



## CREDIT OPINION

26 April 2021

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### RATINGS

#### ageas SA/NV

Domicile	Belgium
Long Term Rating	A1
Type	Insurance Financial Strength - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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# ageas SA/NV

## Detailed Rating Rationale for Ageas's IFSR and Long-Term Issuer Rating

### Summary

The A1 Insurance Financial Strength Rating (IFSR) on ageas SA/NV is based on the financial strength of the entire Ageas group ('Ageas'). The rating is supported by the group's strong market positions in Belgium, Portugal and the United Kingdom and the strong foothold in rapidly growing Asian markets, strong earnings levels and strong and resilient capital adequacy. These strengths are partially offset by the limited degree of control over the fast-growing subsidiaries outside Europe and the relatively smaller size of most of these operations in the group context, with the notable exception of Taiping Life in China, limited control over distribution channels, and the dependence of Ageas's earnings on investment results.

The A1 long-term Issuer Rating on ageas SA/NV, at the same level as the IFSR, reflects that the issuer is fully operational as the internal reinsurer of the group, with meaningful quota-share and loss portfolio transfer agreements in place with all major consolidated subsidiaries. Ageas SA/NV's A1 issuer rating is consistent with Moody's standard notching practices for reinsurers, where reinsurers' senior creditors are pari passu with cedants. The ramping up of internal reinsurance has significantly increased the size and diversification of the cash flows available to ageas SA/NV. In addition, Moody's expects that the holding company's liquidity position will not be affected to a meaningful extent by legacy issues as these have been largely resolved.

### Exhibit 1

#### Net Income and Return on Capital



Sources: Moody's Investors Service and company filings

As of the date of this report this Issuer has declined to participate in the Credit Rating process, and has not provided Moody's with access to its books, records and other internal documents. For more information about Non-Participating Rated Entities, see [Moody's Policy for Designating Non-Participating Rated Entities](#).

The A1 IFSR on AG Insurance reflects the company's strong stand-alone credit profile and its weight in the larger Ageas group. AG Insurance is the market leader in Ageas's Belgian home market and continues to be a dominant driver for the group's credit profile. Ageas SA/NV owns 75% of AG Insurance, with the remaining 25% being held by BNP Paribas Fortis SA/NV (BNPPF; A1, A2, baa1<sup>1</sup>), which is also AG Insurance's main distribution channel.

## Credit strengths

- » Strong market positions in European home markets as well as a strong foothold in rapidly growing Asian markets
- » Strength, stability and diversification of earnings
- » Strong and resilient capitalisation and moderate financial leverage

## Credit challenges

- » Scaling up of operations in less developed insurance markets under way
- » Limited degree of control over fast-growing non-consolidated subsidiaries as well as over distribution channels
- » Earnings highly dependent on investment results

## Rating outlook

The outlook on Ageas is stable, reflecting our expectation that the issuer will preserve the strength and diversification of its business profile as well as earnings and capital adequacy close to the current levels on a sustainable basis.

## Factors that could lead to an upgrade

Ageas's rating could be upgraded in case of:

- » a material improvement in its business profile, supported by increased control of subsidiaries and its distribution channels; and
- » a return on capital (Moody's definition) sustainably in excess of 8% paired with low volatility of earnings; and
- » Group Solvency II ratio (based on Pillar 2) sustainably in excess of 200%.

## Factors that could lead to a downgrade

Conversely, Ageas's rating could be downgraded if:

- » a significant weakening in Ageas's geographic diversification or increase in product risk; or
- » Group Solvency II ratio (based on Pillar 2) sustainably below 150%; or
- » return on capital (Moody's definition) sustainably lower than 4%; or
- » sustained rise in adjusted financial leverage above 30%.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moodys.com](http://www.moodys.com) for the most updated credit rating action information and rating history.

