AG Insurance

Full Rating Report

Ratings

AG Insurance

Insurer Financial Strength Rating	A+
Long-Term IDR	A
Subordinated bond	BBB+

Sovereign Risk

Long-Term IDR	AA

Outlooks

Insurer Financial Strength Rating	Stable
Long-Term IDR	Stable
Sovereign Long-Term IDR	Negative

Financial Data

AG Insurance (consolidated)

(EURm)	31 Dec 14	31 Dec 13
Total assets	74,260	67,432
Total equity	6,488	5,025
Pre-tax profit	631	613
Net premiums earned	5,361	5,319
Solvency margin (%)	210	192

Reported figures
Source: AG Insurance

Related Research

Ageas SA/NV (July 2015)

Analysts

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Key Rating Drivers

Core to Ageas Group: Fitch Ratings regards AG Insurance as the main insurance operating entity of the Ageas group and ‘Core’ to the group. Its ratings are therefore derived from a combined assessment of the Ageas group.

Strong Capital Adequacy: The ratings of AG Insurance benefit from its strong solvency. Its regulatory solvency margin was 210% at end-2014. Ageas had a ‘Very Strong’ score under the Prism factor-based capital model (Prism FBM) based on year-end 2014 results. Fitch expects solvency to remain strong, supported by retained earnings.

High But Stable Financial Leverage: AG Insurance’s financial leverage ratio was stable at 32% at end-2014. AG Insurance issued a EUR400m dated subordinated bond in March 2015 to replace existing debt. As the debt issuance refinanced debt of a smaller amount, AG Insurance's financial leverage ratio increased marginally to 33% from 32% based on a pro-forma calculation using 2014 data. This high financial leverage is outside Fitch's median guidelines for the 'A' IFS category but Fitch does not expect it to increase any further.

Adequate Financial Flexibility: Fitch views the successful issuance of subordinated debt positively from the perspective of financial flexibility, as it demonstrates AG Insurance's ability to access debt capital markets. In 2013 AG Insurance issued undated subordinated notes of USD550m and EUR450m callable subordinated debt.

Strong But Pressurised Profitability: Despite higher profitability in 2014 than 2013, underwriting conditions in Belgium remain challenging and investment income is under pressure due to low interest rates. Fitch believes these conditions are likely to persist and will continue to put pressure on profitability.

Interest Rate Risk Mitigated: AG Insurance’s life technical liabilities are subject to minimum guaranteed returns. However, the duration gap between assets and liabilities is low. Individual policies have a market value adjustment clause if redeemed before eight years, meaning the surrender value would be equal to the value of the assets at the time of redemption. This protects the insurer against lapses due to unfavourable market movements.

Strong Position in Belgium: AG Insurance 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 key positive rating factor.

Rating Sensitivities

Reduction in Profitability: AG Insurance’s ratings could be downgraded if Ageas's profitability weakens significantly, with a pre-tax operating profit return on equity below 5% (2014: 9%) and a pre-tax operating return on assets below 0.4% (2014: 0.7%).

Deterioration in Capital Adequacy: AG Insurance’s ratings could also be downgraded if Ageas‘s Prism FBM score falls to the ‘Strong’ category, on a sustained basis.

Litigation Risk Increasing: AG Insurance's ratings could also be downgraded if the litigation risk results in material losses for the group well in excess of the provisions currently held.

Improved Profitability: The ratings could be upgraded if Ageas's profitability improves over a sustained period, with a pre-tax operating profit return on equity of at least 12%, a pre-tax operating return on assets of 1.1% or above, and group earnings in line with 'AA'-rated peers.

Market Position and Size/Scale

Medium-Sized Group with Solid Business Position in Belgium

- Belgium most important market

Belgium Most Important Market

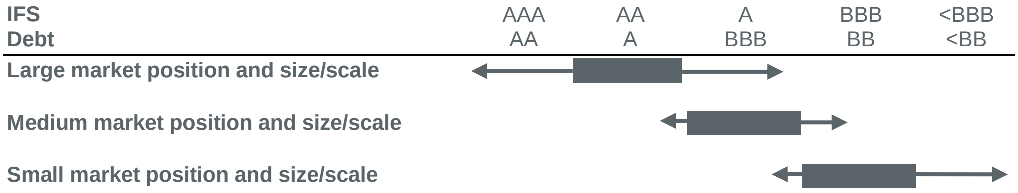
In 2014, Belgium represented 60% of the Ageas group's net profit (2013: 58%) and 74% (74%) of technical liabilities.

