MAPFRE | MSV Life

Solvency and Financial Condition Report
31st December 2020

Contents

Executive Summary

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

Business and Performance

MAPFRE 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.

MMSV's business model remains underpinned by customer centricity, strong technical knowledge, a robust governance framework and continuous investment in human capital and information technology in line with the MAPFRE GROUP's strategy. The multi-channel distribution strategy is also a fundamental component of the Company's business model. At the centre of the distribution channel strategy lies a very mature and successful Bancassurance arrangement with one of the company's shareholders, Bank of Valletta plc. This is complemented with one of the largest TIIs network on the island and an encouraging direct sales channel. MMSV's main business segments remain the savings and protection business. The MMSV With-Profits Single Premium represents the company's flagship product.

MAPFRE MSV Group registered a profit before tax of €15.0 million for the year ended 31 December 2020, up 3.5% on the previous year where a €14.5 million profit before tax was generated. Profit after tax is recorded at €10.3 million, down 12% on the €11.7 million in the previous year.

In aggregate, the balance on the long term business technical account increased to €14.8 million from a prior year €14.2 million as a result of a slow growth in the volume of With-Profit funds throughout the year as well as life assurance protection business driven by good underwriting performance.

Total expenses equalled 1.33% of total technical provisions.

Total income from investments during the year amounted to €80.5 million whereas total investment expenses equalled €6.1 million.

System of Governance

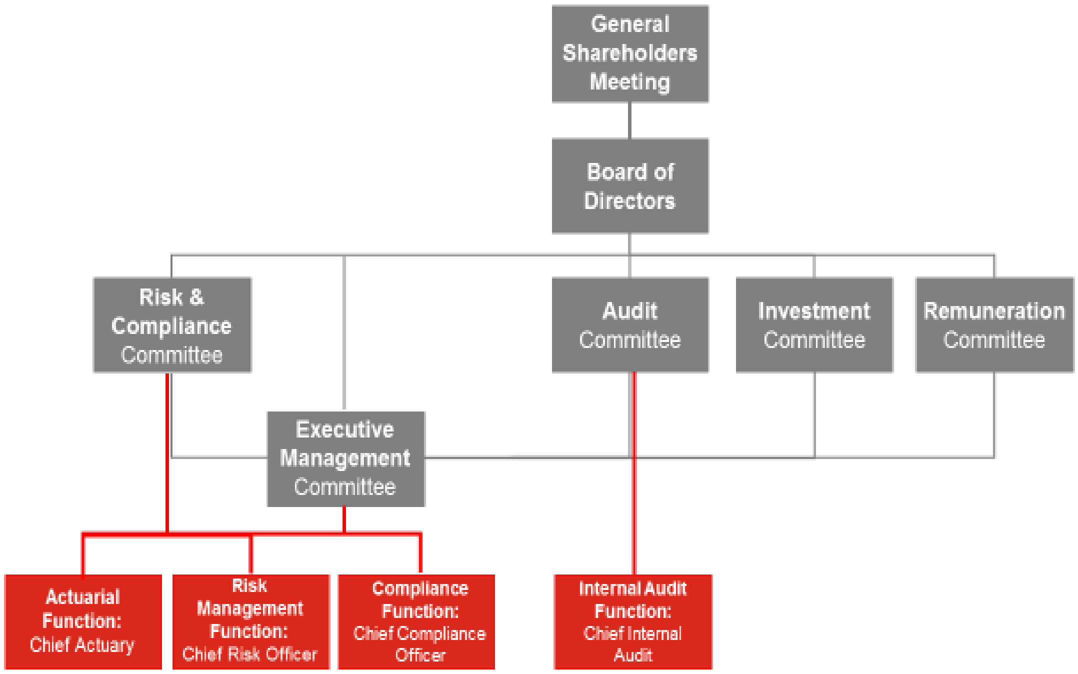
MMSV's governance structure is composed of the following governing bodies:

- General Meeting of Shareholders
- Board of Directors

- Executive Management Committee
- Audit Committee
- Investment Committee
- Remuneration Committee
- Risk and Compliance Committee
- Security and Environment 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 which manages all global and regional corporate projects.

MMSV's Governing Bodies as at 31st December 2020 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 organisational levels, business and corporate environment, in a timely and appropriate manner.

In order to ensure that MMSV's system 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.

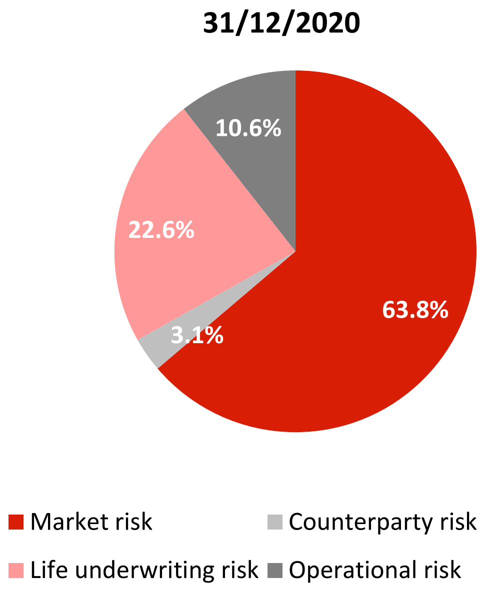
MMSV's Board of Directors determines the policies and strategies regarding the Risk Management System which are aligned with the policies and strategies defined by the Board of Directors of MAPFRE S.A.

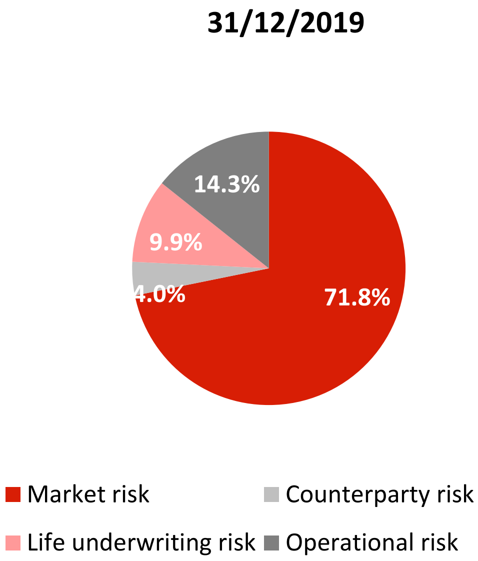
With effect from 1st April 2021, Etienne Sciberras was appointed Chief Executive Officer (CEO) of MMSV, replacing Felipe Navarro Lopez de Chicheri who has assumed another role within the MAPFRE GROUP. [1]

Risk profile

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

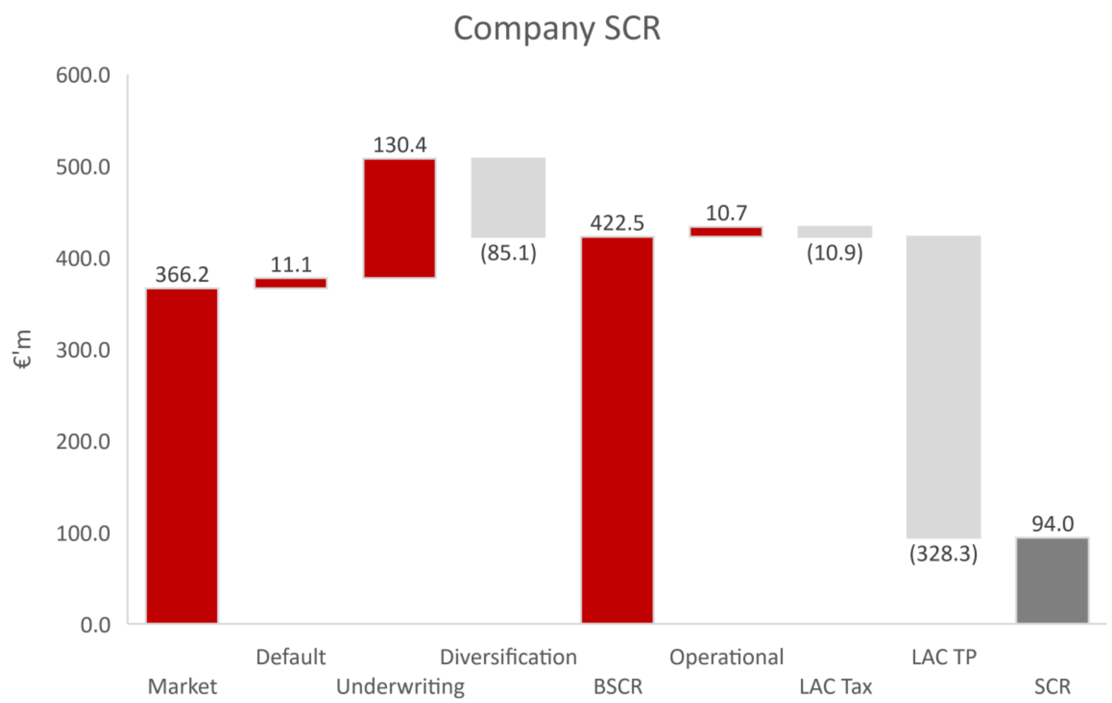
The composition of MMSV's risk profile for the various risk modules is set out below:





The above reflects the Loss Absorbency Capacity of Technical Provisions.

[1] Felipe Navarro Lopez de Chicheri was acting as interim CEO following David G. Curmi's departure from MMSV at the end of January 2021 at the expiry of his contract.



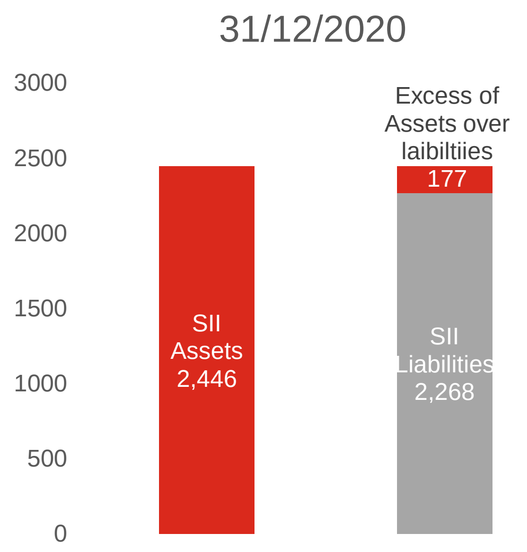
As may be observed above, in 2020, Market risk and Life Underwriting risk remained the primary risks faced by MMSV.

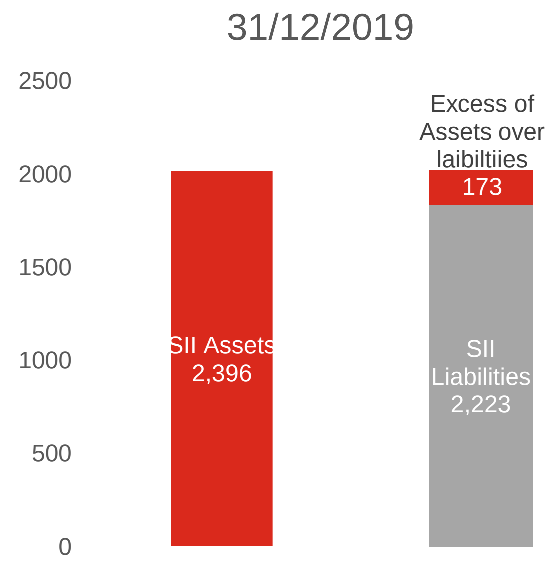
MMSV is exposed to other risks including those derived from the effects of the coronavirus pandemic, cybersecurity risk and risk of new distribution channel/s as outlined in Section C.6.

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

The report on MMSV's own risk and solvency assessment (ORSA) that will be sent to the supervisor at the beginning of July includes further details regarding those sensitivity analyses, as well as the results of the stress tests and the reverse stress tests that have been performed by the Company.

Valuation for solvency purposes





Figures in thousand euros

The excess of assets over liabilities for Solvency II purposes amounted to €177.4 million, which represented an increase of 10.0% over the IFRS value of equity. At 31st December 2020, the excess of assets over liabilities increased by €4.1 million compared with the end of last year. This increase is mainly the result of the non-payment of dividends over the year.

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 the risk appetite set by Company's Board of Directors.

The following table provides a breakdown of MMSV's solvency ratio or SCR coverage ratio.

	31/12/2020	31/12/2019
Solvency Capital Requirement (SCR)	**€94.0**	**€66.1**
Eligible Own funds to meet the SCR	**€177.4**	**€161.5**
Solvency ratio (SCR coverage)	**188.7%**	**244.5%**

Figures in million

MMSV's excess capital totalled €177.4 million and it has eligible own funds that cover the regulatory solvency requirement by 1.89 times, where the solvency requirement is the amount of capital that must be held by the Company to limit the likelihood of bankruptcy to a 1 in 200 probability. This means that MMSV is still in a position to comply with its regulatory obligations to insurance policyholders and beneficiaries over the following 12 months with a probability greater than 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 reflects the minimum level below which MMSV's financial resources must not fall. This MCR is €42.3 million and the eligible own funds to cover it are €177.4 million, making the MCR coverage ratio 419.2%. Regarding the quality of these eligible own fund to absorb losses, all the €177.4 million are of the highest quality (Tier 1).

