FITCH PLACES ETHIAS S.A. ON RATING WATCH POSITIVE

Fitch Ratings-London-12 September 2016: Fitch Ratings has placed Ethias S.A.'s Insurer Financial Strength (IFS) rating and Long-Term Issuer Default Rating (IDR) on Rating Watch Positive (RWP). The debt issued by Ethias has also been placed on RWP. A full list of rating actions is at the end of this commentary.

The rating actions follow Ethias's announcement that it is considering a plan aimed at strengthening its Solvency II position and reducing the sensitivity of its Solvency II coverage ratio to changes in interest rates. Resolution of the RWP will be dependent on the successful completion of the plan.

KEY RATING DRIVERS
Fitch understands that the National Bank of Belgium (NBB) has asked Ethias to implement a plan to strengthen the company's capital position and reduce the volatility of its Solvency II coverage ratio and its sensitivity to lower interest rates. The plan may include 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.

Ethias has an adequate but volatile capital position, reflecting its exposure to interest-rate risk due to the relatively high level of minimum guaranteed returns in its life insurance business and the duration gap between the corresponding assets and liabilities.

At end-2015, Ethias's group regulatory Solvency II ratio was 132%, excluding transitional arrangements. When transitional arrangements on technical provisions are included, the ratio improves to 179%. However, the group Solvency II margin is sensitive to interest rate changes. It fell to 125% (excluding transitional arrangements) in 1H16, driven by the decline in interest rates.

Ethias is exposed to interest-rate risk as life technical liabilities are subject to high minimum guaranteed returns and there is a duration gap between assets and liabilities in the life accounts. However, the gap shrank significantly to 3.2 years in 2015 from 8.7 years in 2014, following the Switch IV operation and the purchase of hedging derivatives.

Ethias is the main operating entity of the Ethias group. We also consider Ethias Droit Commun AAM to be a 'Core' entity of the group under our group rating methodology. It is 95% reinsured by Ethias through a quota-share agreement, and has a 25% share in Ethias's holding company, Vitrufin. Ethias Droit Commun AAM has the same IFS rating as Ethias, based on Fitch's evaluation of the strength of the group as a whole.

RATING SENSITIVITIES
The ratings could be upgraded on completion of the plan if there is a material improvement in Ethias's capital position under both Solvency II and Fitch's Prism factor-based capital model (Prism FBM), together with evidence of significantly reduced exposure to interest-rate risk.

The ratings are likely to be affirmed if Ethias does not implement the plan, fails to materially strengthen its capital position under Solvency II or Prism FBM, or does not significantly reduce its exposure to interest-rate risk.

FULL LIST OF RATING ACTIONS

Ethias S.A.:

IFS rating 'BBB' placed on RWP
Long-Term IDR 'BBB-' placed on RWP
Undated subordinated debt 'BB' placed on RWP
Dated subordinated debt 'BB' placed on RWP

Ethias Droit Commun AAM:
IFS rating 'BBB' placed on RWP

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

Secondary Analyst
Anastasia Litvinova
Director
+7 495 956 7082

Committee Chairperson
David Prowse
Senior Director
+44 20 3530 1250

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

Additional information is available on www.fitchratings.com

Applicable Criteria
Insurance Rating Methodology (pub. 17 May 2016)
https://www.fitchratings.com/site/re/881564