MOODY'S
INVESTORS SERVICE

CREDIT OPINION
24 April 2018

Update

Rate this Research

RATINGS

Allianz SE

Domicile	Germany
Long Term Rating	Aa3
Type	Insurance Financial Strength - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Dominic Simpson 44-20-7772-1647
VP-Sr Credit Officer
dominic.simpson@moodys.com

Christoph Ungerboeck 44-20-7772-8733
Associate Analyst
christoph.ungerboeck@moodys.com

Antonello Aquino 44-20-7772-1582
Associate Managing Director
antonello.aquino@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

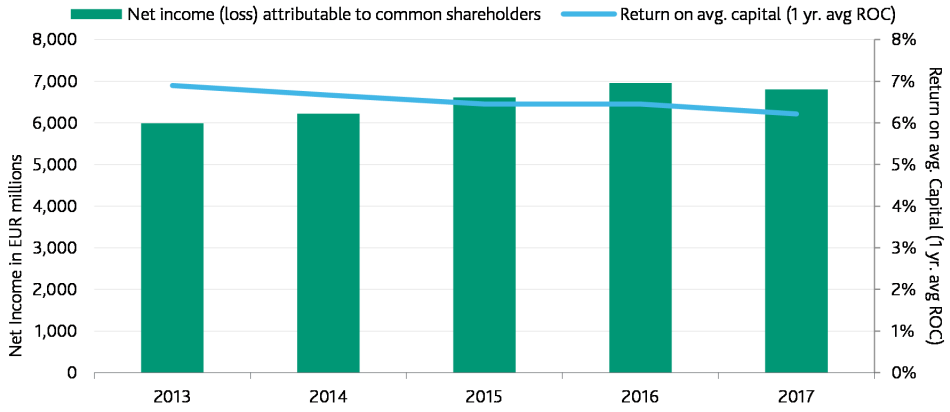
Allianz SE

Semi-annual update

Summary

Moody's rates Allianz SE Aa3 for insurance financial strength (IFSR) and senior debt with a stable outlook. The rating reflects the Group's very strong franchise and business and geographic diversification, strong operating profitability and capitalisation, and very strong financial flexibility. Less positively, the Group's life insurance business is likely to continue to face constrained profitability in a low-interest rate environment, Allianz has a high, though reducing (in terms of invested assets), concentration risk to Italy, and it is moderately but gradually increasing its allocation to more risky asset classes in response to low interest rates.

Exhibit 1
Net Income and Return on Capital (1 yr. avg ROC)



Source: Company reports and Moody's Investors Service

On 10 October 2017, Moody's affirmed Allianz SE's ratings with a stable outlook. At the same time Moody's: 1) affirmed the Aa2 IFSRs on Allianz's German operations (Allianz Versicherungs-AG (non-life business) and Allianz Lebensversicherungs-AG "Allianz Leben" (life business)) and revised the outlook to stable from negative; 2) upgraded the IFSR on Allianz Life Insurance Company of North America to A1 from A2. For more information please refer to Moody's press release of 11 October 2017, "Moody's affirms Allianz SE ratings (Aa3 senior debt) with a stable outlook".

Credit profile of significant subsidiaries

For more information on the credit profiles of: 1) Allianz Versicherungs-AG and Allianz Lebensversicherungs-AG; 2) Allianz's Italian operations (Allianz S.p.A. rated A3 IFSR, negative); 3) Allianz's US life operations (Allianz Life Insurance Company of North America rated A1 IFSR, stable), please refer to our separate Credit Opinions on these entities.

Credit strengths

» Very strong franchise in most of its core markets and very strong levels of business and geographic diversification

» Very strong financial flexibility

» Strong operating performance in recent years, including a meaningful contribution from the asset management business

» Strong capitalisation

» Access to a variety of distribution channels

Credit challenges

» Life insurance business, with relatively high guarantees in many core markets, is likely to continue to face constrained profitability in a low-interest rate environment

» High, though reducing (in terms of invested assets), concentration risk to Italy

» Sustaining recent P&C operating profit improvements in historically underperforming areas such as Latin America

Rating outlook

The outlook for Allianz SE ratings is stable reflecting our expectation that Allianz's business profile will remain very strong and that its operating performance will remain strong and stable in the coming quarters.

