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Research Update:

Belgium-Based Insurance Group Ageas Upgraded To 'A' On Strengthened Financial Risk Profile; Outlook Stable

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Overview

- We believe that Belgium-based insurance group Ageas ("Ageas" or "the group") has consolidated its strong financial risk profile, further enhancing our views on the sustainability of its very strong capital and earnings.
- Furthermore, we expect a stabilization of Ageas' operating life and non-life earnings over the next two to three years, notwithstanding the low interest rate environment, thanks to higher product and geographic diversity, more disciplined underwriting, and close asset liability management (ALM).
- We are therefore raising our financial strength and counterparty credit ratings on Ageas' core operating subsidiaries, AG Insurance and Ageas Insurance Limited, to 'A' from 'A-', and the counterparty credit rating on Ageas SA/NV to 'BBB' from 'BBB-'.
- The stable outlook reflects our expectations that any potential acquisitions, dividends, share buybacks, or cost of legacy issues should not weaken the group's strong financial risk profile over the next two to three years.

Rating Action

On Nov. 6, 2015, Standard & Poor's Ratings Services raised to 'A' from 'A-' its long-term financial strength and counterparty credit ratings on AG Insurance and Ageas Insurance Ltd, the core operating subsidiaries of Belgian insurance group Ageas. At the same time, we raised to 'BBB' from 'BBB-' the counterparty credit rating on Ageas SA/NV, the holding company. The outlook on all ratings is stable.

We also raised by one notch the long-term ratings on the group's junior subordinated debt and the short-term rating on Ageas Finance NV's commercial paper (see "Ratings List" below).

Rationale

The rating action reflects our view that Ageas' overall financial risk profile has strengthened within the strong level, as Ageas has been managing its capital adequacy within the 'AAA' range per our criteria. We expect Ageas to continue to manage its capital adequacy, adjusted to also include share buybacks, dividends, and acquisitions, consistent with at least the 'AA' range. We continue to view Ageas' financial risk profile and business risk profile as strong. According to our criteria, this results in an anchor of 'a' or 'a-'. We now view Ageas' credit profile as more in line with an 'a' anchor, based on our view that Ageas' financial risk profile is more confirmed at the strong level. We still view the legacy issues affecting the holding company as a negative factor, largely driving the difference between our views on risk-adjusted capital adequacy and our overall view on the financial profile. Legacy issues also lead us to notch down the holding company ratings an additional notch compared with our standard approach.

Furthermore, we expect Ageas' operating profits to stabilize in 2015 and 2016, thanks to more disciplined pricing, flexible guarantees in Belgium, and tight ALM practices. We believe this should help Ageas to weather a prolonged low interest rate environment. In our base-case scenario, we estimate for the group annual earnings before tax and minorities above €700 million over 2015-2016. We forecast that the combined ratio will stabilize below 100%, with a return on life technical reserves of around 1%.

The group has retained extremely strong capital adequacy according to our risk-based capital model, despite a series of acquisitions, dividend payments, and ongoing share buybacks. We continue to factor into our analysis the potential impact of additional capital returns or bolt-on acquisitions on the overall assessment of capital and earnings (which is currently very strong according to our criteria).

We continue to reflect the risk associated with any deterioration in the legal issues affecting the group's holding company by:

- Assessing the group's risk position as moderate, reflecting the high uncertainty around the amounts at which legal claims will be settled. While these claims are located at the holding company level, Ageas SA/NV (the general account), we believe that any materially unfavorable settlement could have a negative impact on the group as a whole.
- By applying a three-notch gap, rather than the standard two notches, between the holding company, Ageas SA/NV, and the core operating subsidiaries AG Insurance and Ageas Insurance Ltd., as these risks are borne directly by the holding company.

Outlook

The stable outlook reflects our expectations that any potential acquisitions, dividends, share buybacks, or cost of legacy issues should not weaken the group's strong financial risk profile over the next two to three years.

Downside scenario

We could lower the ratings on Ageas if:

- Capital adequacy were to decrease markedly as a result of: 1) Share buybacks or acquisitions that were higher than currently reflected in our base-case scenario; and/or 2) An unexpected deterioration of operating

performance. This could be the case if the combined ratio were to deteriorate sustainably above 100% and if margins on life technical reserves were to fall below 1%.
- Costs related to legacy issues were to be higher than the assumptions underlying our financial profile assessment and our holding company notching assumptions.

Upside scenario

Although unlikely over the next two years in our view, we could raise the ratings on Ageas if we saw:
- Further significant improvements in operating performance, leading to a strengthening of the business risk profile; or
- An improvement in the risk profile through the resolution of the legacy issues, while capital adequacy remains unchanged.

Ratings Score Snapshot

	To	From
Financial Strength Rating	A/Stable/--	A-/Positive/--
Anchor	a	a-
Business Risk Profile	Strong	Strong
IICRA	Intermediate Risk	Intermediate Risk
Competitive Position	Strong	Strong
Financial Risk Profile	Strong	Strong
Capital and Earnings	Very Strong	Very Strong
Risk Position	Moderate Risk	Moderate Risk
Financial Flexibility	Adequate	Adequate
Modifiers	0	0
ERM and Management	0	0
Enterprise Risk Management	Adequate	Adequate
Management and Governance	Strong	Strong
Holistic Analysis	0	0
Liquidity	Exceptional	Exceptional
Support	0	0
Group Support	0	0
Government Support	0	0

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria And Research

Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- Enterprise Risk Management, May 7, 2013
- Insurers: Rating Methodology, May 7, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings List

Upgraded	To	From
Ageas Insurance Ltd		
AG Insurance		
Counterparty Credit Rating	A/Stable/--	A-/Positive/--
Financial Strength Rating	A/Stable/--	A-/Positive/--
Ageas SA/NV		
Counterparty Credit Rating	BBB/Stable/A-2	BBB-/Positive/A-3
AG Insurance		
Junior Subordinated	BBB+	BBB
Ageas Finance NV		
Commercial Paper*	A-2	A-3
Ageas Hybrid Financing SA		
Junior Subordinated*	BBB+	BBB
Ageasfinlux S.A.		
Junior Subordinated*	BB+	BB

*Guaranteed by Ageas Finance SA/NV

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