

Research Update:

Belgium-Based Ageas SA/NV 'A+' Rating Affirmed; Outlook Stable

November 22, 2022

Overview

- Despite €173 million of mark-to-market losses in its Asian activities, Ageas reported net income of €704 million for the nine months to Sept. 30, 2022, demonstrating the resilience of Ageas' business model.
- We expect Ageas' capital adequacy under our model will remain solidly above 'AA' as most the group investments remain low risk and are backed by profit-sharing life liabilities.
- We therefore affirmed our ratings on Ageas group's core entities.
- The stable outlook reflects our belief that Ageas will maintain resilient earnings and return on equity (ROE) above 8%.

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Rating Action

On Nov. 22, 2022, S&P Global Ratings affirmed its 'A+' long-term issuer credit rating and insurer financial strength rating on Belgium-based insurer Ageas SA/NV and its rated core subsidiaries AG Insurance and Ageas Insurance Ltd. We have also affirmed the ratings on Ageas' and AG Insurance's debt. The outlook on Ageas SA/NV, AG Insurance, and Ageas Insurance Ltd. is stable.

Rationale

The affirmation reflects our view that Ageas' earnings generation and capitalization have proved resilient to market turbulence and rising inflation since early 2022. Despite €173 million of mark-to-market losses in its Asian activities, Ageas reported net income of €704 million for the nine months to Sept. 30, 2022, thanks to strong performance in the Belgian domestic market and satisfactory profitability of European, Asian, and the reinsurance business. A nonrecurring €138 million valuation gain resulting from the accounting treatment of a legacy hybrid instrument also supported net income.

Ageas is well diversified between life and non-life activities. In the first nine months of 2022, the group reported a non-life net combined ratio of 94.4% since strong performance in its Belgian

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home market offset some inflation-induced negative impacts in the U.K. and Turkey. Ageas also reported an operating margin of about 90 basis points in its guaranteed life insurance business, only slightly below the level of the prior year. Ageas' earnings are also well diversified geographically, with Belgium contributing about 50% of profits this year, Asia 25%, Europe 15%, and reinsurance 5%.

We consider that Ageas' capital and earnings will remain very strong and that the group's capital adequacy under our capital model will remain above the 'AA' level. Like many other insurers, Ageas' shareholders' equity dropped in the first nine months of 2022 by about 35%, equivalent to €4 billion, led by a drop of unrealized gains of available-for-sale investments of €4.4 billion. The bulk of the valuation change regards fixed-income assets backing life liabilities, which we net out of our measure of capital. The drop in shareholders' equity also led to a deterioration of the financial leverage ratio from 22% to just below 30% on Sept. 30, 2022, which remains far below our 40% threshold for a level of financial leverage that could affect credit quality.

The rise in the regulatory Solvency ratio to 230% as of Sept. 30, 2022, from 199% at year-end 2021 also illustrates the limited impact of market turbulence on Ageas' capitalization.

Outlook

The stable outlook reflects our belief that Ageas will maintain resilient earnings and ROE above 8%. We also expect Ageas will maintain very strong capitalization, including S&P Global Ratings capital adequacy above the 'AA' threshold.

Downside scenario

We regard the possibility of a downgrade as limited over the next 12-24 months, but we could lower the ratings if:

- The group's capital adequacy falls durably below the 'AA' level in our capital model, resulting from either more-aggressive capital management than we anticipate, or substantial additional risk-taking; or
- Contrary to our base-case assumptions, operating performance weakens materially below that of domestic or international peers, as shown by a sharp deterioration in ROE or the non-life combined ratio.

Upside scenario

We view an upgrade as highly unlikely over the next 12-24 months in light of Ageas' more limited business diversification than higher-rated peers, as well as the structural constraints on its business prospects from minority equity positions in its Asian joint ventures.

Environmental, Social, And Governance

ESG credit indicators: E-2, S-2, G-2

ESG factors have no material influence on our credit rating analysis of Ageas.

Ratings Score Snapshot

	To	From
Financial strength rating	A+/Stable/--	A+/Stable/--
Anchor	a+	a+
Business risk	Strong	Strong
IICRA	Intermediate	Intermediate
Competitive position	Strong	Strong
Financial risk	Very strong	Very strong
Capital and earnings	Very strong	Very strong
Risk exposure	Moderately low	Moderately low
Funding structure	Neutral	Neutral
Modifiers	0	0
Governance	Neutral	Neutral
Liquidity	Exceptional	Exceptional
Comparable ratings analysis	0	0
Support	0	0
Group support	0	0
Government support	0	0

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Related Research

- Ageas SA/NV, July 29, 2022

Ratings List

Ratings Affirmed

Ageas SA/NV

Issuer Credit Rating	A+/Stable/A-1+
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Ageas SA/NV

Ageas Insurance Ltd.

AG Insurance

Financial Strength Rating	
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Local Currency	A+/Stable/--
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AG Insurance

Issuer Credit Rating	A+/Stable/--
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Ageas Insurance Ltd.

Issuer Credit Rating	
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Local Currency	A+/Stable/--
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Ageas SA/NV

Subordinated	A-
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Junior Subordinated	A-
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Junior Subordinated	BBB+
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AG Insurance

Junior Subordinated	A-
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Ageasfintlux S.A.

Junior Subordinated	A-
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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. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352 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; or Stockholm (46) 8-440-5914

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