Solvency and Financial Condition Report 2018

ageas

Content

Introduction

When referring to Ageas in this document, it should be read as a group of companies composed of ageas SA/NV and all its subsidiaries. When referring to “local”, “legal entity”, “OPCO” or “Operating Company”, “Non-Controlled Participations (NCP)” in this report, it should be considered as relating to Ageas’ subsidiaries or affiliates, where “subsidiary” means an entity in which ageas SA/NV, directly or indirectly, has operational control, and “affiliate” means any entity in which ageas SA/NV has significant influence.

The structure of the Solvency and Financial Condition Report (SFCR) has been prepared as described in annex XX (twenty) of the (EU) Regulation 2015/35. Furthermore, the figures presented in this report are in line with the Quantitative Reporting Templates (QRTs) as reported to the supervisory authorities.

All amounts in this report are presented in millions of euros (EUR million), unless otherwise stated. The amounts in the QRTs which are disclosed on the website of Ageas are presented in thousands of euros.

Summary

A. Business and Performance

Ageas is an international insurance Group backed by 190 years of experience in the insurance market.

Present in 14 countries across Europe and Asia, the company offers Life and Non-life insurance solutions to millions of Retail and Business customers, accessible through a broad range of channels.

Ageas has decided that the most appropriate way of reporting the segments is by region in which Ageas operates, i.e. Belgium, United Kingdom, Continental Europe, Asia and Reinsurance, a non-region specific segment. In addition, Ageas reports activities that are not related to the core insurance business, such as Group financing and other holding activities, in the General Account, which is treated as a separate operating segment.

The main products that are sold by subsidiaries of Ageas are:

- Life savings products both including and excluding profit sharing;
- Life protection products;
- Pension products;
- Workers Compensation;
- Motor related insurance;
- Property related insurance.

2018 has been an important and reflective year for Ageas for many reasons. Ten years on from the financial crisis, we pressed the pause button to contemplate the events of the past decade. As the starting point for our new 3-year strategic plan, Connect21, we re-evaluated our purpose as an insurer. And finally, we dared to dream. We dipped a toe into the future, to imagine what life could be like, and the steps we would need to take today to stay competitive and relevant for all our stakeholders long-term.

We have always delivered on our financial targets, and 2018 was no exception. We developed a very clear strategy and geographic focus with the customer at the epicentre. And for our investors, we increased shareholder value almost ten-fold over the past 10 years. Back in 2009, imaging Ageas as a company worth some EUR 8 billion with 47 million customers, 45,000 employees in 14 countries across Europe and Asia with EUR 34 billion in inflows (at 100% and including equity associates), and a net profit of around EUR 800 million would have been a leap of faith. But that is today's reality.

Our newly launched 3-year strategic plan, Connect21, starts and ends with the customer in mind. It is a strategy that was entirely developed by our own people proudly carrying the label "Made by Ageas". In developing the strategy, we explored the very essence of why we exist. The conclusion was pretty simple. We exist to support our customers through the ups and downs of life's journey. As a supporter of their lives, we focus on the "what-ifs" and "what's possible", which means helping them at every twist and turn. That is nothing new perhaps, except that the world is becoming more complex, so that role is constantly challenged and expanded, not by us, but by the customer and indeed all our stakeholders.

Results

The Group net profit amounted to EUR 809 million compared to EUR 623 million last year. The Insurance net result decreased to EUR 797 million compared to EUR 960 million last year. Most of the negative variation observed this year came from a EUR 256 million lower contribution of net capital gains and losses. At constant scope the underlying result improved significantly, mainly driven by improved operating performances in the UK and Asia.

The net result of the Life activities decreased significantly to EUR 508 million (vs. EUR 623 million) with EUR 229 million lower support from net capital gains compared to last year, driven by volatile equity markets, especially in the last quarter. After a strong start to the year, the contribution from the non-consolidated partnerships was substantially lower over the second half, mainly due to the impact of the equity market in China. The lower fourth quarter net profit resulted from turbulent financial markets. The improved operating margin in Belgium compensated for the lower performance in Continental Europe.

The net result of the Non-Life activities decreased from EUR 337 million to EUR 289 million; however, scope-on-scope the net result increased by EUR 45 million, stemming from improved operating performance across all segments. The impact related to the adverse weather in Belgium and the UK amounted to EUR 60 million compared to only EUR 4 million last year that benefitted from exceptionally benign weather. Last year's result included EUR 93 million contribution from Cargeas (a former participation in Italy, sold in 2017) and a EUR 46 million negative impact related to Ogden (discount rate use in legal case in the UK).

Our Solvency position improved in 2018: The Own Funds of the Group amounted to EUR 8.0 billion, EUR 4.3 billion above SCR. This led to a strong Group Solvency IIageas ratio of 215%, 18pp up compared to year-end 2017 on the back of the expiration of the put option, the divestment of our activities in Luxembourg, and the increased fungibility of Own Funds related to the license obtained to operate reinsurance activities.

Reinsurance license at ageas SA/NV level

In June 2018 NBB granted ageas SA/NV licenses to underwrite reinsurance activities for both Non-life and Life. The main purpose for the integration of the Group reinsurance activities within the holding company is to provide an additional tool for the Group to manage risks and capital at a central level. The aim is to increase capital fungibility and to realise diversification benefits by bringing together risks from different types and different regions. The fungible capital that will be generated in this way can be used to finance growth (organic or through new acquisitions) and/or to provide support to our operating companies where needed.

Fortis Settlement

On 13 July 2018, the Amsterdam Court of Appeal declared binding the Fortis settlement entered into between Ageas, Stichting FORsettlement and the claimant. This decision means that Eligible Shareholders are entitled to compensation for the events of 2007-2008 subject to a full release of liability with respect to these events, and in accordance with the (other) terms of the settlement agreement. Given the very limited number of opt-out notices received prior to the final date of 31 December 2018, on 20 December 2018 the Board of Ageas decided to waive its termination right. Following that decision, the Fortis settlement with Ageas is effectively final.

Share buy-back programme

Ageas completed on 3 August 2018 the share buy-back programme announced on 9 August 2017. Between 21 August 2017 and 3 August 2018, Ageas bought back 4,772,699 shares corresponding to 2.35% of the total shares outstanding and totalling EUR 200 million.

Put Option

Ageas concluded on 12 March 2009 an agreement on the sale of 25% + 1 share of AG Insurance to Fortis Bank (now named BNP Paribas Fortis SA/NV) for an amount of EUR 1,375 million. As part of this transaction, Ageas granted to Fortis Bank a put option to resell the acquired stake in AG Insurance to Ageas in the six-month period starting 1 January 2018. BNP Paribas Fortis did not exercise the put option before 30 June 2018, the end of the exercise period, therefore BNP Paribas Fortis remains shareholder for 25% + 1 share in AG Insurance. Also, the existing distribution agreement will continue without explicit end date but subject to a 3-year termination notice period.

Sale of Cardif Luxembourg Vie

Ageas confirmed on 21 December 2018, the completion of the sale of its 33% stake in the capital of Cardif Luxembourg Vie (CLV), to BNP Paribas Cardif. The total cash consideration of the transaction amounted to EUR 152 million. The sale of CLV generated a net capital gain of EUR 35 million for the Group; EUR 15 million at Insurance level in the segment Continental Europe and EUR 20 million in the General Account. Both the capital gain and the cash impact were recorded in the last quarter of 2018.

B. System of Governance

Corporate Governance

ageas SA/NV has a Board of Directors, and a number of advisory committees, namely a Remuneration Committee, a Corporate Governance Committee, an Audit Committee and a Risk & Capital Committee.

The Board of Directors operates within the framework defined by Belgian legislation, National Bank of Belgium (NBB) requirements, the Belgian Corporate Governance Code, normal governance practice in Belgium and the Articles of Association.

The Executive Committee is composed exclusively of members of the Board and is chaired by the Chief Executive Officer (the CEO). Apart from the CEO, the Executive Committee members are the Chief Financial Officer (CFO), the Chief Risk Officer (CRO) and the Chief Operation Officer (COO).

At the level of ageas SA/NV, several mechanisms have been implemented for safeguarding the internal group governance and ensuring proper interaction between decision-making bodies at group level and at subsidiary level, in order to enhance information sharing and supervision of the subsidiaries. Control functions are present at the holding level and in the local operational entities. Functional reporting lines are organised between the group control functions and the local control functions.

In 2018, ageas SA/NV was granted a reinsurance license and is now entitled to exercise reinsurance activities both for non-life and life reinsurance activities. In 2018, the first Non-life contract was signed and the necessary internal processes and governance have been set up.

Risk Framework

Ageas's insurance operations provide both Life and Non-life insurances and as such face a number of risks that, whether internal or external, may affect Ageas's objectives. Ageas only seeks to take on risks:

- for which it has a good understanding;
- that can be adequately assessed and managed either at the individual or at the overall portfolio level;
- that are affordable (i.e. within the Ageas risk appetite);
- that have an acceptable risk-reward trade-off.

Ageas has established and implemented an Enterprise Risk Management ("ERM") framework, which encompasses key components that act as a supporting foundation of the risk management system. Our ERM can be defined as the process of systematically and comprehensively identifying critical risks, assessing their impact and implementing integrated strategies to provide *reasonable assurance* regarding the achievement of the company's objectives. Ageas' ERM framework sets the below high level objectives:

- Defines a risk appetite to ensure that the risk of insolvency is constantly managed within acceptable levels, and that the risk profile is kept within set limits;
- Influences a strong culture of risk awareness whereby managers carry out their duty to understand and be aware of the risks to their business, to manage them adequately, and report them transparently;
- Ensures identification & validation, assessment & prioritisation, recording, monitoring, and management of risks which affect, or can affect, the achievement of strategic and business objectives;
- Supports the decision making process by ensuring that consistent, reliable and timely risk information is available to decision makers;
- Embeds strategic risk management into the overall decision making process.

C. Risk Profile

In order to ensure a consistent and comprehensive approach to risk identification, Ageas has defined a risk taxonomy encompassing the key risks that can impact the Group. The risk taxonomy is aligned with Solvency II risk categories, which facilitates the alignment of internal and external reporting. The main risks that impact the ageas organisation, the financial results and the level of capital of the company are:

- Market Risk;
- Underwriting risk.

Market risk

Market risk arises from adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets and liabilities. It is composed of the following sub-risks:

- interest rate risk;
- equity risk;
- spread risk;
- currency risk;
- property risk; and
- market risk concentration.

Interest rate risk: Ageas measures, monitors and controls its interest rate risk using a number of indicators including cash flow mismatch analysis and stress testing. The investment and ALM policies usually require close matching unless specifically approved otherwise.

Equity risk: Is controlled through limit setting based on the risk appetite and by investment policies that require a range of controls to be in place including the action that will be taken in the event of significant decreases in value. Earlier pro-active management of this risk has resulted in the rapid reduction in exposure to equity risk through sales and hedging. This helps to limit losses and to ensure that the insurance companies remain solvent throughout a financial crisis.

Spread risk: A significant portion of Ageas's liabilities are relatively illiquid. Ageas generally aims to hold credit assets to maturity. This limits the long-term impact of spread risk significantly because liabilities that are relatively illiquid allow Ageas to hold majority of these assets to maturity. Although short-term volatility can be important, it is unlikely that Ageas would be forced to sell at distressed prices, however, Ageas can choose to sell if it considers this to be the best course of action.

Currency risk: Ageas's investment policy limits this risk by requiring the currency mismatch between assets and liabilities at subsidiaries to be minimised and in most cases it is eliminated entirely.

Property risk: For risk management purposes, Ageas defines the exposure to real estate based on the market value of these assets including assets held for own use. This differs from the exposure reported under IFRS definitions, which excludes unrealised gains. For internal risk management purposes, Ageas applies an internal model for real estate in its main subsidiaries, in which real estate risk is treated according to the underlying economic exposure, rather than IFRS classification of the assets.

Underwriting risk

Insurance risks (underwriting risk) refer to all insurance underwriting risks due to deviations in claims arising from uncertainty and timing of the claims as well as deviations in expenses and lapses, compared to underlying assumptions made at the point of underwriting of the policy. Life risk includes mortality risk, longevity risk, disability risk, morbidity risk (i.e. critical illness risk), lapse and persistency risk, expense risk, catastrophe risk and revision risk. Non-life risks include reserve risk, premium risk and catastrophe risks. Reserve risk is related to outstanding claims, while premium risk is related to future claims from which catastrophe claims are excluded. Catastrophe risk is related to claims arising from catastrophic events: either natural disasters or man-made events.

In its exposures to the above-mentioned risks, Ageas benefits from diversification across geographical regions, product lines and even across the different insurance risk factors so that Ageas is not exposed to significant concentrations of insurance risks. Moreover, Ageas' insurance companies have built in specific mitigation measures in order to minimise their risk exposures.

Where appropriate, Ageas's insurance companies enter into reinsurance contracts to limit their exposure to underwriting losses. This reinsurance may be on a policy-by-policy basis (per risk), or on a portfolio basis (per event), i.e. where individual policyholder exposures are within local limits but an unacceptable risk of accumulation of claims exists at Entity level (catastrophe risks). The latter events are mostly weather related or man-made. Reinsurance companies are selected based primarily on pricing and counterparty default risk considerations. The management of counterparty default risk is integrated into the overall management of credit risk.

D. Valuation for Solvency purposes

Solvency II starts from the Market-Consistent Balance Sheet (MCBS) which requires assets and liabilities to be valued at 'Fair Value'. According to article 75 of the (EU) SII Directive, assets are valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction. Liabilities are valued at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction.

Ageas applies the methodology and valuation hierarchy defined in (EU) Regulation 2015/35 in the order listed:

- Quoted market prices in active markets for the same assets or liabilities is the default method;
- Quoted market prices in active markets for similar assets and liabilities with adjustments to reflect differences; and
- Alternative valuation methods relying as little as possible on undertaking-specific inputs and making maximum use of relevant market inputs.

For the valuation of participations the adjusted equity methods or IFRS equity methods are used in case no quoted market price is available in active markets for the same asset.

The most relevant reclassifications to arrive from an IFRS to a market consistent balance sheet for Solvency II purposes are:

- Subordinated loans that are classified as liability under IFRS are reclassified to the subordinated liabilities in basic Own Funds. A reclassification is made from subordinated liabilities in basic Own Funds to subordinated liabilities not in basic Own Funds for the loans that are not considered Own Funds in Solvency II;
- Equities to investment funds when the criteria for collective investment undertakings are met;
- Investment related assets such as structured notes and collateralised securities are reclassified from corporate bonds and money market funds to cash equivalents;
- Accrued interest from other assets not shown elsewhere to the line item of the interest bearing balance sheet item.
- Under IFRS the health related technical provisions are included in both life and non-life technical provisions but are presented separately from other life and non-life technical provisions in the market consistent balance sheet; and
- Pension liabilities to life technical provisions for the pension contract of employees of Ageas.

The most relevant valuation differences between the IFRS balance sheet in the financial statements and the market consistent balance sheet for Solvency II purposes are:

- Assets and liabilities not recorded at fair value under IFRS:
- Property, loans and Held to maturity (HTM) investments are recorded at amortised cost under IFRS;
- Liabilities arising from (re)insurance and investment contracts need to be recognised at market-consistent values;
- Revaluation of participations in material European Economic Area (EEA) insurance entities to adjusted equity method;
- Recognition of contingent liabilities under Solvency II; and
- Derecognition of goodwill and other intangibles under Solvency II.

E. Capital Management

Capital is a scarce and strategic resource, which requires a clearly defined, rigorous and disciplined management approach in order to ensure efficient and effective deployment. The Capital Management approach that Ageas follows aims to balance the needs and requirements of all stakeholders including shareholders, debt investors, regulators, rating agencies and customers.

The main objectives of capital management at Ageas are:

- to optimize the capital structure, composition and allocation of capital within Ageas;
- to ensure value creation by funding profitable growth, as well as protecting the viability and profitability of the business;
- to ensure optimal dividend levels, both for the Group as well as its subsidiaries.

Solvency ratios

Ageas Group	Q4 2018	Q4 2017	PPT change
Solvency ageas	215%	196%	+ 19
Solvency PIM	216%	191%	+ 26

Own Funds

The analysis of the quality of Ageas's Own Funds (covering the Group SCR) shows that at the end of 2018, 87.2% of the eligible Own Funds are of the highest quality (Tier 1) and able to fully absorb losses. At year-end 2018, the sum of the grandfathered Tier 1 components amounts to 25.5% of total Tier 1 capital and therefore exceeds the 20% regulatory threshold for restricted Tier 1; the excess EUR 384.8 million qualifies as eligible Tier 2 capital. Tier 3 capital represents the part of Own Funds that consist of the Deferred Tax Assets (DTA) as recognized in the market consistent balance sheet.

Ageas has several hybrid instruments outstanding at 2018 year end, amounting to EUR 2.4 billion (28% of total Own Funds).

SCR

Management believes that under Pillar 2 one should recognize a credit risk linked to European government exposures, whereas this risk is disregarded in the SCR Standard Formula. At the same time management believes the SCR Standard Formula overestimates the credit risk of corporate bonds: it assesses credit risk on corporate bonds based on observed volatility of credit spreads, while such volatility is less relevant when in principle a buy and hold strategy is applied linked with the desire to match asset and liability duration. Management also concluded that the SCR Standard Formula is not suited to measure risks linked to investments in parking concessions: the Standard Formula disregards the value of such concessions. Therefore, Ageas uses for its capital management under Pillar 2 an approach that builds on the SCR PIM and includes models adopted by the Group. In this approach the Standard Formula Spread Risk on corporate bonds is divided in a fundamental and a non-fundamental spread charge. The Group decided to exclude the non-fundamental spread risk on corporate bonds, while a charge for the fundamental spread risk on Government exposure is added. The Group also applies an Internal Model Real Estate, in which the value of parking concessions is recognized and specific risk charges have been chosen. An Expected Loss Model (ELM) has been implemented under Pillar 2. The key objective is to replace the current in-force EIOPA VA to absorb short term spread volatility by a reflection of realized losses due to credit losses. A Company Specific EIOPA Volatility Adjustment was implemented for the rest of the companies. Transitional measures at local level are removed in the calculation of the SCRageas. This SCR is called the SCRageas which is reported by Ageas under Pillar 2.

The composition of the capital solvency requirement can be summarised as follows:

	31 December 2018	31 December 2017
Market Risk	4,420.6	4,835.0
Counterparty Default Risk	351.4	333.3
Life Underwriting Risk	633.5	669.7
Health Underwriting Risk	347.8	382.3
Non-life Underwriting Risk	718.4	697.3
Diversification between above mentioned risks	(1,395.0)	(1,427.6)
Non Diversifiable Risks	507.4	658.8
Loss-Absorption through Technical Provisions	(1,001.5)	(1,188.7)
Loss-Absorption through Deferred Taxes	(854.4)	(897.7)
Group Required Capital under Partial Internal Model (SCR)	3,728.1	4,062.4
Impact of Non-life Internal Model on Non-life Underwriting Risk	364.2	359.3
Impact of Non-life Internal Model on Diversification between risks	(198.4)	(209.3)
Impact of Non-life Internal Model on Loss-Absorption through Deferred Taxes	7.1	8.3
Group Required Capital under the SII Standard Formula	3,901.0	4,220.7

The decrease in SCR compared to last year is mainly due to lower SCR for equity risk & spread risk and the sale of the stake in Cardif Lux Vie S.A. (CLV).

The group PIM SCR for Non-life Underwriting Risk of EUR 718.4 million consists of an amount EUR 596.6 million modelled within the internal model. The remaining part was included applying the standard formula.

A

Business and Performance

A.1 Business

A.1.1 General information

Name and legal form:
ageas SA/NV

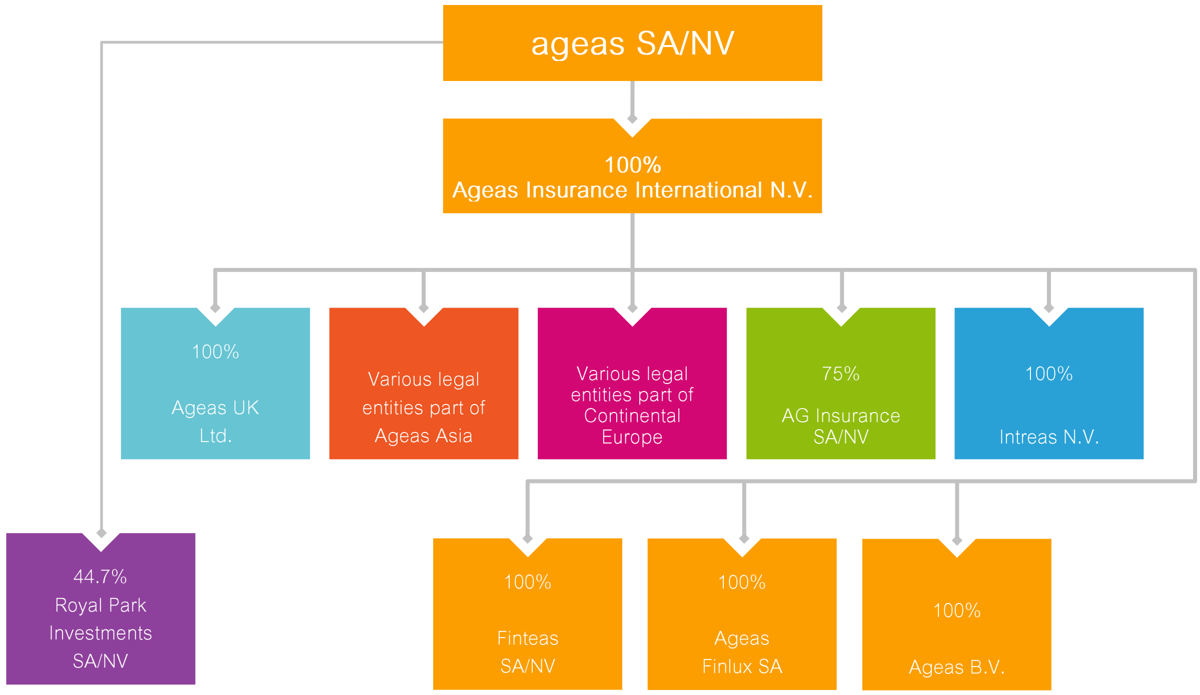
Supervisor:
National Bank of Belgium (NBB), Boulevard de Berlaimont 14, 1000 Brussels, phone +32 (0)2/ 221 21 11.

External auditor:
PwC Reviseurs d'Entreprises scrl ('PwC'), Woluwedal 18, 1932 Sint-Stevens-Woluwe.

ageas SA/NV is incorporated in Belgium, with its registered office at Rue du Marquis/Markiesstraat 1, Brussels.

Ageas is an international insurance company backed by 190 years of experience in the insurance market, concentrating on property, casualty, Life and pensions.

The legal structure of Ageas is as follows:



Fully consolidated entities of Ageas in Continental Europe are in Portugal, Millenniumbcp Ageas (51%), Ocidental Seguros (100%), Médis (100%), Ageas Portugal Vida (100%) and Ageas Portugal Seguros (100%) and in France, Ageas France (100%).

Intreas N.V. is Ageas' internal Non-life reinsurer since 2015, incorporated in the Netherlands. In 2018, ageas SA/NV obtained a Life and Non-life license in Belgium.

Ageas shares are listed on the regulated market of Euronext Brussels and Ageas has a sponsored American Depositary Receipt (ADR) programme in the United States.

The main third-party shareholders of Ageas, based on the official notifications, as at 31 December 2018 are:

- Ping An 5.17%;
- BlackRock, Inc 5%;
- Schroders Plc 2.94%;
- Fosun 3.01%.

Beside these third-party shareholders, Ageas holds 4.27% of its own shares at 31 December 2018.

A list with undertakings that are in the scope of the Group can be found in QRT S.32.01.22.

A.1.2 Material lines of business and material geographical areas

Wherever Ageas operates around the world it does so with one focus: the customer. And with one goal in mind: to provide its customers with peace of mind when they need it most. By offering a range of Life and Non-life products – accessible through a broad range of channels – Ageas helps customers plan for the long term while protecting them against unforeseen risks to their welfare.

Per ultimo 2018 Ageas is present in the following countries:

- Belgium;
- United Kingdom;
- France;
- Portugal;
- Turkey;
- China;
- India;
- Thailand;
- Vietnam;
- Malaysia;
- Philippines;
- Laos;
- Cambodia;
- Singapore.

Ageas has decided that the most appropriate way of reporting the segments is by region in which Ageas operates, i.e. Belgium, United Kingdom, Continental Europe, Asia and Reinsurance, a non-region specific segment. In addition, Ageas reports activities that are not related to the core insurance business, such as Group financing and other holding activities, in the General Account, which is treated as a separate operating segment.

Ageas' segment reporting based on IFRS reflects the full economic contribution of the businesses of Ageas. The aim is direct allocation to the businesses of all statements of financial positions and income statement items for which the businesses have full managerial responsibility.

In accordance with Ageas' business model, insurance companies report support activities directly in the business.

When allocating items from the statement of financial position to operating segments, a bottom-up approach is used based on the products sold to external customers.

The main products that are sold by subsidiaries of Ageas are:

- Life savings products both including and excluding profit sharing;
- Life protection products;
- Pension products;
- Workers Compensation;
- Motor related insurance;
- Property related insurance.

For the items in the statement of financial position not related to products sold to customers, a tailor-made methodology adapted to the specific business model of each reportable segment is applied.

Transactions or transfers between the operating segments are made under normal commercial terms and conditions that would be available to unrelated third parties. Eliminations are reported separately.

A.1.3 Significant business or other events

We always delivered on our financial targets, and 2018 was no exception. We developed a very clear strategy and geographic focus with the customer at the epicentre. And for our investors, we increased shareholder value almost ten-fold over the past 10 years. Back in 2009, imaging Ageas as a company worth some EUR 8 billion with 47 million customers, 45,000 employees in 14 countries across Europe and Asia with EUR 34 billion in inflows (at 100% and including equity associates), and a net profit of around EUR 800 million would have been a leap of faith. But that is today's reality. We can look back with pride having achieved this great result.

We closed out Ambition 2018 strongly, delivering against the targets we set back in 2015. We made it clear at that time that our success would be determined by how all stakeholders value their relationships with us over the long term. We feel confident that we have ticked that box, but we also know there will always be more we can do. As a Group, we are always relentlessly striving for improvements. The world continues to change and staying ahead requires that we remain hyper-relevant, not only to our customers but to all stakeholders, which also means continuously evolving and reinventing ourselves to retain our competitive edge.

Connect21: A 3-year plan "Made by Ageas"

Our newly launched 3-year strategic plan, Connect21, starts and ends with the customer in mind. It is a strategy that was entirely developed by our own people proudly carrying the label "Made by Ageas". In developing the strategy, we explored the very essence of why we exist. The conclusion was pretty simple. We exist to support our customers through the ups and downs of life's journey. As a supporter of their lives, we focus on the "what-ifs" and "what's possible", which means helping them at every twist and turn. That is nothing new perhaps, except that the world is becoming more complex, so that role is constantly challenged and expanded, not by us, but by the customer and indeed all our stakeholders.

The customer road-signs are very clear as we enter 2019. We will venture into new areas beyond traditional insurance and working around those societal themes where we can prove our strengths, from health, old age and mobility, to modern forms of housing and infrastructure. In this context we will embrace a selection of relevant United Nations Sustainable Development Goals and actively work to support these. We will continue to invest in technological innovations allowing us to deliver the best customer service, and we will continue to do so in partnership, that continues to be a very big part of our DNA.

Reinsurance license at ageas SA/NV level

In June 2018 NBB has granted ageas SA/NV licenses to underwrite reinsurance activities for both Non-life and Life. The main purpose for the integration of the Group reinsurance activities within the holding company is to provide an additional tool for the Group to manage risks and capital at a central level. The aim is to increase capital fungibility and to realise diversification benefits by bringing together risks from different types and different regions. The fungible capital that will be generated in this way can be used to finance growth (organic or through new acquisitions) and/or to provide support to our operating companies where needed.

