FITCH AFFIRMS ETHIAS S.A.'S IFS AT 'BBB'

Fitch Ratings-London-13 February 2014: Fitch Ratings has affirmed Ethias S.A.'s (Ethias) Insurer Financial Strength (IFS) rating at 'BBB' and Long-term Issuer Default Rating (IDR) at 'BBB-'. Both ratings have Stable Outlooks. Concurrently, Fitch has affirmed Ethias's subordinated debt at 'BB'. A full list of rating actions is at the end of this comment.

KEY RATING DRIVERS

The affirmation reflects the continuation of improvements in financial fundamentals following management's efforts since 2009 to restructure the company, improve its risk profile and underwriting performance. These efforts were driven by the European Commission (EC), which has been following closely Ethias's progress on its plan since 2010. Fitch believes that the group's efforts have largely been successful to date with limited adverse effects on its franchise.

The regulatory solvency margin continued to improve and was 190% (excluding unrealised gains) at the nine months ended September 2013 (9M13; 2012: 184%, 2011: 158%). Fitch believes that Ethias's solvency margin will have continued to increase at year-end 2013, predominantly supported by retained earnings.

At 9M13, profitability remained satisfactory at EUR168m (9M12: EUR175m). However, this result reduces to EUR78m when taking into account the special reserve ('reserve clignotant') all Belgium insurance companies need to put aside for each contract under which a specific benchmark interest rate ('taux clignotant') established by the Belgian National Bank falls below a certain level of a company's average guaranteed interest. This reserve is recognised as additional capital under IFRS accounting and as additional mathematical reserves under Belgian GAAP.

At year-end 2012, Ethias reported 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). Net profit in 2012 was EUR180m, with a strong net combined ratio of 92.4% as calculated by Fitch.

The dispute between the Belgian tax authorities and Ethias is ongoing. An unfavourable outcome would impact Ethias's income statement by the full disputed amount, which could significantly impact the group's solvency position. However, it remains unclear to date what the outcome will be and this uncertainty continues to be reflected in Ethias's ratings.

Ethias is the group's main operating entity. Ethias Droit Commun AAM is considered a "Core" entity according to Fitch's group rating methodology. It is 95% reinsured through a quota-share agreement by Ethias and it has a 25% share in Ethias's holding company, Vitrufin. They have 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's ability to maintain capitalisation and profitability 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 adequate 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: affirmed at 'BBB'; Outlook Stable
Long-term IDR: affirmed at 'BBB-'; Outlook Stable
Undated Subordinated debt: affirmed at 'BB'

Ethias Droit Commun AAM:
IFS rating: affirmed at 'BBB'; Outlook Stable

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Additional information is available at www.fitchratings.com.

Applicable criteria, 'Insurance Rating Methodology', dated 13 November 2013 are 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=723072