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

Solvency and Financial Condition Report

31/12/2020

Executive summary

The Solvency and Financial Condition Report forms part of the reporting requirements for supervisory purposes established by Directive 2009/138/EC of the European Parliament and of the Council of 25th November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (hereinafter "Solvency II Directive") and the Delegated Regulation (EU) 2015/35 supplementing it, which have been transposed into Spanish law by Law 20/2015 of 14th July 2015 on the Regulation, Supervision and Solvency of Insurance and Reinsurance Entities ("LOSSEAR"), and Royal Decree 1060/2015 of 20th November 2015 on the Regulation, Supervision and Solvency of Insurance and Reinsurance Entities which implements it ("ROSSEAR").

Delegated Regulation (EU) 2015/35 and the ROSSEAR regulate the content to be included in the Solvency and Financial Condition Report.

A. Business and performance

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

The controlling Company constitutes a joint venture between the Euler Hermes and MAPFRE groups –each of which holds 50% of its share capital through Euler Hermes Luxembourg Holding S.à.r.l. and MAPFRE Participaciones, S.A.U. respectively– comprising the businesses of Credit insurance and the supplementary services of both groups in Spain and Latin America, and it is the parent company of a series of subsidiaries in these businesses in Argentina, Chile, Colombia, Spain, Mexico and Panama (hereinafter “the Group” or “ the Solunion Group”). In December 2017, the shareholders extended the agreement scope to include the joint development of the suretyship insurance.

The result of the technical account at 31st December 2020 amounted to EUR 11,890 thousand (EUR 14,918 thousand in 2019), which, combined with the result of the non-technical account, EUR -2,182 thousand (EUR -3,545 thousand in 2019) generated profit before tax of EUR 9,708 thousand (EUR 11,373 thousand in 2019).

In 2020, the volume of written premium in direct insurance and accepted reinsurance amounted to EUR 193,220 thousand (EUR 192,706 thousand in 2019). The strong performance of the international business has resulted in total reinsurance premiums accepted of EUR 35,497 thousand (EUR 25,520 thousand in 2019).

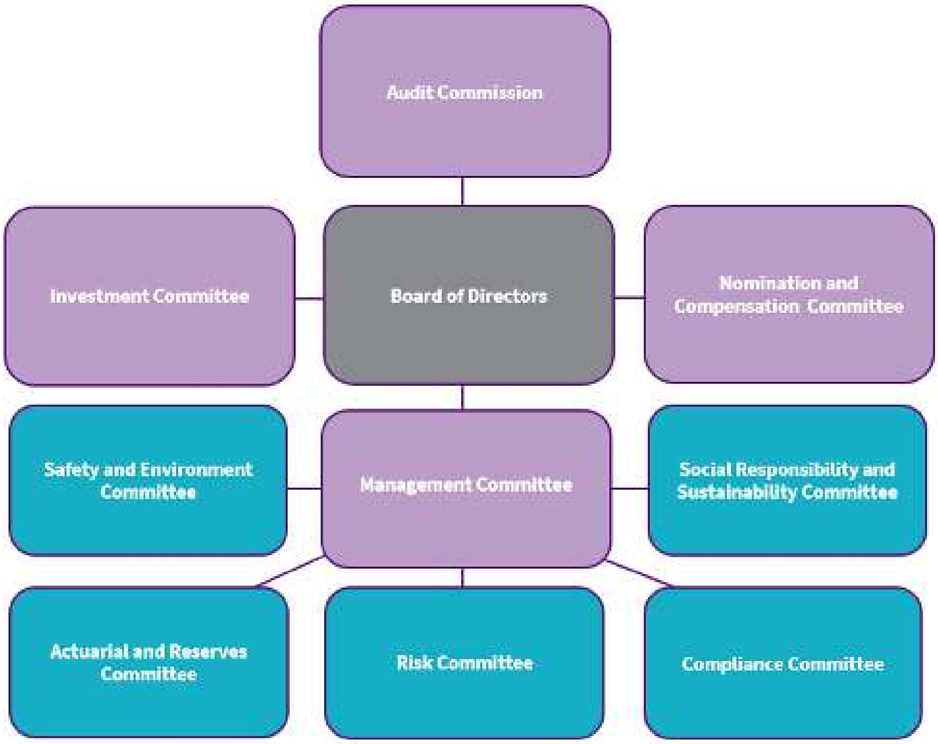
The rate of claims of premiums written net of reinsurance has been located in 59.45% including as accidents the payments and variation of provisions of claims.

B. System of Governance

The controlling Company has the following bodies for its governance and for the Solunion Group: The General Meeting, Supervision Committee, Board of Directors and its support committees (Audit Commission, Investment Committee and 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 , Compliance, Safety and Environment and Social Responsibility and Sustainability Committee’s support.

The controlling Company's governance structure as at 31st December 2020 is set out below:



The governing bodies enable appropriate commercial and operating strategic management, and give for a timely and proper response to any incidence that should arise at different levels of the organisation and its business and corporate environment, in any of the countries in which the Group operates.

With the aim of ensuring the controlling Company and the subsidiaries of the Group have an adequate structured, have Policies that regulate Key Functions (Risk Management, Actuarial, Compliance and Audit) and ensure that they meet the requirements defined by the Supervisor and are compliant with the governance guidelines set by the Solunion Group. Section B in this Report includes information on these Key functions.

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

The Board of Directors of the controlling Company 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 Solunion Group has adopted, for risk management, the “three Lines of Defence” model, which encompasses:

- 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.

- 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.

- Internal Audit is the “Third Line of Defence”, and independently guarantees the adequacy and efficacy of the Internal Control system and of other elements of the Corporate Governance System.

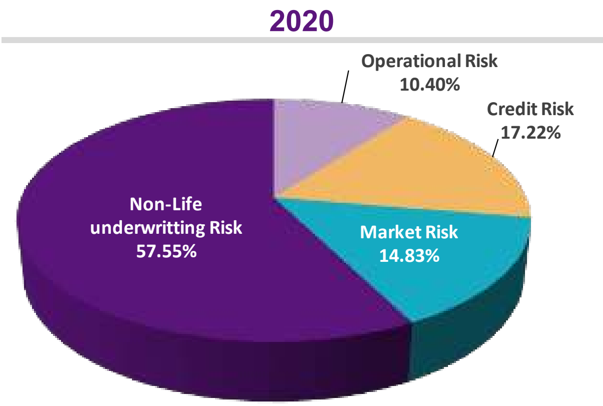
Within this framework, the Solunion Group´s structure is comprised of Areas, which, in their respective frameworks, perform a number of independent supervisory activities within the scope of their respective areas with regard to assumed risks.

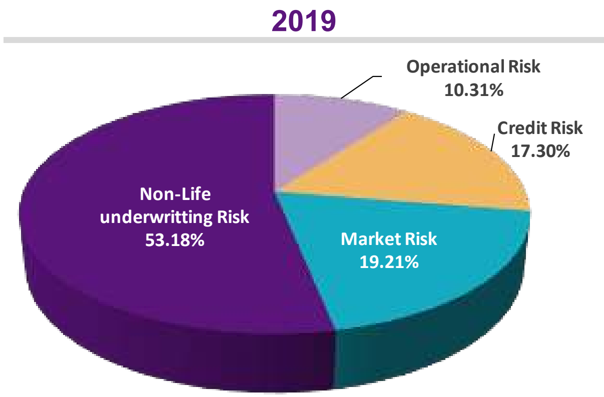
This governing structure reflects the requirements set out in the Solvency II Directive in relation to the system for management of business risks, so that the controlling Company establishes its own implementation and development strategy of the Risk Management and Internal Control Area, and the Board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

C. Risk profile

The Solunion Group 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 Group'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 Group's risk profile has changed slightly from the previous year; in both 2020 and 2019 the risk most strongly affected is Non-Life Underwriting risk, with the premium and reserve risk sub-module being the largest contributor.

Non-Life Underwriting risk has increased due to the amendments made by Delegated Regulation (EU) 2019/981 of 8th March 2019 ("Delegated Regulation 2019/981") to Delegated Regulation (EU) 2015/35 supplementing the Solvency II Directive, which affected the parameters used in the calculation of the premium and reserve risk sub-module, and came into force on 1st January 2020.

This is followed by Credit risk, mainly due to the increase in the market value of the reinsurance BEL.

Lastly, there are the Market risk, mainly due to the exchange rate risk for the foreign currency equity from the companies Group and the Operational risk.

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

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

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

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

D. Valuation for solvency purposes

The total value of assets under Solvency II regulations amounts to EUR 393,763 thousand, while the value measured in accordance with accounting regulations would amount to EUR 481,994 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 316,773 thousand, compared to EUR 363,606 thousand according to accounting regulations. These differences correspond mainly to the technical provisions, other acquisition costs of the reinsurance commissions and the deferred tax liabilities.

The main difference in valuation criteria in both the assets and the liabilities between the two regulations lies in technical Provisions, as these are measured according to market economic criteria under Solvency II. D.2 offers information on actuarial methodologies and assumptions used in the calculation of technical provisions, best estimate and risk margin.

The total excess of assets over liabilities amounts to EUR 76,990 thousand under Solvency II, reducing by EUR 41,399 thousand with respect to accounting criteria.

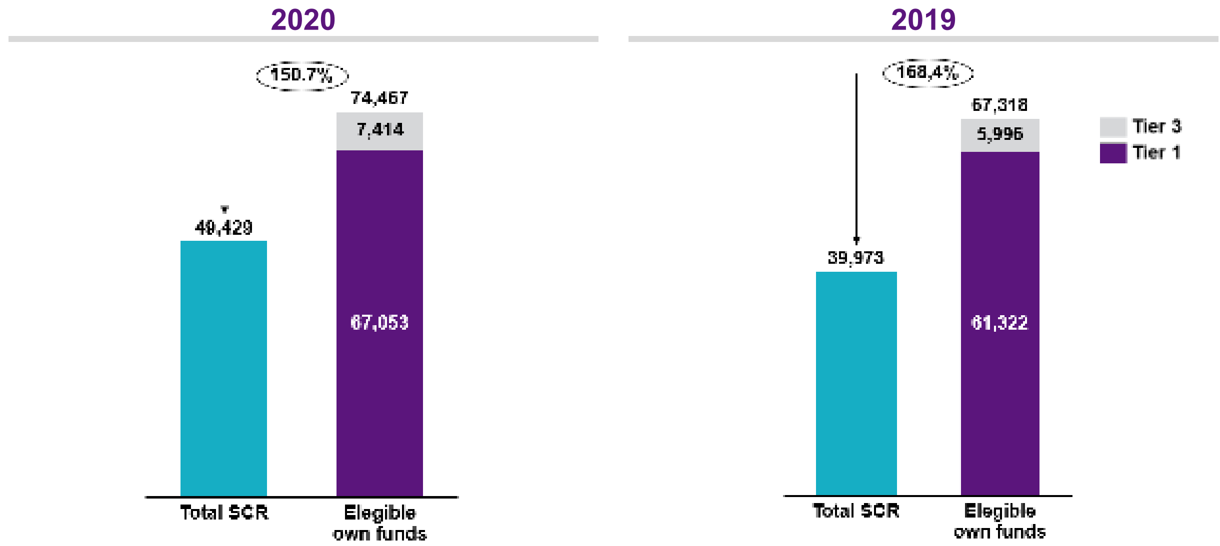
E. Capital management

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

The Group's solvency ratio, that denotes the share of its own funds available to meet the SCR, is 150.7%, while the share of its own funds available for meeting the MCR, that is, the minimum capital ratio required (hereafter “MCR”), reaches 542,6%. Therefore, the Group is in a suitable situation to be able to face future commitments taking into account the capital requirements established by the Solvency II regulations.

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

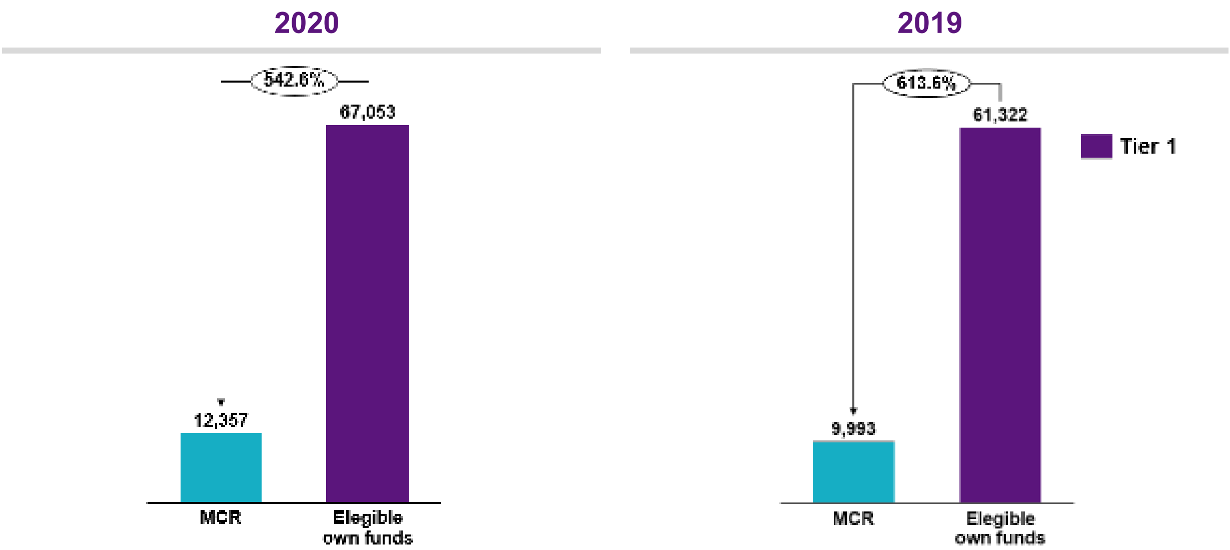
The Group's solvency ratio for SCR coverage in the years of study is as follows:



Data in thousands of euros

The Solvency Capital Requirement increased by 23.66% and eligible own funds by 10.62% compared to the previous year, bringing the Solvency Capital Requirement coverage ratio to 150.7%.

The solvency ratio of the Group for the coverage of the MCR in the years of study is as follows:



Data in thousands of euros

The Group maintains an excess of capital of EUR 67,053 thousand, with eligible own funds that cover 5.4 times the minimum capital solvency requirement, which corresponds to the to the own funds that should have to limit the probability of ruin to one case per 200 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 Minimum Capital Requirement coverage ratio decreased by 71 b.p., mainly due to the increase in the minimum capital requirement, although for equity purposes there was an increase of 9.35% over the previous year, due to a positive business performance during the year.

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

At December 2019 the amount of the Group's MCR was EUR 9,993 thousand, in December 2020 this amount has been increased up to EUR 12,357 thousand. In both cases, the result is equal to the minimum limit of the combined MCR, which is obtained as the 25% of the SCR, amount that in 2020 has increased by EUR 2,364 thousand.

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

A. Business and performance

A.1. Business

The accounting data in this section come from the consolidated Annual Accounts of the Group that have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union (EU-IFRS).

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

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

The controlling Company is a jointly-controlled company consisting of a joint venture between the Euler Hermes and MAPFRE groups –each of which holds 50% of its share capital through Euler Hermes Luxembourg Holding S.a.r.l. and MAPFRE Participaciones, S.A.U. respectively– comprising the businesses of credit insurance and the supplementary services of both groups in Spain and Latin America, and it is the parent company of a series of subsidiaries in these businesses in Argentina, Chile, Colombia, Spain, Mexico and Panama (hereinafter, "the Group" or the "Solunion Group"). In December 2017, the shareholders extended the agreement scope to include the joint development of the suretyship insurance.

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

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

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

Supervision

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.

The Group's other insurance companies are under the supervision of their respective national regulatory authorities, the details of which appear in their respective individual reports.

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

External audit

KPMG Auditores, S.L. has issued on 7th April 2021 the audit reports with no reservations relating to the individual and consolidated Annual Accounts of the controlling Company at 31st December 2020 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 controlling Company:

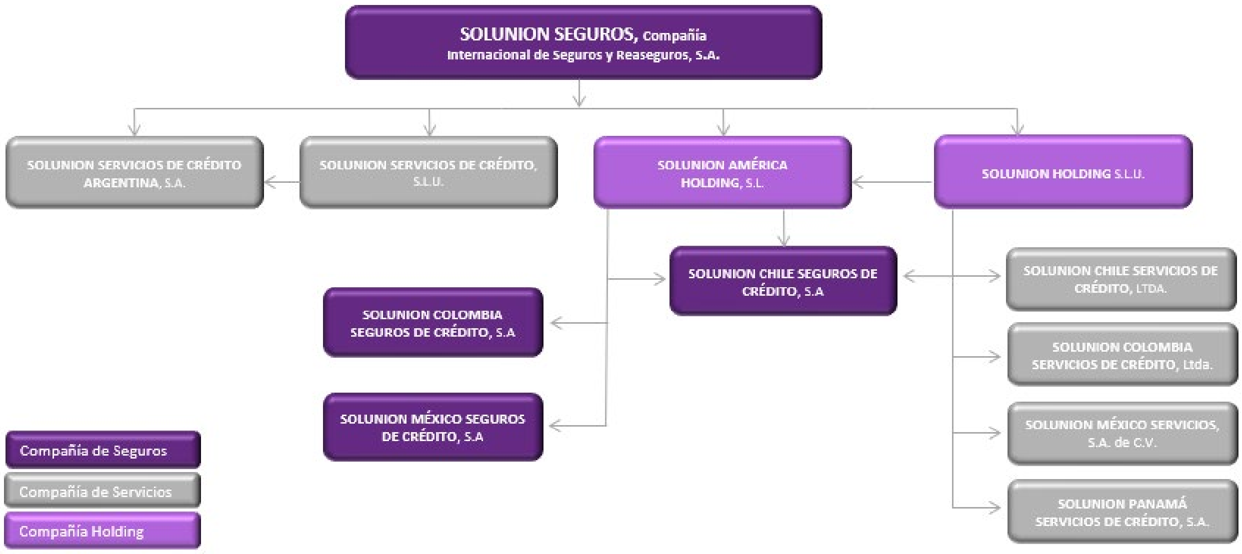
Corporate name	Legal form	Type of Shareholding	Location	Percentage of ownership
Euler Hermes Luxembourg Holding S.à.r.l.	Limited Company	Direct	Luxembourg	50%
MAPFRE Participaciones, S.A.U.	Limited Company	Direct	Spain	50%

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

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

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

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



Lines of business

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

- **Credit and Suretyship insurance:** consists of insurance obligations other than life assurance:
    - Direct Insurance (Modality 9)

- Accepted proportional reinsurance (Modality 21)
- Accepted non-proportional reinsurance (Modality 28)

Geographic areas

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

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

The following significant events took place during 2020, with a significant effect on the Solunion Group:

Significant events of the year

In September 2020, the international agency A.M. Best confirmed the financial strength rating A (Excellent) of Solunion Seguros, Compañía Internacional de Seguros S.A. and its long-term issuer credit rating of “a”, both with a stable outlook.

