

Ethias SA

Full Rating Report

Ratings

Ethias SA

Insurer Financial Strength Rating	BBB+
Long-Term Foreign-Currency IDR	BBB
Dated/undated subordinated debt	BB+

Ethias Droit Commun AAM

Insurer Financial Strength Rating	BBB+
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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 SA (IFRS)

(EURm)	2016	2015
Total equity	2,305	1,869
Total assets	19,499	19,847
Net income	424	633
Gross written premiums	2,406	2,444
Solvency II ratio (%)	146	132

Source: Ethias, annual report 2016

Key Rating Drivers

Recovery Plan Completed: Ethias SA's recovery plan, whose completion it announced in May 2017, has strengthened its capital position and reduced the sensitivity of its Solvency II coverage ratio to low interest rates. Fitch Ratings expects one further measure outlined by the National Bank of Belgium, financial reinsurance on credit spreads of corporate bonds, to be carried out in 2017. Ethias also integrated Whestia, a small insurance subsidiary, at end-June 2017, marginally benefiting the former's solvency.

Further Actions Planned: Ethias launched a new "Switch VII" offer on 29 May 2017, offering policyholders of "First A" products a financial incentive to redeem their contracts. If the offer is successful, Ethias's capital profile is likely to further improve in 2017. The offer closes on 14 July 2017. In addition, Ethias is in discussion with potential buyers for the remaining part of the First A portfolio. The disposal may come at a cost, but it would help significantly reduce Ethias' exposure to interest rate risk.

Strong but Volatile Capital Position: Ethias has a strong but still volatile capital position, reflecting its exposure to interest-rate risk. At end-2016, Ethias' group regulatory Solvency II ratio was 146%, excluding transitional arrangements. It rose to 157% in 1Q17 following data enhancements. Ethias targets a Solvency II ratio of 150%.

Fitch's Prism FBM score for Ethias was "Strong" based on end-2016 data, after deduction of the Vitrufin debt (2015: "Strong"). Ethias' financial leverage (FLR) ratio, including Vitrufin's debt, was 28% at end-2016 (2015: 33%). Ethias' parent company Vitrufin relies on Ethias for dividends to pay the interest and principal on its EUR278 million debt, which matures in January 2019. The amount required to fund interest expenses related to Vitrufin debt is deducted from Ethias' solvency capital.

Volatile Net Profitability: Ethias' IFRS net income was EUR424 million in 2016, after profit of EUR638 million in 2015 and the large loss in 2014 of EUR598 million. Ethias' financial performance is sensitive to interest-rate changes and can be volatile, despite the profit in 2016.

Fitch estimates that the Switch VII offer could cost Ethias up to EUR150 million, depending on the acceptance rate. In addition, the announced intention to dispose of the remaining First A reserves could come at a loss for Ethias. This would negatively affect profitability in 2017, despite being positive for Ethias' capital profile.

Exposed to Interest-Rate Risk: Ethias is exposed to interest-rate risk as life technical liabilities are subject to relatively high minimum guaranteed returns. However, Fitch considers this risk to be reducing as liabilities reduce. Therefore, the agency places limited reliance on the duration gap between assets and liabilities, despite the potential for it to increase with changes in business mix.

Rating Sensitivities

Strong Capital and Leverage: The ratings could be upgraded on redemption of Vitrufin's debt and if Ethias' Prism score remains at least "Strong", the Solvency II ratio above 150% and financial leverage below 25%.

Weak Capital Profile: The ratings are likely to be downgraded if Ethias' Prism FBM falls to "Adequate" or the FLR increases to above 35%.

Related Research

[KBC Verzekeringen N.V. \(KBC Insurance\) and KBC Group Re \(May 2017\)](#)

[Belgian Insurance: Stable But Competitive \(February 2017\)](#)

[AG Insurance \(December 2016\)](#)

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Business Profile

Strong Position in Domestic Market

- Solid business position, concentration in Belgium
- European Commission commitments fulfilled, run-down of individual life continues
- Efficient direct sales distribution

Solid Business Position, Concentration in Belgium

Ethias has a solid business in the Belgian insurance market. It is the third-largest insurer by gross written premiums (GWP) in 2016, with a 9% market share for all activities combined and 7% in life and 11% in non-life. The company has strong historical links with Belgian local public organisations, with a market share of more than 80% in this sector, and Ethias is the strongest insurance brand in Belgium, with a high satisfaction rate and a loyal customer base.