## Key indicators

Ageas SA/NV

ageas SA/NV [1][2]	2020	2019	2018	2017	2016
<b>As Reported (Euro Millions)</b>					
Total Assets	111,418	109,449	101,686	103,341	104,294
Total Shareholders' Equity	13,774	13,481	11,520	10,162	10,205
Net Income (Loss) Attributable to Common Shareholders	1,141	979	809	623	27
Gross Premiums Written	8,435	9,383	8,860	8,445	9,277
Net Premiums Written	8,024	9,021	8,597	8,216	9,016
<b>Moody's Adjusted Ratios</b>					
High Risk Assets % Shareholders' Equity	143.3%	131.1%	134.8%	118.7%	136.3%
Reinsurance Recoverable % Shareholders' Equity	5.8%	5.8%	6.5%	7.0%	6.0%
Goodwill & Intangibles % Shareholders' Equity	12.7%	12.3%	13.8%	13.8%	15.1%
Shareholders' Equity % Total Assets	10.1%	10.7%	9.4%	9.6%	9.3%
Return on Average Capital (ROC)	7.1%	7.2%	6.6%	5.6%	1.4%
Sharpe Ratio of ROC (5 yr.)	230.7%	233.0%	232.7%	247.7%	239.3%
Adv. (Fav.) Loss Dev. % Beg. Reserves	-4.0%	-5.9%	-5.4%	-4.0%	-2.3%
Adjusted Financial Leverage	18.2%	13.8%	11.2%	21.4%	22.1%
Total Leverage	35.3%	33.7%	31.0%	39.0%	41.4%
Earnings Coverage	13.1x	13.5x	11.8x	10.4x	4.2x

[1] Information based on IFRS financial statements as of the fiscal year ended 31 December. [2] Certain items may have been relabeled and/or reclassified for global consistency.

Sources: Moody's Investors Service and company filings

## Profile

Ageas SA/NV is the holding company of the Ageas group and acts as an operating reinsurance company providing reinsurance protection exclusively to its subsidiaries. The issuer's main assets are (i) 75% of [AG Insurance](#), leading insurer in Belgium; (ii) Ageas UK, a British non-life insurer; (iii) insurance activities in Continental Europe, most notably operations in Portugal (51% of MillenniumBCP Ageas along with non-life operations of Ageas Seguros) and France; and (iv) insurance activities in Asia, which are non-controlled and for the most part jointly operated with local banking operators.

## Detailed credit considerations

### Market Position and Brand - strong international footprint with increasing focus on developing markets

Ageas is a large European insurance group with a leading position in Belgium (number one and number two in life and non-life respectively), a strong position in Portugal (number 2 and number 3 in life and non-life respectively) as well as in the UK, particularly in the retail P&C market (number 5 both in motor and property insurance).

Ageas has also a sizeable international footprint via its joint ventures with leading or well-established insurers in Turkey and Asian countries - mainly in China, Thailand and Malaysia. These non-consolidated entities are accounted using the equity method in the group reporting and therefore their business volume is not reflected in the group's consolidated premiums. Nonetheless, gross inflows from these entities - adjusted for the group's share of participation - represented a substantial share of 47% in the total gross inflows in 2020. Ageas does not have direct and full control over these equity associates, which generally operate under their own brands, but Ageas looks for strong alignment with the majority owners and ensures that it is adequately represented in the executive management teams of the local entities.

The group shows interest in further expanding its presence in emerging markets through joint venture. In 2020, Ageas completed the acquisition of a 25% participation in Taiping Reinsurance Co. Ltd., a leading Chinese reinsurer and an additional 23% stake (resulting in 49% stake) in IDBI Federal Life Insurance Company Ltd, an Indian life insurer. In February 2021, Ageas announced that it will acquire Aviva's 40% stake in Turkish life insurer AvivaSA. We expect Ageas will remain active in emerging markets, creating synergies with selected partners for their strong franchise and brand recognition in each local market.

### Distribution - mainly based on intermediaries

Ageas has access to a variety of distribution channel in most of countries where it operates. Inflows both from consolidated and non-consolidated entities are generated from banks, brokers and agents that we consider as non-controlled distribution channels. We consider the concentration of the distribution model on third-parties as the main credit challenge.

More positively, the group's strong brand recognition, particularly in Belgium, is a key strength to maintain a preferred position among brokers and agents. Additionally, Ageas benefits from exclusive distribution agreements with large banks in several countries as evidenced by the partnerships with BNPPF a subsidiary of BNP Paribas (Aa3, Aa3, baa1) in Belgium, Millenium bcp in Portugal and Akbank (Caa1, B2, b3) in Turkey.

Ageas is developing direct sales through the digital channel in Europe. Nonetheless, we expect Ageas's distribution model will remain strongly focused on a diversified network of intermediaries in the short to medium term.

