

FITCH RATES ETHIAS'S DATED SUBORDINATED NOTES 'BB+'

Fitch Ratings-London-13 July 2015: Fitch Ratings has assigned Ethias SA's (Insurer Financial Strength (IFS) rating: BBB+/Stable; Issuer Default Rating (IDR): BBB/Stable) EUR250m issue of dated subordinated notes a 'BB+' rating.

The dated subordinated notes are being issued as part of an exchange offer, refinancing outstanding perpetual subordinated debt of the same amount.

The issue matures in 2026 and the securities pay a 5% fixed annual coupon. The notes are subordinated to senior creditors, rank pari passu with existing dated subordinated securities and senior to any remaining subordinated securities issued by Ethias and are mandatorily deferrable if certain solvency conditions are met.

KEY RATING DRIVERS

Ethias SA's 'BB+' subordinated debt rating uses notching criteria that have been proposed by Fitch, but are not yet final. If the proposed criteria are not made final, and current notching criteria are maintained, Fitch would still expect to rate the subordinated debt at 'BB+'. No other ratings are expected to be impacted should the proposed changes to Fitch's notching criteria not become final.

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, meaning under Solvency II, own funds being insufficient to cover the Solvency Capital Requirement or Minimum Capital Requirement.

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% capital in Fitch's risk-based capital assessment and 100% debt in Fitch's financial leverage calculation.

As the debt issuance refinances debt of a same amount, Ethias's financial leverage ratio is unaffected. It was 22.6% at end-2014 which remains commensurate with the ratings.

Fitch views the transaction positively from a financial flexibility perspective, as it demonstrates Ethias's ability to access debt capital markets.

RATING SENSITIVITIES

Any change to Ethias's IDR is likely to result in a corresponding change of the subordinated debt rating.

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Date of relevant committee: 22 June 2015

Additional information is available on www.fitchratings.com

Applicable Criteria

Insurance Rating Methodology (pub. 04 Sep 2014)

https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=756650

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