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## Allianz SE

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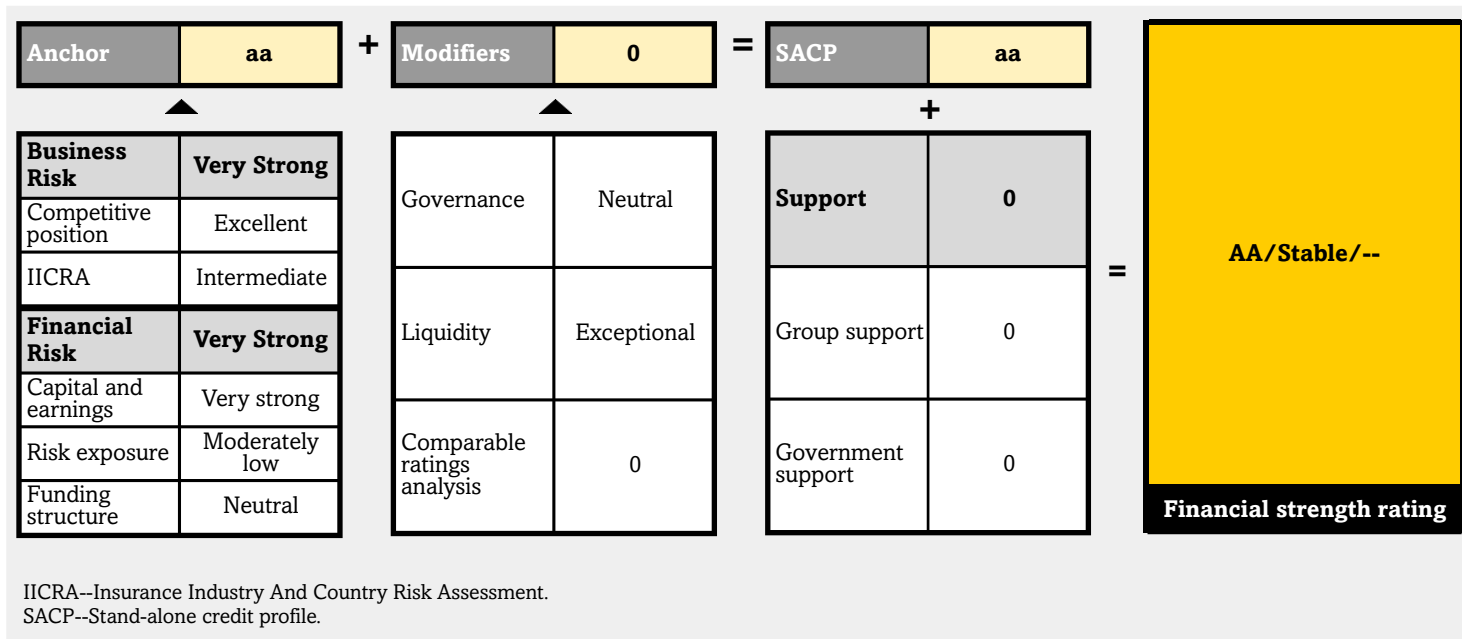
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# Allianz SE



## Credit Highlights

### Overview

Strengths	Risks
Leading global multiline insurer with an outstanding brand.	COVID-19-related setbacks are depressing the group's underwriting results, mainly in the industrial line segment.
Diversified business mix globally, including a profitable asset management businesses.	Strained investment results due to persisting low interest rates, exacerbated by the pandemic-induced market turbulence.
Reduced, but still robust, capitalization according to our capital model amid recent market turbulences and COVID-19 impacts.	Investments in Italian government bonds with about €19 billion still meaningful, albeit declining.

**Allianz SE enjoys a leading role as a global insurance group.** Allianz is one of the largest global multiline insurers benefiting from a superb brand and sound reputation. We assume the group will defend its top positions in several segments and countries. In addition to its global diversification, the group benefits from varied business lines across sectors, which includes industrial lines insurance via Allianz Global Corporate & Specialty (AGCS) and trade-credit insurance via Euler Hermes, in addition to traditional lines of insurance business.

