MAPFRE | MSV Life

Solvency and Financial Condition Report

31st December 2016

Executive summary

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

A. Activity and results

MAPFRE MSV Life (hereinafter, MMSV or the Company) is a public limited Company within the Maltese Insurance industry and provides life insurance protection, long term savings, retirement planning and pension products. MMSV has the following lines of business:

- Insurance with-profit participation;
- Index-linked and Unit-linked insurance;
- Other life insurance.

MMSV is jointly owned between MAPFRE Middlesea p.l.c (50%) and Bank of Valletta p.l.c.(50%). However, MAPFRE Middlesea[1] exercises control over MMSV even though it does not own more than 50% of the voting rights.

MMSV closed the year with premiums totalling €272.63 million and net profits amounting to €8.52 million.

Gross premiums written for financial year 2016 increased by 23.5% from €220.8 million to €272.6 million. Gross claims for 2016 were equal to €141.98 million.

Total income from investments during the year amounted to €87.14 million, of which total investment expenses were €8.04 million.

B. Governance system

MMSV governance structure is composed of the following governing bodies:

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

These governing bodies ensure the appropriate strategic, commercial and operational management enabling MMSV to respond to any issues which might arise throughout its different organizational levels, business and corporate environment, in a timely and sufficient manner.

MMSV's Board of Directors established its Risk Management Policy which encompasses policies and strategies in line with those defined by the MAPFRE, S.A.'s Board of Directors.

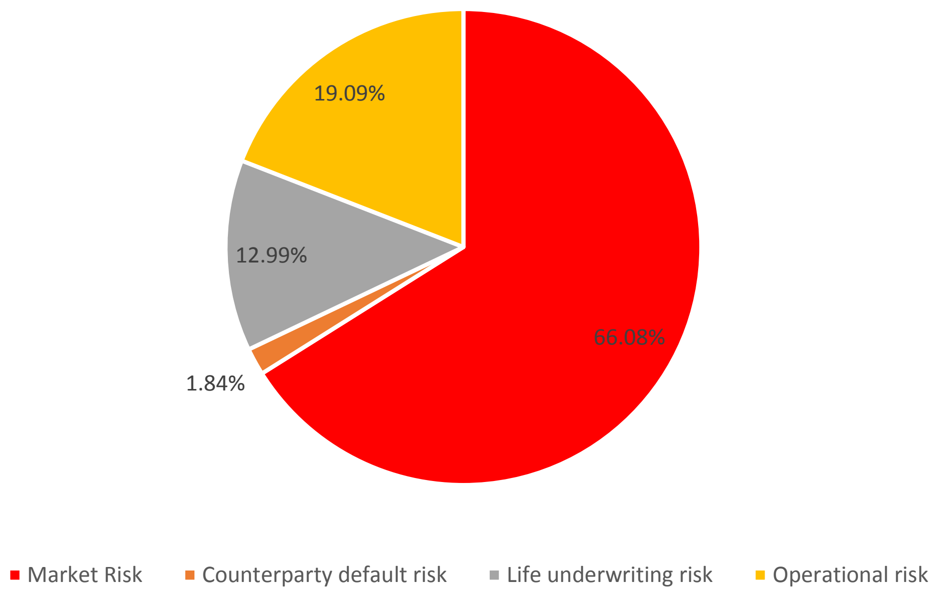
In this regard, MMSV has adopted the "three lines of defence" model.

[1] MAPFRE S.A is the ultimate parent

C. Risk profile

After the entry into force of the Solvency II regulations, MMSV calculates its Solvency Capital Requirement (SCR) using the standard formula.

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



As indicated above, the key risk is market risk arising from MMSV's significant investment portfolio. This risk is followed by operational risk which is directly correlated with the volume of premiums written, Life Underwriting Risk and Counterparty Default Risk.

MMSV's investment policy ensures sufficient diversification across issuers, countries, currencies and sectors for its market risk. Limits are in place to make sure that exposures remain within the risk appetite established by the Board.

Apart from the above risks, MMSV, as part of its Own Risk and Solvency Assessment (ORSA) process conducts internal significant risk-identification procedures to detect those risks which might represent a threat to compliance with the strategic plan, or might impede the attainment of MMSV's capitalization level which it considers to be appropriate for its risk profile. As a result of the mitigation measures in place or currently being implemented, no other significant risks were identified which would materially affect MMSV's solvency.

MMSV also considered a number of stress tests and scenarios to assess its resilience and business model when facing adverse events during the projected period. The results from this analysis indicate that MMSV will continue to have eligible own funds to comply with the regulatory capital requirements even in stressed scenarios.

Potential risks which might threaten the solvency position of MMSV during the period considered were also quantified using reverse stress tests.

D. Valuation for solvency purposes

The Solvency II value of assets amounts to €1.84 billion, while the Accounting value (IFRS value) is equal to €1.93 billion. The differences between the Solvency II value and the IFRS value arose due to the different valuation criteria used for deferred acquisition costs, intangible assets, investments and reinsurance recoverables.

The Solvency II value of liabilities amounts to €1.61 billion, while the IFRS value is equal to €1.74 billion. The main difference between Solvency II value and the IFRS value arose due to the different valuation criteria used for technical provisions. Section D.2 provides an explanation on the actuarial methodology and assumptions used in the calculation of the technical provisions (best estimate and risk margin).

The excess of assets over liabilities for Solvency II purposes amounted to €183.5 million, which represented an increase of 14.66% over the IFRS value of equity.

E. Capital management

MMSV has the appropriate structure necessary to manage and oversee its own funds, policies and management plans in place so as to maintain solvency levels within the limits established by legislation and the Company's risk appetite.

MMSV's Solvency Capital Requirement (SCR) amounted to €56.4 million, while the Minimum Capital Requirement (MCR) amounted to €25.4 million. The MCR is the minimum level of security below which the amount of financial resources should not fall.

Eligible own funds to cover MMSV's SCR represent €171.9 million of unrestricted Tier 1 classification. 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.

MMSV's ratio of eligible own funds to cover the SCR (Solvency Ratio) stood at 304.8% as at end December 2016 whilst the ratio of eligible own funds to cover the MCR was equal to 677.5% Thus it can be concluded that MMSV is in a position to be able to comfortably meet its future commitments, considering the future Solvency II capital requirements.

As part of its own risk and solvency evaluation process, MMSV prepared a medium-term capital plan including a projection of admissible own funds during the budgeting period, as well as a projection of overall solvency needs for the period. This analysis revealed that there will be a high SCR and MCR coverage during the period contemplated.

A. Business and performance

A.1 Business

A.1.1 Name and legal form

MAPFRE MSV Life (hereinafter, MMSV or the Company) is a public limited Company within the Maltese Insurance industry and provides life insurance protection, long term savings, retirement planning and pension products.

The registered address is MAPFRE MSV Life plc, The Mall, Triq il-Mall, Floriana. FRN 1470, Malta.

MMSV is authorized by the Malta Financial Services Authority to carry on long term business under the Insurance Business Act, 1998.

MMSV is jointly owned between Bank of Valletta p.l.c.(50%) and MAPFRE Middlesea p.l.c (50%). However, MAPFRE Middlesea controls MMSV even though it does not own more than 50% of the voting rights. This is because strategic, operating and financing policies of MMSV are directed by means of a shareholders' agreement which provides MAPFRE Middlesea p.l.c. with the right to select, appoint and remove the key management personnel of MMSV and approve its business plan and capital expenditure. Therefore MMSV is also part of the MAPFRE GROUP, integrated within MAPFRE S.A. and other companies with activity in different insurance, financial, real estate and service sectors.

The ultimate parent is the MAPFRE FOUNDATION, a non-profit Entity located in Madrid at Paseo de Recoletos 23.

The MAPFRE GROUP prepared a single Solvency and Financial Condition Report template for its entities for consolidation purposes. This report has been forwarded to all the subsidiary insurance and reinsurance companies so it can be adapted according to their line of business and legislative requirements.

Also, MMSV is the parent company of Growth Investments Limited, which is regulated by the Investment Services Act and is a Category II License holder. Appendix I provides a breakdown of group entities, jointly controlled entities, and associates.

Supervision of the Entity

The Malta Financial Services Authority (hereinafter MFSA) is the party responsible for the financial supervision of MMSV, as it is based in Malta. MFSA is located at Notabile Road, Attard BKR3000, Malta, with the following website: http://www.mfsa.com.mt/

The General Directorate of Insurance and Pensions (Dirección General de Seguros y Pensiones) (DGFSP) is the Spanish government's financial regulatory agency that supervises MAPFRE GROUP.

DGSFP is located at Paseo de la Castellana 44, 28006 Madrid (Spain) with the following website www.dgsfp.mineco.es

External audit

On 7 March 2017, KPMG issued an unqualified opinion in its audit report on the Company's financial statements at 31 December 2016. The above company's registered address is: KPMG, Portico Building, Marina Street, Pieta PTA 9044, Malta.

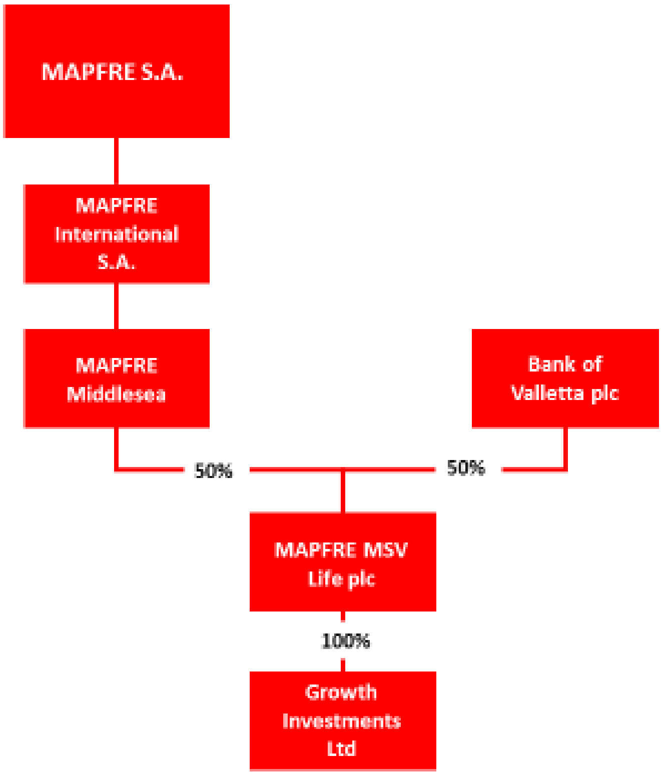
Holders of qualifying holdings

The following table reflects the companies which directly hold qualified investments in MMSV:

Name	Legal status	Location	Percentage of ownership
Bank of Valletta p.l.c.	Public limited company	Malta	50
MAPFRE MIDDLESEA p.l.c.	Public limited company	Malta	50

Position of MMSV within the Group's legal structure

The following is the organizational structure indicating the MMSV's position within the MAPFRE Group's legal structure (simplified):



Lines of business

MMSV has identified the following main lines of business, using the breakdown reflected in prevailing Solvency II legislation:

- **Insurance with profit participation:** Savings products where the annual investment return is discretionary (declared bonus rate)
- **Index-linked and Unit-linked insurance:** Unit-linked products where the obligation of MMSV towards the insured is represented by the value of the underlying units.
- **Other life insurance:** Pure insurance contracts where the only obligation of MMSV towards the insured is the payment of a death benefit, if the death occurs whilst the policy is in force.

Geographic areas

MMSV does not write business outside of Malta.

A.1.2 Business and/or events that have occurred over the reporting period that have had a material impact on the undertaking

The following significant events took place during 2016

Market and regulatory events

- On 1st January 2016, Solvency II came into force.

Events related to the business

- On the 1st January 2016, MMSV established an annual management charge (AMC) on the with profits business that will reduce the market exposure of MMSV profit and loss account without however changing long term policyholder expectations.

- In August 2016, MMSV launched a new Life Administration System, which will gradually replace the current system.

