EUROPEAN COMMISSION

Brussels, 20.5.2010
C(2010)3249 final

Subject: **State aid – N 256/2009 Restructuring aid to Ethias – Belgium**

Sir,

1. PROCEDURE

(1) On 20 October 2008, Belgium publicly announced a recapitalisation measure in favour of the insurance group Ethias. The recapitalisation measure amounts to EUR 1,500 million subscribed in the form of common equity by the Belgian federal government together with the Flemish and Walloon Regions (hereinafter "Belgium" or "the Belgian State").

(2) In its Decision of 12 February 2009[1] (hereinafter "the Rescue Decision") the Commission authorised the measure for a period of 6 months conditional on the submission of a restructuring or liquidation plan within those 6 months. The compatibility of the emergency recapitalisation measure was automatically prolonged with the submission of a restructuring plan on 20 April 2009 until the Commission reaches its decision on the plan.

(3) Additional information was submitted by Belgium on 25 June, 7 October, 17 and 24 November, 17 December 2009 and 3 February 2010. A modified restructuring plan was submitted to the Commission on 3 May 2010, including a list of commitments as regards the implementation of the restructuring plan. The Belgian authorities have forwarded to the Commission three letters from the Belgian regulator, Commission Bancaire, Financière et des Assurances (CBFA), one dated 17 December 2009 concerning the notion of loss absorption of hybrid debt under Belgian law, and two other letters dated respectively 5 and 6 May 2010, concerning stress tests on the restructuring plan of Ethias.

[1] Commission Decision of 12 February 2009, OJ C 176, 29.07.2009 p.1.

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(4) Belgian authorities informed the Commission that they exceptionally accept that this Decision is adopted in the English language.

2. DESCRIPTION OF THE FACTS

2.1 The Beneficiary

(5) Ethias is an insurance group which was historically composed of three mutual insurance companies (see recitals (11)-(13) below) and their subsidiaries. To allow the State recapitalisation, the operational activities of the Ethias group have been transferred into Ethias S.A., a limited liability company, which is owned by a newly created holding company, Ethias Finance S.A. (see recitals (23) and (31) below). Hereinafter, "Ethias" or "the company" refers to Ethias SA and its subsidiaries (however, in respect of the period prior to 24 December 2008[2] "Ethias" refers to the three mutual insurance companies and their subsidiaries). Ethias is active almost exclusively on the Belgian market, offering its products to individuals, corporate and public sector clients. In 2007 Ethias was the third biggest insurer in Belgium. Products sold by the company represented in 2007 a market share of 13% in the life segment and 15% in the non-life segment of the Belgian insurance market (including the market share of its subsidiary Nateus, see recital (27) below). Ethias had 1.1 million individual clients. In 2008 the gross premiums collected by Ethias amounted to EUR 3,788 million and its balance sheet size to EUR 28.6 billion.

(6) Table 1 below shows premium income the company generated in 2007:

<u>Table 1</u>: Ethias' premium income in 2007 according to the main segments

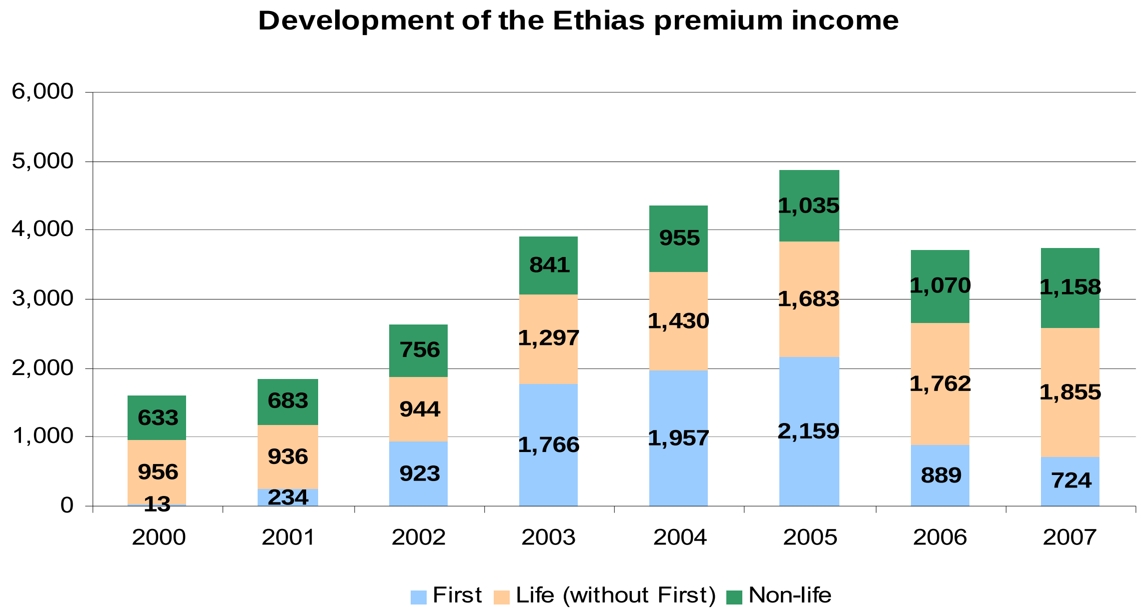
(EUR million)

life	Retail	1,274
	Group[3]	1,306
non-life	Retail	518
	Group	608

(7) In the period 2000-2007 Ethias recorded a significant rate of growth, mainly due to its retail life insurance products. The development of Ethias' premium income in the years 2000-2007 is illustrated in the chart below.

[2] 24 December 2008 is the date of the change of legal structure of the Ethias group.

[3] For the purpose of this decision the term "group insurance" is used for the collective insurance products offered by Ethias to its corporate and public clients. The main characteristic of this type of product is the fact that a group of people are insured collectively under one insurance policy held by one entity, e.g. their employer.



(8) Several factors explain the expansion of Ethias' business. First, in 2000, Ethias decided to expand its client base from its traditional segment of public entities and civil servants to a wider public. Second, the incentive system of the CEO and Vice-CEO was based on the sales volume[4]. In consequence, the marketing strategy of Ethias aimed to generate sales growth with less attention being paid to the risk profile of assumed business.

(9) Table 2 below illustrates the development of Ethias' key financial figures in 2004-2008:

Table 2: Ethias' key financial figures in 2004-2008[5]

(EUR million)

	2004	2005	2006	2007	2008[6]
Total assets	18,364	23,986	26,391	28,658	25,579
Capital	1,290	1,434	1,556	1,709	1,437
Investments	15,020	21,585	23,667	25,234	21,830
Technical provisions[7]	14,790	18,219	19,934	22,035	20,100[8]
Profit/(Loss)	23	86	130	149	(888)

4 La crise financière et bancaire, rapport fait au nom de la commission spéciale chargée d'examiner la crise financière et bancaire, 27 avril 2009, paragraph 1319, page 466.

5 Source (for data in 2004-2007): http://www.senate.be/www/webdriver?MItabObj=pdf&MIcolObj=pdf&MInamObj=pdfid&MItypeObj=application/pdf&MIvalObj=67110951. The data for 2008 derives from the submission of Belgium of 25 June 2009.

6 Note that the figures for 2008 may be not directly comparable to those of preceding years due to the change in the legal structure of the company (see also section 2 of the note).

7 Technical provisions are the provisions that an insurance company is required to hold against its future insurance liabilities.

8 The sum of elements indicated under C, D and E in the equity and liabilities' side of the balance sheet.

(10) As mentioned above, until 24 December 2008 Ethias was composed of 3 mutual insurance companies (Ethias Droit Commun, Ethias Accidents du Travail and Ethias Vie) and their subsidiaries.

(11) **Ethias Droit Commun** offered a wide range of products, including car insurance (for groups and individuals), all types of risk affecting buildings (both residential and commercial, for institutional and private clients), health insurance, third party liability insurance (for groups and individuals) and assistance.

(12) **Ethias Accidents du Travail** offered two products: (i) workers compensation for statutory public servants; and (ii) workers compensation for non-statutory public servants.

(13) **Ethias Vie** provided life insurance products to public authorities, civil servants and private clients in Belgium. The products can be broadly categorised into ''Group Life'' products and ''Individual Life'' products[9]. Group Life products include pension payment products for local authorities, reserve fund insurance for local authorities and group insurance for employees and managers. A number of investment products were also available, including First Company5 (a 5-year investment plan), First Company10 (a 10-year investment plan), and First Institutional (an investment plan limited to public authorities). The principal Individual Life product was the ''First'' product, which was for all practical purposes comparable to a bank savings account in that it offered a guaranteed interest rate and a potential bonus based on Ethias Vie's performance, with no entry or exit fees and maximum management fees capped at EUR 12.39 per annum.

(14) Ethias is not a listed company and is therefore not required to present its accounts in accordance with IFRS. The company presents its accounts in line with Belgian GAAP.

(15) In the past Ethias showed relatively low operating profitability in both the life and non-life segments. One of the consequences was that the combined ratios for non-life insurance lines[10] exceeded [95-100]%[*], as shown in Table 3 below.

Table 3: Historical combined ratios for non-life segment

	2005	2006	2007	2008
Ethias	[97-105]%	[97-105]%	[97-105]%	[97-110]%
Belgian market	102.6%	100.3%	101.3%	100.4%

9 The various Group Life and Individual Life products are categorised according to their particular features. 'Branch 21' products are typically guaranteed interest rate products such as 'First', where the insurer assumes the risk of guaranteeing a minimum interest payment. 'Branch 23' products are typically linked to the performance of the stock market with capital guaranteed. 'Branch 26' products are aimed at institutional clients and resemble more investment than insurance products.

10 Combined ratio, which is the relation of insurance claims and administrative expenses to the premium income, is an indication of the operational profitability of non-life insurance business.

* Confidential information

(16) In the life segment, the portfolio of the first pillar products[11] for public authorities and corporate clients was generating losses in the years 2004-2007 averaging EUR [20-40] million per year (while it represented [15-40]% of the total premium income in the life segment for this period). These losses were mainly due to a relatively high minimum rate of 4.5%, guaranteed by Ethias to their clients, while the return achieved by the company on its investments averaged [2.5%-.5%].

(17) Ethias accumulated a significant exposure to Dexia shares – representing [2-5]% of Ethias' total investment portfolio as of 31 December 2009. That investment in Dexia shares lost EUR 1.4 billion of its value in 2008. Ethias wrote down EUR [700-1200] million of those losses. However, in the accounts of Ethias Dexia shares remain valued significantly above market price, i.e. at EUR [6-12]/share, while the current price is approximately EUR 4.5[12]. As a result, Ethias has unrecorded latent losses of around EUR [200-500] million in respect of this position. Table 4 below illustrates the structure of the investment portfolios attributed to the insurance product segments of Ethias.

Table 4: The breakdown of Ethias investment portfolio at the end of 2008

	Life product First	Rest of Life	Non-Life
Dexia	[…]	[…]	[…]
Equity (excl. Dexia)	[…]	[…]	[…]
Participations (excl. Dexia)	[…]	[…]	[…]
Fund participations (incl. equity funds)	[…]	[…]	[…]
Bonds (excl. CMS-linked)	[…]	[…]	[…]
CMS-linked bonds	[…]	[…]	[…]
Cash and cash equivalent	[…]	[…]	[…]
Structured products	[…]	[…]	[…]
Real estate	[…]	[…]	[…]
Total investment portfolio (EUR million)	[…]	[…]	[…]

(18) The investment strategy of Ethias led to higher volatility of the investment portfolio value, which was however not immediately reflected in the accounts[13].

11 Statutory pension funds

12 The Euronext closing price of Dexia shares was EUR 4.416 on 31 March 2010.

13 In line with the Belgian accounting standards applied by Ethias, it records losses on its equity after losses have occurred monthly over the past 12 months and exceeded 20% altogether or total loss over the financial year exceeds 50% of book value. Regarding most of other instruments, impairments are recognised after an instrument's fair value reduces to or below 50% of face value. Participations were accounted based on internal fair value estimate. Consequently, a significant loss needs to be observed on an instrument before the losses are reflected in the accounts.

(19) In October 2008, when the financial crisis erupted, Ethias faced severe solvency and liquidity problems triggered by the following factors:

(a) The deterioration of the value of its investment portfolio, in particular with regard to the stake in Dexia. The total effect of the market deterioration on Ethias' investment portfolio of EUR 25.2 billion (as of 31 December 2007) amounted to EUR [2-5] billion, of which EUR [1-3] billion was recorded as write-downs in Ethias' accounts as of 31 December 2008, leaving the remaining EUR [1-2] billion as latent losses[14]. Table 5 illustrates book values prior to the write-downs, market values as well as the realised and latent losses on the Ethias investment portfolio in different categories of assets as at 31 December 2008.

Table 5: Losses on the Ethias investment portfolio as at 31.12.2008

(EUR million)

Category	**Book value prior to write-downs**	**Market value**	**Realised revaluations**	**Latent losses/gains**
Shares excluding Dexia	[…]	[…]	[…]	[…]
Structured finance	[…]	[…]	[…]	[…]
CMS-linked bonds	[…]	[…]	[…]	[…]
Corporate bonds	[…]	[…]	[…]	[…]
Equity holdings excluding Dexia	[…]	[…]	[…]	[…]
Dexia	[…]	[…]	[…]	[…]
Total	[…]	[…]	[…]	[…]

(b) The exposure to significant liquidity risk, due to its product 'First', which – although technically a life assurance product – was a savings account for all practical purposes

14 Latent losses are those that are not recorded in the financial accounts, but would materialize if the company sold the respective investments at prevailing market price at a given time.

and was marketed as such. In particular, 'First' allowed policy holders to withdraw their funds without any significant exit barriers. Due to the uncertainty surrounding Ethias, 'First' accountholders withdrew almost EUR [400-800] million in October 2008.

(20) Furthermore, Ethias guaranteed the principal and an attractive minimum interest rate for the whole duration of the 'First' contract. Thus, this product exposed Ethias not only to liquidity risk but also to the risk related to the minimum guaranteed return, which the company has to cover if it needs to realize its assets when markets decline. As of 31 December 2009 the technical provisions on this product amounted to EUR [5-10] billion, with an average guaranteed rate of return of ca. [3%-3.5%].

(21) As a result of the write-downs on the investment portfolio, Ethias' capital base was completely depleted, leading to a solvency ratio of [...]%. The write-downs in 2008 of EUR [1.5-2.5] billion represented [10-20] times the average yearly profit of the 2000-2007 period (EUR 126 million). Moreover, if all the latent losses had been recorded at year end 2008, the solvency ratio would have equalled […]%, rather than [...]%. Another indication of the severe difficulties faced by Ethias is that its coverage ratio (the relation of the eligible assets to technical provisions, which at all times has to be above 100%) fell below 100%, breaching another regulatory requirement.

(22) Before the bail-out Ethias was a group of mutual insurance companies and so it had no shareholders. Instead, Ethias was owned by its "members", i.e. the policyholders, who benefitted from their ownership through profit sharing (on average EUR 11 million p.a. in 2000-2007) and premium pay-backs (on average EUR 34 million p.a. in 2000-2007).

(23) As a result of Ethias' mutual character, there was no common equity that could be rapidly increased through a shares issue. Therefore Ethias' legal structure had to be changed to allow the State recapitalisation. This was done by putting the operational activities of Ethias into a limited liability company (Ethias S.A.) which is owned by a newly created holding Ethias Finance, of which the State owns 75% and some of its historic owners of Ethias hold the remaining 25%.

