MAPFRE | MIDDLESEA

Solvency and Financial Condition Report
31st December 2018

Contents

Executive Summary

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

A. Business and Performance

MAPFRE Middlesea plc (hereinafter the Company, MAPFRE Middlesea or MMS) 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

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 insurance, financial, property and service industries.

The company closed the year with written premiums amounting to €69.69 million, experiencing an increase of 12.5 percent over 2017, with growth registered in all classes but particularly in Health and Motor. Total gross claims incurred have increased by 12.0 percent over 2017 and amounted to €39.41 million.

The technical result was negatively impacted by the Sightseeing Bus tragedy, the largest single Motor claim ever to hit the local market. Notwithstanding this, the Motor net combined ratio closed at 99.99% from the 103.52% registered in 2017. The whole non-life portfolio closed with a net combined ratio of 92.9%, marginally up from the 92.3% registered in 2017.

Total net investment income during the year amounted to €8.08 million compared with the €9.02 million registered in 2017. The main source remains the dividends received from Group companies which were 3.4% lower compared to 2017. Fair value movements also saw a retraction compared to previous year particularly from local equities whilst the revaluation of property investments rendered lower gains from those achieved in 2017.

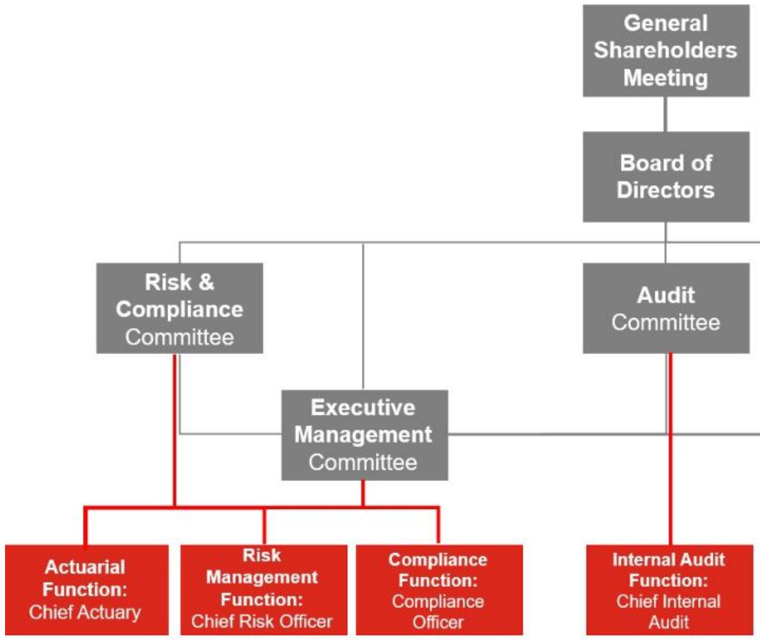
B. System of Governance

MMS's Governing Bodies at 31st December 2018 are set out below:

- Shareholder's Annual General Meeting
- Board of Directors
- Audit Committee
- Risk and Compliance Committee
- Investment Committee
- Remuneration Committee
- Management Committee

In addition to the above, MMS is supervised by the EURASIA Regional Management Committee within MAPFRE GROUP, which directly supervises the management of regional Business Units.

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



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

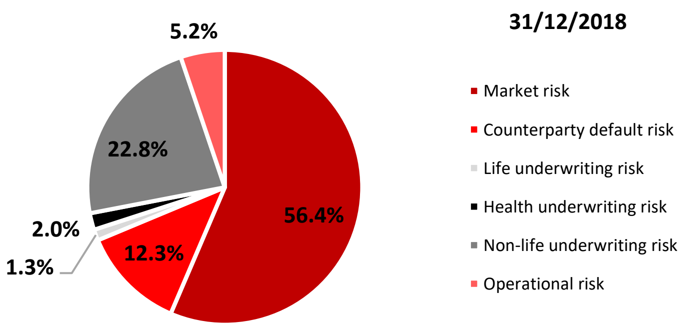
In order to ensure that MMS's systems of governance has an adequate structure, the Company has a series of policies that govern the key functions (Risk Management, Compliance, Internal Audit and Actuarial) to ensure that these functions follow the regulatory requirements and are compliant with the lines of governance established by MMS and by MAPFRE Group.

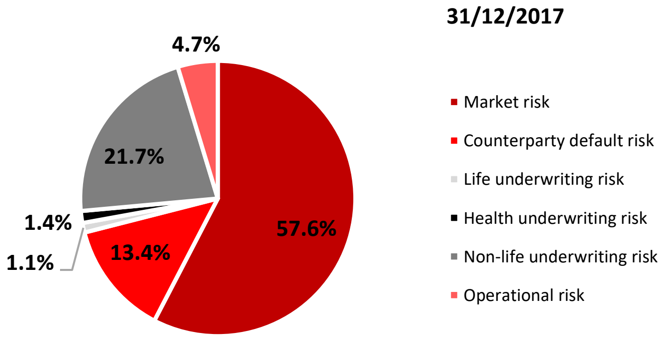
MMS's Board of Directors determines the policies and strategies regarding the Risk Management System, which are aligned with the policies and strategies defined by the Board of Directors of MAPFRE S.A.

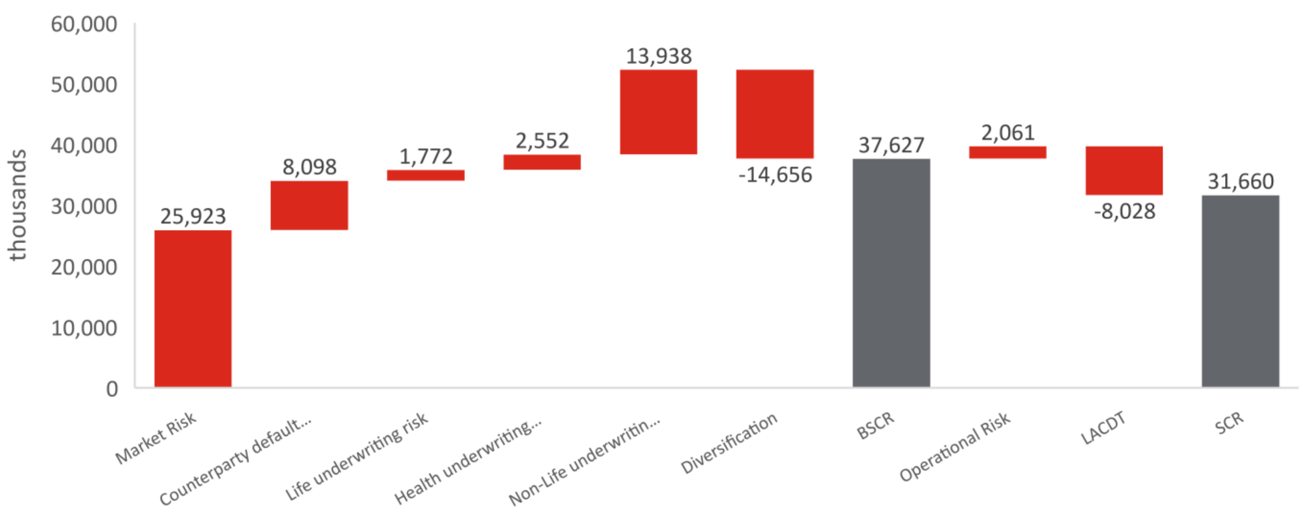
C. Risk profile

MMS calculates its Solvency Capital Requirement (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.







MMS's risk profile is skewed towards Market Risk, due to MMS's strategic investment in MAPFRE MSV Life plc. This risk is followed by Non-Life Underwriting Risk and Counterparty Default Risk.

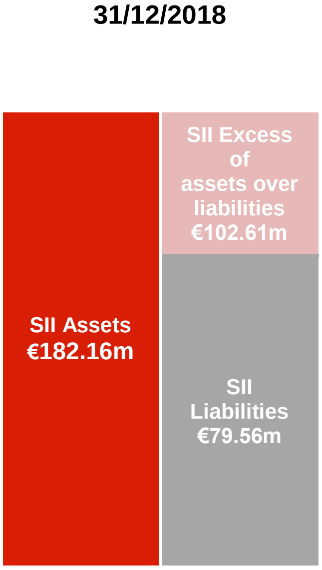
Other risks to which MMS is exposed to include compliance, cybersecurity and reputational risk. As a result of the mitigation measures in place, these risks are not considered to materially affect MMS's solvency.

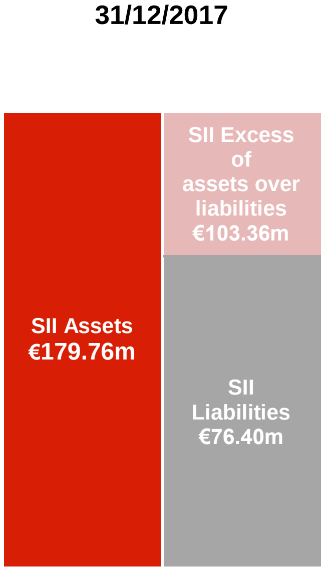
MMS also considered a number stress tests and scenarios to assess its resilience and strength of its business model when facing adverse events during the projection period. The results from this analysis indicates that MMS will continue to have eligible own funds to comply with the SCR even in stressed scenarios.

D. Valuation for solvency purposes

The Solvency II value of assets amounts to €182.16 million, while the Accounting value (IFRS value) is equal to €162.71 million. The differences between the Solvency II value and the IFRS value arose due to the different valuation criteria used for deferred acquisition costs, intangible assets, investments and reinsurance recoverables.

The Solvency II value of liabilities amounts to €79.56 million, while the IFRS value is equal to €94.40 million. The main difference between the Solvency II value and the IFRS value arose from the different valuation criteria used for technical provisions. Section D.2 provides an explanation on the actuarial methodology and assumptions used in the calculation of the technical provisions (best estimate and risk margin).





The excess of assets over liabilities for Solvency II purposes amounted to €102.61 million under Solvency II, which represents a 50.2 percent increase over the IFRS value of equity. As at 31st December 2018, the excess of assets over liabilities decreased by €0.76 million when compared to 2017.

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

E. 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 shows details of MMS's solvency ratio.

	31/12/2018	31/12/2017
Solvency Capital Requirement (SCR)	31,660	32,512
Own funds eligible for SCR coverage	85,608	93,663
Solvency ratio (SCR coverage)	**270.4%**	**288.1%**

Figures in thousand euro

MMS's Solvency Capital Requirement amounted to €31.66 million. The SCR corresponds to the own funds that MMS must hold to limit the probability of bankruptcy to one case per 200, or that MMS is 99.5% confident to be able to meet its commitments to insurance beneficiaries during the following year.

Eligible own funds to cover MMS's SCR represent €85.61 million, of which €84.88 million are classified as unrestricted Tier 1 and €0.73 million were 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.

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 €9.50 million and the ratio of eligible own funds to cover the MCR stood at 893.7 percent.

A. Business and Performance

A.1. Business

A.1.1. Company Businesses

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

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

The registered address is: MAPFRE Middlesea p.l.c

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, property, and service industries.

