



**Solvency and Financial Condition Report
31st December 2021**

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Executive Summary

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

Business and Performance

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

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

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

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

The result of the Non-Life technical account was €5.3 million at 31st December 2021 (2020: €7.9 million) whilst that for Life business amounted to €0.9 million (2020 €0.5 million) which, together with the result from the non-technical account resulted in a profit before tax of €4.1 million, down from the €6.4 million achieved in 2020, as claim frequency and severity increased compared to previous year which was favourably impacted by the near lock-down and COVID-19 restriction measures. No dividends were received from MAPFRE MSV Life p.l.c., the Life subsidiary for the second year running as it sought to strengthen further its capital base and solvency ratio to withstand potential adverse situations in the future.

During 2021, earned premiums net of reinsurance from non-life business totalled €60.7 million (2020 €57.4 million), with total written premium increasing by 6.65% as the economy started to pick up following the retraction in 2020, with the pandemic continuing to negatively impact travel premium written during 2021.

MMS's net combined ratio at 91.8% shows a deterioration of 5.7 percentage points compared to the previous year. Both Motor and Health class of business, which had been favourably affected by the pandemic, saw an increase in the combined ratio. Motor reached 100.3% reflecting an increase in frequency (even though still lower than pre-pandemic levels), average cost and severity with a significant amount of large losses being reserved for. Prior year claims saw a favourable net run-off on all lines of business other than Marine.

MMS has participated in a share capital increase in the same proportion to its existing shareholding in MAPFRE MSV Life plc. This transaction was effected on 25th March 2021¹.

System of Governance

MMS’s Governing bodies as at 31st December 2021 are set out below:

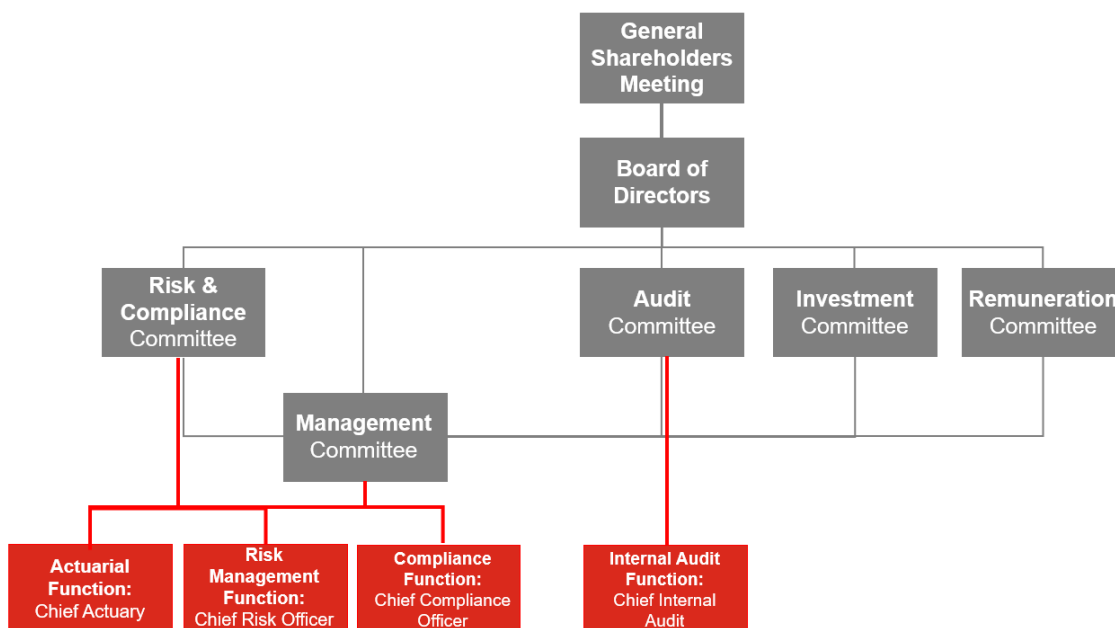
- Shareholders’ Annual General Meeting
- Board of Directors
- Audit Committee
- Risk and Compliance Committee
- Investment Committee
- Remuneration Committee
- Management Committee

Additionally, the following committees supplement the list above:

- Security and Environment Committee
- Product Oversight Governance (POG) Committee

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

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

¹ Company Announcement – 25th March 2021 ([Company Announcement - 25th March 2021 \(1\) \(mapfre.com/mt\)](http://www.mapfre.com/mt))

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

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

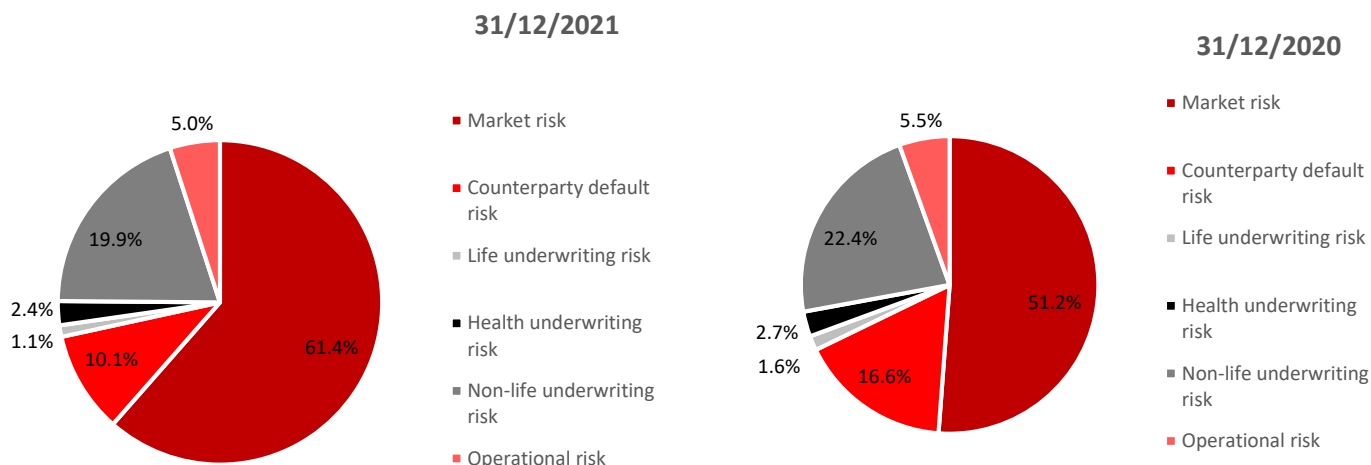
Within this framework, MMS has a structure composed of areas that, in their respective technical expertise, independently monitor the risks assumed.

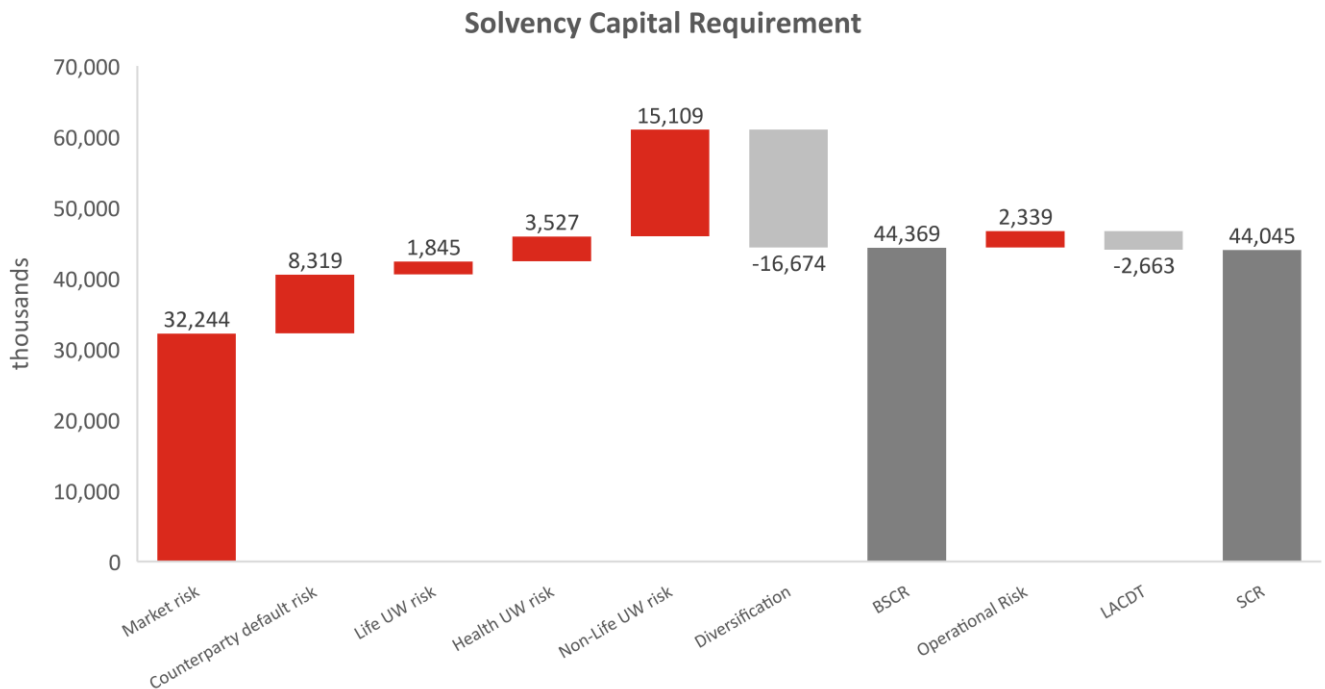
With effect from 1st April 2021, Javier Moreno Gonzalez was appointed Chief Executive Officer of MMS, replacing Felipe Navarro Lopez de Chicheri who has assumed another role within the MAPFRE GROUP.

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. In 2021, the relative share of market risk increased, while the relative share of the rest of the risk modules decreased, resulting from the increase in the MMSV participation value, following its share capital increase of €40.0 million.

