



Quarterly Results

31.03.2016

28.06.2016

ethias

Agenda

- **Key Q1 2016 highlights**
- Financial performance BGAAP
- Financial performance IFRS
- Solvency II
- Investment portfolio
- Appendix

Figures as per end of March are based on non-audited statutory and non-audited consolidated financial statements

Key 2015 highlights

1

Key events

- **Switch V operation** (redemption bonus of 10% to the holders of a First A product)
- **Terrorist attacks in Brussel** : cost of €10M after reinsurance and TRIP
- Reduction of duration gap through the acquisition of hedging instruments

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Financial results

Operating result

BGAAP – Ethias SA

- **€67M** o/w €63M from Non-Life
- **€61M** taking into account the cost of the Switch V operation (**€6M**)

IFRS – Ethias Group

- **€62M** o/w €72M from Non-Life
- **€9M** taking into account:
 - *Dotation of of LAT provision: -€89M*
 - *Impact of valuation of some securities through the P&L (shadow FVPL) : -€7M*
 - *Switch V premium: -€6M*
 - *Other exceptionals and tax: +€49M*

Net income

3

Business units (IFRS)

Non-Life

- **GWP €628M**
- **Technical result €75M**
- **COR 83.1%**, down from 86.1% in 2015

Life

- **GWP €325M**
- **Technical result -€78M**

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Balance sheet strength (IFRS)

Equity

- **€1,835M**, from €1,869M in 2015 (impact of dividend distribution)

Debt ratio

- **21.3%**, down from 21.5% in 2015

Solvency II

- **110.92%** vs 131.56% end 2015

U/R gains

- **€1,907M**, up from €1,622M in 2015

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Investment portfolio

- **€18.2B total investment portfolio**
 - **78.5% invested in bonds** (o.w. 60% government bonds, o.w. 93% rated BBB or higher)
 - **8.1% held in cash**
 - **2.4% in real estate** - office buildings and nursing homes (cash flow guaranteed over the long term)

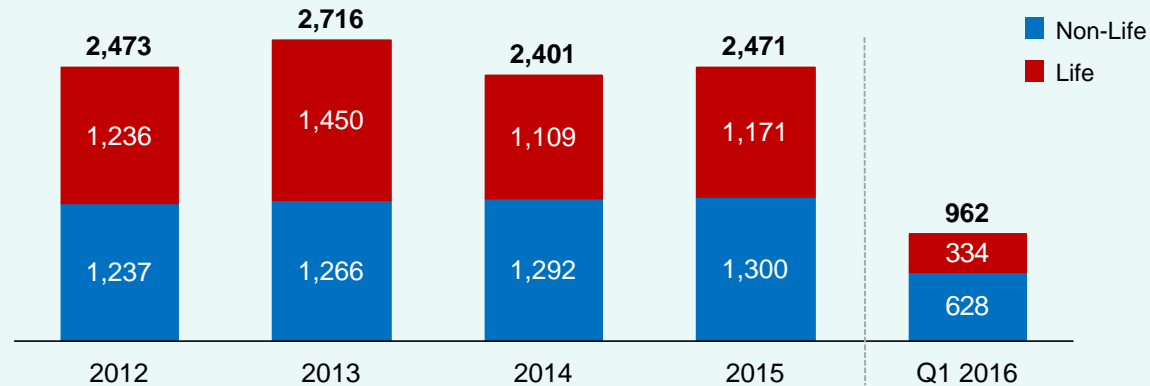
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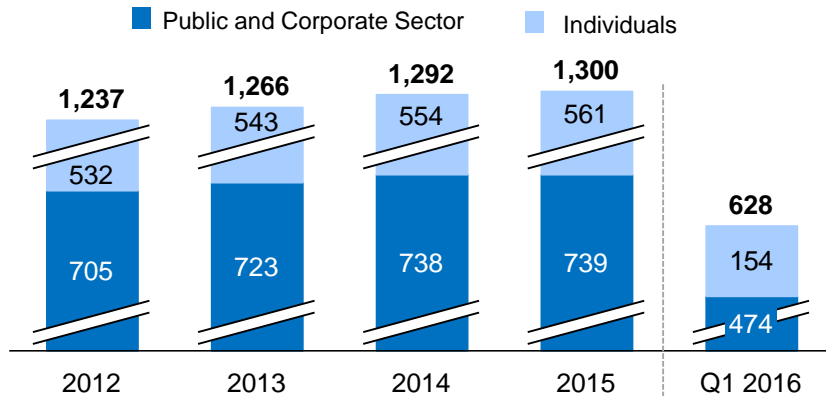
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Balanced Non-Life/Life inflows despite discontinuation of Life Individuals

Evolution of GWP (€M)

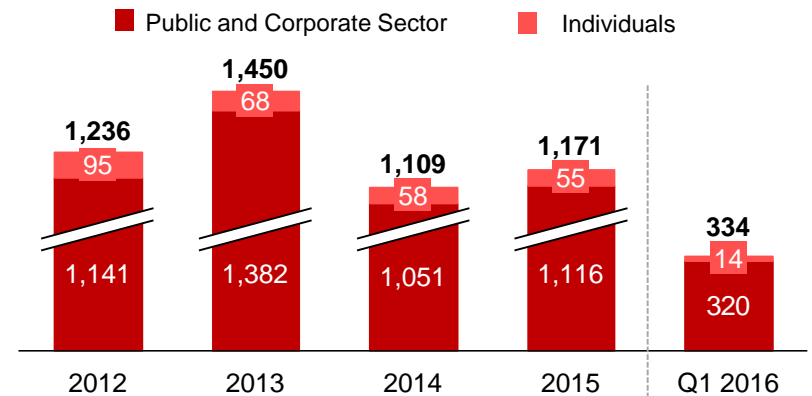


Evolution of Non-Life GWP (€M)



- Steady increase of Non-Life GWP

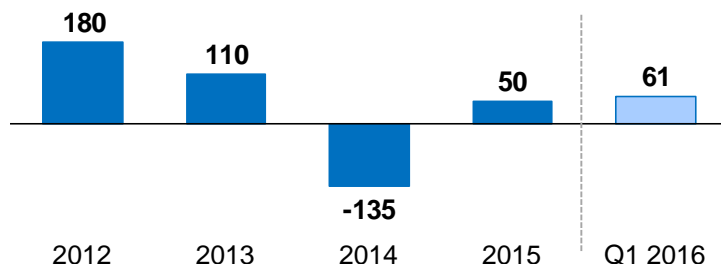
Evolution of Life GWP (€M)



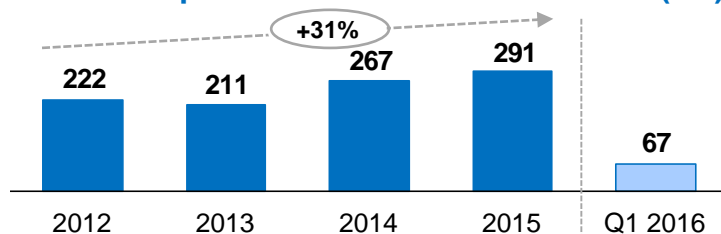
- Discontinuation of Life Individuals (EC decision)
- High 2013 GWP of €1.4 billion of Life to Public & Corporate Sector impacted by one-offs (unique premiums)

Evolution in net result

Evolution in net result under BGAAP (€M)

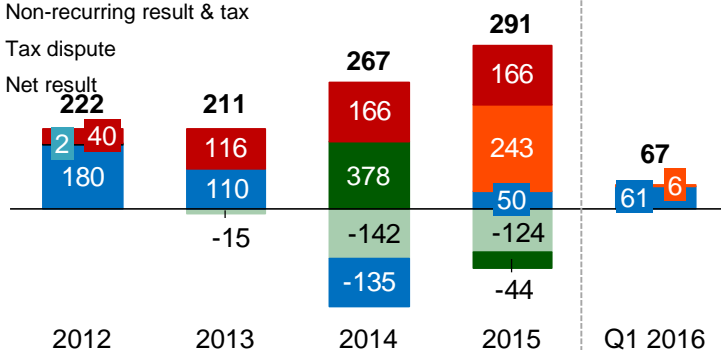


Evolution in operational result under BGAAP (€M)



Evolution in operational result under BGAAP (€M) - Breakdown

- Allocation to flashing light reserve
- Switch
- Non-recurring result & tax
- Tax dispute
- Net result



- **Strong operational 2015 result of €291M**, after adjusting the reported net result of €50M by the following elements :
 - €(166)M allocation to flashing light reserve
 - €(243)M gross costs related to Switch IV
 - €44M of recovery on tax dispute
 - €124M of non-recurring items and tax : essentially gains on disposals of securities and reversals of surplus financial provisions partially offset by the acquisition cost of a derivative instrument for hedging against interest rate decrease
- **Operational Q1 2016 result of €67M**, after adjusting the reported net result of €61M by the cost of Switch V operation of €6M.
- **No allocation to flashing light reserve** since 1st of January 2016 (solvency 2 application)
- Over the last years, operational result in the range of **€200-300M**
- Ethias expects to further improve its net result in the future by implementing its strategy and continuing the following actions :
 - Cost reduction and control
 - Operational and technical excellence
 - Pro-active management on First reserves (run-down strategy)
 - Improvement of underwriting
 - Reduction of claim handling costs
 - Strengthening of sales force
 - De-risking of investment portfolio