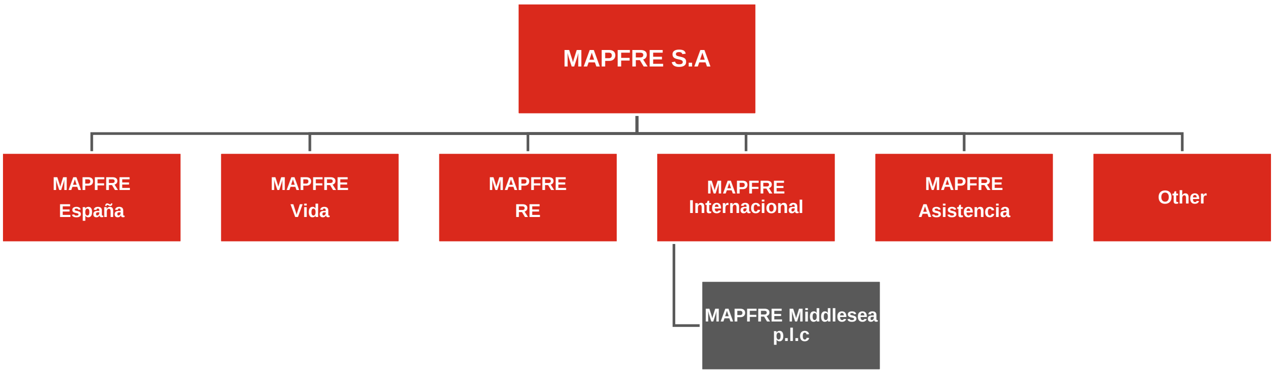
The ultimate controlling party within the Group is FUNDACIÓN MAPFRE, a non-profit institution located in Madrid at Paseo de Recoletos 23.

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

Name	Legal Status	Location	Percentage of ownership (*)
MAPFRE Internacional	Limited Liability	Spain	54.6%
Bank of Valletta	Limited Liability	Malta	31.1%

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

The following is MMS's positon within the Group's legal structure:



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

MMS is also 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.

Supervision of the Company

The Malta Financial Services Authority (hereinafter MFSA) is responsible for the financial supervision of MMS. The MFSA is located at Notabile Road, Attard, Malta and its website is http://www.mfsa.com.mt.

External Audit

On 13 March 2019, KPMG Malta issued an unqualified audit opinion in its audit report on the individual and consolidated financial statements as at 31st December 2018. KPMG Malta is formed as a Civil Partnership with registered address:

KPMG

Portico Buildings

Marina Street

Pieta', Malta

Lines of business

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

- Medical expense insurance
- Income protection insurance
- Motor vehicle liability insurance
- Other motor insurance
- Marine, Aviation and Transport insurance
- Fire and other damage to property insurance
- General liability insurance

- Assistance
- Miscellaneous Financial Loss
- Other life insurance

Geographic areas

MMS does not underwrite any risks, which are situated outside Malta, unless there is a specific Maltese interest. Previous business underwritten by the company branches outside Malta is now in run off.

A.1.2. Business and/or events with material repercussions on the Company

Events relating to the business and market

Throughout 2018, the Maltese Insurance market, based on market data collected by the Malta Insurance Association, grew by around 9.6%. MMS continued to maintain its position as the market leader in the non-life sector marginally increasing its market share compared to that of 2017. The Company registered an increase in the written business higher than that experienced by the market. MMS's net combined ratio at 92.9% deteriorated slightly by 0.6 percentage points compared to the previous year, which year had been positively impacted by one-off reserve releases from run-off reinsurance inwards business. The core business experienced an improvement in particular emanating from the motor line of business following the adjustment in tariffs carried out in the previous year. This notwithstanding being impacted by the Sightseeing bus tragedy which was by far the largest motor claim registered in the history of the Maltese insurance industry.

MMS's solvency ratio stands at 270.4%. This shows that MMS holds sufficient capital to execute its long-term strategy and good resilience in challenging business scenarios.

A.2. Underwriting Performance

Below is a comparison of the quantitative information regarding the activity and underlying results for 2018 and 2017 by line of business.

S.05.01.02 – Premiums, claims and expenses by line of business

	Line of Business for: non-Life insurance and reinsurance obligations (direct insurance and proportional accepted reinsurance)																		Line of Business for: accepted non-proportional 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 finanial loss		Property			
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Premiums written																						
Gross - Direct Business	10,725	9,361	981	839	16,274	15,193	18,789	17,541	2,078	1,773	12,230	11,035	4,010	3,649	2,140	946	69	56			67,296	60,395
Gross - Proportional reinsurance accepted	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			-	-
Gross - Non-proportional reinsurance accepted	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				3	1	3	1
Reinsurers' share	25	20	43	-	1,761	482	170	557	264	81	9,455	8,581	283	260	93	-	36	25	-	-	12,130	10,008
Net	10,700	9,341	938	839	14,513	14,711	18,619	16,985	1,814	1,692	2,775	2,454	3,727	3,389	2,047	946	33	31	3	1	55,169	50,388
Premiums earned																						
Gross - Direct Business	10,032	8,812	986	900	15,762	14,939	18,198	17,248	1,993	1,795	11,790	10,964	3,857	3,621	2,114	1,812	59	62			64,792	60,152
Gross - Proportional reinsurance accepted	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			-	-
Gross - Non-proportional reinsurance accepted	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				3	1	3	1
Reinsurers' share	25	20	43	-	1,761	477	189	551	257	81	9,142	8,530	321	331	51	-	28	29	-	-	11,817	10,020
Net	10,007	8,792	944	900	14,001	14,462	18,010	16,697	1,736	1,714	2,648	2,433	3,536	3,290	2,062	1,812	30	33	3	1	52,978	50,133
Claims Incurred																						
Gross - Direct Business	5,126	4,287	256	272	21,970	12,496	4,850	8,466	1,384	983	3,300	4,824	651	2,152	1,444	1,517	-	-			38,980	34,997
Gross - Proportional reinsurance accepted	-	-	-	-	-	-	-	-	-	-	(2)	(142)	2	-	-	-	-	-			(0)	(142)
Gross - Non-proportional reinsurance accepted	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				9	(231)	9	(231)
Reinsurers' share	(6)	(48)	43	1	5,715	(163)	1,262	(110)	89	144	2,564	4,333	9	1,757	(42)	256	-		-	-	9,634	6,171
Net	5,132	4,335	213	271	16,255	12,658	3,588	8,576	1,295	839	734	349	644	394	1,486	1,261	-	-	9	(231)	29,355	28,453

	Line of Business for: non-Life insurance and reinsurance obligations (direct insurance and proportional accepted reinsurance)																		Line of Business for: accepted non-proportional 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 finanial loss		Property			
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Changes in other technical provisions																						
Gross - Direct Business	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			-	-
Gross - Proportional reinsurance accepted	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			-	-
Gross - Non- proportional reinsurance accepted	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				-	-	-	-
Reinsurers'share	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Expenses incurred	3,700	3,046	427	510	6,406	5,324	5,978	5,708	695	609	450	861	1,391	1,264	1,084	726	36	49	19	-	20,186	18,097
Other expenses																					-	-
Total expenses																					20,186	18,097

Figures in thousand euro

	Line of Business for: life insurance obligations			
	Other life insurance		Total	
	2018	2017	2018	2017
Premiums written				
Gross	2,386	1,543	2,386	1,543
Reinsurers' share	191	120	191	120
Net	2,195	1,424	2,195	1,424
Premiums earned				
Gross	2,386	1,543	2,386	1,543
Reinsurers' share	191	120	191	120
Net	2,195	1,424	2,195	1,424
Claims incurred				
Gross	418	560	418	560
Reinsurers' share	(52)	(15)	(52)	(15)
Net	471	574	471	574
Changes in other technical provisions				
Gross	83	(457)	83	(457)
Reinsurers' share	-	-	-	-
Net	83	(457)	83	(457)
Expenses incurred	359	379	359	379
Other expenses			-	-
Total expenses			359	379

Figures in thousand euro

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

MMS closed the year with gross written premiums amounting to €69.69 million, experiencing an increase of 12.5 percent over 2017. Total gross claims incurred have increase by 12.0 percent over 2017 and amounted to €39.41 million.

A.3. Investment performance

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

The following tables present quantitative information regarding income and expenses from investments properties, the held-to-maturity portfolio, the available-for-sale portfolio and the fair value through profit or loss portfolio and net realised and unrealised gains and losses:

Interest, dividend and similar income	2018	2017
INVESTMENT INCOME		
Investment properties	748	672
Income from the held-to-maturity portfolio	-	-
Income from the available-for-sale portfolio	197	257
Income from the fair value through profit or loss portfolio	201	213
Dividend income from Group Companies	6,843	7,083
Other financial income	6	3
TOTAL INVESTMENT INCOME	**7,995**	**8,228**
REALIZED AND UNREALIZED GAINS		
Net realised gains		
Investment properties	-	-
Held-to-maturity investment portfolio	-	-
Available-for-sale investment portfolio	-	235
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	456	873
Other	-	-
TOTAL GAINS	**456**	**1,108**
OTHER FINANCIAL INCOME FROM THE INSURANCE BUSINESS		
OTHER FINANCIAL INCOME FROM THE INSURANCE BUSINESS		
Gains on investments on behalf of policyholders bearing the investment risk	-	-
Gains on exchange	-	-
Other	16	49
TOTAL OTHER FINANCIAL INCOME FROM THE INSURANCE BUSINESS	**16**	**49**
TOTAL INCOME FROM THE INSURANCE BUSINESS	**8,467**	**9,385**
FINANCIAL INCOME FROM OTHER BUSINESSES	**-**	**-**
TOTAL FINANCIAL INCOME	**8,467**	**9,385**

Figures in thousand euro

Financial Expenses	2018	2017
INVESTMENT EXPENSES		
Investment properties	-	58
Expenses from the held-to-maturity portfolio:	-	-
Expenses from the available-for-sale portfolio:	-	8
Expenses from the fair value through profit or loss portfolio:	-	-
Other financial expenses	53	-
TOTAL INVESTMENT EXPENSES	**53**	**66**
REALISED AND UNREALISED LOSSES		
Realised losses		
Investment properties	-	-
Held-to-maturity investment portfolio	-	-
Available-for-sale investment portfolio	-	6
Fair value through profit or loss portfolio investments	-	4

Financial Expenses	2018	2017
Other	-	-
Unrealised losses		
Decrease in the fair value of the trading portfolio and losses on derivatives	311	258
Other	-	-
TOTAL LOSSES	**311**	**268**
OTHER FINANCIAL EXPENSES FROM THE INSURANCE BUSINESS		
OTHER FINANCIAL EXPENSES FROM THE INSURANCE BUSINESS		
Losses on investments on behalf of policyholders bearing the investment risk	-	-
Losses on exchange	9	21
Other	14	14
TOTAL OTHER FINANCIAL EXPENSES FROM THE INSURANCE BUSINESS	**23**	**35**
TOTAL EXPENSES FROM THE INSURANCE BUSINESS	**387**	**369**
FINANCIAL EXPENSES FROM OTHER BUSINESSES	**-**	**-**
TOTAL FINANCIAL EXPENSES	**387**	**369**

Figures in thousand euro

TOTAL INCOME FROM THE INSURANCE BUSINESS	**8,467**	**9,385**
TOTAL EXPENSES FROM THE INSURANCE BUSINESS	**387**	**369**
FINANCIAL RESULT FROM THE INSURANCE BUSINESS	**8,080**	**9,016**
TOTAL INCOME FROM OTHER BUSINESSES	**-**	**-**
TOTAL EXPENSES FROM OTHER BUSINESSES	**-**	**-**
TOTAL FINANCIAL RESULT FROM OTHER BUSINESSES	**-**	**-**
TOTAL FINANCIAL RESULT	**8,080**	**9,016**

Figures in thousand euro

Total net investment income during the year amounted to €8.08 million (2017: €9.02 million). The reduction is primarily resulting from lower fair value movements both on investment property and financial securities. This was only partly mitigated from a higher net income from Investment Property. Dividends received from group companies also reduced by around 3.4%.

