Fitch Ratings-Frankfurt/Moscow/London-16 March 2016: Fitch Ratings has affirmed Garant Versicherungs Aktiengesellschaft Vienna's (Garant) Insurer Financial Strength (IFS) Rating at 'A-'. The Outlook is Stable.

KEY RATING DRIVERs
The rating reflects Fitch's view of the strong probability of support, if needed, for Garant from its parent, the Belgian state-owned credit insurer, Delcredere Ducroire. Fitch considers Garant as strategically 'very important' to Delcredere Ducroire, under its insurance methodology. Combined with what Fitch views as the strong creditworthiness of Delcredere Ducroire, this has led to the rating being notch up by three levels from Garant's standalone rating of 'BBB-'. Garant is a small specialist underwriter in the credit single risk insurance and is 95.6%-owned by Delcredere Ducroire.

The stand-alone rating reflects Garant's strong capitalisation, adequate reserving and extensive reinsurance coverage. Offsetting these positive rating factors are Garant's limited market position due to the small size of the insurer, volatility in profitability and its concentrated risk profile.

Based on the company's 2015 unaudited annual results, Garant's premiums grew 2% on a gross basis and 17% on a net basis, which is a moderate deceleration from the growth of prior years. The faster growth on a net basis was driven by higher premium retention. The insurer's net income (before the release of the equalisation reserve) improved to EUR144,000 in 2015 from EUR85,000 in 2014. This improvement was supported by a substantial strengthening of investment income, with the investment yield growing to 1.7% from 0.7% during the same period. However, the underwriting result was negative for the first time since 2011.

Garant's combined ratio deteriorated to 105.1% in 2015 from 98.4% in 2014 (five-year average 96.4% in 2011-2015). The combined ratio was largely impacted by the worsening of the loss ratio to 64.4% in 2015 from 48.2% in 2014 (or to 71% from 54% excluding recoveries). Garant attributed the deterioration largely to the inwards business, while the core primary portfolio has not demonstrated country-wide or sector-specific claims. The insurer managed to achieve some reduction in commission and administrative expenses to offset the pressure of the worsened loss ratio, which Fitch views positively.

Fitch regards Garant's capitalisation as strong, based on a regulatory Solvency I ratio that was 4.7x the required minimum at end-2015.

The company's reinsurance programme provides high coverage through quota share, extensive loss reinsurance coverage as well as through a stop loss cover. Fitch considers the company's reinsurance programme as a major supportive factor of its rating and does not expect material changes to the current reinsurance programme.

Garant had total assets of EUR81.2m at end-2015 (end-2014: EUR79.1bn). Gross written premiums in 2015 were EUR37.6m (2014: EUR36.7m) of which EUR21.2m (2014: EUR22.7m) was ceded to reinsurers.

RATING SENSITIVITIES
Although unlikely in the short- to medium-term, a change in Fitch's opinion of Garant's strategic importance to Delcredere Ducroire to 'core' from 'very important' could lead to an upgrade as Fitch views the parent's credit quality as higher than that of Garant on a standalone basis.
Key rating triggers that could result in a downgrade include deterioration of Delcredere Ducroire’s credit quality, an adverse change to Fitch's view of Garant's 'very important' strategic status, deterioration of Garant's standalone credit profile through a lower solvency level at below 400% (2015: 472.3%) or a sustained worsening of the combined ratio to materially above 100%.

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Applicable Criteria
Insurance Rating Methodology (pub. 16 Sep 2015)

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