Ethias' product range is aimed at retail clients and public authorities, such as regions, communities, provinces, the federal state of Belgium, more than 580 towns and communes, schools and hospitals, but also private companies. Life products comprise pension insurance and group insurance. Non-life insurance services such as motor, household, workers' compensation and health insurance are also offered to individuals.

In 2016, Ethias' GWP were stable, at EUR2.41 billion (down 1.6% on 2015). Lower life premiums (in particular, in occupational pensions) were offset by growing non-life premiums (up 0.8%).

The non-life business remains well diversified. In 2016 motor business was Ethias' largest line (36% of premiums), followed by accident and health (33%), fire and other property (14%), third-party liability (9%) and other (8%).

European Commission Commitments Fulfilled, Run-Down of Individual Life Continues

On 12 June 2014 the European Commission acknowledged the completion of a number of items in the initial restructuring plan and made changes to the outstanding ones. The restructuring plan was begun in May 2010, when the European Commission 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 has fulfilled all requirements imposed by the Commission, with the exception of the disposal of its retail life insurance activity and payment of dividends to its public shareholders. The Commission recognised that this had not been possible because of market conditions and the need to strengthen Ethias's capital base in the light of uncertainty of capital requirements under Solvency II.

However, the European Commission in its decision on 12 June 2014 compelled Ethias to continue its policy of accelerating the run-down of the individual life portfolio. The Commission also permitted Ethias to sell unit-linked and life protection policies.

At end-2016, Ethias had fulfilled the commitments imposed by the European Commission to the extent that the Commission ceased monitoring them.

Efficient Direct Sales Distribution

Ethias distributes almost all 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 \(April 2017\)](#)

Corporate Governance and Management

Corporate governance and management are effective and neutral to the ratings.

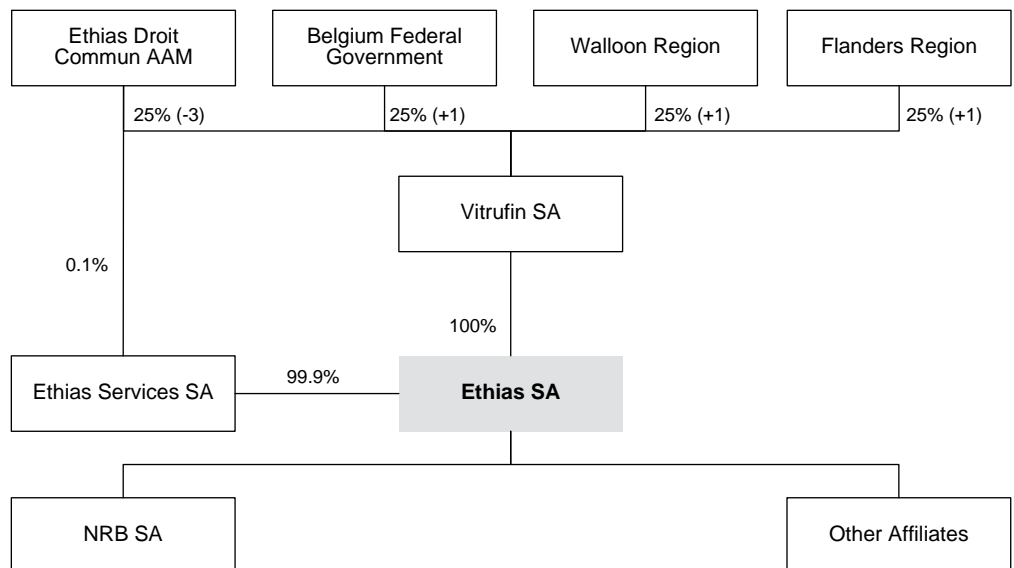
Ownership Is Neutral to Rating

Ethias 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, which 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. On 12 May 2017 Ethias’ shareholders agreed to maintain the current shareholding structure for another two years. However, the rating is based on the company’s stand-alone profile and does not factor in any potential state support.

Structure Diagram



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 high levels, the ratings of insurance organisations and other corporate issuers in Belgium are not likely to be constrained by sovereign or macroeconomic risks.

