MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades Ageas SA/NV's issuer rating to A3 from Baa2

29 Jan 2019

London, 29 January 2019 -- Moody's Investors Service (Moody's) has today upgraded Ageas SA/NV (Ageas)'s issuer rating to A3 from Baa2 with a stable outlook. This rating action concludes the review initiated on 20 July 2018. The A2 insurance financial strength rating (IFSR) of AG Insurance, Ageas Group's main operating entity, is unaffected and was not part of the review.

A list of all affected ratings is available at the end of this press release.

RATINGS RATIONALE

The two notch upgrade of Ageas' issuer rating with a stable outlook reflects (i) the resolution of legacy issues, primarily the finalisation of the Fortis settlement agreement; this removes the significant uncertainty related to legal risks associated with the break-up of the Fortis group, whose assets and liabilities Ageas partly inherited; and (ii) the change in group structure whereby the holding company Ageas will operate as the group internal reinsurer, which will diversify the cash flows available to the holding. In line with Moody's standard notching for primary insurance companies, Ageas' issuer rating is now one notch below the A2 IFSR of AG Insurance, its main operating subsidiary. Each of these two drivers accounted for a one notch improvement in Ageas' issuer rating.

In July 2018, the Court of Appeal in Amsterdam declared binding the €1.3 billion Fortis settlement agreement between Ageas and a number of claimant organisations for legacy issues related to the break-up of the Fortis Group. In December 2018, Ageas announced they waived their option to terminate the agreement and that they now expect to continue the ongoing execution of the settlement agreement. According to Moody's, the resolution of this legal dispute removes the main uncertainty related to the legal risks that the issuer inherited from the Fortis group. In addition, the compensation payment will not impact the group's earnings and capital because the amount had been fully provisioned in previous years, and Ageas has already ring-fenced the required cash. As a result of this reduction in legal risk, Moody's has ceased to apply a wider notching approach to Ageas' issuer rating, resulting into a one notch improvement in the rating.

The credit profile of Ageas further improved following a change in the Group structure. In separate communications in July and November 2018, the issuer communicated that the holding company obtained a license to operate as a reinsurance entity and that intended to establish non-life quota share agreements between the parent and its operating entities in Belgium (20%), Portugal (20%) and the UK (30%). Based on 2017 figures, Moody's estimates that this would allow the parent company to write in excess of €900 million of premiums which in turn will generate underwriting results. These new cash flows would partly replicate the operating cash flows of Ageas' main insurance entities, further diversifying the holding company's cash flows which prior to that were primarily reliant on dividends upstreamed from its subsidiaries. Moody's believes that this effectively results in Ageas' credit profile becoming closer to that of an operating entity. This enhancement contributed to an additional one notch improvement in Ageas' issuer rating.

Further commenting on the holding company's transformation into an operating company, Moody's says that internal reinsurance will enhance the fungibility of capital within Ageas Group by lowering capital requirements at the subsidiary level and potentially allowing for more capital upstream to the parent Ageas, which is also credit positive for the holding company.

In addition, the A3 issuer rating is supported by a strong liquidity position and sustainably good earnings and capital profiles at Ageas Group. Business diversification (69% life premiums vs. 31% non-life premiums in 2017) and a focus on retail business contribute to a relatively low business risk and enhance long-term earnings stability. Geographic footprint (Belgium, Portugal, UK, joint ventures in Asia) is also supportive with a mix of mature and emerging markets, as well as the issuer's sustained top-2 market positions in life and non-life in Belgium (with AG Insurance) and Portugal and top-10 in UK non-life.

As at 9m 2018 the Group disclosed €1.8 billion in cash holdings (though about half has been ring-fenced to settle the Fortis agreement), a Solvency II coverage ratio of 208% (under the approved partial internal model) with relatively limited sensitivities and net income from insurance operations of €664 million, with an

expectation of a corresponding year-end result within €750-€850 million. Over the next 12-18 months Moody's expects Ageas Group's consolidated results to be less volatile than in past years given the resolution of legacy issues and good progress in restructuring the non-life business in UK.

As concerns financial flexibility, Moody's expects adjusted financial leverage to decrease to around 17%-18%, which is relatively low and likely to support market access.

The upgrade of Ageasfinlux S.A.'s backed junior subordinate (FRESH) debt rating to Baa3(hyb) from Ba2(hyb) reflects the guarantees received by this financing vehicle from Ageas and therefore follows the upgrade of the parent's rating. FRESH securities are a deeply subordinated, perpetual and mandatory convertible debt issued by Ageasfinlux S.A. with Ageas acting as co-obligor.

WHAT COULD CHANGE THE RATINGS UP/DOWN

Moody's says that positive rating pressure could arise on Ageas SA/NV's and Ageasfinlux S.A.'s ratings from (i) a material increase in size and diversification of cash flows available to Ageas SA/NV and/or (ii) a meaningful improvement of the financial strength of the operating companies, notably through an upgrade of the A2 IFSR of AG Insurance.

Conversely, negative rating pressure could arise from (i) a loss of diversity of cash flows available to the parent company in case the latter stopped underwriting reinsurance business, or (ii) a sustained rise in adjusted financial leverage above 35%, or (iii) a decline in group capitalisation resulting for example in a Solvency II coverage ratio consistently below 130%, or, more generally from (iv) a deterioration of the financial strength of the operating companies, principally evidenced by a downgrade of the A2 IFSR of AG Insurance.

Ageas SA/NV is the holding company of Ageas Group, a composite insurer whose operational presence is focused on Belgium, Portugal, United Kingdom and Asia via partnerships with local bancassurance partners. The Group, headquartered in Brussels, Belgium, reported IFRS consolidated assets of €102.3 billion and total equity of €11.6 billion as at 9m 2018.

LIST OF AFFECTED RATINGS

Issuer: Ageas SA/NV

..Upgrade:

....Long Term Issuer Rating, upgraded to A3 from Baa2

Issuer: Ageasfinlux S.A.

..Upgrade:

....Backed Junior Subordinate Rating, upgraded to Baa3(hyb) from Ba2(hyb)

..Outlook Action:

....Outlook on all issuers changed to Stable from Ratings under Review

PRINCIPAL METHODOLOGIES

The methodologies used in these ratings were Life Insurers published in May 2018, and Property and Casualty Insurers published in May 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be

assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Items color coded in purple in this Press Release relate to unsolicited ratings for a rated entity which is non-participating.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Giovanni Meloni
Analyst
Financial Institutions Group
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Benjamin Serra
VP - Senior Credit Officer
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

MOODY'S
INVESTORS SERVICE