### Product Risk and Diversification - strong product and geographic diversification

Ageas has a well-diversified product portfolio consisting of life (69% of gross inflows including non-consolidated entities at Ageas's share of participation in 2020) and non-life (31%). The group also has an excellent geographic diversification with Belgium and China as the largest contributors of gross inflows (31% and 34% of total gross inflows respectively in 2020) followed by the UK (10%) and Portugal (8%).

In life, Ageas's main product risk is stemming from AG Insurance's traditional savings book, representing more than 80% of the life technical reserves excluding unit-linked. Whereas the average inforce guaranteed rate is relatively high compared to some European peers, at 1.78% in 2020, the annual decrease since 2015 has also been relatively high at approximately 15 basis points, which is due to the relatively short average contract duration and Ageas's new business offering guaranteed rates closer to 0%.

The remaining exposure to life liabilities with guarantees mainly arise from France and Portugal, which we consider as low risk given the low level of guaranteed rates granted to policyholders in these markets.

In non-life, the group has a relatively low underwriting risk, as it primarily writes short-tailed product lines in Belgium, the UK and in Portugal such as motor (41% of gross inflows from consolidated entities in 2020), property (27%), accident & health (23%) and other (9%).

Asian operations accounted for 45% of Ageas's gross inflows in 2020 and this mainly consists of life products underwritten in China, followed by Thailand and Malaysia. Despite the non-controlling nature of these participations, Ageas is partially exposed to their product risk. Taiping Life in China, the largest partner in terms of gross inflows, sells participating products, traditional savings products, health and accident insurance products. Similarly to other Asian peers, the company over 2020 faced challenges from the economic slowdown induced by the pandemic and the fall in interest rates.

### Asset Quality - moderate investment risk

Ageas's asset quality is strong, reflecting a moderately risky investment portfolio and low exposure to intangibles.

Ageas's asset allocation (excluding its participations<sup>2</sup>) is concentrated in fixed income investments, which account for 85% of investments at year-end 2020, with smaller exposures to real estate (7%), equities (6%), and cash and cash equivalents (3%).

Around 50% of Ageas's fixed income portfolio are invested in government bonds, with Belgian government bonds accounting for almost half of the sovereign portfolio. Credit quality of the sovereign bond portfolio is very high, with around 80% rated Aaa or Aa. Credit quality in Ageas's corporate bond portfolio, accounting for 28% of fixed income investments, is also relatively high with 37% rated Aaa-A and a moderate 2% rated below investment-grade.

In search for yield, Ageas, as most of its peers, is gradually increasing its exposure to less liquid loans. These now account for 19% of the fixed income portfolio, but are mainly invested in government related loans.

Exposure to reinsurance recoverables and intangibles is moderate.

### Capitalisation - strong and resilient throughout the pandemic

Ageas's capitalisation, based on group Solvency II, is strong and has held up well over 2020.

Ageas reports two sets of group Solvency, one of which is the regulatory Pillar 1 Solvency, and its Pillar 2 Solvency, based on which Ageas manages its business including capital. Both Solvency II ratios are based on a partial internal model, with the main difference in terms of model result implications being the different treatment of spreads: whereas the Pillar 1 model includes what Ageas defines as 'fundamental spread risk' (linked to default or realised capital losses on sale) and 'non-fundamental spread risk' (linked to short-term volatility in the market), it does not account for risks associated with exposure to domestic sovereign bonds. The Pillar 2 model only reflects 'fundamental spread risk', including that on exposures to domestic sovereign bonds. It excludes 'non-fundamental spread risk' and hence does not use the volatility adjustment. In our assessment of Ageas's capital adequacy we take both Solvency II ratios into consideration, and even though we consider Ageas's Pillar 2 Solvency II ratio to be an adequate reflection of the group's capitalisation, we note that Ageas's regulatory Pillar 1 Solvency II ratio is highly sensitive to movements in credit spreads, which resulted in differing trajectories of the Solvency II ratios over 2020.

For year-end 2020, Ageas reported Solvency II ratios of 199% (Pillar 1) and 193% (Pillar 2), after 192% and 205% at year-end 2019 (excluding the effect of the partial buy-back of FRESH securities in early January 2020).

