ageas SA/NV

Full Rating Report

Ratings

ageas SA/NV

Long-Term IDR	A

See *Appendix B* for full list of ratings

Sovereign Risk

Long-Term IDR	AA−

Outlooks

Long-Term IDR	Stable
Sovereign Long-Term IDR	Stable

Financial Data

ageas SA/NV (Consolidated)

(EURm)	31 Dec 17	31 Dec 16
Total assets	103,341	104,293
Total equity	10,163	10,205
Pre-tax profit	1,108	435
Net premiums earned	8,255	9,001
Solvency II ratio (%)	191	174
Combined ratio (%)	95	101

Source: Ageas

Related Research

Belgium Insurance Dashboard – FYE2017 (March 2018)
Fitch Affirms Belgium at 'AA−'; Outlook Stable (June 2018)

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Key Rating Drivers

Very Strong Capital Adequacy: The ageas SA/NV group (Ageas) has an 'Extremely Strong' score under Fitch Ratings' Prism factor-based capital model (Prism FBM) based on end-2017 results and considering the accounting effect of the expired BNP Paribas put option. At end-1H18, the group's regulatory Solvency II ratio, calculated according to Ageas's partial internal model, was 206% (end-2017: 191%).

Low Financial Leverage: Ageas's financial leverage ratio (FLR) was a low 15% at end-2017 (end-2016: 16%). We estimate Ageas's pro-forma FLR at an improved 13% after allowing for the accounting effect of the expired BNP Paribas put option. Fitch expects financial leverage to remain below 20% in the medium term.

Challenging Operating Environment: Ageas's earnings remain constrained by challenging operating conditions in Belgium and the UK and low bond yields limiting the group's investment income. We expect Ageas's combined ratio to remain under 100% and its return on equity (ROE) to be above 5% on a sustained basis

Reduced Litigation Risk: On 13 July 2018, the Amsterdam Court of Appeal declared binding the Fortis settlement agreement entered into between Ageas and several claimants. Fitch's analysis to date has incorporated the expectation that the settlement agreement would ultimately be declared binding for all eligible Fortis shareholders. Nevertheless, we believe this decision significantly reduces Ageas's litigation risk and enhances its future financial flexibility. Ageas provisioned EUR1.3 billion against this liability at end-2017.

Strong but Volatile Profitability: Ageas's return on equity was 7% in 2017, a level that Fitch views as strong but below the group's current rating level. Ageas's 2013-2017 average return on equity was also 7%. However, net profitability continues to experience some volatility in particular at the holding company level. This is mainly due to legacy financial instruments (in particular, the relative performance note – RPN(I) – structure) inherited from the break-up of the Fortis group in 2009.

Strong Liquidity Position: Ageas held a strong liquidity buffer at the holding company level of EUR1.8 billion at end-2017, thanks to cash and liquid asset reserves. This buffer will be partly deployed (about EUR0.9bn) for the Fortis settlement agreement. Moreover, the put option granted to BNP Paribas Fortis (then Fortis Bank) to sell 25% plus one share of AG Insurance to Ageas expired at end-June 2018. As a result, two sources of potential strain on Ageas's liquidity buffer have reduced.

Rating Sensitivities

Improved Profitability: The ratings could be upgraded if Ageas's profitability improves over a sustained period, with a return on equity above 10% and a pre-tax operating return on assets of 1.1% or above (2017: 1.0%).

Deterioration in Capital Adequacy: Ageas's ratings could be downgraded if its Prism FBM score falls to 'Strong' on a sustained basis.

Reduction in Profitability: Ageas's ratings could also be downgraded if its profitability weakens significantly on a sustained basis, with return on equity below 5% and pre-tax operating return on assets below 0.4%.

Business Profile

International Group With Very Strong Business Profile

- Strong franchise in Belgium
- Business profile benefits from international diversification

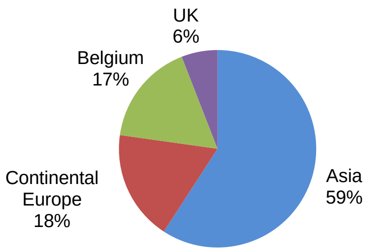
Strong Franchise in Belgium

Ageas is organised by operating segment: Belgium, the UK, Continental Europe, Asia and General Account. In 2017, Belgium accounted for around 75% of the total cash remitted to the group. It also represents around 75% of technical liabilities.