Expiry of put option on AG Insurance shares held by BNP Paribas Fortis SA/NV

Ageas concluded on 12 March 2009 an agreement on the sale of 25% + 1 share of AG Insurance to Fortis Bank (now named BNP Paribas Fortis SA/NV) for an amount of EUR 1,375 million. As part of this transaction, Ageas granted to Fortis Bank a put option to resell the acquired stake in AG Insurance to Ageas in the six-month period starting 1 January 2018.

BNP Paribas Fortis did not exercise the put option before 30 June 2018, the end of the exercise period, therefore BNP Paribas Fortis remains shareholder for 25% + 1 share in AG Insurance. Also, the existing distribution agreement will continue without explicit end date but subject to a 3-year termination notice period.

Global settlement related to the Fortis events of 2007 and 2008

On 14 March 2016, Ageas and the claimants organisations, Deminor, Stichting FortisEffect, Stichting Investor Claims Against Fortis (SICAF) and VEB announced a settlement proposal with respect to all civil proceedings related to the former Fortis group for events in 2007 and 2008 for an amount of EUR 1.2 billion.

In addition, Ageas announced on 14 March 2016 that it also reached an agreement with the D&O Insurers (the "Insurers"), the D&O's involved in litigation and BNP Paribas Fortis to settle for an amount of EUR 290 million.

On 24 March 2017, the Amsterdam Appeal Court held a public hearing during which it heard the request to declare the settlement binding as well as the arguments that were submitted against it. On 16 June 2017, the Court took the interim decision not to declare the settlement binding in its initial format. On 12 December 2017, the petitioners filed an amended and restated settlement with the Amsterdam Appeal Court. This amended settlement took into consideration the main concerns of the Court and the overall budget was raised by EUR 100 million to EUR 1.3 billion.

On 13 July 2018 the Amsterdam Appeal Court declared the settlement binding on Eligible Shareholders (i.e. persons who held Fortis shares at any time between close of business on 28 February 2007 and close of business on 14 October 2008) in accordance with the Dutch Act on Collective Settlement of Mass Claims (Wet Collectieve Afwikkeling Massaschade, "WCAM"). In declaring the settlement binding, the Court believed the compensation offered under the settlement is reasonable and that the claimant organisations Deminor, SICAF and FortisEffect are sufficiently representative of the interests of the beneficiaries of the settlement.

On 21 December 2018, Ageas announced that it had decided to provide clarity ahead of time by waiving its termination right. As a consequence of this the settlement is final.

The main components of the EUR 812.4 million provision as at 31 December 2018 are:

- EUR 1,308.5 million related to the WCAM settlement agreement;
- EUR 57.7 million related to the tail risk, including accrued expenses;
- minus EUR 290 million contributed by D&O insurers;
- minus EUR 263.8 million already paid to eligible shareholders in 2018.

Related to the WCAM settlement agreement, an amount of EUR 341 million (in which EUR 241 million in 2017) was paid by Ageas to Stichting FORsettlement ('Stichting') as an advance payment to settle the claims. As at 31 December 2018, EUR 77.2 million of this payment is not deducted from the provision but accounted for as a receivable from the Stichting.

Further information on the contingent liabilities related to legal proceedings are disclosed in the 2018 Annual Report of Ageas, Note 46.

Share buy-back programme

Ageas completed on 3 August 2018 the share buy-back programme announced on 9 August 2017. Between 21 August 2017 and 3 August 2018, Ageas bought back 4,772,699 shares corresponding to 2.35% of the total shares outstanding and totalling EUR 200 million.

Ageas announced on 8 August 2018 a new share buy-back programme as of 13 August 2018 up to 2 August 2019 for an amount of EUR 200 million. Between 13 August 2018 and 31 December 2018, Ageas bought back 1,943,077 shares corresponding to 0.95% of the total shares outstanding and totalling EUR 84.3 million.

The General Meeting of Shareholders of 16 May 2018 approved the cancellation of 6,377,750 own shares. These shares represented the remaining 4,583,306 own shares of the Share buy-back programme 2016 and the 1,924,024 own shares that had been bought back until 31 December 2017 for the Share buy-back programme 2017. 129,580 own shares were used for the vesting of share programs.

Cardif Luxembourg Vie

Ageas confirmed on 21 December 2018, the completion of the sale of its 33% stake in the capital of Cardif Luxembourg Vie (CLV), to BNP Paribas Cardif. The total cash consideration of the transaction amounted to EUR 152 million.
The sale of CLV generated a net capital gain of EUR 35 million for the Group; EUR 15 million at Insurance level in the segment Continental Europe and EUR 20 million in the General Account.

Both the capital gain and the cash impact were recorded in the last quarter of 2018.

Dutch Offices

In 2017 the Management reviewed its headquarter organisation in order to improve the efficiency and as a response to the changing needs of the organization. As a consequence of this review ageas SA/NV decided to close its office established in the Netherlands and to integrate the staff in the Brussels' Head Quarter offices. The effective merger took place end of September 2018.

As from 1 January 2019, the holding entities Ageas Insurance International and Goldpark are transferred from the Netherlands to Belgium.

A.2
Underwriting performance

Information on premiums, claims and expenses by line of business and per country can be found in QRTs S.05.01.02 and S.05.02.01 respectively. Belgium is our home country. The explanation of the country codes is included below:

- GB : Great Britain
- PT : Portugal
- IE : Ireland
- NL : Netherlands
- FR : France

The tables below show an overview of the (consolidated, by IFRS line of business) underwriting performance of the Insurance activities for 2018 and 2017.

2018	Life	Guaranteed	Unit-linked	Non-life	Accident & health	Motor	Household	Other lines	Total
Net Earned Premiums	4,757.4			3,890.3	870.7	1,635.5	1,028.2	355.9	8,647.7
Net Underwriting result	35.5	(4.4)	39.9	221.4	62.4	94.4	35.2	29.4	256.9
Investment Result	497.5	498.5	(1.0)	151.7	25.3	76.4	20.6	29.4	649.2
Other Result				3.0	1.5	1.5	0.4	(0.4)	3.0
Operating Result*	533.0	494.1	38.9	376.1	89.2	172.3	56.2	58.4	909.1
Non-allocated other income and expenses	65.4			18.6					84.0
Result before taxation consolidated entities	598.4			394.7					993.1
Result non-consolidated partnerships	188.1			42.1					230.2
Result before taxation	786.5			436.8					1,223.3
Income tax expenses	(138.2)			(100.3)					(238.5)
Non-controlling interests	(140.3)			(47.5)					(187.8)
Net result attributable to shareholders	508.0			289.0					797.0
Technical Liabilities	73,367.9	57,856.8	15,511.1	7,424.6	2,325.3	3,261.9	789.5	1,047.9	80,792.5

2017	Life	Guaranteed	Unit-linked	Non-life	Accident & health	Motor	Household	Other lines	Total
Net Earned Premiums	4,107.5			4,148.0	883.6	1,781.9	1,072.3	410.2	8,255.5
Net Underwriting result	23.3	(17.7)	41.0	198.3	67.7	(4.8)	119.4	16.0	221.6
Investment Result	537.3	537.0	0.3	185.5	31.7	93.9	24.3	35.6	722.8
Other Result				0.5	3.4	(2.1)	(1.1)	0.3	0.5
Operating Result*	560.6	519.3	41.3	384.3	102.8	87.0	142.6	51.9	944.9
Non-allocated other income and expenses	39.5			90.2					129.7
Result before taxation consolidated entities	600.1			474.5					1,074.6
Result non-consolidated partnerships	309.6			49.0					358.6
Result before taxation	909.7			523.5					1,433.2
Income tax expenses	(132.7)			(113.8)					(246.5)
Non-controlling interests	(154.0)			(72.8)					(226.8)
Net result attributable to shareholders	623.0			336.9					959.9
Technical Liabilities	74,615.2	58,799.0	15,816.2	7,575.0	2,278.7	3,435.2	781.0	1,080.1	82,190.2

* *Operating result Non-life includes the result of Cargeas Assicurazioni.*

The net result of the Life activities decreased significantly to EUR 508 million (vs. EUR 623 million) with EUR 229 million lower support from net capital gains compared to last year, driven by volatile equity markets, especially in the last quarter. After a strong start to the year, the contribution from the non-consolidated partnerships was substantially lower over the second half, mainly due to the impact of the equity market in China. The lower fourth quarter net profit resulted from turbulent financial markets. The improved operating margin in Belgium compensated for the lower performance in Continental Europe.

The net result of the Non-Life activities decreased from EUR 337 million to EUR 289 million; however, scope-on-scope the net result increased by EUR 45 million, stemming from improved operating performance across all segments. The impact related to the adverse weather in Belgium and the UK amounted to EUR 60 million compared to only EUR 4 million last year that benefitted from exceptionally benign weather. Last year's result included EUR 93 million contribution from Cargeas and a EUR 46 million negative impact related to Ogden.

A.3 Investment performance

A.3.1 Income and expenses by asset class including gains and losses recognised directly in equity

Financial income and allocated capital gains (net of impairments), before investment costs, included in the IFRS consolidated result before taxation is EUR 2,728.3 million in (2017: EUR 2,893.9 million).

	2018	2017
Interest, dividend and other investment income	2,670.5	2,754.0
Result on sales and revaluations*	314.9	278.5
Financing costs (relate mainly to subordinated debt, borrowings & other liabilities)	(122.5)	(116.8)
Change in impairments	(134.6)	(21.8)
Total	2,728.3	2,893.9

* *Result on sales and revaluations is related to the realised and unrealised gains and losses on investments (recognised in profit and loss)*

Interest, dividend and other investment income

The table below shows the breakdown of ‘interest, dividend and other investment income’.

	2018	2017
Interest income		
Interest income on cash & cash equivalents	2.7	1.0
Interest income on loans to banks	21.3	18.0
Interest income on investments	1,620.4	1,734.0
Interest income on loans to customers	209.1	202.7
Interest income on derivatives held for trading	2.0	(2.5)
Other interest income	1.8	2.3
Total interest income	1,857.3	1,955.5
Dividend income from equity securities	137.3	144.4
Rental income from investment property	221.6	221.8
Revenues parking garage	430.7	412.5
Other investment income	23.6	19.8
Total interest, dividend and other investment income	2,670.5	2,754.0

In addition to the amounts recognised in the income statement, changes in revaluation of investments available for sale are recognized directly in equity (and these might subsequently be reclassified to profit and losses). The (pre-tax) increase (decrease) in revaluation of investments available for sale amounted to (EUR 1,292 million) in 2018 and (EUR 520 million) in 2017.

A.3.2 Investments in securitization

Ageas has no material investments in securitization.

A.4
Performance of other activities

Ageas reports activities that are not related to the core insurance business, such as Group financing and other holding activities, in the General Account, which is treated as a separate operating segment.

The General Account contributed EUR 12 million, including EUR 89 million related to the revaluation of the RPN(I) liability and EUR 20 million related to the sale of the Luxembourg activities. The increase in Staff and other operating expenses to EUR 87 million was mainly related to the execution of the settlement.

A.4.1 Lease agreements

Ageas has entered into lease agreements for the use of office space, office equipment, vehicles and parking facilities. The following table reflects future commitments to non-cancellable operating leases as at 31 December 2018.

	2018	2017
Less than 3 months	18.4	18.1
3 months to 1 year	57.9	54.3
1 year to 5 years	235.5	242.1
More than 5 years	368.8	381.0
Total	**680.6**	**695.5**
Annual rental expense:		
Lease payments	4.6	11.9

A.5
Any other information

A.5.1 Significant intra-Group transactions

Intercompany transactions between Ageas companies are eliminated.

Material intercompany transactions in the group relate to:
- Financing (subordinated) loans between Holding companies and subsidiaries;
- Internal reinsurance arrangements with Intreas which commenced in 2015 and ageas SA/NV which commenced in 2018.

A.5.2 Related parties

Parties related to Ageas include associates, pension funds, Board Members (i.e. Non-Executive and Executive Members of the Ageas Board of Directors), executive managers, close family members of any individual referred to above, entities controlled or significantly influenced by any individual referred to above and other related entities. Ageas frequently enters into transactions with related parties in the course of its business operations. Such transactions mainly concern loans, deposits and reinsurance contracts and are entered into under the same commercial and market terms that apply to non-related parties.

Ageas companies may grant credits, loans or guarantees in the normal course of business to Board Members and executive managers or to close family members of the Board Members or close family members of executive managers.

As at 31 December 2018, no outstanding loans, credits or bank guarantees had been granted to Board Members and executive managers or to close family members of the Board members and close family members of executive managers.

Transactions entered into with the following related parties during the year ended 31 December are summarised below:
- associates;
- other related parties such as pension funds;
- Board Members.

In 2013, a transaction took place between ageas SA/NV and one of its independent Board members, Mr Guy de Selliers de Moranville. The transaction relates to the renting by ageas SA/NV of one of his properties. This property is regarded an appropriate venue to host VIP-guests of the Board and Executive Management and is rented at an annual rent of EUR 50,000 (indexed).

Management considers the transaction with Mr Guy de Selliers de Moranville to be concluded at arm's length.

A.5.3 Ageas SA/NV as solo entity

This section contains information regarding ageas SA/NV as a solo entity.

ageas SA/NV is a public limited company with its registered office at Rue du Marquis 1/Markiesstraat 1, Brussels, Belgium. The company is registered in the Brussels register of legal entities under no. 0451.406.524.

In June 2018 the National Bank of Belgium granted ageas SA/NV a reinsurances license to carry out both Non-life and Life reinsurance activities. Reinsurance operations started as from 1 July 2018 in the form of a quota-share agreement with the Non-life entities in Portugal, but the financial impact of these agreements on the 2018 financial statements is considered as not material.

ageas SA/NV uses the governance, management and operational infrastructure of the Ageas Group. For example, the various Ageas Group committees, the risk management framework, the internal audit and compliance function, all cover both the Group's activities as well as ageas SA/NV as a solo entity. Only a specific Ageas Local Actuarial Function (ALAF) exist for the solo entity. The entity has its own underwriting team and the performance of the reinsurance business is reported in a separate segment Reinsurance, separate from the already existing traditional holding activities of ageas SA/NV, which are reported as part of the General Account segment.

Given the very limited reinsurance activities of ageas SA/NV in 2018, no separate SFCR is prepared for this entity. The public annual solo QRTs of ageas SA/NV are attached to the Group SFCR together with the public annual Group QRTs.

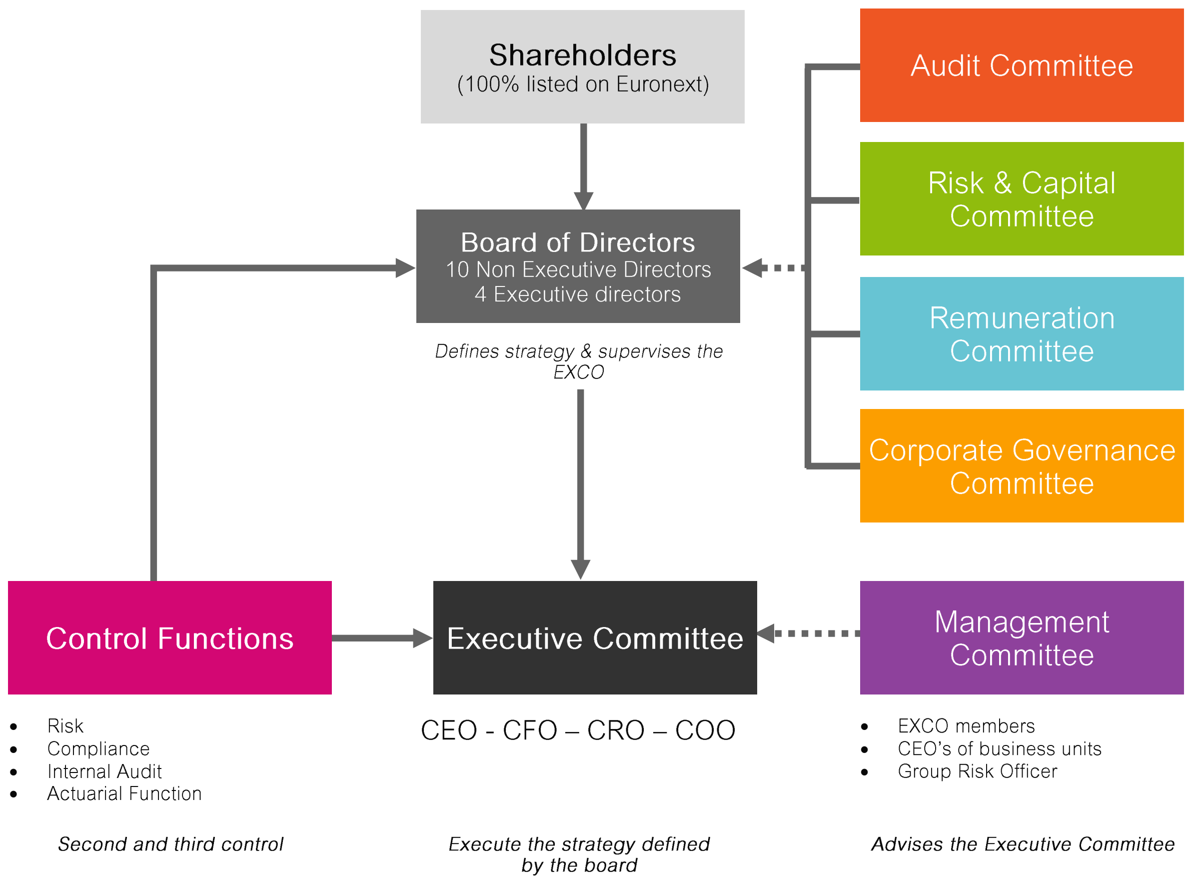
B

System of Governance

B.1
General information on the system of governance

B.1.1 System of governance

Internal Governance Bodies



ageas SA/NV has a Board of Directors, (hereafter referred to as "the Board"), a number of advisory committees (hereafter referred to as "the Board Advisory Committees", namely a Remuneration Committee, a Corporate Governance Committee, an Audit Committee and a Risk & Capital Committee) and an Executive Committee.

The majority of the Board is composed of non-executive directors who are independent. The composition of the Board is disclosed in the 2018 annual report of Ageas, section Report of the Board of Directors.

The Executive Committee is composed exclusively of members of the Board and is chaired by the Chief Executive Officer (the CEO). Apart from the CEO, the Executive Committee members are the Chief Financial Officer (CFO), the Chief Risk Officer (CRO) and the Chief Operation Officer (COO).

Apart from the Executive Committee, there is a Management Committee, which has an advisory role to the Executive Committee. The Executive Committee and the Management Committee are jointly referred to as the Executive Management.

The governance structure is completed by independent control functions regarding compliance, internal audit, risk management and Actuarial function.

B.1.1.1 Board of Directors

B.1.1.1.1 Role

The Board determines the General Policy for ageas SA/NV and the Ageas Group and provides the strategic direction. The Board also defines the risk appetite and integrity policy. In this respect the Board is the ultimate decision-making body of ageas SA/NV, without prejudice to the competences of the General Meeting of Shareholders as provided for by the Belgian Code of Companies. The Board also monitors and supervises the Executive Committee, as well as the exercise by the latter of its powers and competences as delegated to it in accordance with the Act regarding the supervision of insurance companies (hereafter referred to as “the Law”). The Board determines and organises the conditions of such supervision and ensures that, in all respects, the Executive Committee acts in full accordance with the General Policy. Moreover, the Board exercises all the competences that it retains in accordance with the Law.

B.1.1.1.2 Authority

The Board as a whole is collectively accountable for adequately exercising its authority, powers and duties. The Board has the authority and the duty to use adequate, necessary and proportional means in order to fulfil its responsibilities.

The Company is duly represented by (a) the Chairman and the CEO acting together, or (b) a Non-Executive and an Executive Board Member acting together, or (c) the CEO for all matters relating to day-to-day management and, in addition, for specific matters as determined by, and within the limits set, by the Board. Unless otherwise provided for by the Board, the CEO has the right to sub-delegate these specific powers.

In order to increase the Board’s knowledge and awareness of the issues in the most important operating companies, Board members may be appointed to the boards of directors of the ageas SA/NV subsidiaries.

B.1.1.2 Executive Management

The Executive Management is composed of the Executive Committee referred to in the Articles of Association (‘AoA’) and the Management Committee.

The role of the Executive Management is to manage Ageas in keeping with the values, strategies, policies, plans and budgets endorsed by the Board.

In exercising this role, the Executive Management is, together with the boards of directors and the executive management of the respective entities of Ageas and each within its respective capacity, responsible for complying with all relevant legislation and regulations, and specifically with the legal and regulatory framework applicable to each Ageas company.

B.1.1.2.1 Executive Committee

A. RESPONSIBILITIES AND POWERS

In accordance with the Law (Law of 13 March 2016 on the status and control of insurance and reinsurance companies), the Board has assigned to the Executive Committee all its management competences and powers, except for the competences, powers, responsibilities, roles and missions described under the section related to the roles and responsibilities of the Board.

In particular, and without prejudice to the previous paragraph, the Executive Committee is responsible for the following activities and reporting on these to the Board:

- Implementation of the strategy defined by the Board and the management of the activities;
- Implement the risk-management system;
- Set up, monitor and evaluate the organisational and operational structure;
- Reporting to the Board and to the NBB;
- Ensure proper communications with all relevant external stakeholders.

B. AUTHORITY

Without prejudice to its own powers and duties, the Board vests the Executive Committee with the authority that is adequate and necessary for the proper exercise of its duties and responsibilities, within the wider framework of the General Policy and policies outlined by the Board. Without prejudice to Article 15(b) (4) of the AoA of ageas SA/NV, the Executive Committee is accountable to the Board on all matters entrusted to it by the Board.

B.1.1.2.2 Management Committee

A. RESPONSIBILITIES

A Management Committee has been set up to advice the Executive Committee on the following matters:

- Matters related to Ageas's business strategy and business development;
- Matters related to Ageas-wide policies, to be submitted to the Board for approval;
- Matters related to the leadership of Ageas and its general management, within the strategic guidelines and policy frameworks set by the Board;
- And on any such other matters as the Executive Committee may require.

B. AUTHORITY

The members of the Management Committee are accountable to the Executive Committee and carry out their duties within the General Policy outlined by the Board and the direction given by the Executive Committee.

B.1.1.3 Advisory Committees

Currently, four Advisory Board Committees have been set up: the Remuneration Committee, the Corporate Governance Committee, the Audit Committee and the Risk and Capital Committee.

As a general principle the Board Advisory Committees have an advisory role towards the Board. They assist the Board in specific areas, which they cover in appropriate detail and on which they make recommendations to the Board. Only the Board, however, has the power to take decisions. The role and responsibilities of each Board Advisory Committee are determined by the Board and laid down in the relevant Terms of Reference in the Charter.

B.1.2 Intra-group Governance

At the level of ageas SA/NV, several mechanisms have been implemented for safeguarding the internal group governance and ensuring proper interaction between decision-making bodies at group level and at subsidiary level, in order to enhance information sharing and supervision of the subsidiaries:

- The first mechanism set up by Ageas allows the Board Members to be appointed to the Board of Directors of any ageas SA/NV subsidiaries. Such an appointment increases the Board's knowledge and awareness of key issues in the most important operating companies.
- Secondly, the function of Chief Operating Officer has been created. The Chief Operating Officer is a member of the Executive Committee and the Management Committee and is responsible for the implementation of strategies and targets throughout the Group, as well as for proper knowledge sharing between the different entities.
- Finally, the Ageas Management Committee, which is the advisory body to the Executive Committee for issues related to business strategy and development, includes in its membership the Chief Executive Officers of the four business units (i.e. Belgium, United Kingdom, Europe and Asia), along with the members of the Executive Committee. The Management Committee gathers twice a month, and the presence of the four business units' Chief Executive Officers allows the group's instructions to flow from top to bottom, guaranteeing efficient communication of the said instructions.

Control functions are present at the holding level and in the local operational entities. Functional reporting lines are organised between the group control functions and the local control functions (see B.3 for further details in this respect).

B.1.3 The remuneration policy

For the complete remuneration policy refer to the website (https://www.ageas.com/sites/default/files/en/who_we_are/remuneration/Remuneration_policy_EN.pdf).

The remuneration of Board members is determined by the Board of Directors in compliance with the prerogatives of the General Meetings of Shareholders. This applies too for the remuneration of the Executive Committee members, upon recommendation by the Remuneration Committee.

Detailed information on the remuneration of individual Board Members and Executive Committee members who held office during 2018 can be found in note 7 section 7.3 Remuneration of Board of Directors and Executive Committee members in the Ageas Consolidated Financial Statements 2018.

B.1.3.1 Board members

Detailed proposals for remuneration of Non-Executive Board members are formulated by the Remuneration Committee, based upon advice from outside experts. The remuneration of Non-Executive Board members includes both fixed fees for Board membership and attendance fees for Board and Board Committee meetings. The Non-Executive Board members do not receive annual incentive awards or stock options and are not entitled to pension rights. Non-Executive Board members can also receive remuneration in the Ageas subsidiaries in which they hold a board position.

B.1.3.2 Executive Committee members

The remuneration of the Executive Committee members is designed to:

- ensure the organization's continued ability to attract, motivate and retain executive talent in an international market place;
- promote achievement of demanding performance targets and long-term sustainable growth in order to align the interests of executives and shareholders in the short, medium and long term; and
- stimulate, recognise and reward both strong individual contribution and solid team performance.

The reward package for the Executive Committee members reflects a concept of integrated total compensation, combining the following four major components of pay: base compensation, annual incentive (short-term performance related bonus), long-term incentive and pension.

- Base compensation levels are determined per executive position for top management and are intended to compensate the Executive Committee members for their position's responsibilities and their particular set of competencies.
- The annual incentive is designed to stimulate, recognise and reward strong individual contribution by the Executive Committee members as well as solid performance as head of or as team member within the Executive Committee. The annual incentive is determined by the Executive Committee member's actual performance on the basis of pre-agreed performance criteria, Key Performance Indicators (KPIs). These comprise for 70% Corporate business performance (group objectives and for 30% Individual performance (personal objectives, both quantitative and qualitative)
- Long-term incentive plan is designed to:
  - encourage and support the creation of shareholders' value and to ensure that the Executive Committee members, like the shareholders, share in the company's successes and setbacks;
  - provide the opportunity for Executive Committee members to receive, within their overall package, competitive rewards for performance as a result of sustained group performance over a longer period of time; and,
  - enable the organization to outperform a group of Ageas's peers in the market, and also take into account the growth potential of the Ageas share.

For each Executive Committee member the Board decides a maximum value of the long-term incentive of up to 90% of the annual base salary. The long-term incentive is paid exclusively in the form of performance shares. These shares are ordinary Ageas shares.

- Ageas's pension schemes are in line with predominant market practices in Ageas's geographic environment. For the members of the Executive Committee the pension scheme is a defined contribution plan. Other benefits, such as medical and other insurance coverage, are provided in line with competitive practices in the market where the Executive Committee member is employed.

B.1.3.3 Loans, credits or guarantees and insurance agreements to leaders

In 2018, the following insurance arrangements are reported:

Defined Contribution Pension Plan for the Executive Committee with a total cost amounting to EUR 848,694 (excluding taxes):

- Bart de Smet (CEO): .... EUR 283,484
- Christophe Boizard (CFO):................................ EUR 191,522
- Filip Coremans (CRO): .... EUR 194,251
- Antonio Cano (COO): .... EUR 179,437

The Board and Executive Committee members are insured on their Directors' and Officers' Liability Insurance for an amount of EUR 200,000,000 total aggregate for all loss, arising out of all claims made against them and covered by the insurance.

B.1.4 Shareholdership

Ageas shares are listed on the regulated market of Euronext Brussels. Ageas has a sponsored ADR programme in the United States.

The main third-party shareholders of Ageas, based on the official notifications, as at 31 December 2018 are:

- Ping An 5.17%
- BlackRock, Inc 5%*
- Schroders Plc 2.94%
- Fosun 3.01%

Besides these third-party shareholders, ageas SA/NV and its subsidiaries hold 4,27%* of its own shares. This interest is related to the FRESH (see note 19 Shareholders' equity and note 21 Subordinated liabilities of the Ageas Consolidated Financial Statements 2018), restricted share programmes and the share buy-back programmes (see note 19 Shareholders' equity).

