MAPFRE

MSV Life

# Solvency and Financial Condition Report

31st December 2018

# 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. Business and Performance

**MAPFRE MSV Life p.l.c.** (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.

In terms of geographic area, MMSV writes and accepts premiums solely in Malta.

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

Thus, MMSV forms part of the MAPFRE Group, composed of MAPFRE S.A and various companies operating in the insurance, financial, property, and service industries. The ultimate controlling company within the Group is FUNDACIÓN MAPFRE, a non-profit institution domiciled in Madrid at Paseo de Recoletos 23.

Regarding MAPFRE MSV Life's business model, through the years, the company developed a successful and strategic Bancassurance arrangement which represents MMSV's main distribution channel. Furthermore, in line with the company's multi-channel strategy, MMSV has also developed an important network of TIIs and grown its direct sales channels, through the opening of two regional offices. MMSV's main business segments remain the savings and protection business. The MMSV With-profits single premium represents the company's flagship product.

MMSV Group registered a profit before tax of €13.7 million for the year ended 31 December 2018, up 11.4% on the previous year where an €12.3 million profit before tax was generated. Profit after tax is recorded at €10.9 million, up 9.0% on the €10.0 million in the previous year.

In aggregate, the result on the long-term business technical account increased to €13.4 million from a prior year €11.8 million as a result of a technical result improvement well supported by strong business growth and underwriting performance.

Total expenses equaled 1.42% of total technical provisions.

Total income from investments during the year amounted to €40.9 million whereas total investment expenses equaled €5.7 million.

## B. System of Governance

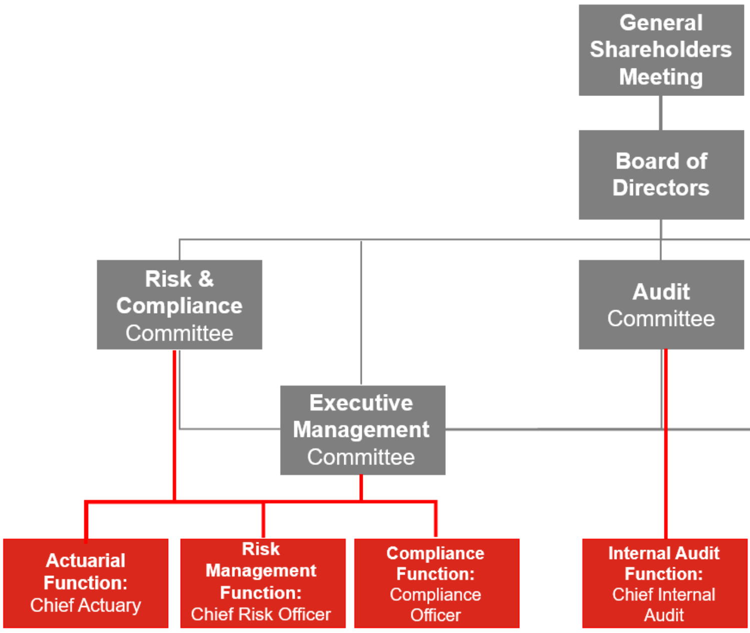
MMSV's governance structure is composed of the following governing bodies:

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

- Risk and Compliance Committee

In addition to the aforementioned management and supervisory bodies, the Company is supervised by MAPFRE's EURASIA Regional Management Committee, which is directly responsible for the supervision of the management of the Business Units in the region concerned, except for the reinsurance unit, and manages all global and regional corporate projects.

MMSV's Governing Bodies as at 31 December 2018 are set out below:




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 appropriate manner.

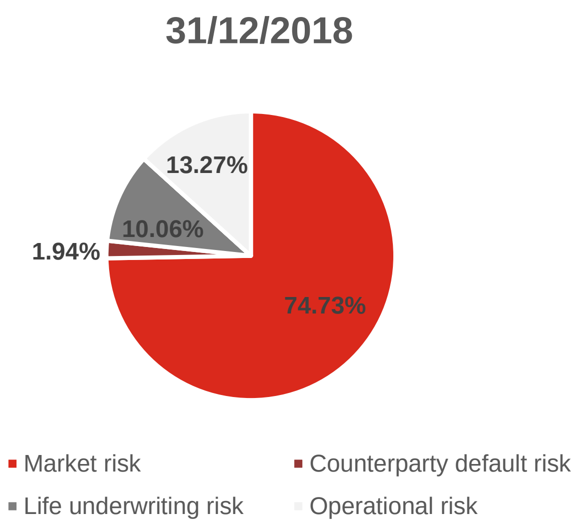
In order to ensure that MMSV's systems of governance has an adequate structure, MMSV has a number of policies that govern the key functions (Risk Management, Compliance, Internal Audit and Actuarial). These policies ensure that these functions follow the requirements imposed by the regulator and are faithful to the lines of governance established by the Company and by MAPFRE Group.

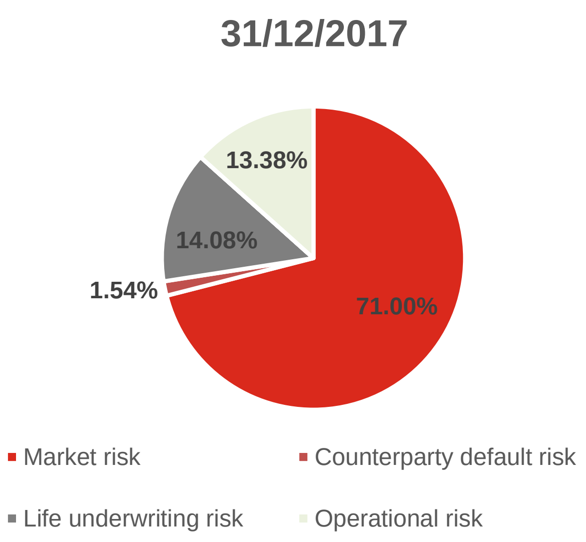
MMSV's Board of Directors determines the policies and strategies regarding the Risk Management System that are aligned with the policies and strategies defined by the Board of Directors of MAPFRE S.A.

## C. Risk profile

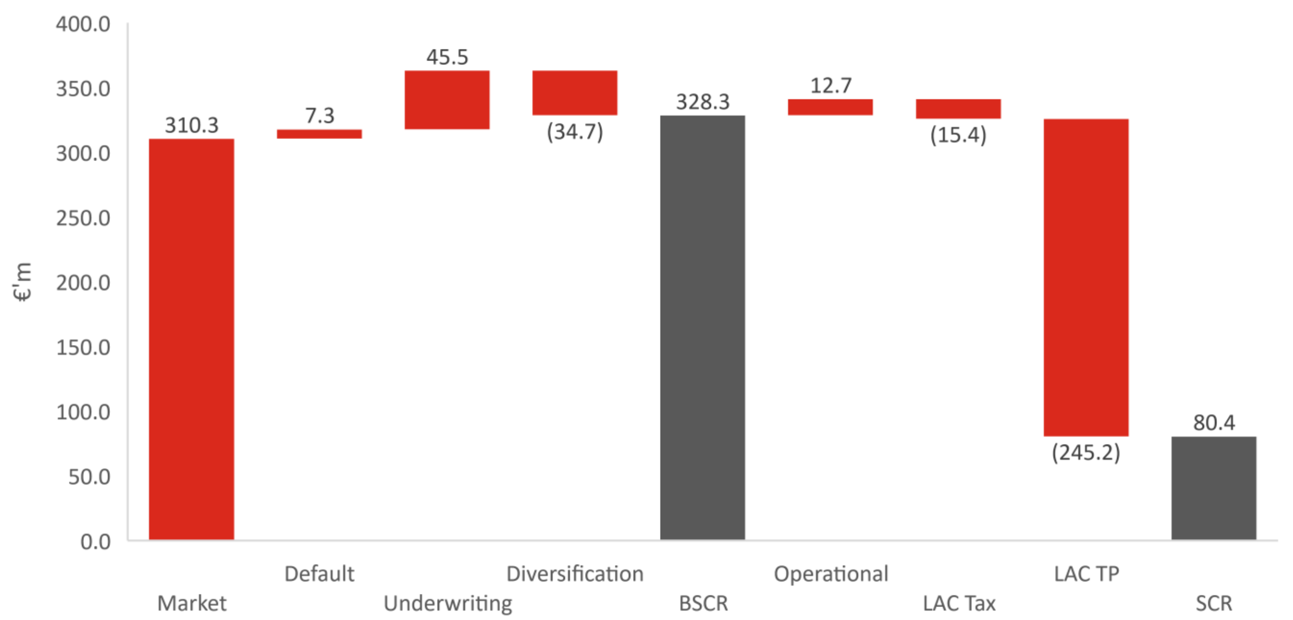
MMSV calculates its Solvency Capital Requirement (SCR) in accordance with the standard formula requirements.

The composition of MMSV's risk profile for the various risk modules is set out below:




The above reflects the loss absorbency capacity of Technical provisions.




As may be observed, in 2018 the primary risks faced by MMSV were Market risk and Life Underwriting risk.

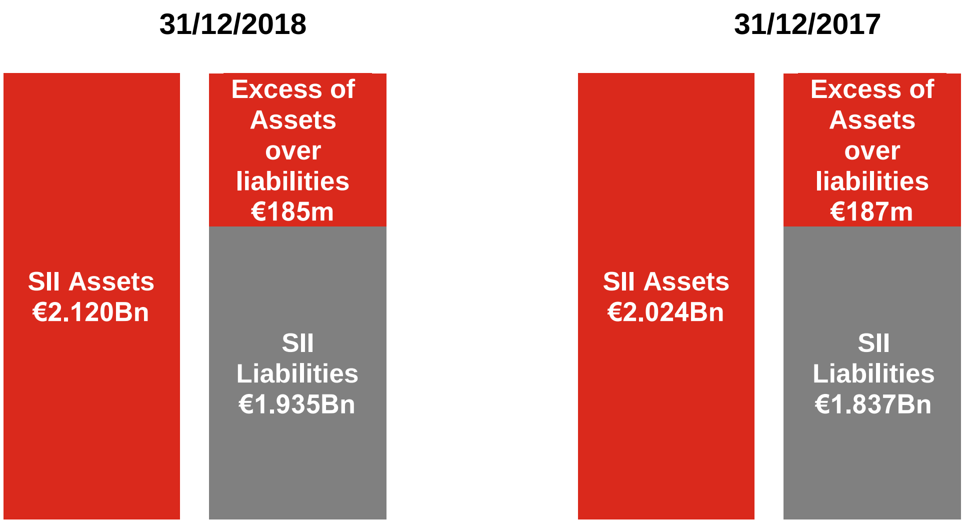
Other risks, among others, to which MMSV is exposed to include Cybersecurity risk and risk of new distribution channel/s as outlined in Section C.6.

MMSV also analyzes the sensitivity of solvency with respect to certain events, the results of which show that the Company complies with regulatory capital requirements even under adverse circumstances.

## D. Valuation for solvency purposes

The Solvency II value of assets amounts to €2.12 billion, while the Accounting value (IFRS value) is equal to €2.21 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 €1.93 billion, while the IFRS value is equal to €2.05 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 €185.25 million, which represented an increase of 15.80% over the IFRS value of equity. At 31 December 2018 the excess of assets over liabilities decreased by €1.88 million compared with the end of last year.

## E. Capital Management

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

The following table shows details of MMSV's solvency ratio.

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Solvency Capital Requirement (SCR) | **€80.4** | **€71.3** |
| Eligible Own funds to meet the SCR | **€158.0** | **€174.8** |
| **Solvency ratio (SCR coverage)** | **196.4%** | **245.2%** |

Figures in million

MMSV excess capital totaled €185.3 million and has eligible own funds that cover the regulatory solvency requirement by 1.96 times, consisting of the capital that must be held by the Company to limit the likelihood of bankruptcy to 1 in 200 cases, meaning that MMSV is still in a position to comply with its obligations to insurance policyholders and beneficiaries over the following 12 months with a probability of 99.5%.

Own funds that are eligible for SCR coverage consist of 100% of Tier 1 unrestricted basic funds, which have the maximum capacity to absorb losses.

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

The regulation establishes a Minimum Capital Requirement (MCR), which is configured as the minimum level of security below which MMSV's financial resources must not fall. This MCR is €36.19 million and the eligible own funds to cover it are €157.95 million, making the MCR coverage ratio 436.5%. Regarding the quality of these eligible own fund to absorb losses, all the €157.95 million are of the highest quality (Tier 1).

# A. Business and Performance

## A.1. Business

### A.1.1. Company Businesses

- MAPFRE MSV Life p.l.c. (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 p.l.c., The Mall, Triq il-Mall, Floriana FRN 1470, Malta.
- MMSV is authorized by the Malta Financial Services Authority (hereinafter MFSA) to carry on long term business under the Insurance Business Act, 1998.
- MMSV forms part of the MAPFRE GROUP, composed of MAPFRE S.A. and various companies operating in the insurance, financial, investments and service industries.
- The ultimate controlling company within the Group is FUNDACIÓN MAPFRE, a non-profit institution domiciled in Madrid at Paseo de Recoletos 23.

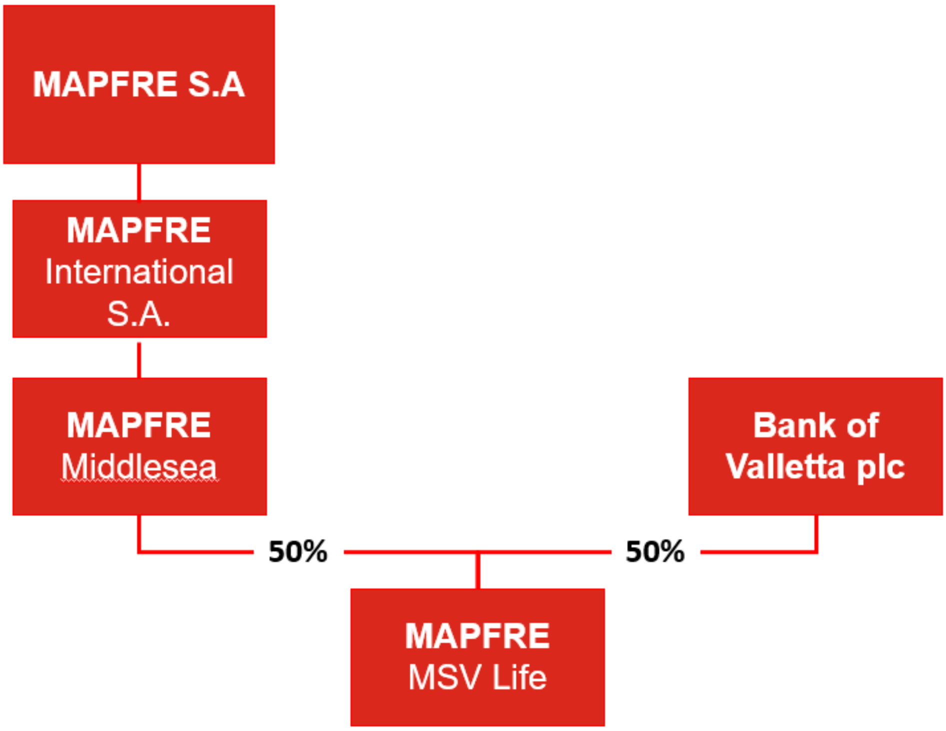
The following table shows the companies that possess direct qualifying holdings in MMSV:

| Name | Corporate form | Type of interest | Location | Ownership interest (*) |
|---|---|---|---|---|
| Bank of Valletta p.l.c. | Public limited company | Direct | Malta | 50% |
| MAPFRE Middlesea p.l.c. | Public limited company | Direct | Malta | 50% |

* The ownership interest and voting rights are the same

MMSV is jointly owned between Bank of Valletta p.l.c. (50%) and MAPFRE Middlesea p.l.c. (50%). However, MAPFRE Middlesea p.l.c. controls MMSV even though it does not own more than 50% of the voting rights. This is because the 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, investments and service sectors.