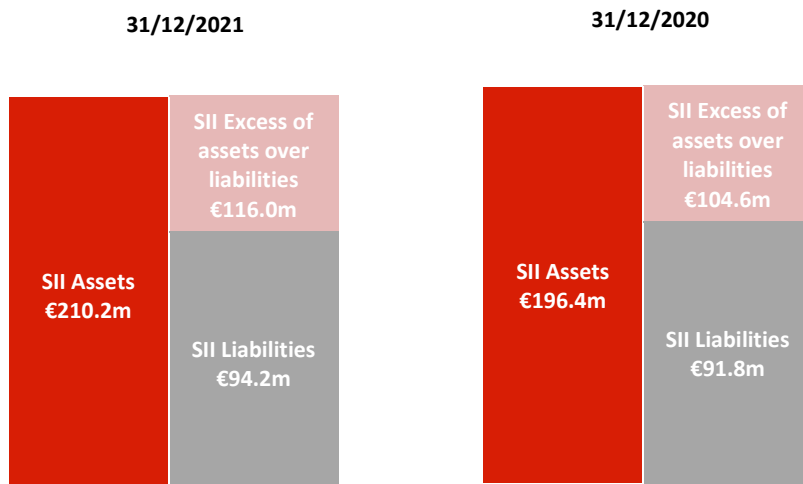
Other material risks to which MMS is exposed to include those derived from the Ukraine-Russia Geopolitical crisis, Coronavirus Pandemic, Regulatory and Non-Compliance risk, Cybersecurity risk, Climate change risk and Talent and Human Resources. Additional information on these risks is provided in Section 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 requirement even under the considered adverse circumstances.

Valuation for solvency purposes

The Solvency II value of assets amounts to €210.2 million, whereas the Accounting value (IFRS value) is equal to €186.4 million. The difference between the Solvency II and the IFRS values arose due to the different valuation criteria used for deferred acquisition costs, intangible assets, deferred tax assets, investments and reinsurance recoverables.

The Solvency II value of liabilities amounts to €94.2 million, whereas the IFRS value is equal to €110.0 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 technical provisions (best estimate and risk margin).



The total excess of assets over liabilities for Solvency II purposes amounted to €116.0 million, which represented an increase of 51.8% over the IFRS value of equity (€76.4 million). At 31st December 2021, the total excess of assets over liabilities increased by €11.4 million when compared to 2020.

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

Capital Management

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

The following table provides a breakdown of MMS’s solvency ratio or SCR coverage ratio.

	31/12/2021	31/12/2020
Solvency Capital Requirement (SCR)	44,045	40,615
Own funds eligible for SCR coverage	113,614	101,387
Solvency ratio (SCR coverage)	257.9%	249.6%

Figures in thousand euro

MMS’s Solvency Capital Requirement amounted to €44.0 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 commitment to insurance beneficiaries during the following year.

As at 31st December 2021, the eligible own funds to cover the SCR amount €113.6 million (2020: €101.4 million), of which €110.9 million (2020: €99.0 million) are classified as unrestricted Tier 1 and €2.7million (2020: €2.4 million) are classified as Tier 3. Tier 1 capital has the characteristics set out in Article 93(1)(a) and (b) of Directive 2009/138/EC, fully paid up and available to absorb losses.

The solvency ratio amounts to 257.9% (2020: 249.6%) 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 €11.0 million and the eligible own funds to cover it are equal to €110.9 million, resulting in an MCR coverage ratio of 1007.2%.

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 (also 'the Company' or 'MMS' used interchangeably through the document) is a composite insurance company specialising in the underwriting of non-life and group life business.

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

The registered address is: MAPFRE Middlesea 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.

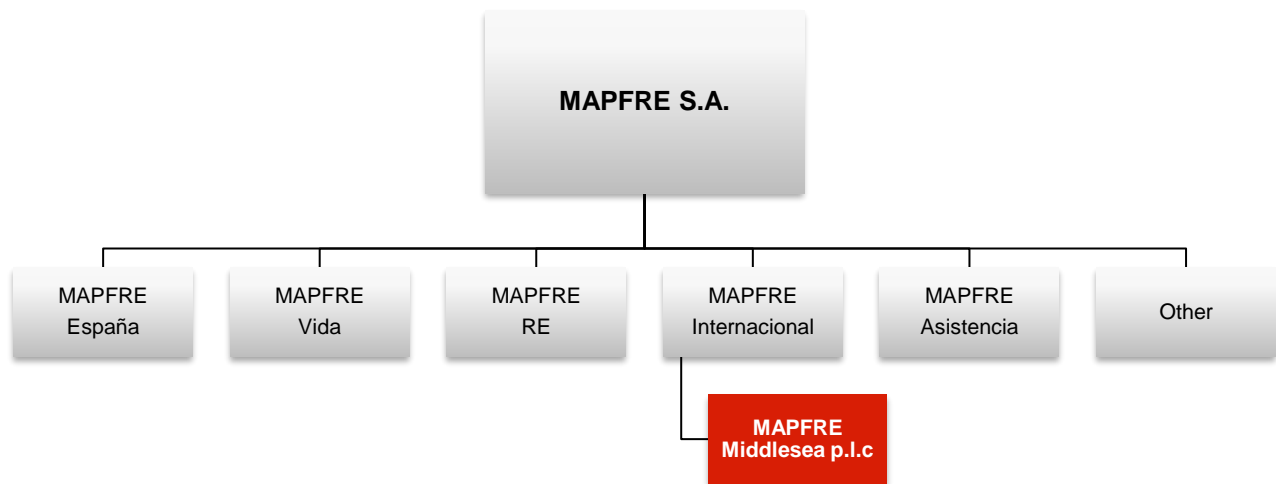
The ultimate controlling company within the Group is FUNDACIÓN MAPFRE, a non-profit institution domiciled in Madrid at Paseo de Recoletos 23, Spain.

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

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

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

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



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

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

Supervision

The Malta Financial Services Authority (hereinafter MFSA) is responsible for the financial supervision of MMS. The MFSA is located at Triq I-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 23rd March 2022, KPMG Malta issued an unqualified audit opinion on the individual and consolidated financial statements prepared by MMS as at 31st December 2021.

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 written by the company branches outside Malta is now in run off.

During 2021, the Group's business activities have been developed through an organisational structure comprised of four Business Units (Insurance, Reinsurance, Global Risks and Assistance) and six Regional Areas: Iberia (Spain and Portugal), 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). The Reinsurance and Global Risks business comprise the legal entity MAPFRE RE.

A.1.2. Events with material repercussions

The result of the Non-Life technical account was €5.3 million at 31st December 2021 (2020: €7.9 million) whilst that for Life business amounted to €0.9 million (2020: €0.5 million) which, together with the result from the non-technical account resulted in a profit before taxes of €4.1 million, down from the €6.4 million achieved in 2020, as claim frequency and severity increased compared to previous year which was favourably impacted by the near lock-down and COVID-19 restriction measures. No dividends were received from MAPFRE MSV Life p.l.c., the Life subsidiary for the second year running as it sought to strengthen further its capital base and solvency ratio to withstand potential adverse situations in the future.

During 2021, earned premiums net of reinsurance from non-life business totalled €60.7 million (2020: €57.4 million), with total written premium increasing by 6.65% as the economy started to pick up following the retraction in 2020, with the pandemic continuing to negatively impact travel premium written during 2021.

MMS's net combined ratio at 91.8% shows a deterioration of 5.7 percentage points compared to the previous year. Both Motor and Health class of business, which had been favourably affected by the pandemic, saw an increase in the combined ratio. Motor reached 100.3% reflecting an increase in frequency (even though still lower than pre-pandemic levels), average cost and severity with a significant amount of large losses being reserved. Prior year claims saw a favourable net run-off on all lines of business other than Marine.

Internal expenses were contained to 0.7% below the previous year, which had a positive impact on results.

MMS's solvency ratio stands at 257.9%. 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 2021 and 2020 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			
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Premiums written																				
Gross - Direct Business	12,917	11,749	1,222	1,045	19,131	18,522	18,615	18,017	2,799	2,653	15,862	14,475	5,791	4,727	1,268	1,393	9	29	77,613	72,611
Gross - Proportional reinsurance accepted	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross - Non-proportional reinsurance accepted																				
Reinsurers' share	72	71	30	54	930	1,662	305	357	675	810	12,866	11,620	455	441	9	9	9	9	15,350	15,035
Net	12,845	11,678	1,192	991	18,201	16,860	18,310	17,660	2,123	1,842	2,996	2,855	5,336	4,286	1,260	1,384	-	20	62,263	57,576
Premiums earned																				
Gross - Direct Business	12,281	11,427	1,118	1,008	18,843	18,815	18,334	18,301	2,635	2,422	14,899	14,040	5,233	4,574	1,239	1,500	51	60	74,634	72,147
Gross - Proportional reinsurance accepted	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross - Non-proportional reinsurance accepted																				
Reinsurers' share	72	71	30	54	930	1,662	304	499	606	495	11,519	11,440	400	388	31	72	25	28	13,916	14,709
Net	12,209	11,356	1,088	954	17,912	17,152	18,031	17,802	2,030	1,927	3,380	2,600	4,833	4,185	1,208	1,428	26	32	60,718	57,438
Claims Incurred																				
Gross - Direct Business	5,263	4,340	447	523	20,011	14,100	4,856	5,967	1,577	1,761	3,736	4,292	274	7	(9)	1,246	7	6	36,162	32,243
Gross - Proportional reinsurance accepted	-	-	-	-	(32)	-	-	-	-	-	(7)	-	(1)	-	-	-	-	-	(41)	-
Gross - Non-proportional reinsurance accepted																				
Reinsurers' share	-	-	-	-	2,347	2,715	570	814	(311)	531	2,705	3,503	(78)	(218)	(27)	27	5	4	5,210	7,376
Net	5,263	4,340	447	523	17,632	11,385	4,287	5,153	1,888	1,230	1,024	790	351	225	18	1,219	2	2	30,911	24,867
Changes in other technical provisions																				
Gross - Direct Business	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross - Proportional reinsurance accepted	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross - Non- proportional reinsurance accepted																				
Reinsurers' share	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

	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			
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Expenses incurred	4,088	3,780	937	647	7,974	7,643	6,585	6,520	904	887	1,906	1,443	2,376	2,230	728	967	33	105	25,530	24,222
Other expenses																				
Total expenses																			25,530	24,222

Figures in thousand euros

	Line of Business for: life insurance obligations			
	Other life insurance		Total	
	2021	2020	2021	2020
Premiums written				
Gross	2,496	2,509	2,496	2,509
Reinsurers' share	211	354	211	354
Net	2,286	2,154	2,286	2,154
Premiums earned				
Gross	2,496	2,509	2,496	2,509
Reinsurers' share	211	354	211	354
Net	2,286	2,154	2,286	2,154
Claims incurred				
Gross	1,107	1,523	1,107	1,523
Reinsurers' share	9	410	9	410
Net	1,098	1,113	1,098	1,113
Changes in other technical provisions				
Gross	(68)	142	(68)	142
Reinsurers' share	-	-	-	-
Net	(68)	142	(68)	142
Expenses incurred	360	449	360	449
Other expenses			-	-
Total expenses			360	449

Figures in thousand euros

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

MMS closed the year with gross written premiums amounting to €80.1 million (2020: €75.1 million), experiencing an increase of 6.7% over 2020.

