Ethias S.A

Full Rating Report

Ratings

Ethias S.A.

Insurer Financial Strength Rating	BBB+
Long-Term Foreign-Currency IDR	BBB
Undated subordinated debt	BB+

Ethias Droit Commun AAM

Insurer Financial Strength Rating	BBB+

Sovereign Risk

Long-Term Foreign-Currency IDR	AA
Long-Term Local-Currency IDR	AA

Outlooks

Insurer Financial Strength Ratings	Stable
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Financial Data

Ethias S.A

(EURm)	2013	2012
Total adjusted equity	1,295	1,207
Total assets	20,533	22,203
Net income	110	180
Gross written premiums	2,716	2,473

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Key Rating Drivers

Strong Capital Adequacy: Ethias S.A's capital adequacy improved significantly in 2012 and 2013 and is now strong for the 'BBB' rating category. The improvement resulted mainly from a strong level of net income and was after the payment of a dividend. Ethias's Solvency I ratio was 190% at end-2013 (2012: 184%; 2011: 158%).

Improved Financial Profile: In 2013, Ethias increased its earnings and strengthened its capital, as in 2012. This followed several years of reorganisation, including significant repricing and restructuring of the business. Given these changes, Fitch Ratings expects the improvement in the financial profile to continue.

Litigation Risk Mitigated: The dispute between Ethias and the Belgian tax authority remains unresolved. Ethias has not reserved for the full exposure of EUR365m as it is confident of a positive outcome to the dispute. However, Fitch believes that Ethias's level of risk-adjusted capitalisation is sufficient to withstand the full potential loss without falling below the 'BBB' category.

Robust Profitability: In 2013, profitability remained robust at EUR226m before dividends. Technical non-life profitability was also strong, reflected in a Fitch-calculated combined ratio of 91% (2012: 92%). Profitability of the life business was satisfactory with technical income of EUR28m (2012: EUR58m) before "reserve clignotante".

Relatively High Investment Risk: At end-2013, the ratio of risky assets to equity was 144% (excluding the "reserve clignotante" of EUR589m), much reduced from 312% at end-2009 but still high for the rating category and compared with peers. Fitch expects this improving trend to continue as the company builds its capital base.

Restructuring Nearly Complete: In June 2014, the European Commission (EC) announced that all restructuring measures had been successfully implemented, with the exception of full disengagement from the retail life business. The EC recognised that current market conditions do not allow Ethias to exit retail life without making a loss on the business; it therefore ordered the company to continue to disengage on a best efforts basis.

Rating Sensitivities

Upgrade Unlikely: An upgrade is unlikely in the near term. However, a reduction in the ratio of risky assets to equity to below 90% (2013: 144%), with the non-life combined ratio maintained below 95% and capital at a strong level, could lead to an upgrade.

Weakening Capitalisation, Poor Profitability: Key triggers for a downgrade include a decline in the Solvency I ratio to 150% without the ability to recover within a short period (2013: 190%), or failure to maintain an adequate level of profitability, reflected in a Fitch-calculated combined ratio consistently above 100% (2013: 91%).

Market Position and Size/Scale

Strong Position in Domestic Market

- Solid business position concentrated on Belgian market
- EC's commitments fulfilled, restructuring near completion
- Efficient distribution channel

Solid Business Position Concentrated on Belgian Market

Ethias has a solid business in the Belgian insurance market. It was the fourth-largest insurer in 2012 by gross written premiums (GWP), with a market share of 7.7% (11.3% in non-life insurance and 5.8% in life insurance). Ethias has strong historical links with Belgian local public organisations, with a market share of more than 80% in this sector.

The majority of Ethias's product range is aimed at public authorities, such as the federal state of Belgium, regions, communities, provinces, more than 580 towns and communes, schools and hospitals but also private companies. Since May 2010, Ethias has not been allowed to offer life insurance to individuals, following the ruling of the EC. Non-life insurance such as motor, household and health insurance, is offered to individuals.