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 recognised directly in equity during 2018 and 2017:

Investments	Income recognised in equity		Losses recognised in equity		Net difference	
	2018	2017	2018	2017	2018	2017
I. Investments properties	**-**	**-**	**-**	**-**	-	-
II. Financial investments	**-**	**139**	**236**	**387**	**(236)**	**(248)**
Available for sale portfolio						
Equity instruments	-	139	123	250	(123)	(111)
Debt securities	-	-	113	137	(113)	(137)
III. Investments in associates accounting for using the equity method	**(36)**	**72**	**-**	**-**	**(36)**	**72**
IV. Deposits established for accepted reinsurance	-	-	-	-	-	-
V. Other investments	-	-	-	-	-	-
Overall performance	**(36)**	**211**	**236**	**387**	**(272)**	**(176)**

Figures in thousand euro

Available for sale investments registered a net loss of €0.24 million as compared to a loss of €0.25 million in 2017. The negative movement reflects the international financial markets sentiment during the year. On the other hand, bonds registered a negative movement of €0.11 million as securities approach their maturity dates. A negative movement of €0.04 million was recorded directly in equity representing the share of reserves movement of an associate company.

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 recognized the following "other" income and expenses other than deriving from the insurance business and investments, including:

	2018	2017
Other income	-	-
Other expenses	1,767	1,705

Figures in thousand euro

Expenses

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 leases ranging from 2 year to 33 year leases 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

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

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

B.1.1 MMS's System of Governance

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

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

- **Board of Directors:** Is the body in charge of managing, administering, and representing the company. It acts as the maximum decision-making and supervisory body at MMS. 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 protect the interest of the shareholders and assist the Board of Directors to effectively take informed decisions based on accurate, reliable and timely reported financial statements.

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

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

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

- **Management committee.** This is the governing body delegated by the Board of Directors to coordinate and supervise the company's top-level actions, covering operational and management aspects, as well as making the necessary decisions to ensure its appropriate functioning, using the powers delegated at any given time. The MAPFRE GROUP has a management model centered on rigorous control and supervision at all levels: local, regional, and global. It ensures widespread delegation of the execution and performance of the tasks assigned to the teams, as well as their heads, fostering the deep analysis by the management teams at all levels related to the decision-making process, prior and after their execution.

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

Apart from the above-mentioned administration and supervisory bodies, MMS is supervised by the EURASIA Regional Management Committee within MAPFRE GROUP, which directly supervises the management of regional Business Units.

B.1.2. Key functions

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

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

These functions have the following responsibilities:

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

More information on the key functions may be found in Sections B.3, B.4, B.5 and B.6.

B.1.3. Relevant resolutions adopted by shareholders at a General Meeting and the Administrative Body

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

B.1.4. Balances with and remuneration to directors

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

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

- Based on each job/function, it includes measures designed to avoid any conflicts of interest.
- It takes into account merit, technical knowledge, professional skills and performance.
- Ensures equality, without discrimination based on criteria to gender, race, or ideology.
- Transparency.
- Flexible in structure, adaptable to different market groups and circumstances.

- Aligned with MMS's strategy and its risk profile, objectives, risk-management practices, and long-term interests.
- Market competitiveness.

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

The remuneration system for Directors has the following characteristics:

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

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

B.1.5 Additional information

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

B.2. Fit and proper requirements

MMS's Fit and Proper Policy was last approved on the 26th October 2018, the Policy establishes the applicable Relevant Personnel[1] and Outsourced Personnel[2] requirements, as follows:

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

The expertise and experience of Relevant Personnel will include academically-acquired knowledge and experience appropriate to the responsibilities to be assumed and assigned.

MMS's Board members and Directors must have:

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

    a) Insurance and financial markets
    b) Strategies and business models
    c) System of Governance.
    d) Financial and actuarial analyses
    e) Regulatory Framework.

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

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

<u>Company designation procedures.</u>

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

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

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

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

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

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

B.3.1 Governance structure

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

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

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

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

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

MMS's Risk Management Chief Officer has a dual reporting responsibility– hierarchically to MMS's CEO and functionally to the Group Risk Management Area.

B.3.2 Risk management objectives, policies, and processes

MMS's Risk Management framework has the following main objectives:

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

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

To 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:

- Assign responsibilities, strategies, processes and the reporting procedures required to identify, measure, monitor, manage and report the risks included within their scope.
- Set general guidelines, basic principles and a general action framework for the type of risk concerned, ensuring coherent application at the Company.
- 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 non-compliance by counterparties and debtors over the subsequent twelve months	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 reputation risks)	Standard Formula	Annual
	Dynamic qualitative analysis of the risks using processes (RiskM@p)	Annual
	Recognition and monitoring of operational risk events	Continuous
Liquidity Risk	Liquidity position	Continuous

Type of Risk	Measurement and management	Monitoring and reporting
Risk that the company might not be able to realize its investments and other assets in order to meet its financial commitments at maturity	Liquidity indicators	
Compliance Risk Risk of losses due to legal/regulatory penalties or reputation losses arising from the failure to comply with laws and regulations, or with applicable administrative requirements	Monitoring and recognition of significant events	Annual
Strategic and Corporate Governance Risk Includes the following risks: - Business ethics and good corporate governance - Organizational structure - Alliances, mergers and acquisitions - Market competition	Through the corporate policies aligned with MAPFRE Group's Institutional, Business, and Organizational Principles.	Continuous

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

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

B.3.3 Own Risk and Solvency Assessment (ORSA)

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

The Risk Management Area also carries out capital management activities, and verifies the following:

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

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

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

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

The ORSA report is prepared annually, unless an extraordinary event occurs which could impact 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.

B.4. Internal Control System

B.4.1. Internal Control

MMS's Internal Control Policy has been approved on 19th June 2018. This policy establishes the actions which must be developed in order to maintain an optimal and effective internal control system.

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

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

- Operations objectives: Effectiveness and efficiency of operations, differentiating the insurance operations (mainly underwriting, claims, reinsurance and investment) from the support operations and functions (Human Resources, Administration, Commercial, Legal, IT, etc.).

- Reporting objectives: Trustworthiness of information (financial and non-financial, both internal and external) regarding its reliability, timeliness or transparency, among others.

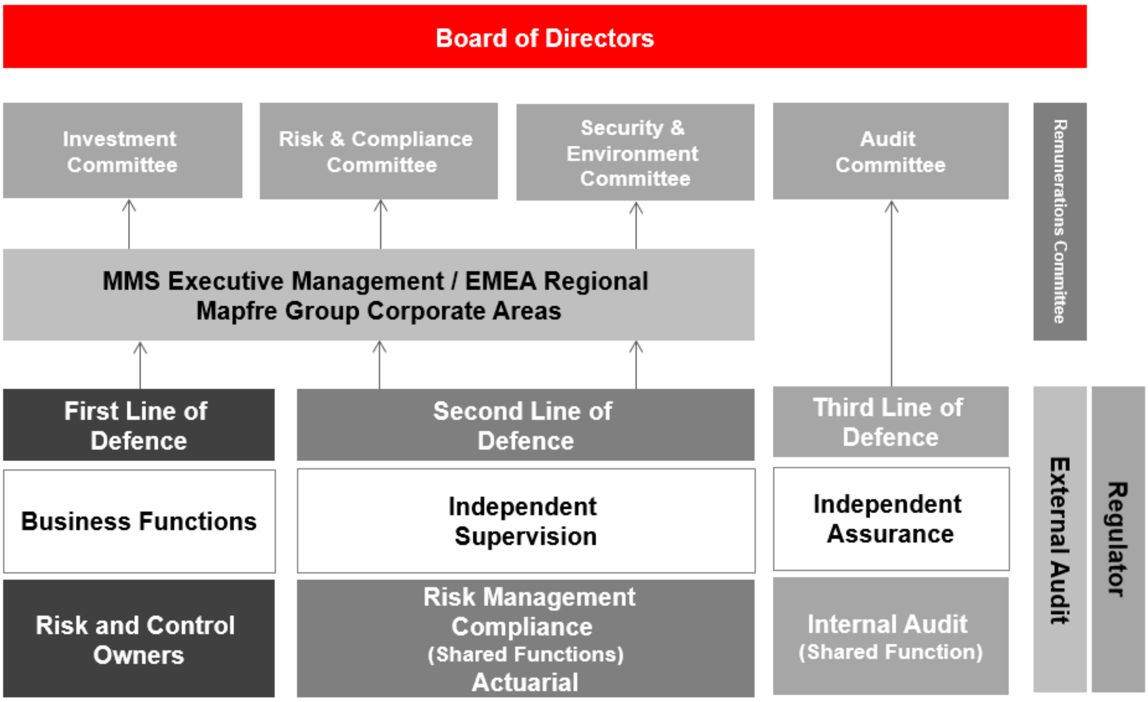
- Compliance objectives: Compliance with applicable laws and regulations.

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

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

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

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



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

B.4.2. Compliance Function

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

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

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

MMS's Compliance Function policy was first approved by the governing body on the 21st July 2016 and latest update was approved on the 26th October 2018. It offers a detailed outline of the structure, assigned responsibilities, legal and non-compliance management processes, the necessary reporting processes and the regulatory scope of its authority.

B.5. Internal audit function

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

In ensuring the principle of Independence, MMS's Internal Audit function reports to the Audit Committee, a board delegated committee. This guarantees the Internal Audit function independence from the company's management.

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

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

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

B.6. Actuarial Function

The MMS Actuarial Unit is responsible for preparing mathematical, actuarial, statistical and financial calculations. These allow the determination of rates, technical provisions and the modeling of risk which are used as a basis for the calculation of the Insurance Company's capital requirements. The Actuarial Unit also contributes to the achievement of the intended technical result and to attain the Company's desired solvency levels, in line with all the tasks defined in the applicable Solvency II regulations.

