

# Prudence first in a prolonged low interest rate environment

Morgan Stanley Conference – London, 21 March 2013



Niek Hoek (CEO)

**delta lloyd**

## Table of contents

I. Introduction and financial review 2012

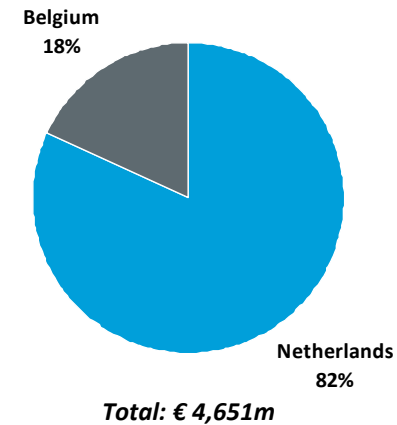
II. Capita selecta

- marked-to-market accounting
- Dutch mortgage portfolio

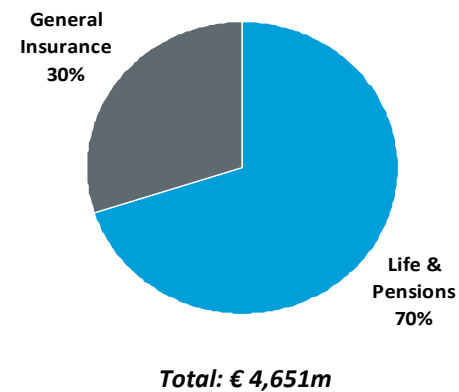
# Delta Lloyd Group reliable partner since 1807

- A strong Group secured on 200 years of reliability and trust
- An insurance company and financial services provider
  - Life & Pension insurance
  - General Insurance
  - Asset Management
  - Banking

FY 2012 GWP by Geography<sup>1</sup>



FY 2012 GWP by Segment<sup>1</sup>



1. GWP excluding Germany and discontinued operations

# Prudence first in a prolonged low interest rate environment

## Highlights

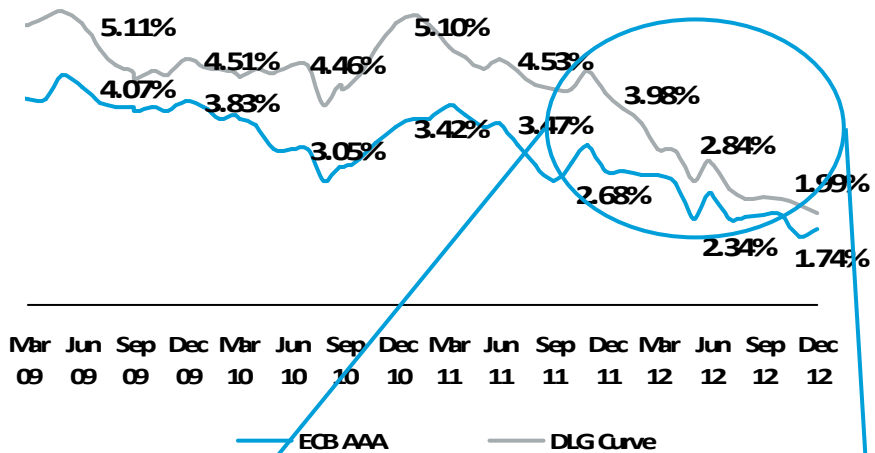
- Satisfactory commercial performance given difficult market
- Robust operational performance reflected in
  - *improved technical result*
  - *lower expenses*
  - *grown customer recognition*
- Distribution mix improved by bancassurance deals in the Netherlands and Belgium
- Prolonged low interest rates pressure IFRS result

