Solvency and Financial Condition Report

Ethias SA

31/12/2016

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INTRODUCTION

This report meets the regulatory requirements for reporting on solvency and financial health SFCR solo Ethias SA (situation as at 31 December 2016).

This report on solvency and financial health has mainly taken into account the following regulatory texts:

- Commission Delegation Regulation (EU) 2015/35 of 10 October 2014, supplementing Directive 2009/138 / EC (Solvency II))
- Circular NBB_2016_10 of 25 April 2016 on the regular communication of information
- Circular NBB_2016_12 of 25 April 2016 on guidelines on disclosure and information to the public, to be considered as a supplement to Regulation 2015/35 which if further clarifiers, specifying the minimum content expected of certain sections of the reports.
- Commission Implementing Regulation (EU) 2015/2452 of 2 December 2015 laying down technical implementing standards with regard to the procedures, formats and models for the solvency and financial condition report under Directive 2009/138 / EC of the European Parliament and of the Council
- Circular NBB_2016_31 and annex of July 5, 2016 relating to the NBB's prudential expectations regarding the governance system for the insurance and reinsurance sector

The SFCR report contains descriptive information, both qualitative and quantitative, on historical, current or prospective elements from internal or external sources. The information contained in the SFCR report is in accordance with the following principles.

- they reflect the nature, scope and complexity of the company's activities, including the risks inherent in this activity;
- They are accessible, complete for all that is important[1], comparable and consistent over time;
- They are relevant, reliable and understandable.

It should also be noted that the accounting figures for the financial year 2016 mentioned in this report have been approved by the ordinary general assembly of Ethias SA on May 17, 2017.

[1] The information to be published in the solvency and financial condition report is considered important if its omission or inaccuracy is likely to affect the decision-making or judgment of the users of this document, including the supervisory authorities.

1. Summary

This report relates to the situation of Ethias SA as at 31 December 2016, while already taking into account, in some respects, the latest developments during the first months of 2017.

Ethias SA is a mutual insurance company with a mutual insurance philosophy offering a full range of life and non-life insurance products. In terms of premium collection, Ethias SA is ranked as 3rd insurer in the Belgian market. More specifically, Ethias SA is a direct insurer and the leading insurer of the public sector and its agents.

In 2016, Ethias SA had a premium income of 2.4 billion (1.3 billion in non-life and 1.1 billion in life) and achieved a result in Belgian accounting standards of 79.9 million which takes into account the allocation to the flashing-light reserve and exceptional elements, including mainly the costs related to the "Switch V" and "Switch VI" transactions and to the recovery of part of the tax dispute. From a technical and financial point of view, and excluding the flashing-light allocation and exceptional elements, the technical-financial result in non-life is EUR 254.6 million and the technical-financial result in life is EUR 45.2 million.

As confirmed by these results, Ethias SA's strategy focuses on profitable growth. In order to maintain our position as a direct insurer offering innovative products to our clients, the company is committed to an ambitious technological transformation plan until 2019.

In terms of financial strength, Ethias SA strengthened its solvency in 2016 with the implementation of several measures, the main ones being:

- The reduction of the asset-liability duration gap through appropriate reinvestments and the purchase of hedging options.
- The "Switch V" and "Switch VI" operations, allowing to reduce the reserves of the FIRST A portfolio by 57% compared to the situation on 31 December 2015.
- The financial recovery programme, including the integration of Whestia with effect from 1 January 2017 and a reinsurance solution on the credit risk for corporate bonds.

Ethias SA calculates its solvency level under the Solvency 2 standard via the standard formula. The solvency ratio is valued using the EIOPA rate curve with the volatility adjustment, which amounts to 0.13% as at December 31, 2016. The company does not use long-term transitional measures to calculate its solvency ratio. Only the transitional measures "Equity" and "Own Fund" are taken into account. As of December 31, 2016, the solvency ratio of Ethias SA is 146% for the Solvency Capital Requirement (SCR) and 236% for the Minimum Capital Requirement (MCR).

Ethias SA is mainly exposed to the market risk, and in particular to the spread risk and rate risk. However, Ethias SA continues to undertake specific actions that will enable the company to further reduce its sensitivity to these two market risks in the course of 2017.

Lastly, in terms of governance, Ethias SA completed at the end of 2016 a diagnosis of compliance between the company's governance practices and the legal/regulatory requirements. This exercise resulted in an action plan to strengthen governance, which will be carried out mainly in 2017.

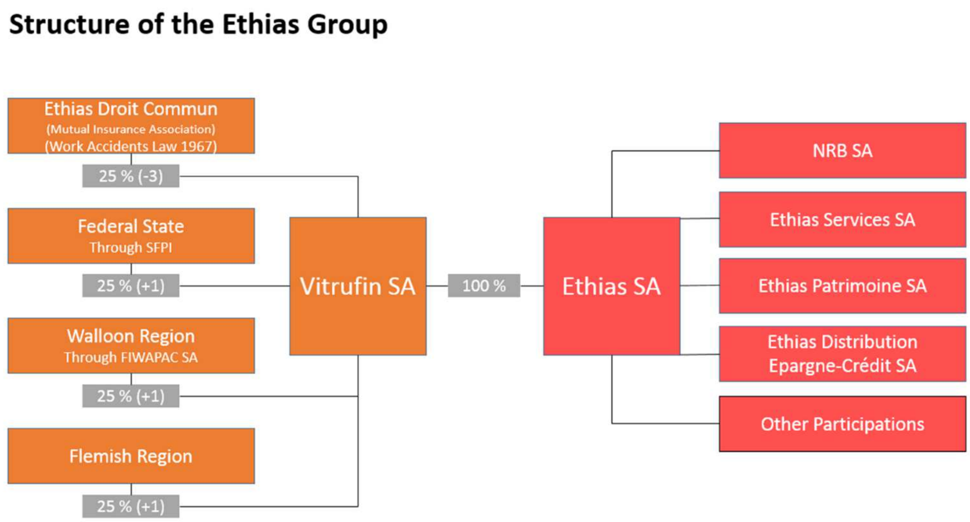
2. Business and performance

2.1. Business

2.1.1. A group with a mutual insurance philosophy

- A mutual insurance association is created by its members and operates for its members. Although our legal form has evolved over time, we remain imbued with this philosophy that we have translated in the slogan "*The Efficient Insurer*", i.e. to act efficiently for the well-being of our policyholders and our staff members.
- In 1919, a group of municipal and provincial authorities founded the "*Société Mutuelle des Administrations Publiques*" (abbreviated as SMAP) for the insurance against fire, lightning and explosions.
- This was the beginning of a rich history with various turns and many successes, leading up to a strong insurance group who today has over 1 million policyholders.

2.1.2. Our structure



- Vitrufin SA is a holding company in which the public authorities (Belgian State, Walloon Region and Flemish Region) have acquired interests, accounting together for 75 % + 3 shares of its capital. Vitrufin owns 100% of the shares of Ethias SA.
- Ethias SA is the major operational entity of the group since it centralizes all Life and Non-Life insurance activities, with the exception of the insurance against accidents at work - Public Sector (1967 Work Accidents Law).
- Ethias SA is also the sole or majority shareholder of the companies of the Group, such as *Ethias Service*s (consultancy company specialized in pension insurance), *Ethias Patrimoine* (acquisition and management company for movable and real estate assets), *Ethias Sustainable Investment Fund* (institutional SICAV under Belgian law), *Ethias Distribution Epargne-Crédit* (business contributor) and *NRB* (IT company) and is present in other companies in which it has acquired interests.
- Ethias Droit Commun (mutual insurance company) practises the activity of insurance against accidents at work - Public Sector (1967 Work Accidents Law), and is a shareholder of the holding company "Vitrufin SA" alongside the public investors.

2.1.3. Our policyholders and our products

2.1.3.1. Private Individuals

Ethias is a direct insurer, offering a complete range of Life and Non-Life products:

- In Non-Life. Besides its flagship products, namely car insurance and home insurance, Ethias also offers assistance (car & medical), health care coverage, coverage for civil liability and travel cancellation insurance.
- In Life. Following the decision by the European Commission of 12 June 2014, which obliged Ethias to stop marketing new contracts (with the exception of death insurance contracts without Life component and contracts of branch 23), Ethias has concluded distribution partnerships with Integrale, involving products of branch 21, in order to continue offering customers a full range of products.

Our customer approach revolves around a continuous development of new and even more efficient products, on the one hand, and accessible and customized solutions with the best price/quality ratio, on the other hand. Our goal is that our products are designed in such a way that they give the best possible answer to the needs of our policyholders, whether they are agents of the public service or private individuals.

Our customer base is loyal and includes over one million policyholders with insurances for personal risks.

2.1.3.2. Public Sector

Ethias has been the privileged insurance partner of the Public Sector since 1919. Its insured parties include the Federal State, Regions and Communities, local public authorities (provinces, cities and municipalities, public social welfare centres ...), public companies as well as thousands of intercommunity and semi-public bodies, schools, hospitals, public interest organizations and miscellaneous associations ...

Ethias covers all the potential risks which employees face in public services: civil liability, health care, accidents, including not only work accidents but also sporting injuries, motor vehicle and assistance ...

Ethias also covers damage to or destruction of equipment, buildings and installations.

With regard to pension insurance, Ethias is a player of major importance in the development of 1st and 2nd pillar pension schemes in the public sector.

But being an insurer today is not simply covering a series of financial risks, it is all about adopting a comprehensive prevention risk policy. For several years now, Ethias has been conducting a proactive and dynamic prevention policy across all its products and services (risk prevention relating to work accidents or hazardous weather conditions), and through innovative initiatives (risk management audit via Ethias Services, road safety prevention via the Ethias Prevention Awards ...).

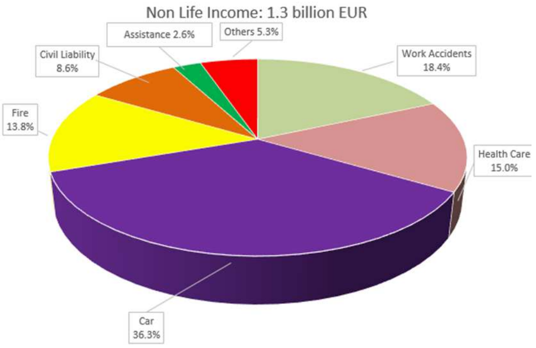
2.1.3.3. Companies

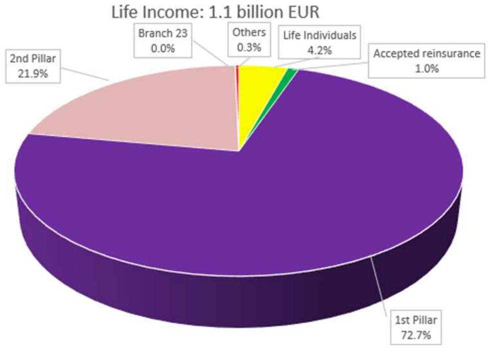
Since 2000, Ethias has also been accessible to private businesses, offering them its skills and expertise acquired in the public sector and non-profit sector. For allowing these businesses to take a lead in risk management, Ethias offers them a range of insurances responding to their specific needs and including the protection of:

- Their patrimony: car insurance, property and casualty insurance, machine breakage, all-risk insurance ...
- Their liabilities: civil liability for businesses, civil liability for directors and officers;
- Their staff: work accidents insurance, life accidents insurance, hospitalization insurance, guaranteed income insurance, group insurance.

2.1.4. Partition of premium income 2016 for Ethias SA

The premium income stands at EUR 2.4 billion by end-2016 and is relatively balanced between Life and Non-Life activities. It is split per product as follows:



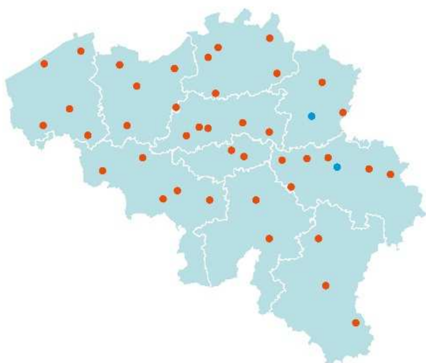


The majority of Ethias' activities are focused on the Belgian market. Ethias is the country's third-largest insurer, for all activities combined, with a 9% market share, and is the country's premier insurer of the public sector and its agents.

2.1.5. Our distribution network

Ethias is the only major direct insurer in Belgium, where brokers and bankinsurers have a predominant position.

For private individuals, Ethias distributes its products via three direct distribution channels:



- insurance advisors, located throughout the country, in a network of 42 offices;
- two "Contact Centres", where 70 officers respond daily to over 3,000 calls from clients;
- a website with over 365,000 visitors per month:
  - a secure personal space (named "My Ethias"), allowing policyholders to consult their insurances and to declare certain claims;
  - the online underwriting of 7 insurance products, possible since October 2015 and covering the entire process (from quote to payment).

A team of inspectors and prevention specialists is at the service of local public authorities and companies, with the collaboration of specialized brokers for private businesses. With the Ethias Extranet, public authorities and companies can obtain all the required information on the nature and type of products offered by Ethias, they can calculate one or more quotes and directly subscribe online the insurance contract(s) they require in view of an optimal protection.

2.1.6. Business Plan 2017-2021

- The strategic axes of the company remain profitability, growth, innovation and corporate values. The actions are adapted each year to take account of the changes in our environment and within the company.
- For Private Individuals, we continue the work to make insurance easier and accessible to all, with the objectives of profitable growth and of maintaining our position as a direct insurer in Belgium. The strategic actions focus on 5 axes: CRM (customer relationship management), omnichanneling, target markets (civil servants and Flanders), innovation and excellence in technical management.
- For the Public Sector, in Non-Life, we intend to consolidate our position as a multi-product insurer amongst public bodies and to continue the development of the corporate and social profit segments. In Life, 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 of technological transformation.
- At the same time, the organizational architecture will be adapted to meet the new challenges (technological transformation, regulatory changes, etc.).

2.1.7. Significant events during 2016 and early 2017

2.1.7.1. Switch V and Switch VI

The decision by the European Commission of 12 June 2014 compels Ethias to continue its policy of accelerating the run-down of the portfolio "Life Individuals", and this to strengthen its solvency. That is the reason why Ethias launched two "Switch" operations in 2016:

- The "Switch V" operation, launched in December 2015 and valid until February 19, 2016, offered the holders of a FIRST A an exit premium equal to 10 % of the mathematical reserve upon partial surrender (provided that the surrender rate is 50% or more of the mathematical reserve) or upon full surrender. Surrenders amounting to around EUR 66 million were recorded for a cost of EUR 6 million.
- The "Switch VI" operation, running from November 7, 2016 until December 9, 2016, offered the holders of a "FIRST Account" an exit premium equal to 25% of the mathematical reserve upon full surrender. Surrenders amounting to around EUR 785 million were recorded for a cost of EUR 196 million.

These operations resulted in a decrease of more than 57% in the FIRST A reserves that existed at end-2015. The number of contracts decreased from more than 26,000 to less than 13,000. The cost of the two transactions (EUR 202 million) directly impacts the 2016 result of Ethias, but these initiatives have allowed to significantly and recurrently improve the solvency margin under Solvency II, in force since 1 January 2016 (net impact of 24 % on the Solvency II margin).

2.1.7.2. Terrorist attacks

Following the attacks in Brussels of 22 March 2016, many work accidents and civil liability claims were opened. The cost to Ethias amounts to about EUR 10 million after intervention of reinsurance and of the Terrorism Reinsurance and Insurance Pool (TRIP).

2.1.7.3. Tax dispute

There was a significant dispute between Ethias SA and the tax administration about the "pension insurances" of various public entities (provinces, municipalities, inter-community and other public institutions) so as to ensure the statutory pensions of their regular permanent staff and their dependants.

The administration namely took the view that these contracts did not strictly correspond to life insurance contracts but were investment contracts and that, consequently, the annual interest granted by Ethias SA to the reserves of these contracts were indeed movable income for the public entities / policyholders and therefore had to be subject to withholding tax.

Hence, the tax administration has successively enrolled the withholding tax on the interests paid during:

- the financial years 2002 to 2004;
- the financial years 1991 to 1994;
- the financial years 2005 to 2006;
- the financial year 2008.

These enrolments were the subject of a complaint addressed by Ethias to the tax administration. Ethias had, however, paid, on a purely precautionary basis, the amounts of withholding tax enrolled as well as the increases applied by the tax administration for a total amount of EUR 367 million.

Judicial proceedings were initiated, at the end of which the Liège Court of Appeal ruled in favour of the tax administration by its judgment of November 28, 2014. However, this judgment concerned only the enrolments for the financial years 2002 to 2004.

On January 9, 2015, and within the frame of a totally different case, the Court of Cassation issued a judgment in principle and established a case law which, applied in the frame of the dispute between Ethias and the tax administration, calls into question the foundations of the enrolments operated since 1993 chargeable to Ethias.

The findings of this judgment of the Court of Cassation of January 9, 2015 were transposed into a tax circular dated June 15, 2015 (AGFisc No. 27/2015 No. Ci.RH.233.486), which resulted, in 2016, in a relief for an amount of EUR 223 million (including default interests) in favour of Ethias SA for the withholding taxes enrolled for the years not decided by the judgment of the Court of Appeal of November 28, 2014, namely the financial years 1993, 1994, 2005 and 2006.

On this basis, Ethias also lodged an appeal in cassation in early 2016 seeking the annulment of the judgment of the Liège Court of Appeal of November 28, 2014, the outcome of which should be rendered no earlier than 2018.

As regards the financial year 2008, the tax administration had proceeded in 2015 to the relief for an amount of EUR 44 million (including default interests), considering more particularly and after verification that the conditions for a specific exemption applicable to this type of agreements since January 1, 2007 were met.

2.1.7.4. Reducing the duration gap

Ethias has continued its programme for reducing the duration gap (assets with an average maturity shorter than the maturity of liabilities), in particular through reinvestments in long-term OLO[2] and the acquisition of derivative hedging instruments so as to limit its sensitivity to a decrease in interest rates. These measures have borne fruit since this gap in Life insurance portfolios has already been reduced from -3.32 at end-December 2015 to -2.81 at end-December 2016.

2.1.7.5. Financial recovery programme

Given the volatility of the Solvency II margins within the current macroeconomic context, the National Bank of Belgium asked the company to provide:

By 30 September 2016, pursuant to Article 510 of the Solvency II law, a financial recovery programme aimed at re-establishing the level of eligible own funds covering the solvency capital requirement of the group;
By 30 November 2016, pursuant to Articles 204 et seq. of the Solvency II law, a restoration plan providing for the measures that may be implemented in the event of a further significant deterioration in the situation of Ethias SA. The restoration plan must therefore include measures that should be implemented only when the margin level under Solvency II becomes insufficient.

The financial recovery programme, submitted on 30 September, included in particular the introduction of a financial reinsurance programme, the implementation of complementary "Switch" actions and the integration of Whestia with retroactive effect as of January 1, 2017 (an operation for which the NBB gave its consent in March 2017).

The "Switch VI" action was achieved with the success described above. This has made it possible to fundamentally improve the solvency situation and the risk profile of the company.

In order to take into account the positive impact of Switch VI, the NBB asked us to complete the financial recovery programme by February 15, 2017 and the restoration plan by February 28, 2017.

By end-March 2017, the regulator confirmed to us that, given the result of the "Switch VI" operation and its impact on the solvency ratio, there is no more any indication that Ethias would no longer be able to meet the regulatory requirements in terms of required capital. On this basis, the Bank considers that the implemented financial recovery programme has borne fruit and can be considered as closed. Furthermore, considering the changes made to the company's risk profile following the "Switch VI" operation, the Bank is asking Ethias SA to provide an updated version of the restoration plan by November 30, 2017.

2.1.7.6. Fitch Rating

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[2] OLO: Belgian linear bond.

Following the success of the "Switch VI" operation, the rating agency Fitch placed on 10 January 2017 the rating for financial strength of Ethias SA at BBB, with positive outlook. Fitch welcomes the improvement in our capital position and the reduction in our sensitivity to interest rates following the success of the "Switch VI" operation.

2.1.7.7. Closing of the commitments towards to the European Commission

The commitments of Ethias towards the European Commission in the frame of the state aid file following the recapitalization of the company by the public authorities at the end of 2008 expired on 31 December 2016. The circumstances in which the commitments were extended until 31 December 2017 are not met. These related to the achievement of a significant level of loss and insufficient coverage of the solvency capital requirement (SCR) that would have resulted from the court's unfavourable decision on the tax dispute.

The closing of the commitments will be confirmed by the Commission after examination of the situation at end-2016.

2.1.8. 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 Reviseurs d'entreprises SCRL(Woluwe Garden, Woluwedal 18 - 1932 Sint-Stevens-Woluwe), represented by Kurt Cappoen, accredited auditor.