The further falls in interest rates and increased market volatility over 2020 resulted in a higher solvency capital requirement compared to the previous year and a lower solvency capital coverage. In this regard, the Board of Directors recommended measures to strengthen the Company's solvency position. Hence, no dividend, with respect to financial year 2020 is being recommended. Furthermore, an increase in issued and paid in share capital of €40 million, classified as Tier 1 capital, has been effected on 25th March 2021.

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 authorised 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 (Spain).

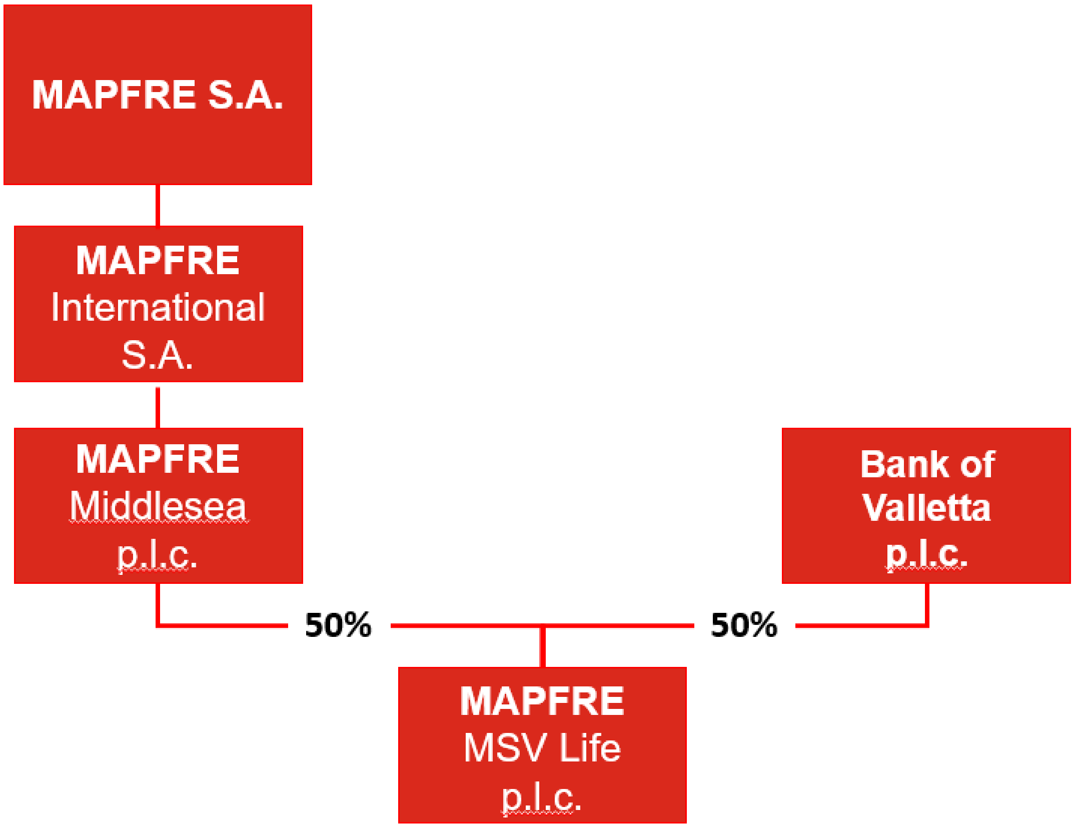
The following table shows the companies that possess direct qualifying holdings in the Company:

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

MFSA is responsible for the financial supervision of MMSV, as it is based in Malta. MFSA is located at Triq l-Imdina, Zone 1, Central Business District, Birkirkara, CBD 1010, 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 located in Spain.

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

External Audit

On 23rd March 2021, 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 31st December 2020. KPMG Malta is located at 92, Marina Street, Pieta PTA9044.

Lines of business

The Company'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 or incapacity benefit, if the insured event occurs whilst the policy is in force.

Geographic areas

MMSV does not write business outside of Malta.

A.1.2. Events with material repercussions

Business Review

MAPFRE MSV Group registered a profit before tax of €15.0 million for the year ended 31st December 2020, up 3.5% on the previous year where a €14.5 million profit before tax was generated. Profit after tax is recorded at €10.3 million, down 12% on the €11.7 million in the previous year.

Operating results were exposed to volatility throughout the year as savings and investment markets reacted to pandemic uncertainties and a slower rhythm to economic activity. The COVID-19 pandemic disrupted the Company's operations in view of lockdown protocols and social distancing. Business continuity was retained throughout the year as initiatives were taken to reconfigure workflows and introduce efficient teleworking capabilities.

In aggregate, the balance on the long term business technical account increased to €14.8 million from a prior year €14.2 million as a result of slow growth in the volume of With-Profits funds throughout the year as well as life assurance protection business profitability driven by good underwriting performance.

Market developments and outlook

The Maltese life insurance market has, for a number of years, registered growth that is significantly above the average in Europe but remains an underinsured market. Although life insurance companies are playing an increasingly important role in Maltese household savings, comparative studies with other European life insurance markets show that whilst the Maltese life insurance market has grown significantly between 1996 and 2020, the life insurance density and life insurance penetration still fall below the European average. We therefore see attractive potential for an uplift in life protection, long-term and retirement savings in the local life insurance market.

The outlook is one of cautious optimism despite the deterioration in economic conditions due to the coronavirus pandemic. The deployment of multiple vaccines means greater optimism about the future though there is clearly still some way to go before life can return to something like normality. Recovery will therefore take a little longer than originally anticipated with growth more likely to be seen later in 2021. Within this context and Malta's high savings ratio, the demand for protection, savings and investments products is expected to remain strong.

A.2. Underwriting results

Below is a comparison of the quantitative information regarding the activity and underlying results for 2020 and 2019 by line of business.

	Line of Business for: life insurance obligations							
	Insurance with profit participation		Index-linked and unit-linked insurance		Other life insurance		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Premiums written								
Gross	253,933	267,832	2,480	2,128	13,169	12,975	269,582	282,935
Reinsurers' share	31	42	3	3	3,621	3,856	3,655	3,901
Net	253,902	267,790	2,477	2,125	9,548	9,119	265,927	279,034
Premiums earned								
Gross	253,933	267,832	2,480	2,128	13,169	12,975	269,582	282,935
Reinsurers' share	31	42	3	3	3,621	3,856	3,655	3,901
Net	253,902	267,790	2,477	2,125	9,548	9,119	265,927	279,034
Claims incurred								
Gross	250,160	198,756	2,395	3,495	2,536	2,244	255,091	204,495
Reinsurers' share	0	0	0	0	1,145	1,118	1,145	1,118
Net	250,160	198,756	2,395	3,495	1,391	1,126	253,946	203,377
Changes in other technical provisions								
Gross	31,472	259,904	343	6,240	2,852	5,727	34,667	271,871
Reinsurers' share	0	0	0	0	0	0	0	0
Net	31,472	259,904	343	6,240	2,852	5,727	34,667	271,871
Expenses incurred	26,556	25,758	679	411	5,017	4,512	32,252	30,681
Other expenses							0	0
Total expenses							32,252	30,681

Figures in thousand euros

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 decreased by €13.4 million, impacted by a lower demand for single premium business.

Gross claims incurred in 2020 increased by €50.6 million. All categories have registered an increase, with the main increase coming from higher volumes of maturity claims.

Expenses increased during the current year. The highest increases were mainly in investment management expenses, claims management expenses and overhead expenses.

A.3. Investment performance

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

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

Financial income	2020	2019
INVESTMENT INCOME		
Investment properties	4,647	5,175
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	25,530	36,470
Loans and receivables	2,203	2,315
TOTAL INVESTMENT INCOME	**32,380**	**43,960**
REALISED AND UNREALISED GAINS		
Net realised gains	**-**	**44,064**
Investment properties	-	-
Held-to-maturity investment portfolio	-	-
Available-for-sale investment portfolio	-	-
Financial assets at fair value through profit or loss	-	44,064
Other	-	-
Net unrealised gains	**45,071**	**146,764**
Increase in the fair value of financial assets at fair value through profit or loss	45,071	146,764
Other	-	-
TOTAL GAINS	**45,071**	**190,828**
OTHER FINANCIAL INCOME FROM THE INSURANCE BUSINESS		
Gains on investments on behalf of policyholders bearing the investment risk	482	7,950
Gains on exchange	2,530	-
Other	-	-
TOTAL OTHER FINANCIAL INCOME FROM THE INSURANCE BUSINESS	**3,012**	**7,950**
TOTAL INCOME FROM THE INSURANCE BUSINESS	**-**	**-**
FINANCIAL INCOME FROM OTHER BUSINESSES	**-**	**-**
TOTAL FINANCIAL INCOME	**80,463**	**242,738**

Figures in thousand euros

Financial Expenses	2020	2019
INVESTMENT EXPENSES		
Investment properties	436	232
Expenses from the held-to-maturity portfolio	-	-
Expenses from the available-for-sale portfolio	-	-
Expenses from financial assets at fair value though profit or loss	-	-
Other investment expenses	6,142	5,776
TOTAL INVESTMENT EXPENSES	**6,578**	**6,008**
REALISED AND UNREALISED LOSSES		
Realised losses	**11,129**	**-**
Investment properties	-	-
Held-to-maturity investment portfolio	-	-
Available-for-sale investment portfolio	-	-
Financial assets at fair value through profit or loss	11,129	-
Other	-	-
Unrealised losses	**-**	**-**
Decrease in the fair value of financial assets at fair value through profit or loss	-	-
Other	-	-

Financial Expenses	2020	2019
TOTAL LOSSES	**11,129**	**-**
OTHER FINANCIAL EXPENSES FROM THE INSURANCE BUSINESS		
Losses on investments on behalf of policyholders bearing the investment risk	-	-
Losses on exchange	-	1,723
Other	-	-
TOTAL OTHER FINANCIAL EXPENSES FROM THE INSURANCE BUSINESS	**-**	**1,723**
TOTAL EXPENSES FROM THE INSURANCE BUSINESS	**-**	**-**
FINANCIAL EXPENSES FROM OTHER BUSINESSES	**-**	**-**
TOTAL FINANCIAL EXPENSES	**17,707**	**7,731**

Figures in thousand euros

TOTAL INCOME FROM THE INSURANCE BUSINESS	**80,463**	**242,738**
TOTAL EXPENSES FROM THE INSURANCE BUSINESS	**17,707**	**7,731**
FINANCIAL RESULT FROM THE INSURANCE BUSINESS	**62,756**	**235,007**
TOTAL INCOME FROM OTHER BUSINESSES	**-**	**-**
TOTAL EXPENSES FROM OTHER BUSINESSES	**-**	**-**
TOTAL FINANCIAL RESULT FROM OTHER BUSINESSES	**-**	**-**
TOTAL FINANCIAL RESULT	**62,756**	**235,007**

Figures in thousand euros

Total investment income during the year amounted to €80.5 million compared to €242.7 million in 2019.

Investment income is largely the result of unrealised gains on non-domestic securities which were partially offset by unrealised losses on domestic investments held, followed by income from both domestic and non-domestic investments.

Investment expenses increased over 2019, mainly due to the incurred realised losses as opposed to realised gains in the prior year.

A.3.2. Information regarding losses and gains recognised under equity

No gains and losses are recognised directly in equity.

A.4. Performance of other activities

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

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

A.4.2 Lease Agreements

Finance leases

The Company does not recognise any finance lease of any type.

Operating leases

The Company 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
2020	Property investment	96,383	10.40	5.43
2019	Property investment	97,838	10.21	5.04

These leases have an average remaining life of 5.17 years, with or without renewal option included in the contracts.

Net book value as at December represents revalued amount.

A.5. Any other information

The Directors are reviewing the Company's capital needs over the forthcoming medium term within the framework of Solvency II. At a Board Meeting dated 4th December 2020 a resolution increasing the authorised share capital of the Company from €60 million to €120 million and a resolution increasing the issued share capital of the Company from €54.75 million to €94.75 million were recommended. On 23rd March 2021, the Board of Directors authorised the increases in authorised and issued share capital.

B. System of Governance

B.1. General Information on the system of governance

The structure, composition and functions of MMSV's governing bodies are defined in the Institutional, Business, and Organizational Principles, and in internal regulations regarding MAPFRE subsidiaries' Board of Directors, approved by the MAPFRE S.A. Board of Directors; together with its bylaws and the Regulations of the Board of Directors. Apart from the above mentioned Group structure, MMSV has its own individual governing bodies.

MMSV's governing bodies:

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

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

B.1.1 System of Governance

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

- **General Meeting of Shareholders**: The highest governing body, with its decision binding 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.

MMSV has a management model underpinned by control and supervision at all levels: both locally and at corporate level. This allows a broad delegation of authority in the execution and development of the responsibilities assigned to each function, ensuring that material decisions are analysed in depth before and after their execution - by all of the senior executive teams. Apart from the above-mentioned administration and supervisory bodies, MMSV is supervised by the EURASIA Regional Management Committee within the MAPFRE GROUP, which directly supervises the management of regional Business Units.

B.1.2. Key functions

In order to ensure that the governance system has an adequate structure, MMSV has policies which regulate the key functions (Risk Management, Compliance, Internal Audit and Actuarial). These policies ensure that key functions follow the requirements defined by the regulator and that they are in accordance with the governance structures established by MMSV and by the MAPFRE Group. MMSV's Board of Directors approved the Actuarial, Risk Management, Compliance and Internal Audit policies on 4th December 2020.

