

FITCH ASSIGNS ETHIAS'S DATED SUBORDINATED NOTES FINAL 'BB' RATING

Fitch Ratings-London-03 November 2015: Fitch Ratings has assigned Ethias SA's EUR170.8m TAP issue of dated subordinated notes a final 'BB' rating. The TAP issue is part of ISIN code BE6279619330. The aggregate principal amount of the notes will be EUR 402,700,000.

KEY RATING DRIVERS

Ethias has issued subordinated debt to support its capital position ahead of Solvency II.

According to the terms and conditions, the new bond qualifies for Tier 2 capital recognition under Solvency II. Under Fitch's methodology, this instrument is treated as 100% debt in Fitch's financial leverage calculation. As a result, Ethias's financial leverage ratio (FLR) increases to 33% based on a pro-forma calculation using 1H15 financials, from 25% pre-issuance.

The increase in leverage is partially offset by the improvement in capital adequacy, as measured by Fitch Prism FBM, as the new debt is treated as 100% capital for this purpose due to the application of the regulatory override. Ethias has an 'Adequate' Prism FBM score, taking into account the debt issue. However, Ethias's total available capital consists of a significant amount of hybrid debt, which reduces the quality of capital.

The new issue matures in 2026. The notes are subordinated to senior creditors, rank pari passu with dated subordinated securities and senior to any undated subordinated securities issued by Ethias. It will be mandatorily deferrable if certain solvency conditions are met.

The subordinated debt is rated two notches below Ethias's Long-term Issuer Default Rating (IDR) of 'BBB-'. This reflects a 'Below Average' recovery assumption (one notch) and 'Moderate' risk of non-performance (one notch). The instrument will mandatorily defer coupon payments if a regulatory deficiency event occurs. Under Solvency II, this would result if own funds are insufficient to cover the Solvency Capital Requirement or Minimum Capital Requirement.

RATING SENSITIVITIES

Any change to Ethias's IDR is likely to result in a corresponding change of the subordinated debt rating.

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Date of Relevant Rating Committee: 13 October 2015

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