

## Reinsurers / Lloyd's vehicles

### Time to get selective; Swiss Re and Catlin are top picks

- **Top picks: Swiss Re and Catlin offer attractive upside:** We still expect this sub-sector to generate attractive returns (Lloyd's 14% RONTA, Reinsurers 11% RONTA), but see modest scope for re-rating given current valuations (Lloyd's 1.4x NTA, Reinsurers 1.0x NTA) imply a reasonable 10-11% COC. Our top picks offer attractive returns (Swiss Re 19%; Catlin 18%), driven by stock-specific catalysts:

- **Swiss Re** underperformed the insurance sector in H212 (-18%), offering an attractive entry point: **1)** Using excess capital for profitable growth should improve ROEs and we think \$1bn special div in 2012 will change the way the market views future capital mgt prospects. **2)** It offers the best way to play favourable P&C Re conditions and has the leading u/w record (avg 6% better COR). **3)** It has scope to offset declining yields through asset re-risking. Swiss Re trades at a discount and can re-rate as ROE benefits emerge (0.87x NTA, 10% RONTA).
- **Catlin** was the best-performing Lloyd's insurers in 2012 (+26%), but still offers upside because: **1)** The market hasn't given credit for its combination of growth (8% since 2008) and improved underlying margins (50% attritional loss ratio). **2)** Worries about reserving are overdone (it has ADC). **3)** Its capital position can support growth and its attractive 6.1% yield. Catlin offers the re-rating potential as it still trades on 20% discount to peers (1.2x 2013E NTA, 13% RONTA)

- **Re-rating suggests a selective approach; specialist players better positioned:**

We see the P&C re/insurance sector as well-positioned operationally, but following a notable re-rating vs book value growth, we recommend more selective exposure. Lloyd's vehicles are structurally better positioned (higher u/w margins and lower dependence on investment returns). Reinsurers outperformed strongly in 2012, but there are risks from declining yields and the potential reversal of unrealised gains.

- **3 Key themes:** **1)** Positive on pricing: We see several reasons to be positive on the medium term pricing outlook. **2)** Cautious on investment returns: We think consensus for Lloyd's reflects the drag from low yields more than Reinsures and we prefer companies that can modestly re-risk. **3)** Opportunities for capital mgt: We expect markets to increasingly reward active capital management and we expect attractive payouts from Swiss Re, Hannover Re, Hiscox and Lancashire at 2012 results. Changes to forecasts and target prices are detailed within.

Company	Ticker	Rating		Target Price		Current Year Earnings Estimates	
		Old	New	Old	New	Old	New
Amlin	AML.L	1	1	£3.83	£4.25	p44.7	p48.0
Catlin Grp	CGL.L	1	1	£4.78	£5.67	US\$94.5	US\$84.6
Hannover Re	HNRGn.DE	2	2	€49.00	€60.20	€6.13	€6.78
Hiscox	HSX.L	2	2	£4.13	£4.50	p38.8	p40.3
Lancashire	LRE.L	1	1	£9.16	£9.05	US\$137.6	US\$122.2
Munich Re	MUVGn.DE	2	2	€117.50	€136.00	€15.21	€17.83
SCOR	SCOR.PA	1	1	€23.50	€23.50	€2.76	€2.07
Swiss Re	SRENH.VX	1	1	SFr65.50	SFr78.70	SFr6.34	SFr3.20

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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## Top Picks

### Swiss Re (BUY):

- **Summary:** Although Swiss Re performed strongly in 2012 (+38%), it has underperformed the insurance sector rally in H2 2012 (-18%) and we see this as an attractive entry point. Swiss Re trades at a discount and we think it has more re-rating potential than peers as ROE improvements emerge (0.87x NTA, 10% RONTA).
- **Manage capital to improve ROE:** Swiss Re has taken several measures to optimise its capital allocation (eg disposal of low ROE Admin Re US). Utilising its excess capital for profitable growth should enhance ROEs (eg investing all excess capital at 11% IRR increases ROE by 1.8%). We expect a \$1bn special dividend and believe this could change the market's way view of future capital mgt prospects.
- **Best way to play P&C Re conditions:** We see Swiss Re as offering the best way among Reinsurers to get exposure to relatively favourable P&C Re conditions. It has actively managed its portfolio to achieve the best underwriting results of its peers (avg 6% better quarterly COR since 2007) and it is the most geared to P&C reinsurance earnings.
- **Asset re-risking can offset decline in yields:** Swiss Re's asset allocation is very conservative (~20% cash) and it will modestly re-risk its investments, which should partly offset the decline in running yields. We estimate 5% increase in allocation of corporate bonds would improve ROEs by 0.41%.

### Catlin (Buy):

- **Summary:** Despite being the best-performing Lloyd's insurers in 2012 (+26%), Catlin is still the most attractively valued Lloyd's insurer (1.2x 2013E NTA vs peers 1.4x) and we believe it has started to deliver better operating performance than it is getting credit for.
- **Profitable growth underappreciated:** Catlin has achieved avg 8% premium growth since 2008 and improved its underlying profitability (50% attritional loss ratio in H1 2012). We think the market under appreciates the diversification benefits of this growth.
- **Reserving concerns overdone:** We think the market is concerned over Catlin's reserving, although we think trends are in line with longer-term and its Adverse Development Cover reduces tail risks in liability lines.
- **Robust capital supports attractive yield:** Catlin's economic capital buffer contains several layers of prudence and we estimate it will remain stable in 2012. This allows the group to continue growing and sustain its attractive 6.1% yield.

## Stock recommendations

Figure 1. Summary investment cases

<b>SWISS RE BUY Top pick</b>	<ul style="list-style-type: none"> <li>Swiss Re has underperformed the insurance sector rally in H2 2012 (-18%) and we see this as an attractive entry point</li> <li>A combination of profitable growth and capital mgt (\$1bn special div) should utilise the group's excess capital and improve ROEs</li> <li>Swiss Re offers the best way to play favourable P&amp;C Re conditions and has the best u/w results of its peers (avg 6% better COR)</li> <li>Asset allocation is conservative and we believe it will modestly re-risk its investments, partly offsetting the decline in running yields</li> </ul>
<b>CATLIN BUY Top pick</b>	<ul style="list-style-type: none"> <li>Despite being the best performing Lloyd's insurers in 2012 (+26%), Catlin is still trades at a 20% discount to peers (1.2x 2013 NTA)</li> <li>So far it hasn't received credit for delivering growth (avg 8% since 2008) and improved underlying margin (50% attritional loss ratio)</li> <li>Concerns over Catlin's reserving are overdone and the Adverse Development Cover provides comfort, as well as capital relief</li> <li>Catlin's capital position is solid and can comfortably support future growth in premiums and dividends (6.1% yield)</li> </ul>
<b>Amlin Buy</b>	<ul style="list-style-type: none"> <li>As a leading player in the London cat market (cat is 20% group) it is well positioned to benefit from price increases following Sandy</li> <li>We think the market is comfortable with ACI's performance and Amlin's newer businesses could be a source of positive surprise</li> <li>We expect sector leading returns (17% RONTA in 2013 vs peer avg 13%) and note Amlin offers the highest yield (6.6% in 2013)</li> </ul>
<b>Hannover Re Neutral</b>	<ul style="list-style-type: none"> <li>Hannover has delivered strong book value growth, has strong reserves and we expect more stability of dividends (post Talanx IPO)</li> <li>High allocation to corporate bonds (32%) limits potential for re-risking and it already expects slower decline in yield (10-15bps pa)</li> <li>Strong re-rating in 2012 (+54%) and the highest valuation of Reinsurance peers (1.1x 2013 NTA) limits upside from here</li> </ul>
<b>Hiscox Neutral</b>	<ul style="list-style-type: none"> <li>Hiscox has delivered strong operating performance helped by notably lower exposure to catastrophe losses than most peers</li> <li>Clarity on Sandy loss (£90m) reassures on capital and we expect a £100m capital return with its FY results</li> <li>Hiscox's holds significant excess capital (u/w leverage is low at 1.0x) and this suppresses its ROEs (11% 2013 vs 14% for peers)</li> </ul>
<b>Lancashire Buy</b>	<ul style="list-style-type: none"> <li>A differentiated business model (eg only ~100 staff and daily u/w call) has helped achieve 19% compound returns with low volatility</li> <li>High u/w margins (avg 58% COR) and the lowest contribution from investment returns (avg 28%) make ROEs more resilient</li> <li>Lancashire lagged peers in 2012, still delivers attractive returns (15% RONTA) and could pay another special div in H1 2013</li> </ul>
<b>Munich Re Neutral</b>	<ul style="list-style-type: none"> <li>We see limited scope for positive earnings surprise, and there are drags from German Life business and a declining running yields</li> <li>Munich Re's capital position remains strong, but management has signaled that a capital return is not on the agenda for 2012</li> <li>Munich Re performed strongly in 2012 (+44%) and is now fairly valued at 0.95x NTA compared with 11% 2013 RONTA</li> </ul>
<b>Scor Buy</b>	<ul style="list-style-type: none"> <li>The market isn't giving credit for Scor's growth (21% CAGR 2005-11) and solid profitability (COR ~95 and life margin ~7.5%).</li> <li>Scor's conservative asset allocation is now more than in the price and its high cash allocation (19%) gives it scope to re-risk</li> <li>Scor has underperformed peers in 2012 and offers the most attractive yield among the Reinsurers at 6.0%</li> </ul>

Source: Citi Research

Figure 2. Sector valuation table

						Valuation (2013E)				EPS			DPS			NTAPS			RONTA		
	Rec	Price	Target	ETR		P/E	P/NAV	P/NTA	Yield	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E
Amlin	Buy	GBP	394	425	14.7%	8.9	1.20	1.39	6.6%	-30.3	48.0	44.1	23.0	24.4	25.8	243	264	283	-10%	20%	17%
Catlin	Buy	GBP	509	567	17.5%	9.0	0.94	1.18	6.2%	6.7	52.9	56.5	28.0	29.7	31.5	393	401	430	2%	14%	14%
Hiscox	Neutral	GBP	470	450	-0.4%	12.8	1.37	1.45	4.0%	5.3	40.3	36.8	17.0	43.3	18.7	306	328	325	2%	13%	11%
Lancashire	Buy	GBP	791	905	15.6%	10.3	1.45	1.45	1.2%	74.6	76.4	76.7	61.4	65.6	9.4	493	485	546	13%	13%	15%
						10.3	1.24	1.37	4.5%										2%	15%	14%
Hannover	Neutral	EUR	59.4	60.2	5.2%	9.4	1.10	1.11	4.0%	5.0	7.2	6.3	2.1	2.8	2.4	41	50	54	14%	18%	13%
Munich	Neutral	EUR	135.4	136.3	5.7%	9.0	0.83	0.95	5.0%	3.9	17.8	15.0	6.3	6.5	6.8	110	134	143	4%	15%	11%
Scor	Buy	EUR	21.4	23.5	16.1%	9.0	0.78	0.93	6.1%	1.8	2.1	2.4	1.1	1.2	1.3	20	22	23	9%	10%	11%
Swiss	Buy	CHF	69.5	78.7	18.6%	9.1	0.78	0.88	5.3%	6.8	9.3	7.6	3.0	6.0	3.7	70	77	79	11%	13%	10%
						9.1	0.87	0.97	5.1%										9%	14%	11%
Euro Insurance sector						9.7	1.18		5.0%												

Note we assume Lancashire only pays a small regular dividend, but this has historically been supplemented by large special dividends.

Source: Citi Research; priced on 11 January 2013.

## Sector view

**Time to get selective:** We continue to see the P&C re/insurance sector as well-positioned, given i) robust underlying u/w profitability (esp for short-tail / cat lines), ii) the ability to compensate for low interest rates by annually re-pricing business, and iii) attractive dividend yields (Reinsurers 5%, Lloyd's 6%). However, following a notable re-rating in shares during 2012 vs book value growth (Reinsurers +22%; Lloyd's +13%), we recommend more selective exposure to the sub-sector in 2013.

**Prefer Lloyd's vehicles over Reinsurers:** In 2013, we expect the Lloyd's vehicles to continue generating higher returns (14% RONTA) and believe they're structurally better positioned (higher u/w margins and lower dependence on investment returns), even though they trade at a premium (avg 1.4x NTA). Reinsurers should also generate decent returns (11% RONTA and avg 1.0x NTA), but we are concerned by potential downside risks from i) the drag on earnings from declining running yields (-20 to 30bps pa) and ii) the drag on book value growth from the potential reversal of unrealized gains (currently 15-20% equity, except Scor).

**Key themes – 1) Positive on pricing in medium term:** Sandy has helped stabilise January renewals and we expect further gradual price increases in primary lines. The reversal of unrealised bond gains, low interest rates and reserve releases could drive a more positive medium term outlook. **2) Cautious on investment returns:** We think consensus for Lloyd's vehicles reflects this more than Reinsures and we prefer companies that can modestly re-risk. **3) Opportunities for capital management:** we think markets will reward companies that manage their capital. We expect returns from Swiss Re, Hannover Re, Hiscox and Lancashire.

Figure 3. Reinsurance and Lloyd's sector themes: Citi's View and Winners & Losers

Themes			
	1. Positive on pricing	2. Cautious on investment returns	3. Opportunities for capital management
<b>Citi's View</b>	<ul style="list-style-type: none"> <li>The u/w environment remains relatively positive in several lines of business and we suspect consensus is too focused on pricing rather than margins. Current conditions favour high margin/specialist reinsurers for which returns are driven by underwriting.</li> <li>January reinsurance renewals were broadly flat, which we see as positive following increases in 2012. There is continued momentum in US primary insurance pricing and it seems casualty lines are gradually turning.</li> <li>We are more positive than consensus on the medium term outlook for pricing since i) the reversal of unrealised gains could pressure industry capital, ii) companies are increasingly acting on the need to offset lower yields through higher u/w profits, and iii) reserve releases are running out.</li> </ul>	<ul style="list-style-type: none"> <li>Low interest rates are a key issue for the insurance sector. The ability to re-price annually is an advantage compared with the rest of the sector.</li> <li>Reinsurers took action and returns held up reasonably well in 2012, but the pressure will come. Reinsurers will see sustained declines in running yields as bonds mature (-20 to -30 bps pa).</li> <li>Consensus for Lloyd's vehicles already reflects low interest rates and they are more geared to underwriting returns.</li> <li>The ability to modestly re-risk investments to compensate for low rates will be a differentiator.</li> </ul>	<ul style="list-style-type: none"> <li>Solvency positions across the re/insurance space are robust (rather than excessive). Hurricane Sandy simply meant 2012 was a 'normal' cat year.</li> <li>We expect growth in regular dividends across the sector and additional capital management action from a number of players.</li> <li>We believe the market will increasingly reward companies that actively manage capital with higher valuations.</li> <li>We highlight the attractive dividend yields on offer in the sector (Reinsurers 5%, Lloyd's 6%) and note that most companies have shown a clear commitment to dividends despite major catastrophe losses in recent years.</li> </ul>
<b>Winners &amp; Losers</b>	<ul style="list-style-type: none"> <li>Lloyd's vehicles should outperform since they are higher margin businesses with greater gearing to u/w profits.</li> <li><b>Amlin</b> and <b>Hiscox</b> have the best long term u/w records, but we think <b>Catlin</b> has the most positive momentum.</li> <li>Reinsurers have consistently displayed more discipline than primary insurers.</li> <li><b>Swiss Re</b> has best long term P&amp;C reinsurance record, although performance across the sector is decent.</li> </ul>	<ul style="list-style-type: none"> <li>Lloyd's insurers are less dependent on investment returns but have minimal opportunity to re-risk assets due to cat exposures.</li> <li><b>Amlin</b> and <b>Catlin</b> have the largest cash holdings.</li> <li>Pressure on running yields for reinsurers can be partly offset by modest re-risking of investments.</li> <li><b>Swiss Re</b> and <b>Scor</b> have the largest cash positions which could be re-allocated.</li> </ul>	<ul style="list-style-type: none"> <li>Regular yields are highest for the Lloyd's sector and it has sustained dividends through cats for more than a decade.</li> <li>We expect special dividends from <b>Swiss Re</b> and <b>Hiscox</b>. We think <b>Hannover Re</b> will pay a dividend above its normal payout guidance. We think <b>Lancashire</b> may pay an additional special dividend in H1 2013.</li> </ul>

Source: Citi Research

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## Top Picks

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# Swiss Re

## Further upside to ROEs

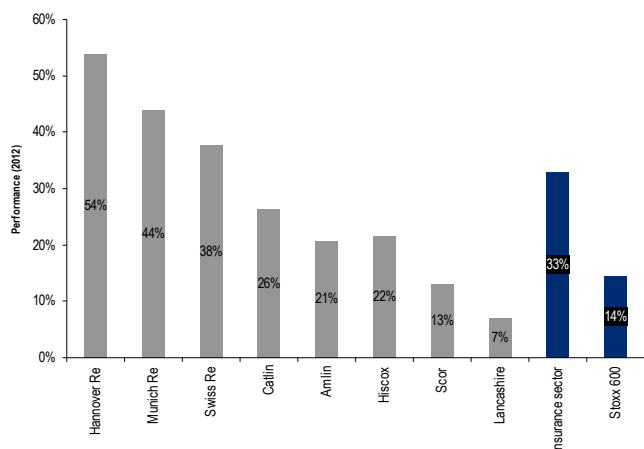
- Although Swiss Re performed strongly in 2012 (+38%), it has underperformed the insurance sector rally in H2 2012 (-18%) and we see this as an attractive entry point. We believe Swiss Re will enhance its returns (10% 2013 RONTA), which should reverse the current valuation discount (0.87x 2013 NTA vs Reinsurers on 1.0x).
- Bull point #1: During 2012 Swiss Re has started to optimise its capital allocation (eg P&C Re growth and Admin Re US disposal). We believe a combination of profitable growth and capital mgt (\$1bn special div) will utilise the group's excess capital and improve ROEs (investing all excess capital at 11% increases ROE by 1.8%).
- Bull point #2: Swiss Re offers the best way among Reinsurers to get exposure to relatively favourable P&C Re conditions, in our view. Swiss Re actively managed its portfolio to achieve the best underwriting results of its peers (avg 6% better quarterly COR since 2007) and it is the most geared to P&C reinsurance earnings.
- Bull point #3: Swiss Re's asset allocation is very conservative and we believe it will modestly re-risk its investments, which should partly offset the decline in running yields. We estimate 5% increase in allocation of corporate bonds improves ROEs by 0.41%.

## Underperformance of H2 insurance sector rally offers opportunity

Swiss Re underperformed the insurance sector rally in H2, which we think offers an attractive entry point

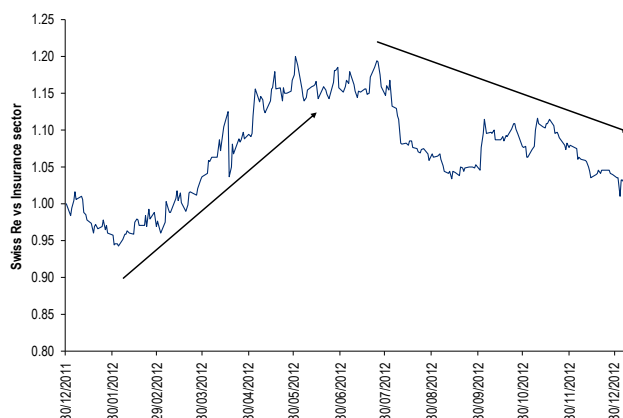
Swiss Re delivered attractive returns in 2012. It outperformed the insurance sector (SXIP) by 5% and the market (Euro Stoxx 600) by 23%. This was in the context of a very strong performance by most of the reinsurance sector, which somewhat uncharacteristically outperformed the insurance sector (avg +4%) during strong equity markets (see chart below). However, Swiss Re actually underperformed the strong beta rally in the insurance sector during H2 2012 by 18%. This is shown in the second chart below. In our view, this offers an attractive entry point for investors in light of the bull points we discuss in detail in the following sections. We wrote in detail about Swiss Re in the following report: [Swiss Re \(SRENH.VX\) - Capital Options](#)

Figure 4. Reinsurers performed particularly strongly in 2012



Source: Datastream, Citi Research

Figure 5. Swiss Re underperformed the insurance sector rally in H212



Source: Datastream, Citi Research



**Combination of profitable growth and capital repatriation should improve ROEs**

**Bull point #1 - Optimising capital allocation will enhance ROEs**

We expect Swiss Re's significant S&P excess capital position to remain one of the key areas of investment debate for the stock. S&P reconfirmed the strength of Swiss Re's capital position in a recent report: *"Risk based capital adequacy is substantially redundant at the "AAA" level as of June 30, 2012"* (18<sup>th</sup> December 2012). We believe that a combination of profitable growth and capital repatriation will improve Swiss Re's returns and therefore its current valuation (0.87x 2013 NTA and 10% 2013 RONTA).

Swiss Re's stated priorities for using its excess capital are:

- **Maintaining and growing our regular dividend with earnings going forward.** We forecast 10% growth in regular dividend in 2012 and 10% CAGR to 2014.
- **Grow business where it meets our profitability requirements.** In our view, the key point here is that Swiss Re has committed to only deploy new capital at 11% IRR, which would be accretive to our current 9% 2013 ROE forecast
- **The possibility of a special dividend to address excess capital.** We are expecting a \$1bn special dividend with 2012 results, as discussed below.

**Swiss Re has taken steps to optimise capital allocation during 2012**

**During 2012 Swiss Re started improving capital allocation to increase ROEs**

We believe Swiss Re has taken several measures in 2012 that should optimise the group's capital allocation and therefore be positive for its ROE over time. We discuss each one in more detail below. The overriding message, in our view, is that management are committed to taking action to improve the group's ROE compared with peers. We believe that this should be positive for the group's valuation.

**Growth in profitable P&C Re is positive**

- **Growth in P&C reinsurance** — Swiss Re significantly grew its P&C reinsurance business (+23% ytd at Q3 2012) during a period of increasing reinsurance prices (following industry wide losses in 2011). P&C reinsurance lines deliver the highest ROEs for the sector and we expect Swiss Re's business to achieve 20% ROE in 2012 (well ahead of its 10-15% target). Given the strong performance of this business, we think increasing the capital allocated to it is positive

Figure 6. Swiss Re has resumed growth in its P&C Re business

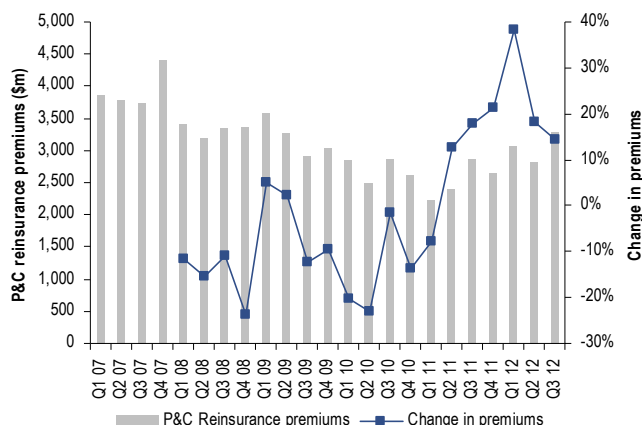
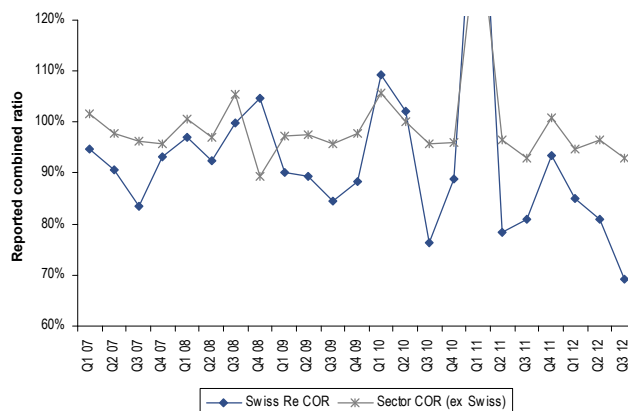


Figure 7. This is positive as P&C Re has sector leading profitability



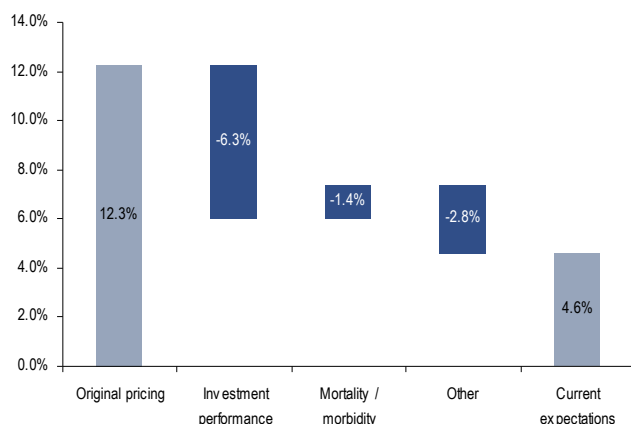
Note: excl Corporate Solutions from 2011. Source: Company data, Citi Research

Source: Company data, Citi Research

**Sale of Admin Re US removes some of the drag on ROE**

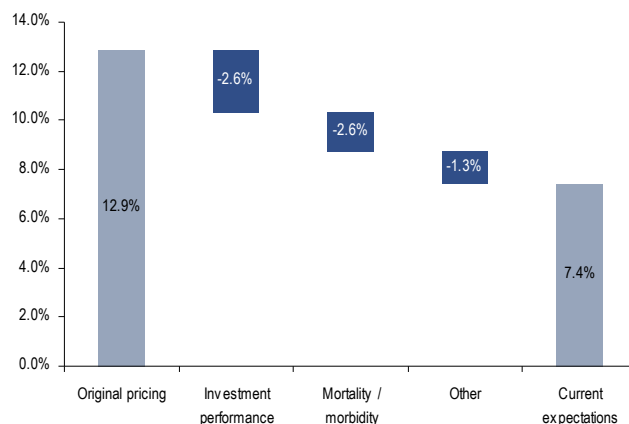
■ **Sale of Admin Re US** — Admin Re US (REALIC) was sold to Prudential for \$0.7bn, giving rise to a \$0.4bn accounting loss and \$1.0bn reduction in equity. The most important point, in our view, is that the sale has freed up ~\$1bn capital that was tied up in this low return business (<5% ROE). Addressing low ROEs at Admin Re has been an ongoing challenge for Swiss Re. The charts below show that the drag from Admin Re US was greater than Admin Re UK, since the mismatch between original and current pricing was greater. We think the disposal of Admin Re US demonstrates Swiss Re's commitment to addressing this drag on ROEs. It is also taking action to tackle the lower returns in the remaining Admin Re portfolio.

**Figure 8. Admin Re US return expectations well below original pricing**



Source: Company data, Citi Research

**Figure 9. Admin Re UK was performing relatively better than US**



Source: Company data, Citi Research

**Capital has been allocated to P&C Re and up-streamed to group**

■ **Transferring capital to group** — Swiss Re indicated that it will transfer capital towards P&C Re (ie high ROE) and away from L&H Re and Admin Re businesses (ie lower ROE). It has started to do this during 2012 and its new divisional balance sheet disclosure increases the transparency of this considerably. The table below shows divisional dividend payments and highlights that almost \$3bn capital has been transferred from the divisions to the group during 2012. We believe this is a precursor to paying a special dividend (we forecast \$1bn to be paid in 2013). We think greater transparency over divisional capital allocation is a positive differentiator for Swiss Re.

**Figure 10. Almost \$3bn capital has been upstreamed to Group**

	2011	Q1 12	Q2 12	Q3 12	Q4 12E	2012E	2013E
P&C Reinsurance	-555	-586	-283	-340	0	-1,209	-670
L&H Reinsurance	-480	-568	-1199	0	0	-1,767	-548
CS	0	0	0	0	0	0	0
Admin Re	0	0	-175	-881	0	-1,056	0
Group	0	1154	523	1221	0	2,898	-997
Divisional dividend (\$m)	-1,035	0	-1134	0	0	-1,134	-2,215

Source: Company reports and Citi Research

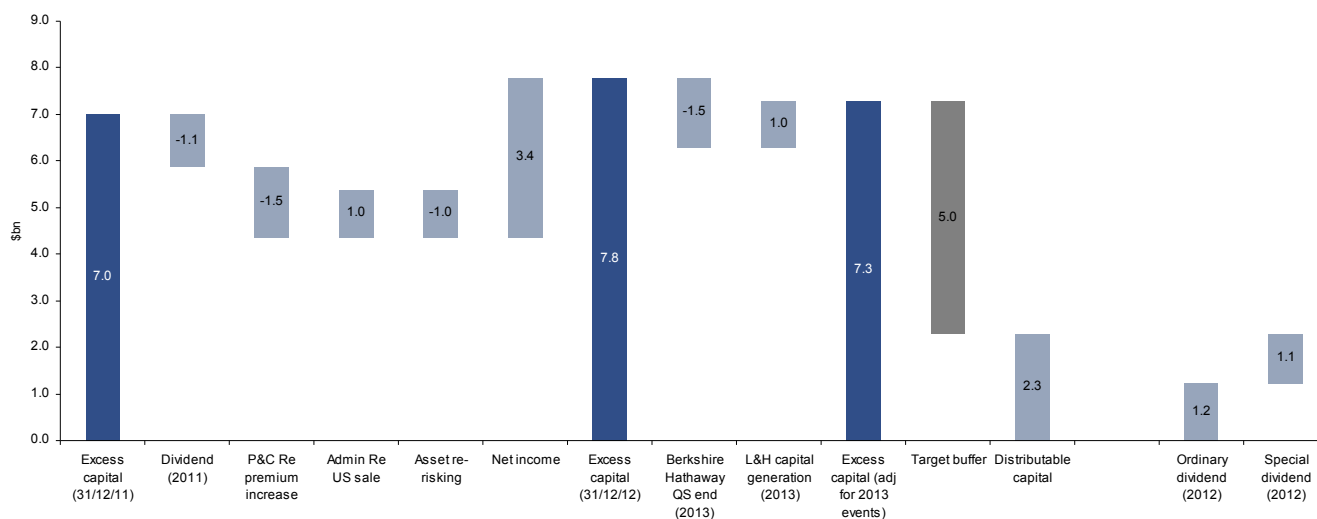
## We expect stronger capital to lead to a special dividend for 2012

### We estimate the following in 2012:

1. \$7.8bn excess S&P capital
2. 10% dividend increase
3. \$1bn special dividend

We roll forward Swiss Re's S&P excess capital position for major events in 2012 and estimate that it should increase to around \$7.8bn in 2012 from ~\$7bn in 2011. We estimate that Swiss Re can grow its regular dividend by 10% to CHF 3.3 per share and pay a \$1bn or CHF2.7 per share special dividend. This is based on the assumption that Swiss Re maintains a capital buffer at the top end of its targeted range (ie \$3-5bn). We set out our main assumptions in arriving at these conclusions in the chart below.

Figure 11. Rolling forward Swiss Re's excess capital position explains our \$1bn special dividend assumption



Source: Company data; Citi Research

### Even if Swiss Re holds its highest target buffer, it has \$2.3bn distributable capital

The main drivers affecting Swiss Re's capital position are i) \$1.1bn 2011 dividend payment, ii) \$1.5bn capital increase for P&C Re growth in 2012, iii) \$1.0bn capital released through the sale of Admin Re US, iv) \$1.0bn capital consumed by modest asset re-risking, and v) £3.4bn net income forecast for 2012. This leaves Swiss Re with \$7.8bn excess capital at the end of 2012.

We also include the impact of changes to capital requirements for a number of developments expected in 2013: i) \$1.5bn increased capital requirements for growth following end of the Berkshire Hathaway quota share to emerge gradually during 2013, and ii) \$1.0bn capital targeted to be released from the L&H business during 2013. This leaves Swiss Re with \$7.3bn adjusted capital.

To be conservative, we assume that Swiss Re will keep its capital buffer at the top end of its target \$3-5bn range. This leaves the group with \$2.3bn distributable capital at the end of the year. We assume this is split between \$1.2bn or CHF 3.3 per share normal dividend and \$1.0bn or CHF 2.7 per share special dividend.

### Berkshire Hathaway legal dispute shouldn't threaten our assumptions

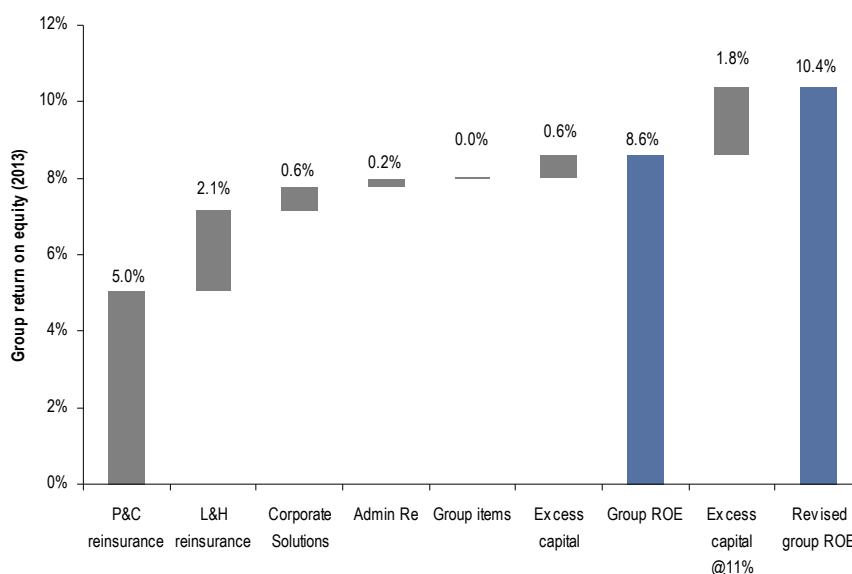
Swiss Re announced at Q3 2012 that it is subject to a potential \$0.5-1.0bn legal claim from Berkshire Hathaway. This relates to pre 2004 L&H reinsurance business. Although Swiss Re maintains that this claim is without merit, there is a risk that the case will go to arbitration. We think the size of Swiss Re's excess capital position means that this won't threaten the potential for a capital return. For example, even a \$1.0bn claim would keep Swiss Re comfortably within its \$3-5bn targeted excess capital range.

## Opportunity to enhance ROEs in future

**Fully deploying excess capital would enhance group ROE by 1.8%**

We believe the market hasn't given Swiss Re sufficient credit for the potential improvement in its ROE through further optimising its capital allocation. In the chart below we show how each of the divisions contribute the group's overall ROE forecast in 2013. This is based on our divisional earnings forecasts and highlights the upside potential to ROE if Swiss Re were to deploy its excess capital at 11% hurdle rate. Clearly, Swiss Re's ability to do this is limited by the availability of business offering these returns and its desire to maintain a target capital buffer. Nevertheless, this gives a good indication of the potential upside to Swiss Re's ROE if the group continues to further optimise its capital.

**Figure 12. Swiss Re's ROE breakdown and upside from deploying excess capital @ 11%**



Note: Assumes excess capital is deployed at 11% IRR targeted by management

Source: Company data, CIRA estimates

The charts below show our estimates for how Swiss Re's equity capital will shift between divisions.

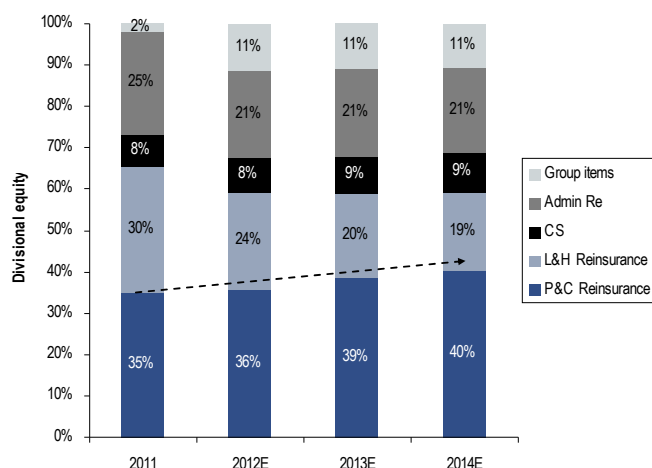
**Increasing capital allocated to P&C Re should enhance ROEs**

- The first chart shows that we are assuming that the P&C reinsurance division's share of group equity steadily increases to take advantage of reasonably favourable underwriting conditions. This would enhance group ROE's since P&C Re targets 10-15% ROE. There is scope for improvement in group ROEs beyond our forecasts if Swiss Re is able to release further capital from Admin Re or if more capital is repatriated from the group.

**Admin Re still consumes a considerable amount of excess capital**

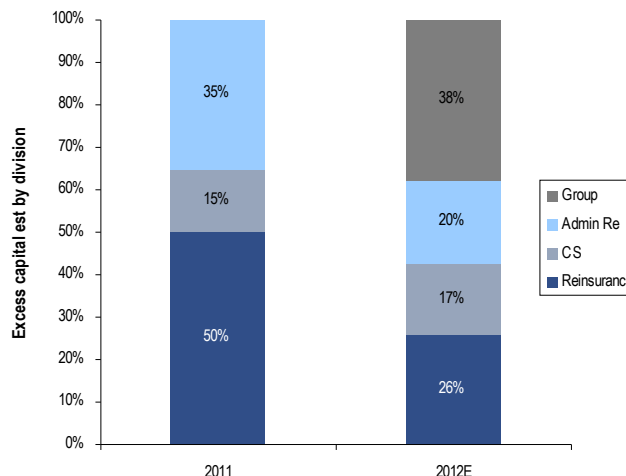
- The second chart shows our estimate of excess capital by division. It highlights the fact that Swiss Re has transferred a significant amount of capital from the divisions to the group level, which increases its flexibility. It also shows that Admin Re continues to consume a substantial proportion of excess capital (~20%), which we believe management are taking steps to address.

Figure 13. Increasing capital allocated to P&C Reinsurance



Note: 2013 group items are stable as \$1bn L&H capital offsets special dividend.  
Source: Company data, Citi Research

Figure 14. There's still a lot of capital to be extracted from divisions



Note: 2011 figures disclosed by company and 2012E adjusted for roll forward of excess capital shown above. Source: Company data, Citi Research

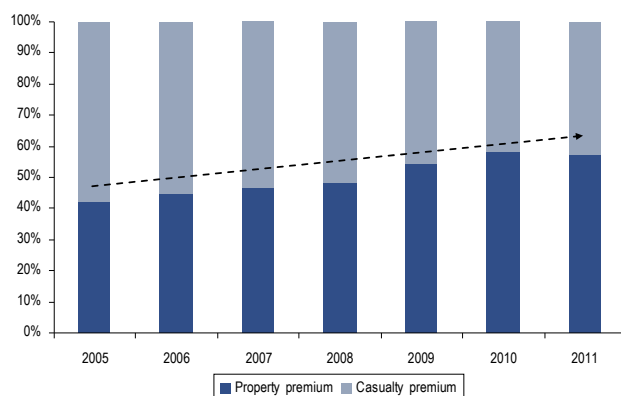
## Bull point #2 - Best way to play good P&C reinsurance conditions

In our view, the P&C reinsurance environment remains one of the areas in the sector with the best operating outlook (see separate section). We believe Swiss Re offers the best way for investors to get exposure to this. It has actively managed its portfolio to achieve the best underwriting results of its peers and it is the most geared to P&C reinsurance earnings.

### Active portfolio management is a differentiator

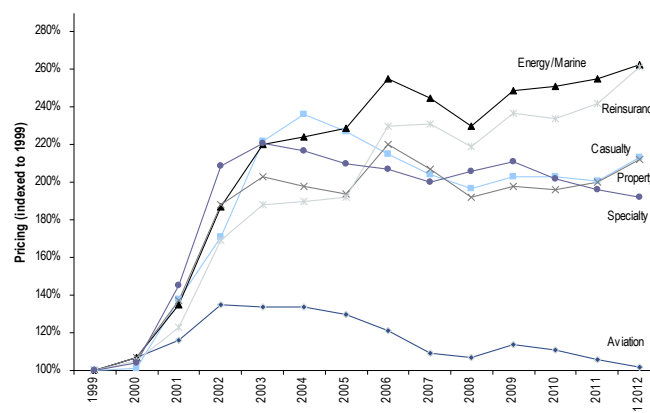
Swiss Re has been actively steered its portfolio towards property business where margins have been more attractive (particularly for catastrophe exposed lines). It has simultaneously reduced its exposure to casualty business where margins are under pressure due to low interest rates. The first chart shows the shift in Swiss Re's P&C reinsurance portfolio towards property lines. The second chart shows the positive pricing conditions in the reinsurance market compared with other lines of business.

