MOODY'S
INVESTORS SERVICE

CREDIT OPINION
13 December 2019

Update

Rate this Research

RATINGS

AG Insurance

Domicile	BRUSSELS, Belgium
Long Term Rating	A2
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

Christian Badorff +49.69.70730.961
VP-Senior Analyst
christian.badorff@moodys.com

Lila Sumino +33.1.5330.3359
Associate Analyst
lilaclaire.sumino@moodys.com

Benjamin Serra +33.1.5330.1073
Senior Vice President
benjamin.serra@moodys.com

CLIENT SERVICES

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

AG Insurance

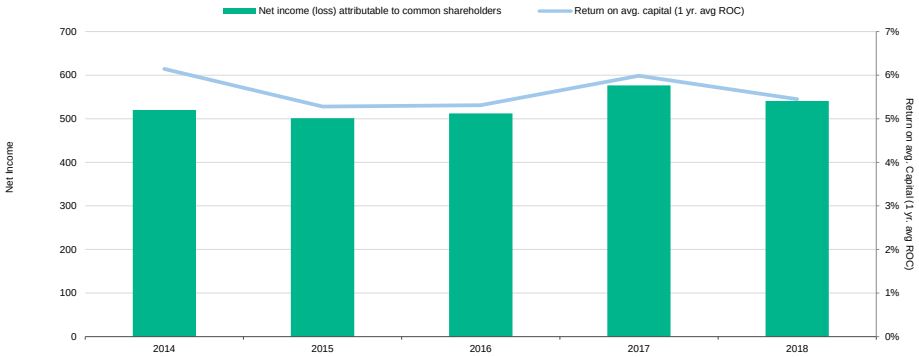
Update to credit analysis

Summary

The credit profile of AG Insurance (rated A2 for insurance financial strength) is supported by the company's (1) leading market position in Belgium, (2) diversified business profile, and (3) solid capitalisation and strong asset liability management. These strengths are partly offset by (1) the company's reliance on third-party distribution channels, (2) moderate top-line growth overall paired with a still high weight of guaranteed business in life and (3) pressure from low interest rate on margins and high dependence of profitability on investment returns.

Positively, AG Insurance has shown a consistent profitability over a number of years as a result of disciplined underwriting in both life and non-life. In its life segment, AG Insurance has been proactive in reducing guarantees on new business so as to mitigate the strain on its financial margins. We expect AG Insurance to be able to cope with the low interest rate environment, given its good asset-liability management (ALM) with a low duration gap limiting the reinvestment risk. In non-life, the issuer has reported good underwriting profitability since 2015, with combined ratios consistently below 96% in spite of a competitive domestic market.

Exhibit 1
Net income and return on capital (1-year average ROC)



Sources: Company reports and Moody's Investors Service

As of the date of this report this Issuer has declined to participate in the Credit Rating process, and has not provided Moody's with access to its books, records and other internal documents. For more information about Non-Participating Rated Entities, see Moody's Policy for Designating Non-Participating Rated Entities.

Credit strengths

» Strong market positions in Belgium in both the life (largest market share by premiums) and non-life segments (second largest)

» Good diversification of its business profile across individual life, group life and non-life activities

» Strong capitalisation and ALM

Credit challenges

» Moderate control over distribution channels

» Moderate growth momentum in a saturated and competitive market and challenged to shift new business sales to unit-linked in life

» Pressure from low interest rate on margins and high dependence of profitability on investment returns

Rating outlook

AG Insurance's IFSR carries a stable outlook, primarily driven by our expectation that the company will maintain a leading market position, as well as solid capitalisation and consistent operating performance.

