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

Solvency and Financial Condition Report

31/12/2018

Executive Summary

This report meets one of the requirements set out in law 20/2015, of July 14, on the Ordering, Supervision and Solvency of Insurance and Reinsurance Entities (LOSSEAR), and Royal Decree 1060/2015, of November 20, 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 November 25, 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (hereinafter, Solvency II Directive).

Delegated Regulation (EU) 2015/035 supplements this Directive and regulates the minimum content a Solvency and Financial Condition Report must contain.

A. Business and performance

Solunion Seguros, Compañía Internacional de Seguros y Reaseguros, S.A. (hereinafter "the controlling Company") is a company which is the exclusive social purpose of the practice of insurance and reinsurance operations in the Credit and Suretyship line of business as well as other supplementary, ancillary or related businesses as soon as they are permitted by the insurance legislation.

The controlling Company constitutes 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.à.r.l. and MAPFRE Participaciones, S.A.U. (MAPFRE Global Risks, Compañía Internacional de Seguros y Reaseguros, S.A. during 2018) 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 "SOLUNION Group"). In December 2017, the shareholders extended the agreement scope to include the joint development of the suretyship insurance.

The result of the technical account at December 31, 2018 amounted to EUR 13,353 thousand (EUR 12,087 thousand in 2017), which, combined with the result of the non-technical account, EUR (4,764) thousand (EUR (4,263) thousand in 2017) generated profit before tax of EUR 8,589 thousand (EUR 7,824 thousand in 2017).

In 2018, the volume of written premium in direct insurance and accepted reinsurance amounted to EUR 177,747 thousand (EUR 146,462 thousand in 2017). The strong performance of the international business has resulted in total reinsurance premiums accepted of EUR 25,221 thousand (EUR 10,763 thousand in 2017).

The rate of claims to premiums written net of reinsurance has been located in 54.7% including as accidents the payments and variation of provisions of claims, higher percentage in 15 points to the previous year.

B. System of Governance

The SOLUNION Group has the following bodies for governance: The General Meeting, Supervision Committee, Board of Directors, Audit Commission, Investment Committee, Nomination and Compensation Committee and the Management Committee.

In the performance of its powers in the risk management Government, the Management Committee has the Risk, Actuarial and Reserve and Compliance committee’s support.

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 controlling Company has a series of Policies that regulate Key Functions (Risk Management, Actuarial, Compliance and Internal Audit) and ensure that they meet the requirements set by the Regulator and are compliant with the governance guidelines set by the SOLUNION Group. Section B in this Report includes information on these Key functions.

Both executives and Group members that perform Key Functions and other employees fulfil the fit and proper requirements laid down in regulations and by the controlling Company. Fit requirements relate to the employees possessing the professional qualifications, experience and knowledge necessary for a position, while proper requirements relate to the absence of negative circumstances that might affect one's performance. To facilitate compliance therewith, the controlling Company has a Fit and Proper Policy.

Regarding the Risk Management System, the Board of Directors of the controlling Company establishes the policies and strategies required to identify, measure, monitor, manage and notify the risks that exist or to which the Group might be exposed, and its links.

The SOLUNION Group 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, Risk Management and Internal Audit) 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 adequacy 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, so that the controlling Company establishes its own implementation and development strategy of the Risk Management and Internal Control Area, and the

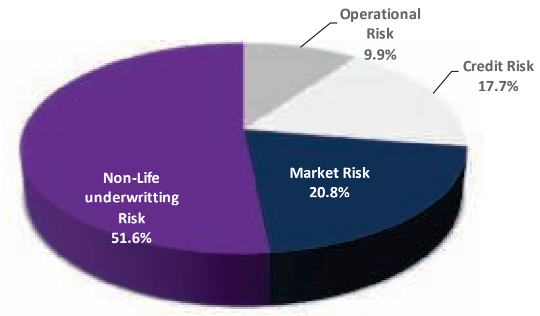
Board of Directors of SOLUNION defines the reference criteria and establishes and/or validates its organisational structure.

C. Risk profile

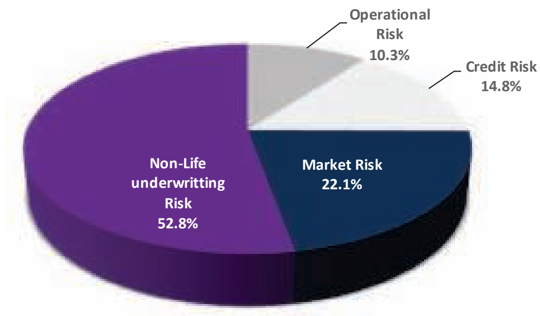
Following the entry into force of Solvency II, the SOLUNION Group calculates the Solvency Capital Requirement (hereinafter SCR) in accordance with the requirements of the methodology laid down in the regulation for its calculation, which is called the standard formula.

The following is the composition of the Group'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:

2018



2017



The Group's risks profile has remained constant throughout the year. The risk, which most intensely affects is Non-Life Underwriting, to which catastrophic Credit and Bonding risk mainly contribute, due to the recession risk that burdens the SOLUNION Group for 100% of the underwritten premiums. The next risk with the most impact is the Market, mainly due to the concentration of risk that the entity has in government bonds that are outside the European Economic Area.

In addition to the risks mentioned, SOLUNION 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 controlling Company deems appropriate for its risk profile.

With respect to significant concentrations of risk, the controlling Company has policies that set 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 Group and the business model to adverse events. The results of these analyses show that the SOLUNION Group meets with regulatory capital requirements even in adverse circumstances.

Based on the outcome of these stress tests and sensitivity analyses, the Group 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 325,092 thousand, while the value measured in accordance with accounting regulations would amount to EUR 398,096 thousand.

This difference mainly relates to goodwill, prepaid fees and other acquisition costs, intangible assets, recoverable reinsurance and deferred tax assets, and investments that have not been valued to market in the accounting regulations.

The total value of liabilities under Solvency II amounts to EUR 260,714 thousand, compared to EUR 286,804 thousand according to accounting regulations. These differences correspond mainly to the technical provisions, other acquisition costs of the reinsurance commissions and the deferred tax liabilities.

The main difference in valuation criteria in both the assets and the liabilities between the two regulations lies in technical provisions, 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.

During the year there were no significant changes in valuation criteria of the assets and liabilities.

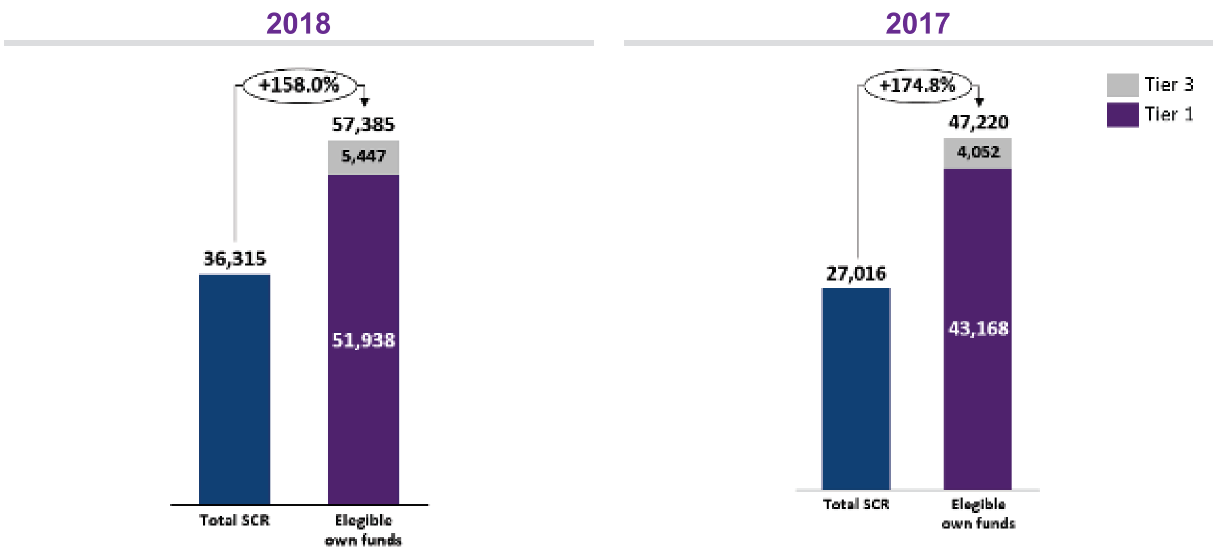
E. Capital management

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 Group's own risk appetite.

The Group's solvency ratio, that denotes the share of its own funds available to meet the SCR, is 158.0%, while the share of its own funds available for meeting the MCR, that is, the minimum capital ratio required, reaches 572.1%. Therefore, the Group is in a suitable situation to be able to face future commitments taking into account the capital requirements established by the Solvency II regulations.

For calculating the solvency ratio, the Group has not applied the adjustment for marriage, nor the adjustment for volatility, nor the transitional measure about technical provisions by the Solvency II regulations.

The Group's solvency ratio for SCR coverage in the years of study is as follows:

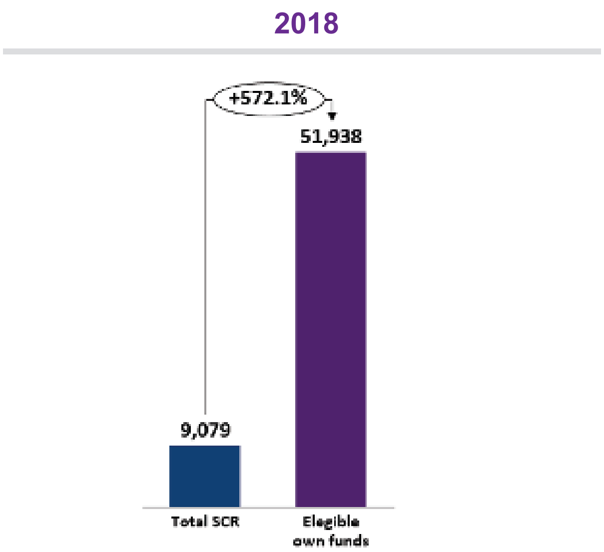


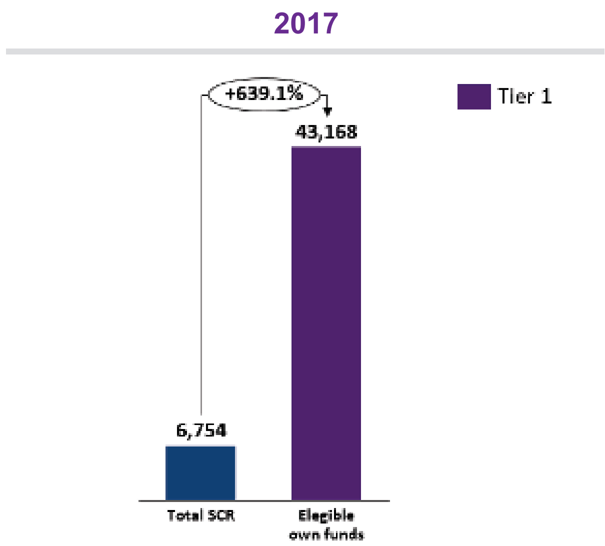
Data in thousands of euros

The coverage ratio on the Solvency Capital Requirement has been reduced by 16,8 points. This decrease mainly due to the increase in the Solvency Capital Requirement, although for the purposes of own founds there has been an increase of 21.5% with respect to the previous year driven by a positive evolution of the business during the year.

At December 2017 the amount of the Group's SCR was EUR 27,016 thousand, increasing the capital load to close of 2018 in EUR 9,299 thousand. This increase is mainly due to the growth in Non-Life underwriting risk and the decrease in the adjustment for loss absorbing capacity of deferred taxes. The decrease in the adjustment for loss absorbing capacity has been produced by the changes in the Regulation 2015/035 approved in March 2019, by the European Parliament and pending publication in the Official Bulletin of the European Union in the next three months.

The solvency ratio of the Group for the coverage of the minimum required capital of solvency (hereinafter MCR, "Minimum Capital Requirement"):





Data in thousands of euros

The Group maintains an excess of capital of EUR 51,938 thousand, with eligible own funds that cover 5.7 times the minimum capital solvency requirement, which corresponds to the to the own funds that should have to limit the probability of ruin to one case per 200, or what is the same, that the Company is still in a position to fulfil with its obligations against the policyholders and beneficiaries of insurance in the following twelve months, with a probability of 99.5 percent.

The coverage ratio on the Minimum Capital Requirement has been reduced by 67 points. This decrease mainly comes from the increase of the Minimum Capital Requirement, although for the purposes of own funds there has been an increase of 20.3% respect to the previous year driven by a positive evolution of the business during the year.

For calculating the solvency ratio the Group has not applied the adjustment for marriage, nor the adjustment for volatility, nor the transitional measure about technical provisions by the Solvency II regulation.

At December 2017 the amount of the Group's MCR was EUR 6,754 thousand, in December 2018 this amount has been increased up to EUR 9,079 thousand. In both cases, the result is equal to the minimum limit of the combined MCR, which is obtained as the 25% of the SCR, amount that in 2018 has increased by EUR 2,325 thousand.

This level of capital is configured as the minimum level of security below which the financial resources of the SOLUNION Group should not descend.

A. Business and performance

A.1. Business

A.1.1. Activities of the Entity

Solunion Seguros, Compañía Internacional de Seguros y Reaseguros, S.A. is a company with the sole corporate purpose of carrying out insurance and reinsurance transactions in Credit and Suretyship line of business, and transactions supplementary, ancillary or related to this object to the extent allowed by insurance legislation.

The controlling Company was incorporated in Spain and its office is located in Avenida General Perón 40, Madrid.

The controlling 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 Participaciones, S.A.U. (MAPFRE Global Risks, Compañía Internacional de Seguros y Reaseguros, S.A. during 2018 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") . In December 2017, the shareholders extended the agreement scope to include the joint development of the suretyship insurance.

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 other activities companies.

Supervision of the Company

The Directorate General of Insurance and Pension Plans (Spanish Supervisory Authority, hereinafter DGSFP) is the party responsible for the financial supervision of Solunion, Compañía Internacional de Seguros y Reaseguros, S.A, as it is based in Spain. The DGSFP 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:

Country	Regulator name
Chile	Commission for the Financial Market
Colombia	Financial Superintendency
Mexico	National Commission of Private Insurance

External audit

KPMG Auditores, S.L. has issued, in April 2019, the audit reports with no reservations relating to the individual and consolidated accounts of the controlling Company at 31 December 2018. This company is headquartered at Torre de Cristal, Paseo de la Castellana 259C, Madrid, Spain.

Holders of qualifying holdings

The following table reflects the individuals or corporate persons who directly or indirectly hold qualified investments in the controlling Company:

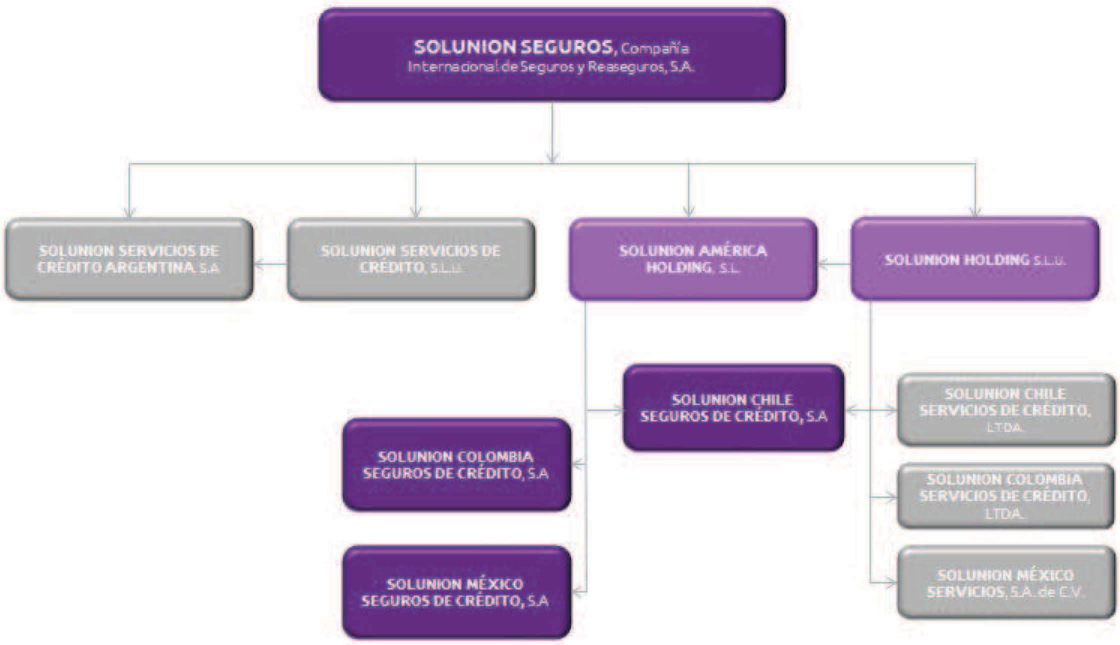
Name	Legal form	Type of Shareholding	Location	Percentage of ownership
Euler Hermes Luxembourg Holding S.à.r.l.	Limited Company	Direct	Luxembourg	50%
MAPFRE Participaciones, S.A.U.	Limited Company	Direct	Spain	50%

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.