- In 2016, MAPFRE MSV Life p.l.c registered a profit before tax of €11.6 million. This represented a significant drop from previous year where a €15.6 million profit before tax was generated. Prior year profitability was influenced by a one-off gain of pre-tax €5.05 million arising as a result of a major restructuring of the Company's reinsurance programme replacement as from financial year 2015.

Corporate events

- In November 2016, the company changed the name from MSV Life to MAPFRE MSV Life.

A.2 Underwriting performance

Below is the quantitative information regarding the activity and underwriting results for the year 2016 by line of business:

		Line of Business for: **life insurance obligations**						**Life reinsurance obligations**		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	**C0220**	**C0230**	**C0240**	**C0250**	**C0260**	**C0270**	**C0280**	**C0300**
Premiums written										
Gross	**R1410**		258,942	2,697	10,993					272,632
Reinsurers' share	**R1420**		38	1	2,892					2,931
Net	**R1500**		258,904	2,696	8,102					269,701
Premiums earned										
Gross	**R1510**		258,942	2,697	10,993					272,632
Reinsurers' share	**R1520**		38	1	2,892					2,931
Net	**R1600**		258,904	2,696	8,102					269,701
Claims incurred										
Gross	**R1610**		136,340	4,142	1,497					141,978
Reinsurers' share	**R1620**			212	730					942
Net	**R1700**		136,340	3,929	768					141,036
Changes in other technical provisions										
Gross	**R1710**		173,008	1,155	2,066					176,230
Reinsurers' share	**R1720**				(1,126)					(1,126)
Net	**R1800**		173,008	1,155	3,192					177,355
Expenses incurred	**R1900**		18,839	509	3,000					22,349
Other expenses	**R2500**									
Total expenses	**R2600**									22,349

Source: Template S.05.01.02

MMSV closed the year with premiums totalling €272.63 million. Net profits amounted to €8.52 million.

Gross premiums written for financial year 2016 increased by 23.5% from €220.8 million to €272.6 million. This was mainly due to an increased demand across all products in particular single premium savings contracts and life protection business.

The data reflected in the above tables corresponds to premiums written in Malta.

A.3 Investment performance

A.3.1 Information on income and expenses arising from investments by asset class:

The following table reflects quantitative disclosures regarding income from real estate investments, fair value through profit and loss, loans and receivables and realized/unrealized net gains, in thousands of euros.

Total income from investments 2016	Income from investments from:	
	Technical	Non-Technical
Items		
INCOME FROM INTEREST, DIVIDENDS, AND OTHER		
Real estate investments	**4,757**	**-**
Rent	4,757	-
Other	-	-
Income from financial assets at fair value through profit or loss	**34,333**	**-**
Loans and receivables	**903**	**751**
TOTAL REVENUE	**39,993**	**751**
REALIZED AND UNREALIZED GAINS		
Net realized gains	**366**	**-**
Real estate investments	17	-
Income from financial assets at fair value through profit or loss	-	-
Other	349	-
Net unrealized gains	**45,026**	**-**
Other	-	-
TOTAL GAINS	**45,392**	**-**
TOTAL INCOME FROM INVESTMENTS	**85,385**	**751**

Figures in thousands of euros

The following table reflects qualitative disclosures regarding expenses generated by real estate investments, fair value through profit and loss, and realized/unrealized net gains, in thousands of euros.

Investment expenses 2016	Investment expenses from:	
	Technical	Non-Technical
Items		
FINANCIAL EXPENSES		
Real estate investments	**377**	**-**
Net operating expenses	377	-
Other expenses	-	-
Other investment expenses	**3,528**	**7**
TOTAL EXPENSES	**3,905**	**7**

REALIZED AND UNREALIZED LOSSES		
Net realized losses	**4,124**	**-**
Real estate investments	-	-
Financial assets at fair value through profit or loss	3,926	-
Other	198	-
Net unrealized losses	**-**	**-**
Other	-	-
TOTAL LOSSES	**4,124**	**-**
TOTAL EXPENSES ARISING FROM INVESTMENTS	**8,029**	**7**

Figures in thousands of euros

Total income from investments during the year amounted to €86.14 million**.**

Unrealized gains on investments at €45.03 million euros, under technical profit or loss were the main contributor. Local securities account for a significant portion of the interest income earned.

Items representing the greatest expense were realized losses on sale of securities and other investment management fees (included within other investment expenses above) with amounts totalling €3.93 and €2.31 million, respectively.

Total expenses arising from investments during the year amounted to €8.03 million**.**

Events influencing MMSV's investments were:

International Markets

After a difficult start of the year, global equity markets surged in the last quarter of 2016 on the surprise election results in the US. At that point, the fears gripping the markets earlier on in the year following the BREXIT vote had already receded. This proved to be a catalyst for equities to close the year in positive territory.

On the other hand, this also brought about a change in sentiment and expectations in relation to economic growth and inflation expectations which saw bond yields starting to slowly rise again and give up some of the gains registered earlier on in the year. Within this backdrop, the Fed, in a highly anticipated move, raised the benchmark interest rate by 25 bps in December while the ECB maintained an accommodative monetary policy approach.

Local Markets

Domestically, local sovereign bonds contributed positively to the overall investment performance. Local equities also performed relatively well. However, the best performing domestic asset over 2016 has been property related equities which had a double digit return over the year.

A.3.2 Information about any gains and losses recognized directly in equity

No gains and losses are recognized directly in equity.

A.3.3 Information about assets securitisation

MMSV has a very small exposure to securitised assets which is not considered to be material**.**

The following reflects asset securitizations held by the company on its balance sheet, and related amounts:

Name of securitization	Amount
TOWD POINT MORTGAGE V1X C REGS VAR RT 02/20/2054	902
TOWD POINT MORTGAGE GR2 C REGS VAR RT 08/20/2051	700
TAURUS 2013 GMF1 P GMF1 A REGS VAR RT 05/21/2024	591
EUROPEAN RESIDENTIAL 1 A REGS VAR RT 01/24/2059	867
SAPPHIREONE MORTGAGES 2 C REGS VAR RT 06/25/2061	400
TOTAL	**3,460**

Figures in thousands of euros

A.4 Performance of other activities

A.4.1 Other income and expenses

No other material income is generated and no material expenses are incurred by the Company.

A.4.2 Lease contracts

Financial leases
MMSV does not have any financial leases.

Operational leases
Leases where the lessor substantially retains substantially the risks and rewards incidental to ownership are classified as operating leases.

MMSV leased the following items through operating lease agreements (data as at December 31, 2016):

Type of asset	Net book value	Weighted average duration of contracts (years)	Weighted average years elapsed
Property investment	87,993	11.22	4.97

Figures in thousands of euros

MMSV leases real estate property. These leases have an average remaining life of 6.25 years, with/without no renewal option included in the contracts.

Net book value as at December represents revalued amount.

A.5 Any other information

MMSV does not consider that there are any other relevant information which has not been covered in previous sections.

B. System of Governance

B.1 General Information on the system of governance

MAPFRE SA has the Institutional, Business and Organizational Principles document which cover and define the structure, composition and function of the governing bodies, of both the MAPFRE Group and the MAPFRE subsidiaries.

All governing bodies are responsible to ensure that companies have appropriate strategic, commercial and operational management in place to be able to respond to any issues which might arise throughout the respective organizations, in a timely and sufficient manner.

Apart from the Group structure, MMSV has a number of bodies created for its individual governance.

B.1.1 MMSV's System of Governance

The following outlines the main functions and responsibilities of MMSV's Governing Bodies:

- **General Meeting of Shareholders:** the highest governing body, in that its decisions are applicable to all shareholders. Both ordinary and extraordinary General Shareholders' Meetings are called by the Board of Directors.

- **Board of Directors:** The Board of Directors is in charge of managing, administering, and representing the Company and has the ultimate decision making and supervisory responsibility. It performs its tasks and duties without prejudice to the fact that the supervisory functions involved in running the overall MAPFRE GROUP fall to the MAPFRE S.A. Board of Directors and its delegated bodies. It establishes the roles of the Management Committee and its Delegated Committees, designating its members, where necessary.

- **Executive Management Committee:** This is the governing body delegated by the Board of Directors to coordinate and supervise MMSV 's top-level actions, covering operational and management aspects, as well as making the necessary decisions to ensure its appropriate functioning, using the powers delegated at any given time.

- **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 MMSV's risk and regulatory policies and procedures related to risk management, regulatory compliance, the prevention of financial malpractice including money laundering, funding of terrorism, and internal controls.

- **Investment Committee** – The main role of this committee is to advise the Board of Directors on the main Investment policies to be adopted by MMSV 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 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 MMSV's mission statement.

The MAPFRE GROUP has a management model centered on rigorous control and supervision at all levels: local, regional, and global. It ensures widespread delegation of the execution and performance of the tasks assigned to the teams, as well as their heads, fostering the deep analysis by the management teams at all levels related to the decision-making process, prior and after their execution.

Apart from the abovementioned administration and supervisory bodies, MMSV is supervised by the EMEA Regional Management Committee within MAPFRE GROUP, which directly supervises the management of regional Business Units.

B.1.2 Key functions

In line with Solvency II requirements, the Board of Directors approved its Actuarial, Compliance, Risk Management, and Internal Audit policies. These policies ensure the operational independence of the key functions and direct access to the managing body, which confers the necessary authority for these functions. The names of the parties responsible for the key functions were communicated to the MFSA.

Additional information may be found on Basic Functions in Sections B.3, B.4, B.5, and B.6.

B.1.3 Relevant General Meeting of Shareholders and Board of Directors agreements

There were no significant changes in this regard.

B.1.4 Balances and remuneration to the members of the administrative, management or supervisory body

Remuneration paid to MMSV's management and employees is determined in accordance with prevailing regulations and the guidelines stipulated in the Remuneration Policy, which was approved by the Board in December 2016.

The Remuneration Policy promotes efficient risk management by discouraging both the acceptance of risks that exceed MMSV's tolerance limits as well as conflict of interest. The Policy aims to set appropriate remuneration levels for each role and its performance, and to serve as a source of Satisfaction and motivation for employees and/or service providers and which facilitates the attainment of objectives and compliance with the corporate strategy. The main principles of the Remuneration Policy are the following:

- Based on each role, and includes measures designed to avoid any conflicts of interest which may arise.
- It takes into account merit, technical knowledge, professional skills and performance.
- It ensure equality, irrespective of gender, race, or ideology.
- It is transparent, meaning that all parties are aware and familiar with the policy.
- It is flexible in terms of structure, and can therefore be adapted to different market groups and circumstances.
- It is aligned with MMSV's strategy and its risk profile, objectives, risk-management practices, and long-term interests.
- It is competitive with respect to the market.

Based on the above policies, employee remuneration is comprised of five items:

a) Fixed remuneration: Provided to all employees in line with the position and professional profile, and paid on fixed installments and on a pre-paid basis.
b) Variable remuneration: A non-fixed compensation/incentive which is paid on an annual (short term) or multi-annual (medium to long term) basis. The amount of this incentive is determined by rank in the organization and based on performance evaluations.
c) Recognition programs: Recognition awards paid in recognition of added contribution toward the achievement of the company's objectives, improved quality, and dissemination of MAPFRE corporate culture, and innovation.
d) Social benefits: Products, services, or assistance offered by the company based on collective or individual arrangements with employees.
e) Allowance: Additional allowance based on designation/position (i.e., corporate vehicle, housing, etc.).

B.1.5 Additional information

The related party transactions as disclosed in the Annual Financial Statements are related to:

- Sale of insurance contracts and other services.
- Purchase of products and services.
- Investments.

B.2 Fit and proper requirements

MMSV has a Fit and Proper policy in place, which was approved on 20 October 2016**.** The Policy establishes the applicable relevant personnel [2] and outsourced personnel [3] requirements, as follows:

Relevant personnel, and outsourced personnel, where applicable, should have the appropriate qualifications, know-how, and expertise to ensure that MMSV is professionally managed and supervised.

The expertise and experience of relevant personnel will include academically-acquired knowledge and the experience necessary to carry out the respective individual responsibilities assigned.

