14 January 2015 | 124 pages

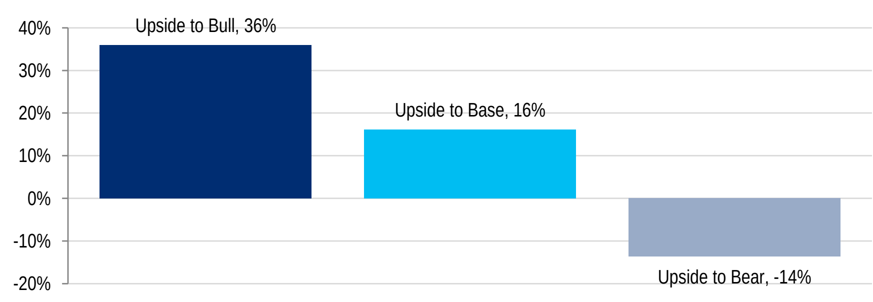
Insurance - Multi-Line
Western Europe

European Insurance

Dividend Discount Model Suggests Attractive Sector Risk-Reward

- **Dividend Discount Model (DDM) analysis keeps us positive on the sector** — The sector is now entering a period of delivery after many years of de-risking and restructuring. We expect this to translate into stronger dividend growth than the market is pricing in, and clearer capital management. Our DDM scenario analysis suggests a positive valuation risk-reward – with a preference for life & composite companies with the greatest potential for dividend surprise. Our top picks are **Allianz, Aviva** and **AXA**, and we take a more cautious view on P&C and reinsurers.
- **Positive risk-reward skew on dividend outlook** — In our view, insurers are likely to take a more proactive approach to dividends. Our DDM scenario analysis suggests ~35% upside potential to our bull case, and ~15% downside to our bear case. We highlight a number of catalysts:
  - *Strong FCF:* the sector generates strong FCF yields (~8%) relative to the market, not yet fully reflected in dividends that are covered ~1.4x by holdco cash flow.
  - *Solvency 2 clarity:* greater clarity on Solvency 2 should encourage greater certainty in capital planning, and we believe that the large listed insurers remain robustly capitalised (despite low yields).
  - *Earnings growth:* we forecast stronger earnings growth than consensus (~6% vs. 3% CAGR), supported by resilience to low yields, 'in-force' management in life companies, and health / pension growth opportunities in mature markets.
- **Citi Strategists remain positive** — Insurance remains an Overweight sector, based on its dividend potential and its fit to the key strategy themes of de-equitisation, the search for yields, and self-help.
- **Upgrading Aegon (to Buy) and downgrading NN (to Neutral)** — We upgrade Aegon given its dividend growth potential as it ends a period of de-risking, and believe it offers better risk-reward than NN at this stage. See page 3 for summary of all changes being made in this report.

Figure 1. Dividend Discount Model valuation scenario analysis



Source: Citi Research estimates

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Figure 2. Rating, TP & EPS estimate changes

Company	Ticker	Rating Old	New	Target Price Old	New	Current Year Earnings Estimates Old	New
Admiral Grp	ADML.L	2	2	£12.56	£12.68	p95.4	p101.2
Aegon	AEGN.AS	2	1	€ 7.10	€ 7.10	€ 0.67	€ 0.50
Ageas	AGES.BR	2	2	€ 28.00	€ 30.00	€ 2.08	€ 2.08
Allianz	ALVG.DE	1	1	€ 150.00	€ 157.00	€ 14.31	€ 14.31
Generali	GASI.MI	2	2	€ 16.90	€ 17.70	€ 1.40	€ 1.40
Aviva	AV.L	1	1	£6.20	£6.20	p48.8	p48.8
AXA	AXAF.PA	1	1	€ 23.50	€ 24.50	€ 2.08	€ 2.08
Delta Lloyd	DLL.AS	1	1	€ 24.50	€ 23.50	€ 2.32	€ 2.15
Direct Line	DLGD.L	1	1	£3.06	£3.06	p23.1	p24.0
esure Group	ESUR.L	1	1	£2.94	£2.59	p20.8	p20.9
Friends Life	FLG.L	2	2	£3.69	£3.69	p24.1	p24.1
Gjensidige	GJFS.OL	2	2	NKr130.00	NKr130.00	NKr8.10	NKr8.10
Hannover Re	HNRGn.DE	2	2	€ 64.50	€ 76.80	€ 7.45	€ 7.63
Legal & General	LGEN.L	2	2	£2.64	£2.64	p17.2	p17.2
Munich Re	MUVGn.DE	2	2	€ 162.00	€ 163.00	€ 17.63	€ 18.21
NN Group	NN.AS	1	2	€ 26.00	€ 26.50	€ 1.70	€ 1.70
Prudential	PRU.L	1	1	£17.71	£17.71	p96.9	p96.9
Sampo	SAMAS.HE	2	2	€ 39.00	€ 39.00	€ 2.76	€ 2.75
SCOR	SCOR.PA	1	1	€ 29.20	€ 27.50	€ 2.70	€ 2.70
Standard Life	SL.L	2	2	£4.43	£4.43	p25.4	p25.4
Swiss Re	SRENH.VX	2	2	SFr85.20	SFr88.10	SFr8.07	SFr8.68
Talanx	TLXGn.DE	1	1	€ 28.40	€ 29.00	€ 3.06	€ 3.09
Topdanmark	TOP.CO	3	3	Dkr170.00	Dkr175.00	Dkr13.98	Dkr14.13
Tryg	TRYG.CO	2	2	Dkr668.00	Dkr680.00	Dkr40.16	Dkr39.82
Zurich Ins Grp	ZURN.VX	2	2	SFr300.00	SFr325.00	SFr24.65	SFr24.35

Source: Citi Research, and dataCentral. Financials and ratios are calendar year basis. (12 January 2015)

See page 78 for description of earnings changes.

Key Charts

Figure 3. Our preferred stocks

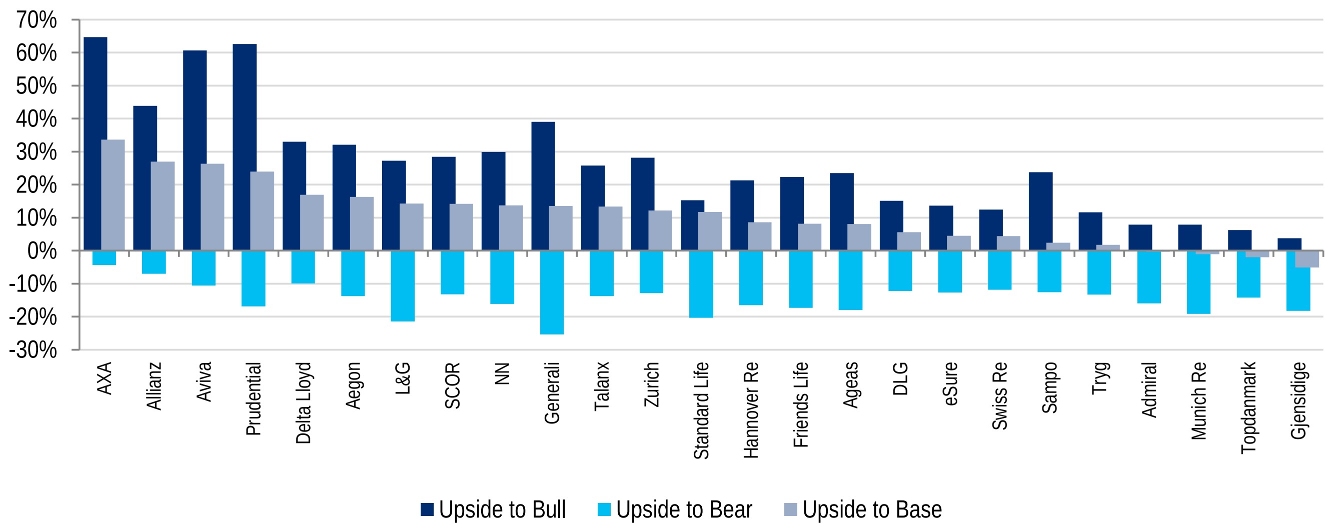
Our most preferred companies

	Ticker	Rating	Curr.	Target Price	ETR (%)	Investment Thesis
Allianz SE	ALVG.DE	Buy	EUR	157.00	20.8%	We believe Allianz continues to offer attractive additional capital return potential over regular dividends (~Eur2bn by end 2016e), and offers a stronger earnings outlook than consensus.
Aviva PLC	AV.L	Buy	GBP	6.20	29.5%	The proposed combination with Friends Life should support strong earnings growth (12% CAGR) and similarly strong development in dividends, with substantial synergies. Our numbers are ~9% ahead of consensus.
AXA SA	AXAF.PA	Buy	EUR	24.50	36.0%	AXA's discount to peers is no longer justified, in our view, and we see better earnings growth than consensus, supported by in-force management, stronger US earnings and high-growth markets. We think this suggests positive dividend risk-reward.

Source: Citi Research

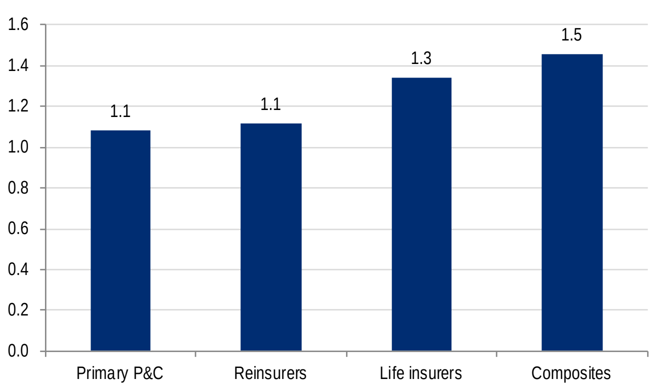
Figure 4. Results of our Dividend Discount Model bull, base and bear valuation scenarios

Our dividend analysis favours life and composite insurers who have the best dividend cover and benefit the most from Solvency 2 clarity / self-help



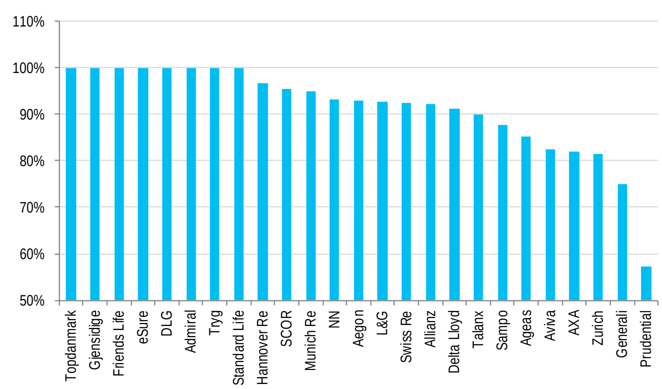
Source: Citi Research estimates

Figure 5. Dividend cover from holdco cash flow by sub-sector 2015e



Source: Citi Research estimates

Figure 6. Remittance ratios of cash to holdco (2015e)



Source: Citi Research estimates

Attractive Dividend Risk-Reward

We have argued for some time that the European Insurance sector is generating strong free cash flows, and that it is well prepared for Solvency 2. We also think insurers are addressing the strategic challenges facing them through Four Forces (Capital, Monetisation, Focus and Growth). We believe the sector is now entering a period of delivery, with stronger dividends and more proactive capital management a key outcome. Our Dividend Discount Model scenario analysis suggests highly attractive valuation risk-reward on this basis – particularly for the life and composite insurers. We remain positive on the sector overall – with Allianz, Aviva and AXA our top picks.

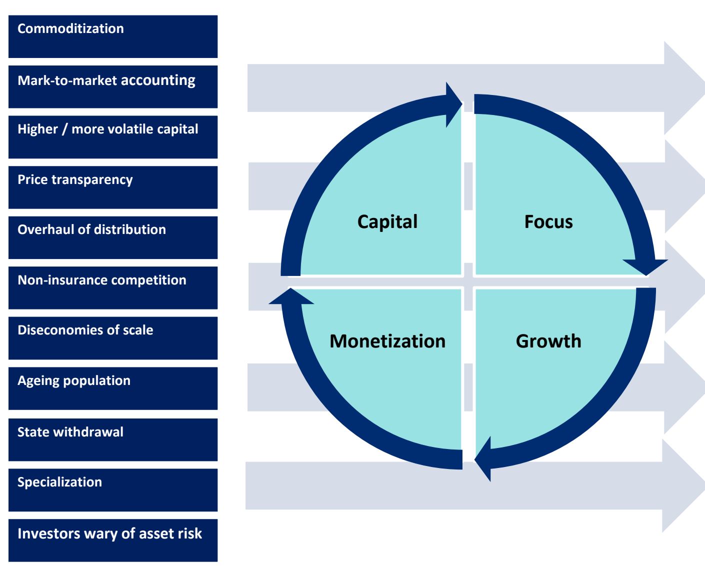
Drivers and Catalysts of our Positive View

We remain positive on the European insurers in 2015

We remain positive on the European insurance sector in 2015, as we did in 2014. We simply think that the sector is becoming fundamentally better than the market perceives it to be, with improved management, and insurers facing up to the many strategic and fundamental challenges facing them. These include low interest rates, uncertain regulation, increasing competition from non-insurance companies (e.g. asset managers and banks) and opaque accounting. We identified 'Four Forces', four key strategic levers that are currently supporting the sector:

- **Capital:** insurers have, on the whole, substantially bolstered their capital positions in the wake of the financial crisis and in anticipation of Solvency 2. This has involved major de-risking, improved ALM and reduced debt leverage.
- **Monetisation:** with multiple confusing accounting methodologies employed in the sector, and relatively opaque business models in life insurance, company management have increased focus on cash and have also vastly improved disclosure of free cash flow.
- **Focus:** insurers are withdrawing from emphasis on size and breadth (everything, everywhere) to greater focus on regions, markets and products where they have strong scale or competitive advantage. They are also rationalizing and restructuring costs – and we expect this to continue in the next few years.
- **Growth:** as balance sheets have improved, we are seeing increased management focus on growth and we believe there are attractive opportunities in mature markets from State Withdrawal from pensions and health provision.

Figure 7. The Four Forces – strategic initiatives in the European Insurance sector



Source: Citi Research

We expect 2015 to be a key year of delivery for the sector, with insurers demonstrating greater confidence about their balance sheets, due to the finalization of Solvency 2, and starting to focus on growth. Importantly, we think the use of ALM, hedging and shifting business mix should allow the major life and composite insurers to continue to defend solvency and earnings from a continued low and prolonged low yield environment. We do not think these outcomes are currently priced in to sector multiples, or consensus expectation.

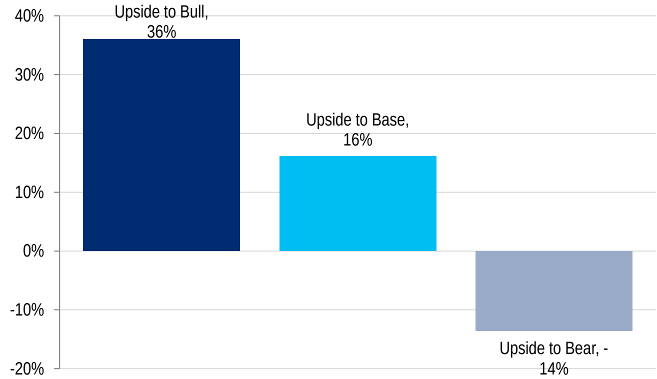
2015 should be a key year of delivery – with positive implications for dividends – particularly for life & composite insurers

A key output should be more proactive capital management, with insurers more willing to reflect their cash flow generation in dividends or cash returns to shareholders, as well as giving the market greater clarity over how they allocate capital. This could translate into more positive dividend growth than the market currently expects – and would particularly benefit the more opaque life and composite insurers who have faced the greatest need to rebuild balance sheets and take a cautious approach to dividends in recent years.

It is becoming more appropriate to judge value on dividends

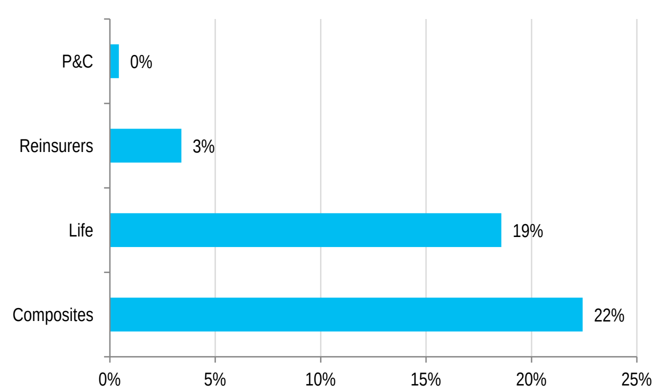
In our opinion it is becoming increasingly appropriate to judge value in the sector on dividends as we see less need for insurers to retain capital to build up buffers, and we also see strong prospects for dividend growth – again from the life and composite insurers in particular. Our scenario analysis of Dividend Discount Model (DDM) valuations for individual European insurers suggests highly positive valuation risk-reward for the sector on this basis – with ~15% upside to our base case and bull cases significantly outweighing bear case dividend risk (Figure 8). As we illustrate in Figure 9, this upside comes mainly from the life and composite insurers.

Figure 8. Dividend discount model valuation scenario analysis
We see a positive valuation risk-reward skew based on our DDM analysis



Source: Citi Research estimates

Figure 9. Dividend discount model base case upside by sub-sector
The life and composite insurers look least expensive on future dividends



Source: Citi Research estimates

We believe the key drivers behind this are as follows:

- **The sector continues to generate attractive free cash flow – not fully reflected in dividends.** European insurers offer strong free cash flow yields, partly a function of the low earnings multiples they trade at, but also reflecting measures taken by management to maximize cash flow and the upstream of capital to group holding companies. This has been notable in the life sector which has suffered from greater opacity over cash generation than P&C companies in the past. We estimate the sector is generating an average FCF yield (to equity) of ~8% (2015e) and a holding company cash yield (i.e. only considering capital upstreamed to group holding companies) of ~7%. However, this is not fully reflected in dividends, with holding company cash dividend cover of ~1.4x.

- **Solvency 2 is likely to be a positive catalyst for capital management.** In our view, uncertainty over the final shape of Solvency 2 has encouraged insurers to take a more conservative approach to dividends and capital management than justified by their cash flow. This has been an issue in the life sector especially, due to the greater debates over capital rules and liability valuations for products with long term guarantees. However, we believe most of the major insurers are now well prepared, and we expect capital buffers to be generally robust under the new regime, which comes into force officially in 2016. Most importantly, the clearer 'line in the sand' of capital requirements should allow insurers to be more decisive about capital planning. While Solvency 2 ratios may decline under pressure from lower yields we believe the risk of insolvency or material capital problems remains remote for the large listed insurers.

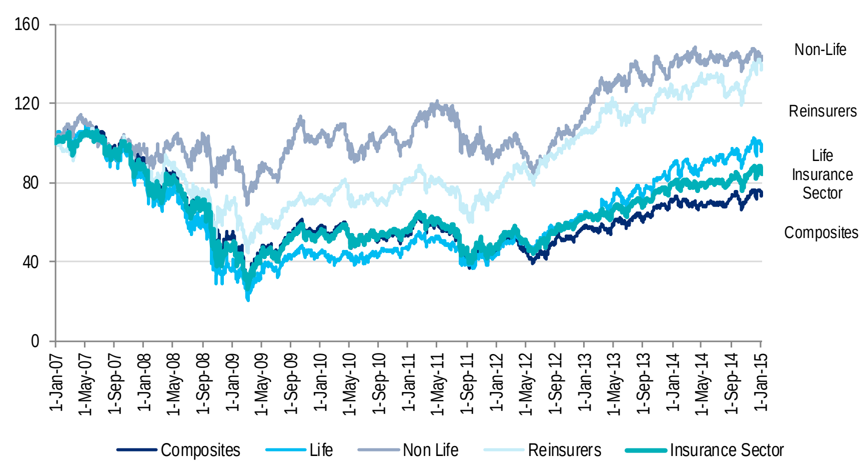
- **Earnings and dividend growth potential looks strong to us.** On top of the decent dividend cash flow coverage ratios in the sector, we believe the fundamental growth prospects of European insurers may be stronger than the market perceives – including in mature markets. Insurers are dealing with low bond yields better than some may have expected, with limited evidence of major investment margin compression for life insurers and the likelihood that low yields can be managed for some time to come. In addition, there are sources of earnings upside in mature markets, for example from 'in-force management' of life insurance back books and growth in private pensions and health products as we see further State withdrawal from these areas.

Preference for the Composite Sub-Sector

The composite insurers have had the most to gain from restructuring business models according to the Four Forces

Looking at the results of our dividend scenario analysis, we advocate a more positive view on life and composite insurers over P&C and reinsurance companies. The composite insurers appear to have a particularly positive valuation risk-reward based on dividends and this sub-sector has also underperformed the rest of the sector since 2007. The opaque and complex nature of these companies has acted as a valuation drag, and arguably they have had the most to gain from restructuring their business models according to the Four Forces. We believe these companies are now likely to show the greatest positive surprise in terms of dividends and earnings as their restructuring plans start to bear fruit.

Figure 10. Relative performance of European insurance sub-sectors since start 2007



Source: Citi Research

More Cautious View on Reinsurers and Non-Life

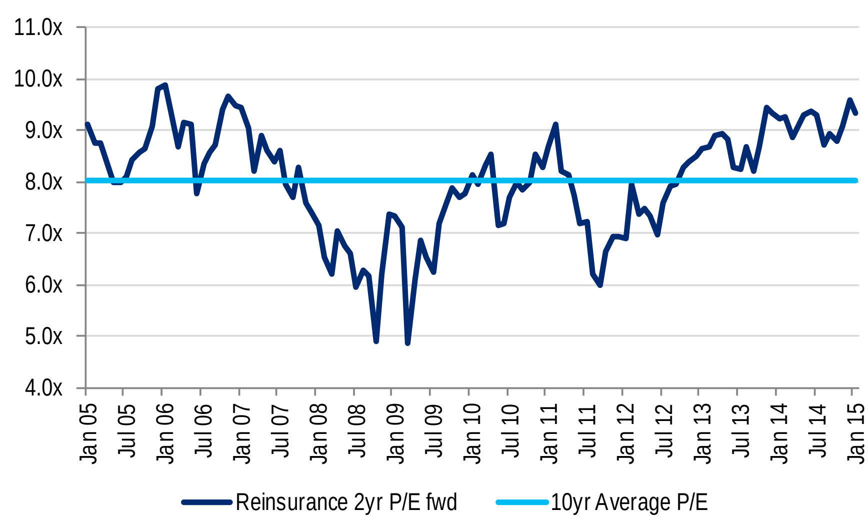
We are relatively cautious on the reinsurance sub-sector and P&C focused stocks. These show less positive risk-reward in our DDM analysis compared to the life and composite stocks. This is particularly the case with the Nordic P&C names, which are trading at a major premium to the sector (at ~16x 2016e P/E) and in our view offer limited scope for dividend growth, given low cover from holding company cash flow, as well as offering low earnings growth potential.

A weak pricing environment makes it difficult for reinsurers to redeploy capital at attractive rates in P&C markets

The reinsurers also offer less attractive value according to our scenario analysis, although SCOR, the only reinsurer we continue to rate as a Buy, offers a better combination of dividend yield and growth potential than its peers. We believe a weak pricing environment makes it increasingly difficult for reinsurers to redeploy capital in the P&C markets at attractive rates and we see little evidence that this pressure will abate in the near-term, through January renewals season. At the same time the ongoing contraction in bond yields, which is reflected more quickly in P&C and reinsurance earnings due to the shorter duration of assets, creates an ongoing drag on earnings as reinvestment yields are well below current running yields.

Whilst dividends should remain robust and additional capital management actions in the form of buybacks or special dividends are likely from the reinsurers, in our opinion lacklustre earnings momentum is likely to dominate the debate in the near-term. This may be partially offset by higher reserve releases if claims experience continues to develop below expectations. Overall, we struggle to identify a catalyst for a material re-rating of the reinsurance sector, especially given the fact that reinsurers are trading close to 10-year highs in P/E terms – see Figure 11.

Figure 11. Reinsurance sub-sector P/E based on consensus estimates



Source: Factset, Citi Research

Our Stock Preferences

Given our preference for composite insurance names, we highlight three names that we would consider to be our top picks: **Allianz, Aviva and AXA.** Note we are also upgrading **Aegon** and downgrading **NN** in this report. This is largely a relative valuation call (backed up by our DDM analysis) given the strong performance of NN since its IPO and our view that Aegon is entering a phase of potentially stronger dividends.

We provide further commentary on individual stocks in the Company sections towards the end of this report. However, for Aegon we believe the company is close to the end of a process to de-risk the balance sheet, improving capital buffers and reducing leverage, and is now in a better position to materially grow dividend payouts. In addition, Aegon is a beneficiary of buoyant growth prospects in the US life market, supported by a more positive economic outlook and Aegon's niche position in certain product areas. NN remains an attractive capital return story, in our opinion, but now trades at a significant premium to Aegon.

Allianz – Positive on Capital Return and Earnings Prospects

Allianz remains on the Citi Focus List Europe, and we rate it a Buy with a new €157 target price. Our forecasts suggest that Allianz has substantial scope for additional capital return (of ~€2bn) when it reaches its first expected triennial review of surplus capital in 2016e. This is based on a positive surplus of holding company cash flow versus dividends and inorganic growth between 2014e and 2016e, but also takes into account the potential for additional special capital release to the holding company of ~€3bn over this period. We also believe that Allianz offers stronger earnings prospects than the market gives it credit for, with likely stable underwriting profitability in its P&C segment, a recovery in PIMCO earnings from 2016e and our view that Allianz may be entering a period of stronger growth in its unit-linked and life protection businesses.

Aviva – Our Top Pick in UK Life

We believe Aviva is well placed in the current market environment to capitalize on recent trends with a focus on growth, costs and cashflow. However, in our view, it is the proposed all share combination with Friends Life that should really set it apart in the market. Whilst on a standalone basis we forecast a robust earnings CAGR of 12% over the next 4 years, with a similarly strong development in holding company cash flow and dividends, these metrics would be further amplified by the deal, implying significant additional upside. On a standalone basis we are 9% ahead of consensus for 2016e EPS. Assuming the deal goes ahead and our views on the announced cost synergies are correct, we could see an additional 2% on EPS estimates, implying scope for 10%+ consensus earnings upgrades. Our target price of 620p values the group on 8.9x 2015E operating EPS.

AXA – Strong Positive Dividend Risk-Reward

AXA remains one of the most inexpensive of the major composite insurers, trading <8x 2016e P/E. While a discount may have been justified in the past due to its perceived weaker balance sheet and leverage compared to peers, we believe this is becoming increasingly unjustified. We see scope for better earnings than the market expects, and with a robust capital position under Solvency 2 (and better holding company cash flow from the US business), we believe AXA could surprise positively on dividends in the next few years. Earnings should be supported by three drivers in the life business particularly: upside from improved 'in-force' management, a turnaround in the US life business after a period of de-risking and AXA's exposure to high growth markets. We believe AXA can grow dividends by ~10% CAGR in the next few years, assuming a 45% payout ratio by 2016e.

Citi Strategy View – Overweight Insurance

Citi Strategists remain positive on European equity markets, and prefer stocks that fit into themes of de-equitisation, the search for yield and self-help / restructuring. The European Insurance sector is a key Overweight, based on its dividend and cash flow prospects. We set out a summary of their views in this section, written by Jonathan Stubbs and team.

Jonathan Stubbs

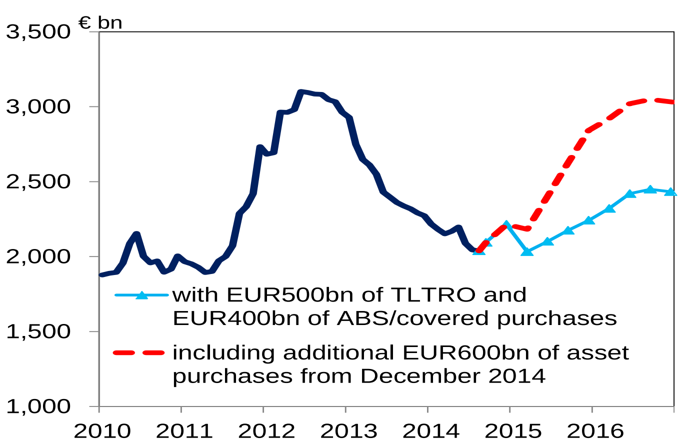
Global Equity Strategist

We back de-equitisation, the search for yield and self-help

Further easing of monetary policy is likely to be the key event in Europe in 2015. This remains central to our European equity strategy view. ECB QE, likely this month, should help to: 1) raise confidence, 2) stabilise/reverse falling CPI expectations, 3) drive higher nominal GDP growth in 2015-16E, 4) further weaken the euro, 5) support further gains for risk assets, and 6) extend the search for "reasonable and secure" yield across the region. At a thematic level, we continue to back de-equitisation, the search for yield and self-help/restructuring. At a sector level, we run a barbell strategy which runs exposure to: 1) surplus FCF and strong balance sheet companies, 2) Financials; which we think w

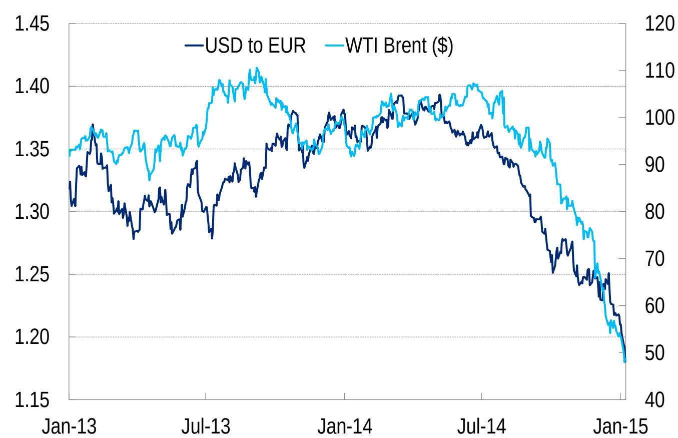
ill be amongst the key beneficiaries of ECB QE and its consequences. We remain Overweight Insurance. The sector offers investors a high DY, which is also well covered by surplus FCF, based on the work by Farooq and team. This makes the sector attractive in a QE environment.

Figure 12. Euro-system Total Assets Including Projections (€ bn)



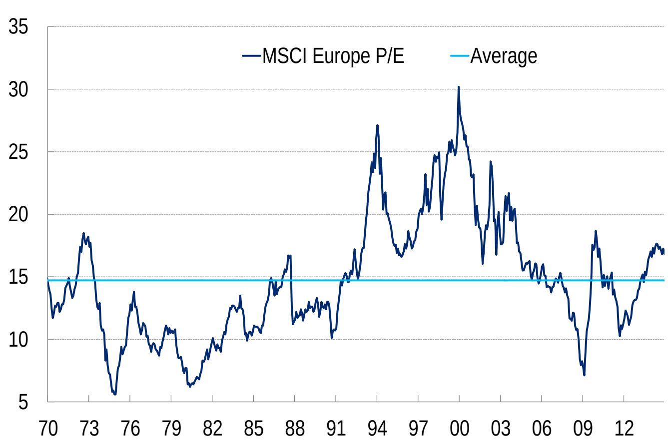
Source: ECB, Citi Research

Figure 13. Dollar/Euro and WTI Brent



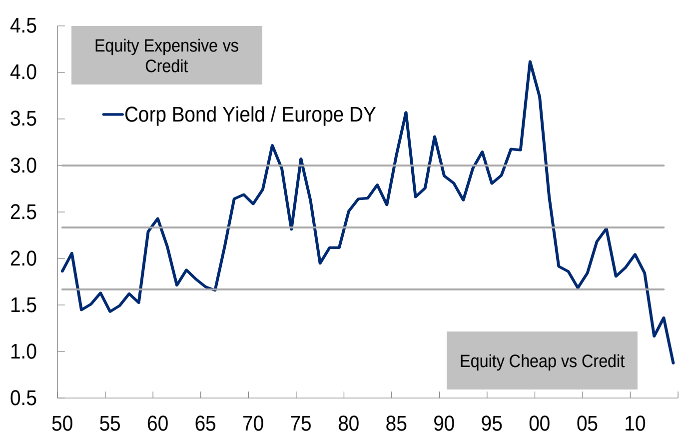
Source: DataStream, Citi Research

Figure 14. MSCI Europe Trailing P/E



Source: DataStream, Citi Research

Figure 15. Corporate Bond & Dividend Yield Ratio



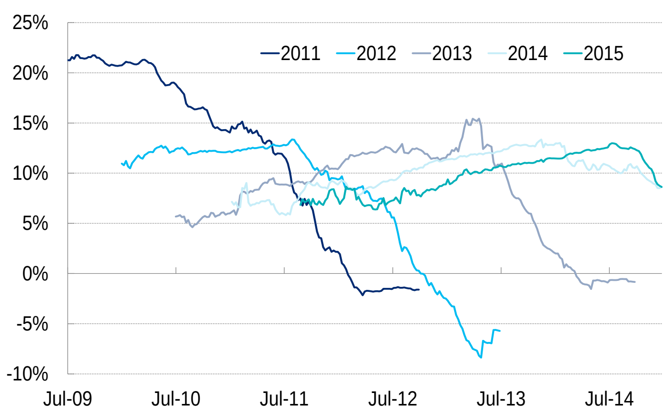
Source: DataStream, Citi Research

Global central banks have provided a liquidity (or nominal GDP growth) put since the 2008-09 financial crisis. The 'put' baton is currently being passed from the Fed to the BoJ and ECB. Citi expects ECB QE announcements later this month. A weaker euro and lower oil prices should combine with QE to underpin Euro Area growth. Overall, Citi expects global nominal GDP to rise again in 2015E.

European equity looks cheap relative to credit

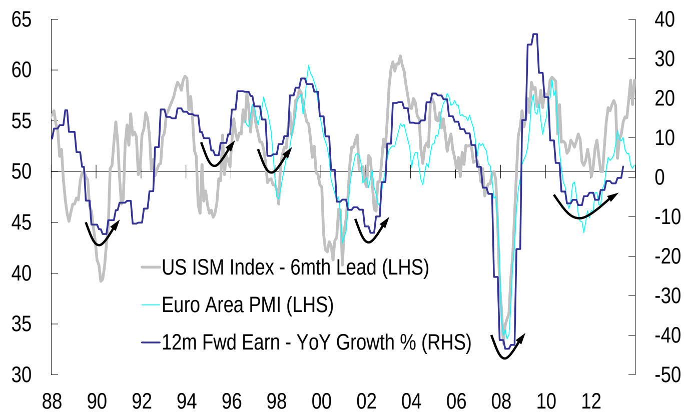
European equity does not look cheap on a trailing P/E as earnings remain depressed. But equity looks multi-decade cheap relative to credit (and fixed income). Due to this, you need to be a big earnings/macro bear to not own equity here. We are not, and are therefore bullish. We target a 15-20% return in 2015 from European equities.

Figure 16. Europe Earnings Growth Expectations



Source: Factset, Citi Research

Figure 17. PMIs and Europe Earnings Growth



Source: DataStream, Citi Research

European earnings are on an improving path. Despite sharp downgrades in the oil sector, EPS growth is likely to annualise close to 10% in 2015-16E, helped by a weaker euro, improving regional nominal GDP and better bank earnings.

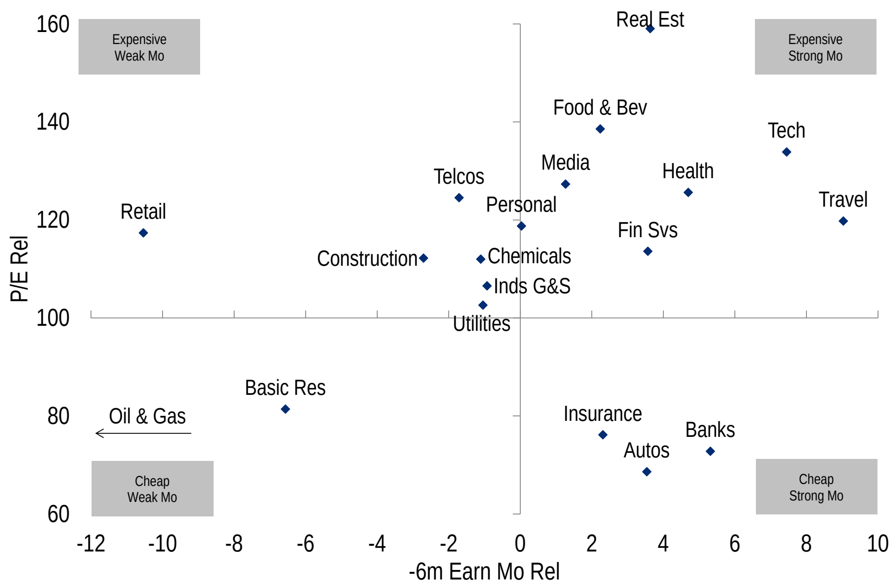
Figure 18. Sector Attribution Model (SAM)

	EM Exp	US Exp	EU Exp	Earnings Mo	Earnings Current vs 10y Avg	DY 14E	DY*G	P/B	Abs P/E Rel to 5yr History	B/S	FCF-DY	Average FCF	Average FCFY Delta	US Bond Yields	Periphery Bond Spreads	Beta	€/$ Beta	Overall Rank
Factor Weight	0%	10%	5%	10%	10%	5%	5%	5%	5%	10%	15%	0%	0%	5%	5%	0%	10%	100%
Tech	17	5	15	1	11	19	19	8	5	2	2	10	14	8	9	10	3	6.7
Banks	14	15	9	4	1	7	1	2	8	-	-	-	-	4	1	6	19	7.5
Basic Res	19	14	16	17	3	6	2	4	7	7	1	1	1	3	5	18	11	7.5
Industrial G&S	13	10	10	11	12	14	6	16	3	4	4	3	7	7	7	7	1	7.6
Insurance	3	12	3	9	8	3	5	1	14	-	-	-	-	1	2	13	13	7.6
Autos & Parts	10	4	13	5	18	11	4	9	1	8	13	13	10	2	4	1	7	8.4
Oil & Gas	12	6	11	18	5	1	10	3	6	3	15	14	2	10	12	5	4	8.5
Health Care	4	2	17	3	13	13	14	14	17	4	7	7	12	18	18	16	2	9.0
Travel	5	7	6	2	19	18	3	18	2	8	9	11	3	11	11	4	10	9.4
Construction	8	13	7	16	6	9	11	6	10	12	10	9	6	5	3	2	8	9.6
Media	6	3	8	15	9	10	17	13	18	12	3	2	11	12	10	12	9	9.7
Personal	16	11	14	10	17	15	9	15	4	1	6	6	8	16	17	17	6	9.9
Fin Svs	7	1	19	8	14	8	7	11	15	-	-	-	-	6	16	3	17	10.1
Real Estate	1	19	1	6	10	5	13	12	9	-	-	-	-	13	15	14	16	10.5
Retail	9	16	4	19	7	12	15	7	11	6	5	4	5	17	14	11	14	11.0
Utilities	2	17	2	11	4	2	18	5	16	15	14	12	4	15	6	15	15	11.5
Food & Bev	18	9	18	7	15	16	12	17	12	11	8	8	9	19	19	19	5	11.6
Chemicals	15	8	12	11	16	17	8	19	13	8	12	15	13	9	8	8	12	11.6
Telcos	11	18	5	11	2	4	16	10	19	14	11	5	15	14	13	9	18	12.0

Source: Citi Research

Figure 18 shows our Sector Attribution Model. SAM weights factors that we think will be most important in next 3-18 months: re-leveraging optionality, delivery strategies, search for yield/income ECB QE. We put most weight on surplus FCF, earnings (inc. regional sales skew to US/ Europe & EUR/USD). We have exposure to ECB QE via FX, peripheral bonds, regional exposure (overlaps with earnings) and various “search for income” factors. SAM and views of our sector colleagues drives overall European sector strategy. Banks and Insurers continue to screen well and we stay Overweight ahead of ECB QE.

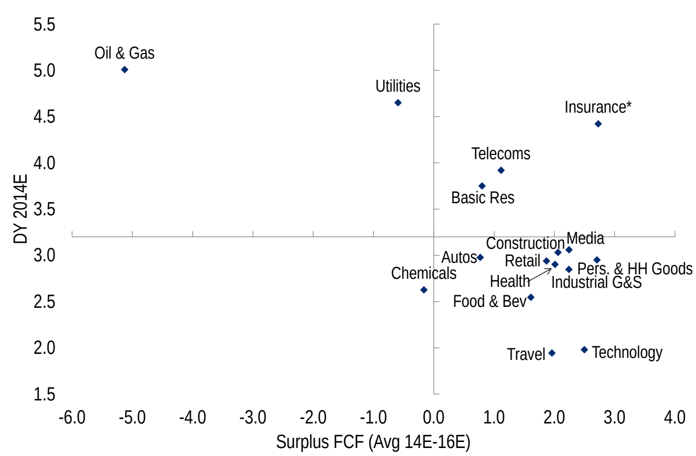
Figure 19. Six Months Earnings Mo and P/E Rel



Source: DataStream, Citi Research

Few European sectors offer investors the combination of value and earnings momentum. Insurance, and Banks, both look cheap on a P/E relative and have positive 6-month earnings momentum trends. Insurance also looks attractive, alongside Telecoms, when considering DYs and surplus FCF. We believe that this is an attractive combination of attributes in a QE environment.

Figure 20. High Dividend Yield & Surplus Free Cash Flow



Source: DataStream, Citi Research. *2015E holding company FCF yields

Dividend Discount Model

We set out the key assumptions and conclusions of our Dividend Discount Model scenario analysis for European Insurance stocks in this section. Based on the assumption that companies will be able to steadily increase the proportion of holding company cash paid out as dividends, we see substantial positive dividend risk-reward. The greatest upside potential appears to be with the composite and life insurance names given 1) greater potential to increase cash payout ratios than P&C companies and 2) currently low remittance of cash flow to group holding companies in the composite sector in particular.