(24) In the past the remuneration system encouraged the top management to seek the increase in sales volume regardless of the level of risk assumed. After the recapitalisation Ethias has put in place a new remuneration system for the members of its Executive Board. The future remuneration consists of fixed and variable parts, where no minimum bonus is guaranteed and the variable part should never exceed 25% of the fixed part. The variable part is linked to the achievement of defined aims related to mission of Ethias, its solvency, profitability, liquidity and security as well as implementation of the restructuring plan.

(25) Ethias has issued in the past two hybrid instruments: EUR 250 million of Fixed/Floating Rate Subordinated Undated Bonds issued in 2005 and EUR 75 million of Fixed to Floating Subordinated Bonds due July 2023 issued in 2008. Both instruments are accounted for by the CBFA in the available solvency margin of Ethias in the category "subordinated loans". This regulatory treatment does not require that the instruments are loss absorbing on a going concern basis. The CBFA informed the Commission that the going concern loss

absorbing feature of the hybrids of Ethias has never been examined. However, if this feature were to be examined, then, in view of the absence of possibility to annul coupon payments, the CBFA would conclude that the hybrids do not contain a going concern loss absorption feature.

Subsidiaries of Ethias

(26) Ethias has three main subsidiaries active on the insurance and retail banking market as described below. Details on these subsidiaries are provided in Annex II.

- Nateus

(27) Nateus is an insurance subsidiary of Ethias and distributes its own life and non-life insurance products through a network of brokers (it does not have a branch network). It is mainly active in transport insurance. Nateus is composed of Nateus SA (non-life), Nateus Life SA, AUDI SA (subsidiary of Nateus SA with non-life legal protection products), Nateus Nederland (a subsidiary of Nateus SA retailing fire and maritime insurance policies of Nateus) and Nateus Finance (a subsidiary of Nateus Life retailing personal loans of Ethias Banque). In 2008 the total balance sheet of Nateus was EUR 2,087 million. It holds market shares of 1% and 2% respectively in the Belgian life and non-life markets, with total gross premiums of EUR 353 million in 2008.

- Ethias Banque

(28) Ethias Banque is a bank providing loans and deposits services to Ethias customers ([200-300] million euro loans and [450-700] million euro deposits as of end June 2009). In 2008, the total balance sheet of Ethias Banque amounted to EUR 1,671 million including a EUR 625 million portfolio of mortgage loans.

- BelRé

(29) BelRé is the Luxembourg-based captive reinsurer of Ethias. The reinsurance premiums collected by BelRé in 2008 amounted to EUR 136 million. [50-60%] of these premiums were collected from clients non-related to Ethias located in e.g. Belgium, France, Luxembourg, Greece, Denmark, Italy or Austria. The total balance sheet of BelRé at the end of 2008 was EUR 1,362 million. […]. Thus at the end of 2008 the book value of BelRé in the accounts of Ethias was EUR […] million, while its market value as estimated by Ethias was EUR [200-450] million.

(30) The financial results over the period 2007-2009 of the three subsidiaries are illustrated in Table 6 below.

Table 6: The financial results over the period 2007-2009 of the three Ethias subsidiaries

(EUR million)

Net profit/loss	2006	2007	2008	2009 (estimates)
Nateus	17.7	12.4	-18.6	13.3

Ethias Banque	-15.0	-0.4	-27.7	3.4
BelRé	0	0	-0.5	0

2.2 The aid measure

(31) To rescue Ethias, in October 2008 the Belgian federal government together with the Flemish and Walloon Regions agreed to increase Ethias Group's capital by EUR 1.5 billion (EUR 500 million each), each party obtaining 25% + 1 preferential share in the holding company Ethias Finance[15]. The public investors acquired preferential shares, which give them the right to a dividend of 10% per annum and a three year carry forward of foregone payments before any dividend is paid to the holders of the remaining 25% - 3 shares. However, Ethias will pay no dividend if the solvency ratio of the company is below 150% or its coverage ratio is below 100%. The recapitalisation measure is described in detail in the Rescue decision.

(32) The capital increase allowed Ethias Group to fulfil its regulatory requirements by restoring its solvency ratio from [...]% to 166%[16] and to bring its coverage ratio back over 100%, thus allowing Ethias to remain in the market. The amount of the capital injection represents [150-200]% of the minimum capital requirements.

3. THE RESTRUCTURING PLAN

(33) The modified restructuring plan submitted on 3 May 2010 addresses the substantive issues of viability, burden-sharing and limiting distortion of competition. According to that restructuring plan, Ethias will become a smaller, more focused group, withdrawing from risky activities. Within its business model, Ethias will focus on its traditional public sector client group, corporate clients and in retail non-life insurance segment on private customers. Ethias will also reduce the overall risk profile of its investment portfolio, improve its investment and risk management procedures, increase its technical profitability and cut costs.

(34) The restructuring plan submitted by the Belgian authorities provides that Ethias balance sheet will decrease (comparing the situation as of 31 December 2008 with the end of the restructuring period on 31 December 2013) on a pro forma basis by […] and by 38% on a total asset basis, as illustrated in the graph below. […]

[…]

15 25% minus 3 shares in Ethias Finance are held by the former members of one of the three mutuals that formerly composed the Ethias group.

16 The solvency ratio of [> 100%] in paragraph 16 of the Rescue Decision was a projected ratio taking into account a different amount of latent losses as compared to the latent losses effectively established at the end of 2009 by Ethias.

(35) The restructuring plan provides that Ethias will divest several entities. All divestments are expected to happen within the restructuring period, i.e. by the end of 2013.

3.1 FINANCIAL PROJECTIONS

(36) Belgium has submitted to the Commission detailed financial information and financial projections for Ethias for the restructuring period, including a base case and three stress case scenarios.

(37) In all four scenarios, assumptions were presented in terms of Gross Domestic Product (GDP) expected growth, short-term and long-term interest rate evolution, inflation, Belgian equity index change and dividend yield projections.

(38) In the base case scenario the financial projections are based on assumptions of a prolonged period of recession and stagnation, with a return to modest growth only in 2013, contained inflation, gradual and modest increases in interest rates and no recovery in the equity market from the end 2008 level.

(39) The main financial figures as projected in the base case are presented in the graph and Table 7 below.

[…]

Table 7: Ethias' key financial projections for the restructuring period

(EUR million)

	2009	2010	2011	2012	2013
Premium Life	[…]	[…]	[…]	[…]	[…]
Premium Non-life	[…]	[…]	[…]	[…]	[…]
Available solvency margin	[…]	[…]	[…]	[…]	[…]
Required solvency margin	[…]	[…]	[…]	[…]	[…]
Solvency ratio	[…]	[…]	[…]	[…]	[…]

(40) In 2013 the projected return on equity of Ethias would stand at [10-15%] in the base case scenario.

(41) The Belgian authorities also provided three stress scenarios with the following assumptions:

- A general stress scenario with the same GDP assumptions as the base case, an initial increase of the short-term and long-term interest rates which remain throughout the restructuring period at levels comparable to the base case, inflation below 2% during all the restructuring period and an assumption of a further 25% decrease in the equity markets followed by a slow recovery.

- An inflationary scenario in which inflation climbs up to 6% and progressively declines by the end of the restructuring period, slow growth of GDP is assumed and a strong increase in short-term and long-term interest rates followed by a progressive decrease to levels comparable to the base case in 2013, whereas a moderate recovery is assumed from the end 2008 levels for the equity markets.
- A deflationary scenario in which inflation would turn slightly negative for two years of the restructuring period before increasing and would remain below 2% at the end of the restructuring period. Further assumptions are four years of economic recession without any recovery, relatively low levels of interest rates and a cumulative 60% decrease in the equity markets from end 2008 without recovery until the end of the restructuring period.

(42) The CBFA has conducted stress tests of Ethias' financial projections based on the financial situation of Ethias on 30 June 2009 covering the period 2009-2013. In all three stress scenarios the solvency ratio remains above 150% during the entire restructuring period and the coverage ratio remains well above the required level of 100%. Furthermore, in all stress scenarios Ethias would achieve yearly profits as of 2010, which would increase until the end of the restructuring period. In respect of […], the CBFA confirmed that it has no reason to consider that Ethias would not respect regulatory requirements. In particular, in view of […], the CBFA notes that mechanisms have been put in place for the purpose of enabling the company to meet at any moment regulatory requirements.

3.2 RESTRUCTURING COMMITMENTS

(43) The restructuring plan of Ethias is based on commitments by the Belgian authorities, which aim to achieve a reduction in the risk profile of the beneficiary as well as providing for structural divestments and behavioural restrictions as described in detail below.

3.2.1 Commitments to improve risk and investment management as well as to redesign internal reporting

(44) One of the main sources of Ethias' difficulties was the weak risk management and investment control, which resulted in its large exposure to Dexia shares and other non-fixed income investments and consequently in significant losses. Ethias is committed to address this cause of its difficulties by a major reorganisation of the investment and risk management procedures. New formal procedures, committees and control mechanisms were established in 2009 and are to be maintained on a permanent basis. Additionally, new reinvestment guidelines have been adopted (see Annex III for more detail). The main principles of the new reinvestment strategy outlined in the guidelines are as follows: a) reinvestment assets to be allocated in fixed-income, investment grade instruments (primarily government and corporate bonds); b) exposure to the financial sector to be reduced by favouring non-financials' corporate bonds; c) strict limitation of exposures to a single issuer; d) maturities structure on the active and passive side to be matched.

(45) Ethias already in 2009 reorganised the management structure of the group in order to clearly assign tasks and management responsibilities. At the same time, the internal reporting system was also entirely redesigned, allowing for regular and frequent

management reporting on key areas of Ethias activities: business operations, investment and risk management. For more detail on the reorganisation of the internal processes see sections 1.1 to 1.4 of the commitments in Annex I.

3.2.2 Commitment to reduce the liquidity risk linked to 'First' product

(46) Ethias is reducing the liquidity risk linked to 'First' product. This engagement translates into the following concrete commitments:

(a) Ethias' participation, at its own expense, in the Belgian State's Guaranteed Fund insuring EUR 100,000 per client account;

(b) The immediate interruption of all new sales of the (historical) 'First' product;

(c) The replacement of the 'First' product with a much more conservative 'Top First' product, including e.g. exit fees which are dependent on economical conditions. This last commitment will be implemented in a manner consistent with the commitment on Retail Life underwriting disengagement, as provided for in recital (58) below.

(47) All these measures have been fully implemented in 2009 and will remain in place until at least end of 2013.

3.2.3 Commitment to reduce guaranteed rate on existing first pillar contracts

(48) Ethias commits to reduce its guaranteed rate on its whole first pillar life portfolio of contracts. This engagement translates into the following concrete commitments:

(a) *New Business*[17]: for all potential new first pillar life contracts, Ethias commits to a maximum guaranteed rate […][18] […].

(b) *Existing portfolio*: Ethias is renegotiating the guaranteed rate […] with all first pillar clients. Ethias commits to reduce the guaranteed rate of contracts representing at least [80-95]% of the remaining first pillar reserves to a maximum defined as […][19] […].

3.2.4 Commitment to reduce costs

(49) Ethias commits to implement the measures of the restructuring plan on the reduction of its administrative, IT and claims costs. Due to the implementation of these measures, Ethias will achieve recurrent costs savings, which will gradually increase over the restructuring

[17] New business is any insurance contract and/or policy concluded by the Ethias Group after the Effective Date. "Effective Date" is the date of adoption of the present decision.

[18] […]

[19] […]

period to achieve a level of costs savings of not less than [60-150] million euro for the year 2013 as compared to the baseline[20].

(50) To date, [20-60] million euro in cost reductions have already been achieved.

3.2.5 Commitment to increase tariff for non-life public authorities and corporate clients

(51) Ethias commits to implement price increases on non-life public authorities and corporate policies, as presented in the restructuring plan.

(52) The targeted portfolio represents [100-150] million euro of premiums and tariff increases have already been implemented on 35% of the targeted portfolio.

3.2.6 Commitment to increase tariff for non-life retail clients

(53) Ethias will implement price increases on the non-life retail portfolio, as presented in the restructuring plan. This engagement translates into the following concrete commitments:

(a) Linear price increases between [1-5]% and [20-35%] on the whole portfolio phased in between January 2009 and April 2010;

(b) Additional granular price increases on motor insurance as of April 2010.

(54) To date, linear tariff increases have been totally implemented and granular tariff increases will be implemented as of April 2010, as planned.

(55) If and when necessary, price increases in non-life will be implemented as a result of the commitment on the profitability of the non-life business, as provided for in recital (64) below.

3.2.7 Commitment to discontinue third-party reinsurance at BelRé

(56) Ethias commits to discontinue all accepted third-party reinsurance at BelRé. This commitment translates as follows: Ethias stops any new business underwriting in accepted third-party reinsurance at BelRé.

(57) This measure is already being implemented as no new business has been underwritten since 1 January 2010.

3.2.8 Commitment to a disengagement from retail life underwriting

(58) Ethias will disengage from retail life underwriting. This engagement translates into the following concrete commitments:

(a) Announce immediately after the Effective Date, through a public press release, that Ethias will not underwrite any new retail life contracts;

[20] The term "baseline" refers to the evolution of the total cost base of Ethias over 2009-2013 before impact of the restructuring plan, as defined in April 2009.

(b) Stop any new business underwriting in retail life as soon as legally and organisationally possible, and in any event within 5 weeks of the Effective Date;

(c) Remove 100% of the retail life reserves from the consolidated balance sheet of Ethias by end of 2013. The removal shall be understood as a transfer to a Non-Affiliated Undertaking[21] or a complete in-house run-down of the portfolio by the Ethias Group; and

(d) Should Ethias distribute third-party retail life products, then it will make explicit mention of the brand of the third-party underwriter in the product documentation and contract.

3.2.9 Commitment to reduce holding of equity and to reduce the risk profile of the investment portfolio

(59) Ethias SA commits that its consolidated exposure (i.e. aggregating the exposure of Ethias SA and of all of the Ethias Subsidiaries) to investments will be reduced as follows:

(a) Ethias will maintain its holding of equity at a level that does not exceed […] until 31 December [2012-2014]. For the purpose of this commitment, Ethias' maximum holding of equity at the end of each financial year shall not exceed […]. This commitment becomes effective on 31 December […], the date at which Ethias will have reduced its holding of equity to […];

(b) Reduction of structured products and ABS to a maximum of [3-8]% of the investment portfolio by the end of […][22] [23] (book value) and maintain this level until 31 December [2012-2014];

(c) Reduction of [75-100]% of its holding of Dexia shares (calculated as of 31 December 2009) to a maximum of [0.1-1]% of Ethias' investment portfolio (book value) within […] from the Effective Date; and

(d) From the moment the holding of Dexia shares has been reduced to a maximum of [0.1-1]% of Ethias' investment portfolio (book value) and at the latest within […] from the Effective Date as provided by paragraph (c), any remaining exposure to Dexia shall be included as holding of equity for the purpose of paragraph (a).

(60) Transfers of shares and structured products shall only be counted as "reductions" within the meaning of this commitment if and to the extent the transfers are to entities not controlled by Ethias SA or any of the Ethias Subsidiaries.