AG Insurance (Ageas's main operating entity) has a strong franchise in Belgium and can exploit its pricing power. It is Belgium's largest life insurer, with a market share measured by gross written premiums of around 30% in 2016. AG Insurance is also the second-largest non-life insurer in the country, with 16.5% of the market, behind AXA Belgium (IFS rating: AA−/Stable) with 18.7%, but ahead of Ethias SA (IFS rating: BBB+/Stable) with 12.6% and KBC Insurance NV with 9.1%.

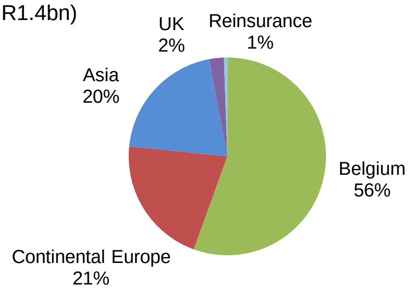
AG Insurance benefits from an exclusive distribution agreement in Belgium with BNP Paribas Fortis SA/NV (Long-Term IDR: A+/Stable). This agreement has no explicit end date but carries a three-year termination notice period. The put option held by BNP Paribas Fortis to sell the 25% plus one share of AG Insurance to Ageas expired at end-June 2018. In the event that notice is given, Fitch would expect Ageas's franchise to remain strong in Belgium, as the group would leverage on existing customers and exploit alternative distribution channels, such as brokers.

Gross Inflows[a] by Country End-2017
(EUR34bn)



[a] Including non-consolidated subsidiaries at 100%
Source: Company data

Earnings Before Taxes[a] by Country End-2017
(EUR1.4bn)



[a] Excluding General Account
Source: Company data

Business Profile Benefits From International Diversification

Fitch considers Ageas's geographical and product mix supports results and is ratings positive. Ageas operates in the UK (where it acquired Groupama's UK business in 2012) and in continental Europe (particularly Portugal, where it is the second-largest insurer by premiums after acquiring AXA's non-life operations in 2016). In July 2017, Ageas announced that it had reached an agreement with BNP Paribas Cardif to sell its share of Cargeas Assicurazioni, its Italian non-life operations. The transaction generated a total capital gain of EUR87 million.

Ageas aims to expand its footprint into emerging economies through the acquisition of minority interests in joint ventures with local partners. As a result, Ageas has footprints in Turkey, Malaysia, Thailand, Vietnam, India, the Philippines and, notably, China, where Ageas owns 24.9% of TaiPing Life Insurance Co., Ltd. (IFS rating: A+/Stable). The Asian business division remained the second-largest contributor to group remittances in 2017, after Belgium.

Ownership Is Ratings Neutral

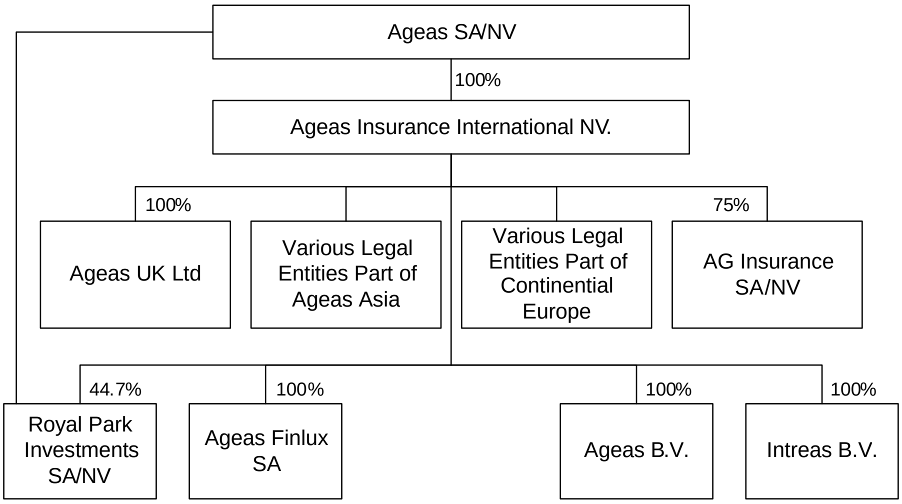
Corporate Governance and Management

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

ageas SA/NV is quoted on the Brussels Stock Exchange with a market capitalisation of EUR8.7 billion at end-June 2018. ageas SA/NV is the ultimate holding company of the Ageas group, while Ageas Insurance International N.V. is the group intermediate holding company, through which the insurance operations are owned. Ageas is now active only in insurance and holds a 75% stake in AG Insurance, and has interests in insurance companies in the UK, continental Europe and Asia.

