

Research Update:

Allianz 'AA' Ratings Affirmed On Recovering Capitalization; Outlook Stable

October 12, 2021

Overview

- We continue to believe that Allianz's capitalization will improve to very strong by 2021 and that the group will benefit from its strong earnings capacity, shielding it from potential adverse events.
- We revised up our view of the strategic importance captive insurer Allianz Re Dublin DAC has within the group to core.
- We therefore affirmed our 'AA' ratings on Allianz's core subsidiaries and on its operating holding company, Allianz SE. We raised the rating on Allianz Re Dublin DAC to 'AA' from 'AA-'.
- The outlook on Allianz SE is stable because we expect the group's capitalization will recover to very strong by end-2021.

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Rating Action

On Oct. 12, 2021, S&P Global Ratings affirmed its 'AA' long-term issuer credit and insurer financial strength ratings on the core operating entities of Germany-based Allianz group and its holding company Allianz SE. We also raised to 'AA' from 'AA-' the insurer financial strength rating on Allianz Re Dublin DAC. The outlook on Allianz SE is stable and those on the operating entities are unchanged (see the ratings list).

Rationale

We continue to expect that Allianz's capital adequacy measured by our risk-based capital model will recover to the very strong range--where it was before the COVID-19 pandemic--by year-end 2021. We acknowledge the group's sound earnings capacity across its diversified operations, exemplified by strong net income of €4.8 billion through June 30, 2021. We also note the group's ability to access financial markets with its issuance of restrictive Tier 1 hybrids of roughly €2.3 billion last month.

At the same time, we understand that the U.S. Department of Justice's ongoing investigation into

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Allianz Global Investors' Structured Alpha Funds could materially affect the group's financials. The financial consequences and timing of the investigation are still highly unpredictable. While not our base case, the potential costs or provisions could be substantial. We believe Allianz has various resources to conserve or restore capital in the event of outsized losses. However, at this stage, we cannot rule out any negative impact on the ratings or component scores.

For 2021-2023, we continue to forecast net income of around €8 billion annually, a return on equity of about 9%, and a combined (loss and expense) ratio of 93%-96%. We base our forecast on our expectation that asset management will remain an important earnings contributor, and the property/casualty (P/C) result will recover, thanks to increased focus on efficiency and price increases.

We acknowledge that the industrial line business of Allianz Global Corporate & Specialty SE (AGCS) is recovering in line with group targets, showing a combined ratio of 97.8% in the first half of 2021 after 115.5% in 2020. If the positive trends continue over the next 12 months, we could revise the outlook to stable from negative. We also see the profitability of U.S. business improving and therefore see the outlook of the U.S.-based entity Allianz Global Risks U.S. Insurance Co. (AGRUS) as in line with that on AGCS.

Furthermore, we have revised our view of Allianz Re Dublin's strategic importance within the group to core from highly strategic. As a captive insurer, Allianz Re Dublin is closely linked with the group, and Allianz recently moved the reinsurer Euler Hermes Re under the Allianz Re umbrella. This underpins the company's relevance as a reinsurance competence center for the group.

Outlook

The stable outlook is based on our expectation that the group's capitalization will recover to the 'AA' range by end-2021, according to our risk-based model. We also expect that, over the next two years, Allianz will maintain its excellent brand and reputation and continue to benefit from robust diverse income streams from its various global business activities.

Downside scenario

We could lower the ratings within the next 24 months if, contrary to our expectations, Allianz's capitalization according to our capital model does not improve to the 'AA' level. This could happen, for example, due to a substantial cost or provisions associated with the investigation into Allianz Global Investors' Structured Alpha Funds. Furthermore, we might consider lowering the ratings if the group's earnings and, in particular, the contribution from asset-management earnings, substantially weakened for a prolonged period.

Upside scenario

We regard an upgrade as a remote possibility, mainly because the group's capitalization is clearly deficient relative to the 'AAA' confidence level.

Outlook on AGCS and AGRUS

The negative outlook reflects the possibility of a one-notch downgrade over the next 12 months if AGCS cannot materially strengthen its operating performance and underwriting results.

The outlook on AGRUS mirrors the outlook on AGCS. Any rating action on AGCS would apply to

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AGRUS given the former's core status to AGCS.

Downside scenario

We could revise our assessment of AGCS' group status to highly strategic from core, and consequently lower the ratings on the company by one notch. This could occur if AGCS' underwriting results remain unprofitable, and if we expect that AGCS is unable to substantially improve its underwriting performance or achieve combined ratios closer to 95%-98% by 2022.

Upside scenario

We could revise the outlook to stable if we see an increasing likelihood that AGCS can consistently achieve profitable underwriting results in line with group standards with a combined ratio of 95%-98%.