In 2013, Ethias's GWP increased 10% to EUR2.7bn. This growth was achieved through a significant increase in the life business (up 17.3%) driven by single premium business from local authorities and moderate growth in non-life (up 2.4%). Most of Ethias's life premiums are savings-type products. In 2013, 95% of life premiums related to group life business and the remainder comprised the remaining run-off book of individual life but also a small amount of life reinsurance and unit-linked business. The non-life business is well diversified. In 2013, motor business was Ethias largest line (35% of premiums), followed by accident and health (21%), fire and other property (14%), healthcare (13%), third-party liability (9%) and other (8%).

EC's Commitments Fulfilled, Restructuring Near Completion

On 12 June 2014, the EC acknowledged the completion of a number of items of the initial restructuring plan and made changes to the outstanding ones. The restructuring plan was initially implemented in May 2010, when the EC required Ethias, in return for support received from the Belgian authorities, to dispose of some of its activities and to significantly improve its underwriting performance.

Ethias had fulfilled all requirements imposed by the EC, with the exception of the disposal of its retail life insurance activity and payment of dividends to its public shareholders. However, the EC recognised that this had not been possible because of market conditions and the uncertainty of capital requirements under Solvency II.

The revised commitments recognise that the run-off of the retail life business will take longer than originally expected. While the EC still requires Ethias to maintain technical profitability and risk management practices in line with market best practice, Fitch recognises that Ethias has outperformed the market for three consecutive years. The EC has also permitted Ethias to resume sales of unit-linked and protection policies.

Efficient Distribution Channel

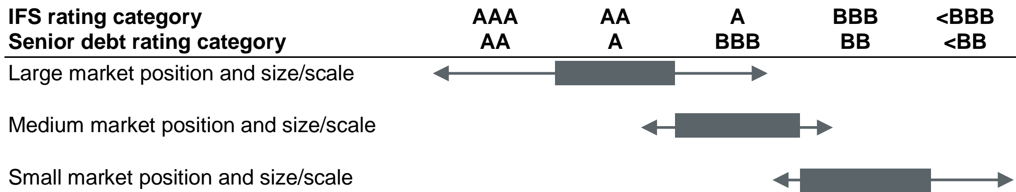
Ethias distributes almost all of its business through salaried sales staff who deal with individual clients, and insurance inspectors who deal with public corporate clients, mostly local governments and state-related organisations. All products offered by Ethias to individual clients are marketed directly through offices or via the internet and call centres.

Related Criteria

Insurance Rating Methodology (September 2014)

Figure 1

Ratings Range Based on Market Position and Size/Scale



Source: Fitch

Ownership is Neutral to Rating

Ethias was formed in 1919 as Société Mutuelle des Administrations Publiques (Insurance Mutual for Local Public Authorities; SMAP). One of its objectives was to offer its members – local government organisations – lower tariffs than those generally available from traditional insurers. In 2003, SMAP was renamed Ethias, which originally comprised four mutual insurance companies and their subsidiaries.

The group suffered from severe difficulties in the wake of the global financial crisis, and at end-2008 its legal structure had to be changed to allow the Belgian public authorities to recapitalise it. Operational activities were placed in a limited-liability company (Ethias), owned by the holding company Vitrufin, of which the Belgian public authorities own 75% and Ethias Droit Commun AAM, one of the group's historical component companies, holds 25%.

Ethias Droit Commun (the only mutual insurance company left in the group) includes a portion of workers' compensation business, which accounts for less than 6% of the group's premiums. The company has a 95% quota share reinsurance treaty with Ethias.

