

November 9, 2009

Investment Grade Credit

Europe

## European Insurance

### Allianz - Mandatory Deferral, But Problem Sorted

**Mandatory coupon deferral has been triggered.** 3Q reporting confirms deferral on ALVGR's retail \$ 8.375% Perp NC13s and €5.375% Perp NC11s.

**No loss to bondholders expected.** ALVGR has stated that it "intends to timely make the relevant coupon payments in accordance with the respective terms and conditions by making use of certain mechanisms as provided for therein". Both bonds allow for immediate ACSM operation to settle mandatorily deferred coupons (the sale of shares, including treasury stock, to raise cash). The coupons to be settled this way are the December 15 payment on the \$ 8.375% Perp NC13s and the March 3, 2010 payment on the €5.375% Perp NC11s.

**Mandatory deferral on ALVGR institutional €5.5% Perp NC14s has been avoided.** As expected the strong rebound in ALVGR's net income over the second and third quarters, combined with different bond language, has resulted in no mandatory deferral.

**ALVGR is demonstrating its commitment to strong bondholder relations by dealing speedily with this legacy issue** (mandatory deferral caused in part by P&L volatility linked to disposal of Dresdner).

**Our calculations suggest that future mandatory deferral risk on ALVGR bonds is now remote**, due to strong performance in 2009 YTD and 2008 figures carrying less weight in mandatory deferral calculations.

**ALVGR's responsible behaviour supports the group's bonds trading at current levels and to call.**

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	Count	% of Total	Count	% of Total IBC	% of Rating Category
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<b>Not-Rated/Hold</b>	<b>26</b>	<b>1%</b>	<b>3</b>	<b>0%</b>	<b>12%</b>
<b>Underweight/Sell</b>	<b>392</b>	<b>17%</b>	<b>87</b>	<b>13%</b>	<b>22%</b>
<b>Total</b>	<b>2,375</b>		<b>685</b>		

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