**We anticipate Allianz earnings will be hit by the impact of Covid-19.** We expect for 2020 a reduced net income of about €6 billion, hampered by higher claims in the industrial lines due to business interruption. Still, based on our expectation that the macroeconomic environment will improve, we project an improvement of net income. In particular, Allianz continues to benefit from its strong asset management businesses including PIMCO. We regard Allianz's diversified business operations as a key rating strength compared with other global insurance groups that we rate 'AA-' (for example, AXA Group [core operating entities rated AA-/Stable/--]).

**We believe Allianz will maintain its capitalization in the 'AA' range.** Despite depressed net income and market turbulence this year, we expect Allianz' capitalization to remain very strong based on recovered earnings in 2021 and 2022, combined with the group's disciplined capital management. Allianz is strongly committed to a very strong

capitalization according to our risk-based capital model, and a Solvency II ratio without transitionals of at least 180%.

## Outlook: Stable

The stable outlook indicates that, over next two years, we expect Allianz to maintain its strong brand and continue to benefit from robust, diversified income streams from its various, global business activities. Moreover, we anticipate that the group's capitalization will settle in the 'AA' range, according to our risk-based capital (RBC) model.

### Downside scenario

We might lower the ratings if, contrary to our expectations, Allianz' capitalization according to our capital model is likely to remain below the 'AA' range for a prolonged period. We could also consider a downgrade if the group's earnings, and namely the contribution from asset management earnings, substantially weakened.

### Upside scenario

We regard an upgrade as remote, mainly because the group's capitalization is clearly deficient to the 'AAA' range.

## Key Assumptions

- We expect interest rates in the eurozone will remain low, at around zero until 2023.
- We forecast a 7.4% GDP contraction in the eurozone in 2020 due to COVID-19-related setbacks and a recovery in 2021 of 6.1%.
- Cautious central bank monetary policy that will limit investment yields.

## Allianz SE--Key Metrics

(Mil. EUR)	2022f	2021f	2020f	2019	2018	2017	2016	2015	2014	2013
Gross premiums written	>85,000	>83,000	> 82,000	82,919	77,824	77,345	76,331	76,723	73,883	72,051
Net premiums written	>79,000	>77,000	> 76,000	77,372	72,683	72,433	71,430	71,187	69,420	67,510
Net income (Excluding Minority Interest)	>7,000	>7,000	~6,000	7,914	7,462	6,803	6,962	6,616	6,223	5,995
Return on shareholders' equity (%)#	~10.0	~10.0	~8.0	11.8	11.6	10.4	10.8	10.8	11.3	12.0
P/C net combined ratio (%)**	96.0-98.0	96.0-98.0	98.0-99.0	96.4	94.5	96.2	95.5	96.0	96.8	95.2
Net investment yield (%)	>2.0	>2.0	~2.0	2.7	2.5	2.9	3.0	3.0	3.2	3.3
Return on revenue (%)	~11.0	~11.0	~10.0	11.3	11.6	11.0	11.5	11.1	10.0	11.2
Return on assets (%)	1.0-1.5	1.0-1.5	~1.0	1.2	1.3	1.2	1.3	1.3	1.3	1.5

**Allianz SE--Key Metrics (cont.)**

(Mil. EUR)	2022f	2021f	2020f	2019	2018	2017	2016	2015	2014	2013
Fixed-charge coverage (x)	>9.0	>9.0	> 8.0	11.0	10.9	9.8	9.7	10.5	9.1	9.3
Financial leverage (%)	<40.0	<40.0	<40.0	30.0	33.1	27.8	27.5	27.8	26.7	28.2
Financial obligations to EBITDA	2.0-3.0	2.0-3.0	2.0-3.0	2.8	2.7	2.9	2.7	2.5	2.8	2.6
S&P Capital Adequacy	Very strong	Very strong	Very strong	Very strong	Very strong	Extremey strong	Very strong	Very strong	Very strong	Very strong