A simplified organizational chart is presented below showing the position held by the Company within the legal structure of the MAPFRE Group:




MAPFRE Group presents a consolidated report for the Group and individual reports for the insurance and reinsurance companies within the scope of the regulation that make up the Group.

In turn, MMSV is the parent company of Growth Investments Limited, which is regulated by the Investment Services Act and is a Category II License holder. Annex 1 to this report provides a breakdown of group entities, jointly controlled entities, and associates.

*Supervision of the Company*

MFSA is responsible for the financial supervision of MMSV, as it is based in Malta. MFSA is located at Notabile Road, Attard BKR 3000, Malta, with the following website: http://www.mfsa.com.mt/.

The Directorate General for Insurance and Pension Funds (hereinafter DGSFP) is responsible for the financial supervision of MAPFRE Group since its parent, MAPFRE S.A., is a resident of Spain.

The DGSFP is located in Madrid (Spain), and its website is www.dgsfp.mineco.es.

*External Audit*

On March 5 2019, KPMG Malta, issued an unqualified audit opinion in its audit report on the Company's individual and consolidated financial statements prepared by the Company as at December 31 2018. KPMG Malta is located at Portico Building, Marina Street, Pieta PTA 9044.

*Lines of business*

MMSV's main lines of business, based on the list established by current Solvency II regulations, are as follows:

- **Insurance with profit participation:** Savings products where the annual investment return is discretionary (the 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. Businesses and/or events with material repercussions on the Company.**

There have been no significant events which had a material impact on the Company during 2018.

*Events relating to the business*

MMSV Group registered a profit before tax of €13.7 million for the year ended 31 December 2018, up 11.4% on the previous year where an €12.3 million profit before tax was generated. Profit after tax is recorded at €10.9 million, up 9.0% on the €10.0 million in the previous year.

In aggregate, the result on the long-term business technical account increased to €13.4 million from a prior year €11.8 million as a result of a technical result improvement well supported by strong business growth and underwriting performance.

*Market and regulatory matters*

The Insurance Distribution Directive, which was introduced on 1 October 2018, impacts the conduct of business between insurers and consumers and requires insurers to strengthen their product governance. Similarly the General Data Protection Regulation (GDPR) has also had a significant impact on the insurance industry.

Developments within the Voluntary Occupational Pension Scheme (VOPS) are also expected following Government's introduction of a number of fiscal incentives to encourage employers to set up VOPS for their employees.

## A.2. Underwriting Performance

The quantitative information relating to MMSV's underwriting activity and business in 2018 and 2017, by line of business, is presented below.

| | | Line of Business for: life insurance obligations | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Insurance with profit participation | | Index-linked and unit-linked insurance | | Other life insurance | | Total | |
| | | C0220 | | C0230 | | C0240 | | C0300 | |
| **Premiums written** | | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** |
| Gross | **R1410** | 304,508 | 274,119 | 2,453 | 2,650 | 13,052 | 12,398 | 320,014 | 289,167 |
| Reinsurers' share | **R1420** | 44 | 47 | 2 | 2 | 3,614 | 3,253 | 3,660 | 3,302 |
| Net | **R1500** | 304,464 | 274,072 | 2,451 | 2,648 | 9,438 | 9,145 | 316,354 | 285,865 |
| **Premiums earned** | | | | | | | | | |
| Gross | **R1510** | 304,508 | 274,119 | 2,453 | 2,650 | 13,052 | 12,398 | 320,014 | 289,167 |
| Reinsurers' share | **R1520** | 44 | 47 | 2 | 2 | 3,614 | 3,253 | 3,660 | 3,302 |
| Net | **R1600** | 304,464 | 274,072 | 2,451 | 2,648 | 9,438 | 9,145 | 316,354 | 285,865 |
| **Claims incurred** | | | | | | | | | |
| Gross | **R1610** | 136,297 | 128,646 | 3,498 | 3,381 | 2,260 | 2,513 | 142,055 | 134,540 |
| Reinsurers' share | **R1620** | 0 | 0 | 0 | 0 | 1,049 | 1,339 | 1,049 | 1,339 |
| Net | **R1700** | 136,297 | 128,646 | 3,498 | 3,381 | 1,211 | 1,174 | 141,005 | 133,201 |
| **Changes in other technical provisions** | | | | | | | | | |
| Gross | **R1710** | 95,890 | 182,608 | -3,812 | 2,225 | 1,838 | 897 | 93,915 | 185,730 |
| Reinsurers' share | **R1720** | 0 | 0 | 0 | 0 | 0 | -1,087 | 0 | -1,087 |
| Net | **R1800** | 95,890 | 182,608 | -3,812 | 2,225 | 1,838 | 1,984 | 93,915 | 186,817 |
| **Expenses incurred** | **R1900** | 23,805 | 21,609 | 617 | 493 | 4,110 | 3,257 | 28,532 | 25,359 |
| **Other expenses** | **R2500** | | | | | | | | |
| **Total expenses** | **R2600** | | | | | | | 28,532 | 25,359 |

Figures in thousand euro

Source: Template S05.01.02

The above table only presents the columns related to the lines of business in which MMSV operates, and those relating to the lines of business in which it does not operate have been eliminated.

Gross premiums written for the year increased by €30.8 million. This is mainly attributable to an increased demand in single premium savings contracts and life protection business.

Claims incurred also increased during 2018 as a result of an increase in maturing single premium contracts.

Expenses were higher for all lines of business with the highest increases mainly in investment charges, computer operation costs and staff costs.

## A.3. Investment performance

### A.3.1. Information on investment income and expenses by asset class:

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

| Interest, dividend and similar income | 2018 | 2017 |
|---|---|---|
| **INVESTMENT INCOME** | | |
| Investment properties | 4,561 | 5,058 |
| Income from the held-to-maturity portfolio | - | - |
| Income from the available-for-sale portfolio | - | - |
| Income from financial assets at fair value through profit or loss | 34,908 | 33,807 |
| Loans and receivables | 1,032 | 1,216 |
| **TOTAL INVESTMENT INCOME** | **40,501** | **40,081** |
| **REALIZED AND UNREALIZED GAINS** | | |
| **Net realized gains** | **-** | **11,914** |
| Investment properties | - | - |
| Held-to-maturity investment portfolio | - | - |
| Available-for-sale investment portfolio | - | - |
| Financial assets at fair value through profit or loss | - | 11,914 |
| Other | - | - |
| **Net unrealized gains** | **-** | **17,821** |
| Increase in the fair value of financial assets at fair value through profit or loss | - | 17,821 |
| Other | - | - |
| **TOTAL GAINS** | **-** | **29,735** |
| **OTHER FINANCIAL INCOME FROM THE INSURANCE BUSINESS** | | |
| **OTHER FINANCIAL INCOME FROM THE INSURANCE BUSINESS** | | |
| Gains on investments on behalf of policyholders bearing the investment risk | - | 2,891 |
| Gains on exchange | 436 | 513 |
| Other | - | - |
| **TOTAL OTHER FINANCIAL INCOME FROM THE INSURANCE BUSINESS** | **436** | **3,404** |
| **FINANCIAL INCOME FROM OTHER BUSINESSES** | **-** | **-** |
| **TOTAL FINANCIAL INCOME** | **40,937** | **73,220** |

Figures in thousand euro

| Financial Expenses | 2018 | 2017 |
|---|---|---|
| **INVESTMENT EXPENSES** | | |
| Investment properties | 189 | 456 |
| Expenses from the held-to-maturity portfolio | - | - |
| Expenses from the available-for-sale portfolio | - | - |
| Expenses from financial assets at fair value through profit or loss | - | - |
| Other investment expenses | 5,503 | 4,412 |
| **TOTAL INVESTMENT EXPENSES** | **5,692** | **4,868** |
| **REALIZED AND UNREALIZED LOSSES** | | |
| **Realized losses** | **9,265** | **-** |
| Investment properties | 38 | - |
| Held-to-maturity investment portfolio | - | - |
| Available-for-sale investment portfolio | - | - |

| | | |
|---|---|---|
| Financial assets at fair value through profit or loss | 9,227 | - |
| Other | - | - |
| **Unrealized losses** | **68,010** | **-** |
| Decrease in the fair value of financial assets at fair value through profit or loss | 68,010 | - |
| Other | - | - |
| **TOTAL LOSSES** | **77,275** | **-** |
| **OTHER FINANCIAL EXPENSES FROM THE INSURANCE BUSINESS** | | |
| **OTHER FINANCIAL EXPENSES FROM THE INSURANCE BUSINESS** | | |
| Losses on investments on behalf of policyholders bearing the investment risk | 2,258 | 32 |
| Losses on exchange | 922 | 1,502 |
| Other | - | - |
| **TOTAL OTHER FINANCIAL EXPENSES FROM THE INSURANCE BUSINESS** | **3,180** | **1,534** |
| **FINANCIAL EXPENSES FROM OTHER BUSINESSES** | **-** | **-** |
| **TOTAL FINANCIAL EXPENSES** | **86,147** | **6,402** |

Figures in thousand euro

| | | |
|---|---|---|
| **TOTAL INCOME FROM THE INSURANCE BUSINESS** | **40,937** | **73,220** |
| **TOTAL EXPENSES FROM THE INSURANCE BUSINESS** | **86,147** | **6,402** |
| **FINANCIAL RESULT FROM THE INSURANCE BUSINESS** | **(45,210)** | **66,818** |
| **TOTAL INCOME FROM OTHER BUSINESSES** | **-** | **-** |
| **TOTAL EXPENSES FROM OTHER BUSINESSES** | **-** | **-** |
| **TOTAL FINANCIAL RESULT FROM OTHER BUSINESSES** | **-** | **-** |
| **TOTAL FINANCIAL RESULT** | **(45,210)** | **66,818** |

Figures in thousand euro

Total investment income during the year amounted to €40.9 million compared to €73.2 million in 2017.

In 2018, most assets classes registered negative returns. The decrease in investment income is largely the result of realized and unrealized losses on both domestic and non-domestic securities as opposed to realized and unrealized gains in the prior year. Income from local and foreign securities account for a significant portion of the investment income earned during the current financial year.

Investment management fees continued to increase during the year 2018 amounting to €4.1 million (2017: €3.0 million). These are included within 'Other investment expenses' in the table above.

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

No gains and losses are recognized directly in equity.

### A.3.3. Information about asset securitization

MMSV's exposure to securitized assets amounts to €3.8 million (2017: €3.9million).

| Name of securitization | Value |
|---|---|
| SAPPHIREONE MORTGAGES 2 C REGS VAR RT 06/25/2061 | 402 |
| SAPPHIREONE MORTGAGES 3 C REGS VAR RT 06/27/2061 | 506 |
| TOWD POINT MORTGAGE GR2 C REGS VAR RT 08/20/2051 | 674 |
| TOWD POINT MORTGAGE V1X C REGS VAR RT 02/20/2054 | 887 |
| TOWD POINT MORTGAG A11X C REGS VAR RT 05/20/2045 | 901 |
| EUROPEAN RESIDENTIAL 1 A REGS VAR RT 03/24/2061 | 458 |
| **TOTAL** | **3,828** |

Figures in thousand euro

## A.4. Performance of other activities

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

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

### A.4.2 Lease Agreements

*Finance leases*

MMSV does not recognize any finance lease of any type.

*Operating leases*

MMSV is the lessor under operating leases for real estate properties as noted below:

| Year | Type of asset | Net book value | Weighted average duration of contracts (years) | Weighted average years elapsed |
|---|---|---|---|---|
| 2018 | Property investment | 90,235 | 9.67 | 5.46 |
| 2017 | Property investment | 87,855 | 10.17 | 5.18 |

Figures in thousands of euro

These leases have an average remaining life of 4.21 years, with renewal option included in the contracts.

Net book value as at December represents revalued amount.

## A.5. Any other information

There are no additional disclosures that need to be included in this report.

# B. System of Governance

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

MMSV's governing bodies ensure that the company follows the Institutional Business and Organizational Principles approved by the Board of Directors. Further to this, the Board of Directors delegates to management the strategic, operational and day-to-day business activities.

This governance structure ensures an adequate and timely response to events, which may arise within the organization and within its business and corporate environment.

### B.1.1 MMSV's System of Governance

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

- **General Meeting of Shareholders**: The highest governing body, in that its decisions bind all shareholders. The Board of Directors calls both ordinary and extraordinary Annual General Meetings.

- **Board of Directors**: The body in charge of managing, administering, and representing the Company and has the ultimate decision-making and supervisory responsibility. It establishes the roles of the Management Committee and its Delegated Committees, designating its members, where necessary.

- **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. This committee is responsible to secure the safety, yield and marketability of the investment portfolio, to oversee the management of the investment portfolio and ensure compliance with all policies, and report to the Board 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.

- **Security and Environment Committee:** The main role of this management committee is to direct and provide oversight to the Security and Environment Function within the Company.

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 EURASIA Regional Management Committee within MAPFRE GROUP, which directly supervises the management of regional Business Units.

### B.1.2. Key functions

The Board of Directors approved the Actuarial, Risk Management, Compliance and Internal Audit policies. These policies ensure the operational independence of the key functions and their direct reporting to the Governing Body, which delegates the authority necessary to support these functions. The Board of Directors and/or the relevant committees receive reports at least annually from the responsible areas at MMSV. The names of the parties responsible for the key functions are communicated to the Malta Financial Services Authority.

