SOLVENCY AND FINANCIAL CONDITION REPORT

ETHIAS SA

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1. SUMMARY

With **results exceeding forecasts, a strong societal commitment** in support of all sectors throughout the crisis, **active participation in both federal and regional recovery plans** alongside public institutions, the launch of its new "Flora" brand and the roll-out of a group strategy, Ethias was active on all fronts in 2020 and is looking to the future with confidence.

With the implementation of its **group strategy** validated by its shareholders, Ethias is embarking on a new stage. This strategy consists of capitalizing more on the strengths and specificities of its subsidiaries (NRB, IMA Benelux, Ethias Services ...) in order to position the Ethias Group as a value-generating group for all its stakeholders.

This strategy is based, on the one hand, on strengthening the integration of the Group's entities and, on the other hand, on a ***«beyond insurance»*** approach, viz. evolving from an insurer's strategy towards a strategy of integrated services for the benefit of clients. Five pillars are the core of this strategy: (i) offering extended services, (ii) developing digital solutions, (iii) constructing ecosystems, (iv) developing synergies and (v) revising the commercial approach, including the conclusion of partnerships.

In 2020, Ethias achieved a **net result of 205 EUR million, up 8%** compared to the previous year.

The **Non-Life** operating result amounts to EUR 170 million, i.e. an increase by EUR 39 million compared to 2019. Although the COVID-19 crisis had an impact on premium collection, this impact was offset by a decrease in claims charge.

Life business posts an operating result of EUR 64 million, a slight increase compared to 2019.

Overall income amounts to EUR 2.73 billion, i.e. an increase of EUR 59 million. A very good performance thanks to Life insurance, which offsets the impact of the economic crisis following COVID-19.

The **Solvency II ratio** amounts to **187 %** after deduction of the **proposed dividend of EUR 103 million**[1]**.** This is an excellent result given the particularly difficult context of 2020. Ethias SA calculates its solvency level in Solvency 2 using the standard formula, without resorting to long-term transitional measures.

The risk profile of Ethias SA indicates an exposure mainly to the market risk; the level of solvency is relatively sensitive to the risk of rising spreads on government bonds, which represent a significant part of its investment portfolio. The S2 ratio is also influenced, to a lesser extent, by developments in interest rates and equity markets.

In May 2020, **Fitch Ratings** affirmed Ethias SA's **Insurer Financial Strength (IFS) Rating at A- with a stable outlook.** The agency underlined the insurer's strong capitalization, good profitability and strong business profile.

The health crisis and its consequences have undeniably had a non-negligible impact on all levels of our insurance activities in 2020. And at the beginning of 2021, the crisis continues and starts to percolate into the real economy.

From the start of the crisis, **Ethias has implemented a broad support plan** that was appreciated by both its individual clients and public bodies and acknowledged by the authorities. This plan is based on four pillars: protection of its employees, protection of its clients, protection of the company and, finally, support for the Belgian economy's recovery. Ethias has also been awarded a DECAVI trophy for all the measures it has taken.

As the country's 3rd largest Life and Non-Life insurer, with the support of its subsidiaries, Ethias intends to play a leading role both in its sector and in the country's recovery process.

[1] Subject to the approval of the General Assembly

2. BUSINESS AND PERFORMANCE

2.1. Business

2.1.1. THE COVID-19 PANDEMIC

The health crisis and its consequences have undeniably had a non-negligible impact on all levels of our insurance activities in 2020. And at the beginning of 2021, the crisis continues and starts to percolate into the real economy.

Throughout the first lockdown period, all of our regional offices remained closed. At that time, only our Contact Centers and our website with its Client Zone were our bridgeheads to stay in touch 24/7 with our policyholders and prospects. Our phygital structure has clearly proved to be a real asset for remaining at everyone's service at all times, beyond the crisis and its unprecedented situations.

During the second lockdown period, the activity of the regional offices was considered essential and they were able to remain open but in the meantime the client has committed to the full use of digital services offered, driven by the consequences of the first lockdown.

In fine, by end-2020, we will have recorded almost 50% fewer visits to our offices, a 10% increase in the volume of telephone communications in our Contact Centers and up to 60% more web visits (notably in June 2020), all of which will result in new business growth as of June 2020 (excluding «COVID-19 products» such as Travel Cancellation and Assistance).

At the same time, the year 2020 has seen a significant reduction in the frequency of claims in the Motor branch and a decline in churn volumes.

At the level of public authorities and companies, the year 2020 was marked by a decrease in the claims rate, which mainly impacted the branches "Motor" and "Workers' Compensation", reflecting a slowdown in economic activity, which was particularly felt during the first lockdown period. The same was true in Health Care with a relatively limited number of COVID-19 related hospitalizations.

This slowdown, which according to NBB statistics resulted in a fall in GDP of more than 6%, also had an impact on our premium collections, where coverage suspensions and premium revisions were requested by our clients.

Fortunately, in 2020 our portfolio was only slightly impacted by bankruptcies of business clients or payment defaults. This results in particular from the preponderant share of public authorities in our portfolio and a relatively weak presence in the economic sectors hardest hit by the crisis. Similarly, few clients have requested the payment facilities provided for in the government agreement as a business support measure.

The financial turmoil due to the COVID-19 crisis had, on a year-on-year basis, a relatively small impact on Ethias' SII coverage ratio (-4%), mainly due to our reduced sensitivity to interest rates and close monitoring of our spread positions, and thanks to the increase in equity markets during the second half of the year. From a technical point of view, the NBB's validation of our "USP" projects (Undertaking Specific Parameters) also has a positive impact on our ratio. Ethias' solvency position remains solid, mainly thanks to a well-diversified investment portfolio and limited exposure to sectors that have suffered particularly from the crisis such as leisure. Moreover, this position was constantly monitored by careful follow-up of market anticipations, a dynamic management of financial risks, the elaboration of hedging programmes when necessary and by regularly updating the estimate of COVID-19's impact estimation on the company. Furthermore, several scenarios were reviewed and updated on a regular basis throughout the year in order to take into account the latest data and trends, some potential lagging effects as well as the uncertainty around the evolution of the pandemic and its impacts on the economy.

As a result of the COVID-19 crisis and its socio-economic consequences on our insurance (underwriting) activities, the emergence of several risks has been observed.

Within sectors where the economic depression is experienced, we could have suffered from the decrease in our turnover as well as from policyholder defaults. The impact of that risk has however been mitigated by the very well diversified position of Ethias.

There remain also political uncertainties as to the extent to which the insurance sector will be required by the government to either adjust premiums to the claim evolution due the health crisis (e.g. in motor or health insurance) or to cover the COVID-19 pandemic risk (currently without a clear view on how the (re)insurance market can handle that risk, possibly together with the authorities).

Furthermore the delay in non-urgent health care (not performed during the lockdown period) may also lead to an increase in severity of future claims (due to a deterioration of the health state because of deferred care).

Finally, we can also mention that a prolonged health crisis could lead to an increase in fraudulent behaviour or unpaid premiums (resulting from the economic crisis) and that habits linked to more frequently working from home may contribute to a change in the risk profile (increased exposure to cyber risk, alteration of the worker's accident risk profile, ...). No realization of the fraud or default risk was observed in 2020.

For Ethias, the past year was an opportunity to test its resilience on a large scale, but also its values (solidarity in particular) with many policyholders and even more broadly with society as a whole. The model has been able to demonstrate its solidity and its ability to deal, by itself, with unforeseen situations with multiple and far-reaching impacts. In spite of this situation, Ethias managed to achieve the goals set out:

- **The 2020 results exceed expectations** thanks to various actions taken very early in the year to protect the company from the effects of the pandemic and thanks to the dynamism of the sales teams, enabling the company to reach unexpected levels of premium collection in the current situation.
- The solvency level was maintained throughout the year.
- A group strategy has been determined which - through synergies, expertise and the talents of more than 5,000 employees - allows Ethias to accelerate the implementation of the ecosystems and to position the company on a service offering that goes beyond the mere proposal of insurance contracts.
- **Flora** has become a reality and actually positions Ethias on the insurtech market (100% digital product offer).
- **Various applications have been developed** to meet pandemic-related needs and will complement the services offering to clients in the future.

Faced with this exceptional situation, Ethias developed a four-phase plan in 2020 which, among other things, has allowed the company to anticipate certain changes at the organizational, strategic or human levels. This approach has also enabled the insurer to stand out both internally and externally and has been highlighted by both the sector and the political world. These four phases continue to be the guiding thread of actions taken by the Management Committee:

- **Protection of employees.** In the course of the past weeks, the company has stood by its employees, both individually (with initiatives related to psychosocial risks or compliance with safety rules) and collectively (with initiatives aimed at maintaining cohesion within the teams and within the company in general).
- **Protection of clients.** From the start of the crisis, Ethias has supported its clients: in B2B through various initiatives for the health sector, sports federations and education (notably through financial support to the Red Cross and Doctors Without Borders, donation of equipped PCs to schools and to the non-profit organization Digital4Youth, extension of guarantees, distribution of disinfection materials and info panels/stickers for sports infrastructure and free coverage of staff in vaccination centres) and in B2C (a tenant premium, spread and reimbursement of premiums in the event of difficulties, waiving of tariff increases, development of Care4You, App4You, etc.). Other initiatives continue to be added, such as the granting of aid to associations that combat domestic violence or support for the cultural sector through the funding of radio spots. In total, no less than 50 measures have been implemented by Ethias in favour of its clients, in line with its values and corporate social responsibility. The company's accessibility for B2C clients has been continuously ensured via internet, telephone, app and chatbot as well as by the organization of back-ups in case of unavailability of a team on-site. This proactive support to clients also remains a priority for the Management Committee.
- **Protection of society.** From the start of this crisis, Ethias has had this willingness to protect society in line with the values it has always defended. In addition to the aid granted to the cultural, sports, hospital and education sectors, Ethias has very quickly positioned itself as a player in the revival process with the granting of a loan to the Regional Investment Company of Wallonia (SRIW), the participation - as an expert - in sessions related to the organization of project financing at federal level and with the capital increase of Finance&Invest.Brussels. Finally, Ethias stands alongside PMV to support the launch of the «Welvaartsfonds» (Prosperity Fund), an initiative of the Flemish Government. Ethias continues to be attentive to any initiative aimed at reviving the economy.
- **Protection of the company.** Despite the positive figures, Ethias has remained attentive to controlling its costs (significant reduction in consulting and other costs) and to implementing levers for protecting its solvency.

In conclusion, this four-phase strategy has demonstrated its usefulness and relevance in managing the crisis. It has allowed Ethias to remain present at different levels and with different stakeholders of the company. This plan has made it possible to structure the approach, anticipate certain client needs and to move rapid progress, in an agile way, on ongoing projects, particularly in respect of ecosystems through the launch of certain applications (App4you, Care4you). The implementation of this plan, its monitoring and the related anticipation exercise have required considerable efforts from the teams in a situation of nearly full-time working from home alongside increased family commitments.

2.1.2. ETHIAS APPOINTS WILFRIED NEVEN AS CDTO

Wilfried Neven took office on 21 February. He is in charge of accelerating Ethias' digital transformation, in line with the company's market positioning, strategic plan and client expectations.

2.1.3. CONCLUSION OF SEVERAL PARTNERSHIPS

The year 2020 saw the launch of many partnerships to support Ethias' market positioning. Partnerships have been concluded with:

- Independer, acting as a price comparator and insurance intermediary for car insurances. Independer is DPG Media's digital advice and comparison platform for insurances, banking products, energy and mortgages.
- Assurances.be, one of the key players on the Belgian market, acting as a price comparator and insurance intermediary for car insurances.
- Keytrade Bank for the «Home in One» package including a mortgage loan at Keytrade Bank and fire and outstanding balance insurances at Ethias.
- The housing company "Woonhaven Antwerp", for distributing the insurance products «Home Contents» and «Private Life Civil Liability" to its 18,000 tenants.

2.1.4. MARKET CONDITIONS IN 2020

The year 2020 will have been a year without precedent in modern history, with the COVID-19 pandemic causing the most severe global recession in the post-war era and hitting a large number of countries simultaneously. This major shock cannot be completely erased and a return to normal in the global economy will take time.

At the economic level, the first half of 2020 was obviously marked by the effects of the epidemic and the lockdown policies in many countries. The contraction in global activity caused by the fight against the pandemic has been on an unprecedented scale. Nevertheless, the world economy was able to rebound in the second half of the year, benefiting from the easing of lockdown measures but also supported by ambitious budgetary recovery plans (a 750 billion euro plan for Europe and a 1,900 billion dollar plan for the United States).

Of course, the positive news about vaccines leaves little doubt that 2021 will be much better than 2020. The economists' central scenario is that by early spring 2021, restriction measures will be relaxed and vaccination efforts will be stepped up. In this scenario, we should therefore see a significant recovery in most economies between now and the second quarter. However, this scenario is still subject to many uncertainties (virus mutation, speed of vaccination, geopolitical problems, etc.). Politically speaking, the year 2020 was not easy either, with the American presidential elections first having an undecided outcome and finally seeing the victory of the Democratic candidate Joe Biden, but also the conclusion in extremis between the European Union and the United Kingdom of an agreement on post-Brexit trade relations. In this very delicate economic and health context, the main Central Banks conducted particularly accommodating monetary policies and resumed quantitative easing policies. In March, the European Central Bank (ECB) thus implemented a massive securities purchase plan, consisting of injecting liquidity into the financial system in order to ease credit conditions for companies and governments. On the other side of the Atlantic, the FED lowered its key rates by 1.50% to reach 0% and introduced an unprecedented and unlimited quantitative purchase programme.

As far as the financial markets are concerned, following the massive injection of liquidity by the ECB, bond yields in the euro zone fell sharply from April onwards, with e.g. a 10-year Bund ending the year 2020 at -0.57% (compared with -0.19% at the beginning of 2020). For its part, the 10-year OLO rate, in positive territory at the beginning of January (0.1%), finally closed the year 2020 with a marked negative yield (-0.38%). Same bearish momentum but even more pronounced for the peripheral countries of the euro zone. Indeed, 10-year yields in Italy (0.54%), Spain (0.05%), Portugal (0.03%) and Greece (0.63%) all reached new lows at the end of the year. These market movements have brought the 10-year Italian-German spread to around 1.10%, its lowest level since 2016.

In this low interest rate environment, the stock market performance of equities over the year 2020 has been surprising. Indeed, European stock markets were marked by high volatility and a very severe fall in March. In the months that followed, the European indices experienced two periods of increase, between April and June and then at end-2020, notably as a result of the accommodating monetary policy conducted by the ECB, the result of the US elections and the positive news on vaccine production. Finally, the Euro Stoxx 50 continues on a negative performance for the whole of 2020 (-5.14%) but this is still measured against the global economic recession we have experienced.

The same rebounds in 2020 can be seen on the US stock markets, but, as they are more exposed to technology and growth stocks in general, the US indices have seen a more pronounced upward movement than in Europe. As a result, the S&P and Nasdaq recorded very positive year performances of 16.26% and +43.64% respectively.

2.1.5. GROUP STRATEGY

With the implementation of its group strategy validated by its shareholders, Ethias is embarking on a new stage. This strategy consists of capitalizing more on the strengths and specificities of its subsidiaries (NRB, IMA Benelux, Ethias Services ...) in order to position the Ethias Group as a value-generating group for all its stakeholders. This strategy is based, on the one hand, on strengthening the integration of the Group's entities and, on the other hand, on a ***«beyond insurance»*** approach, viz. evolving from an insurer's strategy towards a strategy of integrated services for the benefit of clients. Five pillars are the core of this strategy: (i) offering extended services, (ii) developing digital solutions, (iii) constructing ecosystems, (iv) developing synergies and (v) revising the commercial approach, including the conclusion of partnerships.

2.1.6. JOINT-VENTURE WITH WEERTS GROUP

Ethias and the Belgian family business Weerts Group have entered into a 50/50 joint venture aiming at the joint development of a pan-European portfolio of logistics real estate. Ethias is thus partnering with a specialist in the sector whose decision-making centre is anchored at the local level and which creates a considerable number of jobs in the region. This partnership also aspires to achieve the objectives set out in the European Green deal. In the current economic context and low interest rate environment, the logistics real estate sector is one of the few sectors that offers growth opportunities.

2.1.7. COMMIT CONTRACT

At the end of 2020, Ethias signed the CommIT contract with its IT subsidiary NRB. CommIT is a transformation programme that involves a complete outsourcing of Ethias' IT activities in partnership with NRB. The transfer of Ethias' activities to NRB started in the summer of 2020 and became official on January 1, 2021.

The main objectives of this partnership are:

- A reduced and controlled total IT budget.
- A focus on innovation, modernization and continuous improvement to support Ethias' strategy (n°1 direct insurer, n°1 digital insurer and n°1 in the public sector).
- A move towards new ways of working and collaboration, notably by integrating the «Agile» philosophy.
- A strengthening of the Ethias/NRB partnership within the framework of the group strategy.

2.1.8. DECAVI

The quality of our products and services has once again been rewarded. Ethias has won **4 DECAVI Non-Life Insurance Trophies** in the following fields:

- Tenant Insurance;
- Family Civil Liability Insurance;
- Workers' Compensation Insurance;
- Digital Trophy for «My AT» in the Client Zone (consultation and follow-up by the victim of a work accident).

Ethias was also rewarded for its social commitment by receiving the first DECAVI Trophy "Pandemic". The award recognizes the initiatives taken by the insurance industry to fight the COVID-19 virus or to help those in need during this exceptional period.

2.1.9. PUBLICATION OF OUR 3RD CSR REPORT, TESTIMONY TO ETHIAS' LONG-STANDING INVOLVEMENT IN CSR

Ethias has published its 3rd non-financial report since the transposition of the European Directive 2014/95/EU into Belgian law. Designed around the three pillars «People, Profitability & Planet», this report reviews Ethias' 2019 actions on the social, societal and ecological levels.

2.1.10. CHANGE OVER: ETHIAS COMMITS TO AN AMBITIOUS CLIMATE PLAN

Objective: to reach a climate-neutral activity by 2030 by means of an ambitious plan called "Change Over 2030!"

The trajectory to achieve this ambition will revolve around two major pillars:

- **Energy sobriety:** having CO_2-efficient buildings, limiting unnecessary travel and reducing unnecessary consumption.
- **Energy shift:** gradually moving to all-green electricity powered by low-carbon sources.

There will be three stages (2020-2025-2030):

- From 2020, Ethias will offset all its emissions by participating in one or more certified projects that contribute to reducing the carbon footprint.
- By 2025, it will reduce its CO_2 emissions by one third by renovating or constructing new corporate buildings based on the principles of «Sustainable Building». Ethias will continue its efforts in the area of soft mobility and it will totally transform its car fleet by promoting electric and hybrid vehicles.

It will also continue its work-from-home policy.

- By 2030, all of our buildings will be CO_2-efficient. All our vehicles will emit 0 grams of CO_2 per km. Within the Ethias Group, we will work together with NRB, our IT subsidiary, to reduce our digital footprint.

2.1.11. ETHIAS, AN EVER MORE ATTRACTIVE EMPLOYER ACCORDING TO THE LATEST STUDY BY UNIVERSUM

In the latest survey conducted by Universum[2] among more than 11.000 students (Master's and Bachelor's degrees from Business, Engineering and Law schools), **Ethias records a 13% increase** in 2020 in terms of attractiveness as an employer, after having already gained 16% in 2019 in the «business» category. **Ethias is also gaining 38 places among law students,** hence recording the best progression.

2.1.12. NUMBER OF EMPLOYEES

Ethias SA has gone from 1,887 employees on 31/12/2019 to 1,923 employees on 31/12/2020.

2.2. Insurance results

The year 2020 records a net result of 205 million euros, up 8% compared to 2019 thanks to a strong performance in Non-Life business. After withdrawals and transfer to untaxed reserves, the result to be appropriated amounts to 203 million euros.

Total premium income amounts to 2,730 million euros, an increase of 2% compared to the 2019 premium income, thanks to the increase in Life insurance (+8%) which compensates for the impact on

Non-Life premium income (-3%), due to the pandemic, the decrease in activities on the international level and consolidations.

Despite the turbulent year on the financial markets as a result of the health crisis, the investment results in 2020 are positive thanks to the capital gains allowing to compensate for the write-downs on shares.

With regard to overheads, an exceptional allocation to Ethias Pension Fund OFP was made for an amount of 10 million euros (of which 9 million euros in Non-Life and 1 million euros in Life).

2.2.1. RESULT OF THE NON-LIFE INSURANCE SERVICES

The result of Non-Life business amounts to 167 million euros.

Income amounts to 1,382 million euros and decreases by 3% compared to 2019. It breaks down as follows between the segments "Private Individuals" and "Public Bodies & Companies":

- Premium income for Private Individuals increases by 1% compared to 2019 and amounts to 590 million euros. Premium income for Public Bodies and Companies amounts to 792 million euros and decreases by 5% compared to 2019, mainly as a result of the COVID-19 crisis, consolidations and the decrease in the international portfolio.

The operational net combined ratio amounts to 94% compared to 97% in 2019. This evolution is mainly the result of a decrease in the claims ratio, which can be explained in particular by the effects of the pandemic and the strengthening of technical reserves.

[2] Source: https://peoplesphere.be/fr/ publication June 30, 2020 - Universumglobal.com

2.2.2. RESULT OF THE LIFE INSURANCE SERVICES

The result of Life business amounts to 81 million euros.

Income at end-2020 is up by 8% compared to 2019 and amounts to 1,348 million euros, including 42 million euros in Private Individuals and 1,306 million euros in Public Bodies & Companies.

Income in Life Individuals decreases by 18% compared to 2019.

Premium income for Life Public Bodies & Companies increases by 9% compared to 2019, mainly coming from the 1st pillar.

