

Ethias S.A.

Full Rating Report

Ratings

Ethias S.A.

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	Rating Watch Positive
Long-Term Foreign-Currency IDR	Rating Watch Positive
Sovereign Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Local-Currency IDR	Negative

Financial Data

Ethias S.A(IFRS)

(EURm)	2015	2014
Total equity	1,869	1,198
Total assets	19,847	22,007
Net income	633	-604
Gross written premiums	2,444	2,376

Source: Ethias, Annual Report 2015

Key Rating Drivers

Plan to Strengthen Capital: Fitch Ratings understands that the National Bank of Belgium (NBB) has asked Ethias S.A. to strengthen the company's capital position and reduce the volatility of its Solvency II coverage ratio and its sensitivity to low 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.

Adequate but Volatile Capital Position: Ethias has an adequate but volatile capital position, reflecting its exposure to interest-rate risk due to the 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.

Exposed to Interest-Rate Risk: 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 in 2014, following the Switch IV operation and the purchase of hedging derivatives.

Moderate Financial Leverage: Ethias's debt leverage (FLR) was 25% at end-2015. The company issued EUR232m of dated subordinated bonds in 1H15 as part of an exchange offer. Ethias also issued EUR171m in 2H15 as TAP issuance. The increase in financial debt was more than offset by higher shareholders' funds at the end of the year.

Volatile Net Profitability: Ethias's IFRS net income was EUR638m in 2015, after the important loss in 2014 of EUR598m. The reversal of the negative adjustment for Liability Adequacy Test (LAT) more than offset the cost of the Switch IV operation. Despite the strong profit in 2015, Ethias's financial performance is sensitive to interest-rate changes and can be volatile. Non-life profitability remained robust, with a reported combined ratio of 86.1% (2014: 89.2%) and a strong technical result of EUR306m (EUR242m).

Reduced Investment Risk: At end-2015, the ratio of high risk assets to equity fell to 91% from 145% in 2014. The significant increase in shareholders' funds largely explains the decrease. Fitch expects the proportion of risky assets to fall as Ethias de-risks its balance sheet.

Rating Sensitivities

Material Improvement in Capital: 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.

Failure to Implement Plan: The ratings are likely to be affirmed if Ethias does not implement its 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.

Related Research

[Prism Factor-Based Capital Model Results \(September 2016\)](#)

[Fitch Prism Factor Based Capital Model vs Solvency II \(May 2016\)](#)

[Fitch: Solvency II Ratios Move Into the Spotlight \(May 2016\)](#)

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Business Profile

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 2015 by gross written premiums (GWP), with a market share of 11.3% in non-life insurance and 8.6% in life insurance. Ethias has strong historical links with Belgian local public organisations, with a market share of more than 80% in this sector.

Ethias's 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. In June 2014, the European Commission (EC) allowed Ethias to offer certain life insurance products (including unit-linked products) to individuals. Non-life insurance such as motor, household and health insurance, is offered to individuals.

In 2015, Ethias's GWP increased by 3% after falling by 12% in 2014 as a consequence of the high number of group life single premiums underwritten in 2013. Most of Ethias's life premiums are savings-type products. In 2015, 95% of life premiums related to group life business and the remainder comprised the run-off book of individual life and a small amount of life reinsurance and unit-linked business.

The non-life business is well diversified. In 2015 motor business was Ethias' largest line (35% of premiums), followed by accident and health (34%), fire and other property (14%), third-party liability (9%) and other (8%).

EC's Commitments Fulfilled, Run-Down of Individual Life Continues

On 12 June 2014, the EC acknowledged the completion of a number of items in the initial restructuring plan and made changes to the outstanding ones. The restructuring plan was began 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. The EC 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 EC in its decision on 12 June 2014 compelled Ethias to continue its policy of accelerating the run-down of the individual life portfolio.

