



**Solvency and Financial  
Condition Report  
31<sup>st</sup> December 2023**

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## Executive Summary

The Solvency and Financial Condition Report is aligned with the requirements of Directive 2009/138/EC (Solvency II Directive) and the Commission Delegated Regulation (EU) 2015/35.

### Business and Performance

**MAPFRE Middlesea p.l.c** (also 'the Company' or 'MMS' used interchangeably through the document) is a composite insurance company with primary activities being underwriting of non-life and group life risk. It accepts risks on the following Solvency II lines of business:

- Medical expense insurance
- Income protection insurance
- Motor vehicle liability insurance
- Other Motor insurance
- Marine, Aviation and Transport insurance
- Fire and other damage to property insurance
- General liability insurance
- Assistance
- Miscellaneous financial loss
- Other life insurance

MMS underwrites risks, which are exclusively located in the Maltese territory. Legacy business, which originated from MMS's previous branches outside the Maltese territory, is now in run off.

MAPFRE Middlesea is a subsidiary of **MAPFRE S.A.** and forms part of the MAPFRE Group, composed of MAPFRE, S.A. and various companies operating in the insurance, asset management, property, investments, and services industries. Within the MAPFRE Group, a number of Corporate Functions exist which assist and oversee subsidiaries. The ultimate controlling company within the Group is FUNDACIÓN MAPFRE, a non-profit institution domiciled in Madrid at Paseo de Recoletos 23.

The insurance service result amounted to €12.2 million at 31<sup>st</sup> December 2023 (2022 restated: €5.9 million). Net insurance finance expenses amounted to €0.8 million (2022 restated: finance income of €1.5 million) which, together with investment income and other revenue and other operating expenses resulted in a profit before taxes of €9.9 million, up from the restated €6.6 million achieved in 2022. Insurance revenue increased due to organic growth and tariff increases particularly in Motor and Health. Claim frequency in Motor improved whilst that of Health saw a deterioration. The impact of large losses reduced compared to previous year whilst an improved net favourable run-off was achieved including the closure of a number of high value large losses. The combined ratio thus saw an improvement when compared to previous year.

During 2023, insurance revenue totalled €92.9 million (2022: €84.3 million), with total written premium increasing by 9.9%, driven particularly by Health and Travel business. Motor increase came mainly through tariff increases to counter inflationary pressures.

MMS's net combined ratio at 85.6% shows an improvement 4.6 percentage points compared to the restated previous year. Motor saw an improvement compared to the previous year as a result of the increase in tariff, lower frequency and an improved favourable run-off that was partly offset by a higher current year large loss impact. Prior year claims saw a favourable net run-off on all lines of business.

### System of Governance

MMS's Governing bodies as at 31<sup>st</sup> December 2023 are set out below:

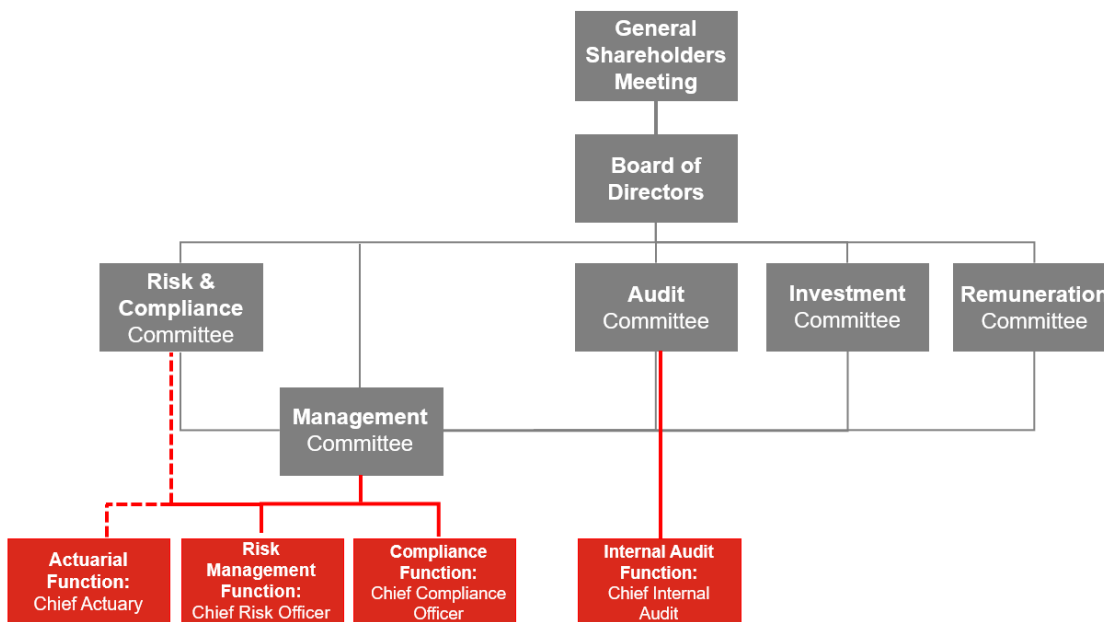
- Shareholders' Annual General Meeting
- Board of Directors
- Audit Committee
- Risk and Compliance Committee
- Investment Committee
- Remuneration Committee
- Management Committee

Additionally, the following committees supplement the list above:

- Security and Environment Committee
- Product Oversight Governance (POG) Committee
- MAPFRE Malta Steering Committee

MMS is also supervised by the EMEA Regional Management Committee, which is directly responsible for the supervision of the management of the Business Units in the region concerned, except for the reinsurance unit, and the promotion of all global and regional corporate projects.

MMS's organisational chart showing the main governing bodies and the Key Functions is set out below:



These governing bodies allow for the adequate strategic, commercial and operational management and allow MMS to provide an adequate and timely response to events that may arise at any level within the organisation and within its business and corporate environment.

In order to ensure that MMS's system of governance has an adequate structure, MMS has a number of policies that govern the key functions (Risk Management, Compliance, Internal Audit and Actuarial). These policies ensure that the functions follow the requirements and are compliant with the lines of governance established by MMS and by the MAPFRE Group.

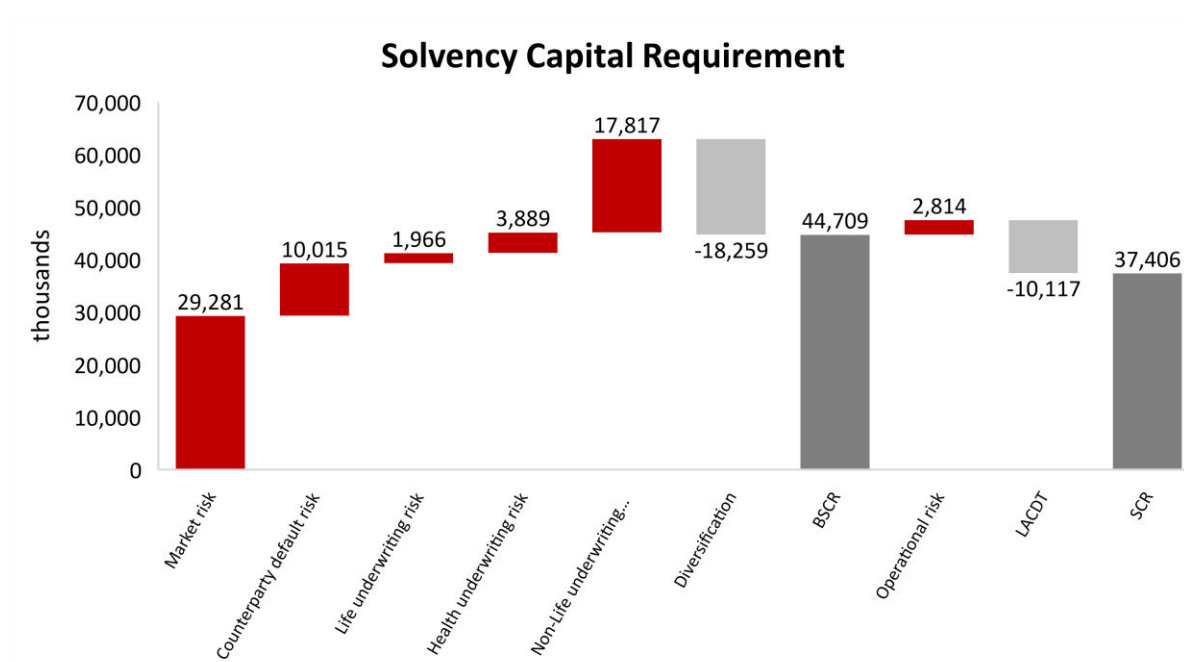
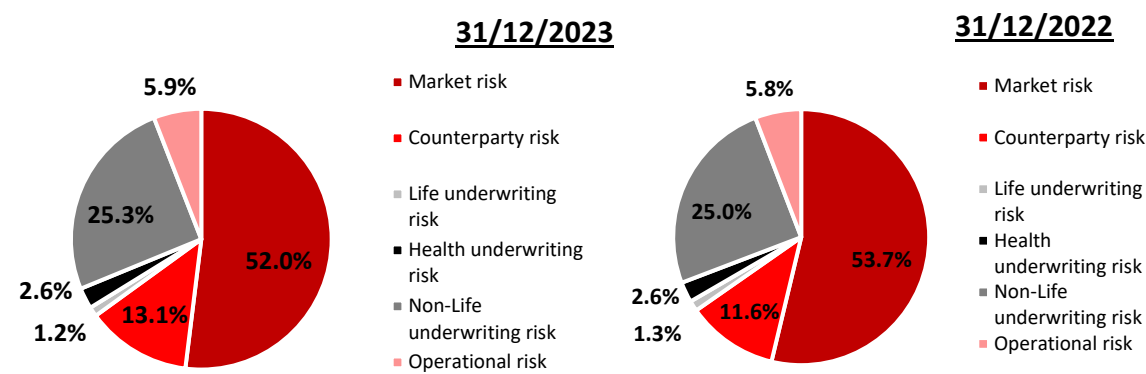
MMS's Board of Directors determines the policies and strategies for ensuring the effectiveness of the Risk Management System, for establishing the risk profile and tolerance limits, as well as for approving the main risk management strategies and policies within the risk management framework established by the MAPFRE Group. The three lines of defence model has been adopted as the Risk Management System.

Within this framework, MMS has a structure composed of areas that, in their respective technical expertise, independently monitor the risks assumed.

## Risk profile

MMS calculates its Solvency Capital Requirement (hereinafter SCR) using the standard formula.

The following reflects the composition of MMS's risk profile based on the risks included under the standard formula methodology as well as the regulatory capital necessary for each risk:



MMS's risk profile is skewed towards market risk, due to MMS's strategic investment in MAPFRE MSV Life p.l.c (MMSV). This risk is followed by non-life underwriting risk and counterparty default risk.

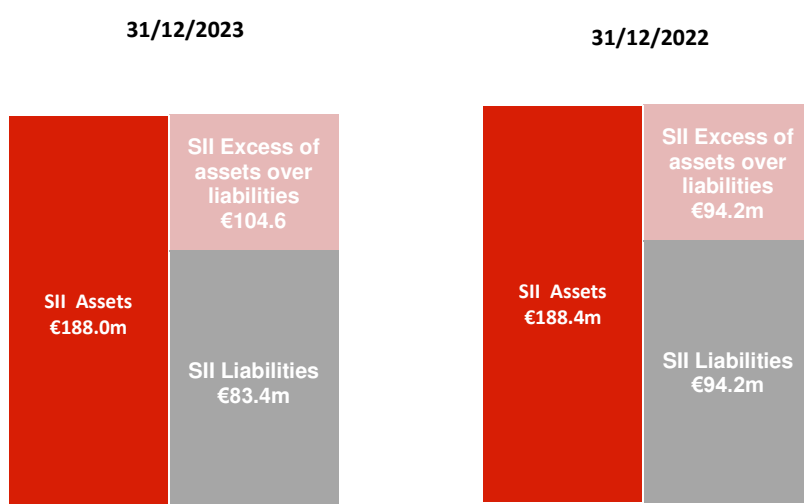
Other material risks to which MMS is exposed to include those derived from inflation and significant expenses rise, natural or man-made catastrophes, cybersecurity risk, talent and human resources, macroeconomic environment, climate change risk, and the challenges brought about with electric vehicles.

MMS also analyses the sensitivity of its solvency position with respect to certain severe but plausible events, the results of which show that MMS complies with regulatory capital requirements even under the considered adverse circumstances.

## Valuation for solvency purposes

The Solvency II (SII) value of assets amounts to €188.0 million, whereas the accounting value (IFRS value) is equal to €170.1 million. The difference between Solvency II and MMS's accounting figures are explained by their different valuation approaches, mainly arising from intangible assets and reinsurance recoverables.

The Solvency II value of liabilities amounts to €83.4 million, whereas the IFRS value is equal to €88.7 million. The main difference between Solvency II value and the IFRS value arose from the different valuation criteria used for technical provisions.



Figures in thousand euros

The total excess of assets over liabilities for Solvency II purposes amounted to €104.6 million, which represented an increase of 28.1% over the IFRS value of equity. As at 31<sup>st</sup> December 2023 the total excess of assets over liabilities increased by €10.4 million compared with the end of last year.

There were no significant changes in valuation criteria for assets and liabilities in the year.

## Capital Management

MMS has the appropriate structure and processes necessary to manage and oversee its own funds and has a policy and a medium-term capital management plan to maintain the solvency levels within the limits established by the legislation and by MMS's own risk appetite.

The following table provides a breakdown of MMS's solvency ratio or SCR coverage ratio:

	31/12/2023	31/12/2022
Solvency Capital Requirement (SCR)	37,406	39,090
Own funds eligible for SCR coverage	100,083	90,737

<b>Solvency ratio (SCR coverage)</b>	<b>267.6%</b>	<b>232.1%</b>
--------------------------------------	---------------	---------------

Figures in thousand euros

MMS's Solvency Capital Requirement amounted to €37.4 million. The SCR corresponds to the own funds that MMS must hold to limit the probability of bankruptcy to one case per 200, or that MMS is 99.5% confident to be able to meet its commitments to insurance beneficiaries during the following year.

As at 31<sup>st</sup> December 2023 the eligible own funds to cover the SCR amount to €100.1 million (2022: €90.7 million), of which €98.8 million (2022: €88.3 million) are classified as unrestricted Tier 1 and €1.3 million (2022: €2.5 million) are classified as Tier 3. Tier 1 capital has the characteristics set out in Article 93(1)(a) and (b) of Directive 2009/138/EC, fully paid up and available to absorb losses.

The solvency ratio amounts to 267.6% (232.1% in 2022) and reflects the proportion between eligible own funds and the SCR. It shows that MMS has a high capacity to absorb extraordinary losses arising from an adverse scenario and is within the Risk Appetite established for MMS and approved by its Board of Directors.

To calculate the solvency ratio, MMS has not used matching and volatility adjustments, or transitional measures for technical provisions provided by Solvency II regulations.

The Solvency II regulation also establishes a Minimum Capital Requirement (MCR), which is the minimum level of security under which financial resources must never fall. MMS's MCR amounted to €11.9 million and the eligible own funds to cover it are equal to €98.8 million, resulting in an MCR coverage ratio of 829.9%.

## **A. Business and Performance**

The accounting information in this section follows from MMS's financial statements, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.



## A.1. Business

### A.1.1. Company Businesses

**MAPFRE Middlesea p.l.c.** (also 'the Company' or 'MMS' used interchangeably throughout the document) is an insurance company specialising in the underwriting of non-life and group life business.

MMS underwrites risks, which are exclusively located in the Maltese territory. Legacy business, which originated from MMS's previous branches outside the Maltese territory is now in run off.

The registered address is: MAPFRE Middlesea p.l.c.

Middlesea House

Floriana, Malta

MMS is a subsidiary of MAPFRE S.A. with registered address: MAPFRE S.A.

Carretera de Pozuelo, 52

Majadahonda, Spain

and is part of the MAPFRE GROUP, composed of MAPFRE S.A. and various companies operating in insurance, asset management, property investments and service industries.

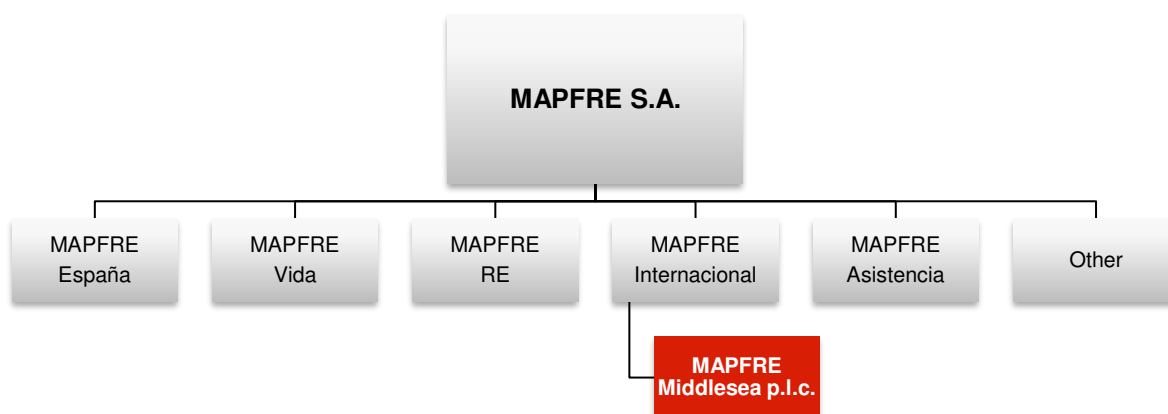
The ultimate controlling company within the Group is FUNDACIÓN MAPFRE, a non-profit institution domiciled in Madrid at Paseo de Recoletos 23 (Spain).

The following table shows the companies, which hold qualifying investments in MMS:

Name	Type of interest	Location	Percentage of ownership (*)
MAPFRE Internacional, S.A.	Limited liability	Spain	55.83%
Bank of Valletta p.l.c.	Limited liability	Malta	31.08%

(\*) The ownership interest and voting rights are the same.

An organisational chart is presented below showing the position held by MMS within the simplified legal structure of the MAPFRE Group:



MMS is the parent company of a number of subsidiaries with main activities being insurance, financial and assistance services. Annex I to this report provides details of these companies.

MAPFRE Group presents a consolidated report for the Group and individual reports for the insurance and reinsurance companies belonging to the Group.

### **Supervision**

The Malta Financial Services Authority (hereinafter 'MFSA') is responsible for the financial supervision of MMS. The MFSA is located at:

Triq l-Imdina, Zone 1  
Central Business District  
Birkirkara, CBD 1010

and its website is <https://www.mfsa.mt/>.

The Dirección General de Seguros y Fondos de Pensiones (DGSFP) is responsible for the financial supervision of the MAPFRE Group since, MAPFRE S.A. is located in Spain. The DGSFP is located at Paseo de la Castellana, 44, Madrid and its website is <https://dgsfp.mineco.gob.es/>

### **External Audit**

On 25<sup>th</sup> March 2024, KPMG Malta issued an unqualified audit opinion on the individual and consolidated financial statements prepared MMS as at 31<sup>st</sup> December 2023.

KPMG Malta also reviews the Sections D "Valuation for solvency purposes" and E "Capital management" of the Solvency and Financial Condition Report.

KPMG Malta is located at: Portico Building  
Marina Street  
Pieta', PTA 9044.

### **Lines of business**

Although a composite insurer, MMS is primarily a general business insurer and accepts risks for the following lines of business:

- Medical expense insurance
- Income protection insurance
- Motor vehicle liability insurance
- Other motor insurance
- Marine, aviation, and transport insurance
- Fire and other damage to property insurance
- General liability insurance
- Assistance
- Miscellaneous Financial Loss
- Other life insurance

### **Geographic areas**

MMS does not underwrite any risks, which are situated outside Malta unless there is a specific Maltese interest. Previous business written by the company branches outside Malta is now in run off.