(61) The reductions contemplated by this commitment shall be realized without any additional State aid being granted to Ethias SA or any Ethias Subsidiaries. In the case of a transfer realised by way of demerger/division, Ethias shall bring the book value of such transferred

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[21] Affiliated Undertaking is all undertakings controlled by Ethias SA and/or by the ultimate parents of Ethias SA.

[22] As per the restructuring plan's exit plan from structured products.

[23] Including both on- and off-balance sheet items.

assets in line with their market value[24] (in the event that their book value is higher than market value) with the subsequent recognition of potential losses, if any, before any such demerger/division.

3.2.10 Commitment to a deleveraging from the Repo line

(62) Ethias will significantly reduce its usage of the Repo line[25]. This engagement translates into a concrete commitment to gradually decrease the total debt related to credit institutions in the consolidated balance sheet by 40% between end of 2008 and end of 2013:

[…]

(63) Ethias retains temporary flexibility on these intermediary target values only for liquidity purposes in stressed environments.

3.2.11 Commitment on the profitability of the non-life business

(64) Ethias takes a firm "comply or adjust" commitment regarding its combined ratios. This commitment translates as follows:

(a) Ethias commits to an aggregate yearly net[26] combined ratio for Ethias' non-life business as follows:

(i) [95-100]% in 2011;

(ii) [95-100]% in 2012; and

(iii) [93-99]% in 2013.

(b) Should the defined combined ratio target not be met, Ethias commits to take appropriate measures within a month following the publication of its annual results to remedy this situation on the relevant subgroups[27], subgroups being defined as following :

- Fire (group or individuals);
- Car (group or individuals);

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24 Such Market Value is defined as the average of the closing price on Euronext Brussels of the 20 business days prior to the announcement of the transaction and, in the absence of announcement, prior to the date of signing of the legally binding agreement of transfer.

25 "Repo line" refers to all the Repurchase agreements set between Ethias and any other financial institutions. A Repurchase agreement is a contract which allows Ethias to use a financial security as collateral for a cash loan at a fixed rate of interest.

26 Taking into consideration third-party reinsurance only. Intra-group reinsurance shall not be taken into account.

27 The "relevant subgroup" refers to those subgroups, which displayed the worst deterioration in technical result (i.e. Combined ratio) during the past year.

- Third party liability (group or individuals);
- Health (group or individuals); and
- Workers Compensation.

The corrective measures shall include:

(i) the implementation of a non-linear tariff increase on the relevant subgroups. In duly justified cases, where tariff increase would not be appropriate, Ethias may instead resort to the reduction of coverage and/or increase of franchise having the equivalent effect of tariff increases;

or

(ii) the divestment of the relevant subgroup.

Such measures may also include:

(iii) the termination of selected contracts in the relevant subgroups.

For the purpose of this point, where the target for the year 2013 has not been met, the target combined ratio of [93-99]% shall apply for the year 2014

(c) Should the combined ratio targets, as set out in paragraph (a), not be met in two consecutive years, Ethias will be obliged to implement linear[28] tariff increases of [0-5]% in excess of the tariff increase automatically recorded for inflation where applicable, on the global non-life portfolio in the third and following years, until the combined ratios return to the committed level. This figure will take into account any tariff increase already implemented in the three last months of the second of the two consecutive years in application of paragraph (b)(i) above.

3.2.12 Commitment to remunerate public shareholders

(65) Ethias takes a firm commitment to distribute as dividend to its public shareholders, every year in which Ethias SA's solvency ratio is not lower than 150%, its after-tax profit up to the level set in Article 7 of the Shareholders' Agreement, as from the financial year 2012.

(66) Ethias commits not to distribute any dividend to Ethias Droit Commun for the duration of the restructuring period.

3.2.13 Acquisition Ban

(67) Ethias commits not to acquire more than 5% of the capital of other credit institutions or investment firms (as defined by Directive 2004/39/EC on markets in financial

[28] Weighted average increase of premium level across the whole non-life portfolio.

instruments[29]), or insurance or reinsurance companies. This commitment will apply for three years from the Effective Date.

(68) The preceding commitment does not preclude, upon receipt of the prior approval by the Commission, the acquisition by Ethias of a shareholding in consideration of a contribution of holdings in companies or activities performed in the framework of a transfer or the establishment of common property (by way of merger or contribution) on assets or activities, to the extent that in such hypothesis the said shareholding does not provide to Ethias the exclusive or joint control over the entity benefiting from the contribution or resulting from the merger.

(69) Ethias will inform the Commission of any acquisition project, including any project envisaged by companies that Ethias jointly controls.

3.2.14 Advertising Ban

(70) Ethias will not use the granting of the aid measures or any competitive advantages arising in any way from the aid for advertising purposes.

3.2.15 Commitment to divest Ethias Banque

(71) Ethias commits to divest or procure the divestment of its Ethias Banque SA (as described in Annex II) subsidiary. This is a firm commitment to sell [75-100]% of its participation in Ethias Banque SA by end of […] to a purchaser meeting the criteria set out in Section 2.5 of Annex I.

(72) For the purpose of the above deadline, this commitment will be considered fulfilled if the binding and final agreement (i.e. an agreement that can not be terminated unilaterally by Ethias without payment of a penalty) for the sale of [75-100]% of Ethias' participation in Ethias Banque SA has been concluded by 31 December [..]. In any event the final and irreversible transfer of ownership rights must occur within 6 months from the binding agreement.

3.2.16 Commitment to divest the Nateus Group

(73) Ethias commits to divest, or procure the divestment of Nateus SA and Nateus Life SA (as described in Annex II), and their subsidiaries (together the "Nateus Group") by the end of the Trustee Divestiture Period[30] as a going concern. This is a firm commitment to sell [75-100]% of its participation in the Nateus Group to a purchaser meeting the criteria set out in Section 2.5 of Annex II.

[29] Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC, OJ L 145, 30.4.2004, p. 1.

[30] Trustee Divestiture Period starts at the end of the First Divestiture Period specific for a given subisidiary, should the subsidiary not be sold by that time, and ends on 31 December 2013. Within the Trustee Divestiture Period, the Divestiture Trustee shall sell the subsidiary at no minimum price to a purchaser.

(74) To carry out the divestiture, Ethias commits to find a purchaser and to enter into a final binding sale and purchase agreement for the sale of [75-100]% of its participation in the Nateus Group at the latest on 31 December […] (the “Nateus First Divestiture Period”) as soon as a purchaser submits an unconditional and binding bid which is equal or superior to the book value as per 31 December […](amounting to EUR […])[…]. If Ethias has not entered into such an agreement at the end of the Nateus First Divestiture Period, Ethias shall grant the Divestiture Trustee (as defined in Annex I) an exclusive mandate to sell its participation in the Nateus Group in accordance with the procedure described in paragraph 67 of Annex I. In that case, the sale of [75-100]% of Ethias’ participation in the Nateus Group will be finalised before 31 December […] (the “Nateus Trustee Divestiture Period”).

(75) Ethias shall be deemed to have complied with this commitment if, by the end of the Nateus Trustee Divestiture Period, Ethias has entered into a final binding sale and purchase agreement.

3.2.17 Commitment to Divest BelRé

(76) In addition to the commitment to discontinue third-party reinsurance at BelRé contained in recital (56) above, Ethias commits to divest BelRé (as described in Annex II).

(77) Ethias commits to:

(a) wind up BelRé within […] of the Effective Date;

or

(b) enter into a final binding sale and purchase agreement for the sale of [75-100]% of its participation in BelRé within […] of the Effective Date (the “BelRé First Divestiture Period”) as soon as a purchaser submits an unconditional and binding bid, which is equal or superior to the book value as per 31 December […](EUR […] million) […]. If Ethias has not entered into such an agreement at the end of the BelRé First Divestiture Period, Ethias shall grant the Divestiture Trustee an exclusive mandate to sell BelRé in accordance with the procedure described in paragraph 67 of Annex I. In that case, the sale of [75-100]% of Ethias’ participation in BelRé to an unrelated third-party will be finalised before 31 December […] (the “BelRé Trustee Divestiture Period”).

Ethias shall be deemed to have complied with this commitment if, by the end of the BelRé Trustee Divestiture Period, Ethias has entered into a final binding sale and purchase agreement.

(78) The combination of all the above commitments together with the implementation of the restructuring plan will lead to a reduction of the consolidated balance sheet of 38% at the

end of 2013[31] to the level of EUR 17.8 billion, in comparison to EUR 28.6 billion as of the end of 2008 (for more details see recital (34) above).

3.2.18 Recapitalisation commitment

(79) The Belgian State (as shareholders of Ethias Finance SA) together with Ethias Finance SA irrevocably commit to cause Ethias Finance SA and/or Ethias SA to proceed with a capital increase (the "Capital Increase") if, at any time prior to the end of the financial year during which the commitment referred to in recital (59)(c) (reduction of holding of Dexia shares) has been implemented, the Ethias solvency ratio decreases below […].

(80) The Capital Increase shall:

- be completed within […] from the end of the quarterly period during which the commitment referred to in recital (59)(c) (reduction of holding of Dexia shares) has been implemented;
- entail the issuance of shares that represent the capital of Ethias Finance SA, or Ethias SA, as the case may be;
- be subscribed by one or more private investors;
- occur regardless of the dilution that for any Committing Party[32] might result from the subscription; and
- have the effect of restoring the Ethias SA solvency ratio to at least […] at the end of the financial year during which the Capital Increase is completed.

(81) This commitment shall cease to apply on the first day after the end of the financial year during which the commitment referred to in recital (59)(c) has been implemented, subject only to the Ethias solvency ratio being at least […] as of the end of that financial year (and, if it is less than […], a Capital Increase being realised that satisfies the requirements set out in recital (80) above).

(82) Ethias will provide to the Commission audited annual accounts for the full financial year during which the commitment referred to in recital (59)(c) has been implemented. Those accounts will properly reflect any gains or losses, as the case may be, that shall have been realised in connection with any transactions in Dexia shares during that financial year.

3.2.19 Duration of the commitments, implementation, review and reporting

(83) Unless otherwise specified, the commitments apply until 31 December 2013.

(84) Ethias' compliance with the commitments will be monitored and, if needed, enforced by a Trustee, whose appointment procedure, responsibilities and powers are outlined in section 9 of Annex I.

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[31] This target balance sheet reduction excludes potential increases due to new regulatory requirements, e.g., Solvency II.

[32] The "Committing Party" is any of the shareholders of Ethias Finance SA or Ethias Finance SA.

(85) The Commission may, upon a sufficiently reasoned application by the Belgian authorities, and taking into account the views of the Monitoring Trustee, decide that the commitments cease to apply in whole or in part in the event that a controlling interest in Ethias Finance and/or Ethias SA is acquired by one or more private investors.

(86) On the basis of a sufficiently reasoned submission by the Belgian authorities, and taking into account the views of the Monitoring Trustee, the European Commission may:

(a) extend the target dates for the divestment of one or more assets as listed in Sections 3.2.15, 3.2.16 and 3.2.17 above or to extend the time allowed for the disengagement provided for in Section 3.2.8 above;

(b) authorise Ethias to substitute the divestments listed in Sections 3.2.15, 3.2.16 and 3.2.17 above by the divestment of assets representing an equal amount on the Ethias consolidated balance sheet.

(c) dispense with, amend or replace one or more of the above mentioned commitments;

(d) take into account Ethias' short-term financing needs, in particular for the application of the measure listed in Section 3.2.10 above

(87) Except for changes that are required for the implementation of the present commitments and in particular Section 3.2.12 above, the rights attached to the shares subscribed by the public shareholders on 13 February 2009 shall remain unaltered.

(88) Within 15 days of the end of each year and half year or as otherwise agreed with the Commission, the Monitoring Trustee[33] shall submit a draft written report in English or French to the Commission, Ethias and the Belgian authorities, giving each the opportunity to submit comments within 5 working days. Within 5 working days of receipt of the comments, the Trustee shall prepare a final report and submit it to the Commission, taking into account, if possible and at its sole discretion, the comments submitted. The Trustee will also send a copy of the final report to Belgium and to Ethias. If the draft report or the final report contains business secrets that must not be disclosed to Ethias, Ethias shall only be provided with a non-confidential version of the draft report and the final report. Under no circumstances will the Trustee submit any version of the report to Belgium or Ethias before submitting it to the Commission.

(89) The report shall cover the Monitoring Trustee's fulfilment of its obligations under the mandate and the compliance of the parties with the commitments.

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[33] One or more natural or legal person(s), independent of Ethias, who is approved by the Commission and appointed by Ethias, and who has the duty to monitor Ethias' compliance with the conditions and obligations attached to the Decision.

4. POSITION OF BELGIUM

(90) The Belgian authorities do not contest that the notified measures constitute State aid within the meaning of Article 107(1) TFEU. However, they consider the notified measures compatible with the internal Market on the basis of Article 107(3)(b) TFEU, as the interventions are required to remedy a serious disturbance in the economy of a Member State.

(91) Ethias, according to the Belgian authorities, is a systemically relevant insurer as it is the third largest in Belgium and plays a pivotal role within the country's financial system and the national economy as a whole. The Belgian authorities recall that Ethias' crucial role was recognised by the Commission in the Rescue Decision.

(92) The Belgian authorities regard the measures as fulfilling the requirements of the Communication from the Commission on the return to viability and the assessment of restructuring measures in the financial sector in the current crisis under the State aid rules (hereinafter "Restructuring Communication")[34]. Moreover, they consider the company as not being distressed in light of its overall profitability prior to the crisis. Therefore, they ask the Commission to reconsider its position taken in the Rescue Decision.

(93) In respect of the extension of the national deposit guarantee scheme to insurance contracts of the "branche 21" with the exception of life insurance contract falling under the pension second pillar (the State aid character of which was left open in the Rescue Decision), Belgium notes that the scheme is open to all companies established in Belgium, as well as to all branches of companies established in a Member State of the EEA. Therefore the extension of the scheme does not have as a consequence to provide a selective advantage to any specific company, nor does it strengthen the position of a company on any specific market. Therefore Belgium considers that the system does not provide any selective advantage to a particular company and does not strengthen the position of any particular company in the market relative to other companies.

5. ASSESSMENT

5.1 Existence of aid

(94) As stated in Article 107(1) TFEU, any aid granted by a Member State or through State resources in any form whatsoever, which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the internal market.

(95) The Commission already found in its Rescue Decision that the EUR 1,500 million capital injection granted by Belgium constitutes State aid[35]. In line with Commission's practice[36],

[34] OJ C 195, 19.08.2009, p. 9.
[35] Paragraph 48 of the Rescue decision of 12 February 2009, OJ C 176, 29.07.2009, p.1.
[36] See in particular paragraph 77 of IKB decision of 21 October 2008, OJ L 278, 23.10.2009, p.32, and paragraph 122 of Lloyds decision of 18 November 2009, OJ C 46, 24.02.2010, p.2.

the Commission considers that the State aid corresponds to the entire amount of the capital injection.

(96) The beneficiary of the aid is Ethias as defined above (i.e. Ethias SA and its subsidiaries), although the capital was injected by Belgium into Ethias Finance. Ethias Finance does not have any operational activities and was created solely for the purpose of serving as an investment vehicle for the capital injection and shareholding of Ethias SA. The capital injected was transferred in full to Ethias SA (in compliance with the terms of the capital injection) and therefore the economic advantage is analysed at the level of the latter.