Figure 15. Swiss Re has shifted its portfolio towards property



Source: Company data, Citi Research

Figure 16. Positive momentum in P&C reinsurance prices

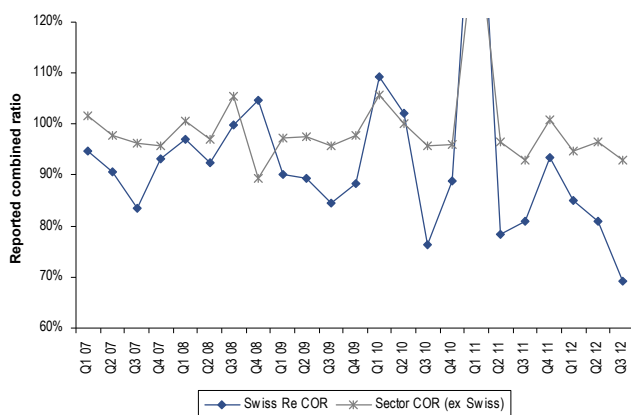


Source: Catlin, Citi Research

**Expect continued outperformance of  
P&C underwriting**

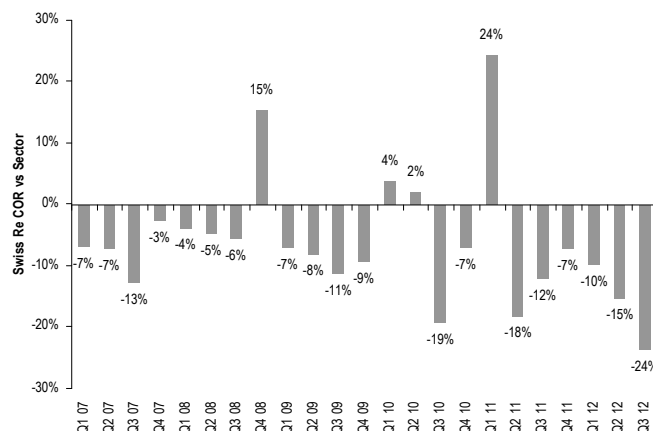
Swiss Re has the best P&C reinsurance underwriting track record among the larger reinsurers. It has delivered 93% avg quarterly combined ratio between 2007 and Q3 2012, which is 6% better than the sector average. Swiss Re's relative outperformance can be seen in the charts below. Swiss Re's combined ratio guidance for 2012 is 94% on an underlying basis (ie assuming no reserve releases and normalised catastrophe losses). This guidance was effectively upgraded at the 2012 investor day, since the allocation of central expenses has become more conservative (3.1% impact in 2011). Swiss Re's guidance is considerably better than peers: Hannover Re <98%, Munich Re ~96%, and Scor 95-96%.

**Figure 17. Swiss Re delivers strong u/w results compared with peers**



Source: Company data, Citi Research

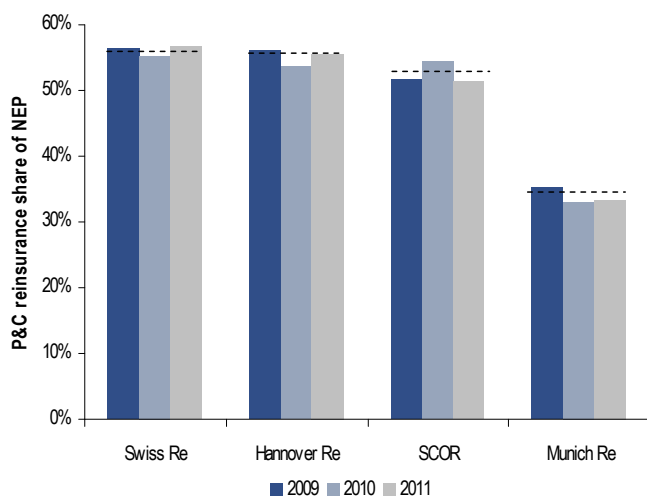
**Figure 18. Swiss Re's COR is consistently below sector average**



Note: Based on Swiss Re's compared with average of Munich, Hannover and Scor  
Source: Company data, Citi Research

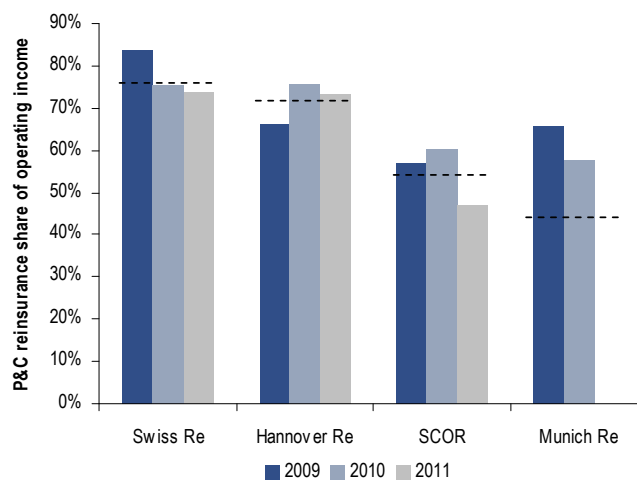
Swiss Re derives a greater share of its profits from P&C reinsurance than its peers. Taking over the business ceded to Berkshire Hathaway will increase this further.

**Figure 19. Exposure to P&C reinsurance premiums is similar**



Source: Company data, Citi Research

**Figure 20. P&C reinsurance profits are the biggest driver for Swiss Re**



Note: operating profits excl central costs. Source: Company data, Citi Research

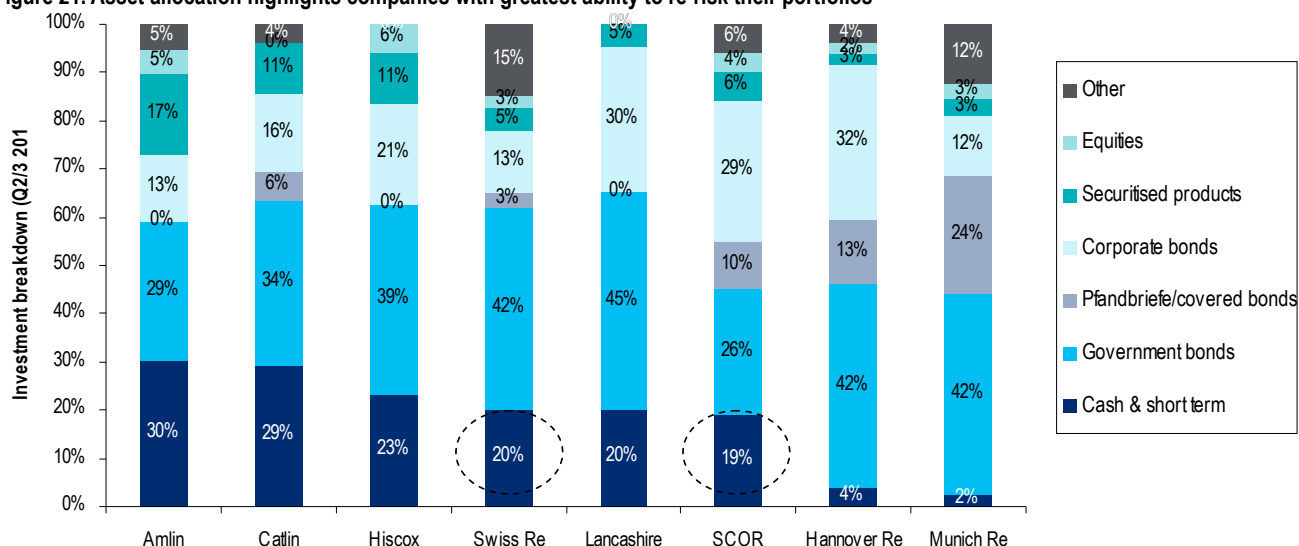
**Re-risking could partly offset the decline in running yield**

**Bull point #3 - Asset re-risking potential to offset falling yields**

Swiss Re has one of the most conservative asset allocations among the larger Reinsurers. Management have indicated that they are planning to modestly re-risk the investment portfolio, which is likely to be by switching cash into corporate bonds. Although we don't expect a material change, we believe that the re-risking will partially offset the ~24bps per annum decline in running yield indicated by management. We have reflected the increased capital requirements from re-risking in our assessment of excess capital.

Swiss Re is overweight cash and underweight corporate bonds. The chart below provides a comparison of asset allocation at Q2/3 for the Reinsurers and Lloyd's vehicles. It shows that Swiss Re has one of the highest allocations to cash (20%) whereas it is slightly underweight corporate bonds (16%).

**Figure 21. Asset allocation highlights companies with greatest ability to re-risk their portfolios**



Note: As at Q2/Q3 depending on latest data. Excludes WP and UL assets. Source: Company data, Citi Research

**Increasing corporate bond allocation by 5% increases group ROE by 0.41%**

We have estimated the potential improvement in ROE from a modest re-risking of Swiss Re's portfolio in the table below. In this scenario, we assume that Swiss Re shifts 5% of its investment portfolio from cash (yielding 0.1%) to 5-year US corporate bonds (yielding a blended rate of 2.54%). The increase in investment income from this re-risking would enhance the group's ROE by 0.41%.

**Figure 22. 5% increase in corporate bond allocation improves ROE by 0.41%**

Comments	\$m
Investment portfolio	145,000
Amount re-risked	5%
<b>New investments</b>	<b>7,250</b>
US corporate bonds (5yr) - A rated	2.20%
US corporate bonds (5yr) - BBB rated	2.88%
<b>Blended return on new investments</b>	<b>2.54%</b>
Current cash returns	0.10%
<b>Increase in investment return</b>	<b>2.44%</b>
Increase in investment return	177
Tax	25.00%
<b>Increase in investment return (post tax)</b>	<b>133</b>
2012 equity	32,447
<b>ROE enhancement</b>	<b>0.41%</b>

Source: Citi Research

# Catlin

## We expect valuation gap with peers to close

- Despite being the best-performing Lloyd's insurers in 2012 (+26%), Catlin is still the most attractively valued (1.2x 2013 NTA vs peers on 1.4x) and we believe it has started to deliver better operating performance than it is getting credit for.
- Bull point #1 — Catlin has achieved avg 8% premium growth since 2008 and improved its attritional loss ratio from 54% in 2008 to 50% in H1 2012 at the same time.
- Bull point #2 — We think Catlin's recent reserving is in line with longer-term trends and its ADC should address concerns over reserve deterioration in longer-tail lines.
- Bull point #3 — Catlin's economic capital buffer contains several layers of prudence and we estimate it will remain stable in 2012 allowing for growth in premiums and dividends.

We upgraded Catlin in the following report: [UK non life insurance - Prefer Lloyd's insurers; Upgrade Catlin to Buy](#)

## Bull point #1 — combining growth with improved attritional loss ratios

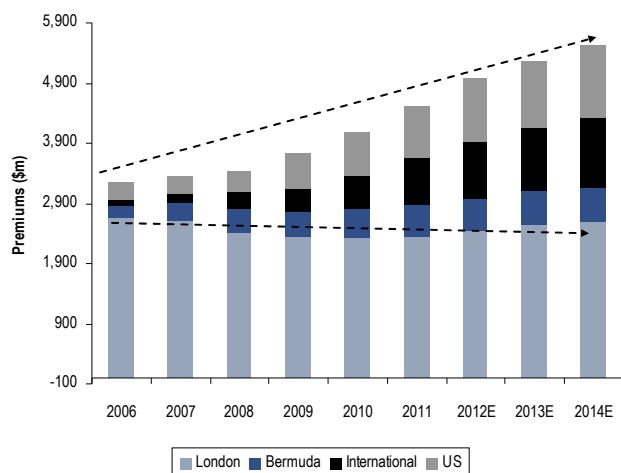
**Catlin grown strongly and increased the diversity of its business**

Catlin has consistently pursued a growth strategy and its premiums have increased over 3x since the business was listed in 2004. The growth has been driven by the Catlin's international businesses (ie US, Europe, Asia and Canada), as well as the acquisition of Wellington in 2006. We believe Catlin's growth strategy has been treated with a degree of scepticism by the market, which seems both to recognise that this has been accompanied by an improvement in underwriting profitability.

**Strong international growth diversifies earnings and increases capital efficiency**

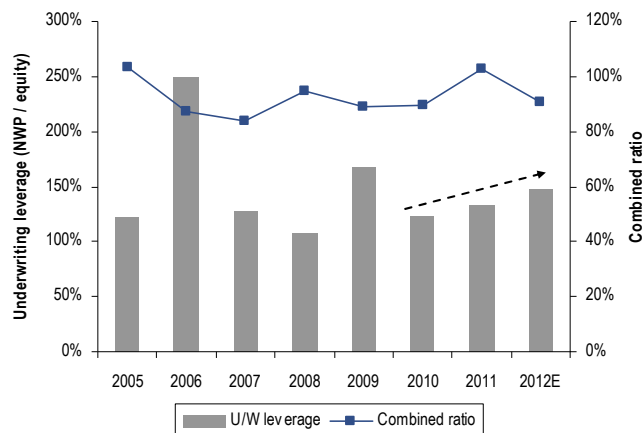
- The first chart shows that Catlin's has achieved strong premium growth driven by its international operations. This has helped to increase the diversity of earnings streams for the group, which was helpful when the London Markets and Bermuda businesses incurred large losses in 2011.
- The second chart shows that Catlin has been increasing its underwriting leverage (ie net premiums / equity). This highlights a further benefit of greater diversification since the group can increase the amount it writes per unit of capital.

Figure 23. Catlin has achieved strong growth and increased diversity



Source: Company data, Citi Research

Figure 24. Catlin has been increasing underwriting leverage



Source: Company data, Citi Research



**Catlin has grown whilst improving its underlying profitability**

Whilst growing its international operations Catlin has also improved the underlying profitability of its portfolio, as measured by its attritional loss ratio (ie excluding the impact of catastrophe losses and reserve releases). Catlin's attritional loss ratio was 50% at H1 2012, which is the best it has been since 2006. It is the only Lloyd's company, that consistently reports its underlying performance in this way and we believe this has not yet been fully recognised by the market

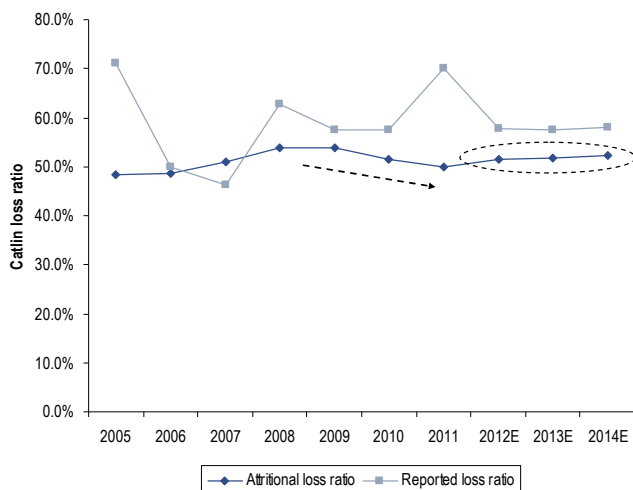
**50% attritional loss ratio at H112 is the best since 2006**

■ The chart below shows the longer term progression of Catlin's attritional and reported loss ratio. It shows consistent improvement in Catlin's attritional loss ratio between 2008 and 2011. We also note that our forecasts do not give credit for a continuation of this trend, which suggests there could be upside to these estimates.

**Expense ratio hasn't improved but could be source of upside**

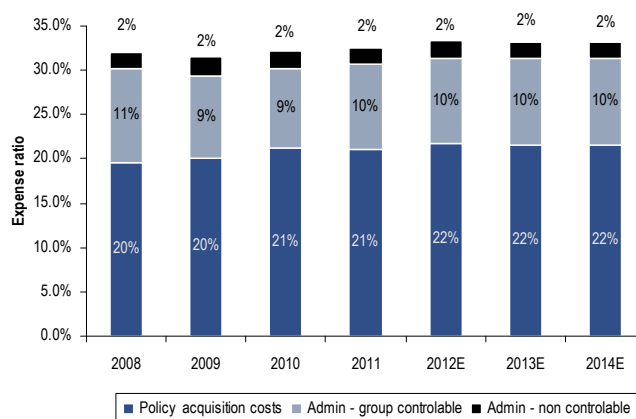
■ The second chart shows the composition of Catlin's expense ratio, which has remained broadly stable at 32-33% for the last few years. Catlin has frequently argued that it has already incurred the infrastructure cost of its international expansion and should therefore display operational leverage as the business continues to grow. This has not yet emerged, partly because the benefits have been offset by increased regulatory costs. At present we give no credit for future expense savings, although this could be a source of upside in the future.

**Figure 25. Attritional loss ratio has improved consistently**



Source: Company data, Citi Research

**Figure 26. Catlin's expense ratio could provide upside in future**



Source: Company data, Citi Research

**US GAAP reporting partly explains lower reserve releases and ADC gives comfort over longer tail lines**

**Bull point #2 – Concerns on reserving are overdone**

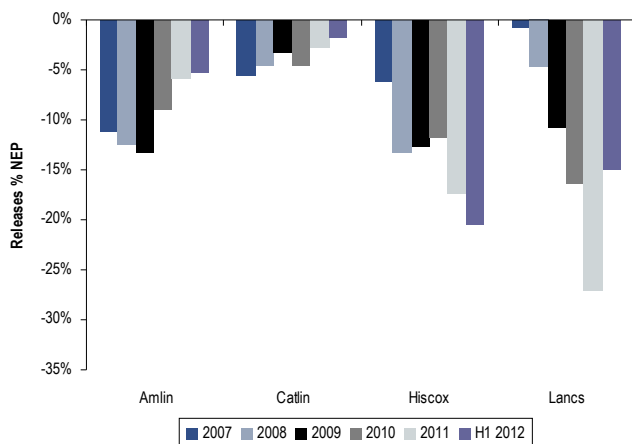
Catlin has benefitted from lower reserve releases than its peers and this has been an area of focus on this stock. We believe this is an overdone concern and note that a lower dependence on releases means Catlin's earnings should be less exposed than peers to an industry-wide slowdown in releases. Part of the explanation for lower releases is Catlin's reporting under US GAAP, which is notoriously strict on allowing re/insurers to build excessive prudence in their reserving.

During 2011 Catlin purchased Adverse Development Cover (ADC) on its reserves relating to business written in 2009 and prior. The intention of this transaction was to relieve capital that Catlin holds against its reserves at a relatively attractive price. However, it also removes a large component of the tail risk in Catlin's reserves, since it provides protection against any significant deterioration in these reserves.

■ The chart below shows reserve releases for the Lloyd's vehicles as % net earned premiums. It highlights that Catlin has made smaller releases than its peers.

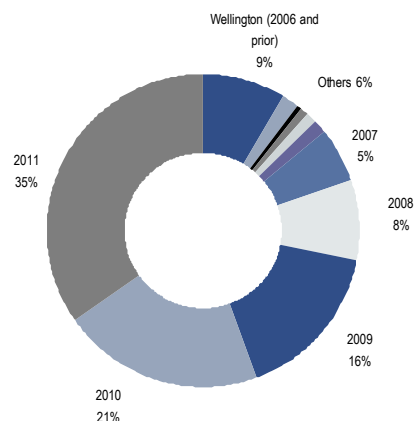
- The second chart shows the composition of Catlin's net reserves and highlights that the ADC covers 45% of group reserves (including reserves relating to business acquired with Wellington, ie 2006 & prior business).

Figure 27. Catlin has benefitted from lower reserve releases than peers



Source: Company data, Citi Research

Figure 28. ADC provides comfort over ~45% of net reserves (2011)



Note: Net reserves broken down by accident year.

Source: Company data, Citi Research

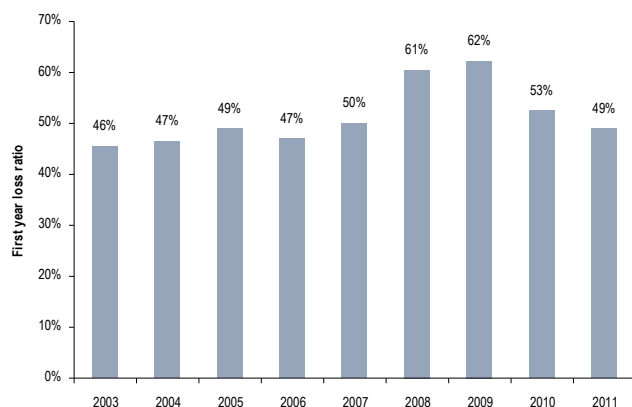
#### Reserving isn't more aggressive based on:

1. first year loss ratio picks
2. first year paid to ultimate losses

A review of recent reserving developments shows this is in line with longer-term trends. We also note two further points that give us comfort on Catlin's reserves:

- Catlin's first year loss ratio (excluding major losses) has improved considerably to 49% in 2011 compared with 62% in 2009. This could reflect the improvement in Catlin's attritional loss ratio and is broadly in line with initial reserving picks for 2003-2007 accident years.
- Catlin's first year paid to ultimate losses has increased in 2010 (24%) and 2011 (25%). Although this could indicate less IBNR in reserves, we note that it is in line with levels in 2006-2007.

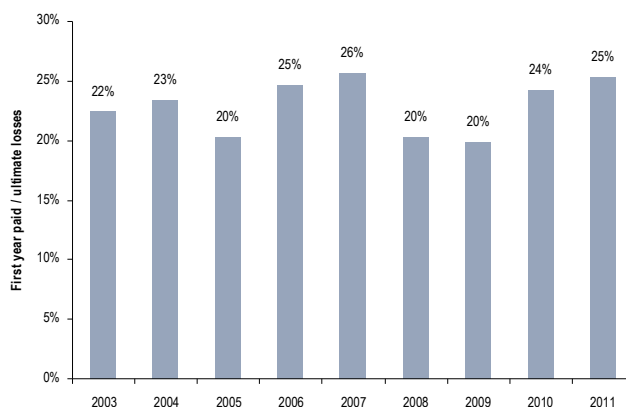
Figure 29. First year loss ratio is in line with longer term



Note: based on ultimate loss ratio excluding major losses

Source: Company data; Citi Research

Figure 30. First year paid to ultimate losses in line with longer term



Note: based on first year paid claims and ultimate losses (excluding major losses)

Source: Company data; Citi Research

### Bull point #3 – Catlin has adequate capital for growth and dividends

Catlin is often considered to have a lower capitalisation compared with peers, which we believe is partly caused by inconsistency in how capital is measured across the sector. Catlin discloses its economic capital position annually and last reported an economic capital buffer of 14% in 2011. During 2011 this was improved by ~5% through raising third-party capital in three special purpose syndicates.

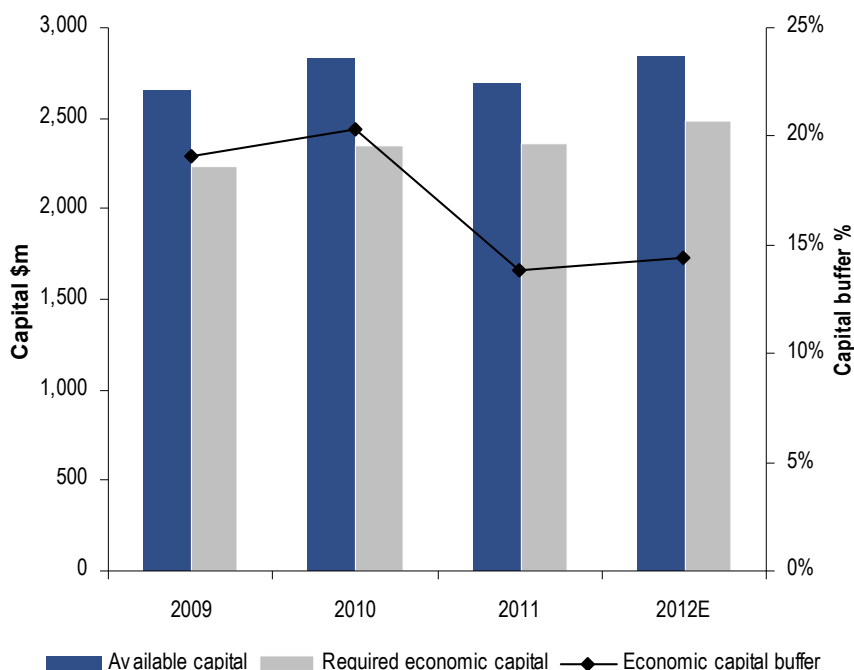
We note that Catlin's assessment of its economic capital buffer contains several layers of prudence:

**Catlin doesn't include sub debt or undrawn banking facilities and assesses requirements at a premium to Solvency II**

- Catlin doesn't take credit for sub debt or undrawn banking facilities (unlike some of its peers). Including these would have increased the buffer from 14% to 36% at 2011
- Catlin's assessment of economic capital requirements is 24% higher than its estimated Solvency II requirements

We estimate Catlin's buffer will remain stable at 14% at the end of 2012. This allows for 5% increase in capital requirements due to growth (in line with company guidance). Consequently we believe there is no concern over Catlin's ability to finance growth and sustain its attractive dividend (6.1% yield). The chart below shows our estimates.

Figure 31. We estimate Catlin's economic capital buffer will remain stable in 2012



Source: Company data and Citi Research

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## Sector Themes

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## Theme #1 - Positive on pricing in medium term

- We believe the u/w environment remains relatively positive in several lines of business and we suspect consensus is too focused on pricing rather than margins. Current conditions favour high margin/specialist re/insurers for which returns are driven by underwriting.
- Pricing in 2013: January reinsurance renewals were broadly flat, which is positive given increases in 2012. There is continued momentum in US primary insurance pricing and casualty lines are gradually turning. Even without a hard market, we think there are plenty of underwriting opportunities (eg marine reinsurance)
- We are positive on the medium-term outlook for pricing since i) the reversal of unrealised gains could pressure industry capital, ii) companies are increasingly acting on the need to achieve higher u/w profits in a low yield environment, and iii) reserve releases are running out.

### Underwriting conditions are relatively favourable

There are several lines of business offering attractive risk adjusted returns

The global P&C re/insurance market consists of distinct underwriting cycles varying by line of business, which is often disregarded in general pricing commentary. Although we are not in a hard market, there are several classes of business currently offering attractive risk adjusted returns. We also believe there is an increasing recognition in the industry that re/insurers need to offset falling investment returns with better underwriting profits (although this appears to be acted on more by reinsurers than primary insurers). In the table below, we show our view of pricing trends and profitability levels for the main re/insurance classes and highlight the key points below.

Figure 32. Citi expectations by line of business in 2013 highlight relatively favourable underwriting conditions

Type	Line of business	Pricing trend	Profitability level	Comments
Reinsurance	Property catastrophe	-3% to +7%	++	<ul style="list-style-type: none"> <li>■ Risk adjusted profitability remains high and demand for cover seems to be increasing</li> <li>■ Strong increases for loss affected US business</li> <li>■ International business seeing modest declines in absence of losses and competition is high</li> </ul>
Reinsurance	Property & Casualty	-2% to +2%	+	<ul style="list-style-type: none"> <li>■ Pricing showing positive momentum in non cat lines helped by the primary market</li> <li>■ Some momentum in specialty lines (eg marine reinsurance and motor) offering opportunities</li> <li>■ Casualty reinsurance remains competitive, but pricing showing early signs of improvement</li> </ul>
Reinsurance	Life & Health	-2% to +2%	+ / -	<ul style="list-style-type: none"> <li>■ Relatively favourable trends in mortality and morbidity in recent years</li> <li>■ Low interest rates affecting profitability levels</li> </ul>
Primary	Property	+1% to 4%	+	<ul style="list-style-type: none"> <li>■ US property market seeing consistent and gradual increases</li> <li>■ European property market remains competitive</li> <li>■ UK rates showing early signs of improvement for commercial business. Personal lines still competitive</li> </ul>
Primary	Motor	-5% to +5%	-	<ul style="list-style-type: none"> <li>■ UK pricing under considerable pressure due to competition, although reinsurance costs are rising</li> <li>■ German motor market seeing improvements ahead of claims inflation</li> </ul>
Primary	Casualty / Workers Comp	-2% to +4%	+ / -	<ul style="list-style-type: none"> <li>■ US workers comp has seen good price increases to offset pressure on profits from low interest rates</li> <li>■ Relatively favourable loss experience (eg no losses during financial crisis) suppressing price increases</li> </ul>
Primary	Specialty (marine/energy/aviation)	-5% to +5%	+ / -	<ul style="list-style-type: none"> <li>■ Marine outlook improving following major losses in 2012 and higher reinsurance costs</li> <li>■ Energy rates are at high levels (esp offshore following Mocondo loss in 2010) and profitability is good</li> <li>■ Aviation seeing ongoing price reductions and pressure on profits following limited losses</li> </ul>

Source: Citi Research

These are our key takeaways of the current environment:

- **Pricing trends** during 2013 could be summarised as i) gradually positive in primary insurance lines, driven by ongoing price increases in the US market and early signs of a turnaround in Europe, and ii) broadly flat / slightly positive pricing for reinsurers' portfolios at January 2013 renewals (helped by hurricane Sandy), which is positive given the increases achieved during 2012. Longer-tail casualty lines are gradually turning (again driven by US), which is particularly encouraging.
- **Underwriting profitability** should continue to be higher for reinsurers and specialty insurers, compared with primary players. Profitability is highest for catastrophe-exposed property re/insurance. Although pricing is improving in many shorter-tail primary insurance lines, profitability levels remain subdued (esp in US primary P&C market). Profitability for longer-tail casualty business is most under pressure from low interest rates, although benign loss experience is suppressing the required price increases.

### Reasons for being positive about current underwriting conditions

Current u/w conditions are relatively positive

The re/insurance market is operating in an underwriting environment that has changed compared with the past. The current cycle can be characterised as increasingly shallow and varied by line of business. In our view, this presents several opportunities for the sector:

Gradual price increases avoid influx of new capital

- **Gradually improving pricing** — We believe gradually improving pricing is positive for the re/insurance industry (as opposed to sharp price changes). Some new capital has entered the industry (eg growth in cat bonds, third-party capitalised vehicles and insurance linked funds). However, this has been relatively subdued by historic standards following major catastrophes (eg 2002 and 2006 renewals), which typically see a significant inflow of new capital chasing high returns. Gradual price increases reward underwriting expertise (as Robert Hiscox put it, "anyone can make money in a hard market").

Technical pricing avoids big swings in cycle

- **Technical pricing leads to more shallow cycle** — Historically, the re/insurance underwriting cycle was viewed as relatively homogenous and subject to considerable volatility depending on the availability of industry capital. However, we believe the increased use of model based technical pricing has led to a cycle that is more shallow, as the allocation of capital by line of business has become more rapid and efficient. This effectively caps the severity of changes in underwriting conditions and is advantageous for opportunistic underwriters.

Better capital allocation allows better cross cyclical returns

- **Sector is better at capital allocation** — A more shallow cycle makes it increasingly important for re/insurers to be responsive to changes in underwriting conditions of specific lines of business when they allocate capital. In our view, the global reinsurance and specialty insurance sector has become increasingly rapid and sophisticated in allocating its capital. This should improve the prospects for reinsurers and Lloyd's players to generate attractive underwriting returns through the entire cycle (rather than just in a hard market).

**Overall January renewal rates were broadly stable**

**Marine and UK motor markets saw strong reinsurance rate increases**

**Reinsurance market – broadly flat January 2013 renewals**

The major reinsurance brokers have published their January 2013 renewals commentary and these were broadly in line with our expectations. The overall commentary suggests that capacity is ample and that pricing was relatively flat overall. This reflects price increases on accounts affected by Sandy and modest reductions elsewhere. We highlight the most significant trends below:

- **Property catastrophe reinsurance** was stable overall, with prices ranging -5% to +5%, although there was significant divergence due to the impact of hurricane Sandy. US cat business saw +10% increases for loss-affected accounts and flat to -5% for loss-free accounts. International cat business was flat to -5% due to the absence of major losses.
- **Marine & Energy reinsurance** saw significant increases ranging between +15% to +25% for loss-affected accounts and flat to +10% for loss-free accounts. This market experienced the worst year in recent history due to several major losses (Sandy ~\$2.0bn, Costa Concordia \$1.3bn, Rena \$0.4bn deterioration from 2011). This could offer attractive opportunities to deploy more capital.
- **UK motor market** reinsurance rates increased (+20 to +35%) and terms & conditions were tightened due to ongoing concerns over bodily injury claims and PPOs.
- **Casualty and longer tail** classes saw relatively stable rates. Favourable frequency and severity of losses offset concerns over falling investment returns and reserve releases

**Figure 33. January 2013 renewal price changes (line of business)**

Business Segment	Price Change
Global Property Catastrophe Reinsurance	Down 5% to Up 5%
US Property Catastrophe Reinsurance	Down 2.5% to Up 2.5%*
Marine & Energy: US Portfolio	Up 20% to Up 30%
Marine & Energy: London Market	Up 10%
Marine & Energy: International Portfolio	Flat to Up 5%
Global Aviation & Aerospace	Down 10% to Down 15%
Global Credit	Down 10% to Flat
Global Political Risk	Down 5% to Flat
Global Life, Accident Catastrophe Reinsurance	Down 5% to Flat
US Casualty Clash	Flat to Up 5%
US Workers Compensation Catastrophe	Down 5% to Down 10%
US Directors & Officers	Down 5% to Flat
US Umbrella/Excess Casualty	Flat to Up 5%
US Errors & Omissions	Down 10% to Up 5%
US Surety	Down 10% to Up 25%

\* loss free layers only. Source: Guy Carpenter, Citi Research

**Figure 34. January 2013 renewal price changes (regional)**

PROPERTY	Pro rata	Risk loss free	Risk loss hit	Cat loss free	Cat loss hit
Europe	0%	0% to -10%	varies	0% to -5%	N/A
U.K.	0%	0% to -10%	varies	-3% to -5%	N/A
U.S. – National	N/A	0% to -5%	10%	0% to -5%	10%

CASUALTY	Pro rata	XL Loss free	XL Loss hit
Europe – GL/EL/PL	N/A	0%	N/A
Europe – Motor	varies	0%	+5% to +10%
U.K. – Motor	varies	+20% to +30%	+35%
U.S. – Gen Liability	0.4%	-0.8%	0%
U.S. – Prof Liability	0% to +4%	0% to -15%	0% to +10%

Source: Willis Re, Citi Research

**Sandy makes 2012 a 'normal' cat year and was a positive catalyst at renewals**

**Hurricane Sandy provides a positive catalyst**

Hurricane Sandy was a high-profile loss (\$20-25bn insured losses) and largely retained by US primary insurers. Given that Sandy challenged conventional catastrophe models (eg mainly flood rather than wind losses), there is still scope for estimates to deteriorate. However, based on current estimates, it simply means that 2012 was a relatively normal year for catastrophe losses (albeit concentrated in one loss). Sandy has had a positive impact on January renewals for loss-affected business in US, effectively leading to a stabilisation of property pricing (which would otherwise have been expected to decline). We include a table of major reported exposures below. As expected, Lloyd's vehicles have the highest exposure due to their focus on catastrophe lines.



Figure 35. Hurricane Sandy exposures

Date	Company	Cur	Industry loss \$bn	Loss (Pre tax) Local	Loss (Pre tax) USDm	NTA impact Q2 2012
20-Dec	Amlin	£m	n/a	145	232	9.7%
18-Dec	Catlin	\$m	n/a	200	200	9.1%
14-Dec	Beazley	\$m	20	90	90	9.0%
11-Dec	Hannover	\$m	n/a	200	200	8.2%
12-Nov	QBE	A\$m	20.0	400	415	7.8%
18-Dec	Hiscox	£m	20	90	144	7.1%
28-Nov	Allstate	\$m	n/a	1,075	1,075	5.9%
11-Dec	Chubb	\$m	n/a	880	880	5.8%
05-Dec	Travelers	\$m	n/a	1,000	1,000	4.6%
14-Jan	Hannover Re	€m	n/a	261	418	4.6%
12-Dec	XL Group	\$m	n/a	350	350	4.0%
20-Dec	Lancashire	\$m	n/a	50	50	3.5%
26-Nov	Swiss Re	\$m	22.5	900	900	3.3%
10-Dec	Ace	\$m	n/a	585	585	2.8%
17-Dec	Zurich	\$m	n/a	700	700	2.3%
07-Nov	Munich Re	€m	n/a	500	650	2.3%
07-Dec	AIG	\$m	n/a	2,000	2,000	1.9%
11-Dec	Hartford	\$m	n/a	370	370	1.8%

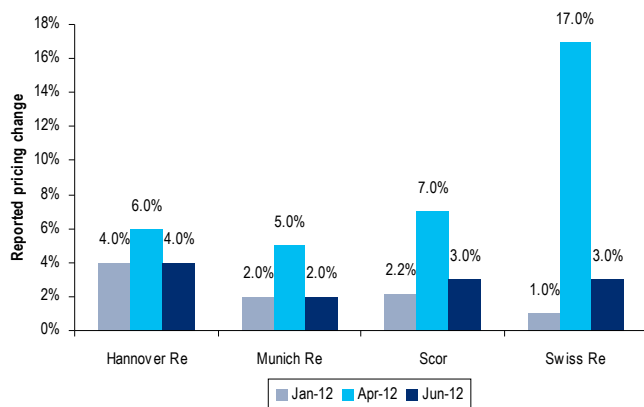
Source: Company data, Citi Research

## 2012 already saw reinsurance increases and cat rates are strong

Flat pricing in 2013 should be seen as positive and cat pricing is at high levels

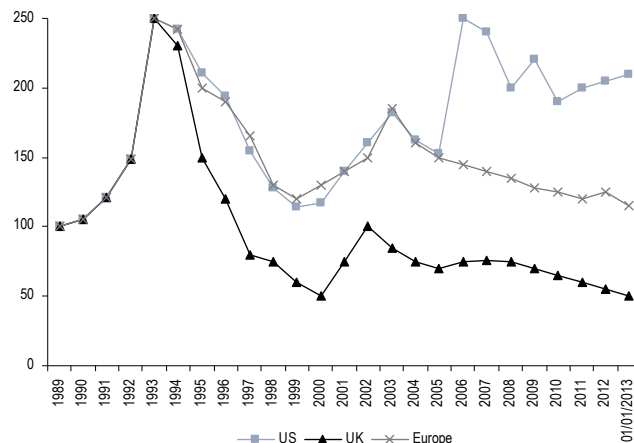
It is important to note that stable January 2013 renewal pricing for reinsurance business comes after a period of consistent price increases in 2012. The chart below shows that all the reinsurers achieved price increases during the various 2012 renewals. Consequently, we believe that stable pricing for the reinsurance sector in 2013 should be viewed as positive. We also show that pricing for property catastrophe reinsurance business remains at high levels, especially for US business which is the main market for these companies. Reinsurers can afford to accept modest price declines for business that isn't loss affected, given that profitability levels remain good.

Figure 36. Reinsurers achieved strong price increases in 2012



Source: Company data, Citi Research

Figure 37. Catastrophe reinsurance pricing near highs in US



Note: Guy Carpenter, Citi Research

**US primary P&C market seeing continued momentum and reinsurance pricing at historic high**

**Primary insurance market - pricing indices show signs of momentum**

Primary insurers have been less disciplined than their reinsurance counterparts and profitability levels are generally lower. We are encouraged by the fact that the US primary P&C insurance (which is the world's largest market) has been achieving consistent price increases since Q2 2011 (see chart below). This has been driven by relatively weaker levels of profitability. By contrast, European markets remain competitive notwithstanding some motor markets. We expect that gradual improvement in pricing and underwriting conditions for primary insurance markets in 2013, which should be supportive for reinsurance pricing in the medium term.

It is also important to put primary insurance pricing levels in historical context. The chart below shows that pricing for several lines of business is near historic peaks in terms of pricing levels, eg reinsurance and energy/marine markets. By contrast, conditions have gradually deteriorated in property, casualty and specialty since their peaks in 2003/4.

Figure 38. US P&C market is achieving price increases

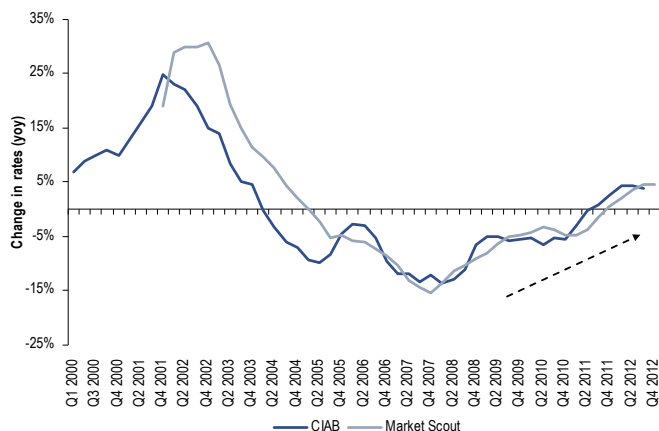
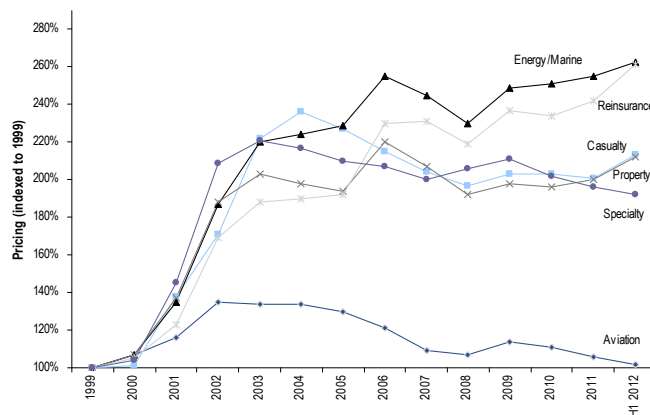


Figure 39. Pricing at attractive levels in many classes of business



Note: yoy price change in US P&C market. Source: CIAB, Market Scout, Citi Research

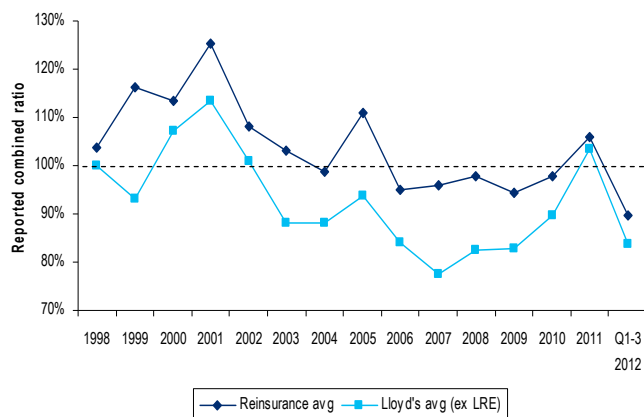
Note: pricing indexed to 1999. Source: Catlin, Citi Research

**Underwriting profitability has been good since 2006 for reinsurers, Lloyd's and composites**

**Underwriting profitability has been good for several years**

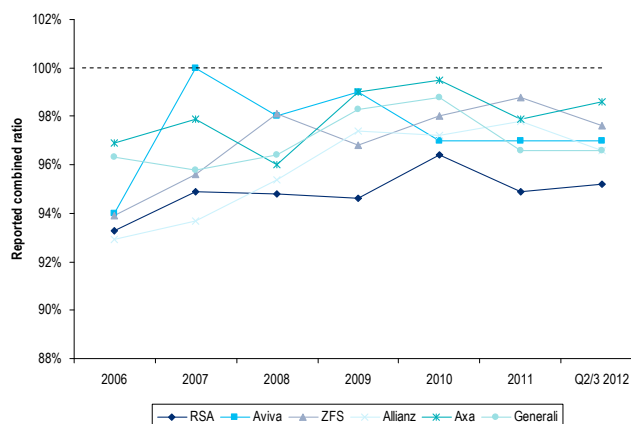
Underwriting profitability for the European reinsurers and the Lloyd's players continues to be good. The chart below shows reported combined ratios for the reinsurers and Lloyd's players. In contrast with late 1990s and early 2000s, both sectors have generated continued attractive underwriting profitability since 2006 (allowing for large catastrophe losses in 2011). Similarly, profitability of the large European composite players has been consistently good.

