Solvency and Financial Condition Report

FY 2020

SOLVENCY AND FINANCIAL CONDITION REPORT – FY 2020

1. Summary

Wakam, a leading player in white-label insurance products, posted stable revenue (+1%) in 2020, a year marked by the Coronavirus pandemic. This growth is below the levels posted in previous years and below the company's growth ambitions for the years ahead.

- **Revenue**[1] increased from €381.7 million in 2019 to €384.0 million in 2020 (+1%).
- **The underwriting margin net of reinsurance** is down slightly from €32.9 million in 2019 to €32.3 million in 2020 (-2%).

The Coronavirus crisis which began in the first quarter 2020 allowed Wakam to display its adaptability and resilience by continuing business and the Company's transformation.

Major changes made during the period include a change of brand to better align the Company's identity with its operating model. La Parisienne Assurances therefore became Wakam in September 2020.

The positions of Chairman of the Board of Directors and Chief Executive Officer were separated early in 2021, Mr. Olivier Jaillon retaining this latter position and Mr. Emmanuel Clarke, formerly CEO of the international reinsurer Partner Re, and new independent director of the Company, was appointed Chairman of the Board of Wakam SA.

The members of the Company's Board of Directors also changed at the very beginning of 2021 to include, in addition to Mr. Emmanuel Clarke, Mr. Gilles Babinet, Co-President of the Conseil national du numérique, independent director, Mr. Rémi Grenier, former CEO of Allianz Partners, independent director, and Ms. Natacha Valla, economist, former Deputy Director General at the European Central Bank, non-voting member.

The system of governance of Wakam also changed during 2020 with a new holder of the Compliance Oversight key function.

Following the preparation of the risk budget, reinsurance rates were maintained at the same level as 2019 (83% on average) to preserve the balance between growth and own funds requirements. The average level of reinsurance also gained from bigger growth of the product lines with the highest reinsurance rates (Fronting, Gig Economy).

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[1] Gross premiums written

As of December 31, 2020 the Company complied with its overall solvency requirement. The Solvency Capital Requirement (SCR) coverage ratio amounted to 161% compared to 150% as of December 31, 2019.

In this context, the Company's risk exposure only changed slightly compared with portfolio growth, and the risk profile is comparable to the previous financial year, with a predominance of risks relating to outsourcing material claims management, counterparty risks due to the high reinsurance rate and the extent of the affinity activity, non-life underwriting risks, market risk and liquidity risk.

The improvement of the solvency margin, which is particularly monitored through the Own Risk and Solvency Assessment (ORSA), stems from:

- good control of net income, coupled with measures to reinforce own funds,
- good reinsurance management, particularly the renewal of reinsurance treaties for FY 2020.

As in 2020, the Company will continue to strengthen its risk management system in 2021, particularly the teams and related tools, to support the strong growth of Wakam which proved to be particularly dynamic in the first quarter 2021.

Olivier Jaillon
Chief Executive Officer

2. Business and Performance

2.1. General Information about Wakam

Name and Legal Form

Wakam is a *Société Anonyme* (French business corporation) governed by the French Insurance Code (Code des Assurances), with share capital of €4,514,512, headquartered at 120-122, rue Réaumur, 75002 Paris, and registered in the Paris Trade and Companies Register under number 562 117 085.

Supervisory Authority

The Company is supervised by the French Prudential Supervision and Resolution Authority (ACPR), located at 4 Place de Budapest, 75436 Paris.

Name and Contact Details of the Company's Independent Auditor

The Company's permanent Statutory Auditor as of December 31, 2020 is Mazars, 61 rue Henri Regnault, 92075 Paris La Défense Cedex, represented by Mr. Pierre de Latude, Partner.

Material Participating Undertakings

The shareholders reaching the share capital or voting rights thresholds mentioned in Article L. 233-13 of the French Commercial Code are presented in the table below.

	Number of Shares		Percentage of capital	
	2020	2019	2020	2019
Protegys SAS	272,698	271,766	96.65%	97.7%

Position within the Protegys Group Legal Structure

Wakam belongs to the Protegys Group. The Company is owned by Protegys SAS (holding company).

Material Lines of Business and Geographical Locations

Wakam carries authorization in the branches mentioned in sub-sections 1, 2, 3, 8, 9, 10, 13, 16, 17 and 18 of Article R. 321-1 of the French Insurance Code. Wakam designs and underwrites non-life insurance products, mainly intended for retail customers and distributed through a network of partners. The Company provides motor vehicle, property damage and affinity insurance, in France and in thirteen European countries under the "freedom to provide services".

Significant Events during the Reporting Period

For Wakam, 2020 was marked by:

- **Continued sustained commercial growth**, particularly the number of partnerships.
- **Good control of the Company's underwriting profitability**, through strong measures to reshape underwriting and manage the cost ratio.
- **Reinforcement of the specific "Bespoke" organization to meet the needs of non-traditional distribution networks** (E-commerce retailers, Fintechs, Other non-insurer distributors) achieved by structuring the product offering and choosing third-party managers to build modular insurance solutions tailored to each partnership. This Bespoke organization structures the Company's internal methodology around four phases (Seek, Qualify, Achieve and Develop) in a manner that is shared with partners and transparent.
- **An increase in the human capital** with the recruitment of 61 new hires in 2020 mainly in claims and portfolio monitoring, reinsurance management, construction of offers and products, development and digital transformation. This growth in the headcount mitigates the key-person risk but has also been identified as a source of operational risk. However, this operational risk is managed particularly via the induction process rolled out for new hires.
- **Management of solvency and compliance risks** in a more stringent regulatory context requiring larger audit teams.

2.2. Underwriting Performance

Overall Analysis

(in € million)	12/31/20	12/31/19	Change (€m)	Change (%)
Premiums written	**384.0**	**381.7**	**2.3**	**1%**
Change in UEP	13.1	-29.1	42.2	-145%
Premiums earned	**397.0**	**352.6**	**44.4**	**13%**
Gross claims	-266.2	-196	-70.2	36%
Commissions	-145.3	-139.6	-5.7	4%
Reinsurance balance	46.2	15.3	30.9	202%
IPaaS income	0.1	0.2	-0.1	-71%
IPaaS grant	0.5	0.5	0.0	8%
Net underwriting income	**32.3**	**32.9**	**-0.6**	**-2%**

Change compared to the previous Reporting Period

Key indicators reflect stable revenue despite the health crisis and a slight decline in the net underwriting margin, impacted by revised prior period provisions combined with an increase in overheads, resulting in a decrease in operating and net income.

- **Revenue is stable (+0.6%) at €384 million** with continued development of new business in the GIG branch (+€12.5 million) mainly concentrated on two new brokers, and growth in the Property Damage segment (+€8 million) also concentrated on one new broker. Conversely, the Car & Motorcycle segment is down -€6.2 million.
- **The loss ratio net of reinsurance is up +4.1 pts**, following a change to the portfolio mix and prior period provisioning and the occurrence of serious claims particularly in Property Damage (+80.9 pts gross) and Affinity (+19.8 pts gross).

Breakdown by Segment

Revenue by Product Line and Geographical Location

(in € million)	**12/31/20**	**12/31/2019**	**Change (€ million)**	**Change (%)**
Auto and Motorcycle	76.5	82.6	-6.2	-7%
Property Damage	26.3	18.3	+8.0	+44%
Fronting	76.3	145.2	-68.9	-47%
GIG Economy	57.0	44.5	+12.5	+28%
Affinity and Other	147.9	91.2	+56.7	+62%
TOTAL	**384.0**	**381.7**	+2.2	+1%
France	162.2	170.6	-8.4	-5%
Other European Union	221.8	211.1	+10.6	+5%
TOTAL	**384.0**	**381.7**	+2.2	+1%

Net Underwriting Income by Product Line and Geographical Location

(in € million)	12/31/20	12/31/2019	Change (€ million)	Change (%)
Auto and Motorcycle	20.3	10.4	+9.9	+95%
Property Damage	(3.3)	3.8	-7.1	-188%
Fronting	2.3	6.0	-3.7	-62%
GIG Economy	6.5	2.9	+3.5	+122%
Affinity and Other	6.6	9.7	-3.1	-32%
TOTAL	32.3	32.9	-0.6	-2%
France	20.2	23.4	-3.2	-14%
Other European Union	12.1	9.5	+2.6	+27%
TOTAL	32.3	32.9	-0.6	-2%

Loss Ratio Net of Reinsurance by Product Line and Geographical Location

	12/31/20	12/31/2019	Change (€ million)	Change in pts
Car and Motorcycle	56.2%	67.3%		-11.0 pts
Property Damage	84.7%	56.4%		28.3 pts
Fronting	84.0%	57.6%		26.4 pts
GIG Economy	68.6%	69.6%		-1.0 pts
Affinity and Other	29.5%	19.4%		10.1 pts
TOTAL	55.4%	51.3%		4.2 pts
France	56.2%	51.5%		4.7 pts
Other European Union	54.9%	50.8%		4.1 pts
TOTAL	55.4%	51.3%		4.2 pts

2.3. Financial Performance

(in € million)	12/31/20	31/12/19	Change (€m)	Change (%)
Real Estate	0.5	0.5	+0.1	+17%
Equities and securities	0.0	0.0	-0.0	-47%
Equities	0.0	0.0	-0.0	-0%
Equity funds	0.0	0.0	-0.0	-47%
Loans	1.4	1.0	+0.4	+38%
Bonds	1.3	1.5	-0.2	-16%
Private Equity	0.1	0.2	-0.1	-6%
Interest on term deposits / Current accounts				
Investment income	3.3	3.2	+0.1	+2%
Real Estate				
Equities and securities	0.0	-0.1	+0.1	
Equities				
Equity funds	0.0	-0.1	+0.1	
Loans				
Bonds	-0.2	-0.0	-0.2	-100%
UCITS		0.1	-0.1	-100%
Private Equity				
Realized capital gains / losses	-0.2	-0.1	-0.1	-79%
Provision for long-term impairment	-0.2	-0.2	+0.0	+9%
Subordinated debt interest	-1.2	-1.2	0	0%
Foreign exchange gain/loss	-0.15	0.1	-0.3	-210%
Financial expenses	-0.3	0	-0.3	
Net investment income	1.2	1.9	-0.7	-37%
Average assets over the period	112.2	116.5		
Accounting rate of return*	2.1%	2.7%		
o/w Income	2.4%	2.8%		
o/w realized capital gains / losses	-0.2%	0%		

** The accounting rate of return is calculated by the ratio between the net investment income excluding cost of subordinated debt and the average securities portfolio*

Overall Analysis

Net investment income decreased in 2020 mainly due to the reclassification of €0.3 million in financial expenses previously posted in overheads and an adverse foreign exchange effect of €0.25 million.

Change compared to the previous Reporting Period

Net investment income shows a -€0.7 million decrease stemming from:

- The reclassification in financial expenses of €0.3 million of costs inherent in managing the portfolio
- A -€0.3 million foreign exchange effect in 2020, showing a foreign exchange loss of -

€0.2 million compared to a €0.1 million gain in 2019

- **Capital losses on bonds** in an amount of -€0.2 million
- **Investment income was up slightly (+€0.1 million)** driven by **the good performance of income from loans** which increased +€0.4 million from the previous year, offsetting lower income from bonds.

2.4. Performances from Other Activities

On January 1, 2019 alongside its non-life insurance activity, Wakam began marketing Insurance Product as a Service (IPaaS) whereby its assists its partners with the digital transition of their activities.

2.5. Other Information

In accordance with Articles R. 356-29 and R. 356-30 of the French Insurance Code and Articles 376 and 377 of Delegated Regulation (EU) 2015/35, we inform you that the following intra-group transactions between Wakam and the Protegys Group were carried out during the financial year 2020:

- Wakam Trademark sale: The trademark was sold by Wakam SA to Protegys SAS for €3,682,400 ex-VAT. As it has been sold, the trademark is not included in Wakam's balance sheet assets.
- Sale of intellectual property rights, intangible assets and domain names:
  The sale was made at the net book value of €6,859,947 ex-VAT. The domain names were sold for €6,011 (not recognized on the closing date 2020).

