Solunion Seguros de Crédito, Compañía Internacional de Seguros Y Reaseguros, S.A. and Subsidiaries

Solvency and Financial Condition Report

31/12/2016

Executive Summary

This report meets one of the requirements set out in law 20/2015, of 14 July, on the ordering, supervision and solvency of insurance and reinsurance entities (LOSSEAR), and Royal Decree 1060/2015, of 20 November, on the ordering, supervision and solvency of insurance and reinsurance implementing it (ROSSEAR). The two laws transpose to Spanish law Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (hereinafter, Solvency Directive II).

Delegated Regulation (UE) 2015/35 supplements the aforementioned Directive and regulates the minimum content a Solvency and Financial Condition Report must contain.

A. Business and performance

SOLUNION SEGUROS DE CRÉDITO, COMPAÑÍA INTERNACIONAL DE SEGUROS Y REASEGUROS, S.A. (hereinafter the SOLUNION Group, or "the Company") is an insurance in the non-life business, specialised in credit covering risks legally associated with the credit and surety business, and supplementary, ancillary or related businesses..

The SOLUNION Group is a jointly-controlled company consisting of a *joint venture* between the Euler Hermes and MAPFRE groups –each of which holds 50% of its share capital through Euler Hermes Luxembourg Holding S.a.r.l. and MAPFRE Global Risks, Compañía Internacional de Seguros y Reaseguros, S.A., respectively– comprising the businesses of credit insurance and the supplementary services of both groups in Spain and Latin America, and it is the parent of a series of subsidiaries in these businesses in Argentina, Chile, Colombia, Spain and Mexico.

The result of the technical account at 31 December 2016 amounted to EUR 8,761 thousand which, combined with the result of the non-technical account of EUR 2,258 thousand, generated profit before tax of EUR 11,019 thousand.

In 2016, the volume of earned premiums in direct insurance amounted to EUR 134,288 thousand. The strong performance of the international business has resulted in total reinsurance premiums accepted of EUR 6,753 thousand.

The net claims rate was 52%, which reflects the Company's strong risk management.

Operating efficiency continues to improve, with a cost ratio[1] that was down to 27.71% in 2016.

B. System of governance

The SOLUNION Group has the following bodies for governance: the General Shareholders' Meeting, Supervision Committee, Board of Directors, Audit Committee, Investment Committee, Appointments and Remuneration Committee and the Management Committee.

These governing bodies enable adequate commercial and operating strategic management, and allow for a timely and proper response to any incidence that should arise at different levels of the organisation and its business and corporate environment.

With the aim of ensuring that the governance system has an appropriately structured, the SOLUNION Group has a series of policies that regulate key functions (Risk Management, Regulatory Compliance,

[1] The cost ratio is defined as a gross operating expense less income for services divided by the attributed premium.

Internal Audit and Actuarial) and ensure that such functions meet the requirements set by the regulator and are compliant with the governance guidelines set by the Group. Section B in this Report includes information on these key functions.

Both executives and Company members that perform key functions and other employees fulfil the fitness and propriety requirements laid down in regulations and by the Company. Fitness requirements relate to the possession of the qualifications, experience and knowledge necessary for a position, while propriety requirements relate to the absence of negative circumstances that might affect one's performance. To facilitate compliance therewith, the Company has a Fitness and Propriety Policy.

With respect to the risk management system, the Board of Directors of SOLUNION determines the policies and strategies necessary to identify, measure, monitor, management and notify on a continuous basis the risks to which the Company is or may be exposed, and their interdependencies.

The Company has adopted, for risk management, the “three lines of defence” model which encompasses:

a) The managers of the "first line of defence" assume the risks and have the controls necessary to ensure that risks do not surpass the established limits.

b) The internal control system and the areas of the “second line of defence,” (Actuarial, Compliance, Internal Control and Operational Risk and Risk Management) perform supervision independently of risk management activities of the first line of defence within the framework of the policies and risk limits established by the Board of Directors.

c) Internal Audit is the third line of defence, and independently guarantees the appropriateness and efficacy of the Internal Control system and of other elements of the Corporate Governance System.

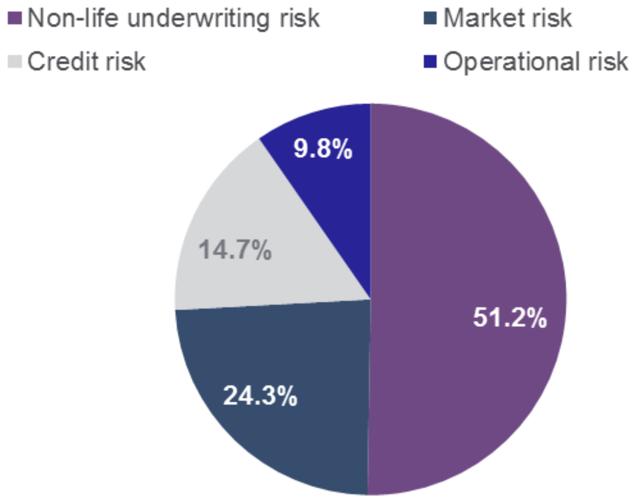
Within this framework, the SOLUNION Group's structure is comprised of Areas which, in their respective frameworks, perform a number of independent supervisory activities within the scope of their respective areas with regard to assumed risks.

This governing structure reflects the requirements set out in the Solvency II Directive in relation to the system for management of business risks, carrying out its own implementation and development strategy of the Risk Management Area, wherein the Board of Directors defines the reference criteria and establishes and/or validates the organisational structure of the same.

C. Risk profile

Following the entry into force of Solvency II, SOLUNION Group calculates the *Solvency Capital Requirement* in accordance with the requirements of the methodology laid down in the regulation for the calculation of required solvency capital, which is called the standardised formula.

The following is the composition of the Company's risk profile, which is based on the risks set out in the standard formula methodology and the percentage of regulatory capital required for each of them:



In the Group's risk profile, the risk which affects it with the highest intensity is non-life underwriting risk, to which catastrophic credit and surety risk mainly contribute, due to the recession risk that burdens SOLUNION for 100% of the underwritten premiums. This is followed by market risk, because high exposure to it is found in countries outside the European Economic Area and, lastly, credit and operational risk**.**

Calculation of the risk profile has taken into account the projections used in the preparation of the report on the Internal Risk and Solvency Assessment Report to be sent to the supervisor in the second quarter of 2017.

In addition to the risks mentioned above, the Group has carried out an internal process of identification of significant risks that might pose a threat for fulfilment of the strategic plan, the credit rating targets or that may prevent continued maintenance of the capitalisation level the Company deems appropriate for its risk profile.

With respect to significant concentrations of risk, the SOLUNION Group has policies that sets limits on risk diversification. Similarly, limits are laid down in its Liquidity Risk and Investment Risk Management Policy for ensuring adequate diversification by issuer, country and sector of market risk.

The SOLUNION Group has also considered a series of stress tests and scenario analyses for assessment of the resilience of the Company and the business model to adverse events during a specific projection period. The results of these analyses show that the Company meets with regulatory capital requirements even in adverse circumstances.

In addition, a quantification has been made of possible risks that could render the business unviable for the given period through certain reverse stress tests, with the result that no failure to comply with regulatory capital requirements would occur in any case.

Based on the outcome of these stress tests and sensitivity analyses, the Company will continue to have sufficient own funds to comply with the SCR. The solvency ratio is kept at acceptable values so as not to put the Group's solvency at risk at any time.

D. Valuation for solvency purposes

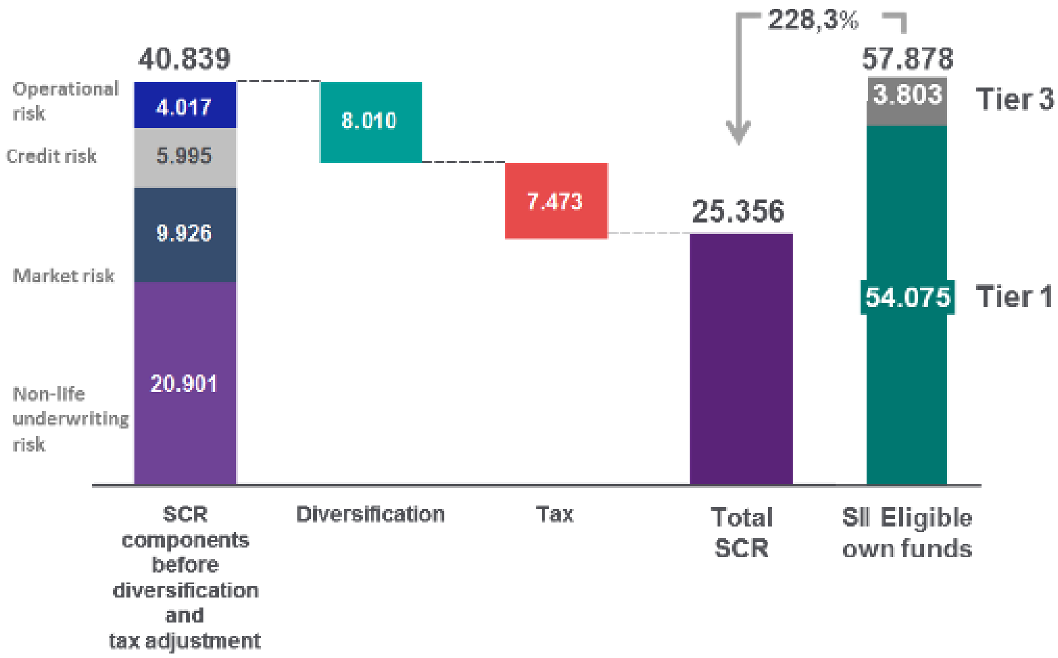
The total value of assets under Solvency II regulations amounts to EUR 274,378 thousand, while the value measured in accordance with accounting standards would amount to EUR 339,950 thousand. This difference mainly relates to goodwill, prepaid fees and other acquisition costs, intangible assets and deferred tax assets, and assets not marked to market in accounting standards.

The total value of liabilities under Solvency II amounts to EUR 209,810 thousand, compared to EUR 234,847 according to accounting standards. The main difference between the two regulations lies in technical provisions and prepaid fees, as these are measured according to market economic criteria under Solvency II. D.2 offers information on actuarial methodologies and assumptions used in the calculation of technical provisions, best estimate and risk margin.

The total excess of assets over liabilities amounts to EUR 64,568 thousand under Solvency II, which reflects a decrease of (38.6%) from the excess shown with application of the criteria set out in accounting standards.

E. Capital management

The SOLUNION Group has an appropriate structure for management and vigilance of own funds, with a policy and management plan for this purpose, such that solvency levels are kept within the limits established by the regulation and by the Company's own risk appetite.



Thousands of euros

The Group's required consolidated SCR amounts to EUR 25,356 thousand, while the minimum capital requirement (hereinafter MCR) amounts to EUR 6,339 thousand. This minimum capital level is the minimum level of safety below which the Group's financial resources should never fall.

Available and eligible own funds to meet the consolidated SCR amount to EUR 57,878 thousand, of which EUR 54,075 thousand are classified at Level 1 and EUR 3,803 thousand at level 2.

Level 1 are considered to be of higher quality, which refers to their availability and risk level to meet the Company's commitments to its insured parties

Also, the Group's eligible own funds for meeting MCR amount to EUR 54,075 thousand.

The Group's solvency ratio, which is the proportion of own funds available to the Company to meet the consolidated SCR, stands at 228,3%. While the proportion of own funds to meet MCR, that is, the minimum required capital ratio, is 853%. Consequently, the Company is adequately positioned to comfortably meet its future commitments, taking account of the capital requirements laid down in Solvency II.

Also, in the own risk and solvency assessment process, the Group has prepared a medium-term capital plan, including a projection of eligible own funds during the budgeting period and a projection of global solvency needs for the period. The result of the analysis is that it would maintain high SCR and MCR coverage during the period.

A. Business and performance

A.1. Business

A.1.1. Name and legal form

SOLUNION SEGUROS DE CREDITO, Compañía Internacional de Seguros y Reaseguros, S.A. (hereinafter SOLUNION or "the Parent Company") is a company with the sole corporate purpose of carrying out insurance and reinsurance transactions in credit, and transactions supplementary, ancillary or related to this object to the extent allowed by insurance legislation.

The Parent Company is a jointly-controlled company consisting of a joint venture between the Euler Hermes and MAPFRE groups –each of which holds 50% of its share capital through Euler Hermes Luxembourg Holding S.a.r.l. and MAPFRE Global Risks, Compañía Internacional de Seguros y Reaseguros, S.A., respectively– comprising the businesses of credit insurance and the supplementary services of both groups in Spain and Latin America, and it is the parent of a series of subsidiaries in these businesses in Argentina, Chile, Colombia, Spain and Mexico (hereinafter, "the Group" or the "SOLUNION Group").

The parent company was incorporated in Spain and its registered office is in Madrid, Avenida General Perón 40, 28020.

The SOLUNION Group has the collaboration of mediators, professionals in insurance distribution that, in different positions (agents and brokers), play a key role in commercialisation of transactions and providing services to insured parties.

The Group's distribution capacity is completed by distribution agreements signed with different entities, especially with companies in bancassurance.

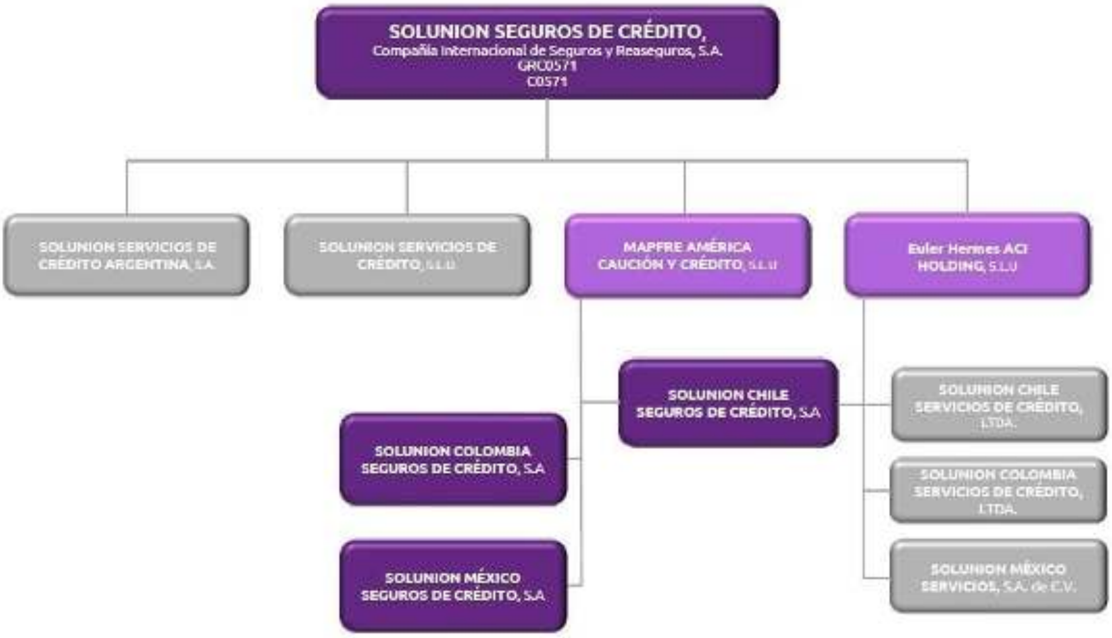
The SOLUNION Group has chosen to present a report for consolidation purposes, and reports corresponding to the different insurance and reinsurance companies.

Details of the undertaking's position within the legal structure of the group

Appendix 1 includes form S.32.01.22, which provides a description of the Group's subsidiaries and related companies.

The legal structure of the Group is shown in Appendix 2.

An organisation chart with the simplified structure of the SOLUNION Group is also presented:



<u>Supervision of Group</u>

The DGSFP is located at Paseo de la Castellana 44, Madrid (Spain), and has the following website: www.dgsfp.mineco.es. The location and contact details of other supervisory authorities are set out in the individual reports of each of the subsidiaries of the SOLUNION Group.

Also, the SOLUNION Group contains insurance companies that fall outside the supervision of the above authorities, the main ones being:

Country	Regulator name
Chile	Superintendency of Insurance and Securities
Colombia	Financial Superintendency
Mexico	National Commission of Private Insurance

<u>External audit</u>

KPMG Auditores, S.L. issued, on 24 April 2017, the audit reports with no reservations relating to the individual and consolidated accounts of the Company at 31 December 2016. This company is headquartered at Torre de Cristal, Paseo de la Castellana 259C, Madrid, Spain.

<u>Holders of qualifying holdings</u>

Solunion Seguros de Crédito, Compañía Internacional de Seguros y Reaseguros, S.A. is a jointly-controlled company that constitutes a joint venture between the Euler Hermes and SOLUNION groups, each of which holds 50% of its share capital through Euler Hermes Luxembourg Holding S.L. and SOLUNION Global Risks, Compañía Internacional de Seguros y Reaseguros, S.A., respectively, with the former registered in Luxembourg and the latter in Spain.

Name	Legal form	Type of Shareholding	Location	Percentage of ownership
Euler Hermes Luxembourg Holding S.à.r.l.	Limited Company	Direct	Luxembourg	50%
MAPFRE Global Risks, Compañía Internacional de Seguros y Reaseguros, S.A.	Public Limited Company	Direct	Spain	50%

Lines of business

The SOLUNION Group identifies the following line of business established by the Solvency II regulation.

- **Credit and surety insurance:** consists of insurance obligations other than life assurance:
    - Direct Insurance (Modality 9)
    - Accepted proportional reinsurance (Modality 21)

Geographic areas

The most significant countries in which the Group operates are Spain, Mexico and Colombia, as described in Appendix S.05.02.01.

A.1.2. Business and/or events that have occurred over the reporting period that have had a material impact on the undertaking

The following significant events took place during the year with a material impact on the SOLUNION Group:

Significant events of the year

In 2015, SOLUNION began to operate in Peru, Uruguay, Panama and Ecuador through fronting agreements. In 2016, operations continued in other countries, and were extended to Guatemala, Nicaragua, El Salvador and the Dominican Republic.

SOLUNION Spain was distinguished for the fourth consecutive year as the best credit insurer by the Spanish Association of Insurance Brokers (ADECOSE) in Spain for its sharp focus on customer service.

8 April 2016, A.M. Best assigned to Solunion Seguros de Crédito, Compañía Internacional de Seguros y Reaseguros, S.A. (Solunion), a financial strength rating of A- (Excellent).

Corporate matters

In 2016, there were no corporate actions worth mentioning.

Main activities in 2016

- General matters

The year 2016 confirmed the results of 2015: strong commercial performance in both Spain and the Latin American countries in spite of the weak performance of credit insurance markets.

The year confirmed the positive trend of SOLUNION, especially in Spain, Chile and Mexico, with growth of 3%.

- New products

A new, export-related product was launched in Spain (Smartcover) to improve the range of services in accordance with the grade.

- Commercial action

A special mention should be made of the following actions in 2016 that provide continuity to the strategy implemented in recent years:

- Strengthening of multi-channel strategy, with additional development of the bancassurance channel. Distribution agreements have been signed in Chile with Banco de Chile. Negotiations were undertaken with new banks in Spain aimed at signing distribution agreements. Strengthening of current arrangements.

- Strengthening of cooperation with MAPFRE network in Spain. Fostering of cooperation with Mapfre in Mexico and Chile.

- Customer experience project to enhance customer service in Spain. Improvement of service model in Latam. The aim here is to increase retention and maintain the renewal rate.

- Risk underwriting

Due to macroeconomic uncertainty and market volatility throughout 2016, SOLUNION decided to increase the agility and flexibility of its risk underwriting policy, thus helping ensure the company's profitability and contributing value to our customers.

- Information and technology systems

In IT systems, SOLUNION continues to rely on the equipment of Euler Hermes and of MAPFRE, which ensures access to the best experts.

The deployment of the its own IT infrastructure in Spain, Mexico and Chile will enable SOLUNION to manage business growth more securely.

Meanwhile, SOLUION continues to invest in information and technology systems to further strengthen customer services, innovation and digitalisation.

Significant operations in the Group

There were no significant operations in the SOLUNION Group in 2016.

