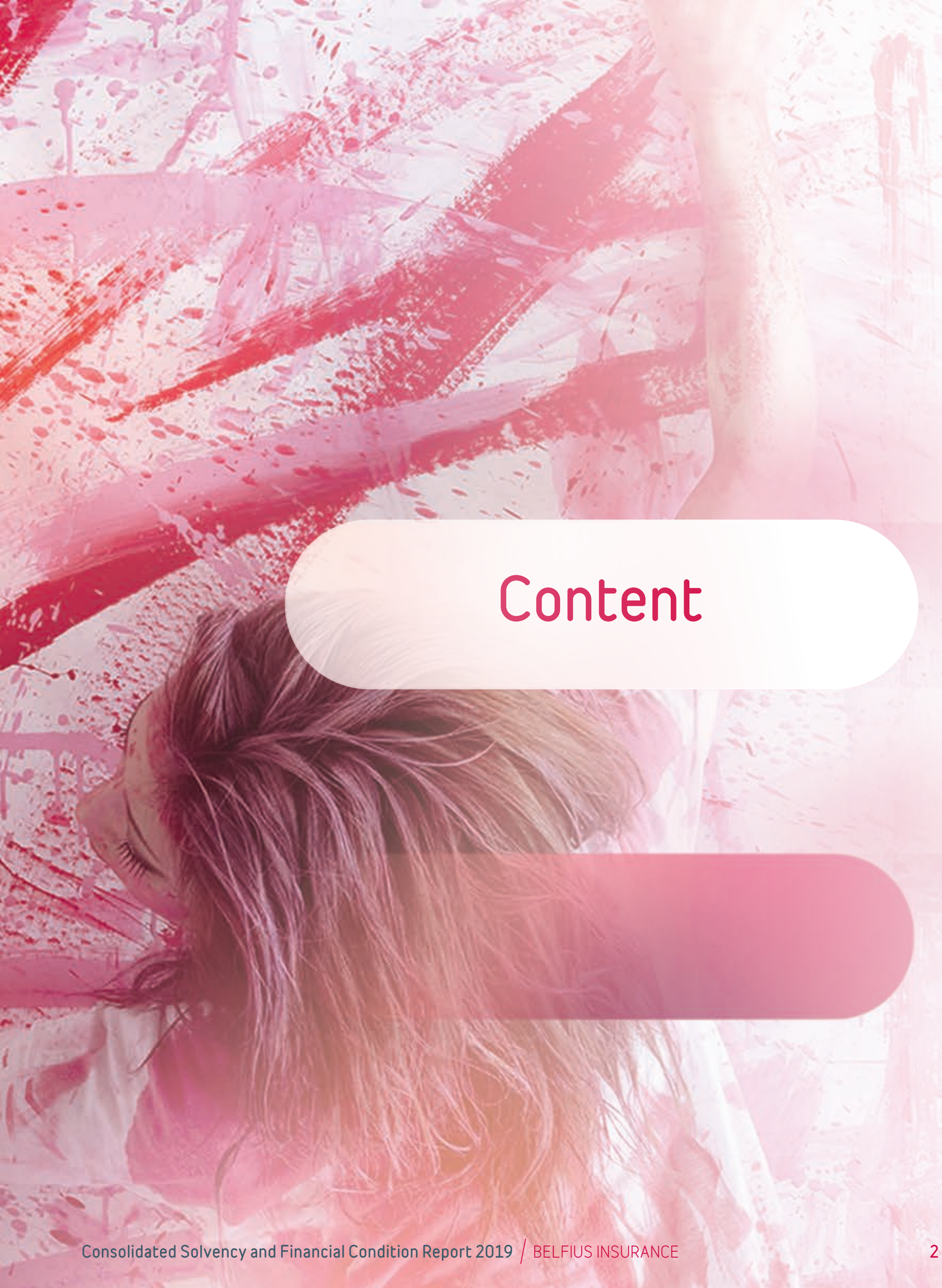
CONSOLIDATED SOLVENCY AND FINANCIAL CONDITION REPORT 2019

Belfius Insurance



Content

Summary

The purpose of the Solvency and Financial Condition Report (SFCR) is to provide information required by the Solvency II regulatory framework in respect of Belfius Insurance group ("the Group" or "Belfius Insurance") at 31 December 2019.

This report sets out aspects of the Group's business and performance, system of governance, risk profile, valuation methods used for solvency purposes and its capital management practices.

On 23 March 2020, the European Insurance and Occupational Pension Authority (EIOPA) issued a statement confirming that COVID-19 should be considered as a "major development" as per article 54(1) of the Solvency II Directive. Hence insurance undertakings should publish any appropriate information on the effect of the COVID-19 pandemic.

In these moments of disruption and social distancing, Belfius Insurance has ensured continuity to its clients and preserved a strong solvency and capital position. As the final outcome of the crisis is still very uncertain, a regular monitoring of the solvency and capital position remains a high priority.

Further information relating to the pandemic can be found in the respective sections of the report.

Activity and performance

As a multi-channel insurer on the Belgian market, Belfius Insurance group offers a complete range of Life and Non-Life insurance products to individuals, companies, freelances, the social sector and the public sector.

In 2019, Belfius Insurance collected EUR 1,849 million on the Belgian market, of which 61% for Life.

As at 31 December 2019 the Group had 1,224 full-time equivalent members of staff. Belfius Insurance has two operational segments, Retail & Commercial Insurance ("RCI") and Public & Corporate Insurance ("PCI").

The RCI strategy rests on three pillars:

- ongoing development of the bank-insurance model, a growth driver for the Belfius Group;
- the DVV/Les AP network continues to focus on added value for its intermediaries; and
- Corona Direct, the Group's direct insurer, is an independent company and also acts as a pioneer in future digital development for all the channels of Belfius Insurance.

In 2018, Belfius Insurance decided to concentrate its Non-Life activities within PCI on the social sector segment through direct distribution and to run-off the Non-Life activities to other institutional and corporate clients through the broker channel. This strategy continued in 2019. The freed-up resources are reallocated to its strong developing Non-Life insurance business with SME customers through its own (bank and DVV/LAP) distribution channels.

In the 2019 financial year, Belfius Insurance achieved net result of EUR 204 million. This excellent result is the fruit of our long-term strategy: strengthening the bank-insurance model, the constant focus on innovative insurancesolutions, controlling our costs with particular attention paid to the profitability of all our channels, the development of the Non-Life portfolio, an adequate management of our Life activities, the digitalisation of our offer and customer satisfaction.

In order to face future challenges with confidence, a series of projects have been set up. Close collaboration with our parent company Belfius Bank should lead to an even stronger digital insurance product range, as well as an integrated and tailored customer experience. The strategic plan 2020-2025 aims to make Belfius Insurance a leading insurer on the Belgian market. We are constantly improving our processes to increase their efficiency and thus their impact on customer satisfaction. The Leadershift program, set up in collaboration with Belfius Bank, will prepare the Belfius managers for the challenges of the future.

Governance system

This section on governance is intended to enable a good understanding of the manner by which governance is organised within Belfius Insurance and its appropriateness to the regulations relating to the supervision of insurance companies in Belgium, the commercial strategy and operations. It contains information on the structure of its administrative, management and surveillance bodies as well as a description of their principal responsibilities.

Belfius Insurance makes a clear distinction of responsibility between the different governing bodies. The Board of Directors is responsible for defining the general and risk strategy.

The Management Board is mandated by the Board of Directors (which delegates its relevant powers to the former) with the management of Belfius Insurance. To ensure the proper operation and development of Belfius Insurance, the Management Board is responsible for establishing and maintaining an appropriate risk management. It defines and coordinates the policy of Belfius Insurance in line with the strategy laid down by the Board of Directors. It allocates the means and resources and sets the deadlines for the implementation of actions defined under that policy. It verifies whether the objectives are attained and whether the risk management is tailored to all the needs. Finally, it adapts the needs to internal and external developments.
The teams that must specifically ensure effective risk management are:

- The Risk Management team (second line of control) under the responsibility of the Chief Risk Officer, member of the Management Board, tasked with the supervision of the risk management policy. This team defines lines of action for limits and delegated powers, monitors and measures the total risks, and awakes the implementation of harmonized methods in the different entities.
- The actuarial function (second line of control) is reponsible for the continuous compliance with the requirements regarding the technical aspects in Belfius Insurance: The technical provisions, the compliancy of the profit sharing policy, the underwriting policy and the adequacy of the reinsurance plans. The actuarial function reports directly to the Chief Risk Officer.
- The Chief Compliance Officer (CCO) (first and second line of control) ensures compliance with the integrity policy and the development of the ethics policy in Belfius Insurance
- The Internal Audit (third line of control) reports directly to the Chief Executive Officer, chairman of the Management Board. Internal audit monitors the implementation and proper application of the internal control process (fisrt and second line).
- The transversal committees see to the follow-up of the various aspects of the management of risks to which Belfius Insurance is exposed.

The Asset and Liability Management Committee ("ALCo") takes the tactical decisions that have an impact on the balance sheet of Belfius Insurance and on its profitability, taking account of the group's risk appetite. It verifies compliance with the guidelines and limits for the management of the investment portfolio.

In addition, the Board of Directors of Belfius Insurance can rely on an Audit Committee comprising three non-executive directors.

Furthermore, the Board of Directors can rely on the Risk & Underwriting Committee for advice on the various fields of risk management such as risk appetite, material exposure to the risks, the strategy and the impact thereof on the capital, the organisation of risk management and the alignment to the nature of the existing risks.

Risk profile

Like other insurance companies, Belfius Insurance is exposed to risks of various sorts: financial or non-financial, existing or emerging, measurable qualitatively or quantitatively. The significance of these risks is assessed sometimes on the basis of regulatory requirements (Solvency II) and sometimes by taking a specific look at the company.

Correspondence of risk level and risk appetite is monitored regularly and retrospectively but also before any decision which might have a material impact on the level of risk.

The proper management of such risks is facilitated by adapted governance, which ensures their detection, assessment and management.

Moreover, a wide diversification is allowed by virtue of the diversity of insurance activities, distribution channels, and techniques enabling the Group to avoid excessive concentrations both of assets and of liabilities.

Finally, Belfius Insurance is subject to the supervision of the Belgian and European supervisory authorities. As a major operator, regular contacts enable the supervisors to be aware of elements which might influence its risk profile and stress tests enable the supervisor to measure its resilience to these.

Valuations for the purposes of solvency

In order to measure its solvency, Belfius Insurance values its assets and liabilities at their "fair value" and in line with the requirements of the Solvency II regulations.

Approximation methods are used but to an extremely limited extent.

The differences resulting from comparison of the Solvency II balance sheet and the IFRS balance sheet are also explained in this section of the document.

Capital management

Belfius Insurance calculates its capital requirement using the standard Solvency II formula, reflecting the rules and guidelines of the EIOPA and the National Bank of Belgium.

At the end of December 2019, the SCR of Belfius Insurance at a consolidated level was EUR 1,162 million. The major part of the capital requirement arises from market risk, in particular the risk associated with spreads or equities. Considering the policy aimed at maintaining a reduced gap between asset and liability durations, the capital requirement dealing with the interest rate risk remains rather limited.

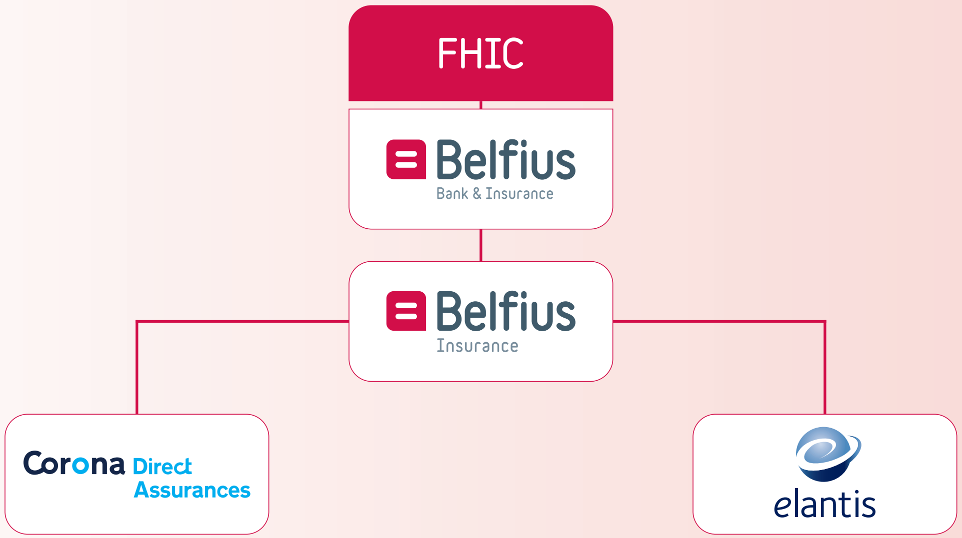
At the end of December 2019, the regulatory capital of Belfius Insurance was EUR 2,466 million. This leads to a Solvency II ratio of 212% at the date. Note that the Solvency II ratio previously communicated in the press release of Belfius Bank on 21 February 2020, amounted to 199% and included a proposed dividend of EUR 120 million. However, following the outbreak of the COVID-19 crisis, the Board of Directors of Belfius Insurance proposed to the General Assembly to integrate the dividend over the financial year 2019 in retained earnings pending the analysis of all impacts of the COVID-19 crisis on the financial position, thus no foreseeable dividend is included in the Solvency ratio of 212% at the end of December 2019. This has been validated and accepted by the General Assembly on April 28th 2020.