Figure 40. Underwriting profitability remains at high levels



Note: based on Hannover, Munich, Scor, Swiss, Amlin, Catlin, Hiscox, Lancashire  
Source: Company data, Citi Research

Figure 41. Profitability good for major European P&C insurers

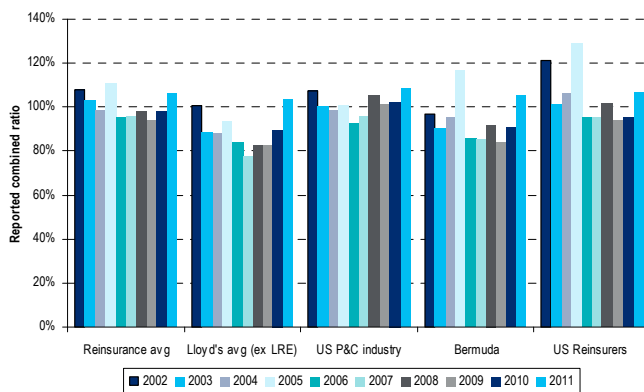


Note: based on ytd CORs at Q2 or Q3 depending on latest available  
Source: Company data, Citi Research

### The US market has delivered weaker u/w results, supporting price increases

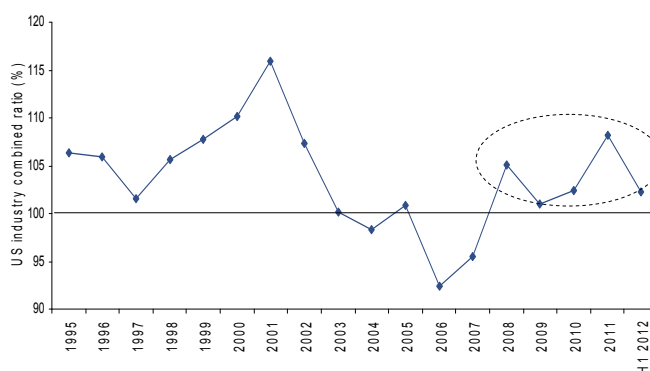
The chart shows underwriting profitability has been strong in recent years across the main P&C re/insurance markets (ie European reinsurers, Lloyd's, Bermuda and US reinsurance). The notable exception to this is the US P&C market, which has been reporting underwriting losses since 2008. This supports our view that pricing for US primary P&C market will continue to be positive in the coming years. Note that US primary insurers have incurred significant losses during 2011 (Hurricane Irene \$5bn insured losses) and 2012 (Hurricane Sandy \$25bn insured losses).

Figure 42. Profitability good in most major P&C markets



Source: Company data, ISO, Lloyd's of London, Citi Research

Figure 43. Profitability of US P&C industry has been poor



Source: ISO, Citi Research

### Three reasons to be positive on pricing in medium term

#### Reasons to be positive in medium term:

1. Capital inflated by unrealised gains
2. U/W returns need to offset lower yields
3. Reserve release likely to decline

We believe that the market consensus is relatively bearish on the outlook for re/insurance pricing in 2013 and beyond. This is based on the commonly held view that industry capital levels are high and that growth aspirations will put pressure on future pricing and underwriting profitability. We see three reasons to be more positive than consensus on the outlook for pricing and underwriting profitability in the medium term:

- 1. Industry capital levels are inflated by unrealised gains
- 2. Underwriting returns need to offset lower yields
- 3. Reserve releases are likely to decline

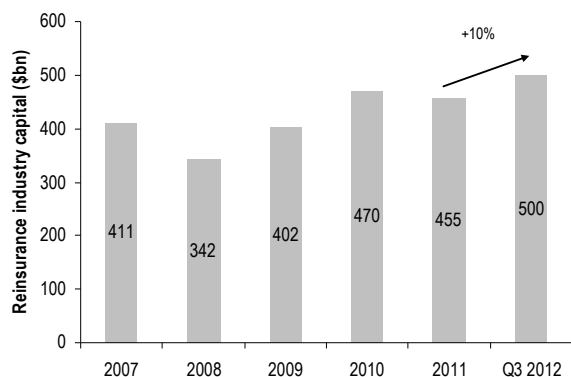
#### 1. Industry capital levels are inflated by unrealised gains

##### IFRS equity inflated by unrealised gains which could unwind and pressure capital

Most commentators argue that the re/insurance sector is significantly overcapitalised. This is generally based on aggregated IFRS equity across the industry. However, IFRS equity includes the benefit of material unrealised gains on fixed income portfolios in the last 18 months due to reductions in interest rates. Over time, we would expect these gains to unwind (rather than be realised) as bonds mature at par, and this will put pressure on IFRS capital levels.

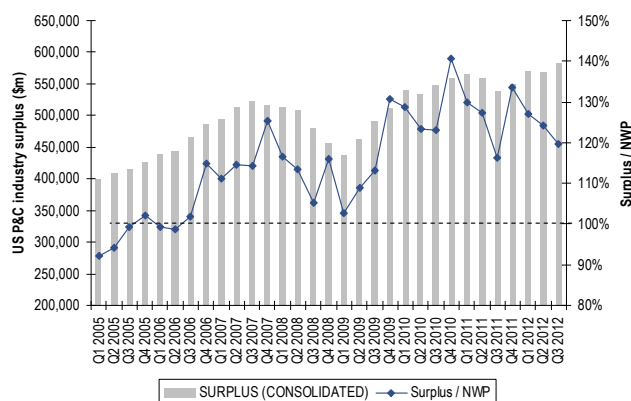
- Global reinsurance industry capital levels are at record highs on an IFRS basis (\$500m at Q3 2012), although this has been inflated by unrealised gains,
- The US primary P&C industry surplus is at record highs (\$576bn at Q3 2012) capital, although it is interesting to note that strong growth has led the ratio of capital to premiums to decline.

Figure 44. Reinsurance capital levels are high though flattered by gains



Source: Aon Benfield, Citi Research

Figure 45. US industry capital levels are high though declining vs NWP



Source: ISO, Citi Research

##### Pressure on IFRS equity could be a positive catalyst for pricing

It is clear that capital levels in the reinsurance and primary insurance sector are not stressed, which has historically been the key catalyst for price increases. Furthermore, most listed players run their businesses based on sophisticated economic capital models, which already reflect the impact of low interest rates. However, we suspect the industry hasn't fully appreciated the potential drag on IFRS capital if unrealised gains unwind. Consequently, we believe that a decline in IFRS equity would have a positive impact on the pricing environment.

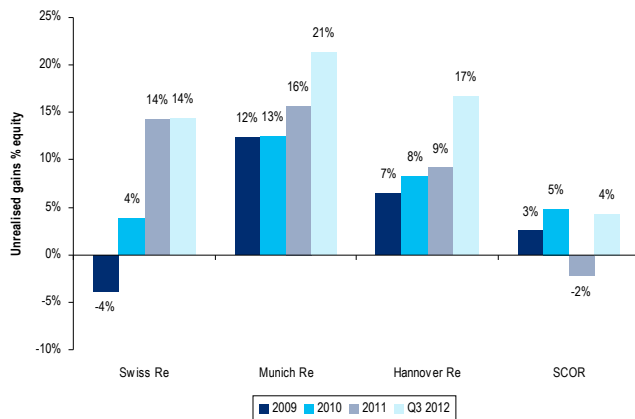
##### Reinsurers' IFRS book value growth will be constrained if gains unwind

Unrealised gains affect reinsurers much more than Lloyd's vehicles, since they have significantly longer fixed income duration. Reinsurers are consequently also more at risk from the potential reversal of these gains since this will constrain growth in IFRS book value (their economic solvency positions are not threatened).

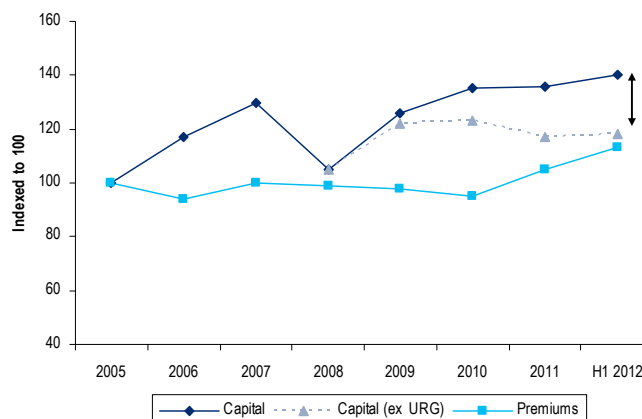
**Reinsurance equity includes 4-21% unrealised gains at Q3 2012**

In order to demonstrate the impact of unrealised gains, we have shown the proportion of IFRS equity that is represented by unrealised gains for the reinsurers below. The chart shows that equity for reinsurers is increased by 4-21% from realised gains at Q3 2012. These gains have increased substantially since 2009. Gains are greatest for Hannover Re, Munich Re and Swiss Re because these have relatively longer asset durations. Scor has taken the decision to reduce its asset duration early in the crisis so unrealised gains are modest. The second chart shows a similar impact from unrealised gains for the global reinsurance industry.

**Figure 46. Unrealised gains increasing capital levels significantly**



**Figure 47. Global reinsurance capital inflated by unrealised gains**



Note: only includes on balance sheet gains. Source: company data, Citi Research

Source: Swiss Re, Citi Research

**Unrealised gains will unwind as bonds mature, unless they are realised which will lock in lower returns in future**

In our view, the key issue is that the benefit to reported IFRS equity from unrealised gains is temporary, since these bonds will eventually redeem at par if they are held until maturity. Consequently, the companies have two choices:

- Continue to hold the bonds and receive coupons at levels that are higher than available currently, but accept the adverse impact on equity of a gradual pull to par as the portfolio matures
- Realise these gains by selling the bonds, but immediately reinvesting proceeds at lower yields and potentially locking in lower investment returns in the future and for a longer period of time

## 2. Underwriting returns need to offset lower yields

**U/w returns must improve since ROEs are depressed by low investment returns**

We believe there is increasing recognition across the industry that underwriting returns need to improve in order to offset the loss of investment income from the fall in bond yields. Investment returns are a key driver of earnings for the sector and bond yields have continued to fall further during 2012. To illustrate the significance of this to the sector, we have included a chart that shows the relationship between ROE and the key operating variables of i) combined ratio and ii) investment return.

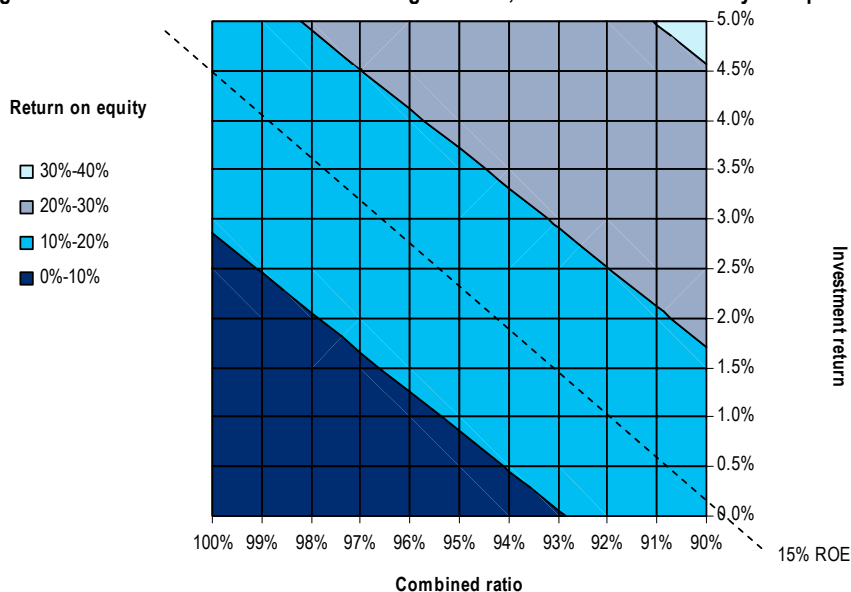
**2.5% COR improvement needed to offset 1% lower investment return at same ROE**

Using the typical relationship for a reinsurer between premiums and investments to capital (2x and 5x respectively), we show that for every 1% fall in investment returns the sector needs to improve its COR by 2.5% to retain the same ROE. Our view is that management teams across the sector are acutely aware of this dynamic and we notice the significance of low interest rates is increasingly mentioned in strategic updates across the sector.

**Improving underwriting returns is the main lever to sustain ROEs**

Management teams are largely compensated by ROE and they have few other levers to enhance returns in a low interest rate environment (we think significant re-risking of investment portfolios is unlikely). Consequently, we expect pricing momentum should continue to gradually improve.

Figure 48. Lower investment returns are a drag on ROEs, which should be a catalyst for pricing



Note: based on i) 5x investments to capital, ii) 2x premiums to capital, iii) 30% tax. Source: Citi Research

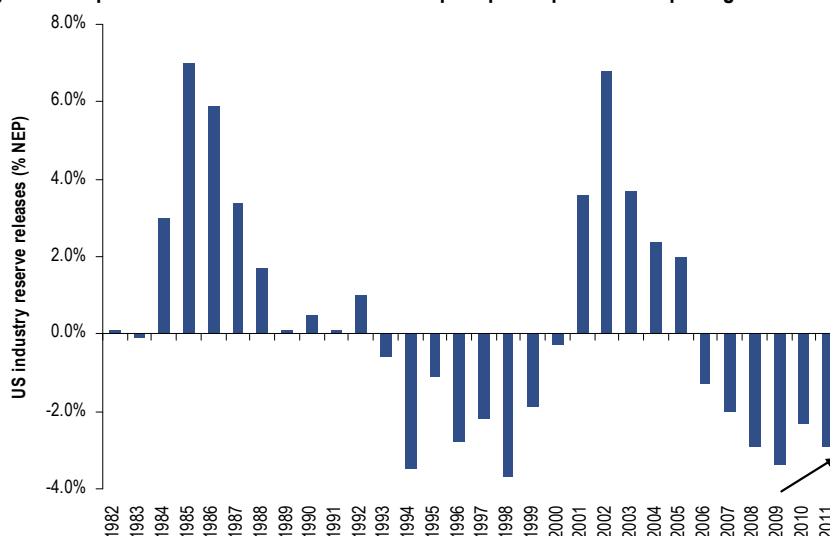
### 3. Reserve releases are likely to decline

Reserve releases across the re/insurance industry have held up better than most expected. This has allowed companies to subsidise lower profitability of business in recent years. In our view, it is likely that the contribution to underwriting results from reserve releases will begin to decline. This will put pressure on profitability levels and could therefore be a positive catalyst for pricing in the medium term.

US P&C industry has benefited from consistent releases which may slow

The chart below shows the significant contribution of reserve releases to US primary P&C industry underwriting profitability. Although reserving adequacy varies by region/line of business, this is the best proxy available. We believe it is likely that the stock of redundant reserves has been considerably depleted. Consequently, we would expect these releases to slow in the coming years.

Figure 49. Expect reserve releases to decline and put upward pressure on pricing



Note: -ve represents releases. Source: AM Best, Citi Research

## Theme #2 – Cautious on investment returns

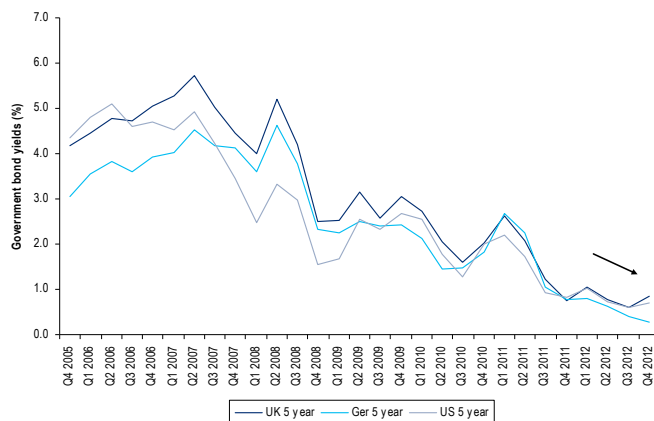
- We believe low interest rates are a key issue for the insurance sector. Re/insurers took action and returns held up reasonably well in 2012, but the earnings pressure will come.
- The ability to re-price annually is an advantage in a sector context. But reinsurers will see sustained declines in running yields as bonds mature (-20 to -30 bps pa).
- Lloyd's insurers are better positioned since consensus already reflects low interest rates and they are more geared to underwriting returns.
- The ability to modestly re-risk investments to compensate for low rates should be a differentiator. Swiss Re and Scor stand out in this regard

### Interest rates have continued to fall during 2012

Risk-free rates fell 40-50bps in 2012, putting further pressure on profitability

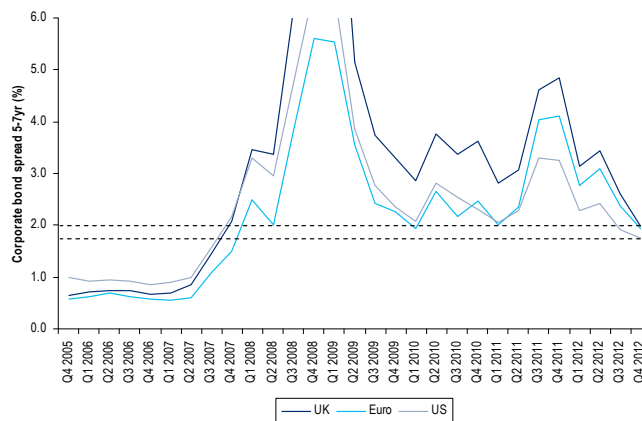
A sustained period of low interest rates is one of the major risks to the European insurance sector, given its high asset leverage and allocation to fixed income investments. During 2012, the main risk-free rates continued to decline by 40-50bps and credit spreads in major markets reached the lowest level since the crisis began. This puts pressure on the ability of re/insurers to generate reasonable investment returns. The reduction in interest rates has not led to a compensating decline in the sector's cost of capital, in our view. The charts below show the reduction in risk-free rates and credit spreads in the major markets for the sector.

Figure 50. Key risk free rates have fallen further in 2012



Source: Datastream, Citi Research

Figure 51. Credit spreads declined significantly in 2012



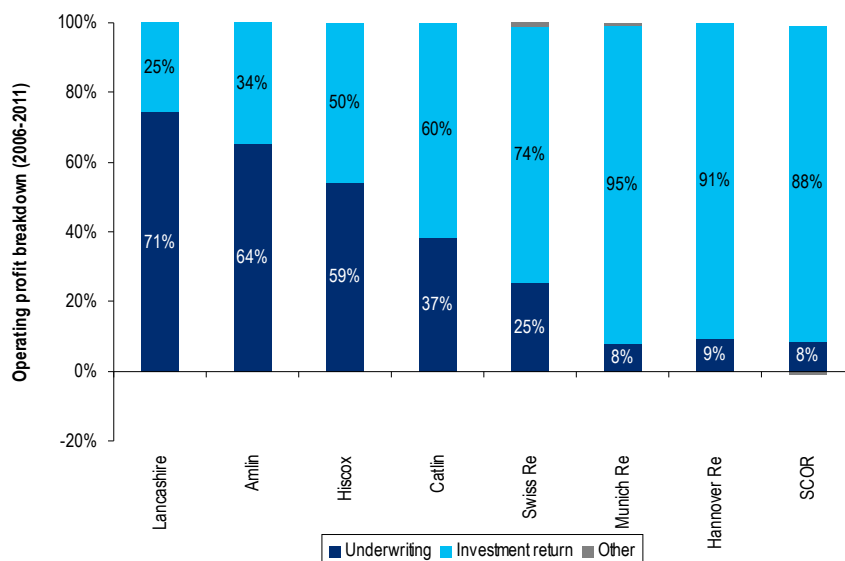
Source: Datastream, Citi Research

### Lower investment returns are a significant drag on ROEs

Investment returns are a key contributor to profits

Operating profits for most insurance companies depend heavily on investment returns and consequently a sustained period of low interest rates is an issue for the sector. The dependence on investment returns is greater for reinsurers than Lloyd's vehicles. The chart below shows the significant contribution from investment returns operating profits for the companies covered in this report.

Figure 52. Investment returns are a key driver of operating profits (especially for reinsurers)



Note: median profit contribution between 2006 and 2011. Reinsurers based on P&C reinsurance business only. For Lloyd's vehicles all "other costs" allocated to underwriting. Source: Company data; Citi Research

**Investment returns more significant for reinsurers (87% profits) than Lloyd's vehicles (42%)**

- For **European reinsurers**, investment returns are the most significant contributor at average 87% operating profits (for P&C reinsurance) between 2006 and 2011. This reflects the longer duration of their bond portfolios and means that current investment performance doesn't yet fully reflect low interest rates (reinvestment rates are 2-2.5%)
- For **Lloyd's vehicles**, underwriting is the key driver of profits at average 58% during the same period. Furthermore the shorter duration of their fixed income portfolios (1.5 – 2.5 years) means that their current investment returns already reflect the impact of low interest rates.
- Note that the period covered includes **two years of significant catastrophe losses** (ie 2008 and 2011), which lower the contribution from underwriting profits.

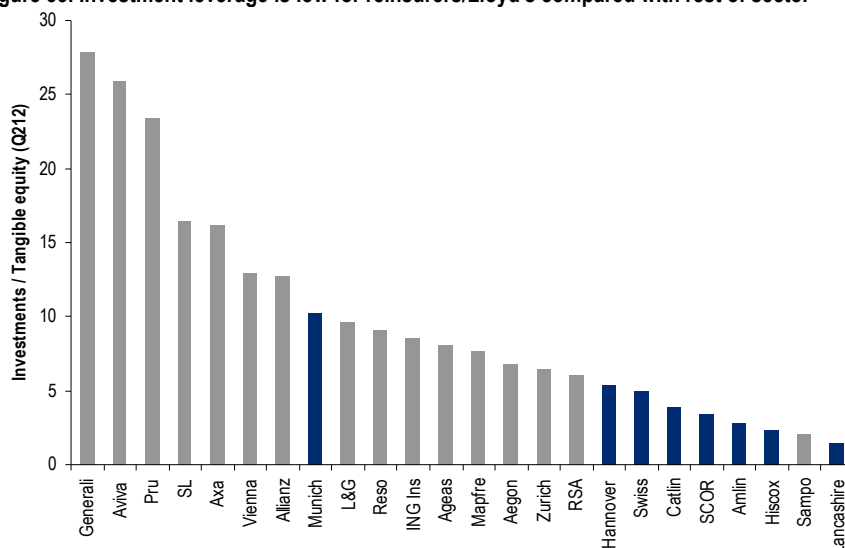
### Reinsurers / Lloyd's vehicles are defensive in sector context

**Lower investment leverage makes the sector defensive**

A sustained period of low interest rates is an issue for the entire insurance sector. The chart below shows the high investment leverage across the sector (ie investments relative to tangible equity). It highlights that the reinsurance and Lloyd's sectors have considerably lower investment leverage compared with the broader insurance sector. This is a result of their shorter duration liabilities (note Munich Re is affected by Ergo's life business). It means that the P&C reinsurance sub-sector is relatively more defensive in the context of volatile investment markets, which drives its lower beta compared with life insurance/composite names.



Figure 53. Investment leverage is low for reinsurers/Lloyd's compared with rest of sector



Source: Company data, Citi Research

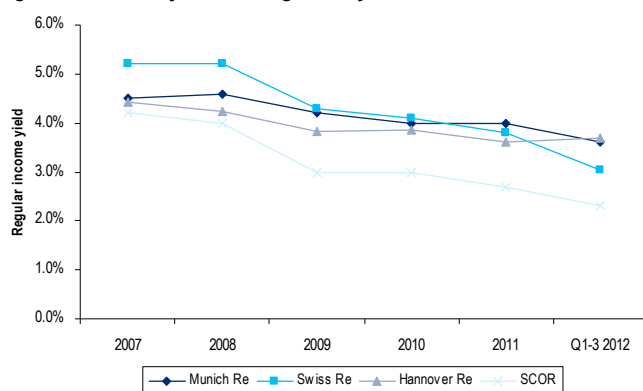
### Reinsurers and Lloyd's vehicles have responded to low interest rates

**Sector has taken action by increasing duration and corporate bond allocations**

Reinsurers and Lloyd's players have taken action to reduce the impact of extremely low interest rates, although this has varied somewhat by company.

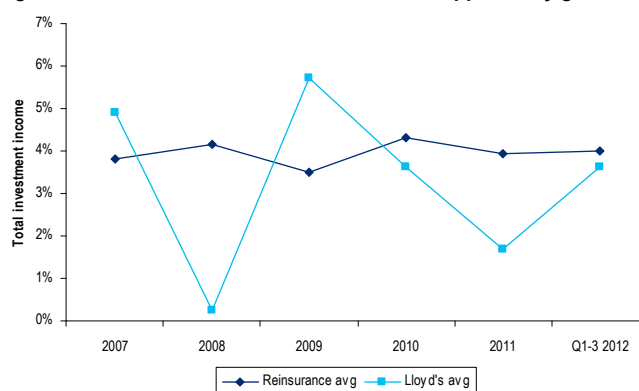
- Reinsurers have generally increased their allocation to corporate credit and lengthened the duration of their fixed income portfolios to combat low interest rates. The chart below shows that regular income yields have gradually declined, although total investment performance has benefitted from (sometimes considerable) realised gains.
- Note that Scor has pursued a difference strategy to peers. It has reduced the duration of its portfolio and increased allocation to cash as part of a defensive asset allocation. Swiss Re also significantly de-risked its investment portfolio during 2008.
- The Lloyd's vehicles are different from the reinsurers in that they MTM their entire portfolios through P&L. Consequently, their reported investment returns have been far more volatile (see second chart). They have also reinvested at lower rates more quickly than the reinsurers.

Figure 54. Income yields have gradually declined



Note: income yield, excluding realised gains. Source: Company data, Citi Research

Figure 55. Total investment returns have been supported by gains



Note: total investment returns, including gains. Source: Company data, Citi Research

**Lloyd's forecasts front load recognition of lower investment returns**

**Guidance suggests yields will decline 10-30bps per annum for the reinsurers**

**Expect continued pressure on investment returns**

For the Reinsurers, we expect an ongoing drag on earnings as the running yields of fixed income portfolios decline. By contrast, our forecasts for the Lloyd's vehicles already assume returns of ~1.5%, so they have effectively front loaded the impact of low interest rates.

We have included a table showing the key investment income metrics for the reinsurers as reported during Q3 2013. We highlight the following points:

- The duration of fixed income portfolios varies considerably. Munich and Swiss Re have the longest duration fixed income portfolios, although we note that Swiss Re also holds significant amounts of cash which would lower its overall duration. Scor has the shortest duration portfolio following its conservative positioning
- Running yields are still significantly above reinvestment rates. This highlights the risk of a period of sustained low interest rates.
- We include guidance provided from companies for the reduction in regular investment yields. These range from 10-15bps for Hannover Re to 20-30bps for Swiss Re and Munich Re. Scor hasn't provided guidance, although it is unlikely to see further reductions given that its current yield and reinvestment rates are broadly similar.
- Note that reinsurers also have derivative hedging strategies in place which help to deal with the impact of low interest rates.

**Figure 56. Key investment return metrics reported by reinsurers**

Q3 2012	Swiss Re	Munich Re	Hannover Re	SCOR
Asset duration - fixed income (yr)	7.8	7.5	4.4	2.8
Liability duration (yr)	8.2	8.5	4.5 - 5.0	5.0
Q3 Running yield - fixed income	3.10%	3.50%	3.70%	1.90%
Expected decline in yield (annual)	24bps	20-30bps	10-15bps	
Reinvestment rate	2.00%	2.30%	2.50-3.00%	1.80%

Source: Company data and Citi Research

**It's likely some don't realise the extent CORs need to improve to offset low yields**

**Example: CORs need to improve 2.5% to offset 1% fall in investment returns**

**U/W results need to get significantly better to offset falling yields**

It is clear that the re/insurance sector is aware of the drag from low interest rates on ROEs. The rhetoric from companies is consistent that better underwriting results are needed to offset lower investment returns. However, we think it is likely that some players in the market don't realise the extent to which underwriting returns need to get better. Furthermore, since the drag from low interest rates is gradual for many players (especially reinsurers vs Lloyd's players), it is possible that many are hoping for an improvement in interest rates.

The chart below shows a practical example of the relationship between underwriting and investment result for an example company. Based on our assumptions (which are broadly meant to reflect the larger reinsurers), we show that combined ratios need to improve by 2.5% over the next 5 years to offset a 20bps fall in the running yield of investment portfolios.

Figure 57. Example of how much better u/w results need to get to maintain stable ROEs

Year	0	1	2	3	4	5	Total
Premiums	200	200	200	200	200	200	
COR	97.0%	96.5%	96.0%	95.5%	95.0%	94.5%	-2.5%
Change in COR		-0.5%	-0.5%	-0.5%	-0.5%	-0.5%	
<b>Underwriting result</b>	<b>6.0</b>	<b>7.0</b>	<b>8.0</b>	<b>9.0</b>	<b>10.0</b>	<b>11.0</b>	
Investments	500	500	500	500	500	500	
Reported yield	3.5%	3.3%	3.1%	2.9%	2.7%	2.5%	-1.0%
Change in yield		-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	
<b>Investment income</b>	<b>17.5</b>	<b>16.5</b>	<b>15.5</b>	<b>14.5</b>	<b>13.5</b>	<b>12.5</b>	
PBT	23.5	23.5	23.5	23.5	23.5	23.5	
<b>Net income</b>	<b>16.5</b>	<b>16.5</b>	<b>16.5</b>	<b>16.5</b>	<b>16.5</b>	<b>16.5</b>	
Equity	100	100	100	100	100	100	
<b>ROE</b>	<b>16.5%</b>	<b>16.5%</b>	<b>16.5%</b>	<b>16.5%</b>	<b>16.5%</b>	<b>16.5%</b>	

**Assumptions**

Reinvestment yield	2.50%
Asset duration	5.0
Investments / capital	5.0
Premiums / capital	2.0
Tax	30%

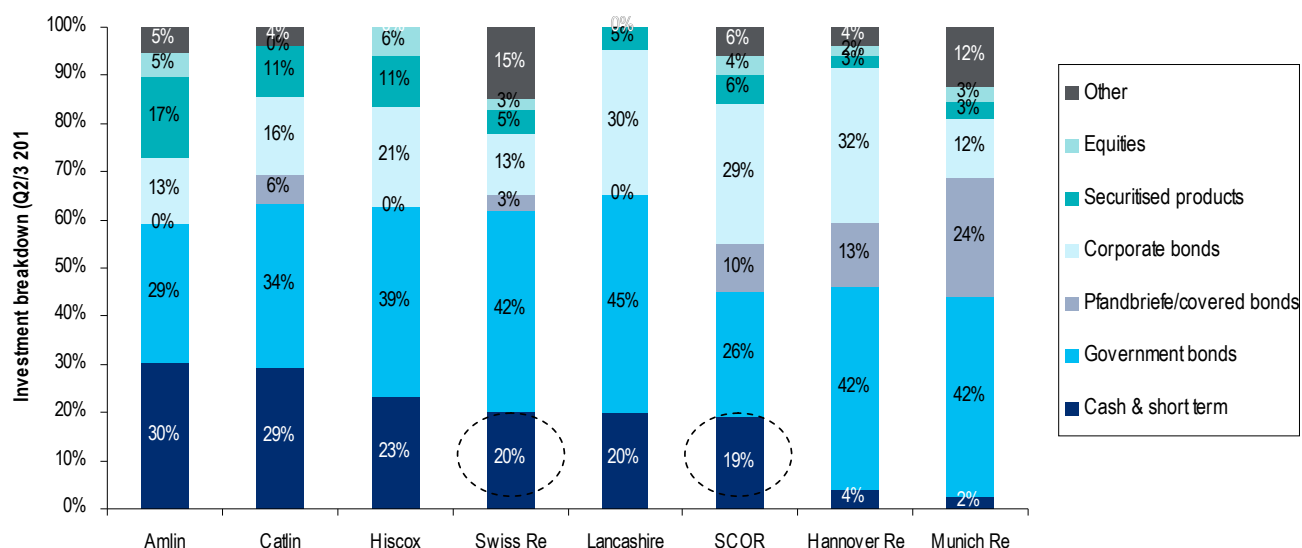
Source: Citi Research

**Prefer companies with ability to re-risk**

Swiss Re and Scor could re-risk cash holdings to offset interest rates

Given the pressure from low interest rates, we believe companies that have the ability to modestly re-risk their investments may have an advantage. The chart below shows those companies with the greatest allocation to cash. The Lloyd's vehicles tend to have a higher allocation to cash due to their exposure to volatility catastrophe claim payments. Among the reinsurers, Swiss Re and Scor stand out as having unusually high allocation to cash.

Figure 58. Asset allocation highlights companies with greatest ability to re-risk their portfolios



Note: as at Q2/Q3 depending on latest data. Excludes WP and UL assets. Source: Company data, Citi Research

## Theme #3 – Opportunities for capital mgt

- Solvency positions across the re/insurance space are robust (rather than excessive). Hurricane Sandy simply meant 2012 was a 'normal' cat year
- We expect growth in regular dividends across the sector and additional capital management action from Swiss Re, Hannover Re, Hiscox, and probably Lancashire.
- We believe the market will increasingly reward companies that actively manage capital with higher valuations.
- We highlight the attractive dividend yields on offer in the sector (Reinsurers 5%, Lloyd's 6%) and note that most companies have shown a clear commitment to dividends despite major catastrophe losses.

### Expect capital management from several players

Expect growth in regular dividends across the sector and capital mgt from select players

In our view, dividend yields for the re/insurance sector continue to be attractive (Reinsurers 5% and Lloyd's 6%). In addition to growth in regular dividends, we are expecting a number of companies to take capital management action around the time of full year 2012 results. We set out our expectations below:

- **Swiss Re:** we expect the regular dividend to increase to CHF 3.3 from CHF 3.0. We also expect a special dividend of \$1bn or CHF2.7 per share. This would take the combined yield of the stock to 8.8% for 2012.
- **Hannover Re:** we expect the Hannover Re to increase the regular dividend to €2.9 per share. This implies a payout ratio of 41% which is ahead of its guided range of 35-40%. This implies a yield of 4.9% for 2012.
- **Hiscox:** we expect a special dividend of £100m or 26p per share. Combined with a 5% increase in the regular dividend to 19p, this implies a 9.5% yield for 2012.
- **Lancashire:** the group already announced a \$145m or \$0.9 per share special dividend with Q3 results in November. Given that Lancashire opportunistically raised \$130m debt capital in H2 2012, we believe it is possible that Lancashire will consider another special dividend in early 2013.

### Solvency positions are robust

Solvency positions remain robust and skewed towards sophisticated players

As we have argued in a separate section, we think the sector is not as overcapitalised on an IFRS basis as many suggest. However, we believe that capital strength across the industry is skewed towards a few of the more sophisticated players. Furthermore, we believe solvency positions for the Reinsurers and Lloyd's vehicles covered in this report are robust.

The table below shows solvency positions reported by the reinsurers at the end of 2011. Unfortunately these are not disclosed on a consistent basis and we have included the most relevant disclosed measures. The key point is that they indicate a robust level of capital. Solvency positions will have suffered from falling interest rates during 2012, although this should be partly offset by good levels of profitability.

Figure 59. Solvency positions for Reinsurers are robust (2011)

Stock	Solvency Ratio	Basis
Munich Re	194%	Solvency II (99.5% confidence)
Swiss Re*	207%	Swiss Solvency Test
Hannover Re	160%	Economic solvency (99.97% confidence)
Scor	190%	Solvency I

\* as at Q2 2012. Source: Company data, Citi Research

We include a table showing solvency positions for the Lloyd's vehicles. We have estimated capital requirements based on a combination of adjusted disclosures (eg Amlin and Catlin) and historic capital levels (eg Hiscox and Lancashire).

Figure 60. Solvency positions for Lloyd's vehicles (2012E)

Company		NTA	Debt	Prefs	Total capital	Est req capital	Excess capital	Solvency ratio
Amlin	£m	1,305	293	0	1,597	1,382	215	116%
Catlin	\$m	2,248	91	610	2,949	2,480	469	119%
Hiscox	£m	1,286	0	0	1,286	745	542	173%
Lancashire	\$m	1,367	257	0	1,624	1,225	399	133%

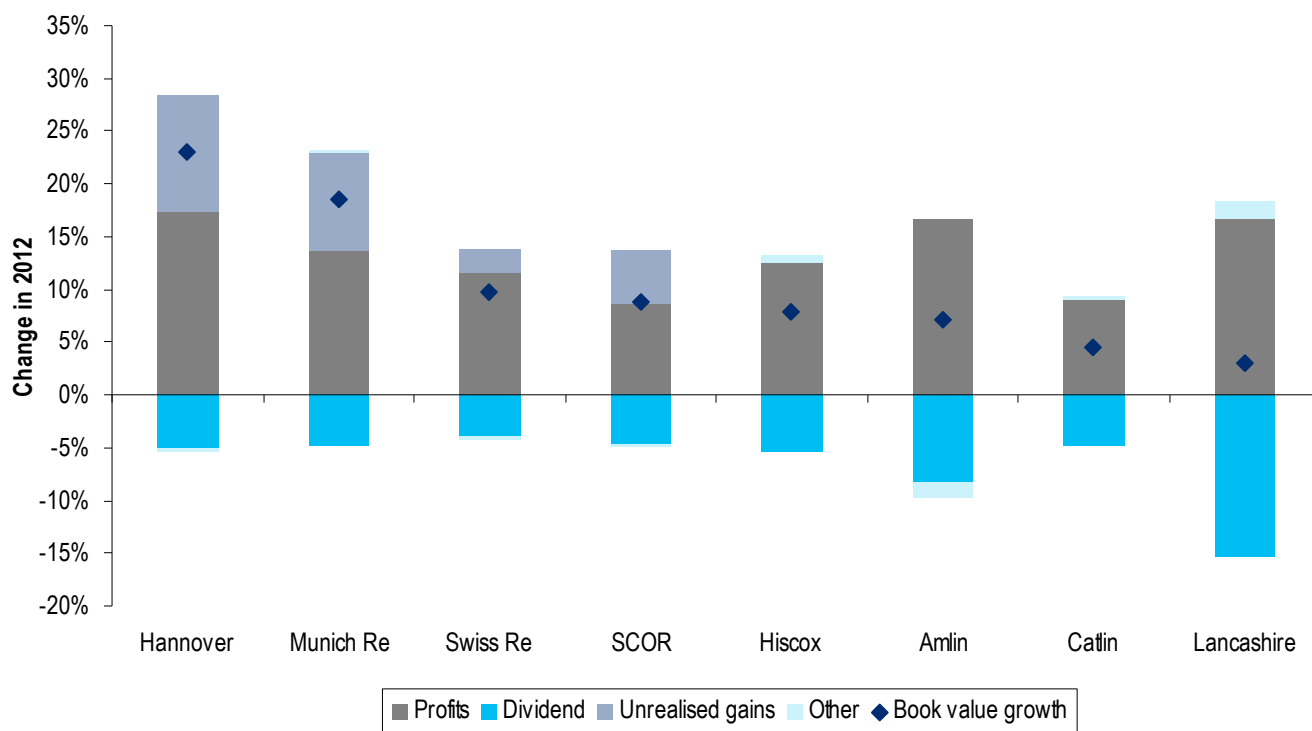
Source: Company data, Citi Research

### Strong capital generation during 2012

#### Forecast strong book value growth during 2012

We forecast strong book value generation during 2012. This has been particularly for the reinsurers helped by unrealised fixed income gains. In the chart below we show the main drivers of book value growth for each for the companies.

