Equities

3 May 2012 | 36 pages

Allianz SE (ALVG.DE)

Strength through diversity

- Company Update
- Estimate Change

- **Allianz is one of our top picks in European insurance** – We expect continued improvements in operating performance in each division this year, towards the upper end of company guidance (€8.5bn, guide range €7.7bn to €8.7bn). Allianz is supported by strong defensive characteristics and low correlation between divisional earnings.
- **Improving P&C returns** – Allianz looks well placed to benefit from the positive pricing environment in Germany (rate increases up to 5%) and the US (up to 8%). Allianz's continued improvements in claims handling and reserving should further enhance gains in non-life operating performance.
- **Stronger cash flows expected from asset management** – Allianz has mostly paid down B-shares at PIMCO, so we expect to see greater unrestricted cash for the group from asset management (about €250m for 2012E).
- **Life insurance remains under pressure** – Life results remain dependent on market movements and exposure to Italy through local operations, but new business is growing and profitable (MCEV basis). Allianz's capital strength is supported by policyholder profit-sharing in Europe.
- **Strength through diversification** – Three key income streams display low correlation between operational results, increasing quality of group earnings. This offers good protection in uncertain times and supports a progressive long-term dividend strategy.
- **Solid balance sheet** – Strength in earnings is supported by Allianz's robust balance sheet, which was bolstered last month through the profitable sale of assets to The Hartford and management's efforts to de-risk the group.
- **Buy** – We increase 2012E EPS by 2% to reflect the Hartford deal, but maintain our TP of €101. It remains one of our top sector picks for 2012, with Swiss Re, Zurich and Prudential. Allianz trades at undemanding levels: 0.7x BV (sector 0.8x) and 6.8x 2013E EPS (sector 7.3x).

Buy	**1**
Price (02 May 12)	€84.33
Target price	€101.00
Expected share price return	19.8%
Expected dividend yield	5.6%
Expected total return	**25.4%**
Market Cap	€38,395M
	US$50,830M

Price Performance
(RIC: ALVG.DE, BB: ALV GR)

Allianz SE (EUR)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Profit Before Tax (€M)	7,173.0	4,871.0	8,318.8	8,725.2	9,151.9
Diluted EPS (€)	11.16	5.64	11.99	12.34	12.90
Diluted EPS (Old) (€)	11.16	5.64	11.73	12.34	12.90
PE (x)	7.6	15.0	7.0	6.8	6.5
DPS (€)	4.50	4.50	4.75	5.01	5.28
Net Div Yield (%)	5.3	5.3	5.6	5.9	6.3
Embedded Value Per Share (€)	87.75	69.09	85.98	92.94	96.85
Price / EVPS (x)	1.0	1.2	1.0	0.9	0.9

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

Fiscal year end 31-Dec	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	7.6	15.0	7.0	6.8	6.5
P/E reported (x)	7.6	15.0	7.0	6.8	6.5
P/BV (x)	0.9	0.8	0.8	0.7	0.7
P/BV adjusted (x)	0.9	0.8	0.8	0.7	0.7
Dividend yield (%)	5.3	5.3	5.6	5.9	6.3
P/Embedded Value (x)	1.0	1.2	1.0	0.9	0.9
Per Share Data (€)					
EPS adjusted	11.16	5.64	11.99	12.34	12.90
EPS reported	11.16	5.64	11.99	12.34	12.90
BVPS	98.50	99.27	109.64	114.66	122.86
BVPS adjusted	98.50	99.27	109.64	114.66	122.86
DPS	4.50	4.50	4.75	5.01	5.28
Embedded Value per share	87.51	68.88	85.72	92.66	96.56
Profit & Loss (€M)					
Pre-tax profit	**7,173**	**4,871**	**8,319**	**8,725**	**9,152**
Tax	-1,964	-2,064	-2,591	-2,833	-3,002
Extraord./Min. int./Pref. div.	-158	-252	-286	-291	-294
Reported net income	**5,051**	**2,555**	**5,442**	**5,601**	**5,856**
Adjusted earnings	5,051	2,555	5,442	5,601	5,856
Growth Rates (%)					
Pre-tax profit	45.1	-32.1	70.8	4.9	4.9
EPS adjusted	17.4	-49.5	112.6	2.9	4.6
Dividend	9.8	0.0	5.5	5.4	5.5
Balance Sheet (€M)					
Total assets	**624,646**	**641,459**	**679,238**	**713,948**	**721,563**
Investments	475,886	494,338	513,171	534,792	540,394
Goodwill/intangibles	34,114	34,076	34,897	35,844	35,932
Other Assets	49,799	49,545	51,992	57,762	59,687
Separate Account Assets	64,847	63,500	79,177	85,550	85,551
Total liabilities	**578,397**	**594,210**	**627,136**	**659,429**	**663,334**
Life policy reserves	349,793	361,954	370,762	381,424	381,618
Non-life policy reserves	82,971	86,087	84,817	86,906	88,508
Total Debt	17,241	18,822	18,836	18,836	18,836
Other Liabilities	63,545	63,847	73,544	86,714	88,821
Separate Account Liabilities	64,847	63,500	79,177	85,550	85,550
Shareholders' funds	**46,548**	**47,263**	**52,102**	**54,519**	**58,230**
Profitability/Solvency Ratios (%)					
ROE adjusted	11.9	5.7	11.5	11.0	10.9
ROA adjusted	0.8	0.4	0.8	0.8	0.8
Total debt to capital	27.0	28.5	26.6	25.7	24.4
Total debt to equity	37.0	39.8	36.2	34.5	32.3

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Strength through diversity

Allianz has operational momentum which we believe is not adequately captured in the share price at current levels.

Allianz has demonstrated resilience in operational earnings at each of its three business divisions and each has structural improvements expected to come through this year, which should support that division's earnings profile going forward.

Positive underlying drivers in P&C

P&C suffered from the high level of natural catastrophes in 2011, but Allianz made good progress on the underlying business, improving reserving methodology and claims handling in some of its key markets. As the benefits of work done in 2011 come through in 2012, we expect to see further improvements in Germany and the US this year.

Stronger cash flows from asset management business

Asset management has been the rising star of the group. Its improving performance in challenging markets should enable it to compete well for scarce fund flows in future. At the same time, as the claim on earnings from the PIMCO B units diminishes, we see stronger cash flows being available to the group, with the potential to drive a progressive dividend policy over time.

Challenges remain for life insurance in current environment

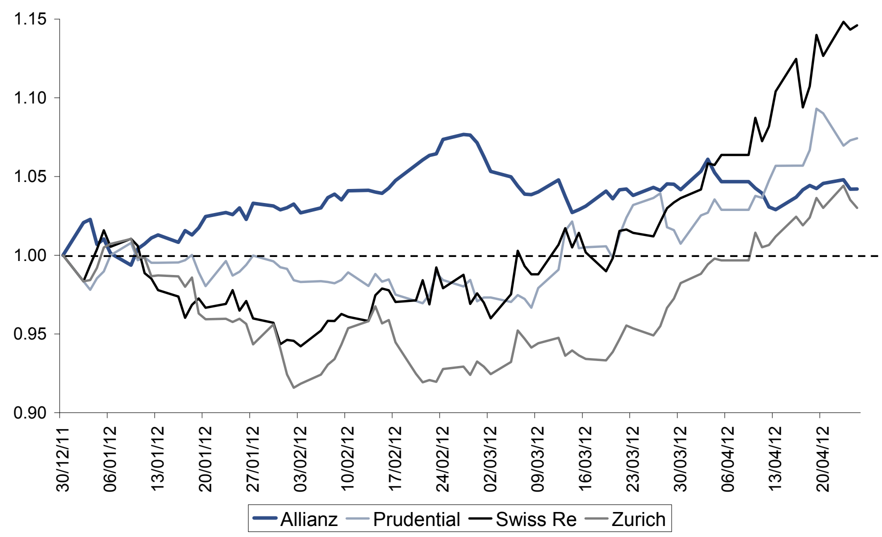
L&H continued to struggle in the low interest rate/volatile financial markets environment, but nonetheless posted respectable operating earnings in 2011 and continued to write new business at profitable levels (MCEV basis). While this remains the most risky division to Allianz at the moment, in our view, it is also the element of the group that retains most upside potential in a recovery scenario.

Low earnings correlation from three divisions gives group strength through diversification

Finally, Allianz benefits from the level of independence in earnings generated by these operating units. The correlation of quarterly operating profit from 2005 to 2011 have been -6% (Life and non life), -32% (AM and non-life) and only 25% for life and AM. This gives the group resilient overall performance and supports strong and consistent earnings for shareholders.

We reiterate our Buy recommendation, with a target price of €101, and retain Allianz as one of our four top picks in the European insurance sector (along with Prudential, Swiss Re and Zurich Insurance) in 2012.

Figure 1. CIRA Top Picks rel sector, price performance, year to date



Source: Factset

Group Performance

Outlook

We expect Allianz to deliver operating profit at the upper end of guided range in 2012

We are expecting Allianz to deliver a strong operating performance in 2012, towards the upper end of its guided range of €8.2bn +/- €0.5bn. We estimate that it will achieve €8.5bn, in line with consensus (€8.5bn, Bloomberg).

Improvements in operating earnings should also lead to a meaningful recovery in net income in 2012, absent a repeat of last year's adverse market movements. We expect earnings per share to increase to €11.99 (cons €11.33, Bloomberg) in 2012 and Allianz to increase its dividend per share this year to €4.75 (cons €4.67, Bloomberg), equating to a payout ratio of about 41%.

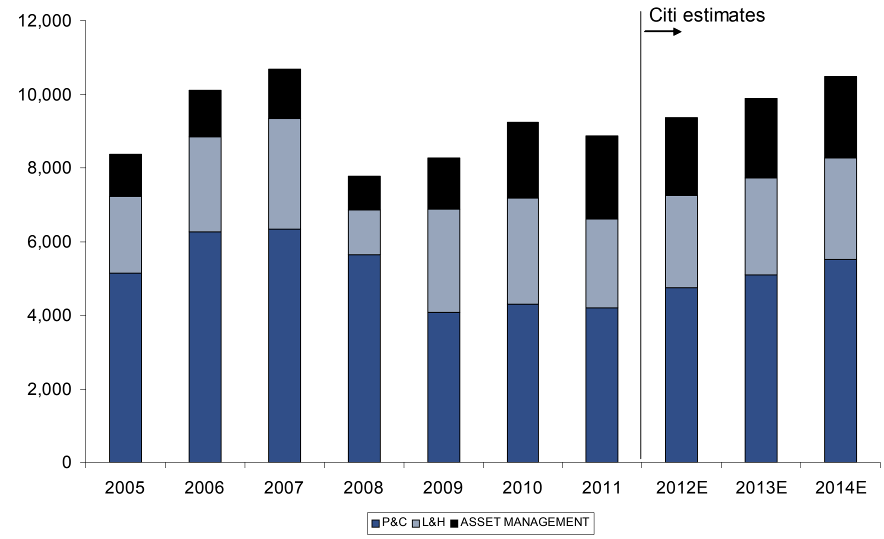
We expect a good set of 1Q results, with underlying improvements in German and US non-life and a benign nat cat environment

In the first quarter, we expect Allianz to post solid operating performance and its net income to benefit from positive equity markets, lower impairments and lower natural catastrophes, in addition to the one-off benefit of the transaction with The Hartford. There should be a small offset from strengthening in the Euro over the quarter. Shareholder equity should see a gain from the narrowing of Italian bond spreads (gov 10yr narrowed 170bps in the first three months).

Allianz has seen a shift in sources of operating profit over the past few years, with non-life insurance experiencing higher claims and softer pricing, while asset management has gone from strength to strength, supported by strong inflows and performance fees.