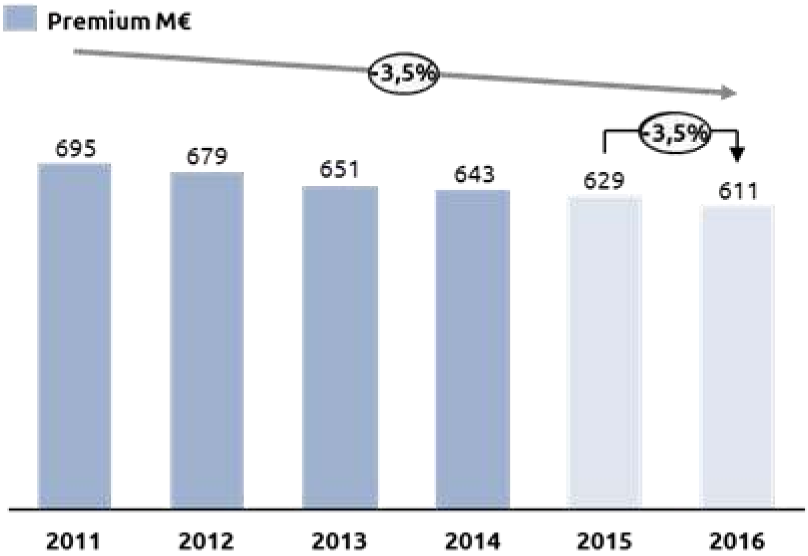
A.2. Underwriting performance

Quantitative figures on the Group's business and underwriting results in 2016, as shown in figure S.05.01.02, indicate that the SOLUNION Group ended the year with gross earned premiums of EUR 134,288 thousand, of which the net amount was EUR 12,862 thousand. Also, the gross claims rate in direct insurance fell to EUR 65,514 thousand, and after discounting the effect of reinsurance of EUR 58,812 thousand, the net claims rate amounted to EUR 6,702 thousand.

Income from the insurance business in the financial statements amounted to EUR 12,822 thousand.

By geographic area where the Group has a presence, as shown in figure S.05.02.01 of the Appendix, the largest volume of gross earned premiums was in Mexico, amounting to EUR 13,229 thousand, followed by Colombia , which reached EUR 10,358 thousand.

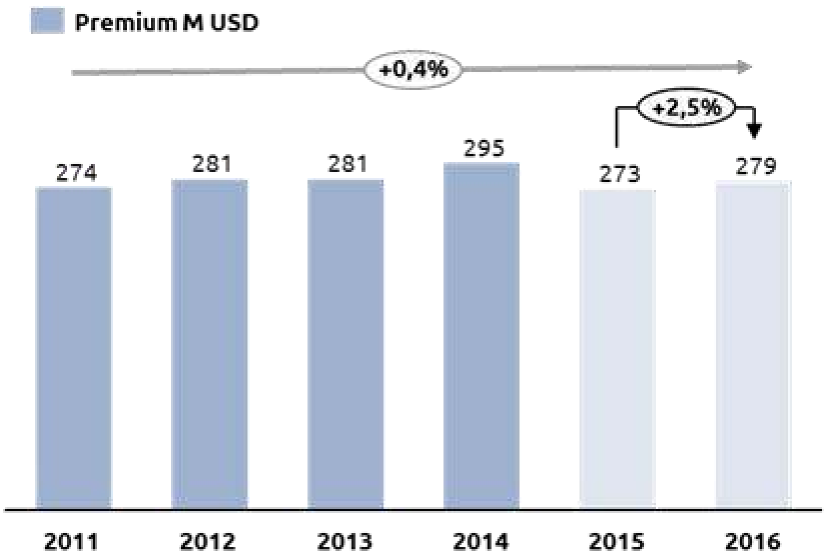
The following graph shows the situation of the credit market in Spain:



Performance of Spanish credit insurance market Source: ICEA. Data at December 2016

(f): Forecast COFACE has not disclosed information.*

The Latin American market was sharply affected by exchange rates in 2016, as was the case in the previous year. The following graph shows the situation of the credit market in Latin America:



Performance of Latin American credit insurance market Source: Latinoinsurance.

Data at December 2016

Macroeconomic environment

The economic situation continued to show strong performance in 2016, and the growth outlook for 2017 remains.

In Latin America, the economy has been affected by the performance of China and Brazil, and by the volatility of exchange rates. GDP sank to -0.9% in 2016 (down from -0.3% in 2015). However, positive growth of 1.2% is expected for 2017.

SPAIN: Key economic forecasts

	share	2014	2015	2016	2017
GDP	100%	1.4	3.2	2.6	2.1
Private consumption	55%	1.2	3.1	2.5	2.3
Public consumption	21%	0.0	2.7	0.8	0.7
Investment	21%	3.5	6.4	4.6	4.0
Construction	9%	-0.2	5.3	2.8	2.8
Equipment	12%	6.4	7.2	5.9	4.8
*Stocks**	1%	0.3	0.2	0.0	0.1
Exports	36%	5.1	5.4	4.6	4.0
Imports	34%	6.4	7.5	4.8	4.7
*Net exports**	2%	-0.3	-0.6	0.0	-0.2
Employment		1.2	3.0	1.8	1.0
Unemployment rate (%)		24.4	22.1	19.9	18.7
Wages		-0.8	0.3	0.4	0.5
Inflation		-0.2	-0.6	0.1	1.5
Fiscal balance (% of GDP)		-5.9	-4.5	-3.5	-3.0
Public debt (% of GDP)		*99.3*	*100.1*	*101.1*	*100.5*
Current account (% of GDP)		1.0	1.5	-0.1	-0.5

Change over the period, unless otherwise indicated
* contribution to GDP growth

Source: Euler Hermes

Source: Euler Hermes and IFM data

A.3. Investment performance

A.3.1. Information on income and expense arising from investments by asset class:

The following tables present details of income and expense arising from investments for 2016:

Income from investments

Item	Income from investments		Finance income from other activities	Total
	Operation	Equity		
Income from interest, dividends, and other				
Real estate investments:	-	-	-	-
I. Rent	-	-	-	-
II. Other	-	-	-	-
Income from held-to-maturity investments:	-	-	-	-
I. Fixed-income securities	-	-	-	-
II. Other investments	-	-	-	-
Income from available-for-sale securities	2,337	191	-	2,528
Dividends from Group companies	-	-	-	-
Other finance income	44	-	37	81
Total revenue	**2,381**	**191**	**37**	**2,609**
Realized and unrealized gains				
Net realised gains:	287	-	-	287
I. Real estate investments	-	-	-	-
II. Held-to-maturity investments	-	-	-	-
III. Available-for-sale financial investments	287	-	-	287
IV. Trading portfolio financial investments	-	-	-	-
V. Other	-	-	-	-
Net unrealised gains:	-	-	-	-
I. Increase in fair value of trading portfolio	-	-	-	-
II. Others	-	-	-	-
Total gains	**287**	**-**	**-**	**287**
Total income from investments	**2,668**	**191**	**37**	**2,896**

Data in thousands of euros

Investment expenses

Item	Investment expenses		Finance expenses from other activities	Total
	Operation	Equity		
Finance cost				
Real estate investments:	-	-	-	-
I. Net operating expenses	-	-	-	-
II. Other expenses	-	-	-	-
Expenses from held-to-maturity investments:	-	-	-	-
I. Fixed-income securities	-	-	-	-
II. Other investments	-	-	-	-
Expenses from available-for-sale portfolio	(1,187)	-	-	(1,187)
Other finance expense	(88)	-	(138)	(226)
Total expenses	**(1,275)**	-	**(138)**	**(1,413)**
Realised and unrealised gains				
Net realised gains:	(2)	-	-	(2)
I. Real estate investments	-	-	-	-
II. Held-to-maturity investments	-	-	-	-
III. Available-for-sale financial investments	(2)	-	-	(2)
IV. Trading portfolio financial investments	-	-	-	-
V. Other	-	-	-	-
Net unrealized losses:	-	-	-	-
I. Decrease in fair value of trading portfolio	-	-	-	-
II. Others	-	-	-	-
Total losses	**(2)**	**-**	**-**	**(2)**
Total investment expenses	**(1,277)**	**-**	**(138)**	**(1,415)**

Data in thousands of euros

Income and expense from investments are classified in either operation or equity, depending on whether they come from investments in which technical provisions are materialised (operating investments) or from investments in which the company's equity is materialised (equity investments). In addition, they include management expenses attributed to investments.

Total income from investments amounted to EUR 2,896 thousand, of which 2,528 thousand was income from the available-for-sale portfolio, EUR 287 thousand of net gains realised on investments of this portfolio and EUR 81 thousand from other finance income.

Total expense on investments amounted to EUR 1,415 thousand, of which 1,187 thousand was income from the available-for-sale portfolio, EUR 226 thousand of other finance expense and EUR 2 thousand from losses arising from the available-for-sale portfolio. The overall investment result was positive, amounting to EUR 1,481 thousand.

Some of the following events influenced investment in the Group:

Throughout the year, financial markets underwent turbulence that endangered global growth in 2016: These include the stock market crash of China in January, the fall in oil prices to 27 dollars a barrel in the first quarter, the Brexit referendum in June, the volatile political panorama of emerging markets and the outcome of the US presidential election in November. An entirely unexpected situation that, along with the rise in votes for populist and protectionist policies, combined with the fact that the growth in world trade was at its lowest level since 2009 (+1.9%). National and international flows have yet to recover:

i. Capital is not entering the real economy, as credit conditions are still too conservative in the Asia-Pacific region and in Latin America, for example; plus,

ii. Savings are staying in high-income markets, even though these markets are underperforming (as shown, for example, by negative interest rates in Japan and the eurozone).

A.3.2. Information about any gains and losses recognised directly in equity

As shown in the tables in A.3.1, with respect to income, there was a positive impact on the Group's equity of EUR 191 thousand from the available-for-sale portfolio. Further, on the expense side, these had no effect on equity.

Item	Financial income or expense in equity
Financial assets	
Financial investments in capital	-
Shareholdings in investment funds	2,796
Fixed income securities	59,105
Other assets	40
Subtotal	**61,941**
Financial liabilities	
Deposits received on ceded reinsurance	
Other liabilities	
Subtotal	**0**
Total	**61,941**

A.3.3. Information on asset securitisation

The SOLUNION Group does not invest in this type of assets.

A.4. Performance of other activities

A.4.1 Other income and expense

During this year, the SOLUNION Group incurred the following significant income and expense other than that related to the insurance business:

	2016
Operating income	21,995
Operating expenses	(23,757)
Net finance income	(101)
a) Finance income	37
b) Finance cost	(138)
Income from other activities	**(1,863)**

Data in thousands of euros

A.4.2 Lease contracts

Operational leases

The Company is lessee of operating leases in the offices in which it provides its services and in which its registered office is located. Theses leases are entered into with related parties, and the contract ends on 31 December 2017.

Expense accrued in 2016 in operating leases amounted to EUR 645 thousand.

Future minimum payments to be made on non-cancellable operating leases at 31 December of the last two years were as follows:

Item	Future minimum payments							
	Up to one year		From one to five years		More than five years		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Buildings and other constructions	1,064	1,467	1,068	1,272	-	-	2,132	2,739
Total	**1,064**	**1,467**	**1,068**	**1,272**	**-**	**-**	**2,132**	**2,739**

Data in thousands of euros

There were no contingent payments recognised as expense in 2016.

Finance lease

The Company does not have this type of lease.

A.5 Any other information

There is no further material information.

B. System of governance

B.1. General information on the system of governance

SOLUNION Group's system of governance aims to ensure sound and prudent management under a common operational and organisational model for the Group that establishes hierarchical and functional relationships, a common risk governance structure, key functions and written corporate governance policies that include fit and proper requirements to be met by directors, executives and key functions.

B.1.1 Company's own System of Governance

The system of governance of SOLUNION Group has the following characteristics:

1. Operational structure comprising three levels: shareholders, holding company and business units.
2. Organisational structure according to objectives-based operating model.
3. Common risk management governance structure for SOLUNION Group.
4. Key functions of system of governance: (i) Risk management, (ii) Compliance, (iii) Actuarial and (iv) Audit, which make up a three-line of defence system.
5. Written corporate governance policies.
6. Adaptation of local bodies of administration and representation of SOLUNION Latam companies to the regulation of their respective countries.
7. Directors, executives and individuals with key functions of SOLUNION Group must be persons of acknowledged commercial and professional propriety, and possess adequate knowledge and experience to enable sound and prudent management of the Group, in accordance with the company's fit and proper policy.

The governing bodies are regulated by the shareholders' agreement entered into by the shareholders, the articles of association and the mandatory standards established by the legislation applicable to each of the Group companies.

The following outlines the main functions and responsibilities of the Group's Governing Bodies:

- **General Shareholders' Meeting**: This is the supreme governing body, and it has the power to decide on any matter relating to SOLUNION Group. It may give instructions to the Group's governing body or subject to its authorisation the adoption by the governing body of decisions or arrangements on management matters relating to the Group.

  The General Meeting comprises the shareholders of SOLUNION Group Seguros de Crédito and its meetings may be ordinary, for the sole purpose of approving company management, the financial statements of the previous year and deciding on the application of profit, or they may be extraordinary.

- **Supervision Committee:** This is the non-executive body through which SOLUNION Group shareholders: (i) are periodically informed by the CEO on financial data, the situation in commercial and risk, information and claims matters, and the most significant matters of the

Group; and (ii) issue guidelines on management matters submitted for their consideration, to be submitted to the pertinent governing bodies as necessary.

It consists of the Chairman and Vice-Chairman of SOLUNION Group as the shareholders' representatives. The SOLUNION Group Corporate Legal Director shall act as Secretary. It shall meet at least monthly, except in months when meetings of the Board of Directors are held or in August, notwithstanding its capability to meet whenever it is deemed appropriate or to receive information in writing outside meetings.

- **Board of Directors**: this is the body responsible for directing, managing and representing the Group, and for overseeing the performance of management. It has full powers of representation, disposition and management. Its decisions are mandatory for the Company, except in matters attributed to the General Meeting, and it designates and removes members of Company committees, including the Management Committee.

  It comprises an odd number between six and twelve directors as determined by the General Meeting, and it will select from its own members a Chairman and Vice-Chairman, and appoint a non-director Secretary. Members of the Board of Directors must meet the requirements of SOLUNION's fit and proper policy, are appointed for a term of three years. They may be re-elected up to the age of 70.

  The position of CEO is not remunerated, and it is incompatible with the performance of executive positions or duties in SOLUNION Group.

  The Board of Directors shall meet at least four times a year to receive information on accounting, administration, finance, technical and statistical matters relating to the previous calendar quarter, and provided it is necessary to decide on matters under its competence. It shall have achieved quorum when half plus one of its members are in attendance, notwithstanding the adoption of resolutions via a written vote outside a meeting, and resolutions are adopted by an absolute majority of directors in attendance, except for matters that require a qualified majority under the Bylaws.

  Board supporting committees

  The Board has supporting committees to address certain management matters relating to the following: Audit, investment, appointments and remuneration.

  - **Audit Committee**: It shall have the responsibilities set out in the Bylaws of advising and making recommendations to the Board on the following:

    a) preparation of financial statements;

    b) designation of auditors and independent experts and the performance of their functions;

    c) reporting and financial policy processes;

    d) internal audit operation and functions, and

    e) the organisation and effectiveness of internal control and risk management systems.

    It comprises four members of the Board of Directors elected in consideration of their financial or accounting experience, and one of them shall be designated in consideration of their knowledge and experience in accounting or auditing, or both. They shall be elected for a three-year term, and it shall designate a Chairman, Vice-Chairman and Secretary from among its own members.

It shall meet at least four times a year, and whenever necessary to decide on matters under its competence, and decisions shall be adopted by a simple majority of the members in attendance.

It has the status of Audit Committee for the purposes of the Third Additional Provision of Law 22/2015 of Accounting and Auditors.

- **Investment Committee**: will have the responsibilities set out in its Bylaws to provide guidelines in all matters relating to management of financial assets, and advises and offers recommendations to the Board of Directors on investment matters.

  It comprises four members of the Board of Directors elected for three years, including a Chairman and Vice-Chairman.

  It shall meet at least four times a year, once a quarter, and whenever necessary to decide on matters under its competence, and decisions shall be adopted by a simple majority of the members in attendance.

- **Appointments and Remuneration Committee**: will have responsibilities set out in its Bylaws to coordinate the Group's appointments and remuneration policy, and it advises and offers recommendations to the Board of Directors on matters of remuneration and benefits for senior executives of SOLUNION Group and matters related to: governance, recruitment and selection of candidates for key executive positions and managers of key functions, remuneration policies and plans and yearly allocation and payment programmes.

  It comprises four members of the Board of Directors elected for three years, including a Chairman and Vice-Chairman.

  It shall meet at least two times a year, once every six months, and whenever necessary to decide on matters under its competence, and decisions shall be adopted by a simple majority of the members in attendance.

- **Management Committee:** The Company Management Committee assists the CEO in the effective ordinary management of the Group's operations and of countries in which SOLUNION operates, in strategic, operational and coordination matters, in accordance with the rules and policies of SOLUNION Group and the general policies and strategies defined by the Board of Directors of SOLUNION Group.

  It comprises the CEO, who chairs it, and the Corporate Directors of Finance, Administration and Organisation, Risk, Information and Claims (RIC), and Market Management, Commercial and Distribution (MMCD) of SOLUNION, who are full members, without prejudice to their power to designate permanent guests and to invite any individual to inform the committee on specific subjects under its competence.

  The appointment of the members of the Management Committee, who must meet the requirements set out in SOLUNION Group's fit and proper policy, will be made by the Board of Directors, pursuant to a favourable report by the Appointments and Remuneration Committee. As a general rule, the committee will meet as many times as necessary, and on an extraordinary basis to deliberate on matters submitted to its consideration by any of its full members.

  Support Committees of Group Management Committee

The Management Committee shall have the support of the Risk, Actuarial and Reserves and Compliance Committees for the performance of its duties relating to governance of risk management.

- **Risk Committee:** It is tasked with overseeing the risk management function and system, particularly compliance with Risk Appetite, and it comprises full members of the Management Committee and the head of the Group's internal control and risk control (non-voting).

  It has the following competences: (i) to oversee the performance of business units' risk committees in their tasks of control of compliance in their respective areas of all the Group's risk management rules, guidelines and policies; (ii) to verify, at least yearly, that the risk appetite limits are effective and appropriate for the Group; and (iii) to escalate to the Board of Directors proposals for review of the risk management policy.

- **Actuarial and Reserves Committee:** advises and offers recommendations to the Management Committee on the actuarial function and policy, and comprises full members of the Management Committee and the head of the Group's actuarial area (non-voting).

  Competence to oversee the actuarial function and policy within the Group, and to establish reserves in the framework of policies and rules approved by the Board of Directors.

- **Compliance Committee:** tasked with verifying the functioning of the compliance function, overseeing correct application of general compliance guidelines and principles within the Group and to provide support in this area to the Group's head of compliance (non-voting).

  It has the following competences: (i) to collect information on compliance risk management assigned within the framework of its competences and to be apprised of any significant incident in compliance that affects or may affect the Group's activity; (ii) to oversee the functioning of the Ethics Whistleblowing Channel and hear any complaints made therein and examine them, adopt any appropriate resolutions and ensure enforcement of the same; (iii) to receive advisory from the Group's head of compliance on regulation applicable to the Group, the potential consequences of changes in the legal environment of the business units' operations and to determine and assess compliance risk, and (iv) resolve any matters that, owing to their complexity, that are escalated to it for its interpretation by the Group's head of compliance.

B.1.2. Key functions

As set out in current regulation, SOLUNION Group's Board of Directors approved the latest revision of the actuarial, compliance and risk management policies in its meeting of 30 September 2016 and of the internal audit policy in its meeting of 31 March 2016. These policies establish the operational independence of these key functions and their direct line of reporting to the governing body.¡.

The names of individuals responsible for key functions have been reported to the Directorate General of Insurance and Pension Funds.

ACTUARIAL FUNCTION

SOLUNION Group has an actuarial function that provides for performance of the actuarial function by individuals with sufficient knowledge of actuarial and financial mathematics and sufficient experience for the tasks assigned in relation with the coordination of calculation of technical provisions and the appropriateness of its method of calculation, base models and assumptions, and the sufficiency and quality of the data used; evaluation of the coherence of internal and external data used in calculation of technical provisions; verification of the best estimates with the experience and information of governing bodies on the reliability and adequacy of the calculation of technical provisions; the underwriting policy and reinsurance arrangements, and the contribution to effective application of the risk management system.

