

Research Update:

Ageas SA/NV And Core Subsidiaries Affirmed At 'A' On Strengthened Capital And Earnings; Outlook Stable

September 6, 2019

Overview

- Ageas has largely outperformed our earnings expectations in the first half of 2019 thanks to increasing contributions from Asian and European property/casualty operations.
- These increased earnings, combined with overall low-risk investments, have improved Ageas' current and prospective capital adequacy.
- However, we think Ageas has a more limited track record of strong and recurring performance compared with higher-rated peers.
- We are therefore affirming our 'A' ratings on Ageas SA/NV and its core subsidiaries.
- The stable outlook reflects our view that Ageas will preserve very strong capital buffers at least until 2021, while continuing to post good underlying performance.

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Rating Action

On Sept. 6, 2019, S&P Global Ratings affirmed its 'A' long-term insurer financial strength and issuer credit ratings on Ageas SA/NV and its core subsidiaries. The outlook is stable.

We also affirmed our ratings on all outstanding hybrids and debt instruments issued by Ageas, AG Insurance, and Ageasfinlux.

Outlook

The stable outlook reflects our expectation that the group will preserve its strong business position and capital buffers, while maintaining good underlying operating performance, over the next two years.

Upside scenario

We could raise the ratings on Ageas and its core subsidiaries if it demonstrated capacity to sustainably deliver improved operating performance in its property/casualty (P/C) business, while continuing to expand its Asian operations and maintaining its comfortable capital excess at a very strong level.

Downside scenario

We currently view a potential downgrade as unlikely. However, we could downgrade Ageas if its forecast capital adequacy significantly weakened below the 'A' level due to unexpectedly large acquisitions, dividends, or share buybacks.

Rationale

The affirmation balances our view of Ageas' materially improving capitalization and profitability with a more limited track record of superior capital and earnings generation compared to peers rated 'A+' or above.

On the back of the strong profitability that Ageas posted in the first half of 2019 (H1 2019), we have materially revised upward our forecast net income to a level in excess of €900 million over 2019-2021 (excluding potential accounting effects of unrealized gains or losses on general account securities). We have also reassessed some of Ageas' investments as being linked to lower-risk real-estate, rather than pure equity risk. This results in Ageas displaying stronger capital buffers than we previously forecasted.

Although we think that Ageas will pass on the majority of its improving profitability to shareholders via dividends and share buybacks, we think it will manage its capital adequacy in line with the 'AA' confidence level over the next two years at least. We also estimate that potential bolt-on acquisitions would not deteriorate capital adequacy below very strong levels.

We also acknowledge Ageas' strong resilience to the sharp decline in interest rates in the first half of 2019, with the group posting a 37% year-on-year increase in net income to €606 million. Ageas also estimated the negative impact of market movements in H1 2019 to have reduced its Solvency II ratio by only 6 basis points in the period. This illustrates the group's good control of its guaranteed life insurance back book and limited asset-liability mismatch. Several factors have led to an increase in Ageas' underlying net income. These include:

- Improved technical performance in P/C businesses;
- Resilient life results in Belgium;
- Volume expansion in Asia; and
- Positive nonrecurring items such as tax changes in China and higher realized gains in Asia.

Ageas' large and well-diversified insurance portfolio--in particular, its leading and profitable operations in Belgium and Portugal--underpin our view of the insurer's strong business risk profile. Our assessment also takes into consideration Ageas' strong brokerage and bancassurance ties in Europe and in Asia, where it operates via large, minority-owned joint ventures.

Ratings Score Snapshot

Ageas SA/NV - Ratings Score Snapshot

	To	From
Business Risk Profile	Strong	Strong
Competitive position	Strong	Strong
IICRA	Intermediate	Intermediate
Financial Risk Profile	Very Strong	Strong
Capital and earnings	Very Strong	Strong
Risk exposure	Moderately Low	Moderately Low
Funding structure	Neutral	Neutral
Anchor*	a	a
Modifiers		
Governance	Neutral	Neutral
Liquidity	Exceptional	Exceptional
Comparable ratings analysis	0	0
Financial Strength Rating	A	A

*This is influenced by our view that Ageas still lacks a track record of stronger profitability compared to 'A+' rated insurers.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- 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

Ratings List

Ratings Affirmed

Ageas SA/NV

Issuer Credit Rating	A/Stable/A-1
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Ratings Affirmed

Ageas SA/NV

Intreas N.V.

Ageas Insurance Ltd

AG Insurance

Financial Strength Rating

Local Currency A/Stable/--

AG Insurance

Issuer Credit Rating A/Stable/--

Ageas Insurance Ltd

Intreas N.V.

Issuer Credit Rating

Local Currency A/Stable/--

Ageas SA/NV

Junior Subordinated BBB+

AG Insurance

Junior Subordinated BBB+

Ageasfinlux S.A.

Junior Subordinated BBB+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. 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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