Following is an organization chart with the simplified structure of the SOLUNION Group:



Lines of business

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

- **Credit and Suretyship insurance:** consists of insurance obligations other than life assurance:
    - Direct Insurance (Modality 9)
    - Accepted proportional reinsurance (Modality 21)
    - Accepted non-proportional reinsurance (Modality 28)

Geographic areas

The most significant countries, in which the SOLUNION Group operates, are Spain, Mexico, Colombia, Chile, Italy and Panama, 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 2018, with a significant effect on the SOLUNION Group:

Significant events of the year

Solunion Seguros, Compañía Internacional de Seguros y Reaseguros, S.A. has been nominated for sixth year in a row as the best credit insurer by the leading insurance broker association ADECOSE in Spain rewarding the strong focus on client service.

During the 2018 financial year, SOLUNION started operating in Spain in the Suretyship insurance sector.

On 20th September 2018, A.M. Best upgraded the financial strength rating of SOLUNION from A- to A (Excellent).

Corporate matters

On 19th March 2018, following Mr. José María del Pozo Jodra's resignation, Mr. Bosco Francoy Olagüe was appointed member of the Board of Directors of the controlling Company.

On 17th September 2018, Mr. Paul Overeem was appointed member and Chairman of the Board of Directors following Mr. Michele Pignotti's resignation of the controlling Company.

Main activities in 2018

- General matters

  2018 was the year of the consolidation of the controlling Company as the second player in the Credit market in Spain and was marked by a good result in both new business and customer retention. In 2018 SOLUNION started the Suretyship business and reached the market position 14.

  SOLUNION's upward trend is reinforced in a year where most countries have managed to grow their portfolio (Spain +8%, Mexico +21%; Colombia +8%).

- New products

  2018 has seen the launch of Póliza Compromiso (the Commitment Policy), intended for large companies that have their own risk protocols.

- Commercial action

  Special mention must be made to the following actions carried on 2018 that give continuation to the strategy put in place in previous years:

  - Reinforcement of the multichannel strategy with the development and consolidation of Bank channel.
  - Reinforcement of collaboration strategies with networks of shareholders in all countries.
  - Reinforcement of measures to improve the experience of SOLUNION customers seeking a greater retention.
  - Good performance of the new business and the Retention rate.

- Risk underwriting

  After reaching the peak of growth in the first part of 2018, the world economy has entered a phase of deceleration, mainly as a result of trade tensions, changes in monetary policies and financing conditions, as well as political and geopolitical uncertainties. Last year, underwriting policies could once again support the growth of our clients and the growth of the Company, while helping to guarantee profitability. The slowdown has intensified in recent months more than expected and underwriting policies continue to adjust according to developments.

- Information and technology systems

  In the constant evolution of the SOLUNION Technology Systems, in 2018 the platform capable of supporting the new Suretyship business was created and the Target Programme was finalized, which has managed to create its own infrastructure. Our Customer Portal, MiSolunion, has been opened to the use of the Insured in replacement to ClaveMap. The bases of the new Workstation (WorkPlace) for the SOLUNION Employee, virtualization and Cloud Services have also been created, offering a space of maximum productivity both in the office and in a remote location.

Relevant operations within the Group

In fiscal year 2018, there were no significant transactions in the SOLUNION Group.

A.2. Underwriting performance

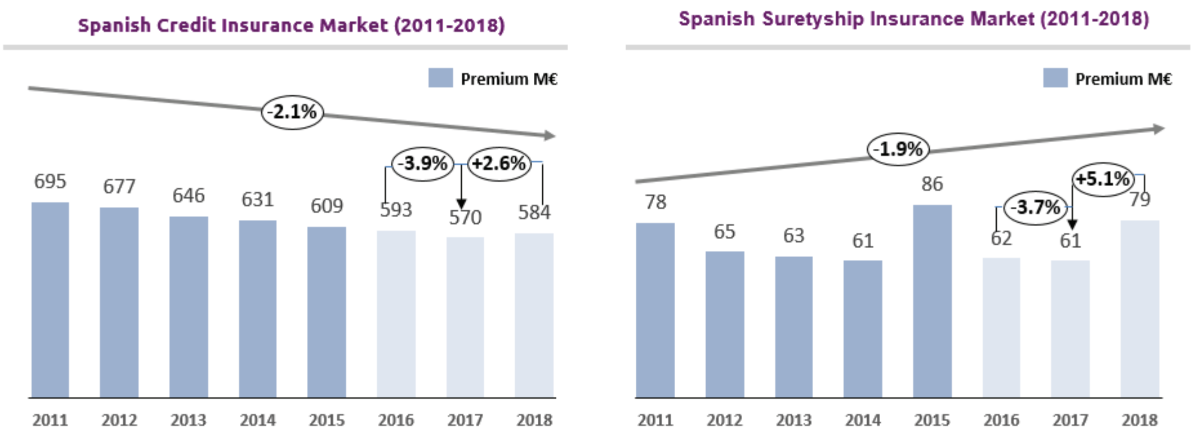
Quantitative figures on the SOLUNION´s Group business and underwriting results in 2018 and 2017 by line of business, as shown in figure S.05.01.02, indicate that the SOLUNION Group ended the year with gross earned premiums of direct insurance and accepted reinsurance of EUR 164,401 thousand (EUR 144,624 thousand in 2017), of which the net amount was EUR 14,931 thousand (EUR 14,575 thousand in 2017). The variation in gross earned premiums with respect to the previous year has resulted in an increase of 13.7%.

Also, the gross claims in direct insurance and accepted reinsurance fell to EUR 84,818 thousand (EUR 79,005 thousand in 2017), and after discounting the effect of reinsurance corresponding to EUR 76,649 thousand (EUR 73,258 thousand in 2017), the net claims amount to EUR 8,169 thousand (EUR 5,747 thousand in 2017), which supposes an increase of the net claims of 42,1% respect to the previous year.

The technical result has amounted to EUR 13,353 thousand (EUR 12,087 thousand in 2017).

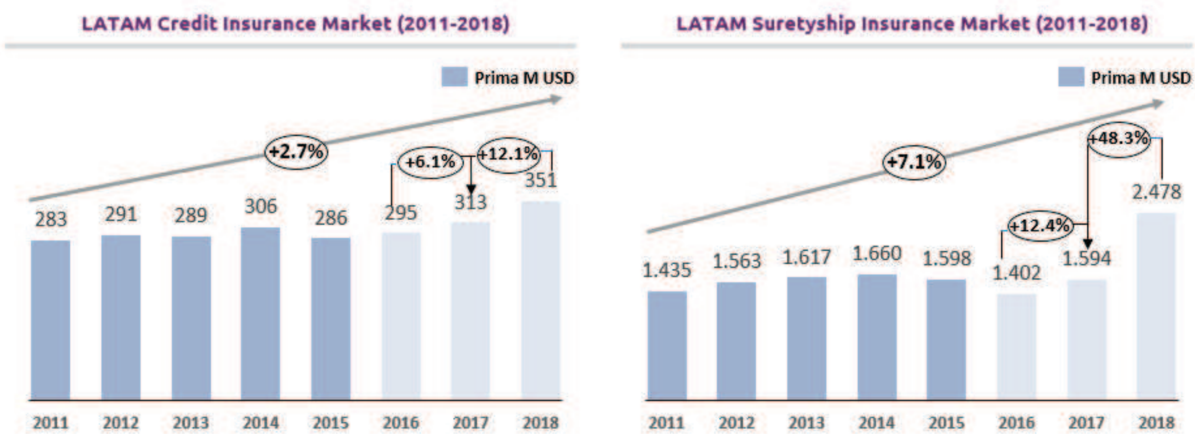
By geographic area of the SOLUNION Group, as shown in figure S.05.02.01 of the Appendix, the following five countries, in addition to Spain, most important regarding the volume of gross earned premiums in the year 2018 were: Mexico, Colombia, Chile, Italy and Panama. The gross earned premiums for the top five countries amounted to EUR 44,228 thousand (EUR 39,592 thousand in 2017), which represented an increase of 11.7% compared to the previous year.

The following graph shows the situation of the Credit and Suretyship insurance market in Spain:



Evolution of the Spanish Credit and Suretyship insurance market. Source: ICEA. Data as of December 2018.

The Latin American market has been very affected by the exchange rates in 2018, as happened the previous year. The following graph shows the situation of the Credit and Suretyship insurance market in Latin America:

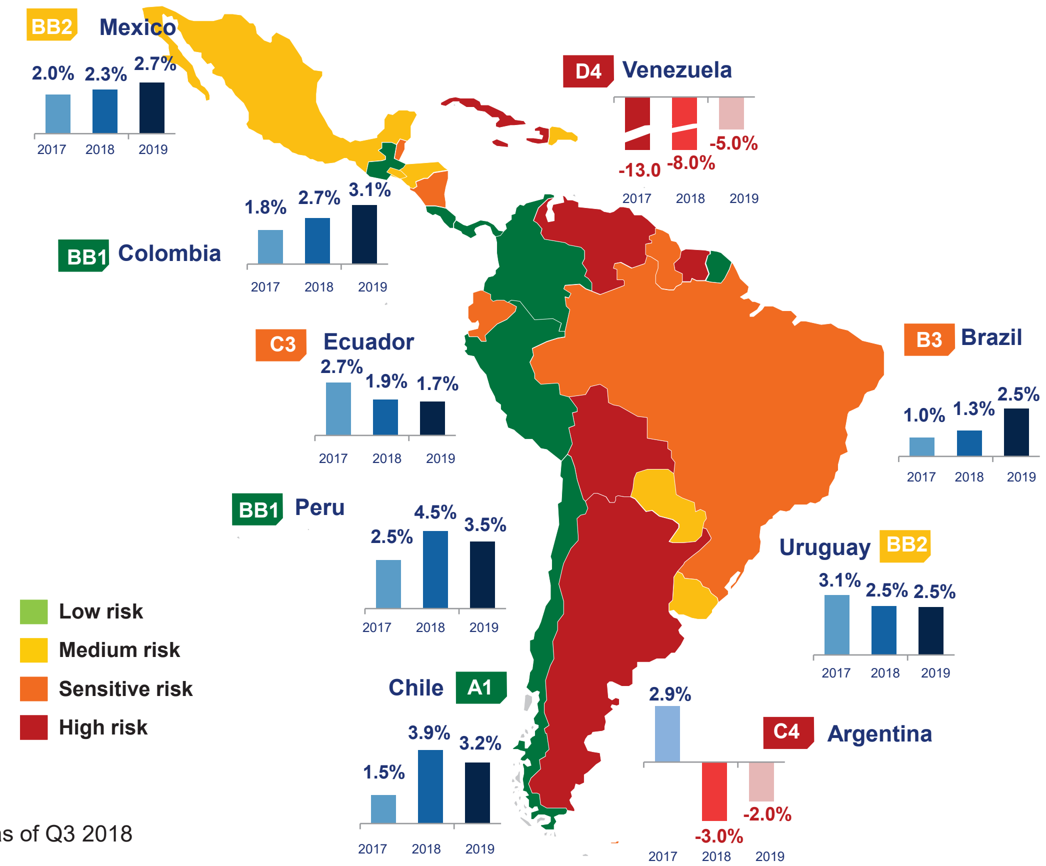


Evolution of the Latin American Credit and Suretyship insurance market. Source: Latinoinsurance. Data as of December 2018

Macroeconomic Environment

The stability of the growth of the Spanish economy throughout 2018 contrasts with the evolution observed in the euro zone as a whole, where activity has experienced a notable weakening compared to the previous year, partly due to transitory factors. In Spain it is expected that the real GDP growth in 2019 will be around 2.3% (2.6% in 2018), and will continue to be one of the Eurozone's growth.

In Latin America, the expected growth in 2018 has suffered a significant downward revision, standing at 1.5%, below potential growth and that registered by other economies and other emerging regions, mainly due to the strong recession in Argentina and a slower than expected impact in Brazil. It is expected that in 2019 this growth will be above 2%.



Data as of Q3 2018

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 the detail of investments' income and expense for the years 2018 and 2017:

Income from investments

	Income from investments				Finance income from other activities		Total	
	Operation		Equity					
	2018	2017	2018	2017	2018	2017	2018	2017
INCOME FROM INTEREST, DIVIDENDS, AND OTHER								
Real estate investments:	-	-	-	-	-	-	-	-
I. Rent	-	-	-	-	-	-	-	-
II. Other	-	-	-	-	-	-	-	-
Income from held-to-maturity investments:	486	-	-	-	-	-	486	-
I. Fixed-income securities	486	-	-	-	-	-	486	-
II. Other investments	-	-	-	-	-	-	-	-
Income from available-for-sale securities	1,878	2,564	3,715	-	19	-	5,612	2,564
Dividends from Group companies	-	-	(3,715)	5,732	-	32	(3,715)	5,764
Other finance income	35	52	-	(5,732)	46	109	81	(5,571)
Total revenue	**2,399**	**2,616**	**-**	**-**	**65**	**141**	**2,464**	**2,757**
REALIZED AND UNREALIZED GAINS							-	-
Net realised gains:	**174**	**587**	**-**	**-**	**-**	**-**	**174**	**587**
I. Real estate investments	-	-	-	-	-	-	-	-
II. Held-to-maturity investments	-	-	-	-	-	-	-	-
III. Available-for-sale financial investments	174	587	-	-	-	-	174	587
IV. Trading portfolio financial investments	-	-	-	-	-	-	-	-
V. Other	-	-	-	-	-	-	-	-
Net unrealised gains:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
I. Increase in fair value of trading portfolio	-	-	-	-	-	-	-	-
II. Others	-	-	-	-	-	-	-	-
Total gains	**174**	**587**	**-**	**-**	**-**	**-**	**174**	**587**
TOTAL INCOME FROM INVESTMENTS	**2,573**	**3,203**	**-**	**-**	**65**	**141**	**2,638**	**3,344**

Data in thousands of euros

Investment expenses

	Investment expenses				Finance expenses from other activities		Total	
	Operation		Equity					
	2018	2017	2018	2017	2018	2017	2018	2017
FINANCE COST								
Real estate investments:	-	-	-	-	-	-	-	-
I. Net operating expenses	-	-	-	-	-	-	-	-
II. Other expenses	-	-	-	-	-	-	-	-
Expenses from held-to-maturity investments:	(188)	-	-	-	(4)	-	(192)	-
I. Fixed-income securities	(188)	-	-	-	(4)	-	(192)	-
II. Other investments	-	-	-	-	-	-	-	-
Expenses from available-for-sale portfolio	(1,865)	(1,180)	-	-	-	-	(1,865)	(1,180)
Other finance expense	(101)	(88)	-	-	(163)	(70)	(264)	(158)
Total expenses	**(2,154)**	**(1,268)**	**-**	**-**	**(167)**	**(70)**	**(2,321)**	**(1,338)**
REALISED AND UNREALISED GAINS							**-**	**-**
Net realised gains:	**(248)**	**(307)**	**-**	**-**	**-**	**-**	**(248)**	**(307)**
I. Real estate investments	-	-	-	-	-	-	-	-
II. Held-to-maturity investments	-	-	-	-	-	-	-	-
III. Available-for-sale financial investments	(248)	(307)	-	-	-	-	(248)	(307)
IV. Trading portfolio financial investments	-	-	-	-	-	-	-	-
V. Other	-	-	-	-	-	-	-	-
Net unrealized losses:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
I. Decrease in fair value of trading portfolio	-	-	-	-	-	-	-	-
II. Others	-	-	-	-	-	-	-	-
Total losses	**(248)**	**(307)**	**-**	**-**	**-**	**-**	**(248)**	**(307)**
Total investment expenses	**(2,402)**	**(1,575)**	**-**	**-**	**(167)**	**(70)**	**(2,569)**	**(1,645)**

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 materialized (operating investments) or from investments in which the company's equity is materialized (equity investments). In addition, they include management expenses attributed to investments.