Industry Profile and Operating Environment

Mature Market, Under Pressure

Belgium is a mature insurance market, with total premiums of EUR27 billion (at end-2015), of which nearly 60% relate to life insurance, mostly savings. The non-life market is dominated by motor and household insurance.

Premiums contracted in 2015 after growing in 2014. This was mainly due to lower sales of savings products with guaranteed interest rates and despite strong growth in unit-linked savings products. Demand for such products can be volatile, reflecting financial markets. Non-life premiums only increased slightly.

The Belgian life market faces a difficult operating environment, as persistent low interest rates constrain profitability and product offerings. This trend is negative for margins on guaranteed products. Fitch believes that recent decreases of the average guaranteed rate for new contracts (now 0.5%) will negatively affect the collection of guaranteed products in 2017, although this should be partly offset by growing production of unit-linked products.

Fitch expects Belgian non-life insurers' premiums to grow in line with nominal GDP in 2017 (forecast of 1.3% in 2017 in terms of real GDP growth). The profitability of non-life insurers in 2017 will depend on the extent to which they are able to maintain pricing discipline in a persistent low-growth/low interest rate environment and whether or not they are exposed to large claims arising from natural catastrophes. Fitch anticipates a combined ratio of around 100% in 2016 and 98% in 2017, assuming normalised weather-related claims.

Belgian insurers remain adequately capitalised under Solvency II. However, their Solvency II ratios can be sensitive to changes in interest rates. Insurers do take advantage of transitional measures to cover their solvency capital requirements.

Ratings Range Based on Industry Profile/Operating Environment



Source: Fitch

Peer Analysis

Strong Profitability and Underwriting Result, Moderate Capitalisation

Ethias's peers are the medium-to-large Benelux composite insurers (see peer table below). Ethias is the smallest among its peers in the sample. Those insurers have limited exposure to non-domestic markets (except AG Insurance through Ageas).

Ethias's underlying profitability, as measured by combined ratio, was the strongest in 2016, as it was in 2015. Its net profitability was among the highest in the sample and profitability, as measured by return on equity, is strong, but can be volatile under IFRS due to the adjustment for the Liability Adequacy Test. KBC and VIVAT reported positive net results in 2016. AG Insurance's data for 2016 were not available.

On average, Ethias's peers are more strongly capitalised, but its financial leverage ratio is comparable to those of other Benelux insurance companies.

Peer Comparison – 2016

Company	IFS rating of primary operating entities	Assets (EURm)	Shareholders' equity (EURm)	IFRS profit (EURm)	Return on assets ^a (%)	Combined ratio (%)	Return on equity ^b (%)	Financial leverage ratio (%)	Solvency II ratio (%)
Ethias	BBB+/Stable	19,499	2,305	424	2.2	91.9^c	20.7	21	146
AG Insurance	A+/Stable	76,607	6,501	521	0.7	96.0	7.8	27	207
KBC Insurance	A+/Stable	38,696	2,936	334	1.2	95.8	11.6	19	203
VIVAT	BBB+/Stable	58,789	3,698	159	0.4	n.a.	4.4	25	175

^a Group net income /2015-2016 average total assets

^b Group net income/2015-2016 average group shareholders' equity

^c BGAAP

Source: Companies, Fitch

Capitalisation and Leverage

(EURm)	2012	2013	2014	2015	2016	Fitch's expectation
Total equity	1,381	1,786	1,198	1,869	2,305	Fitch expects Ethias' capitalisation to improve as the company actively manages its exposure to interest rate risk. However, Ethias' regulatory capital position is likely to remain somewhat volatile as it is sensitive to interest rate changes.
Group regulatory solvency I ratio (IFRS - %)	185	185	146	224	n.a.	
Regulatory solvency I ratio (BGAAP - %)	184	190	179	179	n.a.	
Group Solvency II	n.a.	n.a.	n.a.	132 ^a	146 ^a	
Financial leverage ratio (%)	22	18	27	25 ^b	21 ^b	
Net written premiums to equity(non-life) (x)	0.9	0.7	1.0	0.7	0.6	
Operating leverage (life) (x)	10.0	7.9	12.8	6.7	4.8	

^a Excluding transitional arrangements

^b Excluding Vitrufin debt. Including Vitrufin debt, financial leverage ratio was 28% in 2016 and 33% in 2015

BGAAP – Belgian GAAP

Source: Ethias annual reports, Fitch

Strong but Volatile Capital Position

- Improving regulatory capital
- “Strong” Prism score
- Moderate financial leverage

Improving Regulatory Capital

Fitch considers Ethias group's regulatory capitalisation strong. In 2016, Ethias group regulatory Solvency II was 146%, excluding transitional arrangements (132% at end-2015). It improved to 157% in 1Q17 following data enhancements. The target Solvency II ratio for Ethias is 150%.