The above-mentioned policies ensure the operational independence of the key functions, and their direct reporting to the governing body, which delegates the authority necessary to support its functions. The Board of Directors and/or the relevant committees receives reports at least annually from the responsible areas at MMSV. The information and advice provided to the Board of Directors by the key functions is detailed in their respective sections. The names of the parties responsible for the key functions have been communicated to the MFSA.

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

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

There were no significant changes in the governance structure during 2020.

B.1.4. Remuneration

Remuneration paid to the members of MMSV's governing body and employee is determined in accordance with current regulations as well as its Remuneration Policy, approved by the Board of Directors on 4th December 2020.

The Remuneration Policy endeavours to establish adequate compensation 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 groups and market circumstances.
- Aligned with MMSV's strategy and its risk profiles, 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/incentives, recognition programs, social benefits and allowances.

The remuneration system for Directors has the following characteristics:

- Transparent reporting in the remuneration paid to Directors.
- It provides an incentive to reward dedication, qualifications and responsibility, without constituting an obstacle to the duty of loyalty.
- It consists of a fixed amount for membership on the Board of Directors and, as appropriate, the Committee, which may be higher for people with positions on the Board or who hold the position of Chairman of the Committee. This remuneration may be supplemented by other non-monetary benefits (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

There are no additional disclosures not mentioned in the previous sections.

B.2. Fit and proper requirements

MMSV's Aptitude and Integrity Policy was approved by the Board of Directors on 4th December 2020. This policy establishes the applicable Relevant Personnel[2] and Outsourced Personnel[3] requirements, as follows:

- They should have the appropriate qualifications, know-how, and expertise to ensure that the Company is professionally managed and supervised.
- The expertise and experience of Key Personnel will include academically acquired knowledge as well as the experience necessary to carry out functions in similar companies in their trajectory and the respective individual responsibilities assigned.

Likewise, Directors and Officers of MMSV must have:

- Collectively: the appropriate qualifications, experience, and knowledge in at least the following areas:
    - Insurance and financial markets
    - Strategies and business models
    - System of Governance
    - Financial and actuarial analyses
    - Regulatory Framework
- Individually: training and experience appropriate to the professional profile, specifically in the insurance and financial services area, with practical experience acquired from previous positions held during a sufficient period of time.

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

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

Company Designation Procedures

Parties proposed for executing 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 personnel, family, professional, or business endeavours. This 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 communicate any relevant changes in their situations, and participate in periodic updates when required to do so by MMSV's Board of Directors, including the re-evaluation of any fit and proper requirements.

[2] Relevant Personnel: Directors, Management and Heads of key functions, as well as other parties outlined in prevailing legislation at any given time, must meet fit and proper requirements.
[3] Outsourced Personnel: should any of the key functions be outsourced, parties employed by the services provider to this end.

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

B.3.1 Governance framework

The Risk Management System (RMS) is an integral part of MMSV's organizational structure. MMSV's RMS follows the three lines of defence 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 order to perform its Risk Management System function, the Board of Directors of MMSV is supported by the Risk and Compliance Committee.

The Group's Risk Corporate Office provides oversight and monitors all aspects 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 on 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 Assessment.

MMSV's Chief Risk Officer has a dual reporting responsibility - hierarchically to MMSV's CEO and functionally to the Risk Corporate Office.

B.3.2 Risk management objectives, policies, and processes

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

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

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

To implement an effective risk management approach, 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:

- Set general guidelines, basic principles and a general action framework for the type of risk concerned, ensuring coherent application at the Company.

- Assign responsibilities, strategies, processes and the reporting procedures required to identify, measure, monitor, manage and report the risks included within their scope.
- Establish reporting structures and communication channels for the business area responsible for the risk.

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 the Company is exposed and the capital resources available to mitigate 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 process 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
Underwriting risk Covers the following Risks: -Mortality -Expenses -Lapses -Catastrophic	Standard formula	Quarterly
Market risks Covers the following risks: - Interest rate - Equities - Properties - Spread - Concentration - Currency	Standard formula	Quarterly
Credit Risk Reflects any possible losses arising from unexpected non-compliance by counterparties and debtors over the subsequent twelve months	Standard formula	Quarterly

Type of Risk	Measurement and management	Monitoring and reporting
Operational risk 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 Dynamic qualitative analysis of the risks using processes (RiskM@p) Recognition and monitoring of operational risk events	Quarterly Annual Continuous
Liquidity Risk Risk that the Company might not be able to realise its investments and other assets in order to meet its financial commitments at maturity	Liquidity position. Liquidity indicators	Continuous
Compliance risk 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
Strategic and Corporate Governance Risk Includes the following risks: - Business ethics and good corporate governance - Organizational structure - Alliances, mergers and acquisitions - Market competition	Through the corporate policies aligned with MAPFRE Group's Institutional, Business, and Organizational Principles.	Continuous

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

B.3.3 Own Risk and Solvency Assessment

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 identified by MMSV throughout the period reflected in the strategic plan. It is also used to measure the sufficiency of capital resources based on the understanding of the actual solvency needs. Based on these objectives, it includes all the significant and potential sources of risk MMSV faces, and facilitates the taking of initiatives for their management and mitigation.

ORSA Process

The Risk Function coordinates the ORSA process and the proposal of the draft report that will be subject to approval by the Board of MMSV, integrating the activity promoted by the areas and departments involved in the process.

The ORSA report is prepared annually, although it will be possible to prepare additional reports (extraordinary ORSA) if relevant events occur which require additional internal assessments. In these cases, the affected sections would be updated with the changes in the risk profile, with the same approval process.

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

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

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

- The feasibility of distributable dividends for continuous compliance with the Solvency Capital Requirement. Given the uncertainty generated by the pandemic, the supervisory authorities recommended extreme caution in the distribution of dividends and similar operations. In this regard, the Company decided to keep on strengthening its balance sheet through the cancellation of the dividends in respect of financial year 2019 and the decision not to recommend a dividend in respect of the financial year 2020.

- Continuous compliance with Eligible capital in projections.

- Amounts and deadlines for the various eligible capital items capable of absorbing losses.

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

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

B.4. Internal Control System

B.4.1. Internal Control

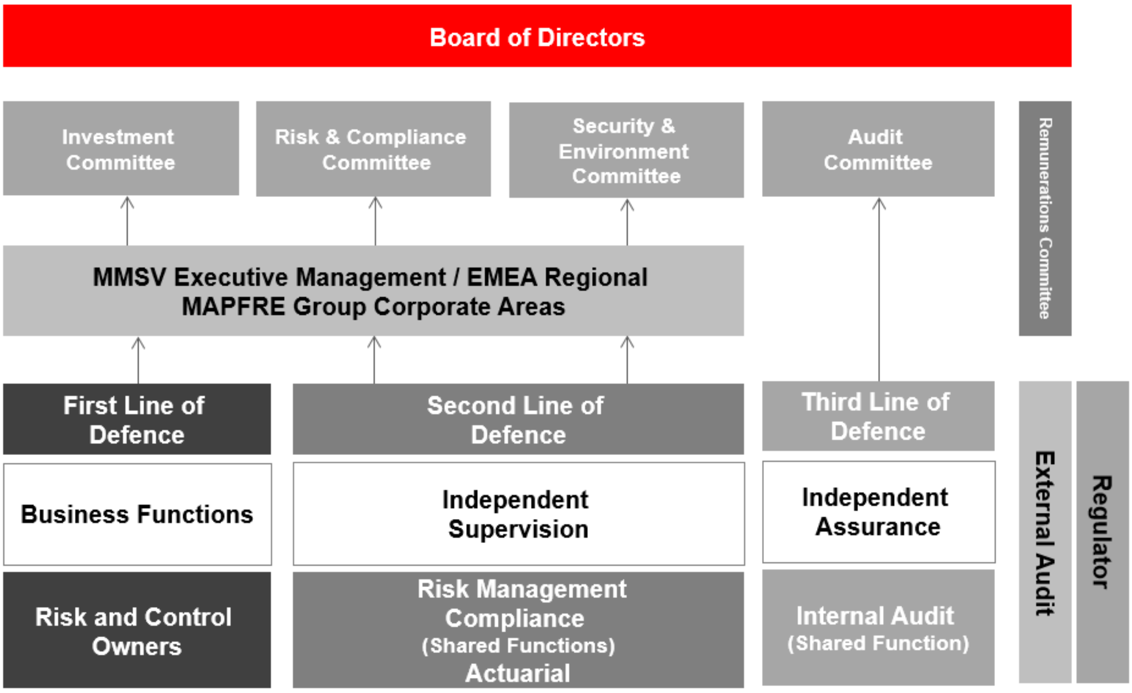
MMSV's Internal Control policy has been approved on 4th December 2020. This policy establishes the actions which must be developed in order to maintain an optimal and effective Internal Control System.

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

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

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

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



MMSV's Internal Control System consists of tasks and actions present in all the organisation's activities and, which are fully integrated into its organizational structure[4].

B.4.2. Compliance Function

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

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

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

MMSV's Compliance Function Policy was approved by the Board of Directors on 4th December 2020. This policy indicates the scope of the function, its structure, the assigned responsibilities, as well as the established reporting processes. The management of legal and non-compliance risks is carried out in accordance with the common methodology defined by the Corporate Compliance Office.

[4] Shared functions refer to Units which are responsible for the respective function at Malta level, i.e. for MMSV & MMS

B.5. Internal audit function

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

In ensuring the principle of Independence, MMSV's 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 Policy and bylaws updated and approved by the Board of Directors on 4th December 2020 establish the mission, functions and attributes of MMSV's Internal Audit Function. It also includes the rights and obligations of the MMSV´s Internal Auditors as well as their code of ethics, which sets out the rules of conduct of the auditors based on integrity and honourability, objectivity, confidentiality and competence.

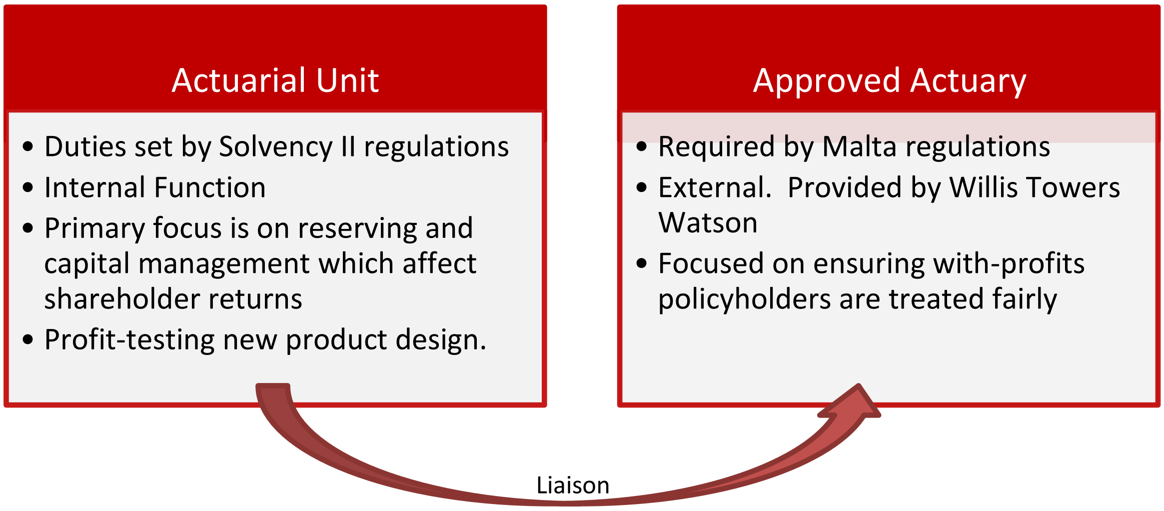
Additionally, one of the primary objective of this document is to communicate the main activities of internal audit, among others, the classification of audit work, recommendations and deadlines, treatment of audit reports, and any other general circumstances related to internal audit activities, which must be exclusively carried out by the MMSV´s Internal Audit Unit.

The policy and bylaw are reviewed at least on a yearly basis. All changes that are made in these revisions are approved by the corresponding MMSV's governing bodies.

B.6. Actuarial Function

Actuarial work at MMSV is divided between the Actuarial Unit and the Approved Actuary. The terms of the Approved Actuary engagement are governed by the Statement of Work dated 5th August 2016.

The diagram below set out more detail about each and their respective remits.



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 Office.

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 Company's capital requirements is based, and which help MMSV achieve its target results and desired solvency levels. Calculation of the insurance Company's capital requirements is performed in close collaboration with Risk Management.

The Actuarial Unit is directly responsible for preparing actuarial calculations and other predictive models for MMSV, together with the technical documentation associated with those assessments. The Chief Actuary is the ultimate person responsible for these actions and for all of the tasks defined in the applicable Solvency II regulations, amongst 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 MMSV reports through two channels: to the Company's CEO and for certain areas of work, to the Group's Corporate Actuarial Area.

During 2020, the Chief Actuary at MMSV reported to the Company's Board of Directors through the meetings of the Board of Directors, the Audit Committee and the Risk and Compliance Committee.

The MAPFRE Group Corporate Actuarial Office 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 Office 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 Office 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 4th December 2020 by the MMSV Board of Directors, and is in line with the Outsourcing Policies 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 activity.

The basic principle established by the Outsourcing Policy is that the Company 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.

It is to be noted that no Key Functions were outsourced during the reference year 2020.

Outsourcing was limited to a sub-area within a specific important function, namely the hosting of data. In this respect, the outsourcing was done to an entity that belongs to MAPFRE Group and is duly documented. These companies have sufficient capacity and authorization to provide the service and the party responsible for the monitoring of this area submitted reports to the governing body on a regular basis in view of changes to the system which are currently taking place.