* *Official notifications were made early 2019 by BlackRock informing about changes in their shareholding; for more information on this and regarding the shareholding structure see the ageas' website (https://www.ageas.com/investors/shareholders)*

B.1.5 Material changes in our system of governance

In 2018, ageas SA/NV was granted a reinsurance license and is now entitled to exercise reinsurance activities both for Non-life and Life reinsurance activities. In 2018, the first Non-life contract was signed and the necessary internal processes and governance have been set up.

B.2
Fit and proper requirements

The *Fit & Proper Policy* applies to all subsidiaries of Ageas worldwide. Should compliance with the *Ageas Fit & Proper Policy* result in non-compliance with local legislation and regulations, the latter must take precedence over the Ageas Policy. Group Compliance must be consulted immediately in such circumstances. In joint ventures where Ageas does not control the affiliate, the policy of the major shareholder is applicable, provided that, ideally, it complies with the standards laid down in this Policy. Should this not be the case, Group Compliance should be informed.

The *Ageas Fit & Proper Policy* applies to all members of the Board (executive or non-executive administrators / directors, independent or not), and of the Executive Committee (or similar structure), to the Heads of Independent Control Functions and to any Senior Manager possibly designated by these bodies or functions. The Independent Control Function are Internal Audit, Compliance, Risk Management and the Actuarial Function. In case of outsourcing of an Independent Control Function, the person designated inside the company who bears the global responsibility of the Independent Control Function that is being outsourced is also subject to the Fit & Proper requirements.

Principles and Concepts

The criteria included in the *Ageas Fit and Proper Policy* do not form an exhaustive and limitative list but introduce a framework in which the assessment of fitness (expertise) and properness (professional integrity) can be conducted.

Minimum Fit and Proper criteria are:

- Expertise – Fit
  - Appropriate knowledge and experience;
  - Skills;
  - Professional behaviour.
- Professional integrity – Properness
  - Honest;
  - Trustworthy;
  - Independent;
  - Ethical and credible.

Fit & Proper is of continuous importance

The Fit & Proper Policy enunciates the scope, details the principles and concepts, and describes the implementation and monitoring features, criteria and processes to ensure constant compliance.

The Fit & Proper status of the persons subject to this policy is under permanent scrutiny since compliance is important not only at the appointment but also during the full period of exercise the mandate or function.

Implementation and monitoring procedures

Procedures in place to assess how fit and proper the persons are:

- the job description describes clearly how the Fit & Proper criteria have to be understood concretely for the function;
- the selection decision is motivated and documented; it encompasses the Fit & Proper criteria being used in the assessment process;
- a full analysis is operated in case of reappointment;
- the involved person signs a statement (written declaration) of fitness & properness in which he/she confirms that he/she will unreservedly abide by the current Fit & Proper standards for this position and that he/she will give immediate notice of any events which may be relevant in this respect; this statement is delivered each year;
- the reason for termination of the function is motivated and documented;
- a process is in place in all entities of the group to escalate any facts or events susceptible to affect the Fit & Proper status, in which case a re-assessment is performed.

Complementarily, the Ageas Corporate Governance Charter provides in the Terms of Reference of the Board, under Membership Criteria, that “when proposing nominees to the General Meeting, the Board applies the following principles:

- to nominate each Board Member on the basis of his/her particular knowledge and/or experience, with a view to ensuring that the Board as a whole has the competences and qualifications required to fulfil its responsibilities;
- to ensure that a majority of Board Members are independent;
- to ensure that each Board Member is available to the extent required to fulfil his/her duties as a Board Member;
- to ensure that each Board Member meets the standards of expertise and professional integrity as set out in Ageas’s Fit & Proper Policy.”

All persons subject to the Policy are trained to keep their knowledge, skills and “fitness” up to date and at the required level.

B.3
Risk management system including the own risk and solvency assessment

B.3.1 Risk management strategy, processes and reporting

As a multinational insurance provider, Ageas creates value through the acceptance, warehousing, and transformation of risks that can be properly managed either at the individual or at the overall portfolio level. Ageas's insurance operations provide both Life and Non-life insurances and as such face a number of risks that, whether internal or external, may affect Ageas's objectives.

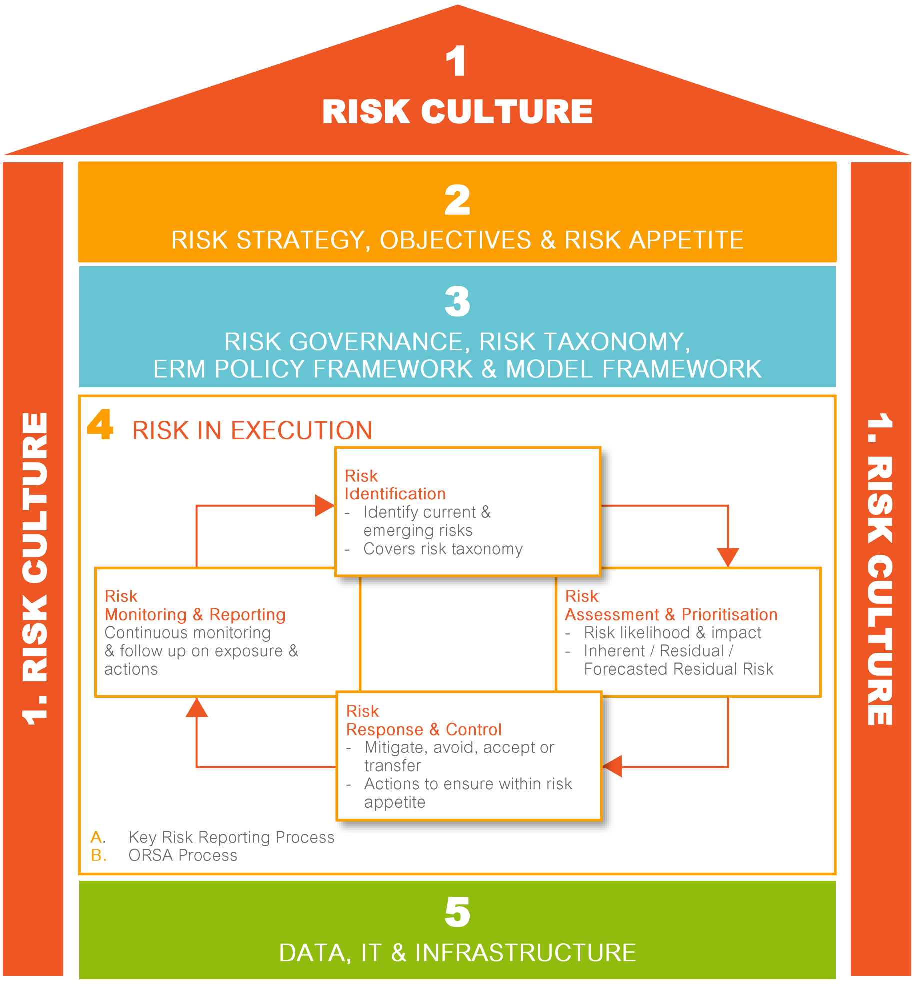
Ageas only seeks to take on risks:
- for which it has a good understanding;
- that can be adequately assessed and managed either at the individual or at the overall portfolio level;
- that are affordable (i.e. within the Ageas risk appetite);
- that have an acceptable risk-reward trade-off.

The main objectives of Ageas risk management are:
- Risk-taking is consistent with the strategy and within risk appetite;
- Appropriate incentives are in place to promote a common understanding of our risk culture;
- Appropriate, timely and correct information is available to allow appropriate strategic decision-making;
- An appropriate risk governance is in place, is adequate and effective, and can be evidenced;
- An appropriate Enterprise Risk Management (ERM) policy framework (including limits & minimum standards) is in place, understood and embedded in day-to-day business activities;
- Risk processes are high-caliber and efficient, facilitating accurate and informative risk reporting that reinforces the decision-making process.

B.3.2 The Risk Management framework

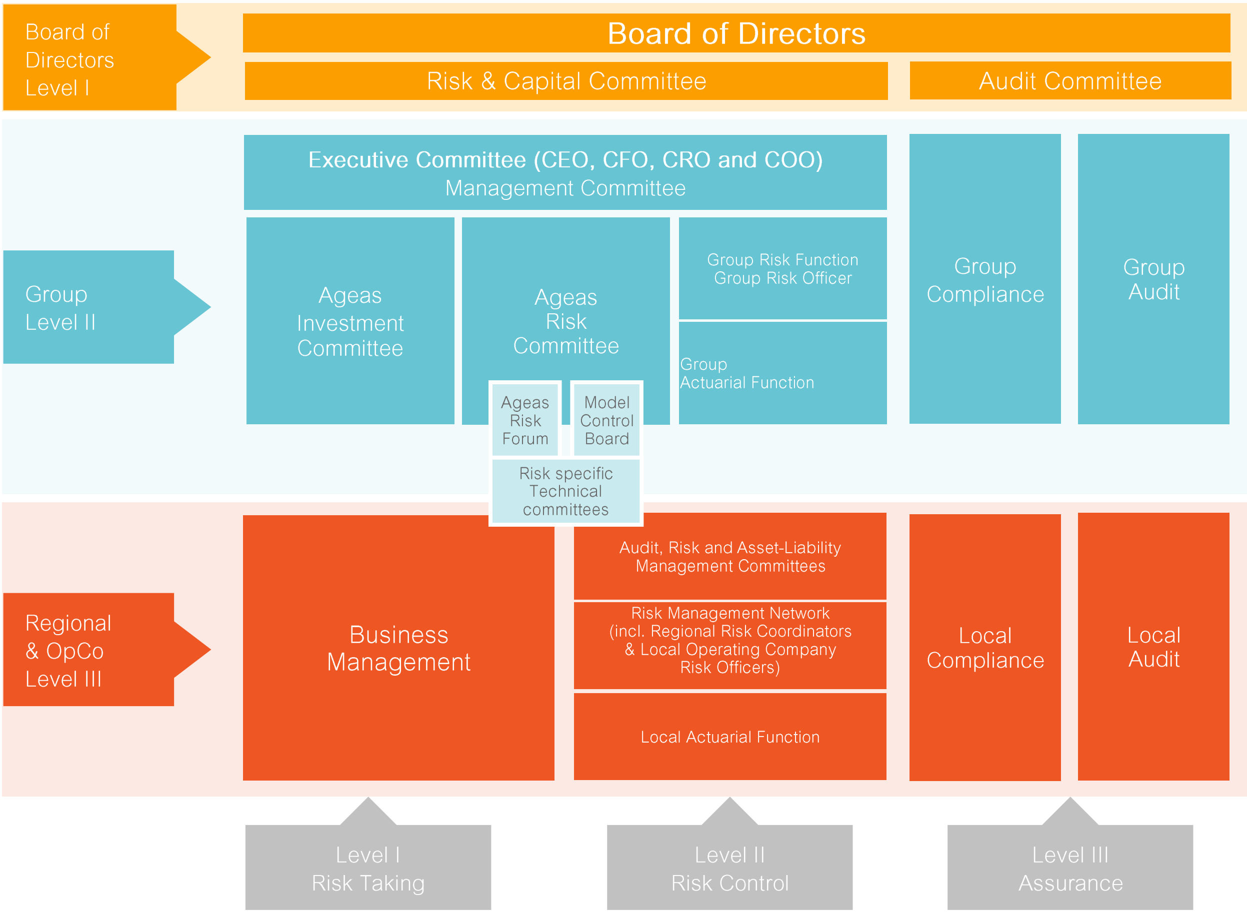
Ageas defines risk as the deviation from anticipated outcomes that may have an impact on the solvency, earnings or liquidity of Ageas, its business objectives or future opportunities. Ageas' risks stem from its exposure to external or internal risk factors in conducting its business activities.

Ageas has established and implemented an Enterprise Risk Management ("ERM") framework, which encompasses key components that act as a supporting foundation of the risk management system. Our ERM can be defined as the process of systematically and comprehensively identifying critical risks, assessing their impact and implementing integrated strategies to provide *reasonable assurance* regarding the achievement of the company's objectives. Ageas' ERM framework (depicted in the diagram below) sets the below high level objectives:
- Defines a risk appetite to ensure that the risk of insolvency is constantly managed within acceptable levels, and that the risk profile is kept within set limits;
- Influences a strong culture of risk awareness whereby managers carry out their duty to understand and be aware of the risks to their business, to manage them adequately, and report them transparently;
- Ensures identification & validation, assessment & prioritisation, recording, monitoring, and management of risks which affect, or can affect, the achievement of strategic and business objectives;
- Supports the decision making process by ensuring that consistent, reliable and timely risk information is available to decision makers;
- Embeds strategic risk management into the overall decision making process.


1
RISK CULTURE
2
RISK STRATEGY, OBJECTIVES & RISK APPETITE
3
RISK GOVERNANCE, RISK TAXONOMY,
ERM POLICY FRAMEWORK & MODEL FRAMEWORK
4 RISK IN EXECUTION
Risk
Identification
- Identify current & emerging risks
- Covers risk taxonomy
Risk
Assessment & Prioritisation
- Risk likelihood & impact
- Inherent / Residual / Forecasted Residual Risk
Risk
Response & Control
- Mitigate, avoid, accept or transfer
- Actions to ensure within risk appetite
Risk
Monitoring & Reporting
Continuous monitoring & follow up on exposure & actions
A. Key Risk Reporting Process
B. ORSA Process
5
DATA, IT & INFRASTRUCTURE
1. RISK CULTURE
1. RISK CULTURE

B.3.3 Organisation and governance

A strong and effective risk governance framework, underpinned by a sound risk culture, is critical to the overall effectiveness of Ageas' risk management arrangements. The Board is ultimately responsible for the overall Risk Management. It is assisted in the discharge of its duties in that respect by several key governance bodies as depicted below and explained further in this section.



Board of Directors

The Board of Directors is the ultimate decision-making body of Ageas without prejudice to the competences of the General Meeting. The Board determines Ageas's strategy, risk appetite and overall risk tolerance limits. Among other matters, it approves the appropriate frameworks for risk management and controls, supervises the performance of external and internal audits and monitors the performance of Ageas against its strategic goals, plans, risk profiles and budgets.

Risk & Capital Committee

The role of the Risk & Capital Committee is to advise the Board by making recommendations on all risk and capital matters and in particular on (i) the definition, supervision and monitoring of the risk profile of Ageas, compared to the targeted level of risk appetite as determined by the Board; (ii) capital adequacy and capital allocation with regards to the strategy and strategic initiatives including the Own Risk & Solvency Assessment (ORSA); (iii) strategic asset allocation; (iv) Ageas's risk governance framework and its processes; and (v) all financial aspects of the legacy issues related to the former Fortis.

Audit Committee

The Audit Committee assists the Board to fulfil its supervision and monitoring responsibilities in respect of internal control in the broadest sense within Ageas, including internal control over financial and risk reporting.

Executive Committee

The Board has assigned the Executive Committee the task of drawing up proposals related to the business strategy that take into account the risk and financial management requirements it has set. Among other matters, the Executive Committee also monitors Ageas's performance as a whole, including key findings reported through the Risk Management function and committees. It implements adequate systems of internal controls, including for the governance and reporting of risks and financial reports. It ensures that appropriate effective internal audit, risk management and compliance functions and processes are in place. It advises the Risk & Capital Committee, Board and the markets/shareholders on the above.

Management Committee

The Management Committee advises the Executive Committee with regards to the strategy and business development, Ageas-wide policies including financial management (e.g. funding strategy, solvency matters, but excluding dividend policy) and risk management (e.g. risk appetite).

The following bodies provide advice – ultimately to the Executive Committee and/or the Board, unless they have been explicitly mandated by Executive Committee and/or Board to take decisions on specific tasks.

Ageas Investment Committee

Ageas Investment Committee (AGICO) advises the Executive Committee and monitors overall asset exposures to ensure that they are managed in accordance with the risk framework and within agreed limits. It advises management on decisions regarding investments. Its role also includes making recommendations relating to the Strategic Asset Allocation and Asset & Liability management and aims to optimise the overall investment strategy of the Group and ensures that risk mitigation actions are taken when necessary. This committee is split into an Asian part and a European part to ensure relevant regional focus.

Ageas Risk Committee (ARC)

Ageas Risk Committee (ARC) advises the Executive Committee on all risk related topics ensuring that all risks that affect the achievement of strategic, operational and financial objectives are promptly identified, measured, managed, reported and monitored (through adequate risk appetite limits) and that adequate risk management governance and organisations are in place and followed (as stipulated in the context of the ERM Framework). The Chief Risk Officers and Chief Financial Officers from the regions are members of the ARC, which ensures that decisions or recommendations made by the ARC take into account the views and expertise of the operations. The most significant risk issues and methodologies are also reviewed and decided upon by the Executive Committee and by the Board. The ARC is itself advised by the Ageas Risk Forum on topics related to the risk management framework and by the Ageas Model Control Board that makes sure the models used are appropriate and suited to the task they are used for.

Ageas Risk Forum (ARF)

Ageas Risk Forum (ARF) advises the Ageas Risk Committee on topics related to the enterprise risk management framework. Regional and OpCo Risk Officers are members of the ARF, ensuring knowledge and best practice sharing to further develop and continuously improve the Group's ERM framework. The ARF itself is advised by Risk-Specific Technical Committees where appropriate.

Ageas Model Control Board (MCB)

Ageas Model Control Board (MCB) advises the Ageas Risk Committee on topics related to the models and methodology. The MCB is composed of Group Risk Model Managers and representatives from all regions, allowing for the proper interactions with the local Model Control Boards. The MCB ensures that the models used are appropriate and suited to the task they are used for. The MCB is itself advised by Risk-Specific Technical Committees where appropriate.

Risk-specific technical committees

Risk-specific technical committees, such as the Ageas Financial Risk Technical Committee, Ageas Life Technical Committee, Ageas Non-life Technical Committee and Ageas Operational Risk Technical Committee act as technical expert bodies. They assure consistency of methodology and modelling approaches across Ageas's local operating companies. They facilitate the collection of business requirements and align Ageas Group platforms supporting the relevant risk assessments with business requirements and overall regulatory requirements. They act as advisory bodies to the ARF and MCB.

Group Risk Function

The Group Risk Function - headed by the Group Risk Officer - is responsible for monitoring and reporting on the overall risk profile of the Group including the aggregate risk profile of the insurance companies. It develops, proposes and implements the ERM framework that it documents through regularly updated ERM policies. It ensures the appropriateness of the overall model governance taking into account remarks made by Ageas' independent Model Validation team. It also coordinates major risk related projects.

The above-mentioned structures favour consistency, transparency, sharing of knowledge and make sure that Group-wide developments benefit from the practical experience and expertise of local operating companies.

Local Operating Companies (OpCos)

Each OpCo is responsible for ensuring that it has a comprehensive risk management framework in place, and for managing its risks within the limits, policies and guidelines set by Regulators, Ageas Group and its local Board of Directors.

Furthermore, each OpCo is required to have the following in place:

- a Board level Risk Committee and Audit Committee to assist the Board in fulfilling its supervision;
- a Management Risk Committee, which supports its management team in ensuring that key risks are well understood and appropriate risk management procedures are in place;
- an ALM Committee whose role includes the monitoring of market risks to ensure they are managed in accordance with the risk framework and within agreed limits and to make specific decisions or recommendations relating to ALM;
- a local Model Control Board which coordinates with the Ageas MCB;
- a risk function (or Risk Officer) to support the work of the Risk Committee and to provide risk reporting and opinions to the local CEO, local Board and to Group management;
- an actuarial function in line with Solvency II regulatory requirements;
- a compliance function that advises the administrative or management body on compliance with laws, regulations and administrative requirements and Group and local policies where these set additional requirements. Compliance assesses the possible impact of any changes in the legal environment on the operations of the undertaking concerned and identifies any compliance risk;
- an internal audit function assessing the adequacy and effectiveness of the internal control system and other elements of the risk governance system.

Ageas has implemented a three lines of defence model - the three lines share the ultimate aim of helping the organisation to achieve its objectives while effectively managing risk.

First line of defence (Business Owner):

Responsible for implementing the ERM framework and embedding an appropriate risk culture at all levels, the first Line of Defence has the primary responsibility to identify, own, measure, manage, and report the full taxonomy of risks in their areas, ensuring that Ageas does not suffer from unexpected events. They are responsible for the execution of the business strategy ranging from the CEO, line management and business managers to employees at the business lines. They are responsible for ensuring that adequate and effective processes and controls are implemented.

Second line of defence
(Risk Management, Actuarial Function, and Compliance):

Risk Management provides guidance to management, but is not responsible for the management decisions or their execution. Its role is primarily one of advising Senior Management and the Board of Directors on the setting of high level strategies and risk appetite aggregation. Risk Management establishes and maintains the ERM framework (including the suite of ERM policies deployed across the Group), and facilitates, assesses and monitors the effective operation of the risk management system. Moreover, the function provides risk education and training, and maintains oversight and challenge of key risks, including how they are measured and managed.

The role of the Actuarial Function is based on specific technical expertise and experience gained by the function. It coordinates the calculation of the technical provisions and acts independently from model managers, implementation managers and model users in order to issue an opinion about the reliability and adequacy of the technical provisions. It also issues an opinion on the appropriateness of the underwriting practices and the reinsurance arrangements.

Compliance provides *reasonable assurance* that the company and its employees comply with laws, regulations, internal rules and ethical standards. Compliance ensures that policies (both risk and compliance related) are in place and that they abide by internal and external rules and requirements.

Third line of defence (Internal Audit):

Provides a reasonable level of independent assurance to Senior Management and Board of Directors on the adequacy and effectiveness of governance, risk management and controls.

B.3.4 Risk taxonomy

In order to ensure a consistent and comprehensive approach to risk identification, Ageas has defined a risk taxonomy encompassing the key risks that can impact the Group. The risk taxonomy (below) is aligned with Solvency II risk categories, which facilitates the alignment of internal and external reporting.

TOTAL RISKS

RISK TAXONOMY

FINANCIAL RISKS	INSURANCE RISKS	OPERATIONAL RISKS	STRATEGIC & BUSINESS RISKS
Market risk	Life risk	Clients, products & business practices	Strategic risk
Default risk	Non-life risk	Execution, delivery & process management	Change risk
Liquidity risk (assets & liabilities)	Health risk	Business disruption and system failures	Environment & industry risk
Intangible assets risk		Employment practices & workplace safety	Systemic risk
		Internal fraud external fraud (incl. Cyber)	
		Damage to physical assets	

Ageas has implemented a Group-wide key risk reporting process, which considers internal and external factors, to identify key risks (both existing and emerging) that could impact the realisation of its objectives. Identified risks are assessed and managed using Ageas' risk rating methodology (likelihood and impact criteria are used to determine a level of concern, which guides us on actions to be taken). Each region and/or subsidiary follows up on their key risks at least on a quarterly basis, and the most significant risks are also monitored at Group level.

B.3.2.2 Risk appetite

The Risk Appetite Framework consists of criteria which are used to formulate the willingness of management to take on risk in a specific area. Ageas's Risk Appetite Framework applies to all subsidiaries of Ageas (defined as entities of which Ageas, directly or indirectly is a shareholder, and holds operational control), and on a best effort basis to affiliates (defined as entities of which Ageas, directly or indirectly is a shareholder, but does not hold operational control).

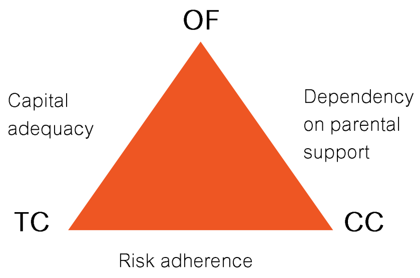
The main objectives of the risk appetite framework are to ensure that:

- the exposure to a number of key risks of each subsidiary and the Group as a whole remain within known, acceptable and controlled levels;
- Risk Appetite criteria are clearly defined, so that actual exposures and activities can be compared to the criteria agreed at Board level, allowing monitoring and positive confirmation that risks are controlled and that the Board is able and willing to accept these exposures;
- Risks limits are linked to the actual risk taking capacity of a subsidiary and Group in a transparent and straightforward way.

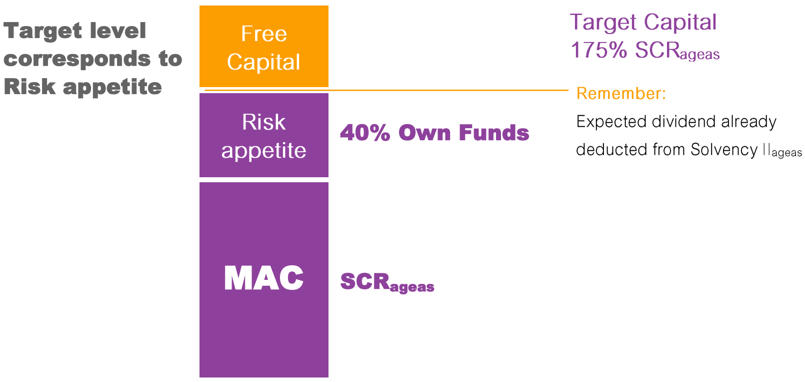
Due to their importance for the continued operation of Ageas, and its ability to adhere to its commitments to its stakeholders, the following criteria are required:

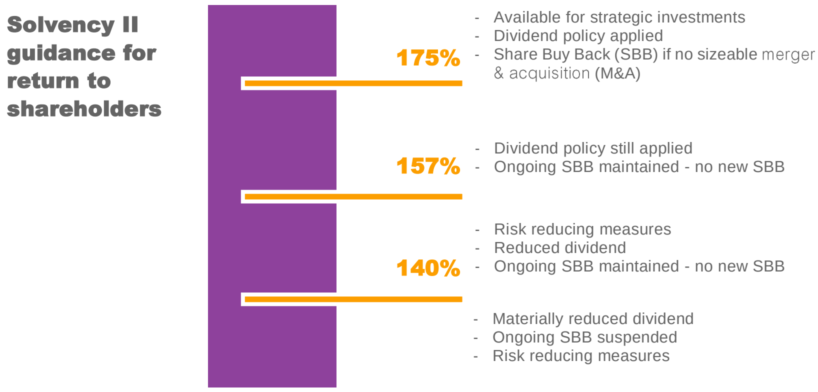
- Solvency
  - Risk Consumption (RC) remains below the Risk Appetite (RA) budget, set at 40% of Own Funds, net of expected dividends.
  - Capital Consumption (CC) remains below the Target Capital (TC), set at 175% of SCR Ageas.
- Earnings
  - The deviation from year-end budgeted IFRS earnings due to a combined 1/10 financial loss event is limited to 100%.
  - With the following early warning mechanism: The deviation from year end forecasted IFRS earnings (or budgeted IFRS earnings should the forecast be lower than the budget) due to a combined 1/10 financial loss event is limited 100%.
- Liquidity
  - The base liquidity ratio is at least 100%.
  - The stressed liquidity ratio is at least 100%.

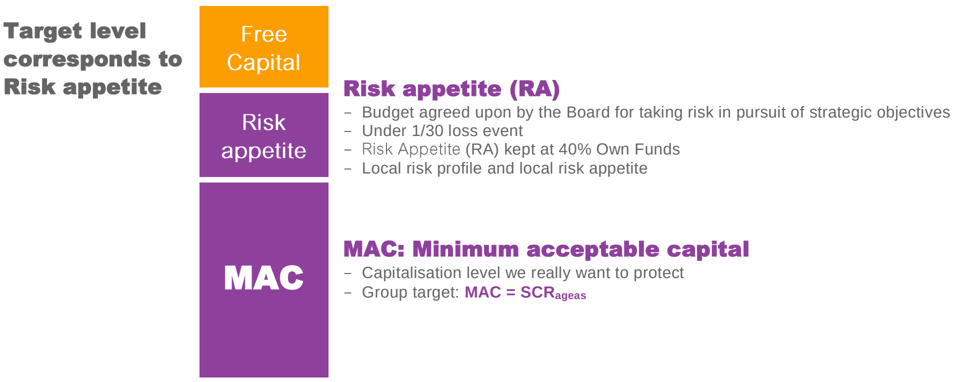
The Risk Appetite & Capital Management framework foresees possible management actions along three axes.



