Research Update:

Ageas Group Outlook Revised To Positive On Improving Earnings And Capital; 'A' Ratings Affirmed

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Overview

- Robust improvements in profitability and expected success of the tender offer on legacy hybrid instruments launched Nov. 19 will likely further materially strengthen the capital adequacy and overall financial risk profile of Ageas SA/NV and its core entities (collectively, Ageas Group), according to our methodology.
- We are therefore revising our outlook to positive from stable and affirming all ratings on the group.
- The positive outlook reflects our belief that Ageas will maintain strong earnings generation and manage capitalization at a higher level than current target, enabling the group's financial track record to converge with that of higher rated peers.

Rating Action

On Nov. 21, 2019, S&P Global Ratings revised its outlook to positive from stable on entities belonging to the Belgium-based multiline insurer Ageas SA/NV as well as its core subsidiaries AG Insurance, Ageas International Ltd. and Intreas (collectively, Ageas Group).

At the same time, S&P Global Ratings affirmed its 'A' long-term issuer credit and financial strength ratings on these entities, as well as our ratings on group-issued debt.

Rationale

We believe that Ageas' recently improved profitability and the expected success of the tender offer on legacy hybrid instruments launched Nov. 19 will likely further materially strengthen Ageas capital adequacy, according to our methodology.

Furthermore, Ageas has publicly indicated that it will not distribute the offer's capital gains, so we believe the group will continue to operate with significant capital buffer above its public target of a Solvency 2 ratio above 175%. We also expect Ageas will continue to post robust profitability with a positive contribution from all major geographic segments, including the Asian joint ventures.

The group is proposing to buy back a €1.25 billion legacy hybrid issued in 2002 called FRESH at a discount of 41% to par value. Given the premium Ageas offered on market price, the very low variable rate coupon of the instrument and virtually perpetual nature of the instrument, we think a majority of debt holders will uptake Ageas' tender offer. Ageas will compensate the buyback's negative effect on capital by issuing hybrid restricted tier 1 instrument in the coming days and weeks. The group indicated it will keep the capital gains from the tender offer, so we now think it will manage its capital adequacy at the very high end of the 'AA' confidence level, measured by S&P's capital model, over the next two years at least.

We also observe that Ageas has continued to post strong earnings growth, reaching €877 million for the first nine months of 2019, which is almost at the same level of our upwardly revised forecast of slightly above €900 million for all of 2019.

The improved profitability has not come at the expense of the risk profile, which remains stable and prudent in our view. We also acknowledge Ageas' strong resilience to the sharp decline in interest rates in the first nine months of 2019, with the group posting a limited deterioration of its Solvency 2 ratio, which stood at 199% at Sept. 30, 2019. This illustrates Ageas' good control of its guaranteed life insurance back book and limited asset-liability mismatch. Several factors have led to an increase in Ageas' net income, including:

- Improved technical performance in the P/C businesses;
- Resilient life results in Belgium;
- Volume expansion in Asia; and
- Positive nonrecurring items such as tax rate reduction 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 the group's strong brokerage and bancassurance ties in Europe and in Asia, where it operates via large, minority-owned joint ventures.

Outlook

The positive outlook reflects our belief that Ageas will maintain strong earnings generation and manage capitalization higher than the current target, enabling the group's financial track record to converge with that of higher rated peers.

We could therefore upgrade Ageas within the next 12-24 months if Ageas:

- Continues to generate strong earnings that are in line with its strategic objectives. This would typically be the case if net income stood at about €900 million, with a nonlife combined ratio of about 96% and a life operating margin on guaranteed reserves above 85 basis points;
- maintains sound earnings contributions from its international operations; and
- Maintains S&P capital adequacy levels well above the 'AA' threshold and sustains a stable risk profile.

We would revise the outlook to stable over the next 12-24 months if:

- The group's capital adequacy recedes for a prolonged period below the 'AA' level in our capital model, result from either more-aggressive capital management than we anticipate, or an

extended low interest rate environment led to substantial additional risk-taking; or

- Against our base-case assumptions, relative operating performance weakened materially below the performance of domestic or international peers, evidenced by a prolonged deterioration of return on equity or the group's non-life combined ratio.

Ratings Score Snapshot

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

*Reflects that Ageas has a more limited track record of strong earning generation compared with 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; CreditWatch/Outlook Action

	To	From
Ageas SA/NV		
Issuer Credit Rating	A/Positive/A-1	A/Stable/A-1
Ageas Insurance Ltd		
AG Insurance		
Intreas N.V.		
Financial Strength Rating	A/Positive/--	A/Stable/--
AG Insurance		
Intreas N.V.		
Issuer Credit Rating	A/Positive/--	A/Stable/--
Ratings Affirmed		
Ageas SA/NV		
Junior Subordinated	BBB+	
AG Insurance		
Junior Subordinated	BBB+	
Ageasfinlux S.A.		
Junior Subordinated	BBB+	