MAPFRE | MIDDLESEA

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 Middlesea plc (hereinafter ***MAPFRE Middlesea, MMS*** or the Company) is a composite insurance company with primary activities being underwriting of non-life and group life risk. It accepts risks on the following Solvency II lines of business:

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

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

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

The result of the Non-Life technical account was €7.93 million at 31st December 2020 (2019 €6.87 million) whilst that for Life business amounted to €0.49 million (2019 €0.88 million) which, together with the result from the non-technical account resulted in a profit before taxes of €6.39 million down from the €23.82 million achieved in 2019. Due to the COVID-19 pandemic and the turmoil in the financial markets in the early months of the pandemic no dividends were received from MAPFRE MSV Life p.l.c., the Life subsidiary. In 2019, the total dividends received from MAPFRE MSV Life p.l.c. was €18.02 million, which had included a special dividend of €12.17 million from prior year profits.

During 2020, earned premiums net of reinsurance from non-life business totaled €57.44 million (2019: €56.07 million), notwithstanding that written premium increased only by 0.54% as the pandemic impacted mainly the Motor and Travel premium written.

MMS's net combined ratio at 86.1% shows an improvement of 4.3 percentage points compared to the previous year. The pandemic had a favourable effect on the combined ratio as the claims frequency particularly in Motor and Health reduced significantly during the near lock-down months of April to June. Motor claim frequency and loss ratio remained below previous year with number of claims hovering in the range of 75%-85% of previous year claims in the second half of the year. Significant loss events impacted mainly the Property and Yachts classes involving two fire incidents. Motor experienced a lower frequency and lower severity during 2020 compared to previous year. In 2019, results were significantly impacted by the February 2019 windstorm. Prior year claims saw a minor adverse net run-off derived from one-off large claims whose reserve saw upward adjustments, and from an increase in ultimate cost projections.

MMS has participated in a share capital increase in the same proportion to its existing shareholding in MAPFRE MSV Life plc. This transaction has been effected on 25th March 2021[1].

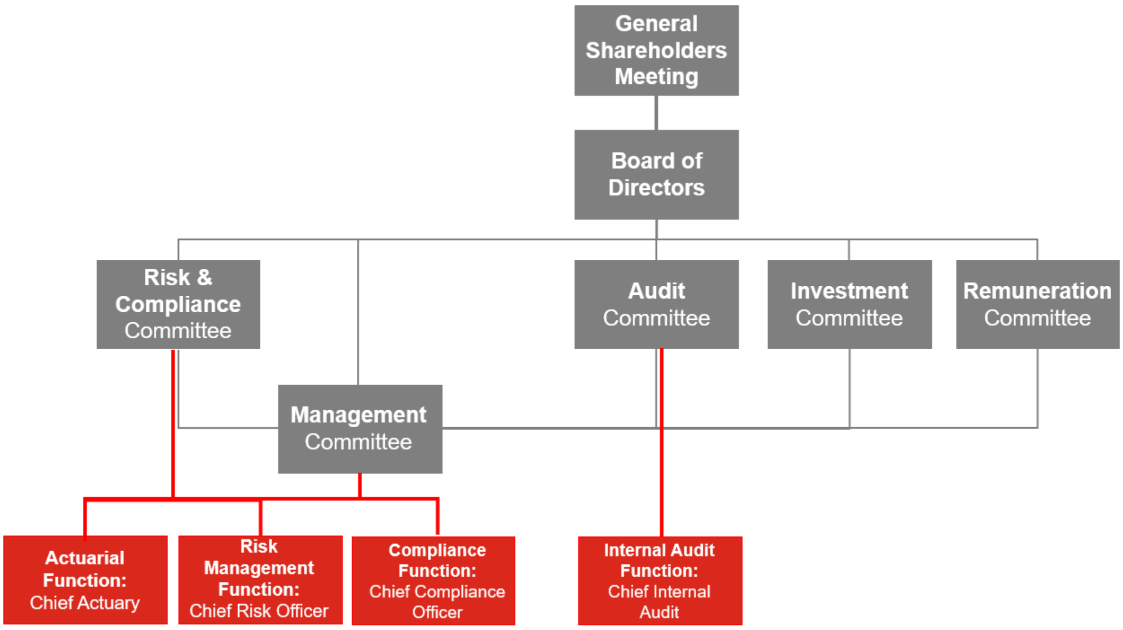
System of Governance

MMS's Governing bodies at 31st December 2020 are set out below:

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

In addition to the above, MMS is supervised by the EURASIA Management Committee, which is directly responsible for the supervision of the management of the Business Units in the region concerned, except for the reinsurance unit, and the promotion of all global and regional corporate projects.

The following organisation chart outlines the key functions and their respective reporting lines:



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

In order to ensure that MMS's system of governance has an adequate structure, MMS has a number of policies that govern the key functions (Risk Management, Compliance, Internal Audit and Actuarial).

[1] Company Announcement – 25th March 2021 (https://www.middlesea.com/insurance-mt/about-us/company/25thmarch20211.jsp)

These policies ensure that the functions follow the requirements and are compliant with the lines of governance established by MMS and by the MAPFRE Group.

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

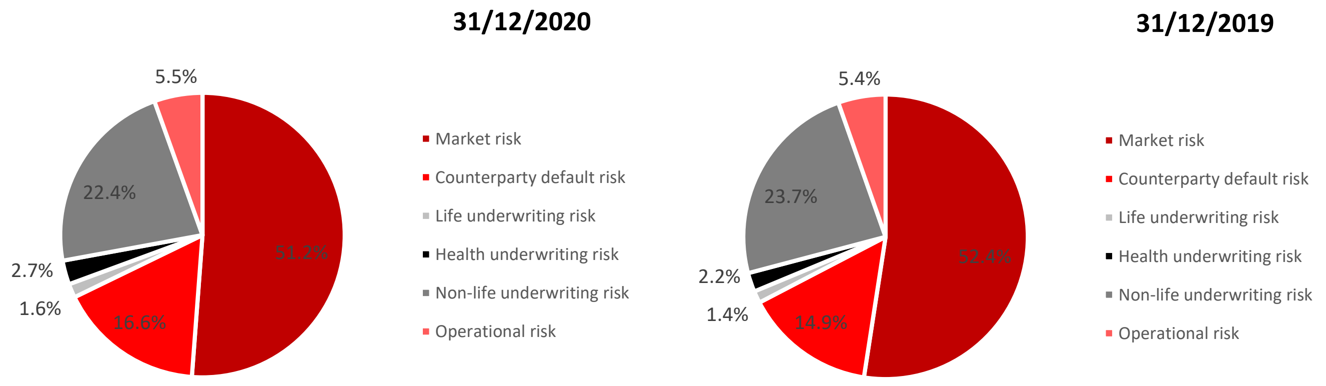
Within this framework, MMS has a structure composed of areas that, in their respective technical expertise, independently monitor the risks assumed.

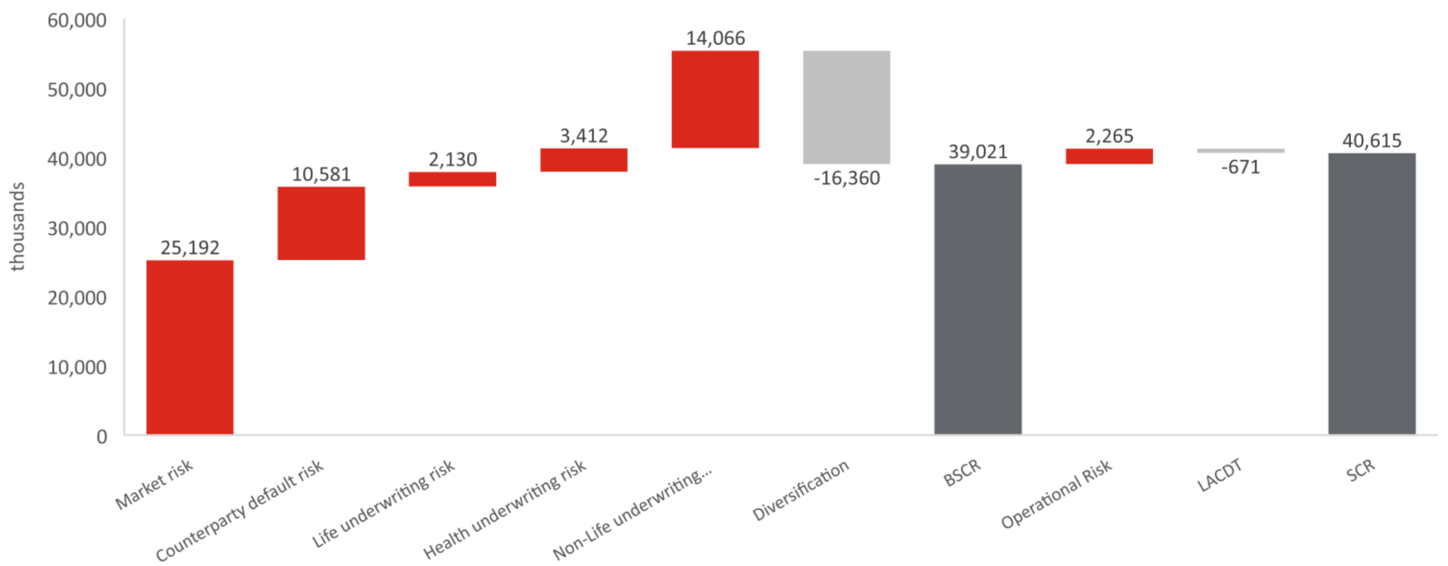
With effect from 1st April 2021, Javier Moreno Gonzalez was appointed Chief Executive Officer of MMS, replacing Felipe Navarro Lopez de Chicheri who has assumed another role within the MAPFRE GROUP.

Risk profile

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

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





MMS's risk profile is skewed towards Market Risk, due to MMS's strategic investment in MAPFRE MSV Life p.l.c ("MMSV"). This risk is followed by Non-Life underwriting risk and Counterparty default risk.

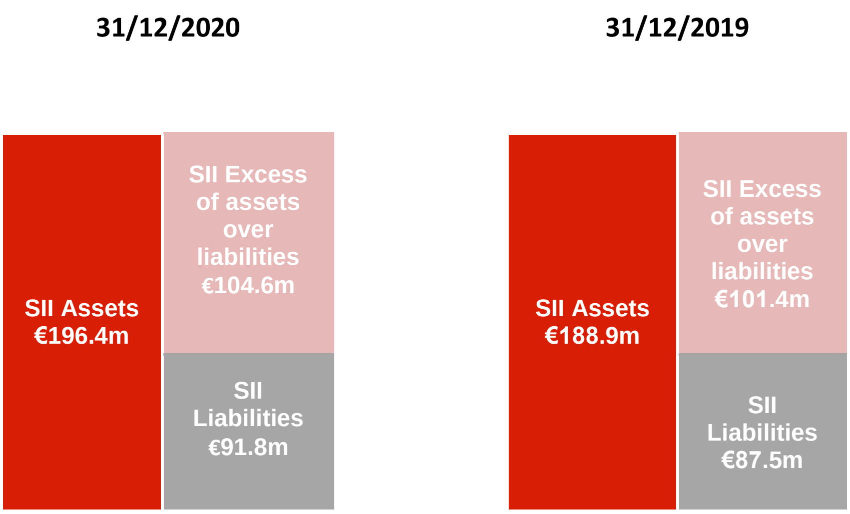
Other risks to which MMS is exposed to include those derived from the coronavirus pandemic, cybersecurity and reputational risk as outlined in Section C.6.

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

Valuation for solvency purposes

The Solvency II value of assets amounts to €196.4 million, whereas the Accounting value (IFRS value) is equal to €180.3 million. The difference between Solvency II and the IFRS values arose due to the different valuation criteria used for deferred acquisition costs, intangible assets, investments and reinsurance recoverables.

The Solvency II value of liabilities amounts to €91.8 million, whereas the IFRS value is equal to €103.3 million. The main difference between Solvency II value and the IFRS value arose from the different valuation criteria used for technical provisions. Section D.2 provides an explanation on the actuarial methodology and assumptions used in the calculation of the technical provisions (best estimate and risk margin).