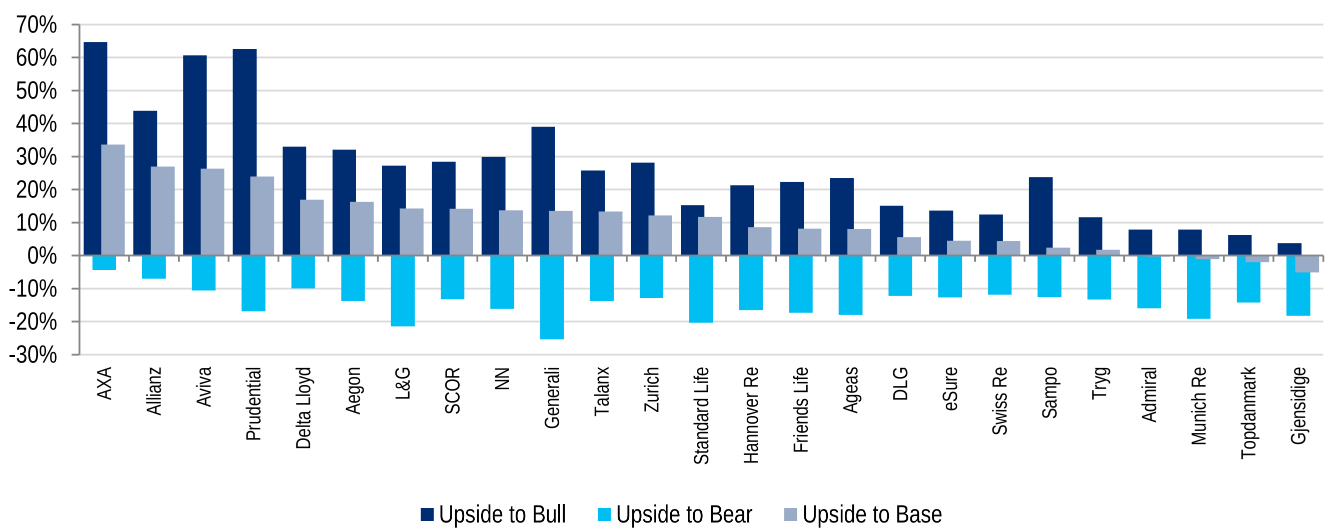
Scenario Analysis of Individual Stocks

Our bear, base, bull Dividend Discount Model supplements our SOTP valuation analysis

We show the results of our bear, base and bull scenario dividend discount model for individual stocks in Figure 21. These involve explicit dividend and cash flow forecasts for each company for the first four to five years, followed by longer-term projections using some basic growth assumptions. We apply a terminal value multiplier (after year 20) consistent with our long-term growth assumptions (between 2% and 6% CAGR, depending on the nature and business mix of each company). We use a standard discount rate of 9.5%, which we feel applies an appropriate risk premium, although we have used lower discount rates for companies (e.g. Nordic P&C names), where the risk profile is lower than average. Note that we are not using this model as yet to set our target prices – we continue to use Sum-of-the-Parts models for this. However, we believe it provides important additional valuation insight.

Figure 21. Bull, base and bear case dividend discount model scenarios

We see a positive risk-reward valuation skew based on our DDM scenarios, particularly skewed for the life & composite stocks, less so for P&C



Source: Citi Research estimates

In the near-term we assume dividend payouts consistent with stated or expected dividend policies (e.g. payout ratios based on earnings or cash flow). However, in the longer-term we believe dividends will become increasingly correlated with the level of holding company cash flow at each company. This in turn is driven by the level of underlying free cash flow generation in operating subsidiaries, the proportion of this cash flow upstreamed to the holding company (i.e. the remittance ratio) and any central and holding company costs. In our base case, we assume that remittance ratios remain stable over the forecast period, i.e. insurance companies do not materially improve the level of cash upstreamed to their holding companies. We also assume that dividend payments tend towards 1x holding company cash over the longer-term (by year 25 in our projection).

We assume insurers can growth dividends towards holding company cash flow in the long-term

We believe this assumption that holding company cash flow is eventually all paid out in dividends is reasonable in the longer-term. While insurers are currently in a phase of rebuilding cash and capital buffers we do not anticipate this continuing forever. At some point surplus holding company cash will have to be redeployed. This may be returned to shareholders through dividends, paid in lump sums as special dividends or buybacks or redeployed for additional organic and inorganic growth over and above assumed in our earnings forecasts. Whatever the medium used, our assumption that dividends tend towards 1x holding company cash flow takes into account this potential redeployment of surplus capital.

In our bull case and bear cases, we vary assumptions for cash flow growth in the longer-term, and the level of free cash flow that can be remitted to holding companies:

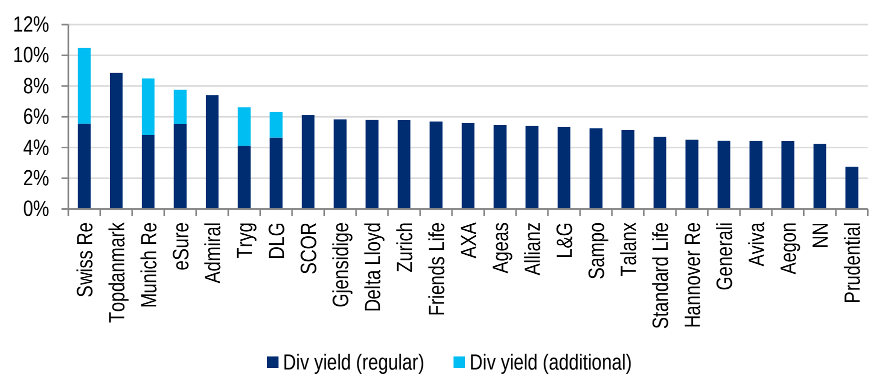
- In our bull case, we assume companies are able to grow earnings and cash flow faster than the base by 1ppt a year. We also assume that companies face lower barriers to upstreaming capital and are able to raise remittance ratios to *at least* 90% over the longer-term (if they are not already achieving this).
- In our bear case, we assume companies face greater regulatory or other restrictions on moving capital between subsidiaries, and reduce forecast remittance ratios by 15ppts relative to our base case. We also assume lower than base case earnings growth, resulting in 1ppt lower cash flow growth per year.

Positive Valuation Skew

We estimate ~35% upside to our bull case DDM valuations

The broad conclusion we draw from our dividend discount model is that there appears to be better upside than downside dividend potential in the sector (i.e. a positive risk-reward skew), with ~35% weighted upside to our bull case DDM valuations versus ~15% downside to our bear case. This is more pronounced in life insurance and composite insurers, with a less positive picture for P&C and reinsurance stocks. The cash generative nature of P&C focused sub-sectors, and the lower level of debate about Solvency 2 impacting these companies, has allowed non-life insurers to provide more attractive dividends and capital return than the life names in recent years (Figure 22), and therefore we would argue that there is now less scope for positive dividend surprise in the P&C and reinsurance sectors.

Figure 22. Total shareholder returns from dividends, buybacks or special dividends – 2015e

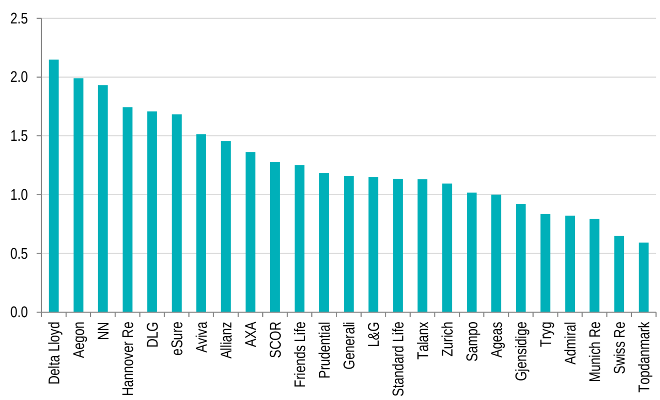


Source: Citi Research estimates

There is less scope for positive surprise in P&C and reinsurance dividends

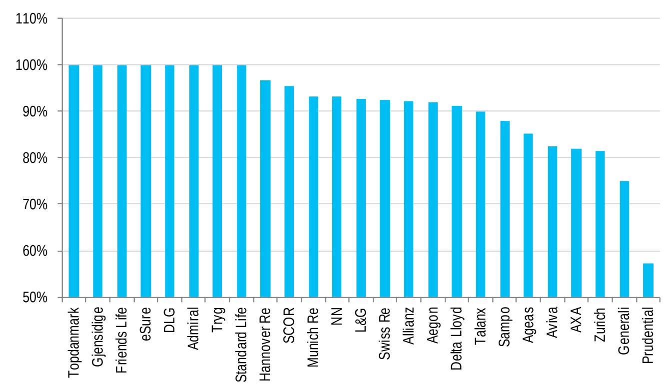
As we illustrate in Figure 23, most of the P&C and reinsurance companies in the sector (with some exceptions such as Hannover Re and SCOR) are already returning most of their cash generation to shareholders, with average holdco cash dividend cover of ~1x. In contrast, the life and composite names can improve dividend levels materially, with average holding company cash dividend cover of 1.4x, if they feel able to do so from a capital perspective. In addition, the life and composite insurers also have lower *remittance ratios* – i.e. they are upstreaming less of the cash generation from their operating subsidiaries to their holding companies than P&C insurers or reinsurers. This reflects the greater regulatory capital that has encouraged life insurers to increase capital buffers held in local operations (i.e. subsidiarisation). This could ease in the next few years as greater clarity emerges over Solvency 2 – something we explore in our bull case dividend scenario where we assume a global improvement in remittance ratios.

Figure 23. Dividend cover from holding company cash flow 2015e
Life and composite names have greater potential to improve cash payouts



Source: Citi Research estimates

Figure 24. Remittance ratio of free cash flow to holding company 2015e
The P&C and reinsurance stocks are already efficient at upstreaming cash



Source: Citi Research estimates

In summary, we think there is potential for positive surprise in both dividend levels and growth rates in the next few years, which we think will be highly supportive for sector valuations. We would highlight three key drivers behind this view:

- **Sector free cash flow generation remains strong.** The improved cash disclosure in the sector suggests that it is generating strong free cash flow yields compared to the market as a whole. We think investors have not attached enough credibility to this as yet, especially given the opaque nature of the sector and also that many companies (e.g. the life and composite names) continue to take a cautious approach to dividends. We believe any sign that insurers are becoming more comfortable with distributing their surplus capital generation would be positive for the sector's cost of equity.

- **Solvency 2 is a likely to be a positive catalyst for dividends.** We believe emerging clarity over Solvency 2 will have two main consequences. Firstly, the clearer 'line in the sand' over how capital requirements are measured and disclosed will allow companies to better plan how to manage their capital, as well as product design. Secondly, we expect disclosed Solvency 2 ratios to be fairly robust, with insurers feeling less compulsion to continually build up capital. Both of these factors should be positive for dividends and future dividend growth.

- **Earnings prospects may be better than the market perceives.** Consensus estimates tend to suggest a sluggish growth outlook, with 3% earnings growth – consistent with the low trading valuation multiples in the sector relative to the

market. We think earnings growth will be stronger than this (at ~6% CAGR) and the market may be overlooking three things. Firstly, the life insurers have withstood low bond yields better than some may have feared and we think it will continue to do so (despite pressure from factors such as QE), supported by sophisticated asset-liability management as a byproduct of the need to prepare for Solvency 2. Secondly, we see substantial potential for earnings upside from better management of life insurance back-books (in-force management), which we believe the life and composite companies have yet to fully deliver through restructuring initiatives. Finally, we see attractive growth prospects for scale insurers in developed life and pensions markets, due to growth in private pensions and healthcare globally.

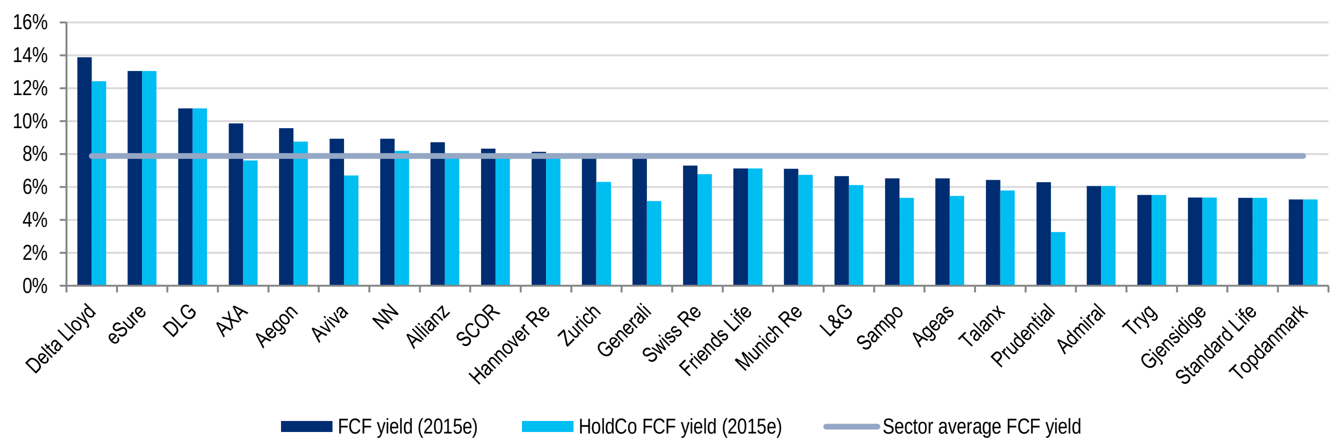
We examine these drivers in more detail in the next few sections.

Attractive Free Cash Flow Generation

We believe insurers are generating ~8% FCF yields

The sector has been generating relatively strong free cash flow for some years now, as insurance company management have paid greater attention to demonstrating that opaque insurance business models and products are cash generative. Disclosure of free cash flow in the sector has improved significantly in the past decade. As we show in Figure 25, we estimate the sector is generating total free cash flow to equity of ~8% and 'holding company' cash yields of 7% (i.e. considering only cash that is upstreamed from operating subsidiaries to group holding companies). Both compare well with our estimate of ~5% for the free cash flow yield for equity markets as a whole.

Figure 25. Estimated European insurance free cash flow and holding company cash flow yields – 2015e
We estimate the sector is generating an average free cash flow to equity yield of ~8%



Source: Citi Research estimates

Investors have been reluctant to price this in fully into sector valuations. This is understandable given scepticism over whether disclosed free cash flows are truly 'free' – especially for the life and composite insurance sector. While P&C companies have generally been willing to pay relatively high dividend or cash returns to shareholders, and have less capital uncertainty, the life and composite names suffer from relatively opaque business models, greater uncertainty over the impact of Solvency 2 and have adopted relatively cautious dividend policies relative to disclosed free cash flow. However, we believe some of these factors are about to change, especially if life and composite companies become more comfortable with their capital buffers with certainty on Solvency 2, allowing greater clarity over how free cash flow is redeployed.

In the life and composite sector, we would highlight two trends that could support further free cash flow improvements in the next few years:

- **A material shift to less capital intensive and more cash generative new business.** Ahead of the formal introduction of Solvency 2, life insurers have been in a process of adjusting their business models and product mix to be more Solvency 2 friendly. This includes de-emphasising products that are likely to generate relatively low returns on economic capital, such as traditional 'participating' life products in Europe. Insurers have been reducing new business capital requirements through better product design and actions to limit distribution costs. This has resulted in a marked reduction in 'new business strain' on cash flow due to growth. Investor pressure to improve transparency on cash generation has also improved management focus on cash payback periods in product design – choosing to sell products that both maximize value *and* minimise cash flow breakeven.

- **Increasing capital release from 'legacy' back-books.** The shift in business mix and focus away from traditional life products means that life insurers now have significant blocks of 'legacy' life insurance business that are no longer core to their product strategy and are effectively in 'run-off'. In Europe, major life insurers have built up significant blocks of 'participating' life savings business. In other regions, such as the US, we have seen European insurers pulling out from traditional guaranteed or spread-based savings products (e.g. fixed annuities). While these books are no longer a source of future growth, they provide a valuable source of free cash flow as they mature due to the release of relatively high levels of economic capital backing these products (compared to newer, more capital efficient products), as well as margins released from fairly prudent reserves held to back claims liabilities. Furthermore, with greater clarity over Solvency 2, insurers may be able to find ways of managing capital more efficiently in these blocks (e.g. better ALM, merging books together to release capital, securitisations or disposals).

Greater Clarity over Solvency 2

Solvency 2 remains a confusing and opaque topic, as insurers move from simple regulatory ratios and capital requirements under Solvency 1, to a mark-to-market balance sheet and risk-based capital requirements under Solvency 2. We provide a brief overview of the key aspects of this new regulatory regime in Figure 26.

Solvency 2 has been a source of much concern for companies and investors in the European insurance sector for a number of years – particularly acute for life insurers:

- This is a risk-based capital regime, which requires a complete recalculation of the balance sheet under a market-value based framework. This results in significantly higher volatility of reported capital than under Solvency 1.

- Capital requirements are higher than under Solvency 1 (although the calculation of capital available may be more generous). They are also risk-based and capital required to cover market-related risks are also subject to some element of pro-cyclicality.

Figure 26. A brief description of Solvency 2

Overview	A comprehensive and consistent risk-management framework across Europe, replacing disjointed and inconsistent Solvency 1 regime in place since 1970s. Solvency 2 will go live on 1 January 2016 (with transitional arrangements). All assets and liabilities are valued at 'fair value' - market value for assets, liabilities measured on an 'economic basis' with the present value of best estimate liability cash flows discounted at a 'market consistent' yield (see below). An additional risk-margin added on top of best estimate value to reflect any uncertainty in future cashflows that cannot be hedged. When interest rates decline, lower discount rates result in higher liabilities. However, this may be offset by higher asset values (e.g. due to bond assets), especially if asset policy closely matches the 'nature' and 'duration' of liabilities. This mark-to-market nature has encouraged insurers to de-risk and increase focus on asset-liability matching to mitigate interest rate risks. Standard Capital Requirement (SCR) calculated based on stress tests on assets, interest rates, underwriting, actuarial and operational risks. Stress tests are caliabrated to a 1-in-200 year expected stress event for each risk (i.e. 99.5% VAR over a year). There will also be a less stringent Minimum Capital Requirement (MCR) with lower capital charges in a range of 25% - 45% of SCR
Capital Requirements for Asset Classes	Equities: 39% for listed equities and private equity, 49% for 'other equities' Government bonds: currently 0% for EU Member State government bonds and related securities, although some discussion of introducing sovereign bond capital charges based on ratings. Capital charges for non-EEA government bonds varying by rating and duration (0% for AA rated governments) Corporate bonds: varying by rating and duration, around 10-20% for 10-year duration bonds rated BBB to AA. Significantly lower capital charges for covered bonds and ABS, depending on underlying and other factors. Property: 22%-25% depending on nature of property investment (e.g. strategic participation)
Interest rate stress test	Upwards and downwards shock in interest rates. Upwards shock of at least 100bps along curve, downwards shock varies by term. Stress test tests both assets and liabilities and looks at change in net capital (own funds). Interest rate stress test can be one of the largest sources of capital requirement for insurers taking asset risk - especially life insurers.
Discount rates for liabilities	Basic interest rate curve based on swap rates less a risk-adjustment (min. 10bps, max. 35bps). Actual swap curve used up to 'last liquid point' (20 years for EUR, 50 years for GBP), after which curve is extrapolated to an 'ultimate forward rate' of 4.2%. Volatility adjustment can be applied as an additional 'premium' over the basic interest rate curve. Still to be calibrated but will be based on 65% of spread of a reference portfolio of largely government and corporate bonds (by currency, and by national government). Alternatively a matching adjustment can be applied for certain strictly defined liabilities similar to annuities, where assets are ringfenced and can be held to maturity. Matching adjustment will be based on spread on matching portfolio for investment grade assets, varying with rating. Still uncertainty over types of assets that may be included, but matching adjustment may include up to 65-70% of 'long-term' spread on eligible assets.
Internal model approval	Large listed insurers are likely to seek formal 'internal model' approval in 2015. Most have already been discussing their internal models with regulators for some time. If approval is granted for an insurer before S2 comes into place, it can disclose capital requirements and solvency ratio on this basis and is not required to disclose the Solvency 2 position on the 'Standard Formula'. Most insurers would welcome this, because they have liabilities and risks (e.g. mortality, longevity and underwriting risks) that may not be well captured by a standard model. There remains some uncertainty on the outcome of internal model approval in the sector.
Other factors	Financial risk mitigation (e.g. hedging) may be taken into account where there is a transfer of financial risk through financial instruments - e.g. put options, CDS Transition period for Solvency 2 of 16 years, where S2 capital requirements and liabilitiy calculations are gradually phased in. Likely that major listed insurers will not use these transition arrangements. Grandfathering of hybrid capital as tier 1 and tier 2 capital subject to constraints and limits.

Source: Citi Research, EIOPA

- Economic capital surplus has been pressured by declining interest rates (due to lower liability valuation discount rates), especially for insurers offering long-term investment guarantees in traditional life products where there is a great deal of convexity in liability valuations as interest rates fall.

- There has also been a lot of uncertainty over the shape of the rules, with several major changes to the approach to valuing liabilities and long-term guarantees in recent years, as well as measures to deal with short-term market volatility and other factors such as the 'equivalence' of other regulatory regimes (outside the EU) to the Solvency 2 framework.

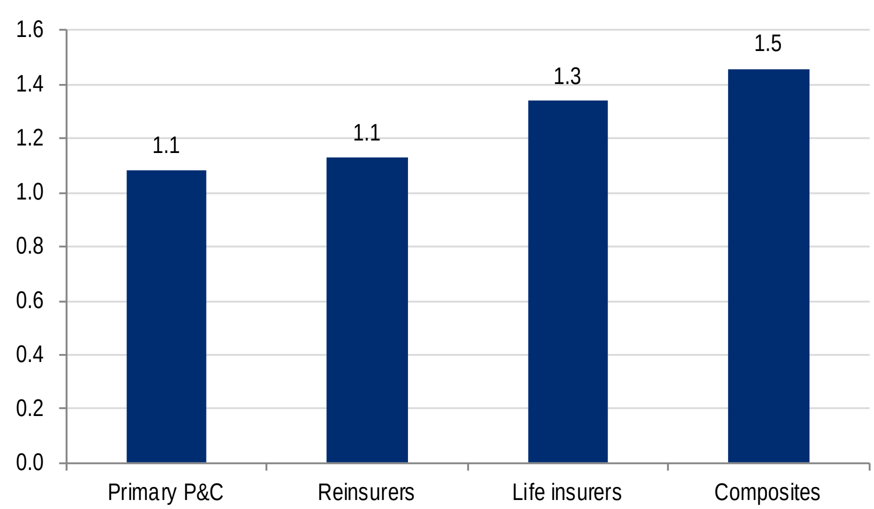
European insurers have carried out substantial de-risking in anticipation of Solvency 2

In response to these issues, the European insurers have carried out substantial de-risking in the past 5-10 years. This has included reducing exposure to volatile asset classes that suffer from relatively high capital charges (e.g. equities) improved matching between assets and liabilities to reduce capital volatility. Companies have also been encouraged to rebuild capital levels and to hold far larger buffers than they may have in the past. This is particularly true of the more complex companies, such as the global composite insurers, who have arguably had the greatest degree of uncertainty over issues such as 'US equivalence', the practical application of diversification benefits and the need to satisfy multiple regulators across many regions – which has often caused problems of trapped capital and low remittance ratios.

De-risking has led to a cautious dividend policy from life and composite insurers

One of the important consequences of this has been a cautious approach to dividend policy, with composite and life insurers in particular retaining larger proportions of their cash flow than P&C companies in recent years, to support their balance sheets and liquidity. This can be seen quite clearly in Figure 27 below, which shows the average dividend cover by holding company cash flow by sub-sector: composite insurers are currently retaining approximately 1/3rd of their holding company cash generation.

Figure 27. Dividend cover by holding company cash flow (2014e)
Life and composite insurers have been rebuilding capital buffers with low payout ratios from cash



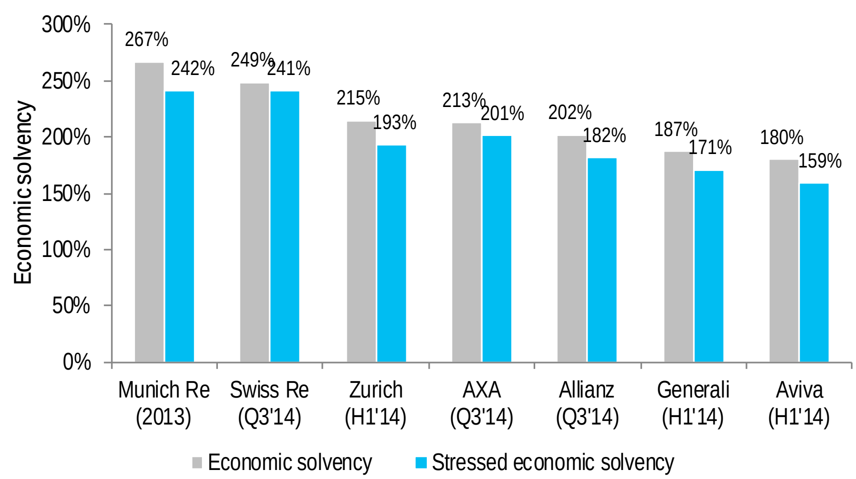
Source: Citi Research estimates

We expect this conservatism towards capital management to reduce as we approach the implementation of Solvency 2, which is now on track to be implemented by 1st January 2016. We would highlight the following key points:

- **Clearer 'line in the sand'.** First and foremost, removal of uncertainty over key aspects of the capital calculation will provide a clearer 'line in the sand' over the level of capital each company needs to support its business model. This will do away with the need to overcompensate for regulatory uncertainty by building excessive capital buffers. Insurers will be able to set clearer capital targets and, in our opinion, this should have positive consequences for cash returns to shareholders.

- **Many of the major debates in Solvency 2 have been resolved.** Some of the major areas of uncertainty that concerned insurers in recent years have been resolved in some form. For example, US subsidiaries of European insurers will receive 'partial equivalence' – allowing them to continue to use US capital models and not to formally apply Solvency 2 for regulatory purposes (although most already use internal economic capital models to manage their US businesses). In addition, the concept of a 'matching premium' for annuity-like liabilities has been accepted, and the latest indications suggest that this could be quite generous in allowing insurers to use ~65% of the 'fundamental spread' (i.e. part of the spread not relating to credit risk) in assessing the discount rate for liabilities. This could be very positive for UK insurers with large annuity liabilities. In addition, the basic technical details behind the 'volatility adjuster' have also been defined, which allows insurers not using a matching premium to apply a premium to the liability discount rate to allow for temporary market volatility – although there is still uncertainty over the 'reference portfolio' to be used for this.

Figure 28. Disclosed internal model economic capital ratios for selected European insurers
Stressed solvency based on 25% decline in equities, 50bps lower yields, 50bps higher credit spreads



Source: Company data, Citi Research estimates

- **Disclosure on 'internal models' suggests robust economic capital buffers.** While the 'standard model' for Solvency 2 is still in the process of being finalised, many (but not all) companies disclose their internal model economic capital ratios, which are calibrated to a similar level (i.e. 99.5% value at risk over a year, or capital required to cover a 1-in-200 year stress) – see Figure 28. Standard model ratios are likely to be different to these disclosed numbers; we expect standard model ratios to be lower for many of the major composite insurers for example. However, we do not think this will change the basic conclusion that most insurers are likely to disclose Solvency 2 ratios in excess of 150% of standard capital requirements. Importantly, we believe that capital buffers are sufficient to withstand substantial investment market stress, as we illustrate in

Figure 28, which shows the impact of a 25% drop in equities, 50bps lower level of bond yields and 50bps wider corporate bond spreads.

- **Many companies may attain internal model approval.** Most major insurers have been discussing their internal models with their regulators for some time now, and although the formal approval process will start later this year, we see a good chance that many will see their models ultimately approved (with some possible minor adjustments). For example, in the UK the ICA regime (Individual Capital Assessment) already mirrors Solvency 2 and we believe the UK FCA should be at a relatively advanced stage in the 'pre-approval' process. If internal models are approved, we believe this could be a significant positive catalyst for the sector since it would cause the least disruption to companies' balance sheet management and would confirm current disclosure suggesting that capital buffers are strong. Companies that have approved internal models will not be required to disclose their capital positions on a 'standard model' basis, although they may be required to explain any major variances.

Greater clarity on Solvency 2 will allow insurers to disclose more informative capital management policies

While there remain significant areas of uncertainty over the Solvency 2 process, e.g. the proportion of companies receiving internal model approval, the calibration of the volatility balancer and other areas (e.g. contract boundaries, sovereign risk charges), we feel more comfortable that these are unlikely to be major game changers at this stage. We also believe that the sector is generally well prepared for the shift to Solvency 2. However, as clarity over disclosed capital ratios under the new regime emerges over this year and next, we believe companies will be in a better position to define their approach to capital management to their investors, and we also expect the larger life and composite insurers to start taking a less cautious approach to retaining surplus cash.

Earnings Growth Potential

We forecast stronger earnings growth than consensus

As we have discussed in the sections above, we believe lower capital constraints (and strong underlying cash generation) will allow the sector to rebase dividends or increase payout ratios in the near-term – particularly for the life and composite stocks. However, we also believe that future dividend *growth* potential may be stronger than the market currently perceives, supported by *earnings growth.* Our current forecasts suggest earnings growth from the companies we cover in the European Insurance sector of 6% CAGR in the next 4-5 years, compared with consensus of ~3%.

Our forecasts may seem overly positive given the current macroeconomic environment. With low bond yields, sluggish GDP growth prospects and concerns about P&C pricing, it is understandable that the market is unwilling to price in stronger earnings growth.

However, we believe the market is overlooking the following key drivers:

- The sector is coping better with low bond yields than investors may have feared, therefore it is possible that the market is taking an overly bearish view of the likely 'drag' from low yields on earnings – particularly for life insurers.
- We see substantial earnings upside from 'back-book' management. Large 'back books' of legacy life business in run-off have been viewed as a drag on business models, since they consume significant levels of economic capital that could take time to be released, and are not viewed as contributing to growth. However, through a combination of cost-cutting, cross selling or actions to accelerate capital release, we believe these could provide more positive support to earnings than currently factored in to consensus.

- There are clearly many areas of the European insurance market that are suffering from low volume growth. These include, for example, low premium growth for P&C and reinsurers due to low GDP, and in some areas weak pricing trends (e.g. property / catastrophe reinsurance). In addition, the shift in product mix away from traditional life has also limited growth rates. However, we believe there are also attractive new business growth prospects in life & health markets that the market may be overlooking, even in 'mature' markets. These come from the potential accelerated withdrawal of the State from pensions and health provision, increased concentration of market share and an ageing population.

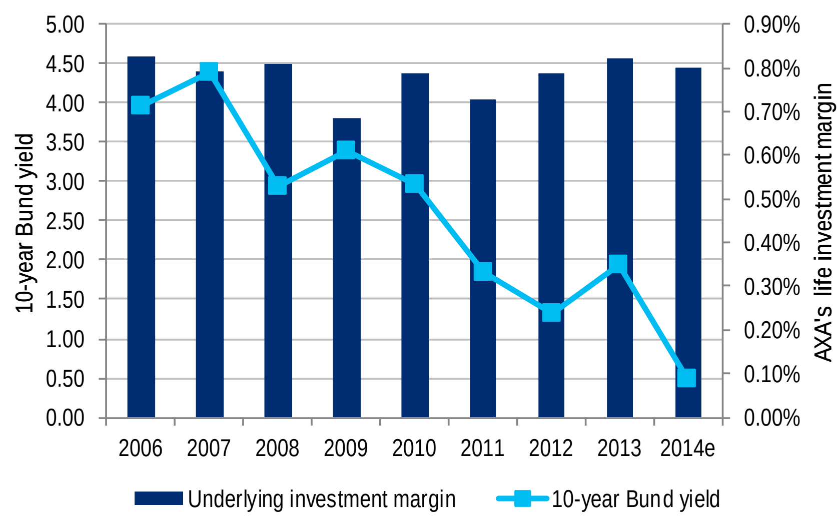
We examine some of these topics in more detail below.

Sector Coping with Low Bond Yields

Life investment margins are not declining as much as feared

A significant compression in investment margin for life companies offering guaranteed savings products, due to low bond yields, has not transpired as some investors may have feared. We illustrate this for AXA in Figure 29, which shows reported life insurance investment margins over the last 9 years; we believe there has been a similar pattern in most other life companies. There are a number of drivers behind this.

Figure 29. AXA's life investment margin versus 10-year Bund Yield
There is little correlation between risk-free yields and life investment margins due to mechanisms to limit interest rate risk, including ALM



Source: Company data, Citi Research estimates

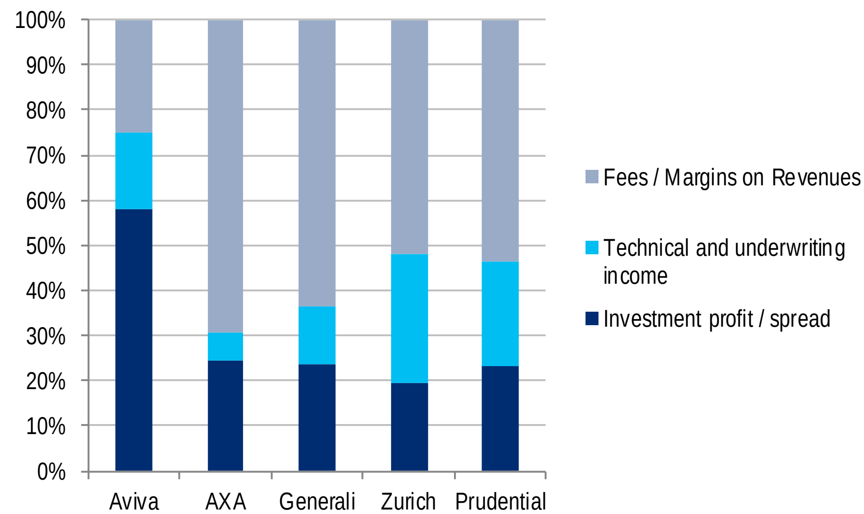
- **Asset-liability management.** The path towards Solvency 2, and managing capital on an economic basis in the past 5-10 years, has encouraged insurers to minimize interest rate risks (one of the largest sources of capital requirement under Solvency 2 in the sector). Life companies have achieved this through better asset-liability matching, particularly through minimizing the duration gap between fixed income assets, aided in many cases by hedging.

- **Flexibility within participating (or 'profit-sharing') life insurance contracts.** Life companies have mechanisms to limit interest rate risk through the use of surplus 'policyholder capital' in profit-sharing products, the ability to reduce crediting rates in some policies as well as flexibility in the way guarantees work in

some products (e.g. at-maturity guarantees versus annual guarantees). The long-term nature of life insurance liabilities allows these companies to resist the accounting effect of lower yields for longer.

- **Exposure to non-interest rate exposed products.** Growth in sales of unit-linked and protection products, where insurers generate most of their profitability from underwriting margins rather than investment returns, has also diversified exposure in the sector away from exposure to investment spreads or margins. We illustrate this for the major composite insurers in Figure 30; this chart shows split of profits (before expenses) by source in 2013.

Figure 30. Life insurance revenue margins by source for major composite insurers - 2013
On average, life insurers generate most of their profits from fees and margins on premiums



Source: Company data, Citi Research

AXA recently gave some data on the impact of low reinvestment yields on its future life insurance earnings. It is currently achieving reinvestment yields of ~2.4% (based on the mix of assets it is investing in). It suggested the earnings impact of yields remaining at this level could be approximately €200mn over a 5-year period, which we estimate is approximately €40mn per year. This is equivalent to a drag on earnings growth of only 1% per year.

P&C companies face more immediate reinvestment risk but may offset this

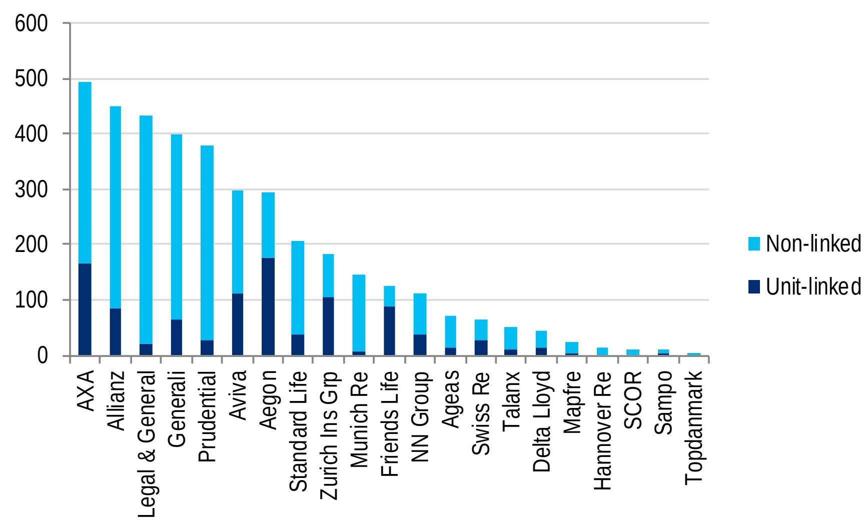
For P&C companies, lower interest rates have been more visible due to the shorter duration of assets and liabilities in these companies, which means that bond assets mature more quickly and reinvestment into lower yielding assets is more immediate. However, P&C companies have relatively low risk asset portfolios and the ability to re-risk assets to offset low ‘risk-free’ yields is still significant. We would argue that greater clarity over the impact of Solvency 2, and potentially robust capital levels under this new regime, may be a key trigger for some companies to spend some of their surplus capital on taking greater asset risk.

'In-force' Management of Back Books

European insurers have significant back books of 'legacy' life business

As we commented earlier, the advent of Solvency 2 has forced the life insurance sector to overhaul its product mix away from capital intensive guaranteed savings contracts (with unhedged or hard to hedge guarantees) towards more unit-linked and structured 'hybrid' contracts or health and protection business. The shift in product mix has resulted in significant books of 'legacy' life business in run-off for most of the major European life and composite insurers. In many ways, these back books have acted as a drag on life insurance business models since they do not contribute to growth, they often consume higher levels of capital per customer than more modern products and they may suffer from an inflated cost base due to inefficient legacy back office systems. As books of policies run-off, this leads to the risk of cost overruns as these systems are maintained to administer policies.

Figure 31. Unit-linked and non-linked life insurance liabilities at 1H14 – in €bn
Significant blocks of legacy non-linked life liabilities in the sector may be a source of earnings upside



Source: Company data, Citi Research

We believe legacy 'back-books' could be source of earnings upside

However, we believe these big liability blocks could also be become a positive strategic asset for particular companies, and potentially a source of earnings upside through 'in-force' management. This is an umbrella term referring to a series of initiatives to improve returns or release capital from life insurance 'in-force' policies. A number of European insurers have announced such measures in recent years, and we expect such initiatives to grow in importance over the next few years. For example, measures include:

- **Cost savings.** Although we have seen numerous cost reduction programmes put in place in recent years, especially from the large complex multinational insurance groups, such as the major composite insurers, we believe the scope for further cost reduction is still substantial. Figure 32 shows total expense ratios for a selection of life insurance businesses in the sector (i.e. acquisition and ongoing costs as a percentage of insurance reserves or assets). These suggest that many insurers are still facing costs equivalent to ~150bps of life liabilities. We believe a major part of these costs reflect back office systems and infrastructure required to back legacy policies, including fairly high commission costs for distributing policies. We see scope for a reduction in both distribution and ongoing costs in the next few years, particularly as insurers improve their technology and take a more focused approach to distribution (including increased

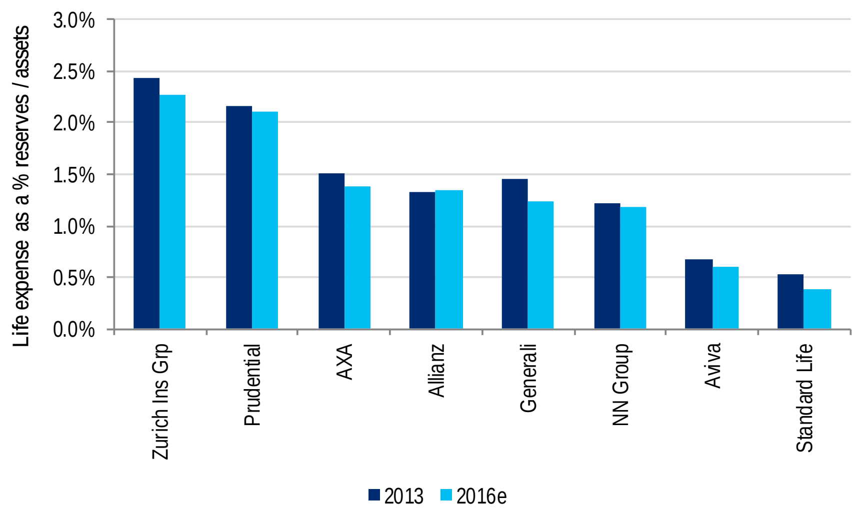
direct sales) – and as we also illustrate in Figure 32, we are currently factoring in a ~10bps reduction in cost ratios (i.e. suggesting that costs will grow at a lower rate than business volumes) in the period to 2016e. There is scope for more aggressive cost cuts than this in a bull case, in our view.

- **Cross-selling to legacy customers or 'upscaling' products.** We have seen increased focus from major life insurers on extending the life of their existing customer base through cross-selling initiatives, or even 'upscaling' customers into products that provide a better return or benefit, for potentially lower capital requirement and higher margin for the insurers. Examples from companies such as AXA, Generali and Allianz include cross-selling or upscaling 'hybrid' products to customers with legacy traditional products.

- **Accelerating capital release from back books.** Aegon and AXA are examples of companies that have offered liquidity to customers with legacy variable annuity policies that consume a lot of capital and contribute to significant market risk. On this basis AXA, for example, was able to release ~US$0.6bn of reserves and associated capital requirements in its US business. Other forms of capital release include disposals of non-core policy books, and also forms of 'capital engineering', for example through reviewing corporate structures (e.g. merging books of policies together) or more optimal internal reinsurance structures to make more efficient use of capital.

Figure 32. Life insurance expense ratios

Scope for cost reductions at most companies of ~10bps to 2016e



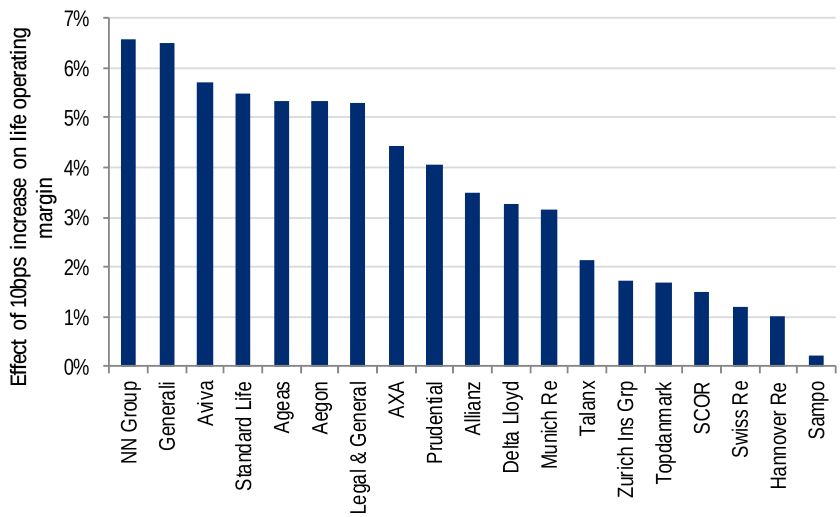
Source: Company data, Citi Research estimates

Clarity over Solvency 2 will create more 'in-force' opportunities

While companies have been active in these areas in recent years, a lack of clarity over the final shape of Solvency 2 has made it difficult to evaluate strategic options for capital release in particular, or in optimizing asset-liability management. We believe the scope of focus on in-force management issues can increase considerably and could be a key source of earnings upside. Again, returning to AXA – which provided specific disclosure on in-force management initiatives at its recent Investor Day in Paris (November 2014) – in-force initiatives at this company are expected to contribute ~€280mn of earnings upside by 2015e compared to 2010. This is approximately equal to between 8bps and 9bps on non-linked life insurance liabilities.

We see further scope for in-force management in the sector at the current time. For illustrative purposes, we illustrate in Figure 33 the potential upside to Group earnings from a 10bps increase in margins earned on *non-linked* life liabilities. This presumes that the bulk of legacy policies are traditional life products not unit-linked. This is meant to be a very meaningful forecast, but simply a guide to the earnings sensitivity of companies to better margins earned on the in-force book of life policies. Although there is a wide range of sensitivities (clearly dependent on business mix – the greater the size of life liabilities, the greater the sensitivity to this area), it appears from our calculation that a 10bps improvement on in-force margins for traditional life business could add ~4% to group earnings in the sector.