The good performance of the Life business in 2020 is explained in particular by an improvement in the operating margin and non-recurring financial income of 18 million euros. These good results made it possible to endow the fund for future appropriations with an amount of 12 million euros and the provision for profit-sharing (net of taxes) with 37 million euros, mainly for ring-fenced funds from the 1st pillar.

2.2.3. INVESTMENT PERFORMANCE

The net financial income for 2020, included under the investment income and expense headings in the BGAAP annual accounts, amount to 364.7 million euros compared with 419.3 million euros in 2019. They are distributed as follows: 99.4 million euros in Non-Life, 280.1 million euros in Life and an expense of 14.8 million euros in non-technical.

They consist of the following main elements:

In thousands of euros	2020	2019
Net financial income of investments, without branch 23	400,565	450,857
Recurring	*373,517*	*384,385*
Non-recurring	*27,048*	*66,472*
Income related to financial reinsurance	0	18
Net financial income of investments in branch 23	1,167	6,307
Financial expenses of loans and other financial payables	-25,926	-25,728
Other income and financial expenses	-11,140	-12,181
Total	**364,666**	**419,273**

Net financial income of investments by major asset classes is detailed below:

In thousands of euros	2020	2019
Bonds	324,635	323,067
Recurring	*307,841*	*320,127*
Non-recurring	*16,794*	*2,940*
Shares & participating interests	30,952	47,678
Recurring	*30,490*	*25,405*
Non-recurring	*462*	*22,273*
Real estate & loans	47,832	83,972
Recurring	*36,896*	*41,940*
Non-recurring	*10,936*	*42,032*
Derivative instruments	-828	557
Cash and cash equivalents	-2,026	-4,417
Total	**400,565**	**450,857**

2.3. Performance of other activities

The non-technical result before tax shows a negative contribution of 25 million euros, mainly due to the expenses of subordinated loans. Tax expenses for the year amount to 18 million euros and benefit from the use of tax losses carried forward and deductions of income from innovation.

3. SYSTEM OF GOVERNANCE

3.1. General Information

3.1.1. MANAGEMENT AND SUPERVISORY BODIES

Wishing to promote efficient and prudent management, Ethias strives to make a clear distinction between, on the one hand, the senior management of the insurance company, carried out by the Management Committee, and, on the other hand, the supervision on that management, of which the Board of Directors is in charge.

3.1.1.1. Board of Directors

Missions

The Board of Directors has ultimate responsibility for the company and defines the general strategy, the main corporate governance and risk policies as well as the integrity policy. It also oversees the company's activities and regularly evaluates the effectiveness of the governance system.

At least once a year, it verifies the proper functioning of the four independent monitoring functions and ensures that, on the basis of the periodic report drawn up by the Management Committee, the latter takes the necessary measures to remedy any shortcomings.

It regularly assesses the general principles of the remuneration policy and monitors its implementation.

It also regularly checks whether the company has an effective internal control system with regard to the reliability of the financial reporting process.

It supervises the decisions taken by the Management Committee, takes note of the important findings made by the independent monitoring functions, the statutory auditor, the NBB and the FSMA, and determines which actions should be taken following the recommendations of the internal audit, subsequently ensuring that they are properly carried out.

Composition

The Board of Directors has 16 directors, including 4 executive directors, 4 independent directors and 5 women (pursuant to Article 7:86 of the Belgian Code on Companies and Associations).

The composition of the Board of Directors also respects linguistic parity.

The maximum age of each director may not exceed 70 years. However, any mandate as director starting before the age of 70 may be completed.

The term of director is 6 years and is renewable.

The Board of Directors appoints a chairman from among the directors who are not Management Committee members.

3.1.1.2. Specialised committees of the Board of Directors

Audit and Risk Committee

On 19 February 2009, the Board of Directors set up an Audit and Risk Committee.

Missions

In order to enhance the effectiveness of the Board of Directors' oversight of the company's activities, the Audit and Risk Committee is responsible for monitoring the process of preparing and controlling financial information, monitoring the effectiveness of the company's internal control and risk management systems, and monitoring the internal audit function and its activities.

It advises the Board of Directors on aspects relating to the definition and control of the implementation of the strategy and the level of risk tolerance, both current and future, and assists the Board in controlling the operation of the risk management function.

The committee monitors the statutory audit of the annual and consolidated accounts, including any follow-up on questions and recommendations made by the external auditor.

Its responsibilities are described in the internal regulations of the Audit and Risk Committee, adopted by the Board of Directors on November 22, 2018 and amended on October 21, 2020.

Composition

The Audit and Risk Committee is composed of at least three directors non-members of the Management Committee, with the majority of them being independent (see above).

A chairman is appointed from amongst these members.

At present, it is composed of 5 non-executive directors, 3 of whom are independent.

Only members are entitled to participate in the meetings of this committee. However, external persons are admitted to meetings upon decision of the chair when the case requires it.

Appointments and Remuneration Committee

An Appointments and Remuneration Committee was established on February 19, 2009 within the Board of Directors. It was originally common to Vitrufin and Ethias.

On July 4, 2014, it was decided to set up an Appointments and Remuneration Committee specific to each of the companies.

A new internal regulation was adopted on November 22, 2018 and amended on October 21, 2020.

Missions

The Appointments and Remuneration Committee is responsible for assisting the Board of Directors and the Management Committee in evaluating and giving advice or taking decisions on the appointment of directors, members of the Management Committee and heads of independent monitoring functions. It also advises the Board of Directors on remuneration matters.

Its responsibilities are described in the internal regulations of the Appointments and Remuneration Committee.

Composition

The Appointments and Remuneration Committee is composed of at least 3 non-executive directors, at least one of whom is independent, and is chaired by the Chairman of the Board of Directors.

3.1.1.3. Management Committee

Missions

The Management Committee has the power to perform all acts necessary or useful to achieve the company's object, except for those reserved by law to the Board of Directors and to the General Assembly.

(1) The Management Committee carries out the concrete management of Ethias' operations as part of the strategy defined by the Board of Directors.

It implements the strategy defined and the policies approved by the Board of Directors by translating them into processes and procedures.

It ensures the management of the company's activities in accordance with the strategic objectives set and within the risk tolerance limits defined by the Board of Directors.

It supervises the operational departments and ensures compliance with the assigned competences and responsibilities.

It submits proposals to the Board of Directors for the definition of the general policy and strategy of the company.

(2) The Management Committee also implements the risk management system defined by the Board of Directors, (i) by taking the necessary measures to ensure risk control, (ii) by monitoring changes in the company's risk profile, (iii) by ensuring that all risks are properly identified and managed, (iv) by establishing IT control and security mechanisms, and (v) by translating the risk appetite framework and general risk management policy defined by the Board of Directors into processes and procedures.

(3) The Management Committee also puts in place the monitoring and evaluation of the organizational and operational structure for supporting the company's strategic objectives and provides for adequate internal control mechanisms. It also implements the framework necessary for the organization and proper functioning of the independent monitoring functions, executes the governance policies defined by the Board of Directors, ensures the correct application of the company's remuneration policy and organizes an internal reporting system that makes it possible to establish with reasonable certainty the reliability of financial information and prudential reporting.

(4) The Management Committee is also responsible for implementing the integrity policy defined by the Board of Directors.

(5) Finally, the Management Committee is responsible for reporting to the Board of Directors and to the NBB. In this respect, it communicates to the Board the information allowing it to carry out its task of supervising the company's activities, which shall include, in particular, the report on the evaluation of the effectiveness of the governance system.

Composition

The by-laws of Ethias SA, as amended on 16 December 2020, stipulate that the Board of Directors sets up a Management Committee of 6 natural persons, four of whom are directors and three of whom are Dutch-speaking and three French-speaking. To date, it remains composed of 6 people.

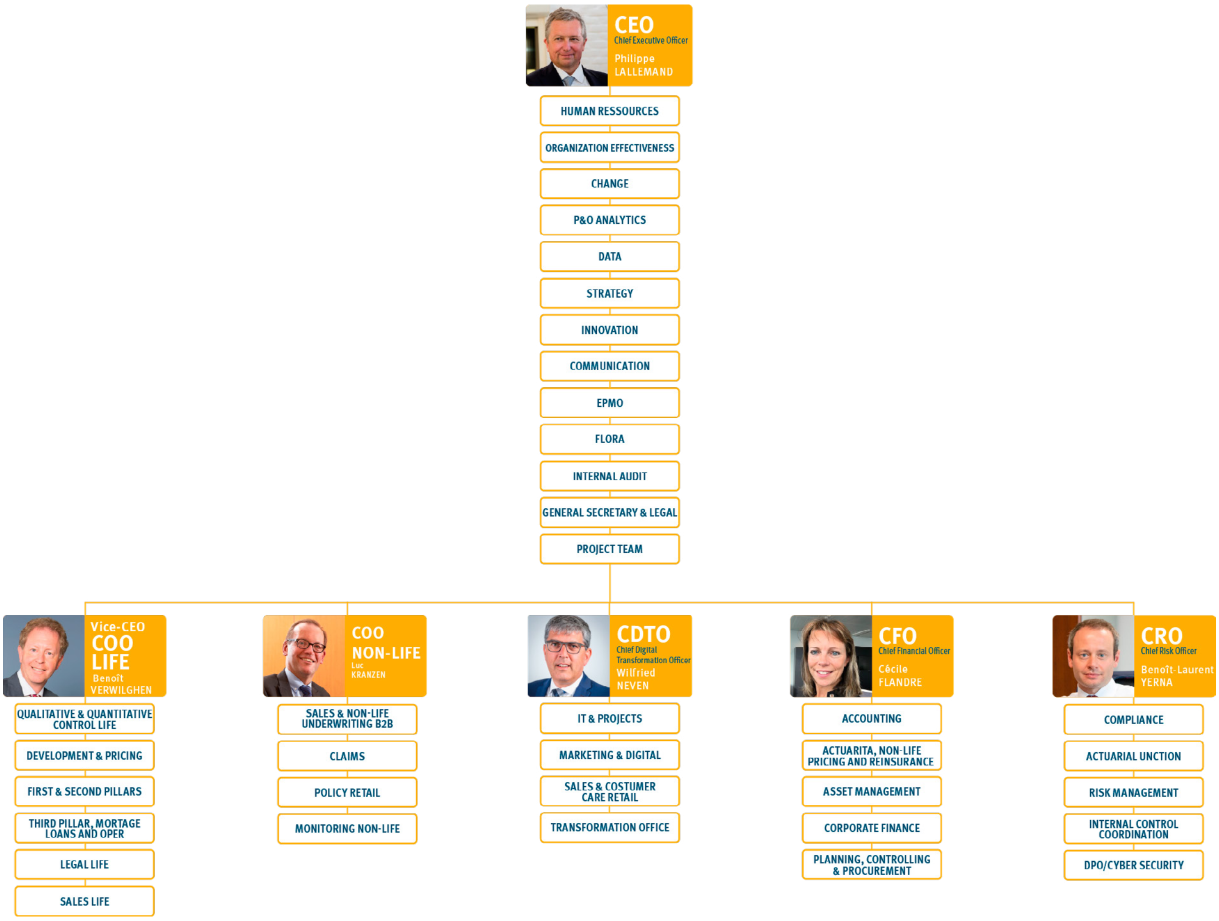
The Board of Directors appoints the members of the Management Committee.

Internal distribution of tasks

A new organizational architecture was implemented in September 2017 and revised in September 2018. It was completely modified in November 2019 ("Ethias Tomorrow Move2Gether").

The internal division of tasks between the members of the Management Committee was reviewed with the arrival of the new CDTO in February 2020.

The operational chart, which covers the business lines under the members of the Management Committee, can be presented as follows:



It is specified that the CRO has, in accordance with Article 56 § 3 para. 2 and 3 of the Solvency II Act, obtained authorization from the NBB to cumulate responsibility for the risk management, actuarial and compliance functions.

Periodic evaluation

The chairman of the Management Committee shall organize an annual evaluation of the functioning of the Management

Committee. The self-assessment for the year 2020 took place in January 2021.

3.1.2. REMUNERATION

Remuneration policy and practices

As of December 19, 2018, the Board of Directors, on the recommendation of the Appointments and Remuneration Committee, adopted a remuneration policy for Ethias.

This policy complies with the provisions of circular NBB_2016_31 of 5 July 2016, updated in September 2018, in that it defines «identified staffs» and lays down the general principles applicable to all staff members, including independent monitoring functions, but also, through its annexes, the specific provisions applicable to members of the Management Committee and non-executive directors. It cancels and replaces the Remuneration Policy of March 23, 2016.

Are considered as *«identified staff»* within Ethias:

- the non-executive directors,
- the members of the Management Committee,
- the members of the Management Meeting,
- the heads of the independent monitoring functions (Head of Internal Audit, Head of Compliance, Head of Actuarial Control, CRO) and
- the persons likely to have a material impact on the risk profile of Ethias or «risk takers» (Head of Investment Management and Head of Asset Allocations & Solutions).

The policy approved by the Board of Directors on 19 December 2018 formalises and operationalises all the rules concerning rewards approved by the Management Committee, in particular at its meetings on 6 July 2017 and 19 December 2017. The remuneration system applicable to all employees of the company (with the exception of the members of the Management Committee but including the «identified staffs» under Ethias employment contract) was indeed entirely reviewed during 2017. The new salary dynamic was put in place by a collective labour agreement dated December 13, 2017, which has come into effect on January 1, 2018. This new remuneration policy no longer makes any distinction depending on whether the employee is hired before or after January 1, 2007. It also puts an end to the specific regime previously applicable to inspectors.

The members of the Management Committee are not covered by the general provisions of the above-mentioned remuneration policy. Following the entry into force of the new Belgian Code on Companies and Associations on 1 May 2019, their status had to be adapted and brought into line with the Code. As of 1 January 2020, all members of the Management Committee will have the status of self-employed.

Individual and collective annual objectives as well as collective multi-annual objectives for 2020 were validated by the Board of Directors on 29 January 2020.

Non-executive directors receive an attendance fee per meeting (when there are several meetings on a single day, the attendance fee is limited to one meeting). An additional annual allowance, in the form of a fixed amount, is also allocated to them. The members of the Audit and Risk Committee as well as the members of the Appointments and Remuneration Committee receive an attendance fee and an annual allowance in the form of a fixed amount.

The total remuneration of the directors is published in Ethias' annual report (note n° 19 to the balance and income statement). Moreover, in accordance with the requirements of Article 100 of the Companies Code, the individual remuneration of the directors is now published in the management report. It was also decided to voluntarily publish the annual individual remuneration of the Management Committee members.

3.2. «Fit & Proper» requirements

3.2.1. DESCRIPTION OF THE REQUIREMENTS

On 22 November 2018, the Board of Directors of Ethias established a «fit & proper» policy for non-executive directors and members of the Management Committee as well as a «fit & proper» policy for the heads of independent monitoring functions. These policies provide for processes for the selection, assessment and training of such persons.

These policies are in line with circular NBB_2018_25 on the suitability of directors, members of the Management Committee, heads of independent monitoring functions and effective managers of financial institutions. They establish the processes and criteria that the competent bodies of Ethias undertake to respect within the framework of the suitability assessments they carry out.

For the functions of member of the Management Committee and non-executive director, the Appointments and Remuneration Committee not only carries out the individual assessment of the candidate's suitability but also the expertise of the body concerned collectively in order to ensure that the expertise within the management body concerned is sufficiently guaranteed with these persons in view of their knowledge, experience, skills and professional conduct. The assessment of the competence of the members of the management bodies shall take into account the different tasks entrusted to each of its members in order to ensure a diversity of qualifications, knowledge and experience in order to guarantee the professional management and supervision of Ethias. In this respect, criteria for collective expertise are detailed in competency matrices that are established and updated by the Appointments and Remuneration Committee on the basis of the above-mentioned evaluation criteria. For the heads of independent monitoring functions, it is the responsibility of the Management Committee to carry out this individual assessment of the candidate.

3.2.2. ASSESSMENT PROCESS

The suitability is assessed before taking up office but also during the term of office and when reappointing directors, since non-executive directors, members of the Management Committee and heads of independent monitoring functions must have at all times the suitability required for the performance of their duties.

3.3. Risk management system and ORSA

3.3.1. RISK MANAGEMENT SYSTEM

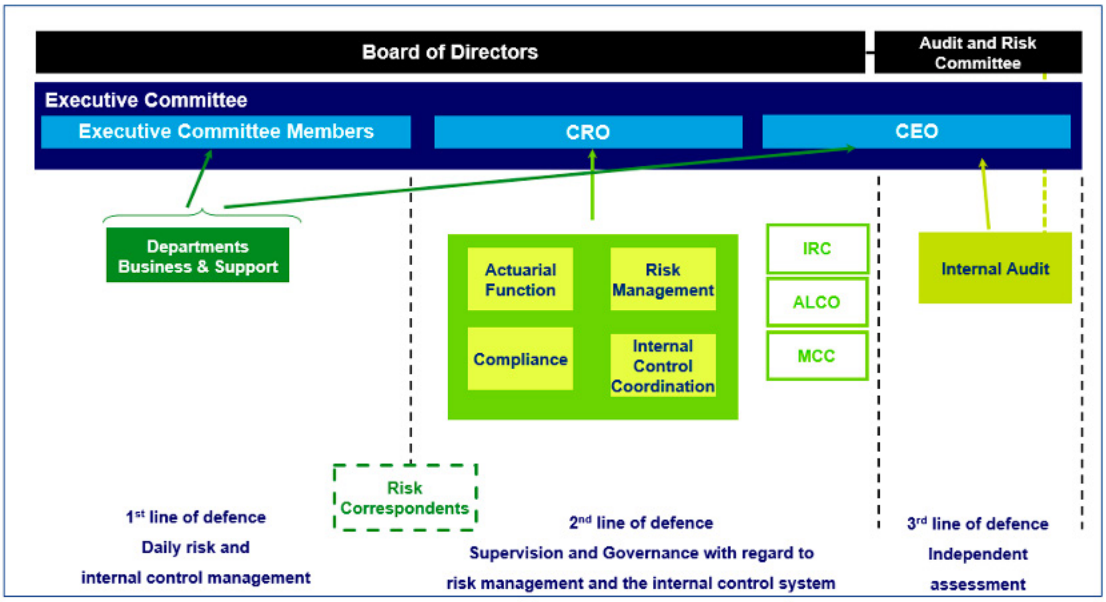
3.3.1.1. Objectives of the company's risk management

Besides its business activity of managing the risks underwritten by its clients, an insurance company, like any company, is itself confronted with various categories of risks. In such circumstances, it is a matter of managing the uncertainty as satisfactorily as possible, by identifying, assessing and effectively dealing with the risks the company is confronted with, in order to control them.

Therefore, the general risk management process aims at «offering a reasonable assurance with regard to achieving the objectives of the organization by maintaining exposure to risk within the limits of risk appetite».

3.3.1.2. The 3 lines of defence

Good governance of an insurance company requires the setting-up of the following functions: Internal Audit, Compliance, Risk Management, Internal Control and Actuarial Function. These are not only independent monitoring functions but also governance functions. Their conclusions and advices are translated into measures to reinforce the management structure, the organization and the internal control system. These functions are structured in such a way that they constitute three «defence lines»:



First defence line - Daily risk supervision

The first defence line is provided by operational lines and support functions (Accounting, Asset Management, IT, Human Resources, etc.). It is their responsibility to identify the risks posed by each operation and to respect the procedures and limits set.

Second defence line - Risk supervision

The second defence line includes the control functions of the risk management function (Risk Management), the internal control function, the actuarial function (Actuarial Control) and the compliance function, which are responsible for ensuring that the risks have been identified and managed by the 1st line, according to the rules and procedures envisaged.

These four functions depend on the CRO, who ensures the transversal coordination of the work and the adequate exchange of relevant information.

The CRO, who is a member of the Management Committee, has to make sure that the structure of Ethias' risk management is operational and has to improve its effectiveness and efficiency. The entities that are hierarchically answerable to the CRO assist him in his assessment of the company's risk profile, of its alignment with its strategy and risk appetite as well as in the identification of future risks.

Finally, to reinforce risk governance, Ethias' Management Committee sets up committees[3] dedicated to risk management: These committees are advisory and their recommendations are validated by the Management Committee:

- The Insurance Reinsurance Committee (IRC);
- The Assets and Liabilities Committee (ALCO);
- The Model Coordination Committee (MCC).

In fact, these committees are monitoring, decision-making and reporting instruments, particularly in terms of risks. Each committee is chaired by a member of the Management Committee. The CRO is present in each committee dedicated to risk management.

The IRC follows the technical risks of the existing products, analyses the mitigation actions of the technical risks, analyses the modifications to existing products or the proposals for new ones and supervises the reinsurance programme.

The ALCO has the task of contributing to the protection of Ethias SA in its liquidity, profitability and solvency aspects, through the alignment of the company's assets and liabilities and to set the guidelines for the investment strategy as well as to monitor the investment portfolios in accordance with the risk appetite and investment philosophy approved by the Management Committee and the Board of Directors.

The role of the Model Coordination Committee (MCC) is to monitor and contribute to the compliance, within the risk framework defined by the Board of Directors, of all internal and regulatory standards for the development and use of internal quantitative models used by Ethias for, in particular, the management of its technical and financial risks and its asset / liability management.

Third defence line - Independent assessment

The third line of defence is provided by the internal audit department whose task is to provide the Board of Directors and the Management Committee with a reasonable assurance about the quality and effectiveness of the internal control, of the risk management as well as of the institution's good

3.3.1.3. Typology of risks

The typology adopted by Ethias is presented in the diagram below and

- relies on the modules of the standard formula used to calculate regulatory capital requirements in the Solvency 2

[3] It should be noted that the structure of the committees described in the SFCR report as at 31/12/2017 and in the 2017 annual report was reviewed in early 2019 with a view to rationalizing the number of committees.

framework (in green in the diagram),

- is completed by the risks not covered by the standard formula (in orange in the diagram).

