Ethias SA

Full Rating Report

Ratings

Insurer Financial Strength Rating	A-
Long-Term Foreign-Currency IDR	BBB+
Dated/Undated Subordinated Debt	BBB-

Outlooks

Long-Term IDR	Positive
Insurer Financial Strength	Positive

Financial Data

Ethias SA (consolidated IFRS)

(EURm)	2018	2017
Total equity[a]	2,342	2,521
Total assets	18,262	18,755
Net income[a]	193	161
Gross written premiums	2,684	2,440
Solvency II ratio (%)	181	183

[a] Before deduction of minority interests
Source: Fitch Ratings, Ethias, annual report 2018

Related Research

Belgium Insurance Dashboard (March 2019)

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Key Rating Drivers

Outlook Positive: The Positive Outlook reflects Fitch's expectation that the company will maintain its strong capitalisation, as measured by Fitch's Prism Factor-Based Model (Prism FBM) score, and financial leverage ratio (FLR) in 2019. The group has begun to build a record of stability following the completion of a multi-year action plan which has strengthened capitalisation, financial flexibility and asset-and-liability risk management.

Strong Capitalisation and Leverage: Ethias's Prism FBM score was at the upper-end of the 'Very Strong' category at end-2018, well in excess of the 'A' benchmark. Ethias capital position has improved significantly over the past five years, as high-guarantee retail life reserves were offloaded. Ethias's FLR was stable at approximately 20% at end-2018. Ethias reported a Solvency II (S2) capital ratio of 181% at end-2018, excluding transitional arrangements (end-2017: 183%).

Sustained Profitability Expected: Fitch regards Ethias's profitability as good, driven by the company's non-life business. Net income return on equity (ROE) was 7.7% at end-2018 (2017: 6.7%). We expect Ethias to demonstrate sustained profitability in 2019 more reflective of technical results, after having been affected by non-recurring items related to the company's restructuring.

The group's reported net IFRS combined ratio deteriorated to 94.6% at end-2018 from 87.7% at end-2017, because of increased claim activity following more costly climate events and lower reserve releases. Ethias targets a combined ratio of below 95%.

Strong Business Profile: Ethias has a solid position on the Belgian insurance market, where it is the fourth-largest insurer. Ethias is a direct insurer and the leading insurer in the public sector. It is almost exclusively active in Belgium.

New Strategic Plan: The 2019-23 strategic plan aims to strengthen Ethias's leading position in direct, digital and public authority insurance, which are the three key competitive advantages of the company.

Reduced Interest Rate Risk: Ethias has significantly reduced its exposure to interest-rate risk resulting from historically high minimum guaranteed returns on retail life technical liabilities. The duration gap is now expected to remain below one year.

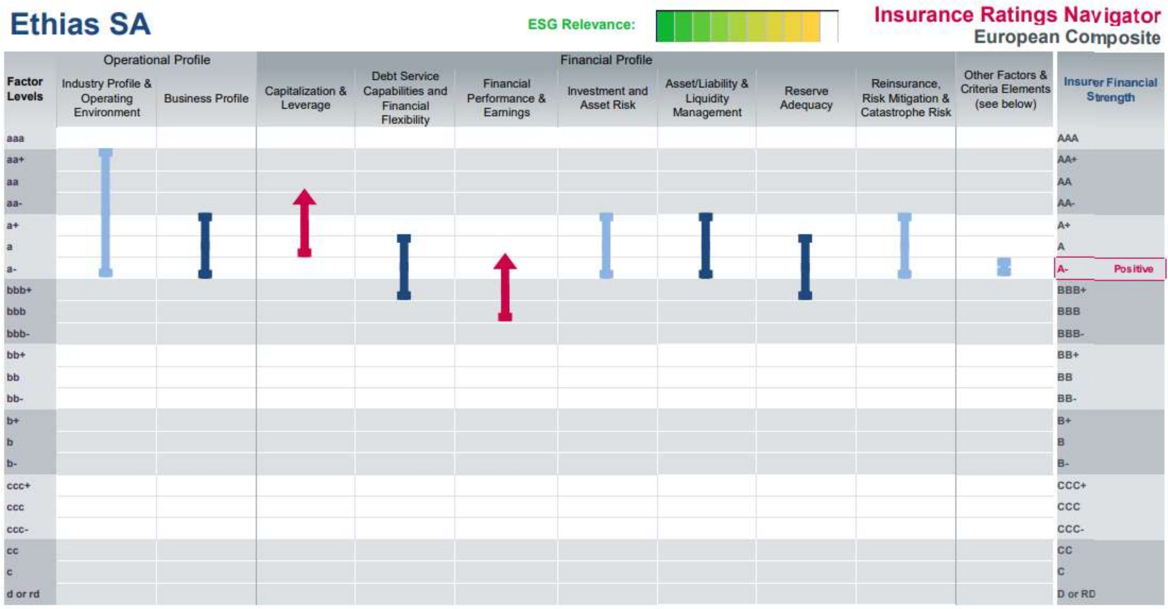
Strong Reserve Adequacy: Reserve releases have been positive over the five-year period to end-2018 and we expect Ethias's non-life reserves to continue to develop favourably.