2.2. Underwriting performance

Using Belgian accounting standards ("BGAAP"), the year 2016 recorded earnings of EUR 79,919 thousand, after allocation to the flashing light reserve (EUR -181,944 thousand) and taking into account the following non-recurring items:

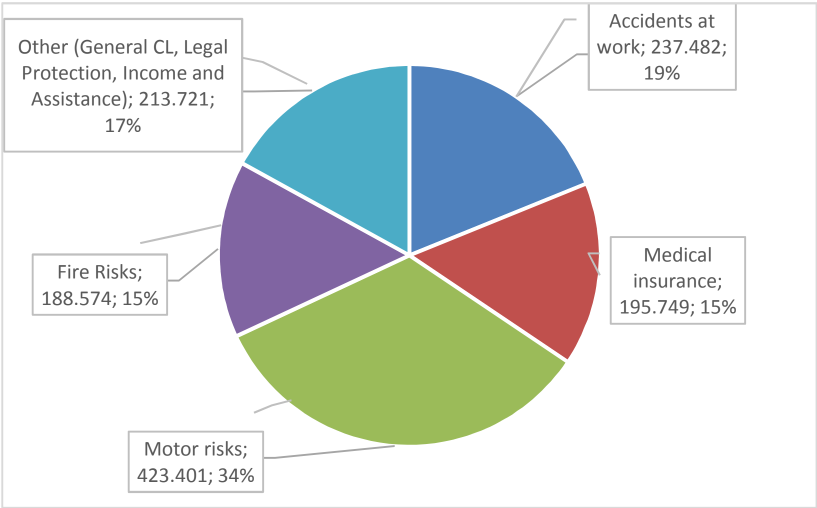
- the impact of the cost for the "Switch V" and "Switch VI" operations (EUR -202,390 thousand)
- the recovery of the tax dispute (EUR 222.827 thousand)
- other non-recurring elements and taxes (EUR -13,887 thousand)

This result is generated by non-life business (result of EUR 254,561 thousand), with life business generating a loss of EUR 319,611 thousand from non-recurring items (bonuses relating to the "Switch" operations and allocation to the flashing-light reserve). Without these elements, life business generates normalized earnings of around EUR 45,165 thousand.

2.2.1. Non-Life focus

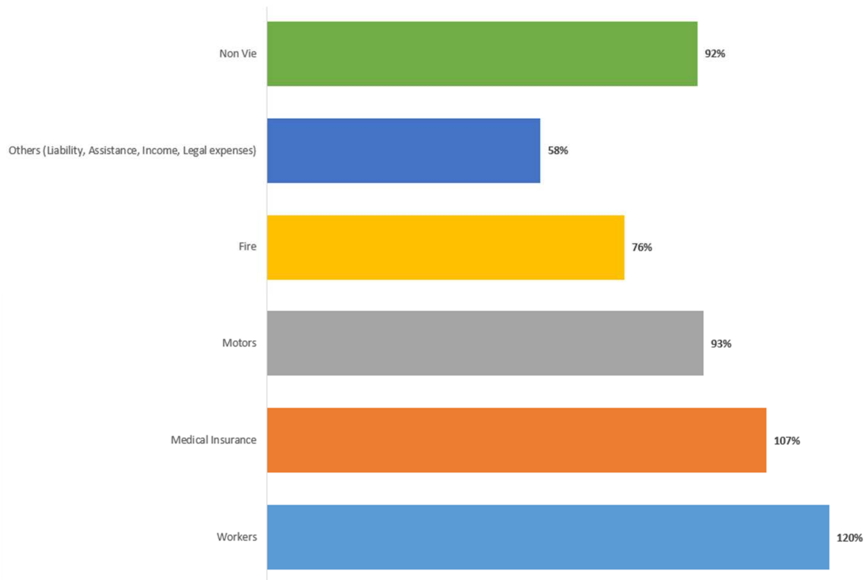
The non-life result of EUR 254,561 thousand is generated for 40% by the net technical balance (EUR 101,033 thousand) and for 60% by the financial income (EUR 153,527 thousand), coming from assets covering the technical provisions.

The guarantees subscribed by our insurant bring in premiums earned in non-life net of reinsurance for EUR 1,258,927 thousand.



The major part comes from motor risks (34%), accidents at work (19%), fire risks (15%) and medical insurance (15%), the remaining 17% consists of general CL guarantees, Legal Protection, Income and Assistance.

After claims costs, reinsurance and overhead costs, the technical balance amounts to EUR 101,033 thousand before investment result, which translates in a combined ratio of 92%. A combined ratio of less than 100% means that non-life profitability is already technically achieved and does not depend on financial income.



Motors and Fire fully contribute to reaching the 92% ratio of Ethias SA. The 58% ratio in "Others" is explained by the new calibration of flat rates in legal protection (positive impact of 33 M€ or 15% on the ratio).

The ratio of 107% in "Medical Insurance" comes from an 8 M€ increase in technical provisions so as to ensure a sufficient reservation level.

The 120% ratio in work accidents also comes from a 10 M€ increase in technical provisions so as to ensure a sufficient reservation level. The following should be noted: this product contains an annuity charge, a guarantee assimilated to Life products, which fictitiously aggravates the ratio, and finally the duration in Work Accidents is longer than for the other products, which explains higher technical provisions and an acceptance of a ratio close to 100%.

2.2.2. Life focus

Life business brings a premium income of EUR 1,143,740 thousand brought mainly by the clients in the Public Sector, the collection of EUR 48,832 thousand of individual premiums comes from recurring premiums on existing contracts of the type "Pension-Savings" or "classic Life".

The Life income in Public Sector & Companies exceeds EUR 1 billion and mainly results from the commercialization of Life Insurance products of the 1st pillar (pension insurance) and 2nd pillar (group insurance), with an income of respectively EUR 831,030 million (growing) and EUR 248,538 million (decreasing). This Life portfolio also shows a positive profitability in 2016 (net technical-financial balance: EUR 39,380 thousand in 2016). It has to be noted that the average guaranteed interest rate regarding the 1st pillar is adjusted annually in order to take account of the changes in the interest rates of the OLO 10 years.

The Life reserves in Public Bodies and Companies amount to nearly EUR 8 billion.

The Life business for Private Individuals was again centred on the organization of operations aimed at reducing the reserves of the First A Accounts (having been concluded before September 2003). Faced with the deterioration of the market conditions during the year 2016, we set up a "Switch VI" operation, running from 7 November to 9 December. It offered a premium equivalent to 25% of the reserve to all customers who would definitely close their First A contract. The action was a major success. Of the 25,300 contracts of this generation, not less than 12,900 were surrendered for a total of EUR 785 million (excluding premium). The balance of this portfolio represent no more than 608 million on January 1, 2017.

2.3. Investment performance

The financial income in BGAAP in 2016 is 545,432 thousand euros, broken down as follows: EUR 153,527 thousand in Non-Life, EUR 403,625 thousand in Life and an expense of EUR 11,720 thousand in non-technical.

EUR 57,934 thousand are non-recurring. It should be noted that a general provision for financial risks of EUR -29,100 thousand was recorded.

If we concentrate our analysis on financial assets managed, without branch 23, derivative products and provisions, the financial income amounts to around EUR 572,052 thousand on the basis of assets whose book value at December 31, 2016 is EUR 14,692, 738 thousand. The result mainly comes from bonds for 83%, 10% for equities and participating interests and 7% for real estate.

In thousands of EUR	31/12/2016
Ethias SA	
Result	**501,004**
Recurring income	**457,994**
Non-recurring income	***43,010***
Result by asset type	
Bonds	**476,765**
Recurring	397,078
Non-recurring	*79,687*
Shares & participating interests	**56,045**
Recurring	51,056
Non-recurring	*4,990*
Real estate & loans	**40,660**
Derivatives & provisions	**-41,753**
Long-term amount	**531,717**
Short-term	**-1,419**
Financial assets	**530,299**
Other financial assets and liabilities	**-29,295**
Financial assets and liabilities	**501,004**
Investments by asset type (book value without ICNE)	

Bonds	12,216,140
Shares & participating interests	595,744
Real estate & loans	1,332,556
Derivatives, provisions & subordinated loans	-475,145
Long-term amount	**13,669,295**
Short-term	**548,298**
Financial assets and liabilities	**14,217,593**
Unrealized gains or losses	1,762,032

2.4. Performance of other activities

The non-technical result of Ethias SA is EUR 147,826 thousand euros. It includes the impact of the tax dispute of EUR 222,827 thousand, the allocation (expense) of EUR 60,310 thousand to provisions for other risks and charges (mainly for the "60+" retirement plan) and the financial income of the non-technical portfolio including the cost of the subordinated loan.

2.4.1. Lease contracts

Ethias did not conclude contracts that are considered as financial lease contracts. All the information below relates to simple lease contracts concluded by Ethias.

2.4.1.1. Ethias as lessor

Minimum amount of the future net rent to be received arising from irrevocable simple lease contracts:

In thousands of EUR	31-Dec-16
Past due during the year	14,917
Within more than one and maximum 5 years	53,505
Within more than 5 years	194,757
Total	**263,079**

Rent amount recognized as proceed within the financial year:

In thousands of EUR	31-Dec-16
Minimum rent	13,668
Conditional rent	1,463
Total	**15,131**

Leased assets mainly relate to real estate.

2.4.1.2. Ethias as lessee

Minimum amount of the future net rent to be paid arising from irrevocable simple lease contracts:

In thousands of EUR	31-Dec-16
Past due during the year	1,780
Within more than one and maximum 5 years	4,555
Within more than 5 years	-
Total	**6,335**

Rent amount recognized as expense within the financial year:

In thousands of EUR	31-Dec-16
Minimum rent	3,463
Conditional rent	0
Total	**3,463**

Leased assets mainly relate to real estate and company cars.

2.5. Any other information regarding business and performance

2.5.1. Macroeconomic environment

Ethias suffers, just as all insurers with a Life activity, from the effects of a difficult macroeconomic environment. The low interest rates heavily penalize the profitability of the Life products with a guaranteed interest rate that is higher than the interest rates on government bonds. If the interest rates would remain at this level or even continue to fall, this would have a negative impact on the profitability of the company. Consequently, the company has implemented and will continue to implement actions allowing it to limit its sensitivity to changes in interest rates. The success of the "Switch VI" operation has reduced Ethias' sensitivity to interest rate developments.

2.5.2. Regulatory developments

The standard methods, assumptions and parameters used in the calculation of the solvency capital required under the standard formula will be reviewed at the end of 2018. The purpose of this review is to adapt the Solvency II regime to the market developments and to incorporate the practical experience gained during the first years of its application. The European Insurance and Occupational Pensions Authority (EIOPA) launched a consultation with stakeholders in the sector in late 2016 in order to identify the adjustments to be made in the calibration of the SCR in standard formula.

The regulatory uncertainty associated with this revision could significantly impact the Solvency II ratios of the companies.

2.5.3. Technological developments

Ethias has embarked on a major technological transformation program to support its ambitions.

This includes the acquisition of new IT tools to meet the future needs of our customers and to improve overall performance. These tools will particularly support the deployment of the omnichannel strategy (e-commerce, social media, etc.). This program also includes the modernization of the IT architecture supporting the Non-Life business through the Guidewire application.

To prepare for the integration and use of Guidewire within Ethias, an implementation program called "Century" has started in December 2015. The aim of Century is to make every effort so that Guidewire will be fully operational in 2019. The program also focuses on accompanying measures and training needed to facilitate this transformation. The target is to ensure the first operational roll-out in the course of the 4nd quarter of 2017.

3. System of governance

3.1. General information on the system of governance

3.1.1. System and structure of governance

3.1.1.1. 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 management committee, and, on the other hand, the supervision on that management, of which the board of directors is in charge.

3.1.1.2. Board of Directors

Missions

The board of directors defines the overall strategy, the objectives of Ethias and the general policy regarding risk management, including general tolerance limits for risks. To this end, it is closely associated with the continuous monitoring of the evolution in the company's risk profile.

The board is also responsible for supervising the activities of the company. As such, it regularly assesses the effectiveness of Ethias' governance system and the organization of independent monitoring functions and ensures that the management committee takes the necessary measures to remedy any deficiencies found.

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

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

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

Two specialized committees emanate from the Board of Directors: the Audit and Risk Committee and the Appointments and Remuneration Committee.

3.1.1.3. 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 in the supervision of the company's activities by the board of directors, the audit and risk committee is responsible for monitoring the financial reporting process, the effectiveness of the company's internal control and risk management systems, the internal audit and its activities, the statutory audit of the annual accounts and the consolidated accounts, including the questions and recommendations made by the statutory auditor, as well as the review and monitoring of the independence of the statutory auditor, in particular as regards the provision of complementary services to the enterprise.

He is also responsible for advising the board of directors on the risk strategy and organization of the risk management function and for assisting the board in its supervision of the implementation, by the management committee, of the risk strategy.

Hence, in accordance with Article 52 § 4 of the Solvency II Law, it exercises the functions assigned to the audit committee and to the risk committee.

Its responsibilities are described in the charter of the audit and risk committee, adopted by the board of directors on April 2, 2009.

3.1.1.4. 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 SA and Ethias SA.

On July 4, 2014, it was decided to set up an appointments and remuneration committee specific to each of these companies.

A new internal regulation was therefore adopted on October 23, 2015.

Missions

The appointments and remuneration committee is responsible for:

I) With regard to the appointment of non-executive directors and management committee members

- developing the policy requirements for assessing the suitability of non-executive directors and management committee members for approval by the board of directors;
- defining the profiles of non-executive director and member of the management committee;
- assessing the individual initial suitability of any candidate for the mandate of non-executive director or member of the management committee as well as the collective expertise assessment of the body concerned in accordance with the assessment policy of suitability;
- making proposals to the board of directors for the appointment of non-executive directors and management committee members;
- conducting the ongoing assessment of non-executive directors and management committee members (in the course of their duties or prior to any renewal);
- making proposals to the board of directors for the renewal of non-executive directors and management committee members;

II) with regard to the appointment of the heads of the independent monitoring functions

- developing the policy requirements for assessing the suitability of the heads of the independent monitoring functions to be approved by the board of directors;
- defining the general profile of the heads of the independent monitoring functions;
- conducting the assessment of any candidate for a position as head of an independent monitoring function.
- issuing a reasoned opinion on any candidate for the attention of the management committee;

III) with regard to remuneration

- formalising a remuneration policy of which the principles apply to non-executive directors, management committee members, other senior managers, staff members performing key functions or independent monitoring functions, and staff members whose activities have or are likely to have a material impact on the company's risk profile;
- ensuring the implementation of this remuneration policy, in particular by reviewing the individual remuneration of all persons referred to above;
- making recommendations to the board of directors on the amount of the remuneration for the management committee members;
- making recommendations to the board of directors on the amount of fixed remuneration and attendance fee paid to non-executive directors, it being understood that the determination of these amounts falls within the competence of the general assembly.

3.1.1.5. Management Committee

Missions

The management committee shall effectively manage the day-to-day operations of Ethias SA as part of the strategy 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.

It also implements the general risk management policy defined by the board of directors, by adopting the necessary measures for risk control, by supervising the evolution of the company's risk profile and by ensuring that all risks are appropriately identified and managed.

It also sets up an organizational and operational structure to support the strategic objectives of the company and including adequate internal control mechanisms. In this context, it shall in particular take the necessary measures to ensure that the company always has appropriate independent monitoring functions (internal audit, compliance, actuarial control and risk management), implements the organizational policies defined by the board of directors, ensures the implementation of the company's remuneration policy and the reliability of financial information and prudential reporting.

Lastly, it shall communicate 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.

3.1.1.6. Remuneration policy and practices

As of March 23, 2016, the board of directors, on the recommendation of the appointments and remuneration committee, adopted a remuneration policy for Ethias SA.

This policy complies with the requirements of the NBB circular of July 5, 2016 concerning the NBB's prudential expectations regarding the governance system, in that it defines the "identified staff" and lays down the general principles applicable to all staff members as well as the specific provisions applicable to members of the management committee, the non-executive directors and the independent monitoring functions.

Are considered as "identified staff" within Ethias SA.

- the non-executive directors,
- the members of the management committee,
- the members of the strategic coordination committee (N and N-1),
- the heads of the independent monitoring functions,
- the persons likely to have a material impact on the risk profile of Ethias or "*risk takers*" (employees participating in the various investment committees and the N-2 and N-3 in the area of risk underwriting within the department Public Bodies & Companies).

The remuneration system applicable to **all employees of the company** (with the exception of the management committee members but including the "*identified staff*" under a contract of employment with Ethias SA) is the subject of written policies: one for employees recruited before January1, 2007 and the other for employees recruited after January 1, 2007. The remuneration of inspectors is governed by a collective labour agreement of June 29, 2012. These policies were adapted In 2016 in order to incorporate the changes related to the corporate agreement of 2015.

In this context, it should be noted that:

- The "identified staffs" are not subject to any specific remuneration treatment;
- Current remuneration policies do not provide for a variable remuneration, with the exception of the remuneration applicable to the functions of generalist inspector for public bodies & companies and inspector-claims regulator for whom the variable remuneration is governed by a corporate agreement of December, 21 2012. The amount allocated to the latter as variable is fixed at 8.7% of the average gross annual salary and depends on the achievement of objectives set annually by the management. These objectives can be individual as well as collective, it being understood that the collective objectives can only condition a maximum of 25% of the amount that can be granted as variable remuneration.
- Only collective labour agreements establishing non-recurring benefits linked to the results (known as "C.C.T. 90") have been concluded pursuant to corporate agreements. For 2016, the beneficiaries of the "C.C.T. 90" are the employees not being beneficiaries of a group insurance for executives. The objective is twofold: a 5% reduction in consumables and a Solvency margin coverage of at least 110 % at December 31, 2016.

The management committee members are not covered by the aforementioned remuneration policies with the exception of the general principles set out in the remuneration policy of Ethias SA validated by the board of directors on March 23, 2016.

For the latter, a variable remuneration system had been validated in principle in 2009 but was never implemented due to the crisis context of the company. At its meeting of October 23, 2015, the board of directors approved the progressive implementation, for the management committee members, of this variable system, the granting of which depends on the attainment of predefined objectives. The target amount would be 3% of the annual compensation in 2016 (payable in 2017).

Supplementary pension schemes are described in the following group insurance regulations:

- Group insurance regulation n° 148 - 9006 applicable to personnel recruited before 1 January 2007: the formula chosen for the life coverage is the formula of the type "defined benefit";
- Group insurance regulation n° 6076 - 9059 applicable to personnel recruited from 1 January 2007 onwards: the formula chosen for the life coverage is a formula of the type "defined contribution";
- Group insurance regulation n° 602 - 9060 applicable to senior managers, directors and management committee members.

These plans are financed solely by contributions from the employer. Plans n° 148 and n° 6076 include a death coverage in addition to a life coverage.

Non-executive directors receive one attendance fee per meeting (when there are several meetings on a single day, the attendance fee is limited). An additional 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 allowance in the form of a fixed amount.

The total remuneration of the directors is published in the annual reports of Ethias Droit Commun and Ethias SA (note n° 19 to the balance and income statement).

3.1.1.7. Loans, credits or guarantees and insurance contracts to company leaders

Information on material transactions concluded in 2016 with management committee members or the board of directors is the following:

Two mortgage credits were granted to members of the management committee for an amount of EUR 280,000 and a loan on policy was granted to a member of the management committee for EUR 120,000.

3.1.2. Adequacy of the system of governance

At the end of 2016, a diagnosis of compliance between Ethias SA's governance practices and the legal and regulatory requirements in this area was initiated in a transparent way within the company. In this context, various collaborators were asked to fill in detailed analytical grids, covering all areas of governance, in order to identify any inadequacy or weaknesses and to propose remedial measures. The results of these evaluations were then challenged by one or more independent monitoring functions, so as to independently assess the adequacy of the governance system.

This exercise resulted in the set-up of an action programme for strengthening the governance system. This programme was validated by the board of directors 23 March 2017 and there will be a regular follow-up by the management committee and by the board of directors.

3.2. Fit and proper requirements

3.2.1. Initial assessment of the suitability

On April 1, 2014, the board of directors of Ethias SA drew up a policy on the assessment of the suitability of non-executive directors and management committee members and a policy on the assessment of the suitability of heads of independent monitoring functions as of 23 October 2015.

In addition to these policies, the board of directors of Ethias SA has validated the following function profiles:

- - general profile of member of the management committee;
- - general profile of non-executive directors;
- - general profile of head of an independent audit function.

These policies and profiles lie within the scope of the NBB circular of June 17, 2013 regarding the standards on expertise and professional integrity for management committee members, directors and heads of independent monitoring functions and senior managers of financial institutions. They establish the processes and criteria that the competent bodies of Ethias SA undertake to respect within the framework of the suitability assessments they carry out.

Suitability is on the one hand expertise, which encompasses the appropriate knowledge and experience, competencies and on the other hand the professional behaviour required for the function and professional integrity, which is linked to honesty and the integrity of the person. For the functions of management committee member and non-executive director, the appointment and remuneration committee also assesses the expertise of the body concerned on a collective basis, in addition to the candidate's individual suitability assessment.

The chairman of the board of directors also ensures that any newly appointed director receives appropriate initial training to enable him or her to contribute quickly to the work of the board of directors.

3.2.2. Suitability monitoring

Suitability is assessed prior to assuming office but also during the term of office and when reappointing directors.

