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Ratings

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Ageas SA/NV

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Ageas SA/NV

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.

Credit Highlights

Overview

Strengths	Risks
Leading position in Belgium, further diversified in the U.K. and Central Europe, and in Asia through joint ventures and partnerships.	Low interest rates, which constrain investment income and margins from life business.
Solid record of improving and less volatile earnings than peers, even during market volatility and the pandemic.	Lack of operational control over Asian joint ventures.
Capital adequacy that is likely to remain very strong.	Faster growth in emerging markets, which face evolving regulations, as well as less-developed health care systems and capital markets.

S&P Global Ratings expects Ageas Group to remain the leading insurer in Belgium, with increasing income from Asian joint ventures. Ageas' leadership in Belgium and presence in the U.K. and Portugal provide moderate and predictable organic growth. We expect Ageas will continue to accelerate the earnings contribution from high-growth markets through Asian joint ventures.

Ageas' earnings resilience is a key rating factor. Despite unfavorable discount rates in China and floods in Belgium and the U.K. in third-quarter 2021, Ageas still reported strong earnings for the first nine months of 2021 with net income of €568 million and a combined (loss and expense) ratio of 95.2% (5% impact of floods). This demonstrates the group's diversified earnings, defensive investment portfolio, and limited asset-liability mismatches.

The group's capital position remains very robust, with capital adequacy above the 'AA' level. We believe, the group's capital position is supported by sound retained earnings and conservative investment strategy. Hence we expect that capital will remain above the 'AA' benchmark over 2021-2023.

Outlook : Stable

The stable outlook reflects our belief that Ageas will maintain 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, as shown by a sharp deterioration of the return on equity or non-life combined ratio.

Upside scenario

We view a potential upgrade as highly unlikely over the next 12-24 months in light of Ageas' more limited business diversification than 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 at -0.16% for 2020, expected to turn positive in 2021 and likely to remain less than 1% until 2024 for most European countries.
- Real GDP growth for the eurozone of 5.1% in 2021, but thereafter a steady decline to 4.5% in 2022, 2.2% in 2023, and 1.7% in 2024.
- Real GDP for China to expand by 8% in 2021, 5.1% in 2022, 5% in 2023, and 4.8% in 2024.
- Long-term interest rates in China to be around 3.1% in 2021, 3.6% in 2022, and about 3.6% in 2023 and 2024.

Sources: CCD data updated Sept. 27, 2021; S&P Global Economics; Oxford Economics

Ageas SA/NV--Key Metrics

	2017	2018	2019	2020	2021f	2022f
Gross premiums written (mil. €)	8,445	8,860	9,383	8,435	>8,000	>8,000
Net income (mil. €)	850	997	1,178	1,300	>900	>900
Return on shareholders' equity (%)	8.3	9.2	9.4	9.5	>8	>8
Net combined ratio (%)	96.2	95.3	95.9	92.5	<97	<97
S&P capital adequacy	Strong	Very Strong	Excellent	Excellent	Excellent	Excellent
Fixed-charge coverage	11.2	12.7	17.6	16.0	>8	>8

Ageas SA/NV--Key Metrics (cont.)						
	2017	**2018**	**2019**	**2020**	**2021f**	**2022f**
Financial leverage (%)	24.7	22.6	24.2	23.1	<30	<30

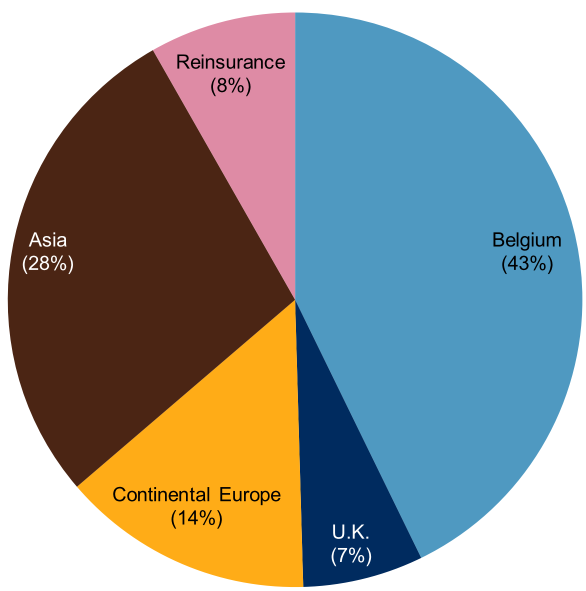
f--S&P Global Ratings forecast.