High guarantees on certain life portfolios penalise Ethias' capital in a risk-based framework. Ethias aims to limit the Solvency II sensitivity to changes in interest rates, such as a 1% drop in the interest-rate curve, which would result in a maximum 25% fall of the coverage of solvency capital requirements, making it potentially volatile.

Strong Prism Score

Ethias' score based on year-end 2016 results in Prism FBM is “Strong”, after deduction of the Vitrufin debt. The Prism score has improved since 2014, when it was “Somewhat Weak”.

The further reduction of the amount of First A reserves (following the Switch V and Switch VI operations in 2016) and the reversal of provisions following an increase in interest rates were beneficial for the Prism FBM score. Ethias is also reducing its equity exposure and de-risking its balance sheet, and this should continue to be beneficial for both the Solvency 2 ratio and the Fitch Prism FBM score.

The Switch VII operation and the potential disposal of First A reserves are likely to benefit Ethias' capital profile further. Conversely, the dividend Ethias plans to pay to Vitrufin in 2018 would drag on solvency capital (see *Debt Service Capabilities and Financial Flexibility* below).

The Solvency II margin at end-2016 does not take into account the positive impact of financial reinsurance and integration of the small insurance subsidiary, Whestia.

Moderate Financial Leverage

Ethias' debt leverage improved to 28% at end-2016 as a result of a rise in total equity in 2016. The ratio includes Vitrufin debt.

Debt Service Capabilities and Financial Flexibility

(x)	2012	2013	2014	2015	2016	Fitch's expectation
Fixed charge coverage ratio (incl. realised and unrealised gains) ^a	12	21	-42	37	18	Fitch expects fixed-charge coverage to remain robust but volatile in line with profitability. The company's financial flexibility largely relies on Belgian public authorities. Fitch expects Ethias to contribute the proceeds required to Vitrufin to redeem its senior debt.
Fixed charge coverage ratio (excl. realised and unrealised gains) ^b	4	16	-48	36	16	

^a Including dividends paid to Vitrufin SA: 2012: 4; 2013: 9; 2014: -42; 2015: 11; 2016: 7

^b Including dividends paid to Vitrufin SA: 2012: 1; 2013: 7; 2014: -48; 2015: 11; 2016: 6

Source: Ethias annual reports, Fitch

Adequate Financial Flexibility, Reliant on Belgian Public Authorities

- Holding company's interest expenses covered
- Volatile fixed-charge coverage
- External support likely if needed

Holding Company's Interest Expenses Covered

In 2012, Ethias' parent company Vitrufin issued debt to buy Dexia shares from Ethias. However, Vitrufin relies on Ethias for dividends to pay the interest and principal on its EUR278 million debt. The amount required to fund interest expenses related to Vitrufin debt is deducted from Ethias' solvency capital.

A credit facility agreement signed in early January 2012 provides the annual provisioning of funds by Ethias to Vitrufin if the dividends paid by Ethias would not be sufficient to cover the annual interest related to the bond loan. The credit facility was drawn in January 2016 to allow Vitrufin to pay its interest expenses; however, the amount borrowed was repaid by through Ethias' dividends in May 2016.

Ethias paid EUR45 million in dividends to Vitrufin in 2017, related to its 2016 net result. Ethias plans to pay further dividends of EUR273 million (EUR40 million ordinary dividend on 2017 result and EUR233 million special dividend) to Vitrufin in 2018, which would deplete solvency capital. The proceeds will be used to redeem the Vitrufin debt, which is set to mature in January 2019.

Dividend payments are conditional on the regulatory Solvency II ratio being at least 100%, which limits the financial drag from the holding company.

Volatile Fixed Charge Coverage

Ethias' fixed-charge coverage is commensurate with the ratings, but can fluctuate in line with financial performance. Despite a solid net result in 2016, the fixed-charge coverage ratio declined to 18x from 37x in 2015. It remains above its five-year average (9x). The ratio excludes dividends paid to Vitrufin.