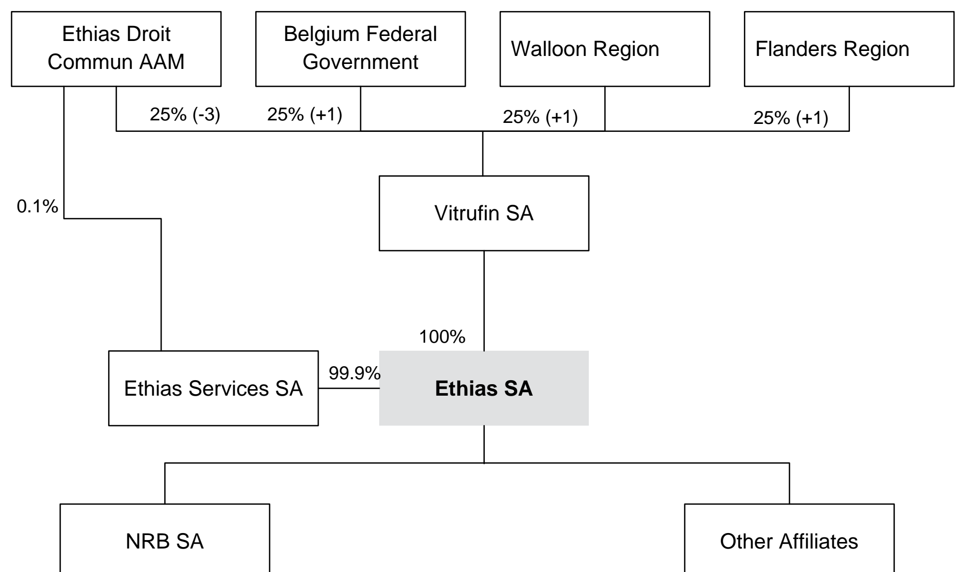
Fitch believes that the Belgian authorities would provide additional support to the group should the need arise. However, the ratings are based on the company's stand-alone profile and do not factor in any potential state support.

Corporate Governance and Management

Corporate governance and management are effective and neutral to the ratings. In 2009, Ethias reorganised its management structure to clearly assign tasks and management responsibilities. It entirely redesigned its internal reporting system, allowing for regular and frequent management reporting on key activities: business operations, investment and risk management.

Figure 2

Structure Diagram at June 2013



Source: Ethias

Sovereign and Country- Related Constraints

Fitch rates the sovereign obligations of Belgium at 'AA' with a Stable Outlook. The Country Ceiling is 'AAA'. The Country Ceiling expresses the maximum limit for foreign-currency ratings of most, but not all, issuers in a given country. Given these very high levels, the ratings of Belgian insurance organisations and other corporate issuers are not likely to be constrained by sovereign or macroeconomic risks, and in the case of Ethias, no constraints are biting.

Industry Profile and Operating Environment

Mature Market Under Pressure

Belgium is a mature insurance market, with total premiums of EUR29bn (end-2013), of which EUR17bn relates to life insurance, mostly savings. The non-life market is dominated by motor and household insurance.

In 2013, total insurance premiums fell by 10%, returning to the level of 2011. The decrease was driven by a significant decline in life premiums, while non-life premiums increased slightly. This followed an increase of 10% in 2012, when premiums rose for the first time after five years of stagnation. Growth in 2012 was driven mainly by savings products with guaranteed interest rates but also by unit-linked savings products. However, demand for such products can be volatile, reflecting financial markets.

Belgian insurers' profitability has been volatile over the past five years, due to significant financial market movements, especially in 2008 and 2011, and natural catastrophes that affected the country in 2007 and 2010.

At an industry level, net profit was negative in 2008 (equivalent to minus 11% of written premiums), while 2009-2010 results were positive but below the historical average. Fitch expects profitability to remain volatile, reflecting fierce competition and movements in the financial markets.

Special Reserve Now Mandatory

Following a continual decline in returns on government bonds, the Belgian regulator introduced a mandatory special reserve in 1992, the "reserve clignotante", requiring companies to put aside a special reserve for all contracts that have guaranteed interest rates 10bp higher than a defined fixed rate, the "taux clignotant". Companies that were able to demonstrate that they operated a prudent asset-liability management policy were freed from this requirement.

However, in light of persistent low interest rates, the regulator has removed the special dispensation clause and has ordered all companies to set aside the special reserve relative to the "taux clignotant". This is regardless of their previous asset/liability management and reserving positions. Under Belgian GAAP, the special reserve is shown as a reserve, whereas under IFRS accounting it is part of the company's shareholders' funds.

Peer Analysis

Major Direct Insurer in the Belgian Market

Ethias is the only major direct insurer in Belgium, where brokers and bancassurance business models are strong. Geographical diversification and business lines differ substantially between companies. Ethias's activities are focused in Belgium, while some of the other competitors' insurance business also comes from central European countries. Ethias focuses on its strong links with Belgian local public organisations, where it has a market share of more than 80%.

In 2013, Ethias outperformed the market in premium growth and technical profitability.