Figure 61. Strong book value growth driven by healthy profits and unrealised gains (esp for the reinsurers)

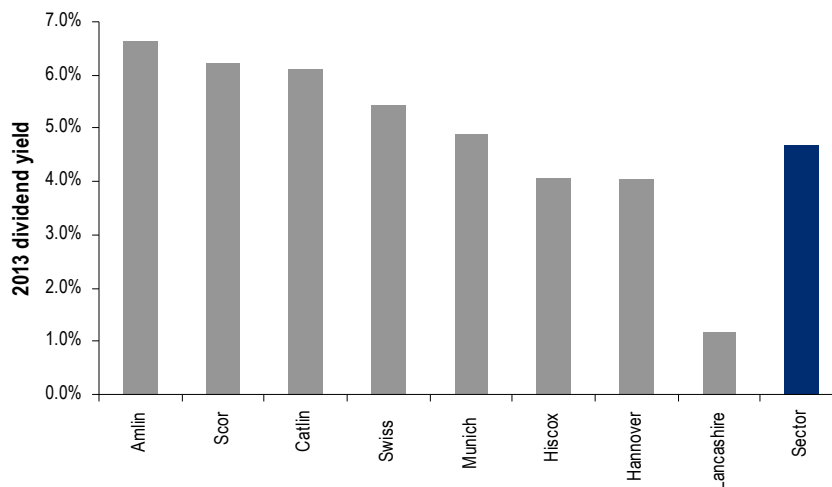


Note: chart shows drivers of change in equity. Source: Company data, Citi Research

## Reliable and attractive dividend yields

The re/insurance sector offers attractive dividend yields, with most companies achieving a yield that is ahead of the sector. The chart below shows dividend yields for each of the companies in the sector.

Figure 62. Attractive dividend yields

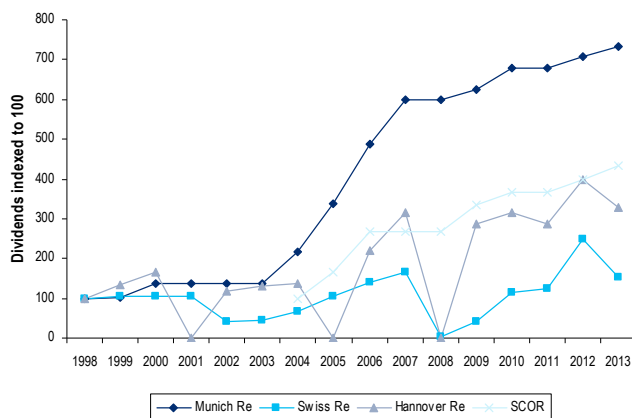


Note: we only assume Lancashire pays a regular dividend, although this is often supplemented by specials.  
Source: Citi Research

We also include two charts showing the historic growth in dividends for the sector (excluding share buybacks).

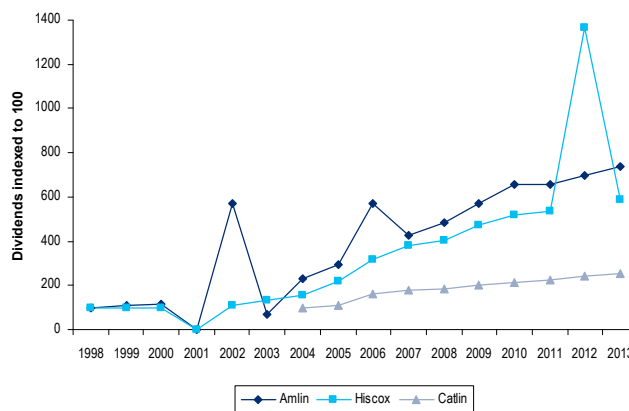
- **Reinsurers** — Munich Re has delivered the most consistent growth in dividends which have been supplemented by buy backs. Scor has also delivered steady dividend growth. Hannover Re has been the most volatile. Swiss Re's dividend was impacted by CDS losses in 2008.
- **Lloyd's vehicles** — The entire sector stands out as having delivered consistent dividend growth since 2001, despite a number of years of severe catastrophes. Amlin has historically supplemented these through special dividends and Hiscox through a buyback programme. Lancashire (excluded from this chart) has got the best capital management track record, having returned >140% of the capital it raised at its 2005 IPO.

Figure 63. Reinsurer dividends indexed to 1998



Source: Company data, Citi Research

Figure 64. Lloyd's vehicle dividends indexed to 1998



Source: Company data, Citi Research

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## Company section

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## Company Focus

- Company Update
- Target Price Change
- Estimate Change

<b>Buy</b>	<b>1</b>
Price (14 Jan 13)	£3.90
Target price	£4.25
from £3.83	
Expected share price return	8.9%
Expected dividend yield	6.3%
<b>Expected total return</b>	<b>15.2%</b>
Market Cap	£1,939M
	US\$3,128M

**Price Performance**  
(RIC: AML.L, BB: AML LN)



## Amlin Plc (AML.L)

### Expect continued high returns

- **Valuation premium regained:** Following a challenging year in 2011, Amlin returned to form during 2012. A more "normal" year for catastrophe losses means that the London and Bermuda businesses should deliver good results (£145m Sandy loss is contained within our £170m cat budget). The turnaround of ACI is performing in line with expectations and the UK motor book is seeing strong price increases. We therefore expect Amlin to return to high levels of profitability. The shares performed well in 2012 (+21%), and it has regained its historic premium valuation at 1.38x 2013E NTA (having traded close to 1.0x NTA in late 2011). We remain positive on the stock for the following reasons:
- **Bull point #1 – Strong cat franchise to benefit from improving rates:** Amlin is a leading player in the London catastrophe market. Amlin already has high exposure to catastrophe business (£540m catastrophe exposed premium or 20% group) where risk adjusted margins continue to be strong. Management has also indicated that it expects to increase its exposures in 2013, partly through purchasing less reinsurance than it did in 2012. We believe Amlin is among the best positioned players to benefit from price increases for catastrophe lines following hurricane Sandy.
- **Bull point #2 – New businesses offer opportunity rather than distraction:** we believe the market has come to terms with the fact that the performance of ACI has been turned around. The troublesome marine portfolio has been re-underwritten and we expect ACI to be close to break even in 2012 from an underwriting point of view, in line with guidance. The newer businesses (ie ACI and Amlin Re Europe) offer Amlin more diversified earnings and greater capital efficiency. From here we think Amlin's newer businesses could be a source of positive surprise to consensus expectations. We believe that setting up a new US casualty reinsurance business now also puts Amlin in a good position to benefit from further improvements in casualty pricing in the future.
- **Bull point #3 – Expect continued high returns:** Amlin has the strongest long term ROE track record in the sector, driven by excellent underwriting returns. We expect Amlin to generate sector leading returns over the coming years (17% RONTA in 2013 vs sector 13%). We also note that Amlin offers the most attractive dividend yield in the sector (6.6% in 2013).
- **Updating estimates and target price:** We have increased our 2012E EPS by 7% to 48.0p to reflect a greater than expected investment returns and reserve releases. We have lowered our 2013E EPS to 44p to assume 1.7% rather than 2.2% investment return. Our TP has increased to 425p to reflect roll forward of book and better earnings prospects for Bermuda (pricing) and ACI (restructuring).

#### Amlin Plc (GBP)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Profit Before Tax (£M)	259.2	-193.8	270.4	266.0	278.6
Diluted EPS (p)	44.4	-30.3	48.0	44.1	46.2
Diluted EPS (Old) (p)	44.4	-30.3	44.7	47.9	49.2
PE (x)	8.8	-12.9	8.1	8.8	8.4
DPS (p)	23.0	23.0	24.4	25.8	27.4
Net Div Yield (%)	5.9	5.9	6.3	6.6	7.0
Embedded Value Per Share (p)	350.6	287.2	307.5	326.8	346.7
Price / EVPS (x)	1.1	1.4	1.3	1.2	1.1



# Amlin (Buy) – A Snapshot

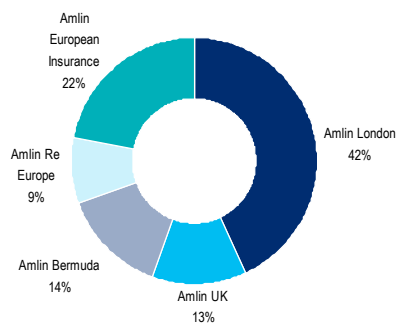
## Bull Points

- Strong catastrophe franchise well-positioned to benefit from better pricing
- Sector leading longer term underwriting track record
- Potential for upside surprise from new businesses (eg Amlin Re Europe)
- Forecast sector-leading total shareholder returns, including 6.7% yield

## Bear Points

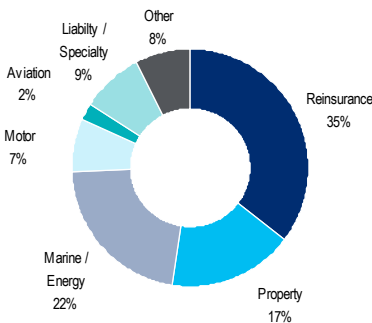
- Valuation at 1.38x 2013E NTA has recovered strongly
- Investors remain skeptical towards the performance of ACI
- Amlin is still rebuilding its capital buffers, so is not likely to make a capital return for 2012 (unlike Hiscox and Lancashire)

Figure 65. Premiums by division (H1 2012)



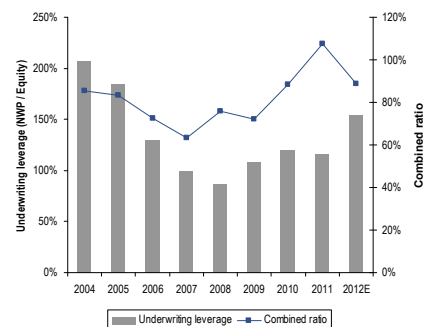
Source: Company data; Citi Research

Figure 66. Premiums by product (2011)



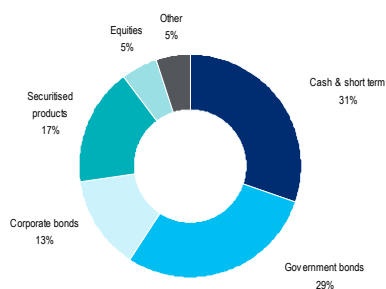
Source: Company data; Citi Research

Figure 67. U/W leverage and combined ratio



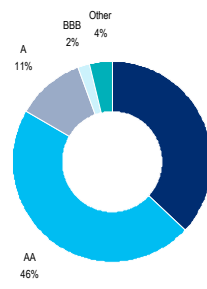
Source: Company data; Citi Research

Figure 68. Group investment mix (H1 2012)



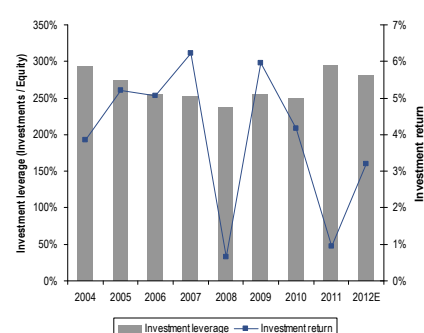
Source: Company data; Citi Research

Figure 69. Fixed income ratings (H1 2012)



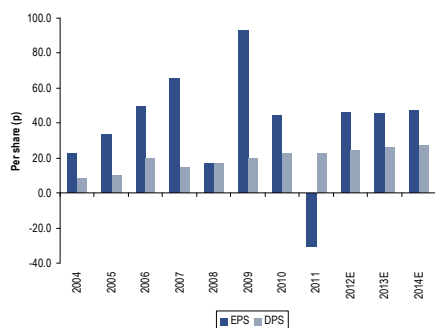
Source: Company data; Citi Research

Figure 70. Investment leverage and yield



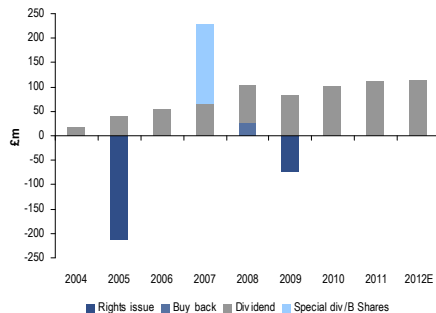
Source: Company data; Citi Research

Figure 71. EPS and DPS reported



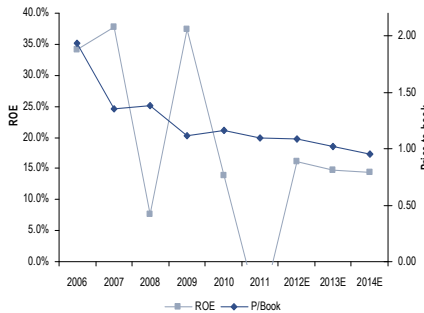
Source: Company data; Citi Research

Figure 72. Capital management record



Source: Company data; Citi Research estimates

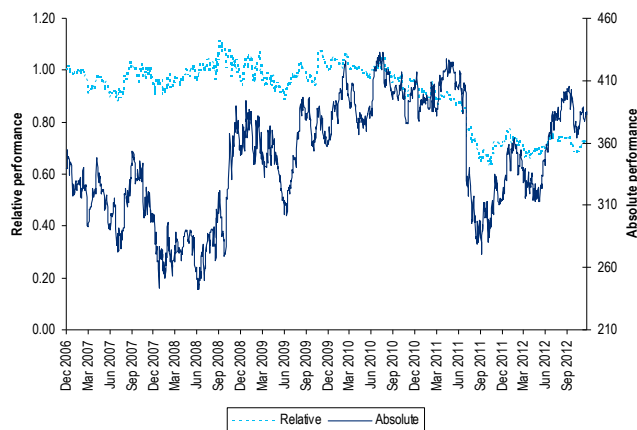
Figure 73. ROE vs P / Book



Source: Company data; Citi Research

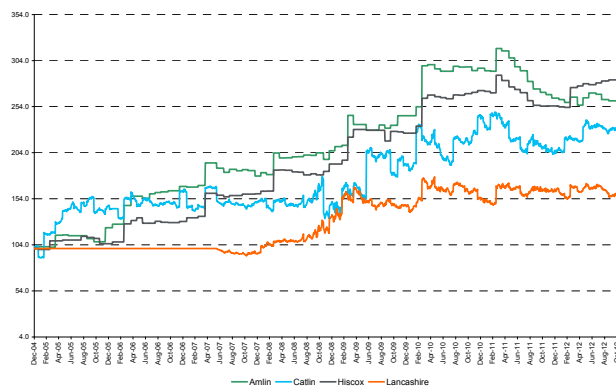
## Amlin (Buy) – Trading metrics

Figure 74. Absolute and relative share price performance



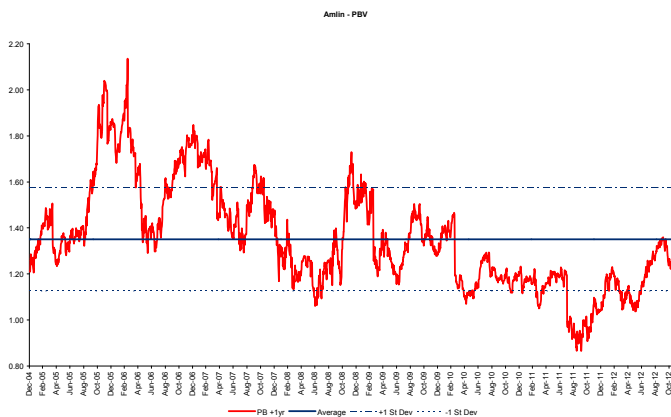
Source: Datastream, IBES, Citi Research

Figure 75. BPS revisions for peers (+1 year consensus)



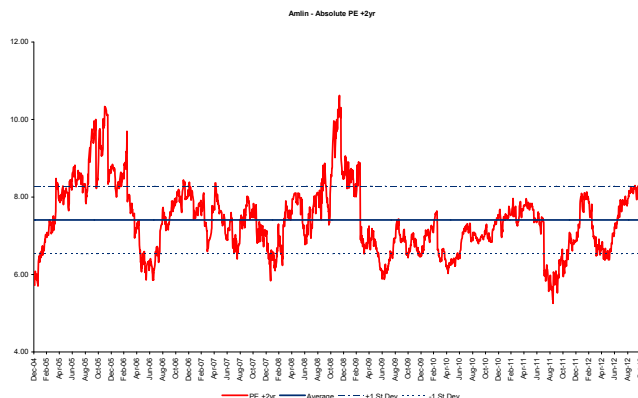
Source: Datastream, IBES, Citi Research

Figure 76. Price to Book (+1 year consensus)



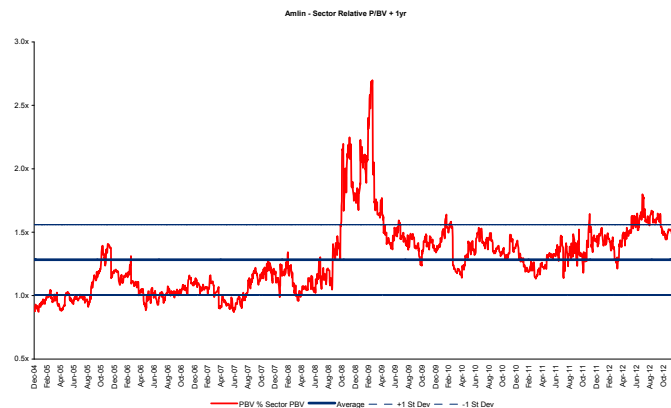
Source: Datastream, IBES, Citi Research

Figure 77. Price to Earnings (+2 year consensus)



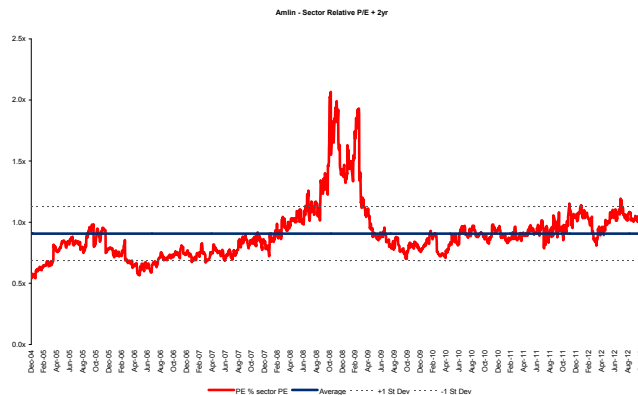
Source: Datastream, IBES, Citi Research

Figure 78. Price to Book (relative to sector)



Source: Datastream, IBES, Citi Research

Figure 79. Price to Earnings (relative to sector)



Source: Datastream, IBES, Citi Research

Figure 80. Amlin P&L forecasts

AMLIN P&L (£m)	2010	2011	2012E	2013E	2014E
Gross written premiums	2,173	2,304	2,640	2,725	2,805
Reinsurance premium	-262	-291	-396	-354	-365
Net premium written	1,910	2,013	2,244	2,371	2,440
Change in net UPR	-162	-86	-104	-95	-100
<b>Net earned premiums</b>	<b>1,748</b>	<b>1,927</b>	<b>2,140</b>	<b>2,275</b>	<b>2,340</b>
Net insurance claims	-1,059	-1,499	-1,254	-1,304	-1,334
Acquisition costs	-339	-380	-433	-462	-477
Other u/w expenses	-142	-200	-214	-229	-235
FX (underwriting)	-6	6	0	0	0
<b>Underwriting result</b>	<b>202</b>	<b>-146</b>	<b>239</b>	<b>280</b>	<b>294</b>
<b>Investment return</b>	<b>175</b>	<b>41</b>	<b>134</b>	<b>74</b>	<b>76</b>
<b>Other income</b>	<b>6</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>9</b>
Employee expenses	-22	-16	-19	-22	-24
Employee incentives	-28	-10	-25	-21	-22
Asset management fees	-6	-7	-8	-9	-10
Other administrative expenses	-18	-16	-16	-16	-16
ACI integration costs	-17	-17	-15	0	0
<b>Other expenses</b>	<b>-90</b>	<b>-65</b>	<b>-83</b>	<b>-68</b>	<b>-72</b>
FX (group)	-7	-4	0	0	0
Finance costs	-27	-28	-28	-28	-28
<b>Profit before tax</b>	<b>259</b>	<b>-194</b>	<b>270</b>	<b>266</b>	<b>279</b>
Tax	-37	44	-33	-48	-50
<b>Net income</b>	<b>222</b>	<b>-150</b>	<b>238</b>	<b>218</b>	<b>228</b>

Source: Company data, Citi Research

Figure 81. Amlin change in equity

CHANGE IN EQUITY	2010	2011	2012E	2013E	2014E
<b>Opening equity</b>	<b>1,593</b>	<b>1,730</b>	<b>1,420</b>	<b>1,521</b>	<b>1,616</b>
Profit	222	-150	238	218	228
Hedge instruments	-4	2	2	0	0
FX on overseas operations	21	-37	-22	0	0
FX on intangibles	-3	-2	-2	0	0
Pensions	6	-18	-1	0	0
Tax on comprehensive income	5	6	0	0	0
Employee share options	-7	2	2	0	0
Dividends	-103	-114	-116	-123	-130
Rights issue proceeds	0	0	0	0	0
Return of capital	0	0	0	0	0
Other	0	0	0	0	0
<b>Closing equity</b>	<b>1,730</b>	<b>1,420</b>	<b>1,521</b>	<b>1,616</b>	<b>1,714</b>
Equity	1,730	1,420	1,521	1,616	1,714
Intangibles	185	219	216	216	216
<b>Net tangible assets</b>	<b>1,545</b>	<b>1,202</b>	<b>1,305</b>	<b>1,400</b>	<b>1,498</b>

Source: Company data, Citi Research

Figure 82. Amlin underwriting returns

AMLIN GROUP	2010	2011	2012E	2013E	2014E
GWP	2,173	2,304	2,640	2,725	2,805
Reinsurance premiums	-262	-291	-396	-354	-365
NWP	1,910	2,013	2,244	2,371	2,440
Net change in UPR	-162	-86	-104	-95	-100
NEP	1,748	1,927	2,140	2,275	2,340
Insurance claims	-1,059	-1,499	-1,254	-1,304	-1,334
Acquisition costs	-339	-380	-433	-462	-477
Underwriting expenses	-148	-194	-214	-229	-235
<b>Underwriting profit</b>	<b>202</b>	<b>-146</b>	<b>239</b>	<b>280</b>	<b>294</b>
<b>Attritional loss ratio</b>	<b>57%</b>	<b>58%</b>	<b>53%</b>	<b>53%</b>	<b>53%</b>
Large losses (£m)	223	501	211	170	170
Large losses	13%	26%	10%	7%	7%
Reserve release (£m)	157	112	90	80	70
Reserve movement	-9%	-6%	-4%	-4%	-3%
<b>Loss ratio</b>	<b>61%</b>	<b>78%</b>	<b>59%</b>	<b>57%</b>	<b>57%</b>
Acq cost ratio	19%	20%	20%	20%	20%
Expense ratio	8%	10%	10%	10%	10%
<b>Combined ratio</b>	<b>88%</b>	<b>108%</b>	<b>89%</b>	<b>88%</b>	<b>87%</b>

Source: Company data, Citi Research

Figure 83. Amlin valuation

	Capital	ROC	COC	P/Book	Earnings	P/E	Valuation	Per share
London	609	17.4%	10.2%	1.79	117	9.3	1,087	220
UK	176	9.4%	8.7%	1.09	6	32.0	191	39
Bermuda	557	16.9%	10.2%	1.73	94	10.2	961	194
Anglo French	26	10.4%	9.0%	1.17	3	11.3	31	6
ACI	229	5.7%	9.6%	0.54	9	13.6	124	25
<b>Total</b>	<b>1,597</b>	<b>14.5%</b>	<b>9.9%</b>	<b>1.50</b>	<b>229</b>	<b>10.5</b>	<b>2,394</b>	<b>484</b>
Debt							-290	-59
<b>Valuation</b>							<b>2,104</b>	<b>425</b>

Source: Company data, Citi Research

## Company Focus

- Company Update
- Target Price Change
- Estimate Change

<b>Buy</b>	<b>1</b>
Price (14 Jan 13)	£5.08
Target price	£5.67
from £4.78	
Expected share price return	11.7%
Expected dividend yield	6.2%
<b>Expected total return</b>	<b>17.9%</b>
Market Cap	£1,836M
	US\$2,962M

**Price Performance**  
(RIC: CGL.L, BB: CGL LN)



## Catlin Group Ltd (CGL.L)

### Expect valuation gap with peers to close

- **Valued at 20% discount to peers unjustified:** Despite being the best-performing Lloyd's stock in 2012, Catlin is still the most attractively valued Lloyd's insurer (1.20x 2013 NTA vs peers on 1.4x). It has traded at average 20% discount to peers since 2007. Catlin's historic valuation discount was justified by its more volatile operating performance compared with peers. However, we think the current valuation is unjustified because i) we don't think Catlin receives credit for growing its business, whilst improving its attritional loss ratio, and ii) we believe Catlin's reserving and capital positions are no longer arguments in favour of a material discount. Catlin offers the greatest re-rating potential among Lloyd's vehicles and we think going strong results (14% 2013 RONTA) should act as a catalyst to close the valuation gap.
- **Bull point #1 – Combining growth with improved attritional loss ratios:** Catlin has pursued a growth strategy and achieved avg 8% premium growth since 2008. This has been received with caution by the market, since growth among re/insurers is often achieved at the expense of profitability. However, we believe Catlin doesn't receive sufficient credit for improving its attritional loss ratio (ie excluding catastrophes and reserve releases) from 54% in 2008 to 50% in H1 2012 at the same time. Growth has also increased the diversity of Catlin's earnings (eg offsetting catastrophe losses in the London Markets business during 2011) and helped lower its capital requirements (Catlin has increased underwriting leverage for the last 3 years). There may also be upside from expense ratio improvement in the future, although we don't assume this for now.
- **Bull point #2 – Concerns on reserving are overdone:** Catlin has benefitted from lower reserve releases than its peers which has been an area of concern for some. Catlin purchased Adverse Development Cover (ADC) for 2009 & prior business, which should address concerns over reserve deterioration in longer tail lines. Our review of recent reserving developments shows this is in line with longer term trends. Lower dependence on releases means Catlin's earnings should be less exposed than peers to an industry wide slowdown in releases.
- **Bull point #3 – Catlin has adequate capital for growth and dividends:** Catlin's economic capital buffer (14% at 2011) contains several layers of prudence i) it doesn't take credit for sub debt or undrawn banking facilities (unlike some peers), and ii) its required capital is based on a premium to an early estimate of Solvency II requirements. We estimate Catlin's buffer will remain stable in 2012 allowing for growth in premiums and dividend yield (6.1% in 2013).
- **Updating earnings and target price:** We have lowered our 2012E EPS by 11% to 85c to reflect the ADC cost and lower inv returns. We raise our TP to 567p to reflect roll fwd of book value and higher p/b for London (pricing) and Int. (COR).

### Catlin Group Ltd (USD)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Profit Before Tax (\$M)	406.0	71.0	382.6	414.1	421.4
Diluted EPS (¢)	92.9	10.6	84.6	90.4	92.2
Diluted EPS (Old) (¢)	92.9	10.6	94.5	94.4	95.5
PE (x)	8.8	77.0	9.7	9.1	8.9
DPS (¢)	42.5	44.9	47.5	50.3	53.4
Net Div Yield (%)	5.2	5.5	5.8	6.1	6.5
Embedded Value Per Share (¢)	1,005.2	955.9	985.1	1,031.3	1,076.4
Price / EVPS (x)	0.8	0.9	0.8	0.8	0.8

## Catlin (Buy) – A Snapshot

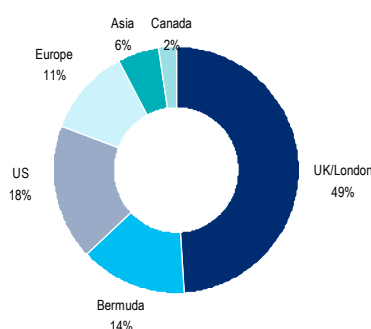
### Bull Points

- Catlin has achieved strong international growth, increasing diversity of earnings whilst improving capital efficiency
- Catlin has delivered consistent improvement in its attritional loss ratio
- Catlin's financial disclosure has improved materially since 2009
- Catlin offers the greatest re-rating potential (1.2x 2013E NTA vs sector 1.4x) and offers an attractive 6.1% yield

### Bear Points

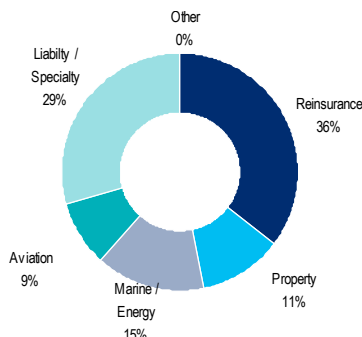
- The market still treats Catlin's growth strategy with scepticism and it has yet to demonstrate the expense advantages
- Catlin benefits from lower reserve releases than its peers, although the ADC reduces the risk of deterioration on longer tail lines
- Catlin has historically had more volatile operating performance than its peers leading to higher COE, although we think this is no longer justified

Figure 84. Premiums by division (H1 2012)



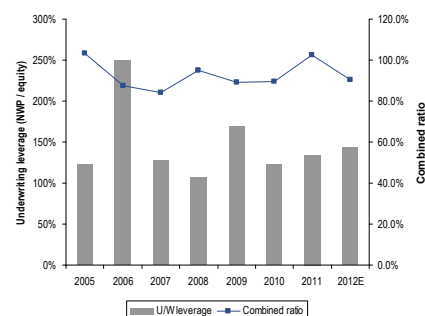
Source: Company data; Citi Research

Figure 85. Premiums by product (2011)



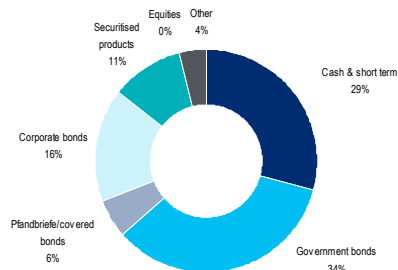
Source: Company data; Citi Research

Figure 86. U/W leverage and combined ratio



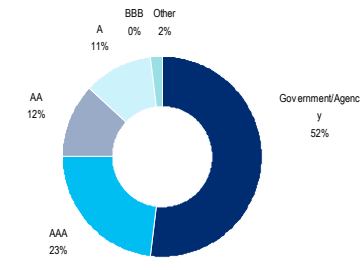
Source: Company data; Citi Research

Figure 87. Group investment mix (H1 2012)



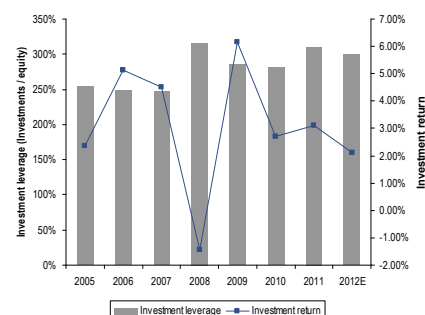
Source: Company data; Citi Research

Figure 88. Fixed income ratings (H1 2012)



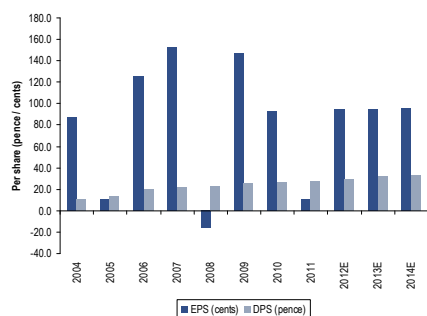
Source: Company data; Citi Research

Figure 89. Investment leverage and yield



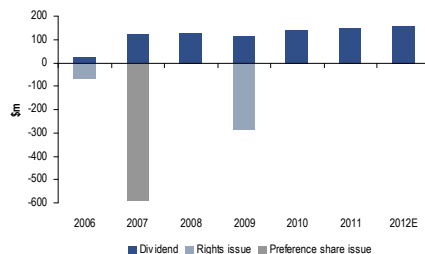
Source: Company data; Citi Research

Figure 90. EPS and DPS reported



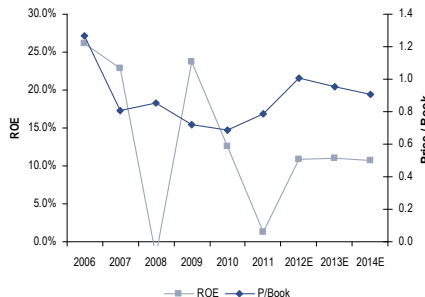
Source: Company data; Citi Research

Figure 91. Capital management record



Source: Company data; Citi Research estimates

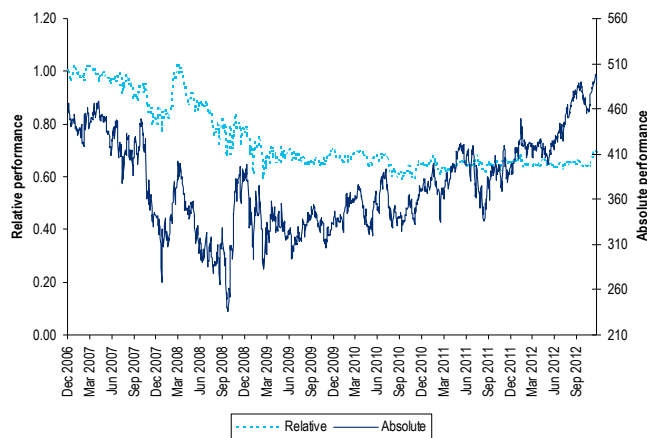
Figure 92. ROE vs P / Book



Source: Company data; Citi Research

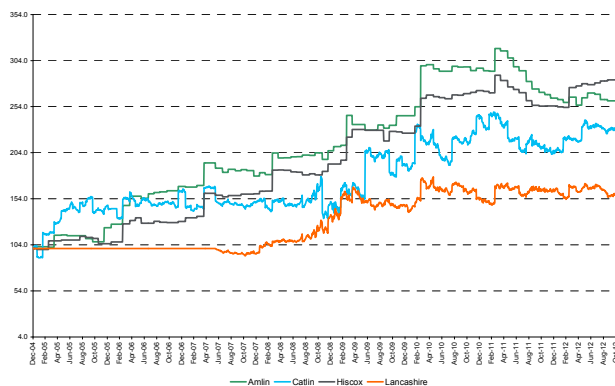
## Catlin (Buy) – Trading metrics

Figure 93. Absolute and relative share price performance



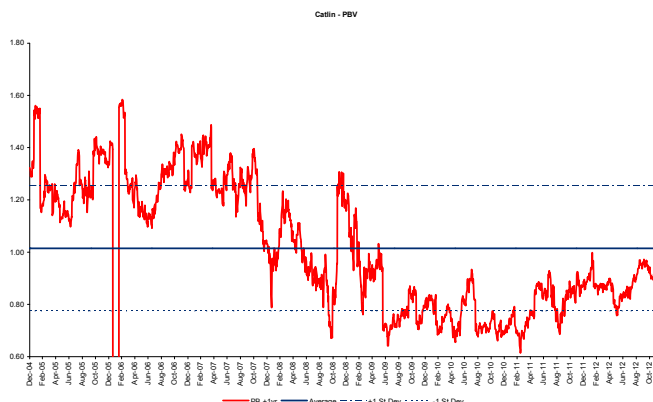
Source: Datastream, IBES, Citi Research

Figure 94. BPS revisions for peers (+1 year consensus)



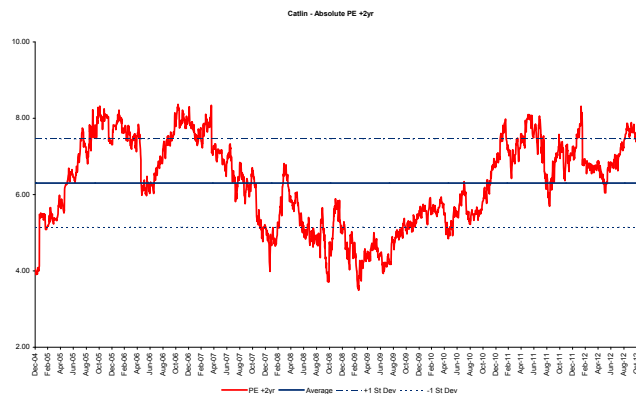
Source: Datastream, IBES, Citi Research

Figure 95. Price to Book (+1 year consensus)



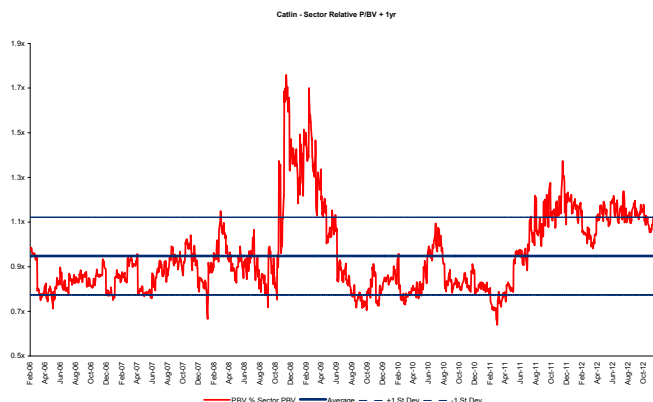
Source: Datastream, IBES, Citi Research

Figure 96. Price to Earnings (+2 year consensus)



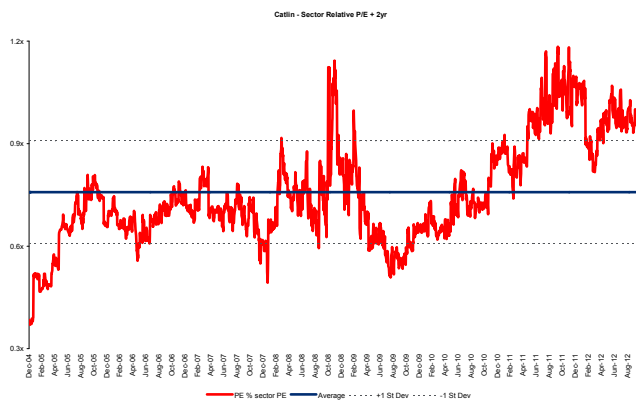
Source: Datastream, IBES, Citi Research

Figure 97. Price to Book (relative to sector)



Source: Datastream, IBES, Citi Research

Figure 98. Price to Earnings (relative to sector)



Source: Datastream, IBES, Citi Research

Figure 99. Catlin P&L forecasts

Catlin P&L (USDm)	2010	2011	2012E	2013E	2014E
Gross written premium	4,069	4,513	4,980	5,250	5,520
Reinsurance premiums	-751	-678	-988	-1,039	-1,087
Net premium written	3,318	3,835	3,992	4,211	4,433
Net change in UPR	-99	-223	-364	-114	-106
<b>Net premiums earned</b>	<b>3,219</b>	<b>3,612</b>	<b>3,628</b>	<b>4,097</b>	<b>4,328</b>
Losses and loss expenses	-1,852	-2,530	-2,093	-2,356	-2,509
Policy acquisition costs	-684	-758	-786	-886	-934
<b>Net u/w contribution</b>	<b>683</b>	<b>324</b>	<b>749</b>	<b>856</b>	<b>884</b>
Admin - non controlable	-67	-68	-69	-78	-82
Admin - controlable	-289	-352	-352	-397	-420
<b>U/W admin expenses</b>	<b>-356</b>	<b>-420</b>	<b>-421</b>	<b>-475</b>	<b>-502</b>
<b>Net underwriting result</b>	<b>327</b>	<b>-96</b>	<b>328</b>	<b>381</b>	<b>382</b>
Total investment return	205	248	155	143	149
Other income/expenses	-126	-81	-100	-110	-110
<b>Profit before tax</b>	<b>406</b>	<b>71</b>	<b>383</b>	<b>414</b>	<b>421</b>
Tax	-25	11	-45	-54	-55
Minority interest	0	0	0	0	0
<b>Net income</b>	<b>381</b>	<b>82</b>	<b>338</b>	<b>360</b>	<b>367</b>
Preference dividend	-44	-44	-44	-44	-44
<b>Net attributable income</b>	<b>337</b>	<b>38</b>	<b>294</b>	<b>316</b>	<b>323</b>

Source: Company data, Citi Research

Figure 100. Catlin change in equity

Change in equity	2010	2011	2012E	2013E	2014E
<b>Opening equity</b>	<b>3,278</b>	<b>3,448</b>	<b>3,298</b>	<b>3,448</b>	<b>3,610</b>
Net income	337	38	294	316	323
Other comprehensive income	5	-42	0	0	0
Equity raise	0	0	0	0	0
Issuance of preference shares	0	0	0	0	0
Stock compensation expense	23	11	15	15	15
Dividend	-138	-150	-159	-169	-180
Purchase of treasury stock	-57	-7	0	0	0
<b>Closing equity</b>	<b>3,448</b>	<b>3,298</b>	<b>3,448</b>	<b>3,610</b>	<b>3,768</b>
<b>Equity</b>	<b>3,448</b>	<b>3,298</b>	<b>3,448</b>	<b>3,610</b>	<b>3,768</b>
Preference shares	590	590	590	590	590
<b>Net assets</b>	<b>2,858</b>	<b>2,708</b>	<b>2,858</b>	<b>3,020</b>	<b>3,178</b>
Intangibles	716	717	718	718	718
Deferred tax on intangibles	-94	-108	-108	-108	-108
Intangibles net of deferred tax	622	609	610	610	610
<b>Net tangible assets</b>	<b>2,236</b>	<b>2,099</b>	<b>2,248</b>	<b>2,410</b>	<b>2,568</b>