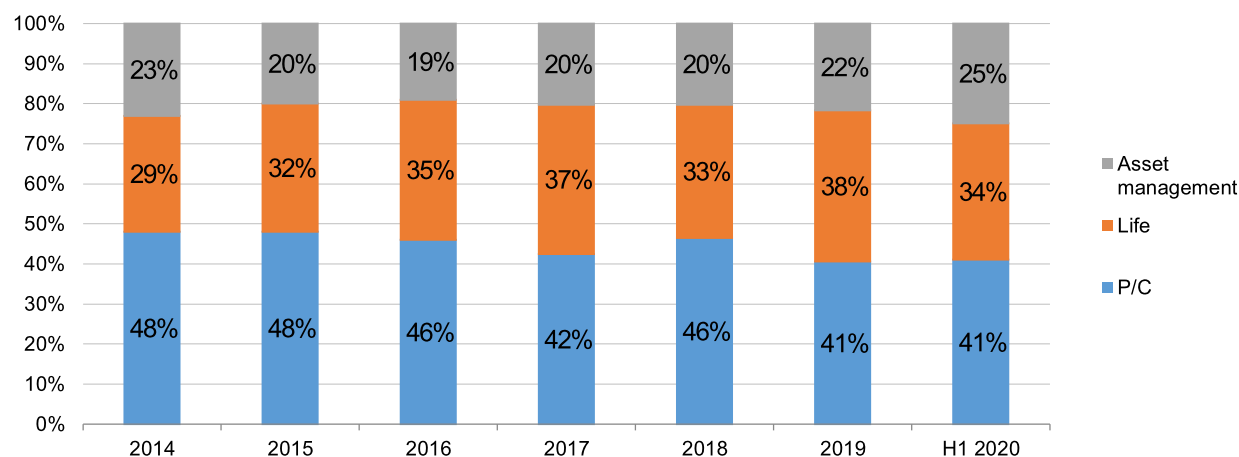
f-S&P Global Ratings forecast. Wording for capital adequacy scores for 2018 and earlier based on insurance criteria which was superseded in July 2019. S&P Capital adequacy is an estimate for the year 2019. \*Includes premium refunds. # Calculated according to S&P Definitions

## Business Risk Profile: Very Strong

In our opinion, Allianz enjoys an ample diversification across property and casualty (P/C) and life and health insurance. Furthermore, the group benefits from noninsurance fee income from its asset management business, mainly because of PIMCO. While the asset management contributed about 20% to group's operating profit in past five years, the contribution of the asset management was particularly fruitful in the half year results 2020, since overall earnings have been dimmed by COVID-19 impacts (see charts 1 and 2).

**Chart 1**

### Asset Management Is An Important Earnings Contributor



Source: S&P Global Ratings.

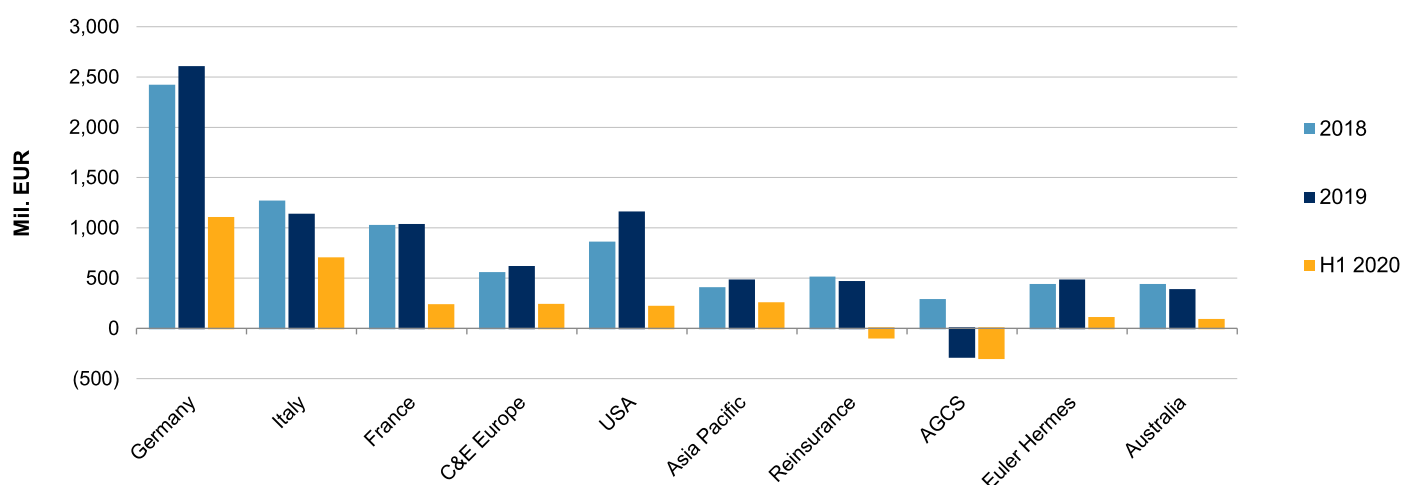
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From our perspective, Allianz's competitive position is supported by a sound reputation and market leadership in key European insurance markets such as Germany, France, and Italy. Moreover, its asset management subsidiary, PIMCO, is a top 10 asset managers.