MMSV's Board members and directors must have:

Collectively: the appropriate qualifications, experience, and knowledge in at least the following areas:

a) Insurance and financial markets
b) Strategies and business models
c) Governance systems
d) Financial and actuarial analyses
e) Regulatory framework

Individually: training and experience appropriate to the professional profile, specifically in the insurance and financial services area, with practical experience obtained from prior positions held during a sufficient period of time.

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

To this effect, relevant personnel (and outsourced personnel, where applicable) must meet the following requirements:

1. Personal, professional, and commercial ethics including:

a) A personal career reflecting the highest respect for company and other laws governing economic activity and business operations, as well as good sales, financial, and insurance practice.
b) No criminal records related to crimes against heritage, money laundering, against the social/economic order and against the tax authorities and social security, and fines related to offences related to infringement against the insurance industry, securities market or consumer protection.
c) Based on research, a lack of relevant and solid results in both the criminal and administrative areas on some of the matters (mentioned in the above section b).
d) They must not be prevented from exercising representation in public or management positions in insurance or financial entities.
e) They must not be disqualified based on local requirements and/or legislation

2. Capacity and compatibility:

a) No involvement in legal incompatibility, incapacity, or prohibition proceedings as regards prevailing legislation and internal regulations.

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[2] Relevant personnel: the Directors and Officers, Senior Executives (all those persons in senior management positions who directly report to their administrative body, executive committees or managing directors) and Key Function Holders, as well as all other persons who are required to meet the fit and proper requirements at every moment in accordance with applicable laws.

[3] Outsourced personnel: should any of the key functions be outsourced, parties employed by the services provider to this end.

b) Not be involved in an unavoidable situation of conflict of interest pursuant to the provisions of the prevailing legislation and internal regulations.
c) Not have significant shareholdings or provide services to competing companies or any other GROUP entities, or perform tasks related to the role of employee, executive, or administrator, unless prior authorization has been granted by the Board of Directors (in this case, of MAPFRE S.A.), and in competent government bodies of MMSV, in the case of subsidiaries.
d) Not involved in circumstances which may cause his or her membership on the Company's Board to place the Company's interests at risk.

<u>MMSV designation procedures</u>

Parties proposed for executing Relevant Personnel roles requiring notification to Supervisory Authorities or, where applicable, those of Outsourced Personnel, must provide prior, truthful, and complete declaration regarding their personal, family, professional, or business endeavours, especially indicating the following:

a) Individuals or entities which are considered related parties, based on prevailing legislation.
b) Any circumstances which might represent lack of compatibility with Company legislation and by laws, as well as internal regulations and codes of good governance, or any situations representing conflict of interest.
c) Any other professional obligations, in case they might detract from the necessary dedication to the post.
d) Criminal proceedings in which the party is accused or processed.
e) Any other matters or situations which may affect performance.

The above declaration must be presented in line with the internal established process for this purpose.

The above mentioned parties must ensure that their declarations are continually updated, and must communicate any relevant changes in their situations, and participate in periodic updates when required to do so by MMSV's governing body, including the revaluation of any competence and honourability requirements.

B.3 Risk-management systems, including Own Risk and Solvency Assessment

B.3.1 Governance framework

MMSV's Board of Directors establishes its Risk Management Policy which encompasses policies and strategies in line with those defined by the MAPFRE SA Board, and specifically approves its risk management and control mechanisms and supervises its internal information and control systems.

As mentioned previously, the Board of Directors delegates the management and supervision of the company's daily strategic and operational aspects to the Executive Management Committee, granting it the power to make any decisions considered necessary to discharge their duties.

In addition to MMSV's risk management structure, the Group's Corporate Risk Management Area handles all significant risk management aspects related to different legal entities, establishing directives to be implemented by the Governing bodies in each individual entity, subject to any necessary local adaptations.

MAPFRE, S.A.'s Board of Directors and Delegated Bodies delegate the functions and responsibilities to the MAPFRE's Governing Bodies, and its Steering and Executive Committees with regard to its Risk Management Systems.

The abovementioned regulations delegate to the Risks and Compliance Committee[4] the responsibility of supporting and advising the Board of Directors in defining and evaluating the risk management policy and in determining risk appetite and strategies, as well as the appropriate supervision of the application of internal/external good governance within the company.

MMSV's Board of Directors assigned responsibilities to the Audit Committee, which is also a Board-delegated body. This Committee oversees the efficiency of MMSV's internal control and risk management systems.

Other committees which provide risk management support:

a) The Security and Environment Committee ensures that the MMSV's objectives and business needs are achieved through correct security and environmental management practices.

b) The Security Committee monitors exposure to third-party insurance and reassurance counterparties.

The Company has adopted the "three lines of defence" model which encompasses:

a) As the first line of defence, operational managers own and manage risks.

b) The internal control system and the functions in the second line of defence contribute to the independent supervision of risk management activities within the framework of the policies and risk limits established by the Board of Directors.

c) Internal Audit is the third line of defence, and independently provides assurance on the appropriateness and efficacy of the Internal Control system as well as other elements of the Corporate Governance System.

Within this framework, the Company's structure is comprised of functions which, in their respective frameworks, perform a number of independent supervisory activities within the scope of their respective areas with regard to assumed risks.

[4] However, the Annual General Meeting, which took place on 10th March 2017, amended the bylaws of the Board of Directors to assign to the Audit Committee the compliance duties previously assigned to the Risk and Compliance Committee, so they would take the names of Audit and Compliance Committee and Risk Committee, respectively

The Functions defined by MMSV are:

- Actuarial Function: prepares mathematical, actuarial, statistical, and financial calculations enabling it to determine prices, technical provisions, underwriting risk modeling, the calculation of the capital requirements (in collaboration with the Risk Function) which contributes to achieving MMSV's strategic objectives and the desired solvency levels.

- Compliance Function: identifies, evaluates, monitors, and reports regarding the compliance risk exposure involved in carrying out Group activities.

- Internal Control Function: ensures that the established Internal Control System is effective and that adequate procedures are in place.

- Risk Function is responsible for:
  - Supervision and control of the effectiveness of the Risk Management System in accordance with directives established by the Group's Risk Management Area.
  - Risk identification and measurement.
  - Solvency calculations (together with the Actuarial function)
  - Monitoring and notification of risk exposure.

- Internal Audit Function provides an independent assessment of:
  - The sufficiency, adequacy, and efficiency of the Internal Control System.
  - The Risk Management System
  - The appropriateness and performance of the Governance Functions included in the Governance System outlined in Solvency II Directives.

General, risk management directives are established by the MAPFRE Group for the Company. The above Company Functions report to the corresponding Group Corporate Areas.

B.3.2 Risk management objectives, policies, and processes

The Risk Management System has the following main objectives:

- Promote a robust and efficient risk management system and culture.
- Ensure that all decision-making processes include the analysis of potential risks.
- Preserve MMSV's financial health and solvency, contributing to the MAPFRE GROUP'S positioning as a trustworthy global insurance company.

The Board of Directors has approved a number policies within the scope of Solvency II, including Risk Management policies. The purposes/objectives of such policies are, besides those already mentioned within the Risk Management System, the following:

- Lay down general guidelines, basic principles and general framework governing risk management, with the aim of ensuring a consistent application across the company.
- Establishing the responsibilities strategies, processes and procedures for the identification, measurement, monitoring, management and reporting of risks within its scope.
- Establishing the communication responsibilities to the Risk Function which is responsible of each risk.

The strategies, objectives, and reporting procedures for the key risks to which MMSV is exposed, reflected in the Risk Appetite approved by MMSV's Board of Directors, establishes the risk tolerance the company is prepared to assume to meet its business objectives with no material deviations, even in the context of adverse situations.

The Board of Directors periodically, and at least annually, assesses, the effectiveness and sufficiency of the above Company's limits.

Based on the risk management organizational model, the first line of defence must mitigate the risks to which the company is exposed. These actions are performed in accordance with the risk limits and policies established to that effect. The second line of defence functions are in charge of monitoring mitigation activities, reporting (as necessary) to the Risk Function which, in collaboration with the Actuarial function (for underwriting risks), measures the capital consumed by each risk-mitigation alternative.

The Board of Directors receives quarterly information on credit risk, as well as annual information on complying with limits set by the Risk Appetite.

In any case, the Board of Directors must immediately be informed of any risks which:

- Based on evaluations performed, surpass the established risk limits;
- May lead to losses equal to or higher than the established risk limits; or
- Might breach compliance with solvency requirements or the Company's continuity.

Finally, as part of the risk control processes, manuals and other descriptive documentation is prepared, to reflect the procedures, activities, and parties involved, including identification of the associated mitigating risks and controls.

Once the existence of a risk exceeding established limits has been reported, the Board of Directors may take the following actions:

- Authorize the acceptance of the risk exceeding the established limits.
- Cancel risk, in the most opportune and convenient way possible.
- Contract protection which keeps risk within established limits. In this case, the consequences arising from lack of compliance by the third party providing this protection as well as operational risks are taken into account.
- Obtain (if necessary) additional capital resources making it possible to assume a higher level of risk.

ORSA reviews monitor and notify material risks MMSV may face. Section B.3.3. of this report details the Own Risk and Solvency Assessment information.

Herewith follows a breakdown of risk identification, measurement, management, monitoring, and notification:

Type of Risk	Description	Measurement and management	Monitoring and notification
Underwriting Risk	Life: - Mortality - Expenses - Lapse - Catastrophic	Standard Formula	Quarterly
Market Risk	Covers the following risks: - Interest rate - Equity		

	- Real estate - Spread - Concentration - Currency	Standard Formula	Quarterly
Credit risk	Reflects any possible losses arising from unexpected infringement by counterparties and debtors during the following 12 months.	Standard Formula	Quarterly
Operational risk	Includes those which arise due to failed internal processes, people and systems, or from external events.	Standard Formula MMSV performs dynamic qualitative processes assessments (RiskM@p). Operational Risk events register and monitoring system	Quarterly Continuous
Liquidity risk	The risk the Company might not be able to realize its investments and other assets in order to meet its financial commitment deadlines.	Liquidity position Liquidity indicators	Continuous
Safety and environmental risks	Comprise Operational Risk, although this category only includes safety and environmental risk.	Identify, mitigate, and evaluate impact	Quarterly, included in Operational Risk event register and monitor
Compliance risk	The risk of losses due to legal/regulatory sanctions or reputational losses arising from the infringement of internal/external laws and regulations, as well as applicable	MMSV monitors, assesses, and informs the Governing bodies on exposure to risk arising from activities performed.	Continuous Annual

	administration regulations.	Monitoring and register of significant events.	
Strategic and Corporate Governance Risks	Includes the following risks: - Business ethics and corporate governance - Organizational structure - Alliances, mergers & acquisitions - Market competition	Through the MAPFRE Group's corporate policies aligned with the Institutional, Business, and Organizational Principles.	Continuous

All calculations related to the standard formula must be updated when which a change in the risk profile is detected. Having said that, MMSV risk reporting process entails a recalculation of the SCR based on the Standard formula on a quarterly basis.

Generally, as mentioned previously, the Board of Directors must be periodically informed of the risks to which MMSV is exposed.

B.3.3 Own risks and solvency assessment

Regarding the ORSA system, it must be underscored that MMSV's Board of Directors is the highest-level decision making body, and adopts the actions as set forth in its Risk Management Policy. In this regard, it approved an Own Risk and Solvency Assessment Policy outlining the main purpose and the initiative for the fulfilment of these objectives.

As indicated in the Policy, the process is an integral part of the Risk Management System, encompassing processes and procedures designed to identify, measure, monitor, manage, and report on any short- or long-term risks identified in the Company throughout the period reflected in the strategic plan, as well as the sufficiency of capital resources in the context of its own solvency needs assessment. Based on this goal, it considers all the significant and potential sources of risk facing the Company, and outlines steps and initiatives designed to manage and mitigate these risks.

The Risk Function coordinates the ORSA process which also involves the contributions from other functions. The Risk function submits a draft report for approval to the Board of Directors.

The ORSA report is prepared annually, unless a material event/s occurs which justifies the preparation of additional report/s during the year (extraordinary ORSA). The approval process for this is the same.

