



**Solunion Seguros, Compañía  
Internacional de Seguros y  
Reaseguros, S.A.**

**Solvency and Financial Condition  
Report**

**31/12/2019**

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## 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) 2015/35 supplements the aforementioned 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 Company", or "Solunion") is a non-life business insurance 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 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.à.r.l. and MAPFRE Participaciones, S.A.U. 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. In December 2017, shareholders extended the agreement scope to include joint development of Suretyship insurance.

The result of the technical account at December 31, 2019 amounted to EUR 3,089 thousand (EUR 645 thousand in 2018), which, combined with the result of the non-technical account of, EUR -3 thousand (EUR 666 thousand in 2018) generated profit before tax of EUR 3,086 thousand (EUR 1,311 thousand in 2018).

In 2019, the volume of earned premium in direct insurance amounted to EUR 119,464 thousand (EUR 112,382 thousand in 2018). The strong performance of the international business has resulted in total reinsurance premiums accepted of EUR 75,096 thousand (EUR 62,438 thousand in 2018).

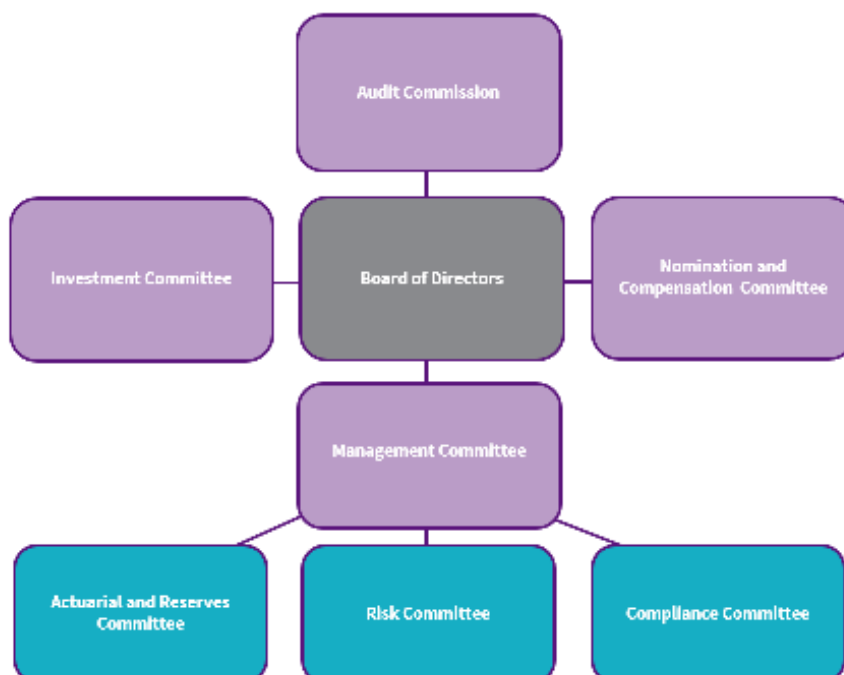
The loss ratio to premiums written net of reinsurance has been located in 56.8% including as accidents the payments and variation of provisions of claims.

### B. System of Governance

Solunion has the following bodies of 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.

The following are the Company's Governing Bodies as of December 31, 2019:



The governing bodies enable adequate commercial and operating strategic management, and 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 Company has Policies that regulate the Key Functions (Risk Management, Actuarial, Compliance, and Internal Audit) and ensure that they meet the requirements defined by the Regulator and are compliant with the governance guidelines set by Solunion. Section B in this Report includes information on these Key Functions.

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

The Board of Directors of Solunion is ultimately responsible for ensuring the effectiveness of the of the Risk Management System, for establishing the risk profile and tolerance limits, as well as for approving the main risk management strategies and policies within the framework of risk management established by the Group.

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

- a) The managers of the "First Line of Defence" assume the risks and have the controls necessary to ensure that risks do not surpass the established limits.
- b) The internal control system and the areas of the "Second Line of Defence," (Actuarial, Compliance, Internal Control and Operational Risk, 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.

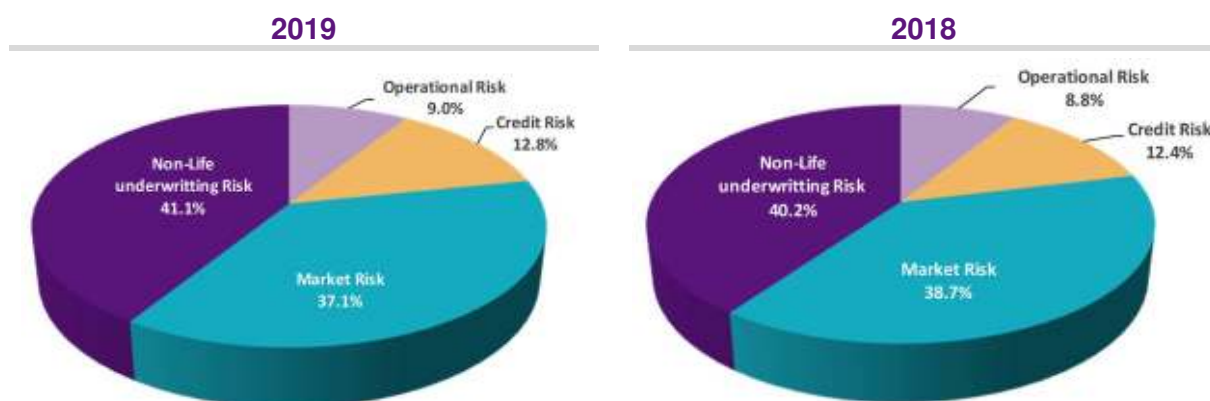
Within this framework, Solunion's structure is comprised of Areas, which, in their respective frameworks, perform a number of independent supervisory activities within the scope of their respective areas with regard to assumed risks.

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 Company establishes its own implementation and development strategy of the Risk Management and Internal Control Area, and the Board of Directors defines the reference criteria and establishes and/or validates its organisational structure.

### C. Risk profile

Solunion calculates the Solvency Capital Requirement (hereinafter SCR) in accordance with the requirements of the standard formula, methodology established by the Solvency II regulations.

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



The Company's risks profile has remained constant over the previous year; in both 2019 and 2018, the risk, which most intensely affects the Company, is Non-Life Underwriting risk, to which catastrophic credit and suretyship risk mainly contributes, due to the recession risk that burdens Solunion for 100% of the underwritten premiums. That is followed by market risk, mainly due to the Company's positions in its related undertakings, as high exposure to the same is found in countries outside the European Economic Area. Lastly, there are the credit and operational risk respectively.

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

With respect to significant concentrations of risk, the 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.

Conversely, Solunion has also considered a series of stress tests and scenario analyses for assessment of the resilience of the Company and the business model to adverse events. The results of these analyses show that the Company would continue to meet with capital requirements of Solvency even in adverse circumstances.

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

#### **D. Valuation for solvency purposes**

The total value of assets under Solvency II regulations amounts to EUR 323,600 thousand, while the value measured in accordance with accounting regulations would amount to EUR 376,760 thousand. This difference mainly relates to the zero valuation under Solvency II regulations of the Goodwill, the prepaid fees and other acquisition costs, intangible assets and, to a lesser extent the lower value of the amounts of recoverable reinsurance due to the valuation following an economic market criteria under said regulations, and deferred tax assets, and portfolio investments at maturity that have not been valued to market in the accounting regulations.

The total value of liabilities under Solvency II amounts to EUR 250,085 thousand, compared to EUR 273,735 thousand according to accounting regulations. These differences correspond mainly to the technical provisions, deferred tax liabilities and other acquisition costs of the reinsurance commissions.

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.

The total excess of assets over liabilities amounts to EUR 73,515 thousand under Solvency II, reducing by EUR 29,510 thousand with respect to accounting criteria.

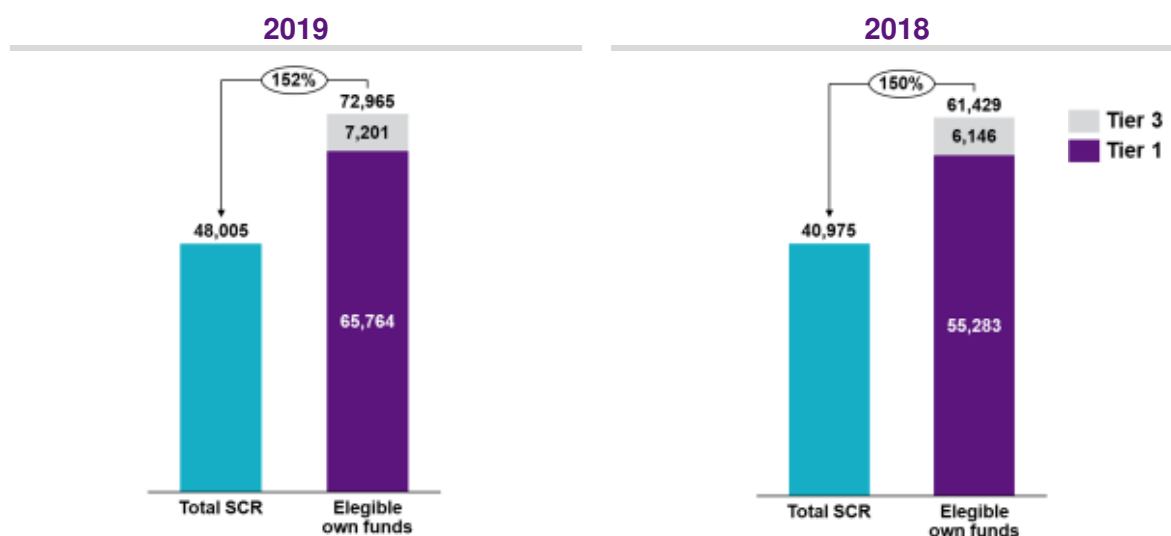
During the year, there were no significant changes in valuation criteria of the assets and liabilities.

#### **E. Capital management**

Solunion maintains solvency levels within the limits established by the regulations and in its Risk Appetite and has a medium-term capital management plan.

The company's solvency ratio, which denotes the share of its own funds available to meet the SCR, is 152%, while the share of its own funds available for meeting the minimum capital requirement ( hereafter "MCR"), reaches 548%%. Therefore, the Company is in a suitable situation to be able to face future commitments taking into account the capital requirements established by the Solvency regulations II. For calculating the solvency ratio the Company has not applied the adjustment for marriage, nor the adjustment for volatility, nor the transitional measure about technical provisions by the Solvency II regulation.

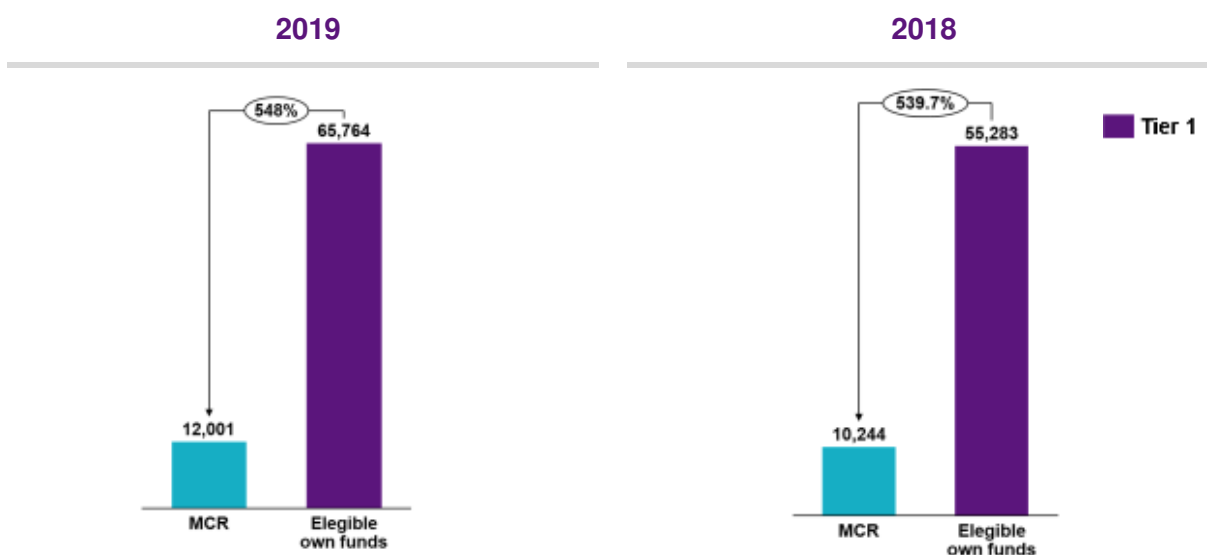
The Company's solvency ratio for SCR coverage in the years of study is as follows:



Data in thousands of euros

The coverage ratio on the Solvency Capital Requirement has been increased by 2 points. This is mainly due to the increase in the Solvency Capital Requirement, although for the purposes of own funds there has been an increase of 18.8% with respect to the previous year driven by a positive evolution of the business during the year.

The solvency ratio of the Company for the coverage of the MCR is:



Data in thousands of euros

The Company maintains an excess of capital of EUR 65,764 thousand, with eligible own funds that cover 5.5 times the regulatory solvency requirement, which corresponds to the to the own funds that the Company should have to limit the probability of ruin to one case per 200 years, 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 increased by 8.3 points, which mainly comes from the increase of the Minimum Capital Requirement, although for the purposes of own funds there has been an increase of 19% in comparison to the previous year driven by a positive evolution of the business during the year.

For calculating the solvency ratio the Company 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 2018, the amount of the Company's MCR was EUR 10,244 thousand, in December 2019 this amount has been reduced up to EUR 12,001 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 the 25% of the SCR, amount that in 2019 has increased by EUR 1,757 thousand.

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



## A. Business and performance

### A.1. Business

The accounting data in this section come from the annual accounts of the Company that have been prepared in accordance with the Accounting Plan of Insurance Entities.

#### A.1.1. Corporate name, legal form and activity

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 lines of business, and transactions supplementary, ancillary or related to this object to the extent allowed by insurance legislation.

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

The 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.à.r.l. and MAPFRE Participaciones, S.A.U. 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. In December 2017, the shareholders extended the agreement scope to include the joint development of the suretyship insurance.

#### Supervision

The Directorate General of Insurance and Pension Plans (Spanish Supervisory Authority, hereinafter DGSFP) is the party responsible for the financial supervision of Solunion, as it is based in Spain.

The DGSFP is located in Madrid (Spain) and its website is [www.dgsfp.mineco.es](http://www.dgsfp.mineco.es).