On the extension of the State deposit guarantee scheme to Branch 21 products

(97) In the Rescue Decision, the Commission considered that the extension of the deposit insurance scheme to the insurance contracts of the "branche 21" constituted an advantage for Ethias[37]. The Commission declared that the State aid implications of this measure would be assessed in connection with the Commission's final conclusions on the State aid to Ethias.

(98) According to the information provided by the Belgian authorities after the Rescue Decision, that scheme is open to all insurance companies established in Belgium or branches of insurance companies established in another Member State under the same conditions.

(99) The Commission notes that although the extension of the scheme has benefited Ethias, the scheme is available to all market participants on equal terms. In view of the above, the Commission considers that the advantage conferred by the measure is not selective and therefore does not constitute State aid in the meaning of Article 107(1) TFEU.

5.2 Compatibility of the aid

(100) The Commission must assess the continuation of all previous emergency aid measures as restructuring aid. The compatibility of the restructuring aid is assessed on the basis of the restructuring plan in the context of the Restructuring Communication.

5.2.1 Degree of restructuring required

(101) As established in point 4 of the Restructuring Communication, the degree of restructuring required depends on the risk profile of the beneficiary and the relative and absolute levels of aid received. The Commission will assess these points in light of the Communication on the recapitalisation of financial institutions in the current financial crisis: limitation of aid to the minimum necessary and safeguards against undue distortions of competition[38] (hereinafter "Recapitalisation Communication") and the Restructuring Communication.

[37] Paragraph 49 of the Rescue Decision, OJ C 176, 29.07.2009, p.1.
[38] OJ C 10, 15.1.2009, p. 2.

(102) According to the Annex to the Recapitalisation Communication the Commission will value positively the assessment of the institution's solvency. In the case of Ethias all the regulatory capital of the company was entirely depleted as a consequence of the crisis, to such an extent that the available capital was negative before the State intervention. In fact, in the absence of the State intervention the solvency ratio at the end of 2008 would have stood at [...]%. The magnitude of the capital shortfall suffered by Ethias points to a very serious level of distress.

(103) In light of the Annex to the Recapitalisation Communication and in view of point 4 of the Restructuring Communication, the Commission compares the aid amount received by a financial institution to its risk weighted assets (RWA). An aid amount exceeding 2% of RWA is taken as indicating a need for in-depth restructuring. In the case of insurance companies, regulatory capital is not defined in terms of RWA. Their minimum capital requirements are defined in terms of minimum solvency margin requirements, where the available capital defined as the available solvency margin must be at least equal to the minimum solvency margin requirements[39]. However, as 2% of RWA represents a quarter of the minimum capital requirements for banks, the Commission has taken the view that this provision of the Restructuring Communication can be applied also to insurance companies, taking 25% of the minimum solvency margin requirements as a relevant proxy for the 2 % RWA benchmark[40].

(104) In Ethias' case, the aid amount represents [150-200]% of the minimum capital requirements, which, as explained above, is comparable to a level of [11-15]% RWA[41]. Given the aid amount relative to the size of Ethias and the fact that the company would have fallen into insolvency in the absence of State's intervention, contrary to the position of the Belgian authorities, it is obvious that Ethias requires in-depth restructuring to return to long-term viability. This will be taken into account in the assessment of the restructuring plan.

5.2.2 THE RESTORATION OF VIABILITY

(105) In the Rescue Decision the Commission identified the following causes for the difficulties of Ethias which led to the State intervention[42]: (i) loss in value of the participation of the company in the capital of Dexia; (ii) exposure to Lehman Brothers, in particular related to financial products whose capital was guaranteed by Ethias; (iii) withdrawals from the account First causing an acute liquidity problem.

(106) The restructuring plan addressed the causes of difficulties identified in the Rescue Decision as well as other risk factors of the company.

- *Composition of the investment portfolio of Ethias*

[39] The available solvency margin is typically expressed in percentage of the required solvency margin, so the minimum value of the resulting solvency ratio should be 100%.
[40] See also paragraph 67 of SNS decision of 28 January 2010, OJ C 93, 13.04.2010, p.2.
[41] See footnote 42 to paragraph 141 of ING decision of 18 November 2009, not yet published.
[42] Paragraphs 10-14 of the Rescue Decision.

(107) In the past, Ethias has invested in relatively risky financial instruments, which offered higher returns compared to bonds. The higher returns were used in turn to offer better conditions to clients. As a result of its previous investment strategy Ethias has by industry standards a comparatively high exposure to non-fixed income investments (mainly equity)[43]. The volatility of investment returns and the capital loss risk associated with equity is higher compared to other asset classes, in particular fixed income.

(108) Further, while there was a general trend in the industry to decrease exposure to non fixed-income products after the outbreak of the financial crisis, this trend could not be observed in the case of Ethias.

(109) The restructuring plan addresses the issue of the relatively high risk of its investment portfolio. In particular, Ethias will bring the proportion of equity in its portfolio in line with the market average, as described in recital (59)(a).

(110) Ethias' holding of structured products also constituted in the past a risk factor for the company. As described in the Rescue Decision[44] Ethias incurred losses due to guarantees offered on third party structured products. Therefore it is appropriate for Ethias to limit its exposure to structured products during the restructuring period and keep the proportion of structured products in its portfolio at a level not exceeding the market average (see recital (59)(b)).

(111) Finally, Ethias will follow precise Reinvestment guidelines (see Annex III), which will ensure that when investments come to maturity, the funds will be reinvested in relatively low risk financial instruments. In particular, fixed income will only be reinvested in investment-grade bonds and financial instruments issued by non-financials, the latter being favoured overall for reasons of diversification.

(112) The commitments undertaken by Ethias in respect of the composition of its investment portfolio during the restructuring period as described above are appropriate to ensure that Ethias is not engaging in excessive risk taking, which was one of the main causes of its difficulties in the past.

- *Reduction of the exposure of Ethias to Dexia*

(113) The exposure of Ethias to Dexia accounted for a significant proportion of the losses of Ethias in 2008. Furthermore, more than EUR [200-500] million of latent losses are currently linked to Ethias' exposure to Dexia, which have not been yet registered as losses by the insurer (see recital (17)). The concentration of a significant proportion of the

[43] By collecting premiums for cover against future uncertain risks insurance companies undertake insurance obligations in respect of policyholders to be paid in the future, when the insurance events occur. Therefore, the funds collected from policyholders can be invested until they need to be paid out. Insurance undertakings generally invest in short-term or medium-term liquid fixed-income instruments, such as bonds, for insurance events occurring within a short duration (this is the case with most non-life insurance policies, e.g. car insurance) and more in longer-term instruments for insurance events occurring with lesser frequency (life insurance).

[44] Paragraph 12 of the Rescue Decision.

investment portfolio of Ethias in a single stock (3.6% of the total investment portfolio at the end of 2009) does not reflect a prudent investment strategy consistent with long-term viability. In fact, a prudent investment strategy would maximise the benefits of diversification to decrease the total risk of the investment portfolio.

(114) The magnitude of the latent losses linked to the participation of Ethias in Dexia constitutes an uncertainty factor which can affect the financial performance of the company and its solvency position and thus compromise its return to long-term viability. Therefore, Ethias' commitment to reduce its exposure to Dexia shares by [75-100]% over […] is an appropriate measure to address this issue, which was another major source of Ethias' difficulties. According to the financial projections Ethias will be in a position to cover the losses resulting from the disposal of [75-100]% of its participation in Dexia. However, to further dissipate any uncertainty related to the size and possible volatility of the latent losses linked to Dexia's participation, Belgium has committed to cause a capital increase in Ethias from private investors if the solvency position of Ethias is weakened below […] in the period when the disposal of the participation will occur. That commitment will ensure that Ethias will continue to operate in the market with a level of capital sufficient to also cover future unforeseen losses, without the necessity of further State aid.

- *Addressing liquidity risk related to the product First*

(115) The immediate cause of Ethias' difficulties which triggered the State intervention was a liquidity problem due to withdrawals by clients of their investments in the product First. The product First was the main product of the retail life segment of Ethias. Although the product First met the formal requirements to be sold as a life insurance product, its features made it comparable to a deposit account for all practical purposes[45]. In particular, no penalty was associated with surrender of the policy. In the context of the financial crisis and as a consequence of a loss of confidence in Ethias, the company experienced a "run" by its customers on its product First[46] as described in paragraph 13 of the Rescue Decision.

(116) In order to address the liquidity risk associated with its retail life activities, which was at the origin of the State intervention, Ethias will cease underwriting any new retail life products within five weeks[47] of the present decision. To address the liquidity risk associated with its existing exposure stemming from products sold in the past, before the end of the restructuring period Ethias will completely run down or transfer all retail life reserves to a non-related third party (see recital (58) above). The liquidity risk of Ethias is considered to be sufficiently addressed in view of the above and will not constitute a threat to the viability of the company in the future.

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45 See paragraph 13 of the Rescue Decision.

46 During the month of October 2008 EUR 600 million was withdrawn from the account First.

47 Ethias needs 5 weeks to cease new retail life business underwriting because its current retail life products typically have a clause stipulating that a customer can delay their first payment for 30 days after contract issuance. Only after this period the contract comes into effect. As a consequence, even if all commercial activities are stopped immediately, there is a minimum period of 30 days during which Ethias cannot guarantee that no new retail life policies are underwritten. Some additional time, which takes the period to 5 weeks, is the minimum necessary to allow the company to properly inform its commercial sales force, IT and administrative staff of its disengagement from retail life underwriting.

(117) Ethias will also reduce its use of repurchase agreements based on a precise schedule. This is appropriate as financing through repurchase agreements was necessary mainly due to the retail life activities similar to banking activities. Once the retail life business is transferred outside of Ethias or completely run-down, the company should be able to cover its liquidity needs predominantly from other sources.

- *Enhanced profitability of the first pillar business*

(118) The restructuring plan and the commitments outlined above (see recital (48)) provide for the restoration of the operating profitability of the first pillar life insurance. This will be achieved by reducing guaranteed rate on existing life first pillar contracts to a level which is achievable even under conservative assumptions.

- *Setting up an adequate corporate governance structure*

(119) The corporate governance structure of Ethias has been overhauled as part of the restructuring plan. The new governance structure based on an enhanced role of the Risk Committee, where the Chief Risk Officer is a permanent member of the Executive Committee, is appropriate to ensure that strategic decisions will be based on sound economic analysis without incurring excessive risk. The new structure will allow direct accountability of the risk controlling bodies.

(120) Further, the remuneration structure of the Executive Committee members and the management based on risk-adjusted performance indicators will align the structure of incentives with the long-term interest of the shareholders, as opposed to a remuneration structure based only on the realised volume of sales.

(121) The overall structure of the company has been significantly simplified[48]. The simplification of the legal structure is appropriate to allow effective control and accountability within the company.

- *Divestment of Ethias Banque*

(122) Ethias will sell its banking subsidiary Ethias Banque which has been historically loss-making. Although Ethias Banque did generate a profit in 2009, the disposal of the bank is consistent with the aim of restructuring to refocus on Ethias' core insurance activities.

- *Financial projections*

(123) As required in point 13 of the Restructuring Communication Belgium has provided to the Commission financial projections over the entire restructuring period covering both a base case scenario and three stress case scenarios.

(124) The financial projections provided in the restructuring plan rely in the base case on assumptions which are sufficiently prudent and conservative. In the base case, Ethias would generate profits and consolidate its capital basis throughout the restructuring period. At the

[48] See paragraphs 22-30 of the Rescue Decision.

end of the restructuring period the projected return on equity of Ethias appears in line with the current market requirements for the industry.

(125) The Commission notes that in the stress cases Ethias relies on assumptions provided by the CBFA and considered as stress scenarios by the CBFA. The Commission does not contest that these assumptions contain a sufficient level of stress to assess Ethias' ability to remain solvent. According to the resulting financial projections, Ethias would remain solvent during the entire restructuring period under all three stress scenarios. The Commission considers that having provided three different stress scenarios strengthens the robustness of the stress testing in this case. The scenarios in particular cover the case of a protracted economic recession. Further the national regulator has validated the results of the stress testing of Ethias according to which Ethias would not breach the regulatory solvency requirements at any time during the restructuring period under any of the three stress scenarios.

(126) In view of the above, the Commission concludes that the financial projections of Ethias demonstrate a return to viability of the company as required by the Restructuring Communication.

5.2.3 OWN CONTRIBUTION / BURDEN-SHARING

(127) The Restructuring Communication indicates that an appropriate contribution by the beneficiary is necessary in order to limit the aid to the minimum and to address distortions of competition and moral hazard. To that end, firstly, the restructuring costs should be limited while, secondly, the aid amount should be limited thanks to a significant own contribution.

(128) As regards the limitation of the restructuring costs, the Restructuring Communication indicates in point 23 that the restructuring aid should be limited to cover the costs which are necessary for the restoration of viability. Furthermore, in order to keep the aid limited to a minimum, financial institutions should first use their own resources to finance the restructuring. Accordingly, the costs associated with the restructuring should not only be borne by the State but also by those who invested in the institution, by absorbing losses with available capital and by paying an adequate remuneration for State interventions.

(129) The Commission observes that the historic owners of Ethias have contributed to the costs of restructuring. In particular, the historic owners, if considered as a whole, have lost control of the company, as their stake was diluted from 100% to 25%. Additionally, most of them have entirely lost the ownership of the company without receiving any compensation, with the exception of public entities that are members of the mutual Ethias Droit Commun which received collectively as a mutual a minority stake in the holding company. As the State obtained a 75% stake in the form of preferential shares, these remaining former shareholders have only a junior stake in the equity of the holding company as compared to the Belgian State. Thus they may not receive any remuneration before the public shareholders receive cumulated interest at least for the past three years. The same would apply upon resale of the company, meaning that the Belgian State would be remunerated, including any accrued remuneration, first. In other words, any profits if

distributed or any value of the company following the sale would go to the new public shareholders before the remaining historical shareholders grouped in Ethias Droit Commun receive any money.

(130) In the present case, the dilution of existing shareholders is significant. In line with its practice under the Restructuring Communication[49], the Commission examines whether the financial position of existing shareholders has been totally or partially diluted as a result of the capital injection. When this is the case, the Commission considers that an adequate burden-sharing has been achieved.

(131) In respect of the contribution to restructuring costs through internal resources generated by Ethias, the Commission notes that Ethias has implemented far-reaching cost-cutting measures. The cost-cutting measures will result in a cost reduction of EUR [60-150] million per year by the end of the restructuring period, as described in recital (49).

(132) Further, the divestment of BelRé either through a winding up or a sale should, under the restructuring plan, free additional capital, which can be used to cover restructuring costs. This capital can come either from a repatriation of accumulated reserves in the case of winding up or through a profit from the sale, as the estimated market price of BelRé stood significantly above its book value at the end of 2008.

(133) Finally, during the restructuring period Ethias will not distribute dividends to its remaining historical shareholders grouped in Ethias Droit Commun, which holds 25% minus three shares of Ethias Finance. A dividend ban is appropriate in this case to ensure that the aid is limited to the minimum necessary.