In the course of their duties, fit & proper policies oblige employees exercising a function as management committee member, non-executive director or head of an independent monitoring body to notify, without delay, any element which may influence their suitability for the respective function. The competent bodies shall also take into account any new factors likely to influence the fit and proper character of the functions concerned.

The reassessment is carried out by the appointments and remuneration committee for management committee members and non-executive directors and by the management committee for the independent monitoring functions. These bodies shall write down the result of the re-evaluation and can take appropriate corrective measures, where appropriate, to remedy the situation. In particular, they may propose to reorganize the distribution of responsibilities within the body concerned or to offer a training to the person or to some or all of the members of the body to which he/she belongs in order to ensure that the collective expertise Is sufficient. If these measures prove insufficient, it may be proposed to terminate the function of the person concerned.

The reassessment file for the directors and management committee members is then sent to the board of directors and to the NBB, which in turn can decide to reassess the person concerned. The reassessment file for independent monitoring functions is sent to the appointments and remuneration committee and to the NBB.

The suitability is also reviewed in the event of a renewal of a non-executive or executive director's mandate. The appointments and remuneration committee shall then analyse the NBB form completed by the person concerned and, for the management committee members, the results of the annual assessments previously carried out by the board of directors on the achievement of their objectives. If the person concerned mentions a new element which may adversely affect his/her suitability for the function concerned, he/she will then be reassessed. The appointments and remuneration committee then submits the reappointment to the board of directors, accompanied by the reassessment file, if applicable. The NBB is informed about the reappointment and receives the reassessment file, if applicable.

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 customers, 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.

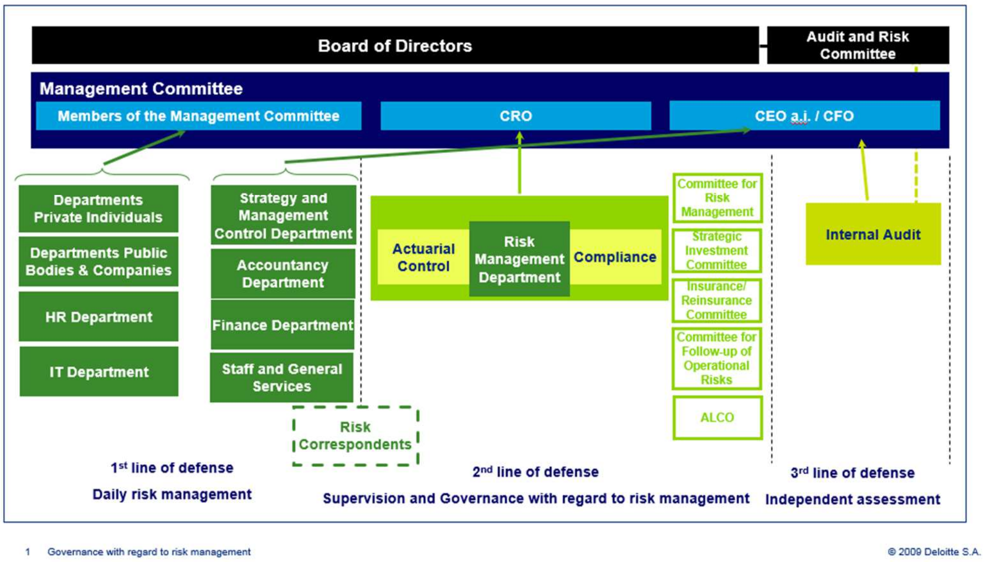
The purpose is to strike the best possible balance between the objectives and the associated risks, with an excessive risk aversion itself posing a risk, and keeping in mind that, alongside each threat, opportunities do exist. Risk management in general is not an end in itself but rather a means; a tool 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. Three defence lines

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":

The three lines of defense at 31/12/2016



First defence line - Daily risk supervision

The first defence line is provided by the operational lines and the support functions (Accounting, IT, Human Resources, Management Control, Strategic Cell, etc.) This defence line is made up of persons who are responsible for risk control, since they integrate the principles of efficient risk Management (implementation of controls, four-eye principle, etc.) on a daily basis into all task that have to be fulfilled.

The operational lines and the supporting functions are responsible for the activities that are attributed to them. Consequently, as such, they are responsible for the management of the risks that emanate from these activities: application of risk management and implementation of action plans.

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.

Furthermore, a network of "risk" correspondents within the operational lines and the support functions, composed of the risk management correspondents, permits to benefit from the technical skills of the experts in the field. These correspondents are points of contact who have the responsibility to relay to the CRO all the information that is essential for the accurate organization of risk management.

Finally, 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 (see next section).

Second defence line - Risk supervision

The second defence line is provided by the entities that are hierarchically answerable to the CRO: compliance, risk management and actuarial control. The CRO is a member of the management committee, which allows a direct communication of risk-related problems to the major decision-making organ.

The Chief Risk Officer has to make sure that the structure of Ethias' risk management is operational and has to improve its 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 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 intervenes at the operational level to initiate changes and to help the first defence line in resolving the problems.

Finally, in order to reinforce Ethias' risk governance, its management committee has decided to set up five committees dedicated to risk management:

- the Risk Committee;
- the Strategic Investment Committee;
- the Insurance-Reinsurance Committee;
- the Follow-up Committee on Operational Risks; and
- the Assets and Liabilities Committee.

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

Third defence line - Independent assessment

The third defence line is provided by the internal audit. This defence line provides an independent review of the quality of risk identification, measurement and control procedures. In order to secure its independence, this identity reports directly to the Chief Executive Officer (CEO).

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:

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)	

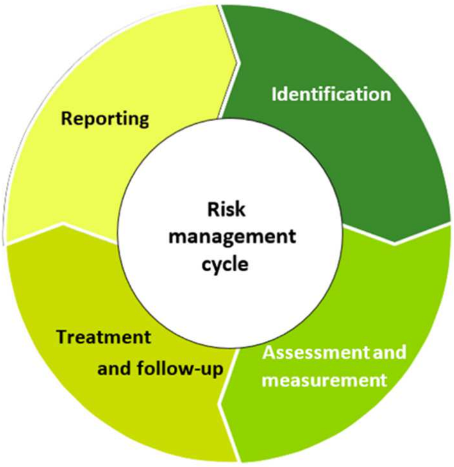
Financial risks		
Market risk	**Counterparty risk**	**Liquidity risk**
Interest rate risk	Downgrade risk	Market liquidity risk
Equity risk	Default risk	Risk of funding liquidity
Property risk		
Spread risk		
Currency risk		
Concentration risk		

Non-financial risks	
Operational risks	**Other non-financial risks**
Internal fraud	Risk due to correlation and dependency
External fraud	Model risk
Practices regarding employment and safety at work	Concentration risk on the insurance risks
Customers, products and business practises	Intangible assets risk
Execution, delivery and process management	
Damage to physical assets	
Interruptions in business activity and system failures	

External and environmental risks			
Reputational risk	**Strategical risk**	**Group risk**	**Business risk**

3.3.1.4. Risk management process

Risk management is based on the following cyclical process:



Identification of risks

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, ...);

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 will help to decide how (controlling actions) the risks are best handled.

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, 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 risk management policy

The company's risk management is governed by a general risk policy approved by the management committee and confirmed by the board of directors, in which are defined:

- the objectives pursued;
- the basic principles governing the management of the risks to which the company is exposed. The aim is to ensure the consistency of the processes and procedures set up for the different types of risk (counterparty risk, market risk, operational risk, reputation risk, etc.) by establishing a common reference framework;
- the general governance of the risk management within Ethias, structured along the model of the three lines of defence, and organized around the five Risk Committees;
- the general principles for the determination of the risk appetite;
- the internal risk governance rules and guidelines for the identification, assessment, monitoring and treatment of risks;
- the risk-bearing responsibilities of Ethias' management bodies, with regard to their role of general risk oversight, the monitoring of the insurance company's risk profile as well as respect for the risk appetite.

The general risk policy covers the strategic risk, the business risk, the reputation risk as well as subcontracting.

3.3.1.6. Specific risk policies

The general risk policy is supplemented by a series of specific policies approved by the management committee and confirmed by the board of directors.

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. The risk policies are subject to validation by the management committee and the approval by the board of directors.

The general risk policy is associated with:

- specific risk management policies (market, counterparty, underwriting, operational);
- an asset-liability management policy or ALM policy, which also includes the liquidity risk policy;
- a subcontracting policy.

3.3.1.7. Risk appetite and limits systems

Risk appetite

The risk appetite reflects the "degree of acceptability" of the company's risk. The risk appetite is a key strategic element of the risk management system. 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 Chief Risk Officer, validated by the management 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.

- **Solvency:** Ethias measures the impact of strategic decisions on the evolution of its solvency margin and implements best practices in risk management in order to comply with the Solvency II requirements. Its target solvency ratio under Solvency II was set at 150%.
- **Profitability:** Ethias maintains and reinforces a sustainable profitability and ensures a profitable growth of the portfolio by setting overall minimum profitability targets and controlling the volatility of its results both in Belgian Gaap (book value) and in IFRS (economic value).
- **Liquidity:** Ethias relies on a dynamic ALM management that allows it to meet its liquidity needs at any time.
- **Operational excellence**: Ethias relies on a risk management governance that is built around risk management committees, allowing for an in-depth analysis of the insurance, financial and operational risks. Ethias continuously optimizes its processes, its IT and operational efficiency as well as its internal control. Ethias pays particular attention to its compliance with the laws and regulations as well as to the risks that may potentially impact the major processes.

Transposition of the risk appetite into limits systems

The risk appetite is translated into a series of concrete actions and limits systems: financial limits, limits regarding sensitivity to interest rates, underwriting guidelines including reinsurance limits. Similarly, the operational risk appetite matrix provides tolerance thresholds for operational risks.

3.3.2. Internal assessment of risks and solvency

3.3.2.1. Implementation of ORSA

Ethias SA 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 the "pillar 1" risks. Ethias SA projects the coverage ratio of the solvency capital requirement (SCR) and of the minimum capital requirement (MCR) at least on the horizon of its business plan.

Ethias SA 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 CRO's proposal for remediation plans

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

- assists in determining whether Ethias SA permanently meets the requirements relating to the calculation of the technical provisions;
- identifies the potential risks arising from the uncertainties associated with this calculation.

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

The prospective assessment of the internal capital requirement and the stress scenarios selected are carried out on the basis of the business plan assumptions which are adopted by the management committee. The stress testing challenges the business plan assumptions and estimates their impact on future solvency.

The submission of the stress test scenarios, the results and the conclusions of the ORSA to the approval of the management committee and to the validation of the board of directors allows these bodies to validate the stress test levels, the remedial measures proposed and to define additional measures.

Where appropriate, the ORSA exercise may lead to the revision of the risk appetite, a required key indicator that conditions the entire risk management process.

The results and conclusions of the ORSA are communicated internally to the staff members for whom this is relevant.

3.3.2.3. Frequency and approval of the ORSA

The ORSA process is initiated:

- regularly and at least once a year ("regular" periodic ORSA), according to a timing that meets the requirements of the regulator,
- extraordinarily in the event of an express request from the regulator or the occurrence of a major event likely to significantly change the capacity or the risk profile of the company ("ad hoc" ORSA).

3.3.2.4. Determination of internal capital requirements

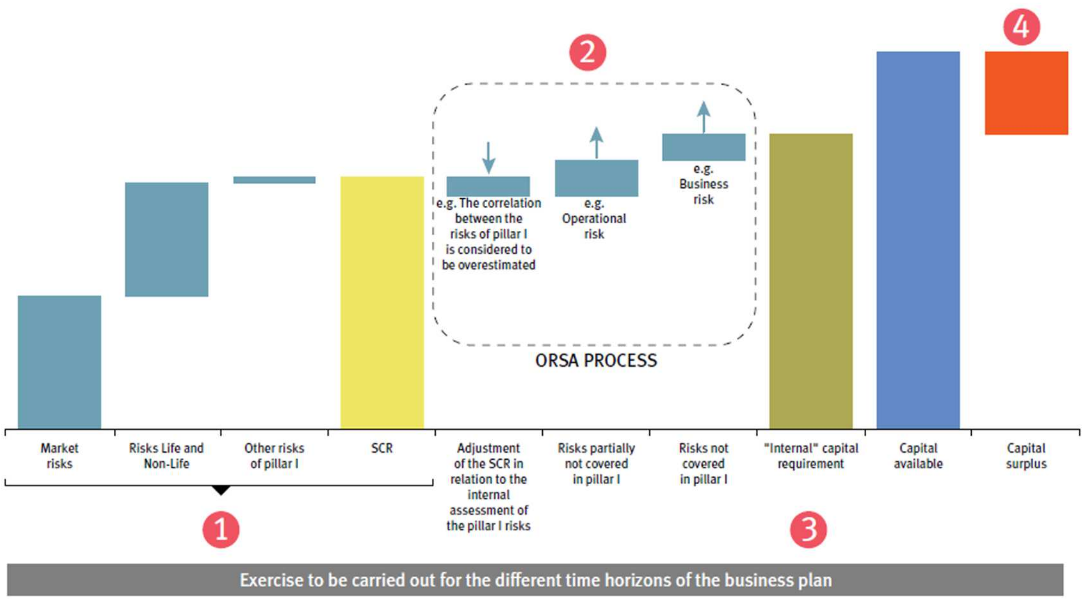
The ORSA approach adopted is the one known as "Pillar I augmented". This approach can be broken down into four phases, which are described and represented schematically below:

1. The company assesses, for the purposes of the ORSA, the risks that require a minimum prudential capital requirement ("Pillar I") using the standard method. For these risks, the internal capital requirements are considered as at least equal to the prudential capital requirements.

2. Unhedged risks, which are partly covered only by minimum prudential capital requirements or which are covered too largely in the light of the company's risk profile, are assessed on their own and are added to or subtracted from (if necessary) the risks of the first pillar so as to determine the overall requirement for internal capital. Based on the internal assessment conducted within the ORSA, a critical analysis of the Pillar I requirements is carried out and may lead, for example, to an adjustment of these so as to reflect important risks that are not taken into account or insufficiently taken into account, or to reflect a business-specific characteristic that explains a lower level of risk than the one of Pillar I.

3. The internal capital requirements thus obtained are then compared with the minimum regulatory requirements of Pillar I. The differences are analysed and explained. The applied "add-on" (total adjustment) is defined in prudent manner as the maximum between the sum of the individual adjustments and zero.

4. The comparison between the capital requirements and the available internal capital gives the level of capital surplus of the company. This level of surplus must be compared to the objectives relating to the risk appetite that is set by the company.



3.3.3. Risk management function

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

The risk management function is a key function within the company and is overseen by the Chief Risk Officer, who is a member of the management committee.

It is essentially a function that is responsible for the following tasks:

- to establishing, for the CRO, the specific risk management policies and to establish, in collaboration with the business, the related limits systems to be proposed to the management committee;
- to carry out the four basic risk management missions, viz. identifying, measuring, establishing, in collaboration with the business, the treatments to be applied and monitoring the risks to which Ethias is exposed;
- to actively participate in the development of the risk strategy and as well as in all management decisions that have a significant impact with regard to risk;
- to participate in the decision-making processes of the risk management committees, while maintaining an independent opinion with regard to these committees;
- to collaborate in the effective implementation of the risk management system, i.e. to assist the board of directors, the management committee and the other functions in effectively implementing the risk management system;
- to ensure the follow-up of the risk management system;
- to ensure the follow-up of the overall risk profile of the company as a whole;
- to assist and advise the decision-making bodies; to report on risk exposures in detail and to advise the board of directors and the management committee on risk management issues, including in relation to strategic issues such as the company's strategy, merger/acquisition operations and large-scale projects and investments; with the CRO being involved in such missions.
- to report independently to the management committee on the risk profile of the company and its adequacy with the risk appetite;
- to identify and to assess the emerging risks;
- to increase awareness among all employees and to develop a risk control culture within Ethias SA;
- to support the first line of defence in solving problems;
- to carry out the risk management missions contained in the subcontracting agreements between Ethias SA and its contractors in the field of subcontracting.

In this context, the risk management function communicates to the board of directors and to the management committee the risks that have been identified as potentially material and also communicates information on other specific risk areas, on its own initiative or upon request of the board of directors and the management committee.

The Chief Risk Officer informs the audit and risk committee of its work program.

Ethias uses an internal model, the work of developing the actuarial and financial models being organized in a federated manner (actuarial services, risk management, finance, etc.) in order to optimize the resources required. In this context, the risk management function of Ethias SA performs the following additional tasks:

- to propose the strategy of modifications to the models according to the needs of the users and the strategic priorities of the company;
- to develop the internal quantitative model in IT applications and to integrate it into the risk management system;
- to ensure a documenting of the internal model and of any changes made to it;
- to analyse the performance of the internal model and to produce synthesis reports on this analysis;
- to inform the board of directors and the management committee about the performance of the internal model by suggesting the elements to be improved and to communicate to these bodies the progress made in addressing the identified weaknesses.

In this context, the risk management function is in close contact with the users of the results produced by the internal model.

3.4. Internal control system, compliance function

3.4.1. Description of the internal control system

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

- an orderly and prudent conduct of affairs, framed by well-defined objectives;
- an economical and effective use of the resources involved;
- 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, the internal control system set up within Ethias aims to protect the company against the risks likely to compromise the achievement of its objectives.

This system is composed of the following elements, closely related to each other:

- Control environment

  The environment in which the tasks and responsibilities are performed is the foundation of any organization. We find, among others, at Ethias:
  - a policy of integrity;
  - specialized committees set up within the board of directors, composed in part of independent directors, as well as four independent monitoring functions;
  - an organizational chart and job descriptions available on the Intranet;
  - the *Ethias Competence Centre*, which is aimed at all staff and offers a growing range of technical, commercial, behavioural and managerial training, in order to ensure a continuous development of skills and continuous training. Career management as well as Job and Competency Planning are two ways of HR development for the coming years.
  - an annual process of setting targets and assessing the performance for each employee.

- Risk appetite and target setting

  The risk appetite of Ethias, adapted to Solvency II, has been approved by the board of directors and it is structured around 4 main axes: solvency, profitability, liquidity and operational excellency. Each of these axes is then developed so as to specify the objectives and the guidelines to be put in place.

  The business plan, resulting from the annual planning process, translates into financial terms, for each management, the actions and ambitions for the next 5 years.

- Identification, analysis and control of risks

- Control activities

- Subscription guides, financial limits system, double signature, review / approval by the Hierarchy, etc. are examples of control activities implemented within Ethias.

- Information & communication and surveillance & monitoring

- In terms of reporting, the executive dashboard, prepared monthly by management control and intended for the management committee, illustrates the main axes that provide answers to the key questions covering the main aspects of the company's management:

  In addition, the departments periodically prepare specific reports elating to their activities.
  Coordination bodies meet regularly at all levels of the company[4] to share the information that is necessary for their missions and to take appropriate actions.

- Finally, the committees dedicated to risk management, set up by the management committee, are risk monitoring, decision-making and reporting tools.

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

[4] For example, at N and N-1 levels, the Strategic Coordination Committee, the Office of the Departments Public Bodies & Companies and the CPO (Consultation Private Individuals).

3.4.2. Tasks and implementation of the compliance function

The main missions of the compliance function are the following:

- Participation in the development of the integrity policy, its assessment and the monitoring of its respect
  - The compliance function participates ,on an advisory basis, with the management committee, in the development of the integrity policy (instructions, directives, policies, codes of ethics and / or procedures) and in its updating.
  - On a regular basis and at least once a year, the compliance officer reviews the list of components of the integrity policy and monitors its relevance to and adequacy to the organization and activities of Ethias.

- Development of an action plan
  - The compliance function develops a written 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 over a specified period of time (one or more years).
  - This action plan is updated at least once a 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.

3.5. Internal audit function

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

- 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

[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.

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 management committee and the audit and risk committee are informed of these advisory activities, either by their inclusion in the audit plan or through the activity report.

The internal audit is also responsible for assessing cases of internal fraud[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, in principle, 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.

3.6. 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 management committee and in particular the Chief Risk Officer on the actuarial aspects of risk management.