Insurance risks			
Life underwriting risk	Non-Life underwriting risk	SLT Health	Non-SLT Health
Mortality risk	Premium and reserve risk	Catastrophe risk	
Longevity risk	Catastrophe risk	Mortality risk	Premium and reserve risk
Disability/ morbidity risk	Expense risk	Longevity risk	Termination risk (redemption)
Expense risk		Disability/ morbidity risk	
Revision risk		Expense risk	
Termination risk		Revision risk	
Catastrophe risk		Termination risk (redemption)	

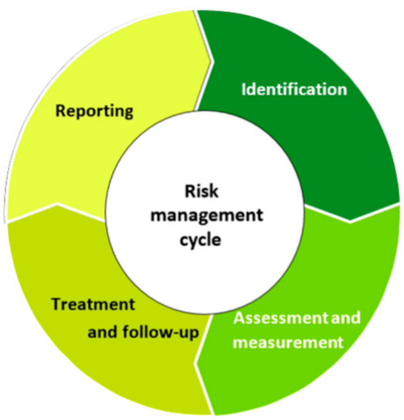
Financial risks		
Market risk	Counterparty risk	Liquidity risk
Interest rate risk	Downgrade risk	Market liquidity risk
Stock (price) risk	Default risk	Risk of funding liquidity
Real estate assets risk		
Spread risk		
Foreign currency exchange risk		
Concentration risk		

Non-financial risks	
Operational risks	Other non-financial risks
	Model risk
	Concentration risk

External and environmental risks
Strategic and reputational risk

3.3.1.4. Risk management process

Risk management is based on the following cyclical process:



Risk identification

The management, with the assistance of Risk Management if needed, determines for each of the company objectives, the risks associated with it, i.e. the events that are likely to have a negative impact on the achievement of the company's objectives. The identification of the potential events involves the combination of several methods: triggering factors, history of incidents, correlation between risks at an individual and aggregated level, trends, workshops for identifying risks ...

A few risks are for example:

- inadequate pricing of insurance products resulting in the non-profitability of the products concerned;
- the communication by the client of incorrect information (loss already occurred at the time of subscription ...) (insurance fraud);
- incorrect identification leading to inopportune segmentation (age, postal code, etc.) or to an inadequate tax system (in the case of Life insurance);
- loss of documents signed by the client (returned signed contracts, notice of loss, ...);
- a too high risk exposure level of a financial assets portfolio;
- security breaches exploited by cyber attackers resulting in data unavailability and a major impact on reputation.

Risk assessment and measurement

Depending on the risk category, different methods for risk assessment and measurement are put into place:

- quantitative methods for assessing and measuring financial risks and insurance risks;
- semi-quantitative methods for assessing strategic, operational and other business risks in terms of their probability of occurrence and the potential impact (extent of damage) they may cause in the event of their occurrence. The subdivision of risk mapping into frequency and impact ranges in a matrix helps to decide how (controlling actions) the risks are best handled.

The assessment of financial, insurance and operational risks is compared to Ethias' appetite matrices for risks in order to determine whether risk treatment measures are necessary.

Treatment and monitoring of risks

Once the risks are identified, assessed and measured, it is necessary to define, according to the chosen risk appetite, the most appropriate response to the risk among the various possible treatment options between avoidance (suppression of the activity carrying the risk), transfer (reinsurance, insurance), mitigation, sharing (mutualisation) or acceptance of the risk (the company itself carries the risk).

Reporting

The reporting component crosses the entire organization. Effective and efficient decision-making is highly dependent on the quality of information delivered to the decision-makers. Ethias tries to provide information (of a financial, legal, economic, operational ... nature) that is adequate and relevant to the correct recipient in a timely manner, so that everyone can understand its own role in the risk management system and is able to fully assume its responsibilities.

The reporting covers internal communication but also external communication to third parties (clients, suppliers, press, supervisory authorities, etc.). Ethias focusses on ensuring an adequate granularity of the information (level of detail, periodicity) and a communication of the information in a form adapted to the profile of the recipient.

In terms of internal reporting, it is also a matter of translating the risk management action plan into concrete results within policies (the «what»), articulated in procedures (the «how») that are disseminated in order to ensure an effective implementation of the risk management measures and an ongoing risk monitoring.

3.3.1.5. Risk management function

In accordance with the Risk Management Charter approved by the Board of Directors on 22 March 2018, the risk management function:

- ensures that all significant risks of the company are detected, measured, managed and correctly reported. It provides a comprehensive overview of the full range of risks to which the company is exposed. It actively participates in the development of the company's risk strategy and as well as in all management decisions that have a significant impact with regard to risk;
- is organized within a Risk Management Department, reporting to the Chief Risk Officer.

Independent monitoring function

The risk management function is an independent monitoring function, which is an integral part of the internal control system, alongside the actuarial function, compliance and internal audit.

The risk management function is hierarchically and organizationally detached from the operational activities to which it relates, so that it has a status that ensures its hierarchical and organizational separation from the risk-generating functions.

In order to avoid possible conflicts of interest, the Chief Risk Officer, the Head of Risk Management (DRM) and its direct employees may not carry out any commercial functions.

The risk management function must have the necessary and sufficient means to carry out its tasks independently. To this end, the Head of Risk Management draws up an annual statement of resource requirements according to the planned activities and then monitors the allocation of the resources.

The CRO may directly accede to the Board of Directors, if necessary through the Audit and Risk Committee, without having to first consult the Management Committee. The CRO may also address the Chair of the Management Committee, the Chair of the Board of Directors, the members of the Audit and Risk Committee, the auditors and the supervisory authority directly, if the situation so requires.

Thus, the CRO is authorized to make recommendations to the audit and risk committee. The requests for investigation into a specific area of activity must be assessed by the audit and risk committee with a view to include them in the company's audit plan.

The terms of compensation for the CRO and the risk management director meet objectives other than commercial.

The CRO may only be removed from office by the Board of Directors. It is namely essential that the Board of Directors is the only body empowered to dismiss such an official as his duties involve a review of the way in which the Management Committee carries out its tasks. Should a removal of the CRO be removed, Ethias will inform the supervisory authority in advance so that it can examine whether the company's governance does not require the adoption of special measures.

Governance of the risk management function

The Board of Directors:

- assesses periodically, and at least once a year, the effectiveness of the governance system and, in particular, the proper functioning of the independent monitoring functions, including the risk management function;
- takes the initiative to promote the risk management function in the conduct of activities; It ensures that Ethias has a risk management policy and encourages its observance;
- approves the risk management policy and assesses at least once a year whether it is adapted to the company's activities.

The non-executive directors organize, at least once a year, an assessment meeting with the CRO, on:

- compliance with the charter of the risk management function and the assessment of the functioning of the risk management function,
- the interactions between the risk management function, the Management Committee (where appropriate via the risk management committee) and the Audit and Risk Committee,
- the possible difficulties encountered in the performance of the missions and the implementation of the recommendations and advice, as well as the adequacy between the objectives and the available means.

The Audit and Risk Committee:

- takes note of the annual report of the risk management function;
- ensures that the Management Committee takes the necessary measures to ensure that the company has an adequate independent risk management function at all times.
- confirms the charter of the risk management function and the work programme of the risk management function, previously validated by the Management Committee;
- evaluates the quality of the risk management system at least once a year through the assessment of the governance system.
- The minutes describe in detail the deliberations of the Committee. It reproduces in detail the information which form the basis for the members of the Committee. It lists the result of the deliberations and all the measures decided by the Committee.

The Management Committee:

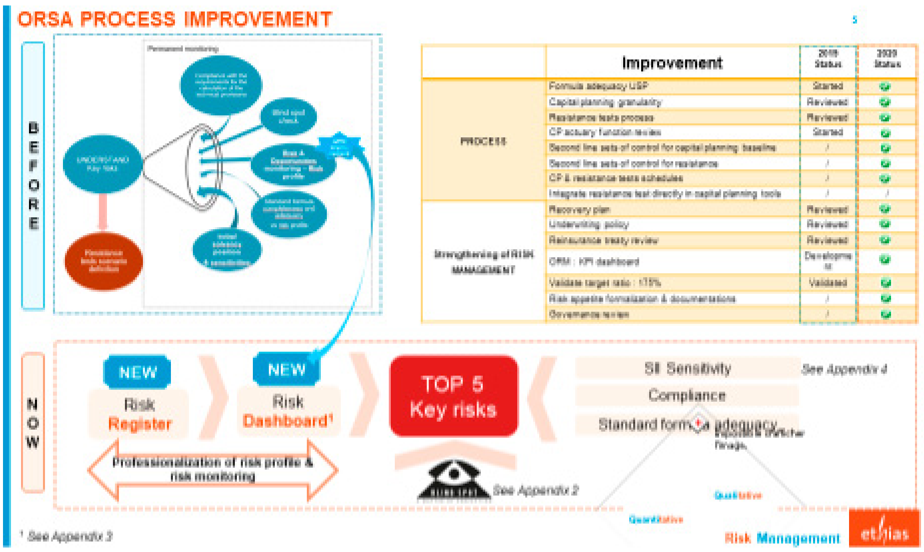
- takes the necessary measures to ensure that Ethias has an adequate independent risk management function at all times;
- is responsible for controlling the risk management system. It ensures the establishment and implementation of procedures that identify, measure, monitor and, to the extent possible, control the risks.
- also ensures the establishment of an organizational structure that defines clear responsibilities for the risk management

function, assigns competencies in this area and defines reporting lines.

- approves the work programme of the risk management function and ensures that it receives the human and other resources that are necessary for its implementation.
- informs in a timely manner the risk management function of any new elements in terms of developments, initiatives, projects and products, in order to be able to identify and control any potential risk. The Management Committee communicates to the risk management function all the documents required for the performance of its duties, including extracts from the minutes of its meetings and background notes that have been communicated to the Management Committee.
- informs the Audit and Risks Committee of significant shortcomings in the risk management system.
- decides on the corrective measures to be taken and on the specific sanctions it will apply in the event of non-compliance with the risk management policy or in the event of serious deficiencies identified by the risk management function, in the event of non-compliance with recommendations made by the risk management function and in the event of non-existent, insufficient or late implementation of the requirements in the areas falling within the remit of the risk management function.

3.3.2. INTERNAL ASSESSMENT OF RISKS AND SOLVENCY (ORSA)

3.3.2.1. Description of the implemented ORSA process



The Own Risk and Solvency Assessment (ORSA) is the subject of a specific policy.

In order to respond to the three separate regulatory assessments[4] of the ORSA, Ethias' ORSA process is implemented through various processes and sub-processes (capital planning, QRT, suitability of standard formula, etc.).) proportionate to the nature, the extent and the complexity of Ethias' own risks.

Ethias is conducting the prospective assessment of its overall solvency requirement over a horizon which is at least equal to that of its business plan. The forward-looking vision presents a detailed quantification of Solvency II's «pillar 1» risks. For risks not included in "pillar 1", stress tests are performed in the capital planning exercise in order to check the adequacy of economic equity.

Ethias projects not only the SCR coverage ratio, but also that of the MCR, at least over the horizon of its business plan.

Ethias submits the identified significant risks to a sufficiently broad range of stress tests or scenarios in order to provide an adequate basis for the assessment of the overall solvency requirement.

An analysis of the adequacy of the standard formula with respect to the risk profile is also carried out.

The results of the assessment of the overall solvency requirements are translated into:

- a level for the necessary resources (capital or other means) to deal with important risks;
- where appropriate, the definition of remediation plans

[4] Assessment of the overall solvency requirement; assessment of the ongoing compliance with the regulatory capital requirements for the coverage of the SCR, the MCR and the requirements regarding the calculation of the technical provisions; assessment of the extent to which the risk profile of the organization deviates from the assumptions underlying the SCR calculation.

Regarding the compliance with the requirements for the calculation of technical provisions, the actuarial function of Ethias:

a) assists in determining whether Ethias permanently meets the requirements relating to the calculation of the technical provisions;

b) identifies the potential risks arising from the uncertainties associated with this calculation.

In assessing the extent to which the organization's risk profile deviates from the assumptions underlying the calculation of the SCR, the scope of the 2020 analysis covered market risks (equity risk, interest rate risk, spread risk [corporates and govies] and real estate risk) and the technical risks of Non-Life and Health insurance, where potential deviations are considered to be the most important ones.

Integration of the ORSA in the management and decision-making processes

The Own Risk and Solvency Assessment (ORSA) is the basis for risk management under the Solvency II Directive.

The ORSA is an internal process for the prospective assessment of the company's own risks and solvency.

The ORSA allows the Management Committee and the Board of Directors:

- to know all the material risks to which the company is exposed, whether or not they have been included in the calculation of the statutory Solvency Capital Requirements and whether or not they are quantifiable;
- to know the consequences that strategic decisions have on the risk profile, regulatory capital requirements and overall solvency needs;
- to examine whether these risks are desirable, reasonable and manageable in view of the quantity and quality of its own funds and to validate, in full knowledge of the facts, the corrective measures envisaged;
- to examine the consistency of the Risk Appetite and the company's strategy and, if necessary, review one and/or the other.

ORSA is integrated into the management of the company, and more particularly into strategic decisions and processes, both operational and management. Ethias takes into account the results of ORSA in the context of:

- its strategy and business plan: adequacy with the Risk Appetite and the dividend distribution policy.
- the management of its own funds: quantity, quality, raising additional own funds;
- the development and design of its products: appropriate level of pricing and margin setting.

The results of the ORSA are formalised in a report to the decision-making bodies and the NBB. The ORSA process, leading to the preparation of the report, is formalized.

ORSA's results and conclusions are also communicated internally to staff members for whom it is relevant, so that they can take any necessary follow-up action.

3.3.2.2. Frequency of the ORSA

Ethias carries out a regular ORSA at least annually. The schedule for the regular ORSA is linked to Ethias' strategy and business plan.

A major change in the company's risk profile triggers an ORSA qualified as "non-regular ORSA". Several situations could lead to a change in risk profile. For example: the start-up of new business lines, the redesign of risk tolerance limits, important changes to our reinsurance structure, portfolio transfers, changes in the asset mix, etc.

In 2020, within the context of the emergence of the COVID-19 pandemic, Ethias carried out a specific ORSA, the conclusions of which were presented to the various bodies after the summer.

3.4. Internal control system

3.4.1. INTERNAL CONTROL SYSTEM

The internal control is the set of measures which, under the responsibility of the management of the insurance company, must ensure with reasonable certainty:

- an orderly and prudent conduct of affairs, framed by well-defined objectives;
- an economical and effective use of the resources involved;

[5] Circular NBB_2015_21 of July 13, 2015 concerning the internal control system and the internal audit function..

- adequate knowledge and control of the risks in order to protect the assets;
- the integrity and reliability of the financial and management information;
- compliance with the laws and regulations as well as the internal policies, plans and procedures[5].

Articulated according to the model of the three lines of defence, more fully described in the section on the risk management process of this document, the internal control system set up within Ethias aims to protect the company against the risks likely to compromise the achievement of its objectives.

3.4.2. COMPLIANCE FUNCTION

The compliance function is an independent monitoring function within the company, in the second line of defence, focused on respecting the rules related to the integrity of the activities and the control of the compliance risk.

The positioning, the areas of work, the missions, the governance, the reporting, the status, the organization and the prerogatives of the function are described in a charter. This charter is based on the control legislation and the circular NBB_2012_14 / FSMA 2012_21 of December 4, 2012 relating to the compliance function. Its latest version was approved by the Management Committee on May 2, 2017 and confirmed by the Audit and Risk Committee and by the Board of Directors on May 16, 2017. It was not modified in 2020.

3.4.2.1. Positioning of the compliance function

Within Ethias, the CRO, responsible for the risk management function and member of the Management Committee, assumes responsibility for the tasks of the actuarial function and also for the compliance function, it being specified that the exercise of these 3 functions is carried out separately.

3.4.2.2. Legal, regulatory and specific compliance areas

The areas of work for the compliance function are specified in the compliance charter. These are the areas listed in the aforementioned «compliance» circular and those that will be added to the list on the proposal of the head of the compliance function. This proposal is based on a risk analysis and evaluated by the Management Committee in consultation with the Audit and Risk Committee.

As of December 31, 2020, compliance is responsible for ensuring enforcement of the legal and/or regulatory rules of integrity and conduct in the following areas:

- the dispositions of article 42 §1 of the law of March 13, 2016 on the status and supervision of insurance or reinsurance undertakings,
- the provisions of point 5.4. in the NBB circular 2016_31 of July 5, 2016 relating to the NBB’s prudential expectations regarding the governance system for the insurance and reinsurance sector,
- prevention of money laundering,
- enforcement of specific embargoes, including the freezing of assets of certain persons and entities,
- prevention of particular mechanisms of tax fraud,
- principles of good remuneration policy,
- rules relating to the exercise of external functions by the executives of regulated companies,
- loans, credits and guarantees to company executives, shareholders and related persons,
- “fit & proper” rules,
- management of conflicts of interest,
- whistleblowing,
- fight against corruption,
- other provisions relating to the protection of the policyholder, information to the customer, advertising, labelling, marketing bans, etc.
- management practices for outsourcing,
- mortgage credit legislation,
- legislation on market practices and consumer protection,
- anti-discrimination legislation,

- privacy legislation (which has become the "GDPR")
- Assuralia's codes and rules of conduct,
- internal values and integrity rules.

3.4.2.3.Main missions

Participation in the development of the integrity policy, its assessment and the monitoring of its respect

The compliance function participates in the development of the integrity policy and in its updating.

On the proposal of Compliance, the Management Committee approved a new integrity policy on 4 December 2018 and the Board of Directors validated it on 24 January 2019.

Development of an action plan

The compliance function develops a written annual action plan based on a methodical risk analysis and provides a sufficiently detailed description of the nature and frequency of the monitoring missions that will be carried out during the specified year.

Identification, assessment and monitoring of the compliance risks

The reference document in this area is the «Compliance risk management methodology».

The monitoring carried out by the compliance function complements the control measures implemented by the operational lines and support functions, in the first line of defence. Its objective is to assess and to ensure the robustness of their risk management system.

The monitoring takes place after the prior identification and assessment of potential compliance risks detected within the framework of a regulatory monitoring carried out by the compliance function.

It includes the following activities: (I) the assessment of the procedures, controls and directives set up within the operational lines and support functions («tests of design»), (II) assessment of the effectiveness and the permanence of these procedures and first-line control measures («tests of effectiveness»), (III) the issuance of recommendations and the monitoring of their implementation; and (iv) the implementation of targeted controls.

Advice

The compliance function provides advice on the practical application of laws, regulations, standards and codes that fall within its working areas, either when consulted or in the exercise of its monitoring tasks and the issuance of recommendations.

Training and awareness

In collaboration with the operational lines and support functions, the compliance function ensures that employees are aware of the need to detect and control compliance risks.

It also assists in the design and organization of awareness-raising actions and training activities for employees in fields within its sphere of activity.

Implementation of the anti-money laundering system

In order to comply with the NBB's expectations regarding governance related to money laundering prevention, the Management Committee of 13 June 2018 appointed the head of the compliance function as AMLCO, giving this person responsibility for the implementation and monitoring of this matter.

3.4.2.4. Governance

At the level of the Board of Directors and the Audit and Risk Committee set up within it

The Board of Directors takes the initiative to promote integrity in the conduct of activities. It approves the integrity policy and assesses at least once a year whether it is adapted to the company's activities.

It assesses periodically, and at least once a year, the effectiveness of the governance system and, in particular, the proper functioning of the independent monitoring functions, including compliance.

It ensures that the Management Committee takes the necessary measures to ensure that Ethias has an adequate independent compliance function at all times.

It confirms the compliance charter and action plan and assesses at least once a year whether the compliance risks are sufficiently identified and controlled.

At the level of the Management Committee

The Management Committee develops the integrity policy.

It takes the necessary measures to ensure that Ethias has an adequate independent compliance function at all times.

It approves the compliance action plan and ensures that it receives the human and other resources that are necessary for its implementation.

3.5. Internal audit function

3.5.1. MISSIONS

The purpose of the internal audit is to provide the Board of Directors and the Management Committee with a reasonable assurance about the quality and effectiveness of the internal control, of the risk management as well as of the institution's good governance process and systems. It assists the members of these bodies in their mission in this field. The assessments carried out for these purposes by the internal audit within the framework of the insurance missions cover the following aspects:

1. observance of the laws, regulations, rules, procedures and contracts;
2. achieving the organization's strategic objectives;
3. the reliability and integrity of the financial and operational information;
4. the effectiveness and efficiency of the operations and programmes;
5. the protection of assets.

All processes, activities, functions, systems and operations of the institution and of its subsidiaries fall within the scope of the internal audit, without reserve or exception. Outsourced activities also fall within the scope of the internal audit, it being understood that it is the responsibility of the institution to make the necessary arrangements[6] to enable the internal audit to perform its task.

In this case, the internal audit is involved in advisory activities[7]. Before accepting them, the head of the internal audit considers the extent to which these advisory activities are likely to create added value and improve the process of corporate governance, risk management and organizational control. This advisory function constitutes an ancillary function which can in no way compromise the core mission, nor the responsibility and independence of judgement of the internal audit. The Management Committee and the Audit and Risk Committee are informed of these advisory activities, either by their inclusion in the audit plan or through the activity report.

The internal audit is also responsible for assessing cases of internal fraud[8] with a view to improving the governance, risk management and internal control processes.

The internal audit assesses, in particular through its missions and in its role as a third line of defence, whether the risks incurred by Ethias in its various activities are adequately perceived and covered.

It is also attentive to the continuous improvement of the functioning and reputation of the Group's entities, while ensuring efficient management of the available resources. An audit agreement sets out the fundamental principles governing the internal audit function within these entities by describing its objectives, role, responsibilities and operating procedures. This agreement gives the internal audit function a state of independence vis-à-vis the audited activities, hence ensuring impartiality for the performance of its duties.

The internal audit has unrestricted access to information, documents and tangible or intangible assets. It may request from any person the elements which it deems necessary for the performance of his duties.