In terms of the scope of Ageas's group Solvency, it is noteworthy that the non-consolidated subsidiaries are not reflected in the model, i.e. they are excluded from both available and required capital. Ageas reports their respective Solvency ratios based on the local regulators' solvency regimes, and all major entities comfortably exceed capital requirements.

### **Profitability - stronger focus on insurance core earnings**

Ageas's profitability is strong and its average return on capital (Moody's definition) stood at 5.6% for the period 2016-2020. Negative one-offs, which had distorted Ageas's earnings previously and which Ageas reports in its general account segment, have meaningfully decreased since 2017 and 2018. As a result, earnings volatility has also reduced, and with legal legacy issues mostly having been resolved, we expect negative effects in the general account to be limited, even though the revaluation of the contingent liability related to the CASHES securities will continue to influence reported net results going forward.

The speed of the economic recovery varies significantly by region, with the recovery in Asian countries - and China in particular - outpacing that in Europe. This will likely result in different topline growth dynamics for the markets Ageas is operating in, with topline growth in Europe being more sluggish than for the Asian operations.

Ageas's 2020 results indicate limited exposure to the negative business consequences of the pandemic. The company has low pandemic-related mortality risk in life as well as low exposure to commercial lines negatively affected by lock down measures (such as business interruption and event cancellation) in non-life. Underwriting results in both life and non-life segments improved from last year but this was partially offset by decline in investment result in Europe, and negative market impact on results from the Asian equity associates. Overall, Ageas reported a net result of €1,141 million in 2020, up from €979 million in 2019, also reflecting a positive one-off in the general account.

The group's earnings from insurance operations (excluding general account earnings) are dominated by life earnings, which account for approximately  $\frac{2}{3}$  of total insurance earnings on an underlying basis, with non-life insurance contributing the remaining  $\frac{1}{3}$ .

Life earnings are mainly stemming from the investment result from traditional life business which has been resilient over past years as Ageas has been able to lower inforce guaranteed rate and profit sharing in line with the decrease in investment returns. Ageas has made progress in strengthening underwriting results, but less so regarding expense results. Furthermore, progress in strengthening earnings from unit-linked business - as a means to reduce the dependence on investment results - has been stagnating and we expect that continuously low interest rates globally, including Asia, will put pressure on investment returns.

Non-life earnings benefit from healthy underwriting profitability, as reflected by a reported combined ratio of around 95% since 2017, and benefitting from consistently high reserve releases (around 6.0 percentage points positive impact on reported combined ratio). In 2020, Ageas reported a 6.4 percentage points improvement (vs. prior year) in the combined ratio to 91.3%, which predominantly reflects Ageas's focus on retail lines, where lower claims frequency, notably in motor insurance, has been benefitting claims ratios. If and when the lock-down measures will be lifted, we expect claims frequency to tend towards long-term averages.

## Liquidity & Asset Liability Management - strong track record

Ageas's Liquidity and ALM are strong, mainly reflecting the group's prudent approach to ALM which results in strong matching of assets and liabilities, based on a robust framework and process in place.

### Reserve Adequacy

Non-life reserve adequacy at Ageas is strong. Reserve releases have been a constant feature of Ageas's group results, indicating a conservative reserving process, with very high reserves releases for the years 2018 and 2019. Lower reserve releases for the years 2016 and 2017 were mainly due the decrease in discounting factors on personal injury reserves in the United Kingdom ('Ogden').