3.7. Outsourcing

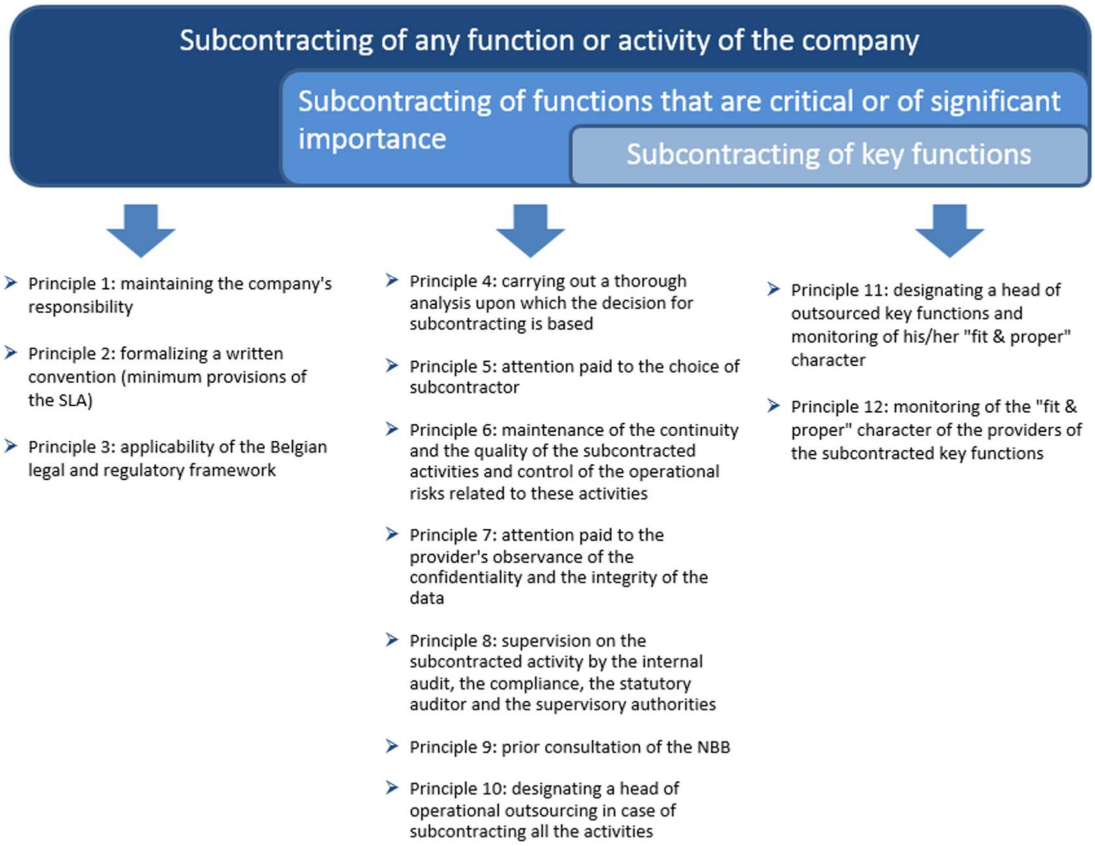
3.7.1. Essential elements of the subcontracting policy

The subcontracting policy was reviewed by the board of directors of Ethias SA on October 24, 2014, in order to take account, on the one hand, of the principles of sound management set out by the CBFA in its circular PPB-2006-1 of February 6, 2006 and, on the other hand, the rules set out in the circular 2013-20 on the governance system requirements in the context of the preparatory measures for Solvency II.

It sets up a structure to supervise the activities subcontracted by the company, developing different principles.

Some of them apply irrespective of the outsourced function or activity, others apply in the case of subcontracting of critical or significant functions, and others where the company subcontracts key functions:

[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.



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

Ethias SA considers as critical or of significant importance its core business activities as well as the independent control functions, namely:

- the core business activities:
  - the pricing and design of insurance products,
  - the management of insurance contracts and claims,
  - the management of the portfolio of assets,
  - the IT development and maintenance operations that directly participate in the execution of these activities and the storage of data.
- Key functions or independent monitoring functions:
  - the internal audit,
  - the compliance function,
  - the risk management,
  - the actuarial control.

3.7.2. Subcontracting of IT services

Ethias outsources its numerous IT services to its subsidiary NRB, a limited liability company with headquarters in Hauts Sarts Industrial Park, 2e Avenue, 65, 4040 Herstal (Belgium).

3.8. Any other information regarding the system of governance

No other important information regarding the governance system is identified.

4. Risk profile

4.1. Underwriting risk

4.1.1. Definitions

4.1.1.1. Non-Life underwriting risk

The Non-Life underwriting risk is the risk ensuing from insurance liabilities in Non-Life, considering the covered risks and the processes applied in the exercise of this activity.

- Premium and reserve risk

  The premium and reserve risk is the risk of loss or of adverse change in the value of insurance liabilities, resulting from changes in the triggering date, the frequency and the gravity of the insured events as well as the date of payment and the total of the claim settlements. The definition also includes the risk of loss or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend or volatility of the expenses incurred in servicing insurance or reinsurance contracts. This risk takes the inflation and the hyperinflation into account.

- Catastrophe risk

  The catastrophe risk is the risk of loss or of adverse change in the value of insurance liabilities, resulting from the significant uncertainty related to the extreme or exceptional events and carrying some weight on the pricing and provisioning assumptions.

4.1.1.2. Health underwriting risk

The underwriting risk in Health is the risk ensuing from the underwriting of health insurance liabilities, whether it is exerted or not on a technical basis similar to that of Life insurance, considering the covered risks and the processes applied in the exercise of this activity.

SLT Health (Similar to Life Techniques)

The SLT Health underwriting risk results from the underwriting of health insurance liabilities pursued on a technical basis similar to that of Life insurance. 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)

- Premium and reserve risk

  The premium and reserve risk is the risk of loss or of adverse change in the value of insurance liabilities, resulting from changes in the triggering date, the frequency and the gravity of the insured events as well as the date of payment and the total of the claim settlements. The definition also includes the risk of loss or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend or volatility of the expenses incurred in servicing insurance or reinsurance contracts.

- Termination risk

  The termination risk is the risk of loss or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend or volatility of the reduction, maturity, redemption rates and renewal rates of the policies.

- Catastrophe risk

  The catastrophe risk is the risk of loss or unfavourable change in the value of the insurance liabilities, resulting from the considerable uncertainty, related to the unusual accumulation of risks under such extreme circumstances, that carries some weight on the pricing and provisioning assumptions.

4.1.1.3. Life underwriting risk

The life underwriting risk is the risk ensuing from insurance liabilities in Life, considering the covered risks and the processes applied in the exercise of this activity.

- Mortality risk

  The mortality risk is the risk of loss or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend or volatility of mortality rates, where an increase in the mortality rate leads to an increase in the value of insurance liabilities.

- Longevity risk

  The longevity risk is the risk of loss or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend or volatility of mortality rates, where a decrease in the mortality rate leads to an increase in the value of insurance liabilities.

- Disability/morbidity risk

  The disability/morbidity risk is the risk of loss or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend or volatility of disability, sickness and morbidity rates.

- Expense risk

  The expense risk is the risk of loss or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend or volatility of the expenses incurred in servicing insurance or reinsurance SLT Health contracts. The expense risk takes inflation into account.

- Revision risk

  The revision risk is the risk of loss or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend or volatility of the revision rates applied to annuity insurances, due to changes in the legal environment or in the state of health of the person insured.

- Termination risk

  The termination risk is the risk of loss or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend or volatility of the reduction, maturity, redemption rates and renewal rates of the policies.

- Catastrophe risk

  The catastrophe risk is the risk of loss or unfavourable change in the value of the insurance liabilities, resulting from the considerable uncertainty, related to the unusual accumulation of risks under such extreme circumstances, that carries some weight on the pricing and provisioning assumptions.

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 EUR	31-Dec-16
Non-life (without health)	1,702,513
Health (similar to non-life)	289,824
Health (similar to life)	1,480,998
Life (without index-linked and unit-linked insurance)	11,495,872
Index-linked and unit-linked insurance	410,632

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", corresponding to reinsurance accepted as quota share of the activities of Ethias Droit Commun aam.

4.1.5. Sensitivity to underwriting risk

The table below contains estimates of the effect induced by changing the various assumptions for the best estimates' valuation on the evaluation of life insurance contracts. The orders of magnitude used are similar to those defined by the Solvency II standard.

In thousands of EUR	31-Dec-16
Mortality risk	
Increase by 15 % in mortality	31,579
Longevity risk	
Increase by 20 % in longevity	-48,953
Expense risk	
Increase by 10% in overheads	-17,711
Increase from 2% to 4% in the inflation rate	-38,679

4.1.6. Mitigation of underwriting risk

4.1.6.1. Creating a new product or modifying an existing product

The penetration of a new market, the launch of a new product, the extension of services and guarantees offered to customers are subject to a complete and formal review of all potential risks associated with the launching of such initiatives and with procedures for risk acceptance that follow the hierarchical lines.

All the aspects of the product are then considered: marketing, legal, fiscal, profitability, ALM constraints, compliance, etc., in accordance with the procedure for creating a new product or modifying an existing one validated by the Management Committee of Ethias SA dated 17 November 2014 and 21 December 2015.

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

In the public sector, policyholders do respect the guidelines that determine the limits with regard to subscription. These limits concern both the general and specific conditions of the contracts, the price setting and the degree of risk. They also determine the level of power that is granted according to the hierarchic level and the procedures to be followed, an "acceptance bureau" deciding at the operational level in the last instance.

For private individuals, the policyholders are subject to risk acceptance procedures that follow the hierarchical lines and to certain limits that are implemented in the IT systems. Underwriting guidelines also set the limits on underwriting.

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 actuarial department and the reinsurance 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. Occupational diseases are reinsured on the basis of a quota share 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. Definitions[8]

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 not included in the different analyses presented below.

4.2.1.1. Interest rate risk

The interest rate risk is the risk associated with the sensitivity of the value of assets, liabilities and financial instruments to the changes affecting the interest rate curve (including the slope) or the volatility of the interest rates.

Interest rate fluctuations can have an impact on the products marketed by the company, such as guarantees and bonuses, as well as on the value of the company's investments. This risk arises from the difference in sensitivity of assets and liabilities to changes in interest rates.

4.2.1.2. Spread risk

The spread risk is the risk associated with the sensitivity of the value of assets and financial instruments to changes which affect the level or volatility of credit spreads towards the risk-free interest rate curve.

4.2.1.3. Equity risk

The equity risk is the risk associated with the sensitivity of the value of financial instruments to changes which affect the level of the market value of the shares.

4.2.1.4. Property Risk

The risk on real estate is the risk associated with the sensitivity of the value of financial instruments to changes which affect the level of the real estate assets' market value.

4.2.1.5. Currency risk

The exchange risk is the risk associated with the sensitivity of the value of financial instruments denominated in foreign currencies to changes which affect the level of the currency exchange rates.

4.2.1.6. Concentration risk

The concentration risk on the market risks includes the risk of additional losses borne by the company as a result of either, the lack of diversification in its assets portfolio (losses increased by the concentration of investments in a geographical zone or activity sector) or an important exposure to the default risk of one and only issuer of securities or of a group of related issuers.

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[8] In this chapter, the concept of "market value" is understood in the broad sense of "fair value", as defined in Section 5.

4.2.2. Assessment of market risk

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

4.2.3. Exposure to market risk

As in previous years, the majority of the investments in 2016 were made in government bonds and corporate bonds. The exposure to opaque products, such as structured, securitized and complex products, remained stable. Share exposure increased slightly over the year as well as loan allocation to private individuals. In order to mitigate the impact of negative remuneration on current accounts, alternative solutions such as monetary funds were used while ensuring the liquidity and diversification aspects.

In terms of bond investments, the year was marked by a continuous decline in interest rates until the end of September, with a rather pronounced rise thereafter. The weak visibility on the expected interest-rate movements and the fear that the interest rates will remain low for a longer period, prompted us over the year to invest gradually and particularly in Belgian and French sovereign bonds. We continued to extend the duration of our investments in government bonds, both via spot purchases and via forward purchases. The derivative programs for protecting against falling interest rates were adjusted with the objectives set by the ALM.

As for credit spreads, the first half of the year was quite volatile with some pronounced widenings and the year finally ended at lower levels than at the beginning of the year. Only bonds with an "investment grade" listing were eligible for purchase.

The real estate investments, in Belgium and in neighbouring countries, have also been continued in line with Ethias' intention to increase its exposure to this type of asset class through investments in nursing and care homes as well as in office buildings.

The "Switch VI" operation had a significant impact on the level of liquidities, which fell sharply, especially at the end of the year. An important cushion of liquidities had been created in anticipation of the operation but in view of its great success, sales of bonds as well as repo transactions had to be made.

The table below presents the exposure to market risk, by risk module of the standard formula (interest, equity, property, spread, currency). Exposures are given at market value (including accrued interests not yet due).

In thousands of EUR	31-Dec-16
Interest	15,764,176
Equity	1,026,778
Property	318,662
Spreads	15,422,095
Currency	85,125

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

The table shows the exposure relating to Ethias SA and 95% of the market risks of Ethias DC aam, which are transferred to Ethias SA through the reinsurance contract.

4.2.3.1. Exposures in SII ratings

The considered reference rating, "SII rating", is the second best rating available from Moody's, Fitch and Standard & Poor's at the balance sheet date (which corresponds to the rating classes under Solvency II).

The following table presents the SII ratings as at 31 December 2016, broken down by type of bond.

In thousands of EUR	AAA	AA	A	BBB	BB	B	NR	TOTAL
Government bonds and similar products	369,357	6,664,410	937,748	920,675	114,876	0	121,374	9,128,440
Corporate bonds	7,850	307,859	1,370,756	2,267,852	236,236	52,107	590,482	4,833,141
Covered bonds	455,414	148,940	132,028	109,606	0	0	0	845,988
Complex bonds	0	16,590	157,345	41,204	0	0	47,888	263,028
Loans	0	18,374	0	0	0	0	333,124	351,498
TOTAL	**832,621**	**7,156,173**	**2,597,877**	**3,339,337**	**351,112**	**52,107**	**1,092,868**	**15,422,095**

The table shows the exposure relating to Ethias SA and 95% of the exposures of Ethias DC aam.

The item "corporate bonds" also contains commercial papers. So-called "complex" bonds correspond to an internal classification and essentially include structured products.

4.2.4. Concentration of market risk

4.2.4.1. Concentration in issuers

Diversification by issuer and 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 equal to 0.

4.2.4.2. 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. By way of example, Ethias considers the securities of companies active in public services but guaranteed by the Belgian state as governmental and similar debts.

The following table shows, as at 31 December 2016, Ethias SA's exposure relating to debts issued or guaranteed by governments, in fair value (including accrued interests not yet due), per geographical zone. The table shows the exposure relating to Ethias SA and 95% of the exposures of Ethias DC aam.

Belgium remains in first place. France remains in second place. Spain occupies the 3rd place following the massive sales on Italy in the course of Q4 2016.

An important exposure to sovereign debts mainly located in the euro zone seems to us suitable for a Belgian insurer.

In thousands of EUR

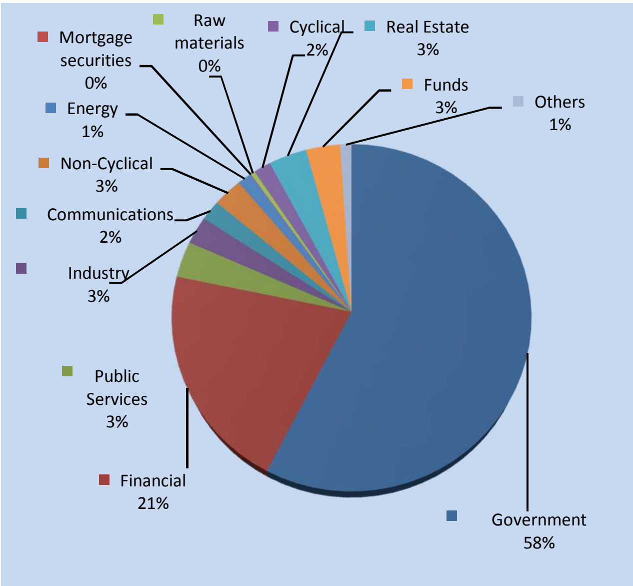
Country	Market value
Belgium	5,447,673
France	1,403,398
Spain	539,908
Italy	366,045
Ireland	285,278
Germany	247,700
Supranational	175,003
Poland	173,952
Portugal	114,876

Slovakia	111,851
Austria	83,249
Slovenia	56,082
Czech Republic	48,139
The Netherlands	45,023
Mexico	8,025
Latvia	5,377
Lithuania	5,376
Denmark	5,341
Hungary	5,227
Romania	917
TOTAL	**9,128,440**

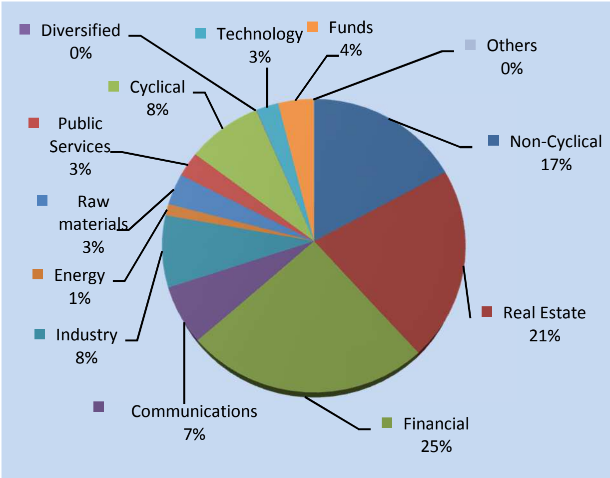
4.2.4.3. Sectoral concentration

As at 31 December 2016, the sectoral distribution of the shares, participating interests and investment funds as well as of the bonds and equivalent stocks invested by Ethias SA, appears as follows:

Sectoral concentration of bonds and equivalent stocks



Sectoral concentration of shares, participating interests and investment funds



4.2.5. Sensitivity to market risk

Analyses of sensitivities to market risks relate to standard shocks and stress scenarios. These elements are integrated into the stress tests carried out in the ORSA framework.

4.2.6. Methods of mitigating market risk

4.2.6.1. Investments in accordance with the Prudent Person Principle

All the investments carried out by Ethias SA are to respect the various investment policies that describe the general framework in which the investments must fit as well as the roles and responsibilities of all interveners.

The so-called "general investment policy" covers the majority of the investments made and also aims at restricting and controlling the opaque products[9]. In addition to this general policy, dedicated policies do exist for some specific asset classes such as real estate, alternative investments, strategic and financial investments and loans to individuals.

A procedure for assessing the investment activities considered as unusual has been put in place in order to standardize the practices and to extend the application of the existing questionnaire on the purchase of structured products to all investments that are considered as unusual. This procedure, validated by Ethias' decision-making bodies, meets the Solvency II regulations. It has been included in the investment policies. This procedure aims to evaluate all the risks of the investment prior to the purchase, so as to ensure its ability to manage it, to understand it and to consider its impact on the overall risk profile of the company and of the portfolio. The assessment questionnaire must be completed for any "non-vanilla" investment which is of an unusual nature and for which the risk profile differs significantly from similar products already in the portfolio.

The different investment policies define the objectives in terms of risk and return, eligible investments, strategic asset allocation, and this in line with the internal and external constraints, the policy for assets and liabilities management policy, the company's regulatory and economic risk appetite and its medium- and long-term financial objectives. Their aim is, inter alia, to ensure the quality and the liquidity of the portfolio, to reduce its complexity and to optimize its diversification and risk profile, while respecting the legal and internal limits as well as the guidelines and obligations imposed by the European Commission. The diversification of the portfolio is continued per asset class, but also for all the asset classes together and on different levels: type of assets, sector, country, maturity, issuer/counterparty, etc.

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[9] Opaque products include the non-standard, unusual products.

Special attention is paid to the Solvency II regulation and its implications for the assets management. The processing under Solvency II is therefore an integral part of the investment and asset selection process, and more particularly at the level of performance objectives.

4.2.6.2. Financial limits

A system of financial limits ensures a healthy diversification of the portfolio by asset class 'asset allocation), issuer, sector, currency and country. The system of limits also provides limits in minimum ratings according to the asset classes. The financial limits are set by the risk management and validated by the Strategic Investment Committee and then by the Management Committee.

4.2.6.3. Limits in interest rate sensitivities

Limits for interest rate sensitivity are applied to the ALM segments. The limits for sensitivity to interest rates are set by the risk management and validated by the ALCO Committee and then by the Management Committee.

4.2.6.4. Interest rate risk hedging

Ethias SA has a duration gap due to the portfolio of life liabilities contracted a number of years ago and whose residual maturity sometimes exceeds 15 years, while the invested assets have a lower average maturity. Several programs for reducing the asset-liability duration gap have already been implemented: 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, and also the use of swaptions with different time horizons in order to reduce the sensitivity of the ALM segments, and hence of equity, to interest rates.

The programme for hedging against lower interest rates currently consists of forward bonds and swaptions; they are regularly renewed so that the protection is in place on an ongoing basis.

The duration gap of the Life portfolios could be reduced from -3.23 at end-December 2015 to -2.81 at end-December 2016.

4.2.6.5. Spread risk hedging

The technical and legal analyses relating to a spread risk hedging programme are in progress; the project is expected to be finalized in the 2nd and 3rd quarters of 2017.

4.3. Credit risk (counterparty default)

4.3.1. Definition of credit / counterparty 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. Assessment of credit / counterparty risk

Credit risks are assessed through the calculation of exposure measures, the follow-up of ratings and through the calculation of the solvency capital required according to the standard formula.

4.3.3. Exposure to credit / counterparty risk

Exposures at 31 December 2016 to credit risk (default of the counterparty) are presented in the following table. The exposures consist of cash, mortgages, most derivatives, receivables and guarantees relating to the funds that Ethias is committed to pay in real estate projects, deposits received from reinsurers.