OF = Own Funds
TC = Target Capital
CC = Capital Consumption


Target level corresponds to Risk appetite
Free Capital
Target Capital
175% SCR_{ageas}
Remember:
Expected dividend already deducted from Solvency II_{ageas}
Risk appetite
40% Own Funds
MAC
SCR_{ageas}


Solvency II guidance for return to shareholders
- Available for strategic investments
- Dividend policy applied
- Share Buy Back (SBB) if no sizeable merger & acquisition (M&A)
175%
- Dividend policy still applied
- Ongoing SBB maintained - no new SBB
157%
- Risk reducing measures
- Reduced dividend
- Ongoing SBB maintained - no new SBB
140%
- Materially reduced dividend
- Ongoing SBB suspended
- Risk reducing measures


Target level corresponds to Risk appetite
Free Capital
Risk appetite
Risk appetite (RA)
– Budget agreed upon by the Board for taking risk in pursuit of strategic objectives
– Under 1/30 loss event
– Risk Appetite (RA) kept at 40% Own Funds
– Local risk profile and local risk appetite
MAC
MAC: Minimum acceptable capital
– Capitalisation level we really want to protect
– Group target: MAC = SCR_{ageas}

B.3.4 Own Risk and Solvency Assessment (ORSA)

B.3.4.1 Integration in the structure and decision making process

The main purpose of the ORSA is to ensure that Ageas assesses all the risks inherent to its business and in view of its strategy, and determines its corresponding capital needs.

The Ageas ORSA is performed on an annual basis - this frequency takes into account Ageas risk profile and the volatility of its overall solvency needs relative to its capital position. This frequency may be increased by Ageas Executive Committee or Board of Directors which can request the performance of partial or full - non-regular ad-hoc ORSAs if they deem that internal or external conditions warrant it.

The Ageas Group ORSA report includes all of its controlled insurance operations and the (intermediate) holdings; the value and capital requirements of non-EEA (European Economic Area) affiliates are not included in the Solvency II framework - although envisaged capital support to these entities is taken into account within the report.

The exact scope of each Ageas ORSA is described through the ORSA instructions issued by Ageas Executive Committee in compliance with Board instructions.

ORSA assessments and processes ensure that:

- The overall solvency needs of the entities covered take into account their specific risk profile, their approved risk appetite, risk tolerance limits and their business strategy;
- Such entities comply, on a continuous basis, with Minimum (MCR) & Solvency Capital Requirements (SCR) and with technical provisions requirements;
- The significance with which the risk profile deviates from the assumptions underlying the Solvency Capital Requirement are assessed, documented and taken into consideration.

ORSA assessment of overall solvency needs is forward-looking and covers a medium term or long term perspective as appropriate. For Ageas, this means by default the Multi-Year Budget planning period of 3 years and longer when the risks associated to the strategy could be material over a longer horizon.

The Ageas ORSA stress testing[1] (including reverse stress tests and scenario analyses) process can be performed in three ways based on internal and external factors:

1. Standard / basic stress testing – considers the risks specific to an individual entity - different stress tests will be defined and carried out according to individual entity specifics;
2. Comprehensive stress test scenario – Group-wide stress test is defined and carried out over the MYB period (3 years). The comprehensive approach entails an evolving set of stress tests, meaning that in year 1 a specific scenario will be defined and tested, in year 2 it will be another scenario, and in year 3 yet another scenario. Unlike with the results of the standard / basic stress testing, the results of the comprehensive approach can be aggregated at Group level and a common set of management actions can be derived;
3. Focus on management actions in stressed situations – the stress testing methods 1 and 2 stated above are of a highly quantitative nature, requiring series of calculations and risk quantification – this can impact the time allocated to focusing on management actions. Our third stress testing method is more qualitative in nature, allowing us to reflect on scenarios which may bring our business below an undesired level (for example, a solvency ratio below 100% SCR pillar I), and to allocate sufficient time to focus on management actions under stressed situations.

Ageas' Executive Committee and Board of Directors steer Ageas' ORSA, namely how its assessments have to be performed, defining their scope, challenging their results, concluding on them and ensuring that instructions and follow-up actions are given and effectively implemented.

Operationally, they are assisted to do so by the Risk Function, the Finance Function (including Capital Management and Performance Management), Strategy and the Actuarial Function.

The information contained in ORSA reports is consistent with the information found in other reports provided to the ARC, ExCo, MCO, RCC and Board as well as to Supervisors. The Solvency II ORSA monitoring of compliance with regulatory capital requirements (SCR, MCR) and Group Risk Appetite and Capital Management Frameworks are performed on a quarterly basis through the Solvency and Capital Reporting.

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1 The stress testing process selected applied must vary at least every 3 years

B.3.4.2 Measuring capital adequacy in our risk management system

Under Solvency II, Ageas uses a Partial Internal Model (PIM) (for Non-life at the level of some entities) to measure its Solvency Capital Requirement under pillar 1.

For internal risk management purposes, Ageas measures its capital adequacy in a way that aims to supplement a number of shortcomings in the standard Solvency II treatment:

- Valuation of insurance liabilities is performed by explicitly recognizing its ability to earn additional liquidity premium, based on its own portfolio and ALM profile. In addition, transitional measures for technical provisions are excluded.
- Fundamental spread risk for sovereign exposures is explicitly taken into account, while non-fundamental spread risk from other credit exposures is excluded, consistent with the behaviour of a long-term buy & hold investor.
- The recognition of real estate exposures is done on an economic basis, and the major real estate risks are computed on an Internal Model basis.
- An explicit capital charge for Inflation risk, where relevant, for Workmen's' Compensation is recognized.

Overall capital adequacy is verified on a Group-wide basis, quarterly and annually:

- Through a quarterly Solvency & Capital report, Ageas' Board of Directors ensures that capital adequacy continues to be met on a current basis;
- Ageas' Board of Directors also proactively assesses and steers the Group's capital adequacy on a multi-year basis, taking into account strategy and forecasted business and risk assumptions. This is done through a process called Own Risk & Solvency Assessment, which is embedded into Ageas's multi-year budgeting and planning process.

For more information on the Partial Internal Model and SCR_{ageas} please see section E.6.

B.4 Internal control system

B.4.1 Internal control system

The objective of Ageas' internal control framework is to provide management *reasonable assurance* that the company is run in a proper way. It also ensures that financial information disclosed gives a fair representation of the financial position of the company.

Internal Control strengthens the internal operating environment of the company, thereby increasing its capability to deal with external and internal events and uncover possible weaknesses in processes and structures. The Internal Control Framework consequently supports the achievement of the company's strategic and business objectives by identifying risks that could jeopardise their realisation, implementing controls to mitigate them and continually monitoring the adequacy and effectiveness of these controls.

Internal Control Framework consists of the following elements[2], closely related to one another:

- a business environment that encourages integrity, ethical values, risk awareness and a positive attitude towards control;
- the identification and assessment of risks that could jeopardise the achievement of objectives;
- the development of control activities to mitigate the risks;
- the establishment of information and communication systems that ensure providing, sharing and obtaining the necessary information in carrying out internal control responsibilities to support the achievement of objectives;
- monitoring and regularly assessing the measures taken.

The Internal Control Adequacy Assessment ("INCA") is the process whereby all stakeholders (business owners / the first line of defence) assess their processes and controls; it ensures that risks faced throughout the processes are identified, mitigating controls identified and evaluated, action plans for future improvement are defined and proper follow-up of identified weaknesses is performed. Ageas subsidiaries and regions perform their own INCA process and share their reports with the Group on an annual basis.

Internal Audit performs an independent assessment of the adequacy of the internal control framework as well as of the control environment within the business functions.

B.4.2 Compliance function

B.4.2.1 The Compliance function

The Compliance function is an independent function within Ageas that aims to provide *reasonable assurance* that the company, its employees and its stakeholders comply with laws, regulations, internal rules and ethical standards; to prevent the company from bearing the consequences - in particular loss of reputation or credibility which may cause a serious financial disadvantage – of non-compliance with legal and regulatory, or deontological provisions; to promote the ethical values of the company; to play an active role in the sustainability of reputation and customer centricity; and to support the company's decision process.

Group Compliance oversees, directly or indirectly, all subsidiaries, organisational entities and affiliates of Ageas worldwide. Group Compliance has no authority with respect to affiliates; it is however the aim to be informed of major compliance risks, evolving legislation that could impact us as a Group, and major fraud cases. The role of Ageas representatives in the local Boards is hereby seen as predominant.

Compliance guidance is in any case included in structuring partnerships, Merger & Acquisitions and other relevant policies before transacting.

2 *The elements are based on the Internal Control Components from the COSO framework: Control Environment, Risk Assessment, Control Activities, Information & Communication and Monitoring.*

B.4.2.2 Compliance Mission

The Compliance function is a key player in the establishment of a compliance culture within the Group. In this respect, it bears an important forward-looking responsibility and its advisory role (ex-ante approach) is hence paramount. Also the provision of customer driven solutions is part of its scope.

The Group Director Compliance officer has the following areas of responsibility:

- Ensuring the implementation and execution of the compliance function within Ageas as defined by the regulatory authorities;
- Ensuring regular updating of legal and regulatory changes;
- Ensuring the translation of the regulatory framework and rules into specific policies and instructions;
- Ensuring monitoring of compliance with these policies and instructions, taking the necessary measures (training, information, sanctions) to reduce potential compliance risks;
- Ensuring adequate reporting both to internal and external stakeholders;
- Ensuring efficient functioning of the Compliance function throughout the Ageas organisation;
- Ensuring an adequate internal fraud investigation according to set principles whenever required;
- Ensuring the correlation between the various reporting on governance *stricto sensu*.

The basic role of Compliance is to persuade and exert influence by way of advice or recommendation. Issuance (proofreading, pre-validating, editing, etc.) and cascading of Group Policies and Codes of Conduct is an integral part of the exercise of the function.

B.4.2.3 Compliance Scope

The scope (“Compliance Universe”) is a stable feature, depending largely on the nature and location of business activities. It includes at least:

- Prevention and detection of criminal activities (e.g. Money Laundering / Counter-Terrorism Financing);
- Corruption and Anti-Bribery;
- Customer identification, acceptance and follow-up (“Know Your Customer”);
- Duty of care, product suitability and adequate information to customers, market practices and consumer protection (“Treating Customers Fairly”);
- Third Party and Counterparty Risk, (Financial) Embargos;
- Corporate Governance, Fit & Proper rules, Remuneration Policy, Code of Ethics and Conflicts of Interest, Integrity;
- Prevention of Insider Trading and Market Abuse;
- Fair competition;
- Privacy protection;
- Foreign laws that may impact on compliance domains (e.g. FATCA); as well as
- All topics required by local law or imposed by the local control authority.

B.4.2.4 Compliance organisation

Compliance is a permanent, independent second-level-of-defence control function.

The Group Director Compliance reports to the Ageas’ Chief Risk Officer (and directly to Ageas’ Chief Executive Officer for forensic audit matters). He has direct access to the Executive Committee and to the Ageas Audit Committee. He informs the Board of Directors quarterly.

The Compliance function is part of a coherent set of independent control functions between which cooperation is necessary in order for (reasonable) assurance to be given to Management. A Memorandum of Understanding on the Cooperation between the Compliance function and (i) the other independent control functions, and (ii) the Legal function and the Company Secretarial function and the Data Protection Office is set up in each consolidated entity of the Group, and describes to what extent these functions cooperate, and clarifies the procedures for information exchange and control in that regard.

In order to ensure a coordinated approach, compliance works in a quite formalised network. The Group Director Compliance has a coordinating role towards the local compliance officers and evaluates periodically the performance (efficiency and adequacy) of the compliance function abroad.

The Ageas compliance network is coached, trained, assisted and stimulated on a permanent basis through visits, regular conference calls, two Ageas Compliance Community Meetings. The Ageas Compliance Community is composed of the “Heads of Compliance” of Ageas’s subsidiaries; the compliance officers of the European and Asian affiliates are invited to the Meetings as well.

Group Compliance promotes and monitors explicitly frequent assessments of effective execution of (key) compliance controls, as well as the underpinning of Compliance assurance by a file containing adequate, formal evidence of control strengths and weaknesses.

Besides, the Group Director Compliance plays also an active role in the market, namely through membership of professional associations. He is hereby also the guarantor of the follow-up of the anti-competition rules.

B.5
Internal Audit function

B.5.1 Implementation of Internal Audit function

The Internal Audit function is an independent function within Ageas and is the third line of defence in our Internal Control framework. Within Ageas, Internal Audit assists the Audit Committee(s), the Executive Committee(s) and other management committees in the effective discharge of their duties, through delivering *reasonable assurance* about the quality of governance, risk management and control processes, which includes an assessment of management's reporting on internal control and annual statements on the effectiveness of internal control.

From a group perspective the Ageas Chief Auditor monitors the Internal Audit function within the group as governed by the principles, limitations and conditions described in the charter and has an obligation to inform the CEO and the Audit Committee, of any material issue (action, event, decision, blocking factor, lack of resources etc.) that limits, or could limit the scope of Internal Audit.

B.5.2 Independence and objectivity of Internal Audit function

The Internal Audit function at Ageas is governed by a charter or Internal Audit policy that defines the role, mission, positioning, deliverables, duties and operational structure of Audit Ageas Holding (AAH), including its role in the Group. This charter complies with the Belgian regulation on internal control and internal audit and with Solvency II regulation and is part of the Ageas governance. It also serves as framework for the audit charters in operating companies where Ageas is in control.

The Ageas Board guarantees Internal Audit a status that preserves its autonomy, functional independence, objectivity and authority necessary to fulfil its role and mission. Internal Audit documents and substantiates its priorities in a formal yearly audit plan that is submitted to the Ageas Audit Committee for formal endorsement after approval by the Ageas CEO.

The Internal Audit function also has a professional duty to preserve its objectivity and impartiality. Therefore, Audit staff cannot be involved in operational activities or in implementing any organisational or internal control measure, including executing control monitoring.

Internal Audit operates within the International Professional Practices Framework established by the Institute of Internal Auditors (IIA) and within the basic guidelines set by (inter)national regulatory authorities.

B.6 Actuarial function

Ageas organized the Actuarial Function in the CRO office in order to facilitate the collaboration with the Risk Management System and guarantee the independence of the Actuarial Function. At the Group level, the Actuarial Function is split into two duties. The first duty is covered by the "Ageas Group Actuarial Function (AGAF) Charter" that covers the Group Actuarial Function and its interactions with the local Actuarial Functions. The second duty covers the three actuarial opinions only for the reinsurance business undertaken by Ageas following the guidelines from the Ageas Local Actuarial Function (ALAF) Charter. The three actuarial opinions focus on the technical provision, the underwriting and the reinsurance/retrocession

The AGAF consolidated opinions at group level of these three subjects are derived from the assessments and the reporting by the local Actuarial Functions. Therefore, a functional reporting line is installed between the local Actuarial Function and the Head of the Group Actuarial Function. The hierarchical reporting line is a local responsibility, taking into account the need to avoid conflicts of interest for issuing the Actuarial Function opinions. When group models are used locally for calculating technical provisions, these will be validated independently by Model Validation. The validation conclusions can be used to form the opinions of the Actuarial Function. The head of the Actuarial Function as described in the AGAF and ALAF is also the head of the Model Validation Function to maximize the synergies between these functions

The Ageas Group Actuarial Function (AGAF) is organized as follows:

- Head of the Group Actuarial Function: He bears the ultimate responsibility for the Actuarial Report at group level. The requirements as in the Ageas' Fit & Proper Policy apply to the Head of the Group Actuarial Function. He also organizes and monitors the information flows and reporting.
- Opinion on Non-Life domain: Director of Valuation and Non-Life Risk reporting to the Group Risk Officer; bears the responsibility of (i) content-wise determination of Non-Life Insurance related information to be up streamed and (ii) the monitoring, challenging and consolidating of that information.
- Opinion on Life domain: Director of Valuation and Life Risk reporting to the Group Risk Officer; bears the responsibility of (i) content-wise determination of the Life Insurance related information to be up streamed and (ii) monitoring, challenging and consolidating of that information

At local level, the implementation of the actuarial function is left to each undertaking, provided that the segregation of responsibilities is effectively in place. Ageas Local Actuarial Function (ALAF) is organized and performed by a central organizational unit headed by the Chief Actuary who is the official Actuarial Function holder.

In order to organize adequately the consistency of calculations of technical provisions (Solvency II), the Group Actuaries Non-life and Life are the owners of the Best Estimate Manuals (Non-life and Life), the Non-life Reserving Policy and Risk Margin Methodological Document.

The Board of Directors decides on the appointment or resignation of the Head of the AGAF and ALAF. Opinions of the AGAF and ALAF are issued in an objective and proficient way without influence from members of management, Board, shareholders or regulator.

B.7 Outsourcing

In 2018, the Ageas Board of Directors, has approved a revised Outsourcing Policy and a procedure ensuring the compliance of the existing and future outsourcing contracts of Ageas with the requirements of the applicable outsourcing regulations. Ageas has integrated in its internal outsourcing process the principles as set by the NBB Governance circular 2016_31 which must be applied by the insurance companies engaged in an outsourcing process.

ageas SA/NV and AG Insurance have entered into service level agreements on the provision of services by AG Insurance regarding human resources, information technology, facilities, communication and asset management. ageas SA/NV pays a fee in exchange for these services. The outsourcing agreement with AG Insurance, including the corresponding service agreements have been reviewed and updated in accordance with the latest requirements on outsourcing like the NBB Governance Memorandum and the Global Data Protection Regulation (GDPR).

The Valuation Platform (TVP) is a central platform used by the risk departments of both the responsible entity and the operational entities of the group for the valuation. In 2018, the Board of ageas SA/NV approved to outsource the management and maintenance of this platform to AG Insurance and is covered by the above mentioned outsourcing contract and service level agreements.

B.8 Any other information

Nothing to report.

C

Risk Profile

C.1
Underwriting risk

C.1.1 Insurance risks

Insurance risks refer to all insurance underwriting risks due to deviations in claims arising from uncertainty and timing of the claims as well as deviations in expenses and lapses, compared to underlying assumptions made at the point of underwriting of the policy.

Life risk includes mortality risk, longevity risk, disability, morbidity risk (i.e. critical illness risk), lapse and persistency risk, expense risk, catastrophe risk and revision risk.

Non-life risks include reserve risk, premium risk and catastrophe risks. Reserve risk is related to outstanding claims, while premium risk is related to future claims from which catastrophe claims are excluded. Catastrophe risk is related to claims arising from catastrophic events: either natural disasters or man-made events.

Each business manages insurance risks through a combination of Underwriting Policy, Product Approval Policy, Reserving Policy, Claims Management Policy and Reinsurance Policy. Particular attention is paid to ensuring that the customer that buys the product has the profile aligned with the underlying assumptions made about the customers when the product was designed and priced.

Underwriting policies are adopted at local level as part of the overall enterprise risk management framework. A range of indicators and statistical analysis tools are employed to refine underwriting standards in order to improve loss experience and/or ensure pricing is adjusted appropriately.

Insurance companies aim to set premiums at a level that will ensure that premiums received plus the investment income earned on them exceed total claims, costs of handling those claims and the cost of managing the business. The appropriateness of pricing is tested using a range of techniques and key performance indicators appropriate to a particular portfolio.

The factors taken into consideration when pricing insurance vary by product according to the cover and benefits offered. In general they include:

- expected claims by policyholders and related expected pay-outs and their timing;
- the level and nature of variability associated with the expected benefits. This includes analysis of claims statistics as well as consideration of the evolution of jurisprudence, the economic climate and demographic trends;
- other costs of producing the relevant product, such as distribution, marketing, policy administration, and claim administration costs;
- financial and market conditions, reflecting the time value of money;
- solvency capital requirements;
- target levels of profitability;
- insurance market conditions, notably competitor pricing of similar products.

C.1.2 Risk concentrations

In its exposures to the above-mentioned risks, Ageas benefits from diversification across geographical regions, product lines and even across the different insurance risk factors so that Ageas is not exposed to significant concentrations of insurance risks. Moreover, Ageas' insurance companies have built in specific mitigation measures in order to minimise their risk exposures. For example, lapse supported products via lapse penalties and/or market value adjustments mitigate the loss to the insurance company and reinsurance treaties leading to a limited exposure to large losses.

C.1.3 Sub risks and their mitigation techniques

C.1.3.1 Life underwriting risks

The Life underwriting risk reflects the risk arising from Life insurance obligations, in relation to the perils covered and the processes used in the conduct of business.

Life underwriting risks are mainly composed of mortality/longevity, disability/morbidity, lapse and persistency, life expense, revision as well as catastrophe risks. This section will first describe these risks (sub-sections A to F). It will then provide an overview of their management within Ageas operating companies (sub-section G).

A. MORTALITY/LONGEVITY RISK

Mortality risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of mortality rates, where an increase in the mortality rate leads to an increase in the value of insurance liabilities. The mortality tables used in the pricing include prudential margins. As per industry practice, Ageas's operating companies use the population experience tables with adequate safety loadings. Yearly review of the assumptions is necessary to compare the expected mortality of the portfolio with the experience. This analysis takes a number of criteria into account such as age, policy year, sum assured and other underwriting criteria.

Longevity risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of mortality rates, where a decrease in the mortality rate leads to an increase in the value of insurance liabilities. This risk is managed through yearly revision of the mortality experience within the portfolio. Where longevity is found to be rising faster than assumed in the mortality tables, additional provisions are set up and pricing of new products is adjusted accordingly.

B. DISABILITY/MORBIDITY RISK

Disability/morbidity risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend or volatility of disability, sickness and morbidity rates. This can, for example, arise in the disability business, health business and workmen's compensation. Ageas insurance companies mitigate disability risk through medical selection strategies and appropriate reinsurance cover.

C. LAPSE AND PERSISTENCY RISKS

Lapse risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level or volatility of the rates of policy lapses and persistency, which include renewals, surrenders, premium reductions and other premium reducing factors. Note that persistency risk is another name sometimes used to describe the volatility in the policy premium lapses and reinstatements of lapsed policies, free look cancellations or surrenders.

When designing and pricing insurance policies, assumptions also need to be made relating to the costs of selling and then administering the policies until they lapse or mature and relating to the rate of persistency that will be experienced. The risks that in actual experience may be different from the potential impact are identified during the product development stage and can be mitigated by thorough product design. For example, the use of early redemption penalties/loyalty bonuses, initial charges or spreading the commission paid to distributors to align interests or a market value adjustment for certain Group contracts where the risks are completely born by the policyholders in case of lapse.

D. LIFE-EXPENSE RISK

Life-expense risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of the expenses incurred in servicing insurance or reinsurance contracts. Expense risk arises if the expenses anticipated when pricing a guarantee are insufficient to cover the actual costs accruing in the following year.

E. REVISION RISK

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

F. CATASTROPHE RISK

Life's catastrophe risk stems from extreme or irregular events that are life threatening, for example nuclear explosion, new infectious pandemic disease, terrorism, or natural disasters.

G. MANAGEMENT OF LIFE RISKS AT AGEAS INSURANCE COMPANIES

Life underwriting risks are monitored via internal quarterly risk reporting in order to better understand their exposure to certain events and their evolution. Most of the Life insurance operating companies are exposed to similar events, such as (mass) lapse events, expenses or mortality/longevity.

At Group level a number of reporting schemes related to the above are in place e.g. adequacy testing on reserves. In addition, a thorough follow-up of model changes, assumption changes, legislation change… at entity level is executed and reported to group.

C.1.3.2 Non-life underwriting risks

Non-life underwriting risks are composed of reserve, premium, catastrophe and lapse risks. This section will first describe these risks (sub-sections A to D). It will then provide an overview of their management within Ageas operating companies (sub-section E).

A. RESERVE RISK

Reserve risk is related to outstanding claims and represents the risk of adverse change in the value of insurance liabilities resulting from fluctuations in the timing and amount of claim settlements and claims expenses.

To mitigate the risk of adverse change in value, Ageas's insurance companies have adopted claims management rules to proactively manage the claims taking into account evolution of legislation. Risks are also mitigated by reinsurance treaties put in place at the moment of the subscription. A posteriori treaties to mitigate adverse developments are also subscribed.

B. PREMIUM RISK

Non-life premium risk is the risk that the premium will not be sufficient to cover all claims and expenses liabilities in case they differ from the expected outcome resulting from fluctuations in frequency, severity of claims, timing of claim settlements, or adverse changes in expenses.

Claims losses can differ from the expected outcome for a range of reasons. Analysis of claims will generally treat differently short and long-tail claims. Short-tail claims, such as motor damage and property damage claims, are generally reported within a few days or weeks and are settled soon afterwards. The resolution of long-tail claims, such as bodily injury or liability claims, can take years to complete. In the case of long-tail claims, information concerning the event, such as medical treatment required, may, due to its very nature, not be readily obtainable. Analysis of long-tail losses is also more difficult, requires more detailed work and is subject to greater uncertainties than analysis of short-tail losses.

Ageas's insurance companies take into account experience with similar cases and historical trends, such as reserving patterns, exposure growth, loss payments, pending levels of unpaid claims, as well as Court decisions and economic conditions.

To mitigate the claims risk, Ageas's insurance companies adopt selection and underwriting policies based on their historical claims experience and modelling. They do this by client segment and class of business based on knowledge or expectations of future movements in claims frequency and severity. Ageas's insurance companies also benefits from diversification effects by engaging in a wide range of Non-life insurance classes and geographies. This does not reduce average claims, although it does significantly reduce the variation in the total claims book and therefore the risk. The risk of unexpectedly large claims is contained by policy limits, concentration risk management and reinsurance.

C. CATASTROPHE RISK

Catastrophe risk is related to claims generated by catastrophic events, natural disasters such as storms, floods, earthquakes, freezes, tsunamis or man-made events such as terrorist attacks, explosions or casualty claims with a lot of victims involved or with collateral impacts (pollution, business interruption).

To mitigate the catastrophe risk, the Ageas's insurance companies adopt selection rules, control their risk concentration and subscribe adequate reinsurance Catastrophe treaties.

D. LAPSE RISK

Lapse risk is related to future premiums included in the premium provision where an expected profit is foreseen. Lapse risk is the risk that more lapses will occur than the expected ones, generating less profit than foreseen.

E. MANAGEMENT OF NON-LIFE RISKS AT AGEAS INSURANCE COMPANIES

The management of Non-life risk at Ageas is in conformity with underwriting and risk taking management instructions and guidance issued at each Non-life entity of the Group. This includes, amongst other things, risk acceptance rules, claims management guidance on cost assessment and on funding allocations, reinsurance taking activity and management.

At Group level a number of reporting schemes related to the above are in place e.g. KPI reports and adequacy testing both on claims- and premium -reserves to date and also historically for claims liabilities. In addition, a thorough follow-up of model changes, assumption changes, legislation change… at entity level is executed and reported to group.

C.1.3.3 Health Risk

Health underwriting risk reflects the risk arising from the underwriting of health insurance obligations, whether it is pursued on a similar technical basis to that of life insurance or not, following from both the perils covered and the processes used in the conduct of business.

The components of health insurance risk are split, depending on the type of liabilities: if similar to life risk or modelled based on similar techniques as for life liabilities – please refer to section C.1.3.1 Life underwriting risks. For liabilities similar to Non-life liabilities or modelled on a similar way, please refer to section C.1.3.2 Non-life underwriting risks.

C.1.3.4 Reinsurance

Where appropriate, Ageas's insurance companies enter into reinsurance contracts to limit their exposure to underwriting losses. This reinsurance may be on a policy-by-policy basis (per risk), or on a portfolio basis (per event), i.e. where individual policyholder exposures are within local limits but an unacceptable risk of accumulation of claims exists at Entity level (catastrophe risks). The latter events are mostly weather related or man-made. Reinsurance companies are selected based primarily on pricing and counterparty default risk considerations. The management of counterparty default risk is integrated into the overall management of credit risk.