The total excess of assets over liabilities for Solvency II purposes amounted to €104.6 million, which represented an increase of 35.7% over the IFRS value of equity. At 31st December 2020 the total excess of assets over liabilities increased by €3.2 million when compared to the 2019.

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

Capital Management

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

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

	31/12/2020	31/12/2019
Solvency Capital Requirement (SCR)	**40,615**	**31,702**
Own funds eligible for SCR coverage	**101,387**	**88,392**
Solvency ratio (SCR coverage)	**249.6%**	**278.8%**

Figures in thousand euro

MMS's Solvency Capital Requirement amounted to €40.6 million. The SCR corresponds to the own funds that MMS must hold to limit the probability of bankruptcy to one case per 200, or that MMS is 99.5% confident to be able to meet its commitments to insurance beneficiaries during the following year.

As at 31st December 2020, the eligible own funds to cover the SCR amount to €101.4 million (2019: €88.4 million), of which €99.0 million (2019: €97.68 million) are classified as unrestricted Tier 1 and €2.4 million (2019: €0.7 million) are classified as Tier 3. The 2019 eligible own funds factored in a €13m foreseeable dividend which eventually was not distributed in line with EIOPA recommendations given the coronavirus pandemic uncertainty. Tier 1 capital has the characteristics set out in Article 93(1)(a) and (b) of Directive 2009/138/EC, fully paid up and available to absorb losses.

The solvency ratio amounts to 249.6% (2019: 278.8%) and reflects the proportion between eligible own funds and the SCR. It shows that MMS has a high capacity to absorb extraordinary losses arising from adverse scenarios and is within the Risk Appetite established for MMS and approved by its Board of Directors.

To calculate the solvency ratio, MMS does not make use of matching and volatility adjustments, or transitional measures for technical provisions.

The Solvency II regulation also establishes a Minimum Capital Requirement (MCR), which is the minimum level of security under which financial resources should never fall. MMS's MCR amounted to €10.2 million and the eligible own funds to cover it are equal to €99.0 million, resulting in an MCR coverage ratio of 974.6%.

A. Business and Performance

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

A.1. Business

A.1.1. Company Businesses

MAPFRE Middlesea plc is a composite insurance company specializing in the underwriting of non-life and group life business.

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

The registered address is: MAPFRE Middlesea plc

Middlesea House

Floriana, Malta

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

Carretera de Pozuelo

Majadahonda, Spain

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

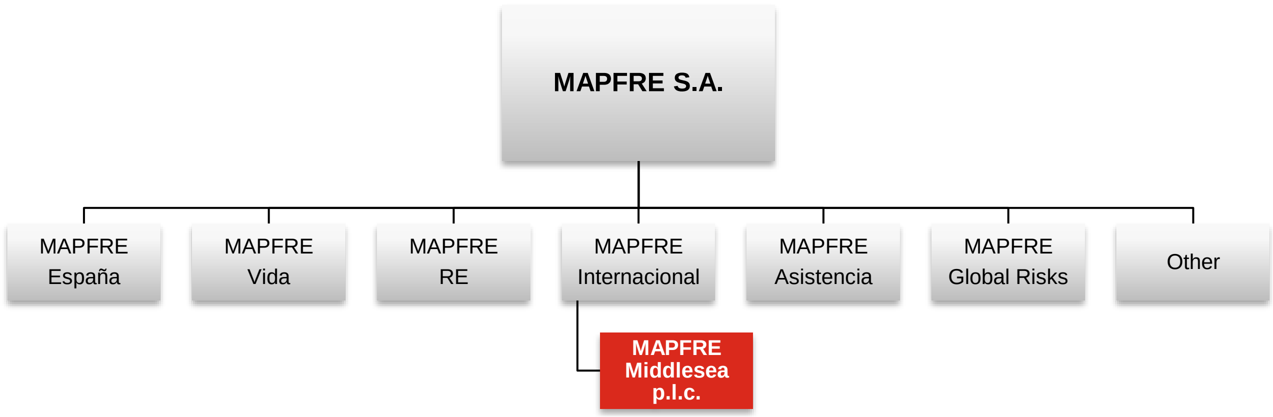
The ultimate controlling company within the Group is FUNDACIÓN MAPFRE, a non-profit institution domiciled in Madrid at Paseo de Recoletos 23, Spain.

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

Name	Type of interest	Location	Percentage of ownership*
MAPFRE Internacional	Limited Liability	Spain	54.6%
Bank of Valletta p.l.c.	Limited Liability	Malta	31.1%

**The ownership interest and voting rights are the same*

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



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

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

Supervision

The Malta Financial Services Authority (hereinafter MFSA) is responsible for the financial supervision of MMS. The MFSA is located at Triq l-Imdina, Zone 1

Central Business District

Birkirkara, CBD 1010

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

The Dirección General de Seguros y Fondos de Pensiones (DGSFP) is responsible for the financial supervision of the MAPFRE Group since, MAPFRE S.A. is located in Spain. The DGSFP is located in Madrid and its website is www.dgsfp.mineco.es.

External Audit

On 25th March 2021, KPMG Malta issued an unqualified audit opinion on the individual and consolidated financial statements prepared by MMS as at 31st December 2020.

KPMG also review the sections D “Valuation for solvency purposes” and E “Capital management” of the Solvency and Financial Condition Report.

KPMG is located at: Portico Building

Marina Street

Pieta’, PTA 9044.

Lines of business

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

- Medical expense insurance

- Income protection insurance
- Motor vehicle liability insurance
- Other motor insurance
- Marine, Aviation and Transport insurance
- Fire and other damage to property insurance
- General liability insurance
- Assistance
- Miscellaneous Financial Loss
- Other life insurance

Geographic areas

MMS does not underwrite any risks, which are situated outside Malta, unless there is a specific Maltese interest. Previous business underwritten by the company branches outside Malta is now in run off. During 2020, the Group's business activities have been developed through an organizational structure comprised of:

- four Business Units (Insurance, Assistance, Global Risks and Reinsurance),
- three Territorial Areas (IBERIA, LATAM and INTERNATIONAL); and
- six Regional Areas: Iberia (Spain and Portugal), LATAM North (Mexico, Dominican Republic, Panama, El Salvador, Nicaragua, Costa Rica, Honduras and Guatemala), LATAM South (Colombia, Venezuela, Ecuador, Peru, Chile, Argentina, Uruguay and Paraguay), Brazil, North America (United States, Puerto Rico and Canada) and EURASIA (Europe – except Spain and Portugal, Middle East, Africa, Australia, China, Philippines, Indonesia, Japan, Malaysia and Singapore).

As of 1st January 2021, the Territorial Areas are cancelled and the Group's business activities are carried out through the Business Units and Regional Areas indicated above.

A.1.2. Events with material repercussions

The result of the Non-Life technical account was €7.9 million at 31st December 2020 (2019 €6.9 million) whilst that for Life business amounted to €0.5 million (2019 €0.9 million) which, together with the result from the non-technical account resulted in a profit before taxes of €6.4 million, down from the €23.8 million achieved in 2019. Due to the COVID-19 pandemic and the turmoil in the financial markets in the early months of the pandemic no dividends were received from MAPFRE MSV Life p.l.c., the Life subsidiary. In 2019, the total dividends received from MAPFRE MSV Life p.l.c. was €18.0 million, which had included a special dividend of €12.2 million from prior year profits.

During 2020, earned premiums net of reinsurance from non-life business totalled €57.4 million (2019 €56.1 million), notwithstanding that written premium increased only by 0.54% as the pandemic impacted mainly the Motor and Travel premium written.

MMS's net combined ratio at 86.1% shows an improvement of 4.3 percentage points compared to the previous year. The pandemic had a favourable effect on the combined ratio as the claims frequency particularly in Motor and Health reduced significantly during the near lock-down months of April to June. Motor claim frequency and loss ratio remained below previous year with number of claims hovering in the range of 75%-85% of previous year claims in the second half of the year. Significant loss events impacted mainly the Property and Yachts classes involving two fire incidents. Motor experienced a lower frequency and lower severity during 2020 compared to previous year. In 2019, results were significantly impacted by the February 2019 windstorm. Prior year claims saw a minor adverse net run-off derived from one-off large claims whose reserve saw upward adjustments, and from an increase in ultimate cost projections.

MMS's solvency ratio stands at 249.6%. This shows that MMS holds sufficient capital to execute its long-term strategy and good resilience in challenging business scenarios.

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: non-Life insurance and reinsurance obligations (direct insurance and proportional accepted reinsurance)																		Total	
	Medical expense insurance		Income Protection insurance		Motor vehicle liability insurance		Other motor insurance		Marine, aviation and transport insurance		Fire and other damage to property insurance		General liability insurance		Assistance		Miscellaneous financial loss			
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Premiums written																				
Gross - Direct Business	11,749	11,074	1,045	962	18,522	16,650	18,017	20,904	2,653	2,133	14,475	13,474	4,727	4,667	1,393	2,303	29	53	72,610	72,218
Gross - Proportional reinsurance accepted	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross - Non-proportional reinsurance accepted																			-	-
Reinsurers' share	71	162	54	23	1,662	2,045	357	340	810	278	11,620	10,511	441	331	9	55	9	25	15,033	13,770
Net	11,678	10,912	991	939	16,860	14,605	17,660	20,563	1,843	1,855	2,855	2,963	4,286	4,336	1,384	2,247	20	28	57,577	58,449
Premiums earned																				
Gross - Direct Business	11,427	10,331	1,008	942	18,815	16,130	18,301	20,251	2,422	1,988	14,040	12,979	4,574	4,354	1,500	2,285	60	67	72,147	69,328
Gross - Proportional reinsurance accepted	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross - Non-proportional reinsurance accepted																			-	-
Reinsurers' share	71	162	54	23	1,662	2,045	499	183	495	284	11,440	10,127	388	346	72	55	28	32	14,709	13,257
Net	11,356	10,169	954	944	17,153	14,085	17,802	20,069	1,927	1,705	2,600	2,852	4,185	4,008	1,428	2,062	32	30	57,438	56,071
Claims Incurred																				
Gross - Direct Business	4,340	4,015	523	485	14,100	17,303	5,967	7,189	1,761	2,783	4,292	5,214	7	1,603	1,246	638	6	7	32,243	39,239
Gross - Proportional reinsurance accepted	-	-	-	-	1	(22)	-	(13)	-	-	-	(18)	(1)	(281)	-	-	-	-	-	(334)
Gross - Non-proportional reinsurance accepted																			-	-
Reinsurers' share	-	(7)	-	(33)	2,715	2,961	23	1,810	531	1,117	3,503	4,010	(218)	1,066	27	(176)	4	-	6,585	10,748
Net	4,340	4,022	523	519	11,386	14,320	5,944	5,366	1,230	1,666	789	1,186	224	255	1,219	814	2	7	25,657	28,156
Changes in other technical provisions																				
Gross - Direct Business	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross - Proportional reinsurance accepted	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross - Non- proportional reinsurance accepted																			-	-

	Line of Business for: non-Life insurance and reinsurance obligations (direct insurance and proportional accepted reinsurance)																		Total	
	Medical expense insurance		Income Protection insurance		Motor vehicle liability insurance		Other motor insurance		Marine, aviation and transport insurance		Fire and other damage to property insurance		General liability insurance		Assistance		Miscellaneous financial loss			
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Reinsurers'share	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Expenses incurred	3,780	4,126	647	490	7,643	6,451	6,520	6,915	887	841	1,443	1,398	2,230	1,686	967	1,055	105	57	24,222	23,018
Other expenses																			-	-
Total expenses																			24,222	23,018

Figures in thousand euro

	Line of Business for: life insurance obligations			
	Other life insurance		Total	
	2020	2019	2020	2019
Premiums written				
Gross	2,509	2,165	2,509	2,165
Reinsurers' share	354	191	354	191
Net	2,155	1,974	2,155	1,974
Premiums earned				
Gross	2,509	2,165	2,509	2,165
Reinsurers' share	354	191	354	191
Net	2,155	1,974	2,155	1,974
Claims incurred				
Gross	1,523	984	1,523	984
Reinsurers' share	410	154	410	154
Net	1,113	830	1,113	830
Changes in other technical provisions				
Gross	142	(29)	142	(29)
Reinsurers' share	-	-	-	-
Net	142	(29)	142	(29)
Expenses incurred	449	359	449	359
Other expenses			-	-
Total expenses			449	359

Figures in thousand euro

The preceding tables only present the columns related to the lines of business in which MMS operates.