Confirmation of this rating emphasises Solunion's balance sheet firmness and solidity, 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 a “risk-adjusted capitalisation, which remained at the strongest level at the end of 2019, according to the Best’s Capital Adequacy Ratio”, a prudent reserve approach and the conservative investment and reinsurance strategies. A.M. Best considers that the Company maintains capital reserves to cushion the effect of a context of increasing insolvencies.

With the change of cycle in the global economy and the current crisis caused by the COVID-19 pandemic, A.M. Best expects “Solunion to maintain a prudent capital management strategy to support its strategic expansion plans”. Besides, the agency concludes that “positive business profile factors include the ability to leverage the expertise and capabilities of Euler Hermes, the leading global trade credit insurer, whilst accessing MAPFRE’s widespread and established distribution channels in its target market”.

Finally, the report highlights again the trend of progressive improvement in the operating performance of Solunion the last five years (2015- 2019).

In January 2020, Solunion was officially recognised as Top Employer Spain 2020 by the Top Employers Institute. The company was awarded this certification for its efforts to offer the best working environment to its people, whom it places at the centre of its strategy. With this seal, Solunion is recognised for its best practices in Talent Strategy, People Planning, Talent Acquisition, Onboarding, Learning and Development, Performance Management, Leadership Development, Career and Succession Management, Compensation and Benefits, and Culture.

In December 2020, Solunion received the efr certification as a Family-Responsible Company, a distinction awarded by the Másfamilia Foundation, which promotes the reconciliation of personal, family and work life. The efr certification recognises the good practices implemented by Solunion in terms of work-life balance in its companies in Spain, Mexico, Colombia, Chile, Panama and Argentina.

In addition, Solunion has published for the first time in 2020 its Statement of Non-Financial Information-Sustainability Report for 2019, a document that provides a comprehensive, complete and transparent overview of its activity and performance in non-financial aspects in the environmental, social and corporate governance fields.

The document has been prepared in accordance with the information requirements and recommendations of the Consolidated Set of Standards of the Global Reporting Initiative (GRI) and is based on the Company's commitment to corporate social responsibility, sustainability and the contribution to the development and balance of its immediate environment and society in general.

Since the beginning of its activities, Solunion has integrated sustainability and social action into its strategy. An approach that aims to respond to an increasingly global, volatile and constantly changing environment, in which flexibility, resilience and adaptability are increasingly demanded by organisations.

Due to the great uncertainty caused by COVID-19 and to continue moving towards its transformation, Solunion has adjusted its strategic plan Atenea, which includes the transformational pillars, the lines of work and the action plans to drive growth profitable and sustainable from Solunion in the 2020-2021 term, to respond in the most adequate and effective way to the market needs in a volatile and uncertain environment.

Corporate matters

On 17th December 2020, the Extraordinary General Meeting of Shareholders of the Company agreed to amend Articles 20 and 21 of the Articles of Association in order to change the remuneration system of the Board of Directors to incorporate Independent Directors and to extend to all meetings of the Board of Directors the possibility for Directors to attend by telephone conference or videoconference.

It also established, with effect from 1st January 2021, to set the number of Directors at eight, of which two must be independent Directors.

Main activities in 2020

- General matters

  In an economic situation completely marked by the global COVID-19 crisis, Solunion has continued its growing trend, maintaining or improving its share in the Credit Insurance market in all its business units: Second position in Spain and Mexico, with a 21 % and 33% market share, respectively; first position, with 54%, in Colombia; fourth position, with 11%, in Chile; third, with 8%, in Argentina, and first, with 73%, in Central America.

- New products

  Despite the exceptional situation, there have been numerous new product launches, such as the Single Invoice Cover, developed in collaboration with Equifax and Ores y Bryan and focused on insuring individual operations, Policy 50/50 and the relaunch campaings of the Policy Compromise and Trust.

  Likewise, Sectoral offers have been designed for strategic sectors with special projects tailored to the specific needs of each one: Agro, Energy and Tourism.

  In Mexico, the Innova policy was launched, which has meant an improvement over the existing product, providing greater simplicity and ease for the insured.

  In addition, the launch of the Policy Py in Colombia has been prepared, a policy for small companies that is characterised by its simplicity and ease of management, which facilitates its sale through non-specialised channels.

- Commercial action

Although the initial planning consisted of an enhancement of the different channels with which it works, through particular actions for each of them, such as the review of the segmentation of the Brokers with their new service model and the creation of the Broker and Soltrain portal, or the plans to promote the shareholders' commercial networks (MAPFRE and Allianz), the exceptional situation has made it necessary to include two more actions in the focus: Strengthening the banking channel, with the signing of new agreements and reactivation of the current ones and the automation of procedures, and increase of rates.

In addition, MiSolunion has been launched in Mexico and Chile, which will allow clients to have access to a better and more complete management tool for their policy and its limits.

- Risk underwriting

The year 2020 began with an economic slowdown in Solunion's main markets that had already begun in 2019. At the end of the first quarter of 2020, once the pandemic spread throughout the world, there was already a sharp decline in the economic activity and since then the risk policy has been more restrictive, although adjusted according to the sectors that have been more resistant or more vulnerable to this situation. The rapid adaptation of risk policies has made it possible to maintain stability in the results throughout the 2020 financial year. Regarding the 2021 financial year, although a gradual increase in insolvencies is expected in all Solunion markets, more is also being introduced progressively flexibility in risk underwriting policies in those sectors that are considered to have started their recovery.

- Information and technology systems

In relation to the management of workstations, it is worth highlighting the implementation of measures to strengthen security, with the installation of tools that allow monitoring, limitation of Internet browsing and protection of remote access through a double authentication system (MFA).

With regard to the evolution of the technological systems that support Solunion's operations, it is worth highlighting the renewal of the platform for the credit insurance business in Chile, which has been upgraded to the FÉNIX corporate system. It should be noted that a proprietary cloud-based tool has been developed to monitor and simulate the user experience on Solunion's main web portals, enabling the identification of improvement actions and proactive management of incidents.

Relevant operations within the Group

On 14th February 2020, Solunion Panamá Servicios de Crédito, S.A. was included in the scope of consolidation following the acquisition by Solunion Holding, S.L.U. of all its shares.

Economic matters

The result of the technical account at 31st December 2020 amounted to EUR 11,890 thousand (EUR 14,918 thousand in 2019), which, combined with the result of the non-technical account, EUR -2,182 thousand (EUR -3,545 thousand in 2019) generated profit before tax of EUR 9,708 thousand (EUR 11,373 thousand in 2019).

In 2020, the volume of written premium in direct insurance and accepted reinsurance amounted to EUR 193,220 thousand (EUR 192,706 thousand in 2019). The strong performance of the international business has resulted in total reinsurance premiums accepted of EUR 35,497 thousand (EUR 25,520 thousand in 2019).

The rate of claims of premiums written net of reinsurance has been located in 59.45% including as accidents the payments and variation of provisions of claims.

A.2. Underwriting performance

Quantitative figures on the Solunion´s Group business and underwriting results in 2020 and 2019 by line of business, as shown in figure S.05.01.02, indicate that the Solunion Group ended the year with gross earned premiums of direct insurance and accepted reinsurance of EUR 191,591 thousand (EUR 191,021 thousand in 2019), of which the net amount was EUR 19,878 thousand (EUR 18,414 thousand in 2019). The variation in gross earned premiums with respect to the previous year has resulted in an increase of 0.3%.

Also, the gross claims in direct insurance and accepted reinsurance fell to EUR 94,648 thousand (EUR 107,712 thousand in 2019), and after discounting the effect of reinsurance corresponding to EUR 82,820 thousand (EUR 96,974 thousand in 2019), the net claims amount to EUR 11,818 thousand (EUR 10,738 thousand in 2019), which supposes an increase of the net claims of 10.06% respect to the previous year.

The insurance business result in the financial statements has amounted to EUR 11,890 thousand (EUR 14,918 thousand in 2019).

By geographic area of the Solunion Group, as shown in figure S.05.02.01 of the Appendix, the following five countries, in addition to Spain, most important regarding the volume of gross earned premiums in the year 2020 were: Mexico, Colombia, Chile, Italy and Panama. The gross earned premiums for the top five countries amounted to 52,844 EUR thousand (EUR 49,615 thousand in 2019), which represented an increase of 6.51% compared to the previous year.

Competitive situation

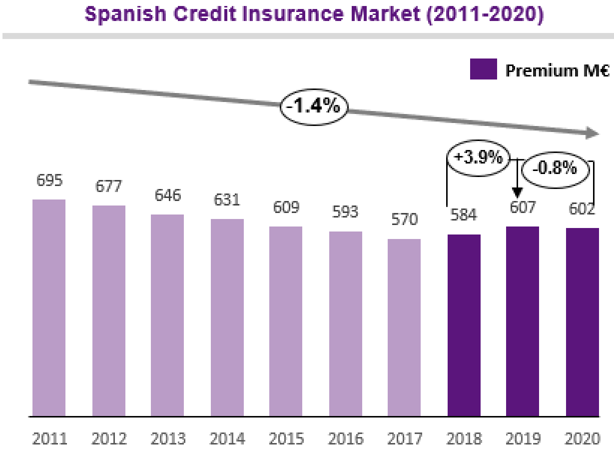
According to the initial calculations yielded by ICEA[1], the evolution of the credit insurance sector in Spain in 2020 showed a decrease in revenues of -0.8% in Credit insurance and an increase of 11.5% in Surety insurance compared to the previous year.

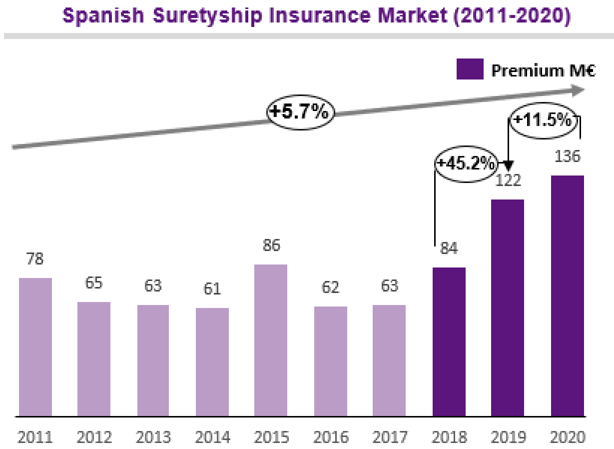
The Credit line of business wrote premiums of EUR 602 million and the Surety line of business wrote premiums of EUR 136 million.

Solunion ranked 38th in Spain in the Non-Life line of business, as in 2019, with a market share of 0.36%, 0.03% higher than in 2019. Within the Credit branch, Solunion occupies the second position with a share of 21.34% and direct insurance premiums written of more than 128 million euros in 2020. In the Surety line, Solunion is ranked seventh in the market with a market share of 4.16% and direct insurance premiums written of 5.6 million euros in 2020.

[1] Cooperative Investigation of Insurance Companies and Pension Funds

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

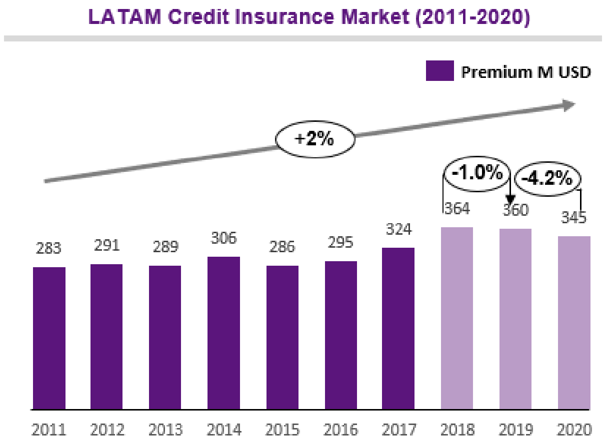


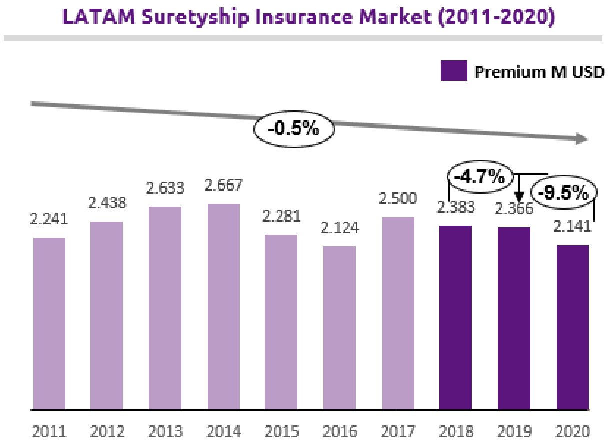


Evolution of the Spanish Credit and Suretyship insurance market. Source: ICEA. Data as of December 2020.

According to the latest available data, as of December 2020 in the Latin American countries where the Solunion Group is present, there has been a 4.2% decrease in premium volume compared to the same period of the previous year in credit insurance according to ALASECE[2] and in surety insurance a 9.2% drop in premium volume compared to the same period of the previous year according to the Pan American Surety Association (PASA). In the Latin American market, Solunion ranked third as of December 2020, with a market share of 16%.

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





*Evolution of the Latin American credit and surety insurance market. Source: Latinoinsurance. Data as of December 2020 (*In Surety: Figures as of December 2020 12 ms; except the Dominican Republic June 2020 12 ms, Puerto Rico and Venezuela December 2019)*

[2] Asociación Latinoamericana de Seguro de Crédito

Macroeconomic Environment

The Spanish economy contracted by 11.3% in 2020, due to the COVID-19 health crisis, one of the largest declines among developed economies. Two factors contributed to this, firstly the severity of the restrictions imposed in April and May, and secondly the high dependence of the economy not only on external tourism but also on the hotel industry.

A recovery of 6.1% is forecast for 2021, with GDP levels still below the 2019 level. It should be noted that the activation of the ERTE (temporary suspension of employment) mechanism and the credit lines and guarantees have prevented the fall from being greater. Thus, 2021 will be a key year for the Spanish economy, in which it will be seen which companies and businesses have been able to survive in a context of low mobility and lower face-to-face consumption.

The pandemic and the containment measures adopted led to a sharp fall in economic activity since March 2020 in Latin America. The contraction of GDP in Latin America was of an unprecedented magnitude, -7.4%, according to the International Monetary Fund (IMF). Economic policy support has been crucial to mitigate the impact of the health crisis. The authorities very quickly and forcefully adopted very expansionary fiscal and monetary policies thanks to the gain in institutional credibility over the last decades. The IMF forecasts GDP growth in the region for 2021 at 4.1 %.

Source: Euler Hermes and IFM data 29th March 2021

A.3. Investment performance

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

The following tables present the detail of investments' income and expense for the years 2020 and 2019 as recorded in the financial statements:

Income from investments

	Income from investments				Finance income from other activities		Total	
	Operation		Equity					
	2020	2019	2020	2019	2020	2019	2020	2019
INCOME FROM INTEREST, DIVIDENDS, AND OTHER								
Real estate investments:	-	-	-	-	-	-	-	-
I. Rent	-	-	-	-	-	-	-	-
II. Other	-	-	-	-	-	-	-	-
Income from held-to-maturity investments:	-	-	-	-	-	-	-	-
I. Fixed-income securities	-	-	-	-	-	-	-	-
II. Other investments	-	-	-	-	-	-	-	-
Income from available-for-sale securities	1,746	2,393	-	-	92	2	1,838	2,395
Dividends from Group companies	-	-	-	-	-	(14)	-	(14)
Other finance income	22	17	-	-	30	14	52	31
Total revenue	**1,768**	**2,410**	**-**	**-**	**122**	**2**	**1,890**	**2,412**
REALIZED AND UNREALIZED GAINS								
Net realised gains:	178	197	-	-	-	-	178	197
I. Real estate investments	-	-	-	-	-	-	-	-
II. Held-to-maturity investments	-	-	-	-	-	-	-	-
III. Available-for-sale financial investments	178	197	-	-	-	-	178	197
IV. Trading portfolio financial investments	-	-	-	-	-	-	-	-
V. Other	-	-	-	-	-	-	-	-
Net unrealised gains:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
I. Increase in fair value of trading portfolio	-	-	-	-	-	-	-	-
II. Others	-	-	-	-	-	-	-	-
Total gains	**178**	**197**	**-**	**-**	**-**	**-**	**178**	**197**
TOTAL INCOME FROM INVESTMENTS	**1,946**	**2,607**	**-**	**-**	**122**	**2**	**2,068**	**2,609**

Data in thousands of euros

Investment expenses

	Investment expenses				Finance expenses from other activities		Total	
	Operation		Equity					
	2020	2019	2020	2019	2020	2019	2020	2019
FINANCE COST								
Real estate investments:	-	-	-	-	-	-	-	-
I. Net operating expenses	-	-	-	-	-	-	-	-
II. Other expenses	-	-	-	-	-	-	-	-
Expenses from held-to-maturity investments:	-	(50)	-	-	-	-	-	(50)
I. Fixed-income securities	-	(50)	-	-	-	-	-	(50)
II. Other investments	-	-	-	-	-	-	-	-
Expenses from available-for-sale portfolio	(1,100)	(1,283)	-	-	-	-	(1,100)	(1,283)
Other finance expense	(402)	(314)	-	-	(174)	(60)	(576)	(374)
Total expenses	**(1,502)**	**(1,647)**	**-**	**-**	**(174)**	**(60)**	**(1,676)**	**(1,707)**
REALISED AND UNREALISED GAINS								
Net realised gains:	(151)	(66)	-	-	-	-	(151)	(66)
I. Real estate investments	-	-	-	-	-	-	-	-
II. Held-to-maturity investments	-	-	-	-	-	-	-	-
III. Available-for-sale financial investments	(151)	(66)	-	-	-	-	(151)	(66)
IV. Trading portfolio financial investments	-	-	-	-	-	-	-	-
V. Other	-	-	-	-	-	-	-	-
Net unrealized losses:	-	-	-	-	-	-	-	-
I. Decrease in fair value of trading portfolio	-	-	-	-	-	-	-	-
II. Others	-	-	-	-	-	-	-	-
Total losses	**(151)**	**(66)**	**-**	**-**	**-**	**-**	**(151)**	**(66)**
Total investment expenses	**(1,653)**	**(1,713)**	**-**	**-**	**(174)**	**(60)**	**(1,827)**	**(1,773)**

Data in thousands of euros

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

Total investment income amounts to EUR 2,068 thousand (EUR 2,609 thousand in 2019), of which EUR 1,838 thousand (EUR 2,395 thousand in 2019) from income from the available-for-sale portfolio, EUR 178 thousand (EUR 197 thousand in 2019) from net realised gains on investments in the available-for-sale portfolio and EUR 52 thousand (EUR 31 thousand in 2019) from other financial income.

Total investment expenses amount to EUR 1,827 thousand (EUR 1,773 thousand in 2019), of which EUR 1,100 thousand (EUR 1,283 thousand in 2019) from the available-for-sale portfolio, EUR 576 thousand (EUR 374 thousand in 2019) from other financial expenses and EUR 151 thousand (EUR 66 thousand in 2019) from losses from the available-for-sale portfolio, whereby the overall result of the investments was positive and their value amounted to EUR 241 thousand (EUR 836 thousand in 2019).