During 2023, the Group's business activities have been developed through an organisational structure comprised of four Business Units (Insurance, Reinsurance, Global Risks and Assistance), and six Regional Areas: IBERIA (Spain and Portugal), BRAZIL, LATAM SOUTH-CENTRAL (Mexico, Dominican Republic, Panama, El Salvador, Nicaragua, Costa Rica, Honduras, Guatemala, Colombia, Venezuela, Ecuador, Peru, Chile, Argentina, Uruguay and Paraguay), NORTH AMERICA (United States and Puerto Rico) and EMEA (Italy, Germany, Malta and Turkey). The Reinsurance and Global Risks Units are integrated into the legal company MAPFRE RE.

### **A.1.2. Events with material repercussions**

During 2023 the Company adopted IFRS 17 Insurance Contracts and IFRS 9 Financial instruments. The retrospective implementation of IFRS 17 required the restatement of 2022 results.

The insurance service result amounted to €12.2 million at 31<sup>st</sup> December 2023 (2022 restated: €5.9 million). Net insurance finance expenses amounted to €0.8 million (2022 restated: finance income of €1.5 million) which, together with investment income and other revenue and other operating expenses resulted in a profit before taxes of €9.9 million, up from the restated €6.6 million achieved in 2022. Insurance revenue increased due to organic growth and tariff increases particularly in Motor and Health. Claim frequency in Motor improved whilst that of Health saw a deterioration. The impact of large losses reduced compared to previous year whilst an improved net favourable run-off was achieved including the closure of a number of high value large losses. The combined ratio thus saw an improvement when compared to previous year.

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MMS's net combined ratio at 85.6% shows an improvement 4.6 percentage points compared to the restated previous year. Motor saw an improvement compared to the previous year as a result of the increase in tariff, lower frequency and an improved favourable run-off that was partly offset by a higher current year large loss impact. Prior year claims saw a favourable net run-off on all lines of business.

Internal expenses increased by 15.4% above the previous year, mainly driven by staff costs and IT, particularly amortisation of intangibles, together with IFRS 17 related expenses.

The profit or loss account shows a net investment income of €1.9 million compared to the previous year's €1.1 million. No dividend was received from MAPFRE MSV Life p.l.c. during 2023 whilst in 2022, a net €1.0 million dividend received from MAPFRE MSV Life p.l.c. The results of 2022 also included €0.5 million received from the liquidation of Progress Assicurazioni S.p.A. as a final payment of 6.35% of the €8.5 million subordinated loan given by a subsidiary of MMS to the then Italian subsidiary, which was impaired in 2009.

## **A.2. Underwriting results**

Below is a comparison of the quantitative information regarding the activity and underlying results for 2023 and 2022 by line of business.

	Line of Business for: non-Life insurance and reinsurance obligations (direct insurance and proportional accepted reinsurance)																		Total	
	Medical expense insurance		Income Protection insurance		Motor vehicle liability insurance		Other motor insurance		Marine, aviation and transport insurance		Fire and other damage to property insurance		General liability insurance		Assistance		Miscellaneous financial loss			
	2023 <sup>1</sup>	2022 <sup>2</sup>	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
<b>Premiums written</b>																				
Gross - Direct Business	16,705	14,716	1,145	1,174	20,731	19,852	23,774	20,875	3,106	2,862	17,982	16,475	6,639	6,126	2,913	2,354	6	7	93,000	84,439
Gross - Proportional reinsurance accepted	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross - Non-proportional reinsurance accepted																				
Reinsurers' share	169	79	3	22	997	929	314	298	139	431	14,130	12,988	411	371	1	45	2	3	16,165	15,166
Net	16,536	14,636	1,142	1,152	19,734	18,923	23,459	20,577	2,967	2,431	3,852	3,487	6,228	5,755	2,912	2,309	4	4	76,835	69,273
<b>Premiums earned</b>																				
Gross - Direct Business	15,808	13,960	1,218	1,186	20,029	19,098	22,968	20,082	3,109	3,102	17,498	15,973	6,602	6,085	2,893	2,233	33	42	90,157	81,760
Gross - Proportional reinsurance accepted	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross - Non-proportional reinsurance accepted																				
Reinsurers' share	169	79	3	22	997	929	328	286	192	702	13,997	12,724	412	414	1	45	15	20	16,114	15,221
Net	15,639	13,881	1,215	1,163	19,031	18,169	22,640	19,796	2,917	2,400	3,501	3,249	6,189	5,672	2,892	2,189	17	22	74,043	66,540
<b>Claims Incurred</b>																				
Gross - Direct Business	6,789	5,598	401	495	11,454	16,768	6,557	7,278	(17)	577	3,906	4,097	(1,692)	1,552	1,693	1,318	-	-	29,092	37,684
Gross - Proportional reinsurance accepted	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross - Non-proportional reinsurance accepted																				

<sup>1</sup> Under IFRS 17

<sup>2</sup> As reported in 2022 SFCR, under IFRS 4

	Line of Business for: non-Life insurance and reinsurance obligations (direct insurance and proportional accepted reinsurance)																		Total	
	Medical expense insurance		Income Protection insurance		Motor vehicle liability insurance		Other motor insurance		Marine, aviation and transport insurance		Fire and other damage to property insurance		General liability insurance		Assistance		Miscellaneous financial loss			
	2023 <sup>1</sup>	2022 <sup>2</sup>	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Reinsurers' share	312	-	(21)	-	(991)	1,277	(567)	554	(959)	3	2,931	3,128	(2,215)	(964)	-	-	-	-	(1,509)	3,998
Net	6,477	5,598	422	495	12,445	15,491	7,125	6,724	942	574	975	969	523	2,517	1,693	1,318	-	-	30,601	33,686
<b>Expenses incurred</b>	7,217	4,927	899	693	8,339	8,418	8,747	7,943	1,257	1,149	1,511	1,547	2,564	2,853	1,003	1,454	5	27	31,544	29,010
<b>Balance – other technical expenses/income</b>																			-	-
<b>Total technical expenses</b>																			31,544	29,010

	Line of Business for: life insurance obligations			
	Other life insurance		Total	
	2023 <sup>3</sup>	2022 <sup>4</sup>	2023	2022
<b>Premiums written</b>				
Gross	2,727	2,680	2,727	2,680
Reinsurers' share	250	225	250	225
Net	2,476	2,455	2,476	2,455
<b>Premiums earned</b>				
Gross	2,712	2,680	2,712	2,680
Reinsurers' share	250	225	250	225
Net	2,462	2,455	2,462	2,455
<b>Claims incurred</b>				
Gross	1,286	596	1,286	596
Reinsurers' share	236	-	236	-
Net	1,050	596	1,050	596
<b>Expenses incurred</b>				
	747	472	747	472
<b>Balance – other technical expenses/income</b>				
			-	-
<b>Total expenses</b>				
			747	472
<b>Total amount of surrenders</b>				
	-	-	-	-

Figures in thousand euro

The preceding tables only present the columns to the lines of business in which MMS operates. These can be highlighted through the below points:

- MMS closed the year with gross written premiums amounting to €95.7 million (2022: €87.1 million), experiencing an increase of 9.9% over 2022.
- Total gross claims incurred amount of €30.4 million (2022: €38.3 million), experiencing a decrease of 20.6% over 2022.
- The profit after tax for 2023 stood at €6.7 million (2022: €4.2 million<sup>5</sup>), showing an increase of 59.5% over 2022.

<sup>3</sup> Under IFRS 17

<sup>4</sup> As reported in 2022 SFCR, under IFRS 4

<sup>5</sup> Re-stated under IFRS 17

### A.3. Investment performance

#### A.3.1. Information on income and expenses arising from investments

The following tables present quantitative information regarding income and expenses from investments:

Financial Income	2023	2022
<b>INVESTMENT INCOME</b>		
Investment properties	817	776
Income from the held-to-maturity portfolio	-	-
Income from the fair value through / available-for-sale portfolio	230	75
Income from the fair value through profit or loss portfolio	83	62
Dividend from Group companies	147	1,313
Other financial income	5	5
<b>TOTAL INVESTMENT INCOME</b>	<b>1,282</b>	<b>776</b>
<b>REALISED AND UNREALISED GAINS</b>		
<b>Net realised gains</b>	-	-
Investment properties	-	2
Held-to-maturity investment portfolio	-	-
Available-for-sale investment portfolio	-	-
Fair value through profit or loss portfolio investments	-	-
Other	-	-
<b>Net unrealised gains</b>	-	-
Increase in the fair value of the trading portfolio and profits from derivatives	795	-
Other	-	-
<b>TOTAL GAINS</b>	<b>795</b>	<b>2</b>
<b>OTHER FINANCIAL INCOME FROM THE INSURANCE BUSINESS</b>		
Gains on investments on behalf of policyholders bearing the investment risk	-	-
Gains on exchange	4	2
Other	-	-
<b>TOTAL OTHER FINANCIAL INCOME FROM THE INSURANCE BUSINESS</b>	<b>4</b>	<b>2</b>
<b>TOTAL INCOME FROM THE INSURANCE BUSINESS</b>	<b>2,081</b>	<b>2,235</b>
<b>FINANCIAL INCOME FROM OTHER BUSINESSES</b>	<b>-</b>	<b>-</b>
<b>TOTAL FINANCIAL INCOME</b>	<b>2,081</b>	<b>2,235</b>

Figures in thousand euro

Financial Expenses	2023	2022
<b>INVESTMENT EXPENSES</b>		
Investment properties	-	14
Expenses from the held-to-maturity portfolio	-	-
Expenses from the available-for-sale portfolio	-	-
Expenses from the trading portfolio	-	-

Financial Expenses	2023	2022
Other financial expenses	104	103
<b>TOTAL INVESTMENT EXPENSES</b>	<b>104</b>	<b>117</b>
<b>REALISED AND UNREALISED LOSSES</b>		
<b>Realised losses</b>	-	-
Investment properties	-	-
Held-to-maturity investment portfolio	-	-
Fair value through OCI / Available-for-sale investment portfolio	14	19
Trading portfolio investments	-	-
Other	-	-
<b>Unrealised losses</b>		
Decrease in the fair value of the trading portfolio and losses on derivatives	-	1,006
Other	-	-
<b>TOTAL LOSSES</b>	<b>14</b>	<b>1,025</b>
<b>OTHER FINANCIAL EXPENSES FROM THE INSURANCE BUSINESS</b>		
Losses on investments on behalf of policyholders bearing the investment risk	-	-
Losses on exchange	-	-
Other	-	-
<b>TOTAL OTHER FINANCIAL EXPENSES FROM THE INSURANCE BUSINESS</b>	<b>-</b>	<b>-</b>

<b>TOTAL EXPENSES FROM THE INSURANCE BUSINESS</b>	<b>118</b>	<b>1,142</b>
<b>FINANCIAL EXPENSES FROM OTHER BUSINESSES</b>	<b>-</b>	<b>-</b>
<b>TOTAL FINANCIAL EXPENSES</b>	<b>118</b>	<b>1,142</b>

Figures in thousand euros

TOTAL INCOME FROM THE INSURANCE BUSINESS	2,081	2,235
TOTAL EXPENSES FROM THE INSURANCE BUSINESS	118	1,142
<b>FINANCIAL RESULT FROM THE INSURANCE BUSINESS</b>	<b>1,963</b>	<b>1,093</b>
TOTAL FINANCIAL INCOME FROM OTHER BUSINESSES	-	-
TOTAL FINANCIAL EXPENSES FROM OTHER BUSINESSES	-	-
<b>TOTAL FINANCIAL RESULT FROM OTHER BUSINESSES</b>	<b>-</b>	<b>-</b>
<b>TOTAL FINANCIAL RESULT</b>	<b>1,963</b>	<b>1,093</b>

Figures in thousand euro

Total net investment income during the year amounted to €2.0 million (2022: €1.1 million). No dividend was received from MMSV in 2023 compared to the €1.2 million gross of tax received in 2022.

Property income increased as occupancy improved, and leases were renewed at higher rates. The revaluation of investment property saw a fair value gain of €0.1 million influenced by a higher projected market rate mitigated by a higher discount rate, with stable void factor and year on year inflation.

Fair value through profit or loss equities had a positive performance with gains in fair value and a return to dividend pay-outs.



During the year further funds were transferred to MAPFRE Inversión, the Group's Investment Management company and invested in Sovereign and Corporate Bonds all designated as Fair Value through other comprehensive income (FVOCI) investments when the markets were down and at higher coupon rates improving effective interest income.

### A.3.2. Information regarding losses and gains recognized under equity:

The following is the quantitative information regarding gains and losses arising from investments broken down by type of asset, and recognised directly in equity during 2023 and 2022:

Investments	Gains recognised in equity		Losses recognised in equity		Net difference	
	2023	2022	2023	2022	2023	2022
<b>I. Investment properties</b>	-	-	-	-	-	-
<b>II. Financial investments</b>	<b>298</b>	-	-	<b>831</b>	<b>298</b>	<b>(831)</b>
Available-for-sale portfolio(2022) /FVOCI(2023)	298	-	-	831	298	(831)
Equity instruments	-	-	-	68	-	(68)
Debt securities	298	-	-	763	298	(763)
<b>III. Investments in associates accounting for using the equity method</b>	<b>14</b>	<b>6</b>	-	-	<b>14</b>	<b>6</b>
<b>IV. Deposits established for accepted reinsurance</b>	-	-	-	-	-	-
<b>V. Other investments</b>	-	-	-	-	-	-
<b>Overall performance</b>	<b>312</b>	<b>6</b>	-	<b>831</b>	<b>312</b>	<b>(825)</b>

Figures in thousand euro

During 2023, Equity funds were reclassified as fair value through profit of loss whilst all bonds were reclassified as fair value through other comprehensive income on adoption of IFRS 9. Interest rates eased with bond prices regaining some lost ground though still mostly below par, which are expected to reverse as holdings approach maturity. Investment in new bonds also bought below par are expected to yield a better return than the older investments.

### A.3.3. Information about asset securitisation

MMS did not have any securitisation investments in this or the comparative year.

## A.4. Performance of other activities

### A.4.1 Other income and expenses in the non-technical account

During the year, MMS has recognised the following other income and expenses other than those derived from the insurance business and investments, including:

Other activities	2023	2022
<b>Other income</b>	-	-
<b>Other expenses</b>	<b>3,432</b>	<b>2,522</b>

Figures in thousand euro

Other expenses relate to administrative expenses which are allocated to shareholders and therefore to the non-technical account.

#### **A.4.2 Lease Agreements**

##### **Finance leases**

MMS has no financial leases in which it is the lessor.

##### **Operating leases**

MMS is the lessee/lessor under operating leases involving property and lease of vehicles. MMS leases out commercial property to a number of tenants with current leases ranging from 1 year to 20 year to expiry with di fermo periods never exceeding 5 years.

On the other hand, MMS leases from third parties the premises from which it operates, and company cars used by management.

## **A.5. Any other information**

There is no additional information that has not been included in the preceding sections.

## B. System of Governance

### B.1. General Information on the system of governance

The structure, composition, and functions of MMS's governing bodies are defined in the Institutional, Business, and Organisational Principles, and in the internal regulations regarding MAPFRE subsidiaries' Board of Directors, approved by the MAPFRE S.A. Board of Directors, together with its bylaws and the Regulations of the Board of Directors.

In addition to the structure of the Group, in which MMS is integrated, it has additional governing bodies which:

- i) Allow for adequate strategic, commercial, and operational management of MMS;
- ii) Enable MMS to appropriately respond in a timely manner to any issues which might arise throughout its different organisational levels and business and corporate environment, and;
- iii) Are considered appropriate with regards to the nature, volume, and complexity of the risks inherent to its activity.

The policies derived from the Solvency II regulations are reviewed on an annual basis, although changes may be approved at any time when it is deemed appropriate.

#### B.1.1 System of Governance

The following outlines the main functions and responsibilities of MMS's governing bodies:

- **Shareholder's Annual General Meeting:** This is the highest governing body, as its decisions bind all shareholders. Both ordinary and extraordinary Annual General Meetings are called by the Board of Directors.
- **Board of Directors:** The body in charge of managing, administering, and representing the Company and has the ultimate decision-making and supervisory responsibility. It establishes the roles of the Management Committee and its Delegated Committees, designating its members, where necessary.
- **Audit Committee:** The main role of this committee is to assist the Board of Directors in discharging its responsibilities relating to accounting and financial reporting, ensuring adequate systems of internal control, and in managing its relationships with internal and external auditors.
- **Risk and Compliance Committee:** The main role of this committee is to assist the Board of Directors in providing leadership, direction, and oversight with regards to MMS's risk and regulatory policies and procedures related to risk management, regulatory compliance, anti-financial crime, and overall internal control framework.
- **Investment Committee:** The main role of this committee is to advise the Board of Directors on the main investment policies. This committee is responsible to secure the safety, yield and marketability of the investment portfolio, to oversee the management of the investment portfolio and ensure compliance with all policies, and report to the Board of Directors on the performance of the investment portfolio.

- **Remuneration Committee:** This committee is responsible for ensuring that the Company has coherent remuneration policies and practices which are observed, and which attract and retain executives and directors who can create value and support MMS's mission statement.
- **Management Committee:** This committee is the body responsible for directly supervising MMS's management and for promoting all its projects. It provides regular reports on its proposals, actions, and decisions to MMS's Board of Directors.

Additionally, as part of the system of governance, MMS has the following committees:

- **EMEA Regional Management Committee,** which is the body that directly supervises the management of the Business Units in the region, with the exception of the Reinsurance Unit (understood as MAPFRE RE, Compañía de Reaseguro, S.A. and its subsidiaries), as well as the promotion of all global and regional corporate projects.
- **Security and Environment Committee:** The main role of this management committee is to direct and provide oversight to the Security and Environment function within MMS.
- **Product Oversight Governance (POG) Committee:** This is a key decision-making body in terms of the Product Oversight and Governance Arrangements of the Company. In this respect, the POG Committee is responsible for the governance oversight related to development, approval, and launch of new products; development and approval of significant adaptations or alterations to existing products; and deciding on remedial action to be taken in terms of the POG Arrangements.
- **MAPFRE Malta Steering Committee:** This is set up to oversee and manage the consolidated activity of the MAPFRE Group of companies in Malta including its liquidity and strategy, to ensure synergies between the Malta companies and to be the sole reference point for the EMEA Regional Committee.

MMS has a management model underpinned by control and supervision at all levels both locally and at corporate level. This allows a broad delegation of authority in the execution and development of the responsibilities assigned to each function, ensuring that material decisions are analysed in-depth by all the senior executive teams before and after their execution.

### B.1.2. Key functions

In order to ensure that the governance system has an adequate structure, MMS has policies which regulate the key functions (Risk Management, Compliance, Internal Audit, and Actuarial). These policies ensure that the key functions follow the requirements defined by the regulator and that they are in accordance with the governance structures established by MMS and by the MAPFRE Group. MMS's Board of Directors approved the Actuarial, Risk Management, Compliance and Internal Audit policies which are subject to review on an annual basis. The last update of the aforementioned policies was on 26<sup>th</sup> July 2023.

Key functions will act with operational independence thereby ensuring that, in the exercise of their responsibilities, they are free from any undue or inappropriate influence, control, incompatibility or limitation whilst exercising their responsibilities. The key functions report to the Board of Directors which delegates the authority necessary to support its relevant committees and functions. The Board of Directors and/or the relevant committees receive reports regularly from the responsible areas at MMS. The information and advice provided to the Board of Directors by the key functions is detailed in their

respective sections. The names of the parties responsible for the key functions have been communicated to the MFSA.