COMPLIANCE FUNCTION

The SOLUNION Group compliance function includes advisory of governing bodies on compliance with laws, regulations and administrative rules that affect the Group and of the internal rules and regulations laid down in the Code of Ethics and Conduct, and the evaluation of the impact of any change in the legal environment in the Group's operations and the determination and evaluation of compliance risk in countries where it operates. Hence, the compliance function identifies internal and external non-compliance risks that may arise from the companies' activity, advises on risks identified, alerts of potential non-compliance and follows up on the measures adopted for the correction thereof, with the aim of attaining a global compliance environment.

RISK MANAGEMENT FUNCTION

SOLUNION Group has an effective risk management system regulated in the corresponding risk function, encompassing the strategies, processes and information procedures necessary to identify, measure, monitor, manage and notify on a continuous basis of risk that it is or may be exposed to individually or overall, and includes risk management function structured to facilitate the application of the risk management system and allows for proper supervision of risks through the adoption of decisions that enable the identification, measurement, supervision, management and monitoring of the same. This function encompasses SOLUNION Group's internal control process, which is included in the framework of internal control and operational risk, and ensures that the risk policy is applied coherently across the entire Group.

AUDIT FUNCTION

SOLUNION Group's audit function includes verification of the adequacy and effectiveness of the internal control system and of other components of the company's system of governance, and it is implemented in accordance with the regulation for ordering, supervision and solvency of insurance and reinsurance entities and of audit, and it includes an audit function as performed by internal audits of the two shareholders, which is objective and independent of operating functions. The conclusions and recommendations arising from the internal audit are reported to SOLUNION Group's Board of Directors, which determines what steps should be taken with respect to each, and ensures that such steps are carried out.

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

B.1.3. Relevant General Meeting of Shareholders and Board of Directors resolutions

The Company's Extraordinary General Shareholders' Meeting of 19 December 2016 accepted the resignations from the Board of Directors of the Company tendered by Dr. Gerd-Uwe Baden and Mr. Castelo, and designated Michele Pignotti and Ignacio Baeza Gómezas, respectively, as the new Chairman and Vice-Chairman of the Board with effect from 1 January 2017.

B.1.4. Balances and remuneration to the members of the administrative, management or supervisory body

The following table shows the remuneration received in the past year by key management personnel, consisting of three men and one woman at 31 December 2016.

Item	2016
Short-term remuneration	**744**
Salaries	650
Fixed allocations	69
Per diems	--
Life insurance	6
Other	19
Post-employment remuneration	**14**
Defined contribution	14
Years of service award	--
Total	**758**

Data in thousands of euros

Remuneration paid to the Group's management and employees is determined in accordance with prevailing regulations as well as the Group's remuneration policy, the latest revision of which was approved by the Board on 28 June 2016.

The overall objective of the Group's remuneration policy is to define guidelines that are effective (meaning that they are aligned with the global strategy and business objectives, the risk management policy and the tolerance to such risks approved by SOLUNION Group) to foster sound and prudent management of the business and effective risk management.

Its objectives include:

- Supporting SOLUNION Group's business strategy by attracting and retaining talent.
- Incentivising employees' contribution to the Group's objectives.
- Promoting sound and effective risk management through establishment of requirements on remuneration aimed at prudent and appropriate management of business and to avoid remuneration mechanisms that foster excessive risk-taking by SOLUNION Group.
- Avoiding conflicts of interest.

Remuneration systems may include both fixed and variable components. Also, individual and collective performance standards that may be the basis for any right or variable component of remuneration are reviewed on a yearly basis.

B.1.5. Additional information

In 2013, the SOLUNION Group approved a medium-term incentives plan for certain members of the Group's management team on an extraordinary, non-vesting and multi-year basis, in effect between 1 January 2013 and 31 March 2016. Payment of incentives was subject to compliance of certain corporate and specific objectives, and to continued service until the end date of the plan. At year-end 2016, the plan was complete liquidated.

A new medium-term incentives plan with the same characteristics as the expired plan was approved in 2016. The period begins on 1 January 2016 and ends on 31 March 2019.

No relevant transactions were made in 2016, nor were dividends distributed, between the Company or companies from its Group and the Company's significant shareholders.

During 2016, Company directors have not carried out any transactions with the Company itself nor with any other Group companies unrelated to the ordinary course of business of the companies or outside normal market conditions.

B.2. Fit and proper requirements

SOLUNION Group has a fit and proper policy, the latest revision of which was approved by the Board of Directors on 28 June 2016, which facilitates application of regulatory requirements and ensures a high level of fit and proper requirements throughout the Group for executives and key functions.

The fitness and propriety of members of senior management and of holds of key functions must be guaranteed. Further, fit and proper procedures must apply for evaluation of other personnel in accordance with internal rules and regulations, both when under consideration for a specific position and on a permanent basis. The following principles shall apply to ensure fulfilment of these objectives.

With respect to fitness, the necessary qualifications, knowledge and experience will depend on the position.

a) Members of the Board of Directors must possess the qualifications, experience and knowledge indicated for the Board of Directors as pertinent for their responsibilities and requirements.

   Members of the Board of Directors must also possess, as a group, knowledge and professional experience in at least the following areas:

   1) insurance and financial markets;

   2) strategies and business models;

   3) systems of governance;

   4) financial and actuarial analysis;

   5) regulatory framework.

b) Members of the Management Committee will, as a group, possess the qualifications, knowledge and experience necessary for the performance of the specific responsibilities of each Committee. Although each individual member of the Management Committee or of the Management Committee of the business unit is not expected to possess expert knowledge, skills and experience in every area of their company, they must possess the qualifications, experience and knowledge necessary to perform the specific tasks assigned to them in the Management Committee.

c) Holders of key functions must be sufficiently fit to perform the tasks assigned to them under the policy of the key function and, as the case may be, applicable legislation.

While certain positive requirements are to be met for a person to be considered fit, no such positive criteria exist for propriety, but only negative circumstances that are indications that a person may not be proper.

Hence, evaluation of property does not consist, as with evaluation of fitness, in verification of the compliance of certain requirements, but of the consideration that any indication may call into question a person's propriety, taking into account all available information. These indications are as follows:

a) any prior conviction or proceeding in course that may lead to a criminal conviction, especially crimes under legislation applicable to financial services (such as laws on money laundering, market manipulation or dealings with insider information, fraud and financial crimes) corporate violations, insolvency and consumer protection laws;

b) any prior conviction or proceeding in course that may give rise to a conviction for a significant disciplinary or administrative offence;

c) administrative penalties relating to violation of legislation applicable to financial services, or any investigation in course or enforcement action by any regulatory or professional body;

d) any significant inconsistency relating to a candidate's education or professional experience;

e) any other fact that involves a risk of financial crime, violation of the law or a danger to the sound and prudent management of the business, and

f) any other fact set out in insurance regulation.

<u>Process to ensure fitness and propriety.</u>

To ensure fitness and propriety, adequate processes during recruiting and specific periodic reviews are necessary.

The following individuals/bodies will be responsible for fit and proper evaluations:

- Of the members of the Board of Directors: the shareholders.
- Of the members of the Management Committee and the Management Committee of the Group and business units: the Board of Directors or designated committees.
- Of the holders of key functions (heads): the Board of Directors or designated committees.

The Group must ensure that an evaluation is made during the hiring process of the fitness and propriety of members of senior management or holders of a key functions, whether internal or external to SOLUNION Group. Employment or service contracts may be entered into only after successful completion of a recruiting process as described below.

a) Job descriptions/fitness requirements for position:

   A description of the job and definition of the fitness requirements of the job, and the key tasks and responsibilities thereof are available, so as to enable sound and prudent performance of the job function. Candidates for membership of the Board of Directors are evaluated in accordance with the Group's legally mandated fitness requirements.

b) Curriculum vitae; background check:

   External candidates: all candidates must present an up-to-date curriculum vitae at the start of the recruitment process. The final candidate for a position in senior management or holder of a key function will be subject to a background check that includes:

   - Submission by the candidate of copies of the required qualifications;

- Submission by the candidate of proof of good repute and absence of insolvency, including a certificate of good conduct or the appropriate documents (such as verification of criminal record, police certificate of good conduct), prior to the passage of three months following the date of issue;

- Verification of references and search in public media by the human resources department responsible for recruitment, subject to applicable privacy laws and regulations.

In the event of failure to submit any of the documents required of the candidate to check the background, the department/body responsible for hiring will decide what steps to take (such as request for a sworn affidavit to serve as proof).

Internal candidates: when the candidates have been employees of the SOLUNION Group for less than four years, or in certain justified cases, it must be ensure that the curriculum vitae is on file. Such candidates will also be subject to the background check described above.

Where a key function is outsourced, under the outsourcing policy, written confirmation shall be required that the personnel working for the supplier in the subcontracted key function meets fit and proper criteria (proof of fitness and propriety).

B.3. Risk management systems, including the own risk and solvency assessment

B.3.1 Governance framework

The risk management system is a set of strategies, processes and information procedures necessary to identify, measure, monitor, manage and notify on a continuous basis the risks to which the Company is or may be exposed, and their interdependencies.

The risk management policy implements the structuring and functioning of the risk management system. The policy is applied to Group entities within the limits envisaged in regulations applicable to the activities regulated in countries where it operates, and it has the aim of preserving the Group's solvency and fostering the development of its business via the following:

- definition of a strategy for the risks it takes on;

- inclusion of risk analysis in the decision-making process;

- establishment of general guidelines, basic principles, and general framework of risk management to promote their consistent application in the Group.

- dissemination of the risk management policy among executives and employees.

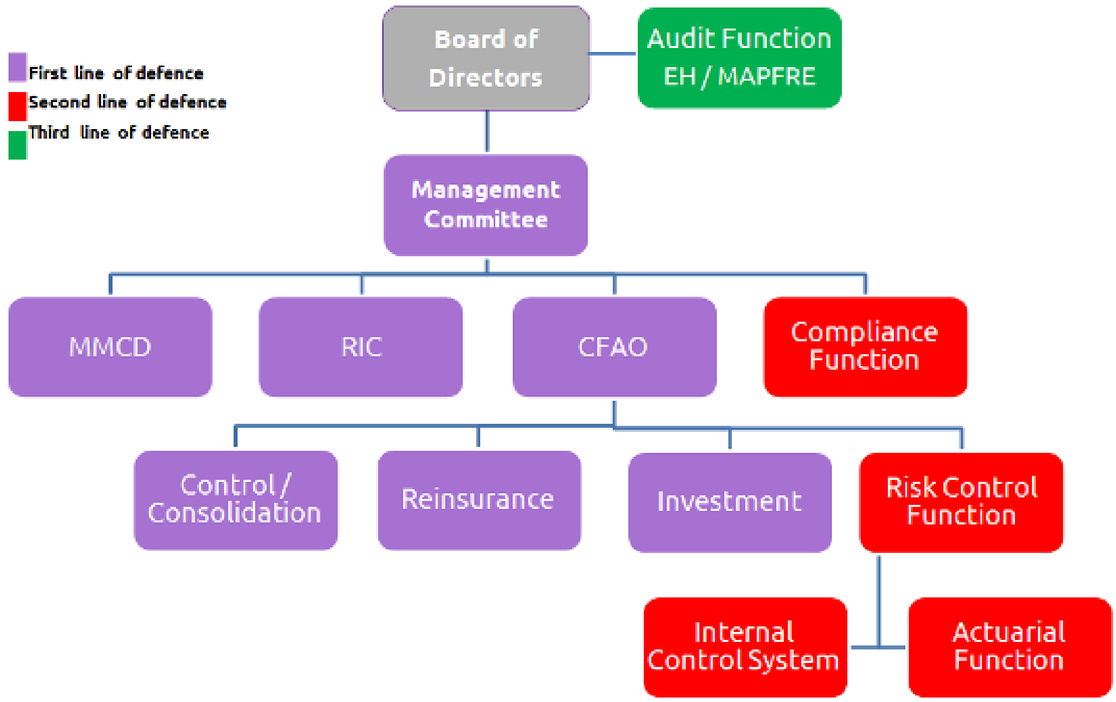
SOLUNION Group adopts the three-lines of defence model as an organisational scheme of risk management, which is widespread in literature on business risk management and corporate governance, such that:

- The first line of defence consists of operations managers, who assume risks and possess the controls.

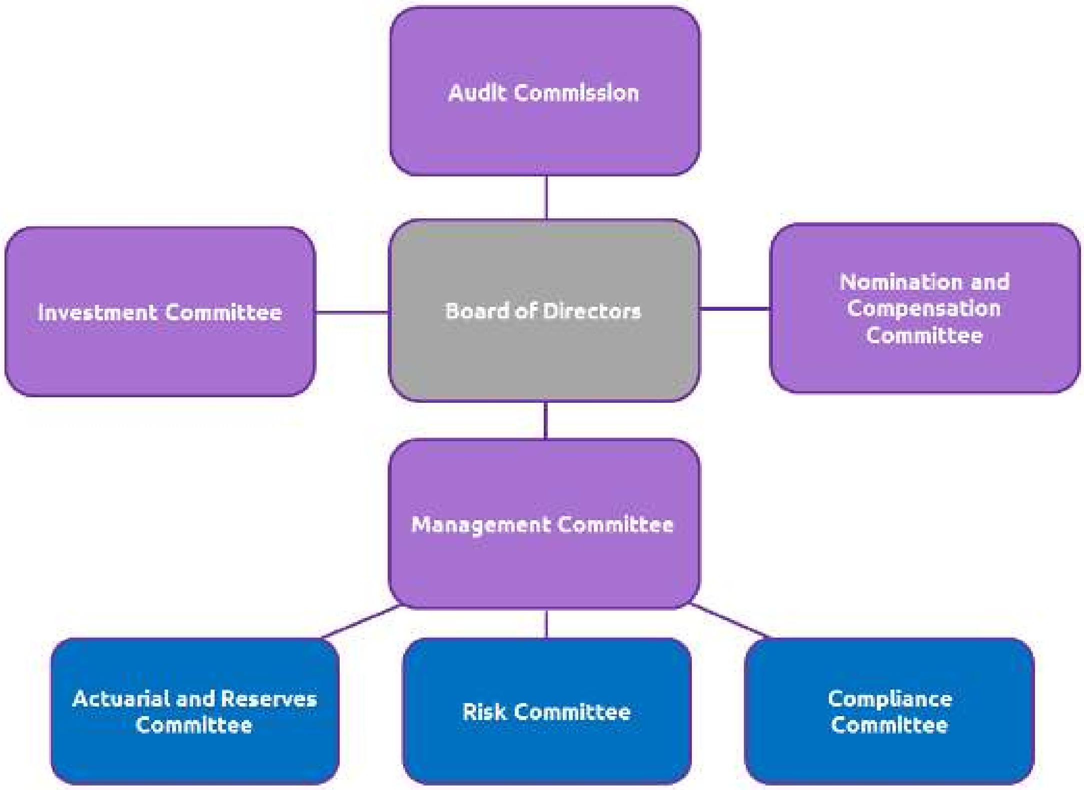
- The internal control system and the actuarial, compliance and risk management functions make up the second line of defence, performing independent supervision of risk management of the first line of defence within the framework of the policies and limits established by the Board of Directors, and reporting to the Management Committee.

- Internal Audit is the third line of defence, and independently guarantees the appropriateness and efficacy of the internal control system and of corporate governance.

The following is a diagram of the three lines of defence with commentary:



Governance of risk management has bodies with global powers across the Group and bodies in each business unit. These are displayed in the following diagram:



The governing bodies of the Group have the following powers over the risk management system, in accordance with the Code of Good Governance:

- Board of Directors:
  - Approval or authorisation of the risk identification, management and control policy.
  - Analysis of the information to be regularly received on the status and development of risks and of the decisions of the Management Committee to verify their adequate management and control.
  - Adoption of measures to correct situations deemed inappropriate.

    It relies on the Audit Committee, the Investment Committee, the Appointments and Remuneration Committee and the Management Committee in risk management work.

- Management Committee:
  - Responsibility for implementation of policies and standards on risk management.
  - Supervision of performance of second-line of defence functions and policies.
  - Information on risk management to the Board of Directors and escalation of proposals for action.
  - Operational decisions made within framework of policies and standards approved by Board of Directors.

    Relies on Actuarial and Reserves Committee and Risk Committee, to which the Internal Control Committee and the reinsurance function report, and on the Compliance Committee.

- Risk Holding Committee:

  It comprises all members of the Management Committee and the head of the Group's internal control and risk control (non-voting), and is responsible for overseeing the risk management function and system, specifically, Risk Appetite compliance. The Group's Internal Control and Risk Control Head receives the meeting minutes of established Holding Committees and Local Risk Committees, may attend such meetings without a vote, and reports to the Risk Holding Committee any decision or potential risks that may affect the Group's solvency position.

- Actuarial and Reserves Committee:

  It comprises all members of the Management Committee, the head of the Group's internal control and risk control and the head of the Group Actuarial Function (non-voting). Is in charge of overseeing the actuarial function and policy within the Group, and establishing reserves in the framework of policies and rules approved by the Board of Directors.

- Compliance Committee:

  It comprises all members of the Management Committee, Corporate Legal and Human Resources Directors and head of Group Compliance (non-voting). Is in charge of overseeing the compliance function and policy within the Group in the framework of the policy and rules approved by the Board of Directors.

Given that risk management is a local responsibility, notwithstanding being a part of a business group and its integration in an organisational structure directed by the Group's holding structure, each company has a local risk committee that oversees compliance with all the Group's risk management standards, guidelines and policies. It comprises the heads of each corporate area and it is tasked with overseeing the functioning of the risk management system and advising the local Management Committee for relevant decision making.

These risk committees fall under the supervision of the Risk Committee.

The risk management function enables adequate oversight of risks through the adoption of decisions that facilitate the identification, measurement, supervision, management and monitoring of the same. This function encompasses the Group's internal control process, which is included in the framework of internal control and operational risk, which is the policy of the internal control function. Also, the risk function coordinates the assessment and oversight of each company's most critical risks.

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

As noted above, the risk function is tasked with risk supervision. The procedures are as follows:

- Identification: to enable management and control of risks, each has its own policy, which prevails in its area over the general policy, and specifies particular aspects for the treatment of each risk.

- Measurement: for measurement of risks, the Group's Risk Control Department establishes rules for setting the parameters for measuring risks in accordance with regulations, determining the technical means for calculating capital needs in accordance with the entirety of risks, and verifying that the measurement of the same is correct.

- Limits: the Board of Directors of SOLUNION Group defines the risk appetite of the risk management system, and sets both the limits to be applied to risk taking and the necessary measures for the Risk Committee to verify, at least once a year, that the limits are effective and appropriate for the Group.

- Supervision: risk takers in each area of the Companies are responsible for ensuring that the actions taken are consistent with the established technical standards and that the risks taken do not exceed the limits defined in the risk management system.

  Supervision that risks are within limits is performed by the risk management function and the other functions of the second line of defence in their respective areas.

- Management and mitigation: risk takers in each area of the Company's first line of defence must take the necessary measures in their respective areas to mitigate risks to which the company is exposed, in accordance with the applicable policy and subject to the risk limits.

  Supervision that necessary mitigation measures are being taken is the responsibility of the other functions of the second line of defence in their respective areas, which report to Risk Control.

  Measurement of consumed by risk mitigation steps is the responsibility of the risk management function, along with the actuarial function.

- Information and monitoring: areas in the second line of defence provide, at least every six months, governing bodies with information that allows for adequate monitoring of risk control, unless the nature of the risk allows for reporting on a yearly basis.

  Notwithstanding the foregoing, information must be reported immediately if the event of risks that: (i) exceed established limits; (ii) may cause losses equal to or higher than such limits, or (iii) may compromise companies' solvency requirements or their business continuity.

  Own risk and solvency assessment (ORSA) reports include monitoring of material risks that may affect the companies.