In thousands of EUR	31-Dec-16
Default of the counterparty	3,159,110

4.3.4. Concentration of credit / counterparty risk

The main component of the exposure to the counterparty's default risk is the Ethias SA reinsurance deposit in Ethias DC aam.

4.3.5. 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 20%.

4.4. Liquidity risk

4.4.1. Definition of liquidity risk

4.4.1.1. Definition of market liquidity risk

This is the risk of not being able to easily compensate or eliminate a position at market price due to the insufficient depth of the market or disturbances in the markets.

The liquidity of a financial market is, in particular, the ability to buy or sell quickly the assets listed on the market without having a major effect on the prices. The more liquid a market, the easier, quicker and cheaper it is to make transactions. The liquidity risk here refers to the potential loss one suffers in comparison to the price that should have been obtained.

4.4.1.2. Definition of 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.

Funding liquidity refers to the ability of a company to obtain cash by coordinating its cash flows and being able to post collateral. The liquidity position of a particular company depends primarily on the cash and other assets readily available that the insurer possesses, as well as its financing structure and the type and amount of contingent liabilities that may become payable in the course of a given period.

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.

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

4.4.3.1. Exposure to market liquidity risk

As at 31 December 2016, the investment portfolios were composed of 81% liquid assets according to internal criteria and 56% liquid assets according to the criteria issued by the supervisory authorities.

4.4.3.2. Exposure to funding liquidity risk

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 reflect the management decisions to reinvest according to the asset allocation defined for these products, so as to reflect more realistically the actually 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.

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.

The cash deficit observed in 2017 is the direct consequence of several strategic elements that have occurred in the portfolios at end-2016 ("Switch VI" action, which consumed a significant part of the available cash) as well as of events expected in 2017. Another significant movement is visible in the table: a large reserve volume will be transferred from Branch 21 to Branch 23. This does not generate cash flows strictly speaking, but a transfer between the items presented in the table.

In thousands of EUR	Total amount of undiscounted cash flows	Up to 1 year	Between 1 and 5 years	Between 6 and 10 years	Between 11 and 20 years	More than 20 years	Undetermined maturity

Assets							
Investment properties	457,832	16,004	66,865	91,270	152,033	131,660	
Share interests, shares and investment funds	1,150,279	38,097	284,308	236,625	348,040	243,209	
Bonds and equivalent stocks	15,116,646	1,160,611	3,992,219	3,262,760	3,411,540	3,289,516	
Loans and deposits	1,252,252	104,923	374,391	327,461	345,364	100,112	
Derivatives	0	0	0	0	0	0	
Investments belonging to unit-linked insurance contracts	264,257	(602,306)	373,542	189,868	150,891	152,262	
Cash and cash equivalents	205,677	261,487	(435,943)	96,344	241,993	41,796	
Total assets	**18,446,943**	**978,817**	**4,655,382**	**4,204,328**	**4,649,861**	**3,958,555**	
Liabilities							
Insurance and investment contract liabilities	16,558,543	1,959,053	3,716,464	2,594,406	4,088,657	4,199,964	
Liabilities belonging to unit-linked insurance contracts	262,942	(599,309)	371,684	188,923	150,140	151,504	
Subordinated debts	712,274	25,966	96,447	586,413	3,435	0	14
Other financial debts	223,579	0	223.579	0	0	0	
Derivatives	0	0	0	0	0	0	
Total liabilities	**17,757,339**	**1,385,710**	**4,408,174**	**3,369,741**	**4,242,233**	**4,351,468**	**14**

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

4.4.5.1. Mitigating market 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. This system of limits is established by the risk management and validated by the ALCO Committee and then by the Management Committee

4.4.5.2. Mitigating funding liquidity risk

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.

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 EUR 152,937 thousand (divided into EUR 150,830 thousand in Non-Life and EUR 2,017 thousand in Life).

4.5. Operational risk

4.5.1. Definition of operational risk

Operational risk is defined as the risk of loss resulting from shortcomings or faults, attributable to procedures, staff members and internal systems or to external events. The definition includes legal risk, but excludes strategic and reputational risks.

As regards operational risks, Ethias SA has adopted the Basel II typology which aggregates the important operational risks, likely to cause very serious losses, in seven categories:

- Internal fraud

  The internal fraud risk is the risk of losses due to acts aiming to defraud, to misappropriate property or to circumvent regulations, legislation or company policy (except for violation of equality and discrimination), involving at least one internal part of the company.

- External fraud

  The external fraud risk is the risk of losses due to acts aiming to defraud, to misappropriate property or to circumvent legislation, by a third party.

- Practices regarding employment and safety at work

  This risk includes losses resulting from acts that are not in accordance with the legislation or with agreements relating to employment, health or safety, claims in respect of personal injury or violation of equality/discrimination. As well as losses resulting from a failure, unintentionally or due to negligence, in employment (recruiting, training).

- Customers, products and business practises

  These are losses resulting from a failure, unintentionally or due to negligence, to a professional obligation towards specific clients (including requirements for trust and compliance) or the nature or design of a product.

- Execution, delivery and process management

  These are losses resulting from a problem in processing a transaction or in process management or occurred in the context of relations with trading counterparties and vendors.

- Damage to physical assets

  This is the destruction or damage resulting from a natural disaster or other disaster.

- Interruptions in business activity and system failures

  These are losses resulting from interruptions in activity or malfunction of computer and telecommunication systems.

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

- operational risk mapping
- feedback of operational incidents

- customer complaint management
- information security
- business continuity
- operational risk analysis/analysis of the operational risk on projects (including security & continuity)
- protection of personal data
- fight against external fraud (activities of second line defence).

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.
- analysis of 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.
- detection of external fraud
- analysis of customer complaints

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 regularly confronted with 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, ...

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.

Cybercrime reinsurance is currently under study to transfer, to a partner, part of the cybercrime risk exposing Ethias' own business.

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. End User Computing

End User Computing (EUC) refers to the management of IT applications by the user himself. EUC generates both performance risks and security risks. The EUC has undergone a specific audit and a series of action plans are being implemented in order to control the risks detected.

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

As only other material risk, we identify the reputation risk.

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

Ethias is particularly attentive to the reputational risk. To this end, a communication policy using two complementary and coordinated axes has been developed.

Hence, the reputational risk is first of all dealt with through an external communication policy 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.

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. The inclusion of non-financial risks such as reputational risks, strategic risks, business risks and model risks are also included in these analyses.

The results of the "Switch VI" operation, the reduction of the duration gap and the profitability of the non-life business help Ethias to resist a series of stress scenarios over the horizon of its business plan. The company's exposure to spread risks (sovereign and corporate) as well as the reimbursement, in 2019, of the nominal value of the senior loan issued by Vitrufin could have a material impact on the level of coverage of the solvency capital requirement. Measures to reduce the sensitivity of the ratio to these elements are being analyzed.

5. Valuation for solvency purposes

The table in Annex 1 contains the Solvency II balance sheet of Ethias SA as at 31 December 2016, presenting the valuations corresponding respectively to Solvency II (SII framework) and Belgian accounting standards (BGAAP) used in the financial statements.

5.1. Valuation of assets

5.1.1. Valuation SII vs. BGAAP of the financial asset portfolio

5.1.1.1. Differences between the valuation principles for solvency purposes and the valuation principles in the financial statements

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 in case such recognition is not permitted. 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.

5.1.1.2. Distinction between asset categories and risk modules

The solvency capital required in Solvency II is calibrated so as to ensure that all quantifiable risks to which the company is exposed are taken into consideration. For financial assets, the risk modules and sub-modules are determined according to the different risks that have an impact on the value of the different asset classes. Thus, depending on the nature of the investment, the asset manager selects the type of instrument according to which the (different) risk module(s) will be applied.

This breakdown within the different risk modules and sub-modules is independent of the classification per asset class 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 its valuation procedures for assets, Ethias associates the hierarchical levels defined in IFRS with the valuation methods defined within the Solvency II reporting models. The following table sets out the correspondence between the valuation methods disclosed in Solvency II and the hierarchical IFRS levels defined below.

Solvency II valuation methods	IFRS hierarchical levels
1. Quoted market price in an active market for the same assets	Level 1: Fair value measured by reference to an active market

2. Quoted market price in an active market for the same assets	Level 2: Valuation methods based on observable market data
3. Alternative valuation methods	Level 2: Valuation methods based on observable market data; or Level 3: Valuation methods not based on observable market data The choice of level 2 or 3 is explained below and depends mainly on the observability of the data used for the valuation of the assets concerned
4. Equity method corrected (for the valuation of participating interests)	Level 3: Valuation methods not based on observable market data
5. Equity method IFRS (for the valuation of participating interests)	Level 3: Valuation methods not based on observable market data
6. Method used in the financial statements, in accordance with Article 9 (4) of Delegated Regulation (EU) 2015/35	Level 3: Valuation methods not based on observable market data

5.1.1.4. Principles

The availability of a **quoted market price in an active market** is valued for the asset or liability subject to valuation. If such a price is available, it is preferred for valuation and therefore the instrument, for which this method is used, is classified as **Level 1**.

The lack of availability of such a price implies the use of another valuation method. Alternative valuation methods are classified as:

- **Level 2** if they refer only to **directly or indirectly observable market data** (e.g. prices of contributors available via a market data provider) used in commonly accepted valuation models;

- **Level 3** if they use **unobservable inputs** (e.g. assumptions about the probability of a bond call, assumptions about the level of cash flows of a bond, etc.) or specific internal models not commonly accepted.

It should be noted that the "Bid" rating is taken from assets listed on active markets. This is consistent with the selling price principle defined in IFRS 13 for assets. Symmetrically, "Ask" prices will be used for liabilities listed in active markets.

More specifically, the classification of the different valuation methods within these hierarchical levels is specified below.

Level 1: Fair value measured by reference to an active market

IFRS 13 defines "*level 1 inputs as quoted prices in an active market that the entity can access at the measurement date*".

The fair value measurements of the instruments recognized at this level are determined by using the market prices when they are available on an active market. An active market under IFRS is "*a market in which transactions take place with sufficient frequency and volume, and this on an ongoing basis*".

Ethias classifies at this level assets valorized directly on the basis of prices given by market data providers when a certain number of indicators, such as a sufficient number of contributors or the fact that the difference between purchase price and resale price of the security remains at an acceptable level, allow to reasonably assess whether there is an active market.

This category includes, inter alia, all securities directly valuated on the basis of values obtained on the market.

Since the valorization is based on the "Bid" price supplied by a single counterparty, the security is recognized in level 2 or 3. The same applies to instruments not listed on an active market or for which a counterparty price is not available.

Instruments classified as level 1 are considered to have a very limited valuation uncertainty of the fair value. Indeed, classification in level 1 represents prices directly observable in an active market to which the instrument could be treated.

Level 2: Valuation methods based on observable market data

IFRS 13 defines "*level 2 inputs as inputs other than quoted prices that are observable either directly or indirectly*".

Within level 2, fair value measurements are not based on prices directly quoted in an active market; the estimates incorporate observable data either directly or indirectly, i.e. derived from observable prices.

The fair value of instruments that are not traded in an active market is generally estimated using valuation models commonly used either internally within Ethias or through the services of external and independent experts. In particular, this level includes a number of more complex financial instruments (complex bonds or derivatives) for which the market value is calculated on the basis of a price model commonly used for this type of instrument and whose inputs consist of observable data.

Level 2 inputs include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities on non-active markets;
- Prices determined on the basis of inputs other than quoted prices directly observable for the asset or liability, such as interest rates, implied volatilities, credit spreads used in valuation models commonly used and accepted (for example: liquid swap rate curves for the valuation of interest rate swaps).

Ethias considers that, if the market is unable to supply a market price on a sufficiently regular basis and on the basis of a sufficient number of contributors, the resulting value should be recognized in level 2. This is, in particular, the case when Ethias selects a single contributor. Ethias considers the lack of a sufficient number of contributors as a sign of inactivity on the security in question.

In any case, the fair value of the various instruments recognized in level 2 is not based on estimates or assumptions only made by Ethias. If this was the case, the instrument would be classified as level 3.

Instruments classified as level 2 are considered to have a limited valuation uncertainty of the fair value. Indeed, level 2 instruments are valued on the basis of commonly used models and based on data observable in active markets. Nevertheless, certain factors may have a residual impact on the accuracy of the fair value calculation, such as counterparty credit risk, market liquidity or business relationship.

Level 3: Valuation methods not based on observable market data

IFRS 13 defines valuations of level 3 as being based in whole or in part on unobservable inputs.

For level 3, the fair value is estimated by means of a valuation model which translates the way in which interveners on the market could reasonably determine the price of the instrument if the transaction would take place. Level 3 valuation is based on valuation techniques that use partially or completely unobservable inputs.

Due to the nature of the subjective assumptions incorporated in the determination of fair value and, where applicable, the valuation model used, the fair values of level 3 are considered to have a higher valuation uncertainty than levels 1 and 2.

5.1.1.5. Property (other than for own use)

In thousands of EUR	SII value	BGAAP value	Difference
Investment properties	**221,272**	199,630	21,642

Valuation principles specific to the category

Investment properties are valued annually by independent real estate experts. Experts mandated to carry out the valuation of investment properties have the necessary professional qualifications and the appropriate experience. Ethias also ensures the independence of the experts.

The fair value of investment properties represents the estimated amount at which the real estate could be exchanged on the valuation date between a buyer and a willing seller on the basis of a transaction at arm's length after an appropriate marketing.

The valuation method is that of the perpetual capitalization of the Estimated Rental Value (ERV). This method, in line with international valuation standards[10], is generally applied in the market where it is probable that the flow of income is constant. It consists in the perpetual capitalization, using a rate of return of the estimated rental value, plus or minus a series of adjustments. These adjustments are a correction to the present value to take into account a series of items that may have a material impact on the value of the property asset. These include rental vacancies, rental incentives or subsidies, relocation agency commissions, capital expenditures, the difference between the estimated rental value and the rent actually paid up to the date of the option to terminate the leases or corrections specific to the property.

The amount that the company would receive in the event of sale of the real estate asset depends, among other things, on the type of sales transaction. Therefore, costs related to the transfer of the asset are excluded from the estimate of the price at which the property may be sold on the market at the valuation date.

Hierarchical levels of fair value

Investment properties are classified as **level 2**. The majority of the transactions carried out is indeed localized on liquid markets and the valuation methods used are essentially based on observable market data on these markets. The experts base their assessments on observable data such as transfer prices or yields that were recently determined for comparable goods.

A report is sent to Ethias which challenges the main assumptions used for valuation. The yield used is compared with the market rates reported in market research provided by other independent experts.

Where the valuation is based on a valuation prior to the date of the economic balance sheet, the company verifies, through its Real Estate Investment Committee, whether adjustments are necessary to reflect the possible evolution of the value between the last formal valuation and the balance sheet date.

Differences in valuation

No impairment loss is recorded in the Belgian balance sheet at 31 December 2016. In this way, the difference in valuation between the BGAAP financial statements and the SII standards is due solely to the difference between the fair value recorded in SII and the amortized cost of these assets.

5.1.1.6. Equities

In thousands of EUR	SII value	BGAAP value	Difference
Equities listed	**397,853**	315,836	82,017
Unlisted equities	**304**	304	0
Total equities	**398,157**	316,140	82,017

Hierarchical levels of fair value

The breakdown of these assets in the fair value hierarchy is as follows:

[10] RICS Valuation Standards integrating the International Valuation Standards of the IVSC

In thousands of EUR	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
Equities	**398,157**	397,853	304	-

Equities listed on a reference market are logically classified in level 1 of the fair value hierarchy. Unlisted equities are classified as level 2. Ethias does not carry out a separate valuation of unlisted equities on the basis of the disproportionate cost which the implementation of an appropriate valuation method would bring out in relation to the low level of materiality of this category.

Differences in valuation

With the exception of shares 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 acquisition value of the shares.

5.1.1.7. Bonds

In thousands of EUR	SII value	BGAAP value	Difference
Government bonds	8,332,032	7,250,333	1,081,699
Corporate bonds	5,247,981	4,887,505	360,476
Structured notes	269,644	246,888	22,756
Collateralised securities	7,123	7,250	-127
Total bonds	**13,856,781**	12,391,976	1,464,805

Hierarchical levels of fair value

The breakdown of these assets in the fair value hierarchy is as follows:

In thousands of EUR	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
Government bonds	**8,332,032**	7,821,324	510,709	-
Corporate bonds	**5,247,981**	4,252,321	766,434	229,226
Structured notes	**269,644**	10,090	259,554	-
Collateralised securities	**7,123**	7,123	-	-
Total bonds	**13,856,781**	12,090,859	1,536,697	229,226

The vast majority of bond assets are classified as **level 1** and 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 applies in particular to a number of complex financial instruments (bonds designated at fair value through profit or loss or derivative instruments) for which the market value is exclusively supplied 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 recognized in level 2 is not based on internally made estimates.

In the absence of a quoted market price or a counterparty price, the valuation is based on a model price determined according to the characteristics of the security. This concerns a limited number of investments in private issuances. Ethias has developed a methodology to obtain an appropriate valuation of these financial assets. The valuations based on model prices are based on a discounting of estimated future cash flows. The discount rate used is based on the risk-free rate curve plus a credit spread. The various components required to determine these model prices are mainly: the estimate of future cash flows, the risk-free rate curve, the credit spread and the liquidity adjustment.

These alternative valuation methods are included in **level 2 or 3** in the hierarchy of fair values, depending on the observability of the data used.

Differences in valuation

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.

Certain classes of specific bonds have 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.

5.1.1.8. Collective investment undertakings

In thousands of EUR	SII value	BGAAP value	Difference
Investment funds	**539,711**	526,840	12,871

The breakdown of these assets in the fair value hierarchy is as follows:

In thousands of EUR	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
Investment funds	539,711	444,962	78,281	16,468

The criteria for allocation to levels 1 and 2 are identical to those used for the bond assets described above.

Differences in valuation

With the exception of shares 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 acquisition value of the shares.

5.1.1.9. Derivatives

In thousands of EUR	SII value	BGAAP value	Difference
Derivative assets	75,346	14,144	61,202
Derivative liabilities	8,014	0	8,014
Net position	**67,332**	**14,144**	**53,188**

Hierarchical levels of fair value

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 (forward interest rate and implied volatility).

Differences in valuation

In the Belgian balance sheet, a portion of interest derivatives (swaptions), which are not classified as accounting hedges but are used as an economic hedge against a fall in interest rates, are accounted for in accordance with the LoCoM principle (Lower of Cost or Market); namely that unrealized losses are subject to write-downs or provisions for financial risks, whereas unrealized gains are not recognized.

Other interest derivatives (forward bonds) are also used in the frame of hedging transactions and are subject to hedge accounting rules (no fair value measurement in the SI balance sheet). The market value of forward bonds is recognized only in SII and is allocated between the contracts with a positive market value recognized on the asset side and contracts with a negative market value recorded on the liabilities side of the economic balance sheet.

Finally, a limited number of cap on interest rates is also recorded in LoCom according to the BGAAP financial statements and at fair value in SII.

5.1.1.10. Deposits other than cash equivalents

In thousands of EUR	SII value	BGAAP value	Difference
Deposits other than cash equivalents	**3,564**	3,564	-

Differences in valuation

No valuation difference on this asset class.

5.1.1.11. Assets held for index-linked and unit-linked contracts

In thousands of EUR	SII value	BGAAP value	Difference
Assets belonging to unit-linked insurance contracts	**408,389**	408,389	-

Differences in valuation

No valuation difference on this asset class.

5.1.1.12. Loans and mortgages

In thousands of EUR	SII value	BGAAP value	Difference
Mortgages to individuals	**479,556**	455,120	24,436
Other loans and mortgages	**351,498**	343,532	10,682
Loans on policies	**27,114**	22,708	4,956
Total loans and mortgages	**858,168**	821,359	40,074

Hierarchical levels of fair value

*The fair value of the loans is based on valuation methods including data that are not based on observable market data (surrenders, evolution in the value of the guarantees, management costs) and are therefore classified as **level 3**.*

The fair value is based on the application of a model price that is obtained by discounting the projected cash flows on the basis of the forward OLO rate curve taking into account a historical repurchase assumption. The risk-free discount curve is adjusted to take into account the credit risks based on an analysis of the portfolio and of the guarantees as well as of the market practices.

Differences in valuation

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.

5.1.2. Holdings in related undertakings, including participations

In thousands of EUR	SII value	BGAAP value	Difference
Participations	**439,470**	381,263	58,207

Valuation principles specific to the category

The determination of the power of control over the participating interests was carried out in accordance with the provisions of Article 22 of the Directive 2013/34/EU of the European Union.

The fair value of the participating interests over which Ethias SA has a power of control is determined:

- Either pursuant to point 1 of Article 13 of Delegated Regulation 2015/35/EU of the European Commission, namely the use of a price quoted in an active market.
- Either pursuant to point 4 of Article 13 of Delegated Regulation 2015/35/EU of the European Commission, i.e. the calculation of the excess of assets over liabilities, by revaluating at fair value each asset and liability.