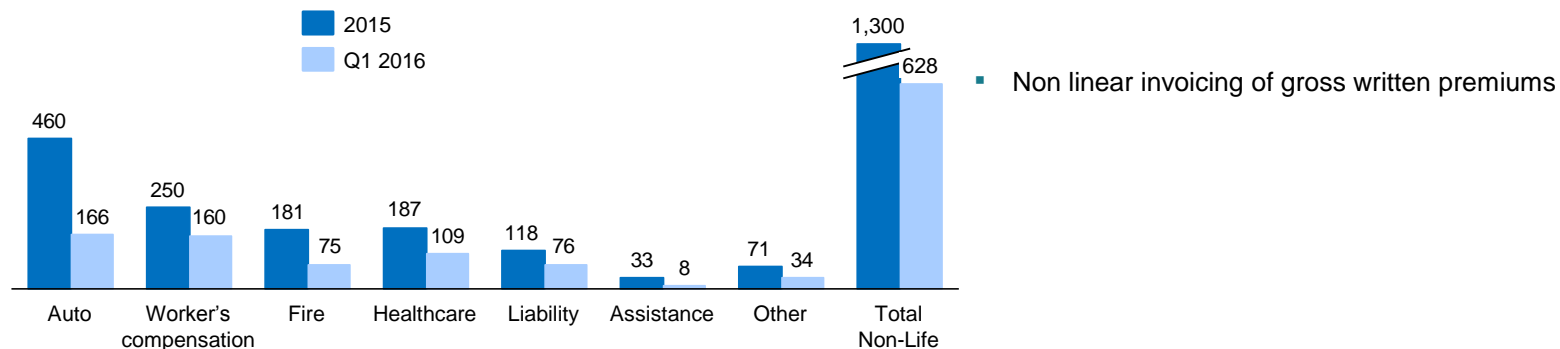
Breakdown of net result under BGAAP (€M)

	2012	2013	2014	2015	Q1 2016
Technical result pre-allocation	251	235	401	164	70
<i>o/w Non-Life</i>	193	208	272	310	68
<i>o/w Life</i>	58	27	129	(146)	2
Allocation to flashing light reserve	(40)	(116)	(166)	(166)	0
Technical result post-allocation	211	119	235	(2)	70
<i>o/w Non-Life</i>	189	202	263	298	68
<i>o/w Life</i>	22	(83)	(28)	(300)	2
Non-technical result	(28)	(24)	(366)	56	(6)
<i>o/w recurring items</i>	(28)	(24)	(8)	(5)	(4)
<i>o/w financial non recurring items</i>	0	0	20	17	0
<i>o/w non-recurring items (tax dispute)</i>	0	0	(378)	44	0
<i>o/w other non recurring items</i>	0	0	0	0	(2)
Tax	(1)	15	(1)	(3)	(3)
Net result	182	110	(132)	51	61
Net result ¹	180	110	(135)	50	61

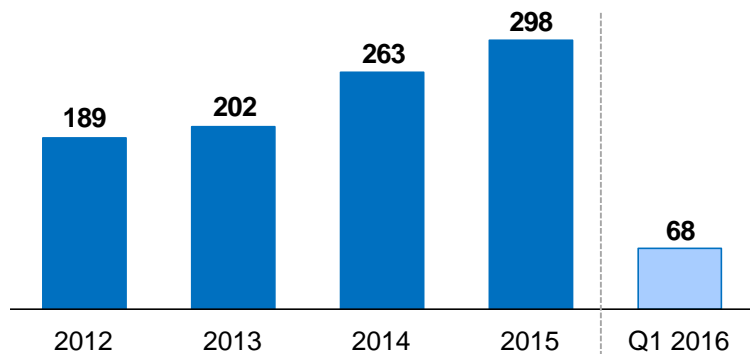
¹ Post transfers and withdrawals from untaxed reserves

Focus on Non-Life business

Evolution in Non-Life GWP of Ethias (€M)

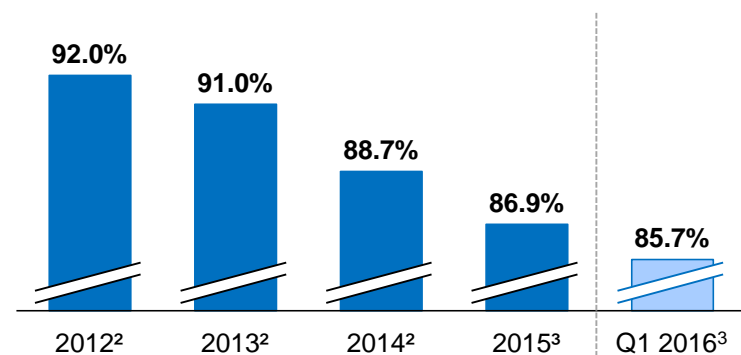


Non-Life technical result BGAAP (€M)¹



- Robustness of the Non-Life model given the significant and recurring profitability for several years now

Net combined ratio of Ethias (BGAAP)



- Net CoR among the best of the Belgian market resulting on the one hand, from the various optimizations operated since several years in terms of pricing, claims management and management of overheads and, on the other hand, from of our distribution model which is primarily direct

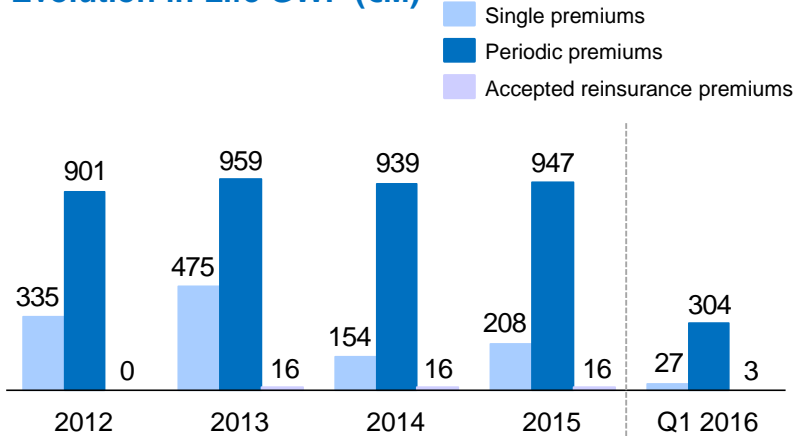
¹ Non-Life technical result post allocation to flashing light reserve

² Based on internal calculations

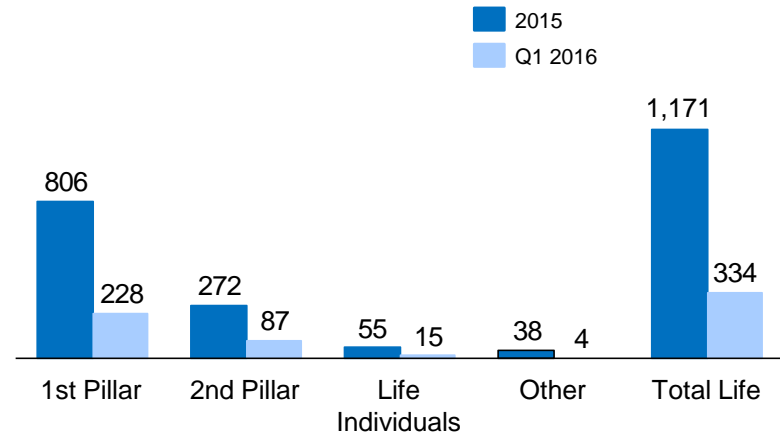
³ Based on Assuralia formula

Focus on Life business (1/2)

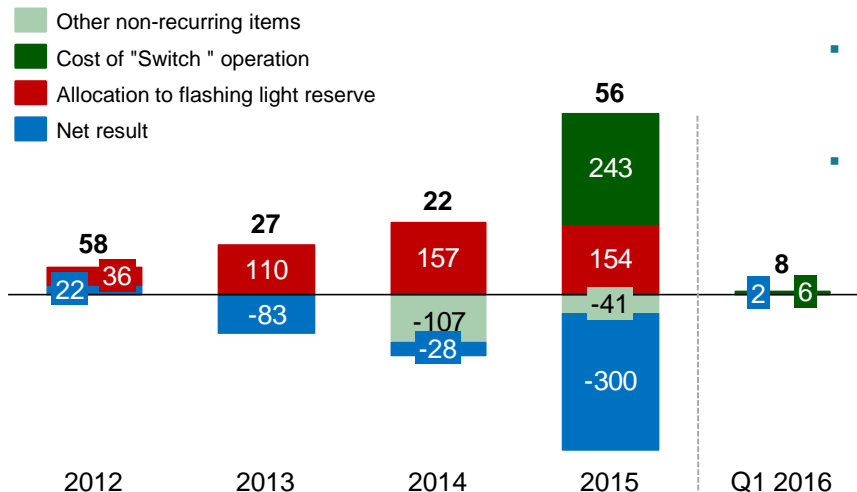
Evolution in Life GWP (€M)