The EC also permitted Ethias to sell unit-linked and life 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 \(September 2016\)](#)

Corporate Governance and Management

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

Ownership is Neutral to Rating

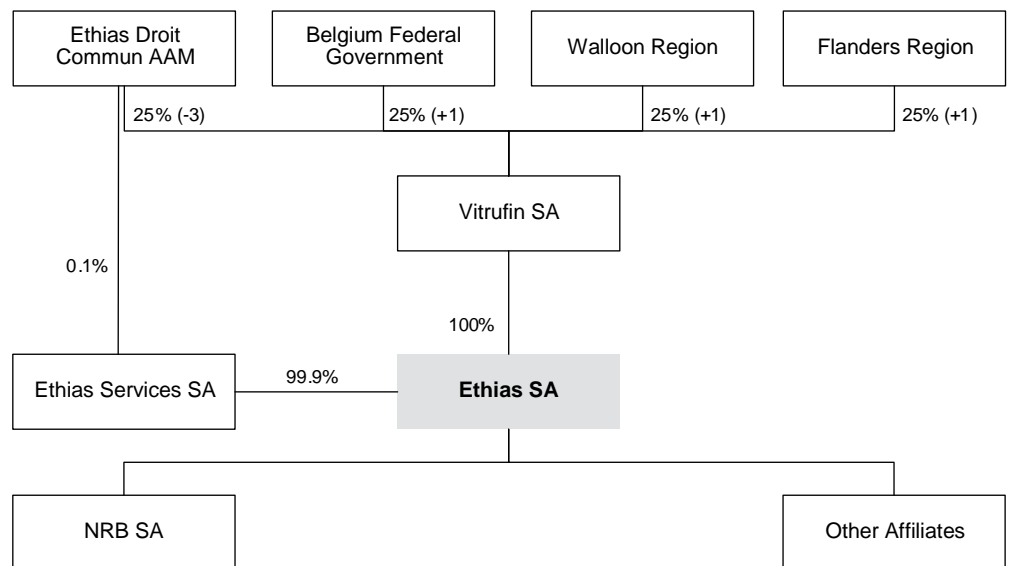
Ethias was formed in 1919 as Société Mutuelle des Administrations Publiques (Insurance Mutual for Local Public Authorities; SMAP). One of its objectives was to offer its members – local government organisations – lower tariffs than those available from traditional insurers. In 2003, SMAP was renamed 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 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 Negative 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 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 EUR27.1bn (end-2015), of which nearly 60% relates 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 driven by 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.

Belgian insurers' profitability is under pressure due to low interest rates and stiff competition. Non-life profitability can be affected by natural catastrophes.

Fitch expects profitability to remain volatile, sustained by fierce competition and movements in the financial markets.

Low Interest Rates Drag on Earnings

Following the 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 it is not permitted under IFRS accounting. The cancellation of this provision under IFRS released EUR154m for Ethias in 2015.

Peer Analysis

Strong Underwriting Result, Better but Volatile Net Profitability and Capital

Ethias's peers are the mid-to-large Benelux composite insurers. Ethias is smaller than peers in the sample (see Figure 3). All of the insurers in this peer group have limited exposure to non-domestic markets (except AG Insurance through Ageas).

Ethias's underlying profitability, as measured by the combined ratio, was the strongest in 2015 within this group, as was the case in 2014. Its net result was the highest in the sample, but it is volatile under IFRS due to the adjustment for LAT. Achmea's and VIVAT's net income were positive in 2015, although in 2014 they were affected by non-recurring items.

Ethias's peers are more strongly capitalised, with the exception of VIVAT despite a capital contribution from its new parent company, Anbang.

Peer Comparison – 2015

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 (%)	Solvency I ratio (%)	Financial leverage ratio (%)	Solvency II ratio (%)
Achmea	NR	92,917	10,280	386	0.4	104.6	3.8	210	25	201
AG Insurance	A+/Stable	74,005	6,810	512	0.7	94.7	7.7	217	35	n.a.
VIVAT	BBB/Stable	60,328	3,451	109	0.2	n.a.	4.0	240	25	160
KBC Insurance	A/Stable	38,469	2,815	372	1.0	91.0	12.2	289	19	231
Ethias	BBB/Rating Watch Positive	19,847	1,869	633	3.0	86.1	41.3	224	25	179

