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

FitchRatings

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+'

Contact:
Primary Analyst
Manuel Arrive, CFA
Director
+33 144 299 177

Secondary Analyst
Stephane Vago
Analyst
+44 20 3530 1336

Committee Chairperson
Willem Loots
Senior Director
+44 20 3530 1808

Media Relations: Athos Larkou, London, Tel: +44 203 530 1549, Email: athos.larkou@fitchratings.com

Additional information is available on www.fitchratings.com

Applicable Criteria

Insurance Rating Criteria (pub. 30 Nov 2017) (https://www.fitchratings.com/site/re/905036)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form (https://www.fitchratings.com/site/dodd-frank-disclosure/10033752)
Solicitation Status (https://www.fitchratings.com/site/pr/10033752#solicitation)
Endorsement Policy (https://www.fitchratings.com/regulatory)

PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

 In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Solicitation Status

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

Fitch Updates Terms of Use & Privacy Policy

We have updated our Terms of Use and Privacy Policies which cover all of Fitch Group’s websites. Learn more (https://www.thefitchgroup.com/site/policies).

Endorsement Policy - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures (https://www.fitchratings.com/regulatory) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.