Evolution in Life GWP (€M)



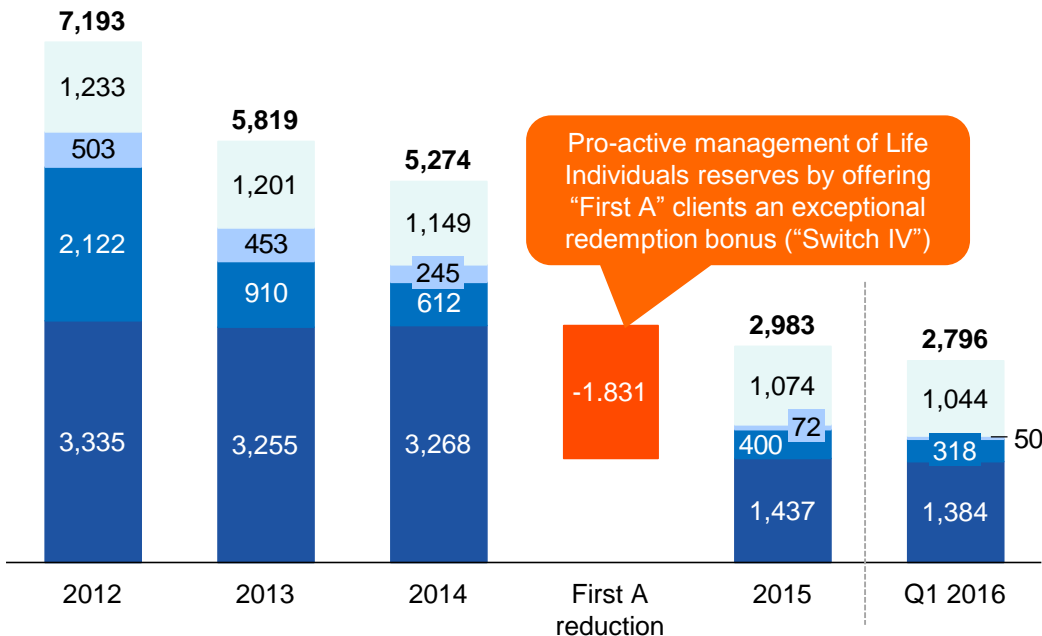
Life technical result BGAAP (€M)



- Life technical result (pre-allocation to flashing light reserve and non-recurring items) has been positive since several years
- Life result impacted by :
 - The allocation to the flashing light reserve (BGAAP constraint) for the period 2012-2015. No allocation to flashing light reserve since 1st of January 2016 (solvency 2 application)
 - The cost of the "Switch" operations amounting to € 243M in 2015 and to €6M in 2016

Focus on Life business (2/2)

Evolution in Life Individuals reserves (€M)



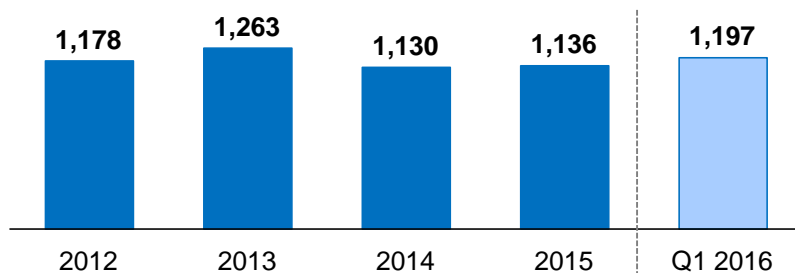
- Other products o/w Top First
- First Invest (incl. Junior) : guaranteed interest rate of 0%
- First B : guaranteed interest rates (limitation in time)
- First A : guaranteed interest rates (no limitation in time)

Impact of redemption offers on First A :

- In Q1 2015 : Switch IV operation (exceptional redemption bonus of 4 years' interest, equivalent to an exit premium of c.14%) with surrenders of €1.9 billion (for a cost of €243M) which, combined with the interest capitalization on existing contracts, involve a reduction of reserves for an amount of €1.8 billion in 2015 (representing 56% of 2014 First A reserves)
- In Q1 2016 : Switch V operation (redemption bonus of 10%) with surrenders of €65M (for a cost of €6M)
- Other actions are planned before year-end, impacting positively our SII ratio and our duration gap
- Average guaranteed interest rate of First A : 3.44% as per end of March 2016

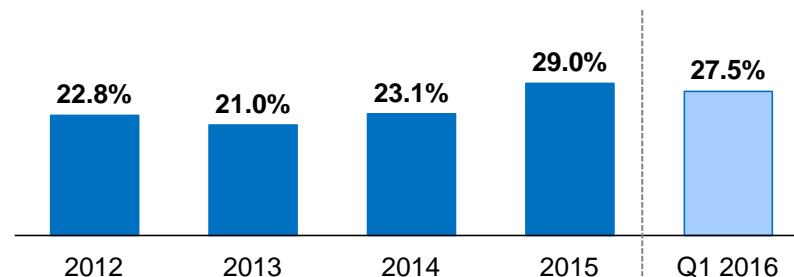
Other key elements

Evolution in equity (€M)



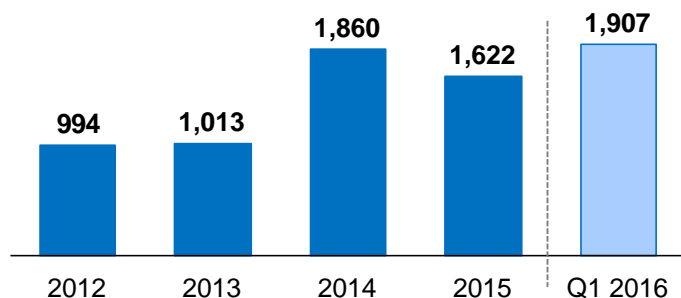
- Slight improvement in equity in 2015, the year result of around € 50M being used for the payment of a dividend to Vitrufin of about € 45M

Evolution in debt ratio

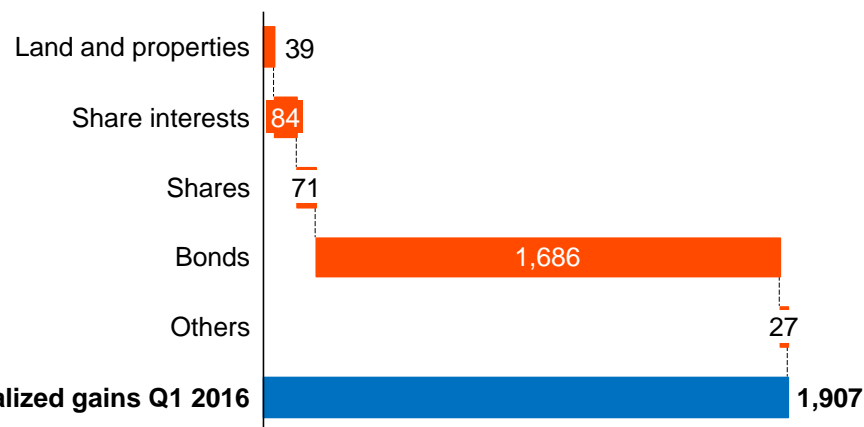


- Deterioration of debt ratio in 2015 following the issuance of additional bonds for an amount of € 170.8M in par value
- Decrease in the debt ratio in Q1 2016, these last one not including the collateral received (€121,6M) in guarantee of hedging operations (acquisition of forward bonds and swaptions) against a decrease in interest rates (same amount on the asset side)

Evolution in unrealized gains (€M)