The key functions have the resources that are necessary to perform the functions assigned to them under their respective policies.

#### **B.1.3. Relevant resolutions adopted by the General Meeting and the administrative body regarding the governance system.**

There were no significant changes to MMS's governance structure during 2023.

#### **B.1.4. Remuneration**

Remuneration paid to the members of MMS's governing body and employees is determined in accordance with current regulations and in the Company's Remuneration Policy in force in 2023 that was reviewed by the Board of Directors on 26<sup>th</sup> July 2023 and is approved annually.

The main scope of the Remuneration policy is to establish adequate remuneration, which is based on the post or position, as well as performance, and to instill motivation to achieve the objectives in line with MMS's strategy. At the same time, the policy also aims to foster effective risk management, making it unattractive to assume risks that exceed MMS's tolerance level and to avoid conflict of interest. The main principles of the Remuneration policy are the below:

- Based on the position/job, it includes measures to avoid any conflicts of interest that may arise.
- It takes into account merit, technical knowledge, professional skills and performance.
- Non-discrimination on grounds of sex, race or ideology, and equal pay for jobs of equal value.
- Transparency, being well known by all affected parties.
- Flexible in structure and adaptable to different groups and market circumstances.
- Adequate proportion of fixed and variable components, avoiding excessive reliance on variable components.
- Aligned with MMS's strategy as well as its risk profiles, objectives, risk-management practices, and interests. In this regard, the risks to be considered by MMS will include long-term sustainability risks (environmental, social and governance).
- Market competitiveness.

Based on the aforementioned policy, employee remuneration is comprised of five items: fixed remuneration, variable remuneration/incentives, recognition programs, social benefits and in-kind benefits.

The remuneration system for Directors has the following characteristics:

- Transparent reporting in the remuneration paid to Directors.
- It provides an incentive to reward dedication, qualifications, and responsibility, without constituting an obstacle to the duty of loyalty.
- It consists of a fixed amount for membership on the Board of Directors and, as appropriate, the Steering and Delegated Committees, which may be higher for people with positions on the Board or who hold the position of Chairman of the Delegated Committees. This remuneration may be supplemented by non-monetary compensation such as life insurance in the event of death, health insurance, bonuses on products marketed by MAPFRE Group companies and others in line with those established in general for the company's employees.

- It does not include variable components or those linked to share value.
- Directors are reimbursed for traveling expenses and other costs undertaken in order to attend company meetings or in the performance of their responsibilities.

The remuneration system for the senior executives is based on the following criteria:

- It is established in accordance with the functions, level of responsibility and professional profile, based on the criteria for the MAPFRE Group senior executives.
- Balanced ratio between fixed and variable components of remuneration and long-term performance orientation.
- Senior executives may not receive the remuneration assigned to the Directors for their status as such.
- It is configured with a medium and long-term vision, which promotes their performance in strategic terms, in addition to the achievement of short-term and long-term results.
- It is consistent with the strategy, interests and long-term sustainability of the Entity and its Group.
- It takes into account market trends and faces these trends with the strategic approach of the Company, being effective for attracting and retaining the best professionals.

Executive directors, in their capacity as members of the Group's management team, are beneficiaries of (i) defined contribution pension commitments to cover retirement, permanent disability and death contingencies, commitments externalised through life insurance and (ii) certain social benefits and allowances established for MMS's senior management. The conditions of contribution and consolidation of the economic rights in their favour and social benefits and allowances are detailed in their respective contracts. Additionally, executive directors, like the rest of MMS's employees, are beneficiaries of the MAPFRE Employment System Pension Plan, savings insurance and mixed savings insurance, and social benefits and other benefits. The main characteristics are included in the Collective Agreement of MAPFRE Grupo Asegurador.

### **B.1.5 Additional information**

In the normal course of business operations, a number of transactions took place between MMS and its parent company. These transactions related to sales of insurance contracts and other services (e.g. commissions received, and claims recovered) and purchases of products and services (e.g. Reinsurance premium, staff training, computer maintenance, corporate area services and software development).

## B.2. Fit and proper requirements

MMS's Aptitude and Integrity Policy was last reviewed by the Board of Directors on 26<sup>th</sup> July 2023 and is approved annually. This policy establishes the applicable Key Personnel requirements, as follows:

- They should have the appropriate qualifications, know-how, and expertise to ensure that the Company is professionally managed and supervised.
- The expertise and experience of Key Personnel will include academically acquired knowledge as well as the experience in the development of functions in other companies similar to those that are going to be developed and the respective individual responsibilities assigned.

Likewise, MMS's Board of Directors must have:

- Collectively: the appropriate qualifications, experience, and knowledge in at least the following areas such as insurance and financial markets, strategies and business models, system of governance, financial and actuarial analyses and regulatory framework.
- Individually: training and experience appropriate to the professional profile, specifically in the insurance and financial services area, with practical experience acquired from previous positions held during a sufficient period of time.

Key Personnel and, where applicable, Outsourced Personnel must have proven personal, professional, and commercial honourability based on trustworthy information on their personal and professional conduct and their reputation, covering any criminal, financial, and supervisory aspects considered pertinent.

When outsourcing a key function, the Company will adopt all necessary measures to ensure that the responsible persons to perform the outsourced function meet the applicable aptitude and good repute requirements.

### Company Designation Procedures

Parties proposed for executing Key Personnel roles requiring notification to Supervisory Authorities must provide a truthful and complete statement regarding their personal, professional, or business endeavours. Locally this is based on the personal questionnaire requirements stipulated by the regulator.

The aforementioned parties must ensure that their statements are continually updated, and must communicate any relevant changes in their situations, and participate in regular updates when required to do so by the Company's governing body, including the re-evaluation of any fit and proper requirements.



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

### **B.3.1 Governance framework**

The Risk Management System is integrated into MMS's organisational structure according to the three lines of defence model described in section B.4.1 of this report, so that all the organisation's employees are assigned responsibilities for compliance with the control objectives.

The Board of Directors of MMS is ultimately responsible for ensuring the Risk Management System effectiveness and for determining the Company's risk profile and tolerance limits. Further to this, the Board of Directors is also responsible for approving the Risk Management Strategies and policies within the Risk Management Framework.

In order to perform its Risk Management System function, the Board of Directors of MMS is supported by the Risk and Compliance Committee.

The Corporate Risk Office provides oversight and monitors all aspects related to the management of risks within all MAPFRE subsidiaries. This is done by setting group guidelines, policies, tolerance, and reporting structures.

MMS's Risk Management Function facilitates the application of the Risk Management System. In the development of its functions, it coordinates the strategies, processes, and procedures necessary to continuously identify, measure, monitor, manage and report on the present or emerging risks to which the Company may be exposed to, as well as their interdependencies.

The MMS Risk Management Function reports to the Risk and Compliance Committee (and the Board of Directors) any risk exposures, taking into account their interdependencies, and compliance with established limits, including the Own Risk Assessment.

MMS's Chief Risk Officer has a dual reporting responsibility – hierarchically to MMS's CEO and Risk and Compliance Committee, and functionally to the Corporate Risk Office.

### **B.3.2 Risk management objectives, policies, and processes**

The main objectives of the Risk Management System are the following:

- To promote a solid culture and an effective system of risk management.
- To ensure that risk analysis is part of the decision-making process.
- To preserve MMS's financial solvency and strength.

The Risk Management System is based on the integrated management of every business process, and on the adaptation of risk levels in the established strategic objectives.

To implement an effective risk management approach, MMS has formulated a set of Risk Management policies, also in line with Solvency II requirements. One of these policies is the Risk Management Policy, which serves as a framework for the management of risks and, in turn, for the development of policies regarding specific risks.

Each policy aims to:

- Set general guidelines, basic principles, and a general action framework for the type of risk concerned, ensuring coherent application in the Company.
- Assign responsibilities, strategies, processes and the reporting procedures required to identify, measure, monitor, manage and report the risks included within their scope.

- Establish reporting structures and communication channels for the business area responsible for the risk.

In the Risk Appetite Policy, approved by the Board of Directors, the Company establishes the level of risk that it is willing to assume in order to carry out its business objectives without relevant deviations, even in adverse situations. In order to guarantee compliance with said limits, the capital is generally established on an estimated basis based on the budgets for the following year, and it is reviewed periodically throughout the year based on the evolution of risks.

The Governing Bodies of MMS receive information regarding the quantification of the main risks to which MMS is exposed to and the capital resources available to confront them, as well as information regarding compliance with Risk Appetite limits.

The Board of Directors decides the actions to be taken with respect to identified risks and is immediately informed of any risks that:

- Exceed the established risk limits, due to its development.
- Could lead to losses that are equal to or higher than the established risk limits; or
- May put compliance with the solvency requirements or continuity of operation of the Company at risk.

A breakdown of the processes for the identification, measurement, management, monitoring, and reporting of risks, by type, is set out below:

Type of Risk	Measurement and management	Monitoring and reporting
<b>Underwriting risk</b> Covers the following risks: - Premium risk - Reserve risk - Catastrophic risk - Reinsurance Mitigation	Standard formula	Quarterly
<b>Market risk</b> Covers the following risks: - Interest rate - Equity - Property - Spread - Concentration - Currency	Standard formula	Quarterly
<b>Credit Risk</b> Reflects any possible losses arising from unexpected default by counterparties and debtors	Standard formula	Quarterly
<b>Operational risk</b> Risk of possible losses deriving from the inadequacy or malfunction of internal processes, personnel or systems, or from external events (excluding the risks deriving from strategic decisions and reputational risks)	Standard Formula	Quarterly
	Dynamic qualitative analysis of the risks using processes (Riskm@p)	Annual
	Recognition and monitoring of operational risk events	Ongoing
<b>Liquidity Risk</b>	Liquidity position Liquidity indicators	Ongoing Monthly

Type of Risk	Measurement and management	Monitoring and reporting
Risk that MMS might not be able to realise its investments and other assets in order to meet its financial commitments at maturity		
<b>Compliance risk</b>	Monitoring and recognition of significant events	Ongoing
Risk of losses due to legal/regulatory penalties or reputation losses arising from the failure to comply with laws and regulations, or with applicable administrative requirements.	Compliance Management Framework	Ongoing
<b>Strategic and Corporate Governance Risk</b>	Application of MAPFRE Group's Institutional, Business, and Organisational Principles.	Ongoing
Covers the following risks: <ul style="list-style-type: none"> <li>- Business ethics and good corporate governance</li> <li>- Organisational structure</li> <li>- Alliances, mergers, and acquisitions</li> <li>- Market competition</li> </ul>	Strategy Meetings	Quarterly

All of the calculations deriving from the standard formula are updated when there is a material change in the risk profile. The Board of Directors is regularly informed of the risks to which MMS is exposed to.

### B.3.3 Own Risk and Solvency Assessment

The Own Risk and Solvency Assessment (hereinafter ORSA) is an integrated process in MMS's Risk Management System. The ORSA is a mechanism, which identifies, measures, monitors, manages, and reports any short or long-term risks identified by the Company throughout the period reflected in the strategic plan. It is also used to measure the sufficiency of capital resources based on the understanding of the actual solvency needs. Based on these objectives, it includes all the significant and potential sources of risk the Company faces and facilitates the taking of initiatives for their management and mitigation.

The Risk Office is responsible for the ORSA report preparation, submission of a draft report to the Board of Directors for approval and coordinates the various contributions made by the areas or departments involved in the process.

The ORSA report is prepared annually, unless an extraordinary event occurs which could impact MMS's risk profile or solvency position. In this case, MMS would be required to undergo an additional self-assessment (Extraordinary ORSA) and update the sections affected by changes in the risk profile and go through the same approval process.

The ORSA process is coordinated with the strategic planning process, forms an integral part of the business strategy and is taken into account in the strategic decision making in such a way as to guarantee the relationship between business strategy and global solvency levels. To this end, the ORSA process: i) considers the results of the procedures for identifying material and emerging risks, and risk control; and ii) develops projections of global solvency needs and stress tests that may pose a risk to the achievement of the Company's strategic or solvency objectives. The Corporate Risk Office coordinates stress tests to check the level of losses arising from the risks to which the Group may be exposed to. The Risk Office of MMS carries out the stress tests it deems appropriate for MMS's business.

The Risk Management Function also carries out capital management activities, and verifies:

- The adequate classification of the eligible capital in accordance with the applicable regulations.

- The feasibility of distributable dividends for continuous compliance with the Solvency Capital Requirement.
- Continuous compliance with eligible capital in projections.
- Amounts and deadlines for the various eligible capital items capable of absorbing losses.

The Risk Management Function is responsible for the preparation and submission for approval by the Company's Board of Directors of the Medium-Term Capital Management Plan, encompassing the results from projections included in the ORSA.

Section E 1.1 of this report includes more detailed information on capital management.

## B.4. Internal Control System

### B.4.1. Internal Control

MMS has an Internal Control Policy which is approved and reviewed annually by the Board of Directors. This policy establishes the actions, which must be developed in order to maintain an optimal and effective Internal Control System.

The implementation of the Internal Control System in MAPFRE has been based on the broad and exhaustive application of the COSO<sup>6</sup> standard. According to COSO, there is a direct relationship between the objectives that the company expects to achieve, the components of the internal control system (which represent what the organisation needs to achieve the objectives), and its organisational structure (operating units, legal companies, etc.).

MMS's Internal Control System involves all personnel, irrespective of their position within the organisation who collectively contribute to provide reasonable assurance on the achievement of the Company's objectives, mainly regarding:

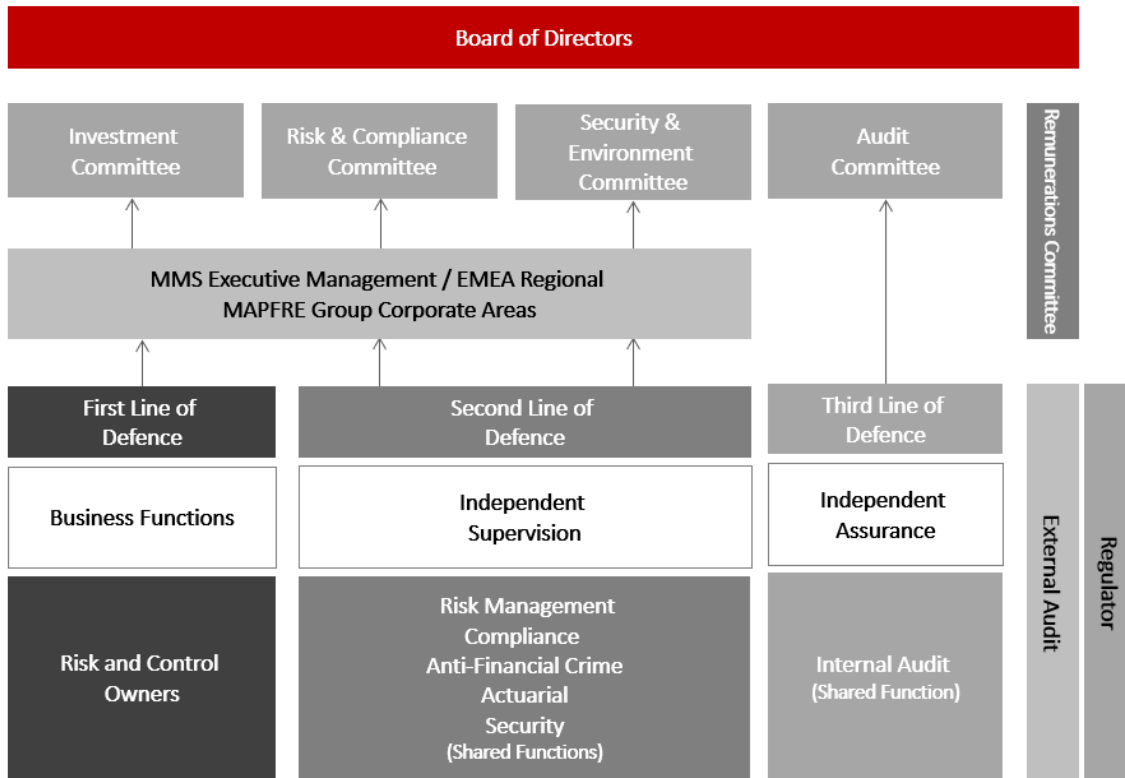
- Operational objectives: effectiveness and efficiency of operations, differentiating insurance operations (mainly underwriting, claims, reinsurance, and investments) from the support operations and functions (human resources, administration, commercial, legal, IT, etc.).
- Reporting objectives: reliability of information (financial and non-financial, both internal and external) regarding its accuracy, timeliness, or transparency, among others.
- Compliance objectives: compliance with applicable laws and regulations.

The Internal Control System is integrated into the organisational structure under the three lines of defence model, by assigning responsibilities and ensuring compliance with the internal control objectives. According to this model, there is:

1. The first line of defence consists of employees, management, and the business, operational and supporting areas that are responsible for maintaining effective control of activities carried out as an inherent part of their day-to-day work. Therefore, these units are responsible to manage the risks, design and apply the control mechanisms that are necessary to mitigate the risks associated with the processes that they carry out and to ensure that they do not exceed established limits.
2. The second line of defence is made up of the key functions, i.e. Risk Management, Compliance and Actuarial functions, as well as other assurance functions such as Anti-Financial Crime and Security, all providing an independent assurance that the internal control system is present and functioning.
3. The third line of defence is made up by Internal Audit, which provides an independent assessment of the appropriateness, and effectiveness of the Internal Control System, and communicates potential deficiencies timely to the parties responsible for taking the corrective measures, including Executives and governing bodies, as appropriate.

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<sup>6</sup> Committee of Sponsoring Organisations of the Treadway Commission



MMS's Internal Control System is integrated and organised around five components: Control Environment, Risk Assessment, Control Activities, Information and Communication and Supervision Activities, and consists of mechanisms and controls that are present in all activities of the organisation, being fully integrated into its organisational structure.

### B.4.2. Compliance Function

The Compliance Function has the objective to enable MMS to operate within the framework of regulatory compliance, in order to achieve a global compliance environment. For this purpose, it assumes the responsibility of advising the Board of Directors on compliance with the laws, regulations and administrative provisions that affect MMS and also compliance with internal regulations. It also performs an identification and assessment of the impact of any changes in the legal environment affecting MMS's operations and the identification and assessment of non-compliance risk.

The structure of MMS's Compliance Function is established based on the specific applicable regulatory requirements, as well as the principle of proportionality related to its business volume, and the nature and complexity of the risks accepted by the Company.

MMS employs its own strategy for implementing and carrying out the Function, in accordance with the reference criteria shared by the Corporate Compliance Office.

## **B.5. Internal audit function**

MMS's governance structure is based on the three lines of defence model, with the Internal Audit Function being the third line of defence. This function provides an independent opinion in respect of the appropriateness and effectiveness of the Internal Control System, as well as other elements of the System of Governance.

In ensuring the principle of independence, MMS's Internal Audit Unit (IAU) reports to the Audit Committee, a board delegated committee. The Internal Audit Policy and bylaws updated and approved by the Board of Directors annually, establishes the mission, functions, and attributes of the MMS Internal Audit Unit. It also includes the rights and obligations of MMS's Internal Auditors as well as their Code of Ethics, which sets out the rules of conduct of the auditors based on integrity and honourability, objectivity, confidentiality, and competence.

Additionally, one of the primary objectives of this document is to communicate the main activities of internal audit, treatment of audit reports and its recommendations, and any other general circumstances related to internal audit activities, which must be exclusively carried out by MMS's Internal Audit Unit.

The policy and bylaws are reviewed at least annually. All changes that are made in these revisions are approved by the corresponding MMS governing bodies.