Considering Belfius Insurance's level of available capital, the risk that its capital might fall under the SCR (Solvency Required Capital) or the MCR (Minimum Capital Requirement) is very limited. This is confirmed by the results of the stress tests on its business plan, the regulatory stress tests and various sensitivity analyses performed during accounting closings.

A. Activities and performance

A.1. Group profile

A.1.1. Structure



For information regarding the structure of the group please refer to the annual report published on https://www.belfius.be/about-us/en/investors/results-reports/reports

A.1.2. Regulator and Auditor

Regulator: National Bank of Belgium (NBB), Boulevard du Berlaimont, 1000 Brussels. Telephone: 02/221 21 11

Auditor: Deloitte Auditeurs d'enterprise, SC s.f.d. SCRL, Luchthaven Nationaal 1 J / Gateway Building, 1930 Zaventem.

A.1.3. Activity report

For information regarding the activity report please refer to the annual report published on https://www.belfius.be/about-us/en/investors/results-reports/reports

A.1.4. Human resources management

For information regarding the human resource management of Belfius Insurance Group please refer to the annual report published on https://www.belfius.be/about-us/en/investors/results-reports/reports

A.2. Underwriting Performance

A.2.1. Non-Life

The table below shows the result of Non-Life insurances by product group for the years 2018 and 2019 as published in the Annual Report 2019.

Gross premiums collected increased by 2%, from EUR 700 million to EUR 711 million. This growth is evidence of the success of the Bank-insurance model and the digital developments in which Belfius is investing, that offset the decrease in the segment Public and Corporate due to the managerial decision to put in run-off the PCI Bank-insurance and brokers channels.

A slight decrease of the Non-Life results can be noted due to a higher natural catastrophe charge and a lower financial result. The technical results evolve positively thanks to the growth of premiums. Commissions and net claims (with reinsurance impact) increase in line with the gross premiums. The loss ratio is better than previous year: in the growing segment Retail and Commercial, the loss ratio is decreasing despite the impact of natural catastrophes in March (storm) and June (floods); this improvement is explained by the excellent result in the all-risks. The segment Public and Corporate presents a heavier loss ratio compared to 2018, due to some adjustments on large claims in all-risks, bad results in worker's compensation and property (NatCat).

The costs are slightly higher than in 2018 resulting in a stable cost ratio thanks to the higher gross premiums.

(in thousands of EUR)	Gross earned premiums	Claims incurred and other technical expenses	Acquisition commissions	Technical result from ceded reinsurance	Net income on capital	Operating expenses
TOTAL AS AT 31 DECEMBER 2018	**699,714**	**(375,567)**	**(134,937)**	**(30,559)**	**38,988**	**(157,192)**
Accepted reinsurance	1,858	(1,831)	(207)	(283)	1,123	(3)
Direct business	697,856	(373,736)	(134,730)	(30,276)	37,865	(157,189)
All risks/accidents	118,021	(67,736)	(24,433)	(3,230)	7,713	(28,308)
Cars/third party liability	175,886	(81,365)	(28,779)	(7,711)	16,721	(42,651)
Cars/other branches	100,703	(57,756)	(18,673)	(776)	1,252	(24,561)
Fire and other damage to property	237,905	(104,601)	(57,308)	(17,956)	6,350	(45,690)
Other(1)	65,341	(62,277)	(5,537)	(603)	5,829	(15,980)

(1) Includes Credit and suretyship, Non-Life distribution, health and accidents at work.

(in thousands of EUR)	Gross earned premiums	Claims incurred and other technical expenses	Acquisition commissions	Technical result from ceded reinsurance	Net income on capital	Operating expenses
TOTAL AS AT 31 DECEMBER 2019	**711,365**	**(391,947)**	**(137,219)**	**(18,414)**	**34,410**	**(159,265)**
Accepted reinsurance	818	142	(99)	3,595	1,075	(12)
Direct business	710,546	(392,089)	(137,121)	(22,009)	33,334	(159,254)
All risks/accidents	118,910	(68,776)	(24,439)	(5,264)	8,246	(30,199)
Cars/third party liability	178,596	(86,947)	(29,345)	(4,293)	16,368	(43,377)
Cars/other branches	103,385	(60,623)	(18,957)	(804)	(1,484)	(25,001)
Fire and other damage to property	246,252	(121,284)	(59,759)	(12,023)	6,769	(47,707)
Other(1)	63,403	(54,458)	(4,621)	375	3,435	(12,969)

(1) Includes Credit and suretyship, Non-Life distribution, health and accidents at work.

A.2.2. Life

The figures shown in the table below reflect the activity as published in the Annual Report 2019.

(in thousands of EUR)	2019 Insurance contracts	Investment contracts with DPF	Index-linked & Unit-linked	Total
Gross technical provisions	4,815,588	7,078,339	3,671,372	15,565,299
Part of the reinsurer	13,138			13,138
Gross earned premiums	481,081	277,465	370,523	1,129,069

(in thousands of EUR)	2018 Insurance contracts	Investment contracts with DPF	Index-linked & Unit-linked	Total
Gross technical provisions	4,686,633	7,957,237	2,837,971	15,481,841
Part of the reinsurer	12,390			12,390
Gross earned premiums	498,703	298,225	413,898	1,210,826

→ **Insurance contracts**
Slight decrease of gross earned premiums, mainly due to PCI and the discontinuation of the sector pension plan Sefocam (impact of EUR -28 million). In Bank-insurance, an excellent increase of the premiums for outstanding balance insurance was realised, with a further increase of the cross-sell with the mortgages. This impact positively influences the results as those products have an excellent profitability.
The results were also positively impacted by capital gains realised on bonds for ALM reasons. This more than compensated the positive impact of the reassessment of technical provisions of 2018. No further reassessment of provisions (with impact on the P&L) was performed in 2019.

→ **Investment contracts with DPF**
This product line faced numerous redemptions on policies at maturity (rate guaranteed over 8 years), concerning more than EUR 1 billion outstanding. A part was reinvested in new products (Branch 23), but the majority of policies at maturity were redeemed by customers. As a consequence, mathematical reserves fell significantly for these products in run-off.
This high amount of redemptions led to a strong decrease of the average guaranteed rate and therefore, an improvement of the technical results. Logically, the financial income decreased due to the shrinking portfolio, but only slightly. This is a consequence of the good financial management of the asset portfolio (treasury optimisation with repo, growth of income on funds …). The margin therefore increased leading to a solid improvement of the results.
Due to the high pressure on the interest rates, the gross earned premium decreased a bit as the guaranteed rate on the new production is low, especially for the investment type products (mainly Branch 44). The production for pension products is still growing.

→ **Index-linked and unit-linked insurances**
In 2019, Belfius Insurance has realised a strong increase of its outstanding, with nearly +30% compared to 2018. This is thanks to the high amount of transfers of reserves, coming from the redemptions in guaranteed products, which more than compensates the lower premiums. Furthermore, 2019 experienced a positive impact of the market effect, which also contributes to the increase of the reserves.
As the results in unit-linked are based on a fee on the reserves, a growth was realised, but the results remain modest compared to the total Life results. Indeed, the margin remains low in comparison to the guaranteed products (with high profitability coming from the stock).

A.3. Investment Performance

A.3.1. Information concerning charges and proceeds compared to the previous year

The 2019 financial results amount to EUR 542 million, broadly in line with the 2018 results.

The net interest margin has continued to decline although at a slower pace, ending EUR 11 million lower at EUR 421 million. This pressure on the interest margin continues to be driven by known factors:

- a further decline in Life reserves, resulting from the changed focus towards Branch 23, mortgage-linked or fiscal (insurance) products leading to a decrease of financial assets;
- the interest income on the mortgages portfolios has also decreased due to prepayment and repayments.

Dividend income slightly decreased at EUR 51.58 million, but remains a significant contributor to the investment portfolio revenues.

Belfius Insurance has realised EUR 57.16 million in capital gains, slightly below the 2018 level. However, the realisation of capital gains depends on the available market opportunities and is driven by the ALM policy rather than a pure P&L objective. The results were mainly achieved due to the sale of Belgian government bonds.

Net income on capital (In thousands of EUR)	31/12/2018	31/12/2019
Interest income & expense	421,308	409,407
Dividend Income	58,580	51,790
Net income from equity method companies	963	1,339
Net income from financial instruments at fair value through profit or loss	(22,351)	(1,098)
Net income on investments and liabilities (capital gains)	66,441	57,163
Other income & expense	16,089	23,888
TOTAL	541,030	542,488

A.3.2. Performance (in %)

Overall the portfolios (fixed income and equites) have shown strong market performances in 2019 (calculated as total return performances which differ from the accounting return). Over 2019, the equity portfolios: listed equities and listed real estate have respectively performed 25.02% and 22.19% on an annual basis, slightly below their respective benchmarks due to a more defensive positioning.

	Asset class	Performance
Fixed income	Govies	7.55%
	Credit	6.01%
Equity portfolio	Equity	25.02%
	Real estate	22.19%

The performance of the fixed income portfolio in 2019 was 7.55% for the government bonds portfolio and 6.01% for the credit portfolio. Both were driven by rate and credit spread decreases particularly in Q2 and Q3 on the back of ECB easing policies announced in September 2019 (although the trend reverted a bit by year end).

A.3.3. Securitisation investments

Market Value (in EUR)	31/12/2018	31/12/2019
Danish Mortgages	179,481,520	121,141,104.60
RMBS	85,219,779	73,331,787

As illustrated in the table on the left, Belfius Insurance had an exposure of EUR 73.3 million in RMBS and EUR 121.1 million in Danish Mortgages. Part of the portfolios in those asset classes have amortised in 2019.

A.4. Performance of other activities

Belfius Insurance has launched Jaimy in 2018 which is a joint venture with BCG which puts quality tradesmen and individuals in contact (via internet website and mobile app) for various works about home improvements like painting, electrical work, plumbing, heating …

The platform has grown in 2019 with an increase of paying trader use and leads bought month after month. The growth is encouraging. The income remains low in 2019.

Belfius Insurance has also launched Jane at the end of 2019. Jane is a joint venture with BCG that develops and provides a mobile app for elderly people who want to stay at home and retain their independence for longer and for their loved ones who want to be reassured that everything is fine and know when they are needed.

A.5. Other information

The current pandemic which originated last December in China but has spread worldwide over the first quarter of 2020 affects people, the whole market and Belfius. This impacts our personal and professional lives, the health of the population, the global economy and the financial markets.

Belfius Insurance started to monitor the situation as from January, realised the exceptional character of this health crisis and gradually adapted its Crisis management and Business Continuity Plan (BCP) in order to protect people and to ensure business continuity to its clients

Most operations are fully supported by home working so that employees can continue working in a safe environment. Belfius Insurance continues to align its approach to the instructions from the Belgian government.

Given the solvency II ratio as at 31 December of 212% and taking into account relevant stress tests at the time of writing, Belfius Insurance is expected to have sufficient available funds in excess of the SCR and its own risk appetite.

Belfius Insurance is commited to maintain access and insurance coverage to its clients via its three brands (Belfius Bank, DVV and Corona Direct). The measures include providing clear and relevant information to its clients and intermediaries, supporting DVV network, implementing the sector level agreements dedicated to households and companies that are the most adversely affected by COVID-19 but also by promoting digitalization to facilitate some underwriting and claim settlements processes.

The impact on business interruption (resulting in lower Non-Life production) could be mitigated by lower than expected claims.

The strategic asset allocation of Belfius insurance is calibrated to be resilient against a severe but plausible worst case scenario enabling to reduce the impact of stressed financial markets due to the COVID-19 crisis.

The impact on our investment portfolio is followed-up on a weekly basis as part of our overall solvency monitoring, as well as being subject to further stress scenarios.