Ratings Score Snapshot

| | |
|-----------------------------|----------------|
| Financial strength rating | AA |
| Anchor* | aa |
| Business risk | Very strong |
| IICRA | Intermediate |
| Competitive position | Excellent |
| Financial risk | Very strong |
| Capital and earnings | Very strong |
| Risk exposure | Moderately low |
| Funding structure | Neutral |
| Modifiers | |
| Governance | Neutral |
| Liquidity | Exceptional |
| Comparable ratings analysis | 0 |
| Support | 0 |
| Group support | 0 |
| Government support | 0 |

*This is influenced by our view of Allianz's diversified income streams and supported by its asset-management business, including PIMCO, compared with 'AA-' rated peers. IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019

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- 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
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Related Research

- Global Multiline Insurer Allianz SE's Undated Restricted Tier 1 Deeply Subordinated Notes Rated 'A', Sept. 9, 2021
- Allianz SE: U.S. Authorities' Probe Into Asset Management Activity Could Hamper Future Group Financial Results, Aug. 2, 2021
- Strong First-Quarter Results See Allianz's Strengths Shine, May 12, 2021
- Allianz SE, April 16, 2021

Ratings List

*****Allianz SE*****

Upgraded

| | To | From |
|------------------------------|--------------|---------------|
| Allianz Re Dublin DAC | | |
| Financial Strength Rating | | |
| Local Currency | AA/Stable/-- | AA-/Stable/-- |

Ratings Affirmed

Allianz SE

| | |
|----------------------|----------------|
| Issuer Credit Rating | AA/Stable/A-1+ |
| Junior Subordinated | A |
| Junior Subordinated | A+ |

Euler Hermes S.A.

| | |
|---------------------------|----------------|
| Issuer Credit Rating | AA/Stable/A-1+ |
| Financial Strength Rating | |
| Local Currency | AA/Stable/-- |

Euler Hermes North America Insurance Co.

Euler Hermes Reinsurance AG

| | |
|---------------------------|--------------|
| Issuer Credit Rating | AA/Stable/-- |
| Financial Strength Rating | |
| Local Currency | AA/Stable/-- |

Allianz Vie

Allianz Versicherungs AG

Allianz Suisse Versicherungs - Gesellschaft

Allianz Suisse Lebensversicherungs - Gesellschaft

Allianz Private Krankenversicherungs - AG

Allianz Life Insurance Co. of North America

Allianz Life Insurance Co. of New York

Allianz Lebensversicherungs AG

Allianz IARD

Allianz Elementar Versicherungs - AG

Allianz Elementar Lebensversicherungs AG

Financial Strength Rating

Local Currency AA/Stable/--

Issuer Credit Rating

Local Currency AA/Stable/--

AGCS Marine Insurance Co.

National Surety Corp.

Interstate Fire & Casualty Co.

Fireman's Fund Insurance Co.

Chicago Insurance Co.

American Automobile Insurance Co.

Allianz Underwriters Insurance Co.

Allianz Global Risks U.S. Insurance Co.

Allianz Global Corporate & Specialty SE

Issuer Credit Rating

Local Currency AA/Negative/--

Financial Strength Rating

Local Currency AA/Negative/--

Allianz Australia Insurance Ltd.

Fairmead Insurance Ltd.

Allianz Risk Transfer (Bermuda) Ltd.

Allianz PLC

Allianz Insurance PLC

Issuer Credit Rating

Local Currency AA-/Stable/--

Financial Strength Rating

Local Currency AA-/Stable/--

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Liverpool Victoria Insurance Co. Ltd.

Highway Insurance Co. Ltd.

Allianz Reinsurance America, Inc.

| | |
|---------------------------|---------------|
| Financial Strength Rating | |
| Local Currency | AA-/Stable/-- |

Allianz France

| | |
|----------------------|---------------|
| Issuer Credit Rating | |
| Local Currency | A+/Stable/A-1 |
| Junior Subordinated | BBB+ |

Allianz Global Corporate and Specialty South Africa Ltd.

| | |
|-----------------------------|---------------|
| Issuer Credit Rating | |
| Local Currency | BB+/Stable/-- |
| South Africa National Scale | zaAAA/--/-- |
| Financial Strength Rating | |
| Local Currency | BB+/Stable/-- |

Allianz Risk Transfer (Bermuda) Ltd.

Allianz Risk Transfer AG

| | |
|------------------------------|----------|
| Financial Enhancement Rating | |
| Local Currency | AA/--/-- |

Allianz Risk Transfer AG

| | |
|---------------------------|-----------------|
| Issuer Credit Rating | |
| Local Currency | AA-/Stable/A-1+ |
| Financial Strength Rating | |
| Local Currency | AA-/Stable/-- |

Allianz SpA

| | |
|---------------------------|-------------|
| Issuer Credit Rating | |
| Local Currency | A/Stable/-- |
| Financial Strength Rating | |
| Local Currency | A/Stable/-- |

Allianz Finance II B.V.

| | |
|------------------|----|
| Senior Unsecured | AA |
|------------------|----|

Allianz Banque

| | |
|------------------------|-----------------|
| Issuer Credit Rating | AA-/Stable/A-1+ |
| Certificate Of Deposit | |
| Foreign Currency | AA- |
| Local Currency | AA-/A-1+ |

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S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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