MMS closed the year with gross written premiums amounting to €75.1 million (2019: €74.4 million), experiencing an increase of 1.0% over 2019.

Total gross claims incurred amount to €33.8 million euros (2019: €39.9 million), experiencing a decrease of 15.3% over 2019.

The profit after tax for 2020 stood at €4.1 million (2019: €21.7 million), showing a decrease of 81.0% over 2019 due to MMS's main subsidiary not paying a dividend in 2020.

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:

Interest, dividend and similar income	2020	2019
INVESTMENT INCOME		
Investment properties	784	809
Income from the held-to-maturity portfolio	-	-
Income from the available-for-sale portfolio	102	162
Income from fair value through profit or loss portfolio	78	204
Dividend income from Group companies	136	18,025
Other financial income	1	5
TOTAL INVESTMENT INCOME	**1,101**	**19,205**
REALISED AND UNREALISED GAINS		
Net realised gains		
Investment properties	3	1
Held-to-maturity investment portfolio	-	-
Available-for-sale investment portfolio	-	-
Fair value through profit or loss portfolio investments	-	-
Other	-	-
Net unrealised gains		
Increase in the fair value of the trading portfolio and profits from derivatives	119	770
Other	-	-
TOTAL GAINS	**122**	**771**
OTHER FINANCIAL INCOME FROM THE INSURANCE BUSINESS		
Gains on investments on behalf of policyholders bearing the investment risk	-	-
Gains on exchange	-	6
Other	5	26
TOTAL OTHER FINANCIAL INCOME FROM THE INSURANCE BUSINESS	**5**	**32**
TOTAL INCOME FROM THE INSURANCE BUSINESS	**1,228**	**20,008**
FINANCIAL INCOME FROM OTHER BUSINESSES	**-**	**-**
TOTAL FINANCIAL INCOME	**1,228**	**20,008**

Figures in thousand euro

Financial Expenses	2020	2019
INVESTMENT EXPENSES		
Investment properties	9	(4)
Expenses from the held-to-maturity portfolio:	-	-
Expenses from the available-for-sale portfolio:	-	5
Expenses from the trading portfolio:	-	-
Other financial expenses	135	90
TOTAL INVESTMENT EXPENSES	**144**	**91**
REALISED AND UNREALISED LOSSES		
Realised losses		
Investment properties	-	-
Held-to-maturity investment portfolio	-	-
Available-for-sale investment portfolio	-	-
Trading portfolio investments	12	-
Other	-	-
Unrealised losses		
Decrease in the fair value of the trading portfolio and losses on derivatives	970	355
Other	-	-
TOTAL LOSSES	**982**	**355**
OTHER FINANCIAL EXPENSES FROM THE INSURANCE BUSINESS		
Losses on investments on behalf of policyholders bearing the investment risk	-	-
Losses on exchange	14	-
Other	38	44
TOTAL OTHER FINANCIAL EXPENSES FROM THE INSURANCE BUSINESS	**52**	**44**
TOTAL EXPENSES FROM THE INSURANCE BUSINESS	**1,178**	**490**
FINANCIAL EXPENSES FROM OTHER BUSINESSES	-	**-**
TOTAL FINANCIAL EXPENSES	**1,178**	**490**

Figures in thousand euros

TOTAL INCOME FROM THE INSURANCE BUSINESS	**1,228**	**20,008**
TOTAL EXPENSES FROM THE INSURANCE BUSINESS	**1,178**	**490**
FINANCIAL RESULT FROM THE INSURANCE BUSINESS	**50**	**19,518**
TOTAL INCOME FROM OTHER BUSINESSES	**-**	**-**
TOTAL EXPENSES FROM OTHER BUSINESSES	**-**	**-**
TOTAL FINANCIAL RESULT FROM OTHER BUSINESSES	**-**	**-**
TOTAL FINANCIAL RESULT	**50**	**19,518**

Figures in thousand euros

Total net investment income during the year amounted to €0.05 million (2019: €19.5 million). Due to the COVID-19 pandemic and the turmoil in the financial markets in the early months of the pandemic no dividends were received from MAPFRE MSV Life p.l.c. In 2019, the total dividends received from MAPFRE MSV Life p.l.c. was €18.0 million, which had included a special dividend of €12.2 million from prior year profits.

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

The following is the quantitative information regarding gains and losses arising from investments broken down by type of asset, and recognised directly in equity during 2020 and 2019:

Investments	Gains recognised in equity		Losses recognised in equity		Net difference	
	2020	2019	2020	2019	2020	2019
I. Investment properties	-	-	-	-	-	-
II. Financial investments	**328**	**10**	**24**	**16**	**304**	**(6)**
Available-for-sale portfolio	328	10	24	16	304	(6)
- Equity instruments	328	10	-	-	328	10
- Debt securities	-	-	24	16	(24)	(16)
- Mutual funds	-	-	-	-	-	-
- Other	-	-	-	-	-	-
III. Investments in associates accounted for using the equity method	5	50	-	-	5	50
IV. Deposits established for aceepted reinsurance	-	-	-	-	-	-
V. Other investments	-	-	-	-	-	-
Overall performance	333	60	24	16	309	44

Figures in thousand euro

During 2020, on the onset of the COVID-19 pandemic the financial markets suffered significant losses. MAPFRE Middlesea held an available-for-sale portfolio of Bonds and Equities. The equity holdings suffered significant losses and only recovered marginally over the rest of the year. Upon assessment, all equitiy holdings were deemed to be impaired with all the cumulative loss recognized in the profit or loss account. The gain in equity is in reality the release of losses to profit or loss.

A.3.3. Information about asset securitisation

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

A.4. Performance of other activities

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

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

Other income and expenses	2020	2019
Other income	-	-
Other expenses	2,175	1,958

Figures in thousand euro

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

A.4.2 Lease Agreements

Finance leases

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

Operating leases

MMS is the lessee/lessor under operating leases involving property and lease of vehicles. MMS leases out commercial property to a number of tentants with current leases ranging from 1 year to 31 year leases to expiry with di fermo periods never exceeding 5 years. Contracts have renewal and cancellation options with fixed notification periods.

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

A.5. Any other information

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

B. System of Governance

B.1. General Information on the system of governance

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

Apart from the above mentioned Group structure, MMS has its individual governing bodies.

MMS's governing bodies, which are listed below:

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

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

B.1.1 System of Governance

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

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

- **Board of Directors**: the body in charge of managing, administering, and representing the company. It acts as the maximum decision-making and supervisory body at MMS, whereas ordinary management is the responsibility of the management and executive bodies. Where necessary, it establishes the roles of the Management Committee and its delegated Committees, designating members, where necessary.

- **Audit Committee:** The main role of this committee is to protect the interest of the shareholders and assist the Board of Directors to effectively make informed decisions based on accurate, reliable and timely reported financial statements.

- **Risk and Compliance Committee**: The purpose of this committee is to assist the company through its oversight role in fulfilling its responsibility relating to the effective identification, measuring, monitoring and management of risk, compliance, prevention of money laundering and other aspects associated with its business.

- **Investment Committee**: This committee advises the Board of Directors on investment management policies to be adopted by the company to protect the value, marketability, and return of the investment portfolio. Furthermore, the committee is also responsible to oversee the management of the investment portfolio in order to ensure compliance with the Investment policy.

- **Remuneration Committee:** This committee is responsible to ensure a coherent remuneration policy and practices, which enable MMS to attract and retain executives and directors who create good value for the shareholders whilst supporting MMS's mission statement. Further to this, it is also under the committee's responsibility to reward executives in the context of the company's performance and the general pay environment.

- **Management Committee:** This committee is the body responsible for directly supervising MMS's management and for promoting all its global projects. It provides regular reports on its proposals, actions, and decisions to MMS's Board of Directors.

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

MMS has a management model underpinned 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, MMS 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, MMS has policies which regulate the key functions (Risk Management, Compliance, Internal Audit, and Actuarial). These policies ensure that the key functions follow the requirements defined by the regulator and that they are in accordance with the governance structures established by MMS and by the MAPFRE Group. MMS's Board of Directors approved the Actuarial policy at its meeting held on 15th July 2020, whilst the Risk Management, Internal Audit, and the Compliance policy were approved on 15th December 2020.

The above-mentioned policies ensure the operational independence of the key functions and their direct reporting to the governing body, thereby ensuring that they are free from any undue or inappropriate influence, control, incompatibility or limitation whilst exercising their responsibilities. The key functions report to the Board of Directors which delegates the authority necessary to support its functions. The Board of Directors and/or the relevant committees receive reports at least annually from the responsible areas at MMS. The information and advice provided to the Board of Directors by the key functions are detailed in their respective sections. The names of the parties responsible for the key functions have been communicated to the MFSA.

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

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

During 2020, there were no significant changes to MMS's governance structure.

B.1.4. Remuneration

Remuneration paid to the members of MMS's governing body and employees is determined in accordance with current regulations as well as its Remuneration Policy, approved by the Board of Directors on 15th July 2020.

The Remuneration policy endeavors to establish adequate remuneration based on the post or position, as well as performance, and act as a motivating and satisfying element that allows to achieve the objectives set and comply with MMS's strategy to thereby foster sufficient and effective risk management, making it unattractive to assume risks that exceed the tolerance level and to avoid conflicts of interest. Its general principles are:

- Based on each job/function, it includes measures designed to avoid any conflicts of interest.

- It takes into account merit, technical knowledge, professional skills, and performance.
- Ensures equality, without discrimination based on criteria to gender, race, or ideology.
- Transparency.
- Flexible in structure, adaptable to different market groups and circumstances.
- Aligned with MMS's strategy and its risk profile, objectives, risk-management practices, and long-term interests.
- It has regard to labour market competitiveness.

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

The remuneration system for Directors has the following characteristics:

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

MMS does not have any Executive Directors.

B.1.5 Additional information

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

B.2. Fit and proper requirements

MMS has an Aptitude and Integrity Policy in place, which was approved by MMS's Board of Directors on 10th December 2020. This policy establishes the applicable Relevant Personnel[2] requirements, as follows:

- They should have the appropriate qualifications, knowledge, and expertise to ensure that MMS is professionally managed and supervised.
- The expertise and experience of Relevant Personnel will include academically acquired knowledge and experience appropriate to the respective individual responsibilities assigned.

MMS's Board members and Directors 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 prior positions held during a sufficient period of time.

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

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

The aforementioned parties must ensure that their statements are continually updated, and must communicate any relevant changes in their situations, and participate in regular updates when required to do so by the MMS'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.

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 MMS's organizational structure. MMS's RMS follows the three lines of defense model (described in section B.4.1). This ensures ownership by all employees for risks and corresponding controls, in line with their roles and responsibilities, and objectives.

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

The Corporate Risk 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.

MMS'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 MMS 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.

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

B.3.2 Risk management objectives, policies, and processes

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

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

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

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

Each policy aims to:

- Set general guidelines, basic principles and a general action framework for the type of risk concerned, ensuring coherent application 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 MMS receive information regarding the quantification of the main risks to which MMS is exposed and the capital resources available to confront them, as well as information regarding compliance with Risk Appetite limits.

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

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

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

Type of Risk	Measurement and management	Monitoring and reporting
Underwriting risk Premium risk - Reserve risk - Catastrophic risk - Reinsurance Mitigation	Standard formula	Annual
Market risk - Interest rate - Equity - Property - Spread - Concentration - Currency	Standard formula	Annual
Credit Risk Reflects any possible losses arising from unexpected default by counterparties and debtors	Standard formula	Annual
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 reputational risks)	Standard Formula	Annual
	Dynamic qualitative analysis of the risks using processes (RiskM@p)	Annual
	Recognition and monitoring of operational risk events	Continuous
Liquidity Risk	Liquidity position. Liquidity indicators	Continuous

Type of Risk	Measurement and management	Monitoring and reporting
Risk that MMS might not be able to realise its investments and other assets in order to meet its financial commitments at maturity		
Non-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	Annual
Strategic and Corporate Governance Risk Includes the following risks: - Business ethics and good corporate governance - Organisational structure - Alliances, mergers and acquisitions - Market competition	Application of MAPFRE Group's Institutional, Business, and Organisational 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 MMS is exposed to.