## **B.6. Actuarial Function**

The MMS Actuarial function is responsible for preparing mathematical, actuarial, statistical and financial calculations. These allow the Company to determine prices and technical provisions. Additionally, the Actuarial Function participates in risk modelling which is used as a basis for the calculation of MMS's capital requirements in close collaboration with the Risk Office.

MMS's Chief Actuary who was appointed by the Board of Directors, is the maximum authority and ultimate responsibility for the Actuarial Unit and ensures the compliance with the applicable Solvency II aspects, among other things.

MMS's Chief Actuary reports to both the hierarchical superior in the Company and, functionally, to the Corporate Actuarial Office. The Actuarial Function for MMS falls within the MAPFRE Malta Actuarial Unit, a shared function with MMSV. The Corporate Actuarial Office sets the general principles and guidelines, which take into account the best statistical and actuarial practices within the MAPFRE Group, in order to coordinate and unify the Group's actuarial calculations.

The Corporate Actuarial Office ensures compliance with the general actuarial calculation principles and guidelines, promoting corrective actions in cases in which irregularities are detected, or when the general guidelines established by the Area have not been followed.

Considering the above, the Corporate Actuarial Office supports the Actuarial function as required, by collaborating in order to fulfil their corresponding individual unit responsibilities.



## **B.7. Outsourcing**

MMS's Outsourcing Policy was last reviewed by the MMS Board of Directors on 26<sup>th</sup> July 2023 and is approved annually. The policy is in line with the Group Outsourcing Policy approved by the MAPFRE S.A. Board, establishing the general principles, tasks, processes, and the assignment of responsibilities in the event of the outsourcing of a critical or important function and/or activity. In addition to the Outsourcing policy the Board of Directors of MMS reviewed the Cloud Outsourcing Policy on 26<sup>th</sup> July 2023.

The basic principle established by the Outsourcing Policy is that the Company will continue to have full responsibility for meeting all obligations arising from the functions or activities susceptible to being outsourced, in the same manner as if they were to be performed internally.

It is to be noted that no Key Functions were outsourced during 2023.

## **B.8. Any other information**

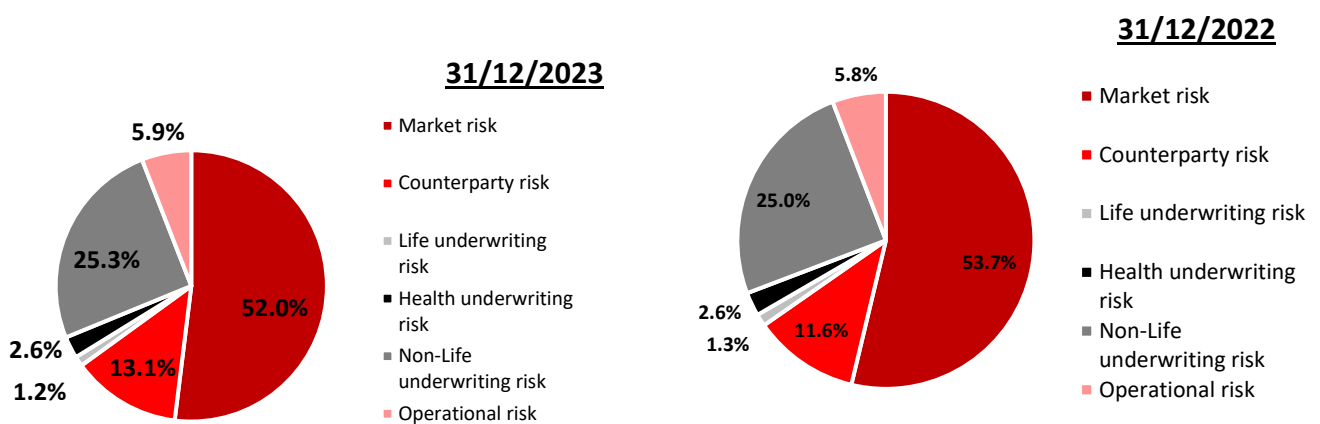
There is no additional information that has not been included in the preceding sections.

## C. Risk profile

MMS calculates its Solvency Capital Requirement (SCR) using the standard formula as explained in Section E.2. The standard formula is considered an appropriate risk management tool for determining the Company’s risk exposure, as it recognises the capital charge corresponding to the key risks (such as underwriting risk, market risk, counterparty default risk and operational risk).

As explained in sections C.4 and C.6, the exposure to other risks not included in the standard formula SCR (such as liquidity risk) is not considered significant, as MMS has effective measures in place for the management and mitigation of such risks.

The following charts show the composition of MMS's SCR based on the risks included under the standard formula methodology as at 31<sup>st</sup> December 2023 and 2022. Further information on the SCR calculation can be found in Section E.2.:



From the above, it can be observed that MMS’s risk profile mainly comprises of market risk (due to MMS’s strategic investment in MAPFRE MSV Life p.l.c.), representing 52.0% of the total SCR. This risk is followed by non-life underwriting risk and counterparty default risk (25.3% and 13.1% of the total SCR respectively).

The relative share of market risk and non-life underwriting risk slightly decreased in 2023, while the relative share of counterparty default risk increased, resulting mainly from an increase in intermediaries’ receivables. However, in absolute terms, market risk increased resulting mainly from an increase in the MMSV participation value. Further information is available in section E.2.1.

In 2023, there have been no significant changes with respect to the measures used to assess MMS’s main risks.

Other material risks to which MMS is exposed to include those derived from inflation and significant expenses rise, natural or man-made catastrophes, cybersecurity risk, talent and human resources, macroeconomic environment, climate change risk, and the challenges brought about with electric vehicles. Additional information on these risks is provided in Section C.6.

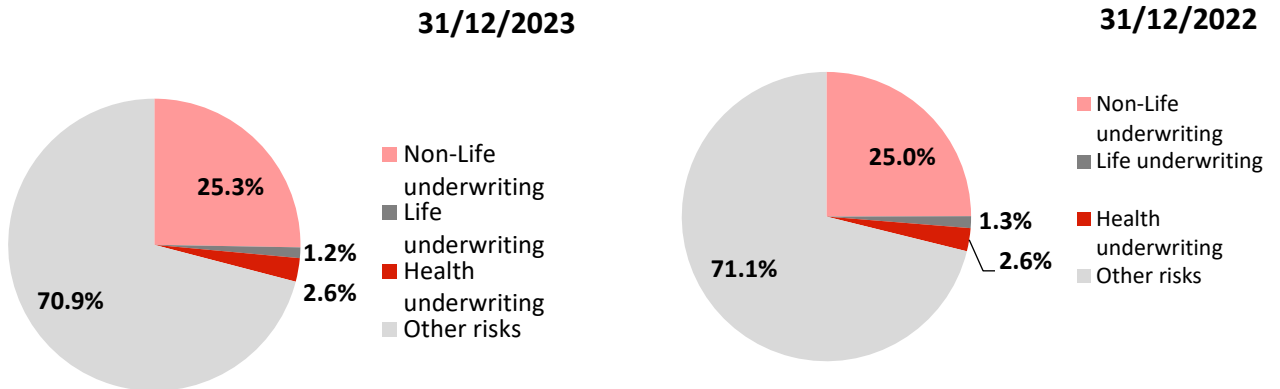
A description of the main risk categories, the exposure to the risks, their management and mitigation techniques, and possible concentrations are indicated below.

### C.1. Underwriting risk

Underwriting risk is the risk of loss or adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions.

#### Exposure

As at 31<sup>st</sup> December 2023, underwriting risk represents 29.1% of all of the risk modules included in the SCR. The following charts present details by module and any changes when compared to the previous year:



#### Management and mitigation techniques

MMS minimises underwriting risk through the following measures:

- **The establishment of policies, limits, and exclusions in underwriting risk:**

The various insurance products sold by MMS outline the cover provided and are all subject to terms, conditions, limitations and exclusions. These are generally subject to domestic and international market standards and practices, and also reflect the reinsurance agreements entered into. Notwithstanding, MMS’s Underwriting Policy establishes the insurance products that can be sold or written by MMS. Furthermore, the internal Underwriting Guidelines provide further detail in assisting the Underwriting and Commercial teams on the prudent acceptance or otherwise of a risk, thus controlling and reducing undesired Underwriting Risk.

- **Setting of a sufficient premium:**

MMS gives importance to premium sufficiency, which is supported by actuarial calculations.

- **Adequate allocation of the technical provisions:**

Claims handling and the sufficiency of technical provisions, are basic principles of insurance management. IFRS Technical provisions are calculated by MMS’s Finance department with the involvement of the Actuarial Unit. These are audited by the independent auditor’s actuaries. The establishment of technical provisions is regulated by a specific Group Policy, adopted by MMS. The best estimate liabilities calculations are performed by the Actuarial Unit and submitted to the Corporate Actuarial Office.

- **Use of Reinsurance:**

The Technical department of MMS is responsible for correctly identifying the appropriate level of risk transfer for its previously defined risk limits, and for defining/designing the types of reinsurance agreements based on its risk profile and appetite, with help from the MAPFRE RE technical advisors.

Once its reinsurance needs have been defined, MMS communicates them to MAPFRE RE to jointly plan the optimal structure and conditions for ceding contracts.

As at December 31<sup>st</sup> December 2023, MMS had ceded 17.1% of its premiums and 13.3% of its Solvency II technical provisions<sup>7</sup> to reinsurance.

The appropriateness of the reinsurance management procedures is revised and updated at least annually.

The Actuarial Function issues an annual report expressing its opinion of the underwriting policy, the sufficiency of the rates and the technical provisions, as well as the sufficiency of reinsurance arrangements.

### **Concentration**

MMS's insurance risk is highly diversified through the different products offered. MMS is currently writing business in Malta but also has passporting rights to provide services in several countries outside Malta. However, MMS does not actively write business outside of Malta. It only provides cover to Maltese customers with overseas interests. Hence, MMS is largely exposed to insurance risk in one geographical area.

MMS applies acceptance limits, which allow it to control the degree of concentration of insurance risk. MMS employs reinsurance contracts to reduce insurance risk arising from the concentration or accumulation of risks exceeding maximum acceptable limits. This is also facilitated by the purchase of reinsurance on a risk-by-risk basis.

The highest exposures to underwriting risk arise from natural and man-made catastrophes. To mitigate catastrophe risk, specific reinsurance coverage is purchased, to manage MMS's net retained exposure. This is reviewed at least on an annual basis and the terms purchased is based on a technical analysis of possible different scenarios, carried out by MAPFRE RE, the Group's reinsurance business unit. MMS management carry out validation of the terms offered by MAPFRE RE, and these are then approved by the Board of Directors.

### **Transfer of risk to special-purpose entities**

MMS does not transfer underwriting risk to special-purpose entities.

## **C.2. Market Risk**

Market risk is the risk of loss or adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities, and financial instruments.

### **Exposure**

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<sup>7</sup> Including Risk Margin

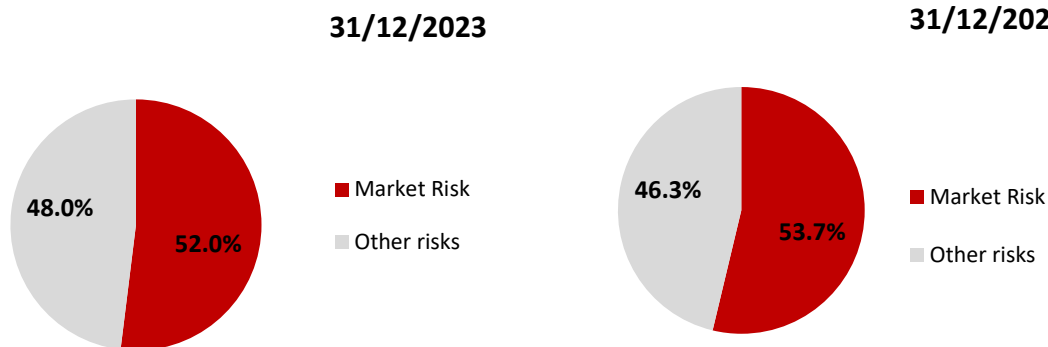
The following is a breakdown of MMS’s investments by asset category<sup>8</sup>:

Investments	Investments at 31/12/2023	(%) Investments	Investments at 31/12/2022	(%) Investments
<b>Property investments</b>	13,806	9.8%	<b>13,401</b>	<b>10.5%</b>
<b>Financial investments</b>	<b>127,094</b>	<b>90.2%</b>	<b>114,794</b>	<b>89.5%</b>
Strategic participations	108,741	77.2%	102,644	80.1%
Fixed income	13,931	9.9%	10,485	8.2%
Equity	2,421	1.7%	1,664	1.3%
Mutual funds	-	-	-	-
Holdings in related companies	-	-	-	-
Deposits other than cash equivalents	2,000	1.4%	-	-
Hedging derivatives	-	-	-	-
Other investments	-	-	-	-
<b>Total</b>	<b>140,900</b>	<b>100%</b>	<b>128,194</b>	<b>100%</b>

Figures in thousand euros

As at 31<sup>st</sup> December 2023, 77.2% of total investments relates to strategic participations, listed in Annex I. The main exposure pertains to MMS’s investment in MAPFRE MSV Life p.l.c., representing 96.0% of the strategic participations. Furthermore, 9.9% of the investments were fixed income securities, of which 52.1% correspond to Government bonds.

As at 31<sup>st</sup> December 2023, market risk represents 52.0% of all of risk modules included in the SCR. The changes compared to last year are presented in the following charts:



**Management and mitigation techniques**

MMS mitigates its exposure to market risk by means of a prudent investment policy, characterised by investment-grade fixed-income securities and the establishment of general and specific exposure limits.

These limits are established in the Investment Plan, which is approved by the Board of Directors and is reviewed on an annual basis.

MMS’s investment portfolio assumes a degree of market risk, in accordance with the following:

- Modified duration is the variable aspect of the management of interest rate risk, and is conditioned by the limits established in the MMS’s Investment Plan and the Asset and Liability Management (ALM) policy approved by the Board of Directors.

<sup>8</sup> After look-through of Collective Investment Schemes

- Spread and concentration risks are mitigated by the high proportion of fixed-income securities with investment-grade and through issuer diversification.
- Equity investments are subject to the maximum limit of the investment portfolio and issuer limits.
- Strategic equity risk is managed through MMS ability to exercise control in terms of strategic direction, policy framework and operational structure of its main subsidiary, MMSV. MMS has the right to select, appoint and remove the key management personnel of MMSV and approve its business plan and capital expenditure.
- Currency risk is minimised through currency matching with respect to the currencies in which the assets and liabilities are denominated.
- Property risk is monitored, and it is ensured that the risks lie within the investment policy for property investments.

### **Concentration**

For market risk, MMS applies the limits established in the Investment Plan, which ensures sufficient diversification by issuer, country and activity sectors.

MAPFRE MSV Life p.l.c. is the most important strategic investment held by MMS whilst MMS's property investment allocation is mainly concentrated in a single exposure.

### C.3. Credit Risk

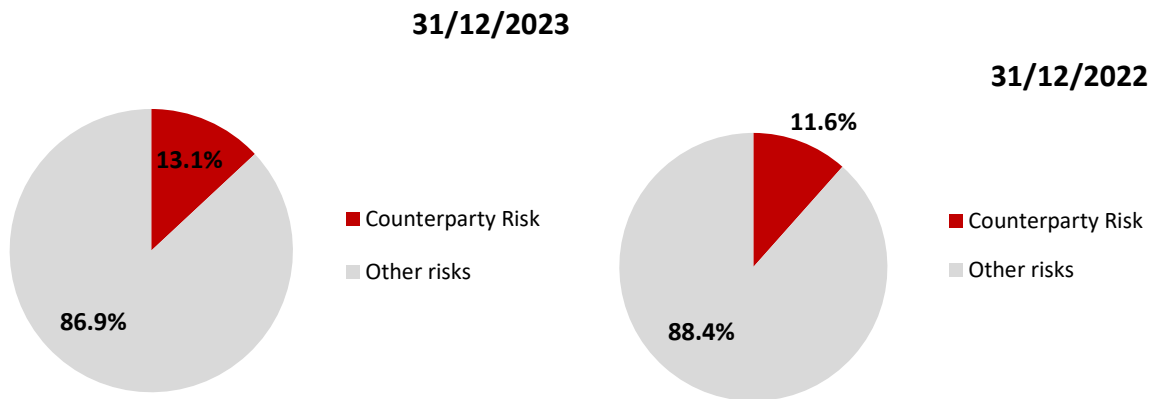
Credit risk is the risk of loss or adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties, and any debtors to which insurance and reinsurance undertakings are exposed to, in the form of counterparty default risk, or spread risk, or market risk concentrations.

Credit Risk is included under the SCR Standard Formula calculation as:

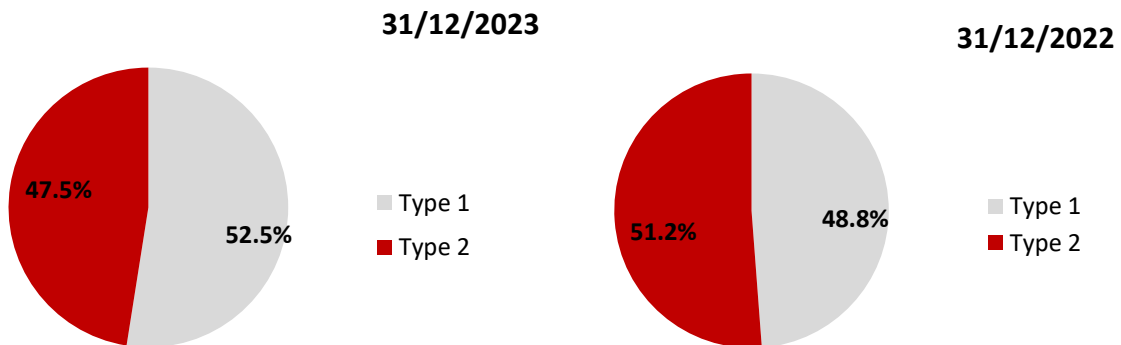
- Spread and concentration risk under the Market Risk module (section C.2 of the report).
- Counterparty default risk is broken down into two types of exposures:
  - Type 1 exposures: which include, among others, reinsurance contracts, swaps and cash at bank where a credit rating is usually available for the counterparty.
  - Type 2 exposures: which includes intermediaries’ receivables and policyholders debtors, among others.

#### Exposure

Counterparty default risk at 31<sup>st</sup> December 2023 represents 13.1% of all of the risk modules included in the SCR.



The following charts show the solvency capital requirement results for the two types of exposures:



There were no material changes to Type 1 and Type 2 exposures when compared to 2022.



### **Management and mitigation techniques**

MMS's Credit Risk Management Policy establishes exposure limits according to the counterparty's credit rating. A risk exposure monitoring and notification system is also set up.

MMS's strategy with regards to reinsurance is to cede business to reinsurers of proven financial capacity. Generally, MMS uses entities having a credit rating of at least "High" (credit quality step of 2). The MAPFRE Group Security Committee monitors exposure to reinsurance counterparties.

The main principles, which are taken into consideration when purchasing reinsurance and/or implementing other risk mitigation techniques within MMS are:

- Optimisation of capital consumption.
- Optimisation of conditions.
- Solvency of the counterparties.
- Effective transferability of risk.
- Suitability of the risk transfer level.

### **Concentration**

The highest concentration in relation to cash exposure is to Bank of Valletta, while the highest concentration in relation to reinsurance is to reinsurers within the MAPFRE Group.

The financial strength of MMS's two main counterparties i.e. Bank of Valletta and the MAPFRE Group means that the credit risk stemming from these positions remains low. Exposures to intermediaries is not concentrated in a single exposure but spread across a number of intermediaries.