AG Insurance is Belgium's largest insurer, with a 21.4% market share in 2014, ahead of AXA Belgium (IFS rating: AA−/Stable) with 14.8% and KBC Insurance (IFS rating: A−/Stable) with 8.7%. AG Insurance's leadership in life insurance was unchanged, with a 24.9% market share. It is the second-largest non-life insurer in the country, with a market share of 16.3%, behind AXA Belgium (18.7%) but ahead of Ethias S.A. (IFS rating: BBB+/Stable) with 11.3% and KBC Insurance with 8.3%.

AG Insurance's life insurance gross written premiums were EUR3,546m in 2014. The life products sold by the company are predominantly savings-type single-premium products. Non-life premiums were EUR1,815m. AG Insurance is more active in accident and health insurance than peers, which is beneficial in terms of overall portfolio diversification.

AG Insurance benefits from an exclusive distribution agreement in Belgium with BNP Paribas Fortis until at least the end of 2020.

Figure 1
Ratings Range Based on Market Position and Size/Scale



Source: Fitch

Related Criteria

Insurance Rating Methodology (July 2015)

Ownership is Neutral to Ratings

Corporate Governance and Management

Corporate governance and management are adequate and are neutral to the rating.

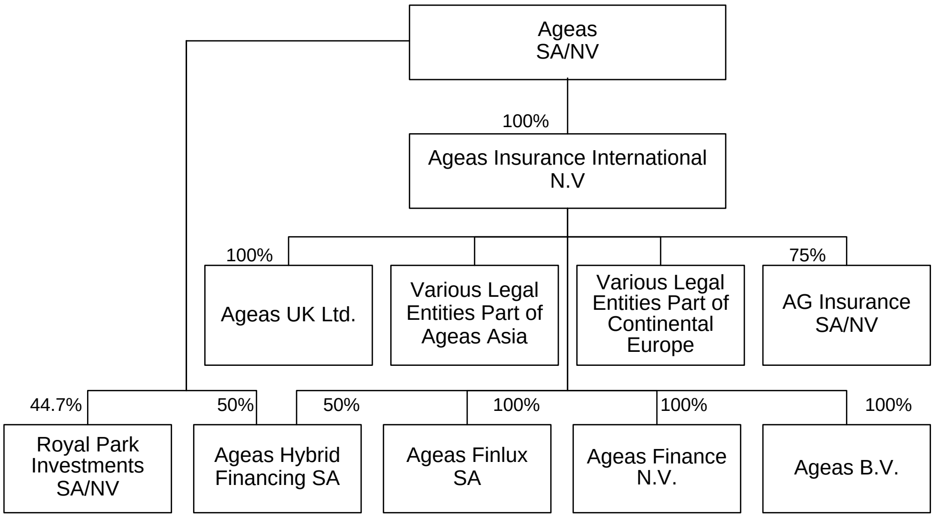
Ageas SA/NV is the group's ultimate holding company, domiciled in Belgium. Ageas Insurance International N.V. is the group's intermediate holding company, through which the insurance operations are owned.

Since May 2009 BNP Paribas Fortis has owned 25% of AG Insurance. The remaining 75% is owned by Ageas (formerly the Fortis group). BNP Paribas Fortis is 100% owned by BNP Paribas.

Ageas is now active only in insurance business and holds a 75% stake in AG Insurance, and has interests in insurance companies in the UK, continental Europe and Asia.

Figure 2

Ageas' Group Structure



Source: Ageas

Sovereign and Country-Related Constraints

Fitch rates the local-currency sovereign obligations of Belgium at ’AA’ with a Negative Outlook, and the Country Ceiling is ‘AAA’.

Given these very high ratings, the ratings of insurance organisations and other corporate issuers in Belgium are not likely to be constrained by sovereign or macroeconomic risks, and in the specific case of AG Insurance no constraints apply.

Industry Profile and Operating Environment

Belgium: Mature Market Under Pressure

Belgium is a mature market with total insurance premiums of EUR29bn (2013), of which EUR17bn relates to life insurance, mostly savings business. The savings products carry minimum guaranteed returns and are exposed to low interest rates. The non-life market is dominated by motor and household insurance.