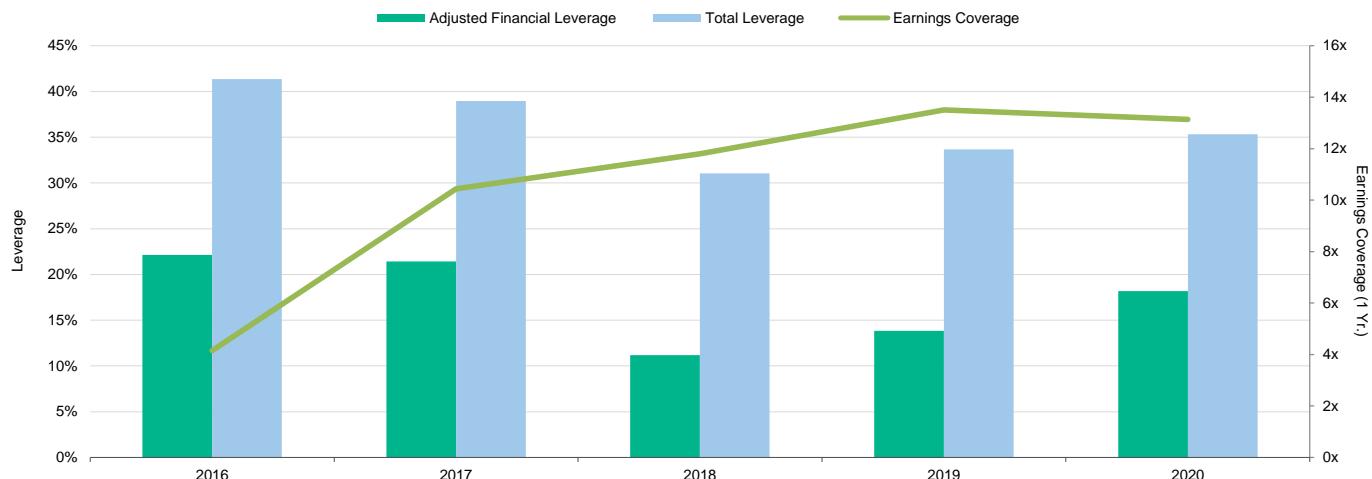
### Financial Flexibility - Very strong access and healthy leverage and coverage ratios

Ageas's financial flexibility is strong, reflecting strong credit metrics and proven access to financial markets.

As of year-end 2020 the adjusted financial leverage for the group was 18.2% (2019: 13.8%) and total leverage, excluding hybrids' equity credit, was at 35.3% (2019: 33.7%). The increase in leverage mainly results from the issuance of €500 million subordinated Tier 2 Notes in November 2020 and the buy back of the FRESH securities (remaining outstanding amount of €384 million as of year-end 2020) on which we apply full equity credit for the calculation of Moody's adjusted financial leverage.

Ageas has fully restored its access to the debt market, as evidenced by successful debt issuances of restricted tier 1 notes in 2019 and two tier 2 issuances in 2019 and 2020. This notwithstanding, Ageas' holding company remains liable to support the interest payments on €0.95 billion subordinated debt (CASHES) issued by previous group member Fortis Bank (now BNPPF) in case the bank is not able to service this debt due to solvency problems.

Exhibit 3  
Financial Flexibility



Sources: Moody's Investors Service and company filings

## ESG considerations

### Environmental

As a P&C insurer, Ageas is exposed to the economic consequences of climate change, primarily through the unpredictable effect of climate change on the frequency and severity of weather-related catastrophic events, such as floods, storms, drought and wildfires. Ageas has an adequate internal and external reinsurance program put in place and is able to reprice its products regularly which helps in mitigating these risks to a certain extent.

### Social

Ageas is exposed to multiple social risks, such as reliance on human capital, the importance of and large volumes of customer data, the challenges and opportunities from changing population dynamics, the impact of changing consumer preferences on distribution

channels, or underwritten exposures to a wide range of liability claims against individuals and corporations (eg industrial accidents, health & safety issues, product recalls). At this stage, we do not consider these risk exposures material rating drivers for Ageas.

### Governance

Like all other corporate credits, the credit quality of Ageas is influenced by a wide range of governance-related issues, relating to financial, managerial, ownership or other factors, all of which can be exacerbated by regulatory oversight and intervention. More specifically, Ageas has limited control over those joint-ventures with local companies in Asia and Turkey, as it holds minority stakes in these entities and despite strong representation in their executive management teams. This notwithstanding, we consider Ageas to have strong corporate governance in place.

### Liquidity analysis

Liquid resources held at ageas SA/NV (consisting of the sum of net cash and liquid assets) were €1.2 billion as of year-end 2020, down from €2.2 billion as of year-end 2019. The decrease is mainly due to the €0.5 billion payment in the first half of 2020 related to the tender of FRESH securities, the subsequent additional buyback for €0.1 billion, and the acquisitions in China and India for €0.4 billion.

In Q4 2020, ageas SA/NV paid the second tranche of the dividend out of FY 2019 earnings, amounting to €436 million, following a first tranche of €50 million earlier in the year. In 2020, ageas SA/NV received €663 million in dividends from its subsidiaries and equity associates.