Source: Company data, Citi Research



Figure 101. Catlin Underwriting forecasts

CATLIN GROUP	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E
GWP	3,259	3,361	3,437	3,715	4,069	4,513	4,980	5,250	5,520
Reinsurance	-936	-787	-826	-547	-751	-678	-988	-1,039	-1,087
NWP	2,323	2,574	2,611	3,168	3,318	3,835	3,992	4,211	4,433
Change in UPR	-95	-84	-15	-250	-99	-223	-364	-114	-106
NEP	2,228	2,490	2,596	2,918	3,219	3,612	3,628	4,097	4,328
Loss and loss expenses	-1,113	-1,155	-1,632	-1,682	-1,852	-2,530	-2,093	-2,356	-2,509
Policy acquisition costs	-541	-531	-510	-585	-684	-758	-786	-886	-934
<b>Underwriting contribution</b>	<b>574</b>	<b>804</b>	<b>454</b>	<b>651</b>	<b>683</b>	<b>324</b>	<b>749</b>	<b>856</b>	<b>884</b>
<b>Attritional loss ratio</b>	<b>48.7%</b>	<b>51.0%</b>	<b>54.0%</b>	<b>53.7%</b>	<b>51.6%</b>	<b>50.0%</b>	<b>51.6%</b>	<b>51.8%</b>	<b>52.2%</b>
Catastrophe losses	0.0%	0.0%	10.4%	0.0%	7.2%	21.3%	5.5%	4.9%	4.6%
Catastrophe losses (\$m)	0	0	270	0	232	769	200	200	200
Large single risk losses	2.0%	1.0%	3.1%	7.1%	3.2%	1.5%	2.8%	2.6%	2.5%
Large single risk losses (\$m)	45	25	80	207	103	54	100	105	110
Reserve releases	-0.8%	-5.6%	-4.6%	-3.2%	-4.5%	-2.8%	-2.2%	-1.7%	-1.4%
Reserve releases (\$m)	17	139	119	93	145	101	80	70	60
<b>Reported loss ratio</b>	<b>50.0%</b>	<b>46.4%</b>	<b>62.9%</b>	<b>57.6%</b>	<b>57.5%</b>	<b>70.0%</b>	<b>57.7%</b>	<b>57.5%</b>	<b>58.0%</b>
Policy acquisition costs	24.3%	21.3%	19.7%	20.1%	21.2%	21.0%	21.7%	21.6%	21.6%
Underwriting expenses	13.1%	16.3%	12.3%	11.4%	11.0%	11.6%	11.6%	11.6%	11.6%
<b>Reported combined ratio</b>	<b>87.3%</b>	<b>84.0%</b>	<b>94.8%</b>	<b>89.1%</b>	<b>89.8%</b>	<b>102.6%</b>	<b>91.0%</b>	<b>90.7%</b>	<b>91.2%</b>

Source: Company data, Citi Research

Figure 102. Catlin valuation

	Capital	ROC	COC	P/Book	Earnings	P/E	Valuation	Per share
London	1,496	16.7%	10.2%	1.67	250	10.0	2,501	447
Bermuda	450	13.4%	10.2%	1.33	60	9.9	596	107
USA	500	10.1%	9.6%	1.05	50	10.4	526	94
International	400	5.7%	9.6%	0.58	14	16.7	230	41
<b>Total</b>	<b>2,846</b>	<b>13.5%</b>	<b>10.0%</b>	<b>1.35</b>	<b>375</b>	<b>10.3</b>	<b>3,854</b>	<b>688</b>
Debt/Prefs							-681	-122
<b>Valuation</b>				<b>1.47</b>		<b>9.8</b>	<b>3,173</b>	<b>567</b>

Source: Citi Research

## Company Focus

- Company Update
- Target Price Change
- Estimate Change

<b>Neutral</b>	<b>2</b>
Price (14 Jan 13)	€59.63
Target price	€60.20
from €49.00	
Expected share price return	1.0%
Expected dividend yield	3.9%
<b>Expected total return</b>	<b>4.8%</b>
Market Cap	€7,191M
	US\$9,596M

**Price Performance**  
(RIC: HNRGn.DE, BB: HNR1 GR)



## Hannover Ruckversicherungs AG (HNRGn.DE)

### Strong performance and premium valuation limit upside

- **Strongest-performing reinsurer in 2012:** Hannover Re has been the strongest-performing stock among the reinsurers during 2012 (+54%). Although the share performance has been supported by strong growth in book value (+23%), it has also received the biggest re-rating (+31%) of its peers during 2012. Hannover Re now trades on the highest multiple of peers (1.1x 2013E NTA vs peer avg 0.9x). Although we believe Hannover Re's higher ROEs justify this re-rating, we now see the stock as fairly valued. We have reflected Hannover Re's €260m exposure to Sandy in our forecasts, which was slightly higher than we had expected.
- **Improved perception and more focus on dividends:** Hannover has delivered strong book value growth and more consistent operating performance under CEO Ulrich Wallin. Figure 113 below shows that Hannover Re has delivered the most positive revisions to BPS estimates among the reinsurers. We believe the market sees Hannover Re as less volatile than in the past and, following the IPO of its parent Talanx, we believe there will be greater emphasis on its dividends (note that Hannover paid no dividend 3 times since 2001).
- **Strong P&C reserves and leading expense management:** Towers Watson has identified €1.1bn or 6.8% reserve redundancy in the P&C business in 2011, which puts it in a strong position to manage the underwriting cycle. Hannover is the only large reinsurer for which we expect regular reserve releases in the coming years (~€70m or 1% of COR) and, given the level of buffer, there may be upside risk to this estimate. Hannover Re also benefits from one of the best managed P&C cost bases with an admin expense ratio of ~3% compared with 13% for Swiss Re and 6% for Scor.
- **Lower decline in running yield than peers but assets already re-risked:** Hannover Re has indicated that it expects the running yield on its fixed income portfolio to decline by 10-15bps annually, which is lower than its larger peers (25 – 30bps pa). This has been helped by a re-risking of Hannover Re's portfolio towards corporate bonds. However, given that Hannover Re already has one of the highest allocations to corporate bonds (32% at Q3), this could limit the degree to which it can re-risk to mitigate the impact from low interest rates in the future.
- **Updating earnings and target price:** We increase our 2012E EPS by 17% to €7.2 to reflect lower cat losses and higher realised gains; updating 2013/14E to reflect new investment return assumptions. We have increased our TP to €60.2 to reflect roll forwards of book value and higher profitability in Non Life reinsurance due to better pricing and reserve releases.

#### Hannover Ruckversicherungs AG (EUR)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Profit Before Tax (€M)	1,088.5	742.2	1,197.4	1,165.2	1,209.6
Diluted EPS (€)	6.21	5.02	6.78	6.33	6.58
Diluted EPS (Old) (€)	6.21	5.02	6.13	6.40	6.59
PE (x)	9.6	11.9	8.8	9.4	9.1
DPS (€)	2.30	2.10	2.80	2.40	2.50
Net Div Yield (%)	3.9	3.5	4.7	4.0	4.2
Embedded Value Per Share (€)	39.89	43.60	51.70	55.22	58.96
Price / EVPS (x)	1.5	1.4	1.2	1.1	1.0

# Hannover Re (Neutral) – A Snapshot

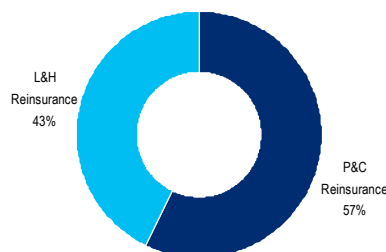
## Bull Points

- Strongest growth in book value per share estimates among big reinsurers
- Lower volatility in ROE's has improved market's perception of the company
- P&C businesses has large reserve redundancy and low expense base
- Listing of Talanx should increase focus on dividend payments

## Bear Points

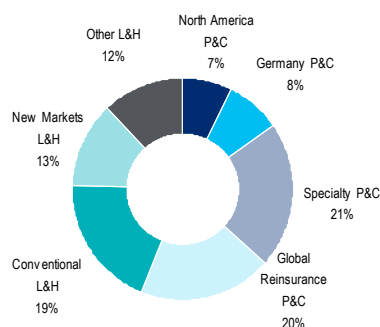
- Valuation is highest among large reinsurers at 1.1x 2013E NTA
- Strongest-performing large reinsurer during 2012
- High gearing improves ROEs but also increases risk
- Corporate bond allocation already high, which could limit re-risking potential

Figure 103. Premiums by division (Q3 2012)



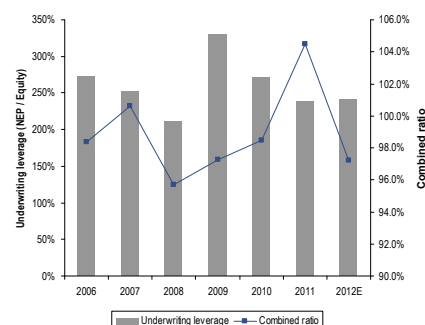
Source: Company data; Citi Research

Figure 104. Premiums by product (2011)



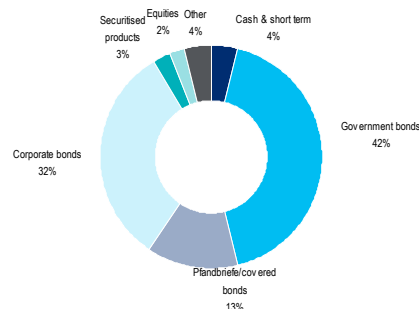
Source: Company data; Citi Research

Figure 105. U/W leverage and combined ratio



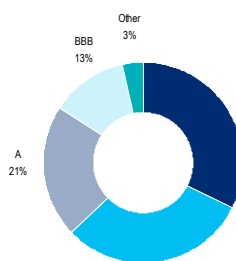
Source: Company data; Citi Research

Figure 106. Group investment mix (Q3 2012)



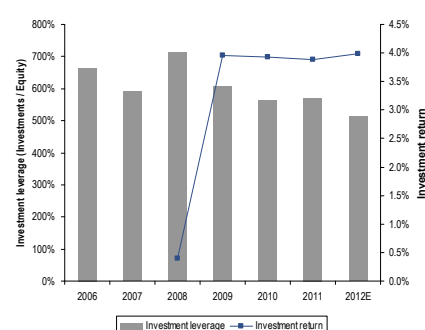
Source: Company data; Citi Research

Figure 107. Fixed income ratings (Q3 2012)



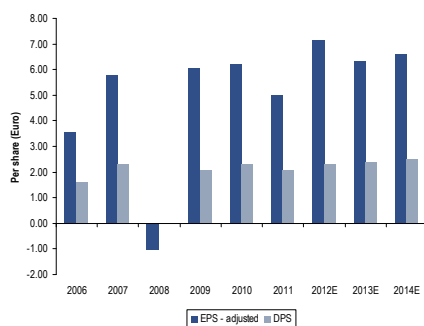
Source: Company data; Citi Research

Figure 108. Investment leverage and yield



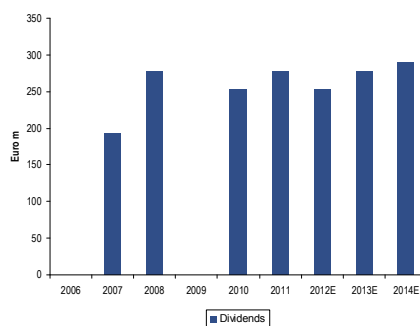
Source: Company data; Citi Research

Figure 109. EPS and DPS reported



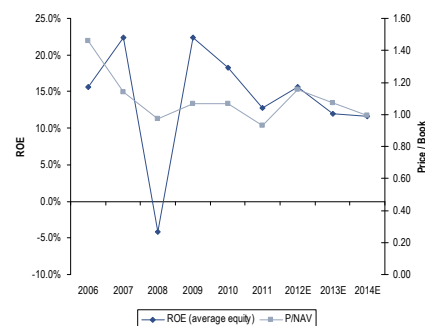
Source: Company data; Citi Research

Figure 110. Capital management record



Source: Company data; Citi Research estimates

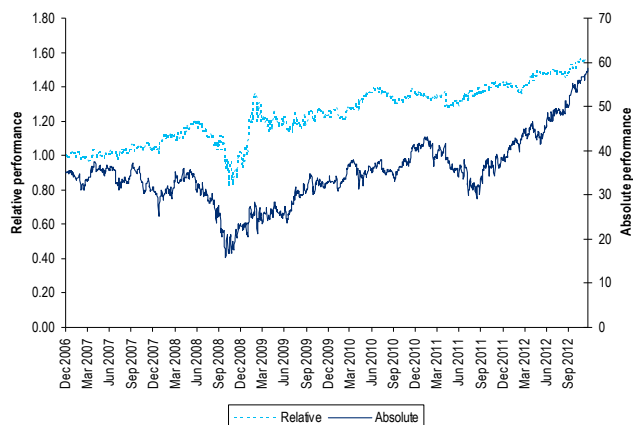
Figure 111. ROE vs P / Book



Source: Company data; Citi Research

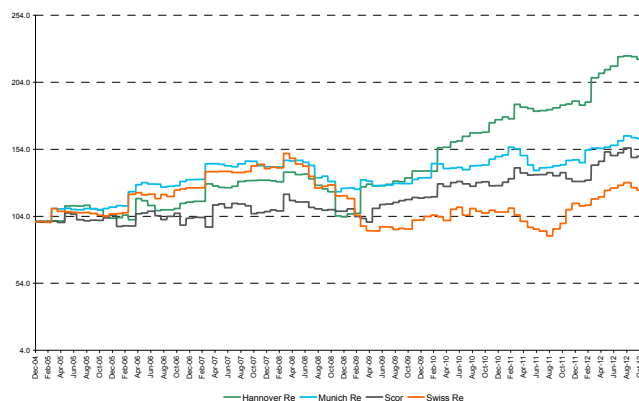
## Hannover Re (Neutral) – Trading metrics

Figure 112. Absolute and relative share price performance



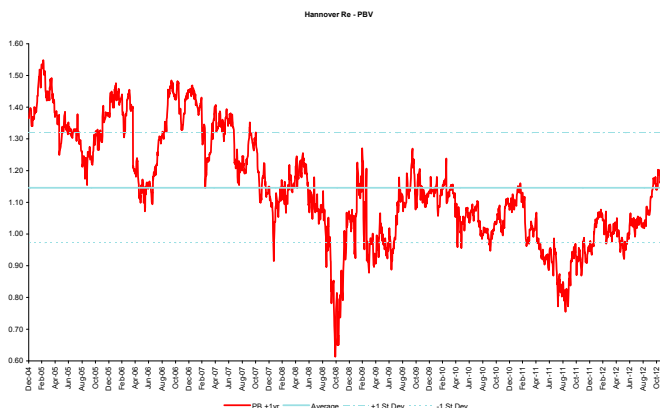
Source: Datastream, IBES, Citi Research

Figure 113. BPS revisions for peers (+1 year consensus)



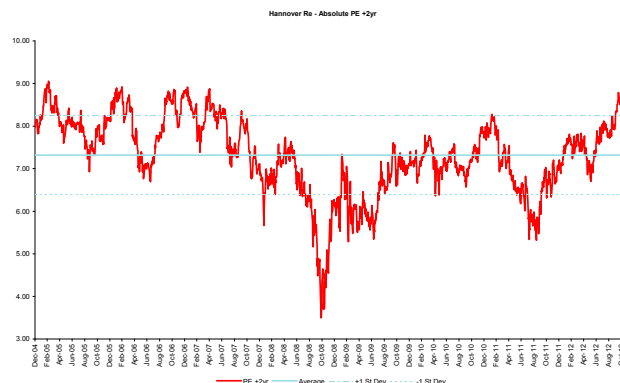
Source: Datastream, IBES, Citi Research

Figure 114. Price to Book (+1 year consensus)



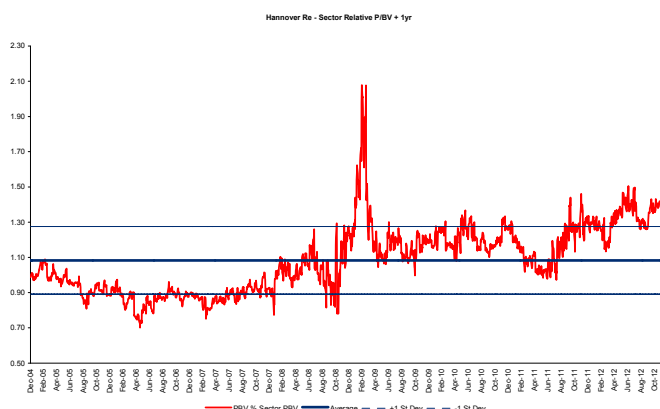
Source: Datastream, IBES, Citi Research

Figure 115. Price to Earnings (+2 year consensus)



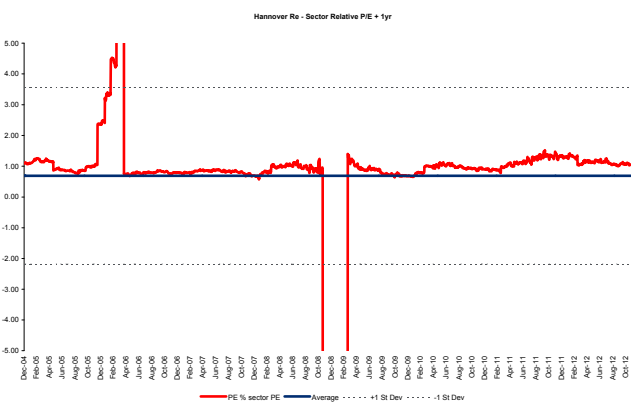
Source: Datastream, IBES, Citi Research

Figure 116. Price to Book (relative to sector)



Source: Datastream, IBES, Citi Research

Figure 117. Price to Earnings (relative to sector)



Source: Datastream, IBES, Citi Research

Figure 118. Hannover Re P&L

HANNOVER RE (EURm)	2010	2011	2012E	2013E	2014E
Gross premiums written	11,429	12,096	13,547	14,224	14,936
<b>Net premiums earned</b>	<b>10,047</b>	<b>10,752</b>	<b>11,988</b>	<b>12,588</b>	<b>13,217</b>
Non-life claims incurred	-7,009	-8,031	-8,795	-9,214	-9,645
Change in benefits	-653	-620	-425	-446	-469
Commissions and brokerage	-2,297	-2,353	-2,629	-2,750	-2,888
Other technical expenses	0	0	0	0	0
Administrative expenses	-283	-291	-312	-327	-344
<b>Underwriting result</b>	<b>-195</b>	<b>-543</b>	<b>-172</b>	<b>-150</b>	<b>-127</b>
Total Investment Income	1,259	1,384	1,567	1,468	1,490
<b>Operating result</b>	<b>1,064</b>	<b>841</b>	<b>1,395</b>	<b>1,318</b>	<b>1,362</b>
Other income/expenses	110	0	-98	-53	-53
Interest paid	0	0	0	0	0
Hybrid debt	-85	-99	-99	-99	-99
<b>PROFIT BEFORE TAX</b>	<b>1,089</b>	<b>742</b>	<b>1,197</b>	<b>1,165</b>	<b>1,210</b>
Taxes	-258	-65	-294	-321	-333
Goodwill / Discontinued ops	0	0	0	0	0
<b>NET INCOME</b>	<b>831</b>	<b>677</b>	<b>903</b>	<b>844</b>	<b>877</b>
Minority interest	-82	-71	-86	-81	-83
<b>Attributable profit</b>	<b>749</b>	<b>606</b>	<b>817</b>	<b>763</b>	<b>793</b>

Source: Company data; Citi Research

Figure 119. Hannover Re change in equity

EQUITY	2010	2011	2012E	2013E	2014E
Opening shareholders' funds	3,712	4,509	4,971	6,083	6,509
Net income	749	606	817	763	793
Changes in unrealised gains	301	146	549	0	0
Dividends paid	-253	-277	-253	-338	-289
Changes in capital	1	-12	-13	0	0
<b>Closing shareholders' funds</b>	<b>4,509</b>	<b>4,971</b>	<b>6,070</b>	<b>6,509</b>	<b>7,013</b>
Goodwill	46	59	59	59	59
<b>Net tangible assets</b>	<b>4,463</b>	<b>4,911</b>	<b>6,011</b>	<b>6,450</b>	<b>6,954</b>

Source: Company data; Citi Research

Figure 120. Hannover Re P&C Reinsurance

P&C Reinsurance (EURm)	2010	2011	2012E	2013E	2014E
Gross premiums written	6,339	6,826	7,645	8,027	8,428
<b>Net premiums earned</b>	<b>5,394</b>	<b>5,961</b>	<b>6,676</b>	<b>7,010</b>	<b>7,360</b>
Claims and claims expenses	-3,873	-4,702	-4,864	-5,086	-5,311
Commissions and brokerage	-1,274	-1,367	-1,531	-1,608	-1,688
Other technical income	0	0	0	0	0
Administrative expenses	-164	-160	-167	-175	-184
<b>Underwriting result</b>	<b>82</b>	<b>-269</b>	<b>114</b>	<b>140</b>	<b>177</b>
Investment result	721	845	952	877	870
Other income / expenses	76	23	-70	-50	-50
<b>Operating Result</b>	<b>880</b>	<b>599</b>	<b>996</b>	<b>967</b>	<b>998</b>
Interest allocation	0	0	0	0	0
Taxes	-220	-78	-254	-271	-279
Goodwill write off	0	0	0	0	0
<b>NET INCOME</b>	<b>659</b>	<b>522</b>	<b>742</b>	<b>696</b>	<b>718</b>
Minority	-78	-66	-82	-77	-79
<b>NET INCOME (attributable)</b>	<b>581</b>	<b>456</b>	<b>660</b>	<b>620</b>	<b>639</b>
Large losses budget %	9.3%	8.9%	8.4%	8.6%	8.2%
Large losses %	12.3%	16.5%	7.4%	8.6%	8.2%
Reserve releases %	4.0%	5.3%	1.0%	1.0%	1.0%
<b>Reported loss ratio</b>	<b>71.8%</b>	<b>78.9%</b>	<b>72.9%</b>	<b>72.6%</b>	<b>72.2%</b>
Commissions/premiums	23.6%	22.9%	22.9%	22.9%	22.9%
Administrative expenses	3.0%	2.7%	2.5%	2.5%	2.5%
<b>Expense ratio</b>	<b>26.7%</b>	<b>25.6%</b>	<b>25.4%</b>	<b>25.4%</b>	<b>25.4%</b>
<b>Combined ratio</b>	<b>98.5%</b>	<b>104.5%</b>	<b>98.3%</b>	<b>98.0%</b>	<b>97.6%</b>

Source: Company data; Citi Research

Figure 121. Hannover Re L&H Reinsurance

L&H Reinsurance (EURm)	2010	2011	2012E	2013E	2014E
Gross premiums written	5,090	5,270	5,903	6,198	6,508
<b>Net Premiums Earned</b>	<b>4,654</b>	<b>4,789</b>	<b>5,312</b>	<b>5,578</b>	<b>5,857</b>
Investment income	508	513	589	565	593
Claims and claims expenses	-3,136	-3,329	-3,931	-4,128	-4,334
Change in benefits	-653	-620	-425	-446	-469
Commissions and brokerage	-1,023	-986	-1,097	-1,142	-1,199
Other technical income	0	0	0	0	0
Administrative expenses	-119	-131	-145	-152	-160
Other income	53	-19	-25	0	0
<b>Operating result</b>	<b>284</b>	<b>218</b>	<b>278</b>	<b>275</b>	<b>288</b>
Interest allocation	0	0	0	0	0
Taxes	-61	-31	-53	-63	-66
Goodwill write off	0	0	0	0	1
<b>NET INCOME</b>	<b>223</b>	<b>187</b>	<b>225</b>	<b>211</b>	<b>223</b>
Minority	-4	-5	-5	-4	-4
<b>NET INCOME (attributable)</b>	<b>220</b>	<b>182</b>	<b>221</b>	<b>207</b>	<b>219</b>
<b>Operating margin</b>	<b>6.1%</b>	<b>4.5%</b>	<b>5.2%</b>	<b>4.9%</b>	<b>4.9%</b>

Source: Company data; Citi Research

Figure 122. Hannover Re Valuation

SOP valuation	Capital	ROC	COC	P/Book	Earnings	P/E	Valuation	Per share
Non Life	3,958	14.8%	9.6%	1.60	586	10.8	6,349	52.6
Life	2,193	9.2%	9.6%	0.96	203	10.3	2,098	17.4
Excess capital	1,608	2.9%	8.5%	0.34	46	11.8	545	4.5
<b>Total</b>	<b>7,759</b>	<b>10.8%</b>	<b>9.4%</b>	<b>1.16</b>	<b>835</b>	<b>10.8</b>	<b>8,992</b>	<b>74.6</b>
Debt							-1,735	-14.4
<b>Valuation</b>							<b>7,257</b>	<b>60.2</b>

Source: Citi Research

## Company Focus

- Company Update
- Target Price Change
- Estimate Change

<b>Neutral</b>	<b>2</b>
Price (14 Jan 13)	£4.70
Target price	£4.50
from £4.13	
Expected share price return	-4.3%
Expected dividend yield	4.0%
<b>Expected total return</b>	<b>-0.3%</b>
Market Cap	£1,854M
	US\$2,990M

**Price Performance**  
(RIC: HSX.L, BB: HSX LN)



## Hiscox Ltd (HSX.L) Waiting for a capital return

- **Hiscox has been underweight recent catastrophe losses:** Hiscox has delivered strong operating performance in recent years, helped by notably lower exposure to catastrophe losses than most of its peers. Hiscox's £90m exposure to hurricane Sandy was surprisingly low (7% NTA compared with peer avg 9%), in our view, and possibly due to its focus on nationwide rather than regional US reinsurance programs. Hiscox also had considerably lower exposure to losses in 2011 due to being underweight international catastrophe reinsurance. As a result, the shares have performed strongly (+22% in 2012) and trade on a premium valuation (1.42x 2012 NTA).
- **Clarity on Sandy reassures on capital return:** Management have indicated several times that capital management is on the agenda in H2 2012 and the market should be reassured by greater clarity on the Sandy loss. We expect Hiscox to announce £100m capital return with its FY results. We expect this to be well received since it is the first capital return Hiscox has made since its buyback programme in 2008.
- **Hiscox has a great business...** Hiscox has been the most successful Lloyd's vehicle at convincing the market of the quality of its businesses outside London Market / Bermuda (especially the UK retail / small commercial business). We believe it is significant positive that i) these have been built consistently and organically, and ii) that they are focus on specialty lines in which Hiscox has a differentiated product offering (eg Kidnap & Ransom or UK HNW property). There are some areas for improvement (eg the European business is still suffering from a high expense ratio) but on balance we think Hiscox has an attractive book of business.
- **...but significant excess capital suppresses returns:** Our main reason for having a Neutral recommendation on Hiscox is that the business operates with significant excess capital, which suppress its ROE potential (forecast 11% in 2013 vs avg 14% for peers). Consequently its underwriting leverage (net premium / tangible equity) is significantly lower than its peers (Hiscox 1.0x, Amlin 1.7x, Catlin 1.8x and Lancashire 0.4x). Whilst we recognise that the low interest rate environment suggests companies should hold more capital (to replace absent investment return), we believe Hiscox's conservatism stands out among peers. Every £50m variance in actual capital return compared with our forecast would change our 2013 RONTA forecast by 3.9%.
- **Updating earnings and TP:** We have increased our 2012E EPS by 4% to 40.3p given low exposure to Sandy and cat losses; updating 2013/14E to reflect new inv return assumptions. We increase our TP to 450p to reflect roll fwd of book value and a better pricing outlook (London & UK Retail).

### Hiscox Ltd (GBP)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Profit Before Tax (£M)	211.4	17.3	164.1	169.8	176.9
Diluted EPS (p)	45.4	5.3	40.3	36.8	38.3
Diluted EPS (Old) (p)	45.4	5.3	38.8	38.0	39.5
PE (x)	10.3	88.2	11.7	12.8	12.3
DPS (p)	16.5	17.0	43.3	18.7	19.6
Net Div Yield (%)	3.5	3.6	9.2	4.0	4.2
Embedded Value Per Share (p)	337.8	330.0	349.0	342.5	342.5
Price / EVPS (x)	1.4	1.4	1.3	1.4	1.4



# Hiscox (Neutral) – A Snapshot

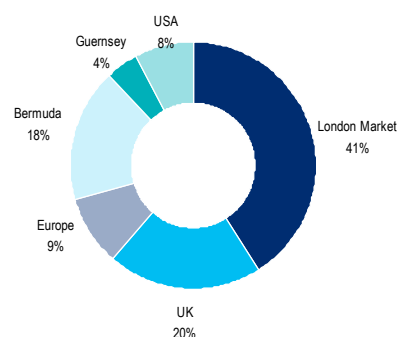
## Bull Points

- Strong long-term underwriting track record and well-balanced book between volatile/high-margin wholesale and speciality/retail business
- Hiscox has been underweight recent industry-wide catastrophe losses, which have led it to outperform peers
- We expect Hiscox to announced £100m capital return with its FY results which should be well received

## Bear Points

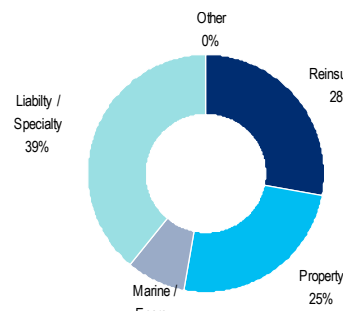
- Hiscox trades on a premium 1.4x 2013E NTA valuation in return for a 11% RONTA which is low compared with peers
- Hiscox operates with significant excess capital which suppresses ROE potential of the business
- Hiscox's European business continues to suffer from high expense ratio and the US operations are still sub-scale

Figure 123. Premiums by division (H1 2012)



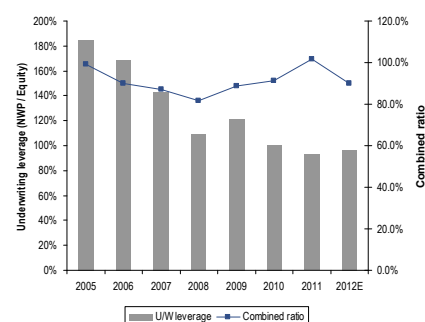
Source: Company data; Citi Research

Figure 124. Premiums by product (2011)



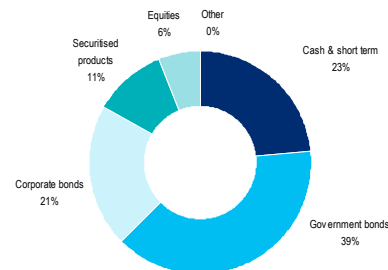
Source: Company data; Citi Research

Figure 125. U/W leverage and combined ratio



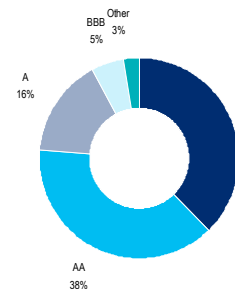
Source: Company data; Citi Research

Figure 126. Group investment mix (H1 2012)



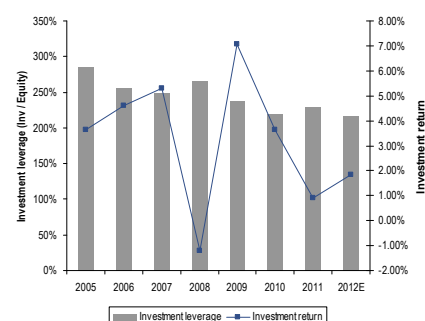
Source: Company data; Citi Research

Figure 127. Fixed income ratings (H1 2012)



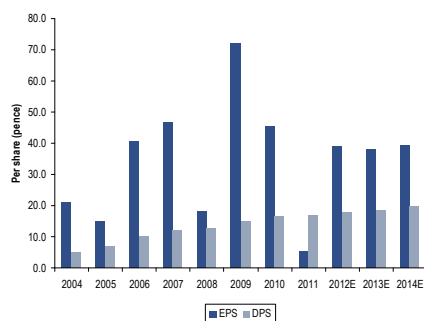
Source: Company data; Citi Research

Figure 128. Investment leverage and yield



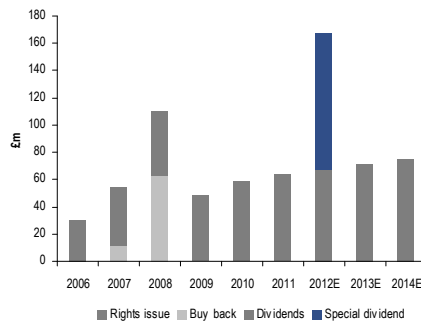
Source: Company data; Citi Research

Figure 129. EPS and DPS reported



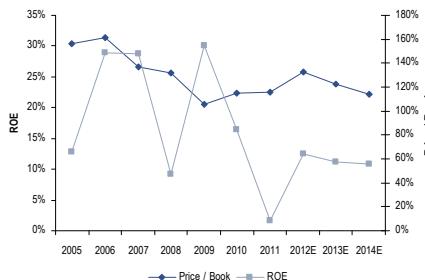
Source: Company data; Citi Research

Figure 130. Capital management record



Source: Company data; Citi Research estimates

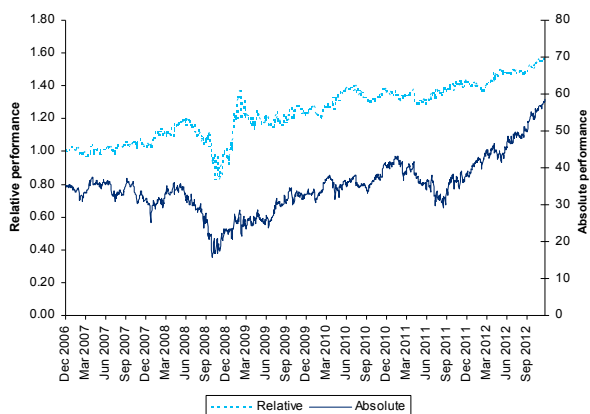
Figure 131. ROE vs P / Book



Source: Company data; Citi Research

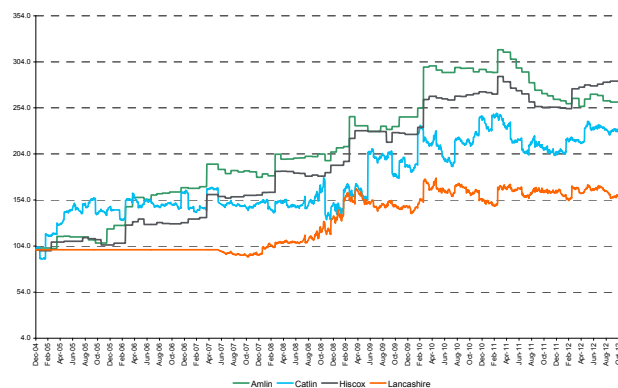
## Hiscox (Neutral) – Trading metrics

Figure 132. Absolute and relative share price performance



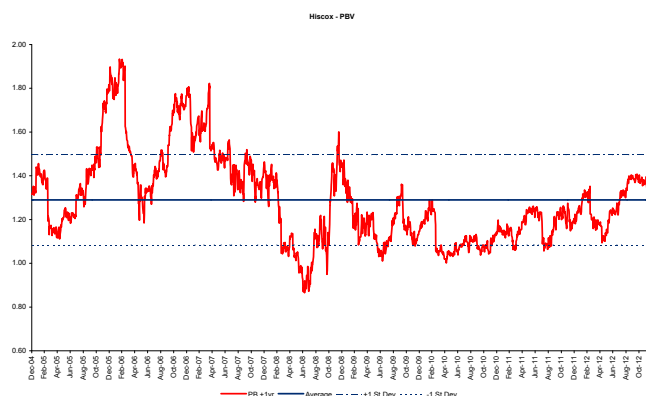
Source: Datastream, IBES, Citi Research

Figure 133. BPS revisions for peers (+1 year consensus)



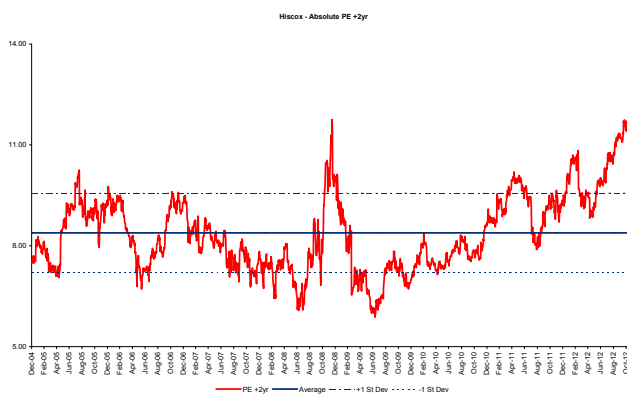
Source: Datastream, IBES, Citi Research

Figure 134. Price to Book (+1 year consensus)



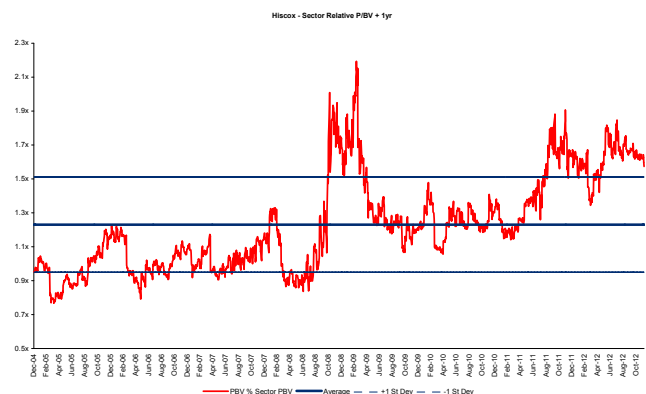
Source: Datastream, IBES, Citi Research

Figure 135. Price to Earnings (+2 year consensus)



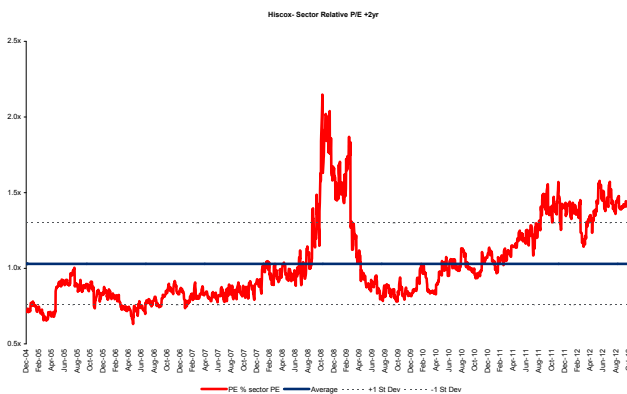
Source: Datastream, IBES, Citi Research

Figure 136. Price to Book (relative to sector)



Source: Datastream, IBES, Citi Research

Figure 137. Price to Earnings (relative to sector)



Source: Datastream, IBES, Citi Research

Figure 138. Hiscox P&L forecasts

HISCOX P&L (£m)	2010	2011	2012E	2013E	2014E
Gross written premiums	1,433	1,449	1,520	1,575	1,630
Reinsurance premium	-301	-275	-302	-313	-323
Net premiums written	1,132	1,174	1,218	1,263	1,307
Change in net UPR	0	-29	-13	-16	-16
<b>Net premiums earned</b>	<b>1,131</b>	<b>1,145</b>	<b>1,206</b>	<b>1,247</b>	<b>1,291</b>
Net claims incurred	-571	-698	-618	-619	-642
Acquisition costs	-270	-270	-284	-294	-304
Admin expenses	-206	-203	-213	-220	-227
Other expenses	0	0	0	0	0
<b>Underwriting result</b>	<b>84</b>	<b>-26</b>	<b>91</b>	<b>114</b>	<b>118</b>
<b>Investment result</b>	<b>100</b>	<b>24</b>	<b>70</b>	<b>49</b>	<b>50</b>
FX gains/losses	15	8	-2	0	0
Agency related income	7	7	7	7	7
Profit commission	11	7	5	8	9
Other income	3	2	1	0	0
Other revenues	22	17	13	15	16
<b>Operating profit</b>	<b>222</b>	<b>24</b>	<b>172</b>	<b>178</b>	<b>185</b>
Finance costs	-10	-7	-8	-8	-8
Share of associate profit	0	0	0	0	0
<b>Profit before tax</b>	<b>211</b>	<b>17</b>	<b>164</b>	<b>170</b>	<b>177</b>
Tax	-33	4	-7	-25	-27
<b>Net income</b>	<b>179</b>	<b>21</b>	<b>157</b>	<b>144</b>	<b>150</b>

Source: Company data, Citi Research

Figure 139. Hiscox change in equity

CHANGE IN EQUITY	2010	2011	2012E	2013E	2014E
<b>Opening equity</b>	<b>1,121</b>	<b>1,266</b>	<b>1,256</b>	<b>1,355</b>	<b>1,345</b>
Net income	179	21	157	144	150
Other comp income: FX	12	11	-8	0	0
Other comp income: Hedge	0	0	0	0	0
Employee share options	13	12	3	3	3
Rights issue proceeds	0	0	1	0	0
Purchase of own shares	0	0	0	0	0
Deferred tax	0	-4	0	0	0
Scrip dividend		13	13	13	13
Dividends	-58	-64	-67	-171	-75
<b>Closing equity</b>	<b>1,266</b>	<b>1,256</b>	<b>1,355</b>	<b>1,345</b>	<b>1,437</b>
Equity	1,266	1,256	1,355	1,345	1,437
Intangibles	64	68	69	69	69
<b>Net tangible assets</b>	<b>1,202</b>	<b>1,188</b>	<b>1,286</b>	<b>1,276</b>	<b>1,368</b>

Source: Company data, Citi Research

Figure 140. Hiscox underwriting results

HISCOX GROUP	2010	2011	2012E	2013E	2014E
Gross premiums written	1,433	1,449	1,520	1,575	1,630
Reinsurance premiums	-301	-275	-302	-313	-323
Net written premiums	1,132	1,174	1,218	1,263	1,307
Net change in UPR	0	-29	-13	-16	-16
<b>Net premiums earned</b>	<b>1,131</b>	<b>1,145</b>	<b>1,206</b>	<b>1,247</b>	<b>1,291</b>
Net claims incurred	-571	-698	-618	-619	-642
Acquisition costs	-270	-270	-284	-294	-304
Admin costs	-206	-203	-213	-220	-227
Other expenses					
<b>Underwriting result</b>	<b>84</b>	<b>-26</b>	<b>91</b>	<b>114</b>	<b>118</b>
<b>Attritional loss ratio</b>	<b>47.6%</b>	<b>54.8%</b>	<b>52.7%</b>	<b>49.7%</b>	<b>49.7%</b>
Catastrophe losses (£m)	165	270	103	100	100
Catastrophe losses	14.6%	23.6%	8.5%	8.0%	7.7%
Reserve release/strengthening	-133	-199	-120	-100	-100
Reserve release/strengthening	-11.7%	-17.4%	-10.0%	-8.0%	-7.7%
<b>Loss ratio</b>	<b>50.5%</b>	<b>61.0%</b>	<b>51.2%</b>	<b>49.7%</b>	<b>49.7%</b>
Acquisition cost ratio	23.9%	23.6%	23.6%	23.6%	23.6%
Admin cost ratio	18.2%	17.7%	17.7%	17.6%	17.6%
Other expense ratio					
Expense ratio	42.1%	41.3%	41.2%	41.2%	41.1%
<b>Combined ex FX</b>	<b>92.6%</b>	<b>102.3%</b>	<b>92.5%</b>	<b>90.9%</b>	<b>90.8%</b>
FX	-1.4%	-0.7%	0.1%	0.0%	0.0%
<b>Combined ratio</b>	<b>91.2%</b>	<b>101.6%</b>	<b>92.6%</b>	<b>90.9%</b>	<b>90.8%</b>

Source: Company data and Citi Research

Figure 141. Hiscox Valuation

	Capital	ROC	COC	P/Book	Earnings	P/E	Valuation	Per share
London Market	426	18.2%	10.2%	1.87	77	10.3	795	205
UK & Europe	345	13.2%	9.0%	1.53	42	12.5	528	136
International	316	10.9%	10.2%	1.08	32	10.7	341	88
Total	1,237	12.1%	9.7%	1.39	143	12.0	1,715	442
Debt							0	0
<b>Group valuation</b>				<b>1.39</b>		<b>12.0</b>	<b>1,715</b>	<b>442</b>

Source: Citi Research

## Company Focus

- Company Update
- Target Price Change
- Estimate Change

<b>Buy</b>	<b>1</b>
Price (14 Jan 13)	£7.84
Target price	£9.05
from £9.16	
Expected share price return	15.4%
Expected dividend yield	1.9%
<b>Expected total return</b>	<b>17.3%</b>
Market Cap	£1,276M
	US\$2,059M

**Price Performance**  
(RIC: LRE.L, BB: LRE LN)



## Lancashire Holdings (LRE.L)

### Differentiated approach deserves a premium

■ **Lancashire lagged peers in 2012:** Lancashire underperformed its Lloyd's peers during 2012 by 12%, which contrasts with its strong outperformance in previous years. In our view, the strength of the business hasn't changed, although its catastrophe exposures were relatively mixed (underweight Sandy at \$50m but overweight Costa Concordia at \$59m). We forecast 15% 2013 RONTA and it trades on 1.45x 2013E NTA. We believe the business continues to offer attractive return potential and we reiterate our Buy recommendation.