The strong financial credentials of both Bank of Valletta and the MAPFRE Group are very important in times of financial stress stemming from economic and geopolitical factors which contribute to market volatility.

## C.4. Liquidity Risk

Liquidity risk is the risk that insurance and reinsurance undertakings are unable to realise investments and other assets in order to settle their financial obligations when they fall due.

### Exposure

Liquidity risk is not included in the SCR Standard Formula calculation.

Exposure to liquidity risk is considered to be low taking into account the expected inflows and outflows of cash flows and the prudent investment strategy established in the Investment Policy.

In extreme events, liquidity risk is minimised through the use of reinsurance as a risk mitigation technique to reduce the potential impact arising from a concentration of underwriting risk.

### Management and mitigation techniques

MMS has a Liquidity Risk Management Policy and an Asset and Liability Management Policy, which together represent the framework of reference for handling liquidity risk. The Liquidity Risk Management Policy is based on maintaining sufficient cash balances, other high-quality liquid assets, availability of credit lines and expected cash inflows to comfortably cover the commitments arising from MMS's obligations towards its policyholders and creditors at maturity.

As at December 2023, the cash and cash equivalents balance amounted to €8.8 million (2022: €11.1 million). MMS also held €2.0 million placed in 91-day local Treasury Bills. These represent 39.7% of total financial investments and cash balances<sup>9</sup>.

Additionally, the majority of fixed-income investments have investment-grade ratings and are traded on organised financial markets, which provide comfort with respect to the ability to crystallise assets to cover any commitment arising from MMS's obligations. MMS is confident that its liquidity position will enable it to withstand any liquidity pressures.

### Concentration

No liquidity risk concentrations have been identified.

### Expected profits included in future premiums

The calculation of best estimate of the technical provisions considers the expected profits from future premiums (as a reduction in the best estimate when positive, or a higher value in case of expected losses). As at 31<sup>st</sup> December 2023, the amount of these expected profits totalled €560.7 thousand.

## C.5. Operational Risk

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

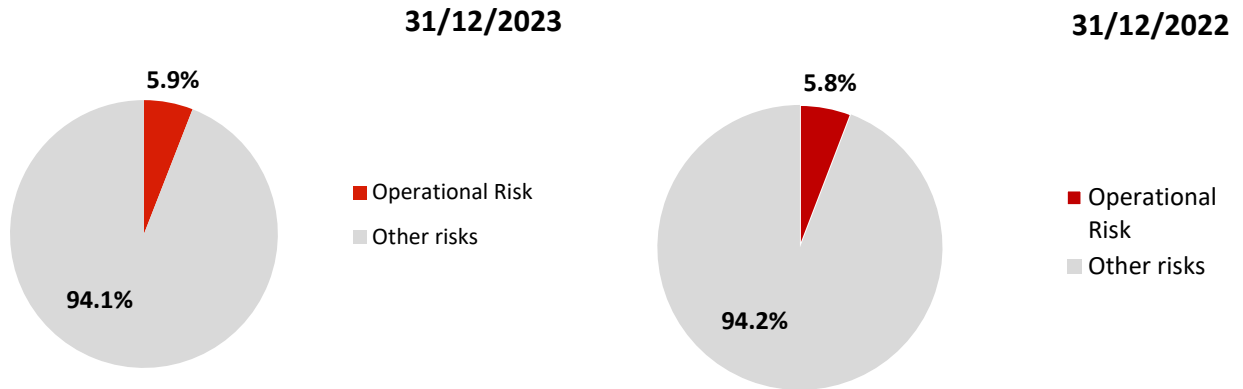
Operational risks are both quantitative and qualitative in nature. In this regard, MMS measures the quantitative aspect through the standard formula calculation. On the other hand, the qualitative aspect is assessed through various risk assessments as described further below.

### Exposure

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<sup>9</sup> Excluding strategic participations

As at December 31<sup>st</sup> December 2023, operational risks represent 5.9% of all of the risk modules included in the SCR. The following charts present details by module and:



**Management and mitigation techniques**

The operational risk management model established is based on a qualitative dynamic analysis of processes, so that the managers of each area/department can identify and evaluate the potential risks affecting both the core business and support processes.

The analysis encompasses the self-assessment of risks, documentation of internal control handbooks identifying controls associated to risks, evaluations on controls effectiveness, and the use of corrective measures established to mitigate/reduce risks and/or improve the control environment.

**Concentration**

No risk concentrations have been identified in relation to operational risk, except for the dependency on the Core IT Systems. A prolonged unavailability of these systems could have a negative impact on operations, but this possibility is considered remote, since there are proven mechanisms of business continuity that would mitigate the risk.

## C.6. Other material risks

In addition to the quantitative treatment of Solvency II risks, and as part of the annual risk identification process, at the beginning of each year the Risk Office promotes among the main areas or departments the identification of material risks that may affect the progress of the Company throughout the period covered by its business plan, as well as the emerging risks that both the insurance industry and MMS may face in the longer term (5-10 years).

### C.6.1 Material risks

Regarding the main risks that have been identified at the beginning of 2024 as risks that the Company faces in the period covered in its business plan and that could significantly affect the company results, the following stand out:

#### **Inflation & significant expenses rise**

In the spring of 2021, an inflationary period began as a consequence of supply-side tensions related to Covid19 and which was accentuated as a result of the conflict in Ukraine, reaching inflation levels not seen in the last 30 years. The transfer of production costs to prices and wages produces second-order effects, causing an extension of the inflationary period whose intensity and duration remain still uncertain. If this situation continues, it could make it more difficult for the most vulnerable parts of society to meet basic needs, increasing social unrest and political instability.

From an insurance industry point of view, inflation risk comes from unanticipated levels that impact through an increase in necessary management expenses and increases in claims expenses for non-life products, causing the premium collected to be insufficient to meet claims and related expenses. In some lines of business and markets, the premium adaptation process is slower, requiring some time to recover the technical profitability of the products.

On the other hand, an increase in inflation implies a loss of household purchasing power, and its impact could affect the underwriting of new insurance products.

To counteract this situation, MMS applies risk selection and pricing, as well as an investment policy characterised by a proportion of fixed income with returns linked to local inflation or the official rate of return of central banks, which provides sufficient resources to meet the needs of policyholders even in situations of unforeseen inflation.

#### **Natural and man-made catastrophes & transition risks**

Non-life insurers face significant risks from both natural and man-made catastrophes, as well as transition risks. Natural catastrophes such as hurricanes, earthquakes, and floods can result in extensive property damage and a surge in insurance claims. Man-made catastrophes, including terrorist attacks, and industrial accidents, pose additional threats to insurers' financial stability and operational continuity. Despite the risk of an increase in frequency and intensity of extreme weather events has been increasing worldwide in recent years, Malta has only been hit by one major storm in 2023 so the local risk is considered to managed based on historical information. Nonetheless, following the increased development of high-rise buildings in both residential and commercial areas the risk of building collapse is elevated.

To navigate these risks, MMS employs robust risk management frameworks, including catastrophe modelling, scenario analysis, and stress testing, to enhance resilience and ensure its ability to withstand and adapt to evolving risk scenarios.

Transition risks, such as regulatory changes, technological advancements, and shifts in consumer behaviour, further challenge the company by altering the risk landscape and affecting underwriting

practices and strategies. While dedicating enough resources to comply with regulations remains an ongoing challenge, the strategic planning methodology ensures quantifiable goals are set, jointly tracked, and regularly monitored by the appropriate steering committees.

### **Cybersecurity risk**

Cybersecurity risks are the risks associated with the development of a business activity, including data management and control, in a digital or “Cyber” environment. There are risks involved from the use, treatment and transmission of electronic data through information systems, communication networks and the internet itself, the potential damage caused by attacks, as well as fraud committed by inappropriate or improper use of the data.

The volume and sophistication of malicious cyber activity is evolving at a high pace, posing an ongoing challenge to maintaining security levels for corporate data and critical systems. Cloud computing presents high risks due to increased concentration and accumulations. From an operational point of view, there are risks of cyberattacks that can lead to extended loss of availability of services provided to third parties, as well as massive fraud against customers using their confidential information that could have been previously compromised.

Additionally, the change in the uses and habits of customers, the digitisation and the self-service models have increased the demand for identification and authentication systems, the use of biometric identifiers and the multiple uses of identifiers, which in turn increase the risk of phishing fraud or even data theft. At the same time, there is an increased threat of cyberattacks organised by countries or nations, especially in today's turbulent geopolitical environment, in which organised hacker groups attack critical infrastructure and steal valuable data or confidential information from companies.

In addition, the adoption of hybrid working methods (face-to-face and remote) broadens the means of access to the Company's IT resources, making it necessary to have specific technical and organizational measures in place to allow access securely and to guarantee protection in interactions with policyholders.

On the other hand, the increase in attacks and the growing demand for protection and cybersecurity by customers has been reflected in the development of products and services, adapting the products marketed to include coverage for losses caused by cybercrime and digital threats, as well as the provision of support and advice to customers to manage CyberRisks.

It is essential that organisations are involved at all levels in cybersecurity. In order to respond to these needs, MAPFRE has advanced capabilities aimed at increasing operational resilience, with the following aspects promoted by the Corporate Security Office:

- Specialised and accredited personnel in charge of identifying, defining, designing, implementing and operating both the different security controls and the technological tools to protect the company's assets.
- Specific technologies for monitoring, detection and protection against security incidents, integrated into the operational technology platform.
- Tools, methodologies and specialists dedicated to continuously reviewing and evaluating the company's level of cybersecurity, by seeking to mitigate risk and tailoring measures while optimising the cost of these measures.
- A General Control Center (CCG-CERT), integrated into the FIRST network and into the CSIRT.es group. It receives alerts of attacks and global threats for the continuous monitoring (24 hours, 7 days a week) of both the security situation of MAPFRE's technological platform and its proprietary information accessible in third-party systems, enabling the early detection of possible Cyber-

Incidents and an agile response to them. The CCG-CERT is certified in the ISO 9001, ISO 27001 and ISO 22301 standards.

- Business Continuity Plans, systematically updated, certified and tested.
- Development and evolution of the Cybersecurity Culture, through the launch of the Corporate Awareness and Training Plan in this area, which covers the entire MAPFRE Group.
- MAPFRE S.A. has a Cybersecurity Insurance Policy that covers various Cybersecurity Risks for all Group companies.

During 2023, progress continued to be made in the implementation of specific projects under the Group's Cyber Resilience Plan (CRP) (plan that articulates MAPFRE's evolution in the areas of cybersecurity, privacy, data protection and digital operational resilience) as a cybersecurity risk mitigation mechanism.

### **Talent and Human Resource Management Risk**

Talent management in today's competitive job market presents several challenges. Companies struggle to attract and retain skilled employees, face high turnover, navigate organisational changes, and ensure smooth succession for key positions. The current low unemployment rates and intense competition across industries exacerbate these difficulties, especially for specialised and technical roles.

In order to achieve employee development, promotion and well-being, MMSV relies on:

- Strategic business needs.
- Active listening to employees.
- An inclusive and diverse work environment that allows people to express themselves freely.
- Capacity building through continuous learning, self-development, and mobility.
- Training in digital skills and new work methodologies.
- Promoting social sustainability through constant improvement in the quality of employment and employability.
- Attracting and retaining talent through specific policies, with the objectives of rejuvenating the workforce and increasing staff satisfaction and commitment.

### **Macroeconomic environment**

Central banks have been forced to react to the rise in inflation that began in the spring of 2021, with an abrupt move to raise interest rates to levels not seen for 15 years. These increases in interest rates are affecting the profitability of investments, not only in fixed-income portfolios but are also increasing volatility in the stock and real estate markets. The financing costs of companies and households have increased too, negatively affecting the economic outlook.

The situation of insurance companies can be affected by the above, materializing both in a lower valuation of the investment portfolios held and in the purchasing power of companies and families to purchase insurance products. For MMS the impact on bonds is contained by the relatively modest size of the portfolio. However, with the implementation of IFRS-17, reserves are now discounted using the EIOPA risk-free curve, amplifying the direct impact of any variations on the carrying amount of the Liability for Incurred Claims (LIC).

To counteract this situation, MMS

- Applies prudent risk selection and pricing, and an investment policy (characterized by a proportion of fixed income with returns linked to local inflation or the official rate of return of central banks, that allows to have sufficient resources to meet the policyholders’ needs even in of unforeseen inflationary situations) and adapts its product offering to the changing environment.
- It keeps a watchful eye on the evolution of the international economic environment, as well as the economies in which the Group operates, in order to better understand the conditions of economic performance and adapt management strategies to these conditions (for example, through projections to try to analyse the impacts that could occur in the main macroeconomic variables, as well as the regular monitoring of indicators). This enables MMS to be better prepared for macroeconomic changes.

**C.6.2. Emerging risks**

Emerging risks are expected or possible risks, or changes in the current risk profile due to future events whose impacts are unknown or subject to great uncertainty. Although both the solvency position and the Company’s Internal Control and Risk Management Systems are solid, considering that the risk landscape is constantly evolving, it is important: i) to identify the factors that both the insurance industry and the Company may face in the long-term (5-10 years); ii) to know the degree of preparation with which it is counted; and iii) to be able to adapt reaching the objectives and the success in business results.

The main emerging risks are detailed below, with a description of their possible impacts on the Company’s business, and the measures being adopted to respond to these risks:

**Climate change risk**

The risk of climate change derives from the long-term changes in the average weather patterns that have shaped the earth’s local, regional, and global climates. Risks from climate change are divided into two main categories: physical risks and transition risks. This risk may be manifested mainly:

- In extreme weather events (tropical cyclones, floods, forest fires, etc.).
- In economic uncertainty due to various changes (regulatory, technological, social, etc.).
- In the transition to a low-carbon sustainable economy; and
- In claims for environmental responsibility when climate risks are not prevented, mitigated, or disclosed.

Among the risks derived from climate change identified by MMS, are the following, according to the categories mentioned:

Risk	Risk description
<b>Physical Risks</b>	
Acute	Risks arising from increases in the frequency, severity and correlation of specific events, especially weather events, which can damage production facilities and disrupt or interrupt business value chains.
Chronic	Risks arising from longer-term changes in the climate
<b>Transition Risks</b>	

Risk	Risk description
Legal and regulatory	Risk of an increase in the number of lawsuits due to the entity's failing to prevent or minimise adverse effects on the climate, due to the need to adapt catastrophic risk coverage programs, underwriting policies and continuous updating of risk profiles by zones/activity and reinsurance restrictions, and due to our clients failure to adapt to climate change regulations.
Technological	Risks arising from changes or adaptations to technological infrastructures that are less harmful to the environment. The expansion of new services and products for the climate and energy transition implies changes in the supply of insurance products and it is increasingly important to take into account the specific characteristics of these technologies when offering new insurance products.
Market	Risks of a decline in the company's market capitalization due to the 'market perception or sentiment' of investors, who prefer more sustainable companies, as well as a fall in the valuation of the Company's financial assets due to climate change.
Reputation	Risk arising from the Company's difficulty in attracting customers, employees, partners or investors due to sustainability factors.

Climate change risk management supports decision-making on important issues such as underwriting, procurement, investment, product and service innovation, and reputation management, which is essential to gaining the trust of our stakeholders and adapting MMS's financial planning process to climate change. MMS is fully committed to responsible investment initiatives and has launched a range of products that encompass its environmental, social and governance (ESG) criteria.

The integration of climate change risks into traditional risks takes place naturally in the management and control processes, using the Risk Management System and the above taxonomy that incorporates climate change risks.

MAPFRE has implemented a climate change risk identification process that enables it to carry out a materiality analysis of the hazards associated with the physical and transition risks to which it could be exposed. This process covers the physical risks due to climate change associated with the liability portfolio, both in the Non-Life and Life business, as well as the transition risks of the investment portfolio. In addition, physical risks for the real estate portfolio are also considered.

With regard to the physical risks of the Non-Life portfolio, the risks and businesses exposed are first identified based on expert judgement and knowledge of the business. The most significant hazards identified are flooding (either coastal or riverine), tropical and extra-tropical cyclone, and drought.

With regard to transition risks, the process considers the NACE sector of activity of each of the assets in the portfolio in order to subsequently map them to the Climate Policy Relevant Sector (CPRS), which comprises the sectors most affected from the point of view of climate policy, and thus determine possible vulnerabilities of the portfolio. This approach is applied to exposures in corporate bonds, equities, mutual funds and swaps. Additionally, it's been locally implemented for corporate bonds and equities. MMS will also conduct an analysis of physical risks related to its investment properties.



The actions carried out in 2023 focused, fundamentally, on increasing the understanding of the greater catastrophic danger derived from climate change and improving the management of exposures through:

- The continued analysis of the insured risks considering their geolocation and applying higher deductibles depending on exposure.
- The ongoing identification of any risk mitigation measures MMS's policyholders might have concerning climate risk exposures.
- Discussions and plans have been carried out to review and revise policy excesses with respect to storm, tempest and flood risk for small and medium-sized entities and Industrial business.
- MMS markets a motor insurance policy specifically designed for electric cars.
- Membership of the Malta ESG Alliance which acts as a catalyst for change motivating and informing others to take action and engaging with policy makers to create the right incentives and framework for achieving a sustainable transition of the economy.
- The Company also concluded a project for the installation of photovoltaic panels on the roof of Middle Sea House.
- Approval at the board level of a sustainability plan which includes special actions, and which will be rolled out during 2024.
- Finalisation of Internal and External Audits aimed at achieving ISO 14001 Environmental Management Systems Certification of MMS's Head office at Middle Sea House, Floriana.

### **Addressing Challenges in Electric Vehicle Repairs and Fire Safety.**

MMS faces several challenges in the automotive repair industry, including concerns about repairing newer technology vehicles and the growing demand for Electric Vehicle (EV) specialists. As the popularity of EVs rises, smaller garages are hesitant to invest in the necessary training, potentially leading to increased repair costs and longer waiting times. Moreover, the risk of fire in garages and car parks, particularly during the charging of electric vehicles, poses a safety concern. While the current low percentage of EVs in the Maltese market mitigates this issue, global sustainability initiatives and potential bans on internal combustion engine vehicles indicate a surge in EV demand. Despite the insurance industry's ability to adjust coverage, lobbying efforts are underway to urge the Maltese government to invest in EV repair training. To prevent a bottleneck of specialized repair facilities and potential fee hikes, broader industry investment in training and infrastructure is essential to meet upcoming challenges effectively.

## **C.7. Any other information**

### **C.7.1. Sensitivity analysis of significant risks**

MMS performs sensitivity analyses of the solvency ratio involving certain macroeconomic variables, including:

- An increase/decrease in interest rates
- Appreciation of the euro
- Decrease in the valuation of the equities
- Increase in the spread of corporate and sovereign exposures.

The sensitivity of the solvency ratio to the changes in these variables is shown below:

	31/12/2023	Percentage points Change
<b>Solvency Ratio (SR)</b>	267.6%	
<b>SR In the event of a 100 basis point increase in the interest rate</b>	271.2%	3.59 p.p
<b>SR In the event of a 100 basis point decrease in the interest rate</b>	248.1%	-19.47 p.p
<b>SR in the event of a 10% appreciation of the euro</b>	264.0%	-3.55 p.p.
<b>SR In the event of a 25% decrease in equities</b>	261.7%	-5.85 p.p.
<b>SR In the event of a 50 basis point increase in corporate spreads</b>	266.6%	-0.96 p.p.
<b>SR In the event of a 50 basis point increase in corporate and sovereign spreads</b>	265.1%	-2.50 p.p.

p.p. percentage points

The outcome of these sensitivities shows that MMS will continue to comply with the solvency capital requirements in the scenarios assessed.