B. Governance system

B.1. General information on the governance system

B.1.1. Board of Directors

Information regarding the Board of Directors can be found in the annual report published on https://www.belfius.be/about-us/en/investors/results-reports/reports

B.1.2. Management Board

Information regarding the Management Board can be found in the annual report published on https://www.belfius.be/about-us/en/investors/results-reports/reports

B.1.3. Specialist committees created by the Board of Directors

Information regarding the Audit Committee and Risk & Underwriting committee can be found in the annual report published on https://www.belfius.be/about-us/en/investors/results-reports/reports

B.1.4. Other committees

Information regarding the Nomination Committee, Remuneration Committee and Mediation Committee can be found in the annual report published on https://www.belfius.be/about-us/en/investors/results-reports/reports

B.1.5. Remuneration of the administrative, management or control body

B.1.5.1. Remuneration policy and practice

The Board of Directors sets the remuneration of the members of the Management Board at the proposal of the Remuneration Committee and on the recommendation of the chairperson of the Management Board (see remuneration policy for the Belfius Group).

The Remuneration Committee formulates proposals to the Board of Directors of Belfius Bank and Belfius Insurance with regard to the remuneration policy for categories 1 and 2 of employees described in the remuneration policy for the Belfius Group. Category 1 includes members of the Board of Directors of Belfius Bank and Belfius Insurance (executive directors). Category 2 concerns members of staff whose activities have a significant impact on the risk profile of the Belfius Group, including senior management and individuals whose jobs involve risks or independent audit functions and staff whose total remuneration places them on the same level of remuneration as senior management or individuals whose jobs involve risks (for this see the remuneration policy of the Belfius Group).

In certain special cases, the Remuneration Committee may propose to depart from the remuneration policy on the basis of a reasoned proposal from the chairperson of the Management Board (for example for reasons of retention/conforming with the market). If this is the case, the Board of Directors will take a decision based on the recommendation of the appointments and Remuneration Committee.

The consequences of the remuneration policy in terms of risk and the management of risks are analysed overall by HRM in conjunction with various departments (Risk Management, Audit, Compliance, etc.).

Each year the Remuneration Committee will receive from the Management Board a report on the policy applied in the subsidiaries of Belfius Bank and Belfius Insurance (including Corona SA) with regard to remuneration and human resources.

The remuneration policy and practices that apply to the members of the Board of Directors and Management Board and to the managers of independent control functions are set out in a policy. This policy covers the principles of the remuneration policy, with an explanation of the relative importance of the fixed part and variable part of the remuneration.

Within the Belfius Group there is no right to the allocation of share options, shares or other variable components of remuneration.

The main features of the supplementary pension scheme of the members of the Management Board and early retirement from the Management Board are as follows:

The guarantees covered by the group insurance policy taken out by Belfius Insurance (Corona has done te same) for the benefit of the members of the Management Board, from the 1 June 2012, are based on:

- Pension lump sum of the defined contribution type
- Cover for ancillary risk

With regard to the pension regulations, it is the "General Terms and Conditions that set out the scope, terms and operating principles of the various types of life insurance and ancillary cover".

- Point 1 of the general terms and conditions describes the operating principles regarding technical insurance that applies uniformly to all types of insurance
- Point 2 describes the various forms of risk cover. This point also applies uniformly to all types of insurance.
- Point 3 covers the provisions that are specific to group insurance.
- Point 9 deals with the various provisions that apply uniformly to all types of insurance.

The non-executive directors of Belfius Insurance and Corona have no retirement scheme subscribed to and paid for Belfius Group entities. For the managers of independent control functions, they come under the same group insurance scheme subscribed to be Belfius Insurance for members of staff.

B.1.5.2. Procedure

The entitlement to remuneration of the members of the Board of Directors and the Management Board is described in the remuneration policy.

B.1.6. Shareholder structure

B.1.6.1. Structure

As of the date of this report, the registered capital of Belfius Insurance was EUR 567,425,226.84, represented by 2,579,938 registered shares, each representing one-two million five hundred and seventy-nine thousand nine hundred and thirty-eighths of the capital.

The shares in Belfius Insurance are owned by Belfius Bank SA (2,579,937 shares) and by Belfius Asset Finance Holding (one share).

As of the date of this report, the company has also issued 100,000 registered beneficiary shares without par value. These beneficiary shares do not represent the registered capital. The rights associated with these beneficiary shares are set out in the articles of association of Belfius Insurance. The shareholder of Belfius Insurance contributes to the proper, prudent management of Belfius Insurance, as well as to its sound governance and sustainable development.

Corona's registered share capital amounts to EUR 21,000,000 and is represented by 840,000 shares. Belfius Insurance holds 839,999 shares (i.e. 99.99%) of Corona and Belfius Insurance Invest holds one share.

B.1.6.2. Strategic objectives

The aim of Belfius Insurance, entity responsible for the insurance group, is to be a leading insurer by 2025, by pursuing the following goals:

- Growing in Life and Non-Life through organic growth and targeted acquisitions;
- Being anchored in the Belgian market and present in all sectors of the economy and in as many households as possible;
- Making a major contribution in order to equip all Belfius customers;
- Positioning Belfius Insurance as a reference in the field of end-to-end customer experience;
- Offering extended services beyond insurance;
- Thanks to its digital expertise and salesforce, Belfius Insurance is developing sufficiently in all customer segments and is making a stable and growing profit contribution to Belfius Group.

B.1.7. Major transactions intra-group

Two agreements should be mentioned in terms of major transactions:

- The first is the distribution agreement between Belfius Bank SA and Belfius Insurance, updated regularly (most recently updated and signed on 22 December 2016), entered into for an indefinite period, the subject of which is "the distribution of Belfius Insurance insurance products by Belfius Bank to its Retail & Commercial Banking (RCB) customers".
- The second consists of two "Term Subordinated Loan" subordinated loan agreements entered into between Belfius Bank and Belfius Insurance on 23 December 2016.

B.1.8. Competence and honourability (Fit & Proper)

B.1.8.1. Requirements

Each director who is a member of the Management Board, as well as each manager of independent control functions (hereinafter: key functions) must possess, when appointed, as well as through the time he/she exercises his/her function, the required expertise and professional integrity.

These key functions must meet the requirements relative to the expertise ("Fit") and integrity ("Proper") that are described in the "Fit & Proper" policy of Belfius Insurance. These requirements mean that each holder of a key function must be fit for the function carried out by the holder and also satisfy the "Fit & Proper" assessment standards, both for Belfius Insurance and for its regulated subsidiaries in Belgium (such as Corona SA). These "Fit & Proper" standards are those interpreted by the National Bank of Belgium, as the supervisory authority, in its circular BNB_2018_25 dated 18 September 2018 and the Fit & Proper Handbook relating to the expertise and professional standards ("Fit & Proper") required for members of the Management Board, directors, managers of independent control functions and effective directors of financial establishments (abbreviated hereinafter to: "the NBB 'Fit & Proper' circular and handbook").

A job profile is also established by the company in question (Belfius Insurance or the subsidiary concerned) and this is adjusted to suit the position required. Each job profile is then sent to the supervisory authority (the NBB) at the time the candidate's dossier is submitted. Regular assessments are also made of the aptitude of the directors and members of the Management Board and managers of independent control functions. For details of the "Fit & Proper" requirements at Belfius Insurance, please refer to the "Fit & Proper" policy.

B.1.8.2. Process

The process by which Belfius Insurance assesses whether the holders of key function are "Fit & Proper" is detailed in the "Fit & Proper" policy. This policy includes the procedures relative the appointment, renewal and revocation of a key function, as described at the end of the "Fit & Proper" policy.

B.2. Risk management system including the internal assessment of risks and solvency

B.2.1. Risk management task

The mission and role of the risk department is to define and implement a robust risk management framework that encompasses:

- an acceptable risk appetite framework taking into account the business strategy;
- a set of independent and integrated risk measures for different types of risks completed with internal limits and triggers consistent with the approved risk appetite;
- an effective process to identify, measure, assess and define adequate responses to the risks Belfius Insurance and its subsidiaries faces in the short and in the long term;
- a suitable reporting to make management aware of the overall risk profile in order to ensure an appropriate decision-taking as well as clear risk recommendations.

The Risk Management Framework defines in greater details the mission of the risk department. It defines the framework in which the entirety of the strategies, processes and procedures are developed in order to identify, assess, monitor, manage and report the risks that Belfius Insurance may face.

B.2.2. Objectives of the risk management department

The following objectives are defined for the Risk department:

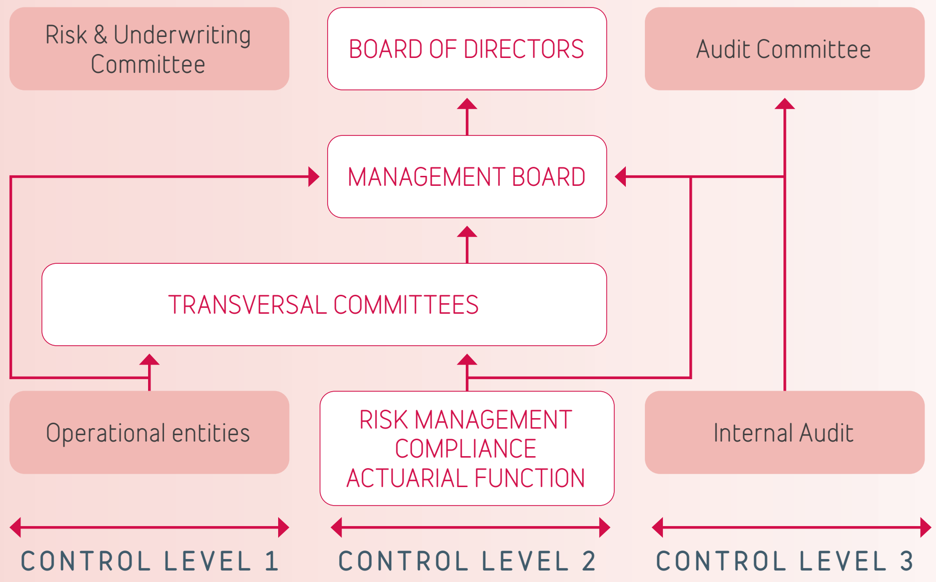
- define a Risk Appetite Framework for the insurance activities that is consistent with the Group approach;
- monitor and manage market, credit, ALM and liquidity risks, underwriting & reserving risks and operational and strategic risks for Belfius Insurance;
- optimize the Belfius Insurance Group risk profile, in line with its strategy, and in collaboration with the business units and activity lines;
- promote and encourage the risk culture within the group and implement the Risk Management practice driven by Solvency II principles;
- supervise proper data governance and quality framework throughout Belfius Insurance;
- implement risk assessment methods for each of Belfius Insurance's activities and operating entities to which this RMF applies;
- successfully integrate subsidiaries within the Belfius Insurance Group from a risk management perspective and implement best practices in all operational entities;
- ensure compliance with local and international legal and regulatory reporting requirements (in collaboration with the Finance Department);
- ensure the transversal coordination of the ORSA Process.

The risk management department does not manage compliance, fiscal or legal risks, which fall within the competence of specific departments.

B.2.3. Governance of risk management

B.2.3.1. Overall view

Risk Management at Belfius Insurance has built up its risk organisation in order to increase the role of the risk management function and to embed risk processes in a more structured and organised way throughout the whole firm as expressed in the scheme on the right.



The internal control in the operational entities (control level 1) comprises the follow-up of the execution of key controls and ensures due implementation of action plans established to improve these key controls.

The teams that must specifically ensure effective risk management are the:

- Risk Management team (control level 2) under the responsibility of the Chief Risk Officer, member of the Management Board, tasked with the supervision of the risk management policy. This team defines lines of action for limits and delegated powers, monitors and measures the total risks, and awakes the implementation of harmonised methods in the different entities;
- The Actuarial Function (control level 2), reporting to the CRO of Belfius Insurance;
- The Compliance Officer (control level 1 and 2) ensures compliance with the integrity policy and the development of the ethics policy in Belfius Insurance. She reports to the CRO of Belfius;
- The Internal Audit (control level 3) reports directly to the Chief Executive Officer, chairperson of the Management Board. Internal audit monitors the implementation and proper application of the internal control process (level 1 and level 2). The cross-sectional committees see to the follow-up of the various aspects of the management of risks to which Belfius Insurance is exposed.

On top of that, transversal committees[1] manage issues that are transversal to several departments. In that context, the risk department is required to express an independent opinion on the topics that are discussed during the meetings of the transversal committees. This opinion is binding. If no consensus is reached, an escalation process is defined to take the final decision.

Those committees report to the Management Board which reports to the Board of Directors. To provide the Board of Directors with advice on risk-related topics, two specific committees have been created: the Risk and Underwriting Committee and the Audit Committee.

The Risk Management Framework provides with more details on the different parties involved in the management of the risks that Belfius Insurance faces in its activities.

