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Ageas Group

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Table Of Contents

Ageas Group

Anchor	a+
Business Risk	**Strong**
Competitive position	Strong
IICRA	Intermediate
Financial Risk	**Very Strong**
Capital and earnings	Very strong
Risk exposure	Moderately low
Funding structure	Neutral

+

Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

=

SACP	a+

+

Support	**0**
Group support	0
Government support	0

=

A+/Stable/--	**Financial strength rating**
A+/Stable/A-1+	**Holding company ICR**

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

*The anchor reflects Ageas' high geographic diversity, resilient profitability, and significant capital buffers.

Credit Highlights

Overview

Key strengths	Key risks
Market leader in Belgium with presence in international markets through Asian joint ventures.	Very low interest rates constrain investment income and margins from life business.
Resilient earnings despite adverse conditions due to the COVID 19 pandemic.	Lack of operational control over Asian joint ventures.
Sound regulatory solvency and high capital buffers, above the 'AA' level under S&P Global Ratings' capital model.	

Diversified income streams will remain a key strength of Ageas Group (Ageas). Ageas' leadership in Belgium and presence in the U.K. and Portugal provide moderate, and predictable, organic growth. The group's recent foray into China's reinsurance market through the acquisition of 25% stake in Taiping Reinsurance Co. Ltd (TPRe) will provide further earnings diversification from Asian operations.

We expect Ageas' earnings will remain resilient, supported by high contributions from Asian operations and strong underwriting performance in European non-life business. Ageas continued to report double-digit earnings growth in the past two years. Its net income of €994 million in the first nine months of 2020 is in line with our earnings expectations for full-year 2020.

We estimate Ageas will maintain very strong capital buffers at least until 2022. We believe that Ageas' solid earnings, helped by one-off capital gains and new debt issuance, have materially strengthened its capital adequacy, according to our methodology. In our view, Ageas' capital adequacy is unlikely to drop below current very strong levels, even in cases of market stress similar to that observed in March 2020.

Outlook: Stable

The stable outlook reflects our belief that Ageas will maintain a high level of resilience to the COVID-19 pandemic, with robust earnings in line with our forecast. We also expect Ageas will maintain very strong capitalization, including S&P Global Ratings capital adequacy well 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 well below the 'AA' level in our capital model, resulting from either more-aggressive capital management than we anticipate, or substantial additional risk-taking; or
- Against our base-case assumptions, operating performance weakens materially below that of domestic or international peers, evidenced by a sharp deterioration of return on equity or the non-life combined ratio (loss and expense).

Upside scenario

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

Key Assumptions

- Long-term interest rates stay negative or close to zero until 2023 for most European countries.
- Real GDP for the eurozone contracts by 7.2% in 2020 and expands by 4.8% in 2021 and 3.9% in 2022.
- Real GDP for China will expand 2.1% in 2020, 7% in 2021, and 5% in 2022.
- Long-term interest rates in China of about 3% between 2020-2022.

Source: S&P Global Economics and Oxford Economics as of Dec. 3, 2020.

Ageas SA/NV--Key Metrics

	2021f	2020f	2019	2018	2017	2016
S&P Global Ratings' capital adequacy	Excellent	Excellent	Excellent	Very Strong	Strong	Strong
Gross premium written (mil. €)	>8,000	>8,000	9,384	8,860	8,445	9,277
Net income after minorities* (mil. €)	> 900	900	979	809	623	27
Return on shareholders' equity (%)	> 8	> 9	9.4	9.2	8.3	2.0
P/C : Combined ratio (%)	<97	<97	95.9	95.3	96.2	102.4
EBITDA fixed-charge coverage (x)	>8.0	>8.0	17.6	12.7	11.3	7.5
Financial leverage including pension deficit as debt (%)	<30.0	<30.0	27.7	26.5	28.9	30.0

f--Forecast. P/C--Property/casualty. *For 2020f net income is excluding a one-time capital gain of €300 million.