The method applied to obtain results consisted of:

- Establishing a benchmark based on the balance sheet, solvency capital required (SCR) and the solvency ratio at a determined date.
- Based on this cut-off point, select the initial variables that would be affected by the application of the stress assumptions that have been defined for the various tests or scenarios.
- Determining the final effect on MMS's solvency based on new values for the variables in question.

### C.7.2. Other issues

#### Off-balance-sheet positions

There are no significant exposures to the above risks arising from off-balance sheet positions.

#### Relationships and dependencies between risk modules and risk sub-modules

The correlations established for calculating the standard formula have been used to determine the dependency relationships between risk modules and sub-modules.

#### Information on the loan portfolio

MMS has not granted any loans.

## D. Valuation for solvency purposes

### D.1. Assets

The following are the main differences between the measurement of assets under Solvency II (“Solvency II Value”) and IFRS 17 (“Accounting value”) as at 31<sup>st</sup> December 2023.

It is important to note that the balance sheet presented is in-line with the Solvency II regulations, and therefore, it was necessary to re-classify data included under certain headings in the financial statements to different headings as presented under “Accounting value” in the table below:

Assets	Solvency II Value 2023	Accounting Value 2023
Goodwill		-
Deferred acquisition costs		-
Intangible assets	-	10,392
Deferred tax assets	1,251	1,260
Pension benefit surplus	-	-
Property, plant & equipment held for own use	5,718	5,718
Investments (other than assets held for index-linked and unit-linked contracts and other collective investment schemes)	140,900	107,712
Property (other than for own use)	13,806	13,806
Holdings in related undertakings	108,741	77,616
Equities	1,427	1,427
Equities - listed	1,427	1,427
Equities - unlisted	-	-
Bonds	13,867	13,804
Government Bonds	7,232	7,204
Corporate Bonds	6,634	6,600
Structured notes	-	-
Collateralized securities	-	-
Collective Investments Undertakings	1,059	1,059
Derivatives	-	-
Deposits other than cash equivalents	2,000	-
Other investments	-	-
Assets held for index-linked and unit-linked contracts and other collective investment schemes	-	-
Loans and mortgages	-	-
Loans on policies	-	-
Loans and mortgages to individuals	-	-
Other loans and mortgages	-	-
Reinsurance recoverables from:	9,117	13,359
Non-life and health similar to non-life	9,117	13,259
Non-life, excluding health	9,176	13,023
Health similar to non-life	(59)	236
Life and health similar to life, excluding health and index-linked and unit-linked and other collective investment schemes	-	100
Health similar to life	-	-
Life, excluding health and index-linked and unit-linked and other collective investment schemes	-	100
Life index-linked and unit-linked and other collective investment schemes	-	-
Deposits to cedants/Deposits for Accepted Reinsurance	-	-
Insurance and intermediaries receivables	19,721	18,875
Reinsurance receivables	287	-

Assets	Solvency II Value 2023	Accounting Value 2023
Receivables (trade, not insurance)	591	591
Own shares (held directly)	-	-
Amounts due in respect of own funds items or initial fund called up but not yet paid in	-	-
Cash and cash equivalent	8,780	10,780
Any other assets, not elsewhere shown	1,661	1,723
<b>TOTAL ASSETS</b>	<b>188,026</b>	<b>170,410</b>

Figures in thousand euros

Below are the explanations of the key asset valuation differences in the table above.

### Intangible assets

Under IFRS, intangible assets are measured at cost less their accumulated amortisation and where applicable, possible impairment. MMS mainly recognises computer software as intangible assets. Computer software mainly represents amounts capitalised relating to the development of MMS's IT system by related companies forming part of the MAPFRE Group.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use to the specific software. These costs are amortised using the straight-line method over their useful lives, not exceeding a period of seven years.

Under Solvency II, an intangible asset other than goodwill is only recognised at a value not equal to zero if it can be sold separately and the undertaking can demonstrate the existence of a market value for the same or similar assets. MMS considers that computer software does not meet the conditions established in the Solvency II regulations for market value recognition, and therefore is reported as a zero value.

### Deferred tax assets

Under IFRS, deferred taxes are calculated on all temporary differences using a principal tax rate of 35%, with the exception of investment property and freehold and other property, for which deferred income taxes may be calculated using a principal tax rate of 8% or 10% of the carrying amount. MMS recognised a net deferred tax liability on its closing IFRS balance sheet at a carrying amount of €1.2 million.

Deferred taxes are measured under Solvency II as the amounts reported in the audited financial statements as adjusted by the tax impact (at different applicable rates) on the difference between the values assigned to assets and liabilities for solvency purposes, and their carrying values as recognised in the financial statements and valued for tax purposes. MMS recognised a net deferred tax asset on the Solvency II balance sheet of €1.3 million.

The differences between the Solvency II and Accounting value of the deferred tax assets mainly arose due to the different valuation criteria used for the following items:

- Intangible assets
- Participations
- Reinsurance recoverables
- Insurance and intermediaries receivables
- Reinsurance receivables
- Technical provisions
- Reinsurance payables

Due to the nature of the deferred tax assets held by MMS, there are no specific expiration dates for them.

## Investments (other than assets held for index-linked and unit-linked contracts)

All investments must be measured at fair value on the Solvency II balance sheet, regardless of the accounting portfolio under which they are classified. The determination of fair value is performed by following the same procedures and methodology used for determining fair value based on IFRS 13 “Fair Value Measurement”.

IFRS 13 defines fair value as the price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In a fair value valuation, the transaction should take place in the asset or liability’s main market, and where this does not exist, in the most advantageous market, using valuation techniques that are appropriate for the circumstances and for which there is sufficient information available, maximising the use of relevant observable input and minimising the use of unobservable input.

In order to increase the coherence and comparability of the fair value measurements, IFRS 13 establishes a fair value hierarchy making it possible to classify the valuation technique variables used to determine fair value in three different levels:

Level 1 corresponds to unadjusted quoted prices on active markets;

Level 2 uses observable input (either prices quoted in active markets for instruments similar to the one being assessed, or other assessment techniques in which all the significant variables are based on observable market data); and

Level 3 uses specific references for each case, although assets included in this level are generally not relevant.

Although not all assets and liabilities may have available observable market transactions or information, the objective of a fair value appraisal is always the same: estimate the price for an orderly transaction for selling or transferring the liability between market participants at the valuation date in present market conditions.

Under “Investments”, based on the Solvency II balance sheet, the following investments valuation differences apply:

- **Holdings in related undertakings**

Holdings in related companies are either subsidiaries or companies in which there is an investment that can be considered to represent a dominant or significant influence in the business.

Wherever possible, investments in related companies are measured at their listed prices on active markets as regards the Solvency II balance sheet. However, due to the absence of quoted prices on active markets, the assets were valued using the adjusted equity method, considering the solvency valuation specifics indicated for each holding or subsidiary.

Under IFRS, investments in subsidiaries are valued at cost less impairment, which differs from Solvency II criteria.

Due to the difference in valuation criteria, an increase of €31.1 million was recorded for these investments on the Solvency II balance sheet when compared to the IFRS balance sheet.

- **Bonds**

Under IFRS, accrued interest for bonds is accounted for as “Any other assets, not elsewhere shown”, whilst the Solvency II value of the bonds is equal to the market value.

- **Deposits other than cash equivalents**

Under Solvency II, short term deposits are classified under “Deposits other than cash equivalents”, whilst under IFRS these are classified under “cash and cash equivalents”.

### **Reinsurance recoverables**

The calculation of the reinsurance recoverables is in line with the calculation of technical provisions for direct insurance, which means that these amounts must be recognised at their best estimate, also considering the timing difference between collection and direct payments, as well as the expected losses from the counterparty default.

When determining the recoverable value of the amounts of reinsurance arising from amounts considered in technical provisions, MMS takes into account the following:

- The expected value of potential reinsurance default based on creditworthiness and the time horizon of expected payment patterns.
- Expected reinsurance collection patterns based on past experience.

For reinsurance recoverables extending beyond the established payment period outlined in reinsurance contracts in force, a renewal of current contractual terms is considered, with no substantial modification in contracted cost or coverage.

The classification among the different lines of business and the development of reinsurance claims are based on the assumptions made for gross technical provisions.

The value of the potential recovery of reinsurance arising as a result of technical provisions for direct insurance is directly linked to estimates and projections for future cash flows which might be subject to a number of factors of uncertainty, which are mainly the following:

- Direct insurance and reinsurance claims, which are linked to reinsurance contracts.
- The ability to meet the reinsurer's future payment commitments.
- Reinsurance payment pattern.

Under IFRS, technical reserves for cessions to reinsurers are calculated in accordance with the reinsurance contracts entered into as applied to the gross technical provisions

### **Insurance and intermediaries receivables**

Under IFRS receivables from intermediaries are deemed to be arising out of a business contract and therefore measured under IFRS 9 recorded at amortised cost net of expected credit loss. Receivables from insured are measured under IFRS17 and netted of with Insurance contract liabilities as per contract group to which they pertain,

Under Solvency II, balances included under insurance and intermediaries receivables mainly relate to premiums due net of commissions that are either not past their payment date or past their payment date net of any impairment provision against them. The collection of such amounts has not been included in the cash flows for the calculation of technical provisions.

### **Reinsurance Receivables**

Under Solvency II, Reinsurance receivables mainly include amount receivable from reinsurers by way of claim recoveries on claims paid by the Company. The collection of such amounts has not been included in the cash flows for the calculation of technical provisions.

Under IFRS, these balances are considered under the Reinsurance contract assets.

#### Any other assets, not elsewhere shown

The difference between the IFRS value and the Solvency II value of €0.06 million relates to the accrued interest of bonds, which under IFRS is accounted for “Any other assets, not elsewhere shown”.

## D.2. Technical provisions

Following are the main differences between the valuation of technical provisions under Solvency II and IFRS:

Technical provisions	Solvency II Value 2023	Accounting Value 2023
Technical provisions - Non-Life	67,404	71,039
Technical provisions - Non-Life (excluding health)	60,763	64,325
Technical provisions calculated as a whole	-	
Best Estimate	58,856	
Risk margin	1,907	
Technical provisions - health (similar to Non-Life)	6,641	6,714
Technical provisions calculated as a whole	-	
Best Estimate	6,468	
Risk margin	173	
Technical provisions - Life (excluding index-linked and unit-linked)	1,289	1,428
Technical provisions - health (similar to Life)	-	-
Technical provisions calculated as a whole	-	
Best Estimate	-	
Risk margin	-	
Technical provisions - Life (excluding health and index-linked and unit-linked)	1,289	1,428
Technical provisions calculated as a whole	-	
Best Estimate	1,181	
Risk margin	107	
Technical provisions - index-linked and unit-linked	-	-
Technical provisions calculated as a whole	-	
Best Estimate	-	
Risk margin	-	
Other technical provisions	-	-
<b>TOTAL TECHNICAL PROVISIONS</b>	<b>68,693</b>	<b>72,467</b>

Figures in thousand euros

In general terms, the main difference between both valuations is the criteria framework under which each regulation falls. While under Solvency II, technical provisions are measured using market economic criteria, for financial statements, technical provisions are calculated based on accounting standards. The Solvency II Directive stipulates that the value of technical provisions shall be equal to the sum of the best estimate and the risk margin.

The movement between IFRS and Solvency II technical provisions is as follows:

	€000s
<b>Insurance contract liabilities and reinsurance contract assets</b>	<b>59,107</b>
<b>Less Group Life component</b>	<b>(1,292)</b>
<b>Add back Deferred acquisition cost component</b>	<b>11,172</b>
<b>Insurance and Reinsurance balances</b>	<b>(2,230)</b>
<b>IFRS17 Technical Provisions (Net)</b>	<b>66,757</b>
Risk Adjustment	744
Non-performance Risk	49
<b>IFRS17 Technical Provisions wo RA and NPR (Net)</b>	<b>65,964</b>
Elimination of margin for prudence	(0)
Elimination of 100% UPR (net of RI)	(36,055)
Future premiums – unaccepted contracts	1,294
Net premium provision – claims component only on in-force business and future premiums	20,723
Additional expenses	4,882
Events not in data	160
Discounting	(777)
Risk Margin	2,080
Any other Adjustments	15
<b>Solvency II Technical Provisions (Net)</b>	<b>58,287</b>

The following are the qualitative explanations of the valuation differences when using Solvency II criteria and those used during the preparation of the financial statements.

#### D.2.1. Best estimate and risk margin

##### Best estimate

The Best Estimate of Liabilities (BEL) in the Non-life and Health similar to Non-Life businesses are calculated separately for the claims provision and the premium provision.

##### a) Claims provision

The claims provision is based on the following principles:

- Taking into account all claims which have incurred prior to the valuation date, regardless of whether they have been reported or not.
- It is calculated as the present value of expected future cash flows associated with the commitments. Projected cash flows include payments for services and related expenses (claims and investment management).
- Should there be any commitments transferred to a counterparty, the recoverable amounts are adjusted to factor in the expected losses due to default of the counterparty.
- The best estimate considers the time value of money for the expected future claim inflows and outflows.



- From a methodological point of view, it is determined as the ultimate cost of claims and effective payments made, net of their potential recovery or collection.

The introduction of the new reporting standard, IFRS 17, has introduced greater alignment between the Solvency II claims provision and the Accounting liability for incurred claims. Large losses have been valued as at 31<sup>st</sup> December 2023 using estimation techniques where credible data volume permits.

The best estimate of claim provisions calculated based on Solvency II criteria present the following similarities and differences with respect to those calculated based on financial statement requirements:

#### Similarities

- Solvency II and IFRS 17 require that the claims provision, including large losses, is reported on a best estimate basis. Estimation techniques are used where there is sufficient data. Where data volumes are too low or risks insufficiently homogeneous, case estimates are used. The use of case estimates applies only to certain large losses.
- Both standards require that the allowance for the risk of non-recoverability of reinsurance cash-flows
- The consideration of all expected future cash flow sources is included in the estimations under both methodologies. The present value of estimated future cash flows is calculated using the risk-free yield curve as at 31<sup>st</sup> December 2023.
- Thus, the Solvency II gross of reinsurance claims provision is equal to the gross liability for incurred claims before addition of the risk adjustment.

#### Differences

- The counterparty default risk adjustment to reinsurance recoverable amounts is calculated using prescribed factors set out in the Solvency II Regulations. Separate, internally derived factors are determined to derive the adjustment to the accounting cash-flows.

#### b) Premium provision

The premium provision is based on the following principles:

- It relates to future claims, or those which take place subsequent to the valuation date, within the remaining claim coverage period.
- It is calculated as the present value of expected cash flows associated with the current portfolio, in accordance with contractual limits.
- Projected cash flows include payments for services and related expenses (administration, acquisition, claim management, and investment management).
- Should there be any commitments transferred to a counterparty, the recoverable amounts are adjusted to consider the expected losses arising from non-payment.
- The best estimate takes into account the time value of money of expected future cash flows, which are based on an analysis of claim inflows and outflows.

The calculation of this provision is comprised of the cash flows corresponding to two portfolios:

- Current portfolio, which consists of the following items:
  - Expected claims. The loss ratio method is used to calculate the present value of expected benefit payments which is explained below:

- Loss ratio method: the expected claims arising from applying an ultimate loss ratio to unearned premium reserves (gross of acquisition expenses).
- Events Not in Data (ENIDs) are also considered. ENIDs are events where the Company has no experience of their likely impact, but which may happen in the future. MMS has identified such possible losses and estimated the cover limits and the probability of such events occurring. The estimated impact was calculated on a gross basis and also net of potential reinsurance recovery. The allowance for ENIDs has been derived as a factor which is applied to the earned premium.
- Expenses attributable to the current portfolio: acquisition expenses (without commissions), administration, claims management expenses, as well as other technical expenses.
- Future business, which includes the following:
  - Premiums for policies which have not yet been renewed but include MMS's commitments to renewal terms. This calculation includes allowance for the future behaviour of policyholders through the application of an estimated lapse ratio.
  - Expected loss ratio relating to future premiums, using the same methods indicated for the current portfolio.
  - Expenses attributable to future premiums (charged expense-to-premium ratio applied to future premiums): acquisition expenses (including fees), administration, chargeable to benefits, as well as other technical expenses.

Under IFRS, this provision is recognised under the liability for remaining coverage, which is calculated on a policy-by-policy basis, reflecting the premium rate on a pro-rata temporis basis for the unearned period of such policies to which a loss component is added for group of contracts deemed to be onerous from initial recognition or become onerous thereafter. This provision supplements the unearned premiums reserve with an amount by which the future contractual cash flows arising from such reserve exceed the same reserve where applicable.

### **Contractual boundaries**

When calculating the best estimate under Solvency II, the contractual boundaries must be taken into account in order to consider future premiums arising from commitments in force. Depending on the margins on product premiums, the inclusion of the limits of the contract will generate an increase in the best estimate (if the contracts are not profitable) or a reduction in the same (if they are profitable).

The obligations arising from the contract, including those which relate to the insurance/reinsurance company's unilateral right to renew or increase its limits and the corresponding premiums are included in its text, except for:

- Commitments provided by the Company after the date on which it has the unilateral right to:
  - Cancel the contract.
  - Reject premiums payable under the contract.
  - Modify the premiums or benefits to which it is bound by virtue of the contract, so that the premiums clearly reflect the risks.
- All obligations which do not correspond to premiums already paid, unless the policyholder may be forced to pay future premiums, provided the contract:

- Does not establish an indemnity for a specified uncertain event which may adversely affect the reinsured party.
- Does not include a financial guarantee for the benefits.

The premium provision calculated based on Solvency II criteria present the following differences with respect to those calculated based on IFRS:

- The application of the concept of contractual limits, which involves the consideration of future business. Under IFRS, future premiums must be taken into account only if included in the corresponding technical note.
- The consideration of all cash flow sources. In general, under Solvency II, the premium provision for profitable products included in a portfolio in force is less than the liability for remaining coverage reflected in the financial statements. In cases of premium insufficiency, the premium provision is comparable to the provision for unearned premiums plus the provision for current risks (without taking the discount effect into account). For future business, the Solvency II premium provision for profitable products will be negative.
- The counterparty default risk adjustment to recoverable reinsurance amounts.
- The financial discount of cash flows.

### Risk margin

The risk margin is conceptually equivalent to the cost of supplying eligible own funds and the SCR necessary to support insurance commitments during their entire period of validity and until they are definitively settled. The interest rate used in determining the cost of supplying the amount of eligible own funds is known as the cost-of-capital rate. MMS uses the 6% rate prescribed by Solvency II regulations.

The method for calculating risk margin may be expressed as follows:

$$RM = CoC * \sum \frac{SCR_t}{(1 + r_{t+1})^{t+1}}$$

- *RM*: risk margin.
- *CoC*: the cost-of-capital rate which is taken as 6%.
- *SCR<sub>t</sub>*: Solvency capital requirement after *t* years. This solvency capital requirement will be that capital necessary to meet insurance and reinsurance obligations for their effective period, with said capital reflecting underwriting risk, residual market risk where material, counterparty default risk with regards to reinsurance treaties and operational risk. The SCR is calculated according to the standard formula and calibrated at the 99.5% confidence level over a 1-year time horizon.
- *r<sub>t+1</sub>*: basic risk-free interest rate for the maturity of *t+1* years.

There are a number of simplified methods to calculate risk margin:

- Level 1: explains how to approximate underwriting, counterparty, and market risks.
- Level 2: this is based on the assumption that the future solvency capital requirement will be proportional to the "best estimate" of technical provisions during the year in question.
- Level 3: this consists of using the modified duration of liabilities to calculate the current and future solvency capital requirement in one single step.