Total unrealized gains Q1 2016



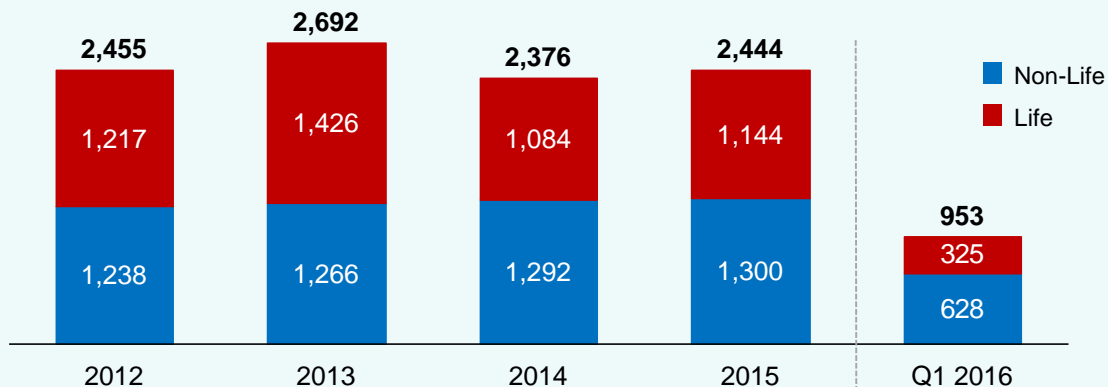
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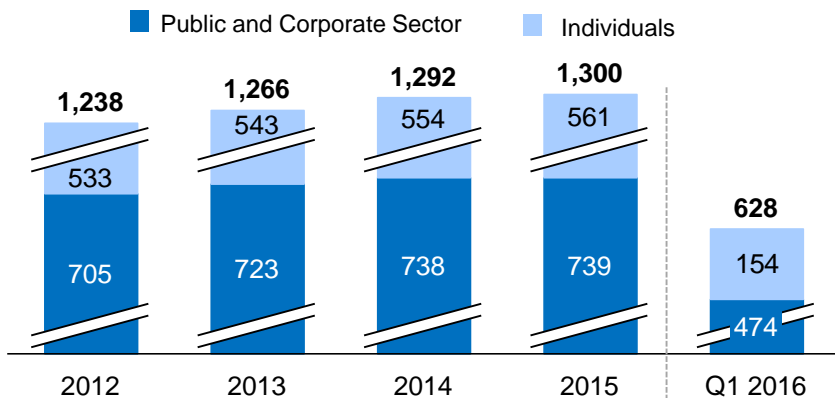
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Balanced Non-Life/Life inflows despite discontinuation of Life Individuals

Evolution in GWP (€M)

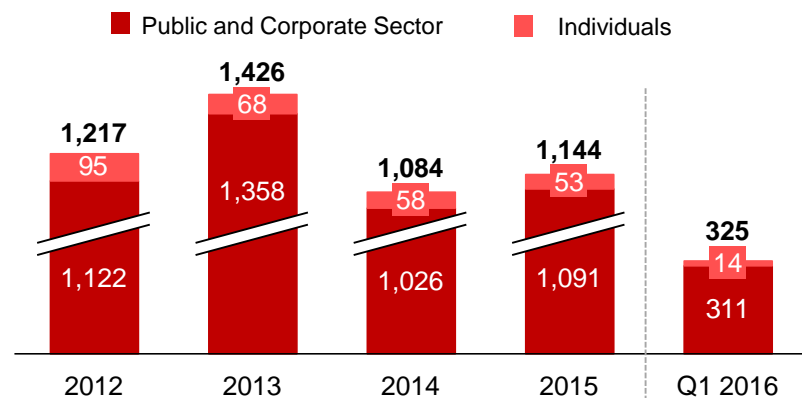


Evolution in Non-Life GWP (€M)



- Steady increase of Non-Life GWP

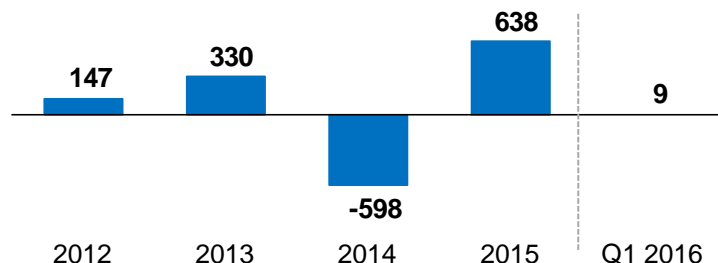
Evolution in Life GWP (€M)



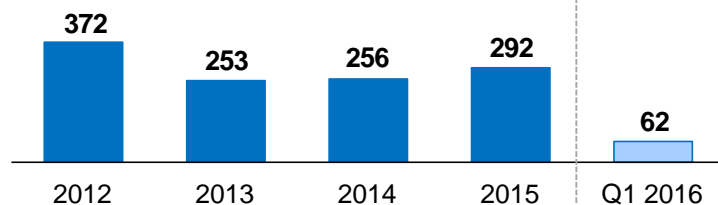
- Discontinuation of Life Individuals (EC decision)
- High 2013 GWP of €1.4 billion of Life to Public & Corporate Sector impacted by one-offs (unique premiums)

Evolution in net result

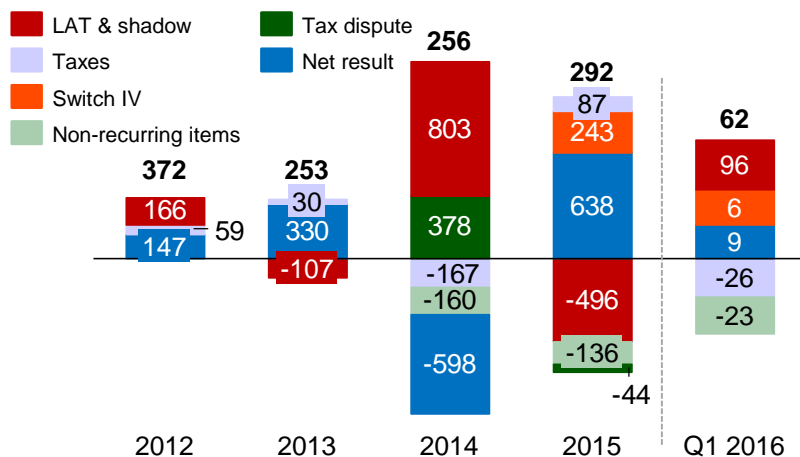
Evolution in net result under IFRS (€M)



Evolution in operational result under IFRS (€M)



Evolution in operational result under IFRS (€M) - Breakdown



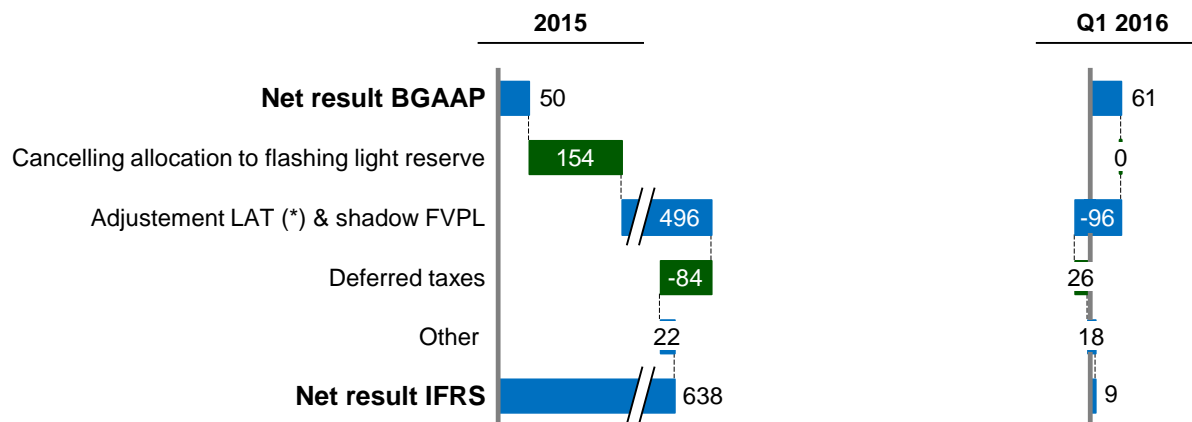
- 2015 net result** of €638M mainly resulting from :
 - The reversal of Life insurance provisions following the increase in interest rates (impact of €502M)
 - The valuation of some securities in market value – shadow FVPL (impact of -€6M)
 - The recovery of €44M on tax dispute
 - €(243)M gross costs related to “Switch IV”
 - Other non-recurring items : essentially gains on disposals of securities and reversals of surplus financial provisions partially offset by the acquisition cost of a derivative instrument for hedging against interest rate decrease
- Q1 2016 net result** of €9M mainly resulting from :
 - The dotation of Life insurance provisions following the decrease in interest rates (impact of -€89M)
 - The valuation of some securities in market value – shadow FVPL (impact of -€7M)
 - The gross costs related to “Switch V” (impact of -€6M)
 - Other non-recurring items (+€23M), essentially reversal of financial provisions
 - The deferred tax assets of +€26M
- Over the last years, operational result in the range of **€250-300M**
- Ethias expects to further improve its net result in the future by implementing its strategy and continuing the following actions :
 - Cost reduction and control
 - Operational and technical excellence
 - Pro-active management on First reserves (run-down strategy)
 - Improvement of underwriting
 - Reduction of claim handling costs
 - Strengthening of sales force
 - De-risking of investment portfolio

Breakdown of net result under IFRS (€M)

Breakdown of net result under IFRS (€M)

	2012	2013	2014	2015	Q1 2016
Technical result	200	366	(439)	630	(3)
o/w Non-Life	171	233	242	306	75
o/w Life	29	133	(681)	324	(78)
Non-technical result	6	(6)	(326)	95	(14)
o/w recurring items	6	(6)	32	30	(12)
o/w financial non-recurring items	0	0	20	17	(3)
o/w non-recurring items (tax dispute)	0	0	(378)	44	0
o/w other non-recurring items	0	0	0	4	1
Tax	(59)	(30)	167	(87)	26
Net result	147	330	(598)	638	9
For reference :					
Net result BGAAP	180	110	(135)	50	61