The established governing structure ensures that the Company has sufficient control over critical functions and/or activities that have been outsourced, in the terms expressed in the Solvency II regulations.

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 Corporate Office defines the reference criteria and establishes or validates its organizational structure.

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

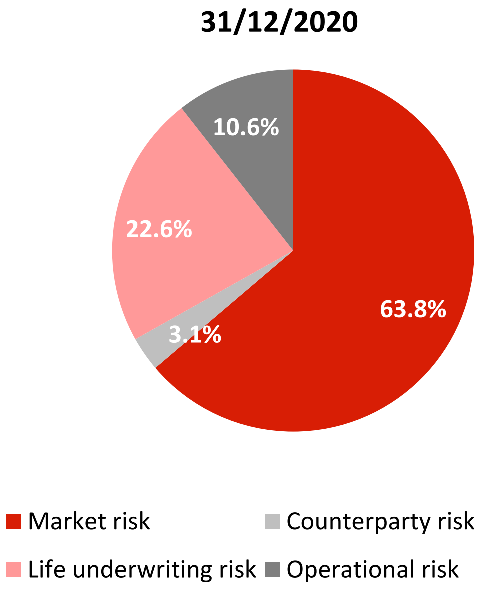
As mentioned above, Internal Audit performs a review of the Internal Control Environment on a yearly basis. Through this review, Internal Audit considers and evaluate the Company's systems of governance, in line with the Internal Control Policy.

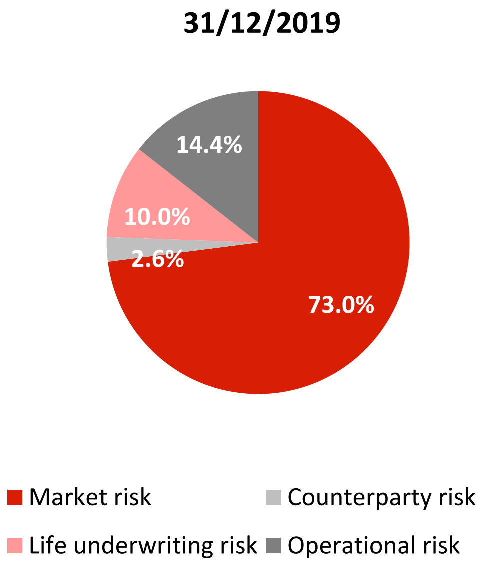
C. Risk profile

MMSV calculates its Solvency Capital Requirement (SCR) in accordance with Solvency II 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 recognises the capital charge corresponding to key risks (such as underwriting, market, counterparty and operational risk) the Company faces.

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 2020 and 2019 (the SCR calculation is explained in Section E.2):





As can be observed market risk remains the main risk faced by MMSV, representing 63.8% of the total SCR.

In 2020, the relative share of the market risk decreased while the relative share of life-underwriting risks increased. This can be attributed to the increased lapse risk within the life-underwriting sub-module, whereby the lower for longer interest rate environment and higher market volatility result in more policies crystallising valuable guaranteed benefits on maturity when the lower lapse rates shock is considered. Further information is available in the following sections and summarised in section E.2.1.

In 2020, the Company reviewed and updated the With-Profits Fund modelled Management actions to reflect better the Company's recent experience and practice during the financial stress event stemming from COVID-19. This represents a significant change relating to assumptions used to quantify the Company's main risks.

Under Section C.6 the Company considers other risks to which it is exposed to. A new material risk included under this section is represented by the emergence in 2020 of the coronavirus pandemic.

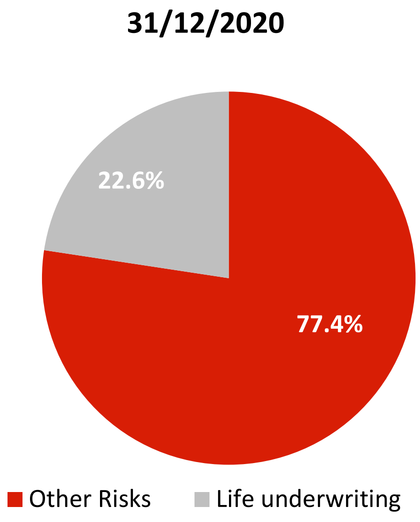
A description of the main risk categories, the exposure to the risks, their management and mitigation techniques, and possible concentrations are indicated below.

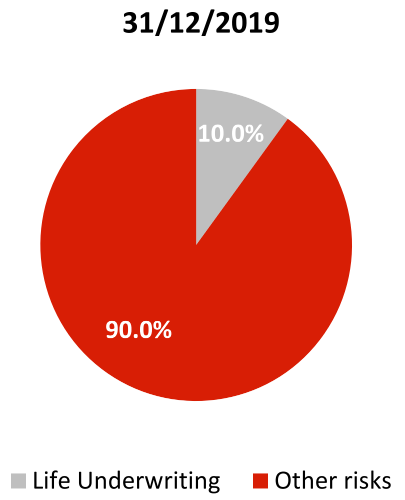
C.1. Underwriting risk

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

Exposure

As at December 31st December 2020, underwriting risk represents 22.6% of all of the risk modules included in the SCR. The following charts present details by module and any changes when compared to the previous year:





The increase in life underwriting risk as a percentage of overall risks is a consequence of the increased capital strain brought about predominantly by historically low interest rates, increased expense assumptions and, to a lesser extent, the more volotile equity markets. These variables result in a more onerous solvency capital requirement when the risk of lower lapses is estimated.

Management and mitigation techniques

MMSV manages underwriting risk through a number of measures:

- **Establishing policy limits and exclusions in underwriting risk:**

MMSV establishes authorisation 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 and internal review by the Corporate Actuarial Area. Rates are also reviewed externally by the Approved 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 performed using generally accepted actuarial practice and 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 31st December 2020 MMSV had ceded 1.46% of its total technical provisions.

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

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

The Actuarial Function issues a report at least once a year expressing its opinion of the underwriting policy, the sufficiency of the rates and the technical provisions, as well as the sufficiency and appropriateness of reinsurance coverage obtained.

Concentration

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

At the company level, the highest exposure to underwriting risk arises from the risk of lower lapses and surrenders. At the individual fund level the biting lapse scenario for the RFF is lapse down which is greater in magnitude than the biting mass lapse stress in the REM. Hence the biting scenario at the company level is driven by the impact of this shock on with-profits contracts.

In the current low/negative interest rate environment, a greater value is placed on guarantees payable at maturity on with-profits contracts. Fewer surrenders increases the likelihood of guarantees crystallising and increases the amount of capital required. Conversely, for non-profit protection policies written in the Remaining Part, mass lapse is more onerous. A large mass lapse event 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) and additional lapses reduce the profits expected to be earned in future on these policies. This effect is exacerbated by a higher per-policy expense allowance due to fewer in force policies post mass lapse.

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

The Company does not transfer underwriting risk to special-purpose entities.

C.2. Market Risk

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

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[5] and with-profits business.

Exposure

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

Investments	Investments at 31/12/2020	(%) Investments	Investments at 31/12/2019	(%) Investments
Property investments	**97,838**	**4.3%**	**96,384**	**4.3%**
Financial investments	**1,960,711**	**85.9%**	**1,896,172**	**84.5%**
Fixed income	1,067,936	46.8%	940,297	41.9%
Equity	487,581	21.4%	479,089	21.4%
Mutual funds	378,515	16.6%	448,905	20.0%
Holdings in related companies	26,679	1.2%	27,881	1.2%
Deposits other than cash equivalents	**221,190**	**9.7%**	**249,931**	**11.1%**
Hedging derivatives	**2,185**	**0.1%**	**797**	0.0%
Other investments	0	0.0%	0	0.0%
Total	**2,281,924**	**100%**	**2,243,284**	**100%**

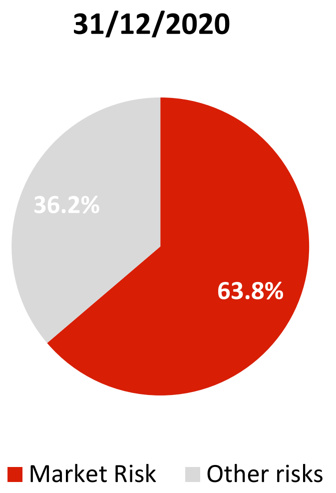
Figures in thousand euros

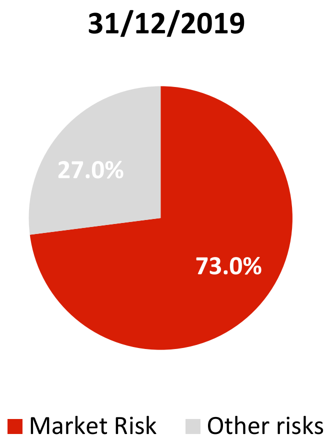
As at 31st December 2020, 98.2% of fixed-income investments had an investment-grade credit rating. Sovereign Government Debt exposure represented 68.2% of the total investment grade exposure. Maltese Government bonds represented 15.9% of the total fixed income exposure. Equities remain a very important asset class in the investment portfolio. Equity exposure is diversified across geographical areas, sectors and industry. Portfolio diversification is also sought in terms of currency, style and equity holdings market capitalization.

Given the market volatility experienced in 2020, during the year, the investment portfolio was positioned more defensively through a relatively higher allocation to fixed income.

Market risk as at 31st December 2020 represents 63.8% 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:

[5] Remaining Part





The relative reduction in market risk compared to 2019 was primarily the result of the higher weighting to Life Underwriting risk as the lapse down stress became the most onerous stress for lapse risk giving rise to a significantly higher capital requirement. However, a higher exposure to cash and fixed interest assets also helped to reduce the capital charge for market risk.

Management and mitigation techniques

The Investment Policy and the Policies and Procedure Manual establish asset class, currency, credit quality and issuer limits to mitigate market risk exposure and in maintaining the desired level of diversification.

Furthermore, 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 in the context of the Company's liability profile.

- Spread and concentration risks are mitigated through restrictions related to maximum allowed investment per issuer and limits in terms of credit rating. As a result, there is a high proportion of fixed income securities with credit ratings classified as investment grade.

- 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 mainly of commercial office space.

Concentration

The highest concentration of investments remains in Malta Government Debt, deposits with Bank of Valletta p.l.c and investment property situated in Malta. The relative percentage exposure to Maltese Government Debt has continued to decrease over the year. Insurance companies are normally exposed to the assets (particular debt issued by the government) of the country in which they operate, MMSV is no exception. The Bank of Valletta exposure reflects the high liquidity profile maintained by MMSV over the past year.

C.3. Credit Risk

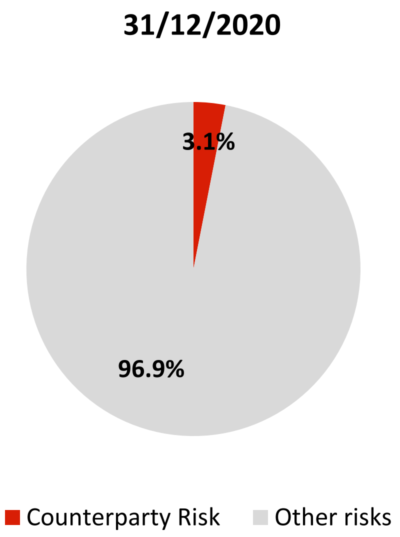
Credit Risk is the possibility of losses due to unexpected default or deterioration in the credit standing of counterparties and debtors over the next 12 months.

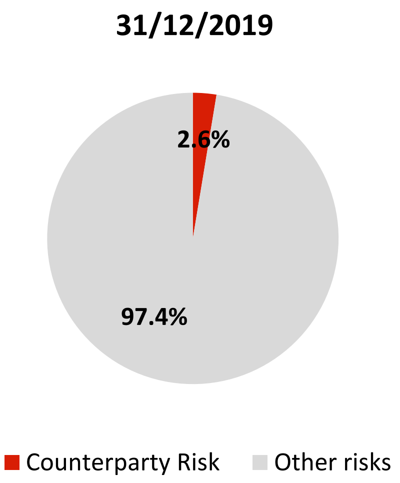
Credit Risk under the SCR Standard Formula calculation includes:

- 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 31st December 2020 represents 3.1% 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 2020 and 2019 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:

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

Concentration

Apart from the cash held with local banks and the global custodian, the other important concentration relates to the reinsurance exposure with the group reinsurers which, in turn, have a broad diversified reinsurance. The strong financial credentials of these organizations are very important in times of financial stress stemming from COVID-19.

C.4. Liquidity Risk

Liquidity risk is the risk that MMSV might not be able to realise 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. Initially, generally, some liquidity tension was observed with the spread of COVID-19. However, this reduced by the rapid reaction of central banks, providing liquidity to the system. Exposure to liquidity risk is considered to be low, taking into account the prudent investment strategy established in the Investment Policy, which is characterised by a high proportion of highly-quality fixed income securities that are listed on liquid markets. Nevertheless, in the current uncertain environment, proper management of this risk is even more necessary.

Furthermore, apart from the cash levels maintained within the With-Profit fund, Shareholder's funds continued to be liquid through cash and time deposits positions.

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 2020, the cash and cash equivalents balance amounted to €68.8 million (€42.9 million in the preceding year), equivalent to 2.76% of total financial investments and cash. On top of this, MMSV has €221.2million in Deposits other than cash equivalents.