Some of the events that have influenced the Group's investments are listed below:

2020 will be remembered for the pandemic, causing a human crisis of historic scale and plunging the world economy into the deepest recession since WWII. Global real GDP growth contracted by -3.9% in 2020 against -1.5% in 2009. Europe has been one of the hardest hit regions due to its stringent response to the epidemic, registering a recession of -6.8%.

The recession would have been worst in the absence of the swift public response to the crisis. (Most) policymakers around the globe reacted immediately with unprecedented fiscal and monetary measures to avoid a liquidity squeeze and compensate for double-digit losses of companies' turnover growth due to the forced closure of the COVID-19 sectors. Strong public support has also helped avoid significant falls in households' disposable incomes and employment losses. Euler Hermes Global Insolvency Index posted a -12% y/y drop in Q3 2020, following -13% y/y in Q2, confirming the broad-based and prolonged slump in insolvencies recorded by courts. Along with the lockdowns of courts, the paradoxical drop in insolvencies comes from massive support measures implemented and then extended by governments to provide liquidity, extra time and flexibility to companies before they resort to filing for bankruptcy.

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

As shown in the tables in A.3.1, with respect to income, there has been no impact on the Group's equity in 2020 and 2019. Further, on the expense side, these had no effect on equity in the years 2020 and 2019.

A.3.3. Information on asset securitisation

Solunion does not invest in this type of assets.

A.4. Performance of other activities

A.4.1. Other income and expense

During the years 2020 and 2019, the Solunion Group has incurred the following significant income and expenses other than those from the purely insurance business:

	2020	2019
Operating income	**26,671**	**26,602**
Operating expenses	**(28,801)**	**(30,089)**
Tangible assets and investment expenses	**(52)**	**(60)**
Net financial income	**(92)**	**2**
a) Financial Income	30	2
b) Financial expenses	(122)	-
NON-TECHNICAL RESULT	**(2,274)**	**(3,545)**

Data in thousands of euros

A.4.2 Lease contracts

Operational leases

The controlling Company is a lessee of real estate for its own use. These leases have a duration of between 1 and 5 years, without renewal clauses stipulated in the contracts. There is no restriction for the lessee regarding the contracting of these leases

Expense accrued in both, 2020 and 2019 in operating leases amounted to 735 EUR thousand.

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

	Up to one year		From one to five years		More than five years		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Buildings and other constructions	735	735	981	1.716	-	-	1.716	2.451
TOTAL	**735**	**735**	**981**	**1.716**	-	-	**1.716**	**2.451**

Data in thousands of euros

There are no contingent quotas recorded as an expense in the years 2020 and 2019.

Finance lease

The controlling Company does not have this type of lease.

A.5. Any other information

There is no other relevant information other than that included in the above sections.

B. System of governance

B.1. General Information on the system of governance

Solunion Group´s system of governance, which is presented in detail below, aims to ensure sound and prudent management under a common operational and organizational model for the Group that establishes hierarchical and functional relationships, a common risk governance structure, Key Functions and written corporate governance Policies that include fit and proper requirements to be met by directors, executives and Key Functions.

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 Group has the following characteristics:

- Operational structure comprising three levels: Shareholders, holding company and business units.
- Organizational structure according to objectives-based operating model.
- Common risk management governance structure for Solunion Group.
- 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.
- Written corporate governance policies.
- Adaptation of local bodies of administration and representation of Solunion Group companies to the regulation of their respective countries.
- Directors, executives and individuals with Key Functions of Solunion Group must be persons of acknowledged commercial and professional propriety, and possess adequate knowledge and experience to enable sound and prudent management of the Group, in accordance with the fit and proper policy approved in each business unit.

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

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

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

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

- **Supervision Committee:** This is the non-executive body through which Solunion Group shareholders: (i) are periodically informed by the CEO on financial data, the situation in commercial and risk, information and claims matters, and the most significant matters of the Group; and (ii) issue guidelines on management matters submitted for their consideration, to be submitted to the pertinent governing bodies as necessary.

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

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

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

  The position of CEO is not remunerated until 31st December 2020, under the conditions established by the General Meeting, and it is incompatible with the performance of executive positions or duties in the Solunion Group.

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

<u>Board supporting committees</u>

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

- **Audit Commission**: It shall have the responsibilities set down in the Charter for advising and making recommendations to the Board on the following:
  - preparation of financial statements;
  - the nomination of accounts auditors and independent experts and the performance of their functions;
  - reporting and financial policy processes;
  - internal audit operation and functions, and
  - the organisation and effectiveness of internal control and risk management systems.

It comprises four members of the Board of Directors, two of whom must be independent directors from 2021 onwards, 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, who shall be an independent director, and Secretary shall be the Secretary of the Board of Directors.

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

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

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

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

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

- **Nomination and Compensation Committee**: will have responsibilities set out in its Charter to coordinate the Solunion Group´s Nomination and Compensation Policy, and it advises and offers recommendations to the Board of Directors on matters of compensation and benefits for senior executives of the Solunion Group and matters related to: governance, recruitment and selection of candidates for key executive positions and managers of key functions, compensation policies and plans and yearly allocation and payment programmes.

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

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

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

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

The appointment of the members of the Management Committee, who must meet the requirements set out in Solunion Group's fit and proper policy, will be made by the Board of Directors, pursuant to a favourable report by the Nomination and Compensation Committee.

As a general rule, the committee will meet as many times as necessary, and on an extraordinary basis to deliberate on matters submitted to its consideration by any of its full members.

Support Committees of Group Management Committee

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

- **Risk Committee:** It is tasked with overseeing the risk management function and system, particularly compliance with Risk Appetite, and it comprises full members of the Management Committee, 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).

  It has the competence to supervise the Actuarial Function and Policy within the Group, as well as to establish the reserves within the framework of the Policies and regulations approved by the Board of Directors.

- **Compliance Committee:** tasked with verifying the functioning of the compliance function, overseeing correct application of general compliance guidelines and principles within the Group and to provide support in this area to the Group's head of compliance, and is composed of the full member of the Management Committee, the Corporate Director of 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 the business unit’s operations and to determine and assess compliance risk, and (iv) resolve any matters that, owing to their complexity, that are escalated to it for its interpretation by the Group's head of compliance.

- **Social Responsibility and Sustainability Committee**: is responsible for verifying and ensuring the correct application of the principles and general guidelines for action in the area of Social Responsibility and Sustainability in the Group, and is made up of the Corporate Directors of People and Sustainability, Finance, Legal and Compliance, Communication and Security, and by the Head of the Social Responsibility and Sustainability Area.

- **Safety and Environment Committee:** is in charge of verifying and ensuring the correct application of the general principles and guidelines for action in the area of Comprehensive Safety, Business Continuity and Environment in the Group and is made up of the CEO of Solunion, the Corporate Directors of Finance and Administration, Legal and Compliance, Information Technology and, depending on the matter to be addressed, by the Corporate Director of People and Sustainability and the Security Officers of the Business Units, who have the status of permanent members. The Corporate Director of Security (CSO), MAPFRE's Deputy General Manager for Security and Environment, and the Directors of Coordination and International Security, and of Risk, Government of Safety / Environment and Business Continuity of MAPFRE will be standing guests.

Additionally, the local government system is made up of the following bodies:

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

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

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

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

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

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

Support committees for the local management committees

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

B.1.2. Key functions

In order to ensure that the government system has an adequate structure, Solunion 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 Supervisor and they are faithful to the lines of government established by the controlling Company and the Group.

The Board of Directors approved the latest revision of the Internal Audit, for the year 2020, Policy in its meeting of 2nd April 2020, Actuarial Policy and Risk Management Poly in its meeting of 29th September 2020, and the Compliance Policy in its meeting of 17th December 2020.

The above 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

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

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

On 17th December 2020, the Extraordinary General Meeting of Shareholders of the controlling Company agreed to amend Articles 20th and 21st of the Articles of Association in order to change the remuneration system of the Board of Directors to incorporate Independent Directors and to extend to all meetings of the Board of Directors the possibility for Directors to attend by telephone conference or videoconference.

It also established, with effect from 1st January 2021, to set the number of Directors at eight, of which two must be independent Directors.

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

The members of the Board of Directors have not earned any type of compensation during financial years 2020 and 2019.

The following table shows the remuneration received in the last two years by key management personnel, consisting of four women and six men and in 2020 and one woman and three men in 2019:

	2020	2019
Short-term remuneration	**1,658**	**807**
Salaries	1,529	745
Fixed allocations	38	26
Per diems	-	-
Life insurance	16	7
Other	75	29
Medium-term remuneration	**68**	**61**
Post-employment remuneration	**27**	**0**
Defined contribution	16	0
Years of service award	11	-
TOTAL	**1,753**	**868**

Data in thousands of euros

Remuneration paid to the members of the Administrative body and employees of the Group is determined in accordance with prevailing regulations in the countries in which operates as well as it's remuneration policy, the latest revision of which was approved by the Board of Directors on 29th September 2020.

Solunion's Remuneration Policy aims to link remuneration to the level of responsibility and degree of contribution of each employee to Solunion's results, as well as to apply individual management criteria based on merit.

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

Its objectives include:

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

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

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 1st January 2019 and 31st December 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 Solunion Group has a fit and proper policy, the latest revision of which was approved by the Board of Directors of Solunion on 23rd June 2020 which facilitates application of regulatory requirements and ensures a high level of fit and proper requirements throughout the Group for managers and Key Functions.

Managers and Holders of the Key Functions of Solunion Group must be persons of recognized commercial and professional honour and possess adequate knowledge and experience to make possible the sound and prudent management of the Group. The following principles shall apply to ensure fulfilment of these objectives.

- This Policy applies to the Senior Management and the Key Functions Holders.
- The Fitness and Propriety of the members of the Board of Directors of Solunion and the local Governing Bodies of the Business Units shall be governed, in addition, by the criteria established by their shareholders and the applicable rules.

- A person's Fit and Proper shall be assessed when appointed for a Senior Management or Key Function Holder position, on the regular reviews and when situations arise that give rise to doubts about their Fitness or Propriety.

As far as suitability is concerned, the qualifications, knowledge, and experience required depending on the position:

- Members of the Board of Directors and the Local Management Bodies shall possess appropriate experience and expertise and, taken as a whole, shall possess sufficient knowledge and professional experience in the following areas, as a minimum: (i) insurance and financial markets; (ii) business strategies and models; (iii) governance system; (iv) financial and actuarial analysis; and (v) regulatory framework.
- The members of the Management Committee and the local Business Unit Management Committees and the permanent invitees thereto shall have the qualifications, knowledge, and experience necessary to carry out the responsibilities of each Committee and the specific responsibilities assigned to them by the Management Committee.
- The holders of Key Functions must have the appropriate knowledge and experience to perform the tasks entrusted to them by the respective Key Function Policy, if applicable, and by applicable law.

The people subject to this Policy must have an accredited, personal, commercial and professional reputation based on reliable information about their personal behaviour, their professional conduct and their reputation, including any criminal, financial and supervisory aspects that are pertinent to these effects, and to act under the Solunion Code of Ethics and Conduct and meet the following requirements:

- Personal, commercial, and professional propriety:
  - The personal trajectory of respect for commercial and other laws that regulate economic activity and business life, as well as good commercial, financial, and insurance practices.
  - Lack of criminal records for crimes against patrimony, money laundering, against the socioeconomic order and the Public Treasury and Social Security and sanctions for infringement of the regulatory rules for the insurance, banking, or stock market activities, or consumer protection.
  - Lack of relevant and justified investigations, both in the criminal and administrative spheres, on any of the facts mentioned in section b) above.
  - Not be disqualified from holding public or administrative or management positions in financial or insurance entities.
  - Not be disqualified under Spanish bankruptcy regulations or equivalent in other jurisdictions.
- Capacity and compatibility:
  - Not being involved in causes of incompatibility, incapacity, or prohibition under current legislation and internal regulations.
  - Not being in an insurmountable conflict of interest situation under current legislation and internal regulations.
  - Not having incurred in circumstances that could give rise to the appointment or participation in the entity's administrative body that could put the interests of the entity or the Solunion Group at risk.

In the case of ongoing procedures or investigations, the Compliance Area will analyse the circumstances of each case to determine its impact on propriety.

Process to ensure fitness and propriety.

Adequate assessment processes will be necessary during recruiting and the regular and specific reviews to ensure Fitness and Propriety.

To assess the Fitness and Propriety in a recruitment process of members of Management Committees or Key Function Holders it will be required .

- Job description/Fitness requirements definition for the position

  Aptitude will be assessed based on the job description and the Fitness requirement definition, and the tasks and key responsibilities associated with the position defined by the People and Sustainability Area.

- Curriculum vitae

  All candidates must submit their current curriculum vitae at the beginning of the recruiting process.

- Background checking

  The final candidate for a position within a Management Committee or Key Function Holder must be subject to a background check by the People and Sustainability Area, comprising of:

  - The submission by the candidate of copies of his required qualifications.
  - The filling by the candidate of a Declaration of Fitness and Propriety stating their personal, professional or business circumstances, following the template established by the Corporate Affairs Area and, where appropriate, the submission of a criminal records certificate presented not later than three months after the date of issue.
  - A reference checks.

In the case of members of the Solunion Board of Directors or local Administration Bodies and Key Function Holders, the Corporate Affairs Area will be responsible for collecting from candidates the curriculum vitae, the Declaration of Fitness and Propriety, and, where appropriate, the criminal records certificate.

As regards Fitness, in the assessment by the People and Sustainability Area 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 entity and the specific functions and responsibilities of the position assigned to the person evaluated. If the final candidate had a specific lack of knowledge, competencies or skills, it shall be considered whether this lack can be solved through specific professional training, and if so, such training must be provided.

Regarding Propriety, if the evaluation reveals any situation that could affect the Property, it will be reported to the Compliance Area to analyse the circumstances of each case to determine its impact on the Propriety.

If, after the evaluation, the candidate does not meet the requirements of Fitness and Propriety, may not be appointed or hired for the position. If a periodic or specific review shows that the evaluated person can no longer be considered Fit or Proper for the position, the corresponding decision will be taken under the regulations.

In the case of members of the Board of Directors or local Governing Bodies, the Fitness of the candidates will be evaluated according to the Fitness requirements legally required in each Business Unit.

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 situations that may affect its Propriety.

Without prejudice to the regular reviews, the Senior Management and the Holders of the Key Functions must report their entity of any supervened circumstance that could affect their Propriety.

The specific reviews will be carried out when situations arise that give rise to doubts regarding a person's Fitness or Propriety of a person, such as: relevant breach of the Solunion Code of Ethics and 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 relevant to the Business Unit or the person's position, or administrative sanctions for non-compliance with any financial services legislation.

Participants in the evaluation of the Fitness and Propriety and their responsibilities will be as follows:

- The Corporate Affairs Area will be responsible for:
  - To review and keep the Fit and Proper Policy updated.
  - To have the templates of the Declaration of Fitness and Propriety for the recruitment and annual review processes updated.
  - To obtain the necessary documentation for the evaluation of candidates for members of the Solunion Board of Directors or local Governing Bodies and Key Function Holders.
  - To update the information on Propriety for the regular reviews.
- The People and Sustainability Area will be responsible for:
  - To draft the definitions of the Fitness requirements of the positions subject to this Policy, except for members of the Board of Directors and the local Governing Bodies.
  - To carry out the assessment of the Fitness and Propriety of Senior Management and Holders of Key Functions in the recruitment processes and the regular and specific reviews.
  - To communicate to the Compliance Area the situations that may affect the Propriety of Senior Management and Holders of Key Functions that are revealed in assessment processes.
  - To submit for the approval of the Nomination and Compensation Committee the proposals for appointments of Senior Management and Key Functions Holders.
- The Compliance Area will be responsible for:
  - To analyse and determine the impact of situations that may affect the Propriety of Senior Management and Holders of Key Functions that are revealed in assessment processes.

- To promote the realization by the People and Sustainability Area of a specific review when it becomes aware, through the Impulse Channel or by any other means, of situations that may affect the Propriety of Senior Management and Holders of Key Functions.

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

B.3.1 Governance framework

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

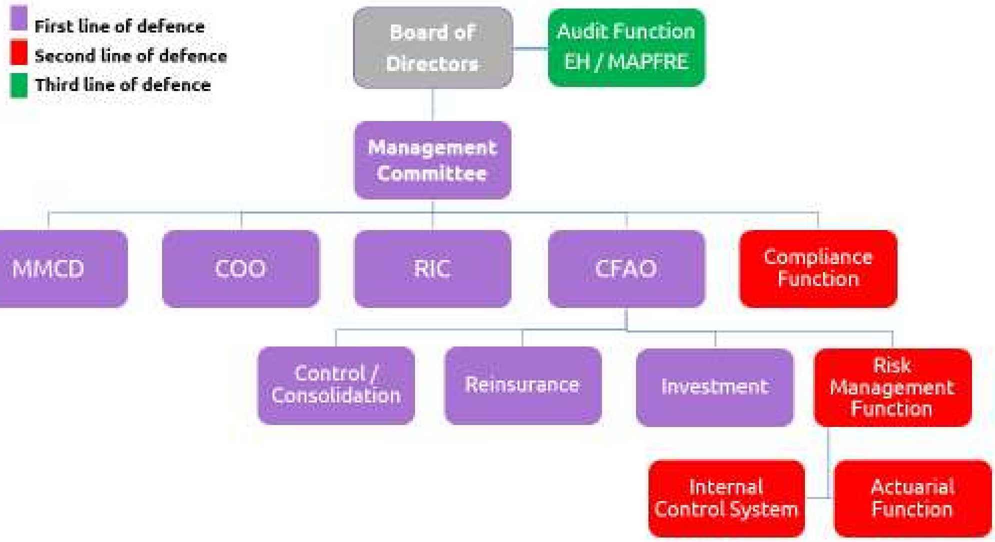
The risk management policy implements the structuring and functioning of the risk management system. The policy is applied to Group Companies within the limits envisaged in regulations applicable to the activities regulated in countries where it operates, and it has the aim of preserving the Group's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

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

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

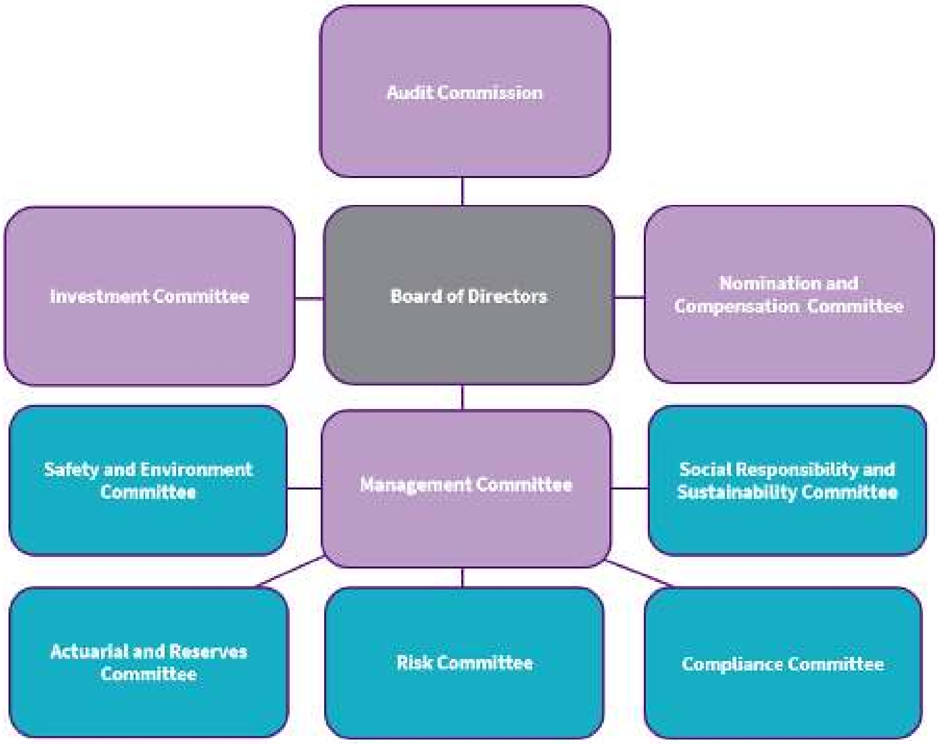
- The “First Line of Defence” consists of operations managers, who assume risks and possess the controls.
- The Actuarial, Compliance and Risk Management Functions, as well as the Internal Control System, dependent on the last make up the “Second Line of Defence”, that supervise the First Line of Defence 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:



Governance of risk management in Solunion has bodies with global powers across the Group and bodies in each business unit.