The ORSA process is coordinated with the strategic planning process so that the relationship between business strategy and overall solvency levels is ensured.

The ORSA process covers the following stages:

1. Identification of risks

The risk identification process is key for the ORSA to function appropriately, in order to prevent and avoid any potential present and future solvency issues.

The Risk Function assesses the Company's risk profile, considering the Risk Appetite and tolerance limits approved by the Board of Directors. The purpose of this analysis is to identify any (qualitative and quantitative) risks which might be faced during the period covered in the strategic plan, and which might significantly affect the Company's performance and/ or regulatory capital.

To identify risks, the Risk Function requests opinions from various functions on the risks related to their work.

2. Risk measurement

The ORSA reflects the own assessment of MMSV's overall solvency needs with regard to its risk profile, strategic plan, and tolerance limits set forth in its Risk Appetite.

The assessment also covers the following:

- Continuous compliance with capital and technical provision requirements
- The degree to which MMSV's risk profile diverges from the assumptions supporting Solvency Capital Requirements (SCR) where required by prevailing legislation.

To ensure quality data standards throughout the process, information used in the ORSA must be documented, reliable, and coherent in accordance with its purpose. The ORSA is prepared based on realistic assumptions, and aligned with the strategic plan.

Projections reflect MMSV's risks and the economic implications of its business plan so that the ORSA is based on an appropriate assessment of the future business profile. The Actuarial Function participates throughout the process, verifying that technical provision calculations and projections are correct.

Stress tests on material risks identified during the process based on MMSV's risk profile are also considered.

3. Report preparation

The Risk Function prepares the ORSA report.

4. Documentation

The Risk Function maintains the documentation relating to the process.

B.4 Internal control system

B.4.1 Internal control

In July of 2008, MAPFRE established a set of Internal Control policies which had been approved by the MAPFRE S.A. Board of Directors. These policies include the most relevant activities to be carried out so that the Internal Control System is maintained to optimal standards. These policies have been recently updated and approved by the MAPFRE S.A. Board of Directors on December 17, 2015. These policies have been subsequently reviewed and approved by MMSV's Board of Directors.

The implementation of the MAPFRE internal control system follows the COSO Internal Control Integrated Framework, which is an internationally recognized standard. This framework is composed of three interrelated dimensions, being:

1. The Company's Objectives (regarding operational effectiveness and efficiency, confidence in accounting and financial registers, and conformity with external/internal regulations),
2. Internal control system components (representing the organization's needs for achieving goals), and;
3. Organizational structure (operating units, legal entities, etc.).

The establishment of objectives is a precondition of the internal control system. This ensures that, goals are first defined by Management in order to able to identify and evaluate any potential events affecting their achievement.

The scope of the Internal Control Policy is applicable to all employees, regardless of their role within the company.

The following responsibilities and functions have been established so that the Internal Control System may efficiently meet established objectives:

- The Board of Directors is ultimately responsible for overseeing the Internal Control System, to ensure it functions correctly.

- Executive Management, with the supervision from the governing bodies, is responsible for designing the Internal Control System and ensuring that all components function adequately.

- In conformity with the policies and procedures established by the Governing bodies and management, the company's management and governance levels consider potential changes to the environment and the business model which might affect its ability to meet objectives, with the necessary internal controls established in this regard.

- The Company's internal Control System's correct functioning is the responsibility of all employees, as per the duties listed in the job description.

- Internal Audit supervises the suitability and effectiveness of the Internal Control System and evaluates the appropriateness, sufficiency, and effectiveness of the Internal Audit and Control System activities.

- The Group's Internal Control Area is responsible for ensuring a common internal control framework is in place, coordinating an ongoing evaluation on the MAPFRE Internal Control System's presence and functioning, and communicate with all relevant parties in conjunction with the subsidiaries' Internal Control Areas to oversee its correct implementation.

MMSV's Internal Control System incorporates tasks and actions which are integrated across the whole organization.

B.4.2 Compliance function

MAPFRE MSV Life's Compliance Function is based on the relevant regulatory requirements, as well as the principle of proportionality related to the Company's business size and the nature/complexity of the risks underwritten.

MMSV employs its own strategy for implementing and carrying out the Function, in accordance with the reference criteria developed by the Group's Compliance area. MMSV's Compliance Function Policy was approved by the Board of Directors on 20 October 2016 it outlines the responsibilities of the Function and the information processes and procedures necessary for the identification, measurement, monitoring, management, and notification of non-compliance risks.

The Compliance Function Policy was initially approved by the Company's Board of Directors on 10 December 2014 and was later amended to its current status and once again approved by the Board on 20 October 2016.

B.5 Internal audit function

MMSV's Internal Audit Function is outsourced to Mapfre Middlesea. The conditions under which the above outsourced service takes place are outlined in the following point, Section B.7

As discussed in the Risk Management System section, Internal Audit is the Risk Management Model's third line of defence, designed to provide an independent assurance of the appropriateness and effectiveness of the Internal Control System as well as other elements of the Governance System.

The structure of the MAPFRE Group's Internal Audit Department reports to the MAPFRE S.A. Board of Directors through its Audit Committee and its Chairman. The Internal Audit Director of the Audit Department reports to the General Manager of Internal Audit. This makes it possible for the company's internal audit function to maintain its independence and objectivity with regard to the activities overseen.

Internal Audit Charter, updated and approved by the Audit Committee on 24 February 2017, outlines the mission, functions, attributes, and obligations of MMSV's internal Audit Function, defining its structure, and outlining its framework of relationships between the Internal Audit Department and the CEO, management, and corporate areas, assurance functions, and external auditors. It also includes the rights and obligations of MMSV's internal auditors as well as their code of ethics. Its main objectives are to spread awareness regarding the Internal Audit Function throughout the Company.

The Internal Audit Policy, was also updated and approved by the Audit Committee on 24 February 2017. This is designed to formalize and communicate the following aspects: classification of audit engagements, recommendations and deadlines, treatment of audit reports, and any other general circumstances related to internal audit activities. Internal Audit activities are exclusively carried out by MMSV's Internal Audit service or unit**.**

Both documents, the Charter and the Policy, are reviewed at least on a yearly basis. Any changes made to the documentation must be approved by the Audit Committee and Board of Directors.

MMSV's internal auditors avail themselves of the Code of Ethics which is included in the Internal Audit Charter, which define their rules of conduct:

<u>Integrity and honourability</u>

Internal auditors:

- Perform their tasks honestly, diligently, and responsibly.
- Respect laws and communicate corresponding information as regards legislation and the profession.
- Abstain from knowingly participating in illegal activities or in others which might be to the detriment of the internal audit profession or the Company.
- Respect and contribute to the Company's ethical and legitimate objectives.

<u>Objectivity</u>

Internal auditors:

- Do not participate in activities or relationships which might skew their impartial judgment (or seem to). This participation includes any activities or relationships which might conflict with the Organization's interests.
- They must abstain from performing any audits which might lead to conflicts of interest.
- They must not accept anything which might impair their professional judgment.
- They will communicate all material facts made known to them, since failing to do so might distort the report on the activities submitted for review.

Confidentiality

Internal auditors:

- Will carefully use and protect information acquired through the course of their work.
- Will not use information for personal gain or in any way which is against the law or the Organization's legitimate goals and ethics.

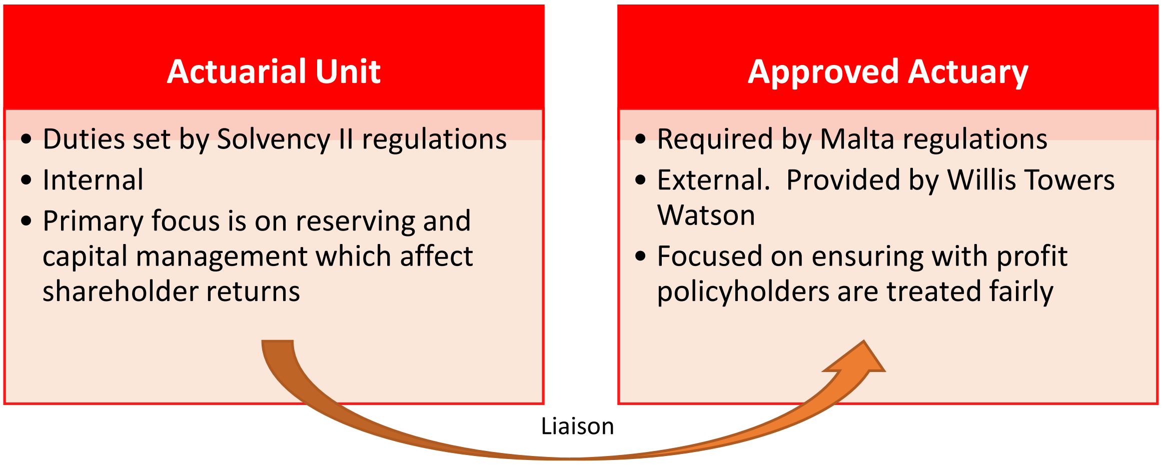
Competencies:

Internal auditors:

- Must collectively have the appropriate qualifications, experience, and knowledge on insurance and financial markets, business strategies and models, governance systems, financial and actuarial analysis, regulatory frameworks, IT information, risk management, and fraud.
- They should have soft skills and excellent communication skills enabling them to clearly and efficiently communicate different work aspects.
- Services requiring more specific knowledge may be outsourced to experts in the related fields.
- All internal audit services will be performed in accordance with Internal Audit professional practice regulations.

B.6 Actuarial function

Actuarial work at MMSV is divided between the Actuarial Unit and the Approved Actuary. The diagram below set out more detail about each and their respective remits.



The Actuarial Unit is responsible for preparing the mathematical, actuarial, statistical and financial calculations that allow the setting of premiums, calculation of reserves and modelling of risks on which the calculation of the capital requirements in the undertakings is based, and which help MMSV achieve its target results and desired solvency levels.

The responsibility for preparing the actuarial quantifications, as well as the technical documentation associated with these valuations, falls directly on the Actuarial Unit, and therefore the Chief Actuary is the ultimate person responsible for these actions.

The Chief Actuary in carrying out these duties must comply with all local and EU regulation, as well as any MAPFRE group guidelines.

The AAC (MAPFRE GROUP Corporate Actuarial Area) sets general principles and guidelines concerning statistical and actuarial practices within the MAPFRE GROUP. This helps to coordinate and achieve consistency within the Group's actuarial quantifications.

The AAC provides support to MMSV where requested.

B.7 Outsourcing

MMSV has outsourced its Internal Audit Function to MAPFRE Middlesea plc, a GROUP entity. This outsourced service took place within the terms set forth in the Function's and/or outsourcing policies approved by the Board of Directors of MMSV, as well as applicable regulatory policies. The above outsourcing commenced on 1st October 2012, and was duly communicated to the Malta Financial Services Authority.

The existing governance structure ensures that MMSV has sufficient control over critical functions and/or activities which have been outsourced, in line with terms established in the Solvency II Directive and local legislation.

MMSV's Outsourcing Policy was approved 20 October 2016 by the Board of Directors, and is in line with the Outsourcing Policy approved by the MAPFRE S.A. Board of Directors for the Group on June 24, 2015. The indicated outsourcing project was carried out in line with said Policy despite being pre-Solvency II.

The key principle upon which MAPFRE MSV Life's Outsourcing Policy is based establishes that MMSV will retain full responsibility for meeting all obligations arising from the functions or activities being outsourced, in much the same manner as if they were performed internally.

B.8 Any other information

MMSV's governance system reflects the requirements established in the Solvency II Directive on managing inherent risks. It employs its own strategy for implementing and carrying out the MAPFRE GROUP Risk Management Area Function, which involves defining the reference criteria and establishing/validating its organizational structure.

Its structure is based on the related regulatory requirements, as well as the principle of proportionality related to its business size and the nature/complexity/size of the risks assumed by MMSV.