BNP Paribas Fortis has owned 25% of AG Insurance since May 2009, while the other 75% is owned by Ageas (formerly the Fortis group). BNP Paribas Fortis is 100% owned by BNP Paribas. The put option granted by Ageas to BNP Paribas Fortis to sell the 25% plus one share of AG Insurance to Ageas expired at end-June 2018, without being exercised. In accordance with IFRS, Ageas will derecognise from its balance sheet the liability for the written put option on AG Insurance and will increase the value of the non-controlling interest in its shareholders' equity.

Ageas' Group Structure



Source: Ageas

Sovereign and Country-Related Constraints

Fitch rates the local-currency sovereign obligations of Belgium at 'AA−' with a Stable Outlook, and the Country Ceiling is 'AAA'.

Given these levels, 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: Life Market Contracting; Non-Life Stable

The Belgian life insurance market is facing challenges from falling premiums as a result of the reduction in minimum guarantees, competition from bank savings products, and unfavourable tax treatment. Total premiums have decreased since 2012, and although we expect the life market to have stabilised in 2017 after stronger demand for guaranteed products, this decline is likely to continue in 2018, despite the increasing appetite of life insurers for selling unit-linked products.

Belgian life insurers face a difficult operating environment, as persistently low interest rates constrain profitability and demand for life products. This trend is negative for margins on guaranteed products. Operating results in 2017 were resilient, but we believe this followed a higher realisation of investment gains. We believe that recent decreases in the average guaranteed rate for new contracts (now 0.25%) will continue to suppress the demand for guaranteed products in 2018, but this should partly be offset by growth in unit-linked products.

The non-life market in Belgium is competitive but disciplined. Tariffs are under pressure but they remain technically robust. The market can be prone to natural catastrophe claims (eg storms and floods in 2016). Results for 2016 were also affected by the terrorist attacks on Brussels. Fitch estimates the combined ratio to have improved to an average of around 92% in 2017 from 96% in 2016 for the market as the claims experience was more benign than in 2016. We expect a combined ratio of between 90% and 95% in 2018, assuming a normalised level of weather-related claims.

UK Non-Life: Intense Competition to Weigh on Results

Combined ratios for most insurers improved in 2017 compared to end-2016 as many insurers chose to absorb the one-off impact of the Ogden discount rate change in their 2016 results. Combined ratios for 2016 increased across the sector, as insurers had to strengthen their reserves to account for significantly higher costs of large bodily injury (BI) claims.

Motor insurance premiums rose significantly in 2017 to reflect the substantially higher costs of BI claims as a result of the Ogden discount rate change. This led to a further increase in the use of price comparison websites as more consumers shopped around for cheaper coverage. As a consequence, we expect insurers' earnings to remain under pressure.

The timing of the implementation of further Ogden reform is unclear. In the absence of further reforms, we believe premiums will continue to rise, to reflect higher claims inflation and prospective higher prices of reinsurance protection when insurers renew their motor excess of loss reinsurance.

Peer Analysis

Good Profitability, Strong Capital

Ageas's peers are the medium-sized to large Benelux and similar-sized European insurers, some of them with exposure to non-European markets such as Asia and the US. However, Ageas is smaller than some of the European insurers listed below, such as NN Group and Aegon.

Ageas's net profitability, as measured by return on equity, was lower than most of its peers' in 2017, but this was mainly due to the additional provisions taken against the settlement agreement. Its combined ratio improved strongly in 2017 to 95% and was the best among the peer group below.

Capitalisation, as measured by the Solvency II ratio, is strong and in line with peers', with a Solvency II ratio calculated according to a partial internal model of 191%. Financial leverage is low and broadly in line with that of Mapfre and significantly lower than that of NN Group, Aegon and Unipol.