Rating Sensitivities

Sustained Capitalisation and Leverage: The ratings could be upgraded if Ethias maintains a 'Very Strong' Prism FBM score and a stable FLR, while return on equity remains stable.

Weaker Capitalisation and Leverage: The Outlook could be revised to Stable if Ethias's Prism score falls to the lower end of the 'Very Strong' category or FLR rises to above 30%.

Weaker Profitability: The Outlook could also be revised to Stable if profitability weakens, as evidenced in a return on equity below 6%.



Other Factors & Criteria Elements				
Provisional Insurer Financial Strength				**A-**
Non-Insurance Attributes	Positive	**Neutral**	Negative	+0
Corporate Governance & Management	**Effective**	Some Weakness	Ineffective	+0
Ownership	Positive	**Neutral**	Negative	+0
Transfer & Convertibility / Country Ceiling	Yes	**No**	AAA	+0
Insurer Financial Strength (IFS)			Final:	**A-**
IFS Recovery Assumption	**Good**			-1
Issuer Default Rating (IDR)			Final:	**BBB+**

Bar Chart Legend:

Vertical Bars = Range of Rating Factor

Bar Colors = Relative Importance
- Higher Influence
- Moderate Influence
- Lower Influence

Bar Arrows = Rating Factor Outlook
- ⇧ Positive
- ⇩ Negative
- ⇳ Evolving
- ▭ Stable

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3 – ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

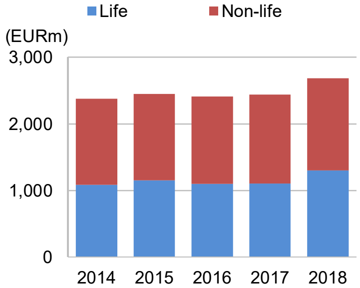
For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

Related Criteria

Insurance Rating Criteria (January 2019)

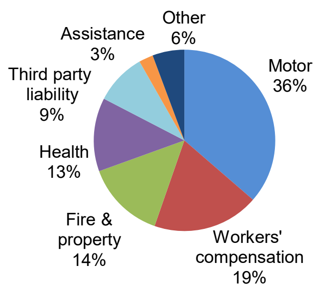
Business Profile

Ethias Gross Written Premiums



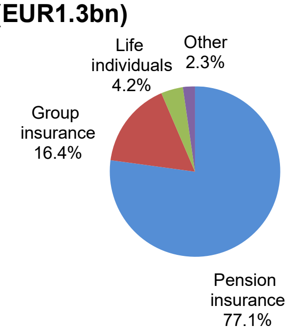
Source: Fitch Ratings, Ethias

2018 Non-Life Premium Mix:



Source: Fitch Ratings, Ethias

2018 Life Premium Mix: (EUR1.3bn)



Source: Fitch Ratings, Ethias

Strong Business Profile

Fitch ranks Ethias's business profile as 'Moderate' (as defined within Fitch's criteria, and discussed in Appendix A of this report), compared to that of other Western European insurers, due to its strong position in the Belgian public sector. Fitch scores Ethias's business profile at 'a' under its credit factor scoring guidelines.