3. System of Governance

3.1. General Information

General Organization Chart, Delegations and Key Functions

- The **Board of Directors** meets quarterly to approve strategic objectives and the governance framework, the resources required for risk management, the risk profile in the event of significant changes, supervisory communication and the portfolio of key projects. It assumes responsibility for meeting prudential requirements. Two committees are tasked with preparing its work:

– The **Audit and Risks Committee**, which meets at least four times a year, is chaired by an independent director. It is responsible for planning and commissioning internal audits and following up on recommendations, and reviewing reports, studies and proposals for key functions prior to approval by the Board of Directors. It also monitors ongoing application of strategic objectives and the system of governance, the risk management system, and it reviews supervisory communication before it is approved by the Board of Directors.

– The **ALM and Investments Committee** is convened at least twice a year to study the ALM and asset management policy and submit them to the Board of Directors for approval. It is responsible for monitoring application of this policy within the Company.

- The system implemented by the Board of Directors is supplemented by **internal committees** responsible for the operational steering of the Company.

– The **Bespoke Forum** meets each week and is attended by the CEO and the members of Senior Management, representing the 11 competency clusters involved in Wakam's four key stages of production: Seek, Qualify, Achieve and Develop. It proposes, transposes and implements the strategy approved by the Board of Directors. It oversees the operational activity, monitors progress of projects and makes the necessary trade-offs, and analyzes the company's financial results. It now covers, more broadly, all underwriting, financial, project and product issues.

Wakam currently has **two persons who effectively run the Company (Executive Officers)**:

- Olivier Jaillon, Chief Executive Officer of Wakam,
- Nicolas Rincé, Deputy Chief Executive Officer of Wakam, up to September 7, 2020 and then Jacques-Olivier Schatz from September 29, 2020.
- Christophe Neves was appointed Deputy Chief Executive Officer to replace Mr. Schatz on March 11, 2021.

All key functions have been in place since 2016 in accordance with Article 268 of the Delegated Acts. They work under the ultimate responsibility of and report to the Board of Directors.

- The **risk management function** is responsible for overseeing the adequacy and efficiency of the risk management system. It assists the Company's Board of Directors and Senior Management in defining risk management strategies and the necessary assessment and monitoring tools, particularly by providing, via an appropriate reporting system, the information necessary to assess performance of the risk management system as a whole. It presents the key points of its work at the Audit and Risks Committee meetings in particular.
- The **actuarial function** contributes to the effective implementation of the risk management system, particularly as regards the risk modeling underlying the SCR calculation and the "Best Estimate" of underwriting commitments. By calculating and approving the technical provisions, adequate processes and procedures can be implemented to avoid conflicts of interest and guarantee appropriate independence.
- The **compliance oversight function** is tasked with determining whether the organization and internal procedures are suitable to prevent risks of legal or administrative penalties, loss of assets or injury to reputation as a result of breaching laws, regulations or provisions defined by supervisory authorities. It focuses, in particular, on Group ethics and rules, on provisions relating to its core business such as customer protection, data protection, conflicts of interest, AML/CFT and related-party transactions.
- The **internal audit function** is responsible for independently assessing the effectiveness of the internal control and risk management system and the adequacy of controls designed to ensure the fluidity and reliability of key processes. It submits any finding and recommendation to the Audit and Risks Committee and the Board of Directors, which decide on the actions to be taken and ensure they are implemented. Its independence is guaranteed by a direct link with the Audit and Risks Committee and the Board of Directors. Internal audit engagements are carried out in accordance with the audit plan based on field reviews conducted on operational departments or analyses of internal or external reports on risks and controls carried out within the Company.

Wakam Policies

Wakam updated its policies in 2020.

Wakam Policy Framework as of December 31, 2020

	Risk Management Policy					
Policies relating to the risk control and management system	Internal Audit	Internal Control	Compliance	Outsourcing	Fit and Proper	
Policies relating to types of risks	Underwriting	Provisioning	Investments and Liquidities	Operational Risk and Business Continuity Plan	Reinsurance	Data Protection
Policies relating to processes	ALM	Capital Management	ORSA	Data Quality	Reporting	Products

Compensation paid to Members of the Management and Supervisory Bodies

Directors sitting on the Board of Directors of Wakam and Protegys receive attendance fees. The members of management and supervisory bodies and persons in key functions do not benefit from any supplementary and early pension scheme beyond legal and collective labor provisions. In particular, Wakam fulfils the obligation to ensure that members of the management and supervisory bodies and salaried employees in key functions subscribe to Groupe B2V and thus benefit from the B2V supplementary pension scheme.

Employee Compensation

- Compensation Policy: The compensation policy and practices are defined, implemented and kept in force in line with the corporate and risk management strategy, risk profile, objectives, risk management practices and the long-term interests and results of the Company as a whole. In particular, Wakam grants individual salary raises and in 2019, introduced a three-year employee profit-sharing plan based on achievement of the Company's financial and strategic targets. The compensation policy applies to Wakam as a whole. Compensation is therefore subject to clear, transparent and effective governance, particularly with regard to the supervision of the compensation policy, which is brought to the attention of each member of the Company's staff.

- **Relative importance of the variable portion:** The compensation of all the Company's employees consists of a fixed and a variable component. The variable component represents between 10% and 40% of their total salary. These components are therefore balanced to ensure that the employees' fixed salary represents a sufficiently high share of total compensation.
- **Variable compensation award criteria:** The award and total amount of an employee's variable compensation is linked to their performance, assessed on the achievement of goals determined in advance with their direct manager and reviewed on a quarterly basis.

Material transactions with Shareholders and Directors

No material transaction was signed during 2020 between Wakam, on the one hand, and its shareholders and directors, on the other.

3.2. Fit and Proper

Requirements for Persons who effectively run the Company and have Key Functions

When a person is appointed executive officer or head of a key function, the Chief Human Resources Officer, if necessary in conjunction with the Chief Compliance Officer, ensures that the person has the necessary skills for the position. In the case of the Chief Compliance Officer, the Chief Internal Audit Officer ensures they have the necessary skills.

- The persons who effectively run the Company are required to have managerial skills, and they must have good general knowledge of the insurance market and its environment, the Company's strategies and business model, systems of governance, financial analysis, actuarial analysis and the regulatory framework and provisions.
- The skills required of persons in key functions are consistent with the definition given by area of expertise in Articles 269 to 279 of the Delegated Acts:

– The actuarial function holder must have solid actuarial and financial mathematical skills to be able to coordinate and assess the calculation of provisions. This person must also be competent to give opinions on the Company's underwriting and reinsurance policies, contribute to management system implementation and ensure data quality.

– The risk management function holder must be competent to manage risks relating to underwriting, provisioning, asset and liability management, investments, liquidity and concentration risk management, operational and strategic risk management and risk mitigation techniques. They must also be competent to manage the Company's own risk and solvency assessment (ORSA).

– The compliance oversight function holder must be competent to introduce internal control procedures, particularly to identify and assess the legal risks inherent in the business in order to comply with applicable regulations.

– The internal audit function holder must be competent to prepare, implement and maintain an operational audit plan, detailing the audit work to be carried out to improve the Company's operations. They must also be competent to understand, test and given opinions on the various work conducted by the Company.

Requirements for Directors

When a person holds or wishes to hold a directorship within the Board of Directors, the Company ensures that the person is fit and proper for the position, in accordance with the provisions of the ACPR position 2019-P-01. Where necessary, Wakam prepares a training plan for directors under the responsibility of the Chief Compliance Officer to ensure they can discharge their duties in a sound and prudent manner.

Fit and Proper Assessment Process

- **Fit Assessment Process:** the Chief Compliance Officer assesses the fitness of a person effectively running the Company or holding a key function: they must have at least ten years' experience in the sector and have completed at least five years' higher education. The résumé is analyzed for each new hire, appointment or replacement. The persons who effectively run the Company also ensure that all the information and data relating to the areas of responsibility of key functions are communicated to them.
- **Proper Assessment Process:** The propriety of a person is assessed based on their honesty and experience as director, executive officer, or head of a key or critical function. This assessment is based, first, on concrete information relating to their character, personal behavior and professional conduct, including any criminal, financial or supervisory information relevant to this assessment. Second, the person's past experience shows whether they have ever effectively run a company or headed a key function in a company at the time it filed for bankruptcy. When a person effectively runs the company or would like to hold this position or any key function, the Company ensures that their good repute and integrity are assessed based on documents attesting to the person's propriety and on the answers provided in the questionnaire included in the appointment or re-appointment form for a person effectively running the company or the head of a key function, issued by the ACPR. The documents requested for each individual are submitted to the Chief Compliance Officer who updates them every three years. In the event of any doubt as to an individual's propriety, the Board of Directors is asked to make a decision on their appointment or re-appointment.

3.3. Risk Management System

Risk Management Policies

The Risk Management Policy is defined in compliance with all regulatory provisions applicable to the insurance sector and particularly those of French Ordinance No. 2015-378 of April 2, 2015 transposing the Solvency 2 Directive 2009/138/EC of the European Parliament and of the Council of November 25, 2009 and Article 258 *et seq.* of the Delegated Regulation 2015/35 of the Commission (EU) of October 10, 2014 on the Risk Management System, which requires implementation of a clearly defined risk management strategy and governance, in line with the Company's overall strategy, and policies defining major risks and approved risk-tolerance limits.

The Risk Management Policy in place at Wakam defines the strategies, principles and processes necessary to identify, measure, manage and monitor the risks to which the Company's operations are exposed, including operations outsourced to partners and delegated third parties.

The Risk Management Policy particularly defines:

- The system of governance, including the roles and responsibilities of the various persons involved in the risk management system,
- The categories of risks to which Wakam is exposed and the processes in place to identify and analyze them as well as the methods used to measure and assess the risks in question,
- The framework for defining the insurance risk strategy,
- The processes and procedures for ensuring effective risk management and implementation of appropriate risk mitigation measures,
- Internal and external reporting obligations,
- The risk culture in the Company and its integration into key decisions.

This policy aims to ensure that the risk management system enables Wakam to meet the sector requirements applicable to it.

The definition and implementation of the risk management, control and supervision framework for insurance activities carried out by Wakam are the responsibility of the risk management key function who:

- Implements the Company's risk management system,
- Ensures compliance with this system and with applicable regulations, within the Company,
- And reports on this work to the governing bodies below.

Governing Bodies

The Audit and Risks Committee is chaired by the independent director Mr. Jean-Marie Nessi. Its work is carried out with the participation of two Directors appointed by the Board of Directors, the Chief Executive Officer, the Key Functions, the Statutory Auditors and some members of the Management Committee. This Committee meets at least four times a year and is tasked with:

- Examining the reports, follow-ups and proposals for key functions prior to their approval by the Board of Directors,
- Monitoring ongoing implementation of strategic objectives and the system of governance,
- Monitoring the risk management system,
- Reviewing supervisory communication prior to approval by the Board of Directors.

The Risk Operational Committee is chaired by the Chief Risk & Capital Officer. This Committee's work is systematically carried out with the participation of the Risk Management key function and all the key functions as well as, when necessary, other Wakam department heads (Legal, Information Systems, Human Resources, Accounting, Management Control, Partnerships, Claims, Products, Technical and Data Management). This Committee meets at least 12 times a year and carries out the following tasks:

- Approving the annual program of internal control work by ensuring that the areas and activities generating the main risks are covered with an adequate frequency,
- Reviewing the results of controls undertaken,
- Monitoring significant risks incurred by Wakam,
- Ensuring that relevant risk prevention, detection and response systems are implemented
- Keeping the risk map up to date
- Monitoring changes to the main risk metrics
- Monitoring capital requirements

Integration into the Organizational Structure and Decision-Making Procedures

The risk management system is integrated into decision-making processes and the Company's culture at several levels:

- **The Company's senior executives** disseminate a risk culture adapted to the various types of activities and ensure it is sufficiently adopted by employees.
- **The risk appetite system** is integrated into the budget and planning process and into the strategic asset allocation process.
- **Capital allocations resulting from planning work** are transposed into operational limits, integrated into day-to-day management of business.