We regard Allianz's overall performance as sound. However, AGCS and the industrial business have been underperforming for a while. We believe in 2020 the combined (loss and expenses) ratio for AGCS will remain clearly above 100%, partly because of COVID-19 fallout. AGCS faces claims related to event cancellations or business interruption, which led to a combined ratio of 117.2% as at June 30, 2020, and an operating loss of €295 million. Nonetheless, we expect that the Allianz group will remain highly committed to AGCS and its industrial business, and support AGCS to improve its underwriting results gradually by 2024.

## Chart 2

### Diversified Income Streams (Operating Profit P/C And Life/health) Offsetting The Weak AGCS Results In H2 2019



Source: S&P Global Ratings.

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## Financial Risk Profile: Very Strong

We expect Allianz Group will sustain very strong capitalization, despite the pandemic's adverse effects, thanks to its diversified and overall robust earnings streams.

According to our RBC model, Allianz' capitalization has fallen close to the 'AA' threshold, mainly because of the prevailing low interest rates and increased volatility in global stock markets. Interest rates fell during 2020 from an already low level at year-end 2019.

After half-year earnings of about €3.1 billion, we anticipate a net income of about €6 billion for 2020 dampened by a higher combined ratio of 98%-99%. We acknowledge Allianz reported that the pandemic hit the mid-2020 results by about €1.2 billion; main claims are due to business interruption and event cancellation and affect predominantly its industrial line business and its subsidiary AGCS.

For 2021 and 2022, we expect a higher net income of more than €7 billion a year, based on our expectation that the

macroeconomic environment will improve. Our assumptions include furthermore an ordinary annual dividend payout of about 50%. We also acknowledge that the group is interested in improving its scale and presence in selected markets, particular in the P/C segment. For instance, in 2019, Allianz purchased Liverpool Victoria Co. Ltd. and Legal & General Insurance Ltd. in the U.K. non-life market. Our forecast therefore also incorporates acquisitions or additional share buyback of about €2 billion for 2021-2022.

That said, we expect Allianz will remain committed to a strict capital management to ensure its capitalization targets under both our insurance capital model and Solvency II.

We assume Allianz will maintain a broadly prudent investment strategy with about 85% in fixed income investments and an equity share of about 10%. We acknowledge that Allianz aims to expand its alternative investment portfolio, such as in infrastructure, targeting a portfolio value of €170 billion; this compares with €161 billion as per year-end 2019 (including almost €50 billion of real estate). We view most of the alternative investment portfolio as comprising rather high-risk assets, which could lead to volatility in the investment results.

In our perspective, Allianz remains exposed to market and credit risk due to its €19 billion investment in Italian government bonds. We see this as a potential source of volatility and a possible constraint on its credit quality.

Regarding life insurance, we acknowledge Allianz's shift to capital-light products. However, its back-book is dominated by guaranteed products, and this will continue until the guarantees abate.

We consider that Allianz has solid risk controls for all its main risks, and that it benefits from its sound risk management capabilities. We therefore consider it unlikely that the group will suffer losses outside its risk tolerances.