### Support and structural considerations

#### Long Term issuer rating on ageas SA/NV

Ageas SA/NV is the ultimate holding company of the group and is also an operating company which however only writes reinsurance business, at this stage exclusively intragroup. As a result of this, ageas SA/NV's IFSR and Long Term issuer ratings are assigned at the same level, at A1. This is consistent with Moody's standard notching approach for reinsurance operating companies.

#### IFSR on AG Insurance

The A1 IFSR on AG Insurance is aligned with the IFSR of the larger group as we consider AG Insurance to be an inherent part of group. AG Insurance is the market leader in Ageas's Belgian home market and continues to be a dominant driver for the group's credit profile. Ageas owns 75% of AG Insurance, with the remaining 25% being held by BNP Paribas Fortis SA/NV, which also is AG Insurance's main distribution channel.

#### Backed Junior Subordinate Rating on FRESH securities

The FRESH securities have been issued by Ageasfinlux S.A., a financing vehicle of Ageas, and ageas SA/NV is co-obligor. The notes are rated four notches below ageas SA/NV's IFSR. This is one notch wider than the standard notching we have for preferred securities with a cumulative coupon skip mechanism. This additional notching reflects the higher risk of coupon deferral, as these securities allow for an Alternative Coupon Settlement Method ("ACSM") when the annual dividend yield on the Ageas share is below 0.5%.

## Rating methodology and scorecard factors

Exhibit 4

ageas SA/NV

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	ScoreAdj Score
Business Profile								A A
<b>Market Position and Brand (20%)</b>								A A
-Relative Market Share Ratio			X					
<b>Distribution (5%)</b>						X		Baa A
-Distribution Control					X			
-Diversity of Distribution				X				
<b>Product Focus and Diversification (10%)</b>							Aa	A
-Product Risk - P&C		X						
-Product Risk - Life				X				
-Product Diversification		X						
-Geographic Diversification			X					
Financial Profile							Aa	A
<b>Asset Quality (10%)</b>							A	A
-High Risk Assets % Shareholders' Equity				143.3%				
-Reinsurance Recoverable % Shareholders' Equity		5.8%						
-Goodwill & Intangibles % Shareholders' Equity		12.7%						
<b>Capital Adequacy (15%)</b>							Aa	A
-Shareholders' Equity % Total Assets		10.1%						
<b>Profitability (15%)</b>					5.6%		A	A
-Return on Capital (5 yr. avg.)					230.7%			
-Sharpe Ratio of ROC (5 yr.)								
<b>Liquidity and Asset/Liability Management (5%)</b>							A	A
-Liquid Assets % Liquid Liabilities		X						
<b>Reserve Adequacy (5%)</b>							Aa	A
-Adv. (Fav.) Loss Dev. % Beg. Reserves (5 yr. wtd. avg.)		-4.7%						
<b>Financial Flexibility (15%)</b>							Aa	A
-Adjusted Financial Leverage		18.2%						
-Total Leverage			35.3%					
-Earnings Coverage (5 yr. avg.)		10.6x						
Operating Environment							Aaa - A	Aaa - A
Preliminary Standalone Outcome							A1	A1

[1] Information based on IFRS financial statements as of fiscal year ended December 31, 2020. [2] The Scorecard rating is an important component of the company's published rating, reflecting the standalone financial strength before other considerations (discussed above) are incorporated into the analysis.

Source: Moody's Investors Service

## Ratings

Exhibit 5

Category	Moody's Rating
<b>AGEAS SA/NV</b>	
Rating Outlook	STA
LT Issuer Rating	A1
<b>AGEASFINLUX S.A.</b>	
Rating Outlook	STA
BACKED Junior Subordinate	Baa2 (hyb)
<b>AG INSURANCE</b>	
Rating Outlook	STA
Insurance Financial Strength	A1

Source: Moody's Investors Service

## Moody's related publications

Rating Action:

- » [Moody's assigns an A2 IFSR to ageas SA/NV with a positive outlook](#), 30 November 2020

**Issuer Research:**

- » [Plan to buy back FRESH securities is credit positive for ageas SA/NV's issuer rating; no impact on FRESH issue rating, 22 November 2019](#)

**Endnotes**

- 1 The bank ratings shown in this report are the bank's deposit rating, senior unsecured debt rating and Baseline Credit Assessment
- 2 Please note Moody's includes the investments in associates as high-risk assets for calculating High Risk Assets % Shareholders' Equity

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