3.5.2. AUDIT CHARTER

[6] By means of including audit clauses in service contracts.
[7] Examples include: formulating an advice, participating in a project or working group on a temporary basis, organizing a training session.
[8] Cases of internal fraud are analysed and dealt with in collaboration with the Human Resources
Department as well as the hierarchy of the person(s) involved in the fraud.

Ethias' internal audit charter, defined as the fundamental law of the auditors, recognizes their role, provides them with the necessary access to carry out their assignments and give them an identity. It also protects auditees by imposing duties and ethical principles on the auditors. The internal audit charter is revised when necessary and at least every 3 years so as to ensure that the internal audit's ability to intervene is always consistent with the tasks assigned to it.

The latest version, incorporating the requirements of the circular NBB_2015_21 concerning the internal control system and the internal audit function, was adopted by the Board of Directors of Ethias SA of October 20, 2017.

The charter is brought to the attention of all employees of Ethias via its publication on the Intranet.

The head of the internal audit assesses annually whether the mission, power and responsibilities set out in the charter still allow the internal audit department to achieve its objectives. It communicates the results of this assessment to the Management Committee and the Board of Directors.

3.6. Actuarial Function

Ethias has set up an actuarial function with the aim of extending the duties of the actuarial function (referred to in the umbrella circular) to the control of any subject needing an independent actuarial opinion. More specifically, this function is responsible for making judgements and advising the Management Committee and in particular the CRO on the actuarial aspects of risk management.

The actuarial function is detached from the operational activity on the hierarchical and organizational level and is thus attached to the CRO. As of 31 December 2020, the department consisted of 9 persons (compared to 6 as at 31 December 2019) with actuarial and financial knowledge and/or relevant experience to carry out the missions. The head of the department meets the requirements of the NBB for expertise and good repute.

The head of the actuarial function informs the Management Committee without delay when he detects a situation which he considers as unusual. He also addresses directly the chairman of the Management Committee, the chairman of the Board of Directors, the members of the Audit Committee and the auditors of the entity for which he is responsible, when the situation so requires.

The actuarial function assesses beforehand his degree of independence for each mission for which it is in charge.

The charter stipulates that the head of the actuarial function and his direct employees must have access to all information relevant to their mission. In order to ensure a proper information on technical files, the head of the department is a member of the Insurance/Reinsurance Committee (IRC) and is invited to the Acceptance Bureaus (AB's).

The key responsibilities of the actuarial function are as follows;

1. coordinating the calculation of technical provisions[9] ;
2. issuing an opinion on the overall underwriting and pricing policy;
3. issuing an opinion on the adequacy of the reinsurance arrangements;
4. issuing an opinion on the policy of profit sharing and refunds as well as observance of the relevant regulations;
5. issuing an opinion on the quality of the data used for the calculation of the USP (Undertaking Specific Parameters);
6. contributing to the effective implementation of the risk management system;
7. Carrying out second-line control in the context of:
   - pillar 1 of Solvency II for calculations carried out by Risk Management;
   - pillar 2 of Solvency II (capital planning);
   - pillar 3 of Solvency II (Addactis);
8. collaborating in major projects by ensuring internal validation;
9. approving the technical elements underlying the valuation of insurance liabilities under IFRS17.

The actuarial function issues a validation report or an independent opinion for each mission, depending on the nature of the mission. The recipients[10] and the frequency of these validation reports and opinions are detailed in its charter. Depending on the nature of the mission, these reports and opinions are intended for either the Management Committee or the IRC and contain any recommendations made during the assignment. A follow-up of these recommendations is also carried out by

[9] This includes second-line controls for calculation of technical provisions (Solvency II and BGAAP) and validation of projection models.
[10] Insurance/Reinsurance Risk Committee, Management Committee, Board of Directors, Audit and Risk Committee ...

the actuarial function.

It also draws up a written report at least once a year and submit it to the Board of Directors. This report relates on all the work carried out by the actuarial function and their results. It clearly indicates any failures and makes recommendations on how to remedy them.

The «Charter of the Actuarial Function" details the basic principles, organization, competencies, independence, key responsibilities, missions and reporting of the actuarial function.

This charter was reviewed end-2017 and by the Board of Directors in May 2018. It will be updated in 2021.

3.7. Outsourcing

3.7.1. ESSENTIAL ELEMENTS OF THE SUBCONTRACTING POLICY

The subcontracting policy was reviewed by the Board of Directors of Ethias on December 21, 2017 in order to take into account the control law of March 13, 2016 and the provisions of chapter 7 of the NBB's circular 2016-31 regarding governance. This policy was again amended by the Board of Directors on 27 March 2019 in order to comply with the umbrella circular BNB_2016_31 updated in September 2018

Subcontracting shall mean any use of third parties, service providers, to carry out activities, functions or processes specific to the insurance undertaking, whether these are intended for clients or for the undertaking itself.

Ethias' subcontracting policy sets up a management structure for the activities subcontracted by the company, developing different principles.

The same basic rules apply to all types of subcontracting, whether external subcontracting or subcontracting within the group or whether the subcontracting concerns critical or important functions or activities or not. The subcontracting of a critical or important function or activity is, however, subject to additional rules of supervision.

A function or activity is considered as critical or important when it is essential to the activities of the company to the point that it would not be able to provide its services to the policyholders without the function or activity in question.

Ethias also considers as critical or important its "core business" activities for policyholders, provided that the size of these activities exceeds a materiality threshold, the operations directly involved in their execution as well as the independent monitoring functions, namely:

With regard to "claims handling», the materiality threshold is exceeded and the outsourced activity is qualified as critical or important when it is so essential to the company's activities that it would not be able to provide services to policyholders without the function or activity in question.

On the other hand, «corporate» activities aimed at the company itself, such as HR, marketing, internal and external communication, management of company buildings, legal, training or collection of unpaid premiums, are considered as non-critical.

3.7.2. SUBCONTRACTING OF IT SERVICES

Ethias outsources many of its IT services to its subsidiary NRB.

4. RISK PROFILE

4.1. Underwriting risk

The Non-Life underwriting risk arises from the volatility of Non-Life insurance obligations. It includes:

- premium and reserve risk
- catastrophe risk.

The health underwriting risk reflects the risk arising from the underwriting of health insurance obligations, both when it is exercised on a technical basis similar to that of Life insurance as well as Non-Life insurance.

Life underwriting risk reflects the risk arising from life insurance obligations It includes:

- mortality risk
- longevity risk
- disability/morbidity risk
- expense risk
- revision risk
- termination risk
- catastrophe risk

4.1.1. EXPOSURE TO UNDERWRITING RISK

Exposure to underwriting risk is assessed using the best estimate of technical provisions, by business line, shown in the following table:

In thousands of euros	31-Dec-20	31-Dec-19
Non-life (without health)	1,826,424	1,856,778
Health (similar to non-life)	400,957	409,708
Health (similar to life)	1,629,831	1,518,174
Life (without index-linked and unit-linked insurance)	10,585,012	10,070,428
Index-linked and unit-linked insurance	1,516,033	1,411,097

4.1.2. CONCENTRATION OF UNDERWRITING RISK

The insurance and reinsurance activities are mainly concentrated on Belgian territory.

The activities are spread over two major segments of policy holders: Public Bodies & Companies on the one hand, and Private Individuals, on the other hand. Ethias' positioning towards the Public Bodies & Companies explains the high concentration of underwriting on this segment.

We note a concentration of underwriting risk for workers' compensation insurance activities: this is the portfolio «Work Accidents Low '71», on the one hand, and the portfolio «Work Accidents Law '67», on the other hand.

4.1.3. SENSITIVITY TO UNDERWRITING RISK

The table below lists the risks to which Ethias is exposed. They have been estimated by difference between stressed Best Estimates and base Best Estimates (via modifications of certain assumptions). The variations in the parameters are close to the SCR shocks defined in Solvency II.

Sensitivity of BE Life

In thousands of euros	2020	2019
Mortality risk		
Increase by 15 % in mortality	-31,857	-28,094
Longevity risk		
Increase by 20 % in longevity	60,385	59,440
Expense risk		
Increase by 10% in overheads	40,875	36,415
Doubling of inflation	52,210	47,670

Sensitivity of BE annuities

In thousands of euros	2020	2019
Longevity risk		
10% decrease in qx	44,403	35,821
Redemption risk		
50% decrease in the frequency of taking 1/3 in capital	3,518	2,837
Transition risk		
No partial recovery	53,519	43,175

4.1.4. MITIGATION OF UNDERWRITING RISK

4.1.4.1. Creating a new product or modifying an existing product

Before the launch of a new product, it is studied in all its aspects: marketing, legal, tax, profitability, ALM constraints, compliance ...

The analysis is submitted to the Insurance/Reinsurance Committee (IRC) and to the decision-making body for approval (Management Committee).

4.1.4.2. Underwriting limits

Underwriting guidelines set the limits to be respected with regard to underwriting (limits of a sectoral nature, contractual limits of insured capital, contractual limits of compensation, etc.) in accordance with our risk appetite.

4.1.4.3. Tariffs

Tariffs are established by underwriting actuaries and are submitted to the actuarial function for an opinion.

4.1.4.4. Reinsurance

The Reinsurance department determines the company's reinsurance needs. The treaties are reviewed annually according to the coverage needs determined by Risk Management and the requests from Production. The Insurance & Reinsurance Committee supervises the reinsurance programme.

Reinsurance is taken out on the basis of treaties that apply to a portfolio on the whole or on the basis of optional conventions relating to risks that are outside the frame of these treaties. The majority of these contracts are concluded on a non-proportional basis.

Non-Life management

The different portfolios (car, accidents, civil liability, fire, comprehensive, construction all risk and ten-year risk) are reinsured by excess of loss treaties. Reinsurance intervenes whenever a damage or an event exceeds the amount determined according to risk aversion.

The purchased capacities are a function of the underwriting limits and/or of the MPL (Maximum Possible Loss) in excess of loss per risk treaty. They are a function of very cautious catastrophe scenarios for the excess of loss per event treaty.

Life management

Death and disability are reinsured on the basis of an excess of loss treaty.

Non-Life and Life management

In case of an accident affecting at least two persons insured in accidents at work, in accidents common law; in death or in disability, an excess of loss per event treaty intervenes globally on top of the formerly presented treaties.

Terrorism is covered through the national TRIP pool. Our retention following on the TRIP intervention is also reinsured.

4.2. Market risk

4.2.1. EXPOSURE TO MARKET RISK

The following tables show the market risk exposure by risk module of the standard formula and by type of asset. Exposures are given at market value (including accrued interest not yet due).

We note that exposures to interest rate risk are not additive because they include assets and liabilities. The total indicated adds only the assets.

In thousands of euros	31-Dec-20	31-Dec-19
Interest	16,513,130	15,516,593
Share	1,165,992	959,298
Real estate	683,490	684,739
Spread	15,939,309	14,929,296
Currency	19,980	48,432
Concentration	**17,788,791**	**16,573,333**

Exposures to government bonds and similar products are in theory subject to the SCR spread and concentration, but only certain specific exposures have, according to the standard formula, a non-zero charge (issuer outside the euro zone).

Compared to end-2019, exposures to the SCR market have increased.

- Exposures to the SCR interest rate have increased, particularly exposures in government and corporate bonds.
- Exposures of the SCR share have increased mainly as a result of the various 2020 purchases.
- Exposures to the SCR real estate are stable.
- Exposures to the SCR spread have increased. Exposures subject to the SCR spread with a non-zero charge amount to around 5,981 million euros in 2020 whereas in 2019 they amounted to 5,551 million euros.
- The exposure to the SCR currency has decreased because the calculation of the currency risk of the funds now takes into account the hedges within these funds.
- The exposure to the BNP Paribas issuer (291 million euros) has increased compared to 2019 and now exceeds the threshold above which a SCR concentration must be calculated. This exposure is the only contributor to the SCR concentration, which is now non-zero.

All the exposures to the various market risks presented here also include the assets of Ethias Pension Fund associated with the company’s pension commitments.

4.2.2. EXPOSURE TO THE INTEREST RATE RISK

The following table shows the components of the SCR interest as at December 31, 2020 and December 31, 2019. We note that the contribution of derivatives is zero at 31 December 2020, because at the same time the downward shock is zero for rates with a period of less than 21 years (given that they are currently negative) and the maturity of the derivatives is less than 4 years.

In thousands of euros	Contribution to the SCR interest	
	with rate hedge at 31/12/2020	with rate hedge at 31/12/2019
fixed income assets	-60,309	-159,479
forward starting swaps (interest rate hedging)	0	-4,536
net impact of spread lock	0	-242
liabilities	83,793	213,582
SCR interest	**23,485**	**49,325**

The following table shows the evolution of the duration gap between assets and liabilities

	31-12-19			30-06-20			31-12-20		
	Assets Duration	Liab. Duration	Duration Gap	Assets Duration	Liab. Duration	Duration Gap	Assets Duration	Liab. Duration	Duration Gap
Total Life	7.88	10.12	(0.66)	8.62	10.38	(0.25)	8.71	10.26	(0.13)
Total Non-Life	6.47	8.46	(0.02)	6.64	8.20	0.34	6.65	8.93	0.03
Total w/o IAS 19			(0.54)			(0.13)			(0.03)
Total with IAS 19			(0.79)			(0.38)			(0.28)

The sensitivity of own funds to changes in interest rates is still under control and does not present a major risk. Own funds remain unfavourably exposed to a fall in interest rates, but with a low impact thanks to the fact that the duration gap is practically closed.

- Actions taken over the past years have allowed to reduce the duration gap in Life. In particular, thanks to our long-term investments and the implementation of our repo strategy.
- The duration gap in Non-Life has remained small. The slight opening of the gap in the first half of the year is due to the greater reduction in long-term swap rates compared to short-term swap rates, hence benefiting the duration of the asset. The downward trend in short-term swap rates in the second half of the year balances out this Non-Life duration gap at year-end.
- The duration gap of the Life and Non-Life portfolios has decreased and is practically closed.
- The duration gap including commitments related to IAS 19 remain less than 1 year.

4.2.3. EXPOSURE TO THE SPREAD RISK

The largest spread risk exposure relates to government bonds. Ethias is also exposed, but to a lesser extent, to the risk of widening spreads on the valuation of its corporate bonds.

The following tables present the evolution of the average benchmark rating broken down by type of bond.

In accordance with Solvency 2, the benchmark rating used for each exposure is the second best rating available from Moody's, Fitch and Standard & Poor's at the balance sheet date. The distinction by asset class corresponds to the classification used by the company's management and may differ slightly from the asset categories as presented in the economic balance sheet.

In thousands of euros to 31 December 2020	AAA	AA	A	BBB	BB	B	NR	TOTAL
Government bonds and similar products	603,482	6,107,282	1,521,028	2,392,832	-	-	66,060	10,690,684
Corporate bonds	93,637	335,327	1,128,370	2,628,777	328,832	61,747	545,093	5,121,784
Covered bonds	220,573	59,374	62,826	-	-	-	-	342,773
Structured bonds	-	21,098	96,886	-	-	-	36,766	154,750
Loans	-	14,506	60,000	-	-	-	351,058	425,565
TOTAL	**917,692**	**6,537,588**	**2,869,111**	**5,021,609**	**328,832**	**61,747**	**998,978**	**16,735,556**

In thousands of euros to 31 December 2019	AAA	AA	A	BBB	BB	B	NR	TOTAL
Government bonds and similar products	473,665	6,335,414	1,349,823	1,815,436	-	-	64,188	10,038,525
Corporate bonds	25,921	258,078	1,242,469	2,001,740	361,073	39,255	477,200	4,405,735
Covered bonds	271,431	134,872	64,616	33,663	-	-	-	504,582
Structured bonds	-	33,861	108,963	26,123	-	-	52,705	221,652
Loans	-	15,654	-	-	-	-	267,551	283,205
TOTAL	**771,017**	**6,777,880**	**2,765,870**	**3,876,961**	**361,073**	**39,255**	**861,644**	**15,453,700**

The market value of assets subject to the credit risk increased significantly in 2020, mainly as a result of the decrease in interest rates over the year and net purchases of corporate bonds for 393 million euros.

The exposure in BBB bonds increased significantly, mainly as a result of bond purchases.

The increase of the AAA segment in government bonds and similar products is mainly related to the upgrading of supranational bond ratings.

Finally, the B segment increased following the downgrading of an issuer active in the leisure sector affected by the COVID-19 crisis.

Exposure to sovereign risk by country

Ethias analyses the details of its exposure to the sovereign risk whilst including all debts issued or guaranteed by governments, in fair value, without restriction to their activity sector. The following table presents the company's exposure to sovereign risk at market value, by geographical area.

The majority of sovereign debt exposure is mainly in the euro zone. Spread risk exposure on Belgium remains the largest (just under 40% of sovereign securities exposure). Other exposures are broken down by country, with significant diversification in accordance with the limits set by the company. In addition, a hedging programme is in place to limit the impact of widening sovereign credit spreads on Ethias' solvency margin.

Country	Market value at 31 December 2020	Market value at 31 December 2019
Belgium	3,999,739	4,256,310
France	1,565,212	1,476,345
Spain	1,039,459	933,443
Portugal	862,875	602,677
Supranational	689,049	628,867
Ireland	566,072	513,933
Italy	495,202	282,848
Germany	409,871	457,198
Austria	180,198	163,145
United States	171,778	-
Slovakia	152,243	151,152
Poland	130,561	186,205
Latvia	114,065	103,694
Slovenia	89,925	94,881
Lithuania	58,826	56,865
Finland	42,083	41,228
Mexico	40,051	40,773
Czech Republic	29,021	41,130
The Netherlands	22,308	23,356
Denmark	5,623	5,541
Luxembourg	3,769	3,709
Canada	1,214	1,208
TOTAL	**10,669,142**	**10,064,510**

4.2.4. CONCENTRATION OF MARKET RISK

Ethias manages its concentration risk through the diversification of its portfolio by issuer and sector. Moreover, the financial limits system groups the assets together per distinct asset class and defines an asset allocation strategy which allows a sound diversification at the issuer and sector level.

At the level of diversification by issuer, the fact that exposures to government bonds and similar products do not have a concentration charge implies that the capital requirements for the concentration risk in the standard formula are very low;

4.2.5. SENSITIVITY TO MARKET RISK

The following table presents the impacts of each scenario on the solvency ratio[11]:

Stress Test	Impact on the ratio
Spread Corporates +0,50%	7.8%
Equities -30%	-7.0%
Real estate -15%	-4.6%
Spread Govies +0,50%	-27.1%
Interest rate -0.50%	-6.5%

[11] These impacts were estimated on the solvency ratio at 31 December 2019.

The stress on the Govies has a high impact due to our high exposure to government bonds.

The impact of the increase in corporate spreads is a devaluation of corporate bonds, but the volatility adjustment that is added to the liability yield curve is revised upwards, which reduces the S2 value of technical provisions; the net impact is an increase in shareholders' equity S2.

4.2.6. METHODS OF MITIGATING MARKET RISK

4.2.6.1. Investments in accordance with the Prudent Person Principle

Asset Management manages in a profession manner both the premiums generated by the insurance business and any cumulative investment income. To this end, the Ethias asset managers manage and monitor the securities portfolios and invest within a framework that respects the prudent person principle. The company only invests in instruments that it understands and that are properly managed and monitored. Both the members of the various governance committees and the portfolio managers must act with the care, skill, prudence and diligence required by the size of the transactions concerned.

4.2.6.2. Financial limits

A system of financial limits ensures a healthy diversification of the portfolio by asset class 'asset allocation), issuer, sector, currency and country. The system of limits also provides limits in minimum ratings according to the asset classes.

4.2.6.3. Limits in interest rate sensitivities

Limits for interest rate sensitivity are applied to the ALM segments in order to meet Risk Appetite tolerance limits.

4.2.6.4. Interest rate risk hedging

Several programmes for managing the asset-liability duration gap have already been implemented these previous years: lengthening the duration of assets through the purchase of very long-term government bonds, forward acquisition commitments also on government bonds in order to set the reinvestment rates over the next few years, the use of swaptions with different time horizons, the acquisition of forward starting swaps with an effect identical to the purchase of forward bonds but without identifying a credit risk during the forward period. The aim is to reduce the sensitivity of the ALM segments and consequently also the sensitivity of own funds to a movement in interest rates.

The programme for hedging against lower interest rates is regularly renewed so that protection is in place on a continuous basis in the form of derivatives (forward swaps) coupled with long-term fixed-income investments. The duration gap is currently under control and is between -1 and 1.

4.3. Credit risk

4.3.1. EXPOSURE TO CREDIT RISK

The credit risk (i.e. counterparty default risk) reflects the losses that could result from the unexpected default, or deterioration in the credit quality, of the insurance company's counterparties and debtors. The definition covers risk-mitigating contracts, such as reinsurance arrangements, securitizations and derivatives, and receivables from intermediaries, as well as any other credit risk that is not subject to the «spread risk» according to the standard formula.

Exposures at 31 December 2020 and at 31 December 2020 to the counterparty default risk are presented in the following table. Exposures consist of cash flows, mortgage loans, derivatives, receivables and deposits received from reinsurers. From now on, the commitments guaranteed by Ethias in real estate project funds are no longer taken into account in the credit risk (via the SCR counterparty), but rather partially in the market risk (via the SCR market).

In thousands of euros	31-Dec-20	31-Dec-19
Exposure to counterparty default	**1,426,304**	**1,352,898**

4.3.2. METHODS OF MITIGATING CREDIT RISK

Besides the selection of counterparties, diversification and measures to avoid concentrations, the credit risk is mitigated by obtaining collaterals or guarantees. The value of the collateral is determined by a cautious approach, based on several criteria including the nature and the specific type of collateral as well as its liquidity and the volatility of its value.

With regard to reinsurance, the treaties are reinsured by a large panel of reinsurers being at least "A" rated (allowing for exceptions) and taking a participation that is generally limited to 25 %.