For participating interests over which Ethias SA does not have the power of control, the internal valuation method is determined in accordance with point 7 of Article 10 of Delegation Regulation 2015/35/EU of the European Commission, viz. according to the valuation method used by the company for the preparation of its annual financial statements:

- Either on the basis of an evaluation report provided by an independent company,
- Either on the Net Asset of the participating interest for other companies.

In this case, the value of goodwill and of other intangible assets is deducted from the value of the participating interest.

Differences in valuation

With the exception of participating interests 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 acquisition value of the participating interests. The impact amounts to EUR 27,688 thousand.

In addition, the purchase of Whestia was anticipated in the SII framework, bringing the participating interest to 100%, whereas it stands at 25.10% in the BGAAP financial statements. The impact amounts to EUR 30.519 thousand.

5.1.3. Cash and cash equivalents

In thousands of EUR	SII value	BGAAP value	Difference
Cash and cash equivalents	**664,960**	664,960	-

Valuation principles specific to the category

The asset category "cash and cash equivalents" is valued at the nominal or acquisition value. Impairments are registered to take into account the uncertainties of their recovery.

Differences in valuation with the BGAAP financial statements

No valuation difference on this asset category.

5.1.4. Off-balance sheet

None

5.1.5. Property, plant & equipment for own use

In thousands of EUR	SII value	BGAAP value	Difference
Real estate for corporate purposes	**97,390**	75,164	22,226

Valuation principles specific to the category

Company buildings are, in principle, valorized every three years by qualified real estate experts. The fair value of the buildings is based on the valorization by an independent expert with the appropriate professional qualifications and experience.

The fair value of the buildings represents the estimated amount for which the property could be exchanged at the valuation date between a willing purchaser and a willing seller on the basis of a transaction under normal market conditions (arm's length) after an appropriate marketing.

In the case of buildings directly held (asset deals), the registration fees payable by the buyer are deducted from the exchange value thus estimated.

Differences in valuation with the BGAAP financial statements

No impairment loss is recorded in the Belgian balance sheet at 31 December 2016. In this way, the difference in valuation between the BGAAP financial statements and the SII standards is due solely to the difference between the fair value recorded in SII and the amortized cost of these assets.

At the level of the BGAAP financial statements, two buildings were subject in 2011 to a revaluation surplus for a total amount of EUR 31,059 thousand.

5.1.6. Intangible assets

In thousands of EUR	SII value	BGAAP value	Difference
Formation expenses	**0**	2,786	-2,786
Intangible assets	**0**	75,859	-75,859
Total intangible assets	**0**	78,645	-78,645

Valuation principles specific to the category

There are no intangible assets recognized in SII.

Differences in valuation with the BGAAP financial statements

The difference in valuation on this asset class is explained by the fact that intangible assets are not recognized in SII and are therefore cancelled. In the BGAAP financial statements, this category is mainly related to the activation of IT projects.

5.1.7. Deferred tax assets

In thousands of EUR	SII value	BGAAP value	Difference
Deferred tax assets	**227,719**	0	0

Valuation principles specific to the category

Deferred tax assets and liabilities are generated by temporary differences between the book and tax values of the assets and liabilities and, if applicable, by carryforwards of unused tax losses.

The deferred tax assets are only recognized 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. Given the various uncertainties with regard to the evolution of the financial markets among others, Ethias based its analysis on a time horizon of five years. The underlying assumptions of these analyses shall be reviewed on a yearly basis.

Ethias is careful to ensure that deferred tax assets arising from a sudden loss (shock) are not borne by the same deferred tax liabilities or by profits already supporting the recognition of deferred tax assets.

Deferred tax assets arise mainly from differences in the valuation of technical liabilities (Best Estimate).

Deferred tax liabilities relate to the valuation of assets.

Ethias expects to recover or pay these taxes as and when temporary differences are realized.

Ethias currently has net deferred tax assets with a balance of more than 15% of the SCR. Deferred tax assets related to recoverable tax losses are not valued.

Ethias, pursuant to the SII regulation, limits the inclusion of deferred tax assets up to 15% of the SCR.

Differences in valuation with the BGAAP financial statements

The amount of deferred tax assets to be valued in respect of DTA at 31 December 2016 in SII is EUR 369,335 thousand, which should be limited to EUR 227,719 thousand, which represent 15% of the SCR.

5.1.8. Deposits to cedants

In thousands of EUR	SII value	BGAAP value	Difference
Deposits with ceding companies	**1,218,748**	1,125,393	93,355

Valuation principles specific to the category

Deposits with ceding companies are valued at fair value, in the absence of the information necessary for this revaluation, they are valued at amortized cost.

Differences in valuation with the BGAAP financial statements

The difference in valuation on this asset class is explained by the revaluation of the deposit of Ethias Droit Commun: EUR 1,066,036 thousand instead of EUR 972,681 thousand.

5.1.9. Insurance and intermediaries receivables

In thousands of EUR	SII value	BGAAP value	Difference
Policyholders	**113,393**	113,393	-
Insurance intermediaries	**27,860**	27,860	-
Others	**48,125**	77,594	-29,469
Total	**189,378**	218,847	-29,469

Valuation principles specific to the category

The asset category "Insurance and intermediaries receivables" is valued at the nominal or acquisition value. Impairments are registered to take into account the uncertainties of their recovery.

Differences in valuation with the BGAAP financial statements

The difference in valuation on this asset class is explained by the cancellation of the technical expenses to be recovered, the technical provisions (Best Estimate) being calculated net of recourse.

5.1.10. Reinsurance receivables

In thousands of EUR	SII value	BGAAP value	Difference
Receivables arising from reinsurance operations	**64,359**	64,359	-

Valuation principles specific to the category

The asset category "receivables arising from reinsurance operations" is valued at the nominal or acquisition value. Impairments are registered to take into account the uncertainties of their recovery.

Differences in valuation with the BGAAP financial statements

No valuation difference on this asset class.

5.1.11. Other receivables (trade, not insurance)

In thousands of EUR	SII value	BGAAP value	Difference
Guarantees paid in cash	**2,435**	2,435	-
Other receivables	**75,950**	102,521	-26,571
Total Other receivables (trade, not insurance)	**78,385**	104,956	-26,571

Valuation principles specific to the category

The asset category "other receivables (trade, not insurance)" is valued at the nominal or acquisition value. Impairments are registered to take into account the uncertainties of their recovery.

Differences in valuation with the BGAAP financial statements

The difference in valuation on this asset class is explained by the cancellation of the technical expenses to be recovered in respect of the accepted business, the technical provisions (Best Estimate) being calculated net of recourse.

5.1.12. Any other assets

In thousands of EUR	SII value	SI value	Difference
Tangible assets	**21,410**	21,410	-
Interest and rent accrued but not yet due	**1,012**	1,012	-
Total Other assets	**22,422**	22,422	

Valuation principles specific to the category

The tangible assets are capitalized at their purchase or cost price, including incidental expenses. They are amortized on a straight-line basis at the following rates (installations, machinery, electronic equipment: 33 1/3%, rolling stock 25%, office furniture and equipment 10%).

Accrued interest and rents not yet due are valued at their nominal or acquisition value. Impairments are registered to take into account the uncertainties of their recovery.

Differences in valuation with the BGAAP financial statements

No valuation difference on this asset class.

5.2. Valuation of technical provisions

5.2.1. Valuation of best estimates Life

5.2.1.1. Results

The table below shows the quantitative differences between the valuation of life provisions under SII, i.e. the value of the Best Estimates (BE) and the one described in the BGAAP financial statements.

In thousands of EUR

SII line of business	SII value	BGAAP value
Insurances with profit participation	11,456,880	9,376,708
Accepted reinsurance[11]	4451	150,545
Complementary provisions BGAAP		1,048,451
TRIP provision[12]		691
Subtotal		10,576,395
Insurances with profit participation[13]	33,174	
Life (excluding health and index-linked and unit-linked)	**11,494,505**	10,576,395
Index-linked and unit-linked insurance[14]	411,999	408,89
TOTAL	**11,906,504**	**10,984,784**

In BGAAP, the Ethias 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 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 IIS 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).

[11] Without accepted reinsurance Branch 23 (Unit-linked contracts)
[12] TRIP (Terrorism Reinsurance and Insurance Pool).
[13] These are Common Law annuities in CL Car and General CL
[14] This item contains the accepted reinsurance branch 23.

The difference in valuation of EUR 408,389 thousand in BGAAP and EUR 410,632 in SII results from the calculation of a BE under SII.

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 5.3.2).

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 ORPSS (Office for particular social security schemes). The reserves set up are managed collectively (in the "common pot") or in dedicated asset 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: common pot 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 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 of the reserves of the financing funds is proportional to that of the corresponding policies and the total flows are then deducted on the basis of the guaranteed rate.
- 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 collective insurance branch 23, 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
ABC costs	not considered	considered (in "run-off")
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.

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 through the CBG, 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 following the new law on supplementary pensions (see below).

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.

Whereas in future cash flows, whose discount generates the amount of the BE, the estimate of future life profit-sharing is taken into account, 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

- 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 2016.

5.2.1.6. Significant changes in assumptions

The significant changes in assumptions or modelling between 31 December 2015 and 31 December 2016 are as follows:

- In 2nd pillar group insurance, account is taken of the extension of contracts.
- In 1st pillar pension insurance, account is taken of a possible joint management of the entities.
- The acquisition by Ethias of the outstanding balance insurance portfolio from Whestia is certain; the BE is no longer valued taking into account the accepted reinsurance contract for this portfolio but on the basis of the portfolio that Ethias has taken over for 100 %.
- The different calibrations (redemption rate, costs, etc.) were reviewed.

Prolongation of second pillar contracts

Under the new legislation (law of 18/12/2015) on supplementary pensions, it is necessary to prolong some of the commitments in our 2nd pillar portfolio. Indeed, the new law prohibits (except for a transitional period) the payment of the supplementary pension benefit before the insured person takes his legal (early) pension.

For contracts where the term age of the settlement is less than the statutory (early) pension age, they should be prolonged so as to meet the assumed age when the insured person will take his statutory pension. It is also necessary to take account of the changing statutory pension age (65 years up to 2024, 66 years from 2025 onwards and 67 years from 2030 onwards).

It is necessary to define the tariff bases in which the capital of the covered contracts will be prolonged. The tariff bases will be identical to the initial contract tariff except for the guaranteed rate and possibly the mortality table. The guaranteed rate used for contract prolongations is dependent of the economic environment and the rates projected by the ESG.

Possible periodic premiums for contracts are not extended beyond the initial term age because Ethias has no commitments in this respect beyond that age.

Joint management of 1st pillar entities

Before amendment, the model provided for the discontinuation of an entity's projections when its reserves became negative. However, it appears more in line with the reality of applying this judgment no longer separately by entity but by group of entities when the situation so requires. Indeed, it may be necessary to deal with, for example, the different entities relating to the same client, such as its pension insurances and contributory insurance, or, for example, to deal with a municipality and its CPAS (Public social welfare centre). The model has therefore been adapted to deal with different entities, where appropriate.

Acquisition of outstanding balance insurance portfolio

As at 31 December 2016, account is taken of the certain integration of Whestia's outstanding balance insurance portfolio into the Ethias portfolio of individual classic life contracts. Contracts are treated as classic life contracts without an accepted reinsurance contract.

5.2.2. Valuation of best estimates Non-Life

5.2.2.1. Results

The table below shows the quantitative differences between the valuation of non-life provisions under SII, i.e. the value of the Best Estimates (BE) and the one described in the BGAAP financial statements.

In thousands of EUR

SII line of business	SII value	BGAAP value
Non-life (without health)	1,702,513	1,816,542
Health (similar to non-life)	289,824	362,765
Non-Life	***1,922,337***	

Technical provisions - health (similar to life)[15]	1,480,998	1,463,981
TOTAL without recourse	**3,473,335**	**3,643,288**
Recourse provisions	0	-55,946
TOTAL	**3,473,335**	**3,587,342**

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 Ethias SA reinsurance contracts as at 31 December 2016 with the SII economic 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)	1,702,513	1,605,140	-2,127	95,245
Health (similar to non-life)	289,824	287,309	-12	2,504
Non-Life				***97,749***
Health (similar to life)	1,514,172	1,511,151	0	3,021
TOTAL	**3,506,509**	**3,403,600**	**-2,139**	**100,770**

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 EUR 100,770 thousand whereas the shares of reinsurers in the technical provisions of the Belgian balance sheet amount to EUR 121.543 thousand.

5.2.2.3. General valuation method of 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 modelling of future inflation:
    - In BGAAP, we consider an implicit inflation in the triangles.
    - In SII, we adjust the benefits and external expenses in line with the inflation observed at the calculation date and determine future flows by applying an inflation from an economic scenario generator (ESG) to them.

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[15] Annuities in CL Car and General CL have been withdrawn because they are included in the table relating to life (section 5.2.1)

- The management of atypical claims:
  - o No special treatment in the frame of the BGAAP calculation, except for so-called media claims.
  - o Split between attritional and atypical claims in the frame of the SII calculation. Triangle treatment of benefit 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.
- 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

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 costs are determined using a proportion of 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.

A percentage of provisions is used to determine the PFIGS[16] 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 31 December 2016.
- The BE for reserves "prostheses Work Accidents Law '71" is determined using the accounting reserves as at 31 December 2016.
- The BE for the Belgian Common Guarantee Fund (FCGB) is determined using the accounting reserves as at 31 December 2016.
- 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 2016.
- The BE for BelRé (accepted reinsurance accepted) is determined using the accounting reserves as of 31 December 2016.
- 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.

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 BE annuities

Work Accident annuities

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

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16 PFIGS: Provision for internal claims handling costs

In BGAAP, a method based on scales is applied. 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. A second layer, based on the same mortality assumptions but using the pivot rate, is built up within the flashing-light provision.

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

- Transition between phases
- Change in PD Rate[17]
- 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.

CL annuities

In BGAAP, a method based on scales is applied. We use 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 flow projection method is used. The discount curve is determined by EIOPA. The inflation and mortality assumptions are identical to those used in BGAAP. An amount of cost per life annuity was 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 of the reserves "decease" in the RCO[18] phase are equal to the reserves made on a case-by-case basis by the file manager increased by a factor of 3.5% to face the costs.
- The BE for reserves "prostheses" is determined using the accounting reserves.
- 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[19] 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 BE premiums

Methods and assumptions

The BE of gross premiums is an SII concept that does not have its counterpart 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 2016.
- The commission rates come from the budgetary year.
- The acquisition costs are obtained from the accounting data for the year 2016.

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[17] PD = Permanent disability
[18] RCO: Reserve for claims outstanding
[19] FMR: Final Mathematical Reserve

- 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.

Reinsurance

The BE of premiums net of reinsurance is an SII concept that does not have its counterpart 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 thresholds for distinguishing atrial claims from atypical claims have been recalibrated. A series of claims excluded from the previous calibration were reintegrated.

The triangulations have been updated by adding an additional diagonal to the various triangles.

The cost parameters were recalibrated by integrating the observations of the year 2016. The costs are now calibrated on the basis of a cash view and not on the basis of an accounting view: the amortization of certain significant IT costs made this change necessary.

Work Accident annuities

All the parameters necessary for the use of the projection module have been recalibrated.

Provisions for recourse have been deducted, since this fiscal year, from the result of the projection module.

The costs are now determined on the basis of an amount per life annuity and no longer proportionately.

BE premiums

All the parameters necessary for the use of the projection module have been recalibrated.

The cost parameters were recalibrated by integrating the observations of the year 2016. The costs are now calibrated on the basis of a cash view and not on the basis of an accounting view: the amortization of certain significant IT costs made this change necessary.

The ratios used in the simplified method are economic ratios and plus the budget ratios.

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 almost EUR 500 million, i.e. an additional 3.2% of the Best Estimates as of December 31, 2016.

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

In thousands of EUR

SII line of business	Risk margin
Non-life (without health)	159,749
Health (similar to non-life)	65,245
Health (similar to life)	28,413
Life (without index-linked and unit-linked insurance)	231,281
Index-linked and unit-linked insurance	2,609
TOTAL	**487,297**

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. 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 life annuities which are also demanding in terms of capital required in the coming decades.

5.2.4. Volatility adjustment

The solvency ratio of Ethias SA is valued using the EIOPA rate curve with the volatility adjustment, which amounts to 0.13% as at December 31, 2016.

The ratio without this adjustment would be 13% lower, the degradation coming mainly from the increase of the Best Estimates.

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 with or without volatility adjustment. 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 by EUR 181 million.

The effects of the volatility adjustment are presented in the tables below.

In thousands of EUR	without VA	QRT 12/2016	delta
Solvency Capital Requirement (SCR)	1,527,982	1,518,124	9,858
Available own funds to meet the SCR	2,034,526	2,215,588	-181,062
surplus(+) / deficit(-)	506,544	697,464	-190,920
Coverage rate	**133.15%**	**145.94%**	**-12.79%**

In thousands of EUR	without VA	QRT 12/2016	delta
Minimum Capital Requirement (MCR)	687,592	683,156	4,436
Available own funds to meet the MCR	1,428,547	1,610,201	-181,654
surplus(+) / deficit(-)	740,955	927,045	-186,090
MCR coverage rate	**207.76%**	**235.70%**	**-27.94%**

In thousands of EUR

Best Estimate net of reinsurance[20]	without VA	QRT 12/2016	delta
Non-Life	1,614,689	1,607,267	7,422
Health similar to non-life	288,155	287,320	834
Health similar to life	1,502,456	1,477,977	24,479
Life without index-linked and unit-linked insurance	11,645,636	11,495,872	149,763
Index-linked and unit-linked insurance	410,675	410,632	43
TOTAL	**15,461,610**	**15,279,069**	**182,541**

5.3. Valuation of other liabilities

5.3.1. Subordinated liabilities

In thousands of EUR	SII value	SI value	Difference
Subordinated liabilities	529,196	482,228	46,969

Differences in valuation

In the Belgian balance sheet, subordinated loans are valued at their issue price to which the amortization of issue costs is added.

In Solvency II, subordinated loans are valued on the basis of the spread at the origin in accordance with the provisions of the delegated act. In addition, accrued interests not yet due related to subordinated debt are included in the SII value, whereas they are classified as accruals in the BGAAP financial statements.

[20] The best estimates are given according to the segmentation that is used for the calculations and that differs slightly from the segmentation used in the reporting.

5.3.2. Pension benefit obligations

In thousands of EUR	SII value	BGAAP value	Difference
Post-employment benefits	**398,326**	268,395	129,931
Long-term employee benefits	**16,085**	48,573	-32,488
Termination benefits	**11,414**	11,406	8
Pension benefit obligations	**425,825**	328,374	97,451

Valuation principles specific to the category

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.

Differences in valuation with the BGAAP financial statements

The difference in valuation between the BGAAP and SII financial statements is due to the difference between the fair value recorded in the IIS 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.

5.3.3. Contingent liabilities

In thousands of EUR	SII value	BGAAP value	Difference
Contingent liabilities	**93,185**	0	93.185

Valuation principles specific to the category

The amount of contingent liabilities corresponds to the best estimate of the expense required to extinguish the current obligation at the balance sheet date.

Differences in valuation with the BGAAP financial statements

The difference in valuation between the BGAAP financial statements and the SII standard is due to the fair value recorded in SII for the commitment related to the subordinated loan issued by Vitrufin for an amount of EUR 62,550 thousand, to the commitment linked to the Century project for an amount of EUR 28,804 thousand and to the contracted debt of EUR 1,831 thousand following the agreement for the cession of Whestia which provides for the deferred payment of 5% of the price.

A dividend payable to Vitrufin for an amount of EUR 45,000 thousand and a provision of EUR 19,000 thousand relating to the Century project have been cancelled in SII in sections 5.3.4 and 5.3.11 given the fact that they are taken into account by these contingent liabilities.

5.3.4. Provisions other than technical provisions

In thousands of EUR	SII value	BGAAP value	Difference
Provisions other than technical provisions	**9,254**	64,354	-55,100

Valuation principles specific to the category

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 recognized when:

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

Differences in valuation with the BGAAP financial statements

The provision relating to the Century project for an amount of EUR 19,000 thousand, as set out in the BGAAP financial statements, was cancelled because it is included in item 5.3.3 "Contingent liabilities".

The financial provision of EUR 29,100 thousand established in the BGAAP financial statements was cancelled because it does not meet the three criteria set out above.

The provision linked to the group insurance (EUR 7,000 thousand), established in the BGAAP financial statements, was cancelled because it is included in the calculation of pension provisions in item 5.3.2 "Pension provision".

5.3.5. Deposits from reinsurers

In thousands of EUR	SII value	BGAAP value	Difference
Deposits received from reinsurers	**101,487**	101,487	-

Valuation principles specific to the category

The liabilities category "deposits received from reinsurers" is valued at nominal value.

Differences in valuation with the BGAAP financial statements

No valuation difference on these liabilities.

5.3.6. Deferred tax liabilities

In thousands of EUR	SII value	BGAAP value	Difference
Deferred tax liabilities	**0**	2,414	-2,414

Differences in valuation with the BGAAP financial statements

No valuation difference on these liabilities.

5.3.7. Debts owed to credit institutions

In thousands of EUR	SII value	BGAAP value	Difference
Debts owed to credit institutions	**336,414**	336,414	-

Valuation principles specific to the category

The liabilities category "Debts owed to credit institutions" is valued at nominal value.

