MOODY'S
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CREDIT OPINION
15 July 2020

Update

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RATINGS

**Ageas SA/NV**

| | |
|---|---|
| Domicile | Belgium |
| Long Term Rating | A3 |
| Type | LT Issuer Rating - Dom Curr |
| Outlook | Stable |

*Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.*

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# ageas SA/NV

## Update to credit analysis

## Summary

ageas SA/NV (Ageas, formerly known as Fortis SA/NV) is the holding company of the Ageas Group whose main assets are (i) 75% of AG Insurance (Insurance Financial Strength Rating: A2 stable), leading insurer in Belgium; (ii) Ageas UK (unrated), a British non-life insurer; (iii) insurance activities in Continental Europe, most notably operations in Portugal (51% of MillenniumBCP Ageas along with non-life operations of Ageas Seguros) and France; and (iv) insurance activities in Asia, which are non-controlled and for the most part jointly operated with local banking operators.

The credit profile of Ageas (rated A3 for long-term issuer rating) is supported by the combined financial strength, earnings profile and dividend capacity of Ageas' Group operating insurance companies, the subordination of the holding company's creditors and the sound capital and liquidity position of the company. In Q1 2020 the latter reported an equity position of €10.8 billion (excluding non-controlling interests) and a liquidity position of €1.6 billion. This liquidity includes a ring-fenced amount of €0.4 billion in relation to the Fortis settlement agreement (see below). 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.

Ageas continues to take decisive action in resolving legacy issues related to the break-up of the Fortis group in 2007 and 2008, whose assets and liabilities Ageas partly inherited. As part of this, Ageas has resolved many of the outstanding legal issues, partially through out of court agreements, as well as taken steps in managing its liability profile, both of which reduces uncertainties significantly.

## Credit strengths

The main credit strengths of Ageas are:

» The 75% ownership in AG Insurance via the intermediate holding Ageas Insurance International N.V.

» Strong and improving profitability of the group's operating companies

» Strong cash position along with the absence of senior debt at the holding company level

» Good capitalisation levels, with Solvency II coverage ratio at 196% in Q1 2020 (217% in year-end 2019 on a consolidated level as reported to the regulator under the approved partial internal model)

## Credit challenges

The main challenges of Ageas going forward are:

» To maintain a steady and sustainable level of profitability in its main operating entities

» To balance topline growth and shareholder payout aspirations with capital generation

## Rating outlook

The outlook on Ageas is stable, reflecting the resolution of legacy issues related to the Fortis settlement agreement and the stable outlook of AG Insurance, its main operating entity.

## Factors that could lead to an upgrade

» Material increase in size and diversification of cash flows available to Ageas and,

» Meaningful improvement of the financial strength of the operating companies notably through an upgrade of the A2 IFSR of AG Insurance

## Factors that could lead to a downgrade

» Loss of diversity of cash flows available to the parent company in case the latter stopped underwriting reinsurance business

» Sustained rise in adjusted financial leverage above 35%

» Consistent decline in Solvency II coverage below 130%

» Deterioration of the financial strength of the operating companies principally evidenced by a downgrade of the A2 IFSR of AG Insurance

## Key indicators

| ageas SA/NV [1][2] | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| **As Reported (Euro Millions)** | | | | | |
| Total Assets | 109,449 | 101,686 | 103,341 | 104,294 | 104,486 |
| Total Shareholders' Equity | 13,481 | 11,520 | 10,162 | 10,205 | 11,975 |
| Net Income (Loss) Attributable to Common Shareholders | 979 | 809 | 623 | 27 | 770 |
| Gross Premiums Written | 9,384 | 8,860 | 8,445 | 9,277 | 9,362 |
| Life Insurance Gross Premiums Written | 5,167 | 4,794 | 4,141 | 4,935 | 5,061 |
| Property & Casualty Insurance Gross Premiums Written | 4,219 | 4,067 | 4,305 | 4,342 | 4,298 |
| Net Premiums Written | 9,021 | 8,597 | 8,216 | 9,016 | 9,066 |
| **Moody's Adjusted Ratios** | | | | | |
| Goodwill & Intangibles % Shareholders' Equity | 12.3% | 13.8% | 13.8% | 15.1% | 18.7% |
| Adjusted Financial Leverage | 13.8% | 11.2% | 21.4% | 22.1% | 18.2% |
| Total Leverage | 33.7% | 31.0% | 39.0% | 41.4% | 36.6% |
| Earnings Coverage | 13.5x | 11.8x | 10.4x | 4.2x | 9.9x |

[1]Information based on IFRS financial statements as of the fiscal year ended 31 December. [2]Certain items may have been relabeled and/or reclassified for global consistency.
*Sources: Moody's Investors Service and company filings*

## Recent developments - coronavirus outbreak

The global coronavirus pandemic will have a negative impact on Ageas's profitability in the short to medium term, especially in the life segment. In Q1 2020, Ageas reported a 60% decrease in life net result from Q1 2019 (to €89.1 million from €223.1 million) mainly due to a drop in investment results in Belgium and Asia. The heightened market volatility introduced by the coronavirus outbreak led to higher impairments and lower capital gains. As a consequence of rising uncertainty of economic and financial environment and in line with many peers, Ageas withdrew its previous 2020 profit guidance.