(134) The Commission notes that the holders of hybrid instruments should also bear to the extent possible the losses incurred by Ethias. In this respect, the Commission notes that - as confirmed by the CBFA - the hybrids issued by Ethias are not loss absorbing on a going concern basis. In particular Ethias has no discretion to suspend coupon payment. The possibility of coupons deferral is conditional on the inability of Ethias to meet solvency requirements in view of its annual audited accounts. As this condition has not been fulfilled during the period since the aid measure was announced, Ethias has not had discretion to defer coupon payments on its hybrids. As a result, the criterion of burden sharing does not require Ethias to refrain from payments of coupon payments on its hybrid instruments.

(135) Point 24 of the Restructuring Communication states that an adequate remuneration of the State capital is a means of achieving burden-sharing. In this respect the Commission considers the level of remuneration set in the Rescue Decision is appropriate in association with other burden-sharing measures described above. The commitment of Ethias to remunerate the State at the latest for the financial year 2012, if its solvency ratio is above 150%, will ensure that a remuneration will be paid out. It is noted that as the interest on the securities injected by the State is cumulative for three years, the unpaid interest could subsequently be partially recovered by the State.

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49 In particular, see paragraph 200 in Dexia decision of 26 February 2010, not yet published, paragraph 163 in Lloyds decision of 18 November 2009, OJ C 46, 24.02.2010, p.2, paragraph 216 in RBS decision of 14 December 2009, OJ C 119, 07.05.2010, p.1.

(136) In view of the measures above, the Commission considers that the restructuring plan provides for sufficient own contribution to the restructuring.

5.2.4 MEASURES TO MITIGATE DISTORTIONS OF COMPETITION

(137) The restructuring plan also entails sufficient structural and behavioural measures to address the potential distortions of competition resulting from the aid. The Restructuring Communication explains that distortions of competition can be created where some financial institutions compete on the merits of their products and services, whereas others accumulate excessive risks or rely on unsustainable business models. State aid prolongs such distortions of competition by artificially supporting the market presence of beneficiaries.

(138) Point 31 of the Restructuring Communication notes that when assessing the amount of aid and the resulting distortions of competition, the Commission has to take into account both the absolute and relative amount of the State aid received. It has been established that the amount of aid received by Ethias is very high compared to its size. Further it has been established that Ethias would have exited the market without the State intervention as its capital was entirely depleted by losses incurred.

(139) Under the restructuring plan, Ethias will divest its subsidiary Nateus, an insurance company, which has been historically profitable, holds a significant share of the Belgian insurance market and represented 9.3% of the total gross premium income of Ethias in 2008. Point 35 of the Restructuring Communication provides that financial institutions benefiting from State aid may be required to divest subsidiaries or branches, portfolios of customers or business units, or to undertake other such measures, including on the domestic retail market of the aid beneficiary. In order for such measures to increase competition and contribute to the internal market, they should favour the entry of competitors and cross-border activity.

(140) The divestment of Nateus meets the criteria of the point 35 of the Restructuring Communication since it constitutes a structural divestment in the core market of the beneficiary, where the size of Nateus is terms of market share is sufficient to give a new competitor an opportunity to enter the market.

(141) The linear price increases being implemented by Ethias on all of its products in the retail non-life segment are another measure to limit distortions of competition. Unlike targeted price increases, those linear price increases will also affect contracts which are profitable without any exception. The possible market share losses resulting from such price increases can benefit competitors of Ethias.

(142) As required in point 40 of the Restructuring Communication Ethias commits to an acquisition ban for a period of three years from the date of the present decision. Additionally, Ethias will not use the received aid or any advantages arising from it for advertising purposes. Both commitments ensure that Ethias fulfils the requirement stated in point 39 of the Restructuring Communication that the aid must not be used to the detriment of unaided competitors.

(143) According to point 44 of the Restructuring Communication State aid cannot be used to offer terms which cannot be matched by competitors which are not in receipt of State aid. However, in cases where limitations on the pricing behaviour of the beneficiary may not be appropriate, for example because they may result in a reduction of effective competition, Member States should propose other, more suitable, remedies to ensure effective competition.

(144) In view of the scale of the aid received by Ethias and its past market expansion strategy (see recitals (7) and (8) above), and in view of the current decisional practice of the Commission[50], a commitment to a price leadership ban appears necessary to ensure that the aid is not used to finance a pricing strategy which cannot be met by other market players competing on their own merits. However, the Commission notes that insurance products are standardised only to a limited extent. Besides price, the attractiveness of an insurance policy depends to a large extent on other factors such as the extent of the cover and quality of services. Therefore, an outright price leadership ban, such as has been found appropriate in other cases assessed under the Restructuring Communication, could give rise to some problems of implementation in the insurance market. However, to limit aggressive pricing of its non-life products, Ethias committed to a level of combined ratios below [95-100%] as of 2011, which are to be maintained until the end of the restructuring period. This commitment ensures that the pricing of the non-life insurance products by Ethias will be prudent, insofar as Ethias will cover its losses and expenses fully by the income from its premiums and will not depend on positive investment income.

(145) The materialisation of losses from insured events cannot be known with certitude in advance. It is therefore appropriate that Ethias' commitment is related to the combined ratios net of the reinsurance effect, which will smooth out the effect of low frequency, high impact events. Furthermore, in case of non-compliance with the targets for a particular year, the commitment ensures that corrective measures are gradually phased in to ensure that the targeted levels are achieved in the following years.

(146) Based on the above, the Commission considers that the restructuring plan of Ethias fulfils the requirements of the Restructuring Communication in terms of viability, burden-sharing and measures to mitigate the distortion of competition.

6. Conclusion

(147) The Commission finds that the measures in the restructuring plan, with the commitments in Annex I, will enable Ethias to restore its long-term viability, are sufficient with respect to burden-sharing, and are appropriate and proportional to offset the competition distorting effects of the aid measures in question. The restructuring plan submitted fulfils the criteria of the Restructuring Communication and should therefore be considered compatible with the internal market pursuant to Article 107(3)(b) TFEU.

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50 In particular, a price leadership ban was imposed in the Commerzbank decision of 7 May 2009, OJ C 147, 27.6.2009, p. 4, the KBC decision of 18 November 2009, not published yet, and the ING decision of 18 November 2009, not published yet.

The Commission has accordingly decided to consider the aid to be compatible with the Treaty on the Functioning of the European Union, subject to the commitments in Annex I.

If this letter contains confidential information which should not be disclosed to third parties, please inform the Commission within fifteen working days of the date of receipt. If the Commission does not receive a reasoned request by that deadline, you will be deemed to agree to the disclosure to third parties and to the publication of the full text of the letter in the authentic language on the Internet site:
http://ec.europa.eu/community_law/state_aids/state_aids_texts_en.htm.

Your request should be sent by registered letter or fax to:

- European Commission
  Directorate-General for Competition
  Directorate for State Aid
  State Aid Greffe
  B - 1049 Brussels
  Fax No: +32 2 296 12 42

We would ask you to state the case name and number in all correspondence.

Yours faithfully,
For the Commission

Joaquín ALMUNIA
Vice-President of the Commission

ANNEX I

On 3 May 2010 Belgium submitted officially to the Commission the following commitments:

COMMITMENTS TO THE EUROPEAN COMMISSION

'Pursuant to Article 4(3) of Council Regulation (EC) No. 659/99 as amended (the "Procedural Regulation"), Belgium (the "MS"), the Public Investors (as defined hereafter) and Ethias, severally and not jointly, hereby provide the following Commitments (the "Commitments") concerning Ethias in order to enable the European Commission (the "Commission") to find the recapitalization of Ethias compatible with the internal market and the EEA Agreement by its decision pursuant to Article 107(3)(b) of the Treaty on the Functioning of the European Union (the "Decision").

The Commitments shall take effect upon the date of adoption of the Decision.

This text shall be interpreted in the light of the Decision to the extent that the Commitments are attached as commitments and/or conditions and obligations, in the general framework of Community law, and by reference to the Council Regulation (EC) No. 659/99.

DEFINITIONS

In these Commitments capitalised terms and expressions that are not defined elsewhere in these Commitments, shall have the following meaning, except if the context requires otherwise:

Affiliated undertaking:	undertakings controlled by Ethias SA and/or by the ultimate parents of Ethias SA.
Closing:	the transfer of the legal title of the Divestment Business to the Purchaser.
Divestment Businesses:	the businesses as defined in Section 2 and the Schedules that Ethias commits to divest.
Divestiture Trustee:	one or more natural or legal person(s), independent from Ethias, who is approved by the Commission and appointed by Ethias and who has received from Ethias the exclusive Trustee Mandate to sell the Divestment Business to a Purchaser at no minimum price.
Effective Date:	the date of adoption of the Decision.
Ethias, or Ethias Group:	Ethias SA and each of the Ethias Subsidiaries.
Ethias SA:	incorporated under the laws of Belgium, with its registered office at rue des Croisiers 24, 4000 Liège and registered with the Belgian Legal Entities Register under number 0404.484.654.

Ethias Subsidiaries:	any and all Subsidiaries of Ethias from time to time.
Key Personnel:	all personnel necessary to maintain the viability and competitiveness of the Divestment Business, as listed in the Schedule.
Monitoring Trustee:	one or more natural or legal person(s), independent from Ethias who is approved by the Commission and appointed by Ethias, and who has the duty to monitor Ethias' compliance with the conditions and obligations attached to the Decision.
New Business:	any insurance contract and/or policy concluded by the Ethias Group after the Effective Date.
Personnel:	all personnel currently employed by the Divestment Business, including Key Personnel, staff seconded to the Divestment Business, shared personnel and the additional personnel listed in the Schedule.
Public Investors:	the Federal State, the Flemish Region and the Walloon Region
Purchaser:	the acquirer of the Divestment Business meeting the criteria set out in Section 2.5.
Restructuring Plan:	the Ethias Group restructuring plan, as notified to the European Commission on 20 April 2009 with any subsequent changes notified before the Effective Date.
Subsidiary:	any corporate entity as defined, in respect of a specified person or entity, in Article 6 of the Belgian Companies Code (*dochtervennootschap / filiale*, respectively *moedervennootschap/ société mere*).
Trustee(s):	the Monitoring Trustee and the Divestiture Trustee.

1. BEHAVIOURAL COMMITMENTS

1.1 Commitment to improve risk and investment management governance

1. As part of the Horizon 2011 restructuring plan, Ethias is completely redesigning its risk and investment management governance to put it in line with industry best practice. This engagement translates in the following concrete commitments:

   (a) Implementation of a Strategic Investment Risk committee, with key representatives from both the risk and the finance functions, chaired by the CFO. This committee meets formally at least 10x/year or more often if deemed necessary.

(b) Implementation of an Insurance/Reinsurance Risk committee, with key representatives from the risk function and the insurance business lines, chaired by the Vice-CEO. This committee meets formally at least 10x/year or more often if deemed necessary.

(c) Implementation of an Operational Risk committee, with key representatives from the risk function, chaired by the CRO. This committee meets formally at least 4x/year or more often if deemed necessary.

(d) Implementation of an overarching Risk committee with key representatives from the executive committee, the finance and the risk functions, chaired by the CRO. This committee meets formally at least 10x/year or more often if deemed necessary.

(e) Implementation of an Audit & Risk committee with key representatives from the risk function and the Board, chaired by an independent director. This committee meets formally at least 4x/year or more often if deemed necessary.

(f) Compliance with the reinvestment guidelines outlined in the document submitted to the Commission on 31 March 2010.

2. The implementation of this new risk governance has been completed and is operational since March 2009. It will be maintained on a permanent basis. Additionally, Ethias commits to make the CRO a permanent member of the Executive Committee. This nomination has already been done in 2009 and will be maintained until at least the end of 2013.

1.2 Commitment to reorganize the Risk Management department

3. Ethias is reorganizing its Risk Management in line with industry best practices. This engagement translates in a commitment to structure the department around 3 cells (i.e., Risk Management, Actuarial oversight, Compliance) reporting directly to the CRO. The Risk Management cell itself is organized in 3 sub-entities, i.e. ALM, analysis and monitoring of risks, modelling and R&D.

4. This new structure is fully in place since March 2009. Ethias commits to maintain this structure on a permanent basis, and to adapt it immediately when deemed necessary by the Board.

1.3 Commitment to reorganize the Finance department

5. Ethias is reorganizing its Finance department in line with industry best practices. This engagement translates into the following concrete commitments:

(a) Streamlining of the organizational structure with a head of Finance and a head of Accounting reporting directly to the CFO;

(b) Nomination of the CFO to the executive committee on a permanent basis with direct responsibility for both finance and accounting matters;

(c) Recruitment of an external full-time Finance Director with extensive industry and functional expertise.

6. All these commitments have been completed in 2009 and will be maintained on a permanent basis.

1.4 Commitment to entirely redesign the internal reporting

7. Ethias is entirely redesigning its management reporting tools in order to bring them in line with industry best practices. This engagement translates into the following concrete commitments:

(a) Implementation of a fully redesigned quarterly management "Executive dashboard" covering all key aspects of the business. The primary recipient of this report is the Executive Committee.

(b) Implementation of a fully redesigned monthly "Investment Management dashboard" covering all investment portfolios and containing all the usual indicators. The primary recipient of this report is the strategic investment committee.

(c) Implementation of a fully redesigned quarterly "ALM report" covering all usual risk indicators. The primary recipients of this report are the risk committee and the audit & risk committee.

8. These reports have all been fully operationalized in 2009 and are produced on a permanent basis.

1.5 Commitment to reduce the liquidity risk linked to 'First' product

9. Ethias is reducing the liquidity risk linked to 'First' product. This engagement translates in the following concrete commitments:

(a) Ethias' participation, at its own expense, to the Belgian State's Guaranteed fund insuring 100 thousand euro per client account;

(b) The immediate interruption of all new sales of the (historical) 'First' product;

(c) The replacement of the 'First' product with a much more conservative 'Top First' product, including e.g. exit fees which are dependent on economical conditions. This last commitment will be implemented in a manner consistent with the commitment on Retail Life underwriting disengagement, as provided for in Section 1.11 below.

10. All these measures have been fully implemented in 2009 and will remain in place until at least end of 2013.

1.6 Commitment to reduce guaranteed rate on existing 1st pillar contracts

11. Ethias commits to reduce its guaranteed rate on its whole first pillar life portfolio of contracts. This engagement translates into the following concrete commitments:

    (a) *New Business*: for all potential new 1st pillar life contracts, Ethias commits to a maximum guaranteed rate […][51] […].

    (b) *Existing portfolio*: Ethias is renegotiating the guaranteed rate […] with all 1st pillar clients. Ethias commits to reduce the guaranteed rate of contracts representing at least [80-95]% of the remaining 1st pillar reserves to a maximum defined as […][52] […].

1.7 Commitment to reduce costs

12. Ethias commits to implement the measures of the Restructuring Plan on the reduction of its administrative, IT and claims cost. Due to the implementation of these measures, Ethias will achieve recurrent costs savings, which will gradually increase over the restructuring period to achieve the level of costs savings of not less than [60-150] million euro for the year 2013 as compared to the baseline[53].

13. To date, already [20-60] million euro cost reductions have been achieved.

1.8 Commitment to increase tariff for Non-Life public authorities and corporate clients

14. Ethias commits to implement price increases on Non-Life public authorities and corporate policies, as presented in the Restructuring Plan.

15. The targeted portfolio represents [100-150] million euro of premiums and tariff increases have already been implemented on 35% of the targeted portfolio.