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



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

- Board of Directors:
  - Approval or authorisation of the risk identification, management and control policy.

- Analysis of the information to be regularly received on the status and development of risks and of the decisions of the Management Committee to verify their adequate management and control.

- Adoption of measures to correct situations deemed inappropriate.

It relies on the Audit Commission, the Investment Committee, the Nomination and Compensation Committee and the Management Committee in risk management work.

- Management Committee:

  - Responsibility for implementation of policies and standards on risk management.

  - Supervision of performance of Second Line of Defence functions and policies.

  - Information on risk management to the Board of Directors and escalation of proposals for action.

  - Operational decisions made within framework of policies and standards approved by Board of Directors.

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

- Risk Holding Committee:

It 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:

It 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:

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.

- Social Responsibility and Sustainability Committee

The Social Responsibility and Sustainability Committee is responsible for verifying and ensuring the correct application of the principles and general guidelines for action in the area of Social Responsibility and Sustainability in the Group, and is made up of the Corporate Directors of People and Sustainability, Finance, Legal and Compliance, Communication and Security, and by the Head of the Social Responsibility and Sustainability Area.

- Safety and Environment Committee

  The Safety and Environment Committee is in charge of verifying and ensuring the correct application of the general principles and guidelines for action in the area of Comprehensive Safety and Environment in the Group and is made up of the CEO of Solunion, the Corporate Directors of Finance and Administration, Legal and Compliance, Information Technology and, depending on the matter to be addressed, by the Corporate Director of People and Sustainability and the Security Officers of the Business Units, who have the status of permanent members. The Corporate Director of Security (CSO), MAPFRE's Deputy General Manager for Security and Environment, and the Directors of Coordination and International Security, and of Risk, Government of Safety / Environment and Business Continuity of MAPFRE will be standing guests.

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

These risk committees will be under the supervision of the Holding Risk Committee.

The Risk Management Function enables adequate oversight of risks through the adoption of decisions that facilitate the identification, measurement, supervision, management and monitoring of the same. This function encompasses 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:

- definition of the strategy with regard to the risks taken on;
- the inclusion of risk analysis within the decision taking processes;
- 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
- 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 Risk Management Area establishes rules for setting the parameters for measuring risks in accordance with regulations, determining the technical means for calculating capital needs in accordance with the entirety of risks, and verifying that the measurement of the same is correct.

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

  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 companies are responsible for ensuring that the actions taken are consistent with the established technical standards and that the risks taken do not exceed the limits defined in the risk management system.

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

- Management and mitigation: risk takers in each area of 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 management, unless the nature of the risk allows for reporting on a yearly basis.

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

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

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

  - Authorising an excess beyond the risk limit, in which case sufficient documentation and notification of the governing bodies and the 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 Group has established a framework of policies that have been approved by the Board of Directors of each of the companies.

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

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

Type of Risk	Description	Measurement and management	Monitoring and notification
Underwriting risk	Groups the following risks for non-life: - Premium risk - Reserves risk - Catastrophic risk - Reinsurance mitigation	Standard formula	Annual
Market risk	Covers the following risks: - Interest rate - Equities - Real estate - Spread - Concentration - Currency	Standard formula	Annual
Credit risk	Reflects any possible losses arising from unexpected default by counterparties and debtors in the following 12 months.	Standard formula	Annual
Liquidity risk	The risk that Solunion 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
Operational risk	Includes those which arise due to failed internal processes, people and systems, or from external events	Standard formula The Group performs qualitative dynamic analysis of processes. Monitoring and recording of operational risk events	Annual Continuous

Type of Risk	Description	Measurement and management	Monitoring and notification
Technical provisions recognition risk	Due to the existence of reserves that are insufficient for Solunion to settle its obligations.	Control of calculation of technical provisions External validation	Continuous Annual
Business continuity risk	This relates to possibility that future events will give rise to consequences that are adverse for the achievement of the Soluin's economic or business objectives, or for its financial position.	Business continuity plans.	Annual
Compliance risk	The risk of losses due to legal/regulatory sanctions or reputational losses arising from the infringement of internal/external laws and regulations, as well as applicable administration regulations.	. Monitoring and recording of significant events	Continuous Annual
Strategic and Corporate Governance risk	Includes the following risks: - Business ethics and corporate governance - Organisational structure - Market competition	Through corporate policies	Continuous
Outsourcing risk	Risk arising from arrangements with service providers for the performance of one of the Solunion's functions.	On-site *inspections* by the companies of supplier facilities Control of fit and proper requirements	Annual
Reinsurance risk	This is risk arising from fluctuations in the solvency of counterparties in reinsurance terms within a one-year period.	Standard formula	Annual

All calculations arising from the standard formula must be updated in any year in which a 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 Group is exposed.

B.3.3. Own risk and solvency assessment

Pillar II includes the Own Risk and Solvency Assessment (hereinafter ORSA), which is a key element of Solvency II. The ORSA process is integrated and is part of the Risk Management System, and it has mechanisms to identify, measure, monitor, manage and report the risks in the short and long term of the controlling Company and the Group, 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 Group.

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

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

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

This process is detailed below:

1. **Risk appetite and limits**

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

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

2. **Strategic and business plan**

The solvency capital needs are calculated so was to be sufficient in order to face all the risks that current impact the business or that may impact it in the future, using as the reference the period of time covered by the Business Plan (2021 to 2025).

3. **Analysis and evaluation of critical risks**

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

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

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

4. **Standard formula of required solvency capital**

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

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

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

5. **Stress testing**

Once the projection of the Solvency Capital Requirement for the base scenario is made – that is, for the 2021-2025 business plan, to complete the solvency forecast – Solunion Group has applied diverse stress scenarios for the years 2021-2025, the results of which are included in the Report.

6. **ORSA report**

The ORSA report presents the results of the Own Risk and Solvency Assessment obtained by the Group. Solunion 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 when issuing this Report, the 2020 ORSA Report has not yet been issued, so the ORSA for the 2019 financial year has been taken as a reference.

B.4. Internal control system

B.4.1. Internal control

Solunion Group has an operational risk and internal control framework, whose latest review was approved on 29th September 2020 by the Board of Directors of Solunion. The framework sets out the most important actions to be implemented to maintain an optimal Internal Control System.

The Operational Risk and Internal Control Framework provides a general model of functioning that realises a set of principles, guidelines and policies that can establish a definition of the function at a global level and its current implementation at every level of Solunion to ensure continuity and uniformity in its application.

Solunion Group conceives internal control as a system whose performance requires the involvement and commitment of all members of the organisation, and not an isolated organisational area, that has been created to monitor the Group's actions in relation to the risks to which it is exposed. The members of the organization contribute to provide a reasonable security to achieve the set objectives respect to:

- Operational Objectives: Efficiency and efficiency of operations, differentiating the operations inherent to the insurance activity (subscription, claims, reinsurance and investments, mainly), such as operations and support functions (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 Function. It is a body that is independent from areas for the implementation of the internal control system with responsibility for defining applicable policies and procedures, coordinating and supervising evaluation and control activities, launching action plans and generating management reporting for different areas and governing bodies.

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

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

The definition of internal control and the different elements mentioned in the management framework are based on the COSO Report, according to which there is a direct relationship between the objectives that the Group wishes to achieve (in terms of efficiency and operational effectiveness; confidence in accounting and financial records; and conformity with external and internal rules and regulations), the components of the internal control system (which represent what the organisation needs to achieve the objectives), and its organisational structure (operative units, legal entities, etc.) sets out a common internal control model that companies can use to evaluate and check their own control systems.

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

Ultimate responsibility in internal control at Solunion Group lies with the controlling Company's Board of Directors. Nevertheless, as a general rule, the Management Committee is the executive body that is periodically informed of the results of risk assessment and controls, and to which any significant matters related to internal control are escalated. Therefore, the Management Committee has decision-making authority for any matter related to risk management and control in Solunion Group, approval of the Operational Risk and Internal Control Framework and any possible modifications to the same, reporting and action plans launched to mitigate the Solunion'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 Management Risk and Internal Control Area performs the Internal Control Report which shows the current situation of the Group at the time of the risks and controls analysis, which allows updating the Risk and Control Map. This Map in turn serves as the basis for the next cycle of internal control.

The Annual Report on the Effectiveness of the Internal Control Procedures corresponding to the 2019 financial year, which shows the results of the risk assessment and controls and the detail of the action plans to improve the mitigation of the most relevant risks was presented to the Board of Directors on 29th September 2020. When issuing this Report, the Annual Report for the 2020 financial year has not yet been issued, which consists of monitoring the risks and controls of the Solunion processes and monitoring the Action Plans.

B.4.2. Compliance function

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

The Group has a Compliance Policy whose last revision was approved by the Board of Directors on 17th December 2020, which describes the Role of Compliance throughout the Group.

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

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

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

- Compliance risk identification: the identification process allows the set of compliance risks affecting the Group to be outlined, which forms the Compliance Universe.
- Compliance risk evaluation: an assessment of compliance risk consists of a quantification of the impact and probability of each of the identified risks. This assessment entails analysing the financial and non-financial impacts and prioritizing, according to these results, actions on risks.
- Compliance risk mitigation: mitigation of compliance risks is the response to compliance risk. Mitigation strategies should reduce the impact and/or probability of occurrence of identified compliance risks.
- Compliance risk monitoring: Monitoring of compliance risk allows for checking that risk mitigation activities are working properly and identifying any new risks affecting compliance. The business processes report to the Group's Head of Compliance any indication of the existence of a compliance incident and provide updated information on the status until it is resolved.
- Compliance risk exposure information. Compliance reports on the management process of this risk will include at least the results of the assessment of the compliance risk, compliance risks that may generate losses, the results of monitoring activities and the status of mitigation and rectification actions.

B.5. Internal audit function

As discussed in the Risk Management System section, Internal Audit is the risk management model's Third Line of Defence, and should provide an independent guarantee of the adequacy and effectiveness of the internal control system as well as other elements of the Governance System.

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

This relationship is supported by an outsourcing contract and the activity is supervised by the CEO, who is responsible for overseeing the correct operation of the outsourced function. 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 2nd April 2020, 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 Solunion Group has an Actuarial Function Policy whose last review was approved by the Board of Directors on 29th September 2020, which describes the Actuarial Function in the Company.

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

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

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

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

The Corporate Head of 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 Group has an Outsourcing Policy, whose last review was approved by the Solunion's Board of Directors on 17th December 2020, that establishes principles of management for the outsourcing of activities that enables the Group to manage its own suppliers map in accordance with methodology in place for outsourcing.

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

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

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

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

B.8. Any other information

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

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

C. Risk profile

After the entry into force of Solvency II regulations, the Solunion Group calculates its Solvency Capital Requirements (SCR) in accordance with standard formula requirements. For the main risk categories, this total SCR is considered an excellent measurement tool for determining the Group´s risk exposure, as it recognises the capital charge corresponds to key risks (such as underwriting, market, and credit risk).

As explained below in sections C.4 and C.6, the Group´s exposure to other risks not included in the SCR calculation using the standard formula (risk of liquidity, technical provisions, business continuity, compliance, reputational and outsourcing) are not considered significant, since the Group applies effective measures to manage and mitigate them.

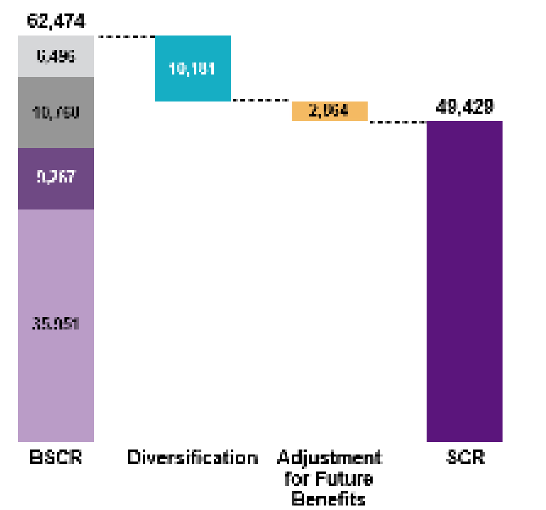
As indicated in regulations, the SCR corresponds to the Group’s equity for limiting the probability of bankruptcy to one case per 200 years, or that the Group is still 99.5% able to meet its commitments to insurance beneficiaries and policyholders during the following year.

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

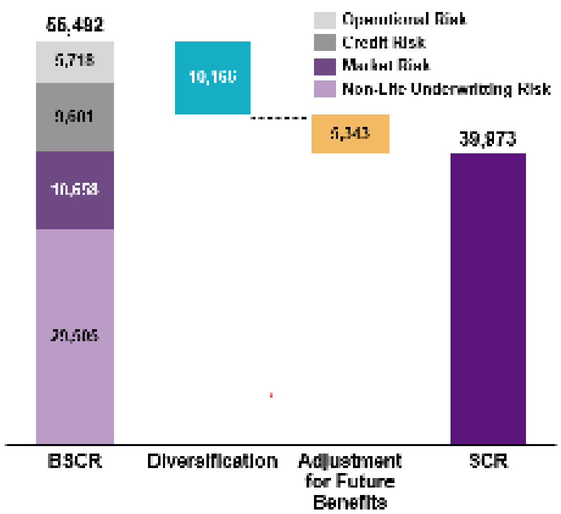
- Market risk
- Non-Life Underwriting risk
- Counterparty Risk
- Operational risk

The following graphs shows the risks that make up the risk profile of the Solunion Group based on the regulatory capital required (reported in template S.25.01.22 of the Appendix) (SCR calculation is explained in section E.2 of the Report):

2020



2019



* BSCR
Data in thousands of euros

These charts show that the Group's risk profile has changed slightly in 2020 compared to 2019; for both 2020 and 2019 the risk that has affected the Group most strongly was Non-Life Underwriting risk, which accounts for 57.55% of the total SCR (53.18% in 2019), followed by Credit risk, which accounts for 17.22% of the total SCR (17.30% in 2019). Lastly, Market and Operational risk account for 14.83% of the total SCR in 2020 (19.21% in 2019) and 10.40% of the total SCR in 2020 (10.31% in 2019), respectively.

The decrease in the loss absorbency capacity deferred tax adjustment in 2020 was impacted by the Group's adaptation to the temporary recoverability limits approved in Regulation 2019/981.

Non-Life Underwriting risk has been increased due to the amendments made by Delegated Regulation 2019/981 to Delegated Regulation (EU) 2015/35 supplementing the Solvency II Directive, which affected the parameters used in the calculation of the premium and reserve risk sub-module, and came into force on 1st January 2020.

With regard to the measures used to assess the main risks within the Group in 2020, no significant risks have arisen.

Other significant risks to which the Group is exposed are considered in Section C.6. A new material risk included in this section is represented by the coronavirus pandemic (COVID-19).

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

C.1 Underwriting Risk

C.1.1 Exposure to the risk

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

It is also subdivided into:

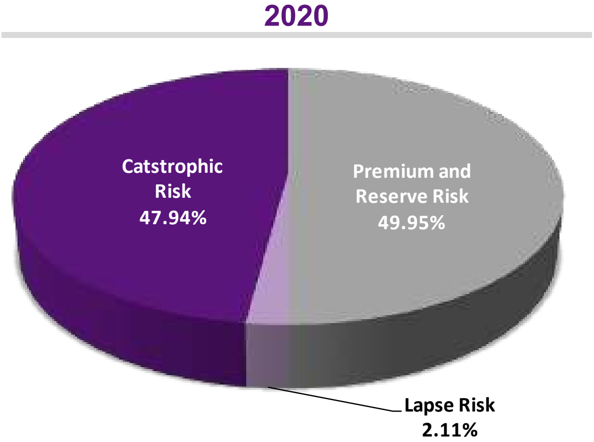
- Premium and reserve risk: the risk of loss or of adverse change in the value of insurance liabilities, due to fluctuations in relation to the timing, frequency and severity of insured events, and in the timing and amount of claim settlements.

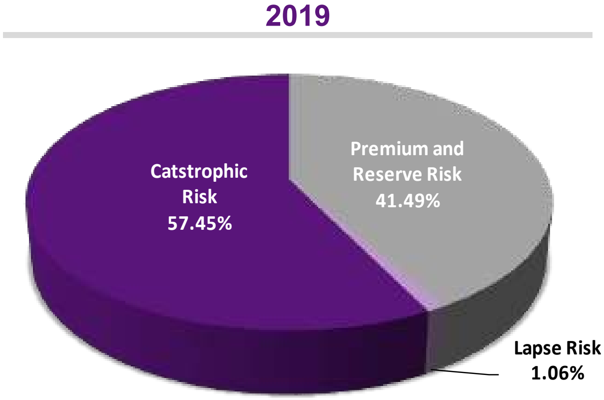
- Lapse risk: as the expected benefits included in future premiums of existing insurance contracts are recognised in the eligible own funds of insurance and reinsurance entities, the non-life underwriting risk module should take into account the downside risk associated with insurance and reinsurance contracts..

- 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 57.55% (53.18% in 2019) of the total SCR before diversification and taking into account the capacity of loss absorption.

The composition of the underwriting risk is detailed below:





The module with the largest impact in 2020 is premium and reserve risk, which accounts for 49.95% of the underwriting risk SCR before diversification (41.49% in 2019).

This is followed by catastrophe risk, which accounts for 47.94% (57.45% in 2019). The most significant component of this module is recession risk, which generates a capital charge of 100% of the expected premium in the next 12 months after the mitigating effect of reinsurance agreements. Exposure to downside risk is residual at 2.11% of the underwriting SCR (1.06% in 2019).

C.1.2 Risk management and mitigation techniques

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

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

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

- **Sufficient reserves or technical provisions set aside**:

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

- **Reinsurance utilization**:

  The Solunion Group uses the reinsurance technique in order to balance the risk distribution contained in its portfolio and optimise its capital through: (i) an increase in its underwriting capacity and available capital, (ii) stabilisation of its financial results and reduction of its losses, and (iii) protection of its equity.