Total gross claims incurred amount to €37.2 million (2020: €33.8 million), experiencing an increase of 10.1% over 2020.

The profit after tax for 2021 stood at €2.6 million (2020: €4.1 million), showing a reduction of 36.6% below 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:

Financial Income	2021	2020
INVESTMENT INCOME		
Investment properties	717	784
Income from the held-to-maturity portfolio	-	-
Income from the available-for-sale portfolio	58	102
Income from the fair value through profit or loss portfolio	57	78
Dividend income from Group companies	141	136
Other financial income	-	1
TOTAL INVESTMENT INCOME	973	1,101
REALIZED AND UNREALIZED GAINS		
Net realised gains		
Investment properties	-	3
Held-to-maturity investment portfolio	-	-
Available-for-sale investment portfolio	155	-
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
Other	-	-
TOTAL GAINS	155	122
OTHER FINANCIAL INCOME FROM THE INSURANCE BUSINESS		
Gains on investments on behalf of policyholders bearing the investment risk	-	-
Gains on exchange	17	-
Other	-	5
TOTAL OTHER FINANCIAL INCOME FROM THE INSURANCE BUSINESS	17	5
TOTAL INCOME FROM THE INSURANCE BUSINESS	1,145	1,228
FINANCIAL INCOME FROM OTHER BUSINESSES	-	-
TOTAL FINANCIAL INCOME	1,145	1,228

Figures in thousand euro

Financial Expenses	2021	2020
INVESTMENT EXPENSES		
Investment properties	15	9
Expenses from the held-to-maturity portfolio:	-	-
Expenses from the available-for-sale portfolio:	-	-
Expenses from the trading portfolio:	-	-
Other financial expenses	119	135
TOTAL INVESTMENT EXPENSES	134	144
REALISED AND UNREALIZED LOSSES		
Realised losses		
Investment properties	-	-
Held-to-maturity investment portfolio	-	-
Available-for-sale investment portfolio	-	-
Fair value through profit or loss portfolio investments	22	12
Other	-	-
Unrealised losses		
Decrease in the fair value of the trading portfolio and losses on derivatives	552	970
Other	-	-
TOTAL LOSSES	574	982
OTHER FINANCIAL EXPENSES FROM THE INSURANCE BUSINESS		
Losses on investments on behalf of policyholders bearing the investment risk	-	-
Losses on exchange	-	14
Other	-	38
TOTAL OTHER FINANCIAL EXPENSES FROM THE INSURANCE BUSINESS	-	52
TOTAL EXPENSES FROM THE INSURANCE BUSINESS	708	1,178
FINANCIAL EXPENSES FROM OTHER BUSINESSES	-	-
TOTAL FINANCIAL EXPENSES	708	1,178
TOTAL INCOME FROM THE INSURANCE BUSINESS	1,145	1,228
TOTAL EXPENSES FROM THE INSURANCE BUSINESS	708	1,178
FINANCIAL RESULT FROM THE INSURANCE BUSINESS	437	50
TOTAL FINANCIAL INCOME FROM OTHER BUSINESSES	-	-
TOTAL FINANCIAL EXPENSES FROM OTHER BUSINESSES	-	-
TOTAL FINANCIAL RESULT FROM OTHER BUSINESSES	-	-
TOTAL FINANCIAL RESULT	437	50

Figures in thousand euro

Total net investment income during the year amounted to €0.44 million (2020: €0.05 million). No dividends were received from MAPFRE MSV Life p.l.c. for the second year running as it sought to strengthen further its capital base and solvency ratio to withstand adverse situations in the future.

Property income reduced as part of Development House was transferred to Property, plant and Equipment to serve as the Company's Floriana Regional Office. The revaluation of Investment Property saw a fair value loss of €0.47 million influenced by a higher void factor and lower year on year inflation.

Fair value through profit or loss investments, particularly equities had a negative performance with loss of value and lack of dividend pay-outs.

During the year the foreign equity portfolio was disposed of. Funds were transferred to MAPFRE Inversion, the Group's Investment Management company and invested in Equity Funds and Sovereign and Corporate Bonds all designated as available-for-sale investments.

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

The following is the quantitative information regarding gains and losses arising from investments broken down by type of asset, and recognized directly in equity during 2021 and 2020:

Investments	Gains recognised in equity		Losses recognised in equity		Net difference	
	2021	2020	2021	2020	2021	2020
I. Investment properties	-	-	-	-	-	-
II. Financial investments	35	328	72	24	(37)	304
Available-for-sale portfolio	35	328	72	24	(37)	304
Equity instruments	35	328	-	-	35	328
Debt securities	-	-	72	24	(72)	(24)
III. Investments in associates accounting for using the equity method	-	5	2	-	(2)	5
IV. Deposits established for accepted reinsurance	-	-	-	-	-	-
V. Other investments	-	-	-	-	-	-
Overall performance	35	333	74	24	(39)	309

Figures in thousand euro

During 2021, the Equity holdings that were impaired in 2020 were disposed of with the gain realised in 2021 transferred to profit or loss at the date of disposal. Investment in new Equity Funds rendered a satisfactory gain in Q4 of 2021. Bond yields reflect the low or negative interest rate environment with lowering of value as holdings approach maturity.

A.3.3. Information about asset securitisation

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

A.4. Performance of other activities

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

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

Other activities	2021	2020
Other income	-	-
Other expenses	2,254	2,175

Figures in thousand euro

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

A.4.2 Lease Agreements

Finance leases

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

Operating leases

MMS is the lessee/lessor under operating leases involving property and lease of vehicles. MMS leases out commercial property to a number of tenants with current leases ranging from 1 year to 30 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:** This is the highest governing body, as its decisions bind all shareholders. Both ordinary and extraordinary Annual General Meetings are called by the Board of Directors.
- **Board of Directors:** The body in charge of managing, administering, and representing the Company and has the ultimate decision-making and supervisory responsibility. It establishes the roles of the Management Committee and its Delegated Committees, designating its members, where necessary.
- **Audit Committee:** The main role of this committee is to assist the Board of Directors in discharging its responsibilities relating to accounting and financial reporting, ensuring adequate systems of internal control, and in managing its relationships with internal and external auditors.
- **Risk and Compliance Committee:** The main role of this committee is to assist the Board of Directors in providing leadership, direction, and oversight with regards to MMS's risk and regulatory policies and procedures related to risk management, regulatory compliance, anti-financial crime, and overall internal control framework.
- **Investment Committee:** The main role of this committee is to advise the Board of Directors on the main Investment policies. This committee is responsible to secure the safety, yield and marketability of the investment portfolio, to oversee the management of the investment portfolio and ensure compliance with all policies, and report to the Board of Directors on the performance of the investment portfolio.
- **Remuneration Committee:** This committee is responsible for ensuring that the Company has coherent remuneration policies and practices which are observed and which attract and retain executives and directors who can create value and support MMS's mission statement.

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

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

- **Regional Management Committee of EURASIA,** which is the body that directly supervises the management of the Business Units in the region, with the exception of the Reinsurance Unit (understood as MAPFRE RE, Compañía de Reaseguro, S.A. and its subsidiaries), as well as the promotion of all global and regional corporate projects.
- **Security and Environment Committee:** The main role of this management committee is to direct and provide oversight to the Security and Environment function within MMS.
- **Product Oversight Governance (POG) Committee:** This is a key decision-making body in terms of the Product Oversight and Governance Arrangements of the Company. In this respect, the POG Committee is responsible for developing, approving, and launching new products; developing and approving significant adaptations or alterations to existing products; and deciding on remedial action to be taken in terms of the POG Arrangements.

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

B.1.2. Key functions

In order to ensure that the governance system has an adequate structure, MMS has policies which regulate the key functions (Risk Management, Compliance, Internal Audit, and Actuarial). These policies ensure that the key functions follow the requirements defined by the regulator and that they are in accordance with the governance structures established by MMS and by the MAPFRE Group. MMS's Board of Directors approved the Actuarial, Risk Management, Compliance and Internal Audit policies on 25th October 2021. The aforementioned policies are reviewed annually.

The policies ensure the operational independence of the key functions and their direct reporting to the governing body, 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 relevant committees and functions. The Board of Directors and/or the relevant committees receive reports regularly from the responsible areas at MMS. The information and advice provided to the Board of Directors by the key functions is detailed in their respective sections. The names of the parties responsible for the key functions have been communicated to the MFSA.

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

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

There were no significant changes to MMS's governance structure during 2021.

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 25th October 2021.

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

- Avoids any conflicts of interest through measures which are designed and based on each job / function.
- It takes into account merit, technical knowledge, professional skills, and performance.
- Ensures equality, without discrimination based on criteria to gender, race, or ideology.
- Transparency, being well known by all affected parties
- 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.

In line with the 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:

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

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

- It is established in accordance with the functions, level of responsibility and professional profile, based on the criteria for the MAPFRE Group senior executives.
- It presents a balanced and efficient relationship between fixed components and variable components, with fixed remuneration being a sufficiently high part of total remuneration.
- It is configured with a medium and long-term vision, which promotes their performance in strategic terms, in addition to the achievement of short-term results.
- It is compatible with appropriate and effective risk management and with the business strategy, the long-term values and interests of the Company, without variable remuneration threatening the Company's capability of maintaining a proper capital base.

- It takes into account market trends and faces these trends with the strategic approach of the Company, being effective for attracting and retaining the best professionals.
- It ensures equality of opportunity for all MAPFRE professionals, regardless of sex, race or ideology.

In addition, in accordance with their contracts, the Directors who carry out executive functions have the right to the social benefits for the company's senior executives and staff in general.

B.1.5 Additional information

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

B.2. Fit and proper requirements

MMS's Aptitude and Integrity Policy was last approved by the Board of Directors on 25th October 2021 and is reviewed annually. This policy establishes the applicable Key Personnel² requirements, as follows:

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

Likewise, Directors and Officers of MMS must have:

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

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

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

Company Designation Procedures

Parties proposed for executing Key Personnel roles requiring notification to Supervisory Authorities must provide a truthful and complete statement regarding their personal, family, professional, or business endeavours.

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 updated on an ongoing basis, and must communicate any relevant changes in their situations, and participate in periodic updates when required to do so by MMS's Board of Directors through delegation as defined in the Aptitude and Integrity Policy, including the re-evaluation of any fit and proper requirements.

² Key Personnel: Board of Directors, Associate Directors, Senior Executives (Senior 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 organisational 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 RMS effectiveness and for determining the company's risk profile and tolerance limits. Further to this, the Board of Directors is also responsible for approving the Risk Management Strategies and policies within the Risk Management Framework.