Strong Position in Belgium

Ethias was the fourth-largest insurer in Belgium by gross written premiums (GWP) at end-2017, with an estimated 9.1% market share for all activities combined and 7.6% in life and 11.0% in non-life[1]. The company has a broad product offering. As a direct insurer, Ethias accounts for 40% of the direct non-life market. Ethias is also the leader in the public sector, reaching around 48% of the customers in that segment.

Differentiated Competitive Positioning

Ethias aims to differentiate itself from competition through a leadership position in the public sector, efficient direct sales distribution, and advanced digitalisation of the client interface.

The company's main clients are individuals and Belgian public authorities, such as regions, communities, provinces, the federal state of Belgium, cities and municipalities, schools and hospitals, but also private companies.

All products offered by Ethias to individual clients are marketed directly through digital channels (around 20% of new customers are acquired on-line) and offices, with salaried sales staff (for individual clients) and insurance inspectors (for corporate clients).

Restructuring Completed

The full repayment of Vitrufin SA's (Ethias's parent) debt in January 2019 and the full disposal of Ethias's capital-intensive individual life portfolio in September 2018 marked the completion of a multi-year action plan, which followed the 2008 EUR1.5 billion recapitalisation of the company through the investment vehicle, Vitrufin SA. Ethias managed to successfully reposition its life business mix towards less interest-rate sensitive products while de-risking its liability profile.

New Strategic Plan

The 2019-23 strategic plan aims to strengthen Ethias's leading position in direct, digital and public authority insurance, which are the three key competitive advantages of the company. For this, a large-scale technological and organisational transformation was launched to enhance the sales process and client experience. The plan also includes a series of partnerships initiatives to develop innovative services, as illustrated by the launch of negotiations for the acquisition of a 33% stake in IMA Benelux in June 2019.

Limited Diversification Outside Core Markets

Ethias is almost exclusively active in the Belgian insurance market with a client focus on retail and public bodies but has a well-balanced business mix (see the chart on the left). As such Ethias's business is more sensitive to the domestic operating environment than other more diversified, competitors.

Life products comprise pension insurance and group insurance. Ethias is particularly active in the management of the first and second pillar pension schemes in the public sector. Non-life insurance services such as motor, household, workers' compensation and health insurance are also offered to all client types.

[1] Source: Assuralia.

Ownership

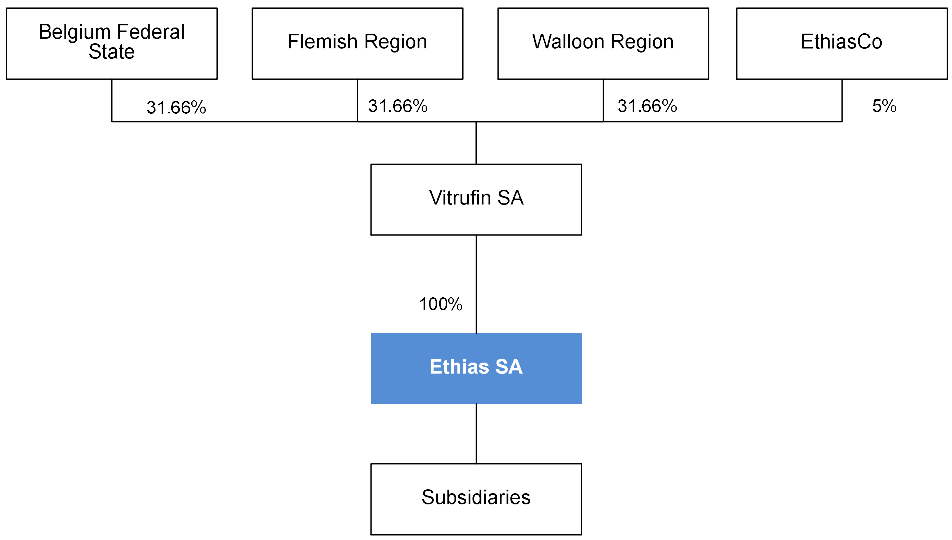
Following the recapitalisation by Belgian public authorities at end-2008, operational activities were placed in a limited-liability company (Ethias) owned by the holding company Vitrufin, of which the Belgian public authorities own 95%.

The capital structure of Vitrufin was simplified in 2017, leading to a decrease in EthiasCo's [2] (formerly Ethias Droit Commun) share from 25% to 5%. Ethias acquired the "Workers Compensation 1967" portfolio of Ethias Droit Commun for EUR1.5 million.

