Solvency and Financial Condition Report

Ethias SA

31/12/2018

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1. Summary

Ethias SA offers a wide range of Life and Non-Life insurance products to individuals and companies. It has launched a strategic programme aimed at strengthening its position as the n° 1 Direct insurer, the N° 1 Digital insurer and leading leader for Public Bodies.

In 2018, Ethias posted a net result of 170 million euros, up 60% compared to the previous financial year, which was marked by exceptional items, mainly related to the “Switch 7” surrender transaction and the sale of the remaining “FIRST A” portfolio.

The operating result amounts to 177 million euros, generated mainly by the Non-Life insurance business with an operating result of 152 million euros, and 38 million euros for the Life business.

Overall income amounted to 2.7 billion, an increase of 8% compared to 2017. Growth is driven by both Life business with premiums of 1.3 billion (+14%) and Non-Life business with premiums of 1.4 billion (+3.6%). In terms of premium collection for the year 2017, Ethias SA was ranked as 4th insurer in the Belgian market.

During 2018, Ethias paid a total of 268 million euros in dividends, which enabled its shareholder Vitrufin to have sufficient cash to reimburse its senior loan in January 2019.

The solvency of Ethias SA has remained stable in 2018, with a solvency ratio of 181%, compared with a solvency ratio after dividends of 183% in 2017. Ethias SA calculates its solvency level in Solvency 2 using the standard formula, applying the volatility adjustment and the transitional measures "Equity" and "Own Funds". On the other hand, Ethias does not use long-term transitional measures.

Ethias SA's risk profile indicates an exposure mainly to the market risk; in particular to the spread risk, via its portfolio invested mainly in bonds, and to the interest rate risk, because its long-term Life insurance liabilities. In 2018, Ethias continued to control the interest rate sensitivity.

2. Business and performance

2.1. Business

2.1.1. Strategy

In a rapidly changing environment, Ethias has embarked on a programme for revising and reinforcing its strategic fundamentals. This strategic programme aims to strengthen Ethias' position as the n° 1 Direct insurer, the n° 1 Digital insurer and leading insurer for Public Bodies.

Hence, all employees were given the opportunity to express their views on the company's values. The new values (Human - Commitment - Enthusiasm - Customer Satisfaction) reflect the identity and culture of Ethias. They are applied on a daily basis within and outside the company. The mission of Ethias has also been reviewed: "Making insurance easier so as to bring you security, peace of mind and freedom of initiative, with innovative services and products. As partner of your daily life, we put our expertise and our energy at your service." Our advisers, inspectors, prevention officers ... are the main ambassadors of this mission, as partners in our clients' daily lives.

After defining our values and mission, we determined the future to which we aspire: our vision for the future. This vision aims to enrich the customer experience through our range of innovative products and services, our omnichannel distribution model and the continuous innovation in our processes and solutions. It is based on the main themes of mobility, health and ageing.

2.1.2. Business Plan 2019-2023

The company's strategic axes are based on 3 pillars, viz. (i) digital, (ii) direct and (iii) reinforced partnership with public authorities, linked to a constant drive for innovation at the customer's service.

For Private Individuals, we continue the work to make insurance easier and accessible to all, with the strengthening of our position as a direct insurer while maintaining profitable growth in Belgium. The strategic actions focus on 4 axes: (i) CRM (customer relationship management), (ii) omnichanneling, (iii) diversification in the way Ethias supports the client and (iv) excellence in technical management.

For Public Sector clients, our ambition is to decline our position as a multi-product and service insurer in the form of a partnership with local authorities and to pursue development in the corporate and social profit segments. Furthermore, we have the ambition to be an all-round player in first and second pension pillar management.

In a transversal way, the company is engaged in an ambitious plan for technological and organizational transformation.

2.1.3. Dividend payment

At the General Assembly of Ethias SA on 16 May 2018, it was decided to distribute a dividend of 150 million euros to the parent company Vitrufin SA. This dividend was followed by the payment of an interim dividend of 118 million euros, decided at the end of the Board of Directors' meeting of 27 August 2018. These two payments enabled Vitrufin to reimburse its senior loan in January 2019.

2.1.4. Fitch Rating

On 22 January 2019, Fitch upgraded Ethias' rating for Insurer Financial Strength (IFS) from BBB+ (positive outlook) to A- (stable outlook), underlining that the reimbursement of the senior loan of 278 million euros by Vitrufin and the total sale of the remaining "FIRST A" portfolio complete an action plan that has enabled Ethias to reinforce its capitalisation, its financial flexibility and its asset & liability management (ALM).

On 12 June 2018, Fitch confirmed Ethias' BBB+ rating by combining it with a positive outlook (previously stable outlook). This improvement was motivated by the probable reimbursement in January 2019 of the debt issued by Vitrufin as well as by the total sale of the "FIRST A" retail life insurance portfolio, which make Ethias' level of capitalisation, its profitability and its financial flexibility sustainable.

2.1.5. Sale of the remaining FIRST A portfolio

The transaction with Laguna Life (subsidiary of Monument Re) on the "FIRST A" portfolio in run-off was closed in September 2018.

2.1.6. Market conditions in 2018

In 2018, economic news was dominated by political elements, including Donald Trump's statements on China or Iran, the uncertainty surrounding the Brexit, the Italian budget. However, it should be stressed that the slowdown in global growth is also due to structural factors. Indeed, the most fragile emerging economies experienced major difficulties in 2018, and this risk from the emerging countries has accentuated the slowdown in China's activity, the driving force of global economy.

Moreover, even if the United States is still experiencing solid growth, the latest business and consumer survey results in 2018 are not positive and suggest a slowdown in economic activity for 2019. As expected, the Fed raised its key rates four times in 2018, reaching 2.50%. The ECB, for its part, confirmed the end of its net asset purchase programme (QE) from January 2019 onwards. It also left its interest rates unchanged over 2018.

Europe is marked by uncertainties about the outcome of the Brexit.

As regards the financial markets, in this context of mixed macroeconomic figures with persistent political tensions and monetary tightening by central banks, bond yields have experienced considerable volatility.

In fact, the 10-year OLO rate fell from 0.70% at the beginning of January to 1% at the end of February and then gradually declined to a low of 0.63% in July. It finally closed the year at 0.77%.

The German 10-year Bund also rebounded at the beginning of the year, offering a return at its highest at 0.77% before falling to 0.24% at the end of the year (the lowest since April 2017).

For the peripheral countries, performances were disparate. Portugal and Spain benefited from their strong economic performance and positive comments from rating agencies. As a result, their risk premiums went down in 2018.

Italy, following its political and budgetary turbulence, saw its 10-year rate rise to 3.69% (a record since March 2014). The compromise between Rome and Brussels reached in December allowed Italian rates to ease, with the 10-year rate finally ending at 2.74% (+73 bps compared to end-2017).

On the corporate bonds markets, the 5-year iTraxx index - representing the risk premium related to the financing of businesses across all sectors - started the year at 45 bps to end at 88 bps. This widening trend continued throughout 2018, demonstrating the increase in nervousness across the market.

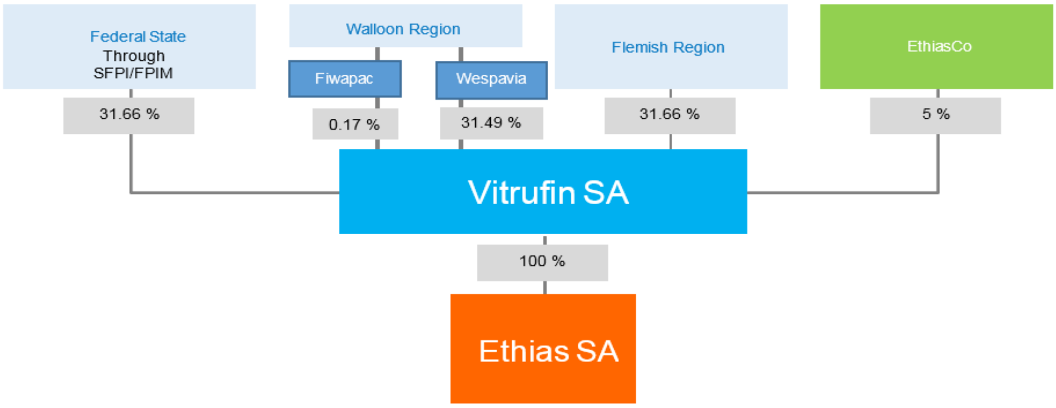
There was no shortage of anxiety-inducing themes for investors in 2018 (protectionism and trade war, Brexit, the Italian budget, etc.) and this is likely to continue in 2019.

Despite a rather good start to the year, 2018 ended in a sharp decline for equity markets in a complicated political context and with an economic outlook that deteriorated throughout the year. The last quarter of 2018 was particularly difficult for equities. In the United States, the S&P Index experienced an upward trend until September 2018, driven by the effects of Donald Trump's tax reform and good figures from the US economy. Then, the indicator suffered a sharp decline against the backdrop of the Sino-American trade war, the Fed's continued rate hikes and US recession expectations for 2020: The S&P finally lost -6.24% over the year 2018. European equity markets experienced the same dynamic, amplified by additional stress factors such as weak European growth, the Italian crisis and the lack of progress on Brexit. : The Euro Stoxx 50 index closed the year at -14.34%. At the level of European sectors, there is a wide dispersion of performance. The worst result was in the banking sector (-33.29%) while the luxury sector had the best performance (+1.89%).

2.1.7. Number of employees

Ethias has gone from 1,799 employees on 31/12/2017 to 1,829 employees on 31/12/2018.

2.1.8. Detailed structure of the Group



Vitrufin SA is a holding company in which the public authorities (Belgian State, Walloon Region and Flemish Region) have acquired interests, accounting together for 95% shares of its capital. Vitrufin owns 100% of the shares of Ethias SA.

Ethias SA is the operational entity of the group since it centralises all Life and Non-Life insurance activities.

Ethias SA is also the sole or majority shareholder of the companies of the Group, such as Ethias Services (services company specialized in pension insurance in particular), Ethias Patrimoine (acquisition and management company for movable and real estate assets), Ethias Sustainable Investment Fund (institutional SICAV under Belgian law), NRB (IT company) and various real estate subsidiaries.

The main purpose of **EthiasCo** is the holding and management of participating interests. Among these, the most important ones are Vitrufin (holding 5% of shares alongside public investors), Socofe and VEH (both active in the energy sector).

2.1.9. Other information

The supervisory authority responsible for the financial control of Ethias SA is the National Bank of Belgium (Boulevard de Berlaimont 14 - 1000 Brussels).

The statutory auditor of Ethias SA is PwC Réviseurs d’entreprises SCRL(Woluwe Garden, Woluwedal 18 - 1932 Sint-Stevens-Woluwe), represented by Kurt Cappoen, accredited auditor.

2.2. Insurance results

The year 2018 records an operating result of 177 million euros. After taking into account non-recurring items, the net result of the year amounts to 170 million euros This net result is 61% higher than in 2017, which was strongly impacted by non-recurring items not repeated in 2018.

Total income amounts to 2,694 million euros, i.e. an increase by 8.5% compared to the 2017 income.

2.2.1. Result of the Non-Life insurance services

The result of Non-Life business amounts to 145 million euros.

Income amounts to 1,382 million euros and grows by 4% compared to 2017. It breaks down as follows between the segments “Private Individuals” and “Public Bodies & Companies”:

- Income for Private Individuals is stable compared to 2017 and amounts to 577 million euros;
- Income for Public Bodies & Companies amounts to 805 million euros and grows compared to 2017 (757 million euros) in particular through the development of brokerage.

Climatic events and an increase in the claims rate have weighed on the net combined ratio, which stands at 96%.

The financial result was penalised by the decline in the stock markets, which has led to the recording of a non-recurring financial charge of 7 million euros.

2.2.2. Result of the Life insurance services

The result of Life business amounts to 37 million euros at end-2018.

Income at end-2018 is up 14% compared to 2017 and amounts to 1,312 million euros, including 55 million euros in Private Individuals and 1,257 million euros in Public Bodies & Companies.

Income in Life Individuals remains stable compared to 2017.

Life income in Public Bodies & Companies exceeds one billion euros and mainly results from the commercialization of Life Insurance products of the 1st pillar (pension insurance) and 2nd pillar (group insurance).

The non-recurring financial result amounts to 1 million euros, resulting from capital gains on asset sales, offset by exceptional impairments following the decline in equity markets.

A provision for profit-sharing of 39 million euros was allocated (versus 33 million euros in 2017), mainly on 1st-pillar ring-fenced funds.

2.3. Investment performance

The net financial income for 2018, included under the investment income and expense items in the *BGAAP* annual accounts, amount to 405 million euros compared with 522 million euros in 2017. They are distributed as follows: 90 million euros in Non-Life, 330 million euros in Life and an expense of 15 million euros in non-technical.

They consist of the following main elements:

In thousands of euros	**2018**	**2017**
Net financial income of investments, without branch 23	410,396	506,308
Recurring	*407,133*	435,116
Non-recurring	*3,264*	71,192
Income related to financial reinsurance	1	28,843
Net financial income of investments in branch 23	33,241	27,967
Financial expenses of loans and other financial payables	-27,439	-28,307
Other income and financial expenses	-10,969	-13,081
Total	**405,230**	**521,730**

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

In thousands of euros	**2018**	**2017**
Bonds	352,255	407,187
Recurring	340,774	*374,553*
Non-recurring	11,481	*32,634*
Shares & participating interests	17,204	51,301
Recurring	34,624	*25,403*
Non-recurring	-17,420	*25,898*
Real estate & loans	48,662	39,206
Derivative instruments	-3,348	11,793
Cash and cash equivalents	-4,377	-3,179
Total	**410,396**	**506,308**

2.4. Performance of other activities

In 2018, the non-technical result before taxes shows a positive contribution of 6 million euros compared to -158 million euros in 2017, when exceptional items, including the cost of the sale of the remaining “FIRST A” portfolio, weighed on the result. Tax expenses of the financial year amount to 18 million euros compared to 4 million euros in 2017.

3. System of governance

3.1. Management structure, remuneration and ownership structure

3.1.1. Corporate 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 Executive 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 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 Executive 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 Executive 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.

In 2018, the Board of Directors sold the “FIRST A” portfolio and distributed an interim dividend of 118 million euros (in addition to the dividend 150 million euros distributed by the General Meeting of May 2018), enabling Vitrufin to reimburse its bond loan.

It then developed a new strategic plan based on 17 missions. Thus, given the challenges of the market, Ethias aims to consolidate its position as:

- No. 1 direct insurer (i) by increasing its market share in Life and Non-Life insurance, and (ii) by reinforcing its attractiveness in view of new consumer habits,
- No. 1 partner of public bodies and
- No. 1 insurer in the digital sector.

Ethias intends to ensure its constant growth and profitability through (i) positioning itself as a key player in mobility, ageing and health, (ii) strengthening its relationship with the public sector, (iii) enhancing the customer experience, (iv) dynamism in its offer, (v) continuous innovation of processes and services, (vi) the positioning of its employees as true Ethias ambassadors and (vii) external growth.

Finally, the Board of Directors has approved its new business plan 2019-2023.

Composition

The Board of Directors has 16 directors, including 4 executive directors, 4 independent directors who meet the criteria of Article 526ter of the Belgian Company Code and 5 women (thus applying, in a voluntary approach, Article 518bis of the Company Code relating to the gender of directors).

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

The maximum age of each director may not exceed 70 years. Any director is deemed to have resigned automatically on the date of his/her 70th birthday.

The term of director is 6 years and is renewable.

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

Periodic evaluation and training

Following the entry into force of circular NBB_2018_25 on the suitability of directors, members of the Executive Committee, heads of independent monitoring functions and effective managers of financial institutions, the Board of Directors annually assesses its size, under the direction of its Chairman, its composition, its performance and that of its committees as well as its interaction with the Executive Committee and the heads of independent monitoring functions.

Commitment of directors

Directors are committed to continually updating their skills and developing their knowledge of the company and of the evolution in the insurance industry.

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 any questions and recommendations made by the external auditor.

Composition

The Audit and Risk Committee is composed of at least three non-members of the Executive Committee, with the majority of them being independent, within the meaning of Article 526ter of the Belgian Company Code (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.

Missions

The Appointments and Remuneration Committee is responsible for:

I) <u>With regard to the appointment of non-executive directors and Executive Committee members</u>

a) to develop and implement the "fit & proper" policy, approved by the Board of Directors, which establishes the processes and criteria that Ethias undertakes to respect in the selection, assessment of the aptitude and training of non-executive directors and members of the Executive Committee;

b) defining the needs and the appropriate profile required for non-executive director and member of the Executive Committee;

c) assessing the individual initial suitability of any candidate for the mandate of non-executive director or member of the Executive Committee as well as the collective expertise assessment of the body concerned in accordance with the “fit & proper” policy. In this respect, expertise criteria are detailed in the competency matrices established and updated by the Appointments and Remuneration Committee.

d) making proposals to the Board of Directors for the appointment of non-executive directors and Executive Committee members;

e) conducting the ongoing assessment, from both an individual and collective point of view, of non-executive directors and Executive Committee members (in the course of their duties or prior to any renewal);

f) making proposals to the Board of Directors for the renewal of non-executive directors and Executive Committee members;

II) <u>with regard to the appointment of the heads of independent monitoring functions</u>

a) developing and implementing the "fit & proper" policy, approved by the Board of Directors, which establishes the processes and criteria that Ethias undertakes to respect in the selection, assessment of the aptitude and training of the heads of independent monitoring functions;

(b) providing an opinion on the framework for assessing the initial suitability of any candidate for appointment as head of an independent monitoring function and for the ongoing assessment of the heads of independent monitoring functions;

c) issuing a reasoned opinion on any candidate for the attention of the Executive Committee;

III) <u>with regard to remuneration</u>

(a) advising the Board of Directors so that the incentives created by the remuneration policy are not such as to lead to excessive risk-taking within the company or to behaviour pursuing interests other than those of the company and its stakeholders;

b) issuing an opinion on the company's remuneration policy;

(c) preparing decisions on remuneration (including those of the heads of independent monitoring functions), including those that have an impact on the risk and risk management of the company and on which the Board of Directors is called upon to decide, taking into account the long-term interests of shareholders, investors and other stakeholders in the company as well as the public interest;

d) ensuring direct supervision of the remuneration allocated to the heads of independent monitoring functions.

Composition

The Appointments and Remuneration Committee is composed of at least 3 non-executive directors, at least one of whom is independent within the meaning of Article 526ter of the Belgian Company Code and is chaired by the Chairman of the Board of Directors.

3.1.1.3. Executive Committee

Missions

(1) The Executive 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 Executive 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) ensuring that all risks are properly identified and managed, (iv) establishing IT control and security mechanisms, and (v) translating the risk appetite framework and general risk management policy defined by the Board of Directors into processes and procedures.

(3) The Executive Committee also sets up also sets up the monitoring and evaluation of the organizational and operational structure for supporting the strategic objectives of the company and including adequate internal control mechanisms. It also implements the framework necessary for the organisation and proper functioning of independent monitoring functions, executes the governance policies defined by the Board of Directors, ensures the correct application of the company's remuneration policy and organises an internal reporting system to establish with reasonable certainty the reliability of financial reporting and prudential reporting.

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

(5) Finally, the Executive Committee is responsible for reporting to the Board of Directors and 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 Board of Directors sets up an Executive Committee of 6 natural persons, four of whom are directors and three of whom are Dutch-speaking and three French-speaking.

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

Internal distribution of tasks

A new organizational architecture was implemented in September 2017 and revised in September 2018.
The internal division of tasks between the members of the Executive Committee was reviewed on this occasion.
Please refer to section 3.4.1.1 of this document for further information.