Figure 33. Estimated increase in earnings from 10bps increase in traditional life margins 2015e
A 10bps higher margin on non-linked life liabilities adds ~4% to sector earnings based on our analysis



Source: Citi Research estimates

New Business Growth Potential

Low GDP growth and pressure on P&C reinsurance pricing in selected areas has meant that the growth outlook for P&C insurers looks relatively weak. To a large extent, P&C and reinsurance companies have been compensating for this through proactive dividend and capital return policies – paying relatively high dividend and cash return yields relative to life and composite companies.

Growth in life and pensions has also been held back by the impact of lower bond yields and a shift in business due to Solvency 2 and economic capital regulation. The shift away from traditional guaranteed savings products to more 'modern' unit-linked and protection business has resulted in significant improvements in margins and profitability, but has held back growth.

These factors contribute to the low earnings and free cash flow trading multiples of the sector relative to the market. However, we believe the market may be overlooking some key areas of growth, particularly benefitting primary life and composite insurers in Europe. We would highlight the following areas:

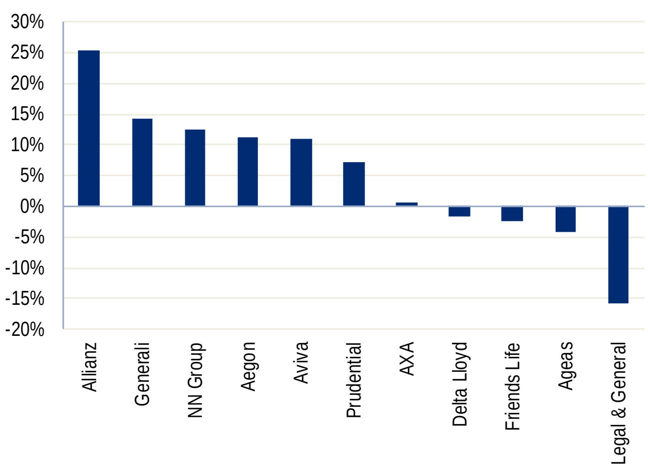
- **The withdrawal of the State from pensions and health provision.** The financial crisis may have resulted in low GDP growth in Europe, but it has also heightened focus on fiscal deficits and the need to control State pension and healthcare costs. While there is unlikely to be a rapid privatization of pension and

healthcare in European economies, we expect government policy to turn increasingly positive towards supporting private pension and health protection. We have seen this in the UK with the introduction of auto-enrolment (employees enrolled into pension schemes on an 'opt-out' basis). In addition, private top-up health insurance is already an important part of the insurance market in many European countries (e.g. France and Germany), and we expect increasing reforms to make this cover more attractive. As we have seen with auto-enrolment in the UK, this could create highly attractive growth opportunities for the larger life and health insurers in a market able to cope with high scale and allow them to achieve profitability if any 'charge capping' is applied to these products.

- **We expect increasing consolidation in life and P&C markets in Europe.** The majority of insurance markets in Europe still have substantial scope for consolidation, in our view, with the top 5 insurers still taking up only 50% of market share. This is probably more likely in life and pensions markets rather than P&C, due to high barriers to entry created by Solvency 2 capital requirements, with the potential withdrawal or reduction in share of mutual insurers that are less well capitalized and have less capacity to grow under a Solvency 2 regime. In addition, a shift to unit-linked and protection business with less opaque product structures and pricing, as well as regulation to improve transparency of pricing and costs to customers at the point of sale, may result in some margin compression – also favouring the larger insurers.

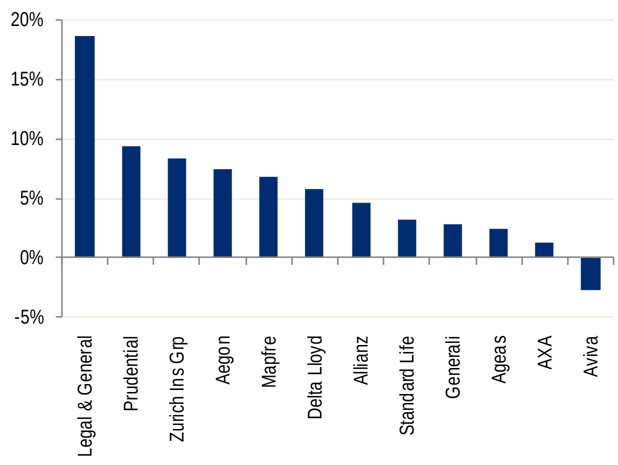
We believe the life insurance industry has held up fairly well in recent years despite volatile investment markets and macroeconomic uncertainty. As we show in Figure 34, we have seen a strong uptick in new business growth for many companies in 2014 to date – helped by a shift in product mix – which has been written at significantly higher margins. In addition, Figure 35 suggests that life insurance liabilities have, on average, grown during the crisis due to positive net inflows since 2009 (at ~6% per year).

Figure 34. Life new business sales growth in 9M14
Legal & General affected by changes to annuity rules in the UK



Source: Company data, Citi Research

Figure 35. Life insurance liability growth since 2008 (CAGR)
Some companies affected by disposals, e.g. AXA and Aviva



Source: Company data, Citi Research

Company Focus

Admiral Group (ADML.L)

Earnings headwinds from claims inflation

- Target Price Change
- Estimate Change

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Neutral	2
Price (12 Jan 15)	£13.68
Target price	£12.68
from £12.56	
Expected share price return	-7.3%
Expected dividend yield	7.3%
Expected total return	0.0%
Market Cap	£3,812M
	US$5,784M

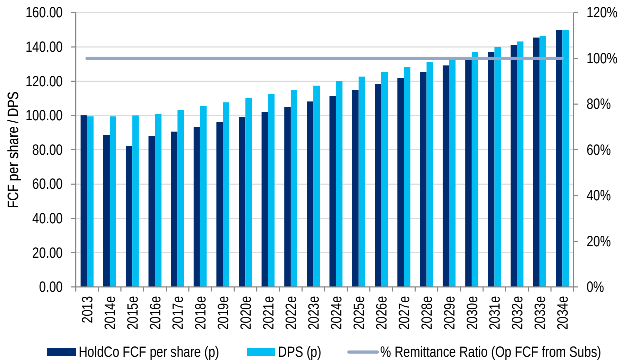
Price Performance
(RIC: ADML.L, BB: ADM LN)

- **We reiterate our Neutral rating with a new target price of 1268p** due to a) valuation and b) limited potential for a significant re-rating given the current UK motor market pricing and claims trends as well as ongoing investment in international divisions.
- **Earnings headwinds due to claims inflation:** Whilst 2014 was in line with Admiral's expectations for the UK car insurance business, primarily due to positive claims development on its back years, future earnings will be impacted by the decline in premiums experienced over the last few years, coupled with a return to higher claims inflation. Furthermore, reserve releases are likely to decline going forward and whilst prices have stabilized in the UK motor market it is still too early to call a turn in the cycle. Consequently we see more downside risk to estimates than upside over the nearer term.
- **Additional capital return looks remote:** We think the potential for near-term additional capital return remains remote due to the above earnings headwinds. Whilst we currently don't forecast a cut in the dividend, the longer the pricing environment remains soft, the more likely a cut becomes.
- **Valuation:** Admiral is trading at ~14.5x 2015E EPS which is still a premium to the other UK non-life names (~12x average).

Admiral Group (GBP)

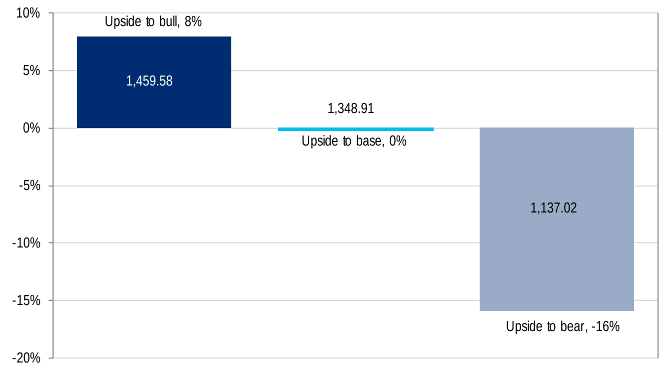
Year to 31 Dec	2012A	2013A	2014E	2015E	2016E
Profit Before Tax (£M)	344.6	370.2	361.3	330.6	351.5
Diluted EPS (p)	94.9	104.4	101.2	93.5	99.4
Diluted EPS (Old) (p)	94.9	95.4	97.9	105.4	120.1
PE (x)	14.4	13.1	13.5	14.6	13.8
DPS (p)	90.6	99.5	99.5	100.0	101.0
Net Div Yield (%)	6.6	7.3	7.3	7.3	7.4
Embedded Value Per Share (p)	135.1	157.0	164.9	158.0	156.2
Price / EVPS (x)	10.1	8.7	8.3	8.7	8.8

Figure 36. Hold Co FCF per share; DPS; Remittance Ratio



Source: Company reports, Citi Research estimates

Figure 37. Base, bull & bear case Discounted Dividend Model scenarios



Source: Citi Research estimates

Figure 38. Admiral - SOTP

£m	2015E Capital	ROC	Capital Multiple	2016E Earnings	P/E	Valuation	Per share p
UK Motor	149	184.7%	20.5	275	11.1	3,045	1,104
International Motor	27	30.0%	4.7	8	15.6	128	46
Price comparison	11			9	15.0	131	48
Central Items				-16	9.0	-148	-54
Excess capital	541		1.00			541	196
Total capital	729	37.4%	5.07	272	13.6	3,698	1,340
Financial Debt	-200					-200	-72
Group Equity	529	51.5%	6.62	272	12.8	3,498	1,268

Source: Citi Research Estimates

Figure 39. Free Cash Flow Model

GBP bn	2013	2014e	2015e	2016e
Life new business strain	0.0	0.0	0.0	0.0
Life cash flow from in-force	0.0	0.0	0.0	0.0
Life free cash flow	0.0	0.0	0.0	0.0
P&C earnings	0.3	0.3	0.3	0.3
P&C capex	0.0	0.0	0.0	0.0
P&C free cash flow	0.3	0.2	0.2	0.2
Asset management earnings	0.0	0.0	0.0	0.0
Other earnings	0.0	0.0	0.0	0.0
Operational free cash flow from subsidiaries	0.3	0.2	0.2	0.2
Growth in Op FCF from subs		*-11%*	*-7%*	*7%*
Holdco and central costs	0.0	0.0	0.0	0.0
Growth in Holdco costs				
Group operational free cash flow	0.3	0.2	0.2	0.2
FCF per share (p)	100.14	88.62	82.12	87.99
% Remittance Ratio (Op FCF from Subs)	100%	100%	100%	100%
Dividends to holding	0.3	0.2	0.2	0.2
Holdco and central costs	0.0	0.0	0.0	0.0
Holding company free cash flow	0.3	0.2	0.2	0.2
HoldCo FCF per share (p)	100.14	88.62	82.12	87.99

Source: Company data, Citi Research estimates

Insurance - Life
Western Europe | Netherlands

Company Focus

Aegon NV (AEGN.AS)

Upgrading to Buy

- Rating Change
- Estimate Change

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Buy	1
from Neutral	
Price (12 Jan 15)	€5.99
Target price	€7.10
Expected share price return	18.5%
Expected dividend yield	4.0%
Expected total return	22.5%
Market Cap	€12,861M
	US$15,219M

Price Performance
(RIC: AEGN.AS, BB: AGN NA)

- **We are upgrading Aegon to a Buy with a target price of €7.10.** Following the poor performance of the stock in the past few months (after announcing a number of one-offs relating to assumption and modelling changes in its liabilities), we now believe it is starting to offer attractive free cash flow yields. Aegon should be a beneficiary of US partial equivalence rules under Solvency 2, and with reduced debt leverage in the company, we believe it is in a position to materially grow dividend payouts (from 2015e onwards). In addition, Aegon is exposed to the buoyant growth prospects (and stable pricing) of the US life and pensions market, which should benefit from the more positive US economic growth environment and Aegon's niche position. We believe these factors are underestimated in consensus forecasts and note that Aegon trades at a discount to US life peers, trading at ~0.8x 2015e BV (ex revaluation reserves) and ~7x 2016e P/E.

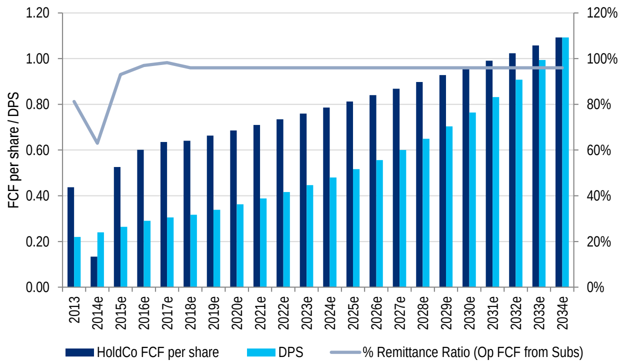
- **Free cash flow suggests attractive dividend growth potential:** With free cash flow of ~€1.2bn, Aegon offers a ~10% FCF yield (2015e). After allowing for capital upstreamed to its holding company, we estimate a holding company cash flow yield of ~9% - comparing well to a sector average of ~7%. Aegon has used its strong surplus cash position to reduce debt leverage, and with further debt reduction in 2014 and 2015e, we expect its debt leverage ratio to fall into its target range of 25-30%. In addition, regulatory capital ratios remain strong and Aegon will be a key beneficiary of 'provisional US equivalence' under proposed Solvency II rules. Therefore, we believe Aegon is getting closer to a position to be able to return cash to shareholders – although we expect this in the form of dividend growth rather than buybacks. We forecast ~10% dividend growth between 2014e and 2017e. This is reflected in the stocks relatively attractive risk-reward profile in our Dividend Discount Model.

- **US growth:** The US life and pensions market is benefitting from healthy GDP growth, as well as an absence of the intense pricing competition in the variable annuity and savings market that we saw before the financial crisis. Aegon's gearing to this, particularly in variable annuities, corporate pensions and mutual funds suggests attractive earnings growth prospects in the US. It is also one of the most positively geared companies to the US Dollar and potentially stronger longer-term bond yields – although we do not price the latter into our forecasts.

Aegon NV (EUR)

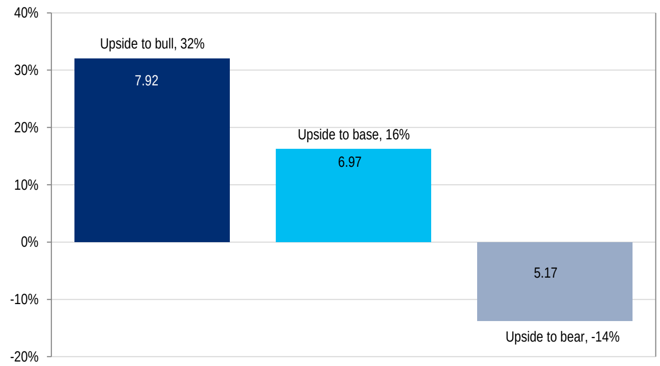
Year to 31 Dec	2012A	2013A	2014E	2015E	2016E
Profit Before Tax (€M)	1,933.0	1,021.0	1,511.4	1,660.0	2,552.2
Diluted EPS (€)	0.70	0.30	0.50	0.43	0.86
Diluted EPS (Old) (€)	0.70	0.30	0.67	0.82	0.85
PE (x)	8.5	20.3	11.9	13.8	7.0
DPS (€)	0.21	0.22	0.24	0.26	0.29
Net Div Yield (%)	3.5	3.7	4.0	4.4	4.8
Embedded Value Per Share (€)	0.00	0.00	0.00	0.00	0.00
Price / EVPS (x)	na	na	na	na	na

Figure 40. Hold Co FCF per share; DPS; Remittance Ratio



Source: Company reports, Citi Research

Figure 41. Base, bull & bear case Discounted Dividend Model scenarios



Source: Citi Research

Figure 42. Aegon - SOTP

in €mn	2015e Capital	Sust. ROC	Capital Multiple	IFRS Profit 16e	P/E	Value	Value ps
Americas	12,854	8.3%	0.96	1,034	11.9	12,333	6.04
Netherlands	3,401	11.8%	1.24	401	10.5	4,223	2.07
UK	3,155	3.4%	0.56	121	14.6	1,763	0.86
New Markets ex Asset Mgmt.	2,102	5.8%	0.72	121	12.5	1,516	0.74
Asset Management	323	33.6%	3.69	108	11.0	1,192	0.58
Run-off businesses	1,300	1.8%	1.00	23	-	1,300	0.64
Total allocated capital	23,135		0.97			22,327	10.94
Net debt	-7,836		1.00			-7,836	-3.84
Equity ex revaluation reserves	15,298		0.95	1,683	8.6	14,491	7.10

Source: Citi Research Estimates

Figure 43. Free Cash Flow Model

Eur bn	2013	2014e	2015e	2016e
Life new business strain	-1.1	-1.3	-1.3	-1.4
Life cash flow from in-force	2.6	2.1	2.6	2.7
Life free cash flow	1.5	0.8	1.3	1.4
P&C earnings	0.0	0.0	0.0	0.0
P&C capex	0.0	0.0	0.0	0.0
P&C free cash flow	0.0	0.0	0.0	0.0
Asset management earnings	0.1	0.1	0.1	0.1
Other earnings	0.0	0.0	0.0	0.0
Operational free cash flow from subsidiaries	1.5	0.9	1.4	1.5
Growth in Op FCF from subs		-45%	65%	6%
Holdco and central costs	-0.4	-0.3	-0.2	-0.2
Growth in Holdco costs		-28%	-9%	-8%
Group operational free cash flow	1.2	0.6	1.2	1.3
FCF per share	0.58	0.29	0.57	0.62
% Remittance Ratio (Op FCF from Subs)	81%	63%	93%	97%
Dividends to holding	1.3	0.5	1.3	1.4
Holdco and central costs	-0.4	-0.3	-0.2	-0.2
Holding company free cash flow	0.9	0.3	1.1	1.2
HoldCo FCF per share	0.44	0.13	0.53	0.60

Source: Company reports, Citi Research

Insurance - Multi-Line
Western Europe | Belgium

Company Focus

Ageas SA/NV (AGES.BR)

Relatively low free cash flow yield

- Target Price Change
- Estimate Change

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Neutral	2
Price (12 Jan 15)	€28.89
Target price	€30.00
from €28.00	
Expected share price return	3.9%
Expected dividend yield	5.1%
Expected total return	8.9%
Market Cap	€6,672M
	US$7,896M

Price Performance
(RIC: AGES.BR, BB: AGS BB)

- **We remain Neutral on Ageas with a new target price of €30.** The stock offers relatively balanced risk-reward in our Dividend Discount Model, which reflects its relatively low free cash flow yield of ~7% (2015e) and low dividend upside potential, although it is currently in the process of a executing its €250mn share buyback programme, which should run up to 31 July 2015. We believe the prospect of significant further cash returns to shareholders may be delayed due the litigation risk facing the stocks, particularly after the recent ruling in the FortisEffect case. Although the stock has attractive structural growth businesses (especially in Asia), we simply think there is better risk-reward potential elsewhere in the sector on cash returns.

- **Litigation risks overhang:** Following the ruling of the Dutch Court of Appeals in July 2014, in the 'FortisEffect' case, there remains significant uncertainty over the financial implications of this and other outstanding litigation against Ageas. Ageas has set aside a provision of €130mn for potential compensation relating to this ruling. While this provision may well be reasonable, we do not know the assumptions made in reaching it. The significant number of additional outstanding legal cases against Ageas suggest that ultimate financial costs could be in excess of this amount.

- **Relatively low free cash flow yield:** We estimate Ageas generates a ~7% 2015e FCF yield, below peers after the stock's recent strong share price recovery. With a remittance ratio of ~80-90% of free cash generation in operating subsidiaries, Ageas is covering dividend payouts by ~1x from holding company cash flow. Therefore, despite a relatively strong group solvency position (likely to be confirmed under Solvency 2) and a decent dividend yield (in excess of 5%), we believe further dividend surprise potential in the stock look limited.

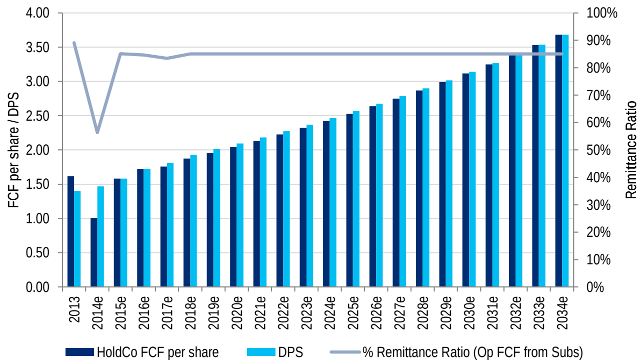
- **Growth franchises remain attractive:** Ageas has a number of strong global life and P&C franchises, including its extensive businesses and partnerships in the Asian region, as well as a high quality UK P&C and Belgian insurance business. At ~9x 2016e P/E, in-line with composite insurance peers, it is possible to argue that these are not fully priced in. However, given ongoing litigation risk uncertainty and Ageas' low free cash flow yield, we remain Neutral.

[

Ageas SA/NV (EUR)

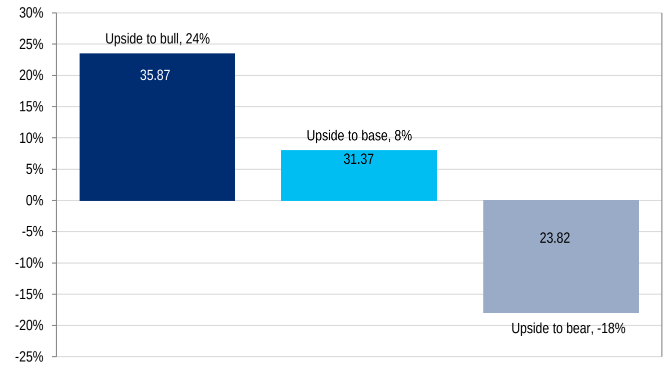
Year to 31 Dec	2012A	2013A	2014E	2015E	2016E
Profit Before Tax (€M)	1,267.8	992.4	818.4	1,106.7	1,213.9
Diluted EPS (€)	3.13	2.49	2.08	3.11	3.40
Diluted EPS (Old) (€)	3.13	2.49	2.08	3.11	3.40
PE (x)	9.2	11.6	13.9	9.3	8.5
DPS (€)	1.20	1.40	1.47	1.58	1.72
Net Div Yield (%)	4.2	4.8	5.1	5.5	6.0
Embedded Value Per Share (€)	38.76	37.53	36.52	38.35	40.26
Price / EVPS (x)	0.7	0.8	0.8	0.8	0.7

Figure 44. Hold Co FCF per share; DPS; Remittance Ratio



Source: Company reports, Citi Research estimates

Figure 45. Base, bull & bear case Discounted Dividend Model scenarios



Source: Citi Research estimates

Figure 46. Ageas - SOTP

in €mn	2015e Capital	Sust. ROC	Capital Multiple	IFRS Profit 16e	P/E	Value	Value ps
Belgium	3,546	10.8%	0.97	394	8.8	3,457	15.83
United Kingdom	912	8.1%	0.79	103	7.0	721	3.30
Continental Europe	814	6.1%	0.65	60	8.8	529	2.42
Asia	1,613	14.2%	1.21	228	8.6	1,954	8.94
General account	560		0.70			392	1.79
Additional provision for legal risk						-500	-2.29
Equity / Valuation	9,014	8.2%	0.73	743	8.8	6,553	30.00

Source: Citi Research Estimates

Figure 47. Free Cash Flow Model

Eur bn	2013	2014e	2015e	2016e
Life new business strain	-0.3	-0.3	-0.3	-0.3
Life cash flow from in-force	0.6	0.6	0.6	0.6
Life free cash flow	0.3	0.3	0.3	0.3
P&C earnings	0.2	0.2	0.2	0.2
P&C capex	0.0	0.2	0.0	0.0
P&C free cash flow	0.2	0.4	0.2	0.2
Asset management earnings	0.0	0.0	0.0	0.0
Other earnings	0.0	0.0	0.0	0.0
Operational free cash flow from subsidiaries	0.5	0.7	0.5	0.5
Growth in Op FCF from subs		*47%*	*-36%*	*8%*
Holdco and central costs	-0.1	-0.2	0.0	0.0
Growth in Holdco costs		*180%*	*-77%*	*1%*
Group operational free cash flow	0.4	0.5	0.4	0.5
FCF per share	1.85	2.43	1.89	2.07
% Remittance Ratio (Op FCF from Subs)	89%	56%	85%	85%
Dividends to holding	0.4	0.4	0.4	0.4
Holdco and central costs	-0.1	-0.2	0.0	0.0
Holding company free cash flow	0.4	0.2	0.3	0.4
HoldCo FCF per share	1.62	1.01	1.58	1.72

Source: Company data, Citi Research estimates

Insurance - Multi-Line
Western Europe | Germany

Company Focus

Allianz SE (ALVG.DE)

Capital return prospects and earnings resilience

- Target Price Change

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Buy	1
Price (12 Jan 15)	€136.60
Target price	€157.00
from €150.00	
Expected share price return	14.9%
Expected dividend yield	5.2%
Expected total return	20.2%
Market Cap	€62,426M
	US$73,875M

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

- **Allianz remains one of our top picks (and on the Citi Focus List Europe), with a new target price of €157.** We believe Allianz is on track to deliver additional capital return to shareholders, on top of a rebased dividend (with a 50% payout ratio). In addition, we see good scope for dividend growth given an attractive free cash flow yield (~9%), strong holding company cash flow coverage of dividends and its solid balance sheet. We also believe that Allianz's earnings outlook may be stronger than the market fears, despite the recent concerns about outflows at PIMCO, and low life insurance growth. Allianz trades at ~9x 2016e P/E – now more in-line with peers – however, we believe this still undervalues its dividend and free cash flow prospects.

- **Capital return prospects:** Our forecasts suggest Allianz may have scope for an additional capital return of ~€2bn in its first expected triennial review of surplus capital planned at the end of 2016e – even after allowing for inorganic growth between now and then. This is based on our cash flow and dividend forecasts, as well as its plans to release incremental capital from operating subsidiaries of €3bn by 2016e. It continues to have one of the strongest balance sheets in the sector, with an economic capital ratio close to ~200%.

- **Earnings prospects may be stronger than consensus:** We believe Allianz's earnings outlook may be stronger than investors fear, despite outflows from PIMCO, and exposure to low yields. We highlight the following drivers:

  – *Stable underwriting profitability in the P&C segment:* In spite of some cyclical pricing pressures in Italy and US, we believe Allianz will be able to maintain fairly stable combined ratios (~95%). Allianz is taking actions to improve the performance of the least profitable areas e.g. Russia, US and Brazil which we believe should help to offset margin pressure elsewhere.

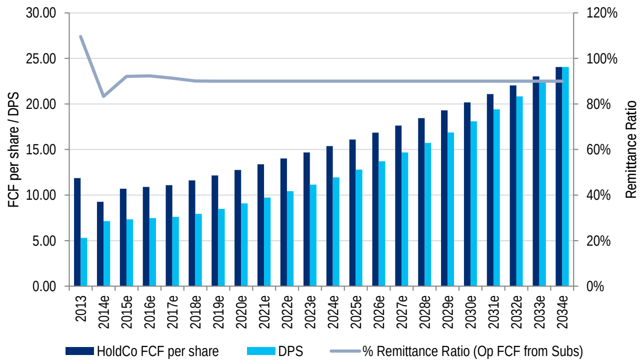
  – *PIMCO recovery from 2016e:* We expect net outflows from PIMCO to soften from 2016e. Moreover, its cost-income ratio should also improve after the payment of deferred compensation to senior management.

  – *Growth in protection and unit-linked:* we expect better earnings prospects in the life business than the market anticipates due to strong growth in unit-linked and protection offset slower growth in the guaranteed savings business, with growth in overall liabilities and margins.

Allianz SE (EUR)

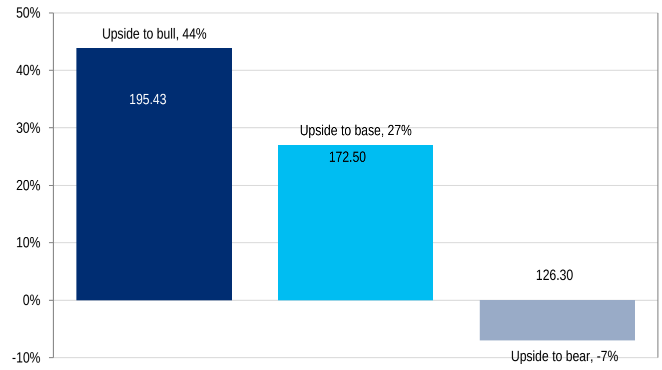
Year to 31 Dec	2012A	2013A	2014E	2015E	2016E
Profit Before Tax (€M)	8,781.0	9,647.0	9,992.5	10,286.8	10,480.1
Diluted EPS (€)	11.69	13.23	14.31	14.69	14.96
Diluted EPS (Old) (€)	11.69	13.23	14.31	14.69	14.96
PE (x)	11.7	10.3	9.5	9.3	9.1
DPS (€)	4.50	5.30	7.16	7.34	7.48
Net Div Yield (%)	3.3	3.9	5.2	5.4	5.5
Embedded Value Per Share (€)	99.51	104.85	120.72	132.90	145.67
Price / EVPS (x)	1.4	1.3	1.1	1.0	0.9

Figure 48. Hold Co FCF per share; DPS; Remittance Ratio



Source: Company reports, Citi Research

Figure 49. Base, bull & bear case Discounted Dividend Model scenarios



Source: Citi Research

Figure 50. Allianz SOTP

in €mn	2015e Capital	Sust. ROC	Capital Multiple	IFRS Profit 16e	P/E	Value	Value ps
Life	24,988	9.1%	1.12	2,349	11.9	28,069	62
General Insurance	20,017	18.1%	1.98	3,987	9.9	39,582	87
Asset Management	3,283			1,649	11.0	18,143	40
Corporate (ex interest costs)				-548	9.0	-4,934	-11
Excess capital	10,569		1.00			10,569	23
Total capital	58,857	11.5%	1.55	6,795	13.5	91,429	202
Financial Debt	-20,212		1.00			-20,212	-45
Tangible equity ex URG	38,645	17.6%	1.84	6,795	10.5	71,217	157
Valuation	38,645					71,217	157

Source: Citi Research Estimates

Figure 51. Free Cash Flow Model

Eur bn	2013	2014e	2015e	2016e
Life new business strain	-1.7	-2.0	-2.1	-2.1
Life cash flow from in-force	2.8	3.8	3.8	4.1
Life free cash flow	1.1	1.9	1.8	1.9
P&C earnings	3.4	3.6	3.7	3.7
P&C capex	-0.1	-0.5	-0.5	-0.6
P&C free cash flow	3.2	3.1	3.2	3.1
Asset management earnings	1.8	1.6	1.6	1.6
Other earnings	0.0	0.0	0.0	0.0
Operational free cash flow from subsidiaries	6.2	6.6	6.6	6.7
Growth in Op FCF from subs		*6%*	*0%*	*1%*
Holdco and central costs	-1.4	-1.3	-1.2	-1.2
Growth in Holdco costs		*-11%*	*-3%*	*0%*
Group operational free cash flow	4.8	5.3	5.4	5.5
FCF per share	10.56	11.68	11.84	12.02
% Remittance Ratio (Op FCF from Subs)	110%	83%	92%	92%
Dividends to holding	6.8	5.5	6.1	6.2
Holdco and central costs	-1.4	-1.3	-1.2	-1.2
Holding company free cash flow	5.4	4.2	4.9	4.9
HoldCo FCF per share	11.87	9.26	10.70	10.89

Source: Company reports, Citi Research

Insurance - Multi-Line
Western Europe | United Kingdom

Company Focus

Aviva PLC (AV.L)

Our top pick in UK Life

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Buy	1
Price (12 Jan 15)	£4.84
Target price	£6.20
Expected share price return	28.1%
Expected dividend yield	3.1%
Expected total return	31.2%
Market Cap	£14,284M
	US$21,670M

Price Performance
(RIC: AV.L, BB: AV/ LN)

- **We remain buyers of Aviva:** Aviva is well placed in the current UK market to capitalise on recent trends with a focus on growth, costs and cashflow. However we believe the proposed all-share combination with Friends Life will really set it apart in the market. Whilst on a standalone basis we forecast a robust earnings CAGR of 12% over the next 4 years with a similarly strong development in holding company free cash flow and dividends, these metrics would be further amplified by the deal, implying a significant additional upside risk above our 620p price target. Trading on 0.8x P/EV for a 15% return, the stock looks attractive.

- **One of the only true composite insurers in the UK market:** There has been much debate over the merits of being a composite insurer (e.g. diversification from a capital and earnings perspective, offset by diseconomies of scale and a lack of focus). However, we believe in the current market scale is key along with the relatively new concept for UK life insurers of building a relationship with one's customers. There will undoubtedly be a strong competitive advantage if one can encourage customers to engage with their insurer across multiple lines.

- **Ongoing growth opportunities:** We continue to see substantial upside from third party AUM growth in Aviva Investors, helped by a suite of more focused innovative products for institutional investors. Efficient back book management and the reallocation of capital toward high growth markets (Asia, Poland and Turkey) should all help drive earnings. The GI business has also been performed very well driven by significant improvements in the UK business.

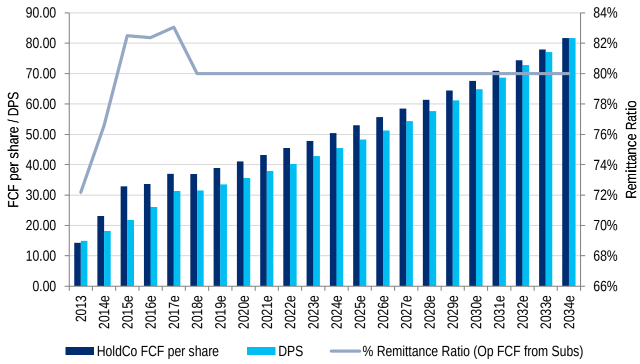
- **Focus on cash flow and dividends, further supported if the Friends Life / Aviva deal goes ahead:** Aviva aims to double holding company cash flow by 2016 – we believe that it should be able to beat this target. Furthermore, the Aviva / Friends Life all share combination should also support cash generation. Assuming the deal goes ahead and our views on the announced cost synergies are correct, we see scope for 10%+ earnings upgrades, supporting dividends.

- **A distraction?** Aviva management have shown a rigorous commitment to putting the business back on track with significant restructuring already achieved. However there was still more work to do and the combination with FL will further complicate this. Some investors may take the announcement of the deal as an admittance on behalf of management that they were unable to reach their leverage and dividend goals on a standalone basis. We do not concur with this view. We believe the deal merely accelerates the process and also makes clear strategic sense.

Aviva PLC (GBP)

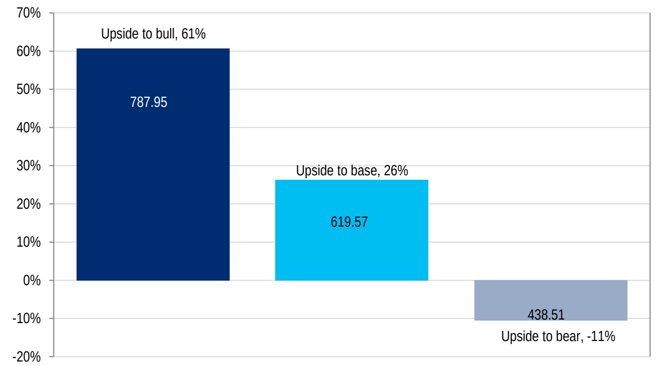
Year to 31 Dec	2012A	2013A	2014E	2015E	2016E
Profit Before Tax (£M)	175.0	1,281.0	2,118.1	2,477.2	2,792.5
Diluted EPS (p)	44.3	42.1	48.8	54.8	60.7
Diluted EPS (Old) (p)	44.3	42.1	48.8	54.8	60.7
PE (x)	10.9	11.5	9.9	8.8	8.0
DPS (p)	19.0	15.0	18.1	21.7	26.1
Net Div Yield (%)	3.9	3.1	3.7	4.5	5.4
Embedded Value Per Share (p)	471.3	508.7	574.3	613.6	653.8
Price / EVPS (x)	1.0	1.0	0.8	0.8	0.7

Figure 52. Hold Co FCF per share; DPS; Remittance Ratio



Source: Company reports, Citi Research

Figure 53. Base, bull & bear case Discounted Dividend Model scenarios



Source: Citi Research

Figure 54. Aviva – SOTP

in £mn	2015e Capital	Sust. ROC	Capital Multiple	IFRS Earnings 16e	P/E	Value	Value per share
Life	16,729	10.5%	1.13	1,551	12.2	18,954	6.43
General Insurance	3,346	17.8%	1.78	765	7.8	5,966	2.02
Asset Management	652	12.7%	1.65	83	13.0	1,075	0.36
Corporate Centre & Other				(127)	10.0	(1,269)	(0.43)
Excess capital / double leverage	(232)					(232)	(0.08)
Total capital	20,495					24,493	8.31
Financial Debt	(6,215)					(6,215)	(2.11)
Equity / Group EV	14,280		1.28	1,566	11.7	18,278	6.20

Source: Citi Research Estimates

Figure 55. Free Cash Flow Model

£ mn	2013	2014e	2015e	2016e
Life new business strain	-321.0	-472.6	-467.3	-452.4
Life cash flow from in-force	1530.0	1412.4	1562.8	1583.6
Life free cash flow	1209.0	939.8	1095.5	1131.2
P&C earnings	558.0	648.7	771.4	817.5
P&C capex	-14.0	151.7	-9.3	-104.9
P&C free cash flow	544.0	800.4	762.1	712.5
Asset management earnings	23.0	37.9	48.6	51.6
Other earnings	-18.0	-62.9	-59.5	-57.4
Operational free cash flow from subsidiaries	1758.0	1715.1	1846.7	1837.9
Growth in Op FCF from subs		*-2%*	*8%*	*0%*
Holdco and central costs	-847.9	-635.7	-556.9	-522.3
Growth in Holdco costs		*-25%*	*-12%*	*-6%*
Group operational free cash flow	910.1	1079.4	1289.8	1315.6
FCF per share	30.96	36.70	43.84	44.70
% Remittance Ratio (Op FCF from Subs)	72%	77%	82%	82%
Dividends to holding	1269.0	1313.6	1523.3	1513.9
Holdco and central costs	-847.9	-635.7	-556.9	-522.3
Holding company free cash flow	421.1	677.9	966.4	991.6
HoldCo FCF per share	14.32	23.05	32.85	33.69

Source: Company reports, Citi Research

Insurance - Multi-Line
Western Europe | France

Company Focus

AXA SA (AXAF.PA)

Discount to composite peers is unjustified

- Target Price Change
- Estimate Change

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Buy	1
Price (12 Jan 15)	€18.74
Target price	€24.50
from €23.50	
Expected share price return	30.7%
Expected dividend yield	5.1%
Expected total return	35.8%
Market Cap	€45,763M
	US$54,156M

Price Performance
(RIC: AXAF.PA, BB: CS FP)

- **AXA remains one of our top picks and on the Citi Focus List Europe, with a new target price of €24.50.** AXA offers one of the strongest levels of valuation upside potential, in our opinion. We believe the market is undervaluing its earnings growth prospects – especially in the life & savings segment, and also its dividend prospects, where we expect a material improvement in payout policy in the next few years. AXA is also one of the most inexpensive stocks in the sector at <8x 2016e P/E, compared to ~9.5x for composite peers. Given the improvement in its capital position and leverage in recent years, we believe this discount is unjustified.

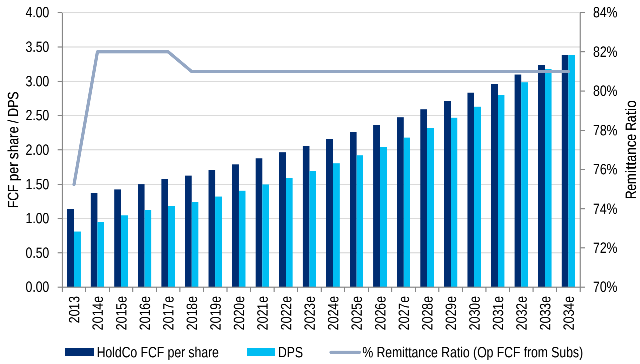
- **Stronger life earnings:** We expect ~8% CAGR in L&S earnings, which is stronger than the market expectations. We believe our earnings expectations are ~10% ahead of consensus. We would highlight three key levers:
  - *In-force management:* AXA aims to improve earnings and cash from its in-force life liabilities and is embedding this into its operational management. It is on track to generate €400mn of earnings upside by 2015e (from ALM, cost-cutting, shifting customers to more profitable products) and we believe it can double this beyond 2015e.
  - *Turnaround in US life business:* AXA's US business (25% of life earnings) is nearing the end of a long de-risking process that has involved a shift in variable annuity product mix (hurting growth) and balance sheet-strengthening. We believe it is now at a turning point and see material earnings growth from here – as well as stronger cash remittances to the group.
  - *Exposure to high growth markets:* High-growth markets (mainly Asia) account for ~15% of life earnings, and have grown by ~30% CAGR 2010-14e. We believe the market may be underestimating the future growth potential of this segment.

- **Attractive dividend prospects:** With improved cash remittances from the US we see the holding cash flow yield rising to ~8% (2015e), covering dividends by ~1.5x. Taking into account our growth forecasts, we believe AXA can grow dividends by 10% CAGR in the next few years assuming a ~45% payout ratio by 2016e. We see upside to these forecasts as AXA rebuilds its capital position further in the next few years.