#### External audit

KPMG Auditores, S.L. has issued on April 2020 the audit reports with no reservations relating to the individual and consolidated accounts of the Company at 31 December 2019. This firm is headquartered in Madrid (Spain) Torre de Cristal, Paseo de la Castellana 259C.

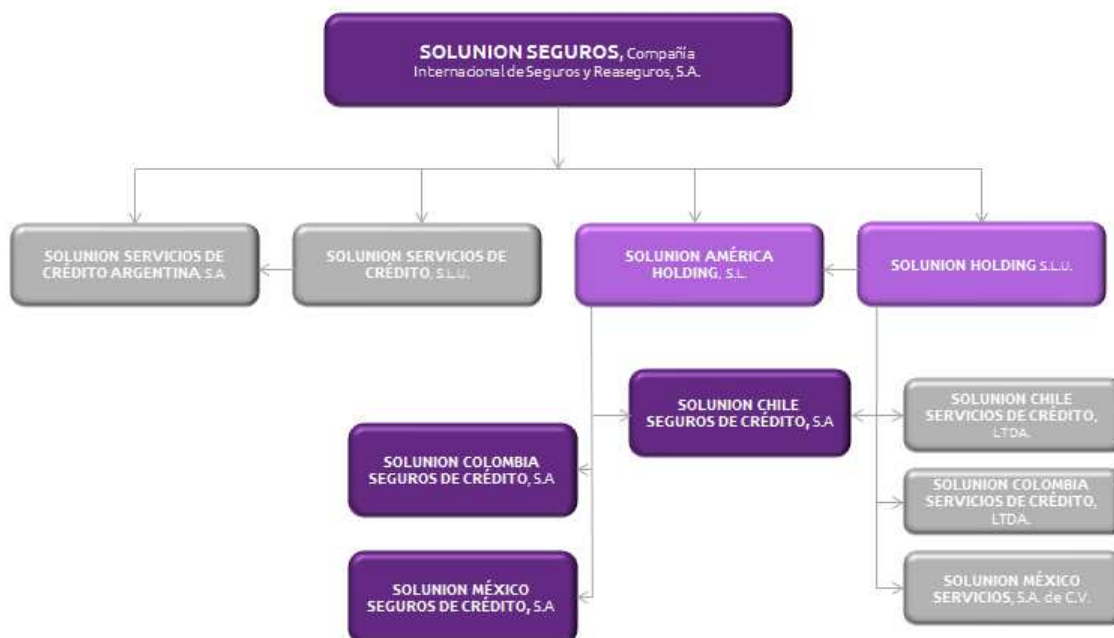
#### Holders of qualifying holdings

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

The following is the organizational structure indicating the Company's position within the Solunion Group's legal structure:



Lines of business

The Company 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 Company operates, in addition to Spain, are Colombia and Mexico, as described in Appendix S.05.02.01.

**A.1.2. Events with significant impact**

The following significant events took place during 2019, with a significant effect on the Company:

Significant events of the year

In October 2019, the international agency A.M. Best confirmed the financial strength rating A (Excellent) of Solunion and its long-term issuer credit rating of “a”, both of them with a stable outlook. Maintaining these ratings reflects the strength of the balance sheet of Solunion, which A.M. Best considers “very solid”, and highlights its adequate operating performance and its correct management of business risk.

According to the analysis, this balance sheet solidity is supported by “its risk-adjusted capitalisation, which remained at the strongest level at the end of 2018, according to the Best’s Capital Adequacy Ratio.” Furthermore, it adds, “the assessment of balance sheet strength is supported by a prudent reserve approach and the conservative investment and reinsurance strategies of Solunion.” Faced with economic prospects that point to a change in cycle, the report considers that “the company maintains capital reserves to cushion the effect of a high insolvency environment.” Accordingly, A.M. Best expects Solunion to “maintain a prudent capital management strategy to support its strategic expansion plans.” Finally, the report highlights that the operating performance of Solunion has shown a trend of improvement during the last five years (2014-2018), which was also maintained in the results of the first half of 2019.

Solunion has recently joined the Diversity Charter, a letter promoted by the Diversity Foundation, which companies and institutions underwrite a voluntary basis, to promote their commitment to the fundamental principles of equality and respect for the inclusion of all people independently of their profiles. By adhering to the Diversity Charter, Solunion is committed to promoting and raising awareness for the principles of equal opportunities and respect for diversity; moving forward in the building of a diverse workforce; promoting inclusion; considering diversity in all personnel management policies; promoting conciliation by means of a balance between work, family and leisure times; recognising the diversity of its clients; and extending and communicating the commitment to the Diversity Charter to collaborators, supplier companies and other interested parties.

Solunion, the insurance company of credit, bonding and services associated with commercial risk management, has also recently joined the United Nations Global Compact, as a sign of its firm commitment to economic and social progress in all the countries in which it operates. The Pact is an international initiative that promotes the implementation of ten principles regarding human rights, labour standards, the environment and the fight against corruption in the activities and business strategy of companies. By signing the Pact, Solunion is committed to supporting and respecting, among other issues, the protection of human rights, freedom of affiliation and collective bargaining, the abolition of discriminatory practices, the promotion of initiatives that promote greater environmental responsibility, and the fight against corruption in all its forms.

On December 11, 2019, the Board of Directors of Solunion approved the strategic plan 2020-2021 of the Company and its Group, called Atenea, which includes the transformational pillars, the lines of work and the action plans to drive growth profitable and sustainable from Solunion in the next two years.

#### Corporate matters

During 2019, there were no relevant corporate events to be mentioned.

#### Main activities in 2019

- General matters

In 2019 Solunion again manages to grow more than the market in the Credit market, clearly distancing itself from the third company in the market in a year that has been marked by a good result both in new businesses and in customer retention. In 2019, Solunion promotes the Surety activity started in 2018, allowing it to reach the ninth position in the market with the highest growth of all companies.

Solunion’s positive trend is consolidated in a year in which uncertainty has marked the economic outlook but in which most countries have managed growth to grow their portfolio (Spain + 5%, Mexico + 17% or Colombia + 3%).

- New products

In 2019 the Policy Py was launched, for small companies and that is characterized by its simplicity and ease of management, which facilitates its sale through non-specialized channels.

- Commercial action

Special mention must be made to the following actions carried on 2019 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.
- Reinforcement of measures to improve the experience of Solunion customers seeking a greater retention.
- Good performance of the new business and the retention rate in Spain that close above the organic growth budget.

- Risk underwriting

In 2019, the world economy has entered a phase of deceleration, mainly as a consequence of the intensification of trade tensions and the related uncertainty on trade policies, while maintaining geopolitical risks and uncertainties. Last year, the underwriting policies were adjusted to the evolution of the economy and the increase in insolvencies, which meant more effort to accompany the growth of our clients and the growth of the company, while helping to ensure profitability.

- Information and technology systems

Regarding job management, the completion of the migration to Office 365 to a specific Tenant in AZURE for Solunion will allow employees to use a very broad set of tools that will increase the efficiency of the Company's daily activity. Similarly, Windows 10 has been standardized as an operating system, eliminating the risk of obsolescence on the platform. Regarding the evolution of the technological systems that support the Solunion Operation, it is worth highlighting the renewal of the platform for the credit insurance business in Mexico and Argentina, which have come to have the FENIX corporate system

The result of the technical account at December 31, 2019 amounted to EUR 3,089 thousand (EUR 645 thousand in 2018), which, combined with the result of the non-technical account, EUR -3 thousand (EUR 666 thousand in 2018) generated profit before tax of EUR 3,086 thousand (EUR 1,311 thousand in 2018).

In 2019, the volume of earned premium in direct insurance amounted to EUR 119,464 thousand (EUR 112,382 thousand in 2018). The strong performance of the international business has resulted in total reinsurance premiums accepted of EUR 75,096 thousand (EUR 62,438 thousand in 2018).

The loss ratio to premiums written net of reinsurance has been located in 56.8% including as accidents the payments and variation of provisions of claims.

## A.2. Underwriting performance

Quantitative figures on the Company's business and underwriting results in 2019 and 2018 by line of business, as shown in figure S.05.01.02, indicate that the Company ended the year with gross written premiums of EUR 184,527 thousand (EUR 160,121 thousand in 2018), of which the net amount was EUR 14,647 thousand (EUR 12,113 thousand in 2018). The variation in gross written premiums with respect to the previous year has resulted in an increase of 15.24%.

Also, the gross claims rate in direct and proportional accepted reinsurance business fell to EUR 111,792 thousand (EUR 84,830 thousand in 2018), and after discounting the effect of reinsurance corresponding to EUR 104,221 thousand, the net claims amounts to EUR 7,571 thousand (EUR 3,920 thousand in 2018), which represented an increase of gross claims of 31.78% compared to the previous year.

The technical result has amounted to EUR 3,089 thousand (EUR 645 thousand in 2018).

By geographic area of the Company, as shown in figure S.05.02.01 of the Appendix, the following countries, in addition to Spain, most important in volume of gross earned premiums in the year 2019 were Mexico, Colombia, Chile, Italy and Panama. The gross earned premiums for these countries amounted to EUR 55,647 thousand (EUR 44,457 thousand in 2018), which represented an increase of 25.17% compared to the previous year.

## A.3. Investment performance

### A.3.1. Information on income and expense arising from investments:

The following table presents quantitative information on investments' income and expense, which correspond to investments in the available-for-sale portfolio:

	Finance income and expense		Net gain or loss	
	2019	2018	2019	2018
<b>FINANCIAL ASSETS</b>	<b>318</b>	<b>391</b>	<b>131</b>	<b>(74)</b>
Financial investments in capital	-	-	-	-
Shareholdings in investment funds	-	-	-	-
Fixed income securities	340	403	131	(74)
Other assets	(22)	(12)	-	-
<b>FINANCIAL LIABILITIES</b>	<b>(235)</b>	<b>(54)</b>	<b>-</b>	<b>-</b>
Deposits received on ceded reinsurance	-	-	-	-
Other liabilities	235	(54)	-	-
<b>TOTAL</b>	<b>83</b>	<b>337</b>	<b>131</b>	<b>(74)</b>

Data in thousands of euros

The financial result amounts to EUR 214 thousand in 2019 (EUR 263 thousand in 2018), this represents 1.5% (2.2% in 2018) of the net earned reinsurance premiums (EUR 14,647 thousand in 2019, EUR 12,113 thousand in 2018).

Some of the following situations influenced investment in the Company are discussed below:

2019 was marked by record-high uncertainty and two recessions. The trade conflict between the U.S. and China rapidly escalated. The U.S. average import tariff moved from 3.5% in 2018 to close to 8% in 2019.

However, the uncertainty costs more in terms of GDP growth than the tariffs. While tariffs had an annual cost of -0.2pp to global GDP growth, we estimate the annual cost of uncertainty at -0.3pp of global GDP growth. Companies have faced a very rapid increase in inventories because of higher uncertainty and soft global demand. The trade conflict coupled with difficulties in the automotive sector pushed global trade in goods into a recession. Hence, global manufacturing production fell into recession in Q3 2019. Global investment also remained impaired by high uncertainty and lower trade flows.

A broad-based recession was been avoided, thanks to the swift and sizeable monetary policy reactions. The number of central banks initiating a monetary policy easing in 2019 reached a record high since 2009. There was no hesitation to use unconventional tools of monetary policy to inject liquidity, both at the Fed and ECB levels. This along with limited fiscal support helped domestic-oriented sectors, notably residential construction and services. However, the protracted usage of unconventional monetary policy tools has entrenched the world in an environment of low-to-negative interest rates for long and raised questions about their efficiency.

Social tensions and political risks multiplied at a rapid pace. Increasing inequalities over the past years and high fiscal pressures on households resulted in outbreaks of social crises in several countries. Unexpected protests escalated across regions, such as Hong Kong, several countries in Latam (Chile, Colombia), while the yellow vest protests continued in France in H1 2019. Geopolitical tensions also prevailed in the Middle East, particularly between Saudi Arabia and Iran, and between the U.S. and Iran.

The regulatory shock in the automotive sector almost pushed Germany into recession and had global repercussions. Major climate events (fires in the U.S., Brazil, and Australia) occurred at a more frequent pace. Concomitantly, the new European Commission announced a Green Deal, including a Just Transition Mechanism worth EUR100bn to help regions most heavily dependent on fossil fuels. The implementation of new green and environmental, social and governance policies has started to bite companies, with further adjustments to be seen and new initiatives to support energy transition.

Latin America's growth has been of only 0.6% in 2019, well below the previous year's rate (1.6%), the expectations at the beginning of the year (2.1%) and the potential GDP growth (close to 2.5%). This low growth has been the result of the global slowdown, but also of political and policy uncertainty in many Latin American countries.

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

The following is the quantitative information regarding income and expenses arising from investments broken down by type of asset and liability recognized directly in equity at the end of the 2018 and 2019 exercises, as it shows in the financial statements:

	2019	2018
<b>FINANCIAL ASSETS</b>	<b>1,101</b>	<b>(863)</b>
Financial investments in capital	-	-
Shareholdings in investment funds	251	-
Fixed income securities	850	(863)
Other assets	-	-
<b>FINANCIAL LIABILITIES</b>	<b>-</b>	<b>-</b>
Deposits received on ceded reinsurance	-	-
Other liabilities	-	-
<b>TOTAL</b>	<b>1,101</b>	<b>(863)</b>

Data in thousands of euros

The Investments in 2019 have had a positive effect on equity with recognized earnings of EUR 1,101 thousand from Participations in Investment Funds and Fixed Income Securities. On the contrary, in 2018 the investments had a negative effect on equity of EUR 863 thousand, all of them from Fixed Income Securities.

### **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 this year, the Company has incurred the following "other" significant income and expenses other than those arising from the underwriting activity and from the return on investment, including:

	2019	2018
Income from property, plant and equipment and from investments	2,976	3,900
Expense on property, plant and equipment and investments	(206)	(647)
Other income	265	434
Other expenses	(3,038)	(3,021)
<b>NON-TECHNICAL RESULT</b>	<b>(3)</b>	<b>666</b>

Data in thousands of euros

The result from activities other than the exclusively insurers is EUR -3 thousand at the end of the year 2019, the Income from property, plant and equipment and from investments mainly are due to the dividends distribution by the Solunion Group's companies, and the Other expenses item are mainly due to the amortization of goodwill..

The subsidiary Solunion Colombia Seguros de Credito, S.A. on 29 March 2019 agreed the distribution of profits as a dividend of which the Company has received the gross amount of EUR 27 thousand.