  At December 2020, the Company had reinsured 89.64 per cent of its premiums and 89.19 per cent of its technical provisions.

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

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

To mitigate catastrophic risk specific reinsurance coverage is contracted. Additionally, there are reports that define the catastrophic exposure to which the Group is exposed, to estimate the scope of losses should a catastrophic event occur. Catastrophic risk underwriting is done with based on the above information, the economic capital available, as well as the reinsurance mitigation capacity contracted.

Through its Reinsurance Area, the Group is responsible for correctly identifying the appropriate level of risk transfer for its previously-defined risk limits, and for defining/designing the types of reinsurance agreements based on its risk profile.

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

- **Setting a sufficient premium**:

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

C.1.3 Concentration

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

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

C.1.4 Transfer of risk to special purpose entities

The Solunion Group does not transfer underwriting risks to special purpose entities.

C.2 Market Risk

C.2.1 Exposure to the risk

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

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

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

	2020		2019	
Asset category	**Market value**	**Portfolio composition**	**Market value**	**Portfolio composition**
Real estate investments	**44**	**0.1%**	**44**	**0.1%**
Financial Investments	**79,041**	**99.9%**	**79,553**	**99.9%**
Fixed-income securities	76,680	97.0%	77,560	97.5%
Equity securities and investment funds	2,361	3.0%	1,993	2.5%
TOTAL	**79,085**		**79,597**	

Data in thousands of euros

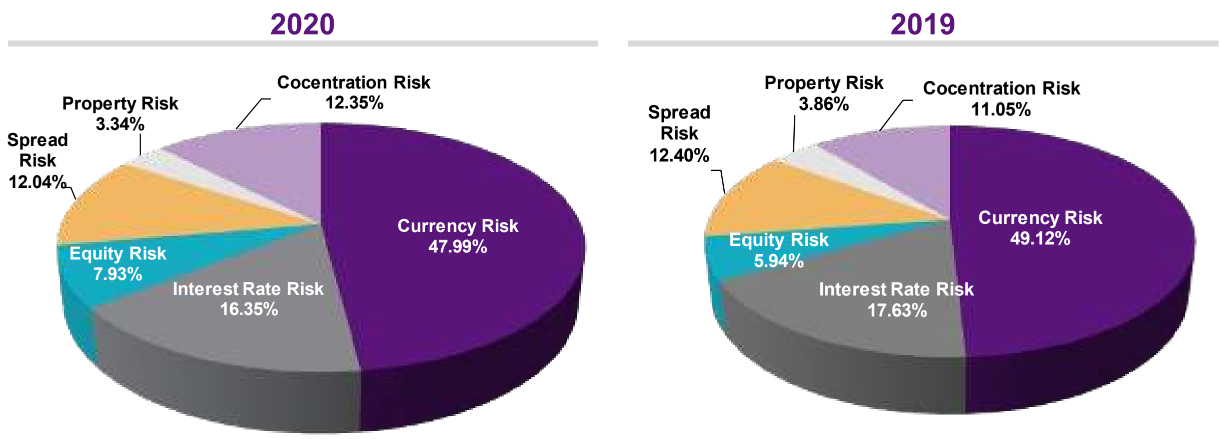
As of 31st December 2020 and 2019, 99.9% of all Group investments were financial investments which are composed of fixed-income investments.

The submodels existing within the investment risk to which the Group is exposed are listed below:

- Equity risk: sensitivity of the value of the assets, liabilities, and financial instruments to changes in the level or the volatility of market prices of the shares.
- Concentration risk: additional risks to which an insurance or reinsurance company is exposed because 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 14.83% (19.21% in 2019) of the total SCR before diversification and taking into account the loss absorption capacity.

The composition of the market risk is detailed below:



The assets and liabilities denominated in foreign currency as of 31st December 2020 and 2019 are as shown below:

Currency	Assets		Liabilities		Net Total	
	2020	2019	2020	2019	2020	2019
Euros	327,117	306,839	234,477	220,802	92,640	86,036
US dollar	34,517	48,520	35,973	49,382	(1,456)	(862)
Mexican peso	44,263	18,271	36,445	9,289	7,818	8,983
Chilean peso	32,107	36,561	24,504	25,911	7,603	10,650
Argentinean peso	676	737	167	258	509	479
Colombian peso	35,643	34,823	25,023	23,630	10,620	11,193
Sterling pound	179	179	(7)	(7)	186	186
Peruvian sol	1	8	-	-	1	8
Other currencies	738	-	271	-	467	-
TOTAL	**475,241**	**445,938**	**356,853**	**329,265**	**118,388**	**116,673**

Data in thousands of euros

C.2.2 Risk management and mitigation techniques

The main method Solunion Group uses to mitigate market risk is following the Principle of Prudence and it establishes certain concentration limits when making investments, i.e. Risk Appetite, which is defined and approved by the Board of Directors.

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

Additionally, for each risk submodel:

- Share investments are subject to the maximum limit of the investment portfolio, and issuer limits.
- Spread and concentration risks are mitigated by the high proportion of fixed income securities with credit ratings classified as degree of investment, and through issuer diversification.
- The Investment Policy establishes an asset exposure limit for currency coverage in order to minimise foreign currency risk. It also looks for a correlation between the currencies in which the assets and liabilities are denominated.

There is a list of assets in which it is permitted to invest, others that are not permitted and others for which prior approval is required from the Investment Committee.

- The modified duration is an interest rate risk management variable, which is conditional on the limits established and approved by the controlling Company's Board of Directors for portfolios with free management.

C.2.3 Concentration

The greatest concentration of investments is the European Public Debt.

C.3 Credit risk

C.3.1 Exposure to the risk

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

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

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

The Credit Risk is included under the SCR Standard Formula calculation in the section C.4.

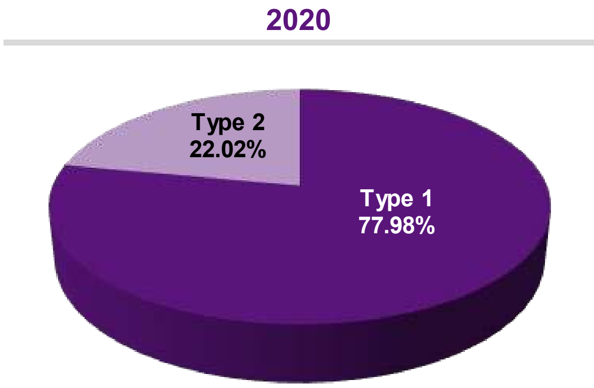
- Such as spread and concentration risk, under Market Risk.
- Such as credit risk or counterparty noncompliance. This module distinguishes between two types of exposure:
    - Type 1 exposure: includes reinsurance contracts, cash in banks, among others, in which entities generally have credit ratings.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

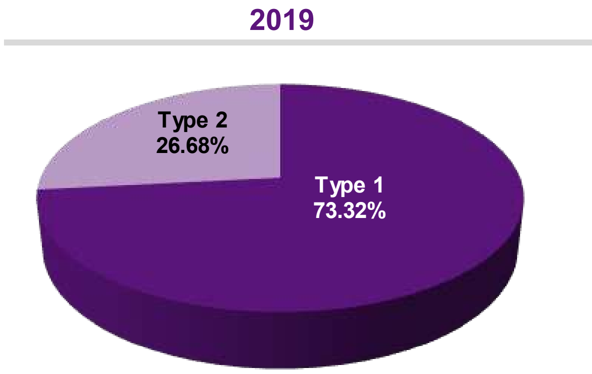
The following is a table reflecting the exposure to Credit Risk at 31st December 2020 and 2019:

	2020	2019
Type 1 Expositions	256,530	224,925
Type 2 Expositions	15,972	17,437
TOTAL	272,502	242,362

Data in thousands of euros

The SCR Credit Risk entails 17.22% (17.30% in 2019) 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.

Regarding the Credit Risk of investments, the Solunion policy is based on applying prudence criteria based on the solvency of the issuer. Investments in fixed income are subject to limits by issuer and a high degree of geographical correspondence is sought between the issuers of the assets and the commitments.

In the case of reinsurance counterparties, the Group's strategy is to transfer business to reinsurers of proven financial capacity. The transfer of Solunion is aimed primarily at reinsurers belonging to the shareholder groups, Euler Hermes and MAPFRE, and aims to benefit from its extensive capacity and high credit quality.

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

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

C.3.3 Concentration

In relation to reinsurance, the highest concentration is found in reinsurers of the group. The strong financial credentials of these organisations are very important in the current times of financial stress arising from COVID-19.

C.4 Liquidity risk

C.4.1 Exposure to the risk

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

Liquidity Risk is not included in the calculation of the SCR of the standard formula. Some liquidity stress was observed at the initial stage of the COVID-19 propagation, which was reduced by the rapid reaction of central banks providing liquidity to the system. 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. However, in the current environment of uncertainty, appropriate management of this risk is even more necessary.

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

At 31st December 2020, the balance of cash and cash equivalents amounted to EUR 10,657 thousand (EUR 7,179 thousand in the previous year), which is equivalent to 11.38% of total financial investments and cash equivalents (7.82% in 2019).

Additionally, the majority of fixed-income investments have appropriate credit ratings and are traded on organised a financial market, which grants a great deal of leeway for action in the face of potential liquidity tensions. The Group is confident that its liquidity position will allow it to withstand the liquidity pressures that may arise in the coming months due to COVID-19.

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

C.4.2 Risk 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.4.3 Expected benefits included in future premiums

In calculating the best estimate of the technical provisions, the expected benefits included in the future premiums have not been taken into account (as a lower value of the best estimate in case of be positive or higher value in case of expected losses).

The Group does not consider future business in this line due to the characteristics of its business, since nearly all its portfolio should be subject to a detailed analyses of the risk limits granted under the contact.

In calculating the best estimate for the Suretyship line of business of technical provisions, the expected benefits included in future premiums have been taken into account (as a lower value of the best estimate in case of be positive or higher value in case of expected losses). At 31st December 2020, the amount of these expected benefits was EUR 459 thousand, gross of reinsurance.

C.5 Operational risk

C.5.1 Exposure to the risk

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

The 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 10.40% (10.31% in 2019) of the total SCR (before diversification). Below is a table reflecting the results based on earned premiums and technical provisions:

	2020	2019
Operational risk module	6,496	5,718
30% BSCR	13,739	11,879
Maximum premiums and provisions	6,496	5,718
Accrued premiums risk	6,496	5,718
Technical provisions risk	5,748	5,620

Data in thousands of euros

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

C.5.2 Risk management and mitigation techniques

The identification and evaluation of operational risks and business processes are managed by the Risk Management Area of each of the companies, which create Risk Maps for the say, in which analyses on the importance and probability of occurrence of different risks are performed.

The analysis is carried out through a computer platform dedicated to the evaluation, identification and monitoring of the risks that exist in the whole business.

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

The operational risk management model is based on a qualitative dynamic analysis of the Group's processes, so that each area/department manager identifies and evaluates the potential risks affecting business processes behind the scenes. Product development, Issuance, Claims/Benefits, Administration, Commercial Activities, People and Sustainability, Commissions, Coinsurance/Reinsurance, Technical reserves, Investments, IT systems, and Customer service.

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

C.5.3 Concentration

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

C.6 Other material risks

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

- **Coronavirus pandemic (COVID-19)**

  The outbreak and spread of the coronavirus pandemic (COVID-19) during 2020 has led to a historic contraction in global economic activity. In the insurance market, the containment and mobility restriction measures have had a significant effect on the volume of business and an uneven impact on claims depending on the line of business. Also relevant were the expenses arising from measures to ensure the protection of staff against the COVID-19 pandemic and to ensure business continuity.

  From a financial perspective, the pandemic triggered episodes of marked volatility in the financial markets and a sharp depreciation of currencies in several emerging countries. The situation has been accompanied by monetary stimulus measures promoted by central banks that have led to lower interest rates and increased government borrowing to cope with the extra spending caused by the health crisis. In this regard, progress on the vaccine against the coronavirus improves the future outlook but remains uncertain.

  Under these circumstances, the Solunion Group has developed a set of actions aimed at minimizing the impact of this crisis, as described below:

  - Teleworking system, the Solunion Group had already implemented a teleworking system, called SOLFLEX, which allowed it immediately, and even before the declaration of a state of alarm by the Spanish Government or similar situations in other countries, to close its offices and have all its employees working from their homes, which made it easier to maintain Solunion's level of service without any detriment to policyholders.

  - -Creation of an Internal Corporate Crisis Committee to periodically monitor and take decisions on measures to deal with the crisis.

  - Review of the risk underwriting policy: the Group has progressively reduced the risk appetite in all Solunion territories. These actions have been aligned and coordinated with the shareholder Euler Hermes, so that the risks requested by clients in any country in the world have seen the average coverage granted decrease since the beginning of 2020. All major and sensitive risks have also been reviewed to adapt the risk portfolio to the new situation. This year saw a significant reduction in exposure, as well as an acceleration of the risk review plan. These actions are under permanent surveillance and a proactive review of risk policies and portfolio is expected to continue in the coming quarters.

- **Cybersecurity risk**

  Cybersecurity risk is the risk relating to security in the use of information and communication technologies and includes intentional risks originating and caused in cyberspace whose manifestation may compromise the confidentiality, integrity, and availability of the information and the systems that store, process, and/or transmit it.

  Solunion develops security management in conjunction with MAPFRE's Corporate Security and Environment Department (DISMA). As of the date of this Report, Solunion has not recorded any significant information security incidents.

  The Company's Security Management continuously monitors the measures implemented to mitigate these risks and reminds its employees to follow good security practices.

Since 2020, Solunion has taken out a Cyber Risk Insurance Policy to cover claims arising from security incidents, privacy breaches, and cyber extortion.

- **Technical provisions recognition risk**

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

  The sufficiency of technical provisions is one of the fundamental factors to maintain Solunion Group´s solvency and the basis for meeting the obligations acquired with the insurance policyholders.

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

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

  Calculations are subject to independent review on at least an annual basis.

- **Business continuity risk**

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

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

  To handle this risk, business continuity plans are developed, which include a sufficient set of procedures to adequately respond, from the moment in which the disaster is reported until return to normalcy.

  For this, the areas, internal departments, suppliers and services of each company of the Group are taken into account and must be updated and revised continuously to include possible significant changes.

- **Compliance risk**

  Compliance risk includes potential losses due to noncompliance with current legislation or regulatory requirements, exposure to potential losses due to the lack of integrity of inaccuracy of documentation on specific transactions or the lack of signatures.

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

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

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

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

- **Reputational risk**

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

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

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

  The following measures are carried out to mitigate the risk:

  - In all areas of activity of Solunion Group, continue promoting ethical and socially responsible behaviour to reflect the principles that guide the actions of all employees, brokers and suppliers.
  - Involve all employees, brokers and suppliers in the importance of preserving the Group's good image.
  - Keep the crisis and reputational risk management procedures up to date.

- **Outsourcing risk**

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

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

C.7 Any other information

C.7.1 The most significant concentrations of risk.

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

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

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

C.7.2 Sensitivity analysis

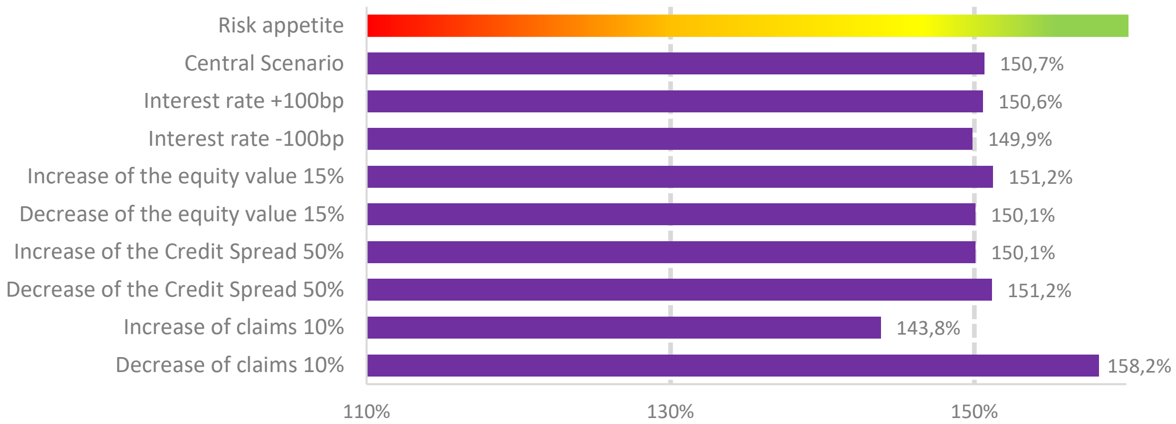
The purpose of the sensitivity scenarios is to analyze the impact on the solvency ratio of changes in the risk profile. To analyze its impact in terms of the solvency ratio, the sensitivities are carried out in both directions, that is, by increasing and decreasing the exposure to risk.

The method used to obtain the results consists of:

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

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

- 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 Solunion, 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 Solunion and consequently, of the requirements of capital by equity risk.
- Effect of variations in the credit spread: it implies variations in the shock applied in the calculation of spread risk and consequently the capital requirements for this risk.
- Effects on claims, these variations suppose variations in the value of the gross and ceded technical provisions.



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

- Increase of claims: this sensitivity causes a decrease in the result due to the increase in the volume of technical provisions. This impact means a decrease in eligible own funds and an increase in the required solvency capital, which harms the solvency ratio.

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

C.7.3 Other matters

Off-balance-sheet positions

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

Transfer of risk to special-purpose entities

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

D. Valuation for Solvency Purposes

D.1. Assets

Information on asset valuation

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

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

It is important to consider that the model balance sheet at 31st December 2020 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 2020 that has been reported in template S.02.01.02 of the Appendix.

	2020		
	Accounting Value	**Valuation changes**	**Solvency II Value**
Goodwill	**37.733**	**(37.733)**	**-**
Deferred acquisition costs	**20.775**	**(20.775)**	**-**
Intangible assets	**19.624**	**(19.624)**	**-**
Deferred tax assets	**15.468**	**10.676**	**26.144**
Assets and rights to reimbursement for long-term remuneration to the personnel	**4.256**	**-**	**4.256**
Property, plant & equipment held for own use	**3.534**	**349**	**3.883**
Investments (other than assets that are held for "index-linked" and "unit-linked" funds)	**79.078**	**8**	**79.086**
Property (other than for own use)	**36**	8	**44**
Bonds	**76.680**	-	**76.680**
Public debt	**52.630**	-	**52.630**
Private debt	**24.051**	-	**24.051**
Investment Founds	**2.361**	-	**2.361**
Insurance other than life insurance, and health similar to insurance other than life insurance	**215.138**	**(21.132)**	**194.006**

	2020		
	Accounting Value	Valuation changes	Solvency II Value
Deposits established for accepted reinsurance	435	-	435
Credits for direct insurance and coinsurance operations	44.452	-	44.452
Reinsurance operation credits	14.613	-	14.613
Other credits	13.973	-	13.973
Cash and cash equivalents	10.657	-	10.657
Any other assets, not elsewhere shown	2.258	-	2.258
TOTAL ASSETS	481.994	(88.231)	393.763

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 31st December 2020. 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 Group as of 31st December 2020.