^a Group net income /2013-2014 average total assets

^b Group net income/2013-2014 average group shareholders' equity

Source: Companies, Fitch

Capitalisation and Leverage

(EURm)	2011	2012	2013	2014	2015	Fitch's expectation
Total equity	944	1,381	1,786	1,198	1,869	Fitch expects Ethias's capitalisation to remain volatile as it is sensitive to interest rate changes. However, if the plan the NBB has asked Ethias to implement is completed, it is likely this will be beneficial under both Solvency II and Fitch's Prism FBM.
Group regulatory solvency I ratio (IFRS - %)	n.a.	185	185	146	224	
Regulatory solvency I ratio (BGAAP - %)	158	184	190	179	179	
Group Solvency II	n.a.	n.a.	n.a.	n.a.	132 ^a	
Financial leverage ratio (%)	23	22	18	27	25	
Net written premiums to equity(non-life) (x)	1.3	0.9	0.7	1.0	0.7	
Operating leverage (life) (x)	15.4	10.0	7.9	12.8	6.7	

Note: ^a excluding transitional arrangements. Source: Ethias annual reports, Fitch

Adequate Regulatory Capital, Improved Prism Score

- Adequate regulatory capital
- Improved Prism score
- Moderate financial leverage

Adequate Regulatory Capital

Fitch considers Ethias's group regulatory capitalisation as adequate. In 2015, Ethias's group regulatory Solvency II 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% in 1H16 due to the decrease in interest rates.

High guarantees on certain life portfolios penalise Ethias's 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 results in a 25% fall of the coverage of solvency capital requirements (SCR).

Improved Prism Score

Ethias's score based on year-end 2015 results in Prism FBM is 'Strong'. It was 'Somewhat weak' in 2014.

The reduction of the First A reserves and the reversal of provisions following an increase in interest rates were beneficial for the Prism FBM score. Ethias is reducing its equity exposure and de-risking its balance sheet, and this should be beneficial for both the Solvency 2 ratio and the Fitch Prism FBM score.

If the plan that the NBB has asked Ethias to implement is completed, it is likely this will be beneficial under both Solvency II and Fitch's Prism FBM.

Moderate Financial Leverage

Ethias's debt leverage was 25% at end-2015. The company issued EUR232m of dated subordinated bonds in 1H15 as part of an exchange offer, refinancing outstanding perpetual subordinated debt of EUR250m. As the debt issuance refinanced debt of nearly the same amount, Ethias's financial leverage ratio was unaffected by the issuance.

Ethias issued EUR171m in 2H15 as TAP issuance. The increase in financial debt was more than offset by higher shareholders' funds at the end of the year.

Debt Service Capabilities and Financial Flexibility

(x)	2011	2012	2013	2014	2015	Fitch's expectation
Fixed charge coverage ratio (incl. realised and unrealised gains) ^a	-13	12	21	-42	37	Fitch expects fixed-charge coverage to remain volatile in line with profitability.
Fixed charge coverage ratio (excl. realised and unrealised gains) ^b	22	4	16	-48	36	

^a Including dividends paid to Vitrufin SA: 2011: -13; 2012: 4; 2013: 9; 2014: -42; 2015: 11

^b Including dividends paid to Vitrufin SA: 2011: 22; 2012: 1; 2013: 7; 2014: -48; 2015: 11

Source: Ethias annual reports, Fitch

Financial Flexibility Relies on Belgian Public Authorities

- Holding company's interest expenses covered
- Volatile fixed-charge coverage
- Likely external support

Holding Company's Interest Expenses Covered

In 2012, Vitrufin issued debt to buy Dexia shares from Ethias. However, Vitrufin relies on Ethias for dividends to pay the interest and principal on its EUR278m debt. Ethias will pay EUR45m in dividends (2014: zero) to Vitrufin in 2016 related to its 2015 net result; the payment was taken into account within the Solvency II calculation at end-2015.

A credit facility agreement signed in early January 2012 provides the annual provisioning of funds by Ethias SA to Vitrufin SA in the event that the dividends paid by Ethias SA 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 the means of Ethias's dividends in May 2016.

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's fixed-charge coverage is commensurate with the ratings, but it can be volatile. Despite the strong profit in 2015, the fixed-charge coverage ratio was on average 6.0x over 2011-2015 excluding realised and unrealised gains and 3x including realised and unrealised gains (BBB-category). Those levels exclude the dividends paid to Vitrufin.

