FitchRatings

FITCH ASSIGNS ETHIAS'S DATED SUBORDINATED NOTES 'BB(EXP)' RATING; DOWNGRADES IFS TO 'BBB'

Fitch Ratings-London-14 October 2015: Fitch Ratings has assigned Ethias SA's proposed issue of dated subordinated notes a 'BB[EXP]' rating. At the same time, Fitch downgraded Ethias' Insurer Financial Strength (IFS) rating to 'BBB' from 'BBB+' and Long-Term Issuer Default Rating (IDR) to 'BBB-' from 'BBB'. The Rating Outlook is Stable. A full list of rating actions is available at the end of this commentary.

Fitch has also downgraded Ethias's existing subordinated debt to 'BB' from 'BB+', in line with the one-notch downgrade of the IDR.

KEY RATING DRIVERS
The downgrade of Ethias's ratings reflects the expected increase in financial leverage ratio (FLR); the company plans to issue subordinated debt to support its capital position ahead of Solvency 2.

According to the terms and conditions, the new bond qualifies for Tier 2 capital recognition under Solvency 2. Under Fitch's methodology, this instrument is treated as 100% debt in Fitch's financial leverage calculation.

Partially offsetting the increase in leverage, capital adequacy, as measured by Fitch Prism FBM, is expected to improve, as the new debt is treated as 100% capital for this purpose. Ethias is expected to have an 'Adequate' Prism FBM score, taking account of the proposed debt issue. However, Ethias's total available capital would then consist of a significant amount of hybrid debt, which reduces the quality of capital.

The new issue is expected to mature in 2026. The notes will be 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 IDR of 'BBB-'. This reflects a 'Below Average' recovery assumption and 'Moderate' risk of non-performance. 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.

Factors that could trigger a downgrade of Ethias's ratings include:
-Failure to maintain an 'Adequate' Prism FBM Score in 2015
-Financial Leverage Ratio (FLR) increasing above 40%
-Failure to maintain a strong level of non-life technical profitability, as reflected in a combined ratio above 100% (2014: 89.2%)

Conversely, improved capitalisation and leverage coupled with a reduction in the ratio of high risk assets to equity to below 90% (2014: 143%) could lead to an upgrade.

Ethias S.A.:

IFS rating: downgraded to 'BBB' from 'BBB+'; Outlook Stable
Long-term IDR: downgraded to 'BBB-' from 'BBB'; Outlook Stable
Undated subordinated debt: downgraded to 'BB' from 'BB+'
Dated subordinated debt: downgraded to 'BB' from 'BB+'
Dated subordinated debt: assigned 'BB[EXP]'

Ethias Droit Commun AAM:
IFS rating: downgraded to 'BBB' from 'BBB+'; Outlook Stable

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Additional information is available on www.fitchratings.com

Applicable Criteria
Insurance Rating Methodology (pub. 16 Sep 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=871172