Business Risk Profile: Strong

Ageas is a leading multiline insurer by overall premiums in Belgium. Its overall market share of life and non-life insurance in the domestic market is about 22%. The Belgian market contributed close to 30% of the group's net earnings in the first nine months of 2021. The group has also built good positions in the U.K. in property/casualty (P/C) and in Portugal (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 long-standing partnership with BNP Paribas Fortis, which accounts for one-third of overall consolidated premiums, as supporting the group's business position.

Chart 1

Net Earnings Contribution From Domestic Market Continued To Dominate With Increasing Share Of Asian Joint Ventures



* net income excluding general account and elimination. Source: S&P Global Ratings.

Ageas' earnings are diversified 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. The Asian operations contributed about 30% of net earnings and we expect this share will increase year over year. The 25% stake Ageas took in 2020 in one of the top five Asian reinsurance companies (Taiping Re) as well as a 40% stake in Turkish listed life insurance and pensions company Aviva SA augment earnings diversification from Asian business. However, we also view the lack of control over joint-venture operations in Asia as a constraint. More expansion in Asian markets will result in higher exposure to emerging market countries, which face evolving regulations and less-developed capital markets.

Ageas' U.K. subsidiary, Ageas Insurance Ltd. (AIL), mainly focuses on motor and household. We believe Ageas' recent disposal of a 50.1 % stake in Tesco Underwriting will allow AIL to focus on its core business.

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.

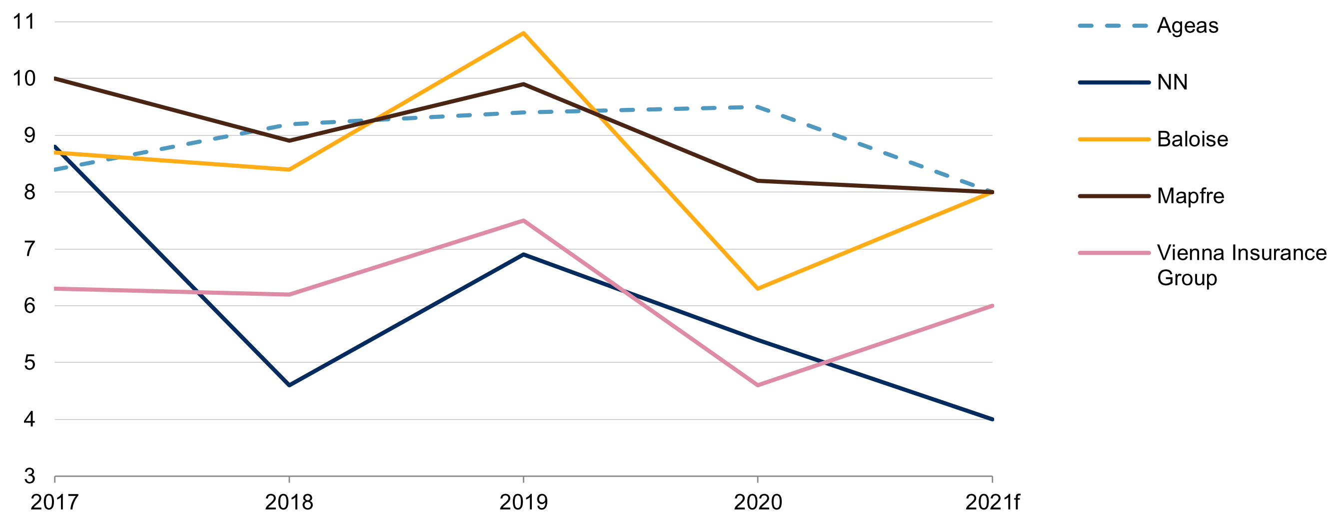
Financial Risk Profile: Very Strong

In our view, Ageas' strong balance sheet, comparably favorable earnings, low-risk investments, and funding position support our rating. The group's capital position was very robust, with capital adequacy above the 'AA' level under S&P Global Ratings' capital model, and the group's solvency II ratio was 187% on Sept. 30, 2021.