Peer Comparison

End-2017 (EURm)	IFS rating[a]	Assets (EURbn)	Total equity[b]	Net income	Return on assets[c] (%)	Combined ratio (%)	Return on equity[d] (%)	Solvency II ratio (%)	Financial leverage (%)
NN Group	A+/Stable	227	23,035	2,110	1.7	102	9	199	28
Achmea	A+/Stable	91	8,599	215	1.3	96	3	184	23
Ageas	**A+/Stable**	103	10,162	623	1.0	95	7	191	15
Mapfre	A/Stable	68	10,513	701	2.5	98	8	200	17
Unipol	BBB/Stable	90	7,453	-346	1.1	96	-6	152	38

[a] IFS ratings of main operating companies of each group
[b] Includes minorities
[c] Group pre-tax income/2016-2017 average total assets
[d] Group net income/2016-2017 average group shareholders' equity
Source: Companies, Fitch – Exchange rate GBP/EUR at 31 December 2016: 1.1642

Capitalisation and Leverage

(EURm)	2013	2014	2015	2016	2017	Fitch's expectation
Total assets	94,069	100,955	103,889	104,294	103,341	Fitch expects Ageas to maintain very strong capital adequacy as measured by both Prism FBM and Solvency II. Debt leverage, as calculated by Fitch, is likely to remain below 20% in the medium term.
Total equity	9,330	10,912	11,975	10,205	10,162	
Financial leverage ratio (%)	17	17	17	16	15	
Regulatory solvency II ratio – group[a] (%)	214	218	206	174	191	
Total financing and commitments (TFC) ratio (x)	0.7	0.8	0.8	0.8	0.9	

[a] Solvency I until 2013; Solvency II afterwards
Source: Fitch, Ageas

Very Strong Capital Adequacy, Low Financial Leverage

- 'Extremely Strong' Prism score
- Low debt leverage

'Extremely Strong' Prism Score

Fitch considers Ageas's capital adequacy to be very strong, based on Fitch's Prism FBM and the group's regulatory Solvency II ratio. Ageas's Prism FBM score is 'Extremely Strong', based on end-2017 results and considering the accounting effect of the expired BNP Paribas put option.

Ageas's asset risk and life participating products insurance risk are the biggest drivers of risk capital under the model. Asset risk is influenced by the exposure to equities, which account for about 6% of total financial assets (excluding unit-linked assets). Life participating products insurance risk is influenced by the high proportion of traditional savings products reserves, which account for around 80% of total life insurance reserves.

At end-2017, the group regulatory Solvency II ratio, calculated according to Ageas's partial internal model, was 191% (end-2016: 174%). At end-June 2018 its Solvency II ratio further improved to 206%. Ageas makes use of transitional measures in France and Portugal. The end-2017 Solvency II ratio without transitional measures was 182% (end-2016: 166%), a level that is still commensurate with Ageas's ratings. Ageas's Solvency II ratio is sensitive to interest rates and spread changes, in line with key peers.

The group also calculates its solvency position under Pillar II excluding transitional measures in France and Portugal, adopting an internal model on real estate and taking account of fundamental spread risk for both corporate and government debt. Fitch expects regulatory solvency to remain strong, supported by retained earnings, even after allowing for the continuing share buyback programme.

Low Debt Leverage

Ageas's FLR as calculated by Fitch was 15% at end-2017 (end-2016: 16%). We estimate Ageas's pro-forma FLR at an improved 13% after allowing for the accounting effect of the expired BNP Paribas put option. Fitch views group debt leverage as low and expects the ratio to remain below 20% in the medium term.

The total financing and commitments ratio (TFC) is designed to measure the total debt, financing, and capital markets footprint of an organisation and its overall reliance on ongoing access to funding sources. Ageas's pro-forma TFC was low at 0.5x at end-2017, taking into account the expired BNP Paribas put option.

Debt Service Capabilities and Financial Flexibility

(x)	2013	2014	2015	2016	2017	Fitch's expectation
Fixed-charge coverage ratio (including realised and unrealised gains)	7	8	12	1.4[a]	12	Fitch expects the fixed-charge coverage ratio to remain commensurate with the rating.

[a] 9x excluding the settlement provision
Source: Fitch

Adequate Financial Flexibility

- Good access to debt capital markets
- Strong fixed-charge coverage
- Reduced litigation risk

Good Access to Debt Capital Markets

Fitch believes the Ageas group has adequate financial flexibility and could raise capital should the need arise. In addition, the successful settlement of Fortis Legacy Proceedings and the non-exercise of BNP Paribas' put option have substantially reduced the risk of immediate cash calls.

Strong Fixed-Charge Coverage

Group fixed-charge coverage, including realised and unrealised gains and losses, was strong at 12x in 2017 (2016: 1x). The low coverage in 2016 was almost entirely explained by the provision taken against the settlement agreement (nearly EUR900 million). Fixed-charge coverage has averaged around 9x over the past five years, if the 2016 provision is excluded. Fitch expects the fixed-charge coverage ratio to remain above 10x.