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 Executive Committee shall organize an annual evaluation of the functioning of the Executive Committee. The evaluation for the year 2018 took place in February 2019.

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 Executive 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 Executive 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 Executive 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 Executive 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 Executive Committee are not covered by the general provisions of the above-mentioned remuneration policy. The principles that apply to them are set out in the remuneration policy validated on 19 December 2018.

Annual collective and individual targets as well as multi-year collective targets for 2019 are to be set in March 2019.

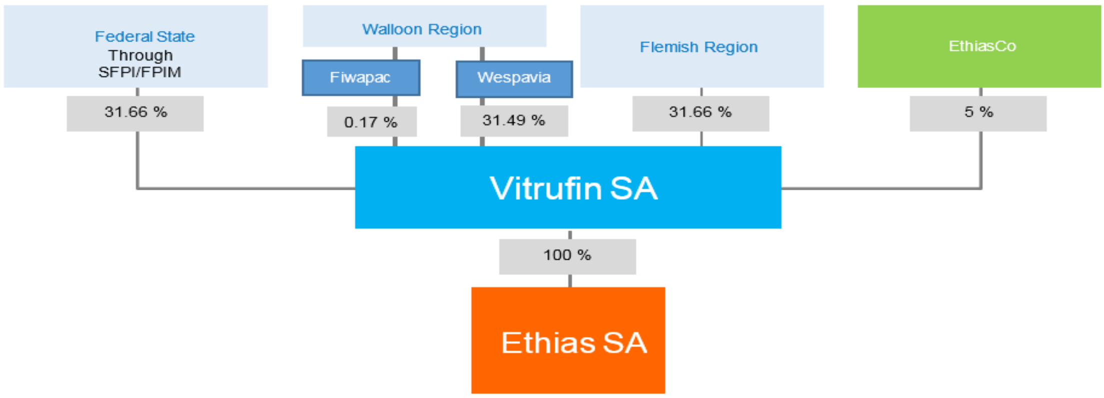
Non-executive directors receive an attendance fee per meeting (when there are several meetings on a single day, the attendance fee is limited to one meeting). An additional annual allowance, in the form of a fixed amount, is also allocated to them. The members of the Audit and Risk Committee as well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

3.1.3. Ownership structure

Structure of the Ethias Group

The Group's legal structure is as follows:



Vitrufin SA is the Group's financial structure, in which the external investors, viz. the Belgian State, the Walloon Region (through Fiwapac SA and Wespavia SA) and the Flemish Region, have taken ownership interests. Vitrufin owns 100% of the shares of Ethias SA.

Ethias SA is the operational entity of the group since it centralises all the insurance activities of the 4 former mutual insurance associations.

It is also the exclusive or majority shareholder of the Group's companies, such as NRB, Ethias Services and Ethias Patrimoine or is present in other companies in which it has interests.

EthiasCo is a limited liability cooperative investment management company (Vitrufin, VEH, Socofe, Ethias Members and Ethias Services) and is a shareholder of the holding company Vitrufin SA alongside public investors.

3.2. Expertise and professional integrity, external functions and transactions with managers

3.2.1. "Fit & proper"

3.2.1.1. Initial assessment of the suitability of the members of the Board of Directors, the Executive Committee and the heads of the independent monitoring functions

On 22 November 2018, the Board of Directors of Ethias established a "fit & proper" policy for non-executive directors and members of the Executive 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 Executive 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 Executive 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 will be detailed in competency matrices to be 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 Executive Committee to carry out this individual assessment of the candidate.

3.2.1.2. Monitoring of the suitability of the members of the Board of Directors, the Executive Committee members and the heads of the independent monitoring functions on an ongoing basis

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 Executive Committee and heads of independent monitoring functions must have at all times the suitability required for the performance of their duties.

3.2.1.3. Other selection criteria for directors

The by-laws of Ethias, as amended on 11 October 2017, stipulate that the Board of Directors is composed of a maximum of 16 members, including 4 Executive Committee members, appointed by the General Assembly.

The by-laws also provide that the Board of Directors has at least 2 independent directors who meet the criteria of Article 526 ter of the Belgian Company Code. The Board of Directors currently has 4 independent directors.

The by-laws also stipulate that the term of director is for a maximum of 6 years and is renewable. The internal regulations of the Board of Directors did not formalize the principle of differentiated periodicity with regard to the renewal of mandates and the appointment of directors. However, this mechanism has been initiated, with the last directors seeing their terms of office expire in 2023 while those of the other non-executive directors expire in 2021 or 2022.

The by-laws of Ethias now provide for an age limit to exercising the term of office of director, set at 70 years.

The policy on the composition of the bodies approved by the Board of Directors on 22 November 2018 also provides that half of the Board of Directors is composed of French-speaking directors and the other half of Dutch-speaking directors. It also specifies that the Chair of the Board of Directors will be a native French speaker if the Chair of the Executive Committee is a native Dutch speaker and vice versa.

Ethias has also voluntarily applied Article 518bis of the Belgian Company Code and has 5 women on its Board of Directors.

3.2.2. External functions and incompatibilities

Pursuant to Article 83 § 3 of the Solvency II law, the Board of Directors adopted, on April 2, 2009, internal regulations governing the exercise of external functions by the Ethias managers. It reviewed them for the last time on December 19, 2018.

These internal rules aim to define the conditions under which external functions may be performed by Ethias' executives, with a threefold objective: to preserve the availability of executives, to prevent the emergence of conflicts of interest related to the performance of external functions and to ensure adequate disclosure of external functions.

The rules recall the faculty of principle for leaders of insurance companies (non-executive directors, members of the Executive Committee and senior managers) to take up mandates or management positions within other industrial, commercial or financial undertakings as well as (ii) the limits to which this possibility is subject.

They define the conditions under which external functions can be exercised by the leaders of Ethias.

3.2.3. Loans, credits or guarantees and insurance contracts to company leaders, shareholders, related institutions and related persons

With regard to information on significant transactions with members of the Executive Committee or of the Board of Directors and with related parties, it should be noted that a member of the Executive Committee has benefited from a policy loan and a mortgage loan.

3.3. Risk management system, ORSA process and risk management function

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.

The purpose is to strike the best possible balance between the objectives and the associated risks, with an excessive risk aversion itself posing a risk, and keeping in mind that, alongside each threat, opportunities do exist. Risk management in general is not an end in itself but rather a means; a tool for managing and controlling risks. Risk controlling actions must be in line with their contribution to the achievement of the company's objectives and culture. In other words, the measures taken must bring real added value and proscribe unnecessary and superfluous supervision.

Therefore, the general risk management process aims at "offering a reasonable assurance with regard to achieving the objectives of the organisation 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 introduction of the following functions: Internal Audit, Compliance, Risk Management and Actuarial Control. 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 organisation 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. Company executives remain responsible for day-to-day risk management and therefore for the implementation of risk-related treatments within their area of expertise, while respecting the limits systems that are set by the company's management. Executing staff members are responsible for compliance with and enforcement of operational procedures. Ethias sees to it that every employee has a suitable understanding of the risks that are likely to threaten the correct fulfilment of the activities he/she is responsible for. Hence, each employee is responsible for the identification and the assessment of the risks that are incurred on an ongoing basis.

Second defence line - Risk supervision

The second defence line includes the control functions of the risk management function (Risk Management), 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 three 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 Executive 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.

This second defence line, which is independent of the first one, maintains a methodological framework and underlying processes that allow the control and the supervision of the implemented risk management structure. In the event of exceeding the risk profile wanted by Ethias, it can intervene at the operational level to initiate changes and to help the first defence line in resolving the problems.

Actuarial expertise is represented at two levels: at the level of the first defence line, i.e. within the operational lines, in order to execute actuarial work serving tariff operations and aspects (e.g. reserve calculation) as well as at the level of the second defence line through the department of Actuarial Control that is answerable to the CRO.

The Charters of Risk Management, Compliance and Actuarial Control, validated by the Executive Committee and approved by the Board of Directors, define the status, objectives, tasks and organization of these functions. Annual reporting to the supervisory authority is addressed in the charters of the various functions.

Finally, to reinforce risk governance, Ethias' Executive Committee sets up committees[1] dedicated to risk management: These committees are advisory and their recommendations are validated by the Executive Committee:

- the Insurance Reinsurance Committee (IRC);
- the Assets and Liabilities Committee (ALCO).

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 Executive Committee. The CRO is present in each committee dedicated to risk management. It was the willingness of the Executive Committee and of the Board of Directors to create "strong committees", so as to set up an effective risk governance within the company. It is also with this aim in view that the responsibilities of each committee have been clearly established by means of internal regulations.

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 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 Executive Committee and the Board of Directors.

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 Executive 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 internal audit charter, validated by the Board of Directors, defines the status, objectives, missions and organization of this function.

3.3.1.3. Typology of risks

Risk typology provides the basis for a common language for all actors involved in the risk management process and provides an explanatory basis for aggregate risk indicators (e.g. solvency level). The typology takes up the risks that the company considers as potentially important. The general risk policy refers to the typology of risks set out below:

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

[1] 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.

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)	

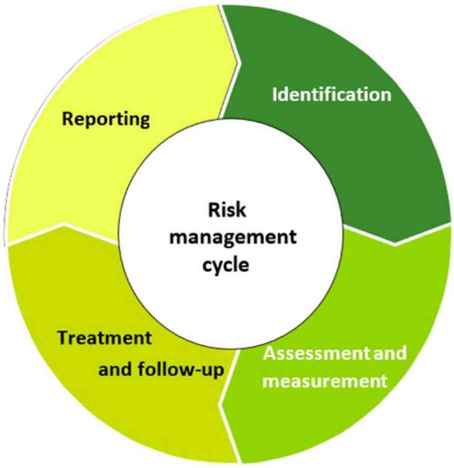
Financial risks		
Market risk	**Counterparty risk**	**Liquidity risk**
Interest rate risk	Downgrade risk	Market liquidity risk
Stock (price) risk	Default risk	Risk of funding liquidity
Real estate assets risk		
Spread risk		
Foreign currency exchange risk		
Concentration risk		

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

Internal and external potential risks that may threaten the activities and thus undermine the achievement of the company's objectives must be clearly identified. It is necessary to identify the trends and events of the past (history of occurrence).

The management, with the assistance of the Risk Management if needed, determines for each of these 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.

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 evaluating operational 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 operational 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.

Each entity is confronted with a multitude of risks, sometimes transverse, affecting different levels of the organization. To properly quantify the risk, it is important to clearly define their causes (risk factors) in order to adequately address the risks as well as their sometimes multiple consequences (cascade impact).

It is important to identify the interdependencies (correlations) between the risks as an identical cause may have different consequences.

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).

The measures to be implemented for major and moderate risks should be defined within an action plan so that their probability of occurrence and/or the extent of potential damage in the event of materialization is within the limits of the risk appetite.

Some mitigating measures in response to risks include e.g. setting up a system of financial limits, underwriting guidelines formalizing the underwriting rules, a scoring taking into account the claims history (on the basis of an insurance certificate issued by the former company), examination of the vehicle subject to cover, the requirement for a copy of the identity card for the subscription of products exposed to money laundering ...

Reporting

Information and communication around the risk management system is essential within a company. Depending on the nature of the pieces of information conveyed, they must to some extent meet confidentiality or transparency requirements.

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 (customers, 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. General and specific risk management policies

General risk management policy

The company's risk management is governed by a general risk policy approved by the Executive Committee and by the Board of Directors.

The general risk policy (approved by the Board of Directors on February 22, 2018) includes:

- the Risk Appetite, which sets the overall tolerance limits for the company,
- the cascading principle of the limits systems,
- the typology of risks and specific policies associated with each risk,
- how the regulatory capital is calculated (standard formula) and the conditions for applying the volatility adjustment,
- how risks are aggregated with each other,
- a brief description of the stress tests and how they can be used to verify compliance with the Risk Appetite limits in relation to the ORSA (which is part of a separate policy),
- the reporting elements,
- the governance system, covering the main responsibilities of the decision-making bodies up to the operational entities.

The limits system is included in a document separate from the general risk policy.

Specific risk policies

The general risk policy is supplemented by a series of specific policies approved by the Executive Committee and by the Board of Directors.

Insurance risks:

- Underwriting and provisioning risk management policy (under development)
- Reinsurance policy (Board of Directors' meeting of 24 January 2018)
- Mortgage credit policy (Board of Directors' meeting of 16 May 2018)

Financial risks:

- Investment risk management policy (Board of Directors' meeting of 16 May 2018)
- ALM policy (Board of Directors meeting of 24 January 2018)
- Liquidity policy (Board of Directors' meeting of 24 January 2018)

Non-financial risks:

- Operational risk management policy (Board of Directors' meeting of 22 March 2018) and related policies:
  - Business continuity policy (Board of Directors meeting of 27 June 2018)
  - General security policy (including Privacy) (Board of Directors meeting of 27 June 2018)
- Concentration risk management policy (Board of Directors' meeting of 27 June 2018)
- Policy on the definition, management and use of quantitative models (MCC of 25 July 2018)

External and environmental risks:

- Strategic and reputation risk management policy (under development)

The risk policies are the direct translation of the decisions by the Board of Directors in terms of risk appetite. The main principles of risk management, as set out in the general risk policy, apply to the specific policies.

Policy review

The company's risk management policies are written / reviewed annually.

3.3.1.6. Risk Appetite and limits

Risk appetite

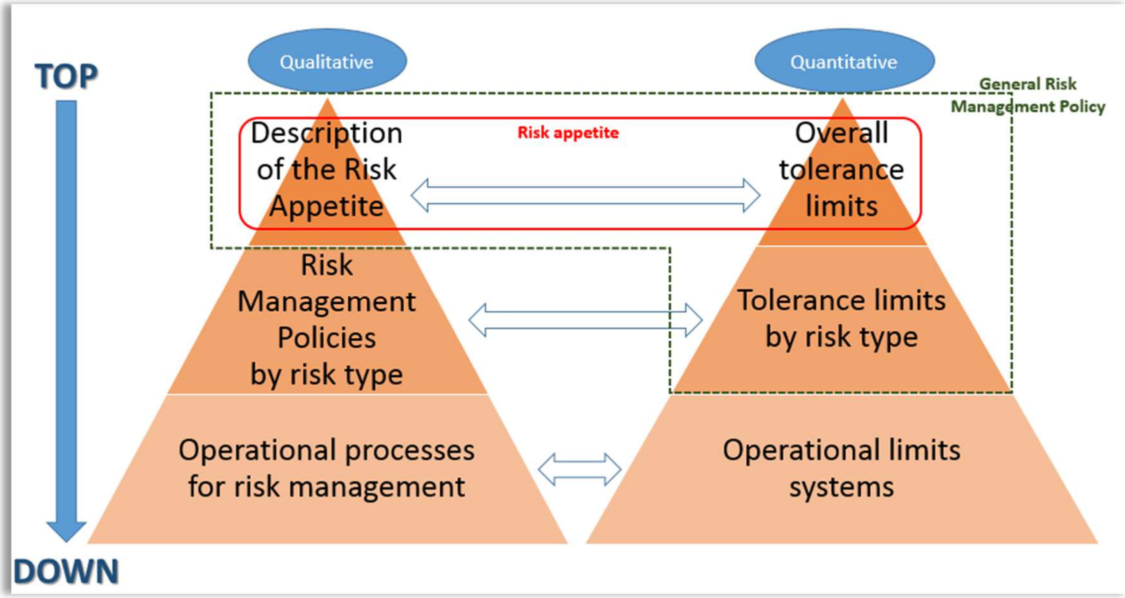
Risk Appetite is the overall level of risk that the company agrees to take to meet its value creation objective. The Risk Appetite is a key strategic indicator of the risk management system. It must enable the company to achieve its strategic objectives while controlling the resulting risks. The company's Risk Appetite and its strategic objectives have to be consistent with each other. The Risk Appetite the responsibility of the Board of Directors. In practice, it is proposed by the CRO, validated by the Executive Committee and approved by the Board of Directors. The risk policies are the direct translation of the board's view in terms of risk appetite. Similar to the strategic objectives that are translated into operational objectives, the Risk Appetite, as it has been approved by the Board of Directors, must also be translated into operational terms by means of policies.

Ethias' risk appetite is structured around four main pillars: solvency, profitability, liquidity and operational excellence, in accordance with its values, laws and regulations.

Axes	Description of the Risk Appetite
Solvency	Ethias measures the impact of its strategic decisions on the evolution of its solvency and takes the appropriate measures so that its regulatory coverage of the Solvency Capital Requirement (SCR) and Minimum Capital Requirement (RCM) complies with the regulations at all times even in case of realization of important stress tests.
Profitability	Ethias maintains a sustainable profitability, ensures profitable growth and controls the volatility of its accounting technical results. Ethias also pays particular attention to the establishment of a cost-control culture.
Liquidity	Ethias seeks to limit its illiquid assets in order to avoid having to sell assets in a crisis situation. Ethias must regularly monitor liquidity indicators and check the quality of its liquidity in stressed scenarios.
Operational Excellence	Ethias relies on risk management governance, which allows for an in-depth analysis of insurance risks, financial risks, reputational risks and operational risks. Ethias continuously optimizes its processes, its IT and operational efficiency as well as its internal control. Ethias also pays particular attention to the regulator's recommendations as well as to the security and continuity risks that could potentially impact the major processes.

Transposition of the Risk Appetite into limits systems

The Risk Appetite is cascaded within the company in order to establish a coherent risk management system from the decision-making bodies up to the level of operational management. This risk management system is based on a set of risk management policies, a set of limits systems and a set of processes for monitoring and reporting risks.



Hence, the description of the risk appetite of Ethias is translated into overall tolerance limits at the level of the company and the Vitrufin group, which are themselves broken down into specific risk tolerance limits, to be validated by the Board of Directors. The system of risk tolerance limits thus defined in line with the Risk Appetite is broken down into operational limits within Ethias, validated by the Executive Committee.

Non-compliance with the global tolerance limits or by type of risk is reported to the Audit and Risk Committee and the Board of Directors, and must be corrected. If necessary, Ethias will apply its Restoration Plan. Non-compliance with operational limits is reported to the governance bodies depending on the Executive Committee and is the subject of operational processes defined in the specific risk management policies.

3.3.1.7. Significant risks over the lifetime of the insurance and reinsurance liabilities and taken into account in the overall solvency requirement

Information on significant risks to which Ethias SA is exposed over the lifetime of its insurance liabilities and how these risks have been taken into account in its overall solvency requirement are set out in the ORSA report.

3.3.1.8. Information on any material risk that the company has identified and that is not fully taken into account in the calculation of the solvency capital requirement

Information on any material risk that the company has identified and which is not fully taken into account in the calculation of the solvency capital requirement is included in the ORSA report (section “Key Risks”).

3.3.1.9. Investment of assets in accordance with the "prudent person principle”

The role of the Asset Management Department is to manage in a profession manner both the premiums generated by the insurance business and any cumulative investment income. To this end, the Head of Asset Management and the internal and external Front Office managers manage and monitor the securities portfolios and invest within a framework that respects the prudent person principle. The organization 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 that would be exercised by a prudent person acting in the same capacity in similar circumstances.

All investments held by Ethias are managed in accordance with this principle. Indeed, compliance with the various criteria set out in Article 132 of the Solvency II Directive is verified for each major asset class and monitored through the various investment policies and corresponding governance bodies. A mapping establishing the link between these criteria and their monitoring within the various governance bodies is reviewed annually.