1.9 Commitment to increase tariff for Non-Life retail clients

16. Ethias will implement price increases on Non-Life retail portfolio, as presented in the Restructuring Plan. This engagement translates in the following concrete commitments:

    (a) Linear price increases between [1-5]% and [20-35]% on the whole portfolio phased in between January 2009 and April 2010;

    (b) Additional granular price increases on motor insurance as of April 2010.

    To date, linear tariff increases have been totally implemented and granular tariff increases will be implemented as of April 2010, as planned.

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51 […]

52 […]

53 The term "baseline" refers to the evolution of the total cost base of Ethias over 2009-2013 before impact of the restructuring plan, as defined in April 2009.

17. If and when necessary, price increases in Non-Life will be implemented as a result of the commitment on the profitability of the Non-Life business, as provided for in point 1.14 below.

1.10 Commitment to discontinue third-party reinsurance at BelRé

18. Ethias commits to discontinue all accepted third-party reinsurance at BelRé. This commitment translates as follows: Ethias stops any New Business underwriting in accepted third-party reinsurance at BelRé.

    This measure is already being implemented as no New Business has been underwritten since 1 January 2010.

1.11 Commitment to a disengagement from Retail Life underwriting

19. Ethias will disengage from Retail Life underwriting. This engagement translates in the following concrete commitments:

    (a) Announce immediately after the Effective Date, through a public press release, that Ethias will not underwrite any new Retail Life contracts;

    (b) Stop any New Business underwriting in Retail Life as soon as legally and organisationally possible, and in any event within 5weeks of the Effective Date;

    (c) Remove 100% of the Retail Life reserves from the consolidated balance sheet of Ethias by end of 2013. The removal shall be understood as a transfer to a Non-Affiliated Undertaking or a complete in-house run-down of the portfolio by the Ethias Group.

    (d) Should Ethias distribute third-party Retail Life products, then it will make explicit mention of the brand of the third-party underwriter in the product documentation and contract.

1.12 Commitment to reduce holding of equity and to reduce the risk profile of the investment portfolio

20. Ethias SA commits that its consolidated exposure (i.e. aggregating the exposure of Ethias SA and of all of the Ethias Subsidiaries) to investments will be reduced as follows:

    (a) Ethias will maintain its holding of equity at a level that does not exceed […] until 31 December [2012-2014]. For the purpose of this commitment, Ethias' maximum holding of equity at the end of each financial year shall not exceed […]. This commitment becomes effective on 31 December […], the date at which Ethias will have reduced its holding of equity to […];

(b) Reduction of structured products and ABS to a maximum of [3-8]% of the investment portfolio by the end of […][54] [55] (book value) and maintain this level until 31 December [2012-2014];

(c) Reduction of [75-100]% of its holding of Dexia shares (calculated as of 31 December 2009) to a maximum of [0.1-1]% of Ethias' investment portfolio (book value) within […] from the Effective Date;

(d) From the moment the holding of Dexia shares has been reduced to a maximum of [0.1-1]% of Ethias' investment portfolio (book value) and at the latest within […] from the Effective Date as provided by paragraph (c), any remaining exposure to Dexia shall be included as holding of equity for the purpose of paragraph (a).

21. Transfers of shares and structured products shall only be counted as "reductions" within the meaning of this commitment if and to the extent the transfers are to entities not controlled by Ethias SA or any of the Ethias Subsidiaries.

The reductions contemplated by this commitment shall be realized without any additional State aid being granted to Ethias SA and/or any Ethias Subsidiaries. In the case of a transfer realised by way of demerger/division, Ethias shall bring the book value of such transferred assets in line with their market value[56] (in the event that their book value is higher than market value) with the subsequent recognition of potential losses if any before any such demerger/division.

1.13 Commitment to a deleveraging from the Repo line

22. Ethias will significantly reduce its usage of the Repo line[57]. This commitment translates in a commitment to gradually decrease the total debt related to credit institutions in the consolidated balance sheet by 40% between end of 2008 and end of 2013:

[…]

Ethias retains temporary flexibility on these intermediary target values only for liquidity purposes in stressed environments.

1.14 Commitment on the profitability of the Non-Life business

23. Ethias takes a firm "comply or adjust" commitment regarding its combined ratios. This commitment translates as follows:

54 As per the restructuring plan's exit plan from structured products

55 Including both on- and off-balance sheet items.

56 Such Market Value is defined as the average of the closing price on Euronext Brussels of the 20 business days prior to the announcement of the transaction and, in the absence of announcement, prior to the date of signing of the legally binding agreement of transfer.

57 "Repo line" refers to all the Repurchase agreements set between Ethias and any other financial institutions. A Repurchase agreement is a contract, which allows Ethias to use a financial security as collateral for a cash loan at a fixed rate of interest.

(a) Ethias commits to an aggregate yearly net[58] combined ratio for Ethias' Non-Life business as follows:

(i) [95-100]% in 2011;

(ii) [95-100]% in 2012; and

(iii) [93-99]% in 2013.

(b) Should the defined combined ratio target not be met, Ethias commits to take appropriate measures within a month following the publication of its annual results to remedy this situation on the relevant subgroups[59], subgroups being defined as following :

- Fire (group or individuals)
- Car (group or individuals)
- Third party liability (group or individuals)
- Health (group or individuals)
- Workers Compensation

The corrective measures shall include:

(i) the implementation of a non-linear tariff increase on the relevant subgroups. In duly justified cases, where tariff increase would not be appropriate, Ethias may instead resort to the reduction of coverage and/or increase of franchise having the equivalent effect of tariff increases;

Or

(ii) the divestment of the relevant subgroup;

Such measures may also include:

(iii) the termination of selected contracts in the relevant subgroups;

For the purpose of this point, where the target for the year 2013 has not been met, the target combined ratio of [93-99]% shall apply for the year 2014

(c) Should the combined ratio targets, as set out in paragraph (a), not be met in two consecutive years, Ethias will be obliged to implement linear[60] tariff increases of [0-5]%, in excess of the tariff increase automatically recorded for inflation where applicable, on the global non-life portfolio in the third and following years, until

58 Taking into consideration third-party reinsurance only. Intra-group reinsurance shall not be taken into account.

59 The "relevant subgroup" refers to those subgroups, which displayed the worst deterioration in technical result (i.e. Combined ratio) during the past year.

60 Weighted average increase of premium level across the whole non-life portfolio.

the combined ratios return to the committed level. This figure will take into account any tariff-increase already implemented in the three last months of the second of the two consecutive years in application of point (i) above.

1.15 Commitment to remunerate public shareholders

24. Ethias takes a firm commitment to distribute as dividend to its public shareholders, every year in which Ethias SA's solvency ratio is not lower than 150%, its after-tax profit up to the level set in Article 7 of the Shareholders' Agreement, as from the financial year 2012.

25. Ethias commits not to distribute any dividend to Ethias Droit Commun for the duration of the restructuring period.

1.16 Acquisition Ban

26. Ethias commits not to acquire more than […] of the capital of other credit institutions or investment firms (as defined by Directive 2004/39/EC of 21 April 2004 on markets in financial instruments), insurance or reinsurance companies. This commitment will apply for […] years from the Effective Date.

27. The preceding commitment does not preclude, upon receipt of the prior approval by the Commission, to the acquisition by Ethias of a shareholding in consideration of a contribution of holdings in companies or activities performed in the framework of a transfer or the establishment of common property (by way of merger or contribution) on assets or activities, to the extent, that in such hypothesis, the said shareholding does not provide to Ethias the exclusive or joint control over the entity benefiting from the contribution or resulting from the merger.

28. Ethias will inform the Commission of any acquisition project, including any project envisaged by companies that Ethias jointly controls.

1.17 Advertising Ban

29. Ethias will not use the granting of the aid measures or any competitive advantages arising in any way from the aid for advertising purposes**.**

2. DIVESTITURE COMMITMENTS

2.1 Commitment to divest Ethias Banque

<u>Commitment to divest</u>

30. Ethias commits to divest or procure the divestment of its Ethias Banque SA subsidiary. This is a firm commitment to sell a 100% of its participation in Ethias Banque SA by end of [75-100] to a Purchaser meeting the criteria set out in Section 2.5.

31. For the purpose of the above deadline, this commitment will be considered fulfilled if the binding and final agreement (i.e. an agreement that can not be terminated unilaterally by

Ethias without payment of a penalty) for the sale of [75-100]% of Ethias' participation in Ethias Banque SA has been concluded by 31 December […]. In any event the final and irreversible transfer of ownership rights must occur within 6 months from the binding agreement.

Structure and definition of the Divestment Business

32. The present legal and functional structure of Ethias Banque SA as operated to date is described in the Schedule 1. Ethias Banque SA, described in more detail in Schedule 1, includes

(a) all tangible and intangible assets (including intellectual property rights), which contribute to the current operation or are necessary to ensure the viability and competitiveness of Ethias Banque SA;

(b) all licences, permits and authorisations issued by any governmental organisation for the benefit of Ethias Banque SA;

(c) all contracts, leases, commitments and customer orders of Ethias Banque SA; all customer, credit and other records of Ethias Banque SA (items referred to under (a)-(c) hereinafter collectively referred to as "***Assets***");

(d) the Personnel;

2.2 Commitment to divest the Nateus Group

Commitment to divest

33. Ethias commits to divest, or procure the divestment of Nateus SA and Nateus Life SA, and their subsidiaries (together **the Nateus Group**) by the end of the Trustee Divestiture Period as a going concern. This is a firm commitment to sell [75-100]% of its participation in the Nateus Group to a Purchaser meeting the criteria set out in Section 2.5.

To carry out the divestiture, Ethias commits to find a Purchaser and to enter into a final binding sale and purchase agreement for the sale of [75-100]% of its participation in the Nateus Group at the latest on 31 December […] (the "***Nateus First Divestiture Period***") as soon as a Purchaser submits an unconditional and binding bid, which is equal or superior to the book value as per 31 December […] (amounting to […] €) […]. If Ethias has not entered into such an agreement at the end of the Nateus First Divestiture Period, Ethias shall grant the Divestiture Trustee an exclusive mandate to sell its participation in the Nateus Group in accordance with the procedure described in paragraph 67. In that case, the sale of [75-100]% of Ethias' participation in the Nateus Group will be finalised before 31 December […] (the "***Nateus Trustee Divestiture Period***").

34. Ethias shall be deemed to have complied with this commitment if, by the end of the Nateus Trustee Divestiture Period, Ethias has entered into a final binding sale and purchase agreement.

Structure and definition of the Divestment Business

35. The present legal and functional structure of the Nateus Group as operated to date is described in the Schedule 2. The Nateus Group, described in more detail in Schedule 2, includes

(a) all tangible and intangible assets (including intellectual property rights), which contribute to the current operation or are necessary to ensure the viability and competitiveness of the Nateus Group;

(b) all licences, permits and authorisations issued by any governmental organisation for the benefit of the Nateus Group;

(c) all contracts, leases, commitments and customer orders of the Nateus Group; all customer, credit and other records of the Nateus Group (items referred to under (a)-(c) hereinafter collectively referred to as "Assets");

(d) the Personnel.

2.3 Commitment to Divest BelRé

36. In addition to the commitment to discontinue third-party reinsurance at BelRé contained in point 1.10 above, Ethias commits to divest BelRé.

Commitment to divest

37. Ethias commits to:

(a) wind up BelRé within […] of the Effective Date;

Or

(b) enter into a final binding sale and purchase agreement for the sale of [75-100]% of its participation in BelRé within […] of the Effective Date (the "***BelRé First Divestiture Period***") as soon as a Purchaser submits an unconditional and binding bid, which is equal or superior to the book value as per 31 December […](€ […] million) […]%.. If Ethias has not entered into such an agreement at the end of the BelRé First Divestiture Period, Ethias shall grant the Divestiture Trustee an exclusive mandate to sell BelRé in accordance with the procedure described in paragraph 67. In that case, the sale of [75-100]% of Ethias' participation in BelRé to an unrelated third-party will be finalised before 31 December […] ("the ***BelRé Trustee Divestiture Period***").

Ethias shall be deemed to have complied with this commitment if, by the end of the BelRé Trustee Divestiture Period, Ethias has entered into a final binding sale and purchase agreement.

Structure and definition of the Divestment Business

38. The present legal and functional structure of BelRé as operated to date is described in the Schedule 3. BelRé, described in more detail in Schedule 3, includes

(a) all tangible and intangible assets (including intellectual property rights), which contribute to the current operation or are necessary to ensure the viability and competitiveness of BelRé;

(b) all licences, permits and authorisations issued by any governmental organisation for the benefit of BelRé;

(c) all contracts, leases, commitments and customer orders of BelRé; all customer, credit and other records of BelRé (items referred to under (a)-(c) hereinafter collectively referred to as "Assets");

(d) the Personnel.

2.4 **Related Commitments**

39. For the purpose of the divestiture commitments contained in Sections 2.1, 2.2 and 2.3, the following commitments shall apply:

Preservation of Viability, Marketability and Competitiveness

40. From the Effective Date until Closing, Ethias shall preserve the economic viability, marketability and competitiveness of the Divestment Businesses, in accordance with good business practice, and shall minimise as far as possible any risk of loss of competitive potential of the Divestment Businesses. In particular Ethias undertakes:

(a) not to carry out any act upon its own authority that might have a significant adverse impact on the value, management or competitiveness of the Divestment Businesses or that might alter the nature and scope of activity, or the industrial or commercial strategy or the investment policy of the Divestment Businesses;

(b) to make available sufficient resources for the development of the Divestment Businesses, on the basis and continuation of the existing business plans;

(c) to take all reasonable steps, including appropriate incentive schemes (based on industry practice), to encourage all Key Personnel to remain with the Divestment Businesses.

Hold-separate obligations

41. Ethias commits, from the Effective Date until Closing, to keep the Divestment Businesses separate from the businesses it is retaining and to ensure that Key Personnel of the Divestment Business – including the Hold Separate Manager – have no involvement in any

business retained and vice versa. Ethias shall also ensure that the Personnel does not report to any individual outside the Divestment Businesses.

42. A transitory period may be granted by the European Commission upon a sufficiently reasoned application by the Belgian Authorities and / or Ethias.

43. Until Closing, Ethias shall assist the Monitoring Trustee in ensuring that the Divestment Businesses are managed as distinct and saleable entities separate from the businesses retained by Ethias. Ethias shall appoint a Hold Separate Manager who shall be responsible for the management of the Divestment Businesses, under the supervision of the Monitoring Trustee. The Hold Separate Manager shall manage the Divestment Businesses independently and in the best interest of the business with a view to ensuring its continued economic viability, marketability and competitiveness and its independence from the businesses retained by Ethias.

Ring-fencing

44. Ethias shall implement all necessary measures to ensure that it does not after the Effective Date obtain any business secrets, know-how, commercial information, or any other information of a confidential or proprietary nature relating to the Divestment Businesses. In particular, the participation of the Divestment Businesses in a central information technology network shall be severed to the extent possible, without compromising the viability of the Divestment Businesses. Ethias may obtain information relating to the Divestment Businesses which is reasonably necessary for the divestiture of the Divestment Businesses or whose disclosure to Ethias is required by law.

Non-solicitation clause

45. Ethias undertakes, subject to customary limitations, not to solicit, and to procure that Affiliated Undertakings do not solicit, the Key Personnel transferred with the Divestment Businesses for a period of one year after Closing.