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

The Corporate Risk Office provides oversight and monitors all aspects related to the management of 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 MMS Risk Management Function reports to the Risk and Compliance Committee (and the Board of Directors) any risk exposures, taking into account their interdependencies, and compliance with established limits, including the Own Risk Assessment.

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

B.3.2 Risk management objectives, policies, and processes

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

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

The Risk Management System is based on 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 Risk that MMS might not be able to realise its investments and other assets in order to meet its financial commitments at maturity	Liquidity position Liquidity indicators	Continuous

Type of Risk	Measurement and management	Monitoring and reporting
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
	Compliance Management Framework	Ongoing
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
	Strategy Meetings	Quarterly

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

B.3.3 Own Risk and Solvency Assessment

The Own Risk and Solvency Assessment (hereinafter ORSA) is an integrated process in MMS's Risk Management System. The ORSA is a mechanism, which identifies, measures, monitors, manages, and reports any short or long-term risks identified by MMS throughout the period reflected in the strategic plan. It is also used to measure the sufficiency of capital resources based on understanding 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 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, forms an integral part of the business strategy and is taken into account in the strategic decision making in such a way as to guarantee the relationship between business strategy and global solvency levels is ensured. To this end, the ORSA develops projections of global solvency needs and stress tests that may pose a risk to the achievement of the Company's strategic or solvency objectives. The Corporate Risk Office coordinates stress tests to check the level of losses arising from the risks to which the Group may be exposed, without prejudice to the Risk Function executing the stress tests it deems appropriate for its business.

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

- The adequate classification of the eligible capital in accordance with the applicable regulations
- The feasibility of distributable dividends for continuous compliance with the Solvency Capital Requirement.
- Continuous compliance with Eligible capital in projections.

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

The Risk 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 is reviewed annually and has been approved on 25th October 2021. This policy establishes the actions which must be developed in order to maintain an optimal and effective Internal Control System.

The implementation of the Internal Control System in MAPFRE has been based on the broad and exhaustive application of the COSO³ standard. According to COSO, there is a direct relationship between the objectives that the company expects to achieve, the components of the internal control system (which represent what the organisation needs to achieve the objectives), and its organisational structure (operating units, legal companies, etc.).

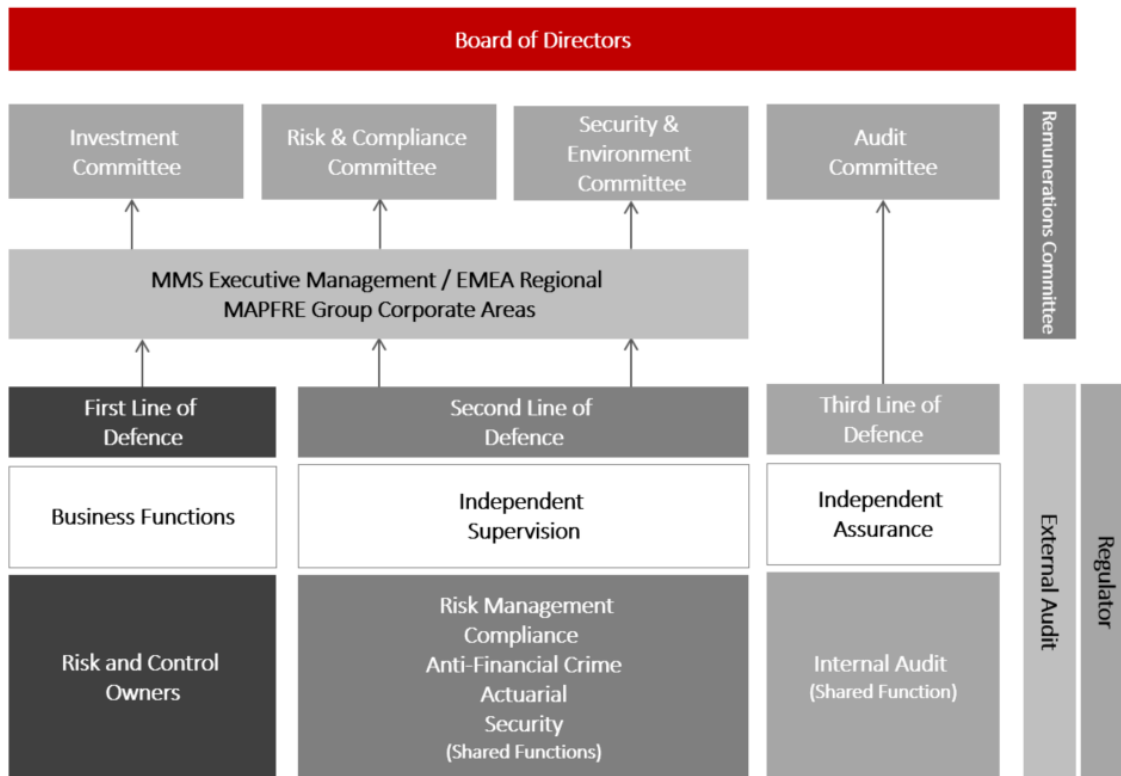
MMS's Internal Control System involves all personnel, irrespective of their position within the organisation who collectively contribute to provide reasonable assurance on the achievement of the objectives, mainly regarding:

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

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

1. The first line of defence consists of employees, management, and the business, operational and supporting areas that are responsible for maintaining effective control of activities carried out as an inherent part of their day- to-day work. Therefore, these units are responsible to manage the risks, design and apply the control mechanisms that are necessary to mitigate the risks associated with the processes that they carry out and to ensure that they do not exceed established limits.
2. The second line of defence is made up of the key functions i.e. Risk Management, Compliance and Actuarial, as well as other assurance functions such as Anti-Financial Crime and Security, all providing an independent assurance that the internal control system is present and functioning.
3. The third line of defence 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.

³ Committee of Sponsoring Organizations of the Treadway Commission



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

B.4.2. Compliance Function

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

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

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

B.5. Internal audit function

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

In ensuring the principle of Independence, MMS's Internal Audit 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 25th October 2021, 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 honourability, objectivity, confidentiality, and competence.

Additionally, one of the primary objectives 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 modelling which is used as a basis for the calculation of the MMS's capital requirements in close collaboration with the Risk Management Office.

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 Unit at MMS reports to both their hierarchical 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. With effect from 1st January 2021, the Actuarial Units of MMS and MMSV were merged into a shared function and the Actuarial Function for MMS has been brought in-house. 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 fulfil their corresponding individual responsibilities.

B.7. Outsourcing

MMS's Outsourcing Policy was last approved on 25th October 2021 by the MMS Board of Directors and is in line with the Outsourcing Policies approved by the MAPFRE S.A. Board for the Group, establishing the general principles, tasks, processes, and the assignment of responsibilities in the event of the outsourcing of a critical or important function and/or activity. This Policy is reviewed annually.

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

It is to be noted that no Key Functions were outsourced during 2021.

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

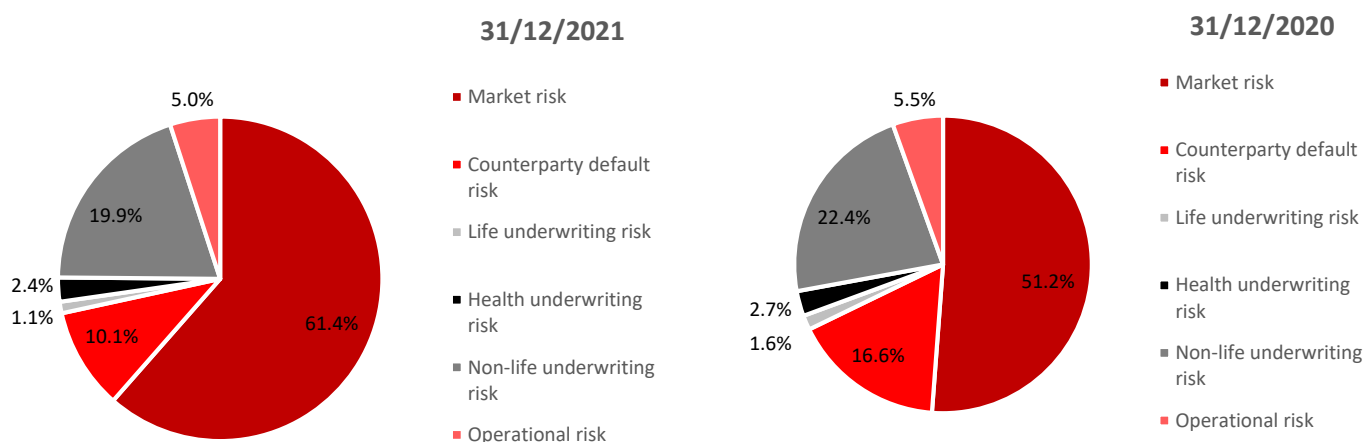
As mentioned above, Internal Audit performs a review of the Internal Control Environment on a yearly basis. Through this review, Internal Audit considers and evaluate the Company's systems of governance, in line with the Internal Control Policy.

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 recognises the capital charge corresponding to the key risks (such as underwriting risk, market risk, counterparty default risk and operational risk).

As explained in sections C.4 and C.6, 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 SCR based on the risks included under the standard formula methodology as at 31st December 2021 and 2020. Further information on the SCR calculation can be found in Section E.2.:



From the above, it can be observed that MMS’s risk profile mainly comprises of market risk (due to MMS’s strategic investment in MAPFRE MSV Life p.l.c.), representing 61.4% of the total SCR. This risk is followed by non-life underwriting risk and counterparty default risk (19.9% and 10.1% of the total SCR respectively).

In 2021, the relative share of market risk increased, while the relative share of the rest of the risk modules decreased. Further information is available in Section E.2.1, resulting from the increase in the MMSV participation value, following its share capital increase of €40.0 million.

In 2021, there have been no significant changes with respect to the measures used to assess MMS’s main risks.

Other material risks to which MMS is exposed to include those derived from the Ukraine-Russia Geopolitical crisis, Coronavirus Pandemic, Regulatory and Non-Compliance risk, Cybersecurity risk, Climate change risk and Talent and Human Resources. Additional information on these risks is provided in Section C.6.