3.3.1.10.Credit risk

Credit risk related to investments is monitored by the Asset Management department. This monitoring is carried out for all major asset classes by the various investment governance bodies that ensure the application of the various investment policies. The main monitoring elements are formalized in the "credit risk monitoring" section of the "investment management" chapter.

3.3.2. Internal assessment of risks and solvency

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[2] of the ORSA, Ethias' ORSA process is implemented through various processes and sub-processes (capital planning, SCR calculations, 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

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.

Regarding the assessment of the extent to which the risk profile of the organization deviates from the assumptions underlying the SCR calculation, Ethias conducted in 2016 and 2017 an initial analysis of the adequacy or inadequacy of the standard formula to its specific risk profile. In 2018, the scope of the analysis focused on market risks (equity risk, interest rate risk, spread risk (corporates & govies) and real estate risk) and operational risks, 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 Executive 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;

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[2] Assessment of the overall solvency requirement; assessment of the ongoing compliance with the regulatory capital requirements for the coverage of the SCR, the CRM 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.

- 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.

3.3.3. 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. The duties of the Chief Risk Officer and Risk Management are presented below.

3.3.3.1. Tasks and implementation of the risk management function

The tasks of the risk management function are described below.

Tasks of the Chief Risk Officer

Chief Risk Officer

- coordinates the development, the implementation and the maintenance of the risk management, and challenges and monitors the execution of this system.

- establishes the general risk policy and proposes the Risk Appetite as well as the risk tolerance limits, to the Executive Committee, so that the Executive Committee can adequately advise the Board of Directors

- monitors the general risk profile of the company as a whole and implements a detailed, comprehensive and relevant risk reporting for the Executive Committee and the Audit and Risk Committee

- is hierarchically responsible for the three independent second-line control functions: the actuarial function (or "Actuarial Control"), the Risk Management and the Compliance function;

- ensures the transversal coordination of the work and the adequate exchange of relevant information between the three independent monitoring functions, as well as with the Internal Audit;

- advises the Executive Committee and the Board of Directors on risk management issues, including strategic issues such as corporate strategy, M&A transactions and large-scale projects and investments;
- communicates, to the Executive Committee and the Board of Directors on its own initiative or at the request of the Board of Directors, risks that have been identified as potentially significant as well as information on other specific risk areas;
- With regard to quantitative models, chairs the Model Coordination Committee (MCC);
- With regard to risk related committees, the Chief Risk Officer is present in each of the risk management committees. It was the willingness of the Executive Committee and of the Board of Directors to create "strong committees", so as to set up an effective risk governance within the company.

Tasks of the Risk Management Department

Risk Management's main missions are:

- to establish, for the CRO and the Executive Committee, the specific risk management policies and transversal policies included in its scope
- to define, in collaboration with the business line and for the CRO and the Executive Committee, operational limits systems in accordance with the risk tolerance limits;
- to ensure that the risks have been identified and managed by the 1st line, according to the rules and procedures;
- to identify and to assess, in collaboration with the business, emerging risks;
- to measure regulatory capital requirements and internal capital requirements;
- to carry out the second-line control for the valuation of financial assets and liabilities and ALM;
- to coordinate the ORSA exercise (Own Risk and Solvency Assessment) and, in particular, the annual stress testing exercise;
- by means of the Risk Management Committee, to report independently to the Executive Committee on the risk profile of the company and its adequacy with the risk appetite;
- to participate in the decision-making processes of the risk management committees, while maintaining an independent opinion with regard to these committees;
- to assist and advise decision-making bodies, including on strategic matters;
- to increase awareness among all employees and to develop a risk control culture within Ethias;
- to support the first defence line in the implementation of the risk management system and in solving problems;
- to ensure coherence between the different reports sent to the regulator regarding the "risk" aspects as well as aspects such as continuity and IT infrastructure;
- with regard to quantitative models:
- to develop and to operationalize quantitative models of actuarial and financial models, in close collaboration with users;
- to develop the internal quantitative model for measuring capital requirements (the "internal model" as defined by Solvency II): design, implementation and testing of the model, documentary follow-up, performance analysis and related reporting, information to the Executive Committee about the model's performance and elements for improvement, as well as the status of efforts deployed to address identified weaknesses.

The Risk Management’s missions are tailored to the specific needs of the company in order to adapt to the regulatory environment, to the company's evolution and to meet the specific needs of the Executive Committee, with a constant concern for pragmatism and optimization of the skills and resources that are available.

3.3.3.2. Status and organization of the risk management function

Independent monitoring function

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

As such, the risk management function is an essential tool for the company's management to ensure the optimal performance of operational management tasks.

The risk management function, like every activity within Ethias, falls within the scope of internal audit.

Independence

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 Executive Committee. The CRO may also address the Chair of the Executive 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 Executive 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 Executive 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 Executive 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 Executive 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 Executive 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 Executive 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 Executive 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.

3.3.4. Contingency plans

3.3.4.1. Vulnerabilities impacting the financial situation

The company's Restoration Plan is an anticipatory plan which, in the event of a significant deterioration in the financial situation (solvency, profitability, liquidity), "a priori" sets out the corrective actions to be taken, and indicates how they should be carried out, so that the company's solvency can be restored in a sustainable manner.

In accordance with the general risk policy and the ORSA policy, a register of the most important risks is kept up to date. The description of risks includes vulnerabilities that expose the company.

The register of the most important risks is used as a basis for the development of stress test scenarios used in the ORSA. The stress testing exercise in turn allows the updating of the corrective measures included in the restoration plan.

The restoration plan must be realistic, detailed and precise. It involves the Executive Committee, the Board of Directors and shareholders in the implementation of corrective actions according to a timetable determined by the plan.

In the event of non-compliance with the SCR or the MCR, the restoration plan is activated and makes it possible to establish either a recovery plan or a refinancing plan.

3.3.4.2. Discontinuity risk analysis and Business Impact Analysis (BIA)

To establish its emergency plans, Ethias provides itself with the means to carry out an analysis of the discontinuity risks as well as an analysis of the consequences of a serious and unplanned interruption of activities.

Analysis of discontinuity risks

The **identification of the discontinuity risks** based on the various scenarios applicable to its organization, has the aim of examining the possibilities that threats could lead to a serious and unplanned interruption of the company's activities. The scenarios cover the following themes:

- human resources;
- Ethias' premises and infrastructure;
- IT and telecommunications equipment;
- cybercrime and websites;
- blackout;
- pandemic;
- terrorism;

The assessment of discontinuity risks is carried out in accordance with the operational risk management policy. As these are cross-company risks, the level 1 appetence matrix is used to assess the degree of severity of the risks.

BIA

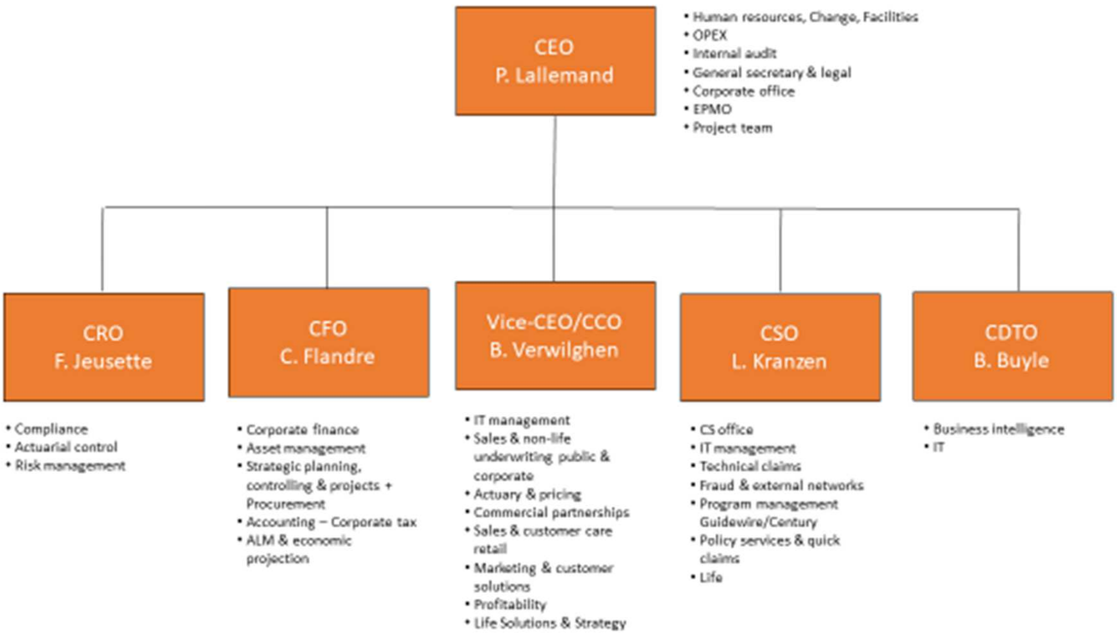
The **Business Impact Analysis** (BIA) is designed to quantify the consequences of the realization of risks of serious and unplanned business interruption, whether with regard to customers, counterparties, markets and staff members, or with regard to the internal services, the financial position or reputation of the institution. This analysis identifies critical activities and resources and their desired degree of resilience.

3.4. Operational structure, internal control system, Compliance function, integrity and ICT infrastructure

3.4.1. Organizational / Operational structure

Following the changes in Ethias' structure, a new organisational architecture has been put in place with the main objectives of greater coherence and efficiency to definitively place the client at the centre of the organisation. In this context, the internal division of tasks between the members of the Executive Committee was also reviewed.

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



The effective management of Ethias is entrusted to an Executive Committee composed of six members: the president and the vice-president of the Executive Committee and four other directors.

Specific areas of competence are assigned to each member.

3.4.2. Internal control system

3.4.2.1. Description of the internal control system and information on key procedures

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;
- 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[3].

Articulated according to the model of the three lines of defence, described in more detail in point 3.3.1.2. 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] Circular NBB_2015_21 of July 13, 2015 concerning the internal control system and the internal audit function.

3.4.3. 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 Executive 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 2018.

3.4.3.1. Positioning of the compliance function

Within Ethias, the CRO, responsible for the risk management function and member of the Executive Committee, is responsible 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.

3.4.3.2. 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 Executive Committee in consultation with the Audit and Risk Committee.

As of December 31, 2018, 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,
- "AssurMiFID" rules of conduct (which have become the “IDD”) aimed at ensuring the protection of users of financial products and services,
- other provisions relating to the protection of the policyholder, information to the customer, advertising, labelling, marketing bans, etc.
- management practices for outsourcing,
- intermediation in insurance and insurance distribution,
- 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.

3.4.3.3. 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 Executive 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 Executive 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.

3.4.3.4. 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 Executive 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 Executive Committee

The Executive 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.

3.4.4. Integrity policy

The integrity policy includes the internal and external rules of conduct that apply to the company's employees and provides a reference framework to guide each of their actions, inspire their choices and bring the company's values to life on a daily basis.

3.4.4.1. Tasks and responsibilities

The Board of Directors takes the initiative to promote integrity in the conduct of activities. It approves the integrity policy and ensures that it is appropriate to the company's activities.

The Executive Committee develops the integrity policy and ensures that all Ethias' members are aware of it and respect it.

The compliance function participates in the development of the integrity policy and in its updating. It also ensures its relevance and adequacy to the activities of Ethias.

All employees adhere to the company's integrity policy and implement it. The management ensures the control of its correct application.

3.4.4.2. Contents of the integrity policy

Ethias' new integrity policy sets out all the rules of conduct in 4 themes:

1) **integrity in the conduct of our business**: this chapter develops rules of conduct relating to the prevention of financial offences (fight against money laundering, financial sanctions, fight against corruption and compliance with tax provisions), free competition, asset management and respect for the environment;

2) **the honest treatment of our insured persons**: this chapter details the rules relating to compliance with the general duty provision (IDD), the protection of personal data and respect for privacy, the prevention and management of conflicts of interest and respect for partners;

3) **integrity in relationships between colleagues and loyalty to the company** and

4) **corporate governance**.

<u>Conflicts of interests</u>

Ethias has a policy on conflict of interest, the latest version of which was approved by the Board of Directors on 17 September 2018.

Certain types of conflicts of interest are governed by specific regulations. Others, on the other hand, are not governed by any specific provisions. In addition, the policy on conflicts of interest has been supplemented by a practical guide for Ethias' managers and employees.

This guide clarifies the notion of "conflict of interest", which may seem abstract and difficult to define. It then explains how to properly supervise them, using 2 approaches:

- prevention, which requires measures to be taken to avoid the emergence of conflict of interest situations and
- to the extent that it is impossible to avoid all situations that may give rise to a conflict of interest, the management of such situations, which requires the implementation of appropriate measures to prevent the conflict from causing damage.

<u>Prevention of money laundering and terrorist financing</u>

AML Governance

In 2018, governance related to the prevention of money laundering was adapted following the entry into force of the new anti-money laundering law. In addition, the CRO has been appointed within the Executive Committee as responsible for the implementation of the above-mentioned legislation and relies on the AMLCO: the head of the compliance function. An anti-money laundering unit has also been set up within the compliance department, which is responsible for analysing first-line monitoring reports, second-line monitoring results and atypical transactions.

Overall risk assessment

In accordance with the law of 18 September 2017 on the prevention of money laundering (ML) and terrorist financing (TF) and the circular NBB_2018_02 "Overall assessment of ML/FT risks", Ethias carried out, in 2018, a first global risk assessment enabling it to identify the ML/FT risks to which it is exposed in the course of its activities and to manage them appropriately. In this context, 69 risk factors were identified and analysed (assessment based on the frequency in the portfolio and the adequacy of existing measures).

AML procedures and monitoring compliance

Ethias has defined and implements procedures to prevent, detect and report suspicious transactions in money laundering or terrorist financing, both in Life Individuals and in Life Public Sector & Companies.

Each year, compliance monitors the main risks, which are the client identification rules, compliance with financial sanctions standards, the follow-up of atypical transactions and the organisation of internal control.

Whistleblowing

While each employee is required to comply with all the rules of conduct contained in the integrity policy, it is also his/her responsibility to report any misconduct he/she notices.

If he/she is encouraged to prefer the usual channels by contacting his/her direct manager or a higher level of management, he/she may also use the internal alert system set up within the company by contacting the head of the compliance function in accordance with the procedures defined by the whistleblowing procedure approved by the Executive Committee on 12 December 2016.

3.4.5. IT Infrastructure and Continuity

3.4.5.1. Description of the principles followed in ICT security, Internet services and Cloud Computing

The general security policy aims to adequately protect the security of the company's activities, services and resources. The policy covers both information security and physical security.

Security management is part of the overall risk management described in the "General Risk Policy" and the "Operational Risk Management Policy". The risk management principles set out in these policies therefore apply to the general security policy.

Given its systemic nature, Ethias pays particular attention to the security of its activities, taking into account:

- its essential role in the financial system and its great societal importance;
- precisely because of its systemic nature and its high visibility and solid reputation, it can be a prime target of malicious people.

Legal and regulatory context

Ethias takes into account the legal requirements as well as the regulatory requirements set by the supervisory authority, mainly:

- National Bank of Belgium’s circulars:
  - NBB_2016_31: Circular relating to the NBB's prudential expectations regarding the governance system for the insurance and reinsurance sector
  - NBB_2015_32: Additional prudential expectations regarding operational business continuity and security of systemically important financial institutions
  - Circular CBFA 2009_17 on sound practices in the management of security risks of Internet transactions and its annex.

More particularly, Ethias as data controller is subject to and therefore must respect:

- Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (GDPR - **G**eneral **D**ata **P**rotection **R**egulation)
- the law on security and protection of critical infrastructures of 1 July 2011

Ethias also complies with the specific requirements of the following entities:

- FSMA (Financial Services and Markets Authority)
- Fedris (Federal Agency for Occupational Risks)
- Sigedis (regulator with respect to individual social data)
- Pensions Services of the Public Sector
- Crossroads Bank for Social Security (BCSS)
- Data Protection Authority
- (…)

The various regulations, circulars or directives are systematically taken into account in the context of information security.

Guiding principles

Ethias' information system includes all the hardware, software, organisational, human and procedural resources that contribute to the acquisition, management, storage, processing, transport, distribution and destruction of information within the organisation.

Information security is defined as the sum of the operations required to guarantee and maintain the information system necessary to conduct business activities.

Ultimately, it is a matter of ensuring that the information can meet the criteria of availability, confidentiality, integrity, compliance and authenticity necessary to conduct business activities.
Information security includes the protection of personal data.

In addition, in order to exercise its monitoring in first and second line of defence, Ethias has decided to rely on a framework called "Information & Cyber Security Resilience Framework" largely inspired by the "cyber security framework" of the NIST[4] security division, which is a reference in this field. This standard is compatible with ISO/IEC 27001.

Within Risk Management, the Security Officer defines a security strategy to meet business needs while maintaining the level of risk within the risk tolerance limits. The Data Protection Officer defines the elements that meet the regulatory requirements of the General Data Protection Regulations (GDPR), in consultation with the Security Officer.

This strategy includes:

- The objectives to be achieved in terms of security, translated into a set of directives adapted to the needs of the company and intended to be pragmatic (directive to control business access, directive to use cloud services, directive to control IT complexity, etc.)
- The measures required to comply with the directives, consolidated in the security plan. These measures are linked to:
  - the **protection** of information and of the information system
  - the **detection** of possible security problems
  - the **response** to security incidents
  - the **restoration** of information system components after an incident.

The security plan contains the planning for the implementation of the measures as well as the capacity requirements. It is steered by the Security Officer and reviewed annually to take into account changes in risks as well as changes in Ethias' objectives and constraints. The Data Protection Officer is responsible for managing actions relating to the protection of personal data.

The various business lines and support departments (IT, Building & HR) are responsible for defining and implementing specific action plans corresponding to the measures included in the security plan, both at the technical and organizational levels. When necessary, certain measures are implemented through specific security projects or projects responding to Ethias' broader needs. Risk Management, as a second line of defence, ensures a control of the adequacy between, on the one hand, the security strategy and directives and, on the other hand, the technical and organisational security measures put in place in the field.

The Security Officer and the Data Protection Officer also ensure that Ethias staff members are made aware of the security and protection of personal data in their respective fields.

This process is based on the security risk analysis and impact assessments for the protection of personal data, which are based on the following information:

- Monitoring of security threats
- Data flow mapping
- IT security architecture files and IT resource inventories
- Personal data processing register
- Identification of Ethias' critical activities
- Business needs
- Register of security incidents or incidents involving personal data
- Regulator requirements

[4] NIST: The National Institute of Standards and Technology is an American institute whose mission is to promote innovation and competitiveness, in particular through the development and use of standards. Their "cyber security framework" standard is widely used by public and private organizations, also outside the United States.

3.4.5.2. Description of the principles in the continuity policy

Objectives

The business continuity policy is intended to ensure that in the event of a serious and unplanned interruption of its activities, the company can maintain or restore its critical or important activities as quickly as possible. The policy also aims to ensure that the company identifies significant risks that need to be addressed by emergency plans covering areas where it considers itself vulnerable, and ensures that these emergency plans are regularly reviewed, updated and tested.

Business continuity management is part of the overall risk management described in the "General Risk Policy" and the "Operational Risk Management Policy". The risk management principles set out in these policies therefore apply to the business continuity policy.