Reduced Litigation Risk

On 13 July 2018, the Amsterdam Court of Appeal declared binding the settlement agreement reached between Ageas and the claimant organisations for all eligible Fortis shareholders. As a result claimants are entitled to compensation for the events of 2007-2008. Ageas had already provisioned EUR1.3 billion against this liability at end-2017, which corresponded to the amount it will have to pay to the claimants.

Ageas reserves the right to terminate the Fortis settlement in the event the opt-out notices (ie shareholders that do not wish to be bound by the Fortis settlement) by end-2018 represent an amount exceeding 5% of the settlement amount provisioned by Ageas. However, we view this scenario as unlikely given that the vast majority of claimants have already agreed to the terms declared binding by the Amsterdam Court of Appeal.

Financial Performance and Earnings

(EURm)	2013	2014	2015	2016	2017	Fitch's expectation
Net income	570	476	771	27	623	Fitch expects Ageas's profitability to remain under pressure amid low interest rates and high competition. The combined ratio is likely to remain under 100% and ROE above 5% on a sustained basis.
Net insurance result – reported	654	737	755	721	960	
Combined ratio – reported (%)	98	100	97	101	95	
Net income return on equity – ROE (%)	6	5	7	0.3	7	
Pre-tax operating return on assets (including realised and unrealised gains) – ROA (%)	1.2	0.9	1.3	0.2	1.0	

Source: Fitch, Ageas

Strong but Volatile Profitability

- Strong underlying results despite some volatility
- Asia supports life profitability
- Strong profitability for non-life business

Strong Underlying Results Despite Some Volatility

The net insurance result reported by the company was strong in 2017 at EUR960 million (2016: EUR721 million). In the same period, Ageas's net income improved to EUR623 million from EUR27 million in 2016. The 2016 net income was negatively affected by a one-off provision against the Fortis-settlement agreed with claimants (EUR894 million). At end-June 2018, Ageas's net income increased to EUR441 million from EUR284 million at end-June 2017.

Ageas's ROE was 7% in 2017, a level that Fitch views as strong but below the group's current rating level. Ignoring one-off items, Ageas's net profitability continues to experience some volatility mainly due to the legacy financial instruments (in particular, the RPN(I) structure) inherited from the break-up of the Fortis group in 2009. However, Fitch expects this volatility to be manageable over time.

Ageas's UK operations suffered from poor performance in 2016 and 2017 due to restructuring costs and the negative impact of the Ogden rate review. Ageas injected EUR77 million in 2Q17 to strengthen Ageas Insurance Limited's capital position. We expect the latter's contribution to Ageas's profitability to improve in 2018.

Asia Supports Life Profitability

The reported operating margin on guaranteed products was resilient in 2016 and 2017. This is due to strong asset and liability management in Belgium and positive contributions from continental Europe and Asia. The Asian business in particular has healthier operating returns than Belgium and continental Europe due to higher loadings and better persistency. Its asset-liability management has also improved in recent years. However, part of the margins related to realised capital gains.

Strong Profitability for Non-Life Business

Fitch views Ageas's non-life underwriting profitability as strong. The combined ratio reported by the company improved to 95% in 2017 (2016: 101%). Ageas's combined ratio deteriorated in 2016, mainly due to terrorism, weather-related claims and the Ogden rate review in the UK.

Ageas's 2013-2017 average reported combined ratio was just above 98%, a level that we consider strong. The Belgian non-life market is relatively competitive, but we believe that is offset by Ageas's strong pricing power. The group also has a strong market position in the workers' compensation business in Belgium. However, given its long tail nature, this business can be volatile.