The two-year commitment by Ethias's shareholders to maintain the current shareholding structure expired in May 2019. Vitrufin is scheduled to be wound down in October 2019.

The rating is based on the company's standalone profile and does not factor in any potential state support. However, Fitch believes that the Belgian authorities would provide additional support to the group should the need arise.

Structure Diagram



Source: Fitch Ratings, Ethias

[2] EthiasCo is a cooperative company, which manages investments in affiliates. It was formally Ethias Droit Commun AAM which changed its legal form in December 2017, following the transfer of its insurance business to Ethias SA.

Capitalisation and Leverage

(EURm)	2014	2015	2016	2017	2018	Fitch's expectation
Prism score	Somewhat weak	Strong	Strong	Very strong	Very strong	We expect Ethias to consolidate its capital position, despite lower interest rates in 2019. FLR should remain broadly stable at current levels.
Solvency II Ratio (Ethias SA)	n.a.	132	146	183	181	
Financial leverage ratio (%)	27	25	20	20	20	
Operating leverage (x)	13	7	5	4	4	
Total financing & commitments/shareholder's equity (x)	0.3	0.3	0.6	0.5	0.6	

Source: Fitch Ratings, Ethias

Strong Capitalisation & Leverage

Fitch views Ethias's risk-adjusted capitalisation and financial leverage as strong and positive for the rating. We expect Ethias to consolidate its capital position in 2019 and debt leverage to remain broadly stable.

"Very Strong" Prism FBM Score.

Prism FBM score improved to the upper-end of the "Very Strong" category, under Fitch's Prism FBM based on end-2018 results, a level above the 'A' rating category benchmark.

The improvement in risk-adjusted capitalisation results mainly from the reduced life reserve risk (following the disposal of the remaining capital intensive "First A"), which lowered target capital and an associated improvement in VIF (Value in Force), which increased available capital. In addition, capitalisation will benefit from the normalisation of Ethias' dividend policy as the exceptional dividend payments of 2018 (deducted from Fitch's available capital at end-2017) are unlikely to be repeated.

Very Strong Solvency II Coverage

Ethias reported a S2 capital ratio of 181% at end-December 2018, excluding transitional arrangements, slightly down from 183% at end-2017. Fitch expects interest rate decreases to have a negative impact on S2 ratio in 2019. Ethias's S2 ratio is in line with Belgian peers but remains sensitive to Belgian sovereign bond spread risk (a 0.50% spread widening would result in a S2 ratio decreasing by 15.1 percentage points).

Moderate Financial Leverage

Ethias' Financial leverage ratio (FLR) was unchanged at 20% at end-2018. Fitch expects the ratio to remain stable at end-2019.

Debt Service Capabilities and Financial Flexibility

(Currency)	2014	2015	2016	2017	2018	Fitch's expectation
Fixed-charge coverage ratio (excluding realised and unrealised gains)	48.3	36.4	15.9	5.1	8.7	Fitch expects fixed-charge coverage to remain strong but volatile in line with profitability.
Fixed-charge coverage ratio (including realised and unrealised gains)	-41.6	37.4	18.2	9.1	5.6	

Source: Fitch Ratings, Ethias

Strong Coverage and Financial Flexibility

Fitch considers Ethias's financial flexibility and debt service to be strong and consistent with the rating level.

Strong Interest Coverage

The fixed-charge coverage (FCC) ratio on an operating earnings basis (excluding unrealised gains and losses) improved to 9x in 2018 (2017: 5x), which is at the upper end of the 'A' category under Fitch's insurance rating methodology. FCC has fluctuated over the past five years, with operating earnings as debt interest expenses remained stable.

Good Financial Flexibility

Fitch considers that Ethias's financial flexibility has improved due to the repayment of Vitrufin EUR278 million senior loan in January 2019 alleviating pressure on Ethias to pay dividends to its parent company. In 2012, Vitrufin issued debt to buy Dexia shares from Ethias and relied on Ethias for dividends to pay the interest and principal on the debt that matured in January 2019.

Ethias benefits from demonstrated access to debt markets. It has no immediate need for additional financing or refinancing given its strong solvency position and the long-term maturity of its outstanding debt securities.