AXA SA (EUR)

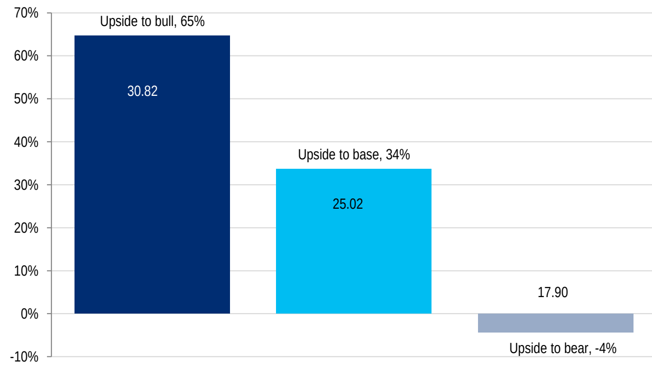
Year to 31 Dec	2012A	2013A	2014E	2015E	2016E
Profit Before Tax (€M)	6,096.0	7,214.0	7,554.3	8,271.9	8,770.1
Diluted EPS (€)	1.62	1.75	2.08	2.29	2.42
Diluted EPS (Old) (€)	1.64	1.75	2.08	2.29	2.42
PE (x)	11.6	10.7	9.0	8.2	7.7
DPS (€)	0.72	0.81	0.95	1.05	1.13
Net Div Yield (%)	3.8	4.3	5.1	5.6	6.0
Embedded Value Per Share (€)	15.73	17.82	19.37	21.57	23.82
Price / EVPS (x)	1.2	1.1	1.0	0.9	0.8

Figure 56. Hold Co FCF per share; DPS; Remittance Ratio



Source: Company reports, Citi Research

Figure 57. Base, bull & bear case Discounted Dividend Model scenarios



Source: Citi Research

Figure 58. AXA - SOTP

in €mn	2015e Capital	Sust. ROC	Capital Multiple	IFRS Profit 16e	P/E	Value	Value ps
Life	32,049	11.4%	1.29	3,793	10.9	41,257	16.92
General Insurance	12,109	21.4%	2.13	2,560	10.1	25,798	10.58
International Insurance - Corporate Solutions	936	18.8%	1.90	173	10.3	1,777	0.73
International Insurance - Other	320	21.1%	2.18	68	10.3	696	0.29
Asset Management	893			472	11.5	5,427	2.23
Banking				93	10.0	928	0.38
Other surplus / deficit	-116					-116	-0.05
Total capital	46,192		1.64	6,233	12.2	75,768	31.07
Financial Debt	-16,008		1.00			-16,008	-6.56
Tangible equity ex unrealised gains	30,184		1.98	6,233	9.6	59,760	24.50
Valuation	30,184					59,760	24.50

Source: Citi Research Estimates

Figure 59. Free Cash Flow Model

Eur bn	2013	2014e	2015e	2016e
Life new business strain	-2.0	-2.1	-2.2	-2.4
Life cash flow from in-force	4.3	4.7	4.8	5.1
Life free cash flow	2.3	2.6	2.5	2.7
P&C earnings	2.6	2.7	3.0	3.1
P&C capex	-0.2	-0.3	-0.4	-0.4
P&C free cash flow	2.4	2.4	2.6	2.7
Asset management earnings	0.5	0.5	0.5	0.6
Other earnings	0.0	0.0	0.0	0.0
Operational free cash flow from subsidiaries	5.2	5.5	5.7	6.0
Growth in Op FCF from subs		*6%*	*4%*	*4%*
Holdco and central costs	-1.1	-1.2	-1.2	-1.2
Growth in Holdco costs		*3%*	*3%*	*0%*
Group operational free cash flow	4.0	4.3	4.5	4.8
FCF per share	1.67	1.78	1.84	1.93
% Remittance Ratio (Op FCF from Subs)	75%	82%	82%	82%
Dividends to holding	3.9	4.5	4.7	4.9
Holdco and central costs	-1.1	-1.2	-1.2	-1.2
Holding company free cash flow	2.8	3.3	3.5	3.7
HoldCo FCF per share	1.14	1.37	1.42	1.50

Source: Company reports, Citi Research

Insurance - Multi-Line
Western Europe | Netherlands

Company Focus

Delta Lloyd (DLL.AS)

Earnings power underestimated by the market

- Target Price Change
- Estimate Change

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Buy	1
Price (12 Jan 15)	€17.43
Target price	€23.50
from €24.50	
Expected share price return	34.8%
Expected dividend yield	5.9%
Expected total return	40.7%
Market Cap	€3,474M
	US$4,112M

Price Performance
(RIC: DLL.AS, BB: DL NA)

- **We reiterate our Buy rating on Delta Lloyd with a new target price of €23.50.** At ~6x 2016e P/E, Delta Lloyd is one of the most inexpensive stocks in the sector, which reflects investor concerns over its economic capital position in a low yield environment (given exposure to guarantees in its pensions business), the volatility and opacity of its mark-to-market accounting framework and its current practice of scrip dividend payments. However, we believe these concerns are overdone and, in particular, a shift in management accounting policy will mean that reported operating profits will better reflect the strong investment income generated on its assets – potentially leading to consensus upgrades in 2015e. Delta Lloyd offers an attractive dividend yield (~6% 2015e) and strong free cash flow (~14% FCF yield 2016e), which gives the stock a positive risk-reward in our Dividend Discount Model analysis.

- **Solvency 2 likely to be more manageable than the market fears:** Delta Lloyd's defined benefit pension business is yield sensitive and is subject to potentially high capital requirements for both market and longevity risks under Solvency 2. However, Delta Lloyd disclosed that its current capital position is currently close to the mid-point of a ~140%-180% capital ratio range (i.e. close to ~160%). This is lower than levels reported by other insurers, and could be even lower if Delta Lloyd does not receive formal approval for its internal model and is required to re-calculate its capital position under a 'standard model'. However, we believe Delta Lloyd still has an adequate capital buffer under a standard model (based on management comments at its Investor Day) and we do not see this as constraining dividends or growth.

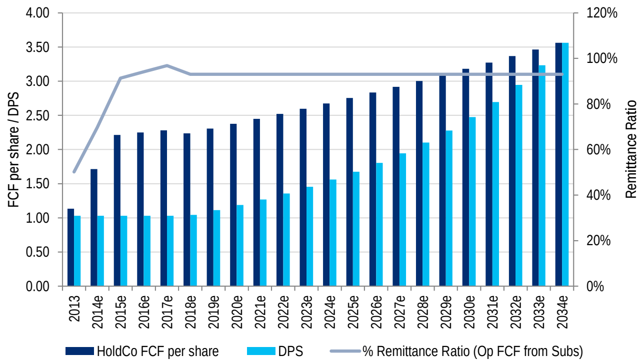
- **Earnings power underestimated by the market:** Delta Lloyd's previous accounting policy for smoothed operating profits understated the investment income it is generating on its assets, which is supported by strong mortgage interest margins. This will change under the new policy in-force from 2015e, which will show the spread earned between the discount rate on liabilities and actual investment income in operating profits. This spread is widening as yields decline – and we believe this is being underestimated in consensus earnings.

- **Dividends moving to cash:** We expect Delta Lloyd to continue to reduce scrip dividends in 2015, and supported by its strong free cash flow generation we still expect the company to consider buying back scrip dividend from 2016e.

Delta Lloyd (EUR)

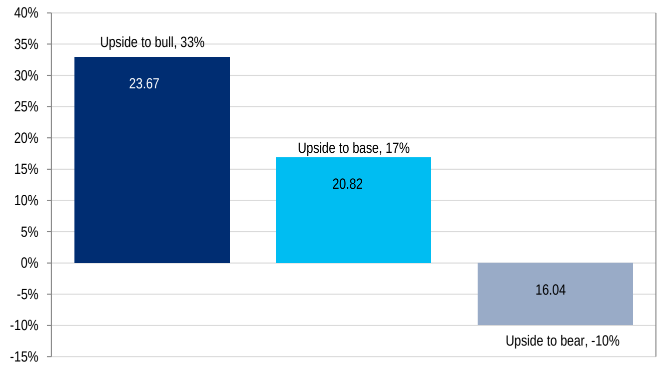
Year to 31 Dec	2012A	2013A	2014E	2015E	2016E
Profit Before Tax (€M)	-2,010.8	237.7	607.7	941.0	962.4
Diluted EPS (€)	-8.63	0.91	2.15	3.12	3.14
Diluted EPS (Old) (€)	-8.63	0.91	2.32	3.13	3.15
PE (x)	-2.0	19.3	8.1	5.6	5.6
DPS (€)	1.03	1.03	1.03	1.03	1.03
Net Div Yield (%)	5.9	5.9	5.9	5.9	5.9
Embedded Value Per Share (€)	21.27	21.92	22.52	23.16	23.77
Price / EVPS (x)	0.8	0.8	0.8	0.8	0.7

Figure 60. Hold Co FCF per share; DPS; Remittance Ratio



Source: Company reports, Citi Research

Figure 61. Base, bull & bear case Discounted Dividend Model scenarios



Source: Citi Research

Figure 62. Delta Lloyd - SOTP

in €mn	2015e Capital	Sust. ROC	Capital Multiple	IFRS Profit 16e	P/E	Value	Value ps
Life	4,228	16.6%	1.32	706	7.9	5,594	29.16
General Insurance	708	8.9%	0.81	66	8.7	572	2.98
Asset Management	84	49.6%	4.21	41	8.5	352	1.84
Bank	564	3.0%	0.23	17	7.5	129	0.67
Capital	5,543		1.20	642	10.4	6,647	34.65
Debt	-2,140		1.00			-2,140	-11.16
Equity	3,403					4,507	23.50
Valuation	3,403	18.9%	1.32	642	7.0	4,507	23.50

Source: Citi Research Estimates

Figure 63. Free Cash Flow Model

Eur bn	2013	2014e	2015e	2016e
Life new business strain	-0.2	-0.2	-0.2	-0.2
Life cash flow from in-force	0.6	0.7	0.7	0.7
Life free cash flow	0.5	0.5	0.5	0.5
P&C earnings	0.1	0.1	0.1	0.1
P&C capex	0.0	0.0	0.0	0.0
P&C free cash flow	0.1	0.1	0.1	0.1
Asset management earnings	0.1	0.1	0.0	0.0
Other earnings	0.0	0.0	0.0	0.0
Operational free cash flow from subsidiaries	0.6	0.6	0.6	0.6
Growth in Op FCF from subs		*1%*	*-5%*	*0%*
Holdco and central costs	-0.1	-0.1	-0.1	-0.1
Growth in Holdco costs		*0%*	*0%*	*0%*
Group operational free cash flow	0.5	0.5	0.5	0.5
FCF per share	2.81	2.69	2.47	2.42
% Remittance Ratio (Op FCF from Subs)	50%	70%	91%	94%
Dividends to holding	0.3	0.4	0.5	0.6
Holdco and central costs	-0.1	-0.1	-0.1	-0.1
Holding company free cash flow	0.2	0.3	0.4	0.5
HoldCo FCF per share	1.13	1.71	2.21	2.25

Source: Company reports, Citi Research

Insurance - Multi-Line
Western Europe | United Kingdom

Company Focus

■ Estimate Change

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Indranil Talukdar
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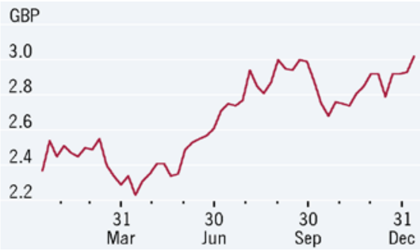
Buy	1
Price (12 Jan 15)	£3.02
Target price	£3.06
Expected share price return	1.3%
Expected dividend yield	13.0%
Expected total return	14.3%
Market Cap	£4,532M
	US$6,875M

Price Performance
(RIC: DLGD.L, BB: DLG LN)



Direct Line (DLGD.L)

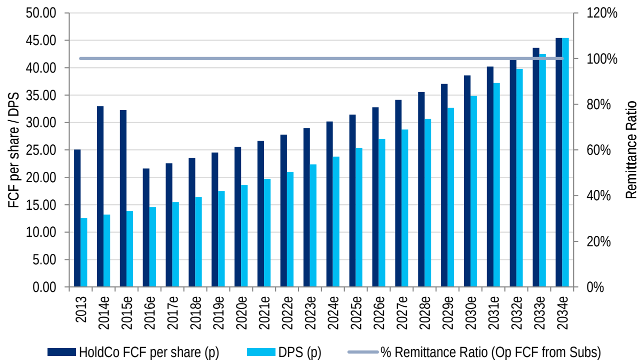
Benefitting from special dividends and lower cost base

- **We remain buyers** due primarily to ongoing cost savings which we believe will more than offset earnings headwinds from the ongoing competitive UK motor market.
- **Cost base continuing to improve:** The cost base for the group continues to improve and was marginally better than expected at £240.9mn (cons. £245mn) at the 9M14 IMS. Overall the cost base has reduced by 6% (9M14 on 9M13) and the group has reiterated that it is on track to achieve its targeted total cost base of £1000mn in 2014. We continue to forecast ongoing cost savings however they will likely slow due to the groups commitment to invest in its digital offering.
- **Dividends, dividends, dividends:** We include in our forecast a special dividend of 26p at the FY14 results as a result of the sale of the international division. We also believe that special dividends of ~5p per year will be paid in 2015 and 2016 implying an attractive ongoing dividend yield of ~7%.
- **Valuation:** Trading at 12.5x 2015E EPS we believe the stock looks attractive relative to Admiral.

Direct Line (GBP)

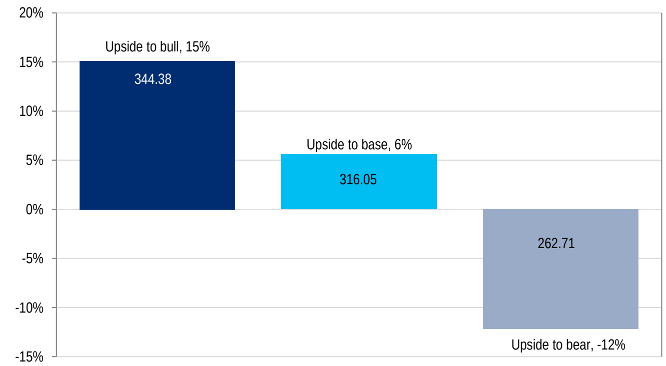
Year to 31 Dec	2012A	2013A	2014E	2015E	2016E
Profit Before Tax (£M)	249.1	423.9	409.8	636.2	522.7
Diluted EPS (p)	21.8	25.1	24.0	23.9	26.7
Diluted EPS (Old) (p)	21.8	25.1	23.1	27.1	30.5
PE (x)	13.9	12.0	12.6	12.6	11.3
DPS (p)	8.0	20.6	49.1	18.9	19.6
Net Div Yield (%)	2.6	6.8	16.3	6.3	6.5
Embedded Value Per Share (p)	0.0	0.0	0.0	0.0	0.0
Price / EVPS (x)	na	na	na	na	na

Figure 64. Hold Co FCF per share; DPS; Remittance Ratio



Source: Company reports, Citi Research

Figure 65. Base, bull & bear case Discounted Dividend Model scenarios



Source: Citi Research

Figure 66. Direct Line – SOTP

£m	2015E Capital	ROC	Capital Multiple	2016E Earnings	P/E	Valuation	Per share p
Motor	678	34.8%	3.31	236	9.5	2,246	150
Home	378	22.3%	2.22	84	9.9	837	56
Rescue & Other Personal Lines	147	35.8%	3.34	53	9.3	491	33
Commercial	219	21.0%	2.24	46	10.7	491	33
Central items				-16	9.0	-140	-9
Excess capital	1,153		1.00			1,153	77
Total capital	2,574	16.0%	1.97	413	12.3	5,077	339
Financial Debt	-495		1.00			-495	-33
Group Equity	2,080	19.9%	2.20	413	11.1	4,582	306

Source: Citi Research Estimates

Figure 67. Free Cash Flow Model

GBP bn	2013	2014e	2015e	2016e
Life new business strain	0.0	0.0	0.0	0.0
Life cash flow from in-force	0.0	0.0	0.0	0.0
Life free cash flow	0.0	0.0	0.0	0.0
P&C earnings	0.4	0.4	0.4	0.4
P&C capex	0.1	0.2	-0.1	-0.1
P&C free cash flow	0.5	0.6	0.3	0.3
Asset management earnings	0.0	0.0	0.0	0.0
Other earnings	0.0	0.0	0.0	0.0
Operational free cash flow from subsidiaries	0.5	0.6	0.3	0.3
Growth in Op FCF from subs		*31%*	*-48%*	*13%*
Holdco and central costs	-0.1	-0.1	0.2	0.0
Growth in Holdco costs				
Group operational free cash flow	0.4	0.5	0.5	0.3
FCF per share (p)	25.07	32.97	32.25	21.62
% Remittance Ratio (Op FCF from Subs)	100%	100%	100%	100%
Dividends to holding	0.5	0.6	0.3	0.3
Holdco and central costs	-0.1	-0.1	0.2	0.0
Holding company free cash flow	0.4	0.5	0.5	0.3
HoldCo FCF per share (p)	25.07	32.97	32.25	21.62

Source: Company reports, Citi Research

Insurance - Property & Casualty
Western Europe | United Kingdom

Company Focus

esure Group PLC (ESUR.L)

Focused on low risk customers and offers growth potential

- Target Price Change
- Estimate Change

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Buy	1
Price (12 Jan 15)	£2.14
Target price	£2.59
from £2.94	
Expected share price return	21.0%
Expected dividend yield	7.9%
Expected total return	28.9%
Market Cap	£892M
	US$1,354M

Price Performance
(RIC: ESUR.L, BB: ESUR LN)

- **We remain buyers** as we believe as a smaller player in the UK motor market esure is well placed given the prevailing market conditions as it can outperform peers by delivering modest growth by re-entering higher premium segments, where risk / reward has improved following claims reforms.

- **Better positioned than peers:** esure's motor and home books are focused on low risk customers which typically deliver higher margins towards the top end of the peer group. Furthermore its book is better positioned to benefit from claims reform given it is likely overweight small personal injury claims. However this is resulted more recently in some earning headwinds due to an uptick in small bodily injury claims. However offsetting some of this pressure is its substantial reserve buffer which we believe will help sustain earnings over the nearer term.

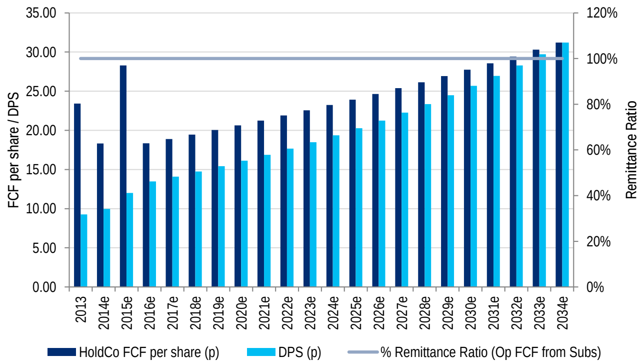
- **Upside from GoCompare:** We have updated our numbers to reflect the acquisition of the outstanding 50% of Gocompare.com Holdings Limited for a consideration of £95mn, financed by the issuance of £125mn of subordinated notes. We estimate that the acquisition will lead to a day 1 fair value gain of ~£55mn which will be partly offset by increased amortization of intangibles. However further out the acquisition should be accretive to earnings on a cash basis and further diversifies esure's income stream.

- **Valuation:** Trading at 11.2x 2015E EPS the stock looks attractive relative to on-life peers at ~12x.

esure Group PLC (GBP)

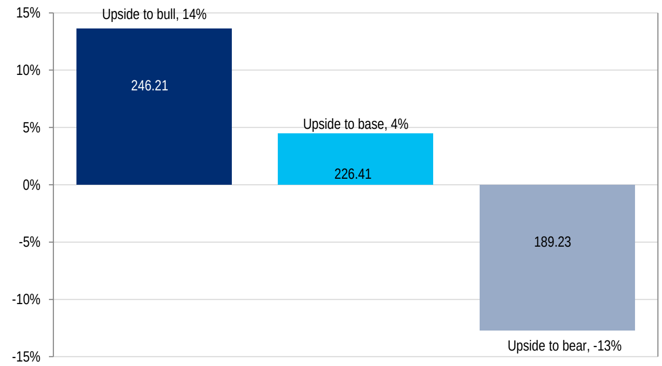
Year to 31 Dec	2012A	2013A	2014E	2015E	2016E
Profit Before Tax (£M)	115.5	118.4	109.3	100.1	116.3
Diluted EPS (p)	21.1	22.4	20.9	19.0	22.0
Diluted EPS (Old) (p)	21.1	22.4	20.8	22.6	25.7
PE (x)	10.1	9.6	10.2	11.2	9.7
DPS (p)	0.0	15.8	16.5	16.8	18.0
Net Div Yield (%)	0.0	7.4	7.7	7.9	8.4
Embedded Value Per Share (p)	0.0	0.0	0.0	0.0	0.0
Price / EVPS (x)	na	na	na	na	na

Figure 68. Hold Co FCF per share; DPS; Remittance Ratio



Source: Company reports, Citi Research

Figure 69. Base, bull & bear case Discounted Dividend Model scenarios



Source: Citi Research

Figure 70. esure - SOTP

£m	2015E Capital	ROC	Capital Multiple	2016E Earnings	P/E	Valuation	Per share
Motor	166	25.1%	2.8	42	11.2	467	112
Home	34	29.5%	3.3	10	11.2	111	27
ASR				39	11.0	430	103
Go Compare				20	12.0	237	57
Central costs				-27	10.0	-267	-64
Excess capital	217		1.0			226	54
Total capital	417	22.0%	2.9	92	13.1	1,204	289
Financial Debt	-125		1.0			-125	-30
Group Equity	292	31.4%	3.7	92	11.8	1,079	259

Source: Citi Research Estimates

Figure 71. Free Cash Flow Model

GBP bn	2013	2014e	2015e	2016e
Life new business strain	0.0	0.0	0.0	0.0
Life cash flow from in-force	0.0	0.0	0.0	0.0
Life free cash flow	0.0	0.0	0.0	0.0
P&C earnings	0.1	0.1	0.1	0.1
P&C capex	0.0	0.0	0.0	0.0
P&C free cash flow	0.1	0.1	0.1	0.1
Asset management earnings	0.0	0.0	0.0	0.0
Other earnings	0.0	0.0	0.0	0.0
Operational free cash flow from subsidiaries	0.1	0.1	0.1	0.1
Growth in Op FCF from subs		*-22%*	*54%*	*-35%*
Holdco and central costs	0.0	0.0	0.0	0.0
Growth in Holdco costs				
Group operational free cash flow	0.1	0.1	0.1	0.1
FCF per share (p)	23.41	18.31	28.28	18.34
% Remittance Ratio (Op FCF from Subs)	100%	100%	100%	100%
Dividends to holding	0.1	0.1	0.1	0.1
Holdco and central costs	0.0	0.0	0.0	0.0
Holding company free cash flow	0.1	0.1	0.1	0.1
HoldCo FCF per share (p)	23.41	18.31	28.28	18.34

Source: Company reports, Citi Research

Company Focus

Friends Life (FLG.L)

Limited downside

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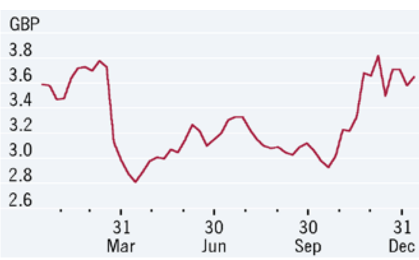
Neutral	2
Price (12 Jan 15)	£3.65
Target price	£3.69
Expected share price return	1.1%
Expected dividend yield	5.9%
Expected total return	7.0%
Market Cap	£5,143M
	US$7,803M

Price Performance
(RIC: FLG.L, BB: FLG LN)



- **Limited downside:** We can see the Benefits of Friends Life's business model with the heritage division providing significant cash flows whilst upside from corporate benefits and protections helps to provide some earnings momentum. However we think it lacks the retail franchise of its closest peers, meaning an all share combination with Aviva makes strategic sense and limits downside nearer term. We remain Neutral as the upside from the announced Aviva deal is already reflected in the share price once you take account of the dividend.

- **Significant cash generation:** There are two key levels for cash generation at Friends Life: 1) further management actions for example through further recapture of externally managed Heritage assets and improvements in new business value and 2) through business mix and lower operating costs. As of 2013 Friends Life had achieved run rate savings of £129mn in the UK and Heritage divisions, marginally ahead of the £126mn target. The group has also secured a further £31mn run rate savings by end of 2015. We believe this combined with the ability to grow free surplus generation from the in-force book will help to generate ongoing growth cash flow, supporting dividend growth.

- **Solid franchise in corporate benefits:** Friends Life is a Top 2 provider within corporate benefits with 2.3mn customers and £48bn AUA from its pensions customers of which £21bn are within its corporate benefits business. It has also been a net beneficiary of auto-enrolment with an additional 648 schemes and 108,000 net increase in its members. Income within this division is driven by higher AUA which given expectations that the corporate market could triple over the next decade means Friends Life is well place to take advantage of this trend.

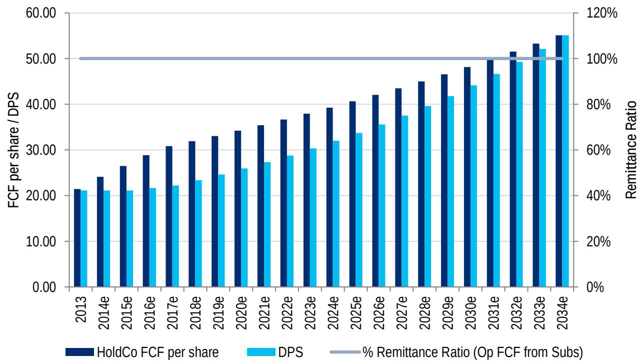
- **Supported by upside from protection products:** Friends Life is a Top 5 provider by sales with 2mn customers with protection policies where the market could grow by 1.7x over the next 10 years. With a focus on value over volume, FL has delivered strong value of new business growth over the last few years. We see further upside from cross sales into Corporate Benefits.

- **Improvement needed in dividend cover:** With a dividend cover ratio of just 1.1x as of 2013, FL management have clearly stated that a progressive dividend policy will not be followed until this is improved to 1.3x. We expect this to happen by 2016 but this should limit upside potential from the dividend nearer term on a standalone basis. However the possible tie up with Aviva limits downside risk nearer term, in our view.

Friends Life (GBP)

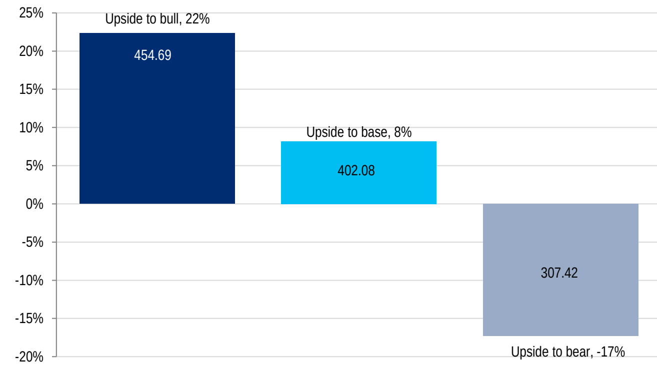
Year to 31 Dec	2012A	2013A	2014E	2015E	2016E
Profit Before Tax (£M)	274.0	402.0	326.7	359.8	388.0
Diluted EPS (p)	19.8	28.6	24.1	27.6	30.1
Diluted EPS (Old) (p)	19.8	28.6	24.1	27.6	30.1
PE (x)	18.4	12.8	15.1	13.2	12.1
DPS (p)	21.1	21.1	21.1	21.1	21.7
Net Div Yield (%)	5.8	5.8	5.8	5.8	5.9
Embedded Value Per Share (p)	411.2	427.9	443.9	482.1	508.0
Price / EVPS (x)	0.9	0.9	0.8	0.8	0.7

Figure 72. Hold Co FCF per share; DPS; Remittance Ratio



Source: Company reports, Citi Research

Figure 73. Base, bull & bear case Discounted Dividend Model scenarios



Source: Citi Research

Figure 74. Friends Life – SOTP

£mn	2015e Capital	Sust. ROC	Capital Multiple	IFRS Earnings 16e	P/E	Value	Value per share
UK	1,708	11.2%	1.02	45	38.5	1,740	1.32
Heritage	4,090	5.6%	0.71	302	9.6	2,889	2.19
International	567	8.9%	0.87	72	6.8	493	0.37
Corporate	(1,539)		1.00	(23)	10.0	(1,771)	(1.34)
Excess capital / double leverage	1,499		1.00			1,499	1.14
Total capital	6,325			396		4,850	3.69
Equity / Group EV	6,325		0.77	396	12.2	4,850	3.69

Source: Citi Research Estimates

Figure 75. Free Cash Flow Model

£ mn	2013	2014e	2015e	2016e
Life new business strain	-189.0	-168.2	-163.8	-164.5
Life cash flow from in-force	638.0	664.5	686.3	709.3
Life free cash flow	449.0	496.3	522.4	544.8
P&C earnings				
P&C capex				
P&C free cash flow	0.0	0.0	0.0	0.0
Asset management earnings				
Other earnings	7.0	-11.0	-9.1	-9.2
Operational free cash flow from subsidiaries	456.0	485.3	513.3	535.6
Growth in Op FCF from subs		*6%*	*6%*	*4%*
Holdco and central costs	-152.0	-151.2	-159.5	-154.9
Growth in Holdco costs		*-1%*	*5%*	*-3%*
Group operational free cash flow	304.0	334.2	353.9	380.7
FCF per share	21.44	24.10	26.46	28.86
% Remittance Ratio (Op FCF from Subs)	100%	100%	100%	100%
Dividends to holding	456.0	485.3	513.3	535.6
Holdco and central costs	-152.0	-151.2	-159.5	-154.9
Holding company free cash flow	304.0	334.2	353.9	380.7
HoldCo FCF per share	21.44	24.10	26.46	28.86

Source: Company reports, Citi Research

Insurance - Multi-Line
Western Europe | Italy

Company Focus

Assicurazioni Generali SpA (GASI.MI)

Better risk-reward in other composite insurers

- Target Price Change

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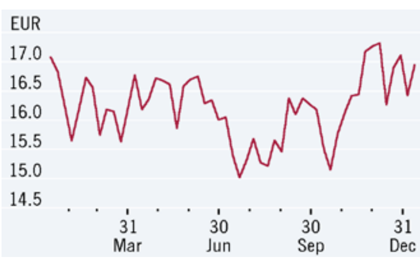
Neutral	2
Price (12 Jan 15)	€16.95
Target price	€17.70
from €16.90	
Expected share price return	4.4%
Expected dividend yield	3.3%
Expected total return	7.7%
Market Cap	€26,389M
	US$31,229M

Price Performance
(RIC: GASI.MI, BB: G IM)



- **We remain Neutral on Generali with a target price of €17.70.** As a major composite insurer in Europe, we believe Generali will be a key beneficiary of improved clarity on Solvency 2, and management has already guided towards a higher payout ratio than its current target of 40% of earnings. We also see decent earnings growth prospects in its life operations (aided by restructuring), despite low bond yields. However, we believe the risk-reward in the stock looks relatively balanced, with the stock trading at ~10x 2016e P/E (slightly ahead of peers) and with 2016e FCF yield of ~8%. In addition we believe it faces a number of earnings headwinds.

- **Earning headwinds:** Although we anticipate attractive growth and margin stability in the life business, we see a number of other earnings headwinds, mainly affecting the P&C business:

  – *Downside risks in P&C underwriting profitability:* Generali's operating profit growth has been supported strongly by sharply improved margins in Italian P&C due to a collapse in motor claims frequency. We believe the drivers here are cyclical rather than structural and see potential for margins in this segment to deteriorate in the next few years due to pricing pressure and a possible uptick in claims frequency over the next few years.

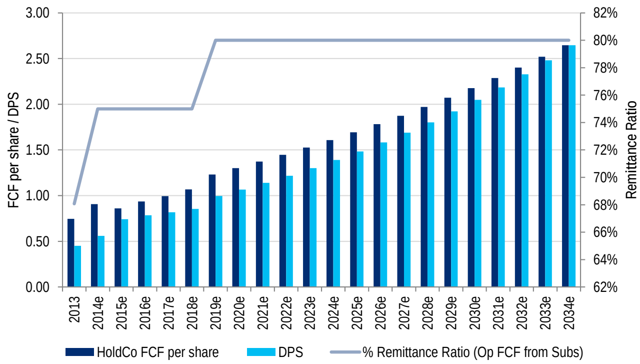
  – *Investment yields under pressure:* Although we still think the European insurers can cope better with low bond yields than some investors expect, Generali faces additional pressures from the substantial decline in Italian bond yield spreads versus 'core' bonds in Europe. This is most likely to act as a drag on earnings in the P&C business, where investment profits are not shared with policyholders.

  – *Expense potential similar to peers:* Generali's ambition to lower its expense ratios is not unique; we believe Generali's cost base is similar to that of its key peers and do not see cost-cutting potential as a relative advantage.

Assicurazioni Generali SpA (EUR)

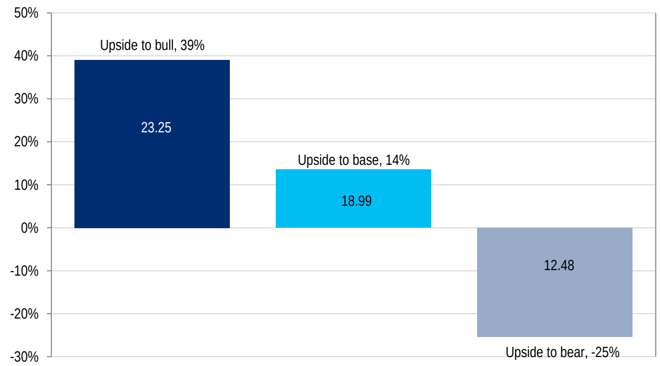
Year to 31 Dec	2012A	2013A	2014E	2015E	2016E
Profit Before Tax (€M)	1,550.0	2,363.0	3,684.4	4,198.3	4,433.9
Diluted EPS (€)	0.06	0.85	1.40	1.65	1.74
Diluted EPS (Old) (€)	0.06	0.85	1.40	1.65	1.74
PE (x)	283.9	19.9	12.1	10.3	9.7
DPS (€)	0.20	0.45	0.56	0.74	0.79
Net Div Yield (%)	1.2	2.7	3.3	4.4	4.6
Embedded Value Per Share (€)	13.29	15.25	18.08	20.14	22.11
Price / EVPS (x)	1.3	1.1	0.9	0.8	0.8

Figure 76. Hold Co FCF per share; DPS; Remittance Ratio



Source: Company reports, Citi Research

Figure 77. Base, bull & bear case Discounted Dividend Model scenarios



Source: Citi Research

Figure 78. Generali - SOTP

in €mn	2015e Capital	Sust. ROC	Capital Multiple	IFRS Profit 16e	P/E	Value	Value ps
Life	16,333	12.8%	1.56	2,049	12.4	25,420	16.50
General Insurance	8,332	13.7%	1.58	1,184	11.1	13,197	8.56
Financial Segment	394			290	12.0	3,485	2.26
Corporate				-348	9.0	-3,131	-2.03
Double leverage	-49					-49	-0.03
Total capital	25,011		1.56	2,689	14.5	38,923	25.26
Financial Debt	-11,656		1.00			-11,656	-7.56
Tangible equity ex URG	13,355		2.04	2,689	10.1	27,267	17.70
Valuation	13,355					27,267	17.70

Source: Citi Research Estimates

Figure 79. Free Cash Flow Model

Eur bn	2013	2014e	2015e	2016e
Life new business strain	-1.5	-1.6	-1.6	-1.7
Life cash flow from in-force	2.9	2.9	2.8	3.0
Life free cash flow	1.4	1.3	1.2	1.3
P&C earnings	0.9	1.2	1.3	1.2
P&C capex	0.0	0.0	-0.1	-0.2
P&C free cash flow	0.9	1.2	1.1	1.0
Asset management earnings	0.0	0.0	0.0	0.0
Other earnings	0.5	0.3	0.3	0.3
Operational free cash flow from subsidiaries	2.8	2.8	2.7	2.7
Growth in Op FCF from subs		*-1%*	*-3%*	*1%*
Holdco and central costs	-0.8	-0.7	-0.7	-0.6
Growth in Holdco costs		*-9%*	*0%*	*-15%*
Group operational free cash flow	2.0	2.1	2.0	2.1
FCF per share	1.32	1.36	1.30	1.37
% Remittance Ratio (Op FCF from Subs)	68%	75%	75%	75%
Dividends to holding	1.9	2.1	2.0	2.0
Holdco and central costs	-0.8	-0.7	-0.7	-0.6
Holding company free cash flow	1.2	1.4	1.3	1.4
HoldCo FCF per share	0.75	0.91	0.86	0.94

Source: Company reports, Citi Research

Insurance - Property & Casualty
Western Europe | Norway

Company Focus

Gjensidige (GJFS.OL)

Capital return story has peaked

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Neutral	2
Price (12 Jan 15)	NKr123.30
Target price	NKr130.00
Expected share price return	5.4%
Expected dividend yield	5.8%
Expected total return	11.2%
Market Cap	NKr61,650M
	US$7,959M

Price Performance
(RIC: GJFS.OL, BB: GJF NO)

- **We remain Neutral on Gjensidige with a target price of NOK 130** mainly due to a slowing Norwegian economy which could gradually lead to sluggish growth in GWP in the P&C business going forward. At the same time, Gjensidige's capital return story has already peaked, FCF yield and dividend cover do not screen as attractive relative to European insurers, and further uncertainty is coming from Solvency 2 (for example, the treatment of Natural Peril Pool). In spite of being one of the best P&C franchises in the region, Gjensidige is trading close to all-time highs across a number of valuation metrics, e.g. 16x 2016e P/E.

- **Capital return yield to drop:** The company proposed attractive special dividends in 2013 and 2014, reducing excess capital by ~NOK 5bn to NOK 1.0bn (as of 3Q14). We believe Gjensidige is not in a position to propose another special dividend in 2015 (without disposing of Spare Bank), and the group will switch its focus to ordinary dividends. The total capital return yield may drop gradually from ~11% in 2013 to ~6% going forward.

- **Unattractive FCF and dividend cover:** Gjensidige generates relatively low FCF yields in a European Insurance sector context at ~5.5% (2015e), with dividend cover <1.0x (2014-16e) from cash flow. Dividend growth prospects look weak.

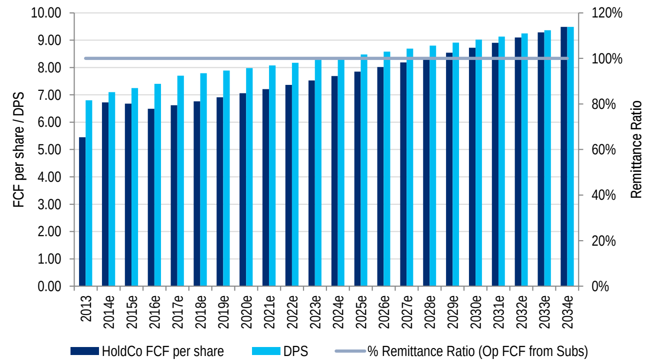
- **Worsening outlook on Norwegian economy:** the continued downward trend in oil prices is expected to significantly impact Norwegian economy - consensus GDP growth for 2015e has been lowered by ~0.5ppt in the last 6 months, currently standing at 1.7%. The majority of Gjensidige's GWP is generated in Norway and a negative sentiment in the economy could potentially impact growth momentum, however it will take some time for this effect to earn through as the majority of corporate clients of Gjensidige are SME's and are not directly exposed to the oil services industry (they are further down the value chain). Additionally, in December Norges Bank cut the key policy rate by 25pbs to 1.25%, and Citi's economists' forecasts another round of cuts if oil prices remain where they are or dip further.

- **Uncertainty over Solvency 2 / limited debt capacity:** there are a number of elements in the legal capital surplus calculation which currently provide some ambiguity such as the Norwegian Natural Perils Pool and the Norwegian guarantee scheme. Gjensidige has included NOK 2.5bn from the Norwegian Natural Perils Pool and the Norwegian guarantee scheme as Tier 2 capital, and after raising NOK 1.2bn subordinated debt, which qualifies for Tier 2 as well, is left with limited/no room for an additional capital raise under Solvency 2.

Gjensidige (NOK)

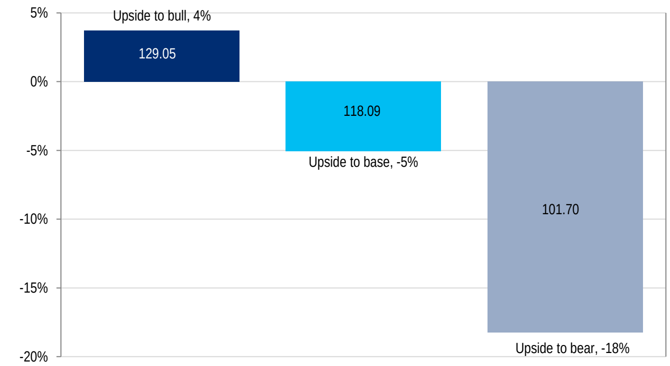
Year to 31 Dec	2012A	2013A	2014E	2015E	2016E
Profit Before Tax (NKrM)	5,633.7	4,574.2	5,342.4	4,917.4	5,072.9
Diluted EPS (NKr)	8.56	7.34	8.10	7.47	7.71
Diluted EPS (Old) (NKr)	8.56	7.34	8.10	7.47	7.71
PE (x)	14.4	16.8	15.2	16.5	16.0
DPS (NKr)	6.85	12.80	11.10	7.25	7.40
Net Div Yield (%)	5.6	10.4	9.0	5.9	6.0
Embedded Value Per Share (NKr)	0.00	0.00	0.00	0.00	0.00
Price / EVPS (x)	na	na	na	na	na

Figure 80. Hold Co FCF per share; DPS; Remittance Ratio



Source: Company reports, Citi Research

Figure 81. Base, bull & bear case Discounted Dividend Model scenarios



Source: Citi Research

Figure 82. Gjensidige - SOTP

in NOKmn	2015e Capital	ROC	Capital Multiple	2016e Earnings	P/E	Valuation	Per share
General Insurance	9,856	37.9%	5.81	3,668	15.6	57,272	114.5
Life	1,019	7.6%	1.01	74	13.9	1,024	2.0
Retail Banking	2,803	8.2%	0.82	231	10.0	2,311	4.6
Other capital	5,585		1.00			5,585	11.2
Total capital	19,263	19.4%	3.44	3,737	17.7	66,192	132.4
Financial Debt	-1,200		1.00			-1,200	-2.4
Group Equity	18,063	20.7%	3.60	3,737	17.4	64,992	130.0

Source: Citi Research Estimates

Figure 83. Free Cash Flow Model

NOK bn	2013	2014e	2015e	2016e
Life new business strain	-0.1	-0.1	-0.1	0.0
Life earnings	0.0	0.1	0.1	0.1
Life free cash flow	-0.1	-0.1	0.0	0.0
P&C earnings	3.9	4.2	3.8	3.9
P&C capex	-0.6	-0.5	-0.2	-0.5
P&C free cash flow	3.2	3.7	3.6	3.5
Retail Banking cash flow	-0.2	0.0	0.0	0.0
Other earnings	0.0	0.0	0.0	0.0
Operational free cash flow from subsidiaries	3.0	3.6	3.6	3.5
Growth in Op FCF from subs		22%	0%	-3%
Holdco and central costs	-0.2	-0.3	-0.3	-0.3
Growth in Holdco costs		5%	6%	0%
Group operational free cash flow	2.7	3.4	3.3	3.2
FCF per share	5.45	6.72	6.68	6.49
% Remittance Ratio (Op FCF from Subs)	100%	100%	100%	100%
Dividends to holding	3.0	3.6	3.6	3.5
Holdco and central costs	-0.2	-0.3	-0.3	-0.3
Holding company free cash flow	2.7	3.4	3.3	3.2
HoldCo FCF per share	5.45	6.72	6.68	6.49

Source: Company reports, Citi Research

Insurance - Reinsurers
Western Europe | Germany

Company Focus

Hannover Re (HNRGn.DE)

Limited upside potential

- Target Price Change
- Estimate Change

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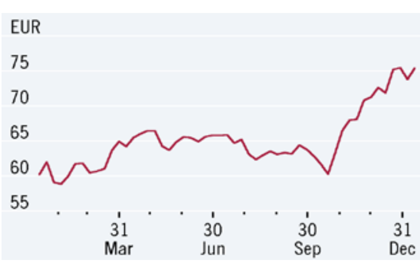
Neutral	2
Price (12 Jan 15)	€75.41
Target price	€76.80
from €64.50	
Expected share price return	1.8%
Expected dividend yield	4.2%
Expected total return	6.1%
Market Cap	€9,094M
	US$10,762M

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

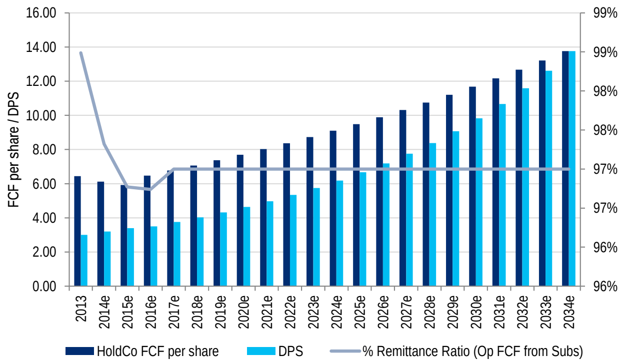


- **We remain Neutral on Hannover Re** given a subdued earnings momentum due to a highly competitive P&C reinsurance market and an ongoing decline in the interest rates. Having said that, Hannover Re has a strong reserve buffer which could partially offset earnings pressure. We also believe that Hannover Re could raise its payout ratio above the guided level as it is increasingly difficult to redeploy capital at attractive rates. The group trades on ~10x 2015E P/E, which is in line with its peers and, as a result, we maintain our Neutral recommendation.
- **Payout ratio to land outside the guided range:** We believe Hannover is in a position to raise their payout ratio above the range of 35-40% as, in our view, it has >EUR 1bn of excess capital above the S&P AA- requirement after including internal buffer and adding back M-factor. We are raising our payout assumption to 42% for 2014e and ~44% fir 2015e-14e. We also believe it is unlikely that Hannover Re will use this surplus capital as long as ROE of new business remains above 13%. Thus, we see limited prospects for additional capital management actions in the near term.
- **Strong reserve buffer a differentiator**: We believe that there should be a minor increase in Hannover Re's reserve redundancy from €1.5bn in 2013, however it is still a strong level. Management indicated that it won't be adding to this buffer in future, which should drive greater releases and therefore be positive for COR forecasts. Furthermore, as reinsurance rates decline this buffer allows Hannover Re to delay the pain for longer than some peers, which we see as a differentiator.
- **Investment returns will continue to trend downwards:** management reiterated its guidance for ~15bps annual decline in the running yield. The absolute investment income will be held up by strong cashflows and the decline in yield is helped by low bond maturities in 2014-15. However, given reinvestment rates are <2%, this drag on earnings will continue for years to come.
- **P&C Re margins could be under pressure going forward:** putting current underlying P&C reinsurance margins into long term perspective suggests some form of concern, in our view. We believe that the combined ratios for 2015e-16e could increase towards 96% as the effect of difficult pricing environment, which limits opportunities to deploy available capital at attractive rates.