- Level 4: calculates the risk margin as a percentage of the best estimate of technical provisions net of reinsurance.

MMS calculates the risk margin using Level 2 simplification.

The Financial Statements require that a risk adjustment is added to the liability for incurred claims. The risk adjustment is derived from the Solvency Capital Requirement components allowing for the lower accounting confidence levels of 65% and 85% for non-life and life business respectively.

### **Actuarial methods and assumptions used when calculating technical provisions**

The main actuarial technique used by MMS when calculating technical provisions under Solvency II falls under generally accepted actuarial practice making use of deterministic methods for calculating the ultimate loss ratio based on a selection of factors to develop frequencies and average costs.

MMS considers that the methods used are appropriate.

The following two key assumptions are used:

- Economic assumptions, which are compared against available financial and macroeconomic indicators which mainly include:
  - Interest rate structure.
  - Exchange rates.
  - Market trends and financial variables including allowance for future claim inflation where significant.
- Non-economic assumptions, which are mainly obtained from generally available data based on MMS's and/or the MAPFRE Group's past experience, or external sector/market sources:
  - Realistic administration, investment, acquisition, etc. expenses that will be incurred throughout the duration of the contracts.
  - Lapse rates.
  - The frequency and severity of claims based on past data.
  - Legislative changes.

For Life Insurance:

The following two key assumptions are used:

- Economic assumptions, which are compared against available financial and macroeconomic indicators which mainly include:
  - Interest rate structure broken down by the currencies in which the commitments are denominated.
  - Exchange rates.
  - Market trends and financial variables.
- Non-economic assumptions, which are mainly obtained from generally available data based on MMS and/or the MAPFRE Group's past experience, or external sector/market sources:

- Realistic administration, investment, acquisition, etc. expenses that will be incurred throughout the duration of the contracts.
- Mortality.

Also, it is worth noting that under the new IFRS 17 standard, in line with Solvency II, management actions and policyholder behaviour are also included when calculating technical provisions, whereby companies may establish a comprehensive plan covering future decisions considering the necessary time frame to calculate their best estimates, including a probability analysis of when policyholders might exercise certain rights included in their insurance policies.

Following generally accepted actuarial practice, MMS employs an effective actuarial methodology which combines the appropriateness and consistency of the underlying methods and models used, as well as the assumptions used in these calculations.

### **Degree of uncertainty associated with the amount of technical provisions**

The value of the technical provisions is directly linked to estimates and projections for future cash flows which might be subject to a number of factors of uncertainty. The key elements of uncertainty are:

- The probability that the obligation will materialize with regard to future cash flows including the likelihood of a policy renewing or lapsing mid-term.
- The timing of the claim.
- Potential amount of future cash flows which depend on claim size, inflation rate, court judgement etc.
- Claim frequency which depends on the propensity to claim.
- The risk-free interest rate.
- Other external influences.

These factors are generally estimated based on expert opinions within the area or market data, and their calculation and impact on the technical provisions are duly documented and processed.

The liabilities are discounted using the risk-free discount rates published by EIOPA.

### **D.2.2. Measures designed for managing long-term guarantees**

MMS does not make use of any long-term guarantee measures.

#### **D.2.2.a. Matching adjustment**

MMS does not make use of any matching adjustment.

#### **D.2.2.b. Volatility adjustment**

MMS does not make use of any volatility adjustment.

#### **D.2.2.c. Transitional measure on the risk-free interest rates**

MMS does not make use of any transitional measures on the risk-free interest rates.

#### **D.2.2.d. Transitional measure for technical provisions**

MMS does not make use of any transitional measures on technical provisions.

### D.2.3. Significant changes in the assumptions used when calculating technical provisions

MMS did not make any changes when compared to the previous reporting period with respect to the assumptions used in the calculation of technical provisions as a result of the implementation of the Solvency II rules.

### D.2.4. Other technical provision

MMS does not have any other technical provisions.

## D.3. Other Liabilities

Following are the main difference between the measurement of other liabilities under Solvency II and IFRS:

Other Liabilities	Solvency II Value 2023	Accounting Value 2023
<b>Total technical provisions</b>	<b>68,693</b>	<b>72,467</b>
Contingent liabilities	-	-
Provisions other than technical provisions	-	-
Pension benefit obligations	923	923
Deposits from reinsurers	-	-
Deferred tax liabilities	-	2,447
Derivatives	-	-
Debts owed to credit institutions	-	-
Financial liabilities other than debt owed to credit institutions	1,575	1,575
Insurance & intermediaries payables	260	260
Reinsurance payables	924	-
Payables (trade, not insurance)	5,024	5,024
Subordinated liabilities	-	-
Subordinated liabilities not in basic own funds	-	-
Subordinated liabilities included in basic own funds	-	-
Any other liabilities, not elsewhere shown	6,045	6,045
<b>TOTAL LIABILITIES</b>	<b>83,443</b>	<b>88,740</b>
<b>EXCESS OF ASSETS OVER LIABILITIES</b>	<b>104,583</b>	<b>81,670</b>

Figures in thousand euro

### Deferred tax liabilities

As mentioned earlier, MMS recognised a net deferred tax liability on its closing IFRS balance sheet at a carrying amount of €1.2 million. MMS recognised a deferred tax asset on the Solvency II balance sheet at €1.3 million, resulting from the offsetting of deferred taxes and liabilities since taxes are paid to the same tax authority.

### Reinsurance payables

Under Solvency II, Reinsurance payables mainly include amounts payable to reinsurers by way of ceded premiums less commission and claim recoveries on claims paid by the Company. The payment of such amounts has not been included in the cash flows for the calculation of technical provisions.

Under IFRS, the payment of these amounts has been included under Reinsurance contract assets.

#### **D.4. Alternative methods for valuation**

MMS's investment property is valued at appraisal value, determined by external, independent and qualified architects.



## **D.5. Any other information**

There have been no significant changes in the Solvency II valuation criteria for assets and liabilities during the year.

### **Finance and operating leases**

Finance and operating leases are described in Section A.4.2 of this report.

## D.6. Annexes

### A) Assets

Template S.02.01.02 detailing quantitative asset disclosures as at 31st December 2023:

Assets	Solvency II Value 2023
Intangible assets	-
Deferred tax assets	1,251
Pension benefit surplus	-
Property, plant & equipment held for own use	5,718
Investments (other than assets held for index-linked and unit-linked contracts)	140,900
Property (other than for own use)	13,806
Holdings in related undertakings, including participations	108,741
Equities	1,427
Equities — listed	1,427
Equities — unlisted	-
Bonds	13,867
Government Bonds	7,232
Corporate Bonds	6,634
Structured notes	-
Collateralised securities	-
Collective Investments Undertakings	1,059
Derivatives	-
Deposits other than cash equivalents	2,000
Other investments	-
Assets held for index-linked and unit-linked contracts	-
Loans and mortgages	-
Loans on policies	-
Loans and mortgages to individuals	-
Other loans and mortgages	-
Reinsurance recoverables from:	9,117
Non-Life and health similar to non-life	9,117
Non-Life excluding health	9,176
Health similar to non-life	(59)
Life and health similar to life, excluding health and index-linked and unit-linked	-
Health similar to life	-
Life excluding health and index-linked and unit-linked	-
Life index-linked and unit-linked	-
Deposits to cedants	-
Insurance and intermediaries receivables	19,721
Reinsurance receivables	287
Receivables (trade, not insurance)	591

Assets	Solvency II Value 2023
Own shares (held directly)	-
Amounts due in respect of own fund items or initial fund called but not yet paid in	-
Cash and cash equivalents	8,780
Any other assets, not elsewhere shown	1,661
<b>Total assets</b>	<b>188,026</b>

Figures in thousand euro

## B) Technical provisions

### B.1 Template S.02.01.02 detailing quantitative technical provisions at 31<sup>st</sup> December 2023:

Liabilities	Solvency II Value 2023
Technical provisions — non-life	<b>67,404</b>
Technical provisions — non-life (excluding health)	60,763
Technical provisions calculated as a whole	-
Best Estimate	58,856
Risk margin	1,907
Technical provisions — health (similar to non-life)	6,641
Technical provisions calculated as a whole	-
Best Estimate	6,468
Risk margin	173
Technical provisions — life (excluding index-linked and unit-linked)	<b>1,289</b>
Technical provisions — health (similar to life)	-
Technical provisions calculated as a whole	-
Best Estimate	-
Risk margin	-
Technical provisions — life (excluding health and index-linked and unit-linked)	1,289
Technical provisions calculated as a whole	-
Best Estimate	1,181
Risk margin	107
Technical provisions — index-linked and unit-linked	-
Technical provisions calculated as a whole	-
Best Estimate	-
Risk margin	-

Figures in thousand euro

Life and Non-Life technical provisions by line of business as at 31<sup>st</sup> December 2023 are shown below. Columns corresponding to lines of business in which MMS does not operate have been omitted.

**B.2** Templates **S.12.01.02** and **S.17.01.02** detailing Life and Non-Life technical provisions by line of business at 31<sup>st</sup> December 2023.

**B.2.1** Template **S.12.01.02** – Life and Health SLT Technical Provisions as at 31<sup>st</sup> December 2023

	Other life insurance			Total (Life other than health insurance, incl. Unit-Linked)
		Contracts without options and guarantees	Contracts with options or guarantees	
<b>Technical provisions calculated as a whole</b>	-			-
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	-			-
<b>Technical provisions calculated as a sum of BE and RM</b>				
<b>Best Estimate</b>				
<b>Gross Best Estimate</b>		<b>1,181</b>	-	<b>1,181</b>
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		-	-	-
Best estimate minus recoverables from reinsurance/SPV and Finite Re — total		1,181	-	1,181
<b>Risk Margin</b>	<b>107</b>			<b>107</b>
<b>Technical provisions — total</b>	<b>1,289</b>			<b>1,289</b>

Figures in thousand euro

**B.2.2 Template S.17.01.02 – Life and Health SLT Technical Provisions as at 31<sup>st</sup> December 2023**

	Direct business and accepted proportional reinsurance									Accepted non-proportional reinsurance	Total Non-Life obligation
	Medical expense insurance	Income Protection insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation, and transport insurance	Fire and other damage to property insurance	General liability insurance	Assistance	Miscellaneous financial loss	Non-proportional property reinsurance	
<b>Technical provisions calculated as a whole</b>	-	-	-	-	-	-	-	-	-	-	-
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	-	-	-	-	-	-	-	-	-	-	-
<b>Technical provisions calculated as a sum of BE and RM</b>											
<b>Best Estimate</b>											
Premium provisions											
Gross	4,531	363	9,247	5,756	637	4,853	1,144	218	11	-	26,760
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	(102)	(22)	(1,056)	(63)	(165)	2,036	(108)	(55)	5	-	470
Net Best Estimate of Premium Provisions	4,633	385	10,303	5,819	802	2,817	1,252	273	6	-	26,290
<b>Claims provisions</b>											
Gross	1,010	564	17,823	8,514	977	4,436	4,516	522	-	202	38,564
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	56	10	4,855	10	37	3,191	463	0	-	27	8,648
Net Best Estimate of Claims Provisions	955	559	12,968	8,504	940	1,246	4,053	522	-	175	29,917
<b>Total Best estimate — gross</b>	5,541	927	27,070	14,270	1,614	9,289	5,660	739	11	202	65,324
<b>Total Best estimate — net</b>	5,588	939	23,271	14,324	1,742	4,063	5,305	795	6	175	56,207
<b>Risk margin</b>	167	5	673	474	99	395	199	59	1	8	2,080
<b>Technical provisions — total</b>											
Technical provisions — total	5,709	933	27,7433	14,744	1,712	9,685	5,859	799	12	210	67,404

**B.2.2 Template S.17.01.02 – Life and Health SLT Technical Provisions as at 31<sup>st</sup> December 2023**

	Direct business and accepted proportional reinsurance									Accepted non-proportional reinsurance	Total Non-Life obligation
	Medical expense insurance	Income Protection insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation, and transport insurance	Fire and other damage to property insurance	General liability insurance	Assistance	Miscellaneous financial loss	Non-proportional property reinsurance	
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default — total	(47)	(12)	3,799	(53)	(128)	5,227	355	(55)	5	27	9,117
Technical provisions minus recoverables from reinsurance/SPV and Finite Re — total	5,755	945	23,943	14,797	1,840	4,458	5,504	854	7	183	58,287

Figures in thousand euro

### B.3 Template S.19.01.21 – Non-Life insurance claims

The following templates reflect the estimate made by MMS of the cost of claims (those paid and provisions for claims in accordance with the Solvency II valuation principles), as well as how the estimate evolves over time.

Gross Claims Paid (non-cumulative)													
Development year													
Year	0	1	2	3	4	5	6	7	8	9	10 & +	In current year	Sum of years (cumulative)
Prior											72	Prior	72
N - 9	10,302	4,458	1,754	(442)	943	61	84	18	10	0		N-9	-
N - 8	11,613	8,733	419	1,161	250	190	14	296	171			N-8	171
N - 7	15,121	10,181	1,858	627	777	175	103	44				N-7	44
N - 6	17,885	9,426	2,460	1,891	1,435	167	297					N-6	297
N - 5	18,707	9,787	2,164	965	493	6,246						N-5	6,246
N - 4	21,555	11,366	3,548	3,884	1,110							N-4	1,110
N - 3	17,104	8,793	975	547								N-3	547
N - 2	17,760	10,149	1,414									N-2	1,414
N - 1	21,240	11,146										N-1	11,146
N	23,051											N	23,051
<b>Total</b>												<b>Total</b>	44,097

Figures in thousand euro

Gross undiscounted Best Estimate Claims Provision													
Year	0	1	2	3	4	5	6	7	8	9	10 & +	Year end (discounted data)	
Prior											369	Prior	123
N - 9	-	-	1,464	1,478	815	855	658	(28)	442	50		N-9	40
N - 8	-	3,656	4,957	3,583	3,265	3,257	88	44	277			N-8	227
N - 7	17,270	6,218	3,373	2,440	1,770	(35)	415	(237)				N-7	(200)
N - 6	18,926	8,310	6,333	4,779	943	1,777	271					N-6	234
N - 5	21,329	11,865	10,490	3,460	1,556	1,158						N-5	1,020
N - 4	18,382	9,888	3,246	4,768	662							N-4	597
N - 3	12,499	9,064	1,464	3,318								N-3	3,054
N - 2	31,221	8,354	1,231									N-2	1,155
N - 1	33,744	5,594										N-1	5,350
N	27,208											N	26,964
												<b>Total</b>	<b>38,564</b>



### C) Other liabilities

Template S.02.01.02 detailing quantitative disclosures of other liabilities at 31<sup>st</sup> December 2023:

Liabilities	Solvency II Value
	2023
Contingent liabilities	-
Provisions other than technical provisions	-
Pension benefit obligations	923
Deposits from reinsurers	-
Deferred tax liabilities	-
Derivatives	-
Debts owed to credit institutions	-
Financial liabilities other than debts owed to credit institutions	1,575
Insurance & intermediaries payables	260
Reinsurance payables	924
Payables (trade, not insurance)	5,024
Subordinated liabilities	-
Subordinated liabilities not in basic own funds	-
Subordinated liabilities included in basic own funds	-
Any other liabilities, not elsewhere shown	6,045
<b>Total liabilities</b>	<b>83,443</b>
<b>Excess of assets over liabilities</b>	<b>104,583</b>

Figures in thousand euro

## E. Capital Management

### E.1. Own funds

#### E.1.1. Own funds objectives, policies and management processes

The main objectives to manage and monitor the MMS's own funds and capital are the following:

- Ensure that eligible capital continually meets applicable regulatory requirements and Risk Appetite.
- Ensure that the projected eligible capital continuously meets the applicable requirements throughout the period covered.
- Ensure that MMS has a medium-term Capital Management Plan.
- Capital management will take into account the results from the Own Risk and Solvency Assessment (ORSA), as well as the conclusions reached during that process.
- Within the framework of the medium-term Capital Management Plan, should it be deemed necessary to obtain new resources, the newly-issued capital instruments should be assessed to determine that they meet the conditions for inclusion within the desired eligible capital quality level.

Should the eligible capital be insufficient at any time during the period under consideration in the three-year projections, the Risk Office should propose future management measures to be taken into account in order to i) rectify this shortfall and ii) maintain solvency margins within the established by the applicable regulations and Risk Appetite Policy.

The medium-term Capital Management Plan prepared by the Risk Management Function must at least take into account the following:

- Compliance with applicable solvency regulations throughout the projection period, taking into consideration any known future changes to regulations while maintaining solvency margins aligned with those established in the Risk Appetite Policy.
- All eligible capital instruments envisaged.
- Refunds, both contractual on the due date and those which it is possible to make on request before maturity, relating to elements of eligible capital.
- The results of the ORSA projections.
- Foreseeable dividends and their impact on eligible capital. MMS has carried out an analysis to justify that the distribution of dividends does not compromise the financial or solvency situation or the protection of the interests of policyholders and insured and is carried out in accordance with the recommendations of supervisors in the matter.

MMS has not used the transitional measures on technical provisions.

During 2023, there have not been any significant changes in the objectives, policies and processes used to manage own funds.

### **E.1.2 Structure, amount, and quality of own funds**

The following reflects the structure, amount and quality of own funds, as well as the MMS's coverage ratios:

- Solvency ratio, which is the ratio of Eligible own funds to the SCR.
- Ratio of Eligible own funds to MCR.

	Total		Tier 1–unrestricted		Tier 1 – restricted		Tier 2		Tier 3	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
<b>Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Commission Delegated Regulation (EU) 2015/35</b>										
Ordinary share capital (gross of own shares)	19,320	19,320	19,320	19,320			-	-		
Share premium account related to ordinary share capital	688	688	688	688			-	-		
Initial funds, members' contributions or the equivalent basic own — fund item for mutual and mutual-type undertakings	-	-	-	-			-	-		
Subordinated mutual member accounts	-	-			-	-	-	-	-	-
Surplus funds	-	-	-	-						
Preference shares	-	-			-	-	-	-	-	-
Share premium account related to preference shares	-	-			-	-	-	-	-	-
Reconciliation reserve	78,824	68,278	78,824	68,278						
Subordinated liabilities	-	-			-	-	-	-	-	-
An amount equal to the value of net deferred tax assets	1,251	2,451							1,251	2,451
Other own fund items approved by the supervisory authority as basic own funds not specified above	-	-	-	-	-	-	-	-	-	-
<b>Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds</b>										
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	-	-								
<b>Deductions</b>										
Deductions for participations in financial and credit institutions	-	-	-	-	-	-	-	-		
<b>Total basic own funds after deductions</b>	<b>100,083</b>	<b>90,737</b>	<b>98,832</b>	<b>88,286</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,251</b>	<b>2,451</b>

Figures in thousand euro

	Total		Tier 1—unrestricted		Tier 1 – restricted		Tier 2		Tier 3	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
<b>Ancillary own funds</b>										
Unpaid and uncalled ordinary share capital callable on demand	-	-					-	-		
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual — type undertakings, callable on demand	-	-					-	-		
Unpaid and uncalled preference shares callable on demand	-	-					-	-	-	-
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	-	-					-	-	-	-
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	-	-					-	-		
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	-	-					-	-	-	-
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	-	-					-	-		
Supplementary members calls — other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	-	-					-	-	-	-
Other ancillary own funds	-	-					-	-	-	-
<b>Total ancillary own funds</b>	-	-					-	-	-	-
<b>Available and eligible own funds</b>										
Total available own funds to meet the SCR	100,083	90,737	98,832	88,286	-	-	-	-	1,251	2,451
Total available own funds to meet the MCR	98,832	88,286	98,832	88,286	-	-	-	-		
Total eligible own funds to meet the SCR	100,083	90,737	98,832	88,286	-	-	-	-	1,251	2,451
Total eligible own funds to meet the MCR	98,832	88,286	98,832	88,286	-	-	-	-		
<b>SCR</b>	37,406	39,090								
<b>MCR</b>	11,909	11,534								

	Total		Tier 1–unrestricted		Tier 1 – restricted		Tier 2		Tier 3	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
<b>Ratio of Eligible own funds to SCR</b>	267.6%	232.1%								
<b>Ratio of Eligible own funds to MCR</b>	829.9%	765.4%								

Figures in thousand euro

	Total	
	2023	2022
<b>Reconciliation reserve</b>		
Excess of assets over liabilities	104,583	94,237
Own shares (held directly and indirectly)	-	-
Foreseeable dividends, distributions and charges	4,500	3,500
Other basic own fund items	21,259	22,459
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring-fenced funds	-	-
<b>Reconciliation reserve</b>	<b>78,824</b>	<b>68,278</b>
<b>Expected profits</b>		
Expected profits included in future premiums (EPIFP) — Life business	-	-
Expected profits included in future premiums (EPIFP) — Non- life business	561	466
<b>Total Expected profits included in future premiums (EPIFP)</b>	<b>561</b>	<b>466</b>

Figures in thousand euro

### **Amount of eligible own funds to meet the SCR, classified by tiers**

MMS has €100.1 million of eligible own funds as at 31<sup>st</sup> December 2023 (€90.7 million at 31<sup>st</sup> December 2022).