C. Risk profile

MMSV calculates its Solvency Capital Requirements (SCR) in accordance with standard formula requirements. For the main risk categories, this total SCR is considered an appropriate measurement tool for determining MMSV's risk exposure, as it recognizes the capital charge corresponding to key risks (such as underwriting, market, and counterparty risk). As explained further on, MMSV's exposure to other risks not contemplated in the Standard Formula SCR (such as liquidity risk) is not considered significant, as MMSV's measures are effective for managing and mitigating them.

As indicated in regulations, the SCR corresponds to the economic capital required to limit the probability of insolvency to a 1 in 200 year event, or that MMSV is 99.5% confident to be able to meet its commitments to insurance beneficiaries and policyholders during the following year.

Table S.25.01.21 in Section E of this report reflects MMSV's risk profile. Market Risk represents the higher risk category due to the significant asset and liability portfolio managed by MMSV. In order of importance, this risk is followed by Life Underwriting Risk, Operational Risk which is a function of the premium generated comes next, followed by Credit Risk.

This Section details MMSV's exposure to different risks through a Solvency Capital Requirement (SCR) breakdown into risk sub-modules. This allows the sub-risks to which MMSV has the greatest exposure (and which therefore have larger capital requirements) to be seen. In addition, the mitigation techniques used by MMSV to minimize these risk is also discussed.

C.1 Underwriting risk

Underwriting risk is the risk of loss as a result of an insurance event not anticipated in the premiums for a policy.

Underwriting Risk is included under the SCR Standard Formula calculation. The SCR Underwriting Risk represents 37% of the total SCR (diversified).

The following is a table reflecting the SCR results for the main sub-categories for this risk. The exposure to the different risk sub-categories does not include the diversification obtained from risk category breakdowns, or from determining the total SCR.

MMSV manages underwriting risk through a number of measures:

- Establishing policy limits, and exclusions in underwriting risk:

  MMSV establishes authorization and exclusion limits for reducing undesired Underwriting Risk in its manual and/or automated policies. These limits and exclusions are set in line with the company's risk appetite.

- Setting a sufficient premium:

  Premium sufficiency is of special importance.

  Before going to market, standard premium rates are determined following a rigorous profit testing exercise. Rates are also reviewed externally by the Appointed Actuary. These standard rates cannot be changed although an underwriting loading may be added.

  The policy issuing process and supporting IT system have been designed to ensure this.

  It is also worth noting that MMSV's Underwriting Risk Policy includes consideration of:
  a) The type and characteristics of the insurance activity, such as insurance risk type which MMSV is prepared to accept.
  b) Reinsurance and other risk mitigation techniques within the process of designing a new insurance product and when calculating the premium.
  c) Internal underwriting limits for different products or classes of products.
  d) Maximum acceptable exposure to specific risk concentrations.

- Setting aside sufficient reserves or technical provisions:

  Claims handling and the sufficiency of technical provisions are basic principles of insurance company management. Technical provisions are calculated by MMSV's actuarial team. The establishment of technical provisions is regulated by specific policies.

- Using reinsurance as a risk-mitigating technique. To this end, MMSV uses Reinsurance Policies as well as other insurance risk techniques.

  At 31 December 2016, MMSV had ceded 0.09% of its technical provisions.

  To mitigate catastrophe risk to which MMSV is exposed, specific catastrophe excess of loss reinsurance coverage is purchased.

  Annually, MMSV's Actuarial Function reviews reinsurance contracts in force, and determines the adequacy of the coverage in place.

C.2 Market Risk

Market risk reflects the risk arising from the level or volatility of market prices of financial instruments that have an impact upon the value of the assets and liabilities of the undertaking.

MMSV's investment strategy is based on prudent investment policies which give rise to a liquid and well diversified portfolio. For example, the fixed income exposure has a high proportion of holdings with high credit ratings. These policies are embodied in the Investment Policy and in the Policies and Procedures Manual for the Financial Investment Management and Monitoring document.

The management of investment portfolios is broken down into two portfolios for non-profit and with profits business.

Non-Profits Portfolio Objectives

- Maintaining the sufficient cover for the required statutory solvency position at all times.
- Meeting guaranteed liabilities and commitments to policyholders as they fall due by ensuring there are sufficient levels of liquid assets available.

With Profits Portfolio Objectives

The objectives are the following in the order of priority:

- Maintaining the required statutory solvency position at all times.
- Meeting guaranteed liabilities and commitments to policyholders as they fall due by ensuring there are sufficient levels of liquid assets available.
- Maximising the long–term investment returns for the with profits policyholders within an acceptable level of solvency risk.
- Maximising shareholders' value within an acceptable level of risk.

The following is a breakdown of MMSV's investments by asset category:

Investments ***(After performing the look-through of the Investment Funds)***	**Investments at 12/31/2016**	**% Investments**
Real estate investments	**87,993**	**5.2%**
Financial investments	**1,397,602**	**83.1%**
Fixed-income securities	819,900	48.7%
Equity securities	561,952	33.4%
Other	15,750	0.01%
Deposits	**197,567**	**11.7%**
Hedging derivatives	**(320)**	**-0.00%**
Total	**1,682,842**	**100.0%**

Figures in thousands of euros

At 31 December 2016 the percentage of fixed-income investments classified as investment grade was equal to 97.3%. Of these, 48.3% corresponds to the Public Sovereign Debt of Malta.

Market Risk is included in the SCR Standard Formula calculation. The SCR Market Risk represents 86% of the total SCR (diversified).

The Investment Policy and the Policies and Procedure Manual also establish generic and specific limits for holdings in assets to mitigate market risk exposure and in maintaining the desired level of diversification.

Further, Market Risk is managed in accordance with the following:

- Modified duration management. This is one of the tools employed for interest rate risk management. The Investment policy and the ALM policy, inter alia, set upper and lower limits for fixed interest investment. This should ensure that a prudent approach to interest rate risk is taken.

- Spread and concentration risks are mitigated through restrictions prohibiting investment in lower credit rating. As a result there is a high proportion of fixed income securities with credit ratings classified as investment grade. The policy also has limits on investments in specific issuers which creates issuer diversification in the portfolio.

  Equity investments are subject to a maximum allocation limit within the investment portfolio. Issuer limits also apply.

- Currency risk is assumed mainly as a result of maintaining a global securities portfolio. Any non-euro currency exposure is primarily in relation to the mainstream currencies. Maximum limits are in place to ensure that the portfolio is not over exposed to any single currency or having, on an aggregate basis, a non-euro exposure in excess of the established risk appetite limit.

- In the case of real estate risk, the portfolio of properties at market value consists mostly of commercial office space.

C.3 Credit risk

Credit Risk is the possibility of losses due to the unexpected default or deterioration in the credit standing of counterparties and debtors over the next 12 months.

MMSV's Credit Risk Management policies distinguish between three types of exposures:

a. Exposure to retail banks, savings banks, credit cooperatives, financial entities, and other similar entities. Their exposure to Credit Risk is measured by their economic value.
b. Fixed income securities, derivative instruments, and other financial investments not considered fixed income. The instruments exposure to Credit Risk is measured at its economic value, once possible mitigating factors have been deducted.
c. Exposure to insurance and reinsurance entities, captive companies, and similar. Their exposure is determined by adding the accounting value of all asset balances for which MMSV is creditor, and notably, claims pending settlement, and cash or bank balances, deducting the figure obtained (where applicable), the accounting value of deposits pledged in favour of MMSV, and possible mitigating credit factors. This also considers the maximum loss arising from material off-balance sheet exposures.

Credit Risk is included under the SCR Standard Formula calculation.

- Within spread and concentration risk under Market Risk.
- Within Counterparty Risk or counterparty noncompliance. This module distinguishes between two types of exposure:
    - Type 1 exposure: which includes, among others reinsurance contracts, swaps, bank balances, in which entities generally have credit ratings.
    - Type 2 exposure: which includes among others accounts receivable from intermediaries, and policyholder debts.

The Counterparty Risk SCR represents 5.7% of the total SCR (diversified).

The Credit Risk Management Policy set limits in line with the counterparty's or investment instrument's risk profile, as well as exposure limits related to the counterparty's rating. A risk exposure monitoring and notification system is also in place.

MMSV's Credit Risk investment policies are based on the application of criteria of prudence based on issuer credit worthiness. Fixed-income investments are subject to limits depending on the issuer's sector and rating. Consideration is also given to the geographic dimension of the liabilities.

MMSV's strategy for reinsurance counterparties is to cede the business to reinsurers with proven financial capacity. Generally, it reinsures with entities with a financial solvency rating not under BBB, which is equivalent to a credit quality step of 3 on the Standard Formula classification scale.

C.4 Liquidity risk

This is the risk that MMSV might not be able to realize its investments and other assets in order to meet its financial commitments.

MMSV has a Liquidity Risk Management Policy and an Asset and Liability Management Policy that represent the framework of reference for handling Liquidity Risk. MMSV's policy is based on maintaining sufficient cash balances to cover any situations arising as a result of its commitments to policyholders and creditors. At 31 December 2016 the balance of cash and cash equivalents amounted to €61.5 million, which is equivalent to 3.53% of total financial investments and cash balances (for accounting purposes). With regard to Life and Savings policies, the investment policy applied involves the matching the maturities of the investments with the commitments set out in in-force insurance contracts, and hence reduce long-term Liquidity Risk. Additionally, the majority of fixed-income investments have high credit ratings and are traded on organized financial markets, which ensures that these positions can be sold more easily should liquidity tensions arise.

The Liquidity Risk Management Policy considers the availability of high quality liquid assets, available credit facilities, and forecasted cash inflows sufficient to cover expected cash outflows.

C.5 Operational risk

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

Operational Risk is included in the SCR Standard Formula calculation. The Operational Risk model reflects those risks not previously included in the modules referred to in the earlier sections of this report. It includes legal risks but excludes reputational risk and the risk associated with strategic decisions

The SCR Operational Risk represents 19.8% of the total SCR (diversified).

The qualitative identification and evaluation of Operational Risks are managed via Riskm@p, which is an internally-designed MAPFRE IT application tool that creates Risk Maps which allow for an analyses based on impact and probability of occurrence of different risks.

Riskm@p is also the corporate tool used for handling control activities (process manuals, inventories of risk-associated controls, and the evaluation of their effectiveness), as well as corrective measures established to mitigate/reduce risks and/or the control environment.

The Operational Risk management model is based on a dynamic analysis of the company's processes, so that each area/department manager identifies and evaluates the potential risks affecting business processes behind the scenes. The process covered are product development, issuing, claims/benefits, administration, sales activities, human resources, commissions, reinsurance, technical provisions, investments, technology systems, and customer support.

C.6 Other material risks

i. Legal risk

Legal risk is defined as an event consistent with regulatory, jurisprudential or administrative changes that may adversely affect MMSV.

Over the last years, the regulatory framework to which the insurance sector is subject is being extended with new regulations both at international and local level. Additionally, it must be borne in mind that MMSV operates in a complex environment under an increasing regulatory pressure, not only in the insurance side but also in the technological, corporate governance or criminal corporate responsibility fields, among others.

ii. Compliance risk

Compliance risk is defined as the risk of incurring in losses as a consequence of legal and/oror regulatory sanctions or loss to reputation which MMSV may suffer as a result of not complying with laws and all other regulations, internal and external rules and standards or administrative requirements which should be applied to its activities.

iii. Reputational risk

Reputational risk is defined as the possibility of a decrease in the value of MMSV due to its negative perception by consumers, shareholders, distributors, employees etc.

Reputational risk is created by behaviour or work in the organization that is below expectations or negative experiences of key groups MMSV deals with directly, but also of other groups that MMSV can affect while carrying out its activity.

iv. Cyber risk

Cyber-risks shall be understood as those risks that refer to security breaches in the use of Information and Communication Technologies (ICT), cyberspace and the transfer, processing and storage of electronic data. The manifestation of these cyber risks can compromise:

- The confidentiality, integrity, and availability of the information handled by MMSV, as well as that of the systems which store, process, and/or transmit it.
- The continuity of MMSV’s business activity and the services it provides to its clients.
- In extreme cases, the fiscal security, both of the facilities and of the people.

v. Business continuity

Business Continuity (BC) is defined as the capability of the organization to continue with the delivery of products or services at acceptable predefined levels following a disruptive incident.