Regulatory context

Ethias takes into account the legal requirements as well as the regulatory requirements set by the supervisory authority, mainly:

- National Bank of Belgium's circulars:
  - NBB_2016_31: Circular relating to the NBB's prudential expectations regarding the governance system for the insurance and reinsurance sector
  - NBB_2015_32: Additional prudential expectations regarding operational business continuity and security of systemically important financial institutions
  - PPB/D.256 (2005): Circular on sound management practices aimed at ensuring the continuity of the activities of financial institutions
- Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (GDPR)
- The specific requirements of the following entities:
  - Fedris (Federal Agency for Occupational Risks)
  - Sigedis (regulator with respect to individual social data)
  - Pensions Services of the Public Sector
  - Crossroads Bank for Social Security (BCSS)

Methodological repository of the continuity approach

Through **Business Continuity Management (BCM)**, Ethias implements processes, procedures and systems that guarantee, in the event of a serious and unplanned business interruption:

- the ability to respond to emergencies and to manage these situations so to protect both clients and staff;
- the maintenance of critical activities or their recovery within a time frame that meets the defined objectives;
- the resumption of normal operations within a time frame that meets the defined objectives;
- the sustainability of the company and the protection of its capital, with its reputation being part of the capital.

Given its systemic nature, Ethias pays particular attention to the continuity of its activities, taking into account:

- its essential role in the financial system and its great societal importance;
- precisely because of its systemic nature and its high visibility and solid reputation, it can be a prime target of malicious people.

Ethias has chosen to base its business continuity management system on the international standard ISO / IEC 22301: 2012. This international standard encourages the adoption of a process-based approach to the establishment, implementation, review and continuous improvement of business continuity management.

3.5. Internal audit function

3.5.1. Missions

The purpose of the internal audit is to provide the Board of Directors and the Executive 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:

- observance of the laws, regulations, rules, procedures and contracts;
- achieving the organization's strategic objectives;
- the reliability and integrity of the financial and operational information;
- the effectiveness and efficiency of the operations and programs;
- 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[5] to enable the internal audit to perform its task.

In this case, the internal audit is involved in advisory activities[6]. 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 judgment of the internal audit. The Executive 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[7] 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

Ethias' internal audit charter, defined as the fundamental law of the auditors, recognises 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 Executive Committee and the Board of Directors.

3.6. Actuarial Function

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

The actuarial control is detached from the operational activity on the hierarchical and organizational level and is thus attached to the CRO. The department is now composed of 6 persons 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.

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[5] By means of including audit clauses in service contracts.

[6] Examples include: formulating an advice, participating in a project or working group on a temporary basis, organizing a training session.

[7] 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.

The head of the actuarial control informs the Executive Committee without delay when he detects a situation which he considers as unusual. He also addresses directly the chairman of the Executive 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 control assesses beforehand his degree of independence for each mission for which he is in charge.

As part of the validation process for the internal model, Ethias assesses the quality and independence of the validation. The validation is managed by the actuarial control but the use of an external validation is possible to ensure the independence.

The charter stipulates that the head of the actuarial control 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 supervisory committee for insurance/reinsurance (which became the IRC or Insurance Reinsurance Committee in 2019).

The key responsibilities of the actuarial control are as follows;

- coordinating the calculation of technical provisions;
- issuing an opinion on the overall underwriting and pricing policy;
- issuing an opinion on the adequacy of the reinsurance arrangements;
- issuing an opinion on the policy of profit sharing and refunds as well as observance of the relevant regulations;
- contributing to the effective implementation of the risk management system;
- 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);
- collaborating in major projects by ensuring internal validation;
- approving the technical elements underlying the valuation of insurance liabilities under IFRS17.

The actuarial control issues a validation report or an independent opinion for each mission, depending on the nature of the mission. These reports are sent to the Executive Committee and contain the recommendations made during the mission. A follow-up of these recommendations is also carried out by the actuarial control.

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 result. It clearly indicates any failures and makes recommendations on how to remedy them.

The "actuarial control" charter details the basic principles, organization, competencies, independence, key responsibilities, missions and reporting of the actuarial control.

This charter was reviewed end-2017 and approved by the Board of Directors in May 2018.

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 2016-31regarding governance.

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 customers 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.

Therefore, Ethias considers as critical or important its "core business" activities aimed at policyholders, the operations that directly participate in their execution as well as the independent monitoring functions, namely:

- core business activities and operations directly participating in their execution:
    - the pricing and design of insurance products,
    - the management of insurance contracts and claims,
    - the management of the portfolio of assets,
    - accounting,
    - the IT development and maintenance operations that directly participate in the execution of these activities and the storage of data.

- the independent monitoring functions:
  - internal audit,
  - compliance,
  - risk management,
  - actuarial function.

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

4.1.1. Definitions

4.1.1.1. Non-Life underwriting risk

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

- premium and reserve risk, which results from fluctuations in the timing, frequency and severity of insured events, the timing and amount of claims payments, and the volatility of expenses incurred in the management of insurance or reinsurance contracts.
- catastrophe risk, which results from the uncertainty related to extreme or exceptional events that may affect the contracts entered into.

4.1.1.2. Health underwriting 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.

SLT Health (Similar to Life Techniques): this module also includes the annuities resulting from Non-SLT Health (Non-Similar to Life Techniques) contracts such as the workers' compensation contracts or Accident contracts. The risks in this category are the same as those under "Life Underwriting Risk", except Catastrophe Risk.

Non-SLT Health (Non-Similar to Life Techniques) includes the following risks:

- premium and reserve risk

  This risk is described in the previous section.
- termination risk resulting from the reduction or surrender of policies.
- catastrophe risk resulting from the significant uncertainty associated with the unusual accumulation of risks that occurs in extreme circumstances.

4.1.1.3. Life underwriting risk

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

- mortality risk
- longevity risk
- disability/morbidity risk
- expense resulting from the volatility of the costs incurred in the management of insurance or reinsurance contracts
- revision risk resulting from the volatility of the revision rates applicable to pensions, as a result of a change in the legal environment or the person's state of health.
- termination risk
- catastrophe risk

4.1.2. Assessment of underwriting risk

Underwriting risks are assessed through the calculation of exposure measures, the sensitivity of the exposure measures to the most important risk factors and through the calculation of the solvency capital required according to the standard formula.

4.1.3. Exposure to underwriting risk

The following table shows the best estimate of the technical provisions by line of business.

In thousands of euros	31-Dec-18	31-Dec-17
Non-life (without health)	1,870,893	1,775,205
Health (similar to non-life)	351,277	317,778
Health (similar to life)	1,394,538	1,389,121
Life (without unit-linked insurance)	9,432,071	10,128,709
Unit-linked insurance	1,182,266	826,446

4.1.4. Concentration of underwriting risk

The insurance and reinsurance activities are concentrated in Belgium.

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 with regard to Public Bodies and Companies.

In terms of activity lines broken down by the Solvency II standard, 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.

4.1.5. Sensitivity to underwriting risk

The table below shows the estimated impact that changes in certain assumptions would have on the amount of Life insurance technical provisions. The variations in the parameters are close to the SCR shocks defined in Solvency II.

In thousands of euros, *solely Ethias SA*	2018	2017
Mortality risk		
Increase by 15 % in mortality	15,051	15,664
Longevity risk		
Increase by 20 % in longevity	- 26,950	- 28,154
Expense risk		
Increase in internal claims handling costs by 10%	- 21,131	- 21,062
Doubling of inflation instead of the base-case inflation vector	- 29,617	- 36,179

4.1.6. Mitigation of underwriting risk

4.1.6.1. 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 bodies for approval (Executive Committee and Board of Directors).

4.1.6.2. 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.).

4.1.6.3. Tariffs

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

4.1.6.4. Reinsurance

The services Non-Life Actuary, Life Actuary and Reinsurance of the Actuary & Pricing department determine the company's reinsurance needs. The treaties are reviewed annually according to the company's underwriting capacities 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 at work, accidents common law, 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 reinsured through the national TRIP pool. Our retention following on the TRIP intervention is also reinsured.

4.2. Market risk

4.2.1. Market risk components

The market risk reflects the risk related to the level or volatility of the value of Ethias' assets and liabilities as a result of the volatility of financial markets.

Furthermore, the market risk reflects in principle the structural mismatch between assets and liabilities, in particular with regard to their duration.

The market risk on financial investments related to unit-linked contracts is assumed by the policyholder. These financial investments are therefore not included in the different analyses presented below.

The market risk includes the following components:

- Interest rate risk
- Credit spread risk
- Stock (price) risk
- Real estate risk
- Foreign currency exchange risk
- Concentration risk on insurance risks

4.2.2. Exposure to market risk

The following tables show the market risk exposure relating to Ethias SA as at 31/12/2018. The exposures are presented by risk module of the standard formula (interest, share, real estate, credit spread, currency) and by asset type. Exposures are given at market value (including accrued interest not yet due).

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-18	31-Dec-17
Interest	14,498,239	14,979,059
Action	960,089	1,035,859
Real estate	329,858	320,271
Spreads	13,928,206	14,897,615
Currency	9,693	13,111
Concentration	15,218,152	16,253,745

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-2017, exposures to the SCR market decreased, mainly as a result of the transfer of Life insurance contracts from the 2nd pillar to branch 23 and the sale of “FIRST A”.

- Exposures to the SCR interest rate declined, particularly exposures in government and corporate bonds.
- Exposures to the SCR spread decreased, which reduced the SCR spread (the rating profile and duration did not change significantly). Exposures subject to the SCR spread with a non-zero charge amounted to around 5,637 million euros in 2018, while in 2017 they amounted to 6,386 million euros.
- Exposures generating a SCR concentration are in the order of 244 million euros in 2018 compared to 330 million euros in 2017.

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.

4.2.3. Exposure to the interest rate risk

The change in interest rates and the significant reduction in the sensitivity of the balance sheet to the interest rate risk in 2017 (as a result of “Switch VII” and the expected exit from the remaining “FIRST A” portfolio) resulted in a reduction in the volume of swaptions in the portfolio during 2018.

	contribution to the SCR interest	
In thousands of euros	with rate hedge at 31/12/2018	with rate hedge to 31/12/2017
fixed income assets	-249,598	-278,939
Forward bonds (purchase)		-1,478
swaptions	-	-12,690
forward starting swaps (interest rate hedging)	-33,533	-46,317
Net impact of spread lock	-622	0
liabilities	407,826	411,427
SCR interest	**124,073**	**72,002**

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

	31-12-2017			31-12-2018		
	Duration assets	Duration liabilities	Duration gap	Duration assets	Duration liabilities	Duration gap
Total Life	6.81	7.96	0.36	6.91	9.04	-0.35
Total Non-Life	4.99	7.55	-0.58	4.93	7.86	-1.25
TOTAL			0.10			-0.63

- The sensitivity of own funds to changes in interest rates is now under control and no longer presents a major risk.
- Actions taken over the past two years have reduced the duration gap in Life.
- The remaining duration gap in Non-Life is related to the long term liability of workers' compensation.

4.2.4. 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 2018**	AAA	AA	A	BBB	BB	B	NR	TOTAL
Government bonds and similar products	409,949	6,221,195	1,016,608	957,547	0	0	88,146	8,693,445
Corporate bonds	0	224,119	1,136,602	1,837,000	117,218	39,206	443,328	3,797,473
Covered bonds	295,167	153,032	56,693	43,408	0	0	0	548,300
Structured bonds	0	36,378	130,932	26,140	0	0	51,328	244,777
Loans	0	14,655	0	0	0	0	250,585	265,240
TOTAL	**705,117**	**6,649,379**	**2,340,834**	**2,864,094**	**117,218**	**39,206**	**833,387**	**13,549,235**

In thousands of euros **to 31 December 2017**	AAA	AA	A	BBB	BB	B	NR	TOTAL
Government bonds and similar products	359,150	6,497,563	975,479	946,763	84,596	0	114,749	8,978,302
Corporate bonds	11,182	251,256	1,127,702	2,068,692	223,569	27,446	516,403	4,226,249
Covered bonds	342,389	102,478	166,973	60,697	0	0	0	672,537
Structured bonds	0	38,490	131,406	26,255	0	0	64,546	260,696
Loans	0	16,730	0	0	0	0	321,222	337,953
TOTAL	**712,721**	**6,906,517**	**2,401,561**	**3,102,407**	**308,165**	**27,446**	**1,016,921**	**14,475,737**

The market value of assets subject to credit risk decreased in 2018 as a result of the overall change in total assets.

The rating distribution has evolved towards an improvement in credit quality; in particular, the BB rating pocket has decreased by more than half.

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 in Belgium remains the largest (more than 50% of sovereign securities exposure). Other exposures are broken down by country, with significant diversification in accordance with the limits set by the company.

In 2018, Ethias invested in countries to which it was not exposed in 2017, namely Finland and Canada.

Country	Market value at 31 December 2018	Market value at 31 December 2017
Belgium	4,485,771	5,025,105
France	1,354,073	1,357,076
Spain	561,147	567,840
Supranational	509,958	360,417
Germany	375,359	323,208
Ireland	360,252	342,651
Italy	307,736	369,110
Poland	159,151	175,679
Austria	127,414	96,047
Slovakia	120,242	106,414
Portugal	93,272	84,596
Slovenia	61,332	52,571
Czech Republic	42,888	46,287
Finland	37,461	0
Lithuania	27,493	5,359
The Netherlands	40,187	42,392
Latvia	11,498	5,424
Mexico	8,083	8,412
Denmark	5,364	5,314
Luxembourg	3,578	3,538
Canada	1,185	0
Romania	0	863
TOTAL	**8,693,445**	**8,978,302**

4.2.5. 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;

4.2.6. Sensitivity to market risk

The following table presents the impacts of each scenario on the solvency ratio[8]:

Stress Test	Impact on the ratio
Spread Corporates +0,50%	7.6%
Shares - 20%	-5.0%
Real Estate - 10%	-3.5%
Spread OLO +0,50%	-15.1%
Spread OAT +0,50%	-6.0%
Interest rates curve -0,50%	-7.5%

The stress on the OLO rate has a high impact due to our high exposure to Belgian 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.

4.2.7. Methods of mitigating market risk

4.2.7.1. 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.

4.2.7.2. 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.

4.2.7.3. Limits in interest rate sensitivities

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

4.2.7.4. Interest rate risk hedging

Several programs 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, contraction of 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 swap 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 hence of equity, to interest rates.

The programme for hedging against lower interest rates is regularly renewed so that protection is in place on a continuous basis; it currently consists of forward bonds, swaptions and forward-starting swaps. The duration gap is currently under control and is between -1 and 1.

[8] These impacts were estimated on the solvency ratio at 30/09/2018, or failing that, at 30/06/2018.

4.3. Counterparty default risk

4.3.1. Definition of counterparty default risk

The credit or counterparty risk reflects possible losses due to unexpected default or deterioration in the credit rating, 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.

4.3.2. Exposure to credit / counterparty risk

Exposures at 31 December 2018 to the counterparty default risk are presented in the following table. The exposures consist of cash, mortgages, most derivatives, receivables or guarantees relating to the funds that Ethias is committed to pay in real estate projects, deposits received from reinsurers.

In thousands of euros	31-Dec-18	31-Dec-17
Exposure to counterparty default	**1,739,306**	**1,621,997**

4.3.3. Methods of mitigating credit / counterparty 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 panel of reinsurers being at least "A" rated (allowing for exceptions) and taking a participation that is generally limited to 25 %.

4.4. Liquidity risk

4.4.1. Definition of 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.

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.

4.4.2. Assessment of liquidity risk

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.

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.

4.4.3. Exposure to liquidity risk

In terms of market liquidity, as at 31 December 2018, 80% of the investment portfolios were composed of liquid assets according to internal criteria.

With regard to funding liquidity, 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 of cash flows 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.

	2018							
		Flux de trésorerie espérés (non actualisés)						
En milliers d'euros *Uniquement Ethias SA*	Valeur comptable	Total des flux non actualisés	Jusqu'à 1an	De 1 à 5 ans inclus	De 6 à 10 ans inclus	De 11 à 20 ans inclus	Plus de 20 ans	Échéance indéterminée
Actifs								
Obligations et titres similaires	13.539.499	14.769.391	1.733.855	4.636.701	2.810.621	3.131.449	2.456.765	0
Participations, actions et fonds d'investissement	1.105.818	1.263.445	35.961	176.378	183.166	385.057	482.883	0
Prêts et dépôts	640.480	1.005.131	88.433	325.858	298.332	219.770	72.737	0
Immobilier de placement	175.023	797.152	16.977	132.710	114.736	265.593	267.136	0
Trésorerie et équivalents de trésorerie	654.896	654.896	535.913	118.983	0	0	0	0
Placements afférents aux contrats en unités de compte	1.171.085	1.233.120	1.233.120	0	0	0	0	0
Instruments dérivés	52.317	20.289	20.289	0	0	0	0	0
Total des actifs	**17.339.118**	**19.743.423**	**3.664.548**	**5.390.630**	**3.406.855**	**4.001.869**	**3.279.521**	0
Passifs								
Passifs relatifs aux contrats d'assurance et	13.178.545	14.274.391	1.616.221	3.859.229	2.493.399	3.489.827	2.815.715	0
Passifs relatifs aux contrats en unités de compte	1.173.222	1.173.222	1.173.222	0	0	0	0	0
Dettes subordonnées	484.037	686.377	24.364	182.974	475.788	3.250	0	0
Auttres dettes de financement	257.852	258.356	258.356	0	0	0	0	0
Instruments dérivés	9.355	0	0	0	0	0	0	0
Total des passifs	**15.103.011**	**16.392.346**	**3.072.163**	**4.042.203**	**2.969.187**	**3.493.078**	**2.815.715**	0

4.4.4. 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.

4.4.5. 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.

4.4.6. 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 255 million euros (divided into 177 million euros in Non-Life and 78 million euros in Life).

4.5. Operational risk

4.5.1. Definition of 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 organisation, 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 organisational levels and processes.

For the sake of optimization, operational risk management includes the following activities:

- operational risk mapping
- feedback of operational incidents
- Statistical analysis of customer complaints
- information security
- business continuity
- operational risk analysis/analysis of the operational risk on projects (including security & continuity)
- protection of personal data
- examination of external fraud trends (second-line defence activities) and monitoring of attacks against the organisation (CEO scam, hacking, etc.)
- protection of personal data.

4.5.2. Assessment of operational risk

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 assessment of operational risks is carried out through various techniques, in particular:

- identification, analysis and monitoring of operational risk; through a mapping of risks related to business activities. These risks have been ranked in terms of frequency/impact and categorized through a self-assessment process followed by assisted evaluation;
- analysing the operational risks (including security, privacy and continuity) on projects;
- tool for information monitoring allowing to follow-up the threats that the company might face;
- vulnerability analyses are also carried out by the risk management department in order to periodically assess the level of security. The results of these analyses are integrated into the mapping;
- analysis of operational incidents, which is designed to identify incidents of a structural nature;
- the examining of trends in external fraud;
- the statistical analysis of customer complaints, which makes it possible to detect potential malfunctions in the organization as part of a quality approach.

Operational risk assessments are reported in the operational risk appetite matrix.

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

4.5.3. Exposure to operational risk

This section focuses on the main operational risks and how they are mitigated.

4.5.3.1. 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 ...

Ethias has obviously taken into consideration the risks associated with growing cybercrime in order to position itself as a leading player in the digital field. This risk is taken into account in the various measures that are implemented to protect the information system of Ethias. 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.

Ethias also wanted to offer a guarantee against the risk of cybercrime to its policyholders and that is why it offers its "Corporate" customers the Ethias Cyber Protection insurance, which provides not only guarantees in terms of liability and system restoration but also prevention and monitoring services.

4.5.3.2. 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.

4.5.3.3. 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

4.5.3.4. 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.

4.5.3.5. Information system security risks

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

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 organisational changes, at the level of the sub-units or the integrality of the information system.