In 2013, total insurance premiums fell by 10%, returning to the level of 2011. The decrease was driven by a significant decline in life premiums, while non-life premiums increased slightly. This followed an increase of 10% in 2012, when premiums rose for the first time after five years of stagnation. Growth in 2012 was driven mainly by savings products with guaranteed interest rates but also by unit-linked savings products. However, demand for such products can be volatile, reflecting financial markets.

Belgian insurers’ profitability has been volatile over the past six years, due to significant financial market movements, especially in 2008 and 2011, and natural catastrophes that affected the country in 2007 and 2010. Fitch expects profitability to remain volatile, reflecting fierce competition and financial market volatility.

Peer Analysis

Larger Scale, Strong Capital

AG Insurance's peers are the mid-to-large Benelux composite insurers. AG Insurance is smaller than Achmea but larger than other peers in the sample. Those insurers have limited exposure to non-domestic markets.

Profitability is strong and only weaker than KBC. In 2014, Achmea and REAAL's net income was affected by non-recurring items. AG Insurance's combined ratio was slightly worse than the average in the group in 2014; it increased to 101.2% (2013: 99.9%) due to extreme weather events in June 2014. Capitalisation is strong, in line with peers.

Figure 3
Peer Comparison – 2014

Company	IFS rating of primary operating entities	Assets (EURm)	Shareholders' equity (EURm)	IFRS profit (EURm)	Return on assets[a] (%)	Combined ratio (%)	Return on equity[b] (%)	EU Solvency I ratio (%)	Net premium written/ equity (%)
Achmea	NR	93,205	9,818	16	0.1	102.5	0.2	215	0.3
AG Insurance	**A+/Stable**	**74,260**	**6,488**	**530**	**0.9**	**101.2**	**9.2**	**210**	**0.3**
REAAL	BBB/RWE	60,525	2,015	-605	-1.4	110.9	-26.3	136	0.4
KBC Insurance	A-/Stable	37,921	3,296	391	1.5	94.3	11.9	323	0.4
Ethias[c]	BBB+/Stable	19,771	1,130	-132	-0.2	89.2	1.8	146	1.1

[a] Group pre-tax income/2013-2014 average total assets
[b] Group net income/2013-2014 average group shareholders' equity
[c] Belgian GAAP
Source: Companies, Fitch

Figure 4
Capitalisation and Leverage

(EURm)	2010	2011	2012	2013	2014	Fitch's expectation
Total assets	59,215	59,938	66,775	67,237	74,024	Fitch expects solvency ratios to remain at around 2x the regulatory minimum and AG Insurance to fare well under Solvency II. Debt leverage, as calculated by Fitch, is expected to remain around 30% over the medium term.
Total equity	3,640	3,302	5,428	5,025	6,488	
Financial leverage ratio (%)	31	35	32	33	32	
Regulatory solvency ratio (x)	2.0	1.7	1.7	1.9	2.1	
Total financing and commitments (TFC) ratio (x)	0.9	1.1	1.0	1.2	1.1	

Source: Fitch, Ageas

Strong Capital Adequacy but High Financial Leverage

- Strong capital
- High but stable debt leverage
- High TFC

Strong Capital

Fitch considers AG Insurance's capital adequacy to be strong, based on the regulatory solvency ratio. At end-2014, AG Insurance's regulatory solvency ratio was 210% (192% at end-2013).

AG Insurance's risks are well diversified due to its involvement in both life and non-life businesses. However, geographical diversification is negligible, due to the company's focus on the Belgian market.

Fitch expects solvency to remain strong, supported by retained earnings, and the company to fare well under Solvency II.

High but Stable Debt Leverage

AG Insurance's financial leverage ratio was stable at 32% at end-2014. AG Insurance issued a EUR400m dated subordinated bond in March 2015 to replace existing debt. This is in line with the Ageas group's strategy to optimise its capital structure and maximise hybrid debt capacity at the individual operating entity level.

As the debt issuance refinanced debt of a smaller amount, AG Insurance's financial leverage ratio increased marginally to 33% from 32% based on a pro-forma calculation using 2014 data. This high financial leverage is outside Fitch's median guidelines for the 'A' IFS category but Fitch does not expect it to increase any further.

AG Insurance previously issued two subordinated bond instruments in 2013.

High TFC

The total financing and commitments (TFC) ratio, which is designed to measure the total debt, financing, and capital markets footprint of an organisation and its overall reliance on access to funding sources, is high, at 1.1x at end-2014. This reflects AG Insurance's use of repurchase agreements to hedge specific investments with resettable interest rates and for cash management.