In 2012 (latest available industry numbers), Ethias had a 7.7% market share (5.8% in life, 11.3% in non-life), below that of AG Insurance (21.3%), KBC Insurance (14.8%) and AXA Belgium (13.1%) but above Belfius Insurance (7.4%; not rated). The five largest Belgian insurers accounted for a combined 83% market share.

Figure 3
Peer Comparison

(EURm)	IFS Rating/Outlook	Total assets	Equity	GWP	Net income	Combined ratio (%)	Solvency I ratio (%)
AXA Belgium	AA−/Stable	n.a.	n.a.	4,062	401	94	n.a.
Ageas	A+/Stable	n.a.	3,676	6,000[a]	335	99	183
KBC Verzerkeringen	A−/Stable	35,933	3,295	4,257	468	94	281
Ethias	BBB+/Stable	20,533	1,263	2,716	110	91	190
Groupama	BBB/Positive	89,610	5,669	13,404	283	103	200
ITAS Mutua	BBB/Stable	2,534	272	617	2	103	186

Reporting standards: Groupama, AXA Belgium, ITAS Mutua, Ageas and KBC Verzerkeringen report under IFRS; Ethias reports under Belgian GAAP
[a] Gross inflows; Ageas Belgium does not report GWP
Source: Company accounts, Fitch

Figure 4

Capitalisation and Leverage

(EURm)	2009	2010	2011	2012	2013	Fitch's expectation
Total adjusted equity	1,206	1,151	1,063	1,207	1,295	Fitch expects capitalisation to continue to gradually improve. Results for 2012 and 2013 showed the benefits of management actions since 2009.
Change in equity (%)	4.5	-4.6	-7.6	13.5	7.3	
Financial leverage ratio (%)	57	26	26	23	21	
Regulatory solvency ratio (%)	171	162	158	184	190	
Net written premiums to equity (non-life) (x)	0.9	1.0	1.1	1.0	0.9	
Net leverage (non-life) (x)	3.5	3.8	4.2	3.7	3.5	
Operating leverage (life) (x)	12.6	13.3	14.1	11.0	10.8	

Source: Ethias annual reports, Fitch

Strong Capital

- Capital supportive of ratings
- Litigation risk persists, albeit tempered by improved capital position
- Exposure to shareholdings in Dexia removed
- Significant unrealised gains
- Likely external support

Capital Supportive of Ratings

Fitch considers Ethias's capitalisation as strong and supportive of its ratings. In 2013, Ethias's regulatory solvency continued to rise, supported by retained earnings, to reach 190% (excluding unrealised capital gains). The successful implementation of the EC's requirements suggests that the capital position is likely to prove more robust than previously.

Fitch believes that the progressive run-down of the retail life portfolio provides an opportunity for the company to strengthen its capital adequacy in future years.

Litigation Risk Persists, Albeit Tempered By Improved Capital Position

The dispute between Ethias and the Belgian tax authority is unresolved but the company is confident of a favourable outcome. Losing the case would result in a loss of EUR365m, which would have to be paid out of the company's own funds, reducing the company's solvency ratio to an estimated 145% based on end-2013 figures. However, Fitch believes that Ethias's risk-adjusted capitalisation is sufficient to withstand the full potential loss without falling below the 'BBB' category.

Exposure to Shareholdings in Dexia Removed

Vitrufin issued EUR278m of bonds in 2012 to buy Ethias's holding of Dexia shares. Ethias's holding has been fully sold, so all related risks have been removed. Dividend payments from Ethias to the holding company Vitrufin are conditional on the regulatory solvency ratio being at least 150%, which limits possible financial drag from the holding company.

Significant Unrealised Gains

Unrealised gains on Ethias's bond portfolio are significant (end-2013: EUR829m), reflecting the volatility of Belgian government bond yields over the past two years. Unrealised gains are not included in shareholders' equity under Belgian GAAP.