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

These functions have the following responsibilities:

- Risk Management Function: in charge of establishing an effective risk management system, which ensures the identification, quantification, monitoring, controlling and reporting on the risks.
- Compliance Function: ensures MMSV meets present and future obligations defined in its regulations.
- Internal Audit Function: in charge of control and verification that the MMSV's internal control and systems of governance are adequately managed.
- Actuarial Function: responsible for the processes and controls related to the calculations of premiums and technical reserves, and modelling of risks, in line with Solvency II requirements.

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

In addition, the Approved Actuary role, required by Maltese regulation, is outsourced to Willis Towers Watson. More information is contained in section B6.

### B.1.3. Relevant resolutions adopted by shareholders at a General Meeting and the Board of Directors

During 2018, there were no changes to MMSV's governance structure.

### B.1.4. Balances with and remuneration to directors

Remuneration paid to MMSV's management and employees is determined in accordance with current regulations as well as its remuneration policy, approved by the Board on 26th October 2018.

The Remuneration Policy endeavors to establish adequate remuneration based on the post or position, as well as performance, to thereby foster sufficient and effective risk management, making it unattractive to assume risks that exceed the MMSV's tolerance level and to avoid conflicts of interest. Its main principles are as follows:

- Based on each job/function, it includes measures designed to avoid any conflicts of interest.
- It takes into account merit, technical knowledge, professional skills and performance.
- Ensures equality, without discrimination based on criteria to gender, race, or ideology.
- Transparency
- Flexible in structure, adaptable to different market groups and circumstances.
- Aligned with MMSV's strategy and its risk profile, objectives, risk-management practices, and long-term interests.
- Market competitiveness.

Based on the aforementioned policy, employee remuneration is comprised of five items: fixed remuneration, variable remuneration, recognition programs, social benefits and allowance.

The remuneration system for Directors has the following characteristics:

- Transparency in reporting the remuneration paid to Directors.
- It provides an incentive to reward dedication, qualifications and responsibility, without constituting an obstacle to the duty of loyalty.
- It consists of a fixed amount for membership on the Board of Directors and, as appropriate, the Committee, which may be higher for people with positions on the Board or that, hold the position of Chairman of the Committee. This remuneration may be supplemented by other non-monetary remuneration (life or health insurance, discounts on products sold by companies in the MAPFRE Group, etc.) that have been established for the company's staff in general.
- It does not include variable components or those linked to share value.
- Directors are reimbursed for traveling expenses and other costs undertaken in order to attend company meetings or in the performance of their responsibilities.

In addition to the above, MMSV does not offer any supplementary pension or early retirement schemes for Board Members and other key function holders.

**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's Fit and Proper Policy was last approved on the 18th January 2019. The Policy establishes the applicable Relevant Personnel[1] and Outsourced Personnel[2] requirements, as follows:

Relevant Personnel, and Outsourced Personnel, where applicable, should have the appropriate qualifications, knowledge, and expertise to ensure that MMSV is professionally managed and supervised.

The expertise and experience of Relevant Personnel will include academically-acquired knowledge and experience at other similar companies appropriate to the responsibilities to be assumed and 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) System of Governance.
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 acquired from prior positions held during a sufficient period of time.

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

<u>Company designation procedures.</u>

Parties proposed for executing Relevant Personnel roles requiring notification to Supervisory Authorities or, where applicable, those of Outsourced Personnel, must provide a prior, truthful, and complete statement regarding their personal, family, professional, or business endeavors.

The above statement must be made in the Company's model forms established for this purpose.

The aforementioned parties must ensure that their statements are continually updated, and must report any relevant changes in their status, and participate in periodic updates when required to do so by the MMSV's Board of Directors , including the re-evaluation of any fit and proper requirements.

[1] Relevant Personnel: the Directors and Officers, Senior Executives and Persons Responsible for key functions, as well as all other personnel that must comply with the fit and proper requirements in accordance with legislation in force at any given moment.

[2] Outsourced Personnel: if any key functions are outsourced, the persons employed by the service provider.

## B.3. Risk management system, including the self-assessment of risk and solvency

### B.3.1 Governance structure

The Risk Management System (RMS) is an integral part of MMSV's organizational structure. MMSV's RMS follows the three lines of defense model (described in section B.4.1). This ensures ownership by all employees for risks and corresponding controls, in line with their role and responsibilities, and objectives:

The Board of Directors of MMSV is ultimately responsible for ensuring the Risk Management System's effectiveness and for determining the Company's risk profile and tolerance limits. Further to this, the Board of Directors is also responsible for approving the Risk Management Strategies and policies within the Risk Management Framework. In performing these functions, MMSV's Board of Directors is supported by the Risk & Compliance Committee.

The Group's Risk Management Area provides oversight and monitors all aspect related to the management of the risks within all MAPFRE subsidiaries. This is done by, setting group guidelines, policies, tolerance and reporting structures.

MMSV's Risk Management Function facilitates the application of the Risk Management System. Its functions include the coordination of the strategies, processes and procedures that are necessary to continually identify, measure, monitor, manage and report all the risks to which MMSV is exposed to, or may be exposed to.

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

MMSV's Risk Management function's Chief Officer has a dual reporting responsibility: from a hierarchical perspective to MMSV's CEO and from a functional perspective to the Group Risk Management Area.

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

MMSV's Risk Management System has the following main objectives:

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

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

To promote effective risk management, MMSV has formulated a set of Risk Management policies, also in line with Solvency II requirements. One of these policies is the Risk Management Policy, which serves as a framework for the management of risks and, in turn, for the development of policies regarding specific risks. Each policy aims to:

- Assign responsibilities, strategies, processes and the reporting procedures required to identify, measure, monitor, manage and report the risks included within their scope.
- Set general guidelines, basic principles and a general action framework for the type of risk concerned, ensuring coherent application at MMSV.
- Establish reporting structures and communication channels for the business area responsible for the risk.

Capital is generally estimated in line with the budget for the following year, and is periodically reviewed throughout the year according to risk development, to ensure compliance with the established Risk Appetite limits. The Board of Directors is responsible to approve internal regulations and establish the level of risk that the company is willing to accept in order to meet the business objectives without relevant deviations

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

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

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

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

| Type of Risk | Measurement and management | Monitoring and reporting | Gross Solvency Capital Requirement[1] |
|---|---|---|---|
| **Underwriting risk**<br>Covers the following risks:<br>- Mortality<br>- Expenses<br>- Lapse<br>- Catastrophic | Standard formula | Quarterly | €45.7m |
| **Market risks**<br><br>Covers the following risks:<br>- Interest rate<br>- Equities<br>- Property<br>- Spread<br>- Concentration<br>- Currency | Standard formula | Quarterly | €311.8m |
| **Credit Risk**<br><br>Reflects any possible losses arising from unexpected non-compliance by counterparties and debtors over the subsequent twelve months | Standard formula | Quarterly | €7.3m |
| **Operational risk**<br><br>Risk of possible losses deriving from the inadequacy or malfunction of internal processes, personnel or systems, or from external events (excluding the risks deriving from strategic decisions and reputation risks) | Standard Formula<br><br>Dynamic qualitative analysis of the risks using processes (RiskM@p)<br><br>Recognition and monitoring of operational risk events | Quarterly<br><br>Annual<br><br>Continuous | €12.7m |
| **Liquidity Risk**<br><br>Risk that the company might not be able to realize its investments and other assets in order to meet its financial commitments at maturity | Liquidity position. Liquidity indicators | Continuous | n/a |
| **Compliance Risk**<br><br>Risk of losses due to legal/regulatory penalties or reputation losses arising from the failure to comply with laws and regulations, or with applicable administrative requirements. | Monitoring and recognition of significant events | Continuous | n/a |
| **Strategic and Corporate Governance Risk**<br><br>Includes the following risks:<br>- Business ethics and good corporate governance<br>- Organizational structure<br>- Alliances, mergers and acquisitions<br>- Market competition | Through the corporate policies aligned with MAPFRE Group's Institutional, Business, and Organizational Principles. | Continuous | n/a |

[1] Prior to diversification benefit and Loss Absorbency Capacity of Tax and Technical Provisions

All of the calculations deriving from the standard formula are updated when there are changes in the risk profile and the Board of Directors is regularly informed of the risks to which the Company is exposed.

Section C.6 provides further information in respect of other significant risks to which MMSV is exposed. However, due to the management and mitigation measures, these are not considered to have a material impact on the overall solvency needs.

### B.3.3 Own Risk and Solvency Assessment (ORSA)

The Own Risk and Solvency Assessment (hereinafter ORSA) is an integrated process in MMSV's Risk Management System. The ORSA is a mechanism, which identifies, measures, monitors, manages, and reports any short or long-term risks. Thus, the ORSA includes all the significant and potential risk that the company might face and the measures required to mitigate them. The ORSA process ensures that BOD and/or Committee members are engaged throughout this initiative.

The Risk Management Function is in charge of the coordination and preparation of the ORSA report. The report is reviewed, discussed and approved by the Risk and Compliance Committee and the Board of Directors. The Risk Management Function also carries out capital management activities, and verifies the following:

- Eligible capital is suitably classified in accordance with applicable regulations.
- The compatibility of distributable dividends for continuous compliance with the Solvency Capital Requirement.
- Continuous compliance with future solvency capital requirements.
- Amounts and quality for the various eligible capital items capable of absorbing losses.

The Risk Area is also responsible for the preparation of the medium-term Capital Management Plan and its submission to MMSV's Board of Directors for its approval, encompassing the results from projections included in the ORSA.

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

The ORSA process is linked to the strategic planning process so that the relationship between business strategy and overall solvency needs is ensured.

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

# B.4. Internal Control System

### B.4.1. Internal Control

MMSV's Internal Control Policy has been approved on 4th May 2018. This policy establishes the actions, which must be developed in order to maintain an optimal and effective internal control system.

The Board of Directors review the policy on a yearly basis and ensure that the responsibilities and activities mention in the policy are adapted to the progress of the business needs and to changes occurring within the insurance industry environment.

Due to its nature, Internal Control involves all people, irrespective of their position within the organization, who collectively contribute to provide reasonable assurance on the achievement of the objectives, mainly regarding to:

- Operations objectives: Effectiveness and efficiency of operations, differentiating the insurance operations (mainly underwriting, claims, reinsurance and investment) from the support operations and functions (Human Resources, Administration, Commercial, Legal, IT, etc.).
- Reporting objectives: Trustworthiness of information (financial and non-financial, both internal and external) regarding its reliability, timeliness or transparency, among others.
- Compliance objectives: Compliance with applicable laws and regulations.

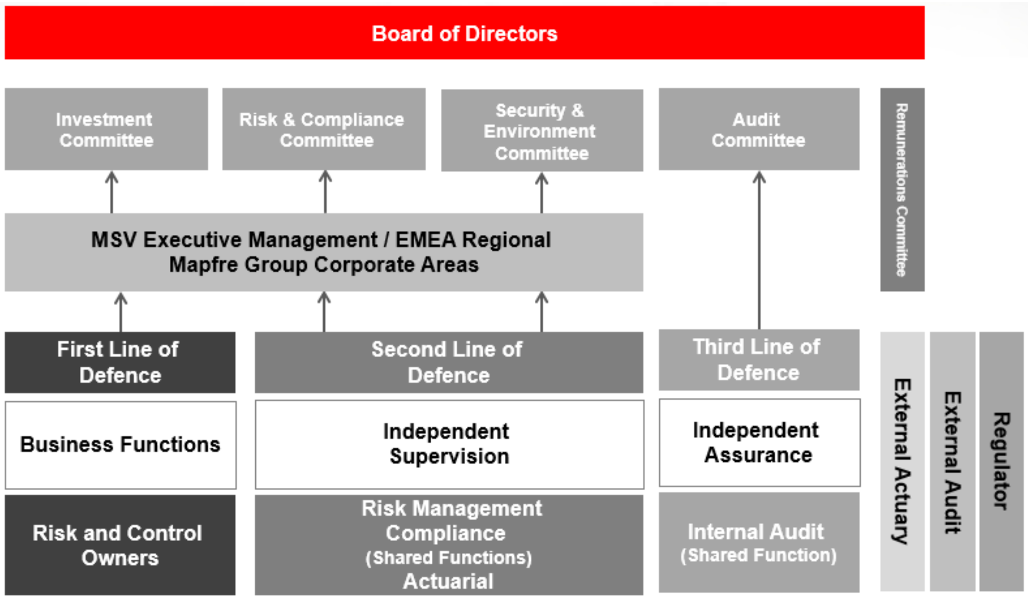
The MAPFRE and MMSV's Internal Control System is based on the model of three lines of defense in which there is:

1. The first line of defense is made up by the employees, the management and operations, business and support departments who are responsible for maintaining an effective control on a day-to-day basis. These units are responsible to manage the risks, design and apply the control mechanisms needed to mitigate the risks associated to the developed processes, and ensure that the risks do not exceed the set limits.

2. The second line of defense made up by the key functions of risks management, actuarial, compliance and others assurance functions, which provide an independent assurance that the internal control system is present and functioning.

3. The third line of defense made up by Internal Audit, which provides independent assessment of the adequacy, appropriateness and effectiveness of the Internal Control System and communicates eventual weaknesses timely to the unit responsible for taking the corrective measures, including Top Management and Governing Bodies, as appropriate.

MMSV has a single Actuarial Unit that performs a complete range of actuarial duties. The Actuarial Unit therefore contributes both to MMSV's first and second lines of defence. Where MMSV Actuarial unit performs first line of defence duties such as pricing of new products and setting valuation/pricing assumptions, segregation of duties is achieved by an initial review of such work by Willis Towers Watson Actuarial Consultants and, in the case of profit testing, a further review by the MAPFRE Corporate Actuarial Area.




MMSV´s Internal Control System consists of tasks and actions that are present in all the activities of the organization and is fully integrated into the organizational structure of the Company.

**B.4.2. Compliance Function**

The Compliance Function has the objective of advising the Board of Directors on compliance with the laws, regulations and administrative provisions that affect the Company and compliance with internal regulations. It also performs an assessment of the impact of any changes in the legal environment affecting the Company's operations and the identification and assessment of non-compliance risk.

MMSV's Compliance Function is structured based on the specific applicable regulatory requirements, as well as the principle of proportionality based on its business volume and the nature and complexity of the risks assumed by the Company.

MMSV employs its own strategy for implementing and carrying out the Function, in accordance with the reference criteria shared by the Management of the Group's Compliance Area.

MMSV's Compliance Function policy was first approved by the Governing Body on the 20th October 2016 and latest update was approved on the 23rd October 2018. It offers a detailed outline of the structure, assigned responsibilities, legal and non-compliance management processes, the necessary reporting processes and the regulatory scope of its authority.

## B.5. Internal audit function

The Internal Audit Function is outsourced to MAPFRE Middlesea plc, with a member of management being responsible for overseeing the correct operation of the area. The conditions under which the above outsourced service takes place are outlined in the following point B.7.