Factors that could lead to an upgrade

Positive rating pressure could arise from:

» Sustained decrease in financial leverage to below 20% and/or;

» Sustainable capitalisation at a very high level, both in absolute terms and compared to the peer group and/or;

» Improvements in profitability as evidenced by a Return on Capital (Moody's definition, with capital comprising shareholders' equity, free RfB reserve and hybrid capital) consistently above 8% and fixed charge coverage consistently above 9x across the underwriting cycle.

Factors that could lead to a downgrade

Negative rating pressure could arise from:

» Sustained rise in adjusted financial leverage beyond 30% and/or;

» Deterioration in profitability as evidenced by a Return on Capital (Moody's definition, with capital comprising shareholders' equity, free RfB reserve and hybrid capital) below 5% and fixed charge coverage below 5x across the underwriting cycle and/or;

» Deterioration in stand-alone credit fundamentals of main operating entities.

Key indicators

Exhibit 2

Allianz SE [1][2]	2017	2016	2015	2014	2013
As Reported (Euro Millions)					
Total Assets	901,300	883,809	848,942	805,787	711,079
Total Shareholders' Equity	68,601	70,135	66,099	63,702	52,849
Net income (loss) attributable to common shareholders	6,803	6,962	6,616	6,221	5,996
Gross Premiums Written	77,345	76,331	76,724	73,883	72,051
Life Insurance Gross Premiums Written	25,212	24,929	25,237	25,660	25,530
Property & Casualty Insurance Gross Premiums Written	52,262	51,536	51,597	48,323	46,579
Net Premiums Written	72,433	71,430	71,188	69,420	67,510
Moody's Adjusted Ratios					
High Risk Assets % Shareholders' Equity	133.1%	118.8%	122.0%	110.1%	115.5%
Reinsurance Recoverable % Shareholders' Equity	23.3%	22.1%	21.9%	20.5%	22.6%
Goodwill & Intangibles % Shareholders' Equity	44.8%	46.5%	49.6%	47.6%	55.3%
Shareholders' Equity % Total Assets	7.9%	8.4%	8.1%	8.4%	8.0%
Return on avg. Capital (1 yr. avg ROC)	6.2%	6.5%	6.5%	6.7%	6.9%
Sharpe Ratio on ROC (5yr. avg)	2551.4%	2727.5%	422.3%	419.5%	NA
Adv./(Fav.) Loss Dev. % Beg. Reserves (1 yr avg.)	-3.4%	-3.6%	-3.5%	-2.6%	-3.0%
Financial Leverage	26.1%	24.6%	25.2%	25.8%	27.2%
Total Leverage	30.4%	29.0%	29.1%	29.7%	31.5%
Earnings Coverage (1 yr.)	8.8x	8.8x	9.0x	8.2x	8.7x

[1] Information based on IFRS financial statements as of Fiscal YE December 31
[2] Certain items may have been relabeled and/or reclassified for global consistency
Source: Company reports and Moody's Investors Service

Profile

Allianz SE is the ultimate holding company of the Allianz Group and is publicly traded on the Frankfurt Stock Exchange. It is also an operating company, however as such it only writes reinsurance business, most of which is intragroup; Allianz SE is not licensed to write primary business within that legal entity. Allianz Group is the largest P&C insurer globally, among the top 5 life insurers, and one of the largest global asset managers. It also has a leading position in global corporate and specialty business, and is the leading provider of credit insurance and travel insurance and assistance services.

Detailed credit considerations

We rate Allianz SE Aa3 for insurance financial strength which is in line with the adjusted score indicated by our rating scorecard.

Insurance financial strength rating

The key factors currently influencing the rating and outlook are:

Market Position and Brand - Very strong global franchise including leading position in Germany

Allianz has a very strong global footprint being the largest global P&C insurer, among the top 5 life insurers, and one of the largest global asset managers. The Group's very strong franchise, which Moody's expects Allianz to maintain, includes a leading position in Germany where it has the largest market shares in life and non-life business, as well as leading positions in France, Italy, Switzerland and the United Kingdom. In addition, Allianz has a leading position in global corporate and specialty business, and is the leading provider of credit insurance and travel insurance and assistance services.