Total income from investments amounted to EUR 2,638 thousand (EUR 3,344 thousand in 2017), of which 5,612 thousand (EUR 2,564 thousand in 2017) was income from the available-for-sale portfolio, EUR 174 thousand (EUR 587 thousand in 2017) of net gains realized on investments of this portfolio and EUR 81 thousand (EUR (5,571) thousand in 2017) from other finance income.

Total expense on investments amounted to EUR 2,569 thousand (EUR 1,645 thousand in 2017), of which EUR 1,865 thousand (EUR 1,180 thousand in 2017) was income from the available-for-sale portfolio, EUR 264 thousand (EUR 158 thousand in 2017) of other finance expense and EUR 248 thousand (EUR 307 thousand in 2017) from losses arising from the available for-sale portfolio. The overall investment result was positive, amounting to EUR 69 thousand (EUR 1,699 thousand in 2017).

Some of the following events influenced investment in the Group:

Looking back, we can see the end of synchronization, more populism, selectivity in a volatile environment, and the end of easy money.

Measures put in place by new Government did wake up the US – at a high cost. With a massive fiscal stimulus and financial deregulation, President Trump managed to deliver +3% growth for GDP and wages, and +6% growth for markets and investments. That is an OK performance compared to the rest of the world. Still, when taking into account widening imbalances (twin deficits), and mounting risks (corporate debt, pressure on the Fed), this is a costly awakening.

Emerging markets are back in the spotlight – for good. Trade threats (average tariffs at 5.2%, from 3.5% end of 2017) and tightening monetary and financial conditions (stronger dollar and higher US treasury rates) created uncertainty and balance of payment crises in already-weak emerging markets (Argentina and Turkey). In addition, large emerging markets (Mexico, Brazil, e.g.) opted for strong political leaders with unorthodox policy approaches.

Europe and China started to feel the heat – in a different way. As growth slowed down, China had to react with strong policy measures (subsidies, liquidity support, economic patriotism) and more risk piling as internationalization efforts stalled (financial liberalization, Belt and Road). In Europe, the difficult coordination of fiscal and structural efforts, and already supportive monetary policy made it hard to react. Political risk increased as a result: From Italy and Brexit to France and Germany.

After reaching its cyclical peak in the second quarter of 2018, the global economy has been gradually slowing down to reach a GDP growth rate of around 3.6% for the whole of 2018, in line with the global trend of economic activity.

Against this background, the emerging economies grew this year by approximately 4.7%, while the figure for the developed markets was around 2.2%. The economic growth figure for 2018 clearly marks the beginning of the path of gradual and orderly slowdown that we had been anticipating since the end of 2017. Current global growth stands at 0.2% below the peak reached during the last five years, so it can be said that the world economy is entering into a new cycle. Thus, cyclical slowdown appears to be a fact. The evolution of the Purchasing Managers' Indices (PMIs) at global level, the loss of dynamism in the growth rate for manufacturing orders, the gradual stock market correction seen since the middle of the year, the fall in corporate profits and, very especially, the global correction of trade flows and foreign direct investment (FDI) attest to this. All of these are symptoms of the change that is already palpable in trade, in investment and in global expectations.

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 has been no impact on the Group's equity in 2018 and 2017. Further, on the expense side, these had no effect on equity in the years 2018 and 2017.

A.3.3. Information on asset securitisation

SOLUNION does not invest in this type of assets.

A.4. Performance of other activities

A.4.1. Other income and expense

During the years 2018 and 2017, the SOLUNION Group has incurred the following significant income and expenses other than those from the purely insurance business:

	2018	2017
Operating income	24,996	25,178
Operating expenses	(29,658)	(29,512)
Tangible assets and investment expenses	(38)	-
Net financial income	(64)	71
a) Financial Income	65	141
b) Financial expenses	(129)	(70)
NON-TECHNICAL RESULT	**(4,764)**	**(4,263)**

Data in thousands of euros

A.4.2 Lease contracts

Operational leases

The controlling 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 has ends on 31 December 2017.

Expense accrued in 2018 in operating leases amounted to EUR 1,512 thousand (EUR 1,315 thousand in 2017).

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

	Up to one year		From one to five years		More than five years		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Buildings and other constructions	1,512	1,315	1,546	1,735	-	18	3,058	3,068
TOTAL	**1,512**	**1,315**	**1,546**	**1,735**	**-**	**18**	**3,058**	**3,068**

Data in thousands of euros

There are no contingent quotas recorded as an expense in the years 2018 and 2017.

Finance lease

The controlling Company does not have this type of lease.

A.5. Any other information

There are no additional disclosures worth mentioning.

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 organizational 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 Group'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. Organizational 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 defense system.
5. Written corporate governance policies.
6. Adaptation of local bodies of administration and representation of SOLUNION Group 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 fit and proper policy approved in each business unit.

The governing bodies of SOLUNION 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 Meeting**: This is the highest governing body, and it has the power to decide on any matter relating to SOLUNION Group. It may give instructions to the companies 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 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 Affairs 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 controlling 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 the 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 Charter.

  <u>Board supporting committees</u>

  The Board has supporting committees to address certain management matters relating to the following: Audit, Investment, Nomination and Compensation.

  • **Audit Commission**: It shall have the responsibilities set down in the Charter for advising and making recommendations to the Board on the following:

    a) preparation of financial statements;

    b) the nomination of accounts 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 Charter 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.

- **Nomination and Compensation Committee**: will have responsibilities set out in its Charter to coordinate the SOLUNION Group´s Nomination and Compensation Policy, and it advises and offers recommendations to the Board of Directors on matters of compensation and benefits for senior executives of the SOLUNION Group and matters related to: governance, recruitment and selection of candidates for key executive positions and managers of key functions, compensation 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 supervising the management of the Business Units and 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 and Administration (CFAO), Risk, Information and Claims (RICC), and Market Management, Commercial and Distribution (MMCD) and Organization Support (COO) of SOLUNION, who are full members and voting rights, Corporate Directors of Communication, Human Resources, , Legal and Compliance, of Suretyship and the Corporate Affairs Director be 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 Nomination and Compensation 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 management (without the right to vote).

  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 (without the right to vote).

  It has the competence to supervise the Actuarial Function and Policy within the Group, as well as to establish the reserves within the framework of the Policies and regulations 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, and is composed of the full member of the Management Committee, the Corporate Director of Human Resources and the Group Compliance Officer (without the right to vote.).

  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 Compliance Officer on regulation applicable to the Group, the potential consequences of changes in the legal environment of the business unit’s 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.

- **Local Administration Bodies:** The Boards of Directors, Directories or Managerial Boards of SOLUNION Group Companies are the bodies in charge of administrating and representing the insurance entities of SOLUNION Group in Latin America, notwithstanding the powers of General Managers or Executives as the case might be, and of supervising the activity of each Business Unit according to the rules and policies of SOLUNION and the general policies and strategies defined by the Board of Directors of SOLUNION.

  The composition of the local administration bodies of SOLUNION Group Companies in Latin America, its powers and the existence, where appropriate, of delegated bodies thereof, will be adapted to the regulations of each country.

The non-insurance entities will have administrators and will be supervised by the local administration bodies of SOLUNION Group Companies in Latin America.

- **Local Management Committees:** Local SOLUNION Group Management Committees assist local CEOs in the effective ordinary management of the operations of the Business Units and of the countries in which SOLUNION Group operates, in its operational aspects, in accordance with rules, policies and the general policies and strategies defined by the SOLUNION Group Board of Directors and the instructions given by the Boards of Directors and the local Management Committees.

  They are integrated by the local General Director (CEO) of each Business Unit, who chairs the Committee, and the local Directors of Finance, Administration and Organization (CFAO), Risk, Information and Claims (RICC) and Commercial and Marketing (MMCD), who have the status of being full members, without prejudice to the possibility of designating permanent guests and invite any person in order to report on specific issues in their area.

  The appointment of the members of the local Management Committees, who must meet the requirements established in the SOLUNION Group Fit and Proper Policy, will be made by the local Boards of Directors, with a prior approval of the Board of Directors of SOLUNION in the case of the CEO.

  Support committees for the local management committees

  In the performance of their powers relating to the governance of risk management, the local Management Committees will have the support of the Risks, Actuarial and Reserve and Compliance Committees or, as the case might be, the equivalent or additional Committees established by local regulations.

B.1.2. Key functions

As set out in current regulation, the Board of Directors approved the latest revision of the Internal Audit Policy, for the year 2018, in its meeting of March 16, 2018, Actuarial and Risk Management Policies, in its meeting of September 17, 2018, and the Compliance Policy in its meeting of December 12, 2018.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 Dirección General de Seguros y Fondos de Pensiones.

RISK MANAGEMENT FUNCTION

SOLUNION Group has an effective risk management system regulated in the corresponding Risk Management Policy, 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.

COMPLIANCE FUNCTION

SOLUNION Group´s compliance function includes advisory of governing bodies on compliance with laws, regulations and administrative rules that affect the SOLUNION 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 SOLUNION 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 activity of the companies, 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

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.

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

On 19th March 2018, following Mr. José María del Pozo Jodra’s resignation, Mr. Bosco Francoy Olagüe was appointed member of the Board of Directors of the controlling Company.

On 17th September 2018, Mr. Paul Overeem was appointed member and Chairman of the Board of Directors following Mr. Michele Pignotti’s resignation of the controlling Company.

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 last two years by key management personnel, consisting of one woman and three men in 2018 and 2017.

	2018	2017
Short-term remuneration	**660**	**647**
Salaries	608	594
Fixed allocations	25	25
Per diems	-	-
Life insurance	7	8
Other	20	20
Medium-term remuneration	**65**	**61**
Post-employment remuneration	**17**	**13**
Defined contribution	17	13
Years of service award	-	-
TOTAL	**742**	**721**

Data in thousands of euros

Remuneration paid to the members of the Administrative body and employees of the controlling Company is determined in accordance with prevailing regulations as well as it's remuneration policy, the latest revision of which was approved by the Board of Directors on June 25, 2018.

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. In addition, 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 2016, the Company approved a new 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 January 1, 2016 and March 31, 2019. Payment of incentives was subject to compliance of certain corporate and specific objectives, and their permanence in the group. At the end of each exercise, an assessment of the fulfilment of the objectives is made by registering the amount earned in the income statement with credit to a provision account.

During 2018, controlling 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

The SOLUNION Group has a fit and proper policy, the latest revision of which was approved by the Board of Directors on June 25, 2018, which facilitates application of regulatory requirements and ensures a high level of fit and proper requirements throughout the Group for managers and Key Functions.

Managers and Holders of the Key Functions of SOLUNION Group must be persons of recognized commercial and professional honour and possess adequate knowledge and experience to make possible the sound and prudent management of the Group. 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.

a) The Policy does not apply to employees other than the members of the Senior Management and the Key Functions Holders.

b) Criteria and processes shall be established in respect of the Fit and Proper of the members of the Board of Directors. The members of the Board of Directors are nominated by the Shareholders following the legal requirements of any Business Unit. The nomination of the members by the Shareholders is consistent with legal requirements and local regulation.

c) The selection and appointment of the Holding Management Committee, the BU Management Committees and Key Function Holders are consistent with legal requirements of any Business Unit and supplementary rules approved by the SOLUNION Nomination and Compensation Committee.

d) A person's Fitness and Propriety shall be assessed individually at recruiting, be it internal or external, and on a regular basis as part of regular reviews. It shall also be reassessed in certain specific situations which give rise to questions regarding the person's Fitness and/or Propriety.

e) The intended recruitment, the assessment that a person is no longer Fit or Proper and the removal of a person from his position may require regulatory clearance or notification under local law and to local authorities. The responsible BU or Holding Organization must ensure compliance with these requirements.

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

a) Members of the Board of Directors and local Administration Bodies must possess adequate experience and knowledge and, as a group, must also possess sufficient knowledge and professional experience in at least the following areas, as minimum: (i) insurance and financial markets; (ii) strategies and business models; (iii) system of governance; (iv) financial and actuarial analysis; and (v) regulatory framework.

b) Members of the Management Committee and the Local Management Committees of the Business Units will, possess the qualifications, knowledge and experience necessary to perform the responsibilities of each Committee and specific tasks assigned to them in the Management Committee.

c) Holders of Key Functions must possess the appropriate knowledge and experience 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 property, but we must attend to the absence of negative circumstances which are indications that a Person could not meet the honourability requirement, such as the existence of:

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.

The Managers and the Holders of the Key Functions of SOLUNION Group who were aware that any of these circumstances are present in their person should inform their entity.

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

To ensure the fit and proper, 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 local Board of Directors: The Board of Directors.

- Of the members of the Management Committee and the SOLUNION Group and Business Unit´s Management Committee: 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 of the fit and proper is made during the hiring process of members of senior management or holders of key functions, whether internal or external to the SOLUNION Group. Employment or service contracts may be entered into only after successful completion of a recruiting process as described below.

a) Job descriptions/fit 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 fit requirements

b) Curriculum vitae; background check:

External candidates: all candidates must present 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 Area 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).

In the event of failure to submit any of the documents required of the candidate to check the background, the department/body

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 ensuring 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 person responsible complies with the criteria of aptitude and honourability established in the Policy of the same name.

If a Function is partially outsourced, it must be considered as Activity for the purposes of the Outsourcing Policy.

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 Group is or may be exposed, and their interdependencies.

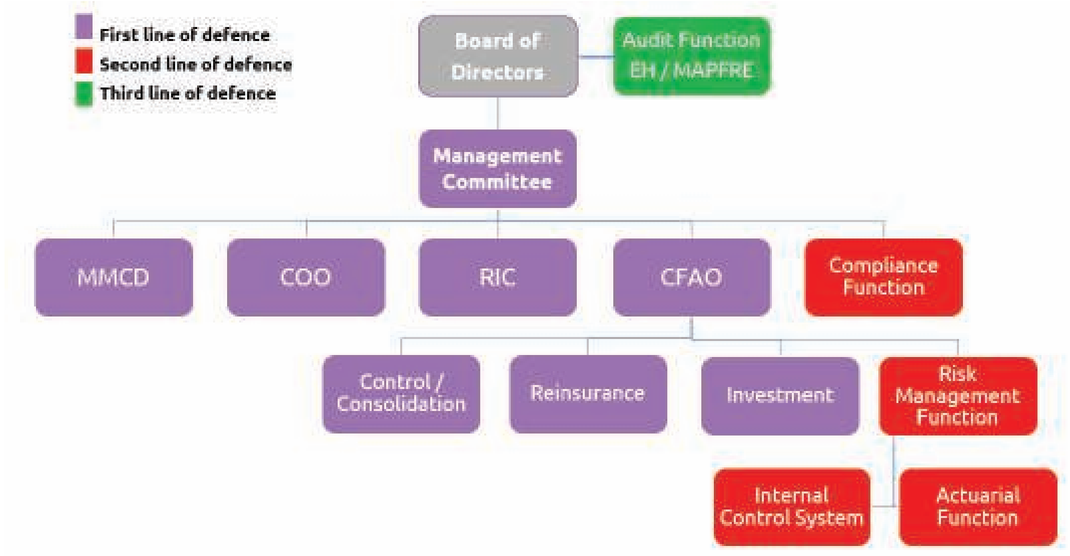
The risk management policy implements the structuring and functioning of the risk management system. The policy is applied to Group entities within the limits envisaged in regulations applicable to the activities regulated in countries where it operates, and it has the aim of preserving the Group's solvency 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 to achieve a risk management culture that ensures its effectiveness.