The credit risk of reinsurers is constantly monitored by the reinsurance brokers we work with, who inform us if a reinsurer's rating is downgraded. We also have access to a site listing the main financial information by reinsurer and we are subscribe to a site providing daily news from the reinsurance world.

Claims provisions are also covered by cash deposits or deposits on blocked securities accounts.

4.4. Liquidity risk

4.4.1. EXPOSURE TO LIQUIDITY RISK

There are two different concepts of liquidity risk.

On the one hand, the market liquidity risk: it is the risk of not being able to easily sell a position at market price position due to the insufficient depth of the market or disturbances in the markets.

The market liquidity risk is assessed by measuring exposure levels to liquid and illiquid assets and by periodically testing the liquid character of a sample of assets. In addition, financial market liquidity indicators are also monitored and alert mechanisms are defined.

As at 31 December 2020, 79% of the investment portfolios were composed of liquid assets according to internal criteria.

On the other hand, the funding liquidity risk: this is the risk of not being able to satisfy the need for present and future, expected and unexpected cash flows, without affecting its day-to-day operations or its financial position, and not being able to obtain financing on normal terms and conditions. The funding liquidity risk is assessed by projecting the expected cash flows over a period equal to the duration of the commitments or, where applicable, to a minimum equal to that of the planning horizon.

The table below shows the contractual cash flows expected by Ethias SA per category of financial assets and liabilities, grouped per maturity date. This projection is based on several assumptions as described below.

For financial assets, the portfolios are projected in run-off, except for long-term insurance products where reinvestments are planned: we take into account the investment management decisions according to the asset allocation defined for these products, so as to reflect more realistically the expected liquidity flows. The activities having a decreasing profile are backed by a shorter asset portfolio to ensure the benefits provided. Hence, liquidity is managed using the expected evolution profile of each insurance product.

We also note that actual maturities may differ from contractual maturities because certain assets are accompanied by early redemption clauses, with or without penalties.

Regarding liabilities, only contractual future premiums are taken into account, including for the Non-Life activities, and the expected cash flows on insurance contracts are based on the repurchase assumptions defined by the company. Unit-linked insurance contracts are assumed to expire in the year.

In thousands of euros	31-Dec-20 Expected cash flows (undiscounted)						
	Book value	Total amount of undiscounted flows	Up to 1 year	Between 1 and 5 years	Between 6 and 10 years	Between 11 and 20 years	More than 20 years
Assets							
Bonds and similar securities	15,491,365	16,731,606	1,986,109	5,408,001	2,906,894	3,614,959	2,815,644
Participating interests, shares, investment funds and investment property	1,709,147	2,368,767	45,380	257,124	745,544	729,778	590,941
Loans and deposits	805,630	1,088,735	126,779	380,573	271,680	232,639	77,065
Cash and cash equivalents	479,793	479,793	479,793	0	0	0	0
Investments belonging to unit-linked insurance contracts	1,491,140	1,565,697	1,565,697	0	0	0	0
Derivatives	29,376	0	0	0	0	0	0
Total assets	**20,006,452**	**22,234,599**	**4,203,759**	**6,045,698**	**3,924,117**	**4,577,376**	**3,483,649**
Liabilities							
Insurance and investment contract liabilities	14,224,094	14,635,822	2,221,627	3,655,001	2,484,084	3,528,841	2,746,269
Liabilities belonging to unit-linked insurance contracts	1,491,140	1,491,140	1,491,140	0	0	0	0
Subordinated debts	491,364	614,441	23,271	160,618	424,234	3,014	3,304
Other financial debts	622,201	618,959	416,055	202,904	0	0	0
Derivatives	925	0	0	0	0	0	0
Total liabilities	**16,829,724**	**17,360,362**	**4,152,093**	**4,018,523**	**2,908,318**	**3,531,855**	**2,749,573**

4.4.2. SENSITIVITY TO LIQUIDITY RISK

Analyses of the sensitivity to the funding liquidity risk are conducted on a quarterly basis in order to measure the impact of redemptions on the most exposed liabilities contracts, the impact of changes in the income, or the impact of strategic decision-making modifying the structure of the company's balance sheet.

4.4.3. METHODS OF MITIGATING LIQUIDITY RISK

The mitigation of the **market liquidity** risk is ensured:

- on the one hand, by verifying that a sufficient proportion of the portfolios is invested in liquid instruments, viz. they can be realized on the markets, in a rapid manner, without undergoing significant depreciations in value,
- and, on the other hand, by limiting investments in less liquid assets (for example, real estate, structured products, etc.) without prior authorization.

A system of liquid asset limits has been defined for each ALM segment in order to meet Risk Appetite tolerance limits.

The mitigation of the **funding liquidity** risk is ensured:

- through a regular monitoring of this risk by anticipating possible liquidity gaps between the liabilities and assets over a defined time horizon, by regularly monitoring the risk of redemptions on the most exposed liabilities contracts, by a priori defining a sufficient level of liquidity when designing new products, ...
- through a quick action if a liquidity gap is detected, such as: transforming assets into cash, contraction of a loan or repo, etc.

A system of limits in funding liquidity and in repos has been defined in order to meet the tolerance limits related to Risk Appetite.

4.4.4. EXPECTED PROFIT INCLUDED IN FUTURE PREMIUMS

The total amount of expected profit included in future premiums, calculated in accordance with the Solvency II standards, is 207 million euros, divided into 204 million euros in Non-Life and 3 million euros in Life.

4.5. Operational risk

4.5.1. EXPOSURE TO OPERATIONAL RISK

The operational risk is described as "the risk of direct or indirect loss resulting from an inadequacy or failure attributable to procedures, processes, and people as well internal as external and to systems within the organization, or resulting from external events".

External events are for instance natural disasters (fire, flooding...), legal changes, strikers preventing access to the workplace, etc.

By definition, the operational risk is potentially present in every activity and can cover a broad field of application: it affects all organizational levels and processes.

Operational risks are subject to a semi-quantitative assessment based on an operational risk appetite matrix dimensioned according to axes of occurrence probability and of potential impact. This matrix is asymmetric and has several areas of risk criticality according to the combination «probability / impact» reflecting the level of severity of the risk and the emergency level of risk treatment.

The model for assessing operational risks allows to weigh the risk assessment criteria on the basis of criteria that may not only be financial, but also reputation, customer loss, system downtime, compliance with regulations ...

The standard formula is used to assess capital requirements resulting from exposure to operational risks.

4.5.1.1. Cyberattack risk

The threat level of cyberattacks is growing continuously. The insurance industry is not immune to cyberattacks and other emerging risks. Like all companies, Ethias is potentially targeted by attempts to penetrate its systems for the purpose of stealing information, misappropriating personal data, disclosing confidential information, disrupting business continuity through the unavailability of computer systems, identity theft, malicious demand for money ...

Wishing to position itself as a leading player in the digital field, Ethias has taken into consideration the risks related to growing cybercrime in the various measures implemented to protect Ethias' information system. Ethias regularly tests its crisis management capabilities on cyber-attack scenarios.

The Ethias personnel is regularly made aware of the dangers of cyberattacks and the appropriate behaviour to adopt.

To protect itself from the risk of cybercrime, Ethias has taken out a specific insurance contract with a foreign insurer covering its potential liability in this area and guaranteeing it the financial resources to absorb any damage it may incur as quickly as possible.

4.5.1.2. Continuity risk

Ethias conducts continuity testing to assess the effectiveness of its contingency plans and the resilience to a black-out scenario over a potentially affected geographic region on the national territory. Some continuity tests are coordinated at the level of the sector.

4.5.1.3. Risks of IT malfunction

Ethias SA evaluates regularly:

- the choice of subcontractors, in terms of cost/benefit ratio
- the quality of IT services provided
- the ability of the IT subcontractor to provide a service adapted to the technological evolution of Ethias SA

4.5.1.4. Risk of terrorism

The establishment of a transversal unit for crisis management, in connection with players of the financial sector, helps to manage the risk of terrorism. Reflex and reactive measures have been defined and implemented: reinforcement of security guards and security measures for accessing the premises of Ethias SA.

4.5.1.5. Information system security risks

Ethias implemented a set of technical and organizational security measures to ensure the protection of data, databases, data flows, networks, systems and applications used for its own needs or those of its clients.

In order to define the objectives to be met by the security measures, risk analyses are carried out at different levels: at the project level, at the level of organizational changes, at the level of the sub-units or the completeness of the information system.

4.5.1.6. Risks of loss or alteration of personal data

With the entry into force of the General Data Protection Regulations (GDPR), Ethias has carried out a major action plan to fully comply with the new standards thus put in place.

4.5.2. CONCENTRATION OF OPERATIONAL RISK

4.5.2.1. Risks linked to the company's transformation projects

The company's transformation projects (technological and organizational evolution of the company) alone account for an important number of operational risks that appear in the analyses of operational risks regarding security, continuity and risks on projects. These risk analyses make it possible to define the necessary remedial measures.

4.5.2.2.Subcontracting risk

The recourse of subcontracting requires a complete and formal review of the associated risks. The company must be able to accurately assess the quality of the services provided by the contractor in relation to the initial needs and their evolution. The contractor must therefore provide the company with the indicators enabling him to steer and monitor the subcontracted activity. Where the nature of the subcontracted function is appropriate, measurable and realistic performance indicators and service level objectives are incorporated into the subcontracting agreement.

Ethias SA conducts a regular evaluation of the operational risks related to IT outsourcing. In addition, Ethias is evolving its subcontracting model by taking into account the risks associated with developments in the subcontracting market (cloud computing, etc.).

The contractual relationship with the IT partner NRB is taken into account in the operational risk analyses.

The risk of concentrating IT outsourcing with NRB was taken into account in the analysis of the choice of different IT partners related to the future technological evolution of Ethias

4.5.3. METHODS OF MITIGATING OPERATIONAL RISK

Preventive, dissuasive and corrective measures are implemented to control the identified operational risks. They are the subject of action plans formalized and monitored on a regular basis. A report has been sent to the management bodies of the company.

4.6. Other material risks

Reputational risk

Reputational risk is the risk that negative (true or false) information (publicity or otherwise) will cause a loss of confidence in the integrity of the company.

In order to protect itself from a reputation risk, Ethias takes various measures to guarantee the integrity of its image.

To this end, a communication culture using two complementary and coordinated axes has been developed.

Hence, the reputational risk is first of all dealt with through an external communication culture aimed at informing the public, the investors and the shareholders in a professional and transparent manner about the strategic and financial positioning, the operational developments and the company's commercial evolution.

Ethias also attaches particular importance to a good internal communication within the company because it contributes to the confidence of the personnel in the integrity of the company. Hence, there is a constant concern in the company to ensure a rapid, continuous and relevant information of the personnel.

Ethias' Code of Ethical Investment protects against taking stakes in activities whose reputation may be doubtful.

Several internal departments have established operating charters (Privacy, Risk Management, Actuarial Function, Compliance, etc.) in order to make their staff aware of the ethical behaviour that should be adopted in the performance of their activities.

Ethias regularly conducts opinion surveys to gather the opinion of its policyholders on the quality of its services. The results of these surveys carried out by independent research firms regularly demonstrate the quality of the Ethias brand name.

Climatic risks

Ethias is obviously attentive to the problem of climatic risks (global warming, pollution, etc.) likely to affect either the profitability of its products or the very continuity of its activities.

Thus, as part of its ORSA process (Own risk self assessment), Ethias evaluates the potential impacts of a natural disaster every year. The stress tests conducted on this occasion thus make it possible to challenge the company's reinsurance policy.

In addition, its ethical investment code excludes investments in environmentally harmful industrial activities.

As part of the development of its continuity plan, Ethias regularly conducts business continuity tests to determine its resilience capacity to risks of a catastrophic nature. In the same line of thinking, blackout tests are periodically organized to determine our resilience capacity based on our energy autonomy.

4.7. Any other information regarding the risk profile

Stress testing

Within the framework of the planning exercise, the company regularly carries out an evaluation of its solvency (i.e. the adequacy of its internal equity to face its global risk profile). The exercise takes the specific risk profile into account: it integrates the main risks and their interactions during the carrying out of stress tests.

Stress tests are in themselves tools for measuring specific risks. Ad hoc stress tests are performed on the SCR coverage ratio, in addition to a range of stress tests that are performed annually. These stress tests are either standardized sensitivity tests or impact tests adapted to the specific risk profile of the company (see following section). The consideration of non-financial risks such as reputational risks, strategic risks, macroeconomic risks, continuity risks and cyberattack risks is also integrated into these analyses.

Covid-19 crisis

At the end of January 2020, the coronavirus pandemic (COVID-19) became the main driver of movements on the financial markets.

By mid-March, volatility on the financial markets had reached levels of panic equivalent to those observed at the height of the 2008 crisis. The lack of coordination at the global level in the response to the crisis had strongly increased risk aversion. Fortunately, central banks have learned from 2008. During the weekend of March 15, for example, the Fed returned to a zero interest rate policy by lowering its key rates by 100 bp.

At the beginning of April, the crisis also became economic, as the quarantine measures taken almost everywhere to contain the spread of the virus had a very high cost for economic actors and public finances. The various governments and central banks are stepping up their efforts by announcing new support measures.

As of mid-April 2020, continental Europe is showing some encouraging signs with a decrease in new infections in Belgium as well as in Italy and Spain, the most affected countries. On the other hand, the pandemic continued to progress in the United States, England and in many emerging countries.

Between mid-June and mid-October 2020, the easening of certain sanitary measures in Belgium and Europe allowed the European economies to recover, although the activities of certain sectors (hotel & catering industry, events) remained limited. This summer air bubble helped mitigate the economic impact (especially in terms of growth) of the lockdown restrictions imposed from March 2020. However, the November outbreak, also known as the “second wave”, forced European governments to impose new lockdown measures across the continent. These measures are still in force in Belgium at the time of writing.

During the year 2020, Ethias’ investment portfolio has resisted rather well to the impact of the COVID-19 crisis. It is indeed a defensive portfolio that consists mainly of bonds (>80%). The percentage of listed shares is much more limited (around 5%). The credit quality of the bonds is monitored daily under current market conditions.

Given the circumstances, our risk monitoring was enhanced by various exercises. Since the beginning of the crisis and following the first wave, Ethias has produced a simplified monthly solvency report for the NBB, hence enabling the supervisor to regularly monitor the consequences of the crisis on the company’s financial health. In June, a first ad hoc ORSA was also carried out to assess the pandemic risk. The exercise was completed in the fourth quarter with the elaboration of two more or less severe “second wave” scenarios, also projecting the solvency ratio of Ethias.

The impact of this health crisis is not limited to financial risk alone. Other insurance and operational consequences are added. Ethias has taken the full measure of these risks and various preventive actions have been carried out, thanks among other things to the regular maintenance of our Business Continuity Plan. These decisions were motivated by Ethias’ absolute priority to follow the recommendations of the public authorities and to ensure the safety of its employees and their families, its clients and its partners.

Thus, being technically and technologically prepared, Ethias was immediately able to:

- allow almost all of its employees to work from home, thus ensuring their safety and that of their families;
- guarantee uninterrupted service to its clients, by promoting all digital tools (website, dedicated client space, online sales, live chat) and by strengthening the accessibility of its Contact Centers;

Between the two lockdown periods, activity was able to resume at Ethias’ main offices, but only partially and on an alternating basis.

At the time of writing, Belgium is still under partial lockdown, social contacts are limited and economic sectors are still at a standstill. The real economic and social consequences of the COVID crisis can only be understood at a later stage, when all the activities start up again and when public aid to sectors at a standstill fades away.

In this context, the situation is closely monitored by the management, who continually ensures that the best response is given to any new information. In that respect, we remain confident about Ethias’ solidity in this particular context.

As an insurer, investor, societal player and entrepreneur, Ethias will continue to take all possible steps to help reduce the negative consequences of this global catastrophe on its policyholders and on Belgian society.

5. VALUATION FOR SOLVENCY PURPOSES

Annexed to this section is the Solvency II balance sheet at end-2018 and at end-2019, as well as the comparison of the S2 and BGAAP valuations.

5.1. Valuation of assets

5.1.1. VALUATION OF THE FINANCIAL ASSET PORTFOLIO

In the financial statements prepared in accordance with the Belgian accounting standards («BGAAP») applicable to insurance companies, the book value of assets is, with a few exceptions, fixed on the basis of the amortized cost of the assets.

In accordance with the valuation principles set out in the Solvency II Directive, assets are valued at the amount for which they could be exchanged within the frame of a transaction concluded, under normal conditions of competition, between informed and consenting parties. This valuation principle is similar to the definition of fair value under IFRS.

The main valuation differences between Solvency II and BGAAP values by asset class are as follows:

Asset class	Difference explanation
Participating interests, shares and investment funds	With the exception of shares that are subject to impairment, the difference is explained exclusively by the fair value recorded in SII and the acquisition value of the shares or participating interests recognized in BGAAP.
Bonds	The difference in valuation between the BGAAP financial statements and the SII standards is essentially explained by the difference between the fair value recorded in SII and the amortized cost of these assets and by taking into account the accrued interest not yet due in the SII valuation. In addition, there are exceptions to this general rule: » Bonds whose value has been written down to market value under Belgian accounting standards. » Perpetual bonds valued in LoCoM (Lower of Cost or Market) under Belgian accounting standards.
Property	With the exception of properties that are subject to impairment, the difference in valuation between the BGAAP financial statements and the SII reference is mainly due to the difference between the fair value recorded in SII and the amortized cost of these assets.
Derivatives	Forward contracts on bonds and interest rate swaps are used in hedging transactions and benefit from hedge accounting rules (no fair value measurement in the Belgian accounting balance sheet). The market value of these instruments is only recognized in Solvency II.
Deposits other than cash equivalents	No difference in valuation.
Assets belonging to unit-linked insurance contracts	No difference in valuation.
Mortgage loans to private individuals, other loans and mortgage loans, and policy loans	With the exception of loans subject to impairment, the difference in valuation between the BGAAP financial statements and the SII standards is exclusively due to the difference between the fair value recorded in SII and the outstanding balance of the leans.

The following table shows the evolution of the market values of financial assets over 2020.

In thousands of euros	SII value 31/12/2020	SII value 31/12/2019	Annual change
Participating interests	512,730	477,472	35,258
Equities listed	635,964	544,117	91,847
Unlisted equities	61,088	4,640	56,448
Investment funds	611,038,10	535,120	75,918
Government bonds	9,959,636	9,536,323	423,313
Corporate bonds	4,822,042	4,400,790	421,252
Structured notes	226,551	321,694	-95,143
Collateralised securities	0	0	0
Property (other than for own use)	162,185	172,096	-9,911
Derivatives	54,718	29,376	25,342
Deposits other than cash equivalents	1,118	2,349	-1,231
Assets belonging to unit-linked insurance contracts	1,491,140	1,394,250	96,890
Mortgages to individuals	379,713	366,397	13,316
Other loans and mortgages	425,554	283,193	142,361
Loans on policies	22,247	22,272	-25
Total	**19,365,724**	**18,090,089**	**1,275,635**

The market value of bond investments (government, corporate and structured bonds) increased by 749 million euros in 2020. This evolution is mainly explained by the net increase related to purchases during the period offset by maturities (1,477 million euros of net purchases, 1,163 million euros of reimbursements), and the increase in the market value of the bonds in the portfolio (+444 million euros) mainly due to the decrease in interest rates in 2020.

The clear increase in the market value of listed shares of 92 million euros is mainly related to purchases made for 99 million euros. At the same time, unlisted shares also increased in value following the purchase of a position of 56 million euros.

The increase of 76 million euros in investments in collective investment undertakings is mainly due to purchases in alternative investments (+58 million euros) and in money market funds (33 million euros).

The increase of 97 million euros in assets held for unit-linked contracts is mainly due to the transfer of life insurance contracts with a guaranteed interest rate to unit-linked contracts for a net amount of 47 million euros and the increase in the market value of the assets in the portfolio (+142 million euros).

The +142 MM evolution of loans is mostly linked to new investments (+159 MM) offset by maturities (-17 MM).

5.1.2. VALUATION OF OTHER ASSETS

5.1.2.1. Goodwill and intangible assets

Goodwill and intangible assets are not recognized in SII. In the BGAAP financial statements, intangible assets are mainly composed of goodwill related to the acquisition of portfolios and investments as well as software and IT developments that are capitalised.

5.1.2.2. Deferred taxes

Deferred tax assets and liabilities are generated by temporary differences between the economic and tax values of the assets and liabilities and by carryforwards of unused tax losses. Ethias expects to recover or pay these taxes as and when temporary differences are realized.

For the valuation of deferred tax assets and liabilities, the corporate tax rate of 25% applicable as of January 1, 2020 has been applied.

The NBB_2020_03 circular on deferred taxes, which came into effect from QRT 12/2020, specifies the NBB's expectations regarding deferred tax assets (DTA) or liabilities (DTL) valued in the economic balance sheet. Two elements of justification are expected:

i. Taxable temporary differences must reverse within the same period in which deductible temporary differences reverse. This is referred to as «allowing netting between DTAs and DTLs» and the part of the DTA not covered by DTLs is called «net DTA»;

ii. Only estimated future taxable profits from expected new business can support the recognition of deferred tax assets; they cannot include taxable profits resulting from reversed taxable temporary differences. The degree of uncertainty relating to future taxable profits from expected new business increases as the projection period lengthens, particularly when these expected benefits are assumed to arise in periods beyond the company's normal planning cycle. Ethias projects its business plan over a five-year time horizon; profits beyond this horizon, used to demonstrate the recoverability of the net DTA, are subject to a haircut reflecting the increasing uncertainty as the projection horizon lengthens.

The application of this new circular has no effect on the amount of net deferred taxes recognized in the S2 balance sheet.

The decrease in deferred taxes of 36 M€ is explained by the deferred tax on the change in SII adjustments partially offset by the use of tax losses carried forward.

5.1.2.3. Fixed assets held for own use

The decrease in fixed assets held for own use of 4 M€ is mainly explained by the sale of buildings.