Fitch views AG Insurance repurchase agreements as reasonably matched from an asset-liability management (ALM) perspective as funds are invested in high-grade securities.

Figure 5

Debt Service Capabilities and Financial Flexibility

(x)	2010	2011	2012	2013	2014	Fitch's expectation
Fixed-charge coverage ratio	8.2	15.4	7.9	8.2	6.2	Fitch expects AG Insurance’s fixed-charge coverage ratio to remain above 5x, as new debt carries lower coupon rates than debt to be retired.

Source: Fitch

Adequate Financial Flexibility

- Subordinated debt issued directly
- Weaker but adequate fixed-charge coverage
- Litigation at Ageas’s level could pressurise dividends

Subordinated Debt Issued Directly

Until December 2012 the debt issued by AG Insurance was fully owned by Ageas Hybrid Financing and therefore the company had no public debt outstanding.

However, more recently, AG Insurance has issued subordinated debt directly in its own right, demonstrating its access to debt capital markets.

Weaker but Adequate Fixed-Charge Coverage

Fitch expects the fixed-charge coverage ratio to remain above 5x, a level commensurate with the ‘BBB’ rating category.

Litigation at Ageas’s Level Could Pressurise Dividends

AG Insurance is not involved in the litigation affecting its majority owner Ageas SA/NV and is, to a certain extent, protected from that litigation risk. Nevertheless, Fitch believes there could be pressure on AG Insurance to remit higher dividends to Ageas SA/NV if large losses were to occur for the Ageas group as a result of this litigation risk.

Figure 6

Financial Performance and Earnings

(EURm)	2010	2011	2012	2013	2014	Fitch's expectation
Net income	351.4	-438.3	432.5	446.6	522.2	Fitch expects AG Insurance's profitability to remain under pressure as interest rates are low. The combined ratio is expected to be around 100% in 2015.
Combined ratio – reported (%)	107.6	103.6	101.7	101.3	102.9	
Pre-tax operating earnings (excl. non-technical gains and losses) – Fitch calculated	610.6	-245.8	754.6	707.6	740.3	
Net income return on equity (%)	9.6	-13.1	10.2	8.8	9.4	
Pre-tax operating return on assets (excluding realised and unrealised gains) (%)	1.0	1.6	1.0	1.0	0.8	

Source: Fitch, Ageas

Good but Pressured Profitability

- Good but volatile net profitability
- Strong life profitability
- Adequate underwriting profitability for non-life business

Good but Volatile Net Profitability

Despite the return to profitability since the loss in 2011 that followed impairments on Greek bonds, underwriting conditions in Belgium are challenging and investment income is under pressure due to low interest rates. Fitch believes these conditions are likely to persist.

The higher profitability in 2014 than 2013 was largely explained by higher realised gains on investments. These may not be recurring, given the volatility in financial markets.

Fitch's analysis of earnings growth suggests that AG Insurance has expanded its life and non-life businesses in line with the market in Belgium over the past five years. Fitch views cautiously growth at rates greater than the market or peers, especially during periods of competitive pricing pressure.

Strong Life Profitability

The life operating margin on guaranteed products, measured by operating return on assets, was a strong 0.8% in 2014 (2013: 1%) but the result was supported by higher realised gains.

AG Insurance has a loyal customer base in Belgium; its savings contracts have an average maturity of more than eight years and lapse rates are low.

Adequate Underwriting Profitability for Non-Life Business

AG Insurance's non-life underwriting profitability is adequate amid challenging underwriting conditions in Belgium. The combined ratio was above 100% (indicating an underwriting loss) in 2014. It has hovered around 100% since 2009. AG Insurance is exposed to retained risk on natural catastrophes, which creates some volatility in the ratio (2.8% in 2014).

Competition remains fierce in most lines of business in Belgium, preventing underwriting profitability from improving much. AG Insurance's strong market position in workers' compensation business in Belgium partly explains its high combined ratio, as this business is long-tail.

