Group Solvency & Financial Condition Report – Executive Summary

2019

Executive Summary

Set out below is the executive summary of the Solvency and Financial Condition Report of "ETHNIKI" Hellenic General Insurance Company Group ("the Group"), which includes key figures and information on the Group's business and performance, system of Governance, risk profile, valuation for solvency purposes, capital management, impact of Covid-19 outbreak and its future prospects:

Key Figures

The following table depicts the Group key figures for the financial years 2019 and 2018.

Solvency II Key Figures	31.12.2018	31.12.2017
(€ *in thousands*)		
Group eligible own funds		
Tier 1	592.661	577.489
Tier 2	-	-
Tier 3	53.753	48.398
Total Group eligible own funds	**646.414**	**625.887**
Capital Requirement		
Group Solvency Capital Requirement (SCR)	378.952	341.267
Group Solvency Ratio	171%	183%

As indicated in the above Table, as at 31.12.2019, the Group's eligible own funds exceed the Solvency Capital Requirement (SCR).

For 2019, no dividend will be distributed by any of the Group's Companies.

Business and Performance

The Group is present in Greece through "ETHNIKI" Hellenic General Insurance Company ("the Participant") and in Cyprus and Romania through Ethniki Insurance (Cyprus) Ltd, Ethniki General Insurance (Cyprus) Ltd, Garanta Asigurari S.A. (collectively: "the related undertakings") and Ethniki Insurance Agents and Consultants Ltd.

In 2019, the Group maintained robust levels of profitability, remaining a financially sound and robust beacon of stability for its policyholders.

The results of 2019 confirmed the Group's positive performance which continues its healthy profitability with Profit before Tax ("PBT") amounting to €82.3m compared to €62.8m in 2018. It is noted that 2019 has been impacted by the cost of the Participant's Voluntary Exit Scheme (VES) amounting to €15.1m. Gross Written Premiums ("GWP") for 2019 amount to €781.2m (2018: €642.1m), including GWP of investment products amounting to €30.6m (2018: €29.0m), up 21.7% compared to 2018. Out of the total GWP of 2019, €585.3m is attributed to the Life business (2018: €446.1m) and €195.9m to the Non-Life business. (2018: €196.0m).

The Group is prepared to deal efficiently with the upcoming challenges and new risks emerged by the Covid-19 outbreak, while maintaining robust levels of capital adequacy and remaining able to provide insurance services to its policyholders effectively.

System of Corporate Governance

The Group has an effective Corporate Governance System which ensures sound and prudent management and promotes the Group's continuity, consistency and proper operation.

The Board of Directors ("BoD") of the Participant and its related undertakings (supported by the Participant's BoD Committees) is responsible for setting out the strategic direction of the Group, the supervision and oversight of management, the adequate control of the Group, aiming at the maximization of its long term value, and the advancement of Group corporate interests within the current legal and regulatory framework.

The System of Corporate Governance of the Group includes:

1. Policies and procedures, authorized by the BoD of the Participant (and all related undertakings), such as Corporate Governance Code, Fit and proper Policy, Remuneration and Outsourcing policy.
2. Internal Control system which secures to the highest possible extent that Internal controls operate properly as designed, are adequate and promote consistent implementation of business strategy, that risks undertaken are recognized and effectively managed, and that financial information provided is reliable. Herein, the Internal Financial Control System contains– inter alia- allocation of responsibilities to personnel, establishment and documentation of procedures and safety mechanisms, and the conduct of regular and extraordinary audits by the competent Corporate Units.
3. Risk management, which aims at the timely identification, adequate assessment and effective monitoring, management and reporting of risks, existing and emerging, throughout the range of business activities. For the effective operation of the risk management system, Risk Management Strategies and Policies are developed for the Group and the Own Risks & Solvency Assessment ("ORSA") is undertaken.
4. Four key functions: Internal Audit, Actuarial, Risk Management and Regulatory Compliance Function, which operate on the basis of approved Group-wide Regulations. Their independence and effectiveness are ensured by the BoD.