■ **Bull point #1 – differentiated business model has driven excellent returns:** Lancashire operates under a simple operating structure (eg only ~100 staff and 2 offices) and focuses on low volume/high value policies. All its business is reviewed on a daily underwriting call attended by all senior management, which we believe significantly improves its risk monitoring. The business has also been consistently run to maximise ROE rather than grow its premium base. As a result of this differentiated approach, Lancashire has achieved impressive 19% compound ROE since 2005 with a remarkably low volatility. We believe the core underwriting approach hasn't changed and is a key differentiating factor.

■ **Bull point #2 – high u/w margins and low investment return dependence:** Lancashire has achieved average 58% combined ratio since the business was established. Consequently, Lancashire has the lowest contribution to profitability from investment returns among its peer group (avg 28% between 2006-2012E). This makes it very well-placed to maintain its ROEs through underwriting returns in a sustained low interest rate environment.

■ **Bull point #3 – sector-leading capital management track record:** Lancashire has returns over 150% of its 2005 IPO proceeds to shareholders and annually returned average 86% of net income to shareholders since 2007. We believe this sector leading capital management track record is unique among its peers. We think it is likely that Lancashire will consider making capital returns more frequently than once per year (it announced \$145m special in Q3 2012). Depending on the opportunities available following Sandy at 1.1 renewals, this could lead to another special dividend in H1 2012.

■ **Seeking new opportunities:** Lancashire actively manages its u/w portfolio: i) its reviewing the marine retro market as an opportunity for growth, and ii) it exited direct D&F and onshore energy this year due to low profitability. Lancashire has also been at the forefront of developing third party capital vehicles (eg Saltire and Accordion) which demonstrate its ability to identify demand for new capacity.

■ **Updating earnings and TP:** We lower our 2012E EPS by 11% to 122c to reflect the impact of Sandy and lower investment returns. We lower our TP marginally to 905p to reflect better pricing (Property) offset by the Q3 special dividend.

#### Lancashire Holdings (USD)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Profit Before Tax (\$M)	339.2	218.6	225.4	229.8	230.2
Diluted EPS (¢)	186.4	119.6	122.2	122.7	122.9
Diluted EPS (Old) (¢)	186.4	119.6	137.6	138.5	136.2
PE (x)	6.8	10.6	10.3	10.3	10.3
DPS (¢)	155.0	95.0	105.0	15.0	15.0
Net Div Yield (%)	12.3	7.5	8.3	1.2	1.2
Embedded Value Per Share (¢)	663.9	678.7	697.1	795.7	894.5
Price / EVPS (x)	1.9	1.9	1.8	1.6	1.4

# Lancashire (Buy) – A Snapshot

## Bull Points

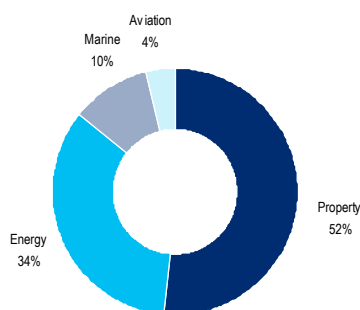
- Differentiated business model has driven excellent ROEs (avg 19%) with low volatility
- High underwriting margins (avg 58%) mean its better positioned than peers to avoid the drag from low interest rates on ROEs
- Lancashire's capital management track record is the best in the sector and we think another capital return is likely in H1 2012

## Bear Points

- Valuation is at a premium to sector (1.45x 2013E NTA) although we believe the consistency of returns justifies this
- Lancashire was overweight Costa Concordia marine loss, although it was underweight Sandy.

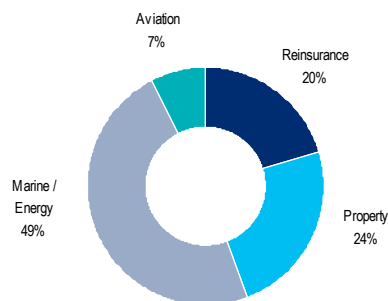
- Given the setup of the business it is subject to key man risk

Figure 142. Premiums by division (Q3 2012)



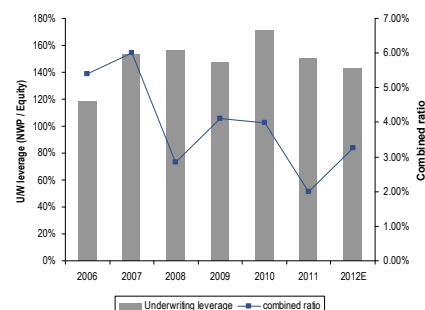
Source: Company data; Citi Research

Figure 143. Premiums by product (2011)



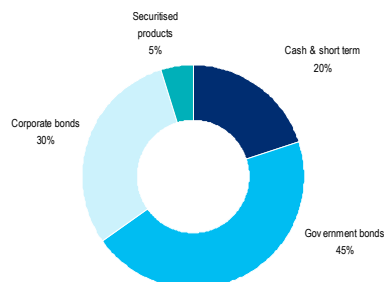
Source: Company data; Citi Research

Figure 144. U/W leverage and combined ratio



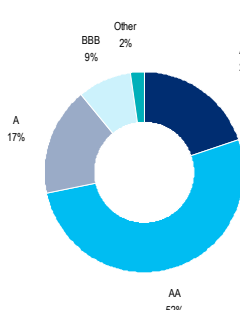
Source: Company data; Citi Research

Figure 145. Group investment mix (H1 2012)



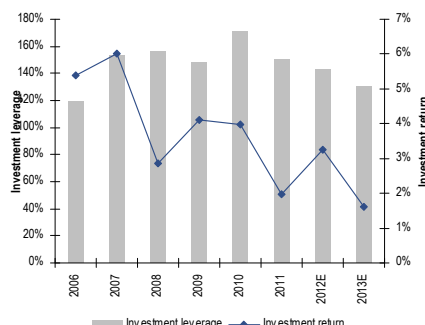
Source: Company data; Citi Research

Figure 146. Fixed income ratings (H1 2012)



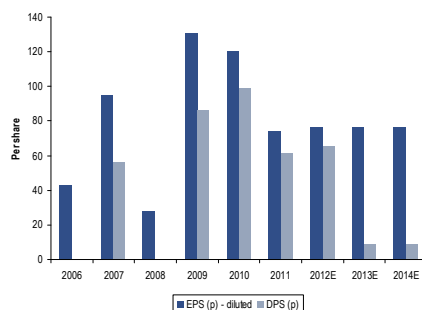
Source: Company data; Citi Research

Figure 147. Investment leverage and yield



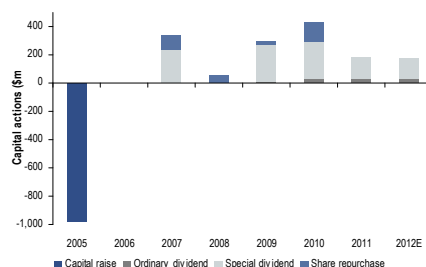
Source: Company data; Citi Research

Figure 148. EPS and DPS reported



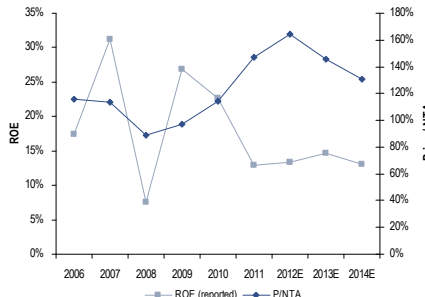
Source: Company data; Citi Research

Figure 149. Capital management record



Source: Company data; Citi Research estimates

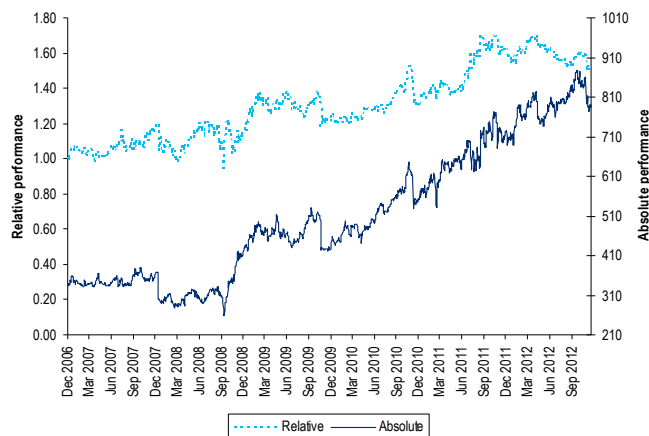
Figure 150. ROE vs P / Book



Source: Company data; Citi Research

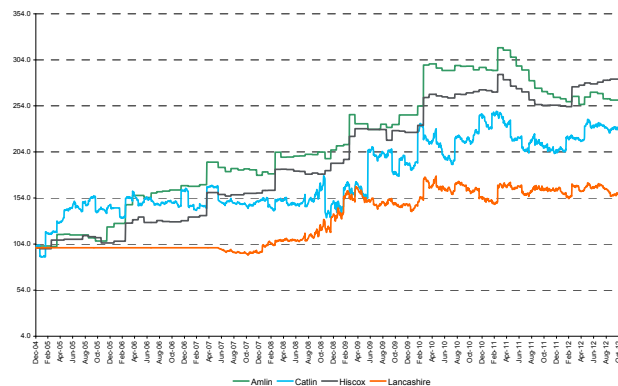
## Lancashire (Buy) – Trading metrics

Figure 151. Absolute and relative share price performance



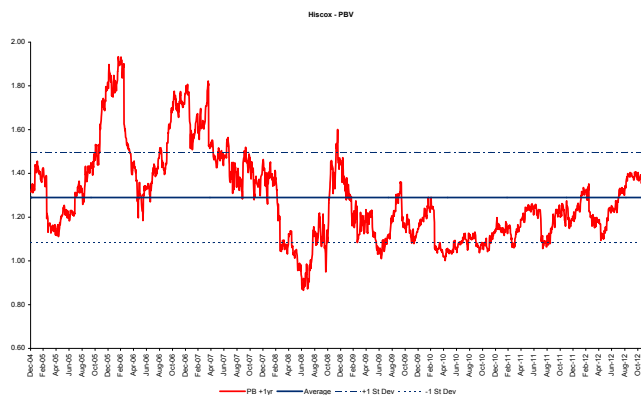
Source: Datastream, IBES, Citi Research

Figure 152. BPS revisions for peers (+1 year consensus)



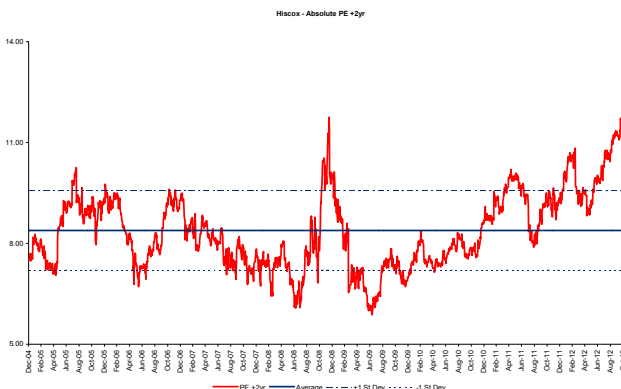
Source: Datastream, IBES, Citi Research

Figure 153. Price to Book (+1 year consensus)



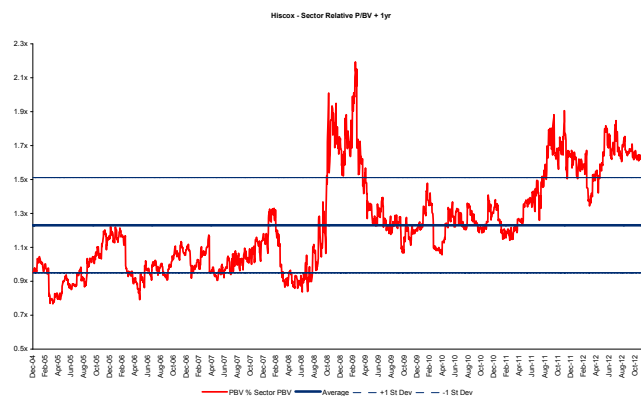
Source: Datastream, IBES, Citi Research

Figure 154. Price to Earnings (+2 year consensus)



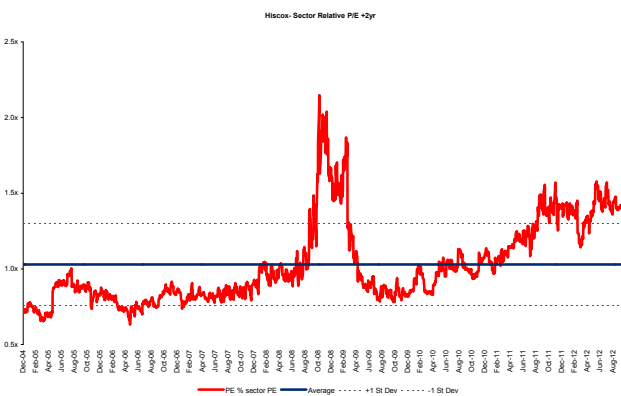
Source: Datastream, IBES, Citi Research

Figure 155. Price to Book (relative to sector)



Source: Datastream, IBES, Citi Research

Figure 156. Price to Earnings (relative to sector)



Source: Datastream, IBES, Citi Research

Figure 157. Lancashire forecasts

P&L (\$m)	2010	2011	2012E	2013E	2014E
Gross written premiums	689	632	715	705	705
Reinsurance premiums	-39	-67	-151	-148	-148
Net premium written	650	565	564	557	557
Net change in UPR	-36	9	0	2	0
<b>Net earned premiums</b>	<b>614</b>	<b>575</b>	<b>564</b>	<b>558</b>	<b>557</b>
Net insurance claims	-166	-182	-183	-164	-163
Net acquisition costs	-106	-112	-106	-104	-104
Other underwriting expenses	-62	-71	-65	-64	-64
<b>Underwriting result</b>	<b>280</b>	<b>209</b>	<b>211</b>	<b>227</b>	<b>226</b>
<b>Investment return</b>	<b>87</b>	<b>52</b>	<b>44</b>	<b>32</b>	<b>33</b>
Share of associate	0	0	5	5	5
FX	0	-9	-1	0	0
Equity based compensation	-21	-19	-19	-19	-19
Other income and expenses	-21	-28	-15	-14	-14
<b>Operating profit</b>	<b>346</b>	<b>233</b>	<b>240</b>	<b>245</b>	<b>245</b>
Finance costs	-7	-14	-14	-15	-15
<b>Profit before tax</b>	<b>339</b>	<b>219</b>	<b>225</b>	<b>230</b>	<b>230</b>
Tax	-8	-6	-3	-7	-7
<b>Net income</b>	<b>331</b>	<b>212</b>	<b>222</b>	<b>223</b>	<b>223</b>

Source: Company data, Citi Research

Figure 158. Lancashire change in equity

Change in equity	2010	2011	2012E	2013E	2014E
<b>Opening equity</b>	<b>1,379</b>	<b>1,287</b>	<b>1,327</b>	<b>1,367</b>	<b>1,561</b>
Profit	331	212	222	223	223
Unrealised gains	-2	-11	21	0	0
Tax	0	0	0	0	0
Share repurchase	-136	0	0	0	0
Share repurchase	-13	-5	0	0	0
Dividend on common shares	-237	-148	-174	-29	-29
Dividend on warrants	-57	-33	-28	0	0
Warrants issued	0	0	0	0	0
Options issued	23	23	0	0	0
Restricted stock issues	0	0	0	0	0
<b>Closing equity</b>	<b>1,287</b>	<b>1,327</b>	<b>1,367</b>	<b>1,561</b>	<b>1,754</b>

Source: Company data, Citi Research



Figure 159. Lancashire underwriting profits

GROUP P&L (\$m)	2010	2011	2012E	2013E	2014E
Gross written premiums	689	632	715	705	705
Reinsurance	-39	-67	-151	-148	-148
Net premium written	650	565	564	557	557
Change in UPR	-36	9	0	2	0
Net earned premiums	614	575	564	558	557
Net insurance claims	-166	-182	-183	-164	-163
Net acquisition costs	-106	-112	-106	-104	-104
<b>Underwriting result</b>	<b>342</b>	<b>280</b>	<b>275</b>	<b>291</b>	<b>290</b>
Group underwriting expenses	-62	-71	-65	-64	-64
<b>Group underwriting result</b>	<b>280</b>	<b>209</b>	<b>211</b>	<b>227</b>	<b>226</b>
<b>Attritional loss ratio</b>	<b>24.6%</b>	<b>30.3%</b>	<b>21.8%</b>	<b>18.5%</b>	<b>18.5%</b>
Catastrophe losses	115	164	110	110	110
Catastrophe losses	18.7%	28.5%	19.5%	19.7%	19.8%
Prior year releases	-100	-155	-50	-50	-50
Prior year releases	-16.3%	-27.0%	-8.9%	-9.0%	-9.0%
<b>Loss ratio</b>	<b>27.0%</b>	<b>31.7%</b>	<b>32.4%</b>	<b>29.3%</b>	<b>29.3%</b>
Acq expense ratio	17.3%	19.6%	18.7%	18.6%	18.6%
Admin expense ratio	10.1%	12.4%	11.5%	11.5%	11.5%
<b>Combined ratio</b>	<b>54.3%</b>	<b>63.7%</b>	<b>62.7%</b>	<b>59.4%</b>	<b>59.4%</b>

Source: Company data, Citi Research

Figure 160. Lancashire valuation

	Capital	ROC	COC	P/Book	Earnings	P/E	Valuation	Per share
Property	655	17.6%	9.9%	1.86	115	10.6	1,218	475
Energy	600	14.4%	9.9%	1.51	87	10.5	905	353
Marine	90	10.6%	9.6%	1.12	10	10.5	101	39
Aviation	150	13.9%	9.6%	1.50	21	10.8	226	88
<b>Total</b>	<b>1,495</b>	<b>15.5%</b>	<b>9.9%</b>	<b>1.64</b>	<b>232</b>	<b>10.6</b>	<b>2,449</b>	<b>955</b>
Debt							-128	-50
<b>Valuation</b>				<b>1.70</b>		<b>10.4</b>	<b>2,321</b>	<b>905</b>

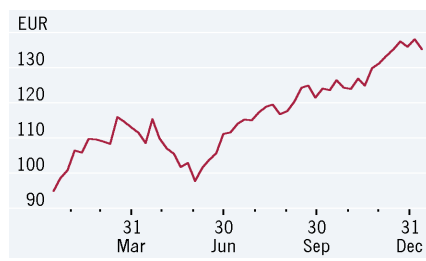
Source: Citi Research

## Company Focus

- Company Update
- Target Price Change
- Estimate Change

<b>Neutral</b>	<b>2</b>
Price (14 Jan 13)	€137.00
Target price	€136.00
from €117.50	
Expected share price return	-0.7%
Expected dividend yield	4.9%
<b>Expected total return</b>	<b>4.2%</b>
Market Cap	€24,570M
	US\$32,786M

**Price Performance**  
(RIC: MUVGn.DE, BB: MUV2 GR)



## Munich Re (MUVGn.DE) Limited scope for upside surprise

- **Fairly valued after re-rating in 2012:** Munich Re was one of the best-performing stocks in the insurance sector (+44%) during 2012. This was supported by strong growth in book value (we est 18%), but also benefitted from a substantial re-rating beyond this (+26%) along with the rest of the Reinsurance sector. The stock trades on 0.95x 2013E NTA or 9x 2013E PE, which is in line with the average for Reinsurers. We think Munich Re is fairly valued given our forecast return of 11% 2013E RONTA and the fact that we see limited scope for upside surprise to earnings estimates.
- **Well-positioned for Non Life reinsurance conditions:** Munich Re is the largest non life reinsurer globally and is in a good position to benefit from attractive returns available in this market (2012 guidance was improved at Q3 to “below 96%”). However, we think this is more than offset by the impact of sustained low interest rates, which could prove an earnings risk.
- **Pressure from low interest rates:** Management has indicated that the fixed income running yield will decline 20-30bps pa, which lowers earnings by ~€500m pa. Munich Re’s German Life business exposes the group to relatively greater risk than its peers given investment guarantees embedded in Ergo’s products. Ergo has already incurred some charges relating to low interest rates: eg expects €325m ZZR charge in 2012 and €200m gross DAC write down in Q3. Although Ergo’s new business is being redesigned (guarantee level and type), there is an ongoing downside risk to earnings from its back book.
- **Expect dividend but no additional capital management:** Despite further declines in interest rates in 2012, we believe Munich Re’s capital position will remain strong (2011: 194% Solvency II) and is very conservatively assessed. Our forecasts include €500m impact of Sandy (€300-700m range) and we expect the dividend to increase to €6.50. Munich Re has the best capital return track records among the Reinsurers, but management have indicated that they are not considering any additional capital return at the moment. We attribute this to conservatism and the fact that Munich Re is rebuilding its German GAAP reserves following losses in 2011.
- **Updating earnings and TP:** We have increased our 2012E EPS by 17% to €17.8 to reflect better-than-expected investment returns as well as normalised cat losses (€500m for Sandy); updating 2013/14E to reflect new inv return assumptions. We have increased our TP to €136p to reflect roll fwd of book value and better pricing outlook for Non Life reinsurance.

### Munich Re (EUR)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Profit Before Tax (€M)	3,123.0	161.0	3,871.1	3,840.2	3,880.9
Diluted EPS (€)	13.07	3.95	17.83	15.02	15.18
Diluted EPS (Old) (€)	13.07	3.95	15.21	15.78	16.32
PE (x)	10.5	34.7	7.7	9.1	9.0
DPS (€)	6.25	6.25	6.50	6.75	7.00
Net Div Yield (%)	4.6	4.6	4.7	4.9	5.1
Embedded Value Per Share (€)	124.72	138.66	164.02	174.56	185.31
Price / EVPS (x)	1.1	1.0	0.8	0.8	0.7

# Munich Re (Neutral) – A Snapshot

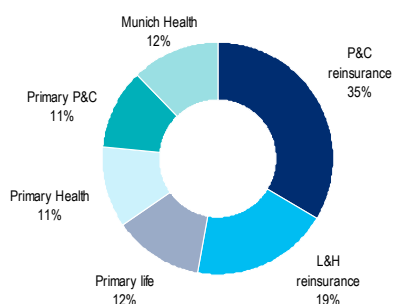
## Bull Points

- Well positioned to benefit from favourable non life reinsurance conditions given market leading position (96% COR target) and conservative reserving
- Solid capital position and expect dividend growth to €6.50 offering 5.0% yield
- Best capital management track record of the Reinsurers

## Bear Points

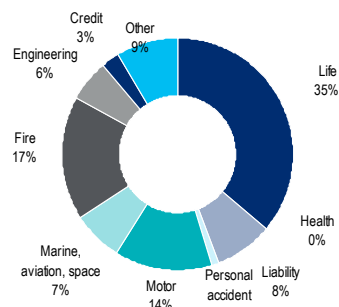
- Low interest rates lead to pressure on earnings (20-30bps pa costs ~\$500m income).
- Risk of further charges relating to low interest rates in German Life business (DAC write-down in Q3 2012)
- Current valuation (0.95x 2013E NTA) in line with our expected return forecasts (11% 2013E RONTA).

Figure 161. Premiums by division (2011)



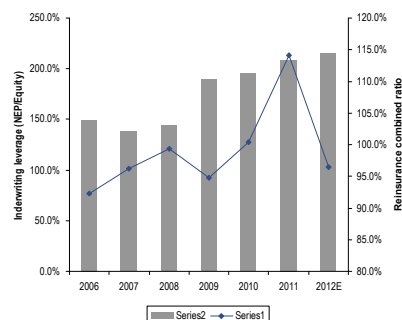
Source: Company data; Citi Research

Figure 162. Reinsurance by product (2011)



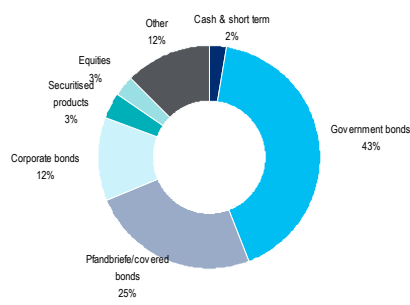
Source: Company data; Citi Research

Figure 163. U/W leverage and combined ratio



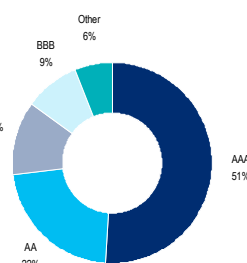
Source: Company data; Citi Research

Figure 164. Group investment mix (Q3 2012)



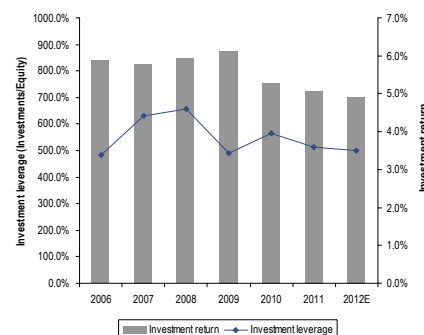
Source: Company data; Citi Research

Figure 165. Fixed income ratings (Q3 2012)



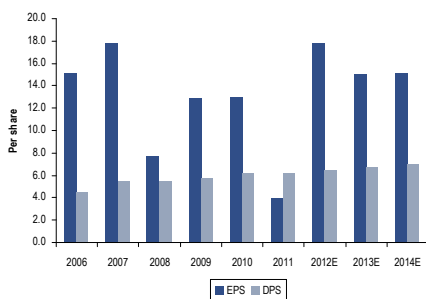
Source: Company data; Citi Research

Figure 166. Investment leverage and yield



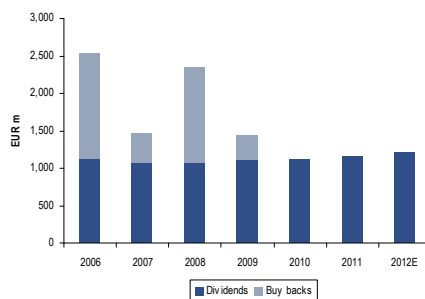
Source: Company data; Citi Research

Figure 167. EPS and DPS reported



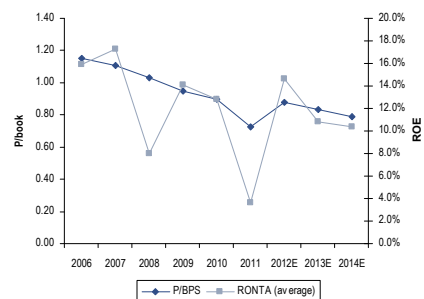
Source: Company data; Citi Research

Figure 168. Capital management record



Source: Company data; Citi Research estimates

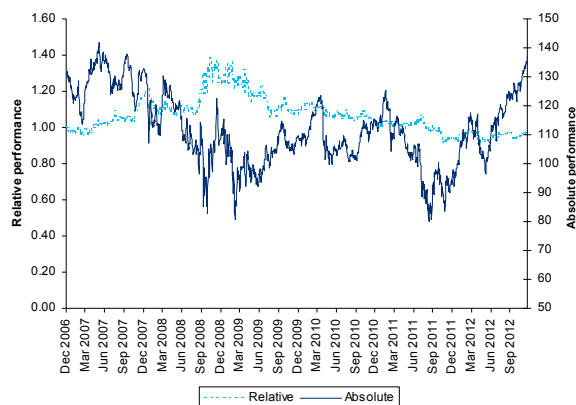
Figure 169. ROE vs P / Book



Source: Company data; Citi Research

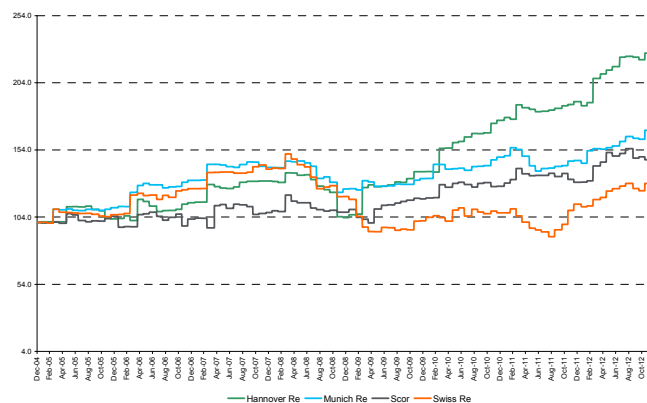
## Munich Re (Neutral) – Trading metrics

Figure 170. Absolute and relative share price performance



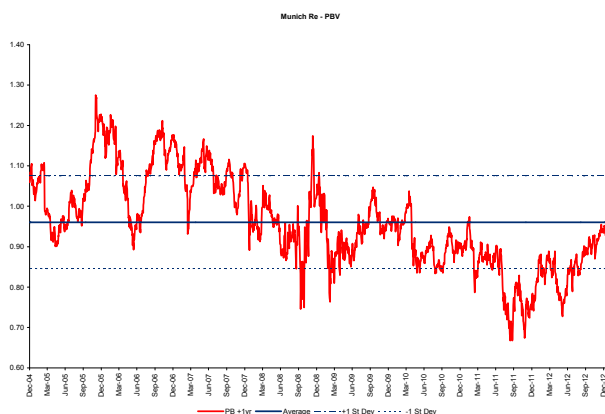
Source: Datastream, IBES, Citi Research

Figure 171. BPS revisions for peers (+1 year consensus)



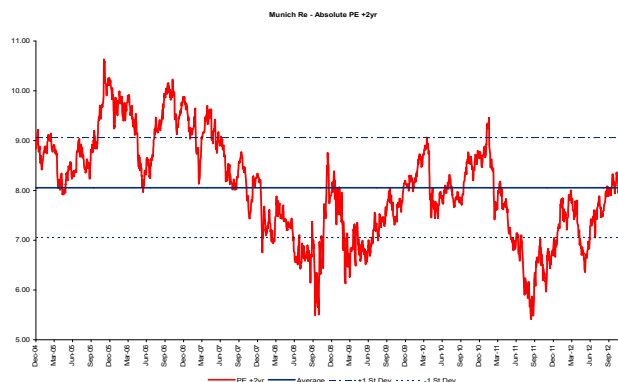
Source: Datastream, IBES, Citi Research

Figure 172. Price to Book (+1 year consensus)



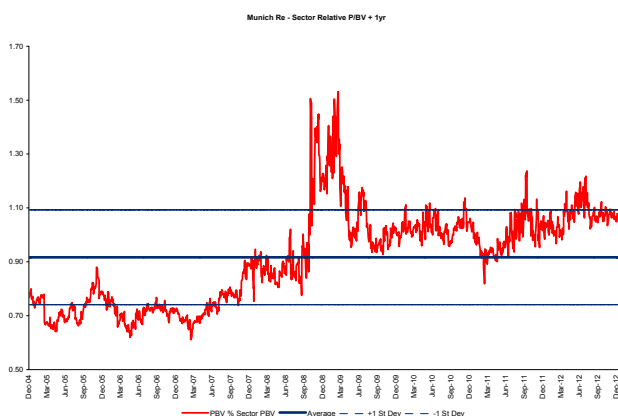
Source: Datastream, IBES, Citi Research

Figure 173. Price to Earnings (+2 year consensus)



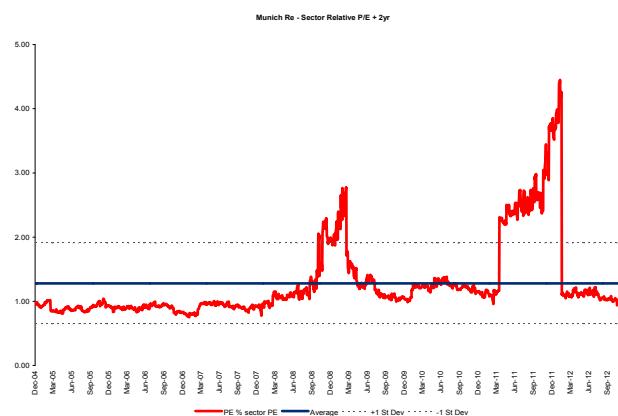
Source: Datastream, IBES, Citi Research

Figure 174. Price to Book (relative to sector)



Source: Datastream, IBES, Citi Research

Figure 175. Price to Earnings (relative to sector)



Source: Datastream, IBES, Citi Research

Figure 176. Munich Re P&L

P&L (€m)	2010	2011	2012E	2013E	2014E
Gross premiums written	45,541	49,572	52,352	53,730	55,081
Net earned premiums	43,075	47,412	49,638	50,840	52,156
Investment result	8,592	6,657	8,084	7,481	7,433
Results of associates	51	100	63	66	67
Total investment return	8,643	6,757	8,147	7,546	7,500
Net expenses for claims and benefits	36,583	41,034	40,700	41,122	42,017
Net operating expenses	11,114	11,989	12,551	12,762	13,098
Other income	807	843	828	830	831
Other expenses	849	808	865	866	866
<b>Operating profit</b>	<b>3,979</b>	<b>1,181</b>	<b>4,497</b>	<b>4,466</b>	<b>4,506</b>
Non operating expenses	856	1,020	626	626	625
Goodwill impairment	0	0	0	0	0
<b>Profit before tax</b>	<b>3,123</b>	<b>161</b>	<b>3,871</b>	<b>3,840</b>	<b>3,881</b>
Tax (ongoing)	-692	552	-694	-1,163	-1,174
Tax (one-off)	0	0	0	0	0
<b>Consolidated result</b>	<b>2,431</b>	<b>713</b>	<b>3,177</b>	<b>2,677</b>	<b>2,707</b>
Minority interests	-8	-10	-10	-10	-10
<b>Consolidated result (s/h)</b>	<b>2,423</b>	<b>703</b>	<b>3,167</b>	<b>2,667</b>	<b>2,697</b>

Source: Citi Research

Figure 177. Munich Re change in Equity

Change in equity (€m)	2010	2011	2012E	2013E	2014E
Opening net assets	22,049	22,783	23,062	27,322	28,835
Profit for the year	2,423	703	3,167	2,667	2,697
Foreign exchange	645	390	260	0	0
Unrealised gains and losses	130	750	2,126	0	0
Dividends and buy-backs	-1,072	-1,110	-1,110	-1,155	-1,199
Buy backs	-1,268	-323	0	0	0
Capital increases	0	0	0	0	0
Changes in group	0	0	0	0	0
Change from equity	0	0	0	0	0
Other changes	-123	-131	-182	0	0
<b>Closing net assets</b>	<b>22,783</b>	<b>23,062</b>	<b>27,322</b>	<b>28,835</b>	<b>30,333</b>
Growth	3%	1%	18%	6%	5%
Minorities	245	247	245	255	265
<b>Reported equity</b>	<b>23,028</b>	<b>23,309</b>	<b>27,567</b>	<b>29,090</b>	<b>30,598</b>
Growth	3%	1%	18%	6%	5%
Equity	23,028	23,309	27,567	29,090	30,598
Goodwill	-3,453	-3,511	-3,511	-3,511	-3,511
Minorities	-245	-247	-245	-255	-265
<b>Tangible equity</b>	<b>19,330</b>	<b>19,551</b>	<b>23,811</b>	<b>25,324</b>	<b>26,822</b>

Source: Company data and Citi Research

Figure 178. Munich Re P&C Re forecasts

P&C Reinsurance (€m)	2010	2011	2012E	2013E	2014E
Gross premiums	15,701	16,903	17,485	17,982	18,417
Retroceded premiums	-1,093	-859	-889	-914	-936
Change in net unearned	-415	-275	-50	-174	-152
<b>Net earned premiums</b>	<b>14,193</b>	<b>15,769</b>	<b>16,547</b>	<b>16,894</b>	<b>17,329</b>
Claims incurred	-9,904	-13,216	-11,005	-11,150	-11,437
Operating expenses	-4,437	-4,779	-4,964	-5,068	-5,199
<b>Underwriting result</b>	<b>-148</b>	<b>-2,226</b>	<b>578</b>	<b>676</b>	<b>693</b>
Investment income	2,477	1,809	2,150	1,837	1,823
Income from associates	35	62	30	32	33
Other income	321	302	302	302	302
Other expenses	-227	-231	-231	-231	-231
<b>Operating result</b>	<b>2,458</b>	<b>-284</b>	<b>2,829</b>	<b>2,615</b>	<b>2,620</b>
Inter-company income	51	286	0	0	0
Non-operating result	-269	-428	-200	-200	-200
Amortisation of goodwill	0	0	0	0	0
<b>Profit before tax</b>	<b>2,240</b>	<b>-426</b>	<b>2,629</b>	<b>2,415</b>	<b>2,420</b>
Tax on operating result	-434	797	-409	-715	-716
Change in tax rate	0	0	0	0	0
Other tax items	0	0	0	0	0
Tax	-434	797	-409	-715	-716
<b>Profit after tax</b>	<b>1,806</b>	<b>371</b>	<b>2,221</b>	<b>1,700</b>	<b>1,704</b>
Minority interests	3	4	0	0	0
<b>Attributable profit</b>	<b>1,809</b>	<b>375</b>	<b>2,221</b>	<b>1,700</b>	<b>1,704</b>
<b>Attritional loss ratio</b>	<b>56.1%</b>	<b>55.3%</b>	<b>55.0%</b>	<b>54.0%</b>	<b>54.0%</b>
Reserve releases %	2.7%	4.0%	0.6%	0.0%	0.0%
Reserve releases €m	389	634	100	0	0
Basic loss ratio	53.4%	51.3%	54.4%	54.0%	54.0%
Catastrophe losses %	-11.0%	-28.8%	-8.3%	-8.5%	-8.5%
Catastrophe losses €m	-1,564	-4,544	-1,375	-1,436	-1,473
Man made losses %	-4.7%	-3.7%	-3.8%	-3.5%	-3.5%
Man made losses €m	-664	-582	-629	-591	-607
<b>Loss ratio</b>	<b>69.1%</b>	<b>83.8%</b>	<b>66.5%</b>	<b>66.0%</b>	<b>66.0%</b>
Expense ratio	31.3%	30.3%	30.0%	30.0%	30.0%
<b>Combined ratio</b>	<b>100.4%</b>	<b>114.1%</b>	<b>96.5%</b>	<b>96.0%</b>	<b>96.0%</b>

Source: Company data and Citi Research

Figure 179. Munich Re valuation

SOP valuation	Capital	ROC	COC	P/Book	Earnings	P/E	Valuation	Per share
Non-life reinsurance	11,923	14.0%	9.6%	1.48	1,665	10.6	17,620	99.2
Life reinsurance	5,225	8.3%	9.1%	0.91	432	11.0	4,754	26.8
Primary life	6,659	5.3%	9.6%	0.56	355	10.4	3,702	20.8
Primary health	1,753	6.4%	9.1%	0.69	112	10.8	1,212	6.8
Primary P&C	1,968	9.7%	9.1%	1.07	190	11.1	2,107	11.9
Munich health	2,286	5.6%	8.5%	0.60	128	10.7	1,370	7.7
Excess capital	1,500	2.9%	8.5%	0.34	43	11.8	508	2.9
<b>Total</b>	<b>31,314</b>	<b>9.3%</b>	<b>9.3%</b>	<b>1.00</b>	<b>2,926</b>	<b>10.7</b>	<b>31,273</b>	<b>176.0</b>
Debt							-5,519	-31.1
Conglomerate discount							-1,538	-8.7
<b>Valuation</b>							<b>24,216</b>	<b>136.3</b>

Source: Citi Research

## Company Focus

- Company Update
- Estimate Change

<b>Buy</b>	<b>1</b>
Price (14 Jan 13)	€21.45
Target price	€23.50
Expected share price return	9.6%
Expected dividend yield	6.1%
<b>Expected total return</b>	<b>15.6%</b>
Market Cap	€4,118M
	US\$5,495M

**Price Performance**  
(RIC: SCOR.PA, BB: SCR FP)



## SCOR (SCOR.PA) Underperformance offers opportunity

- **Scor has underperformed peers in 2012:** Despite a very strong year for the reinsurance sector, Scor underperformed its peers by 33% during 2012 and we believe this could offer an attractive entry point for investors. We suspect this is partly reflects ongoing concerns in the Eurozone and we note that Scor's exposure to France in particular is modest (eg only 10% of premiums and <2% government bonds).
- **Bull point #1: Scor achieved growth and improved technical profitability:** Scor has set out clear targets for technical profitability in its Strong Momentum V1.1 strategy. The P&C combined ratio has trended towards its 95-96% target (H1 2012: 94.9%) without significant contributions from reserve releases. We also expect that Scor will be underweight in its exposure to hurricane Sandy. Its life technical margin is also already in line with its 7.4% target (H1 2012: 7.3%) which could leave some scope for upgrades. All the while the group has delivered strong premium growth (21% CAGR 2005 – 2011).
- **Bull point #2: Investment strategy already in the price:** Scor's extremely conservative investment strategy has been a key area of debate on the stock. Scor has shortened its asset duration (2.8 yrs at Q3) and increased its allocation to cash (19%), which stands in contrast with its peers. Consequently, the running yield on Scor's fixed income portfolio (1.9%) is well below their peer (3.0-3.5%) which has proved a drag on earnings. We would argue that Scor's strategy could be viewed as an advantage because: i) lower investment returns should now be reflected in consensus and there should be less downside risk to investment return forecasts than peers, ii) Scor's high allocation to cash gives it greater scope to re-risk than peers, iii) Scor won't suffer from a reversal of unrealised gains which could prove a drag on book value growth of peers, and iv) if the European sovereign crisis re-emerges Scor is well positioned.
- **Bull point #3: Attractive valuation and yield:** Scor trades on 0.75x 2013E NAV and offers a 6.4% yield, which is the highest among the largest reinsurers. We forecast 9% 2013 ROE and note that Scor's ROE has historically been less volatile than peers. Given that forecasts already largely reflect the earnings drag from low interest rates and we see scope for continue premium growth, we reiterate our Buy recommendation.
- **Update earnings and target price:** We have lowered our 2012E EPS by 25%, plus 2013/14E, to reflect considerably lower investment returns going forward following asset de-risking. We have left out TP unchanged, which reflects roll forwards of book value offset by lower investment return forecasts.