Through the years, MMSV has been taking a number of initiatives to improve its resilience should such incidents occur. These efforts have now been further consolidated under the remit of the Chief Security Officer.

C.7 Any other information

C.7.1 The most significant concentrations of risk

MMSV's insurance risk is in one geographical area, namely Malta.

For contracts with fixed and guaranteed benefits and fixed future premiums, there are no mitigating terms and conditions that reduce the insurance risk accepted. This risk is largely a mortality risk that is controlled through a rigorous up front underwriting process. For contracts that share in profits the participating nature of the contracts results in a portion of the risk being shared with policyholders. These contracts do not carry significant amounts of insurance risk.

MMSV manages these risks through its underwriting strategy and reinsurance arrangements. The two are linked as the underwriting manual used to implement the underwriting assessment has been developed in conjunction with the company's reinsurers.

The underwriting strategy is intended to ensure that the mortality risks underwritten are well diversified in terms of type of risk and level of insured benefits. Medical selection is also included in the MMSV's underwriting procedures with premiums varied to reflect the health condition and life expectancy of the applicants.

MMSV has reinsurance protection in place to cover protection death claims. To this end, the company has entered into a quota share reinsurance treaty that covers all the protection business; and a catastrophe excess of loss arrangement. The quota share treaty also covers both standard and non-standard / facultative lives. This treaty sets out quotas that define the proportion retained by MMSV and the proportion ceded to the reinsurer depending on the sum assured of the policy. As a result, these quotas will vary from policy to policy.

MMSV has a policy to place reinsurance only with listed multinational reinsurance companies whose rating is not less than BBB.

For Market Risk, MMSV applies the limits established in the Investment Policy and in the Policies and Procedures Manual for the Financial Investment Management and Monitoring document, which ensures sufficient diversification across asset classes, issuers, countries and industry sectors.

Given that MMSV's insurance liabilities are located in Malta, the company invests a good portion of its investments in local assets. As at the end of the year, MMSV's investment in local government debt was equal to 22.81% of total investment.

Furthermore, the high liquidity in the portfolio and the limited number available of core domestic credit institutions with investment grade credit rating, results in a concentration exposure to Bank of Valletta. MMSV has in place internal control structures to assess and monitor credit exposures and risk thresholds.

There are no future significant concentrations of risk expected during the activity planning period apart from the aforementioned.

C.7.2 Sensitivity analysis of significant risks

MMSV carries out stress and scenario tests to better understand its resilience to financial market conditions and its ability to meet its strategic objectives.

In particular, MMSV has analysed the impact of a prolonged low interest rate environment and an extreme situation triggered by a rapid increase of all sovereign bond yields of the EU countries complemented by a drop in the risk free rate. Shocks to sovereign bonds are reflected in other financial markets by increase in the corporate bond yield and the process of other asset classes.

In both scenarios, the results showed that MMSV can withstand and would maintain a satisfactory solvency ratio after the stress.

C.7.3 Other matters

Off-balance-sheet positions

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

Transfer of risk to special-purpose entities

MMSV does not transfer risk to special-purpose entities.

D. Valuation for solvency purposes

D.1 Assets

The tables included in this document show accounting and solvency results. The "Accounting Value" column reflects the valuation of the assets and liabilities in accordance with the International Financial Reporting Standards (IFRS). These standards were the basis for preparing MMSV's financial statements at 31 December 2016, and were approved by the Board of Directors during their meeting on 7 March 2017. The "Solvency II Value" column reflects the assets and liabilities valued in accordance with the Solvency regulations included in Directive 2009/138/EU and the remaining legislation enacting it. It requires that most assets and liabilities are measured at market value.

The following table compares the asset valuations that arise when using Solvency II rather than accounting criteria at 31 December 2016:

Assets	Solvency II Value	Accounting Value
Goodwill		0
Deferred acquisition costs		559
Intangible assets	0	63,644
Deferred tax assets	0	0
Pension benefit surplus	0	0
Property, plant & equipment held for own use	5,734	5,734
Investments (other than assets held for index-linked and unit-linked contracts)	1,683,756	1,675,087
Property (other than for own use)	87,993	87,993
Holdings in related undertakings, including participations	34,645	34,370
Equities	204,169	204,169
Equities – listed	204,136	204,136
Equities – unlisted	33	33
Bonds	794,619	787,067
Government Bonds	600,072	594,483
Corporate Bonds	191,087	189,128
Structured notes	0	0
Collateralised securities	3,461	3,456
Collective Investments Undertakings	364,169	364,168
Derivatives	593	593
Deposits other than cash equivalents	197,567	196,727
Other investments	0	0
Assets held for index-linked and unit-linked contracts	97,109	97,109
Loans and mortgages	0	9,243
Loans on policies	0	9,243
Loans and mortgages to individuals	0	0
Other loans and mortgages	0	0
Reinsurance recoverables from:	(16,229)	1,589

Non-life and health similar to non-life	0	0
Non-life, excluding health	0	0
Health similar to non-life	0	0
Life and health similar to life, excluding health and index-linked and unit-linked	(16,229)	1,589
Health similar to life	0	0
Life excluding health and index-linked and unit-linked	(16,229)	1,589
Life index-linked and unit-linked	0	0
Deposits to cedants	0	0
Insurance and intermediaries receivables	145	145
Reinsurance receivables	502	0
Receivables (trade, not insurance)	3,434	3,434
Own shares (held directly)	0	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	0	0
Cash and cash equivalents	61,530	61,527
Any other assets, not elsewhere shown	4,141	12,537
TOTAL ASSETS	**1,840,122**	**1,930,608**

Figures in thousands of euros

A qualitative explanation of the main differences is set out in the sections below:

D.1.1 Deferred acquisition costs

Assets	Solvency II Value	Accounting Value
Deferred acquisition costs		559

Figures in thousands of euros

Under IFRS acquisition costs are quantified separately and are deferred/amortised over the life of the contract. For solvency reserving, expenses are not deferred but taken into account fully in the technical provisions.

D.1.2 Intangible assets

Assets	Solvency II Value	Accounting Value
Intangible assets	0	63,644

Figures in thousands of euros

For accounting purposes the value of intangible assets includes the present value of in force business and capitalised software costs. The value of in force business represents the discounted value of projected future transfers to shareholders from in force contracts at year end, net of tax. Computer software is capitalised on the basis of costs incurred, amortised over the useful life. However for solvency reserving these are not taken into account and no value is assigned to intangible assets.

D.1.3 Property, plant & equipment held for own use

Assets	Solvency II Value	Accounting Value
Property, plant & equipment held for own use	5,734	5,734

Figures in thousands of euros

a) Valuation for Solvency II purposes

In accordance with Solvency II criteria, property, plant & equipment held for own use must be measured at fair value. Market value used to determine the fair value of PPE is that which corresponds to appraisals made by an expert independent certified architect.

b) Valuation differences between Solvency II and IFRS criteria

The same valuation criteria is used so there are no differences between the Solvency II basis and the IFRS basis.

D.1.4 Investments (other than assets held for index-linked and unit-linked contracts)

All investments are measured at fair value for Solvency II. The determination of fair value is performed by following the same procedures and methodology used for determining fair value based on IFRS 13.

IFRS 13 defines fair value as the price received in exchange for an asset or paid for transferring a liability during an orderly transaction between market participants at the valuation date.

The following investments are included under this heading:

D.1.4.1 *Property (other than for own use)*

Assets	Solvency II Value	Accounting Value
Property (other than for own use)	87,993	87,993

Figures in thousands of euros

This category includes items which are not considered for own use, and are invested to earning income, capital gains, or both. Investment property is accounted for at fair value for accounting purposes.

D.1.4.2 *Holdings in related undertakings, including participations*

Assets	Solvency II Value	Accounting Value
Holdings in related undertakings, including participations	34,645	34,370

Figures in thousands of euros

Holdings in related undertakings 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.

For solvency purposes, wherever possible, investments in related entities are measured at their listed prices on active markets. However, due to the absence of quoted prices on active markets, some investments were valued by reference to net assets (% shareholding multiplied by NAV).

Under IFRS, the investment in subsidiary is measured at cost, whilst the investments in associates are measured at fair value through profit or loss.

As a result, there is a slight difference of €275 thousand in the valuation of these holdings in the two balance sheets. This is related to the valuation of Growth Investments Limited.

D.1.4.3 *Equities, bonds, collective investment entities, derivatives and deposits other than cash equivalents.*

All equities, bonds, collective investment schemes, derivatives and deposits other than cash equivalents are investments recognized at fair value on the financial statements. As a result there are no valuation differences with regard to Solvency II. The only difference relates to the classification of accrued interest on bonds which is included under Other Assets in the IFRS balance sheet.

D.1.5 Loans and mortgages

Loan on Policies

Assets	Solvency II Value	Accounting Value
Loans on Policies	0	9,243

Figures in thousands of euros

For Solvency II purposes these are included with the technical provisions calculation. To be more accurate, the BEL is determined after allowing for expected policy values to repay the loan value

Under IFRS, loans on policies are reported separately and not as part of technical provisions. These are carried at amortised cost using the effective interest method.

D.1.6 Reinsurance recoverable

Assets	Solvency II Value	Accounting Value
Reinsurance recoverable	(16,229)	1,589

Figures in thousands of euros

For solvency purposes, the calculation of the reinsurance recoverable is in line with that of the technical provisions. This, means that these amounts are recognized at their best estimate levels, take into account the difference in timing between collections and direct payments, and consider expected losses.

Under IFRS, technical reserves for cessions to reinsurers are calculated similarly but use the IFRS basis which is prudent and do not allow for default.

D.1.7 Insurance and intermediaries receivables

Assets	Solvency II Value	Accounting Value
Insurance and intermediaries receivables	145	145

Figures in thousands of euros

There are no difference in the valuation basis between Solvency II and IFRS in relation to this asset.

D.1.8 Reinsurance receivables

Assets	Solvency II Value	Accounting Value
Reinsurance receivables	502	0

Figures in thousands of euros

Under IFRS, the reinsurance receivables which represent the reinsurance share of claims outstanding are included with the Technical Provisions. For solvency purposes, the value of reinsurance receivables are shown separately in the balance sheet.

D.1.9 Receivables (trade, not insurance)

Assets	Solvency II Value	Accounting Value
Receivables (trade, not insurance)	3,434	3,434

Figures in thousands of euros

There are no difference in the valuation basis between Solvency II and IFRS in relation to this asset.

D.1.10 Cash and cash equivalents

Assets	Solvency II Value	Accounting Value
Cash and cash equivalents	61,530	61,527

Figures in thousands of euros

Cash and cash equivalents include cash in hand, deposits in current accounts, deposits held on call with banks, and other short-term highly liquid investments which are easily convertible to certain cash amounts.

IFRS and Solvency II valuations are the same with the main difference being the treatment of accrued interest. Under IFRS, accrued interest is included with “any other assets”.

D.1.11 Any other assets, not elsewhere shown

Assets	Solvency II Value	Accounting Value
Any other assets, not elsewhere shown	4,141	12,537

Figures in thousands of euros

IFRS and Solvency II valuations criteria are the same with the main difference being due to the accrued interest earned being classified under this heading for IFRS reporting.

D.2 Technical provisions

The following table compares the technical provision valuations that arise when using Solvency II rather than accounting criteria at 31 December 2016:

Technical provisions	Solvency II Value	Accounting Value
Technical provisions - non-life	0	0
Technical provisions - non-life (excluding health)	0	0
Technical provisions calculated as a whole	0	
Best Estimate	0	
Risk margin	0	
Technical provisions - health (similar to non-life)	0	
Technical provisions calculated as a whole	0	
Best Estimate	0	
Risk margin	0	
Technical provisions - Life (excluding index-linked and unit-linked)	1,508,581	1,637,895
Technical provisions - health (similar to life)	0	0
Technical provisions calculated as a whole	0	
Best Estimate	0	
Risk margin	0	
Technical provisions - Life (excluding health and index-linked and unit-linked)	1,508,581	1,637,895
Technical provisions calculated as a whole	0	
Best Estimate	1,493,218	
Risk margin	15,363	
Technical provisions - index-linked and unit-linked	97,109	97,109
Technical provisions calculated as a whole	97,109	
Best Estimate	0	
Risk margin	0	
Other technical provisions		
TOTAL TECHNICAL PROVISIONS	**1,605,690**	**1,735,004**

Figures in thousands of euros

A qualitative explanation of the main differences is set out below:

MMSV writes individual life insurance and all the technical provisions are in respect of life business.