## Capital

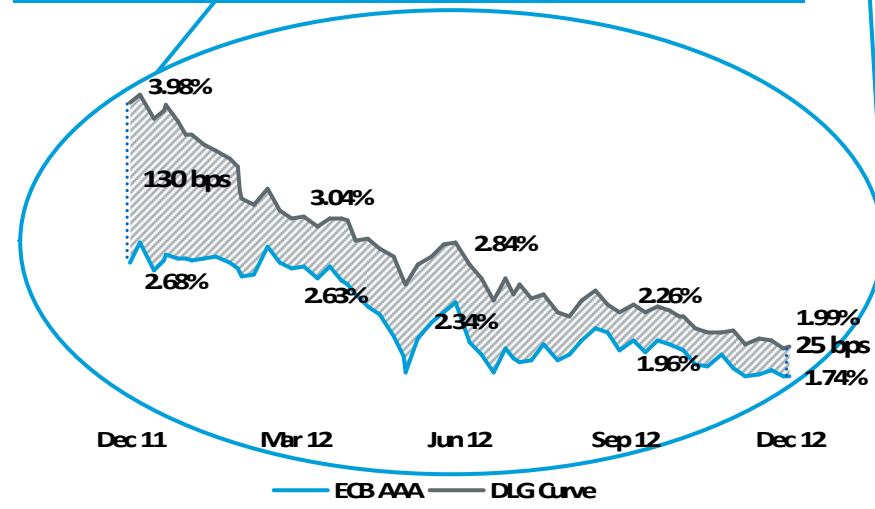
- Strengthening provisions for policy-holders impact Shareholders' funds
- IGD Group solvency ratio solid at 177%
- Successful completion of diverse capital markets transactions
- Proposed total dividend of € 1.03 per ordinary share

# Interest rates at all-time low

## Interest rate curves (10yr point)



## Spread comes in at 105 bps (10yr point)



- Sharp decline in interest rates to historic low
  - heavily impacting Delta Lloyd's marked-to-market balance sheet
  - leading to higher insurance provisions (IFRS)
- Still uncertainty on future of euro (zone)

# Strategic highlights

## Future Secured

Creating value for our customers, shareholders and employees

### Certainty

- Most solid and trustworthy provider of financial services
- Contributing to a sustainable and certain future for all stakeholders

### Distribution

- Employing distribution opportunities and knowledge to connect with customers and distribution partners
- Developing new solutions that fit customer needs

### Simplicity

- Efficiency in processes, products, organisation and communication
- Most transparent products and services

### Expertise

- Regarded as competent and trustworthy
- The financial service provider of (first) choice

### Core Values

- Respect at the heart of how we conduct business
- Honourable
- Approachable
- Working together

## Certainty: **solid capital position**

### Financial strength

- IGD solvency solid at 177%, above the 160%-175% threshold
    - *IGD solvency end of January at 185%*
  - S&P Ratings: stable outlook retained
    - *'A' rating for Dutch insurance subsidiaries*
  - Bank BIS ratio increased to 13.9%
  - Excellent access to capital markets
- 

### Shareholders' Funds

- Shareholders' funds decreased to € 2.3bn
- Prudent marked-to-market accounting
  - *addition of € 4.7 billion to insurance provisions (for policyholders) due to sharp decline of Collateralised AAA curve*
- Using more traditional accounting assumptions, Delta Lloyd's shareholders' funds would be 60% higher at € 3.7bn

# Distribution: further leveraging on distribution strength

## Commercial agility

- Life new business market leadership retained with € 401m NAPI  
— *BeFrank successful in acquiring new DC business<sup>1</sup>*
- General Insurance premium stable at € 1.4bn
- Continued increase in 'Banksparen' balances to € 1.8bn (+46%)

## Distribution strength enforced

- Acquisition SME intermediary activities from ABN AMRO
- Distribution agreement with Deutsche Bank
- Distribution agreement with CRELAN (Landbouwkrediet / Centea)
- Joint venture with Friesland Bank terminated

1. Not included in NAPI



# Simplicity: efficiency in processes and organisation

**Processes:**  
*relentlessly  
bringing down  
costs*

- Operational cost base at € 782m outperforms target (< € 820m)
- Further reduction of costs to € 760m YE 2014
- Ongoing simplification of processes and organisation

**Organisation:**  
*terminating  
non  
performing  
activities*

- International Marine Business placed in run-off
- Gradual withdrawal from *WGA ER*<sup>1</sup> market: no long term profitability perspective
- Delta Lloyd Germany continued on run-off basis
- Sale of non-core Belgian general insurance portfolio to Fidea