- **Appropriate risk measurement indicators** are incorporated into the company's performance management framework.
- **Metrics using risk measurements** are used in decision-making. These metrics are defined by the risk management function and approved by the Board of Directors. They are integrated into the Company's objectives.
- **Risk preferences** guide the development of partnerships and products in line with risk appetite and tolerances.

Changes to the System of Governance over the Reporting Period

The Risk Operational Committee now meets more frequently, on a bi-monthly basis rather than monthly as before.

3.4. Internal Risk Assessment

Description, Documentation and Analysis of Internal Risk Assessments

According to the Solvency II Directive and as part of its own risk management system, Wakam conducts an internal assessment of risks and solvency known as ORSA (Own Risk Self-Assessment).
This assessment focuses particularly on:

- The overall solvency requirement, taking account of the specific risk profile, approved risk tolerance limits and the company's business strategy;
- Ongoing compliance with capital requirements;
- The extent to which the Company's risk profile deviates from the assumptions underlying the solvency capital requirement calculated using the standard formula.

Frequency of Review by Management, Risk or Supervisory Bodies

The ORSA is approved at least once a year by the Board of Directors after review by the Audit and Risks Committee.

Report on the Assessment of Overall Solvency Needs

The Company assesses its Overall Solvency Needs based on the risks identified and the estimation methodology of the Standard Formula presented in the Solvency II Directive. However, the Company has identified two risks not included in the Standard Formula which complete its own risk profile: The Risk of Dependence on a partner distributor resulting from a single partner distributor accounting for an excessive relative share of Wakam's business and the Risk of Heterogeneity of accounts, relating to the issuance of reliable financial statements including the risk of heterogeneity of information received (extracts and brokers) and the risk of error resulting from restatements made by the data integration unit. These two additional risks are considered to be under control.

3.5. Internal Control System

Description of the Internal Control System

Wakam's internal control system comprises all the resources, behaviors, procedures and actions that:

- contribute to the control of its business, including outsourced activities, and to the efficiency of its operations and efficient use of resources, and
- allow significant risks to be appropriately taken into account, whether operational, financial or compliance risks.

In particular, it aims to ensure compliance with laws and regulations, the application of instructions and guidelines issued by the executive officers and the Board of Directors, the proper functioning of the company's internal processes, particularly those contributing to the safeguarding of its assets, and the reliability of financial information.

Wakam's internal control system consists of an ongoing assessment of the controls incorporated into the Company's internal processes:

- First-level controls are integrated into business processes by the line managers to measure, monitor and control risks relating to their area of activity.
- Second-level controls aim to ensure the proper implementation, relevance and reliability of first-level controls and are carried out by management and by people who are independent from the operational activity:

– The control plan is developed based on the risk analysis and after taking into account the first-level controls existing within the activities. The second-level controls provide additional assurance that processes are indeed under control, and identify any leads for continuous improvement.

– A detailed description is prepared for each control, including the function in charge of carrying out the controls, frequency of performance, applicable control methodology, documents to be collected and presentation of results.

– The methods for developing and deploying the control plan are specified in the procedure for implementing the internal control system.

- In addition, on a regular basis at a frequency defined according to the severity of the risk, the head of Internal Control organizes audit campaigns, i.e. *ad hoc* controls targeting a risk or an activity. Following these assessments, the head of Internal Control makes recommendations to remedy any shortcomings.

Description of the Compliance Oversight System

The Compliance Oversight system implemented by Wakam is an integral part of the permanent control system and comprises all the resources, behaviors, procedures and actions that:

- Provide information on laws and regulations applicable to the Company,
- Contribute to regular monitoring of changes to these laws and regulations,
- Aim to transpose applicable regulations into internal procedures, and
- Provide the relevant employees with the right information and training.

The Compliance Oversight system defines the processes for monitoring, raising awareness of and sharing regulatory changes with all the employees and contributes to the development of the risks map.

Compliance Oversight Actions in 2020

The compliance oversight system also saw an organizational change in 2020 by being integrated into the Strategy and External Relations office. It therefore underwent a complete overhaul:

- Overhaul of the key function's roadmap,
- Implementation of a new regulatory intelligence system,
- Launch of new compliance projects,
- Implementation of recommendations following an internal audit of compliance oversight activity.

Two new employees were hired for the positions of Compliance Officer and Regulatory Officer.

2021 Compliance Oversight Governance Points

The compliance oversight plan for 2021 includes the follow-up and launch of numerous compliance projects.

3.6. Internal Audit System

Description of the Internal Audit System

The internal audit system implemented by Wakam forms the Company's third level of control applied after the first- and second-level controls described in section 3.5. As an independent and objective activity, internal audit gives the Company assurance as to the level of control of its operations, provides advice on their improvement and contributes to creating added value. Its main tasks include:

- Identifying and managing risks by a structured approach focused on the Company's challenges,

- Assessing the level of control of operational and functional processes and the conduct of operations with regard to the organization's strategic, operational and financial concerns,
- Assessing the relevancy and efficiency of these processes in light of their compliance with applicable rules, standards, procedures, laws and regulations,
- Checking the integrity, reliability, completeness and traceability of all accounting, financial and management data produced,
- Proposing leads for the improvement or progress of the organization.

Independence of the Internal Audit key function

To ensure independence, the Internal Audit key function is not in charge of any other key functions in the Company. Internal Audit duties are entrusted to an independent director, who has undergone a fit and proper assessment in accordance with the Company's internal policy, as described in section 3.2.

This independence is reinforced:
- by outsourcing the operational performance of audit engagements to the firm PriceWaterhouseCoopers, which may assist the Internal Audit key function at any time,
- by the capacity granted to internal audit by the by-laws to have access at all times to all locations, documents and information systems it requires to discharge its duties, with full cooperation of the Company's staff.

Summary Table of the Internal Control and Internal Audit System

	First level Operational Controls	Second level Permanent Control, Risk Management and Compliance	Third level Periodical Control and Internal Audit
Responsible person	Line Managers	Internal Control managers and Compliance Oversight key function	Internal Audit key function
Frequency	High frequency	Recurring	Periodic
Scope	Limited to the scope of responsibility of the line staff	All operational processes	The whole company
Type of control	Self-assessment (tallying, reconciliation, listing anomalies, etc.)	Oversight, verification of the adequacy of controls compared to the objectives of the process	On site and based on documents
Type of reporting	Provides input to permanent control	Risk indicators, maps and alerts	Audit reports

Internal Audit Engagements during the Reporting Period

The audits carried out in 2020 concerned:

- the HR function
- claims management
- the “Bespoke” process
- outsourced functions
- underwriting profitability

All recommendations give rise to an action plan managed by the heads of the audited activities. This action plan is shared in the corresponding bodies, its implementation will be overseen throughout 2021 by the team in charge of project follow-up and it will be audited by the internal audit team.

As planned, the internal audit team also followed up the recommendations from audits carried out in 2019, 2018 and 2017.

3.7. Actuarial Function Activities

Role of the Actuarial Function

Since January 1, 2016 and in accordance with Article R.354-6 of the French Insurance Code, the Actuarial function has been responsible for:

- Coordinating the calculation of prudential technical provisions,
- Ensuring that methodologies, underlying models and assumptions used to calculate the prudential technical provisions are appropriate,
- Assessing the sufficiency and quality of data used in the calculation of these provisions,
- Overseeing the calculation of prudential technical provisions in the event that the insurance company does not have sufficient data of appropriate quality to apply a reliable actuarial method to a set or sub-set of commitments, and
- Comparing best estimates with empirical observations.

The Actuarial function is also responsible for informing the Company's Board of Directors of the reliability and adequacy of the calculation of prudential technical provisions. It must also give an opinion on the overall underwriting policy and the adequacy of reinsurance arrangements. Finally, the Actuarial function contributes to the effective implementation of Wakam's risk management system, particularly concerning the risk modeling that underlies the calculation of capital requirements and the own risk and solvency assessment.
In accordance with the provisions of Article 272 of European Regulation No. 2015 / 35, the Actuarial function prepares a written report at least once a year that is submitted to the Company's Board of Directors. This report presents all the work done by the function and the results achieved. It clearly indicates any significant deficiency detected and makes the necessary recommendations to remedy them.

Actuarial Function Organization in 2020

The Actuarial function reports directly to the Chief Risk and Capital Officer. These duties are discharged by the Chief Underwriting Officer.
To prevent any risk of conflicts of interest between the persons responsible for actuarial work and those responsible for auditing such work, the following organization is in place at Wakam:

- The Actuarial key function reports to the Chief Risk and Capital Officer.
- The Chief Underwriting Officer oversees but does not directly carry out:

– work relating to the Inventory, which is done by two dedicated employees in charge of calculating the technical provisions in accordance with corporate standards, Claims and Premiums Best Estimates valued in the financial statements balance sheet and the claims development result.

– underwriting follow-up and portfolio profitability studies, entrusted to research managers specializing in 2- and 4-wheeler risks excluding fleets, on the one hand, and other risks relating to fleets, affinity insurance and property damage, on the other.

3.8. Outsourced Activities

Definition of Outsourcing

Outsourcing refers to an agreement, regardless of its form, entered into between a company and a service provider, whether or not subject to supervision, under which that service provider performs, either directly or by using outsourcing itself, a procedure, service or activity that would otherwise be carried out by the company itself (Art. L.310-3 of the French Insurance Code).

List of Important or Critical Operational Functions

In accordance with the definition given in Article R.354-7 of the French Insurance Code, an activity is considered important or critical when it has at least two of the following features:

- It is a core insurance business activity (policy or claims management, etc.) or a key function;
- When the outsourcing applies to a function/activity relating to the management of policyholders, the replacement of the service provider in the event of failure or the direct takeover of the function would likely lead to exceeding regulatory deadlines for responding to policyholders or for regulatory reporting;
- When the outsourcing applies to an activity that does not directly relate to policyholder management, the replacement of the service provider in the event of failure or the direct takeover of the function would likely exceed one month;
- The cost of the service exceeds an annual threshold set at €800K;
- The quality of service provided to policyholders could suffer in the event of service provider failure;
- A reputation risk or an estimated financial risk exceeding a threshold defined by the Risks team in the event of service provider failure.

In the case of outsourcing in the context of insurance intermediation (delegated management of policies, collections, claims), the activity is considered critical according to a materiality threshold defined based on revenue.

Outsourcing Decision Process

For any outsourcing relating to the insurance activity, whether or not it is critical, Wakam carries out an assessment of the service providers approached by sending them a Due Diligence questionnaire as soon as a business relationship may be possible. A procedure detailing the shortlisting process is drafted by the Management Department.

This procedure indicates that discriminating criteria are defined for all service providers including:

- Verification of their accreditations (where necessary);
- Fit and proper verification of senior executives;
- Existence of a BCP.

For critical or important activities, additional discriminating criteria are established in this questionnaire to ensure that the service provider has at least:

- a mature operational risk management and internal control system;
- sufficient financial resources to take charge of the outsourced activity;
- reliable, qualified staff to perform the outsourced tasks;
- an adequate AML/CFT risk control system;
- an adequate contingency plan to guarantee continuity of the outsourced activities.

Any departure from these rules must be explained by a reasoned presentation, demonstrating control of the risk incurred and submitted to the management team at least two weeks before any Management Committee meeting convened to make a decision. Any such departures are also recorded in a file kept by the Management and Compliance Departments.

For the outsourcing of functions unrelated to the insurance business, a Procurements procedure details the selection process.

3.9. Adequacy of the Company's System of Governance

The Company continues to deploy and enhance the system of governance, particularly in terms of internal control and risk budget preparation, with the aim of disseminating a risk culture to all the employees.