We anticipate that the balance will shift back towards non-life over the next couple of years, as pricing hardens, and see a 'steady state' for the Group with 50% to 55% of operating profit from non-life, 25% to 30% from life and 20% to 25% from asset management. **This diversity in business mix is one of the key long-term strengths of the Allianz Group, in our opinion, giving it a good combination of upside potential and downside protection in the current environment.**

Figure 2. Allianz, Operational profit by business line, €m



Source: Company Reports and CIRA Estimates

Review

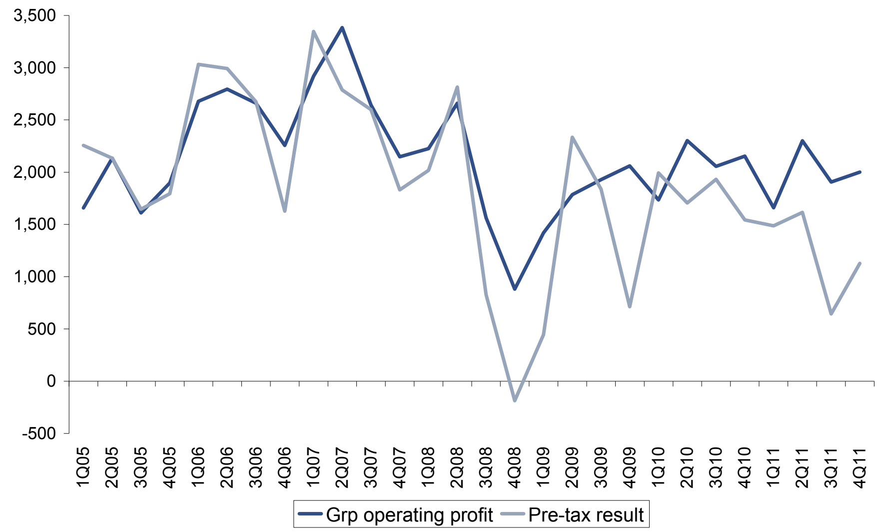
Allianz's solid underlying results for 2011 were somewhat dogged by market-related impacts to the bottom line.

Although net income suffered in 2011, it held up rather better than it did going into the financial crisis in 2008, due in part to positive management actions over the past few years to de-risk the group. Allianz's capital and earnings profiles are more resilient to adverse market developments than they were.

Steady improvements in operating earnings over past three years

Looking at operational results against pre-tax income allows us to consider the effect of non-operating items on the group. The chart below shows this relationship over the past 28 quarters.

Figure 3. Allianz, Group operating profit vs pre-tax result, 1Q 2005 to 4Q 2011, €m

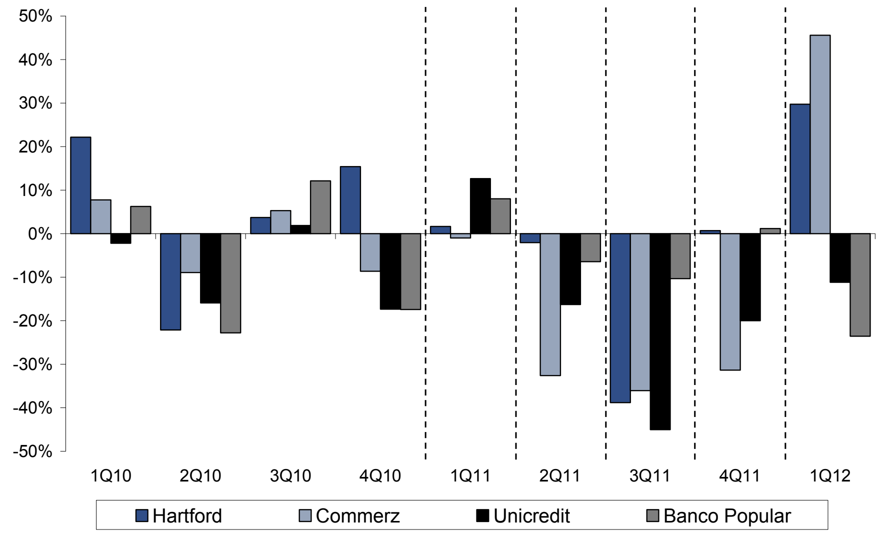


Source: Company Reports, Citi est. Adjusted for discontinued operations from 2007

We can see that operating profit has been relatively stable, with a small upward trend over the past three years. Non-operating results remain volatile and significant, driven mainly by impairments and write-downs on Greek debt. The absolute effect on earnings was more muted than in 2008 in part due to reductions in net equity exposure across the group, leading to an improved risk profile in turbulent or underperforming markets.

Allianz has some large shareholdings which had a disproportionally large impact on group earnings in the third quarter of 2011. The chart below shows quarterly share price movements on some of its larger positions: Hartford 5.3% ownership ($474m), Commerzbank 3.0% ($347m), Unicredit 2.1% ($472m) and Banco Popular 8.7% ($478m).

Figure 4. Allianz, Returns on large shareholdings



Source: Factset

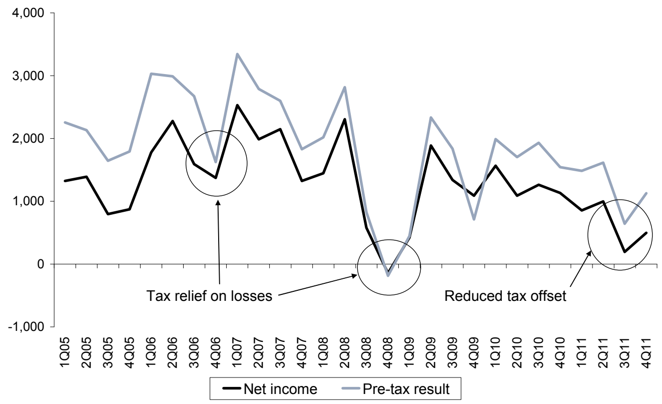
Impairments to large shareholdings distorted tax position in 2011 …

Some of the impairments suffered by the group were on 'tax-preferred' equity investments. These assets do not suffer tax on capital gains, but the flipside is that neither do they attract tax relief in the event of a loss or impairment. We can see the effect of this in figure 5 below.

… but we expect higher underlying tax rates going forward, from changing business mix

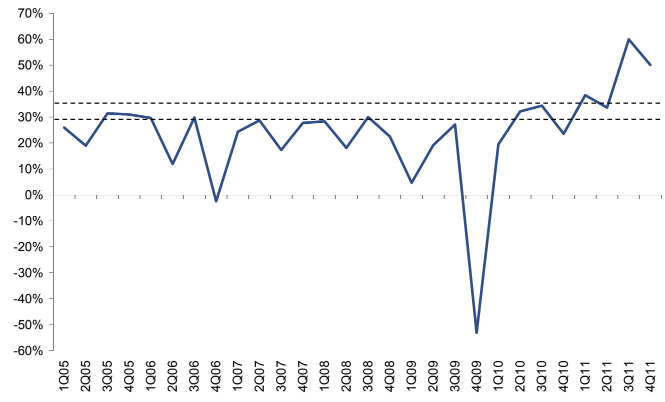
The right hand chart illustrates this in the shape of the overall group tax rate. Going forward, we expect the effective tax rate to fall from the (artificially) high level in 2011, but expect it to settle at a higher norm than previously observed; we anticipate somewhere in the 30% to 35% range. This is driven by the changing geographic business mix, with a greater proportion of operating profit expected to come from higher tax rate jurisdictions; Germany (as non-life combined ratios improve) and the US (from the asset management business). This is consistent with the tighter range guided by the company of 33% to 34% in the near term.

Figure 5. Allianz, Net income to Pre-tax Profit, 2005 to 2011, €m



Source: Company Reports, Citi est. Adjusted for discontinued operations from 2007

Figure 6. Allianz, Effective Group Tax rate, Quarterly 2005 to 2011



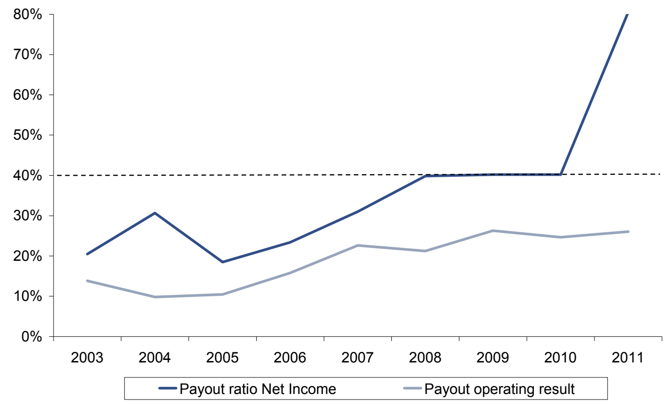
Source: Company Reports, Citi est. Adjusted for discontinued operations from 2007

Cash flow and Dividends

Strong underlying earnings support progressive dividend policy, in our view

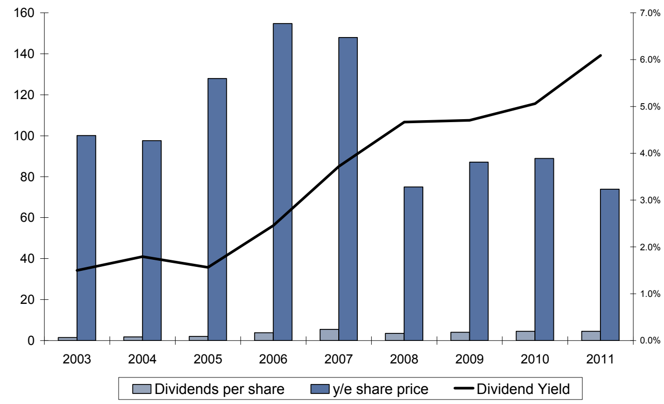
Allianz has ample capacity to pursue a progressive dividend policy, in our opinion. We think the decision to maintain the 2011 dividend at the same level as the previous year was appropriate given the strong underlying performance of the group, robust cash flows and strong capital position. We estimate that Allianz is currently producing a dividend yield about 5.6%, which is in line with the sector.

Figure 7. Allianz Dividend Payout Ratio, 2003 to 2011



Source: Company Reports

Figure 8. Allianz, Dividend yield development, year end, €



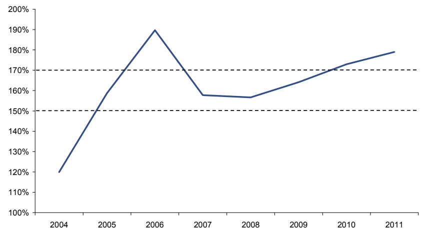
Source: Company Reports

The cash flow statement underlines the strength of the operating cash generation for the group. The past three years have shown steady growth in cash flow from operating activities, from €13.6bn in 2009, through €15.4bn in 2010 to €16.6bn in 2011. We expect this to improve further, driven by greater unrestricted earnings at Allianz Asset Management, thereby supporting a continued progressive dividend strategy going forward.

Capital strength and flexibility

Allianz has a very robust capital position, in our opinion. Although on a regulatory solvency measure it doesn't stand out from the pack, the group's strong focus on economic capital, and the solid levels it reports, gives us confidence in Allianz's financial strength.

Figure 9. Allianz, Regulatory Solvency Ratio



Source: Company Reports

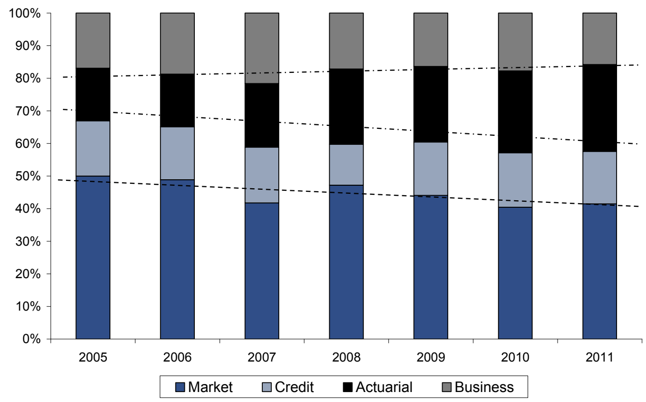
Allianz sets itself a target for its regulatory solvency, as measured by the Financial Conglomerates Directive, in the range 150% to 170%, which it exceeded in 2010 and 2011. While this is a risk-insensitive measure of capital adequacy, it is nonetheless a vital box to tick for the business.