B.3.3 Own Risk and Solvency Assessment

The Own Risk and Solvency Assessment (hereinafter ORSA) is an integrated process in MMS's Risk Management System. The ORSA is a mechanism, which identifies, measures, monitors, manages, and reports any short or long-term risks identified by MMS 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 that MMS faces, and facilitates the taking of initiatives for their management and and mitigation.

ORSA Process

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

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

The ORSA process is coordinated with the strategic planning process 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, MMS has carried out an analysis that indicates that the distribution of dividends does not compromise the financial or solvency situation or the protection of the interests of policyholders and insured, and is carried out in accordance with the recommendations of supervisors in the matter.

- 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 for approval by the Company's Board of Directors of the Medium-Term Capital Management Plan, encompassing the results from projections included in the ORSA.

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

B.4. Internal Control System

B.4.1. Internal Control

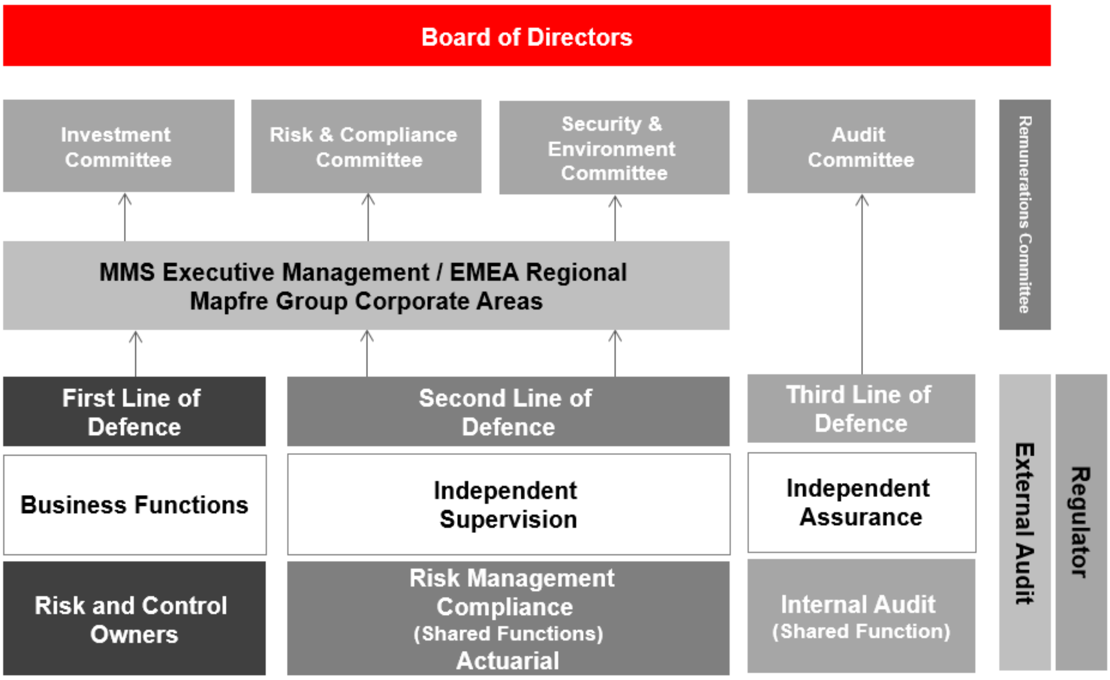
MMS's Internal Control Policy has been approved on 15th December 2020. This policy establishes the actions which must be developed in order to maintain an optimal and effective Internal Control System.

MMS'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 defense model, by assigning responsibilities and ensuring compliance with the internal control objectives in line with the model:

1. The first line of defense consists of employees, management, and the business, operational and supporting areas that are responsible for maintaining effective control of activities carried out as an inherent part of their day- to-day work. Therefore, these units are responsible to manage the risks, design and apply the control mechanisms that are necessary to mitigate the risks associated with the processes that they carry out and to ensure that they do not exceed established limits.
2. The second line of defense is made up of the key risk management, actuarial and compliance key functions, 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 defense made up by 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.



MMS´s Internal Control System consists of tasks and actions present in all the organisation's activities and, accordingly, they are fully integrated into its organizational structure.

B.4.2. Compliance Function

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

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

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

MMS's Compliance Policy was approved by the Board of Directors on 15th December 2020. The policy provides a detailed outline of 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.

B.5. Internal audit function

MMS's governance structure is based on the three lines of defense model, with the Internal Audit Function being the third line of defense. 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, MMS's Internal Audit function reports to the Audit Committee, a board delegated committee. This guarantees the Internal Audit function's independence. The Internal Audit Policy and bylaws were updated and approved by MMS's Board of Directors on 15th December 2020, establishes the mission, functions and attributes of the MMS's Internal Audit Function. It also includes the rights and obligations of the MMS's Internal Auditors as well as their code of ethics, which sets out the rules of conduct of the auditors based on integrity and honorability, 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 MMS'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 MMS's governing bodies.

B.6. Actuarial Function

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

The Business Unit's Actuarial Area is directly responsible for carrying out the actuarial quantifications and other predictive models for each Business Unit in MAPFRE Group and for preparing the technical documentation associated with these valuations.

The head of the Actuarial Area at MMS who was appointed by the Board of Directors, is the maximum authority and ultimate responsible for the Actuarial function within that Business Unit and ensures the compliance with the applicable Solvency II aspects, among other things.

The person responsible for the Actuarial Area at MMS reports to both their hierarchically superior in the Company and, functionally, to the Corporate Actuarial Office.

Up to and including 31st December 2020, the Company's actuarial function was outsourced to MAPFRE S.A. Corporate Actuarial Area, although there was also a person responsible for ensuring the correct functioning. The conditions under which the above outsourced service takes place are outlined in Section B.7.The Corporate Actuarial Office sets the general principles and guidelines, which take into account the best statistical and actuarial practices within the MAPFRE Group, in order to coordinate and unify the Group's actuarial calculations.

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

Considering the above, the Corporate Actuarial Office in cooperation with regional actuarial managers supports the Business Units Actuarial Areas that require collaboration in order to fulfill their corresponding individual responsibilities.

B.7. Outsourcing

MMS's Outsourcing Policy was approved on 10th December 2020 by the Board of Directors and is in line with the Outsourcing Policy approved by 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.

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.

On 1st January 2016, the MMS's Board of Directors adopted a resolution to outsource the Actuarial Function to MAPFRE S.A.

B.8. Any other information

MMS's system of governance reflects the requirements established in the Solvency II Directive on managing inherent business risks. MMS 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.

MMS 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.

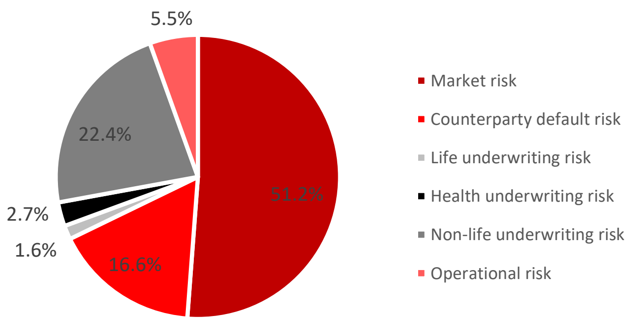
C. Risk profile

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

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

The following charts reflect the composition of MMS's risk profile based on the risks included under the standard formula methodology as at 31st December 2020 and 2019. Further information on the SCR calculation can be found in Section E.2.

31/12/2020



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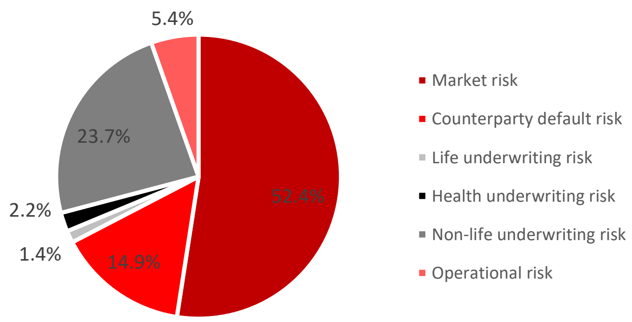


From the above, it can be observed that MMS's risk profile mainly comprises of Market Risk (due to MMS's strategic investment in MAPFRE MSV Life p.l.c.), representing 51.2% of the total SCR. The risk is followed by Non-Life Underwriting Risk and Counterparty Default Risk (22.4% and 16.6% of the total SCR respectively).

In 2020, the relative share of Counterparty default risk, Life underwriting risk, Health underwriting risk and Operational risk increased, while the relative share of Market risk and Non-life underwriting risk decreased. Further information is available in Section E.2.1.

In 2020, there have been no significant changes with respect to the measures used to assess the Company's main risks.

MMS considers that with the exception of the coronavirus pandemic and the increased capital requirements at the level of its main subsidiary (as a consequence of the pandemic's financial markets developments) there have been no additional material changes in the significant risks to which it is exposed to, which are described in Section C.6.

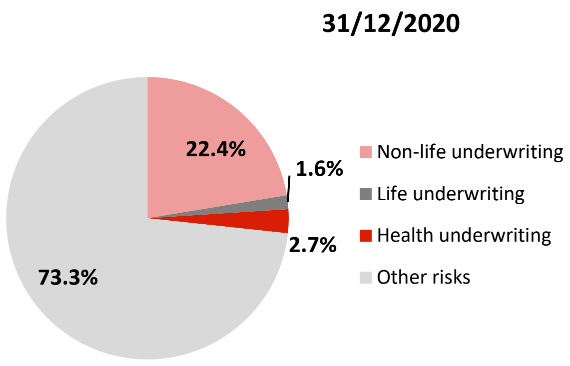
A description of the main risk categories, the exposure to the risks, their management and mitigation techniques, and possible concentrations are indicated below.

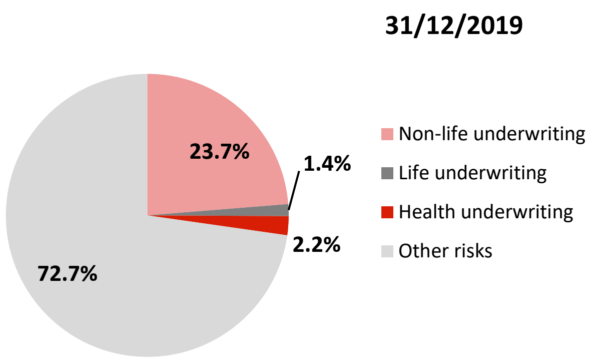
C.1. Underwriting risk

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

Exposure

As at December 31st December 2020, underwriting risk represents 26.7% of all of the risk modules included in the SCR. The following charts present details by module and any changes when compared to the previous year:





Management and mitigation techniques

MMS minimises underwriting risk through the following measures:

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

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

- **Setting of a sufficient premium:**

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

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

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

- **Use of Reinsurance:**

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

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

As at 31st December 2020, the Company had ceded 20.5% of its premiums and 32.4% of its Solvency II Technical Provisions[3] to reinsurance.