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 organised 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.

As a result of COVID-19, a reduction of new business and a slight, short-term increase in surrender requests were experienced. However, these developments were considered reasonable and manageable within the normal modus operandi of generic business fluctuations. MMSV is adequately liquid to meet these demands as they fall due.

Concentration

No liquidity risk concentrations have been identified.

Expected profits included in future premiums

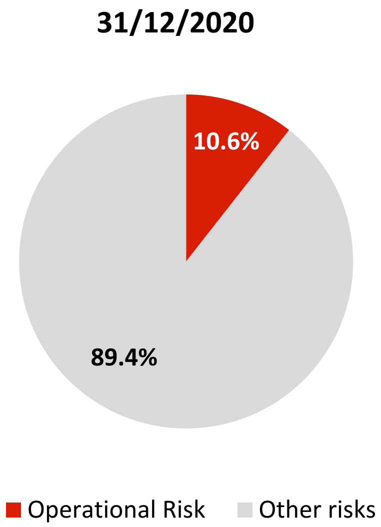
The calculation of the best estimate of the technical provisions includes the expected profits from future premiums. This represents the proportion of expected future profitability borne by future premiums. At 31st December 2020, those expected profits were estimated to total €81.0 million gross of reinsurance.

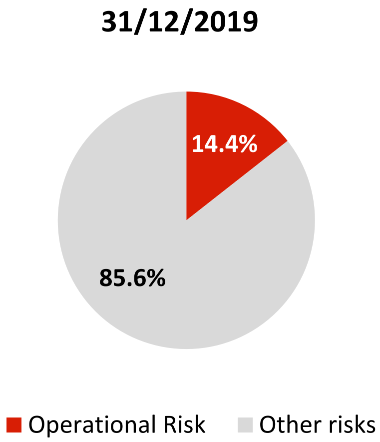
C.5. Operational Risk

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

Exposure

Operational risk as at 31st December 2020 represents 10.6% 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:





A lower premium volume drives the year-on-year reduction in the percentage operational SCR.

Management and mitigation techniques

MMSV has systems for monitoring and controlling operational risk, although the possibility of suffering operational losses cannot be excluded given the difficulty of forecasting and quantifying this type of risk.

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

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.

Due to COVID-19, the Company triggered its business continuity plan. The plan has two main pillars:

- To safeguarding the health and safety of the Company's employees, its customers, various stakeholders and the general public;
- Ensuring the continuity of service to the Company's customers having regard to the current extraordinary operational environment.

This plan leverages on the Company's investment in information technology and its digital transformation initiatives. This enabled the Company to be in a position to have over 90% of its staff to be capable to work remotely. Though the Company's offices were closed at specific points in time, in line with directives issued by the local health authorities which effectively precluded traditional customers' face to face interaction, both internal and external communication has been maintained through the different means available whether telephony, video, on-line portal and e-mail. Customer service has continued. Management is still able to access systems, tools and data thus being able to continue to process, transform, analyse, monitor and report business critical information. Management, Board and Committee meetings, essential in the current situation, continue to be regularly virtually held.

C.6. Other material risks

C.6.1. Coronavirus pandemic (COVID-19)

The outbreak and spread of the coronavirus pandemic (COVID-19) during 2020 caused a historic contraction in world economic activity. In the insurance market, the confinement and restriction of mobility have had a significant effect on business volumes and an uneven impact on claims, varying by the line of business. The expenses derived from the measures aimed at guaranteeing the protection of MMSV personnel against the COVID-19 pandemic, as well as ensuring business continuity, have also been relevant.

From a financial perspective, the pandemic has led to episodes of marked volatility in financial markets and a sharp depreciation of currencies in several emerging countries. The situation has been accompanied by monetary stimulus measures promoted by central banks, which have had an additional, adverse impact through the further reduction of interest rates and the increase in government indebtedness to deal with the extra spending caused by the health crisis. In this sense, advances in the coronavirus vaccine have improved the future prospects but uncertainty remains.

Under these circumstances, the Company has developed a set of actions to mitigate the operational, financial and strategic risks.

Operationally, significant changes were implemented to be able to comply with the guidelines provided by the Health authorities and the internal measures introduced by the Company to safeguard the health and wellbeing of the Company's employees, its customers and other stakeholders. To this effect, MMSV moved from an on-premises to a remote working operational set up relatively expeditiously and smoothly. At one point, over 90% of MMSV's employees were working remotely. Currently, the Company maintains a 50% remote working protocol. This changeover, required leveraging on the existing IT infrastructure and carrying out additional IT spend to scale up to the need of having almost the entire workforce working remotely. This also called for additional investment in IT security to mitigate the increased security threat associated with remote working. Processes were adapted to reflect the new operating reality. Furthermore, other operational initiatives were introduced to safeguard the health and wellbeing of the employees, customers and other stakeholders. These initiatives enabled the Company to maintain customer service continuity. Our main distribution channels have also successfully introduced measures of their own, which allowed customers to avail themselves of various service options.

In terms of the financial risk, MMSV was also very proactive to safeguard the financial strength of its balance sheet. The Board of Directors cancelled the dividend in respect of financial year 2019 and is not recommending a dividend for financial year 2020. Furthermore, an increase in issued and paid in share capital of €40 million, has been effected on 25th March 2021.The interim bonus on With-Profits polices was lowered. At the level of investment portfolio, a more defensive tactical positioning was adopted through an opportunistic de-risking approach. Furthermore, at the end of 2020, the Board of Directors approved a revised Strategic Asset Allocation (SAA) for the With-Profits fund, which aims to optimise the investment portfolio allocation.

Digital transformation remains one of the main strategic objectives. The pandemic reinforced the need and importance of this objective and to accelerate the digitalisation effort. In 2020, MMSV implemented a new core IT solution for its protection business. In 2021, savings business is expected to also move to this new platform, which will continue to enhance the clients' experience.

C.6.2. Cybersecurity risk

Cyber security risks include all the risks related to the secure use of IT and communication technologies, including intentional acts originating from or in cyberspace that could compromise the confidentiality, integrity, and availability of information and storage, processing, and transfer systems.

The MAPFRE Group has a Corporate Security and Environmental Department, which is responsible for analysing and managing cybersecurity risks that might harm the Company. In 2020 work has continued on the improvement of protection against cyber risks, on proactive privacy, on the culture of cybersecurity and on cybersecurity from the beginning.

MAPFRE SA has taken out a Cyber Security Insurance Policy covering various Cyber Security Risks for all Group Companies.

C.6.3. Legal risk

The legal risk is defined as the event consisting of a regulatory, jurisprudential or administrative change that may adversely affect the Company. This risk is managed through the identification, assessment, monitoring and mitigation tasks carried out by the Company's Compliance Unit, in collaboration with the affected areas or departments.

In recent years, the regulatory framework to which the insurance sector is subject has been expanded with new regulations both at the international and local level. In addition, the Company operates in an environment of complexity and increasing regulatory pressure, not only in insurance matters but also in matters relating to technology, corporate governance or corporate criminal liability, among others.

Noteworthy initiatives in this area during 2020 included the following up of the developments in respect of the EIOPA Public Consultation on Guidelines on Outsourcing to Cloud Service Providers, providing feedback to the MFSA on a proposed Corporate Governance Framework and following developments in the Solvency II 2020 review.

C.6.4. Reputational risk

The reputational risk is defined as the probability that a negative perception or experience by the various stakeholders (employees, clients, distributors, providers, shareholders and society in general) could have an adverse effect on the Company.

Reputational risk is managed based on the Corporate Social Responsibility Policy. MMSV strives to be the employer of choice while promoting a culture based on sound values and principles. Furthermore, employees must act professionally and treat customers fairly. The Company has also mechanisms in place, which allow customers to lodge complaints through specifically designated channels. A complaints function is responsible to manage complaints in an expedited and fair manner. The Company is also actively engaged in social community benefiting initiatives.

C.6.5. New Competitors

The risk of new competitors includes the risks derived from the inadequacy or failures produced by the misunderstanding of the market, as well as the loss of positioning and inability to respond to changes or the appearance of new players in the market. It includes the rise of new distribution channels for products and services that could lead to not adapting MMSV's traditional distribution channels quickly enough to the changes experienced by the preferences of customers motivated by the increase in the use of mobile devices, the development of the connected world (Internet of Things) and digitisation in general.

MAPFRE Group strategic initiatives relating to Digital Transformation and Client Orientation helps to mitigate this risk.

In 2019, MMSV embarked on a project for the implementation and integration of Sapiens CoreSuite for Life & Pension (previously referred to as “Sapiens ALIS”) and Sapiens Intelligence for Life & Pension, as well as the deployment over the cloud of Sapiens AgentConnect for Life & Pension (which was known as “Sapiens PORTAL”).

Phase 1 of the implementation has been completed. All protection business is administered through CoreSuite. In 2021, the Phase 2, encompassing new savings business should also be completed.

Consumer preference in the market for life business still indicates a strong preference of customers towards the face-to-face channel as evidenced by the low take up of purely digital products.

C.6.6. Non-compliance risk

The non-compliance risk is defined as the possibility of incurring losses as a result of legal or regulatory penalties or reputation losses arising from the failure to comply with laws, regulations and standards (both internal and external), or with applicable administrative requirements.

This risk is managed, primarily, through the identification, assessment, monitoring and mitigation tasks performed by the Company’s Compliance office. In 2020, MMSV put in place the Compliance Risk Management Process as developed by Corporate Compliance Office.

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, including:

- Interest rates (increases and decreases)
- Currency (appreciation of the euro)
- Equity valuation (decrease).
- Corporate and sovereign spreads (increase).

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

	31/12/2020	Change in percentage points
Solvency Ratio (SR)	188.6%	-
SR In the event of a 100 basis point increase in the interest rate	255.8%	67 p.p
SR In the event of a 100 basis point decrease in the interest rate	120.6%	(68) p.p
SR in the event of a 10% appreciation of the euro	180.3%	(8) p.p.
SR In the event of a 25% decrease in equities	99.8%	(89) p.p.
SR In the event of a 50 basis point increase in corporate spreads	164.4%	(24) p.p.
SR In the event of a 50 basis point increase in corporate and sovereign spreads	126.0%	(63) p.p.

p.p. percentage points

Likewise, the sensitivity of the solvency ratio[6] to certain Life business variables has been calculated, although in this case the impact is shown by an interval:

	31/12/2020
Solvency ratio (SR)	188.6%
SR in case of 5% increase in the mortality rate (products without longevity risk)	186.7%
SR in case of 10% increase in expenses	180.8%
SR in case of 10% increase in lapses	205.4%

[6] Only the effect on the Eligible own funds has been calculated, not on the SCR.

The results of these sensitivity tests show that MMSV would continue to comply with the solvency capital requirement in all[7] the above scenarios.

An increase in issued and paid in share capital of €40million, classified as Tier 1 capital, has been effected on 25th March 2021. This will continue to strengthen the capital position in case of adverse market developments. Furthermore, in 2021, the Company will investigate the possibility of adopting the volatility adjustment as permitted within Solvency II regulations. This is expected to have a positive impact on the reported solvency ratio especially in times of artificial widening of credit spreads. The Board will continue to monitor the situation and take all the necessary measures to safeguard the Company's and policyholders assets.

C.7.2. Other issues

Off-balance-sheet positions

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

[7] The 25% equity sensitivities is technically below the 100% by 20 bps

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 31st December 2020, and were approved by the Board of Directors during their meeting on 23rd March 2021. The "Solvency II Value" column reflects the assets and liabilities valued as at 31st December 2020 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.