5.1.2.4. Insurance and intermediaries receivables

This asset category is valued at the nominal or acquisition value. Impairments are registered to take into account the uncertainties of their recovery. The difference in valuation on this asset class is explained by the cancellation of the technical expenses to be recovered, the fair value of the technical provisions (Best Estimate) being calculated net of recourse.

The decrease in this item of 5 M€ is mainly explained by reductions on premiums following the pandemic, partly offset by the increase in receivables in group insurance.

5.1.2.5. Receivables (other than insurance receivables)

The increase of 4 M€ in other receivables is mainly explained by amounts to be received from dedicated asset funds and prepaid expenses.

5.1.2.6. Deposits to cedants, receivables arising from reinsurance operations, other receivables and other assets

In the BGAAP financial statements, these assets are valued at their nominal value or acquisition value or at amortized cost. Impairments are registered to take into account the uncertainties of their recovery. The fair value of these assets is equal to their net book value Bgaap. Indeed, the company considers that for these receivables the net book value is sufficiently close to the market value of the receivables.

Since 1 January 2019, IFRS 16 on leases is applicable. Thus, in SII, under «Other receivables», an asset of 4 M€ relating to the right of use is included, and under «Other liabilities», the lease obligation of 17 M€ is included, corresponding to the discounted value of rental payments that have not yet been made. The asset is depreciated over its useful life or the term of the contract, if shorter. The lease obligation is reduced by the rental payments made and increased by the interests.

When a change is made to a lease contract, the lease obligation is revalued and the amount of the revaluation is carried on the right-of-use asset.

The 23 M€ million increase is mainly related to

- » the rise in receivables from reinsurers (13 M€), due in particular to the increase in pledged-securities deposits following the change in reinsurers' shares of technical provisions.
- » the increase in rights of use (13 M€), explained by the inclusion in 2020 of buildings taken on lease (unlike in 2019), partially offset by the decrease in adjustments to buildings (-3 M€).

5.2. Valuation of technical provisions

5.2.1. VALUATION OF BEST ESTIMATES LIFE

5.2.1.1. Results

The table below shows the Best Estimates of Life provisions under SII at end-2019 and end-2020, as well as Life technical provisions in the BGAAP financial statements at end-2020.

In thousands of euros	SII value 31/12/2020	BGAAP value 31/12/2020	SII value 31/12/2019
Insurances with profit participation	10,536,168	8,413,681	10,023,492
Accepted reinsurance	0	0	0
Complementary provisions BGAAP	0	1,042,037	0
TRIP provision	0	382	0
Total Life (excluding DC, unit-linked and index-linked)	**10,536,168**	**9,456,101**	**10,023,492**
CL annuities	48,844	33,870	46,936
Total Life (excluding unit-linked and index-linked)	**10,585,012**	**9,489,971**	**10,070,428**
Index-linked and unit-linked insurance	1,516,033	1,491,140	1,411,097
Overall Total	**12,101,045**	**10,981,111**	**11,481,525**

To the life segments, we must add the annuities of Common Law in Non-Life: General CL and CL Car (see section 5.2.2).

In addition, Group insurance policies for Ethias employees are valued as prescribed by IAS19 and are included in the pension provisions in the SII (see section 5.3.3).

5.2.1.2. General method of internal valuation of BE Life

In BGAAP, the Life insurance provisions include:

- mathematical provisions
- The supplementary «flashing-light» provisions designed to fund the difference between the mathematical reserves calculated at the guaranteed rate of the contract and those calculated at the «flashing-light» rate in such a way as defined in Article 31 of the Royal Decree of 14/11/2003.
- The supplementary longevity provisions, designed to take account of the increase in life expectancy and constituted on annuity products.

They include the allocated profit sharing. To this must be added the decease cover profit-sharing set up to cover the benefits of the decease cover profit-sharing in the coming fiscal year.

Under Solvency II, the Best Estimates are calculated by projecting determined flows to be in line with the economic, demographic ... reality. The current value of future cash flows is calculated using a discount rate curve provided by EIOPA with volatility adjustment. Flows include specific risks such as options and guarantees not subject to detailed rules on provisioning in BGAAP. The Best Estimates include a determined profit-sharing in a stochastic way, viz. by generating a large number of possible futures chosen at random. Besides the different assumptions used to determine the flows, the Best Estimates are also conditioned by different Expert Judgements. Future management decisions can also be taken into account in the calculation of Best Estimates.

The additional provisions which are part of the BGAAP reserves, namely the longevity provision and the flashing-light provision, are not included in Solvency II as such. However, the risk they cover is well integrated into the SII when valuating the BE using the assumptions chosen. Similarly, the fund for decease cover profit-sharing does not appear as such under SII but future decease cover profit-sharings allocated to future flows supplement these flows.

Life insurance products are classified according to the type of management, namely:

- individual life insurance products,
- group life insurance products.

In individual life insurance, our portfolio consists of the following products:

- classic products
- insurance account products, called «First»
- annuities.

In life Public Sector & Companies, a distinction is made between pension insurance (1st pillar), group insurance (2nd pillar) and capitalization products. Pension insurance is an insurance contract taken out by a public employer for the benefit of its staff and whose object is the constitution of statutory pension benefits or contributions owed to the Solidarity Fund. The reserves set up are managed collectively (in the general fund or in separate funds), and may fall under either branch 21 or branch 23.

Finally, we note that the portfolio contains products relating to branch 21, branch 23 and branch 26.

Some segments of liabilities are not yet part of the general SII modelling methodology for reasons of complexity, non-materiality or non-availability of the data. For non-modelled segments, the BGAAP accounting reserve will generally be used as Best Estimate (an add-on may be added in some cases such as to account for charges on "CAMI" or Branch 23 Public Bodies).

5.2.1.3. Main assumptions

While the BGAAP accounting technical reserves, without complementary provisions (flashing-light and longevity) are calculated on the basis of the contractual tariff conditions, the SII technical provisions take into account the expected reality. In general, we can synthesize the assumption differences between the calculations carried out in BGAAP and those carried out under Solvency II in the following table:

Parameters	BGAAP	Solvency II
Contractual surcharges	tariff (without commercial surcharges)	tariff & costs related to asset management
Life tables	tariff	prospective
Discount rate	guaranteed tariff rate	EIOPA curve
Future redemptions	not considered	considered
Future reductions	not considered	considered
Protection costs Br21	provisioned separately	considered
Overhead costs	not considered	considered
Future inflation	not considered	considered
Future profit-sharing	not considered	considered
Future premiums	Periodic premiums only taken into account if necessary for the calculation of the mathematical provision	taken into account within the limits of the contract boundaries

Mortality tables

The mortality tables available are:

- The tariff tables constructed using the Makeham coefficients, such as MR/FR,
- The experience tables (Assuralia),
- The prospective tables (calibrated at Ethias) with or without anti-selection.

For the calculation of Best Estimate under Solvency II, Ethias uses prospective tables, which is not the case in terms of its pricing.

Redemption rates

The redemption rates are calculated by segment and correspond, with the exception of FIRST products and branch 23/26 products, to the arithmetic average of the redemption rates observed in the course of the previous five periods. Each period corresponds to the interval [1/10/t-1; 30/09/t].

The redemption rates are not taken into account in the valuation of the BGAAP provisions.

Contractual surcharges and costs related to asset management

The surcharges are derived from the pricing. The calculation of the BGAAP provisions is carried out in inventory bases while the BE also take into account commercial surcharges.

Overheads

We must take into account the various overheads and expenses Ethias faces. We distinguish:

- Overheads, allocated according to the cut derived from the «Activity Based Costing» analysis

The annual contribution (0.15%) to the Branch 21 protection fund, which is calculated on the reserves of the contracts concerned.

Overheads are not taken into account in the valuation of BGAAP provisions.

Reductions

The right to reduction is the possibility for the policyholder to terminate the payment of his/her premiums at a given moment anticipatively.

- In SII, the reduction rate was determined on the basis of the arithmetic average of the reduction rates observed in the course of the previous 5 years. It is calculated for group insurance policies. The discount rate is not taken into account in the valuation of BGAAP provisions.

Future guaranteed rates

The calculation of BGAAP provisions does not take into account future guaranteed rates if they are variable.

On the other hand, under SII,

- when the future guaranteed rate of the contracts is variable (essentially in 1st pillar and more rarely in 2nd pillar), it is determined through the economic scenario generator. For FIRST products, when the future guaranteed rate can be revised, it is 0%. For 2nd pillar, a market-based pricing policy has been determined to allocate a new guaranteed rate to extended policies and to financing funds not benefiting from the variable rate formula.

Profit-sharing

The best estimate in SII includes the estimation of future life profit-sharing; on the other hand, future life profit-sharing is not taken into account in the valuation of the BGAAP provisions.

In the case of future decease cover profit-sharing, in BGAAP, only the reserve in the fund of the decease cover profit-sharing is taken into account so as to ensure the decease cover profit-sharing to be paid in the course of the next financial year, while under SII, the Best Estimate includes all future decease cover profit-sharing.

Economic assumptions

The economic assumptions used in the calculation of Best Estimate are:

- the discount curve
- the inflation rate.

The discount curve is the one provided by EIOPA, including the volatility adjustment. Inflation is calculated using the economic scenario generator.

As long as the results of the Liability Adequacy Tests (LAT) are satisfactory, the calculation of BGAAP provisions only takes into account guaranteed tariff rates and is not influenced by inflation. It was only through the complementary «flashing-light» provision, and indirectly, that the regulation imposed an obligation to take into account the possible difference between the guaranteed rates and the market rates.

Taking certain future premiums into account

The modelling is done under the assumption of a run-off of the contracts while respecting the limits of the contracts under Solvency II. We therefore do not consider new production; on the other hand, we take into account contractual periodic premiums, i.e. the premiums that the insured is obliged to pay at the risk of seeing his/her coverage reduced. Are also considered: the premiums on which Ethias has a rate commitment in the 1st pillar or for certain financing funds or collective funds as well as for certain FIRST-type products. On the other hand, with regard to the second pillar, the premiums for temporary death insurances, priced in an ancillary manner to a life component, are taken into account.

On the contrary, when valuing provisions in BGAAP, future premiums are only taken into account if they are necessary for the calculation of the mathematical provision (as in group life policies where the reserve is the difference between the insurer's commitment and the insured's commitment). In general, only premiums already received are included in the provisions.

5.2.1.4. Uncertainty level

A level of uncertainty relates to the following elements:

- Financing funds are subject to assumptions about their evolution.
- Accepted co-insurance reserves are assumed to evolve in the same way as those of the corresponding segment.
- Branch 23 is partially modelled.
- Guaranteed income insurance is not modelled.
- Modelling of redemptions is based on a single rate regardless of the age group.
- The stochastic modelling of profit-sharing is not yet entirely completed.

5.2.1.5. Expert judgement

The list of expert judgements has been updated on 31 December 2019.

5.2.1.6. Significant changes in assumptions

The significant changes in assumptions or modelling between 31 December 2019 and 31 December 2020 are as follows:

- The different calibrations (redemption rate, costs, etc.) have been reviewed.

5.2.1.7. Evolution of Life Best Estimates in 2020

The first important element that influences the value of BEs is the discount rate curve provided by EIOPA. The curve at end-2020 is significantly lower than at end-2019. However, this effect is partially offset by the use of a floating guaranteed rate, mainly in the 1st pillar. The curve effect is estimated at +519 million.

Other modelling changes and parameter calibrations were made with a relatively neutral impact on the Best Estimates at end-2020.

5.2.2. VALUATION OF BEST ESTIMATES NON-LIFE AND HEALTH

5.2.2.1. Results

The table below shows, at end-2020, the Best Estimates of the Non-Life provisions under SII, as well as the Non-Life technical provisions in the BGAAP financial statements.

In thousands of euros

SII line of business	SII value 31/12/2020	BGAAP value 31/12/2020	SII value 31/12/2019
Non-life (without health)	1.826.424	1.953.577	1.856.778
Health (similar to non-life)	400.957	390.727	409.708
Non-Life	*2.227.381*	*2.344.304*	*2.266.487*
Health (similar to life)	1.678.674	1.685.162	1.565.110
TOTAL non-life and health (BGAAP without recourse)	**3.906.055**	**4.029.466**	**3.831.596**
Recourse provisions	*0*	*-54.547*	*0*
TOTAL non-life and health net of recourse	**3.906.055**	**3.974.919**	**3.831.596**

In SII, the BEs are calculated net of recourse and the BEs of the CL annuities and CL Car are classified in Life (see section 5.2.1).

5.2.2.2.Amounts recoverable from reinsurance contracts

The following table sets out the amounts recoverable from reinsurance contracts as at 31 December 2020 with the SII balance sheet categories.

In thousands of euros

SII line of business	Gross technical provisions	Net technical provisions before adjustment	Adjustment	Ceded technical provisions
Non-life (without health)	1.826.424	1.717.965	-1.227	107.232
Health (similar to non-life)	400.957	400.233	-24	700
Non-Life	*2.227.381*	*2.118.198*	*-1.251*	*107.931*
Health (similar to life)	1.678.674	1.663.368	0	15.306
TOTAL	**3.906.055**	**3.781.566**	**-1.251**	**123.238**
Annuities included in Life	*48.844*	*48.844*	*0*	0

In Solvency II, the amounts recoverable from the reinsurance contracts are valued at total amount of 123 million euros whereas the shares of reinsurers in the technical provisions of the Belgian balance sheet amount to 158 million euros.

5.2.2.3.General valuation method of the BE claims

Benefits and external costs

The calculations of the future flows of benefits and external costs for the management of claims in run-off are based on traditional triangulation methods in both BGAAP and SII. There are, however, some differences in the calculations within the two frames:

- The segmentation used is not the same.
- The management of atypical claims:
  - » No special treatment in the frame of the BGAAP calculation, except for so-called media claims.
  - » Split between attritional and atypical claims in the frame of the SII calculation.
- The flows are not updated in BGAAP.
- A Value at Risk (VaR) linked to the risk appetite of the company is integrated into the BGAAP evaluations whereas the calculation of the BE SII is an average scenario.

Internal claims handling costs, overheads and investment costs

In SII, investment and support costs are determined using a proportion of the expenses.

In BGAAP, a percentage of the provisions is used to determine the provision for internal claims handling costs.

Add-ons and simplified method

A set of elements are excluded from our calculation a priori because of their specific nature. These items, called «add-ons», are estimated separately and added to the technical provisions.

The "Add-ons" amounts also take into account a share of costs.

Reinsurance

The share of reinsurers in the technical provisions is determined in the BGAAP financial statements and the SII standard by applying the reinsurance programme to the various claims. Certain parts of the reinsurance programme, the impact of which was judged to be non-material in view of the complexity of the required IT developments, were not modelled.

In BGAAP, the reinsurance programme is applied on the basis of the BGAAP claims burden, while in SII the programme applies to the SII claims burden.

The adjustment of claims costs recoverable from reinsurance contracts is a prudential concept imposed by SII to cover the insolvency risk of reinsurers and this does not have a counterpart in BGAAP.

5.2.2.4. General valuation method of the BE annuities

Work Accident annuities

In addition to the methods, the technical parameters used for annuities are different in BGAAP and SII.

In BGAAP, a method based on scales is applied.

In SII, a method of projecting flows allowing to take into account the different possible options has been developed:

- Transition between phases
- Change in permanent disability rate
- Taking 1/3 in capital
- Cumulative pension

The discount curve is determined by EIOPA and inflation is derived from the ESG. The mortality table used is a prospective table with an excess mortality according to the type and gender of the beneficiary calibrated by Assuralia.

In BGAAP, we consider costs proportional to technical provisions, while in SII, an amount per annuity has been calibrated.

Add-ons and simplified method

A set of elements are excluded from our calculation a priori because of their specific nature. These items, called «add-ons», are estimated separately and added to the technical provisions.

5.2.2.5. General valuation method of the BE premiums

Methods and assumptions

The BE of gross premiums is an SII concept that does not have its equivalent in BGAAP. An analogy can be made with the PFUR (provision for unexpired risks) and the PFUP (provision for unearned premiums). The BE of premiums are calculated using an internally developed and calibrated premium and exposure projection model.

Reinsurance

The BE of premiums net of reinsurance is an SII concept that does not have its equivalent in BGAAP.

The valuation in SII is identical to the valuation of BE of gross premiums.

5.2.2.6. Taking into account the intervention of TRIP in the Brussels and Charleroi attacks

Different branches are affected by the Brussels attacks, mainly Objective CL and Work Accidents. The mechanism in place is as follows:

- The companies manage their claims.
- The cost of the various claims of the sector is globalized in a pool (TRIP).
- Reinsurers intervene on the basis of the pool's charge.
- The pool redistributes the charges and expenses ceded to the various companies in proportion to their market shares.

The cost of the claims managed by the companies does not reflect the actual commitments of the company.

In order for the BE to reflect the actual commitments as closely as possible, we have proceeded as follows:

- Cancellation in the BE calculations of annuities and claims of the flows related to the claims that are linked to the attacks.
- Creation of an add-on based on the BGAAP amounts after allocation by the pool.

5.2.2.7. Significant changes in assumptions

BE claims

- The triangulations have been updated by adding an additional diagonal to the various triangles.
- The cost parameters have been recalibrated by integrating the observations of the year 2020 and their expected evolution.

Work Accident annuities

- The cost have been recalibrated by integrating the observations of the year 2020.
- The transition assumptions regarding the permanent disability rate have been recalibrated.

BE premiums

- All the parameters necessary for the use of the projection module have been recalibrated.
- The cost parameters have been recalibrated by integrating the observations of the year 2020 and their expected evolution.
- The economic S/P ratios have been recalculated on the basis of the data at end-2020, taking into account the expected evolution of the profitability foreseen in the business plan. As has been done in the framework of the BE claims, a separate ratio is determined for the TPAs.

5.2.2.8. Evolution of Non-Life and Health Best Estimates in 2020

The evolution between 31/12/2019 and 31/12/2020 of the Non-Life BE is an increase of 1.9%. This change breaks down as follows:

- Non-Life without Health: 1.6% decrease
- Health similar to Non-Life: 2.1% decrease
- Health similar to Life: 7.3% increase

		Technical provisions (SII)		
In thousands of euros		31-12-20	31-12-19	Evolution
Technical provisions - non-life (excluding health)	Claims BE	1,654,821	1,683,585	-1.70%
	Premium BE	171,603	173,193	-0.90%
	BE total	1,826,424	1,856,778	-1.60%
Technical provisions - health (similar to non-life)	Claims BE	352,137	344,806	2.10%
	Premium BE	48,820	64,902	-24.80%
	BE total	400,957	409,708	-2.10%
Technical provisions - health (similar to life)	Premium BE	-149,871	-110,453	35.70%
	BE Annuities	1,828,545	1,675,563	9.10%
	BE total	1,678,674	1,565,110	7.30%
BE total non-life and health		3.906.055	3,831,596	1.90%

The evolution of the BE «Non-life without Health» is strongly influenced by the evolution of the BE claims. This BE is influenced downwards by the decrease in the volume of claims induced by COVID.

The evolution of the BE «Non-Life Health Similar to Non-Life» comes mainly from the «Workers Compensation» branches for which we observe a deterioration in the claims ratio of previous years for the part "Temporary disability/Medical expenses" influencing both the BE claims and the BE premiums. The BE premiums evolves favourably through the evolution of the expected future profitability resulting from the consolidation campaigns carried out in 2020 and taking effect in 2021.

The evolution of the BE «Non-Life Health similar to Life» is influenced by the increase in the BE annuities. The BE annuities is marked by a growing portfolio of annuitants increased by an unfavourable rate effect. The BE premiums, which relates exclusively to the branch "Health Care Individuals", is impacted by the review of the lapse rate assumption.

5.2.3. VALUATION OF THE RISK MARGIN

In Solvency II (as not applied under BGAAP), the risk margin represents the present value of the financing cost of future SCRs related to the insurance business considered in run-off on the portfolio existing at the closing date. It is in addition to the Best Estimates for establishing together the technical provisions. It represents a little over 520 million euros, i.e. an additional 3.3% of the Best Estimates as of December 31, 2020.

The following table presents the risk margin by SII activity line.

In thousands of euros	31-Dec-20	31-Dec-19
Non-life (without health)	163,494	176,091
Health (similar to non-life)	52,232	60,148
Health (similar to life)	45,610	37,245
Life (without index-linked and unit-linked insurance)	257,861	196,611
Index-linked and unit-linked insurance	5,478	4,213
TOTAL	**524,675**	**474,308**

We have aligned the projection method of the SCR Health similar to Life with that of the SCR Life, which has resulted in a decrease in the Non-Life risk margin.

We have improved the projection of the operational SCR in the Life risk margin by performing a full calculation at each time step rather than having it evolve pro rata to the BE Life. This resulted in a decrease in the Life risk margin.

The amount of the risk margin has followed the evolution of its components, i.e. the SCRs and the horizon over which they are projected. The increase observed is mainly due to the change in rates and its impact on the SCRs. The decrease observed in Non-Life and in Health similar to Non-Life is mainly due to the use of USPs for the reserve risk.

5.2.4. VOLATILITY ADJUSTMENT

The solvency ratio of Ethias SA is valued using the EIOPA rate curve with the volatility adjustment.

The volatility adjustment remained stable between end-2019 and end-2020 and amounts to 0.07%. The ratio without this adjustment would be 6% lower (compared to 7% at 31 December 2019).

The effects of the volatility adjustment at end-2020 on own funds, SCR and MCR are presented in the tables below.