The Company's actuarial function is outsourced to MAPFRE S.A who has a designated person responsible for the function at the Company who ensures that it operates properly. The conditions under which the above outsourced service takes place are outlined in Section B.7.

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

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

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

B.7. Outsourcing

MMS's Outsourcing Policy was approved on 26th October 2018 by the Board of Directors, and is in line with the Outsourcing Policy approved by the MAPFRE S.A. Board for the Group, establishing the general principles, tasks, processes and the assignment of responsibilities in the event of the outsourcing of a critical or important function and/or business.

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

In accordance with the aforementioned Outsourcing Policy, on the 1st January 2016, MMS's Board of Directors adopted a resolution to outsource the Actuarial Function, to MAPFRE S.A., the person responsible for the monitoring of the outsourced function being Mr. James Mallia, Chief Financial Officer of MMS.

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

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

B.8. Any other information

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, while the GROUP Risk Management Area defines the reference criteria and establishes or validates its organizational structure.

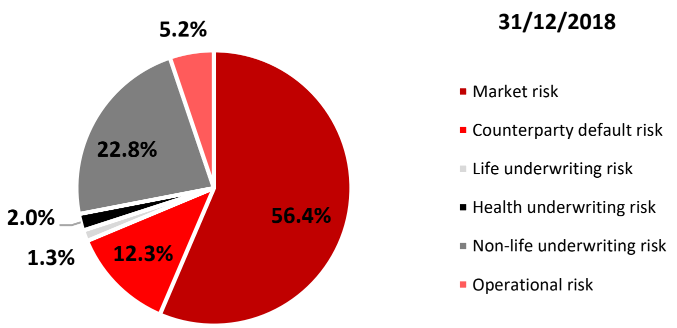
MMS considers that the organizational and functional structure of its system of governance is adequate based on the nature, complexity and scale of the risks inherent to its business.

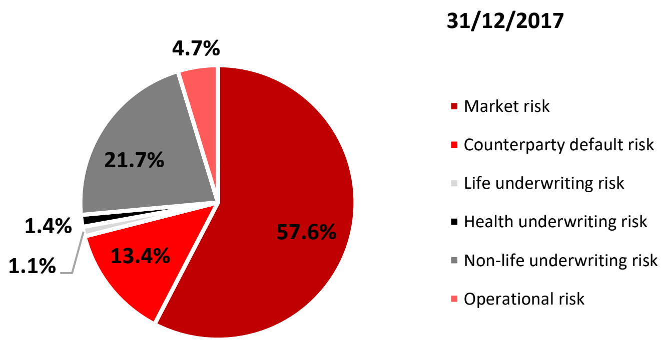
C. Risk profile

MMS calculates its Solvency Capital Requirement (SCR) using the standard formula. For the main risk categories, 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 key risks (such as underwriting, market, counterparty and operational risk).

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

The following charts reflect the composition of MMS's risk profile based on the risks included under the standard formula methodology as at 31st December 2018 and 2017. 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 56.4 percent of the total SCR. This risk is followed by Non-Life Underwriting risk and Counterparty Default Risk (22.8 percent and 12.3 percent of the total SCR respectively).

In 2018, the relative share of the Underwriting risk increased, while the relative share of the Market and Counterparty default risk decreased. Further information is available in Section E.2.1.

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

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

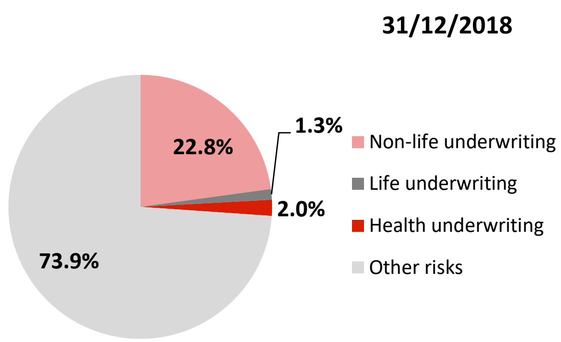
This Section provides detail on the breakdown of the capital requirement under Solvency II by risk module. It also includes a description of the reduction and mitigation techniques used by MMS to minimise its risks. Any possible concentrations are also indicated.

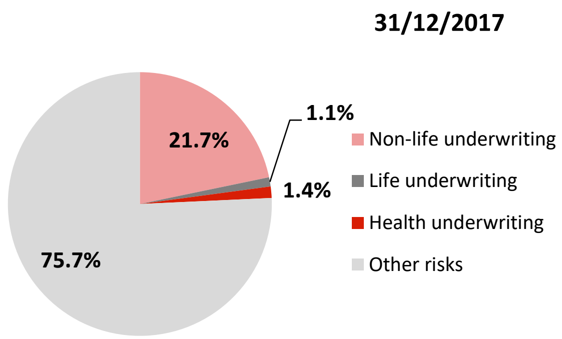
C.1. Underwriting risk

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 2018, underwriting risk represented 26.1 percent of all the risk modules included in the SCR standard formula calculation. 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 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 adequacy 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 and their amounts are audited by actuaries forming part of the company's independent auditors. 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 are validated by an independent third party not involved in the calculation.

- **Use of Reinsurance**:

  The Technical departments of MMS are 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, MMS communicates them to MAPFRE RE to jointly plan the optimal structure and conditions for ceding contracts.

As at 31st December 2018, MMS ceded 17.7 percent of its premiums and 24.3 percent of its technical provisions to reinsurance.

The appropriateness of the reinsurance management policies are revised and updated at least annually.

As stated above, the Actuarial Area issues an annual report expressing its opinion on the underwriting policy, the sufficiency of the premium rates and the technical provisions, as well as on the adequacy of reinsurance arrangements.

Concentration

MMS's insurance risk is highly diversified through the different products offered. MMS is currently writing insurance business in Malta but it also has passporting rights to provide services in several countries outside Malta. However, MMS does not actively write insurance 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 guarantees exceeding maximum acceptance 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 or man-made catastrophes. To mitigate catastrophic risk, specific reinsurance coverage is purchased, to protect MMS's net retained exposure. This is reviewed at least on an annual basis and the level of cover purchased is based on a technical analysis of possible different scenarios, carried out by MAPFRE RE, the Group's reinsurance business unit.

Transfer of risk to special-purpose entities

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

C.2. Market Risk

Market Risk is the risk of loss or of 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

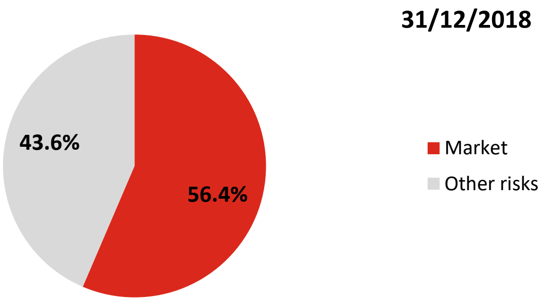
The following is a breakdown of MMS's investments by asset category:

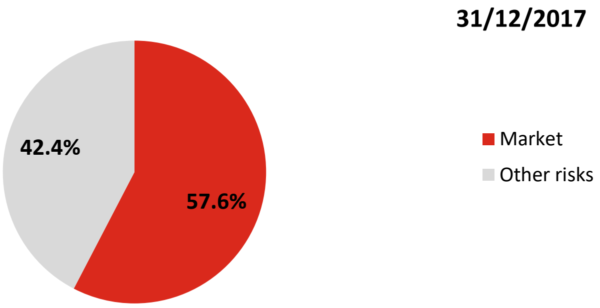
Investments	Investments at 31/12/2018	(%) Investments	Investments at 31/12/2017	(%) Investments
Investment properties	15,360	12.0%	14,822	11.1%
Financial investments	**113,072**	**88.0%**	**118,308**	**88.9%**
Strategic participations	96,878	75.4%	97,889	73.5%
Fixed income	13,129	10.2%	16,999	12.8%
Equities	3,065	2.4%	3,420	2.6%
Mutual funds	-	-	-	-
Other	-	-	-	-
Deposits other than cash equivalents	**-**	-	**-**	**-**
Hedging derivatives	**-**	-	**-**	**-**
Other investments	**-**	-	**-**	**-**
Total	**128,432**	**100%**	**133,130**	**100.0%**

Figures in thousand euro

As at 31st December 2018, 10.2 percent of the total investments were Fixed-income securities. Of these, 57.0% correspond to Government of Malta debt exposures.

As at 31st December 2018, market risk represents 56.4 percent of all the risk modules included in the SCR standard formula calculation. The following charts present details by module and changes when compared to the previous year.





Management and mitigation techniques

MMS mitigates its exposure to market risk through 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 are reviewed at least on an annual basis.

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

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

- Modified duration is the variable aspect of the management of interest rate risk, and is conditioned by the limits established in MMS's Investment Plan and the 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 ratings and through issuer diversification.

- Equity investments are subject to a maximum limit of the investment portfolio, and issuer limits.

- 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 investment.

Assets held as collateral

MMS does not hold any assets as collateral.

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 46.2 percent of the total financial 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, in the form of counterparty default risk, spread risk, or market risk concentrations.

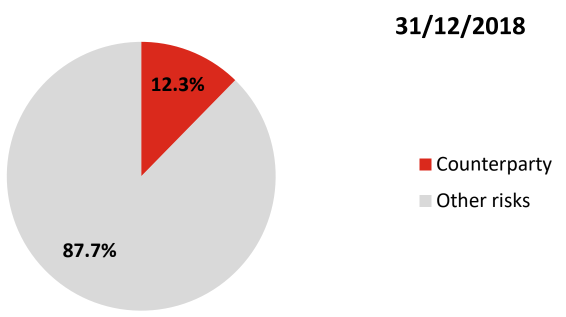
Credit Risk is included under the SCR Standard Formula calculation as spread and concentration risk under the Market Risk module (Section C.2 of this Report), and as counterparty default risk under the Counterparty Default Risk module.

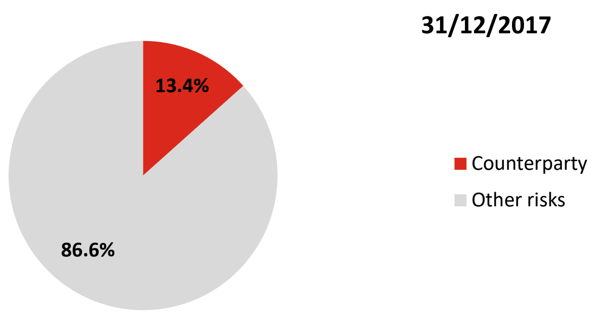
The Counterparty Default risk module distinguishes between two types of exposures:

- 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 include intermediaries' receivables and policyholders debtors, among others.