This adequacy is further strengthened by additional systems aimed at reducing the main risks to which Wakam is exposed. Given its business model based on delegation of material claims management, its reinsurance treaties with a high protection of capital and its strong growth, the Company is particularly exposed to the operational outsourcing risk, counterparty risk and underwriting risk. To take these specific features into account, the whole system of governance presented above is therefore supplemented as follows:

- Regarding the outsourcing risk, the Company regularly audits its service providers via an approach involving both a dedicated team and an independent consulting firm specializing in insurance.
- Regarding the counterparty and reinsurance risk, in 2020 the Company appointed an independent director who is an expert in reinsurance and strengthened its in-house reinsurance team. In addition, although this arrangement is no longer mandatory since 2008, the Company systematically requires collateral from its reinsurers, mostly pledges, to secure their commitment to pay their share of claims.

- **Regarding the underwriting risk**, this is central to the Company's governance through the four stages in the Bespoke process (Seek, Qualify, Achieve, Develop) for which the Chief Partnerships Officer, the Chief Products and Pricing Officer, the Chief Operating, Information Systems and Transformation Officer and the Chief Financial, Underwriting and Risks Officer, respectively, take responsibility. In this context, a pre-audit of partners is undertaken during the "Seek" stage. Special attention is paid to underwriting rules, pricing and expected loss ratios during the "Qualify" stage. The "Achieve" stage aims to ensure good quality electronic exchanges and risk mitigation by reinsurance. And lastly, during the "Develop" stage, actuarial analyses are carried out on each partnership to make the necessary portfolio adjustments. This system is completed by the Steering Committee which meets every month. It is chaired by the CEO and studies each new partnership based on performance and underwriting profitability indicators.

3.10. Other Governance Mechanisms

The system of governance presented in sections 3.1 to 3.9 is supplemented by a system of internal committees which prepare the work to be presented to the Board of Directors' Committees, monitor the risk management improvement action plan, coordinate the various components of the risk budget and disseminate the risk culture throughout the Company. The main internal committees are:

- **Investment Committee:** this Committee meets monthly and is chaired by the Chief Financial Officer. It is attended by the representative of the majority shareholder and representatives of the asset management company to which the Company has delegated management of its investments, and the Chief Risk and Capital Officer. Its objective is to manage the Company's investments within the risk limits defined.
- **Opportunities Committee:** this Committee is chaired by the CEO, led by the Chief Revenue Officer and attended by all the Company's employees. It presents the opportunities identified during Stage 1 (Seek) to decide on them and, if they receive majority approval, move them on to Stage 2 (Qualify).
- **Business Approval Committee:** this Committee is chaired by the CEO, led by the Chief Products Officer and attended by the expanded Management team. It approves or rejects the transition of partnerships from Stage 2 (Qualify) to Stage 3 (Achieve).

4. Risk Profile

4.1. Information by Risk

Underwriting Risk

Underwriting risk is the risk that the insurer takes by selling insurance policies to natural or legal persons due to market segments or risk categories that are not consistent with the Company's risk profile and business strategies, complex risk categories that are difficult to assess, insufficient underwriting skills among the Company's staff and in sales networks or non-compliance with limits. For Wakam, it includes the following categories:

- Lapse risk, i.e. the risk of loss or of adverse change in the value of insurance liabilities due to changes in the level or volatility of policy lapses, terminations, or renewals,
- Premium and reserve risk, i.e. the risk of loss or of adverse change in the value of insurance liabilities, resulting from changes in the timing, frequency and severity of insured events, and in the timing and amount of claim settlements,
- Catastrophe risk, i.e. the risk of loss or of adverse change in the value of insurance liabilities, resulting from significant uncertainty of pricing and provisioning assumptions related to extreme or exceptional events.

Market Risk

Market risk means the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from changes in the level and in the volatility of market prices of assets, liabilities and financial instruments. It includes:

- Interest rate risk resulting from the sensitivity of the values of assets, liabilities and financial instruments to changes in the interest-rate term structure, or in the volatility of interest rates,
- Equity risk relating to the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of market prices of equities,
- Property risk stemming from the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of market prices of real estate,

- **Spread risk**, reflecting the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure,
- **Currency risk** linked to the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of currency exchange rates,
- **Market risk concentration**, following a lack of diversification in the asset portfolio or significant exposure to default risk by a single issuer of securities or a group of related issuers.

Credit Risk

Credit risk means the risk of loss or of adverse change in the financial situation, resulting, directly or indirectly, from changes in the solvency or credit standing of the Company's counterparties. It includes:

- **Spread risk**, which reflects the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure.
- **Counterparty risk**, which is the risk of possible losses due to unexpected default, or deterioration in the credit standing, of the Company's counterparties and debtors. The scope of counterparty risks includes risk-mitigating contracts, such as reinsurance arrangements, securitizations and derivatives, and receivables from intermediaries and policyholders. This risk is included in the standard formula.

Liquidity Risk

Liquidity risk for Wakam means the risk of being unable to realize investments and other assets in order to meet its financial obligations when they fall due.

Operational Risk

Operational and non-compliance risks correspond to unexpected losses arising from inadequate or weak internal processes, personnel or systems, or from external events. The operational risk includes legal risks, but not risks arising from strategic decisions, or reputation risks. They include:

- **Internal fraud**, i.e. the risk of losses arising from breaches of legislation or agreements on employment, health or safety, requests for compensation in respect of personal injury or infringement of equal treatment/acts of discrimination,
- **External fraud**, i.e. the risk of losses due to acts of third parties aiming to defraud, misappropriate property or circumvent legislation,

- **Risks relating to employment practice and workplace safety,** i.e. the risk of losses arising from failures to comply with legislation or agreements on employment, health or safety, requests for compensation in respect of personal injury or infringement of equal treatment/acts of discrimination,
- **Risks relating to customers, products and business practices**, i.e. the risk of losses arising from an unintentional or negligent breach of a professional obligation to specific customers (including trust and compliance requirements) or the nature or design of a product,
- **Risks of damage to tangible assets**, i.e. the risk of destruction or damage caused by a natural disaster or other occurrences,
- **Risks of business interruption or system malfunction**, i.e. risk of losses arising from interruptions in business or the malfunctioning of systems,
- **Risks relating to the implementation, delivery and management of processes**, i.e. the risk of losses arising from a problem in the processing of a transaction or in the management of processes or losses incurred in relations with business counterparties and suppliers.

Other Significant Risks

The other significant risks that may be encountered in the Company are those whose assessment is not covered by the standard formula of the Solvency II Directive. Based on the stress tests carried out for the Own Risk Self-Assessment, these risks are considered to be under control:

- **The Risk of Dependence on a partner distributor** occurs where a single partner distributor accounts for an excessive share of Wakam's business. This risk is controlled by the growing number of partners in the portfolio which improves diversification, and the extension of agreements in force on December 31, 2020, often for a period of several years.
- **Risk of Heterogeneity of accounts**, relating to the issuance of reliable financial statements including the risk of heterogeneity of information received (extracts and brokers) and the risk of error resulting from restatements made by the data integration unit. This risk is controlled thanks to the deployment of EDI technology at our partners' since 2016. This implementation was stepped up in 2019 with the introduction of a process allowing us to use our partners' raw data in order to secure the transformation carried out for harmonization purposes. The aim is to obtain a single data extraction and reporting framework for all partners, allowing the Company to restate and improve the reliability of data (EDI project), and for accounting audits, particularly in terms of data traceability, prior to the closure of the annual financial statements. In 2020, Wakam pursued the deployment of API technology at partners', thereby reinforcing a complete

control of the prices applied by each one. As of December 31, 2020, EDI was used in 73% of partnerships.

4.2. Risk Exposure

Measurements used to Assess Risks and Changes over the Period

Unless otherwise indicated, the quantitative risk assessment information is presented in section 6 of this report and corresponds to the Solvency Capital Requirement (SCR) as of December 31, 2020, assessed in accordance with the standard formula, before diversification between risk modules. This represents the impact that a major 1-in-200 year shock would have on the Company's net income.

Description of Significant Risks and Changes over the Period

In addition to risks not assessed by the Standard Formula mentioned in section 3 of this report, the Company's other significant risks are non-life underwriting risk, counterparty risk and operational outsourcing risk. This risk profile did not see any material change in 2020.

Application of the Prudent Person Principle

As stipulated in Article 132 of the Solvency II Directive, Wakam's investments are made in accordance with the Prudent Person Principle, thanks to the investment process and the organization of related committees that guarantee ex ante risk awareness and ex post investment risk analysis, management and control.

The investment policy is structured around three major processes:

- Strategic asset allocation, defined according to the Company's financial risk appetite and based on the macro-economic context and results of ALM studies carried out by the Finance Department. These are supplemented in the context of preparing the budget and the ORSA report on the consequences of this allocation on the market SCR and the Company's solvency ratio.
  - The central scenario identifies outflows of cash over the claim settlement period (average period of approximately three years), and allocates the premium to investments, mainly bonds, backed by maturity bracket. This central scenario takes a portion of future premiums into account based on the assumption of a conservative lapse rate.
  - The stressed scenario, carried out based on the assumption of a 10% shock on the portfolio's claims burden, identifies the safety margin to be maintained in money market or short-term assets.
  - The surplus identified through this projection is allocated to diversified assets (equity, real estate, etc.).

- **Tactical asset allocation**, which adjusts the strategic allocation based on short-term expectations in interaction with the asset management company (see next paragraph),
- **Day-to-day investment management**, which includes the selection of securities by the asset management company in accordance with the requirements defined in the asset management mandate.

While the Board of Directors remains the ultimate decision-making body as regards the investment and financial risk management policy, the Company has set up a specific **ALM Committee** which particularly reviews the investment risk and ALM strategies and policies proposed by Senior Management and their operational transposition. This is done particularly via the monthly **Investment Committee** meetings held with the heads of the asset management company and attended by the CEO, the Chief Capital Officer and the CFO of Wakam, as well as a representative of the shareholder.

The main guidelines of the investment policy thus defined are as follows:

- **A target asset allocation** of 77% bonds, 5% money market vehicles, 3% listed shares, 5% real estate and 10% illiquid assets (private equity, private debt)
- **A target average duration** of 3.5 years
- **A liquidity pool** awaiting reinvestment on mandates that must not exceed 5%
- **Investments excluding:**
  - **By asset class**, derivatives and, in general, any leveraged transaction, insurance bonds to avoid the concentration risk, subordinated bonds, perpetual bonds and securitization products,
  - **By country**, sovereign bonds issued by the governments of nearby countries (Portugal, Ireland, Italy, Greece and Spain).
- **Limits by rating for bond investments:**
  - **Bonds rated AAA to BBB+**: Minimum 65% / Maximum 100%
  - **Bonds rated BBB- and lower**: 20% Maximum

Lastly, asset management is mainly entrusted to CANDRIAM under two management mandates: a first bond mandate and a second equity portfolio management mandate. Using complete monthly reports, monthly investment committee meetings monitor the profitability of the asset portfolio and compliance with the investment rules and limits presented above, and share the asset managers' tactical choices on future investments and the company's forecast contribution to the mandate. These are based on Wakam's monthly cash flow monitoring report which systematically includes an annual reforecast. Finally, CACEIS is responsible for the custody of securities and the accounting for investments made under these two mandates.

4.3. Risk Concentration

The Company has identified an underwriting concentration risk in its Property Damage portfolio as 23% of the insured values, representing €20.4 million of revenue, are located in the Isère department of France which is known to be a seismic zone and whose main city, Grenoble, could be massively flooded if the region's dams failed. This risk is controlled by means of the reinsurance arrangement described in section 4.4.

4.4. Risk Mitigation Techniques

Description of the System for the Reporting Period

Wakam transfers a part of its risks to reinsurers. The reinsurance system is studied for each branch and a large part of the risk is transferred under quota-share treaties, completed by excess of loss treaties to protect the Company from losses incurred on significant unit claims, such as Third-Party Injury Liability risks.

Reinsurance rates for 2020 were defined in the context of the risk budget as follows:

- retention was maintained on the 2- and 4-wheeler segment on traditional programs (20%);
- retention was maintained on usage-based insurance business (20%); and
- the quota share reinsurance rate was maintained on Property Damage (50%).