The subsidiary Solunion America Holding, S.L. on 24 June 2019 agreed the distribution of a dividend on account for a gross amount of EUR 450 thousand, of which EUR 395 thousand corresponded to the Company, and on November 12, 2019 the distribution of a dividend on account for Gross amount of EUR 1,800 thousand, of which EUR 1,463 thousand corresponded to the Company..

The subsidiary Solunion Holding, S.L.U. on 29 June 2019 agreed the distribution of a dividend because for a gross amount of EUR 859 thousand and on September 3, 2019 the distribution of a dividend on a complementary account for gross amount of EUR 51 thousand.

### **A.4.2 Lease contracts**

#### Operational leases

The Company is lessee of operating leases in the offices in which it provides its services and in which its registered office is located. Theses leases are entered into with related parties, and the contract ends on 31 March 2021.

Expense accrued in 2019 in operating leases amounted to EUR 658 thousand (EUR 605 thousand in 2018).



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	
	2019	2018	2019	2018	2019	2018	2019	2018
<b>Buildings and other constructions</b>	658	605	103	449	-	-	761	1,055
<b>TOTAL</b>	<b>658</b>	<b>605</b>	<b>103</b>	<b>449</b>	<b>-</b>	<b>-</b>	<b>761</b>	<b>1,055</b>

Data in thousands of euros

### Finance lease

The Company does not have this type of lease.

## **A.5. Any other information**

On 11 March 2020, the World Health Organization declared that the outbreak of Coronavirus COVID-19 can be considered a pandemic due to its rapid spread throughout the world and that it affects more than 150 countries. Most governments are taking restrictive measures to contain the spreading, including: isolation, confinement, quarantine, and restriction on the free movement of people, closure of public and private premises, except those of basic necessity and related to health, closure of borders and the drastic reduction of air, sea, rail and land transport. In Spain, the government approved the Royal Decree 463/2020 of 14 March declaring the state of alarm for the management of the health crisis caused by COVID-19, which initially would have a duration of 15 calendar days.

This situation is affecting the global economy significantly, due to the interruption or slowdown of supply chains and the significant increase in economic uncertainty, evidenced by an increase in the volatility of asset prices and exchange rates and the decrease in interest rates in the long term.

To mitigate the economic impacts of this crisis, on Wednesday 18 March, the Royal Decree-Law 8/2020 of 17 March regarding extraordinary urgent measures to face the economic and social impact of COVID-19 came into force.

The consequences derived from COVID-19 are considered a subsequent event that does not require an adjustment in the Solvency and Financial Condition Report for the financial year 2019, notwithstanding that they must be recognised in the financial year 2020.

Although at the date of preparation of the (consolidated) annual accounts no consequence has arisen, apart from those derived from the application of the aforementioned Royal Decree-Law, it is not yet possible to make an estimate of the present and future impacts derived from this crisis. During the financial year 2020, the Company will evaluate the impact of the aforementioned events and those that may occur in the future regarding the equity and financial situation as at 31 December 2020, and regarding the results of its operations and cash flows for the financial year ended on that date.

It should be pointed out that Solunion already had a teleworking system in place, called SOLFLEX, that has allowed immediately, and even before the state of alarm was declared by the Government of Spain, close its offices in Spain and to have all its employees working at their homes, which is allowing keep up of the Company's level of service without damages for the insured persons. Regarding the evolution of the business, Solunion will continue working on the assessment of the different scenarios, as is already occurring in the solvency reports, which include stress tests that simulate extreme situations such as the one that is happening.



The main impacts on the accounts could occur in income (premiums and service income) and in claims. With regard to income, the Company is evaluating the possible impact, on the other hand, in these situations, the customer is aware of the importance of having the protection and expert risk analysis that credit insurance offers. As for claims, given the expected increase in business insolvencies, the risk department is already working, analyzing the sectors and companies that could be most affected, to minimize the impact as much as possible.

The Group's strong protection must be added through its reinsurance structure, which, with a reduced risk retention, must allow it to face this situation protecting its solvency levels in the best possible way, without prejudice to continuing with the quantitative evaluation of possible impacts prudently.

## **B. System of governance**

### **B.1. General Information on the system of governance**

Solunion's system of governance, which is presented in detail below, aims to ensure sound and prudent management under a common operational and organisational model for the Group that establishes hierarchical and functional relationships, a common risk governance structure, Key Functions and written corporate governance policies that include fit and proper requirements to be met by directors, executives and Key Functions. The Policies derived from the Solvency II regulations are reviewed on an annual basis, although modifications may be approved in them or in the rest of the internal regulations at any time when it is deemed convenient.

#### **B.1.1 System of Governance**

The system of governance of Solunion 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:
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 Latin America companies to the regulation of their respective countries.
7. Directors, executives and individuals with Key Functions of Solunion must be persons of acknowledged commercial and professional propriety, and possess adequate knowledge and experience to enable sound and prudent management of Solunion, in accordance with the company's fit and proper policy.

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 Company has the following bodies for its individual government, whose main functions and competences are detailed below:

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

The General Meeting comprises the shareholders of Solunion 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 shareholders: (i) are periodically informed by the CEO of Solunion on financial data, the situation in commercial and risk, information and claims matters, and the most significant matters of Solunion; 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 as the shareholders' representatives. The Solunion 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 Company, and for overseeing the performance of Solunion management. It has full powers of representation, disposition and management. Its decisions are mandatory for the Company, except in matters attributed to the General Meeting, and it designates and removes members of Company committees, including the Management Committee.

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

The position of Director of the Company is not remunerated, and it is incompatible with the performance of executive positions or duties in Solunion.

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.

#### Board supporting committees

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 Solunion'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 Solunion 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 in supervising the management of the Business Units and the effective ordinary management of the global operations of Solunion in their strategic, operational and coordinating aspects.

It comprises the CEO of the Company, who chairs it, and the Corporate Directors of Finance and Administration (CFAO), Risk, Information and Claims (RIC), and Market Management, Commercial and Distribution (MMCD) and Operation Support (COO) of Solunion, who are full members and voting rights, Corporate Directors of Communication, People and sustainability, Legal and Compliance, Suretyship and the Solunion Corporate Affairs Director be permanent guests and to invite any individual to inform the committee on specific subjects under its competence.

The nomination of the members of the Management Committee, who must meet the requirements set out in Solunion'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 Company Management Committee

The Company's 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, the Corporate Head of the Actuarial Area and the Corporate Head of 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, the Corporate Head of Internal Control and Risk Management and the Corporate head of the Actuarial Area (without the right to vote).

Competence to oversee the Actuarial Function and Policy within the Group, and to establish reserves in the framework of policies and rules approved by the Board of Directors.

- **Compliance Committee:** tasked with verifying the functioning of the compliance function, overseeing correct application of general compliance guidelines and principles within the Group and to provide support in this area to the Group's head of compliance, and is composed of the full member of the Management Committee, the Corporate Director of People and sustainability 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 Solunion'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.

### **B.1.2. Key Functions**

In order to ensure that the government system has an adequate structure, the Company has Policies that regulate the key functions (Risk Management, Compliance, Internal Audit and Actuarial) and ensure that these functions follow the requirements defined by the regulator and they are faithful to the lines of government established by the Company and the Group.

The Board of Directors approved the latest revision of the Internal Audit, for the year 2019, Policy in its meeting of March 26, 2019, Actuarial Policy in its meeting of June 24, 2019 and Risk Management Policy in its meeting of September 19, 2019, and the Compliance Policy in its meeting of December 11, 2019.

These policies establish the operational independence of these Key Functions and their direct line of reporting to the governing body, which gives them the necessary authority in the exercise of their functions. The governing body is informed, at least annually, by the areas of the Company responsible for carrying them out. The information and advice to the Board of Directors on the part of the key functions is expanded in the sections related to each of them.

The names of individuals responsible for Key Functions have been reported to the Dirección General de Seguros y Fondos de Pensiones.

The Key Functions have the necessary resources for the proper performance of the functions entrusted in their respective Policies

### **B.1.3. Relevant General Meeting of Shareholders and Board of Directors resolutions related to the Governance System**

There have been no significant changes in the governance system throughout fiscal year 2019.

### **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 three men and one woman in 2019 and two men and one woman in 2018.

	2019	2018
<b>Short-term remuneration</b>	<b>868</b>	<b>671</b>
Salaries	745	619
Fixed allocations	26	25
Per diems	-	-
Life insurance	7	7
Other	29	20
<b>Medium-term remuneration</b>	<b>61</b>	<b>69</b>
<b>Post-employment remuneration</b>	<b>-</b>	<b>17</b>
Defined contribution	-	17
Years of service award	-	-
<b>TOTAL</b>	<b>868</b>	<b>757</b>

Data in thousands of euros

Remuneration paid to the members of the Administrative body and employees of the Company is determined in accordance with prevailing regulations as well as the Company's remuneration policy, the latest revision of which was approved by the Board of Directors on June 24, 2019.

The overall objective of the Company'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- to foster sound and prudent management of the business and effective risk management.

Its objectives include:

- Supporting Solunion's business strategy by attracting and retaining talent.

- Incentivising employees' contribution to the Company'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.
- 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.

In 2019, 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, 2019 and March 31, 2021. 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.

#### **B.1.5 Additional information**

There is no other relevant additional information not mentioned in the previous sections.

### **B.2. Fit and proper requirements**

The Company has a fit and proper policy, the latest revision of which was approved by the Board of Directors on June 24, 2019, 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 must be persons of recognized commercial and professional honour and possess adequate knowledge and experience to make possible the sound and prudent management of Solunion. 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) This Policy does not apply to employees other than the members of the Management Committee and the Key Functions Holders.
- b) The Fitness and Propriety of the members of the Board of Directors of Solunion shall be governed by the criteria established by their shareholders and the applicable rules, while that of the members of the Board of Directors of the BU shall be governed by the criteria established in this Policy and the applicable local rules.
- c) The selection and appointment of the members of the Management Committee of Solunion, the Management Committees of the BU and Key Function Holders shall comply with the legal requirements of each BU 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.

#### Process to ensure fitness and propriety.

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 Management Committee and the Company Management Committee: The Board of Directors or designated committees.



- Of the Key Function Holders (and Heads of externalized Key Function): The Board of Directors or designated committees.

The Company must ensure that an evaluation of the fit and proper is made during the hiring process of members of Management Committee or holders of key functions, whether internal or external to Solunion. 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 Company'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 Management Committee 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 a declaration of absence of negative circumstances that could not non-compliance with the fitness requirement, as well as, in its case, of an official certificate in accordance with the applicable local rules of absence of criminal condemnations (e.g. criminal records check, police clearance certificate or equivalent documents), presented not later than three months after the date of issue;
- Verification of references and search in public media by the People and sustainability 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 area/body responsible for hiring will decide what steps to take (such as request for a sworn affidavit to serve as proof).

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

In cases where a Key Function is outsourced according to the Group Outsourcing Policy, it is necessary a written confirmation that the Provider's personal working within the outsourced Key Function is Fit and Proper (Fit and Proper Test).

A person's Fitness and Propriety shall be assessed on a regular basis, to ensure ongoing Fitness and Propriety of the person for his position. Such assessment is done in performance reviews, once a year, assessing the person's Fitness and taking into account any compliance infringement possibly leading to the person not being Proper.

For the Members of the Management Committee and Key Function Holders will be carried out in Career Development Conferences (CDCs), at least once a year, where they are assessed on their sustained performance in their current role as well as their potential to carry out new roles.

Ad-hoc reviews are required in certain extraordinary situations which give rise to questions regarding a person's Fitness or Propriety, such as: relevant breach of the Solunion Code of Ethics & Conduct; failure to submit required self-disclosure statements (e.g. statements of accountability or disclosure of security trading); investigation or any other procedure possibly leading to a conviction of a criminal, disciplinary or administrative offence (in the case of an administrative or disciplinary offence, the relevance to the BU's business and the person's position shall be taken into account), or to administrative sanctions for non-compliance with any financial services legislation; and substantiated complaint within the Solunion Group (e.g. whistle-blowing) or from Supervisors. In the context of an ad-hoc review, not only the particular circumstance which gave rise to it, but the Fitness and Propriety of the person concerned as a whole are reassessed.

Based on the information gathered during recruiting, a regular or ad-hoc review or an outsourcing due diligence, each case must be assessed individually.

As regards Fitness, in the assessment of practical and professional experience, special attention should be paid to the nature and complexity of the positions held, the competencies and decision-making powers and responsibilities assumed, as well as the number of people in charge, the technical knowledge gained on the sector And the risks they must manage. In any case, the criteria of knowledge and experience will be applied by assessing the nature, size and complexity of the activity of each Company and the specific functions and responsibilities of the position assigned to the person evaluated. If it appears that a member of the Management Committee, a Key Function Holder or a candidate to such a position suffers from a specific lack of knowledge, competencies or skills, it shall be considered whether this lack is curable through specific professional training and if so, the person must be provided with such training.

Regarding Propriety, whereas any hint of a possible lack of Propriety (see sec. 3.3) must be taken into account for the assessment, factors such as the type of misconduct or conviction, the severity of the case, the level of appeal (definitive vs. non-definitive conviction), the lapse of time since and the person's subsequent conduct are also taken into account, as well as the person's level of responsibility and the relevance of the finding for the respective position (i.e. the position's exposure to integrity and fraud risks). Furthermore, any finding with respect to a person's Propriety must be shared with the Corporate Legal and Compliance department.

In case the person/body responsible for the assessment concludes that, the Management Committee or Key Function Holder subject to the assessment is not or no longer Fit or Proper, the member of the Committee responsible for the nomination (see sec. 3.1) must be informed before any decision is taken on the consequence of the assessment. If, after careful review of the findings and consultation of the relevant departments/persons where necessary, the external candidate is not Fit or not Proper enough for the position he is applying for, said candidate may not be appointed or recruited. If a regular or ad-hoc review shows that a person can no longer be considered Fit or Proper for his position, the person must be removed from the position without delay, subject to employment law in cases where the person is an employee of Solunion.

The HR Area retain all documents collected or established as part of recruiting, performance reviews and CDCs. The treatment of the data for the purposes of the evaluation of the Honourability shall be limited to the exclusive purpose of supplying the information to the local supervisory Directorate General of Insurance and Pension Funds, and the number of persons of the organization that can access this data will be expressly limited.