## Environmental, Social, and Governance

We believe Allianz's exposure to environmental and social risk factors are in line with the wider insurance industry and other global multiline peers, such as AIG, AXA, and Zurich. Allianz's exposure to environmental risk factors largely stems from concerns that climate change could increase the frequency and severity of claims for damage, because of extreme weather.

The insurer's investment portfolio also carries some risk, because changes in climate-related policy or public opinion could increase the volatility of asset valuations. Allianz has a sophisticated risk-management framework through which it identifies, models, and controls risk. Overall, we consider Allianz to be well protected against extreme natural catastrophe events, as it demonstrated in 2017 when it reported limited losses following Hurricanes Harvey, Maria, and Irma. Natural catastrophe losses after reinsurance were less than €400 million, while its overall claims stood at €31 billion. Shareholder equity was €65 billion in 2017.

Allianz offers a wide range of life insurance products, including saving products and annuities. We regard Allianz's exposure to social factors as comparable with that of other life insurance companies. For example, demographic developments are causing an increase in longevity, a trend that will increase insurance liabilities.

We view Allianz's governance as healthy, with no material constraints. The group's benefits from a stringent strategic

planning, clear internal processes, and a deeply embedded risk culture, which helps to manage and reduce risks.

## Other Key Credit Considerations

### Liquidity

We continue to view Allianz's liquidity as exceptional. Specifically, we have no refinancing concerns, and we expect the group could withstand any severe liquidity stress, such as those from unexpectedly large claims. For instance, the insurer has not faced any liquidity issues stemming from COVID-19 fallout.

### Factors specific to the holding company

We rate holding company Allianz SE (AZSE) in line with the core operating companies of Allianz Group. This reflects our view of AZSE's various and material business activities and income streams from reinsurance, asset management, and treasury. It also reflects ample liquidity at the holding level.

### Accounting considerations

Allianz prepares its consolidated financial statements under International Financial Reporting Standards. In assessing Allianz's capital adequacy, we adjust reported shareholders' equity, mainly for:

- Credit for life value-in-force business;
- Inclusion of free and unallocated policyholder bonus reserves in life insurance;
- Credit for reserve discount in P/C; and
- We also adjust risk capital requirements for quantitative credit for the group's economic capital model.

## Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: A New Level Of Enterprise Risk Management Analysis: Methodology For Assessing Insurers' Economic Capital Models, Jan. 24, 2011

## Related Research

- International Insurance Group Allianz Ratings Affirmed, Oct. 8, 2020
- Down But Not Out: Insurers' Capital Buffers Are Proving Resilient In The Face Of COVID-19, Sept. 22, 2020
- Allianz Global Corporate & Specialty SE, July 10, 2020

## Appendix

### Allianz SE--Credit Metrics History

Ratio/Metric	2019	2018	2017
S&P Global Ratings capital adequacy*	Very strong	Very strong	Extremey strong
Total invested assets	890,655	796,165	792,644
Total shareholder equity	77,364	63,679	68,602
Gross premiums written	82,919	77,824	77,345
Net premiums written	77,372	72,683	72,433
Net premiums earned	75,914	71,472	71,426
Reinsurance utilization (%)	7	7	6
EBIT	11,781	11,218	10,875
Net income (Excluding Minority Interest)	7,914	7,462	6,803
Return on revenue (%)	11.3	11.6	11.0
Return on assets (including investment gains/losses) (%)	1.2	1.3	1.2
Return on shareholders' equity (%)#	11.8	11.6	10.4
P/C net combined ratio (%)§#	96.4	94.5	96.2
P/C: net expense ratio (%)	27.5	28.0	28.7
P/C: return on revenue (%)	8.5	10.8	9.0
Life: Net expense ratio (%)	25.6	23.7	26.7
Net investment yield (%)	2.7	2.5	2.9
Net investment yield including investment gains/(losses) (%)	3.4	2.9	3.7
EBITDA fixed-charge coverage (x)	11.0	10.9	9.8
EBIT fixed-charge coverage (x)	10.8	10.6	9.6
Financial obligations / EBITDA adjusted	2.8	2.7	2.9
Financial leverage including pension deficit as debt (%)	30	33	32

\*Wording for capital adequacy scores for 2018 and earlier based on insurance criteria which was superseded in July 2019; for 2019 estimated.