In a similar vein, we note that Standard & Poor's placed Allianz on Negative outlook in February 2012, citing reduced capital levels as part of its rationale. We believe that the subsequent transaction with The Hartford will have gone some way to mitigate this concern, increasing capital levels and reducing asset concentration risk in the group.

Looking past this headline, into Allianz's internal economic capital modeling, shows an interesting development in the group's risk management and appetite. Allianz calibrates its economic solvency test to 99.97% confidence, which it believes to be consistent with a AA rated entity.

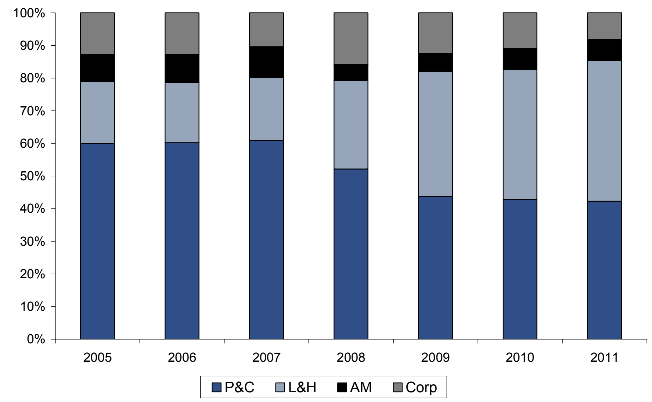
While the solvency level under this measure is important, it is also interesting to look at the composition of the requirements under the test.

Figure 10. Allianz, Risk Capital by Risk Type



Source: Company Reports

Figure 11. Allianz, Risk Capital by Division



Source: Company Reports

The left hand chart shows that market risk has fallen as a percentage of the overall risk budget (albeit up in absolute terms from 2010 to 2011), in line with the de-leveraging actions taken by the group. In contrast, the proportion of the risk budget allocated to underwriting (actuarial) risk has steadily increased over the past five years or so. Virtually all of this underwriting risk lies within the non-life business and includes catastrophe risks and other premium and reserve risks.

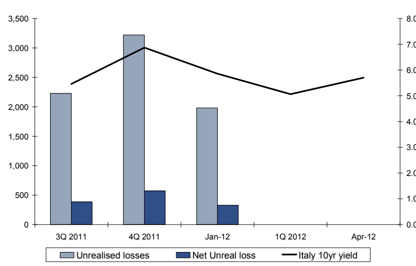
The right hand chart looks at the development in the divisional split, where we see that the Life & Health division has become an equal consumer of capital with the non-life division, driven by increased asset and liability risks to market movements.

Asset Risk

Asset risk reducing, but still relatively high

Allianz is exposed to a fair degree of asset risk, which comes out in our scoring against our sector themes for 2012. Over the past few years, Allianz has been addressing this through reducing its equity gearing and moving to more conservative asset allocations in its businesses.

Figure 12. Unrealised losses on Italian gov bonds (LHS, €m) vs IT10yr yield (RHS)



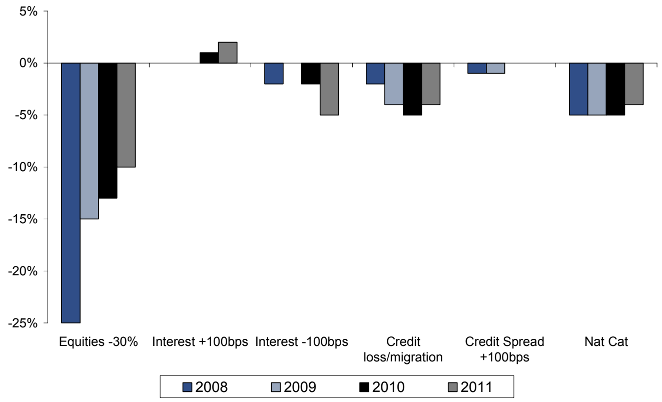
Source: Company Reports, Factset

Allianz found itself suffering over the course of 2011 from its large bond holdings (about €26bn) in Italy. We believe that this was largely overdone and the risk offset from having matching liabilities with a degree of profit-sharing with policyholders acts to protect Allianz's financial position.

However, the exposures still represent a risk to the group and we might expect Allianz's share price to continue to respond to news flow regarding the Italian economy while the current crisis persists.

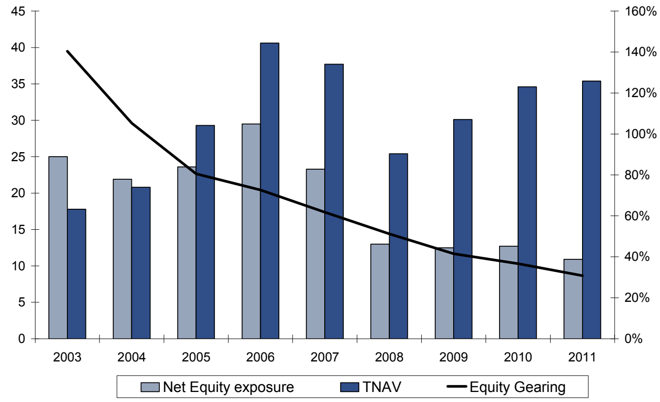
The charts below show the success Allianz has had in reducing its equity gearing and the impact it has had on the sensitivities of its regulatory solvency. The lower charts show the trend towards more conservative asset allocation over the past seven years.

Figure 13. Allianz, FCD Sensitivities, 2008 to 2011



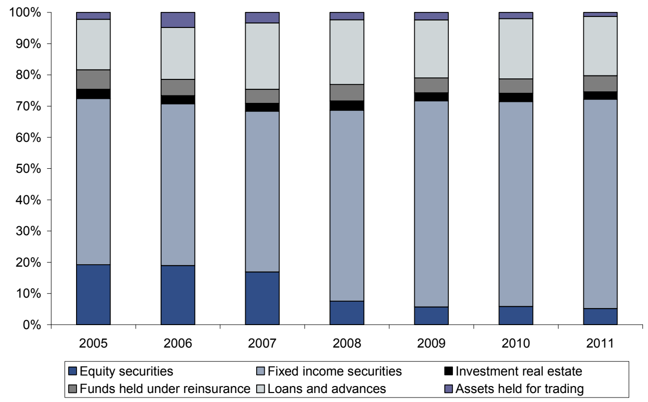
Source: Company Reports

Figure 14. Allianz, Equity gearing for shareholders, €bn



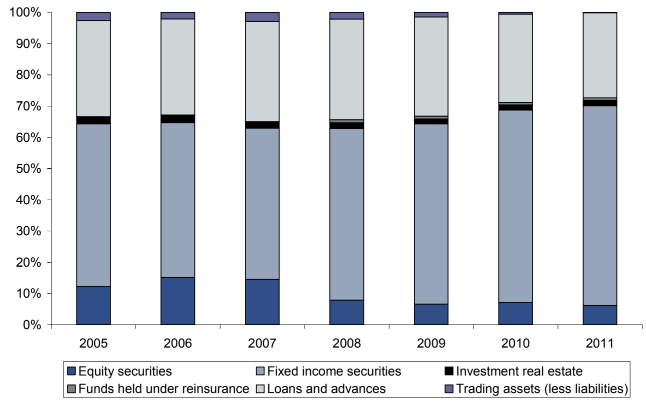
Source: Company Reports

Figure 15. Allianz, Asset Allocation P&C



Source: Company Reports

Figure 16. Allianz, Asset Allocation L&H



Source: Company Reports

Operational Business Lines

Expected improvements in underlying performance at each division, combined with low correlation of returns, gives Allianz its strong platform for dividend growth

Diversification in its sources of earnings is one of Allianz's key strengths, reinforced by the strong earnings potential of each of the three business lines.

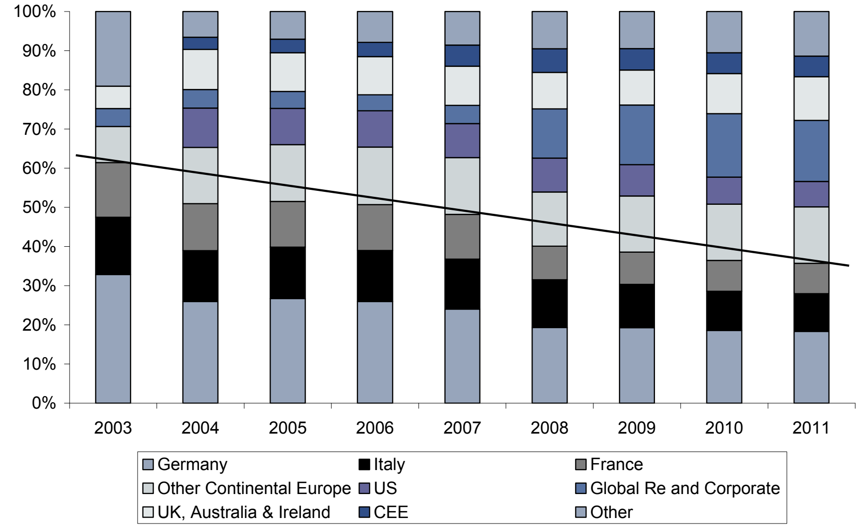
We see underlying improvements in non-life insurance, from market pricing and back office developments, and consolidation of stronger earnings in asset management combined with greater cash flow to the group. Life insurance faces some challenges from asset and liability risk, but we feel they have been overstated at the current share price.

Non-Life Insurance (P&C)

Improved diversification in non-life and good progress made in key markets. Expect improvements in Germany and US this year

Allianz has steadily increased diversification in its non-life business over the past decade, such that, in 2011, Germany contributed only 18% of the group's net written premiums (from 33% in 2003) and no other country unit accounted for more than 10%.

Figure 17. Allianz, Geographical trends in P&C Net Premium Income

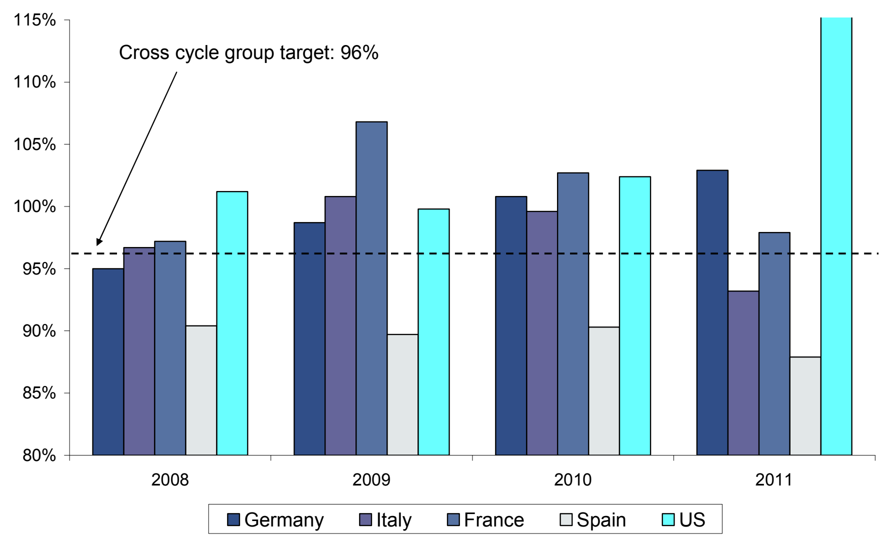


Source: Company Reports

Notwithstanding this reduction in concentration, Allianz's earnings from non-life are still likely to be driven by a handful of markets in the near term. In these key markets of Germany, France, Italy and the US, Allianz has been working to improve and manage profitability over the past few years.

Management actions have had success in France and Italy, bringing combined ratios down since 2009, to acceptable long-term levels. The challenge for this year will be to bring about the same improvements to Germany and show continued progress in the US. In both markets, we are at last seeing some sustained pricing growth and we expect Allianz to take full advantage of this.