Investment and Asset Risk

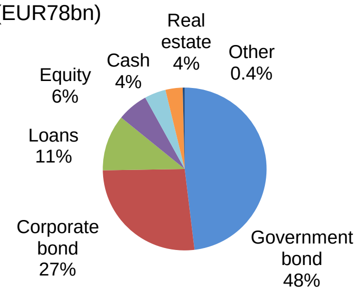
(%)	2013	2014	2015	2016	2017	Fitch's expectation
Unaffiliated shares/equity	34	34	33	39	48	Ageas's exposure to risky assets is relatively high but commensurate with its ratings. Fitch expects the level of risky assets to remain stable in the medium term.
Non-investment-grade bonds/equity	46	41	39	47	29	
Investments in affiliates/equity	16	20	24	28	29	
Risky assets[a]/equity	96	95	96	115	106	

[a] This ratio is a combination of the speculative-grade bonds (including unrated commercial loans), unaffiliated common stock, and investment in affiliates.
Source: Fitch

Prudent Investment Policy, but High Asset Risk

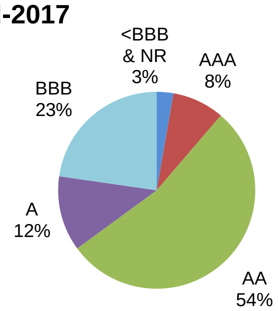
- High risky assets-to-equity ratio
- Prudent investment allocation
- Significant exposure to loans and real estate, but of good quality

General Account Investments End-2017
(EUR78bn)



Source: Company data

Rating Split of Fixed Income Investments End-2017



Source: Company data

High Risky Assets-to-Equity Ratio

Ageas has a prudent yet balanced investment policy, with a high share of good-quality fixed-income investments. However, the exposure to equities rose in 2016 and 2017 in response to the low yield environment. Fitch considers that this increase is of a tactical nature and does not represent a structural re-risking of Ageas's investments. In addition, the higher riskiness of the asset portfolio is counterbalanced by Ageas's very strong capital adequacy.

Ageas's exposure to sub-investment-grade bonds decreased in 2017 following the upgrade of Portugal's rating (IDR: BBB/Stable). As a result, notwithstanding the increased exposure to equities, Ageas's risky assets ratio decreased to 106% at end-2017 (end-2016: 115%). The exposure to Portugal is explained by holdings, through Ageas's Portuguese operations, of Portuguese government bonds and obligations of financial and corporate institutions in that country, where the group has significant operations.

Fitch expects the risky assets-to-equity ratio to remain around the 100% level in the medium term.

Prudent Investment Allocation

Fitch views the bond portfolio as adequately diversified by geography, issuer and type of instrument, although 50% of the sovereign portfolio (or about 24% of total general account investments) at end-2017 was represented by Belgian government bonds, due to the weight of AG Insurance's balance sheet in the Ageas group's total balance sheet.

The quality of the bond portfolio is good, with 74% rated 'A' or above at end-2017 (end-2016: 75%) and 23% rated 'BBB' (end-2016: 18%). About 3% of the bond portfolio (EUR1.6 billion) is rated below investment grade. The exposure to banks and other financial institutions is geared to investment grade (95%), with around 78% rated 'A' or above at end-2017.

Significant Exposure to Loans and Real Estate, But of Good Quality

About 27% of the loan portfolio (EUR9.4 billion at end-2017) remains unrated, mainly residential mortgage loans to customers, which Fitch considers of good credit quality. They are protected by EUR1.1 billion of overcollateralisation.

The real estate investment portfolio (EUR2.6 billion at end-2017) is concentrated in Belgium, mainly in Brussels. It comprises gross unrealised gains of EUR1.1 billion, according to market evidence and independent valuation.

Asset/Liability and Liquidity Management

(%)	2013	2014	2015	2016	2017	Fitch's expectation
Liquid assets/policyholder liabilities (total)	99	101	100	96	99	Fitch expects Ageas to maintain strong asset-liability management and a high level of liquid assets, at the insurance and holding company levels.

Note: Liquid assets exclude loans.
Source: Fitch

Strong Liquidity Profile

- Liquidity position remains strong
- Minimum guaranteed rate reviewed
- Low exposure to interest-rate risk

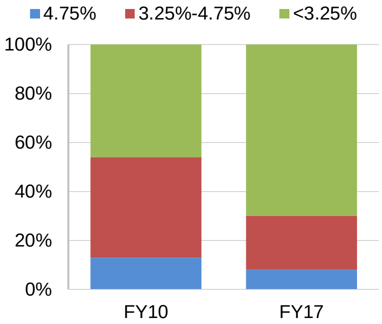
Liquidity Position Remains Strong

Ageas held a strong liquidity buffer at the holding company level of EUR1.8 billion at end-2017, thanks to cash and liquid asset reserves. This buffer will be partly deployed (about EUR0.9bn) for the Fortis settlement agreement that Ageas has reached with several claimants, which was declared binding by the Amsterdam Court of Appeal on 13 July 2018.