The Internal Audit function is the third line of defense in MMSV's risk management system. It provides an objective, independent, and value added overview of the Company's system of governance.

To ensure the principle of independence, the Internal Audit function reports to the Audit committee, a board delegated committee. This guarantees the Internal Audit function independence from the Company's management.

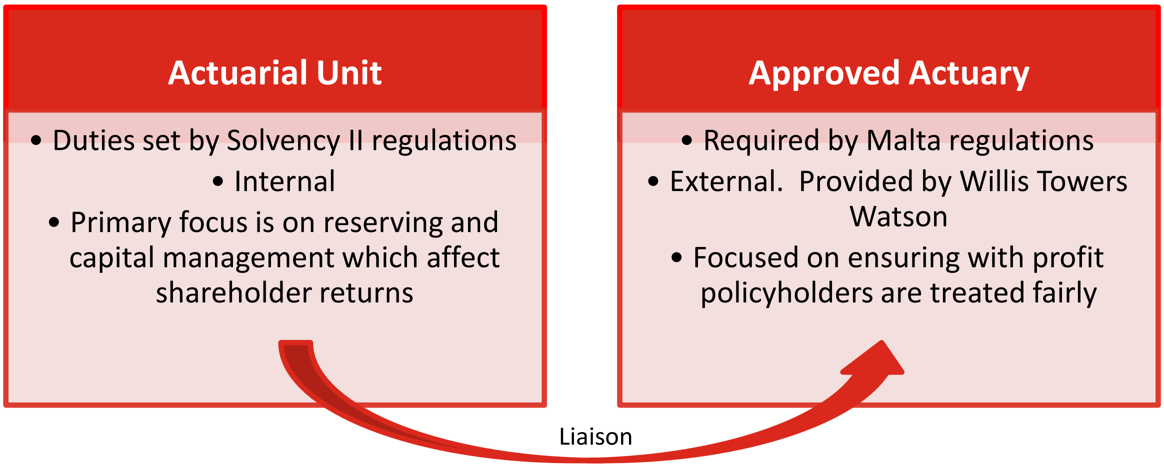
The Internal Audit bylaws, updated and approved by the Company's Audit Committee and the Board of Directors on the 26th October 2018, outlines the mission, functions, attributes, and obligations of the Internal Audit Function, It also includes the rights and obligations of the internal auditors as well as their code of ethics. One of the primary objectives is to communicate knowledge of the following aspects of internal audit: the classification of audit work, recommendations and deadlines, treatment of audit reports, and any other general circumstances related to internal audit activities. Internal Audit activities must be exclusively carried out by the Internal Audit Function.

This document is reviewed at least on a yearly basis. All changes during these reviews are approved by the MMSV Audit Committee and the Board of Directors.

The Company's internal auditors avail themselves of the Code of Ethics which is included in the Internal Audit bylaws and policies and define the rules of conduct for auditors.

## 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 Approved Actuary forms part of MMSV's third line of defense. The terms of the Approved Actuary engagement are governed by the Statement of Work dated 5thAugust 2016.

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 and for all of the tasks defined in the applicable Solvency II regulations, among other things.

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

Chief Actuary at MAPFRE MSV Life p.l.c. reports through two channels: to the Company's CEO and for certain areas of work, to the Group's Corporate Actuarial Area.

At 31stDecember 2018 the Chief Actuary at MAPFRE MSV Life p.l.c. reported to the company's Board of Directors through the meetings of the Board of Directors and the Risk and Compliance Committee.

The MAPFRE Group Corporate Actuarial Area sets the general principles and guidelines that take into account the best statistical and actuarial practices within the MAPFRE Group in order to coordinate and unify the Group's actuarial calculations.

The Corporate Actuarial Area also ensures compliance with the general actuarial calculation principles and guidelines. It can thus foster corrective actions in cases in which irregularities are detected, or when the general guidelines established have not been followed.

Notwithstanding the foregoing, the Corporate Actuarial Area (CAA) provides support to those Business Unit Actuarial Areas requiring its collaboration to comply with their individual responsibilities.

## B.7. Outsourcing

MMSV's Outsourcing Policy was approved on 18th January 2019 by the Board of Directors, and is in line with the Outsourcing Policy approved by the MAPFRE S.A. Board for the Group, establishing the general principles, tasks, processes and the assignment of responsibilities in the event of the outsourcing of a critical or important function and/or business.

The basic principle upon which the MMSV's Outsourcing Policy is based, establishes that it will continue with full responsibility for meeting all obligations arising from the functions or activities susceptible to being outsourced, in the same manner as if they were to be performed internally.

In accordance with the aforementioned Outsourcing Policy, on the 1st October 2012, MMSV's Board of Directors adopted a resolution to outsource the Internal Audit Function to MAPFRE Middlesea p.l.c, a company located in Malta, and the oversight of the function is carried out by the Audit Committee with the person responsible being Mr. David G. Curmi, CEO of MMSV.

The party responsible for monitoring the outsourced essential function provides an annual report to the Board regarding the performance and results of the services rendered by the provider with respect to the entrusted obligations in accordance with the Company's internal regulations that govern the essential function and/or critical activity that has been outsourced.

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

## B.8. Any other information

MMSV's system of governance reflects the requirements established in the Solvency II Directive on managing inherent business risks. MMSV uses its own strategy for implementing and carrying out the Risk Management Area, whilst the Group Risk Management Area defines the reference criteria and establishes or validates its organizational structure.

MMSV considers that the organizational and functional structure of its system of governance is adequate based on the nature, complexity and scale of the risks inherent to its business.

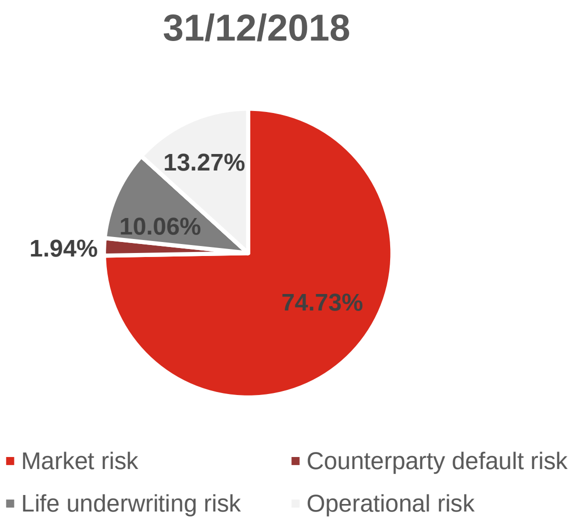
As mentioned above, Internal Audit performs a review of the Internal Control Environment on a yearly basis. Through this review, Internal Audit considers and evaluate the company's systems of governance, in line with the Internal Control Policy.

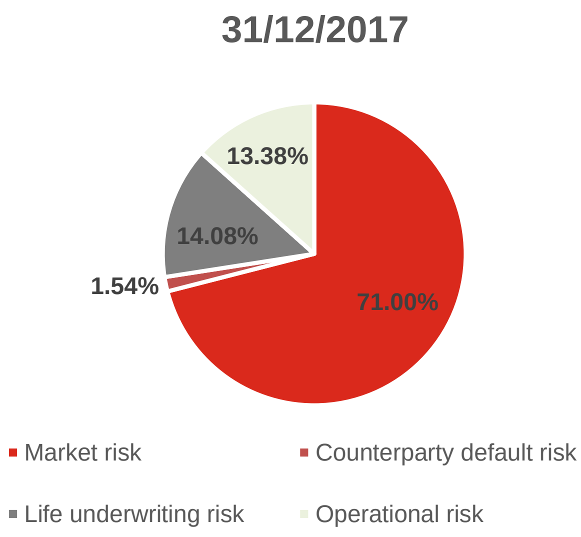
# C. Risk profile

MMSV calculates its Solvency Capital Requirement (SCR) in accordance with standard formula requirements. For the main risk categories, the standard formula is considered an appropriate measurement tool for determining MMSV's risk exposure, as it appropriately recognizes the capital charge corresponding to key risks (such as underwriting, market, counterparty and operational risk).

As explained in sections C.4 and C.6, MMSV's exposure to other risks not included in the Standard Formula SCR (such as, for example, liquidity risk) is not considered significant, as MMSV's measures are effective for management and mitigation of them.

The following illustrations show the composition of MMSV's SCR for the various risk modules as at 31st December 2018 and 2017 (the SCR calculation is explained in Section E.2)




As can be observed market risk remains the main risk faced by MMSV, representing 74.73 percent of the total SCR.

In 2018 the relative share of the market risk increased while the relative share of all the other risks declined. Further information is available in the following sections and summarized in section E.2.1.

In 2018 there have been no significant changes with respect to the measures used to assess MMSV's main risks

MMSV considers that there have been no material changes in the significant risks to which it is exposed, which are described in section C.6.

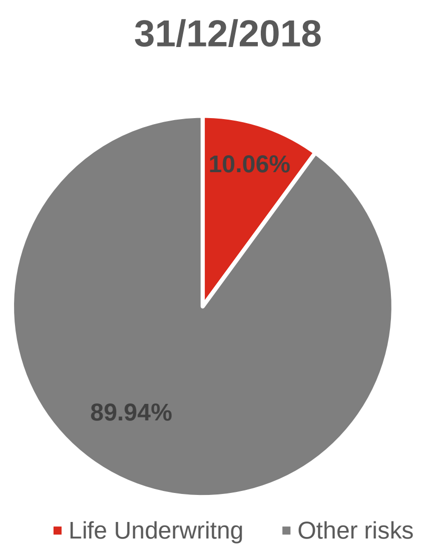
A description of the main risk categories, the exposure to the risks, their management and mitigation techniques and possible concentrations are indicated below.

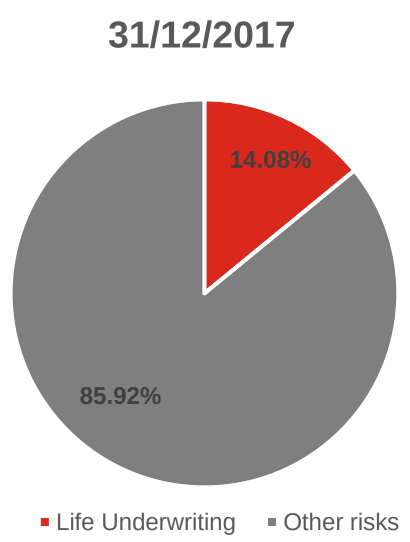
## C.1. Underwriting risk

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

**Exposure**

Underwriting risk at 31st December 2018 represents 10.06% of all of the risk modules included in the SCR, the details by module and changes compared to last year are presented in the following illustrations:




**Management and mitigation techniques**

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. Any other special terms are authorised by the Actuarial Unit after an assessment of the impact on expected profitability.

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.

- **Adequate allocation of the 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 reserving policies.

- **Use of reinsurance as a risk-mitigating technique:**

To this end, MMSV uses Reinsurance Policies as well as other insurance risk techniques.

At 31 December 2018 MMSV had ceded 1.0% 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.

**Concentration**

MMSV's insurance risk exhibits a geographical concentration to the Maltese islands since MMSV provides insurance cover exclusively to Maltese residents.

The highest exposures to underwriting risk arise from mass lapse. This causes a reduction in own funds on contracts where the best estimate of liabilities is negative (meaning that the policy is expected to generate a profit over its remaining term) or the surrender amount payable is greater than the best estimate of liabilities.

The product features of savings contracts help to mitigate mass lapse risk through earlier redemption surrender charges. Furthermore, in case of With Profits products, MMSV can apply an MVR (Market Value Reduction) to protect the interest of the remaining policyholders.

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

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

## C.2. Market Risk

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

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.

a) Non-Profits Portfolio Objectives

- Maintaining the sufficient appropriate assets to provide 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 of an appropriate nature and term available.

b) 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.

**Exposure**

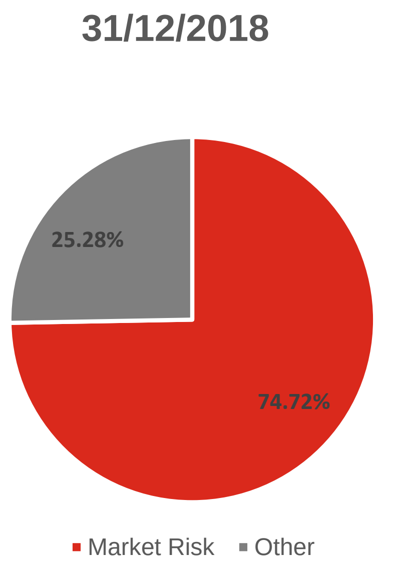
The following is a breakdown of MMSV's investments by asset category:

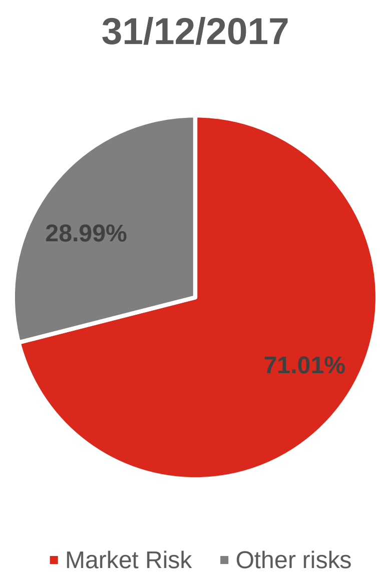
| Investments | Investments at 31/12/2018 | (%) Investments | Investments at 31/12/2017 | (%) Investments |
|---|---|---|---|---|
| **Investment properties** | **90,235** | **4.6%** | **87,855** | **4.7%** |
| **Financial investments** | **1,659,070** | **83.7%** | **1,603,278** | **85.3%** |
| Fixed income | 927,713 | 46.8% | 844,407 | 44.9% |
| Equities | 696,344 | 35.1% | 674,417 | 35.9% |
| Other | 35,013 | 1.8% | 84,455 | 4.49% |
| Deposits other than cash equivalents | **231,378** | **11.7%** | **187,875** | **10.0%** |
| Hedging derivatives | **450** | **0.0%** | **808** | **0.0%** |
| **Total** | **1,981,133** | **100%** | **1,879,816** | **100%** |

Figures in thousand euro

As at 31 December 2018, 98.61% of fixed-income investments had an investment-grade credit rating. Sovereign Government Debt exposure represented 76.62% of the total investment grade exposure. Maltese Government bonds represented 34.46% of the total fixed income exposure.

Market risk as at 31 December 2018 represents 74.7% of all of the risk modules included in the SCR, the details by module and changes compared to last year are presented in the following illustrations:




The increase in equity risk and currency risk (as the With-Profits Fund's equity exposure shifted towards a more global one in line with the new Strategic Asset Allocation) coupled with the reduction in Life underwriting risk resulted in a higher weight of market risk in the overall risk profile when compared to 2017.