MMSV writes with profits, term assurance / protection and unit linked business.

With profits and term assurance business is valued as the sum of the best estimate liability and a risk margin. The table below shows how the solvency and accounting assessments differ:

Technical provisions	Solvency II Value	Accounting Value
Technical provisions – with profits	1,537,308	1,607,310
Technical provisions calculated as a whole		
Best Estimate	1,532,795	
Risk margin	4,513	
Technical provisions – term assurance	(28,717)	30,585
Technical provisions calculated as a whole		
Best Estimate	(39,578)	
Risk margin	10,850	

Figures in thousands of euros

The differences arise largely because the best estimate basis used for solvency is more realistic than the accounting basis which is set to add a margin of prudence on top of the best estimate. On the term assurance balance there is also a difference as the claim outstanding balance of €15.3 million is included in the accounting value.

For unit linked business the technical provisions are valued as a whole to be equal to the value of the unit linked assets.

In the case of MMSV 94% technical provisions are obtained as the sum of the best estimate and the risk margin, and 6% are calculated as a whole

D.2.1 Best estimate and risk margin

Best estimate

The calculation of MMSV's best estimate under Solvency II considers all the cash inflows and outflows necessary to pay off the business' obligations at the valuation date[5]. The assessment takes into account the time value of money[6] by applying the appropriate term structure of risk-free interest rates[7].

Under IFRS, a single valuation interest rate (rather than a curve) is used. This rate is set a prudent margin above the risk free rates taking into account the running yields on the investments. The interest rate used for calculating the mathematical accounting provision is established by the Board.

Cash flows used to determine the best estimate for MMSV's business are calculated separately, on a policy-by-policy basis.

The best estimate may be negative for certain contracts where the expected future outflows are less than expected future inflows. This could for example happen on protection business where future premiums are expected to exceed future claims. In this case, MMSV does not value these contracts at zero, but rather, as an asset that decreases the value of its technical provisions.

The determination of the cash flows considered when calculating MMSV's best estimate is generally based on the experience of the portfolio as well as the operating and economic assumptions outlined in below.

Under IFRS, however, to calculate technical provisions, a prudent bases is used.

[5] The above includes contracts in effect as well as tacit renewals.
[6] Current value expected of future cash flows.
[7] This is published by EOIPA on a periodic basis.

Options and guarantees

The best estimate of the value of options and guarantees is also taken into account.

MMSV has no financial options. MMSV's financial guarantees relate to maturity and surrender – all with profits business have a maturity guarantee and a small block of generally older single premium business has a surrender guarantee. To be clear though, the value of these guarantees relates to the past. The payout on withdrawal is not defined as guaranteed amount or future return.

Contract limits

MMSV does not use a best estimate liability and risk margin approach for unit linked business. Technical provisions for these contracts are set as a whole. For MMSV it is the fact that unit linked charges are reviewable that limits the extent to which future cash flows can be taken into account and therefore requires a different assessment. Under IFRS, and in the accounts, there are no similar constraints.

Risk margin

The Risk Margin is conceptually equivalent to the cost of supplying eligible own funds and the Solvency Capital Requirement (SCR) necessary to support insurance obligations during their lifespan.

MMSV calculates the risk margin using the cost of capital procedure set out in the regulations.

For with profits business a risk driver approach is used whereby the SCR is projected in line with the run-off of the business.

For term assurance business a different method is used. The risk margin is calculated on the basis of a projected SCR that is calculated using the results of the projected best estimate cash flows.

Actuarial methods and assumptions used when calculating technical provisions

MMSV calculates the best estimate liability shown above on a policy-by-policy basis. It does not use any simplifications. Instead, a projection is made of all the related cash flows arising for each policy. Based on this projection an assessment is made of the expected fair value of the policy. The total best estimate liability amount is then the sum of the fair value for each individual policy.

The best estimate liability plus the total risk margin required by the regulations, result in total technical provisions.

The risk margin is determined in aggregate rather than at individual policy level in line with the discussion above.

MMSV Life considers that the methodologies used are appropriate, applicable, and relevant.

The projection requires the following assumptions:

- Economic assumptions including:
  - Interest rate structure broken down by currencies.
  - Exchange rates.
  - Other financial variables such as volatilities.

- Non-economic assumptions including:
  - Realistic maintenance expenses which are incurred throughout the duration of the contracts
  - Customer losses and policy surrenders.
  - Mortality and longevity.
  - Incapacity and other risks.

  These assumptions are based on MMSV's own experience.

It is also worth noting that under IFRS, management actions and policyholder behaviour are not considered when calculating technical provisions. However, under Solvency II, MMSV has established a plan to describe future management decisions with regard to with profit business and these are taken into account when evaluating the best estimate liability.

Degree of uncertainty regarding to the amount of technical provisions

The value of the technical provisions is directly linked to estimates and projections for future cash flows that are subject to uncertainly. The main factors affecting the results are:

- The likelihood that a claim will arise.
- The timing of a claim.
- The risk-free interest rate.

The first two factors are generally estimated based on MMSV's own claims experience.

D.2.2 Measures designed for managing long-term guarantees

MMSV does not make use of any long-term guarantees measures.

D.2.2.a Reconciliation adjustments

MMSV does not make use of any reconciliation adjustments.

D.2.2.b Volatility adjustments

MMSV does not make use of any volatility adjustments.

D.2.2.c Transitory term structure of risk-free interest rate

MMSV does not make use of the transitory term structure of risk-free interest rate.

D.2.2.d Transitional deduction

MMSV does not make use of the transitional deduction.

D.2.3 Reinsurance recoveries and special purpose entities

MMSV does not make use of any special purpose entities.

D.2.4 Significant changes in assumptions used when calculating technical provisions

MMSV did not make any further changes with regard to the assumptions used to calculate technical provisions as a result of the implementation of the Solvency II rules.

D.3 Other liabilities

The following table compares the other liability valuations that arise when using Solvency II rather than accounting criteria at 31 December 2016:

Other liabilities	Solvency II Value	Accounting Value
Contingent liabilities	0	0
Provisions other than technical provisions	0	0
Pension benefit obligations	0	0
Deposits from reinsurers	0	0
Deferred tax liabilities	25,639	25,384
Derivatives	913	913
Debts owed to credit institutions	0	0
Financial liabilities other than debts owed to credit institutions	0	0
Insurance & intermediaries payables	18,354	3,241
Reinsurance payables	2,540	2,540
Payables (trade, not insurance)	2,008	2,008
Subordinated liabilities	0	0
Subordinated liabilities not in Basic Own Funds	0	0
Subordinated liabilities in Basic Own Funds	0	0
Any other liabilities, not elsewhere shown	1,500	1,500

Figures in thousands of euros

A qualitative explanation of the main differences is set out in the sections below:

D.3.1 Deferred tax liabilities

Other liabilities	Solvency II Value	Accounting Value
Deferred tax liabilities	25,639	25,384

Figures in thousands of euros

Under the accounting standards deferred taxes are recognized on all temporary differences at the consolidated balance sheet date between the tax bases of assets and liabilities and their carrying amounts. MMSV recognized deferred tax liabilities on its IFRS Balance sheet at a carrying amount of €25.4 million.

MMSV recognized deferred tax liabilities on the Solvency II balance sheet at €25.6 million. This amount was determined by assessing the future profits on insurance business that would arise on a best estimate basis. It is therefore closer to an economic assessment of the tax obligation that will arise.

The differences between the Solvency II and accounting values arises due to the different valuation criteria in the two assessments.

D.3.2 Insurance & intermediaries payables

Other liabilities	Solvency II Value	Accounting Value
Insurance & intermediaries payables	18,354	3,241

Figures in thousands of euros

The “Accounting value” does not include:

- Outstanding claims payable of €15.3 million (under IFRS this is included under technical provisions)

D.3.3 Additional information

MMSV does not have any other relevant additional information to disclose.

D.4 Appendices

The following sections detail the quantitative information required:

A) Assets

Template detailing quantitative asset disclosures at 31 December 2016:

Annex I
S.02.01.02
Balance sheet

Assets		**Solvency II value**
		C0010
Intangible assets	**R0030**	
Deferred tax assets	**R0040**	
Pension benefit surplus	**R0050**	
Property, plant & equipment held for own use	**R0060**	5,734
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	1,683,756
Property (other than for own use)	**R0080**	87,993
Holdings in related undertakings, including participations	**R0090**	34,645
Equities	**R0100**	204,169
Equities – listed	**R0110**	204,136
Equities – unlisted	**R0120**	33
Bonds	**R0130**	794,619
Government Bonds	**R0140**	600,072
Corporate Bonds	**R0150**	191,087
Structured notes	**R0160**	
Collateralised securities	**R0170**	3,461
Collective Investments Undertakings	**R0180**	364,169
Derivatives	**R0190**	593
Deposits other than cash equivalents	**R0200**	197,567
Other investments	**R0210**	
Assets held for index-linked and unit-linked contracts	**R0220**	97,109
Loans and mortgages	**R0230**	
Loans on policies	**R0240**	
Loans and mortgages to individuals	**R0250**	
Other loans and mortgages	**R0260**	
Reinsurance recoverables from:	**R0270**	(16,229)
Non-life and health similar to non-life	**R0280**	
Non-life excluding health	**R0290**	
Health similar to non-life	**R0300**	
Life and health similar to life, excluding health and index-linked and unit-linked	**R0310**	(16,229)
Health similar to life	**R0320**	
Life excluding health and index-linked and unit-linked	**R0330**	(16,229)
Life index-linked and unit-linked	**R0340**	
Deposits to cedants	**R0350**	
Insurance and intermediaries receivables	**R0360**	144
Reinsurance receivables	**R0370**	502
Receivables (trade, not insurance)	**R0380**	3,434
Own shares (held directly)	**R0390**	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	**R0400**	
Cash and cash equivalents	**R0410**	61,530
Any other assets, not elsewhere shown	**R0420**	4,141
Total assets	**R0500**	1,840,121

B) Technical provisions

B.1 Template detailing quantitative asset disclosures at 31 December 2016:

S.02.01.02

Balance sheet

		Solvency II value
Liabilities		**C0010**
Technical provisions – non-life	**R0510**	
Technical provisions – non-life (excluding health)	**R0520**	
TP calculated as a whole	**R0530**	
Best Estimate	**R0540**	
Risk margin	**R0550**	
Technical provisions - health (similar to non-life)	**R0560**	
TP calculated as a whole	**R0570**	
Best Estimate	**R0580**	
Risk margin	**R0590**	
Technical provisions - life (excluding index-linked and unit-linked)	**R0600**	1,508,581
Technical provisions - health (similar to life)	**R0610**	
TP calculated as a whole	**R0620**	
Best Estimate	**R0630**	
Risk margin	**R0640**	
Technical provisions – life (excluding health and index-linked and unit-linked)	**R0650**	1,508,581
TP calculated as a whole	**R0660**	
Best Estimate	**R0670**	1,493,218
Risk margin	**R0680**	15,363
Technical provisions – index-linked and unit-linked	**R0690**	97,109
TP calculated as a whole	**R0700**	97,109
Best Estimate	**R0710**	
Risk margin	**R0720**	

B.2 Template detailing life technical provisions by business lines at 31 December 2016.