- Breach of limits: when a risk exceeds the established limits, the governing bodies may adopt measures aimed at:

  - Authorising an excess beyond the risk limit, in which case sufficient documentation and notification of the governing bodies and the Group's risk control department is essential, along with the reason for such authorisation and an indication of any additional risk taken owing to the same. If the excess surpasses the limits set by the Group's parent, the governing bodies, the Group's risk control department and the Group's governing bodies are notified.

  - Cancel risk.

  - Contract additional protection that allows for adjusting the risk to established limits, subject to an assessment of the consequences of breach by the supplier of such protection and its impact on operational risks.

  - Raise additional capital resources as necessary to keep the risk taken within established risk limits.

To define and manage each of its risks, SOLUNION Group has established a framework of policies that have been approved by each of the companies' Board of Directors.

The strategies, objectives, and informing procedures for the key risks to which the Group is exposed, reflected in the risk appetite approved by the Group's Board of Directors establishes the degree of risk the Group is prepared to assume to reach its business objectives with no relevant deviations, including in adverse situations.

The main risks to be encompassed by the risk management system are the following:

- Non-life underwriting risk.
- Market risk.
- Credit risk.
- Operational risk.
- Liquidity risk.
- Compliance risk.
- Reinsurance risk.
- Technical provisions recognition risk.

- Business continuity risk.
- Reputational risk.
- Outsourcing risk.

Details are shown below of the main risks faced by SOLUNION Group (both those included in the Solvency Capital Requirement and those not included) with respect to their identification, measurement, management, monitoring and notification.

Type of Risk	Description	Measurement and management	Monitoring and notification
Underwriting risk	Groups the following risks for non-life: - Premium risk - Reserves risk - Catastrophic risk - Reinsurance mitigation	Standard formula	Annual
Market risk	Covers the following risks: - Interest rate - Equities - Real estate - Spread - Concentration - Currency	Standard formula	Annual
Credit risk	Reflects any possible losses arising from unexpected default by counterparties and debtors in the following 12 months.	Standard formula	Annual
Operational risk	Includes those which arise due to failed internal processes, people and systems, or from external events	Standard formula It performs qualitative dynamic analysis of processes.	Annual Continuous
Liquidity risk	The risk the Company are unable to realize its investments and other assets in order to settle its financial obligations when they fall due.	Liquidity position. Liquidity indicators.	Continuous
Compliance risk	The risk of losses due to legal/regulatory sanctions or reputational losses arising from the infringement of internal/external laws and regulations, as well as applicable administration regulations.	It monitors, assessment, evaluation and informs the governing bodies on exposure to risk arising from activities performed. Monitoring and recording of significant events	Continuous Annual
Reinsurance risk	This is risk arising from fluctuations in the solvency	Standard formula	Annual

Type of Risk	Description	Measurement and management	Monitoring and notification
	of counterparties in reinsurance terms within a one-year period.		
Technical provisions recognition risk.	Due to the existence of reserves that are insufficient for the company to settle its obligations.	Control of calculation of technical provisions External validation	Continuous Annual
Business continuity risk	This relates to possibility that future events will give rise to consequences that are adverse for the achievement of the Company's economic or business objectives, or for its financial position.	Business continuity plans.	Annual
Reputational risk	Includes the following risks: - Business ethics and corporate governance - Organizational structure - Market competition	Through corporate policies	Continuous
Outsourcing risk.	Risk arising from arrangements with service providers for the performance of one of the Company's functions.	On-site *inspections* by the Company of supplier facilities Control of fit and proper requirements	Annual

All calculations arising from the standard formula must be updated in any year in which a change in the risk profile is detected, except in case of a significant event.

Generally, as mentioned previously, the Board of Directors must be periodically informed of the risks to which the Group is exposed.

B.3.3. Own risk and solvency assessment

Pillar II includes the Own Risk and Solvency Assessment (ORSA), which is a key element of Solvency II. This requirement should define how companies can create value for different stakeholders, in order to integrate its business risk management framework in its process of governance decision/making, and to show that this framework is also appropriate for the nature, scale and complexity of the risks in their business.

Performance of the ORSA requires a forward-looking exercise of bespoke strategic analysis that encompasses all the pillars of Solvency II, based on risk tolerance and appetite, the strategic and business plan, the environment, the moment in the cycle in which the assessment occurs, the governance system implemented and the quality of the own funds, in order to advise the Board of Directors on the viability of the company in the long term. Hence, an integrated approach is needed throughout the Group.

The process of critical risk assessment of SOLUNION Group aims to ensure that critical risks are identified, assessed, managed, mitigated and monitored.

In addition to supporting risk management, this process also ensures that the Group is capable of meeting external regulatory requirements, that is, both the Solvency II requirements and local regulatory requirements.

At an overall level, the ORSA process is organised around the following components:

This processes is detailed below:

1. Risk appetite and limits.

The first step is to establish a risk strategy that clearly defines a risk appetite for the achievement of business objectives. The risk strategy should be revised at least yearly, simultaneously with changes in the business strategy.

The Board of Directors of SOLUNION Group defines the risk appetite, which becomes part of the risk management system, and sets both the limits to be applied to risk taking and the necessary measures for the Risk Committee to verify, at least once a year, that the limits are effective and appropriate for the Group and its companies.

2. Strategic and business plan.

The solvency capital needs are calculated so was to be sufficient in order to face all the risks that current impact the business or that may impact it in the future, using as the reference the period of time covered by the Business Plan (2017 to 2019).

3. Analysis of assessment of critical risks.

An assessment of critical risks is made in order to identify, assess and, as appropriate, mitigate potential risks to obtain a set of critical risks to be monitored and controlled on a yearly basis.

The process of critical risk assessment includes all risk categories and it is designed in order to:

- Identify the main critical risks.
- Assess and define critical risks (assessment of residual risks).
- Establish a risk appetite that is acceptable for each critical risk.
- Identify and prioritise mitigation activities.
- Guide the preparation of reports and the approval of critical risks.
- Control the development of risk exposure and mitigation plans.

4. Standard formula of required solvency capital

This formula is used to calculate solvency capital needs with a methodology and principles established by EIOPA in the framework of Solvency II for all market, counterparty, assurance and operating risks.

SOLUNION Group calculates the Solvency Capital Requirement (SCR) in accordance with the principles, assumptions and parameters established by EIOPA in the standard formula.

According to the nature, complexity and proportionality, it is considered that the Company does not significantly depart from the assumptions applied in calculation of the standard model, thus justifying its use. Hence, it would not be deemed necessary to replace the subset of parameters used with specific Group parameters or apply an internal model.

5. Stress testing.

Once the projection is made of the Solvency Capital Requirement for the base scenario – that is, for the 2017-2019 business plan, to complete the solvency forecast – SOLUNION Group has applied diverse stress scenarios for the years 2017-2019, the results of which are set out in the report.

6. ORSA report.

The ORSA report presents the results of the Own Risk and Solvency Assessment obtained by SOLUNION. It also sets out and documents the Group's overall solvency needs according to the risk exposures and capital requirements using the standard calculation defined by the regulatory implementations of Solvency II at the date of issue of this report.

The ORSA is prepared and approved annually, although it would be prepared within a shorter term for extraordinary reasons if the Board of Directors requests it.

It should be noted that, at the publication date of this report, the 2016 Orsa Report has not yet been issued, so the point of reference is the 2015 ORSA. Nevertheless, there have been significant changes in the considerations made in 2016 compared to 2015, such that results are positive for both years.

B.4. Internal control system

B.4.1. Internal control

SOLUNION Group has an operational risk and internal control framework whose latest review was approved on 30 September 2016 by the Board of Directors. The framework sets out the most important actions to be implemented to maintain an optimal internal control system.

The operational risk and internal control framework provides a general model of functioning that realises a set of principles, guidelines and policies that can establish a definition of the function at a global level and its current implementation at every level of the company to ensure continuity and uniformity in its application.

SOLUNION Group conceives internal control as a system whose performance requires the involvement and commitment of all members of the organisation, and not an isolated organisational area, that has been created to monitor the Group's actions in relation to the risks to which it is exposed.

This framework is based on a governance system and organisational structure that lays down a model of three lines of defence in internal control:

- **First line of defence**: Operational areas, business lines or support units. They are responsible for the application of internal control procedures in every process in which they intervene and for which they are responsible, and manage the risks that originate in these processes.

- **Second line of defence**: Risk Control Department It is a body that is independent from areas for the implementation of the internal control system with responsibility for defining applicable policies and procedures, coordinating and supervising evaluation and control activities, launching action plans and generating management reporting for different areas and governing bodies.

- **Third line of defence**: Internal audit, as an independent evaluator tasked with overseeing the correct functioning of the internal control system, compliance with policies and procedures and final evaluation of the effectiveness of the action plans and initiatives launched.

The definition of internal control and the different elements mentioned in the management framework are based on the COSO Report, which sets out a common internal control model that entities and companies can use to evaluate and check their own control systems.

By means of compliance with risk management policies and procedures, adequate treatment is performed of risk, ensuring that the risks taken on by SOLUNION Group remain at an acceptable level and, hence, do not endanger the achievement of the Group's strategic objectives. Different internal and external events will be assessed, allowing for acting according to the impact such events represent at a business, operational and organisational level. For risk treatment, necessary corrective measures will be selected and applied to control and mitigate the assessed risks.

Ultimate responsibility in internal control at SOLUNION Group lies with the Company's Board of Directors. Nevertheless, as a general rule, the Management Committee is the executive body that is periodically informed of the results of risk assessment and controls, and to which any significant matters related to internal control are escalated. Therefore, the Management Committee has decision-making authority for any matter related to risk management and control in the Group, approval of the operational risk and internal control framework and any subsequent modifications to the same, reporting and action plans launched to mitigate the Company's risk exposure or to implement improvements in the internal control function.

The Management Committee will regularly inform the Board of Directors on matters deemed critical in the area of control and it may also escalate to the Board any decisions as it deems necessary.

The Internal Control Department prepares an internal control report that sets out the Group's current situation at the date of the analysis of risks and controls, allowing for updating the risk and control map. This map also serves as the basis for the following internal control cycle.

The Board of Directors, on 24 March 2017, approved the 2016 Annual Report on the Effectiveness of Internal Control Procedures, which shows the results of the analysis and the action plans to improve mitigation of the most significant risks. Internal audit issued an opinion on the review of the internal control system, concluding that the report showed the true and up-to-date situation of SOLUNION Group's internal control system.

B.4.2. Compliance verification function

The Group has a compliance policy, the latest revision of which was approved by the Board of Directors on 30 September 2016, and which implements the compliance verification function in the whole Group.

The Policy states that, in accordance with the principle of decentralisation and to achieve coordinated implementation, the compliance verification function has teams that are proximate to business processes in order to assist all members of the organisation in fulfilling their responsibilities, and it is structured pursuant to specific regulatory requirements to which it is subject and to the principle of proportionality according to volume.

The head of the compliance verification function is responsible for reporting the monitoring of compliance risk to the CEO.

The process of compliance risk management enables determination and assessment of compliance risk, establishment of minimum parameters for the identification, measurement, mitigation, monitoring and reporting of compliance risk exposure and identification of compliance risks:

- Compliance risk identification: the identification process allows the set of compliance risks affecting the Group to be outlined, which forms the Compliance Universe.

- Compliance risk evaluation: an assessment of compliance risk consists of a quantification of the impact and probability of each of the identified risks. This assessment entails analysing the financial and non-financial impacts and prioritizing, according to these results, actions on risks.

- Compliance risk mitigation: mitigation of compliance risks is the response to compliance risk. Mitigation strategies should reduce the impact and/or probability of occurrence of identified compliance risks.

- Compliance risk monitoring: Monitoring of compliance risk allows for checking that risk mitigation activities are working properly and identifying any new risks affecting compliance. The business processes report to the Group's Head of Compliance any indication of the existence of a compliance incident and provide updated information on the status until it is resolved.

- Compliance risk exposure information. Compliance reports on the management process of this risk will include at least the results of the assessment of the compliance risk, compliance risks that may generate losses, the results of monitoring activities and the status of mitigation and rectification actions.

B.5. Internal audit function

As discussed in the Risk Management System section, Internal Audit is the risk management model's third line of defence, and should provide an independent guarantee of the appropriateness and effectiveness of the internal control system as well as other elements of the governance system.

SOLUNION Group's internal audit function is outsourced to its shareholders, Euler Hermes and MAPFRE, through their internal audit teams, who perform audit activities under the responsibility of the CEO of SOLUNION Group.

This relationship is underpinned by an outsourcing contract and the activity is supervised by the CEO, who is responsible for overseeing the correct operation of the outsourced function.

B.6. Actuarial function

The actuarial area coordinates mathematical, actuarial, statistical, and financial calculations used to specify technical provisions for the calculation of capital results of insurance companies, which contributes to achieving technical results and the Group's desired solvency levels. It also prepares and fosters the use of predictive models in functional areas of insurance entities. The actuarial area has members with the sufficient qualifications, training and experience for satisfactory performance of their duties. Also, it will take appropriate measures to deal with possible conflicts of interest if additional tasks or activities are added to the current tasks and activities of the actuarial function.

Responsibility for the performance of actuarial quantifications and for other predictive models lies directly with the business units. They will also prepare technical documentation related to these evaluations.

The Group's actuarial area will set principles and general guidelines for action taking account of best statistical and actuarial practices for the Group for the purpose of coordinating and achieving uniformity in guidelines for actuarial calculations.

The Group's actuarial area oversees compliance with general principles and guidelines in actuarial evaluations. The Group's actuarial area will foster corrective actions in cases where irregularities are detected in certain quantifications, or its general guidelines have not been followed. It will also provide support to the actuarial or financial area of the business units to assist them in fulfilling their responsibilities.

B.7. Outsourcing

Information on current outsourcing arrangements

SOLUNION Group has an outsourcing policy that establishes principles of management for the outsourcing of activities that enables the Group to manage its own suppliers map in accordance with methodology in place for outsourcing.

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

SOLUNION Group's internal audit function is outsourced to its shareholders, Euler Hermes and MAPFRE, through their internal audit teams, who perform audit activities under the responsibility of the Chairman of the Board of Directors.

This relationship is underpinned by an outsourcing contract and the activity is supervised by the CEO, who is the business owner and responsible for overseeing the correct operation of the outsourced function.

By outsourcing these functions and other important activities, the Group streamlines its processes, as it can exploit the knowledge and specialisation of its suppliers and very often benefit from positive synergies.

B.8. Any other information

The governance system reflects the requirements established in the Solvency II Directive on the system for management of risks inherent to its activity. The group companies employ their own strategy for implementing and carrying out the SOLUNION Group Risk Management Area Function, which involves defining the reference criteria and establishing/validating its organisational structure.

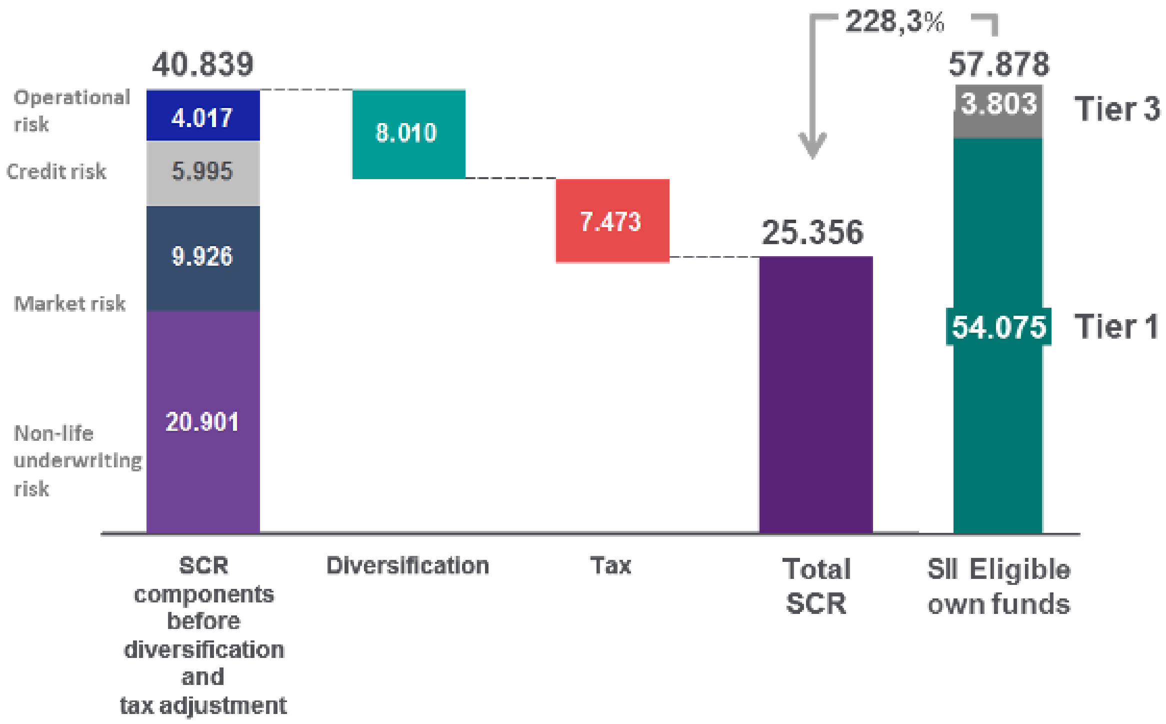
Its structure is based on the related regulatory requirements, as well as the principle of proportionality related to its business size and the nature/complexity/size of the risks assumed.

C. Risk profile

After the entry into force of Solvency II regulations, the SOLUNION Group calculates its Solvency Capital Requirements (SCR) in accordance with standard formula requirements. For the main risk categories, this total SCR is considered an excellent measurement tool for determining the Group's risk exposure, as it recognises the capital charge corresponds to key risks (such as underwriting, market, and counterparty risk). As explained below, the Group's exposure to other risks not included in the SCR calculation using the standard formula (risk of liquidity, technical provisions, business continuity, compliance, reputational and outsourcing) are not considered significant, since the Company applies effective measures to manage and mitigate them.

As indicated in regulations, the SCR corresponds to the company's equity for limiting the probability of bankruptcy to one case per 200, or that the company is still 99.5% able to meet its commitments to insurance beneficiaries and policyholders during the following year.

The following graph shows the most significant risks that make up the risk profile of the SOLUNION Group based on the regulatory capital required (this information can also be found on table S.25.01.22 of the Appendix):



Thousands of euros

As can be seen, the risk that affects the Group most intensely is non-life underwriting risk, which has a capital solvency of 20,901 thousand euros before applying the diversification and adjustment for taxes. Next comes market risk (with 9,926 thousand euros).

Following is the degree of exposure, risk by risk, as well as the reduction and mitigation techniques used by the Group to minimise them.

C.1 Underwriting risk

C.1.1 Exposure to the risk

Underwriting Risk is defined as the risk of loss or adverse value changes in the commitments arising from insurance activities, due to incorrect pricing hypotheses and constitution of provisions.

It is also subdivided into premium and reserves risk, attrition and catastrophic risk.

- Premium risk: is due to fluctuations at the time, the frequency and severity of the insured events. Premium Risk is related to the policies that will be underwritten during that period (including renewals and new business), and to risks in progress for existing contracts. It also includes the risk that claims provisions could be insufficient to cover the claims or that they could be increased.
- Reserves risk: is due to fluctuations at the time and the amount of the claims settlement.
- Catastrophic risk: CAT risks arise from extreme or irregular events that are not adequately reflected by mandatory capitals for premium and reserves risk. Therefore, it could be said that it is the risk of loss or adverse value changes of the liabilities derived from insurance, due to a notable uncertainty of the pricing hypotheses and constitution of provisions corresponding to extreme or exceptional events.

Underwriting Risk is included under the SCR Standard Formula calculation and entails 51.2% of the total SCR (before diversification).

C.1.2 Risk mitigation techniques

The SOLUNION Group minimises underwriting risk thanks to a number of measures:

- Establish directives, limits, and exclusions in underwriting risk:

  The Group establishes authorization and exclusion limits for reducing undesired Underwriting Risk in its manual or policies.

- Sufficient reserves or technical provisions set aside:

  Claim handling and the sufficiency of technical provisions are basic principles of insurance company management. Technical provisions are calculated by each company's actuarial teams and their amounts are validated by an independent third party not involved in the calculations. The establishment of technical provisions is regulated by specific policies.