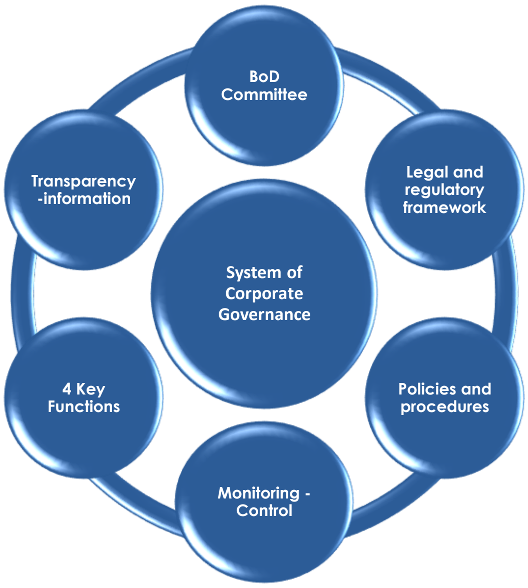

Diagram: Illustration of a System of Governance

Risk Profile

The Participant and its related undertakings monitor their risk profile through coordinated procedures for the identification, evaluation, management and reporting of the undertaken risks with the involvement of all business units.

In this framework, the following risks have been identified and managed through the development of policies and respective procedures:

Financial year 2019 was characterized by an increased level of uncertainty geopolitically as well as financially. The above fact has significantly contributed to investors' shift towards safer positions and consequently reduced the risk free interest rates. The stabilization and the continuing growth of the Greek economy, after the country's permanent exit from the Memorandum program in 2018, has substantially led to restoring investor's confidence and deescalating its lending rate, which has facilitated the issuance of government securities within 2019.

At the same time, the adoption, as well as the introduction of new regulations, affected the operation of the insurance market and rendered compliance risk one of the major risks that the Group has to face. Due to the current macroeconomic conditions in Greece and globally, the main strategic risks that affected the Group activities in 2019, are those stemming from the unstable financial and operating business environment in general.

For the calculation of Group Solvency, the alternative method referred to in the article 233 of Directive 2009/138/EC of the European Parliament and of the Council is followed ("deduction and aggregation method") and is based on the following:

i. The use of transitional measures and volatility adjustment to the relevant risk free interest rate term structure for the Participant ("adjusted curve")
ii. The use of risk free curve for the Ethniki Insurance (Cyprus) Ltd. It is noted that the adjusted curve has been used for 31.12.2018
iii. The use of risk free curve for the Ethniki General Insurance (Cyprus) Ltd.
iv. The use of risk free curve for the Garanta Asigurari S.A.

The quantitative assessment of the Solvency Capital Requirement that stems from the undertaken risks is performed with the use of the standard approach. The suitability of this method, in relation to the Group's risk profile, has been evaluated within the framework of the ORSA of the Group.

The Group solvency capital requirement at 31.12.2019, with the use, by the Participant, of the adjusted curve and the transitional measures on technical provisions and on the equity risk sub-module ("transitional measures"), amounts to €379.0m as opposed to €341.3m as at 31.12.2018 at Group level.

The solvency capital requirements of the Participant as well as of its affiliated companies, as calculated for 31.12.2019 and 31.12.2018 are presented in the following tables:

A. Solvency capital requirements for 31.12.2019

Solvency Capital Requirements (amounts in € thousands) 31.12.2019	Participant	Ethniki Cyprus Life Insurance	Ethniki Cyprus Non-Life Insurance	Garanta
Market risk	178.989	3.960	1.794	3.384
Credit risk	23.095	2.360	2.216	1.729
Insurance risk Life	139.018	4.487	0	626
Insurance risk Health	91.035	476	2.007	526
Insurance risk Non - Life	81.578	0	2.763	4.253
Diversification	*(185.594)*	(3.343)	(2.914)	*(3.184)*
BSCR	**328.121**	**7.940**	**5.866**	**7.334**
Operational risk	29.600	456	584	293
LAC	0	0	0	(903)
Solvency Capital Requirement	**357.721**	**8.396**	**6.450**	**6.723**

B. Solvency capital requirements for 31.12.2018

Solvency Capital Requirements (amounts in € thousands) 31.12.2018	Participant	Ethniki Cyprus Life Insurance	Ethniki Cyprus Non-Life Insurance	Garanta
Market risk	168.775	3.681	2.006	3.397
Credit risk	31.638	2.115	2.183	1.814
Insurance risk Life	110.874	3.568	0	864
Insurance risk Health	79.094	415	1.958	451
Insurance risk Non - Life	80.593	0	2.612	2.838
Diversification	(171.021)	(2.916)	(2.923)	(2.999)
BSCR	**299.953**	**6.863**	**5.836**	**6.365**
Operational risk	*22.290*	*353*	*576*	*258*
LAC	*0*	*0*	*(86)*	*(850)*
Solvency Capital Requirement	**322.243**	**7.216**	**6.326**	**5.773**

The above table depicts the total SCR of each group entity which, for the purpose of calculating Group SCR, is multiplied by the share of the Participant in each affiliated company.