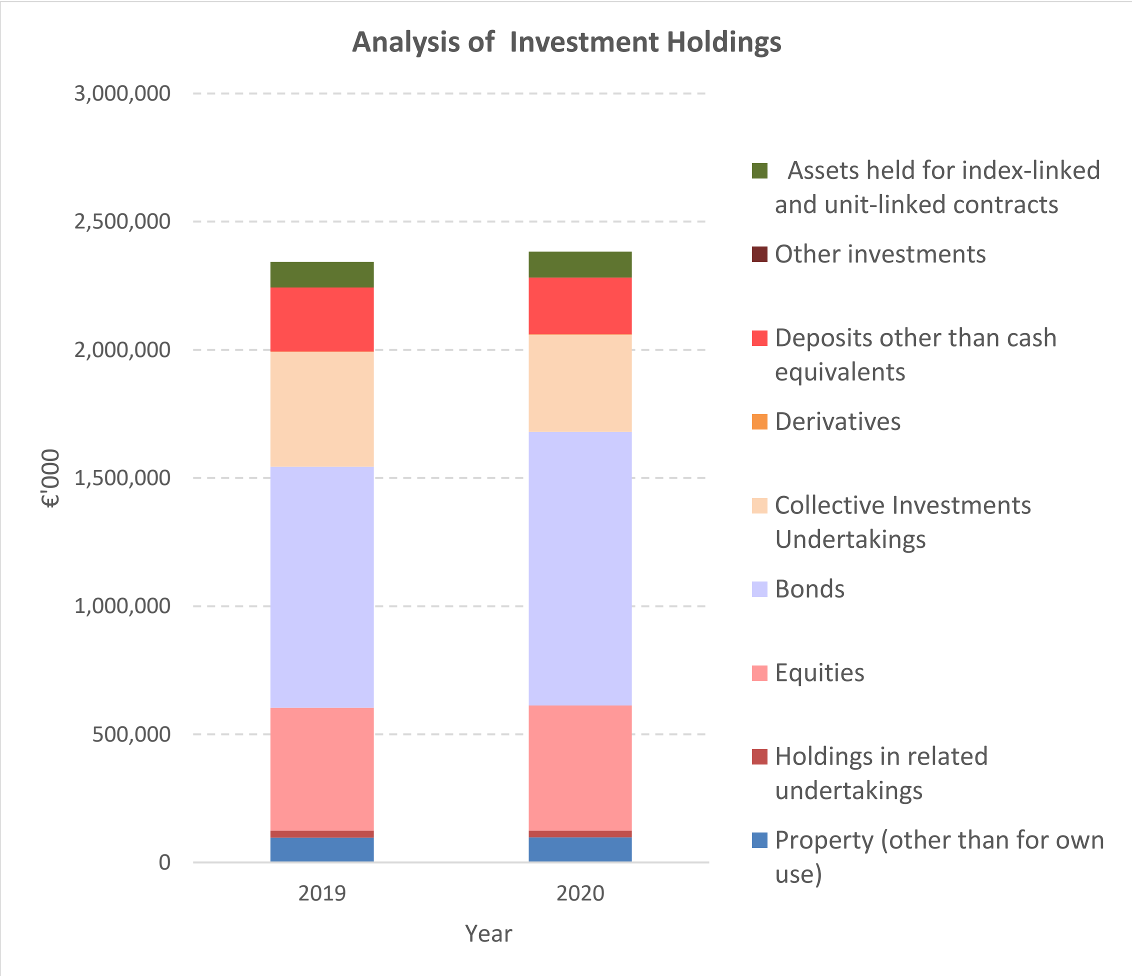
The following table compares the asset valuations that arise when using the Solvency II basis rather than accounting criteria at 31st December 2020:

Assets	Solvency II Value 2020	Accounting Value 2020
Goodwill	-	-
Deferred acquisition costs	-	261
Intangible assets	-	86,800
Deferred tax assets	-	-
Pension benefit surplus	-	-
Property, plant & equipment held for own use	14,026	14,026
Investments (other than assets held for index-linked and unit-linked contracts)	2,281,924	2,272,810
Property (other than for own use)	97,838	97,838
Holdings in related undertakings	26,679	26,611
Equities	487,581	487,581
Equities - listed	487,581	487,581
Equities - unlisted	-	-
Bonds	1,067,936	1,060,584
Government Bonds	759,340	754,354
Corporate Bonds	304,096	301,732
Structured notes	-	-
Collateralised securities	4,500	4,498
Collective Investments Undertakings	378,515	378,515
Derivatives	2,185	1,313
Deposits other than cash equivalents	221,190	220,368
Other investments	-	-
Assets held for index-linked and unit-linked contracts	100,818	100,818
Loans and mortgages	8,214	8,214
Loans on policies	8,214	8,214
Loans and mortgages to individuals	-	-
Other loans and mortgages	-	-
Reinsurance recoverables from:	-31,782	501
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	-31,782	501
Health similar to life	-	-
Life, excluding health and index-linked and unit-linked	-31,782	501
Life index-linked and unit-linked	-	-
Deposits to cedants/Deposits for Accepted Reinsurance	-	-

Assets	Solvency II Value 2020	Accounting Value 2020
Insurance and intermediaries receivables	187	187
Reinsurance receivables	501	-
Receivables (trade, not insurance)	1,844	1,844
Own shares (held directly)	-	-
Amounts due in respect of own funds items	-	-
Cash and cash equivalent	64,811	64,811
Any other assets, not elsewhere shown	5,144	13,319
TOTAL ASSETS	**2,445,687**	**2,563,591**

Figures in thousand euros

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 over 2020 is shown in the graph below.



During 2020, asset values fluctuated considerably. After the immediate, unprecedented market shock stemming from the outbreak of the COVID-19 pandemic, markets started to recover, propelled by a worldwide accommodative Central Banks' monetary policy and Governments' efforts to support the economy through fiscal stimulus. With yields at historical lows and negative yields extending further along the curve while volatility remained elevated, With-Profits asset allocation was tilted towards a more defensive positioning. As the market recovered from the March lows, an asset rotation, primarily out of collective investments undertakings into fixed income securities was implemented to improve resilience to market drawdown shocks.

The significant asset valuation differences using Solvency II criteria, 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 31stDecember 2020 are shown below.

Deferred acquisition costs

Under IFRS acquisition costs are quantified separately and are deferred/amortised 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 capitalised software costs. The value of in force business represents the discounted value of projected future transfers to shareholders from in force contracts at year-end, net of tax. Computer software is capitalised based on costs incurred, amortised over the useful life. However, for solvency reserving these are not taken into account and no value is assigned to intangible assets.

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

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

- ***Holdings in related undertakings***

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

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 €68 thousand in the valuation between the two balance sheets is related to the valuation of Growth Investments Limited.

- ***Bonds***

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

- ***Derivatives***

Derivatives are investments recognised at fair value on the financial statements. As a result, there are no valuation differences with regard to Solvency II only presentational differences between the Solvency II and the IFRS balance sheet.

- ***Deposits other than cash equivalents***

Deposits other than cash equivalents are investments recognised at fair value in the financial statements. As a result, there are no valuation differences with regard to Solvency II. However, accrued interest on term deposits is included under Other Assets in the IFRS balance sheet.

Reinsurance recoverables

For solvency purposes, the calculation of the reinsurance recoverables is in line with that used to value the technical provisions. This means that these amounts are recognised at their best estimate levels, take into account the difference in timing between collections and direct payments, and consider the cost of expected losses through counterparty default. In line with the calculation of the best estimate of liabilities, cash flows relating to reinsurance recoverables are projected over the entire outstanding term of each contract in force.

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

Reinsurance receivables

IFRS and Solvency II valuations coincide and therefore there are no measurement differences. The difference is mainly a classification difference. Under IFRS reinsurance receivables are included with technical provisions.

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.

Other off-balance sheet assets

MMSV does not have any off-balance sheet assets.

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 31st December 2020 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 2020	Accounting Value 2020
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)	2,082,198	2,248,990
Technical provisions - health (similar to Life)	-	-
Technical provisions calculated as a whole	-	-
Best Estimate (BE)		-
Risk margin (RM)	-	-
Technical provisions - Life (excluding health and index-linked and unit-linked)	2,082,198	2,248,990
Technical provisions calculated as a whole	-	-
Best Estimate (BE)	2,049,965	-
Risk margin (RM)	32,233	-
Technical provisions - index-linked and unit-linked	100,819	100,818
Technical provisions calculated as a whole	100,819	100,818
Best Estimate (BE)	-	-
Risk margin (RM)	-	-
Other technical provisions	-	-
TOTAL TECHNICAL PROVISIONS	**2,183,017**	**2,349,808**

Figures in thousand euros

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 excluding index-linked and unit-linked can be further broken down into the following categories:

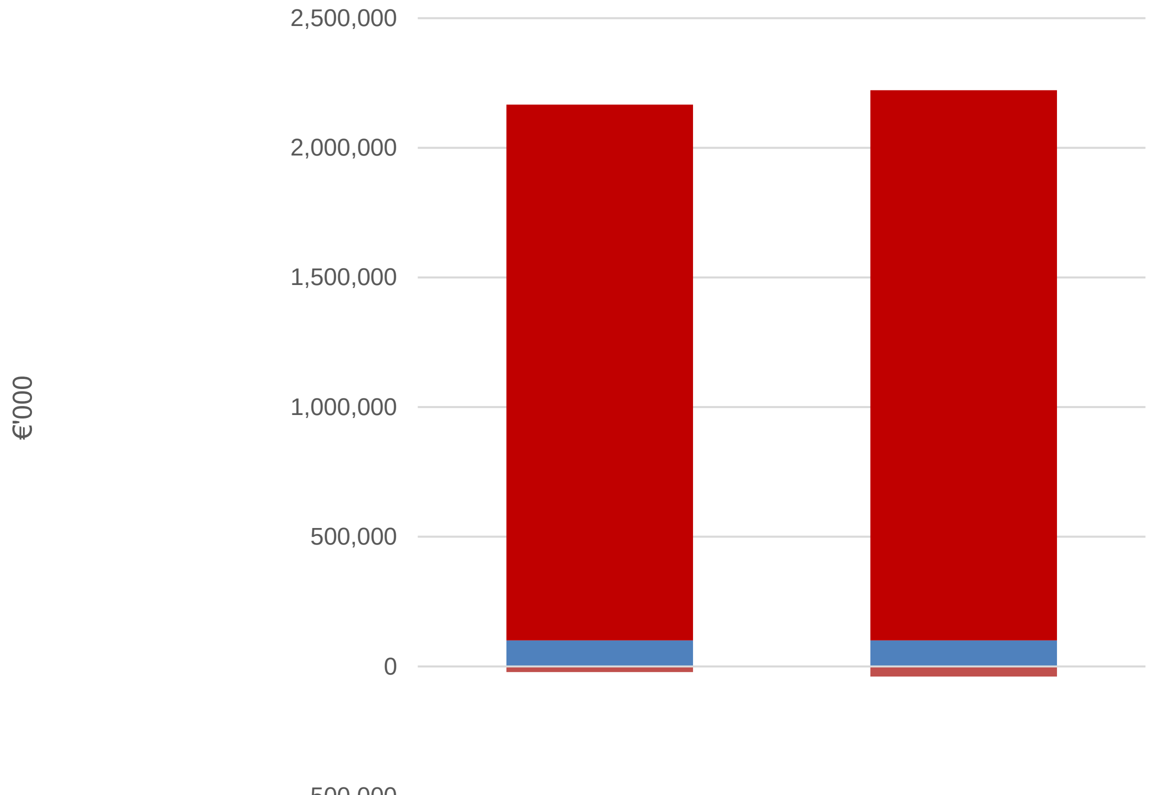
Technical provisions	Solvency II Value	Accounting Value
Technical provisions – with profits	2,121,721	2,177,185
Technical provisions calculated as a whole	-	
Best Estimate	2,104,837	
Risk margin	16,884	
Technical provisions – term assurance	-39,523	71,805
Technical provisions calculated as a whole	-	
Best Estimate	-54,872	
Risk margin	15,349	

Figures in thousand euros

The following graph analyses the change in the Solvency II technical provisions by line of business from 31st December 2019 to 31st December 2020. The term assurance BEL is negative and this line of business therefore represents an asset. The chart below shows that the most significant percentage change in technical provisions has arisen from an 86.5% increase in the asset covering the term assurance technical provisions. The technical provisions for term assurance policies benefitted from an adjustment to the best estimate mortality assumption. This was partially offset by an increased provision for reinsurance premiums following clarification of terms for complex cases and methodology changes due to better data availability in the new administration system. On the other hand, With-profits technical provisions increased only marginally. Unit-linked liabilities were almost unchanged.

There was a significant increase in the risk margin on With-Profits contracts of approximately €15.5 million primarily due to a higher lapse SCR as the yield curve moved lower. The reduction in risk free rates places a higher value on guarantees payable at maturity or earlier death. This means that as fewer policies lapse there is a higher strain on capital and consequently a higher solvency capital requirement for underwriting risk. On the other hand, the risk margin on term assurance was relatively unchanged as the impact of the lower yield curve was offset by a lower biting stress in the form of lapse down as opposed to mass lapse in 2019.

Analysis of Technical Provisions by Line of Business



	2019	2020
Technical provisions - with-profits	2,066,818	2,121,720
Technical provisions - term assurance	-21,197	-39,523
Technical provisions - index-linked and unit-linked	100,226	100,819

Figures in thousand euros

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 consistent economic criteria and realistic demographic and non-demographic assumptions, for financial statements, annual technical provisions are calculated based on accounting standards.

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[8]. The assessment takes into account the time value of money[9] by applying the appropriate term structure of risk-free interest rates[10] to the expected future cash-flows.

Under IFRS a single valuation interest rate (rather than a yield curve) is used to discount protection and unit-linked liabilities. This rate is set allowing for a prudent margin above the risk free rates by taking into account the gross redemption yields on baskets of assets held to match similar groups of policies comprising the technical provisions. The interest rate used for calculating the mathematical accounting provision is approved 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 respective portfolios 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 which are 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 policies have a maturity guarantee and a small block of generally older, single premium business also has a surrender guarantee. To be clear though, the value of these guarantees relates to benefits accumulated at the valuation date. The payout on early withdrawal is not defined either as a guaranteed amount or future return for contracts without a surrender value guarantee.

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.

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

Protection policies are valued for all policies which have been accepted on risk by the valuation date and expected cash flows are projected until the contractual benefit expiry date after allowing for expected decrements such as early exits and deaths.

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, however there is implicit allowance for the latter in the surrender assumption.

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 on a policy-by-policy basis. A deterministic method is used to assess the value of the non-profit protection 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 including an assumption for future inflation.

- Customer lapse rates and policy surrenders.
- Mortality rates.

These assumptions are based on MMSV's own experience and are reviewed on an annual basis.

Under IFRS, future management actions and policyholder behaviour relating to cancellation and surrender of contracts are not considered when calculating technical provisions. However, under Solvency II, MMSV has established a set of assumptions used to model future management decisions with regard to with-profits business and these are taken into account when evaluating the best estimate liability.