Likely External Support

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

Figure 5

Debt Service Capabilities and Financial Flexibility

(x)	2009	2010	2011	2012	2013	Fitch's expectation
Fixed charge coverage ratio (incl. realised and unrealised gains)	1.2	-10.6	-3.1	10.1[a]	5.6[a]	Fitch expects the fixed charge coverage ratio to remain around the 2013 level as profitability stabilises.
Fixed charge coverage ratio (excl. realised and unrealised gains)	-1.5	13.1	16.2	17.1[a]	3.9[a]	

[a] Excludes interest charge related to Vitrufin SA subordinated debt
Source: Ethias annual reports, Fitch

Financial Flexibility Relies on Belgian Public Authorities

- Indirect debt burden from holding company
- Fixed charge coverage commensurate with ratings

Indirect Debt Burden From Holding Company

In 2012, Vitrufin issued debt to buy the Dexia shares from Ethias. However, Vitrufin relies on Ethias for the payment of interest and principal on the EUR278m debt through the payment of dividends. In 2013, Ethias paid EUR25m (2012: EUR40m) in dividends. Dividend payments are conditional on the regulatory solvency ratio being at least 150%, which limits financial drag from the holding company.

Fixed Charge Coverage Commensurate With Ratings

In 2013, net income was EUR110m (2012: EUR180m), which resulted in a fixed charge coverage ratio of 5.6x (2012: 10.1x), excluding the indirect debt burden from Vitrufin. This is commensurate with the ratings.

With the addition of the interest paid by Vitrufin to Ethias's own direct interest expenses, its fixed charge coverage would have been 2.3x excluding realised and unrealised gains and 3.1x including realised and unrealised gains. These ratios are also commensurate with Ethias's ratings.

The bonds issued by Vitrufin will expire in 2019.

Figure 6

Financial Performance and Earnings

(EURm)	2009	2010	2011	2012	2013	Fitch's expectation
Net income	38	-199	-25	180	110	Fitch expects financial performance and earnings to stabilise, reflecting the fundamental changes that have been made to the company's financial profile since 2010.
Net income before "reserve clignotante"	--	--	--	--	226	
Net combined ratio (%)	101.7	101.5	78.6	92.0	91.0	
Net income return on equity (%)	9.0	-16.9	-2.3	16.0	8.8	
Pre-tax operating return on assets (excl unrealised gains) (%)	-0.3	1.1	1.4	1.5	0.3	
Pre-tax operating return on assets (incl unrealised gains) (%)	0.2	-0.9	-0.3	0.9	0.5	

Source: Ethias annual reports, Fitch

Satisfactory Profitability

- Profitability tempered by special reserve
- Strong non-life performance
- Group life growing
- Stabilisation of underwriting performance expected

Profitability Tempered by Special Reserve

In 2013, profitability was satisfactory at EUR226m before dividends (2012: EUR220m). However, this result fell to EUR110m after the effect of the "reserve clignotante".

Strong Non-Life Performance

Ethias's net result is derived mainly from non-life activity. The technical non-life result for Ethias was a strong EUR201m in 2013 (2012: EUR189m), predominantly due to favourable weather conditions in 2013. The net combined ratio for the group was 91% in 2013 (2012: 92%). Tight control of operating costs is key to the group's strategy.

Group Life Growing

Total life premiums grew 17% in 2013, driven mainly by group life business. In past years, Ethias has seen a solid recovery in sales of group life products, which is the life market in which it has historically operated.

Group life and pensions premiums, which accounted for 95% of life premiums in 2013, increased more than 20% in 2013. Fitch does not view this growth as excessive. It was predominantly driven by the addition of single premium business from public authorities in Belgium, Ethias's core area of expertise.

Individual life premiums were down almost 30% as no new retail life policies have been underwritten since May 2010 due to the EC's directives.

Stabilisation of Underwriting Performance Expected

Fitch expects underwriting profitability to be more stable than in the past, reflecting corrective measures in tariff increases and the modification of certain product features. The expected stabilisation, especially from the non-life segment, reflects fundamental changes such as the discontinuation of unprofitable business and the raising of tariffs. Fitch therefore expects the stability to endure.

However, some of the improvements reflect the benign claims environment, especially in the non-life segment in recent years.