### SCOR (EUR)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Profit Before Tax (€M)	455.0	330.0	480.9	567.7	651.1
Diluted EPS (€)	2.32	1.80	2.07	2.38	2.73
Diluted EPS (Old) (€)	2.31	1.79	2.76	2.99	3.09
PE (x)	9.2	11.9	10.4	9.0	7.9
DPS (€)	1.10	1.10	1.20	1.30	1.40
Net Div Yield (%)	5.1	5.1	5.6	6.1	6.5
Embedded Value Per Share (€)	24.00	23.87	26.11	27.29	28.72
Price / EVPS (x)	0.9	0.9	0.8	0.8	0.7

# Scor (Buy) – A Snapshot

## Bull Points

- Underperformance during 2012 offers attractive entry point
- Strong premium growth achieved, whilst improving technical profitability
- Opportunity to re-risk investment portfolio given high cash holdings
- Valuation on 0.95x 2013E NTA undemanding and high 6.0% yield

## Bear Points

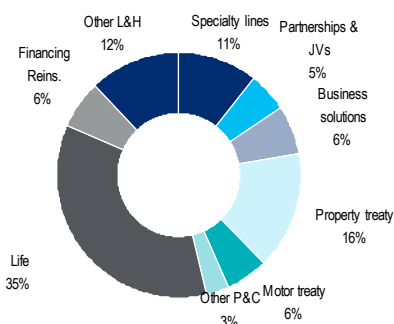
- Conservative asset allocation is drag on ROEs for next few years
- Historically the business has been quite acquisitive
- Capital position is strong but not same levels of excess as peers

Figure 180. Premiums by division (Q3 2012)



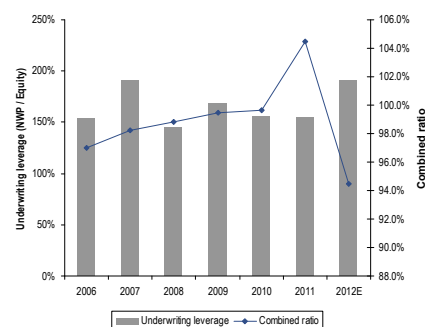
Source: Company data; Citi Research

Figure 181. Premiums by product (2011)



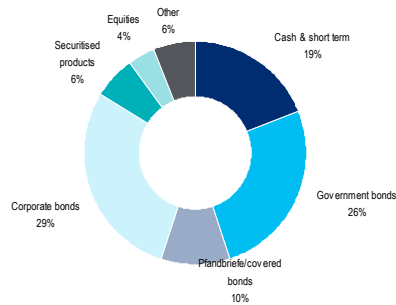
Source: Company data; Citi Research

Figure 182. U/W leverage and combined ratio



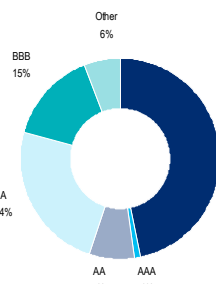
Source: Company data; Citi Research

Figure 183. Group investment mix (Q3 2012)



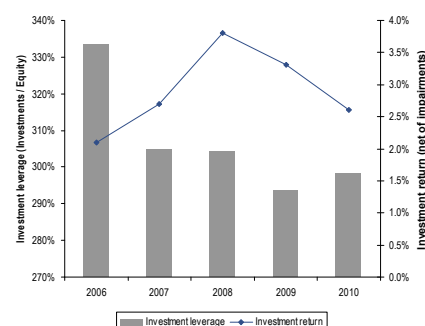
Source: Company data; Citi Research

Figure 184. Fixed income ratings (Q3 2012)



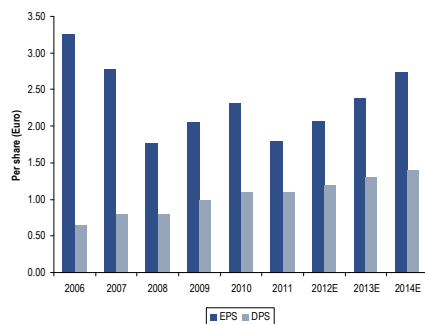
Source: Company data; Citi Research

Figure 185. Investment leverage and yield



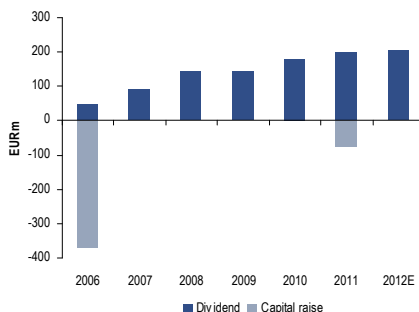
Source: Company data; Citi Research

Figure 186. EPS and DPS reported



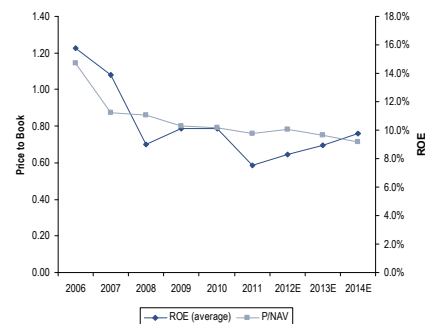
Source: Company data; Citi Research

Figure 187. Capital management record



Source: Company data; Citi Research estimates

Figure 188. ROE vs P / Book

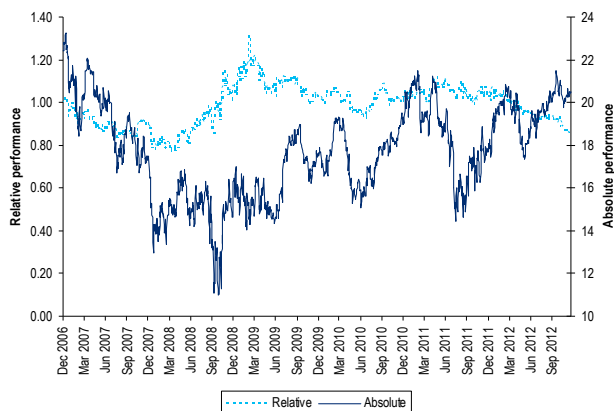


Source: Company data; Citi Research



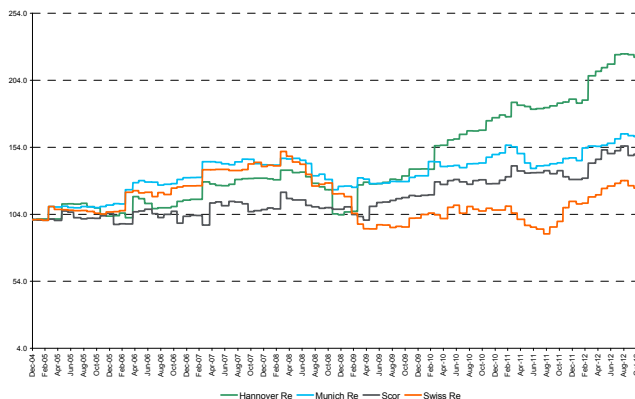
## Scor (Buy) – Trading metrics

Figure 189. Absolute and relative share price performance



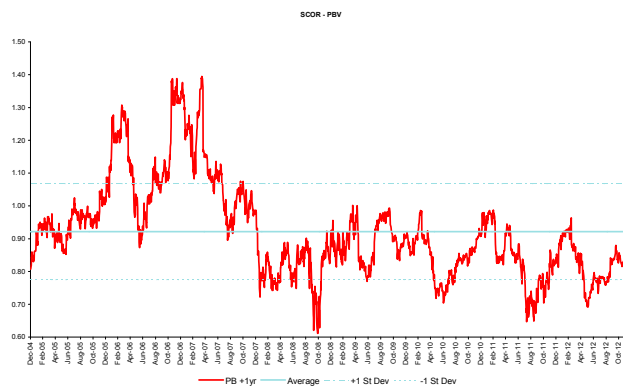
Source: Datastream, IBES, Citi Research

Figure 190. BPS revisions for peers (+1 year consensus)



Source: Datastream, IBES, Citi Research

Figure 191. Price to Book (+1 year consensus)



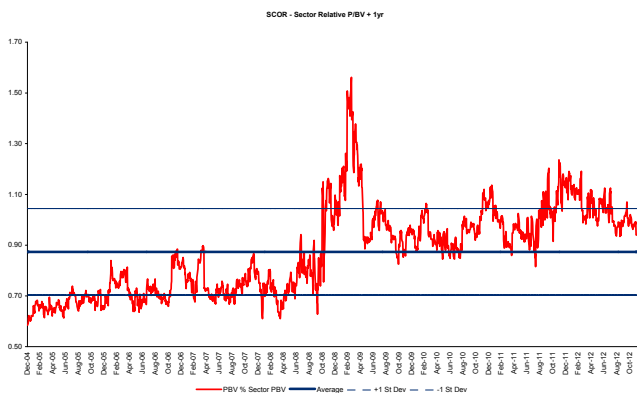
Source: Datastream, IBES, Citi Research

Figure 192. Price to Earnings (+2 year consensus)



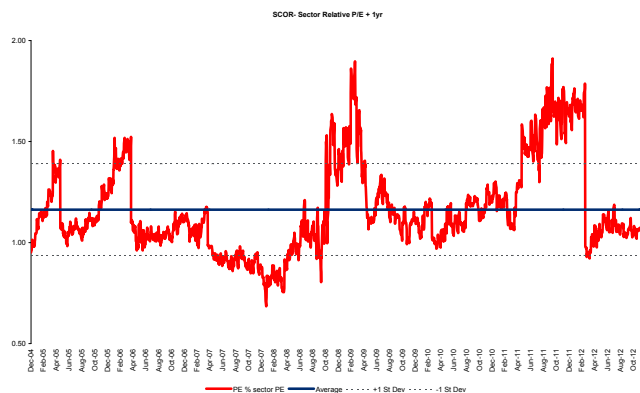
Source: Datastream, IBES, Citi Research

Figure 193. Price to Book (relative to sector)



Source: Datastream, IBES, Citi Research

Figure 194. Price to Earnings (relative to sector)



Source: Datastream, IBES, Citi Research

Figure 195. Scor forecasts

GROUP P&L	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E
Gross written premiums	2,935	4,762	5,807	6,379	6,694	7,602	9,647	10,175	10,733
Net written premiums	2,742	4,355	5,321	5,801	6,143	6,866	8,715	9,192	9,695
Change in unearned premiums	-99	-24	-40	-38	-101	-156	-269	-124	-131
<b>Earned premiums</b>	<b>2,643</b>	<b>4,331</b>	<b>5,281</b>	<b>5,763</b>	<b>6,042</b>	<b>6,710</b>	<b>8,445</b>	<b>9,068</b>	<b>9,564</b>
Claims Expenses	-1,869	-3,162	-3,836	-4,320	-4,515	-5,114	-6,063	-6,497	-6,850
Commissions	-648	-1,015	-1,220	-1,241	-1,292	-1,419	-1,762	-1,894	-1,998
<b>Technical result</b>	<b>126</b>	<b>154</b>	<b>225</b>	<b>202</b>	<b>235</b>	<b>177</b>	<b>620</b>	<b>676</b>	<b>715</b>
<b>Net investment income</b>	<b>463</b>	<b>699</b>	<b>431</b>	<b>468</b>	<b>657</b>	<b>639</b>	<b>558</b>	<b>614</b>	<b>686</b>
Other revenues	-6	0	13	14	-23	-55	-25	-27	-29
Acquisition and expenses	-184	-279	-192	-221	-219	-292	-357	-384	-404
Other operational expenses	0	0	-124	-116	-131	-120	-156	-162	-167
Other operating income	9	2	-4	25	-29	-26	-50	-50	-50
<b>Operating result</b>	<b>408</b>	<b>576</b>	<b>349</b>	<b>372</b>	<b>490</b>	<b>323</b>	<b>590</b>	<b>668</b>	<b>751</b>
Financing expenses	-67	-74	-61	-61	-46	-94	-100	-100	-100
Income from associates	6	22	9	-1	11	7	0	0	0
Amortisation of goodwill	62	0	0	0	0	0	0	0	0
Restructuring provision	0	0	-28	0	0	0	0	0	0
Gain on acquisitions			6	14	0	94	-9	0	0
<b>PBT</b>	<b>409</b>	<b>524</b>	<b>275</b>	<b>324</b>	<b>455</b>	<b>330</b>	<b>481</b>	<b>568</b>	<b>651</b>
Income tax	-95	-114	44	47	-36	0	-100	-131	-150
<b>Net income</b>	<b>314</b>	<b>410</b>	<b>319</b>	<b>371</b>	<b>419</b>	<b>330</b>	<b>381</b>	<b>437</b>	<b>501</b>
Minority interests	0	-3	-3	-1	-1	0	0	0	0
<b>Net income</b>	<b>314</b>	<b>407</b>	<b>316</b>	<b>370</b>	<b>418</b>	<b>330</b>	<b>381</b>	<b>437</b>	<b>501</b>

Source: Company data, Citi Research

Figure 196. Scor change in equity

EQUITY	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E
<b>Opening Equity</b>	<b>1,719</b>	<b>2,261</b>	<b>3,648</b>	<b>3,416</b>	<b>3,901</b>	<b>4,352</b>	<b>4,410</b>	<b>4,797</b>	<b>5,013</b>
Net income	313	410	318	371	419	330	381	437	501
Revaluation of assets	-35	-16	-390	480	87	-307	220	0	0
FX	-57	-198	-105	-21	136	117	26	0	0
Other comprehensive income	19	33	93	-191	-74	54	-37	0	0
Dividends	-48	-92	-143	-143	-179	-201	-203	-220	-239
Capital transactions	371	1,239	21	15	39	76	0	0	0
Other	-21	-8	-26	-26	23	-11	0	0	0
<b>Closing Equity</b>	<b>2,261</b>	<b>3,629</b>	<b>3,416</b>	<b>3,901</b>	<b>4,352</b>	<b>4,410</b>	<b>4,797</b>	<b>5,013</b>	<b>5,276</b>
Growth		61%	-6%	14%	12%	1%	9%	5%	5%
Minorities	0	34	6	7	7	7	7	7	7
<b>Shareholders equity</b>	<b>2,261</b>	<b>3,595</b>	<b>3,410</b>	<b>3,894</b>	<b>4,345</b>	<b>4,403</b>	<b>4,790</b>	<b>5,006</b>	<b>5,269</b>
Goodwill	200	619	787	787	788	788	788	788	788
<b>Tangible equity</b>	<b>2,061</b>	<b>3,010</b>	<b>2,629</b>	<b>3,114</b>	<b>3,564</b>	<b>3,622</b>	<b>4,009</b>	<b>4,225</b>	<b>4,488</b>

Source: Company data; Citi Research

Figure 197. Scor P&C Reinsurance

P&C REINSURANCE	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E
Gross Written Premiums	1,754	2,329	3,106	3,261	3,659	3,982	4,579	4,854	5,145
Net Written Premiums	1,628	2,170	2,886	3,016	3,394	3,591	4,130	4,377	4,640
<b>Net Earned Premiums</b>	<b>1,523</b>	<b>2,140</b>	<b>2,852</b>	<b>2,984</b>	<b>3,290</b>	<b>3,443</b>	<b>3,860</b>	<b>4,254</b>	<b>4,509</b>
Claims Expenses	-1,008	-1,452	-2,003	-2,090	-2,343	-2,636	-2,556	-2,829	-2,998
Commissions	-340	-486	-631	-663	-699	-741	-845	-932	-987
<b>Technical result</b>	<b>175</b>	<b>202</b>	<b>218</b>	<b>231</b>	<b>248</b>	<b>66</b>	<b>459</b>	<b>493</b>	<b>523</b>
Acquisition expenses	-129	-164	-132	-132	-133	-166	-186	-205	-217
Other current operational expenses			-81	-88	-86	-35	-39	-43	-46
Other revenues from operations			28	5	-18	-19	-21	-23	-25
<b>Underwriting result</b>	<b>46</b>	<b>38</b>	<b>33</b>	<b>16</b>	<b>11</b>	<b>-154</b>	<b>213</b>	<b>222</b>	<b>235</b>
<b>Net investment income</b>	<b>276</b>	<b>370</b>	<b>173</b>	<b>172</b>	<b>316</b>	<b>365</b>	<b>306</b>	<b>337</b>	<b>376</b>
Other operating income / expenses	9	2	-4	25	-29	-26	-50	-50	-50
<b>P&amp;C Operating Result</b>	<b>331</b>	<b>410</b>	<b>202</b>	<b>213</b>	<b>298</b>	<b>185</b>	<b>468</b>	<b>508</b>	<b>561</b>
Catastrophe losses	0.0%	5.2%	6.6%	5.1%	9.6%	18.5%	5.7%	6.0%	6.0%
Reserve releases			0.0%	-2.0%	0.0%	3.4%	0.0%	0.0%	0.0%
Claims ratio	66.2%	67.9%	70.2%	70.0%	71.2%	76.6%	66.2%	66.5%	66.5%
Commission ratio	22.3%	22.7%	22.1%	22.2%	21.2%	21.5%	21.9%	21.9%	21.9%
Expense ratio	8.5%	7.7%	6.5%	7.2%	7.2%	6.4%	6.4%	6.4%	6.4%
<b>Combined Ratio</b>	<b>97.0%</b>	<b>98.2%</b>	<b>98.8%</b>	<b>99.5%</b>	<b>99.7%</b>	<b>104.5%</b>	<b>94.5%</b>	<b>94.8%</b>	<b>94.8%</b>

Source: Company data, Citi Research

Figure 198. Scor L&H Reinsurance

LIFE REINSURANCE	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E
Gross Written Premiums	1,181	2,432	2,701	3,118	3,035	3,620	5,068	5,321	5,587
Net Written Premiums	1,114	2,185	2,435	2,785	2,749	3,275	4,585	4,814	5,055
<b>Net Earned Premiums</b>	<b>1,120</b>	<b>2,191</b>	<b>2,429</b>	<b>2,779</b>	<b>2,752</b>	<b>3,267</b>	<b>4,585</b>	<b>4,814</b>	<b>5,055</b>
Claims Expenses	-861	-1,710	-1,833	-2,230	-2,172	-2,478	-3,508	-3,668	-3,852
Commissions	-308	-529	-589	-578	-593	-678	-917	-963	-1,011
<b>Technical result</b>	<b>-49</b>	<b>-48</b>	<b>7</b>	<b>-29</b>	<b>-13</b>	<b>111</b>	<b>160</b>	<b>183</b>	<b>192</b>
<b>Net investment income</b>	<b>187</b>	<b>329</b>	<b>258</b>	<b>300</b>	<b>342</b>	<b>281</b>	<b>257</b>	<b>283</b>	<b>315</b>
Operating expenses	-55	-115	-123	-121	-132	-147	-207	-217	-228
Other revenues	-6	0	5	11	-3	-34	0	0	0
<b>Life Operating Result</b>	<b>77</b>	<b>166</b>	<b>147</b>	<b>161</b>	<b>194</b>	<b>211</b>	<b>211</b>	<b>248</b>	<b>279</b>
<b>Net technical margin</b>	<b>-4.4%</b>	<b>-2.2%</b>	<b>6.3%</b>	<b>4.6%</b>	<b>5.7%</b>	<b>8.1%</b>	<b>7.2%</b>	<b>7.4%</b>	<b>7.4%</b>
Total Life operating margin	6.9%	7.6%	6.1%	5.8%	7.0%	6.5%	4.6%	5.2%	5.5%

Source: Company data, Citi Research

Figure 199. Scor Valuation

SOP valuation	Capital	ROC	COC	P/Book	Earnings	P/E	Valuation	Per share
Non life	2,468	13.3%	9.3%	1.45	328	10.9	3,567	19.4
Life	2,233	6.8%	9.1%	0.73	151	10.9	1,636	8.9
Excess capital	306	2.9%	8.5%	0.34	9	0.0	104	0.6
<b>Total capital</b>	<b>5,007</b>	<b>9.7%</b>	<b>9.2%</b>	<b>1.06</b>	<b>487</b>	<b>10.9</b>	<b>5,307</b>	<b>28.9</b>
Debt							-992	-5.4
<b>Valuation</b>							<b>4,315</b>	<b>23.5</b>

Source: Citi Research

## Company Focus

- Company Update
- Target Price Change
- Estimate Change

<b>Buy</b>	<b>1</b>
Price (14 Jan 13)	SFr68.90
Target price	SFr78.70
from SFr65.50	
Expected share price return	14.2%
Expected dividend yield	5.4%
<b>Expected total return</b>	<b>19.6%</b>
Market Cap	SFr25,542M
	US\$27,959M

### Price Performance (RIC: SRENH.VX, BB: SREN VX)



## Swiss Re (SRENH.VX) Further upside to ROEs

### ■ Underperformance of insurance sector in H212 offers attractive entry point:

Although Swiss Re performed strongly in 2012 (+38%), it has underperformed the insurance sector since end July (-18% relative) driven by a rally of high beta stocks. During 2012 Swiss Re has taken measures to improve its ROE and we think this will continue in 2013. Swiss Re is our top pick among the large reinsurers and it trades on the lowest P/B multiple of the peer group (0.87x 2013E NTA vs sector 1.0x). We believe the recent relative underperformance offers an attractive entry point and we are positive on the shares because:

### ■ Bull point #1 - Optimising capital allocation will enhance ROEs:

We think Swiss Re has started to deliver on its promise to increase ROEs by optimising its capital allocation during 2012: i) it significantly grew P&C reinsurance (high ROE), ii) it sold Admin Re US (capital intensive and low ROE), and iii) it transferred ~\$3bn capital from the divisions up to the group (eg making a capital return easier). We estimate that Swiss Re's excess S&P capital position will increase to \$7.8bn in 2012 and believe it can comfortably afford to: i) grow its regular dividend by 10% to CHF 3.3 per share, ii) pay a \$1bn or CHF2.7 per share special dividend, and ii) maintain a capital buffer at the top end of its targeted range (ie \$3-5bn). Given the extent of the excess capital, we don't think the potential \$0.5-1.0bn Berkshire legal dispute threatens these assumptions.

### ■ Bull point #2 - Best way to play good P&C reinsurance conditions:

We believe Swiss Re is well positioned to take advantage of relatively good P&C reinsurance conditions in 2013. Swiss Re has the strongest P&C reinsurance underwriting track record among the larger reinsurers (eg its quarterly COR has been avg 6% better than sector since 2007). Swiss Re also has significant capital to take advantage of opportunities that arise at 1.1 2013 renewals post Sandy. Having actively managed its portfolio away from longer tail casualty and towards property lines for several years, we believe Swiss Re is the best way to get exposure to relatively good P&C reinsurance conditions.

### ■ Bull point #3 - Asset re-risking potential to offset falling yields:

Swiss Re's asset currently holds significantly more cash than most of its peers. The group has already begun to re-risk its investment portfolio during H2 2012 and we believe this could help to offset the drag on ROEs from decline in fixed income running yield in the coming years (~24bps per annum). If Swiss Re increases allocation to corporate bonds by 5% this could improve ROE by 5%.

- **Update estimates and TP:** We have increased our 2012E EPS 42% to CHF9, reflecting better investment returns and P&C Re u/w result, with less significant changes for 2013/14E. Our TP has increased to CHF 78.7 to reflecting roll fwd of book value and a higher p/b for P&C Re given profitable growth potential.

### Swiss Re (CHF)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Profit Before Tax (SFrM)	2,802.4	2,541.8	4,379.8	3,775.6	3,709.3
Diluted EPS (SFr)	2.63	6.62	8.98	7.39	7.25
Diluted EPS (Old) (SFr)	2.63	6.62	6.34	6.91	7.18
PE (x)	26.2	10.4	7.7	9.3	9.5
DPS (SFr)	2.75	3.00	6.00	3.70	4.00
Net Div Yield (%)	4.0	4.4	8.7	5.4	5.8
Embedded Value Per Share (SFr)	86.32	105.60	94.99	94.34	97.11
Price / EVPS (x)	0.8	0.7	0.7	0.7	0.7

## Swiss Re (Buy) – A Snapshot

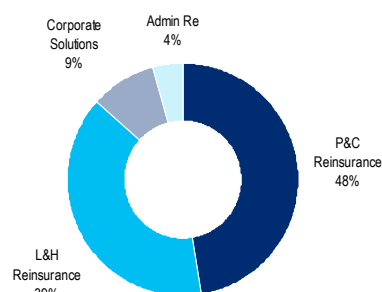
### Bull Points

- Opportunity to enhance ROEs through profitable growth in P&C Re and capital return (\$1bn in 2012E)
- Best way to get exposure to favourable P&C Re conditions and strongest u/w track record of Reinsurers
- Conservative asset allocation (20% cash) leaves greater scope than peers to re-risk investments

### Bear Points

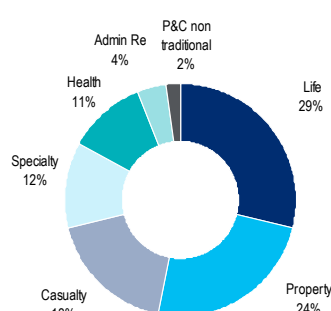
- Concern that significant excess capital (\$7-8bn) will be used for growth rather than returned to optimize capital and track records not as strong as some peers
- Admin Re is still a capital consumptive and low ROE business

Figure 200. Premiums by division (2011)



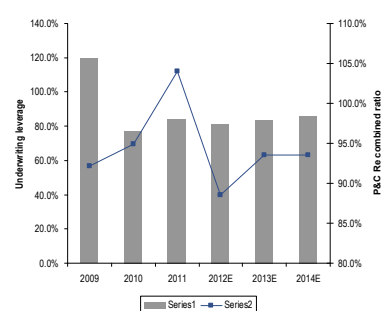
Source: Company data; Citi Research

Figure 201. Premiums by product (2011)



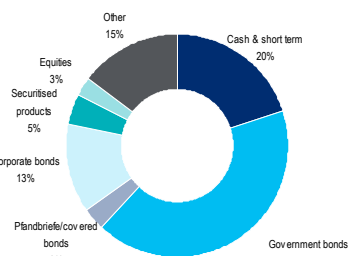
Source: Company data; Citi Research

Figure 202. U/W leverage and combined ratio



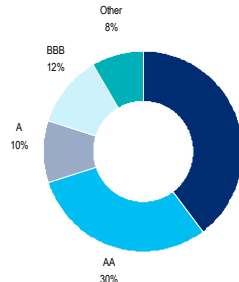
Source: Company data; Citi Research

Figure 203. Group investment mix (Q3 2012)



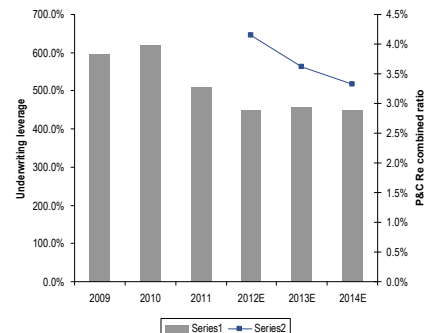
Source: Company data; Citi Research

Figure 204. Fixed income ratings (Q3 2012)



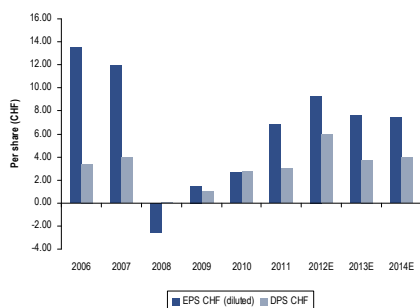
Source: Company data; Citi Research

Figure 205. Investment leverage and yield



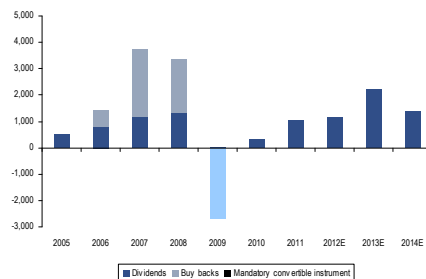
Source: Company data; Citi Research

Figure 206. EPS and DPS reported



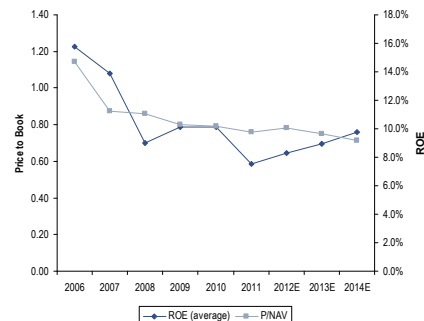
Source: Company data; Citi Research

Figure 207. Capital management record



Source: Company data; Citi Research estimates

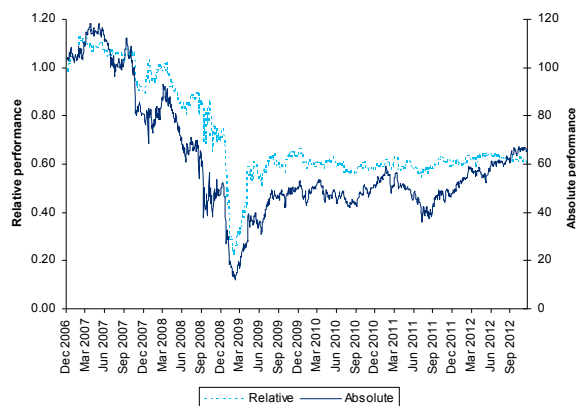
Figure 208. ROE vs P / Book



Source: Company data; Citi Research

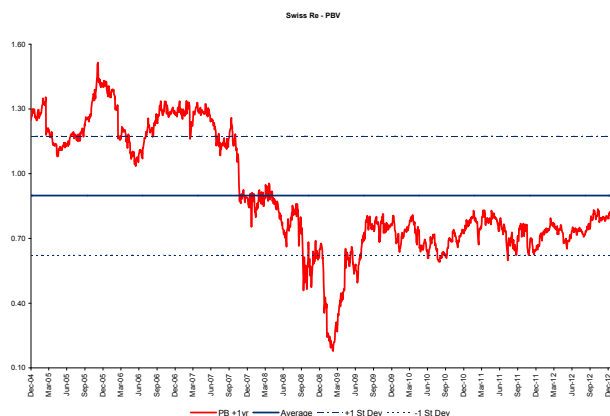
## Swiss Re (Buy) – Trading metrics

Figure 209. Absolute and relative share price performance



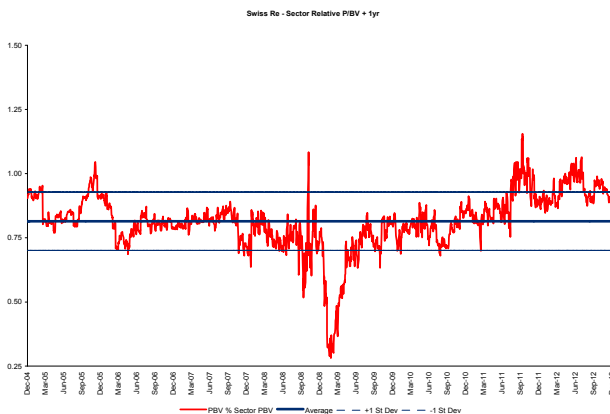
Source: Datastream, IBES, Citi Research

Figure 211. Price to Book (+1 year consensus)



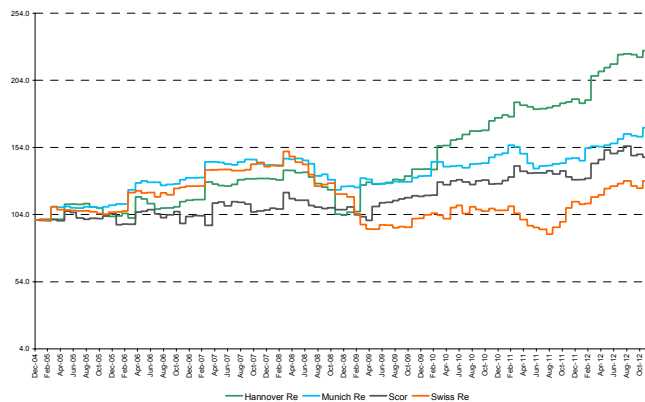
Source: Datastream, IBES, Citi Research

Figure 213. Price to Book (relative to sector)



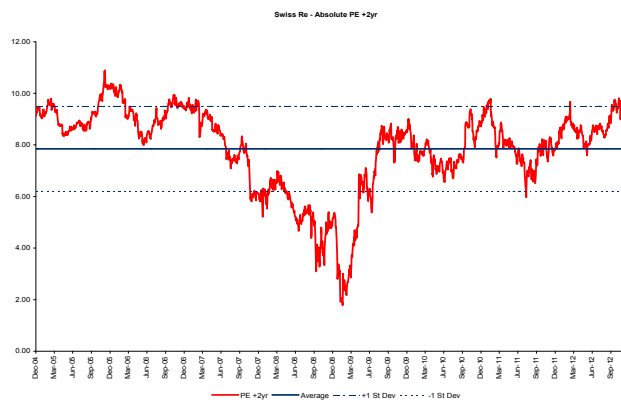
Source: Datastream, IBES, Citi Research

Figure 210. BPS revisions for peers (+1 year consensus)



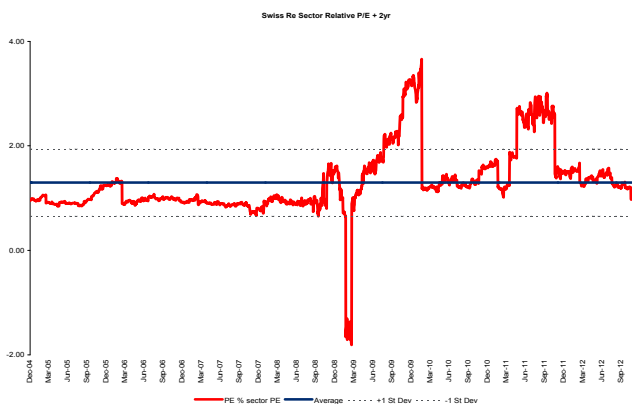
Source: Datastream, IBES, Citi Research

Figure 212. Price to Earnings (+2 year consensus)



Source: Datastream, IBES, Citi Research

Figure 214. Price to Earnings (relative to sector)



Source: Datastream, IBES, Citi Research

Figure 215. Swiss Re Earnings

SWISS RE P&L	2009	2010	2011	2012E	2013E	2014E
Premiums earned	22,664	19,652	21,300	24,098	27,131	28,375
Fee income from policyholders	847	918	876	879	898	917
Net investment income	6,399	5,422	5,469	4,495	4,311	4,255
Net realised gains/losses	875	2,783	388	1,125	1,193	1,003
Net investment result (UL & WP)	0	0	0	2,260	1,550	1,550
Other revenues	178	60	50	202	220	224
<b>Total revenues</b>	<b>30,963</b>	<b>28,835</b>	<b>28,083</b>	<b>33,059</b>	<b>35,302</b>	<b>36,323</b>
Claims and L&H benefits	-16,975	-15,490	-17,224	-17,306	-19,897	-20,694
Return credited to policyholders	-4,597	-3,371	-61	-2,283	-1,628	-1,589
Acquisition costs	-4,495	-3,679	-4,021	-4,615	-5,181	-5,389
Other expenses	-2,965	-2,526	-3,051	-3,344	-3,735	-3,860
Interest expense	-1,011	-1,094	-851	-802	-802	-802
<b>Total expenses</b>	<b>-30,043</b>	<b>-26,160</b>	<b>-25,208</b>	<b>-28,350</b>	<b>-31,243</b>	<b>-32,335</b>
<b>Profit before tax</b>	<b>920</b>	<b>2,675</b>	<b>2,875</b>	<b>4,709</b>	<b>4,060</b>	<b>3,988</b>
Income tax	-221	-541	-77	-1,110	-1,015	-997
<b>Net income (before minorities)</b>	<b>699</b>	<b>2,134</b>	<b>2,798</b>	<b>3,599</b>	<b>3,045</b>	<b>2,991</b>
CPCI	-203	-1,117	0	-58	-58	-58
Minorities	0	-154	-172	-126	-172	-172
<b>Net income</b>	<b>496</b>	<b>863</b>	<b>2,626</b>	<b>3,415</b>	<b>2,815</b>	<b>2,761</b>

Source: Company data and Citi Research

Figure 216. Swiss Re change in equity

CHANGE IN EQUITY	2009	2010	2011	2012E	2013E	2014E
Opening equity			25,342	29,590	32,447	33,047
CPCPI			0	0	0	0
Net income			2,626	3,415	2,815	2,761
Dividends			-1,035	-1,134	-2,215	-1,366
Other			-575	-111	0	0
Unrealised gains			3,232	687	0	0
<b>Closing equity</b>	<b>25,344</b>	<b>25,342</b>	<b>29,590</b>	<b>32,447</b>	<b>33,047</b>	<b>34,442</b>
Contingent capital			0	1,102	1,102	1,102
Minorities			1,697	24	24	24
<b>Total equity</b>			<b>31,287</b>	<b>33,573</b>	<b>34,173</b>	<b>35,568</b>
Goodwill	4,134	4,083	4,051	4,051	4,051	4,051
<b>Tangible equity</b>	<b>21,210</b>	<b>21,259</b>	<b>25,539</b>	<b>28,396</b>	<b>28,996</b>	<b>30,391</b>

Source: Company data and Citi Research

Figure 217. Swiss Re divisional forecasts

DIVISIONAL	2009	2010	2011	2012E	2013E	2014E
P&C Reinsurance	10,979	9,191	10,135	12,162	14,594	15,178
L&H Reinsurance	8,944	7,864	8,317	8,650	8,909	9,176
Corporate Solutions	1,800	1,689	1,929	2,276	2,618	3,010
Admin Re	903	886	897	1,005	1,005	1,005
Group items	38	22	22	5	5	5
Consolidation	0	0	0	0	0	0
<b>Group NEP</b>	<b>22,664</b>	<b>19,652</b>	<b>21,300</b>	<b>24,098</b>	<b>27,131</b>	<b>28,375</b>
P&C Reinsurance	984	1,202	1,099	2,208	1,912	1,876
L&H Reinsurance	-73	631	1,664	788	538	495
Corporate Solutions	151	67	81	238	247	256
Admin Re	-120	263	329	138	124	146
Group items	-446	-1,300	-547	43	-6	-12
Consolidation	0	0	0	0	0	0
<b>Group net income</b>	<b>496</b>	<b>863</b>	<b>2,626</b>	<b>3,415</b>	<b>2,815</b>	<b>2,761</b>

Source: Company data and Citi Research

Figure 218. Swiss Re P&C Re earnings

P&C REINSURANCE P&L	2009	2010	2011	2012E	2013E	2014E
Premiums earned	10,979	9,191	10,135	12,162	14,594	15,178
Fee income from policyholders	0	0	0	0	0	0
Net investment income	1,641	1,205	1,307	1,490	1,529	1,531
Net realised gains/losses	-982	362	512	350	360	268
Net investment result (UL & WP)	0	0	0	0	0	0
Other revenues	160	60	72	86	104	108
<b>Total revenues</b>	<b>11,798</b>	<b>10,818</b>	<b>12,026</b>	<b>14,088</b>	<b>16,587</b>	<b>17,085</b>
Claims and claim adj expenses	-6,801	-5,876	-7,381	-7,054	-9,194	-9,562
Return credited to policyholders	0	0	0	0	0	0
Acquisition costs	-2,010	-1,722	-1,848	-2,250	-2,700	-2,808
Other expenses	-1,303	-1,123	-1,318	-1,459	-1,751	-1,821
Interest expense	-281	-291	-155	-155	-155	-155
<b>Total expenses</b>	<b>-10,395</b>	<b>-9,012</b>	<b>-10,702</b>	<b>-10,919</b>	<b>-13,801</b>	<b>-14,347</b>
<b>Profit before tax</b>	<b>1,403</b>	<b>1,806</b>	<b>1,324</b>	<b>3,170</b>	<b>2,786</b>	<b>2,739</b>
Income tax	-419	-456	-65	-830	-697	-685
<b>Net income (before minorities)</b>	<b>984</b>	<b>1,350</b>	<b>1,259</b>	<b>2,340</b>	<b>2,090</b>	<b>2,054</b>
<b>Attritional claims ratio</b>	<b>65.7%</b>	<b>64.6%</b>	<b>63.6%</b>	<b>63.0%</b>	<b>63.0%</b>	<b>63.0%</b>
Catastrophe losses budget (\$m)	-970	-930	-1,240	-1,216	-1,459	-1,518
Catastrophe losses budget (%)	-8.8%	-10.1%	-12.2%	-10.0%	-10.0%	-10.0%
Catastrophe losses actual (\$m)	-556	-952	-3,424	-1,289	-1,459	-1,518
Catastrophe losses actual (%)	-5.1%	-10.4%	-33.8%	-10.6%	-10.0%	-10.0%
Reserve releases (\$m)	0	84	1,248	681	0	0
Reserve releases (%)	0.0%	0.9%	12.3%	5.6%	0.0%	0.0%
<b>Claims Ratio</b>	<b>61.9%</b>	<b>63.9%</b>	<b>72.8%</b>	<b>58.0%</b>	<b>63.0%</b>	<b>63.0%</b>
Acquisition cost ratio	18.3%	18.7%	18.2%	18.5%	18.5%	18.5%
Other expense ratio	11.9%	12.2%	13.0%	12.0%	12.0%	12.0%
<b>Expense Ratio</b>	<b>30.2%</b>	<b>31.0%</b>	<b>31.2%</b>	<b>30.5%</b>	<b>30.5%</b>	<b>30.5%</b>
<b>Combined Ratio</b>	<b>92.1%</b>	<b>94.9%</b>	<b>104.1%</b>	<b>88.5%</b>	<b>93.5%</b>	<b>93.5%</b>

Source: Company data and Citi Research



Figure 219. Swiss Re valuation

SOP valuation	Capital	ROC	COC	P/Book	Earnings	P/E	Valuation	Per share
P&C reinsurance	11,314	15.9%	9.3%	1.74	1,892	10.4	19,722	53.5
L&H reinsurance	11,348	8.7%	9.1%	0.96	802	13.6	10,922	29.6
Corporate Solutions	2,252	9.9%	9.1%	1.09	222	11.1	2,465	6.7
Admin Re	5,733	2.8%	9.6%	0.29	82	20.4	1,668	4.5
Group items	320	4.9%	8.5%	0.57	16	11.8	183	0.5
Excess capital	7,000	3.1%	8.5%	0.36	216	11.8	2,536	6.9
Total	<b>37,967</b>	<b>9.0%</b>	<b>9.1%</b>	<b>0.99</b>	<b>3,229</b>	<b>11.6</b>	<b>37,496</b>	<b>101.8</b>
Debt							-8,500	-23.1
<b>Valuation</b>							<b>28,996</b>	<b>78.7</b>

Source: Citi Research

## Amlin Plc

### Company description

Amlin is a commercial lines P&C insurer and its operating platforms are Lloyd's of London, Continental Europe and Bermuda. In 2009 it acquired the former Fortis P&C business in the Benelux. In 2010 it launched Amlin AG, which contains the existing business of Amlin Bermuda and a new operation called Amlin Re Europe.