#Calculated according to S&P Definitions. §Includes premium refunds.

### Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

**Note:** Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.



## Ratings Detail (As Of October 28, 2020)\*

**Operating Company Covered By This Report****Allianz SE**

Financial Strength Rating	
<i>Local Currency</i>	AA/Stable/--
Issuer Credit Rating	AA/Stable/A-1+
Commercial Paper	
<i>Local Currency</i>	A-1+
Junior Subordinated	A+

**Related Entities****AGCS Marine Insurance Co.**

Financial Strength Rating	
<i>Local Currency</i>	AA/Negative/--
Issuer Credit Rating	
<i>Local Currency</i>	AA/Negative/--

**Allianz Australia Insurance Ltd.**

Financial Strength Rating	
<i>Local Currency</i>	AA-/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	AA-/Stable/--

**Allianz Banque**

Issuer Credit Rating	AA-/Stable/A-1+
Commercial Paper	
<i>Local Currency</i>	A-1+
Senior Unsecured	AA-

**Allianz Elementar Lebensversicherungs AG**

Financial Strength Rating	
<i>Local Currency</i>	AA/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	AA/Stable/--

**Allianz Elementar Versicherungs - AG**

Financial Strength Rating	
<i>Local Currency</i>	AA/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	AA/Stable/--

**Allianz Fire and Marine Insurance Japan Ltd.**

Financial Strength Rating	
<i>Local Currency</i>	AA/Negative/--
Issuer Credit Rating	
<i>Local Currency</i>	AA/Negative/--

**Allianz France**

Issuer Credit Rating	
<i>Local Currency</i>	A+/Stable/A-1
Junior Subordinated	BBB+