Likely External Support

It is likely that Ethias would benefit from external support and Fitch believes that the Belgian authorities would provide additional resources should the need arise. This view reflects the authorities' majority ownership of the company and Ethias' provision of insurance to Belgian public organisations and their employees.

Financial Performance and Earnings

(EURm)	2012	2013	2014	2015	2016	Fitch's expectation
Net income (after minorities)	141	325	-604	633	424	Fitch expects earnings to remain volatile in
Net combined ratio (BGAAP) (%)	92.0	91.0	88.7	86.9	91.9	2017 as life results are sensitive to interest
Net income return on equity (%)	12.6	21.1	-41.8	42.4	20.7	rates movements. Fitch also expects
Pre-tax operating return on assets (excl unrealised gains) (%)	0.3	1.3	-4.0	3.5	2.5	Ethias to continue focusing on cost
Pre-tax operating return on assets (incl unrealised gains) (%)	1.0	1.8	-3.5	3.6	2.8	efficiency and on maintaining strong non-life underwriting results.

Source: Ethias annual reports, Fitch

Improved Profitability, Focus on Efficiency and Underwriting

- Solid but still volatile profitability
- Strong non-life performance
- Low life profitability

Solid but Still Volatile Profitability

Ethias' IFRS net income decreased to EUR424 million in 2016 from EUR638 million in 2015. However, this is the group's second-highest result in five years and represents an improvement after the net loss of EUR604 million in 2014, after minorities. The recovery of EUR223 million on a tax dispute more than offset the cost associated with the Switch V and Switch VI operations (EUR202 million on aggregate). The reversal of life insurance provisions following the increase in interest rates (EUR160 million) also benefited the net income.

On 29 May 2017 Ethias launched a Switch VII offer to policyholders, featuring a 25% exit premium. Fitch estimates that this offer could cost Ethias up to EUR150 million, depending on the acceptance rate. The offer is expected to close on 14 July 2017. In addition, the announced intention to dispose of the remaining First A reserves could come at a loss for Ethias. This would negatively affect profitability in 2017, despite being positive for Ethias' capital profile.

Fitch expects Ethias to continue focusing on cost reduction, maintaining a strong underwriting capability and sales force, and de-risking the investment portfolio.

Strong Non-Life Performance

Fitch considers Ethias' non-life financial performance strong. The operational non-life IFRS result for Ethias was EUR235 million (2015: EUR236 million). The net combined ratio (calculated in accordance with IFRS) for the group deteriorated slightly to 89.4% in 2016 (2015: 86.1%) but it remains strong compared with peers. Tight control of operating costs remains a key aspect for the group and the combined ratio also benefits from Ethias' direct distribution model.

Low Life Profitability

Ethias' life profitability is under pressure due to the prolonged period of low interest rates. The life operational result has been low since 2013, although it has improved from the loss in 2014.

The changes in IFRS life earnings testify to Ethias's sensitivity to interest-rate changes: the IFRS net result of the life business was EUR62 million in 2016, down from EUR324 million in 2015 (2014: loss of EUR681 million). The adjustments resulting from the Liability Adequacy Test, at EUR184 million in 2016 compared with EUR496 million in 2015, explain the large swings in profitability.

Investment and Asset Risk

(%)	2012	2013	2014	2015	2016	Fitch's expectation
Risky assets to equity ^a	116	107	145	91	71	Fitch expects Ethias' investment policy to remain unchanged and prudent. The amount of risky assets should fall as Ethias continues to de-risk its balance sheet.
Unaffiliated shares to equity	59	59	79	40	32	
Non-investment grade bonds to equity	55	46	64	51	39	
Investments in affiliates to equity	2	1	2	0	0	

^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

Decreasing Risk Profile

- Lower risky assets ratio
- Adequate bond portfolio quality

Lower Risky Assets Ratio

Fitch views Ethias' investment policy as prudent. At end-2016, the risky assets to equity ratio continued to decrease to 71% (2015: 91%), which is its lowest level since 2011. The contribution from significantly higher shareholders' equity in 2015 and 2016 also explains a large part of the fall in the risky assets ratio.

The investment breakdown at book value at end-2016 was: 81.8% bonds, 4.4% cash and equivalents, 4.3% equities, 2.9% real estate, 2.4% unit-linked and 0.4% derivatives. The proportion of equities was stable in 2016 after the reduction in 2015.