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

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

Concentration

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

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

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

Transfer of risk to special-purpose entities

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

[3] Including Risk Margin

C.2. Market Risk

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

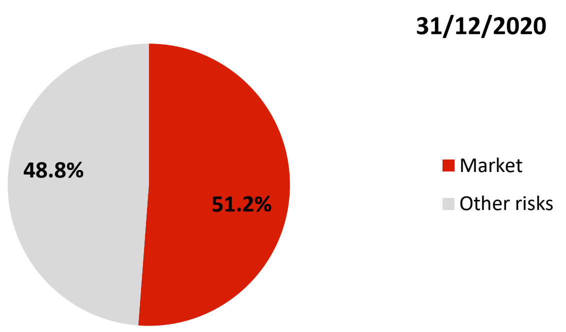
Exposure

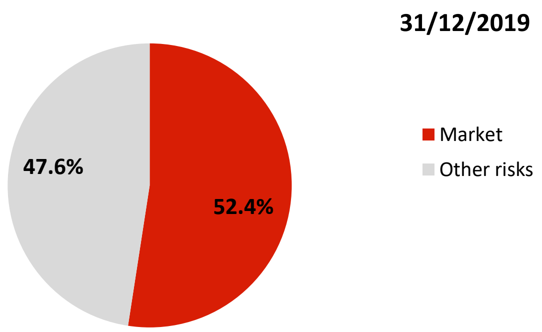
The following is a breakdown of MMS's investments by asset category:

Investments	Investments at 31/12/2020	(%) Investments	Investments at 31/12/2019	(%) Investments
Investment properties	**16,201**	**14.1%**	**16,167**	**13.8%**
Financial investments	**98,311**	**85.9%**	**100,896**	**86.2%**
Strategic participations	92,935	81.2%	90,979	77.7%
Fixed income	3,202	2.8%	7,172	6.1%
Equities	2,174	1.9%	2,745	2.3%
Mutual funds	-	-	-	-
Other	-	-	-	-
Deposits other than cash equivalents	-	-	-	-
Hedging derivatives	-	-	-	-
Other investments	-	-	-	-
Total	**114,512**	**100%**	**117,063**	**100.0%**

As at 31st December 2020, 81.2% of total investments relates to strategic participations, listed in Annex I. The main exposure pertains to MMS's investment in MAPFRE MSV Life p.l.c., representing 95.4% of the strategic participations. Furthermore, 2.8% of the investments were fixed income securities, of which 69.0% correspond to the Government of Malta debt exposures.

As at 31st December 2020, Market risk represents 51.2% of all risk modules included in the SCR standard formula calculation. The following charts present details by module and changes when compared to the previous year.





Management and mitigation techniques

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

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

The management of the investment portfolio is considered as semi-active management, with internal risk limits in place.

MMS's investment portfolio assumes a degree of Market Risk, in accordance with the following:

- Modified duration is the variable aspect of the management of interest rate risk, and is conditioned by the limits established in MMS's Investment Plan and the Asset and Liability Management (ALM) policy approved by the Board of Directors.
- Spread and concentration risks are mitigated by the high proportion of fixed-income securities with investment-grade and through issuer diversification.
- Equity investments are subject to the maximum limit of the investment portfolio and issuer limits.
- Strategic equity risk is managed through MMS ability to exercise control in terms of strategic direction, policy framework and operational structure of its main subsidiary, MAPFRE MSV Life plc. MMS has the right to select, appoint and remove the key management personnel of MMSV and approve its business plan and capital expenditure.
- Currency risk is minimised through currency matching with respect to the currencies in which the assets and liabilities are denominated.
- Property risk is monitored and it is ensured that the risks lie within the Investment Policy for property investments.

Concentration

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

Maltese Government bonds represent 41.1% of the total investments (excluding real estate and strategic investments). MAPFRE MSV Life p.l.c is the most important strategic investment held by MMS whilst MMS's property investment allocation is mainly concentrated in a single exposure.

C.3. Credit Risk

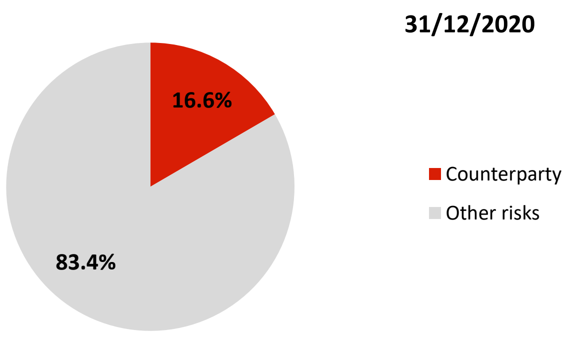
Credit Risk is the risk of loss or adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties, and any debtors to which insurance and reinsurance undertakings are exposed to, in the form of counterparty default risk, or spread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

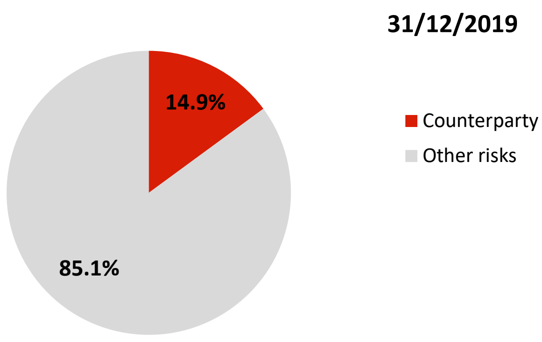
Credit Risk is included under the SCR Standard Formula calculation as:

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

Exposure

As at 31st December 2020, the counterparty default risk represents 16.6% of all of the risk modules included in the SCR.





Management and mitigation techniques

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

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

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

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

* Suitability of the risk transfer level.

Concentration

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

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

The strong financial credentials of Bank of Valletta and the MAPFRE Group are very important in times of financial stress stemming from COVID-19.

C.4. Liquidity Risk

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

Exposure

Liquidity risk is not included in the SCR Standard Formula calculation. At the start of the COVID-19 spread, the financial system experienced some liquidity tension. This was reduced by the rapid reaction of central banks, providing liquidity to the financial 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 Government of Malta debt exposures.

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

Management and mitigation techniques

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

As at 31st December 2020, the cash and cash equivalents balance amounted to €31.4 million (2019: €27.1 million), equivalent to 85.4% of total financial investments and cash balances[4].

Additionally, the majority of fixed-income investments have investment-grade ratings and are traded on organised financial markets, which provide comfort to cover any commitment arising from MMS's obligations. MMS is confident that its liquidity position will enable it to withstand any liquidity pressures, which may happen over the next months due to COVID-19.

Concentration

No liquidity risk concentrations have been identified.

Expected profits included in future premiums

The calculation of best estimate of the technical provisions considers the expected profits from future premiums (as a reduction in the best estimate when positive, or a higher value in the case of expected losses). As at 31st December 2020, the amount of these expected profits totaled €307.9 thousand.

C.5. Operational Risk

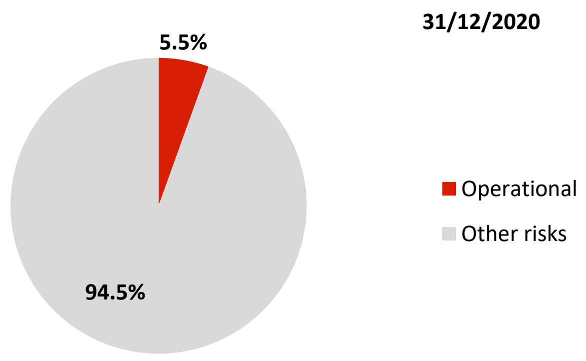
Operational Risk is the risk of loss arising from the inadequate or failed internal processes, personnel or systems, or from external events.

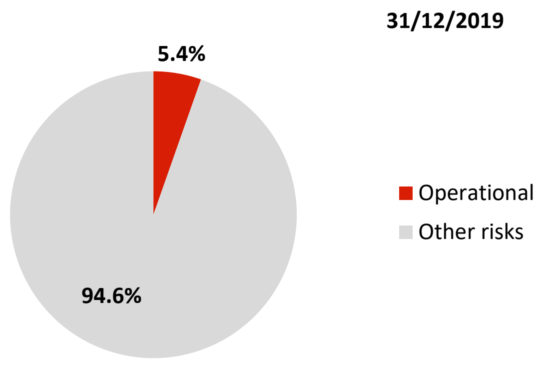
Operational risks are both quantitative and qualitative in nature. In this regard, MMS measures the quantitative aspect through the standard formula calculation. On the other hand, the qualitative aspect is assessed through various risk assessments as described further below.

Exposure

[4] excluding strategic participations

As at 31st December 2020, operational risk represent 5.5% of all of the risk modules included in the SCR. The following charts present details by module and changes when compared to the previous year:





Management and mitigation techniques

MMS 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

MMS relies on its IT systems for the management of insurance policies. A prolonged unavailability of these systems could have a negative impact on its operations. However, MMS has a business continuity plan which mitigates this risk.

C.6. Other material risks

C.6.1. Coronavirus pandemic (COVID-19)

The outbreak and spread of the coronavirus pandemic (COVID-19) during 2020 has 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 volume and an uneven impact on claims depending on the line of business. The expenses derived from the measures aimed at guaranteeing the protection of 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 impact on the reduction of interest rates and on the increase in government indebtedness to deal with the extra spending caused by the health crisis. In this sense, advances in the coronavirus vaccine improve the future prospects but uncertainty remains. These financial developments had a significant impact on MMS's main subsidiary MAPFRE MSV Life plc. MMSV, is subject to the Solvency II regime in its own right. Given, MMSV's business model, the financial ramifications of COVID-19 in terms of increased equity volatility and historic low interest rates give rise to an increase in capital requirement. To this effect, in order to further strengthen its balance sheet, MMSV's shareholders agreed to increase the issued and paid up share capital by €40m. MMS has participated in this share capital increase in the same proportion to its existing shareholding in MMSV. This transaction has been effected on 25th March 2021[5].

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 Unit, which is responsible for analyzing 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 MMS's Compliance Department, 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 following the developments in respect of the EIOPA Public Consultation on Guidelines on Outsourcing to Cloud Service Providers, providing

[5] This will increase the Solvency Capital Requirement of MMS. However, MMS still maintains a high solvency ratio.

feedback to the MFSA on a proposed Corporate Governance Framework and following developments in the Solvency II 2020 review.

C.6.4. Reputational risk

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 MMS.

Reputational risk is managed based on the Corporate Social Responsibility Policy as well as the MAPFRE Group's 2019-2021 Sustainability Plan, approved by MAPFRE S.A.'s Board of Directors.

Specific actions implemented to manage reputational risk include those related to transparency, cybersecurity, diversity, combating fraud and corruption risks, the inclusion of environmental, social and governance factors in the supply chain, in underwriting and during the investment decision-making process, among others.

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 the company'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 digitization in general.

MAPFRE Group strategic initiatives relating to Digital Transformation and Client Orientation aim to mitigate this risk. The company is constantly striving to improve the digital interaction with clients and distributors. Improvements and enhancements to the self-service client portal are ongoing with some challenges along the way due to the transition to TRON[6] which is currently in progress.

An agency portal has been launched to improve communication and provide better support to the Company's Distributor Clients.

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 MMS's Compliance Area. In 2020 MMS put in place the Compliance Risk Management Process as developed by the Corporate Compliance Office.

MMS's Own Risk and Solvency Assessment (ORSA) report dated 31st December 2019 includes further information regarding the analysis of those risks and monitoring and/or mitigation measures.

[6] TRON is the new non-life business core system being implemented.

C.7. Any other information

C.7.1. Sensitivity analysis of significant risks

MMS performs sensitivity analyses of the solvency position involving certain macroeconomic variables, such as:

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

The sensitivity of the solvency ratio[7] to the changes in these variables is shown below:

	31/12/2020	% Change
Solvency Ratio (SR)	249.6%	
SR In the event of a 100 basis point increase in the interest rate	255.3%	5.7 p.p.
SR In the event of a 100 basis point decrease in the interest rate	234.1%	-15.5 p.p.
SR in the event of a 10% appreciation of the euro	247.2%	-2.5 p.p.
SR In the event of a 25% decrease in equities	236.3%	-13.4 p.p.
SR In the event of a 50 basis point increase in corporate spreads	247.7%	-1.9 p.p.
SR In the event of a 50 basis point increase in corporate and sovereign spreads	243.8%	-5.8 p.p.

p.p. percentage points

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

The method applied to obtain the results consisted of:

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

[7] MMS does not consider the UFR since it does not have a material long term profile. The UFR is the long-term interest rate that is used as a reference to construct the curve of interest rates in the periods in which there are no longer market indicators.

C.7.2. Other issues

<u>Off-balance-sheet positions</u>

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

D. Valuation for solvency purposes

D.1. Assets

The following are the main differences between the measurement of assets under Solvency II ("Solvency II Value") and IFRS ("Accounting value") as at 31st December 2020.