Hannover Re (EUR)

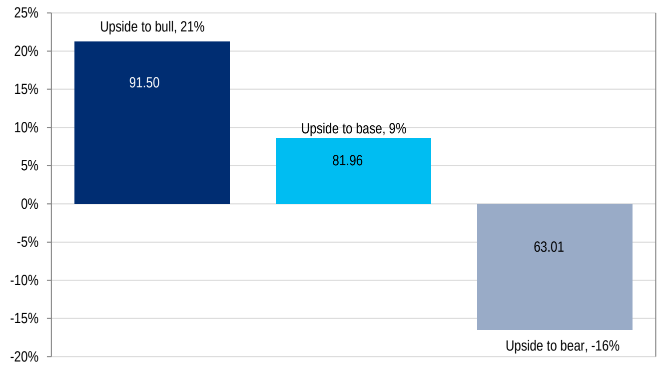
Year to 31 Dec	2012A	2013A	2014E	2015E	2016E
Profit Before Tax (€M)	1,289.4	1,102.4	1,342.7	1,284.8	1,380.5
Diluted EPS (€)	7.04	7.43	7.63	7.50	8.06
Diluted EPS (Old) (€)	7.04	7.43	7.45	6.77	6.68
PE (x)	10.7	10.2	9.9	10.1	9.4
DPS (€)	3.00	3.00	3.20	3.40	3.50
Net Div Yield (%)	4.0	4.0	4.2	4.5	4.6
Embedded Value Per Share (€)	50.02	48.83	59.63	62.93	66.58
Price / EVPS (x)	1.5	1.5	1.3	1.2	1.1

Figure 84. Hold Co FCF per share; DPS; Remittance Ratio



Source: Company reports, Citi Research

Figure 85. Base, bull & bear case Discounted Dividend Model scenarios



Source: Citi Research

Figure 86. Hannover Re - SOTP

EURm	2015E Capital	ROC	Capital Multiple	2016E Earnings	P/E	Valuation	Per share
P&C Reinsurance	4,387	17.5%	1.65	766	9.4	7,227	59.9
L&H Reinsurance	2,846	10.0%	1.07	286	10.7	3,048	25.3
Central items				-73	10.0	-732	-6.1
Excess capital	2,363		0.90			2,127	17.6
Total capital	9,597	9.4%	1.22	905	12.9	11,670	96.8
Financial Debt	-2,406		1.00			-2,406	-19.9
Group Equity	7,191	12.6%	1.29	905	10.2	9,265	76.8

Source: Citi Research Estimates

Figure 87. Free Cash Flow Model

Eur bn	2013	2014e	2015e	2016e
Life new business strain	0.0	0.0	0.0	0.0
Life cash flow from in-force	0.2	0.2	0.3	0.3
Life free cash flow	0.1	0.2	0.3	0.3
P&C earnings	0.8	0.8	0.7	0.8
P&C capex	-0.1	-0.2	-0.2	-0.2
P&C free cash flow	0.7	0.6	0.6	0.6
Asset management earnings	0.0	0.0	0.0	0.0
Other earnings	0.0	0.0	0.0	0.0
Operational free cash flow from subsidiaries	0.9	0.8	0.8	0.9
Growth in Op FCF from subs		*-7%*	*1%*	*8%*
Holdco and central costs	-0.1	-0.1	-0.1	-0.1
Growth in Holdco costs		*-34%*	*46%*	*0%*
Group operational free cash flow	0.8	0.8	0.7	0.8
FCF per share	6.55	6.30	6.14	6.71
% Remittance Ratio (Op FCF from Subs)	98%	97%	97%	97%
Dividends to holding	0.9	0.8	0.8	0.9
Holdco and central costs	-0.1	-0.1	-0.1	-0.1
Holding company free cash flow	0.8	0.7	0.7	0.8
HoldCo FCF per share	6.44	6.12	5.93	6.47

Source: Company reports, Citi Research

Insurance - Life
Western Europe | United Kingdom

Company Focus

Legal & General (LGEN.L)

Remains a strong dividend and cash story

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Neutral	2
Price (12 Jan 15)	£2.45
Target price	£2.64
Expected share price return	7.9%
Expected dividend yield	3.8%
Expected total return	11.6%
Market Cap	£14,540M
	US$22,059M

Price Performance
(RIC: LGEN.L, BB: LGEN LN)

- **One of our most preferred within the sector, BUT…:** We continue to like L&G, however we see better value elsewhere given the announced Aviva / Friends Life deal. We see a risk to L&G's premier position as the key cash and dividend distributor in the sector. We also struggle to see a catalyst nearer term to drive re-rating, we are just 2% higher than consensus for 2015e and 2016e EPS. Nonetheless, L&G's strengths are its strong franchise in each of its chosen markets which are enhanced by the coherent nature of the group.

- **Strong dividend story supposed by cash generation:** We forecast a 12% CAGR in DPS over the next four years which is supported by very strong cash generation from the group. Whilst bears on the stock might argue that dividend cover is low (c1.1x of holding co. cash flow by 2016e), with economic surplus >£7.0bn at 1H14, we are not concerned.

- **Strong capital position & balance sheet:** At 1H14 L&G had an economic coverage ratio of 261% and believe that L&G will remain very well capitalized on a Solvency II basis. We do not expect any transformational capital management announcements before January 2016; however we see upside to capital return from 2016 onwards given there are no dramatic changes to Solvency II from now.

- Bulk annuity, protection and savings businesses all show promising futures:

  – L&G's bulk annuity platform amongst the best. YTD L&G has demonstrated its pre-eminence in this market with £6.0 of transactions written YTD, nearly 3x higher than 2013. With estimated margins on bulks at c8% (individual annuities c9%), we believe that the increased volumes will more than make up for lost profits from the decline in individual annuities.

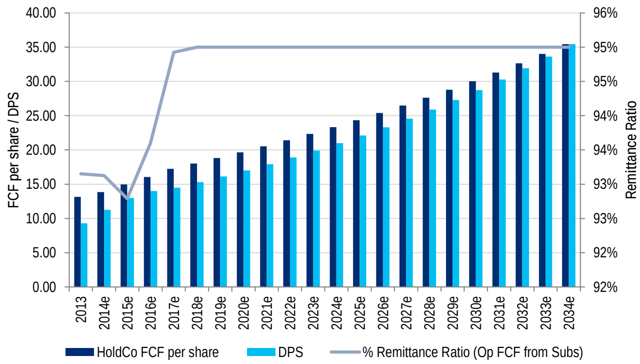
  – L&G is the UK's #1 provider of protection products and one of the biggest providers of auto-enrolment solutions in the UK. Assets have also now passed the £10bn milestone. Whilst margins are skinny (9% at H114 for protection, c50bps for savings), we believe both business areas are scale games which should ultimately lead to further sales opportunities.

- **LGIM – the key differentiator of L&G:** We believe LGIM demonstrates the group's coherent strategy by clearly levering the strength of L&G's investment arm in other business units. It provides end-to-end investment strategies to the UK DB and DC markets as well as offering a broader range of DB solutions (such as LDI). LDI assets increased 22% Q313-Q314 and demand remains strong.

Legal & General (GBP)

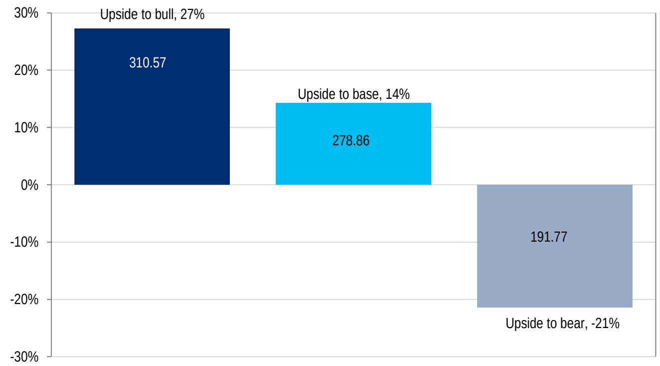
Year to 31 Dec	2012A	2013A	2014E	2015E	2016E
Profit Before Tax (£M)	1,033.0	1,144.0	1,306.5	1,408.7	1,526.1
Diluted EPS (p)	13.6	15.0	17.2	18.6	20.1
Diluted EPS (Old) (p)	13.6	15.0	17.2	18.6	20.1
PE (x)	18.0	16.3	14.2	13.2	12.2
DPS (p)	7.6	9.3	11.3	13.0	14.0
Net Div Yield (%)	3.1	3.8	4.6	5.3	5.7
Embedded Value Per Share (p)	150.5	162.0	174.2	184.8	196.4
Price / EVPS (x)	1.6	1.5	1.4	1.3	1.2

Figure 88. Hold Co FCF per share; DPS; Remittance Ratio



Source: Citi Research

Figure 89. Base, bull & bear case Discounted Dividend Model scenarios



Source: Citi Research

Figure 90. Legal & General – SOTP

£mn	2015e Capital	Sust. ROC	Capital Multiple	IFRS Earnings 16e	P/E	Value	Value per share
Life	10,093	9.2%	0.94	793	12.0	9,513	1.60
LGIM	469			298	13.5	4,036	0.68
Other	396			210	10.0	2,100	0.35
Excess capital / double leverage	3,683					3,683	0.62
Total capital	14,642			1,293		19,332	3.26
Financial Debt	(3,683)			(96)		(3,683)	(0.62)
Equity / Group EV	10,959		1.43	1,196	13.1	15,649	2.64

Source: Citi Research Estimates

Figure 91. Free Cash Flow Model

£ mn	2013	2014e	2015e	2016e
Life new business strain	-40.0	-6.0	-22.6	-27.1
Life cash flow from in-force	734.0	727.6	762.6	816.0
Life free cash flow	694.0	721.6	740.0	788.9
P&C earnings				
P&C capex				
P&C free cash flow	0.0	0.0	0.0	0.0
Asset management earnings	239.0	255.9	279.3	298.1
Other earnings	16.0	16.1	50.3	42.3
Operational free cash flow from subsidiaries	949.0	993.6	1069.5	1129.3
Growth in Op FCF from subs		*5%*	*8%*	*6%*
Holdco and central costs	-112.0	-111.3	-113.2	-113.2
Growth in Holdco costs		*-1%*	*2%*	*0%*
Group operational free cash flow	837.0	882.2	956.3	1016.1
FCF per share	14.25	15.01	16.27	17.28
% Remittance Ratio (Op FCF from Subs)	93%	93%	93%	94%
Dividends to holding	884.0	925.3	992.4	1057.0
Holdco and central costs	-112.0	-111.3	-113.2	-113.2
Holding company free cash flow	772.0	813.9	879.2	943.8
HoldCo FCF per share	13.14	13.85	14.96	16.06

Source: Citi Research

Insurance - Reinsurers
Western Europe | Germany

Company Focus

Munich Re (MUVGn.DE)

Operating environment remains challenged with limited growth

- Target Price Change
- Estimate Change

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Neutral	2
Price (12 Jan 15)	€163.05
Target price	€163.00
from €162.00	
Expected share price return	0.0%
Expected dividend yield	4.6%
Expected total return	4.6%
Market Cap	€28,198M
	US$33,370M

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

- **We remain Neutral on Munich Re with a price target of €163** due to a negative sentiment in the operating environment of the P&C reinsurance business and a continued weakness in investment returns. We agree with a view that capital management actions could provide some limited support going forward, but fundamentally we do not see any catalysts which could drive a material rerating of the stock nearer term – Munich Re is trading on ~10x 2015E PE.

- **P&C Re margins could remain under pressure going forward:** putting current P&C reinsurance margins into long term perspective suggests some form of concern, in our view. We believe that the combined ratios for 2015e-16e could increase towards 96% as the effect of i) a continued price competition and ii) a higher exposure to the casualty business (this year new business mix already added 1ppt to the combined ratio). However, Munich Re's strong reserving position should allow reserve releases to partially offset ongoing earnings pressure.

- **Buy-backs as an ongoing theme:** we maintain our forecast of EUR 1bn buy-backs for 2015e-16e. Even given this assumption, Munich Re has a very comfortable capital position on an economic solvency basis and over S&P AA rating, in our view. At the same time, distributable earnings of the parent company are strong as a top-up to an equalization reserve is expected to gradually decline (quite likely to discontinue post 2016e) and the difference between IFRS results of subsidiaries and their dividend payments to Munich Re AG should follow a similar pattern shrinking in 2015e-16e. As a result, we believe Munich Re is in a good position to regular do buy-backs going forward.

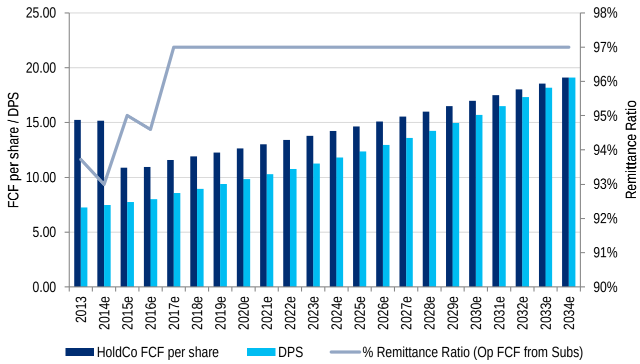
- **Investment return also a concern:** Munich Re is guiding a 3.5% ROI for 2015e and we believe this is achievable despite continued decline in interest rates as Munich Re could realize some gains from their investment portfolio in 4Q14. However, going forward we expect that the return on financial assets could gradually dip by ~15-20bps annually owing to the difference in reinvestment and running yields.

- **Valuation:** at ~10x P/E our FY15 forecast, Munich Re trades in-line with peers. Although it offers an attractive total return yield of ~8.5% (2015e) based on buybacks and ordinary dividends, we see little scope for growth in this given cash flow cover of ~1x.

Munich Re (EUR)

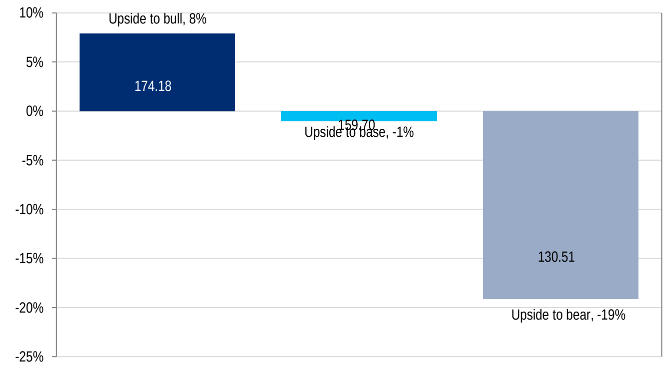
Year to 31 Dec	2012A	2013A	2014E	2015E	2016E
Profit Before Tax (€M)	4,082.0	3,450.0	3,647.2	3,659.6	3,658.4
Diluted EPS (€)	17.94	18.50	18.21	16.44	17.06
Diluted EPS (Old) (€)	17.94	18.50	17.63	15.99	16.15
PE (x)	9.1	8.8	9.0	9.9	9.6
DPS (€)	7.00	7.25	7.50	7.75	8.00
Net Div Yield (%)	4.3	4.4	4.6	4.8	4.9
Embedded Value Per Share (€)	152.34	146.45	172.01	178.40	185.31
Price / EVPS (x)	1.1	1.1	0.9	0.9	0.9

Figure 92. Hold Co FCF per share; DPS; Remittance Ratio



Source: Citi Research

Figure 93. Base, bull & bear case Discounted Dividend Model scenarios



Source: Citi Research

Figure 94. Munich Re - SOTP

EURm	2015 Capital	ROC	Capital Multiple	2016 Earnings	P/E	Valuation	Per share
L&H reinsurance	4,868	8.6%	0.94	421	10.9	4,577	27.7
P&C reinsurance	11,700	14.3%	1.37	1,676	9.6	16,086	97.4
Life primary	3,156	4.2%	0.53	134	12.4	1,657	10.0
Health primary	1,690	10.2%	0.98	172	9.6	1,657	10.0
P&C primary	2,583	7.4%	0.77	192	10.4	1,989	12.0
Munich health	1,687	7.5%	0.77	126	10.3	1,302	7.9
Asset management				13	9.8	124	0.7
Excess capital	8,513		0.50			4,292	26.0
Total capital	34,198	8.1%	0.93	2,764	11.5	31,684	191.8
Financial Debt	-4,734					-4,734	-28.7
Group Equity	29,464	9.4%	0.91	2,764	9.7	26,950	163

Source: Citi Research Estimates

Figure 95. Free Cash Flow Model

Eur bn	2013	2014e	2015e	2016e
Life new business strain	-0.7	-0.7	-0.7	-0.8
Life cash flow from in-force	0.8	1.1	0.9	1.0
Life free cash flow	0.1	0.4	0.1	0.2
P&C earnings	2.5	2.3	1.9	1.8
P&C capex	0.3	0.1	-0.2	-0.2
P&C free cash flow	2.8	2.4	1.7	1.6
Asset management earnings	0.0	0.0	0.0	0.0
Other earnings	0.0	0.0	0.0	0.0
Operational free cash flow from subsidiaries	2.9	2.8	1.9	1.8
Growth in Op FCF from subs		*-3%*	*-32%*	*-3%*
Holdco and central costs	0.0	0.0	0.0	0.0
Growth in Holdco costs				
Group operational free cash flow	2.9	2.8	1.9	1.8
FCF per share	16.27	16.33	11.46	11.57
% Remittance Ratio (Op FCF from Subs)	94%	93%	95%	95%
Dividends to holding	2.7	2.6	1.8	1.7
Holdco and central costs	0.0	0.0	0.0	0.0
Holding company free cash flow	2.7	2.6	1.8	1.7
HoldCo FCF per share	15.25	15.18	10.89	10.95

Source: Citi Research

Insurance - Multi-Line
Western Europe | Netherlands

Company Focus

NN Group NV (NN.AS)

Downgrading to Neutral on relative valuation

- Rating Change
- Target Price Change

Farooq Hanif
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Neutral	2
from Buy	
Price (12 Jan 15)	€23.91
Target price	€26.50
from €26.00	
Expected share price return	10.9%
Expected dividend yield	4.2%
Expected total return	15.1%
Market Cap	€8,367M
	US$9,902M

Price Performance
(RIC: NN.AS, BB: NN NA)

- **We are downgrading NN to Neutral.** NN remains an attractive capital return story, in our view, and we believe is still likely to consider returning additional capital to shareholders in addition to regular dividends by end 2016-17e. It also has reasonably strong free cash flow, with a ~9% 2016e FCF yield. However, following its strong relative performance since its IPO and continued uncertainty over unit-linked litigation risks, we believe the upside potential in the stock is limited – especially compared to both Aegon and Delta Lloyd. NN trades at ~9.5x 2016e P/E, in-line with composite peers.

- **Improving operating trends:** We expect positive operating trends in the next 2-3 years. These include stable investment margins in the Netherlands (despite low yields), helped by re-risking, and margin upside from cost-cutting and better underwriting margins in the P&C business. We also expect improved fee margins in Insurance Europe and Investment Management (helped by business mix and net inflows), and continued positive run-off in the Japanese Closed Book Variable Annuity business.

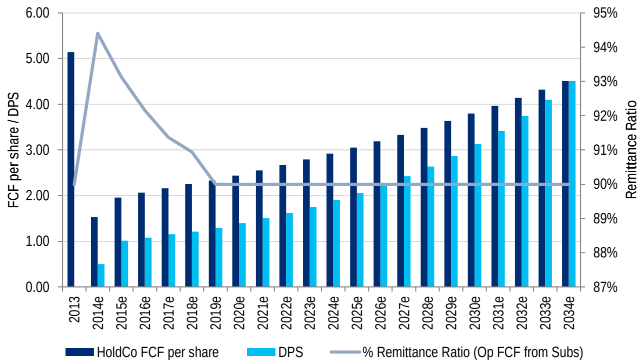
- **Potential capital return:** We believe NN may be in a position to return additional capital to shareholders by end 2016e, helped by improved holding company cash buffers (potentially rising to ~€2bn by end 2016e) – but subject to uncertainty over the cost of unit-linked product litigation, which we are currently pricing in to our valuation at €650mn.

- **Unit-linked litigation continues to be an uncertain risk.** NN faces a number of court cases relating to mis-selling of unit-linked contracts, however the potential outcome or costs remain uncertain at the current time. We believe this uncertainty could persist for some time (e.g. >1 year) and could act as a dampener on future performance given NN's current multiple.

NN Group NV (EUR)

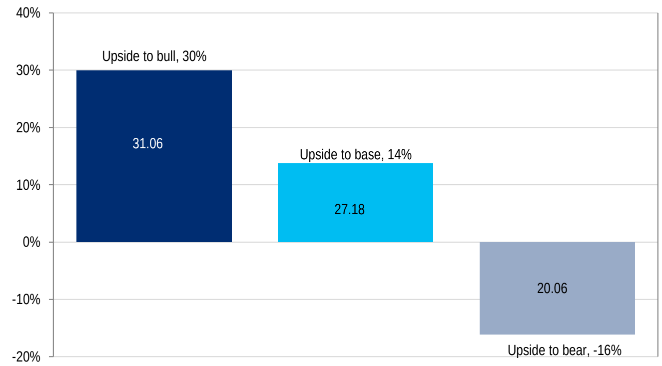
Year to 31 Dec	2012A	2013A	2014E	2015E	2016E
Profit Before Tax (€M)	-245.9	385.6	749.8	1,166.9	1,246.7
Diluted EPS (€)	-0.44	0.92	1.70	2.38	2.54
Diluted EPS (Old) (€)	-0.44	0.92	1.70	2.38	2.54
PE (x)	-54.4	25.9	14.1	10.1	9.4
DPS (€)	0.00	0.00	0.50	1.01	1.08
Net Div Yield (%)	0.0	0.0	2.1	4.2	4.5
Embedded Value Per Share (€)	24.22	29.43	34.08	36.80	39.78
Price / EVPS (x)	1.0	0.8	0.7	0.6	0.6

Figure 96. Hold Co FCF per share; DPS; Remittance Ratio



Source: Citi Research

Figure 97. Base, bull & bear case Discounted Dividend Model scenarios



Source: Citi Research

Figure 98. NN Group - SOTP

in €mn	2015e Capital	Sust. ROC	Capital Multiple	IFRS Profit 16e	P/E	Value	ps
Netherlands Life	6,618	7.3%	0.74	490	10.0	4,894	13.98
Insurance Europe	1,545	8.5%	0.82	122	10.4	1,270	3.63
Japan Life	1,204	8.8%	0.85	109	9.4	1,019	2.91
Japan CBVA	900		0.60	49	10.9	540	1.54
Netherlands Non-Life	399	26.3%	2.07	114	7.3	825	2.36
Investment Management	385	33.4%	3.57	138	10.0	1,376	3.93
Legal risk						-650	-1.86
Valuation	11,284		0.82	889	10.4	9,275	26.50

Source: Citi Research Estimates

Figure 99. Free Cash Flow Model

Eur bn	2013	2014e	2015e	2016e
Life new business strain				
Life cash flow from in-force				
Life free cash flow	2.2	0.5	0.7	0.7
P&C earnings	0.1	0.1	0.1	0.1
P&C capex	0.0	0.0	0.0	0.0
P&C free cash flow	0.1	0.1	0.1	0.1
Asset management earnings	0.1	0.1	0.1	0.1
Other earnings	0.0	0.0	0.0	0.0
Operational free cash flow from subsidiaries	2.4	0.8	0.9	0.9
Growth in Op FCF from subs		*-68%*	*18%*	*3%*
Holdco and central costs	-0.4	-0.2	-0.2	-0.1
Growth in Holdco costs		*-51%*	*-17%*	*-14%*
Group operational free cash flow	2.0	0.6	0.7	0.8
FCF per share	5.83	1.65	2.14	2.27
% Remittance Ratio (Op FCF from Subs)	90%	94%	93%	92%
Dividends to holding	2.2	0.7	0.8	0.9
Holdco and central costs	-0.4	-0.2	-0.2	-0.1
Holding company free cash flow	1.8	0.5	0.7	0.7
HoldCo FCF per share	5.14	1.53	1.96	2.06

Source: Citi Research

Insurance - Life
Western Europe | United Kingdom

Company Focus

Prudential Plc (PRU.L)

Remains a unique franchise with strong dividend growth

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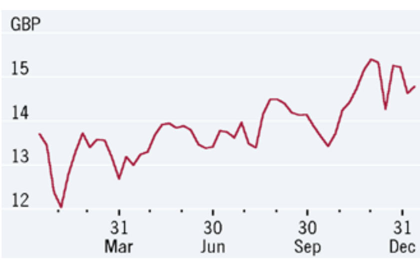
Buy	1
Price (12 Jan 15)	£14.79
Target price	£17.71
Expected share price return	19.8%
Expected dividend yield	2.5%
Expected total return	22.3%
Market Cap	£37,965M
	US$57,596M

Price Performance
(RIC: PRU.L, BB: PRU LN)



- We continue to see an attractive risk reward and reiterate our Buy rating on Prudential. The recent investor conference in Asia underlined the significant growth opportunity inherent in its market leading Asian franchise, whilst the US and UK divisions continue to perform solidly. We maintain our target price at 1771p which values the group on 1.6x 2015e EV.

- **Scope for increased cash flow and dividend:** As a result of the below factors we continue to believe that FCF generation is likely to grow strongly, allowing Pru to close the gap to less growth exposed peers (2016e FCF yield c3.6% vs. c7% within the UK life sector). We expect a further positive dividend rebasing in 2015e, given our HoldCo cash forecasts. We also expect Pru to be very well placed with regards to Solvency II given its EC surplus of £11.3bn at FY13).

  – **Asia:** PCA now contributes 36% of the groups operating profit and has grown at a 23% CAGR over the last 4 years. The sheer scale of PCA and its uniquely diversified franchise means it is in a significantly better position to take advantage of the inherent growth of the Asian markets than any other European insurers. Whilst there will undoubtedly be hiccups and challenges in the market going we believe the diversity of PCA stands in good stead to continue to exhibit robust growth – we forecast 11% CAGR in earnings over the next 4 years.

  – **Eastspring:** External client flows are strong in Eastspring (+82% YoY) which has contributed to the 97% growth in total net flows 9M14 on 9M13. This is driving profits which are similarly up 24% over the same time period, albeit from a very small base. Whilst it is small, the growth potential is huge and although Eastspring is unlikely to materially impact results in the short term, we believe, longer term this could be a very valuable asset.

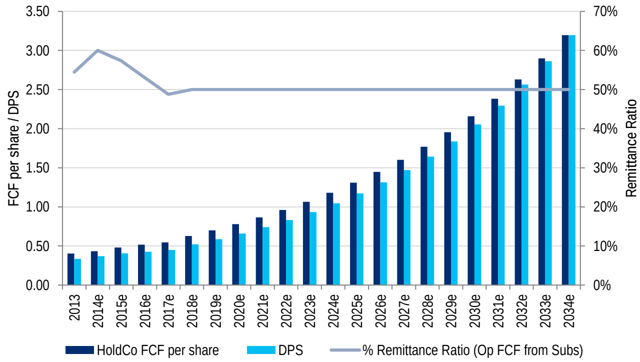
  – **Jackson:** Jackson has grown premiums by 4x, assets by over 3x and increased capital over 50% over the last 10 years. Furthermore it has remitted nearly $3bn of net capital to Prudential over that time period. We forecast growth in Jackson with operating EPS CAGR of 7% 2013-17e.

- **Potential capital return:** Capital return potential should be supported by a growing level of holding company cash capital in the next few years (exceeding €2bn by 2016e, from ~€1.2bn currently) and a relatively benign Solvency 2 outcome.

Prudential Plc (GBP)

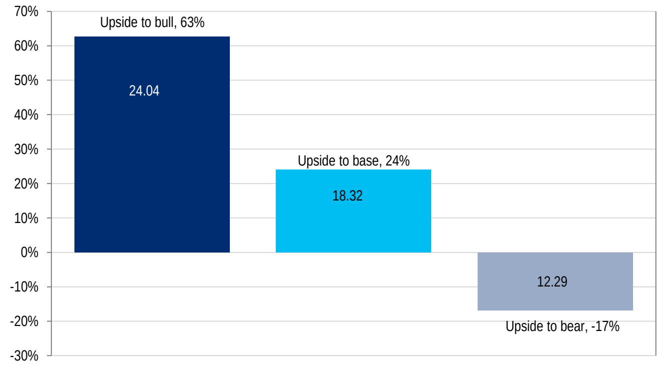
Year to 31 Dec	2012A	2013A	2014E	2015E	2016E
Profit Before Tax (£M)	2,746.5	1,635.0	3,177.6	3,439.7	3,788.3
Diluted EPS (p)	76.8	90.9	96.9	106.3	116.8
Diluted EPS (Old) (p)	76.8	90.9	96.9	106.3	116.8
PE (x)	19.2	16.3	15.3	13.9	12.7
DPS (p)	29.2	33.6	36.9	40.6	42.7
Net Div Yield (%)	2.0	2.3	2.5	2.7	2.9
Embedded Value Per Share (p)	820.2	913.8	1,014.5	1,134.9	1,268.5
Price / EVPS (x)	1.8	1.6	1.5	1.3	1.2

Figure 100. Hold Co FCF per share; DPS; Remittance Ratio



Source: Citi Research

Figure 101. Base, bull & bear case Discounted Dividend Model scenarios



Source: Citi Research

Figure 102. Prudential – SOTP

£mn	2015E Capital / EEV	Sust. Return	Capital Multiple	Earnings 16e	P/E	Value	Per Share (p)
UK	10,024	6.7%	0.79	670	11.8	7,884	307
US	9,333	18.9%	1.75	1,228	13.3	16,303	635
Asia	13,703	17.0%	1.63	1,075	20.7	22,278	868
M&G	530			399	13.5	5,381	210
Asian asset management	194			118	13.0	1,533	60
US asset management	167			82	13.0	1,062	41
Other	(193)			(421)	10.0	(4,404)	(172)
Total capital	33,759					50,036	1,949
Financial Debt	(4,567)					(4,567)	(178)
Equity / Group EV	29,192		1.56	2,993	15.2	45,469	1,771

Source: Citi Research Estimates

Figure 103. Free Cash Flow Model

£ mn	2013	2014e	2015e	2016e
Life new business strain	-637.0	-654.8	-692.9	-726.9
Life cash flow from in-force	2753.0	2705.9	3017.2	3416.3
Life free cash flow	2116.0	2051.1	2324.2	2689.4
P&C earnings				
P&C capex				
P&C free cash flow	0.0	0.0	0.0	0.0
Asset management earnings	346.0	345.3	369.4	395.3
Other earnings	0.0	0.0	0.0	0.0
Operational free cash flow from subsidiaries	2462.0	2396.4	2693.7	3084.7
Growth in Op FCF from subs		*-3%*	*12%*	*15%*
Holdco and central costs	-315.0	-333.8	-313.7	-313.5
Growth in Holdco costs		*6%*	*-6%*	*0%*
Group operational free cash flow	2147.0	2062.5	2379.9	2771.2
FCF per share	0.84	0.81	0.93	1.08
% Remittance Ratio (Op FCF from Subs)	54%	60%	57%	53%
Dividends to holding	1341.0	1438.7	1544.6	1636.7
Holdco and central costs	-315.0	-333.8	-313.7	-313.5
Holding company free cash flow	1026.0	1104.8	1230.8	1323.2
HoldCo FCF per share	0.40	0.43	0.48	0.52

Source: Citi Research

Insurance - Multi-Line
Western Europe | Finland

Company Focus

Sampo Oyj (SAMAS.HE)

Most preferred stock in Nordic region, but remaining Neutral

- Estimate Change

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Neutral	2
Price (12 Jan 15)	€39.02
Target price	€39.00
Expected share price return	-0.1%
Expected dividend yield	4.7%
Expected total return	4.7%
Market Cap	€21,852M
	US$25,859M

Price Performance
(RIC: SAMAS.HE, BB: SAMAS FH)

- **Sampo is our most preferred names in the Nordic region, but we remain Neutral:** we believe Sampo is the most resilient, diversified, cash generative franchise in the region which offers an attractive and growing dividend well covered by cash. Having said that, we believe these attributes are fairly priced in with the stock trading at 14x 2015e P/E, and additional headwinds could come from the weakening Norwegian economy.

- **Most sustainable dividend growth potential in the Nordics**: The Group sees itself a dividend stock concentrating on sustainable and gradually growing dividends to shareholder. We forecast that 2013-16e DPS CAGR is ~10.0% which is the best rate in the Nordics pushing the dividend yield towards a very attractive ~6.0% level by 2016e. At the same time, capital return and dividends are well covered by cash relative to the other players in the region making Sampo's dividend policy sustainable in the long term.

- **Upside potential from Nordea**. Sampo's holding in Nordea adds diversification to the group's earnings profile and provides the main source of growth. We expect that Nordea will account for ~45% of PBT by 2016e and its contribution in terms of PBT will be growing at ~8.0% 2013-16e CAGR. A growing dividend payout ratio from Nordea (towards 80%) should also support Sampo's cash flow.

- **Consistently best in class profitability performance**. The group's P&C business has delivered a very resilient and high-quality underwriting performance over the last ten years with a CR of ~91% (and low deviation). We believe this is a sustainable result due to the underlying quality of the P&C franchise, which has market leading positions and does not heavily rely on reserve releases.

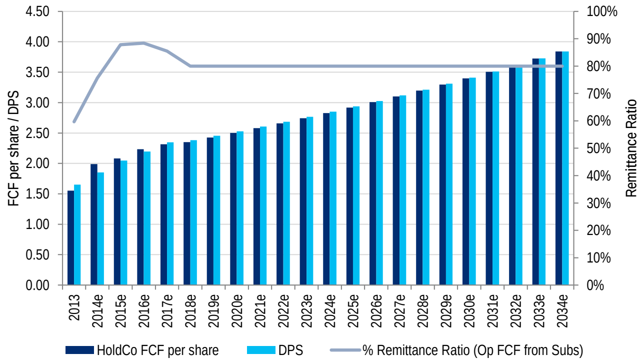
- **Trapped excess capital:** If we assumed that surplus capital above a 160% Group Solvency level is considered as excess (~160% is Sampo's average long-term solvency position) this would suggest that Sampo has >€1.0bn of excess capital, of which ~€0.9bn could be assigned to the difference between the book value and market valuation of Nordea. Hence the majority of Sampo's excess capital cannot be used for capital management purposes.

- **Valuation looks fair.** Stripping out the Nordea stake the implied multiple for its insurance business is ~17x 2015E P/E, which is close to the peer average and at its own historical highs.

Sampo Oyj (EUR)

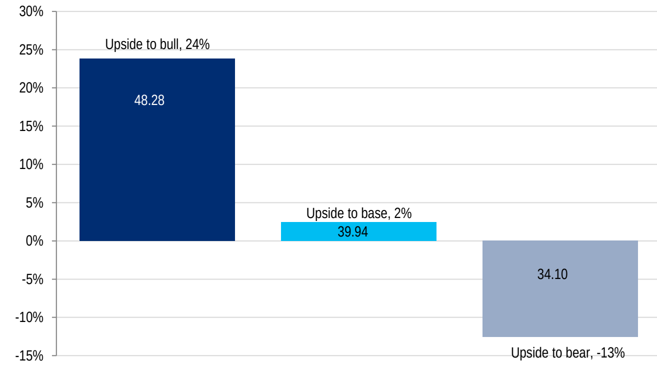
Year to 31 Dec	2012A	2013A	2014E	2015E	2016E
Profit Before Tax (€M)	1,621.1	1,668.7	1,751.9	1,754.3	1,823.7
Diluted EPS (€)	2.51	2.60	2.75	2.74	2.86
Diluted EPS (Old) (€)	2.51	2.60	2.76	2.78	2.89
PE (x)	15.5	15.0	14.2	14.2	13.6
DPS (€)	1.35	1.65	1.85	2.05	2.20
Net Div Yield (%)	3.5	4.2	4.7	5.2	5.6
Embedded Value Per Share (€)	0.00	0.00	0.00	0.00	0.00
Price / EVPS (x)	na	na	na	na	na

Figure 104. Hold Co FCF per share; DPS; Remittance Ratio



Source: Citi Research

Figure 105. Base, bull & bear case Discounted Dividend Model scenarios



Source: Citi Research

Figure 106. Sampo– SOTP

in €mn	2015e Capital	ROC	Capital Multiple	2016e Earnings	P/E	Valuation	Per share
P&C	2,071	35.2%	5.39	717	15.6	11,160	19.9
Life	1,397	9.3%	1.15	126	12.7	1,605	2.9
Nordea	8,130		1.00	823	9.9	8,130	14.5
Excess capital / double leverage	2,823		1.00			2,823	5.0
Total capital	14,420	10.6%	1.64	1,534	15.5	23,717	42.4
Financial Debt	-1,873		1.00			-1,873	-3.3
Group Equity	12,547	12.2%	1.74	1,534	14.2	21,844	39.0

Source: Citi Research Estimates

Figure 107. Free Cash Flow Model

EUR bn	2013	2014e	2015e	2016e
Life new business strain	0.00	-0.07	0.01	0.01
Life earnings	0.12	0.12	0.12	0.13
Life free cash flow	0.12	0.05	0.13	0.13
P&C earnings	0.75	0.74	0.72	0.73
P&C capex	0.14	0.07	-0.12	-0.10
P&C free cash flow	0.89	0.81	0.60	0.63
Nordea cash flow	0.635	0.691	0.739	0.795
Other earnings	0.041	0.045	0.041	0.042
Operational free cash flow from subsidiaries	1.69	1.60	1.51	1.60
Growth in Op FCF from subs		*-5.0%*	*-5.7%*	*5.8%*
Holdco and central costs	-0.09	-0.06	-0.08	-0.09
Growth in Holdco costs		*-35.1%*	*53.7%*	*1.0%*
Group operational free cash flow	1.60	1.55	1.43	1.51
FCF per share	2.86	2.76	2.55	2.70
% Remittance Ratio (Op FCF from Subs)	59.6%	75.7%	87.8%	88.4%
Dividends to holding	0.96	1.17	1.25	1.34
Holdco and central costs	-0.09	-0.06	-0.08	-0.09
Holding company free cash flow	0.87	1.11	1.17	1.25
HoldCo FCF per share	1.55	1.99	2.08	2.23

Source: Citi Research

Insurance - Reinsurers
Western Europe | France

Company Focus

SCOR (SCOR.PA)

Most preferred reinsurer

- Target Price Change
- Estimate Change

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Buy	1
Price (12 Jan 15)	€24.70
Target price	€27.50
from €29.20	
Expected share price return	11.3%
Expected dividend yield	5.7%
Expected total return	17.0%
Market Cap	€4,742M
	US$5,612M

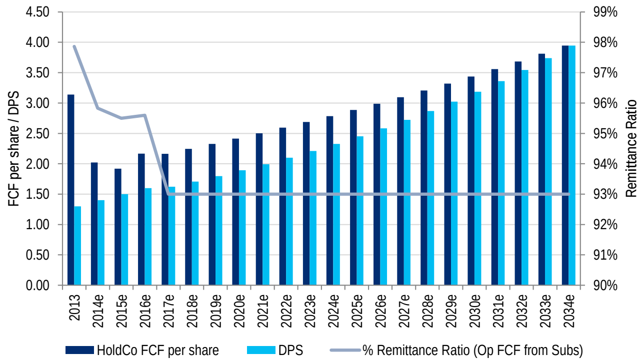
Price Performance
(RIC: SCOR.PA, BB: SCR FP)

- **We remain buyers of SCOR** as we believe it has a positive valuation risk reward skew based on our dividend discount model analysis. Despite ongoing challenges in the nonlife reinsurance industry, we believe that SCOR is better positioned relative to peers due to a number of factors: i) SCOR is a well-diversified business with ~45% of operating profit coming from L&H Re; ii) the group is less exposed to US nat cat; ii) it could also generate relatively better investment returns due to the asset optionality and iv) technical margins in L&H Re business should remain at around 7% margin. Lastly, given SCOR's strong Solvency position, we believe SCOR could grow its ordinary dividend to EUR 1.40 for 2014e.
- **Consistent growth & consistent margins in P&C Re:** Scor has shown for several years that it can grow whist improving underlying margins in P&C Re. It is underweight US cat where pricing is most under pressure. Clearly the current underwriting environment has become more challenging, but we still think it can achieve a combined ratio towards the lower end of its 93-94% guidance through active portfolio management.
- **Stable L&H Re technical margin:** Scor's growth has been driven by acquisitions (Transamerica Re and Generali US Re) which were made at a discount to net tangible assets and are performing well. Scor's technical margin has remained relatively constant over the years and we expect it to fluctuate ~7%. On the other hand, the total operating margin has been under pressure due to low interest rates, which is consistent with the experience of peers.
- **Resilient investment return:** We think Scor is in a relatively better position than its peers because it can generate roughly stable investment returns in the coming years. A key differentiator is SCOR's ability to selectively re-risk its portfolio by reducing its cash position and it could also further increase its effective duration of the invested assets (SCOR targets 3.9 years vs. the current level of ~3.0).
- **Valuation:** Scor trades on ~9.5x 2015E PE, which is at a discount to peers along with an attractive 6.1% 2015E dividend yield. We believe this doesn't adequately reflect the group's earnings potential - we believe Scor can generate higher earnings growth than peers (2% EPS CAGR 2014-16) by taking share as the market becomes more tiered.