Mitigation Plan over the Planning Period

In the absence of use of derivatives, Wakam's mitigation plan is centered on the following Reinsurance plan:

Regarding quota-share treaties, the reinsurance level per program depends on:

- the level of consumption of own funds per branch compared to the intrinsic profitability of each Product Line, so as to approach the optimum while meeting available Tier-1 capital requirements,
- knowledge of risks on Partnerships, whose volumes do not allow sufficient pooling. This is the case of fronting programs, as their development is still recent, and Comprehensive Building insurance for which volumes are still limited,
- the appetite of reinsurers over a given year.

Change in the Non-Proportional Reinsurance Program between 2020 and 2021

	Priority XS Scope (in €'000)	
	2020	2021
XS 4-Wheelers and Fleets	Ill XS 2,000	Ill XS 2,000
Revaluation of Annuities	2% XS 0%	2% XS 0%
XS Property Damage*		
Comprehensive Building Insurance	13,750 XS 1,250	13,750 XS 1,250
Comprehensive Home Insurance	14,400 XS 600	14,400 XS 600
Non-occupant owner insurance	14,800 XS 200	14,400 XS 600
Glass breakage	14,800 XS 200	14,400 XS 600
Nat Cat Stop Loss		
4-Wheelers and 2-Wheelers	ill XS 300%	ill XS 300%
Property Damage	ill XS 200%	ill XS 200%

* The protection of this treaty is presented in coverage of fire and storm risks; it provides 15,000 XS 15,000 coverage of rental risks

Regarding the XS reinsurance program, the main parameters of which at 100% (i.e. before quota-share transfer) are summed up in the table above, it meets the risk tolerance criteria defined by the Reinsurance policy checked by the Audit and Risks Committee and approved by the Board of Directors:

- **Natural Catastrophe Risks**: the Company is protected against 1-in-10 year to 1-in-200 year loss scenarios.
- **Terrorism Risks:** the protection sought is unlimited beyond a retention equivalent to the maximum amount of the portfolio at risk within a 200m radius.
- **Other Property Damage Risks:** the reinsurance sought aims to limit the impact of a serious claim to a net amount of €300,000 for the Comprehensive Home insurance product and €625,000 for the Comprehensive Building insurance product.
- **Auto Liability and Private Life Risks:** the reinsurance sought aims to limit the impact of a serious claim to a net amount of €400,000.

Guarantees Received

Although the regulatory requirement for reinsurers to pledge their commitments to ceding companies was abolished in 2008, reinsurance arrangements covering Wakam's risks provide for a guarantee of the reinsurer's liability by means of a pledge to a bank or a cash deposit. These guarantees reduce the counterparty risk.

The valuation of these guarantees corresponds to the amount of the outstanding claims provision at year end for each program and to the share of each reinsurer.

4.5. Expected Earnings from Future Premiums

Expected earnings from future premiums after application of reinsurance as posted in the Best Estimate of Premium Provisions are €11.7 million, i.e. €22.3 million of future earnings before expenses and €10.6 million in related expenses. As a comparison, expected earnings from future premiums were €8.9 million in 2019.

4.6. Risk Sensitivities

Stress Testing and Scenario Analyses

Wakam ran stress scenarios when preparing the 2020 ORSA report. The Company complies with the MCR requirement in the central scenario and in the stress scenarios tested. Regarding permanent SCR compliance, the result of the stress tests shows that the level of capital appears sufficient.

Central Scenario Assumptions

Tests were carried out around a central scenario developed in October/November 2020. The changes observed between the assumptions of the central scenario and the scenarios carried out do not significantly impact the findings or classification of scenarios for their impact on the Company's solvency ratio.

Stress Testing and Scenario Analysis Methods and Assumptions

The stress tests implemented for the 2020 ORSA report and their respective impacts in 2021, 2022 and 2023 are as follows:

- S1.1/ Combined ratios increase consistently by five points across all the business lines for 2021, 2022 and 2023
- S1.2/ The loss ratio of the affinity branch increases by 25 points
- S1.3/ The loss ratio of the traditional 2- and 4-wheeler branch (excluding fronting) increases by 25 points
- S1.4/ The loss ratio of the usage-based insurance branch increases by 25 points
- S1.5/ The loss ratio of the property damage branch (excluding fronting) increases by 25 points
- S1.6/ Impact of a 1-in-200-year claim (€23 million) not reinsured between the termination date of a reinsurance treaty and the signature date of the following treaty
- S2.1/ Risk carrying at 50% in all branches in fronting
- S2.2/ Risk carrying at 50% across all branches
- S3.1/ Zero net income in 2021, 2022 and 2023 owing to non-achievement of the Company's underwriting recovery targets
- S3.2/ Failure of a partner and operational impacts
- S3.3/ Data quality issue impacting actuarial monitoring
- S3.4/ SCR adjustment cancelled by deferred tax
- S4.1/ Five-year extension of claims settlement of the Auto Liability line of business
- S4.2/ Inventory refill of 2- and 4-Wheeler claims exceeding €100K by +10%
- S5.1/ Increase in the risk-free rate by 200bps

The choice of these stress tests resulted from the main risks detected by the Chief Underwriting Officer and the Chief Risk Officer and was approved and amended by the Audit and Risks Committee.

Results of Stress Tests

Scenarios / (in solvency ratio pts vs. central scenario)	2021	2022	2023
S1.1: loss ratios increase consistently by 5pts	-23pts	-43pts	-62pts
S1.2: loss ratios increase by 25pts on Affinity	-21pts	-52pts	-52pts
S1.3: loss ratios increase by 25pts on traditional Auto and Motorcycle (excl. Fronting)	-17pts	-19pts	-26pts
S1.4: loss ratios increase by 25pts on usage-based insurance	-19pts	-26pts	-37pts
S1.5: loss ratios increase by 25pts on Property Damage	-12pts	-14pts	-21pts
S1.6: impact of a non-reinsured claim (€23 million)	-50pts	-41pts	-34pts
S2.1: 50% reinsurer default in Fronting	-46pts	-47pts	-51pts
S2.2: decrease in quota-share reassurance across all branches (50%)	-51pts	-54pts	-45pts
S3.1: 0 net income in 2021, 2022 and 2023	-9pts	-20pts	-35pts
S3.2: partner default	-1pts	-1pts	-1pts
S3.3: data quality issue impacting actuarial monitoring	-1pts	-1pts	-1pts
S3.4: SCR adjustment cancellation by deferred tax	-20pts	-19pts	-23pts
S4.1: 5-year extension of claims settlement in Auto Liability LoB	-2pts	-4pts	-7pts
S4.2: inventory refill of 2- and 4-wheeler claims exceeding €100k by +10%	-4pts	-3pts	-3pts
S5.1: increase in risk-free rate of 200pts	-12pts	-10pts	-9pts

The severity of these scenarios is explained:

- **For scenarios 1.1, 1.2 and 1.6, which all have a significant impact on net income mainly due to the loss experience,** by the reduction in net income and future profits incorporated into the prudential capital whereas their impact on the SCR is lower.
- **For scenarios 2.1 and 2.2, where all or some of the risk is entirely carried by Wakam**, by the immediate increase in the SCR, which is greater than the increase in results.

4.7. Other Information about the Risk Profile

The information on the risk profile as presented in sections 4.1 to 4.6 is complete.

5. Valuation for Solvency Purposes

5.1. Valuation of Assets

Value, Methods and Assumptions by Asset Type

- **Valuation of investments:** As of December 31, 2020, Wakam had an investment volume in market value of €114.5 million compared with a book value of €110.5 million, based on the information provided by the third parties mandated by Wakam to manage the Company's assets. All of the Company's investments are valued at fair market value in the Solvency II balance sheet, taking accrued interest into account. The interest held in La Parisienne Services (wholly-owned subsidiary) is positioned at nil. Accrued interest not due posted in the financial statements balance sheet is repositioned by nature in the various lines of investments posted at market value in the Solvency II balance sheet, as is the premium/discount, to avoid a double count.

Comparative Breakdowns of Wakam's Investments

(Net Book Value excluding Cash)

(in € million)	12/31/19	12/31/20
Equities	1.6	1.7
Bonds	90.5	88.0
Funds	19.8	24.7
TOTAL	111.9	114.5

- **Valuation of intangible assets:** In the context of valuation for the economic balance sheet, these assets generally do not represent material wealth available for solvency purposes. In the case of Wakam, a significant portion of these intangible assets stems from investment in the IPaaS platform and will give rise to future income from billing for services (management of quotes via web services, automated policy and claims management). Since the platform was only launched recently (2018) and it is still not possible to assess the ultimate economic value of this asset, the value of the intangible assets in the statutory financial statements is completely cancelled, for prudential purposes, in the Solvency II balance sheet.

- **Valuation of receivables:** As of December 31, 2020, insurance receivables amounted to €184.5 million in the financial statements balance sheet. Reinsurance receivables amounted to €14.3 million as of the same date. Owing to their "short-term" nature, insurance and reinsurance receivables are adjusted between the financial statements balance sheet and the Solvency II balance sheet. Similarly, other receivables of €24.5

million, arising from administration operations with public organizations (tax, social security contributions, etc.) and from suppliers, are not adjusted between the financial statements balance sheet and the Solvency II balance sheet. In total, the economic value of receivables remains identical to the book value of €223.5 million and is presented as such in the Solvency II balance sheet.

- Valuation of other assets: the book value of other assets posted in the financial statements balance sheet amounted to €24 million for an economic value at nil. These restatements are the result of five effects:

- Cancellation of the Receivable held on delegated claims managers (-€4.3 million), corresponding to management costs on claims entrusted to them and which have already been paid out in the form of commissions at the time of underwriting, without their giving rise to any future cash flow. It shall be noted that this transaction has no impact on the Company's own funds, since in the financial statements balance sheet, this receivable is posted with a corresponding Provision for contingencies and charges, to account for the potential risk of default by the delegated third party.

- Cancellation of Deferred Acquisition Costs (DAC) (-€18.0 million), the DACs corresponding to the amount already paid by Wakam in respect of acquisition commissions on unearned premiums as of December 31, 2020. In accounting, increasing this item allows the Company's acquisition costs to be linked to the appropriate accounting year. Conversely, Solvency II is based on a future cash flow approach. As the Company has already paid out the DACs, but with no future cash flow, they are entirely cancelled in the Solvency II balance sheet. This method does not generate any loss of wealth for Wakam, since these acquisition costs on existing policies will not give rise to any cash flow from the Company and are not projected in the Premiums Best Estimate in the Solvency II balance sheet.

- Cancellation of prepaid expenses (-€0.7 million), according to the same principle as deferred acquisition costs, because the Company has already paid out these expenses. Given their relatively low level, the basis used to calculate the Best Estimate of Costs has not been corrected for this positive impact.

- Cancellation of accrued interest not due (-€0.5 million) and discounts (-€0.4 million) the amounts of which are already integrated into the stock market value of the Company's investments.

Therefore, to avoid any double counting of balance sheet items, this amount is entirely cancelled in the Company's Solvency II balance sheet.

- **Value of "Current accounts and cash in hand"** is identical to the financial statements balance sheet.

- **Valuation of deferred tax:** Deferred tax posted in the Solvency II balance sheet corresponds to the tax expense (Liability) or tax credit (Assets) applicable to the change in net assets following restatements between the financial statements and the Solvency II balance sheets. As of December 31, 2020, deferred tax assets amounted to €1.1 million.

Differences with the Financial Statements

(in € million)	Financial statements balance sheet	Solvency II balance sheet	Differences
Intangible assets	10.7	-	-10.7
Property, plant and equipment	1.7	1.7	-
Investments	110.5	114.5	3.9
Reinsurers' share in technical provisions, of which:	481.6	438.4	-43.2
Provisions for unearned premiums / Best Estimate of Premiums Provisions	81.4	38.5	-42.9
Provisions for claims / Best Estimate of Claims Provisions	400.2	399.9	0.3
Receivables	223.5	223.5	-
Current Accounts and Cash in hand	21.3	21.3	-
Other assets	24.0	-	-24.0
Deferred taxes	-	1.1	1.1
Total Assets	873.4	800.5	-72.9

In summary, the differences between the assets in the financial statements balance sheet and the Solvency II balance sheet break down as follows:

- Intangible assets (-€10.7 million): cancellation in the Solvency II balance sheet
- Investments (+€3.9 million): switch to fair market value
- Reinsurers' share in technical provisions (-€43.2 million)
- Receivables, current accounts and cash in hand (-): No restatement
- Other assets (-€24.0 million): transfers of accrued interest not due and discounts (-€0.9 million) into the fair market value of investments, Cancellation of DACs (-€18.0 million) and Prepaid expenses (-€0.7 million) and the receivable held on delegated material claims managers (-€4.4 million)
- Deferred tax (€1.1 million): related to restatements between the financial statements balance sheet and the Solvency II balance sheet

The total asset value in the Solvency II balance sheet is €800.5 million compared with €873.4 million in the financial statements.