The 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:

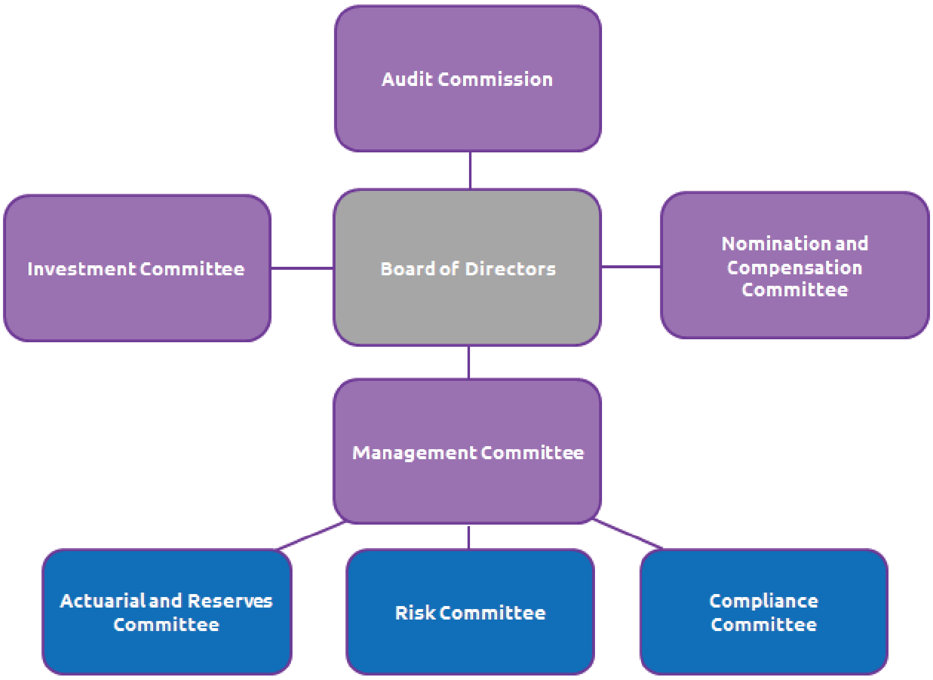
- The first line of defence consists of operations managers, who assume risks and possess the controls.
- The actuarial, compliance and risk management functions, as well as the Internal Control System, dependent on the first, make up the “second line of defence”, that supervise the first line of defence within the framework of the policies and limits established by the Board of Directors, and report 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 in SOLUNION has bodies with global powers across the Group and bodies in each business unit.

The following diagram shows the governance structure of risk management in SOLUNION Group:



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 Commission, the Investment Committee, the Nomination and Compensation 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 area report, and on the Compliance Committee.

- Risk Holding Committee:

  Comprises all full members of the Management Committee, the head of the actuarial function and the head of Management risk and Internal Control of the Group (without the right to vote), will be tasked with supervising the risk management function and system, particularly compliance with risk appetite. The Head of Risk Management and Internal Control of the Group will receive the meeting minutes of established Holding Committees and of the Local Risk Committees may attend such meetings without a vote, and report to the Risk Committee any decision or potential risks that may affect the Group's solvency position.

- Actuarial and Reserves Committee:

  Comprises all members of the Management Committee, the head of Risk Management and Internal Control of the Group and the head of the actuarial function of the Group (without the right to vote), will be tasked with overseeing the actuarial function and policy in the Group, and with the establishment of technical provisions within the framework of policies and standards approved by the Board of Directors.

- Compliance Committee:

  Comprises full members of the Management Committee, the Corporate Director of Human Resources, Corporate Affairs Director and the Group Compliance Officer (without the right to vote), it is tasked with overseeing the compliance function and policy in the Group within the framework of the policy and standards approved by the Board of Directors.

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

These risk committees will be under the supervision of the Holding 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 the Company's most critical risks.

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

The goals of the Risk Management Policy of SOLUNION are to preserve the Group’s solvency and to facilitate the development of its business by means of:

(i) definition of the strategy with regard to the risks taken on;

(ii) the inclusion of risk analysis within the decision taking processes;

(iii) the establishment of a general guideline, certain basic principles and a general framework of risk management that will facilitate its consistent application in the group; and

(iv) the dissemination of the Risk Management Policy among managers and employees in order to achieve a risk management culture that will guarantee its effectiveness.

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 Management area 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 the 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 Company 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 each Business Unit 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 will be the responsibility of the other functions of the second line of defence in their respective areas, which will report to Risk Management and Internal Control area.

  Measurement of capital optimization and its measurement will be 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 management, 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 the solvency requirements of the different companies or its 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 Management and Internal Control area 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 Management and Internal Control area 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 the Board of Directors of each of the companies.

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 or equivalent body establishes the degree of risk the entity is prepared to assume to reach its business objectives with no relevant deviations, including in adverse situations.

Details are shown below of the main risks faced by the 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
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

Type of Risk	Description	Measurement and management	Monitoring and notification
Operational risk	Includes those which arise due to failed internal processes, people and systems, or from external events	Standard formula The Company performs qualitative dynamic analysis of processes. Monitoring and recording of operational risk events	Annual Continuous
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
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.	. Monitoring and recording of significant events	Continuous Annual
Strategic and Corporate Governance risk	Includes the following risks: - Business ethics and corporate governance - Organisational 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
Reinsurance risk	This is risk arising from fluctuations in the solvency of counterparties in reinsurance terms within a one-year period.	Standard formula	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 (hereinafter ORSA), which is a key element of Solvency II. The ORSA process is integrated and is part of the Risk Management System, and it has mechanisms to identify, measure, monitor, manage and report the risks in the short and long term of the controlling Company, during the period envisaged in the strategic plan, as well as the sufficiency of capital resources according with the understanding of their real solvency needs. To this end, it will contemplate all the significant risks or potential sources of risk to which the entity is exposed, and facilitates undertaking initiatives aimed at its management and mitigation. 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 organized around the following components:

This process 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 (2019 to 2021).

3. **Analysis and evaluation 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 of the Solvency Capital Requirement for the base scenario is made – that is, for the 2019-2021 business plan, to complete the solvency forecast – SOLUNION Group has applied diverse stress scenarios for the years 2019-2021, 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 Company'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 that 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.

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 September 17, 2018 by the Board of Directors of SOLUNION. 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. The members of the organization contribute to provide a reasonable security to achieve the set objectives respect to:

- Operational Objectives: Efficiency and efficiency of operations, differentiating the operations inherent to the insurance activity (subscription, claims, reinsurance and investments, mainly), such as operations and support functions (human resources, Administration, commercial, legal, technology, etc.)
- Information Objectives: Reliability of the information (financial and non-financial, and both internal and external) regarding its reliability, opportunity or transparency, among others.
- Compliance Objectives: Compliance with the applicable laws and internal policies and procedures.

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 Management and Internal Control Function. 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.

  The second line of defence also includes the Compliance Function and the Actuarial Function, which ensure that the controls are consistent with the control objectives and comply with the Policies and procedures on which they are based.

- **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, according to which there is a direct relationship between the objectives that the entity wishes to achieve (in terms of efficiency and operational effectiveness; confidence in accounting and financial records; and conformity with external and internal rules and regulations), the components of the internal control system (which represent what the organisation needs to achieve the objectives), and its organisational structure (operative units, legal entities, etc.) 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 SOLUNION 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 Area performs the Internal Control Report which shows the current situation of the Group at the time of the risks and controls analysis, which allows updating the Risk and Control Map. This Map in turn serves as the basis for the next cycle of internal control.

The Annual Report on the Effectiveness of the Internal Control Procedures for the year 2017, which shows the results of the risk and control evaluation and the detail of the action plans for the improvement in the mitigation of the most relevant risks, was presented to the Board of Directors on June 25, 2018. As of the date of issuance of this Report, the Management Committee has approved the Annual Report regarding the financial year 2018, which consists of a monitoring of the risks and controls of the Company's processes and the follow-up of the Action Plans.

B.4.2. Compliance verification function

The compliance function identifies risks of external and internal non-compliance that may occur as a result of the Group's activity, advises as a result of such risk assessment, alerts on possible non-compliance and monitors the measures adopted for its correction, in order to ensure that the group's operations are adjusted in all areas to the general and sector-specific regulations and to the internal ones established by SOLUNION to achieve a global compliance environment.

The Group has a Compliance Policy whose last revision was approved by the Board of Directors on December 12, 2018, which describes the Role of Compliance throughout the Group.

The Policy states that, in accordance with the principle of decentralisation and to achieve coordinated implementation, the compliance 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 function is responsible for reporting the monitoring of compliance risk to the Company 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 adequacy 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 supported 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 SOLUNION Group has an Actuarial Function Policy whose last review was approved by the Board of Directors on September 17, 2018, which describes the Actuarial Function in the Company.

The Actuarial Area coordinates mathematical, actuarial, statistical, and financial calculations used to specify technical provisions for the calculation of Capital requirements of insurance companies, which contributes to achieving technical results and the Company's desired solvency levels. The Actuarial Area 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. Additionally, 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.

At least once a year, the Actuarial Area will issue a written report, addressed to the Group’s Management, in which a reference to the adequacy of the level of technical provisions is made, as well as expressing an opinion on the Underwriting and Reinsurance Policy. The deficiencies observed in the report will be accompanied by recommendations on how these deficiencies can be resolved, and a timetable for their correction will be established.

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 the Company has sufficient control over functions, important activities or services 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 of the SOLUNION Group, who is the business owner and responsible for overseeing the correct operation of the outsourced function.

By outsourcing the mentioned functions, other important activities and services, 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

SOLUNION Group governance system reflects the requirements established in the Solvency II Directive on the System for Risks Management inherent to its activity. The group companies employ its own strategy for implementing and carrying out SOLUNION Group Risk Management and Internal Control Area Function, where it is the responsibility of the SOLUNION Management Committee to define the reference criteria and establish/validate 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 credit 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 Group applies effective measures to manage and mitigate them.

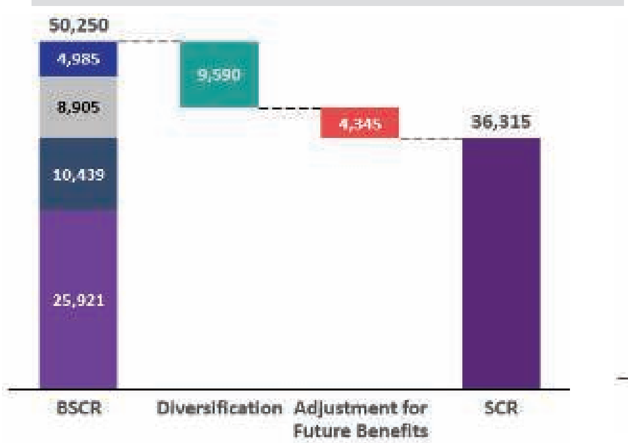
As indicated in regulations, the SCR corresponds to the Group’s equity for limiting the probability of bankruptcy to one case per 200, or that the Group is still 99.5% able to meet its commitments to insurance beneficiaries and policyholders during the following year.

After the analysis carried out, it is concluded that the risk modules of the standard formula that apply to society are the following:

- Market risk
- Non-Life Underwriting risk
- Counterparty Risk
- Operational risk

The following graphs shows the risks that make up the risk profile of SOLUNION Group based on the regulatory capital required (reported in template S.25.01.21 of the Appendix):

2018



2017

* BSCR: SCR Components before Diversification.
Data in thousands of euros

In these graphs we can observe that the Entity´s risk profile remains constant; for both 2017 and 2018 the risk that affects the Group most intensely is the Non-Life Underwriting risk which is followed by Market risk.

The decrease in the adjustment for loss absorbing capacity of deferred taxes in 2018 has been impacted by the adaptation by the controlling Company to the temporary recoverability limits approved in Regulations 2015/035 approved in March 2019 by the Parliament European Union and pending publication in the Official Bulletin of the European Union in the next three months.

This increase in Non- Life Underwriting risk in 2018 was due to the organic growth of the SOLUNION Group by the suretyship line of business, which means an increase of the exposure in this risk module.

Regarding the measures adopted to evaluate the main risks within the Group, in 2018 there have been no significant risks.

A part from that, taking into account the introduction of the Suretyship business, the Group considers that there have been no material changes in the significant risks to which the Group is exposed.

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

C.1 Underwriting Risk

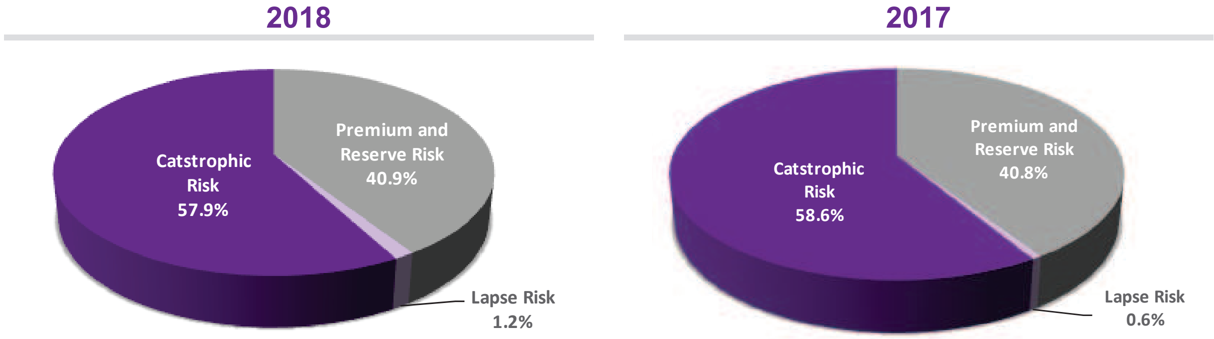
C.1.1 Exposure to the risk

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 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 51.6% (52.8% in 2017) of the total SCR before diversification and taking into account the capacity of loss absorption. The composition of the underwriting risk is detailed below:



The module with the greatest impact, as in the year 2017, is the one corresponding to the catastrophic risk, which represents 57.9% of the underwriting risk SCR before diversification. The most significant component of this module is the recession risk, which generates a capital load of 100% of the expected premium in the next 12 months after the mitigating effect.

Next, there is premiums and reserves risk, which represents 40.9%. For its part, fall risk exposure is residual, with a 1.2% of underwriting risk SCR.

As can be observed in the previous charts, exposure to each of the risks has remained constant throughout the year.

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 authorisation and exclusion limits for reducing undesired Underwriting Risk in its manual or policies, as well as the maximum acceptable exposure to specific risk concentrations.

- **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 the actuarial teams of each of the companies and their amounts are validated by an independent third party not involved in the calculations. The establishment of technical provisions is regulated by specific Policy.

- **Reinsurance utilization**:

  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, stabilisation of its financial results and reduction of its losses, and protection of its equity.

  At December 2018, the Company had reinsured 90.8 per cent of its premiums and 89.6 per cent of its technical provisions.

  At a minimum annual frequency, reinsurance management procedures are reviewed and updated if applicable in the Reinsurance Policy.

  Note that the Group´s Actuarial Area expresses its opinion about the Underwriting Policy, the sufficiency of the rates and the technical provisions, as well as the adequacy of the reinsurance coverages contracted in the report issued with a minimum annual frequency.

  To mitigate catastrophic risk specific reinsurance coverage is contracted. Additionally, there are reports that define the catastrophic exposure to which the Group 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 its Reinsurance Area, the Group is responsible for correctly identifying the appropriate level of risk transfer for its previously-defined risk limits, and for defining/designing the types of reinsurance agreements based on its risk profile.

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

- **Setting a sufficient premium**:

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

C.1.3 Concentration

SOLUNION applies limits that allow it to control the level of concentration of underwriting risk and use reinsurance contracts in order to reduce the underwriting risk derived from concentrations or accumulations of guarantees that exceed the maximum acceptance levels.

The greater exposures to underwriting risk are derived from the man-made catastrophes in the credit and suretyship risk. To mitigate this risk specific supplementary reinsurance coverages are contracted.

C.1.4 Transfer of risk to special purpose entities

The Company does not transfer underwriting risks to special purpose entities.