1. *WGA ER: 'Werkhervatting Gedeeltelijk Arbeidsgeschikten - Eigen Risico' - Commercial own risk insurances for (partial) disability*

## Expertise: **solid risk and return management**

### Track record of taking action when needed

- Marked-to-market valuation immediately gives clear incentive to take action in volatile market environment
- Equity position hedged against Euro crisis scenario
  - *notional amount hedged: € 3.0bn<sup>1</sup> (FY 2011: € 2.4bn)*
- Increased focus on non-Euro countries (e.g. Canada, Australia)
- Defensive real estate portfolio of € 2.8bn

### Successfully discovering yield

- Performance of Insurance own risk asset portfolio tracks our benchmark (10.4%)
- Running yield at 3.6% well above discount rate used to value liabilities

1. € 2.6bn at the money puts and € 0.4bn short futures

## Core values: **Honourable, Approachable, Working together**

### Customers

- All labels retained insurance quality mark ('Keurmerk Klantgericht Verzekeren')
- Delta Lloyd ranked as leading pension provider in IG&H annual review of Dutch market

### Sustainability

- RobecoSAM's Bronze Class distinction received
- Eligible for inclusion in Dow Jones Sustainability Index
- Sustainability report assessed at the highest transparency level A+ of the Global Reporting Initiative

## Table of contents

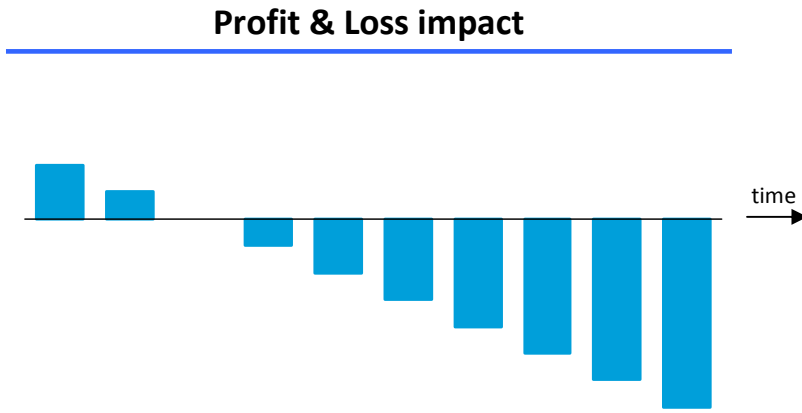
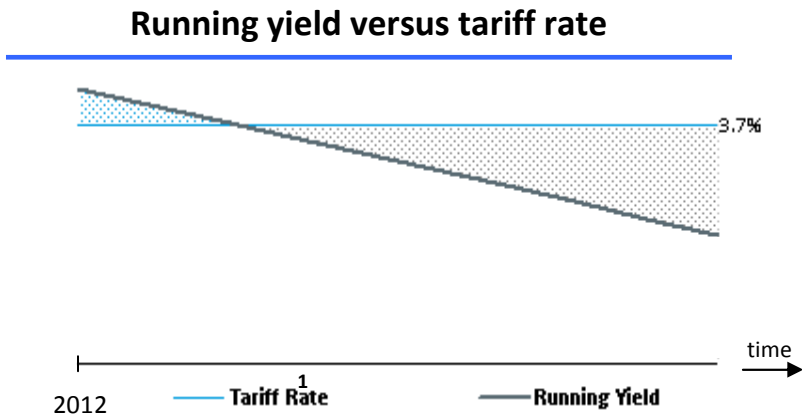
I. Introduction and financial review 2012

