

## **FITCH UPGRADES ETHIAS S.A.'S IFS TO 'BBB+'; OUTLOOK STABLE**

Fitch Ratings-London-27 June 2017: Fitch Ratings has upgraded Ethias S.A.'s Insurer Financial Strength (IFS) Rating to 'BBB+' from 'BBB' and Long-Term Issuer Default Rating (IDR) to 'BBB' from 'BBB-'. The Outlooks are Stable. A full list of rating actions is at the end of this commentary.

The upgrades reflect the completion of Ethias's recovery plan in May 2017 and resulting strengthening of capital profile and reduced exposure to interest rate risk. Ethias is planning further actions aimed at strengthening its capital position, although these may negatively impact profitability in 2017.

### **KEY RATING DRIVERS**

The ratings reflect Ethias's strong capital position, as indicated by Fitch's Prism FBM, good profitability, albeit potentially volatile, and strong franchise in Belgium. Offsetting these factors are Ethias's moderate exposure to interest rate risk, and the reliance of its parent company, Vitrufin, on Ethias for funding the payment of interest and principal on its EUR278 million debt. This is likely to exert pressure on Ethias's capital and cash flow over the next two years.

On 12 May 2017 Ethias announced the completion of the recovery plan that it initiated in October 2016, following a request by the National Bank of Belgium (NBB). The plan comprised strengthening its capital position and reducing the sensitivity of its Solvency II coverage ratio to low interest rates. We expect one further measure outlined by the NBB, financial reinsurance on credit spreads of corporate bonds, to be carried out in 2017. Ethias also integrated Whestia, a small insurance subsidiary, at end-June 2017, marginally benefiting Ethias's solvency position.

The recovery plan included measures to reduce Ethias's exposure to interest-rate risk associated with the capital-intensive 'First A' products, under which guarantees are paid until the policyholder reaches the age of 99. The main measure, a 'Switch VI' offer, where customers were offered a 25% premium on contract value in case of surrenders marked another step in Ethias's efforts to reduce the amount of contracts related to First A products. Since 2014, around 80% of reserves related to these products have been redeemed by policyholders.

Ethias launched a new 'Switch VII' offer on 29 May 2017, offering policyholders of First A products a financial incentive to redeem their contracts. If the offer is successful, Ethias's capital profile is likely to further improve in 2017. The offer closes on 7 July 2017. In addition, Ethias is in discussion with potential buyers for the remaining part of the First A portfolio. The disposal may come at a cost, but it would contribute to significantly reducing Ethias's exposure to interest rate risk.

Ethias has a strong but still volatile capital position, reflecting its exposure to interest-rate risk. At end-2016, Ethias's group regulatory Solvency II ratio was 146%, excluding transitional arrangements. It improved to 157% in 1Q17 following data enhancements. Ethias targets a Solvency II ratio of 150%. Fitch's Prism FBM score for Ethias was 'Strong' based on end-2016 data, after deduction of the Vitrufin debt (2015: 'Strong'). Ethias's financial leverage (FLR) ratio, including Vitrufin's debt, was 28% at end-2016 (2015: 33%).

Vitrufin relies on Ethias for dividends to pay the interest and principal on its EUR278 million debt, which matures in January 2019. Ethias has historically pre-funded all interest expenses related to

the Vitrufin debt via dividend payments that are deducted from Ethias's solvency capital. In 2018, Ethias plans to pay further dividends of EUR278 million (EUR45 million ordinary dividend on 2017 result and EUR233 million as a dividend in account on 2018 result) to Vitrufin.

Ethias's IFRS net income was EUR424 million in 2016, after a profit of EUR638 million in 2015 and a significant loss in 2014 of EUR598 million. Despite the profit in 2016, Ethias's financial performance is sensitive to interest-rate changes and can be volatile.

Fitch estimates that the Switch VII offer could cost Ethias up to EUR150 million, depending on the acceptance rate. Further, the announced intention to dispose the remaining First A reserves could result in a one-off loss for Ethias. This would negatively impact profitability in 2017, despite being positive for Ethias's capital profile.

Ethias is exposed to interest-rate risk as life technical liabilities are subject to relatively high minimum guaranteed returns. However, Fitch views this risk to be reducing as liabilities reduce. Therefore, the agency places limited reliance on the duration gap between assets and liabilities, despite the potential for it to increase with changes in business mix.

#### RATING SENSITIVITIES

The ratings could be upgraded on redemption of Vitrufin's debt and if Ethias's Prism score remains at least "Strong", the Solvency II ratio above 150% and FLR below 25%.

The ratings are likely to be downgraded if Ethias's Prism FBM falls to "Adequate" or FLR increases to above 35%.

#### FULL LIST OF RATING ACTIONS

Ethias S.A.:

IFS Rating upgraded to 'BBB+' from 'BBB'; Outlook Stable  
Long-Term IDR upgraded to 'BBB' from 'BBB-'; Outlook Stable  
Undated subordinated debt upgraded to 'BB+' from 'BB'  
Dated subordinated debt upgraded to 'BB+' from 'BB'

Ethias Droit Commun AAM:

IFS Rating upgraded to 'BBB+' from 'BBB'; Outlook Stable

Contact:

Primary Analyst  
Federico Faccio  
Senior Director  
+44 20 3530 1394  
Fitch Ratings Limited  
30 North Colonnade  
London E14 5GN

Secondary Analyst

Louis Nonchez  
Associate Director  
+33 144 299 176

Committee Chairperson

Willem Loots  
Senior Director  
+44 20 3530 1808

Media Relations: Athos Larkou, London, Tel: +44 203 530 1549, Email: athos.larkou@fitchratings.com.

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

## Applicable Criteria

Insurance Rating Methodology (pub. 26 Apr 2017)

<https://www.fitchratings.com/site/re/897260>

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT [WWW.FITCHRATINGS.COM](http://WWW.FITCHRATINGS.COM). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2017 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001