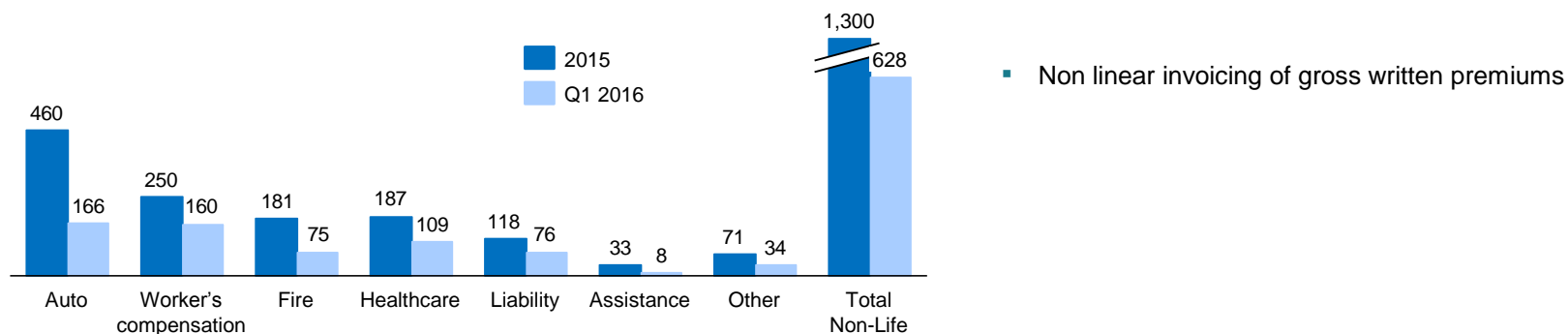
Reconciliation of net result between BGAAP & IFRS (€M)



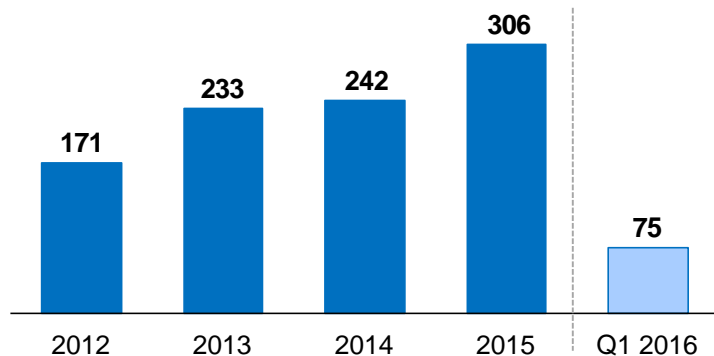
(*) impact of changes in interest rates

Focus on Non-Life business

Evolution in Non-Life GWP of Ethias Group (€M)

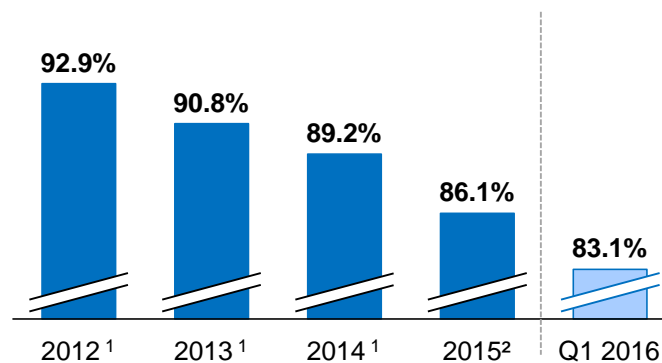


Non-Life technical result IFRS (€M)



- Robustness of the Non-Life model given the significant and recurring profitability for several years now

Net combined ratio (IFRS)



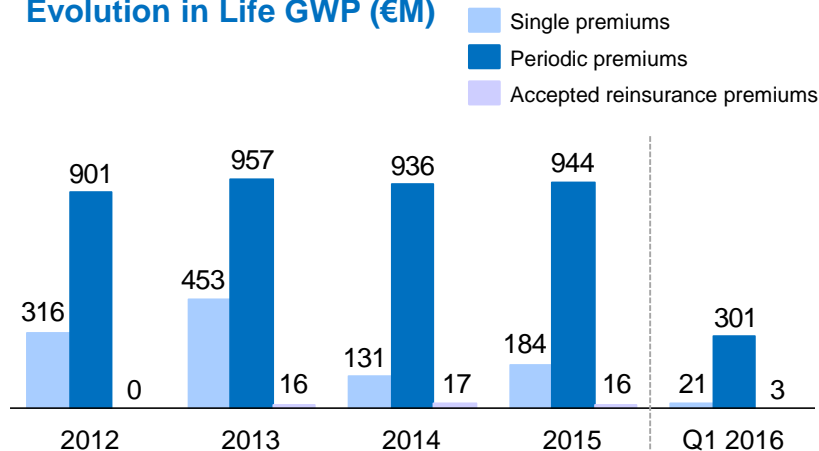
- Net CoR among the best of the Belgian market resulting on the one hand, from the various optimizations operated since several years in terms of pricing, claims management and management of overheads and, on the other hand, from our distribution model which is primarily direct

¹ Based on internal calculations

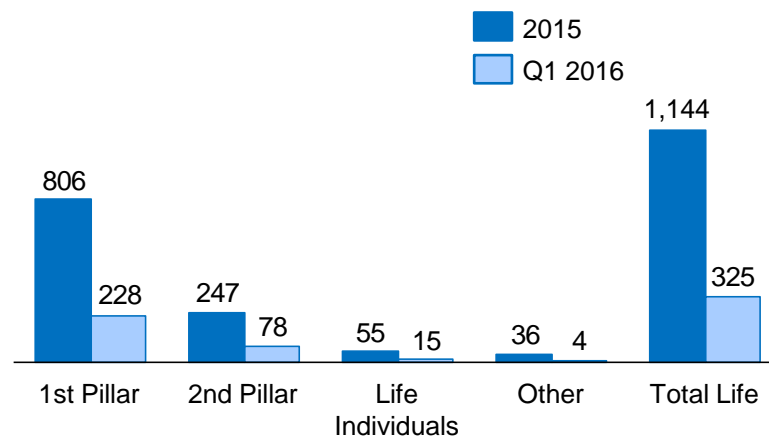
² Based on internal calculations using Assuralia methodology

Focus on Life business (1/2)

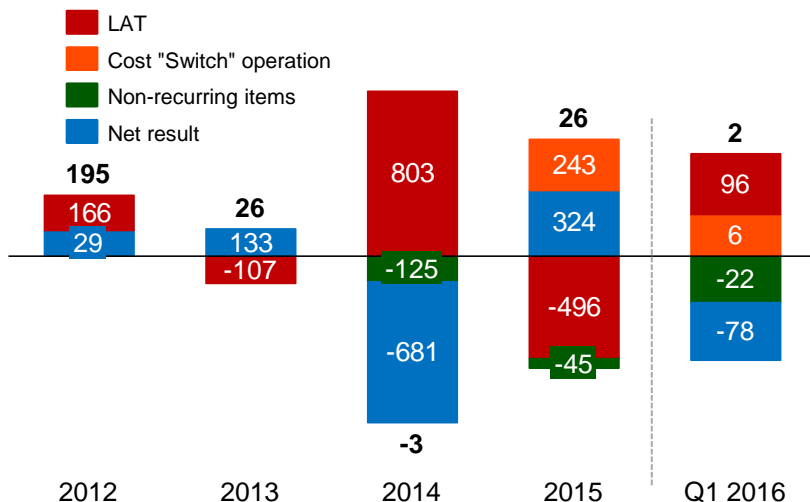
Evolution in Life GWP (€M)



Evolution in Life GWP (€M)