- Reinsurance:

  The SOLUNION Group uses the reinsurance technique in order to balance the risk distribution contained in its portfolio and optimise its capital through: an increase in its underwriting capacity and available capital, stabilization of its financial results and reduction of its losses, and protection of its equity.

- Setting a sufficient premium:

  Premium sufficiency is of special importance, and its determination is supported by specifically-designed IT applications.

- Through the Insurance Compensation Consortium:

For the Spain subsidiary, this public body shall be in charge of covering extraordinary risks as indicated in Article 6 of its Bylaws.

To mitigate catastrophic risk that is not covered by the Consortium and the remaining entities located outside Spain, specific reinsurance coverage is contracted. Additionally, there are reports that define the catastrophic exposure to which the company is exposed, to estimate the scope of losses should a catastrophic event occur. Catastrophic risk underwriting is done based on the above information, the economic capital available, as well as the reinsurance mitigation capacity contracted.

Through their Reinsurance Department, companies 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.

Once its reinsurance needs have been defined, companies communicate them to the reinsurers to jointly plan the optimal structure and conditions for assignment contracts.

C.2 Market risk

C.2.1 Exposure to the risk

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

The Group's investment strategy is based on prudent investment policies, and characterised by a high proportion of fixed-income securities with high credit ratings.

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

Asset category	Market value as at 31/12/2016	% Investment
Real estate investments	1,698	2.7
Financial Investments	61,901	97.3%
Fixed-income securities	59,105	95.5%
Equity securities and investment funds	2,796	4.5%
Holdings in Group companies	-	-
Accepted reinsurance deposits	-	-
Hedging derivatives	-	-
Other investments	-	-
Total	63,599	

Data in thousands of euros

As of 31 December 2016, 97.3% of all investments were financial investments. These comprise, in turn, investments in fixed income (95.5%) equities and investment funds (4.5%).

The sub-models existing within the investment risk to which the Group is exposed are listed below:

- Share risk: sensitivity of the value of the assets, liabilities, and financial instruments to changes in the level or the volatility of the shares' market prices.

- Concentration risk: additional risks to which an insurance or reinsurance company is exposed as a consequence of a lack of asset portfolio diversification or significant exposure to noncompliance risk of a securities issuer or a group of connected issuers.

- Interest rate risk: sensitivity of the value of the assets, liabilities, and financial instruments to changes in the temporary structure of interest rates or the volatility of the interest rates.

- Spread risk: sensitivity of the value of the assets, liabilities, and financial instruments to changes in the level or the volatility of credit differentials with regard to the time structure of risk-free interest rates.

- Currency risk: sensitivity of the value of the assets, liabilities, and financial instruments to changes in the level or the volatility of the currency exchange rates.

- Real estate risk: sensitivity of the value of the assets, liabilities, and financial instruments to changes in the level or the volatility of the market prices of the real estate property.

The SCR market risk entails 24.3% of the total SCR before diversification and taking into account the loss absorption capacity.

C.2.2 Risk mitigation techniques

The main method the SOLUNION Group uses to mitigate market risk is following the Principle of Prudence (already explained in section B.3.2) and it establishes certain concentration limits when making investments, i.e. Risk Appetite, which is defined and approved by the Board of Directors.

The Investment Committee defines the investment limits applicable to each country, checking that they meet the diversification and dispersion limits required by local regulations.

Additionally, for each risk sub-model:

- Spread and concentration risks are mitigated by the high proportion of fixed income securities with credit ratings classified as degree of investment, and through issuer diversification.

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

- The Investment Policy establishes an asset exposure limit for currency coverage in order to minimise foreign currency risk. It also looks for a correlation between the currencies in which the assets and liabilities are denominated. There is a list of assets in which it is permitted to invest, others that are not permitted and others for which prior approval is required from the Investment Committee.

C.3 Credit risk

C.3.1 Exposure to the risk

Credit Risk is the risk of loss or adverse modification of a financial situation arising from fluctuations in the solvency of values issuers, counterparties, and any other debtors to which insurance and reinsurance entities are exposed, materializing as counterparty non-compliance, differential, or market risk concentration.

The Group's Credit Risk Management policies distinguish between three types:

a. Exposure to which reinsurers are exposed: counterparty risk is generated mainly because of the Group's high exposure in reinsurance agreements. The exposure level of reinsurance recoverables is affected by the heightened level of transfer defined in the reinsurance structure. (Reinsurers)

b. Exposure to banks, savings banks, credit cooperatives, financial entities, and other similar entities. Their exposure to Credit Risk is measured by their economic value. (Financial entities)

c. Fixed income securities, derivative instruments and other financial investments other than equities. Its exposure to credit risk is measured by economic value, after deduction of any mitigating factors. (Investments)

The following is a table reflecting the exposure to Type 1 Credit Risk at 31 December, 2016:

	Exposure to credit risk 31/12/2016
Reinsurers	107,945
Financial entities	11,592
Other investments	-

Data in thousands of euros

Credit Risk is included under the SCR Standard Formula calculation.

- Such as spread and concentration risk, under Market Risk.
- Such as credit risk or counterparty noncompliance. This module distinguishes between two types of exposure:
    - Type 1 exposure: includes reinsurance contracts, bank balances, among others, in which entities generally have credit ratings.
    - Type 2 exposure: includes accounts receivable from intermediaries, and policyholder debts, among others.

The SCR credit risk entails 14.7% of the total SCR before diversification and taking into account the loss absorption capacity.

C.3.2 Risk mitigation techniques

The policy followed for credit risk management sets limits in line with the counterparty's or investment instrument's risk profile, as well as exposure limits related to the counterparty's rating. A risk exposure monitoring and notification system is also set up.

The Group's credit risk investment policies are based on the application of criteria of prudence based on issuer solvency. Fixed-income investments are subject to limits by the issuer, and seek out geographic similarity between the issuers of assets and commitments.

The Group's strategy for reinsurance counterparties is to cede the business to reinsurers with proven financial capacity. Generally, it reinsures with entities with a financial solvency rating not under A, which is equivalent to an 02 on the Standard Formula classification scale.

The chief principles which must be met which inspire the management of the use of reinsurance and other risk-reduction techniques within the Group are:

- The principle of optimizing capital consumption.
- The principle of optimizing conditions.
- Counterparty solvency principle.
- The effective transferability of risk principle.
- The principle for matching risk transfer level.

C.4 Liquidity risk

C.4.1 Exposure to the risk

The risk the Entity might not be able to realise its investments and other assets in order to meet its financial commitment deadlines.

With respect to liquidity risk, the SOLUNION Group has a Liquidity Risk and Investment Risk Management Policy and an Asset and Liability Management Policy which represents the framework of reference for handling this risk. The entity's policy is based on maintaining sufficient cash balances to cover any situations arising as a result of its commitments to policyholders and creditors.

At December 31, 2016, the balance of cash and cash equivalents amounted to 11,592 million euros, which is equivalent to 18.22% of total financial investments and cash balances. Additionally, the majority of fixed-income investments have high credit ratings and are traded on organised financial markets, which grants a great deal of leeway for action in the face of potential liquidity tensions.

The Liquidity Risk and Investment Risk Management Policy foresees the possibility at any moment of the need for large quality liquid amounts, available credit facilities, and forecast cash inflows sufficient to cover expected cash outflows throughout the year.

C.4.2 Risk mitigation techniques

Liquidity risk is managed mainly by maintaining cash balances high enough to cover any incidence derived from the obligations facing the insurers and creditors, i.e. having a cash volume that, as a whole, ensures compliance with the limits established in the investment and liquidity risk management policy.

Likewise, the investment and liquidity risk management policies establish liquidity risk limits for the investment portfolio and the correlation with liabilities, with regard to the short-term nature of its technical liabilities as well as management of the foreign currency investment.

C.5 Operational risk

C.5.1 Exposure to the risk

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

Operational Risk is included under the SCR Standard Formula calculation. The Operational Risk model reflects those not previously included in the above modules. It includes legal risks, but not those arising from making strategic decisions, or reputational risk.

The SCR operational risk represents 9.8% of the total SCR (before diversification). Below is a table reflecting the results based on premiums accrued and technical provisions:

	2016
Operational risk module	**4,017**
30% BSCR	8,794
Maximum premiums and provisions	4,017
Accrued premiums risk	4,017
Technical provisions risk	4,017

Data in thousands of euros

The most critical inherent operational risks to which the SOLUNION Group is exposed are included in the Annual Report on Internal Control Effectiveness.

C.5.2 Risk mitigation techniques

The identification and evaluation of operational risks and business processes are managed by the Risk Control area of each of the companies that create risk maps which analyse the importance and probability of occurrence of such risks.

This risk map is also used for handling control activities (process manuals, inventories of risk-associated controls, and the evaluation of their effectiveness), as well as corrective measures established to mitigate/reduce risks and/or the control environment.

The operational risk management model is based on a dynamic analysis of the Group's processes, so that each area/department manager identifies and evaluates the potential risks affecting business processes behind the scenes. Product development, issuing, claims/benefits, administration, sales activities, human resources, commissions, coinsurance/reinsurance, technical provisions, investments, technology systems, and customer support.

C.6 Other material risks

In addition to the risks that were just described, the SOLUNION Group is exposed to other material risks:

- **Technical provisions recognition risk:**

The creation of technical provisions is done according to the best estimate, as established by Solvency II regulations. The Group's Actuarial Function is in charge of overseeing risk management for inadequate reserves, as set forth in the Actuarial Function Policy and the policy regarding creating technical provisions.

Having sufficient technical provisions is one of the fundamental factors to maintain the SOLUNION Group's solvency and the basis for meeting the obligations acquired with the insurance policyholders.

To guarantee and meet the sufficiency level of the provisions, there must be a monitoring system that guarantees reliability of the process for establishing technical provisions.

The Actuarial Area coordinates the calculations and guarantees sufficiency of provisions. Therefore, it is responsible for overseeing risk management for insufficient reserves.

Calculations are subject to external validation on at least an annual basis.

- **Business continuity risk:**

Business continuity risk is that which supports the SOLUNION Group's assets due to the possibility that future events will have adverse consequences for the achievement of financial and business goals, or for the Group's financial situation.

This risk is discussed in the Business Continuity Plan, the purpose of which is to define the processes to follow before, during and after an incident that causes or can cause interruption in the operations of Group companies so as to reduce the impact on the business to a minimum.

To handle this risk, business continuity plans are developed, which include a sufficient set of procedures to adequately respond, from the moment in which the disaster is reported until return to normalcy. This takes into account the areas, internal departments, suppliers and services of each Group company and should be updated and revised continuously to include potential significant changes.

- **Compliance risk:**

Compliance risk includes potential losses due to noncompliance with current legislation or regulatory requirements, exposure to potential losses due to the lack of integrity of inaccuracy of documentation on specific transactions or the lack of signatures. This risk is discussed in the Compliance Function, in its corresponding policy and in the Compliance Committee.

Monitoring compliance risk allows us to verify if the risk mitigation activities are working properly and identify new risks that affect compliance.

Compliance incidents are defined as events that could have a material financial or reputational impact on the Group.

The business processes report to the Group's Head of Compliance any indication of the existence of a compliance incident and provide updated information on the status until it is resolved.

- **Reputational risk:**

Reputational risk is defined as the possibility of a decrease in the Company's value due to being negatively perceived by shareholders, authorities, insurers, brokers, suppliers, consumers or other third parties.

Both the Code of Ethics and Conduct and the Compliance Function, Policy and Committee of the SOLUNION Group manage reputational risk.

In order to minimise the negative effects with regard to occurrence of reputational risks, a set of mitigation measures has been identified in order to prevent, identify and monitor this risk.

The following measures are carried out to mitigate risk:

- In all areas of activity of the SOLUNION Group, continue promoting ethical and socially responsible behaviour to reflect the principles that guide the actions of all employees, brokers and suppliers.

- Involve all employees, brokers and suppliers in the importance of preserving the Group's good image.

- Keep the crisis and reputational risk management procedures up to date.

- **Outsourcing risk:**

Outsourcing risk is that which arises from the agreements between the SOLUNION Group and an external service provider through which the provider carries out a certain process or activity (function, important activity or service) for a period of time.

The Outsourcing Policy for functions defines strict guidelines to ensure that the risk of outsourcing is properly managed, both with internal and external suppliers.

C.7 Any other information

C.7.1 The most significant concentrations of risk.

The SOLUNION Group applies a system of procedures and limits enabling it to control the degree of concentration of insurance risk. The Group employs reinsurance contracts to reduce insurance risk arising from the concentration or accumulation of guarantees well over maximum acceptance limits.

For market risk, the Entity applies the limits established in the investment policy, which ensures sufficient diversification by issuer, country (for entities operating abroad), and sectors.

There are no future concentrations of risk expected during the activity planning period apart from the aforementioned.

C.7.2 Sensitivity analysis

This process entails the following steps:

First, the Group uses a known situation based on its economic balance sheet, SCR, and solvency ratio at a determined date.

- Based on the above jumping-off point, a number of asset and liability variables are chosen which affect the Group’s solvency ratio, which are then subjected to upwards or downwards movements to detect any especially-relevant risk factors, as well as those considered residual risks due to their negligible impact.

- The Group includes a forward projection of the Company’s situation during the subsequent three years based on its approved business Plan, to determine any effects on solvency ratio.

- The projection is made using a base scenario considered by the Group to be probable, and a series of additional scenarios including risk factors identified as relevant.

Based on the outcome of these stress tests and sensitivity analyses, the SOLUNION Group will continue to have eligible Own Funds to comply with the MCR. The solvency ratio is kept at acceptable values so as not to put the Group's solvency at risk at any time.

C.7.3 Other matters

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

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

Transfer of risk to special-purpose entities

The SOLUNION Group does not transfer risk to special-purpose entities.

D. Valuation for Solvency Purposes

D.1. Assets

Information on asset valuation

Below is a description of the bases, methods and main assumptions used for both valuation for the purposes of Solvency II and for the purposes of the financial statements, for each class of asset (in accordance with International Financial Reporting Standards, hereinafter IFRS). In the event there are significant differences among the bases, methods and main valuation hypotheses for both balances, a quantitative and qualitative explanation will be provided for them.

For a better understanding, it is important to consider that the model balance sheet presented is adjusted to Solvency II regulations, and therefore it was necessary to reclassify the date included under "Accounting value" since each model structures its balance sheet differently. Thus, differences in classification arose under certain headings between the data included in the financial statements and those reflected under "Accounting value."

Assets	Solvency II Value	Accounting Value
Goodwill		**38.923**
Deferred acquisition costs		**7.188**
Intangible assets	**0**	**8.027**
Deferred tax assets	**10.493**	**9.956**
Assets and rights to reimbursement for long-term remuneration to the personnel	**4.655**	**4.655**
Property, plant & equipment held for own use	**1.650**	**1.391**
Investments (other than assets that are held for "index-linked" and "unit-linked" funds)	**61.949**	**61.941**
Property (other than for own use)	48	40
Investments	0	0
Equities	0	0
Equities - listed	0	0
Equities - unlisted	0	0
Bonds	59.105	59.105
Public debt	48.023	48.023
Private debt	11.082	11.082
Structured financial assets	0	0
Asset securitisation	0	0
Investment funds	2.796	2.796
Derivatives	0	0
Deposits other than cash equivalent assets	0	0
Other investments	0	0
Assets held for "index-linked" and "unit-linked" contracts	0	0
Loans and mortgages	0	0
Advanced payments on policies	0	0
For individuals	0	0
Other	0	0

Assets	Solvency II Value	Accounting Value
Reinsurance recoverables from:	**118.292**	**130.530**
Insurance other than life insurance, and health similar to insurance other than life insurance		
Insurance other than life insurance, excluding health insurance	118.292	130.530
Health insurance similar to insurance other than life insurance		
Life insurance, and health similar to life insurance, excluding health and "index-linked" and "unit-linked"		
Health insurance similar to life insurance		
Life insurance, excluding health and "index-linked" and "unit-linked"		
Life insurance, "index-linked" and "unit-linked"		0
Accepted reinsurance deposits	**0**	**0**
Credits for direct insurance and coinsurance operations	**41.831**	**41.831**
Reinsurance operation credits	**6.925**	**6.925**
Other credits	**15.802**	**15.801**
Treasury shares	**0**	**0**
Mutual shareholders for required disbursements	**0**	**0**
Cash and cash equivalents	**11.592**	**11.591**
Any other assets, not elsewhere shown	**1.189**	**1.189**
TOTAL ASSETS	**274.378**	**339.950**

Thousands of euros

D.1.1. Goodwill

Assets	Solvency II Value	Accounting Value
Goodwill		38,923

Data in thousands of euros

a) Valuation for Solvency II purposes

In accordance with Solvency II criteria, goodwill was valued at zero, in accordance with Article 12 of Delegated Regulation 2015/35 dated October 10, 2014.

b) Valuation differences between Solvency II and IFRS accounting criteria

Unlike under the Solvency II provisions, in IFRS, goodwill is measured at cost, corrected for impairment. The above goodwill represents the excess amount paid during a business combination for the fair value of identifiable assets acquired and the liabilities and contingencies assumed.

D.1.2. Deferred acquisition costs

Assets	Solvency II Value	Accounting Value
Deferred acquisition costs		7,188

Data in thousands of euros

a) Valuation for Solvency II purposes

For purposes related to the Solvency II balance sheet, “Deferred acquisition costs” are presented at 0 value, since the cash flows considered during the valuation of the technical provisions included the total amount of expenses associated to the evaluated insurance contracts, including those arising from acquisition costs. Therefore, the economic valuation of flows associated to acquisition costs are included under technical provisions.

b) Valuation differences between Solvency II and IFRS accounting criteria

As mentioned in the previous section, the valuation of the flows related to acquisition costs are comprised by a portion of the technical provisions valued using Solvency II criteria, vs. their presentation under applicable NIIF legislation, in which they appear broken down under this heading.

D.1.3. Intangible assets

Assets	Solvency II Value	Accounting Value
Intangible assets	-	8,027

Data in thousands of euros

a) Valuation for Solvency II purposes

As regards the Solvency II balance sheet, intangible assets other than goodwill must be recognised at a value other than 0 only if they can be sold separately, and the entity can demonstrate the existence of a market value for the same or similar assets.

The SOLUNION Group mainly recognises software under this heading, which it considers does not meet the conditions established in the above Solvency regulations for market value recognition, and therefore they are presented at a 0 value.

b) Valuation differences between Solvency II and IFRS criteria

Under IFRS guidelines, intangible assets are measured at cost less their accumulated amortization and where applicable, possible impairment, in contrast to the abovementioned Solvency II criteria.

D.1.4. Deferred tax assets

Assets	Solvency II Value	Accounting Value
Deferred tax assets	10,493	9,956

Data in thousands of euros

a) Valuation for Solvency II purposes

Deferred taxes are measured under Solvency II as the difference between the values assigned to assets and liabilities for solvency purposes, and their assigned values as recognised and valued for tax purposes.

The SOLUNION Group's balance sheet for Solvency II aggregates deferred tax assets of individual companies and makes the relevant eliminations within the Group.

b) Valuation differences between Solvency II and IFRS criteria

In accounting, deferred taxes are recognized using the liability method on all temporary differences at the consolidated balance sheet date between the tax bases of assets and liabilities and their carrying amounts. Based on the process of consolidating IFRS with the Solvency II perimeter, the SOLUNION Group has deferred tax assets of a carrying amount of 9,956 thousand euros.

The differences between the Solvency II value and the carrying amount of the deferred tax assets is mainly due to the different measurement criteria used for the following items:

- Real estate.
- Recoverable amounts of reinsurance.
- Technical provisions.
- Deferred acquisition costs.

D.1.5. Pension benefit surplus

The Company does not have a surplus resulting from long-term remuneration to the personnel.

D.1.6. Property, plant & equipment for own use

Assets	Solvency II Value	Accounting Value
Property, plant & equipment for own use	1,650	1,391

Data in thousands of euros

a) Valuation for Solvency II purposes

In accordance with Solvency II criteria, property, plant & equipment held for own use must be measured at fair value. Market value used to determine the fair value of PP&E is that which corresponds to appraisals made by expert independent authorised entities. As indicated in Order ECO/805/2003 of March 27, on property valuation legislation, the Group requests appraisals before 2 years have transpired since the previous valuation made, and irrespective of that date, whenever relevant changes may have taken place in their value.

b) Valuation differences between Solvency II and IFRS criteria

Under IFRS regulations, property, plant, and equipment for own use is recognized at acquisition or production cost, corrected by the accumulated depreciation, and where applicable, the accumulated amount of impairment losses.