### Investment strategy

We rate Amlin Buy. While exposed to high-severity events through its underwriting business, Amlin has delivered earnings growth with lower volatility than many peers with proportionately less exposure to catastrophe claims. This has been done through use of reinsurance protection and a broadly diversified portfolio. There is a strong focus on return on equity and incentivisation of underwriters by the bottom line rather than the top line. The recent acquisition of the former Fortis Corporate Insurance in Benelux raises the group's non-cat platform and should enable Amlin to scale up its core catastrophe writings in future years. This acquisition, together with the establishment of a European reinsurance platform in Zurich, should form the basis of a continuing growth story.

### Valuation

In common with our general sector approach, we use our Value Perspective methodology to calculate a SOTP valuation for Amlin. Our approach assigns a target price/NTA multiple to each business based on consideration of return on capital vs. cost of capital, adjusted for 10-year forecast growth. We value the London business at 1.8x NTA, reflecting its sector-leading performance for the last decade. The UK business is valued at 1.1x NTA in light of the improving operating environment in UK commercial. The Bermudan business is valued on 1.7x, given its strong track record. ACI is valued at a notable discount to NTA to reflect the operating concerns around this business. In order to recognize the potential volatility in earnings, we apply a beta of 1.2 and derive a cost of capital of 9.9% for the group. Our SOTP model points to a fair value of 425p, which is where we set our target price. At this level the shares would trade on 1.6x 2012E NTA.

### Risks

The main positive risks to our target price are: i) our forecasts include an assumption for normalised catastrophe losses such that, should incurred losses be materially below our assumptions, this would lead to higher u/w profits; ii) a material increase in global pricing would lead to improved u/w profits and would likely be accompanied by a re-rating in valuation multiples; and iii) increased US/UK interest rates would lead to higher investment returns.

The main negative risks to the share price reaching our target price are: i) the group has significant exposure to business for which profitability is impacted by natural catastrophes (eg earthquakes) and this can lead to considerable volatility in earnings; ii) the group derives a large proportion of its revenues and holds a significant part of its NAV in non-sterling currencies (predominantly the USD) - consequently, earnings and NAV are exposed to weakness in these currencies; and iii) the group holds significant fixed income assets and, should corporate or sovereign defaults increase materially, this would have an adverse impact on returns.

## Catlin Group Ltd

### Company description

Catlin is a property & casualty underwriter based in Bermuda which is expanding beyond its roots at Lloyd's of London, (where, through its 100% ownership of Syndicate 2003, it is the largest underwriting platform) to become a genuinely international wholesale company. The company is represented in the US, Europe and a fast-expanding network of offices in Asia.

### Investment strategy

We rate Catlin Buy. Following the acquisition of Wellington in December 2006 Catlin is now a sizeable international P&C underwriter. The US, Bermudian and international hubs are producing organic growth and Catlin now has a large and well diversified underwriting portfolio. Catlin has significantly increased its underlying underwriting profitability and the greater profitability from its international operations should lower overall earnings volatility. We also believe that Catlin's Adverse Development Cover on 2009 and prior year reserves helps relieve some of the concern over its lower reserve releases. We view the current valuation as undemanding and believe that another year of solid trading performance could lead the shares to re-rate in line with sector multiples.

### Valuation

In common with our general sector approach, we use our Value Perspective methodology to calculate a SOTP valuation for Catlin. Our approach assigns a target price/NTA multiple to each business based on consideration of return on capital vs. cost of capital, adjusted for 10-year forecast growth. We value the London business at 1.7x NTA reflecting its longstanding franchise. The Bermudian business is valued at 1.3x NTA given the faster growth but potentially higher volatility of this business. We value the US business on 1.1x NTA to reflect its improved profitability. The International businesses are valued at a discount to NTA to reflect concerns over the profitability of the business written, especially post central cost allocation. In order to recognize the potential earnings volatility, we apply a beta of 1.2 and derive a cost of capital of 10.0% for the group. Our SOTP model points to a fair value of 567p, which is where we set our target price. At this level the shares would trade on 1.5x 2012E NTA.

### Risks

The main positive risks to our target price are: i) our forecasts include an assumption for normalised catastrophe losses such that, should incurred losses be materially below our assumptions, this would lead to higher u/w profits; ii) a material increase in global pricing would lead to improved u/w profits and would likely be accompanied by a re-rating in valuation multiples; and iii) increased US/UK interest rates would lead to higher investment returns.

The main negative risks to our target price are: i) the group has significant exposure to business for which profitability is impacted by natural catastrophes (eg earthquakes) and this can lead to considerable volatility in earnings; ii) the group derives a large proportion of its revenues and holds a significant part of its NAV in non-sterling currencies (predominantly the USD) - consequently, earnings and NAV are exposed to weakness in these currencies; and iii) the group holds significant fixed income assets and, should corporate or sovereign defaults increase materially, this would have an adverse impact on returns.

## Hannover Ruckversicherungs AG

### Company description

Hannover Re is one of the top 10 global P&C reinsurers, and also has operations in life and health reinsurance, finite risk reinsurance and specialty insurance.

### Investment strategy

The company is continuing to take market share in P&C without sacrificing margins and continues to show impressive growth in L&H reinsurance. However, we think it is hard to argue that this is not captured in the share price, which trades at a premium to the group's peers on price/book metrics, particularly since one key reason for Hannover's higher ROE is the use of double leverage and comparatively high financial gearing. As a result, we rate the shares Neutral.

### Valuation

In line with our Value Perspectives framework we value Hannover Re using a SOTP valuation. We value the Non Life Reinsurance business at 1.6x and the L&H Reinsurance business at 1.0x. We utilise 10.8% ROC and a 9.4% COC. This implies a valuation of €60.2 per share for Hannover Re, which equates to 1.2x book.

### Risks

The main risk to our Hannover Re target price is its exposure to property casualty reinsurance risks including volatility in catastrophe losses and uncertainty over long-tail reinsurance liabilities. In terms of other divisions, life and health reinsurance is exposed to mortality and morbidity risks. In addition, relatively high operational and financial leverage creates more volatility in the capital base compared to some peers (as reflected in a higher cost of equity), although asset exposures tend to be conservative on a relative basis. If the impact on the company from any of these factors proves to be less/more negative than we anticipate, the stock could materially outperform/underperform our target price.

## Hiscox Ltd

### Company description

Hiscox Ltd is the Bermudian domiciled holding company of an international specialty property & casualty underwriting group. The company has regulated subsidiaries in Bermuda, UK, US and controls 73% of the capacity on Syndicate 33 at Lloyd's of London. Hiscox has expanded from one of the initial providers of corporate capital to Lloyd's, writing specialty lines such as fine arts and kidnap & ransom. It also has a sizeable portfolio of wholesale global markets insurance and reinsurance risks.

### Investment strategy

Hiscox consists of two distinct types of business: a portfolio of wholesale insurance and reinsurance risks where the company participates in business brought by brokers and usually led by other underwriters, and a set of niche specialty business lines where Hiscox has uniquely strong expertise. While the company is gaining ground in specialty lines business, we fear that less prior year reserve releases and lower investment returns could pressure medium-term earnings. The shares are trading at a higher NTA multiple than most of its London market peers, which we believe restricts relative upside. Nevertheless, the valuation looks supportive in absolute terms and we rate the shares Neutral.

## Valuation

In common with our general sector approach, we use our Value Perspective methodology to calculate a SOTP valuation for Hiscox. Our approach assigns a target price/NTA multiple to each business based on consideration of return on capital vs. cost of capital, adjusted for 10-year forecast growth. We value the London Markets business at 1.8x NTA reflecting its longstanding franchise and strong performance record. The UK/European businesses are valued at 1.5x NTA given the lower margins but also lower volatility of this business. The International business (which includes Bermuda and Guernsey) is valued at 1.2x NTA to reflect the higher potential volatility of this business. In order to recognise the potential volatility in earnings, we apply a beta of 1.2 and derive a cost of capital of 9.7% for the group. Our SOTP model points to a fair value of 450p, which is where we set our target price. At this level the shares would trade on 1.4x 2012E NTA.

## Risks

Potential negative risks reflect the inherent volatility in areas of the property and casualty market to which the company is exposed. Furthermore, for much of its business Hiscox is a participant on programmes priced and underwritten by other insurers. As such it has limited pricing power on its wholesale book. Earnings are also exposed to natural catastrophe events such as earthquakes and windstorm, the occurrence of which could materially impact the group's earnings and capital base. Two-thirds of revenues are denominated in US and Canadian dollars, while much of the group's expense base is in UK pounds. Finally, the company holds substantial investments, predominantly in fixed interest instruments, which, while of high quality and short duration, provide risk to the asset side of the balance sheet. If the impact of these risk factors is more or less negative than we currently anticipate, then the share price could fail to reach or exceed our target price.

## Lancashire Holdings

### Company description

Lancashire is a Bermuda-based specialty re/insurance company that focuses on short tail risks. It was established in late 2005 to take advantage of market opportunities following hurricane Katrina. It employs around 100 staff and has underwriting operations in London and Bermuda, as well as a marketing office in Dubai. It focuses on primary insurance (79% of premiums) and has considerable exposure to business that is affected by natural catastrophes (32% of premiums).

### Investment strategy

We rate Lancashire Buy. Lancashire has delivered outstanding underwriting margins, despite having a relatively higher exposure to catastrophe business than peers. In our view, the business is well positioned to outperform peers regardless of whether the market is soft or hard. Lancashire also has the best capital management track record in the sector, having returned 117% of its IPO capital to shareholders already. While it trades at a premium to the sector on 2012E price/NTA, we believe its simple operating model deserves a scarcity premium.

## Valuation

In common with our general sector approach, we use our Value Perspective methodology to calculate a SOTP valuation for Lancashire. Our approach assigns a target price/NTA multiple to each business based on consideration of return on

capital vs. cost of capital, adjusted for 10-year forecast growth. We value the Property business at 1.9x NTA and the Energy business at 1.5x NTA, reflecting its slightly higher loss experience. The smaller Aviation portfolio is valued at 1.5x NTA, given its impressive combined ratio track record (average 21% COR 2006-10) and the Marine book is valued at 1.1x. In order to recognise the potentially higher than sector average volatility in earnings, we apply a beta of 1.1 and derive a cost of capital of 9.9% for the group. Our SOTP model points to a fair value of £9.05, which is where we set our target price. At this level the shares would trade on 1.7x 2012E NTA.

## Risks

The main positive risks to our target price are: i) our forecasts include an assumption for normalised catastrophe losses such that, should incurred losses be materially below our assumptions, this would lead to higher u/w profits; ii) a material increase in global pricing would lead to improved u/w profits and would likely be accompanied by a re-rating in valuation multiples; and iii) increased US/UK interest rates would lead to higher investment returns.

The main negative risks to our target price are: i) the group has significant exposure to business for which profitability is impacted by natural catastrophes (eg earthquakes) and this can lead to considerable volatility in earnings; ii) the group holds significant fixed income assets and, should corporate or sovereign defaults increase materially, this would have an adverse impact on returns.

## Munich Re

### Company description

Munich Re is the number one global property casualty reinsurer and is the number two life reinsurer. The group also has significant primary insurance operations in Germany, relating to its ownership of ERGO.

### Investment strategy

We rate Munich Re Neutral. Munich Re continues to trade at undemanding multiples, particularly when judged in the context of price to tangible book (which has remained stable at c1-1.1x over the last few years). However, we see relatively few catalysts for a re-rating: 1) The stock is not obviously mispriced when judged against current returns or in comparison to peers; 2) Earnings momentum is likely to remain subdued; and 3) The primary business remains a challenge, in our view. We think that cash returns remain a source of support.

### Valuation

We use our Value Perspectives model to value Munich Re and we focus on SOTP view. The SOTP view values i) P&C reinsurance at 1.4x invested capital based on its high ROC, ii) L&H reinsurance is valued at 0.9x capital due to the pressure from low interest rates, iii) Primary P&C at 0.8x capital, iii) L&H reinsurance at 0.9x capital, and iv) Primary L&H at 0.7x due to the low interest rate environment. We also apply a modest conglomerate discount, which establishes a value of €136 per share. This values the group at 1.0x 2012E NTA.

## Risks

The main risk to our Munich Re target price are the following factors. The group has significant exposure to long-tail insurance liabilities (which have proved to be a source of considerable problems in the past) as well as to catastrophe losses such as windstorms and earthquakes. In the primary life business the group is principally exposed to interest rate guarantees embedded within savings products, and with relatively limited 'policyholder capital' to cushion any shortfall. The group also has exposure to capital markets movements, although equity exposures are currently low. If the impact of these risk factors is greater than we currently anticipate, the share price might not reach our target price. On the other hand, property casualty reinsurance earnings could surprise on the upside, particularly if reserve releases ever fall through to the bottom line. These risks could cause the shares to rise above our target price.

## SCOR

### Company description

SCOR is a top-10 global reinsurer, with strong market positions in a number of European countries. The group is the product of the 'legacy' French reinsurer, Revios, (a German life reinsurer) and Converium. This latter company was acquired in 2007.

### Investment strategy

With SCOR continuing to recover market share, and with margins also improving, we think the valuation case for the company is compelling. We rate SCOR Buy.

### Valuation

In line with our value perspectives methodology, we value Scor based on a SOTP model. We assume 9.2% COE and 9.7% return on capital. We value the P&C reinsurance business on 1.5x 2012 NTA due to favourable underwriting conditions. We value the L&H reinsurance business on 0.7x NTA due to the low interest rate environment. Based on this we derive a target price of €23.5 per share. This values the group at 1.1x 2012E NTA.

## Risks

The main negative risks to which the company is exposed are generic to the reinsurance industry, principally man-made and weather catastrophes and reserving risks. Compared with peers, SCOR is underweight US catastrophe risks but it does have a considerably more chequered history when it comes to reserve adequacy. The company also has direct exposure to equities, corporate bonds and ABS, and further capital markets volatility could lead to additional unrealized and realised losses in future quarters. While we do not consider asset-side exposure to be excessive, equity gearing is above that of Bermudan peers and this does create more volatility in the capital base. If the impact of these risk factors is more negative than we currently anticipate, then the share price could fail to reach our target price.

## Swiss Re

### Company description

Swiss Re is the leading life reinsurer in the world and the number two property casualty reinsurer globally.

### Investment strategy

We rate Swiss Re Buy. We are positive on the stock for the following reasons: i) P&C reinsurance pricing is improving and Swiss Re's excellent underwriting track record suggests it is well positioned to take advantage of this, ii) it has limited exposure to riskier assets (eg peripheral European sovereign credit), and iii) it has a strong capital position which should support growth and the potential for capital return.

### Valuation

We value Swiss Re using an SOP approach in line with our value perspectives methodology. We assume a COE of 9.1% and a return on capital of 8.8%. We value the P&C reinsurance business on 1.7x NTA based on its high returns and growth prospects. We value the L&H reinsurance business on 1.0x NTA due to pressures from low interest rates. We value Corporate Solutions on 1.1x due to a combination of growth and improving margins. We value Admin Re on 0.3x NTA which reflect the capital consumptive and therefore low ROE nature of this business. We value the group's significant excess capital at 0.4x NTA. This suggests a valuation for the group of CHF 78.7, which implies a 1.0x NTA multiple.

### Risks

We see the following industry and company-specific risk factors. The company is exposed to natural catastrophe claims as well as to potential ongoing reserve problems within long-tail liability lines (albeit this risk is offset by a reinsurance treaty with Berkshire Hathaway). The group's NAV has only low gearing to movements in equity markets, but there is potential for further write-downs on the group's structured credit and corporate bond portfolios, and Swiss Re also has exposure to private equity and hedge fund investments. Although the company's de-risking has reduced the potential for capital de-stabilisation, renewed volatility in asset markets could cause additional mark to market losses. If the impact on the company from any of these factors proves to be less/more negative than we anticipate, the stock could materially outperform/underperform our target price.



## Notes

## Notes

## Appendix A-1

### Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

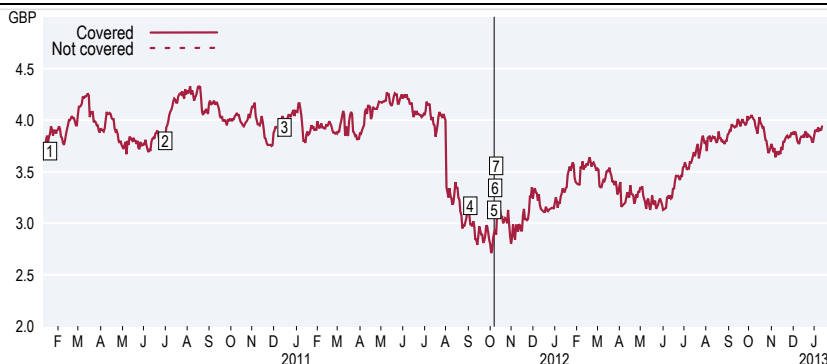
### IMPORTANT DISCLOSURES

#### Amlin Plc (AML.L)

##### Ratings and Target Price History Fundamental Research

Analyst: Thomas Dörner

Covered since November 16 2011



	Date	Rating	Target Price	Closing Price
1	20-Jan-10	2M	*4.20	3.87
2	1-Jul-10	*1M	*4.70	3.82
3	16-Dec-10	1M	*4.85	3.98

\* Indicates change

	Date	Rating	Target Price	Closing Price
4	5-Sep-11	1M	*3.75	2.99
5	7-Oct-11	Stock rating system changed		
6	8-Oct-11	*1	3.75	2.91

	Date	Rating	Target Price	Closing Price
7	11-Oct-11	1	*3.83	2.89

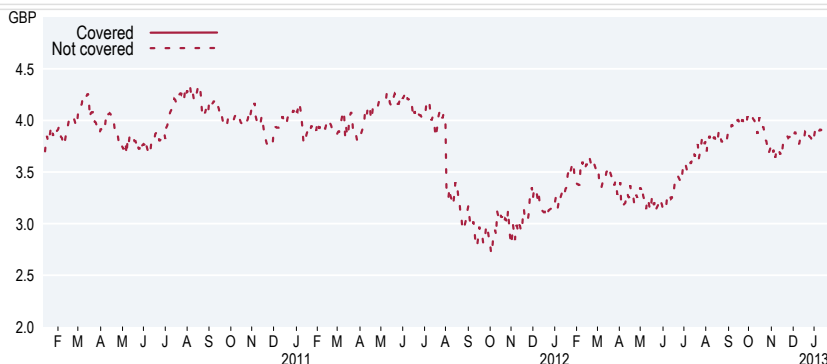
Rating/target price changes above reflect Eastern Standard Time

#### Amlin Plc (AML.L)

##### Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Thomas Dörner

Covered since November 16 2011



\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

#### Catlin Group Ltd (CGL.L)

##### Ratings and Target Price History Fundamental Research

Analyst: Thomas Dörner

Covered since November 16 2011



	Date	Rating	Target Price	Closing Price
1	29-Jul-10	1H	*4.40	3.82
2	22-Nov-10	1H	*4.00	3.44
3	5-Sep-11	1H	*4.25	3.46

\* Indicates change

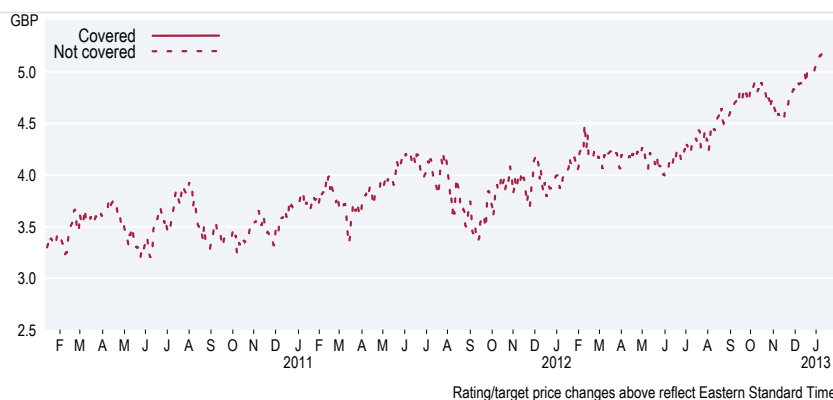
	Date	Rating	Target Price	Closing Price
4	7-Oct-11	Stock rating system changed		
5	8-Oct-11	*1	4.25	3.83
6	11-Oct-11	*2	*4.00	3.85

	Date	Rating	Target Price	Closing Price
7	3-Apr-12	2	*4.28	4.19
8	26-Jun-12	*1	*4.78	4.20

Rating/target price changes above reflect Eastern Standard Time

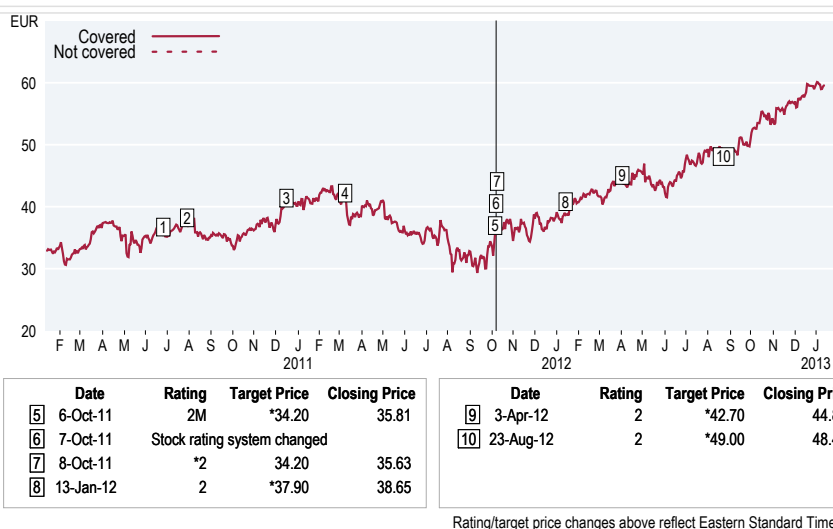
**Catlin Group Ltd (CGL.L)**  
**Ratings and Target Price History**  
**Best Ideas Research**  
**Relative Call (3 Month)**

Analyst: Thomas Dörner  
Covered since November 16 2011



**Hannover Ruckversicherungs AG (HNRGn.DE)**  
**Ratings and Target Price History**  
**Fundamental Research**

Analyst: Thomas Dörner  
Covered since September 5 2011



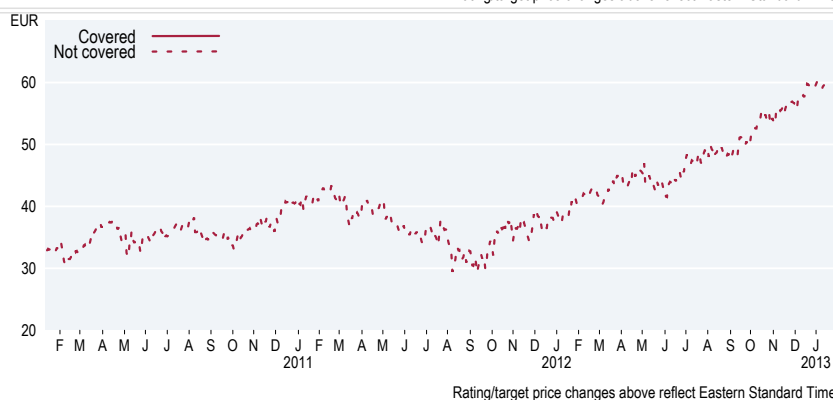
	Date	Rating	Target Price	Closing Price
1	25-Jun-10	2M	*38.00	35.29
2	29-Jul-10	2M	*40.00	37.25
3	16-Dec-10	2M	*41.00	40.65
4	9-Mar-11	2M	*43.00	41.70

	Date	Rating	Target Price	Closing Price
5	6-Oct-11	2M	*34.20	35.81
6	7-Oct-11	Stock rating system changed		
7	8-Oct-11	*2	34.20	35.63
8	13-Jan-12	2	*37.90	38.65

	Date	Rating	Target Price	Closing Price
9	3-Apr-12	2	*42.70	44.83
10	23-Aug-12	2	*49.00	48.40

**Hannover Ruckversicherungs AG (HNRGn.DE)**  
**Ratings and Target Price History**  
**Best Ideas Research**  
**Relative Call (3 Month)**

Analyst: Thomas Dörner  
Covered since September 5 2011



## Hiscox Ltd (HSX.L)

### Ratings and Target Price History

### Fundamental Research

Analyst: Thomas Dörner  
Covered since November 16 2011



	Date	Rating	Target Price	Closing Price
1	29-Jul-10	2M	*3.75	3.57
2	16-Dec-10	2M	*4.00	3.66

\* Indicates change

	Date	Rating	Target Price	Closing Price
3	5-Oct-11	2M	*3.93	3.62
4	7-Oct-11	Stock rating system changed		

	Date	Rating	Target Price	Closing Price
5	8-Oct-11	*2	3.93	3.78
6	4-Apr-12	2	*4.13	3.96

Rating/target price changes above reflect Eastern Standard Time

## Hiscox Ltd (HSX.L)

### Ratings and Target Price History

### Best Ideas Research

### Relative Call (3 Month)

Analyst: Thomas Dörner  
Covered since November 16 2011



\* Indicates change

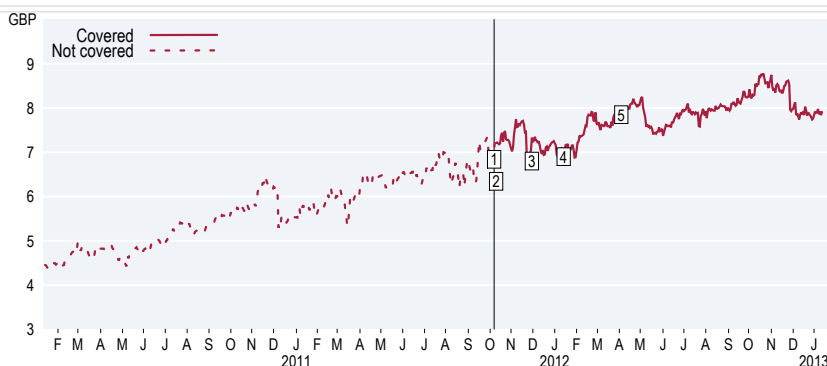
Rating/target price changes above reflect Eastern Standard Time

## Lancashire Holdings (LRE.L)

### Ratings and Target Price History

### Fundamental Research

Analyst: Thomas Dörner  
Covered since October 11 2011



	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	11-Oct-11	*1	*8.64	7.21

\* Indicates change

	Date	Rating	Target Price	Closing Price
3	30-Nov-11	1	*7.93	7.33
4	13-Jan-12	1	*8.53	7.03

	Date	Rating	Target Price	Closing Price
5	4-Apr-12	1	*9.16	7.85

Rating/target price changes above reflect Eastern Standard Time

## Lancashire Holdings (LRE.L)

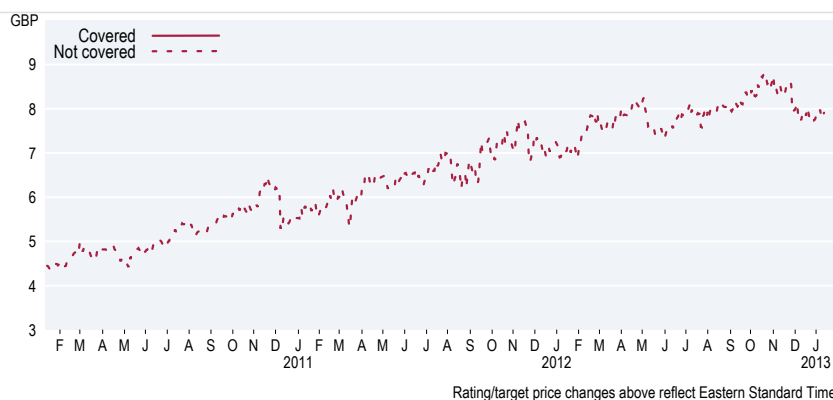
### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Thomas Dörner

Covered since October 11 2011



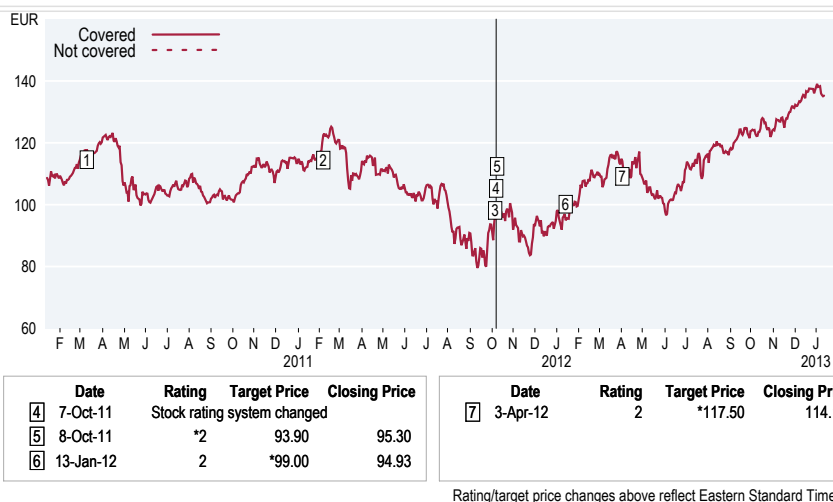
## Munich Re (MUVGn.DE)

### Ratings and Target Price History

#### Fundamental Research

Analyst: Thomas Dörner

Covered since September 5 2011



	Date	Rating	Target Price	Closing Price
1	10-Mar-10	2M	*120.00	117.90
2	7-Feb-11	2M	*128.00	122.50
3	6-Oct-11	2M	*93.90	96.99

	Date	Rating	Target Price	Closing Price
4	7-Oct-11	Stock rating system changed		
5	8-Oct-11	*2	93.90	95.30
6	13-Jan-12	2	*99.00	94.93

	Date	Rating	Target Price	Closing Price
7	3-Apr-12	2	*117.50	114.10

## Munich Re (MUVGn.DE)

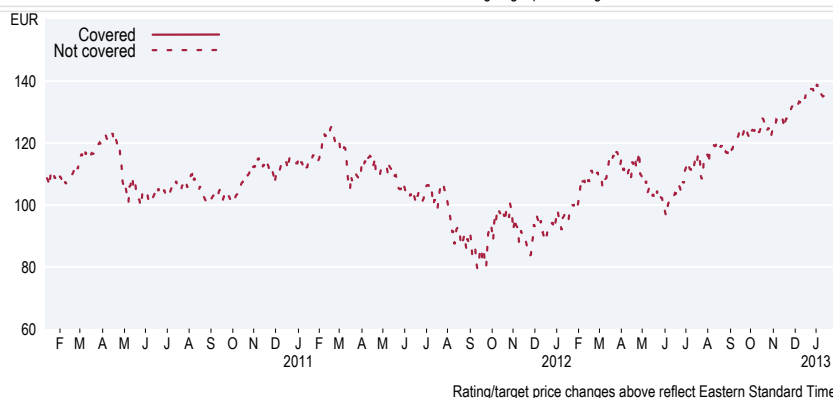
### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Thomas Dörner

Covered since September 5 2011



## SCOR (SCOR.PA)

### Ratings and Target Price History Fundamental Research

Analyst: Thomas Dörner

Covered since September 5 2011



	Date	Rating	Target Price	Closing Price
1	3-Mar-10	2M	*19.00	18.45
2	29-Jul-10	*1M	*20.00	16.99
3	16-Dec-10	1M	*22.00	18.89

\* Indicates change

	Date	Rating	Target Price	Closing Price
4	9-Mar-11	1M	*23.00	20.76
5	7-Oct-11	Stock rating system changed		
6	8-Oct-11	*1	23.00	17.20

	Date	Rating	Target Price	Closing Price
7	3-Apr-12	1	*23.50	20.54

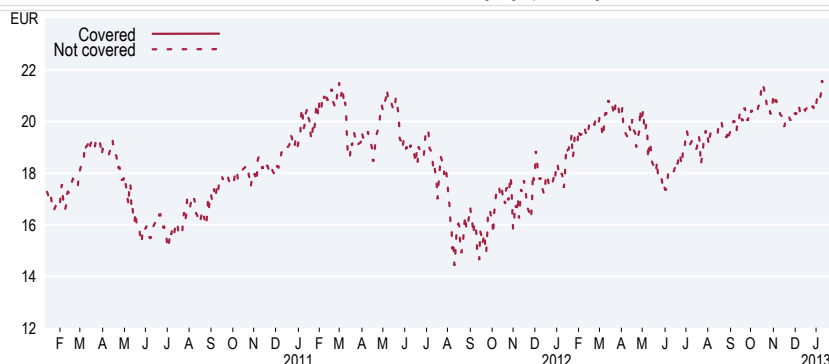
Rating/target price changes above reflect Eastern Standard Time

## SCOR (SCOR.PA)

### Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Thomas Dörner

Covered since September 5 2011



\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

## Swiss Re (SRENH.VX)

### Ratings and Target Price History Fundamental Research

Analyst: Thomas Dörner

Covered since September 5 2011



	Date	Rating	Target Price	Closing Price
1	19-Feb-10	*1M	60.00	48.70
2	6-Aug-10	*2M	*51.00	45.47
3	15-Nov-10	2M	*55.00	50.30
4	21-Feb-11	2M	*63.00	58.10

\* Indicates change

	Date	Rating	Target Price	Closing Price
5	6-Oct-11	2M	*44.40	45.71
6	7-Oct-11	Stock rating system changed		
7	8-Oct-11	*2	44.40	45.31
8	13-Jan-12	*1	*54.50	48.80

	Date	Rating	Target Price	Closing Price
9	3-Apr-12	1	*65.00	58.25
10	30-Apr-12	1	*65.50	56.90

Rating/target price changes above reflect Eastern Standard Time

## Swiss Re (SRENH.VX)

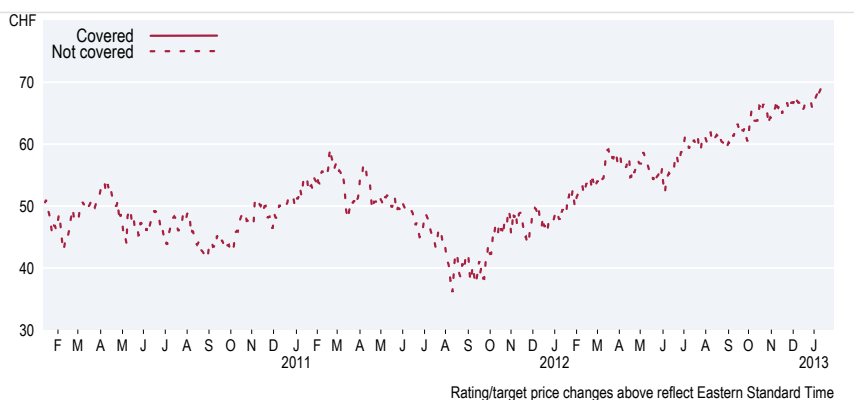
### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Thomas Dorner

Covered since September 5 2011



Thomas Dorner, Analyst, holds a long position in the securities of Lancashire Holdings.

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#### Data current as of 31 Dec 2012

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% of companies in each rating category that are investment banking clients

12 Month Rating			Relative Rating		
Buy	Hold	Sell	Buy	Hold	Sell
49%	38%	12%	7%	86%	7%
53%	49%	45%	60%	49%	55%

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Citigroup Global Markets Ltd

Thomas Dörner

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The subject company's share price set out on the front page of this Product is quoted as at 14 January 2013 12:34 PM on the issuer's primary market.

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