



## RATING ACTION COMMENTARY

# Fitch Rates Ethias's T2 Subordinated Green Bond 'BBB'

Fri 28 Apr, 2023 - 9:51 AM ET

Fitch Ratings - Paris - 28 Apr 2023: Fitch Ratings has assigned Ethias SA's EUR250 million issue of dated subordinated Tier 2 green notes (ISIN: BE6343437255) a 'BBB' rating.

The notes are rated two notches below Ethias's Long-Term Issuer Default Rating (IDR) of 'A-', which has a Positive Outlook, comprising one notch for 'below average' recovery assumptions and one notch for 'moderate non-performance risk', in line with Fitch's notching criteria.

## KEY RATING DRIVERS

The notes have a final maturity date in May 2033 and an optional call date in November 2032. They have been issued with a fixed coupon of 6.75%. The proceeds will be used to finance or refinance green projects in line with the eligibility criteria presented in Ethias's Green Finance Framework.

We have applied a baseline recovery assumption of 'below average' to the notes, reflecting the level of subordination as well as the fact that Ethias is an operating company. The new subordinated debt ranks pari passu with Ethias's other dated subordinated Tier 2 notes, junior to any senior indebtedness and senior to all classes of share capital and to any junior subordinated indebtedness.

The notes include a mandatory interest deferral that would be triggered if Ethias is unable to meet its applicable solvency capital requirement, minimum capital requirement or any other capital requirement enforced by the relevant supervisory authority with respect to Ethias. Fitch regards the mandatory interest deferral as leading to 'moderate' non-performance risk.

The notes qualify as Tier 2 regulatory capital under Solvency II (S2). Consequently, they will receive 100% equity credit in Fitch's Prism Factor-Based Model, due to the application of the agency's regulatory override. However, given that the notes are a dated instrument, they will be treated as 100% debt in Fitch's financial-debt leverage ratio (FLR) calculation.

Ethias called on 11 April 2023 EUR75 million of Tier 2 debt maturing on 11 July 2023 and has launched a tender offer to repurchase by 2 May 2023 an expected amount of EUR150 million of outstanding subordinated 5.0% notes due 14 January 2026 (ISIN: BE6279619330).

The new issue and the debt buy-back are expected to result in a net debt increase of about EUR25 million, which has a marginal negative effect on Ethias's FLR. Ethias's fixed-charge coverage would weaken slightly as the new notes have been issued on less favourable terms than the notes that are being bought back. However, the higher net amount issued benefits the insurer's capitalisation.

The transactions are neutral to Ethias's ratings.

## **RATING SENSITIVITIES**

**Factors that could, individually or collectively, lead to positive rating action/upgrade:**

--An upgrade of Ethias's Long-Term IDR would be reflected in the notes' ratings

**Factors that could, individually or collectively, lead to negative rating action/downgrade:**

-A downgrade of Ethias's Long-Term IDR would be reflected in the notes' rating

## **BEST/WORST CASE RATING SCENARIO**

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

## DATE OF RELEVANT COMMITTEE

11 April 2023

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡	PRIOR ⚡
Ethias SA		
subordinated	LT BBB	New Rating
		BBB(EXP)

[VIEW ADDITIONAL RATING DETAILS](#)

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**APPLICABLE CRITERIA**[Insurance Rating Criteria \(pub. 15 Jul 2022\) \(including rating assumption sensitivity\)](#)**ADDITIONAL DISCLOSURES**[Dodd-Frank Rating Information Disclosure Form](#)[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

Ethias SA

EU Issued, UK Endorsed

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