Adequate Bond Portfolio Quality

Fitch considers the current credit quality of the life and non-life bond portfolios adequate, with an average rating of 'A-', unchanged from end-2015. This measure is a risk-weighted average taking into account the second-best rating available on each instrument. Ninety-four percent of the bond portfolio is rated 'BBB' or higher. Non-rated bonds account for 4%, and non-investment-grade bonds for 2% of the total portfolio.

Sovereign bonds represent 61% of the total bond portfolio, financials 21%, and corporates 18% (diversified, the biggest categories being industrial and real estate, each at 3% of the total portfolio). Sovereign bond exposure is mostly oriented towards Belgium (59% of government portfolio), and France (16%). Exposure to more peripheral European countries, such as Spain, Italy, Ireland, and Portugal, was EUR1.2 billion at end-2016, 8.5% of the total bond portfolio.

Asset/Liability and Liquidity Management

(%)	2012	2013	2014	2015	2016	Fitch's expectation
Liquid assets/net technical reserves - excluding unit linked	97	91	91	94	100	Fitch expects Ethias to continue to manage its exposure to interest-rate risk and reduce the duration gap between assets and liabilities. Fitch does not expect material changes in liquidity management.
Liquid assets/policyholder liabilities	95	89	89	92	98	

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

Further Reduction of Interest-Rate Risk

- Reduced duration gap between assets and liabilities
- Interest-rate risk reduced after Switch VI operation; Switch VII launched
- Surrenders in retail life managed

Reduced Duration Gap Between Assets and Liabilities

Ethias is exposed to interest-rate risk as life technical liabilities are subject to relatively high minimum guaranteed returns and there is a duration gap between assets and liabilities in the life accounts. However, the gap shrank in 2016 to 2.8 years from 3.2 years in 2015 following the Switch V and VI offers, reinvestments in long-dated bonds and the purchase of hedging derivatives. It was 8.7 years in 2014.

The duration gap widened during 4Q16, against Fitch's expectations, as the average age of the policyholders was lower after completion of Switch VI and some corporate pension lines were affected by the extension of the retirement age.

The guarantee profile for the life insurance book has improved in recent years, as Ethias reduced its exposure to higher-rate guarantees and these guarantees are carried by a smaller amount of life reserves. However, it remains exposed to interest-rate risk, with an average guaranteed rate of around 3% in the individual life portfolio (3.46% on the First A contracts) and 2.5% across the whole life portfolio at end-2016.

Interest-Rate Risk Reduced After Switch VI Operation; Switch VII Launched

In 4Q16 Ethias launched a new Switch offer, to encourage customers to redeem the capital-intensive First A products, under which high guarantees are paid until the policyholder reaches the age of 99. Customers were given a 25% premium on contract value for redemptions.

As a result of this operation, EUR785 million of life reserves (BGAAP) related to First A products were redeemed, leaving around EUR600 million outstanding at end-December 2016 (32% of total individual life reserves under BGAAP). The average guarantee has remained unchanged at 3.46%. Fitch views positively the Switch VI operation as it has improved Ethias' risk-based capital position, despite the cost associated of EUR196 million.

Ethias launched a new Switch VII operation on 29 May 2017, offering policyholders of First A products a financial incentive to redeem their contracts. If the offer is successful, Ethias' capital profile is likely to improve further in 2017. Upon completion of the Switch VII offer, Ethias plans to dispose of the First A portfolio. The disposal may come at a cost, but it would significantly reduce Ethias' exposure to interest rate risk.

Surrenders in Retail Life Managed

At end-2008 Ethias suffered a liquidity crisis 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 European Commission, Ethias ceased underwriting any new retail life products in May 2010.

However, the company is managing the levels of surrenders, as the Switch offers testify.

Individual life mathematical reserves are falling and were EUR2.4 billion at end-2016 (end-2015: EUR3.5 billion).