Business Risk Profile: Strong

Ageas has a leading position in both property/casualty (P/C) and life insurance markets in its home country, Belgium, through AG Insurance its main operating subsidiary. Over time, the group has also built good positions in the U.K. (in P/C) and Portugal (in both P/C and life) via acquisitions and organic growth. In addition, Ageas benefits, in our view, from its strong ties with banks in Europe and Asia that distribute its products. We view AG Insurance's longstanding partnership with BNP Paribas Fortis, which accounts for one-third of overall consolidated premiums, as supporting the group's business position.

We also expect that earnings from its operations in Asia through major joint ventures, including China (No. 4 in life insurance), Malaysia (market leader in non-life and No. 4 in life insurance), Thailand (No. 1 in life insurance and No. 4 in non-life), and India will remain key earning contributors. For 2020, we expect Asian operations will contribute 30% of overall net normalized earnings. Ageas' recent foray into the Asian reinsurance market through a 25% stake in TPRe will further aid earnings diversification from 2021. However, we also view the lack of control over joint venture operations in Asia as a constraint.

Ageas' U.K. subsidiary, Ageas Insurance Ltd. (AIL), mainly focused on motor and household, has continued to report combined ratio improvements and is expected to contribute close to 10% of net earnings in 2020.

The group's resilient earnings amid lower interest rates illustrate its good control of the guaranteed life insurance back book and limited asset-liability mismatch.

Financial Risk Profile: Very Strong

Robust earnings combined with overall low-risk investments have materially improved Ageas' capitalization in the past two years. We anticipate that the group will manage its capital adequacy in line with the 'AA' confidence level over at least the next two years.

Despite robust profits and nonrecurring capital gains, we believe Ageas will not increase shareholder payouts materially beyond its stated 50% dividend policy, meaning it will maintain a significant capital buffer above the 'AA' level, under S&P Global Ratings' capital model. We expect potential investment-related charges from COVID-19-related market turmoil will not deteriorate capital adequacy below very strong levels. The €300 million one-off capital gain booked in January 2020 on the buy-back of a legacy hybrid (called FRESH), launched at year-end 2019, has also strengthened capital adequacy.

We consider positive Ageas' capital policy of maintaining a target group Solvency II (SII) ratio of above 175% (unless in exceptional circumstances). Moreover, the group's SII ratio displays overall moderate sensitivities, and does not rely on transitional measures. It stood at 217% (205% on a pro-forma basis net of the 12 basis point [bps] negative effect from the FRESH repurchase) at year-end 2019 and, despite unfavorable market movements, remained robust at 194% on a Pillar 2 basis at Sept. 30, 2020, with the decline mainly explained by the drop in interest rates.

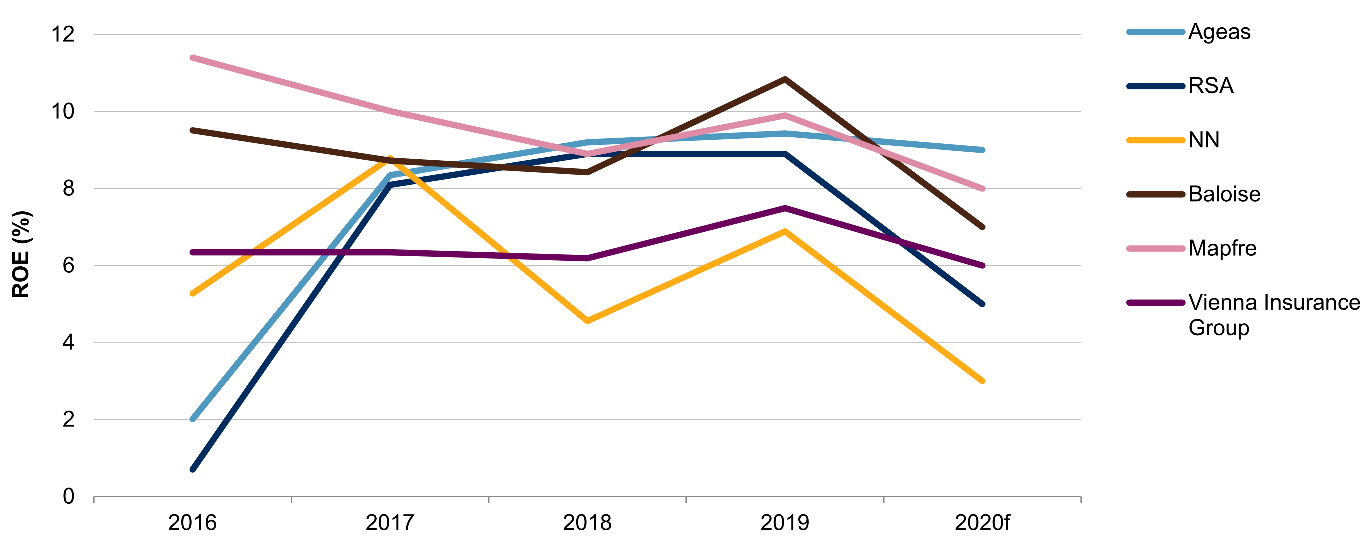
In our view, the recent issuance of €500 million of Tier 2 hybrid debt will more than compensate for the impact of the