The bonds issued by Vitrufin will mature in 2019.

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.

Financial Performance and Earnings

(EURm)	2011	2012	2013	2014	2015	Fitch's expectation
Net income	-170	141	325	-604	633	Fitch expects earnings to remain volatile although Ethias should make an IFRS profit in 2016. Profitability should stabilise as duration gap reduces, balance sheet de-risks and the company implements cost-reducing measures.
Net combined ratio (BGAAP) (%)	78.6	92.0	91.0	88.7	86.9	
Net income return on equity (%)	-18.9	12.6	21.1	-41.8	42.4	
Pre-tax operating return on assets (excl unrealised gains) (%)	1.9	0.3	1.3	-4.0	3.5	
Pre-tax operating return on assets (incl unrealised gains) (%)	-1.1	1.0	1.8	-3.5	3.6	

Source: Ethias annual reports, Fitch

Satisfactory Profitability

- Volatile net profitability
- Strong non-life performance
- Life profitability under pressure

Volatile Net Profitability

Ethias's IFRS net income was EUR638m in 2015, after the important loss in 2014 of EUR598m. The reversal of the negative adjustment for the Liability Adequacy Test (LAT) more than offset the cost of the Switch IV operation. Tight control of operating costs is key to the Ethias's strategy. Despite the strong profit in 2015, Ethias's financial performance is sensitive to interest-rate changes and can be volatile.

Fitch's analysis of volumes growth suggests that Ethias has on average expanded its life and non-life businesses in line with the market in Belgium over 2015-2011, although individual years were more volatile given the run-off of the retail life business imposed by the EC.

Fitch views cautiously growth at rates greater than the market or peers, especially during periods of competitive pricing pressure.

Strong Non-Life Performance

Ethias's non-life financial performance is strong. The technical non-life IFRS result for Ethias was a strong EUR306m in 2015 (2014: EUR242m). The net combined ratio for the group was 86.1% in 2015 (2014: 89.2%). Tight control of operating costs is key to the group's strategy, which is reflected in the combined ratio.

Fitch expects Ethias to maintain strong non-life underwriting profitability throughout the business plan period of 2015-2019.

Life Profitability Under Pressure

Ethias's life profitability is under pressure due to the prolonged period of low interest rates. The operational result (before any adjustments for LAT or Switch operations) marginally improved in 2015 to EUR26m (2014: -EUR3m).

The dynamic of IFRS life earnings testify to Ethias's sensitivity to interest-rate changes: the IFRS result of the life business was EUR324m in 2015 as interest rates increased, after the EUR681m loss in 2014, when market interest rates fell. The adjustments originated by the LAT (EUR496m in 2015 versus minus EUR803m in 2014) explain the large swings in profitability.

The trend is continuing in 2016, with a net IFRS result of EUR9m, negatively impacted by the adjustment for LAT (minus EUR96m) in 1Q16.

Despite its exposure to interest-rate risk, Fitch expects profitability to stabilise as the duration gap falls, the balance sheet de-risks and the company implements cost-reducing measures.

Investment and Asset Risk

(%)	2011	2012	2013	2014	2015	Fitch's expectation
Risky assets to equity ^a	192	116	107	145	91	Fitch expects the group's investment policy to remain unchanged. However, the agency expects the amount of risky assets to fall as Ethias de-risks its balance sheet.
Unaffiliated shares to equity	108	59	59	79	40	
Non-investment grade bonds to equity	80	55	46	64	51	
Investments in affiliates to equity	4	2	1	2	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

Reduced Proportion of Risky Investments

- Lower risky assets ratio
- Adequate quality of assets portfolio

Lower Risky Assets Ratio

At end-2015, the ratio of high-risk assets to equity fell to 91% from 145% in 2014. The significant increase of shareholders' funds largely explains the decrease. Fitch expects the proportion of risky assets to fall as Ethias de-risks its balance sheet.

At end-2015, the investment breakdown at book value was: 80.3% bonds, 6.2% cash, 4.5% loans and deposits, 4.3% equities, 2.5% real estate, 2.1% unit-linked and 0.1% derivatives. The proportion of equities, at 4% of non-linked invested assets, was lower than in 2014 (5%).