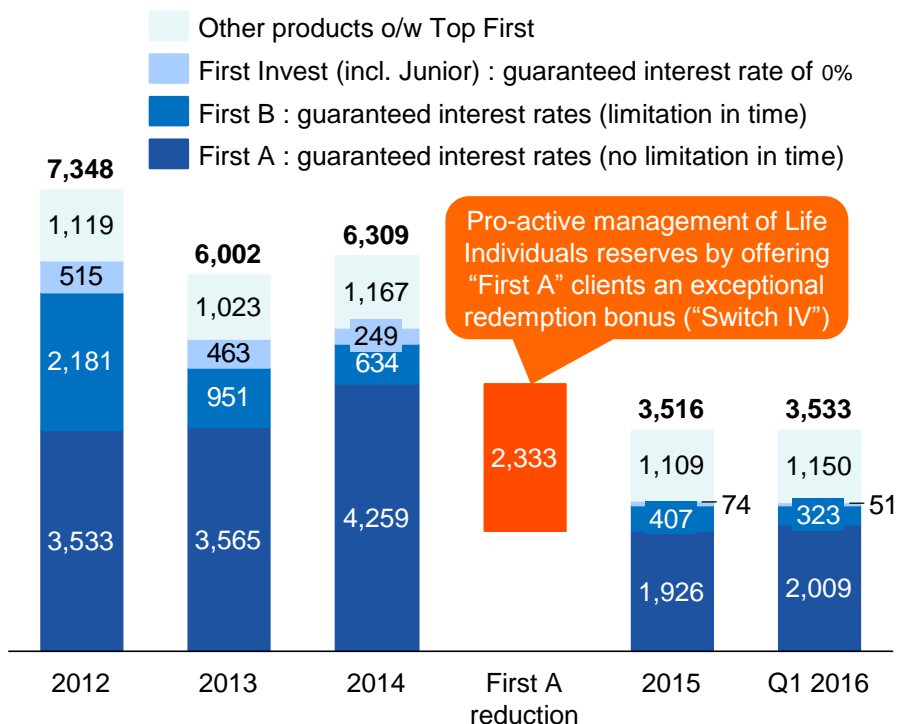
Life technical result IFRS (€M)



- With the exception of 2014, the Life result (excluding non-recurring items) is positive over the period 2012-Q1 2016
- The Life technical result is dependent on the results of the LAT (depending on the interest rate environment and on our duration gap) and the cost of the "Switch" operation (for 2015 and 2016)

Focus on Life business (2/2)

Evolution in Life Individuals reserves (€M)



Impact of redemption offer on First A :

- In Q1 2015 : Switch IV operation (exceptional redemption bonus of 4 years' interest, equivalent to an exit premium of c.14%) with surrenders of €1.9 billion (for a cost of €243M) which, combined with the interest capitalization on existing contracts, involve a reduction of reserves for an amount of €2.3 billion as per end 2015 (representing 55% of 2014 First A reserves)
- In Q1 2016 : Switch V operation (redemption bonus of 10%) with surrenders of €65M (for a cost of €6M)
- Other actions are planned before year-end, impacting positively our SII ratio and our duration gap
- Average guaranteed interest rate of First A : 3.44% as per end of March 2016

Duration gap

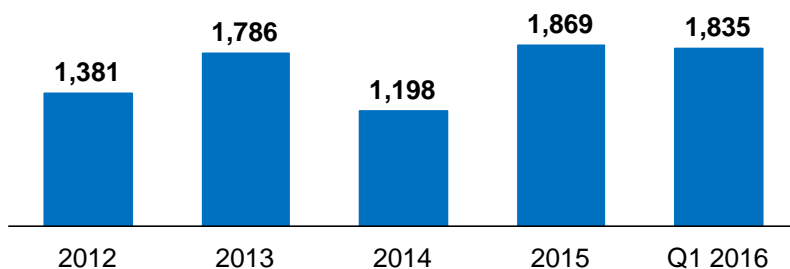
	31/12/2014			31/12/2015 (*)		
	Assets Duration	Liab. Duration	Duration gap	Assets Duration	Liab. Duration	Duration gap
Total Life	4.51	12.26	(8.71)	7.24	12.57	(3.23)
Total Non-Life	3.44	5.85	0.14	4.31	4.44	1.49

- Life duration gap is mainly due to First A reserves
- Several actions have been undertaken in 2015-Q1 2016 to reduce the gap :
 - Switch IV and V offers
 - Reinvestment of cash in long-term linear bonds
 - Sales of shares/ABS and reinvestment in long-term bonds
 - Acquisition of financial hedging instruments related to FIRST A (protection against decrease in interest rates)
 - Review of part of the mortgage loan portfolio (switching from a variable rate to a fixed rate)

(*) Since 31/12/2015 : with equity-backed asset portfolio

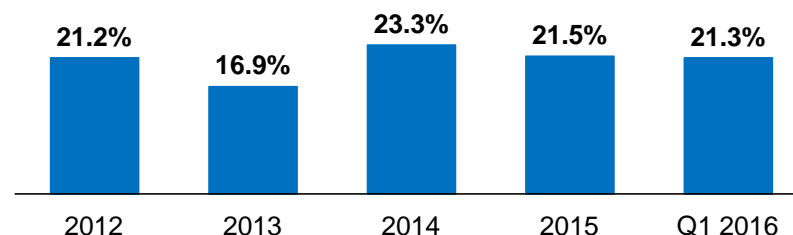
Other key elements

Evolution of equity (€M)



- In 2015, increase in equity (despite the cost of the "Switch IV" operation for an amount of € 243M) following the reversal of the Life insurance provisions related to the increase in interest rates
- In Q1 2016, the decrease is mainly explained by the distribution of a dividend of €45M, partially offset by the net result of the period

Evolution in debt ratio



- Improvement of debt ratio in 2015, the increase in indebtedness resulting from the issuance of additional bonds being compensated by the strong increase in equity
- Slight decrease in the debt ratio in Q1 2016, these last one not including the collateral received (€121,6M) in guarantee of hedging operations (acquisition of forward bonds and swaptions) against a decrease in interest rates (same amount on the asset side)

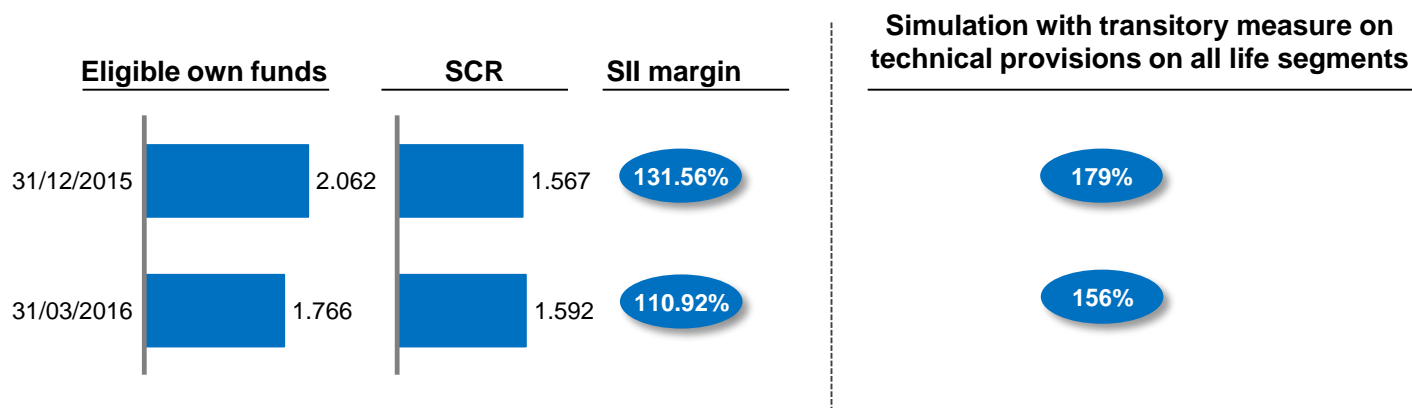
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Solvency II – with use of the standard formula (1/2)

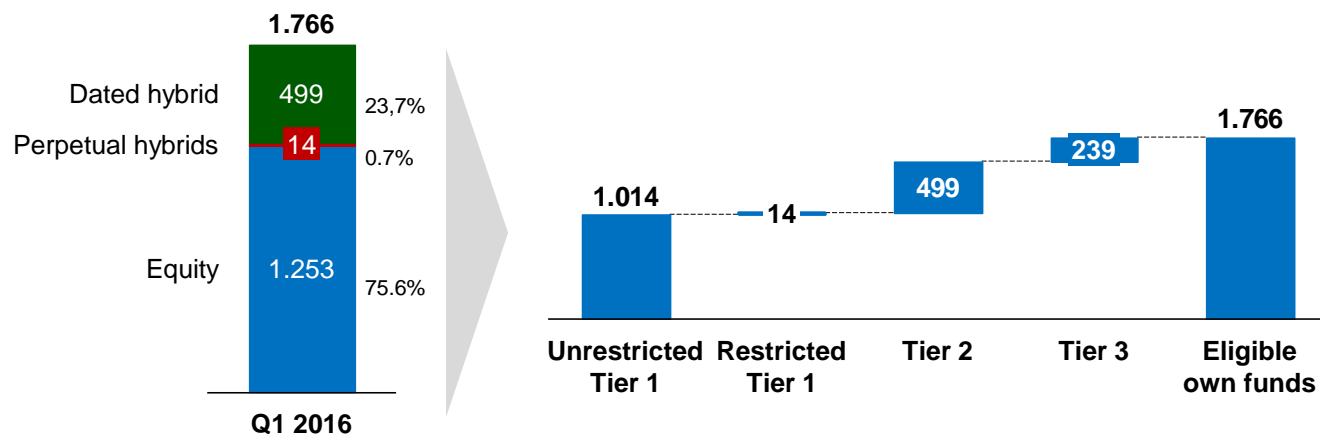
Required capital, eligible own funds and SII margin (in €M) – Before transitory measure on technical provisions



- Deterioration of our SII margin mainly due to the important decrease in interest rates in Q1 2016.
- The SII margin includes the recovery of a part of the tax litigation due to the decision taken by the Court following an agreement between parties (recovery of a principal amount of €106M plus delay and default interests).
- Strengthening of our SII margin in 2016 through the technical result of the non-life business (between €200M and €300M over the last 3 years) and the implementation of specific measures (reduction of our duration gap, reduction of our overhead costs, additional Switch operations, ...)