Moreover, the put option granted to BNP Paribas Fortis (then Fortis Bank) to sell 25% plus one share of AG Insurance to Ageas expired at end-June 2018. As a result, two sources of potential strain on its liquidity buffer have reduced. We continue to view Ageas's liquidity position as strong and we expect the company to maintain a high level of liquid assets. Ageas's cash position was partly affected by ongoing share buybacks in 2018.

Minimum Guaranteed Rate Reviewed

Breakdown of Technical Reserves by Guarantee



Source: Ageas

Life technical liabilities are subject to minimum guaranteed returns. Most of the business exposed to interest-rate risk is in Belgium with AG Insurance. Technical provisions relating to policies carrying guaranteed interest rates are declining in the existing portfolio.

The Belgian regulator does not impose formal requirements for guarantees on new individual life products. AG Insurance decreased the interest guarantee offered on new individual retail products written, along with the decrease of the Belgium Obligations Linéaires Ordinaires since January 2012, due to the intense competition.

However, as of 1 March 2018 the company increased minimum guaranteed returns on new retail life investment products (mainly single premium) to 0.5% from 0.25%. In group life contracts, minimum guaranteed returns remained at 0.75% on products with an interest guarantee on reserves and at 0.25% on products with an interest guarantee on reserves and future premiums. There is also no longevity risk in AG Insurance's books as customers receive a lump sum at retirement age that is not annuitised.

Low Exposure to Interest-Rate Risk

Ageas gradually adjusts its asset allocation policy to ensure a close match between the duration of assets and that of pension liabilities. AG Insurance maintains a policy where duration gap should not exceed one year. 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.

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

Reserve Adequacy

(%)	2013	2014	2015	2016	2017	Fitch's expectation
Loss reserves/current-year incurred losses	2.2	2.2	2.2	2.2	2.5	Fitch expects Ageas's reserve ratios to remain stable. Reserve growth and experience is adequate, and Fitch expects prior-year reserve releases to develop favourably on average.
Loss reserves/equity	0.6	0.5	0.5	0.6	0.6	
Current-year paid losses/incurred losses	0.9	0.9	1.0	0.0	0.0	
Change in loss reserves/earned premium ratio	5.3	3.7	-1.1	7.7	-2.6	
One-year reserve development/prior-year loss reserves	-2.3	-1.2	-3.0	0.9	-3.6	
One year reserve development/prior-year equity	-1.2	-0.7	-1.5	0.4	-2.3	
Net technical reserves/net earned premium (non-life)	168	171	171	180	166	

Note: Negative numbers denote positive reserve developments
Source: Fitch

Adequate Non-Life Reserves

- Adequate reserve growth and positive experience
- Tail risk in Belgium and Portugal from workers' compensation

Adequate Reserve Growth and Positive Experience

Fitch believes Ageas's loss reserves have grown at a rate commensurate with growth in underwriting exposure over the past five years. Fitch's analysis of non-life reserve experience suggests that, on average, Ageas's reserves have developed favourably over this period.

Analysis of the group's claims development triangles indicates that reserving practices are robust, but there were some adverse developments in 2012 and 2016, the latter due to the acquisition of AXA Portugal and the Ogden rate review in the UK.

Fitch believes the level of technical provisions is prudent, in light of regulatory requirements and practices in Belgium, and taking into account the company's technical commitments, the return on its investment portfolios, and its expenses. The ratio of technical reserves/premiums was 166% at end-2017, a level that Fitch views as prudent given Ageas's business mix.

Tail Risk in Belgium and Portugal From Workers' Compensation

Ageas underwrites workers' compensation lines in Belgium. These lines have a long tail and are difficult to estimate reserves for. This largely explains some reserve deficiency for certain years in Belgium and continental Europe. Fitch views Ageas's overall reserving adequacy as robust and supportive of the current rating level.

Reinsurance, Risk Management and Catastrophe Risk

- High and stable retention rate
- Mostly non-proportional cover
- Reinsurance programme optimised

High and Stable Retention Rate

Where appropriate, the group enters into reinsurance contracts to limit its exposure to underwriting losses. However, Ageas is not a big purchaser of reinsurance. Its non-life retention rate was high at 96% in 2017, slightly higher than in 2016. 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 non-life business.