In November 2017, Allianz announced its intention to purchase the remaining shares in its trade credit insurance subsidiary, Euler Hermes (EH Aa3, stable), that it did not already own - Allianz's stake in EH is now around 92%. This minority interest purchase represents an increase in its ownership of a strategic and profitable businesses which is the largest global credit insurer with a market share of around 35%. And in December 2017, Allianz announced it had completed the first stage of its joint venture with Liverpool Victoria Friendly Society (LV), involving the acquisition of 49% of LV's general insurance business, which increases the Group's presence in the UK non-life market, albeit mainly within the competitive personal motor market, and which is consistent with the Group's strategy of scaling up existing businesses.

Distribution - Good diversity, with tied agents to the fore

Allianz's distribution is viewed as strong, with access to a variety of channels in many of the countries in which it operates. For its life business, there is a strong focus on tied agents, especially in Germany, which is the Group's largest distribution channel. The other significant channels are brokers, and bancassurance which is growing and where the Group has exclusive distribution agreements such as with HSBC in Asia for life insurance and with Santander and HypoVereinsbank in Germany from January 2017 and 2018 respectively for both life and P&C. Like other insurers, Allianz is developing new digital distribution models which will benefit the Group's overall control of distribution but the full benefits will take some time to materialise.

Product Focus and Diversification - Very strong business and geographic diversification, but challenge of life legacy book

Allianz benefits from very strong business diversification. In 2017, operating profits were well balanced between non-life (42%), life & health (37%) and asset management (20%) – the asset management contribution is lower than the 28% reported in 2013, but improved in 2017 compared to 2016 and 2015. The Group's geographic diversification is also very strong with meaningful amounts of revenues generated via Germany, Italy, France and the US and significant amounts of global business. Such diversification helps to off-set the interest-rate related pressures on the German life business.

Allianz's key product risk is in the life segment, which has relatively high guarantees in many core markets, notably Germany, and for which low interest rates are especially challenging. However, the aggregate spread between Allianz's asset yield of (3.4% in 2017) and the average guaranteed rate on life policies (2.1%) continues to provide the Group with some flexibility to manoeuvre by reducing credited rates to policyholders.

The risk in P&C is more limited with the book well-balanced between commercial and retail business although the relatively large global corporate and specialty business meaningfully exposes the Group to potential large loss claims.

Allianz continues to have a high concentration risk to Italy, which has some negative impact on its overall credit profile. At YE17, the Group generated around 13% (YE16: 12%) of its insurance revenues and around 14% of its earnings in Italy (YE16: 13%). Notwithstanding the negative outlook assigned by Moody's to Allianz S.p.A in line with the Italian sovereign rating, we currently consider the weight of Italian exposure within the Group to be consistent with an Aa3 rating, stable outlook for Allianz SE.

Asset Quality - Overall good but gradual increase in riskier assets

Allianz's asset quality is good, including 32% of government bonds, 12% covered bonds, 34% of corporate bonds and 9% of equities as at YE17. The average quality of the fixed income securities also remained good at YE17 (65% of debt securities rated A or above), although has been slowly declining. The high risk assets as a % of shareholders' equity ratio (which includes equities, investment property, and below investment grade/unrated debt securities) is relatively high and increased (133% at YE17, 119% at YE16) but this is mitigated to some extent by the Group's ability to share losses with policyholders by managing its crediting rates, and also by hedging.

In line with some European peers, Allianz has been increasing its exposure to alternative investments, such as mortgages, real estate, private placements, infrastructure and private equity. During 2017, these investments grew by 10% to EUR111 billion (c.65% via mortgages and real estate) representing about 17% of the investment portfolio, and Allianz plans to further grow this portfolio to EUR140 billion in the medium-term. Whilst enhancing yield and matching well with the Group's illiquid liabilities, Moody's believes that these investments also add a bit more risk to the Group's investment portfolio.

Allianz also has significant, though reduced, exposure to Italian assets, with around 3.4% of Group investments held in Italian sovereign bonds at YE17 (YE16: 3.8%), which represented around 33% (YE16: 35%) of the Group's reported total equity.

The Allianz Group's goodwill and intangibles to adjusted equity at 44.8% at YE17 (YE16: 46.5%) has further reduced, but still appears relatively high although this is mainly driven by deferred acquisition costs. Excluding these from the calculation would result in a ratio of around 16%.

The Group's reinsurance recoverables are low, representing around 23% of shareholders' equity at YE17.