D.1.1. Goodwill

In accordance with Solvency II criteria, goodwill was valued at zero, in accordance with Article 12 of Delegated Regulation 2015/035 dated 10th October 2014. Unlike under the Solvency II regulation, according to the IFRS regulations, goodwill is value at its cost adjusted in line with any possible impairment. The above goodwill represents the excess amount paid during a business combination for the fair value of identifiable assets acquired and the liabilities and contingencies assumed.

D.1.2. Deferred acquisition costs

For purposes related to the Solvency II balance sheet, “Deferred acquisition costs” are presented at 0 value, since the cash flows considered during the valuation of the technical provisions includes the total amount of expenses associated to the evaluated insurance contracts, including those arising from acquisition costs. Unlike the presentation that is made in the regulation applicable to the Balance sheet under IFRS are disaggregated in this heading.

D.1.3. Intangible assets

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

The Group recognises software under this heading, as well as, the agreement signed with MAPFRE Global Risks, Compañía Internacional de Seguros y Reaseguros, S.A. in the month of December 2017, under which it undertakes to develop the necessary actions to ensure that its clients of the Suretyship line of business subscribe new insurance policies with Solunion as of 1st January 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 6th March), the rights derived from said agreement have been assumed by MAPFRE España Compañía de Seguros y Reaseguros, Sociedad Anónima. At the end of 2020, the amount of this intangible assets reduced by its accumulated amortization is EUR 6,997 thousand.

For this heading, which it considers does not meet the conditions established in the above Solvency regulations for market value recognition, and therefore they are presented at a 0 value.

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

D.1.4. Deferred tax assets

According to the Solvency II regulations, the deferred taxes corresponding to all the assets and liabilities that are recognized for tax or Solvency purposes are recognized and valued. Deferred taxes are measured under Solvency II as the difference between the values assigned to assets and liabilities for solvency purposes, and their assigned values as recognised and valued for tax purposes.

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

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

- Deferred acquisition costs
- Intangible assets
- Risk Margin

D.1.5. Pension benefit surplus

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

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

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

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

The difference in valuation between the two criteria has meant the recognition of a higher value of the properties in the Balance sheet under Solvency II for an amount of EUR 349 thousand.

D.1.7. Investments (other than assets held for "index-linked" and "unit-linked" contracts)

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

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

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

Level 1 corresponds to unadjusted quoted prices on active markets. Level 2 uses observable data, or listed prices for instruments which are similar to those being appraised, or other valuation techniques in which all the significant variables are based on observable market data; Level 3 uses specific variables for each case. Nonetheless, 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 27th March, on valuation standards of property, the Company requests the appraisals before two years have elapsed since the previous valuation and, regardless of the age of the previous valuation, whenever a significant alteration in the value of the same could have taken place.

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

The difference in valuation criteria between Solvency II and IFRS represented the recognition of the higher amount of properties on the Solvency II balance sheet in the amount of EUR 7 thousand. This estimate is based on appraisal reports made by independent experts.

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

Bonds are classified as follows:

- Public debt:

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

- Private debt:

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

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

D.1.7.3 Investment Funds

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

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

D.1.8. Reinsurance recoverables

For the purposes of the Solvency II Economic Balance Sheet, the calculation of the reinsurance recoverables amounts is in accordance with the calculation of the technical provisions for the direct business and accepted reinsurance, 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 uncertainly, which are mainly the following:

- Development of direct business and accepted reinsurance 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 IFRS, technical provisions for cessions to reinsurers are listed under assets on the balance sheet, and are calculated in accordance with the reinsurance contracts written and using the same criteria applied to direct business and 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 uncertainly, which are mainly the following:

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

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

D.1.10. Insurance and intermediaries receivables

In accordance with the criteria of Solvency II economic balance sheet, when determining the value of loans with policyholders and intermediaries, the time effect implicit in the loans is irrelevant. The obligatory estimates of possible loan default with insurers related to bills pending payment are considered to correctly reflect their economic value, which only include rights related to invoices effectively issued and presented for collection.

As outlined in the section 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.

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

D.1.11. Reinsurance receivables

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

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

The value of potential reinsurance collections is directly linked to estimates and projections for future cash flows which might be subject to a number of factors of uncertainly, which are mainly related to the possibility of meeting the counterparty's future payment commitments.

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

D.1.12. Receivables (trade, not insurance)

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

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

D.1.13 Cash and Cash equivalents

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

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

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

D.1.14. Any other assets, not elsewhere shown

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

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

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

D.1.15. Additional information

There is no other additional information to be highlighted.

D.2. Technical provisions

Information on technical provision valuation

Following are the technical provision valuations using Solvency II criteria (hereinafter, “Solvency II Provisions”), including qualitative explanations for the main differences arising from their valuations using Solvency II and those used in preparing the financial statements based on IFRS, which establishes the applicable criteria to be applied (hereinafter, “Accounting provisions” - under “Accounting value”) at 31st December 2020.

	2020		
	Accounting Value	**Valuation changes**	**Solvency II Value**
Technical provisions calculated as a whole	-	-	-
Best Estimate (BE)	-	-	216,522
Risk margin (RM)	-	-	2,305
Other technical provisions	-	-	-
TOTAL TECHNICAL PROVISIONS	241,201	(22,374)	218,827

Data in thousands of euros

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

In general terms, the main difference between the two valuation methods is the criteria framework under which each regulation falls. While under Solvency II technical provisions are measured using market economic criteria, for financial statements, annual technical provisions are calculated based on accounting standards. The most significant differences were as follows.

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

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

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

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

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

D.2.1. Best estimate and risk margin

Best estimate

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

- 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.

As a conclusion, 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.

- <u>Best estimate of the premiums Provision</u>

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 Group commitments to renew (this is the case for tacit renewals or those for pluri-annual policies with annual guaranteed premium payments). This calculation includes the future performance of policyholders based on the applications of an estimated cancellation probability.
    - Expected claims corresponding to future premiums. The same methodologies for claims in force may be used.
    - Expenses attributable to future premiums (charged expense-to-premium ratio applying future premiums): acquisition expenses (including commissions), administration, chargeable to services, investment expenses, as well as other technical expenses.

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

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

Contract limits

As outlined in the Solvency II Directive, 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/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 companies of the Group after the date during which 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 Contrat:
  - 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 present the following differences with respect to those calculated according to the requirements required on the Financial Statements:

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

Risk margin

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

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

To calculate the risk margin, the hypothesis of transferring the best estimate for the Group's current business to a theoretical insurance agency known as reference unit (hereafter RU) the SCR of which is called SCR_{RU}.

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

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

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

Where:

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

There are several simplifications for calculating the risk margin:

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

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

Degree of uncertainty regarding to the amount of technical provisions

The value of the technical provisions is directly linked to the estimations and projections for future cash flows which might be subject to a number of factors of uncertainly, which are mainly the following:

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

The first three factors are generally estimated based on expert opinions, or using market data and, their derivation and impacts on technical provisions being duly documented.

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

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

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

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

- Economic hypotheses, which are contrasted against available financial and macroeconomic indicators which mainly include:
  - Interest rate structure broken down by the commitment currencies.
  - Exchange rates.
  - Market trends and financial variables.
- Non-economic hypotheses, which are mainly obtained from generally-available data based on the Group or external sector/market sources:
  - Realistic administration, investment, acquisition, etc. expenses which are incurred throughout the duration of the contracts.
  - Portfolio lapses.
  - The frequency and severity of claims based on historical data.
  - Legislative changes.

Additionally, it is worth noting that under 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 period to calculate their best estimates, including a probability analysis of when policyholders might exercise certain rights included in their insurance policies.

The Group employs an effective Actuarial Function which guarantees the appropriateness and coherence of the underlying methodologies and models used, as well as the hypotheses used in these calculations.

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

The Solunion Group has not used the transitional measures for managing long-term guarantees established in Delegated Regulation 2015/035 dated 10th 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.22.01.22 regarding the impact on long-term guarantee and transitional measures is not included in accordance with the information included in Appendix I of 30th April 2014 on technical specifications.

D.2.2.a. Marriage adjustment

Solunion has not used this adjustment.

D.2.2.b. Volatility adjustment

Solunion has not used this adjustment

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

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

D.2.2.d. Transitory deduction on technical provisions

Solunion has not carried out this transitory deduction.

D.2.3. Significant changes in hypotheses used when calculating technical provisions

The comparative figures in the Consolidated Annual Accounts have been reexpressed due to changes in the valuation standards, required from the Resolution of the General Directorate of Insurance and Pension Funds ("DGSFP") of 15th October 2020, which concluded the inspection of the controlling Company, that have been taken into account when preparing the annual accounts for the financial year 2020.

The changes accepted in the valuation standards correspond mainly to the provision for unearned premiums, the technical provision for claims pending declaration and the provision for profit sharing and returns. The main reason for the change is because the DGSFP states that "*the distribution of claims is not uniform as it does not correspond exactly to the period of validity of the policy in which the sales made by the client are covered by credit insurance […]. The period of coverage of the aforementioned sales extends until the expiration of the obligation of the invoices corresponding to such sales. Given the deferral of payment that the insured grants to their clients, the expiration of part of the invoices will occur after the end of the period in which the sales made are covered. Therefore, part of the non-payment claims will occur after said completion, being covered as they correspond to sales covered by the policy*". The Company considered within the provision for benefits of claims that occurred and not declared, claims in which the invoice expiration date was after the policy period. This means not having a provision for unearned premiums to cover claims derived from non-payment of invoices produced after the end of the policy period, which implies an insufficiency of the aforementioned provision, which is compensated by the excess of sufficiency of the provision for benefits of incurred and undeclared claims..

D.3. Other liabilities

Below are detailed the valuations of other liabilities for the purposes of Solvency II, as well as the qualitative explanations of the main valuation differences between the Solvency II criteria and those used to prepare the financial statements (column "Book Value") as of 31st December 2020. The valuation corresponding to those headings that do not differ between the IFRS and Solvency II criteria is detailed in the financial statements of the Group of 2019.

	2020		
	Accounting Value	Valuation changes	Solvency II Value
Total technical provisions	241,201	(22,374)	218,827
Provisions other than technical provisions	1,434	-	1,434
Pension and similar obligations provision	4,256	-	4,256
Deposits received on ceded reinsurance	3,105	-	3,105
Deferred tax liabilities	6,753	9,454	16,207
Financial liabilities other than debt to credit institutions	1,998	-	1,998
Debts for insurance and coinsurance operations	24,094	-	24,094
Reinsurance operation debts	15,193	-	15,193
Other debts and payables	24,334	-	24,334
Any other liabilities, not elsewhere shown	41,238	(33,913)	7,325
TOTAL LIABILITIES	363,606	(46,833)	316,773
SURPLUS OF ASSETS VS. LIABILITIES	118,388	(41,399)	76,990

Data in thousands of euros

D.3.1. Provisions other than technical provisions

The value of the liabilities is directly linked to estimations and projections for future cash flows, which might be subject to a number of factors of uncertainly, which are mainly the following:

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

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

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

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

D.3.2. Pension benefit obligations

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

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

D.3.3. Deposits from reinsurers

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

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

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

D.3.4 Deferred tax liabilities

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

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

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

D.3.5 Financial liabilities other than debt to credit institutions

Other financial liabilities other than debts with credit institutions are valued as the real expected value of future flows discounted at the risk-free interest rate at the valuation date, increased by the own risk differential (DVA) that exists at beginning of the operation, so that subsequent fluctuations in said differential have no impact on the valuation. As of 31st December 2020, IFRS and Solvency II valuations coincide; therefore, there were no valuation differences.

This item collects financial liabilities linked to “Rental Right to use”.

D.3.6. Insurance & intermediaries payables

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

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

D.3.7. Reinsurance payables

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

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

D.3.8. Payables (trade, not insurance)

This section includes other payables unrelated to the insurance activity.

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

D.3.9. Any other liabilities, not elsewhere shown

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

The difference between the amounts shown in both valuations is basically due to the elimination under Solvency II of the commissions and other granted accrued reinsurance expenses that are contemplated during the valuation of technical provisions, as they include the entirety of the associated expenses amounting to EUR 33,913 thousand. Under IFRS regulations, these items fall under this heading.

D.3.10. Additional information

There is no other significant information to be highlighted.

D.4. Alternative methods for valuation

The Solunion Group does not have material assets for which alternative valuation methods must be used and does not use alternative valuation methods for their liabilities.

D.5. Any other information

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

There is no other significant information to be highlighted.

E. Capital management

E.1. Own Funds

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

The Solunion Group has a Capital Management Policy whose last revision was approved by the Board of Directors on 29th September 2020.

The principal objectives of this Policy are the following:

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

The Medium-term Capital Management Plan takes into consideration at least the following elements

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

The Risk Management and Internal Control Area submit the medium-term Capital Management Plan to the Board of Directors for approval. The Plan is part of the ORSA Report. The projected period covers five years, and is aligned with the budget preparation approach.

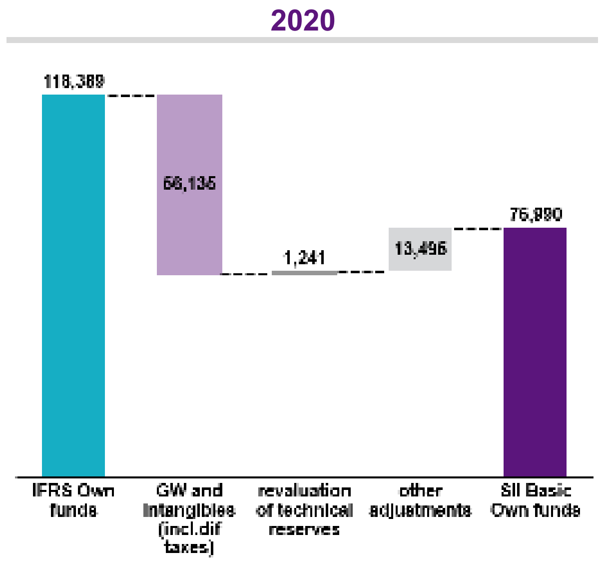
In fiscal year 2020 there have been no significant changes regarding the objectives, policies and processes used for the management of own funds.

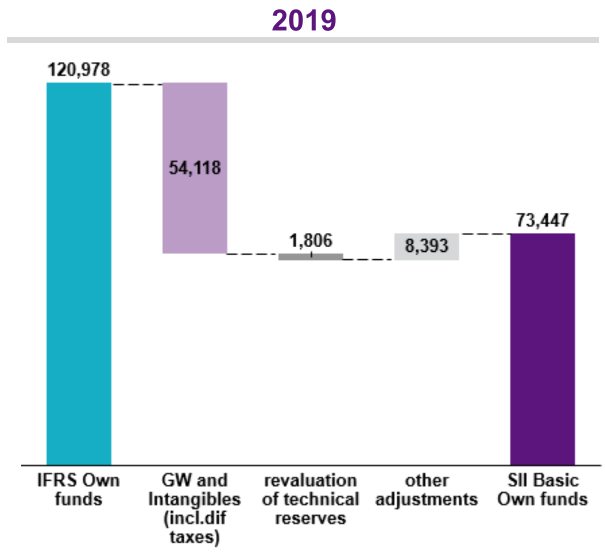
E.1.2 Structure, amount, and quality of own funds

Structure, amount, and quality of own funds

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

Below is a comparison of the Solunion Group's own funds at the end of 2020 and 2019 and an explanation of the origin of the changes in the value of the Solvency II own funds:





Data in thousands of euros

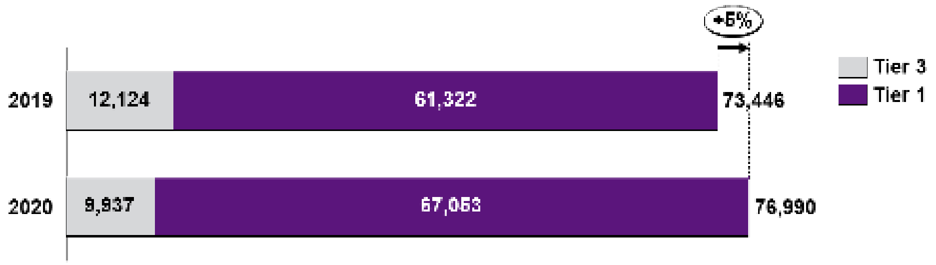
The Changes in Goodwill and intangible assets are higher those produced in 2019, this increase was generated by the amortization of Intangible Assets.

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

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

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

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



Data in thousands of euros

As of 31st December 2020, the Group has its not restricted Tier 1 own basic funds by an amount of EUR 67,053 thousand (EUR 61,322 thousand in 2019). These own funds have the maximum availability for absorbing losses. They are comprised of:

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

Additionally, at 31st December 2020 the Solunion Group has Tier 3 basic own funds for an amount of EUR 9,937 thousand (EUR 12,124 thousand in 2019) composed of net deferred taxes assets, that arise from the valuation of the balance according to Solvency II criteria.

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

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

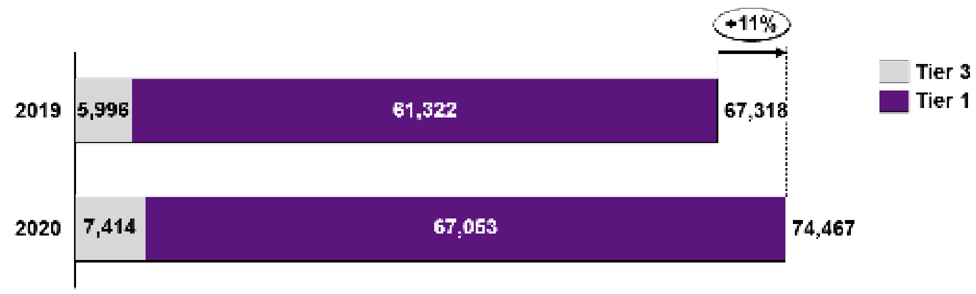
The SCR corresponds to the own funds that the Group should have to limit the probability of ruin to one case per 200 years, or what is the same, that the Group is still in a position to fulfil with its obligations against the policyholders and beneficiaries of insurance in the following twelve months,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

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

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

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

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



Data in thousands of euros

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

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

The Tier 1 eligible own funds are equivalent to the basic ones. However, those at Tier 3 are equivalent to 15% of the regulatory capital, so the resulting admissible amount to cover the SCR is EUR 74,467 thousand (EUR 67,318 thousand in 2019), 11% higher than the previous year.

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

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

Given the classification of the Group's own funds, the admissible amount to cover the MCR is EUR 67,053 thousand (EUR 61,322 thousand in 2019). The following table shows the detail:

Data in thousands of euros

<u>Availability, subordination and duration of significant Own Fund items used to evaluate their quality</u>

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

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

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

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

E.1.3 Information on deferred taxes

<u>Management of deferred tax assets and liabilities</u>

By Article 15 of Delegated Regulation (EU) 2015/35, the valuation of deferred taxes results from the difference between the values assigned to the assets and liabilities recognised and measured by the criteria set out in Solvency II and their valuation for tax purposes.