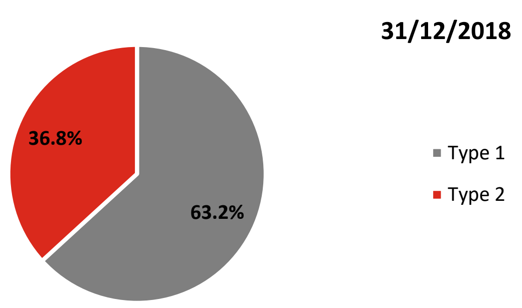
Exposure

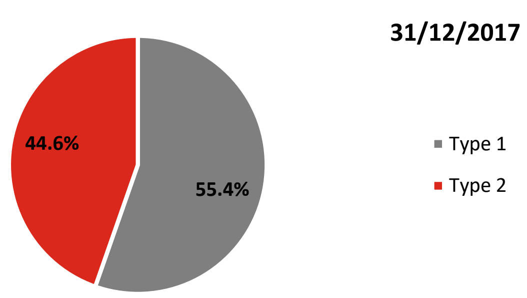
As at 31st December 2018, the counterparty default risk represents 12.3 percent of all the risk modules included in the SCR.





The following charts show the solvency capital requirement results for the two types of exposures:





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 reinsures with entities having a credit rating of at least A, which is equivalent to a credit quality step of 02.

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.
- The effective transferability of risk.
- Suitability of the risk transfer.

Concentration

The highest concentration in relation to reinsurance is to reinsurers within the MAPFRE Group.

C.4. Liquidity Risk

Liquidity risk is the risk that insurance and reinsurance undertakings are unable to realise its 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. Exposure to liquidity risk is considered to be low, taking into account the prudent investment strategy established in the Investment policy, which is characterised by a relatively high proportion of Government of Malta debt exposures.

In extreme events, liquidity risk is minimised through the use of reinsurance as a risk mitigation technique to reduce the concentration of underwriting risk and also through the selection of highly rated reinsurers.

Management and mitigation techniques

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

As at 31st December 2018 the cash and cash equivalents balance amounted to €18.44 million (2017: €15.06 million), equivalent to 53.2 percent of total financial investments and cash balances[1].

Additionally, the majority of fixed-income investments have investment grade ratings and are traded on organised financial markets, which provide comfort to cover any commitments arising from MMS's obligations.

MMS's Liquidity Risk Management Policy requires, on a continuous basis, a sufficient volume of high-quality liquid assets, available credit facilities and estimated cash inflows to cover its expected cash outflows.

Concentration

No liquidity risk concentrations have been identified.

Expected profits included in future premiums

The calculation of the best estimate of technical provisions considers the expected profits from future premiums (as a reduction in the best estimate value when positive, or a higher value in the case of expected losses). As at 31st December 2018, the amount of the expected profits totalled €137k.

[1] Excluding strategic investments

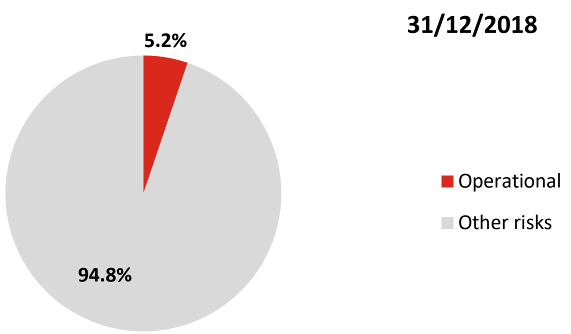
C.5. Operational Risk

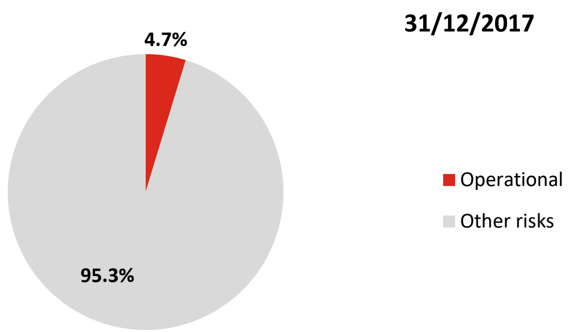
Operational Risk is the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events, including legal risks, but excluding risks arising from strategic decisions as well as reputational risks.

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.

Quantitative Exposure of Operational Risk

As at 31st December 2018, operational risk represents 5.2 percent of all the risk modules included in the SCR standard formula calculation. The following charts present details by module and changes when compared to the previous year.





Management and mitigation techniques

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

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

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

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

Concentration

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

C.6. Other material risks

C.6.1. Cyber security risk

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

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

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

C.6.2. Risk of new distribution channels

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

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

C.6.3. Legal risk

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

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

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

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

C.6.4. Reputational risk

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

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

C.6.5. Product development and innovation risk

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

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

C.6.6. Non-compliance risk

Non-compliance risk is defined as the possibility of incurring losses as a result of legal or regulatory penalties or loss of reputation that may affect MMS as a result of not complying with the laws, regulations, rules, internal and external standards or administrative requirements applicable to its business.

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

C.7. Any other information

C.7.1. Sensitivity analysis of significant risks

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

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

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

	31/12/2018	% Change
Solvency Ratio (SR)	270.4%	
SR In the event of a 100 basis point increase in the interest rate	271.3%	+0.9 p.p.
SR In the event of a 100 basis point decrease in the interest rate	264.1%	-6.3 p.p.
SR in the event of a 10% depreciation of the euro	268.8%	-1.6 p.p.
SR In the event of a 25% decrease in equities	251.0%	-19.4 p.p.
SR In the event of a 50 basis point increase in corporate spreads	270.2%	-0.2 p.p.
SR In the event of a 50 basis point increase in corporate and sovereign spreads	267.4%	-3.0 p.p.

p.p: percentage points

To analyse the sensitivity of its risks, MMS applies the following method:

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

Based on the outcome of the stress tests and sensitivity analyses performed, MMS will continue to comply with the solvency capital requirement in the analysed situations.

C.7.2. Other issues

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

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

D. Valuation for solvency purposes

D.1. Assets

Following are the main differences between the measurement of assets under Solvency II ("Solvency II Value") and IFRS ("Accounting value") as at 31st December 2018.

It is important to note that the balance sheet presented is in-line with the Solvency II regulations, and therefore it was necessary to reclassify 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 2018	Accounting Value 2018
Goodwill	-	-
Deferred Acquisition Costs	-	7,142
Intangible assets	-	6,170
Deferred tax assets	734	1,221
Pension benefit surplus	-	-
Property, plant & equipment held for own use	1,972	1,972
Investments (other than assets held for index-linked and unit-linked contracts)	128,435	88,976
Property (other than for own use)	15,364	15,364
Holdings in related undertakings, including participations	96,878	57,544
Equities	2,762	2,762
Equities - listed	2,762	2,762
Equities - unlisted	-	-
Bonds	13,014	12,889
Government Bonds	10,395	10,282
Corporate Bonds	2,619	2,607
Structured notes	-	-
Collateralised securities	-	-
Collective Investments Undertakings	417	417
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:	16,911	22,994
Non-life and health similar to Non-Life	16,908	22,991
Non-Life, excluding health	16,920	22,919
Health similar to Non-Life	(12)	72
Life and health similar to Life, excluding health and index-linked and unit-linked	3	3
Health similar to Life	-	-

Assets	Solvency II Value 2018	Accounting Value 2018
Life, excluding health and index-linked and unit-linked	3	3
Life index-linked and unit-linked	-	-
Deposits to cedants/Deposits for Accepted Reinsurance	-	-
Insurance and intermediaries receivables	13,703	13,703
Reinsurance receivables	308	308
Receivables (trade, not insurance)	212	212
Own shares (held directly)	-	-
Amounts due in respect of own funds items	-	-
Cash and cash equivalents	18,438	18,438
Any other assets, not elsewhere shown	1,450	1,572
TOTAL ASSETS	**182,163**	**162,708**

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 Value of Business Acquired (VOBA) and 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 S.A. Group.

The VOBA is amortised using the straight-line method over a period not exceeding five years. The carrying value is assessed yearly for impairment by projecting the profitability of the portfolio acquired over the life of the asset having considered projected combined ratios and retention patterns.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use 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 both the VOBA and computer software do not meet the conditions established in the Solvency II regulations for market value recognition, and therefore are reported at a zero value.

Deferred tax assets

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.

Under IFRS, deferred taxes are calculated on all temporary differences using a principal tax rate of 35% with the exception of investment property and freehold and other property, for which deferred income taxes may be calculated using a principal tax rate of 8% or 10% of the carrying amount. MMS recognised a net deferred tax liability on its closing IFRS balance sheet at a carrying amount of €0.80 million. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off a current tax asset against a current tax liability.

As at 31st December 2018, MMS has recognised a net deferred tax asset on the Solvency II balance sheet of €0.73 million. The differences between the Solvency II and IFRS value of the deferred tax assets arose due to the different valuation criteria used for the following:

- Deferred acquisition costs.
- Intangible assets.
- Participations.
- Reinsurance recoverables.
- Technical provisions.

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

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

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

IFRS 13 defines fair value as the price received in exchange for an asset or paid for transferring a liability during an orderly transaction between market participants at the valuation date. In a fair value valuation, the transaction should take place in the main asset or liability's market, and where this does not exist, in the most advantageous market. Valuation techniques appropriate to the circumstances for which there is sufficient data to conduct a fair value measurement must be used, maximizing the use of relevant observable variables while minimizing the use of variables which cannot be observed.

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 data, or listed prices for instruments which are similar to those being appraised, or other valuation techniques in which all the significant variables are based on observable market data; Level 3 uses specific variables for each case.

Although not all assets and liabilities may have available observable market transactions or information, in any case the purpose 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 are included:

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

In accordance with Solvency II criteria, this category includes properties which are not considered for own use, and are used to earn payments, capital gains or both.

An independent valuation of MMS's investment property was performed by external, independent and qualified valuers to determine their fair value.

The appraisal value has been considered as its fair value under Solvency II and therefore no adjustment to the valuation was needed.

- ***Holdings in related undertakings***

In accordance with Article 212 of the Solvency II Directive 2009/138/EC, related parties and subsidiaries are related companies in which there is an investment or over which there is a dominant or significant influence.

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

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

Due to difference in valuation criteria, an increase of €39.33 million was recorded for these investments on the Solvency II balance sheet when compared to the IFRS balance sheet.

- ***Equities, bonds, and collective investment undertakings***

Equities and collective investment undertakings

Equities and collective investment undertakings are recognised at fair value on the financial statements and therefore do not reflect valuation differences in comparison with the Solvency II values.

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 that for technical provisions for direct insurance and accepted reinsurance, which means that these amounts must be recognised at their best estimate, also considering the cash flow patterns, as well as the expected losses from counterparty default.

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

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

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

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

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

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

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

Any other assets, not elsewhere shown

The difference between the IFRS value and the Solvency II value of €126k relates to the accrued interest of bonds, which under IFRS is accounted for under “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 2018	Accounting Value 2018
Technical provisions - Non-Life	68,987	79,853
Technical provisions - Non-Life (excluding health)	63,992	73,878
Technical provisions calculated as a whole	-	
Best Estimate (BE)	61,328	
Risk margin (RM)	2,664	
Technical provisions - health (similar to Non-Life)	4,995	5,975
Technical provisions calculated as a whole	-	
Best Estimate (BE)	4,668	
Risk margin (RM)	327	
Technical provisions - Life (excluding index-linked and unit-linked)	529	805
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)	529	805
Technical provisions calculated as a whole	-	
Best Estimate (BE)	419	
Risk margin (RM)	110	
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	**69,516**	**80,658**

Figures in thousand euro

As has been previously mentioned, MMS is an insurance entity specialising in the Non-Life segment, which covers the legally-assigned risks in this segment, although it also operates in the Life segment with a fairly insignificant portfolio (0.8 percent of the total technical provisions).