Degree of uncertainty relating 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 uncertainty. The main factors where uncertainty may affect the results are:

- The likelihood that a claim will arise and the timing of the event giving rise to a claim. This typically covers payment of a sum insured on death for a protection contract or a surrender payment on a savings contract. In addition an assumption is required to project the number of protection policies remaining in force since contracts may be cancelled by policyholders at any point. These assumptions directly affect the projected numbers of contracts in force, the amount of future premiums receivable and the amount of claim outgo payable in the future. They are based on MMSV's own claims and persistency experience having regard to events not in past data that might affect experience in the future.
- The amount of expenses payable to administer policies throughout their remaining lifetime and the rate at which such expenses inflate over time. These are based on actual expense allocations to the different product lines and are inflated using best estimate assumptions.
- The risk-free interest rate and investment performance. These assumptions impact the present value of future cash-flows and the amount of surplus or profits that can be distributed to policyholders and shareholders. The risk free rates are prescribed by EIOPA and are used to discount cash-flows on protection and with-profits policies. Future investment return is based on a set of stochastic economic scenarios which have regard to the market outlook and volatility for each of the broad asset classes in the With-profits Fund.

D.2.2. Package of measures designed for managing long-term guarantees

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

D.2.2.a. Matching adjustment

MMSV does not make use of the matching adjustment.

D.2.2.b. Volatility adjustment

MMSV does not make use of any volatility adjustments.

D.2.2.c. Risk-free interest rate transitional term structure

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

D.2.2.d. Transitional term structure for technical provisions

MMSV does not make use of the transitional deduction.

D.2.3. Significant changes in the 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.2.4. Other technical provisions

MMSV does not have any other technical provisions.

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 31st December 2020.

Other Liabilities	Solvency II Value 2020	Accounting Value 2020
Total technical provisions	**2,183,017**	**2,349,808**
Contingent liabilities	-	-
Provisions other than technical provisions	-	-
Pension benefit obligations	-	-
Deposits from reinsurers	-	-
Deferred tax liabilities	22,122	34,936
Derivatives	1,039	168
Debts owed to credit institutions	-	-
Financial liabilities other than debt owed to credit institutions	170	170
Insurance & intermediaries payables	49,438	4,690
Reinsurance payables	4,954	4,954
Payables (trade, not insurance)	5,223	5,223
Subordinated liabilities	-	-
Subordinated liabilities not in basic own funds	-	-
Subordinated liabilities included in basic own funds	-	-
Any other liabilities, not elsewhere shown	2,326	2,326
TOTAL LIABILITIES	**2,268,289**	**2,402,275**
SURPLUS OF ASSETS OVER LIABILITIES	**177,398**	**161,316**

Figures in thousand euros

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 €36.5M to €49.4M
- A reduction in the value of deferred tax liabilities from €27.9M to €22.1M
- An increase in the value of derivatives from €0.6M to €1.0M.

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

Deferred tax liabilities

Under the accounting standards deferred taxes are recognised on all temporary differences at the consolidated balance sheet date between the tax bases of assets and liabilities and their carrying amounts. MMSV recognised deferred tax liabilities on its IFRS Balance sheet at a carrying amount of €34.9 million.

MMSV recognised deferred tax liabilities on the Solvency II balance sheet at €22.1 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.

Derivatives

Derivatives are investments recognised at fair value on the financial statements. As a result, there are no valuation differences with regard to Solvency II, only presentational differences between the Solvency II and the IFRS balance sheet.

Insurance & intermediaries payables

The Solvency II value includes, among others, outstanding claims payable amounting to €44.9 million, which is included under the technical provisions caption in the IFRS financial statements. The amounts are stated at amortised cost which is considered to be a reasonable approximation of the fair value.

Other off-balance sheet liabilities

MMSV does not have any off-balance sheet liabilities.

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.

Finance and operating leases

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

D.6. Annexes

A) Assets

Annex I
S.02.01.02
Balance sheet

Assets	Solvency II value
Intangible assets	-
Deferred tax assets	-
Pension benefit surplus	-
Property, plant & equipment held for own use	14,026
Investments (other than assets held for index-linked and unit-linked contracts)	2,281,924
Property (other than for own use)	97,838
Holdings in related undertakings, including participations	26,679
Equities	487,581
Equities - listed	487,581
Equities - unlisted	-
Bonds	1,067,936
Government Bonds	759,340
Corporate Bonds	304,096
Structured notes	-
Collateralised securities	4,500
Collective Investments Undertakings	378,515
Derivatives	2,185
Deposits other than cash equivalents	221,190
Other investments	-
Assets held for index-linked and unit-linked contracts	100,818
Loans and mortgages	8,214
Loans on policies	8,214
Loans and mortgages to individuals	-
Other loans and mortgages	-
Reinsurance recoverables from:	-31,782
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	-31,782
Health similar to life	-
Life excluding health and index-linked and unit-linked	-31,782
Life index-linked and unit-linked	-
Deposits to cedants	-
Insurance and intermediaries receivables	187
Reinsurance receivables	501
Receivables (trade, not insurance)	1,844
Own shares (held directly)	-
Amounts due in respect of own fund items or initial fund called up but not yet paid in	-
Cash and cash equivalents	64,811
Any other assets, not elsewhere shown	5,144
Total assets	2,445,687

Figures in thousand euros

B) Technical provisions

Annex I
S.02.01.02
Balance sheet

Liabilities	Solvency II Value
Technical provisions – non-life	-
Technical provisions – non-life (excluding health)	-
TP calculated as a whole	-
Best Estimate	-
Risk margin	-
Technical provisions - health (similar to non-life)	-
TP calculated as a whole	-
Best Estimate	-
Risk margin	-
Technical provisions - life (excluding index-linked and unit-linked)	2,082,198
Technical provisions - health (similar to life)	-
TP calculated as a whole	-
Best Estimate	-
Risk margin	-
Technical provisions – life (excluding health and index-linked and unit-linked)	2,082,198
TP calculated as a whole	-
Best Estimate	2,049,965
Risk margin	32,233
Technical provisions – index-linked and unit-linked	100,819
TP calculated as a whole	100,819
Best Estimate	-
Risk margin	-

Annex I
S.12.01.02
Life and Health SLT Technical Provisions

	Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			**Total (Life other than health insurance, incl. Unit-Linked)**
			Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees	
Technical provisions calculated as a whole		100,819						100,819
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole								
Technical provisions calculated as a sum of BE and RM								
Best Estimate								
Gross Best Estimate	2,104,836					-54,872		2,049,964
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						-31,782		-31,782
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	2,104,836					-23,090		2,081,746
Risk Margin	16,884				15,349			32,233
Amount of the transitional on Technical Provisions								
Technical Provisions calculated as a whole								
Best estimate								
Risk margin								
Technical provisions - total	2,121,720	100,819			-39,523			2,183,017

C) Other liabilities

Annex I
S.02.01.02
Balance sheet

Liabilities	Solvency II value
Contingent liabilities	-
Provisions other than technical provisions	-
Pension benefit obligations	-
Deposits from reinsurers	-
Deferred tax liabilities	22,122
Derivatives	1,039
Debts owed to credit institutions	-
Financial liabilities other than debts owed to credit institutions	170
Insurance & intermediaries payables	49,438
Reinsurance payables	4,954
Payables (trade, not insurance)	5,223
Subordinated liabilities	-
Subordinated liabilities not in BOF	-
Subordinated liabilities in BOF	-
Any other liabilities, not elsewhere shown	2,326
Total liabilities	2,268,289
Excess of assets over liabilities	177,398

Figures in thousand euros

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 an ORSA 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;
- Establishment of an identification and documentation process of ring-fenced funds 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.

Given the uncertainty generated by the pandemic, the supervisory authorities recommended extreme caution in the distribution of dividends and similar operations. In this regard, the Company has carried out an exhaustive analysis covering both current and prospective capital requirement and determined that, in the circumstances, in respect of financial year 2020, profits for the year should be used to further strengthen the balance sheet. Therefore, no distribution of dividends is being recommended.

MMSV has not used the transitional measure on technical provisions or volatility adjustment.

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.

On the 20th January 2020, the Risk appetite was updated with revised tolerance limits set in terms of the solvency ratio. These limits were amended to reflect a more conservative risk appetite vis-à-vis solvency given that the ORSA process outcome reflected increasing volatility in the solvency ratio as markets become more volatile and interest rates remain at existing low levels (or fall further).

However, given the market developments over 2020, namely heightened volatility and new historical lows in interest rates, and equally important, a market outlook whereby monetary policy is expected to remain accommodative, the Board of Directors recommended the issue of €40 million Tier 1 Capital. This capital increase has been completed and subscribed to by the existing shareholders on 25th March 2021. The Board of Directors continues to monitor closely the solvency position of the Company in light of external financial markets conditions, its business plan and risk appetite to ensure that the Company remains adequately capitalised. In this respect, the Company may also consider, increasing and diversifying its capital structure with Tier 2 and/or Tier 3 capital, if appropriate.

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

The structure, amount and quality of own funds, as well as the Company's coverage ratios that are indicated below, are shown:

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

- (*)	Total		Tier 1–unrestricted		Tier 1 – restricted		Tier 2		Tier 3	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Commission Delegated Regulation (EU) 2015/35										
Ordinary share capital (gross of own shares)	54,750	54,750	54,750	54,750						
Share premium account related to ordinary share capital										
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings										
Subordinated mutual member accounts										
Surplus funds	55,464	78,894	55,464	78,894						
Preference shares										
Share premium account related to preference shares										
Reconciliation reserve	67,183	27,888	67,183	27,888						
Subordinated liabilities										
An amount equal to the value of net deferred tax assets										
Other own fund items approved by the supervisory authority as basic own funds not specified above										
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 cannot be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds										
Deductions										
Deductions for participations in financial and credit institutions										
Total basic own funds after deductions	**177,398**	**161,532**	**177,398**	**161,532**						
Ancillary own funds										
Unpaid and uncalled ordinary share capital callable on demand										

Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund items for mutual and mutual - type undertakings, callable on demand											
Unpaid and uncalled preference shares callable on demand											
A legally binding commitment to subscribe and pay for subordinated liabilities on demand											
Letters of credit and guarantees under Article 96(2) of Directive 2009/138/EC											
Letters of credit and guarantees other than under Article 96(2) of Directive 2009/138/EC											
Supplementary members calls under first subparagraph of Article 96(3) of Directive 2009/138/EC											
Supplementary member calls - other than under the first subparagraph of Article 96(3) of Directive 2009/138/EC											
Other ancillary own funds											
Total ancillary own funds											
Available and eligible own funds											
Total available own funds to meet the SCR	177,398	161,532	177,398	161,532							
Total available own funds to meet the MCR	177,398	161,532	177,398	161,532							
Total eligible own funds to meet the SCR	177,398	161,532	177,398	161,532							
Total eligible own funds to meet the MCR	177,398	161,532	177,398	161,532							
SCR	94,035	66,076									
MCR	42,316	29,734									
Ratio of eligible own funds to SCR	188.65%	244.46%									
Ratio of eligible own funds to MCR	419.22%	543.25%									

(*)	Amount	
	2020	2019
Reconciliation reserve		
Excess of assets over liabilities	177,398	173,306
Own shares (held directly and indirectly)	-	-
Foreseeable dividends, distributions and charges	0	11,774
Other basic own fund items	110,214	133,644
Adjustment for restricted own fund items in respect of matching adjustments portfolios and ring-fenced funds	-	-
Reconciliation reserve	**67,183**	**27,888**
Expected profits	-	-
Expected profits included in future premiums — Life Business	80,952	63,048
Expected profits included in future premiums — Non-Life business	-	-
Total Expected profits included in future premiums	**80,952**	**63,048**

Figures in thousand euros
(*) Template S.23.01.01

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

As at 31st December 2020, MMSV has eligible own funds of €177.4 million (€161.5 million as at 31st December 2019).

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 2020, MMSV has unrestricted basic Tier 1 own funds totalling €177.4 million (€161.5 million as at 31stDecember 2019). 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 increased by 140.9% over the year reflecting movements in assets and liabilities during the period and the cancellation of the foreseeable dividend reported in 2019 and no foreseeable dividend being included in respect of financial year 2020.
- 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 29.7% mainly due to a lower yield curve, increased volatility and updating of the modelled management actions to reflect recent practice.

The With-Profits fund is considered as a Ring-fenced fund. The future transfers attributable to shareholders are considered as eligible own funds in line with the level 2 Directive Article 80, paragraph 2.

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, in other words that MMSV is still 99.5% confident that it will be 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 measures the relationship between eligible own funds and the SCR as calculated by applying the standard formula. This ratio reflects the Company's capacity to absorb extraordinary losses deriving from a 1 every 200 years adverse scenario. As at 31st March 2020, following one of the sharpest equity market falls in history, the Company's solvency ratio fell to a level marginally above the regulatory solvency capital requirement threshold.[11] The management actions taken during the year together with the improvement in the equity markets helped to restore the Solvency ratio within the Risk Appetite established and approved by the Board of Directors. As at 31st December 2020, MMSV solvency ratio was 188.6%.This shows MMSV's capacity to absorb extraordinary losses deriving from a 1 every 200 years adverse scenario.