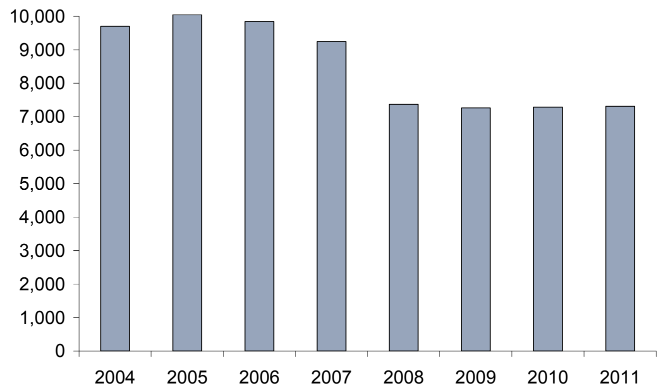
Figure 18. Allianz, Combined ratio development in some key markets



Source: Company Reports

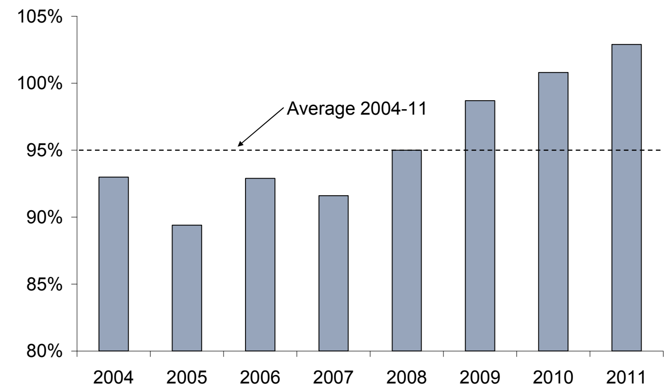
In Germany, Allianz has suggested that tariff increases in motor might be in the range 4% to 5% in 2012, although pricing in commercial lines is expected to remain relatively weak. We are forecasting that rate increases in German non-life and the absence of the claims handling issues experienced in 2011, will lead to a combined ratio of just over 100% in 2012.

Figure 19. Allianz, German non-life Net premiums earned, €m



Source: Company Reports

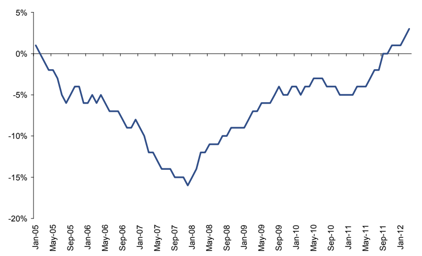
Figure 20. Allianz, German non-life combined ratio



Source: Company Reports

The target to get the German combined ratio down to 95% for full year 2014, from 102.9% in 2011, looks challenging, but attainable, in our opinion. The average combined ratio 2004 to 2011 (weighted by net premiums) has been 95% and the actions being taken on product design, pricing and claims handling give us confidence that Allianz can achieve a return to these levels.

Figure 21. Monthly pricing changes US P&C market, 2005 to 1Q12



Source: Marketscout Barometer

In the US, we are seeing evidence of significant price rises coming through, across several lines of business. For the first time since January 2005, the Marketscout Barometer is showing sustained positive price development across the US non-life market, led by commercial property and workers compensation.

We are also seeing, from 1Q12 reporting in the US, that persistency is falling across the industry, as policyholders shop around for better renewal terms. This should act to offset some of the rate increases, but we are expecting the general (net) trend to still be positive in 2012.

For Allianz, 2011 saw an overhaul of its reserving process for general liability and workers comp. The absence of such methodological reserve additions in 2012 should serve to drive improvement in the reported combined ratio. We note that Allianz is guiding that improvement in the US is not likely to come through fully in 2012, but we should still expect to see good progress in this market.

Finally, the first quarter of 2012 has been much more benign in terms of natural catastrophe activity. There have been a number of weather-related claims in the US mid-West, with a rash of tornadoes causing severe damage in Indiana, Kentucky, Tennessee, Ohio and Michigan. However, even this level of potentially large losses in the US should not stop 1Q 2012 comparing favourably with the first quarter of last year.

Natural Catastrophes

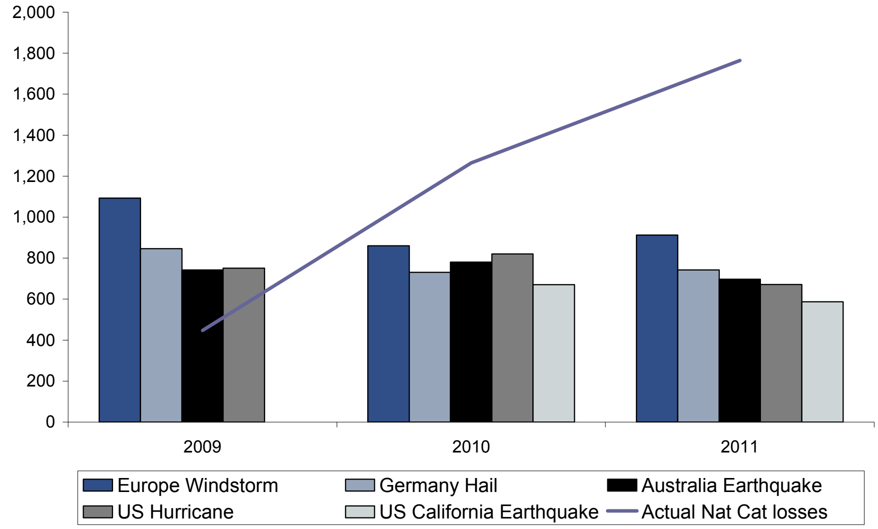
A benign start to the year for Nat Cats, in contrast to 2011 and 2010.

A major factor affecting non-life performance in the past two years has been the impact of natural catastrophes.

The chart below shows Allianz's five largest global accumulation scenarios, ie loss potential, net of reinsurance for individual events, measured at a probability level of one loss in 250 years.

The chart also shows actual reported losses from natural catastrophes in the past three years, where the number and spread of catastrophes has resulted in higher-than-budgeted claims from these events.

Figure 22. Allianz, Nat Cat exposure and experience, €m



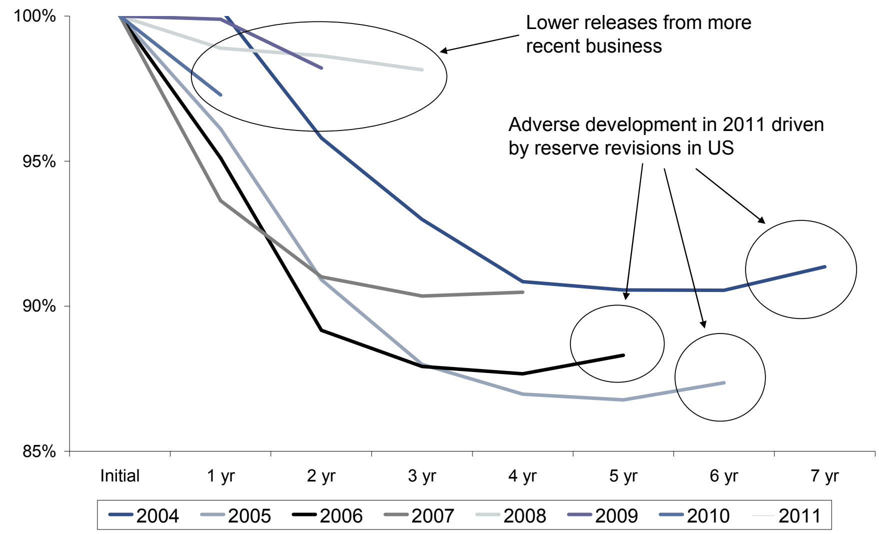
Source: Company Reports. Note: 2009 Californian earthquake was not a top 5 modelled exposure.

Prior Year Developments

Reserve releases expected to fall in next year or two, due to recent soft pricing cycle. Recovery expected in medium term as rates improve

The third component of non-life profitability is reserve releases from prior years. Allianz has been reporting an increasing trend in releases but, given the softer pricing cycles that we have seen in some of Allianz's key markets over the past few years, we expect the quantum of reserve releases to fall in the near term, as recently-written business runs off.

Figure 23. Allianz, P&C Reserve Development, Calendar Year



Source: Company Reports

The chart shows the effect of the reviews of reserving methodology, primarily in the US in 2011, but more importantly shows that business written since 2008 is releasing reserves at a lower rate than older vintages.

Given the changing we are seeing in pricing in some of Allianz's key markets and the structural work the group has been putting in on the reserving and claims handling side of its business, we believe that we shall see stronger positive development in 2010, 2011 and 2012 business. So, while we might expect to see a short-term dip in releases compared to recent years, we regard it as temporary and see it recovering to be a source of strength in the medium term.

Combined Effect of Nat Cat and Reserve Releases

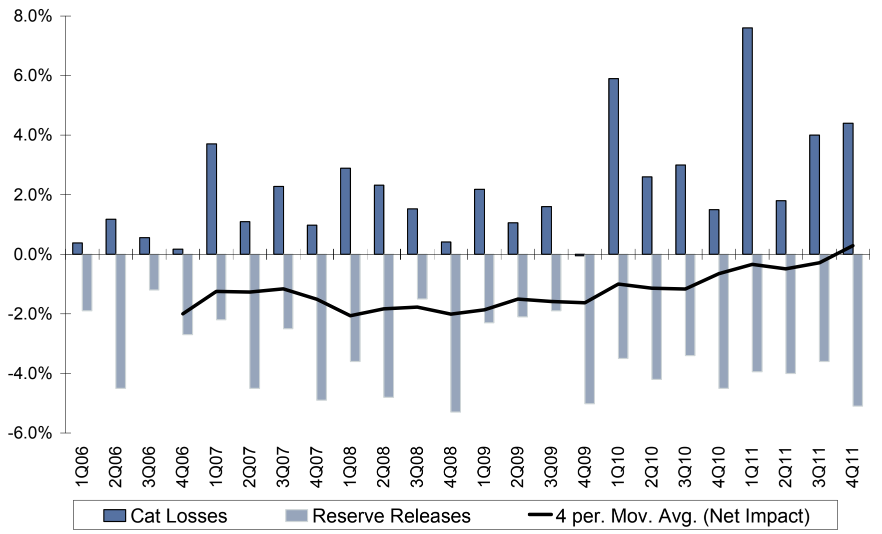
Nat Cats and reserve releases expected to broadly offset in near term, although 1Q should show positive impact

Over the past five years, reserve releases have generally outweighed the negative impact of natural catastrophes.

However, we expect reserve releases to trend down as recently-written business works its way through the books, before recovering as the benefits of improved pricing and claims handling take effect. If nat cats fall to be in line with Allianz's budget for such events (about €1.1bn in 2011 or about 2.7% on 2012E combined ratio), then we should expect these to items to broadly offset each other in the near term.

For the first quarter of 2012, we expect the significant drop in natural catastrophe claims to more than compensate for any decrease in prior year run-off, resulting in a net positive impact on the combined ratio.

Figure 24. Allianz, Quarterly trend in reserve releases and Nat Cats, 2006 to 2011



Source: Company Reports and CIRA Estimates

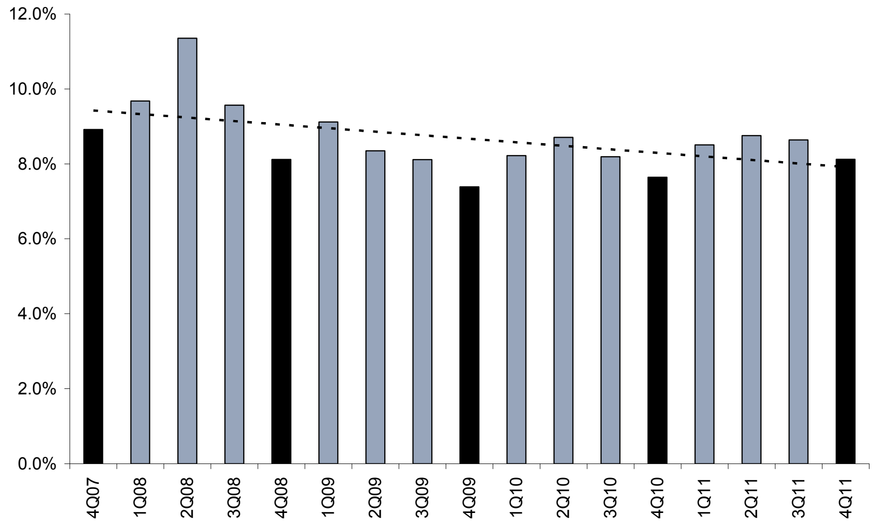
Investment Returns

Investment returns falling off, but remain relatively good

The final component of non-life operating performance is the net investment income earned on premiums and reserves held in the business.