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.

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

The following is a breakdown of the Group's investments with exposure to Market risk:

	2018		2017	
Asset category	**Market value**	**Portfolio composition**	**Market value**	**Portfolio composition**
Real estate investments	**44**	**0.1%**	**1,728**	**3.0%**
Financial Investments	**72,919**	**99.9%**	**55,171**	**97.0%**
Fixed-income securities	70,805	97.1%	55,171	100.0%
Equity securities and investment funds	2,114	2.9%	-	-
Total	**72,963**		**56,899**	

Data in thousands of euros

As of December 31, 2018, 99.9% of all Group investments were financial investments (97.0% of all in 2017) which are composed of fixed-income investments.

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

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

- 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.

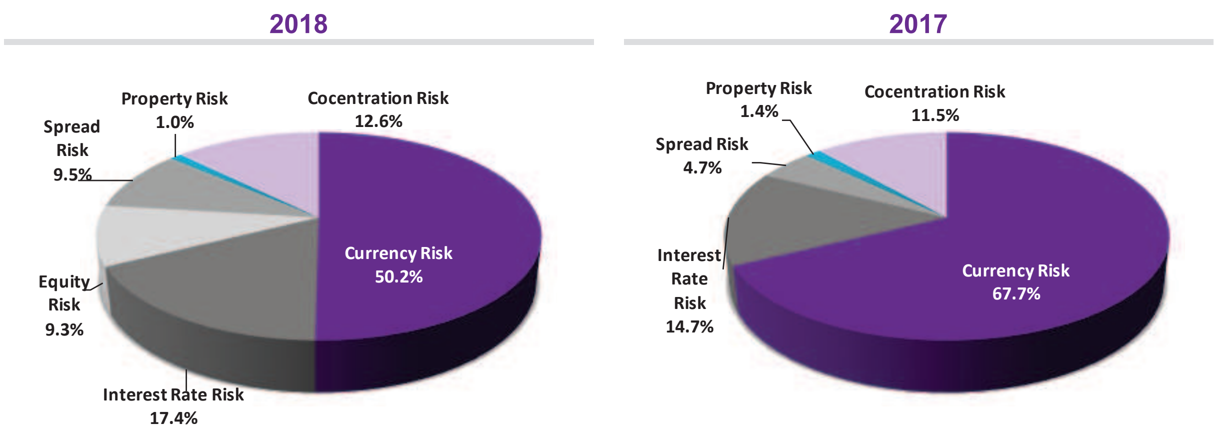
- Spread risk: sensitivity of the value of the assets, liabilities, and financial instruments to changes in the level or the volatility of credit differentials with regard to the time structure of risk-free interest rates.

- 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.

- Property 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 20.8% (22.1% in 2017) of the total SCR before diversification and taking into account the loss absorption capacity.

The composition of the market risk is detailed below:



Equity risk has been increased compared to 2017 mainly due to the higher exposure to equity, driven by the Investment Funds that were nil at the end of 2017.

There has been a decrease in the currency risk with respect to 2017, because there has been a decrease in exposure in foreign currency that mainly comes from Accepted Reinsurance of SOLUNION entities located in Latin America.

The assets and liabilities denominated in foreign currency as of December 31, 2018 and 2017 are as shown below:

Currency	Assets		Liabilities		Net Total	
	2018	2017	2018	2017	2018	2017
Euros	266,721	229,188	187,595	156,132	79,126	73,056
US Dollar	76,427	47,362	42,145	20,841	34,282	26,521
Mexican peso	6,013	8,347	10,904	8,819	(4,891)	(472)
Chilean peso	21,283	20,379	25,607	19,924	(4,324)	455
Argentine peso	685	630	321	269	364	361
Colombian peso	26,843	31,870	20,234	25,444	6,609	6,426
Pound sterling	124	83	(2)	0	126	83
TOTAL	**398,096**	**337,859**	**286,804**	**231,429**	**111,292**	**106,430**

Data in thousands of euros

C.2.2 Risk mitigation techniques

The main method SOLUNION Group uses to mitigate market risk is following the Principle of Prudence 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, which require local regulations.

Additionally, for each risk sub-model:

- Share investments are subject to the maximum limit of the investment portfolio, and issuer limits.
- 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.
- 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.
- The modified duration is an interest rate risk management variable, which is conditional on the limits established in the Investment Plan approved by the controlling Company's Board of Directors for portfolios with free management.

C.2.3 Concentration

The greatest concentration of investments is the European Public Debt.

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 Policy distinguish between three types:

a. Exposure to which reinsurers are exposed: counterparty risk is generated mainly because of Groups heightened 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 not considered fixed income. Its exposure to Credit Risk is measured at its economic value, once possible mitigating factors have been deducted. (Investments)

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, cash in banks, among others, in which entities generally have credit ratings.
  - Type 2 exposure: includes accounts receivable from intermediaries, and policyholder debts, among others.

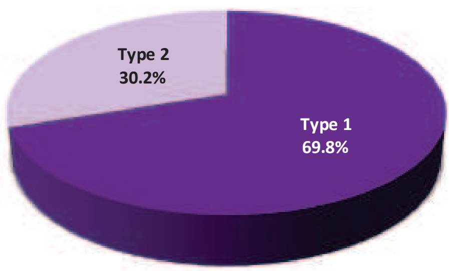
The following is a table reflecting the exposure to Credit Risk at December 31, 2018 and 2017:

	2018	2017
Type 1 Expositions	**186,230**	104,144
Type 2 Expositions	18,405	12,057
TOTAL	**204,635**	**116,201**

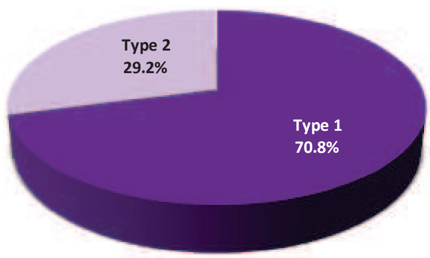
Data in thousands of euros

The SCR credit risk entails 17.7% (14.8% in 2017) of the total SCR before diversification and taking into account the loss absorbing capacity. The composition of the credit risk is detailed below:

2018



2017



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 strategy for reinsurance counterparties is to cede the business to reinsurers with proven financial capacity. In general, it reinsures with entities with a financial solvency rating not lower than an "A" rating, which would be equivalent to a "02" in the classification scale used in the standard formula.

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 Liquidity risk is the risk that the insurance and reinsurance companies might not be able to realise its investments and other assets in order to meet its financial obligations at expiration.

Liquidity risk is not included in the calculation of the SCR of the standard formula. The exposure to liquidity risk is considered low taking into account the prudent investment strategy included in the Investment Policy, which is characterized by a high proportion of fixed-income securities with high credit quality that are quoted in liquid markets. Additionally, liquidity risk in the face of extreme events is minimized with the use of reinsurance as a technique to reduce concentrations to underwriting risk and the selection of reinsurers with a high credit quality.

The Group has an Investment and Liquidity Risk Management Policy which represent the framework of reference for handling Liquidity Risk. The entity's policy is based on maintaining sufficient cash to cover any situations arising as a result of its commitments with policyholders and creditors.

At December 31, 2018, the balance of cash and cash equivalents amounted to EUR 4,704 thousand (EUR 12,057 thousand in the previous year), which is equivalent to 5.9% of total financial investments and cash equivalents (17.5% in 2017). Additionally, the majority of fixed-income investments have appropriate credit ratings and are traded on organised a financial market, which grants a great deal of leeway for action in the face of potential liquidity tensions.

The Investment and Liquidity Risk Management Policy foresees the possibility at any moment of the need for large quality liquid amounts, credit lines available and forecasted cash entries sufficient to cover expected cash balances for the whole 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.4.3 Concentration

No risk concentrations have been identified in relation to liquidity risk.

C.4.3 Expected benefits included in future premiums

In calculating the best estimate of the technical provisions, the expected benefits included in the future premiums have not been taken into account (as a lower value of the best estimate in case of be positive or higher value in case of expected losses). The Group does not consider future business in this line due to the characteristics of its business, since nearly all its portfolio should be subject to a detailed analyses of the risk limits granted under the contact.

In calculating the best estimate for the Suretyship line of business of technical provisions, the expected benefits included in future premiums have been taken into account (as a lower value of the best estimate in case of be positive or higher value in case of expected losses). At December 31, 2018, the amount of these expected benefits was EUR 9,000 thousand, gross of reinsurance.

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 operational risk SCR represents 9.9% (10.3 % in 2017) of the total SCR (before diversification). Below is a table reflecting the results based on earned premiums and technical provisions:

	2018	2017
Operational risk module	**4,985**	**4,339**
30% BSCR	10,703	8,941
Maximum premiums and provisions	4,985	4,339
Accrued premiums risk	4,985	4,339
Technical provisions risk	4,947	3,804

Data in thousands of euros

The most critical inherent operational risks to which 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 Management Area of each of the companies, which create Risk Maps for the say, in which analyses on the importance and probability of occurrence of different risks are performed. The analysis is carried out through a computer platform dedicated to the evaluation, identification and monitoring of the risks that exist in the whole business.

This risk maps are 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 qualitative 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, Issuance, Claims/Benefits, Administration, Commercial Activities, Human resources, Commissions, Coinsurance/Reinsurance, Technical reserves, Investments, IT systems, and Customer service.

This analysis considers the self-assessment of risks, the documentation of manuals of internal controls in which the controls associated with risks are identified, the evaluation of the effectiveness of the controls and the management of corrective measures established to mitigate or reduce the risks and / or improve the control environment.

C.5.3 Concentration

No risk concentrations have been identified in relation to operational risk.

C.6 Other material risks

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

- **Technical provisions recognition risk:**

The constitution 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 on the constitution of Technical Provisions.

The sufficiency of technical provisions is one of the fundamental factors to maintain 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 independent review on at least an annual basis.

- **Business continuity risk:**

The business continuity risk is the one that SOLUNION Group assets support due to the possibility that future events may lead to adverse to meeting the financial and business goals, or the Group's financial situation.

This risk is discussed in the Business Continuity Policy, the purpose of which is to define the processes to follow before, during and after an incident that causes or can cause interruption in Company operations 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. For this, the areas, internal departments, suppliers and services of each company of the Group are taken into account and must be updated and revised continuously to include possible 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 Group's value due to being negatively perceived by shareholders, authorities, insurers, brokers, suppliers, consumers or other third parties.

Both, the Code of Ethical and Conduct, and the Function, Policy and Compliance Committee of SOLUNION Group manage the 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 the risk:

- In all areas of activity of 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 the one that arises from the agreements between 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.

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.

In relation to market risk, it applies the limits established in the Investment Policy, which ensures sufficient diversification by issuer, country, and activity sectors.

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

C.7.2 Sensitivity analysis

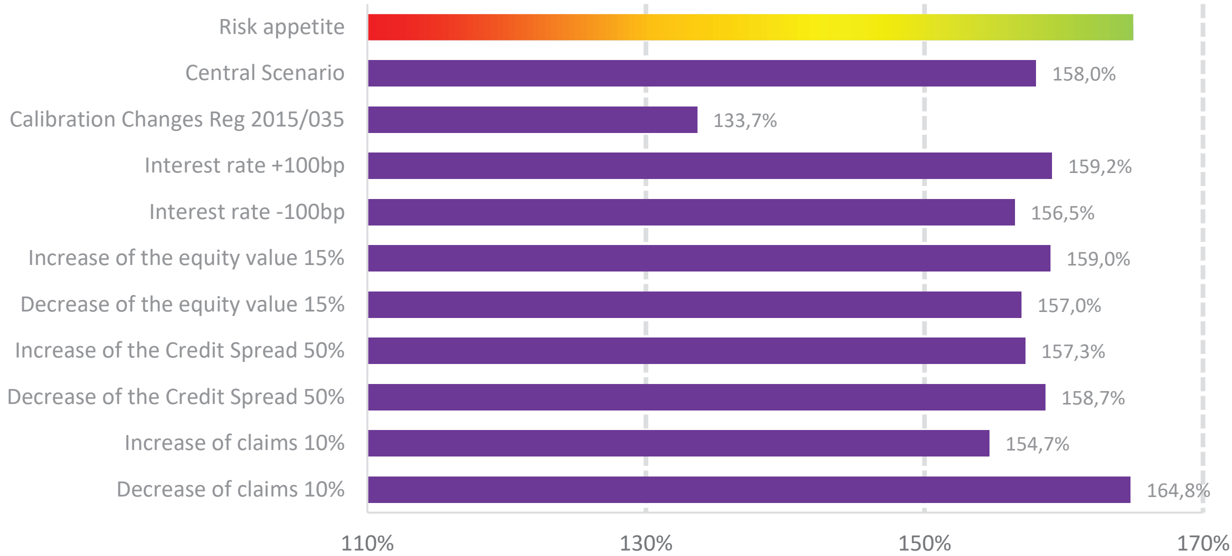
The purpose of the sensitivity scenarios is to analyze the impact on the solvency ratio of changes in the risk profile. To analyze its impact in terms of the solvency ratio, the sensitivities are carried out in both directions, that is, by increasing and decreasing the exposure to risk.

The method used to obtain the results consists of:

- Establish a starting situation referring to the economic balance, solvency capital requirement (SCR) and solvency ratio, at a specific date.
- Select the initial variables that would be affected by the application of stressed hypotheses that have been defined for the different tests or scenarios.
- Determine the final effect on solvency through the new values of the affected variables.

Nine sensitivity scenarios involving movements in both the Group's balance sheet and the calculation parameters have been proposed. These movements are summarized in:

- Changes in the 2015/035 regulation: in which the parameters used for the Non-Life subscription risk of the premium and reserve sub-module and the adjustment on the BSCR are modified.
- Effect on interest rates: variations in interest rates imply changes in the valuation of assets and liabilities. A rise of the curve will imply a decrease of the value of the asset but also of the obligations of the entity, which in this case, are the technical provisions.
- Effects on the valuation of the equity: it supposes an increase and decrease of its valuation in the balance sheet of the entity and consequently, of the requirements of capital by equity risk.
- Effect of variations in the credit spread: it implies variations in the shock applied in the calculation of spread risk and consequently the capital requirements for this risk.
- Effects on claims, these variations suppose variations in the value of the gross and ceded technical provisions.



The sensitivities with the greatest impact in terms of eligible capital and capital consumption for the Group are the following:

- Changes in the 2015/035 regulation: there has been an increase in the stress applied to the premium and the reserve, which generates a great impact on the SCR.

- Increase of claims: Decreases the results of the Group while at the same time increases the volume of technical provisions. These impacts are a decrease in the permissible own funds which, together with higher capital consumption, negatively impact on the solvency ratio.

Included in the annual ORSA process, a sensitivity study is conducted in terms of risk exposure and capital requirements as of the closing date of exercise. This annual procedure reflects the impact on the solvency ratio, if the fundamental risk parameters had changed.

C.7.3 Other matters

Off-balance-sheet positions

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

This heading includes a description, for every type of asset, of methods and main hypotheses used for both valuations for the purposes of Solvency II and for the purposes of the financial statements (according to the International Financial Reporting Standards, hereinafter IFRS). In the event that there were significant differences among the bases, methods and main valuation hypotheses of both balances, a quantitative and a qualitative explanation will be provided for them.

The valuation of the majority of the assets is based on the fair value in accordance with the delegated regulation. The determination of the fair value of the financial and non-financial instruments is carried out with the valuation methodology described in article 75 and the following of the delegated regulation and articles 9 and 10.

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, under certain headings differences in classification arose between the data included in the financial statements and those reflected under "Accounting value."

The valuation of each category of tangible assets is described below. The figures correspond to the balance sheet at the end of 2018 that has been reported in template S.02.01.02 of the Appendix.