**Management and mitigation techniques**

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 supports a prudent approach to interest rate risk.

- Spread and concentration risks are mitigated through restrictions related to 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.

## Concentration

The highest concentration of investments remains in Malta Government Debt and deposits with Bank of Valletta p.l.c. The relative percentage exposure to Maltese Government Debt has continued to decrease over the year. However, it is normal that insurance companies are exposed to the assets (debt issued by the government) of the country in which they operate. The Bank of Valletta exposure reflects the high liquidity profile maintained by MMSV over the past year.

## C.3. Credit Risk

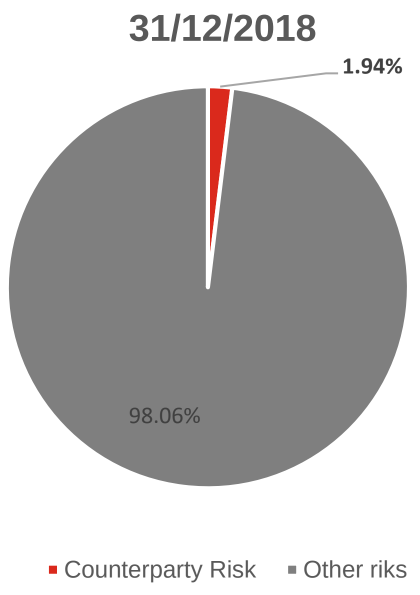
Credit Risk is the possibility of losses due to unexpected default or deterioration in the credit standing of counterparties and debtors over the next 12 months

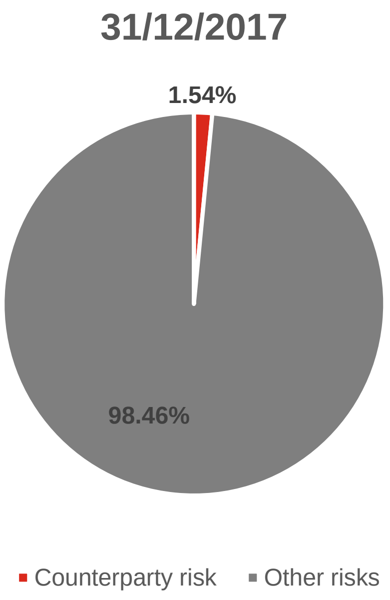
Credit Risk under the SCR Standard Formula calculation includes:

- Spread and concentration risk, in section which are included under Market Risk (previous section C.2)
- Counterparty default risk, which is broken down into two types of exposures:
    - Type 1 exposure: where the companies generally have credit ratings, including reinsurance contracts, swaps and cash in bank accounts.
    - Type 2 exposure: includes accounts receivable from intermediaries, and policyholder debts, among others.

**Exposure**

Counterparty default risk at 31 December 2018 represents 1.94% of all of the risk modules included in the SCR, the details by module and changes compared to last year are presented in the following illustrations:




In 2018 and 2017 MMSV exposure consisted of Type 1 exposures only.

**Management and mitigation techniques**

The credit risk management policy establishes exposure limits according to the counterparty's credit rating. A risk exposure monitoring and notification system is also set up.

*Reinsurance credit risk*

MMSV's strategy for reinsurance counterparties is to cede the business to reinsurers with proven financial capacity. Generally, reinsurance is obtained from companies with a financial solvency rating no lower than "High" (credit step rating of 2) and that have been accepted by the Security Committee at MAPFRE Group. Exceptionally, business is ceded to other reinsurers after an internal analysis that demonstrates the availability of a solvency level equivalent to the rating mentioned above or the delivery of adequate collateral, and the acceptance of the Security Committee.

The mandatory basic principles which must be met in the management of reinsurance and other risk-reduction techniques within MMSV, are:

- Optimization of capital consumption.
- Optimization of conditions.
- Solvency of counterparties.
- The effective transferability of risk.
- Suitability of the risk transfer.

**Concentration**

Apart from the cash held with local banks, the other important concentration relates to the reinsurance exposure with the group reinsurers which, in turn, have a broad diversified reinsurance.

## 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 at maturity or early surrender.

**Exposure**

Liquidity risk is not included in the SCR Standard Formula calculation. Exposure to liquidity risk is considered to be low, taking into account the prudent investment strategy established in the investment policy, which is characterized by a high proportion of highly rated fixed income securities that are listed on liquid markets and cash held at bank.

**Management and mitigation techniques**

MMSV has a Liquidity Risk Management Policy and an Asset and Liability Management Policy, which together represent the benchmark framework for taking action in this regard. Sufficient cash balances are maintained to comfortably cover the commitments arising from its obligations to insured parties and creditors. Thus, as at 31 December 2018, the cash and cash equivalents balance amounted to €50.9 million (€48.5 million in the preceding year), equivalent to 2.5% of total financial investments and cash.

With regard to Life and Savings policies, the investment policy applied involves matching the proceeds of the investments with the commitments expected to arise on 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 to cover expected cash outflows.

**Concentration**

No liquidity risk concentrations have been identified.

**Expected profits included in future premiums**

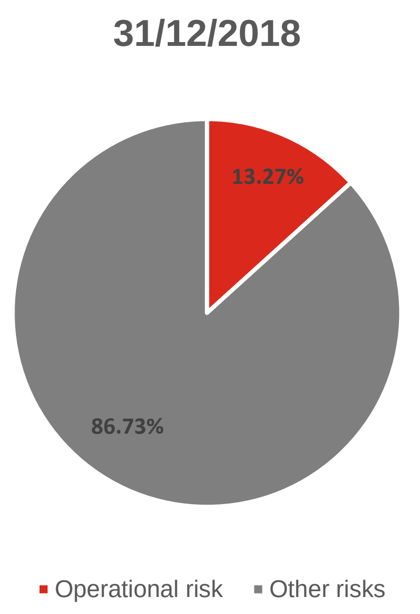
The calculation of the best estimate of the technical provisions includes the expected profits from future premiums. This represents the proportion of expected future profitability borne by future premiums. At 31 December 2018, those expected profits were estimated to total €59.4 million euro gross of reinsurance.

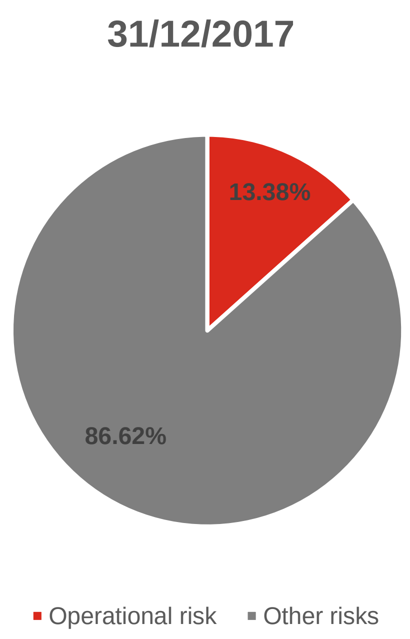
## C.5. Operational Risk

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

**Exposure**

Operational risk as at 31 December 2018 represents 13.27% of all of the risk modules included in the SCR, the details by module and changes compared to last year are presented in the following illustrations:




**Management and mitigation techniques**

Operational Risks are identified and evaluated through Riskm@p, a software application developed in-house by MAPFRE to control risks, notably operational risk.

This tool enables a yearly operational risk and control assessment which consists of a process-based dynamic qualitative analysis of MMSV. This assessment requires the participation of senior employees and managers across all departments to identify and assess the potential risks and the effectiveness of the related controls affecting the business and support processes.

This analysis considers the self-assessment of risks linked to the main processes of an insurance company by all participants, an evaluation of controls in place to mitigate the risks within published procedure manuals, and the management of the corrective measures in place to mitigate or reduce the risks and/or improve the control environment.

Furthermore, MMSV has implemented an operational loss reporting structure which categorises materialised incidents, and enable an on-going monitoring of action plans formulated as result of the operational losses reported.

**Concentration**

MMSV relies on its Life Systems to process and underwrite insurance contracts. The absence of such systems for a significant period of time would have negative consequences for the Company's ability to write new business. However, this possibility is considered as being remote, since business continuity mechanisms are in place to mitigate such a risk.

## C.6. Other material risks

### C.6.1. Cyber security risk

Cyber risks are those related to workplace security and the use of IT and communication technologies (including intentional acts originating from or caused by cyberspace), to ensure that there are no threats to the confidentiality, integrity, and availability of information and storage, processing and transfer systems.

MAPFRE Group has a Corporate Security and Environmental Department that is responsible for analyzing and managing cyber security risks that could cause damage. MMSV has a Security Function, which reports to the corporate Area and has local responsibility for cyber risk management.

During 2018 the function added new human resources with the objective to continue improving its technical skills, knowledge and capacity.

### C.6.2. Risk of new distribution channels

The risk of new distribution channels is the risk deriving from the failure to adapt MMSV's product distribution and services channels quickly enough in response to changes in client preferences, the Internet, mobile devices and digitalization in general, giving rise to a severe decline in demand.

MAPFRE Group strategic initiatives relating to Digital Transformation and Client Orientation allow this risk to be handled.

In 2018, MMSV launched Savvisave, the first digital insurance savings product in the local market.

### C.6.3. Legal risk

Legal risk is defined as the event comprising a change in regulations, law or administrative procedures that could adversely affect MMSV.

In recent years the legislative framework to which the insurance industry adheres has been growing with new regulations both internationally as well as locally. In this regard, it should be borne in mind that MMSV works in a complex environment under increasing regulatory pressures, not only in the insurance sector but also insofar as matters including technology, corporate governance or criminal corporate responsibility.

This risk is primarily mitigated through the valuation, identification, monitoring and mitigation tasks performed by the Company's Compliance Area. The Compliance Area has put in place a Legal Risk Management Process.

During 2018 the legal risk management framework focused on the implementation of the new requirements emanating from the transposition into local regulatory framework of the Insurance Distribution Directive (IDD).

### C.6.4. Reputational risk

Reputational risk is defined as the probability that a negative perception by the various stakeholders (shareholders, clients, distributors, employees, providers, etc.) could have an adverse effect on the Company.

Reputational risk is managed through the establishment of an adequate governance framework and the promotion of a culture based on solid values. These are underpinned by a set of corporate policies. Inter alia, these policies cover corporate governance, corporate social responsibility, diversity and the institutional, business and organizational principles.

### C.6.5. Product development and innovation risk

Product development and innovation risk is the risk that MMSV's portfolio of insurance products will not adapt to changes in the needs, perceptions and financial capacity of its clients quickly enough and cause a severe decline in demand.

MAPFRE Group strategic initiatives relating to Client Orientation and Digital Transformation allow this risk to be handled.

In 2018 MMSV made good progress in the development of pension product earmarked for the “voluntary occupational pensions” segment.

### C.6.6. Non compliance risk

Non-compliance risk is defined as the possibility of incurring losses as a result of legal or regulatory penalties, or loss of reputation that may affect MMSV as a result of the failure to comply with the laws, regulations, rules, internal and external standards or administrative requirements applicable to its business.

This risk is primarily mitigated through the, valuation, identification, monitoring, and mitigation tasks performed by MMSV’s Compliance Area. The Compliance Area has put in place a Compliance Risk Management Process.

## C.7. Any other information

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

MMSV performs sensitivity analyses of the solvency ratio involving certain macroeconomic variables, among which the following are notable:

- Interest rates (increases and decreases).
- Currency (appreciation of the euro).
- Valuation of equities (decrease).

The sensitivity of the solvency ratio to changes in these variables is set out below.

| | 31/12/2018 | Change |
|---|---|---|
| **Solvency Ratio (SR)** | 196% | |
| **SR In the event of a 100 basis point increase in the interest rate** | 229% | 32.7 p.p |
| **SR In the event of a 100 basis point decrease in the interest rate** | 157% | (39.0) p.p |
| **SR in the event of a 10% appreciation of the euro** | 173% | (23.6) p.p |
| **SR In the event of a 25% decrease in equities** | 84% | (112.1) p.p |

p.p. percentage points

The above sensitivities have to be read in the context of the then prevailing market conditions. As mentioned earlier in the report, equities had their worst year in the past 10 years, with a number of equity indices closing the year with a negative double-digit performance figure. Therefore, the equity sensitivity analysis, given the market correction in 2018, can be considered a more severe sensitivity when compared to a year before.

The Company’s Board of Directors keeps its risk appetite under regular review.

### C.7.2. Other issues

***Off-balance-sheet positions***

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

# 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 2018, and were approved by the Board of Directors during their meeting on 5 March 2019. 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.