S.12.01.02
Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150
Technical provisions calculated as a whole	**R0010**		97,109								97,109
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	**R0020**										
Technical provisions											

calculated as a sum of BE and RM												
Best Estimate												
Gross Best Estimate	**R0030**	1,532,795					-39,578					1,493,218
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0080**						-16,229					-16,229
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	**R0090**	1,532,795					-23,349					1,509,447
Risk Margin	**R0100**	4,513				10,850						15,363
Amount of the transitional on Technical Provisions												
Technical Provisions calculated as a whole	**R0110**											
Best estimate	**R0120**											
Risk margin	**R0130**											
Technical provisions - total	**R0200**	1,537,308	97,109			-28,727						1,605,690

C) Other liabilities

Form detailing quantitative liabilities disclosures at December 31, 2016:

S.02.01.02
Balance sheet

		Solvency II value
Contingent liabilities	**R0740**	
Provisions other than technical provisions	**R0750**	
Pension benefit obligations	**R0760**	
Deposits from reinsurers	**R0770**	
Deferred tax liabilities	**R0780**	25,639
Derivatives	**R0790**	913
Debts owed to credit institutions	**R0800**	
Financial liabilities other than debts owed to credit institutions	**R0810**	
Insurance & intermediaries payables	**R0820**	18,354
Reinsurance payables	**R0830**	2,540
Payables (trade, not insurance)	**R0840**	2,008
Subordinated liabilities	**R0850**	
Subordinated liabilities not in BOF	**R0860**	
Subordinated liabilities in BOF	**R0870**	
Any other liabilities, not elsewhere shown	**R0880**	1,500
Total liabilities	**R0900**	1,656,645
Excess of assets over liabilities	**R1000**	183,476

E. Capital management

E.1 Equity

E.1.1 Own fund objectives, policies, and management processes

To manage and monitor its own funds and capital, MMSV has approved a Capital Management Policy covering the following objectives:

- Eligible capital continually meets eligible regulatory requirements and Risk Appetite.
- Eligible capital projections consider the continuous compliance with applicable requirements throughout the period being considered.
- Establish an identification and documentation process for funds with limited availability, as well as the circumstances in which eligible capital may be used to absorb losses.
- Ensure that MMSV has a medium-term Capital Management Plan.
- Capital management will consider the results from the ORSA, as well as conclusions reached.
- Within the framework of the capital management plan in the medium term, should it be deemed necessary to obtain new resources, the newly-issued capital instruments should be evaluated to determine that they meet the conditions for inclusion within the desired eligible capital quality level.

If eligible capital is insufficient at any point during the projection period, the Risk function will propose measures to resolve the situation and to maintain solvency levels within Risk Appetite guidelines.

The medium-term Capital Management Plan prepared by the Risk Function will at least consider the following:

a) Comply with applicable Solvency legislation throughout the projection period, with special attention on known upcoming regulatory developments, and maintain solvency levels within the Risk Appetite framework.

b) All foreseen capital instrument issues.

c) For eligible capital items, reimbursements, including contractual maturities as well as those possibly realized to discretion prior to maturity.

d) The results of ORSA projections.

e) Forecasted dividends and their effect on eligible capital.

The Risk function submits the medium-term Capital Management Plan to the Board of Directors for approval. The plan is part of the ORSA report. The projected period covers 4 years, and is aligned with the MAPFRE Group's budget preparation approach.

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

As stipulated in regulations, Own Funds, are classified as either basic or complementary. They may also be classified by levels (1, 2, or 3) to the extent that they have certain characteristics determining their availability to absorb losses.

- ***Basic and unrestricted***

At 31 December 2016, MMSV only had basic unrestricted Level 1 Own Funds totalling €183.5 million. They are comprised of:

- Ordinary paid-in share capital.
- Funds in the reconciliation reserves.
- The remaining net assets of the company (which is the present value of future shareholder transfers).

S.23.01.01

Own funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	54,750	54,750			
Share premium account related to ordinary share capital	R0030					
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070	60,759	60,759			
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	56,417	56,417			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160					
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
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						
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	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	R0290	171,926	171,926			
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					

A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	171,926	171,926			
Total available own funds to meet the MCR	R0510	171,926	171,926			
Total eligible own funds to meet the SCR	R0540	171,926	171,926			
Total eligible own funds to meet the MCR	R0550	171,926	171,926			
SCR	R0580	56,392				
MCR	R0600	25,376				
Ratio of Eligible own funds to SCR	R0620	3				
Ratio of Eligible own funds to MCR	R0640	7				

		C0060	
Reconciliation reserve			
Excess of assets over liabilities	R0700	183,476	
Own shares (held directly and indirectly)	R0710		
Foreseeable dividends, distributions and charges	R0720	11,550	
Other basic own fund items	R0730	115,509	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740		
Reconciliation reserve	R0760	56,417	
Expected profits			
Expected profits included in future premiums (EPIFP) - Life business	R0770	99,180	
Expected profits included in future premiums (EPIFP) - Non-life business	R0780		
Total Expected profits included in future premiums (EPIFP)	R0790	99,180	

- The eligible amount of own funds to cover Solvency Capital Requirements, broken down by levels.

- ***Basic and unrestricted***

All MMSV's Own Funds are classified under the regulations as basic unrestricted Level 1. Therefore there are no limitations on their eligibility to cover Solvency Capital Requirements and Minimum Capital Requirements.

The following sets out the structure, amount, and quality of the Own Funds and coverage ratio for MMSV:

MMSV's Solvency Ratio is 304.8%. This ratio measures the relationship between eligible own funds and the Solvency Capital Requirements and was calculated using the Standard Formula. This ratio is within the thresholds set out in MMSV's Risk Appetite established and approved by its Board of Directors.

It reflects the MMSV's capacity to absorb extraordinary losses arising from adverse scenarios expected to occur in one out of every 200 years.

None of the items comprising Own Funds required supervisory approval, as indicated in prevailing legislation.

Availability, subordination and duration of significant Own Fund items used to evaluate their quality

As noted above, all of MMSV's Own Funds are classed as Tier 1. As a result availability, sub-ordination and duration are not relevant.

Difference between equity on the financial statements and surplus assets vs. liabilities for Solvency II purposes

When valuing assets and liabilities for the purposes of Solvency II, different criteria is used from that employed for the preparation of the financial statements. The above criteria differences lead to differences between the equity on the financial statements and surplus assets vs. liabilities for Solvency II purposes.

During the year, equity on the financial statements totalled €160 million, while surplus assets vs. liabilities for Solvency II purposes was €183 million.

The quantitative and qualitative explanations for these difference are set out in detail under Sections D.1 Assets, D.2 Technical Provisions, and D.3 Other Liabilities of this report.

Items deducted from equity and restrictions on transferability

MMSV does not have holdings in credit institutions, so it was unnecessary to make this deduction from Own Funds.

Own Funds were decreased by an amount of €11.55 million euros as this is the amount of the dividend payable for 2016 but which is not reflected in the balance sheet at 31 December 2016 but will only be distributed to shareholders during 2017.

Although the with profits fund is ring fenced for solvency purposes and checks are carried out to ensure that no surplus funds from this business are used elsewhere within MMSV, there were no transferability restrictions applying at the balance sheet date.

Own Funds issued and instruments redeemed

MMSV did not issue any new or redeem any own fund instruments during 2016.

Essential items on the Reconciliation Reserve

The previous table includes the structure amount, and quality of Own Funds. It includes the items needed to determine the Reconciliation Reserve for Solvency II purposes.

The reconciliation reserve at company level is the sum of the reconciliation reserve for the ring fenced fund and the reconciliation reserve for the remaining part.

The reconciliation reserve that arises in the ring fenced / with profits fund where because of differences between the accounting and solvency regimes the amount that will be due to shareholders is reported differently. This amount could be thought of as the future shareholder transfers that would be paid from the with profits fund. For reporting purposes however this amount is shown with the other items and the reconciliation reserve item is set to zero.

The reconciliation reserve that arises in the remaining part is the difference between the net assets calculated on the accounting basis and the net assets calculated on the solvency basis. These quantifications are made after paid up share capital has been deducted.

E.1.3 Transitional measures

MMSV does not use any transitional provisions in the assessment of own funds.

E.1.4 Ancillary own funds

MMSV do not use any ancillary own funds items.

E.1.5 Items deducted from Own Funds

The only item deducted from own funds by MMSV is the full year dividend as this is not paid yet at the balance sheet date and not reflected in the net asset value.

E.1.6 Other information

Other ratios apart from those included on template S.23.01

MMSV does not use any ratios other than those in S.23.01 to measure solvency.

Subordinated liabilities

MMSV has no subordinated liabilities.

Main loss absorption mechanisms.

MMSV has no items of own funds that require “absorption” of losses as defined in the regulations.

E.2 Capital Solvency Requirement and Minimum Capital Requirements

E.2.1 Amount of Solvency Capital Requirement

SCR and MCR amounts

The following are the Solvency Capital Requirements (SCR) broken down by risk modules, calculated using the Standard Formula:

S.25.01.21
Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0100
Market risk	**R0010**	267,089		
Counterparty default risk	**R0020**	7,429		
Life underwriting risk	**R0030**	52,498		
Health underwriting risk	**R0040**			
Non-life underwriting risk	**R0050**			
Diversification	**R0060**	(40,057)		
Intangible asset risk	**R0070**			
Basic Solvency Capital Requirement	**R0100**	286,959		

Calculation of Solvency Capital Requirement		C0100
Operational risk	**R0130**	11,220
Loss-absorbing capacity of technical provisions	**R0140**	(228,037)
Loss-absorbing capacity of deferred taxes	**R0150**	(13,750)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	**R0160**	
Solvency capital requirement excluding capital add-on	**R0200**	56,392
Capital add-on already set	**R0210**	
Solvency capital requirement	**R0220**	56,392
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	**R0400**	
Total amount of Notional Solvency Capital Requirement for remaining part	**R0410**	21,525
Total amount of Notional Solvency Capital Requirements for ring fenced funds	**R0420**	34,867
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	**R0430**	
Diversification effects due to RFF nSCR aggregation for article 304	**R0440**	

MMSV does not use any simplifications to calculate its SCR.

In total, the loss absorption capacity of technical provisions amounts to €228million, and for deferred tax losses it amounts to €13.75million.

The total SCR amount was €56.4million.

In compliance with the regulations, the SCR corresponds to MMSV's equity for limiting the probability of bankruptcy to one case per 200, or that MMSV is still able to meet its commitments to insurance beneficiaries and policyholders during the following year with a likelihood of 99.5%.

The risk modules with the biggest relevance in the SCR are Market risk and Life Underwriting risk.

Minimum Capital Requirements (MCR) are the capital amount configured as the security minimum, under which financial resources should never drop. It corresponds to the amount of basic eligible Own Funds, under which policyholders and beneficiaries are exposed to an unacceptable level of risk, should the company continue its activity. The MCR amounts to €25.3million euros.

The table below shows the amount of MMSV's MCR and the different items used in its calculation:

Linear formula component for life insurance and reinsurance obligations

		C0040
MCR_L Result	**R0200**	34,405

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	**C0060**
Obligations with profit participation - guaranteed benefits	**R0210**	1,263,291	
Obligations with profit participation - future discretionary benefits	**R0220**	266,298	
Index-linked and unit-linked insurance obligations	**R0230**	97,109	
Other life (re)insurance and health (re)insurance obligations	**R0240**	(23,349)	
Total capital at risk for all life (re)insurance obligations	**R0250**		1,887,987

Overall MCR calculation

		C0070
Linear MCR	**R0300**	34,405
SCR	**R0310**	56,392
MCR cap	**R0320**	25,376
MCR floor	**R0330**	14,098
Combined MCR	**R0340**	25,376
Absolute floor of the MCR	**R0350**	3,700
-	-	**C0070**
Minimum Capital Requirement	**R0400**	25,376

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The linear MCR amounted to €34.4million. The combined MCR amounted to €25.3 million.

Since the combined MCR is higher than the MCR's absolute limit (€3.7million), the amount of the combined MCR is consider as the amount of Minimum Capital Requirements.

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

MMSV does not use this option when performing its solvency valuation.

E.4 Differences between the Standard Formula and any internal model used

MMSV does not use Internal Models in its Solvency calculations.

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

At 31 December 2016, MMSV had more than sufficient own funds to meet its Solvency Capital Requirement, Minimum Capital Requirement, and support its new business plans. As a result, it was considered unnecessary to adopt any remedial actions or corrective measures.