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

Assets	Solvency II Value 2020	Accounting Value 2020
Goodwill	-	-
Deferred acquisition costs	-	8,080
Intangible assets	-	7,763
Deferred tax assets	2,426	1,332
Pension benefit surplus	-	-
Property, plant & equipment held for own use	3,016	3,016
Investments (other than assets held for index-linked and unit-linked contracts)	114,512	79,154
Property (other than for own use)	16,201	16,201
Holdings in related undertakings, including participations	92,935	57,598
Equities	1,896	1,896
Equities - listed	1,896	1,896
Equities - unlisted	-	-
Bonds	3,057	3,036
Government Bonds	3,057	3,036
Corporate Bonds	-	-
Structured notes	-	-
Collateralised securities	-	-
Collective Investments Undertakings	423	423
Derivatives	-	-
Deposits other than cash equivalents	-	-
Other investments	-	-
Assets held for index-linked and unit-linked contracts	-	-
Loans and mortgages	-	-
Loans on policies	-	-
Loans and mortgages to individuals	-	-
Other loans and mortgages	-	-
Reinsurance recoverables from:	25,441	31,306
Non-life and health similar to non-life	25,328	31,193
Non-life, excluding health	25,349	31,162
Health similar to non-life	(21)	31
Life and health similar to life, excluding health and index-linked and unit-linked	113	113
Health similar to life	-	-
Life, excluding health and index-linked and unit-linked	113	113
Life index-linked and unit-linked	-	-
Deposits to cedants/Deposits for Accepted Reinsurance	-	-
Insurance and intermediaries receivables	16,127	16,127
Reinsurance receivables	683	683
Receivables (trade, not insurance)	600	600
Own shares (held directly)	-	-

Assets	Solvency II Value 2020	Accounting Value 2020
Amounts due in respect of own fund items	-	-
Cash and cash equivalents	31,432	31,432
Any other assets, not elsewhere shown	2,152	2,174
TOTAL ASSETS	**196,389**	**181,667**

Figures in thousand euro

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

Deferred acquisition costs

Under IFRS, acquisition costs can be deferred whilst for Solvency II reserving expenses are not deferred but are taken into account fully in the technical provisions.

Intangible assets

Under IFRS, intangible assets are measured at cost less their accumulated amortization and where applicable possible impairment. MMS mainly recognizes Value off Business Acquired (VOBA) and computer software as intangible assets. Computer software manly represents amounts capitalised relating to the development of MMS's IT system by related companies forming part of the MAPFRE Group.

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

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

Deferred tax assets

Under IFRS, deferred taxes are calculated on all temporary differences using a principal tax rate of 35% with the exception of investment property and freehold and other property, for which deferred income taxes may be calculated using a principal tax rate of 8% or 10% of the carrying amount. MMS recognised a net deferred tax liability on its closing IFRS balance sheet at a carrying amount of €0.9 million.

Deferred taxes are measured under Solvency II as the amounts reported in the audited financial statements as adjusted by the tax impact (at different applicable rates) on the difference between the values assigned to assets and liabilities for solvency purposes, and their carrying values as recognised in the financial statements and valued for tax purposes. MMS recognised a net deferred tax asset on the Solvency II balance sheet of €2.4 million.

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

- Deferred Acquisition costs
- Intangible assets
- Participations
- Reinsurance recoverables
- Technical provisions

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

Methodology used to determine the probability of future taxable profits

MMS has applied the methodology established by the Solvency II regulations when calculating future taxable profits against which the temporary differences recognised as part of the deferred taxes may be offset.

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

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

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

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

Level 1 corresponds to unadjusted quoted prices on active markets; Level 2 uses observable input (either prices quoted in active markets for instruments similar to the one being assessed, or other assessment techniques in which all the significant variables are based on observable market data); and Level 3 uses specific references for each case, although assets included in this level are generally not relevant.

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

Under "Investments", based on the Solvency II balance sheet, the following investments for which there are valuation differences are included:

- ***Holdings in related undertakings***

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

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

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

  Due to the difference in valuation criteria, an increase of €35.3 million was recorded for these investments on the Solvency II balance sheet when compared to the IFRS balance sheet.

- ***Bonds***

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

Reinsurance recoverables

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

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

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

- Expected reinsurance collection patterns based on past experience.

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

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

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

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

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

Any other assets, not elsewhere shown

The difference between the IFRS value and the Solvency II value of €22.0k relates to the accrued interest of bonds, which under IFRS is accounted for “Any other assets, not elsewhere shown”.

D.2. Technical provisions

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

Technical provisions	Solvency II Value 2020	Accounting Value 2020
Technical provisions - Non-Life	77,318	85,776
Technical provisions - Non-Life (excluding health)	72,090	78,384
Technical provisions calculated as a whole	-	
Best Estimate (BE)	69,022	
Risk margin (RM)	3,068	
Technical provisions - health (similar to Non-Life)	5,228	7,393
Technical provisions calculated as a whole	-	
Best Estimate (BE)	4,752	
Risk margin (RM)	476	
Technical provisions - Life (excluding index-linked and unit-linked)	1,103	1,495
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)	1,103	1,495
Technical provisions calculated as a whole	-	
Best Estimate (BE)	972	
Risk margin (RM)	131	
Technical provisions - index-linked and unit-linked	-	-
Technical provisions calculated as a whole	-	
Best Estimate (BE)	-	
Risk margin (RM)	-	
Other technical provisions	-	-
TOTAL TECHNICAL PROVISIONS	**78,421**	**87,271**

Figures in thousand euro

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

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

D.2.1. Best estimate and risk margin

Best estimate

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

a) Claims provision

The claims provision is based on the following principles:

- Taking into account all claims, which have incurred prior to the valuation date, regardless of whether they have been reported or not.

- It is calculated as the present value of expected future cash flows associated with the incurred claim. Projected cash flows include payments for services and related expenses (claims and investment management).

- Should there be any commitments transferred to a counterparty, the recoverable amounts are adjusted to factor in the expected losses due to default of the counterparty.

- The best estimate considers the time value of money based on the consideration of the claim inflows and outflows.

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

The claims provisions in the financial statements include the provision for claims outstanding and the provision for claim settlement expenses. The provisions for claims outstanding are largely based on case-by-case estimates supplemented with additional provisions for IBNR and unexpired risks in those instances where the ultimate cost determined by estimation techniques is higher. Motor claims occurring between 2016 and 2020 have been determined on an ultimate cost basis. Certain losses involving fatalities or serious bodily injury are reserved at the case-by-case reserve estimate.

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

- While under Solvency II Technical provisions are measured using market economic criteria, for financial statements, annual technical provisions are calculated based on accounting standards.
- The consideration of all cash flow sources.
- The counterparty default risk adjustment to reinsurance recoverable amounts.
- The financial discount of cash flows.

b) Premium provision

The premium provision is based on the following principles:

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

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

- Current portfolio, which consists of the following items:
    - Expected claims. The loss ratio method is used to calculate the present value of benefit payments which is explained below:
        - Loss ratio method: the expected claims arising from applying an ultimate loss ratio to Unearned premium reserves (gross of acquisition expenses). Events Not in Data (ENIDs) are also considered. ENIDs are events where the company has no experience of their likely impact, but which may happen in the future. MMS has identified such possible losses and estimated the cover limits and the probability of such events occurring. The estimated impact was seen both from a gross basis and also net of potential reinsurance recovery. The allowance for ENIDs have been derived as a factor which is applied to the earned premium.
    - Expenses attributable to the current portfolio: acquisition (no commissions), administration, chargeable to benefits, investment expenses, as well as other technical expenses.
- Future business, which includes the following:
    - Premiums for policies, which have not yet been renewed but include company commitments to renew. This calculation includes the future behaviour by policyholders based on the application of an estimated lapse ratio.
    - Expected loss ratio relating to future premiums, using the same methods indicated for the current portfolio.
    - Expenses attributable to future premiums (charged expense-to-premium ratio applied to future premiums): acquisition expenses (including fees), administration, chargeable to benefits, investment expenses, as well as other technical expenses.

Under IFRS, this provision is recognized under the unearned premium reserve, which is calculated on a policy-by-policy basis, reflecting the premium rate on a pro-rata temporary basis for the unearned period of such policies and complemented by the unexpired risk provision calculated segment-by-segment where applicable. This provision supplements the unearned premiums reserve with an amount by which the future contractual cash flows arising from such reserve exceed the same reserve.

Contract boundaries

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

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

- Commitments provided by MMS after the date on which it has the unilateral right to:
    - Cancel the contract.
    - Reject premiums payable under the contract.
    - Modify the premiums or benefits to which it is bound by virtue of the contract, so that the premiums clearly reflect the risks.

- All obligations which do not correspond to premiums already paid, unless the policyholder may be forced to pay future premiums, provided the contract:

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

The conclusion is that premium provisions calculated based on Solvency II criteria present the following differences with respect to those calculated based on IFRS requirements:

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

Risk margin

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

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

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

where:

- RM : risk margin
- CoC: the cost-of-capital rate which is taken as 6%
- SCR_t: Solvency capital requirement after t years. This solvency capital requirement will be that capital necessary to meet insurance and reinsurance obligations for their effective period, with said capital reflecting underwriting risk, residual market risk where material, counterparty default risk with regards to reinsurance treaties, and operational risk.
- r_{t+1}: basic risk-free interest rate for the maturity of t+1 years.

There are several simplified methods to calculate risk margin:

- Level 1: explains how to approximate underwriting, counterparty default, and market risks.
- Level 2: this assumes that the future solvency capital requirement will be proportional to the "best estimate" of technical provisions during the year in question.

- Level 3: this consists of using the modified duration of liabilities to calculate the current and future solvency capital requirement in a single step.

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

MMS calculates the risk margin using Level 2 simplification method.

Actuarial methods and assumptions used when calculating technical provisions

The following are the main actuarial techniques used by MMS when calculating Technical provisions under Solvency II:

- A combination of generally accepted deterministic methods used for calculating the ultimate loss ratio based on a selection of factors to develop frequencies and average costs.

- Stochastic methods for determining claims assuming a probability distribution function.

MMS considers that the methods used are appropriate.

The following two key assumptions were used:

- Economic assumptions, which are compared against available financial and macroeconomic indicators which mainly include:
  - Interest rate structure
  - Exchange rates
  - Market trends and financial variables.

- Non-economic assumptions, which are mainly obtained from generally available data based on MMS's and/or the MAPFRE Group's past experience, or external sector/market sources:
  - Realistic administration, investment, acquisition, etc. expenses that will be incurred throughout the duration of the contracts.
  - Portfolio losses and lapse rates.
  - The frequency and severity of claims based on past data.
  - Legislative changes.

Also, it is worth noting that under IFRS, management actions and policyholder behaviour are not included when calculating technical provisions, while under Solvency II, companies may establish a comprehensive plan covering future decisions considering the necessary time frame to calculate their best estimates, including a probability analysis of when policyholders might exercise certain rights included in their insurance policies.

For Life insurance:

The following two key assumptions were used:

- Economic assumptions, which are compared against available financial and macroeconomic indicators which mainly include:
  - Interest rate structure broken down by the currencies in which the commitments are denominated.

- Exchange rates
- Market trends and financial variables.

- Non-economic assumptions, which are mainly obtained from generally available date based on MMS's and/or the MAPFRE Group's past experience, or external sector/market sources:
  - Realistic administration, investment, acquisition, etc. expenses that will be incurred throughout the duration of the contracts.
  - Portfolio losses and policy surrenders.
  - Mortality and longevity.
  - Disability and other risks

Also, it is worth noting that under IFRS, management actions and policyholder behavior are not included when calculating technical provisions, while under Solvency II, companies may establish a comprehensive plan covering future decisions considering the necessary time frame to calculate their best estimates, including a probability analysis of when policyholders might exercise certain rights included in their insurance policies.

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

Degree of uncertainty associated with the amount of technical provisions

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

- The probability that the obligation will materialize with regard to future cash flows
- The timing of the claim
- Potential amount of the future cash flows.
- The risk-free interest rate.

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

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

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

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

D.2.2.a. Matching adjustment

MMS does not make use of any matching adjustments.

D.2.2.b. Volatility adjustment

MMS does not make use of any volatility adjustments.

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

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

D.2.2.d. Transitional measure for technical provisions

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

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

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

D.2.4 Other technical provisions

MMS does not have any other technical provisions.