What could change the rating - Up

Positive rating pressure for AG Insurance could arise from a combination of:

» An improvement in profitability with a 5-Year Return on Capital consistently above 7%

» An improvement in asset quality with a lower amount of holdings invested in relatively volatile assets such as Equities and Real Estate, resulting in a high risk asset ratio (as a proportion of Shareholders Equity) below 80%

What could change the rating - Down

The following factors could exert downward pressure on the rating:

» A material deterioration in capital adequacy and/or

» A material deterioration in net income with Return on Capital decreasing to below 4% and/or

» Adjusted financial leverage at Ageas Group, AG Insurance's majority shareholder, consistently above 40% with earnings coverage below 4x

Key indicators

Exhibit 2
AG Insurance

AG Insurance [1][2]	2018	2017	2016	2015	2014
As Reported (Euro Millions)					
Total Assets	74,561	75,625	76,607	74,006	74,260
Total Shareholders' Equity	6,773	7,060	6,501	6,810	6,488
Net income (loss) attributable to common shareholders	554	583	521	512	522
Gross Premiums Written	5,348	4,993	5,659	5,187	5,444
Net Premiums Written	5,282	4,932	5,603	5,126	5,367
Moody's Adjusted Ratios					
High Risk Assets % Shareholders' Equity	125.4%	108.3%	118.0%	106.5%	103.2%
Reinsurance Recoverable % Shareholders' Equity	3.7%	3.5%	4.2%	3.2%	4.1%
Goodwill & Intangibles % Shareholders' Equity[3]	13.8%	13.8%	15.1%	18.7%	19.5%
Shareholders' Equity % Total Assets	8.0%	8.4%	7.6%	8.4%	7.9%
Return on avg. capital (1 yr. avg ROC)	5.4%	6.0%	5.3%	5.3%	6.1%
Sharpe Ratio of ROC (5 yr. avg)	1400.3%	1450.3%	1296.4%	58.5%	58.5%
Adv./(Fav.) Loss Dev. % Beg. Reserves (1 yr. avg)	-1.1%	-1.2%	-1.9%	-2.3%	0.4%
Financial Leverage[3]	11.2%	21.4%	22.1%	18.2%	20.1%
Total Leverage[3]	31.0%	39.0%	41.4%	36.6%	37.9%
Earnings Coverage (1 yr.)[3]	11.8x	10.4x	4.2x	9.9x	7.6x

[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. [3]Information based on IFRS financial statements of ageas SA/NV as of Fiscal YE December 31.
Source: Moody's Investors Service

Profile

AG Insurance is the leading insurance company in Belgium, with around 26% market share (based on premiums) in the life segment (largest in the domestic market) and around 16% market share in the non-life segment (second largest) in 2018. The company's business mix consists of non-life (37%), and life and savings (63%), based on 2018 earned premiums. The company's products are mostly sold through brokers and the BNP Paribas Fortis SA/NV's network. BNP Paribas Fortis (BNPPF; A1 stable; A2 stable; baa1)[1], a subsidiary of BNP Paribas Group (Aa3 stable; baa1)[2], holds a 25% share in AG Insurance. AG Insurance's parent, ageas SA/NV (Ageas; Long Term Issuer rating A3 stable) holds a 75% controlling stake in AG Insurance via Ageas Insurance International N.V., which is the intermediate holding company for Ageas' insurance operations.

As of Q3 2019, ageas SA/NV reported for its Belgium operations a net result of €305 million and shareholders' equity of €5.1 billion.

Detailed credit considerations

We rate AG Insurance A2 for insurance financial strength, in line with the rating indicated by Moody's Insurance Financial Strength Rating Scorecard.

Insurance financial strength rating

The key factors currently influencing the rating and outlook are:

Market position and brand: Sustained leadership and strong franchise

AG Insurance enjoys a leading position in Belgium with a 22% market share in 2018 (life and non-life combined), which indicates a comfortable position in a competitive market where the top 15 insurers account for 90% of the market. The exclusive distribution agreement between AG Insurance and BNP Paribas Fortis (BNPPF), the largest bank in Belgium, enables the company to maintain access to a very large client base, especially in the retail life segment. We expect that AG Insurance will maintain a leading position in the market despite competitive pressure from bancassurers and other traditional companies.

