

## **FITCH AFFIRMS ETHIAS S.A.'S IFS AT 'BBB+' FOLLOWING LOSS OF TAX DISPUTE**

Fitch Ratings-London-17 December 2014: Fitch Ratings has affirmed Ethias S.A.'s (Ethias) Insurer Financial Strength (IFS) rating at 'BBB+' and Long-term Issuer Default Rating (IDR) at 'BBB'. The Outlooks are Stable. Concurrently, Fitch has also affirmed Ethias's subordinated debt at 'BB+'. A full list of rating actions is at the end of this comment.

### **KEY RATING DRIVERS**

The affirmation reflects Fitch's view that Ethias's risk-adjusted capitalisation will remain strong despite the unfavourable outcome of the company's dispute with the Belgian tax authorities, announced on 28 November 2014. Ethias will have to book a loss of EUR377m as a result of the outcome but Fitch expects the company to return to profitability in 2015, given its robust underlying underwriting performance.

Ethias expects to transfer the full disputed amount of EUR377m to loss reserves in 2014, despite the possibility of seeking further appeals on points of law. Fitch expects the resulting loss to be partly offset by a robust performance of the underlying business and realisation of capital gains. In 2013, operating profitability was strong at EUR226m before dividends (2012: EUR220m) with a strong technical profitability in non-life insurance, reflected in a combined ratio of 91% (2012: 92%).

Despite the loss, Fitch expects regulatory solvency to remain robust at about 175% at end-2014 (end-2013: 190%) and risk-adjusted capitalisation to remain supportive of the rating. Fitch believes that Ethias will rebuild its solvency margin over the next 12-24 months, predominantly supported by retained earnings, after dividends to its holding company, Vitrufin.

### **RATING SENSITIVITIES**

A reduction in the ratio of risky assets to equity to below 90% (end-2013: 144%), with the non-life combined ratio maintained below 95% and capital at a strong level, could lead to an upgrade.

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

The rating actions are as follows:

Ethias S.A.:

IFS rating: affirmed at 'BBB+'; Outlook Stable

Long-term IDR: affirmed at 'BBB'; Outlook Stable

Undated subordinated debt: affirmed at 'BB+'

Ethias Droit Commun AAM:

IFS rating: affirmed at 'BBB+'; Outlook Stable

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Additional information is available at [www.fitchratings.com](http://www.fitchratings.com).

Applicable criteria "Insurance Rating Methodology", dated 4 September 2014 are available at [www.fitchratings.com](http://www.fitchratings.com).

Applicable Criteria and Related Research:

Insurance Rating Methodology

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=756650](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=756650)

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