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Ratings

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Research Update:

Ageas Core Entities 'A' And Holding Co 'BBB' Ratings Affirmed; Outlook Stable

Primary Credit Analyst:
Marco Sindaco, Madrid (34) 91-788-7218; marco.sindaco@spglobal.com

Secondary Contact:
Charlotte Chausserie-Lapree, Paris (33) 1-4420-7205; charlotte.chausserie@spglobal.com

Research Contributor:
Ami M Shah, Mumbai (91) 22-4040-8340; ami.shah@spglobal.com

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Overview

- Over the past two years, Ageas has undertaken important actions aimed at closing its legacy issues chapter while continuing growth via acquisitions and promoting shareholders' loyalty through dividends and share buybacks.
- While such actions have, in our opinion, weakened Ageas' capital buffers, its capital and earnings position is prospectively more stable, given our view that risks associated with potential losses from legacy issues are declining.
- We are therefore affirming our 'A' ratings on Ageas' core operating entities and our 'BBB' ratings on the non-operating holding company.
- The stable outlook reflects our expectations that Ageas will preserve at least strong capital buffers while improving underlying operating performance on the back of solid positions and distribution ties in its main markets.

Rating Action

On Nov. 22, 2017, S&P Global Ratings affirmed its 'A' long-term issuer credit and financial strength ratings on the Ageas group's core subsidiaries: AG Insurance, AIL, and Intreas. At the same time, we affirmed the long-term issuer credit rating on the holding company Ageas SA/NV at 'BBB/A-2'. The outlook on all the entities is stable.

Rationale

The affirmation reflects our belief that while Ageas' capital position has weakened as a result of provisions and other capital management policies, the potential volatility from legacy issues is steadily reducing.

In our view, the provisions for the proposed settlement agreement with the major claimants' organization represent an important step in Ageas' journey to fully settle legacy issues. This comes at the cost of weakening Ageas' capital adequacy, adding to the effect of recent acquisitions, dividend payments, and share buybacks.

Nevertheless, under our base-case scenario, we expect that Ageas' capital and earnings position will not weaken further over the next two years. Our base case factors in the continuation of relationships and capital ties with BNP Paribas Fortis (25% owner of AG Insurance). We factor in our expectations of declining capital requirements in Ageas' main markets, Belgium and the U.K., in line with our volume decline expectations. We also expect that potential major and/or bolt-on acquisitions and dividend and share buyback strategies will favor maintaining capital buffers materially in line with a capital adequacy that is at least in line with a 'A' range capital adequacy benchmark.

We continue to apply a three-notch gap, rather than the standard two notches, between the rating on Ageas' core operating companies and on the holding company, Ageas SA/NV. The third notch reflects our view that legacy issues, particularly legal disputes, if they adversely materialize, would mostly affect Ageas SA/NV as the liable party. We believe it is unlikely that, in this worse-case scenario, Ageas SA/NV could draw more funds--either dividends or other loans--from the operating regulated subsidiaries to enhance its ability to face such a scenario.

Ageas' business spread in well-developed countries, sound capital management, and good ties with distributors mean that it compares well with other players rated in the 'A' range. Ageas enjoys brokerage as well as bancassurance ties; benefits from a well-diversified insurance portfolio between life and non-life; and has consolidated its business position in Belgium, the U.K., and Portugal over the past eight years. We expect Ageas to continue to build on its diversified positions in these markets and bring its operating performance to more stable territories, preserving the profitability of its life business in Belgium and reducing the volatility and improving technical performances of its U.K. business in particular. We also expect Ageas to continue to source a good contribution from its minority stakes in major joint ventures in countries such as China, Malaysia, and Thailand.

Outlook

The stable outlook reflects our expectation that, over the next two years, Ageas will preserve its strong capital buffers while improving the wider underlying performance, in particular of its U.K. business. This is on the back of solid positions and distribution ties in its main markets.

Downside scenario

We could lower the ratings on Ageas over the next two years if capital adequacy weakened below strong levels. This could be the case if:

- Acquisitions, dividends, or share buybacks consume consolidated capital buffers, contrary to our base-case forecast.
- Legacy issues materialize that are materially higher than Ageas' booked reserves.
- Potential additional capital expenditures, such as the cost of the BNP Paribas put option if exercised, is not funded to prospectively maintain capital buffers in line with our 'A' benchmark.

Upside scenario

We see an upgrade as unlikely in the next two years. However, we could raise the ratings on Ageas if its capital adequacy sustainably increased to the 'AAA' level, and if Ageas completely settled its legacy issues.

Ratings Score Snapshot

	To	From
Financial Strength Rating	A/Stable	A/Stable
Issuer Credit Rating	A/Stable	A/Stable
Anchor	a	a
Business Risk Profile	Strong	Strong
IICRA	Intermediate	Intermediate
Competitive Position	Strong	Strong
Financial Risk Profile	Strong	Strong
Capital and Earnings	Strong	Very Strong
Risk Position	Intermediate	Moderate
Financial Flexibility	Adequate	Adequate
Modifiers	0	0
ERM and Management	0	0
Enterprise Risk Management	Adequate	Adequate
Management and Governance	Strong	Strong
Holistic Analysis	0	0
Liquidity	Exceptional	Exceptional
Support	0	0
Group Support	0	0
Government Support	0	0

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital

Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings List

Ratings Affirmed

AG Insurance	
Intreas N.V.	
Ageas Insurance Ltd	
Counterparty Credit Rating	
Local Currency	A/Stable/--
Financial Strength Rating	
Local Currency	A/Stable/--
Ageas SA/NV	
Counterparty Credit Rating	BBB/Stable/A-2
AG Insurance	
Junior Subordinated	BBB+
Ageasfinlux S.A.	
Junior Subordinated	BB+

Additional Contact:
Insurance Ratings Europe; InsuranceInteractive_Europe@spglobal.com