In addition, a positive value is only assigned to those deferred tax assets where it is probable that there will be a future taxable profit against which the deferred tax asset can be utilised, taking into account the restrictions on the timing of offsetting.

The main balance sheet items giving rise to deferred tax assets in Solunion are as follows:

	Solvency II
DEFERRED TAX ASSETS	**26.144**
Deferred tax assets: Intangible assets	4.906
Deferred tax assets: Prepaid commissions and other acquisition costs	5.194
Deferred tax assets: Risk Margin	576
Accounting deferred tax assets	15.468

Data in thousands of euros

	Solvency II
DEFERRED TAX LIABILITIES	**16.207**
Deferred tax liabilities: Property, plant & equipment held for own use	87
Deferred tax liabilities: Property (other than for own use)	2
Deferred tax liabilities: Non-life technical provisions (Excluding health)	887
Deferred tax liabilities: other other liabilities	8.478
Accounting deferred tax liabilities	6.753

Data in thousands of euros

Solunion will adhere to the tax bases projected in the Business Plan approved by the Board of Directors to recognise deferred tax assets over deferred tax liabilities in the Economic Balance Sheet for Solvency II purposes.

The value of deferred assets included in the Solvency II economic balance sheet is EUR 26,144 thousand and EUR 16,207 thousand corresponds to deferred tax liabilities.

As of 31st December 2020, the Group has Tier 3 Basic Own Funds of EUR 9,937 thousand (EUR 12,124 thousand in 2019), consisting of net deferred taxes, which arise from the balance sheet valuation according to Solvency II criteria.

Of the net deferred tax assets, EUR 7,414 thousand have been recognised as eligible own funds, taking into account the eligibility limits set out in Article 82 of Delegated Regulation (EU) 2015/35.

E.1.4 Other information

Essential items on the Reconciliation Reserve

The amount of the Solunion Group's Reconciliation Reserve is EUR -8,746 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:

	2020	2019
Surplus of assets vs. liabilities	76,990	73,446
Treasury shares (included as assets on the balance sheet)	-	-
Dividends, distributions and foreseen costs	-	-
Other elements of basic own funds	85,736	92,796
Adjustments for own fund items restricted by FDL and CSAC	-	-
Total reconciliation reserves	**(8,746)**	**(19,350)**

Data in thousands of euros

Own Funds issued and instruments redeemed

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

Special purpose entities that are members of the Group

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

Transitional measures

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

E.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 by the Solvency II standard formula methodology as of 31st December 2020, that is listed in Section C Risk Profile. Additionally, figure S.25.01.22 of the Appendix contain more detailed information on the regulatory capitals.

The Consolidated Group's total SCR included in Appendix S.25.01.22 amounts to EUR 49,429 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.

As detailed in Section C, the risk profile of the Solunion Group is mainly affected by the non-life underwriting risk, to which the premiums and reserve risk mainly contribute.

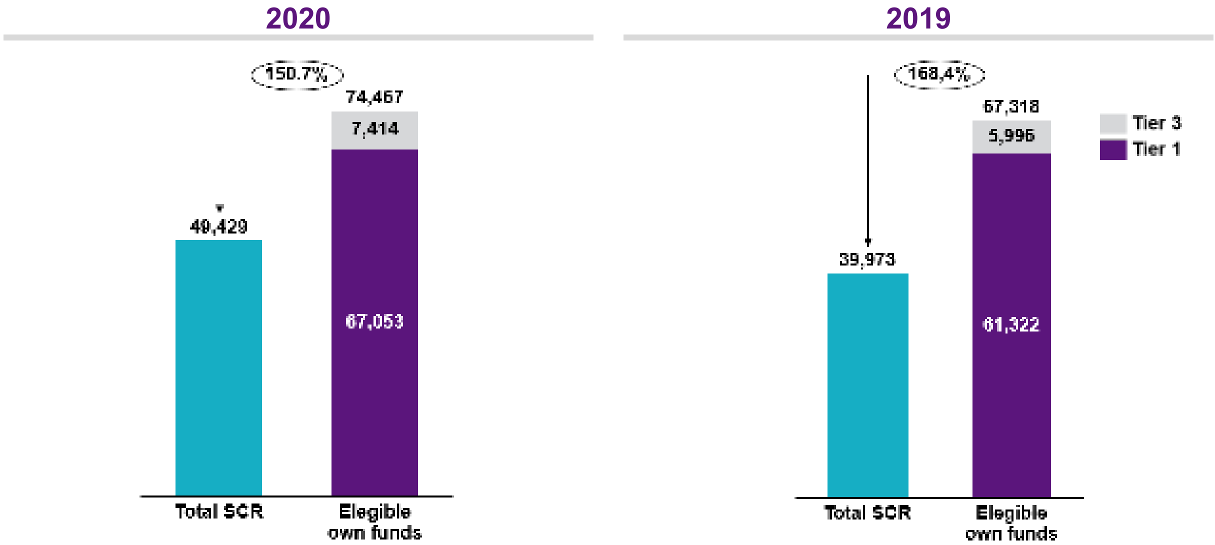
Secondly, there is the credit risk, which is mainly generated by the Group's high exposure in reinsurance agreements, would be located. The level of exposure of reinsurance recoverable is affected by the high level of assignment defined in the reinsurance structure.

In third and last place would be market risk Market risk, in which the Exchange Rate risk is the highest for the companies that the Group has in Latin America and Operational risk.

As of December 2020, the amount of the SCR is EUR 49,429 thousand, which implies an increase in the capital charge of EUR 9,456 thousand; this is mainly due to the increase in Non-Life Underwriting risk, which, as indicate above, is very affected by the Premiums and Reserve risk.

For the calculation of the SCR no simplifications or specific parameters have been used.

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



Data in thousands of euros

This ratio amounts to 150.7%, which means that it is within the risk appetite safety zone established for the Group and approved by the Board of Directors.

Data used by the Group in calculation of the MCR Solvency

The Solunion Group calculated Minimum Solvency Capital Requirements (MCR) as indicated in Delegated Regulation 2015/035, Article 248. This amount is the capital amount that guarantees the minimum level of security, under which financial resources should never drop and has a value of EUR 12,357 thousand at the end of 2020.

To obtain the MCR, the linear MCR should be calculated, the value of which is EUR 6,468 thousand. It was obtained applying the factors corresponding for each business line to the different elements used in their calculation:

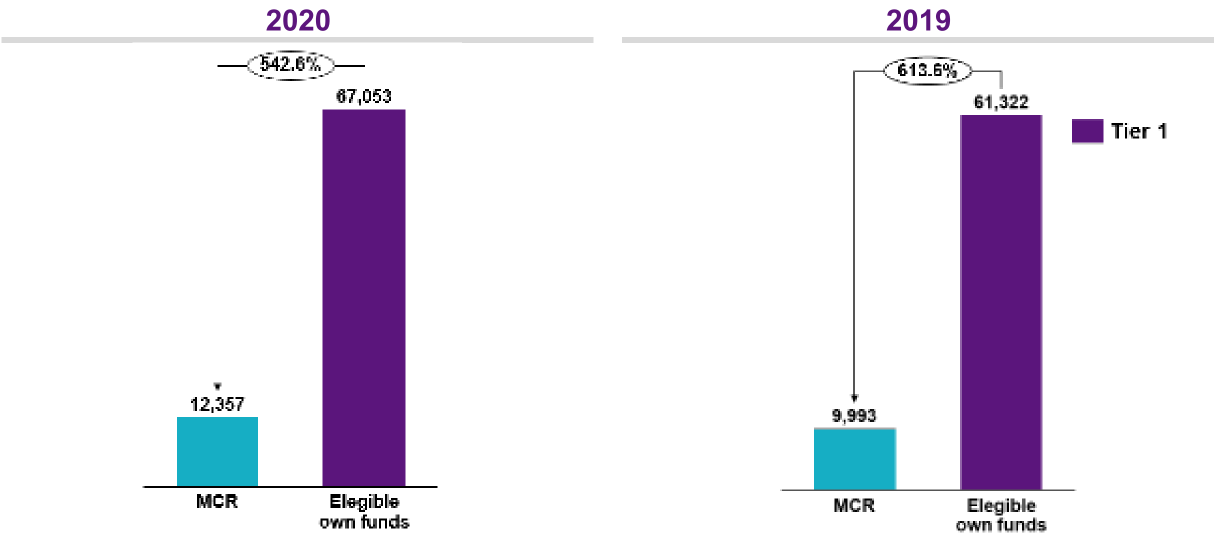
- Best net reinsurance estimates, and technical provisions calculated as a whole, where appropriate.
- Premiums earned net of reinsurance in the last 12 months.

Likewise, the combined MCR is EUR 12,357 thousand, which is obtained by applying the maximum and minimum limits to the linear MCR, 25% and 45% of the SCR.

Since the combined MCR is higher than the MCR's absolute limit (which is EUR 3,700 thousand), the amount of the combined MCR is considered as the amount of MCR, which is, therefore, EUR 12,357 thousand.

As of December 2019, it was EUR 9,993 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 2020 has increased by EUR 2,364 thousand.

The Group´s solvency ratio, which measures the ratio between eligible own funds and the MCR, amounts to 542.6% (613.6% in 2019).



Data in thousands of euros

Significant sources of the effects of group diversification

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

E.2.2. Information relating to the Solvency Capital Requirement and Minimum Capital Requirement

Loss absorption capacity of deferred taxes

The Group has adjusted included in Capital Requirement to take into account the loss absorption capacity of deferred taxes for EUR 2,864 thousand with a probable utilisation as follows:

	Breakdown of likely use
DTL	**16,207**
DTA	**26,144**
Justified by DTL reversal	16,207
Justified with future benefits	9,937
Total Adjustment Loss absorption capacity	**2,864**
Maximum SCR Adjustment	13,073

Data in thousands of euros

For the purpose of demonstrating their recognition, deferred tax liabilities in the Group's economic balance sheet (DTL) and future taxable profits to be generated that are not recognised in the economic balance sheet are taken into account, in both cases according to their timing. DTAs that cannot be supported by the resources defined above cannot be taken into account.

To apply the tax asset against future profits, the Group takes into account the results after a stress scenario considering the required solvency capital (CSO) and the five-year Business Plan approved by the Board of Directors of the Company, incorporating the corresponding stress in the technical and financial results by applying a reduction factor of 15% on the premium volume.

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

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

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

The Solunion Group does not use Internal Models in the calculation of their Solvency needs, it is governed by the Solvency II Standard Formula.

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

At 31st December 2020, the Group Solunion had sufficient SCR and MCR with eligible Own Funds; therefore, it was considered unnecessary to adopt any other action or corrective measure.

E.6 Any other information

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

Appendix I

List of forms reported (Data in thousands of euros):

S.02.01.02 – Balance sheet

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

S.05.01.01 – Premiums, loss ratio, and expense by country

S.23.01.22 – Equity

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

S.32.01.22 – Undertakings in the scope of the group

S.02.01.02

Assets	C0010 Solvency II value	
Intangible assets	-	R0030
Deferred tax assets	26,144	R0040
Pension benefit surplus	4,256	R0050
Property, plant & equipment held for own use	3,883	R0060
Investments (other than assets held for index-linked and unit-linked contracts)	79,086	R0070
Property (other than for own use)	44	R0080
Investments	-	R0090
Equities	-	R0100
Equities - listed	-	R0110
Equities - unlisted	-	R0120
Bonds	76,680	R0130
Public debt	52,630	R0140
Private debt	24,051	R0150
Structured financial assets	-	R0160
Asset securitisation	-	R0170
Investment funds	2,361	R0180
Derivatives	-	R0190
Deposits other than cash equivalent assets	-	R0200
Other investments	-	R0210
Assets held for index-linked and unit-linked contracts	-	R0220
Loans and mortgages	-	R0230
Loans on policies	-	R0240
Loans and mortgages to individuals	-	R0250
Other loans and mortgages	-	R0260
Reinsurance recoverables from:	194,006	R0270
Non-life and health similar to non-life	194,006	R0280
Non-life excluding health	194,006	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	435	R0350
Insurance and intermediaries receivables	44,452	R0360
Reinsurance receivables	14,613	R0370
Receivables (trade, not insurance)	13,973	R0380
Own funds (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	10,657	R0410
Any other assets, not elsewhere shown	2,258	R0420
Total assets	**393,763**	**R0500**

Data in thousands

Liabilities	C0010 Solvency II value	
Technical provisions - non-life	218,827	R0510
Technical provisions - non-life (excluding health)	218,827	R0520
Technical provisions calculated as a whole	-	R0530
Best Estimate	216,522	R0540
Risk margin	2,305	R0550
Technical provisions - health (similar to non-life)	-	R0560
Technical provisions calculated as a whole	-	R0570
Best Estimate	-	R0580
Risk margin	-	R0590
Technical provisions - life (excluding index-linked and unit-linked)	-	R0600
Technical provisions - health (similar to life)	-	R0610
Technical provisions calculated as a whole	-	R0620
Best Estimate	-	R0630
Risk margin	-	R0640
Technical provisions - life (excluding health and index-linked and unit-linked)	-	R0650
Technical provisions calculated as a whole	-	R0660
Best Estimate	-	R0670
Risk margin	-	R0680
Technical provisions - index-linked and unit-linked	-	R0690
Technical provisions calculated as a whole	-	R0700
Best Estimate	-	R0710
Risk margin	-	R0720
Contingent liabilities	-	R0740
Provisions other than technical provisions	1,434	R0750
Pension benefit obligations	4,256	R0760
Deposits from reinsurers	3,105	R0770
Deferred tax liabilities	16,207	R0780
Derivatives	-	R0790
Debts owed to credit institutions	-	R0800
Financial liabilities other than debts owed to credit institutions	1,998	R0810
Insurance & intermediaries payables	24,095	R0820
Reinsurance payables	15,193	R0830
Payables (trade, not insurance)	24,334	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	7,324	R0880
Total liabilities	316,773	R0900
Excess of assets over liabilities	**76,990**	R1000

Data in thousands

S.05.01.02

		C0090	C0160	C0200
		Credit and suretyship insurance		
	Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)	Legal defence insurance	Property	TOTAL
	Premiums written			
R0110	**Gross - Direct Business**	167,078	-	167,078
R0120	**Gross - Proportional reinsurance accepted**	43,786	-	43,786
R0130	**Gross - Non-proportional reinsurance accepted**	-	718	718
R0140	**Reinsurers' share**	187,597	1,300	188,897
R0200	**Net**	23,267	(582)	22,685
	Premiums earned			
R0210	**Gross - Direct Business**	156,094	-	156,094
R0220	**Gross - Proportional reinsurance accepted**	34,779	-	34,779
R0230	**Gross - Non-proportional reinsurance accepted**	-	718	718
R0240	**Reinsurers’ share**	170,413	1,300	171,713
R0300	**Net**	20,460	(582)	19,878
	Claims incurred			
R0310	**Gross - Direct Business**	84,040	-	84,040
R0320	**Gross - Proportional reinsurance accepted**	10,608	-	10,608
R0330	**Gross - Non-proportional reinsurance accepted**	-	-	-
R0340	**Reinsurers’ share**	83,344	(514)	82,830
R0400	**Net**	11,304	514	11,818
	Changes in other technical provisions			
R0410	**Gross - Direct Business**	(3,661)	-	(3,661)
R0420	**Gross - Proportional reinsurance accepted**	(15)	-	(15)
R0430	**Gross - Non- proportional reinsurance accepted**	-	-	-
R0440	**Reinsurers’ share**	3,289	-	3,289
R0500	**Net**	(387)	-	(387)
R0550	**Expenses incurred**	10,565	6	10,571
R1200	**Other Expenses**	-	-	-
R1300	**Total expenses**	10,565	6	10,571

S.05.02.01

		C0080	C0090	C0100	C0110	C0130	C0120	C0140
		SPAIN	MEXICO	COLOMBIA	CHILE	ITALY	PANAMA	Total Top 5 and home country
	Premiums written							
R0110	Gross - Direct Business	124,594	20,821	14,420	7,243	-	-	167,078
R0120	Gross - Proportional reinsurance accepted	1,535	-	-	-	17,872	3,514	22,921
R0130	Gross - Non-proportional reinsurance accepted	-	-	-	-	-	-	-
R0140	Reinsurers' share	113,926	19,830	13,119	6,655	15,763	3,011	172,304
R0200	Net	12,203	991	1,301	588	2,109	503	17,695
	Premiums earned							
R0210	Gross - Direct Business	116,863	18,973	13,271	6,974	-	-	156,081
R0220	Gross - Proportional reinsurance accepted	1,834	-	-	-	10,062	3,564	15,460
R0230	Gross - Non-proportional reinsurance accepted	-	-	-	-	-	-	-
R0240	Reinsurers' share	107,120	18,070	12,082	6,411	8,545	3,266	155,494
R0300	Net	11,577	903	1,189	563	1,517	298	16,047
	Claims incurred							
R0310	Gross - Direct Business	59,634	12,532	7,457	4,417	-	-	84,040
R0320	Gross - Proportional reinsurance accepted	21	-	-	-	(540)	1,401	882
R0330	Gross - Non-proportional reinsurance accepted	-	-	-	-	-	-	-
R0340	Reinsurers' share	52,716	11,609	6,750	3,993	(438)	924	75,554
R0400	Net	6,939	923	707	424	(102)	477	9,368
	Changes in other technical provisions							
R0410	Gross - Direct Business	(3,661)	-	-	-	-	-	(3,661)
R0420	Gross - Proportional reinsurance accepted	-	-	-	-	-	-	-
R0430	Gross - Non- proportional reinsurance accepted	-	-	-	-	-	-	-
R0440	Reinsurers' share	(3,275)	-	-	-	-	-	(3,275)
R0500	Net	(386)	-	-	-	-	-	(386)
R0550	**Expenses incurred**	11,905	2,910	912	2,093	1,376	(303)	18,893
R1200	**Other Expenses**	-	-	-	-	-	-	-
R1300	**Total expenses**	11,905	2,910	912	2,093	1,376	(303)	18,893

Data in thousands

S.23.01.22

		C0010	C0020	C0030	C0040	C0050
		Total	**Tier 1 - unrestricted**	**Tier 1 - restricted**	**Tier 2**	**Tier 3**
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35					
R0010	**Ordinary share capital (gross of own funds)**	40,149	40,149			
R0030	**Share premium account related to ordinary share capital**	35,650	35,650			
R0040	**Iinitial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings**					
R0050	**Subordinated mutual member accounts**					
R0070	**Surplus funds**					
R0090	**Preference shares**					
R0110	**Share premium account related to preference shares**					
R0130	**Reconciliation reserve**	(8,746)	(8,746)			
R0140	**Subordinated liabilities**					
R0160	**An amount equal to the value of net deferred tax assets**	9,937				9,937
R0180	**Other own fund items approved by the supervisory authority as basic own funds not specified above**					
	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**					
	Deductions					
R0230	**Deductions for participations in financial and credit institutions**					