There was no material change to the Group's total risk profile, compared to the previous reporting period.

The Group has performed a sensitivity analysis, in order to estimate the effect of changes in risk factors on its own funds as at 31.12.2019. The sensitivity analysis was performed with:

a. The use of transitional measures and adjusted curve for the Participant.
b. The use of risk free curve of the part of Ethniki Insurance (Cyprus) Ltd.
c. The use of risk free curve of the part of Ethniki General Insurance (Cyprus) Ltd.
d. The use of risk free curve of the part of Garanta Asigurari S.A.

The results of the sensitivity analysis are summarized in the table below:

Scenarios	Value	Change (amounts in € thousands): Own capital	Capital Adequacy ratio
Increase of interest rates	+1%	58.688	186%
Decrease of interest rates	-1%	(87.396)	148%
Decrease of equity prices	-30%	(54.668)	156%
Decrease in property value	-6%	(14.516)	167%
Increase of government bond spreads by 100 b.p.s. and depending on the credit rating for corporate	AAA: +0,24% AA: +1,20% A: +1,35% BBB: +2,14% BB: +2,60% B or lower: +3,23% Non-Rated: +3,50%	(195.599)	119%

A description of the results and parameters of the sensitivity analyses is set out in Chapter 3. "Risk Profile".

Valuation for Solvency Purposes

Group undertakings evaluate assets and liabilities and calculate technical provisions in accordance with Chapter VI, section 1 and 2 of Greek Law 4364/2016 and Chapter VI, section 1 and 2 of Directive 2009/138/EC of the European Parliament and of the Council.

For assets and liabilities which are valued at fair value in accordance with International Accounting Reporting Standards ("IFRS"), no further adjustments are performed. The remaining assets and liabilities, are adjusted to fair value. Technical provisions are valued in accordance with the valuation rules of technical provisions.

Compared to the previous reporting year, the Group did not make any changes or adjustments to the valuation methods used, except for the following:

A) Implementation of the new IFRS 16 «Leases», effective from 01.01.2019

According to the new IFRS 16, the Group starting from 01.01.2019 recognizes, for long-term (over one year) and non-low-value leases, an asset with the right-of-use, which represents the right to use the underlying asset and a lease liability, which represents the obligation to pay rent.

The lease liability is measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate ("IBR"). The IBR is the interest rate at which the Group would be charged if it borrowed the necessary funds to purchase an asset of similar value to the asset with the right-of-use, for a similar period of time, with similar collateral and in a similar financial environment.

The asset with the right-of-use is initially measured at the value of the lease liability, which is increased by any additional direct costs on the part of the lessee.

The right-of-use is recorded in the line item "Tangible assets for own-use" while the liability from the lease in the line item "Other liabilities".

B) Valuation of non-listed shares

Effective from 01.01.2019, non-listed shares are measured at fair value compared to the acquisition cost at which they were valued until 31.12.2018.

For the calculation of Group eligible own funds, Method 2 (alternative method) is applied, in accordance with article 233 of Directive 2009/138/EC of the European Parliament and of the Council (article 191 of Greek Law 4364/2016) and therefore a Solvency II balance sheet is not prepared for the Group. The Bank of Greece ("BoG"), with the decision No. 184/4/25.04.2016 of its Committee of Credit and Insurance Issues ("CIIC"), approved the use of method 2 for the calculation of the Solvency capital requirement, effective from 01.01.2016.

Capital Management

Through capital management, the Group aims to optimize the balance between risk and return, ensuring that its funds are adequate to cover capital requirements. In order to achieve this task, a Capital Management Policy has been developed, which is in line with the Group's risk appetite and strategy.