Distribution: Lack of control constitutes AG Insurance's main credit challenge

AG Insurance distributes its product through bancassurance (with BNPPF), independent brokers and proprietary channel for its employee benefit / health care segment (25% of gross inflow).

AG Insurance's access to BNPPF's large banking network and the preferred position among the brokers are positive for the company's market position but we also consider the concentration of distribution model on third-parties as the main credit challenge. The exclusive distribution agreement with BNPPF is open-ended but is subject to termination with three-year notice. A scenario of termination of this agreement, if not replaced accordingly, would deprive the company of a significant competitive advantage and would likely result in a significant reduction in new business sales and consequently in a shrinking inforce book and profit. AG Insurance aims to diversify its distribution network by exploring new channels and partnerships. However, given the current heavy reliance on BNPPF and brokers, we expect that diversification toward alternative distribution will evolve at a slow pace.

Product risk and diversification: low non-life product risk while life product risk is high given the current low interest rate environment

AG Insurance's business portfolio is well diversified, with a 63%/37% split between the life and non-life businesses respectively, based on 2018 gross inflows.

The life product portfolio has a relatively high risk profile, given the high proportion of guaranteed products, which have historically included high rates in the Belgian market. Although guarantees on new business have been reduced significantly (0.25% at year-end 2018), the company's inforce book still has an average guaranteed rate as high as 2.0% in Q3 2019 but it has been decreasing relatively fast compared to some European peers over recent years. Also, the yield on AG Insurance's fixed income portfolio supporting the life back book in Q3 2019 continued to be well above the average guaranteed rate, at 3.12%, although the current low yield environment (the 10-year Belgian government bond was negative at c. -0.34% in September 2019) will make maintaining this spread difficult going forward.

The company has gradually been increasing unit-linked sales in recent years, resulting in the unit-linked share in life gross written premiums increasing to 20% in 2018 and in 2017 from 1% in 2016. Nonetheless, the inforce book will continue to be dominated by guaranteed business which accounted for c.85% of life technical reserves in 2018.

The company's non-life book has a relatively low risk profile as it primarily comprises short-tailed product lines such as motor, property and health. Long-tail lines products, which we view as riskier, are written through general liability and workers' compensation insurance and they account for 36% of non-life gross premiums written in 2018. Going forward, we expect that the risk profile of non-life portfolio will remain low as AG Insurance's ambition is to leverage its competitiveness among brokers and bancassurance mainly targeting retail clients.

As a pure domestic player, AG Insurance has no geographical diversification beyond the Belgian market.

Asset quality: Good asset quality with modest re-risking

The quality of the company's assets is good, supported by a low level of reinsurance recoverable, goodwill and intangible on the balance sheet, both at AG Insurance and at Ageas consolidated level.

Exposure to high-risk assets as a percentage of shareholders' equity was at 113% as of year-end 2018. The exposure to below investment grade or non-rated debt securities and loans increased in 2018. However, the overall investment portfolio remains conservative with 98% of debt securities and loans allocated to investment grade bonds. Some concentration risk exists, though it is to highly rated sovereign debt (Belgium, Aa3 stable and France, Aa2 positive).

Capital adequacy: Strong capitalization despite widening spread and low interest rate

AG Insurance reported a Solvency II ratio of 234% (based on partial internal model adjusted for non-life insurance risks without usage of any transitional measures) at year-end 2018. The ratio had improved from year-end 2017 (229%) mainly driven by a decrease in the capital requirements for equity risk resulting from the drop of equity markets in Q4 2018.

Given the high proportion of government bonds on the balance sheet, AG Insurance is particularly sensitive to increase in credit spreads on government bonds (-58%p for a 50 bps increase based on reported sensitivities in year-end 2018) and to a lesser extent to decrease in interest rates (-9%p for a 50 bps decrease). In Q3 2019, Ageas reported for its 'Belgium' segment - whose majority is consisting of AG Insurance's balance sheet - a Solvency II ratio of 209%. The decrease from year-end 2018 (234%) was mainly due to the fall in interest rates in Europe, partially offset by the capital generation.