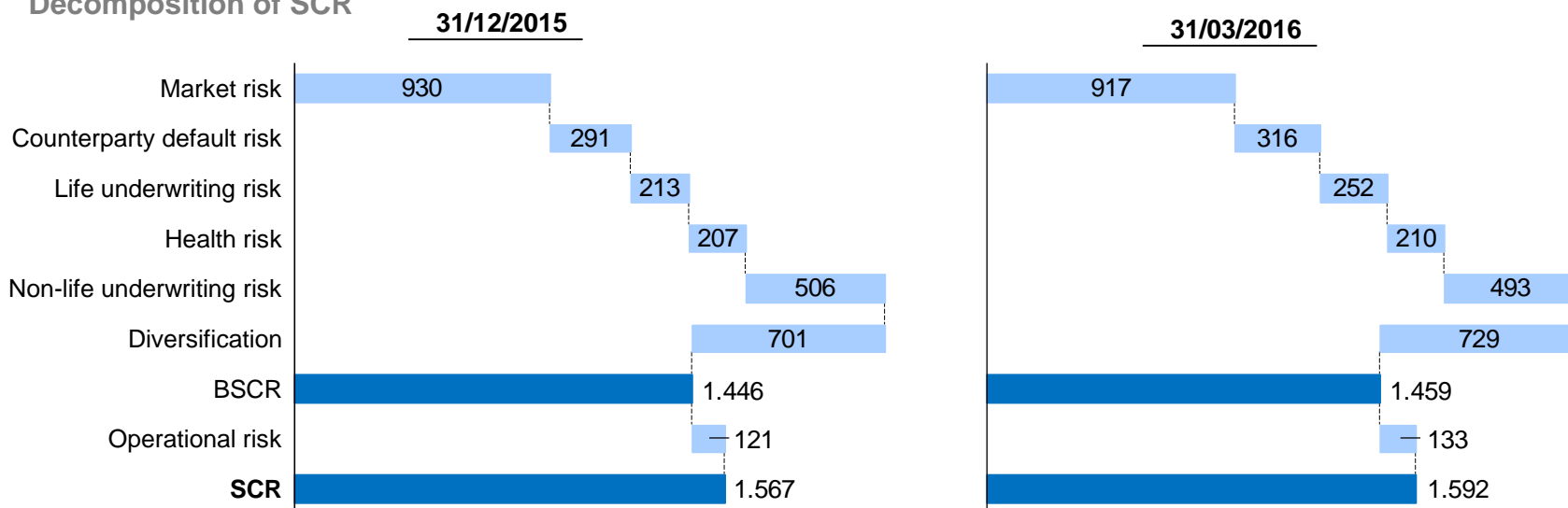
Solvency II – with use of the standard formula (2/2)

Decomposition of eligible own funds



- Tier 1 capital represents 58% of total own funds
- Restricted Tier 1 and a part of Tier 2 (€75M in book value) capital grandfathered under Solvency II
- Tier 3 comprises deferred tax assets

Decomposition of SCR



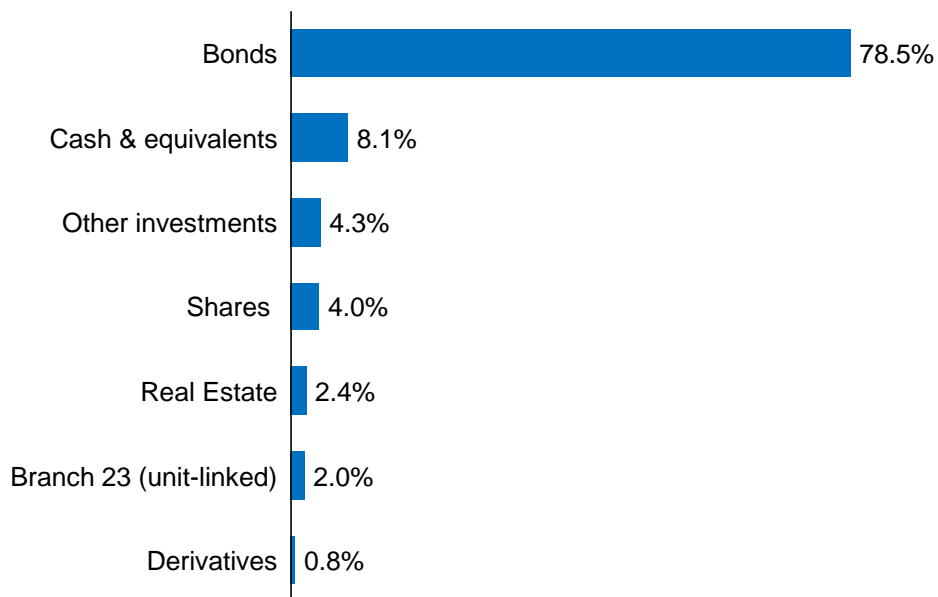
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Total investment portfolio as of 31 March 2016

Total investment portfolio by asset class

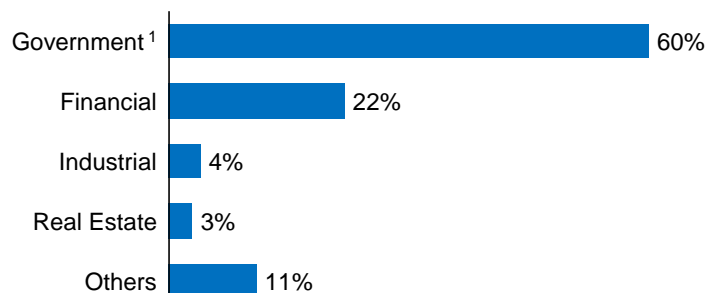


Asset class (€M)	IFRS value
Bonds	14,308
<i>a/w Government bonds</i>	8,383
Cash & cash equivalents	1,469
Other investments	788
Shares (incl. funds & participations)	724
Real Estate	428
Branch 23 (unit-linked)	361
Derivatives	139
Total	18,217

Note: Figures under IFRS ; Total might not add up to 100% as a result of rounding errors