In a continuing low interest environment, we should expect to see this trail off as new funds are invested at lower yields. For Allianz, this decline appears quite modest at about one-third of a percent per year since the end of 2007. Allianz's potential for improvement in underwriting performance should more than offset this slight deterioration, in our view.

Figure 25. Allianz, P&C Operating Investment Income, % of Earned Premiums



Source: Company Reports

Life and Health (L&H)

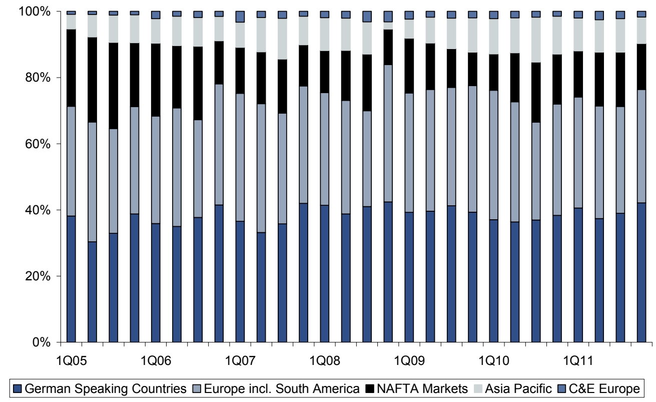
Asset and liability risk remain in the life business, but insufficient credit has been given to the ability to share profits with policyholders, in our view

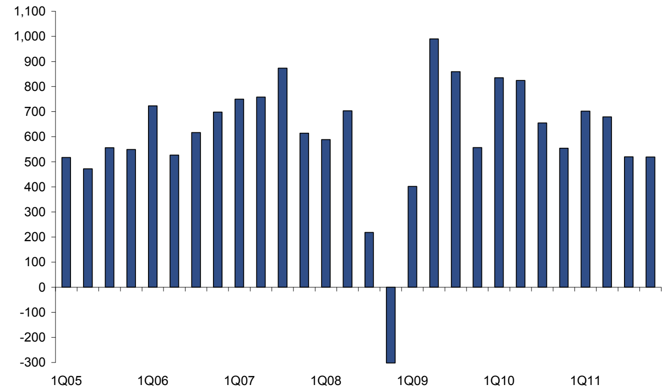
While we regard the L&H business as the most risky element in the Allianz story, we believe it has sufficient diversification and strength in each of its markets to remain a significant contributor to earnings in subdued markets, while retaining the potential to outperform considerably in a recovery scenario.

The chart below shows the relatively stable geographic mix of Allianz's written premiums over the past seven years. Europe remains the dominant region for the business.

However, while Europe has been beset with its fair share of negative news in that time, we see that operational earnings from Allianz's life business have held up well, speaking to the group's improved risk profile since the problems of 2008

Figure 26. Allianz, Life Statutory Premiums by region (LHS) and Life Operating Profit (RHS, €m), 2005 to 2011





Source: Company Reports

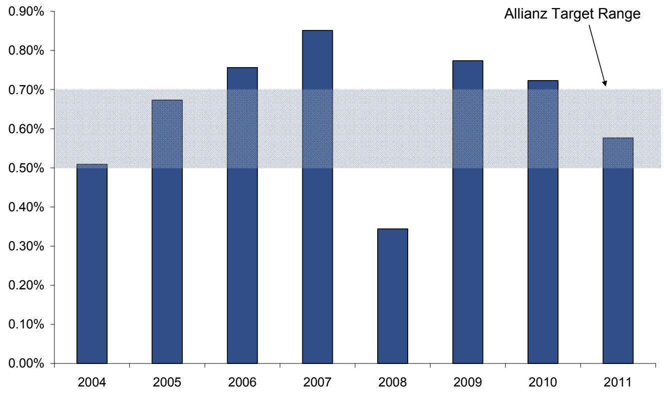
Profitability

Margins on life reserves expected to remain under pressure in near term, however …

It is no secret that life insurers are having a tough time in the current environment and Allianz has proven to be no exception. The margin earned on life reserves has trended flat or down across most of the group's markets since 2009 and the group remains below pre-crisis levels.

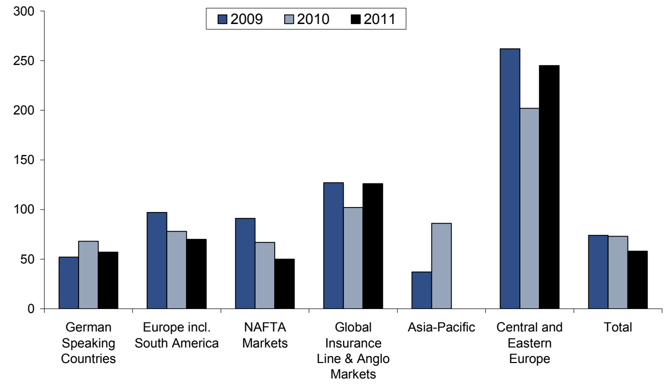
Although Allianz has been working to address specific issues, this remains the relative weakness in the group in terms of stability and growth in bottom line earnings, due to (necessary) assets risks and the associated impact of market conditions. The challenges faced are also reflected in Allianz's own strategic goals for the business and, as such, we feel that they are currently priced in to the stock.

Figure 27. Allianz, Margins on Life Reserves



Source: Company Reports and CIRA Estimates

Figure 28. Allianz, Regional Margins on Life Reserves, bps



Source: Company Reports

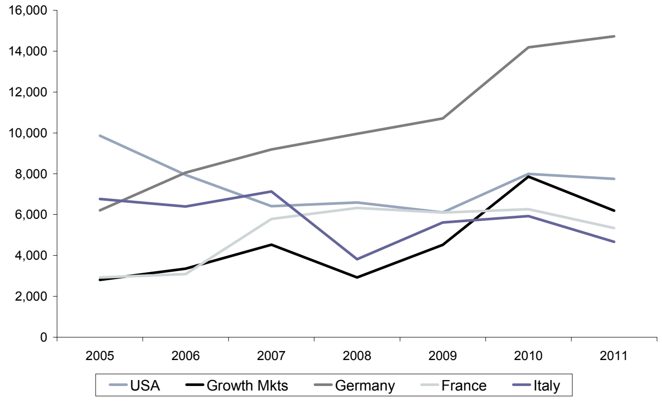
Back book aside, Allianz is also seeing pressure on new business margins in some of its key markets, with a more-or-less steady decline over the past six years (right hand chart below).

When viewed in the context of increasing new business sales (left hand chart below), we can expect the life business to be facing challenging profitability for years to come, unless the European and global economies stage a sustained recovery.

… new business is still being written on profitable terms

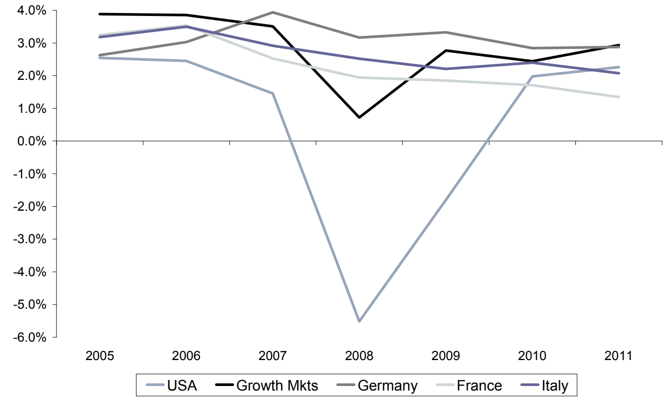
However, in terms of the downside, we note that new business margins are still positive, even on year end 2011 assumptions so, while profitability is likely to remain under pressure, the life business is still likely to be a positive contributor to group profits going forward, even based on business written today.

Figure 29. Allianz, Life new business sales, PVNBP, €m



Source: Company Reports

Figure 30. Allianz, Life new business margins

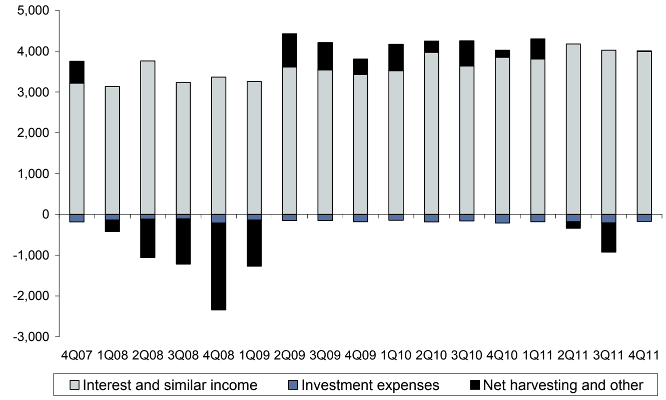


Source: Company Reports

Investment Income

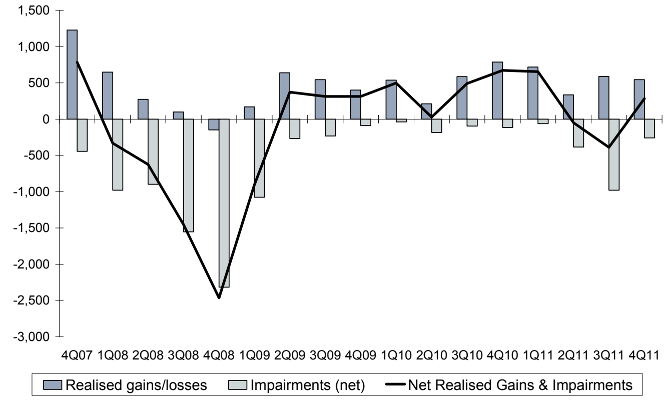
Allianz has achieved underlying growth in operating investment income over the past four years, albeit partially offset by asset impairments. We expect 1Q 2012 to have been fairly quiet for further impairments and for lower levels to be maintained going forward due to the reduced risk profile of the group.

Figure 31. Allianz, Life Operating Investment Income, €m



Source: Company Reports

Figure 32. Allianz, Life realised gains and Impairments, €m



Source: Company Reports

German Life – near term risks overdone

Allianz's capital strength through substantial policyholder buffers supports earnings in the German life business

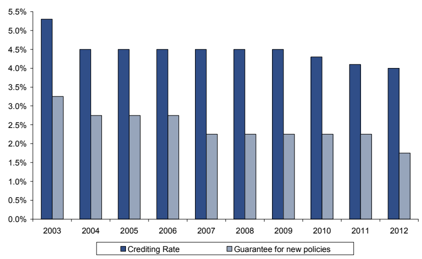
German Life represents the largest single country for statutory life premiums (about 29%) in the Allianz group. France, Italy and the US each represent about 14% of statutory premiums, so these four countries between them comprise nearly three-quarters of L&H premiums income.

Minimum guarantee on new German life policies reduced to 1.75% (from 2.25%) with effect from 1 January 2012. However, the crediting rate (the combination of guarantee and bonus that is set at the start of each year) is also important in the German life market and drives the risk of a negative spread being earned in particular years.

At the time of the 4Q11 results, Allianz communicated that the average guarantee on its German life business in 2011 was about 3.2% and that the assets backing it were delivering a total yield of about 5.5%. Allianz also commented that it was seeing a reinvestment yield of about 4% in 2011, which it expected to fall to 3.6% in 2012.