## **B.3. Risk Management System, including the own risk and solvency assessment**

### **B.3.1 Governance framework**

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

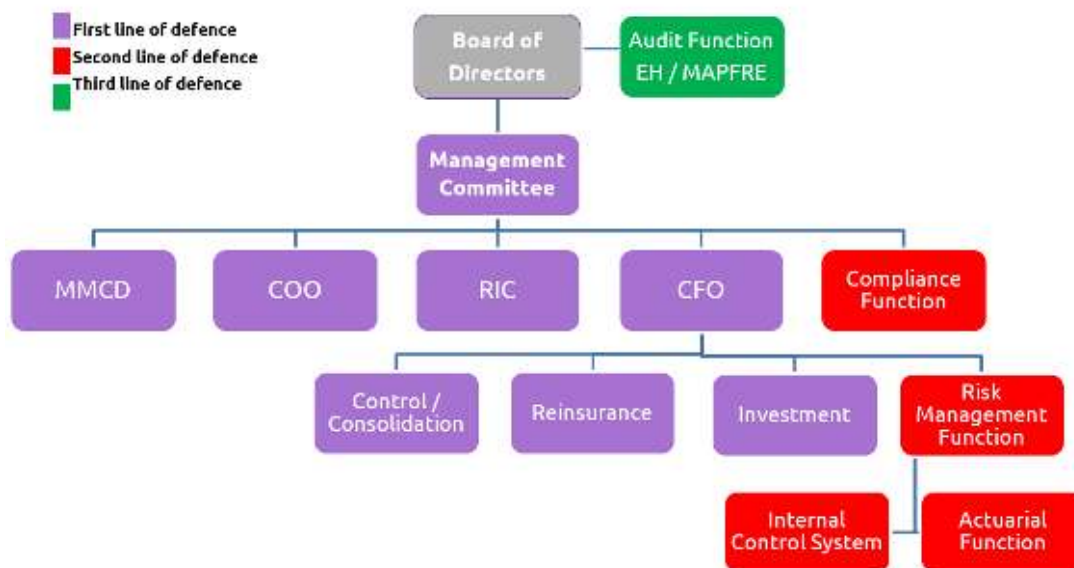
The risk management policy implements the structuring and functioning of the risk management system. The policy is applied to Group entities within the limits envisaged in regulations applicable to the activities regulated in countries where it operates, and it has the aim of preserving the Group's solvency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

- definition of a strategy for the risks it takes on;
- inclusion of risk analysis in the decision-making process;
- establishment of general guidelines, basic principles, and general framework of risk management to promote their consistent application in the Group.
- dissemination of the risk management policy among executives and employees to achieve a risk management culture that ensures its effectiveness.

The Company 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:

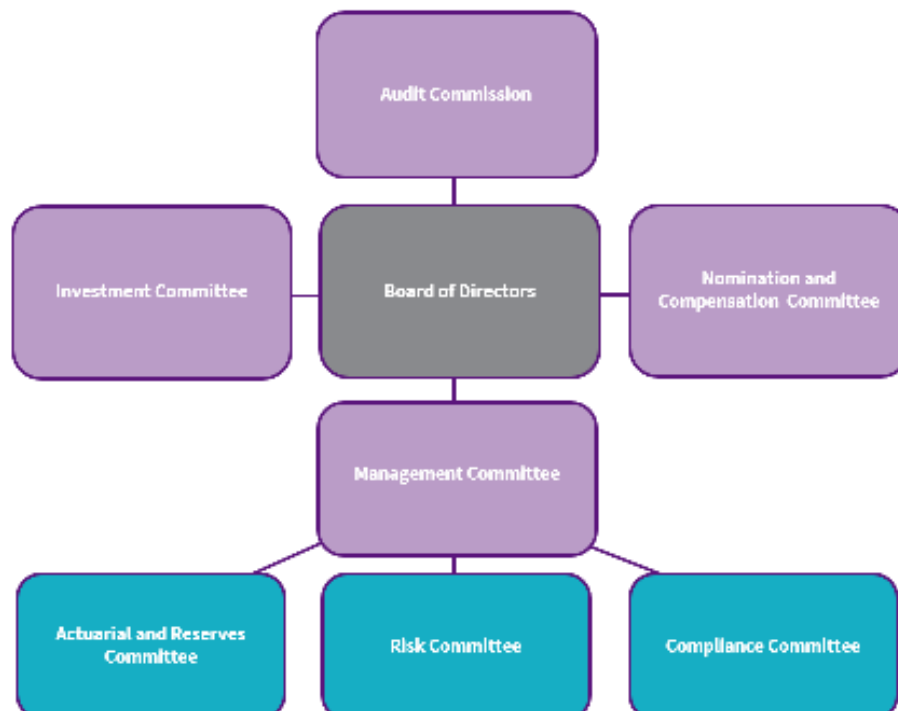
- The First Line of Defence consists of operations managers, who assume risks and possess the controls.
- The actuarial, compliance and risk management functions, as well as the Internal Control System, dependent on this last, make up the "Second Line of Defence", that supervise the First Line of Defence 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:



The 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:



The governing bodies of Solunion 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 t, and on the Compliance Committee.

- **Risk Committee:**

Comprises all full members of the Management Committee, the head of the actuarial function and the Corporate head of Management risk and Internal Control (without the right to vote), will be tasked with supervising the Risk Management Function and System, particularly compliance with Risk Appetite. The Corporate Head of Risk Management and Internal Control 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 Corporate Head of Management risk and Internal Control 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 Directors of People and Sustainability and Corporate Affairs, 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 comprises 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 Solunion'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. In addition, the Risk Management 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, describes in an exact way the risk that is being referred to and determines the scope of application, establishes a supervision system that will permit the identification, measurement, supervision, management and monitoring of the risks included in it, instigates measurements for guaranteeing adequate information for the Areas having the risk under their responsibility; and considers the possibility of conducting a stress test for the risks whose nature permits this .
- Measurement: for measurement of risks, the Corporate's Risk Management and Internal Control 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 to the risk appetite: The Board of Directors of Solunion 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.

Basing itself on a criterion of proportionality that has to rule over the Risk Management System, for entities joining the Group the Management Committee will be able to agree to the temporary setting of different limits from those established on a general basis, until those companies can become fully integrated into the Risk Management Policy

- 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 Corporate 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 control, unless the nature of the risk allows for reporting on a yearly basis.

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

Own Risk and Solvency Assessment (ORSA) reports include monitoring of material risks that may affect the Company.

- Breach of limits: when a risk exceeds the established limits, the Company's 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 Corporate'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 Corporate'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 has established a framework of policies that have been approved by the Company's Board of Directors.

The strategies, objectives, and informing procedures for the key risks to which the Company is exposed, reflected in the risk appetite approved by the Company's Board of Directors or equivalent body establishes the degree of risk the Company 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 Solunion (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
<b>Underwriting risk</b>	Groups the following risks for non-life: - Premium risk - Reserves risk - Catastrophic risk - Reinsurance mitigation	Standard formula	Annual
<b>Market risk</b>	Covers the following risks: - Interest rate - Equities - Real estate - Spread - Concentration - Currency	Standard formula	Annual
<b>Credit risk</b>	Reflects any possible losses arising from unexpected default by counterparties and debtors in the following 12 months.	Standard formula	Annual
<b>Liquidity risk</b>	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
<b>Operational risk</b>	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
<b>Technical provisions recognition risk</b>	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
<b>Business continuity risk</b>	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



Type of Risk	Description	Measurement and management	Monitoring and notification
<b>Compliance risk</b>	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
<b>Strategic and Corporate Governance risk</b>	Includes the following risks: - Business ethics and corporate governance - Organizational structure - Market competition	Through corporate policies	Continuous
<b>Outsourcing risk</b>	Risk arising from arrangements with service providers for the performance of one of the Company's functions.	On-site <i>inspections</i> by the Company of supplier facilities  Control of fit and proper requirements	Annual
<b>Reinsurance risk</b>	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 significant change in the risk profile is detected.

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

### **B.3.3. Own risk and solvency assessment**

Pillar II includes the Own Risk and Solvency Assessment (hereinafter ORSA, for its acronym in English), 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 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 Company 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 Company.

The process of critical risk assessment of Solunion aims to ensure that the Company's critical risks are identified, assessed, managed, mitigated and monitored.

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

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



This 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 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 Company.

### **2. Strategic and business plan.**

The solvency capital needs are calculated so as 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 covered by the Business Plan (2020 to 2024).

### **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 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 Company parameters or apply an internal model.

### **5. Stress testing.**

Once the projection is made of the Solvency Capital Requirement for the base scenario – that is, for the 2020-2024 business plan, to complete the solvency forecast – the Company has applied diverse stress scenarios for the years 2020-2024, 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.

It should be noted that, at the issue date of this report, the 2019 ORSA Report has not yet been issued, so the point of reference is the 2018 ORSA.

## **B.4. Internal control system**

### **B.4.1. Internal control**

Solunion has an operational risk and internal control framework whose latest review was approved on September 19, 2019 by the Solunion Board of Directors. The framework sets out the most important actions to be implemented to maintain an optimal internal control system.

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

Solunion 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 Company'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 (People and Sustainability, 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 Area 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 Company 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 organization needs to achieve the objectives), and its organizational 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 remain at an acceptable level and, hence, do not endanger the achievement of the Company'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 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, approval of the Operational Risk and Internal Control Framework and possible 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 Corporate Risk Management and Internal Control Area prepares an internal control report that sets out the Company's current situation at the date of the analysis of risks and controls, allowing for updating the risk and control map. This map also serves as the basis for the following internal control cycle.

The Annual Report on the Effectiveness of Internal Control Procedures for the year 2018 which shows the results of the analysis and the action plans to improve mitigation of the most significant risks was presented to the Board of Directors, on June 24, 2019. At the date of issue of this report, the annual Report corresponding to the year 2019 has not yet been issued. The risk and control evaluation is being carried out without any relevant facts being identified for the Company.

#### **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 Company has a compliance policy, the latest revision of which was approved by the Board of Directors on December 11, 2019, and which describes the compliance function in the Company.

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'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 supported by an outsourcing contract and the activity is supervised by the CEO of the Solunion Group, who is responsible for overseeing the correct operation of the outsourced function. The conditions under which such outsourcing is provided can be found in the following point, B.7.

The Internal Audit Policy, whose last annual review was approved by the Audit Committee and the Board of Directors on March 26, 2019, aims to (i) ensure that the organization and work of the Solunion Group's internal audit adhere to a consistent set of minimum standards, rules and operating procedures such that the effectiveness of the controls necessary to achieve the Solunion goals is ensured, (ii) establish the mission, duties, powers and obligations of the Internal Audit Function within the Solunion Group, (iii) the framework of relations between the Internal Audit Function of Solunion and the Audit Commission, rest of governance bodies, the Chairman and Senior Management.

## **B.6. Actuarial function**

The company has an Actuarial Function Policy whose last review was approved by the Board of Directors on June 24, 2019, 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 Company. 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 Company to assist them in fulfilling their responsibilities.

The person responsible for the Actuarial Function shall submit a report annually to the Actuarial and Reserves Committee, which shall send it to the Management Committee and the Board of Directors in turn. This document will refer to the tasks developed, the adequacy of the level of technical provisions and also express an opinion on the Commercial Underwriting Policy, Risk Underwriting Policy and Reinsurance Policy. In case deficiencies are detected, the report will include recommendations on how they can be solved, including a timetable setting down when they need to be corrected.

## **B.7. Outsourcing**

### **Information on current outsourcing arrangements**

Solunion has an Outsourcing Policy, whose last review was approved by the Solunion's Board of Directors on March 26, 2019, that establishes principles of management for the outsourcing of activities that enables the Company 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 critical functions, activities or services which have been outsourced, in the terms established in the Solvency II Directive and local enacting legislation.

Solunion'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 Company streamlines its processes, as it can exploit the knowledge and specialisation of its suppliers and very often benefit from positive synergies.

### **B.8. Any other information**

The Company's governance system reflects the requirements established in the Solvency II Directive on the system for management of risks inherent to its activity. It employs its own strategy for implementing and carrying out the Risk Management and Internal Control Area, 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 by the Company.



## C. Risk profile

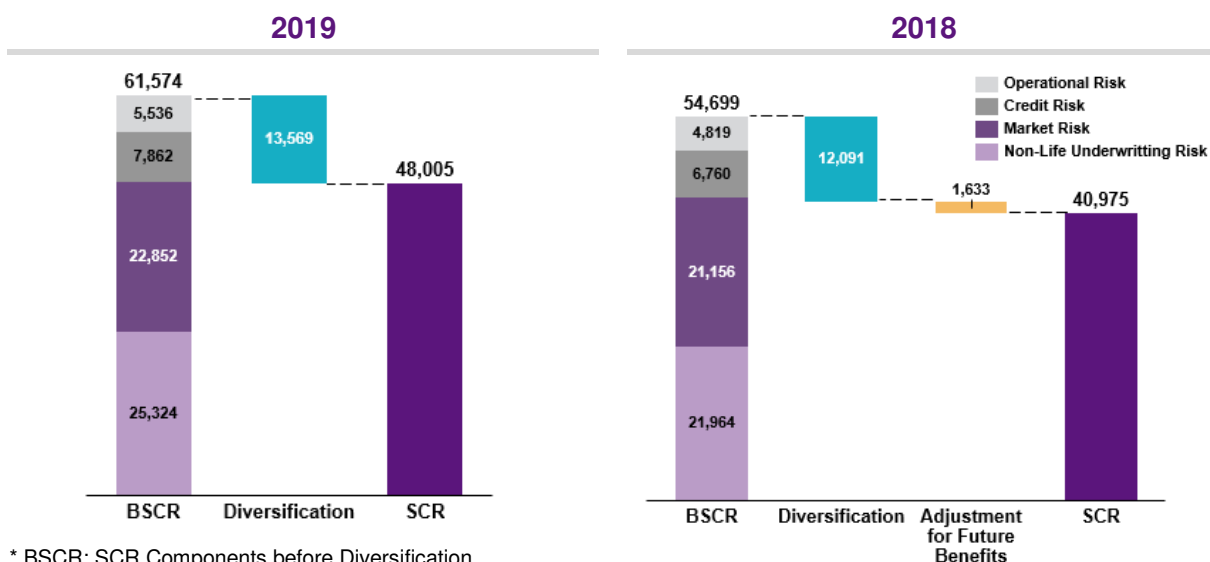
After the entry into force of Solvency II regulations, the Company calculates its SCR in accordance with standard formula requirements. For the main risk categories, this total SCR is considered an excellent measurement tool for determining the Company's risk exposure, as it recognises the capital charge corresponds to key risks (such as underwriting, market, and credit risk). As explained below in sections C.4 and C.6, the Company's exposure to other risks not included in the SCR calculation using the standard formula (risk of liquidity, technical provisions, business continuity, compliance, reputational and outsourcing) are not considered significant, since the Company applies effective measures to manage and mitigate them.