D.3. Other Liabilities

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

Other Liabilities	Solvency II Value 2020	Accounting Value 2020
Total technical provisions	78,421	87,271
Contingent liabilities	-	-
Provisions other than technical provisions	-	-
Pension benefit obligations	1,057	1,057
Deposits from reinsurers	-	-
Deferred tax liabilities	-	2,230
Derivatives	-	-
Debts owed to credit institutions	-	-
Financial liabilities other than debt owed to credit institutions	849	849
Insurance & intermediaries payables	390	390
Reinsurance payables	3,390	3,390
Payables (trade, not insurance)	3,961	3,961
Subordinated liabilities	-	-
Subordinated liabilities not in basic own funds	-	-
Subordinated liabilities included in basic own funds	-	-
Any other liabilities, not elsewhere shown	3,734	5,468
TOTAL LIABILITIES	**91,802**	**104,616**
EXCESS OF ASSETS OVER LIABILITIES	**104,587**	**77,052**

Figures in thousand euro

Deferred tax liabilities

As mentioned earlier, MMS recognised a net deferred tax liability on its closing IFRS balance sheet at a carrying amount of €0.9 million. MMS recognised a net deferred tax asset on the Solvency II balance sheet at €2.4 million, resulting from the offsetting of deferred taxes and liabilities since taxes are paid to the same tax authority.

Any other liabilities, not elsewhere shown

“Accounting value” mainly includes deferred reinsurance commissions together with other accruals with an accounting value of €5.5 million. For Solvency II purposes, deferred reinsurance commissions are considered in the valuation of technical provisions as they include the entirety of the associated expense.

D.4. Alternative methods for valuation

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

D.5. Any other information

There have been no 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

Template S.02.01.02 detailing quantitative asset disclosures at 31st December 2020:

Assets (*)	Solvency II Value 2020
Intangible assets	-
Deferred tax assets	2,426
Pension benefit surplus	-
Property, plant & equipment held for own use	3,016
Investments (other than assets held for index-linked and unit-linked contracts)	114,512
Property (other than for own use)	16,201
Holdings in related undertakings, including participations	92,935
Equities	1,896
Equities — listed	1,896
Equities — unlisted	-
Bonds	3,057
Government Bonds	3,057
Corporate Bonds	-
Structured notes	-
Collateralised securities	-
Collective Investments Undertakings	423
Derivatives	-
Deposits other than cash equivalents	-
Other investments	-
Assets held for index-linked and unit-linked contracts	-
Loans and mortgages	-
Loans on policies	-
Loans and mortgages to individuals	-
Other loans and mortgages	-
Reinsurance recoverables from:	25,441
Non-Life and health similar to non-life	25,328
Non-Life excluding health	25,349
Health similar to non-life	(21)
Life and health similar to life, excluding health and index-linked and unit-linked	113
Health similar to life	-
Life excluding health and index-linked and unit-linked	113
Life index-linked and unit-linked	-
Deposits to cedants	-
Insurance and intermediaries receivables	16,127

Assets (*)	Solvency II Value 2020
Reinsurance receivables	683
Receivables (trade, not insurance)	600
Own shares (held directly)	-
Amounts due in respect of own fund items or initial fund called but not yet paid in	-
Cash and cash equivalents	31,432
Any other assets, not elsewhere shown	2,152
Total assets	196,389

Figures in thousand euro

B) Technical provisions

B.1. Template **S.02.01.02** detailing quantitative technical provisions at 31st December 2020:

Liabilities (*)	Solvency II Value 2020
Technical provisions — non-life	77,318
Technical provisions — non-life (excluding health)	72,090
Technical provisions calculated as a whole	-
Best Estimate	69,022
Risk margin	3,068
Technical provisions — health (similar to non-life)	5,228
Technical provisions calculated as a whole	-
Best Estimate	4,752
Risk margin	476
Technical provisions — life (excluding index-linked and unit-linked)	1,103
Technical provisions — health (similar to life)	
Technical provisions calculated as a whole	
Best Estimate	
Risk margin	
Technical provisions — life (excluding health and index-linked and unit-linked)	1,103
Technical provisions calculated as a whole	
Best Estimate	972
Risk margin	131
Technical provisions — index-linked and unit-linked	-
Technical provisions calculated as a whole	-
Best Estimate	-
Risk margin	-

Figures in thousand euro

Life and Non-Life technical provisions by line of business as at 31st December 2020 are shown below. Columns corresponding to lines of business in which MMS does not operate have been omitted.

B.2. Templates S.12.01.02 and S.17.01.02 detailing Life and Non-Life technical provisions by line of business at 31st December 2020.

B.2.1 Templates S.12.01.01 – Life and Health SLT Technical Provisions as at 31st December 2020

	Other life insurance			Total (Life other than health insurance, including Unit-Linked)
		Contracts without options and guarantees	Contracts with options or guarantees	
Technical provisions calculated as a whole	-			-
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to technical provisions calculated as a whole.	-			-
Technical provisions calculated as a sum of the Best Estimate and the Risk Margin				
Best Estimate				
Gross Best Estimate		972	-	972
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		113	-	113
Best estimate minus recoverables from reinsurance/SPV and Finite Re — total		859	-	859
Risk Margin	131			131
Amount of the transitional on Technical Provisions				
Technical Provisions calculated as a whole	-			-
Best Estimate		-	-	-
Risk Margin	-			-
Technical provisions — total	1,103			1,103

Figures in thousand euro

B.2.2 Template S.17.01.02 – Non-Life Technical Provisions as at 31st December 2020

	Direct business and accepted proportional reinsurance									Accepted non-proportional reinsurance	Total Non-Life obligation
	Medical expense insurance	Income protection insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Assistance	Miscellaneous financial loss	Non-proportional property reinsurance	
Technical provisions calculated as a whole	-	-	-	-	-	-	-	-	-	-	-
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											
Premium provisions											
Gross	2,935	391	7,989	7,178	1,172	4,007	1,279	52	56	-	25,058
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	(51)	(1)	(28)	(40)	(2)	1,125	(3)	(2)	-	-	998
Net Best Estimate of Premium Provisions	2,986	392	8,017	7,218	1,174	2,882	1,281	54	56	-	24,061
Claims provisions											
Gross	633	792	26,043	4,782	2,709	5,707	7,406	438	-	206	48,716
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-	31	13,604	23	1,849	4,746	4,022	27	-	28	24,330
Net Best Estimate of Claims Provisions	633	761	12,439	4,759	860	961	3,384	411	-	178	24,386
Total Best estimate – gross	3,568	1,183	34,032	11,960	3,881	9,714	8,685	490	56	206	73,775

	Direct business and accepted proportional reinsurance									Accepted non-proportional reinsurance	Total Non-Life obligation
	Medical expense insurance	Income protection insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Assistance	Miscellaneous financial loss	Non-proportional property reinsurance	
Total Best estimate – net	3,619	1,153	20,456	11,977	2,034	3,843	4,666	465	56	178	48,447
Risk margin	372	104	1,343	694	215	340	393	63	6	15	3,545
Amount of the transitional on Technical Provisions											
Technical Provisions calculated as a whole											
Best estimate											
Risk margin											
Technical provisions - total											
Technical provisions – total	3,940	1,287	35,375	12,654	4,096	10,054	9,078	553	62	221	77,320
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	(51)	30	13,576	(17)	1,847	5,871	4,019	25	-	28	25,328
Technical provisions minus recoverables from reinsurance/SPV and Finite Re – total	3,991	1,257	21,799	12,672	2,249	4,183	5,059	528	62	193	51,992

B.3 Template **S.19.01.21** – Non-life insurance claims

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

Gross Claims Paid (non-cumulative)													
Development year													
Year	0	1	2	3	4	5	6	7	8	9	10 & +	In Current Year	Sum of years (cumulative)
Prior										-	162	162	162
N - 9	9,768	4,476	985	563	363	53	38	89	40	116		116	16,491
N - 8	10,016	4,260	816	357	129	69	44	44	16			16	15,751
N - 7	10,620	4,397	613	378	474	468	173	189				189	17,312
N - 6	10,302	4,458	1,754	(442)	943	61	84					84	17,160
N - 5	11,613	8,733	419	1,161	250	190						190	22,366
N - 4	15,121	10,181	1,858	627	777							777	28,564
N - 3	17,885	9,426	2,460	1,891								1,891	31,662
N - 2	18,707	9,787	2,164									2,164	30,658
N - 1	21,555	11,366										11,366	32,921
N	17,104											17,104	17,104
											Total	**34,059**	**230,151**

Figures in thousand euro

The above table reflects payments made each year for claims arising during non-accumulated years of occurrence.

Gross undiscounted Best Estimate Claims Provisions													
Development year													
Year	0	1	2	3	4	5	6	7	8	9	10 & +		Year end (discounted data)
Prior											1,922		1,968
N - 9	-	-	-	-	-	506	410	332	1,543	1,477			1,489
N - 8	-	-	-	-	2,459	1,398	1,594	1,500	1,213				1,222
N - 7	-	-	-	2,268	1,141	405	188	214					224
N - 6	-	-	1,464	1,478	815	855	658						671
N - 5	-	3,656	4,957	3,583	3,265	3,257							3,294
N - 4	17,270	6,218	3,373	2,440	1,770								1,804
N - 3	18,926	8,310	6,333	4,779									4,841
N - 2	21,329	11,865	10,490										10,596
N - 1	18,382	9,888											10,006
N	12,499												12,607
												Total	**48,721**

Figures in thousand euro

C) Other liabilities

Template **S.02.01.02** detailing quantitative disclosures of other liabilities at 31st December 2020:

Liabilities	Solvency II Value 2020
Contingent liabilities	-
Provisions other than technical provisions	-
Pension benefit obligations	1,057
Deposits from reinsurers	-
Deferred tax liabilities	-
Derivatives	-
Debts owed to credit institutions	-
Financial liabilities other than debts owed to credit institutions	849
Insurance & intermediaries payables	390
Reinsurance payables	3,390
Payables (trade, not insurance)	3,961
Subordinated liabilities	-
Subordinated liabilities not in basic own funds	-
Subordinated liabilities included in basic own funds	-
Any other liabilities, not elsewhere shown	3,734
Total liabilities	**91,802**
Excess of assets over liabilities	**104,587**

Figures in thousand euros

E. Capital Management

E.1. Own funds

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

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

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

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

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

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

MMS has not used the transitional measures on technical provisions.

During 2020, there have not been any significant changes in the objectives, policies and processes used to manage own funds.

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

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

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

	Total		Tier 1 - unrestricted		Tier 1 – restricted		Tier 2		Tier 3	
	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 Delegated Regulation 2015/35										
Ordinary share capital (gross of own shares)	19,320	19,320	19,320	19,320			-	-		
Share premium account related to ordinary share capital	688	688	688	688			-	-		
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	-	-		-			-	-		
Subordinated mutual member accounts	-	-			-	-	-	-		-
Surplus funds	-	-		-						
Preference shares	-	-			-	-	-	-		-
Share premium account related to preference shares	-	-			-	-	-	-		-
Reconciliation reserve	78,953	67,675	78,953	67,675						
Subordinated liabilities	-	-			-	-	-	-		-
An amount equal to the value of net deferred tax assets	2,426	709							2,426	709
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 should not 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	**101,387**	**88,392**	**98,961**	**87,683**	**-**	**-**	**-**	**-**	**2,426**	**709**

	Total		Tier 1 - unrestricted		Tier 1 – restricted		Tier 2		Tier 3	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
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 item for mutual and mutual - type undertakings, callable on demand	-	-					-	-		
Unpaid and uncalled preference shares callable on demand	-	-					-	-	-	-
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	-	-					-	-	-	-
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	-	-					-	-		
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	-	-					-	-	-	-
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	-	-					-	-		
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	-	-					-	-	-	-
Other ancillary own funds	-	-					-	-	-	-
Total ancillary own funds	-	-					-	-	-	-
Available and eligible own funds										
Total available own funds to meet the SCR	101,387	88,392	98,961	87,683	-	-	-	-	2,426	709
Total available own funds to meet the MCR	98,961	87,683	98,961	87,683	-	-	-	-		
Total eligible own funds to meet the SCR	101,387	88,392	98,961	87,683	-	-	-	-	2,426	709
Total eligible own funds to meet the MCR	98,961	87,683	98,961	87,683	-	-	-	-		
SCR	40,615	31,702								
MCR	10,154	9,641								
Ratio of Eligible own funds to SCR	249.6%	278.8%								
Ratio of Eligible own funds to MCR	974.6%	909.5%								

	Amount	
	2020	2019
Reconciliation reserve		
Excess of assets over liabilities	104,587	101,392
Own shares (held directly and indirectly)	-	-
Foreseeable dividends, distributions and charges	3,200	13,000
Other basic own fund items	22,434	20,717
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	-	-
Reconciliation reserve	78,953	67,675
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	-	-
Expected profits included in future premiums (EPIFP) - Non- life business	308	142
Total Expected profits included in future premiums (EPIFP)	**308**	**142**

Figures in thousand euros

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

MMS has €101.4 million of eligible own funds as at 31st December 2020 (€88.4 as at 31st December 2019).