The major uses of reinsurance include the mitigation of the impact of natural disasters (e.g. hurricanes, earthquakes and floods), large single claims against policies with high limits and multiple claims triggered by a single man-made event.

C.1.3.5 Testing

Testing is an integral part of the actuarial control cycle associated with the reserving process. It provides the necessary feedback loop to the Actuarial function, it provides the empirical evidence as to the inherent level of estimation error associated with its forecast and provides the formal assurance that the Actuarial function is using adequate methods within the framework and circumstances of which he has been commissioned to perform the necessary assessments.

Ageas performs the following tests (not to be considered as exhaustive nor prescriptive):

- Testing underlying assumptions of methods;
- Back-testing;
- Sensitivity testing;
- Scenario testing.

C.2
Market risk

C.2.1 Market risks including risk mitigating techniques

Market risk arises from adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets and liabilities. It is composed of the following sub-risks:

a. interest rate risk;
b. equity risk;
c. spread risk;
d. currency risk;
e. property risk;
f. market risk concentration.

A. INTEREST RATE RISK

Interest rate risk exists for all assets and liabilities sensitive to changes in the term structure of interest rates or interest rate volatility. This applies to both real and nominal term structures. The risk arises as a result of a mismatch between the sensitivity of assets and liabilities to changes in interest rates and associated volatility, which can adversely impact the earnings and solvency position. Changes in interest rate risk can also impact the products the insurance companies sell, for example, through guarantees, profit sharing and the value of Ageas's investments.

Ageas measures, monitors and controls its interest rate risk using a number of indicators including cash flow mismatch analysis and stress testing. The investment and ALM policies usually require close matching unless specifically approved otherwise. Longer term business can be difficult to match due to lack of availability of suitable assets. The matching strategy will be determined taking into account risk appetite, availability of (long-term) assets, current and prospective market rates and levels of guarantee. Derivatives are sometimes used to hedge interest rate risk. Note that low interest rate has been defined as a strategic risk with focus on fixed/variable cost structure.

The typically long insurance liabilities and lack of long-term assets imply a negative gap in the long maturity buckets and a positive one at the shorter end of the curve.

B. EQUITY RISK

Equity risk arises from the sensitivity of assets and liabilities and financial instruments to changes in the level or volatility of market prices for equities or their yield, which can impact earnings and the solvency position

This risk is controlled through limit setting based on the risk appetite and by investment policies that require a range of controls to be in place including the action that will be taken in the event of significant decreases in value. Earlier pro-active management of this risk has resulted in the rapid reduction in exposure to equity risk through sales and hedging. This helps to limit losses and to ensure that the insurance companies remain solvent throughout a financial crisis.

For risk management purposes, Ageas bases its definition of equity exposure on the economic reality of underlying assets and risks.

C. SPREAD RISK

Spread risk results from the sensitivity of the value of assets and liabilities and financial instruments to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure.

A significant portion of Ageas's liabilities are relatively illiquid. Ageas generally aims to hold credit assets to maturity. This limits the long-term impact of spread risk significantly because liabilities that are relatively illiquid allow Ageas to hold majority of these assets to maturity. Although short-term volatility can be important, it is unlikely that Ageas would be forced to sell at distressed prices, however, Ageas can choose to sell if it considers this to be the best course of action.

For internal risk management purposes, Ageas considers the sensitivity to long-term fundamental spread risk, similar to the Solvency II "Volatility Adjustment" concept, but taking into account its specific portfolio characteristics. This is considered to be more in line with Ageas' business model, where realizing capital losses is generally avoided, compared to a pure mark-to-market approach.

D. CURRENCY RISK

Currency risk arises from the sensitivity of assets and liabilities to changes in the level of currency exchange rates when there is a mismatch between the relevant currency of the assets and liabilities. At Group level, this includes situations where Ageas has assets (in subsidiaries and equity associates) or liabilities (from funding) that are non-euro denominated.

Ageas's investment policy limits this risk by requiring the currency mismatch between assets and liabilities at subsidiaries to be minimised and in most cases it is eliminated entirely.

Ageas's policy is not to hedge equity investments and permanent funding for subsidiaries and equity associates in foreign currency. Ageas accepts the mismatch arising from ownership of local operating companies in non-euro currencies as a consequence of being an international Group.

E. PROPERTY RISK

Property risk arises as a result of sensitivity of assets and liabilities to the level or volatility of market prices of property or their yield.

For risk management purposes, Ageas defines the exposure to real estate based on the market value of these assets including assets held for own use. This differs from the exposure reported under IFRS definitions, which excludes unrealised gains.
For internal risk management purposes, Ageas applies an internal model for real estate in its main subsidiaries, in which real estate risk is treated according to the underlying economic exposure, rather than IFRS classification of the assets.

F MARKET RISK CONCENTRATION

Market risk concentration refers to risks stemming from a lack of diversification in the asset portfolio originating from a large exposure by a single issuer of securities or a Group of related issuers.

See section C.3.2 for more details on the concentration of Credit risk.

C.2.2 Risk sensitivity

Financial risk is the most significant risk for many of Ageas's operations. The risk framework in place at all operations combines investment policies, limits, stress tests and regular monitoring in order to control the nature and level of financial risks and to ensure that risks being taken are appropriate for both customer and shareholder and are appropriately rewarded.

The overall asset mix is determined by local businesses based on asset mix studies to identify the appropriate strategic assets, their adequacy from an Asset Liability Management (ALM) perspective and on regular monitoring of the market situation and prospects to decide on the tactical allocation. The decision process needs to balance risk appetite, capital requirements, long-term risks and return, policyholder expectations, profit sharing requirements, tax and liquidity issues to arrive at an appropriate target mix. The mission of the Group Risk function includes monitoring aggregate risk appetite covering financial risks and working with the local businesses to develop the policies and best practice, which must be adopted by the local Boards to ensure they become part of the local regular activity.

On an annual basis, Ageas runs a bottom up analysis of the impacts associated to the key market risk factors. The results are available in the table below and show the sensitivity of the Pillar 1 Solvency Ratio (SCRPIM) and the Pillar 2 Solvency Ratio (SCRageas) as at Q4 2018 to the specific stand-alone risk factors:.

Key conclusions for each sensitivity are following:

As per 31/12/2018 Based on Pillar 1: Solvency II_{PIM}		OF	SCR	Solvency	Impact Solvency ratio
Base case	Before stress	8.059	3.728	216%	-
Yield curve down	Down 50 bps	7.985	3.801	210%	-6%
Yield curve up	Up 50 bps	8.092	3.648	222%	6%
Equity	Down 25%	7.762	3.671	211%	-5%
Property	Down 10%	7.801	3.759	208%	-9%
Spread	corporate & government bonds up 50 bps	7.446	3.928	190%	-27%
Corporate spread	corporate bonds up 50 bps	8.048	3.618	222%	6%
Sovereign spread	government bonds up 50 bps	7.440	4.101	181%	-35%
UFR	UFR -15 bps	8.049	3.730	216%	0%
UFR	UFR -45bps	8.004	3.740	214%	-2%

As per 31/12/2018 Based on Pillar 2: Solvency II_{ageas}		OF	SCR	Solvency	Impact Solvency ratio
Base case	Before stress	7.998	3.728	215%	-
Yield curve down	Down 50 bps	7.883	3.837	205%	-10%
Yield curve up	Up 50 bps	8.060	3.619	223%	7%
Equity	Down 25%	7.704	3.682	209%	-10%
Property	Down 10%	7.728	3.788	204%	-9%
Spread	corporate & government bonds up 50 bps	7.693	3.724	207%	-9%
Corporate spread	corporate bonds up 50 bps	7.895	3.698	213%	-2%
Sovereign spread	government bonds up 50 bps	7.796	3.758	207%	-7%
UFR	UFR -15 bps	7.989	3.730	214%	-1%
UFR	UFR -45bps	7.944	3.750	212%	-1%

Key elements for interpretation of each sensitivity are following:

Interest Rates: Yield Curve

a. Down: - 50bps

- Sensitivity applies a shock on the yield curve of -50 bps. The shock is applied on the non-extrapolated part of the yield curve impacting both assets & liabilities. This shocked market data is extrapolated to the UFR reaching 4.05% in line with the EIOPA guidance. No floor is applied allowing negative interest rates.
- The Impact on the own funds is limited thanks to the matching between assets and liabilities.

b. Up + 50bps

- Sensitivity applies a shock on the yield curve of +50 bps. The shock is applied on the non-extrapolated part of the yield curve impacting both assets & liabilities. This shocked market data is extrapolated to the UFR reaching 4.05% in line with the EIOPA guidance.
- This sensitivity is the reverse of the downward scenario and results consequently in a positive impact on the Solvency II ratio explained by increasing own funds strengthened by a decreasing SCR.

Equity - 25%

- This sensitivity applies a shock on the equity portfolio of -25%.
- Note that the impact is mitigated by a corresponding decrease of the equity shock in the SCR thanks to a review of the equity symmetric adjustment to -10%.

Property - 10%

- This sensitivity applies a shock on property of -10%.

Credit Spread

- This sensitivity increases credit spreads for the respective part of fixed income with 50 basis points.
- For pillar 1 credit spread sensitivities, we recalculate the Volatility Adjustment (VA) in the different sensitivities to reflect the new spread environment in line with the EIOPA methodology.
- For Pillar 2, the credit spread modelling refinement introduced in 2017 reduced strongly the impact of credit spread volatility thanks to the better compensation between assets and liabilities. The Expected Loss Model (ELM) is introduced in core Life companies, materially exposed to spread volatility. ELM replaces the EIOPA VA to absorb short term spread volatility by a reflection of realized losses due to credit losses. The Company EIOPA VA was introduced in the other companies and absorbs also better credit spreads shocks thanks to the elimination of the basis risk between the own assets and the EIOPA reference portfolio embedded in the EIOPA VA. This explains why significant part of the initial impact on the assets is offset by a better volatility absorption resulting in a more economic view for Pillar 2 compared to Pillar 1.
  - Note that credit ratings are not impacted as part of these credit spread sensitivities and consequently no downgrade of credit ratings is assumed. Considering that the implementation of the credit spread modelling refinement determines the fundamental spread risk mainly based on the credit rating, credit rating downgrade of material exposures will also have a negative impact on the pillar 2 solvency ratio.

a. Sovereign and Corporate Spread + 50 bps

- This sensitivity applies a credit spread shock of +50 bps on the fixed income portfolio (sovereign and corporate).
- As both corporate & sovereign bonds are shocked equally, the composition of the EIOPA reference portfolio, applicable for VA recalculation under Pillar 1, is less relevant for the sensitivity.

b. Corporate Spreads +50 bps

- This sensitivity applies a credit spread shock of +50 bps on the corporate fixed income portfolio. The solvency II yield curve is adjusted for the recalibrated Volatility Adjustment.
- This stress test impacts the Pillar 1 Solvency II ratio in a positive way explained by the overcompensation of the Volatility Adjustment as defined by EIOPA based on a reference portfolio increasing the risk free rate used for discounting of the Technical Provisions (TP). Given the reference portfolio overweighs corporate bonds and the shock on corporate spread is applied on corporate bonds with a shorter duration, the decrease in technical provisions is larger than the drop in assets for this stress. This illogic result is not applicable in our economic Pillar 2 assessment thanks to the elimination of the basis risk from the Pillar 2 MCBS.

c. Sovereign Spread + 50bps

- This sensitivity applies a credit spread shock of +50 bps on the sovereign fixed income portfolio. The solvency II yield curve is adjusted for the recalibrated Volatility Adjustment.
- This sensitivity has a much stronger negative impact on the Pillar 1 Solvency II ratio as the Own Funds decrease in line with the shock on the value of government bond portfolio which is under-compensated by the EIOPA volatility adjustment given the Ageas overweight in sovereign exposure compared to the reference portfolio. This impact is mitigated in our economic view visible in the Pillar 2 assessment.

Ultimate Forward Rate (UFR)

a. -15bps

- The UFR of the Solvency II yield curve is reviewed downwards with 15bps to 3.9% (instead of 4.05%) impacting only the extrapolation of the yield curve.
- This reduction is applicable for the calculation of the risk-free interest rates as of 1 January 2019 in line with the gradual transition towards the long term UFR of 3.6% limited to 15 basis points per annum.

b. -45bps

- The UFR of the Solvency II yield curve is shocked to 3.6% (instead of 4.05%) impacting only the extrapolation of the yield curve. All points on the yield curve prior to and including the last liquid point (LLP) remain unchanged. This does not impact immediately the assets.
- EIOPA has calculated the ultimate forward rate (UFR) for 2019 in accordance with the methodology to derive the UFR. For the euro, the calculated UFR for 2019 is 3.60%. As the current UFR for the euro is 4.05% and the annual change of the UFR is according to the methodology limited to 15 basis points, the applicable UFR in 2019 is 3.90% but we can expect a further drop to 3.6% during the next years.

C.2.3 Prudent person principle

Ageas's investment framework mentions clearly the need to act as a prudent person. This is defined by the fact that investments shall be made with the same judgement and care that persons of prudence, discretion and intelligence would exercise in the management of their own investments. This means that for investments the probable safety of capital as well as the probable income to be derived should be considered. With respect to the whole portfolio of assets, insurance undertakings only invest in assets and instruments of which the undertaking concerned can properly identify, measure, monitor, manage, control and report the risks, and appropriately take into account in the assessment of its overall solvency needs as included in the ORSA and stay within the risk tolerance limits derived from the risk appetite.

Assets held to cover the technical provisions shall also be invested in a manner appropriate to the nature and duration of the insurance and reinsurance liabilities. Those assets shall be invested in the best interest of all policy holders and beneficiaries taking into account any disclosed policy objective.

All assets, in particular those covering the technical provisions including Minimum Capital Requirement and the Solvency Capital Requirement, shall be invested in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio as a whole. In addition the localisation of those assets shall be such as to ensure their availability.

In the event of a conflict of interest, insurance undertakings, or the entity which manages their asset portfolio, shall ensure that the investment is made in the best interest of policy holders and beneficiaries.

The use of derivative instruments shall be possible insofar as they contribute to a reduction of risks or facilitate efficient portfolio management. Investment and assets which are not admitted to trading on a regulated financial market shall be kept to prudent levels. Assets shall be properly diversified in such a way as to avoid excessive reliance on any particular asset, issuer or Group of undertakings, or geographical area and excessive accumulation of risk in the portfolio as a whole.

C.3
Credit risk

C.3.1 Credit risks including risk mitigating techniques

Credit risk is composed of two sub-risks:
a. investment default risk;
b. counterparty default risk.

A. INVESTMENT DEFAULT RISK

The investment default risk represents the risk of actual default of Ageas's investments. Value movements due to market short-term volatility are covered under market risk. This does not include contracts covered under counterparty default risk (see section B).

This risk is managed through limits which take into account the type of credit exposure, credit quality and, where needed, maturity, and through regular monitoring and early warning systems.

Investment exposures are monitored through a quarterly Limit Breach Report. Limits are monitored on fair values based on asset classification. The limits are defined by the following categories.

Limits on *government bonds* are defined by country in multiple ways:
- 'macro limits', defined as percentages of gross domestic product (GDP), government debt and investment assets;
- Total One Obligor (TOO) limits defined as maximum exposure to one obligor based on credit ratings;
- (re-)investment restrictions: Increases in exposure to euro countries rated BBB are only allowed on the condition of having a stable outlook. No new investments in sovereign debt with a rating of BBB or below without the approval of the ARC. Exceptions apply to home sovereign exposure.

Limits on *corporate bonds* are also defined on multiple criteria:
- total corporate bonds exposure as a percentage of the portfolio;
- limits by sector based on the credit ratings;
- monitoring of concentrated exposure;
- Total One Obligor.

Ageas also has a risk appetite stress scenario for single investment defaults in which the largest single sovereign investment default, as well as the largest single corporate investment default should remain within the solvency Risk Appetite budgets. Exceptions apply to home sovereign exposure.

Equity investments are allowed when the subsidiary assures that the indicators remain within the risk appetite limits.

B. COUNTERPARTY DEFAULT RISK

The counterparty default risk reflects possible losses due to unexpected default, or deterioration in the credit standing, of counterparties and debtors. The scope of the counterparty default risk category includes risk-mitigating contracts (such as reinsurance arrangements, securitisations and derivatives) cash, receivables from intermediaries and other credit exposure not elsewhere covered (guarantees, policyholders, etc.).

Counterparty default risk can arise due to the purchase of re-insurance, other risk mitigation and 'other assets'. Ageas manages this risk within risk appetite through policies on counterparty selection, collateral requirements and diversification.

Within Ageas, this risk is mitigated through the application of Ageas's Default Policy and close monitoring of outstanding counterparty default credit positions. Diversification and avoidance of low rated exposures are key elements in the mitigation of this risk.

Impairment for specific credit risk is established if there is objective evidence that Ageas will not be able to collect all amounts due in accordance with contractual terms. The amount of the impairment is the difference between the carrying amount and the recoverable amount. In the case of market traded securities, the recoverable amount is the fair value.

Impairments are based on Ageas's latest estimate of the recoverable amount and represent the loss that Ageas considers it will incur. Conditions for write-off may be that the obligor's bankruptcy proceedings have been finalised and securities have been exhausted, the obligor and/or guarantors are insolvent, all normal recovery efforts have been exhausted, or the economic loss period (i.e. the period within which all expenses will exceed the recoverable amount) has been reached.

C.3.2 Risk concentrations

Concentration risk can arise due to large aggregate exposures to single counterparties or an aggregate of exposures to a number of positively correlated counterparties (i.e. tendency to default under similar circumstances) with the potential to produce a significant amount of impairments due to a bankruptcy or failure to pay.

Avoidance of concentration is therefore fundamental to Ageas credit risk strategy of maintaining granular, liquid and diversified portfolios. Each local business is responsible for its own counterparty limits, taking into account its particular situation and any Group requirements. Each local business is in charge of continuous monitoring. Periodic reporting allows the Group to check these limits and monitor the overall position.

To manage the concentration of credit risk, Ageas's investment limits aim to spread the credit risk across different sectors and countries. Ageas monitors its largest exposures to individual entities, Groups of companies (Total One Obligor) and other potential concentrations such as sectors and geographic areas to ensure adequate diversification and identification of significant concentration risk.

The table below shows the highest exposures to ultimate parents measured at fair value and nominal value with their ratings as per 31 December 2018.

2018 Exposure Top 10	Group Rating	Fair value	Nominal value
Kingdom of Belgium	AA-	19,784.7	15,411.9
French Republic	AA	7,265.8	5,671.0
Republic of Austria	AA+	2,863.1	2,204.5
Portuguese Republic	BBB-	2,655.0	2,326.2
Federal Republic of Germany	AAA	1,828.3	1,364.5
Kingdom of Spain	BBB+	1,827.3	1,419.6
BNP Paribas	A	1,379.0	1,657.0
European Investment Bank	AAA	1,375.8	1,147.3
Republic of Italy	BBB	1,261.2	1,520.9
Region Wallonne	A	985.3	957.9
Total		41,225.5	33,680.8

The top 10 exposure shows the same top counterparties as last year. The Kingdom of Belgium remains the top counterparty in line with the strategy to 're-domesticate' at the cost of increasing the risk towards the home country. BNP Paribas, the only non-sovereign counterparty in the list, moves one step down in the list.

C.4
Liquidity risk

Liquidity risk is the risk of being unable to liquidate investments and other assets in order to settle financial obligations when they fall due. For example, this is the risk that expected and unexpected cash demands of policyholders, and other contract holders, cannot be met without suffering losses or without endangering the business franchise due to constraints on liquidating assets. These constraints may be structural or due to market disruption.

The financial commitments of Ageas and its local businesses are often long-term, and generally assets held to back these would be long-term and may not be liquid. Claims and other outflows can be unpredictable and may differ significantly from expected amounts. If liquid resources are not available to meet a financial commitment as it falls due, liquid funds will need to be borrowed and/or illiquid assets sold (which may trigger a significant loss in value) in order to meet the commitment. Losses would arise from any discount that would need to be offered to liquidate assets.

As an insurance group, Ageas is normally cash accretive and hence this risk is relatively remote. Recent years have been dominated by the effects of the (European) debt crises. The European Central Bank pursues a liquidity enhancing monetary policy to overcome these crises. Ageas keeps a significant cash position in order to be able to withstand (relatively) adverse liquidity conditions if and when arising. Special attention is paid to the messages from ECB on potential changes in monetary policy stance.

The investment horizon for general account assets has been set in function of the expected payment dates of the amounts provisioned for in the WCAM ('Wet Collectieve Afwikkeling Massaschade') settlement proposal. Dividend payments to shareholders together with holding costs are financed by dividend upstream from Ageas operating insurance entities.

Causes of liquidity risk in the operating companies can be split into elements that can create a sudden increase in the need for cash and elements that can reduce unexpectedly the availability of expected resources to cover cash needs. Types of liquidity risk are the following:

- *Underwriting liquidity risk* is the risk that Ageas or a local business needs to pay a material amount to cover unanticipated changes in customer behaviour (lapse risk), sudden rise in frequency claims or sudden large claims resulting from large or catastrophic events such as windstorms, ash clouds, flu pandemic, etc.
- *Market liquidity risk* is the risk that the process of selling in itself results in losses due to market conditions or high concentrations;
- *Funding liquidity risk* is the risk that Ageas or a local business will not be able to obtain sufficient outside funding, in case its assets are illiquid, at the time it is needed (for example, to meet an unanticipated large claim).

Each business has to ensure they can meet all liquidity requirements by identifying and monitoring liquidity risk, so that the circumstances under which liquidity issues could be possible are known and understood (i.e. unexpected adverse change in liability run-off profile, mass lapse event, slowdown in new business, change in rating), as well as the business's ability to respond to such issues (i.e. liquidity of assets in a crisis) is clear.
Management of liquidity risk is performed through a limit framework. Limits are in place locally and provide an indication of the net liquidity position. Ratios are considered where liquid assets are compared against liquid liabilities over different time horizons (3 months/1year) according to liquidity risk events. Minimum levels of these ratios are defined and actively used in the liquidity profile. In setting these limits, consideration has been given to the circumstances under which liquidity is assessed (stressed versus normal conditions).

Due to local specificities monitoring of liquidity risk is executed by the local operating companies. Liquidity risk is monitored through the use of management information, which may include but not be limited to:

- Cash flow forecasts;
- Asset allocation and maturity profile;
- The run off profile of liabilities, under both normal market conditions and stressed conditions;
- Maturity profile of available credit facilities (where appropriate);
- Results of scenario testing.

Businesses establish and maintain a system of management reporting which provides clear, concise, timely and accurate liquidity risk reports to relevant functions. These reports alert management when businesses approach, or breach, predefined thresholds or limits. The local Risk Function informs Group of the exposure and the evolution thereof.

All limit exceptions are escalated promptly and any cause for the breach in limits is investigated and corrective action taken.

Group monitors the level of the Group's available liquidity on a quarterly basis to ensure that it meets the Group's expectations, being aware of any material changes in current or prospective liquidity risk profiles. It takes reasonable steps to ensure that liquidity risk is adequately identified, measured, monitored and controlled.

On a quarterly basis a comprehensive liquidity report is created by Group Risk. This report contains the current liquidity position and how it has evolved over the past reporting period, whether limit breaches have occurred and which risk mitigating actions were taken to reduce them. In the event of repeated limit breaches, Group Risk can request the adoption of more restrictive measures to reduce the liquidity risk exposure.

The expected profit included in future premiums' ("EPIFP") means the expected present value of future cash flows which result from the inclusion in technical provisions of premiums relating to existing insurance and reinsurance contracts that are expected to be received in the future, but may not be received for any reason, other than because the insured event has occurred, regardless of the legal or contractual rights of the policyholder to discontinue the policy.

The total EPIFP is EUR 398 million as at year end 2018 (2017: EUR 368 million). This increase is stemming from the increased yield curve in 2018.

Note that the expected profit included in future premiums which can be taken into account to cover solvency requirements, is - given its illiquid nature - not taken into account to cover liquidity risk.

C.5
Operational risk

Operational risk is defined as the risk of losses arising from inadequate or failed internal processes, personnel, systems, or external events.

Ageas Group has in place an operational risk management framework consisting of Group-wide policies and processes, which collectively aim at identifying, assessing, managing, monitoring and reporting on operational risks. These processes are an integral part of the ERM framework and include:

- Business Continuity Management;
- Fraud Risk Management;
- Outsourcing;
- Treat Your Customer Fairly;
- Incident Management and Loss Data Collection;
- Internal Control Adequacy Assessment;
- Key Risk Identification and Reporting process.

Ageas views operational risk as an 'umbrella' risk, encompassing seven sub-risks: Clients, products and business practices; Execution, delivery and process management, Business disruption and system failures; Employee practices and workplace safety; Internal fraud; External fraud; and Damage to physical assets.

Ageas' operational risk mitigating strategy is to minimise operational failures or disruption, whether caused by internal or external factors which may damage our reputation and/or incur financial losses via a strong and robust Internal Control System (ICS).

Operational risk in particular encompasses Information security risk being the process of protecting information assets in a continuously and appropriately way from accidental or intentional breaches Given the increase in cyber risk activity as observed during the period, cyber risk (including data leakage) and its management are a major point of attention. As from 2017 an Information Security Program has been launched to further strengthen the implementation of the Information Security Management framework with a focus on cyber security, data protection and end user computing.

An Internal Control Adequacy Assessment process is performed each year and results in the annual Management Control Statement issued by all (local and Group) CEOs who express their confidence in their control frameworks.

C.6
Other material risks

Intangible assets risk

Intangible assets risk is the risk of loss or adverse change in the value
of intangible assets due to a change in expected future benefits to be gained from the intangible assets. Intangible assets can consist among others of value of business acquired, parking concessions and
intellectual property.

Strategic and Business risks

This risk category covers external and internal factors that can impact Ageas's ability to meet its current business plan and objectives and also to position itself for achieving ongoing growth and value creation.

Strategic risk

Risks to the organisation arising from unclear understanding and translation of the strategy, inadequately determined levels of uncertainty (risk) associated to the strategy, and/or challenges faced during implementation stages. It includes:

- Business Model Risk: risk to the organisation arising from our business model (and that has an influence on the business decisions that we make).
- Partnership Risk: risk to the organisation arising from partnerships, dependence on partner-related distribution channels, limited operational control inherent for joint ventures, the offering of insurance services as part of a broader 'partnership eco-system' (e.g. coupling insurance products with service providers such as Amazon, utility players in the connected home space…).

Ageas Group has a strong strategic risk management framework to anticipate, report on, and mitigate these risks. The ORSA report provides an assessment on the overall adequacy of solvency for the 3 year budgeted period (Multi-Year Budget or MYB), which comprises strategic risks.

Change risk

Risks to the organisation arising from managing change (e.g. programmes and projects) or an inability to adapt sufficiently quickly to industry and market changes (e.g. regulations and products).

Environment and Industry risk

Risks arising from internal and/or external environmental factors, such as:

- Macro-economic arising from economic factors (e.g. inflation, deflation, unemployment, changing consumer confidence / behaviour…) that can impact the business. Interest rates / Inflation / deflation can also materialise through financial and/or insurance risks.
- Technology, IT infrastructure & Software due to our need and dependency on information technology, data…;
- Human Capital & Resource arising from inadequate / lack of people strategy, insufficient skills and competency profiles, and/or high attrition rates;
- Geopolitical that may impact our ability to maintain / develop business in different countries where we operate / intend to operate;
- Propensity / Changing client behaviours;
- Climate changes such as extreme weather, natural disasters, global warming which can impact populations. Climate change, as a trigger to insurance losses, is at the forefront of 2018 discussions at insurance industry level. It is generally expected climate change to lead to increased claims in virtually all P&C businesses. In order to prepare for such very probable scenarios Ageas entities have set-up working parties for investigating potential impact of climate change on its business, both on a risk level as on an economical one.
- Innovation from internal (own insurance services & products launched…) and external (e.g. block chain, self-driving cars…) factors;
- Competition risks arising from changes within the competitor landscape or market position.