As indicated in regulations, the SCR corresponds to the Company's equity for limiting the probability of bankruptcy to one case per 200 years, or that the Company 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 Company 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 based on the regulatory capital required (reported in template S.25.01.21 of the Appendix) (SCR calculation is explained in section E.2 of this report):



In these graphs we can observe that the Company's risk profile has remained constant; both for 2019 with 2018 the risk which most intensely affects the Company is Non-Life Underwriting, assuming a 41.1% of the total SCR (40.2% in 2018) followed by Market risk assuming a 37.1% of the total SCR (38.7% in 2018).

The decrease in the adjustment for loss absorbing capacity of deferred taxes in 2019 has been impacted by the adaptation by the Company to the temporary recoverability limits approved in Regulations 2019/981.

This increase in Non- Life Underwriting risk in 2018 was due to the organic growth of the Company 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 Company, in 2019 there have been no significant risks.

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

## C.1 Underwriting Risk

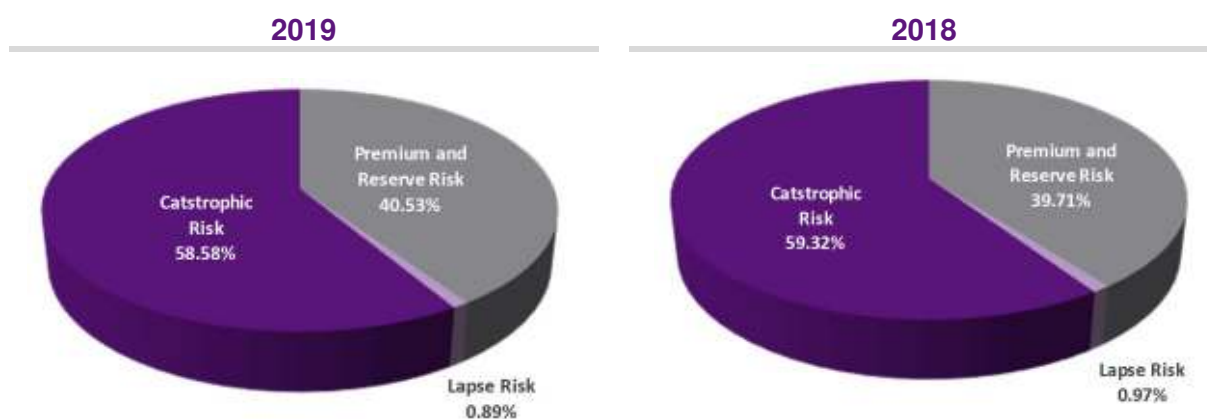
### C.1.1 Exposure to the risk

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 the following risk sub-modules:

- 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 41.1% (40.2% in 2018) of the total SCR before diversification and taking into account the capacity of loss absorbing. The composition of the underwriting risk is detailed below:



The module with the greatest impact, as in the year 2018, is the one corresponding to the catastrophic risk, which represents 58.58% of the underwriting risk SCR before diversification (59.32% in 2018). 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 40.53 % ( 39.71% in 2018). For its part, fall risk exposure is residual, with a 0.89%% of underwriting risk SCR (0.97% in 2018).

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

### **C.1.2 Risk management and mitigation techniques**

The Company minimises underwriting risk thanks to a number of measures:

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

The Company 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 Company's actuarial teams and their amounts are validated by an independent third party not involved in the calculations. The establishment of technical provisions is regulated by specific policies.

- **Reinsurance utilization:**

Solunion 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 2019, the Company had reinsured 91.6% of its premiums and 90.9% 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 Company'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 Company is exposed, to estimate the scope of losses should a catastrophic event occur. Catastrophic risk underwriting is done based on the above information, the economic capital available, as well as the reinsurance mitigation capacity contracted.

Through its Reinsurance Area, the Company 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 Company communicates 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.

Solunion 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 Company's investments with exposure to Market risk:

Asset category	2019		2018	
	Market value	Portfolio composition	Market value	Portfolio composition
<b>Real estate investments</b>	<b>44</b>	<b>0.1%</b>	<b>45</b>	<b>0.1%</b>
<b>Financial Investments</b>	<b>87,410</b>	<b>99.9%</b>	<b>79,605</b>	<b>99.9%</b>
Fixed-income securities	51,673	59.1%	46,681	58.6%
Equity securities and investment funds	1,993	2.3%	2,114	2.7%
Holdings in Group companies	33,744	38.6%	30,810	38.7%
<b>Total</b>	<b>87,454</b>		<b>79,650</b>	

Data in thousands of euros

As of December 31, 2019, 99.9% of all Company investments were financial investments (99.9% of all in 2018) whose breakdown is reflected in the previous table.

The sub-models existing within the investment risk to which the Company 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 in the value of the equity and participations in Group companies.
- 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 37.1% (38.7% in 2018) of the total SCR before diversification and taking into account the loss absorbing capacity.

The composition of the market risk is detailed below:



The assets and liabilities denominated in foreign currency as of December 31, 2019 and 2018 are as shown below:

ASSETS	Euros		Dollars		TOTAL	
	2019	2018	2019	2018	2019	2018
Deposits other than cash equivalent assets	2,045	1,227	464	314	2,509	1,541
Reinsurance Share In Technical Provisions	108,021	99,340	64,206	50,794	172,227	150,134
Loans and receivables	5,130	6,463	5,620	6,408	10,750	12,871
Reinsurance Deposits Accepted	94	94	2,303	2,109	2,397	2,203
Credit for reinsurance operations	5,036	6,369	3,317	4,299	8,353	10,668
<b>TOTAL ASSETS</b>	<b>115,196</b>	<b>107,030</b>	<b>70,290</b>	<b>57,516</b>	<b>185,486</b>	<b>164,546</b>
LIABILITIES	Euros		Dollars		TOTAL	
	2019	2018	2019	2018	2019	2018
Reinsurance operation debts	6,178	13,232	4,812	4,046	10,990	17,278
Debts for reinsurance operations	94	94	2,307	2,126	2,401	2,220
Technical provisions for benefits	6,084	13,138	2,505	1,920	8,589	15,058
Reinsurance Deposits Ceded	121,242	111,482	68,120	53,020	189,362	164,502
<b>TOTAL LIABILITIES</b>	<b>127,420</b>	<b>124,714</b>	<b>72,932</b>	<b>57,066</b>	<b>200,352</b>	<b>181,780</b>

Data in thousands

## C.2.2 Risk management and mitigation techniques

The main method Solunion 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 by the Board of Directors.

The Investment Committee defines the investment limits applicable, checking that they meet the diversification and dispersion limits.

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 Risk Management and Liquidity Risk Policy establish 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 conditioned by the limits established and approved by the Board of Directors of the Company.

## 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 Company's Credit Risk Management policies distinguish between three types:

- a. Exposure to which reinsurers are exposed: counterparty risk is generated mainly because of Solunion's 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.

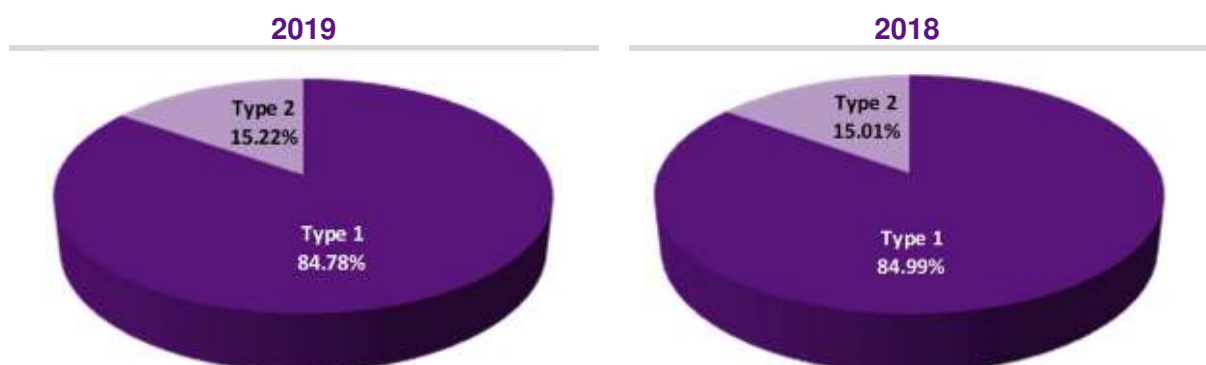
- Such as spread and concentration risk, under Market Risk in the section C.4.
- Such as credit risk or counterparty noncompliance. This module distinguishes between two types of exposure:
  - Type 1 exposure: in which entities generally have credit ratings and includes reinsurance contracts, SWAPS and cash in banks among others.
  - 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, 2019 and 2018:

	2019	2018
<b>Type 1 Expositions</b>	<b>199,582</b>	<b>166,390</b>
<b>Type 2 Expositions</b>	<b>7,709</b>	<b>6,464</b>
<b>TOTAL</b>	<b>207,291</b>	<b>172,854</b>

Data in thousands of euros

The SCR credit risk entails 12.8% (12.4% in 2018) of the total SCR before diversification and taking into account the loss absorbing capacity. The composition of the credit risk is detailed below:



### C.3.2 Risk management and 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 Company's strategy for reinsurance counterparties is to cede the business to reinsurers with proven financial capacity. The transfer of Solunion is mainly directed to the reinsurers of the shareholders Euler Hermes and MAPFRE, and aims to benefit from its wide capacity and high credit quality.

The Company's Credit Risk investment policies are based on the application of criteria of prudence based on the issuer's solvency. Fixed-income investments are subjected to limits by the issuer and seek out geographic similarity between the issuers of assets and commitments.

The chief principles which must be met which inspire the management of the use of reinsurance and other risk-reduction techniques within the Company 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.3.3 Concentration

In relation to reinsurance, the highest concentration is found in reinsurers of the group.

## 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.



The liquidity risk is not included in the calculation of SCR 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 Company has an Investment and Liquidity Risk Management Policy, which represent the framework of reference for handling Liquidity Risk. The Company's Policy is based on maintaining sufficient cash to cover any situations arising because of its commitments with policyholders and creditors.

At December 31, 2019, the balance of cash and cash equivalents amounted to EUR 2,509 thousand (EUR 1,541 thousand in the previous year), which is equivalent to 2.79% of total investments and cash equivalents (1.9% in 2018).

Additionally, the majority of fixed-income investments have high 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 and forecasted cash entries sufficient to cover expected cash balances for the whole year.

#### **C.4.2 Risk management and 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.4.4 Expected benefits included in future premiums**

In calculating the best estimate of the technical provisions for the credit line of business, 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 Company 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 contract.

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, 2019, the amount of these expected benefits was EUR 323 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% (8.8% in 2018) of the total SCR (before diversification). Below is a table reflecting the results based on earned premiums and technical provisions:

	2019	2018
<b>Operational risk module</b>	<b>5,536</b>	<b>4,819</b>
<b>30% BSCR</b>	12,741	11,337
<b>Maximum premiums and provisions</b>	5,536	4,819
<b>Accrued premiums risk</b>	5,536	4,819
<b>Technical provisions risk</b>	5,286	4,599

Data in thousands of euros

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

### C.5.2 Risk management and mitigation techniques

The identification and evaluation of operational risks and business processes are managed by the Company's Risk Management and Internal Control area, which creates Risk Maps for the Company, 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 Map is also used for handling control activities (process manuals, inventories of risk-associated controls, and the evaluation of their effectiveness), as well as corrective measures established to mitigate/reduce risks and/or the control environment.

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

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 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'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 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 the Company 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 or 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.

This risk is dealt with in the Compliance Function, in its corresponding Policy and in the Compliance Committee.

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

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

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

- **Reputational risk:**

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

Both, the Code of Ethical and Conduct, and the Function, Policy and Compliance Committee of Solunion 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, 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 Company'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 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 applies a system of procedures and limits enabling it to control the degree of concentration of insurance risk. The Company 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, the Company 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**

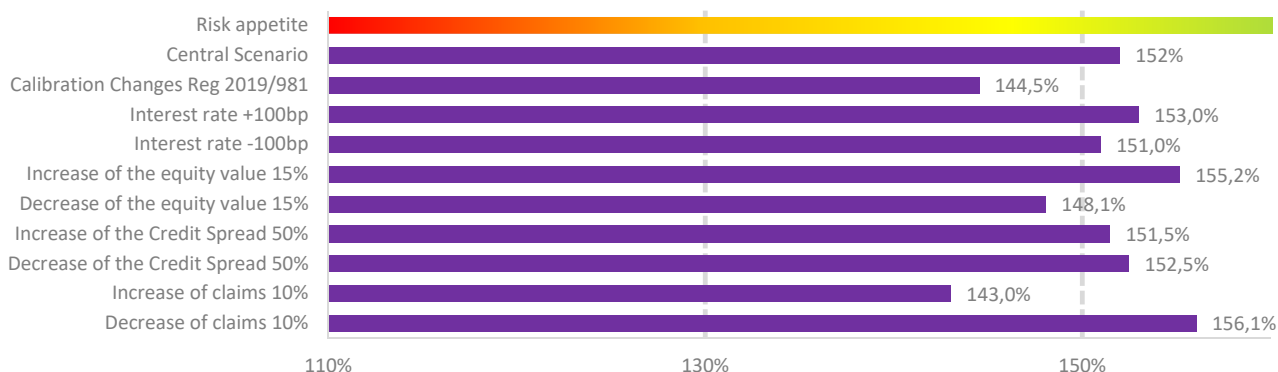
The purpose of the sensitivity scenarios is to analyze the impact on the solvency ratio of changes in the risk profile. To analyze its impact in terms of the solvency ratio, the sensitivities are performed in both directions, that is, by increasing and decreasing the exposure to risk.

The method used to obtain the results consists of:

- Establish a starting situation related to the economic balance, capital required solvency (SCR) and solvency ratio, at a given 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 the solvency of the Company, through the new values of the affected variables.

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

- Changes in the 2019/981 regulation: in which the parameters used for the non-life subscription risk of the premium and reserve sub-module 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 Company, 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 Company 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 Company are the following:

- Changes in the 2019/981 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: The increase in claims decreases the results of the Company 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

- Decrease of equity: the structure of the company's portfolio of assets, with a great weight of the value of the participations in the group's entities, makes that any change in its valuation have a direct impact on its own funds and on the consumption of capital in market risk (in particular, equity risk and concentration risk).

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 Company 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. 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.

It is important to consider that the model balance sheet as of December 31, 2019 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 2019 that has been reported in template S.02.01.02 of the Appendix.