External Support Likely if Needed

Fitch believes that the Belgian authorities would provide additional resources should the need arise. Our view reflects the authorities' majority ownership of the company, and Ethias's provision of insurance to Belgian public organisations and their employees.

Debt Maturities

(At end-June 2019)	(EURm)
Perpetual (callable 9/19)	14[b]
2023	75
2026	402.7[a]
Total	**491.7**

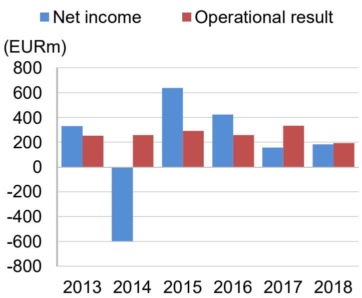
[a] Issued in two tranches, EUR231.9m in July 2015 and EUR170.8m as tap issue in November 2015
[b] Outstanding amount following the exchange offer in July 2015. Amount issued was EUR250m
Source: Fitch Ratings, Bloomberg

Financial Performance and Earnings

(EURm)	2014	2015	2016	2017	2018	Fitch's expectation
Net income (after minorities)	-604	633	424	158	183	We expect Ethias to demonstrate a sustained profitability in 2019 that would be more reflective of technical results and cost discipline. Financial performance will continue to be driven by the non-life business.
Net combined ratio (IFRS) (%)	89.2	86.1	89.4	87.7	94.6	
Net income return on equity (%)	-42	42	21	7	8	
Pre-tax operating return on assets (excl unrealised gains) (%)	-4.0	3.5	2.5	0.8	1.4	

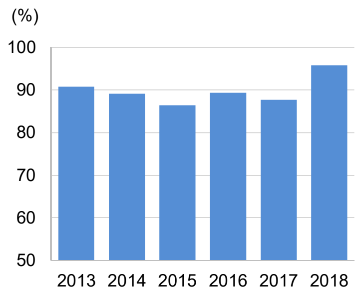
Source: Fitch Ratings, Ethias

Ethias Earnings
Under IFRS



Source: Fitch Ratings, Ethias

Net Combined Ratio
Under IFRS



Source: Fitch Ratings, Ethias

Profitability Normalising to Sustainable Levels

Fitch regards Ethias's profitability metrics as good, driven by the non-life business. We expect profitability to become more reflective of technical results, after having been affected by non-recurring items related to the company's portfolio restructuring.

ROE More Reflective of Technical Results

Net income return on equity (ROE) was 7.7% at end-2018 (2017: 6.7%). The slight decline was primarily driven by lower operating earnings, partially offset by an equity base reduced by exceptional dividend payments in 2018. Operating costs remained under control in 2018 despite sustained investments in business transformation. The cost of the 2017 “Switch” operations (EUR109 million) and the 'First A' sale (EUR106 million) drove ROE down to 6.7% at end-2017 from 20.7% at end-2016. We expect financial profitability in 2019 to be less affected by non-recurring items and to reflect technical results.

Non-Life Drives Operating Performance

Non-life business is the main contributor to operating earnings. The reported net IFRS combined ratio deteriorated to 94.6% at end-2018 (87.7% at end-2017). More costly climate events, claims deterioration (notably in motor and workers' compensation) and lower reserve releases dented profitability in 2018. Ethias is implementing an action plan to improve non-life profitability, with a combined ratio target of below 95%. The direct distribution model, pricing optimisation and cost controls remain supportive of Ethias's non-life operational efficiency.

Low Life Profitability

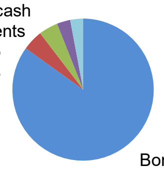
The life operational result has been low since 2013. Ethias' life profitability continues to be under pressure due to the prolonged period of low interest rates. The shift in business mix from the guaranteed rate “branche 21” life products to the less capital-intensive but lower-margin unit-linked “branche 23” products, has contributed to reducing profit margins on life products.