II. Capita selecta

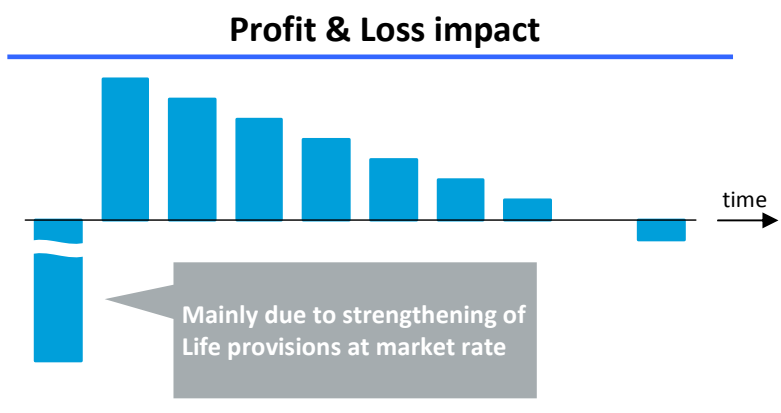
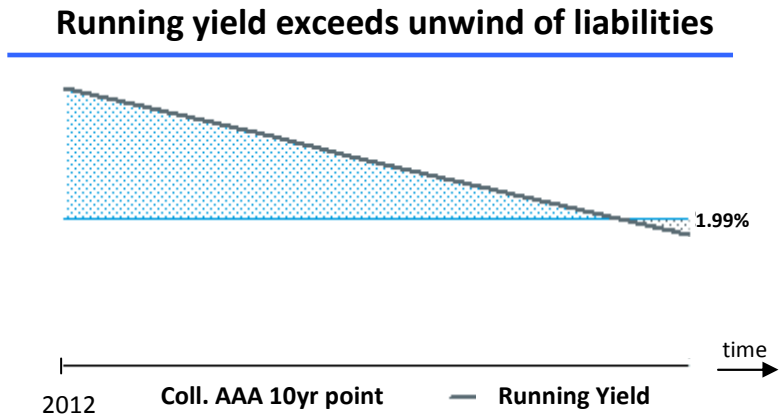
- marked-to-market accounting
- Dutch mortgage portfolio

# Sharp decrease of interest rate impacts fair value of Life liabilities

## Traditional accounting at tariff rates



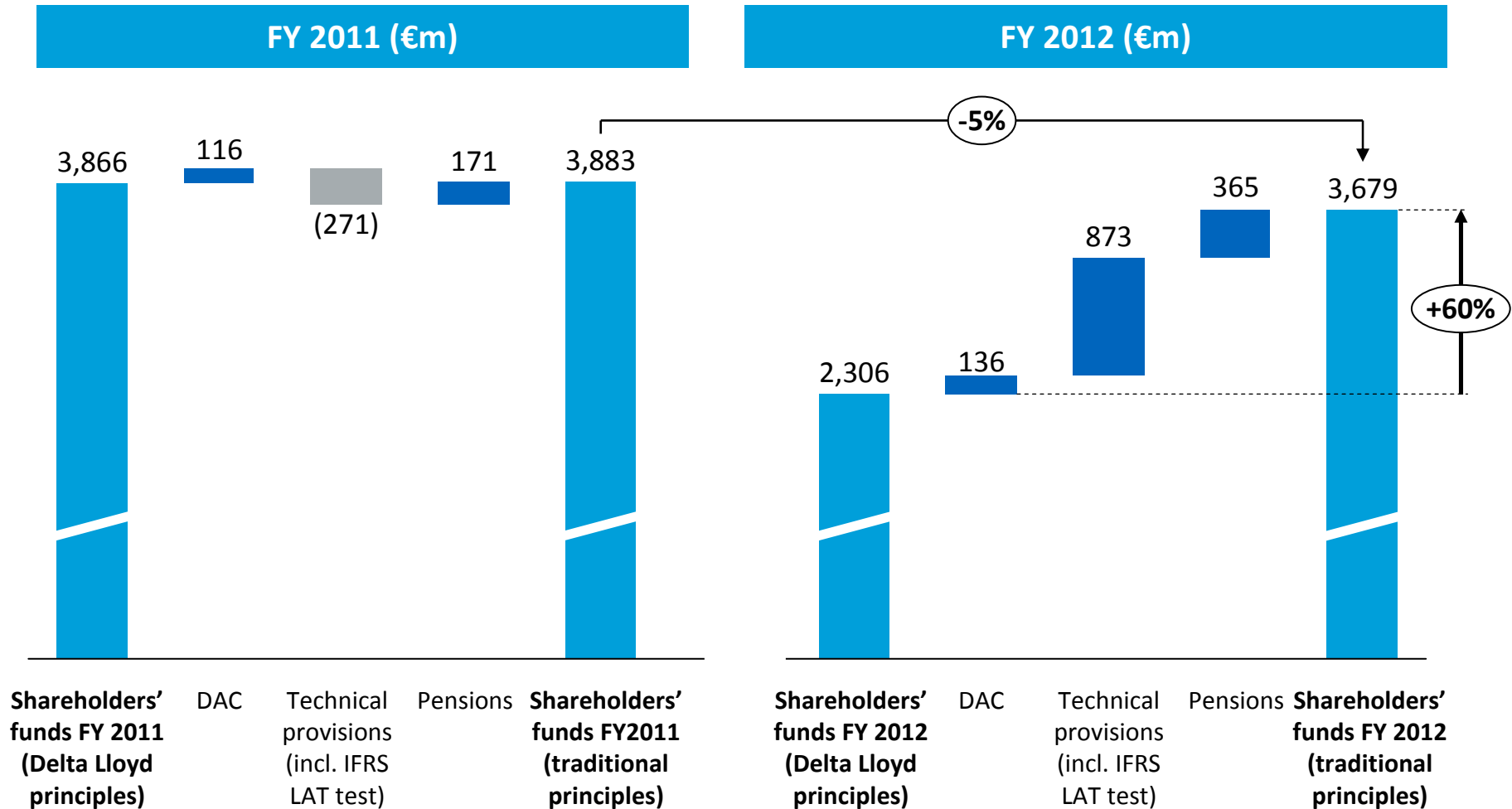
## Delta Lloyd accounting at market rates