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 a best estimate and a risk margin.

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 Liabilities (BEL) of the Non-life and Health similar to Non-Life businesses are calculated separately as provisions for claims outstanding and premium provisions.

a) Best estimate of the provision for claims outstanding

The "best estimate" for the provision for claims outstanding is based on the following principles:

- Taking into account all claims which have been incurred prior to the valuation date, regardless of whether they have been reported or not.
- It is calculated as the present value of expected future cash flows associated with the incurred claim. Projected cash flows will include payments for benefits and related expenses: claims and investment management.
- Should there be any liabilities transferred to a counterparty, the recoverable amounts are adjusted to factor in the expected losses due to counterparty default.
- The best estimate considers the time value of money based on the consideration of the claim inflows and outflows.

From a methodological point of view, it is determined as the ultimate claim cost less payments made. The calculation of the ultimate cost takes place using proven deterministic statistical methods outlined in the section *Actuarial methods and assumptions used when calculating technical provisions*.

The claims provisions in the financial statements include: the provision for outstanding claims and the provision for claims settlement expenses. The provisions for claims outstanding are largely based on case-by-case estimates supplemented with additional provisions for IBNR and unexpired risks in those instances where the ultimate cost determined by estimation techniques is higher. Motor claims occurring between 2016 and 2018 have been determined on an ultimate cost basis. Certain losses involving fatalities or serious bodily injury are reserved at the case-by-case reserve estimate.

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

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

b) Best estimate of the provision for premiums

The "best estimate" for the premium provision is based on the following principles:

- It relates to future claims, or those which take place subsequent to the valuation date, within the remaining claim coverage period.

- It is calculated as the present value of expected cash flows associated with the current portfolio, in accordance with contract boundaries.

- Projected cash flows will include payments for services and related expenses: administration, acquisition, claim management, and investment management.

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

- The best estimate takes into account the time value of money based on an analysis of claim inflows and outflows.

As indicated previously, the calculation of this provision is comprised of the cash flows corresponding to two portfolios:

- Current portfolio, which includes the following:

  - Expected claims. Two different methods may be used to calculate the present value of benefit payments:

    - ✓ The frequency and average cost method: claims are calculated as the result of exposure based on frequency assumptions and final average costs.

    - ✓ Loss ratio method: the expected claims arising from applying the ultimate loss ratio to Unearned Premium Reserve (UPR), gross of acquisition expenses.

  - Expenses attributable to the current portfolio: acquisition (no commissions), administration, chargeable to benefits, investment expenses, as well as other technical expenses.

- Future business, which includes the following:

  - Premiums for policies, which have not yet been renewed but include company commitments to renew. This calculation includes the future behaviour by policyholders based on the application of an estimated lapse ratio.

  - Expected loss ratio relating to future premiums. The same methods indicated for the current portfolio may be used.

  - Expenses attributable to future premiums (charged expense-to-premium ratio applied to future premiums): acquisition expenses (including fees), administration, chargeable to benefits, investment expenses, as well as other technical expenses.

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

<u>Contract boundaries</u>

When calculating the best estimate for Solvency II purposes, the contract boundaries must be taken into account. In certain cases, this implies the inclusion of future premiums arising from commitments in force. If the contracts are profitable, cash inflows corresponding to these premiums will be higher than the outflows (payments and expenses); thereby generating a negative BEL. Depending on the product's profitability, the inclusion of contractual limits generates a decrease in the best estimate (if the contracts are profitable) or an increase (if they are not).

Contractual limits must meet a series of requirements. The obligations arising from the contract, including those which relate to the company's unilateral right to renew or increase its limits and the corresponding premiums, will be included in its text, except for:

- Obligations provided by the Company after the date on which the Company 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 that do not correspond to premiums which have already been paid, unless the policyholder may be forced to pay future premiums, provided the following conditions are met:
    - The contract does not establish an indemnity for a specified uncertain event, which may adversely affect the reinsured party.
    - The contract does not include a financial guarantee for the benefits.

We conclude that claim 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 IFRS, 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 UPR reflected in the financial statements. In cases of premium insufficiency, the premium provision is comparable to the UPR plus the unexpired risk provision (without taking the discount effect into account). For future business, the Solvency II premium provision 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 cost of supplying the amount of eligible own funds is known as the cost-of-capital rate. MMS uses the 6 percent rate set by Commission Delegated Regulation (EU) 2015/35.

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

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

where

- CoC: the cost-of-capital rate which is taken as 6%
- SCR_t: Solvency Capital Requirement after t years
- r_{t+1}: basic risk-free interest rate for the maturity of t+1 years

There are a number of simplified methods to calculate risk margin:

- Level 1: explains how to approximate underwriting, counterparty default, and market risks.
- Level 2: this is based on the assumption that the future solvency capital requirement will be proportional to the "best estimate" of technical provisions during the year in question.
- Level 3: this consists of using the modified duration of liabilities to calculate the current and future solvency capital requirement in a single step.
- Level 4: calculates the risk margin as a percentage of the best estimate of technical provisions net of reinsurance.

MMS calculates the risk margin using Level 2 simplification method.

Actuarial methods and assumptions used when calculating technical provisions

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

For Non-Life insurance:

- A combination of generally-accepted deterministic methods used for calculating the ultimate claims based on Development Factors on paid and incurred triangles. MMS considers the methodologies used to be appropriate.
- Stochastic methods for determining claims assuming a probability distribution function.

The following key assumptions were used:

- Economic assumptions, which are compared against available financial and macroeconomic indicators which mainly include:
  - Interest rate structure.
  - Exchange rates.
  - Market trends and financial variables.
- Non-economic assumptions, which are mainly obtained from generally-available data based on MMS's and/or the MAPFRE Group's past experience, or external sector/market sources:
  - Realistic administration, investment, acquisition, etc. expenses that will be incurred throughout the duration of the contracts.
  - Portfolio losses and lapse rates.
  - The frequency and severity of claims based on past data.

- Legislative changes.

For Life insurance:

The following 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, investment, acquisition, etc. expenses that will be incurred throughout the duration of the contracts in the portfolio.
  - Portfolio losses and policy surrenders.
  - Legislative changes.

Also, it is worth noting that under IFRS, management actions and policyholder behaviour are not included when calculating technical provisions, while under Solvency II, as indicated in the Directive, 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.

MMS employs an effective actuarial method which guarantees the appropriateness and consistency 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 uncertainly, mainly:

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

These factors are generally estimated based on expert opinions within the area or market data.

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

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

D.2.2.a. Matching adjustment

MMS does not make use of any matching adjustments.

D.2.2.b. Volatility adjustment

MMS does not make use of any volatility adjustments.

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

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

D.2.2.d. Transitional measure on technical provisions

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

D.2.3. Reinsurance recoveries and special purpose entities

MMS does not make use of any special purpose entities

D.2.4. 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 the technical provisions, as a result of the implementation of the Solvency II rules.

D.3. Other Liabilities

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

Other Liabilities	Solvency II Value 2018	Accounting Value 2018
Total technical provisions	**69,516**	**80,658**
Contingent liabilities	-	-
Provisions other than technical provisions	-	-
Pension benefit obligations	1,074	1,074
Deposits from reinsurers	-	-
Deferred tax liabilities	-	2,016
Derivatives	-	-
Debts owed to credit institutions	-	-
Financial liabilities other than debt owed to credit institutions	-	-
Insurance & intermediaries payables	209	209
Reinsurance payables	2,223	2,223
Payables (trade, not insurance)	2,559	2,559
Subordinated liabilities	-	-
Subordinated liabilities not in BOF	-	-
Subordinated liabilities included in BOF	-	-
Any other liabilities, not elsewhere shown	3,974	5,662
TOTAL LIABILITIES	**79,555**	**94,401**
EXCESS OF ASSETS OVER LIABILITIES	**102,608**	**68,307**

Figures in thousand euro

Deferred tax liabilities

As mentioned earlier, MMS recognised a net deferred tax lability on its closing IFRS balance sheet at a carrying amount of €0.80 million. MMS recognised a net deferred tax asset on the Solvency II balance sheet at €0.73 million, resulting from the offsetting of deferred tax assets and liabilities since taxes are paid to the same tax authority.

Any other liabilities, not elsewhere shown

"Accounting value" mainly includes deferred reinsurance commissions together with other accruals with an accounting value of €5.66 million. For Solvency II purposes, deferred reinsurance commissions are taken into consideration during the valuation of technical provisions, as they include the entirety of the associated expenses, and therefore do not appear under this heading.

D.3.1. Additional information

Finance and operating leases

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

D.4. Alternative methods for valuation

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

D.5. Any other information

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

D.6. Annexes

A) Assets

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

Assets	Solvency II Value
Intangible assets	-
Deferred tax assets	734
Pension benefit surplus	-
Property, plant & equipment held for own use	1,972
Investments (other than assets held for index-linked and unit-linked contracts)	128,435
Property (other than for own use)	15,364
Holdings in related undertakings, including participations	96,878
Equities	2,762
Equities — listed	2,762
Equities — unlisted	-
Bonds	13,014
Government bonds	10,395
Corporate Bonds	2,619
Structured notes	-
Collateralized securities	-
Collective Investment Undertakings	417
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:	16,911
Non-Life and health similar to Non-Life	16,908
Non-Life, excluding health	16,920
Health similar to Non-Life	(12)
Life and health similar to Life, excluding health and index-linked and unit-linked products	3
Health similar to Life	-
Life, excluding health and index-linked and unit-linked	3
Life index-linked and unit-linked	-
Deposits to cedants	-
Insurance and intermediaries receivables	13,703
Reinsurance receivables	308
Receivables (trade, not insurance)	212
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	18,438

Assets	Solvency II Value
Any other assets, not elsewhere shown	1,450
Total assets	**182,163**

Figures in thousand euro

B) Technical provisions

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

Liabilities	Solvency II Value
Technical provisions — Non-Life	**68,987**
Technical provisions — Non-Life (excluding health)	63,992
Technical provisions calculated as a whole	-
Best estimate	61,328
Risk margin	2,664
Technical provisions — health (similar to Non-Life)	4,995
Technical provisions calculated as a whole	-
Best estimate	4,668
Risk margin	327
Technical provisions — Life (excluding index-linked and unit-linked)	**529**
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)	529
Technical provisions calculated as a whole	-
Best estimate	419
Risk margin	110
Technical provisions — index-linked and unit-linked	**-**
Technical provisions calculated as a whole	-
Best estimate	-
Risk margin	-

Figures in thousand euro

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 2018.