Reserve Adequacy

(%)	2012	2013	2014	2015	2016	Fitch's expectation
Loss reserves/CY incurred losses	2.4	2.4	2.5	2.5	2.4	Fitch expects Ethias' non-life reserves to continue to develop favourably. Life reserves are running down as Ethias moves away from interest rate-related products.
Loss reserves/equity	1.6	1.2	1.8	1.2	0.9	
Change in ratio of loss reserves/earned premiums	-1	-0.5	-2.2	-2.5	-0.5	
Reserve development/prior year equity	2.2	-7.3	-14.1	-32.2	-32.5	
Reserve development/PY loss reserves	0.9	-4.7	-11.5	-17.6	-27.9	
Reserve development/net earned premium	1.7	-8.4	-20.3	-30.7	-48.3	

Note: Negative numbers denote positive reserve developments. CY: current year; PHS: policyholders' surplus; PY: prior years
Source: Fitch

Adequate Reserving Profile

- Moderate importance of reserving, adequate reserve growth
- Adequate non-life reserving practices

Moderate Importance of Reserving, Adequate Reserve Growth

Reserve leverage relative to capital and to incurred losses is of a “moderate” importance for Ethias (as defined in Fitch’s criteria), partly due to its exposure to long-tail lines and its relatively small capital base. The implied weighting of reserves in the rating is “Medium”.

Fitch believes Ethias’ loss reserves grew at a rate commensurate with growth in underwriting exposures over the past five years. Loss reserves compared to shareholders’ equity are also quite stable over time, even taking into account the strong increase in Ethias’ capital base since 2014.

Life individuals reserves (BGAAP) continued to decrease in 2016 (down EUR1,089 million) following the Switch V and VI operations.

Adequate Non-Life Reserving Practices

Fitch believes Ethias’ level of technical provisions is prudent, in light of regulatory requirements and practices in Belgium.

Fitch regards the overall reserving as adequate. Analysis of the group’s claims development triangles (based on IFRS accounts) indicates favourable reserve development in recent years.

Reinsurance, Risk Management and Catastrophe Risk

(%)	2012	2013	2014	2015	2016	Fitch's expectation
Reinsurance recoverables to equity	106	12	15	10	8	Fitch does not expect any material change to Ethias' reinsurance strategy, which the agency considers appropriate.
Net written premiums to gross written premiums	96	96	97	97	97	

Source: Ethias annual reports, Fitch

Satisfactory Reinsurance and Risk Mitigation

- Appropriate reinsurance, limited importance of the factor
- Good-quality reinsurers, new contract in 2017

Appropriate Reinsurance, Limited Importance of the Factor

The group is not a big purchaser of reinsurance, as shown by high retention rates averaging 99.7% in life insurance and 97.4% in non-life insurance in 2016. 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, with stability and low risks in Belgium, its main country of operations. Fitch continues to consider the level of reinsurance protection appropriate, in light of the low-risk characteristics of the business underwritten.

Good-Quality Reinsurers, New Contract in 2017

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

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 SA 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 SA 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

For notching purposes, Belgium’s regulatory environment is assessed by Fitch as “Effective”, and classified as following a Group Solvency approach.

Notching Summary

IFS ratings

For Ethias SA, a baseline recovery assumption of “Good” applies to the IFS rating, and standard notching was used from the IFS anchor rating to the implied operating company IDR.

Operating company debt

Not applicable.

Holding company IDR

Not applicable.

Holding company debt

Not applicable.

Hybrids

For the two issues rated by Fitch (EUR402.7 million dated debt and EUR250 million perpetual debt), a baseline recovery assumption of “Below Average” and a non-performance risk assessment of “Moderate” were used. The ratings are two notches below the IDR, which is based on one notch for recovery and one notch for non-performance risk.

Source: Fitch

Hybrids – Equity/Debt Treatment

Hybrids Treatment

Issuer – Ethias SA	Amount	CAR Fitch (%)	CAR reg. override (%)	FLR debt (%)
Dated subordinated debt	402.7 ^a	0	100	100
Perpetual subordinated debt	250 ^b	0	100	100
Dated subordinated debt	75	0	100	100

CAR – Capitalisation Ratio; FLR – Financial Leverage Ratio

For CAR, % indicates portion of hybrid value included as available capital, both before (Fitch %) and after the regulatory override

For FLR, % indicates portion of hybrid value included as debt in numerator of leverage ratio

^a Issued in two tranches, EUR231.9 million in July 2015 and EUR170.8 million as tap issue in November 2015

^b Original amount. Only EUR14 million remains outstanding following the exchange offer in July 2015

Source: Fitch

Exceptions to Criteria/Ratings Limitations

None.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

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