Figure 7
Investment and Asset Risk

(%)	2010	2011	2012	2013	2014	Fitch's expectation
Unaffiliated shares/equity	47.2	43.1	32.3	49.3	44.1	Fitch expects AG Insurance's exposure to risky assets to remain commensurate with the current rating level.
Non-investment-grade bonds/equity	34.9	29.3	11.0	9.6	6.1	
Investments in affiliates/equity	2.9	4.6	2.3	6.1	5.3	
Risky assets[a]/equity	84.9	77.0	45.7	64.9	55.5	

[a] This ratio is a combination of the speculative-grade bonds, unaffiliated common stock, and investment in affiliates
Source: Fitch

Prudent Investment Policy Overall

- Cautious investment allocation
- Low risky assets to equity ratio
- Significant real estate exposure

Cautious Investment Allocation

AG Insurance's consolidated investments excluding unit-linked investments amounted to EUR69.8bn at end-2014. The investment breakdown was 83% fixed-income securities, 4% loans, 3% equity, 9% real estate and 1% cash.

Bonds are the major asset class on AG Insurance's balance sheet, and 75% of these bonds are government bonds. The credit quality of the bond portfolio is good, with 86% rated 'A' or higher at end-2014 and less than 1% sub-investment grade or unrated. AG Insurance's government bond portfolio is highly concentrated, with 75% in Belgium and France.

Loans are predominantly to government and official institutions of high credit quality; 43% of the loans to banks and commercial loans are sub-investment grade or unrated, but they represent only 21% of the total loans.

Low Risky Assets to Equity Ratio

AG Insurance's risky assets to equity ratio, as calculated by Fitch, is low. This reflects the group's investment focus on Belgian government and corporate debt.

Significant Real Estate Exposure

AG has significant exposure to real estate, in the form of investment properties or loans to banks and mortgage loans, both residential and commercial.

The market value of AG Insurance's real-estate portfolio was EUR3.6bn at end-2014, representing 6% total invested assets but 55% of shareholders' funds. Investment in property comprises warehouses, office buildings, shopping centres, care-homes and car parks. Offices are mainly located in the Brussels area, which is stable in value, thanks to the presence of the EU administration. AG Insurance has started to diversify its real-estate portfolio with investments in France, Spain and Germany.

The investment properties carried net unrealised capital gains of EUR625m at end-2014, according to AG Insurance's estimates, unchanged from 2013.

Mortgages (EUR1.5bn) represent 23% of shareholders' funds but they are protected by over EUR800m of over-collateralisation.

Fitch views AG Insurance's real estate portfolio as being of a good quality and neutral to the ratings.

Figure 8

Asset/Liability and Liquidity Management

(%)	2010	2011	2012	2013	2014	Fitch's expectation
Liquid assets / net technical reserves - excluding unit linked (%)	97.3	99.2	100.9	98.6	101.5	Fitch expects AG Insurance's asset-liability management structure and performance to remain adequate.

Source: Fitch

Adequate Liquidity Profile

- Decreasing minimum guaranteed rate
- Interest rate risk mitigated

Decreasing Minimum Guaranteed Rate

Life technical liabilities are subject to minimum guaranteed returns.

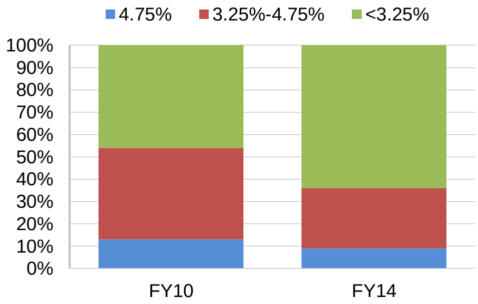
Technical provisions relating to policies carrying guaranteed interest rates are falling in the existing portfolio (the average guaranteed interest rate was 2.7% in 2014 compared with 2.9% in 2012).

There are no formal requirements imposed by the Belgium regulator for guarantees on new individual life products. Group life contracts must guarantee 2.25% (products with interest guarantee on reserves) and 1.75% (contracts with interest guarantee on reserves and on future premiums – closed portfolio) over the vesting period, but there is no longevity risk and the employer is ultimately liable to cover these guarantees. From 1 September 2014, minimum guaranteed returns were further reduced to 1%.

The competition on interest rates for investment-type life products remains fierce in the Belgian market. However, the level of interest guarantee offered by AG Insurance has decreased for new business written, along with the constant decrease of the Belgium Obligations Linéaires Ordinaires since January 2012 for individual retail products.

Figure 9

Breakdown of Technical Reserves by Guarantee



Source: Ageas

Interest Rate Risk Mitigated

AG Insurance's duration gap between assets and liabilities is low. This enables the company to achieve a better and more stable solvency ratio, at the expense of potential profits (or losses) from taking a position on interest rate movements.

