FitchRatings

Fitch Rates ageas SA/NV IFS 'A+'; Outlook Stable

Fitch Ratings-London-07 December 2018: Fitch Ratings has assigned ageas SA/NV an Insurer Financial Strength (IFS) rating of 'A+' (Strong), with a Stable Outlook. ageas SA/NV is the ultimate holding company of the Ageas group (Ageas).

Fitch has also affirmed ageas SA/NV's and Ageas Insurance International NV's (an intermediate holding company) Long-Term Issuer Default Ratings (IDR) at 'A' and AG Insurance's (AGI) and Ageas Insurance Limited's (AIL) IFS Ratings at 'A+'. The Outlooks on all ratings are Stable.

Fitch has simultaneously affirmed the rating on the floating-rate equity-linked subordinated hybrid (FRESH) capital securities issued by Ageasfinlux S.A., with ageas SA/NV acting as co-obligor, at 'BBB-'.

A full list of ratings is at the end of this commentary.

KEY RATING DRIVERS
The IFS Rating assigned to ageas SA/NV follows its conversion into an operating reinsurance company from a pure holding company as a result of ageas SA/NV's plan to become the group's internal reinsurer from 1 January 2019. The National Bank of Belgium (NBB) granted the company approval to organise and operate reinsurance activities on 2 July 2018.

The affirmation of the ratings reflects Ageas's very strong capitalisation and low financial leverage. However, earnings remain constrained by challenging operating conditions in the UK and low bond yields in the Eurozone, limiting the group's investment income.

Fitch believes the intra-group reinsurance ageas SA/NV plans to underwrite will enhance the group's capital fungibility and financial flexibility. We expect the cash flow position and amount of liquid assets available at ageas SA/NV will remain sufficient to maintain a satisfactory liquidity position within the company.

The transformation of ageas SA/NV into an operating company and the Amsterdam Court of Appeal's decision on 13 July 2018 to declare binding the Fortis settlement agreement entered between Ageas and several claimants will enhance Ageas's financial flexibility. However, we expect financial leverage to remain below 20% in the medium term and commensurate with the rating. Ageas's financial leverage ratio (FLR) was a low 15% at end-2017 (2016: 16%). We estimate Ageas's pro-forma FLR to improve to 13% after allowing for the accounting effect of the expired BNP Paribas' put option.

Fitch's view of Ageas's capitalisation is driven by the group's score under Fitch's Prism Factor Based Model (Prism FBM). Ageas's Prism FBM score was 'Extremely Strong' based on end-2017 results and considering the accounting effect of the expired BNP Paribas' put option. At end-3Q18, Ageas's regulatory Solvency II ratio, calculated according to the group's partial internal model, improved to 208% (2017: 191%), a level which is commensurate with the group's ratings.

Ageas's financial performance remained strong in 3Q18. The group's net result improved to EUR656 million (3Q17: EUR360 million), while the combined ratio slightly deteriorated to 95.1% (3Q17: 94.9%), mainly due to adverse weather in Belgium and the UK. Ageas's return on equity was 7% in 2017, a level that Fitch views as strong but below levels that are consistent with the group's current rating. We believe Ageas's underlying profitability will remain under pressure from a competitive operating environment and ongoing low interest rates.

Ageas's net profitability remains somewhat volatile, in particular at holding company level. This is mainly due to the legacy financial instruments (in particular, the relative performance note - RPN(I) - structure) inherited from the break-up of the Fortis group in 2009. Fitch expects management actions to reduce this volatility over time.

The anchor IDR used to derive the FRESH capital securities is that of ageas SA/NV's. Fitch assumes a 'poor' recovery for these notes, given the deep level of subordination of this instrument. In addition, this instrument is deemed by Fitch as having a 'moderate' risk of non-performance. As a result, the ratings are notched down four times from ageas SA/NV's IDR of 'A', two for recovery assumptions and two for non-performance risk.

RATING SENSITIVITIES
The ratings could be upgraded if Ageas's profitability improves over a sustained period, with a return on equity above 10%, and a pre-tax operating return on assets of 1.1% (2017: 1.0%) or above.

Ageas's ratings could be downgraded if the group's Prism FBM score falls to the 'Strong' category or the group's profitability weakens significantly on a sustained basis, with a return on equity below 5% and a pre-tax operating return on assets below 0.4%.

On 4 October 2018, Fitch published an exposure draft of its global master criteria for rating insurance companies, titled 'Exposure Draft: Insurance Rating Criteria'. Fitch's adoption of the proposed criteria, as per the Exposure Draft, is unlikely to affect Ageas's ratings.

FULL LIST OF RATING ACTIONS
ageas SA/NV
IFS Rating assigned at 'A+'; Outlook Stable
Long-Term IDR affirmed at 'A'; Outlook Stable

Ageas Insurance International NV
Long-Term IDR affirmed at 'A'; Outlook Stable

AG Insurance
IFS Rating affirmed at 'A+'; Outlook Stable
Long-Term IDR affirmed at 'A'; Outlook Stable
Subordinated bonds affirmed at 'BBB+'

Ageas Insurance Limited
IFS Rating affirmed at 'A+'; Outlook Stable

Ageasfinlux SA (ageas SA/NV is co-obligor)
Hybrid capital instruments affirmed at 'BBB-'

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Additional information is available on www.fitchratings.com
Applicable Criteria
Exposure Draft: Insurance Rating Criteria (pub. 04 Oct 2018) (https://www.fitchratings.com/site/re/10044902)
Insurance Rating Criteria (pub. 30 Nov 2017) (https://www.fitchratings.com/site/re/905036)

Additional Disclosures
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