

Ethias SA (/gws/en/esp/issr/87659645)



Fitch Revises Ethias' Outlook to Positive; Affirms Ratings

Fitch Ratings-Paris-12 June 2018: Fitch Ratings has revised Ethias S.A.'s (Ethias) Outlook to Positive from Stable while affirming the Insurer Financial Strength (IFS) Rating at 'BBB+' (Good). A full list of rating actions is at the end of this commentary.

KEY RATING DRIVERS

The revision of Ethias's Outlook to Positive reflects Fitch's view that the likely full repayment of Vitrufin debt and the full disposal of the insurer's capital-intensive individual life portfolio will lead to a strengthening in Ethias's capitalisation, profitability and financial flexibility.

Fitch expects Ethias's capitalisation to benefit from the normalisation of Ethias's dividend policy due to earnings retention from 2019 onwards, as the high dividend payments of 2018 are unlikely to re-occur. This will also ultimately be beneficial to Ethias's financial flexibility.

Ethias paid EUR150 million dividends to Vitrufin, its parent, in May 2018 related to its 2017 net income and plans to pay another EUR118 million in 2H18 as an interim dividend on its 2018 earnings. The EUR45 million dividends that Ethias contributed to Vitrufin in 2017 were used to pay for the residual coupons on Vitrufin's senior loan. Fitch understands from Ethias that Vitrufin is bound by the terms of the loan agreement to use Ethias's dividends to repay the loan.

Ethias announced the sale of its remaining 'FIRST A' portfolio (EUR189 million) in April 2018. The sale is subject to regulatory approval and expected to close in 2H18. If the sale is completed, Fitch expects Ethias's risk-adjusted capital profile and duration gap (one year at end-2017) to further improve in 2018.

Ethias has been running down its 'FIRST A' guaranteed life reserves since 2010, which reduced its sensitivity to interest rates and improved its solvency margins. FIRST A policies are capital-intensive retail life insurance contracts, under which guarantees are paid until the policyholder reaches the age of 99. Ethias successfully conducted several "Switch" surrender offers, between 2015 and 2017 whereby FIRST A policyholders were given a financial incentive to redeem their

contracts.

The ratings reflect Ethias's strong capital position, sound profitability and strong business profile in Belgium. These strengths are counterbalanced by a moderate, albeit declining, exposure to interest rate risk, and the reliance of Vitrufin on Ethias for funding, through dividends, the payment of interest and principal on its EUR278 million debt maturing in January 2019.

The volatility of Ethias's capital position has reduced through a reduction in the company's interest-rate risk exposure. At end-2017, Ethias Group's regulatory Solvency 2 margin, which excludes transitional arrangements, improved to 205% (183% deducting all dividends that will be paid in 2018) from 146% at end-2016. It has a 'Very Strong' score by Fitch's Prism Factor Based Model at end-2017, after deduction of the EUR268 million dividends.

Ethias's financial leverage ratio (FLR) was stable at 20% at end-2017. If the EUR268 million dividends are deducted from the company's end-2017 equity, the ratio would be 22%. Fitch expects the ratio to remain broadly stable at end-2018.

Ethias's underwriting performance is driven by the non-life business, whose profitability remains strong as demonstrated by a reported net IFRS combined ratio of 87.7% at end-2017. Nevertheless, the cost of the 2017 "Switch" operations (EUR109 million) and the First A sale (EUR106 million) drove return on equity (ROE) down to 6.7% at end-2017 from 20.7% at end-2016. Fitch expects earnings in 2018 to be less affected by non-recurring items and be more reflective of consistent technical results.

Fitch views Ethias's investment policy as prudent. The overall risk profile of the investment portfolio remains a rating strength.

RATING SENSITIVITIES

The ratings could be upgraded on redemption of Vitrufin's debt, provided that Ethias's Prism FBM score is at least "Strong", its Solvency II ratio is above 150% and FLR below 25%.

A downgrade is unlikely in the near term, but could occur if Ethias's Prism FBM score falls to 'Adequate' and the FLR rises over 35%.

FULL LIST OF RATING ACTIONS

Ethias S.A.:

IFS Rating affirmed at 'BBB+'; Outlook revised to Positive from Stable

Long-Term IDR affirmed at 'BBB'; Outlook revised to Positive from Stable

Undated subordinated debt affirmed at 'BB+'

Dated subordinated debt affirmed at 'BB+'

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Applicable Criteria

Insurance Rating Criteria (pub. 30 Nov 2017)

(<https://www.fitchratings.com/site/re/905036>)

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