Since 2017, Ageas has had a positive track record of improving earnings, despite market volatility and the pandemic. Ageas reported a five-year (2016-2020) average non-life combined ratio of 96.5% and average return on equity of about 8%, with less volatile earnings than peers. For the first nine months of 2021, when Belgian insurers faced quite large flood-related claims, Ageas' combined ratio was 95.2% in line with its average for the past five years. Nevertheless, overall net income for that period declined to €568 million from €994 million in the first nine months of 2020, negatively affected by one-off items on mark-to-market revaluations and floods in Belgium and the U.K. Also, prior-year earnings benefited from a one-time capital gain from the buyback of legacy hybrid securities (FRESH) of €332 million.

Chart 2

Ageas SA/NV--Return On Equity Versus European Peers



Source: S&P Global Ratings.

We expect Ageas will report net earnings exceeding €800 million (excluding nonrecurring items) for 2021, and over €900 million over 2022-2023. Ageas' profitability will continue to benefit from growth at its Asian joint ventures. At the same time, we believe the insurer will maintain capital adequacy comfortably in the 'AA' range over the next two years, even after considering a dividend payout of over 50% and share buybacks of €150 million from September 2021 to midyear 2022. We view as positive that Ageas has withdrawn the committed renewal of share buybacks.

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 that there is no risky concentration to single sectors or 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 Credit Considerations

Liquidity

Our assessment of Ageas' liquidity as exceptional reflects the insurer's liquid investment portfolio despite increasing amounts of non-liquid assets, mainly mortgages.

Factors specific to the holding company

We rate Ageas SA/NV in line with the group credit profile (GCP). The group's holding company Ageas SA/NV is a captive reinsurer, which offers internal diversification benefits and enhances the group's reinsurance and wider capital efficiency. The rating also reflects ample liquidity at the holding level.

Group support

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

Environmental, social, and governance

ESG factors have no material influence on our credit rating analysis of Ageas. Environmental factors are neutral to the creditworthiness of the bulk of insurers globally. However, physical risk can be a negative consideration for non-life re/insurers with concentrations in natural catastrophe which is not the case of Ageas. Ageas, like most insurers tend to have small carbon footprints, limited water use, and are not significant greenhouse gas emitters. Social factors are also neutral to Ageas creditworthiness. Ageas has robust governance, as is expected for operating in a prudentially regulated sector.

Related Criteria

- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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

Appendix

Ageas SA/NV--Credit Metrics History

Mil. €	2020	2019	2018	2017
S&P Global Ratings capital adequacy	Excellent	Excellent	Very Strong	Strong
Total invested assets	105,917.0	104,128.6	96,559.0	97,779.0
Total shareholder equity	13,774.0	13,480.7	11,519.6	10,162.2
Gross premiums written	8,435.0	9,383.0	8,860.0	8,445.0
Net premiums written	8,024.0	9,021.4	8,593.4	8,207.5
Net premiums earned	8,002.0	9,021.2	8,646.3	8,254.5
Reinsurance utilization (%)	4.9	3.9	3.0	2.8
EBIT	1,644.0	1,527.0	1,362.5	1,223.5
Net income (attributable to all shareholders)	1,300.0	1,178.2	996.9	850.0
Return on revenue (%)	14.6	11.9	11.3	10.3
Return on assets (including investment gains/losses) (%)	1.5	1.5	1.3	1.2
Return on shareholders' equity (reported) (%)	9.5	9.4	9.2	8.3
P/C: net combined ratio (%)	92.5	95.9	95.3	96.2
P/C: net expense ratio (%)	36.1	35.3	35.8	35.5
P/C: return on revenue (%)	12.5	9.6	10.6	9.8
Life: Net expense ratio (%)	18.8	14.8	15.1	17.6
EBITDA fixed-charge coverage (x)	16.0	17.6	12.7	11.2
Financial obligations / EBITDA adjusted	2.3	2.6	2.3	2.6
Financial leverage including pension deficit as debt (%)	23.1	24.2	22.6	24.7
Net investment yield (%)	3.1	3.8	3.6	3.8
Net investment yield including investment gains/(losses) (%)	3.5	4.2	3.9	3.9

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 21, 2021)*

Ageas SA/NV	
Financial Strength Rating	
Local Currency	A+/Stable/--

Ratings Detail (As Of December 21, 2021)*(cont.)	
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/--
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.