	2019		
	Accounting Value	Valuation changes	Solvency II Value
<b>Goodwill</b>	<b>12,081</b>	<b>(12,081)</b>	<b>-</b>
<b>Deferred acquisition costs</b>	<b>12,516</b>	<b>(12,516)</b>	<b>-</b>
<b>Intangible assets</b>	<b>9,569</b>	<b>(9,569)</b>	<b>-</b>
<b>Deferred tax assets</b>	<b>9,264</b>	<b>6,271</b>	<b>15,535</b>
<b>Assets and rights to reimbursement for long-term remuneration to the personnel</b>	<b>4,390</b>	<b>-</b>	<b>4,390</b>
<b>Property, plant &amp; equipment held for own use</b>	<b>997</b>	<b>-</b>	<b>997</b>
<b>Investments (other than assets that are held for "index-linked" and "unit-linked" funds)</b>	<b>100,441</b>	<b>(12,987)</b>	<b>87,454</b>
<i>Property (other than for own use)</i>	<i>37</i>	<i>7</i>	<i>44</i>
Participations	47,296	(13,552)	33,744
Bonds	51,115	558	51,673
<i>Public debt</i>	<i>32,749</i>	<i>358</i>	<i>33,107</i>
<i>Private debt</i>	<i>18,366</i>	<i>200</i>	<i>18,566</i>
<i>Investment Funds</i>	<i>1,993</i>	<i>-</i>	<i>1,993</i>
<b>Insurance other than life insurance, and health similar to insurance other than life insurance</b>	<b>172,227</b>	<b>(11,722)</b>	<b>160,505</b>
<b>Accepted reinsurance deposits</b>	<b>2,397</b>	<b>-</b>	<b>2,397</b>

	2019		
	Accounting Value	Valuation changes	Solvency II Value
<b>Credits for direct insurance and coinsurance operations</b>	<b>38,706</b>	<b>-</b>	<b>38,706</b>
<b>Reinsurance operation credits</b>	<b>8,353</b>	<b>-</b>	<b>8,353</b>
<b>Other credits</b>	<b>1,312</b>	<b>-</b>	<b>1,312</b>
<b>Cash and cash equivalents</b>	<b>2,509</b>	<b>-</b>	<b>2,509</b>
<b>Any other assets, not elsewhere shown</b>	<b>1,998</b>	<b>(556)</b>	<b>1,442</b>
<b>TOTAL ASSETS</b>	<b>376,760</b>	<b>(53,160)</b>	<b>323,600</b>

Data in thousands of euros

The following are the valuations of significant assets for Solvency II purposes, as well as the qualitative explanations of the main valuation differences between the Solvency II criteria and those used for the preparation of the annual accounts as of December 31, 2019. The valuation corresponding to those headings that do not present differences between the criteria established in the Accounting Regulation and Solvency II are detailed in the annual accounts of the Company as of December 31, 2019.

#### **D.1.1. Goodwill**

In accordance with Solvency II criteria, goodwill was valued at zero, in accordance with Article 12 of Delegated Regulation 2015/35 dated October 10, 2014. Unlike under the Solvency II regulation, according to the Accounting Plan for Insurance Companies, goodwill is value at its cost adjusted in line with accumulated amortisation and 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. On the contrary, in the presentation that is made in the regulation applicable to the Balance sheet under PCEA 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 Company may demonstrate the existence of a market value for the same or similar assets.

The Company 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.

Due to a reorganization of the MAPFRE Group carried out through a structural modification operation through the complete spin-off of MAPFRE Global Risks (Order ECE/328/2019, of March 6), the rights derived from said agreement have been assumed by MAPFRE España Compañía de Seguros y



Reaseguros, Sociedad Anónima At the end of 2019, the amount of this intangible assets reduced by its accumulated amortization is EUR 8,000 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 zero value.

Under PCEA 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 Company recognised deferred tax assets on the Solvency II balance sheet, applying tax rate related to all differences between the accounting and solvency values.

In accounting terms, deferred taxes correspond to 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 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 PCEA 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.

In this case, this item does not present valuation differences, so its amount is EUR 997 thousand on both the economic and accounting balance sheets.

#### **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, it 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 PCEA 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 the PCEA represented the recognition of the higher amount of properties on the Solvency II balance sheet in the amount of EUR 7 thousand. This estimate is based on appraisal reports made by independent experts,

#### **D.1.7.2 Shares in related companies**

In accordance with Article 212 of the Solvency II directive of the ROSSEAR, all affiliated companies that are either subsidiaries or have a participation or a relationship that could be considered a dominant or significant influence have been considered as subsidiaries.

Wherever possible, participations in related undertakings are measured at their listed prices on active markets as regards the Solvency II balance sheet. However, due to the absence of quoted prices on active markets, the participations and subsidiaries were valued using the adjusted equity method, considering the solvency valuation specifics indicated for each investment or subsidiary.

Under PCEA, participations in related party equity is valued at cost, and where applicable, at the accumulated amount of impairment losses. As a result of the difference in the valuation criteria of these shares, a decrease was revealed in the valuation of participations on the Solvency II balance sheet in the amount of EUR 13,552 thousand, vs. PCEA stipulations.

#### **D.1.7.3 Bonds and obligations**

Bonds are classified as follows:

- Public debt:

This sub-category includes those issued by central governments or organs forming part of a 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 PCEA / 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. On the other hand, they will be valued at fair value for the purposes of the Solvency II financial balance sheet, regardless of the accounting portfolio in which they are classified.

In the financial statements of the Company, investments are included under the heading “Financial assets available for sale” whose valuation differs in value by the amount of EUR 558 thousand, which have been disclosed and are due to the accrual of the deferred interest.

#### **D.1.8. Reinsurance recoverables**

In 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.

The recoverable amounts of reinsurance contracts are calculated consistently with the limits of the underlying covered contracts, and treaty by treaty without taking into account approximations.

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 and accepted reinsurance 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 uncertainty, which are mainly the following:

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

The estimate of the reinsurance amounts includes an adjustment for the probability of default of the reinsurers, to reflect the expected losses. This adjustment has very little impact due to the creditworthiness of Solunion's reinsurers.

Under PCEA, 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 accepted reinsurance to be addressed later in this report

#### **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 uncertainty, 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.

PCEA 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 D.2 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.

PCEA 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 uncertainty, which are mainly related to the possibility of meeting the counterparty's future payment commitments.

PCEA 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.

PCEA 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.

In the Solvency II Economic Balance Sheet, cash has been valued in accordance with IFRS, which is the methodology that by default establishes for this heading the valuation methodology for the purposes of Solvency II.

PCEA 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 the PCEA, as well as the ROSSEAR, which establishes the applicable criteria to be applied (hereinafter, “Accounting provisions” - under “Accounting value”) at 31 December, 2019.

	2019		
	Accounting Value	Valuation changes	Solvency II Value
<b>Technical provisions calculated as a whole</b>	-	-	-
<b>Best Estimate (BE)</b>	-	-	176,213
<b>Risk margin (RM)</b>	-	-	3,001
<b>Other technical provisions</b>	-	-	-
<b>TOTAL TECHNICAL PROVISIONS</b>	189,362	(10,148)	179,214

Data in thousands of euros

As mentioned above, Solunion is an insurance and reinsurance Company that operates in the Credit and Suretyship line 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 Company, following the PCEA, establishes its accounting provisions according to ROSSEAR.

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, 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 will be calculated separately from pending claim Provision and premium Provision.

#### **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 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 Provision for pending claims calculated for use in the financial statements include: the Provision for claims pending settlement and payment; the Provision for claims pending declaration; and the Provision for internal claim settlement expenses. The Provision for settling pending claims is calculated using statistical methods and therefore includes claims pending settlement or payment, as well as those not yet declared.

The above statistical calculation meets the requirements established in prevailing legislation (Article 43 of ROSSP). Regarding the Provision for internal expenses arising from settlement of claims, the calculation is based on applying methodologies which permit the best possible quantification of this type of risk.

We conclude that the calculation of the best estimate of claims pending Provision based on Solvency II criteria present the following differences with respect to claims Povisions calculate based on financial statement requirements:

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



- The financial discount of cash flows.

b) Best estimate of the premiums Provision

The Premium provision refers to the projection of the flows of losses that will occur after the valuation date during the period of time up to expiry of the contract. The future flows must include: future flows due to losses, administration expenses associated with those losses, administration expenses of management of the policies, future premiums deriving from current policies.

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 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.

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

- Current portfolio, that 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.
  - The expenses attributable to the current portfolio: acquisition (without commissions), administration, chargeable to benefits, investment expenses, as well as other technical expenses.
- Future business that includes the following headings:
  - Premiums corresponding to policies which have not yet been renewed but include company 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 using the same methodologies for claims in force may be used.



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

In calculating the best estimate of the technical provisions for the Credit line of business, 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 losses expected). The Company does not consider future business in this line due to its business characteristics, since nearly all its portfolio should be subject to a detailed analyses of the risk limits granted under the contract.

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). At December 31, 2019, the amount of these expected benefits was EUR 323 thousand, gross of reinsurance.

Under PCEA, this provision is recognised under the unused premium Provision, which is calculated on a policy-by-policy basis, reflecting the tariff premium earned during the year which may be charged to future years, deducting the security surcharge, in accordance with the Spanish regulation, and complemented by the prevailing risk provision calculated segment-by-segment, where applicable. This provision supplements the unearned premium reserve for the amount that the latter does not reflect the valuation of risks and expenses to be covered for the coverage period that has not yet elapsed at the closing date. It is calculated in accordance with the Spanish regulation.

#### Contract limits

As outlined in the Solvency II Directive, in order to consider the future premiums established in the contracts when calculating the best estimate, it is necessary to take into account the limits of the contracts.

The obligations arising from the contract, including those which correspond to the insurance or 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 Company after the date during which it has the unilateral right to:
  - Cancel the contract.
  - Reject premiums payable related to the contract.
  - 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 Contract:
  - Does not establish an indemnity for a specific undetermined event which may adversely affect the reinsured party.
  - Does not include a financial guarantee for coverage provided.

As a conclusion, it can be indicated that the best estimate of the premiums Provision calculated according to the criteria established in Solvency II presents the following differences with respect to the premiums Provision as required on the Annual Accounts:

- The application of the concept of contractual limits, which involves the consideration of future business. Under the PCEA, 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 Company 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 Company'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:

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

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.

Solunion 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 uncertainty, 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 and, their derivation and impacts on technical provisions being duly documented.

The credit and surety branches are closely linked to the state of the economy and can have significant impacts on the frequency and severity of claims. On the other hand, the volume and timing of payments and recoveries may be impacted by legislative changes related to the insolvency law.

### **Actuarial methods and hypotheses used when calculating technical provisions**

The Company 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 Solunion.

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 Company 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 Company 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 accounting regulation, Management's actions and policyholder behaviour are not included when calculating technical provisions, while under Solvency II, companies may establish a comprehensive plan covering future decisions considering the necessary time frame to calculate their best estimates, including a probability analysis of when policyholders might exercise certain rights included in their insurance policies.

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

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

The Company has not used the transitional measures for managing long-term guarantees established in Delegated Regulation 2015/35 dated 10 October 2014 and Directive 2009/138/EC, which include reconciliation and volatility adjustments, transitional adjustment in the structure of risk-free interest rates, 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. Temporary deduction on technical provisions**

Solunion has not carried out this transitory deduction.

#### **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 annual accounts (column “Book Value”) as of December 31, 2019. The valuation corresponding to those headings that do not differ between the PCEA and Solvency II criteria is detailed in the annual accounts of the Company of 2019.

	2019		
	Accounting Value	Valuation changes	Solvency II Value
<b>Total technical provisions</b>	189,362	(10,148)	179,214
<b>Provisions other than technical provisions</b>	2,678	-	2,678
<b>Pension and similar obligations provision</b>	4,390	-	4,390
<b>Deposits received on ceded reinsurance</b>	2,401	-	2,401
<b>Deferred tax liabilities</b>	2,805	4,979	7,784
<b>Debts for insurance and coinsurance operations</b>	32,429	-	32,429
<b>Reinsurance operation debts</b>	8,589	-	8,589
<b>Other debts and payables</b>	8,953	-	8,953
<b>Any other liabilities, not elsewhere shown</b>	22,128	(18,481)	3,647
<b>TOTAL LIABILITIES</b>	<b>273,735</b>	<b>(23,650)</b>	<b>250,085</b>
<b>SURPLUS OF ASSETS VS. LIABILITIES</b>	<b>103,025</b>	<b>(29,510)</b>	<b>73,515</b>

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 uncertainty, 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.

In 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 Company’s financial statements.

The section “Other non-technical provisions” in fiscal year 2019 includes EUR 586 thousand corresponding to the commitments for tenure awards (EUR 684 thousand in 2018), EUR 63 thousand corresponding to other personnel expenses (EUR 103 thousand in 2018) and EUR 155 thousand corresponding to expenses for conventions (EUR 155 thousand in 2018), the settlement of which is estimated to be made in 2020. Additionally, EUR 1,874 thousand corresponding to personnel expenses are included (EUR 1,664 thousand in 2018).

The valuation established by PCEA coincides with that established under Solvency II, so there are no valuation differences.

#### **D.3.2. Pension benefit obligations**

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

The valuation established by PCEA coincides with that established under Solvency II, so there are no valuation differences.

#### **D.3.3. Deposits from reinsurers**

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

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

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

#### **D.3.4. Deferred tax liabilities**

Deferred tax liabilities are valued analogous to that indicated in deferred tax Assets. Solunion has deferred tax Liabilities for a "Solvency II value" of EUR 7,784 thousand and a "book value" of EUR 2,805 thousand in 2019.

The difference between the Solvency II Value and the accounting Value of deferred tax Liabilities is mainly explained by the following Balance sheet items:

- Investment in real state (not for own use).
- The best estimate of the net technical provisions of reinsurance.
- Commissions and other acquisition costs accrued of reinsurance ceded.

#### **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 Company intermediaries arising from transactions performed.

For the purposes of the Solvency II balance sheet, the valuation is considered consistent with those under PCEA, 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.

In the Solvency II balance sheet, the valuation is considered consistent with those under PCEA, 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 PCEA, 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**

For the purposes of the Solvency II economic balance sheet, the Commissions and other accrued acquisition expenses of the assigned reinsurance are considered in the valuation of the Technical Provisions when including all the associated expenses, so they are not included in this section.

On the contrary, under the PCEA this section mainly includes said Commissions and other accrued acquisition expenses of the reinsurance assigned, as opposed to the valuation criteria according to Solvency II.

On the other hand, this heading includes the amount of any other liabilities not already included in other items of the economic balance sheet, whose value for solvency purposes coincides with that indicated by the PCEA.

#### **D.3.9. Additional information**

There is no other significant information to be highlighted.