The various measures thus put in place include the following types of measures:

- Detection: measures capable of identifying activities considered as abnormal or suspicious.
- Prevention: measures capable of limiting or preventing the potential impact of security risks.
- Protection: measures capable of preventing successful attacks against information system security.
- Confinement: measures capable of reducing or preventing damages from an infected asset to a “healthy” asset, (quarantine principle).
- Correction: measures able to rectify an infected or deteriorated asset
- Restoration: measures able to make the initial functionalities of the deteriorated system operational again.

4.5.3.6. 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.

In this context, Ethias has

- strengthened its governance in the area of personal data,
- established the data processing register required by the regulations,
- appointed a Data Protection Officer,
- drafted a Privacy Policy,
- adapted Privacy clauses in contracts and claims documents (acknowledgements of receipt, medical questionnaires),
- created and operationalized a procedure for monitoring the requests of the persons concerned,
- strengthened and formalized the obligations of its subcontractors and partners,
- generalised the “Privacy by design” approach in all its IT development and/or operational excellence projects, with the aim of carrying out impact analyses for the most sensitive data processing,
- strengthened the security of its data storage sites,
- strengthened collaboration with its IT subsidiaries in order to define common "best practices",
- improved the procedure for reporting potential privacy incidents and defined notification and communication procedures in the event of a data breach.

Ethias has also paid particular attention to training its staff and raising their awareness of the principles implemented by the GDPR. Thus, the granting in 2018 of a collective bonus to all employees was conditional on the successful completion of a test evaluating knowledge and the appropriation by all of the principles of "privacy" and "security". The success rate of this test was over 90%!

2019 will also be an opportunity for Ethias to offer all its customers - whether individuals, public bodies or companies - innovative solutions that guarantee increased security in their data exchanges via the various IT channels at their disposal.

4.5.4. Concentration of operational risk

4.5.4.1. 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.

4.5.4.2. 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.

4.5.5. 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 risk

<u>Reputational risk</u>

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 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 Control, 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.

<u>Climatic risks</u>

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

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. On a quarterly basis, spot stress tests are performed on the coverage ratio of the SCR. These stress tests are either standardized sensitivity tests or impact tests adapted to the specific risk profile of the company. The inclusion of non-financial risks such as reputational risks, strategic risks, business risks and model risks are also included in these analyses.

5. Valuation for solvency purposes

The table in the appendix to this section shows the Solvency II balance sheet of Ethias SA at end-2017 and at the end of 2018.

5.1. Valuation of assets

5.1.1. Valuation of the financial asset portfolio

5.1.1.1. Differences between the SII and BGAAP valuation principles

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. Also, net unrealized gains or losses arising from the valuation of asset components are generally not taken into account in the financial statements. The valuation rules as they govern the valuations of assets in the financial statements are set out in the annual report of Ethias SA.

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. In this context, Ethias applies the hierarchy for determining the fair value of IFRS 13 for all assets and liabilities for which another IFRS requires, or permits, recognition at their fair value, as well as the presentation in annexe of information on their fair value measurement. The principles of valuation by hierarchical levels are explained below.

In addition to the differences in valuation methods, certain reclassifications are made between the different headings of item C. Investments in the Belgian balance sheet and the major categories of assets presented in the Solvency II economic balance sheet. A significant reclassification relates to accrued interest not yet due on debt securities. These are included in the fair value ("dirty market value") of the asset classes concerned in Solvency II, whereas they are classified as accruals in accordance with Belgian GAAP.

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

Asset class	Difference explanation
Share 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 recognised 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 recognised 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.

5.1.1.2. Distinction between asset categories and risk modules

Financial assets are subject to the Solvency 2 risk modules and sub-modules according to the risks that impact the value of the different asset classes.

This allocation of financial assets to SCRs may differ from the classification by asset category presented in the SII balance sheet. The latter is established according to the CIC classification established under Pillar III of Solvency II.

5.1.1.3. Hierarchical levels of fair value

As part of the follow-up of its asset valuation policy, Ethias classifies the different valuation methods of its assets by hierarchical level of fair value defined in IFRS. This classification assesses the level of observability of the fair values determined for each asset class within the following categories:

- Level 1: Fair value measured by reference to an active market
- Level 2: Valuation methods based on observable market data
- Level 3: Valuation methods not based on observable market data

The definition of these hierarchical levels is detailed in the consolidated financial statements of the Ethias Group established in accordance with IFRS.

The tables below detail the assets by IFRS valuation level at end-2018 and at end-2017.

In thousands of euros **as at 31 December 2018**	Total SII value	Level 1 - Listed prices on an active market	Level 2 - Valuation methods based on observable market data	Level 3 - Valuation methods not based on observable market data
Participating interests	**425,814**	96,467	0	329,348
Equities listed	**436,214**	436,214	0	0
Unlisted equities	**0**	0	0	0
Investment funds	**665,412**	510,646	67,131	87,635
Government bonds	**8,169,691**	7,662,899	506,792	0
Corporate bonds	**4,508,759**	3,844,047	577,278	87,433
Structured notes	**327,669**	21,839	290,831	14,999
Collateralised securities	**0**	0	0	0
Property (other than for own use)	**203,291**	0	0	203,291
Derivatives	**42,962**	0	42,962	0
Deposits other than cash equivalents	**1,145**	0	1,145	0
Assets belonging to unit-linked insurance contracts	**1,173,243**	1,132,681	40,562	
Mortgages to individuals	**364,046**	0	0	364,046
Other loans and mortgages	**265,242**	0	0	265,242
Loans on policies	**25,988**	0	0	25,988

In thousands of euros **as at 31 December 2017**	Total SII value	Level 1 - Listed prices on an active market	Level 2 - Valuation methods based on observable market data	Level 3 - Valuation methods not based on observable market data
Participating interests	**404,743**	117,786	0	286,957
Equities listed	**480,512**	480,512	0	0
Unlisted equities	**0**	0	0	0
Investment funds	**706,159**	551,191	134,782	20,186
Government bonds	**8,625,132**	8,077,809	547,323	0
Corporate bonds	**5,012,947**	4,093,599	816,757	102,592
Structured notes	**247,431**	10,345	237,086	0
Collateralised securities	**0**	0	0	0
Property (other than for own use)	**225,976**	0	10,262	215,714
Derivatives	**2,575**	0	2,575	0
Deposits other than cash equivalents	**5,138**	0	5,138	0
Assets belonging to unit-linked insurance contracts	**810,550**	738,980	71,570	0
Mortgages to individuals	**419,005**	0	0	419,005
Other loans and mortgages	**337,972**	0	0	337,972
Loans on policies	**24,129**	0	0	24,129

In terms of hierarchical levels of market values, the valuation methods for real estate were fully classified in level 3 in 2018. In addition, all private equity investment funds have been reclassified to level 3.

Equities listed on a reference market are classified in level 1 of the fair value hierarchy. Unlisted equities are classified as level 2.

The participating interests representing the Ethias Sustainable Investment Fund are classified as level 1 because the underlying shares are listed.

The vast majority of bond assets are classified as level 1 and these instruments are valued on the basis of a market value observed in active and liquid markets.

A set of instruments are classified in **level 2**. This concerns in particular a number of bonds for which the market value is provided exclusively by an external counterparty. On the other hand, if the market is not able to provide a price in a sufficiently regular manner and on the basis of a sufficient number of contributors, the value obtained is also classified in level 2, considering the absence of contributors in sufficient number as a sign of inactivity on the relevant security. In all cases, the fair value of the various instruments recognised in level 2 is not based on internally determined valuations.

The market value of derivative instruments is provided exclusively by an external counterparty and is classified as **level 2** insofar as it is based on observable market data.

The definition of fair value hierarchy levels is detailed in IFRS 13. In relation to these definitions, Ethias has made a limited number of interpretation choices that have an impact on the classification between the different hierarchical levels:

- **Between level 1 and level 2**: With regard to listed bonds, in order to determine the absence of a consensus on published prices (criterion level 2), Ethias relies on the absence of a generic price determined on the basis of a method owned by our market data provider (Bloomberg) who uses the prices contributed by the various market players.
- **Between level 2 and level 3**: Regarding unlisted bonds or derivatives, Ethias favours the use of prices received from counterparties (level 2) in relation to the price determined by a valuation model. The latter is used to compare, on a sample basis, the valuation obtained by counterparties to internal valuation models.

Within the asset classes of level 3, a number of methodological and calibration options are retained by Ethias. They are summarized below for the major asset classes concerned:

<table>
<tr><th>Asset class</th><th>Methodological and calibration options</th></tr>
<tr><td>Participating interests</td><td>Valuation methods depending on the type of participating interest (revalued net assets, discounted future cash flows, etc.)</td></tr>
<tr><td>Unlisted bonds</td><td>Methodology based on a discounting of estimated future cash flows. Its objective is to determine the various elements constituting the valuation in a consistent manner with respect to the evaluated positions and consistent over time. These elements are mainly:
- Estimate of future cash flows
- Credit spread
- Illiquidity premium</td></tr>
<tr><td>Property</td><td>The valuation method consists in a capitalization in perpetuity of the estimated rental value, by using a rate of return, more or less a series of adjustments. These adjustments take into account a series of items that may have a material impact on valuation, such as rental vacancy periods, rental subsidies, the level of capital expenditures, and so on.</td></tr>
<tr><td>Mortgages to individuals
Other loans and mortgages
Loans on policies</td><td>Methodology based on discounting expected future cash flows, line by line, based on market rates for variable rate loans. All characteristics of individual loans are modelled (cap, floor, rate revision, impairment type ...) to obtain cash flows consistent with the portfolio. The components of this valuation are mainly:
- Future anticipated reimbursement rate
- Risk-free yield curve
- Credit risk premium</td></tr>
</table>

5.1.2. Valuation of other assets

5.1.2.1. Goodwill and intangible assets

Goodwill and intangible assets are not recognised 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 tax

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.

The deferred tax assets are only recognised in order to reduce the temporary differences and the losses carried forward when it is probable that future taxable profits shall allow to compensate these differences and losses and when fiscal losses shall remain available taking into account their origin, the period of their occurrence and their compliance with the legislation on their recovery.

The capacity of Ethias to recover the deferred tax assets is measured through an analysis based on the estimate of its future results (BGAAP). In view of the various uncertainties regarding the results projected in the future, linked in particular to developments in the insurance sector and financial markets, Ethias plans its business plan over a five-year time horizon and reviews the underlying assumptions annually.

Deferred tax assets and liabilities arise mainly from two sources:

- Differences in the valuation of assets
- Differences in the valuation of technical liabilities

In addition, there are deferred tax assets resulting from the valuation of the amount of tax losses.

Ethias, in accordance with the SII regulations, limits the recognition in its equity to deferred tax assets less deferred tax liabilities, up to 15% of the SCR, and expects to recover or pay such taxes as and when temporary differences are realized.

The increase in deferred taxes of 108 million euros is explained by the valuation of the amount of tax losses (75 million euros) and by the deferred tax on the change in SII adjustments.

5.1.2.3. Fixed assets held for own use

The decrease in fixed assets held for own use of 7 million euros is explained by the decrease in the appraised value of buildings of 3 million euros and by the sale of buildings for 4 million euros.

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 increase in these items of 9 million euros is mainly due to the increase in receivables on Non-Life contracts and co-insurance, offset by the decrease in prepaid benefits and brokerage.

5.1.2.5. Other receivables

The increase in other receivables of 20 million euros is mainly explained by the increase in withdrawals from dedicated asset funds, the increase in amounts to be received under the TRIP and RDR agreements and the increase in stock market transactions to be received.

5.1.2.6. Deposits to cedants, cash and cash equivalents, receivables arising from reinsurance operations 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. There is no valuation difference under SII on these asset classes.

The 15 million euros increase is mainly due to the 13 million euros increase in receivables from reinsurers related to the increase in pledged securities deposits following the change in reinsurers' shares of technical provisions.

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-2017 and end-2018, as well as Life technical provisions in the BGAAP financial statements at end-2018.

In thousands of EUR

SII line of business	SII 12/2018	BGAAP	SII 12/2017
Insurances with profit participation	9,385,329	8,322,597	10,086,457
Accepted reinsurance	0	0	2,133
Complementary provisions BGAAP		1,041,278	
TRIP provision		391	
Total Life (without Common Law, unit-linked, index-lined and health)	**9,385,329**	**9,364,266**	**10,088,591**
Insurances with profit participation	46,742	36,636	33,174
Life (excluding health, unit-linked and index-linked)	**9,432,071**	**9,400,902**	**10,121,765**
Index-linked and unit-linked insurance	1,182,266	1,173,222	826,446
Overall Total	**10,614,337**	**10,574,124**	**10,948,210**

In BGAAP, the Life insurance provisions include:

- Mathematical reserves, which are valuated using the prospective method as the difference between the current values of the commitments made by the insurer and those of the commitment made by the insured, or valuated retrospectively. Provisions are calculated according to the technical basis in force at the time of the contract's underwriting, with adjustments that may be made subsequently as a result of any changes to the contracts.
- 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.

It should be noted that a BGAAP Liability Adequacy Test (LAT) has been completed and has not led to any adjustment as the test has shown that the technical provisions are sufficient to meet the insurance commitments. Hence, there is no supplementary item relating to other complementary provisions than those already set out.

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.

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

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.

Certain products may be underwritten as part of a savings plan or a long-term savings plan, which allows the insured person to deduct all or part of his insurance premium tax according to the tax ceilings.

In life Public Sector & Companies, a distinction is made between 1st pillar pension insurance, 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 unmodified segments, the BGAAP accounting reserve will generally be used as Best Estimate.

Branch 21

The modelled life portfolio was segmented into homogeneous lines of business of sufficient size for the use of statistical techniques. This allowed us to make assumptions about redemption, modelling of future decease cover profit-sharing and mortality.

The segmentation was carried out on the basis of the following criteria:

- Type of benefit: death risk, life risk or mathematical reserve
- Type of management: public sector/companies or individual
- Uniformity of the redemption option behaviour
- Financial management of assets: general fund or separate management

The modelling of life liabilities involves projecting the future flows of insurance contracts over a projection horizon of 50 years for most products. At the end of the projection horizon, provisions for contracts not yet due are considered to be released.

The projection of life liabilities flows is carried out in a deterministic way except for the guaranteed rates dependent on market conditions which are stochastic and obtained through an internal Economic Scenario Generator (ESG). As for profit-sharing, it is modelled stochastically.

The Best Estimate is calculated as the net current value of all projected in and out flows.

Special cases:

- The pension insurance segment is subject to differentiated modelling, the liability flows are themselves stochastic by means of inflation and the variable guaranteed rate (calibrated on the basis of the ESG).
- We assume that the evolution in the performance of the financing funds is proportional to the performance of the corresponding policies so as to reduce the evolution in reserves on the basis of the guaranteed rate and the projected premiums.
- For accepted coinsurance - where Ethias is not the leading insurance undertaking - Ethias does not have individualized data (policies and annuities). In order to calculate a Best Estimate, we use a comparable insurance portfolio.

Branch 23

For the products of the individual insurance branch 23, the Best Estimate corresponds to the discounting of the flows determined in accordance with the change in the market value of the unit-linked, on the basis of forward rates of one year, taking into account, if applicable, the applied rate of redemption and the flow of surcharges and overheads.

For the products of branch 23 of group insurance, in 1st pillar, the Best Estimate corresponds, in addition to the market value of the assets, to the discounting of surcharges and overhead flows. In 2nd pillar, we consider that the Best Estimate is equal to the accounting provision.

Branch 26

The products of branch 26 are of the "FIRST insurance account" type, modelled similarly to the FIRST products of branch 21. Since these products are not associated with a natural person but a legal person (with no individual), the flows are not impacted by a mortality factor.

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	not taken into account	taken into account within the limits of the contract boundaries

Mortality tables

Mortality is an important factor for insurance companies who must anticipate it with the greatest accuracy.

Among the factors influencing the mortality of the entire Belgian population, we consider:
- Age: life expectancy decreases with age
- Gender: men's mortality is higher than that of women in our country
- Occupation or working conditions
- Addiction to cigarettes
- Time: mortality evolves over time because of the progress in medicine for example.

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

When calculating the BE, redemptions are modelled according to one of the following three models:
- A deterministic modelling of redemptions based on a constant redemption rate
- A deterministic modelling of redemptions based on a redemption rate that depends on the moment of simulation
- A deterministic modelling of redemptions based on a redemption rate that depends on the moment of simulation and the guaranteed average rate of the contract or underwriting year.

The redemption penalties are currently not modelled, with the exception of the cyclical redemption penalties.

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 years.

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. Commercial surcharges of the FIRST products are calibrated on the basis of the average observed for the different generations of contracts (which contain different surcharges).

In addition, the assets management costs, such as transaction and custodian charges, are also modelled under SII, whereas they do not appear in BGAAP where potential future returns are not taken into account.

Overheads

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

- overhead costs,
- the costs for the protection of branch 21.

The overheads are allocated according to the cut derived from the "Activity Based Costing" analysis in order to obtain it at a more granular level. The purpose of the ABC method is to allocate the total costs borne by the company to each product individually. Costs consist not only of costs proper to the products but also of charges to be apportioned, such as the costs of the buildings.

It should be noted that only costs relating to a run-off mode of operation and within the limits of the contracts under Solvency II are considered.

The annual contribution to the protection fund of branch 21 is calculated on the reserves of the relevant contracts of branch 21: the latter is paid at the beginning of the year (in March) and corresponds to a percentage (0.15%) of the reserves at 30 September of the previous year.

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.

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 the 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 reviewed, it is 0%.

For the 2nd pillar, a pricing policy based on market conditions was established in order to allocate a new guaranteed rate to the extended policies.

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.

Profit-sharing

The actuarial model for the calculation of BEs generates year-on-year the balance sheets and income statements and determines accordingly the amount of the profit-sharing to be allocated, if any, at the end of each financial year when the conditions for granting are met. Similarly, the amount of the tax on profit-sharing is separately identified.

While future life profit-sharing is taken into account in the future cash flows whose discounting generates the amount of the BE, future life profit-sharing is not taken into account in the valuation of 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, all future decease cover profit-sharing is taken into account in terms of future benefit flows.

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, either in terms of new contracts or in terms of additional contributions on existing contracts for which Ethias can review the tariff. 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 first pillar or for certain financing funds or collective funds. 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 not taken into account. Only premiums already received are included in 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.
- Reinsurance is not modelled; an analysis has shown that its impact is non-material on life BEs.
- 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 judgment

The list of expert judgments has been updated on 31 December 2018.

5.2.1.6. Significant changes in assumptions

The significant changes in assumptions or modelling between 31 December 2017 and 31 December 2018 are as follows:

- The modelling of guaranteed rates for extended contracts and group insurance financing funds has been reviewed. A vector of future guaranteed rates is modelled on the basis of 10-year OLO's rates.
- The different calibrations (redemption rate, costs, etc.) have been reviewed.

5.2.1.7. Evolution of Life Best Estimates in 2018

The first important element that influences the value of BEs is the discount rate curve provided by EIOPA. The curve at end-2018 is close to the one of end-2017, a little higher over the next 35 years. However, this effect is partially offset by the use of a floating guaranteed rate, mainly in the first pillar. The curve effect is estimated at 63 million.

A second element concerns the consideration of the legislation (law of 18/12/2015) on supplementary pensions, which makes it necessary to extend some of the commitments in our 2nd pillar portfolio. The contract must be extended if its term age is lower than the legal retirement age, taking into account the time when the pension will be taken (legal retirement age of 65 until 2024, 66 years from 2025 and 67 years from 2030).
Possible periodic premiums for contracts are not extended beyond the initial term age because Ethias has no commitments in this respect beyond that age.