TPRe acquisition on the SII ratio (negative 7 bps) and on our estimate of total adjusted capital (negative €336 million).

For the first nine months of 2020, Ageas reported net earnings of €994 million (including the one-time capital gain from the FRESH repurchase). Excluding one-off items, net income from insurance activity was €737 Million, which placed Ageas well within our forecast to reach €900 million in 2020 (excluding one-offs). This performance puts Ageas' earnings resilience ahead of its European peers' (see chart 1).

Chart 1

Ageas' Return On Equity Versus European Peers'



ROE--Return on equity. f--Forecast. Source: Company reports, 2020 S&P Global Ratings' forecasts.

In our 2021-2022 forecast, we expect Ageas will gradually improve its profits to exceed €900 million per year (excluding nonrecurring items). We also expect the combined ratio will remain below 96% over the period. Ageas' profitability will continue to benefit from the growth trends of its Asian joint ventures. At the same time, we believe the insurer will maintain its capital adequacy comfortably in the 'AA' range over the next two years, even taking into account possible impairments in its equity and bond portfolio in case of renewed market downturns--as witnessed in first-quarter 2020. We view positively that Ageas will not carry out any share buybacks between year-end 2020 and mid-year 2021 to compensate for its acquisitions. We then assume moderate share buybacks between second-half 2021 and mid-year 2022.

We believe that potential risks not captured in our assessment of Ageas' capital are limited. Investment-grade fixed-income assets, displaying an average credit quality of 'AA', 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. Riskier investments in equities, real estate, and loans account for less than 20% of total invested assets, while we assess there is no risky concentration to single sectors or single obligors.

We also consider that the higher guaranteed rate portfolio in Belgium is declining and balanced with close asset-liability-duration matching. In our view, this limited asset-liability-management risk is also supported by the surrender rules and fiscal incentives on Belgian life policies, which discourage early redemption by policyholders.

Ageas has amply demonstrated its recurrent capacity to tap the debt markets, first through AG Insurance and via Ageas SA/NV since April 2019. We expect the group's financial leverage will remain less than 30% and anticipate that it will continue to comfortably cover financial interest by more than 8x.

Other Key Credit Considerations

Liquidity

Our assessment of Ageas' liquidity as exceptional reflects the insurer's liquid investment portfolio as well as a buffer to settle litigation at the reserved level.

Factors specific to the holding company

We rate Ageas SA/NV in line with the group credit profile (GCP). Group holding company Ageas SA/NV is a captive reinsurer, which gives internal diversification benefits and enhances the group's reinsurance and wider capital efficiency. Ageas' Belgium, U.K., and Portugal subsidiaries have ceded 40% of their non-life business with Ageas SA/NV. The rating also reflects ample liquidity at the holding level.