Figure 7

Investment and Asset Risk

(%)	2009	2010	2011	2012	2013	Fitch's expectation
Risky assets to equity[a]	312	297	182	144	144	Fitch expects the group's investment policy to remain unchanged. However, the agency believes that the risky assets to equity ratio will fall over time as shareholders' equity grows.
Unaffiliated shares to equity	99	67	65	37	36	
Non-investment grade bonds to equity	47	87	67	61	61	
Investments in affiliates to equity	166	143	50	46	47	

[a] This ratio is a combination of unaffiliated common stock, investments in affiliates and non-investment grade bonds. All investments at book value
Source: Ethias annual reports, Fitch

High Proportion of Risky Investments

- De-risking of invested assets
- Reinvestment challenges persist

De-Risking of Invested Assets

At end-2013, the ratio of risky assets to equity was 144%, much reduced from 312% at 2009. While Fitch views this development as positive for the ratings, the ratio remains high for the rating category and compared with peers.

At end-2013, the investment breakdown at book value was: 74% bonds, 5% equities (including affiliates), 6% loans and mortgages, 6% deposits with cedents, 5% cash and cash equivalents, 3% unit-linked and 1% real estate. The proportion of equities, at 5% of invested assets, is in line with Belgian peers.

The credit quality of the life and non-life bond portfolios is adequate, with an average rating of 'BBB+'. This measure is a risk-weighted average taking into account the second-highest rating available on each instrument.

Reinvestment Challenges Persist

Ethias took advantage of the high yields offered by Belgian government bonds in 2011 to reinvest in these instruments. The proportion of Belgian government bonds in the company's total assets was 25% at end-2013.

However, the group faces challenges when it seeks to reinvest because prevailing yields available in the financial markets remain low.

Figure 8
Asset/Liability and Liquidity Management

(%)	2009	2010	2011	2012	2013	Fitch's expectation
Liquid assets to net technical reserves (non-life)	98	91	90	92	84	Fitch does not expect material changes in liquidity management.
Liquid assets to policyholder liabilities (life)	94	88	88	89	82	

Liquid assets: Unaffiliated equities, cash and cash equivalents and investment-grade bonds
Source: Ethias annual reports, Fitch

Liquidity Closely Monitored

- Surrenders in retail life monitored closely
- Guaranteed rates covered by coupon payments

Surrenders in Retail Life Monitored Closely

During the financial crisis, and especially around end-2008, Ethias suffered liquidity pressure due to withdrawals by clients of their investments in its main individual life products, as there was no penalty on policyholder surrender. At the request of the EC, Ethias has not underwritten any new retail life products since May 2010. The company expects high levels of surrenders, which will be monitored by management.

Individual life mathematical reserves continue to decrease and were EUR5,819m in 2013 (2012: EUR7,193m).

Guaranteed Rates Covered by Coupon Payments

The average coupon rate on Ethias's bond portfolio is sufficient to cover the investment rates guaranteed to policyholders.

The average coupon was 3.92% for the life bond portfolio at end-2013, compared with average guaranteed rates of 3.22% for the group life portfolio and 2.99% for the retail life portfolio (end-2013).

Figure 9
Reserve Adequacy

(%)	2009	2010	2011	2012	2013	Fitch's expectation
Net technical reserves to net written premiums	267	271	274	275	275	Fitch expects reserves to remain adequate, in line with the group's prudent reserving practices.
Net technical reserves to net earned premium	269	272	272	277	278	

Source: Ethias annual reports, Fitch

Adequate Reserves

- Prudent non-life reserves
- Life reserves considered adequate by Belgian regulator

Prudent Non-Life Reserves

Fitch believes that Ethias's level of technical provisions is prudent, in light of regulatory requirements and practices in Belgium. Despite significant reserves releases in 2011, Fitch regards the overall reserving as adequate. This view is supported by the level of reserve redundancies at end-2012 and end-2013.

Life Reserves Considered Adequate by Belgian Regulator

The guarantee profile for the life insurance book has improved in recent years, as Ethias has reduced its exposure to higher-rate guarantees. In 2013, the average guaranteed interest rate on the main individual life insurance product, "First", was stable at 3.21% (2012: 3.18%).

The average guaranteed interest rate for group pensions is 3.6%. This level of guarantee is relatively high, but the Belgian regulator has stated that the reserves for this business are adequate.