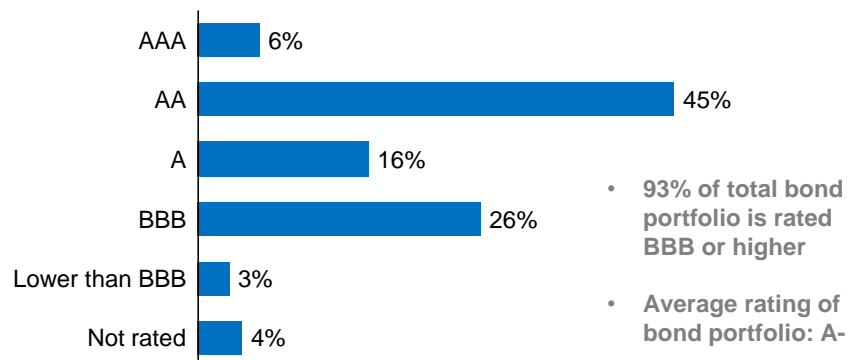
Bond portfolio as of 31 March 2016

Bond portfolio by sector



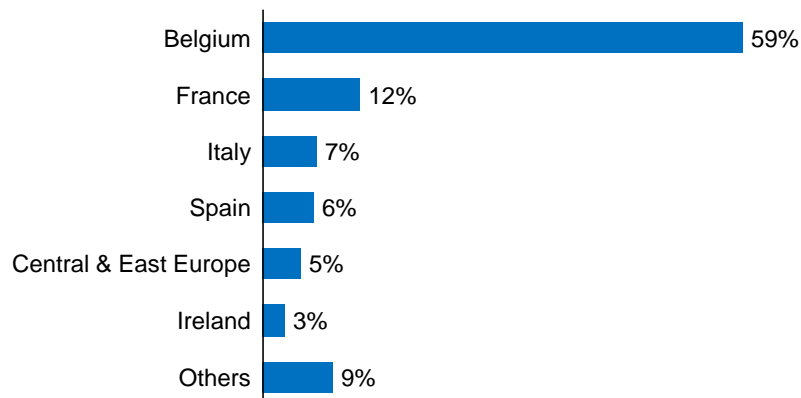
Total Q1 2016 IFRS value = €14,308M

Bond portfolio by rating



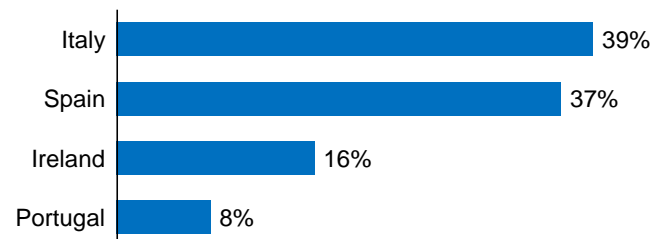
Total Q1 2016 IFRS value = €14,308M

Government bond portfolio by country



Total Q1 2016 IFRS value = €8,383M

PIIGS exposure



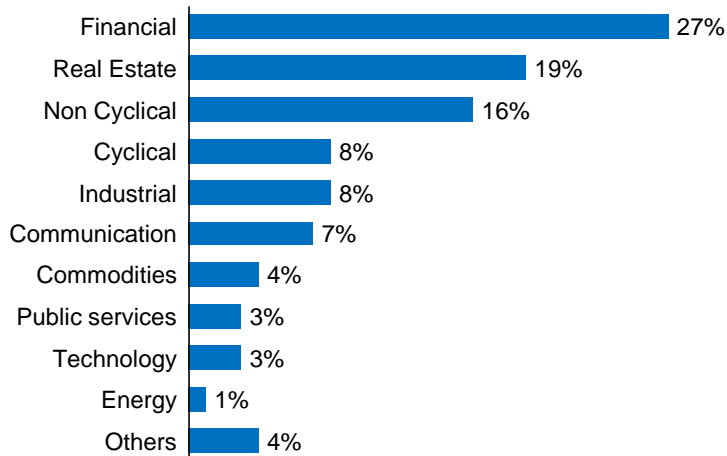
Total Q1 2016 IFRS value = €1,449M

Note: Figures under IFRS ; Total might not add up to 100% as a result of rounding errors

¹ Including bonds issued by Public Sector and guaranteed by the Belgian State

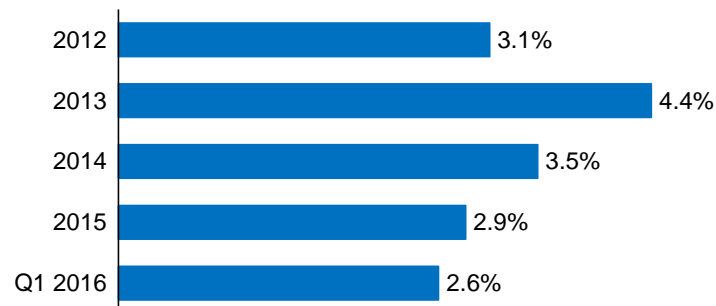
Shares (incl. funds) and real estate portfolio as of 31 December 2015

Shares (incl. funds & participations) by sector

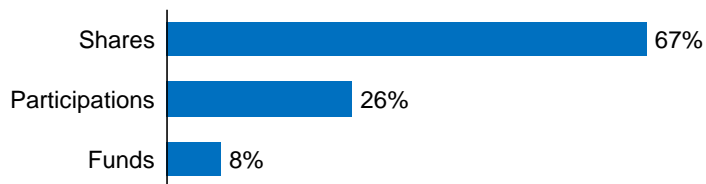


Total Q1 2016 IFRS value = €724M

Evolution of shares (in % of total investment portfolio)

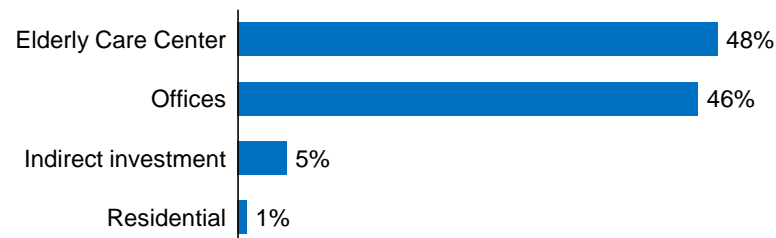


Shares (incl. funds & participations) by asset class



Total Q1 2016 IFRS value = €724M

Real estate by nature



Total Q1 2016 IFRS value = €428M

Agenda

- Key Q1 2016 highlights
- Financial performance BGAAP
- Financial performance IFRS
- Solvency II
- Investment portfolio
- **Appendix**

Figures as per end of March are based on non-audited statutory and non-audited consolidated financial statements

Consolidated balance sheet (IFRS)

(in €M)	2013	2014	2015	Q1 2016
Assets				
Goodwill	29	30	45	45
Other intangible assets	13	14	46	54
Properties and other fixed assets	133	132	136	137
Investments in associates	25	21	0	0
Investments properties	357	391	433	428
Financial investments	16.773	17.310	15.912	16.320
Reinsurers' share of insurance liabilities	141	114	134	158
Deferred tax assets	126	279	170	178
Receivables arising from insurance operations or accepted reinsurance	1.226	1.269	1.291	1.480
Receivables arising from ceded reinsurance operations	65	62	57	69
Other receivables	634	210	278	154
Other assets	286	281	258	211
Cash and cash equivalents	1.567	1.893	1.087	1.469
Available-for-sale assets including assets from discontinued operations	4	1	0	0
Total assets	21.380	22.007	19.847	20.703
Liabilities				
Share capital	1.000	1.000	1.000	1.000
Reserves and retained earnings	249	574	-31	557
Net profit (loss) of the period	325	-604	633	9
Other items of comprehensive income	170	177	233	239
Equity of the Group	1.744	1.146	1.835	1.805
Non-controlling interests	42	52	34	30
Total equity	1.786	1.198	1.869	1.835
Insurance contract liabilities	8.136	8.530	8.607	9.137
Investment contract liabilities with discretionary participation features	9.470	10.279	7.351	7.560
Investment contract liabilities without discretionary participation features	0	4	4	4
Liabilities belonging to unit-linked insurance contracts	477	416	359	361
Profit sharing liabilities	13	21	38	4
Insurance and investment contract liabilities	18.096	19.250	16.359	17.066
Subordinated debts	322	322	454	455
Other financial debts	42	46	56	164
Employee benefits	537	603	502	518
Provisions	149	119	63	72
Derivative financial instruments	0	0	20	0
Tax payables	35	39	49	76
Deferred tax liabilities	4	4	0	0
Liabilities from operating activities	186	208	216	227
Other liabilities	218	214	259	290
Liabilities related to assets available for sale and discontinued operations	5	2	0	0
Total other liabilities	19.594	20.809	17.978	18.868
Total liabilities	21.380	22.007	19.847	20.703

Consolidated income statement (IFRS)

(in €M)	2013	2014	2015	Q1 2016
Gross premiums	2.692	2.376	2.444	953
Premiums ceded to reinsurers	-72	-41	-38	-38
Change in the provision for unearned premiums and outstanding risks ¹	-12	-15	-7	-279
Other income from insurance activities	3	4	5	6
Revenues from insurance activities¹	2.611	2.324	2.404	642
Revenues from other activities	163	173	199	63
Revenues	2.775	2.497	2.603	705
Investment income	658	621	624	124
Net realized gains or losses on investments	33	120	34	13
Change in fair value of investment through profit or loss ²	82	22	26	-14
Net financial income	773	764	684	123
Net revenues	3.548	3.261	3.287	828
Benefits and claims	2.633	3.185	2.137	693
Net expenses or revenues ceded to reinsurers	-26	-15	-48	-2
Management costs ³	281	285	258	80
Technical expenses for insurance activities	2.887	3.455	2.347	771
Expenses for other activities	175	542	201	64
Operating expenses	3.062	3.997	2.548	835
Change in depreciation and amortization on investments (net)	25	23	41	0
Other investment financial expenses	83	-11	-45	2
Finance costs	18	18	20	7
Financial expenses	126	30	16	9
Net expenses	3.188	4.027	2.563	844
Goodwill impairment				
Net profit (loss) before tax	360	-766	724	-17
Income taxes	-30	167	-87	26
Net profit (loss) after tax	330	-599	637	9
Investment in associates through profit or loss	0	1	0	0
Net profit (loss) before tax of available-for-sale companies and of discontinued operations	0	0	1	0
Net consolidated profit (loss) attributable to :	330	-598	638	9
Owners of the parent	325	-604	633	9
Non-controlling interests	5	6	5	0

¹ Net of reinsurance; ² Includes change in fair value at of the fair value of investments of which the financial risk is supported by the insured; ³ Includes contract acquisition costs, administration costs, internal claim handling costs and other technical expenses

Disclaimer

These assessments are, as always, subject to the disclaimer provided below.

Certain of the statements contained herein are statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Future actual results, performance or events may differ materially from those in such statements due to, without limitation, (i) general economic conditions, (ii) performance of financial markets, (iii) the frequency and severity of insured loss events, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) interest rate levels, (vii) currency exchange rates, (viii) increasing levels of competition, (ix) changes in laws and regulations, including monetary convergence and the Economic and Monetary Union, (x) changes in the policies of central banks and/or foreign governments and (xi) general competitive factors,

No duty to update

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