However, compared to the previous year's reported solvency ratio of 244.5%, the 31st December 2020 solvency ratio is lower notwithstanding the recovery in the global equity markets.[12] This is attributable to a number of financial variables stemming from the financial ramifications of the COVID-19 pandemic. While the eligible own funds have increased compared to 2019, the Solvency Capital Requirement (SCR) has increased at a faster rate. This increase in SCR was not the result of a significant increase in the business growth nor an increase in risk appetite crystallised through, for example, a more aggressive investment policy. The increase in SCR can be considered as a second order impact deriving from a lower for longer negative interest rate environment and increased market volatility. At the level of the With-Profits Fund, the changes in these financial variables contributed to a significant increase in capital consumption reflected through a higher SCR. The fundamental characteristic of With-Profits fund i.e. the underlying guarantee provided to the policyholders, becomes more expensive (in capital terms) in a scenario whereby markets fall and/or volatility increases and interest rates fall as well. The latter translates into a lower discount curve to value the guarantees. This combination of market forces occurred in 2020.

Minimum Capital Requirement (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 minimum amount of basic eligible Own Funds before 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 to cover the MCR.

The ratio of eligible own funds to the MCR amounts to 419.2% in 2020. The MCR coverage has reduced in 2020 as a consequence of the higher SCR in line with the calculation methods stipulated in the regulations.

[11] Although assets remained significantly above the guaranteed benefits.
[12] The recovery in equity markets was uneven. Some markets e.g. US had a stronger recovery than European markets. Even different sectors performed differently with technology sector outperforming the more traditional sectors affected by COVID-19.

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 2020 the excess of assets over liabilities for Solvency II purposes amounts to €177.4 million, while IFRS equity was equal to €161.3 million. The main adjustments that arise from the reconciliation of IFRS equity and own funds under Solvency II may be observed below:

	2020	2019
IFRS Equity	**161,316**	**147,335**
Difference in valuation of assets	**(117,904)**	**(100,653)**
Deferred Acquisition Costs	(261)	(330)
Intangible Assets	(86,801)	(80,456)
Other adjustments	(30,842)	(19,867)
Difference in valuation of liabilities	**133,986**	**126,624**
Technical provisions	166,791	156,376
Other Liabilities	(45,619)	(32,686)
Deferred Taxes	12,814	2,935
Excess assets over liabilities (Solvency II Value)	**177,398**	**173,306**

Figures in thousand euros

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 €177.4 million. To determine the reconciliation reserve the following was deducted:

- Other basic own funds items €110.2 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 Company has not deducted any items from the Own funds.

Own Funds issued and instruments redeemed

MMSV did not issue any own fund instruments during the year and none have been surrendered. However, as mentioned previously, in 2021, MMSV has issued €40million in Tier 1 equity to its shareholders in the same proportion of their existing shareholding.

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.

Other ratios

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

E.2. Solvency Capital Requirement and Minimum Capital Requirement

E.2.1. Solvency Capital Requirement amounts and valuation methods

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:

Annex I

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

	Gross solvency capital requirement	USP	Simplifications
Market risk	366,882		-
Counterparty default risk	11,107		
Life underwriting risk	130,690	-	-
Health underwriting risk	-	-	-
Non-life underwriting risk	-	-	-
Diversification	(86,136)		
Intangible asset risk	-		
Basic Solvency Capital Requirement	422,543		

Calculation of Solvency Capital Requirement

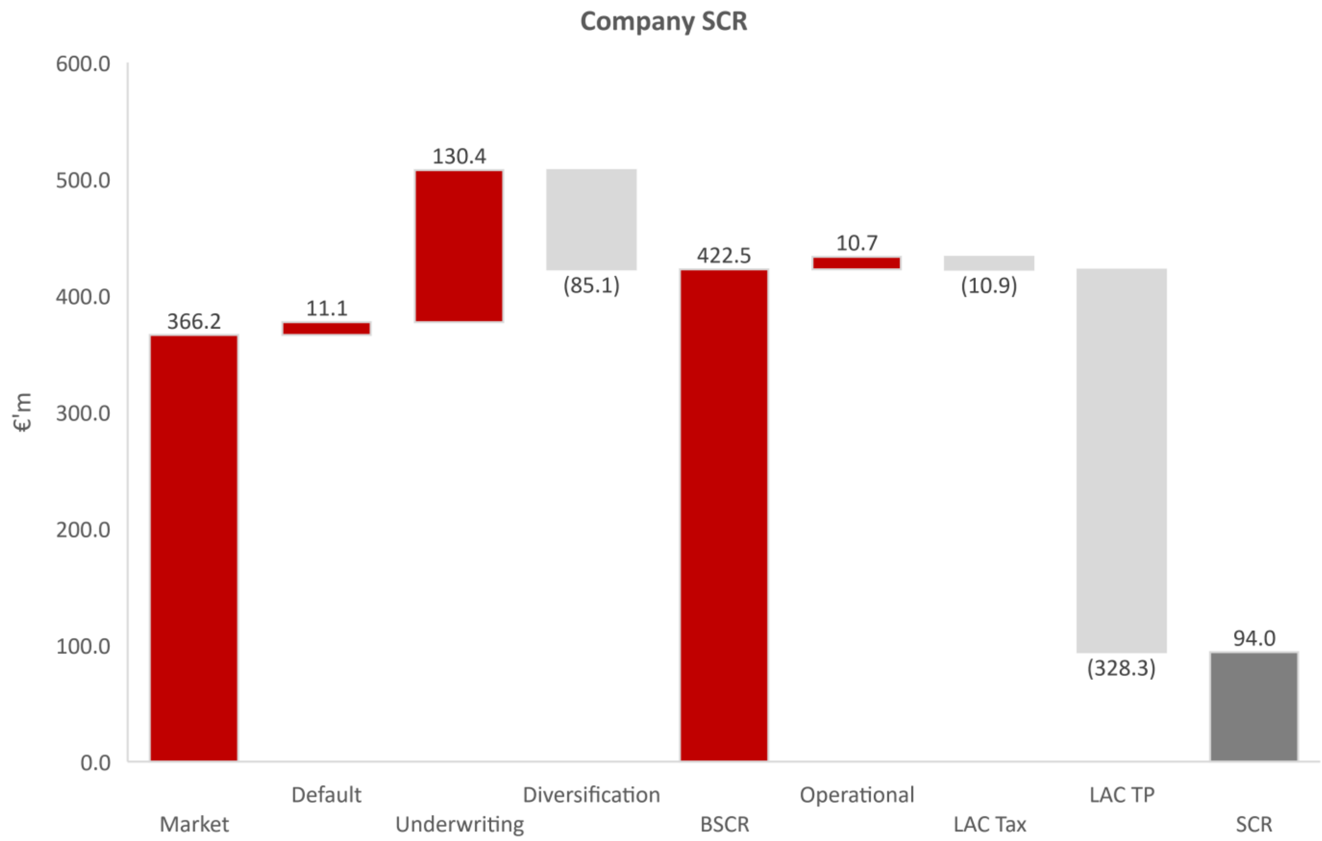
Operational risk	10,690
Loss-absorbing capacity of technical provisions	(328,266)
Loss-absorbing capacity of deferred taxes	(10,932)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	-
Solvency capital requirement excluding capital add-on	94,035
Capital add-on already set	-

Solvency capital requirement	94,035
Other information on SCR	
Capital requirement for duration-based equity risk sub-module	-
Total amount of Notional Solvency Capital Requirement for remaining part	19,949
Total amount of Notional Solvency Capital Requirements for ring fenced funds	74,085
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	-
Diversification effects due to RFF nSCR aggregation for article 304	-

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

Calculation of loss absorbing capacity of deferred taxes	**LAC DT**
LAC DT	(10,932)
LAC DT justified by reversion of deferred tax liabilities	-
LAC DT justified by reference to probable future taxable economic profit	(10,932)
LAC DT justified by carry back, current year	-
LAC DT justified by carry back, future years	-
Maximum LAC DT	-

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

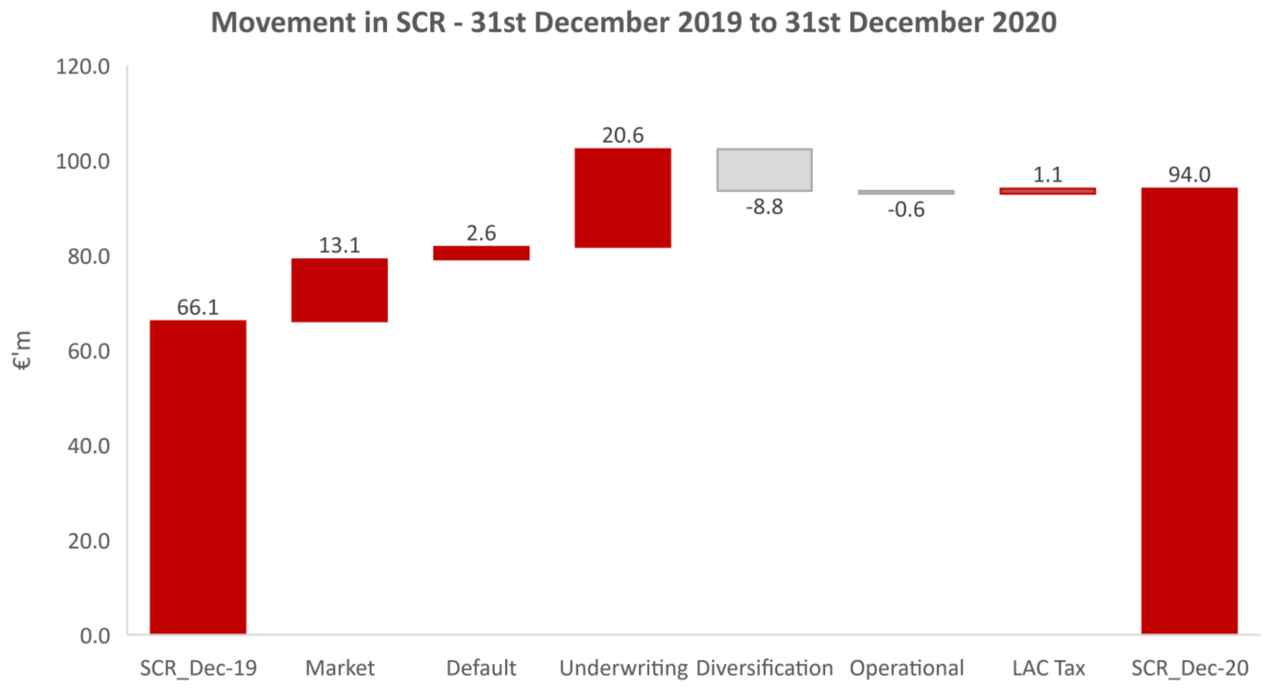


MMSV's total SCR amount was €94.0 million compared to €66.1 million as at 31st December 2019. As explained previously, this increase is a reflection of the lower for longer negative interest rate environment and increased market volatility, which together, significantly increase the capital consumption or solvency capital requirement at the level of the With-Profits Fund given the underlying capital guarantee benefit provided to its policyholder at policy maturity.

MMSV's total MCR amount at 31st December 2020 was €42.3 million compared to €29.7 million as at 31st December 2019 driven by the higher level of 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 €328.3 million and for deferred tax losses amounts to €10.9 million. The table below compares the movement in SCR over 2020:



The lower interest rates and higher volatility reduced the loss absorbing capacity of technical provisions. 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 any of the Solvency II prescribed shocks materialise. The Underwriting SCR increased as the lapse down stress became the biting stress, driven by the higher value of guarantees on with-profits policies.

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

Annex I

S.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Linear formula component for life insurance and reinsurance obligations

MCR_L Result	51,092

	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
Obligations with profit participation - guaranteed benefits	1,776,570	
Obligations with profit participation - future discretionary benefits	328,266	
Index-linked and unit-linked insurance obligations	100,819	
Other life (re)insurance and health (re)insurance obligations	-	
Total capital at risk for all life (re)insurance obligations		2,461,396

Overall MCR calculation

Linear MCR	51,092
SCR	94,035
MCR cap	42,316
MCR floor	23,509
Combined MCR	42,316
Absolute floor of the MCR	3,700
Minimum Capital Requirement	42,316

Figures in thousand euros

The linear MCR for Life insurance is €51.1 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 €42.3million, 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 €42.3 million.

E.2.2. Information regarding the Solvency Capital Requirement and the Minimum Required Capital

The Company has adjusted the Solvency Capital Requirement, to take into account the loss-absorbing capacity of deferred taxes, in the amount of €10.9 million. The Company does not have a deferred tax asset as the contracts are not projected to be loss-making in the BEL and in the prescribed stress scenarios. For this reason there is no requirement to test recoverability of any tax.

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 2020 MMSV had sufficient own funds to meet its Solvency Capital Requirement, Minimum Capital Requirement, and support its new business plans. The Company was compliant with the MCR and SCR at each quarter end of 2020, when a full calculation based on the standard formula calculation has been carried out. As a result, no mandatory remedial actions or corrective measures are required. However, given the still prevailing health and economic uncertainty, the high levels of market volatility and the outlook for interest rates[13], the Board of Directors decided to increase the issued share capital by €40 million to strengthen further its capital position. This transaction has been completed on 25th March 2021.

Furthermore, the Board of Directors continues to monitor the Company's financial and solvency evolution in the context of the internal and external environment. Measures will continue to be introduced, as required, in the best interest of policyholders and shareholders in these unprecedented times. The Company will continue to take all the necessary measures in the context of the unfolding economic, financial and regulatory position.

[13] At time of this writing, global yields, led by US yields have been increasing (from 2020 historical lows) on increased inflation expectations.

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 FY 2020	Ownership interest FY 2019
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	31.42%	28.36%
Tigne Mall p.l.c.	Associate	Malta	Ownership and management of 'The Point Shopping Mall'	Public limited company	35.46%	35.46%