An additional mitigating factor is that individual policies have a market value adjustment clause if redeemed before eight years, meaning the surrender value would be equal to the value of the assets at the time of redemption. This feature protects the insurer against lapses if there are unfavourable investment market movements.

Figure 10
Reserve Adequacy

(%)	2010	2011	2012	2013	2014	Fitch's expectation
Reserve development/prior year equity	-2.4	-2.1	6.3	2.2	3.9	Fitch expects AG Insurance's reserve ratio to remain stable and prior-year reserve releases to develop favourably overall (with some further potential negative variances in certain liability lines).
Reserve development/net earned premium	-6.0	-4.8	12.3	6.6	10.7	
Loss reserves/CY incurred losses	2.5	2.6	2.6	2.6	2.7	
Loss reserves/PHS	0.8	0.9	0.5	0.6	0.5	
CY paid losses/incurred losses	0.9	1.0	0.9	0.9	0.9	
Change in loss reserves/earned premium ratio	1.5	-2.3	-2.3	0.9	4.9	
One year reserve development/PY loss reserves	-3.5	-2.7	7.0	4.0	6.2	

Note: Negative numbers denote positive reserve developments. CY: current year. PHS: policyholders' surplus. PY: prior years
Source: Fitch

Adequate Non-Life Reserves

- Reserving profile of medium importance
- Adequate reserve adequacy growth and experience
- Tail risk in Belgium from workers' compensation

Reserving Profile of Medium Importance

Reserve leverage relative to capital and to incurred losses is of a 'medium' importance for AG Insurance (as defined in Fitch's criteria), partly due to its exposure to long-tail lines (workers' compensation in particular).

Adequate Reserve Adequacy Growth and Experience

Fitch believes AG Insurance's loss reserves grew at a rate commensurate with growth in underwriting exposures over the past five years.

Analysis of the group's claims development triangles, however, indicates negative reserve development in recent years, in particular for certain liability lines.

Fitch nonetheless believes the level of technical provisions is prudent, in light of regulatory requirements and practices in Belgium, taking into account the company's technical commitments, the return on its investment portfolios and its expenses.

Tail Risk in Belgium from Workers' Compensation

AG Insurance underwrites workers' compensation lines. These lines have a long tail and are difficult to estimate reserves for. This largely explains some reserve deficiency in some years.

Reinsurance, Risk Management and Catastrophe Risk

- High retention rate
- Mostly non-proportional cover

High Retention Rate

AG Insurance, in line with the Ageas group, is not a big purchaser of reinsurance, as shown by its high retention rate, which was 96.2% in non-life insurance in 2014. This reflects the low risk profile of its book of business, which mostly comprises savings-type life and protection business. Most of the ceded premiums relate to the non-life product lines.

Mostly Non-Proportional Cover

AG Insurance purchases reinsurance coverage with excess-of-loss and stop-loss programmes.

The major uses of external reinsurance include the mitigation of the impact of natural disasters (e.g. hurricanes, earthquakes and floods), large single claims from policies with high limits and multiple claims triggered by a single man-made event.

The largest reinsurers are Swiss Reinsurance Company (IFS Rating: AA-/Stable), Munich Reinsurance Company (IFS Rating AA/Stable) and SCOR (AA-/Stable).

Appendix A: Other Ratings Considerations

Below is a summary of additional rating considerations of a "technical" nature.

Group IFS Rating Approach

Fitch considers AG Insurance as strategically key and integral parts of Ageas' business and therefore 'Core' to the consolidated group. Fitch therefore applies the group approach – ie, applies the derived group Insurer Financial Strength (IFS) rating – to this rated entity. The ratings are based on an assessment of the whole Ageas group.

Notching

As a result of classifying the European regulatory approach as 'group solvency', the agency considers that core group members at both the operating and holding company levels share the same risk of default or failure. It therefore applies minimal to no notching between entity Issuer Default Ratings (IDRs). However, for global insurance groups with important operations outside those of the home territory, Fitch may make greater use of IDR notching (see 'Holding Companies' section below).

IFS Ratings

Fitch judges the European insurance regulatory regime to be strong and effective. To preserve insurance company assets in a stress scenario, the agency therefore expects regulators will intervene early, which will benefit policyholder and reinsurance obligations. Consequently, Fitch assigns the IDR one notch below the operating company IFS rating.

For AG Insurance, a "Good" baseline recovery assumption was applied to the IFS rating.

Senior Debt

Fitch does not rate any senior debt for AG Insurance.