## Delta Lloyd's accounting will support earnings if current level of interest rates persists

1. Technical reserves based on tariff rates are subject to an IFRS-LAT test

# Book value 60% higher on traditional accounting principles



## Table of contents

I. Introduction and financial review 2012

II. Capita selecta

- marked-to-market accounting
- Dutch mortgage portfolio

# Dutch mortgages: an attractive low-risk investment

Mortgage debt, house value, savings and pension entitlements (€bn; FY2011)<sup>1</sup>



- Savings and pension reserves exceed Dutch mortgage debt by far
- Mortgage yields remain attractive due to increasing risk premiums
- Structural housing shortage in the Netherlands
- Mortgage foreclosures and losses remain limited due to
  - *fiscal advantages*
  - *savings schemes attached to mortgage*
  - *strong state support system*
  - *long term fixed interest rates*
  - *very strict bankruptcy law*

1. Source: CBS, webmagazine 06 September 2012



# New legislation

## Taxation

- Transfer tax definitively lowered to 2%
- Tax deductability of interest payments max. 42%
- Residual loss tax deductible for 10 years
- Tax deductability only in case of full redemption
  - *alternative plans being developed*

## Mortgage structuring

- Loan to Value gradually limited from 106% to 100% (2018)
- Max. 50% of mortgage may be 'interest only'
- Temporary increase of maximum mortgage amount under NHG (currently 320,000) gradually reduced back to original amount of € 265,000 (2014)

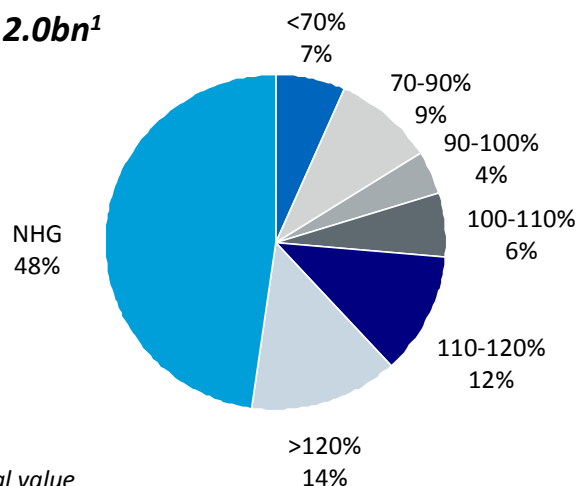
# Delta Lloyd's Dutch mortgage portfolio of high quality