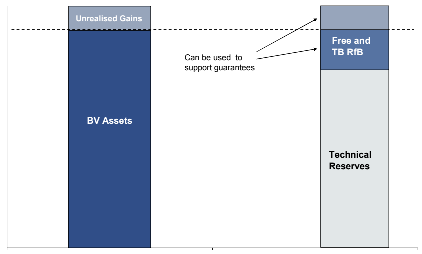
So, on a valuation basis, Allianz should be expected to be running at a profitable spread of about 185bps, after year one, on new business written (the difference between 3.6% yield and 1.75% guarantee). In the current year, the German business is guided to be running a negative spread in the order of 40bps on new business premiums (the difference between the 4% crediting rate and the 3.6% reinvestment yield). However, when meeting guarantees and bonuses, cross-generational subsidy prevails and excess returns on in force assets can be used to cover this negative spread on new business.

Figure 33. Allianz Crediting rates and guarantees in German Life



Source: Company Reports

Figure 34. Illustrating use of RfB



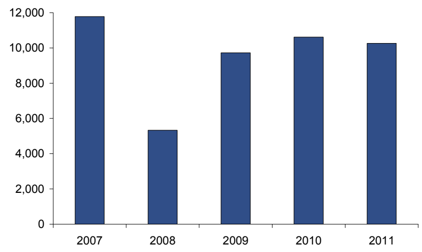
Source: Citi Investment Research and Analysis

Regarding the back book, Allianz discloses average outstanding maturity of bonds backing life and health across the group at 9.6 years. Assuming this is representative of the German book and with reinvestment rates running at 3.6%, we might expect the average yield to fall to about 5.3% in 2012, still ample to cover the average guarantee of 3.1% to 3.2% and the crediting rate of 4%.

Prolonged low reinvestment rates combined with high crediting rates could present a problem over time for the German life industry, but we feel that smaller players are likely to bow to financial pressure long before Allianz. This is supported by Allianz's high level of buffer capital in its German life business.

Each year, the investment return on life funds (coupons, dividends, realised capital gains) is allocated to policyholder (min 90%) and shareholder (max 10%). The policyholders' share is then allocated to support minimum guarantees, with the excess going into the RfB. The RfB itself has three components: the current year's annual bonus (ie the crediting rate less the guarantee) element, the terminal bonus element and the 'Free RfB'.

Figure 35. Est Free & Terminal RfB, Allianz Germany, €m



Source: Company Reports and CIRA Estimates

Should investment returns be insufficient to cover the crediting rate or even the minimum guarantees, then the terminal bonus RfB and the Free RfB can be used to meet these obligations. To this end, Allianz noted (full year results 2011) that it could meet all guarantees on its in force business even if reinvestment rates fell to 1.5% for the life of the book.

Asset Management

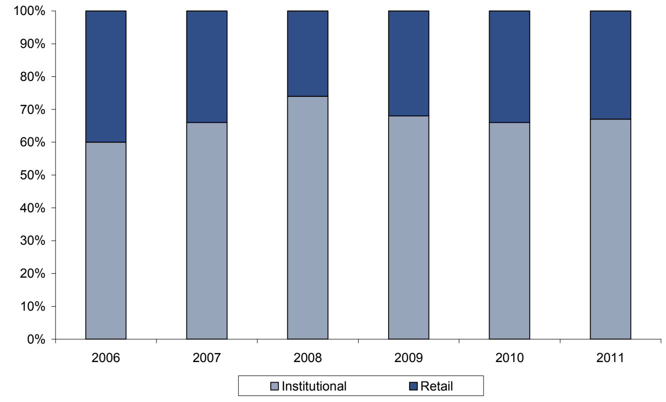
We expect asset management to remain a key part of the investment case for Allianz and expect greater cash flow to group as PIMCO B shares wind down

Allianz Asset Management is, in our opinion, likely to be the key driver in outperformance in the stock in the short to medium term. The drag on profits at PIMCO from B shares is markedly reduced which is expected to lead to greater dividends upstreamed to group.

Performance has been improving in the past few years, but a large proportion of earnings has been unavailable to the group due to the transitional arrangements following the acquisition of PIMCO in 2000. The outstanding B shares will likely be markedly less of an issue going forward (see below), so we can expect a substantial increase in the contribution to group cash flow in the short to medium term. **We believe that the growing strength of the asset management business is still not fully reflected in the share price at these levels.**

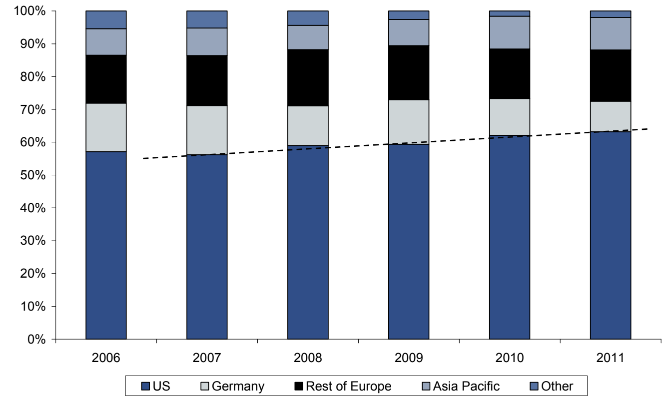
Allianz has good underlying strength in its asset management business, with diversification by type of investor and geographical split of AUM.

Figure 36. Allianz, AUM by source



Source: Company Reports

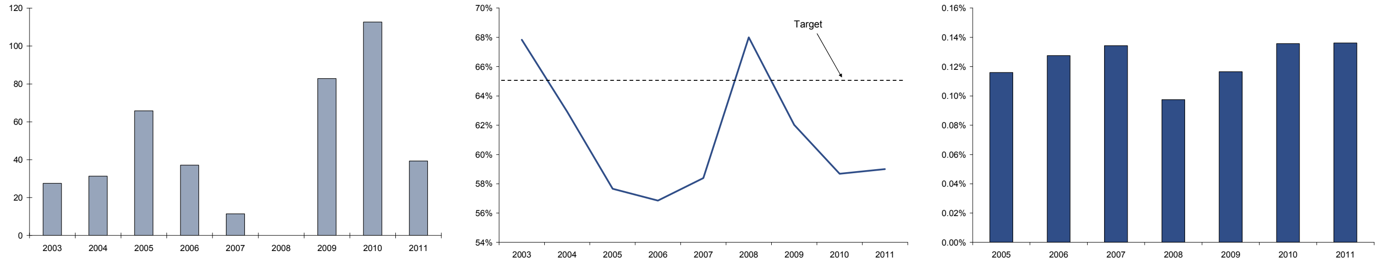
Figure 37. Allianz, AUM by geography



Source: Company Reports

Operationally, asset management continues to consolidate its position as a solid, long-term contributor to the Allianz story. The trend in results from 2005 to 2011 has been good across all of the key metrics: third-party net inflows, cost income ratio, operating margin – with the exception of 2008.

Figure 38. Allianz, Third party net inflows, (LHS, €bn), Cost-Income Ratio (centre) and Operating profit over AUM (RHS, %)



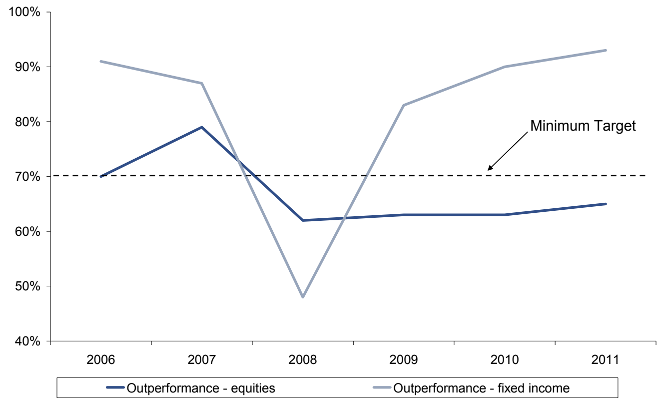
Source: Company Reports

The restructuring of the asset management operations with effect from 1 January 2012, to split PIMCO and AGI (under the umbrella 'Allianz Asset Management') should allow the businesses greater freedom to grow and develop. We do not expect any spin off of PIMCO in the near term, given its contribution to the strength through diversification to the Allianz group and we expect Allianz to want to retain benefit of the increase in unencumbered cash generation in the current difficult economic climate.

In our detailed commentary on asset managers in the current environment (Updating: Where to Shelter in the Year of the Dragon), we identify a preference, in our 12 month view, for managers with more institutional business than retail, as we expect institutional and discretionary managed business to be 'stickier' in a volatile market. We also highlight the advantage top performing funds should have when competing for more scarce fund flows and the importance of a strong balance sheet in these uncertain times.

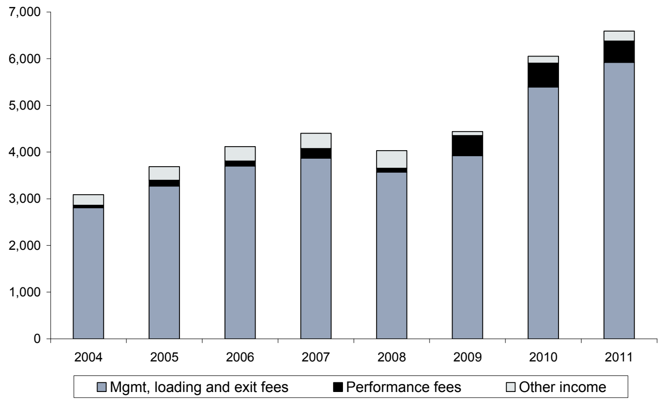
Allianz Asset Management is dominated by actively managed fixed income business, at which it continues to perform very well. Last year saw further improvement in the proportion of fixed income funds outperforming their benchmark to 93%. Demonstration of outperformance will, in our view, be a key driver for attracting inflows in the coming year and should form the basis of another solid year for the asset management division.

Figure 39. Allianz, AAM proportion of assets outperforming benchmark



Source: Company Reports

Figure 40. Allianz, AAM Fee & Commission Income, €m



Source: Company Reports

PIMCO Legacy

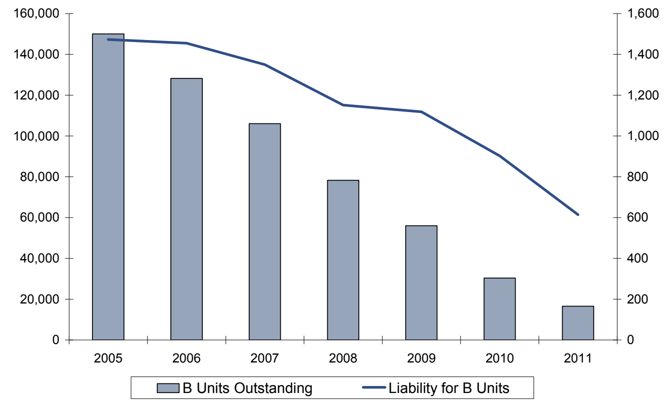
When Allianz acquired PIMCO in 2000, a number of B shares were issued to the incumbent management. Since 1 January 2005, Allianz has been able to repurchase these B units and has been doing so at a high rate. These repurchases have, however, consumed a large part of the operational earnings of the asset management business as shown in the left-hand chart below.

However, this means that Allianz is now poised to reap the benefits of this approach and the drag on operational earnings should be markedly lower going forward. This should dramatically increase cash flow to the group and act to support a progressive dividend strategy.

Holders of these B shares also have a priority claim on 15% of PIMCO's adjusted operating earnings but, as the number of holders decreased, so the prior call on operating profits diminished, as shown in the same chart.