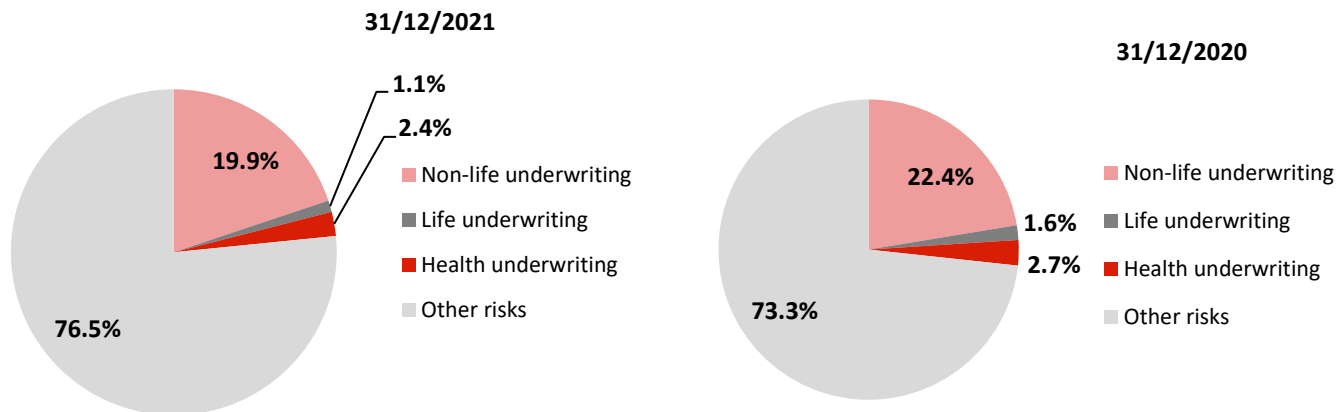
A description of the main risk categories, the exposure to the risks, their management and mitigation techniques, and possible concentrations are indicated below.

C.1. Underwriting risk

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

Exposure

As at 31st December 2021, underwriting risk represents 23.5% 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 prudent acceptance or otherwise of a risk, thus controlling and reducing undesired Underwriting Risk.

- **Setting of a sufficient premium:**

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

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

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

- **Use of Reinsurance:**

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

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

As at 31st December 2021, MMS had ceded 19.4% of its premiums written and 30.3% of its Solvency II Technical Provisions⁴ 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 business in Malta but also has passporting rights to provide services in several countries outside Malta. However, MMS does not actively write business outside of Malta. It only provides cover to Maltese customers with overseas interests. Hence, MMS is largely exposed to insurance risk in one geographical area.

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

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

Transfer of risk to special-purpose entities

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

⁴ 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

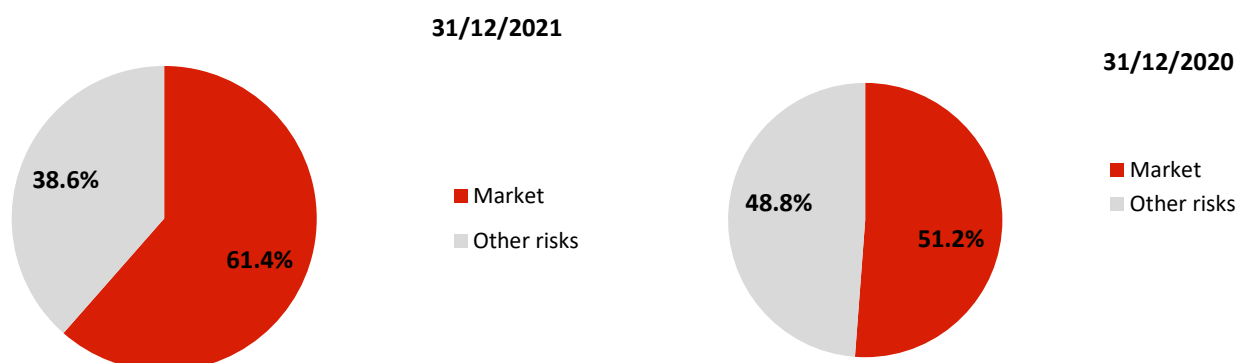
The following is a breakdown of MMS's investments by asset category:

Investments	Investments at 31/12/2021	(%) Investments	Investments at 31/12/2020	(%) Investments
Investment properties	13,525	9.3%	16,201	14.1%
Financial investments	132,651	90.7%	98,311	85.9%
Strategic participations	124,247	85.0%	92,935	81.2%
Fixed income	6,488	4.4%	3,202	2.8%
Equities	1,917	1.3%	2,174	1.9%
Mutual funds	-	-	-	-
Deposits other than cash equivalents	-	-	-	-
Hedging derivatives	-	-	-	-
Other investments	-	-	-	-
Total	146,176	100%	114,512	100%

Figures in thousand euros

As at 31st December 2021, 85.0% 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 97.4% of the strategic participations. Furthermore, 4.4% of the investments were fixed income securities, of which 70.5% correspond to Government bonds.

As at 31st December 2021, market risk represents 61.4% of all risk modules included in the SCR standard formula calculation. The following charts present details by module and the changes since the previous year.



Management and mitigation techniques

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

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

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

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

Concentration

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

Maltese Government Bonds represent 54.4% 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

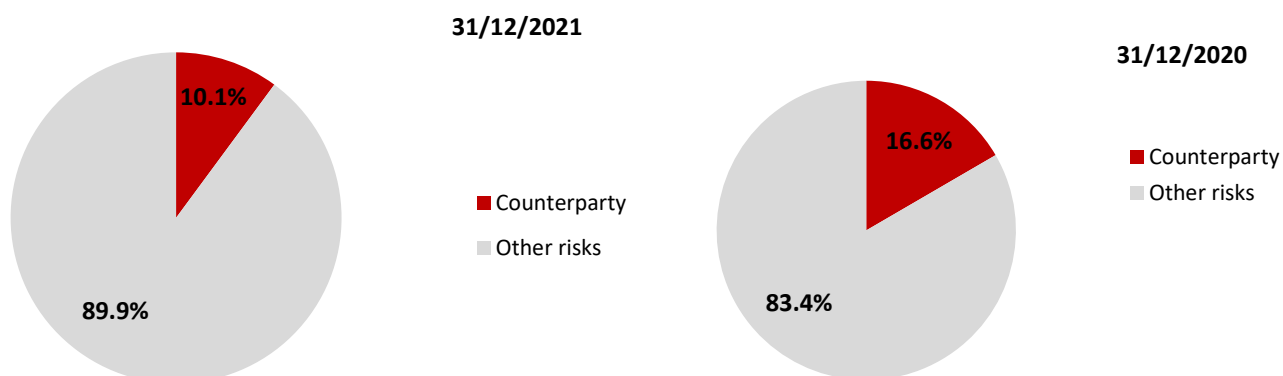
Credit Risk is the risk of loss or adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties, and any debtors to which insurance and reinsurance undertakings are exposed to, in the form of counterparty default risk, or spread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

Exposure

As at 31st December 2021, the counterparty default risk represents 10.1% of all 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 uses 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 both Bank of Valletta and the MAPFRE Group are very important in times of financial stress stemming from COVID-19 and other economic and geopolitical factors which contribute to market volatility.

C.4. Liquidity Risk

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

Exposure

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

Exposure to liquidity risk is considered to be low, taking into account the prudent investment strategy established in the Investment Policy, which is characterised by government 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.

Management and mitigation techniques

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

As at 31st December 2021, the cash and cash equivalents balance amounted to €11.6 million (2020: €31.4 million), equivalent to 57.9% of total financial investments and cash balances⁵.

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

Concentration

No liquidity risk concentrations have been identified.

Expected profits included in future premiums

The calculation of best estimate of the technical provisions considers the expected profits from future premiums (as a reduction in the best estimate when positive, or a higher value in the case of expected losses). As at 31st December 2021, the amount of these expected profits totalled €328.0 thousand.

⁵ excluding strategic participations

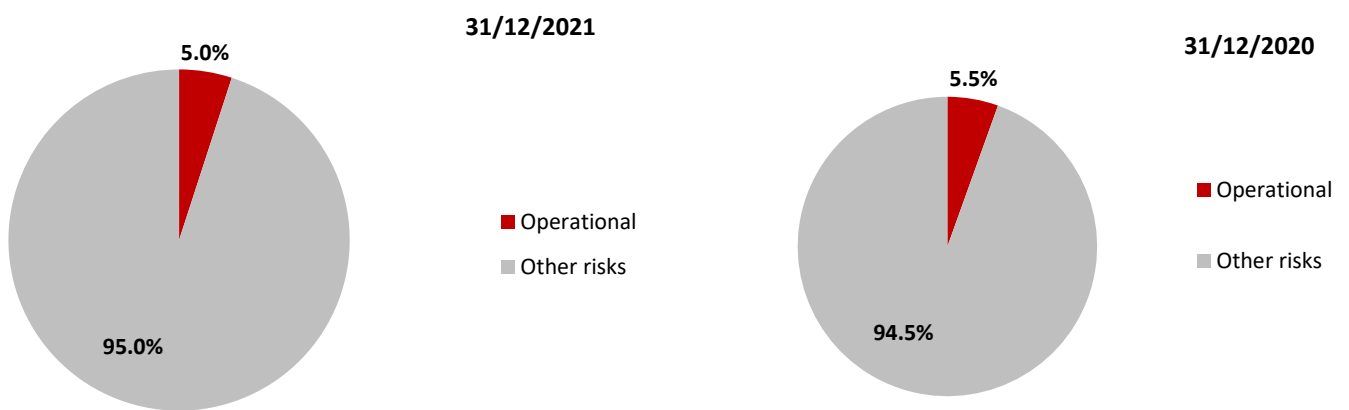
C.5. Operational Risk

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

As at 31st December 2021, operational risk represents 5.0% 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.

C.6. Other material risks

C.6.1. Geopolitical Risk: Ukraine-Russia Conflict

At the date of preparation of this report, the economic effects that the conflict in Ukraine-Russia could cause are uncertain. However, it should be noted that the exposure that both the MAPFRE Group and MMS maintain in these territories is not material, so the direct impact on the Group's underwriting and investment operations is of minor relevance.

The conflict has already caused, among other effects, an increase in volatility in the financial markets and in the prices in the commodities market, which put upward pressure on the current level of consumer prices. Depending on the evolution of the conflict, this could lead to macroeconomic tensions affecting the gross domestic product growth rates of the countries in which MAPFRE operates and, consequently, the performance of the insurance market as a whole

C.6.2. Coronavirus pandemic (COVID-19)

The situation in Malta has been relatively contained during most of 2021, except for the last few weeks of December and start of 2022, when the country experienced a spike in the new cases being recorded on a daily basis, mainly due to the Omicron covid variant which spreads more quickly than the original virus and the Delta variant. In reaction to this, the Health Authorities reintroduced a number of restrictions to avoid an impact on the health system. The situation has improved towards the end of January 2022 with cases falling down to approximately the average being recorded this time last year. The vaccination process has also registered a considerable improvement, with close to 90% of the population being fully vaccinated as at time of reporting. Uncertainty still remains however, as health authorities are gradually easing restrictions again, and with the possibility of new covid variants emerging in 2022.