As stipulated in the Solvency II regulations, own funds are classified as either basic or ancillary. They are also classified by Tiers (1, 2 or 3) depending on the characteristics determining their availability to absorb losses.

As at 31<sup>st</sup> December 2023, the unrestricted basic Tier 1 own funds of MMS totalled €98.8 million (€88.3 million at 31<sup>st</sup> December 2022). These own funds have the maximum capacity to absorb losses as they meet the requirements of permanence, subordination and sufficient duration, and they consist of:

- Ordinary share capital.
- Share premium related to ordinary share capital.
- Reconciliation reserve, which mainly reflects the movements in the assets and liabilities during the period. This potentially could be the most volatile element within the eligible own funds. However, asset-liability management helps to reduce this volatility as can be observed under Section C.7.1. Sensitivity analysis of significant risks.

In addition, MMS also has basic Tier 3 own funds totaling €1.3 million as at 31<sup>st</sup> December 2023 (€2.5 million as at 31<sup>st</sup> December 2022) corresponding to the net deferred tax asset.

All of the own funds of MMS are basic own funds. There are no limitations on their eligibility to cover the Solvency Capital Requirements and they have the maximum availability for absorbing losses.

None of the own fund items required supervisory approval.

The tables included at the beginning of the section indicate the structure, amount and quality of the own funds and include the items considered to determine the reconciliation reserve based on the excess of assets for absorbing losses.

### **Solvency Capital Requirements (SCR)**

The Solvency Capital Requirement (SCR) corresponds to the own funds that MMS must hold to limit the probability of bankruptcy to one case per 200-year event, or that MMS is 99.5% confident to meet its commitments to insurance beneficiaries and policyholders during the following year.

As stipulated in the Solvency II Directive, all the unrestricted basic Tier 1 own funds and Tier 3 own funds are eligible to cover the SCR.

The solvency ratio stands at 267.6% (232.1% in 2022) and determines the relationship between eligible own funds and the SCR calculated using the standard formula. This shows MMS's high capacity to absorb extraordinary losses deriving from a 1 in 200-year event. This ratio falls within the Risk Appetite established and approved by the Board of Directors.

### **Minimum Capital Requirement (MCR)**

Minimum Capital Requirement (MCR) is the capital amount set as the minimum-security level under which financial resources should never fall. Therefore, it is the minimum amount of basic eligible own funds before which policyholders and beneficiaries are exposed to an unacceptable level of risk, should MMS continue with its business.

All the basic unrestricted Tier 1 own funds are eligible to cover the MCR. Since Tier 3 own funds do not have adequate availability in order to absorb losses in case it is necessary, these are not available and eligible to cover the MCR. MMS therefore has €1.3 million in available own funds that are not eligible to cover the MCR.

The ratio of eligible own funds to the MCR amounts to 829.9% (2022: 765.4%).

No additional solvency ratios to the ones included in template S.23.02 (i.e. SCR and MCR) are disclosed by MMS.

### **Difference between Equity in the financial statements and Excess of assets over liabilities for Solvency II purposes**

When valuing assets and liabilities for the purposes of Solvency II, different criteria are used from those used when preparing the financial statements. The above criteria differences lead to differences between the equity stated in the financial statements and excess of assets over liabilities for Solvency II purposes.

As at 31<sup>st</sup> December 2023 the excess of assets over liabilities for Solvency II purposes amounted €104.6, while equity in the financial statements totaled €81.7 million.

The main adjustments that arise from the reconciliation of equity in the financial statements and own funds under Solvency II may be observed below:

	2023	2022
<b>Equity (statutory accounts)</b>	<b>81,670</b>	<b>77,094</b>
<b>Difference in valuation of assets</b>	<b>21,866</b>	<b>8,094</b>
Deferred acquisition costs (DAC)	-	(6,980)
Intangible assets	(10,392)	(9,968)
Participations	31,125	25,042
Insurance and intermediaries' receivables	846	-
Reinsurance receivables	287	-
<b>Difference in valuation of liabilities</b>	<b>1,046</b>	<b>9,048</b>
Net Technical provisions	(468)	5,595
Deferred taxes	2,438	3,453
Reinsurance payables	(924)	-
<b>Excess of assets over liabilities (Solvency II Value)</b>	<b>104,582</b>	<b>94,237</b>

Figures in thousand euro

The quantitative and qualitative explanations are provided in Sections D.1 Assets, D.2 Technical Provisions and D.3 Other liabilities, in this report.

#### **E.1.3. Information regarding deferred taxes**

Deferred tax assets on the Solvency II balance sheet amount to €1.3 million, which mainly result from the following items:

- Intangible assets
- Participations
- Net Technical provisions



- Insurance and intermediaries' receivables
- Reinsurance receivables and payables

MMS has carried out a recoverability test of the deferred tax assets, and it has recognised €1.3 million of deferred tax assets in the own funds following the availability of probable future taxable profits.

The projections of future benefits are consistent with the assumptions used in the calculation of the best estimate of technical provisions. MMS defined hypotheses for the new business, regarding loss ratios, administrative expense ratios, acquisition expense ratios and the transfer of risks to reinsurance, among others.

Additionally, MMS has considered:

- The volume of sales from the new business, which is consistent with that defined in the business plan.
- The return on investments is equal to the implicit return in the risk-free interest rate curve.

#### **E.1.4. Other information**

##### **Essential items in the reconciliation reserve**

The reconciliation reserve includes the component of own funds potentially considered as the most volatile; changes therein are determined by MMS's asset and liability management.

In the tables included at the beginning of the section, the structure, amount and quality of the own funds are indicated, together with the items that have been considered in determining the reconciliation reserve. This is based on the amount of the excess of assets over liabilities for the purpose of Solvency II, with the amount of this excess reaching €104.6 million.

To determine the Reconciliation, reserve the following items have been deducted:

- Foreseeable dividends, amounting to €4.5 million.
- Other items of Basic own funds for an amount of €21.3 million, which are considered as independent items from own funds (ordinary share capital and share premium account, surplus funds and non-controlling shareholdings).

##### **Items deducted from own funds**

MMS did not deduct any items from the own funds.

##### **Own Funds issued and instruments redeemed**

MMS did not issue or surrender any own fund instruments during 2023.

##### **Transitional measures**

MMS did not consider any basic own-fund items subject to the transitional arrangements referred to in Article 308b(9) and 308b(10) of Directive 2009/138/EC to be applicable.

## E.2. Solvency Capital Requirement and Minimum Capital Requirement

### E.2.1. Solvency Capital Requirement amounts and valuation methods

The following shows the SCR broken down by risk modules and calculated using the standard formula:

	Gross solvency capital requirement		USP	Simplifications
	2023	2022		
Market risk	29,281	27,626		
Counterparty default risk	10,015	8,406		
Life underwriting risk	1,966	2,012		Life mortality risk, Life expense risk, Life catastrophe risk
Health underwriting risk	3,889	3,568		
Non-Life underwriting risk	17,817	16,418		
Diversification	(18,259)	(16,736)		
Intangible assets risk	-	-		
<b>Basic Solvency Capital Requirement</b>	<b>44,709</b>	<b>41,293</b>		

Calculation of the Solvency Capital Requirement	Amount	
	2023	2022
Operational Risk	2,814	2,560
Loss-absorbing capacity of technical provisions	-	-
Loss-absorbing capacity of deferred taxes	(10,117)	(4,764)
Capital requirement for businesses operated in accordance with Article 4 of Directive 2003/41/EC	-	-
<b>Solvency Capital Requirement excluding capital add-on</b>	<b>37,406</b>	<b>39,090</b>
Capital add-on already set	-	-
of which, capital add-ons already set – Article 37 (1) Type a	-	-
of which, capital add-ons already set – Article 37 (1) Type b	-	-
of which, capital add-ons already set – Article 37 (1) Type c	-	-
of which, capital add-ons already set – Article 37 (1) Type d	-	-
<b>Solvency capital requirement</b>	<b>37,406</b>	<b>39,090</b>
<b>Other information on SCR</b>		
Capital requirement for duration-based equity risk sub-module	-	-
Total amount of the Notional Solvency Capital Requirement for remaining part	-	-
Total amount of the Notional Solvency Capital Requirement for ring-fenced funds	-	-
Total amount of notional Solvency Capital Requirement for matching adjustment portfolios	-	-
Diversification effects due to Ring-Fenced Funds notional SCR for article 304	-	-

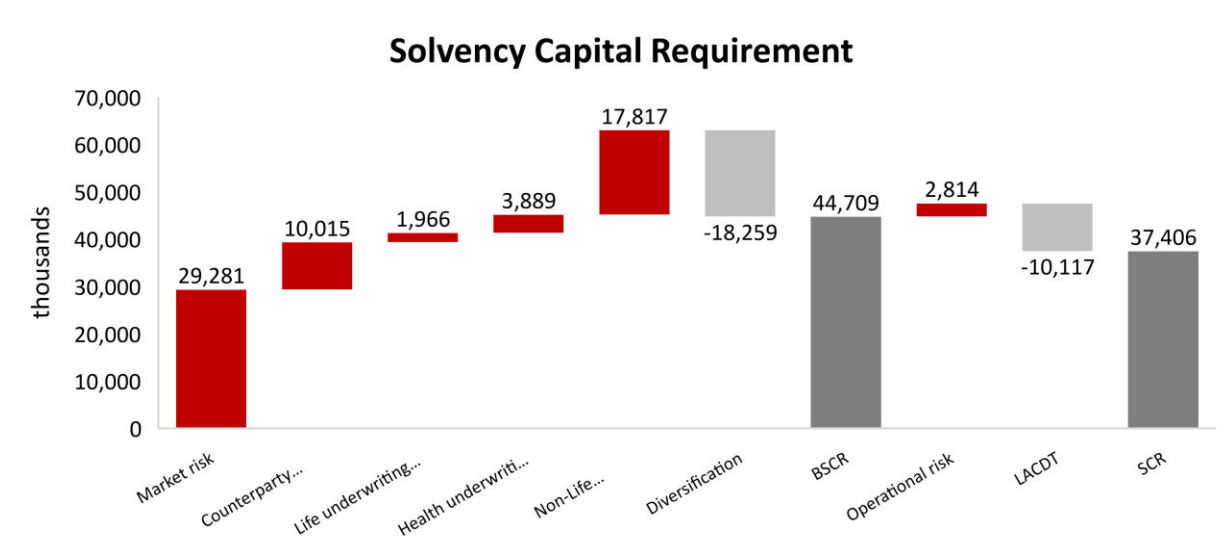
Figures in thousand euro

Approach to tax rate	Yes/No	
	2023	2022
Approach based on average tax rate	1-Yes	1-Yes

Calculation of loss absorbing capacity of deferred taxes	LAC DT	
	2023	2022
DTA		
DTA carry forward		
DTA due to deductible temporary differences		
DTL		
LAC DT	(10,117)	(4,764)
LAC DT justified by reversion of deferred tax liabilities	-	-
LAC DT justified by reference to probable future taxable economic profit	(10,117)	(4,764)
LAC DT justified by carry back, current year	-	-
LAC DT justified by carry back, future year	-	-
Maximum LAC DT	-	-

MMS does not make use of any undertaking-specific parameters and does not have any capital add-on requirements.

The composition of the SCR is set out below; more descriptive information is provided in Section C of this report:



Figures in thousand euro

As at 31<sup>st</sup> December 2023, MMS's total SCR amount was €37.4 million. As at 31<sup>st</sup> December 2022, it was equal to €39.1 million and the decrease is mainly due to the increase in the loss absorbing capacity of deferred tax, resulting from a higher probable future taxable profits considered when compared to 2022.

To calculate the SCR, MMS used the following simplifications:

- For Life underwriting risk, MMS uses the simplified calculation for the solvency capital requirement for its life business for life mortality risk, life expense risk and life catastrophe risk

in accordance with Articles 91, 94 and 96 of the Commission Delegated Regulation 2015/35 respectively.

- For Counterparty default risk, to calculate the risk-mitigating effect on underwriting risk of a reinsurance arrangement, MMS makes use of the simplified calculation of the mitigating effect in accordance with Article 107 of the Commission Delegated Regulation 2015/35.

These simplifications are considered appropriate to the nature, volume and complexity of the associated risks.

There is no capacity to absorb losses through technical provisions. The loss absorbing capacity of deferred taxes totaled €10.1 million (2022: €4.8 million). The assessment of the recoverability of the LACDT factors in the latest approved budget numbers.

As at 31<sup>st</sup> December 2023, MMS's total MCR amount was €11.9 million (2022: €11.5 million).

The following table shows MMS's MCR and the different components of its calculation, which for the different lines of business are:

- Net (of reinsurance/SPV) best estimate, for life and non-life insurance obligations.
- Net (of reinsurance) written premiums in the last 12 months, for non-life insurance obligations.
- Total capital at risk, net (of reinsurance/SPV) for life insurance obligations.

Linear formula component for non-life insurance and reinsurance obligations (*)	2023	2022
MCR(NL) Result	10,984	10,600

	2023		2022	
	Net (of reinsurance/SPV) best estimate and technical provisions calculated as a whole	Net (of reinsurance) written premiums in the last 12 months	Net (of reinsurance/SPV) best estimate and technical provisions calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
Medical expense insurance and proportional reinsurance	5,588	16,536	4,971	14,636
Income protection insurance and proportional reinsurance	939	1,142	1,103	1,152
Workers' compensation insurance and proportional reinsurance	-	-	-	-
Motor vehicle liability insurance and proportional reinsurance	23,271	19,734	24,495	18,923
Other motor insurance and proportional reinsurance	14,324	23,459	15,221	20,577
Marine, aviation and transport insurance and proportional reinsurance	1,742	2,967	1,439	2,431
Fire and other damage to property insurance and proportional reinsurance	4,063	3,852	3,948	3,487
General liability insurance and proportional reinsurance	5,305	6,228	6,200	5,755
Credit and suretyship insurance and proportional reinsurance	-	-	-	-
Legal expenses insurance and proportional reinsurance	-	-	-	-
Assistance and proportional reinsurance	795	2,912	786	2,309
Miscellaneous financial loss insurance and proportional reinsurance	6	4	8	4
Non-proportional health reinsurance	-	-	-	-
Non-proportional casualty reinsurance	-	-	-	-
Non-proportional marine, aviation and transport reinsurance	-	-	-	-
Non-proportional property reinsurance	175	-	175	-

Linear formula component for life insurance and reinsurance obligations	2023	2022
MCR(L) Result	925	934

Obligations with profit participation – guaranteed benefits
Obligations with profit participation – future discretionary benefits
Index-linked and unit-linked insurance obligations
Other life (re)insurance and health (re)insurance obligations
Total capital at risk for all life (re)insurance obligations

Overall MCR calculation	2023	2022
Linear MCR	11,909	11,534
SCR	37,406	39,090
MCR cap	16,833	17,590
MCR floor	9,351	9,772
Combined MCR	11,909	11,534
Absolute floor of the MCR	8,000	8,000

<b>Minimum Capital Requirement</b>	<b>11,909</b>	<b>11,534</b>
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Net (of reinsurance/SPV) and technical provisions calculated as a whole	Net (of reinsurance/special-purpose entities) total capital at risk	Net (of reinsurance/SPV) and technical provisions calculated as a whole	Net (of reinsurance/special-purpose entities) total capital at risk
-		-	
-		-	
-		-	
1,181		627	
	1,285,383		1,315,725

Notional non-life and life MCR calculation	2023		2022	
	Non-Life activities	Life activities	Non-Life activities	Life activities
Notional linear MCR	10,984	925	10,600	934
Notional SCR excluding add-on (annual or latest calculation)	34,501	2,904	35,924	3,166
Notional MCR cap	15,526	1,307	16,166	1,425
Notional MCR floor	8,625	726	8,981	791
Notional Combined MCR	10,984	925	10,600	934
Absolute floor of the notional MCR	4,000	4,000	4,000	4,000
Notional MCR	10,984	4,000	10,600	4,000

The MCR is the level of capital that guarantees a minimum level of security below which the number of financial resources should never fall and has a value of €11.9 million. The notional combined MCR is equal to €11.0 million for Non-Life activities and €0.9 million for life activities. The linear MCR was obtained by applying the factors relating to the data used in the calculation, which are included in the above tables. The combined MCR is equal to €11.9 million and is the result of applying the maximum and minimum limits to the linear MCR.

Since the combined MCR is higher than the MCR's absolute floor, the amount of the combined MCR is considered to be the Minimum Capital Requirement i.e. the amount of €11.9 million.

### **E.2.3. Information regarding the Solvency Capital Requirement and the Minimum Required Capital with regard to the loss-absorbing capacity of deferred taxes**

MMS has carried out a recoverability test on the deferred tax assets that arise after an instantaneous loss of an amount that is equal to the SCR<sup>10</sup>. MMS has considered probable future taxable profits of €72.3 million.

The projections of future profits are consistent with the assumptions used in the calculation of the best estimate of technical provisions and with MMS's business plans. MMS defined assumptions regarding loss ratios, administrative expense ratios, acquisition expense ratios and the ceded business to reinsurers, among others.

<sup>10</sup> The amount of SCR is defined in accordance with the paragraph 1 of Article 207 of the Delegated Regulation (EU) 2015/35

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

MMS does not use the duration-based equity risk sub-module set out in Article 304 of the Directive 2009/138/EC for the calculation of its solvency capital requirement.



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

MMS does not make use of internal models in its Solvency calculations but follows the Solvency II standard formula.

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

As at 31<sup>st</sup> December 2023, MMS had a good solvency position and was compliant at all times with the MCR and SCR during the reporting period. Therefore, it was considered unnecessary to adopt any other action or corrective measure.

## **E.6. Any other information**

MMS management is regularly monitoring the impact of the current market fluctuations having regard to the solvency position of the company.

## Annex I

The following table presents MMS's subsidiaries as at year-end 2023:

Name of company	Percentage of shares
Euro Globe Holdings Limited <sup>11</sup>	100%
Euromed Risk Solutions Limited <sup>12</sup>	100%
BEE Insurance Management Limited	100%
MAPFRE MSV Life plc	50%
Church Wharf Properties Limited	50%

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<sup>11</sup> Currently in liquidation

<sup>12</sup> Held indirectly through BEE Insurance Management Ltd