Mostly Non-Proportional Cover

Ageas purchases reinsurance coverage with excess-of-loss and stop-loss programmes. This reinsurance may be on a policy-by-policy basis per risk or on a portfolio basis per event, where individual policyholder exposures are within local limits but an unacceptable risk of accumulation of claims exists at the group level (catastrophe risk). The major uses of external reinsurance include the mitigation of the effect of natural disasters (such as 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 Ltd (IFS rating: AA−/Stable), Munich Reinsurance Company (IFS rating: AA/Stable) and SCOR SE (AA−/Stable).

Reinsurance Programme Optimised

In mid-2015, Ageas established an internal captive reinsurance company, Intreas N.V., capitalised with EUR100 million, as a non-life reinsurance firm that may only accept risks from Ageas group companies. The objective of setting up this internal reinsurer is to optimise Ageas's reinsurance programme by harmonising risk profiles and to improve capital management.

In 2017, Intreas reinsured EUR52 million of premiums from the group's operating companies and contributed EUR8 million to the total non-life net result. Its combined ratio was 76%. Ageas expects Intreas to retain 10%-12% of the ceded premiums within the group.

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 and Ageas Insurance Limited as strategically key and integral parts of Ageas’s business and therefore ‘Core’ to the consolidated group. Fitch therefore applies a group approach – ie, applies the derived group Insurer Financial Strength (IFS) rating – to these rated entities. The ratings are based on an assessment of the consolidated Ageas group.

Notching

For notching purposes, the Belgian regulatory environment is assessed by Fitch as Effective, and classified as following a Group Solvency approach.

Notching Summary

IFS ratings

A baseline recovery assumption of ‘Good’ applies to the IFS ratings, and standard notching was used from the IFS ‘anchor’ rating to the actual or implied IDR of the operating companies. The IFS rating of the operating companies is one notch higher than the actual or implied IDRs.

Operating company debt

Not applicable.

Holding company IDR

ageas SA/NV and Ageas Insurance International’s IDRs are aligned to the IDR of AG Insurance, which is standard practice for insurers that operate in a group regulatory environment.

Holding company debt

n.a.

Hybrids

Ageasfinlux S.A. is 100% owned by Ageas Insurance International. In 2002, this entity issued floating-rate equity-linked subordinated hybrid (FRESH) capital securities with ageas SA/NV acting as a co-obligor. Therefore, the anchor IDR used for the rated hybrid capital instrument is ageas SA/NV’s.

Fitch assumes hybrid debt of Ageasfinlux has a baseline recovery assumption of ‘Poor’. This instrument is designated by Fitch as having a ‘Moderate’ risk of non-performance due to mandatory deferral triggers linked to dividend payments. However, as there is a coupon deferral linked to dividends, one extra notch is deducted. As a result, the ratings are notched down four from the IDR, 2 for recovery assumptions and 2 for non-performance risk.

AG Insurance issued a EUR400 million dated subordinated bond in March 2015. The company had previously issued a USD550 million perpetual subordinated bond in March 2013. A baseline recovery assumption of ‘Below Average’ is assumed for these bonds, 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 (see separate AG Insurance report).

Source: Fitch

Senior Debt

Not applicable.

Short-Term Ratings

Not applicable.

Hybrids – Equity/Debt Treatment

Hybrids Treatment

Hybrid	Amount (EURm)	CAR Fitch (%)	CAR reg. override (%)	FLR debt (%)
AG insurance				
Fixed to floating perpetual subordinated notes	500[a]	100	100	50
Fixed to floating dated subordinated notes	450	0	100	100
Fixed to reset dated subordinated notes	400	0	100	100
Ageasfinlux SA				
Fresh	1,250	50	100	50

CAR = Capitalisation Ratio; FLR = Financial Leverage Ratio
For CAR, % includes portion of hybrid value included as available capital, both before (Fitch %) and after the regulatory override.
For FLR, % includes portion of hybrid value included as debt in numerator of leverage ratio.
[a] USD550 million
Source: Ageas, Fitch

Criteria Variations

None.

Appendix B: Complete Rating List

AG Insurance NV
IFS rating 'A+'; Outlook Stable
Long-Term IDR 'A'; Outlook Stable
Subordinated bond 'BBB+'

Ageas Insurance Limited
IFS rating 'A+'; Outlook Stable

ageas SA/NV
Long-Term IDR 'A'; Outlook Stable

Ageas Insurance International N.V.
Long-Term IDR 'A'; Outlook Stable

Ageasfinlux S.A.
Hybrid capital instruments 'BBB−'

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.