Operationally, remote working continued to be one of the key control measures used by the company to prevent the spread of the virus and ensure business continuity. This changeover, required leveraging on existing, and further investment in IT infrastructure. This also called for additional investment in IT security to mitigate the increased security threat associated with remote working. The digital transformation process continues to be paramount, not only to enhance the customer the customer experience, but also to improve resiliency.

C.6.3. Cybersecurity risk

Cybersecurity risks or Cyber Risks are the risks associated with the development of a business activity, including data management and control, in a digital or "Cyber" environment. These risks arise from the use, treatment, and transmission of electronic data through information systems, communication networks and the Internet itself, and include physical damage caused by Cyber incidents, as well as fraud committed by inappropriate or improper use of persona and confidential data.

The MAPFRE Group, through the Corporate Security Office, has advanced capabilities aimed at monitoring and protecting it against Cyber Risks and increasing the company's digital resilience. In this regard, MAPFRE has a General Control Center (CCG-CERT), integrated in the FIRST network and in the CSIRT.es group, acting as a Global Security Operation Center (SOC) and allows continuous monitoring (24 hours, 7 days a week). The CCG – CERT enables the Group to detect cyber security incident at early stage and be agile in the response, safeguarding MAPFRE's and other Third-Party technological platforms, as well as the information contained in these platforms. The CCG-CERT is certified in the ISO 9001, ISO 27001, and ISO 22301 standards.

MAPFRE S.A. acquired a Cybersecurity Insurance Policy that covers various Cybersecurity Risks for all Group Companies.

The MAPFRE Group's Cyber Resilience Plan (PCR) was approved and put into action in 2021, with an execution time frame of three (3) years across the MAPFRE Group. It is the master plan that articulates MAPFRE's evolution in terms of Cybersecurity, Privacy, Protection of Data and Digital Operational Resilience.

During 2021, we have seen the implementation of various aspects of the said plan, including but not limited to:

- Microsoft Defender Anti-Virus being switched from passive to active mode.
- Microsoft Defender Advanced Threat Prevention, both of which replaced McAfee;
- Review and regularisation of Firewall rules.
- Review of User with Administrative Account privileges accessing our Data Controllers.
- ALGOSEC, a tool assisting in the management and organization of the Company's Firewalls as well as;
- the introduction of Multi Factor Authentication for employees and third parties accessing our systems remotely, amongst others.

A local Incident Management Procedure was also approved by the Security & Environment Committee complimenting the Corporate Incident Management Policy.

On the other hand, the increase in remote work and the appearance of new cyberattack mechanisms that exploit knowledge and/or awareness weaknesses have required a new impulse in the development and evolution of the Cybersecurity Culture. For this reason, a new Corporate Plan for Awareness and Training on the matter has been launched, covering the entire MAPFRE Group and which will be developed during the next three-year period.

C.6.4. Legal risk

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 2021 included the following up of the developments in respect of: the EIOPA Guidelines on Outsourcing to Cloud Service Providers, Solvency II Review, MFSA Proposed Corporate Governance Framework, Better enforcement and modernisation of Union consumer protection rules and Directive on the protection of persons who report breaches of Union law.

C.6.5. 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 2021, MMS ran the Compliance Risk Management Process in line Corporate Compliance Office methodology.

C.6.6. Climate change risk

The risk of Climate Change derives from the long-term changes in the average weather patterns that have shaped the Earth's local, regional, and global climates. This risk may give rise to:

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

In this regard, the actions carried out in 2021 focused, fundamentally, on increasing our understanding of the greater catastrophic danger derived from climate change and improving the management of exposures through:

- Analysis of the insured risks considering their geolocation and applying higher deductibles depending on exposure
- Identifying any risk mitigation measures our policyholders might have in respect of climate risks exposures through way of assessment of risks
- Consideration of environmental, social and governance standing of collective investments.
- MMS launched a motor insurance policy specifically designed for electric cars.
- Contribution to various Corporate Social Responsibility Activities for the benefit of the environment in the community, such as clean ups and tree sponsorships and planting, whilst complying with Health Authorities Directives in relation to the COVID -19 Pandemic.
- MMS also contributed data for the compilation of the first ESG portal launched by the Ministry for Energy, Enterprise and Sustainable Development allowing the general public and investors to evaluate the environmental, social and governance credentials of amongst the largest quoted companies in Malta and Gozo.

C.6.7 Talent and Human Resource Management Risk

Talent and human resources management risk can be associated with risks related to attracting and retaining talented and key employees, high turnover, changes to the organizational structure due to external and internal changes, and succession planning. With a low unemployment rate and with the increasing competition for talent across multiple industries, retaining talented employees and hiring the required level of skill, particularly for specialised and technical roles, has been a great challenge for many companies, including the insurance industry specifically.

C.7. Any other information

C.7.1. Sensitivity analysis of significant risks

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

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

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

	31/12/2021	% Change
Solvency Ratio (SR)	257.9%	
SR In the event of a 100 basis point increase in the interest rate	264.4%	+6.5 p.p.
SR In the event of a 100 basis point decrease in the interest rate	241.1%	-16.8 p.p.
SR in the event of a 10% appreciation of the euro	257.1%	-0.9 p.p.
SR In the event of a 25% decrease in equities	245.4%	-12.6 p.p.
SR In the event of a 50 basis point increase in corporate spreads	257.5%	-0.4 p.p.
SR In the event of a 50 basis point increase in corporate and sovereign spreads	255.0%	-2.9 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, selecting the initial variables that would be affected by the application of the stress assumptions that have been defined for the various tests or scenarios.
- Determining the effect on MMS's solvency when applying the new assumptions for the affected variables.

C.7.2. Other issues

Off-balance-sheet positions

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

D. Valuation for solvency purposes

D.1. Assets

The following are the main differences between the measurement of assets under Solvency II (“Solvency II Value”) and IFRS (“Accounting value”) as at 31st December 2021.

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 2021	Accounting Value 2021 ⁶
Goodwill	-	-
Deferred acquisition costs	-	8,427
Intangible assets	-	9,147
Deferred tax assets	2,713	-
Pension benefit surplus	-	-
Property, plant & equipment held for own use	6,227	6,227
Investments (other than assets held for index-linked and unit-linked contracts)	146,176	99,502
Property (other than for own use)	13,525	13,525
Holdings in related undertakings	124,247	77,596
Equities	992	992
Equities - listed	992	992
Equities - unlisted	-	-
Bonds	6,359	6,336
Government Bonds	4,499	4,382
Corporate Bonds	1,860	1,954
Structured notes	-	-
Collateralized securities	-	-
Collective Investments Undertakings	1,053	1,053
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:	24,320	32,314
Non-life and health similar to non-life	24,320	32,314
Non-life, excluding health	24,394	32,283
Health similar to non-life	(73)	31
Life and health similar to life, excluding health and index-linked and unit-linked	-	-
Health similar to life	-	-
Life, excluding health and index-linked and unit-linked	-	-
Life index-linked and unit-linked	-	-
Deposits to cedants/Deposits for Accepted Reinsurance	-	-
Insurance and intermediaries receivables	16,179	16,179
Reinsurance receivables	345	345

⁶ Any discrepancies in the Accounting value column when compared to the Financial statements are due to rounding.

Assets	Solvency II Value 2021	Accounting Value 2021 ⁶
Receivables (trade, not insurance)	661	661
Own shares (held directly)	-	-
Amounts due in respect of own funds items	-	-
Cash and cash equivalent	11,575	11,575
Any other assets, not elsewhere shown	2,014	2,037
TOTAL ASSETS	210,210	186,413

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

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

Under Solvency II, an intangible asset other than goodwill is only recognised at a value not equal to zero if it can be sold separately and the undertaking can demonstrate the existence of a market value for the same or similar assets. MMS considers that computer software does not meet the conditions established in the Solvency II regulations for market value recognition, and therefore is reported 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 recognized a net deferred tax liability on its closing IFRS balance sheet at a carrying amount of €0.7 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 €2.7 million.

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

- 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 “Fair Value Measurement”.

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

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

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

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

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

- ***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 holding or subsidiary.

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

Due to the difference in valuation criteria, an increase of €46.7 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 uncertainty, which are mainly the following:

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

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

Any other assets, not elsewhere shown

The difference between the IFRS value and the Solvency II value of €23.0k 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 2021	Accounting Value 2021
Technical provisions - Non-Life	79,285	91,719
Technical provisions - Non-Life (excluding health)	73,455	83,234
Technical provisions calculated as a whole	-	
Best Estimate (BE)	71,372	
Risk margin (RM)	2,083	
Technical provisions - health (similar to Non-Life)	5,830	8,485
Technical provisions calculated as a whole	-	
Best Estimate (BE)	5,626	
Risk margin (RM)	205	
Technical provisions - Life (excluding index-linked and unit-linked)	925	1,285
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)	925	1,285
Technical provisions calculated as a whole	-	
Best Estimate (BE)	822	
Risk margin (RM)	104	
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	80,210	93,004

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 movement between IFRS and Solvency II technical provisions are mainly due the different methodologies for risk associated with future premiums and additional expenses. The following are the main differences which are mostly impacting LOB 1 – Medical Expense insurance, LOB 5 – Other Motor insurance and LOB 8 – General Liability insurance:

- Removal of IFRS unearned premium reserve which is replaced by a premium provision in Solvency II
- Additional expenses (Solvency II requires explicit loading for expenses whilst these are implicit in the IFRS UPR)
- 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 are calculated separately for the claims provision and the premium provision.

a) Claims provision

The claims provision is based on the following principles:

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

The claims provisions in the financial statements include the provision for claims outstanding and the provision for claim settlement expenses. The provision 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 2021 have been determined on an ultimate cost basis. Certain large 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 future 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 contractual limits.
- Projected cash flows include payments for services and related expenses (administration, acquisition and claim 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 for the expected future 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 calculated on 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 expenses (without commissions), administration, claims management expenses, as well as other technical expenses.
- Future business, which includes the following:
 - Premiums for policies which have not yet been renewed but include MMS's commitments to renewal terms. This calculation includes allowance for the future behaviour of policyholders through the application of an estimated lapse ratio.
 - Expected loss ratio relating to future premiums, using the same methods indicated for the current portfolio.
 - Expenses attributable to future premiums (charged expense-to-premium ratio applied to future premiums): acquisition expenses (including fees), administration, chargeable to benefits, as well as other technical expenses.

Under IFRS, this provision is recognised under the 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 considered 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.