#### **D.4. Alternative methods for valuation**

The Company does not have material assets for which alternative valuation methods have been used.

#### **D.5. Any other information**

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

## **E. Capital management**

### **E.1. Own Funds**

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

Solunion Seguros, Compañía Internacional de Seguros y Reaseguros S.A. has a Capital Management Policy whose last revision was approved by the Board of Directors on September 19, 2019.

The principal objectives of this Policy are the following:

- Provide the Company and Group 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 Company has a medium-term Capital Management Plan.

The Medium-term Capital Management Plan considers 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. This Plan is part of the ORSA Report. The projected period covers five years, and is aligned with the budget preparation approach.

The Company has not used the transitional measure on technical provisions provided for in the final nineteenth provision of Law 20/2015, of July 14, on the management, supervision and solvency of insurance and reinsurance entities.

In fiscal year 2019 there have been no significant changes regarding the objectives, policies and processes used for the management of own funds.

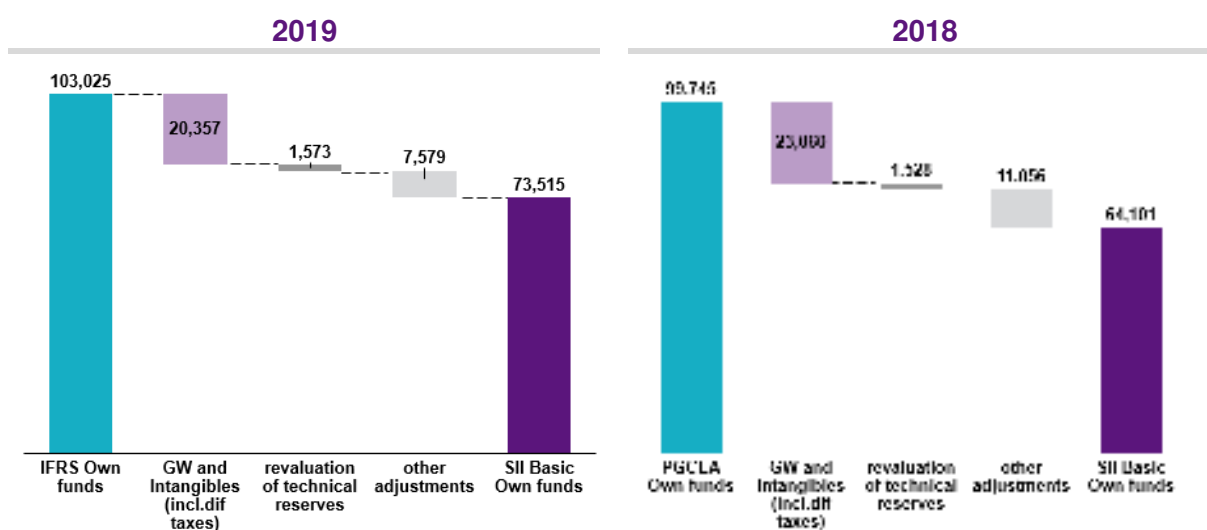
#### **E.1.2 Structure, amount, and quality of own shares**

##### **Structure, amount, and quality of own shares**

In figure S.23.01.01 of the Appendix, the structure, amount and quality of the basic and complementary own Funds are shown, as well as the Company's coverage ratio, i.e. the level of own funds within the SCR, and the MCR.



Below is a comparison of the company's own funds at the end of 2019 and 2018 and an explanation of the origin of the changes in the value of the Solvency II own funds:



Data in thousands of euros

The Changes in Goodwill and intangible assets are lower those produced in 2018, 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.

The available capital structure follows the regulatory requirements regarding the quality of capital and coverage limits. In accordance with the regulations, Own Funds are classified as Level 1, 2 and 3, with Level 1 being the highest quality.

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



Data in thousands of euros

As of December 2019, the company has its not restricted tier 1 own basic funds by an amount of EUR 65,764 thousand (EUR 55,283 thousand in 2018). These own funds have the maximum availability for absorbing losses. They are comprised of:

- ordinary paid-in share capital
- issue premium in relation to ordinary capital paid and
- conciliation reserve

Additionally, as of December 2019 the Company has Tier 3 basic own funds for an amount of EUR 7,751 thousand (EUR 8,818 thousand in 2018) composed of net deferred taxes, 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 Company should have to limit the probability of ruin to one case per 200 years, 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.

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 Company'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:



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 Company 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 72,965 thousand (EUR 61,429 thousand in 2018) 19% 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 Company's own funds, the admissible amount to cover the MCR is EUR 65,764 thousand (EUR 55,283 thousand in 2018). The following table shows the detail:



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

The Company'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 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.

#### **E.1.4 Other information**

##### **Essential items on the Reconciliation Reserve**

The amount of the Company's Reconciliation Reserve is EUR -14.907 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:

	2019	2018
Surplus of assets vs. liabilities	73,515	64,101
Treasury shares (included as assets on the balance sheet)	-	-
Dividends, distributions and foreseen costs	-	-
Other elements of basic own funds	88,422	(89,490)
Adjustments for own fund items restricted by FDL and CSAC	-	-
<b>Total reconciliation reserves</b>	<b>(14,907)</b>	<b>(25,389)</b>

Data in thousands of euros

#### **Own Funds issued and instruments redeemed**

No new own funds were issued during the fiscal year, and there were no redemptions of instruments.

## Transitional measures

The Company 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.2. Solvency Capital Requirement and Minimum Capital Requirement

### E.2.1. Amount and valuation methods of Solvency Capital Requirement

#### SCR amounts and Minimum Capital Requirements

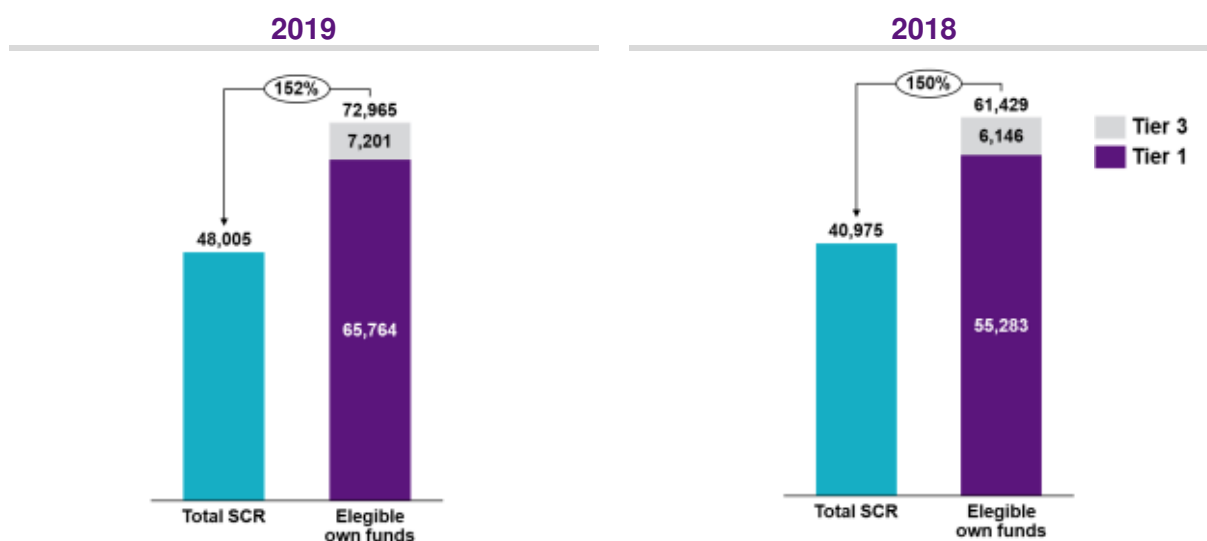
The SCR by risk models has been calculated using the Solvency II standard formula methodology as of December 31, 2019 and that is listed in Section C Risk Profile. Additionally, figures S.25.01.21 and S.28.01.01 of the Appendix contain more detailed information on the regulatory capitals.

The Company's total SCR included in Appendix S.25.01.21 amounts to EUR 48,005 thousand, 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, Solunion's risk profile is affected mainly by non-life underwriting risk to which catastrophic credit and bonding risk mainly contribute due to the recession risk. Second is market risk to which Concentration risk is the highest due to the impact of the shares in group companies. Third is credit risk, which is generated mainly because of Solunion's heightened exposure in reinsurance agreements. The exposure level of reinsurance recoverables is affected by the heightened level of transfer defined in the reinsurance structure.

As of December 2019, the amount of the SCR is EUR 48,005thousand, which implies an increase in the capital charge of EUR 7,030 thousand; this is mainly due to the increase in Non-Life Underwriting Risk, which, as indicate above, is very affected by the Credit and Surety Catastrophic Risk.

For the calculation of the SCR no simplifications or specific parameters have been used. The Solvency ratio of the Company 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 152%, which means that it is within the risk appetite safety zone established for the Company and approved by the Board of Directors.

### **Data used by the Company in calculation of the MCR Solvency**

The Company calculated Minimum Solvency Capital Requirements (MCR) as indicated in Article 248 Delegated Regulation 2015/35. 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 12,001 thousand at the end of 2019. The results of the Solunion MCR are included in Appendix S.28.01.01.

To obtain the MCR, the linear MCR should be calculated, the value of which is EUR 4,667 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.

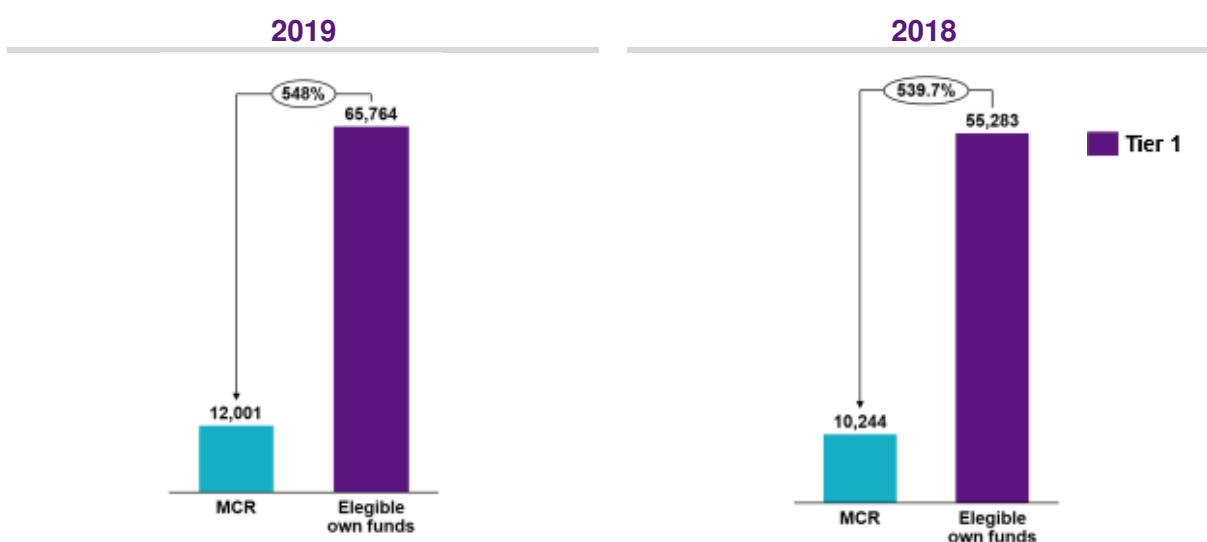
- Premiums earned net of reinsurance in the last 12 months.

Likewise, the combined MCR is EUR 12,001 thousand, that 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 12,001 thousand.

As of December 2018, it was EUR 10,244 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 2019 has increased by EUR 1,757 thousand.

The Company's solvency ratio, which measures the ratio between eligible own funds and the MCR, amounts to 548% (539.7% in 2018).



Data in thousands of euros

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

Solunion did not use this option when performing its solvency valuation.

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

The Company 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, 2019, the Company had sufficient SCR and MCR with eligible Own Funds; therefore, it was considered unnecessary to adopt any other action or corrective measure.

### **E.6 Any other information**

There is no other significant information on capital management not included in previous sections.

## Appendices

### 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.17.01.02 – Technical provisions for non-life

S.19.01.21 – Non-life claims

S.23.01.01 – Equity

S.25.01.21 – Obligatory solvency capital – for companies that use the standard form

S.28.01.01 – Obligatory minimum capital – Life or non-life insurance or reinsurance activity

## S.02.01.02

	C0010	
Asset	Solvency II Value	
Intangible assets	-	R0030
Deferred tax assets	15,535	R0040
Pension benefit surplus	4,390	R0050
Property, plant & equipment held for own use	997	R0060
Investments (other than assets held for index-linked and unit-linked contracts)	87,454	R0070
Property (other than for own use)	44	R0080
Holdings in related undertakings, including participations	33,744	R0090
Equities	-	R0100
Equities - listed	-	R0110
Equities - unlisted	-	R0120
Bonds	51,673	R0130
Government Bonds	33,107	R0140
Corporate Bonds	18,566	R0150
Structured notes	-	R0160
Collateralized securities	-	R0170
Collective Investments Undertakings	1,993	R0180
Derivatives	-	R0190
Deposits other than cash equivalents	-	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:	160,505	R0270
Non-life and health similar to non-life	160,505	R0280
Non-life excluding health	160,505	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	2,397	R0350
Insurance and intermediaries receivables	38,706	R0360
Reinsurance receivables	8,353	R0370
Receivables (trade, not insurance)	1,312	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	2,509	R0410
Any other assets, not elsewhere shown	1,442	R0420
Total assets	323,600	R0500



	C0010	
Liability	Solvency II Value	
Technical provisions - non-life	179,214	R0510
Technical provisions - non-life (excluding health)	179,214	R0520
Technical provisions calculated as a whole	-	R0530
Best Estimate	176,213	R0540
Risk margin	3,001	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	2,678	R0750
Pension benefit obligations	4,390	R0760
Deposits from reinsurers	2,401	R0770
Deferred tax liabilities	7,784	R0780
Derivatives	-	R0790
Debts owed to credit institutions	-	R0800
Financial liabilities other than debts owed to credit institutions	-	R0810
Insurance & intermediaries payables	32,429	R0820
Reinsurance payables	8,589	R0830
Payables (trade, not insurance)	8,953	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	3,647	R0880
Total liabilities	250,085	R0900
Excess of assets over liabilities	73,515	R1000