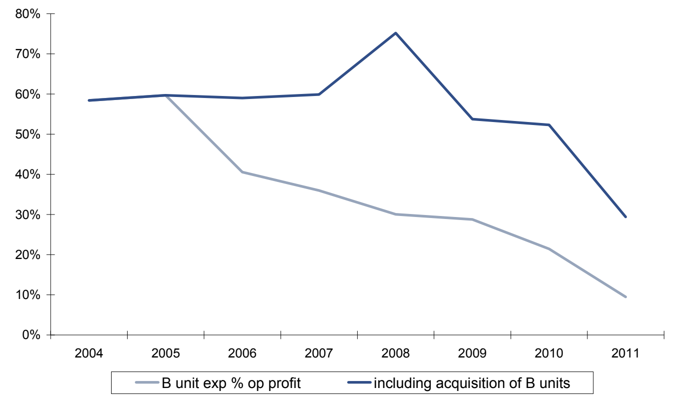
As new senior managers have been appointed at PIMCO, they have been given access to a new share-based payment incentive plan, based on so called M units. These M-units are non-voting common equity and are entitled to dividends from PIMCO's earnings rather than representing a priority claim, so no longer present the same restriction on intra-group dividends.

Figure 41. Allianz, B Units in respect of PIMCO acquisition, €m (RHS)



Source: Company Reports

Figure 42. Allianz, B Units as % of AAM Operating Profit



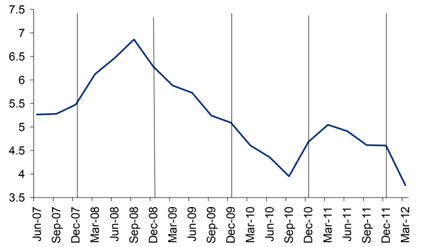
Source: Company Reports

Other Items

Pension accounting changes

We expect a one time hit to shareholders' equity as the pension corridor disappears, in the order of €1bn to €2bn. No material impact expected to earnings.

Figure 43. IBOXX AA 10 yr yield, past 5 years



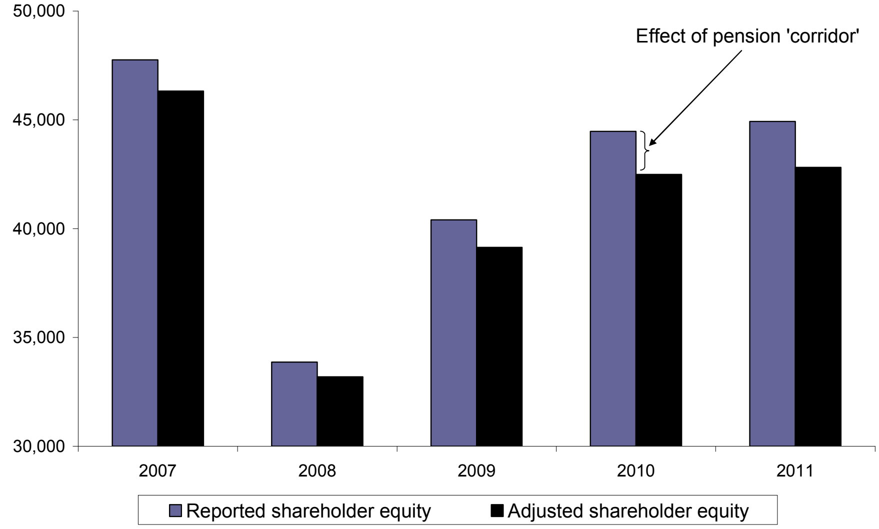
Source: Factset

Revised pension accounting rules under IFRS come into effect for periods beginning 1 January 2013. For full details, see our notes IFRS change to reduce 2013 earnings for pension-exposed stocks [10 April 2012] and Revisions likely to reduce earnings on average [17 June 2011].

For Allianz, we expect the impacts to be incidental to the group. Allianz currently uses the corridor method to recognise its post-retirement obligations, which means that it has been carrying about €2bn of unrecognised deficit (pre-tax) off its balance sheet for the past couple of years. If the funding status of the group's defined benefit pension schemes remains unchanged over 2012, then we should expect shareholders' equity to reduce by this amount (adjusted by creation of an associated deferred tax asset) with effect from 1 January next year. Allianz guides that part of this additional deficit being recognised may also be shared with policyholders.

Over the course of the first quarter 2012, the 10yr AA yield deteriorated once again. Allianz conducts a full valuation of its pension liabilities as at the end of each calendar year, so the (negative) impact of this drop in the reference discount rate will not be reflected in the 1Q 2012 numbers. However, we should keep an eye on its development as the year progresses. If it remains at the current level, then this could imply an additional increase in pension liabilities in the order of €1.9bn (or €1.3bn impact to shareholders' equity after tax adjustment). Of course, the actual impact would be offset by any gain on plan assets from the fall in AA yields and by any changes in other economic or demographic assumptions.

Figure 44. Allianz, Impact of pension corridor on shareholder equity, €bn



Source: Company Reports

There is also an earnings impact from the new rules but, for Allianz, we do not expect this to be material. Broadly-speaking the (negative) impact on reported earnings is equal to the value of the pension plan assets multiplied by the difference between the assumed discount rate and the assumed return on assets. For Allianz, we estimate this effect will be in the order of €20m to €30m, based on funding levels and assumptions disclosed to date.

The Hartford transaction

Benefits from Hartford deal to come through in 1Q and 2Q. Increased our EPS estimate for 2012 to €11.99

On 30 March 2012, Allianz entered into an agreement with The Hartford regarding all outstanding 10% fixed-to-floating rate junior subordinated debentures and all warrants held by Allianz since 2008.

There are several positive effects for Allianz as a result of this agreement:

- Capital gain of about €150m on the sale of the warrants, expected to be booked in the first quarter 2012.
- Capital gain on the sale of the junior sub debt of about €100m to €150m, expected to be booked in the second quarter 2012.
- Gain of about 4% (about €1.5bn) in Allianz's economic solvency ratio, arising from the removal of (high) risk charges for the warrants and the junior sub debt and reduction in concentration risk towards The Hartford. Again, part of this gain will be booked in the first quarter, with the bulk of it coming through in 2Q.

Under the agreement, The Hartford will repurchase all outstanding 10% fixed-to-floating rate junior subordinated debentures 2068 for a consideration of $2.125bn. Further, it will repurchase all outstanding warrants (giving entitlement to 69,351,806 shares) for an amount of $300m. The repurchases closed successfully on 17 April 2012.

The warrants will be repurchased for $300 million, resulting in a book gain for Allianz of $200m. We expect this to be accounted for in 1Q 2012. This gain acts to offset the revaluation loss of €384m taken through P&L in 2011 in respect of these warrants.

The nominal amount of this junior sub debt is $1.75bn, resulting in a gross gain of about €285m for Allianz. We believe that these bonds are widely held across Allianz units, but that the bulk of the holdings will be in businesses with policyholder profit sharing arrangements. The company has given no guidance on the proportion of the gain that would be attributable to shareholders but, if more than 50% is subject to say a 90:10 gate, then that would suggest that less than €150m feeds through to the bottom line.

Following the transactions, Allianz will hold approximately 5.3% of The Hartford's common stock, currently valued at about $450m, in line with its holding at the end of 2011.

1Q 2012 preview

Look for underlying improvements in German and US non-life

We expect Allianz to post a solid set of results in the first quarter of 2012, when it reports on 15 May.

We expect operating profits of €2.1bn, split between divisions as P&C €1.2bn, L&H €0.65bn, asset management €0.55bn and corporate -€0.24bn.

We anticipate an improvement in combined ratio to 96.8%, due to lower natural catastrophes during the first quarter.

Net income should have benefitted from both gains on fair value items and the sale of the Hartford warrants and we estimate it to be about €1.4bn.

Allianz should also report an improved solvency position, due to general market movements. We expect further improvements in the second quarter as the full benefits of the transaction with The Hartford come through.

Figure 45. Allianz, Key figures quarterly P&L, €m

	1Q11	4Q11	1Q12E
Gross Premiums Written	**28,521**	**23,304**	**29,200**
P&C	14,251	9,495	14,740
Life & Health	14,270	13,809	14,461
Net Premiums Earned	**15,861**	**16,762**	**16,497**
P&C	9,676	10,055	10,008
Life & Health	6,185	6,707	6,490
Revenues Asset Management	1,273	1,600	1,345
Group Operating Profit	**1,660**	**2,001**	**2,122**
P&C	663	1,093	1,167
Life & Health	702	519	654
Asset Management	528	663	545
Corporate & Consolidation	-233	-274	-243
Pre-tax Profit	1,486	1,127	2,162
Net Income	**855**	**498**	**1,357**
EPS	1.9	1.1	3.0
Combined Ratio	**101.3%**	**97.6%**	**96.8%**
Shareholders' equity	43,463	44,912	47,569

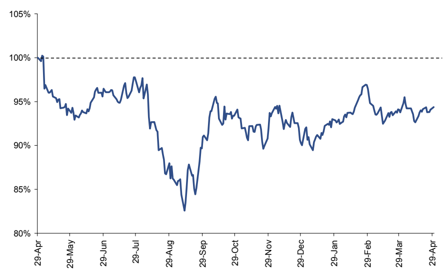
Source: Company Reports and CIRA Estimates

Share price Performance

Allianz has seen some recovery from 2011 during this year to date. It took part in the 'beta rally' at the start of the year, but has given back some of those gains since the start of March.

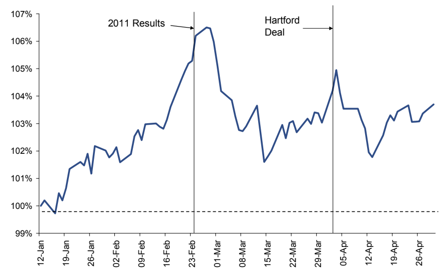
In spite of this recent outperformance, Allianz still trades down relative to the sector year on year and we still believe that the current share price does not reflect the underlying operational strength in the group.

Figure 46. Allianz, performance rel SXIP, 1yr



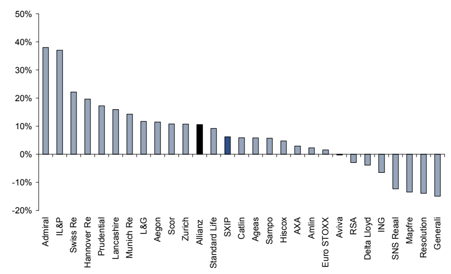
Source: Factset

Figure 47. Allianz, performance rel SXIP, ytd



Source: Factset

Figure 48. Allianz, performance rel selected European insurers, ytd



Source: Factset

Valuation

Target price €101, representing ETR of 25%

We have made a small (+2%) upwards revision to our EPS estimate for 2012, to reflect the Hartford transaction. Our target price remains unchanged at €101 per share.

The chart below sets out our forecasts for key figures by division. Allianz has guided that it expects to make group operating profit of €8.2bn +/- €0.5bn in 2012. This compares to our estimate of €8.5bn.

By division, Allianz has guided €4bn to €5bn for P&C operating profit (our estimate €4.7bn), €2.2bn to €2.8bn (Citi: €2.4bn), asset management €2bn to €2.4bn (Citi: 2.3bn) and Corporate -€0.9bn to -€1.1bn (Citi: -€0.9bn).

Figure 49. Allianz, Estimates by operation, €m

P&C	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
GPW	42,523	43,895	44,772	46,296	47,873	49,587
NPE	37,828	39,303	39,898	41,275	42,681	44,210
Underwriting result	877	999	701	1,331	1,595	1,780
Operating profit	4,075	4,304	4,196	4,728	5,230	5,600
Combined ratio	97.7%	97.5%	98.2%	96.8%	96.3%	96.0%
L&H	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
GPW	50,773	57,098	52,863	53,674	54,102	54,537
NPE	22,029	24,034	23,770	24,706	24,926	25,150
Operating profit	2,808	2,868	2,420	2,401	2,718	2,854
ASSET MANAGEMENT	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Revenues	3,689	4,986	5,502	5,754	6,049	6,347
Expenses	-2,288	-2,926	-3,246	-3,423	-3,630	-3,808
Operating profit	1,401	2,060	2,256	2,330	2,420	2,539
Cost-income ratio	62.0%	58.7%	59.0%	59.5%	60.0%	60.0%
CORPORATE	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Operating profit	-1,028	-942	-896	-900	-1,024	-1,049
Consolidation	-63	-47	-109	-72	-72	-72
GROUP	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Grp operating profit	**7,193**	**8,243**	**7,867**	**8,488**	**9,272**	**9,872**
Pre-tax result	4,944	7,173	4,871	8,318	8,833	9,262
Net income	**4,300**	**5,053**	**2,543**	**5,441**	**5,709**	**5,963**
EPS (diluted)	9.30	11.12	5.61	11.99	12.34	12.89
DPS	4.10	4.50	4.50	4.75	5.01	5.28
Tax rate	12%	27%	42%	31%	32%	32%

Source: Company Reports and CIRA Estimates

We value Allianz using both a sum of the parts (SOTP) approach and an IFRS RoE approach, under our Value Perspectives framework.