Investment and Asset Risk

(%)	2014	2015	2016	2017	2018	Fitch's expectation
Risky assets to equity	145	91	91	88	90	Fitch expects Ethias's investment policy and risky asset exposure to remain broadly unchanged.
Unaffiliated shares to equity	79	40	27	28	27	
Non-investment grade bonds to equity	64	52	58	55	58	

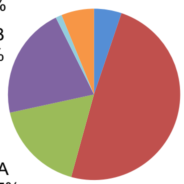
Source: Fitch Ratings, Ethias

Investment Assets (Ex-Unit Linked)
At end-2018



Source: Fitch Ratings, Ethias

Fixed-Income Portfolio
At-end 2018



Source: Ethias, Fitch

Limited Exposure to Risky Assets

Fitch views Ethias's investment and asset risk as low, due to its prudent investment strategy and strong liquidity.

Prudent Investment Policy

Fitch views Ethias's investment policy as prudent. Ethias's risky assets-to-equity ratio remained stable at 90% at end-2018. The company has made sustained reductions in risky assets over time. The share of Unit-linked increased to 7.3% of investments (2016: 4.5%), as a result of transfers from traditional products. A breakdown of the investment portfolio (excluding unit-linked) is shown on the left. Ethias implements derivatives strategies to manage spread and interest rate risk exposure (e.g a EUR700 million hedging programme on Belgian sovereign bond concentrations).

Good Bond Portfolio Quality

Fitch regards the credit quality of the life and non-life bond portfolios as good, with an average rating of 'A-'. This measure is a risk-weighted average taking into account the second-best rating available on each instrument. 93% of the bond portfolio is rated 'BBB' or higher.

Sovereign bonds represent 52% of the total bond portfolio at end-2018. Sovereign bond exposure is mostly oriented towards Belgium (52% of government portfolio), and France (15%). Ethias has reduced exposure to Belgium and France sovereign bonds spread-risk through sales, derivatives and redemptions since 2017.

Low Equity Exposure

The proportion of equity investments at end-2018 remained stable, just below 5% of the total investment portfolio.

Asset/Liability and Liquidity Management

(%)	2014	2015	2016	2017	2018	Fitch's expectation
Liquid assets/net technical reserves - excluding unit-linked	91	94	103	112	117	Fitch expects Ethias to continue to actively manage its exposure to interest-rate risk.
Liquid assets/net technical reserves (total)	89	92	100	105	107	Fitch does not expect material changes in liquidity management.

Source: Fitch Ratings, Ethias

Strong ALM and liquidity Risk Profile

Fitch's views Ethias's ALM as strong, as interest-rate risk has reduced significantly to a moderate level. Fitch considers Ethias's balance sheet liquidity to be strong and well able to support its policyholder liabilities.

Reduced Duration Gap

Ethias's historically high exposure to interest-rate risk due to life technical liabilities subject to relatively high minimum guaranteed returns has fallen significantly over the past five years. The duration gap reduced to around a year in 2018 from 8.7 years in 2014 following the Switch offers[3], reinvestments in long-dated bonds and the derivatives overlay programmes. Life asset duration and liability duration were seven and nine years, respectively, at end-2018.

Interest-Rate Risk Reduced After Redemption Offers

The guarantee profile for the life insurance book has improved in recent years, as Ethias reduced its exposure to higher-rate guarantees and these guarantees are carried by a smaller amount of life reserves. The disposals came at a cost, but have significantly reduced Ethias' exposure to interest-rate risk.

As at end-2018, the average guaranteed rate was around 2.5% on group life contracts. Fitch considers Ethias's capacity to cover minimum guaranteed returns as satisfactory.

Active Interest Rate Risk Management

Ethias actively manages its interest rate risk exposure with a maximum S2 ratio sensitivity of minus 25% to a 1% decrease in interest rate, corresponding to a duration gap maintained between minus 1 and +1 year. Ethias makes active use of forward interest rate starting swaps, which replaced in 2017 swaptions to reduce duration gap and hedge interest rate risk (particularly related to Belgian sovereign bonds).

Strong Liquidity Profile

Ethias's liquidity profile is strong, with the ratio of liquid assets to net technical reserves at 117% at end-2018. Fitch considers that the group's liquidity management is cautious and, if needed, there is significant potential for raising liquidity from the group's good-quality fixed-income securities.

[3] Over the past five years, Ethias has successfully executed several redemption "Switch" offers, whereby First A policyholders were given a financial incentive to redeem their contracts. First A are intensive retail life insurance contracts, under which high guarantees are paid until the policyholder reaches the age of 99.