B.2.1 Template **S.12.01.02** – Life and Health SLT Technical Provisions as at 31st December 2018

	Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
			Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
Technical provisions calculated as a whole	-	-			-			-	-	-	-			-	-	-
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	-	-			-			-	-	-	-			-	-	-
Technical provisions calculated as a sum of BE and RM																
Best Estimate																
Gross Best Estimate	-		-	-		419	-	-	-	419		-	-	-	-	-
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-		-	-		3	-	-	-	3		-	-	-	-	-
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	-		-	-		416	-	-	-	416		-	-	-	-	-
Risk Margin	-	-			110			-	-	110	-			-	-	-
Amount of the transitional on Technical Provisions																
Technical Provisions calculated as a whole	-	-			-			-	-	-	-			-	-	-
Best estimate	-		-	-		-	-	-	-	-		-	-	-	-	-
Risk margin	-	-			-			-	-	-	-			-	-	-

	Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
			Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
Technical provisions - total	-	-			529			-	-	529	-			-	-	-

Figures in thousand euro

B.2.2 Template **S.17.01.02** – Non-Life Technical Provisions as at 31st December 2018

	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	3,064	300	6,832	7,811	490	2,764	841	274	145	-	22,522
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	(62)	(20)	(516)	53	(104)	1,059	(25)	(13)	10	-	382
Net Best Estimate of Premium Provisions	3,126	321	7,348	7,758	594	1,704	866	288	135	-	22,140
Claims provisions											
Gross	717	587	20,474	5,516	1,377	6,557	7,230	807	-	209	43,474
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	8	63	7,546	(0)	702	5,144	2,874	163	-	27	16,527
Net Best Estimate of Claims Provisions	709	524	12,928	5,517	675	1,413	4,356	644	-	182	26,947
Total Best estimate - gross	3,781	887	27,306	13,327	1,867	9,321	8,071	1,081	145	209	65,996
Total Best estimate - net	3,835	845	20,275	13,275	1,269	3,117	5,223	932	135	182	49,088
Risk margin	267	60	1,003	674	137	366	362	103	5	13	2,990

	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	
Amount of the transitional on Technical Provisions											
Technical Provisions calculated as a whole	-	-	-	-	-	-	-	-	-	-	-
Best estimate	-	-	-	-	-	-	-	-	-	-	-
Risk margin	-	-	-	-	-	-	-	-	-	-	-
Technical provisions - total											
Technical provisions - total	4,048	947	28,309	14,001	2,004	9,687	8,433	1,184	150	223	68,986
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	(54)	42	7,030	52	598	6,204	2,849	149	10	27	16,909
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	4,102	904	21,279	13,949	1,406	3,483	5,584	1,035	140	195	52,078

Figures in thousand euro

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

The following templates reflect the estimate made by the insurer of the cost of claims (those paid and provisions for claims in accordance with 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 & +
Prior											866
N - 9	9,609	4,736	630	539	423	96	977	145	283	19	
N - 8	10,324	4,089	410	336	164	22	49	49	202		
N - 7	9,768	4,476	985	563	363	53	38	89			
N - 6	10,016	4,260	816	357	129	69	44				
N - 5	10,620	4,388	620	380	472	1,010					
N - 4	10,293	4,465	1,756	(444)	423						
N - 3	11,611	8,709	419	1,109							
N - 2	15,121	10,181	1,918								
N - 1	17,885	9,426									
N	18,707										

	In current year	Sum of years (cumulative)
Prior	866	866
N-9	19	17,457
N-8	202	15,644
N-7	89	16,335
N-6	44	15,691
N-5	1,010	17,490
N-4	423	16,494
N-3	1,109	21,848
N-2	1,918	27,220
N-1	9,426	27,310
N	18,707	18,707
Total	33,813	195,062

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											3,403
N - 9	-	-	-	-	-	-	-	892	314	208	
N - 8	-	-	-	-	-	-	1,503	973	420		
N - 7	-	-	-	-	-	506	410	332			
N - 6	-	-	-	-	2,459	1,398	1,594				
N - 5	-	-	-	2,268	1,141	405					
N - 4	-	-	1,464	1,478	815						
N - 3	-	3,656	4,957	3,583							
N - 2	17,270	6,218	3,373								
N - 1	18,926	8,310									
N	21,329										

	Year end (discounted data)
Prior	3,385
N-9	207
N-8	418
N-7	328
N-6	1,586
N-5	396
N-4	800
N-3	3,527
N-2	3,321
N-1	8,248
N	21,259
Total	43,474

Figures in thousand euro

C) Other Liabilities

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

Liabilities	Solvency II Value
Contingent liabilities	-
Provisions other than technical provisions	-
Pension benefit obligations	1,074
Deposits from reinsurers	-
Deferred tax liabilities	-
Derivatives	-
Debts owed to credit institutions	-
Financial liabilities other than debts owed to credit institutions	-
Insurance & intermediaries payables	209
Reinsurance payables	2,223
Payables (trade, not insurance)	2,559
Subordinated liabilities	-
Subordinated liabilities not in basic own funds	-
Subordinated liabilities included in basic own funds	-
Any other liabilities, not elsewhere shown	3,974
Total liabilities	**79,555**
Excess of assets over liabilities	**102,608**

Figures in thousand euro

E. Capital Management

E.1. Own funds

E.1.1. Equity objectives, policies and management processes

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

- Provide the Group and MMS with a procedure to verify that MMS has a sufficient amount of eligible capital to cover the Solvency Capital Requirement as well as the levels established in the Risk Appetite.
- Ensure that the projected eligible capital continuously meets the applicable requirements throughout the period covered.
- Ensure that MMS has a medium-term Capital Management Plan in place.
- Capital management shall take into account the results from the Own Risk and Solvency Assessment (ORSA), as well as the conclusions drawn during that process.
- Within the framework of the medium and long-term capital management plan, should the need for new resources be anticipated, it will be necessary to verify that the new capital instruments issued meet the requirements to be included in the desired level of quality for eligible capital.

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

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

a) Compliance with the Solvency II regulations applicable 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.

b) Every expected issuing of eligible capital instruments.

c) Reimbursements, both contractual at maturity and those which are discretionary before maturity, in relation to elements of eligible capital.

d) The results of the ORSA projections.

e) Foreseeable dividends and their impact on eligible capital.

MMS has not used the transitional measures on technical provisions.

The Risk Management Area must submit the medium-term Capital Management Plan to the Board of Directors for approval, which is part of the ORSA Report.

During 2018, there were no significant changes in the objectives, policies and processes used to manage MMS's own funds.

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

The following reflects the structure, amount and quality of own funds, as well as MMS's coverage ratios i.e. the ratio of eligible own funds to SCR and MCR.

	Total		Tier 1–unrestricted		Tier 1 – restricted		Tier 2		Tier 3	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
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	64,866	72,421	64,866	72,421						
Subordinated liabilities	-	-			-	-	-	-	-	-
An amount equal to the value of net deferred tax assets	734	1,234							734	1,234
Other own fund items approved by the supervisory authority as basic own funds not specified above	-	-	-	-	-	-	-	-	-	-

	Total		Tier 1–unrestricted		Tier 1 – restricted		Tier 2		Tier 3	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
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	**85,608**	**93,663**	**84,874**	**92,429**	**-**	**-**	**-**	**-**	**734**	**1,234**
Ancillary own funds										
Unpaid and uncalled ordinary share capital callable on demand	-	-					-	-		
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	-	-					-	-		
Unpaid and uncalled preference shares callable on demand	-	-					-	-	-	-
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	-	-					-	-	-	-
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	-	-					-	-		

	Total		Tier 1–unrestricted		Tier 1 – restricted		Tier 2		Tier 3	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
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	85,608	93,663	84,874	92,429	-	-	-	-	734	1,234
Total available own funds to meet the MCR	84,874	92,429	84,874	92,429	-	-	-	-		
Total eligible own funds to meet the SCR	85,608	92,429	84,874	92,429	-	-	-	-	734	1,234
Total eligible own funds to meet the MCR	84,874	92,429	84,874	92,429	-	-	-	-		
SCR	**31,660**	**32,512**								
MCR	**9,497**	**9,003**								
Ratio of Eligible own funds to SCR	**270.4%**	**288.1%**								
Ratio of Eligible own funds to MCR	**893.7%**	**1026.7%**								

	Amount	
	2018	2017
Reconciliation reserve		
Excess of assets over liabilities	102,608	103,363
Own shares (held directly and indirectly)	-	-
Foreseeable dividends, distributions and charges	17,000	9,700
Other basic own fund items	20,742	21,242
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	-	-
Reconciliation reserve	**64,866**	**72,421**
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	-	-
Expected profits included in future premiums (EPIFP) - Non- life business	137	720
Total Expected profits included in future premiums (EPIFP)	**137**	**720**

Figures in thousand euro

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 2018, the unrestricted basic Tier 1 own funds of MMS totalled €84.87 million (2017: €92.43 million).

MMS's Tier 1 own funds consist of:

- Ordinary share capital.
- Share premium account related to ordinary share capital.
- Reconciliation reserve.

In addition, MMS also has basic Tier 3 own funds, totalling €0.73 million as at 31st December 2018 (2017: €1.23 million), 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 Minimum Capital Requirements and have the maximum availability for absorbing losses.

None of the Own Fund items required supervisory approval.

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

The excess of assets over liabilities amounted to €102.61 million.

Solvency Capital Requirement (SCR)

The SCR corresponds to the own funds that MMS must hold to limit the probability of bankruptcy to one per 200 year event, or that MMS is 99.5% confident to meet its commitments to insurance beneficiaries or 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.

MMS's SCR ratio is equal to 270.4%. The solvency ratio measures the relationship between the eligible own funds and the solvency capital requirements, and was calculated using the standard formula. The ratio shows MMS's capital buffers to absorb extraordinary losses derived from a 1-in-200 year adverse scenario. This ratio falls within the Risk Appetite established for MMS and approved by the Board of Directors.

Minimum Capital Requirement (MCR)

The MCR is the minimum level under which financial resources should never fall. When the amount of eligible basic own funds falls below the MCR, the 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 €0.73 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 893.7%

Difference between the equity in the financial statements and the 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 applied 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 2018, the excess of assets over liabilities for Solvency II purposes amounted to €102.61 million, while equity in the financial statements totalled €68.31 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:

	2018	2017
Equity (IFRS value)	68,307	68,838
Difference in valuation of assets	**27,713**	**29,804**
Deferred acquisition costs (DAC)	(5,451)	(4,635)
Intangible Assets	(6,170)	(5,871)
Participations	39,334	40,309
Difference in valuation of liabilities	**6,588**	**4,721**
Technical provisions	5,059	2,984
Deferred Taxes	1,529	1,737

	2018	2017
Excess of assets over liabilities	**102,608**	**103,363**

Figures in thousand euro

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

E.1.3. Other information

Essential items in the reconciliation reserve

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 excess of assets over liabilities for the purpose of Solvency II, with the amount of this excess reaching 102.61 million euro.