	2018		
	Accounting Value	**Valuation changes**	**Solvency II Value**
Goodwill	**38,267**	**(38,267)**	-
Deferred acquisition costs	**11,873**	**(11,873)**	-
Intangible assets	**18,976**	**(18,976)**	**-**
Deferred tax assets	**9,559**	**8,355**	**17,914**
Assets and rights to reimbursement for long-term remuneration to the personnel	**4,494**	**-**	**4,494**
Property, plant & equipment held for own use	**1,864**	**254**	**2,118**
Investments (other than assets that are held for "index-linked" and "unit-linked" funds)	**72,957**	**6**	**72,963**
Property (other than for own use)	38	**6**	44
Bonds	70,805	-	70,805
Public debt	50,326	-	50,326
Private debt	20,479	-	20,479
Investment Founds	2,114	-	2,114
Insurance other than life insurance, and health similar to insurance other than life insurance	**161,342**	**(12,503)**	**148,839**
Deposits established for accepted reinsurance	**125**	**-**	**125**
Credits for direct insurance and coinsurance operations	**47,226**	**-**	**47,226**
Reinsurance operation credits	**12,605**	**-**	**12,605**
Other credits	**12,380**	**-**	**12,380**
Cash and cash equivalents	**4,704**	**-**	**4,704**
Any other assets, not elsewhere shown	**1,724**	**-**	**1,724**
TOTAL ASSETS	**398,096**	**(73,004)**	**325,092**

Data in thousands of euros

D.1.1. Goodwill

In accordance with Solvency II criteria, goodwill was valued at zero, in accordance with Article 12 of Delegated Regulation 2015/035 dated October 10, 2014. Unlike under the Solvency II regulation, according to the IFRS regulations, goodwill is value at its cost adjusted in line with any possible 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

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 includes the total amount of expenses associated to the evaluated insurance contracts, including those arising from acquisition costs. Unlike the presentation that is made in the regulation applicable to the Balance sheet under IFRS are disaggregated in this heading.

D.1.3. Intangible assets

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

The Group recognises software under this heading, as well as, the agreement signed with MAPFRE Global Risks, Compañía Internacional de Seguros y Reaseguros, S.A. in the month of December 2017, under which it undertakes to develop the necessary actions to ensure that its clients of the Suretyship line of business subscribe new insurance policies with SOLUNION as of January 1, 2018, thus leaving MAPFRE Global Risks operate in the Suretyship line of business. At the end of 2018, the amount of this intangible assets reduced by its accumulated amortization is EUR 9,000 thousand.

For 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.

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

D.1.4. Deferred tax assets

According to the Solvency II regulations, the deferred taxes corresponding to all the assets and liabilities that are recognized for tax or Solvency purposes are recognized and valued. 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 Group recognised deferred tax assets on the Solvency II balance sheet, applying the tax rate related to all differences between the accounting and solvency values. Under IFRS, deferred taxes are recorded for the temporary differences that arise as a result of the differences between the tax valuation of assets and liabilities and their book values.

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

- Deferred acquisition costs
- Intangible assets
- Risk Margin

D.1.5. Pension benefit surplus

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

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

In accordance with Solvency II criteria, property, plant & equipment held for own use must be measured at fair value.

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

The difference in valuation between the two criteria has meant the recognition of a higher value of the properties in the Balance sheet under Solvency II for an amount of EUR 254 thousand.

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 the observable market transactions or information may not be available for all assets and liabilities, 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)***

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

For the purpose of determining the fair value of the property, the market value is considered to be that corresponding to the appraisal made by authorized independent appraisal entities. As established in Order ECO/805/2003 of March 27, on valuation standards of property, the Company requests the appraisals before two years have elapsed since the previous valuation and, regardless of the age of the previous valuation, whenever a significant alteration in the value of the same could have taken place.

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

The difference in valuation criteria between Solvency II and IFRS represented the recognition of the higher amount of properties on the Solvency II balance sheet in the amount of EUR 6 thousand. This estimate is based on appraisal reports made by independent experts.

D.1.7.2 ***Bonds and obligations***

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:

  Within this subcategory have been included those emissions made by institutions that cannot be included in the category of government issuers,

Bonds are valued at fair value or amortised cost depending on the category in which they were designated according to IFRS / IAS 39. It will be necessary to recalculate the public and private debt items valued at amortized cost to adjust them to their fair value.

D.1.7.3 Investment Funds

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.

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

D.1.8. Reinsurance recoverables

For the purposes of the Solvency II Economic Balance Sheet, the calculation of the reinsurance recoverables amounts is in accordance with the calculation of the technical provisions for the direct business, which means that these amounts will be recorded at their best estimate, taking into account additionally the temporary difference between recoveries and direct payments, as well as the expected losses due to non-compliance of the counterparty.

When determining the value of the amounts to be recovered from reinsurance from the amounts considered in the technical provisions, the following aspects have been taken into account:

- The expected value of potential reinsurance default based on its credit quality and the time horizon of the 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 reinsurance recoverables arising as a result of technical provisions for direct business is directly linked to estimations and projections for future cash flows which might be subject to a number of factors of uncertainly, which are mainly the following:

- Development of direct business claims, to which reinsurance contracts are linked.
- Possibility of facing the future payments that the reinsurer has.
- Reinsurance payment pattern.

Under IFRS, technical provisions for cessions to reinsurers are listed under assets on the balance sheet, and are calculated in accordance with the reinsurance contracts written and using the same criteria applied to direct business.

D.1.9. Deposits to cedants

In the Solvency II balance sheet, the value of the potential recovery of deposits held by grantors is directly linked to estimations and projections for future cash flows which might be subject to a number of factors of uncertainly, which are mainly the following:

- The possibility of facing the future payments that the transferor has.
- Historic experience on the effective time horizon of these recoveries, as well as the possibility of offsetting these balances with totally different ones, generated by other types of transactions or contracts.

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

D.1.10. Insurance and intermediaries receivables

In accordance with the criteria 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, which only include 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.

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

D.1.11. Reinsurance receivables

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

In 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 credit quality and the time horizon of the recoveries.

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.

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

D.1.12. Receivables (trade, not insurance)

This heading records commercial loans that are not due to insurance transactions and therefore have not been contemplated in the previous sections, for the purposes of the economic balance of Solvency II they have been valued taking into account their fair value.

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

D.1.13 Cash and Cash equivalents

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.

For the purposes of Solvency II valuations, cash and cash equivalents were valued under IFRS, which is the methodology that by default establishes for this heading the valuation methodology for the purposes of Solvency II.

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

D.1.14. Any other assets, not elsewhere shown

The item "Other assets, not included in other items" collects those assets not collected in other preceding sections and has been valued according to the IFRS at fair value.

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.1.15. Additional information

There is no other additional information to be highlighted.

D.2. Technical provisions

Information on technical provision valuation

Following are the technical provision valuations using Solvency II criteria (hereinafter, "Solvency II Provisions"), including qualitative explanations for the main differences arising from their valuations using Solvency II and those used in preparing the financial statements based on IFRS, which establishes the applicable criteria to be applied (hereinafter, "Accounting provisions" - under "Accounting value") at 31 December, 2018.

	2018		
	Accounting Value	**Valuation changes**	**Solvency II Value**
TOTAL TECHNICAL PROVISIONS	**179,948**	**(11,208)**	**168,740**
Technical provisions calculated as a whole	-	-	-
Best Estimate (BE)	-	-	*166,165*
Risk margin (RM)	-	-	*2,575*
Other technical provisions	**-**	**-**	**-**

Data in thousands of euros

As mentioned above, SOLUNION is an insurance and reinsurance Company that operates in the Credit and Surety lines of business.

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 case of SOLUNION Group, the technical provisions of the insurance that use Non-Life techniques are obtained as the sum of the best estimate and the risk margin.

D.2.1. Best estimate and risk margin

Best estimate

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 pending claims provision

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 best estimate for the pending claims 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: claims 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 difference between the final cost of claims and effective payments made, net of their potential recovery or collection.

The calculation of the best estimate of claims provision based on Solvency II criteria present the following differences with respect to those calculations based on Financial Statements 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 premiums provision

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 benefits payments:
    - The frequency and average cost method: claims are calculated as the result of exposure based on frequency hypotheses and final average costs.
    - Loss 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 benefits, 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.

In the calculating of the best estimate for the Suretyship line of business of the technical provisions, the expected benefits included in future premiums have been taken into account (as a lower value of the best estimate in case of be positive or higher value in case of expected losses).

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.

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 entities of the Group after the date during which:
  - The Company has unilateral cancellation rights over the contract.
  - The Company reserves the right to reject premiums payable related to the contract.
  - The Company 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, and as long as the following conditions are met:
  - 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.

As a conclusion, it can be indicated that the premium provision calculated according to the criteria established in Solvency II present the following differences with respect to those calculated according to the requirements required on the Financial Statements:

- 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 provisions 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 will be 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.

The risk margin conceptually equals the cost of providing a quantity of eligible own funds equal to the SCR needed to support the commitments by insurances throughout its terms and until its final settlement.

To calculate the risk margin, the hypothesis 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 SCR_{RU}.

The rate used to determine the cost of providing this amount of eligible own funds is called the capital cost rate. SOLUNION has used the 6 percent rate set by the Delegated Regulation of the European Commission 2015/25.

The method of calculating risk margin can be expressed in the following way:

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

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.

There are several simplifications for calculating the risk margin:

- Level 1: details how to approximate the underwriting, counterparty and market risks.
- Level 2: it is based on the hypothesis that the future solvency capital requirements are proportional to the "best estimate" of the technical provisions for the year in question.
- Level 3: consists of using the modified duration of the liabilities to calculate the current Solvency Capital Requirements and all futures in a single step.
- Level 4: calculates the risk margin as a percentage of the best estimate of the net technical provisions for reinsurance.

The Group calculates the risk margin with the methodology described as level 2.

Degree of uncertainty regarding to the amount of technical provisions

The value of the technical provisions is directly linked to the estimations 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 hypotheses used when calculating technical provisions

The Group uses commonly accepted actuarial methodologies for calculating technical provisions under Solvency II. The combinations of methods used for the actuarial estimates are adequate, applicable and relevant to the risk profile of the Group.

The deterministic methods used for the estimation of the accident based on the selection of factors for the development of frequencies and severity used by the Group are:

- Chain Ladder Method.
- Growth Ratio
- Bornhuetter Fergusson.
- Method of the expected loss ratio ("IELR")

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 Group or external sector/market sources:

  - Realistic administration, investment, acquisition, etc. expenses which are incurred throughout the duration of the contracts.
  - Portfolio lapses.
  - The frequency and severity of claims based on historical data.
  - Legislative changes.

Additionally, 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 Group 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 2015/035 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, and the transitional deduction include in Article 308 *quinquies* of Directive 2009/138/EC.

For that reason, form S.22.01.21 regarding the impact on long-term guarantee and transitional measures is not included in accordance with the information included in Appendix I of April 30, 2014 on technical specifications.

D.2.2.a. Marriage adjustment

SOLUNION has not used this adjustment.

D.2.2.b. Volatility adjustment

SOLUNION has not used this adjustment

D.2.2.c. Transitory temporary structure of interest rates without risk

SOLUNION has not used this transitory temporary structure of interest rates without risk.

D.2.2.d. Transitory temporary structure on technical provisions

SOLUNION has not carried out this transitory deduction.

D.2.3. Recoverables of premium and claims provision

See the explanation under above Section D.1.9

D.2.4. Significant changes in hypotheses 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 are detailed the valuations of other liabilities for the purposes of Solvency II, as well as the qualitative explanations of the main valuation differences between the Solvency II criteria and those used to prepare the financial statements (column "Book Value") as of December 31, 2018. The valuation corresponding to those headings that do not differ between the IFRS and Solvency II criteria is detailed in the financial statements of the Group of 2018.

	2018		
	Accounting Value	Valuation changes	Solvency II Value
Total technical provisions	179,948	(11,208)	168,740
Provisions other than technical provisions	1,570	-	1,570
Pension and similar obligations provision	4,494	-	4,494
Deposits received on ceded reinsurance	2,531	-	2,531
Deferred tax liabilities	-	5,474	5,474
Debts for insurance and coinsurance operations	24,089	-	24,089
Reinsurance operation debts	23,552	-	23,552
Other debts and payables	30,152	-	30,152
Any other liabilities, not elsewhere shown	20,468	(20,356)	112
TOTAL LIABILITIES	286,804	(26,090)	260,714
SURPLUS OF ASSETS VS. LIABILITIES	111,292	(46,914)	64,378

Data in thousands of euros

D.3.1. Provisions other than technical provisions

The value of the liabilities is directly linked to estimations 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.

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

D.3.2. Pension benefit obligations

The IFRS/IAS 19 use 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.

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

D.3.3. Deposits from reinsurers

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.

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

D.3.4 Deferred tax liabilities

Under IFRS, deferred taxes are recorded for temporary differences that arise as a result of the differences between the tax valuation of assets and liabilities and their book values.

The difference between the Solvency II value and the book value of deferred tax liabilities is mainly explained by the following items in the Balance Sheet:

- Investments in property (not for own use)
- The best estimate of the net technical provisions of Reinsurance.
- Commissions and other accrued acquisition expenses of ceded reinsurance

D.3.5. Insurance & intermediaries payables

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 intermediaries arising from transactions performed.

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.

D.3.6. Reinsurance payables

Collects those debts with reinsurers as a consequence of the current account relationship established with them due to reinsurance operation ceded and retroceded.

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.

D.3.7. Payables (trade, not insurance)

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.

D.3.8. Any other liabilities, not elsewhere shown

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

The difference between the amounts shown in both valuations is basically due to the elimination under Solvency II of the commissions and other granted accrued reinsurance expenses that are contemplated during the valuation of technical provisions, as they include the entirety of the associated expenses amounting to EUR 20,356 thousand. Under IFRS regulations, these items fall under this heading.

D.3.9. Additional information

There is no other significant information to be highlighted.

D.4. Alternative methods for valuation

The SOLUNION Group does not have material assets for which alternative valuation methods must be used.

The SOLUNION Group does use alternative valuation methods for their liabilities.

D.5. Any other information

During the year there were no significant changes in the valuation criteria of the assets and liabilities.

There is no other significant information to be highlighted.

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 whose last revision was approved by the Board of Directors on September 17, 2018.

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 takes into consideration at least the following elements

- The compliance with Solvency regulations applicable throughout the projection period considered, paying particular attention to known future regulatory changes, and the maintenance of solvency levels compatible with the established in the Risk Appetite;
- Issuance of proposed eligible Own Funds instruments;
- the repayments, both contractual at maturity, and those that may be made on a discretionary basis before maturity, in relation to the elements of the Eligible Own Funds.
- the result of the projections in the Own Risks and Solvency Assessment ("ORSA"); and
- the expected 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 three years, and is aligned with the budget preparation approach.

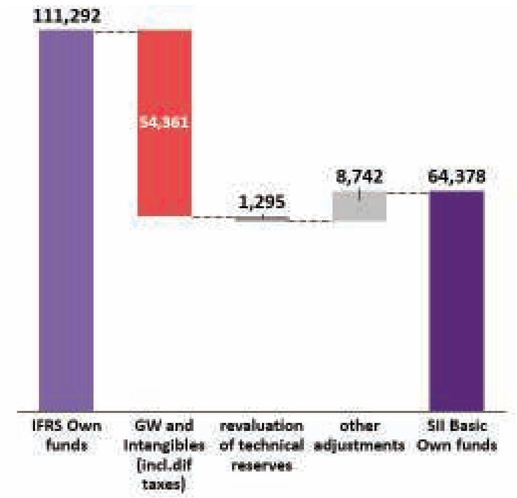
E.1.2 Structure, amount, and quality of own shares

Structure, amount, and quality of own shares

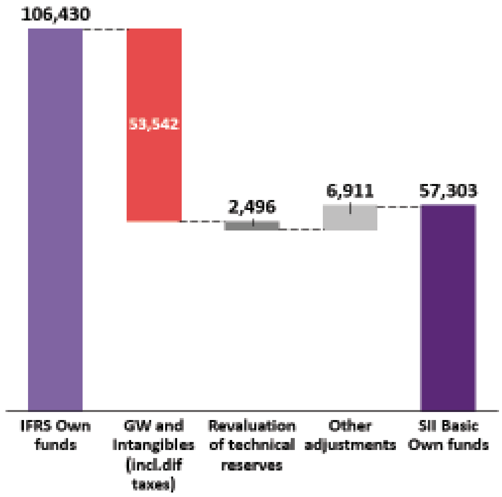
In figure S.23.01.22 of the Appendix, the structure, amount and quality of the basic own funds of the net group of intra-group transactions and complementary own funds are shown, as well as the coverage ratios, i.e. the level of own funds within the SCR, and the MCR.

