

Research Update:

Belgium-Based Insurer Ageas SA/NV And Core Subsidiaries Affirmed At 'A'; Outlook Stable

August 8, 2019

Overview

- Ageas has diversified revenues from both its life and property and casualty (P&C) business operations, and manages a variety of distribution channels in Belgium, Portugal, the U.K., and Asia, including tied agents, brokers, and banks.
- We expect Ageas will maintain a good operating performance and strong levels of capital adequacy, according to both our model and Solvency II.
- We are affirming our 'A' ratings on Ageas SA/NV and its core subsidiaries.
- The stable outlook reflects that our view that Ageas will preserve at least strong capital buffers, while continuing to post good underlying performance on the back of solid positions and distribution ties in its main markets.

Rating Action

On Aug. 8, 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 SA/NV, AG Insurance, and Ageasfinlux.

Outlook

The stable outlook reflects our expectation that, over the next two years, the group will preserve its strong business position and capital buffers, while continuing to post a good underlying operating performance. This is on the back of solid market positions and distribution ties in its main markets.

Upside scenario

We could raise the ratings on Ageas and its core subsidiaries if its capital adequacy sustainably

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increased above the 'AA' level, according to our capital adequacy model, while sustainably improving its P&C combined ratio, particularly in the U.K.

Downside scenario

We could lower the ratings on Ageas and its the core subsidiaries if capital adequacy weakened below strong. This could be the case if acquisitions, dividends, or share buybacks consume consolidated capital buffers below the strong level, contrary to our base-case forecast.

We could also lower the ratings on Ageas if the group's operating performance or business position in one of its core markets were to sustainably deteriorate.

Rationale

Ageas' profitable and diversified insurance franchise combined with strong capitalization and limited risks support the ratings, in our view.

Ageas' wide geographic and business diversification is underpinned by leading and profitable operations in Belgium and Portugal. Ageas's U.K. subsidiary, focused on motor, has also recovered and is posting satisfactory performance. Ageas' Belgian subsidiary, AG Insurance, manages a variety of distribution channels, including a long-standing partnership with BNP Paribas Fortis, which accounts for one-third of the group's overall consolidated premiums.

Ageas' net profit (including noncontrolling interests) of €997 million for 2018 was in line with our expectations and absorbed some negative impacts of adverse equity market performance in Asian markets at end-2018.

In our opinion, the group benefits from solid levels of capital adequacy according to both our capital adequacy model and Solvency II. The group's solvency capital requirement (SCR) coverage ratio stood at 215% at year-end 2018. We assess the group's capital adequacy as in the high end of the 'A' benchmark, according to our capital adequacy model. This leaves Ageas room to continue to make contained share buybacks and targeted small acquisitions while comfortably maintaining current capital adequacy over the next two years.

We believe that Ageas' potential risks not captured in our assessment of capital to be limited. Investment-grade fixed-income assets, displaying an average credit quality of 'A', make up the bulk of its investments. We view Ageas' exposure to equities and real estate, which have higher risk than bonds, to be well managed. We also consider that Ageas has reduced potentially negative event risk in 2018, after BNP Paribas Fortis renounced a put-option on a 25% share in AG Insurance and Ageas finalized the resolution process of most legacy issues inherited from the break-up of the Fortis group.

We view Ageas SA/NV as an operating holding company, based on its reinsurance license and significant upstream of non-life premium from its Belgian, Portuguese, and British operations through quota-share reinsurance agreements. As such, we equalize the rating on Ageas with those on the group's core subsidiaries.

Since we expect Ageas will maintain a Solvency II SCR coverage ratio above its target of 175%, we believe the current notching on the group's subordinated debt is appropriate and affirmed the ratings. The inclusion of those instruments in our measure of Ageas's capital remains unchanged.

Ratings Score Snapshot

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

*This is influenced by our view of the company's diversified business and leading business position compared to 'A'-rated peers.

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 |
| Financial Strength Rating | |
| Local Currency | A/Stable/-- |
| Junior Subordinated | BBB+ |

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Ratings Affirmed

AG Insurance

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

Ageas Insurance Ltd

Intreas N.V.

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

Ageasfinlux S.A.

| | |
|---------------------|------|
| Junior Subordinated | BBB+ |
|---------------------|------|

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