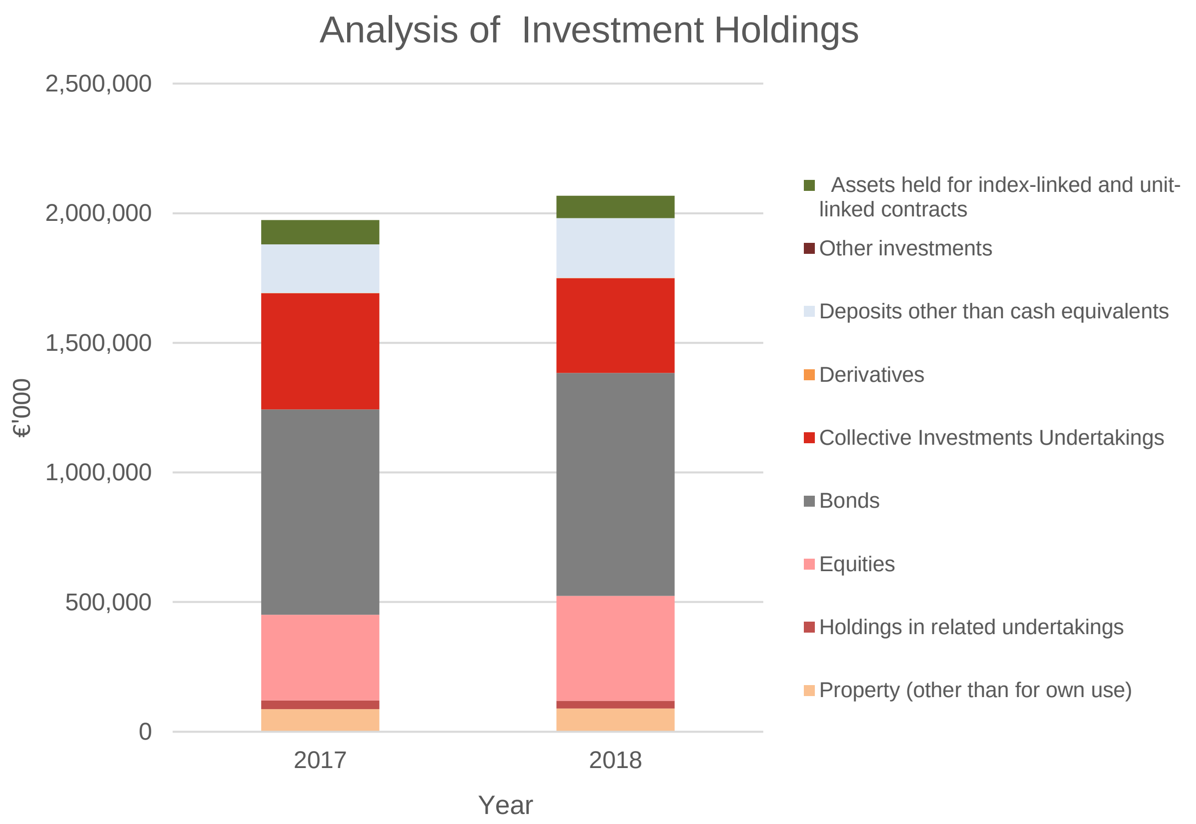
The following table compares the asset valuations that arise when using Solvency II rather than accounting criteria at 31 December 2018:

| Assets | Solvency II Value 2018 | Accounting Value 2018 |
|---|---|---|
| Goodwill | | 0 |
| Deferred acquisition costs | | 374 |
| Intangible assets | | 65,756 |
| Deferred tax assets | | |
| Pension benefit surplus | | |
| Property, plant & equipment held for own use | 11,538 | 11,538 |
| Investments (other than assets held for index-linked and unit-linked contracts) | 1,981,133 | 1,973,918 |
| Property (other than for own use) | 90,235 | 90,235 |
| Holdings in related undertakings | 29,263 | 29,232 |
| Equities | 403,988 | 403,988 |
| Equities - listed | 403,988 | 403,988 |
| Equities - unlisted | | |
| Bonds | 860,972 | 854,626 |
| Government Bonds | 704,509 | 699,477 |
| Corporate Bonds | 152,634 | 151,331 |
| Structured notes | | |
| Collateralized securities | 3,828 | 3,818 |
| Collective Investments Undertakings | 364,846 | 364,846 |
| Derivatives | 450 | 141 |
| Deposits other than cash equivalents | 231,378 | 230,850 |
| Other investments | | |
| Assets held for index-linked and unit-linked contracts | 86,452 | 86,452 |
| Loans and mortgages | | 8,858 |
| Loans on policies | | 8,858 |
| Loans and mortgages to individuals | | |
| Other loans and mortgages | | |
| Reinsurance recoverables from: | -18,370 | 471 |
| Non-life and health similar to Non-Life | | |
| Non-Life, excluding health | | |
| Health similar to Non-Life | | |
| Life and health similar to Life, excluding health and index-linked and unit-linked | -18,370 | 471 |
| Health similar to Life | | |
| Life, excluding health and index-linked and unit-linked | -18,370 | 471 |
| Life index-linked and unit-linked | | |

| Assets | Solvency II Value 2018 | Accounting Value 2018 |
|---|---|---|
| Deposits to cedants | | |
| Insurance and intermediaries receivables | 45 | 45 |
| Reinsurance receivables | 471 | |
| Receivables (trade, not insurance) | 2,761 | 2,761 |
| Own shares (held directly) | | |
| Amounts due in respect of own funds items | | |
| Cash and cash equivalent | 50,970 | 50,970 |
| Any other assets, not elsewhere shown | 5,343 | 12,218 |
| **TOTAL ASSETS** | 2,120,343 | 2,213,361 |

Figures in thousand euro

The assets shown above are for the total company. Investments represent the most significant category of asset and the change in the market value of broad asset classes is shown in the graph below.




The most significant changes in the asset mix have arisen through a reduction in exposure *to collective investment undertakings* following disinvestment from the diversified growth fund and also due to market falls at the end of 2018. During 2018 exposure to equity assets increased in the with-profits fund in line with the strategic asset allocation agreed in late 2017. The impact of this was dampened to some extent by the fall in equity markets at the end of 2018. Exposure to bond assets also increased during the year.

The significant asset valuation differences using Solvency II criterion, including qualitative explanations for the main differences arising from their valuations using Solvency II and those used in preparing the financial statements ("Accounting value") at 31 December 2018 are shown below.

**Deferred acquisition costs**

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

**Intangible assets**

For accounting purposes, the value of intangible assets includes the present value of in force business and capitalized 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 capitalized based on costs incurred, amortized over the useful life. However, for solvency reserving these are not taken into account and no value is assigned to intangible assets.

**Investments (other than assets held for index-linked and unit-linked contracts) method;**

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 – Fair Value Measurement.

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:

- **Property (other than for own use)**

This category includes items which are not considered for own use, and are invested to earning income, capital gains, or both. Investment property is measured at fair value in both balance sheets. Fair value is based on active market prices, adjusted, if necessary for any difference in the nature, location or condition of the specific asset. If this information is not available, the Company uses alternative valuation methods such as discounted cash flow projections or recent prices in less active markets. An independent valuation expert reviews these valuations annually.

- **Holdings in related undertakings, including participations**

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

Under IFRS, the investment in subsidiary is measured at cost, whilst the Solvency II value is derived using the adjusted equity method.

Investments in associates, wherever possible, are measured at their listed prices on active markets. However, in the absence of quoted prices or inactive markets, some investments are valued by reference to net assets, at the proportional share of the associated company's value. This valuation basis is used in the IFRS financial statements and Solvency II purposes.

The difference of €31 thousand in the valuation between the two balance sheets is related to the valuation of Growth Investments Limited.

- **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 and term deposits, which is included under Other Assets in the IFRS balance sheet.

**Loans and mortgages**

For Solvency II purposes, loans on policies are included with the technical provisions calculation. To be more accurate, the best estimate of liabilities (hereinafter, BEL) is determined after allowing 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 amortized cost using the effective interest method.

**Reinsurance recoverables**

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 does not allow for default.

**Reinsurance receivables**

Reinsurance receivables, which are measured at the present value, represent the reinsurers' share of claims outstanding ceded in the normal course of business. These are classified as part of the Technical Provisions in the IFRS balance sheet. For solvency purposes, the value of reinsurance receivables are shown separately in the balance sheet. They are calculated as the present value of cash-flows receivable in the event of claims on protection policies less the present value of reinsurance premiums using the same methodology and assumptions as used for the BEL itself. A further adjustment is made to the value calculated in order to allow for the probability of default or non-recovered of ceded sums insured.

**Any other assets, not elsewhere shown**

As the value of these assets approximate fair value in the IFRS financial statements, no adjustment is required for Solvency II purposes. The main difference relates to accrued interest, which is classified under this heading for IFRS reporting.

## D.2. Technical provisions

The technical provision valuations using Solvency II criteria (hereinafter, "Solvency II Provisions"), including qualitative explanations for the main differences arising from their valuations using Solvency II and those used in preparing the financial statements, "Accounting provisions" - under "Accounting value") at 31 December 2018 are shown below.

Technical provisions are calculated as the best estimate of liabilities plus a risk margin for non-unit-linked contracts. For unit-linked policies they are calculated as a whole.

| Technical provisions | Solvency II Value 2018 | Accounting Value 2018 |
|---|---|---|
| Technical provisions - Non-Life | | |
| Technical provisions - Non-Life (excluding health) | | |
| Technical provisions calculated as a whole | | |
| Best Estimate (BE) | | |
| Risk margin (RM) | | |
| Technical provisions - health (similar to Non-Life) | | |
| Technical provisions calculated as a whole | | |
| Best Estimate (BE) | | |
| Risk margin (RM) | | |
| Technical provisions - Life (excluding index-linked and unit-linked) | 1,790,338 | 1,927,914 |
| Technical provisions - health (similar to Life) | 0 | 0 |
| Technical provisions calculated as a whole | 0 | |
| Best Estimate (BE) | 0 | |
| Risk margin (RM) | 0 | |
| Technical provisions - Life (excluding health and index-linked and unit-linked) | 1,790,338 | 1,927,914 |
| Technical provisions calculated as a whole | 0 | |
| Best Estimate (BE) | 1,771,598 | |
| Risk margin (RM) | 18,739 | |
| Technical provisions - index-linked and unit-linked | 86,452 | 86,452 |
| Technical provisions calculated as a whole | 86,452 | |
| Best Estimate (BE) | 0 | |
| Risk margin (RM) | 0 | |
| Other technical provisions | | |
| **TOTAL TECHNICAL PROVISIONS** | **1,876,790** | **2,014,366** |

Figures in thousand euro

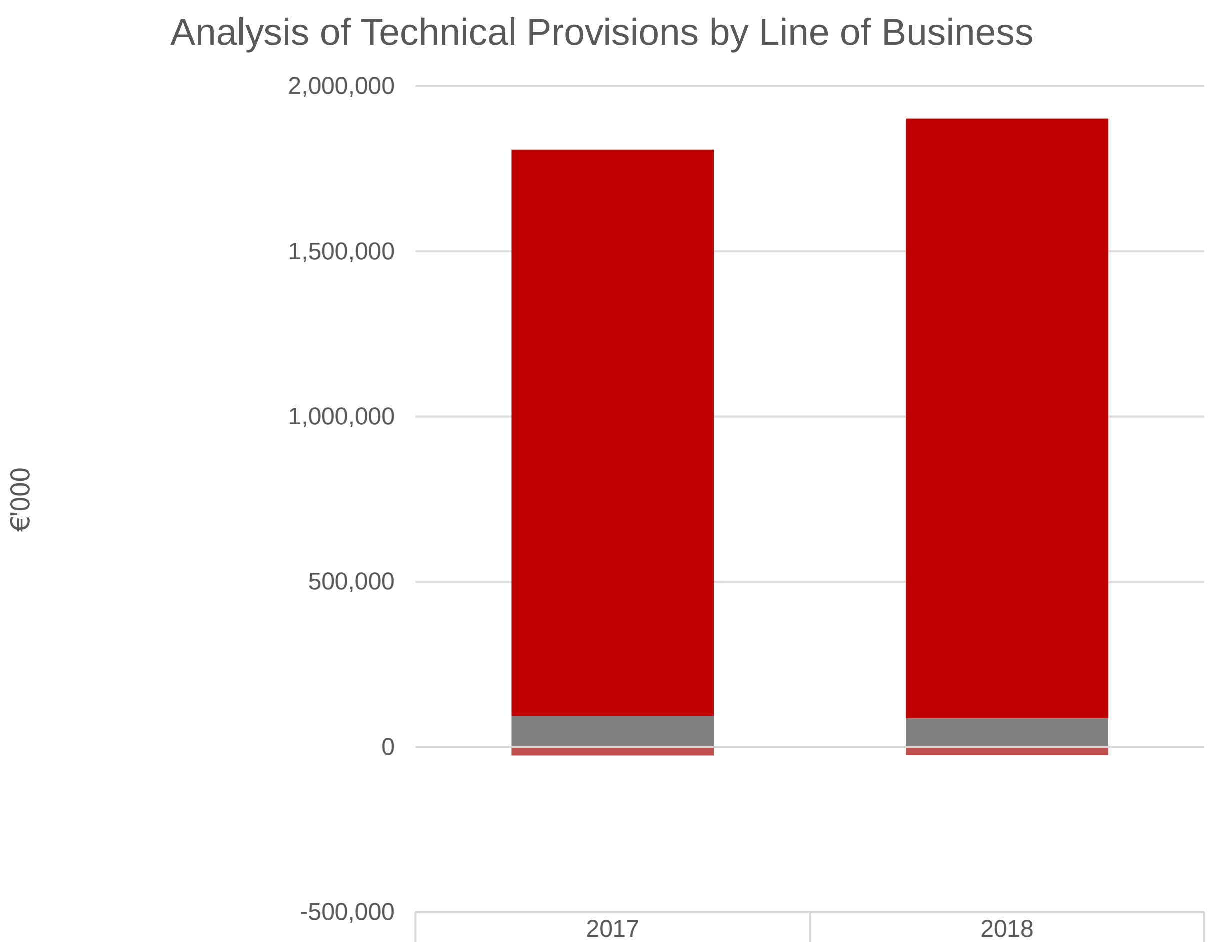
MMSV is a life insurance company specializing in the following core lines of business:

- With-profits investment and savings contracts
- Non-profit protection contracts
- Unit-linked investment and savings contracts.

The Life Technical Provisions can be further broken down into the following categories.

| Technical provisions | Solvency II Value 2018 | Accounting Value 2018 |
|---|---|---|
| Technical provisions – with profits | 1,815,686 | 1,885,808 |
| Technical provisions calculated as a whole | 0 | |
| Best Estimate | 1,809,213 | |
| Risk margin | 6,472 | |
| Technical provisions – term assurance | -25,348 | 42,106 |
| Technical provisions calculated as a whole | 0 | |
| Best Estimate | -37,615 | |
| Risk margin | 12,267 | |

The following graph analyses the change in the Solvency II technical provisions by line of business from 31 December 2017 to 31 December 2018. It shows that the most significant increase in technical provisions has arisen from a 6% increase in the with-profits technical provisions. This was mainly due to strong sales of with-profits contracts resulting in a net transfer of funds into the with-profits fund more than compensating for the negative investment performance experienced during 2018. There was a reduction in unit-linked liabilities mainly because low new business volumes and the fall in equity markets at the end of 2018. The term assurance BEL is negative and this line of business therefore represents an asset. The asset decreased by just under 3% as the increase from new business was offset by the ageing of the portfolio and assumption changes. There was a reduction in the risk margin on with-profits contracts of approximately €3 million primarily due to an improvement to the mass lapse calculation, which resulted in a lower solvency capital requirement for underwriting risk.




| | 2017 | 2018 |
|---|---|---|
| Technical provisions - with-profits | 1,713,641 | 1,815,686 |
| Technical provisions - term assurance | -26,056 | -25,348 |
| Technical provisions - index-linked and unit-linked | 93,999 | 86,452 |

In general terms, the main difference between Solvency II and Accounting valuations is the regulatory framework which underpins them. While under Solvency II technical provisions are measured using market economic criteria and realistic demographic and non-demographic assumptions, for financial statements, annual technical provisions are calculated based on accounting standards. The most significant differences were as follows:

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

**Best estimate**

The calculation of MMSV's best estimate under Solvency II considers all the future expected cash inflows and outflows necessary to settle the company's contractual obligations at the valuation date[2]. The assessment takes into account the time value of money[3] by applying the appropriate term structure of risk-free interest rates[4] to the expected future cash-flows.

Under IFRS a single valuation interest rate (rather than a curve) is used. This rate is set allowing for a prudent margin above the risk free rates by taking into account the running yields on baskets of assets held

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

to match similar groups of policies comprising the technical provisions. The interest rate used for calculating the mathematical accounting provision is established by the Board. Similarly, prudential margins are applied to each of the non-economic assumptions.