5.2. Valuation of Technical Provisions

Value, Methods and Assumptions by Type of Provision

- The **segmentation** applied for the valuation of technical provisions is based on homogeneous risk categories. For presentation purposes, they are then aggregated by Line of Business, as described in the regulations.

– The Company's commitments on 2- and 4-Wheeler products are allocated in the "Automobile Liability" and "Other Motor Vehicle Insurance" Lines of Business

Commitments relating to Property Damage insurance products (Comprehensive Home, Comprehensive Building, Glass Breakage and Breakage/Warranty Extension) are presented in the "Fire and other Damage to Property " and "General Civil Liability" Lines of Business

– Commitments relating to the Mechanical Breakdown, Unpaid Rent, Over-Redemption and Ticket Cancellation products are categorized in the "Miscellaneous Financial Loss" Line of Business

– Commitments relating to Legal Aid and Assistance cover are reflected in the eponymous Lines of Business

– Commitments relating to Individual Accident products are classified in the "Income Protection" Line of Business.

- **The Best Estimate of Provisions for Claims Gross of Reinsurance** is the sum of future cash flows relating to claims that have already occurred, discounted according to the interest rate term structures in the Eurozone, Poland and the UK as provided by the European Insurance and Occupational Pensions Authority (EIOPA) in its "Baseline" scenario without adjustment for volatility published as of December 31, 2020. Like last year, future cash flows gross of reinsurance have been projected on an aggregated basis, distinguishing homogenous settlement classes based on historical data from calculations of technical provisions with:

– First, **delegated claims excluding Fronting and Affinity product lines**: like last year, the valuation is based on past records of annual settlements **gross of recoveries** and previous annual recoveries by Year of Occurrence, Year of Settlement or Collection and by Solvency II Line of Business (Settlements + Fees – Recoveries + related management expenses). **Settlements gross of recovery and recoveries** are then extrapolated over a maximum settlement period of 19 years, based on the Chain-Ladder method and discounted.

- Second, **non-delegated claims of less than €100,000 excluding the Fronting and Affinity product lines** which have been valued using the same methods as delegated claims.
- And finally, **claims in excess of €100,000 excluding the Fronting and Affinity product lines** for which the valuation relies on past total losses **net of recoveries**, including provisions for late claims, by Year of Occurrence, Year of Settlement and by Solvency II Line of Business. Like last year, total net losses have then been extrapolated using the Chain-Ladder method, for both the "Property Damage" and "Auto Liability" Lines of Business.
- **Annuity claims:** valuation of annuity claims is based on amounts of compensation determined by loss item, probability-weighted using applicable mortality tables.
- **Claims relating** to the Affinity product line: in the absence of sufficient history on the "Breakage/Warranty Extension" products launched in 2013 for which the period of cover can be up to six years, the valuation is done by applying to the technical provisions posted in the financial statements balance sheet by year of underwriting, the settlement rate provided for in the pricing beyond the period of cover already elapsed.
- **Claims relating to the Fronting product line:** for these partnerships on which the underwriting risk is entirely ceded, projected outflows are valued by applying the claims settlement rate and recovery rate by Line of Business to the sum of provisions for claims paid and provisions for late claims posted in the financial statements balance sheet. These future cash flows are then discounted.

- **Recurring expenses relating to managing commitments during the claims settlement period** are charged to future cash flows if they have not already been paid out on the valuation date. They include expenses that can be directly allocated to the management of commitments and indirect expenses allocated to the management of commitments in the Company's cost accounting:

- **Costs of managing compensation for material claims** are not projected as they are fully borne by the Company's delegated third parties and already paid out by the Company in the form of management commissions in accordance with the delegation agreements.
- **Acquisition costs** are also excluded from the projection insofar as they have already been paid to the business getters in the form of distribution commissions in accordance with the distribution agreements.

- **Other overheads relating to policy administration and investment management** are projected in proportion to settlement flows on future claims according to the Company's cost accounting rules and the business continuity scenario provided for in Article 31 of the Delegated Regulation.
- **After discounting, the amount of Expenses included in the Best Estimate of Provisions for Claims and annuities resulting from non-life commitments gross of Reinsurance amounted to €3.4 million.**

- **The Best Estimate of Provisions for Claims Ceded to Reinsurers**, represented in assets, is the sum of future cash flows relating to claims already occurred, projected according to the same segmentation and methodology as the Best Estimate of Provisions for Claims Gross of Reinsurance, but ceded according to the terms of the Reinsurance Treaties in force at Wakam:
  - **Proportional Treaties** are modeled by applying the cession rates to gross future cash flows for each Treaty, Reinsurer and Year of Occurrence.
  - **Non-Proportional Treaties** are taken into account individually for each claim or event involving these covers, by applying the indexing and reinstatement clauses.
  - **A reinsurer default probability**, identical to the one used to assess the Type 1 counterparty SCR, and based on the individual rating of each reinsurer, is applied to the ceded future cash flows thus obtained.

- **Valuation of the Provision for contingencies and charges:** The Provision for contingencies and charges, corresponding to management fees on delegated material claims, accounts for the potential risk of default by the delegated third party. It is cancelled in the Solvency II balance sheet symmetrically to the receivable held on the delegated third party, since the Company has already paid these costs via the management commission.

- **The Best Estimate of Provisions for Premiums Gross of Reinsurance** is the discounted sum of future cash flows (Premiums, Settlements of claims not yet occurred net of recoveries collected and related costs) that will be generated by policies in the portfolio on the valuation date for the non-acquired portion of the risk or those to be renewed or underwritten during the year in cases in which the Company cannot unilaterally release itself from its obligation to the final insured party or increase the policy price. **The Company therefore retains the following policies within its "boundary"**
  - All individual policies when Wakam cannot terminate them within two months of the

closing date. In some rare cases of multi-year distribution agreements, with no possible unilateral price change, policies underwritten are retained until the end of these agreements.

– Future cash flows from this scope are valued based on premiums, commission rates and loss ratios projected as part of the 2021 budget estimates, the latter being derived from historical observations, portfolio "aging" assumptions, average cost inflation, change in frequency and anticipated measures on pricing and the underwriting framework.

- **Recurring costs relating to managing commitments and renewal** are charged to future cash flows when they have not already been paid out on the valuation date. They include expenses that can be directly allocated to the management of commitments and renewal and indirect expenses allocated to the management of commitments and renewal in the Company's cost accounting. **After discounting, the amount of Costs included in the Best Estimate of Provisions for Premiums Gross of Reinsurance amounted to €15.2 million, of which €10.6 million relating to future Premiums.**

- **The Best Estimate of Provisions for Premiums Ceded to Reinsurers**, represented in assets, is the sum of future cash flows, projected according to the same segmentation and methodology as the Best Estimate of Provisions for Claims Gross of Reinsurance, but transferred according to the terms of Wakam's Reinsurance Treaties over the financial year 2021.

- **Valuation of the Provision for Unexpired Risks:** the Provision for Unexpired Risks corresponds in the financial statements balance sheet to losses to completion estimated by the Company over the years ahead in light of the average economic performance of a homogeneous group of risks over the past two years. As these losses to completion are projected in the Best Estimate of Premium Provisions, this provision is positioned at nil in the Solvency II balance sheet.

- **The Risk Margin** is added to all Best Estimates of Claims and Premium Provisions in order to constitute technical provisions within the meaning of the Solvency II Directive. It is calculated so as to guarantee that the value of the technical provisions is equivalent to the amount that insurance and reinsurance companies would require to take over and meet the insurance and reinsurance commitments of Wakam. The risk margin is estimated as the discounted sum of future SCRs up to the end of the commitments multiplied by a cost of capital rate equal to 6% as provided in Article 39 of the Delegated Regulation. As a simplification measure, the Company has estimated the risk margin in the Solvency II balance sheet based on the level 2 simplification defined in the LTGA

Technical Specifications, which assumes that the SCR of each year is proportional to the Best Estimate of Provisions Net of Reinsurance. **The Risk Margin is thus valued at €5.7 million** in the Solvency II balance sheet.

Level of Uncertainty

The valuation calculated by the Company for the purpose of meeting regulatory requirements is subject to uncertainty in three areas:

- **The insurance business is volatile by nature:** despite the use of risk mitigation techniques via reinsurance, which aims to reach the tolerance levels accepted by the Company's Board of Directors, the risk cannot be completely eliminated. The valuation based on a deterministic projection in a central development scenario does not reflect the volatility of operations.
- **Growth of Wakam is strong:** despite only moderate growth in 2020 (+1%), Wakam has experienced very significant growth in previous years. This requires the Company to establish new partnerships for which it may have less extensive historical data. In this case, the valuation of commitments is based on comparable business observations which may not fully reflect the new risk borne by Wakam in this context, despite the rigorous selection process and growing diversification of guarantees.
- **Regulatory uncertainty:** The Solvency II Directive has been applied since January 1, 2016: in this context, the valuation of commitments is based on a new body of rules faithfully interpreted by Wakam in this report, after conducting all the preparations since 2013, on the basis of restatements made to the company's financial statements certified by the Statutory Auditors showing adequate technical provisions. However, in the permanent oversight exercised by the supervisory authority, regulatory provisions may be given a different interpretation, leading to adjustments in the valuation of the Company's commitments.

Differences with Financial Statements

Summary of Differences in Technical Provisions as of December 31, 2020

(in € million)	Consolidated balance sheet	Solvency II balance sheet	Differences
Technical provisions, of which:	535.7	484.2	-51.5
Provisions for unearned premiums / Best Estimate of Premium Provisions	98.1	39.8	-58.3
Provisions for claims / Best Estimate of Claims Provisions	431.7	437.1	5.4
Other technical provisions	5.9	1.5	-4.4
Risk margin		5.7	5.7
Reinsurers' share in technical provisions, of which:	481.6	438.4	-43.2
Provisions for unearned premiums / Best Estimate of Premium Provisions	81.4	38.5	-42.9
Provisions for claims / Best Estimate of Claims Provisions	400.2	399.9	-0.3
Technical provisions net of reinsurance	54.1	45.7	-8.3

In summary, the differences between net technical provisions in the financial statements balance sheet and in the Solvency II balance sheet are as follows:

- Net premium provisions (-€11.3 million): incorporation of discounted gains on unearned premiums

  in 2020 net of costs relating to the management of commitments and renewal (+€0.4 million) incorporation of discounted gains on policies not yet formed in 2020 but within the policy boundary (-€11.7 million)
- Net claims provisions (+€1.6 million): cancellation of the Provision for Unexpired Risks (-€0.4 million) offset by incorporating the claims provision including costs and discounting (+€2.0 million)
- Other technical provisions (-€4.4 million): cancellation of the provision for costs of managing material claims already paid to the delegated third party
- Risk margin (+€5.7 million): integration of the margin valued according to the standard formula

The total value of net technical provisions in the Solvency II balance sheet is €45.7 million vs. €54.1 million in the financial statements.

Technical Provisions by Line of Business

After valuation of the technical provisions, the breakdown by main Line of Business shows a predominance of Auto Liability insurance due to a higher relative weight of serious claims and a longer term of commitments than in other branches. However, this segment benefits from greater reinsurance to cover the volatility of serious claims.

