FITCH UPGRADES ETHIAS S.A.'S IFS TO 'BBB'

Fitch Ratings-Paris/London-25 June 2013: Fitch Ratings has upgraded Ethias S.A.'s (Ethias) Insurer Financial Strength (IFS) rating to 'BBB' from 'BBB-' and affirmed its Issuer Default Rating (IDR) at 'BBB-'. Both ratings have Stable Outlooks. Ethias' subordinated debt is upgraded to 'BB' from 'B+'. A full list of rating actions is at the end of this comment.

KEY RATING DRIVERS
The upgrade of the IFS rating reflects restored financial fundamentals after management made vigorous efforts since 2009 to restructure the company, improve its risk profile and underwriting performance. The regulatory solvency margin was 184%, excluding unrealised gains, at end-2012 (2011: 158%). Financial statements showed satisfactory levels of profitability with the level of technical profit returning to adequate levels for the second year running reaching EUR211m in 2012 (2011: EUR182m). The net profit for Ethias in 2012 was EUR180m, with a 92.4% net combined ratio as calculated by Fitch.

The upgrade also reflects the successful implementation of the restructuring measures required by the European Commission (EC) with limited adverse effects on the group's franchise since they began in 2009. These measures were required after the Belgium state intervened to recapitalise the group at end-2008, because of the severe difficulties faced in the wake of the global financial crisis. They aimed at restoring the group's profitability and raising capital adequacy levels by 2013.

Most of the required restructuring measures were already implemented at end-2011. The group continued to successfully operate within the restructured framework in 2012. In July 2011, Ethias announced the disposal of its entire stake in Dexia to its parent company Vitrufin S.A. (formerly Ethias Finance S.A.). In 2012, Vitrufin finally sold all of its Dexia shareholding, terminating exposure to this asset for the group.

In 2012, profitability together with regulatory solvency and Fitch's own risk-adjusted capital assessment, were all commensurate with a rating in the 'BBB' category. The ratings now follow Fitch's standard notching methodology, with the IFS rating being one notch higher than the IDR. This reflects policyholder claims benefitting from priority in the case of liquidation as well as both payment restrictions from operating to holding companies and a strong capital regime.

It is Fitch's expectation that additional support would be provided to Ethias should the need arise. This is based on the authorities' majority ownership of the insurance company, combined with the company's activity as a provider of insurance to Belgian public organizations and their employees.

Fitch understands that the risk related to the dispute between Ethias and the Belgian tax authorities is minimal. However, it could impact Ethias ratings in case of an unfavourable outcome as the related maximum exposure would significantly impact the company.

The upgrade of Ethias' subordinated debt rating reflects a diminished risk of coupon deferral. The rating is now in line with Fitch's standard insurance methodology.

Ethias is the group's main operating entity. Fitch also regards Ethias Droit Commun AAM as a "Core" entity under Fitch's group rating methodology, because it is 95% reinsured by Ethias and it has a 25% share in Ethias' holding company, Vitrufin. They share the same IFS rating based on Fitch's evaluation of the strength of the group as a whole.

RATING SENSITIVITIES
Key triggers for an upgrade would include public acknowledgment by the EC of successful completion of the measures implemented since 2009, and a demonstration of Ethias ability to maintain a level of capitalisation and profitability both in line with Fitch's expectations for a

company rated high in the 'BBB' category.

Key triggers for a downgrade include any significant deterioration of capital adequacy. As such, Fitch is carefully considering a potential unfavourable outcome of the current case against the Belgium tax authority. Failure to maintain an adequate level of profitability or a solid business position on the Belgian market could also lead to a downgrade.

The rating actions are as follows:
Ethias S.A.:
IFS rating: upgraded to 'BBB' from 'BBB-'; Outlook Stable
Long-term IDR: affirmed at 'BBB-'; Outlook Stable
Undated Subordinated debt: upgraded to 'BB' from 'B+'

Ethias Droit Commun AAM:
IFS rating: upgraded to 'BBB' from 'BBB-'; Outlook Stable

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Additional information is available at www.fitchratings.com.

Applicable criteria, "Insurance Rating Methodology", dated 11 January 2013 is available at www.fitchratings.com.

Applicable Criteria and Related Research:
Insurance Rating Methodology — Amended
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=698731

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