In addition to these two main factors, other modelling changes were made with a relatively neutral impact on Best Estimates at end-2018.

Finally, the different calibrations (redemption rate, etc.) have been reviewed.

5.2.2. Valuation of Best Estimates Non-Life and Health

5.2.2.1. Results

The table below shows, at end-2018, 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 EUR

SII line of business	SII value	BGAAP value
Non-life (without health)	1,870,893	1,849,132
Health (similar to non-life)	351,277	381,656
Non-Life	***2,222,169***	***2,230,788***
Technical provisions Health (similar to Life)	1,441,279	1,596,724
TOTAL without recourse	**3,663,449**	**3,827,512**
Recourse provisions	0	-54,575
TOTAL	**3,663,449**	**3,772,937**

In SII, the BEs are calculated net of recourse (see sections 5.1.9 and 5.1.11) 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 summarizes the amounts recoverable from reinsurance contracts as at 31 December 2018 with the SII balance sheet categories.

In thousands of EUR

SII line of business	Gross technical provisions	Net technical provisions before adjustment	Adjustment	Ceded technical provisions
Non-life (without health)	1,870,893	1,764,965	-1,386	104,542
Health (similar to non-life)	351,277	352,349	-231	-1,303
Non-Life	***2,222,169***	***2,117,314***	***-1,617***	***103,239***
Health (similar to life)	1,441,279	1,422,646	0	18,633
TOTAL	**3,663,449**	**3,539,960**	**-1,617**	**121,872**
Annuities included in Life	46,742	46,742	0	0

In Solvency II, the amounts recoverable from the reinsurance contracts are distinguished in "Non-life (excluding health)", "Health similar to non-life" and "Health similar to life" for a total amount of 122 million euros whereas the shares of reinsurers in the technical provisions of the Belgian balance sheet amount to 143 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. Triangle treatment of benefits/charges and external expenses for atypical claims where the materiality permits, otherwise use of the valuation on a case-by-case basis made by the file manager, multiplied by a coefficient taking into account the implicit inflation resumed in the attritional triangle.

- 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 and administration costs, overheads and investment costs

In order to determine the internal claims handling costs, we apply the New York method based on the assumption of a consumption of a part of the internal management expenses as of the opening of the claim and a consumption of the remaining part of the costs during the course of the claim's management. Calibration of the parameters relating to the consumption is carried out on the data of the Belgian market.

Administration, investment and support costs are determined using a proportion of the expenses in the SII framework. A correction factor is applied in order to take into account a selection of the costs relating to an activity in going concern.

The different types of costs also take into account a future evolution of costs as foreseen in the business plan.

A percentage of the provisions is used to determine the provision for internal claims handling costs in BGAAP.

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 are:

- The BE for reserves "prostheses Work Accidents Law '67" is determined using the accounting reserves as at December 31, 2018.
- The BE for reserves "prostheses Work Accidents Law '71" is determined using the accounting reserves as at December 31, 2018.
- The BE for the Belgian Common Guarantee Fund (FCGB) and the Rating Office is determined using the accounting reserves as at 31 December 2018.
- The BE for non-modelled portfolios (legal expenses) is determined by triangulation.
- The BE for non-modelled portfolios (pecuniary losses) is determined using the accounting reserves as at 31 December 2018.
- The BE for BelRé (accepted reinsurance accepted) is determined using the accounting reserves as of 31 December 2018.
- A specific portfolio (General Liability) is subject to an add-on based on the BGAAP reserves for which we use a Loss Ratio method.
- For non-material atypical IBNR claims not subject to triangulation, we calculate a specific IBNR for these types of claims.
- The BE for MEGA is determined by triangulation or by taking the accounting reserve as at 31 December 2018, depending on the branch.
- The BE for “False Work Accidents”, part “Temporary disability / Medical expenses”, is determined by means of triangulation.
- The BE for the European Commission (LoB Accidents) is determined by triangulation.

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 program, 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.
With regard to work accident annuities: a first layer at the technical rate of 3.75%, 3.25% or 2% depending on the generation of the annuity with an inflation of 3%, 2.5% or 1.25%. The mortality assumptions are tables ED1 or ED2 depending on the type of beneficiary.
With regard to other annuities: we use in BGAAP a technical rate of 3.25% with an inflation of 2%. The mortality assumptions are the tables ED1 or ED2 depending on the indexed character or not.

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 life 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.

The add-ons are:

- The BE for the death reserves in the RSR phase (RSR = Réserve "*Sinistre à régler*" – Reserve "Claims to be settled") are equal to the reserves made on a case-by-case basis by the file manager plus a factor of 3.5% to cover the costs and adjusted by a multiplicative factor in order to get a best estimate view taking into account the discount and inflation rates SII.
- The BE for the reserves "prostheses" is determined by means of the accounting reserves and adjusted by a multiplicative factor in order to obtain a best estimate taking into account the discount and inflation rates SII.
- The amount of the BE for reserves "recourse" is determined using the accounting reserves.
- We observe a time lag between the constitution of the FMR (Final Mathematical Reserve) and the payment of capital to the FAT (Occupational Accidents Fund) with in the frame of the law '71 cases to be transferred. The amount of this capital determined in BGAAP where the problem is also present.
- The annuity projection application takes as data the set of cases with a non-zero PD (permanent disability) rate. However, a delay between the occurrence of the claim and the date of setting the PD rate may be observed. In order to take account of this delay, we calculate an IBNR amount (Incurred But Not Reported) using a Number X average cost method.

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 according to a simplified method based on different parameters:

- For the PFUP (Provision for unearned premiums), the amounts are derived from the accounting data for the year 2018.
- The commission rates come from the budgetary year.
- The acquisition costs are obtained from the accounting data for the year 2018.
- The Combined Ratio is calculated as the sum of the C/P ratio (claims-to-premiums ratio) and the expense rate where:
    - The C/P ratio is an economic ratio calculated by subgroup of homogeneous risks on the basis of the BE of claims at the ultimate per year of occurrence.
    - The expense rate is a reduced cash expense rate so as to take into account only the costs of the contracts in going concern.
- We use a projection model of premiums and exposures developed and calibrated internally to determine the present value of future premiums.
- The cost projection provided for in the business plan is included in the cost calculation.

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. The only difference is to determine an economic C/P ratio net of reinsurance by using the BE of claims at the ultimate per year of occurrence net of reinsurance.

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 calibration method of the IBNRs "Atypicals" has been revised.

The cost parameters have been recalibrated by integrating the observations of the year 2018 and their expected evolution.

Work Accident annuities

The cost have been recalibrated by integrating the observations of the year 2018.

The add-ons for module defaults (indexation, permanent disability rate and 1/3 capital take) have been re-estimated.

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 2018 and their expected evolution.

The projections in the business plan have been taken into account in the calculation of the best estimate of costs.

The economic S/P ratios have been recalculated on the basis of data at end-2018.

5.2.2.8. Evolution of Non-Life and Health Best Estimates in 2018

In thousands of EUR		Technical provisions (SII) 31/12/2017	31/12/2018	Evolution
Technical provisions - non-life (excluding health)	Claims BE	1,578,548	1,705,564	8.0%
	Premium BE	196,658	165,328	-15.9%
		1,775,205	1,870,893	5.4%
Technical provisions - health (similar to non-life)	Claims BE	297,458	311,102	4.6%
	Premium BE	20,320	40,175	97.7%
		317,778	351,277	10.5%
Technical provisions - health (similar to life)	Premium BE	-109,069	-122,853	12.6%
	BE Annuities	1,538,309	1,564,133	1.7%
		1,429,239	1,441,279	0.8%
		3,522,223	3,663,449	4.0%

The evolution between 31/12/2017 and 31/12/2018 of the Non-Life BE is an increase of 4%. This change breaks down as follows:

- Non-Life without Health: 5.4% increase
- Health similar to Non-Life: 10.5% increase
- Health similar to Life: 0.8% increase

The evolution of the BE "Non-life without Health" is strongly influenced by the evolution of the BE claims. This BE is influenced by the unfavourable evolution of certain past claims in the LoBs "Motor Vehicle Liability Insurance" and "General Liability". The year 2018 also saw the occurrence of two meteorological events that influenced the LoB "Fire and other damage to property insurance". The increase is partly offset by the positive development of the BE premium. This change is linked to the methodological change in taking into account the expected change and the discounting of costs.

The evolution of the BE "Non-Life Health Similar to Non-Life" BE comes mainly from the "Workers Compensation" branches for which we observe a deterioration in the claims ratio influencing both the BE claims and the BE premium through the expected future profitability.

The evolution of the BE "Non-Life Health similar to Life" is influenced by the increase in the BE annuities partially offset by a decrease in the BE premium. The BE annuities is marked by a growing portfolio of annuitants offset by a favourable interest rate impact. The BE premium, which exclusively concerns the branch “Health Care Individuals”, is impacted by the methodological change in taking into account the expected evolution of expenses as well as by the positive evolution of the expected loss experience in this branch.

5.2.3. Valuation of the risk margin

The risk margin is an item that does not exist in BGAAP. In Solvency II, it represents the present value of the cost of financing future SCRs related to the insurance business considered in run-off on the portfolio existing at the balance sheet date. It is in addition to the Best Estimates for establishing together the technical provisions. It represents a little over 400 million euros, i.e. an additional 2.9% of the Best Estimates as of December 31, 2018.

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

In thousands of EUR

SII line of business	31-Dec-18	31-Dec-17
Non-life (without health)	173,802	156,691
Health (similar to non-life)	42,598	50,069
Health (similar to life)	32,470	24,753
Life (without index-linked and unit-linked insurance)	154,400	159,138
Index-linked and unit-linked insurance	2,476	2,410
TOTAL	**405,745**	**393,061**

We plan the SCRs of insurance (life, non-life and health) on the life horizon of the underlying insurance products with a maximum of 50 years for Life, but 110 for Non-Life and Health. We assume that the SCRs of each activity evolves proportionately to the Best Estimate of this activity. Then, we apply to each future SCR the discount factor related to its horizon of occurrence, we add the discounted values and multiply the sum by 6% which is the assumption of capital cost. The amount thus obtained is the risk margin per activity.

We note that the activities that require the most risk margin in absolute amounts are, on the one hand, non-life excluding health, due to high initial SCRs, and, on the other hand, life of which the remaining term of the contracts is very long, leading to a capital cost over a significant horizon. In addition, Health requires a risk margin with a lower total amount, but a high relative amount considered as a percentage of the Best Estimate. Indeed, this activity includes multi-year policies in Workers' Compensation, which means that the initial SCR premiums and reserves is high.

A methodological change was incorporated in 2018 concerning the allocation of the Non-Life risk margin. The annuity portion of the SCR Catastrophe Health has been allocated to Health similar to Life rather than Health similar to Non-Life. This has the effect of reducing the risk margin Health similar to Non-Life and increasing the risk margin Health similar to Life.

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 risk margin Life has decreased as a result of the evolution of the BEs Life. The risk margin Non-Life and Health increased mainly due to the increase in the BE claims in Non-Life.

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 increased from 0.04% at end-2017 to 0.24% at end-2018; therefore this parameter now has a greater impact on the solvency ratio: the ratio without this adjustment would be 19% lower (compared to 6% at 31/12/2017).

At the level of the Solvency II balance sheet, the market value of the assets remains unchanged since it does not depend on the rate curve established by EIOPA. On the other hand, discounting the liability flows to a lower rate curve generates a higher Best Estimate of commitments, reducing the available own funds and hence the own funds eligible for capital hedging. The SCR increases with the increase of BEs.

The relative impact (for 1 bp) of the volatility adjustment on the SCR coverage rate is less significant at 31/12/2018 (-0.78%/bp) than at 31/12/2017 (-1.5%/bp), due to the LAC DT which amplified sensitivity in 2017.

The effects of the volatility adjustment at end-2018 are presented in the tables below.

In thousands of EUR	without VA	with VA	delta
Solvency Capital Requirement (SCR)	1,381,989	1,366,346	15,643
SCR eligible equity capital	2,244,876	2,475,337	-230,461
surplus(+) / deficit(-)	862,887	1,108,991	-246,104
SCR coverage rate	**162.44%**	**181.16%**	**-18.73%**

In thousands of EUR	without VA	with VA	delta
Minimum Capital Requirement (MCR)	621,895	614,856	7,039
Eligible equity capital MCR	1,678,261	1,915,135	-236,874
surplus(+) / deficit(-)	1,056,366	1,300,279	-243,914
MCR coverage rate	**269.86%**	**311.48%**	**-41.61%**

5.3. Valuation of other liabilities

5.3.1. Contingent liabilities

The amount of contingent liabilities corresponds to the best estimate of the expense required to extinguish the current obligation at the balance sheet date. There is no valuation difference under SII on these liabilities classes.

The change in contingent liabilities of -5 million euros is mainly explained by the fact that no longer any commitment on the “Century” project is recorded under this item because it is now included in the Best Estimate of costs. This decrease is offset by an increase in a provision related to a litigation.

5.3.2. Provisions other than technical provisions

The amount of the provisions corresponds to the best estimate of the expense required to extinguish the current obligation at the balance sheet date. The estimates are based on the management's judgment complemented by the experience of similar transactions. Provisions are recognised 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.

The provision of 2 million euros recorded in the BGAAP financial statements to cover the cost of hedging derivatives has been cancelled as this is already reflected in the market value of the derivatives.

The decrease of 110 million euros is mainly explained by the use of the provision on “FIRST A” following the conclusion of the portfolio sale transaction.

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.

5.3.4. Deposits from reinsurers

These liabilities are valued at par, both in BGAAP and SII. The increase of 13 million euros is mainly explained by the change in reinsurers' shares of technical provisions.

5.3.5. Debts toward credit institutions

The decrease in the item of 85 million euros is due to the reimbursement of the repos for 118 million euros offset by the increase in the collateral of 34 million euros.

5.3.6. Other debts and other liabilities

The change of -120 million euros is explained by the payment of the 150 million euros dividend to Vitrufin, offset by the increase in supplier invoices (+21 million euros) following the change in payment terms.

5.3.7. Subordinated liabilities

The valuation of subordinated loans changed little in 2018. The slight increase (+1.8 million euros) is due to the decrease in risk-free rates observed in 2018 on the largest loan (402.7 million euros in nominal value) offset by a decrease in the value of the loan of 75 million euros in nominal value in connection with the change in the coupon paid (from a fixed rate of 7.5% to a variable rate of 3.5% in 2018).

5.4. Notes

5.4.1. Comparative S2 balance sheet 12/2017 - 12/2018

En milliers €	**2017**	**2018**	**Variation 2018**
ACTIF			
Intangibles assets	0	**0**	0
Deferred tax assets	95.654	**203.746**	108.092
Property, plant & equipment held for own use	94.295	**87.085**	-7.210
Property (other than for own use)	225.976	**203.291**	-22.685
Holdings in related undertakings, including participations	404.743	**425.814**	21.071
Equities	480.512	**436.214**	-44.298
Government Bonds	8.625.132	**8.169.691**	-455.441
Corporate Bonds	5.012.947	**4.508.759**	-504.189
Structured notes	247.431	**327.669**	80.238
Collective Investments Undertakings	706.159	**665.412**	-40.746
Derivatives	7.443	**52.317**	44.875
Deposits other than cash equivalents	5.138	**1.145**	-3.994
Assets held for index-linked and unit-linked contracts	810.550	**1.173.222**	362.672
Loans and mortgages	781.106	**655.275**	-125.830
Reinsurance recoverables	96.081	**121.872**	25.791
Deposits to cedants	6.130	**6.185**	55
Insurance and intermediaries receivables	152.826	**162.102**	9.276
Reinsurance receivables	91.153	**104.474**	13.321
Receivables (trade, not insurance)	90.102	**109.720**	19.619
Cash and cash equivalents	541.444	**602.928**	61.484
Any other assets, not elsewhere shown	23.737	**24.969**	1.231
TOTAL	**18.498.559**	**18.041.890**	**-456.669**
PASSIF			
Own funds	1.949.329	**1.980.867**	31.538
Best Estimate non-life	1.775.205	**1.870.893**	95.687
Risk Margin non-life	156.691	**173.802**	17.111
Best Estimate health (similar to non-life)	317.778	**351.277**	33.499
Risk Margin health (similar to non-life)	50.069	**42.598**	-7.471
Best Estimate health (similar to life)	1.389.121	**1.394.538**	5.417
Risk Margin health (similar to life)	24.753	**32.470**	7.717
Best Estimate life (excluding health and index-linked and unit-linked)	10.128.709	**9.432.071**	-696.638
Risk Margin life (excluding health and index-linked and unit-linked)	159.138	**154.400**	-4.738
Best Estimate index-linked and unit-linked	826.446	**1.182.266**	355.820
Risk Margin Technical provisions – index-linked and unit-linked	2.410	**2.476**	65
Contingent liabilities	27.369	**22.724**	-4.645
Provisions other than technical provisions	131.559	**21.790**	-109.769
Pension benefit obligations	174.170	**180.921**	6.751
Deposits from reinsurers	103.001	**114.403**	11.402
Deferred tax liabilities	0	**0**	0
Derivatives	4.868	**9.355**	4.488
Debts owed to credit institutions	342.863	**257.852**	-85.011
Insurance & intermediaries payables	124.423	**122.646**	-1.777
Reinsurance payables	4.428	**6.276**	1.848
Payables (trade, not insurance)	303.832	**183.930**	-119.903
Subordinated liabilities in Basic Own Funds	501.791	**503.603**	1.812
Any other liabilities, not elsewhere shown	606	**734**	128
TOTAL	**18.498.559**	**18.041.890**	**-456.669**

5.4.2. Balance sheet SII versus BGAAG 12/2018

En milliers €	SII	BGAAP	SII - BGAAP
ACTIF			
Intangibles assets	0	**131.958**	-131.958
Deferred tax assets	203.746	**0**	203.746
Property, plant & equipment held for own use	87.085	**70.592**	16.493
Property (other than for own use)	203.291	**179.203**	24.088
Holdings in related undertakings, including participations	425.814	**357.724**	68.090
Equities	436.214	**374.166**	62.048
Government Bonds	8.169.691	**7.527.984**	641.707
Corporate Bonds	4.508.759	**4.317.661**	191.098
Structured notes	327.669	**298.175**	29.494
Collective Investments Undertakings	665.412	**650.867**	14.545
Derivatives	52.317	**0**	52.317
Deposits other than cash equivalents	1.145	**1.145**	0
Assets held for index-linked and unit-linked contracts	1.173.222	**1.173.222**	0
Loans and mortgages	655.275	**639.335**	15.940
Reinsurance recoverables	121.872	**142.604**	-20.733
Deposits to cedants	6.185	**6.185**	0
Insurance and intermediaries receivables	162.102	**216.677**	-54.575
Reinsurance receivables	104.474	**104.474**	0
Receivables (trade, not insurance)	109.720	**109.720**	0
Cash and cash equivalents	602.928	**602.928**	0
Any other assets, not elsewhere shown	24.969	**24.969**	0
TOTAL	**18.041.890**	**16.929.590**	**1.112.300**
PASSIF			
Own funds	1.980.867	**1.180.534**	800.333
Best Estimate non-life	1.870.893	**1.849.132**	21.761
Risk Margin non-life	173.802	**0**	173.802
Best Estimate health (similar to non-life)	351.277	**381.656**	-30.379
Risk Margin health (similar to non-life)	42.598	**0**	42.598
Best Estimate health (similar to life)	1.394.538	**1.622.759**	-228.221
Risk Margin health (similar to life)	32.470	**0**	32.470
Best Estimate life (excluding health and index-linked and unit-linked)	9.432.071	**9.402.847**	29.224
Risk Margin life (excluding health and index-linked and unit-linked)	154.400	**0**	154.400
Best Estimate index-linked and unit-linked	1.182.266	**1.173.222**	9.044
Risk Margin Technical provisions – index-linked and unit-linked	2.476	**0**	2.476
Contingent liabilities	22.724	**22.724**	0
Provisions other than technical provisions	21.790	**23.861**	-2.071
Pension benefit obligations	180.921	**98.037**	82.884
Deposits from reinsurers	114.403	**114.403**	0
Deferred tax liabilities	0	**3.665**	-3.665
Derivatives	9.355	**0**	9.355
Debts owed to credit institutions	257.852	**257.852**	0
Insurance & intermediaries payables	122.646	**122.646**	-0
Reinsurance payables	6.276	**6.276**	0
Payables (trade, not insurance)	183.930	**183.930**	-0
Subordinated liabilities in Basic Own Funds	503.603	**485.313**	18.289
Any other liabilities, not elsewhere shown	734	**734**	0
TOTAL	**18.041.890**	**16.929.590**	**1.112.300**

6. Capital management

6.1. Own funds

6.1.1. Breakdown of available own funds

In thousands of euros	31-Dec-18	31-Dec-17
Tier 1 unrestricted	1,777,121	1,735,675
Tier 1 restricted	15,043	15,115
Tier 2	488,560	486,675
Tier 3	203,746	95,654
TOTAL	**2,484,469**	**2,333,120**

At end-2018, 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 equity increased between 2017 and 2018, mainly due to the increase in deferred taxes following the valuation of tax latencies.