Systemic risk

The risk of disruption to financial services organisations that has the potential to have serious consequences for the financial system and/or the real economy. Systemic risk events can originate in, propagate through, or remain outside of Ageas.

C.7
Any other information

Nothing to report.

D

Valuation for Solvency Puposes

D.1
Assets

Introduction

In this chapter we disclose the valuation principles applied under Solvency II compared to IFRS. In the table below we disclose the reclassification and valuation differences between the IFRS balance sheet and the Solvency II Market Consistent Balance Sheet (MCBS). The first column in the table below is the IFRS balance sheet as reported in the financial statement re-classified to the line items in the Solvency II MCBS.

Market Consistent Balance Sheet	IFRS BS Before Reclass S2	IFRS BS After Reclass S2	Revaluation	2018 Solvency 2 Valuation	2017 Solvency 2 Valuation
Total Assets	101,686	101,973	3,127	105,101	106,825
Goodwill, Deferred acquisition costs, Intangible assets	1,505	1,502	(1,502)		
Pension benefit surplus	23	23		23	
Deferred tax assets	140	140	(56)	83	100
Property, plant & equipment held for own use	1,235	212	198	410	382
Investments (other than assets held for index-linked and unit-linked funds)	68,218	72,316	3,734	76,050	78,442
Property (other than for own use)	2,727	3,875	1,609	5,484	5,233
Holdings in related undertakings, including participations	3,071	3,078	135	3,213	2,940
Equities	4,459	1,938		1,938	2,466
Bonds	56,780	59,108	1,987	61,356	63,901
Collective Investments Undertakings		2,893		2,893	2,900
Derivatives	37	365		365	419
Deposits other than cash equivalents	953	799		799	584
Other investments	190	260	4	3,030	
Assets held for index-linked and unit-linked funds	15,509	15,510		15,510	15,827
Loans & mortgages	8,836	7,652	492	8,145	7,212
Reinsurance recoverables	660	660	(26)	634	729
Receivables	1,187	1,144		1,144	1,447
Own shares			365	365	406
Cash and cash equivalents	2,925	2,569		2,569	2,273
Any other assets, not elsewhere shown	1,451	247	(78)	169	4
Total Liabilities	90,167	90,443	4,135	94,579	97,563
Technical provisions – Non-life	7,425	5,394	(925)	4,469	4,656
Technical provisions - Life	57,857	59,954	5,666	65,620	67,235
Technical provisions – index-linked and unit-linked	15,502	15,500	(285)	15,215	15,513
Other technical provisions					
Provisions other than technical provisions	887	872		872	1,178
Pension benefit obligations	910	803		803	275
Deposits from reinsurers	85	85		85	99
Deferred tax liabilities	1,040	1,042	(308)	734	754
Derivatives	50	388		388	437
Debts owed to credit institutions	2,053	2,048		2,048	1,598
Financial liabilities other than debts owed to credit institutions	47	47		47	47
Insurance & intermediaries payables	425	425		425	448
Reinsurance payables	46	46		46	23
Payables (trade, not insurance)	802	806		806	862
Subordinated liabilities not in BOF					
Subordinated liabilities in BOF	2,285	2,285	72	2,357	2,329
Any other liabilities, not elsewhere shown	755	748	(83)	665	2,108
Excess Assets over Liabilities	11,520	11,530	-1,008	10,522	9,262

The most relevant reclassifications are made for:

- Subordinated loans that are classified as liability under IFRS are reclassified to the subordinated liabilities in basic Own Funds. A reclassification is made from subordinated liabilities in basic Own Funds to subordinated liabilities not in basic Own Funds for the loans that are not considered Own Funds in Solvency II.
- Equities to investment funds when the criteria for collective investment undertakings are met.
- Investment related assets such as structured notes and collateralised securities are reclassified from corporate bonds and money market funds to cash equivalents.
- Accrued interest from other assets not shown elsewhere to the line item of the interest bearing balance sheet item.
- Technical provisions health from Life and Non-life technical provisions to the health provision line items.
- Pension liabilities to life technical provisions for the pension contract of employees of Ageas.

The most relevant valuation differences between the IFRS balance sheet in the financial statements and the market consistent balance sheet for Solvency II purposes are:

- Assets and liabilities not recorded at fair value under IFRS:
  - Property, loans and Held to maturity (HTM) investments are recorded at amortised cost under IFRS;
  - Liabilities arising from (re)insurance and investment contracts need to be recognised at market-consistent values.
- Revaluation of participations in material European Economic Area (EEA) insurance entities to adjusted equity method.
- Recognition of contingent liabilities under Solvency II.
- Derecognition of goodwill and other intangibles under Solvency II.

We refer to the Quantitative Reporting Template S.02.01.02 for the Solvency II balance sheet.

D.1.1 Basis, methods and main assumptions used for Solvency II

Solvency II (SII) starts from the Market Consistent Balance Sheet (MCBS) which requires assets and liabilities to be valued at 'Fair Value'. According to article 75 of the SII Directive, assets are valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction. Liabilities are valued at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction.

Ageas applies the methodology and valuation hierarchy defined in Delegated Regulation 2015/35 in the order listed:

- Quoted market prices in active markets for the same assets or liabilities is the default method;
- Quoted market prices in active markets for similar assets and liabilities with adjustments to reflect differences specific to the asset or liability;
- Alternative valuation methods relying as little as possible on undertaking-specific inputs and making maximum use of relevant market inputs.

For the valuation of participations in insurance entities, adjusted equity methods or IFRS equity methods are used in case no quoted market price is available in active markets for the same assets.

The table below summarises per material class of asset the basis, methods and main assumptions used for the Solvency II valuation of assets. For the data, we refer to the Quantitative Reporting Template S.02.01.02.

Asset class	Basis, methods and main assumptions used for Solvency II
Goodwill	Valued at nil.
Deferred acquisition costs	Valued at nil.
Intangible assets	Intangible assets consist of: - VOBA (value of business acquired): valued at nil. - Intangibles: valued at nil - Parking concessions valued at nil.
Deferred tax assets (DTA)	The valuation of the DTA is based on the difference between the value of the underlying assets and liabilities in the MCBS and the value on the tax base balance sheet. The measurement principles of IAS 12 apply in valuing the DTA. The specific tax position and tax regulations per fiscal jurisdiction/country and interpretations of tax regulations are considered in the calculation of the net deferred tax position. A net DTA is only recognised to the extent that it can be recovered in future, implying that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised and tax authorities permit this under local reporting. Therefore, when an entity has a history of recent losses, it is only able to recognise a DTA arising from unused tax losses or tax credits to the extent that the entity has sufficient taxable temporary differences or there is convincing evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the entity.
Pension benefit surplus	Fair value The measurement principles of IAS 19 apply, using the projected unit credit method in the case of defined benefits plans. Pension obligations for own employees for life subsidiaries are included in the technical provisions.
Property, plant and equipment (PPE) held for own use	Fair value The PPE held for own use is independently valued and verified by an external source every year. The independent appraisers are rotated every three years. Car parks are valued at fair value using in-house models that also use significant unobservable market data (alternative valuation method). Ageas nevertheless regularly calibrates the resulting fair values to reflect available market data and/or transactions. Alternative valuation method techniques are the basis for measuring car parks primarily on discounted cash-flows. Expected car park cash flows take into account expected inflation, and economic growth in individual car park areas, among other factors. The expected net cash flows are discounted using risk-adjusted discount rates. The discount rate estimation considers the quality of the car park and its location, amongst other factors.
Property (other than for own use)	Fair value Almost all investment property is independently valued and verified by an external source every year. The independent appraisers are rotated every three years. If an investment property is not externally valued, Ageas uses in-house models to calculate the fair value, based on available market data and/or transactions. Ageas' alternative valuation method techniques are based primarily on discounted cash flows. Expected property cash flows take into account expected rental income growth rates, void periods, occupancy rate, lease incentive costs such as rent-free periods and other costs not paid by tenants. Ageas then discounts the expected net cash flow using risk-adjusted discount rates. Among other factors, the discount rate estimation considers the quality of a building and its location (prime vs secondary), tenant credit quality and lease terms. For development property (i.e. under construction), the fair value is set to cost until the property is operational.

Asset class	Basis, methods and main assumptions used for Solvency II
Holdings in related undertakings, including participations	Fair value Material European Economic Area (EEA) insurance participations are presented as participations and are valued at fair value using as a proxy the adjusted equity method. This can be applied under the condition that underlying assets/ liabilities of that participation are valued at fair value according to article 75 of the SII Directive. Non-insurance participations are valued according the IFRS equity method with deduction of goodwill and other intangibles that would be valued at nil in accordance with Solvency II. The Asian and Turkish non-EEA insurance participations are valued according the IFRS equity method as no information is available to determine the adjusted equity value. This IFRS equity value is fully deducted in the calculation of eligible Own Funds. Therefore, the effect of this deviation from the adjusted equity method is considered to be not material.
Equities – listed	Fair value Valued using quoted market price in active markets for the same assets that are sourced independently.
Equities – unlisted	Fair value Valued using alternative valuation methods where no quoted market prices are available for the same or similar assets. The fair value is determined using discounted cash flow models. Discount factors are based on a swap curve plus a spread reflecting the risk characteristics of the instrument. Alternative valuation methods for private equities and venture capital use fair values disclosed in the audited financial statements of the relevant participations. Alternative valuation methods for equities and asset-backed securities use a discounted cash flow methodology. Expected cash flows take into account original underwriting criteria, borrower attributes (such as age and credit scores), loan-to-value ratios, expected house price movements and expected prepayment rates etc. Expected cash flows are discounted at risk-adjusted rates. Market participants often use such discounted cash flow techniques to price private equities and venture capital. We rely also on these quotes to a certain extent when valuing these instruments. These techniques are subject to inherent limitations, such as estimation of the appropriate risk-adjusted discount rate, and different assumptions and inputs would yield different results. Private equity and non-quoted participations investments are in general based on European Venture Capital Association's valuation guidelines, using enterprise value / EBITDA, price/cash flow and price/earnings, etc. Non-quoted preference shares that are characterised as debt instruments are valued applying a discounted cash flow model.
▪ Government Bonds ▪ Corporate Bonds ▪ Structured notes ▪ Collateralised securities ▪ Other investments	Fair value Valued using quoted market prices in active markets for the same or similar assets that are sourced independently or alternative valuation methods. If alternative methods are used, the fair value is determined using discounted cash flow models. Discount factors are based on a swap curve plus a spread reflecting the risk characteristics of the instrument. Alternative valuation methods for asset-backed securities use a discounted cash flow methodology. Expected cash flows take into account original underwriting criteria, borrower attributes (such as age and credit scores), loan-to-value ratios, expected house price movements, expected prepayment rates etc. Expected cash flows are discounted at risk-adjusted rates. These techniques are subject to inherent limitations, such as estimation of the appropriate risk-adjusted discount rate, and different assumptions and inputs would yield different results.

Asset class	Basis, methods and main assumptions used for Solvency II
Collective investments undertakings	Fair value Use of mark to market based on quoted prices in active markets for the same or similar assets that are sourced independently or use of alternative valuation methods. The fair value is determined using discounted cash flow models. Discount factors are based on a swap curve plus a spread reflecting the risk characteristics of the instrument.
Derivatives	Fair value The derivatives are held for trading or hedging purposes and relate to interest rate and equity options, interest rate swaps and foreign exchange contracts. Derivatives held for trading based on alternative valuation methods using, as appropriate, discounted cash flow models and option pricing models based on observable market data in active markets. Quoted market prices provide the most reliable fair value for derivatives traded on a recognised exchange. Fair value of derivatives not traded on a recognised exchange is considered to be the value that could be realised through termination or assignment of the derivative. Common valuation methodologies for an interest rate swap incorporate a comparison of the yield of the swap with the current swap yield curve. The swap yield curve is derived from quoted swap rates. Dealer bid and offer quotes are generally available for basic interest rate swaps involving counterparties whose securities are investment grade. Factors that influence the valuation of an individual derivative include the counterparty's credit rating and the complexity of the derivative. If these factors differ from the basic factors underlying the quote, an adjustment to the quoted price may be considered. Any collateral is taken into account.
Deposits other than cash equivalents	Fair value Deposits are valued using alternative valuation methods using discounted cash flow methodology; discounting yield curve is the swap curve plus spread (assets) or the swap curve minus spread (liabilities); spread is based on (amongst others) credit standing and can be derived from the commercial margin computed based on the average of new production during last 3 months. Deposits with a remaining maturity shorter than one year are valued at redemption value or the nominal value.
Assets held for index-linked and unit-linked funds	Fair value Use of quoted market prices in active markets for the same or similar assets that are sourced independently. Alternative valuation methods are used if there is no market price available and observable data in active markets or unobservable market data. The fair value is determined using discounted cash flow models. Discount factors are based on a swap curve plus a spread reflecting the risk characteristics of the instrument.
▪ Loans & mortgages to individuals ▪ Other loans & mortgages ▪ Loans on policies	Fair value To the extent loans are originated or purchased from third parties, their fair value is based on the transfer price of such loans/debt securities to third party at the year-end date of the MCBS. The valuation may involve using alternative valuation models if there are no readily available market prices for such loans. Loans without optional features are valued using discounted cash flow methodology based on Ageas's current incremental lending rates for similar type of loans. For variable-rate loans that are re-priced frequently and have no significant change in credit risk, fair values are approximated by the carrying amount. The discounting yield curve is the swap curve plus spread; spread is based on (amongst others) credit standing and can be derived from the commercial margin computed based on the average of new production over the last three months. Loans with optional features (for caps and prepayment options embedded in the loans) are split. A linear (non-optional) component is valued using a discounted cash flow methodology and an option component is valued based on option pricing model. The prepayment assumption is calibrated on historical data.

Asset class	Basis, methods and main assumptions used for Solvency II
▪ Deposits to cedants ▪ Insurance & intermediaries receivables ▪ Reinsurance receivables ▪ Receivables (trade, not insurance) ▪ Cash and cash equivalents ▪ Any other assets, not elsewhere shown	Fair value Valued at amortised cost (IFRS valuation) because of immaterial differences between amortised cost and fair value due to the short term of the receivables. For cash and cash equivalents, that have a term of less than three months from the date on which they were acquired, fair value equals the nominal value. Any other assets include amongst others current tax receivables and prepayments.
Own shares	Fair value The fair value is approached by acquisition price as the own shares are cancelled regularly.

D.1.2 Material differences between Solvency II and IFRS

The table below summarises, per material class of asset, the material differences between the valuation for Solvency II purposes and the valuation for IFRS purposes.

Asset class	Different basis, methods and main assumptions used for financial reporting
Goodwill	▪ Under SII, all intangibles within Ageas are valued at nil. ▪ Under IFRS, Ageas values its intangibles at amortised cost (if definite life) or historical cost less any impairment (if indefinite life).
Deferred acquisitions costs	▪ Under SII, deferred acquisition costs are included in the valuation of the technical provisions. ▪ Under IFRS, deferred acquisition costs are separately valued according to period of earnings.
Intangibles	▪ Under SII, all intangibles are valued at nil. ▪ Under IFRS, Ageas values its intangibles at amortised cost (if definite life) or historical cost less any impairment (if indefinite life).
Investment property and property, plant & equipment (PPE) held for own use	▪ Under SII, PPE is fair valued. ▪ For IFRS purposes, Ageas uses the cost approach.
Participations	▪ Under SII, material European Economic Area (EEA) insurance participations are valued at fair value using as a proxy the adjusted equity method. Non-insurance participations are valued according the IFRS equity method with deduction of goodwill and other intangibles that would be valued at nil in accordance with SII. The Asian and Turkish non-EEA insurance participations are valued according the IFRS equity method as no information is available to determine the adjusted equity value. ▪ Under IFRS, participations are valued based on the equity method (including paid goodwill).
Financial investments – held to maturity	▪ Under SII, these instruments are fair valued. ▪ Under IFRS, some government bonds and corporate debt securities are carried at amortised cost less any impairment charges.
Deposits other than cash equivalents	▪ Under SII, these deposits are fair valued. ▪ Under IFRS, these deposits are measured at amortised cost. ▪ In case of long term deposits there is a timing difference.
▪ Loans & mortgages to individuals ▪ Other loans & mortgages ▪ Loans on policies	▪ Under SII, these instruments are fair valued. ▪ Under IFRS, loans and receivables are measured at amortised cost, using the effective interest method (EIR) less impairment.
Deferred tax	▪ Under SII, the valuation is based on temporary differences between the MCBS including the tax base balance sheet and unused tax losses. ▪ Under IFRS, the valuation is based on temporary differences between the IFRS balance sheet including the tax base balance sheet and unused tax losses.

Deferred tax assets

Under IFRS deferred tax assets are recognised to the extent that it is probable that there will be sufficient future taxable profit against which the deferred tax asset can be utilised. Deferred tax assets have been recognised on unused (claimed) tax losses and unused tax credits at an estimated tax value of EUR 89.9 million (2017: EUR 102.5 million), whereas such have not been recognised for an amount of EUR 4,247.3 million (2017: EUR 4,999.2 million). Most of the (claimed) tax loss carry forward position originates from the liquidation of Brussels Liquidation Holding (the former Fortis Brussels, the company that held the Fortis banking operations). Tax-wise, the loss on the sale of the Fortis Bank only materialised at the moment of liquidation.

The deferred tax assets in the IFRS balance sheet, after offsetting, amount to EUR 140 million. In Solvency II the deferred tax assets amount to EUR 83 million. The valuation differences lead to a lower net deferred tax position.

D.2
Technical provisions

D.2.1 Introduction

Fair value is the amount for which an asset could be exchanged, a liability settled or a granted equity instrument exchanged between knowledgeable, willing parties in an arm's length transaction.

Where most of the asset prices are quoted or can be replicated with analytical or numerical formula, regarding liabilities, it is not the case. Hence, in order to calculate the market value of liabilities, the Best estimate approach is used and consists in projecting the future liabilities cash-flows and discounting these. In addition, a risk margin is calculated to cover the uncertainty to be supported by the party bearing the liabilities.

For the data, we refer to the Quantitative Reporting Template S.02.01.02.

Best Estimate

The calculation of the best estimate is performed by homogeneous risk group (HRG) based on economic and non-economic assumptions as explained hereafter.

For the Non-life business, provisions consist of:

- Claims provisions: cash flow projections relate to claims having occurred before or at the valuation date – whether the claims arising from these events have been reported or not (i.e. all incurred but not settled claims).
  - Inward cash-flows
    - Recoverables for salvage and subrogation;
    - Recoverables from reinsurance contracts and special purpose vehicles (for calculation of net best estimate).
  - Outward cash-flows
    - Claims payments payable to policyholders or beneficiaries;
    - Claims Expenses necessary to handle claims until settlement;
    - Reinstatement premiums paid to reinsurers.
- A premium provisions: the cash flows relate to claims and expenses occurring in the future related to policies in force according to contract boundaries defined hereafter.
  - Inward cash-flows
    - Premiums to be written until the term of the contract;
    - Recoverables for salvage and subrogation;
    - Recoverables from reinsurance contracts and special purpose vehicles.
  - Outward cash-flows
    - Claims payments payable to policyholders or beneficiaries from claims occurred since the valuation date until the term of the contract;
    - Reinsurance premium or reinstatement premiums;
    - Expenses include commissions to be paid to the sales, claims expenses necessary to handle claims until settlement, administration expenses necessary to administer contracts, acquisition expenses (other than commissions and investment expenses necessary to administer the assets representing the liabilities).

For the Life business, stochastic economic scenarios (depending on the economic situation - profit sharing distribution, etc.) have to be simulated in order to capture the impact on the liabilities cash-flows of a change on the asset side as a consequence of the optionalities in the insurance contracts.

Contract boundaries

The time horizon used in the calculation of the best estimate is the full lifetime of the existing (re)insurance liabilities on the date of valuation. The determination of the lifetime of the (re)insurance portfolio is based on contract boundaries and realistic assumptions about when the existing liabilities will be discharged, cancelled or expired. The boundary of the contract is defined following article 18 of Regulation 2015/35.

For Non-life businesses, unincepted business'' is defined as those contracts where a legal obligation exists but the coverage period did not start yet. This includes typically multi-year contracts and contracts for which the delay between the valuation date and the following renewal date is smaller than the cancelation notification period.

D.2.2 Economic assumptions

Economic assumptions are set consistently with information about or provided by financial markets. As a general principle, the financial information used should be such that it allows the estimation of reliable assumptions when it is observed in deep, liquid and transparent markets. However, information observed in other types of markets may be used provided, to the extent possible, that appropriate tests or adjustments can be applied to demonstrate its reliability.

D.2.2.1 Reference and Discount Rate

The construction of the reference and discount rate for EUR and GBP is based on the risk free interest at point of valuation.

It corresponds to a curve composed of:

- Credit Risk Adjustment (CRA) taking into account the credit risk inherent to the swap curve;
- The Volatility Adjustment (VA) determined by EIOPA with the aim to partially compensate the volatility of assets considering that insurance companies are investing in long-term fixed income bonds to cover their engagement towards policyholders;
- An extrapolation resulting in the convergence to the ultimate forward rate (UFR) determining yearly by EIOPA starting as from maturities after the last liquid point (LLP), 20 years for the Eurozone.

Regarding the Volatility Adjustment, as long term investor, Ageas is in principle not economically exposed to short term spread volatility. Solvency II acknowledges this principle and defined the Volatility Adjustment (VA) to account for illiquidity of insurance liabilities in the Own Funds. Valuing the balance sheet under the assumption that any assumed illiquidity premium (VA), used to value illiquid liabilities, will not materialize, allows to have a view on the impact of this illiquidity embedded in the liabilities.

Ageas has applied the VA referred to in Article 77b of Directive 2009/138/EC. The effect of a decrease of the volatility adjustment to zero is reported in the Quantitative Reporting Template S.22.01.22.

In order to determine its capital adequacy for internal risk management purposes under Pillar II, Ageas applies an adjusted valuation method. The aim is to recognize its ability to earn additional liquidity premium, based on its own portfolio and ALM profile. In addition, transitional measures for technical provisions are excluded.

D.2.2.2 Volatilities

The asset models are calibrated to appropriate volatility measures which are based either on implied or on historical volatilities. Implied volatilities are the volatilities implied by option prices observed in the market. The volatilities are set for each risk factor that can be largely categorized under the following asset classes: shares, real estate and fixed income. Implied volatilities are preferred when they are available and applicable. When these are not available or are not applicable, historical volatilities can be used as an alternative. In the determination of the historical volatilities, an appropriate time period should be taken into account.

D.2.2.3 Stochastic valuation

Where the value of options and guarantees is taken into account, Best estimate liabilities (BEL) are calculated using stochastic valuation techniques (Monte Carlo simulation) based on risk-neutral scenarios. Each simulation will have impacts on the variable cash-flows, whereas fixed cash-flows will remain constant. The BEL is calculated gross of reinsurance with a separate calculation of the amounts recoverable from reinsurance.

D.2.2.4 Inflation

The inflation assumption is based on the market inflation curve. The construction of such curve follows similarly the methodology for constructing the discounting curve:

- market inflation swap rate at valuation date;
- interpolation of the curve for missing data points;
- extrapolation from last liquid points towards the ultimate forward inflation rate of 2%.

Where a product is exposed to specific inflation, a 'wedge' is applied on top of the market inflation curve. The wedge is determined based on a framework which allows a gradual trend from the short term observed specific inflation to the longer term expectation.

For the Life business expense assumptions include an allowance for the expected future cost inflation.

For the Non-life insurance, inflation is considered as well when projecting the future cash-flows. The cash-flows that potentially will be impacted by inflation are indexed annuities (PPO's in UK or annuities in workmen's compensation), premiums which are dependent on mass salaries or when the premiums are indexed according to pre-defined indices, expenses with the biggest part being the salaries that will evolve with time and claims costs. The inflation is considered implicitly or explicitly in the cash flows projections depending on the type of provision (premium or claims) and the method used to calculate the best estimates.

D.2.3 Non Economic (operating) assumptions

Operating assumptions are generally based on historical analyses until present in order to have a view on the best estimate future experience. These assumptions are set for each risk factor in examining the results of the experience analysis, either as explicit parameters, or as implicit like in Non-life.

D.2.3.1 Life Specific assumptions for the Best estimate valuation

Life assumptions are set for each risk parameter to fit a distribution on the assumptions allowing a trend in such data.

Mortality and longevity

For Life businesses, mortality and longevity best estimate assumptions are set based on statistical analysis of company historical experience data and/or external observable data. Best estimate assumptions include trend changes if these are significant to the long-term nature of underwritten risks. Comparable market experience is used if company data is unavailable or unreliable. If standard mortality tables are used, a justification of these tables representing the company's own experience is made.

Morbidity and disability

For Life businesses morbidity and disability assumptions are set following a statistical analysis/study of the company's historical experience data and/or external observable data. For disability, credible market experience is used when this represents a comparable experience to the company's experience, else the pricing for disability incidence rates is applied.

Lapse, persistency, surrender, withdrawals, paid up

All these terms refer to an event where the policyholder chooses to alter the contract by ceasing to pay or reducing premiums or by withdrawing some or all of the value he/she has accumulated in the policy to date. Lapse studies are performed on historical experience data.

Where data is not available or found to be inadequate to perform an experience study then a lapse rate of a similar product is considered. Lapse rates are dependent on relevant drivers linked to the policyholder's propensity to surrender his policy, where the data to be analysed is suitably credible and where the assumption is sufficiently material. Examples include product, age of the policy.

Other forms of persistency such as salary indexation and new entrants to a group scheme are treated similarly as premium persistency. These assumptions reflect the best estimate of future expectations of such events.

Renewal assumptions

Renewal assumption is the assumption that a contract will be renewed after the expiry date or after the end of the guaranteed period. Renewals are included in the valuation and are expected to be paid-up after the renewal considering the contract boundary under Solvency II. All yearly renewal term assurance policies are not renewed after one year, unless premiums are guaranteed at inception of the underwriting of the contract.

Expenses

For the *Life business*, all expenses that will be incurred in servicing insurance and reinsurance obligations are taken into account. The total expense basis allocated to Life insurance activities within scope represents the accurate level of incurred expenses over the past calendar year. These include investment expenses, future expenses directly related to ongoing administration of insurance obligations together with a share of relevant overhead expenses. Since acquisition expenses relate to the sale of new business, and since future new Life insurance contracts are not to be considered in the valuation of the technical provisions, acquisition expenses are not included in the valuation of technical provisions.

Moreover expenses are supposed to be calculated on a going concern basis with special consideration for the portfolio being growing, declining or in run off. Forward looking information (e.g. coming from budget exercise) is included in the determination of the expense cash-flows when appropriate. Finally future acquisition costs are valued regarding cash-flows related to premium provisions and considered differently following the fact that the premium has already been written or not. For the part of provisions constituted by premium already written, no acquisition cost is projected since all expenses can be considered as having been paid at the drawing up of the contract. Acquisition expenses are considered to be paid in the first year, except for multi-year contracts with yearly premiums.

Commissions

For Life businesses the total of allocated commissions represent the actual commissions for the past calendar year. The commission assumptions cover acquisition commissions, renewal commissions, bonus commissions and claw-back of unearned commission in case of lapse. Since future new contracts are out of scope for solvency purposes, acquisition commissions for these contracts are not included in the valuation of technical provisions.

Acquisition Expenses

Future acquisition costs are valued in the context of cash-flows related to premium provisions and are considered differently depending on whether the premium has already been written or not.

Administration and Operating costs

Expenses connected with ongoing administration of in-force policies and operational businesses (including reinsurance costs) are allocated to premium provisions.

D.2.3.2 Non-life assumptions for the Best estimate valuation

Claims payments

Claims assumptions are related to the frequency, severity of claims and timing of payments. Claims assumptions are generally based on historical observations analyses, taking into account future evolutions as change in laws, change in indemnities or change in subscription rules.

Generally the analysis is done by type of claims: attritional claims (claims with a cost under a predefined threshold) and large claims (claims with a cost above a predefined threshold) and Catastrophe (Cat) events (events with a low probability to occur but with large severity or with large frequency).