Figure 10

Reinsurance, Risk Management and Catastrophe Risk

(%)	2009	2010	2011	2012	2013	Fitch's expectation
Reinsurance recoverables to equity	8.2	3.3	6.7	3.3	5.0	Fitch does not expect any material change to Ethias's reinsurance programme.
Net written premiums to gross written premiums	94.6	94.2	95.4	96.1	96.4	

Source: Ethias annual reports, Fitch

Reinsurance and Risk Mitigation Appropriate

- Reinsurance of limited importance
- Good-quality reinsurers

Reinsurance of Limited Importance

The group is not a big purchaser of reinsurance, as shown by its high retention rates, averaging 98% in life insurance and 95% in non-life insurance in 2013. 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. Fitch considers the level of reinsurance protection to be appropriate, in light of the low-risk characteristics of business underwritten.

Good-Quality Reinsurers

Most of the protection purchased is in the form of non-proportional treaties, supplemented by facultative covers. The quality of Ethias's external reinsurance providers is robust. The main carriers are SCOR S.E. (IFS rating: A+/Positive) and Hannover Re SE (IFS rating: AA-/Stable).

Figure 11

Ethias Droit Commun AAM

(EUR000)	2009	2010	2011	2012	2013	Fitch's expectation
Gross premiums	135,175	145,912	144,416	153,562	158,560	Fitch expects Ethias Droit Commun to continue its moderate growth pace and maintain robust profitability.
Net premiums	6,155	7,373	7,113	10,427	10,807	
Net income	591	1,416	1,404	3,053	2,406	
Net premiums to equity (x)	0.01	0.01	0.01	0.02	0.02	
Shareholders' funds	512,917	514,333	515,737	518,790	521,196	
Technical provisions	926,954	967,456	942,025	995,637	1,024,946	

Source: Fitch

Mutual Company With Strong Capital

- Strong capitalisation
- Niche player
- Holding company's shareholder

Strong Capitalisation

Capitalisation is strong at the group's mutual company Ethias Droit Commun, with the regulatory solvency ratio at 3,376% at end-2013 (2012: 3,306%). The high level of solvency coverage is due to a combination of the low amount of premiums retained in the group due to the 95% quota share agreement with Ethias S.A. and the high absolute amount of own funds. Ethias Droit Commun is the only mutual insurance company left in the group.

Niche Player

Ethias started to sell public agents' workers' compensation insurance products in Belgium in 1924. Due to its long experience and historical links it is now the leader in this market, with EUR159m of gross premiums underwritten in 2013.

Holding Company's Shareholder

Ethias Droit Commun held 25% of the group's holding company, Vitrufin, at end-2013. This participation represents almost one-third of its total invested assets. Fitch does not expect significant changes in the company's activity, structure or management in the coming years.

Appendix: Other Ratings Considerations

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

Group IFS Rating Approach

Ethias S.A is the group's main operating entity. Fitch also regards Ethias Droit Commun as a "Core" entity under the agency's insurance group rating methodology because it is 95% reinsured by Ethias S.A and has a 25% share in Ethias's holding company, Vitrufin. Ethias S.A and Ethias Droit Commun share the same IFS rating based on Fitch's evaluation of the group as a whole.

Notching

European primary insurers, including those in Belgium, operate in what Fitch characterises as a "Strong" regulatory environment, due to priority of policyholder claims as well as payment restrictions from operating to holding companies and a strong capital regime.

Notching Summary

Holding Company

Not applicable.

IFS Ratings

Due to policyholder priority, a baseline recovery assumption of "Good" is used for the IFS rating, and based on standard notching it is one notch above the company's IDR.

Debt

Not applicable (no rated debt issues).

Hybrids

The subordinated debt of Ethias is rated using a baseline recovery assumption of "Below Average". In addition, it is designated by Fitch as having "Material" loss absorption features (such as the ability to defer coupons). Based on the combination of these two characteristics, standard notching was applied, placing the ratings two notches below the IDR of Ethias.

Hybrids – Equity/Debt Treatment

Figure 12
Hybrids Treatment

Hybrid	Amount	CAR Fitch (%)	CAR Reg. override (%)	FLR debt (%)
Ethias S.A.				
Subordinated debt	250	0	100	100
Subordinated debt	75	0	100	100

CAR – capitalisation ratio: FLR – financial leverage ratio
For CAR, % tells portion of hybrid value included as available capital, both before (Fitch %) and after the regulatory override
For FLR, % tells portion of hybrid value included as debt in numerator of leverage ratio
Source: Fitch

Exceptions to Criteria/Ratings Limitations

None.

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