Hybrids

Fitch rates hybrid debt based on likely risk of non-performance and on expected recovery assumptions. Non-performance risk is classified as minimal, moderate or high. Higher risk of non-performance results in notes receiving a lower rating. Fitch expects recoveries to be better at the operating company and for less subordinated notes. Worse prospects of recoveries result in notes receiving a lower rating.

AG Insurance issued a EUR400m dated subordinated bond in March 2015 to redeem existing debt. The company had previously issued a USD550m perpetual subordinated bond in March 2013 and a EUR450m callable subordinated debt in December 2013, part of which was used to redeem a EUR150m subordinated loan from Ageas SA/NV.

A baseline recovery assumption of "Below Average" is assumed for the USD550m and EUR400m issues, and they are deemed to have 'Moderate' risk of non-performance due to mandatory deferral triggers linked to a regulatory solvency event, meaning that the ratings are two notches lower than the IDR of the insurance company.

Hybrids – Equity/Debt Treatment

Figure 11
Hybrids Treatment

Hybrid	Amount (EURm)	CAR Fitch (%)	CAR reg. override (%)	FLR debt (%)
AG Insurance				
Fixed perpetual subordinated notes	392.9	100	100	50
Fixed to floating dated subordinated notes	450	0	100	100
Fixed to reset dated subordinated notes	400	0	100	100

CAR – Capitalisation ratio: FLR – Financial leverage ratio
For CAR % tells portion of hybrid value included as available capital, both before (Fitch %) and the regulatory override
For FLR, % tells portion of hybrid value included as debt in numerator of leverage ratio
Source: Fitch

Exceptions to Criteria/Ratings Limitations

None.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

FitchRatings

Ageas SA/NV

Insurance Ratings Navigator
European Composite

European Composite

Publish Date: 05-Aug-15

Sector Details:

Sector:	European Composite
Region:	Developed Markets - Europe
Country:	Belgium
Country IDR:	AA Negative
Country IDR Action:	Affirmed
Country Action Date:	24-Jul-15
Country Ceiling:	AAA

Ratings History

Date	IFS		Action
16-Jul-15	A+	Stable	Affirmed
29-Sep-14	A+	Stable	Affirmed
24-Jan-14	A+	Stable	Affirmed
10-Apr-13	A+	Stable	Affirmed
14-Dec-12	A+	Stable	Affirmed
17-Apr-12	A+	Negative	Affirmed
20-Apr-11	A+	Stable	Affirmed

Bar Chart Legend:

Vertical Bars = Range of Rating Factor

Bar Colors = Relative Importance

- Higher Influence
- Moderate Influence
- Lower Influence

Bar Arrows = Rating Factor Outlook

- Positive
- Negative
- Evolving
- Stable

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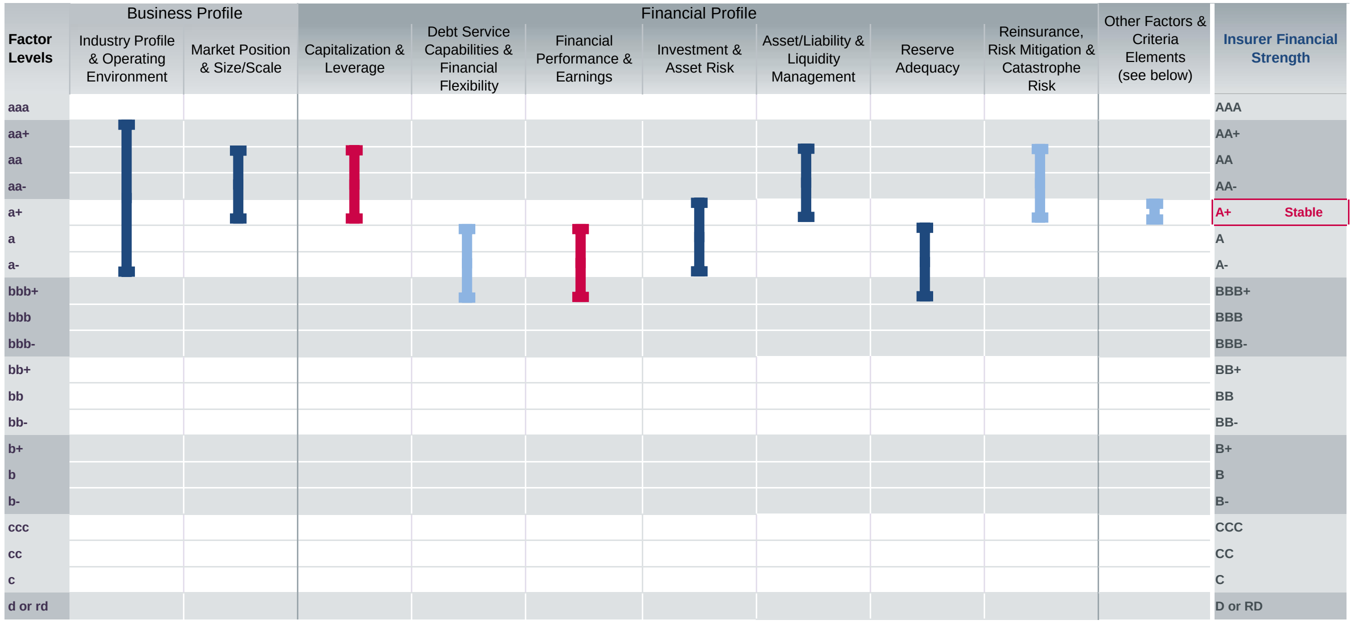
Relevant Criteria & References