B.2.3.2. Roles and responsibilities

B.2.3.2.1. Board of Directors

The Board of Directors plays a key role in the risk management process by ensuring that an appropriate response is given to the risk which Belfius faces.

As a consequence, the Board of Directors:

- defines and validates the risk management strategy, as well as the risk management framework and policies;
- defines and validates the risk appetite in line with the overall strategic objectives;
- ensures that the Management Board has integrated risk management well and that all necessary means have been implemented in order to identify, measure, monitor and respond to risks;
- ensures that the internal audit function regularly reviews risk management;
- defines the terms of performance of the ORSA process through the validation of ORSA policy; and
- validates the capital and business management strategy in the light of the results of the ORSA.

This is applied, mutatis mutandis, to the role of the Board of Directors of subsidiaries subject to the Risk Management Framework.

Within the context of risk management, the Board of Directors must ensure that strategic decisions and policies are compatible with the structure, size and specific features of group entities. It also ensures that specific activities and the associated risks of each group entity are covered, and moreover that the risk management of the insurance group is integrated, coherent and effective.

B.2.3.2.2. Management Board

The Management Board has various responsibilities in the risk management of Belfius Insurance, since it:

- is responsible for the implementation of the risk management system. This system is aligned to the definition of policies, processes and procedures which will enable the Belfius Insurance group to identify, monitor and respond to the risks which the group runs;
- regularly reviews the risk limits/tolerance proposed by the risk management department;
- constitutes the risk management function and establishes all the means necessary to identify, measure, monitor and respond to risks;
- ensures the regular monitoring of real levels of risk with regard to limits and triggers, and takes measures in case of non-observance. In particular it sees to the monitoring of operational risks by reporting operating incidents;
- the CRO regularly informs the Board of Directors (directly or via the Risk & Underwriting Committee) of matters related to risk management;
- challenges the performance and results of the ORSA process;
- validates qualitative and quantitative reports on risks prior to their being sent to the NBB;
- approves and monitors the principal assumptions used in the risk models proposed by the Model Validation Committee;
- decides on the management of capital and its allocation to entities/activities of the Belfius Insurance group;
- monitors the use of capital and steers the solvency ratios of the Belfius Insurance group;
- the following responsibilities fall directly within the competence of the Management Board and not committees: approval of policies, guiding the ORSA and validating assumptions.

To avoid conflicts of interest, members of the Management Board who hold products of Belfius Insurance or their associated parties hold such products may not, in the absence of consensus, participate in any vote concerning such products.

(1) Main transversal committees are: the Asset and Liability Committee (ALCo), the Manco RC, the Manco PCI, the Brand Committee, the Model Committee, the Crisis Committee, the Procurement Committee.

B.2.3.2.3. Transversal committees

Committee	Task
Product and Pricing steering group (PPSG) both for Life and Non-Life activities	Regularly reviews the prices of products issued by Belfius Insurance
	Advises the Management Board on a rule and on the annual allocation of participation to profits
ALCO	Decision-taking body for ALM and investment
	Analyses and monitors the evolution of ALM and the regulatory environment for Belfius Insurance at a group scale
Model Committee	Supervises the entire validation process over the life of the development of models
	Advises the Management Board as to the decisions to be taken at that level
	Validates models (prior to their implementation)
	Effectively manages projects relating to the models used in risk management
Crisis Management Committee	Advises the Management Board and effectively manages the crisis faced by Belfius Insurance
QRT Validation Steering group	Advises the Mangement Board on the quarterly and annual opening QRT (Quarterly Reporting Templates), including the report on financial stability, the ECB report and the public information, as well as associated narrative reports

The task of the transversal committees is presented in the table above.

B.2.4. Risk management at group level

Belfius Insurance ensures a risk management function at group-level which is equipped with competent personal resources and adequate systems. Each subsidiary can rely on these resources but has the ultimate responsibility to put in place a risk management system for assessing and monitoring its own risks.

Each subsidiary as such will have in place its individual risk management strategy, but this strategy will be aligned to the group-wide risk strategy of Belfius Insurance, similar to Belfius Insurance aligning its risk appetite to the risk appetite at Belfius Bank level. The local Risk Appetite policy has to be approved by the local Board of Directors. The local Management Board will monitor its key risk indicators on a quarterly basis and report their status to its Board of Directors. Further to the Risk Appetite policy, each individual risk-policy will also be submitted to the Board of Directors.

Belfius Insurance's risk taxonomy applies to its subsidiaries in the scope of this RMF. The individual assessment processes, including operational risk assessments, internal risk control, and ORSA will be aligned with those of Belfius Insurance.

Methodology & model-management and corresponding validation is centralised at Belfius Insurance Risk management level. The local entities provide their expertise for developing company specific methodology & models such as liability-models for Life business or the definition of company specific parameters (USP) for Non-Life business. The models and applications will be available for the subsidiaries in order to prepare their Solvency and Risk reporting. Industrialisation may lead to centralised reporting but the local entities remain accountable for reconciliation and final validation of the reported results.

Belfius Insurance applies the transparency-rule when handling the asset holding companies for the calculation of its risk indicators.

Correspondents have been nominated at the subsidiaries' level in order to ensure a proper communication between the mother company and its subsidiaries.

Regular meetings are organised between the CRO and the risk correspondents to ensure consistency in the risk management approaches. On top of that, some specific topics are directly discussed for the whole insurance group by both the Reinsurance and the ALCO group committee.

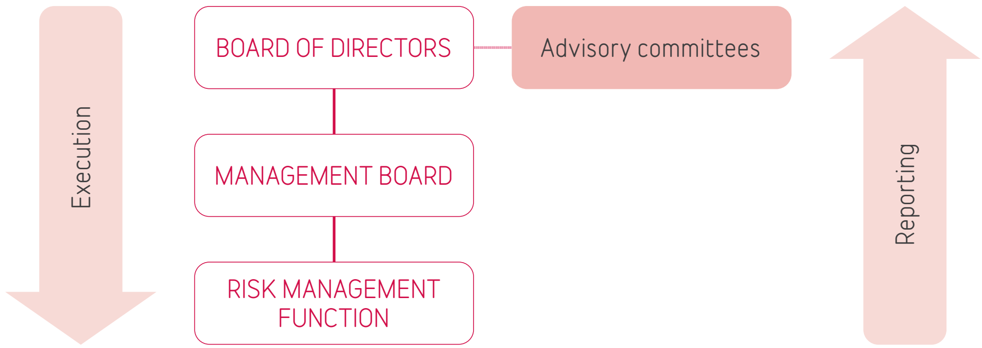
Risk Management at group level considers in its risk management system the risks both at individual and group level and their interdependencies.

B.2.5. ORSA process

ORSA starts as a top-down process owned by the Board of Directors. The Board of Directors elaborates the strategy and supervises the implementation of this strategy. The Board of Directors can be helped in its tasks by advisory committees, such as the Risk and Underwriting Committee (RUC) of Belfius Insurance and the Audit Committee.

The Management Board is the effective management of Belfius Insurance. Its main responsibility is to ensure that the company is in line with the strategy, the risks and policies approved by the Board of Directors. In this context, the Management Board leads and coordinates the different ORSA activities and supervises the management in the realisation of the ORSA.

ORSA GOVERNANCE



The Risk Management Function is responsible for the integration of all risk aspects in the management decisions and operational processes of the company. It therefore plays an active role in the ORSA implementation.

A parallel bottom-up process can then start. The ORSA process is performed according to the guidelines of the Board of Directors and results are consolidated in a reporting. This reporting is then sent to the Management Board, the RUC and the Board of Directors.

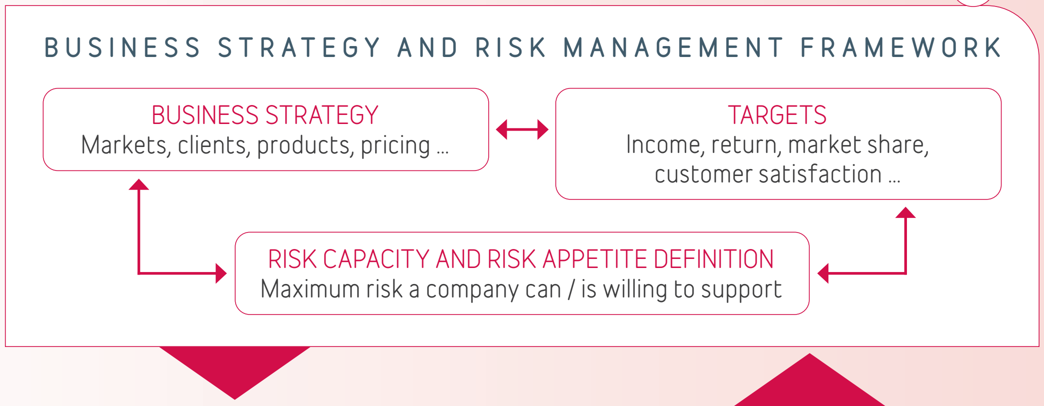
A pre-requisite to the ORSA performance is to have in place a clear business strategy, strategic targets as well as a risk appetite framework. There is then a clear articulation between the objectives of Belfius Insurance (financial and non-financial), its strategy and its risk appetite. The three components have to be determined in parallel in an iterative process as they are linked to and influence each other.

The overview on the right depicts the ORSA process and its link with the strategy and risk appetite.

The performance of the ORSA itself is made of seven steps at Belfius Insurance as described in the table on the right.

This process is proportionate to the nature, scale and complexity of the risks inherent in the business of Belfius Insurance. It enables Belfius Insurance to properly identify and assess the risks it faces in the short and long term and to which it is or could be exposed

BUSINESS STRATEGY AND RISK MANAGEMENT FRAMEWORK



PERFORMANCE OF THE ORSA

IDENTIFY RISKS	Identify the sources of uncertainty (qualitative and quantitative risks), taking into consideration both the impact and the probability of occurrence of the risks
MEASURE THE CURRENT CAPITAL AND SOLVENCY POSITION	Express the overall solvency needs in quantitative terms and complement the quantification by a qualitative description of the risks
FORECAST THE CAPITAL AND SOLVENCY POSITION	Express the overall solvency needs in a forward looking perspective to show the ability to remain a going concern.
PERFORM STRESS AND SCENARIO TESTS	Carry out stress tests, reverse stress tests as well as scenario analyses
ASSESS THE RESPECT OF RISK APPETITE LIMITS	Compare current and future risk profile with risk appetite thresholds
ELABORATE A RECOVERY PLAN	Provide a recovery plan under the base case and under stress tests as well as scenario analyses. This plan can propose actions on capital, liquidity, business, investment ....
REPORT ON ORSA	Once the process and result of the ORSA have been approved by the management, realize the ORSA internal report and the ORSA supervisory report

B.2.5.1. Identifying risks

The first step of the ORSA exercise is to identify and assess the material risks for Belfius Insurance. In that context, the internal control exercise allows to establish, in close collaboration with the different business units and activity lines, the risk profile of the different business units and activity lines and to list the risk mitigating actions that exist. It is yearly performed and is defined as a 3-steps process including:

1. Identification of risks (inherent risks):
   - → Inherent risks are the risks that an activity would pose if no controls or other mitigating factors were in place (the gross risks or risks before controls). To ensure consistency between the different entities of Belfius Insurance, a common risk glossary is used.
   - → The inherent risk level is determined by two factors: the potential impact and the probability of occurrence. The nature of the impact (financial / non-financial) may vary depending on the considered risk and process.

2. Inventory and assessment of the controls related to the identified risks
   - → The existing controls related to the most important risks selected must be considered. A control is related to a risk if it reduces the potential impact of the risk or its occurrence probability. A risk can be covered by several controls.

3. Assessment of the residual risk
   - → The residual risk is defined as the risk linked to the normal situation, based on the assumption that all existing controls have been considered, with their actual quality. The residual risk level is determined by the inherent risk level and the quality of controls.

The scope of these assessments includes all classes of risks: insurance, financial, operational, and strategic and reputation risks. This assessment is facilitated by Risk Management and the resulting risk profile is challenged by audit. Afterwards the assessment is presented to the Management Board, presented to Audit Committee and finally presented to the Board of Directors.

This first step of the ORSA will allow to partially assess the significance of the deviation of the risk profile from the SCR, on a qualitative basis (deviations in the scope). Indeed, the risk identification and assessment will allow examining if all material risks are considered in the SCR calculation.

B.2.5.2. Measuring current capital and solvency

The second step consists in a computation (and assessment) of the current SCR and Available Financial Resources (AFR). The own fund quality (tiering) will also be assessed. In this step, the actuarial function helps to ensure the continuous compliance with the requirements regarding the calculation of technical provisions and the risks arising from this calculation.