Market volatility is also a key risk to the group's capitalization. Ageas reported a Solvency II ratio of 196% in Q1 2020, down from 217% in year-end 2019. Adverse market movement (fall in equity market, increase in spreads and low interest rates) accounted for 11 percentage points of the decrease (tender of FRESH securities accounted for another 11 percentage points of the decrease).

Following the guidance of the National Bank of Belgium, subsequent to the recommendation of the European Insurance and Occupational Pensions Authority (EIOPA) on 2 April, Ageas adapted its distribution of dividends to shareholders. While Ageas confirmed its intention to pay the full amount of gross cash dividend (€2.65 per share) for the year 2019, the group decided to pay an intermediary amount to its shareholders (€0.27 per share) in the beginning of June. As of year-end 2019, the expected dividend distribution for the year 2019 was deducted from Solvency II ratio, which otherwise would have been 12 percentage points higher.

More positively, we do not expect any material negative effect on Ageas underwriting result at this stage both in life and non-life. As a life insurer, the group is exposed to mortality risk but Q1 2020 life underwriting result has not displayed any negative trend. For its non-life segment, given the predominance of traditional retail property and casualty (P&C) policies, we consider that it has limited exposure to the business consequences of lock down measures - as opposed to commercial P&C insurers that are exposed to business interruption.

## Capital structure and liquidity

The main outstanding financial debts within Ageas Group as at year-end 2019 are:

» €1.25 billion of deeply subordinated securities redeemable in shares only (FRESH) issued by Ageasfinlux S.A. (Backed Jr. Subordinate: Baa3(hyb) stable) in 2002. Subsequent to the buy backs, as of Q2 2020, the outstanding amount was at €384 million.

» €0.1 billion of Tier 2 dated securities issued by AG Insurance in December 2013 (part of €450 million issuance)

» €0.4 billion of Tier 2 issued by AG Insurance in March 2015

» €0.5 billion of subordinated securities issued by Ageas in April 2019

» €0.75 billion of Tier 1 notes issued by Ageas in December 2019

On 19 November 2019, Ageas offered to buy back at a discounted cash price all outstanding FRESH securities (total nominal value: €1.25 billion, grandfathered Tier 1 debt under the Solvency II rules). On 3 January, Ageas announced that 65.50% of the outstanding amount FRESH securities were tendered and accepted for purchase. We see this transaction as credit positive for Ageas as it will improve the group's capital structure and quality, and would also make its Solvency II capital adequacy more sustainable ahead of the expiry of the grandfathering period.

Liquid resources held at the holding company (consisting of the sum of net cash and liquid assets) were €1.6 billion in Q1 2020, down from €2.2 billion in year-end 2019. The decrease is mainly due to the €0.5 billion payment in January 2020 related to the tender of FRESH securities. We also note that the current holding company liquidity position includes €0.4 billion which have been ring-fenced to fund the settlement agreement related to the Fortis settlement and which will decrease going forward through payments to claimants.

As of year-end 2019 the adjusted financial leverage for the Group was 13.8% (2018: 11.2%) and total leverage, excluding hybrids' equity credit was at 33.7% (2018: 31.0%). The slight increase in leverage mainly results from the issuance of €750 million subordinated debt qualifying as restricted Tier 1 in December 2019. Following the buy back of the FRESH securities (remaining outstanding amount of €384 million as of Q2 2020) as well as the resulting capital gain on equity, pro forma adjusted financial leverage would remain around 14%.

Ageas' financial flexibility remains affected by off-balance sheet commitments related to hybrid debt instruments issued by former group entities, although Ageas has taken action to resolve legacy issues, as exemplified by the afore mentioned FRESH transaction. This follows successful debt issuances over 2019, and we see it as a further positive indication of Ageas' ability to access financial markets. This notwithstanding, Ageas' holding company remains liable to support the interest payments on €0.95 billion subordinated debt (CASHES) issued by previous group member Fortis Bank (now BNPPF) in case the bank is not able to service this debt due to solvency problems. A number of 3,958,859 CASHES remained outstanding as of 11 May 2020.

Ageas' credit profile is supported by good capitalisation, with a reported Solvency II ratio of 196% (under the approved partial internal model) as of Q1 2020, reflecting a decrease from 217% at year-end 2019. The decrease was mainly due to the cash outflow from the completion of the tender of FRESH securities. Ageas's Solvency II ratio was also negatively affected by the decrease in interest rates and the fall of equity market resulting from the coronavirus outbreak in the first months of 2020.