Differences in valuation with the BGAAP financial statements

No valuation difference on these liabilities.

5.3.8. Financial liabilities other than debts owed to credit institutions

In thousands of EUR	SII value	BGAAP value	Difference
Financial liabilities other than debts owed to credit institutions	**34,794**	0	-

Valuation principles specific to the category

The liabilities category "Financial liabilities other than debts owed to credit institutions" is valued at nominal value.

Differences in valuation with the BGAAP financial statements

The anticipation of the purchase of the Whestia share interest in the SII framework led to the recognition of a financial debt of EUR 34,794 thousand.

5.3.9. Insurance and intermediaries payables

In thousands of EUR	SII value	BGAAP value	Difference
Liabilities arising from direct insurance operations	**123,156**	123,156	-

Valuation principles specific to the category

The liabilities category "Insurance and intermediaries receivables" is valued at the nominal or acquisition value.

Differences in valuation with the BGAAP financial statements

No valuation difference on these liabilities.

5.3.10. Reinsurance payables

In thousands of EUR	SII value	BGAAP value	Difference
Reinsurance payables	**1,914**	1,914	-

Valuation principles specific to the category

The liabilities category "Reinsurance payables" is valued at the nominal or acquisition value.

Differences in valuation with the BGAAP financial statements

No valuation difference on these liabilities.

5.3.11. Payables (trade, not insurance)

In thousands of EUR	SII value	BGAAP value	Difference
Taxes payable	**80,332**	80,332	-
Other payables	**167,308**	212,308	-45,000
Payables (trade, not insurance)	**247,640**	292,640	-45,000

Valuation principles specific to the category

The liabilities category "Payables" is valued at nominal value.

Differences in valuation with the BGAAP financial statements

The difference in valuation between the BGAAP financial statements and the SII framework is explained by the fact that the dividend payable to Vitrufin for an amount of EUR 45,000 thousand recorded in the BGAAP financial statements was cancelled. (see heading 5.3.3 Contingent liabilities)

5.3.12. Any other liabilities, not elsewhere shown

In thousands of EUR	SII value	BGAAP value	Difference
Any other liabilities, not elsewhere shown	**584**	584	-

Valuation principles specific to the category

The liabilities category "Any other liabilities, not elsewhere shown" is valued at nominal value.

Differences in valuation with the BGAAP financial statements

No valuation difference on this asset class.

5.4. Any other information regarding the valuation of assets and liabilities

None

6. Capital management

6.1. Own funds

6.1.1. Own funds management

Ethias' objective is to strengthen its own funds in order to achieve a minimum ratio level of SCR coverage at 150%, in accordance with its Risk Appetite.

In 2015, Ethias restructured its perpetual loan of EUR 250 million in the following two steps:

- On 29 June 2015, Ethias launched an exchange offer for its perpetual subordinated loan against a Tier 2 subordinated loan maturing in January 2026. The participation rate amounted to 94.4% (EUR 236 million). Having reimbursed investors wishing to participate in the exchange offer but not having an investment with a minimum amount of EUR 100,000 (i.e. the minimum subscription amount) and having reimbursed the part of the investment not corresponding to a multiple of EUR 100,000, a new bond of EUR 231.9 million was issued at 100 % on 14 July 2015, at the nominal rate of 5%.

- On 5 November 2015, Ethias SA issued, via the "tap" option, an additional tranche in the Tier 2 subordinated loan of EUR 170.8 million in nominal value, for an issue price of 80 %, paying the nominal rate of 5 % and maturing in January 2026.

In 2016, Ethias strengthened its own funds by conducting two "Switch" operations to encourage clients to surrender their FIRST A contracts.

Elements affecting own funds, such as the conclusion of new business, the marketing of new products, measures for capital strengthening, reimbursement of debts and subordinated loans, dividend distribution, etc., are assessed on the planning horizon of the activities, namely 2017-2021.

6.1.2. Breakdown of available own funds

In thousands of EUR	31-Dec-16	31-Dec-15
Tier 1 unrestricted	1,458,673	1,323,822
Tier 1 restricted	14,896	14,370
Tier 2	514,300	488,775
Tier 3	227,719	235,000
TOTAL	**2,215,588**	**2,061,967**

The available own funds as of December 31, 2015 and December 31, 2016 are comprised of own funds classified as follows:

- Tier 1 unrestricted resulting from the excess of assets over liabilities excluding deferred tax assets. It consists of ordinary share capital (EUR 1,000,000,000) and the reconciliation reserve (EUR 458,673 thousand). The reconciliation reserve is equal to the excess of assets over liabilities (EUR 1,686,392 thousand), from which the ordinary share capital and deferred tax assets are subtracted (EUR 227,719 thousand).
- Tier 1 restricted corresponding to the balance of EUR 14,896 thousand of the perpetual loan issued in 2005 (i.e. the portion not having participated in the exchange operation explained above) valued at market value (classified as tier 1 in application of the transitional measures);
- Tier 2 comprising, on the one hand, the subordinated loan of EUR 75 million issued in 2008 and maturing in July 2023 (valued at market value and classified as tier 2 in application of the transitional measures) and, on the other hand, the subordinated loan of EUR 402.7 million in nominal value issued in July and November 2015 and maturing in January 2026 (valued at market value);
- Tier 3 corresponding to deferred tax assets.

The balance of the perpetual loan is classified in tier 1 restricted in application of the transitional measures given that it was issued before the date of entry into force of the delegated acts and that it intervened for up to maximum 50% of the level of capital required in the margin calculation under Solvency I. As the exercise of the call on the first date provided for this purpose (i.e. on 20/12/2015) was not carried out, the prospectus foresees a call at each quarterly interest payment maturity. The EUR 75 million loan is classified as tier 2 in application of the transitional measures given that it was issued before the date of entry into force of the delegated acts and that it intervened for up to maximum 25% of the level of capital required in the margin calculation under Solvency I (more stringent limit as the security has a maturity date). The repurchase of this loan may be done on 11/07/2018 (1st call date) or on any subsequent quarterly interest payment date.

There is no deduction made to basic own funds.

Ancillary own funds are equal to 0.

Available own funds have been strengthened between 2015 and 2016, mainly due to the "Switch VI" operation and the profits generated by the Non-Life business, as the figures as of December 31, 2015 already include the impact of the recovery of the tax dispute, for an amount of EUR 204 million, based on information known at the time of calculation.

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

In thousands of EUR	31-Dec-16	31-Dec-15
Tier 1 unrestricted	1,458,673	1,323,822
Tier 1 restricted	14,896	14,370
Tier 2	514,300	488,775
Tier 3	227,719	235,000
TOTAL	**2,215,588**	**2,061,967**

The different values that make up the eligible own funds to meet the solvency capital requirement (SCR) respect the maximum limits set by Solvency II regulations, namely:

- Tier 1 represents at least 50% of the SCR
- Subordinated loans classified as tier 1 may not represent more than 20% of total tier 1
- Items classified as tier 2 and tier 3 may not exceed 50% of the SCR
- Items classified as tier 3 may not represent more than 15% of the SCR

All available own funds are eligible for SCR coverage: no eligibility limit is affected.

6.1.4. Coverage of the solvency capital requirement

In thousands of EUR	31-Dec-16	31-Dec-15
Solvency Capital Requirement	1,518,124	1,567,292
Eligible own funds to meet the SCR	2,215,588	2,061,967
Coverage rate	**145.94%**	**131.56%**

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

In thousands of EUR	31-Dec-16	31-Dec-15
Tier 1 unrestricted	1,458,673	1,323,822
Tier 1 restricted	14,896	14,370
Tier 2	136,631	141,056
TOTAL	**1,610,201**	**1,479,248**

The different values that make up the eligible own funds to meet the minimum capital requirement (MCR) respect the maximum limits set by Solvency II regulations, namely:

- Tier 1 represents at least 80% of the MCR
- Subordinated loans classified as tier 1 may not represent more than 20% of total tier 1
- Items classified as tier 2 may not exceed 20% of the MCR

As of 31 December 2015 and 31 December 2016, the eligibility limit is reached for tier 2.

6.1.6. Coverage of the minimum capital requirement

In thousands of EUR	31-Dec-16	31-Dec-15
Minimum Capital Requirement	683,156	705,281
Eligible own funds to meet the MCR	1,610,201	1,479,248
Coverage rate	**235.70%**	**209.73%**

6.1.7. Differences between the own funds in BGAAP and the available own funds according to the Solvency II standard

The table below shows the transition of own funds under Belgian accounting standards (BGAAP) to own funds available in accordance with the Solvency II standard at the end of December 2015 and at the end of December 2016. Transitional measures on the SCR equity and on own funds (Omnibus II Directive) are taken into account, leading in particular to the subordinated loans being included in the own funds.

The elements that most influence the Solvency II own funds are the revaluations of financial assets and technical liabilities.

Other liabilities at December 31, 2016 mainly include the subordinated loans (EUR 482 million) and the 3-year interest of the Vitrufin loan (EUR 63 million) on which Ethias SA has a commitment to pay.

In thousands of EUR	31-Dec-16	31-Dec-15
Accounting own funds	1,171,206	1,136,101
Funds for future appropriations	6,754	0
Financial asset gains	1,766,476	1,578,529
Any other assets	0	203,675
Revaluation technical liabilities	-1,413,329	-1,557,353
Other liabilities	456,763	466,014
Deferred taxes	227,719	235,000
SII own funds	**2,215,588**	**2,061,967**

6.1.8. Elements deducted from own funds and notable restrictions affecting the availability and transferability of own funds

There are no elements deducted from own funds nor notable restrictions affecting the availability and transferability of own funds

6.2. SCR & MCR

6.2.1. Solvency capital requirement (SCR) and minimum capital requirement at the end of the reference period (MCR)

The final amounts included in this section remain subject to an assessment by the supervisory authorities.

In thousands of EUR	31-Dec-16	31-Dec-15
Solvency Capital Requirement (SCR)	1,518,124	1,567,292
Minimum Capital Requirement (MCR)	683,156	705,281

The SCR and the MCR are evaluated according to the standard formula. The MCR reaches the 45% ceiling of the SCR.

6.2.2. Solvency capital required per risk module

In thousands of EUR	31-Dec-16	31-Dec-15
Market risk	936,117	959,601
Counterparty default risk	248,207	291,123
Life underwriting risk	188,514	215,442
Health underwriting risk	254,484	206,686
Non-Life underwriting risk:	486,342	506,185
Diversification	-690,432	-706,929
Intangible asset risk	0	0
Basic Solvency Capital Requirement	1,423,232	1,472,108
Operational risk	118,442	121,296
Absorbing capacity of technical provisions	-23,549	-26,113
Solvency Capital Requirement	**1,518,124**	**1,567,292**

The total SCR stands at EUR 1,518,124 thousand, composed in descending order of importance by the SCR market, non-life, health, default and life. The dominant individual SCRs are market risks: the SCR spread, then the SCR interest and the SCR equity. Secondly, non-life SCRs involve risk on premium volumes and reserves coming from non-life and health similar to non-life, as well as SCR Catastrophe, which remains non negligible despite the mitigation of reinsurance. The SCRs generated by life and health similar to life, in particular the longevity risk, come in third place. Finally, the operational SCR adds up to 8% of the basic SCR to constitute the total capital requirement. The adjustment effect of profit-sharing on capital requirements is EUR 23,549 thousand.

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 MCR is calculated in several stages in accordance with Articles 249 to 251 of the Delegated Acts.

a) First, a linear MCR is evaluated:
- on the one hand, in non-life, according to a weighting associated with the technical provisions and premiums.
- The data are as follows:

In thousands of EUR	BE calculated as a whole, net (of reinsurance / SPV)	Net (of reinsurance) written premiums in the last 12 months
Medical expense insurance and proportional reinsurance	78,872	176,125
Income protection insurance and proportional reinsurance	72,630	52,043
Workers' compensation insurance and proportional reinsurance	135,298	118,275
Motor vehicle liability insurance and proportional reinsurance	801,752	244,459
Other motor insurance and proportional reinsurance	37,193	182,467
Marine, aviation and transport reinsurance and proportional reinsurance	136	356
Fire and other damage to property insurance and proportional reinsurance	108,608	189,644
General liability insurance and proportional reinsurance	488,369	93,488
Credit and suretyship insurance and proportional reinsurance	-138	122
Legal expenses insurance and proportional reinsurance	78,809	36,368
Assistance and proportional reinsurance	14,086	37,302
Miscellaneous financial loss insurance and proportional reinsurance	53,223	10,913
Non-proportional health reinsurance	519	256
Non-proportional casualty reinsurance	11,243	74
Non-proportional marine, aviation and transport reinsurance	10,025	0
Non-proportional property reinsurance	3,962	368

- on the other hand, in life, according to a weighting associated with the technical provisions and risk capital.

(In thousands of EUR)

Best estimate of provisions net (of reinsurance)	BE	BE (non-life)
Obligations with profit participation - guaranteed benefits	11,234,734	0
Obligations with profit participation - future discretionary benefits	226,035	0
Index-linked and unit-linked insurance obligations	410,632	0
Other life (re)insurance and health (re)insurance obligations	1,929	1,511,151

(In thousands of EUR)

Risk capital net (of reinsurance)	Insurance/Reinsurance Committee
Capital at risk for all life (re)insurance obligations	7,284,739

This results in the intermediate results:

(In thousands of EUR)

MCR intermediate calculations	Notional Non-Life	Notional Life	Total
Linear MCR	308,894	411,946	720,840

b) Then, we check that the MCR lies between the floor and the cap, respectively equal to 25% and 45% of the SCR:

(In thousands of EUR)

SCR		1,518,124
MCR Floor	25% SCR	379,531
MCR Cap	45% SCR	683,156

The linear MCR exceeds the cap, so the final MCR is equal to the maximum limit of EUR 683 million.

c) The MCR divided between the life and non-life activities in the same proportions as the linear RCM is given in the following table:

(In thousands of EUR)	MCR Non-Life	Life	Composite MCR
Final MCR	292,746	390,410	683,156

6.2.6. Significant changes in the reference period

The total Solvency Capital Requirement went from EUR 1,567,292 thousand at December 31, 2015 to EUR 1,518,124 thousand at December 31, 2016.

- The Solvency Capital Requirement for market risks remained fairly stable despite the "Switch VI" action and the reduction of the duration gap.
  - The SCR interest decreased in line with the reduction in the duration gap, and this despite the lengthening of the duration of the liabilities of FIRST A post-"Switch VI" and the modification of the second pillar group insurance regulations, which also lead to an increase in the duration of the liabilities.
  - The SCR equity increased due to the amortization of the shock applied in the calculation of the SCR (transitional equity) on the one hand, and the increase in exposures on the other hand, this effect resulting from the modelling of risk market transfer in the frame of the reinsurance contract between Ethias SA and Ethias Droit Commun aam.
- The Solvency Capital Requirement for counterparty risks decreased following the taking into account of the merger of Whestia into Ethias SA.
- The Solvency Capital Requirement for life underwriting risks decreased mainly due to the reduction in the volume of FIRST A.
- The Solvency Capital Requirement for health underwriting risks increased as a result of change in the annuity modelling and a revision of the scope to which the calculation is to be applied.

The Minimum Capital Requirement went from EUR 705,281 thousand at December 31, 2015 to EUR 683,156 thousand at December 31, 2016 and also remained fairly stable.

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.

6.6. Any other information regarding capital management

In order to assess our solvency level in the most appropriate way, we have taken into account in our calculations the impact of the acquisition of 100% of Whestia's shares as well as of its future merger now that we have received the approval of the authorities.

7. Quantitative data templates

The following tables present the quantitative data models to be published in this report. Monetary data are expressed in thousands of euros and are as of December 31, 2016.

7.1. Balance sheet as at 31 December 2016

(In thousands of EUR)		Solvency II value
		C0010
Assets		
Intangible assets	R0030	0
Deferred tax assets	R0040	227.719
Pension benefit surplus	R0050	0
Property, plant & equipment for own use	R0060	97.390
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	15.534.302
Property (other than for own use)	R0080	221.272
Holdings in related undertakings, including participations	R0090	439.470
Equities	R0100	398.157
Equities — listed	R0110	397.853
Equities — unlisted	R0120	304
Bonds	R0130	13.856.781
Government bonds	R0140	8.332.032
Corporate bonds	R0150	5.247.981
Structured notes	R0160	269.644
Collateralised securities	R0170	7.123
Collective investment undertakings	R0180	539.711
Derivatives	R0190	75.346
Deposits other than cash equivalents	R0200	3.564
Other investments	R0210	0
Assets held for index-linked and unit-linked contracts	R0220	408.389
Loans and mortgages	R0230	858.168
Loans on policies	R0240	27.114
Loans and mortgages to individuals	R0250	479.556
Other loans and mortgages	R0260	351.498
Amounts recoverable from reinsurance contracts	R0270	100.770
Non-Life and health similar to non-life	R0280	97.749
Non-life without health	R0290	95.245
Health similar to non-life	R0300	2.504
Life and health similar to life, exclusing health and index-linked and unit-linked	R0310	3.021
Health similar to life	R0320	3.021
Life excluding health and index-linked and unit-linked	R0330	0
Life index-linked and unit-linked	R0340	0
Deposits to cedants	R0350	1.218.748
Insurance and intermediaries receivables	R0360	189.378
Reinsurance receivables	R0370	64.359
Other receivables (trade, not insurance)	R0380	78.385
Own shares (directly held)	R0390	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	0
Cash and cash equivalents	R0410	664.960
Any other assets, not elsewhere shown	R0420	22.422
Total assets	**R0500**	19.464.989
Liabilities		
Technical provisions - non-life	R0510	2.217.331
Technical provisions - non-life (excluding health)	R0520	1.862.262
Technical provisions calculated as a whole	R0530	0
Best Estimate	R0540	1.702.513
Risk margin	R0550	159.749
Technical provisions - health (similar to non-life)	R0560	355.069
Technical provisions calculated as a whole	R0570	0
Best Estimate	R0580	289.824
Risk margin	R0590	65.245
Technical provisions - life (excluding index-linked and unit-linked)	R0600	13.236.564
Technical provisions - health (similar to life)	R0610	1.509.411
Technical provisions calculated as a whole	R0620	0
Best Estimate	R0630	1.480.998
Risk margin	R0640	28.413
Technical provisions - life (excluding health and index-linked and unit-linked)	R0650	11.725.786

Technical provisions calculated as a whole	R0660	0
Best Estimate	R0670	11.494.505
Risk margin	R0680	231.281
Technical provisions - index-linked and unit-linked	R0690	414.608
Technical provisions calculated as a whole	R0700	0
Best Estimate	R0710	411.999
Risk margin	R0720	2.609
Contingent liabilities	R0740	93.185
Provisions other than technical provisions	R0750	9.254
Pension benefit obligations	R0760	425.825
Deposits from reinsurers	R0770	101.487
Deferred tax liabilities	R0780	0
Derivatives	R0790	8.014
Debts owed to credit institutions	R0800	336.414
Financial liabilities other than debts owed to credit institutions	R0810	34.794
Insurance and intermediaries payables	R0820	123.156
Reinsurance payables	R0830	1.914
Payables (trade, not insurance)	R0840	247.640
Subordinated liabilities	R0850	529.196
Subordinated liabilities not in basic own funds (BOF)	R0860	0
Subordinated liabilities in basic own funds (BOF)	R0870	529.196
Any other liabilities, not elsewhere shown	R0880	584
Total liabilities	**R0900**	17.778.597
Excess of assets over liabilities	**R1000**	1.686.392

7.2. Premiums, claims and expenses by line of business

7.2.1. Non-Life and accepted non-proportional reinsurance

(In thousands of EUR)		Line of business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business 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	196.510	52.080	121.916	246.138	184.179	356	203.752	98.537	101	37.382	37.299	11.102					1.189.351
Gross - Proportional reinsurance accepted	R0120	-	-	119.367	-	-	-	92	-	-	-	-	-					119.459
Gross - Non-proportional reinsurance accepted	R0130													265	391	2	615	1.274
Reinsurers' share	R0140	737	279	3.832	4.639	1.913	-	15.075	7.457	-	-	-	-	-	-	-	-	33.930
Net	R0200	195.773	51.802	237.450	241.499	182.266	356	188.770	91.080	101	37.382	37.299	11.102	265	391	2	615	1.276.153
Premiums earned																		-
Gross - Direct Business	R0210	196.483	51.177	121.947	245.160	184.793	358	203.233	97.732	101	36.602	36.932	-2.616					1.171.903
Gross - Proportional reinsurance accepted	R0220	-	-	119.367	-	-	-	78	-	-	-	-	-					119.445
Gross - Non-proportional reinsurance accepted	R0230													265	391	2	615	1.274
Reinsurers' share	R0240	734	279	3.832	4.639	1.913	-	14.737	7.561	-	-	-	-	-	-	-	-	33.694
Net	R0300	195.749	50.898	237.482	240.521	182.880	358	188.574	90.172	101	36.602	36.932	-2.616	265	391	2	615	1.258.927
Claims incurred																		-
Gross - Direct Business	R0310	174.175	6.841	89.444	171.375	109.143	195	91.240	35.154	-0	-24.935	19.118	7.788					679.539
Gross - Proportional reinsurance accepted	R0320	1.048	-	139.282	-7	-	26	101	-261	-	-	-	-6					140.183
Gross - Non-proportional reinsurance accepted	R0330													-145	-983	1	1.006	-121
Reinsurers' share	R0340	1.189	-1.416	3.054	4.456	1.239	-	5.705	-1.930	-	-	-	-	-	-	-	-	12.297
Net	R0400	174.034	8.257	225.673	166.912	107.905	221	85.636	36.823	-0	-24.935	19.118	7.782	-145	-983	1	1.006	807.304
Changes in other technical provisions																		-
Gross - Direct Business	R0410	5.717	-	-5.716	-	-	-	-	-	-	-	-	-					1
Gross - Proportional reinsurance accepted	R0420	-	-	-3.173	-	-	-	-	-	-	-	-	-					-3.173
Gross - Non-proportional reinsurance accepted	R0430													-	-	-	-	-
Reinsurers' share	R0440	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net	R0500	5.717	-	-8.889	-	-	-	-	-	-	-	-	-	-	-	-	-	-3.172
Expenses incurred	R0550	26.365	9.331	44.358	71.110	49.703	64	58.011	33.983	48	9.431	18.238	1.452	78	32	-	72	322.275
Other expenses	R1200																	32.566
Total expenses	R1300																	354.841

7.2.2. Life

		Line of business for: **life insurance obligations**						**life reinsurance obligations**		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Anuities stemming from non-life insurance contracts and relating to health insurance obligations	Anuities 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		1.132.403	471					10.866	1.143.740
Reinsurers' share	R1420		56	-					2.811	2.867
Net	R1500		1.132.346	471					8.055	1.140.872
Premiums earned										-
Gross	R1510		1.132.403	471					10.866	1.143.740
Reinsurers' share	R1520		56	-					2.811	2.867
Net	R1600		1.132.346	471					8.055	1.140.872
Claims incurred										-
Gross	R1610		2.529.629	72.881					12.713	2.615.222
Reinsurers' share	R1620		-	-					1.053	1.053
Net	R1700		2.529.629	72.881					11.659	2.614.169
Changes in other technical provisions										-
Gross	R1710		-735.875	-21.690					-4.390	-761.955
Reinsurers' share	R1720		-	-					43	43
Net	R1800		-735.875	-21.690					-4.433	-761.997
Expenses incurred	R1900		39.508	1.109					8.885	49.502
Other expenses	R2500									-34.013
Total expenses	R2600									15.489

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) (thousands of euros).