This step will allow assessing the overall solvency needs taking into account the specific risk profile of Belfius Insurance. Indeed, for the purpose of this stage, other metrics or models than the one used for the SCR could be used if judged necessary. If valuation and recognition bases different from the Solvency II basis are used, it is justified how they ensure better consideration of the risk profile, approved risk tolerance limits and business strategy.

Doing so, this measurement of the current solvency position will take into account any significant deviation from the assumptions underlying the SCR.

B.2.5.3. Forecasting capital and solvency

The assessment of the overall solvency needs is forward looking. Therefore the next step of the ORSA process consists in the projection of SCR and AFR along the business plan horizon (compliant with regulatory requirements). This forward-looking assessment aims at ensuring that solvency needs are covered all along the business plan horizon.

The baseline scenario that serves as input for the forecast exercise is realised in close collaboration between the Risk, Finance and Investments departments. It includes assumptions on production levels, as well as economic assumptions used for the business plan.

Results are presented. In case solvency needs are not covered, the Management Board must be informed and take appropriate measures. The business plan may be reviewed. In this step, the actuarial function provides input concerning the continuous compliance with the requirements regarding the calculation of technical provisions and the risks arising from this calculation.

This step allows assessing the overall solvency needs taking into account the specific risk profile of Belfius Insurance and the own fund quality, both in a forward looking perspective.

B.2.5.4. Determining and performing stress and scenario analyses

As part of the business and capital planning, Belfius Insurance carries out stress-tests, reverse stress-tests as well as scenario analyses to feed into its ORSA:

- → Sensitivity testing is a method of stress testing which provides an assessment of the impact of a small or large predefined shock in a single specific risk factor;
- → Scenario / stress testing is a forward looking assessment of the impact of multiple changes in a single risk driver or multiple changes in multiple risk drivers;
- → Reverse stress testing is a process of identifying and assessing the events and scenarios that might render a financial institution’s business model unviable.

Those (reverse) stress tests and scenarios are proposed by the Risk department and validated by the Board. At least one stress test is in line with Belfius Bank. The other stress tests are chosen in function of an assessment of the major risks faced by Belfius Insurance.

The exercise of performing the stress tests is made in collaboration with:

- the Risk department of Belfius Bank in order to ensure consistency in the approaches adopted for the ORSA and the ICAAP exercise;
- Finance to include stress tests on business plan assumptions in the scenarios;
- Investments to include stress tests on economic assumptions.

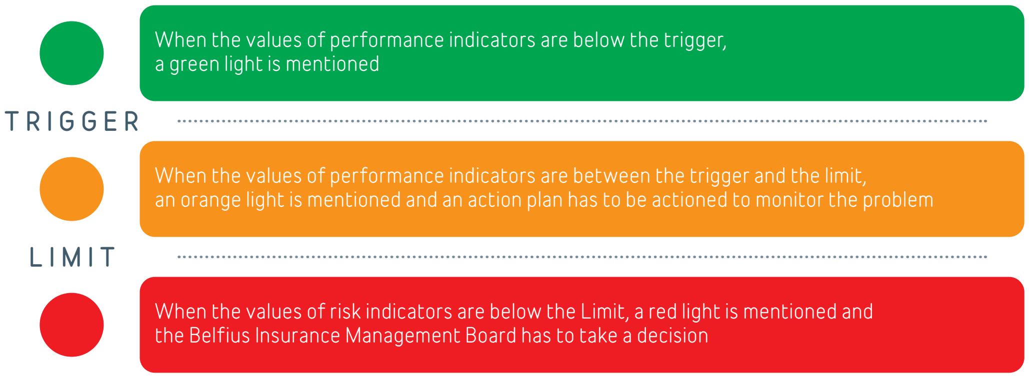
The performance of stress tests within the ORSA process is done annually or when there is a significant change in the risk profile of Belfius Insurance (ad-hoc ORSA). Other internal or regulatory stress tests are performed on request.

This exercise will allow assessing the overall solvency need and the compliance with the capital requirements in extreme situations. It will also help assessing the liquidity needs in such situations and the coverage ratio.

B.2.5.5. Assessing respect of risk appetite limits

Another important aspect of the ORSA relates to the risk appetite which expresses the maximum risk a company is willing to take to reach its business and strategic objectives, given the expectations of and the mandate received from the key stakeholders.

Within Belfius Insurance, a "traffic light" (red, orange, green) approach is adopted for the risk appetite.



The assessment of current and forecast solvency position and the stress testing allows measuring the actual and forecasted solvency position, in normal as well as in stressed situations.

At this step, one can assess the (non) respect of the risk appetite triggers and limits.

This step is key in considering the link between risk profile, approved tolerance limits and overall solvency needs. It allows demonstrating the compliance of future business activities within group and entity risk appetite and limits.

B.2.5.6. Report on the ORSA

The last step of the ORSA process is to produce a reporting on the realised exercise.

The reporting is prepared by Risk and presented to the Management Board, the RUC and the Board of Directors who finally approves it. Finance, Investments and other departments are consulted when necessary.

Once the reporting is approved, it must be transmitted to the senior executives.

B.3. Internal control system

B.3.1. Description of the internal control system

B.3.1.1. Internal control processes

Internal control system is a process giving reasonable assurance that organisation's objectives, the effectiveness and efficiency of operations, the reliability of financial information and compliance of the laws and regulations will reach the desired level.

Like any internal control system, it is designed to reduce the residual risk to an acceptable level in accordance with Belfius Insurance's risk appetite.

More precisely, the internal control processes at Belfius Insurance are driven by five main objectives:

- checking the effectiveness of the risk management processes across the entire organization;
- ensuring the reliability and pertinence of accounting and financial information;
- ensuring compliance of regulations and professional ethics rules, both internally and externally;
- improving the operation of Belfius Insurance whilst ensuring the effective management of existing means; and
- ensuring the operational effectiveness of all the activity lines.

B.3.1.2. Governance of the internal control system

In accordance with the instructions of the Board of Directors, the Management Board of Belfius Insurance leads and coordinates the various activity lines.

In order to ensure the smooth operation and development of Belfius Insurance, the Management Board is ultimately responsible for the establishment and maintenance of an appropriate internal control system. It defines and coordinates the management policy of Belfius Insurance within the framework of the strategy defined by the Board of Directors. It allocates means and sets deadlines for the implementation of measures decided under this policy. It checks that the targeted objectives are achieved and that the internal control system meets all the requirements. Finally, it adjusts those requirements on the basis of internal and external developments.

The exercise of internal control involves the three lines of defence including:

- business and support functions;
- risk management and compliance departments and the actuarial function; and
- internal audit.

B.3.2. Process of assessing risks and controls

Assessing risks and controls involves three stages, namely:

- identifying inherent risks;
- taking stock and assessing the controls associated to the identified risks;
- assessing the residual risk.

The assessment may or may not give rise to action plans depending on the risk response (i.e. accept, mitigate transfer or avoid).

B.3.3. Internal control system at Group level

The internal control environment at Group level is implemented through internal management and organisation structures which integrate controls in all the processes of Belfius Insurance and its main subsidiaries.

The assessment of risks within the framework of internal control, facilitated by the risk management department, follows the same process in three stages as described above.

The results of the assessment are submitted to the Management Board for approval and to the Audit Committee for information. This process is applied to Belfius Insurance and its main subsidiary (Corona Direct).

B.4. Compliance

The compliance function is organised in accordance with the compliance policy of the Belfius group (compliance charter and integrity policy) with the objective of preventing and controlling compliance risks as a result of non-observance of the laws, regulations and internal rules.

Belfius Insurance has a centralised compliance function aimed at preventing money laundering operations and financing of terrorism, advising management and the business on the risks within the fields of activity of the compliance function, coordinating training initiatives and maintaining and raising awareness within the fields of compliance, checking the effectiveness and respect of procedures and strategic lines within those fields and reporting on the activities and risks of those fields. The compliance function also ensures that compliance risks are covered by adequate first line controls. The compliance function may also call on compliance correspondents in various important departments.

The company remains vigilant vis-à-vis risks with regard to money laundering and the financing of terrorism. In 2019, the IT-project of AMLD4 was implemented under supervision of Compliance. The compliance with the risk assessment has been carried out by the operational and commercial departments. Product governance was implemented as a part of the implementation of the so called "IDD"-guideline. A monitoring plan was drawn up and executed for the respect of the regulation on supplementary pensions. The completion of the mystery-shopping project resulted in an actionplan which is currently being executed. Lastly the "Branch Audit DVV"-team, which was transferred to Compliance end 2018, has assessed the audit methodology and has established a methodology for the riskscoring by DVV-LAP-agencies.

In addition to the more traditional task of advising management, and the technical and commercial departments, the compliance function continues to develop the activity of monitoring and is a first point of contact for the regulators regarding the different compliance matters.

B.5. Internal Audit Function

B.5.1. Task

As defined by the IIA Standards, Internal auditing is "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes". Its mission is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight.

The internal audit activity evaluates, based on risk based approach and throughout its different audit assignment, risk exposures relating to the organisation's governance, operations, and information systems regarding the:

- Achievement of the organisation's strategic objectives.
- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations and programs.
- Safeguarding of assets.
- Compliance with laws, regulations, policies, procedures, and contracts.

The purpose, authority, and responsibility of the internal audit activity have been formally defined in a common Belfius internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing). This charter has been validated by the Audit Committee on 16 March 2018 and confirmed on 8 February 2019.

B.5.2. Organisation and independence

The independence of the internal audit function is guaranteed by the fact that the Audit Executive administratively reports to the Belfius Insurance CEO and functionally to the Audit Committee chairman. A functional link is also defined between the Belfius Bank Audit Executive. A declaration confirming the internal audit independence is made to the Audit Committee each year.

A dedicated internal audit methodology has been defined. It aims at explaining the overall organisation and the processes required to perform its tasks, which are summarised hereunder.

To organise efficiently the internal audit activities, an exhaustive mapping – the audit universe - of all processes embedded within Belfius Insurance and its subsidiaries has been defined. Each year, the different risks are identified and assessed. Based on the score obtained, the internal audit function defines the coverage frequency as validated in 2017 by the Audit Committee. The processes with a high or very high score are covered once every three years. The others with a Medium, Low or Very Low score are covered once every five years.

Based on the risk identified and the back testing exercise (i.e. check to ensure all processes are correctly covered in due time) an audit plan and a resource plan for at least the three coming years are defined. The resource plan aims at evaluating the adequacy of the resources in terms of expertise and quantity required.

B.6. Actuarial function

In line with the provisions of Article 59 of the Act of 13.03.2016 and section 5.3 of circular NBB_2016_31[(1)] as updated by the circular NBB_2018_23, the Actuarial Function is charged with the following tasks:

- Coordinating the technical provisions stated in Solvency II – balance sheet;
- Assessing the level of the technical insurance provisions stated in the annual accounts (drawn up according to Belgian standards);
- Assessing the underwriting and pricing policy;
- Assessing the reinsurance policy;
- Tasks connected with the implementation of the risk management system;
- Assessing the profit-sharing and discount policy and compliance with the related legal requirements.

(1) Circular NBB_2016_31 about the prudential requirements of the NBB regarding the governance system for the insurance and reinsurance sector.

These are set out greater detail in the Actuarial Function Policy.

The scope of the Actuarial Function contains Belfius Insurance, Corona and Belfius Insurance Consolidated.

The Actuarial Function is also part of/invited to attend various bodies: Product & Pricing Steering Group Life, Product & Pricing Steering Group Non-Life, Model Committee, Reinsurance Risk Steering, Cost Committee, Task Force IFRS17, Reserving Committee, the various consultative bodies in the context of Solvency II balance sheet, etc.

B.7. Outsourcing

Belfius Insurance calls on various external partners for certain, primarily technical, IT activities (PI2) for the management of the IT infrastructure, Hexaware for certain developments, and other external suppliers. This cooperation is monitored continuously and action plans are defined and implemented to tackle any points requiring further attention. In that respect, a series of measures have been taken with PI2 to improve the performance and stability of the systems. The efforts will in the future be continued with a view to ongoing improvement.

The roles and responsibilities of each party are described in the various agreements concerning discretionary management and the service for financial management of the insurance portfolios of Belfius Insurance and its subsidiaries.

The final decision for the management of financial instruments lies with the ALCo. The instructions of the ALCo are to be carried out by Candriam and are monitored closely by the ALCo.

B.8. Other information

There has been no need for significant changes to the System of Governance following COVID-19 crisis. This evidences the robustness of our System of Governance in place.

The frequency of some management committees has been increased in this volatile environment. Their priority was and still is to manage the crisis situation and to mitigate its impacts. They continue monitoring the situation and meet when deemed necessary. Today, the crisis team is working at unlockdown scenarios which will be subject and adapted to public authorities instructions.