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

- Foreseeable dividends, distributions and charges amounting to 17.00 million euro,

- Other items of basic own funds for an amount of 20.74 million euro, which are considered as independent items from own funds (ordinary share capital and share premium account and an amount equal to the value of net deferred tax assets).

The reconciliation reserve includes the most potentially volatile component of eligible own funds, the variations of which are determined by the Company's asset and liability management.

Items deducted from own funds

MMS did not deduct any items from own funds.

Own Funds issued and instruments surrendered

MMS did not issue or surrender any own fund instruments during 2018.

Transitional measures

MMS did not consider any own 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. Amounts and valuation methodologies of the Solvency Capital Requirement

The Solvency Capital Requirement (SCR) at risk module level and calculated using the Standard Formula is set out below:

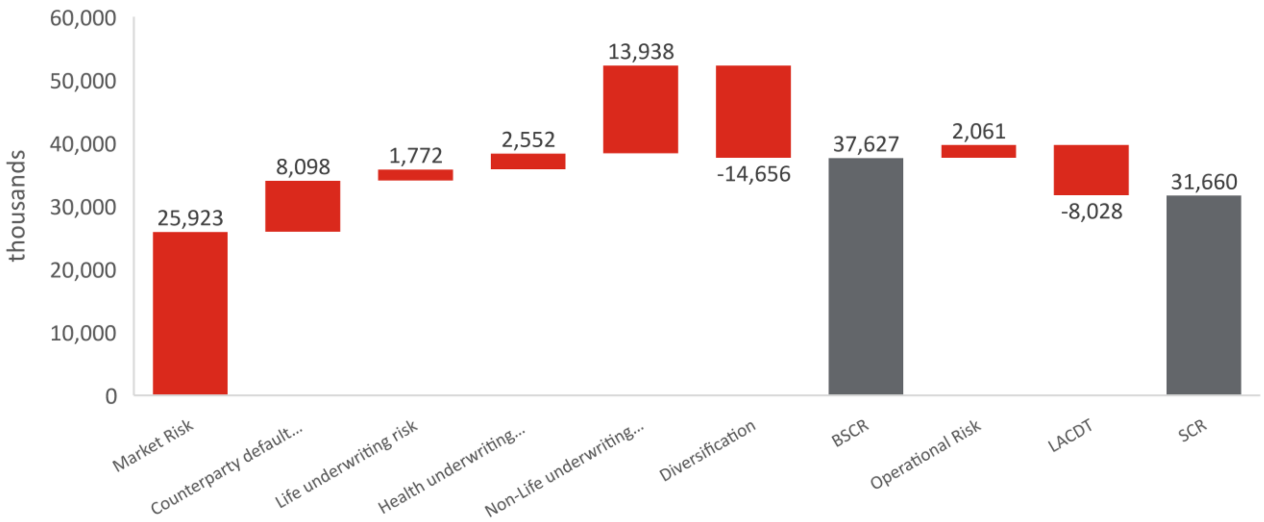
	Gross solvency capital requirement	Undertaking-specific parameters	Simplifications
Market risk	25,923		
Counterparty default risk	8,098		
Life underwriting risk	1,772		Life mortality risk, Life expense risk, Life catastrophe risk
Health underwriting risk	2,552		
Non-Life underwriting risk	13,938		
Diversification	(14,656)		
Intangible asset risk	-		
Basic Solvency Capital Requirement	**37,627**		

Figures in thousand euro

Calculation of the solvency capital requirement	Amount
Operational Risk	2,061
Loss-absorbing capacity of technical provisions	-
Loss-absorbing capacity of deferred taxes	(8,028)
Capital requirement for businesses operated in accordance with Article 4 of Directive 2003/41/EC	-
Solvency Capital Requirement excluding additional capital	31,660
Additional capital already set	-
Solvency capital requirement	**31,660**

Figures in thousand euro

The composition of the SCR is set out below; and descriptive information can be found in Section C of this report:



As at 31st December 2018, MMS's total SCR amount was €31.66 million. As at 31st December 2017, it was €32.51 million and the slight decrease is mainly due to a reduction in Market and Counterparty default risks.

As at 31st December 2018, MMS's total MCR amount was €9.50 million. As at 31st December 2017, it was €9.00 million and the increase is mainly due to an overall increase in business.

To calculate the SCR, MMS used the following simplifications:

- For Life Underwriting Risk, MMS uses of 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 risk 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 €8.03 million as at 31st December 2018. The loss-absorbing capacity has been calculated using appropriate tax rates for the respective risk modules.

MMS does not make use of capital add-ons or undertaking specific parameters.

The following table shows MMS's MCR, and the different components of its calculation, which include:

- 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.
- Solvency capital requirement.

Linear formula component for non-life insurance and reinsurance obligations	8,676

	Non-life activities	
	Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
Medical expenses insurance and proportional reinsurance	3,835	10,700
Income protection insurance and proportional reinsurance	845	938
Workers' compensation insurance and proportional reinsurance	-	-
Motor vehicle liability insurance and proportional reinsurance	20,275	14,513
Other motor insurance and proportional reinsurance	13,275	18,619
Marine, aviation and transport insurance and proportional reinsurance	1,269	1,814
Fire and other damage to property insurance and proportional reinsurance	3,117	2,775
General liability insurance and proportional reinsurance	5,223	3,727
Credit and suretyship insurance and proportional reinsurance	-	-
Legal expenses insurance and proportional reinsurance	-	-
Assistance and proportional reinsurance	932	2,047
Miscellaneous financial loss insurance and proportional reinsurance	135	33
Non-proportional health reinsurance	-	-
Non-proportional casualty reinsurance	-	-
Non-proportional marine, aviation and transport reinsurance	-	-
Non-proportional property reinsurance	182	3

Linear formula component for life insurance and reinsurance obligations	821

	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	416	
Total capital at risk for all life (re)insurance obligations	-	1,161,000

Overall MCR calculation	
Linear MCR	9,497
SCR	31,660
MCR cap	14,247
MCR floor	7,915
Combined MCR	9,497
Absolute floor of the MCR	7,400

Overall MCR calculation	
Minimum capital requirement	**9,497**

Notional non-life and life MCR calculation	Non-Life activities	Life activities
Notional linear MCR	8,676	821
Notional SCR excluding add-on (annual or latest calculation)	28,922	2,738
Notional MCR cap	13,015	1,232
Notional MCR floor	7,231	685
Notional Combined MCR	8,676	821
Absolute floor of the notional MCR	3,700	3,700
Notional MCR	8,676	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 €9.50 million. The notional linear MCR is equal to €8.70 million or non-life activities and €0.82 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 €9.50 million and is the result of applying maximum and minimum limits to the linear MCR.

Since the combined MCR is higher than the MCR's absolute limit, the amount of the combined MCR is considered to be the Minimum Capital Requirement, i.e. the amount of €9.50 million.

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 2018, MMS had a good solvency position. Therefore, it was considered unnecessary to adopt any other action or corrective measure.

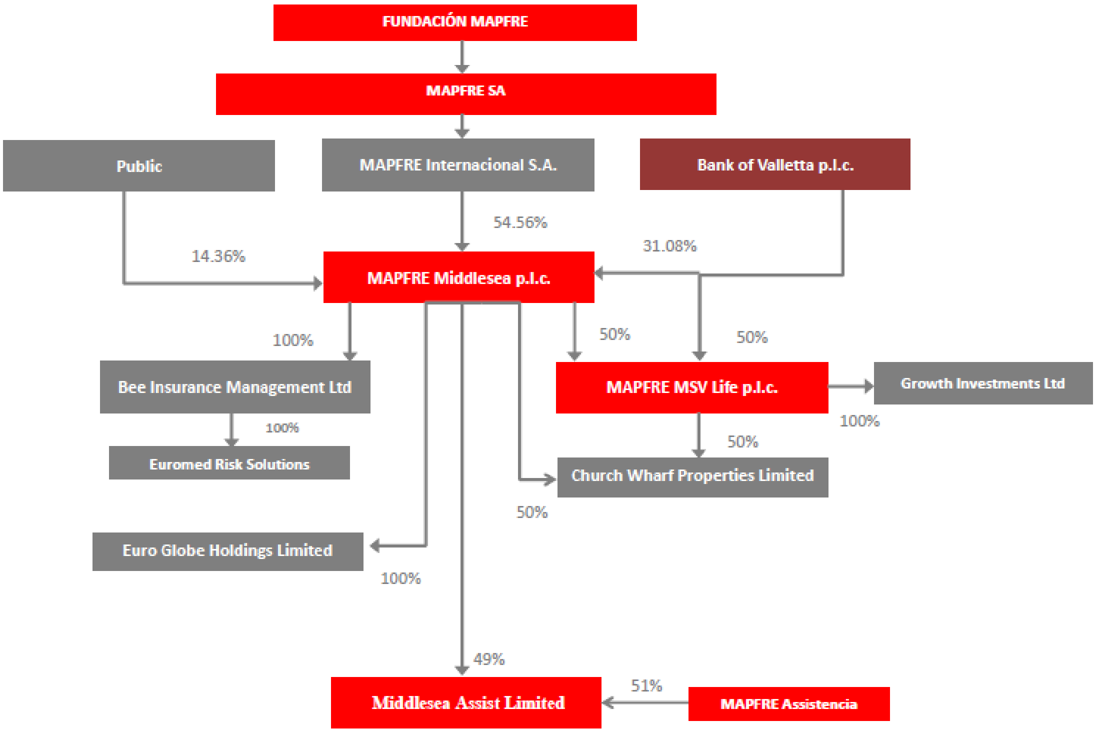
Reasonable foreseeable risks that will result in non-compliance with the MCR and SCR have not been detected, and therefore it is not considered necessary to consider any additional plans to those which are currently in place to control and monitor compliance with both the MCR and SCR.

E.6. Any other information

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

Annex I

The below chart portrays MAPFRE Middlesea's shareholding in its subsidiaries:



Annex II

The below is a list of the Company's offices and enrolled agents throughout 2018:

Company Offices

Head Office

MAPFRE Middlesea PLC

Middle Sea House

Floriana,

FRN1442

Floriana Regional Office

Middle Sea House,

Floriana,

FRN1442

Birkirkara Regional Office

83-89,

Wignacourt Street,

Birkirkara,

BKR4711

Luqa Regional Office

Magri Autocare Building,

Triq il- Kunsill ta` L- Europa,

Luqa,

LQA 9010

Enrolled Agents

Bonnici Insurance Agency Limited

222, The Strand,

Gzira,

GZR 1022

England Insurance Agency Limited

190, 1st Floor,

Marina Street,

Pieta,

PTA 9041

Laferla Insurance Agency Limited

204, A Vincenti Buildings,

Old Bakery Street,

Valletta,

VLT 1453

MelitaUnipol Insurance Agency Limited

17, Market Street,

Floriana,

FRN 1081

Untours Insurance Agency Limited

A1 Towers Flat 102,

Triq L- Ibjar,

Paola,

PLA1211

Montaldo Insurance Agency Limited – (Agents for Motor and Travel only)

98/2, Melita Street,

Valletta,

VLT 1120