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

As at 31st December 2020, the unrestricted basic Tier 1 own funds of MMS totaled €99.0 million (€87.7 million as at 31st December 2019). These own funds have the maximum capacity to absorb losses as they meet the requirements of permanence, subordination and sufficient duration, and they consist of:

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

In addition, MMS also has basic Tier 3 own funds, totaling to €2.4 million as at 31st December 2020, (€0.7 million as at 31st December 2019) corresponding to the net deferred tax asset.

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

None of the own fund items required supervisory approval.

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

Solvency Capital Requirement (SCR)

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

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

The solvency ratio is equal to at 249.6% (2019: 278.8%) and determines the relationship between Eligible own funds and the SCR calculated using the standard formula. This shows MMS's high capacity to absorb extraordinary losses derived from a 1 in 200 year event. This ratio falls within the Risk Appetite established and approved by the Board of Directors.

Minimum Capital Requirement (MCR)

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

All the basic unrestricted Tier 1 own funds are eligible to cover the MCR. Since Tier 3 own funds do not have adequate availability in order to absorb losses in case it is necessary, these are not available and eligible to cover the MCR. MMS therefore has €2.4 million in available own funds that are not eligible to cover the MCR.

The ratio of eligible own funds to the MCR is equal to 974.6% (2019: 909.5%).

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

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

As at 31st December 2020, the excess of assets over liabilities for Solvency II purposes amounted to €104.6 million, while equity in the financial statements totaled €77.1 million.

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

	2020	2019
Equity (IFRS value)	**77,052**	**72,804**
Difference in valuation of assets	**21,228**	**20,266**
Deferred acquisition costs (DAC)	(6,346)	(6,186)
Intangible Assets	(7,763)	(6,934)
Participations	35,337	33,386
Difference in valuation of liabilities	**6,309**	**8,323**
Technical provisions	2,985	6,757
Deferred Taxes	3,324	1,566
Excess of assets over liabilities (Solvency II Value)	**104,589**	**101,392**

Figures in thousand euro

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

E.1.3. Information regarding deferred taxes

Deferred tax assets on the Solvency II balance sheet amount to €2.4 million, which mainly result from the following items:

- Deferred Acquisition costs, in the amount of €2.2 million
- Intangible assets, in the amount of €2.7 million
- Participations, in the amount of (€0.6) million
- Reinsurance recoverables, in the amount of €2.1 million
- Technical provisions, in the amount of (€3.1) million

MMS has carried out a recoverability test of the deferred tax assets, and it has recognised €2.4 million of deferred tax assets in the own funds following the availability of probable future taxable profits.

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

Additionally, MMS has considered:

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

E.1.4. Other information

Essential items in the reconciliation reserve

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

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

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

- Foreseeable dividends, distributions and charges amounting to €3.2 million.
- Other items of Basic own funds for an amount of €22.4 million, which are considered as independent items from own funds (ordinary share capital and share premium account, surplus funds and non-controlling shareholdings).

Items deducted from own funds

MMS did not deduct any items from the Own Funds.

Own Funds issued and instruments redeemed

MMS did not issue or surrender any own fund instruments during 2020.

Transitional measures

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

Other ratios

MMS 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

The Solvency Capital Requirement (SCR) at risk module level and calculated using the standard formula is set below:

(*)	Gross solvency capital requirement	Undertaking-specific parameters	Simplifications
Market risk	25,192		-
Counterparty default risk	10,581		
Life underwriting risk	2,130	-	Life mortality risk, Life expense risk, Life catastrophe risk
Health underwriting risk	3,412	-	-
Non-Life underwriting risk	14,066	-	-
Diversification	(16,360)		
Intangible asset risk	-		
Basic Solvency Capital Requirement	**39,021**		

Figures in thousand euros

Calculation of the Solvency Capital Requirement	Amount
Operational Risk	2,265
Loss-absorbing capacity of technical provisions	-
Loss-absorbing capacity of deferred taxes	(671)
Capital requirement for businesses operated in accordance with Article 4 of Directive 2003/41/EC	-
Solvency Capital Requirement excluding additional capital	40,615
Additional capital already set	-
Solvency capital requirement	**40,615**
Other information regarding the SCR	
Capital requirement for duration-based equity risk sub-module	-
Total amount of the notional solvency capital requirement for the remaining part	-
Total amount of the notional solvency capital requirement for ring-fenced funds	-
Total amount of notional solvency capital requirement for portfolios subject to matching adjustments	-
Diversification effects due to the aggregation of the notional SCR for ring-fenced funds for the purposes of Article 304	-

Figures in thousand euros

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

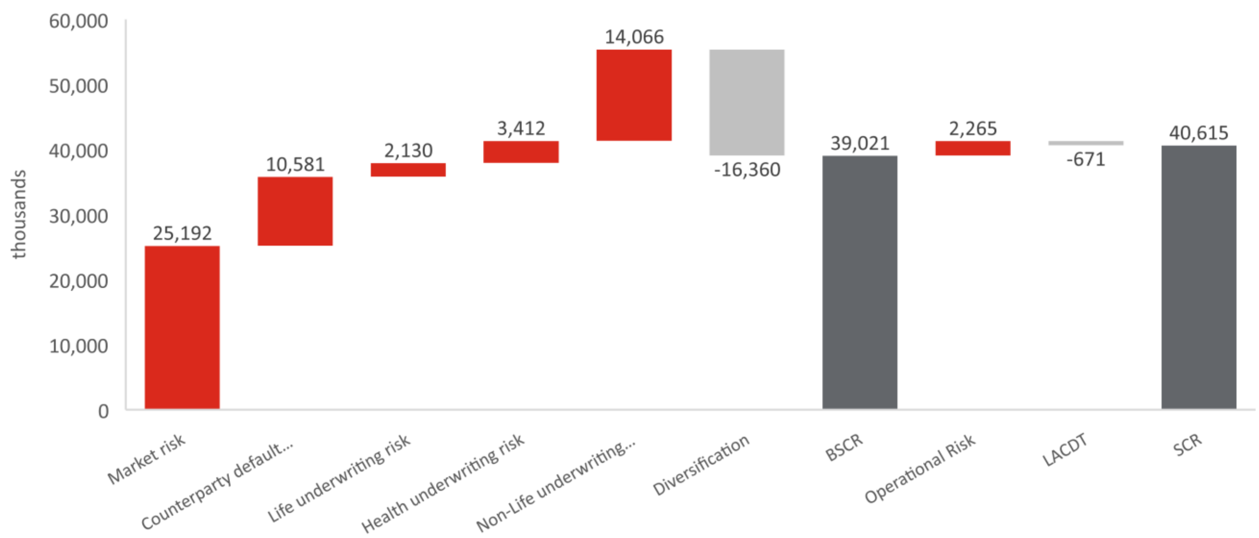
Calculation of loss absorbing capacity of deferred taxes	LAC DT
DTA	
DTA carry forward	
DTA due to deductible temporary differences	
DTL	
LAC DT	(671)
LAC DT justified by reversion of deferred tax liabilities	-
LAC DT justified by reference to probable future taxable economic profit	(671)
LAC DT justified by carry back, current year	-
LAC DT justified by carry back, future year	-
Maximum LAC DT	-

Figures in thousand euros

(*) Template S.25.01.21

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

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



As at 31st December 2020, MMS's total SCR amount was €40.6 million. As at 31st December 2019, it was equal to €31.7 million and the increase is mainly due to a decrease in the loss absorbing capacity of deferred taxes.

To calculate the SCR, MMS used the following simplifications:

- For Life underwriting risk, MMS uses the simplified calculation for the solvency capital requirement for its life business for life mortality risk, life expense risk and life catastrophe risk in accordance with Articles 91, 94 and 96 of the Commission Delegated Regulation 2015/35 respectively.

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

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

There is no capacity to absorb losses through technical provisions. The loss absorbing capacity of deferred taxes totaled €0.7 million (2019: €8.5 million). The assessment of the recoverability of the LACDT factors in the latest approved budget numbers, which do not consider a dividend payment by MMSV over the three-year planning horizon is the key reason for the reduction in LACDT as the lower projected profitability curtails the LACDT.

As at 31st December 2020, MMS's total MCR amount was €10.2 million (2019: €9.6 million).

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

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

Linear formula component for non-life insurance and reinsurance obligations (*)	8,835	
	Non-life activities	
	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
Medical expense insurance and proportional reinsurance	3,619	11,678
Income protection insurance and proportional reinsurance	1,154	991
Workers' compensation insurance and proportional reinsurance	-	-
Motor vehicle liability insurance and proportional reinsurance	20,456	16,860
Other motor insurance and proportional reinsurance	11,978	17,660
Marine, aviation and transport insurance and proportional reinsurance	2,033	1,842
Fire and other damage to property insurance and proportional reinsurance	3,843	2,855
General liability insurance and proportional reinsurance	4,665	4,286
Credit and suretyship insurance and proportional reinsurance	-	-
Legal expenses insurance and proportional reinsurance	-	-
Assistance and proportional reinsurance	464	1,384
Miscellaneous financial loss insurance and proportional reinsurance	56	20

Non-proportional health reinsurance	-	-
Non-proportional casualty reinsurance	-	-
Non-proportional marine, aviation and transport reinsurance	-	-
Non-proportional property reinsurance	179	-

Linear formula component for life insurance and reinsurance obligations	995

	Life activities	
	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	-	
Obligations with profit participation – future discretionary benefits	-	
Index-linked and unit-linked insurance obligations	-	
Other life (re)insurance and health (re)insurance obligations	859	
Total capital at risk for all life (re)insurance obligations		1,396,079

Overall MCR calculation	
Linear MCR	9,831
SCR	40,615
MCR cap	18,277
MCR floor	10,154
Combined MCR	10,154
Absolute floor of the MCR	7,400

Minimum Capital Requirement	**10,154**

Notional non-life and life MCR calculaton	Non-Life activities	Life activities
Notional linear MCR	8,835	995
Notional SCR excluding add-on (annual or latest calculation)	36,503	4,112
Notional MCR cap	16,426	1,850
Notional MCR floor	9,126	1,028
Notional Combined MCR	9,126	1,028
Absolute floor of the notional MCR	3,700	3,700
Notional MCR	9,126	3,700

Figures in thousand euro

The MCR is the level of capital that guarantees a minimum level of security below which the amount of financial resources should never fall and has a value of €10.2 million. The notional linear MCR is equal to €8.8 million for Non-life activities and €1.0 million for life activities. The linear MCR was obtained by applying the factors relating to the data used in the calculation, which are included in the above tables. The combined MCR is equal to €10.2 million and is the result of applying the maximum and minimum limits to the linear MCR.

Since the combined MCR is higher than the MCR's absolute limit, the amount of the combined MCR is considered to be the Minimum Capital Requirement, i.e. the amount of €10.2 million.

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

MMS has carried out a recoverability test on the deferred tax assets that arise after an instantaneous loss of an amount that is equal to the SCR[8]. MMS has considered:

- Probable future taxable profits of €3,097 thousand.

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

[8] The amount of SCR is defined in accordance with the paragraph 1 of Article 207 of the Delegated Regulation (EU) 2015/35

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

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

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

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

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

As at 31st December 2020, MMS had a good solvency position and was compliant at all times with the MCR and SCR during the reporting period. Therefore, it was considered unnecessary to adopt any other action or corrective measure.

E.6. Any other information

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

Annex I

The following table presents MMS's subsidiaries as year-end 2020:

Name of Company	Percentage of shares
Euro Globe Holdings Limited	100%
Euromed Risk Solutions Limited*	100%
Bee Insurance Management Limited	100%
MAPFRE MSV Life plc	50%
Church Wharf Properties Limited	50%

*Held indirectly through BEE Insurance Management Ltd