Following COVID-19 outbreak, business continuity and precautionary measures have been gradually implemented at Belfius as from Mid-February with the intent to prevent contamination and then activate the "long term" Business Continuity Plan. All business travels, trainings and events were cancelled and IT capacity was checked in order to allow intensive telework.

Belfius then adapted its measures to the lockdown situation by ensuring access to the Belfius office for critical functions and by ensuring IT capacity for full telework. IT security is strengthened in order to reduce spoofing risk and an anti-fraud committee is held on a weekly basis. Also, a close monitoring of critical outsourcing partners is done and the Outsourcing Management Committee meets weekly.

C. Risk profile

The following paragraphs deal in detail with the various risks which Belfius Insurance runs.

C.1. Underwriting risk

For a description of the underwriting risks of Belfius Insurance please refer to the annual report published on https://www.belfius.be/about-us/en/investors/results-reports/reports

C.2. Market risk

For a description of the market risks of Belfius Insurance please refer to the annual report published on https://www.belfius.be/about-us/en/investors/results-reports/reports

C.3. Credit risk

For a description of the credit risks of Belfius Insurance please refer to the annual report published on https://www.belfius.be/about-us/en/investors/results-reports/reports

C.4. Liquidity risk

For a description of the liquidity risks of Belfius Insurance please refer to the annual report published on https://www.belfius.be/about-us/en/investors/results-reports/reports

C.5. Operational risk

For a description of the operational risks of Belfius Insurance please refer to the annual report published on https://www.belfius.be/about-us/en/investors/results-reports/reports

C.6. Other material risks

For a description of the other material risks of Belfius Insurance please refer to the annual report published on https://www.belfius.be/about-us/en/investors/results-reports/reports

C.7. Other information

COVID-19 pandemic has the potential to have significant impacts on each of the main risk categories mentioned above (Underwriting, Market, Credit, Liquidity and Operational). Based on scenario analyses and using the latest information available at the end of March 2020, it is expected that Belfius Insurance will be resilient to these risks.

D. Valuations for solvency purposes

D.1. Asset valuation

D.1.1. Description of the bases, methods and main assumptions

The Solvency II regulation starts from a Market Value Balance Sheet (MVBS), therefore all assets and liabilities on the balance sheet are valued at "fair value". The Solvency II directive defines the fair value for assets as the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction.

Belfius Insurance applies the valuation hierarchy as defined in Solvency II Delegated regulation.

- **Level 1:** If the market is active – meaning that reliable bid-offer prices are available representing effective transactions for meaningful amounts concluded on an arm's length basis between willing counterparties – these market prices provide for reliable evidence of fair value and are therefore used for fair value measurement (f.e. quoted shares, high liquid bonds, etc.).
- **Level 2 & Level 3:** Financial instruments, for which no quoted market prices in active markets are available, are valued by means of valuation techniques. The determination whether or not there is an active market is based on criteria such as volume, bid-offer spread and the number of price/spread contributions. The models that Belfius uses range from standard models available in the market to in-house developed valuation models. Availability of some observable market prices and model inputs reduces the need for management judgement and estimation and the uncertainty associated with the determination of fair values. These availabilities vary depending on the products and markets and are subject to changes based on specific events and general conditions in the financial markets.
  Belfius requires that two conditions are met for inclusion in level 2:
  - the model must have either passed a successful validation by the Validation department of Belfius Bank or comply with the price reconciliation process run by the Market Risk department of Belfius Bank that has been installed to test the reliability of valuations;
  - the data that Belfius incorporates in its valuation models are either directly observable data (prices) or indirectly observable data (spreads).

The table below summarises the fair value hierarchy for the most important asset classes:

Asset class	Mio EUR	% of total
LEVEL 1 TOTAL	**14,668**	**65.3%**
Participations	365	1.6%
Equities - listed	779	3.5%
Government Bonds	7,031	31.3%
Corporate Bonds	2,383	10.6%
Structured notes	2	0.0%
Investment funds	438	1.9%
Derivatives [active]		0.0%
Assets held for index-linked and unit-linked funds	3,671	16.3%
LEVEL 2 TOTAL	**524**	**2.3%**
Government Bonds	53	0.2%
Corporate Bonds	359	1.6%
Structured notes	69	0.3%
Collateralised securities	24	0.1%
Deposits other than cash equivalents	8	0.0%
Loans & mortgages to individuals	13	0.1%
LEVEL 3 TOTAL	**7,275**	**32.4%**
Property, plant & equipment held for own use	1	0.0%
Property (other than for own use)	720	3.2%
Participations	160	0.7%
Equities - unlisted	10	0.0%
Government Bonds	834	3.7%
Corporate Bonds	358	1.6%
Structured notes	89	0.4%
Collateralised securities	50	0.2%
Investment funds	191	0.9%
Derivatives [active]		0.0%
Deposits other than cash equivalents		0.0%
Loans on policies	107	0.5%
Loans & mortgages to individuals	4,218	18.8%
Other loans & mortgages	537	2.4%
TOTAL	22,467	100.0%

D.1.2. Differences in valuation for Solvency purposes and financial reporting

For Solvency purposes all assets are valued at fair value while for financial reporting purposes the valuation rules of IFRS are applied. The most important difference between Solvency II and IFRS relates to the measurement of fixed income securities.

The classification and measurement of financial assets under IFRS 9 is based on both the business model for managing the financial assets and the characteristics of the financial assets' contractual cash flows. The debt securities of Belfius Insurance are managed according to their ALM policies and guidelines, therefore a large part of this portfolio is defined as "held to collect". As most of the debt securities held by Belfius Insurance also meet the SPPI (solely payments of principal and interest) test, those bonds are measured at amortised cost following IFRS 9.

D.2. Technical provisions

D.2.1. Best estimate and Risk margin

As required by the Solvency II directive, the technical provisions are equal to the sum of a best estimate and a risk margin. This amount corresponds to the current amount an insurance undertaking would have to pay if it would transfer its insurance and reinsurance obligations immediately to another insurance undertaking.

The actuarial methods used to calculate the best estimate and risk margin are different for Life and Non-Life insurance activities. Therefore the insurance obligations are divided into homogenous risk groups to perform the best estimate calculations.

For each homogeneous risk group the future cash in and out flows required to settle the insurance obligations over the lifetime thereof are projected and discounted using the relevant risk-free interest rate term structure provided by EIOPA. Belfius Insurance uses the risk free interest rate including a volatility adjustment, except for its unit linked business.

For the quantitative impact assessment of not applying the volatility adjustment please refer to the quantitative reporting template S.22.01 provided to the NBB.

The best estimate and risk margins of the different homogenous risk groups can be found the quantitative reporting templates S.12.01 and S.17.01 provided to the NBB.

Best Estimate Non-Life

The best estimate for Non-Life insurance activities consists of two parts, the claims best estimate and the premium best estimate.

The claims best estimate is based on cash flow projections that relate to claims having occurred before or at the valuation date – whether the claims arising from these events have been reported or not:

- cash in flows: payments for salvage and subrogation;
- cash out flows: claims payments, claims handling expenses.

The expected claims payments are obtained from the ultimate loss per accident year estimated from the triangles of provision and payments constructed based on the Chain Ladder method. The triangles are constructed based on the last 16 years of history. If for certain products the history available is insufficient the accounting provisions are used as best estimate.

The premium best estimate relates to future claims, premiums and costs related to the contracts in force. Belfius Insurance uses the simplified method of calculation indicated by EIOPA. This method is founded on an estimate of the ultimate (net) combined ratio discounted per activity line.

Note that the premium best estimate also includes contracts with tacit renewal for which cancelation notification date (typically 3 months before the end date of the contract) is passed.

Best Estimate Life

The best estimates of Life insurance liabilities may be broken down into two sub-components:

- the best estimate of the value of fixed cash flows;
- the best estimate of variable cash flows.

The best estimate of fixed cash flows corresponds to the current value of insurance cash flows which are not dependent on economic conditions. These cash-flows are modelled in the liabilities cash flow model and depend on biometric, commercial and regulatory assumptions.

The main components of fixed cash flows are:

- **Cash in flows**
  - premiums;
  - contractual premium renewals.
- **Cash out flows**
  - benefit payments;
  - operational expenses;
  - other cash flows (e.g. levies).

The best estimate of variable cash flows corresponds to the current value of insurance cash flows which depend on economic conditions. These cash flows are modelled in the ALM model and depend partially on fixed cash flows.

The main components of variable cash flows are:

- the evolution of funds for financing classic group insurance products;
- the financial costs and variable commissions;
- profit sharing cash flows;
- the adjusted market value of the redemption penalty.

Belfius Insurance uses the Prophet software for modelling liabilities cash flows and ALM modelling. Prophet, which is software using generally accepted actuarial methods, is specifically designed for modelling insurance portfolios, commencing with liabilities and their interaction with the assets on which they rely, while allowing the discretionary management of items such as reinvestment and allocation of profit-sharing.

All cash flow projections take into account the contract boundary definition as specified in the Solvency II regulation.

Non-Economic assumptions

In order to project the future cash flows a number of projection assumptions are required.

Belfius Insurance reassesses the non-economic assumptions at least once a year, based on the most recent data. The results of the reassessment are presented to the Model Committee which can propose to the Management Board to revise the assumptions or not.

Assumptions of mortality

For assumptions of mortality, Belfius Insurance uses appropriate experience tables (Assuralia or Statbel). Coefficients are applied by product group on the mortality rates of these tables in order to take account of the mortality observed on the specific product group of Belfius Insurance.

Assumptions on redemptions

Assumptions on redemptions are calculated according to the type of insurance product and the year of the insurance policy.

A history of five years is retained. For products for which available data are insufficient, a redemption rate for a similar product is used.

Assumptions are challenged by the head of the activity line, the actuarial function and the risk management department prior to being presented to the Model Committee which challenges them in its turn. So redemption rates may be adjusted if necessary in the light of expert judgements.

Assumptions on costs

Assumptions on costs are determined by the activity line in relation to information emanating from the Management Control department. Costs are broken down into:

- costs relating to acquisitions;
- administrative costs;
- claims management costs;
- financial costs.

An inflation rate is applied year-on-year on cash flows associated with costs (excluding financial costs). Business plan inflation assumptions are used.

Economic assumptions

Belfius Insurance uses risk neutral economic scenarios for the valuation of its life insurance liabilities. The economic scenarios used in stochastic projections are generated by the Moody's Analytics Economic Scenario Generator (ESG) tool. The outputs from the ESG tool feed the ALM model for stochastic valuation of the portfolios.

D.3. Other liabilities

For most liabilities the valuations used in the IFRS financial statements are considered to be consistent with the valuation rules prescribed in the Solvency II legislation. However for some categories some specific revaluations are done:

Provisions other than technical provisions

Under Solvency II an additional provision is constituted by virtue of elements not fully covered by the best estimate valuation model.

Deferred taxes

Deferred taxes are calculated on all temporary valuation differences between the Solvency II balance sheet and the tax balance sheet. Deferred tax assets and liabilities are offset against each other and the net deferred tax position is included in the market value balance sheet.

Subordinated Liabilities

The fair value of the subordinated debt issued by Belfius Insurance does not take into account the change in own credit standing of Belfius Insurance after initial recognition.

D.4. Alternative methods for valuation

In line with Solvency II guidance and philosophy, the alternative valuation methods are used for sufficiently material items for which no reliable market price is available. The assets and liabilities for which the alternative valuation methods apply are identified in section D1. For other asset classes, IFRS valuation is sufficiently close to any value that would be obtained using an elaborate alternative valuation method in which case IFRS valuation is considered an acceptable proxy.

D.5. Any other information

The valuations reported in this section are based on information up to 31 December 2019 and do not reflect the impact of COVID-19.

At the time of writing, the stock markets remain very volatile and reflect the propagation of the health crisis to a financial crisis anticipating a severe economic downturn. The equity markets sharply slumped while sovereign and credit spreads have widened. The sovereign stabilized somehow after massive interventions from central banks. The volatility in financial markets due to the pandemic crisis and the impact on asset and liability values are being monitored closely with management plans to take action on time if needed.

The financial impact of potential claims is difficult to estimate at this stage. The pandemic is likely to result in higher health and death claims whereas a lower claim frequency is expected in car following lockdown. The actual claims and expected trends are closely monitored but the risk of significant losses is expected to be rather limited given the coverage, portfolio composition and appropriate reinsurance scheme.

E. Capital management

E.1. Capital management objectives

Managing capital is the ongoing process of determining and maintaining the quantity and quality of capital that is appropriate for Belfius Insurance group. So the objective of capital management is to ensure the constant adequacy and optimal allocation of available capital. In view of all the market developments potentially harmful to the company, it is essential when calculating the own funds which the company must have in order to cover its risks, to have an excellent knowledge of the nature and extent of those risks.