Capital Adequacy - Strong and improved, although sensitive to market volatility
Allianz's capitalisation strengthened during 2017, illustrated by the improvement in its Solvency II ratio to 229% (YE16: 218%), driven by operating capital generation, which was partially offset by capital management and management actions (including EUR5 billion of share buy backs), and positive market impacts. The increase in the ratio, which is now outside of the Group's target range of 180-220%, is notwithstanding a 2% decrease during 2017 in total equity to EUR68.6 billion. In recent years, the Group's year end Solvency II ratio has been relatively stable being consistently within a 190-220% range from 2011-2016, although like many of its peers the ratio is sensitive to financial market movements. However, in this regard the ratio has benefited from the meaningful reduction in interest rate sensitivity from 2015.

In February 2017, Allianz launched a EUR3 billion share buy-back programme and also announced that although it will continue to distribute 50% to shareholders in form of a dividend, the balance will either be used to fund growth, or will be distributed to shareholders on a flexible basis, subject to a sustainable Solvency II ratio above 160%. In January 2018 Allianz launched a further buy-back programme of up to EUR2 billion. We will thus continue to monitor management's distribution of capital, although we expect the Group's capitalisation to remain strong.

Profitability - Strong and stable operating performance, although low interest rates are a significant headwind
Allianz's profitability has been strong on average in the last five years, with a Return on Capital (Moody's definition, with capital comprising shareholders' equity, free RfB reserve and hybrid capital) of 6.5%. Furthermore, volatility of earnings has been very low.

The Group's strong performance continued in 2017 with operating profit increasing by 0.4% to EUR11.1 billion, although net income, negatively impacted by the one-off impact of US tax changes and the sale of OLB, reduced by around 2%. P&C operating profit declined by 7.5% as a result of higher nat cat claims with an increase in the combined ratio to 95.2% (YE16: 94.3%) notwithstanding an improvement in the accident year loss ratio by 0.4%pt. However, this was more than off-set by improvements in the Life & Health and asset management operating results which increased by 3.1% and 10.6% respectively. The Life & Health new business value increased significantly by 30% to EUR1.9 billion benefiting from an increase in the new business margin to 3.4% (YE16: 2.7%). The asset management result benefited from strong net inflows (EUR144 billion at PIMCO) which supported higher AuM driven fees with the cost-income ratio improving to 61.9% (63.4%).

Going forward, we expect that Allianz's operating performance will remain strong, although we also expect the very low interest rate environment to be a key profitability headwind. With the contribution of asset management to the Group's operating profit remaining relatively stable, we expect that Allianz will continue to report a return on capital (Moody's definition, with capital comprising shareholders' equity, free RfB reserve and hybrid capital) above 6%.

Liquidity & Asset Liability Management - Low liquidity risk and strong ALM capabilities, but nature of life business poses challenges
We view Allianz's ALM capabilities as strong, and the Group at YE17 had reduced its duration gap to around zero (-0.3 years at YE16). However, the Group still has a relatively high average guaranteed rate of 2.1% (2.1% at YE16) for its life business, and the long, though reduced duration of Life & Health liabilities (9.5 years at YE17; 9.7 years at YE16) and pressured interest rate environment makes ALM more challenging, particularly in Germany (average guarantee of 2.4%). The sensitivity of the Group's Solvency II ratio (-11% point reduction in scenario of a decrease in interest rates by 50bps at YE17) illustrates this risk, although Allianz has meaningfully reduced this interest rate sensitivity by 10% points compared to YE14 and is seeking to reduce further.

Liquidity of the Group is very strong (see section Liquidity Profile below).

Reserve Adequacy - Consistently favourable reserve development
The overall reserve adequacy of Allianz, which has consistently released reserves, is considered strong. Over the last ten years, the Group's prior year releases have benefited its combined ratio by a meaningful average of around 3.8% points. During 2017, the reported run-off ratio reduced to 4.1% (YE16: 4.5%) driven by the Group's reinsurance, German and UK businesses. Allianz's reserving risk

benefits from its very diversified book of business, although the proportion of commercial/specialised risks is meaningful, and going forward we expect the Group to continue to report reserve releases.

Financial Flexibility - Very strong with improved leverage metrics

Allianz's adjusted financial leverage and total leverage increased in 2017 to 26.1% (YE16: 24.6%) and 30.4% (YE16: 29%) respectively. This was driven by an increase in senior debt of around EUR2 billion, although EUR500 million of senior debt matured in March 2018, and by the reduction in the Group's shareholders' equity. Going forward, we expect Allianz's adjusted financial leverage to remain below 30%.