The main reason for isolating attritional, large and Cat claims is that, in many cases, large claims require a dedicated valuation technique: methods to valuate attritional claims are in general aggregate methods where claims are grouped per accident or reporting year and where payments are grouped by accounting year to form a claims triangle. For large losses, individual claims method are used generally which allows the application of the reinsurance treaties in order to compute the reinsurance recoveries on a claim by claim basis.

When observations are missing (this is the case for Catastrophe events which are not necessary observed in the past) or when the history is not long enough (especially for long-tail branches, losses do not proceed to final settlement until several years beyond the policy year) then specific methods are applied (binary events, tail factor method).

Expenses

While claim expenses will occur until final run-off of the claims, other expenses (commission, acquisition and administration) are exposed in the next year and little uncertainty exists.

Best estimate valuation is based on the observations of previous years and future wage inflation. For claims expenses, the valuation is also based on future claims cash-flows.

To note that future commission considered for the part of the premium provisions related to premiums not already written. These commission assumptions are generally expressed as a percentage of written premiums.

Reinsurance recoveries

Recoverables from reinsurance contracts, including recoverables from any special purpose vehicles, are recognised and valued according to the valuation principles; they are shown separately on the asset side of the balance sheet. The time value of money is taken into account in the calculation of reinsurance recoveries.

Management rules

Management rules consist of 2 types: asset management rules and Profit sharing rules.

Asset management rules

The parameters of the asset management rules are set to be in line with the most recent Strategic Asset Allocation exercise for each asset fund. The asset management rules are designed to converge smoothly to a long term Target asset mix (SAA), following a buy-and-hold strategy limiting the transaction costs.

Profit sharing rules/bonus rates

The profit sharing can be discretionary or non-discretionary. Where the profit sharing is discretionary, hence left at the discretion of the management, this is modelled based on client expectations and external benchmark. These profit sharing rules play in Life businesses. In Non-life business no management actions have been taken into account in determining the best estimate.

D.2.4 Risk margin

The methodology for the calculation of the risk margin is consistent between Life and Non-life and is based on a proportional projected approach whereby the Basic SCR, Operational SCR and adjustment of loss absorption of technical provisions at time step zero are run off following the selected risk drivers at Solvency II lines of Business level. Risk drivers are the benefit payments or exposure to which there is an obligation from the insurer toward the policyholder. If more granularity is allowed, the risk drivers are then determined at that lower level. A cost of capital rate of 6% as defined in article 39 of Regulation 2015/35 is applied on the Net present value of the future Non-hedgeable SCR.

The calculation is done fully bottom up at model point level where the aggregation towards Solvency II Lines of Business is reported.

D.2.5 Level of uncertainty in the amount of technical provisions

Due to the uncertainty of future events, any modelling of future cash flows (implicitly or explicitly contained in the valuation methodology) will necessarily be imperfect, leading to a certain degree of inaccuracy and imprecision in the measurement (or model error). A yearly model assessment is performed in order to review any potential modelling feature that is missing in the model and that might be significant to the determination of the Best Estimate.

Such an assessment of the model error may be carried out by expert judgement or by more sophisticated approaches, for example:

- Sensitivity analysis in the framework of the applied model: this means varying the parameters and/or the data thereby observing the range where a best estimate might be located;
- Comparison with the results of other methods: applying different methods gives insights into potential model errors. These methods would not necessarily need to be more complex;
- Descriptive statistics: in some cases the applied model allows the derivation of descriptive statistics on the estimation error contained in the estimation. Such information may assist in quantitatively describing the sources of uncertainty;
- Back-testing: comparing the results of the estimation against experience may help to identify systemic deviations which are due to deficiencies in the modelling;
- Quantitative assessment through scenario or benchmark testing.

D.2.6 Material changes in the relevant assumptions

For Non-life businesses, compared to the previous reporting period the following change has been applied:

- UK annuities, the net discounting rate used for the lump sum, has moved from -0,75% to 0%.

There are no material changes in the assumptions made For Life businesses compared to the previous reporting

D.2.7 Material differences between Solvency II and IFRS

Main difference in Life businesses lies in the valuation methodology. Under Solvency II, the fair value approach is taken to assess the economic value of the liabilities, no additional margins for adverse risks is allowed in the Best Estimate Liability (BEL). While under IFRS additional margins for adverse deviation can be incorporated into the accounting reserves, and this deviation is subject to local GAAP standards and regulations.

Main differences in Non-life are:

- Discounting (not allowed in IFRS reserves except for annuities);
- Binary events not included in IFRS Economic valuation of future claims payments and claims expenses (IFRS reserves are not always based on an economic valuation, it differs from country to country);
- Risk Margin approach for the margin above Best Estimate.

D.2.8 Matching adjustment

Ageas does not apply the matching adjustment referred to in Article 77b of Directive 2009/138/EC.

D.2.9 Transitional risk-free interest rate-term structure

Ageas does not apply the transitional risk-free interest rate-term structure referred to in Article 308c of Directive 2009/138/EC.

D.2.10 Transitional on technical provisions

Ocidental Vida and Ageas Seguros Non-life (both in Portugal) and Ageas France apply the transitional deduction referred to in Article 308d of Directive 2009/138/EC. The proportional factor denoting the ratio of transitional adjustment applied is updated yearly at January 1st. For year-end reporting 2018, the factor 14/16 was applied, to be updated to 13/16 starting 01/01/2019. For the impact please refer to Quantitative Reporting Template S.22.01.22.

D.3
Other liabilities

D.3.1 Bases, methods and main assumptions used for Solvency II

The table below summarises, per material class of other liabilities, the basis, methods and main assumptions used for the valuation of other liabilities. For the data, we refer to the Quantitative Reporting Template S.02.01.02.

Other liability class	Basis, methods and main assumptions used for Solvency II
Contingent liabilities	Fair value The valuation is based on the expected present value of future cash-flows required to settle the contingent liability over the lifetime of that contingent liability, using the relevant risk-free interest rate. Contingent liabilities are valued at nil if they cannot be valued reliable. The contingent liabilities are disclosed in note 46 of the 2018 Ageas consolidated financial statements.
Provisions other than technical provisions	Fair value The valuation is based on a best estimate basis as currently performed under IAS 37, based on management judgement and in most cases the opinion of legal and tax advisors. The provisions mainly relate to legal disputes and reorganisations and are based on best estimates available at period-end based on management judgement, in most cases supported by the opinion of legal advisors. The timing of the outflow of cash related to these provisions is by nature uncertain given the unpredictability of the outcome and the time involved in concluding litigations/disputes. Reference is made to note 26 in the 2018 Ageas consolidated financial statements.
Pension benefit obligations	Fair value The valuation is based on IAS 19 using the projected unit credit method in the case of defined benefits plans. Since Q4 2018 this line includes the IFRS value of the IAS19 pension benefits of AG Insurance (previously included in technical provisions at fair value). Relevant information of our employee benefits and disclosure of our defined benefit plans and defined contribution plans is included in note 7.1 of the 2018 Ageas consolidated financial statements.
▪ Deposits from reinsurers and ▪ Debts owed to credit institutions	Both are valued at fair value The valuation is based on amortised cost (IFRS valuation) because of immaterial differences between amortised cost and fair value due to the short term of the payables. Long term deposits and debts are fair valued applying a discounted cash flow methodology. Changes in Ageas's own credit standing are excluded in the valuation. The carrying value of the borrowings is a reasonable approximation of their fair value as contract maturities are less than one year (repurchase agreements EUR 1,263 million as disclosed in note 22 in the 2018 Ageas consolidated financial statements) and/or contracts carry a floating rate (loans from banks). Repurchase agreements are essentially secured short term loans that are used to hedge specific investments with resettable interest rates and for cash management purposes.

Other liability class	Basis, methods and main assumptions used for Solvency II
Deferred tax liabilities (DTL)	Nominal value The valuation of the DTL is based on the difference between the underlying assets and liabilities of the MCBS and the tax base balance sheet. The measurement principles of IAS 12 are applied in valuing deferred tax liabilities. The specific tax position and tax regulations per fiscal jurisdiction/country and interpretation of tax regulations are considered in the calculation of the net deferred tax position. Timing of deferred tax liabilities is consistent with the reversal of valuation differences and realisation of taxable results of items on the balance sheet.
Derivatives	Fair value The derivatives are held for trading or hedging purposes and relate to interest rate and equity options, interest rate swaps and foreign exchange contracts. Derivatives held for trading based on alternative valuation methods using, as appropriate, discounted cash flow models and option pricing models based on observable market data in active markets. Quoted market prices provide the most reliable fair value for derivatives traded on a recognised exchange. Fair value of derivatives not traded on a recognised exchange is considered to be the value that could be realised through termination or assignment of the derivative. Common valuation methodologies for an interest rate swap incorporate a comparison of the yield of the swap with the current swap yield curve. The swap yield curve is derived from quoted swap rates. Dealer bid and offer quotes are generally available for basic interest rate swaps involving counterparties whose securities are investment grade. Factors that influence the valuation of an individual derivative include the counterparty's credit rating and the complexity of the derivative. If these factors differ from the basic factors underlying the quote, an adjustment to the quoted price may be considered. Any collateral is taken into account.
▪ Financial liabilities other than debts owed to credit institutions ▪ Insurance & intermediaries payables ▪ Reinsurance payables ▪ Payables (trade, not insurance)	Fair value The valuation is based on amortised cost (IFRS valuation) because of immaterial differences between amortised cost and fair value due to the short term nature of the payables. The RPN (I) is a financial instrument that results in quarterly payments being made to, or received from, BNP Paribas Fortis Bank SA/NV. Ageas records the RPN (I) at fair value through profit or loss. As no observable market price of the RPN (I) is available, Ageas estimates the fair value of the RPN (I) using an alternative valuation method equal to the reference amount as disclosed in note 24 of the 2018 Ageas consolidated financial statements. The reference amount is subject to the market value of Ageas shares and CASHES as quoted by the Luxembourg Stock Exchange and dependant on the number of CASHES securities outstanding. BNP Paribas Fortis SA/NV issued CASHES securities in 2007 with ageas SA/NV as co-obligor. CASHES are convertible securities that convert into Ageas shares at a pre-set price of EUR 239.40 per share. BNP Paribas Fortis SA/NV and ageas SA/NV, at that point in time both part of the Fortis Group, introduced a Relative Performance Note, designed to avoid accounting volatility on the Ageas shares and on the at fair value valued CASHES in the books of BNP Paribas Fortis SA/NV. Upon the break-up of Fortis in 2009, BNP Paribas Fortis SA/NV and Ageas agreed to pay interest on a reference amount stated in this Relative Performance Note. The quarterly interest payment is valued as a financial instrument and referred to as RPN (I). The RPN (I) exists to the extent that CASHES securities remain outstanding in the market. Originally, 12,000 CASHES securities were issued in 2007. At 31 December 2018, 3,791 CASHES remained outstanding. We refer to note 24 in the Ageas financial statements.

Other liability class	Basis, methods and main assumptions used for Solvency II
Any other liabilities, not elsewhere shown	Any other liabilities include amongst other current tax payables and cost accruals. Written put option on non-controlling interests on AG Insurance shares (NCI): BNP Paribas Fortis did not exercise the put option before 30 June 2018, the end of the exercise period. The impact of the expiration of the option is disclosed in note 27 of the 2018 Ageas consolidated financial statements.
▪ Subordinated liabilities not in Basic Own Funds ▪ Subordinated liabilities in Basic Own Funds	Fair value Long term subordinated loans are fair valued applying a discounted cash flow methodology. Changes in own credit standing of the issuer are excluded from the valuation of these liabilities. The issuer considers its own credit standing at inception and subsequently ignores any changes in its own credit standing. Short term liabilities are valued based on amortised cost (IFRS valuation) because of immaterial differences between Amortised Cost and Fair Value (short term receivables). Details of subordinated liabilities in Basic Own Funds are disclosed in chapter E.1.2 on Capital Management.

D.3.2 Material differences between Solvency II and IFRS

The table below summarises, per material class of other liabilities, the material differences between the valuation for Solvency II purposes and the IFRS valuation.

Other liability class	Different basis, methods and main assumptions used for financial reporting
Contingent liabilities	- Under SII, contingent liabilities are valued at fair value based on the expected present value of future cash-flows required to settle the contingent liability over the lifetime of that contingent liability, using the relevant risk-free interest rate. Contingent liabilities are valued at nil if they cannot be valued reliable. - Under IFRS, contingent liabilities are valued at nil if less likely than not or they cannot be valued reliably.
Deposits from reinsurers Debts owed to credit institutions	- Under SII, long term deposits and debts owed to credit institutions are valued applying a discounted cash flow methodology. Changes in Ageas's own credit standing are excluded in the valuation. - Under IFRS, these deposits are valued at cost.
Subordinated liabilities	- Under SII, long term subordinated loans are valued applying a discounted cash flow methodology. Changes in Ageas's own credit standing are excluded in the valuation. - Under IFRS, these liabilities are valued at cost.

D.4
Alternative methods for valuation

D.4.1 Identification of assets and liabilities for which alternative valuation methods apply

The assets and liabilities for which the alternative valuation methods apply are identified in the tables above in the sections D.1 Assets and D.3 Other liabilities.

D.4.2 Justification of application alternative valuation methods as identified in the tables above for assets and liabilities

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. For some asset items, 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.4.3 Documentation of the assumptions underlying the mark to model approach per class of assets and liabilities

The assumptions for the mark to model approach are described in the tables above in the sections D.1 Assets and D.3 Other liabilities.

D.4.4 Assessment of valuation uncertainty of the assets, liabilities valued according to alternative valuation methods

The adequacy of the valuation of assets and liabilities is tested through the variation analysis, which explains the evolution of the value between two periods. This analysis provides a view on the different drivers of the value change, which can be compared against experience.

D.5
Any other information

Nothing to report.

E

Capital Management

E.1
Own Funds

E.1.1 Objectives, policies and processes, business planning and material changes

Capital is a scarce and strategic resource, which requires a clearly defined, rigorous and disciplined management approach in order to ensure efficient and effective deployment. The Capital Management approach that Ageas follows aims to balance the needs and requirements of all stakeholders including shareholders, debt investors, regulators, rating agencies and customers.

The main objectives of capital management at Ageas are:
- to optimize the capital structure, costs, composition and allocation of capital within Ageas;
- to ensure value creation by funding profitable growth, as well as protecting the viability and profitability of the business;
- to ensure optimal dividend levels, both for the Group as well as its subsidiaries.

Ageas' objectives with respect to capital management are achieved by adhering to clearly defined processes. These are governed by clearly defined policies and procedures to ensure that capital management practices throughout the Group and the OpCos are understood, documented and monitored (with corrective actions taken if necessary).

The Capital Management Framework at Ageas defines rules and principles in respect of the following:
- Capital Planning, i.e. defining the capital level the Group wants to hold, which is a function of:
  - legal requirements and anticipated changes;
  - regulatory requirements and anticipated changes;
  - growth ambitions, and future capital commitments;
  - the Risk Appetite Policy.
- Capital Allocation, i.e. determining the capital use that Ageas foresees, which is a function of:
  - Optimisation of risk reward;
  - the Dividend Policy (and future capital raising).
- Capital structuring, i.e. maintaining an efficient balance between equity and debt;
- Capital Management governance, i.e. setting clear roles and responsibilities on people and decisional bodies involved in Capital Management Processes.

Capital management policies and processes are included in the risk management system, ORSA process and internal control environment as disclosed in section B Governance chapter 3 and 4.

E.1.2 Structure, amount and quality of basic Own funds and ancillary Own funds

The composition of the eligible Own funds to meet the group SCR is as follows:

	31 December 2018	31 December 2017
Own Funds to meet group SCR:	8,058.8	7,744.1
Unrestricted Tier 1	5,618.6	5,314.6
Eligible Restricted Tier 1	1,404.7	1,328.7
Available Restricted Tier 1	1,789.5	1,762.7
Overflow to Tier 2	(384.8)	(434.0)
Eligible Tier 2	952.0	1,000.4
Overflow from Tier 1	384.8	434.0
Available Tier 2	567.2	566.4
Tier 3	83.5	100.4

For the composition of the Own Funds, we refer to the Quantitative Reporting Template S.23.01.22.

The analysis of the quality of Ageas's Own Funds (covering the Group SCR) shows that at the end of 2018, 87.2% of the eligible Own Funds are of the highest quality (Tier 1) and able to fully absorb losses. At year-end 2018, the sum of the grandfathered Tier 1 components amounts to 24.2% of total Tier 1 capital and therefore exceeds the 20% regulatory threshold for restricted Tier 1; the excess EUR 384.8 million qualifies as eligible Tier 2 capital. The subordinated liabilities recognised as Tier 1 and Tier 2 Own Funds are described below.

Tier 3 capital represents the part of Own Funds that consist of the Deferred Tax Assets (DTA) as recognized in the market consistent balance sheet.

No ancillary Own Funds are included in the Group consolidated Own Funds as at year-end 2018.

Dividend declared over a financial year is always paid in the next year. However, under Solvency II, foreseeable or declared dividend is deducted from regulatory qualifying capital at year-end, even though it is paid in the subsequent year. The amount of foreseeable dividends deducted from the Group consolidated Own Funds at year-end 2018 corresponds to EUR 414.4 million.

Besides dividend, shareholders have indirectly also received distributions via the share buy-back programs launched by Ageas Group in recent years. In connection with these share buy-back programs, Ageas gradually reduces the Own Funds at the moment the acquired shares are effectively cancelled. For the buy-back program amounting to EUR 200 million that started on 13 August 2018 and will run up to 2 August 2019, Ageas had purchased shares worth EUR 84.3 million at year end 2018, so in the course of 2019 Ageas plans to acquire shares worth EUR 117.3 million which will be deducted from Own Funds when bought.

The composition of the eligible Own Funds to meet the Minimum consolidated Group SCR at 2018 year end is as follows

	31 December 2018	31 December 2017
Own Funds to meet Minimum consolidated group SCR:	7,366.1	7,019.1
Tier 1	**5,618.6**	**5,314.6**
Eligible Restricted Tier 1	**1,404.7**	**1,328.7**
Available Restricted Tier 1	1,789.5	1,762.7
Overflow to Tier 2	(384.8)	(434.0)
Eligible Tier 2	**342.8**	**375.3**
Overflow from Tier 1	384.8	434.0
Available Tier 2	567.2	566.4
Tier 2 non-eligible to meet the Minimum consolidated group SCR	(609.3)	(625.1)

Subordinated liabilities

The composition of the subordinated liabilities recognised as Tier 1 and Tier 2 Own Funds within the consolidated Group Own Funds at year-end 2018 is as follows:

	2018	2017
Tier 1		
FRESH (3 month EURIBOR + 135bps)	1,250	1,250
Millenniumbcp Ageas Fixed to Floating Subordinated Loan (4.75%)	59	59
AG Insurance Fixed Rate Reset Perpetual Subordinated notes (6.75%)	481	454
Tier 2		
AG Insurance Fixed-to-floating Callable Subordinated Notes (5.25%)	110	110
AG Insurance Dated Fixed Rate Subordinated Notes (3.50%)	458	456
Total subordinated liabilities	2,357	2,329

FRESH

The FRESH securities were issued in 2002 by Ageasfinlux SA, a Luxembourg based issuing vehicle, with ageas SA/NV as co-obligor. FRESH securities have no maturity date, but are exchangeable into already issued Ageas shares at a price of EUR 315 per share at the discretion of the holder. The FRESH will mandatorily convert into Ageas shares in case the price of the Ageas share is equal to or higher than EUR 472.50 on twenty consecutive stock exchange business days. This instrument is deeply subordinated and coupon payments are deferrable when Ageas declares a dividend lower than 0.5% dividend yield.

The FRESH has been grandfathered as a Tier 1 instrument under Solvency II up to 2026. The instrument is not redeemable. Notwithstanding the lack of regulatory capital recognition beyond 2026, the instrument will continue to provide high quality funding for the Group at a relatively low cost.

Fixed-to-Floating Callable Subordinated Loan

On 5 December 2014, Ageas Insurance International N.V. (51%) (AII) and BCP Investments B.V. (49%) granted a subordinated loan of EUR 120 million to Millenniumbcp Ageas at 4.75% per annum up to the first call date in December 2019 and 6 month Euribor + 475 basis points per annum thereafter. The part underwritten by AII is eliminated because it is an intercompany transaction, the part granted by BCP shows up in the table of external outstanding hybrid debt. The Notes qualify as grandfathered Tier 1 capital under Solvency II.

Fixed Rate Reset Perpetual Subordinated notes

In March 2013 AG Insurance issued USD 550 million Fixed Rate Reset Perpetual Subordinated Notes at 6.75% per annum, and thereafter at a reset fixed rate of interest to be reset on the first call date and on each sixth anniversary of the first call date (6 year US Treasury dollar mid-swap rate plus 543.3 bps). The instrument has been grandfathered as a Tier 1 instrument up to 2026. In the meantime, AG Insurance has exercised its option to redeem the instrument on its first call date, in March 2019. At Group level, Ageas replaced this instrument by a new one: In April 2019 ageas SA/NV successfully placed EUR 500 million Subordinated Notes in the market. Although the issuance is limited to EUR 500 million (at 3.25% per annum up to the first call date in July 2029 and 3 month Euribor + 380 basis points per annum thereafter), the total investor interest amounted to EUR 3.7 billion. The Notes will qualify as Tier 2 capital for both Ageas Group and ageas SA/NV under European regulatory capital requirements for insurers (Solvency II) and are rated BBB+ by both Standard & Poor's and Fitch. The net proceeds from the issuance of the Notes will be used for general corporate purposes, to optimize the capital structure and to strengthen the regulatory solvency of Ageas and its operating subsidiaries.

Fixed-to-floating Callable Subordinated Notes

In December 2013, AG Insurance issued EUR 450 million Fixed-to-Floating Rate Callable Subordinated Notes at 5.25% per annum up to the first call date on June 2024 and 4.136% + 3-month EURIBOR per annum thereafter. The securities provide for a quarterly optional call by AG Insurance as from June 2024 and include optional or mandatory deferral of interest under certain conditions. The instrument qualifies as Tier 2 capital under Solvency II. EUR 350 million of these notes are currently held by ageas SA/NV, while the remaining EUR 100 million was underwritten by BNP Paribas Fortis. It is the latter amount that shows up in the table of external outstanding hybrid debt.

Dated Fixed Rate Subordinated Notes

On 31 March 2015, AG Insurance issued EUR 400 million Fixed Rate Subordinated Securities at an interest rate of 3.5% and with a maturity of 32 years. The Securities constitute direct, unsecured and subordinated obligations of AG Insurance. The Notes are listed on the Luxembourg Stock Exchange. The Securities may be redeemed at the option of AG Insurance, in whole but not in part, on the first call date at 30 June 2027 or at any interest payment date thereafter. If not called on the first call date and on each fifth anniversary of the first call date the interest rate will be reset equal to the sum of the five year euro mid swap rate plus 3.875%. The Notes qualify as Tier 2 capital under Solvency II.

E.1.3 Eligible amount of Own Funds to cover the Solvency Capital Requirement and the Minimum Consolidated Group SCR classified by tiers

For the amounts of eligible Own Funds we refer to Quantitative Reporting Template S.23.01.22. Both the SCR and Minimum Consolidated Group SCR are fully covered by unrestricted Tier 1 Own Funds.

It should be noted that the transferability of Own Funds from operating entities to the holding may be limited in cases where Ageas operates via subsidiaries with a minority shareholder where fellow shareholders may exercise a blocking vote on the upstream of capital. The free surplus capital that can be attributed to the minority shareholders of these entities is considered as non-transferable and is therefore deducted from the Group Own Funds.

It is of note that until Q2 2018, Ageas Group recognised an amount of non-available own funds equal to the benefit in the Group SCR resulting from diversification between governance units in scope of Solvency II. In June 2018, ageas SA/NV obtained a reinsurance licence from the National Bank of Belgium to be used for internal reinsurance purposes which will increase capital fungibility within the Group. Therefore Ageas has decided to stop deducting this amount from the Group consolidated Own Funds.

E.1.4 Material differences between Solvency II and IFRS

Differences between equity in the IFRS financial statements and the eligible Own Funds as calculated for Solvency II purposes mainly stem from the following sources:

- Reclassification of subordinated liabilities.
- Assets and liabilities not recorded at fair value under IFRS:
  - Property, loans and Held to maturity (HTM) investments are recorded at amortised cost under IFRS;
  - Liabilities arising from (re)insurance and investment contracts need to be recognised at market-consistent values.
- Deductions for participations as presented in QRT S.23.01, where there is non-availability of information (article 229 of Directive 2009/138/EC) and solvency regimes are not deemed equivalent to Solvency II.
- Revaluation of participations in insurance entities to adjusted equity method.
- De-recognition of goodwill and other intangibles under Solvency II.
- Deduction of proposed or foreseeable dividend.
- Tax impact of the above differences.

The reconciliation of the IFRS Shareholders' Equity to the Own Funds under Solvency II and the resulting solvency ratio according to the Partial Internal Model approach is as follows:

	31 December 2018	31 December 2017
IFRS Equity	11,519.6	10,162.2
Shareholders' equity	9,411.4	9,610.9
Non-controlling interest[3]	2.,108.2	551.3
Qualifying Subordinated Liabilities	2,285,0	2,261.3
Scope changes at IFRS value	(3.170,6)	(2,781.2)
Exclusion of expected dividend	(414.4)	(407.4)
Proportional consolidation	(315.3)	(232.4)
Derecognition of Equity Associates	(2,440.9)	(2,141.4)
Valuation differences	(1,290.6)	(1,239.5)
Revaluation of Property Investments	1,807.0	1,629.0
Derecognition of parking concessions	(422.6)	(429.9)
Derecognition of goodwill	(602.1)	(604.0)
Revaluation of Insurance related balance sheet items (Technical Provisions, Reinsurance Recoverables, VOBA and DAC)	(4,960.1)	(5,048.2)
Revaluation of assets which, under IFRS are not accounted for at fair value (Held to Maturity Bonds, Loans, Mortgages)	2,613.8	2,947.1
Tax impact on valuation differences	252.1	256.7
Other	21.3	9.8
Total Solvency II Own Funds	9,343.4	8,402.8
Non Transferable Own Funds t[4]	(1,284.4)	(658.7)
Total Eligible Solvency II Own Funds	8,059.0	7,744.1
Group Required Capital under Partial Internal Model (SCR)	3,728.1	4,062.4
Capital Ratio	216.2%	190.6%

E.1.5 Ring-fenced funds

Within Ageas only Ageas France possesses one ring-fenced fund: PERP. Based on the proportionality principle no detailed information is reported on this non-material ring-fenced fund.

...

3 *Ageas concluded on 12 March 2009 an agreement on the sale of 25% + 1 share of AG Insurance to Fortis Bank (now named BNP Paribas Fortis SA/NV) for an amount of EUR 1,375 million. As part of this transaction, Ageas granted to Fortis Bank a put option to resell the acquired stake in AG Insurance to Ageas in the six-month period starting 1 January 2018. BNP Paribas Fortis did not exercise the put option before 30 June 2018, the end of the exercise period. BNP Paribas Fortis therefore remains shareholder for 25% + 1 share in AG Insurance and this is the reason for the increase in the non-controlling interest.*

4 *See previous foot note and chapter E.1.3 for the background in the variance between 2018 and 2017.*

E.2
Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 Method for determining the Group Solvency Capital

Group supervision

Ageas is subject to group supervision in accordance with article 212 of Directive 2009/138/EC. No entities have been excluded from group supervision in accordance with article 214 of this Directive.

Group solvency

The Directive 2009/138/EC prescribes two methods for the calculation of the group solvency:

- Method 1 (Default method): Accounting consolidation-based method (article 230 of the Directive);
- Method 2 (Alternative method): Deduction and aggregation method (article 233 of the Directive).

Ageas applies method 1 for the determination of the group solvency. The Own Funds eligible to cover the SCR and the SCR at group level are calculated on the basis of consolidated data.