Given the current level of capital adequacy, Moody's believes that AG Insurance will be able to maintain strong Solvency II ratios going forward, contributing to Ageas Solvency II ratio target of 175%.

Profitability: Life is likely to be constrained by low interest rates but mitigation measures are in place. Good level of profitability in non-life.

AG Insurance's 5-year average return on capital has been stable around 5.5%-6.0% in recent years as shown by a very high Sharpe ratio of 1,400%.

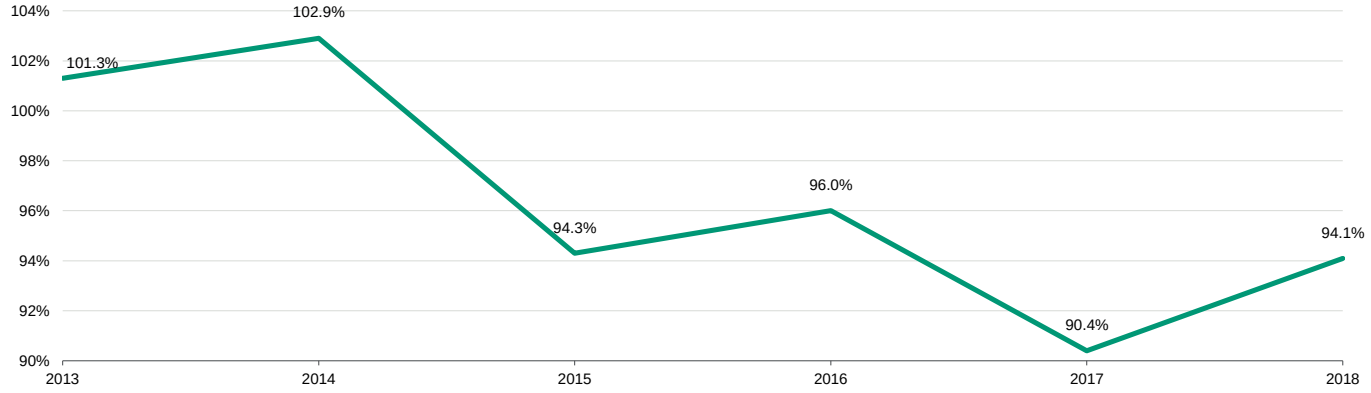
AG Insurance as part of the Belgium segment continues to be the dominant provider of earnings to Ageas Group. The Belgium segment accounted for an average share of the group's net result insurance attributable to shareholders of 51% for 2014-18.

Earnings at AG Insurance predominantly stem from the life segment (c. 74% of reported net profits on average for 2014-18). Life Gross inflows have shown a positive growth trend recently, with growth emanating both from guaranteed and unit-linked business. Strong growth in unit-linked and traditional inflows was reported for Q3 2019 as well. In terms of sources of earnings, we note that investment results account for almost the entire operating earnings, with the positive underwriting result largely offsetting the negative expense and other result. For Q3 2019, the life operating result was stable compared to prior year supported by stable investment results. However, given the current low yield environment, we believe that the investment result is likely to decrease going forward and that it will be challenging to compensate for this through other sources of income, even if the unit-linked book's earnings contribution will gradually increase going forward.

In non-life, AG Insurance has reported a moderately growing topline for 2014-2018 and earnings have developed favorably thanks mainly to good underwriting performance offsetting the negative effect from lower investment results. The average net combined ratio for 2014-18 stood at 95.3% for Ageas' Belgian operations. This reflects a relatively low claims ratio, also benefitting from significant prior year reserve releases, and a high expense ratio, driven mainly by high acquisition expenses associated with AG Insurance's distribution channels. For Q3 2019, the Belgian operations reported a combined ratio of 95.0% (pro-forma adjusted for the newly incepted 30% quota-share reinsurance contract with Ageas). Going forward, we believe that AG Insurance will generate a good level of non-life earnings despite challenges arising from weather events and highly competitive motor lines.