## Highlights mortgage portfolio

EUR m	FY 2012	2011	2010	2009
Delta Lloyd portfolio (EUR bn) <sup>1</sup>	12.0	12.1	11.3	10.5
No. of private sales, YtD	224	132	106	56
No. of foreclosures sales, YtD	23	43	31	22
Loss amount (EUR m), YtD	4.8	3.8	4.0	1.5
Loss amount (bps of portfolio)	4.0	3.1	3.5	1.4

## Loan to foreclosure value split (FY 2012)<sup>2</sup>

Total: € 12.0bn<sup>1</sup>



1 Nominal value

2 LTFV at originated value (no index applied)

- Strong historical performance (losses within 1-5 bps) due to strict underwriting and arrears management
- Strategic focus on high quality mortgages
  - low LTV (as of 2011)
  - focus on state guaranteed NHG mortgages (48% vs 25% for total mortgage market)
- Pro-active approach in arrears management works very well
  - number of foreclosures and losses low
- Average yield of the Dutch mortgage portfolio equals 4.7%
- Approximately 50% securitised through Amstelhuys (Arena programme)
- Average LtMV 97.9% (non-NHG)
- Approximately 50% of portfolio is interest only

# Unlocking value despite difficult market conditions

Financial performance strongly impacted by record low interest rates

Book value 60% higher on traditional accounting principles

Satisfactory commercial performance; robust operational performance

Actual running yield sustainable above unwind of liabilities

Powerful distribution model forms basis for solid autonomous growth

# Q&A

# Disclaimer

- This presentation is being supplied to you solely for your information and used at the presentation held in February 2013.
- Certain statements contained in this presentation that are not historical facts are "forward-looking statements". These forward-looking statements are based on management's beliefs and projections and on information currently available to them. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond Delta Lloyd Group's control and all of which are based on management's current beliefs and expectations about future events.
- Forward-looking statements involve inherent risks and uncertainties and speak only as of the date they are made. Delta Lloyd Group undertakes no duty to and will not update any of the forward-looking statements in light of new information or future events, except to the extent required by applicable law. A number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement as a result of risks and uncertainties facing Delta Lloyd Group and its subsidiaries. Such risks, uncertainties and other important factors include, among others: (i) changes in the financial markets and general economic conditions, (ii) changes in competition from local, national and international companies, new entrants in the market and self-insurance and changes to the competitive landscape in which Delta Lloyd Group operates, (iii) the adoption of new, or changes to existing, laws and regulations such as Solvency II, (iv) catastrophes and terrorist-related events, (v) default by third parties owing money, securities or other assets on their financial obligations, (vi) equity market losses, (vii) long- and/or short-term interest rate volatility, (viii) illiquidity of certain investment assets, (ix) flaws in underwriting assumptions, pricing and/or claims reserves, (x) the termination of or changes to relationships with principal intermediaries or partnerships, (xi) the unavailability and unaffordability of reinsurance, (xii) flaws in Delta Lloyd Group's underwriting, operating controls or IT systems, or a failure to prevent fraud, (xiii) a downgrade (or potential downgrade) of Delta Lloyd Group's credit ratings, and (xiv) the outcome of pending, threatened or future litigation or investigations. Should one or more of these risks or uncertainties materialise, or should any underlying assumptions prove to be incorrect, Delta Lloyd Group's actual financial condition or results of operations could differ materially from those described in this herein as anticipated, believed, estimated or expected.
- Please refer to the Annual Report for the year ended December 31, 2011 for a description of certain important factors, risks and uncertainties that may affect Delta Lloyd Group's businesses.
- The figures in this presentation have not been audited. They have been partly taken from the full year 2012 financial supplement to the press release and partly from internal management information reports.