The difference in the two valuation criterion represented the recognition of the higher amount of properties on the Solvency II balance sheet in the amount of 1,650 thousand euros.

D.1.7. 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 standard 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. Nonetheless, we must stress the slight relevance of assets included in the last level.

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 this heading, and based on the Solvency II balance sheet, the following investments are included:

D.1.7.1 ***Property (other than for own use)***

Assets	Solvency II Value	Accounting Value
Property (other than for own use)	48	40

Data in thousands of euros

This category includes items which are not considered for own use, and are devoted to earning payments, capital gains, or both.

a) Valuation for Solvency II purposes

In accordance with Solvency II criteria, properties which are not considered for own use, and are devoted to earning rental fees, capital gains, or both, must be measured at fair value.

Market value used to determine the fair value of PP&E is that which corresponds to appraisals made by expert independent authorised entities. The SOLUNION Group requests appraisals based on the criteria mentioned under "Property plant and equipment for own use."

b) Valuation differences between Solvency II and IFRS criteria

Under IFRS, properties not considered for own use are recognised at acquisition or production cost, corrected by the accumulated amortization, and where applicable, the accumulated amount of impairment losses, as opposed to Solvency II criteria, in which they are recognised at market value.

The difference in the two valuation criterion represented the recognition of the higher amount of properties on the Solvency II balance sheet in the amount of 48 thousand euros.

D.1.7.3 ***Equities and Bonds***

As indicated at the top of this section, all investments must be measured at fair value on the Solvency II balance sheet, regardless of the accounting portfolio under which they are classified. On the Entity's financial statements, investments are included under "Financial assets available for sale," the valuation of which coincides with that established by Solvency II, and therefore valuation differences are reflected under these headings.

Equities

a) Valuation for Solvency II purposes

They are initially measured at the fair value of the consideration given plus directly attributable transaction costs. After initial recognition, available-for-sale financial assets are measured at fair value, without deducting any attributable transaction costs incurred to sell or dispose of them.

b) Valuation differences between Solvency II and IFRS criteria

Regarding equities, investments are analyzed individually to determine whether or not any impairment exists. Indication of impairment exist when market value suffers a prolonged or significant decline with regard to cost.

In fiscal year 2016, the amount for this item is zero on the economic balance sheet and for accounting purposes.

Bonds and obligations

Assets	Solvency II Value	Accounting Value
Public debt	48,023	48,023
Private debt	11,082	11,082
Structured financial assets	-	-
Asset securitisation	-	-

Data in thousands of euros

a) Valuation for solvency purposes

Bonds are valued at fair value or amortised cost depending on the category in which they were designated according to IFRS/IAS 39.

b) Valuation differences between Solvency II and NIIF criteria

IFRS and Solvency II valuations coincide; therefore, there were no valuation differences.

Bonds are classified as follows:

- Public debt:

This sub-category includes those issued by central governments or organs forming part of the government structure. This includes instruments issued by autonomous or local administrations in European Union member states, which are considered similar to the debt instruments issued by their central governments.

- Private debt:

  This sub-category includes those issued by institutions which cannot be included within the category of governmental issuers.

- Structured financial assets:

  Issues with a number of specific characteristic which fall under the consideration of structured products.

D.1.7.4 ***Investment funds***

Assets	Solvency II Value	Accounting Value
Investment funds	2,796	2,796

Data in thousands of euros

a) Valuation for solvency purposes

This category encompasses vehicles whose ownership does not include a substantial right beyond the aliquot ownership of a portfolio of financial instruments or investments which are mainly devoted to group savings. Fair value is considered to be the market value on the valuation date.

b) Valuation differences between Solvency II and IFRS criteria

IFRS and Solvency II valuations coincide; therefore, there were no valuation differences.

D.1.7.5 ***Derivatives***

a) Valuation for solvency purposes

This category includes instruments meeting the definition of derivatives as established in IAS 39, regardless of whether for accounting purposes they were segregated or not; they are also measured at fair value, plus directly attributable transaction costs.

After initial recognition, bonds are measured at fair value, including any attributable transaction costs incurred to dispose of them.

b) Valuation differences between Solvency II and NIIF criteria

At least at financial year end, the book value of the derivatives is corrected when there is objective evidence that an event has occurred exerting a negative impact on their future cash flows, or any other circumstance which indicates that the investment cost of the bond is not recoverable.

In 2016, the value for the derivatives item is zero.

D.1.8. Reinsurance recoverables

Assets	Solvency II Value	Accounting Value
Reinsurance recoverables	118,273	130,530

Data in thousands of euros

a) Valuation for Solvency II purposes

The calculation of the recoverable amounts of reinsurance is in line for that for technical direct insurance provisions, which means that these amounts must be recognised at their best estimate, also considering the temporary difference between collection and direct payments, as well as the expected losses from the counterparty's lack of compliance.

The following aspects were taken into account when determining the recoverable value of the amounts of reinsurance arising from amounts considered in technical provisions:

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

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

The classification among the different reinsurance businesses and the development of reinsurance claims are based on the hypotheses and assumptions made for direct insurance with regard to the 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 claims, which are linked to reinsurance contracts.
- The ability to meet the reinsurer's future payment commitments.
- Reinsurance payment pattern.

b) Valuation differences between Solvency II and IFRS criteria

Under IFRS, technical reserves for cessions to reinsurers and for acceptances of grantors are calculated in accordance with the reinsurance contracts written and using the same criteria applied to direct insurance.

The difference in the recoverable amounts from reinsurance between the accounting criteria and the solvency criteria is a result of the different valuation criteria under solvency (use of assumptions, probable flows and discount effect) that are not used under IFRS.

D.1.9. Deposits to cedants

Assets	Solvency II Value	Accounting Value
Deposits to cedants	41,831	41,831

Data in thousands of euros

a) Valuation for Solvency II purposes

For purposes of Solvency II economic balance sheet, when determining the value of loans with policyholders and intermediaries, the time effect implicit in the loans is irrelevant. The obligatory estimates of possible loan default with insurers related to bills pending payment are considered to correctly reflect their economic value.

Loans with policyholders and intermediaries pending collection only includes rights related to invoices effectively issued and presented for collection. As outlined in the section covering technical provisions, future cash flows from invoices pending issue corresponding to insurance obligations within the limits of the contractual framework are considered as part of the calculation of technical provisions.

Valuation differences between Solvency II and IFRS criteria

IFRS and Solvency II valuations coincide; therefore, there were no valuation differences.

D.1.10. Reinsurance receivables

Assets	Solvency II Value	Accounting Value
Reinsurance receivables	6,925	6,925

Data in thousands of euros

a) Valuation for Solvency II purposes

For purposes of the Solvency II economic balance sheet, when determining the value of amounts receivable from reinsurance transactions, the expected value of potential default by the reinsurer is considered, based on its creditworthiness and the time horizon of the recoveries.

This heading includes loans arising as a result of assigned reinsurance transactions.

The value of potential reinsurance collections 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 related to the possibility of meeting the counterparty's future payment commitments.

b) Valuation differences between Solvency II and IFRS criteria

NIIF and Solvency II valuations coincide; therefore, there were no valuation differences.

D.1.11. Receivables (trade, not insurance)

Assets	Solvency II Value	Accounting Value
Receivables (trade, not insurance)	15,802	15,802

Data in thousands of euros

a) Valuation for Solvency II purposes

The item for other receivables (other than those derived from insurance operations) includes adequate quantities for the employees or various partners of businesses that are not derived from insurance operations. It also includes adequate quantities for public entities since there is no reason to have separate lines for tax assets. Under IFRS, credits are measured at amortised cost.

b) Valuation differences between Solvency II and NIIF criteria

NIIF and Solvency II valuations coincide; therefore, there were no valuation differences.

D.1.12. Cash and cash equivalents

Assets	Solvency II Value	Accounting Value
Cash and cash equivalents	11,592	11,592

Data in thousands of euros

a) Valuation for Solvency II purposes

For the purposes of Solvency II valuations, cash and cash equivalents were valued under IFRS, which is the default method established.

Cash and cash equivalents includes cash in hand, deposits in current accounts, deposits held at call with banks, and other short-term highly liquid investments which are easily convertible in certain cash amounts, whose value is subject to fairly insignificant risk of change.

b) Valuation differences between Solvency II and IFRS criteria

IFRS and Solvency II valuations coincide; therefore, there were no valuation differences.

D.1.13. Any other assets, not elsewhere shown

Assets	Solvency II Value	Accounting Value
Any other assets, not elsewhere shown	1,189	1,189

Data in thousands of euros

a) Valuation for Solvency II purposes

The item "Other assets, not included in other items" includes all assets that are not included in other items on the Balance sheet.

b) Valuation differences between Solvency II and IFRS criteria

Due to the varied nature of this line, below you will find a list of the assets that have been grouped together in this item:

- Commissions and other granted accrued reinsurance expenses are contemplated during the valuation of technical provisions, as they include the entirety of the associated expenses.
- Other: depending on the nature of the assets, they may need to be revalued at market value.

D.1.14. Additional information

There is no other additional information to be highlighted.

D.2. Technical provisions

Information on technical provisions

Following are the technical provision valuations using Solvency II criterion (hereinafter, "Solvency II Provisions"), including qualitative explanations for the main differences arising from their valuations using Solvency II and those used in preparing the financial statements based on the PCEA/IFRS, as well as the ROSSEAR, which establishes the applicable criteria to be applied (hereinafter, "Accounting provisions" - under "Accounting value") at 31 December, 2016.

In accordance with the additional provision eighteen of the LOSSEAR and five of the ROSSEAR, regarding the calculation system for the technical provisions for accounting purposes, SOLUNION applies that established in Articles 29, 30, 31, 38, 39, 40, 41, 42, 44 and 45 of the Regulation and Supervision of Private Insurance approved by Royal Decree 2486/1998, of 20 November (ROSSP).

Technical provisions	Solvency II Value	Accounting Value
Technical provisions - insurance other than life insurance	**136.158**	**147.248**
Technical provisions - insurance other than life insurance (excluding health insurance)	136.158	147.248
Technical provisions calculated as a whole	-	
Best Estimate (BE)	133.910	
Risk margin (RM)	2.248	
Other technical provisions		-
TOTAL TECHNICAL PROVISIONS	**136.158**	**147.248**

Data in thousands of euros

In general terms, the main difference between the two valuation methods is the criteria framework under which each regulation falls. 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 most significant differences were as follows:

With regard to the valuation of technical provisions, the Group establishes its accounting provisions according to IFRS.

Under Solvency II, following Directive 2009/138/CE and the ROSSEAR articles on the valuation of provisions for solvency purposes, the value of technical provisions for non-life insurance is determined using two procedures:

- Technical provisions calculated as a total: this methodology is applied when future cash flows associated to insurance obligations may be replicated using financial instruments with a directly observable market value. In this case, the value of technical provisions coincides with the market value of these financial products used for replicating future cash flows; it is unnecessary to make a determination between best estimate and risk margin.

- For all other cases, the technical provisions are calculated as the sum of two parts: the best estimate plus the risk margin.

In the SOLUNION Group, technical provisions for insurance that uses non-life techniques are obtained by adding the best estimate to risk margin.

D.2.1. Best estimate and risk margin

Best estimate

The actuarial methods and statistics used to calculate the technical provisions must be provided according to the nature, volume and complexity of the risks facing the Group.

The best estimate of the (*Best Estimate Liabilities*, hereafter BEL) commitments of the Non-Life business are calculated separately from pending claim provisions and premium provisions.

a) Best estimate of the provision for pending claims

Provision of claims refers to the projection of claims flows that occurred prior to the valuation date, whether or not they were declared. Future flows should include: payments for claims and administration expenses related to said claims.

Reserves are provided both in gross and transferred and are separated by currency.

The process for calculating the best estimate of the provision for pending claims for the purposes of Solvency II is considered to be similar to that for accounting provisions; therefore it is important to keep in mind that the BEL must reconcile with the financial statements.

The best estimate for the pending claim provision is based on the following principles:

- This corresponds to claims taking place prior to the valuation date, regardless of whether they have been declared or not.
- It is calculated by the current value of expected future cash flows associated to the commitments. Projected cash flows will include payments for services and related expenses: claim and investment management.
- Should there be any commitments transferred to a counterparty, the recoverable amounts are adjusted to contemplate the expected losses arising from non-payment.
- 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 final cost of claims and effective payments made, net of their potential recovery or collection.

The provisions for pending claims calculated for use in the financial statements include: the provision for claims pending settlement and payment; the provision for claims pending declaration; and the provision for internal claim settlement expenses. The provision for settling pending claims is calculated using statistical methods and therefore includes claims pending settlement or payment, as well as those not yet declared. The above statistical calculation meets the requirements established in prevailing legislation (Article 43 of ROSSP). Regarding provisions for internal expenses arising from settlement of claims, the calculation is based on applying methodologies which permit the best possible quantification of this type of risk.

We conclude that 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 credit risk adjustment to recoverable reinsurance 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 corresponds to future claims, or those which take place subsequent to the valuation date, corresponding to the remaining claim coverage period.
- This is calculated as the current value of expected cash flows associated to the portfolio in force, in accordance with contractual limits.
- Projected cash flows will include payments for services and related expenses: administration, acquisition, claim management, and investment management.
- Should there be any commitments transferred to a counterparty, the recoverable amounts are adjusted to contemplate the expected losses arising from non-payment.

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

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

- Current portfolio. This includes the following headings:
  - Expected loss ratio. Two methodologies may be used to calculate the current value of service payments:
    - The frequency and average cost method: claims are calculated as the result of exposure based on frequency hypotheses and final average costs.
    - Claims ratio method: the expected loss ratio arising from applying the final claim ratio to gross PPNC acquisition expenses.
  - Expenses attributable to the current portfolio: acquisition (without commissions), administration, chargeable to services, investment expenses, as well as other technical expenses.

- Future business: This includes the following headings:

  - Premiums corresponding to policies which have not yet been renewed but include Group commitments to renew (this is the case for tacit renewals or those for pluri-annual policies with annual guaranteed premium payments). This calculation includes the future performance of policyholders based on the applications of an estimated cancellation probability.

  - Expected claims corresponding to future premiums. The same methodologies for claims in force may be used.

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

The SOLUNION Group does not consider the future business, since, due to its business characteristics, it does not produce tacit renewals and nearly all its portfolio should be subject to renegotiation in each renewal.

Under NIIF, this provision is recognised under the unused premium provision, which is calculated on a policy-by-policy basis, reflecting the tariff premium accrued during the year which may be charged to future years, deducting the security surcharge, in accordance with Article 30 of the ROSSP [Law on Regulation and Supervision of Private Insurance], and complemented by the prevailing risk provision calculated segment-by-segment, where applicable. This provision supplements the unearned premium reserve for the amount that the latter does not reflect the valuation of risks and expenses to be covered for the coverage period that has not yet elapsed at the closing date. It is calculated in accordance with article 31 of the ROSSP.

Contract limits

As outlined in the Solvency II Directive, when calculating the best estimate, it is necessary to consider the contractual limits. 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 correspond to the insurance/reinsurance company's unilateral right to renew or increase its limits and corresponding premiums, will be included in its text, except for:

- Commitments provided by the Group after the date during which:

  - The Group has unilateral cancellation rights over the contract.

  - The Group reserves the right to reject premiums payable related to the contract.

  - The Group reserves the unilateral right to modify its premiums or services to which it is bound by virtue of the contract, so that the premiums clearly reflect the risks.

- All obligations which do not correspond to premiums which have already been paid, unless the policyholder may be forced to pay future premiums, except for the following conditions:

- The contract does not establish an indemnity for a specific undetermined event which may adversely affect the reinsured party.
- The contract does not include a financial guarantee for coverage provided.

We conclude that claim provisions calculated based on Solvency II criteria present the following differences with respect to those calculated based on financial statement requirements:

- The application of the concept of contractual limits, which involves the consideration of future business. Under NIIF, future premiums must be taken into account if they contemplate 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 are less than the provision for unearned premiums (PPNC) reflected on financial statements. In cases of premium inadequacy, the premium provision is comparable to the PPNC plus the prevailing risk provision (without taking the discount effect into account). For future business, the Solvency II premium provision for profitable products will be negative.
- The credit risk adjustment to recoverable reinsurance amounts.
- The financial discount of cash flows.

Risk margin

This is a part of the technical provisions used for guaranteeing that the value of the provisions equals the amount that the Group would need to cover and meet the insurance and reinsurance commitments.

This item reflects the cost of providing a quantity of eligible own funds equal to the SCR needed to support the commitments assumed by the Group until the obligation set forth in the contract is discharged. The cost of financing for supplying the eligible own funds is known as the cost-of-capital rate.

To calculate the risk margin, the assumption is of transferring the best estimate for the Group's current business to a theoretical insurance agency known as reference unit (hereafter RU) the SCR of which is called RU SCR, adopting a series of assumptions described below.

To calculate the RU SCR, various hypothesis are assumed within the regulation that identifies how to transfer the risk to said reference entity, among others:

- SCR Premiums and Reserves (RU): for premiums earned, only the current business is considered according to Article 38 section e) of the Delegate Regulation (EU) 2015/35.
- Counterparty SCR: considers only the risk mitigating contracts.
- SCR residual market: for long-term obligations, only the assets used as risk mitigators should be considered.
- The non-existence of absorption capacity of deferred tax losses is assumed.

  There are 5 methods to calculate risk margin. As the method for calculating is simplified, a larger risk margin is obtained:

- Method 1: The SCR (RU) is calculated in each future year, applying shocks to the BEL of the liabilities that remain in the portfolio in each future projection year.
- Method 2: The SCRs (RU) of the individual risks are approximated through a driver. It is usually used when the exposure among risks is not homogenous.
- Method 3: Estimate of the SCR (RU) as a whole through a driver, mainly the technical provisions.
- Method 4: Method based on the duration of the liabilities.
- Method 5: The risk margin is estimated through factors (stipulated in the technical specifications) of the BEL.

Obtaining the Results (main features): Simplified method 3:

Necessary inputs

The different SCRs that have been previously calculated are required, as are the SCR of the RU (at the current time), adjustment for loss absorption capacity for technical provisions, operational risk and finally, projection of the net BE provisions flow.

Parameters

To make the calculation, the risk correlation matrix, counterparty correlation matrix and percentage of capital cost must be used.

Calculations

With the data specified above, the RU SCR is calculated for different periods based on the progress of the projection of BEL technical provisions. Finally, each theoretical SCR is discounted with the risk-free curve and is multiplied by the cost of capital percentage. The sum of the various periods will result in the Risk Margin.

Further, the regulation requires that the calculation is broken down by Solvency II business line.

$$Margen\ de\ Riesgo\ = CoC * \sum_{t\geq 0} \frac{SCR_{RU}(t)}{(1+r_{t+1})^{t+1}}$$

Where:

- CoC: cost of capital is 6%.
- $SCR_{RU}(t)$: obligatory solvency capital required from a RU.
- r: discount rate, taken from the risk-free curve.

Degree of uncertainty regarding 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, which are mainly the following:

- The probability that the obligation will materialise with regard to future cash flows.
- The moment the obligation materialises.

- Potential amount of the future cash flows.
- The risk-free interest rate.

The first three factors are generally estimated based on expert opinions, or using market data.

Actuarial methods and assumptions used when calculating technical provisions

The following are the chief actuarial techniques used by the Group when calculation of provisions under Solvency II:

- A combination of generally-accepted deterministic methods used for calculating final loss ratio based on a selection of factors to develop frequencies and average costs.
- Stochastic methods for determining the loss ratio assuming a probability distribution function.

The Company considered that the methodologies used are appropriate, applicable, and pertinent.

The following two key hypotheses were used during the calculation of the technical provisions:

- Economic hypotheses, which are contrasted against available financial and macroeconomic indicators which mainly include:

  - Interest rate structure broken down by the commitment currencies.

  - Exchange rates.

  - Market trends and financial variables.

- Non-economic hypotheses, which are mainly obtained from generally-available data based on the Company or external sector/market sources:

  - Realistic administration, investment, acquisition, etc. expenses which are incurred throughout the duration of the contracts.