Environmental, social, and governance

In our view, Ageas' exposure to environmental and social risks is similar to that of the global insurance industry and peers in continental Europe, such as Vienna Insurance Group or CNP Assurances. Environmental risk primarily arises from the risk that the frequency and severity of claims for extreme weather events will increase as a result of climate change in its main markets of Belgium, Portugal, and the U.K. Further exposure stems from Ageas' investment portfolio, where changes in policy or public opinion regarding climate change could cause greater asset-valuation volatility. Ageas' Belgian life and pension insurance business is exposed to social risks. The company's liabilities could rise due to chronic illness caused by lifestyle changes. Ageas' exposure to increased longevity is modest overall because most Belgians take their pension insurance as capital at retirement age, instead of converting it into annuities, as is allowed under Belgian law. Based on SII reporting, Ageas' life underwriting risks (which include longevity, mortality, and lapse risk) represented 9% of total SII capital requirements before diversification and loss-absorption. Its non-life underwriting risks (which include weather event exposure) represent 10%. Ageas' retail-oriented and simple products limit its exposure to environmental risks through its P/C activity and this is complemented by comprehensive reinsurance. We also consider that exposure to social risks stemming from the Belgian pension portfolio is under control and well-managed. Ageas has a strong track record of managing its asset-liability-management risks, which allows the group to anticipate, model, and pre-emptively include how social trends will affect its guaranteed life business. We consider that the group has demonstrated the strength of its strategic planning process and its implementation, particularly in relation to group structure simplification, its focus on resolving legacy issues while redeploying business on core markets, as well as the maintenance of sound capital levels, notwithstanding the generous dividend policy and settlement of legacy issues.

Group support

We regard AG Insurance and AIL as core operating entities of the Ageas group. We consider they operate in lines of business integral to the overall group strategy and are highly unlikely to be sold. In addition, group management demonstrates a strong commitment to support these entities.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, 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 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' Proposed Subordinated Notes Rated 'A-', Nov. 17, 2020
- Belgian Insurer Ageas And Core Subsidaries Upgraded To 'A+' On Resilient Earnings Growth; Outlook Stable, Nov. 16, 2020
- Ageas Group Outlook Revised To Positive On Improving Earnings And Capital; 'A' Ratings Affirmed, Nov. 21, 2019

Appendix

Ageas SA/NV--Credit Metrics History

Ratio/Metric	2019	2018	2017
S&P Global Ratings capital adequacy	Excellent	Very Strong	Strong
Total invested assets	104,129	96,559	97,779
Total shareholder equity	13,481	11,520	10,162
Gross premiums written	9,384	8,860	8,445
Net premiums written	9,021	8,593	8,208
Net premiums earned	9,021	8,646	8,255
Reinsurance utilization (%)	3.9	3.0	2.8
EBIT	1,527	1,362	1,223
Net income (attributable to all shareholders)	1,178	997	850
Return on revenue (%)	11.9	11.3	10.3
Return on assets (including investment gains/losses) (%)	1.5	1.3	1.2
Return on shareholders' equity (reported) (%)	9.4	9.2	8.3
P/C: net combined ratio (%)	95.9	95.3	96.2

Ageas SA/NV--Credit Metrics History (cont.)

Ratio/Metric	2019	2018	2017
P/C: net expense ratio (%)	35.3	35.8	35.5
P/C: return on revenue (%)	9.5	10.6	9.8
EBITDA fixed-charge coverage (x)	17.6	12.7	11.3
Financial obligations / EBITDA adjusted	3.1	2.9	3.2
Financial leverage including pension deficit as debt (%)	27.7	26.5	28.9
Net investment yield (%)	3.8	3.6	3.8
Net investment yield including investment gains/(losses) (%)	4.2	3.9	3.9

P/C--Property/casualty.

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	**Very Strong**	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	**a+/a**	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of December 16, 2020)*

Ageas SA/NV	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	A+/Stable/A-1+
Junior Subordinated	A-
Junior Subordinated	BBB+
Subordinated	A-
Related Entities	
Ageas Insurance Ltd	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
AG Insurance	
Financial Strength Rating	
Local Currency	A+/Stable/--

Ratings Detail (As Of December 16, 2020)*(cont.)	
Issuer Credit Rating	A+/Stable/--
Junior Subordinated	A-
Domicile	Belgium

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.