Due Diligence

46. In order to enable potential purchasers to carry out a reasonable due diligence of the Divestment Businesses, Ethias shall, subject to customary confidentiality assurances and dependent on the stage of the divestiture process:

(a) provide to potential purchasers sufficient information as regards the Divestment Business;

(b) provide to potential purchasers sufficient information relating to the Personnel and allow them reasonable access to the Personnel.

2.5 The Purchaser

47. For the purpose of the divestiture commitments contained in Sections 2.1, 2.2 and 2.3, the Purchaser must:

    (a) be independent of and unconnected to Ethias;

    (b) have the financial resources, proven expertise and incentive to maintain and develop the Divestment Businesses as viable and active competitive forces in competition with Ethias and other competitors;

    (c) neither be likely to create, in the light of the information available to the Commission, prima facie competition concerns nor give rise to a risk that the implementation of the Commitments will be delayed, and must, in particular, reasonably be expected to obtain all necessary approvals from the relevant regulatory authorities for the acquisition of the Divestment Business (the before-mentioned criteria for the purchaser hereafter the "***Purchaser Requirements***").

48. The Commission shall be informed prior to the sale in order to allow the Commission to verify that the above conditions are complied with. When Ethias has reached an agreement with a purchaser, it shall submit a fully documented and reasoned proposal, including a copy of the final agreement(s), to the Commission and the Monitoring Trustee. Ethias must be able to demonstrate to the Commission that the purchaser meets the Purchaser Requirements and that the Divestment Business is being sold in a manner consistent with the Commitments. For the approval, the Commission shall verify that the purchaser fulfils the Purchaser Requirements and that the Divestment Business is being sold in a manner consistent with the Commitments.

The combination of all these commitments together with the implementation of the restructuring plan will lead to a reduction of the consolidated balance sheet of 38% at the end of 2013[61] **to the level of EUR 17.8 billion, in comparison to EUR 28.6 billion as of the end of 2008.**

3. RECAPITALISATION COMMITMENT

49. The shareholders of Ethias Finance SA together with Ethias Finance SA (together, the "Committing Parties") irrevocably commit to cause Ethias Finance SA and/or Ethias SA to proceed with a capital increase (the "Capital Increase") if, at any time prior to the end of the financial year during which the commitment referred to in point 3.1(i)(c) (reduction of holding of Dexia shares) has been implemented, the Ethias solvency ratio decreases below […]%.

[61] This target balance sheet reduction excludes potential increases due to new regulatory requirements, e.g., Solvency II.

50. The Capital Increase shall

- be completed within […] from the end of the quarterly period during which the commitment referred to in point 3.1(i)(c) (reduction of holding of Dexia shares) has been implemented;;
- entail the issuance of shares that represent the capital of Ethias Finance SA, or Ethias SA, as the case may be;
- be subscribed by one or more private investors;
- occur regardless of the dilution that for any Committing Party might result from the subscription;
- have the effect of restoring the Ethias SA solvency ratio to at least […] at the end of the financial year during which the Capital Increase is completed.

51. This commitment shall cease to apply on the first day after the end of the financial year during which the commitment referred to in point 3.1(i)(c) has been implemented, subject only to the Ethias solvency ratio being at least […] as of the end of that financial year (and, if it is less than […], a Capital Increase being realised that satisfies the above requirements).

52. It is being understood that Ethias will provide to the Commission audited annual accounts for the full financial year during which the commitment referred to in point 3.1(i)(c) has been implemented, and that those accounts will properly reflect any gains or losses, as the case may be, that shall have been realised in connection with any transactions in Dexia shares during that financial year.

4. DURATION

53. Unless otherwise specified, the Commitments apply until 31 December 2013.

5. IMPLEMENTATION

54. The European Commission may, upon a sufficiently reasoned application by the Belgian authorities, and taking into account the views of the Monitoring Trustee, decide that the above commitments cease to apply in whole or in part in the event that a controlling interest in Ethias Finance and/or Ethias SA is acquired by one or more private investors.

6. REVIEW

55. On the basis of a sufficiently motivated submission by the Belgian authorities, and taking into account the views of the Monitoring Trustee, the European Commission may:

    (a) extend the target dated for the divestment of one or more assets as listed in Sections 2.1, 2.2 and 2.3 or to extend the time allowed for the disengagement provided for in paragraph 1.11;

(b) authorise Ethias to substitute the divestments listed in Sections 2.1, 2.2 and 2.3 by the divestment of assets representing an equal amount on the Ethias consolidated balance sheet;

(c) dispense with, amend or replace one or more of the above mentioned commitments;

(d) take into account Ethias' short term financing needs, in particular for the application of the measure listed in paragraph 1.13 above.

7. NO CHANGES

56. Except for changes that are strictly required for the implementation of the present commitments and in particular point 1.15 above, the rights attached to the shares subscribed by the public shareholders on 13 February 2009 shall remain unaltered.

8. REPORTING

57. Within 15 days of the end of each year and half year or as otherwise agreed with the Commission, the Monitoring Trustee shall submit a draft written report in English or French to the Commission, Ethias and Belgian authorities, giving each the opportunity to submit comments within 5 working days. Within 5 working days of receipt of the comments, the Trustee shall prepare a final report and submit it to the Commission, taking into account, if possible and at his sole discretion, the comments submitted. The Trustee will also send a copy of the final report to Belgium and to Ethias. In case that the draft report or the final report contains business secrets that must not be disclosed to Ethias, Ethias shall only be provided with a non-confidential version of the draft report and the final report. Under no circumstances will the Trustee submit any version of the report to the Belgium and/or Ethias before submitting it to the Commission.

58. The report shall cover the Monitoring Trustee's fulfilment of its obligations under the Mandate and the compliance of the Parties with the Commitments.

9. TRUSTEE

9.1 Appointment Procedure

59. Ethias shall appoint a Monitoring Trustee to carry out the functions specified in the Commitments for a Monitoring Trustee. If, for the purpose of commitments 2.2 or 2.3, Ethias has not entered into a binding sales and purchase agreement one month before the end of the applicable First Divestiture Period (i.e. for the purpose of commitment 2.2 the Nateus First Divestiture Period or, for the purpose of commitment 2.3 the BelRé First Divestiture Period), Ethias shall appoint a Divestiture Trustee to carry out the functions specified in the Commitments for a Divestiture Trustee. The appointment of the Divestiture Trustee shall take effect upon the commencement of the applicable Trustee Divestment Period (i.e. for the purpose of commitment 2.2 the Nateus Trustee Divestiture Period or, for the purpose of commitment 2.3 the BelRé Trustee Divestiture Period).

60. The Trustee shall be independent of Ethias, possess the necessary qualifications to carry out its mandate, for example as an investment bank or consultant or auditor, and shall neither have nor become exposed to a conflict of interest. The Trustee shall be remunerated by Ethias in a way that does not impede the independent and effective fulfilment of its mandate. In particular, where the remuneration package of a Divestiture Trustee includes a success premium linked to the final sale value of the Divestment Business, the fee shall also be linked to a divestiture within the applicable Trustee Divestiture Period.

(a) Proposal by Ethias

61. No later than two weeks after the Effective Date, Ethias shall submit a list of two or more persons whom Ethias proposes to appoint as the Monitoring Trustee to the Commission for approval, with an indication which of those is Ethias' preferred choice. No later than one month before the end of the applicable First Divestiture Period, Ethias shall submit a list of one or more persons whom Ethias proposes to appoint as Divestiture Trustee to the Commission for approval, with an indication which of those is Ethias' preferred choice. The proposal shall contain sufficient information for the Commission to verify that the proposed Trustee fulfils the requirements set out in paragraph 60 and shall include:

(i) the full terms of the proposed mandate, which shall include all provisions necessary to enable the Trustee to fulfil its duties under these Commitments;

(ii) the outline of a work plan which describes how the Trustee intends to carry out its assigned tasks;

(iii) an indication whether the proposed Trustee is to act as both Monitoring Trustee and Divestiture Trustee or whether different trustees are proposed for the two functions.

(b) Approval or rejection by the Commission

62. The Commission shall have the discretion to approve or reject the proposed Trustees and to approve the proposed mandate subject to any modifications it deems necessary for the Trustee to fulfil its obligations. If only one name is approved, Ethias shall appoint or cause to be appointed the individual or institution concerned as Trustee, in accordance with the mandate approved by the Commission. If more than one name is approved, Ethias shall be free to choose the Trustee to be appointed from among the names approved. The Trustee shall be appointed within one week of the Commission’s approval, in accordance with the mandate approved by the Commission.

(c) New proposal by Ethias

63. If all the proposed Trustees are rejected, Ethias shall submit the names of at least two more individuals or institutions within one week of being informed of the rejection, in accordance with the requirements and the procedure set out in paragraphs 59 and 62.

(d) Trustee nominated by the Commission

64. If all further proposed Trustees are rejected by the Commission, the Commission shall nominate a Trustee, whom Ethias shall appoint, or cause to be appointed, in accordance with a trustee mandate approved by the Commission.

9.2 Functions of the Trustee

65. The Trustee shall assume its specified duties in order to ensure compliance with the Commitments. The Commission may, on its own initiative or at the request of the Trustee or Ethias, give any orders or instructions to the Trustee in order to ensure compliance with the conditions and obligations attached to the Decision.

(a) Duties and obligations of the Monitoring Trustee

66. The Monitoring Trustee shall:

(i) propose in its first report to the Commission a detailed work plan describing how it intends to monitor compliance with the obligations and conditions attached to the Decision.

(ii) oversee the on-going management of the Divestment Businesses with a view to ensuring their continued economic viability, marketability and competitiveness and monitor compliance by Ethias with the conditions and obligations attached to the Decision. To that end the Monitoring Trustee shall:

(A) monitor the preservation of the economic viability, marketability and competitiveness of the Divestment Business, and the keeping separate of the Divestment Business from the business retained by Ethias, in accordance with paragraphs 40 and 41 of the Commitments;

(B) supervise the management of the Divestment Business as a distinct and saleable entity, in accordance with paragraph 43 of the Commitments;

(C) (i) in consultation with Ethias, determine all necessary measures to ensure that Ethias does not after the Effective Date obtain any business secrets, know-how, commercial information, or any other information of a confidential or proprietary nature relating to the Divestment Businesses, in particular strive for the severing of the Divestment Businesses' participation in a central information technology network to the extent possible, without compromising the viability of the Divestment Business, and (ii) decide whether such information may be disclosed to Ethias as the disclosure is reasonably necessary to allow Ethias to carry out the divestiture or as the disclosure is required by law;

(D) monitor the splitting of assets and the allocation of Personnel between the Divestment Businesses and Ethias or Affiliated Undertakings;

(iii) monitor the compliance with all other conditions and obligations of the Decision, listed in Section 1, especially with regard to commitment 1.1, 1.6, 1.7, 1.8, 1.9, 1.11, 1.12, 1.13, 1.14, 1.15, 1.16 and commitment 30 (recapitalization commitment).

(iv) assume the other functions assigned to the Monitoring Trustee under the conditions and obligations attached to the Decision;

(v) propose to Ethias such measures as the Monitoring Trustee considers necessary to ensure Ethias' compliance with the conditions and obligations attached to the Decision, in particular the maintenance of the full economic viability, marketability or competitiveness of the Divestment Business, the holding separate of the Divestment Business and the non-disclosure of competitively sensitive information;

(vi) review and assess potential purchasers as well as the progress of the divestiture process and verify that, dependent on the stage of the divestiture process, (a) potential purchasers receive sufficient information relating to the Divestment Business and the Personnel in particular by reviewing, if available, the data room documentation, the information memorandum and the due diligence process, and (b) potential purchasers are granted reasonable access to the Personnel;

(vii) provide to the Commission, sending Ethias a non-confidential copy at the same time, a written report within 15 days after the end of each year and half-year. The report shall cover the operation and management of the Divestment Business so that the Commission can assess whether the business is held in a manner consistent with the Commitments and the progress of the divestiture process as well as potential purchasers. In addition to these reports, the Monitoring Trustee shall promptly report in writing to the Commission, sending Ethias a non-confidential copy at the same time, if it concludes on reasonable grounds that Ethias is failing to comply with these Commitments;

(viii) within one week after receipt of the documented proposal referred to in paragraph 48, submit to the Commission a reasoned opinion as to the suitability and independence of the proposed purchaser and the viability of the Divestment Business after the Sale and as to whether the Divestment Business is sold in a manner consistent with the conditions and obligations attached to the Decision, in particular, if relevant, whether the Sale of the Divestment Business without one or more Assets or not all of the Personnel affects the viability of the Divestment Business after the sale, taking account of the proposed purchaser.

(b) Duties and obligations of the Divestiture Trustee

67. Within the applicable Trustee Divestiture Period, the Divestiture Trustee shall sell at no minimum price the Divestment Business to a purchaser. The Divestiture Trustee shall include in the sale and purchase agreement such terms and conditions as it considers appropriate for an expedient sale in the applicable Trustee Divestiture Period. In particular, the Divestiture Trustee may include in the sale and purchase agreement such customary representations and warranties and indemnities as are reasonably required to effect the sale. The Divestiture Trustee shall protect the legitimate financial interests of Ethias, subject to Ethias' unconditional obligation to divest at no minimum price in the applicable Trustee Divestiture Period.

68. In the applicable Trustee Divestiture Period (or otherwise at the Commission's request), the Divestiture Trustee shall provide the Commission with a comprehensive monthly report written in English or French on the progress of the divestiture process. Such reports shall be submitted within 15 days after the end of every month with a simultaneous copy to the Monitoring Trustee and a non-confidential copy to Ethias.

9.3 Duties and obligations of Ethias

69. Ethias shall provide and shall cause its advisors to provide the Trustee with all such cooperation, assistance and information as the Trustee may reasonably require to perform its tasks. The Trustee shall have full and complete access to any of Ethias' or the Divestment Business' books, records, documents, management or other personnel, facilities, sites and technical information necessary for fulfilling its duties under the Commitments and Ethias and the Divestment Business shall provide the Trustee upon request with copies of any document. Ethias and the Divestment Business shall make available to the Trustee one or more offices on their premises and shall be available for meetings in order to provide the Trustee with all information necessary for the performance of its tasks.

70. Ethias shall provide the Monitoring Trustee with all managerial and administrative support that it may reasonably request on behalf of the management of the Divestment Business. This shall include all administrative support functions relating to the Divestment Business which are currently carried out at headquarters level. Ethias shall provide and shall cause its advisors to provide the Monitoring Trustee, on request, with the information submitted to potential purchasers, in particular give the Monitoring Trustee access to the data room documentation and all other information granted to potential purchasers in the due diligence procedure. Ethias shall inform the Monitoring Trustee on possible purchasers, submit a list of potential purchasers, and keep the Monitoring Trustee informed of all developments in the divestiture process.

71. Ethias shall grant or procure Affiliated Undertakings to grant comprehensive powers of attorney, duly executed, to the Divestiture Trustee to effect the sale, the Closing and all actions and declarations which the Divestiture Trustee considers necessary or appropriate to achieve the sale and the Closing, including the appointment of advisors to assist with the

sale process. Upon request of the Divestiture Trustee, Ethias shall cause the documents required for effecting the sale and the Closing to be duly executed.