Ageas's 5-year average return on capital has been strong, at 5.3% on average for 2015-2019 and we note that net profits have increased quite materially over the last two years. In Q1 2020, Ageas reported a group net result of €452 million, a significant increase from €251 million in prior year but this was driven by a one-off gain of €310 million (net of the unwinding of the associated interest rate swap) from the tender of the FRESH securities. Excluding this one-off gain, the group's result were negatively affected by the current crisis, especially in the life segment for which investment results decreased as a result of heightened financial market volatility in Belgium and Asia. More positively, the pandemic had a limited impact on underwriting results in Q1 2020 both in life and non-life. For its non-life segment, we consider that the group has low exposure to the business consequences of lock down measures given the predominance of its retail business.

The group benefits from a focus on retail customers as well as from material diversification with business written in life (55% of gross written premiums at year-end 2019) and non-life (45%). In terms of geographic diversification, the group's operations in Asia and Continental Europe are gradually increasing their contribution to the group's gross inflows (based on Ageas' share in non-consolidated entities) and net profits. Since the beginning of 2019, the group's earnings profile by regions on an as reported basis has been changing because the weight of the reinsurance segment has increased, based on the non-life quota-share reinsurance contracts between Ageas and its operating entities. From 2020, the cession rate of the internal quota share agreement has been increased to 40% from 30%.

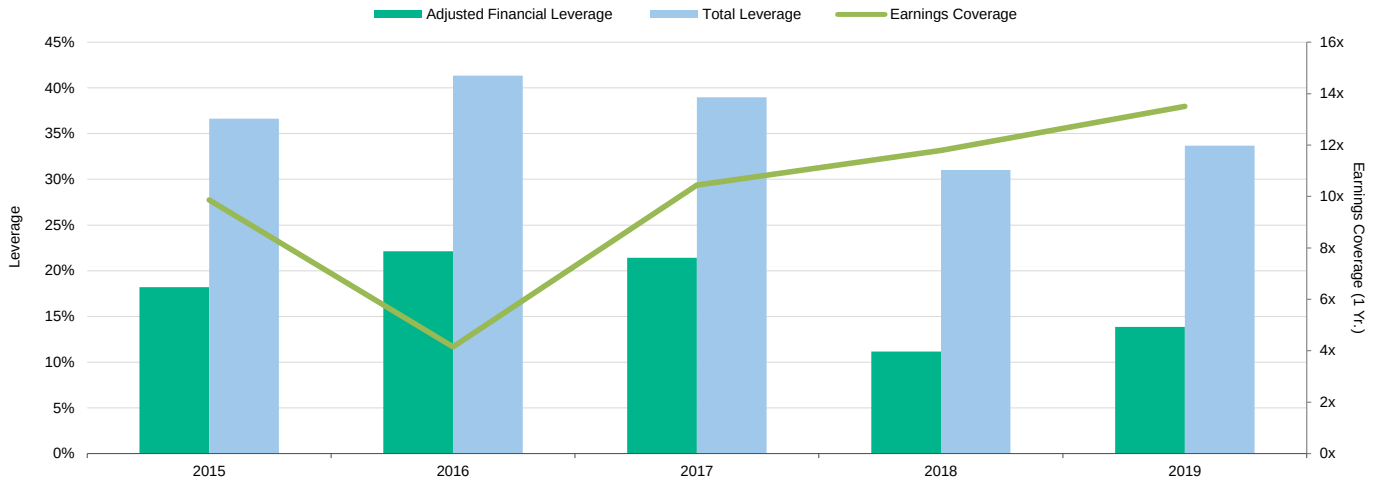
## Structural considerations

The notching differential between the A2 IFSR of AG Insurance (Ageas' main operating subsidiary) and the A3 Long Term issuer rating at ageas SA/NV is one notch. This is one notch narrower than Moody's standard practice for an insurance group domiciled and operating in jurisdictions where group-wide regulation is in effect, reflecting the dual operating and holding nature of the parent company. 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.

The FRESH securities are rated three notches below the long term issuer rating. This is one notch wider than the standard notching we have for preferred securities with a cumulative coupon skip mechanism. This additional notching reflects the higher risk of coupon deferral, as these securities allow for an Alternative Coupon Settlement Method ("ACSM") when the annual dividend yield on the Ageas share is below 0.5%. The current buy back offer does not affect the issue rating.

Exhibit 2

**Financial flexibility**




*Sources: ageas SA/NV and Moody's Investors Service*

## Ratings

Exhibit 3

| Category | Moody's Rating |
|---|---|
| **AGEAS SA/NV** | |
| Rating Outlook | STA |
| LT Issuer Rating | A3 |
| **AGEASFINLUX S.A.** | |
| Rating Outlook | STA |
| BACKED Junior Subordinate | Baa3 (hyb) |

*Source: Moody's Investors Service*

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