In 2018, Ethias SA paid Vitrufin dividends for an amount of 268 million euros, providing Vitrufin with the necessary cash to reimburse its senior loan in January 2019.

6.1.2. Breakdown of eligible own funds to meet the solvency capital requirement

In thousands of euros	31-Dec-18	31-Dec-17
Tier 1 unrestricted	1,777,121	1,735,675
Tier 1 restricted	15,043	15,115
Tier 2	488,560	486,675
Tier 3	194,613	95,654
TOTAL	**2,475,337**	**2,333,120**

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

At end-2018, available Tier 1 and Tier 2 capital is fully eligible for SCR coverage.

However, Tier 3 own funds are not fully eligible because the sum of the available Tier 2 and Tier 3 own funds exceeds the 50% limit of the SCR. Consequently, among the available Tier 3 own funds, an amount of 9 million euros is not eligible for SCR coverage.

As a reminder, at end-2017, no eligibility limits were affected.

6.1.3. Coverage of the Solvency Capital Requirement

The coverage ratio remained relatively stable. The slight decrease is due to the increase in the SCR, which was not fully offset by the increase in eligible own funds.

In thousands of euros	31-Dec-18	31-Dec-17
Solvency Capital Requirement	1,366,346	1,271,882
Eligible own funds to meet the SCR	2,475,337	2,333,120
Coverage rate	**181.16%**	**183.44%**

As a reminder, the sale of the remaining “FIRST A” portfolio, which was completed in September 2018, had already been included in the solvency valuation at end-2017.

As of December 31, 2017, the coverage rate was also positively impacted by the LAC DT (Loss Absorbing Capacity of Deferred Taxes), which contributed 15% to the ratio. At end-2018, the increase in the deferred tax balance on the assets side of the balance sheet meant that the LAC DT became nil, leading to an increase in the SCR.

6.1.4. Breakdown of eligible basic own funds to meet the minimum capital requirement

In thousands of euros	31-Dec-18	31-Dec-17
Tier 1 unrestricted	1,777,121	1,735,675
Tier 1 restricted	15,043	15,115
Tier 2	122,971	114,469
TOTAL	**1,915,135**	**1,865,260**

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-2017 and at end-2018.

6.1.5. Coverage of the minimum capital requirement

In thousands of euros	31-Dec-18	31-Dec-17
Minimum Capital Requirement	614,856	572,347
Eligible own funds to meet the MCR	1,915,135	1,865,260
Coverage rate	**311.48%**	**325.90%**

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-2017 and at end-2018 to a value higher than this interval, it is limited under this provision to 45% of the SCR. However, the SCR increased in 2018 (+94 million euros); this increase therefore has a proportional impact on the MCR (+43 million euros).

6.1.6. Differences between the own funds in BGAAP and the available own funds 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 504 million euros).

In thousands of euros	31-Dec-18	31-Dec-17
Accounting own funds	1,174,156	1,122,296
Fund for future appropriations	6,379	7,729
Financial asset gains	974,507	1,337,473
Revaluation technical liabilities	-365,365	-592,179
Other liabilities	487,384	359,266
Deferred taxes	207,410	98,535
SII own funds	**2,484,469**	**2,333,120**

6.2. SCR & MCR

6.2.1. Solvency capital requirement (SCR) and minimum capital requirement (MCR)

In thousands of euros	31-Dec-18	31-Dec-17
Solvency Capital Requirement (SCR)	1,366,346	1,271,882
Minimum Capital Requirement (MCR)	614,856	572,347

The SCR and the MCR are evaluated according to the standard formula. At end-2017 as at end-2016, the MCR reached the ceiling of 45% of the SCR.

6.2.2. Solvency capital required per risk module

In thousands of euros	31-Dec-18	31-Dec-17
Market risk	781,282	854,215
Default risk of the counterparties	141,741	114,060
Life underwriting risk	162,454	167,490
Health underwriting risk	274,075	298,267
Non-Life underwriting risk:	572,555	528,829
Diversification	-650,026	-649,568
Intangible asset risk	0	-
Basic Solvency Capital Requirement	1,282,081	1,313,293
Operational risk	116,438	115,410
Absorbing capacity of technical provisions	-32,173	-46,446
Loss-absorbing capacity of deferred taxes	0	-110,375
Solvency Capital Requirement	**1,366,346**	**1,271,882**

At end-2018, the total SCR stands at 1,366 million euros, composed in descending order of importance by the SCR market, Non-Life, health, Life, default and operational. The order is almost identical at end-2017, except for the last 2 which were reversed.

The SCR increased by 94 million euros, or +7.4%, in 2018; this is the result of several movements in both directions:

- The SCR for market risks decreased by nearly 9%.

  - The SCR spread decreased by 65 million euros as a result of lower exposures in corporate bonds and loans.
  - The SCR share also decreased as a result of the decrease in the symmetrical adjustment (from 1.9% to -6.34%) which reduced the capital charge, and as a result of the decrease in exposure to listed shares (caused by the decrease in the market value of the shares and by sales of shares).
- The SCR for counterparty default risks has increased partly because exposures have increased and partly because of methodological changes.
- The decrease in the SCR for Life underwriting risks is in line with the decrease in Life insurance Best Estimates.
- The decrease in the SCR for health underwriting risks is attributable to the SCR catastrophe health which decreased following the change in our greatest concentration risk.
- The SCR for Non-Life underwriting risks has increased because the amounts insured for Fire have increased. In addition, the increase in the BE claims was reflected in the SCR premiums and reserves.
- The SCR for operational risks has increased as a result of the increase in the BEs Non-Life.
- Diversification between the SCRs has remained stable.
- The adjustment effect of the profit-sharing on capital requirements amounts to 32 million euros at end-2017 compared to 46 million euros at end-2017, as stock price shocks were higher at end-2018.
- At end-2018, the recognition on the asset side of the S2 balance sheet of additional deferred taxes related to a tax dispute no longer makes it possible to value the absorbing capacity of deferred taxes.

The following sections detail the evolution of SCRs by risk module.

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

Ethias SA does not use company-specific parameters.

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 solvency capital requirement

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 Minimum Capital Requirement and non-compliance with Solvency Capital Requirement

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, 2018.

7.1. Balance sheet

(In thousands of EUR)		Solvency II value
		C0010
Assets		
Intangible assets	R0030	-
Deferred tax assets	R0040	203.745,61
Pension benefit surplus	R0050	-
Property, plant & equipment for own use	R0060	87.084,94
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	14.790.312,32
Property (other than for own use)	R0080	203.290,84
Holdings in related undertakings, including participations	R0090	425.814,27
Equities	R0100	436.214,44
Equities listed	R0110	436.214,44
Unlisted equities	R0120	-
Bonds	R0130	13.006.118,75
Government bonds	R0140	8.169.691,01
Corporate bonds	R0150	4.508.758,72
Structured notes	R0160	327.669,03
Collateralised securities	R0170	-
Collective investment undertakings	R0180	665.412,16
Derivatives	R0190	52.317,31
Deposits other than cash equivalents	R0200	1.144,53
Other investments	R0210	-
Assets held for index-linked and unit-linked contracts	R0220	1.173.221,87
Loans and mortgages	R0230	655.275,38
Loans on policies	R0240	25.987,68
Loans and mortgages to individuals	R0250	364.046,15
Other loans and mortgages	R0260	265.241,54
Amounts recoverable from reinsurance contracts	R0270	121.871,79
Non-Life and health similar to non-life	R0280	103.238,58
Non-life without health	R0290	104.541,73
Health similar to non-life	R0300	-1.303,15
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	18.633,21
Health similar to life	R0320	18.633,21
Life excluding health and index-linked and unit-linked	R0330	-
Life index-linked and unit-linked	R0340	-
Deposits to cedants	R0350	6.184,92
Insurance and intermediaries receivables	R0360	162.101,97
Reinsurance receivables	R0370	104.473,62
Other receivables (trade, not insurance)	R0380	109.720,35
Own shares (directly held)	R0390	-
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	-
Cash and cash equivalents	R0410	602.928,10
Any other assets, not elsewhere shown	R0420	24.968,88
Total assets	**R0500**	**18.041.889,74**
Liabilities		
Technical provisions - non-life	R0510	2.438.569,27
Technical provisions - non-life (excluding health)	R0520	2.044.694,98
Technical provisions calculated as a whole	R0530	-
Best Estimate	R0540	1.870.892,76
Risk margin	R0550	173.802,22
Technical provisions - health (similar to non-life)	R0560	393.874,29
Technical provisions calculated as a whole	R0570	-
Best Estimate	R0580	351.276,70
Risk margin	R0590	42.597,59
Technical provisions - life (excluding index-linked and unit-linked)	R0600	11.013.478,33
Technical provisions - health (similar to life)	R0610	1.427.007,88
Technical provisions calculated as a whole	R0620	-
Best Estimate	R0630	1.394.537,85
Risk margin	R0640	32.470,02
Technical provisions - life (excluding health and index-linked and unit-linked)	R0650	9.586.470,45
Technical provisions calculated as a whole	R0660	-
Best Estimate	R0670	9.432.070,68
Risk margin	R0680	154.399,77
Technical provisions - index-linked and unit-linked	R0690	1.184.741,77
Technical provisions calculated as a whole	R0700	-
Best Estimate	R0710	1.182.265,89
Risk margin	R0720	2.475,88
Contingent liabilities	R0740	22.723,97
Provisions other than technical provisions	R0750	21.790,15
Pension benefit obligations	R0760	180.921,21
Deposits from reinsurers	R0770	114.403,32
Deferred tax liabilities	R0780	-
Derivatives	R0790	9.355,45
Debts owed to credit institutions	R0800	257.851,78
Financial liabilities other than debts owed to credit institutions	R0810	-
Insurance and intermediaries payables	R0820	122.645,60
Reinsurance payables	R0830	6.275,94
Payables (trade, not insurance)	R0840	183.929,57
Subordinated liabilities	R0850	503.602,51
Subordinated liabilities not in basic own funds (BOF)	R0860	-

(In thousands of EUR)		Solvency II value
		C0010
Subordinated liabilities in basic own funds (BOF)	R0870	503.602,51
Any other liabilities, not elsewhere shown	R0880	733.96
Total liabilities	**R0900**	**16.061.022,83**
Excess of assets over liabilities	**R1000**	**1.980.866,91**

7.2. Premiums, claims and expenses by line of business

7.2.1. Non-Life and accepted non-proportional reinsurance

(In thousands of EUR)		Business line for: **non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)**												Business line for: **accepted non-proportional reinsurance**				Total
		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 losses	Health	Casualty	Marine, aviation and transport insurance	Property	
		C0010	**C0020**	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**	**C0100**	**C0110**	**C0120**	**C0130**	**C0140**	**C0150**	**C0160**	**C0200**
Premiums written																		
Gross - Direct Business	**R0110**	182.047,99	58.070,65	261.408,82	265.122,23	190.085,52	349.17	224.755,20	110.968,12	174.78	38.684,56	39.125,66	9.914,94					1.380.707,62
Gross - Proportional reinsurance accepted	**R0120**	-	-	-	-	-	-	32.93	-	-	-	-	-					32.93
Gross - Non-proportional reinsurance accepted	**R0130**													105.42	646.81	-	346.19	1.098,41
Reinsurers' share	**R0140**	375.08	150.01	5.367,29	1.833,94	1.195,44	-	19.846,92	8.643,22	-	-	26.28	-	-	-	-	-	37.438,16
Net	**R0200**	181.672,91	57.920,65	256.041,53	263.288,29	188.890,08	349.17	204.941,21	102.324,91	174.78	38.684,56	39.099,38	9.914,94	105.42	646.81	-	346.19	1.344.400,80
Premiums earned																		
Gross - Direct Business	**R0210**	181.466,97	58.458,65	261.394,28	267.166,82	191.304,34	353.00	222.780,64	110.956,89	161.96	38.730,57	38.798,00	10.960,68					1.382.532,81
Gross - Proportional reinsurance accepted	**R0220**	-	-	-	-	-	-	114.24	-	-	-	-	-					114.24
Gross - Non-proportional reinsurance accepted	**R0230**													105.42	646.81	-	346.19	1.098,41
Reinsurers' share	**R0240**	375.08	150.01	5.367,29	1.833,94	1.195,44	-	19.904,08	8.671,84	-	-	26.28	-	-	-	-	-	37.523,96
Net	**R0300**	181.091,89	58.308,65	256.026,99	265.332,88	190.108,90	353.00	202.990,80	102.285,05	161.96	38.730,57	38.771,72	10.960,68	105.42	646.81	-	346.19	1.346.221,50
Claims incurred																		
Gross - Direct Business	**R0310**	163.044,39	-10.106,47	73.177,24	169.176,28	62.683,80	106.62	77.250,86	71.358,79	-	5.651,00	19.446,84	3.969,79					935.951,92
Gross - Proportional reinsurance accepted	**R0320**	13.462,04	-	136.820,84	7.37	-	-9.92	26.51	-140.84	-	-	-	-0.68					-3.533,28
Gross - Non-proportional reinsurance accepted	**R0330**													-17.39	526.84	-	-857.82	-348.37
Reinsurers' share	**R0340**	-30.99	-11.143,20	4.740,15	11.425,62	-12.12	-	5.300,13	12.415,18	-	-	-	-	-	-	-	-	22.694,76
Net	**R0400**	144.008,33	35.196,34	217.880,42	204.240,75	93.653,76	-228.47	126.869,88	49.764,60	-	13.079,81	19.432,76	5.825,69	-17.39	526.84	-	-857.82	909.375,51
Changes in other technical provisions																		
Gross - Direct Business	**R0410**	1.168,22	-	-6.622,98	-	-	-	-	-	-	-	-	-					-5.454,77
Gross - Proportional reinsurance accepted	**R0420**	-	-	-	-	-	-	-	-	-	-	-	-					-
Gross - Non-proportional reinsurance accepted	**R0430**													-	-	-	-	-
Reinsurers' share	**R0440**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net	**R0500**	1.168,22	-	-6.622,98	-	-	-	-	-	-	-	-	-	-	-	-	-	-5.454,77
Expenses incurred	**R0550**	30.875,77	13.864,22	52.439,24	83.513,20	49.293,40	115.52	65.415,50	29.894,54	51.76	21.001,68	18.339,99	2.009,24	37.25	65.66	-	64.56	366.981,52
Other expenses	**R1200**																	21.939,18
Total expenses	**R1300**																	388.920,70

7.2.2. Life

(In thousands of EUR)		Business line for: **life insurance obligations**						**life reinsurance obligations**		Total
		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	
		C0210	**C0220**	**C0230**	**C0240**	**C0250**	**C0260**	**C0270**	**C0280**	**C0300**
Premiums written										
Gross	**R1410**	-	1.311.983,07	427.74	-	-	-	-	-	1.312.410,81
Reinsurers' share	**R1420**	-	1.175,12	-	-	-	-	-	1.642,31	2.817,43
Net	**R1500**	-	1.310.807,95	427.74	-	-	-	-	-1.642,31	1.309.593,38
Premiums earned										
Gross	**R1510**	-	1.311.983,07	427.74	-	-	-	-	-	1.312.410,81
Reinsurers' share	**R1520**	-	1.175,12	-	-	-	-	-	1.642,31	2.817,43
Net	**R1600**	-	1.310.807,95	427.74	-	-	-	-	-1.642,31	1.309.593,38
Claims incurred										
Gross	**R1610**	-	1.308.712,21	41.388,13	-	-	-	-	553.48	1.350.653,82
Reinsurers' share	**R1620**	-	365.85	-	-	-	-	-	1.350,24	1.716,08
Net	**R1700**	-	1.308.346,36	41.388,13	-	-	-	-	-796.76	1.348.937,73
Changes in other technical provisions										
Gross	**R1710**	-	194.240,45	-55.927,15	-	-	-	-	291.55	138.604,85
Reinsurers' share	**R1720**	-	-93.14	-	-	-	-	-	1.376,70	1.283,56
Net	**R1800**	-	194.333,59	-55.927,15	-	-	-	-	-1.085,15	137.321,30
Expenses incurred	**R1900**	-	39.838,41	4.351,97	-	-	-	-	34.84	44.225,22
Other expenses	**R2500**									30.419,53
Total expenses	**R2600**									74.644,75

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).

