FitchRatings

FITCH AFFIRMS AGEAS SA/NV'S IDR AT 'A'; OUTLOOK STABLE

Fitch Ratings-London-21 November 2016: Fitch Ratings has affirmed Ageas SA/NV's Long Term Issuer Default Rating (IDR) at 'A'. The Outlook is Stable. Ageas SA/NV is the ultimate holding company of the Ageas group (Ageas).

Fitch has also affirmed Ageas Insurance International NV's (an intermediate holding company) Long-Term IDR at 'A' and AG Insurance's and Ageas Insurance Limited's Insurer Financial Strength (IFS) ratings at 'A+'. The Outlooks are Stable. A full list of ratings is at the end of this commentary.

KEY RATING DRIVERS
Ageas' ratings benefit from strong solvency, solid cash position and robust underwriting profitability. However, challenging underwriting conditions in Belgium and the UK and low bond yields limiting its investment income are putting pressure on the group's earnings. Fitch expects these conditions to persist.

As Ageas' main operating subsidiary, Fitch views AG Insurance as "Core" to the group and, as such, it has an IFS rating of 'A+'. Through AG Insurance, Ageas is the largest insurer in Belgium. Access to extensive and diversified distribution channels, including the banking network of BNP Paribas Fortis (Long-Term IDR: A+/Stable), is a positive rating factor.

Fitch also views Ageas Insurance Limited as "Core" to Ageas and, as such, it has an IFS rating of 'A+'. Ageas Insurance Limited is Ageas' main business in the UK, which is the second largest country by premium for the group after Belgium, and is a key part of Ageas' operations.

Fitch considers Ageas' capital adequacy to be strong, based on both Fitch's own internal risk-based assessment and the regulatory Solvency II ratio. At end-September 2016 the group's regulatory Solvency II ratio was 178% (206% at end-2015). The main sensitivities are linked to interest rates and spread changes, in line with its main peers. Fitch's Prism factor-based capital model (Prism FBM) score for Ageas based on year-end 2015 results is 'Very Strong'. The score takes into account the impact of the disposal of Ageas' Hong Kong business (AICA), the settlement with several claimant organisations and the acquisition of AXA Portugal.

Fitch calculated Ageas' financial leverage ratio (FLR) at 17% at end-2015 (2014: 17%). The group's debt leverage is commensurate with the 'AA' rating category. Fitch expects the ratio to remain below 20% in the medium term. If the put option granted to BNP Paribas Fortis to sell 25% plus one share of AG insurance to Ageas is exercised in 2018, this would trigger an increase in financial leverage, although it could be partially offset by the accounting recognition of these minorities.

The ratings of the Ageas holding companies take into account the group's strong net cash position, which totalled EUR2.1bn at end-June 2016. Legacy financial instruments (in particular, the RPN(I) structure) from the break-up of the Fortis group in 2009 continues to affect profitability at the holding company level, where the net result continues to be volatile. Net income return on equity (ROE) was 7.1% at end-2015 (2014: 5.1%). Fitch expects ROE to be lower in 2016 following the provision taken with regards to the Fortis litigation and the valuation of the RPN(I). However, Fitch expects management actions to reduce this volatility over time.

Ageas' underwriting profitability is robust. Ageas posted a strong insurance result of EUR803m in 9M16 (9M15: EUR 613m). However, EUR200m of earnings were due to the capital gain on the AICA sale. The non-life result can be impacted by weather-related claims. In 2015, the effect of adverse weather and other catastrophes was comparable with 2014. However, in 9M16 terrorism and weather added 1.2 and 2.3 percentage points respectively to the combined ratio. Fitch's calculated operating margin on guaranteed products, measured by return on assets, improved to 1.2% in 2015 (2014: 0.8%).

In March 2016, Ageas announced it had reached a settlement with several claimant organisations, and had taken a provision of EUR889m. If the settlement is declared binding by Amsterdam Court of Appeal, uncertainty related to litigation will significantly reduce.

Following the announcement, Fitch upgraded Ageas SA/NV's (the ultimate holding company of the Ageas group) IDR to reflect the agency's expectation that the Amsterdam Court of Appeal will declare the settlement agreement binding for all eligible Fortis shareholders.

RATING SENSITIVITIES
The ratings could be upgraded if Ageas' profitability improves over a sustained period, with a return on equity above 10% (2015: 7.1%), a pre-tax operating return on assets of 1.1% (2015: 1.2%) or above, and group earnings in line with 'AA' rated peers.

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

FULL LIST OF RATING ACTIONS

Ageas SA/NV
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
Hybrid capital instruments affirmed at 'BBB-'

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Additional information is available on www.fitchratings.com

Applicable Criteria
Insurance Rating Methodology (pub. 15 Sep 2016)
https://www.fitchratings.com/site/re/887191