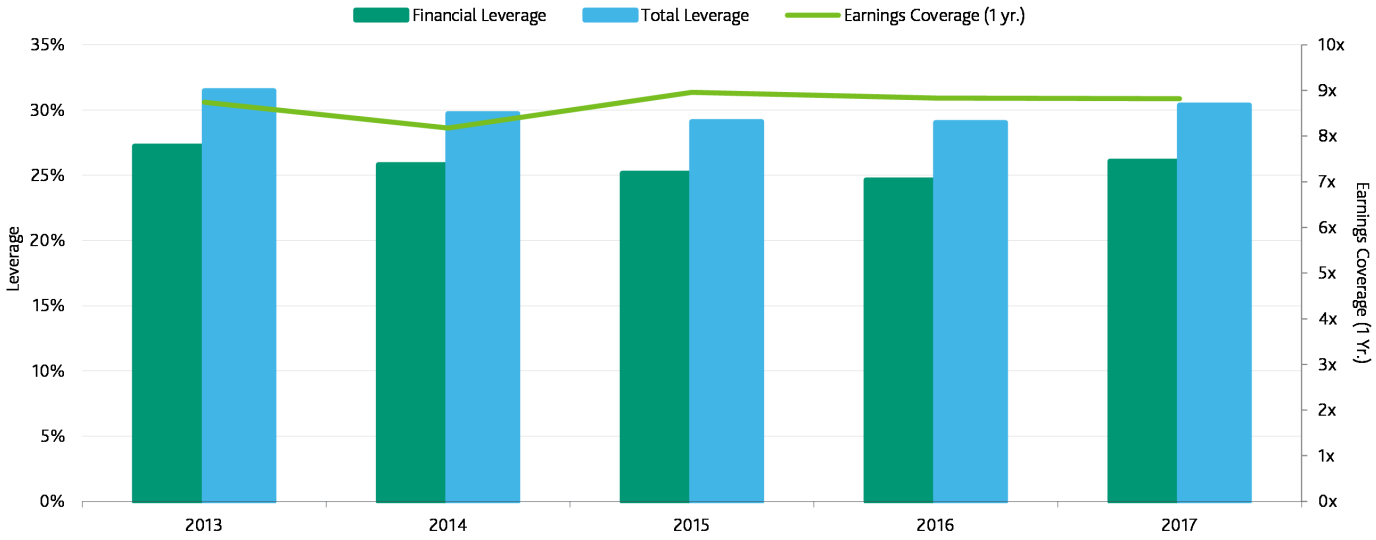
The 5 year average earnings coverage at YE17 of 8.7x, which is within Moody's expectations for Aa rated companies, improved from 8.3x at YE16 with the 1 year coverage in 2017 of 8.8x at a similar level to that in 2016. Going forward, Moody's expects Allianz to achieve earnings coverage of at least 6x-8x.

Allianz Group has historically been an active user of debt. Allianz SE either guarantees or directly issues most of the Group's debt, with the majority of the debt issued through the vehicle Allianz Finance II B.V. As of 31 December 2017, Allianz had EUR8.5 billion (YE16: EUR6.6 billion) in senior debt and EUR13.3 billion in subordinated debt (excluding debts issued by bank subsidiaries).

Moody's considers the refinancing risk to be limited in the coming few years, considering Allianz's cash position and access to capital markets. As at 31.12.17. excluding commercial paper, EUR4.8 billion (around 20% of total debt) of senior debt and EUR7.3 billion of subordinated debt mature or become callable within the next five years.

Exhibit 3

Financial Flexibility



Source: Company reports and Moody's Investors Service

Liquidity analysis

Allianz SE's primary source of cash-flow is from its directly and indirectly held participations in insurance operations. In 2017, Allianz SE received from its directly held participations about EUR1.1 billion (2016: 1.7 billion) of dividends as well as EUR3 billion (2016: EUR1.9 billion) of income from profits transfer agreements, while it reported a positive net technical result from reinsurance business of EUR113 million (2016: negative EUR128 million). At the same time, Allianz SE incurred EUR1 billion of interest expense (2016: EUR1 billion) and the total dividends paid in 2017 for 2016 were EUR3.4 billion (dividend paid in 2016 for 2015 was EUR3.3 billion). Allianz ultimately plans and manages the Allianz SE result (net earnings of EUR3.9 billion in 2016 and EUR4.1 billion in 2017) in line with the dividend policy of the Group.