Adequate Quality of Assets Portfolio

The credit quality of the life and non-life bond portfolios is adequate, with an average rating of 'A-'. This measure is a risk-weighted average taking into account the second-best rating available on each instrument. 96% of the bond portfolio is rated 'BBB' or higher.

Asset/Liability and Liquidity Management

(%)	2011	2012	2013	2014	2015	Fitch's expectation
Liquid assets/net technical reserves - excluding unit linked	92	99	93	93	95	Fitch expects Ethias to manage their exposure to interest-rate risk. Fitch does not expect material changes in liquidity management.
Liquid assets/policyholder liabilities	90	96	90	90	93	

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

Exposure to Interest-Rate Risk Reducing

- Lower mismatch between assets and liabilities
- Interest-rate risk reduced after Switch IV operation
- Surrenders in retail life managed

Lower Mismatch Between Assets and Liabilities

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 in 2014, following the Switch IV operation (see below) and the purchase of hedging derivatives.

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 2.7% across the whole life portfolio.

Interest-Rate Risk Reduced After Switch IV Operation

In 2015, Ethias launched a commercial initiative, operation Switch IV, to incentivise 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 four years of interest in case of full redemptions or a minimum of EUR100,000.

As a result of this operation, nearly EUR1.8bn of life reserves (BGAAP) related to First A products were redeemed, leaving EUR1.4bn outstanding at end-March 2016 (49% of total life reserves). The average guarantee has remained unchanged at 3.44%.

Fitch views positively the Switch IV operation as it has improved Ethias' risk-based capital position, despite the cost associated of EUR243m.

In 1Q16, Ethias launched the Switch V operation, at the end of which EUR65m was redeemed at the cost of EUR6m. Further actions are planned in 2016 to reduce the duration gap, although the impact is likely to be smaller than the Switch IV operation.

The plan the NBB asked Ethias to implement 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.

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 EC, Ethias has ceased underwriting any new retail life products (excluding unit-linked products and protection) since May 2010.

However, the company is managing the levels of surrenders, as the Switch IV operation testifies.

Individual life mathematical reserves are falling and were EUR3.6bn at end-2015 (end-2014: EUR6.5bn).

Reserve Adequacy

(%)	2011	2012	2013	2014	2015	Fitch's expectation
Loss reserves/CY incurred losses	n.a.	2.4	2.4	2.5	2.5	Fitch expects Ethias's non-life reserves to continue to develop favourably.
Loss reserves/equity	2.3	1.6	1.2	1.8	1.2	
Change in ratio of loss reserves/earned premiums	n.a.	-1	-0.5	-2.2	-2.5	
Reserve development/prior year equity	n.a.	2.2	-7.3	-14.1	-32.2	
Reserve development/PY loss reserves	-7.4	0.9	-4.7	-11.5	-17.6	
Reserve development/net earned premium	-13.9	1.7	-8.4	-20.3	-30.7	

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

Adequate Reserves

- Reserving profile of moderate importance, adequate reserve growth
- Adequate non-life reserving

Reserving Profile of Moderate Importance, 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, partly due to its relatively small capital base.

Fitch believes Ethias's loss reserves grew at a rate commensurate with growth in underwriting exposures over the past five years.

Adequate Non-Life Reserving

Fitch believes that Ethias's 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 development in recent years.

Reinsurance, Risk Management and Catastrophe Risk

(%)	2011	2012	2013	2014	2015	Fitch's expectation
Reinsurance recoverables to equity	242	106	12	15	10	Fitch does not expect any material change to Ethias's reinsurance programme.
Net written premiums to gross written premiums	95	96	96	97	97	

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 99.7% in life insurance and 97% in non-life insurance in 2014. 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: AA-/Stable) and Hannover Re 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 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

For notching purposes, the regulatory environment of Belgium is assessed by Fitch as being 'Effective', and classified as following a Group Solvency approach.

Notching Summary

IFS ratings

For Ethias S.A., 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 (EUR402.7m dated debt and EUR250m 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	FBM Fitch (%)	FBM 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

FBM – Prism factor-based capital model: FLR – Financial leverage ratio

For FBM, % 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

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

^b Original amount. Only EUR14m 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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