Breakdown of Technical Provisions by Line of Business as of December 31, 2020 (in € million)

(in € million)	Best Estimate of Provisions			Risk Margin	S2 Net Technical Provisions
	Gross	Ceded	Net		
Income protection insurance	7.9	-6.1	1.8	0.2	2.0
Automobile Liability insurance	247.3	-237.9	9.3	2.3	11.6
Other motor vehicle insurance	107.9	-93.9	14.0	0.7	14.7
Fire and other damage to property insurance	102.9	-90.0	12.8	2.3	15.1
General third-party liability insurance	5.5	-4.5	1.1	0.1	1.1
Legal aid insurance	0.2	-0.1	0.1	0.0	0.1
Assistance insurance	0.2	-0.2	0.0	0.0	0.0
Miscellaneous Financial Loss insurance	3.4	-4.3	-0.8	0.1	-0.7
Annuities under non-life insurance contracts	1.7	-1.4	0.3	0.0	0.3
TOTAL	476.9	-438.4	38.5	5.7	44.3

Matching Adjustment

Article 77b of the Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance known as "Solvency II", authorizes non-life insurance companies, under certain conditions and subject to agreement by the supervisory authority, to apply a matching adjustment to the relevant risk-free interest-rate term structure used to value their portfolio of annuity commitments that may arise under the policies they sell.
Wakam does not use this option.

Volatility Adjustment

Article 77d of the Solvency II Directive authorizes insurance companies to apply a volatility adjustment to the relevant risk-free interest-rate term structure used to value their portfolio of commitments.
Wakam does not use this option.

Transitional measure on risk-free interest rates

Article 308c of the "Solvency 2" Directive authorizes insurance companies, subject to prior approval by the supervisory authority, to apply a transitional measure to the relevant risk-free interest-rate term structure used to value their portfolio of commitments.
Wakam does not use this option.

Transitional Deduction

Article 308d of the "Solvency 2" Directive authorizes insurance companies, subject to prior approval by the supervisory authority, to apply a transitional deduction to the technical provisions of a homogenous risk group.
Wakam does not use this option.

Amounts recoverable from Reinsurance

Amounts recoverable from reinsurance in the Solvency II balance sheet are €438.4 million.

Changes in Assumptions compared to the previous Period

Compared to the previous period, the Company has not made any methodology adjustments or any changes to structural assumptions other than those required by the standard (interest rate term structure, review clause) or specific to changes in its business.

5.3. Valuation of other Liabilities

Value, Methods and Assumptions by Type for other Liabilities

Valuation of debts arising on insurance and reinsurance operations: debts arising on insurance operations correspond to balances of claim settlements and commissions owed to brokers in the short term, and to cash balances of treaties signed by Wakam. They are not adjusted in the Solvency II balance sheet as they are regularized as of the following year. The economic value therefore remains identical to the value posted in the financial statements of €183.0 million.

- **Valuation of Deferred Reinsurance Commission:** Deferred Reinsurance Commission (DRC) corresponds to the amount already received by Wakam as reinsurance commission on premiums written but unearned on December 31, 2020. In the accounting, increasing this item allows the Company's reinsurance commission to be linked to the correct financial year. Conversely, Solvency II is based on a future cash flow approach. As the DRC has already been collected by the Company, and does not give rise to any future cash flow, it is therefore completely cancelled in the Solvency II balance sheet. This operation does not generate any loss of wealth for Wakam, since reinsurance commission on existing policies will not give rise to any future cash flow and is not projected in the Best Estimate of Net Provisions in the Solvency II balance sheet. The restatement of DRC amounted to €18.9 million in the Solvency II balance sheet as of December 31, 2020.

- **Valuation of Reinsurer deposits:** these cash deposits are made according to the contractual terms of certain reinsurance treaties and guarantee repayment of claims to Wakam by the Reinsurer in the amount of its quota share. The economic value in the Solvency II balance sheet remains nil, identical to the value posted in the financial statements.

- **Valuation of subordinated liabilities:** in accordance with Article 14 of the Delegated Regulation 2015/35 of October 10, 2014 and the EIOPA Guidelines on valuation of financial liabilities, the Company takes into account the changes in market conditions affecting the value of its subordinated debt, except for changes in market conditions affecting its own credit risk. The subordinated debt is therefore valued in the financial statements balance sheet as the sum of coupons and redemption at maturity discounted at the risk-free interest-rate term structure on December 31, 2020 plus the credit risk premium specific to Wakam.

- **Valuation of other debts:** Other debts correspond to amounts due to public organizations (Taxes, Social Security Contributions, etc.) and to suppliers. Their economic value is identical to the book value in the Solvency II balance sheet.

- **Valuation of accrual liability accounts:** The economic value of other liabilities is restated for depreciation of premiums in the Solvency II balance sheet as these items are integrated into the market value of investments entered in Assets. The restatement of premiums was €0.4 million as of December 31, 2020.

Differences compared with the Financial Statements

(in € million)	Financial statements balance sheet	Solvency II Balance sheet	Differences
Technical Provisions, of which:	535.7	484.2	-51.5
Provisions for unearned premiums / Best Estimate of Premium Provisions	93.6	39.8	-53.8
Provisions for claims / Best Estimate of Claims Provisions	436.3	437.1	0.9
Provision for contingencies and charges	5.9	1.5	-4.4
Risk Margin	-	5.7	5.7
Reinsurer deposits	-	-	-
Other debts	252.8	251.9	-0.8
Deferred reinsurance commission	19.0	-	-19.0
Other liabilities	20.6	21.0	0.4
Deferred tax	-	-	-
Total Liabilities	**828.0**	**757.1**	**-70.9**
Subordinated debt, included in S2 Own Funds		19.8	19.8
Own Funds	45.4	63.3	17.9

In summary, the differences between the liabilities items in the financial statements balance sheet and the Solvency II balance sheet break down as follows:

- Gross technical provisions and other non-technical provisions (-€51.5 million): Cf. section 5.2
- Reinsurer deposits and Other Debts (-): No restatement

- Deferred Reinsurance Commission (-€19.0 million): Restatement of deferred reinsurance commission
- Other Debts (-€0.8 million): Restatement of accrued interest not due on the subordinated debt
- Other liabilities (€0.4 million): Fair value adjustment of subordinated debt (+€0.8 million) and depreciation of premiums (€0.4 million)

The total value of liabilities in the Solvency II balance sheet is €757.1 million compared with €828.0 million in the financial statements.

5.4. Alternative Methods for Valuation

Valuation for solvency purposes is done solely on the basis of the Standard Formula provided by Directive 2009/138/EC and Delegated Regulation 2015/35 (EU) of October 10, 2014. No alternative method is used for valuation.

5.5. Other Information about Valuation

All the values, methods and assumptions for valuation for all of the Company's assets and liabilities are presented in full in sections 5.1. to 5.4.

6. Capital Management

6.1. Own Funds

Capital Management Objectives and Policies

The capital management system must take account of regulatory requirements and Wakam's internal assessment of the amount of own funds needed to cover its risks. The Company therefore identifies the various capital items it may hold to classify them according to the tiers and features presented in Chapter IV, Section 2 of the Delegated Acts.

	Basic own funds	Ancillary own funds
Tier 1	Article 71	
Tier 2	Article 73	Article 75
Tier 3	Article 77	Article 78

- **The Company must first establish a classification by type of own funds:**
  - **Basic Own Funds** comprise: excess assets over liabilities, valued in accordance with Title I, Chapter II of the Delegated Acts and subordinated liabilities that Wakam may come to hold.
  - **Ancillary Own Funds** comprise items, other than basic own funds, that may be used to absorb losses. They may include: the portion of the initial capital not called up, letters of credit and guarantees or any other legally binding commitment received by Wakam. When any item of ancillary own funds has been paid or called up, it is treated as an asset and ceases to be part of ancillary own funds.

- **Wakam must then classify own funds according to three tiers, to assess the quality of the capital it holds:** this tiering depends on the type of own funds (basic or ancillary), their duration, which may be fixed or not and which is compared with the duration of commitments, and their permanent or subordinated availability.

Quality	Type of Own Funds	
	Basic Own Funds	Ancillary Own Funds
High	Tier 1	
Medium	Tier 2	Tier 2
Low	Tier 3	Tier 3

- **Tier 1 basic own funds,** including ordinary share capital paid up and the related share premium account have a number of features listed in Article 71 of the Delegated Regulations, the most significant of which for Wakam are:
  - **These own funds cannot be distributed,** where the solvency capital is not met or a distribution of these funds would entail non-compliance, unless the supervisory authority has exceptionally accepted that the distribution be maintained, the distribution does not further weaken Wakam's solvency position and the Minimum Capital Requirement (MCR) is met after the distribution.
  - Wakam is under no obligation to make distributions.

- Should Wakam carry out a capital increase, the ordinary share capital not paid up and not called, and immediately callable, would be recognized as Tier 2 ancillary own funds. When this capital is paid up, it is reclassified in Tier 1 basic own funds.

- In accordance with Article 76 of the Delegated Regulations, the value of net deferred tax assets and preferred shares is recognized as Tier 3 basic own funds.

- Should Wakam hold own funds having features not included in the usual features of Tier 1, 2 or 3 Own Funds, they would only be valued after approval by the supervisory authority for their valuation and classification.

Expected Changes in Own Funds

The Board of Directors has defined a medium-term Capital Management Plan taking into account:

- The maturity of own funds items, including contractual maturity and any earlier redemption or buyback opportunity, linked to the Company's own funds,

- The outcome of the projections done in the ORSA,
- The manner in which the issue, buyback or redemption, or any other variation in the valuation of an own funds item impacts the application of limits by tier.

In this context, any capital increase automatically entails implementation of the ORSA process, and its findings will be taken into account prior to any decision by the Board of Directors.

This medium-term Capital Management Plan particularly led to the definition of a target solvency ratio of 140%. The Chief Financial, Underwriting and Risk Officer ensures compliance with this medium-term capital management plan, under the supervision of the Executive Officers.

Wakam Capital Structure

Eligibility of coverage items defined by the Solvency II Directive

SCR	15% of Tier 3 items at the most
	Remaining admissible Tier 2 portion
	At least 50% of Tier 1 own funds

MCR	20% of Tier 2 items at the most
	At least 80% of Tier 1 own funds

The eligibility and classification principles applicable to coverage items are defined in the Solvency II Directive. Each own funds item has a different loss absorption capacity. The value of the SCR and MCR may be compared with the amount of eligible items, the ratio between the two corresponding to the solvency ratios that allow the Company to assess itself against regulatory requirements and internal capital tolerance levels.

- **As of December 31, 2020, 67% of Wakam's own funds (€42.3 million) are classified in Tier 1**, as the sum of the Company's capital and net assets generated in the valuation of the Solvency II balance sheet; **31% are classified in Tier 2**, corresponding to the subordinated debts issued on March 9, 2017 and September 28, 2018 (valued at €19.8 million in the financial statements balance sheet); and **2% are classified in Tier 3**, corresponding to deferred tax assets due to valuation restatements that are negative overall.
- **Total own funds therefore amounted to €63.3 million** as of December 31, 2020 and are 97% eligible to cover the SCR and 70% eligible to cover the MCR.

Differences with the Financial Statements

Difference between Own Funds in the financial statements balance sheet and the Solvency II balance sheet as of December 31, 2020

(in € million)	Financial statements balance sheet	Solvency II balance sheet	Differences
Total Assets	873.4	800.5	-72.9
Total Liabilities	828.0	757.1	-70.9
Own Funds	45.4	43.5	-1.9

The Solvency II balance sheet valuation shows a €1.9 million decrease in own funds before reclassification of subordinated liabilities. It corresponds to the externalization of future margins in technical provisions net of risk margin for €4.0 million, the cancellation of intangible assets for -€11.7 million, DACs net of DRC for €0.9 million, and prepaid expenses for -€1.2 million, the market value adjustment of financial assets for €3.9 million and deferred tax assets of €1.1 million due to overall negative restatements.

6.2. Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR)

Information by Risk Module

SCR and MCR calculations were carried out on December 31, 2019 based on the Standard Formula and its parameters as described in the Solvency II Directive, the Delegated Regulation and the review clause. In addition, the items of the review clause that came into force on January 1, 2019 were incorporated into the calculation, particularly revisions concerning shocks on premiums and reserves and the correlations, risk factors and Catastrophe risk weighting by region, as well as the change to certain shocks on the market SCR.