Reserve Adequacy

(Currency)	2014	2015	2016	2017	2018	Fitch's expectation
Loss reserves/CY incurred losses	2.5	2.5	2.4	2.5	2.3	Fitch expects Ethias's non-life reserves to continue to develop favourably.
Loss reserves/equity	1.8	1.2	0.9	0.9	1.0	
Reserve development/prior-year equity	-14	-32	-33	-23	-17	
Reserve development/PY loss reserves	-11.5	-17.6	-27.9	-24.2	-18.8	

Note: Negative numbers denote positive reserve developments. CY: Current Year; PHS: Policy Holders' Surplus; PY: Prior Years
Source: Fitch Ratings, Ethias

Strong Reserve Adequacy

Fitch views Ethias's non-life reserve adequacy as strong. Reserve releases have been positive over the five-year period.

Moderate Reserve Leverage

Ethias has moderate and stable reserve leverage, as indicated by a ratio of reserves to both incurred losses and capital of 2.3x and 1x, respectively, at end-2018.

Adequate Reserve Growth

Fitch believes Ethias's loss reserves grew at a rate commensurate with growth in underwriting exposures over the past five years. Loss reserves compared to shareholders' equity are also quite stable over time, even taking into account the strong increase in Ethias's capital base since 2014.

Adequate Non-Life Reserving Practices

Fitch believes Ethias's level of technical provisions is prudent in light of regulatory requirements and practices in Belgium.

Analysis of the group's claims development triangles (based on IFRS accounts) indicates favourable reserve development in recent years. We expect Ethias's positive reserve releases to continue and reserving to remain adequate in 2019.

Reinsurance, Risk Management and Catastrophe Risk

(%)	2014	2015	2016	2017	2018	Fitch's expectation
Reinsurance recoverables to equity	15	10	8	9	11	Fitch does not expect any material change to Ethias's reinsurance strategy, which the agency considers appropriate.
Net written premiums to gross written premiums	97	97	97	98	97	

Source: Fitch Ratings, Ethias

Adequate Reinsurance and Risk Mitigation

Fitch considers Ethias's reinsurance programme and overall risk management to be strong and effective.

Limited Use of Reinsurance

The group is not a major purchaser of reinsurance, as shown by high retention rates averaging 97% in 2017. This corresponds to the group's moderate risk profile, resulting mainly from the low insurance risk related to its individual non-life and savings-type life businesses, with stability and low risks in Belgium, its main country of operations. Fitch continues to consider the level of reinsurance protection appropriate, in light of the low-risk characteristics of the business underwritten.

Appropriate Reinsurance

Most of the protection purchased is in the form of non-proportional treaties, supplemented by facultative covers (excess of loss per risk and per event). There has not been any other material change to the reinsurance programs in 2018.

Good-Quality Reinsurers

The quality of Ethias's external reinsurance providers is robust (minimum 'A-' rating required). The main carriers are SCOR SE (IFS Rating: AA-/Stable) and Hannover Rueck SE (IFS Rating: AA-/Stable).

Appendix A: Industry Profile and Operating Environment

Regulatory Oversight

Fitch considers regulatory oversight in Belgium as very strong. The Belgian insurance market is highly regulated, with well-developed regulatory practices and supervision processes. As a member of the European Union, Belgium adopted the risk-based Solvency II framework, which came into force on 1 January 2016. The Belgium insurance regulator is focused on ensuring that insurance organisations are viable and their conduct of business is appropriate. Fitch considers the regulator's enforcement as effective.

Technical Sophistication of Insurance Market, Diversity & Breadth

The Belgium insurance market generated EUR27 billion of written premiums in 2017, around 2% of the total in Europe. Fitch believes the market is technically highly sophisticated. This is underpinned by the use of strong and generally accepted actuarial practices for underwriting analysis, calculating claims reserves and product pricing. In addition, the adoption of Solvency II improved the level of sophistication of risk management in the market.

The Belgium insurance market is also well-diversified, with life and non-life representing 56% and 44% of premiums in 2017, respectively. As the market is highly mature, premium growth is low, albeit higher in P&C than in life over the past three years.

Competitive Profile

Fitch believes the Belgium insurance market is very competitive, both in life and non-life. Nevertheless, the market is concentrated, dominated by a few well established, primarily domestic, players (five of which represents around 60% of written premiums). The rest of the market remains fragmented.