Capital management is a vital element of healthy and appropriate management. It takes account of the validated risk appetite and the operational risk limits arising therefrom.

Within this framework, Belfius Insurance group regularly assesses its exposure to risk and identifies the capital requirements corresponding to that exposure.

It also assesses the level of capital available to cover regulatory capital requirements. Belfius Insurance group ensures that capital tiering meets the conditions of admissibility defined by Solvency II. Belfius Insurance policy regarding capital has defined the lines of conduct necessary to frame the effective monitoring and classification of capital elements.

Moreover, by means of specific procedures, Belfius Insurance group makes periodic checks of the Solvency II ratio and the capital established, within the framework of the risk management system. The Management Board and the Board of Directors are informed at least every three months of the solvency position and its evolution.

Furthermore, Belfius Insurance group performs stress tests, for which it submits certain specific market parameters to shocks. It should show from these tests that available capital is sufficient to resist such shocks. For each of the shocks applied in 2019, the solvency ratio after the shock proved to be higher than the internal risk appetite limit approved by the Board of Directors.

A prospective view is taken of the capital needs based on the strategic planning exercise, taking into account the Belfius Insurance group risk appetite targets.

As part of capital management, within the ORSA forwardlooking exercise, Belfius Insurance group performs annual solvency projections and reviews the expected structure of own funds and future requirements. This helps to focus on actions for future funding, should that requirement show from the projection, which is referred to as the capital planning.

The business plan (reflecting the activities which Belfius Insurance group intends to carry on over the next years, the products it wishes to offer and likewise the tariffs at which such products will be placed on the market) forms the base of the projection of funding requirements.

The capital planning report highlights key outputs of the capital planning exercise, with the purpose of challenging the feasibility of the business plan with respect to solvency limits, foreseeing the impact of the company strategic orientation on its main economic figures and its solvency. As a consequence, the potential future issuance of new own fund items to maintain a strong solvency and their tiering are part of the medium-term capital planning exercise.

Given the conclusion of the latest capital planning exercise, where the projected evolution of the own funds is sufficient to face the expected solvency requirements in line with the business plan ambitions, Belfius Insurance group does not have any plans to issue new shares in the short or medium term.

But if the solvency ratio expected in a given scenario should be revealed to be lower than the level accepted by the Board of Directors, Belfius Insurance group would develop an action plan to control this capital risk. The actions likely to be decided in order to control the risk related to the capital may consist on one hand of a reduction of the required capital (and therefore, the underlying risks) and on the other hand, of a reinforcement of the capital base.

Our internal objective for the solvency ratio is to have sufficient but no excessive capital, enabling us to respect our risk appetite and the requirements of all stakeholders. This optimal ratio should allow us to make the best use of capital to serve a profitable growth scenario. Belfius Insurance group has, in the current market circumstances and under current regulations, defined a minimum operational Solvency II ratio of 160%, on solo and consolidated levels. The objectives of capital and risk management are closely linked to the dividend policy, which takes account of the wishes of shareholders, management and the supervisory authority whilst offering good protection to our customers.

Note that the Solvency II ratio previously communicated in the press release of Belfius Bank on 21 February 2020, amounted to 199% and included a proposed dividend of EUR 120 million. However, following the outbreak of the COVID-19 crisis, the Board of Directors of Belfius Insurance proposed to the General Assembly to integrate the dividend over the financial year 2019 in retained earnings pending the analysis of all impacts of the COVID-19 crisis on the financial position, thus no foreseeable dividend is included in the Solvency ratio of 212% at the end of December 2019. This has been validated and accepted by the General Assembly on 28 April 2020.

E.2. Capital structure and quality

Belfius Insurance group assesses the classification of its capital elements in accordance with the structure defined in the "Tiering" classification of Solvency II. The characteristics of the entirety of the capital elements determining that classification are examined in order to know if they may be considered elements of available capital, and to identify the "Tier" into which they fall. The calculation of capital taken into consideration within the framework of minimum capital requirements (MCR) and solvency capital requirements (SCR) takes account of the criteria and limits imposed by the law (eligibility).

The regulatory own funds of Belfius Insurance group amounted to EUR 2,466 million at the end of December 2019. It was composed for 85% of the highest quality capital Tier 1. Tier 2 capital equalled EUR 371 million and consisted mainly of two subordinated loans granted by Belfius Bank.

Compared to December 2018, the regulatory own funds of Belfius Insurance group have increased by EUR 235 million.

The continuous decline of the interest rates led to an increasing Best Estimate of Technical Provisions, but this was more than offset by the increasing market value of our investments, backed by a strong stock market performance at year end. A further reduction of the deferred tax liabilities can be observed too and no foreseeable dividend is expected due to the COVID-19 crisis.

The table below presents the capital taken into account, classified by Tier.

Belfius Insurance consolidated (in millions of EUR)	Unrestricted Tier 1	Restricted Tier 1	Tier 2	Tier 3	Total
Elements of basic own funds	1,925	171	360	0	2,455
Capital in paid-up ordinary shares	557	-	-	-	557
Reconciliaton reserve	1,263	-	-	-	1,263
Surplus Funds	105	-	-	-	105
Subordinated liabilities	-	171	360	0	530
Net deferred tax assets	-	-	-	0	0
Elements deducted from own funds	0	0	0	0	0
Elements of ancillary own funds	-	-	11	0	11
Capital in non paid-up ordinary shares	-	-	11	0	11
MCR eligible own funds	1,925	171	106	0	2,202
SCR eligible own funds	1,925	171	371	0	2,466

Belfius Insurance Group has unrestricted Tier 1 capital, restricted Tier 1 capital, Tier 2 capital and Tier 2 ancillary own funds. As 2019 ended with a deferred tax debt in the balance sheet established in accordance with Solvency II standards, no deferred tax receivable may be used as Tier 3 capital.

Unrestricted Tier 1 capital of EUR 1,925 million consists of fully paid-up ordinary share capital, surplus funds and the reconciliation reserve.

Belfius Insurance has a single majority shareholder (Belfius Bank SA, 99.9%). The ordinary share capital is EUR 567.4 million, of which EUR 556.5 million is paid up. It is not subordinated and its term is indefinite. Belfius Insurance has issued no preferential shares and no share premium account.

The surplus funds for an amount of EUR 105 million represent the Fund for future allocations of Belfius Insurance and Corona.

The reconciliation reserve corresponds to the positive difference between assets and liabilities valued in accordance with the Solvency II Directive, reduced by ordinary paid-up capital, surplus funds and forseeable dividends.

Below is an analysis of the evolution of the unrestricted Tier 1 elements over 2019:

Changes during bookyear 2019 (in millions of EUR)	Unrestricted Tier 1
UNRESTRICTED TIER 1 END OF 2018	1,699
Constituted by:	
The positive excess of assets over liabilities	1,859
Forseeable dividends	(160)
In other words:	
Ordinary paid-up share capital	557
Surplus funds	124
Reconciliation reserve	1,019
CAPITAL INCREASES DURING THE PERIOD	0
CHANGES IN SURPLUS FUNDS	(18)
CHANGES IN THE RECONCILIATION RESERVE	244
Changes in the IFRS equity Belfius Insurance group	368
Changes in the value of assets Solvency II	306
Changes in the value of technical provisions Solvency II	(754)
Changes in the value of reinsurance Solvency II	(3)
Change in the value of subordinated loans Solvency II	(9)
Difference in the level of forseeable dividends	160
Other changes in Solvency II	3
Delta deferred taxes	172
UNRESTRICTED TIER 1 END OF 2019	1,925
Constituted by:	
The positive excess assets over liabilities	1,925
Forseeable dividends	0
In other words:	
Ordinary paid-up share capital	557
Surplus funds	105
Reconciliation reserve	1,263

- Restricted Tier 1 capital consists of a perpetual subordinated loan with a nominal amount of EUR 170 million entirely issued before 18 January 2015 which, by virtue of a transitional measure, is considered for ten years as core Tier 1 capital. Belfius Insurance has no intention of redeeming this loan in the near future.
- Two subordinated loans show characteristics which allow them to be qualified as elements of core Tier 2 capital. The market value of these liabilities was calculated in accordance with the Solvency II regulations.
- The first has a nominal value of EUR 250 million, a fixed interest rate and a term of ten years. The second has a nominal value of EUR 100 million, a variable interest rate, a term of ten years with a call after five years.
- The ordinary non-paid-up and non-called share capital, which may be called on request for an amount of EUR 10.9 million, has the characteristics which allow it to be qualified as ancillary Tier 2 capital of the Belfius Insurance group. The NBB approved the request in relation to this ancillary asset component not shown in the balance sheet. The use of this element is subject to quantitative restrictions; the component may not be used to cover the MCR.
- As Belfius Insurance has no participation in financial organisations or credit institutions with a holding of more than 10% of the ordinary paid-up share capital and the reconciliation reserve, no deduction has to be applied.
  Belfius Insurance only has a single holding in another insurance company, namely a 100% holding in Corona Direct for a BGAAP book value of EUR 17.7 million. After consolidation, they form the Belfius Insurance group to which this SFCR refers. In addition to their share capital, the subsidiaries of Belfius Insurance group have not issued any capital element.

There are no significant restrictions affecting the availability and transferability of own funds.

E.3. Reconciliation between the net asset value under Solvency II and IFRS capital

The table below presents the reconciliation between capital included in the IFRS annual consolidated financial statements of Belfius for end of December 2019 and the net asset value (equal to the difference between assets and liabilities) as calculated under Solvency II:

Belfius Insurance consolidated (in millions of EUR)	
Ordinary paid-up share capital	557
Legal reserve	57
Non-available reserves	1
Available reserves	70
Profit/loss carried forward	658
Profit of the year	204
Latent or deferred gains and losses not recognised in P&L	764
Shadow accounting and Shadow loss	(38,0)
Remeasurement Pension Plans	(7)
Deferred taxes on IFRS adjustments	(145)
Non-controlling interests	25
IFRS EQUITY BELFIUS INSURANCE GROUP	2,144
Solvency II adjustments	
Adjustment of the asset valuation	1,678
Adjustment of the intangible asset valuation	(59)
Adjustment of the subordinated loan valuation	(10)
Adjustment of the valuation of technical provisions	(1,845)
Adjustment of the reinsurance valuation	(25)
Scope and other changes (including minorities)	(2)
Deferred taxes on previous Solvency II adjustments	44
THE POSITIVE EXCESS OF ASSETS OVER LIABILITIES AS CALCULATED FOR SOLVENCY PURPOSE	1,925

The difference between the IFRS consolidated capital and the net asset value (difference between assets and liabilities) calculated under Solvency II is explained to a large extent by the fact

- that all assets falling under Solvency II are valued at market value, whilst the valuation under IFRS depends on the classification [IFRS9 Business model] of the financial instruments; and
- that the technical provisions are also stated at market(-consistent) value in the Solvency II balance sheet.

For more detailed information on this subject, please refer to Chapter D - Valuations for solvency purposes.

E.4. Available Financial Resources (AFR)

The table below presents an overview of the eligible own funds to cover the Solvency II requirements:

Belfius Insurance consolidated (in millions of EUR)	31/12/2018 (IFRS 9)	31/12/2019 (IFRS 9)
AVAILABLE FINANCIAL RESOURCES BEFORE FORESEEABLE DIVIDEND	2,391	2,466
Tier 1	1,859	1,925
IFRS Equity	1,794	2,144
Valuation difference (after tax)	65	(219)
Restricted Tier 1	170	171
Tier 2	362	371
Subordinated debt	351	360
Others	11	11
AVAILABLE FINANCIAL RESOURCES AFTER FORESEEABLE DIVIDEND	2,231	2,466
AFR before foreseeable dividend	2,391	2,466
Foreseeable dividend	(160)	0

At the end of 2019, the Solvency II consolidated available capital (AFR) was EUR 2,466 million in total, before dividend distribution. It is composed, up to 85 %, of first class capital, Tier 1 capital.

Compared to December 2018, the regulatory own funds of Belfius Insurance group have increased by EUR 235 million. The continuous decline of the interest rates led to an increasing Best Estimate of Technical Provisions, but this was more than offset by the increasing market value of our investments, backed by a strong stock market performance at year end. A further reduction of the deferred tax liabilities can be observed too and no foreseeable dividend is expected due to the COVID-19 crisis.

As part of capital management, within the ORSA forward looking exercise, Belfius Insurance group performs annual solvency projections and reviews the expected structure of own funds and future requirements. In the capital planning exercise, where the projected evolution of the own funds is sufficient to face the expected solvency requirements in line with the business plan ambitions, the Available Financial Resources (AFR) still slightly increase after payment of dividends.