The SCR and Own Funds of the insurance participation Tesco are included on a proportional basis, with no diversification effect taken into account, as per article 336 (b) of Regulation 2015/35. The total amount of the Pillar 1 capital requirement for this non-controlled participation requirements is EUR 72 million.

The value of the non EEA (re)insurance participations is included in the Market Consistent Balance Sheet. However, for the calculation of the Group eligible Own Funds, this value is put to zero. The corresponding capital requirement is put equal to zero as well. Reason is the non EEA (re)insurance participations (NCP's in Asia and Turkey) are under solvency regimes not deemed equivalent to Solvency and the necessary information for calculating the group solvency concerning these related undertakings is not available (article 229 of the Directive).

Minimum consolidated group SCR

The consolidated Group Solvency Capital Requirement is subject to a minimum which is the sum of:

- The Minimum Capital Requirement of the participating insurance or reinsurance undertaking;
- The proportional share of the Minimum Capital Requirement of the related insurance and reinsurance undertakings.

When calculating the Minimum Consolidated Group SCR ageas takes into account the full Minimum Capital Requirement of ageas SA/NV as a solo entity. This is in accordance with the regulation but results in a double counting of the (re) insurance risk because (re)insurance business within the (related) (re)insurance undertakings:

- is taken into account for the Minimum Capital Requirement of that (re)insurance undertaking and
- is also part of the Minimum Capital Requirement of ageas SA/NV as a solo entity. Because the floor of the solo Minimum Capital Requirement is equal to 25% of the solo Solvency Capital Requirement, which takes into account the (re)insurance business within the (related) (re)insurance undertakings, the Minimum Capital Requirement becomes significantly larger than the Linear Minimum Capital Requirement. Taking the Linear Minimum Capital Requirement into account to arrive at the Minimum Consolidated Group SCR would not have resulted in a double count. If Ageas would not have considered the full Minimum Capital Requirement of ageas SA/NV, but only the Linear Minimum Capital Requirement and applying the absolute floor of ageas SA/NV as a solo entity (in euros), the Minimum Consolidated Group SCR ratio would increase from 368.7% to 439.1%

E.2.2 SCR split by risk modules where standard formula is used and by risk category where an internal model is applied

For the breakdown of the base case SCR into different risk modules for SCR PIM, please refer to the Quantitative Reporting Template S.25.02.22.

Ageas uses simplifications within the calculation of the Solvency Capital Requirement for certain risk modules and sub-modules of certain subsidiaries within the group not having a material impact on the Solvency Capital Requirement.

Simplified calculations as meant under Articles 88-112 of the Delegated Acts are within AG Insurance only used for the calculation of the counterparty default risk module. The counterparty default risk module of AG Insurance represents in its totality only 3% of their total gross Solvency Capital Requirement before diversification. Therefore the impact of these simplified calculations can be considered as immaterial for Ageas. In this context, only the simplifications meant under articles 107, 111 and 112 are used.

Based on the proportionality principle, Ageas France applies simplified calculations for the calculation of the mortality risk and life-catastrophe risk sub-modules under the life underwriting risk module.

Ageas is also not using group-specific parameters within the standard formula. The Belgian regulator has used the option provided for in the third subparagraph of article 51(2) of the Directive 2009/138/EC and as a consequence does not require companies to separately disclose a capital add-on. However there is no capital add-on for Ageas.

The composition of the capital solvency requirement can be summarised as follows:

	31 December 2018	31 December 2017
Market Risk	4,420.6	4,835.0
Counterparty Default Risk	351.4	333.3
Life Underwriting Risk	633.5	669.7
Health Underwriting Risk	347.8	382.3
Non-life Underwriting Risk	718.4	697.3
Diversification between above mentioned risks	(1,395.0)	(1,427.6)
Non Diversifiable Risks	507.4	658.8
Loss-Absorption through Technical Provisions	(1,001.5)	(1,188.7)
Loss-Absorption through Deferred Taxes	(854.4)	(897.7)
Group Required Capital under Partial Internal Model (SCR)	3,728.1	4,062.4
Impact of Non-life Internal Model on Non-life Underwriting Risk	364.2	359.3
Impact of Non-life Internal Model on Diversification between risks	(198.4)	(209.3)
Impact of Non-life Internal Model on Loss-Absorption through Deferred Taxes	7.1	8.3
Group Required Capital under the SII Standard Formula	3,901.0	4,220.7

The decrease in SCR compared to last year is mainly due to lower SCR for equity risk & spread risk and the sale of the stake in Cardif Lux Vie S.A. (CLV)..

The group PIM SCR for Non-life Underwriting Risk of EUR 718.4 million consists of an amount EUR 596.6 million modelled within the internal model. The remaining part was included applying the standard formula.

E.2.3 Solvency ratios

The table below presents the Solvency ratios at Group level as at year end 2018:

	31 December 2018	31 December 2017
Total Eligible Solvency II Own Funds to meet the Group SCR	8,058.8	7,744.1
Group Required Capital under Partial Internal Model (SCR)	3,728.1	4,062.4
Capital Ratio	216.2%	190.6%
Total Eligible Solvency II Own Funds to meet the minimum consolidated Group SCR	7,426.1	7,019.1
Minimum consolidated Group SCR	2,014.1	1,876.4
Capital ratio	368.7%	374.1%

E.3
Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

Not applicable.

E.4
Differences between the standard formula and any internal model used

E.4.1 Information on Partial Internal Model used for calculation of SCR and MCR

Pillar 1 (Capital Requirements) of Solvency II requires insurers to calculate their Solvency Capital Requirement (SCR) using either the Standard Formula or a (Partial) Internal Model. The Standard Formula is determined by EIOPA, the European insurance regulator. A (Partial) Internal Model is calibrated by the insurance company and approved by the insurers' regulator. Ageas management believes that given the profile of its Non-life risk book, which mainly consists of traditional retail property and casualty policies, the Standard Formula overstates risks. For AG Insurance (AGI), Ageas Insurance Limited (AIL) and Tesco Underwriting (TU), the partial internal models for Non-life have received regulatory approval from both the Belgium and the UK regulator. Ageas Group therefore calculates its regulatory capital requirement under Pillar 1 based on the SCR PIM.

Pillar 2 (Governance & Supervision) covers the structure and management of insurance business and how they are governed. Ageas has put risk management at the heart of its decision-making and conducted an Own Risk and Solvency Assessments (ORSA); in this process management concluded that there are areas that are insufficiently captured using the SCR PIM. An internal view supports better the business decision taking by providing enhanced understanding of business lines risk profile and risks embedded in the liabilities. Ageas Group therefore calculates its internal capital requirements under Pillar 2 based on the SCR_{ageas}.

Management believes that under Pillar 2 one should recognize a credit risk linked to European government exposures, whereas this risk is disregarded in the SCR Standard Formula. At the same time management believes the SCR Standard Formula overestimates the credit risk of corporate bonds: it assesses credit risk on corporate bonds based on observed volatility of credit spreads, while such volatility is less relevant when in principle a buy and hold strategy is applied linked with the desire to match asset and liability duration. Management also concluded that the SCR Standard Formula is not suited to measure risks linked to investments in parking concessions: the Standard Formula disregards the value of such concessions. Therefore, Ageas uses for its capital management under Pillar 2 an approach that builds on the SCR PIM and includes models adopted by the Group. In this approach the Standard Formula Spread Risk on corporate bonds is divided in a fundamental and a non-fundamental spread charge. The Group decided to exclude the non-fundamental spread risk on corporate bonds, while a charge for the fundamental spread risk on Government exposure is added. The Group also applies an Internal Model Real Estate, in which the value of parking concessions is recognized and specific risk charges have been chosen. An Expected Loss Model (ELM) has been implemented under Pillar 2. Key objective is to replace the current in-force EIOPA VA to absorb short term spread volatility by a reflection of realized losses due to credit losses. A Company Specific EIOPA Volatility Adjustment was implemented for the rest of the companies. Transitional measures at local level are removed in the calculation of the SCR_{ageas}. This SCR is called the SCR_{ageas} which is reported by Ageas under Pillar 2. For further details we refer to B.3.4.2.

Pillar 3 (Reporting and Disclosure) covers the supervisory reporting and public disclosure. The SCR information disclosed by Ageas in the public Quantitative Reporting Templates is based on the SCR PIM.

E.4.2 Description of the various purposes for which that undertaking is using its internal model

The Non-life internal model, approved by the regulator in December 2015, is composed of an entity model used by AGI, AIL and TU and a group aggregation model used by the Group Ageas. The Entity model stochastically simulates (100.000 trials) the full market consistent profit and loss statement (P&L) and hence generates a full distribution of the insurance results for each line of business separately and for the entity as a whole, for each sub-risk and for all risks together. The aggregation model simulates 100.000 Ageas P&L results, per entity and for the group as a whole, per sub-risk (Premium & Reserve, Cat Nat, and Cat Man-Made risk) and all risks together.

As a first application, the Non-life internal model calculates the SCR for Non-life underwriting risk as the difference between the 99.5% percentile and the mean of the distribution of the P&L results.

Within the context of 'use test' this internal model has a number of other applications as summarized in the table below:

Use	Description of use
Internal Risk Reporting	Risk Reporting is the process currently providing information to the local Risk Committees, Ageas Risk Committee and Board.
Capital allocation per business line	Assessment of the current capital position and allocation / reallocation of capital.
Comparison with standard formula	Risk assessment of the internal model by comparison with Standard Formula result, which is a requirement from ORSA and is included in the testing strategy.
Risk Appetite	The process of setting and monitoring performance against Risk appetite / Risk tolerance statements. The full distribution of the insurance profit allows to consider other percentiles than the 99,5%.
Underwriting / pricing / product development	Decisions on introduction of new products or re-pricing of existing products.
P&L attribution analysis	The P&L attribution is an exercise (part of testing Strategy) which aims to ensure that all sources of risk are covered and are adequately covered by the internal model.
Reinsurance impact analysis	The process of setting and monitoring the effects of the reinsurance strategy.
Business strategy	Any activities associated with setting the strategic direction of the business as a whole. Setting of performance targets.
Risk strategy	Any activities involving the setting and monitoring of risk strategies.

E.4.3 Description of the technique which is used to integrate any partial internal model into the standard formula

When aggregating the Non-life risk, Ageas applies Article 328.1 (b) of the Delegated Act 2015/35 which determines that the group Non-life risk calculated by the Internal Model and the aggregated Non-life risk of the entities that apply the Standard Formula are added together without any benefit of diversification.

E.4.4 Description of the scope of the internal model in terms of business units and risk categories

The Non-life internal model covers the full Non-life business of AGI, AIL and TU including the product accident of AGI and AIL classified in Health in Standard SCR and also a limited part of Worker's compensation insurance of AGI. Health-related Lines of Business (Medical expense, Income protection and Worker's compensation insurance) are not in scope of the model.

As the risk categories covered, the Non-life Underwriting Risk distinguishes the following sub-risks, i.e. Premium attritional, Premium large, Reserve, Cat Man-Made and Cat Nat risk. Premium risk is the risk that the earned premium over the forthcoming year is insufficient to cover the expenses and claims to which these premiums are related (a distinction is made between attritional claims and large claims with a cost above a predefined threshold), Reserve risk is the risk that the claims provisions are insufficient to cover outstanding claims and claims expenses, Man-made Cat risk is the risk that catastrophes with a human cause such as terrorist attacks occur and 'Nat Cat risk' is the risk that natural catastrophes occur.

E.4.5 Description of the methods used in the internal model for the calculation of the probability distribution forecast and the Solvency Capital Requirement

The purpose of the Non-life internal model is to produce the Market Consistent Balance Sheet at t=0 (part related to the Non-life liabilities and the theoretical assets backing these liabilities) and to project this balance sheet over a one-year period (i.e. to t=1) in every of the 100.000 simulations, hence generating 100.000 values of the ΔNet Asset Value (NAV) (to note that the ΔNAV is equivalent to the market consistent P&L result).

Thanks to an appropriate level of granularity and a generation of the dependencies at the source, the P&L results can be obtained at entity level as well as for each sub-risk type and Line of Business. This allows a detailed analysis of the outcome of the model and a proper discussion with the relevant stakeholders.

Note that as the modelling of the Nat Cat risk is concerned, outputs from different external Cat models are considered in view of selecting the most appropriate model for each peril. Each entity and the group has a close collaboration with the Service CAT Providers and external CAT model vendors to maintain and deepen its knowledge of the Catastrophe modelling process, the assumptions and uncertainties inherent in the process.

E.4.6 Explanation, by risk module, of the main differences in the methodologies and underlying assumptions used in the standard formula and in the internal model

The methodology as used in the Non-life internal model shows a number of differences with the methodology underlying the Standard Formula (SF) for the underwriting Non-life risk.

Sub-risks: the sub-risks are similar between SF and IM, the premium risk is split into attritional and large losses in the internal model. The lapse risk is not calculated in IM but is aggregated with the other sub-risks.

Lines of business: are more granular in the internal model.

Distribution: The SF produces only 1 value at the 99.5% percentile while the internal model produces the full distribution.

Dependency & Aggregation: in the SF, the aggregation is based on a Var-Covar matrix that aggregates the SCR. In the internal model, the dependency is generated at the source on the gross losses, i.e. before reinsurance, before scaling down to the one-year volatility and before discounting.

Dependency is considered between Lines of Business and between sub-risks as it is the case in the standard formula.
In the Standard Formula premium and reserve risk and Cat Risk are aggregated using a correlation of 25%. In the Non-life internal model these are assumed to be independent.

Premium & reserve risk is a factor-based model in the standard formula. The factors are common for the whole European market and the impact of the reinsurance is obtained by applying a reduction factor to the SCR gross.

In the internal model, the risks are entity–specific and the model replicates almost at 100% the functioning of the entity reinsurance treaties.

Man-Made Cat Risk & Nat Cat Risk. In the standard formula, only 1 or 2 scenario are considered based on market parameters. Reinsurance impact is limited to the impact of the 1 or 2 scenarios. In the Non-life internal model, specific scenarios are considered and severity of losses are based on the exposure of each entity

For Cat NAT, external models are used to produce inputs to the internal model.

E.4.7 The risk measure and time period used in the internal model

The risk measure is the difference between the 99.5% Value at Risk and the mean of the Market Consistent P&L result in a one-year horizon.

E.4.8 Description of the nature and appropriateness of the data used in the internal model

Description of data's used in the internal model:

- Data's provided by group:
  - risk free curve;
  - currency exchange rate;
  - Frequency of CatNat events, based on external tool.
  - Correlation between entities
- Data's specific to each entity:
  - Parameters of distribution for attritional losses, large losses, outstanding losses based on historical data's taking into consideration assumptions of the business plan for the next year;
  - Correlation parameters: obtained by expert judgment where experts are the entity business managers;
  - Cat Man-Made Motor and Property: use of European database combined with the use of external tool where the input is the portfolio of each entity;
  - Cat Nat severity: use of external tool where the input is the portfolio of each entity;
  - Cat Man-Made Liability: use of entity specific scenarios;
  - Reinsurance: parameters of the entity treaties.

Appropriateness of the data's

Testing on data's and parameters selected are done to validate the selection made (group requirements). In addition, sensitivity and back-testing are made.

The process documentation is an end-to-end description of the tasks, data and systems involved in the Non-life assumption setting and Underwriting Risk SCR calculation. It details which activities need to be executed (description, tools / applications used, quality controls), validation points, and clear responsibilities (departments and roles).

Specific data quality checklists are executed on every internal model run, when exchanging data' between entities and group.

E.4.9 Risks not covered by the standard formula but covered by the internal model

For the two UK entities, specific risks that apply to the annuities (PPO's) are considered: longevity, inflation, propensity to become a PPO.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

Ageas has not faced any form of non-compliance with the minimum consolidated group Solvency Capital Requirement or significant non-compliance with the group Solvency Capital Requirement during the reporting period or at the reporting date.

E.6 Any other information

E.6.1 SCR_{ageas}

As mentioned in chapter E.4.1, Ageas uses an internal approach for its capital management based on the Partial Internal Model with an adjusted spread risk, applying an Internal Model for Real Estate and the removal of transitional measures (with the exception of the grandfathering of issued hybrid debt and the extension of reporting deadlines). In this adjustment, spread risk is calculated on the fundamental part of the spread risk for all bonds. This introduces an SCR charge for EU government bonds and decreases the spread risk charge for all other bonds. Technical provisions are net present valued using an interest curve as prescribed by EIOPA, but instead of using the standard volatility adjustment the companies apply a company specific volatility adjustment or use an expected loss model, based on the composition of their specific asset portfolio. This SCR is called the SCR_{ageas}.

The Group SCR Partial Internal Model can be reconciled to the Insurance SCR_{ageas} as follows.

	31 December 2018	31 December 2017
Group Partial Internal Model SCR	3,728	4,062
Exclude impact General Account	(78)	(74)
Insurance Partial Internal Model SCR	3,650	3,988
Impact of Real Estate Internal Model	(247)	(303)
Additional Spread Risk	143	274
Less Diversification	108	24
Less adjustment Technical Provision	(56)	(105)
Less Deferred Tax Loss Mitigation	55	56
Insurance SCR_{ageas}	3,652	3.934

The movement in the Insurance SCR$_{ageas}$ in 2018 is as follows:

Insurance SCR ageas (1 January 2018)	3,934
Model refinements	76
M&A - divestments	(132)
Market impact	(209)
Operational impact	(17)
Exceptional items	(2)
Insurance SCR ageas (31 December 2018)	3,652

The Own Funds SCR$_{ageas}$ can be reconciled to the Own Funds SCR Partial Internal Model as follows:

	31 December 2018	31 December 2017
Group Eligible Solvency II Own Funds under Partial Internal Model	8,059	7,744
Exclusion of General Account	(556)	(91)
Revaluation of Technical Provision	(314)	(161)
Recognition of Parking Concessions	208	212
Recalculation of Non Transferable and diversification	(4)	8
Insurance Eligible Solvency II ageas Own Funds	7,392	7,713

The movement in the Own Funds SCR$_{ageas}$ in 2018 is as follows:

Group Solvency II ageas Own Funds (1 January 2018)	7,874
Foreseeable dividend to be paid in 2018	407
Model refinements	15
M&A – divestment of Luxembourg+ Put Option	259
Capital fungibility	213
Market impact	(361)
Operational impact	587
Exceptional items	41
Capital transactions – share buy-back programs	(216)
M&A – acquisitions	-
Paid dividend in 2018	(407)
Foreseeable dividend to be paid in 2019	(414)
Group Solvency II ageas Own Funds (31 December 2018)	7,998

The capital position of Ageas per segment, based on the SCR$_{ageas}$, is as follows:

	31 December 2018			31 December 2017		
	Own Funds	SCR	Solvency Ratio	Own Funds	SCR	Solvency Ratio
Belgium	6,446.4	2,747.3	234.6%	6.858.7	2,890.3	237.3%
UK	820.1	490.3	167.3%	761.7	517.5	147.2%
Continental Europe	1,036.3	581.3	178.3%	1.393.2	673.7	206.8%
Reinsurance	111.1	56.7	195.7%	116.6	48.0	242.9%
Non Transferable Own Funds/Diversification	(1,021.8)	(223.9)		(1.417.0)	(195.4)	
Total Insurance	7,392.0	3,651.7	202.4%	7.713.2	3,934.1	196.1%
Impact of the inclusion of the General Account	606.2	76.1		160.7	76.1	
Total Ageas	7,998.2	3,727.8	214.6%	7.873.9	4,010.2	196.3%

E.6.2 SCR$_{ageas}$ at Insurance level

The sensitivities to the SCR$_{ageas}$ at Insurance level are discussed in chapter C.

At insurance level, the SCR$_{ageas}$ ratio is as follows:

	31 December 2018	31 December 2017
Insurance Eligible Solvency II $_{ageas}$ Own Funds	7.392	7.713.2
SCR $_{ageas}$	3.652	3.934.1
Insurance Solvency SCR $_{ageas}$ ratio	202%	196%

Ageas targets a minimum aggregate Solvency II capital ratio under SCR$_{ageas}$ of 175% at total Group level.

Risk sensitivity

Financial risk is the most significant risk for many of Ageas' operations. The risk framework in place at all operating companies combines investment policies, limits, stress tests and regular monitoring in order to control the nature and level of financial risks and to ensure that risks being taken are appropriate for both customer and shareholder and are appropriately rewarded.

The overall asset mix is determined by local businesses based on asset mix studies to identify the appropriate strategic assets, their adequacy from an Asset Liability Management (ALM) perspective and on regular monitoring of the market situation and prospects to decide on the tactical allocation. The decision process needs to balance risk appetite, capital requirements, long-term risks and return, policyholder expectations, profit sharing requirements, tax and liquidity issues to arrive at an appropriate target mix. The mission of the Group Risk function includes monitoring aggregate risk appetite covering financial risks and working with the local businesses to develop the policies and best practice, which must be adopted by the local Boards to ensure they become part of the local regular activity.

Key conclusions for each sensitivity are following:

As per 31/12/2018 Based on Solvency II$_{ageas}$		OF	SCR	Solvency	Impact Solvency ratio
Base case	Before stress	7.998	3.728	215%	-
Yield curve down	Down 50 bps	7.883	3.837	205%	(10%)
Yield curve up	Up 50 bps	8.060	3.619	223%	7%
UFR	UFR -15 bps	7.989	3.730	214%	(1%)
UFR	UFR -45bps	7.944	3.750	212%	(1%)
Equity	Down 25%	7.704	3.682	209%	(10%)
Property	Down 10%	7.728	3.788	204%	(9%)
Spread	corporate & government bonds up 50 bps	7.693	3.724	207%	(9%)
Corporate spread	corporate bonds up 50 bps	7.895	3.698	213%	(2%)
Sovereign spread	government bonds up 50 bps	7.796	3.758	207%	(7%)

As per 31/12/2017 Based on Solvency II$_{ageas}$		OF	SCR	Solvency	Impact Solvency ratio
Base case	Before stress	7,713	3,934	196%	
Yield curve down	Down 50 bps	7,623	4,088	186%	(10%)
Yield curve up	Up 50 bps	7,764	3,812	204%	8%
Ultimate Forward Rate	Down to 4.05%	7,703	3,949	195%	(1%)
	Down to 3.65%	7,659	3,962	193%	(3%)
Equity	Down 25%	7,414	3,935	188%	(8%)
Property	Down 15%	7,284	3,995	182%	(14%)
Spread	corporate & government bonds up 50 bps	7,395	3,910	189%	(7%)
Corporate spread	corporate bonds up 50 bps	7,664	3,941	194%	(2%)
Sovereign spread	government bonds up 50 bps	7,449	3,912	190%	(6%)

Key elements for interpretation of each sensitivity are following:

Interest Rates: Yield Curve

a. Down: - 50bps

- Sensitivity applies a shock on the yield curve of -50 bps. The shock is applied on the non-extrapolated part of the yield curve impacting both assets & liabilities. This shocked market data is extrapolated to the UFR reaching 4.05% in line with the EIOPA guidance. No floor is applied allowing negative interest rates.
- The Impact on the own funds is limited thanks to the matching between assets and liabilities.

b. Up + 50bps

- Sensitivity applies a shock on the yield curve of +50 bps. The shock is applied on the non-extrapolated part of the yield curve impacting both assets & liabilities. This shocked market data is extrapolated to the UFR reaching 4.05% in line with the EIOPA guidance.
- This sensitivity is the reverse of the downward scenario and results consequently in a positive impact on the Solvency II ratio explained by increasing own funds strengthened by a decreasing SCR.

Ultimate Forward Rate (UFR)

a. -15bps

- The UFR of the Solvency II yield curve is reviewed downwards with 15bps to 3.9% (instead of 4.05%) impacting only the extrapolation of the yield curve.
- This reduction is applicable for the calculation of the risk-free interest rates as of 1 January 2019 in line with the gradual transition towards the long term UFR of 3.6% limited to 15 basis points per annum

b -45bps

- The UFR of the Solvency II yield curve is shocked to 3.6% (instead of 4.05%) impacting only the extrapolation of the yield curve. All points on the yield curve prior to and including the last liquid point (LLP) remain unchanged. This does not impact immediately the assets.

EIOPA has calculated the ultimate forward rate (UFR) for 2019 in accordance with the methodology to derive the UFR. For the euro, the calculated UFR for 2019 is 3.60%. As the current UFR for the euro is 4.05% and the annual change of the UFR is according to the methodology limited to 15 basis points, the applicable UFR in 2019 is 3.90% but we can expect a further drop to 3.6% during the next years.

Equity - 25%

- This sensitivity applies a shock on the equity portfolio of -25%.
- Note that the impact is mitigated by a corresponding decrease of the equity shock in the SCR thanks to a review of the equity symmetric adjustment to -10%.

Property - 10%

- This sensitivity applies a shock on property of -10%.

Credit Spread

- This sensitivity increases credit spreads for the respective part of fixed income with 50 basis points.
- For pillar 1 credit spread sensitivities, we recalculate the Volatility Adjustment (VA) in the different sensitivities to reflect the new spread environment in line with the EIOPA methodology.
- For Pillar 2, the credit spread modelling refinement introduced in 2017 reduced strongly the impact of credit spread volatility thanks to the better compensation between assets and liabilities. The Expected Loss Model (ELM) is introduced in core Life companies, materially exposed to spread volatility. ELM replaces the EIOPA VA to absorb short term spread volatility by a reflection of realized losses due to credit losses. The Company EIOPA VA was introduced in the other companies and absorbs also better credit spreads shocks thanks to the elimination of the basis risk between the own assets and the EIOPA reference portfolio embedded in the EIOPA VA. This explains why significant part of the initial impact on the assets is offset by a better volatility absorption resulting in a more economic view for Pillar 2 compared to Pillar 1.
- Note that credit ratings are not impacted as part of these credit spread sensitivities and consequently no downgrade of credit ratings is assumed. Considering that the implementation of the credit spread modelling refinement determines the fundamental spread risk mainly based on the credit rating, credit rating downgrade of material exposures will also have a negative impact on the pillar 2 solvency ratio.

a. Sovereign and Corporate Spread + 50 bps

- This sensitivity applies a credit spread shock of +50 bps on the fixed income portfolio (sovereign and corporate).
- As both corporate & sovereign bonds are shocked equally, the composition of the EIOPA reference portfolio, applicable for VA recalculation under Pillar 1, is less relevant for the sensitivity.

b. Corporate Spreads +50 bps

- This sensitivity applies a credit spread shock of +50 bps on the corporate fixed income portfolio. The solvency II yield curve is adjusted for the recalibrated Volatility Adjustment.
- This stress test impacts the Pillar 1 Solvency II ratio in a positive way explained by the overcompensation of the Volatility Adjustment as defined by EIOPA based on a reference portfolio increasing the risk free rate used for discounting of the Technical Provisions (TP). Given the reference portfolio overweighs corporate bonds and the shock on corporate spread is applied on corporate bonds
- with a shorter duration, the decrease in technical provisions is larger than the drop in assets for this stress. This illogic result is not applicable in our economic Pillar 2 assessment thanks to the elimination of the basis risk from the Pillar 2 MCBS.

c. Sovereign Spread + 50bps

- This sensitivity applies a credit spread shock of +50 bps on the sovereign fixed income portfolio. The solvency II yield curve is adjusted for the recalibrated Volatility Adjustment.
- This sensitivity has a much stronger negative impact on the Pillar 1 Solvency II ratio as the Own Funds decrease in line with the shock on the value of government bond portfolio which is under-compensated by the EIOPA volatility adjustment given the Ageas overweight in sovereign exposure compared to the reference portfolio. This impact is mitigated in our economic view visible in the Pillar 2 assessment.

Management approval

The Board of Directors has reviewed the Ageas Solvency and Financial condition Report on 15 May 2019 and has authorised it for issuance.

Brussels, 15 May 2019

Board of Directors

Chairman	Jozef De Mey
Vice-Chairman	Guy de Selliers de Moranville
Chief Executive Officer	Bart De Smet
Chief Financial Officer	Christophe Boizard
Chief Risk Officer	Filip Coremans
Chief Operation Officer	Antonio Cano
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	Jane Murphy
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	Lucrezia Reichlin
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