Allianz SE maintains a USD CP programme and Euro CP programme. US CP (through a USD5.0 billion programme) is issued via vehicle Allianz Finance Corporation, whose very strong liquidity is supported by an unconditional and irrevocable guarantee from Allianz SE. The US CP is used to provide liquidity support to US operations, where available internal liquidity is relatively low, as well as to the Group and it stood at USD0.2 billion as of 31 December 2017. The majority of US CP issuance is issued on a 2-day settlement basis. The Group' Euro CP issuance programme (EUR5.0 billion maximum) is issued directly through Allianz SE and the outstanding amount as at 31 December 2017 was around EUR900 million.

Allianz SE as the Group holding company and reinsurer for the Group maintains a significant level of high liquidity assets (cash, bonds, tradable equities) on its own balance sheet, in respect of shareholder funds and policyholder obligations, which could be used to support short-term liquidity needs at Allianz SE or its financing subsidiaries. Allianz SE manages a cash pool which includes all German operating companies and the majority of European entities, such that liquid assets could be made available to the holding company from certain key subsidiaries at short notice. In addition, Allianz SE benefits from substantial committed, long-term bank credit lines and LOC facilities, most of which remained undrawn as of 31 December 2017. Therefore, in Moody's opinion, the Group is able to unambiguously meet all its near-term maturing obligations.

Rating methodology and scorecard factors

Exhibit 4
Allianz SE consolidated scorecard as at YE2016

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	Score	Adj Score
Business Profile								Aa	Aa
Market Position and Brand (20%)								Aa	Aa
- Relative Market Share Ratio		X							
Distribution (5%)								Baa	Aa
- Distribution Control				X					
- Diversity of Distribution			X						
Product Focus and Diversification (10%)								A	Aa
- Product Risk - P&C			X						
- Product Risk - Life				X					
- Product Diversification	X								
- Geographic Diversification		X							
Financial Profile								Aa	Aa
Asset Quality (10%)								Baa	A
- High Risk Assets % Shareholders' Equity				133.1%					
- Reinsurance Recoverable % Shareholders' Equity	23.3%								
- Goodwill & Intangibles % Shareholders' Equity				44.8%					
Capital Adequacy (15%)								A	Aa
- Shareholders' Equity % Total Assets			7.9%						
Profitability (15%)								Aa	Aa
- Return on Capital (5 yr. avg)			6.5%						
- Sharpe Ratio of ROC (5 yr. avg)	2551.4%								
Liquidity and Asset/Liability Management (5%)								Aa	Aa
- Liquid Assets % Liquid Liabilities		X							
Reserve Adequacy (5%)								Aa	Aa
- Adv./(Fav.) Loss Dev. % Beg. Reserves (5 yr. wtd avg)		-3.3%							
Financial Flexibility (15%)								Aa	Aa
- Financial Leverage		26.1%							
- Total Leverage			30.4%						
- Earnings Coverage (5 yr. avg)		8.7x							
Operating Environment								Aaa - A	Aaa - A
Aggregate Profile								Aa3	Aa3

[1] Information based on IFRS financial statements as of Fiscal YE December 31
[2] The Scorecard rating is an important component of the company's published rating, reflecting the stand-alone financial strength before other considerations (discussed above) are incorporated into the analysis
Source: Company reports and Moody's Investors Service

Structural considerations

Allianz SE is the ultimate holding company of the Group and is also an operating company, however as such it only writes reinsurance business, most of which is intragroup; Allianz SE is not licensed to write primary business within that legal entity. As a result of this

special status, Allianz SE's insurance financial strength and senior debt ratings are assigned at the same level, Aa3, and the subordinated debt rating at A2. This is consistent with Moody's standard notching approach for reinsurance operating companies.

Ratings

Exhibit 5

Category	Moody's Rating
ALLIANZ SE	
Rating Outlook	STA
Insurance Financial Strength	Aa3
Senior Unsecured	Aa3
Senior Unsecured MTN	(P)Aa3
Commercial Paper	P-1
Subordinate	A2 (hyb)
Junior Subordinate	A2 (hyb)

Source: Moody's Investors Service

REPORT NUMBER 1121476

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S
INVESTORS SERVICE