Life insurance companies have been successfully repositioning their business to cope with persistently low interest rates in Europe, favouring the distribution of capital-light, unit-linked products. In non-life, the high level of competition, creates pressure on prices, mitigated by a continuing phase of “harder” pricing, as high weather-related claims in 2018 dented earnings compared with 2017.

Financial Markets Development

The Belgian financial market is sophisticated and has considerable breadth and depth, both in its insurance and non-insurance segments. The Belgian stock and bond markets are among the largest globally, providing sufficient liquidity in most traded products. Companies' and financial institutions' access to capital markets is strong.

Country Risk

Belgium's Long-Term IDR is currently ‘AA-’ with a Stable Outlook. Belgium's ratings balance high public-sector indebtedness against high income per capita and macroeconomic stability, a net external creditor position, and governance indicators in line with the 'AA' median.

Peer Comparison

(Currency)	IFS Rating/ Outlook[a]	Total equity	Net income	Financial leverage[c] (%)	Gross written premiums	Reported combined ratio (%)	Return on equity[b] (%)	Solvency II (%)
Ethias	A- /Positive	**2,342**	**193**	**20**	**2,684**	**95**	**8**	**181**
Ageas	A+/Stable	11,520	809	21	8,861	94	9	215
Reale Mutua	A-/Negative	2,567	148	0	4,900	96	6	281[d]
VIVAT	BBB+/Stable	3,541	284	30	2,842	97	-8	192
Achmea	A+/Stable	8,355	315	24	19,918	95	4	198

[a] IFS Ratings of primary operating companies of each group
[b] Group net income/average shareholders' equity
[c] Fitch's own calculation
[d] Includes transitional measures
Source: Fitch Ratings, Ethias

Appendix B: Peer Analysis

Consistent Capitalisation and Profitability

Ethias's peers are the medium-to-large Benelux composite insurers (see peer table below). We also added Reale Mutua, a medium-sized composite Italian insurer. Those insurers have limited exposure to non-domestic markets (except Ageas through AG Insurance).

Ethias's underlying profitability, as measured by combined ratio, is in line with peers in 2018, although it used to be the strongest out of peers in 2017 and 2016. Its profitability, as measured by return on equity, is in line with peers.

Ethias's capitalisation has improved relative to peers over the past few years and its S2 ratio is consistent with the Belgian median. Its financial leverage ratio has remained comparable to those of other Benelux insurance companies.

Appendix D: Other Ratings Considerations

Below is a summary of additional ratings considerations that are part of Fitch's ratings criteria.

Notching

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

Notching Summary

IFS Ratings

For Ethias SA, a baseline recovery assumption of "Good" applies to the IFS Rating, and standard notching was used from the IFS anchor Rating to the implied operating company IDR.

Operating company debt

Not applicable.

Holding company IDR

Not applicable.

Holding company debt

Not applicable.

Hybrids

For the two issues rated by Fitch (EUR402.7m dated debt and EUR250m perpetual debt), a baseline recovery assumption of "Below Average" and a non-performance risk assessment of "Moderate" were used. The ratings are two notches below the IDR, which is based on one notch for recovery and one notch for non-performance risk.

Source: Fitch Ratings

Hybrids – Equity/Debt Treatment

Hybrids Treatment

Issuer – Ethias SA	Amount	CAR Fitch (%)	CAR reg. override (%)	FLR debt (%)
Dated subordinated debt	402.7[a]	0	100	100
Perpetual subordinated debt	250[b]	0	100	100
Dated subordinated debt	75	0	100	100

CAR – Capitalisation Ratio: FLR – Financial Leverage Ratio
For CAR, % indicates portion of hybrid value included as available capital, both before (Fitch %) and after the regulatory override
For FLR, % indicates portion of hybrid value included as debt in numerator of leverage ratio
[a] Issued in two tranches, EUR231.9m in July 2015 and EUR170.8m as tap issue in November 2015
[b] Original amount. Only EUR14.3m remains outstanding following the exchange offer in July 2015
Source: Fitch Ratings

Corporate Governance and Management

None.

Transfer and Convertibility Risk (Country Ceiling)

None.

Criteria Variations

None.

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.