E.5. Capital requirements

E.5.1. Required solvency capital

The Solvency II Capital Requirement (SCR) is calculated based on the consolidated asset and liability portfolio of Belfius Insurance, Corona and those investment entities that are fully consolidated for Solvency II purposes. Note that the Solvency II ratio previously communicated in the press release of Belfius Bank on 21 February 2020, amounted to 199% and included a proposed dividend of EUR 120 million. Since the beginning of 2020, the COVID-19 pandemic has created an unprecedented global social and economic crisis. The spread of the COVID-19 virus may heavily weight on the global economic growth in 2020. So pending the analysis of all impacts of the COVID-19 crisis on the financial position, the Board of Directors of Belfius Insurance proposed to the General Assembly to integrate the dividend over the financial year 2019 in retained earnings. This has been validated and accepted by the General Assembly on 28 April 2020.

The SCR for Belfius Insurance is determined using the "Standard Formula" as defined in the Solvency II regulation, taking into account a volatility adjustment and making use of the transitional measure for equities and it includes the application of the restriction on the use of Loss Absorbing Capacity of Deferred Taxes as prescribed by the NBB.

The table below presents an overview of the required capital:

(in millions of EUR)	31/12/2018	31/12/2019
SOLVENCY CAPITAL REQUIREMENT	1,097	1,162
Market Risk	1,024	917
Credit Risk	170	188
Insurance Risk	640	667
Operational Risk	94	97
Diversification	(511)	(528)
Loss absorbing capacity of technical provisions and deferred taxes	(318)	(178)

Belfius Insurance group's SCR amounted to EUR 1,162 million at the end of December 2019, an increase of EUR 65 million compared to the end of 2018.

The slight increase is due to the declining positive effect of the Loss Absorbing Capacity of Deferred Taxes (LAC DT), partially offset by a positive effect of the revision of the treatment of guarantees by the regional governments and local authorities (RGLA) and the treatment of long-term and unlisted equities (LTE).

Market Risk is still the main contributor to the SCR due to the spread risk and equity risk. The SCR linked to the interest rate risk is rather limited thanks to the practice of strictly limiting the gap between the duration of assets and that of liabilities on the balance sheet of Belfius Insurance group.

The Belfius Insurance consolidated Minimum Capital Requirement (MCR) amounts to EUR 531 million as at end of December 2019, which is the sum of the MCRs for Belfius Insurance and Corona Direct.

For more detailed information, please refer to the Quantitative Reporting Template (QRT) S.25.01.22.

The evolution of required capital was made the object of a projection within the framework of the Own Risk & Solvency Assessment. The projected Solvency requirement has a smooth decreasing evolution over the business plan horizon despite the declining positive effect of the LAC DT.

E.5.2. Solvency II consolidated solvency ratio

Solvency II ratio	31/12/2018	31/12/2019
Solvency II ratio (before dividend)	219%	212%
Solvency II ratio (after dividend)	203%	212%

The Solvency II ratio (before dividend) of Belfius Insurance Group stood at 212% at the end of December 2019, slightly lower than the ratio as of December 2018. This decrease is the consequence of the increase in SCR which was not fully compensated by a same proportionate increase in regulatory own funds.

Note that the Solvency II ratio previously communicated in the press release of Belfius Bank on 21 February 2020, amounted to 199% and included a proposed dividend of EUR 120 million. However, following the outbreak of the COVID-19 crisis, the Board of Directors of Belfius Insurance proposed to the General Assembly to integrate the dividend over the financial year 2019 in retained earnings pending the analysis of all impacts of the COVID-19 crisis on the financial position, thus no foreseeable dividend is included in the Solvency ratio of 212% at the end of December 2019. This has been validated and accepted by the General Assembly on 28 April 2020.

Further to the minimum regulatory requirements of 100%, Belfius Insurance has, in current market circumstances and under current regulations, defined a minimum operational Solvency II ratio of 160%, on solo and consolidated levels.

A 50 bps fall in the interest level (compared with the level at the end of 2019) would have an impact of -10pp on the Solvency II ratio. A stock market shock of -30% on share prices would have an impact of -9pp while a drop in the real estate portfolio of 15% would decrease the solvency ratio by -8pp.

A 50 bps rise in the credit spreads across the whole bond and credit portfolio leads to a drop of -26 bps and the elimination of the Volatility Adjustment in calculation of the Best Estimate of liabilities would result in an impact of -10pp.

The reduction of the Ultimate Forward rate (UFR) from the current level of 3.90% to a level of 3% would only decrease our solvency ratio by -11pp.

In addition to the establishment of a complete risk framework, the Solvency II regulations also require a self-assessment in which, taking the business plan into account, the future capital buffers are highlighted and a number of sensitivities are implemented. The conclusion of the capital planning exercise is that the projected evolution of the own funds is more than sufficient to face the expected solvency requirements in line with the business plan ambitions. The capital management strategy underlying the capital planning exercise aims to make an optimal use of the available capital to:

- → sustain the growth of the Non-Life activity;
- → realize the Strategic Asset Allocation in order to maximize the financial revenues, taking into account the Risk Appetite Framework and associated stress tests;
- → compensate the progressive decrease of the current positive effect of the Loss Absorbing Capacity of deferred taxes.

E.6. Internal model

Not applicable in the case of Belfius Insurance.

E.7. Parameters specific to the company

Not applicable in the case of Belfius Insurance.

E.8. Non-compliance risk

Considering the available capital of Belfius Insurance, the risk of non-compliance with the SCR or the MCR is not very high. The results of the stress tests on the business plan and various analyses of sensitivity performed at closing date do not raise any issues regarding the SCR or the MCR.

E.9. Other significant information

The unprecedented global social and economic crisis caused by COVID-19 virus may heavily weight on the global economic growth in 2020. So pending the analysis of all impacts of the COVID-19 crisis on the financial position, the Board of Directors of Belfius Insurance proposed to the General Assembly to integrate the dividend over the financial year 2019 in retained earnings. This has been validated and accepted by the General Assembly on 28 April 2020.

The Solvency II ratio previously communicated in the press release of Belfius Bank on 21 February 2020, amounted to 199% and included a proposed dividend of EUR 120 million. The exclusion of the foreseeable dividend leads to a Solvency ratio of 212% at the end of December 2019.

In view of the Solvency ratio of 212% as at 31 December 2019 and considering relevant stress tests, Belfius Insurance does not expect any breach of its Solvency Capital Requirement. This statement remains valid in the context of COVID-19.

The risks associated with the further development of the current pandemic are closely monitored and analysed to perform regular stress testing and define appropriate management actions if necessary.

List of abreviations

Acronym	
AFR	Available Financial Resources
AMBS	Administrative, Management or Supervisory Body
ALCO	Assets & Liabilities Committee
ALM	Assets & Liabilities Management
BE	Best Estimate
BGAAP	Belgian Generally Accepted Accounting Principles
CEO	Chief Executive Officer
CF	Cash Flow
CFO	Chief Financial Officer
CRO	Chief Risk Officer
ECB	European Central Bank
EIOPA	European Insurance and Occupational Pensions Authority
ESG	Economic Scenarios Generator
FTE	Full Time Employee
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
LAC DT	Loss Absorbing Capacity of Deferred Taxes
NBB	National Bank of Belgium
ORSA	Own Risk and Solvency Assessment
P&L	Profit and Losses
PCI	Public and Corporate Insurance
QRT	Quantitative Reporting Templates
QRR	Quarterly Risk Report
RCI	Retail and Commercial Insurance
RMF	Risk Management Framework
RSR	Regular Solvency Reporting
RUC	Risk and Underwriting Committee
SCR	Solvency Capital Requirements
SFCR	Solvency and Financial Condition Reporting
UFR	Ultimate Forward Rate

F. Appendices

F.1. Appendix 1: List of associated companies

List of companies associated with the group Subsidiaries, equity accounted enterprises, affiliated enterprises and enterprises in which the group holds rights representing at least 20% of the issued capital

1. Fully-consolidated subsidiaries in IFRS statements

Name	Head office	% of capital held(1)	Solvency II Statutory	Solvency II Consolidated
Auxipar NV	Karel Rogierplein 11 - B-1210 Brussel	74.99	Participation at fair value	Integrally Consolidated
Belfius Insurance Invest NV (merged with Belfius Insurance from July 2019)	Karel Rogierplein 11 - B-1210 Brussel	100	Transparancy	Integrally Consolidated
Belfius Insurance Services Finance SA	Rue de l'Industrie 20 - L-8399 Windhof	100	Transparancy	Integrally Consolidated
Jaimy NV	Karel Rogierplein 11 - B-1210 Brussel	78.56	Participation at fair value	Participation at fair value
Caring People NV	De kleetlaan 7A - B-1831 Diegem	100	Participation at fair value	Participation at fair value
Jane NV (ex Charlin NV)	Karel Rogierplein 11 - B-1210 Brussel	77.45	Participation at fair value	Participation at fair value
Coquelets NV	Karel Rogierplein 11 - B-1210 Brussel	100	Transparancy	Integrally Consolidated
Corona NV	De kleetlaan 7A - B-1831 Diegem	100	Participation at fair value	Integrally Consolidated
Elantis SA	Rue des Clarisses 38 - B-4000 Liège	100	Participation at fair value	Participation at fair value
ImmoActivity NV	Karel Rogierplein 11 - B-1210 Brussel	100	Transparancy	Integrally Consolidated
Immo Malvoz BVBA	Karel Rogierplein 11 - B-1210 Brussel	100	Transparancy	Integrally Consolidated
Immo Zeedrift NV	Karel Rogierplein 11 - B-1210 Brussel	100	Transparancy	Integrally Consolidated
Interfinance CVBA	Karel Rogierplein 11 - B-1210 Brussel	74.99	Participation at fair value	Integrally Consolidated
Legros-Renier Les Amarentes Seigneurie de Loverval NV	Karel Rogierplein 11 - B-1210 Brussel	100	Transparancy	Integrally Consolidated
LFB NV	Karel Rogierplein 11 - B-1210 Brussel	100	Transparancy	Integrally Consolidated
Offico Immo BVBA	Karel Rogierplein 11 - B-1210 Brussel	100	Transparancy	Integrally Consolidated
Immo Trèfles SPRL	Place Charles Rogier 11 - B-1210 Bruxelles	100	Transparancy	Integrally Consolidated

(1) Percentage of capital held by holding company

There are no significant restrictions on the subsidiaries, on their ability to access or use assets, and settle liabilities, of the group.

2. Non-consolidated subsidiaries

Name	Head office	% of capital held[1]	Reason for exclusion	Solvency II Statutory	Solvency II Consolidated
Belsur BVBA	Kruidtuinlaan 44 – B-1000 Brussel	100	Not material	Participation at fair value	Participation at fair value
Bureau Laveaux & Martin BVBA	Brusselsesteenweg 346C – B-9090 Melle	100	Not material	Participation at fair value	Participation at fair value
Qualitass NV	Vilvoordsesteenweg 166 –B-1850 Grimbergen	100	Not material	Participation at fair value	Participation at fair value
VDL - Interass NV	Brusselsesteenweg 346C –B-9090 Melle	100	Not material	Participation at fair value	Participation at fair value

3. Affiliated companies accounted for by the equity method

Name	Head office	% of capital held[1]	Solvency II Statutory	Solvency II Consolidated
L'economie populaire de ciney cvba	Rue Edouard Dinot 32 – B-5590 Ciney	61.37	Participation at fair value	Participation at fair value
De Haan Vakantiehuizen NV	Woluwelaan 46 – B-1200 Sint-Lambrechts-Woluwe	25	Participation at fair value	Participation at fair value
M80 Capital Comm.V.	Overwinningsstraat 1 – B-1060 Sint-Gillis	22,11	Participation at fair value	Participation at fair value

4. Affiliated companies not accounted for by the equity method

Name	Head office	% of capital held[1]	Reason for exclusion	Solvency II Statutory	Solvency II Consolidated
Assurcard NV	Fonteinstraat 1A bus 0301 – B-3000 Leuven	20	Not material	Participation at fair value	Participation at fair value
Belwing SA	Avenue Maurice-Destenay 13 – B-4000 Liège	20	Not material	Participation at fair value	Participation at fair value
Les News 24 NV	Genèvestraat 175 – B-1140 Evere	33.22	Not material	Participation at fair value	Participation at fair value
Syneco Agence Conseil VZW	Place l'Ilon 13 – B-5000 Namur	20	Not material	Participation at fair value	Participation at fair value

(1) Percentage of capital held by holding company

F.2. Appendix 2: List of public QRT's

The QRT's are published on the site: https://www.belfius.be/about-us/en/investors/results-reports/reports

CONTACT

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