,492	1,237	1,651	1,556	2,254	2,264	2,310
Total capital	**5,985**	**6,763**	**5,439**	**4,295**	**4,561**	**5,270**	**5,571**	**5,982**
Total intangibles	479	471	479	418	383	379	379	379

IFRS net operating profit is the operational result assuming normalized return on DL's investment portfolio and post normalized tax rate of 25.5%.

Source: Company data, ING estimates

Valuation, ratios and metrics

Year end Dec	2009	2010	2011	2012	2013	2014F	2015F	2016F
Operating performance								
APE (€m)	385	387	453	401	431	461	497	0
APE growth (%)	-28.5	0.49	17.2	-11.5	7.5	6.9	7.8	-100.0
APE (new business) margin (%)	8.1	8.8	10.1	14.2	17.9	20.9	20.1	n/a
PVNBP (€m)	4,029	3,528	3,486	3,486	3,486	3,486	3,486	0
PVNBP growth (%)	-21.3	-12.4	-1.2	0.0	0.0	0.0	0.0	-100.0
PVNBP margin (%)	0.77	0.96	1.3	1.6	2.2	2.8	2.9	n/a
EEV basis new business profits (€m)	0	0	0	0	0	0	0	0
EEV basis new business profit grth (%)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
EEV operating profit growth (%)	n/a	-80.2	-71.8	n/a	n/a	0.76	3.7	3.7
P&C claims ratio (%)	63.0	64.7	65.3	67.2	66.6	66.4	64.0	0.0
P&C expense ratio (%)	33.8	33.0	31.4	30.0	30.3	29.4	30.0	0.0
P&C combined ratio (%)	96.8	97.7	96.7	97.1	96.9	95.8	94.0	0.0
Underwriting result (€m)	42	32	43	37	42	47	75	1,377
IFRS net operating profit growth (%)	18.5	15.6	13.9	-15.9	6.4	-10.8	5.4	5.2
BV growth (%)	161.0	10.0	-21.1	-40.0	15.4	0.05	10.8	12.2
Embedded value growth (%)	12.6	12.1	3.3	-13.9	4.5	7.2	7.0	6.8
Life ROEV (%)	20.8	3.4	0.84	-6.3	7.9	7.6	7.4	7.2
IFRS net operating income ROE (%)	11.8	9.0	10.9	13.0	17.1	14.2	14.2	13.4
Reported ROE (%)	-4.0	13.2	-7.1	-48.0	6.7	12.5	17.8	16.4
Capital position								
Solvency ratio (%)	256.0	313.0	302.0	212.0	277.6	250.2	0.0	242.7
Gearing (%)	19.7	22.1	22.7	38.5	34.1	42.8	40.6	38.6
Valuation								
Price/embedded value (x)	0.70	0.63	0.63	0.75	0.78	0.75	0.72	0.68
Price/book (x)	0.66	0.61	0.79	1.4	1.3	1.3	1.2	1.1
Price/tangible book (x)	0.74	0.67	0.90	1.7	1.5	1.5	1.4	1.2
PER (IFRS net operating EPS) (x)	7.5	7.0	6.3	7.7	7.6	9.1	8.8	8.6
Dividend yield (%)	2.8	5.6	5.8	5.8	5.8	5.8	5.8	5.8
Per share data								
IFRS net operating EPS (€)	2.40	2.55	2.84	2.33	2.35	1.97	2.05	2.09
IFRS net operating EPS growth (%)	16.5	6.3	11.7	-18.0	0.76	-16.3	4.0	2.1
Dividend per share (€)	0.50	1.00	1.03	1.03	1.03	1.03	1.03	1.03
EEV per share (€)	25.51	28.26	28.60	23.79	22.95	23.86	24.77	26.44
BV/share (€)	27.09	29.47	22.77	13.20	14.05	13.64	14.67	16.46
Tangible BV/share (€)	24.20	26.66	19.97	10.84	12.06	11.72	12.81	14.60

Source: Company data, ING estimates

Company profile

Delta Lloyd provides life, health and other types of insurance, as well as pension, asset management and banking products and services to customers in the Netherlands, Belgium and Germany. The Life segment contributed 70% of the operating result after tax in 2013, while the General segment contributed 15%. Contributions from the Asset Management and Bank segments were 10% and 5%, respectively. In 2013, Delta Lloyd generated c.90% of its operating result in the Netherlands and c.10% in Belgium.

Disclosures Appendix

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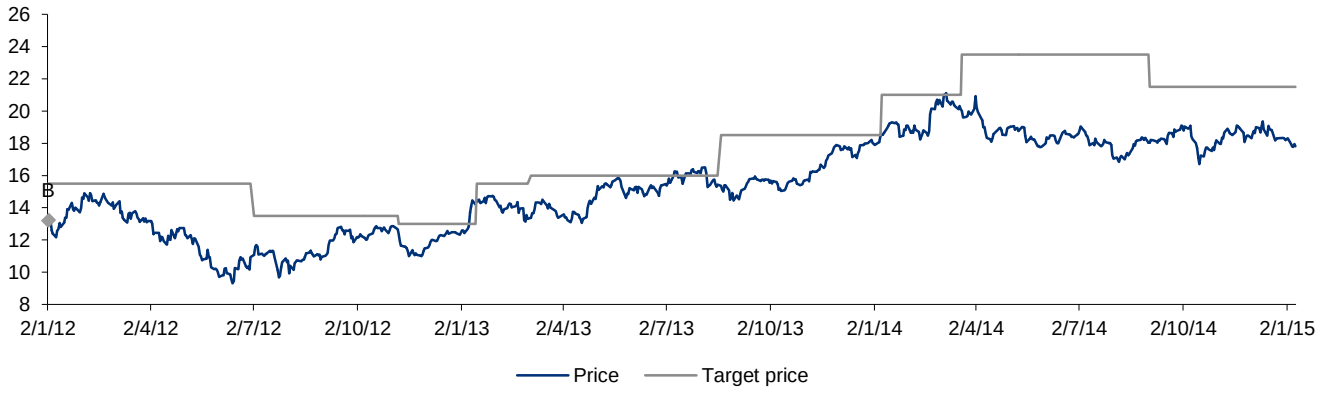
Total return: forecast share price appreciation to target price plus forecast annual dividend. Price volatility and our preference for not changing recommendations too frequently means forecast returns may fall outside of the above ranges at times.

PRICE & RATINGS HISTORY TO 09/01/15: DELTA LLOYD (DLL.AS)



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