7.3.1. Non-Life

(In thousands of EUR)		Home country	Top 5 countries (by amount of gross premium written) - non-life obligations					Total Top 5 and home country
		C0010	**C0020**	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**
	R0010							
		C0080	**C0090**	**C0100**	**C0110**	**C0120**	**C0130**	**C0140**
Premiums written								
Gross - Direct Business	**R0110**	1.315.742,99						1.315.742,99
Gross - Proportional reinsurance accepted	**R0120**	-						-
Gross - Non-proportional reinsurance accepted	**R0130**	1.035,98						1.035,98
Reinsurers' share	**R0140**	34.839,58						34.839,58
Net	**R0200**	1.281.939,39						1.281.939,39
Premiums earned								
Gross - Direct Business	**R0210**	1.317.469,89						1.317.469,89
Gross - Proportional reinsurance accepted	**R0220**	114.24						114.24
Gross - Non-proportional reinsurance accepted	**R0230**	1.098,41						1.098,41
Reinsurers' share	**R0240**	34.925,37						34.925,37
Net	**R0300**	1.283.757,17						1.283.757,17
Claims incurred								
Gross - Direct Business	**R0310**	891.924,50						891.924,50
Gross - Proportional reinsurance accepted	**R0320**	291.45						291.45
Gross - Non-proportional reinsurance accepted	**R0330**	290.64						290.64
Reinsurers' share	**R0340**	37.198,20						37.198,20
Net	**R0400**	855.308,39						855.308,39
Changes in other technical provisions								
Gross - Direct Business	**R0410**	-5.454,77						-5.454,77
Gross - Proportional reinsurance accepted	**R0420**	-						-
Gross - Non-proportional reinsurance accepted	**R0430**	-						-
Reinsurers' share	**R0440**	-						-
Net	**R0500**	-5.454,77						-5.454,77
Expenses incurred	**R0550**	361.250,91						361.250,91
Other expenses	**R1200**							
Total expenses	**R1300**							

7.3.2. Life

(In thousands of EUR)		Home country	Top 5 countries (by amount of gross premium written) - life obligations					Total Top 5 and home country
		C0150	C0160	C0170	C0180	C0190	C0200	C0210
	R1400							
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
Premiums written								
Gross	**R1410**	1.312.410,81						1.312.410,81
Reinsurers' share	**R1420**	2.817,43						2.817,43
Net	**R1500**	1.309.593,38						1.309.593,38
Premiums earned								
Gross	**R1510**	1.312.410,81						1.312.410,81
Reinsurers' share	**R1520**	2.817,43						2.817,43
Net	**R1600**	1.309.593,38						1.309.593,38
Claims incurred								
Gross	**R1610**	1.350.653,82						1.350.653,82
Reinsurers' share	**R1620**	1.716,08						1.716,08
Net	**R1700**	1.348.937,73						1.348.937,73
Changes in other technical provisions								
Gross	**R1710**	138.604,85						138.604,85
Reinsurers' share	**R1720**	1.283,56						1.283,56
Net	**R1800**	137.321,30						137.321,30
Expenses incurred	**R1900**	44.225,22						44.225,22
Other expenses	**R2500**							
Total expenses	**R2600**							

7.4. Life and health SLT technical provisions

(In thousands of EUR)		Insurances with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Accepted reinsurance	**Total (Life other than health insurance, incl. Unit-Linked)**	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	**Total (Health similar to life insurance)**
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**	**C0100**	**C0150**	**C0160**	**C0170**	**C0180**	**C0190**	**C0200**	**C0210**
Technical provisions calculated as a whole	**R0010**	-	-			-			-	-	-	-			-	-	-
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**	-	-			-			-	-	-	-			-	-	-
Technical provisions calculated as the sum of Best Estimate and Risk Margin																	
Best Estimate																	
Gross Best Estimate	**R0030**	9.385.329,14		-	1.182.265,89		-	-	46.741,54	-	10.614.336,57		-	-122.853,41	1.517.391,27	-	1.394.537,85
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0080**	-		-	-		-	-	-	-	-		-	-	18.633,21	-	18.633,21
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	**R0090**	9.385.329,14		-	1.182.265,89		-	-	46.741,54	-	10.614.336,57		-	-122.853,41	1.498.758,06	-	1.375.904,65
Risk margin	**R0100**	153.780,00	2.410,45			-			619.63	0.15	156.875,65				22.734,07	-	32.470,02
Amount of the transitional on Technical Provisions																	
Technical provisions calculated as a whole	**R0110**	-	-			-			-	-	-				-	-	-
Best Estimate	**R0120**	-		-	-		-	-	-	-	-		-	-	-	-	-
Risk margin	**R0130**	-	-			-			-	-	-	-			-	-	-
Technical provisions - Total	**R0200**	9.539.109,14	1.184.741,77			-			47.361,17	0.15	10.771.212,23	-113.117,46			1.540.125,33	-	1.427.007,88

7.5. Technical provisions non-life

(In thousands of EUR)		Direct business and accepted proportional reinsurance									Direct business and accepted proportional reinsurance			Accepted non-proportional reinsurance				Total Non-Life obligation
		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 losses	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
Technical provisions calculated as a whole	R0010	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Technical provisions calculated as the sum of Best Estimate and Risk Margin																		
Best Estimate																		
Premium provisions																		
Premium provisions	R0060	24.044,57	-12.07	16.184,98	65.783,81	12.849,93	-117.71	25.909,59	-1.978,60	-112.14	10.790,74	12.770,41	39.432,86	-42.86	-	-	-0.62	205.502,89
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	-494.92	-112.44	-3.972,05	-1.811,28	-1.059,03	-	-8.782,48	-3.303,43	-	-653.48	-5.67	-	-	-	-	-	-20.194,79
Net Best Estimate of Premium Provisions	R0150	24.539,49	100.38	20.157,03	67.595,09	13.908,96	-117.71	34.692,08	1.324,82	-112.14	11.444,22	12.776,08	39.432,86	-42.86	-	-	-0.62	225.697,68
Claims provisions																		
Gross	R0160	54.098,55	87.050,46	162.822,02	821.087,12	13.052,40	468.81	102.528,47	647.524,61	-	71.353,87	2.598,81	15.676,86	7.131,05	19.587,40	10.025,00	1.661,13	2.016.666,56
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	360.06	702.95	2.213,26	26.847,00	414.13	-	6.510,93	86.384,41	-	0.63	-	-	-	-	-	-	123.433,37
Net Best Estimate of Claims Provisions	R0250	53.738,49	86.347,51	160.608,75	794.240,12	12.638,27	468.81	96.017,54	561.140,20	-	71.353,25	2.598,81	15.676,86	7.131,05	19.587,40	10.025,00	1.661,13	1.893.233,20
Total Best Estimate — gross	R0260	78.143,12	87.038,39	179.007,00	886.870,93	25.902,33	351.11	128.438,07	645.546,01	-112.14	82.144,61	15.369,22	55.109,72	7.088,19	19.587,40	10.025,00	1.660,50	2.222.169,46
Total Best Estimate — net	R0270	78.277,98	86.447,89	180.765,79	861.835,21	26.547,23	351.11	130.709,61	562.465,03	-112.14	82.797,47	15.374,89	55.109,72	7.088,19	19.587,40	10.025,00	1.660,50	2.118.930,88
Risk margin	R0280	6.653,71	9.102,15	26.006,60	59.122,89	10.421,88	97.80	42.897,71	45.808,38	101.66	6.246,79	2.454,79	2.931,36	835.13	254.78	2.280,40	1.183,79	216.399,81
Amount of the transitional on Technical Provisions																		
Technical provisions calculated as a whole	R0290	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Best Estimate	R0300	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Risk margin	R0310	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Technical provisions - Total																		
Technical provisions - Total	R0320	84.796,83	96.140,54	205.013,60	945.993,82	36.324,21	448.90	171.335,78	691.354,39	-10.48	88.391,41	17.824,00	58.041,08	7.923,32	19.842,18	12.305,40	2.844,30	2.438.569,27
Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default - Total	R0330	-134.86	590.51	-1.758,79	25.035,72	-644.90	-	-2.271,55	83.080,98	-	-652.85	-5.67	-	-	-	-	-	103.238,58
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	R0340	84.931,69	95.550,03	206.772,39	920.958,10	36.969,11	448.90	173.607,33	608.273,41	-10.48	89.044,26	17.829,67	58.041,08	7.923,32	19.842,18	12.305,40	2.844,30	2.335.330,69

7.6. Non-life insurance claims

7.6.1. Total Non-Life Business

Accident year / Underwriting year

Z0010	AY

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

		Development year												In current year	Sum
	Year	0	1	2	3	4	5	6	7	8	9	10 and +			
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110		C0170	C0180
Previous	R0100											17.958,89	R0100	17.958,89	17.958,89
N-9	R0160	375.517,71	176.059,32	40.884,96	22.786,15	15.271,84	11.851,07	9.277,09	5.643,86	3.941,75	3.857,70		R0160	3.857,70	665.091,45
N-8	R0170	371.121,37	189.200,06	38.895,07	21.077,19	12.648,48	10.521,31	7.648,70	7.003,38	4.159,46			R0170	4.159,46	662.275,02
N-7	R0180	359.942,56	168.687,80	33.927,40	18.430,69	12.020,37	8.040,19	5.143,26	7.447,54				R0180	7.447,54	613.639,80
N-6	R0190	367.442,30	167.830,99	31.721,65	13.023,57	13.663,83	8.661,79	8.465,24					R0190	8.465,24	610.809,38
N-5	R0200	374.848,13	163.667,28	32.787,17	20.271,65	14.547,35	9.153,05						R0200	9.153,05	615.274,62
N-4	R0210	367.269,71	162.021,10	32.352,18	17.400,67	12.620,31							R0210	12.620,31	591.663,97
N-3	R0220	394.735,19	164.505,24	32.675,04	17.707,29								R0220	17.707,29	609.622,75
N-2	R0230	403.327,12	179.596,90	36.886,59									R0230	36.886,59	619.810,61
N-1	R0240	395.341,76	208.752,32										R0240	208.752,32	604.094,08
N	R0250	428.675,78											R0250	428.675,78	428.675,78
												Total	R0260	755.684,16	6.038.916,36

7.6.3. Gross undiscounted Best Estimate Claims Provisions (absolute amount)

Development year

Year	0	1	2	3	4	5	6	7	8	9	10 and +
	C0200	**C0210**	**C0220**	**C0230**	**C0240**	**C0250**	**C0260**	**C0270**	**C0280**	**C0290**	**C0300**
R0100	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	282.992,03
R0160	0.00	0.00	0.00	0.00	0.00	0.00	0.00	55.537,61	49.518,00	53.076,25	
R0170	0.00	0.00	0.00	0.00	0.00	0.00	75.177,12	59.201,35	55.526,03		
R0180	0.00	0.00	0.00	0.00	0.00	70.674,85	62.849,16	66.400,04			
R0190	0.00	0.00	0.00	0.00	72.861,27	65.208,20	59.526,39				
R0200	0.00	0.00	0.00	89.470,15	76.130,63	79.371,40					
R0210	0.00	0.00	107.180,64	85.446,50	73.767,33						
R0220	0.00	137.018,92	103.955,52	88.522,80							
R0230	349.320,82	163.857,13	135.044,08								
R0240	327.036,24	149.876,67									
R0250	375.493,28										

Year end (discounted data)

		C0360
	R0100	278.040
	R0160	51.811
	R0170	54.387
	R0180	65.003
	R0190	57.824
	R0200	77.722
	R0210	71.559
	R0220	85.785
	R0230	131.542
	R0240	145.283
	R0250	369.693
Total	**R0260**	1.388.648

7.7. Impact of long term guarantees and transitional measures

(In thousands of EUR)		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 zeo	Impact of matching adjustment set to zero
		C0010	**C0030**	**C0050**	**C0070**	**C0090**
Technical provisions	**R0010**	14.636.789,38	-	-	239.250,37	-
Basis own funds	**R0020**	2.484.469,42	-	-	-176.130,79	-
Eligible own funds to meet Solvency Capital Requirement	**R0050**	2.475.337,19	-	-	-230.460,85	-
Solvency Capital Requirement	**R0090**	1.366.346,43	-	-	15.642,79	-
Eligible own funds to meet Minimum Capital Requirement	**R0100**	1.915.135,15	-	-	-236.874,40	-
Minimum Capital Requirement	**R0110**	614.855,89	-	-	7.039,26	-

7.8. Equity

Basis own funds

(In thousands of EUR)		Total	Tier 1 - unrestricted	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 (EU) 2015/35						
Ordinary share capital (gross of own shares)	**R0010**	1.000.000,00	1.000.000,00		-	
Share premium account related to ordinary share capital	**R0030**	-	-		-	
Initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings	**R0040**	-	-		-	
Subordinated mutual member accounts	**R0050**	-		-	-	-
Surplus funds	**R0070**	-	-			
Preference shares	**R0090**	-		-	-	-
Share premium account related to preference shares	**R0110**	-		-	-	-
Reconciliation reserve	**R0130**	777.121,29	777.121,29			
Subordinated liabilities	**R0140**	503.602,51		15.042,68	488.559,83	-
An amount equal to the value of net deferred tax assets	**R0160**	203.745,61				203.745,61
Other own fund items approved by the supervisory authority as basic own funds not specified above	**R0180**	-	-	-	-	-
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**	-	-	-	-	
Total basic own funds after deductions	**R0290**	2.484.469,42	1.777.121,29	15.042,68	488.559,83	203.745,61

Eligible equity capital

(In thousands of EUR)		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	**R0300**	-			-	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings, callable on demand	**R0310**	-			-	
Unpaid and uncalled preference shares callable on demand	**R0320**	-			-	-
A legally binding commitment to subscribe and pay for subordinated liabilities	**R0330**	-			-	-
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	**R0340**	-			-	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	**R0350**	-			-	-
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0360**	-			-	
Supplementary members calls other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0370**	-			-	-
Other ancillary own funds	**R0390**	-			-	-
Total ancillary own funds	**R0400**	-			-	-
Available and eligible own funds						
Total available own funds to meet the SCR	**R0500**	2.484.469,42	1.777.121,29	15.042,68	488.559,83	203.745,61
Total available own funds to meet the MCR	**R0510**	2.280.723,80	1.777.121,29	15.042,68	488.559,83	
Total eligible own funds to meet the SCR	**R0540**	2.475.337,19	1.777.121,29	15.042,68	488.559,83	194.613,39
Total eligible own funds to meet the MCR	**R0550**	1.915.135,15	1.777.121,29	15.042,68	122.971,18	
Solvency Capital Requirement	**R0580**	1.366.346,43				
Minimum Capital Requirement	**R0600**	614.855,89				
Ratio of Eligible own funds to SCR	**R0620**	181,16%				
Ratio of Eligible own funds to MCR	**R0640**	311,48%				

Reconciliation reserve

(In thousands of EUR)		C0060
Reconciliation reserve		
Excess of assets over liabilities	**R0700**	1.980.867
Own shares (held directly and indirectly)	**R0710**	-
Foreseeable dividends, distributions and charges	**R0720**	-
Other basic own fund items	**R0730**	1.203.746
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**R0740**	-
Reconciliation reserve	**R0760**	777.121
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	**R0770**	77.882
Expected profits included in future premium (EPIFP) - Non-Life business	**R0780**	176.640
Total Expected profits included in future premiums (EPIFP)	**R0790**	254.522

7.9. Solvency Capital Requirement - for groups on Standard Formula

7.9.1. Basic Solvency Capital Requirement

Note Ethias SA does not yet use company-specific parameters within the framework of the standard formula.

(In thousands of EUR)		**Gross solvency capital requirement**	**USP**	**Simplifications**
		C0110	C0090	C0100
Market risk	**R0010**	781.282		Simplifications not used
Counterparty default risk	**R0020**	141.741		
Life underwriting risk	**R0030**	162.454	N/A	Simplifications not used
Health underwriting risk	**R0040**	274.075	N/A	Simplifications not used
Non-Life underwriting risk:	**R0050**	572.555	N/A	Simplifications not used
Diversification	**R0060**	-650.026		
Intangible asset risk	**R0070**	-		
Basic Solvency Capital Requirement	**R0100**	1.282.081		

7.9.2. Calculation of the solvency capital requirement

(In thousands of EUR)		C0100
Operational risk	**R0130**	116.438
Loss-absorbing capacity of technical provisions	**R0140**	-32.173
Loss-absorbing capacity of deferred taxes	**R0150**	-
Capital requirement for business operated in accordance with Article 4 of Directive 2003/41/EC	**R0160**	-
Solvency capital requirement excluding capital add-on	**R0200**	1.366.346
Capital add-on already set	**R0210**	-
Solvency Capital Requirement	**R0220**	1.366.346
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	**R0400**	-
Total amount of Notional Solvency Capital Requirements for remaining part	**R0410**	-
Total amount of Notional Solvency Capital Requirements for ring fenced funds	**R0420**	-
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	**R0430**	-
Diversification effects due to RFF nSCR aggregation for article 304	**R0440**	-

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

7.10.1. Linear formula component for non-life insurance and reinsurance obligations

(In thousands of EUR)		Non-life Activities $MCR_{(NL,NL)}$Result	Life Activities $MCR_{(NL,L)}$Result
		C0010	C0020
Linear formula component for non-life insurance and reinsurance obligations	**R0010**	316.230,20	-

(In thousands of EUR)		Non-life Activities BE calculated as a whole, net (of reinsurance / SPV)	Non-life Activities Net (of reinsurance) written premiums in the last 12 months	Life Activities BE calculated as a whole, net (of reinsurance / SPV)	Life Activities Net (of reinsurance) written premiums in the last 12 months
		C0030	**C0040**	**C0050**	**C0060**
Medical expense insurance and proportional reinsurance	**R0020**	78.277,98	162.391,48	-	-
Income protection insurance and proportional reinsurance	**R0030**	86.447,89	57.920,65	-	-
Workers' compensation insurance and proportional reinsurance	**R0040**	180.765,79	256.041,53	-	-
Motor vehicle liability insurance and proportional reinsurance	**R0050**	861.835,21	263.288,29	-	-
Other motor insurance and proportional reinsurance	**R0060**	26.547,23	188.890,08	-	-
Marine, aviation and transport reinsurance and proportional reinsurance	**R0070**	351.11	349.17	-	-
Fire and other damage to property insurance and proportional reinsurance	**R0080**	130.709,61	204.941,21	-	-
General liability insurance and proportional reinsurance	**R0090**	562.465,03	102.324,91	-	-
Credit and suretyship insurance and proportional reinsurance	**R0100**	-	174.78	-	-
Legal expenses insurance and proportional reinsurance	**R0110**	82.797,47	38.684,56	-	-
Assistance and proportional reinsurance	**R0120**	15.374,89	39.099,38	-	-
Miscellaneous financial loss insurance and proportional reinsurance	**R0130**	55.109,72	9.914,94	-	-
Non-proportional health reinsurance	**R0140**	7.088,19	105.42	-	-
Non-proportional casualty reinsurance	**R0150**	19.587,40	646.81	-	-
Non-proportional marine, aviation and transport reinsurance	**R0160**	10.025,00	-	-	-
Non-proportional property reinsurance	**R0170**	1.660,50	346.19	-	-

7.10.2. Linear formula component for life insurance and reinsurance obligations

(In thousands of EUR)		Non-life Activities $MCR_{(NL,L)}$Result	Life Activities $MCR_{(NL,L)}$Result
		C0070	**C0080**
Linear formula component for life insurance and reinsurance obligations	**R0200**	29.875,57	352.794,55

(In thousands of EUR)		Non-life Activities		Life Activities	
		BE calculated as a whole, net (of reinsurance / SPV)	Net (of reinsurance/SPV) total capital at risk	BE calculated as a whole, net (of reinsurance / SPV)	Net (of reinsurance/SPV) total capital at risk
		C0090	**C0100**	**C0110**	**C0120**
Obligations with profit participation - guaranteed benefits	**R0210**	-		9.265.236,57	
Obligations with profit participation - future discretionary benefits	**R0220**	-		120.092,57	
Index-linked and unit-linked insurance obligations	**R0230**	-		1.182.265,89	
Other life (re)insurance and health (re)insurance obligations	**R0240**	1.422.646,19		-	
Total capital at risk for all life (re)insurance obligations	**R0250**		-		11.356.779,65

7.10.3. Overall MCR calculation

(In thousands of EUR)		C0130
Linear MCR	R0300	698.900,32
Solvency Capital Requirement	R0310	1.366.346,43
MCR cap	R0320	614.855,89
MCR Cap	R0330	341.586,61
Combined MCR	R0340	614.855,89
Absolute floor of the MCR	R0350	7.400,00
Minimum Capital Requirement	R0400	614.855,89

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

Calculation of the notional amount of the MCR in non-life and in life		**Non-life Activities**	**Life Activities**
(In thousands of EUR)		C0140	C0150
Notional linear MCR	R0500	346.105,77	352.794,55
Notional SCR excluding add-on (annual or latest calculation)	R0510	676.634,96	689.711,48
Notional MCR cap	R0520	304.485,73	310.370,16
Notional MCR floor	R0530	169.158,74	172.427,87
Notional Combined MCR	R0540	304.485,73	310.370,16
Absolute floor of the notional MCR	R0550	3.700,00	3.700,00
Notional MCR	R0560	304.485,73	310.370,16