To effectively monitor the capital position of the Group, capital adequacy limits on the capital adequacy ratio of the Group are set in the Policy.

The Participant, with decision No 184/6/25.04.2016 of the CIIC of BoG, has received an approval for using the transitional measure on technical provisions amounting to €238.3 m., on which it applies a linear amortization for 16 years.

According to the decision No. 269/5/09.05.2018 of the CIIC of BoG and in accordance with the provisions of article 275 of Greek Law 4364/2016, the transitional measure was set at €205.8m. The reduction of the technical provisions relates to the liability of the health legacy portfolio with a restriction on premium adjustment and is amortized linearly over a sixteen (16) year period. As at 31.12.2019 the unamortized value of the transitional measure on technical provisions amounting to €167.2m (13/16 of the initial amount of the transitional measure of €205.8m) and for 2020 will amount to €154.3m (12/16 of €205.8m).

The Group Solvency Capital Requirement ratio with the use of the volatility adjustment on the relevant risk free interest rate term structure and transitional measures reached 170.6% at 31.12.2019, compared to 183.4% at 31.12.2018.

The Solvency Capital Requirement ratio without the use of the transitional measure for technical provisions but using the volatility adjustment and the transitional measure for the equity risk sub-module, by the Participant, amounts to 126.5% as at 31.12.2019 compared to 130.6% as at 31.12.2018.

The Group, as at 31.12.2019 exceeds the solvency capital requirement target set in its Own Funds' Management Policy. The total eligible own funds at Group level with the aggregation and deduction method amount to €646.4m as at 31.12.2019, and the Group solvency capital requirement stands at €379.0m.

Taking into account the above, the Group Solvency capital adequacy ratio reached 171%, with the use of transitional measures, decreasing by 12 percentage units compared with last year's ratio.

The decrease in the ratio is mainly due to the increase of the Group capital requirement by €37.7m in 2019. Eligible own funds, increased by €20.5m in the same period.

The increase of capital requirements is attributed mainly to the increase of capital requirements for Insurance risk, more specifically from life insurance risk (increase of €28.8m) and health insurance risk (increase of €11.9m).

The increase of eligible own funds by €20.5m, in 2019 compared to 2018, is mainly driven by:

- The increased profitability of the Participant (€81.7m in 2019, compared to €63.1m in 2018)
- The increase of the Participant's investment portfolio market value by €154.4m.

The above are offset by the increase in technical provisions by €214.4m in 2019. The increase is mainly attributable to Life and Health Lines of Business and is mainly due to the reduction of risk free interest rate curve compared to 31.12.2018 and the evolution of the portfolio.

Impact of Covid-19

The new coronavirus Covid-19 pandemic is a new emerging risk. The rapid spread of the pandemic worldwide has negatively affected the global economy, with the Greek economy facing challenges due to its significant dependence on services and tourism.

The positive economic environment during 2019 and the significant decrease of credit spreads of Southern European government bonds, was reversed due to the negative developments related to Covid-19. However, the Group's robust capital adequacy before the beginning of the pandemic, as well as the decision of the European Central Bank to include Greece in the quantitative easing program, have mitigated the effects on the Group's own funds and protected its capital adequacy.

In particular for the Group, the possible effects of the pandemic are focused on the following areas:

i. Value of investment portfolio
ii. Regulatory own funds and Solvency
iii. Liquidity
iv. Insurance claims
v. Premiums and profitability and
vi. Business continuity

The Group is in the process of revising its business plan, taking into account the effects of the Covid-19 pandemic, as the gradual relaxation of restrictions and the restart of several sectors of the economy make it possible to estimate the progress of its financial figures.

Prospects for the Future

The Group is in the process of implementing an ambitious strategic transformation program the main parameters of which are the upgrade and modernization of its technological infrastructures and the utilization of the possibilities provided by the constantly developing digital environment. In this light, the projects that are currently active aim to maximize insurance level performance (speed, flexibility, service, analysis) and ensure compliance with new stricter standards of security and data management as well as new financial reporting requirements.

At the same time, the Group has responded promptly to the developments that arose from the pandemic of Covid-19. The primary target of the Group is the full and immediate coverage of its policyholders, as well as the health and safety of its human resources and associates.

ETHNIKI
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