Insurance Rating Methodology

European Composite: SCF Report (Life)

European Composite: SCF Report (Non -Life)



Other Factors & Criteria Elements

Unadjusted Insurer Financial Strength				A+
Other Credit Factors				
Non-Insurance Attributes	Positive	**Neutral**	Negative	+0
Corporate Governance & Management	**Effective**	Some Weakness	Ineffective	+0
Ownership	Positive	**Neutral**	Negative	+0
Other Criteria Elements				
Sovereign-Related Cap	Yes	**No**	AAA	+0
Country Ceiling	Yes	**No**	AAA	+0
Start-up / Runoff Cap	Yes	**No**	n.a.	+0
Insurer Financial Strength (IFS)			Final:	**A+**
IFS Recovery Assumption	**Good**			-1
Issuer Default Rating (IDR)			Final:	**A**

Direct Peer Group

Direct Peer Group	Current IFS	Previous IFS	Date Changed
Aegon N.V.	AA-	AA	26-Jul-2010
SRLEV N.V.	BBB	BBB+	23-May-2014
Prudential Plc	AA	AA+	01-Oct-2010
Mapfre SA	A-	BBB+	29-Apr-2014
KBC Verzekeringen N.V. (KBC Insurance)	A-	A	31-Jan-2012
Ethias S.A	BBB+	BBB	30-Jul-2014

Drivers

Strong Capital Adequacy	Ageas's regulatory group solvency margin was 226% at end-June 2015. Ageas achieved a 'Very Strong' score under the Prism factor-based capital model (Prism FBM) based on end-2014 results. Fitch expects solvency to remain strong.
Moderate Financial Leverage	Ageas's financial leverage ratio was 21% at end-2014, in line with end-2013 (22% after the issuance of EUR400m in 2015). Group debt leverage is below the agency's median guidelines for the 'A' IFS category.
Good But Pressured Profitability	Underwriting conditions in Belgium remain challenging, and investment income is under pressure due to low interest rates. Fitch believes these conditions are likely to persist and continue to put pressure on profitability.
Litigation Risk Persists	Ageas faces litigation risk from former Fortis shareholders. If the actions against it are ultimately successful, they could have a substantial negative financial impact on the company.
Strong Cash Position	Ageas holds a significant liquidity buffer at the holding company level (EUR1.6bn at end-June 2015). Fitch views this positively, particularly in view of the litigation that Ageas faces.

Sensitivities

Reduction in Profitability	Ageas's ratings could be downgraded if the group's profitability weakens significantly, with a pre-tax operating return on equity below 5% (2014: 9%) and a pre-tax operating return on assets below 0.4% (2014: 0.7%).
Deterioration in Capital Adequacy	Ageas's ratings could also be downgraded if the group's Prism FBM score falls to the 'Strong' category on a sustained basis.
Litigation Risk Increasing	Ageas's ratings could be downgraded if the litigation initiated by former Fortis shareholders results in material losses for the group well in excess of the provisions held.
Improved Profitability	An upgrade of Ageas's ratings could result from better profitability over a sustained period, with a pre-tax operating return on equity of at least 12% and a pre-tax operating return on assets of 1.1% or above.

The Navigator summarizes the main IFS rating(s) of the noted operating company, and/or operating company subsidiaries of the noted holding company.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.