In thousands of euros	without VA	QRT 12/2020	delta
Solvency Capital Requirement (SCR)	1,474,872	1,466,207	8,665
Eligible equity capital	2,674,854	2,741,115	-66,261
surplus(+) / deficit(-)	1,199,982	1,274,908	-74,926
SCR coverage rate	**181.36%**	**186.95%**	**-6%**

In thousands of euros	without VA	QRT 12/2020	delta
Minimum Capital Requirement (MCR)	663,692	659,793	3,899
Eligible equity capital MCR	2,108,732	2,196,300	-87,568
surplus(+) / deficit(-)	1,445,039	1,536,507	-91,467
MCR coverage rate	**317.73%**	**332.88%**	**-15.15%**

5.3. Valuation of other liabilities

5.3.1. CONTINGENT LIABILITIES

A contingent liability is:

- a possible liability resulting from past events and whose existence will be confirmed only by the occurrence or not of one or more uncertain future events not fully within the company's control; or
- a present liability resulting from past events, but not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the liability or that the amount of the liability cannot be measured with sufficient reliability.

Contingent liabilities are assessed continually to determine whether an outflow of economic benefits has become probable or assessable with sufficient reliability, in which case a provision is recognized in the MVBS of the accounting year in which the change in probability or evaluation occurs.

The difference of 12.8 M€ between SII and BGAAP corresponds to the estimated risk related to a litigation between Ethias and an institutional client. At the preliminary stage of this litigation, the risks of losing all and part of it are conservatively estimated at a probability of less than 50%, which does not require a provision to be recorded in the statutory accounts. The different scenarios envisaged and the amount of the contingent liability arising from them could be reassessed in the future in the light of developments in the procedure.

The various scenarios considered and the amount of the resulting contingent liability have been reassessed: the amounts remain stable between 2019 and 2020.

5.3.2. PROVISIONS OTHER THAN TECHNICAL PROVISIONS

The amount of the provisions should correspond to the best estimate of the expenditure required to extinguish the obligation existing at the closing date. The estimates are based on the management's judgement complemented by the experience of similar transactions. Provisions are recognized when:

- the entity has a legal or implied obligation resulting from past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation;
- it is possible to reliably estimate the exact amount of the obligation.

If these three conditions are not met, no provision should be recorded.

The provision of 0.9 million euros made in the BGAAP financial statements to cover the cost of hedging derivatives does not exist in S2 as this cost is recognized in the market value of the derivatives.

The decrease of 5 M€ is mainly explained by the change in the provision for reorganization and by the reversal of a provision on a real estate commitment that ended in December 2020.

5.3.3. PENSION BENEFIT OBLIGATIONS

Employee benefits have been valued in accordance with the principles of IAS 19 and include post-employment benefits (mainly pension commitments), long-term benefits and end-of-contract benefits.

The difference in valuation between the BGAAP and SII financial statements is due to the difference between the fair value recorded in the SII as a result of the discounting of the post-employment benefits and the end-of-contract benefits, and the value of these commitments recorded in the BGAAP financial statements, as well as the recognition of long-term benefits in SII.

The decrease of 18 M€ in the pension provision is explained by a higher level of funding of the OFP than the cost of financial services prescribed by IAS 19 (-10 M€), by benefits (-18 M€), and by the financial result of the OFP (-12 M€), partially offset by the decrease in the discount rate, by the experience effect and by the demographic effect (+22 M€).

5.3.4. DEPOSITS FROM REINSURERS

The fair value of these liabilities is equal to their nominal value, which corresponds to the net book value Bgaap. Indeed, the company considers that for these debts, the nominal value constitutes a value sufficiently close to the market value of the debts, with the exception of lease contracts (see § 5.1.2.6).

The increase by 7 M€ is mainly explained by higher reinsurance deposits.

5.3.5. DEBTS TOWARD CREDIT INSTITUTIONS

The 441 M€ increase in the item is explained by new repo's for 453 M€ offset by the 12 M€ decrease in collateral.

5.3.6. DEBTS ARISING FROM DIRECT INSURANCE OPERATIONS AND AMOUNTS PAYABLE TO INTERMEDIARIES

The decrease of 14 M€ is mainly explained by the decrease in payments received in advance (2021 annual invoices issued and sent in December 2020) and the decrease in the debt to the VVSG/ONSSAPL following the regularization carried out during 2020, offset by the increase in the debt to brokers mainly explained by the increase in foreign claims.

5.3.7. OTHER DEBTS AND OTHER LIABILITIES

The 13 M€ change is mainly explained by the increase in the lease obligation following the inclusion in 2020 of rents on buildings.

5.3.8. SUBORDINATED LIABILITIES

The increase in the value of the subordinated loans of 6.3 million euros is due to the fall in risk-free rates observed in 2020.

5.4. Notes

5.4.1. COMPARATIVE S2 BALANCE SHEET 12/2019 - 12/2020

K€	Q0-2019	Q0-2020	Variations 2020-2019
ASSETS			
Deferred tax assets	206 670	170 714	-35 955
Property, plant & equipment held for own use	73 005	69 106	-3 898
Property (other than for own use)	172 096	162 185	-9 911
Holdings in related undertakings, including participations	477 472	512 731	35 259
Equities	548 758	697 052	148 294
Government Bonds	9 536 324	9 959 636	423 312
Corporate Bonds	4 400 790	4 822 042	421 252
Structured notes	321 694	226 551	-95 143
Collective Investments Undertakings	535 120	611 038	75 918
Derivatives	98 440	29 376	-69 063
Deposits other than cash equivalents	2 349	1 118	-1 231
Assets held for index-linked and unit-linked contracts	1 394 250	1 491 140	96 890
Loans and mortgages	671 862	827 513	155 651
Reinsurance recoverables	126 487	123 238	-3 249
Deposits to cedants	4 138	3 889	-249
Insurance and intermediaries receivables	165 978	161 345	-4 633
Reinsurance receivables	110 833	124 132	13 299
Receivables (trade, not insurance)	82 055	86 171	4 115
Cash and cash equivalents	353 426	479 793	126 367
Any other assets, not elsewhere shown	28 737	39 102	10 365
TOTAL	**19 310 483**	**20 597 872**	**1 287 389**
LIABILITIES			
Own funds	2 163 330	2 323 229	159 899
BE non-life	1 856 778	1 826 424	-30 354
RM non-life	176 091	163 494	-12 597
BE health (similar to non-life)	409 708	400 957	-8 751
RM health (similar to non-life)	60 148	52 232	-7 917
BE health (similar to life)	1 518 174	1 629 831	111 657
RM health (similar to life)	37 245	45 610	8 365
BE life (excluding health and index-linked and unit-linked)	10 070 428	10 585 012	514 584
RM life (excluding health and index-linked and unit-linked)	196 611	257 861	61 250
BE index-linked and unit-linked	1 411 097	1 516 033	104 936
RM Technical provisions – index-linked and unit-linked	4 213	5 478	1 265
Contingent liabilities	14 212	13 681	-531
Provisions other than technical provisions	25 271	20 163	-5 108
Pension benefit obligations	158 946	141 180	-17 766
Deposits from reinsurers	120 082	126 815	6 732
Deferred tax liabilities	0	0	0
Derivatives	43 722	925	-42 797
Debts owed to credit institutions	181 390	622 201	440 811
Insurance & intermediaries payables	166 257	152 084	-14 173
Reinsurance payables	7 839	6 460	-1 379
Payables (trade, not insurance)	169 487	168 989	-497
Subordinated liabilities in Basic Own Funds	514 578	520 886	6 308
Any other liabilities, not elsewhere shown	4 875	18 328	13 453
TOTAL	**19 310 483**	**20 597 872**	**1 287 389**

5.4.2. BALANCE SHEET S2 VERSUS BGAAG 12/2020[12]

K€	SII	BGAAP	Variations SII- BGAAP
ASSETS			
Intangibles assets	0	113 309	-113 309
Deferred tax assets	170 714	0	170 714
Property, plant & equipment held for own use	69 106	56 140	12 967
Property (other than for own use)	162 185	152 066	10 119
Holdings in related undertakings, including participations	512 731	411 684	101 047
Equities	697 052	535 214	161 838
Government Bonds	9 959 636	8 268 431	1 691 205
Corporate Bonds	4 822 042	4 508 446	313 596
Structured notes	226 551	213 979	12 572
Collective Investments Undertakings	611 038	578 859	32 179
Derivatives	29 376	41	29 336
Deposits other than cash equivalents	1 118	1 118	0
Assets held for index-linked and unit-linked contracts	1 491 140	1 491 140	0
Loans and mortgages	827 513	804 512	23 001
Reinsurance recoverables	123 238	157 602	-34 365
Deposits to cedants	3 889	3 889	0
Insurance and intermediaries receivables	161 345	215 892	-54 547
Reinsurance receivables	124 132	124 132	0
Receivables (trade, not insurance)	86 171	86 171	0
Cash and cash equivalents	479 793	479 793	0
Any other assets, not elsewhere shown	39 102	21 792	17 310
TOTAL	**20 597 872**	**18 224 210**	**2 373 662**
LIABILITIES			
Own funds	2 323 229	1 582 688	740 540
BE non-life	1 826 424	1 953 577	-127 153
RM non-life	163 494	0	163 494
BE health (similar to non-life)	400 957	390 727	10 230
RM health (similar to non-life)	52 232	0	52 232
BE health (similar to life)	1 629 831	1 651 292	-21 461
RM health (similar to life)	45 610	0	45 610
BE life (excluding health and index-linked and unit-linked)	10 585 012	9 488 458	1 096 554
RM life (excluding health and index-linked and unit-linked)	257 861	0	257 861
BE index-linked and unit-linked	1 516 033	1 491 140	24 893
RM Technical provisions – index-linked and unit-linked	5 478	0	5 478
Contingent liabilities	13 681	881	12 800
Provisions other than technical provisions	20 163	21 089	-926
Pension benefit obligations	141 180	71 916	69 264
Deposits from reinsurers	126 815	126 815	0
Deferred tax liabilities	0	3 515	-3 515
Derivatives	925	0	925
Debts owed to credit institutions	622 201	622 201	0
Insurance & intermediaries payables	152 084	152 084	0
Reinsurance payables	6 460	6 460	0
Payables (trade, not insurance)	168 989	168 989	0
Subordinated liabilities in Basic Own Funds	520 886	491 375	29 512
Any other liabilities, not elsewhere shown	18 328	1 003	17 325
TOTAL	**20 597 872**	**18 224 210**	**2 373 662**

[12] Some headings in the economic balance sheet do not exist in Bgaap. In order to compare the valuation of the same items, reclassifications have been made in the Bgaap. Thus, the Bgaap balance sheet is not directly comparable with the Bgaap balance sheet of the statutory accounts.

6. CAPITAL MANAGEMENT

6.1. Own funds

6.1.1. BREAKDOWN OF AVAILABLE OWN FUNDS

In thousands of euros	31-Dec-20	31-Dec-19
Tier 1 unrestricted	2,049,514	1,956,660
Tier 1 restricted	14,827	14,909
Tier 2	506,059	499,670
Tier 3	170,714	206,670
TOTAL	**2,741,115**	**2,677,908**

At end-2020, the available own funds are composed of the basic own funds classified according to the following levels:

- Tier 1 unrestricted results from the excess of assets over liabilities, excluding deferred tax assets that are classified in level 3.
- Tier 1 restricted corresponding to the remaining 15 million euros of the perpetual loan issued in 2005 that did not participate in the exchange transaction carried out in 2015. It is classified as level 1 under the transitional measures.
- Tier 2 comprises, on the one hand, the subordinated loan of 75 million euros issued in 2008 and maturing in July 2023, classified as tier 2 in application of the transitional measures, and, on the other hand, the subordinated loan of 402.7 million euros in nominal value issued in 2015 and maturing in January 2026.
- Tier 3 corresponds to deferred tax assets.

Available own funds increased between 2019 and 2020, mainly thanks to the excellent operating result reflecting the COVID period and the good management of financial assets which allowed to further reduce the duration gap between assets and liabilities.

6.1.2. BREAKDOWN OF ELIGIBLE OWN FUNDS TO MEET THE SCR

In thousands of euros	31-Dec-20	31-Dec-19
Tier 1 unrestricted	2,049,514	1,956,660
Tier 1 restricted	14,827	14,909
Tier 2	506,059	499,670
Tier 3	170,714	199,999
TOTAL	**2,741,115**	**2,671,238**

Available own funds detailed in the previous section are subject to different limits which determine their eligibility for the Solvency Capital Requirement.

At end-2020, available own funds are fully eligible for SCR coverage.

Note: at end-2019, Tier 3 own funds were not fully eligible because the sum of the available Tier 2 and Tier 3 own funds exceeded the 50% limit of the SCR. Consequently, among the available Tier 3 own funds, an amount of 7 million euros was not eligible for SCR coverage.

6.1.3. COVERAGE OF THE SOLVENCY CAPITAL REQUIREMENT

The coverage ratio remained relatively stable. The slight decrease results from the increase in the SCR, despite the rise in own funds.

In thousands of euros	31-Dec-20	31-Dec-19
Solvency Capital Requirement	1,466,207	1,399,338
Eligible own funds to meet the SCR	2,741,115	2,671,238
Coverage rate	**186.95%**	**190.89%**

6.1.4. BREAKDOWN OF ELIGIBLE OWN FUNDS TO MEET THE MCR

Available Tier 1 own funds are fully eligible for MCR coverage.

However, only part of the available Tier 2 own funds, up to 20% of the MCR, is eligible for MCR coverage. This eligibility limit is reached at end-2019 and at end-2020.

In thousands of euros	31-Dec-20	31-Dec-19
Tier 1 unrestricted	2,049,514	1,956,660
Tier 1 restricted	14,827	14,909
Tier 2	131,959	125,940
TOTAL	**2,196,300**	**2,097,509**

6.1.5. COVERAGE OF THE MINIMUM CAPITAL REQUIREMENT

The S2 standards require that the MCR be between 25% and 45% of the SCR. Since the calculation of the MCR leads both at end-2019 and at end-2020 to a value higher than this interval, it is limited under this regulation to 45% of the SCR. However, the SCR increased in 2020 (+67 million euros); this increase therefore has a proportional impact on the MCR (+30 million euros).

In thousands of euros	31-Dec-20	31-Dec-19
Minimum Capital Requirement	659,793	629,702
Eligible own funds to meet the MCR	2,196,300	2,097,509
Coverage rate	**332.88%**	**333.10%**

6.1.6. DIFFERENCES BETWEEN THE OWN FUNDS IN BGAAP AND IN SOLVENCY II

The table below shows the transition from own funds under Belgian accounting standards (BGAAP) to own funds available in Solvency II. Transitional measures on own funds are taken into account, resulting in the eligibility of all subordinated loans as own funds for SCR coverage purposes.

The main sources of differences between accounting and Solvency II own funds are the revaluations of financial assets and technical liabilities, as well as subordinated loans (included in other liabilities for 521 million euros).

In thousands of euros	31-Dec-20	31-Dec-19
Accounting own funds	1,564,310	1,359,668
Funds for future appropriations	18,379	6,379
Financial asset gains	2,273,624	1,763,462
Any other assets	-14	-6
Revaluation technical liabilities	-1,665,913	-1,138,336
Other liabilities	376,501	476,480
Deferred taxes	174,229	210,261
SII own funds	**2,741,115**	**2,677,908**

6.2. SCR & MCR

6.2.1. SOLVENCY CAPITAL REQUIREMENT (SCR) AND MINIMUM CAPITAL REQUIREMENT (MCR)

The SCR and the MCR are evaluated according to the standard formula modulo the use of certain USPs. At end-2020 as at end-2019, the MCR reached the ceiling of 45% of the SCR.

In thousands of euros	31-Dec-20	31-Dec-19
Solvency Capital Requirement (SCR)	1,466,207	1,399,338
Minimum Capital Requirement (MCR)	659,793	629,702

6.2.2. SOLVENCY CAPITAL REQUIRED PER RISK MODULE

In thousands of euros	31-Dec-20	31-Dec-19
Market risk	931,616	840,679
Counterparty default risk	90,981	91,335
Life underwriting risk	270,333	199,225
Health underwriting risk	306,983	316,419
Non-Life underwriting risk:	462,778	537,094
Diversification	-686,322	-670,071
Intangible asset risk	0	0
Basic Solvency Capital Requirement	**1,376,369**	**1,314,681**
Operational risk	123,102	121,458
Absorbing capacity of technical provisions	-33,264	-36,801
Loss-absorbing capacity of deferred taxes	0	0
Solvency Capital Requirement	**1,466,207**	**1,399,338**

At end-2020, the total SCR stands at 1.47 billion euros, composed in descending order of importance by the SCR market, Non-Life, health, Life, operational and default. The top 3 of the SCRs in descending order of importance is identical at end-2020 and end-2019, thus formed by the SCR market, non-life, health.

The total Solvency Capital Requirement went from 1.40 billion euros at December 31, 2019 to 1.47 billion euros at December 31, 2020.

- The Solvency Capital Requirement for market risks increased by nearly 11%.
  - » The SCR shares has increased by 58 million euros. This increase comes from new expositions.
  - » The SCR spread has increased by 80 million euros following purchases of corporate bonds.
  - » The SCR real estate has decreased following a methodological change in the recognition of real estate subsidiaries.
- The Solvency Capital Requirement for counterparty default risk has remained stable.
- The Solvency Capital Requirement for Life underwriting risks has increased in line with the increase in the BE Life.
- The Solvency Capital Requirement for health underwriting risks has decreased as a result of the use of USPs in reserve risk partly offset by the increase in the SCR Health similar to Life (in line with the increase in the BE Health similar to Life).
- The Solvency Capital Requirement for Non-Life underwriting risks has decreased as a result of the use of USPs in reserve risk.
- The Solvency Capital Requirement for operational risks has increased following the increase in the BE Life partly offset by the decrease in the BE Non-Life.
- Diversification between the SCRs has increased as a result of the decrease in the SCR Non-Life and the increase in the SCR Life.
- The adjustment effect of the profit sharing on the capital requirements has slightly decreased following the review of the profit distribution plan of a ring-fenced fund.
- At end-2020, Ethias SA does not value the absorbing capacity of the SCR by the deferred taxes.

6.2.3. USE OF SIMPLIFIED CALCULATIONS

Ethias SA does not use simplification in the application of the standard formula.

6.2.4. USE OF COMPANY-SPECIFIC PARAMETERS

At end-2020, Ethias received authorization from the National Bank of Belgium (NBB) to use its own USPs *(undertaking specific parameters)* for the reserve risk in the calculation of the SCR premiums and reserves. This authorization concerns 5 lines of Non-Life business. Method 2 of Annex XVII of the Delegated Acts 2015/35/EC has been implemented.

Line of business	Description
2	Guaranteed income
3	Workers' Compensation
4	Civil Liability Car
5	Car Others
7	Fire

6.2.5. DATA USED BY THE COMPANY TO CALCULATE THE MCR

The intermediate data used to calculate the MCR can be found in the quantitative tables in the appendix.

6.3. Use of the «equity risk» sub-module based on duration in the calculation of the SCR

This item is not applicable.

6.4. Differences between the standard formula and any other internal model used

This item is not applicable.

6.5. Non-compliance with the MCR and non-compliance with the SCR

The minimum capital requirement and the solvency capital requirement were respected during the reference period.

7. QUANTITATIVE DATA TEMPLATES

The following tables present the quantitative data models to be published in this report, expressed in thousands of euros and as of December 31, 2020.