Exhibit 3

AG Insurance's non-life combined ratio for 2013-2018



Sources: Company's reports and Moody's Investors Service

Liquidity and ALM: Adequate ALM discipline

We believe the company is intrinsically exposed to decreasing interest rates reflecting the high guarantees granted to policyholders in the past, which resulted in an average guaranteed rate of 2.0% in Q3 2019. Positively, AG Insurance has managed this risk by building a low interest rate reserve for past guarantees and by closely matching its assets to its technical liabilities. These factors are likely to limit the negative impact of prolonged low rates.

The company is also exposed to the risk that an increase in interest rates could at the same time hurt the market value of the fixed-income portfolio and create a liquidity shock for the company via potential lapses, although some high guarantees and surrender penalty mechanisms currently limit this risk.

Reserve adequacy: Some exposure to long-tail risk, significant reserve releases in recent years

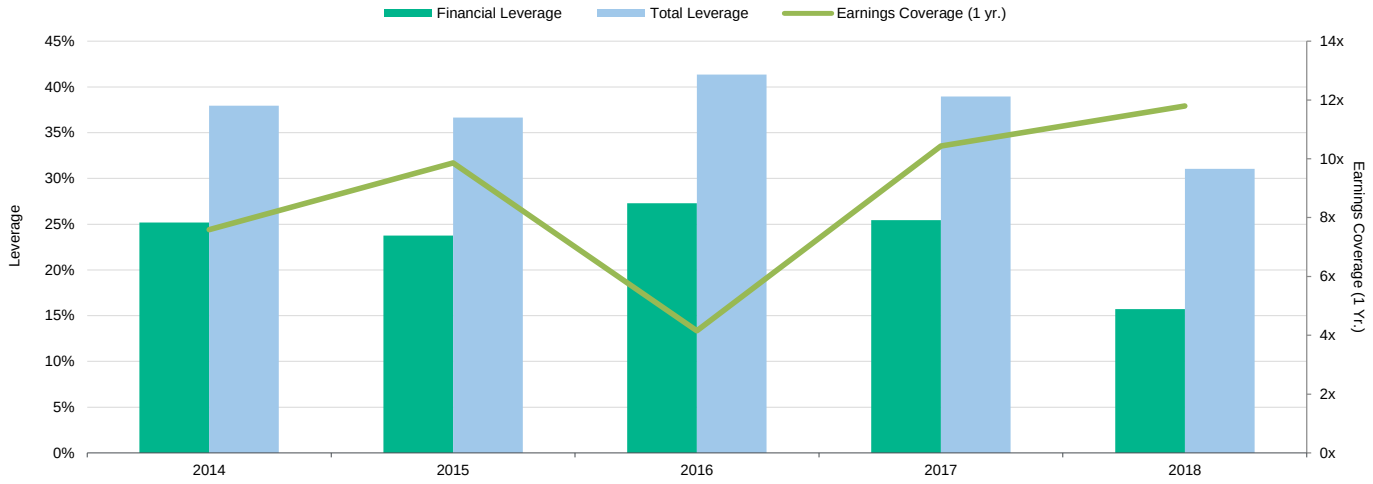
AG insurance's non-life business is concentrated on short-tail business lines with limited reserving risk, however the company's workers' compensation business is longer tail. In view of this, we consider AG insurance's reserving approach prudent. AG Insurance's loss reserve development has been favorable with positive run-off results since 2015.

Financial flexibility: Improving financial flexibility at Ageas

Consistent with our methodology, we assess financial flexibility at the group level. For more information please see ageas SA/NV.