  - Customer losses and policy surrenders.

  - The frequency and severity of claims based on historical data.

  - Legislative changes.

Also, it is worth noting that under NIIF, Management's actions and policyholder behaviour are not included when calculating technical provisions, while under Solvency II, as indicated in its 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.

The Company employs an effective actuarial method which guarantees the appropriateness and coherence of the underlying methodologies and models used, as well as the hypotheses used in these calculations.

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

The SOLUNION Group has not used the transitional measures for managing long-term guarantees established in Delegated Regulation 2015/35 dated 10 October 2014 and Directive 2009/138/EC, which include: reconciliation and volatility adjustments, transitional adjustment in the structure of risk-free interest rates in Article 308 *c* and the transitional deduction included in Article 308 *d* of the same Directive.

For that reason, form S.22.01.22 regarding the impact on long-term guarantee and transitional measures is not included in accordance with the information included in Appendix I of 30 April 2014 on technical specifications.

D.2.3. Provision of premium and claims recoverables

See the explanation under above Section D.1.8

D.2.4. Significant changes in assumptions used when calculating technical provisions

No significant changes have occurred with regard to the hypotheses used when calculating technical provisions.

D.3. Other liabilities

Below is a description of the bases, methods and main hypotheses used for both valuation for the purposes of Solvency II and for the purposes of the financial statements, for each class of other liability. In the event there are significant differences among the bases, methods and main valuation hypotheses for both balances, a quantitative and qualitative explanation will be provided for them.

Other liabilities	Solvency II Value	Accounting Value
Total technical provisions	**136.158**	**147.248**
Contingent liabilities	0	0
Provisions other than technical provisions	1.495	1.495
Pension and similar obligations provision	4.656	4.656
Deposits received on ceded reinsurance	3.564	3.564
Deferred tax liabilities	0	0
Derivatives	0	0
Debts owed to credit institutions	0	0
Financial liabilities other than debts owed to credit institutions	0	0
Debts for insurance and coinsurance operations	18.872	18.872
Reinsurance operation debts	17.595	17.595
Other debts and payables	24.421	24.421
Subordinated liabilities	0	0
Subordinated liabilities not in Basic Own Funds	0	0
Subordinated liabilities in Basic Own Funds	0	0
Any other liabilities, not elsewhere shown	3.049	16.996

Other liabilities	Solvency II Value	Accounting Value
TOTAL LIABILITIES	**209.810**	**234.847**
SURPLUS OF ASSETS VS. LIABILITIES	**64.568**	**105.103**

Data in thousands of euros

D.3.1. Provisions other than technical provisions

Other liabilities	Solvency II Value	Accounting Value
Provisions other than technical provisions	1,495	1,495

Data in thousands of euros

a) Valuation for Solvency II purposes

The value of the liabilities 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:

- The probability that the obligation will materialise with regard to future cash flows.
- The moment the obligation materialises.
- Potential amount of the future cash flows.
- The risk-free interest rate.

The first three factors are generally estimated based on expert opinions within the area linked to the obligation, in environments with little statistical experience, or using market data.

For purposes related to the Solvency II balance sheet, 'Non-current commitments to employees" are included under "Other non-technical provisions" and were valued based on the same criteria as that used for the consolidated financial statements.

b) Valuation differences between Solvency II and IFRS criteria

IFRS and Solvency II valuations coincide; therefore, there were no valuation differences.

D.3.2. Pension benefit obligations

Other liabilities	Solvency II Value	Accounting Value
Pension benefit obligations	4,656	4,656

Data in thousands of euros

a) Valuation for Solvency II purposes

The IFRS/IAS 19 uses an adequate approximation for the valuation of liabilities for pensions on the balance sheet at market value. The amount is determined by the current value of estimated future cash flows.

b) Valuation differences between Solvency II and IFRS criteria

IFRS and Solvency II valuations coincide; therefore, there were no valuation differences.

D.3.3. Deposits from reinsurers

Other liabilities	Solvency II Value	Accounting Value
Deposits from reinsurers	3,564	3,564

Data in thousands of euros

a) Valuation for Solvency II purposes

This heading includes amounts of deposits held by the SOLUNION Group to cover ceded and receded reinsurance technical provisions.

For the purposes of the Solvency II balance sheet, the valuation of deposits received from reinsurance transactions is considered to have to be valued at the amount at which they may be transferred or settled between duly-informed interested parties carrying out transactions in mutually-independent conditions.

b) Valuation differences between Solvency II and IFRS criteria

IFRS and Solvency II valuations coincide; therefore, there were no valuation differences.

D.3.4. Insurance & intermediary payables

Other liabilities	Solvency II Value	Accounting Value
Insurance & intermediary payables	18,872	18,872

Data in thousands of euros

This heading includes borrowings arranged as a result of transactions performed with insurers other than those related to claims pending settlement, as well as those related to cash balances with Group intermediaries arising from transactions performed.

a) Valuation for Solvency II purposes

Accounts payable are generally recorded as real amounts generated from reimbursements, i.e. their settlement value.

b) Valuation differences between Solvency II and IFRS criteria

IFRS and Solvency II valuations coincide; therefore, there were no valuation differences.

D.3.5. Reinsurance payables

Other liabilities	Solvency II Value	Accounting Value
Reinsurance payables	17,595	17,595

Data in thousands of euros

a) Valuation for Solvency II purposes

This includes reinsurance debts on the current account established for ceded and receded reinsurance transactions.

For the purposes of the Solvency II balance sheet, the valuation is considered consistent with those under IFRS, valued at the amount at which they may be transferred or settled between duly-informed interested parties carrying out transactions in mutually-independent conditions.

b) Valuation differences between Solvency II and PCEA criteria

IFRS and Solvency II valuations coincide; therefore, there were no valuation differences.

D.3.6. Payables (trade, not insurance)

Other liabilities	Solvency II Value	Accounting Value
Payables (trade, not insurance)	24,421	24,421

Data in thousands of euros

a) Valuation for Solvency II purposes

This section includes other payables unrelated to the insurance activity. For the purposes of the Solvency II balance sheet, the valuation is considered consistent with those under IFRS, valued at the amount at which they may be transferred or settled between duly-informed interested parties carrying out transactions in mutually-independent conditions.

b) Valuation differences between Solvency II and IFRS criteria

IFRS and Solvency II valuations coincide; therefore, there were no valuation differences.

D.3.7. Any other liabilities, not elsewhere shown

Other liabilities	Solvency II Value	Accounting Value
Any other liabilities, not elsewhere shown	3,049	16,996

Data in thousands of euros

a) Valuation for Solvency II purposes

It also includes the amount of any other liabilities not included in other balance sheet items, whose valuation was discussed previously.

b) Valuation differences between Solvency II and IFRS criteria

The difference between the amounts shown in both valuations is basically due to the elimination under Solvency II of the other deferred acquisition expenses of the ceded reinsurance that are contemplated during the valuation of technical provisions, as they include the entirety of the associated expenses.

D.3.8. Additional information

There is no further material information.

D.4. Alternative methods of valuation

The SOLUNION Group holds no material assets for which it should use alternative methods of valuation, and it uses no such alternative methods of valuation for its liabilities.

D.5. Any other information

D.5.1. Material differences in the bases, methods and assumptions used to measure solvency in Group companies.

In preparing the consolidated financial statements, no IFRS accounting standards were omitted; therefore, the valuations performed for solvency were done so by applying said principles.

E. Capital management

E.1. Own funds

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

The SOLUNION Group has a capital management policy that has been approved by the Board of Directors and which is reviewed annual for updating.

The principal objectives of this Policy are the following:

- Provide the Group and its companies with a procedure to check that the eligible own funds meet the applicable requirements.
- Ensure that the projections of eligible own funds contemplate the continuous compliance with applicable requirements throughout the period contemplated.
- Establish an identification and documentation process for funds with limited availability, as well as the circumstances in which own funds may absorb losses.
- Ensure that the Group has a medium-term Capital Management Plan.

The Medium-term Capital Management Plan considers the following elements:

- Comply with applicable Solvency legislation throughout the projection period, with special attention on known upcoming regulatory developments, and maintain solvency levels within the Risk Appetite framework;
- all foreseen eligible own funds instrument issues;
- Reimbursements, including contractual maturities as well as those that may discretionally be made prior to maturity, with regard to the eligible own funds.
- the result of the projections in the Internal Risks and Solvency Assessment Policy ("ORSA"); and
- forecasted dividends and their effect on eligible own funds.

The Risk Management Area must submit the medium-term Capital Management Plan to the Board of Directors for approval. The plan is part of the ORSA report. The projected period covers 3 years, and is aligned with the approach used in the SOLUNION Group's Strategic Plan.

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

Structure, amount, and quality of own funds

In figure S.23.01.22 of the Appendix, the structure, amount and quality of the own funds, net of basic and complementary intragroup transactions, are shown, as well as the coverage ratio, i.e. the level of own funds within the SCR, and the MCR.

At 31 December 2016, the SOLUNION Group has the following own funds:

2016	Total	Level 1	Level 2	Level 3
Available own funds	**64,568**	54,075	-	10,493

Data in thousands of euros

As stipulated in regulations established for Own Funds, they may be classified as either basic or complementary. They may also be classified by levels (1, 2, or 3) to the extent that they have certain characteristics determining their availability to absorb losses.

At December 31, 2016, the Group had basic unrestricted Level 1 Own Funds totalling 54,075 thousand euros. These own funds have the maximum availability for absorbing losses. They are comprised of:

- ordinary paid-in share capital,
- ordinary shares,
- reconciliation reserves

It also has basic Level 3 own funds in the amount of 10,493 thousand euros, composed of deferred tax assets.

The eligible amount of own funds to cover SCR and MCR, broken down by levels

Articles 72 and 73 of the LOSSEAR determines the classification and admissibility of own funds to meet the SCR, establishing the following quantitative limits:

- the admissible amount of the level 1 elements must equal at least to half of the SCR;
- the eligible amount of the level 3 elements must be less than 15% of the SCR;
- the sum of the eligible amounts of the level 2 and level 3 elements must not surpass 50% of the SCR.

Additionally, another limit is established for level 1 elements that are restricted, they should represent less than 20% of the level 1 elements.

As mentioned above, given that the Group's own funds include both level 1 and level 3, and according to the standard formula, the level 3 own funds are not fully eligible to cover the regulatory capital. Consequently, the calculation method proposed by EIOPA has been used in this case. The result has been to recognize level 3 own funds equivalent to 15% of the regulatory capital, therefore the resulting eligible amount to cover the consolidated SCR of the consolidated Group is 57,878 million euros. The following chart shows the detail:

2016	Total	Level 1	Level 2	Level 3
Eligible own funds to cover SCR of consolidated Group	**57,878**	54,075	-	3,803

Data in thousands of euros

The Group's solvency ratio, which measures the relationship between eligible own funds and the SCR, reaches 228.3%, and therefore falls within the Risk Appetite safety zone established by the Group and approved by the Board of Directors.

It reflects the Group's great capacity to absorb extraordinary losses arising from adverse scenarios in one out of every 200 years.

Therefore with respect to the MCR coverage, Article 73 of the LOSSEAR determines the eligibility of the own funds to cover it, establishing the following quantitative limits:

a) the eligible amount of the level 1 elements must equal at least 80% of the MCR.

b) the sum of the eligible amounts of the level 2 elements must not surpass 20% of the MCR.

Given the classification of the Group's own funds, the eligible amount to cover the MCR is 54,075 thousand euros. The following chart shows the detail:

2016	Total	Level 1	Level 2	Level 3
Own funds eligible to cover MCR	**54,075**	54,075	-	-

Data in thousands of euros

The Group's solvency ratio, which measures the relationship between the eligible own funds and the MCR amounts to 853.04%.

Availability, subordination and duration of significant Own Fund items used to evaluate their quality

The SOLUNION Group's basic, restricted Level 1 funds hold the characteristics indicated in Article 93.1.a) and b) of Directive 2009/138/EC and they are fully disbursed and available to absorb losses. However, the Level 3 own funds are not fully eligible to cover the regulatory capital as they do not have sufficient availability to absorb losses if necessary.

Difference between equity on the financial statements and surplus assets vs. liabilities for Solvency II purposes

When valuing assets and liabilities for the purposes of Solvency II, different criteria is used from that employed for the preparation of the consolidated financial statements. The above criteria differences lead to differences between the equity on the financial statements and surplus assets vs. liabilities for Solvency II purposes.

As of 31 December, 2016, net equity on the consolidated financial statements totalled 105,103 thousand euros, while surplus assets vs. liabilities for Solvency II purposes was 64,568 thousand euros.

Quantitative and qualitative explanations are set out under Sections D.1 Assets, D.2 Technical Provisions, and D.3 Other liabilities in this report.

Own Funds issued and instruments redeemed

Neither the SOLUNION Group nor Group companies issued new own funds during the year, and made no redemptions of instruments.

Essential items in the Reconciliation Reserve

The amount of the SOLUNION Group's Reconciliation Reserve is -28,617 thousand euros and it is composed mainly of "Other items of basic own funds" and of "Surplus of assets vs. liabilities." A breakdown is shown below:

Reconciliation reserves	2016
Surplus of assets vs. liabilities	64,568
Treasury shares (included as assets on the balance sheet)	-
Dividends, distributions and foreseen costs	-
Other elements of basic own funds	93,185
Adjustments for own fund items restricted by FDL and CSAC	-
Other unavailable own funds	-
Total reconciliation reserves	**(28,617)**

Data in thousands of euros

E.1.3. Transitional measures

The SOLUNION Group did not consider any items of Own Funds to which the transitional provisions foreseen in Article 308 ter, Sections 9 and 10 of Directive 2009/138/EC.

E.1.4. Ancillary own funds

All the SOLUNION Group's own funds are considered basic, with no ancillary own funds counted.

E.1.5. Items deducted from own funds

At 31 December 2016, no items were deducted from own funds, and there are no restrictions on the fungibility and transferability of own funds eligible in the calculation of the required solvency capital at group level. There are no restrictions on transferability between related companies of the Group.

E.1.6. Other information

Other ratios apart from those included on template S.23.01

The SOLUNION Group does not use other ratios apart from other ratios apart from those included on template S.23.01.22, on its solvency.

Subordinated debt

The SOLUNION Group holds no subordinated debt.

Main loss absorption mechanisms

The SOLUNION Group has no items of own funds requiring absorption methods to comply with Article 71, Section 1, Letter e of the Delegated Regulation.

E.2. Solvency Capital Requirement and Minimum Capital Requirement

The SOLUNION Group uses Method 1 based on accounting consolidation, which it applies to all its companies, to calculate its capital requirements.

The SCR by risk models uses the Solvency II standard formula methodology as at 31 December 2016, is listed in Section C Risk Profile. In addition, in the figures of S.25.01.22.

The consolidated Group's total Solvency Capital Requirement (SCR) included in Appendix S.24.01.22 amounts to 25,356 thousand euros, corresponding to the level of own funds required by the supervisory authorities from the insurance and reinsurance agencies for the purpose of absorbing significant losses and offering the policyholders and insurance beneficiaries a reasonable guarantee that the payments will be made upon maturity. It has been calculated using the simplification set forth in Article 109 of Directive 2009/138/EC.

As described in Section C, the SOLUNION Group's risk profile is affected mainly by non-life underwriting risk, in which catastrophic credit and surety risk is the main contributor due to the risk of recession. Second is market risk, in which exchange rate risk is highest due to the companies the Group possesses in Latin America. Third is credit risk, which is generated mainly because of the Group's high exposure in reinsurance agreements. The exposure level of reinsurance recoverables is affected by the heightened level of transfer defined in the reinsurance structure.

The Company does not benefit from loss absorption capacity of these technical provisions, and the loss absorption capacity of for deferred tax losses amounts to 7,473 thousand euros

The consolidated Group's Minimum Solvency Capital Requirements (MCR), the capital amount that guarantees the security minimum, under which financial resources should never drop, has a value of 6,339 thousand euros.

To obtain the MCR, the linear MCR should be calculated, the value of which is 4,103 thousand euros. It was obtained applying the factors corresponding to data used in their calculation. The combined MCR amounted to 6,339 thousand euros. The combined MCR is the result from applying maximum and minimum limits to the linear MCR.

Since the combined MCR is higher than the MCR’s absolute limit (3,700 thousand euros), the amount of the combined MCR is considered as the amount of MCR, which is, therefore, 6,339 thousand euros.

Significant sources of diversification effects of group

The SOLUNION Group does not benefit from significant sources of diversification effects because it operates in a single credit and surety line of business.

Data used by the Company in calculation of the MCR Solvency

The SOLUNION Group uses Method 1 based on accounting consolidation, which it applies to all its companies, to calculate its minimum solvency capital (MCR) requirements.

The group's minimum solvency capital requirement is calculated in accordance with Article 230.2.(2) of Directive 2009/138/EC.

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

The SOLUNION Group did not use this option when performing its solvency valuation.

E.4. Differences between the Standard Formula and any internal model used

The SOLUNION Group does not use Internal Models in the calculation of their Solvency needs, as it adheres to the Solvency II Standard Formula.

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

At December 31, 2016, the SOLUNION Group had sufficient SCR and MCR with eligible Own Funds; therefore, it was considered unnecessary to adopt any other action or corrective measure.