## Ratings Detail (As Of October 28, 2020)\*(cont.)

**Allianz Global Corporate and Specialty South Africa Ltd.**

Financial Strength Rating

*Local Currency*

BB+/Stable/--

Issuer Credit Rating

*Local Currency*

BB+/Stable/--

*South Africa National Scale*

zaAAA/--/--

**Allianz Global Corporate & Specialty SE**

Financial Strength Rating

*Local Currency*

AA/Negative/--

Issuer Credit Rating

*Local Currency*

AA/Negative/--

**Allianz Global Risks U.S. Insurance Co.**

Financial Strength Rating

*Local Currency*

AA/Negative/--

Issuer Credit Rating

*Local Currency*

AA/Negative/--

**Allianz IARD**

Financial Strength Rating

*Local Currency*

AA/Stable/--

Issuer Credit Rating

*Local Currency*

AA/Stable/--

**Allianz Insurance PLC**

Financial Strength Rating

*Local Currency*

AA-/Stable/--

Issuer Credit Rating

*Local Currency*

AA-/Stable/--

**Allianz Lebensversicherungs AG**

Financial Strength Rating

*Local Currency*

AA/Stable/--

Issuer Credit Rating

*Local Currency*

AA/Stable/--

**Allianz Life Insurance Co. of New York**

Financial Strength Rating

*Local Currency*

AA/Stable/--

Issuer Credit Rating

*Local Currency*

AA/Stable/--

**Allianz Life Insurance Co. of North America**

Financial Strength Rating

*Local Currency*

AA/Stable/--

Issuer Credit Rating

*Local Currency*

AA/Stable/--

**Allianz PLC**

Financial Strength Rating

*Local Currency*

AA-/Stable/--

## Ratings Detail (As Of October 28, 2020)\*(cont.)

Issuer Credit Rating	
<i>Local Currency</i>	AA-/Stable/--
<b>Allianz Private Krankenversicherungs - AG</b>	
Financial Strength Rating	
<i>Local Currency</i>	AA/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	AA/Stable/--
<b>Allianz Re Dublin DAC</b>	
Financial Strength Rating	
<i>Local Currency</i>	AA-/Stable/--
<b>Allianz Reinsurance America, Inc.</b>	
Financial Strength Rating	
<i>Local Currency</i>	AA-/Stable/--
<b>Allianz Risk Transfer AG</b>	
Financial Strength Rating	
<i>Local Currency</i>	AA-/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	AA-/Stable/A-1+
Financial Enhancement Rating	
<i>Local Currency</i>	AA-/--/--
<b>Allianz Risk Transfer (Bermuda) Ltd.</b>	
Financial Strength Rating	
<i>Local Currency</i>	AA-/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	AA-/Stable/--
Financial Enhancement Rating	
<i>Local Currency</i>	AA-/--/--
<b>Allianz SpA</b>	
Financial Strength Rating	
<i>Local Currency</i>	A/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	A/Stable/--
<b>Allianz Suisse Lebensversicherungs - Gesellschaft</b>	
Financial Strength Rating	
<i>Local Currency</i>	AA/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	AA/Stable/--
<b>Allianz Suisse Versicherungs - Gesellschaft</b>	
Financial Strength Rating	
<i>Local Currency</i>	AA/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	AA/Stable/--

## Ratings Detail (As Of October 28, 2020)\*(cont.)

**Allianz Underwriters Insurance Co.**

Financial Strength Rating

*Local Currency*

AA/Negative/--

Issuer Credit Rating

*Local Currency*

AA/Negative/--

**Allianz Versicherungs AG**

Financial Strength Rating

*Local Currency*

AA/Stable/--

Issuer Credit Rating

*Local Currency*

AA/Stable/--

**Allianz Vie**

Financial Strength Rating

*Local Currency*

AA/Stable/--

Issuer Credit Rating

*Local Currency*

AA/Stable/--

**American Automobile Insurance Co.**

Financial Strength Rating

*Local Currency*

AA/Negative/--

Issuer Credit Rating

*Local Currency*

AA/Negative/--

**American Insurance Co.**

Financial Strength Rating

*Local Currency*

AA/Negative/--

Issuer Credit Rating

*Local Currency*

AA/Negative/--

**Associated Indemnity Corp.**

Financial Strength Rating

*Local Currency*

AA/Negative/--

Issuer Credit Rating

*Local Currency*

AA/Negative/--

**Chicago Insurance Co.**

Financial Strength Rating

*Local Currency*

AA/Negative/--

Issuer Credit Rating

*Local Currency*

AA/Negative/--

**Euler Hermes North America Insurance Company**

Financial Strength Rating

*Local Currency*

AA/Stable/--

Issuer Credit Rating

AA/Stable/--

**Euler Hermes Reinsurance AG**

Financial Strength Rating

*Local Currency*

AA/Stable/--

Issuer Credit Rating

AA/Stable/--

## Ratings Detail (As Of October 28, 2020)\*(cont.)

**Euler Hermes S.A.**

Financial Strength Rating

*Local Currency*

AA/Stable/--

Issuer Credit Rating

AA/Stable/A-1+

**Fairmead Insurance Ltd.**

Financial Strength Rating

*Local Currency*

AA-/Stable/--

Issuer Credit Rating

*Local Currency*

AA-/Stable/--

**Fireman's Fund Indemnity Corp.**

Financial Strength Rating

*Local Currency*

AA/Negative/--

Issuer Credit Rating

*Local Currency*

AA/Negative/--

**Fireman's Fund Insurance Co.**

Financial Strength Rating

*Local Currency*

AA/Negative/--

Issuer Credit Rating

*Local Currency*

AA/Negative/--

**Highway Insurance Co. Ltd.**

Financial Strength Rating

*Local Currency*

AA-/Stable/--

**Interstate Fire & Casualty Co.**

Financial Strength Rating

*Local Currency*

AA/Negative/--

Issuer Credit Rating

*Local Currency*

AA/Negative/--

**Liverpool Victoria Insurance Co. Ltd.**

Financial Strength Rating

*Local Currency*

AA-/Stable/--

**National Surety Corp.**

Financial Strength Rating

*Local Currency*

AA/Negative/--

Issuer Credit Rating

*Local Currency*

AA/Negative/--

**Domicile**

Germany

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