Data in thousands

		C0010	C0020	C0030	C0040	C0050
		Total	**Tier 1 - unrestricted**	**Tier 1 - restricted**	**Tier 2**	**Tier 3**
R0290	**Total basic own funds after deductions**	76,990	67,053			9,937
	Ancillary own funds					
R0300	**Unpaid and uncalled ordinary share capital callable on demand**					
R0310	**Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand**					
R0320	**Unpaid and uncalled preference shares callable on demand**					
R0330	**Compromiso jurídicamente vinculante de suscribir y pagar pasivos subordinados a la vista**					
R0340	**Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC**					
R0350	**Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC**					
R0360	**Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC**					
R0370	**Supplementary member calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC**					
R0390	**Other ancillary own funds**					
R0400	**Total ancillary own funds**					
	Available and eligible own funds					
R0500	**Total available own funds to meet the SCR**	76,990	67,053			9,937
R0510	**Total available own funds to meet the MCR**	67,053	67,053			
R0540	**Total eligible own funds to meet the SCR**	74,467	67,053			7,414
R0550	**Total eligible own funds to meet the MCR**	67,053	67,053			

Data in thousands

		C0010	C0020	C0030	C0040	C0050
		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
R0580	Consolidated Group SCR	49,429				
R0600	Consolidated Group MCR	12,357				
R0620	Ratio of Eligible own funds to Consolidated Group SCR	150.7%				
R0640	Ratio of Eligible own funds to Consolidated Group SCR	542.6%				

	Reconciliation reserve	
R0700	**Excess of assets over liabilities**	76,990
R0710	**Own funds (held directly and indirectly)**	
R0720	**Foreseeable dividends, distributions and charges**	
R0730	**Other basic own fund items**	85,736
R0740	**Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds**	
R0760	**Reconciliation reserve before deduction for participations in other financial sector**	(8,746)
	Expected profits	
R0770	**Expected profits included in future premiums (EPIFP) - Life business**	
R0780	**Expected profits included in future premiums (EPIFP) - Non- life business**	
R0790	**Total Expected profits included in future premiums (EPIFP)**	

Data in thousands

S.25.01.22

		C0030	C0040	C0120
		Gross solvency capital requirement	USP	Simplifications
R0010	Market risk	9,267	9,267	
R0020	Counterparty default risk	10,760	10,760	
R0030	Life underwriting risk	-	-	
R0040	Health underwriting risk	-	-	
R0050	Non-life underwriting risk	35,951	35,951	
R0060	Diversification	(10,181)	(10,181)	
R0070	Intangible asset risk	-	-	
R0100	Basic Solvency Capital Requirement	45,797	45,797	

	Calculation of Solvency Capital Requirement	C0100
		2020
R0130	Operational risk	6,496
R0140	Loss-absorbing capacity of technical provisions	
R0150	Loss-absorbing capacity of deferred taxes	(2,864)
R0160	Capital requirement for business operated in accordance with Art, 4 of Directive 2003/41/EC	
R0200	Solvency Capital Requirement excluding capital add-on	49,429
R0210	Capital add-on already set	
R0220	Solvency capital requirement	49,429
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	
R0440	Diversification effects due to RFF NSCR aggregation for article 304	

Data in thousands

S.32.01.22

C0020	C0010	C0040	C0050	C0060	C0070	C0080	
Identification code of the undertaking	**Country**	**Legal name of the undertaking**	**Type of undertaking**	**Legal form**	**Category (mutual / non mutual)**	**Supervisory Authority**	**ID[3]**
LEI/959800LM5VB6ST5FT348	Spain	Solunion Seguros S.A.	Non-life insurance undertaking	Public Limited Company	Non-mutual	Directorate General of Insurance and Pension Funds	1
B81419442	Spain	Solunion Servicios de Crédito S.L.	Ancillary services undertaking, as defined in Article 1,52 of the Delegated Regulation (EU) 2015/35	Limited Company	Non-mutual		2
B82140153	Spain	Solunion América Holding S.L.	Insurance holding company, as defined in Art, 212 [f] of Directive 2009/138/EC	Limited Company	Non-mutual		3
B87545281	Spain	Solunion Holding S.L.U.	Mixed-activity insurance holding company, as defined in Art, 212,1 [g] of Directive 2009/138/EC	Limited Company	Non-mutual		4
GRC0571CO02100	Colombia	Solunion Colombia Seguros de Crédito S.A.	Non-life insurance undertaking	Public Limited Company	Non-mutual	Financial Superintendency of Colombia	5
GRC0571CL01300	Chile	Solunion Chile Seguros de Crédito S.A.	Non-life insurance undertaking	Public Limited Company	Non-mutual	Financial Market Commission	6
GRC0571MX01500	Mexico	Solunion México Seguros de Crédito S.A.	Non-life insurance undertaking	Public Limited Company	Non-mutual	National Commission of Insurance and Finance	7
GRC0571CO02600	Colombia	Solunion Servicios de Crédito Colombia LTDA	Ancillary services undertaking, as defined in Article 1,52 of the Delegated Regulation (EU) 2015/35	Limited Company	Non-mutual		8
GRC0571CL04600	Chile	Solunion Chile Servicios de Crédito LTDA	Ancillary services undertaking, as defined in Article 1,52 of the Delegated Regulation (EU) 2015/35	Limited Company	Non-mutual		9
GRC0571MX02000	Mexico	Solunion Servicios de Crédito S.A. de C.V.	Ancillary services undertaking, as defined in Article 1,52 of the Delegated Regulation (EU) 2015/35	Public Limited Company	Non-mutual		10
GRC0571AR02000	Argentina	Solunion Servicios de Crédito Argentina S.A.	Ancillary services undertaking, as defined in Article 1,52 of the Delegated Regulation (EU) 2015/35	Public Limited Company	Non-mutual		11
GRC0571PA00500	Panamá	Solunion Panamá Servicios de Crédito, S.A.	Ancillary services undertaking, as defined in Article 1,52 of the Delegated Regulation (EU) 2015/35	Public Limited Company	Non-mutual		12

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

Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation	
C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260	
% capital share	**% used for the establishment of consolidated accounts**	**% voting rights**	**Other criteria**	**Level of influence**	**Proportional share used for group solvency calculation**	**YES/NO**	**Date of decision if Art, 214 is applied**	**Method used and under method 1, treatment of the undertakings**	**ID**
						YES	31/12/2013	Method 1: full consolidation	1
100%	100%	100%		Significant	100%	YES	31/12/2013	Method 1: full consolidation	2
100%	100%	100%		Significant	100%	YES	31/12/2013	Method 1: full consolidation	3
100%	100%	100%		Significant	100%	YES	31/12/2013	Method 1: full consolidation	4
100%	100%	100%		Significant	100%	YES	31/12/2013	Method 1: full consolidation	5
100%	100%	100%		Significant	100%	YES	31/12/2013	Method 1: full consolidation	6
100%	100%	100%		Significant	100%	YES	31/12/2013	Method 1: full consolidation	7
100%	100%	100%		Significant	100%	YES	31/12/2013	Method 1: full consolidation	8
100%	100%	100%		Significant	100%	YES	31/12/2013	Method 1: full consolidation	9
100%	100%	100%		Significant	100%	YES	31/12/2013	Method 1: full consolidation	10
100%	100%	100%		Significant	100%	YES	31/12/2013	Method 1: full consolidation	11
100%	100%	100%		Significant	100%	YES	28/02/2020	Method 1: full consolidation	12

Appendix II

Legal Structure of Solunion Group:

Name	Address	Effective tax rate	Activity	In share capital %			End of the year data (thousand euros)								Method or procedure	
				Holder	Percentage		Assets		Equity		Income		Result of the year			
					2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2.019
	SOLUNION															
SOLUNION SERVICIOS DE CREDITO S.L.U.	Avda.General Perón 40, 2ª Planta (Madrid) España	11,49% (1) (2)	Servicios	■ SOLUNION SEGUROS S.A.	100,00	100,00	17.644	15.003	11.837	11.388	26.182	26.753	476	1.887	(A)	(A)
SOLUNION SERVICIOS DE CREDITO ARGENTINA, S.A.	Corrientes 299, 2° piso (C1043AAC) Buenos Aires (Argentina)	32,59%	Servicios	■ SOLUNION SEGUROS S.A. ■ SOLUNION SERVICIOS DE CREDITO S.L.U.	95,00 5,00	95,00 5,00	789	767	531	486	1.270	1.658	130	283	(A)	(A)
SOLUNION AMERICA HOLDING, S.L.	Avda.General Perón 40, 2ª Planta (Madrid) España	-4,21% (1)	Holding	■ SOLUNION SEGUROS S.A. ■ SOLUNION HOLDING, S.L.	81,31 18,69	81,31 18,69	16.215	16.226	16.215	16.226	2.163	2.655	1.930	2.811	(A)	(A)
SOLUNION CHILE SEGUROS DE CREDITO, S.A.	Isidora Goyenechea,3520 piso 17 Los condes, 7550071 Santiago, Chile	-27,00%	Seguros	■ SOLUNION AMERICA HOLDING, S.L. ■ SOLUNION COLOMBIA SEGUROS DE CREDITO, S.A. ■ SOLUNION HOLDING, S.L. ■ SOLUNION CHILE SERVICIOS DE CREDITO, LTDA.	51,83 0,00 36,32 11,85	51,83 0,00 36,32 11,85	30.555	35.247	5.096	6.127	7.242	11.714	(87)	(97)	(A)	(A)
SOLUNION COLOMBIA SEGUROS DE CREDITO, S.A.	Calle 7 sur 42-70 Medellín (Colombia)	45,78%	Seguros	■ SOLUNION AMERICA HOLDING, S.L. ■ SOLUNION SEGUROS DE CREDITO, S.A. ■ SOLUNION MEXICO SEGUROS DE CREDITO, S.A. ■ SOLUNION CHILE SEGUROS DE CREDITO S.A. ■ SOLUNION SERVICIOS DE CREDITO S.L.U.	94,89 4,79 0,11 0,11 0,11	94,89 4,79 0,11 0,11 0,11	36.456	34.424	7.565	8.607	14.420	16.501	521	714	(A)	(A)
SOLUNION MEXICO SEGUROS DE CREDITO, S.A.	Torre Planco, Mariano Escobedo 476 piso 15. Colonia Nueva Anzures C.P. 11590 Mexico D.F., Mexico	30,00%	Seguros	■ SOLUNION AMERICA HOLDING, S.L.	100,00	100,00	49.702	41.166	6.476	8.709	20.821	27.664	1.173	1.755	(A)	(A)
SOLUNION HOLDING, S.L.U.	Avda.General Perón 40, 2ª Planta	0,00%	Holding	■ SOLUNION SEGUROS DE CREDITO S.A.	100,00	100,00	6.062	6.139	6.062	6.139	1.102	1.251	1.101	1.251	(A)	(A)
SOLUNION PANAMA SERVICIOS DE CREDITO, S.A.	Costa del Este, Edificio Financial Park, Oficina 27b, Ciudad de Panamá	27,74%	Servicios	■ SOLUNION HOLDING, S.L.U.	100,00	-	742	-	467	-	1.122	-	489	-	(A)	-
SOLUNION CHILE SERVICIOS DE CREDITO, LTDA.	Isidora Goyenechea,3520 piso 17 Los condes, 7550071 Santiago, Chile	27,00%	Servicios	■ SOLUNION HOLDING, S.L.U. ■ SOLUNION SERVICIOS DE CREDITO S.L.U.	99,33 0,67	99,33 0,67	2.353	3.295	1.954	1.764	2.866	3.062	284	171	(A)	(A)
SOLUNION SERVICIOS DE CREDITO DE COLOMBIA,LTDA	Calle 7 sur 42-70 Medellín (Colombia)	33,41%	Servicios	■ SOLUNION HOLDING, S.L.U. ■ SOLUNION SERVICIOS DE CREDITO S.L.U.	98,33 1,67	98,33 1,67	1.979	2.065	1.183	1.328	3.156	3.852	751	948	(A)	(A)
SOLUNION MEXICO SERVICIOS, S.A. DE C.V.	Torre Planco, Mariano Escobedo 476 piso 15. Colonia Nueva Anzures C.P. 11590 Mexico D.F., Mexico	28,06%	Servicios	■ SOLUNION HOLDING, S.L.U. ■ SOLUNION SERVICIOS DE CREDITO S.L.U.	100,00	100,00	2.393	2.497	902	794	5.378	5.959	304	361	(A)	(A)

CONSOLIDATION METHOD OR PROCEDURE

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

FISCAL GROUP

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

KPMG Auditores, S.L.
Paseo de la Castellana, 259C
28046 Madrid

Informe Especial de Revisión Independiente del Informe sobre la Situación Financiera y de Solvencia correspondiente al ejercicio terminado el 31 de diciembre de 2020

A los Administradores de Solunion Seguros, Compañía Internacional de Seguros y Reaseguros, S.A.:

Objetivo y alcance de nuestro trabajo

Hemos llevado a cabo el trabajo de revisión, con alcance de seguridad razonable, de los siguientes aspectos de la información contenida en el informe adjunto sobre la situación financiera y de solvencia de Solunion Seguros, Compañía Internacional de Seguros y Reaseguros, S.A. (en adelante la Sociedad dominante) y sociedades dependientes (en adelante Grupo Solunion) al 31 de diciembre de 2020, según lo dispuesto en el artículo 6 de la Circular 1/2017, de 22 de febrero, de la Dirección General de Seguros y Fondos de Pensiones, por la que se fija el contenido del informe especial de revisión sobre la situación financiera y de solvencia, individual y de grupo, y el responsable de su elaboración:

a) El alcance y la estructura del grupo sujeto a supervisión por la Dirección General de Seguros y Fondos de Pensiones, de conformidad con el artículo 132 de la Ley 20/2015, de 14 de julio, de ordenación, supervisión y solvencia de las entidades aseguradoras y reaseguradoras.

b) Las entidades excluidas de tal supervisión, de acuerdo con el artículo 133 de la Ley 20/2015, de 14 de julio.

c) La adecuación del método aplicado para el cálculo de la solvencia del Grupo Solunion y del tratamiento empleado para cada empresa conforme a lo dispuesto en los artículos 145 y siguientes de la Ley 20/2015, de 14 de julio, así como en su normativa de desarrollo reglamentario y en la normativa de la Unión Europea de directa aplicación.

No se han revisado otros aspectos, distintos de los anteriores, incluidos en el informe sobre la situación financiera y de solvencia del Grupo Solunion.

El objetivo de nuestro trabajo es verificar que los aspectos mencionados en los apartados a), b) y c) anteriores de la información presentada por los Administradores de la Sociedad dominante, cumplen con los requisitos establecidos en la Ley 20/2015, de 14 de julio, así como en su normativa de desarrollo reglamentario y en la normativa de la Unión Europea de directa aplicación, con la finalidad de suministrar una información completa y fiable.

Este trabajo no constituye una auditoría de cuentas ni se encuentra sometido a la normativa reguladora de la actividad de la auditoría vigente en España, por lo que no expresamos una opinión de auditoría en los términos previstos en la citada normativa.

Responsabilidad de los Administradores de Solunion Seguros, Compañía Internacional de Seguros y Reaseguros, S.A.

Los Administradores de Solunion Seguros, Compañía Internacional de Seguros y Reaseguros, S.A., sociedad dominante del Grupo Solunion, son responsables de la preparación, presentación y contenido del informe sobre la situación financiera y de solvencia del Grupo Solunion, de conformidad con la Ley 20/2015, de 14 de julio, de ordenación, supervisión y solvencia de las entidades aseguradoras y reaseguradoras, y su normativa de desarrollo y con la normativa de la Unión Europea de directa aplicación.

Dichos Administradores también son responsables de definir, implantar, adaptar y mantener los sistemas de gestión y control interno de los que se obtiene la información necesaria para la preparación del citado informe. Estas responsabilidades incluyen el establecimiento de los controles que consideren necesarios para permitir que la preparación de la información contenida en el informe sobre la situación financiera y de solvencia del Grupo Solunion, esté libre de incorrecciones significativas debidas a incumplimiento o error.

Nuestra independencia y control de calidad

Hemos realizado nuestro trabajo de acuerdo con las normas de independencia y control de calidad requeridas por la Circular 1/2017, de 22 de febrero, de la Dirección General de Seguros y Fondos de Pensiones, por la que se fija el contenido del informe especial de revisión de la situación financiera y de solvencia, individual y de grupos, y el responsable de su elaboración, y por la Circular 1/2018, de 17 de abril, de la Dirección General de Seguros y Fondos de Pensiones, por la que se desarrollan los modelos de informes, las guías de actuación y la periodicidad del alcance del informe especial de revisión sobre la situación financiera y de solvencia, individual y de grupos, y el responsable de su elaboración.

Nuestra responsabilidad

Nuestra responsabilidad es llevar a cabo una revisión destinada a proporcionar un nivel de aseguramiento razonable sobre los aspectos mencionados en la sección *"Objetivo y alcance de nuestro trabajo"* relativos a la información mencionada en el artículo 6 de la Circular 1/2017, de 22 de febrero, contenida en el informe adjunto sobre la situación financiera y de solvencia del Grupo Solunion, correspondiente al 31 de diciembre de 2020, y expresar una conclusión basada en el trabajo realizado y las evidencias que hemos obtenido.

Nuestro trabajo de revisión depende de nuestro juicio profesional, e incluye la evaluación de los riesgos debidos a errores significativos sobre los aspectos mencionados.

Nuestro trabajo de revisión se ha basado en la aplicación de los procedimientos dirigidos a recopilar evidencias que se describen en la Circular 1/2017, de 22 de febrero, de la Dirección General de Seguros y Fondos de Pensiones, por la que se fija el contenido del informe especial de revisión de la situación financiera y de solvencia, individual y de grupos, y el responsable de su elaboración, y en el Anexo V de la Circular 1/2018, de 17 de abril, de la Dirección General de Seguros y Fondos de Pensiones, por la que se desarrollan los modelos de informes, las guías de actuación y la periodicidad del alcance del informe especial de revisión sobre la situación financiera y de solvencia, individual y de grupos, y el responsable de su elaboración.

El responsable de la revisión del informe sobre la situación financiera y de solvencia ha sido Antonio Lechuga, de KPMG Auditores, S.L., quien ha llevado a cabo la revisión.

El revisor asume total responsabilidad por las conclusiones por él manifestadas en el informe especial de revisión.

Consideramos que la evidencia que hemos obtenido proporciona una base suficiente y adecuada para nuestra conclusión.

Conclusión

En nuestra opinión, en relación con el informe adjunto sobre la situación financiera y de solvencia del Grupo Solunion al 31 de diciembre de 2020, las cuestiones siguientes son conformes, en todos los aspectos significativos, a lo dispuesto en la Ley 20/2015, de 14 de julio, así como en su normativa de desarrollo reglamentario y en la normativa de la Unión Europea de directa aplicación:

a) El alcance y la estructura del Grupo Solunion, sujeto a supervisión por la Dirección General de Seguros y Fondos de Pensiones, que consta en el informe adjunto.

b) Las entidades excluidas de tal supervisión de grupo.

c) El método aplicado para el cálculo de la solvencia del grupo y del tratamiento empleado para cada empresa.

KPMG Auditores, S.L.
Inscrito en el R.O.A.C. nº S0702

Antonio Lechuga Campillo
Inscrito en el R.O.A.C. nº 3811

18 de mayo de 2021