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

The best estimate liability may be negative for certain contracts where the present value of expected future outflows is expected to be less than the present value of 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 used in the calculation of MMSV's best estimate is generally based on the actual demographic experience of the portfolio having regard to likely future trends as well as the operating and economic assumptions outlined in below. Under IFRS, however, technical provisions are calculated using a prudent set of assumptions, i.e. by applying a margin to each of the best estimate assumptions derived from actual experience.

*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 benefits accumulated. The payout on withdrawal is not defined either as a guaranteed amount or future return.

*Contract boundaries*

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. As unit-linked charges are reviewable, the extent to which future cash flows can be taken into account is limited by the regulations and therefore the calculation of technical provisions requires a different assessment.

Under IFRS, and in the accounts, there are no similar constraints.

Protection policies are valued for all policies accepted on risk at the valuation date and expected cash flows are projected until the contractual benefit expiry date.

With-profits policies are valued for all policies accepted on risk at the valuation date and expected cash-flows are projected until the contractual maturity date. No allowance is made for ad hoc future single premiums or partial withdrawals.

**Risk margin**

The Risk Margin is conceptually equivalent to the cost of supplying eligible own funds to cover the non-hedgeable 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 future SCRs are 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 projected SCRs that are 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. A deterministic method is used to assess the value of the non-profit liabilities while stochastic projections are required to determine the value of guaranteed benefits and future discretionary benefits, which comprise the best estimate of liabilities for with-profits contracts.

The methodology does not use any simplifications. Instead, a projection is made of all the expected best estimate future cash flows arising for each policy within the appropriate contract boundary. 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 across individual policies.

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 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 asset class volatilities.

- Non-economic assumptions including:
  - Realistic maintenance expenses which are incurred throughout the duration of the contracts.
  - Customer lapse rates and policy surrenders.
  - Mortality and longevity rates.
  - 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 behavior 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-profits 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 of 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 probability of a contract remaining in force.
- The risk-free interest rate.

The first three 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 evaluation of other liabilities for the purposes of Solvency II are set out below together with the qualitative explanations for the main valuation differences between the Solvency II criteria and those employed to prepare the financial statements ("Accounting Value" column) as at 31 December 2018.

| Other Liabilities | Solvency II Value 2018 | Accounting Value 2018 |
|---|---|---|
| **Total technical provisions** | **1,876,790** | **2,014,366** |
| Contingent liabilities | | |
| Provisions other than technical provisions | | |
| Pension benefit obligations | | |
| Deposits from reinsurers | | |
| Deferred tax liabilities | 23,887 | 28,666 |
| Derivatives | 374 | 64 |
| Debts owed to credit institutions | 0 | 0 |
| Financial liabilities other than debt owed to credit institutions | 0 | 0 |
| Insurance & intermediaries payables | 26,210 | 2,445 |
| Reinsurance payables | 2,968 | 2,968 |
| Payables (trade, not insurance) | 2,643 | 2,643 |
| Subordinated liabilities | 0 | 0 |
| Subordinated liabilities not in basic own funds | 0 | 0 |
| Subordinated liabilities included in basic own funds | 0 | 0 |
| Any other liabilities, not elsewhere shown | 2,227 | 2,226 |
| **TOTAL LIABILITIES** | **1,935,100** | **2,053,378** |
| **EXCESS OF ASSETS OVER LIABILITIES** | **185,243** | **159,983** |

Figures in thousand euro

The key year on year changes in the profile of the other liabilities on a Solvency II basis are:

- An increase in insurance and intermediaries payable from €22.5M to €26.2M
- A reduction in the value of deferred tax liabilities from €26.7M to €23.9M
- An increase in the value of derivatives from €0.1M to €0.4M.

The main differences in valuation methods are set out in the following paragraphs.

**Deferred tax liabilities**

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 €28.7 million.

MMSV recognized deferred tax liabilities on the Solvency II balance sheet at €23.9 million. This amount was determined by assessing the future profits on insurance business that would arise on a best estimate basis and applying the appropriate tax rate to these expected profits. Therefore, expert judgement was applied in the same way as described for the calculation of the best estimate of liabilities. The methodology applied 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.

**Insurance & intermediaries payables**

The Solvency II value includes, among others, outstanding claims payable amounting to €23.9 million, which is included under the technical provisions caption in the IFRS financial statements. The amounts are stated at amortized cost which is considered to be a reasonable approximation of the fair value.

## D.3.1 Additional information

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

## D.4. Alternative methods for valuation

Alternative valuation methods used by MMSV are disclosed in the respective sections.

## D.5. Any other information

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

There is no other significant information regarding the valuation of assets and liabilities that has not been included in the preceding sections.

## D.6. Annexes

### A) Assets

Template **S.02.01.02** detailing quantitative asset disclosures at 31 December 2018

**Balance sheet**

| | | Solvency II value |
|---|---|---|
| **Assets** | | **C0010** |
| Intangible assets | **R0030** | |
| Deferred tax assets | **R0040** | |
| Pension benefit surplus | **R0050** | |
| Property, plant & equipment held for own use | **R0060** | 11,538 |
| Investments (other than assets held for index-linked and unit-linked contracts) | **R0070** | 1,981,133 |
| Property (other than for own use) | **R0080** | 90,235 |
| Holdings in related undertakings, including participations | **R0090** | 29,263 |
| Equities | **R0100** | 403,988 |
| Equities - listed | **R0110** | 403,988 |
| Equities - unlisted | **R0120** | |
| Bonds | **R0130** | 860,972 |
| Government Bonds | **R0140** | 704,509 |
| Corporate Bonds | **R0150** | 152,634 |
| Structured notes | **R0160** | |
| Collateralised securities | **R0170** | 3,828 |
| Collective Investments Undertakings | **R0180** | 364,846 |
| Derivatives | **R0190** | 450 |
| Deposits other than cash equivalents | **R0200** | 231,378 |
| Other investments | **R0210** | |
| Assets held for index-linked and unit-linked contracts | **R0220** | 86,452 |
| Loans and mortgages | **R0230** | |
| Loans on policies | **R0240** | |
| Loans and mortgages to individuals | **R0250** | |
| Other loans and mortgages | **R0260** | |
| Reinsurance recoverables from: | **R0270** | -18,370 |
| 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** | -18,370 |
| Health similar to life | **R0320** | |
| Life excluding health and index-linked and unit-linked | **R0330** | -18,370 |
| Life index-linked and unit-linked | **R0340** | |
| Deposits to cedants | **R0350** | |
| Insurance and intermediaries receivables | **R0360** | 46 |
| Reinsurance receivables | **R0370** | 470 |
| Receivables (trade, not insurance) | **R0380** | 2,761 |
| 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** | 50,970 |
| Any other assets, not elsewhere shown | **R0420** | 5,343 |
| **Total assets** | **R0500** | 2,120,343 |

Figures in thousand euro

## B) Technical provisions

**B.1** Template **S.02.01.02** detailing quantitative technical provisions disclosures at 31 December 2018:

| | | 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** | 1,790,338 |
| 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** | 1,790,338 |
| TP calculated as a whole | **R0660** | |
| Best Estimate | **R0670** | 1,771,598 |
| Risk margin | **R0680** | 18,739 |
| Technical provisions – index-linked and unit-linked | **R0690** | 86,452 |
| TP calculated as a whole | **R0700** | 86,452 |
| Best Estimate | **R0710** | |
| Risk margin | **R0720** | |

Figures in thousand euro

**S.12.01.02**

**Life and Health SLT Technical Provisions**

| | | Insurance with profit participation | Index-linked and unit-linked insurance | Index-linked and unit-linked insurance: Contracts without options and guarantees | Index-linked and unit-linked insurance: Contracts with options or guarantees | Other life insurance | Other life insurance: Contracts without options and guarantees | Other life insurance: Contracts with options or guarantees | 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) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100 | C0150 |
| **Technical provisions calculated as a whole** | R0010 | | 86,452 | | | | | | | | 86,452 |
| 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 | 1,809,213 | | | | | -37,615 | | | | 1,771,598 |
| Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | R0080 | | | | | | -18,370 | | | | -18,370 |
| Best estimate minus recoverables from reinsurance/SPV and Finite Re - total | R0090 | 1,809,213 | | | | | -19,245 | | | | 1,789,968 |
| **Risk Margin** | R0100 | 6,472 | | | | 12,267 | | | | | 18,739 |
| **Amount of the transitional on Technical Provisions** | | | | | | | | | | | |
| Technical Provisions calculated as a whole | R0110 | | | | | | | | | | |
| Best estimate | R0120 | | | | | | | | | | |
| Risk margin | R0130 | | | | | | | | | | |
| **Technical provisions - total** | R0200 | 1,815,686 | 86,452 | | | -25,348 | | | | | 1,876,790 |

## C) Other Liabilities

Template **S.02.01.02** detailing quantitative disclosures of other liabilities at 31 December 2018

| | | |
|---|---|---|
| Contingent liabilities | **R0740** | |
| Provisions other than technical provisions | **R0750** | |
| Pension benefit obligations | **R0760** | |
| Deposits from reinsurers | **R0770** | |
| Deferred tax liabilities | **R0780** | 23,887 |
| Derivatives | **R0790** | 374 |
| Debts owed to credit institutions | **R0800** | |
| Financial liabilities other than debts owed to credit institutions | **R0810** | |
| Insurance & intermediaries payables | **R0820** | 26,210 |
| Reinsurance payables | **R0830** | 2,968 |
| Payables (trade, not insurance) | **R0840** | 2,643 |
| Subordinated liabilities | **R0850** | |
| Subordinated liabilities not in BOF | **R0860** | |
| Subordinated liabilities in BOF | **R0870** | |
| Any other liabilities, not elsewhere shown | **R0880** | 2,227 |
| **Total liabilities** | **R0900** | 1,935,100 |
| **Excess of assets over liabilities** | **R1000** | 185,243 |

Figures in thousand euro

# E. Capital Management

## E.1. Own funds

### E.1.1. Own funds 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 take into account ongoing compliance with the applicable regulations during the whole period under consideration.
- Establish an identification and documentation process of ring-fenced fund/s and the circumstances under which eligible capital can absorb losses.
- Ensure that MMSV has a medium-term Capital Management Plan.
- Capital management will consider the results from the Own Fund Risk and Solvency Assessment (ORSA), as well as the conclusions reached during that process.
- 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 assessed 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 3-year projection period, the Risk Function will propose measures to resolve the situation and to maintain solvency levels in line with regulatory requirements and the company's Risk Appetite.

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

a) Compliance 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 eligible capital instruments issues.

c) Refunds, both contractual on the due date and those which it is possible to make on request before maturity, relating to elements of eligible capital.

d) The results of the ORSA projections.

e) Foreseeable dividends and their impact on eligible capital.

MMSV has not used the transitional measure on technical provisions.

The Risk Function must submit the medium-term Capital Management Plan to the Board of Directors for approval. The plan is part of the ORSA report.

During 2018 there have not been any significant changes in the objectives, policies and processes used to manage MMSV's own funds.

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

The structure, amount and quality of own funds as at 31st December 2018 are set out in template S.23.01.01 below. MMSV's coverage ratios are defined as follows:

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

**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 | | | | | |
| Iinitial 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 | 61,271 | 61,271 | | | |
| Preference shares | R0090 | | | | | |
| Share premium account related to preference shares | R0110 | | | | | |
| Reconciliation reserve | R0130 | 41,932 | 41,932 | | | |
| 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 | 157,953 | 157,953 | | | |
| **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** | 157,953 | 157,953 | | | |
| Total available own funds to meet the MCR | **R0510** | 157,953 | 157,953 | | | |
| Total eligible own funds to meet the SCR | **R0540** | 157,953 | 157,953 | | | |
| Total eligible own funds to meet the MCR | **R0550** | 157,953 | 157,953 | | | |
| **SCR** | **R0580** | 80,421 | | | | |
| **MCR** | **R0600** | 36,189 | | | | |
| **Ratio of Eligible own funds to SCR** | **R0620** | 196.41% | | | | |
| **Ratio of Eligible own funds to MCR** | **R0640** | 436.46% | | | | |

| | | C0060 | |
|---|---|---|---|
| **Reconciliation reserve** | | | |
| Excess of assets over liabilities | **R0700** | 185,243 | - |
| Own shares (held directly and indirectly) | **R0710** | | - |
| Foreseeable dividends, distributions and charges | **R0720** | 27,290 | - |
| Other basic own fund items | **R0730** | 116,021 | - |
| Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds | **R0740** | | - |
| **Reconciliation reserve** | **R0760** | 41,932 | - |
| **Expected profits** | | | - |
| Expected profits included in future premiums (EPIFP) - Life business | **R0770** | 59,943 | - |
| Expected profits included in future premiums (EPIFP) - Non- life business | **R0780** | | - |
| **Total Expected profits included in future premiums (EPIFP)** | **R0790** | 59,943 | - |

The table below compares the position at the end of 2017 and 2018 for the items of own funds relevant to MMSV.

| | Amount | |
|---|---|---|
| | 2018 | 2017 |
| **Own Funds** | | |
| Ordinary share capital | 54,750 | 54,750 |
| Surplus funds | 61,271 | 66,767 |
| Reconciliation Reserve | 41,923 | 53,308 |
| **Total Basic Own Funds** | **157,953** | **174,825** |
| | | |
| Total available own funds to meet the SCR | 157,953 | 174,825 |
| Total available own funds to meet the MCR | 157,953 | 174,825 |
| Total eligible own funds to meet the SCR | 157,953 | 174,825 |
| Total eligible own funds to meet the MCR | 157,953 | 174,825 |
| **SCR** | **80,421** | **71,313** |
| **MCR** | **36,189** | **32,091** |
| **Ratio of Eligible own funds to SCR** | **196.4%** | **245.2%** |
| **Ratio of Eligible own funds to MCR** | **436.5%** | **544.8%** |
| | | |
| | | |
| **Reconciliation reserve** | | |
| Excess of assets over liabilities | 185,243 | 187,135 |
| Foreseeable dividends, distributions and costs | 27,290 | 12,310 |
| Other basic own fund items | 116,021 | 121,517 |
| **Reconciliation reserve** | **41,932** | **53,308** |
| **Expected benefits** | | |
| Expected profits included in future premiums — Life Business | 59,943 | 58,634 |
| **Total Expected profits included in future premiums** | **59,943** | **58,634** |

Figures in thousand euro

The above table is for comparison purposes and only reflects rows showing MMSV's own funds and coverage ratios, as such those lines with a value of zero have been eliminated.