SCOR (EUR)

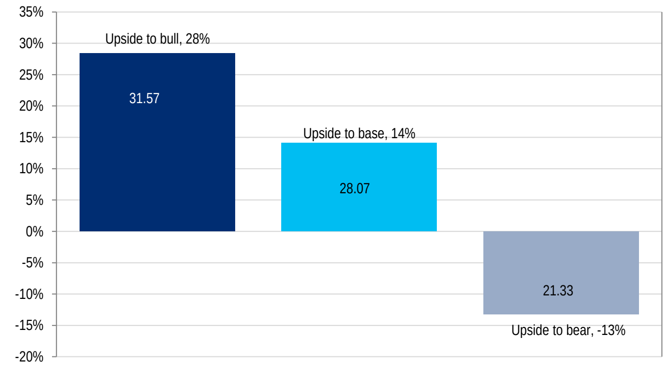
Year to 31 Dec	2012A	2013A	2014E	2015E	2016E
Profit Before Tax (€M)	526.0	640.0	646.7	624.1	673.7
Diluted EPS (€)	2.27	2.97	2.70	2.61	2.82
Diluted EPS (Old) (€)	2.27	2.97	2.70	2.84	3.12
PE (x)	10.9	8.3	9.2	9.5	8.8
DPS (€)	1.20	1.30	1.40	1.50	1.60
Net Div Yield (%)	4.9	5.3	5.7	6.1	6.5
Embedded Value Per Share (€)	26.20	26.86	30.72	31.46	32.31
Price / EVPS (x)	0.9	0.9	0.8	0.8	0.8

Figure 108. Hold Co FCF per share; DPS; Remittance Ratio



Source: Citi Research

Figure 109. Base, bull & bear case Discounted Dividend Model scenarios



Source: Citi Research

Figure 110. SCOR - SOTP

EURm	2015 Capital	ROC	Capital Multiple	2016 Earnings	P/E	Valuation	Per share
P&C Reinsurance	2,766	18.3%	1.77	507	9.6	4,883	26.2
L&H Reinsurance	3,770	5.9%	0.74	224	12.5	2,795	15.0
Central items				-175	10.0	-1,755	-9.4
Excess capital / double leverage	1,069		0.90			962	5.2
Total capital	7,605	6.9%	0.91	526	13.1	6,885	36.9
Financial Debt	-1,735		1.00			-1,735	-9.3
Group Equity	5,870	9.0%	0.88	526	9.8	5,150	27.6

Source: Citi Research Estimates

Figure 111. Free Cash Flow Model

Eur bn	2013	2014e	2015e	2016e
Life new business strain	-0.1	-0.1	-0.1	-0.1
Life cash flow from in-force	0.2	0.3	0.3	0.3
Life free cash flow	0.1	0.2	0.2	0.3
P&C earnings	0.5	0.6	0.6	0.6
P&C capex	0.0	-0.3	-0.3	-0.3
P&C free cash flow	0.4	0.3	0.3	0.3
Asset management earnings	0.0	0.0	0.0	0.0
Other earnings	0.0	0.0	0.0	0.0
Operational free cash flow from subsidiaries	0.5	0.5	0.5	0.6
Growth in Op FCF from subs		*3%*	*-2%*	*7%*
Holdco and central costs	0.1	-0.1	-0.2	-0.1
Growth in Holdco costs		*-351%*	*3%*	*-5%*
Group operational free cash flow	0.6	0.4	0.4	0.4
FCF per share	3.20	2.14	2.05	2.30
% Remittance Ratio (Op FCF from Subs)	98%	96%	96%	96%
Dividends to holding	0.5	0.5	0.5	0.5
Holdco and central costs	0.1	-0.1	-0.2	-0.1
Holding company free cash flow	0.6	0.4	0.4	0.4
HoldCo FCF per share	3.14	2.02	1.92	2.17

Source: Citi Research

Insurance - Life
Western Europe | United Kingdom

Company Focus

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Neutral	2
Price (12 Jan 15)	£3.89
Target price	£4.43
Expected share price return	13.8%
Expected dividend yield	4.0%
Expected total return	17.8%
Market Cap	£9,324M
	US$14,145M

Price Performance
(RIC: SL.L, BB: SL/ LN)

Standard Life PLC (SL.L)

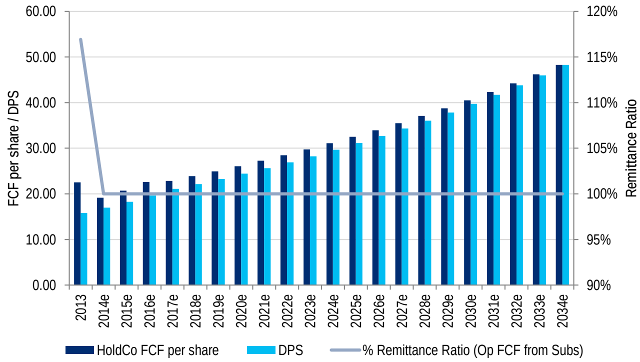
Strong growth potential and franchise, adequately priced in

- **We remain Neutral on Standard Life:** Whilst we continue to recognize the underlying strengths in Standard Life's business model at current multiples, we see little upside in the stock and retain our Neutral rating. We recognize the sale of Canadian operations and subsequent return of capital next year will likely provide ongoing support to the stock however we see significantly more upside in Aviva.
- **Increasing AUA with fixed costs driving profit:** Standard Life has increasingly become more of a low risk asset gatherer than a traditional life insurer. This has meant that costs have remained relatively fixed whilst AUA have continued to grow (we continue growth in AUA at 9% CAGR 2013-2017e). Furthermore, our acquisition and maintenance expense margins continue to contract which continues to drive growth in operating profit.
- **Solid dividend prospects:** We forecast a 7.5% CAGR in DPS for the next 4 years. This translates into a yield of around 5% which is in line with UK asset managers and marginally below the broader European insurance sector. Significant historic criticism of Standard Life has been that it employs all of its generated cash to cover the ordinary dividend; this has now significantly been improved.
- **Smart M&A:** The acquisition of IGNIS and the sale of Canadian operations have been well received by the market. IGNIS has increased AUA by c£60bn and should increasingly have an impact on the bottom line. The same of the Canadian operations for £2.2bn was at attractive multiples (~1.9x BV and ~19.5x 2014e PE) and management's commitment to return the majority of the proceeds to shareholders shows a clear commitment to capital management.
- **Well position in UK life insurance sector:** Changing regulation, RDR and auto-enrolment have been three key trends in the UK which Standard Life has spent a great deal of time and money preparing itself for. Consequently we think it is very well positioned in the new environment and will likely continue to flourish on a relative basis. It has had a robust pipeline of new pension schemes coming through auto-enrolment but the profitability of these remains low.
- **Key risk is valuation:** Standard Life trades at a significant premium to peers at ~15x 2015e P/E which is well above its UK insurance peers. Its 2015e dividend yield of ~5% is similar to UK asset managers and slightly below the European insurance sector. We see relatively more upside in Aviva as it works through all the all share combination with Friends Life.

Standard Life PLC (GBP)

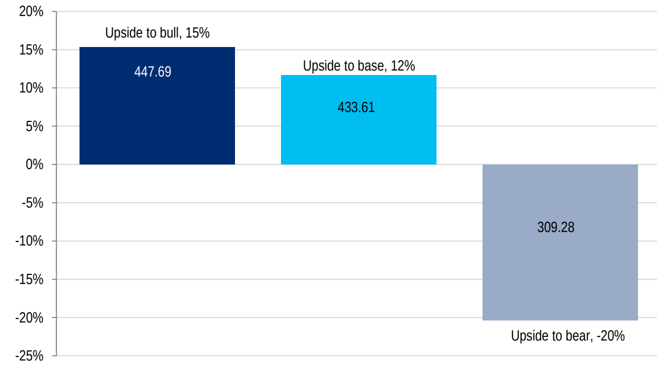
Year to 31 Dec	2012A	2013A	2014E	2015E	2016E
Profit Before Tax (£M)	725.0	564.0	606.3	661.2	745.6
Diluted EPS (p)	29.7	25.3	25.4	26.4	31.8
Diluted EPS (Old) (p)	29.7	25.3	25.4	26.4	31.8
PE (x)	13.1	15.4	15.3	14.7	12.2
DPS (p)	14.7	15.8	17.0	18.3	19.6
Net Div Yield (%)	3.8	4.1	4.4	4.7	5.0
Embedded Value Per Share (p)	345.3	354.4	345.6	346.1	373.4
Price / EVPS (x)	1.1	1.1	1.1	1.1	1.0

Figure 112. Hold Co FCF per share; DPS; Remittance Ratio



Source: Citi Research

Figure 113. Base, bull & bear case Discounted Dividend Model scenarios



Source: Citi Research

Figure 114. Standard Life – SOTP

£mn	2015e Capital	Sust. ROC	Capital Multiple	IFRS Earnings 16e	P/E	Value	Value per share
UK & Europe	5,115	7.6%	0.82	304	13.8	4,207	2.17
Asia & EM	488	14.6%	1.28	31	20.0	626	0.32
Asset Management	765			282	14.4	4,071	2.10
Corporate centre / other				(65)	10.0	(654)	(0.34)
Excess capital / double leverage	2,302					2,302	1.19
Total capital	8,669					10,553	5.43
Financial Debt	(1,947)					(1,947)	(1.00)
Equity / Group EV	6,723		1.28	564	15.3	8,606	4.43

Source: Citi Research Estimates

Figure 115. Free Cash Flow Model

£ mn	2013	2014e	2015e	2016e
Life new business strain	-386.0	-416.1	-355.0	-385.0
Life cash flow from in-force	626.0	622.0	511.5	526.3
Life free cash flow	240.0	205.9	156.5	141.3
P&C earnings				
P&C capex				
P&C free cash flow	0.0	0.0	0.0	0.0
Asset management earnings	145.0	193.2	282.2	323.6
Other earnings	70.0	57.2	2.8	-24.3
Operational free cash flow from subsidiaries	455.0	456.4	441.5	440.6
Growth in Op FCF from subs		*0%*	*-3%*	*0%*
Holdco and central costs	0.0	0.0	0.0	0.0
Growth in Holdco costs				
Group operational free cash flow	455.0	456.4	441.5	440.6
FCF per share	19.26	19.13	20.71	22.59
% Remittance Ratio (Op FCF from Subs)	117%	100%	100%	100%
Dividends to holding	532.0	456.4	441.5	440.6
Holdco and central costs	0.0	0.0	0.0	0.0
Holding company free cash flow	532.0	456.4	441.5	440.6
HoldCo FCF per share	22.52	19.13	20.71	22.59

Source: Citi Research

Insurance - Reinsurers
Western Europe | Switzerland

Company Focus

Swiss Re (SRENH.VX)

Remaining Neutral given pricing environment and valuation

- Target Price Change
- Estimate Change

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Neutral	2
Price (12 Jan 15)	SFr84.60
Target price	SFr88.10
from SFr85.20	
Expected share price return	4.1%
Expected dividend yield	5.0%
Expected total return	9.2%
Market Cap	SFr31,362M
	US$30,903M

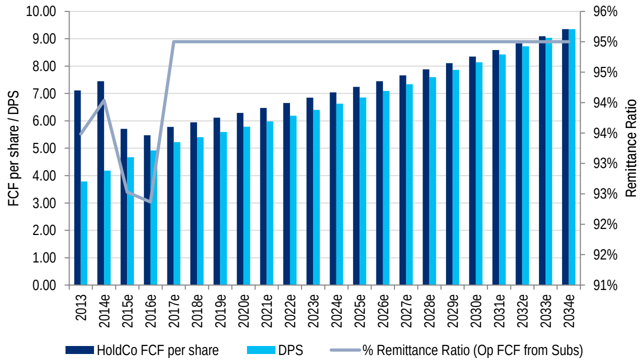
Price Performance
(RIC: SRENH.VX, BB: SREN VX)

- **We remain Neutral on Swiss Re** due to the significant excess capital in the market which has led to a difficult pricing environment. In the absence of a catastrophe we believe it will be increasingly difficult for reinsurers to deploy capital in the P&C market at attractive rates of return especially in property nat cat. Whilst dividends will remain robust, the lackluster earnings momentum is likely to dominate the debate nearer term and hence we struggle to identify a catalyst for a material rerating of the shares.
- **Tough P&C underwriting environment:** In the tough market conditions, Swiss Re has focused on demonstrating that it has a differentiated offering in terms of data, R&D and relationships. It has a lot of high-margin privately placed business and also benefits from increased tiering in the way reinsurance is purchased. Nevertheless, we see earnings headwinds going forward with any growth in premiums offset by a decline in combined ratio. Management have stressed a number of initiates to offset pricing pressure, such as growth outside nat cat (esp. casualty) and completing large bespoke transactions. However we continue to believe that nearer term a strong relative but deteriorating absolute performance seems to be the most likely outcome.
- **Capital management dilemma:** Swiss Re's strong capital position is well known by the market. However the key question is whether it can redeploy the excess capital at its 11% hurdle rate or should it return the capital to shareholders. Whilst we forecast an ongoing special dividend in the nearer term, our prime concern is that Swiss Re could use this capital for M&A.
- **Actions to take time to materialise:** Swiss Re has taken action to address issues in L&H Re and Admin Re but we don't expect the benefits to have a material impact on the group in the short term.
- **Expensive valuation:** Swiss Re trades at c.11x 2015e P/E, above the range of valuation multiples in reinsurance sub-sector (~10x 2015e P/E) and we see limited valuation upside potential going forward. While it does offer an attractive yield (allowing for special dividends), we see better total dividend value (including growth) in SCOR.

Swiss Re (CHF)

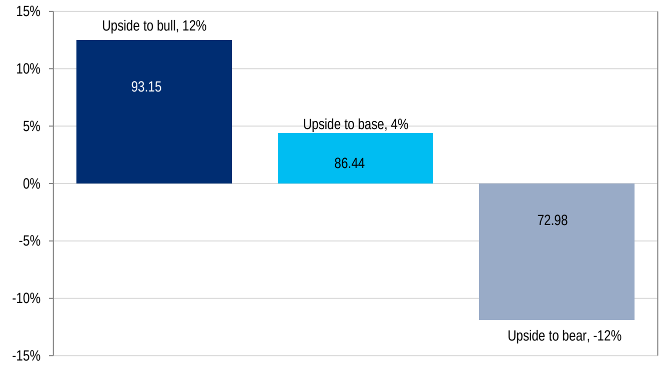
Year to 31 Dec	2012A	2013A	2014E	2015E	2016E
Profit Before Tax (SFrM)	5,187.4	4,479.0	4,198.1	4,053.1	4,066.2
Diluted EPS (SFr)	10.59	10.87	8.68	7.84	7.87
Diluted EPS (Old) (SFr)	10.59	10.87	8.07	7.62	8.10
PE (x)	8.0	7.8	9.7	10.8	10.8
DPS (SFr)	7.50	8.00	8.45	8.95	9.20
Net Div Yield (%)	8.9	9.5	10.0	10.6	10.9
Embedded Value Per Share (SFr)	90.82	85.68	100.41	99.73	98.57
Price / EVPS (x)	0.9	1.0	0.8	0.8	0.9

Figure 116. Hold Co FCF per share; DPS; Remittance Ratio



Source: Citi Research

Figure 117. Base, bull & bear case Discounted Dividend Model scenarios



Source: Citi Research

Figure 118. Swiss Re - SOTP

USDm	2015 Capital	ROC	Capital Multiple	2016 Earnings	P/E	Valuation	Per share $	Per share CHF
P&C Reinsurance	13,900	10.6%	1.08	1,474	10.1	14,949	43.7	44.4
L&H Reinsurance	8,601	8.0%	0.88	689	11.0	7,563	22.1	22.5
Corporate Solutions	3,813	10.3%	1.05	391	10.2	4,001	11.7	11.9
Admin Re	6,728	3.8%	0.56	252	14.9	3,751	11.0	11.1
Group Items				106	9.0	952	2.8	2.8
Excess capital / double leverage	10,209		0.80			8,167	23.9	24.3
Total capital	43,252	7.0%	0.91	3,029	13.0	39,384	115.1	116.9
Financial Debt	-9,702		1.00			-9,702	-28.4	-28.8
Group Equity	33,550	9.0%	0.88	3,029	9.8	29,682	86.7	88.1

Source: Citi Research Estimates

Figure 119. Free Cash Flow Model

US$ bn	2013	2014e	2015e	2016e
Life new business strain	0.0	0.3	0.0	-0.1
Life cash flow from in-force	0.8	0.1	1.0	1.0
Life free cash flow	0.8	0.4	0.9	1.0
P&C earnings	3.6	3.3	1.9	1.9
P&C capex	-1.8	-1.1	-0.9	-1.0
P&C free cash flow	1.7	2.1	1.1	1.0
Asset management earnings	0.0	0.0	0.0	0.0
Other earnings	0.0	0.0	0.0	0.0
Operational free cash flow from subsidiaries	2.5	2.6	2.0	1.9
Growth in Op FCF from subs		*2%*	*-22%*	*-4%*
Holdco and central costs	0.1	0.1	0.1	0.1
Growth in Holdco costs		*55%*	*-27%*	*1%*
Group operational free cash flow	2.6	2.7	2.1	2.0
FCF per share	7.59	7.90	6.15	5.90
% Remittance Ratio (Op FCF from Subs)	93%	94%	93%	92%
Dividends to holding	2.3	2.4	1.8	1.8
Holdco and central costs	0.1	0.1	0.1	0.1
Holding company free cash flow	2.4	2.5	2.0	1.9
HoldCo FCF per share	7.11	7.45	5.71	5.48

Source: Citi Research

Insurance - Multi-Line
Western Europe | Germany

Company Focus

Talanx (TLXGn.DE)

Remaining positive on pricing and earnings upside

- Target Price Change
- Estimate Change

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Buy	1
Price (12 Jan 15)	€25.42
Target price	€29.00
from €28.40	
Expected share price return	14.1%
Expected dividend yield	4.9%
Expected total return	19.0%
Market Cap	€6,425M
	US$7,603M

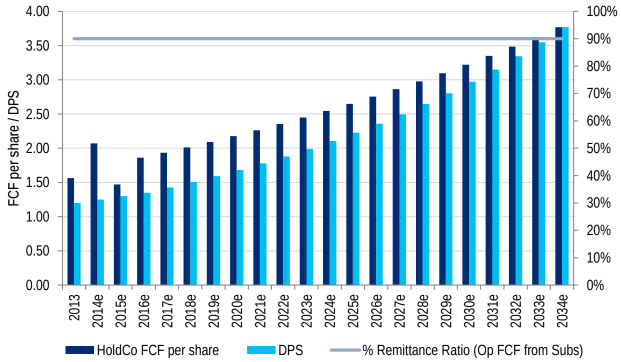
Price Performance
(RIC: TLXGn.DE, BB: TLX GR)

- **We remain buyers of Talanx** based on a) Improved pricing expectations b) potential benefits of cost cuts c) conservative 2015 guidance.
- **Improved pricing expectations:** Talanx was affected by major losses in Germany which had an adverse impact on industrial lines, retail Germany and Hannover Re. These have led to an increase in Talanx's large loss budget, which increases the potential volatility of the business. Management indicated that this would be absorbed by the underlying profitability of the business. We do expect an increase in the pricing in Germany, Talanx should be in a strong position to benefit from the same.
- **Potential benefit of cost cuts:** Talanx is undergoing a cost cutting program which is expected to deliver €245m cost savings by 2016, which could be a source of positive surprise in earnings once the benefit starts emerging.
- **Conservative 2015 guidance:** Talanx has guided to >€700m net income for the business in 2015 which is in line with guidance for 2014. We believe this could be conservative, given Hannover Re has raised its own guidance and this is likely to feed into Talanx's numbers.

Talanx (EUR)

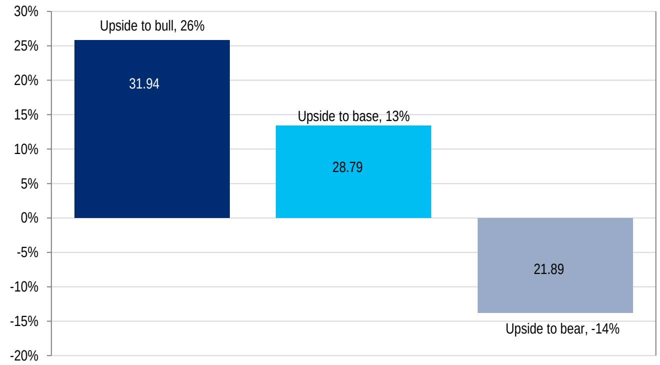
Year to 31 Dec	2012A	2013A	2014E	2015E	2016E
Profit Before Tax (€M)	1,563.0	1,578.0	1,884.0	1,804.5	1,888.5
Diluted EPS (€)	2.86	3.02	3.09	3.10	3.19
Diluted EPS (Old) (€)	2.86	3.02	3.06	3.04	3.16
PE (x)	8.9	8.4	8.2	8.2	8.0
DPS (€)	1.05	1.20	1.25	1.30	1.35
Net Div Yield (%)	4.1	4.7	4.9	5.1	5.3
Embedded Value Per Share (€)	0.00	0.00	0.00	0.00	0.00
Price / EVPS (x)	na	na	na	na	na

Figure 120. Hold Co FCF per share; DPS; Remittance Ratio



Source: Citi Research

Figure 121. Base, bull & bear case Discounted Dividend Model scenarios



Source: Citi Research

Figure 122. Talanx - SOTP

EURm	2015e Capital	ROC	Capital Multiple	2016e Earnings	P/E	Valuation	Per share
Industrial Lines	1,099	12.5%	1.19	128	10.2	1,307	5.2
Retail Germany	2,699	6.9%	0.78	128	16.4	2,094	8.3
Retail International	1,879	10.8%	1.07	140	14.3	2,003	7.9
P&C Re	2,428	12.7%	1.21	339	8.6	2,930	11.6
Life Re	854	15.9%	1.44	138	9.0	1,232	4.9
Corporate Ops & consolidation				-66	10.0	-660	-2.6
Excess capital	2,359		0.65			1,533	6.1
Total capital	11,318	6.9%	0.92	783	13.3	10,439	41.3
Financial Debt	-3,107					-3,107	-12.3
Group Equity	8,211	9.5%	0.89	783	9.4	7,332	29.00

Source: Citi Research Estimates

Figure 123. Free Cash Flow Model

Eur bn	2013	2014e	2015e	2016e
Life new business strain	0.0	0.0	0.0	-0.1
Life cash flow from in-force	0.2	0.3	0.4	0.4
Life free cash flow	0.1	0.3	0.3	0.3
P&C earnings	0.6	0.6	0.6	0.6
P&C capex	-0.3	-0.2	-0.4	-0.3
P&C free cash flow	0.3	0.4	0.2	0.3
Asset management earnings	0.0	0.0	0.0	0.0
Other earnings	0.0	-0.1	-0.1	-0.1
Operational free cash flow from subsidiaries	0.4	0.6	0.4	0.5
Growth in Op FCF from subs		*33%*	*-29%*	*27%*
Holdco and central costs	0.0	0.0	0.0	0.0
Growth in Holdco costs				
Group operational free cash flow	0.4	0.6	0.4	0.5
FCF per share	1.74	2.30	1.63	2.07
% Remittance Ratio (Op FCF from Subs)	90%	90%	90%	90%
Dividends to holding	0.4	0.5	0.4	0.5
Holdco and central costs	0.0	0.0	0.0	0.0
Holding company free cash flow	0.4	0.5	0.4	0.5
HoldCo FCF per share	1.56	2.07	1.47	1.86

Source: Citi Research

Insurance - Property & Casualty
Western Europe | Denmark

Company Focus

Topdanmark (TOP.CO)

Least preferred Nordic stock

- Target Price Change
- Estimate Change

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Sell	3
Price (12 Jan 15)	Dkr204.50
Target price	Dkr175.00
from Dkr170.00	
Expected share price return	-14.4%
Expected dividend yield	0.0%
Expected total return	-14.4%
Market Cap	Dkr23,518M
	US$3,741M

Price Performance
(RIC: TOP.CO, BB: TOP DC)

- **Topdanmark is our least preferred Nordic stock:** we believe it carries higher fundamental risks than peers in the Nordic region due to a tight capital allocation and above industry average debt leverage. The company has offered on average ~9.5% buy-back yield over the last 5 years, however we expect that this to decline to ~7% (excl transfers from previous years) due to lower cash generation and diminishing surplus capital. We prefer stocks with increasing capital return which are well covered by cash, which does not apply to Topdanmark.

- **Risk Profile:** Topdanmark has a significantly higher debt leverage level than Nordic peers (expected to be 24% in 2014e vs. ~11% for the rest of the Nordic companies). It also has high premium leverage, writing ~2x more premiums to shareholders' equity in the P&C business relative to peers and asset leverage to equity of ~10x (also higher than peers). This Topdanmark to deliver attractive return in good years, with downside risks in years of underperformance.

- **Diminishing buy back capacity:** in 2014 the buyback programme for 2014 was raised to ~DKK 2.0bn, which we believe reduces the surplus capital to the minimum. As a result, we forecast that the buy-back potential going forward will be limited to ~DKK 1.3-1.4bn per year (excl. transfers from previous years), which implies that the capital return (buy-back) yield should drop to ~7%. At the same time, all earnings will be paid out pushing the payout ratio >100%. This means that any increase in buybacks may not be covered by cash.

- **High Valuation:** At ~17x P/E (2015e), Topdanmark is trading at a historical high, which we believe is particularly rich given subdued growth in the bottom line and its exposure to life business. If we were to strip out Topdanmark's life business at 13x 2015 P/E, it would imply that non-life operations are valued at ~19x 2015 P/E based on a current market price. Consequently, we believe that significant downside risk outweighs the possible upside on this stock.

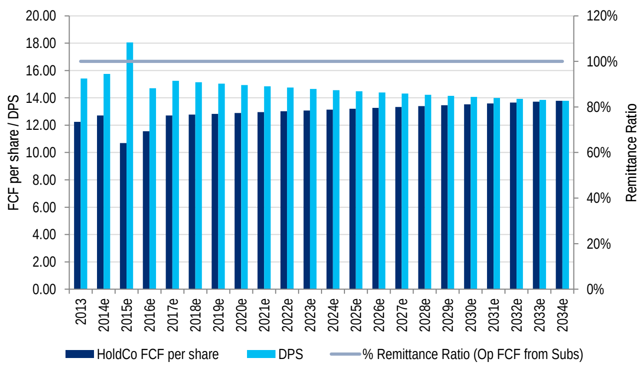
- **High dependence on investment return:** Topdanmark's financial performance depends significantly on investment return, which is particularly concerning given decreasing running yields across the sector. At the same time, Topdanmark has a riskier investment portfolio than peers, in our opinion.

- **Stock support coming from Sampo stake and buy-backs**., in 2014 the buy-back programme was increased to DKK 2,100mln representing roughly ~20% of trading volume over the last year.

Topdanmark (DKK)

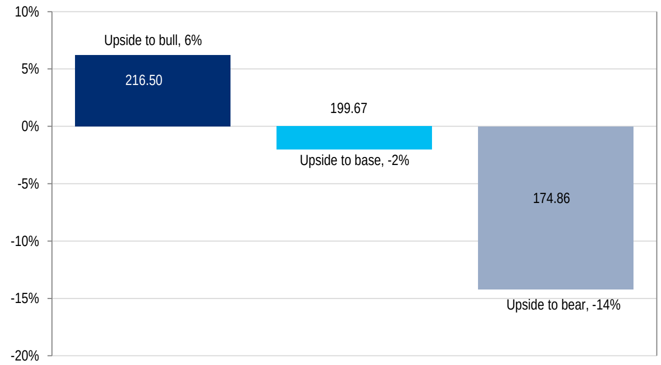
Year to 31 Dec	2012A	2013A	2014E	2015E	2016E
Profit Before Tax (DkrM)	2,334.0	1,875.0	1,982.5	1,585.1	1,583.6
Diluted EPS (Dkr)	14.08	12.32	14.13	12.00	13.02
Diluted EPS (Old) (Dkr)	14.08	12.32	13.98	12.06	13.10
PE (x)	14.5	16.6	14.5	17.0	15.7
DPS (Dkr)	0.00	0.00	0.00	0.00	0.00
Net Div Yield (%)	0.0	0.0	0.0	0.0	0.0
Embedded Value Per Share (Dkr)	0.00	0.00	0.00	0.00	0.00
Price / EVPS (x)	na	na	na	na	na

Figure 124. Hold Co FCF per share; DPS; Remittance Ratio



Source: Citi Research

Figure 125. Base, bull & bear case Discounted Dividend Model scenarios



Source: Citi Research

Figure 126. Topdanmark - SOTP

in DKKmn	2015e Capital	ROC	Capital Multiple	2016e Earnings	P/E	Valuation	Per share
General Insurance	4,269	23.4%	3.47	980	15.1	14,819	157.0
Life	1,759	11.4%	1.49	200	13.1	2,624	27.8
Other capital	225		1.00			225	2.4
Total capital	6,252	19.1%	2.83	1,196	14.8	17,667	187.2
Financial Debt	-1,155		1.00			-1,155	-12.2
Group Equity	5,097	23.5%	3.24	1,196	13.8	16,512	175.0
Buyback capital 2015e							
Valuation	5,097	23.5%	3.24	1,196	13.8	16,512	175.0

Source: Citi Research Estimates

Figure 127. Free Cash Flow Model

DKK bn	2013	2014e	2015e	2016e
Life new business strain	0.05	-0.04	-0.05	-0.05
Life earnings	0.35	0.20	0.20	0.20
Life free cash flow	0.40	0.15	0.15	0.15
P&C earnings	1.06	1.34	0.98	0.98
P&C capex	-0.05	-0.10	-0.07	-0.07
P&C free cash flow	1.01	1.24	0.91	0.91
Retail Banking cash flow	0.00	0.00	0.00	0.00
Other earnings	0.09	0.03	0.05	0.05
Operational free cash flow from subsidiaries	1.50	1.43	1.11	1.11
Growth in Op FCF from subs		*-4.9%*	*-22.2%*	*-0.3%*
Holdco and central costs	-0.04	-0.04	-0.04	-0.05
Growth in Holdco costs		*3.0%*	*3.0%*	*3.0%*
Group operational free cash flow	1.46	1.38	1.07	1.06
FCF per share	12.2	12.7	10.7	11.6
% Remittance Ratio (Op FCF from Subs)	100%	100%	100%	100%
Dividends to holding	1.50	1.43	1.11	1.11
Holdco and central costs	-0.04	-0.04	-0.04	-0.05
Holding company free cash flow	1.46	1.38	1.07	1.06
HoldCo FCF per share	12.24	12.71	10.69	11.55

Source: Citi Research

Insurance - Property & Casualty
Western Europe | Denmark

Company Focus

Tryg (TRYG.CO)

Top line under pressure, valuation at a major premium

- Target Price Change
- Estimate Change

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Neutral	2
Price (12 Jan 15)	Dkr709.00
Target price	Dkr680.00
from Dkr668.00	
Expected share price return	-4.1%
Expected dividend yield	3.9%
Expected total return	-0.1%
Market Cap	Dkr42,324M
	US$6,732M

Price Performance
(RIC: TRYG.CO, BB: TRYG DC)

- **We remain Neutral on Tryg.** Tryg is the only company in the sub-sector undergoing a material restructuring programme, which could lead to one of the lowest expense bases in the industry. Additionally, the company uses very active capital management approach targeting 21% ROE by 2017 and paying excess capital in the form of buybacks. However, its top-line is currently under pressure and the stock's valuation is at a major premium (~18x 2015e P/E).

- **Another round of cost savings**. At the latest investor day Tryg has announced a new efficiency programme which should result in DKK 750m savings for 2015e-17e. DKK 835m of savings (out of DKK 1bn) has already been realized from the previous programme for 2012-15e, and at the current rate of ~90m per quarter only ~DKK 50mln should be left for 2015e However, we would argue that the low-hanging fruits have already been picked in the previous cost-savings initiative and only ~35% of the target could directly translate into the lower expense base. Importantly, the combination of these two initiatives should partially offset the declining top-line, and allow Tryg to have the lowest expense bases in the industry (targeting the ratio of <14% by 2017).

- **Active capital management**. The group continues to optimize its capital structure and have recently announced another buy-back of DKK 1bn for 2015e. Based on our estimates, this should push the ROE level past 20% mark. At the same time, we forecast that Tyg will raise DKK 1bn of a subordinated debt which qualifies as a Tier 2 capital in 2015e and further improves returns on equity for the group, of course, at the expense of a higher leverage level for 2015e. We also believe that Tryg can afford additional extraordinary buy-backs in 2016e and 2017e keeping the capital return yield ~6% level.

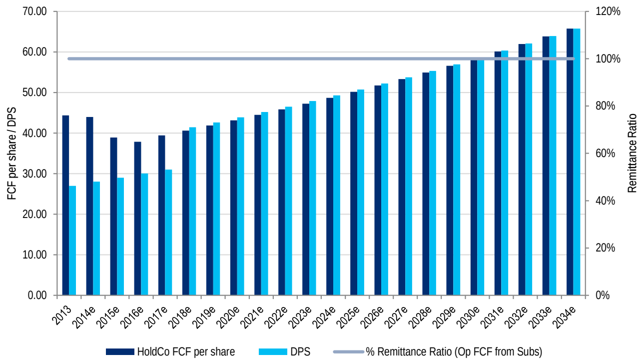
- **Tryg's top-line is under pressure**: i) a few years ago the company had to put in place strategic initiatives to re-price and re-balance product mix in Sweden and Commercial in order to improve profitability; ii) a bancassurance agreement with Nordea was terminated in Sweden, which resulted in discontinued sales via this channel which was only partially offset by a number of small acquisitions iii) a slowing Norwegian economy could also gradually lead to a sluggish growth in the top-line and we may see a negative NOK FX impact in 4Q14.

- **Valuation:** Tryg is trading at ~18x 2015e P/E, at the upper end of its historical range. Furthermore, Tryg has limited earnings growth potential, making it even more difficult to justify this premium valuation to peers.

Tryg (DKK)

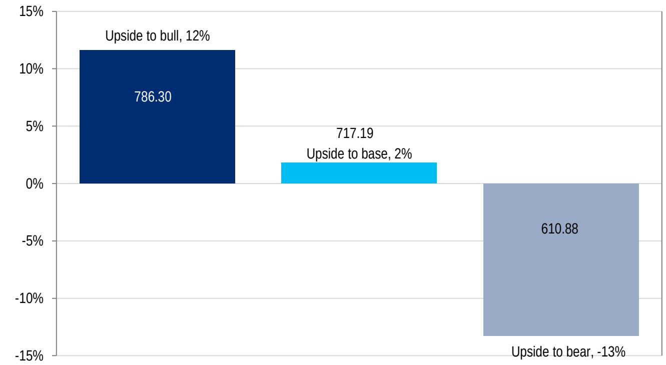
Year to 31 Dec	2012A	2013A	2014E	2015E	2016E
Profit Before Tax (DkrM)	3,017.0	2,993.0	3,087.7	2,970.9	2,998.0
Diluted EPS (Dkr)	36.37	39.31	39.82	39.79	41.18
Diluted EPS (Old) (Dkr)	36.37	39.31	40.16	39.18	40.78
PE (x)	19.5	18.0	17.8	17.8	17.2
DPS (Dkr)	26.00	27.00	28.04	29.01	30.03
Net Div Yield (%)	3.7	3.8	4.0	4.1	4.2
Embedded Value Per Share (Dkr)	0.00	0.00	0.00	0.00	0.00
Price / EVPS (x)	na	na	na	na	na

Figure 128. Hold Co FCF per share; DPS; Remittance Ratio



Source: Citi Research

Figure 129. Base, bull & bear case Discounted Dividend Model scenarios



Source: Citi Research

Figure 130. Tryg - SOTP

in DKKmn	2015e Capital	ROC	Capital Multiple	2016e Earnings	P/E	Valuation	Per share
General Insurance	8,261	29.9%	5.18	2,296	18.6	42,811	759.3
Excess capital	-1,627		1.00			-1,626	-28.8
Total capital	6,634	34.6%	6.21	2,296	17.9	41,185	730.4
Financial Debt	-2,842		1.00			-2,842	-50.4
Group Equity	9,476	24.2%	4.05	2,296	16.7	38,343	680.0

Source: Citi Research Estimates

Figure 131. Free Cash Flow Model

DKK bn	2013	2014e	2015e	2016e
Life new business strain	0.00	0.00	0.00	0.00
Life earnings	0.00	0.00	0.00	0.00
Life free cash flow	0.00	0.00	0.00	0.00
P&C earnings	2.45	2.40	2.32	2.34
P&C capex	0.32	0.36	0.08	-0.06
P&C free cash flow	2.77	2.75	2.40	2.28
Retail Banking cash flow	0.00	0.00	0.00	0.00
Other earnings	0.00	0.00	0.00	0.00
Operational free cash flow from subsidiaries	2.77	2.75	2.40	2.28
Growth in Op FCF from subs		*-0.6%*	*-12.9%*	*-5.0%*
Holdco and central costs	-0.09	-0.09	-0.06	-0.06
Growth in Holdco costs		*-6.6%*	*-35.3%*	*0.0%*
Group operational free cash flow	2.68	2.67	2.34	2.22
FCF per share	44.3	44.0	38.9	37.9
% Remittance Ratio (Op FCF from Subs)	100%	100%	100%	100%
Dividends to holding	2.77	2.75	2.40	2.28
Holdco and central costs	-0.09	-0.09	-0.06	-0.06
Holding company free cash flow	2.68	2.67	2.34	2.22
HoldCo FCF per share	44.34	43.96	38.89	37.87

Source: Citi Research

Insurance - Multi-Line
Western Europe | Switzerland

Company Focus

Zurich Insurance Group (ZURN.VX)

More limited dividend upside than peers

- Target Price Change
- Estimate Change

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Neutral	2
Price (12 Jan 15)	SFr316.10
Target price	SFr325.00
from SFr300.00	
Expected share price return	2.8%
Expected dividend yield	5.5%
Expected total return	8.4%
Market Cap	SFr47,300M
	US$46,608M

Price Performance
(RIC: ZURN.VX, BB: ZURN VX)

- **We remain Neutral on Zurich.** Of the composite insurers, we believe Zurich offers the least positive risk-reward under our Dividend Discount Model analysis, despite currently offering a relatively strong dividend yield of close to 6% (2015e). This stems from its relatively low dividend cover from holding company cash flow (~1.2x in our analysis, below the composite average). Zurich is also trading at a premium to composite peers at ~10.5x 2016e P/E. Having said that, we believe Zurich benefits from a relatively strong balance sheet, and has potential to maintain returns despite headwinds from pricing pressure in some of its markets and low yields.

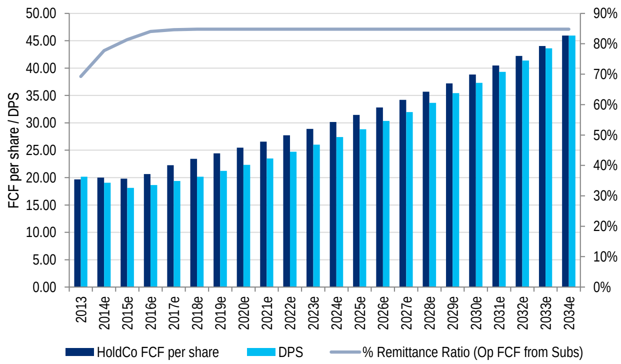
- **Earnings outlook:** Zurich benefits in the near-term from the rising US Dollar, given it reports in Swiss Francs but generates ~50% of earnings in USD. However, we believe its underlying earnings growth outlook is limited by continuing pressure on investment yields in its General Insurance business (although the rate of decline in yields is likely to slow). We also see some pressure on underwriting margins in some key areas of its business, especially due to some pricing pressure in US property lines. However, Zurich should offset this through improved underwriting margins in some unprofitable 'International' business units (e.g. LatAm) in the next few years, as well as stronger earnings momentum in Global Life – particularly as growth from areas such as corporate protection and the LatAm life business kick in.

- **Dividend and capital return risk-reward:** Zurich still has a relatively low level of dividend cover from holding company cash flow compared to peers. However, it also has a very strong economic capital position, with the capital ratio on its highly conservative Z-ECM capital model above the top-end of its target range of 100-120%. With potential for improved free cash flow in the next few years, we believe Zurich may start to consider growing dividends. However, without a significant improvement in earnings growth, we believe dividend growth potential is limited relative to peers.