- **The Market SCR** is calculated on a "simplified" look-through basis for funds, which account for 12% of total investments.
  - **The Equities SCR** is calculated according to the standard formula. **As of December 31, 2020 the Equities SCR amounted to €5.8 million**, up €1.1 million due to an increase in the investment content sensitive to this risk (equities held directly and share of equities in funds), offset by a lower dampener value that reduces the shock applied.
  - **The Interest Rate SCR** is estimated based on standard scenarios upwards or downwards, applied to net cash flows (shock on bonds and UCITSs net of shocks on Solvency II Technical Provisions), the worst scenario being used. **As of December 31, 2020 the Interest Rate SCR amounted to €3.1 million** up €2.8 million due to Wakam's sensitivity to an upward interest rate shock, unlike last year when the downward shock, limited by the prevailing low interest rate context, was applied.

- **The Spread SCR** represents the impact of an adverse change in the issuer's solvency causing a widening of credit spreads (yield spread) between the risk-free rate and the expected rate of return on investments. The capital requirement depends on the market value, duration and issuer's rating. **As of December 31, 2020 the Spread SCR amounted to €8.0 million**, down €0.1 million from the previous year.
- **The Currency SCR** represents the change in the value of underwriting assets and liabilities denominated in currencies other than the Euro generated by a 25% exchange rate variation up or down. The Company's exposure to the currency risk is up, particularly due to business in the UK and Poland. **As of December 31, 2020 the Company Currency SCR amounted to €2.2 million**, up €0.6 million due to increased exposure to the Zloty and Pound.
- **The Concentration SCR** represents the volatility risk induced in investment portfolios by overexposure to a single issuer. The capital requirement depends on the exposure to the issuer considered and its rating. **As of December 31, 2020 the Company's Concentration SCR was €0.4 million**, due to growth in the investment portfolio in recent years which has mechanically reduced to below 1.5% the relative weight of all the portfolio lines but for one.
- **The Real Estate SCR** represents the risk on real-estate assets caused by the sensitivity of assets, liabilities and financial instruments to changes affecting the level or volatility of the market value of real estate assets**. It amounted to €2.2 million as of December 31, 2020**, down €0.1 million from December 31, 2019.
- **After aggregation and diversification of the various risks, the Company's Market SCR amounted to €15.7 million,** up €1.3 million compared with the previous year.

- **The Counterparty SCR** breaks down into two sub-categories:
  - **Type 1 Counterparty SCR** corresponds to the loss that would be caused by the default of Wakam's listed counterparties and depends on their rating and exposure, including the Best Estimate of ceded Provisions net of the value of pledges granted by reinsurers, non-life SCR savings following transfers to reinsurers and bank deposits. **As of December 31, 2020 the Type 1 Counterparty SCR amounted to €1.8 million**, up €0.6 million from the previous year due to an increase in cessions and a significant rise in cash accounts taken into account in the exposure amount.

- **Type 2 Counterparty SCR** corresponds to the loss that would be caused by a massive default of counterparties recorded in insurance receivables (policyholders and brokers), calculated according to the age of receivables (more or less than 3 months). **As of December 31, 2020 the type 2 counterparty was valued at €5.4 million,** up €0.2 million from a year earlier due to good management of the level of receivables throughout the year.
- **After aggregation of the two sub-modules, the Counterparty SCR amounted to €6.8 million**, up €0.7 million compared with the previous year.

- **The Health Underwriting SCR** is marginal due to the low weight of Health in the Company's business and **amounted to €1.3 million as of December 31, 2020,** up €0.2 million from the previous year due to an increase in premium volumes on the Income Loss line of business.

- **The Non-Life Underwriting SCR** reflects the Company's risk of under-pricing and under-provisioning after geographical diversification, as Wakam's commitments are spread across France, Italy, Poland, the UK, Ireland, Spain, the Netherlands, Germany and a region covering Reunion Island and the Caribbean, as well as the risk of natural or human-induced catastrophes:
- **For the "Premiums and Reserves" SCR**, the capital charge is determined by applying a volatility factor specific to each line of business to the Best Estimate of Net Claims Provisions for the under-provisioning risk and the net "Premium Volume" for the under-pricing risk. For Wakam, the "Premium Volume" defined in the Standard Formula is equal to the sum of the following three items: the maximum between Premiums earned in 2020 and Premiums to be earned over 2021; Premiums to be earned in 2022 for policies renewed up to December 31, 2021; and Premiums to be earned over the first two months of 2022 for policies underwritten on or after November 1, 2021. **As of December 31, 2020 the "Premiums and Reserves" SCR amounted to €20.6 million**, up €1.1 million from the previous year due to the growth in premiums expected in 2021.
- **The Catastrophe SCR** is estimated using the Helper Tabs provided by EIOPA. It also includes the "Catastrophe" risk specific to the "Miscellaneous Financial Loss Insurance" line of business. The Catastrophe SCR is reduced by Reinsurance Treaties applicable to the "Fire and Other Damage to Property Insurance" and "Other Motor Insurance" lines of business. **As of December 31, 2020 the Catastrophe SCR amounted to €3.8 million**, down €0.1 million from the previous year due to the lower priority of the Stop-Loss treaty as coverage for the Natural Catastrophe risk.

- **The Non-Life Discontinuance SCR** reflects the lapse risk, i.e. 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, terminations or renewals. **It was valued as of December 31, 2020 at €4.7 million**, up €1.1 million from the previous year due to an increase in the best estimate of premiums.
- **After aggregation and diversification of the various sub-modules, the Company's Non-Life SCR as of December 31, 2020 amounted to €22.4 million**, up €1.3 million from the previous year.

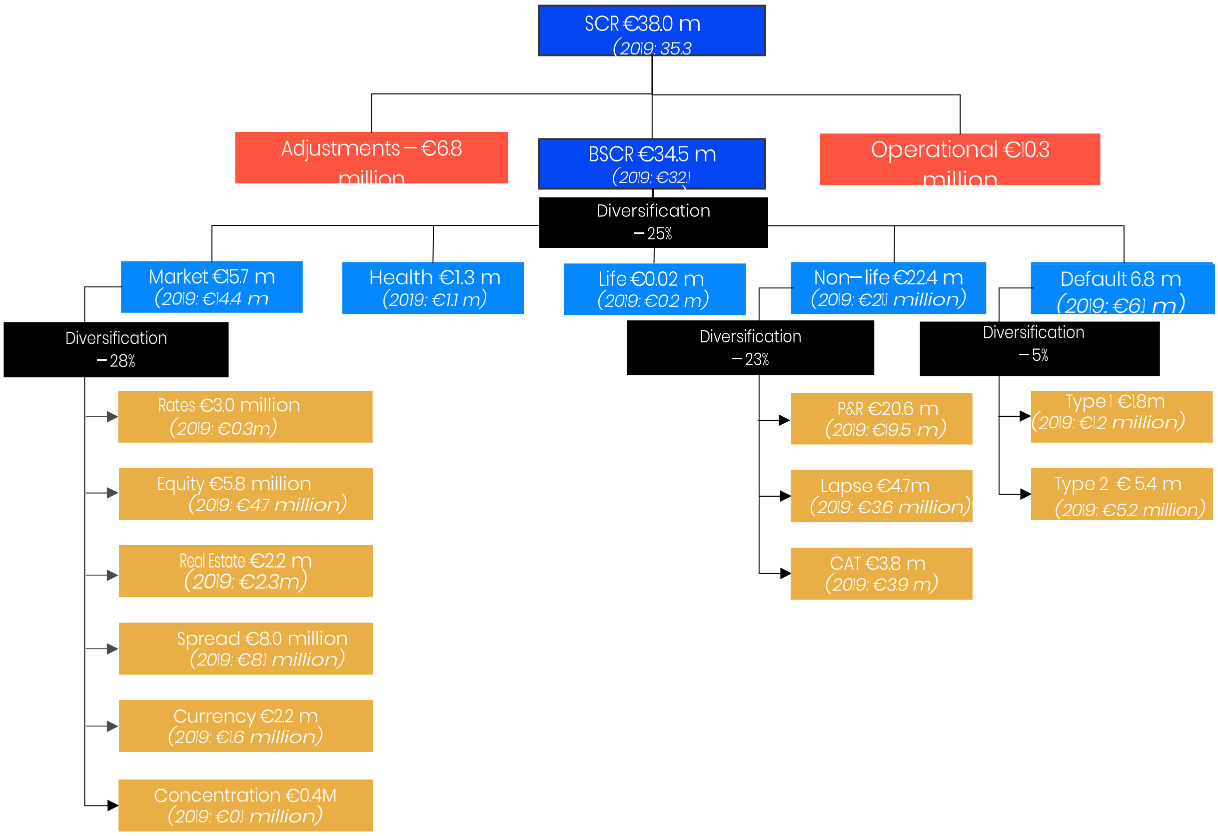
- After application of risk correlation matrices provided by the Standard Formula, the sum of individual SCRs benefits from a diversification effect of 25% to reach a **BSCR of €34.5 million as of December 31, 2020**, up €2.4 million from the previous year. This increase is mainly due to the increase in Non-Life Underwriting and Market risks explained above.

Total Solvency Capital Requirement and Total Minimum Capital Requirement

- **The Total Solvency Capital Requirement (SCR) as of December 31, 2020**, i.e. the sum of the Basic SCR (BSCR), Operational SCR and adjustment for tax, **amounted to €38.0 million:**
- **The Operational SCR** measures the risk of loss due to inadequate or insufficient internal procedures, staff or systems, or external events. It also includes legal risks, but excludes reputation risks and risks generated by strategic decisions. **As of December 31, 2020, the Company's Operational SCR amounted to €10.3 million**, i.e. an increase of €0.7 million from the previous year due to the rise in the Market and Non-Life Underwriting risks.
- **Adjustment for deferred tax** corresponds to tax credits associated with the loss of the BSCR and the Operational SCR. **As of December 31, 2020, the adjustment was valued at €6.8 million**, up €0.4 million compared with the previous year.

SCR Module Tree Structure as of December 31, 2020

(Reminder of amounts as of December 31, 2019 in brackets)



- **The Total Minimum Capital Requirement (MCR) amounted to €9.7 million as of December 31, 2020** corresponding to the linear MCR (estimated by applying two differentiated factors for each line of business, one to premiums earned in 2020, and the other to the best estimate of net claim provisions).

6.3. Company-Specific Parameters

Article 104 (7) of the Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance known as "Solvency II", authorizes non-life insurance companies, under certain conditions and subject to agreement by the supervisory authority, to replace, in the design of the standard formula, a subset of its parameters with parameters that are specific to the company, to calculate underwriting risks.
Wakam does not use this option.

6.4. Compliance with Overall Solvency Needs

SCR and MCR Coverage Ratios as of December 31, 2020

(in € million)	December 31, 2019	December 31, 2020
Own Funds, of which:	57.3	63.3
Tier 1	35.2	42.3
Tier 2	19.8	19.8
Tier 3	2.3	1.1
Own Funds eligible for SCR coverage	52.8	61.3
SCR	35.3	38.0
SCR coverage ratio	149.6%	161.3%
Own Funds eligible for MCR coverage	36.9	44.3
MCR	8.8	10.0
MCR coverage ratio	419%	445%

- Wakam complies with the overall solvency needs as of December 31, 2020:
  - **As of this date, the SCR coverage ratio is 161%** and the MCR coverage ratio is 445%.
  - **The SCR coverage ratio** is clearly up compared with 2019 (+11.6pts). This is due, firstly, to limited growth over the year, coupled with underwriting management efforts on gross business and reinsurance to contain the SCR increase, and secondly, to actions aimed at increasing own funds.
  - **The MCR coverage ratio** improved 26pts, a change in line with the increase in net premiums and provisions over the period.

6.5. Other Information about Capital Management

All material information on capital management is provided in full in sections 6.1. to 6.4.1