In June 2019, Ageas granted a €225 million subordinated loan to AG Insurance as a partial replacement for the U$550 million fixed rate reset perpetual subordinated notes AG Insurance called on March 2019. This intercompany loan does not have any impact on our assessment of AG Insurance's financial flexibility.

Exhibit 4
Financial flexibility



Sources: Company reports and Moody's Investors Service

ESG considerations

At this stage, we do not consider ESG considerations to be material credit profile drivers for AG Insurance.

Environmental

Like its P&C insurance peers, AG Insurance is exposed to the economic consequences of climate change, primarily through the unpredictable effect of climate change on the frequency and severity of weather-related catastrophic events, such as floods, storms, drought and wildfires. AG Insurance has adequate reinsurance cover in place and is able to reprice its products regularly which helps in mitigating these risks to a certain extent.

Social

Like its life insurance peers, AG Insurance faces social risks through the handling of customer information, the underwriting and business growth implications (positive and negative) of changing demographics, and the impact of changing consumer preferences on distribution channels. Furthermore, like its P&C peers, AG Insurance social risks arise primarily from underwritten exposures to a wide range of liability claims against individuals and corporations (e.g. industrial accidents, health & safety issues, product recalls).

Governance

Like all other corporate credits, the credit quality of AG Insurance is influenced by a wide range of governance-related issues, relating to financial, managerial, ownership or other factors, all of which can be exacerbated by regulatory oversight and intervention. Ageas owns 75% of AG Insurance's total outstanding shares, with the remaining shares being owned by BNP Paribas Fortis and we believe that adequate corporate governance practices are in place. AG Insurance operates within a strong regulatory environment, overseen by the National Bank of Belgium and the Belgian Financial Services and Markets Authority (FSMA).

Rating methodology and scorecard factors

Exhibit 5

AG Insurance

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	Score	Adj Score
Business Profile								Aa	A
Market Position and Brand (20%)								Aaa	A
- Relative Market Share Ratio	X								
Distribution (5%)								Baa	Baa
- Distribution Control				X					
- Diversity of Distribution			X						
Product Focus and Diversification (10%)								Baa	A
- Product Risk - P&C			X						
- Product Risk - Life					X				
- Product Diversification	X								
- Geographic Diversification					X				
Financial Profile								Aa	A
Asset Quality (10%)								A	A
- High Risk Assets % Shareholders' Equity			125.4%						
- Reinsurance Recoverable % Shareholders' Equity	3.7%								
- Goodwill & Intangibles % Shareholders' Equity[3]	13.8%								
Capital Adequacy (15%)								A	A
- Shareholders' Equity % Total Assets			8.0%						
Profitability (15%)								Aa	A
- Return on Capital (5 yr. avg)			5.6%						
- Sharpe Ratio of ROC (5 yr. avg)	1400.3%								
Liquidity and Asset/Liability Management (5%)									A
- Liquid Assets % Liquid Liabilities									
Reserve Adequacy (5%)								A	A
- Adv./(Fav.) Loss Dev. % Beg. Reserves (5 yr. wtd avg)			-1.3%						
Financial Flexibility (15%)								Aa	A
- Financial Leverage[3]		15.7%							
- Total Leverage[3]			31.0%						
- Earnings Coverage (5 yr. avg)[3]		8.8x							
Operating Environment								Aaa - A	Aaa - A
Aggregate Profile								Aa3	A2

[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

[3] Information based on IFRS financial statements of ageas SA/NV as of Fiscal YE December 31

Source: Company reports, Moody's Investors Service

Ratings

Exhibit 6

Category	Moody's Rating
AG INSURANCE	
Rating Outlook	STA
Insurance Financial Strength	A2

Source: Moody's Investors Service

Endnotes

1 The ratings shown are the Long-term deposit rating, Senior unsecured rating and Baseline Credit Assessment (BCA)

2 The ratings shown are the Long-term deposit rating and Senior unsecured rating, and Baseline Credit Assessment (BCA)

REPORT NUMBER 1194699

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