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	1.179.652						1.179.652
Gross - Proportional reinsurance accepted	R0120	119.365						119.365
Gross - Non-proportional reinsurance accepted	R0130	1.215						1.215
Reinsurers' share	R0140	5.193						5.193
Net	R0200	1.295.038						1.295.038
Premiums earned								
Gross - Direct Business	R0210	1.161.612						1.161.612
Gross - Proportional reinsurance accepted	R0220	119.445						119.445
Gross - Non-proportional reinsurance accepted	R0230	1.274						1.274
Reinsurers' share	R0240	4.957						4.957
Net	R0300	1.277.374						1.277.374
Claims incurred								
Gross - Direct Business	R0310	672.982						672.982
Gross - Proportional reinsurance accepted	R0320	139.029						139.029
Gross - Non-proportional reinsurance accepted	R0330	-2						-2
Reinsurers' share	R0340	887						887
Net	R0400	811.122						811.122
Changes in other technical provisions								
Gross - Direct Business	R0410	1						1
Gross - Proportional reinsurance accepted	R0420	-3.173						-3.173
Gross - Non-proportional reinsurance accepted	R0430							-
Reinsurers' share	R0440							-
Net	R0500	-3.172						-3.172
Expenses incurred	R0550	321.223						321.223
Other expenses	R1200							32.566
Total expenses	R1300							353.789

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	1.143.740						1.143.740
Reinsurers' share	R1420	56						56
Net	R1500	1.143.683						1.143.683
Premiums earned								
Gross	R1510	1.143.740						1.143.740
Reinsurers' share	R1520	56						56
Net	R1600	1.143.683						1.143.683
Claims incurred								
Gross	R1610	2.615.222						2.615.222
Reinsurers' share	R1620	-						-
Net	R1700	2.615.222						2.615.222
Changes in other technical provisions								
Gross	R1710	-761.955						-761.955
Reinsurers' share	R1720	-12						-12
Net	R1800	-761.943						-761.943
Expenses incurred	R1900	49.502						49.502
Other expenses	R2500							-33.105
Total expenses	R2600							16.397

7.4. Life and health SLT technical provisions

(In thousands of EUR)		Insurance with profit par- ticipation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insur- ance obligations	Accepted reinsur- ance	**Total (Life other than health insur- ance, incl. Unit-Linked)**	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obliga- tions	Health rein- surance (reinsurance accepted)	**Total (Health similar to life insur- ance)**
				Contracts without options and guar- antees	Contracts with options or guarantees		Contracts without options and guar- antees	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**										0						0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for ex- pected losses due to counterparty default associated to TP calculated as a whole	**R0020**										0						0
Technical provisions calculated as a sum of BE and RM																	
Best Estimate																	
Gross Best Estimate	**R0030**	11.456.880			410.632				33.174	5.818	11.906.504			-80.981	542.143	1.019.836	1.480.998
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for ex- pected losses due to counterparty default	**R0080**													0	3.021	0	3.021
Best estimate minus recoverables from re- insurance/SPV and Finite Re — total	**R0090**	11.456.880			410.632				33.174	5.818	11.906.504			-80.981	539.122	1.019.836	1.477.977
Risk Margin	**R0100**	230.813	2.609						467		233.890				28.413	0	28.514
Amount of the transitional on Techni- cal Provisions																	
Technical Provisions calculated as a whole	**R0110**										0						0
Best estimate	**R0120**										0						0
Risk margin	**R0130**	0	0						0	0	0	0			0	0	0
Technical provisions — total	**R0200**	11.687.693	413.241			0			33.642	5.818	12.140.394	0			570.556	1.019.836	1.509.511

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	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**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	**R0050**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Technical provisions calculated as the sum of Best Estimate and Risk Margin																		
Best Estimate																		
Premium provisions																		
Premium provisions	**R0060**	24.813	-2.610	4.880	71.879	22.759	-255	27.664	7.586	-138	4.198	11.960	36.197	-117	0	0	20	208.836
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0140**	-583	-139	-886	-809	-332	0	-9.518	-4.359	0	1	0	0	0	0	0	0	-16.625
Net Best Estimate of Premium Provisions	**R0150**	25.395	-2.471	5.766	72.688	23.091	-255	37.182	11.945	-138	4.198	11.960	36.197	-117	0	0	20	225.461
Claims provisions																		
Gross	**R0160**	54.692	76.837	130.694	760.243	16.324	391	80.693	543.713	0	74.917	2.126	17.026	637	11.243	10.025	3.942	1.783.501
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0240**	1.215	1.735	1.161	31.178	2.223	0	9.267	67.289	0	305	0	0	0	0	0	0	114.374
Net Best Estimate of Claims Provisions	**R0250**	53.477	75.102	129.532	729.064	14.101	391	71.426	476.424	0	74.611	2.126	17.026	637	11.243	10.025	3.942	1.669.126
Total Best Estimate — gross	**R0260**	79.505	74.227	135.574	832.121	39.084	136	108.358	551.299	-138	79.115	14.086	53.223	519	11.243	10.025	3.962	1.992.337
Total Best Estimate — net	**R0270**	78.872	72.630	135.298	801.752	37.193	136	108.608	488.369	-138	78.809	14.086	53.223	519	11.243	10.025	3.962	1.894.588
Risk margin	**R0280**	7.752	9.476	47.917	56.480	11.499	115	32.073	43.393	101	7.098	2.515	3.132	100	1.494	1.298	551	224.994
Amount of the transitional on Techncial Provisions																		
Technical provisions calculated as a whole	**R0290**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Best Estimate	**R0300**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Risk margin	**R0310**	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Technical provisions - Total																		
Technical provisions - Total	**R0320**	87.256	83.703	183.490	888.602	50.582	251	140.430	594.692	-37	86.213	16.601	56.355	620	12.736	11.323	4.512	2.217.331
Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default - Total	**R0330**	632	1.596	275	30.370	1.891	0	-251	62.930	0	306	0	0	0	0	0	0	97.749
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	**R0340**	86.624	82.106	183.215	858.232	48.691	251	140.681	531.763	-37	85.907	16.601	56.355	620	12.736	11.323	4.512	2.119.582

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										
	Year	0	1	2	3	4	5	6	7	8	9	10 and +
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110
Previous	R0100											15.452
N-9	R0160	312.392	145.534	34.706	19.483	14.318	11.750	8.562	7.563	3.467	3.492	
N-8	R0170	415.948	194.041	36.116	23.373	16.475	11.931	9.140	5.901	4.244		
N-7	R0180	427.239	198.175	44.282	23.415	15.927	12.288	9.526	5.810			
N-6	R0190	413.695	206.487	41.186	22.155	13.157	10.864	7.830				
N-5	R0200	388.879	179.669	35.423	19.315	12.631	8.096					
N-4	R0210	387.153	175.538	32.957	13.458	14.337						
N-3	R0220	389.970	169.912	34.248	20.498							
N-2	R0230	380.850	168.016	32.715								
N-1	R0240	404.958	166.404									
N	R0250	406.324										

		In current year	Sum
		C0170	C0180
	R0100	15.452	15.452
	R0160	3.492	561.266
	R0170	4.244	717.168
	R0180	5.810	736.663
	R0190	7.830	715.374
	R0200	8.096	644.012
	R0210	14.337	623.443
	R0220	20.498	614.628
	R0230	32.715	581.581
	R0240	166.404	571.361
	R0250	406.324	406.324
Total	R0260	685.201	6.187.272

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											209.984
R0160										32.043	
R0170									33.965		
R0180								55.480			
R0190							75.094				
R0200						70.546					
R0210					72.721						
R0220				89.213							
R0230			106.634								
R0240		135.546									
R0250	344.844										

		Year end (discounted data)
		C0360
	R0100	207.606
	R0160	31.424
	R0170	33.220
	R0180	54.533
	R0190	73.758
	R0200	69.251
	R0210	71.144
	R0220	87.385
	R0230	104.404
	R0240	132.767
	R0250	341.213
Total	R0260	1.206.705

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	15.867.136	0	0	183.009	0
Basis own funds	R0020	2.215.588	0	0	-180.543	-180.543
Eligible own funds to meet Solvency Capital Requirement	R0050	2.215.588	0	0	-180.543	-182.541
Solvency Capital Requirement	R0090	1.518.124	0	0	13.323	0
Eligible own funds to meet Minimum Capital Requirement	R0100	1.610.201	0	0	-181.342	-181.342
Minimum Capital Requirement	R0110	683.156	0	0	5.996	0

7.8. Own funds

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	1.000.000		-	
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	458.673	458.673			
Subordinated liabilities	R0140	529.196		14.896	514.300	-
An amount equal to the value of net deferred tax assets	R0160	227.719				227.719
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	2.215.588	1.458.673	14.896	514.300	227.719

Ancillary own funds

(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	2.215.588	1.458.673	14.896	514.300	227.719
Total available own funds to meet the MCR	R0510	1.987.870	1.458.673	14.896	514.300	
Total eligible own funds to meet the SCR	R0540	2.215.588	1.458.673	14.896	514.300	227.719
Total eligible own funds to meet the MCR	R0550	1.610.201	1.458.673	14.896	136.631	
Solvency Capital Requirement	R0580	1.518.124				
Minimum Capital Requirement	R0600	683.156				
Ratio of Eligible own funds to SCR	R0620	145,94%				
Ratio of Eligible own funds to MCR	R0640	235,70%				

Reconciliation reserve

(In thousands of EUR)		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	1.686.392
Own shares (held directly and indirectly)	R0710	-
Foreseeable dividens, distributions and charges	R0720	-
Other basic own fund items	R0730	1.227.719
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	-
Reconciliation reserve	R0760	458.673
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	R0770	2.107
Expected profits included in future premium (EPIFP) - Non-Life business	R0780	150.830
Total Expected profits included in future premiums (EPIFP)	R0790	152.937

7.9. Solvency Capital Requirement - for groups on Standard Formula

7.9.1. Basic Solvency Capital Requirement

As far as the company-specific parameters are concerned, Ethias SA does not yet use company-specific parameters within the framework of the standard formula. (company-specific parameters not applicable)

(In thousands of EUR)		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0100
Market risk	R0010	936.117		Simplifications not used
Counterparty default risk	R0020	248.207		
Life underwriting risk	R0030	188.514	N/A	Simplifications not used
Health underwriting risk	R0040	254.484	N/A	Simplifications not used
Non-Life underwriting risk:	R0050	486.342	N/A	Simplifications not used
Diversification	R0060	-690.432		
Intangible asset risk	R0070	-		
Basic Solvency Capital Requirement	**R0100**	1.423.232		

7.9.2. Calculation of the solvency capital requirement

(In thousands of EUR)		C0100
Operational risk	**R0130**	118.442
Loss-absorbing capacity of technical provisions	**R0140**	-23.549
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**	1.518.124
Capital add-on already set	**R0210**	-
Solvency Capital Requirement	**R0220**	1.518.124
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	**R0400**	0
Total amount of Notional Solvency Capital Requirements for remaining part	**R0410**	0
Total amount of Notional Solvency Capital Requirements for ring fenced funds	**R0420**	0
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	**R0430**	0
Diversification effects due to RFF nSCR aggregation for article 304	**R0440**	0

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

		Non-life Activities	Life Activities
(In thousands of EUR)		$MCR_{(NL,NL)}$Result	$MCR_{(NL,L)}$Result
		C0010	C0020
Linear formula component for non-life insurance and reinsurance obligations	**R0010**	277.160	0

(In thousands of EUR)		Non-life Activities		Life Activities	
		BE calculated as a whole, net (of reinsurance / SPV)	Net (of reinsurance) written premiums in the last 12 months	BE calculated as a whole, net (of reinsurance / SPV)	Net (of reinsurance) written premiums in the last 12 months
		C0030	**C0040**	**C0050**	**C0060**
Medical expense insurance and proportional reinsurance	**R0020**	78.872	176.125	0	0
Income protection insurance and proportional reinsurance	**R0030**	72.630	52.043	0	0
Workers' compensation insurance and proportional reinsurance	**R0040**	135.298	118.275	0	0
Motor vehicle liability insurance and proportional reinsurance	**R0050**	801.752	244.459	0	0
Other motor insurance and proportional reinsurance	**R0060**	37.193	182.467	0	0
Marine, aviation and transport reinsurance and proportional reinsurance	**R0070**	136	356	0	0
Fire and other damage to property insurance and proportional reinsurance	**R0080**	108.608	189.644	0	0
General liability insurance and proportional reinsurance	**R0090**	488.369	93.488	0	0
Credit and suretyship insurance and proportional reinsurance	**R0100**	-138	122	0	0
Legal expenses insurance and proportional reinsurance	**R0110**	78.809	36.368	0	0
Assistance and proportional reinsurance	**R0120**	14.086	37.302	0	0
Miscellaneous financial loss insurance and proportional reinsurance	**R0130**	53.223	10.913	0	0
Non-proportional health reinsurance	**R0140**	519	256	0	0
Non-proportional casualty reinsurance	**R0150**	11.243	74	0	0
Non-proportional marine, aviation and transport reinsurance	**R0160**	10.025	-	0	0
Non-proportional property reinsurance	**R0170**	3.962	368	0	0

7.10.2. Linear formula component for life insurance and reinsurance obligations

(In thousands of EUR)		Non-life Activities		Life Activities	
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0090	**C0100**	**C0110**	**C0120**
Obligations with profit participation - guaranteed benefits	**R0210**	0		11.234.734	
Obligations with profit participation - future discretionary benefits	**R0220**	0		226.035	
Index-linked and unit-linked insurance obligations	**R0230**	0		411.999	
Other life (re)insurance and health (re)insurance obligations	**R0240**	1.511.151		562	
Total capital at risk for all life (re)insurance obligations	**R0250**		0		10.963.622

7.10.3. Overall MCR calculation

(In thousands of EUR)		C0130
Linear MCR	R0300	723.415
Solvency Capital Requirement	R0310	1.518.124
MCR cap	R0320	683.156
MCR Cap	R0330	379.531
Combined MCR	R0340	683.156
Absolute floor of the MCR	R0350	7.400
		C0130
Minimum Capital Requirement	**R0400**	683.156

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	308.894	414.521
Notional SCR excluding add-on (annual or latest calculation)	R0510	648.231	869.893
Notional MCR cap	R0520	291.704	391.452
Notional MCR floor	R0530	162.058	217.473
Notional Combined MCR	R0540	291.704	391.452
Absolute floor of the notional MCR	R0550	3.700	3.700
Notional MCR	R0560	291.704	391.452

8. Annex 1

The table in Annex 1 contains the Solvency II balance sheet of Ethias SA as at 31 December 2016, presenting the valuations corresponding respectively to the Solvency II standards (SII framework) and to the Belgian accounting standards (BGAAP) used in the financial statements. The table refers to the different sections of the report.

In thousands of euros	Ethias SA	
Heading SII balance sheet	**Solvency II Value**	**BGAAP Value**
Assets		
Goodwill	0	0
Deferred acquisition costs	0	0
Intangible assets	0	78.644
Deferred tax assets	227.719	0
Pension benefit surplus	0	0
Property, plant & equipment held for own use	97.390	75.164
Investments (other than assets held for index-linked and unit-linked funds)	15.534.302	13.833.556
Property (other than for own use)	221.272	199.630
Participations	439.470	381.263
Equities	398.157	316.140
Equities - listed	397.853	315.836
Equities - unlisted	304	304
Bonds	13.856.781	12.391.976
Government Bonds	8.332.032	7.250.333
Corporate Bonds	5.247.981	4.887.505
Structured notes	269.644	246.888
Collateralised securities	7.123	7.250
Investment funds	539.711	526.839
Derivatives	75.346	14.144
Deposits other than cash equivalents	3.564	3.564
Other investments	0	0
Assets held for index-linked and unit-linked funds	408.389	408.389
Loans & mortgages	858.168	821.359
Loans & mortgages to individuals	479.556	455.120
Other loans & mortgages	351.498	343.532
Loans on policies	27.114	22.708
Reinsurance recoverables from:	100.770	121.543
Non-life and health similar to non-life	97.749	0
Non-life excluding health	95.245	0
Health similar to non-life	2.504	0
Life and health similar to life, excluding health and index-linked and unit-linked	3.021	0
Health similar to life	3.021	0
Life excluding health and index-linked and unit-linked	0	0
Life index-linked and unit-linked	0	0

Deposits to cedants	1.218.748	1.125.394
Insurance & intermediaries receivables	189.378	218.847
Reinsurance receivables	64.359	64.359
Receivables (trade, not insurance)	78.385	104.956
Own shares	0	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	0	0
Cash and cash equivalents	664.960	664.960
Any other assets, not elsewhere shown	22.422	22.422
Total assets	**19.464.989**	**17.539.594**
Liabilities		
Technical provisions – non-life	2.217.331	2.187.413
Technical provisions – non-life (excluding health)	1.862.262	1.816.542
TP calculated as a whole	0	0
Best Estimate	1.702.513	0
Risk margin	159.749	0
Technical provisions - health (similar to non-life)	355.069	362.765
TP calculated as a whole	0	0
Best Estimate	289.824	0
Risk margin	65.245	0
Technical provisions - life (excluding index-linked and unit-linked)	0	0
Technical provisions - health (similar to life)	1.509.411	1.463.981
TP calculated as a whole	0	0
Best Estimate	1.480.998	0
Risk margin	28.413	0
Technical provisions – life (excluding health and index-linked and unit-linked)	11.725.786	10.576.396
TP calculated as a whole	0	0
Best Estimate	11.494.505	0
Risk margin	231.281	0
Technical provisions – index-linked and unit-linked	414.608	408.389
TP calculated as a whole	0	0
Best Estimate	411.999	0
Risk margin	2.609	0
Other technical provisions	0	0
Contingent liabilities	93.185	0
Provisions other than technical provisions	9.254	64.354
Pension benefit obligations	425.825	328.374
Deposits from reinsurers	101.487	101.487
Deferred tax liabilities	0	2.414
Derivatives	8.014	0
Debts owed to credit institutions	336.414	336.414
Financial liabilities other than debts owed to credit institutions	34.794	0

Insurance & intermediaries payables	123.156	123.156
Reinsurance payables	1.914	1.914
Payables (trade, not insurance)	247.640	292.640
Subordinated liabilities	529.196	482.228
Subordinated liabilities not in BOF	0	0
Subordinated liabilities in BOF	529.196	482.228
Any other liabilities, not elsewhere shown	584	584
Total liabilities	**17.778.597**	**16.361.634**
Excess of assets over liabilities	**1.686.392**	**1.177.960**