



Fitch Upgrades Ethias's IFS to 'A-'; Outlook Stable

Fitch Ratings-Paris/London-22 January 2019: Fitch Ratings has upgraded Ethias S.A.'s (Ethias) Insurer Financial Strength (IFS) rating to 'A-' (Strong) from 'BBB+' (Good). Ethias's Issuer Default Rating (IDR) has also been upgraded to 'BBB+' from 'BBB'. The Outlooks are Stable. A full list of rating actions is at the end of this commentary.

KEY RATING DRIVERS

The upgrade follows the full repayment of Vitrufin's (Ethias's parent) debt on 16 January 2019 and the full disposal of Ethias's capital-intensive individual life portfolio in September 2018. In Fitch's view, these two achievements mark the completion of a multi-year action plan that has resulted in a strengthening in capitalisation, financial flexibility and asset and liability management (ALM) risk.

Ethias paid EUR150 million in dividends to Vitrufin in May 2018 and another EUR118 million in August 2018 as an interim dividend. These payments were in lieu of the amount owed to repay Vitrufin's senior bond, which matured on 16 January 2019. The normalisation of Ethias's dividend policy from 2019 is positive for the insurer's capitalisation and financial flexibility. Vitrufin is a holding company, 95% owned by the Belgian public authorities, set up in 2008 to recapitalise Ethias.

Ethias completed the sale of its remaining 'FIRST A' portfolio (EUR189 million IFRS reserves) in September 2018, further improving its risk-adjusted capital profile. 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 or dies.

The ratings reflect Ethias's strong capital position and strong business profile in Belgium. These strengths are counterbalanced by moderate profitability.

Ethias reported a Solvency II capital ratio of 181% at end-September 2018, excluding transitional arrangements, slightly down from 183% at end-2017. Ethias had a 'Very Strong' score under Fitch's Prism Factor-Based Capital Model (Prism FBM) at end-2017, after deduction of the EUR268 million dividends. The agency estimates that Ethias will have maintained its 'Very Strong' score at-end 2018.

Fitch estimates that Ethias's financial leverage ratio (FLR) was stable at around 20% at end-September 2018 (end-2017: 22%, with EUR268 million dividends being deducted from the company's equity). Fitch expects the ratio to remain broadly stable in 2019.

Fitch regards Ethias's profitability as good, driven by the non-life business. Nevertheless the reported net IFRS combined ratio deteriorated to 95.3% at end-September 2018 (87.7% at end-2017) due to climate events, claim deterioration and lower reserve releases. 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 if Ethias sustains a 'Very Strong' Prism score and a stable FLR, while return on equity remains stable.

The ratings could be downgraded if Ethias's capitalisation and leverage weakens, as evidenced in a Prism score falling to 'Strong' or the FLR rising to above 30%. The ratings could also be downgraded if profitability weakens significantly on a sustained basis with a return on equity below 4%.

FULL LIST OF RATING ACTIONS

Ethias S.A.:

IFS Rating upgraded to 'A-' from 'BBB+'; Outlook Stable

Long-Term IDR upgraded to 'BBB+' from 'BBB'; Outlook Stable

Undated subordinated debt upgraded to 'BBB-' from 'BB+'

Dated subordinated debt upgraded to 'BBB-' from 'BB+'

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Applicable Criteria

Insurance Rating Criteria (pub. 11 Jan 2019) (<https://www.fitchratings.com/site/re/10058790>)

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