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 prescribed by Solvency II regulations.

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

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

- *RM*: risk margin
- *CoC*: the cost-of-capital rate which is taken as 6%
- *SCR_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, 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 one single step.
- Level 4: calculates the risk margin as a percentage of the best estimate of technical provisions net of reinsurance.

MMS calculates the risk margin using Level 2 simplification.

Actuarial methods and assumptions used when calculating technical provisions

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

MMS considers that the methods used are appropriate.

The following two key assumptions 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, acquisition, etc. expenses that will be incurred throughout the duration of the contracts.
 - Lapse rates.
 - The frequency and severity of claims based on past data.
 - Legislative changes.

For Life insurance:

The following two key assumptions 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 data based on MMS's and/or the MAPFRE Group's past experience, or external sector/market sources:
 - Realistic administration, acquisition, etc. expenses that will be incurred throughout the duration of the contracts.
 - Mortality.

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

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

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

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

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

D.2.2.a. Matching adjustment

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

D.2.2.b. Volatility adjustment

MMS does not make use of any volatility adjustment.

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

MMS does not make use of any transitional measures on 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 provision

MMS does not have any other technical provisions.

D.3. Other Liabilities

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

Other Liabilities	Solvency II Value 2021	Accounting Value 2021
Total technical provisions	80,210	93,004
Contingent liabilities	-	-
Provisions other than technical provisions	-	-
Pension benefit obligations	997	997
Deposits from reinsurers	-	-
Deferred tax liabilities	-	720
Derivatives	-	-
Debts owed to credit institutions	-	-
Financial liabilities other than debt owed to credit institutions	1,745	1,745
Insurance & intermediaries payables	389	389
Reinsurance payables	3,842	3,842
Payables (trade, not insurance)	2,796	2,796
Subordinated liabilities	-	-
Subordinated liabilities not in basic own funds	-	-
Subordinated liabilities included in basic own funds	-	-
Any other liabilities, not elsewhere shown	4,217	6,509
TOTAL LIABILITIES	94,196	110,002
EXCESS OF ASSETS OVER LIABILITIES	116,014	76,411

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 €0.7 million. MMS recognised a deferred tax asset on the Solvency II balance sheet at €2.7 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 €6.5 million. For Solvency II purposes, deferred reinsurance commissions are considered on 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 significant changes in the valuation criteria for assets and liabilities during the year.

Finance and operating leases

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

D.6. Annexes

A) Assets

Template S.02.01.02 detailing quantitative asset disclosures at 31st December 2021:

Assets (*)	Solvency II Value 2021
Intangible assets	-
Deferred tax assets	2,713
Pension benefit surplus	-
Property, plant & equipment held for own use	6,227
Investments (other than assets held for index-linked and unit-linked contracts)	146,176
Property (other than for own use)	13,525
Holdings in related undertakings, including participations	124,247
Equities	992
Equities — listed	992
Equities — unlisted	-
Bonds	6,359
Government Bonds	4,499
Corporate Bonds	1,860
Structured notes	-
Collateralised securities	-
Collective Investments Undertakings	1,053
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:	24,320
Non-Life and health similar to non-life	24,320
Non-Life excluding health	24,394
Health similar to non-life	-73
Life and health similar to life, excluding health and index-linked and unit-linked	-
Health similar to life	-
Life excluding health and index-linked and unit-linked	-
Life index-linked and unit-linked	-
Deposits to cedants	-
Insurance and intermediaries receivables	16,179
Reinsurance receivables	345
Receivables (trade, not insurance)	661
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	11,575
Any other assets, not elsewhere shown	2,014

Assets (*)	Solvency II Value 2021
Total assets	210,210

Figures in thousand euro

B) Technical provisions

B.1 Template S.02.01.02 detailing quantitative technical provisions at 31st December 2021:

Liabilities	Solvency II Value 2021
Technical provisions — non-life	79,285
Technical provisions — non-life (excluding health)	73,455
Technical provisions calculated as a whole	-
Best Estimate	71,372
Risk margin	2,083
Technical provisions — health (similar to non-life)	5,830
Technical provisions calculated as a whole	-
Best Estimate	5,626
Risk margin	205
Technical provisions — life (excluding index-linked and unit-linked)	925
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)	925
Technical provisions calculated as a whole	-
Best Estimate	822
Risk margin	104
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 2021 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 2021.

B.2.1 Template **S.12.01.02** – Life and Health SLT Technical Provisions as at 31st December 2021

	Other life insurance			Total (Life other than health insurance, incl. 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 TP calculated as a whole	-			-
Technical provisions calculated as a sum of BE and RM				
Best Estimate				
Gross Best Estimate		822	-	822
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		-	-	-
Best estimate minus recoverables from reinsurance/SPV and Finite Re — total		821	-	821
Risk Margin	104			104
Amount of the transitional on Technical Provisions				
Technical Provisions calculated as a whole	-	-	-	-
Best estimate		-	-	-
Risk margin	-			-
Technical provisions — total	925			925

Figures in thousand euro

B.2.2 Template S.17.01.02 – Life and Health SLT Technical Provisions as at 31st December 2021

	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	3,569	531	8,741	6,402	1,262	4,221	1,173	71	-	-	25,970
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	(80)	(24)	(607)	(7)	(43)	1,647	(84)	(25)	-	-	777
Net Best Estimate of Premium Provisions	3,649	555	9,348	6,410	1,305	2,574	1,256	97	-	-	25,194
Claims provisions											
Gross	851	675	28,893	7,273	2,527	4,102	6,289	211	-	206	51,027
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-	31	15,518	8	1,193	2,989	3,777	-	-	28	23,543
Net Best Estimate of Claims Provisions	851	644	13,375	7,265	1,334	1,113	2,512	211	-	179	27,483
Total Best estimate - gross	4,420	1,205	37,634	13,675	3,790	8,324	7,461	282	-	206	76,997
Total Best estimate - net	4,500	1,199	22,723	13,675	2,639	3,687	3,768	307	-	179	52,677
Risk margin	193	12	940	502	131	204	258	35	2	9	2,288
Amount of the transitional on Technical Provisions											

	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	-	-	-	-	-	-	-	-	-	-	-
Best estimate	-	-	-	-	-	-	-	-	-	-	-
Risk margin	-	-	-	-	-	-	-	-	-	-	-
Technical provisions - total											
Technical provisions - total	4,613	1,217	38,574	14,177	3,921	8,528	7,720	317	2	216	79,285
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	(80)	6	14,911	1	1,150	4,636	3,693	(25)	-	28	24,320
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	4,693	1,211	23,663	14,177	2,771	3,891	4,027	342	2	188	54,965

Figures in thousand euro

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

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

Gross Claims Paid (non-cumulative)													
Development year													
Year	0	1	2	3	4	5	6	7	8	9	10 & +	In current year	Sum of years (cumulative)
Prior											431	Prior	431
N - 9	10,016	4,260	816	357	129	69	44	44	16	0		N-9	-
N - 8	10,620	4,397	613	378	474	468	173	189	18			N-8	18
N - 7	10,302	4,458	1,754	(442)	943	61	84	18				N-7	18
N - 6	11,613	8,733	419	1,161	250	190	14					N-6	14
N - 5	15,121	10,181	1,858	627	777	175						N-5	175
N - 4	17,885	9,426	2,460	1,891	1,435							N-4	1,435
N - 3	18,707	9,787	2,164	965								N-3	965
N - 2	21,555	11,366	3,548									N-2	3,548
N - 1	17,104	8,793										N-1	8,793
N	17,760											N	17,760
												Total	33,156
													246,654

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 & +
Prior											3,171
N - 9	-	-	-	-	2,459	1,398	1,594	1,500	1,213	(423)	
N - 8	-	-	-	2,268	1,141	405	188	214	(74)		
N - 7	-	-	1,464	1,478	815	855	658	(28)			
N - 6	-	3,656	4,957	3,583	3,265	3,257	88				
N - 5	17,270	6,218	3,373	2,440	1,770	(35)					
N - 4	18,926	8,310	6,333	4,779	943						
N - 3	21,329	11,865	10,490	3,460							
N - 2	18,382	9,888	3,246								
N - 1	12,499	9,064									
N	31,221										

Year end (discounted data)
3,010
(416)
(74)
(28)
88
(36)
948
3,484
3,272
9,131
31,312
Total 50,692

Figures in thousand euro

C) Other liabilities

Template **S.02.01.02** detailing quantitative disclosures of other liabilities at 31st December 2021:

Liabilities	Solvency II Value 2021
Contingent liabilities	-
Provisions other than technical provisions	-
Pension benefit obligations	997
Deposits from reinsurers	-
Deferred tax liabilities	-
Derivatives	-
Debts owed to credit institutions	-
Financial liabilities other than debts owed to credit institutions	1,745
Insurance & intermediaries payables	389
Reinsurance payables	3,842
Payables (trade, not insurance)	2,796
Subordinated liabilities	-
Subordinated liabilities not in basic own funds	-
Subordinated liabilities included in basic own funds	-
Any other liabilities, not elsewhere shown	4,217
Total liabilities	94,196
Excess of assets over liabilities	116,014

Figures in thousand euro

E. Capital Management

E.1. Own funds

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

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

- Ensure that eligible capital continuously meets applicable regulatory requirements and 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 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. MMS has carried out an analysis to justify that the distribution of dividends does not compromise the financial or solvency situation or the protection of the interests of policyholders and insured, and is carried out in accordance with the recommendations of supervisors in the matter.

MMS has not used the transitional measures on technical provisions.

During 2021, there have not been any significant changes in the objectives, policies and processes used to manage own funds.

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

The following reflects the structure, amount and quality of own funds, as well as the Company'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	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
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	90,893	78,953	90,893	78,953						
Subordinated liabilities	-	-			-	-	-	-	-	-
An amount equal to the value of net deferred tax assets	2,713	2,426							2,713	2,426
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	113,614	101,387	110,901	98,961	-	-	-	-	2,713	2,426
Ancillary own funds										
Unpaid and uncalled ordinary share capital callable on demand	-	-					-	-		

	Total		Tier 1–unrestricted		Tier 1 – restricted		Tier 2		Tier 3	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
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	113,614	101,387	110,901	98,961	-	-	-	-	2,713	2,426
Total available own funds to meet the MCR	110,901	98,961	110,901	98,961	-	-	-	-		
Total eligible own funds to meet the SCR	113,614	101,387	110,901	98,961	-	-	-	-	2,713	2,426
Total eligible own funds to meet the MCR	110,901	98,961	110,901	98,961	-	-	-	-		
SCR	44,045	40,615								
MCR	11,011	10,154								
Ratio of Eligible own funds to SCR	257.9%	249.6%								
Ratio of Eligible own funds to MCR	1007.2%	974.6%								

Figures in thousand euro

	Amount	
	2021	2020
Reconciliation reserve		
Excess of assets over liabilities	116,014	104,587
Own shares (held directly and indirectly)	-	-
Foreseeable dividends, distributions and charges	2,400	3,200
Other basic own fund items	22,721	22,434
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	-	-
Reconciliation reserve	90,893	78,953
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	-	-
Expected profits included in future premiums (EPIFP) - Non- life business	328	308
Total Expected profits included in future premiums (EPIFP)	328	308

Figures in thousand euro

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

MMS has €113.6 million of eligible own funds as at 31st December 2021 (€101.4 million as at 31st December 2020).