Below is a comparison of the SOLUNION Group's own funds at the end of 2018 and 2017 and an explanation of the origin of the changes in the value of the Solvency II own funds:

2018



2017



Data in thousands of euros

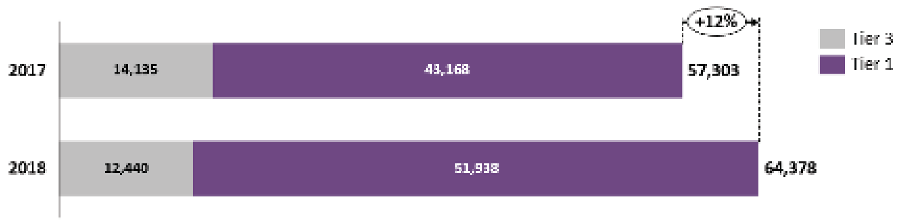
The Changes in Goodwill and intangible assets are lower those produced in 2017, this decrease was generated by the amortization of Intangible Assets.

As for other adjustments item, the decrease is generated by changes in value between the Solvency II framework and Accounting in technical provisions, deferred taxes and the other items of assets and liabilities that are not shown in other balance sheet headings.

Article 72 of the LOSSEAR determine the classification of basic own funds in three levels; the criteria for classifying them will be determined in the European Union regulations of Direct Application, which in this case is Directive 2009/138 CE, in which Article 93 establishes the characteristics and aspects to be taken into account for the realization of said classification:

- the item is available, or may be required, to fully absorb losses whether the company is in operation or in the event of liquidation (permanent availability);
- in the event of liquidation, the total amount of the item is available to absorb losses and the reimbursement of the item to its holder is not allowed until all the other obligations, including the insurance and reinsurance obligations against the policyholders, have been satisfied. and beneficiaries of insurance and reinsurance (subordination) contracts.

The Company´s available own funds on the basis of its classification:



Data in thousands of euros

As of December 31, 2018, the Group has its not restricted Tier 1 own basic funds by an amount of EUR 51,938 thousand (EUR 43,168 thousand in 2017). These own funds have the maximum availability for absorbing losses. They are comprised of:

- ordinary paid-in share capital
- Issue premium of treasury shares and
- conciliation reserve

Additionally, it has Tier 3 basic own funds for an amount of EUR 12,440 thousand (EUR 14,135 thousand in 2017) composed of net deferred taxes assets, that arise from the valuation of the balance according to Solvency II criteria.

All own funds are considered basic. Complementary own funds have not been computed.

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

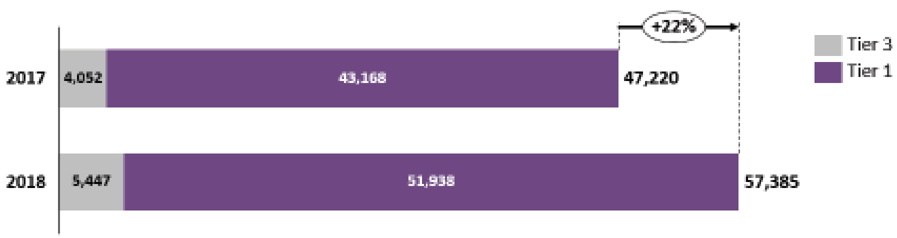
The SCR corresponds to the own funds that the Group should have to limit the probability of ruin to one case per 200, or what is the same, that the Group is still in a position to fulfil with its obligations against the policyholders and beneficiaries of insurance in the following twelve months, with a probability of 99.5 percent.

Once the own funds have been classified, the LOSSEAR in Article 73 establishes eligibility limits for them, to cover the solvency capital required and the minimum capital required.

For the SCR coverage, the following quantitative limits are established:

- The regulation dictates that there must be at least 80% of the Admissible Own Funds classified as Tier 1.
- With respect to Tier 3, they are not fully eligible to cover the regulatory capital, but may represent a maximum of 15% of the SCR.
- The sum of Tier 2 and 3 will not represent more than 50% of the SCR.

The Group's own funds are included in Tier 1 and Tier 3, and, depending on the eligibility thereof, the eligible own funds for SCR coverage amount to:



Data in thousands of euros

The Minimum Compulsory Capital (MCR) corresponds to the amount of the eligible basic own funds below which the policyholders and beneficiaries would be exposed to an unacceptable level of risk in the case that the Group continued its activity.

The MCR is the level of capital that is set as the minimum level of security below which financial resources should not be lowered.

The Tier 1 eligible own funds are equivalent to the basic ones: however, those at tier 3 are equivalent to 15% of the regulatory capital, so the resulting admissible amount to cover the SCR is EUR 57,385 thousand (EUR 47,220 thousand in 2017), 21.5% higher than the previous year.

With regard to the MCR coverage, the following quantitative limits are established:

- The admissible amount of the elements of tier 1 will be equal to at least 80% of the MCR.
- The admissible amounts of the tier 2 elements will not exceed 20% of the MCR.

Given the classification of the Group's own funds, the admissible amount to cover the MCR is EUR 51,938 thousand (EUR 43,168 thousand in 2017). The following table shows the detail:

Data in thousands of euros

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 Tier 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.

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

Own Funds issued and instruments redeemed

Both the SOLUNION Group and the companies that form parts of the group have not issued new own funds during the fiscal year, and there were no redemptions of instruments.

Essential items on the Reconciliation Reserve

The amount of the SOLUNION Group's Reconciliation Reserve is EUR (28,734) thousand and it is composed mainly of "Other items of basic own funds" and of "Surplus of assets vs. liabilities." A breakdown is shown below:

	2018	2017
Surplus of assets vs. liabilities	64,378	57,303
Treasury shares (included as assets on the balance sheet)	-	-
Dividends, distributions and foreseen costs	-	-
Other elements of basic own funds	93,112	94,807
Adjustments for own fund items restricted by FDL and CSAC	-	-
Total reconciliation reserves	**(28,734)**	**(37,504)**

Data in thousands of euros

Special purpose entities that are members of the Group

In the SOLUNION Group, it does not have special purpose entities.

E.1.3. Transitional measures

The SOLUNION Group has not considered items of its Own Funds to which the transitional provisions contemplated in Article 108 ter, sections 9 and 10 of Directive 2009/138/EC have been applied.

E.1.4. Complementary equity

All the SOLUNION Group's Own Funds are considered basic, not including complementary own funds.

E.1.5. Items deducted of own funds

As of December 31, 2018, the SOLUNION Group has not deducted items for the computation of the own funds.

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 has no subordinated debt.

Main loss absorption mechanisms

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

Own funds issued and instruments rescued

During the year, the SOLUNION Group has not issued equity instruments and no rescue of them has been made.

E.2. Solvency Capital Requirement and Minimum Capital Requirement

SCR amounts and Minimum Capital Requirements

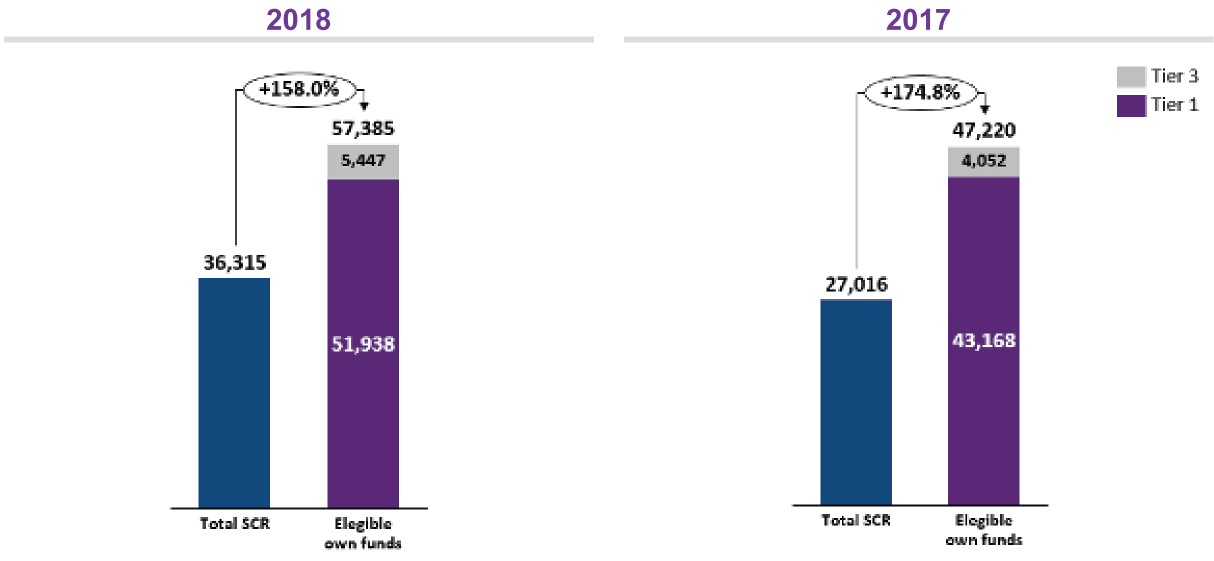
The SCR by risk models has been calculated by the Solvency II standard formula methodology as of December 31, 2018, that is listed in Section C Risk Profile. Additionally, figure S.25.01.22 of the Appendix contain more detailed information on the regulatory capitals.

The Consolidated Group's total SCR included in Appendix S.25.01.22 amounts to EUR 36,315 corresponding to the level of own funds required by the supervisory authorities from the insurance and reinsurance companies 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. For SCR calculation, no specific parameters have been used.

As detailed in Section C, the risk profile of the SOLUNION Group is mainly affected by the non-life underwriting risk, to which the catastrophic credit and bonding risk mainly contribute due to the recession risk. Secondly, there is the Market risk, in which the Exchange Rate risk is the highest for the entities that the Group has in Latin America. Third, the credit risk, which is mainly generated by the Group's high exposure in reinsurance agreements, would be located. The level of exposure of reinsurance recoverable is affected by the high level of assignment defined in the reinsurance structure.

As of December 2018, the amount of the SCR is EUR 36,315 thousand, which implies an increase in the capital charge of EUR 9,299 thousand; this is mainly due to the increase in Non-Life underwriting risk, which, as indicate above, is very affected by the credit and suretyship catastrophic risk.

The Solvency ratio of the Group is shown below; this ratio measures the relationship between eligible own funds and the SCR to absorb extraordinary ones arising from an adverse scenario of one every 200 years.



Data in thousands of euros

This ratio amounts to 158,0%, which means that it is within the risk appetite safety zone established for the Group and approved by the Board of Directors.

Data used by the Group in calculation of the MCR Solvency

The SOLUNION Group calculated Minimum Solvency Capital Requirements (MCR) as indicated in Delegated Regulation 2015/035, Article 248. This amount is the capital amount that guarantees the minimum level of security, under which financial resources should never drop and has a value of EUR 9,079 thousand at the end of 2018.

To obtain the MCR, the linear MCR should be calculated, the value of which is EUR 4,895 thousand. It was obtained applying the factors corresponding for each business line to the different elements used in their calculation:

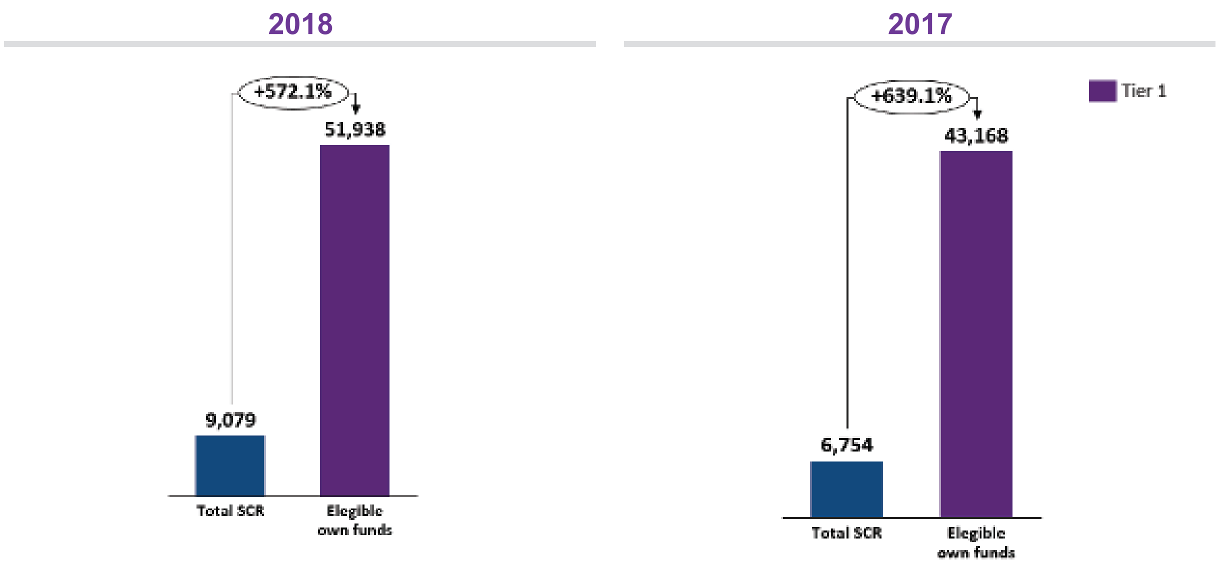
- Best net reinsurance estimate and technical provisions calculated as a whole, where appropriate.
- Premiums earned net of reinsurance in the last 12 months

Likewise, the combined MCR is EUR 9,079 thousand, which is obtained by applying the maximum and minimum limits to the linear MCR, 25% and 45% of the SCR.

Since the combined MCR is higher than the MCR's absolute limit (which is EUR 3,700 thousand), the amount of the combined MCR is considered as the amount of MCR, which is, therefore, EUR 9,079 thousand.

As of December 2017, it was EUR 6,754 thousand; this increase is mainly due to the fact that in both cases the result is equal to the minimum limit of the combined MCR, which is obtained as 25% of the SCR, an amount that in 2018 has increased by EUR 2,325 thousand.

The Group´s solvency ratio, which measures the ratio between eligible own funds and the MCR, amounts to 572,1% (639.1% in 2017).