<b>S.05.01.02</b>		C0090	C0160	C0200
	<b>Line of business for: accepted non-proportional reinsurance</b>	<b>Credit and Suretyship insurance</b>	<b>Property</b>	<b>TOTAL</b>
	<b>Premiums written</b>			
R0110	Gross - Direct Business	119,464	-	119,464
R0120	Gross - Proportional reinsurance accepted	74,541	-	74,541
R0130	Gross - Non-proportional reinsurance accepted	-	556	556
R0140	Reinsurers' share	176,876	1,213	178,089
R0200	Net	17,129	(657)	16,472
	<b>Premiums earned</b>			
R0210	Gross - Direct Business	114,487	-	114,487
R0220	Gross - Proportional reinsurance accepted	69,484	-	69,484
R0230	Gross - Non-proportional reinsurance accepted	-	556	556
R0240	Reinsurers' share	168,667	1,213	169,880
R0300	Net	15,304	(657)	14,647
	<b>Claims incurred</b>			
R0310	Gross - Direct Business	62,547	-	62,547
R0320	Gross - Proportional reinsurance accepted	49,245	-	49,245
R0330	Gross - Non-proportional reinsurance accepted	-	-	-
R0340	Reinsurers' share	103,476	-	103,476
R0400	Net	8,316	-	8,316
	<b>Changes in other technical provisions</b>			
R0410	Gross - Direct Business	731	-	731
R0420	Gross - Proportional reinsurance accepted	4	-	4
R0430	Gross - Non- proportional reinsurance accepted	-	-	-
R0440	Reinsurers' share	745	-	745
R0500	Net	(10)	-	(10)
R0550	Expenses incurred	9,553	-	9,553
R1200	Other Expenses			
R1300	Total expenses	9,553	-	9,553

<b>S.05.02.01</b>		<b>SPAIN</b>	<b>ITALY</b>	<b>PANAMA</b>	<b>CHILE</b>	<b>COLOMBIA</b>	<b>MEXICO</b>	<b>Total of 5 principals and country of origin</b>
	<b>Premiums written</b>							
R0110	Gross - Direct Business	119,464	-	-	-	-	-	119,464
R0120	Gross - Proportional reinsurance accepted	1,607	5,024	3,673	11,592	13,503	23,436	58,835
R0130	Gross - Non-proportional reinsurance accepted	-	-	-	134	53	343	530
R0140	Reinsurers' share	109,830	4,455	3,155	11,045	13,383	22,097	163,965
R0200	Net	11,241	569	518	681	173	1,682	14,864
	<b>Premiums earned</b>							
R0210	Gross - Direct Business	114,487	-	-	-	-	-	114,487
R0220	Gross - Proportional reinsurance accepted	1,481	4,862	3,168	11,806	13,071	22,210	56,598
R0230	Gross - Non-proportional reinsurance accepted	-	-	-	134	53	343	530
R0240	Reinsurers' share	105,714	4,214	2,808	11,397	13,037	21,123	158,293
R0300	Net	10,254	648	360	543	87	1,430	13,322
	<b>Claims incurred</b>							
R0310	Gross - Direct Business	62,547	-	-	-	-	-	62,547
R0320	Gross - Proportional reinsurance accepted	420	(1,420)	3,665	13,502	6,324	14,884	37,375
R0330	Gross - Non-proportional reinsurance accepted	-	-	-	-	-	-	-
R0340	Reinsurers' share	56,694	1,247	3,566	12,881	6,339	14,530	95,257
R0400	Net	6,273	(2,667)	99	621	(15)	354	4,665
	<b>Changes in other technical provisions</b>							
R0410	Gross - Direct Business	731	-	-	-	-	-	731
R0420	Gross - Proportional reinsurance accepted	-	-	-	-	-	-	-
R0430	Gross - Non- proportional reinsurance accepted	-	-	-	-	-	-	-
R0440	Reinsurers' share	745	-	-	-	-	-	745
R0500	Net	(14)	-	-	-	-	-	(14)
R0550	Expenses incurred	10,748	5,503	(511)	568	(385)	(6,946)	8,977
R1200	Other Expenses							
R1300	Total expenses	10,748	5,503	(511)	568	(385)	(6,946)	8,977

## S.17.01.02

		C0020	C0030	C0040	C0050	C0060	C0070
		Direct business and accepted proportional reinsurance					
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance
R0010	Technical provisions calculated as a whole						
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole						
	Technical provisions calculated as a sum of BE and RM						
	Best estimate						
	Premium provisions						
R0060	Gross - Total						
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						
R0150	Net Best Estimate of Premium Provisions						
	Claims provisions						
R0160	Gross - Total						
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						
R0250	Net Best Estimate of Claims Provisions						
R0260	Total Best estimate - gross						
R0270	Total Best estimate - net						
R0280	Risk margin						
	Amount of the transitional on Technical Provisions						
R0290	TP as a whole						
R0300	Best estimate						
R0310	Risk margin						
	Technical provisions - total						
R0320	Technical provisions - total						
R0330	Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total						
R0340	Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total						

**S.17.01.02**

		C0080	C0090	C0100	C0110	C0120	C0130
		Fire and other damage to property insurance	General liability insurance	Credit and Suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss
R0010	Technical provisions calculated as a whole						
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole						
	Technical provisions calculated as a sum of BE and RM						
	Best estimate						
	Premium provisions						
R0060	Gross - Total			49,933			
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default			45,540			
R0150	Net Best Estimate of Premium Provisions			4,393			
	Claims provisions						
R0160	Gross - Total			126,280			
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default			114,966			
R0250	Net Best Estimate of Claims Provisions			11,314			
R0260	Total Best estimate - gross			176,213			
R0270	Total Best estimate - net			15,707			
R0280	Risk margin			3,001			
	Amount of the transitional on Technical Provisions						
R0290	TP as a whole						
R0300	Best estimate						
R0310	Risk margin						
	Technical provisions - total						
R0320	Technical provisions - total			179,214			
R0330	Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total			160,506			
R0340	Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total			18,708			

## S.17.01.02

		C0140	C0150	C0160	C0170	C0180
		Accepted non-proportional reinsurance				Total non-life commitments
		Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
R0010	Technical provisions calculated as a whole					
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole					
	Technical provisions calculated as a sum of BE and RM					
	Best estimate					
	Premium provisions					
R0060	Gross - Total					49,933
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default					45,540
R0150	Net Best Estimate of Premium Provisions					4,393
	Claims provisions					
R0160	Gross - Total					126,280
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default					114,966
R0250	Net Best Estimate of Claims Provisions					11,314
R0260	Total Best estimate - gross					176,213
R0270	Total Best estimate - net					15,707
R0280	Risk margin					3,001
	Amount of the transitional on Technical Provisions					
R0290	TP as a whole					
R0300	Best estimate					
R0310	Risk margin					
	Technical provisions - total					
R0320	Technical provisions - total					179,214
R0330	Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total					160,506
R0340	Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total					18,708

## S.19.01.21

		Gross Claims Paid (non-cumulative)															
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100						
		Development year												C0170	C0180		
Year		0	1	2	3	4	5	6	7	8	9	10 & +		In current year	Sum of years (cumulative)		
R0100	Prior	(19) (437) (499)										(146)	Prior	(146)	(1,101)	R0100	
R0160	N - 9	-	-	-	-	-	-	(31)	2	(89)	(47)		N-9	(47)	(165)	R0160	
R0170	N - 8	-	-	-	-	-	(341)	(310)	(107)	(71)			N-8	(71)	(829)	R0170	
R0180	N - 7	-	-	-	-	(115)	(455)	(1,352)	(228)				N-7	(228)	(2,150)	R0180	
R0190	N - 6	6,282	37,680	6,448	1,825	4,887	(493)	(557)					N-6	(557)	56,072	R0190	
R0200	N - 5	5,910	34,469	9,311	601	(112)	(450)						N-5	(450)	49,729	R0200	
R0210	N - 4	7,264	127,839	6,939	(12,643)	(2,569)							N-4	(2,569)	126,830	R0210	
R0220	N - 3	14,647	55,552	8,048	289								N-3	289	78,536	R0220	
R0230	N - 2	13,351	51,737	7,562									N-2	7,562	72,650	R0230	
R0240	N - 1	15,319	70,944										N-1	70,944	86,263	R0240	
R0250	N	21,249											N	21,249	21,249	R0250	
														Total	95,976	487,084	R0260

## S.19.01.21

Gross undiscounted Best Estimate Claims Provisions													C0360 Year end (discounted data)	
	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290				
Year	0	1	2	3	4	5	6	7	8	9	10 & +			
R0100	Prior							(36)	(516)	211	357	Prior	350	R0100
R0160	N - 9	-	-	-	-	-	(204)	(160)	139	112		N-9	111	R0160
R0170	N - 8	-	-	-	-	(458)	(324)	199	352			N-8	351	R0170
R0180	N - 7	-	-	-	(497)	(613)	262	531				N-7	532	R0180
R0190	N - 6	-	-	2,698	(672)	358	635					N-6	638	R0190
R0200	N - 5	-	28,563	3,046	593	845						N-5	821	R0200
R0210	N - 4	-	32,235	37,872	3,063	813						N-4	805	R0210
R0220	N - 3	7,575	41,095	16,839	3,168							N-3	3,138	R0220
R0230	N - 2	7,783	19,736	12,604								N-2	12,446	R0230
R0240	N - 1	59,088	28,727									N-1	28,260	R0240
R0250	N	78,987										N	78,828	R0250
												Total	126,280	R0260



## S.23.01.01

		C0010	C0020	C0030	C0050
		Tier 1 - unrestric ted	Tier 1 - restricte d	Tier 2	Tier 3
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35				
R0010	Ordinary share capital (gross of own shares)	40,149			
R0030	Share premium account related to ordinary share capital	40,523			
R0040	Initial 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	(14,908)			
R0140	Subordinated liabilities				
R0160	An amount equal to the value of net deferred tax assets				7,751
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				

## S.23.01.01

		C0010	C0020	C0030	C0040	C0050
		Total	Tier 1 - unrestrict ed	Tier 1 - restricted	Tier 2	Tier 3
R0290	<b>Total basic own funds after deductions</b>	73,515	65,764			7,751
	<b>Ancillary own funds</b>					
R0300	<b>Unpaid and uncalled ordinary share capital callable on demand</b>					
R0310	<b>Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand</b>					
R0320	<b>Unpaid and uncalled preference shares callable on demand</b>					
R0330	<b>A legally binding commitment to subscribe and pay for subordinated liabilities on demand</b>					
R0340	<b>Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC</b>					
R0350	<b>Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC</b>					
R0360	<b>Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC</b>					
R0370	<b>Supplementary member calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC</b>					
R0390	<b>Other ancillary own funds</b>					
R0400	<b>Total ancillary own funds</b>					
	<b>Available and eligible own funds</b>					
R0500	<b>Total available own funds to meet the SCR</b>	73,515	65,764			7,751
R0510	<b>Total available own funds to meet the MCR</b>	65,764	65,764			
R0540	<b>Total eligible own funds to meet the SCR</b>	72,965	65,764			7,201
R0550	<b>Total eligible own funds to meet the MCR</b>	65,764	65,764			

## S.23.01.01

		C0010	C0020	C0030	C0040	C0050
		Total	Tier 1 - unrestrict ed	Tier 1 - restricted	Tier 2	Tier 3
R0580	SCR	48,005				
R0600	MCR	12,001				
R0620	Ratio entre fondos propios admisibles y SCR	152%				
R0640	Ratio entre fondos propios admisibles y MCR	548%				
		C0060				
	Reconciliation reserve					
R0700	Excess of assets over liabilities	73,515				
R0710	Own shares (held directly and indirectly)					
R0720	Foreseeable dividends, distributions and charges					
R0730	Other basic own fund items	88,422				
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds					
R0760	Reconciliation reserve	(14,908)				
	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)					

## S.25.01.21

		C0030	C0040	C0120
		Gross solvency capital requirement	USP	Simplifications
R0010	Market risk	22,852	22,852	
R0020	Counterparty default risk	7,862	7,862	
R0030	Life underwriting risk	-	-	
R0040	Health underwriting risk	-	-	
R0050	Non-life underwriting risk	25,324	25,324	
R0060	Diversification	(13,569)	(13,569)	
R0070	Intangible asset risk	-	-	
R0100	Basic Solvency Capital Requirement	42,469	42,469	

Calculation of Solvency Capital Requirement		C0100
R0130	Operational risk	5,536
R0140	Loss-absorbing capacity of technical provisions	
R0150	Loss-absorbing capacity of deferred taxes	-
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R0200	Solvency Capital Requirement excluding capital add-on	48,005
R0210	Capital add-on already set	
R0220	Solvency capital requirement	48,005
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	

## S.28.01.01

		Linear formula component for non-life insurance and reinsurance obligations	2019	C0020 C0030
R0010	MCR <sup>NL</sup> Result		4,667	2019
				Net best estimate (of reinsurance/S PV) and TP calculated as a whole Net written premiums (of reinsurance) in the last 12 months
R0020	Medical expense insurance and proportional reinsurance			
R0030	Income protection insurance and proportional reinsurance			
R0040	Workers' compensation insurance and proportional reinsurance			
R0050	Motor vehicle liability insurance and proportional reinsurance			
R0060	Other motor insurance and proportional reinsurance			
R0070	Marine, aviation and transport insurance and proportional reinsurance			
R0080	Fire and other damage to property insurance and proportional reinsurance			
R0090	General liability insurance and proportional reinsurance			
R0100	Credit and Suretyship insurance and proportional reinsurance			15,707 15,916
R0110	Legal expenses insurance and proportional reinsurance			
R0120	Assistance and proportional reinsurance			
R0130	Miscellaneous financial loss insurance and proportional reinsurance			
R0140	Non-proportional health reinsurance			
R0150	Non-proportional casualty reinsurance			
R0160	Non-proportional marine, aviation and transport reinsurance			
R0170	Non-proportional property reinsurance			555

Linear formula component for life insurance and reinsurance obligations		C0040		
		2019	C0050	C0060
R0200	MCR (L) Result		2019	
			Net best estimate (of reinsurance/SPV) and TP calculated as a whole	Net total capital at risk (of reinsurance/SPV)
R0210	Obligations with profit participation - guaranteed benefits			
R0220	Obligations with profit participation - future discretionary benefits			
R0230	Index-linked and unit-linked insurance obligations			
R0240	Other life (re)insurance and health (re)insurance obligations			
R0250	Total capital at risk for all life (re)insurance obligations			

Overall MCR calculation		C0070
		2019
R0300	Linear MCR	4,667
R0310	SCR	48,004
R0320	MCR cap	21,602
R0330	MCR floor	12,001
R0340	Combined MCR	12,001
R0350	Absolute floor of the MCR	3,700
R0400	Minimum Capital Requirement	12,001