Appendix I

List of templates reported (Data in thousands of euros)

S.02.01.02 – Balance sheet

S.05.01.02 – Premiums, loss ratio, and expense by business line

S.05.02.01 – Premiums, loss ratio, and expense by country

S.23.01.22 – Own funds

S.25.01.22 – Solvency Capital Requirement – for undertakings on Standard Formula

S.32.01.22 – Undertakings in the scope of the group

S.02.01.02

	C0010	
Assets	**Solvency II value**	
Intangible assets	**0**	R0030
Deferred tax assets	**10,493**	R0040
Pension benefit surplus	**4,655**	R0050
Property, plant & equipment held for own use	**1,650**	R0060
Investments (other than assets held for index-linked and unit-linked contracts)	**61,949**	R0070
Property (other than for own use)	48	R0080
Investments	0	R0090
Equities	0	R0100
Equities - listed	0	R0110
Equities - unlisted	0	R0120
Bonds	59,105	R0130
Public debt	48,023	R0140
Private debt	11,082	R0150
Structured financial assets	0	R0160
Asset securitisation	0	R0170
Investment funds	2,796	R0180
Derivatives	0	R0190
Deposits other than cash equivalent assets	0	R0200
Other investments	0	R0210
Assets held for index-linked and unit-linked contracts	0	R0220
Loans and mortgages	0	R0230
Loans on policies	0	R0240
Loans and mortgages to individuals	0	R0250
Other loans and mortgages	0	R0260
Reinsurance recoverables from:	**118,292**	R0270
Non-life and health similar to non-life		R0280
Non-life excluding health	118,292	R0290
Health similar to non-life		R0300
Life and health similar to life, excluding health and index-linked and unit-linked		R0310
Health similar to life		R0320
Life excluding health and index-linked and unit-linked		R0330
Life index-linked and unit-linked		R0340
Deposits to cedents	**0**	R0350
Insurance and intermediaries receivables	**41,831**	R0360
Reinsurance receivables	**6,925**	R0370

Receivables (trade, not insurance)	**15,802**	R0380
Own shares (held directly)	**0**	R0390
Amounts due in respect of own fund items or initial fund called up but not yet paid in	**0**	R0400
Cash and cash equivalents	**11,592**	R0410
Any other assets, not elsewhere shown	**1,189**	R0420
Total assets	**274,378**	**R0500**

	C0010	
Liabilities	**Solvency II value**	
Technical provisions - non-life	**136,158**	R0510
Technical provisions - non-life (excluding health)	136,158	R0520
Technical provisions calculated as a whole	-	R0530
Best Estimate	133,910	R0540
Risk margin	2,248	R0550
Technical provisions - health (similar to non-life)		R0560
Technical provisions calculated as a whole		R0570
Best Estimate		R0580
Risk margin		R0590
Technical provisions - life (excluding index-linked and unit-linked)		R0600
Technical provisions - health (similar to life)		R0610
Technical provisions calculated as a whole		R0620
Best Estimate		R0630
Risk margin		R0640
Technical provisions - life (excluding health and index-linked and unit-linked)		R0650
Technical provisions calculated as a whole		R0660
Best Estimate		R0670
Risk margin		R0680
Technical provisions - index-linked and unit-linked		R0690
Technical provisions calculated as a whole		R0700
Best Estimate		R0710
Risk margin		R0720
Contingent liabilities	0	R0740
Provisions other than technical provisions	1,495	R0750
Pension benefit obligations	4,656	R0760
Deposits from reinsurers	3,564	R0770
Deferred tax liabilities	0	R0780
Derivatives	0	R0790
Debts owed to credit institutions	0	R0800

	C0010	
Liabilities	**Solvency II value**	
Financial liabilities other than debts owed to credit institutions	0	R0810
Insurance & intermediaries payables	18,872	R0820
Reinsurance payables	17,595	R0830
Payables (trade, not insurance)	24,421	R0840
Subordinated liabilities	0	R0850
Subordinated liabilities not in Basic Own Funds	0	R0860
Subordinated liabilities in Basic Own Funds	0	R0870
Any other liabilities, not elsewhere shown	3,049	R0880
Total liabilities	**209,810**	**R0900**
Excess of assets over liabilities	**64,568**	**R1000**

S.05.01.02

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120
		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)											
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss
	Premiums written												
R0110	Gross - Direct Business									128,884			
R0120	Gross - Proportional reinsurance accepted									8,008			
R0130	Gross - Non-proportional reinsurance accepted												
R0140	Reinsurers' share									124,136			
R0200	**Net**									12,755			
	Premiums earned												
R0210	Gross - Direct Business									127,535			
R0220	Gross - Proportional reinsurance accepted									6,752			
R0230	Gross - Non-proportional reinsurance accepted												
R0240	Reinsurers' share									121,425			
R0300	**Net**									12,862			
	Claims incurred												
R0310	Gross - Direct Business									65,609			
R0320	Gross - Proportional reinsurance accepted									(95)			
R0330	Gross - Non-proportional reinsurance accepted												
R0340	Reinsurers' share									58,812			
R0400	**Net**									6,702			
	Changes in other technical provisions												
R0410	Gross - Direct Business									964			
R0420	Gross - Proportional reinsurance accepted									157			
R0430	Gross - Non- proportional reinsurance accepted												
R0440	Reinsurers' share									1,019			
R0500	**Net**									102			
R0550	Expenses incurred									4,959			
R1200	Other Expenses												
R1300	**Total expenses**												

S.05.01.02

		C0130	C0140	C0150	C0160	C0200
		Line of business for:accepted non-proportional reinsurance				Total
		Health	Casualty	Marine, aviation, transport	Property	
	Premiums written					
R0110	Gross - Direct Business					128,884
R0120	Gross - Proportional reinsurance accepted					8,008
R0130	Gross - Non-proportional reinsurance accepted					
R0140	Reinsurers' share					124,136
R0200	**Net**					12,755
	Premiums earned					
R0210	Gross - Direct Business					127,535
R0220	Gross - Proportional reinsurance accepted					6,752
R0230	Gross - Non-proportional reinsurance accepted					
R0240	Reinsurers' share					121,425
R0300	**Net**					12,862
	Claims incurred					
R0310	Gross - Direct Business					65,609
R0320	Gross - Proportional reinsurance accepted					(95)
R0330	Gross - Non-proportional reinsurance accepted					
R0340	Reinsurers' share					58,812
R0400	**Net**					6,702
	Changes in other technical provisions					
R0410	Gross - Direct Business					964
R0420	Gross - Proportional reinsurance accepted					157
R0430	Gross - Non- proportional reinsurance accepted					
R0440	Reinsurers' share					1,019
R0500	**Net**					102
R0550	Expenses incurred					4,959
R1200	Other Expenses					
R1300	**Total expenses**					4,959

S.05.02.01

		C0080	C0090	C0100	C0110	C0120	C0130	C0140
		SPAIN	**MEXICO**	**COLOMBIA**	**CHILE**	**ARGENTINA**	**ITALY**	**Total Top 5 and home country**
	Premiums written							
R0110	Gross - Direct Business	98,107	13,229	10,358	7,190	0	0	128,884
R0120	Gross - Proportional reinsurance accepted	0	0	0	0	1,896	1,721	3,617
R0130	Gross - Non-proportional reinsurance accepted							
R0140	Reinsurers' share	89,174	12,543	9,445	6,587	1,749	1,485	120,983
R0200	**Net**	8,933	685	913	603	147	236	11,517
	Premiums earned							
R0210	Gross - Direct Business	97,962	13,128	9,824	6,621	0	0	127,535
R0220	Gross - Proportional reinsurance accepted	0	0	0	0	1,725	1,710	3,435
R0230	Gross - Non-proportional reinsurance accepted							
R0240	Reinsurers' share	88,904	12,294	8,916	6,064	1,592	1,471	119,242
R0300	**Net**	9,058	833	908	558	133	239	11,728
	Claims incurred							
R0310	Gross - Direct Business	44,810	7,769	5,452	7,578	0	0	65,609
R0320	Gross - Proportional reinsurance accepted	0	0	0	0	(124)	1,387	1,263
R0330	Gross - Non-proportional reinsurance accepted							
R0340	Reinsurers' share	40,001	7,344	5,067	6,872	(174)	1,256	60,366
R0400	**Net**	4,809	425	384	706	50	132	6,506
	Changes in other technical provisions							
R0410	Gross - Direct Business							
R0420	Gross - Proportional reinsurance accepted							
R0430	Gross - Non- proportional reinsurance accepted							
R0440	Reinsurers' share							
R0500	**Net**							
R0550	Expenses incurred	6,817	2,961	733	2,001	(203)	228	12,538
R1200	Other Expenses							
R1300	**Total expenses**	6,817	2,961	733	2,001	(203)	228	12,538

S.23.01.22

		C0010	C0020	C0030	C0040	C0050
		Total	**Tier 1 - unrestricted**	**Tier 1 - restricted**	**Tier 2**	**Tier 3**
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35					
R0010	Ordinary share capital (gross of own shares)	40,149	40,149			
R0020	Non-available called but not paid in ordinary share capital at group level					
R0030	Share premium account related to ordinary share capital	42,543	42,543			
R0040	Iinitial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings					
R0050	Subordinated mutual member accounts					
R0060	Non-available subordinated mutual member accounts at group level					
R0070	Surplus funds					
R0080	Non-available surplus funds at group level					
R0090	Preference shares					
R0100	Non-available preference shares at group level					
R0110	Share premium account related to preference shares					
R0120	Non-available share premium account related to preference shares at group level					
R0130	Reconciliation reserve	(28,617)	(28,617)			
R0140	Subordinated liabilities					
R0150	Non-available subordinated liabilities at group level					
R0160	An amount equal to the value of net deferred tax assets	10,493				10,493
R0170	The amount equal to the value of net deferred tax assets not available at the group level					
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above					
R0190	Non available own funds related to other own funds ítems approved by supervisory authority					
R0200	Minority interests (if not reported as part of a specific own fund item					
R0210	Non-available minority interessts at group level					

		C0010	C0020	C0030	C0040	C0050
		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
R0220	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					
R0230	Deductions for participations in financial and credit institutions					
R0240	Whereof deducted according to art 228 of the Directive 2009/138/EC					
R0250	Deductions for participations where there is non-availability of information (Article 229)					
R0260	Deductions for participations included by using D&Awhen a combination of methods is used					
R0270	Total of non-available own fund ítems					
R0280	**Total deductions**					
R0290	**Total basic own funds after deductions**	64,568	54,075			10,493
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand					
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand					
R0320	Unpaid and uncalled preference shares callable on demand					
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC					
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC					
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
R0370	Supplementary member calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
R0380	Non available ancillary own funds at group level					
R0390	Other ancillary own funds					
R0400	**Total ancillary own funds**					

		C0010	C0020	C0030	C0040	C0050
		Total	**Tier 1 - unrestricted**	**Tier 1 - restricted**	**Tier 2**	**Tier 3**
	Own funds of other financial sectors					
R0410	**Reconciliacion reserve**					
R0420	Institutions for occupational retirement provision					
R0430	Non regulated entities carrying out financial activities					
R0440	Total own funds of other financial sectors					
	Own funds when using the D&A, exclusively or in combination of method 1					
R0450	Own funds aggregated when using the D&A and combination of method					
R0460	Own funds aggregated when using the D&A and combination of method net of IGT					
R0520	Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	64,568	54,075			10,493
R0530	Total available own funds to meet the minimum consolidated group SCR	54,075	54,075			
R0560	Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A	57,878	54,075			3,803
R0570	Total elegible own funds to meet the mínimum consolidated group SCR	54,075	54,075			
R0610	**Minimum consolidated Group SCR**	**6,339**				
R0650	**Ratio of Elegible own funds to Minimum Consolidaed Group SCR**	**853.04%**				
R0660	**Total elegible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)**	**57,878**				
R0680	**Group SCR**	**25,356**				
R0690	**Ratio of Elegible own funds to group SCR including other financial sectors and the undertakings included via D&A**	**228.26%**				

		C0060
	Reconciliation reserve	
R0700	Excess of assets over liabilities	64,568
R0710	Own shares (held directly and indirectly)	
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	93,185
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	
R0750	Other non available own funds	
R0760	**Reconciliation reserve before deduction for participations in other financial sector**	**(28,617)**
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	
R0790	**Total Expected profits included in future premiums (EPIFP)**	

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		C0040	C0090	C0100
		Gross solvency capital requirement	USP	Simplifications
R0010	Market risk	9,926		
R0020	Counterparty default risk	5,995		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	20,901		
R0060	Diversification	(8,011)		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	**28,812**		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	4,017
R0140	Loss-absorbing capacity of technical provisions	
R0150	Loss-absorbing capacity of deferred taxes	(7,473)
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R0200	**Solvency Capital Requirement excluding capital add-on**	**25,356**
R0210	Capital add-on already set	
R0220	**Solvency capital requirement**	**25,356**
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	
R0440	Diversification effects due to RFF NSCR aggregation for article 304	
R0470	Minimum consolidated group solvency capital requirement	6,339
	Information on other entities	
R0500	Capital requirement for other financial sectors (Non-insurance capital requirement)	
R0510	Capital requirement for other financial sectors (Non-insurance capital requirements) — Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies	
R0520	Capital requirement for other financial sectors (Non-insurance capital requirements) — Institutions for occupational retirement provisions	
R0530	Capital requirement for other financial sectors (Non-insurance capital requirements) — Capital requirement for non-regulated entities carrying out financial activities	
R0540	Capital requirement for non-controlled participation requirements	
R0550	Capital requirement for residual undertakings	
	Overall SCR	
R0560	SCR for undertakings included via D and A	
R0570	Solvency capital requirement	**25,356**

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C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	
Country	**Identification code of the undertaking**	**Type of code of the ID of the undertakings**	**Legal name of the undertaking**	**Type of undertaking**	**Legal form**	**Category (mutual / non mutual)**	**Supervisory Authority**	**ID[2]**
Spain	959800LM5VB6ST5FT348	LEI	Solunion Seguros de Crédito S.A.	Non-life insurance undertaking	Public Limited Company	Non-mutual	Directorate General of Insurance and Pension Funds	1
Spain	B81419442	Specific Code	Solunion Servicios de Crédito S.L.	Ancillary services undertaking, as defined in Article 1.52 of the Delegated Regulation (EU) 2015/35	Limited Company	Non-mutual		2
Spain	B82140153	Specific Code	Mapfre America Caución y Crédito S.L.U.	Insurance holding company, as defined in Art. 212 [f] of Directive 2009/138/EC	Limited Company	Non-mutual		3
USA	GRC0571US04000	Specific Code	Euler Hermes ACI Holding LLC	Mixed-activity insurance holding company, as defined in Art. 212.1 [g] of Directive 2009/138/EC	Limited Company	Non-mutual		4
Colombia	GRC0571CO02100	Specific Code	Solunion Colombia Seguros de Crédito S.A.	Non-life insurance undertaking	Public Limited Company	Non-mutual	Financial Superintendency of Colombia	5
Chile	GRC0571CL01300	Specific Code	Solunion Chile Seguros de Crédito S.A.	Non-life insurance undertaking	Public Limited Company	Non-mutual	Superintendency of Insurance and Securities	6
Mexico	GRC0571MX01500	Specific Code	Solunion México Seguros de Crédito S.A.	Non-life insurance undertaking	Public Limited Company	Non-mutual	National Commission of Insurance and Finance	7
Colombia	GRC0571CO02600	Specific Code	Solunion Servicios de Crédito Colombia LTDA	Ancillary services undertaking, as defined in Article 1.52 of the Delegated Regulation (EU) 2015/35	Limited Company	Non-mutual		8
Chile	GRC0571CL04600	Specific Code	Solunion Chile Servicios de Crédito LTDA	Ancillary services undertaking, as defined in Article 1.52 of the Delegated Regulation (EU) 2015/35	Limited Company	Non-mutual		9
Mexico	GRC0571MX02000	Specific Code	Solunion Servicios de Crédito S.A. de C.V.	Ancillary services undertaking, as defined in Article 1.52 of the Delegated Regulation (EU) 2015/35	Public Limited Company	Non-mutual		10
Argentina	GRC0571AR02000	Specific Code	Solunion Servicios de Crédito Argentina S.A.	Ancillary services undertaking, as defined in Article 1.52 of the Delegated Regulation (EU) 2015/35	Public Limited Company	Non-mutual		11

[2] Identification column included to facilitate on-screen search.

Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation	
C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260	
% capital share	**% used for the establishment of consolidated accounts**	**% voting rights**	**Other criteria**	**Level of influence**	**Proportional share used for group solvency calculation**	**YES / NO**	**Date of decision if Art. 214 is applied**	**Method used and under method 1, treatment of the undertakings**	**ID**
					100%	YES	01/01/2016	Method 1: full consolidation	1
100%	100%	100%		Material		YES	01/01/2016	Method 1: full consolidation	2
100%	100%	100%		Material		YES	01/01/2016	Method 1: full consolidation	3
100%	100%	100%		Material		YES	01/01/2016	Method 1: full consolidation	4
100%	100%	100%		Material	100%	YES	01/01/2016	Method 1: full consolidation	5
100%	100%	100%		Material	100%	YES	01/01/2016	Method 1: full consolidation	6
100%	100%	100%		Material	100%	YES	01/01/2016	Method 1: full consolidation	7
100%	100%	100%		Material		YES	01/01/2016	Method 1: full consolidation	8
100%	100%	100%		Material		YES	01/01/2016	Method 1: full consolidation	9
100%	100%	100%		Material		YES	01/01/2016	Method 1: full consolidation	10
100%	100%	100%		Material		YES	01/01/2016	Method 1: full consolidation	11

Appendix II

Legal Structure of SOLUNION Group:

SOLUNION SEGUROS DE CREDITO, S.A.
Table of subsidiaries and participating interests

				Equity Participation			Year End Figures (in thousand euro)									
Company Name	Address	Effective Tax Rate	Activity	Owner	Share of capital held (as a %)		Assets		Share Capital		Turnover		Net Result		Consolidation Method	
					2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	SOLUNION															
SOLUNION SERVICIOS DE CREDITO S.L.U.	Avda.General Perón 40, 3ª Planta (Madrid) España	21,04% (1) (2)	Services	■ SOLUNION SEGUROS DE CREDITO S.A.	100,0000	100,0000	12.500	11.428	6.737	4.353	21.031	19.143	2.384	1.511	(A)	(A)
SOLUNION SERVICIOS DE CREDITO ARGENTINA, S.A.	Corrientes 299, 2° piso (C1043AAC) Buenos Aires (Argentina)	36,59%	Services	■ SOLUNION SEGUROS DE CREDITO S.A. ■ SOLUNION SERVICIOS DE CREDITO S.L.U.	95,0000 5,0000	95,0000 5,0000	680	626	279	259	880	914	104	43	(A)	(A)
MAPFRE AMÉRICA CAUCIÓN Y CRÉDITO, S.L.	Avda.General Perón,40 (Madrid) España	25,17% (1)	Holding	■ SOLUNION SEGUROS DE CREDITO S.A. ■ EULER HERMES ACI HOLDING S.L.U	81,3100 18,6900	81,3100 18,6900	16.846	17.261	16.846	16.733	---	2.953	113	1.223	(A)	(A)
SOLUNION CHILE SEGUROS DE CREDITO, S.A	Isidora Goyenechea,3520 piso 17 Los condes, 7550071 Santiago, Chile		Insurance	■ MAPFRE AMÉRICA CAUCIÓN Y CRÉDITO, S.L. ■ SOLUNION COLOMBIA SEGUROS DE CREDITO, S.A. ■ EULER HERMES ACI HOLDING S.L.U ■ SOLUNION CHILE SERVICIOS DE CREDITO, LTDA.	51,8310 0,0040 36,3200 11,8450	51,8310 0,0040 36,3200 11,8450	25.081	23.911	6.133	5.851	9.405	7.871	(14)	(121)	(A)	(A)
SOLUNION COLOMBIA SEGUROS DE CREDITO, S.A.	Calle 7 sur 42-70 Medellín (Colombia)	41,54%	Insurance	■ MAPFRE AMÉRICA CAUCIÓN Y CRÉDITO, S.L. ■ SOLUNION SEGUROS DE CREDITO, S.A. ■ SOLUNION MEXICO SEGUROS DE CREDITO, S.A ■ SOLUNION CHILE SEGUROS DE CREDITO S.A. ■ SOLUNION SERVICIOS DE CREDITO S.L.U.	94,8936 4,7872 0,1064 0,1064 0,1064	94,8936 4,7872 0,1064 0,1064 0,1064	33.984	33.742	8.843	7.349	12.598	13.105	608	810	(A)	(A)
SOLUNION MEXICO SEGUROS DE CREDITO, S.A.	Torre Planco, Mariano Escobedo 476 piso 15. Colonia Nueva Anzures C.P. 11590 Mexico D.F., Mexico	43,80%	Insurance	■ MAPFRE AMÉRICA CAUCIÓN Y CRÉDITO, S.L.	100,0000	100,0000	36.656	40.943	10.346	10.627	18.282	18.574	1.180	1.798	(A)	(A)
EULER HERMES ACI HOLDING S.L.U.	Avda.General Perón 40, 3ª Planta (Madrid) España		Holding	■ SOLUNION SEGUROS DE CREDITO S.A.	100,0000	100,0000	5.751	5.751	5.751	5.751	---	---	---	---	(A)	(A)
SOLUNION CHILE SERVICIOS DE CREDITO, LTDA.	Isidora Goyenechea,3520 piso 17 Los condes, 7550071 Santiago, Chile	24,32%	Services	■ EULER HERMES ACI HOLDING, S.L.U. ■ SOLUNION SERVICIOS DE CREDITO S.L.U.	99,3300 0,6700	99,3300 0,6700	1.706	1.684	1.454	1.288	1.958	1.495	28	124	(A)	(A)
SOLUNION SERVICIOS DE CREDITO DE COLOMBIA,LTDA	Calle 7 sur 42-70 Medellín (Colombia)	38,68%	Services	■ EULER HERMES ACI HOLDING, S.L.U. ■ SOLUNION SERVICIOS DE CREDITO S.L.U.	98,3333 1,6667	98,3333 1,6667	3.776	2.416	2.454	1.490	2.794	2.540	772	956	(A)	(A)
SOLUNION MEXICO SERVICIOS, S.A. DE C.V.	Torre Planco, Mariano Escobedo 476 piso 15. Colonia Nueva Anzures C.P. 11590 Mexico D.F., Mexico	33,79%	Services	■ EULER HERMES ACI HOLDING S.L.U ■ SOLUNION SERVICIOS DE CREDITO S.L.U.	100,0000	100,0000	1.656	1.422	445	323	4.040	3.637	243	146	(A)	(A)

CONSOLIDATION METHODS
(A) Fully integrated subsidiaries
(B) Not consolidated subsidiaries
(C) Equity method participating interests
(D) Not consolidated participating interests
(E) Business combinations consolidated at equity method
(F) Entities incorporated in 2015 consolidation scope
(G) Entities incorporated in 2016 consolidation scope
(H) Entities deconsolidated from 2016 consolidation scope

TAX GROUP
(1) Entities which are part of Tax Group 171/14
(2) Entities which are part of VAT Group 87/10