For our SOTP valuation, we estimate equity allocated to each division, adjust it for intangibles and hypothecate subordinated debt, to arrive at an allocated capital for each business. We then adjust our earnings estimates by division to reflect servicing the allocated sub debt, to derive our estimated return on capital for each division. Under this approach we see a fair value of €110 per share.

Our RoE valuation uses estimated returns on tangible equity and growth in tangible net assets for the group up to 2014. The fade valuation assumes a 10 year defence period, for which we assume a RoE of about 14% and growth in TNAV of about 4.5%. We assume a geared cost of equity of just over 11% leading to a valuation of €92 per share.

The table below sets out the results of these two valuation approaches. We set our target price at the simple average of the two methods, namely €101 per share.

Figure 50. Allianz valuation, €m or € per share

SOTP Valuation	Capital	RoC	CoC	P/TBV multiple	Earnings	P/E multiple	Valuation
Non-life	20,975	13.5%	9.0%	1.6	2,832	11.6	32,720
Life	17,927	9.7%	10.5%	0.9	1,574	10.4	16,299
Asset Management	4,816	28.4%	9.0%	3.7	1,422	13.0	17,842
Corporate	750	6.9%	10.5%	0.7	52	9.5	496
Enterprise value	44,467	13.5%	9.6%	1.5		11.5	67,357
Less: financial debt (1x nominal)							-11,173
Less: conglomerate discount							-6,736
Value of ordinary equity				**1.5**		**9.3**	**49,448**
Value per share							**110**
IFRS RoE Valuation							**42,818**
Value per share							**92**
Target Price							**101**

Source: Citi Investment Research and Analysis

Financial Calendar

Figure 51. Allianz Financial Calendar 2012

Date	Event
05-May-2012	Ex-dividend
09-May-12	Annual General Meeting 2012
15-May-12	Interim Report 1st quarter 2012
18-Jul-12	Capital Markets Day
03-Aug-12	Interim Report 2nd quarter 2012
09-Nov-12	Interim Report 3rd quarter 2012
21-Feb-13	Financial Press Conference for Fiscal Year 2012

Source: Company Reports

Sector Valuation

Figure 52. Key data and Recommendations

	Recommendation	RIC	Price 2 May 12	Price Target	2012E ETR	2013E P/E IFRS	2013E Op. EV P/E	2012E Div Yield	2011-14E Dividend Growth PA	2012E EV ex div	2012E Price/ EV	2013E RoEV	Market Cap US$m
Benelux (EUR)													
AEGON	Neutral High Risk	AEGN.AS	3.49	4.33	30.4%	5.4	2.6	6.3%	38.0%	9.2	38%	14.5%	8,821
Ageas	Neutral High Risk	AGES.BR	1.38	1.62	23.6%	6.3	1.6	5.8%	12.1%	4.1	34%	21.4%	4,475
Delta Lloyd	Neutral	DLL.AS	12.74	13.70	16.0%	5.2	3.3	8.4%	4.2%	26.8	48%	14.6%	2,876
ING	Buy High Risk	ING.AS	5.33	7.50	40.8%	3.9	2.9	0.0%	NA	12.3	43%	14.8%	27,012
SNS REAAL	Neutral High Risk	SR.AS	1.49	2.18	46.2%	1.7	1.0	0.0%	NA	8.7	17%	18.0%	568
France (EUR)													
AXA	Neutral High Risk	AXAF.PA	10.70	13.00	28.5%	5.4	3.2	7.0%	10.1%	15.4	69%	21.2%	33,390
Germany (EUR)													
Allianz	Buy	ALVG.DE	84.18	101.00	25.3%	6.8	5.4	5.6%	10.1%	119.2	71%	13.0%	50,739
Ireland (EUR)													
Irish Life & Permanent	Neutral	IPM.I	0.04	NA	NA	0.0	0.0	0.0%	NA	8.8	0%	9.8%	1,702
Italy (EUR)													
Generali	Sell	GASI.MI	10.29	10.61	7.0%	6.8	NA	4.4%	NA	16.3	63%	NA	21,208
Nordic (Local Ccy)													
Sampo	Neutral	SAMAS.HE	20.10	18.50	-2.0%	8.7	8.9	6.2%	NA	14.5	139%	15.7%	14,869
Reinsurers (Local Ccy)													
Hannover Re	Neutral	HNRGn.DE	45.67	42.70	-1.5%	7.7	8.2	5.0%	6.0%	46.8	98%	11.9%	7,291
Munich Re	Neutral	MUVGn.DE	109.65	117.50	13.1%	6.9	7.2	5.9%	3.8%	147.7	74%	10.3%	26,033
SCOR	Buy	SCOR.PA	19.98	23.50	23.7%	6.7	7.0	6.0%	8.4%	24.0	83%	12.0%	5,079
Swiss Re	Buy	SRENH.VX	56.90	65.50	21.1%	8.2	7.0	6.0%	10.1%	95.2	60%	9.8%	23,237
Spain (EUR)													
Mapfre	Sell	MAP.MC	2.18	2.30	12.7%	7.4	6.8	7.8%	NA	3.2	69%	10.3%	8,900
Switzerland (SFr)													
Zurich Ins Group	Buy	ZURN.VX	222.00	249.00	19.8%	7.4	6.8	7.7%	1.9%	162.7	136%	21.4%	36,045
UK Life (p)													
Aviva	Neutral High Risk	AV.L	317.50	346.00	17.3%	6.3	3.3	8.4%	2.0%	339.5	94%	12.5%	14,974
Legal & General	Neutral	LGEN.L	119.10	130.00	14.1%	8.1	5.1	6.4%	14.9%	155.4	77%	12.0%	11,345
Prudential	Buy	PRU.L	758.50	850.00	15.5%	11.1	4.5	3.5%	5.0%	882.2	86%	15.7%	31,393
Resolution	Neutral High Risk	RSL.L	224.70	302.00	43.7%	9.0	10.9	9.3%	4.9%	397.9	56%	4.9%	5,016
Standard Life	Neutral	SL.L	225.50	222.00	4.8%	13.8	8.0	6.4%	4.7%	350.0	64%	6.0%	8,623
UK P&C (p)													
Admiral Group	Neutral	ADML.L	1200.00	1110.00	-0.6%	12.5	NA	6.9%	9.8%	0.6	NM	NA	5,281
Amlin	Buy	AML.L	335.40	383.00	21.3%	7.0	7.0	7.3%	6.0%	263.6	127%	15.0%	2,703
Catlin Group	Neutral	CGL.L	427.40	428.00	7.2%	7.4	4.6	11.1%	5.9%	618.9	110%	11.3%	2,503
Hiscox	Neutral	HSX.L	402.30	413.00	7.1%	10.6	10.6	4.4%	5.0%	334.5	120%	10.7%	2,555
Lancashire	Buy	LRE.L	814.00	916.00	13.6%	9.5	5.9	1.8%	-46.0%	788.6	165%	14.9%	2,128
RSA Insurance	Neutral	RSA.L	105.60	113.00	15.8%	7.8	7.8	8.8%	2.0%	69.9	151%	12.4%	6,050
Average/Total						**7.3**	**5.6**	**5.8%**			**81%**	**13.4%**	**364,815**

Source: Powered by dataCentral, dataCentral is CIRA's proprietary database, which includes CIRA estimates, data from company reports and feeds from Reuters, Datastream, First Call, IBES and Toyo Keizai

Allianz SE

Company description

Allianz is a leading global financial services company. The group is one of the largest non-life insurers in the world, with particular strengths in continental Europe. The group also has top-tier market positions in life insurance in Germany and Italy, with significant operations in a number of other countries including the USA. Allianz has a very strong asset management division, in particular through its ownership of Pimco.

Investment strategy

Our rating on Allianz is Buy, based on: 1) Supportive valuation; 2) We think a significant element of recent asset management earnings strength has a structural and sustainable element to it and expect greater unrestricted cash generation as PIMCO B shares are redeemed; 3) The company is delivering decent returns in each division, with modest asset side risks - this fits well with the stocks we expect to outperform in the next 12 months.

Valuation

Our core valuation is based on a sum-of-the-parts approach, based on c13x 2012E for asset management, 10.5-11.5x 2012E for P&C and L&H (adjusted for the reallocation of central overhead and interest costs). This points to a current valuation of about €110 per share. We double check with a DCF valuation approach assuming a long-term ROE of 14% and a cost of equity of c10.5%, which points to a valuation of about €92 per share, factoring in a 10% conglomerate discount. We set our target price as the average of these two approaches at €101.

Risks

We consider the following downside risks in our recommendation for Allianz. Although the group's P&C operations are focused on retail business, the company still has exposure to catastrophe losses and long-tail insurance liabilities (including environmental and asbestos), primarily through the US unit (Fireman's Fund), but also through its global risks division and commercial lines business in Europe. The core life products the group sells are mainly guaranteed savings products, and this business would be severely challenged by a deflationary economic environment; the US life operations are also exposed to equity-sensitive guarantees. If the impact of these risk factors is more negative than we anticipate, then the share price may not reach our target price. On the other hand, if markets improve from current levels then the share price may outperform against our expectations.

Notes

Appendix A-1

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IMPORTANT DISCLOSURES

Allianz SE (ALVG.DE)

Ratings and Target Price History
Fundamental Research

Analyst: Paul L Bradley
Covered since September 30 2011

	Date	Rating	Target Price	Closing Price
1	18-Aug-09	*2M	*82.00	74.40
2	12-Nov-09	2M	*90.00	83.46
3	24-Mar-10	2M	*95.00	88.99
4	22-Nov-10	2M	*100.00	90.56
5	17-Dec-10	*1M	*110.00	89.90
6	4-Oct-11	1M	*101.00	66.92
7	7-Oct-11	Stock rating system changed		
8	8-Oct-11	*1	101.00	76.36

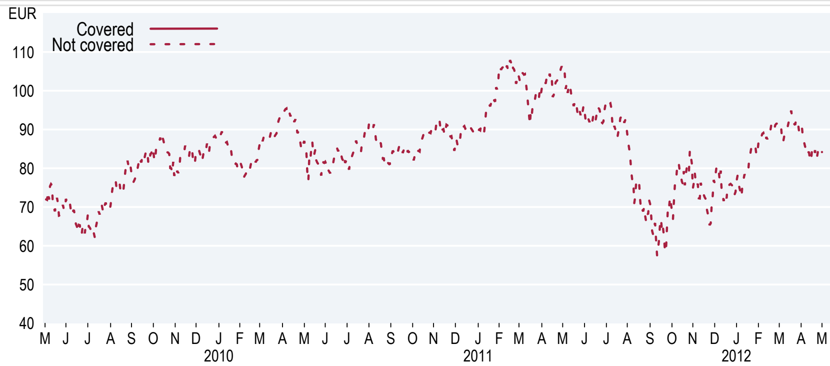
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Allianz SE (ALVG.DE)

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

Analyst: Paul L Bradley
Covered since September 30 2011



* Indicates change

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	12 Month Rating			*Relative Rating*		
Data current as of 31 Mar 2012	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
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% of companies in each rating category that are investment banking clients	44%	42%	40%	47%	42%	43%

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