**Amount of eligible own funds to cover the SCR, classified by level**

Own funds may be classified as either basic or ancillary in accordance with applicable legislation. In turn, own funds may also be classified by Tier (1, 2, or 3) to the extent that they have certain characteristics determining their availability to absorb losses. 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 and availability, sub-ordination and duration are not relevant. This position is unchanged from the previous year.

At 31st December 2018, MMSV has unrestricted basic Tier 1 own funds totaling €157.95 million euro (€174.83 million as at 31st December 2017). These own funds consist of:

- Ordinary paid-in share capital which is unchanged from the previous year since there have been no new issues or redemptions during the year.
- Reconciliation reserve, which has fallen by 21.34 % over the year reflecting movements in assets and liabilities during the period and the foreseeable dividend in the form of special dividend.
- Surplus funds, which represent the present value of expected future shareholder transfers arising from contracts written in the with-profits fund. These have decreased by 8% mainly due to the increase risk profile of the fund following the fall in asset values over the year.

All the Company's own funds are considered basic. MMSV did not include any ancillary own funds.

**Solvency Capital Requirement (SCR) coverage**

The SCR corresponds to the own funds that MMSV must possess to absorb extraordinary losses from adverse scenarios expected to occur one in every 200 years, or that MMSV be still 99.5% able to meet its commitments to insurance beneficiaries and policyholders during the following year.

Regulations determine the own funds that are suitable for covering the SCR, in accordance with which all unrestricted basic Tier 1 own funds are eligible for that coverage. All basic Tier 3 own funds are also eligible to cover the SCR, as are all ancillary Tier 2 own funds. MMSV coverage for the SCR comes solely from Tier 1 own funds.

The solvency ratio that measures the relationship between eligible own funds and the SCR as calculated by applying the standard formula is 196.4% as at 31 December 2018. This shows MMSV's high capacity to absorb extraordinary losses deriving from a 1 every 200 years adverse scenario. This ratio falls within the Risk Appetite established and approved by the Board of Directors.

**MCR coverage**

The MCR is the capital amount set as the minimum security level under which financial resources should never fall.

The MCR is the amount of basic eligible Own Funds under which policyholders and beneficiaries are exposed to an unacceptable level of risk, should MMSV continue with its business.

All MMSV's own funds are basic unrestricted Tier 1 and therefore they are all eligible.

The ratio of eligible own funds to the MCR amounts to 436.5% in 2018. The MCR coverage has fallen in 2018 as a consequence of the increase in the SCR in line with the calculation methods stipulated in the regulations and a lower eligible funds level than previous year. (for the reasons explained above).

**Total expected profits included in future premiums**

The expected profits included in future premiums is explained in Section c.4.

**Difference between equity in the financial statements and excess of assets over liabilities for Solvency II purposes**

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

At 31st December 2018 the excess of assets over liabilities for Solvency II purposes amounts to €185.2 million, while IFRS equity was equal to €159.9 million. The main adjustments that arise from the reconciliation of IFRS equity and own funds under Solvency II may be observed below:

| | 2018 | 2017 |
|---|---|---|
| **IFRS Equity** | **159,980** | **161,095** |
| **Difference in valuation of assets** | **(93,018)** | **(92,349)** |
| Deferred Acquisition Costs | (374) | (451) |
| Intangible Assets | (65,756) | (66,020) |
| Other adjustments | (26,888) | (25,878) |
| **Difference in valuation of liabilities** | **118,281** | **118,391** |
| Technical provisions | 137,576 | 137,782 |
| Other Liabilities | (24,074) | (19,187) |
| Deferred Taxes | 4,779 | (204) |
| **Excess assets over liabilities (Solvency II Value)** | **185,243** | **187,136** |

Figures in thousand euro

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

### E.1.3. Other information

**Essential items in the reconciliation reserve**

The tables included at the start of the section indicate the structure, amount and quality of own funds and present the essential items taken into account to calculate the reconciliation reserve based on the amount of excess assets compared to liabilities for Solvency II purposes.

This excess of assets over liabilities amounts to €185.24 million. To determine the reconciliation reserve the following was deducted:

- Foreseeable Dividends €27.3 million
- Other basic own funds items €116 million

The reconciliation reserve includes the potentially most volatile component of the eligible own funds, where variations are influenced by MMSV’s asset and liability management.

At company level it 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 occurs because of differences between the accounting and solvency regimes whereby the amount that will be due to shareholders is reported differently. This amount could be thought of as the expected value of 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. At Company level, under E.1.2, Own Funds Table, this is shown as Surplus funds.

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.

**Items deducted from own funds**

The only items deducted from own funds by MMSV is the final year dividend and the special dividend as this is not paid yet at the balance sheet date and not reflected in the net assets value.

**Own Funds issued and instruments surrendered**

MMSV did not issue any own fund instruments during the year and none have been surrendered.

**Transitional measures**

MMSV did not take into consideration any own fund items to which the transitional provisions foreseen in Article 308b, Sections 9 and 10 of Directive 2009/138/EC are applicable.

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

### E.2.1. Amounts and valuation methodologies of the Solvency Capital Requirement

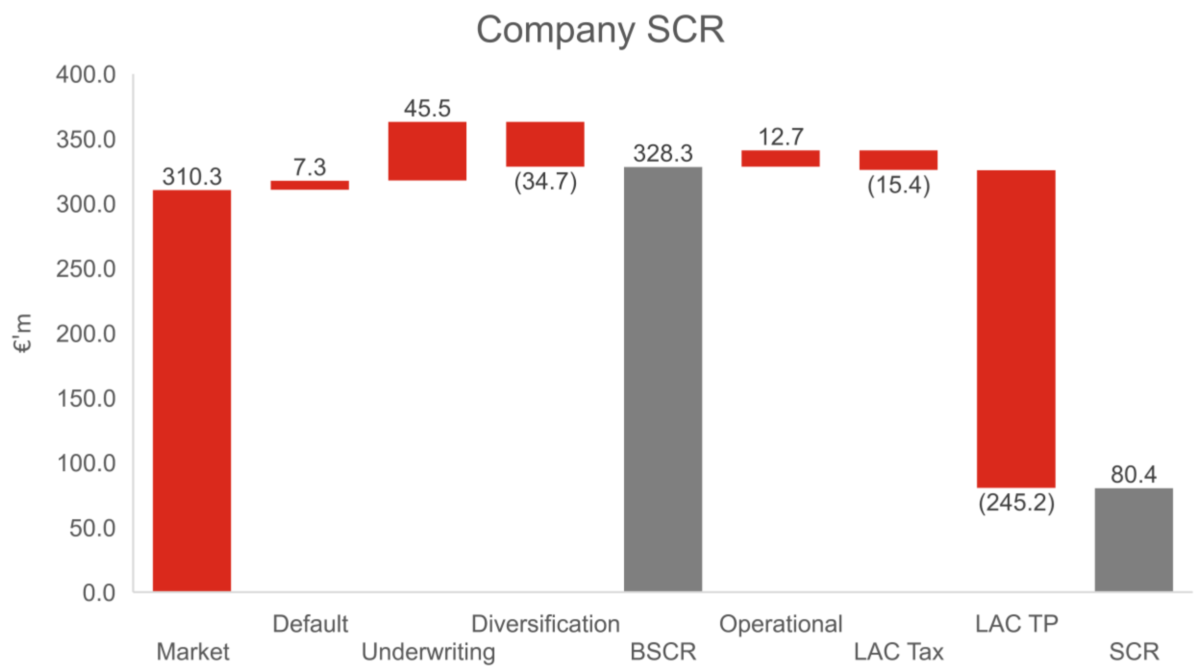
Template S.25.01.21 in which the Solvency Capital Requirement (SCR) broken down by risk modules and calculated using the Standard Formula is shown below:

**Solvency Capital Requirement - for undertakings on Standard Formula**

| - | | Gross solvency capital requirement | USP | Simplifications |
|---|---|---|---|---|
| | | C0110 | C0090 | C0120 |
| Market risk | R0010 | 311,819 | | |
| Counterparty default risk | R0020 | 7,303 | | |
| Life underwriting risk | R0030 | 45,674 | | |
| Health underwriting risk | R0040 | | | |
| Non-life underwriting risk | R0050 | | | |
| Diversification | R0060 | -36,471 | | |
| Intangible asset risk | R0070 | | | |
| **Basic Solvency Capital Requirement** | R0100 | 328,324 | | |

| **Calculation of Solvency Capital Requirement** | | C0100 |
|---|---|---|
| Operational risk | R0130 | 12,723 |
| Loss-absorbing capacity of technical provisions | R0140 | -245,200 |
| Loss-absorbing capacity of deferred taxes | R0150 | -15,427 |
| Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC | R0160 | |
| **Solvency capital requirement excluding capital add-on** | R0200 | 80,421 |
| Capital add-on already set | R0210 | |
| **Solvency capital requirement** | R0220 | 80,421 |
| **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 | 24,663 |
| Total amount of Notional Solvency Capital Requirements for ring fenced funds | R0420 | 55,758 |
| Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios | R0430 | |
| Diversification effects due to RFF nSCR aggregation for article 304 | R0440 | |

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



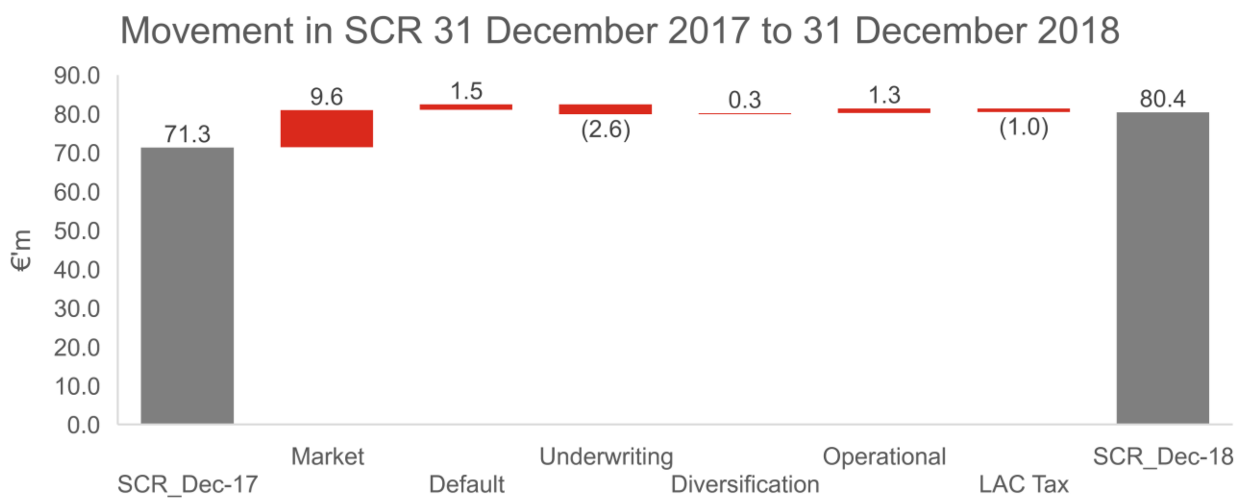

MMSV's total SCR amount was €80.4 million. At 31 December 2017, it was €71.3 million. The increase was mainly due to the increase in the Balance Sheet size due to new business flows and the relatively higher risk profile of the Ring Fenced fund in 2018 when compared to the previous year. Section C provides further details on the main SCR drivers.

MMSV’s total MCR amount at 31 December 2018 was €36.2 million. At 31 December 2017, it was €32.1 million and the increase was driven by the increase in the SCR.

The SCR calculation did not include simplifications or undertaking specific parameters. The Company does not have Capital add –on requirements.

In total, the loss absorption capacity of technical provisions amount to €245.2 million and for deferred tax losses amounts to €15.4 million. The loss absorption capacity of deferred tax reflects the reduction in tax liability arising from lower expected profitability under the Solvency II prescribed shock occur. The Loss absorbing capacity of Technical Provisions reflects the extent to which future discretionary benefits can be used to mitigate the adverse financial impact on the Company, should the Solvency II prescribed shock materialize.

The table below compares the movement in SCR over 2018:




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** | 44,829 |

| | | 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** | 1,536,427 | |
| Obligations with profit participation - future discretionary benefits | **R0220** | 272,787 | |
| Index-linked and unit-linked insurance obligations | **R0230** | 86,452 | |
| Other life (re)insurance and health (re)insurance obligations | **R0240** | | |
| Total capital at risk for all life (re)insurance obligations | **R0250** | | 2,230,349 |

**Overall MCR calculation**

| | | C0070 |
|---|---|---|
| Linear MCR | **R0300** | 44,829 |
| SCR | **R0310** | 80,421 |
| MCR cap | **R0320** | 36,189 |
| MCR floor | **R0330** | 20,105 |
| Combined MCR | **R0340** | 36,189 |
| Absolute floor of the MCR | **R0350** | 3,700 |
| - | - | **C0070** |
| **Minimum Capital Requirement** | **R0400** | 36,189 |

Figures in thousand euro

The linear MCR for Life insurance is €44.8 million. This linear MCR was obtained by applying the factors (specified in articles 248 – 251 of the Delegated Regulation (EU) 2015/35) to the data included in the above tables. The combined MCR is €36.2 million, which is the result of applying maximum and minimum limits to the linear MCR.

Since the combined MCR is higher than the MCR's absolute limit, the amount of the combined MCR is considered to be the Minimum Capital Requirement, in the amount of €36.2 million.

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

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

## E.4. Differences between the standard formula and the 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

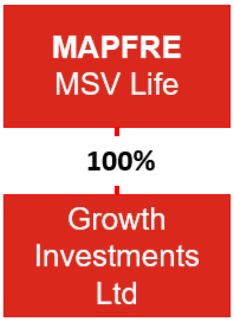
At 31st December 2018 MMSV had more than sufficient own funds to meet its Solvency Capital Requirement, Minimum Capital Requirement, and support its new business plans. As a result, it was considered unnecessary to adopt any remedial actions or corrective measures.

## E.6. Any other information

There is no other significant information regarding the management of capital that has not been included in the preceding sections.

# Annex I

The below chart portrays MMSV's shareholding in its subsidiary/Associates:




| Name | Type of investment | Country | Activity | Legal status | Ownership interest | Ownership interest |
|---|---|---|---|---|---|---|
| | | | | | 2018 | 2017 |
| Growth Investments Limited | Subsidiary | Malta | Provision of investment services | Limited liability company | 100.00% | 100.00% |
| Church Wharf Properties Limited | Associate | Malta | Ownership of immovable property | Limited liability company | 50.00% | 50.00% |
| Plaza Centres p.l.c. | Associate | Malta | Lease, manage and market its shopping and commercial centres | Limited liability company | 28.36% | 28.36% |
| Tigne Mall p.l.c. | Associate | Malta | Ownership and management of 'The Point Shopping Mall' | Public limited company | 35.46% | 35.46% |