

FITCH UPGRADES ETHIAS S.A.'S IFS TO 'BBB+'; OUTLOOK STABLE

Fitch Ratings-London-30 July 2014: Fitch Ratings has upgraded Ethias S.A.'s (Ethias) Insurer Financial Strength (IFS) rating to 'BBB+' from 'BBB' and Long-term Issuer Default Rating (IDR) to 'BBB' from 'BBB-'. Both ratings have Stable Outlooks. Concurrently, Fitch has upgraded Ethias's subordinated debt to 'BB+' from 'BB'. A full list of rating actions is at the end of this comment.

KEY RATING DRIVERS

The upgrade reflects Ethias's strong risk-adjusted capitalisation and improvements in financial fundamentals following management's efforts to restructure the company.

In June 2014, the European Commission (EC) announced that the initial requested restructuring measures had been successfully implemented, with the exception of the run-off of the retail life business. The EC recognises that current market conditions are an obstacle to the quick run-off of the life business and that Ethias should continue to disengage on a best efforts basis over the coming years.

The regulatory solvency margin has continued to improve and was 190% (excluding unrealised gains) at the year-end 2013 (2012: 184%, 2011: 158%). This has mainly resulted from a strong level of net income in the past two years and is despite the payment of a dividend. Fitch believes that Ethias's solvency margin will continue to increase, predominantly supported by retained earnings net of dividend.

The dispute between the Belgian tax authorities and Ethias is on-going. An unfavourable outcome would impact Ethias's income statement by the full disputed amount. However, Fitch believes that Ethias's capitalisation has the ability to withstand the loss while remaining well capitalised within the 'BBB' category.

In 2013, operating profitability remained robust at EUR226m before dividend (2012: EUR220m). Technical profitability in non-life was strong, reflected in a combined ratio of 91% (2012: 92%). Profitability of the life business remained satisfactory, reflected in technical income of EUR28m (2012: EUR58m) before 'reserve clignotant'. While this special reserve reduced total net income to EUR110m in 2013, it is recognised as additional capital under IFRS accounting and as mathematical reserves under Belgian GAAP.

At end-2013, the ratio of risky assets to equity was 144% (excluding the special reserve of EUR589m), much reduced from the 312% at 2009, but remaining high for the rating category and compared with peers. Fitch expects this improving trend to continue while the company builds its capital base.

Ethias is the group's main operating entity. Ethias Droit Commun AAM is considered a 'Core' entity according to Fitch's group rating methodology. The company is 95% reinsured through a quota-share agreement by Ethias and it has a 25% share in Ethias's holding company, Vitrufin. It has the same IFS rating, based on Fitch's evaluation of the strength of the group as a whole.

RATING SENSITIVITIES

An upgrade is unlikely in the near term. However, a reduction in the ratio of risky assets to equity to below 90% (2013: 144%), with the non-life combined ratio maintained below 95% and capital at a strong level, could lead to an upgrade.

Key triggers for a downgrade include a decline in the Solvency I ratio to 150% without the ability to recover within a short period of time (2013: 190%) or failure to maintain an adequate level of profitability reflected in a combined ratio consistently above 100% (2013: 91%).

The rating actions are as follows:

Ethias S.A.:

IFS rating: upgraded to 'BBB+' from 'BBB'; Outlook Stable

Long-term IDR: upgraded to 'BBB' from 'BBB-'; Outlook Stable

Undated subordinated debt: upgraded to 'BB+' from 'BB'

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 13 November 2013 are available at www.fitchratings.com.

Applicable Criteria and Related Research:

Insurance Rating Methodology

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=723072

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