Data in thousands of euros

Significant sources of the effects of group diversification

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

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, it is governed by 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, 2018, the Group SOLUNION 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 forms 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.05.01.01 – Premiums, loss ratio, and expense by country

S.23.01.22 – Equity

S.25.01.22 – Obligatory solvency capital – for companies that use the standard form

S.32.01.22 – Undertakings in the scope of the group

S.02.01.02

Assets	C0010 Solvency II value	
Intangible assets	-	R0030
Deferred tax assets	**17,914**	R0040
Pension benefit surplus	**4,494**	R0050
Property, plant & equipment held for own use	**2,118**	R0060
Investments (other than assets held for index-linked and unit-linked contracts)	**72,963**	R0070
Property (other than for own use)	44	R0080
Investments	-	R0090
Equities	-	R0100
Equities - listed	-	R0110
Equities - unlisted	-	R0120
Bonds	70,805	R0130
Public debt	50,326	R0140
Private debt	20,479	R0150
Structured financial assets	-	R0160
Asset securitisation	-	R0170
Investment funds	2,114	R0180
Derivatives	-	R0190
Deposits other than cash equivalent assets	-	R0200
Other investments	-	R0210
Assets held for index-linked and unit-linked contracts	-	R0220
Loans and mortgages	-	R0230
Loans on policies	-	R0240
Loans and mortgages to individuals	-	R0250
Other loans and mortgages	-	R0260
Reinsurance recoverables from:	**148,839**	R0270
Non-life and health similar to non-life	148,839	R0280
Non-life excluding health	148,839	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	**125**	R0350
Insurance and intermediaries receivables	**47,226**	R0360
Reinsurance receivables	**12,605**	R0370
Receivables (trade, not insurance)	**12,380**	R0380
Own shares (held directly)	-	R0390
Amounts due in respect of own fund items or initial fund called up but not yet paid in	-	R0400
Cash and cash equivalents	**4,704**	R0410
Any other assets, not elsewhere shown	**1,724**	R0420
Total assets	**325,092**	**R0500**

Data in thousands

Liabilities	C0010 Solvency II value	
Technical provisions - non-life	**168,740**	R0510
Technical provisions - non-life (excluding health)	**168,740**	R0520
Technical provisions calculated as a whole	-	R0530
Best Estimate	166,165	R0540
Risk margin	2,575	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	**-**	R0740
Provisions other than technical provisions	**1,570**	R0750
Pension benefit obligations	**4,494**	R0760
Deposits from reinsurers	**2,531**	R0770
Deferred tax liabilities	**5,474**	R0780
Derivatives	**-**	R0790
Debts owed to credit institutions	**-**	R0800
Financial liabilities other than debts owed to credit institutions	**-**	R0810
Insurance & intermediaries payables	**24,089**	R0820
Reinsurance payables	**23,552**	R0830
Payables (trade, not insurance)	**30,152**	R0840
Subordinated liabilities	**-**	R0850
Subordinated liabilities not in Basic Own Funds	-	R0860
Subordinated liabilities in Basic Own Funds	-	R0870
Any other liabilities, not elsewhere shown	**112**	R0880
Total liabilities	**260,714**	R0900
Excess of assets over liabilities	**64,378**	R1000

Data in thousands

S.05.01.02

		C0090	C0160	C0200
		Credit and suretyship insurance		
		Legal defence insurance	Property	TOTAL
	Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)	2018	2018	2018
	Premiums written	-	-	-
R0110	Gross - Direct Business	152,526	-	152,526
R0120	Gross - Proportional reinsurance accepted	25,221	-	25,221
R0130	Gross - Non-proportional reinsurance accepted	-	-	-
R0140	Reinsurers' share	161,563	-	161,563
R0200	Net	16,184	-	16,184
	Premiums earned	-	-	-
R0210	Gross - Direct Business	146,140	-	146,140
R0220	Gross - Proportional reinsurance accepted	18,261	-	18,261
R0230	Gross - Non-proportional reinsurance accepted	-	-	-
R0240	Reinsurers' share	149,470	-	149,470
R0300	Net	14,931	-	14,931
	Claims incurred	-	-	
R0310	Gross - Direct Business	85,048	-	85,048
R0320	Gross - Proportional reinsurance accepted	(230)	-	(230)
R0330	Gross - Non-proportional reinsurance accepted	-	-	-
R0340	Reinsurers' share	76,649	-	76,649
R0400	Net	8,169	-	8,169
	Changes in other technical provisions	-	-	-
R0410	Gross - Direct Business	2,098	-	2,098
R0420	Gross - Proportional reinsurance accepted	24	-	24
R0430	Gross - Non- proportional reinsurance accepted	-	-	-
R0440	Reinsurers' share	1,906	-	1,906
R0500	Net	216	-	216
R0550	Expenses incurred	**5,961**	-	**5,961**
R1200	Other Expenses	-	-	-
R1300	Total expenses	**5,961**	-	**5,961**

Data in thousands

S.05.02.01

		C0080	C0090	C0100	C0110	C0130	C0120	C0140
		SPAIN	**MEXICO**	**COLOMBIA**	**CHILE**	**ITALY**	**PANAMA**	**Total Top 5 and home country**
		2018	**2018**	**2018**	**2018**	**2018**	**2018**	**2018**
	Premiums written							
R0110	**Gross - Direct Business**	112,382	16,852	13,746	9,546	-	-	152,526
R0120	**Gross - Proportional reinsurance accepted**	1,604	-	-	-	3,292	2,980	7,876
R0130	**Gross - Non-proportional reinsurance accepted**	-	-	-	-	-	-	-
R0140	**Reinsurers' share**	103,684	15,983	12,511	8,708	2,952	2,787	146,625
R0200	**Net**	10,302	869	1,235	838	340	193	13,777
	Premiums earned	-	-	-	-	-	-	-
R0210	**Gross - Direct Business**	107,310	17,878	12,949	8,003	-	-	146,140
R0220	**Gross - Proportional reinsurance accepted**	488	-	-	-	3,094	2,304	5,886
R0230	**Gross - Non-proportional reinsurance accepted**	-	-	-	-	-	-	-
R0240	**Reinsurers' share**	97,986	16,854	11,811	7,348	2,836	2,192	139,027
R0300	**Net**	9,812	1,024	1,138	655	258	112	12,999
	Claims incurred	-	-	-	-	-	-	-
R0310	**Gross - Direct Business**	55,574	16,794	7,845	4,835	-	-	85,048
R0320	**Gross - Proportional reinsurance accepted**	177	-	-	-	1,907	1,703	3,787
R0330	**Gross - Non-proportional reinsurance accepted**	-	-	-	-	-	-	-
R0340	**Reinsurers' share**	50,047	15,540	7,213	4,379	1,723	1,538	80,440
R0400	**Net**	5,704	1,254	632	456	184	165	8,395
	Changes in other technical provisions	-	-	-	-	-	-	-
R0410	**Gross - Direct Business**	2,098	-	-	-	-	-	2,098
R0420	**Gross - Proportional reinsurance accepted**	-	-	-	-	-	-	-
R0430	**Gross - Non- proportional reinsurance accepted**	-	-	-	-	-	-	-
R0440	**Reinsurers' share**	1,906	-	-	-	-	-	1,906
R0500	**Net**	192	-	-	-	-	-	192
R0550	**Expenses incurred**	**11,397**	**2,836**	**601**	**2,219**	**(223)**	**(330)**	**16,500**
R1200	**Other Expenses**	-	-	-	-	-	-	-
R1300	**Total expenses**	**11,397**	**2,836**	**601**	**2,219**	**(223)**	**(330)**	**16,500**

Data in thousands

S.23.01.01

		C0010	C0020	C0030	C0040	C0050
		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		2018	2018	2018	2018	2018
	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			
R0030	**Share premium account related to ordinary share capital**	40,523	40,523			
R0040	**Iinitial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings**					
R0050	**Subordinated mutual member accounts**					
R0070	**Surplus funds**					
R0090	**Preference shares**					
R0110	**Share premium account related to preference shares**					
R0130	**Reconciliation reserve**	(28,734)	(28,734)			
R0140	**Subordinated liabilities**					
R0160	**An amount equal to the value of net deferred tax assets**	12,440				12,440
R0180	**Other own fund items approved by the supervisory authority as basic own funds not specified above**					
	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
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**					

Data in thousands

		C0010	C0020	C0030	C0040	C0050
		Total	**Tier 1 - unrestricted**	**Tier 1 - restricted**	**Tier 2**	**Tier 3**
		2018	**2018**	**2018**	**2018**	**2018**
R0290	**Total basic own funds after deductions**	64,378	51,938			12,440
	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**					
R0330	**Compromiso jurídicamente vinculante de suscribir y pagar pasivos subordinados a la vista**					
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**					
R0390	**Other ancillary own funds**					
R0400	**Total ancillary own funds**					
	Available and eligible own funds					
R0500	**Total available own funds to meet the SCR**	64,378	51,938			12,440
R0510	**Total available own funds to meet the MCR**	51,938	51,938			
R0540	**Total eligible own funds to meet the SCR**	57,385	51,938			5,447
R0550	**Total eligible own funds to meet the MCR**	51,938	51,938			

Data in thousands

		C0010	C0020	C0030	C0040	C0050
		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		2018	2018	2018	2018	2018
R0580	Consolidated Group SCR	36,315				
R0600	Consolidated Group MCR	9,079				
R0620	Ratio of Eligible own funds to Consolidated Group SCR	158.0%				
R0640	Ratio of Eligible own funds to Consolidated Group SCR	572,1%				

	Reconciliation reserve	
R0700	Excess of assets over liabilities	64,378
R0710	Own shares (held directly and indirectly)	
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	93,112
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	
R0760	Reconciliation reserve before deduction for participations in other financial sector	(28,734)
	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)	

Data in thousands

S.25.01.21

		C0030	C0040	C0120
		Gross solvency capital requirement	USP	Simplifications
		2018	2018	2018
R0010	Market risk	10,439	10,439	
R0020	Counterparty default risk	8,905	8,905	
R0030	Life underwriting risk	-	-	
R0040	Health underwriting risk	-	-	
R0050	Non-life underwriting risk	25,921	25,921	
R0060	Diversification	(9,590)	(9,590)	
R0070	Intangible asset risk	-	-	
R0100	Basic Solvency Capital Requirement	35,675	35,675	

	Calculation of Solvency Capital Requirement	C0100
		2018
R0130	Operational risk	4,985
R0140	Loss-absorbing capacity of technical provisions	
R0150	Loss-absorbing capacity of deferred taxes	(4,345)
R0160	Capital requirement for business operated in accordance with Art, 4 of Directive 2003/41/EC	
R0200	Solvency Capital Requirement excluding capital add-on	36,315
R0210	Capital add-on already set	
R0220	Solvency capital requirement	36,315
	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	

Data in thousands

S.32.01.22

C0020	C0010	C0040	C0050	C0060	C0070	C0080	
Identification code of the undertaking	**Country**	**Legal name of the undertaking**	**Type of undertaking**	**Legal form**	**Category (mutual / non mutual)**	**Supervisory Authority**	**ID[1]**
LEI/959800LM5VB6ST5FT348	Spain	Solunion Seguros, S.A.	Non-life insurance undertaking	Public Limited Company	Non-mutual	Directorate General of Insurance and Pension Funds	1
B81419442	Spain	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
B82140153	Spain	SOLUNION AMÉRICA HOLDING, S.L.	Insurance holding company, as defined in Art, 212 [f] of Directive 2009/138/EC	Limited Company	Non-mutual		3
B87545281	Spain	SOLUNION HOLDING, S.L.U	Mixed-activity insurance holding company, as defined in Art, 212,1 [g] of Directive 2009/138/EC	Limited Company	Non-mutual		4
GRC0571CO02100	Colombia	Solunion Colombia Seguros de Crédito S.A.	Non-life insurance undertaking	Public Limited Company	Non-mutual	Financial Superintendency of Colombia	5
GRC0571CL01300	Chile	Solunion Chile Seguros de Crédito S.A.	Non-life insurance undertaking	Public Limited Company	Non-mutual	Superintendency of Insurance and Securities	6
GRC0571MX01500	Mexico	Solunion México Seguros de Crédito S.A.	Non-life insurance undertaking	Public Limited Company	Non-mutual	National Commission of Insurance and Finance	7
GRC0571CO02600	Colombia	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
GRC0571CL04600	Chile	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
GRC0571MX02000	Mexico	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
GRC0571AR02000	Argentina	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

[1] 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	01/12/2013	Method 1: full consolidation	1
100%	100%	100%		Significant	100%	YES	01/12/2013	Method 1: full consolidation	2
100%	100%	100%		Significant	100%	YES	01/12/2013	Method 1: full consolidation	3
100%	100%	100%		Significant	100%	YES	01/12/2013	Method 1: full consolidation	4
100%	100%	100%		Significant	100%	YES	01/12/2013	Method 1: full consolidation	5
100%	100%	100%		Significant	100%	YES	01/12/2013	Method 1: full consolidation	6
100%	100%	100%		Significant	100%	YES	01/12/2013	Method 1: full consolidation	7
100%	100%	100%		Significant	100%	YES	01/12/2013	Method 1: full consolidation	8
100%	100%	100%		Significant	100%	YES	01/12/2013	Method 1: full consolidation	9
100%	100%	100%		Significant	100%	YES	01/12/2013	Method 1: full consolidation	10
100%	100%	100%		Significant	100%	YES	01/12/2013	Method 1: full consolidation	11

Appendix II

Legal Structure of SOLUNION Group:

Name	Address	Effective tax rate	Activity	In share capital % Holder	Percentage 2018	Percentage 2017	End of the year data (thousand euros) Assets 2018	Assets 2017	Equity 2018	Equity 2017	Income 2018	Income 2017	Result of the year 2018	Result of the year 2017	Method or procedure 2018	Method or procedure 2017
	SOLUNION															
SOLUNION SERVICIOS DE CREDITO S.L.U.	Avda.General Perón 40, 2ª Planta (Madrid) Spain	23.38% (1) (2)	Services	■ SOLUNION SEGUROS S.A.	100.0000	100.0000	13,416	12,963	9,637	7,930	24,042	23,154	1,707	1,193	(A)	(A)
SOLUNION SERVICIOS DE CREDITO ARGENTINA, S.A.	Corrientes 299, 2° piso (C1043AAC) Buenos Aires (Argentina)	30.10%	Services	■ SOLUNION SEGUROS S.A. ■ SOLUNION SERVICIOS DE CREDITO S.L.U.	95.0000 5.0000	95.0000 5.0000	695	638	345	275	1,666	1,270	275	105	(A)	(A)
SOLUNION AMÉRICA HOLDING, S.L.	Avda.General Perón,40, 2ª Planta (Madrid) Spain	(1)	Holding	■ SOLUNION SEGUROS S.A. ■ SOLUNION HOLDING S.L.U.	81.3100 18.6900	81.3100 18.6900	15,700	16,231	15,700	16,231	2,646	3,372	2,569	3,285	(A)	(A)
SOLUNION CHILE SEGUROS DE CREDITO, S.A	Isidora Goyenechea,3520 piso 17 Los condes, 7550071 Santiago, Chile	27.12%	Insurance	■ SOLUNION AMÉRICA HOLDING, S.L. ■ SOLUNION COLOMBIA SEGUROS DE CREDITO, S.A. ■ SOLUNION HOLDING S.L. ■ SOLUNION CHILE SERVICIOS DE CREDITO, LTDA.	51.8310 0.0040 36.3200 11.8450	51.8310 0.0040 36.3200 11.8450	31,978	30,850	5,725	5,922	11,896	10,812	215	80	(A)	(A)
SOLUNION COLOMBIA SEGUROS DE CREDITO, S.A.	Calle 7 sur 42-70 Medellín (Colombia)	34.97%	Insurance	■ SOLUNION AMÉRICA HOLDING, S.L. ■ SOLUNION SEGUROS, 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	34,551	35,344	8,309	8,681	15,765	14,583	1,109	949	(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	30.05%	Insurance	■ SOLUNION AMÉRICA HOLDING, S.L.	100.0000	100.0000	37,378	30,441	8,221	7,565	22,332	19,274	1,652	1,345	(A)	(A)
SOLUNION HOLDING S.LU.	Avda.General Perón 40, 2ª Planta (Madrid) Spain		Holding	■ SOLUNION SEGUROS, S.A.	100.0000	100.0000	5,798	5,815	5,798	5,815	1,126	2,625	1,126	2,625	(A)	(A)
SOLUNION CHILE SERVICIOS DE CREDITO, LTDA.	Isidora Goyenechea,3520 piso 17 Los condes, 7550071 Santiago, Chile	26.94%	Services	■ SOLUNION HOLDING S.L.U. ■ SOLUNION SERVICIOS DE CREDITO S.L.U.	99.3300 0.6700	99.3300 0.6700	2,417	1,997	1,686	1,673	2,773	2,542	141	274	(A)	(A)
SOLUNION SERVICIOS DE CREDITO DE COLOMBIA, LTDA	Calle 7 sur 42-70 Medellín (Colombia)	37.38%	Services	■ SOLUNION HOLDING S.L. ■ SOLUNION SERVICIOS DE CREDITO S.L.U.	98.3333 1.6667	98.3333 1.6667	2,206	2,025	1,222	826	3,896	3,179	1,002	629	(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	17.24%	Services	■ SOLUNION HOLDING S.L.U. ■ SOLUNION SERVICIOS DE CREDITO S.L.U.	100.0000	100.0000	2,012	1,699	597	552	4,987	4,717	71	320	(A)	(A)

CONSOLIDATION METHOD OR PROCEDURE

(A) Controlled companies fully consolidated
(B) Controlled companies excluded from consolidation
(C) Affiliates and investee companies recorded by the equity method
(D) Affiliates and investee companies excluded from consolidation
(E) Consolidated joint arrangements recorded by the equity method
(F) Companies included in 2017 in the consolidation perimeter
(G) Companies included in 2018 in the consolidation perimeter
(H) Companies excluded in 2018 from the consolidation perimeter

FISCAL GROUP

(1) Company belonging to Fiscal Group number 171/14
(2) Company belonging to entities from Group VAT 87/10