72. Ethias shall indemnify the Trustee and its employees and agents (each an "***Indemnified Party***") and hold each Indemnified Party harmless against, and hereby agrees that an Indemnified Party shall have no liability to Ethias for any liabilities arising out of the performance of the Trustee's duties under the Commitments, except to the extent that such liabilities result from the wilful default, recklessness, gross negligence or bad faith of the Trustee, its employees, agents or advisors.

73. At the expense of Ethias, the Trustee may appoint advisors (in particular for corporate finance or legal advice), subject to Ethias' approval (this approval not to be unreasonably withheld or delayed), if the Trustee considers the appointment of such advisors necessary or appropriate for the performance of its duties and obligations under the Mandate, provided that any fees and other expenses incurred by the Trustee are reasonable. Should Ethias refuse to approve the advisors proposed by the Trustee the Commission may approve the appointment of such advisors instead, after having heard Ethias. Only the Trustee shall be entitled to issue instructions to the advisors. Paragraph 72 shall apply mutatis mutandis. In the applicable Trustee Divestiture Period, the Divestiture Trustee may use advisors who served Ethias during the Divestiture Period if the Divestiture Trustee considers this in the best interest of an expedient sale.

9.4 Replacement, discharge and reappointment of the Trustee

74. If the Trustee ceases to perform its functions under the Commitments or for any other good cause, including the exposure of the Trustee to a conflict of interest:

    (a) the Commission may, after hearing the Trustee, require Ethias to replace the Trustee; or

    (b) Ethias, with the prior approval of the Commission, may replace the Trustee.

75. If the Trustee is removed according to paragraph 74, the Trustee may be required to continue in its function until a new Trustee is in place to whom the Trustee has effected a full hand over of all relevant information. The new Trustee shall be appointed in accordance with the procedure referred to in paragraphs 59-64.

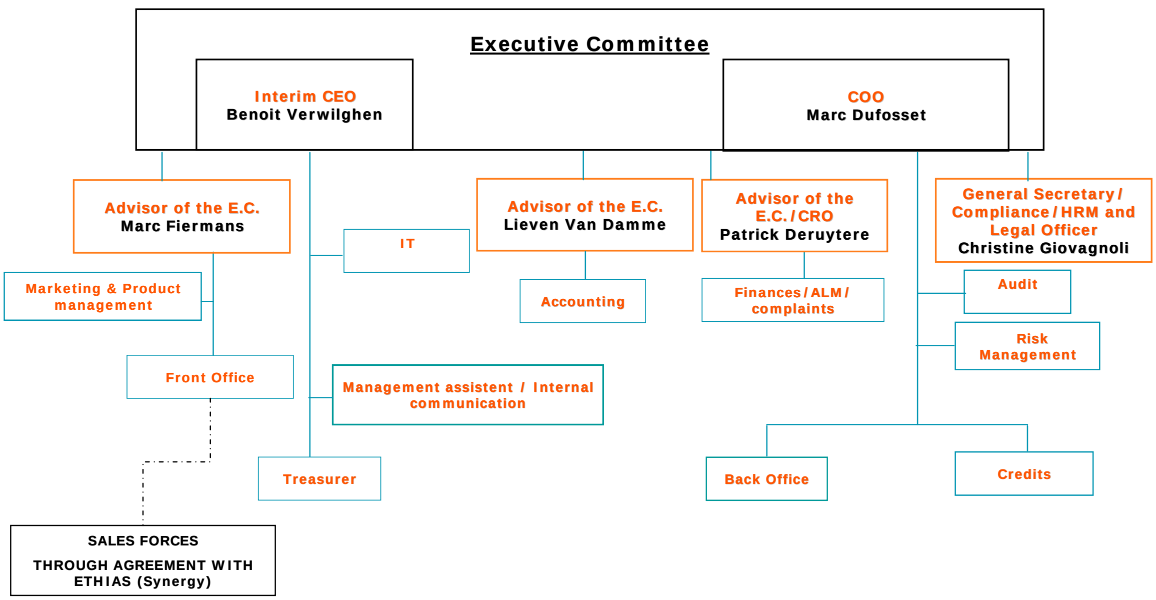
Beside the removal according to paragraph 74, the Trustee shall cease to act as Trustee only after the Commission has discharged it from its duties after all the Commitments with which the Trustee has been entrusted have been implemented. However, the Commission may at any time require the reappointment of the Monitoring Trustee if it subsequently appears that the relevant divestments might not have been fully and properly implemented.'

ANNEX II

SHEDULE 1 - ETHIAS BANQUE

1. *The Divestment Business as operated to date has the following legal and functional structure:*

Ethias Banque is a S.A. (Société Anonyme). All its operations are run by employees of the bank save for the sales force, which is run in synergy with Ethias SA through a specific agreement.



2. *Following paragraph 32 of these Commitments, the Divestment Business includes, but is not limited to:*

(a) *the following main tangible assets:* Ethias Banque does not own any essential tangible assets as it is physically located within Ethias' offices

(b) *the following main intangible assets:* none (the Ethias Banque brand name is not included in the Divestment Business)

(c) *the following main licenses, permits and authorizations:* Ethias Banque owns all licenses, permits and authorizations that are legally required by Belgian law to operate within its current business model e.g. authorizations and licenses from the CBFA and the Ministry of Economical Affairs amongst others, including but not limited to:

i. General banking license

ii. Mortgage loans registration from the CBFA

iii. Consumer loans registration from PFS Economy (n°000512) for categories A3 (instalment loans), A4 (bridging and revolving credits) and A5 (refinancing of consumer loans)

(d) *the following main contracts, agreements, leases, commitments and understandings:*

i. SLA (Service-Level Agreement) distribution agreement of Ethias Banque banking products with Ethias SA

ii. Distribution of mortgage products by Immotheker and Phima

iii. Distribution of consumer credits by Nateus Finance SA

iv. Sourcing of IT department to NRB

(e) *the following customer, credit and other records:*

Credits	**February 28, 2010 (Million EUR)**
Private individuals	[…]
Corporate clients and public authorities	[…]
Customer debts	
Private individuals	[…]
Corporate clients and public authorities	[…]
Ethias Group	[…]

(f) *the following Personnel:* 43 full-time equivalents (FTE) at the end of 2009

(g) *the following Key Personnel:* please see the organizational chart in point 1. above for the names of the key personnel.

(h) *the arrangements for the supply with the following products or services by Ethias or Affiliated Undertakings for a transitional period of up to 12 months after Closing:*

i. transitional use of the Ethias Banque brand name by the new owner of the company

3. *The Divestment Business shall not include:*

(i) The Ethias Banque brand name, outside of transitional divestment arrangements mentioned in 2.(h)(i);

(ii) Key Personnel related to Ethias SA and temporarily working also for Ethias Banque, namely […];

(iii) Potentially the SLA distribution agreement of Ethias Banque banking products with Ethias SA, which could or could not be part of the sale agreement (depending on negotiations with the buyer).

1. *The Divestment Business as operated to date has the following legal and functional structure:*

Nateus Group is composed of several subsidiaries:

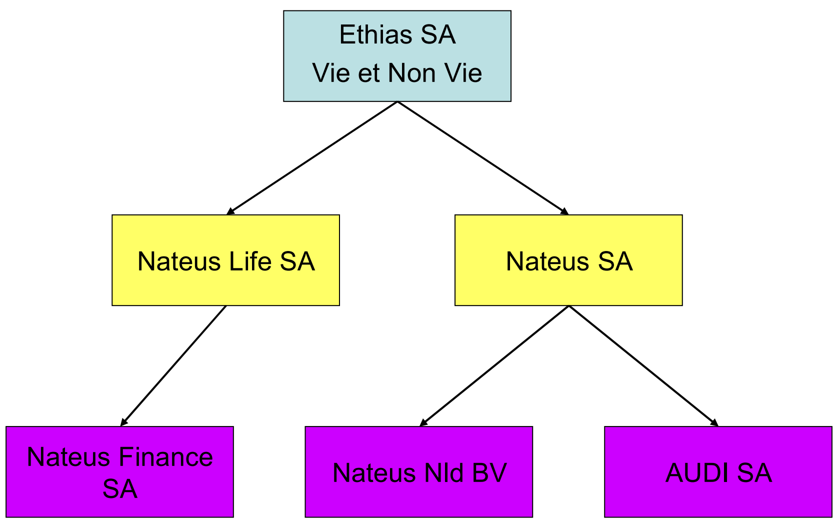
i. Nateus Life SA, 100% owned by Ethias SA

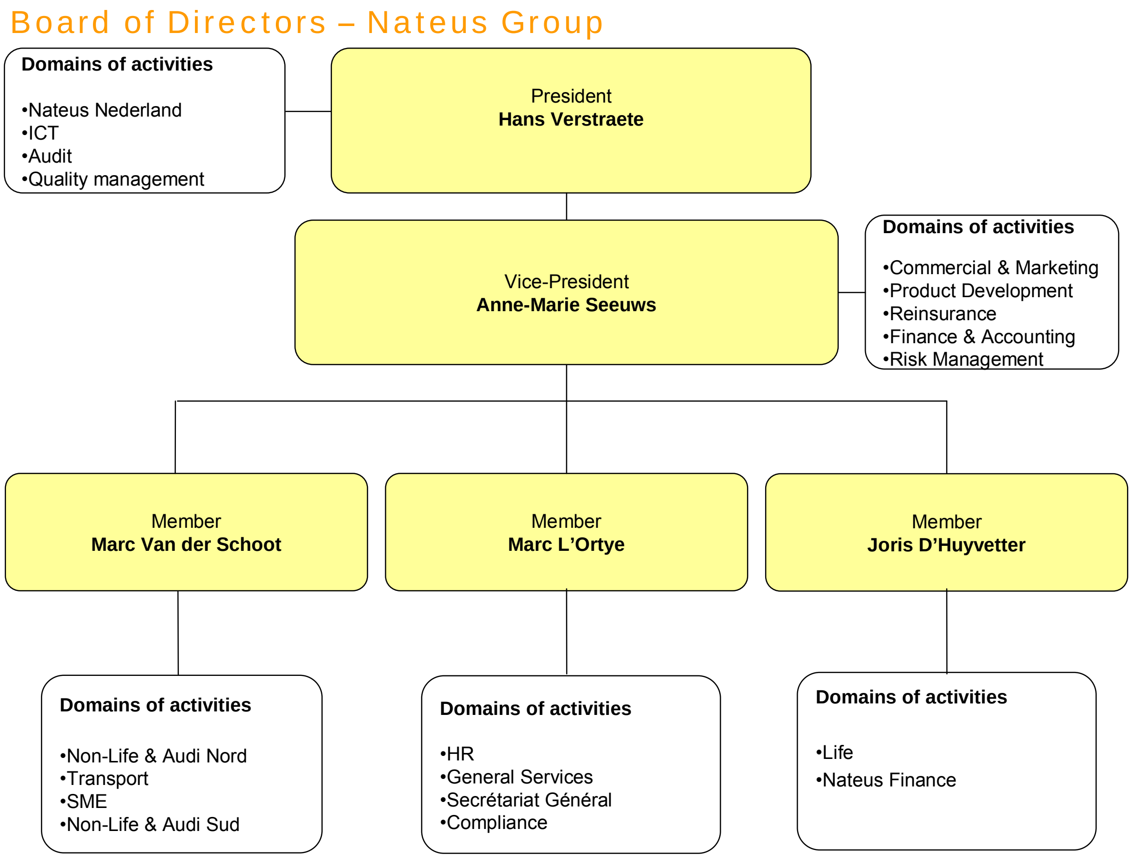
ii. Nateus SA, 100% owned by Ethias SA

iii. Nateus Finance SA, owned by Nateus Life SA

iv. Nateus Nederland BV, owned by Nateus SA

v. Audi SA, owned by Nateus SA





2. *Following paragraph 35of these Commitments, the Divestment Business includes, but is not limited to:*

(b) *the following main tangible assets:*

Real Estate - Nateus Group

December 31st, 2009	Book Value (000' EUR)
[…]	[…]
[…]	[…]
[…]	[…]
[…]	[…]
[…]	[…]
[…]	[…]
[…]	[…]
[…]	[…]
[…]	[…]
[…]	[…]
[…]	[…]
[…]	[…]
[…]	[…]

(c) *the following main intangible assets:* the Nateus and Nateus Life brand names, the broker network relationships of Nateus and Nateus Life, Nateus' reputation linked to its activity in transport, especially maritime

(d) *the following main licenses, permits and authorizations:* Nateus owns all licenses, permits and authorizations that are legally required by Belgian law to operate within its current business model e.g. authorizations and licenses from the CBFA and the Ministry of Economical Affairs amongst others, including but not limited to:

i. Mortgage loans registration from the CBFA

ii. Agreements from the CBFA for Non-Life insurances branches e.g. 8 (Fire), 10a (Motor insurance), …

(e) *the following main contracts, agreements, leases, commitments and understandings:*

i. Distribution agreements between Nateus and broker/agent network

ii. Distribution agreements of consumer credits between Nateus Finance and Ethias Banque

(f) *the following customer, credit and other records:* Nateus targets primarily the following customer segments:

i. Retail

ii. "Independents et professions libérales"

iii. SME

(g) *the following Personnel*: 369 full-time equivalents (FTE) at the end of 2009

(h) *the following Key Personnel:* please see the organizational chart in point 1. above for the names of the key personnel included in the Divestment Business[62]

(i) *the arrangements for the supply with the following products or services by Ethias SA or Affiliated Undertakings for a transitional period of up to 12 months after Closing:*

i. Support by Ethias SA for Audit services

3. *The Divestment Business shall not include:*

(i) Potentially, the existing asset management mandate currently held by Ethias SA for the Nateus financial assets, which could or could not be part of the sale agreement (depending on negotiations with the buyer).

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[62] […]

SCHEDULE 3 - BELRE

1. *In case of a sale of BelRé, the Divestment Business as operated to date has the following legal and functional structure:*

Alain Hauglustaine
Administrateur délégué-Directeur général

Secrétariat

Eric Ancion
Conseiller

Laurent Nihoul
Responsable Réassurance Facultative

2. *Following paragraph 38of these Commitments, in case of a sale of BelRé, the Divestment Business includes, but is not limited to:*

   (a) *the following main tangible assets:* BelRé does not own any essential tangible assets as it leases its office space

   (b) *the following main intangible assets:* the BelRé brand name

   (c) *the following main licenses, permits and authorizations:* BelRé owns all licenses, permits and authorizations that are legally required by Luxembourg law to operate within its current business model

   (d) *the following main contracts, agreements, leases, commitments and understandings:* no specific agreements

   (e) *the following customer, credit and other records:* 54% (73 million EUR) of BelRé's reinsurance business comes from Ethias Group and 46% (63 million EUR) from third-party business (2008 numbers)

   (f) *the following Personnel:* 4 full-time equivalents (FTE) at the end of 2009

   (g) *the following Key Personnel:* please see the organizational chart in point 1. above for the names of the key personnel

   (h) *the arrangements for the supply with the following products or services by Ethias or Affiliated Undertakings for a transitional period of up to 12 months after Closing:*

      (i) Support by Ethias SA for Audit and Compliance services

3. *In case of a sale of BelRé, the Divestment Business shall not include:*

(i) The reinsurance treaties a potential buyer would not want to take over.

ANNEX III

REINVESTEMENT GUIDELINES

[...]