Zurich Insurance Group (CHF)

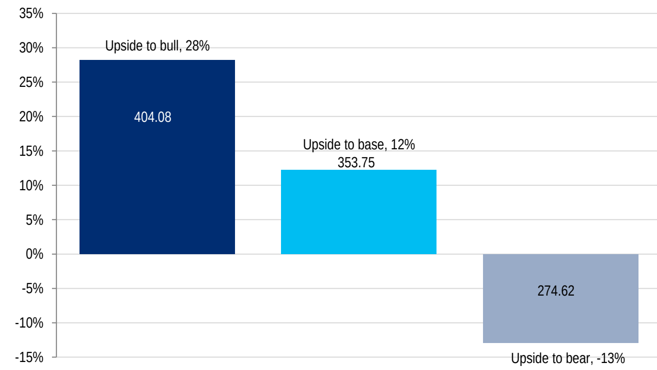
Year to 31 Dec	2012A	2013A	2014E	2015E	2016E
Profit Before Tax (SFrM)	4,806.8	5,055.0	5,376.5	6,172.1	6,312.1
Diluted EPS (SFr)	23.88	24.34	24.35	29.32	29.99
Diluted EPS (Old) (SFr)	23.88	24.34	24.65	28.06	29.09
PE (x)	13.2	13.0	13.0	10.8	10.5
DPS (SFr)	17.00	17.00	17.50	18.20	18.93
Net Div Yield (%)	5.4	5.4	5.5	5.8	6.0
Embedded Value Per Share (SFr)	193.44	170.98	220.05	244.29	265.07
Price / EVPS (x)	1.6	1.8	1.4	1.3	1.2

Figure 132. Hold Co FCF per share; DPS; Remittance Ratio



Source: Citi Research

Figure 133. Base, bull & bear case Discounted Dividend Model scenarios



Source: Citi Research

Figure 134. Zurich Insurance Group - SOTP

in $mn	2015e Capital	Sust. ROC	Capital Multiple	IFRS Profit 16e	P/E	Value	Value ps
Life	10,774	9.8%	1.01	1,101	9.9	10,887	73
General Insurance	16,978	14.0%	1.35	2,411	9.5	22,976	155
Farmers	2,285	46.4%	5.27	1,204	10.0	12,038	81
Other	2,612		1.00			2,612	18
Equity ex unrealised gains	32,649		1.49	4,400	11.0	48,512	327
Valuation USD	32,649		1.49	4,400	11.0	48,512	327
Valuation CHF	32,463					48,235	325
CHF/USD	0.99						

Source: Citi Research Estimates

Figure 135. Free Cash Flow Model

US$ bn	2013	2014e	2015e	2016e
Life new business strain	-1.6	-0.9	-0.9	-1.0
Life cash flow from in-force	2.1	1.4	1.5	1.7
Life free cash flow	0.5	0.5	0.5	0.7
P&C earnings	2.7	2.6	2.7	2.7
P&C capex	-0.3	-0.3	-0.5	-0.5
P&C free cash flow	2.5	2.3	2.3	2.2
Asset management earnings	0.0	0.0	0.0	0.0
Other earnings	1.3	1.0	0.8	0.7
Operational free cash flow from subsidiaries	4.2	3.8	3.6	3.7
Growth in Op FCF from subs		*-9%*	*-5%*	*1%*
Holdco and central costs	0.0	0.0	0.0	0.0
Growth in Holdco costs				
Group operational free cash flow	4.2	3.8	3.6	3.7
FCF per share	28.42	25.73	24.35	24.57
% Remittance Ratio (Op FCF from Subs)	69%	78%	81%	84%
Dividends to holding	2.9	3.0	3.0	3.1
Holdco and central costs	0.0	0.0	0.0	0.0
Holding company free cash flow	2.9	3.0	3.0	3.1
HoldCo FCF per share	19.67	20.01	19.82	20.66

Source: Citi Research

Earnings and Target Price Changes

Figure 136. Rating, TP & EPS estimate changes

Stock		Rating	Old EPS 2014E	Old EPS 2015E	Old EPS 2016E	New EPS 2014E	New EPS 2015E	New EPS 2016E	EPS Change 2014E	EPS Change 2015E	EPS Change 2016E	Old PT	New PT
Admiral	ADML.L	2	97.9	105.4	120.1	101.2	93.5	99.4	3%	-11%	-17%	12.56	12.68
Aegon	AEGN.NA	1	0.7	0.8	0.8	0.5	0.4	0.9	-26%	-47%	1%	7.1	7.1
Ageas	AGES.BR	2	2.1	3.1	3.4	2.1	3.1	3.4	0%	0%	0%	28	30
Allianz	ALVG.DE	1	14.3	14.7	15.0	14.3	14.7	15.0	0%	0%	0%	150	157
AXA	AXAF.PA	1	2.1	2.3	2.4	2.1	2.3	2.4	0%	0%	0%	23.5	24.5
Delta Lloyd	DLL.AS	1	2.3	3.1	3.2	2.1	3.1	3.1	-7%	0%	-1%	24.5	23.5
Direct line	DLGD.L	1	23.1	27.1	30.5	24.0	23.9	26.7	4%	-12%	-13%	3.06	3.06
esure	ESUR.L	1	20.8	22.6	25.7	20.9	19.0	22.0	1%	-16%	-14%	2.94	2.59
Generali	GASI.MI	2	1.4	1.7	1.7	1.4	1.7	1.7	0%	0%	0%	16.9	17.7
Gjensidige	GJFS.OL	2	8.1	7.5	7.7	8.1	7.5	7.7	0%	0%	0%	130	130
Hannover Re	HNRGn.DE	2	7.5	6.8	6.7	7.6	7.5	8.1	2%	11%	21%	64.5	76.8
Munich Re	MUVGn.DE	2	17.6	16.0	16.1	18.2	16.4	17.1	3%	3%	6%	162	163
NN Group	NN.AS	2	1.7	2.4	2.5	1.7	2.4	2.5	0%	0%	0%	26	26.5
Sampo	SAMAS.HE	2	2.8	2.8	2.9	2.7	2.7	2.9	-1%	-1%	-1%	39	39
SCOR	SCOR.PA	1	2.7	2.8	3.1	2.7	2.6	2.8	0%	-8%	-10%	29.2	27.5
Swiss Re	SRENH.VX	2	8.1	7.6	8.1	8.7	7.8	7.9	8%	3%	-3%	85.2	88.1
Talanx	TLXGn.DE	1	3.1	3.0	3.2	3.1	3.1	3.2	1%	2%	1%	28.4	29
Topdanmark	TOP.CO	3	14.0	12.1	13.1	14.1	12.0	13.0	1%	0%	-1%	170	175
Tryg	TRYG.CO	2	40.2	39.2	40.8	39.8	39.8	41.2	-1%	2%	1%	668	680
Zurich	ZURN.VX	2	24.7	28.1	29.1	24.3	29.3	30.0	-1%	5%	3%	300	325

Source: Citi Research estimates

Admiral: We have updated our estimates to take account for the more recent reported accounts which resulted in a slightly better underwriting performance in 2014. The reduction in 2015 and 2016 estimates is reflective of the slower than originally forecast turn in the UK motor market. Management has also indicated that costs will increase in the near-term. Updating price target to roll-forward to 2015e.

Aegon: we are adjusting our earnings for mortality charges announced in 3Q14 and the impact of the disposal of the Canadian operations in 2015.

Ageas: updating price target to roll-forward to 2015e.

Allianz: updating price target to roll-forward to 2015e.

AXA: updating price target to roll-forward to 2015e.

Delta Lloyd: updating target price and earnings to reflect movements in Delta Lloyd's mark-to-market accounting approach.

Direct Line: updating estimates to reflect sale of international division and one off gain on sale in 2015.

Esure: We have updated our esure numbers to take account of the acquisition of the remaining 50% of GoCompare. The day 1 gain on the investment increases our 2015 estimates however this is partly offset by increased interest costs and higher depreciation and amortisation in 2015 and 2016.

Generali: updating price target to roll-forward to 2015e.

Hannover Re: updating for 9M14 reported numbers and marking to market.

Munich Re: updating for 9M14 reported numbers and marking to market.

NN: updating price target to roll-forward to 2015e.

Sampo: We have reduced our EPS estimates by 1% mainly due to an ongoing decline in interest rates plus we took into account negative movements in FX.

SCOR: We have updated our estimates to take account of the 9M14 reported numbers as well as marking to market. We have reduced our forecasts for 2015e-16e mainly due higher expected combined ratios in the P&C Re and lower technical margin in the Life business. Lowering our target price on the back of this.

Swiss Re: We have updated our estimates to take account of the 9M14 reported numbers as well as marking to market.

Talanx: earnings and PT reflect slight update for mark-to-market movements.

Topdanmark: We have updated our 2014e estimates to reflect a low expected large losses experience in 4Q14. We are rolling forward our valuation to 2015e.

Tryg: We have reduced our 2014e EPS forecast reflecting negative movements in FX and decreasing interest rates. However, we raise our 2015e-16e estimates due a better underwriting margin despite an ongoing pressure on the top-line. We are rolling forward our valuation to 2015e.

Zurich: PT change reflects roll-forward to 2015e, and slight earnings update due to market to market and FX effects.

Admiral Group

Company description

Admiral was set up in 1993 as a direct writer of UK personal motor insurance. It has four brands (Admiral, Diamond, Bell and Elephant) and is now the third largest in the market with a leading position for business introduced on the internet. It underwrites only 27.5% of the UK policies accepted (35% overseas), ceding the rest to third parties. The group has developed the market leading internet aggregator in the motor insurance space (Confused.com). The group has started direct writing operations in Spain, Germany and Italy and recently entered the US market in Virginia.

Investment strategy

Admiral continues to shine in the general gloom that is the insurance sector, demonstrating unmatched growth, operational quality and entrepreneurial abilities. In this respect, we believe the depth of 'pain' in the UK motor sector provides a significant opportunity for the company to continue to take market share at good margins in the next few years. That said, we think there is a lot of good news baked into the current share price, and we would be cautious in assuming that the success in UK motor will readily translate into the ability to achieve similar returns in other lines/regions. As such, our rating is Neutral.

Valuation

We value Admiral on a sum-of-the-parts basis. We value the UK motor business on 11.1x PE which reflects current competitive market conditions. We value the international operations on 15.6x PE. Excess capital is valued at 1.0x. The group delivers 52% ROC due to its capital light operating model, which uses extensive reinsurance. This valuation implies a fair value of 1268p, which equates to 12.8x 2016E PE and 6.6x capital.

Risks

The key risks to Admiral reaching our target price are: 1) a renewed outbreak of price competition in the UK motor insurance market; 2) regulatory interference with the flow of ancillary income brought in at minimal extra cost; 3) inability to grow policy count in line with our forecast; and 4) further deterioration in personal injury claims inflation. If any of these factors proves to have a lesser effect than we anticipate, the stock could materially outperform our target.

Aegon NV

Company description

The Group's principal activity is that of a leading international insurance company offering a full range of life insurance and associated financial services. The company is also active in accident, health and general insurance. Its American subsidiary is one of the largest foreign insurance companies in the US.

Investment strategy

We rate Aegon a Buy. Following a period of de-risking, rebuilding capital and reducing debt leverage, we believe the stock has now developed a relatively robust balance sheet. With improved free cash flow generation (supported by better

earnings from its US business), we believe Aegon is now in a position to take a more proactive stance towards capital management with attractive dividend growth. In addition we believe the stock is a key beneficiary of a buoyant US life market (with limited pricing competition and good growth), as well as a strong US economy.

Valuation

We value Aegon at €7.10 using a sum-of-the-parts model that estimates sustainable returns on capital and applies appropriate multiples to allocated capital. We value the US business at 1.0x capital, based on a ~8% sustainable ROC, the Netherlands business at 1.2x capital based on a ~12% sustainable ROC, the UK business at 0.6x capital based on a 4% sustainable ROC and New Markets (ex asset management) at 0.7x capital, based on a ~6% sustainable ROC. We value asset management at 11x P/E (consistent with multiples applied to peers) and run-off businesses at 1.0x capital. We deduct net debt at face value and exclude unrealised gains on bonds.

Risks

In addition to generic insurance risks associated with interest rate movements, equity market movements, credit losses, trading losses, derivatives exposures, operational risks and margin compression, in respect of some of its US product lines, Aegon's valuation is highly sensitive to bond yields, with falling long-term yields being detrimental to earnings and value. Given the geographic split of its business, AEGON is exposed to material translation risk in respect of adverse US$/Euro movements. Adverse or positive developments related to these factors could cause the shares to deviate significantly from our target price.

Ageas SA/NV

Company description

Ageas is a Belgium-based Insurance group, with headquarters in Brussels. It arose from the break up of Fortis in 2008 and broadly comprises the non-Dutch insurance elements of the former Fortis group. It was re-named Ageas in April 2010 and operates businesses in Belgium, United Kingdom, Continental Europe and Asia.

Investment strategy

We have a Neutral rating on Ageas.

The insurance operations give good exposure to Asian growth markets, but operate mostly through minority partnerships, where it does not have full operational control and earnings drivers are opaque.The operations in other established markets are performing well, but in most of these we see few growth prospects.

In addition, Ageas has dealt with many of the legacy issues on its balance sheets, and contingent liabilities, that were an overhang from the Fortis group, in the so-called 'General Account'.

However, legal risks remain a significant source of uncertainty, therefore we believe there are downside risks from potentially larger legal claims relating to the previous Fortis group. This holds us back from taking a more positive view of the stock at the current time.

Valuation

Our €30 price target on Ageas is based on a sum-of-the-parts valuation model where we estimate sustainable returns on equity for each geographic region of the business and apply appropriate multiples to allocated tangible equity. We value the Belgian business at 1x BV, consistent with an 11% sustainable ROE. We value the UK business at 0.8x BV, based on an 8% ROE and we value continental Europe at 0.7x BV, based on a 6% sustainable ROE. We apply a higher multiple to Asian businesses, of 1.2x BV, reflecting a 14% sustainable ROE. We value the group holding company, known as the 'General Account' at 0.7x BV. Although this part of the group is making negative profits in our forecasts, this multiple reflects the potential additional returns generated from redeploying net surplus cash held in the General Account to fund organic / inorganic growth or returning capital to shareholders. We deduct €500mn from our valuation to reflect downside legal risks in the valuation.

Risks

Key risks to Ageas are mainly macroeconomic, for example the level of interest rates can affect investment margins in both the life and non-life business.

There are also risks to underwriting margins in life and non-life (e.g. the combined ratio).

Capital risks are now reduced due to the high cash levels and removal of legacy issues in the General account. However, there remain significant legal risks affecting the stock, with uncertain future costs, due to court cases relating to the former Fortis group.

If the impact of these risk factors is more or less negative than we currently anticipate, then the share price could deviate significantly from our target price.

Allianz SE

Company description

Allianz is a global financial services company and one of the largest non-life insurers in the world, with core businesses in continental Europe, but also a variety of global businesses including in the US, Australia, Latam and Asia. The group has top-tier market positions in Germany and Italy, with significant operations in other countries. Allianz is also an asset manager, and owns PIMCO.

Investment strategy

Our rating on Allianz is Buy. We see a positive expected total return in the stock, and believe that strong free capital generation at the group will allow it to increase its dividend payout policy and possibly take a more proactive approach to capital management in the future.

Valuation

We value Allianz at €157 per share, using a sum-of-the-parts approach that estimates sustainable returns on capital for each division and applies appropriate multiples to 2015e allocated capital. Our multiples allow for a fade of returns to the cost of equity after 20 years.

We value the life business at 1.1x allocated capital consistent with a 9% sustainable ROC, which assumes a pre-tax margin on reserves of 70bps. We value the non-life insurance business at 2x allocated capital, consistent with a 18% sustainable return on capital, assuming a ~95% across-the-cycle combined ratio and a 2.8% investment return. We value asset management at 11x 2015e earnings, consistent with multiples applied to other stocks in the sector and allowing for our view that growth prospects at PIMCO may be more limited than in the recent past. We apply at 9x 2015e multiple to corporate centre costs. We value excess capital at 1x face value and deduct group debt.

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. The life insurance business is highly geared to investment market movements and bond yields. Asset management is also sensitive to market movements (particularly the level of bond yields, given its mainly fixed income exposure) as well as uncertainty over future client net inflows.

Aviva PLC

Company description

The group's principal activities are the transaction of life assurance, long-term savings business, fund management and all classes of general insurance in the UK, continental Europe, North America, Asia and other countries throughout the world.

Investment strategy

We believe Aviva is well placed in the current UK market to capitalize on recent trends with a focus on growth, costs and cashflow. However it is the all-share combination with Friends Life will really set it apart in the market. Whilst on a standalone basis we forecast a robust earnings CAGR of 12% over the next 4 years, with a similarly strong development in holding company free cash flow and dividends, these metrics would be further amplified by the deal, implying significant additional upside.

Valuation

We value Aviva using a SOTP approach. For Life insurance, we use a fade model which values the life business at 1.1x embedded value, based on an 10.5% sustainable ROEV. For general insurance we use a similar approach, based on IFRS equity, resulting in a valuation of 1.8x book value, based on a 18% sustainable ROC. For fund management we apply a multiple of 13x 2014E earnings estimates, and we deduct corporate costs at 10x P/E. We then add excess capital and deduct debt at reported value, to arrive at our target price of 620p.

Risks

Aviva remains leveraged to macro level movements, due to relatively high asset gearing in its balance sheet, including equity and credit markets. Our positive view on the stock is also predicated on executing further cost restructuring and strategic initiatives to grow the business. The non-life insurance business is also exposed to underwriting risks (e.g. catastrophe losses). These factors could materially alter our valuation view. There is also integration risk from the proposed all share combination with Friends Life and ongoing M&A risk as Aviva may look to bulk up its operations in growth markets.

AXA SA

Company description

AXA's principal activity is the provision of insurance and related financial services. The company operates through four divisions: life insurance, non life insurance, asset management and other financial services. The group operates globally under a holding company structure.

Investment strategy

We rate AXA Buy based on: 1) its large valuation discount to the sector and its composite peer group and our view that this is not warranted by its relative capital position of balance sheet quality. 2) Its relatively high free cash flow and dividend potential. 3) Potential earnings upside from restructuring initiatives - we particularly expect better profitability improvements in its general insurance business to offset market-related pressures in life & savings.

Valuation

We value AXA at €24.50 per share, using a sum-of-the-parts valuation methodology. This takes estimates of sustainable returns on capital for each business division and applies appropriate multiples to 2014e allocated capital.We value the life business at 1.3x allocated capital, consistent with an 11% ROC, allowing for growth. We value the non-life insurance business at 2.1x capital, consistent with a 19% ROC. We value the asset management business at 11.5x P/E, consistent with the range applied to peers. We value any surplus capital or debt at 1x face value.

Risks

The following risks might impede the share price from reaching our target price: 1) Continued volatility in investment markets, which could be exacerbated by the group's higher than average leverage; 2) A material further sharp downward shift in global bond yields impacting investment returns and impacting traditional life and US VA business; 3) Higher corporate bond defaults than would be anticipated in current spreads; 4) Finally, the earnings story is dependent on achieving the targets set on the June 1st 2011 investor day. If the impact of these risk factors is less negative than we anticipate, then the share price could exceed our target price.

Delta Lloyd

Company description

Delta Lloyd is a Benelux life and non-life insurance business. It also has an asset management business and maintains Delta Lloyd Bank, an increasingly important part of the life insurance strategy for the evolving Dutch market.

Investment strategy

We believe that Delta Lloyd’s limited financial leverage and solid dividend profile suggest that downside risks to total returns are somewhat limited. While we see its concentrated exposure to the Dutch life market and macroeconomic considerations as reasons for caution, we believe there remains strong growth potential in the group pensions business in the Netherlands, due to accounting change for DB pensions. We view the positive factors as outweighing the potential negative factors and, consequently, we rate the stock Buy (1).

Valuation

Our €23.50 target price for Delta Lloyd is based on a sum-of-the-parts valuation methodology that estimates long-term sustainable returns on capital for each business unit and applies what we see as appropriate multiples to allocated capital.

We value the life business at 1.3x 2014e allocated capital, consistent with an estimated c.17% sustainable ROC. We value general insurance at 0.8x 2014e allocated capital, consistent with an estimated c.9% sustainable ROC, which assumes a ~98% combined ratio and ~3% investment return. We value asset management at 8.5x 2015e P/E, consistent with the approach we use for other stocks in the sector. We value the Bank at 7.5x 2015e P/E and deduct debt at nominal value.

Risks

The main sources of upside and downside risk to our target price are uncertainty in market returns, especially fixed income and equities; movements in the level and shape of the yield curve; and regulation (e.g. capital regulation). Delta Lloyd seeks to manage some of its market risks through equity and interest rate hedging - although these may be subject to basis risk.

Direct Line

Company description

Direct Line Group (DLG) is the largest UK personal lines insurer with leading positions in the Motor and Home markets, as well as strong positions in Rescue cover and SME commercial lines. DLG owns some of the most powerful insurance brands in UK (i.e. Direct Line and Churchill) which drive high retention levels (thereby lower distribution costs) and high cross-selling rates compared with the market.

Investment strategy

We rate Direct Line Buy. DLG trades at a notable discount to global personal lines peers as well as the rest of the European insurance sector on 2015E PE. We are positive for 3 key reasons

1) Direct Line has the potential to create significant value by lowering its cost base which is considerably above its peers in UK and globally.

2) Direct Line is well positioned to benefit from an improvement in UK motor pricing. In the meantime we see the group's reserve position as a differentiating factor.

3) We believe Direct Line's valuation is undemanding. Two important positive catalysts are i) paying another special dividend in 2014 (we estimate 4p) and ii) a return to book value growth for the group now restructuring charges are completed from 2015.

Valuation

We value Direct Line on a sum of the parts basis. We allocate capital to each division and then estimate sustainable return on capital. We value the Motor business on 3.3x capital consistent with a 35% ROC. We value the Home business on 2.2x capital consistent with a 22% ROC. We value ROPL on 3.3x capital

consistent with a 36% ROC. We value the commercial business on 2.2x capital consistent with a 21% ROC. We value central costs on 9x PE and excess capital at 1.0x. We sense check the implied PE multiples, which appear undemanding on 9-10x. This valuation implies a fair value of 306p for the shares. This values Direct Line on ~2.2x 2015E tangible capital.

Risks

The main risks to the investment case are: i) competitive conditions in UK; ii) bodily injury claims inflation; iii) PPO claims settlement trends; iv) operating risks relating to restructuring; and v) regulatory changes threatening referral fees. If these risks are greater or less than we anticipate, the shares could fail to reach, or exceed our target price.

esure Group PLC

Company description

esure Group was founded in 2000 by Peter Wood as a joint venture with Halifax plc (now a part of Lloyds Banking Group). The group has been engaged in motor and home insurance businesses in UK only. Since inception, esure had launched brands like esure (2001), Sheilas' Wheels (2005) which have gained huge popularity in UK. In 2007, esure bought a 50% stake in Gocompare (a PCW) which ranks amongst the top four UK players in this space. In 2010, however Peter Wood bought out the stake from Lloyds Banking Group in an MBO and held c. 49% shares. Post IPO in 2013, Chairman Peter Wood holds 31% shares.

Investment strategy

esure is a small player in the motor and home markets, which we believe is an advantage as pricing softens. In contrast to most peers, we expect esure to deliver modest growth by re-entering higher premium segments, where risk/reward has improved following claims reforms. esure's motor and home books are focused on low risk customers. These deliver high margins towards the top end of the peer group. We think the esure's book is better positioned to benefit from claims reform since it is likely to be overweight small personal injury claims. esure has delivered more reliable reserve releases than its peers in recent years. It also has a substantial reserve buffer which we believe will helps sustain earnings through a soft market. We rate the shares Buy.

Valuation

We value Esure on a sum-of-the-parts basis, which is consistent with our methodology applied across the sector. We allocate capital the each of the main divisions of the group and forecast sustainable returns on capital. This implies a fair value multiple of capital which forms the basis for our valuation. We value the Motor business on 2.8x capital which is consistent with 25% ROC. We value the Home business on 3.3x capital which is consistent with 30% ROC. We value ASR income on 11x PE. We value Go compare at 12x PE. We value central costs on 10x PE. We value excess capital at 1x. This implies a fair value of 259p for the group. This values the group on 3.7x 2015E capital and 11.8x 2016E PE.

Risks

The key risks to reaching our target price are:

Pricing - The UK motor market could enter a prolonged period of deteriorating pricing. If pricing is significantly worse than we expect, this could lead to a deterioration in Esure's underwriting profitability beyond what we already assume for 2014.

Personal injury claims – following several industry wide changes it is expected that claims experience for smaller personal injury claims improves. It is possible that lawyers and other interested parties find alternative ways to encourage drivers to make personal injury claims.

Change in customer behavior – Esure's portfolio is weighted towards female drivers, which historically present a lower risk of making claims. It's possible that the recent ban on using gender as a rating factor encourages female drivers to increasingly shop around.

Regulation - Regulatory change in the UK motor market could develop more negatively than we assume. In particular, regulators could put more pressure on ancillary fees which are a significant source of earnings for Esure and the rest of the sector. This would have a negative impact on operating profits.

Investment strategy

Friends Life

Company description

Resolution is a closed-life insurance book consolidator, with a 'Heritage' run-off book of policies, but is also transitioning into a mainstream UK life insurer. It also has 'International' businesses selling offshore savings policies and estate management solutions. It has agreed terms for an all share combination with Aviva which if approved by shareholders will likely complete in 2Q15.

Investment strategy

We can see the benefits of Friends Life's business model with the heritage division providing significant cash flows, whilst upside from corporate benefits and protection helps to provide some earnings momentum. However we think it lacks the retail franchise of its closest peers. Consequently we think it will need to work harder to get to the same place as L&G or Standard Life for instance. However an all share combination with Aviva makes strategic sense and limits downside nearer term.

Valuation

We value Friends Life on a SOTP model by estimating sustainable return on capital for each business division and applying appropriate multiples to allocated Group embedded value. We value the UK business at 1.0x EV with an estimated 11% sustainable ROEV. We value the Heritage business at 0.7x EV with a 6% estimated sustainable ROEV. We value International at 0.9x EV, with a 9% sustainable ROEV. We value the corporate centre and other non-covered business at face value (1x).Our target price, based on this valuation approach, is 369p per share.

Risks

The following risks could prevent the shares from achieving our target price: changing regulatory capital requirements affecting capital requirements for acquired businesses; the impact of the RDR; and/or inability to extract targeted synergies and generate targeted levels of free cash. Higher new business profits and delivery on the updated strategy could help the stock outperform our target price. Our valuation is also sensitive to macro and market movements, such as the level of interest rates, equity markets, credit spreads and property prices. There is also M&A risk should the all share combination with Aviva fall through.

Assicurazioni Generali SpA

Company description

The company's principal activity is the provision of an array of property & casualty and life insurance, predominantly in continental Europe. It is the largest insurer in Italy and a leading participant in Germany and France. Other activities include financial services, real estate and property management.

Investment strategy

We rate Generali as a Neutral. This is based on: 1) our view that upside is limited compared to peers after adjusting for its balance sheet strength. 2) Our estimate of relatively low free cash flow and dividends compared to other composite insurers. 3) Our view that the earnings surprise potential from its restructuring programme is limited.

Valuation

We value Generali, using a sum-of-the-parts methodology, at €17.70 per share. This is based on estimating sustainable returns on capital for each business division and applying appropriate multiples to 2015E allocated capital.We value the life business at 1.56x allocated capital consistent with a 13% ROC and allowing for growth. We value the non-life insurance business at 1.58x allocated capital, consistent with an 14% ROC and allowing for growth. We value the financial segment at 12x P/E - based on our view of its growth prospects. We value the corporate centre costs at 9x P/E, consistent with the group valuation multiple. We deduct any leverage at the group at 1x face value.

Risks

Generali faces tail risks from any policy errors in the Eurozone given its domestic exposure to Italy and Italian sovereign debt. Its capital base is under pressure due to its high risky asset leverage.

Other main risks that could prevent Generali from reaching our target price include: 1) a marked slowdown in life sales, particularly in Italy, Germany and France; 2) non-life softening, particularly in key markets, Italy, Germany and France; 3) further decline in equity markets and property values; and 4) declining margins in the Italian life market. Main risks to the upside include a major improvement in corporate governance, resolution/improvement in the Eurozone crisis and a strong and sustained rally in equity markets.

Gjensidige

Company description

Gjensidige is mainly a P&C insurer in Scandinavia and the Baltics, however it also has Pensions & Savings (2% of 2013 PBT) and Retail Banking (6% of 2013 PBT) franchises. The group's P&C operations has a market leading position in Norway (with a ~25% the market) and smaller businesses in Denmark, Sweden and the Baltics.

Investment strategy

We believe that Gjensidige's general insurance business is probably the best P&C franchise in the region as it has a substantial exposure to very profitable Norwegian private business lines. The company could generate mid-single digit growth in terms of both top-line and bottom-line in 2013-2016e mainly due to its attractive proposition of paying dividends to customers and a relatively stronger Norwegian economy. At the same time, Gjensidige runs a low risk business with one of the lowest debt leverages in the industry. However, its valuation looks demanding and we believe its capital payout policy also looks stretched with a relatively low FCF yield and low coverage of dividends. We initiate with a Neutral recommendation.

Valuation

We value Gjensidige using sum-of-the parts methodology, at NOK 130.0 per share. This is based on estimating sustainable returns on capital for each business divisions and applying appropriate multiples to 2015e allocated capital. We value the P&C business on ~5.8x 2015e allocated capital (45% of net earned premiums for 2016e), consistent with ~38% return on capital. We value life business at c1.0x, consistent with c8% ROC, and apply a multiple of 10x 2016e earnings on the retail banking operations. Finally, we add surplus capital and deduct debt at 1x nominal value to arrive at our target price for the stock. This implies 3.6x 2015e book and 17.4x 2016e P/E.

Risks

The main risks that could cause the shares to deviate from our target price are: 1) non-life insurance market softening and steep rising claims' inflation in Scandinavia; 2) additional extraordinary capital management actions; 3) sharp change in the macroeconomic environment ; 4) regulatory changes in the Nordics, for example, the final outcome regarding the Natural Peril Pool treatment in the capital adequacy calculation. If the impact from any of these factors proves to be more negative than we anticipate, the stock will likely have difficulty achieving our financial and price targets. However, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our target.

Hannover Re

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

We value Hannover Re using a SOTP valuation. We value the Non Life Reinsurance business at 1.65x capital, consistent with a 17.5% ROC. We value the L&H Reinsurance business at 1.1x capital consistent with a 10% ROC. We value any excess capital at a 0.9x multiple. This implies a valuation of €76.8 per share for Hannover Re, which equates to 1.3x 2015E book or 10.2x 2015E PE.

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.

Legal & General

Company description

Legal and General is a UK-focused life and asset management company, albeit with a small general insurance business and some small life operations in the US, Netherlands and France. In the UK, the group has a particular strength in protection and annuities but is also present in savings.

Investment strategy

The group has improved its cash generation since FY08 driven by lower strain and moderation in growth. It has also built up a solid capital position, which we think will remain strong under a Solvency 2 regime. There is also substantial further upside from growth in the savings business, consolidation benefits from integrating the Cofunds platform into the savings business, further growth in LGIM (including in International markets) and growth from workplace pensions. However, the FCA review of the annuity market will lead to a sharp drop in individual annuity sales and could hurt the earnings profile in L&G Retirement. In addition we continue to see better upside elsewhere. Therefore we rate L&G Neutral.

Valuation

We use a SOTP approach; with an embedded value based fade approach for the life insurance business and a P/E multiple approach for asset management. This implicitly values the life business at 0.9x 2014E embedded value (based on our estimate of ~9% sustainable ROEV) and the asset management business on 14x 2014E IFRS earnings. We add surplus capital and deduct debt at face value. Our target price on this basis is 264p per share.

Risks

We highlight the following risk factors: regulatory risk, business risk in the UK market, mark to market risk (under MCEV and Solvency II), investment market (hybrid debt, ABS, shareholder exposure to equities) risk and longevity experience. There is potential regulatory risk given uncertainties about where annuity capital requirements will end up. If the impact on the company from any of these factors proves to be greater than we anticipate, the stock will likely deviate from our financial and price targets. Conversely, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our target.

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 value Munich Re using a SOTP methodology. We value the L&H reinsurance business at 0.9x capital, consistent with an 8.6% ROC. We value P&C reinsurance on 1.4x capital, consistent with a 14.3% ROC. We value primary life on 0.5x capital, consistent with a 4% ROC. We value primary health on 1.0x capital, consistent with a 10.0% ROC. We value primary P&C on 0.8x capital, consistent with a c8% ROC. We value Munich Health at 0.8x capital, consistent with a 7.5% ROC. We value the Asset Management business on c10x 2015E PE. Excess capital is valued at 0.50x face value. This implies a fair value of €163.0 per share. This equates to 0.91x 2015E book and 9.7x 2015E PE.

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.

NN Group NV

Company description

NN is a composite insurer listed in the Netherlands, with substantial exposure to markets outside of core Dutch Insurance: in CEE, Investment Management and Japan.

Investment strategy

NN aims to transform its earnings and risk profile over the next few years through three initiatives: 1) Maximising value from legacy liabilities by extracting capital from run-off books, de-risking and cutting costs. 2) Selectively growing in some key areas of the business, e.g. in CEE and Investment Management. 3) Returning cash to shareholders through regular dividends (with a 40-50%) payout ratio and a commitment to return additional capital to shareholders, subject to commercial and other constraints.

We believe NN's cash generation potential is the prime driver of its equity story, however, we believe the stock looks fairly valued on a relative basis and rate it Neutral.

Valuation

We value NN at €26 per share using a sum-of-the-parts model that allocates adjusted equity capital to each business division and estimates long-term sustainable returns on capital, applying appropriate multiples.

We value the Netherlands Life business at 0.75x capital, based on a ~7% ROC, Insurance Europe at 0.8x capital based on a ~8% ROC and the Japan Life business at 0.8x capital based on a ~9% ROC. We value the Japanese Closed Block Variable Annuity portfolio at 0.7x economic capital based on the present value of anticipated cash flow from this business. We apply at 10x P/E multiple to the Investment Management business (at the lower end of comparable multiples applied to other stocks in the sector).

We also deduct €500mn from our valuation to allow for potential litigation risks in the Netherlands.

Risks

Key risks include:

1) Litigation risk from unit-linked mis-selling in the Netherlands. Although we have factored a provision for this in our valuation, there remains a risk that future compensation may exceed this amount.

2) Economic capital risk: due to uncertainty over the final shape of Solvency 2, there remains some risk that economic capital is worse than we expect under this new regulatory regime due to come into force in 2016. This may result in lower free cash flow than we currently forecasts.

3) Macro and actuarial risks. NN's valuation is sensitive to investment markets and the level of interest rates. It is also affected by mortality rates; specifically relating to the longevity of pension and annuity customers in the Netherlands.

Prudential Plc

Company description

Prudential is focused on life assurance and asset management in the UK, US and across the Asian region. It also has a scale asset management operation in the UK - M&G. The Asian franchise is regional encompassing twelve countries with both life and asset management offered across these markets.

Investment strategy

We rate Prudential Buy. With its life and asset management focus, together with the geographic bias to the US and Asia, Prudential has been seen as a rare 'growth' property within the European insurance sector. A committed return to organic growth focus could create value for shareholders going forward. Historically cash constrained, the group is now generating increasing amounts of free cash flow as its Asian life business matures, it expands its asset management footprint and as UK new business growth is curtailed. The company has improved its relative competitive position in the US, while Asian sales are now back over pre-crisis levels.

We believe Prudential is translating these advantages into cash generation and attractive dividend growth.

Valuation

We use a SOTP approach, with an embedded value fade model for each of the life businesses and a P/E multiple approach for asset management.

For the UK, we forecast a return on capital of 7%, leading to a valuation of 0.8x 2015E embedded value. For the US, we forecast a 19% return on capital, equating to a valuation of 1.8x 2015E embedded value. For Asia, our estimated 17% return on capital gives a valuation of 1.6x 2015E embedded value. We value the asset management businesses at ~13.5x 2016E earnings.

Our £17.71 target price is set at the sum of these parts, plus excess capital (based on our allocation) and minus group debt, both taken at 1x multiple.

Risks

Key risks to valuation include macro and market related risks (e.g. Prudential is negatively exposed to low yields in the US and equity market volatility), greater regulatory pressure affecting margin and growth (especially in Asia). In addition, if poor economic growth or market volatility in Asia leads to lower growth potential, this could also have a negative impact on value.

Sampo Oyj

Company description

The group's principal operating activities are life and P&C insurance. Sampo owns IF, which is the largest P&C company in the Nordic area, with top three market positions in Sweden, Finland and Norway, and a smaller business in Denmark and the Baltic region. The company also owns 21.3% of Nordea and 25% of Topdanmark both of which together account for c50% of the market cap of the group.

Investment strategy

While Sampo is still generating excellent and stable returns in P&C, with pricing power in evidence in core markets, we see relatively limited scope for further re-rating unless the company decides to pursue a break-up of the group - an outcome that we consider to be unlikely. Our rating is Neutral.

Valuation

Our target price of €39 is based on a sum-of-the-parts valuation methodology that estimates long-term sustainable returns on capital for Sampo’s life and P&C operating businesses and applies what we see as appropriate multiples to allocated capital. We use IFRS accounting metrics to value both the life and P&C insurance operations. We value the P&C business at 5.4x 2015E allocated capital (45% of net earned premium for 2015e), based on an estimated return on capital of c35%. Our underlying assumptions reflect a combined ratio of ~88% and investment returns of 3.3%. This equates to 15.6x 2016E P/E. We value the life business at c1.2x 2014E allocated tangible capital, which reflects a sustainable c10% return on tangible capital. This equates to c13x 2016E P/E. We take a current price of €9.95 per share for Nordea, which equates to about 1.0x allocated capital for this associate at Sampo. This equates to 10.0x 2016E P/E. Finally, we add surplus capital and deduct debt at 1x nominal value to arrive at our target price for the stock.

Risks

The main risks that could cause the shares to deviate from our target price are: 1) non-life softening and steep rising claims' inflation in Scandinavia; 2) the intentions surrounding the Nordea and Topdanmark stake and development of the Nordea share price; and 3) likely future financial leverage. P&C accounts for c50% of Sampo's fair value, and as such any deterioration in rates that would lead us to a different view about the group's sustainable underwriting performance would have an impact on our fair value assessment. A key risk/opportunity within the Sampo investment story relates to the future development of the stake in Nordea.

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

We value Scor using a SOTP methodology. We value P&C reinsurance on c1.8x capital, consistent with a c18% ROC. We value L&H reinsurance on 0.7x capital, consistent with an 5.9% ROC. We value central items on 9x PE. We value excess capital at 0.9x face value. This implies a target price of €27.5, which equates to 0.9x 2015E book and 9.8x 2016E PE.

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.

Standard Life PLC

Company description

The group's principal activities are the provision of life assurance and pensions, investment management and healthcare insurance products. The group operates principally in the UK but has smaller life operations in Ireland and Germany, and joint ventures in India and China.

Investment strategy

Standard Life has a focused strategy in the savings and pensions market centred on a scale corporate pension business and an upmarket individual pension offering, each backed by leading-edge technology and strong investment performance. The group is working through the disruption post-RDR and other regulatory changes in the UK, which may lead to margin compression and increase the influence of direct-to-consumer business models. The dividend cover on cash is therefore low; however, the investment gearing is modest, thus leading to slower but less volatile dividend growth. Nevertheless, we believe the valuation is full in a sector context, which leads us to rate the shares Neutral.

Valuation

We value Standard Life using a SOTP approach, with an embedded value fade model for the life business and a P/E multiple approach for asset management. Our target price is set at 443p per share.

We value the UK & Europe business at 0.8x EV, based on a ~8% sustainable ROEV. We value the Asian and emerging market business at ~1.3x EV based on a ~15% sustainable ROEV. We value asset management earnings at ~14x IFRS earnings. We add net surplus capital (and deduct debt) at face value.

Risks

Customer retention on the back book, margin compression on new business and increasing competition amongst low-cost providers for asset growth post-RDR remain key threats. The group's lead in the SIPP market may now come under pressure and the performance of SLI is predicated on continued strong investment performance in the GARS product. There are minimal residual burn-through risks on the Heritage with-profits fund, some corporate bond/ ABS exposure backing UK annuities. Upside risks include a high earnings gearing to rising equity markets and potential for higher market shares from a more consolidated savings market post RDR. 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.

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 Neutral. We believe the business is likely to continue generating strong operational performance driven by strong P&C reinsurance profitability and supported by its very strong capital position. However, following strong performance in the shares, on our estimates they are now trading at a premium to peers and we believe they are fairly valued.

Valuation

We value Swiss Re using an SOTP approach. We value the P&C reinsurance business on 1.1x capital, consistent with a 10.6% ROC. We value L&H reinsurance on 0.9x capital, consistent with a 8% ROC. We value Corporate Solutions on 1.1x capital, consistent with an 10.3% ROC. We value Admin Re on 0.6x capital, consistent with a 4% ROC. We value group items on 9x PE and excess capital at 0.58x face value. This implies a target price of SFr88.1, which equates to 0.9x 2014E Book and 9.8x 2016E PE.

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. 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.

Talanx

Company description

Talanx is a global composite re/insurer. It operates under the following main divisions: i) a leading European non life Industrial Lines franchise with a good underwriting track record (average 96% COR since 2002), ii) a composite German Retail business with a unique bancassurance distribution, iii) a rapidly growing composite Retail International business with strong positions in select emerging markets, and iv) a 50.2% stake in leading reinsurer Hannover Re.

Investment strategy

We believe Talanx's current valuation represents an attractive investment opportunity. The stock currently trades at a notable discount to the insurance sector. Furthermore, we expect restructuring at Talanx to offer high levels of earnings growth (net income CAGR of 10% between 2010 and 2016E). Consequently, we believe a Buy rating is appropriate.

Valuation

We value Talanx on a sum-of-the-parts basis. This approach allocates total capital (ie equity and debt) to each of the business's main divisions. It then estimates the earnings each division generates in order to determine their respective returns on capital. Combining this with an estimate of divisional costs of capital then implies an appropriate price/capital multiple for each division. The divisional valuations can then be aggregated in order to assess an appropriate enterprise valuation for the group, which we then adjust for debt and conglomerate discount.

We value the non life reinsurance and life reinsurance businesses based on our valuation of Hannover Re. We value the Industrial Lines business on 1.2x capital based on 12.5% ROC. We value Retail Germany on 0.8x capital based on low interest rate pressures. We value Retail International on 14x PE based on its high growth rate. Based on this method we derive a target price of EUR 29. This values the group on 0.9x 2015E capital and 9.4x 2016E PE.

Risks

We see the key risks to our target price for Talanx as i) sustained low interest rates, ii) catastrophe losses and reserve deterioration, iii) asset risks from higher impairments, iv) potential European and international regulatory changes and v) M&A/integration risks.

Topdanmark

Company description

The group's principal operating activities are life and P&C insurance. Topdanmark operates only in Denmark and has a ~17.5% share of the P&C insurance market (2nd biggest player in Denmark) and 5% of the life insurance market.

Investment strategy

We rate Topdanmark Sell based on: 1) We believe Topdanmark carries higher fundamental risks than peers in the Nordic region due to a tight capital allocation and above industry average debt leverage; 2) the company depends more heavily on volatile investment return generating ~40% of profits from investment income; 3) the buy-back potential going forward will be limited to ~DKK 1.3-1.4bn per year which implies that the capital return yield should drop to <7% and still be not fully covered by cash; 4) Topdanmark operates only in Denmark – arguably the least attractive market in the region; 5) the group trades at a historically high valuation.

Valuation

We value Topdanmark at DKK170 per share, using a SOTP methodology. We value P&C business on c3.5x allocated capital (45% of net earned premiums for 2015e), consistent with c24% return on capital. We value life business on c1.5x, consistent with c12% ROC. Finally, we add surplus capital and deduct debt at 1x nominal value to arrive at our target price for the stock. This implies c3.3x 2015e book and 14.0x 2016e P/E.

Risks

The following risks could impede the share price dropping to our target price: 1) a relatively positive development in the P&C markets in terms of lower claims frequency and benign weather; 2) strong margin development in Private business lines; 3) stock price support coming from the buy-back programme and a continuous interest from Sampo; 4) sharp change in the macroeconomic environment.

Tryg

Company description

Tryg is a pure / 2nd largest P&C insurance player operating in Scandinavia. Tryg has a leading position in Denmark (captures ~19% of the market) and is the 3rd largest player in Norway with ~14% market share. The group also has smaller operations in Sweden.

Investment strategy

We rate Tryg at Neutral. On our estimates, Tryg trades at a premium to its Nordic peers and we believe it deserves this premium due to its cost-savings programme and pure P&C operations. However, our sum-of-the-parts valuation suggests limited upside.

Valuation

We value Tryg on a SOTP approach by estimating long-term sustainable returns on capital and applying what we see as appropriate multiples to allocated capital. Our target price is at DKK668, equating to about ~18x 2016e P/E and c5x 2015e P/B.

Risks

The main risks that could cause the shares to deviate from our target price are: 1) delivery on cost savings targets ahead of time; 2) non-life insurance market softening and steep rising claims' inflation in Scandinavia; 3) additional extraordinary capital management actions; 4) sharp change in the macroeconomic environment; 5) regulatory changes in the Nordics, for example, the final outcome regarding the Natural Peril Pool treatment in the capital adequacy calculation.

Zurich Insurance Group

Company description

Zurich has three divisions, Non-Life Insurance, Life Insurance and Farmers Management Services. In Non-Life, the company is a diversified global player, and is in the top three global commercial insurers. It has a multinational life business with operations in a number of key markets.

Investment strategy

We rate Zurich at Neutral. On our estimates, Zurich trades at a premium to its composite sub-sector peers and we believe it deserves this premium due to its balance sheet quality and capital strength, as well as a defensive earnings profile. However, our analysis of its sum-of-the-parts suggests limited upside.