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 2021, the unrestricted basic Tier 1 own funds of MMS totalled €110.9 million (€99.0 million as at 31st December 2020). 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 totalling €2.7 million as at 31st December 2021, (€2.4 million as at 31st December 2020) corresponding to the net deferred tax asset.

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

None of the own fund items required supervisory approval.

The tables included at the beginning of the section indicate the structure, amount and quality of the own funds and 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 one case per 200-year event, or that MMS is 99.5% confident to meet its commitments to insurance beneficiaries and policyholders during the following year.

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

The solvency ratio is equal to 257.9% (249.6% in 2020) and determines the relationship between eligible own funds and the SCR calculated using the standard formula. This shows MMS's high capacity 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 €2.7 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 1007.2% (2020: 974.6%).

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

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 2021, the excess of assets over liabilities for Solvency II purposes amounted to €116.0 million, while equity in the financial statements totalled €76.4 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:

	2021	2020
Equity (IFRS value)	76,411	77,052
Difference in valuation of assets	31,369	21,228
Deferred acquisition costs (DAC)	(6,135)	(6,346)
Intangible Assets	(9,147)	(7,763)
Participations	46,651	35,337
Difference in valuation of liabilities	8,233	6,309
Technical provisions	4,800	2,985
Deferred Taxes	3,433	3,324
Excess of assets over liabilities (Solvency II Value)	116,014	104,589

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 €2.7 million, which mainly result from the following items:

- Deferred Acquisition costs, in the amount of €2.1 million
- Intangible assets, in the amount of €3.2 million
- Participations, in the amount of (€0.24) million
- Technical provisions, in the amount of (€1.7) million

MMS has carried out a recoverability test of the deferred tax assets, and it has recognised €2.7 million of deferred tax assets in the own funds following the availability of probable future taxable profits.

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

Additionally, MMS has considered:

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

E.1.4. Other information

Essential items in the reconciliation reserve

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

In the tables included at the beginning of the section, the structure, amount and quality of the own funds are indicated, together with the items that have been considered in determining the reconciliation

reserve. This is based on the amount of the excess of assets over liabilities for the purpose of Solvency II, with the amount of this excess reaching €116.0 million.

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

- Foreseeable dividends, amounting to €2.4 million.
- Other items of Basic own funds for an amount of €22.7 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 2021.

Transitional measures

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

E.2. Solvency Capital Requirement and Minimum Capital Requirement

E.2.1. Solvency Capital Requirement amounts and valuation methods

The 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
	2021	2020		
Market risk	32,244	25,192		
Counterparty default risk	8,319	10,581		
Life underwriting risk	1,845	2,130		Life mortality risk, Life expense risk, Life catastrophe risk
Health underwriting risk	3,527	3,412		
Non-Life underwriting risk	15,109	14,066		
Diversification	(16,674)	(16,360)		
Intangible asset risk	-	-		
Basic Solvency Capital Requirement	44,369	39,021		

Figures in thousand euro

Calculation of the Solvency Capital Requirement	Amount	
	2021	2020
Operational Risk	2,339	2,265
Loss-absorbing capacity of technical provisions	-	-
Loss-absorbing capacity of deferred taxes	(2,663)	(671)
Capital requirement for businesses operated in accordance with Article 4 of Directive 2003/41/EC	-	-
Solvency Capital Requirement excluding additional capital	44,045	40,615
Capital add-on already set	-	-
Solvency capital requirement	44,045	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 euro

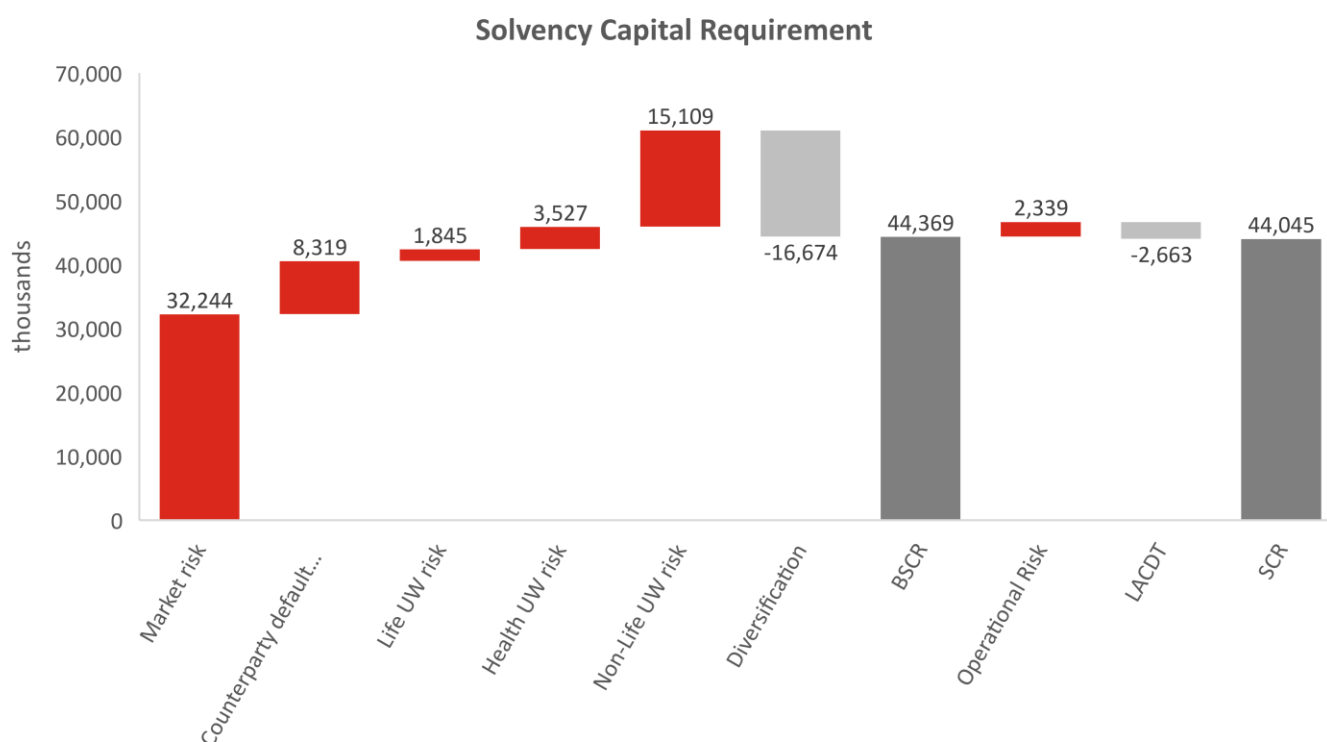
Approach to tax rate	Yes/No	
	2021	2020
Approach based on average tax rate	1-Yes	1-Yes

Calculation of loss absorbing capacity of deferred taxes	LAC DT	
	2021	2020
DTA		
DTA carry forward		
DTA due to deductible temporary differences		
DTL		
LAC DT	(2,663)	(671)
LAC DT justified by reversion of deferred tax liabilities	-	-
LAC DT justified by reference to probable future taxable economic profit	(2,663)	(671)
LAC DT justified by carry back, current year	-	-
LAC DT justified by carry back, future year	-	-
Maximum LAC DT	-	-

Figures in thousand euro

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 31st December 2021, MMS’s total SCR amount was €44.0 million. As at 31st December 2020, it was equal to €40.6 million and the increase is mainly due to an increase in the MMSV participation value.

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 totalled €2.7 million (2020: €0.7 million). The assessment of the recoverability of the LAC DT factors in the latest approved budget numbers.

As at 31st December 2021, MMS's total MCR amount was €11.0 million (2020: €10.2 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	9,540	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		4,500	12,845
Income protection insurance and proportional reinsurance		1,199	1,192
Workers' compensation insurance and proportional reinsurance		-	-
Motor vehicle third-party liability insurance and proportional reinsurance		22,723	18,201
Other motor insurance and proportional reinsurance		13,675	18,310
Marine, aviation and transport insurance and proportional reinsurance		2,639	2,123
Fire and other casualty insurance and proportional reinsurance		3,687	2,996
General liability insurance and proportional reinsurance		3,768	5,336
Credit and suretyship insurance and proportional reinsurance		-	-
Legal expenses insurance and proportional reinsurance		-	-
Assistance and proportional reinsurance		307	1,260
Miscellaneous financial loss insurance and proportional reinsurance		-	-
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	862	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		821	
Total capital at risk for all life (re)insurance obligations			1,206,245

Overall MCR calculation	
Linear MCR	10,401
SCR	44,045
MCR cap	19,820
MCR floor	11,011
Combined MCR	11,011
Absolute floor of the MCR	7,400

Minimum Capital Requirement	11,011
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Notional non-life and life MCR calculation	Non-Life activities	Life activities
Notional linear MCR	9,540	862
Notional SCR excluding add-on (annual or latest calculation)	40,396	3,649
Notional MCR cap	18,178	1,642
Notional MCR floor	10,099	912
Notional Combined MCR	10,099	912
Absolute floor of the notional MCR	3,700	3,700
Notional MCR	10,099	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 €11.0 million. The notional linear MCR is equal to €9.5 million for Non-Life activities and €0.9 million for life activities. The linear MCR was obtained by applying the factors relating to the data used in the calculation, which are included in the above tables. The combined MCR is equal to €11.0 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 €11.0 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 SCR⁷. MMS has considered:

- Probable future taxable profits of €15.4 million

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

⁷ The amount of SCR is defined in accordance with the paragraph 1 of Article 207 of the Delegated Regulation (EU) 2015/35

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

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

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

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

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

As at 31st December 2021, 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

At the date of preparation of this report, the economic effects that the conflict in Ukraine-Russia could cause are uncertain. Nonetheless, MMS management is regularly monitoring the impact of the current market fluctuations having regard to the solvency position of the company.

Annex I

The following table presents MMS's subsidiaries as at year-end 2021:

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