7.1. Balance sheet

		Solvency II value C0010
ASSETS		
Goodwill	R0010	
Deferred acquisition costs	R0020	
Intangible assets	R0030	0
Deferred tax assets	R0040	170 714
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	69 106
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	17 021 729
Property (other than for own use)	R0080	162 185
Holdings in related undertakings, including participations	R0090	512 731
Equities	R0100	697 052
Equities - listed	R0110	635 964
Equities - unlisted	R0120	61 088
Bonds	R0130	15 008 229
Government Bonds	R0140	9 959 636
Corporate Bonds	R0150	4 822 042
Structured notes	R0160	226 551
Collateralised securities	R0170	0
Collective Investments Undertakings	R0180	611 038
Derivatives	R0190	29 376
Deposits other than cash equivalents	R0200	1 118
Other investments	R0210	0
Assets held for index-linked and unit-linked contracts	R0220	1 491 140
Loans and mortgages	R0230	827 513
Loans on policies	R0240	22 247
Loans and mortgages to individuals	R0250	379 713
Other loans and mortgages	R0260	425 554
Reinsurance recoverables from:	R0270	123 238
Non-life and health similar to non-life	R0280	107 931
Non-life excluding health	R0290	107 232
Health similar to non-life	R0300	700
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	15 306
Health similar to life	R0320	15 306
Life excluding health and index-linked and unit-linked	R0330	0
Life index-linked and unit-linked	R0340	0
Deposits to cedants	R0350	3 889
Insurance and intermediaries receivables	R0360	161 345
Reinsurance receivables	R0370	124 132
Receivables (trade, not insurance)	R0380	86 171
Own shares (held directly)	R0390	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	479 793
Any other assets, not elsewhere shown	R0420	39 102
Total assets	R0500	20 597 872

LIABILITIES		
Technical provisions - non-life	R0510	2 443 106
Technical provisions - non-life (excluding health)	R0520	1 989 918
Technical provisions calculated as a whole	R0530	0
Best Estimate	R0540	1 826 424
Risk margin	R0550	163 494
Technical provisions - health (similar to non-life)	R0560	453 189
Technical provisions calculated as a whole	R0570	0
Best Estimate	R0580	400 957
Risk margin	R0590	52 232
Technical provisions - life (excluding index-linked and unit-linked)	R0600	12 518 313
Technical provisions - health (similar to life)	R0610	1 675 440
Technical provisions calculated as a whole	R0620	0
Best Estimate	R0630	1 629 831
Risk margin	R0640	45 610
Technical provisions - life (excluding health and index-linked and unit-linked)	R0650	10 842 873
Technical provisions calculated as a whole	R0660	
Best Estimate	R0670	10 585 012
Risk margin	R0680	257 861
Technical provisions - index-linked and unit-linked	R0690	1 521 512
Technical provisions calculated as a whole	R0700	0
Best Estimate	R0710	1 516 033
Risk margin	R0720	5 478
Other technical provisions	R0730	
Contingent liabilities	R0740	13 681
Provisions other than technical provisions	R0750	20 163
Pension benefit obligations	R0760	141 180
Deposits from reinsurers	R0770	126 815
Deferred tax liabilities	R0780	0
Derivatives	R0790	925
Debts owed to credit institutions	R0800	622 201
Financial liabilities other than debts owed to credit institutions	R0810	0
Insurance & intermediaries payables	R0820	152 084
Reinsurance payables	R0830	6 460
Payables (trade, not insurance)	R0840	168 989
Subordinated liabilities	R0850	520 886
Subordinated liabilities not in Basic Own Funds	R0860	0
Subordinated liabilities in Basic Own Funds	R0870	520 886
Any other liabilities, not elsewhere shown	R0880	18 328
Total liabilities	R0900	18 274 644
EXCESS OF ASSETS OVER LIABILITIES	**R1000**	**2 323 229**

7.2. Premiums, claims and expenses by line of business

Non-Life and accepted non-proportional reinsurance

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of Business for: accepted non-proportional reinsurance				
		Medical expense insurance	Income pro-tection insurance	Workers' compen-sation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assis-tance	Miscel-laneous financial loss	Health	Ca-sualty	Marine, aviation, transport	Pro-perty	Total
		C0010	C0020	C003	C0040	C0050	C006	C007	C008	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written																		
Gross - Direct Business	R0110	181 428	59 898	236 792	273 186	194 303	334	242 940	98 200	207	39 937	42 215	11 702					1 381 142
Gross - Proportional reinsurance accepted	R0120	0	0	0	0	0	0	0	0	0	0	0	0					0
Gross - Non-proportional reinsurance accepted	R0130													17	579	0	277	874
Reinsurers' share	R0140	277	236	2 606	1 930	1 015	0	24 461	7 272	0	0	39	0	0	0	0	0	37 835
Net	R0200	181 151	59 662	234 187	271 257	193 288	334	218 480	90 928	207	39 937	42 176	11 702	17	579	0	277	1 344 182
Premiums earned																		
Gross - Direct Business	R0210	181 465	59 556	236 792	273 121	194 637	336	239 777	98 218	207	39 635	42 125	11 802					1 377 672
Gross - Proportional reinsurance accepted	R0220	0	0	0	0	0	0	0	0	0	0	0	0					0
Gross - Non-proportional reinsurance accepted	R0230													17	579	0	277	874
Reinsurers' share	R0240	277	236	2 606	1 930	1 015	0	24 473	7 287	0	0	39	0	0	0	0	0	37 862
Net	R0300	181 188	59 320	234 186	271 192	193 622	336	215 304	90 931	207	39 635	42 086	11 802	17	579	0	277	1 340 684
Claims incurred																		
Gross - Direct Business	R0310	134 520	33 868	217 281	199 554	90 576	3	110 160	74 116	0	12 943	14 648	8 853					896 522
Gross - Proportional reinsurance accepted	R0320	0	0	-15	0	0	0	-1	145	0	0	0	0					129
Gross - Non-proportional reinsurance accepted	R0330													-1 990	131	0	167	-1 693
Reinsurers' share	R0340	83	12	1 692	-5	278	0	14 318	3 047	0	0	0	0	0	0	0	0	19 424
Net	R0400	134 437	33 856	215 575	199 559	90 299	3	95 842	71 214	0	12 943	14 648	8 853	-1 990	131	0	167	875 534
Changes in other technical provisions																		
Gross - Direct Business	R0410	967	0	-1 120	0	0	0	0	0	0	0	0	0					-153
Gross - Proportional reinsurance accepted	R0420	0	0	0	0	0	0	0	0	0	0	0	0					0
Gross - Non-proportional reinsurance accepted	R0430													0	0	0	0	0
Reinsurers' share	R0440	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net	R0500	967	0	-1 120	0	0	0	0	0	0	0	0	0	0	0	0	0	-153
Expenses incurred	R0550	**29 467**	**15 067**	**44 679**	**77 369**	**50 370**	**77**	**68 150**	**29 520**	**34**	**20 059**	**16 641**	**1 440**	**-33**	**144**	**0**	**84**	**353 069**
Other expenses	R1200																	**46 294**
Total expenses	R1300																	**399 364**

Life

		Line of Business for: life insurance obligations						Life reinsurance obligations		
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	Total
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross	R1410	0	1 347 427	339	0	0	0	0	0	1 347 765
Reinsurers' share	R1420	0	0	0	0	0	0	0	1 506	1 506
Net	R1500	0	1 347 427	339	0	0	0	0	-1 506	1 346 260
Premiums earned										
Gross	R1510	0	1 347 427	339	0	0	0	0	0	1 347 765
Reinsurers' share	R1520	0	0	0	0	0	0	0	1 506	1 506
Net	R1600	0	1 347 427	339	0	0	0	0	-1 506	1 346 260
Claims incurred										
Gross	R1610	0	1 391 138	656	0	0	0	0	36	1 391 830
Reinsurers' share	R1620	0	0	0	0	0	0	0	1 373	1 373
Net	R1700	0	1 391 138	656	0	0	0	0	-1 338	1 390 457
Changes in other technical provisions										
Gross	R1710	0	95 728	52 246	0	0	0	0	-17	147 957
Reinsurers' share	R1720	0	0	0	0	0	0	0	-515	-515
Net	R1800	0	95 728	52 246	0	0	0	0	499	148 472
Expenses incurred	R1900	**0**	**44 956**	**5 441**	**0**	**0**	**0**	**0**	**114**	**50 512**
Other expenses	R2500									**2 168**
Total expenses	R2600									**52 680**

7.3. Premiums, claims and expenses by country

Ethias SA's gross written premiums largely exceed 90% of Ethias SA's total gross written premiums only for direct business in Belgium. Hence, the following table gives only the amounts in the country of origin (Belgium).

Non-Life

		Home country C0080
Premiums written		
Gross - Direct Business	R0110	1 325 437
Gross - Proportional reinsurance accepted	R0120	
Gross - Non-proportional reinsurance accepted	R0130	813
Reinsurers' share	R0140	36 298
Net	R0200	1 289 952
Premiums earned		
Gross - Direct Business	R0210	1 321 863
Gross - Proportional reinsurance accepted	R0220	
Gross - Non-proportional reinsurance accepted	R0230	874
Reinsurers' share	R0240	36 325
Net	R0300	1 286 412
Claims incurred		
Gross - Direct Business	R0310	825 684
Gross - Proportional reinsurance accepted	R0320	144
Gross - Non-proportional reinsurance accepted	R0330	-1 827
Reinsurers' share	R0340	23 115
Net	R0400	800 887
Changes in other technical provisions		
Gross - Direct Business	R0410	-153
Gross - Proportional reinsurance accepted	R0420	
Gross - Non-proportional reinsurance accepted	R0430	
Reinsurers' share	R0440	
Net	R0500	-153
Expenses incurred	R0550	**341 166**
Other expenses	R1200	
Total expenses	R1300	

Life

		Home country C0220
Premiums written		
Gross	R1410	1 347 765
Reinsurers' share	R1420	1 506
Net	R1500	1 346 260
Premiums earned		
Gross	R1510	1 347 765
Reinsurers' share	R1520	1 506
Net	R1600	1 346 260
Claims incurred		
Gross	R1610	1 391 830
Reinsurers' share	R1620	1 373
Net	R1700	1 390 457
Changes in other technical provisions		
Gross	R1710	147 957
Reinsurers' share	R1720	-515
Net	R1800	148 472
Expenses incurred	R1900	**50 512**
Other expenses	R2500	
Total expenses	R2600	

7.4. Life and health SLT technical provisions

			Index-linked and unit-linked insurance			Other life insurance						Health insurance (direct business)				
		Insurance with profit participation		Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)		Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
Technical provisions calculated as a whole	R0010	**0**	**0**			**0**			**0**	**0**	**0**	**0**			**0**	**0**	**0**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0020	**0**	**0**			**0**			**0**	**0**	**0**	**0**			**0**	**0**	**0**
Technical provisions calculated as a sum of BE and RM																	
Best Estimate																	
Gross Best Estimate	R0030	10 536 168		0	1 516 033		0	0	48 844	0	12 101 045		0	-149 871	1 779 701	0	1 629 831
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080	0		0	0		0	0	0	0	0		0	0	15 306	0	15 306
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	R0090	10 536 168		0	1 516 033		0	0	48 844	0	12 101 045		0	-149 871	1 764 395	0	1 614 524
Risk Margin	R0100	257 097	5 478			0			764	0	263 339	13 998			31 612	0	45 610
Amount of the transitional on Technical Provisions																	
Technical Provisions calculated as a whole	R0110	0	0			0			0	0	0	0			0	0	0
Best estimate	R0120	0		0	0		0	0	0	0	0		0	0	0	0	0
Risk margin	R0130	0	0			0			0	0	0	0			0	0	0
Technical provisions - total	R0200	**10 793 266**	**1 521 512**			**0**			**49 607**	**0**	**12 364 385**	**-135 873**			**1 811 313**	**0**	**1 675 440**

7.5. Technical provisions non-life

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
Technical provisions calculated as a whole	R0010	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0050	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Technical provisions calculated as a sum of BE and RM																		
Best estimate																		
Premium provisions																		
Gross	R0060	20 719	3 659	24 442	60 192	8 712	28	38 983	1 445	0	9 094	11 330	41 819	0	0	0	0	220 423
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	-282	-116	-774	-1 119	-822	0	-12 901	-4 955	0	0	-24	0	0	0	0	0	-20 993
Net Best Estimate of Premium Provisions	R0150	21 001	3 775	25 216	61 311	9 534	28	51 885	6 400	0	9 094	11 354	41 819	0	0	0	0	241 416
Claims provisions																		
Gross	R0160	56 657	101 516	190 348	756 301	13 130	46	112 905	661 762	0	75 345	3 893	16 552	3 615	13 036	5	1 847	2 006 958
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	506	775	591	19 491	576	0	11 734	95 250	0	1	0	0	0	0	0	0	128 925
Net Best Estimate of Claims Provisions	R0250	56 152	100 741	189 757	736 810	12 554	46	101 171	566 511	0	75 344	3 893	16 552	3 615	13 036	5	1 847	1 878 033
Total Best estimate - gross	R0260	77 377	105 175	214 790	816 492	21 842	73	151 889	663 207	0	84 439	15 223	58 372	3 615	13 036	5	1 847	2 227 381
Total Best estimate - net	R0270	77 153	104 516	214 973	798 121	22 087	73	153 056	572 911	0	84 438	15 247	58 372	3 615	13 036	5	1 847	2 119 449
Risk margin	R0280	9 549	8 353	33 894	41 872	16 296	1 805	36 393	52 522	125	5 446	2 914	3 856	435	1 856	1	409	215 726
Amount of the transitional on Technical Provisions																		
Technical Provisions calculated as a whole	R0290	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Best estimate	R0300	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Risk margin	R0310	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Technical provisions - total																		
Technical provisions - total	R0320	86 925	113 529	248 684	858 364	38 137	1 879	188 281	715 729	125	89 885	18 137	62 228	4 051	14 893	6	2 256	2 443 106
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	224	659	-183	18 372	-246	0	-1 167	90 296	0	1	-24	0	0	0	0	0	107 931
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	R0340	86 702	112 869	248 867	839 992	38 383	1 879	189 448	625 433	125	89 883	18 161	62 228	4 051	14 893	6	2 256	2 335 175

7.6. Non-life insurance claims

Total Non-Life Business

Accident year / Underwriting year

Z0010	AY

Gross Claims Paid (non-cumulative) (absolute amount)

		0	1	2	3	4	5	6	7	8	9	10 & +
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110
Prior	R0100											30 111
N-9	R0160	370 354	181 328	40 692	23 599	15 987	28 453	9 822	11 844	10 648	8 196	
N-8	R0170	371 458	169 163	32 576	13 981	15 232	10 367	8 905	7 236	5 193		
N-7	R0180	377 380	164 315	33 579	20 968	15 335	10 875	10 615	13 619			
N-6	R0190	404 504	179 290	34 348	20 836	15 092	10 369	7 683				
N-5	R0200	404 294	174 526	34 488	19 324	13 345	14 209					
N-4	R0210	419 820	187 743	41 707	22 863	18 556						
N-3	R0220	401 215	212 979	43 270	21 911							
N-2	R0230	438 036	231 906	52 828								
N-1	R0240	450 595	251 340									
N	R0250	360 144										

		In Current year	Sum of years (cumulative)
		C0170	C0180
Prior	R0100	30 111	9 681 666
N-9	R0160	8 196	700 924
N-8	R0170	5 193	634 113
N-7	R0180	13 619	646 686
N-6	R0190	7 683	672 122
N-5	R0200	14 209	660 186
N-4	R0210	18 556	690 689
N-3	R0220	21 911	679 375
N-2	R0230	52 828	722 770
N-1	R0240	251 340	701 934
N	R0250	360 144	360 144
Total	R0260	783 791	16 150 608

Gross undiscounted Best Estimate Claims Provisions (absolute amount)

		0	0	0	0	0	0	0	0	0	0	10 & +
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300
Prior	R0100											293 032
N-9	R0160	0	0	0	0	0	70 675	62 849	66 400	56 698	49 757	
N-8	R0170	0	0	0	0	72 861	65 208	59 526	53 161	47 228		
N-7	R0180	0	0	0	89 470	76 131	79 371	69 408	49 937			
N-6	R0190	0	0	107 181	85 446	73 767	60 047	52 725				
N-5	R0200	0	137 019	103 956	88 523	75 641	60 730					
N-4	R0210	349 321	163 857	135 044	106 091	93 757						
N-3	R0220	327 036	149 877	114 135	95 946							
N-2	R0230	375 493	160 581	124 495								
N-1	R0240	335 679	152 663									
N	R0250	273 487										

		Year end (discounted data)
		C0360
Prior	R0100	296 957
N-9	R0160	50 363
N-8	R0170	47 769
N-7	R0180	50 531
N-6	R0190	53 338
N-5	R0200	61 449
N-4	R0210	94 896
N-3	R0220	97 074
N-2	R0230	125 947
N-1	R0240	154 324
N	R0250	275 521
Total	R0260	1 308 169

7.7. Impact of long term guarantees and transitional measures

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
Technical provisions	R0010	16 482 931	0	0	88 607	0
Basic own funds	R0020	2 741 115	0	0	-66 261	0
Eligible own funds to meet Solvency Capital Requirement	R0050	2 741 115	0	0	-66 261	0
Solvency Capital Requirement	R0090	1 466 207	0	0	8 665	0
Eligible own funds to meet Minimum Capital Requirement	R0100	2 196 300	0	0	-87 568	0
Minimum Capital Requirement	R0110	659 793	0	0	3 899	0

7.8. Equity

Basic own funds and eligible own funds

		Total	Tier 1 - unres-tricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	1 000 000	1 000 000		0	
Share premium account related to ordinary share capital	R0030	0	0		0	
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040	0	0		0	
Subordinated mutual member accounts	R0050	0		0		
Surplus funds	R0070	18 379	18 379			
Preference shares	R0090	0		0		
Share premium account related to preference shares	R0110	0		0	0	0
Reconciliation reserve	R0130	1 031 136	1 031 136			
Subordinated liabilities	R0140	520 886		14 827	506 059	
An amount equal to the value of net deferred tax assets	R0160	170 714				170 714
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180	0	0	0	0	0
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230	0	0	0	0	
Total basic own funds after deductions	R0290	**2 741 115**	**2 049 514**	**14 827**	**506 059**	**170 714**
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300	0			0	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310	0			0	
Unpaid and uncalled preference shares callable on demand	R0320	0			0	0
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330	0			0	0
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340	0			0	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350	0			0	0
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360	0			0	
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370	0			0	0
Other ancillary own funds	R0390	0			0	0
Total ancillary own funds	R0400	**0**			**0**	**0**
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	2 741 115	2 049 514	14 827	506 059	170 714
Total available own funds to meet the MCR	R0510	2 570 401	2 049 514	14 827	506 059	
Total eligible own funds to meet the SCR	R0540	2 741 115	2 049 514	14 827	506 059	170 714
Total eligible own funds to meet the MCR	R0550	2 196 300	2 049 514	14 827	131 959	
SCR	R0580	**1 466 207**				
MCR	R0600	**659 793**				
Ratio of Eligible own funds to SCR	R0620	**186,95%**				
Ratio of Eligible own funds to MCR	R0640	**332,88%**				

Reconciliation reserve

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	2 323 229
Own shares (held directly and indirectly)	R0710	0
Foreseeable dividends, distributions and charges	R0720	103 000
Other basic own fund items	R0730	1 189 093
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	0
Reconciliation reserve	R0760	**1 031 136**
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	R0770	2 679
Expected profits included in future premiums (EPIFP) - Non-life business	R0780	204 009
Total Expected profits included in future premiums (EPIFP)	R0790	**206 688**

7.9. Solvency Capital Requirement - for groups on Standard Formula

Basic Solvency Capital Requirement

		Gross solvency capital requirement	Simplifications
		C0110	C0120
Market risk	R0010	**931 616**	
Counterparty default risk	R0020	**90 981**	
Life underwriting risk	R0030	**270 333**	
Health underwriting risk	R0040	**306 983**	
Non-life underwriting risk	R0050	**462 778**	
Diversification	R0060	**-686 322**	
Intangible asset risk	R0070	**0**	
Basic Solvency Capital Requirement	R0100	**1 376 369**	

Calculation of the solvency capital requirement

		Value
		C0100
Operational risk	R0130	**123 102**
Loss-absorbing capacity of technical provisions	R0140	**-33 264**
Loss-absorbing capacity of deferred taxes	R0150	**0**
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	**0**
Solvency Capital Requirement excluding capital add-on	R0200	**1 466 207**
Capital add-on already set	R0210	**0**
Solvency capital requirement	R0220	**1 466 207**
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	0
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	0
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	0
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	0
Diversification effects due to RFF nSCR aggregation for article 304	R0440	0
Diversification effects due to RFF nSCR aggregation for article 304	R0440	0

Solvency Capital Requirement (USP)

		USP
		C0090
Life underwriting risk	R0030	
Health underwriting risk	R0040	**5**
Non-life underwriting risk	R0050	**8**

Approach to the tax rate

		Yes/No
		C0109
Approach based on average tax rate	R0590	Approach based on average tax rate is not applicable as LAC DT is not used

Calculation of the loss-absorbing capacity of deferred taxes

		LAC DT
		C0130
LAC DT	R0640	
LAC DT justified by reversion of deferred tax liabilities	R0650	
LAC DT justified by reference to probable future taxable economic profit	R0660	
LAC DT justified by carry back, current year	R0670	
LAC DT justified by carry back, future years	R0680	
Maximum LAC DT	R0690	

7.10. Minimum Capital Requirement - Both life and non-life insurance activity

Linear formula component for non-life insurance and reinsurance obligations

		MCR components	
		Non-life activities	Life activities
		MCR(NL, NL) Result	MCR(NL, L)Result
		C0010	C0020
Linear formula component for non-life insurance and reinsurance obligations	R0010	**316 265**	**0**

		Non-life activities		Life activities	
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0030	C0040	C0050	C0060
Medical expense insurance and proportional reinsurance	R0020	77 153	161 379		
Income protection insurance and proportional reinsurance	R0030	104 516	59 639		
Workers' compensation insurance and proportional reinsurance	R0040	214 973	234 187		
Motor vehicle liability insurance and proportional reinsurance	R0050	798 121	271 257		
Other motor insurance and proportional reinsurance	R0060	22 087	193 288		
Marine, aviation and transport insurance and proportional reinsurance	R0070	73	334		
Fire and other damage to property insurance and proportional reinsurance	R0080	153 056	218 480		
General liability insurance and proportional reinsurance	R0090	572 911	90 928		
Credit and suretyship insurance and proportional reinsurance	R0100	0	207		
Legal expenses insurance and proportional reinsurance	R0110	84 438	39 937		
Assistance and proportional reinsurance	R0120	15 247	42 176		
Miscellaneous financial loss insurance and proportional reinsurance	R0130	58 372	11 702		
Non-proportional health reinsurance	R0140	3 615	17		
Non-proportional casualty reinsurance	R0150	13 036	579		
Non-proportional marine, aviation and transport reinsurance	R0160	5	0		
Non-proportional property reinsurance	R0170	1 847	277		

Linear formula component for life insurance and reinsurance obligations

		Non-life activities	Life activities
		MCR(L, NL) Result	MCR(L, L) Result
		C0070	C0080
Linear formula component for life insurance and reinsurance obligations	R0200	34 931	395 626

		Non-life activities		Life activities	
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0090	C0100	C0110	C0120
Obligations with profit participation - guaranteed benefits	R0210			10 400 515	
Obligations with profit participation - future discretionary benefits	R0220			135 654	
Index-linked and unit-linked insurance obligations	R0230			1 516 033	
Other life (re)insurance and health (re)insurance obligations	R0240	1 663 368		0	
Total capital at risk for all life (re)insurance obligations	R0250				10 355 238

Overall MCR calculation

		C0130
Linear MCR	R0300	746 822
SCR	R0310	1 466 207
MCR cap	R0320	659 793
MCR floor	R0330	366 552
Combined MCR	R0340	659 793
Absolute floor of the MCR	R0350	7 400
Minimum Capital Requirement	R0400	659 793

Calculation of the notional amount of the MCR in non-life and in life

		Non-life activities	Life activities
		C0140	C0150
Notional linear MCR	R0500	351 196	395 626
Notional SCR excluding add-on (annual or latest calculation)	R0510	689 490	776 717
Notional MCR cap	R0520	310 270	349 523
Notional MCR floor	R0530	172 372	194 179
Notional Combined MCR	R0540	310 270	349 523
Absolute floor of the notional MCR	R0550	3 700	3 700
Notional MCR	R0560	310 270	349 523

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