Valuation

We value Zurich at CHF325 per share, based on a sum-of-the-parts valuation methodology. This estimates long-term sustainable returns on capital for each business division and applies appropriate multiples to 2015e allocated capital.We value the life business at ~1x BV, consistent with an ~10% sustainable ROC. We value non-life insurance at 1.4x allocated capital, consistent with an 14% ROC. We value Farmers at 10x earnings, similar to the multiple applied on other similar fee-based businesses. We add group surplus capital and deduct debt at face value.

Risks

We consider the following downside risks in our recommendation. The company is exposed to losses arising from significant catastrophic events, particularly in the US, and to movements in reserves for prior year claims (including liabilities relating to latent diseases such as asbestosis). Although the life business is more focused on simple unit-linked products than peers, the group also has exposure to interest rate guarantees in Continental Europe. In addition, although the group is not over-exposed to any one asset class, its balance sheet is still somewhat geared into capital markets developments. These risks could impede the share price from reaching our target.

Notes

Notes

Notes

Appendix A-1

Analyst Certification

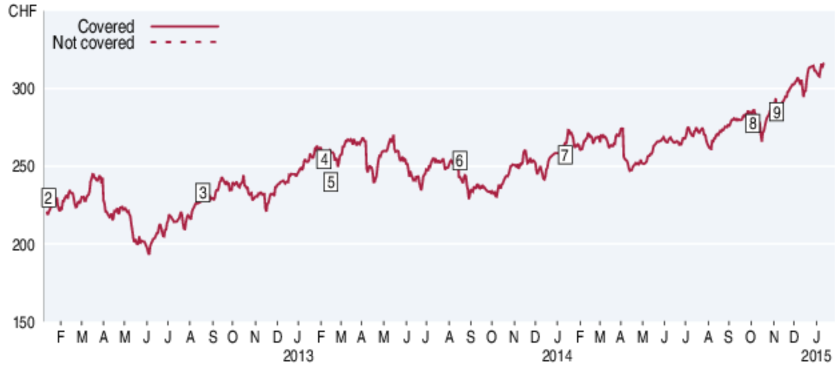
The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each 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

Zurich Insurance Group (ZURN.VX)

Ratings and Target Price History
Fundamental Research

Analyst: Farooq Hanif
Covered since January 24 2013



	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	13-Jan-12	1	*249.00	218.70
3	20-Aug-12	1	*259.00	232.90
4	6-Feb-13	*2	*265.00	258.90
5	15-Feb-13	2	*270.00	259.20
6	16-Aug-13	2	*260.50	243.00
7	13-Jan-14	2	*278.00	265.30
8	3-Oct-14	2	*293.00	285.30
9	6-Nov-14	2	*300.00	287.40

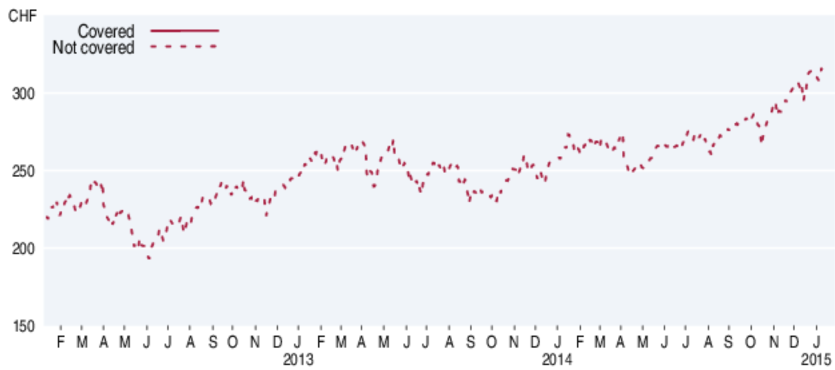
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Zurich Insurance Group (ZURN.VX)

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

Analyst: Farooq Hanif
Covered since January 24 2013



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Ageas SA/NV (AGES.BR)

Ratings and Target Price History
Fundamental Research

Analyst: Farooq Hanif
Covered since January 24 2013

	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	12-Mar-12	2H	*15.66	15.80
3	2-Jul-12	2H	*17.88	15.45
4	8-Aug-12	2H	*18.56	16.56
5	7-Nov-12	2H	*19.43	19.13
6	4-Sep-13	*2	*29.97	29.55
7	23-Sep-13	2	*30.94	29.26
8	13-Jan-14	2	*33.00	32.78
9	23-Jun-14	2	*32.50	29.66
10	29-Oct-14	2	*28.00	26.36

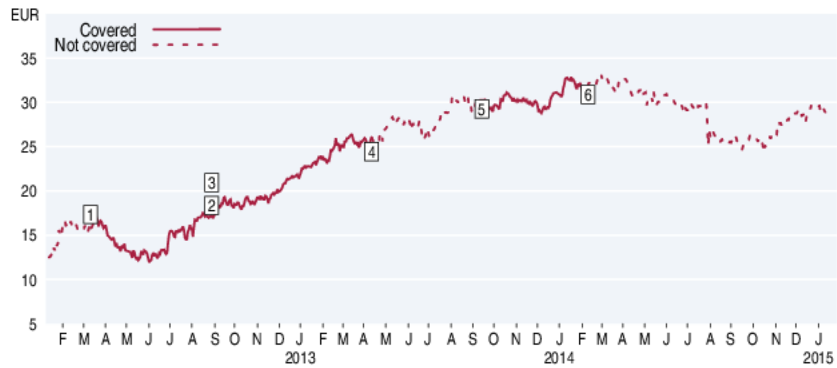
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Ageas SA/NV (AGES.BR)

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

Analyst: Farooq Hanif
Covered since January 24 2013



	Date	Rating	Target Price	Closing Price
1	12-Mar-12	*ADD LP	-	15.80
2	29-Aug-12	*REM LP		
3	29-Aug-12	*ADD LP	-	17.16
4	11-Apr-13	*REM LP		
5	13-Sep-13	*ADD LP	-	30.04
6	11-Feb-14	*REM LP		

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Delta Lloyd (DLL.AS)

Ratings and Target Price History
Fundamental Research

Analyst: Farooq Hanif
Covered since January 24 2013

	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	13-Jan-12	2	*13.30	12.80
3	12-Mar-12	2	*13.70	13.08
4	16-Jul-12	*1	*14.10	11.33
5	27-Nov-12	1	*14.00	11.00
6	7-Jun-13	1	*19.00	15.30
7	12-Aug-13	1	*18.50	15.72
8	13-Jan-14	1	*21.00	18.94
9	30-Mar-14	1	*22.50	19.77
10	10-Dec-14	1	*24.50	19.03

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Delta Lloyd (DLL.AS)

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

Analyst: Farooq Hanif
Covered since January 24 2013

Date	Rating	Target Price	Closing Price
1 12-Mar-12	*ADD MP	-	13.08
2 29-Aug-12	*REM MP		

Date	Rating	Target Price	Closing Price
3 29-Aug-12	*ADD MP	-	11.10
4 11-Apr-13	*REM MP		

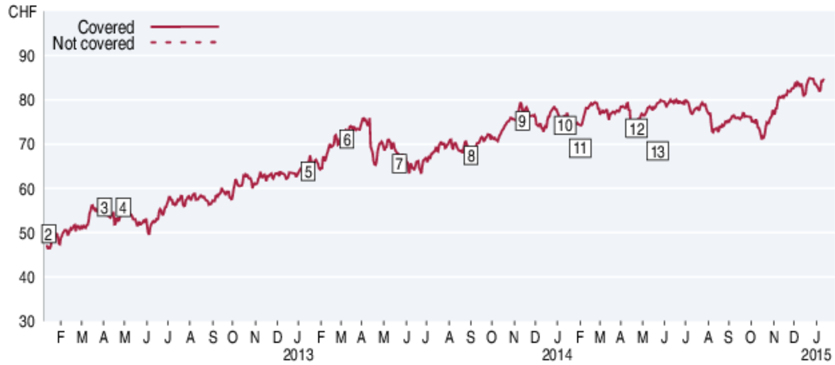
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Swiss Re (SRENH.VX)

Ratings and Target Price History
Fundamental Research

Analyst: Kathy Fear
Covered since August 8 2014



Date	Rating	Target Price	Closing Price
1 7-Oct-11	Stock rating system changed		
2 13-Jan-12	*1	*51.74	46.33
3 3-Apr-12	1	*61.71	55.30
4 30-Apr-12	1	*62.18	54.02
5 15-Jan-13	1	*74.71	65.98

Date	Rating	Target Price	Closing Price
6 11-Mar-13	*2	*75.38	72.96
7 23-May-13	2	*74.05	66.79
8 2-Sep-13	2	*72.25	68.69
9 13-Nov-13	2	*76.90	77.47
10 13-Jan-14	2	*80.13	75.95

Date	Rating	Target Price	Closing Price
11 3-Feb-14	2	*79.84	74.29
12 23-Apr-14	2	*87.50	75.15
13 22-May-14	2	*85.20	79.30

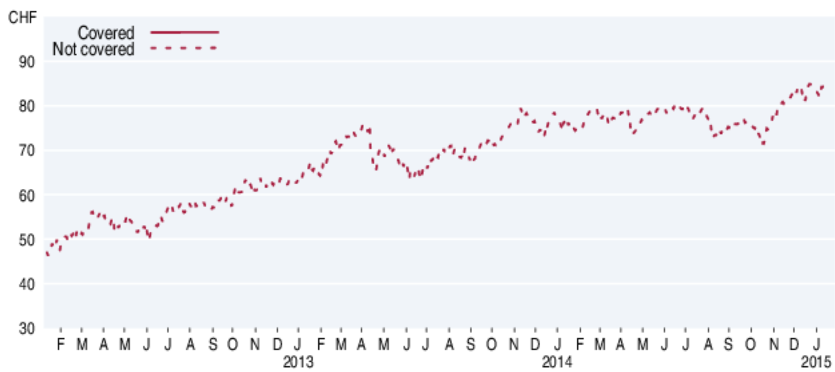
* Indicates change

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: Kathy Fear
Covered since August 8 2014



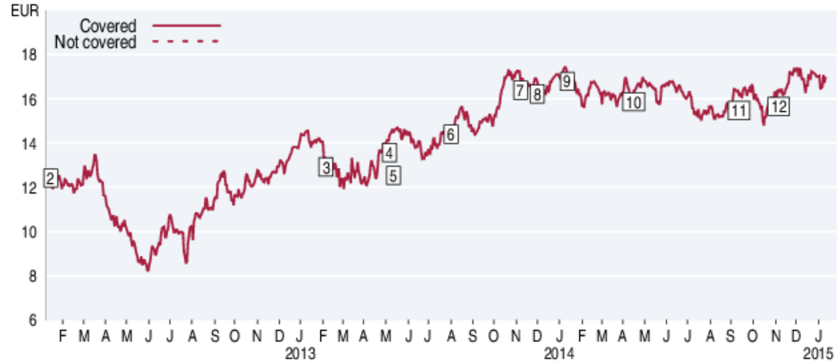
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Assicurazioni Generali SpA (GASI.MI)

Ratings and Target Price History
Fundamental Research

Analyst: Farooq Hanif
Covered since January 24 2013



	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	13-Jan-12	*3	*10.61	12.05
3	6-Feb-13	3	*12.00	13.22
4	7-May-13	3	*12.70	14.35
5	13-May-13	3	*13.05	14.46
6	1-Aug-13	3	*13.30	14.71
7	7-Nov-13	3	*13.80	16.81
8	1-Dec-13	3	*15.00	16.88
9	13-Jan-14	3	*15.30	17.08
10	16-Apr-14	3	*15.50	16.35
11	11-Sep-14	*2	*16.60	16.19
12	6-Nov-14	2	*16.90	16.37

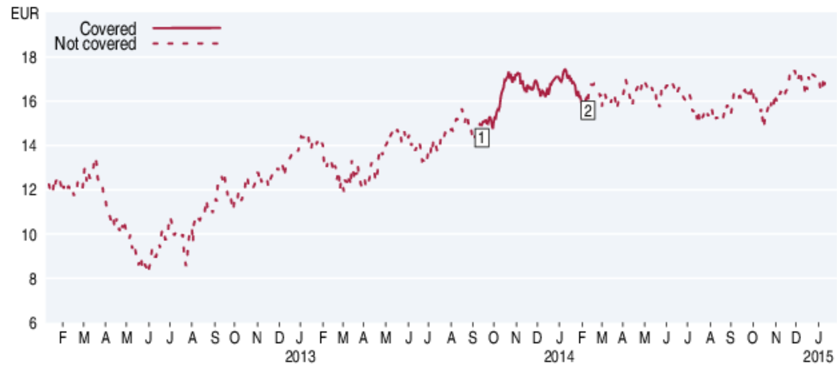
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Assicurazioni Generali SpA (GASI.MI)

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

Analyst: Farooq Hanif
Covered since January 24 2013



	Date	Rating	Target Price	Closing Price
1	13-Sep-13	*ADD LP	-	14.93
2	11-Feb-14	*REM LP		

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Friends Life (FLG.L)

Ratings and Target Price History
Fundamental Research

Analyst: Kathy Fear
Covered since October 31 2014

	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	30-Mar-12	*2H	*3.02	2.61
3	11-Jan-13	2H	*2.61	2.61
4	2-Sep-13	*2	*3.14	3.27
5	13-Jan-14	2	*3.50	3.59
6	28-Apr-14	2	*3.16	2.98
7	15-Dec-14	2	*3.69	3.50

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Friends Life (FLG.L)

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

Analyst: Kathy Fear
Covered since October 31 2014

	Date	Rating	Target Price	Closing Price
1	21-Feb-12	*ADD MP	-	2.61
2	30-May-12	*REM MP		

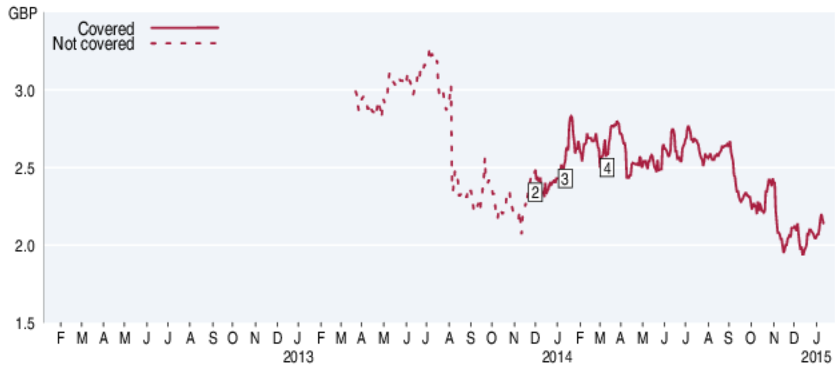
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

esure Group PLC (ESUR.L)

Ratings and Target Price History
Fundamental Research

Analyst: Kathy Fear
Covered since August 8 2014



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	2-Dec-13	*1	*2.85	2.48
3	13-Jan-14	1	*2.91	2.54
4	12-Mar-14	1	*2.94	2.60

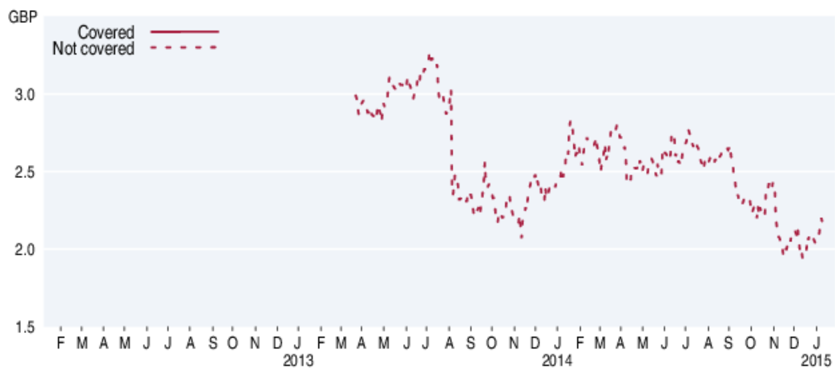
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

esure Group PLC (ESUR.L)

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

Analyst: Kathy Fear
Covered since August 8 2014



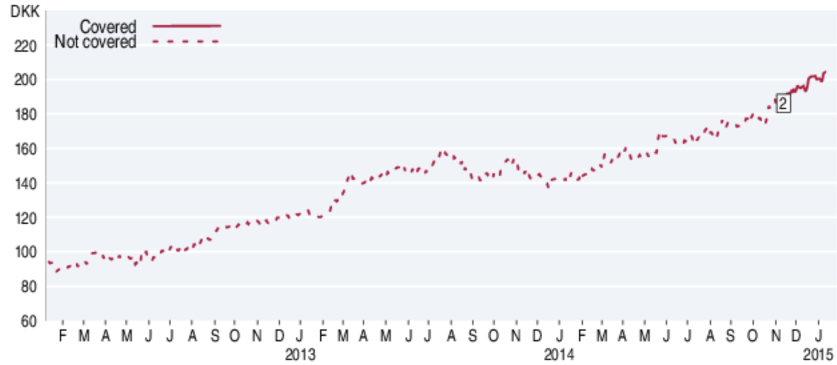
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Topdanmark (TOP.CO)

Ratings and Target Price History
Fundamental Research

Analyst: Andrius Budnikas
Covered since November 13 2014



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		

	Date	Rating	Target Price	Closing Price
2	13-Nov-14	*3	*170.00	189.20

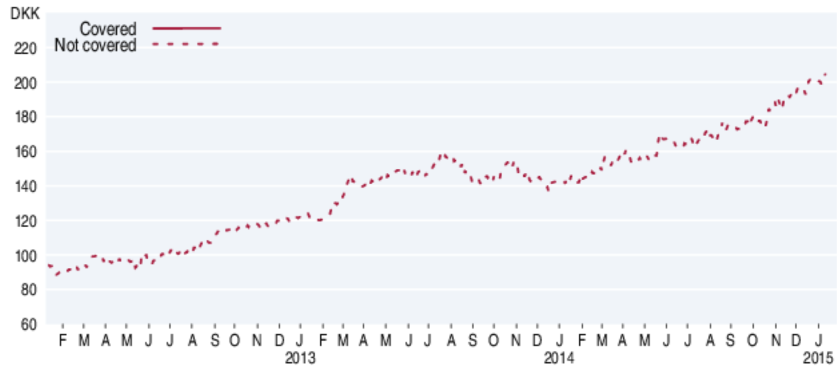
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Topdanmark (TOP.CO)

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

Analyst: Andrius Budnikas
Covered since November 13 2014



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Legal & General (LGEN.L)

Ratings and Target Price History
Fundamental Research

Analyst: Kathy Fear
Covered since October 31 2014

	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	13-Jan-12	2	*1.05	1.12
3	21-Feb-12	2	*1.18	1.22
4	22-Mar-12	2	*1.30	1.34
5	3-May-12	2	*1.26	1.18

	Date	Rating	Target Price	Closing Price
6	13-Aug-12	2	*1.32	1.32
7	11-Jan-13	2	*1.62	1.51
8	2-May-13	2	*1.65	1.75
9	31-May-13	2	*1.81	1.79
10	13-Aug-13	2	*2.10	1.98

	Date	Rating	Target Price	Closing Price
11	13-Jan-14	2	*2.35	2.28
12	23-Apr-14	2	*2.20	2.07
13	15-Dec-14	2	*2.64	2.34

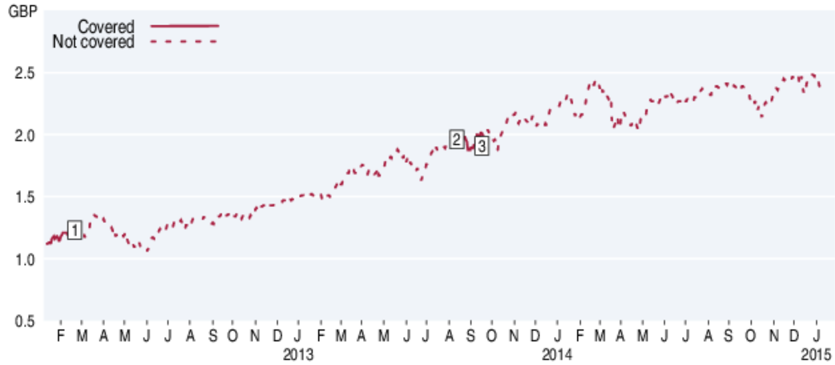
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Legal & General (LGEN.L)

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

Analyst: Kathy Fear
Covered since October 31 2014



	Date	Rating	Target Price	Closing Price
1	21-Feb-12	*REM LP		
2	13-Aug-13	*ADD MP	-	1.98
3	17-Sep-13	*REM MP		

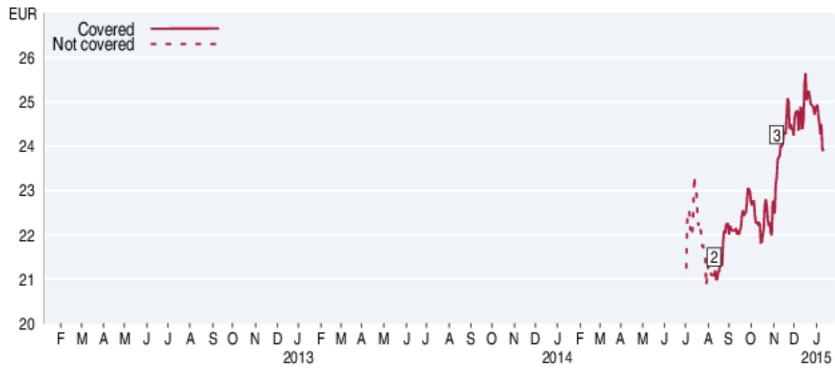
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

NN Group NV (NN.AS)

Ratings and Target Price History
Fundamental Research

Analyst: Farooq Hanif
Covered since August 11 2014



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	11-Aug-14	*1	*25.50	21.09
3	6-Nov-14	1	*26.00	23.30

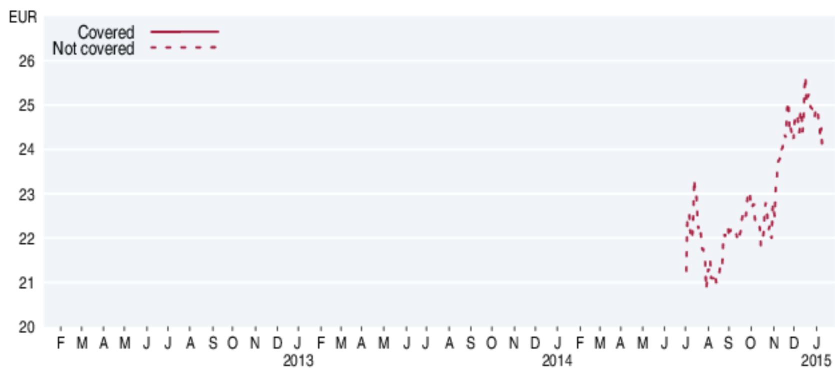
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

NN Group NV (NN.AS)

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

Analyst: Farooq Hanif
Covered since August 11 2014



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

AXA SA (AXAF.PA)

Ratings and Target Price History
Fundamental Research

Analyst: Farooq Hanif
Covered since January 24 2013

	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	6-Feb-13	*1	*17.00	13.04
3	5-Jun-13	1	*18.50	15.41
4	9-Aug-13	1	*20.00	17.40
5	16-Sep-13	1	*21.00	18.00
6	13-Jan-14	1	*24.00	20.15
7	30-Jul-14	1	*22.50	17.54
8	6-Aug-14	1	*23.50	17.61

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

AXA SA (AXAF.PA)

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

Analyst: Farooq Hanif
Covered since January 24 2013

	Date	Rating	Target Price	Closing Price
1	13-Sep-13	*ADD MP	-	17.77
2	11-Feb-14	*REM MP		

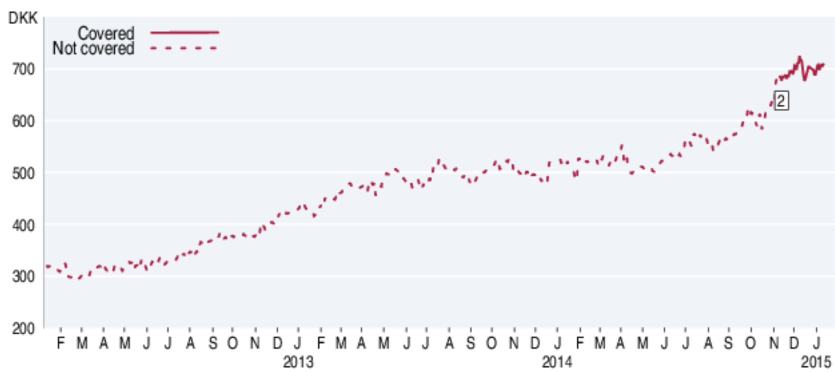
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Tryg (TRYG.CO)

Ratings and Target Price History
Fundamental Research

Analyst: Andrius Budnikas
Covered since November 13 2014



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	13-Nov-14	*2	*668.00	678.50

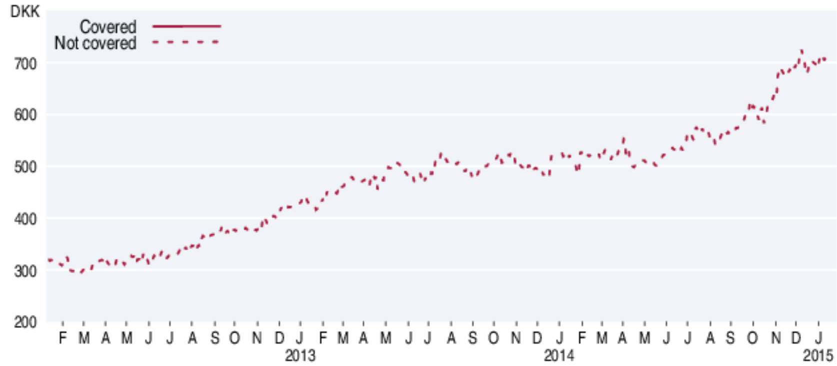
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Tryg (TRYG.CO)

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

Analyst: Andrius Budnikas
Covered since November 13 2014



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Sampo Oyj (SAMAS.HE)

Ratings and Target Price History
Fundamental Research

Analyst: Andrius Budnikas
Covered since November 21 2014

	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	13-Jan-12	2	*18.50	18.64
3	18-May-12	2	*19.00	18.75
4	22-Jul-13	2	*35.00	33.36
5	8-Aug-13	2	*34.00	33.53
6	13-Jan-14	2	*35.70	35.45
7	13-Nov-14	2	*39.00	38.04

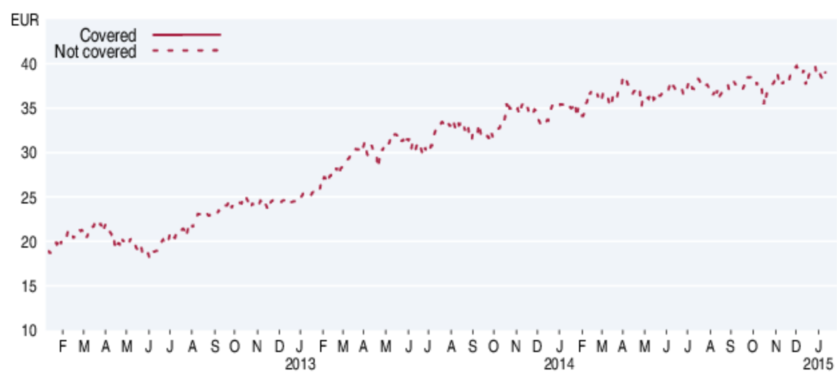
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Sampo Oyj (SAMAS.HE)

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

Analyst: Andrius Budnikas
Covered since November 21 2014



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Aviva PLC (AV.L)

Ratings and Target Price History
Fundamental Research

Analyst: Kathy Fear
Covered since October 31 2014

	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	13-Jan-12	2H	*3.46	3.23
3	11-Jan-13	*1	*4.79	3.80
4	11-Mar-13	1	*4.32	3.22
5	16-Sep-13	1	*4.95	4.20
6	7-Nov-13	1	*5.02	4.36
7	13-Jan-14	1	*5.25	4.76
8	30-Jan-14	1	*5.40	4.53
9	16-Apr-14	1	*5.90	4.99
10	14-Dec-14	1	*6.20	4.68

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Aviva PLC (AV.L)

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

Analyst: Kathy Fear
Covered since October 31 2014

	Date	Rating	Target Price	Closing Price
1	13-Sep-13	*ADD MP	-	4.11
2	11-Feb-14	*REM MP		

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Talanx (TLXGn.DE)

Ratings and Target Price History
Fundamental Research

Analyst: Farooq Hanif
Covered since August 11 2014

	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	12-Nov-12	*1	*22.00	20.39
3	22-Mar-13	1	*26.10	23.84
4	13-Jan-14	1	*27.50	24.39
5	25-Mar-14	1	*28.40	25.67

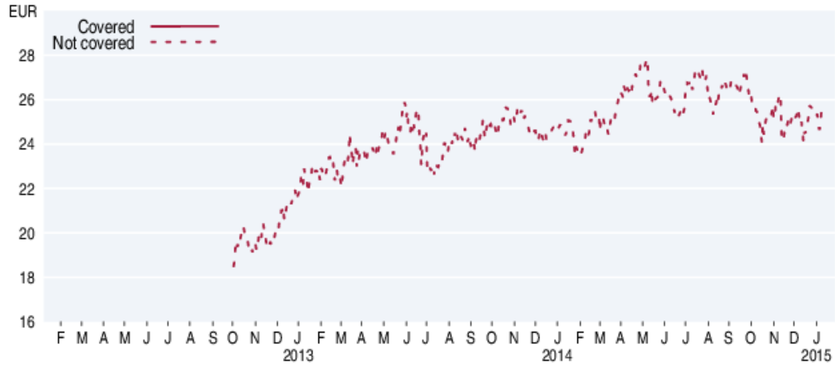
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Talanx (TLXGn.DE)

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

Analyst: Farooq Hanif
Covered since August 11 2014



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Allianz SE (ALVG.DE)

Ratings and Target Price History
Fundamental Research

Analyst: Farooq Hanif
Covered since January 24 2013

	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	22-Aug-12	1	*105.00	88.21
3	6-Feb-13	1	*120.00	101.95
4	8-May-13	1	*132.00	117.50
5	22-May-13	1	*145.00	121.80
6	21-Nov-13	*2	*135.00	126.85
7	13-Jan-14	2	*138.00	128.50
8	14-Jul-14	*1	*149.00	130.15
9	14-Aug-14	1	*152.00	126.75
10	29-Sep-14	1	*147.00	128.50
11	13-Nov-14	1	*150.00	130.90

* 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: Farooq Hanif
Covered since January 24 2013

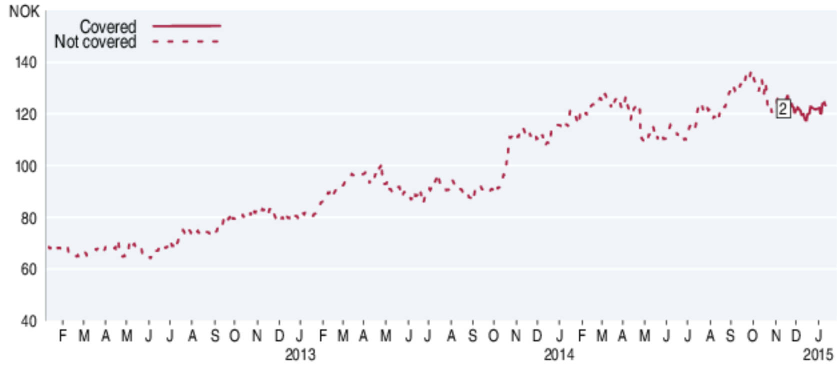
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Gjensidige (GJFS.OL)

Ratings and Target Price History
Fundamental Research

Analyst: Andrius Budnikas
Covered since November 13 2014



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	13-Nov-14	*2	*130.00	124.10

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Gjensidige (GJFS.OL)

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

Analyst: Andrius Budnikas
Covered since November 13 2014

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Aegon NV (AEGN.AS)

Ratings and Target Price History
Fundamental Research

Analyst: Farooq Hanif
Covered since January 24 2013

	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	13-Jan-12	2H	*3.50	3.33
3	19-Mar-12	2H	*4.33	4.47
4	19-Jul-13	*2	*5.90	5.70
5	20-Aug-13	2	*6.00	5.53
6	13-Jan-14	2	*7.10	6.81

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Aegon NV (AEGN.AS)

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

Analyst: Farooq Hanif
Covered since January 24 2013

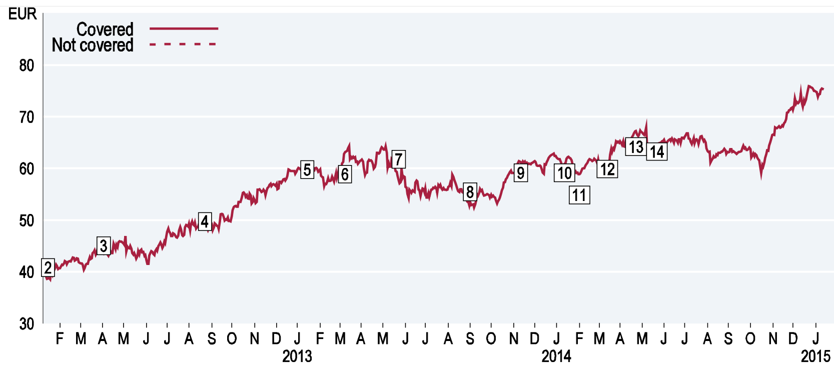
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Hannover Re (HNRGn.DE)

Ratings and Target Price History
Fundamental Research

Analyst: Kathy Fear
Covered since August 8 2014



#	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	13-Jan-12	2	*37.90	38.65
3	3-Apr-12	2	*42.70	44.83
4	23-Aug-12	2	*49.00	48.40
5	15-Jan-13	2	*60.20	58.49
6	8-Mar-13	2	*60.50	63.21
7	23-May-13	2	*62.80	57.62
8	2-Sep-13	2	*58.10	53.48
9	12-Nov-13	2	*59.90	61.15
10	13-Jan-14	2	*66.70	60.22
11	3-Feb-14	2	*63.40	58.88
12	13-Mar-14	2	*65.40	59.91
13	23-Apr-14	2	*65.60	67.25
14	22-May-14	2	*64.50	64.48

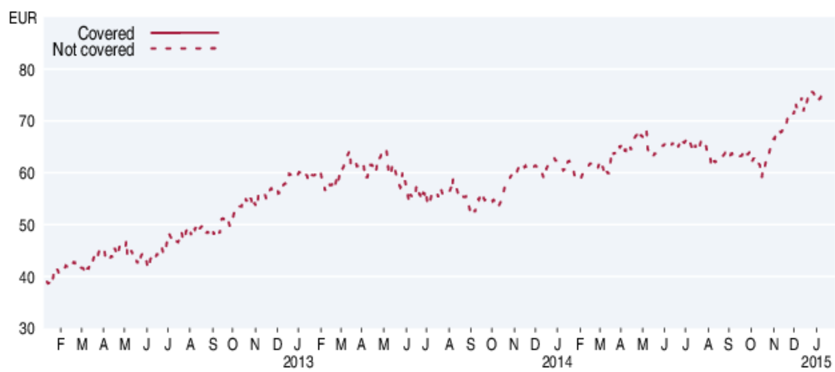
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Hannover Re (HNRGn.DE)

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

Analyst: Kathy Fear
Covered since August 8 2014



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Munich Re (MUVGn.DE)

Ratings and Target Price History
Fundamental Research

Analyst: Kathy Fear
Covered since August 8 2014

#	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	13-Jan-12	2	*99.00	94.93
3	3-Apr-12	2	*117.50	114.10
4	15-Jan-13	2	*136.00	135.15
5	18-Mar-13	2	*149.30	149.35
6	23-May-13	2	*152.90	144.50
7	2-Sep-13	2	*143.30	139.10
8	12-Nov-13	2	*145.50	154.20
9	13-Jan-14	2	*164.60	152.60
10	3-Feb-14	2	*162.90	153.10
11	22-May-14	2	*162.00	158.95

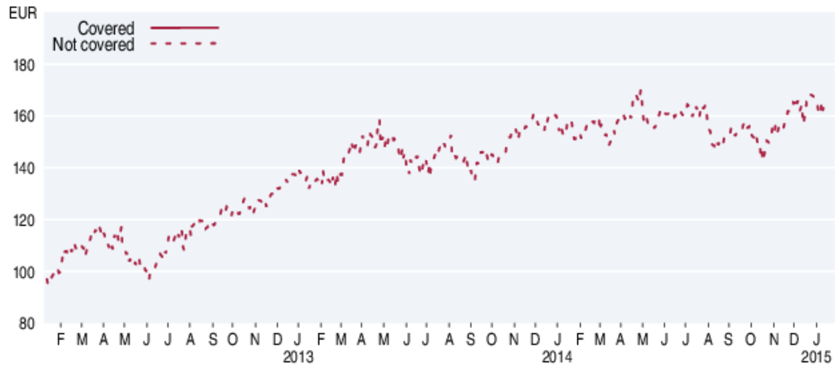
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Munich Re (MUVGn.DE)

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

Analyst: Kathy Fear
Covered since August 8 2014



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

SCOR (SCOR.PA)

Ratings and Target Price History
Fundamental Research

Analyst: Kathy Fear
Covered since August 8 2014

#	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	3-Apr-12	1	*23.50	20.54
3	8-Mar-13	1	*25.30	22.89
4	7-Apr-13	1	*25.70	22.40
5	5-Jun-13	1	*26.70	22.72
6	16-Sep-13	1	*27.50	24.77
7	13-Nov-13	1	*28.90	25.80
8	13-Jan-14	1	*29.20	25.64
9	3-Feb-14	1	*29.10	24.20
10	22-May-14	1	*29.20	25.34

* Indicates change

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: Kathy Fear
Covered since August 8 2014

	Date	Rating	Target Price	Closing Price
1	13-Sep-13	*ADD MP	-	24.53
2	11-Feb-14	*REM MP		

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Direct Line (DLGD.L)

Ratings and Target Price History
Fundamental Research

Analyst: Kathy Fear
Covered since August 8 2014

	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	21-Nov-12	*2	*2.00	1.84
3	2-Dec-13	2	*2.33	2.16
4	13-Jan-14	2	*2.44	2.37
5	3-Jul-14	*1	*3.06	2.68

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Direct Line (DLGD.L)

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

Analyst: Kathy Fear
Covered since August 8 2014

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Standard Life PLC (SL.L)

Ratings and Target Price History
Fundamental Research

Analyst: Kathy Fear
Covered since October 31 2014

	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	21-Feb-12	2	*2.22	2.34
3	11-Jan-13	2	*3.50	3.53
4	15-May-13	2	*3.87	4.12
5	21-Aug-13	2	*3.76	3.45
6	13-Jan-14	2	*3.60	3.77
7	23-Apr-14	2	*3.90	3.83
8	15-Dec-14	2	*4.43	3.84

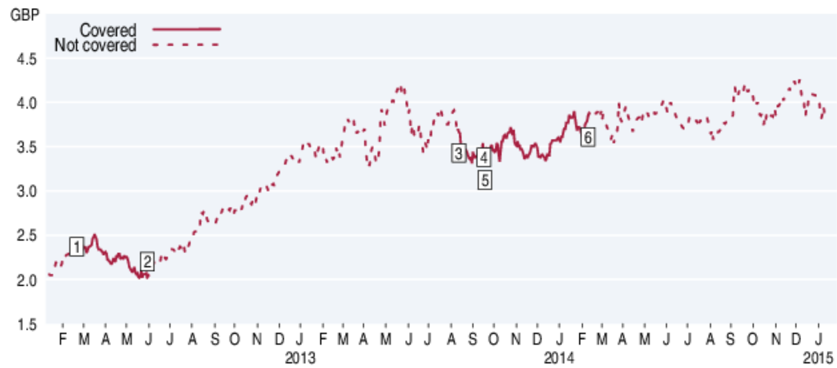
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Standard Life PLC (SL.L)

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

Analyst: Kathy Fear
Covered since October 31 2014



	Date	Rating	Target Price	Closing Price
1	21-Feb-12	*ADD LP	-	2.34
2	30-May-12	*REM LP		
3	13-Aug-13	*ADD LP	-	3.66
4	17-Sep-13	*REM LP		
5	18-Sep-13	*ADD LP	-	3.44
6	11-Feb-14	*REM LP		

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Admiral Group (ADML.L)

Ratings and Target Price History
Fundamental Research

Analyst: Kathy Fear
Covered since August 8 2014

	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	13-Jan-12	2	*9.10	8.46
3	13-Feb-12	2	*10.30	9.32
4	13-Mar-12	2	*11.10	11.40
5	19-Mar-13	2	*12.15	12.89
6	2-Dec-13	2	*12.20	11.69
7	13-Jan-14	2	*12.56	12.85

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Admiral Group (ADML.L)

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

Analyst: Kathy Fear
Covered since August 8 2014

Date	Rating	Target Price	Closing Price
1 13-Sep-13	*ADD LP	-	11.77
2 11-Feb-14	*REM LP		

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Prudential Plc (PRU.L)

Ratings and Target Price History
Fundamental Research

Analyst: Kathy Fear
Covered since October 31 2014

Date	Rating	Target Price	Closing Price
1 7-Oct-11	Stock rating system changed		
2 21-Feb-12	1	*8.15	7.16
3 4-Apr-12	1	*8.50	7.40
4 16-Nov-12	1	*9.72	8.40
5 11-Jan-13	1	*10.65	9.22
6 21-Mar-13	1	*12.67	10.80
7 7-May-13	1	*12.86	11.45
8 20-Aug-13	1	*13.90	11.48
9 13-Jan-14	1	*15.50	13.70
10 22-Apr-14	1	*16.45	13.35
11 15-Dec-14	1	*17.71	14.27

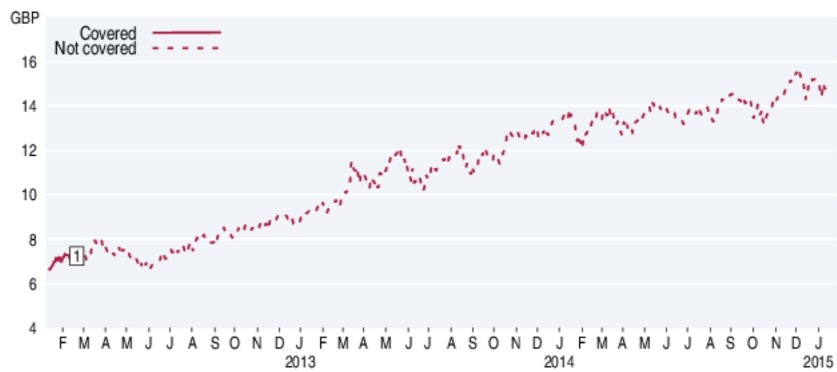
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Prudential Plc (PRU.L)

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

Analyst: Kathy Fear
Covered since October 31 2014



Date	Rating	Target Price	Closing Price
1 21-Feb-12	*REM MP		

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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price chart that appears in this report and available on Citi research's disclosure website does not reflect that Citi Research did not have a rating or target price between the Suspension Date' and the 4th July, when Citi Research resumed full coverage.

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	12 Month Rating			*Relative Rating*		
Data current as of 31 Dec 2014	Buy	Hold	Sell	Buy	Hold	Sell
Citi Research Global Fundamental Coverage	49%	40%	12%	0%	100%	0%
% of companies in each rating category that are investment banking clients	65%	62%	54%	0%	63%	0%

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Citigroup Global Markets India Private Limited	Indranil Talukdar

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