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

Solvency and Financial Condition Report

31/12/2016

Executive Summary

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

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

A. Business and performance

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

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

The result of the technical account at 31 December 2016 amounted to EUR 3,265 thousand which, combined with the result of the non-technical account (EUR 2,012 thousand) generated profit before tax of EUR 1,253 thousand.

In 2016, the volume of earned premium in direct insurance amounted to EUR 134,594 thousand. The strong performance of the international business has resulted in total reinsurance premiums accepted of EUR 36,356 thousand.

The net loss ratio was 49%, which reflects the Company's strong risk management.

Operating efficiency continues to improve, with a cost ratio of 30.5% in 2016.

B. System of Governance

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

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

With the aim of ensuring that the governance system has an appropriately structured, the Company has a series of policies that regulate fundamental functions (Risk Management, Regulatory Compliance, Internal Audit and Actuarial) and ensure that such functions meet the requirements set by the regulator and are compliant with the governance guidelines set by the Company and the SOLUNION Group. Section B in this Report includes information on these fundamental functions.

Both executives and Company members that perform key functions and other employees fulfil the fit and proper requirements laid down in regulations and by the Company. Fit requirements relate to the possession of the 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 Company has a Fit and Proper Policy.

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

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

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

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

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

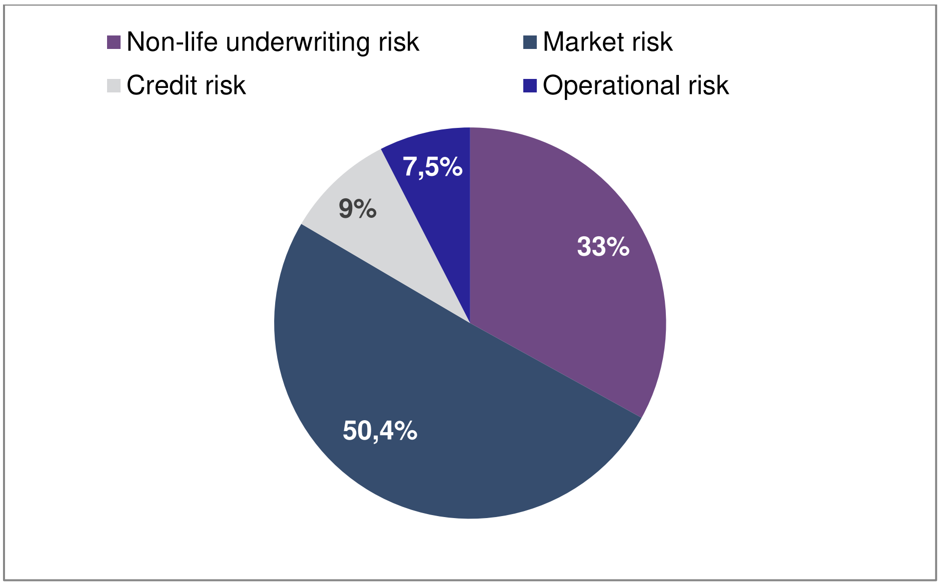
Within this framework, SOLUNION's structure is comprised of Areas which, in their respective frameworks, perform a number of independent supervisory activities within the scope of their respective areas with regard to assumed risks.

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

C. Risk profile

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

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



In the Company's risk profile, the risk which most intensely affects the Company is market risk, mainly due to the Company's positions in its related undertakings, as high exposure to the same is found in countries outside the European Economic Area. That is followed by non-life underwriting risk, to which catastrophic credit and suretyship risk mainly contribute, due to the recession risk that burdens SOLUNION for 100% of the underwritten premiums and, lastly, credit and operational risks**.**

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

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

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

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

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

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

D. Valuation for solvency purposes

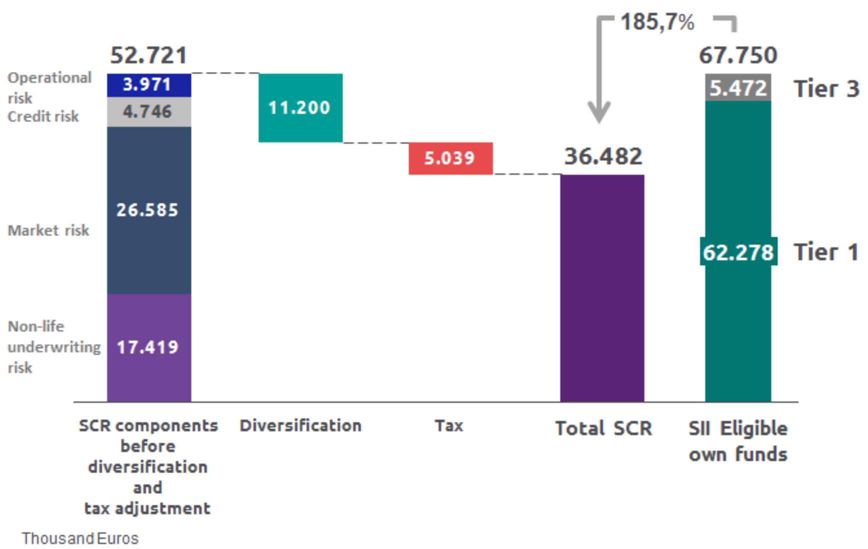
The total value of assets under Solvency II regulations amounts to EUR 243,059 thousand, while the value measured in accordance with accounting regulations would amount to EUR 291,924 thousand. This difference mainly relates to goodwill, prepaid fees and other acquisition costs, intangible assets and deferred tax assets, and investments that have not been valued to market in the accounting regulations.

The total value of liabilities under Solvency II amounts to EUR 174,655 thousand, compared to EUR 196,583 thousand according to accounting regulations. The main difference 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 68,404 thousand under Solvency II, which reflects a decrease of (28.3%) from the excess shown with application of the criteria set out in accounting standards.

E. Capital management

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



The Company's required SCR amounts to EUR 36,482 thousand, while the minimum capital requirement amounts to EUR 9,121 thousand. This minimum capital level is the minimum level of safety below which the Company's financial resources should never fall.

Available and eligible own funds to meet the Company's SCR amount to EUR 67,750 thousand, of which EUR 62,278 thousand are classified at Tier 1 and EUR 5,472 thousand at Tier 3. Tier 1 are considered to be of higher quality, which refers to their availability and risk level to meet the Company's commitments to its insured parties.

Also, the Company's eligible own funds for meeting MCR amount to EUR 62,278 thousand.

The Company's solvency ratio, which is the proportion of own funds available to the Company to meet the SCR, stands at 185.7%. While the proportion of own funds to meet MCR, that is, the minimum required capital ratio, is 682.8%. Consequently, the Company is adequately positioned to comfortably meet its future commitments, taking account of the capital requirements laid down in Solvency II.

A. Business and performance

A.1. Business

A.1.1. Name and legal form

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

Its registered office is in Madrid, at Avenida General Perón 40, 28020.

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

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

Supervision of the Company

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

The DGSFP is located at Paseo de la Castellana 44, Madrid (Spain), and has the following website: www.dgsfp.mineco.es.

External audit

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

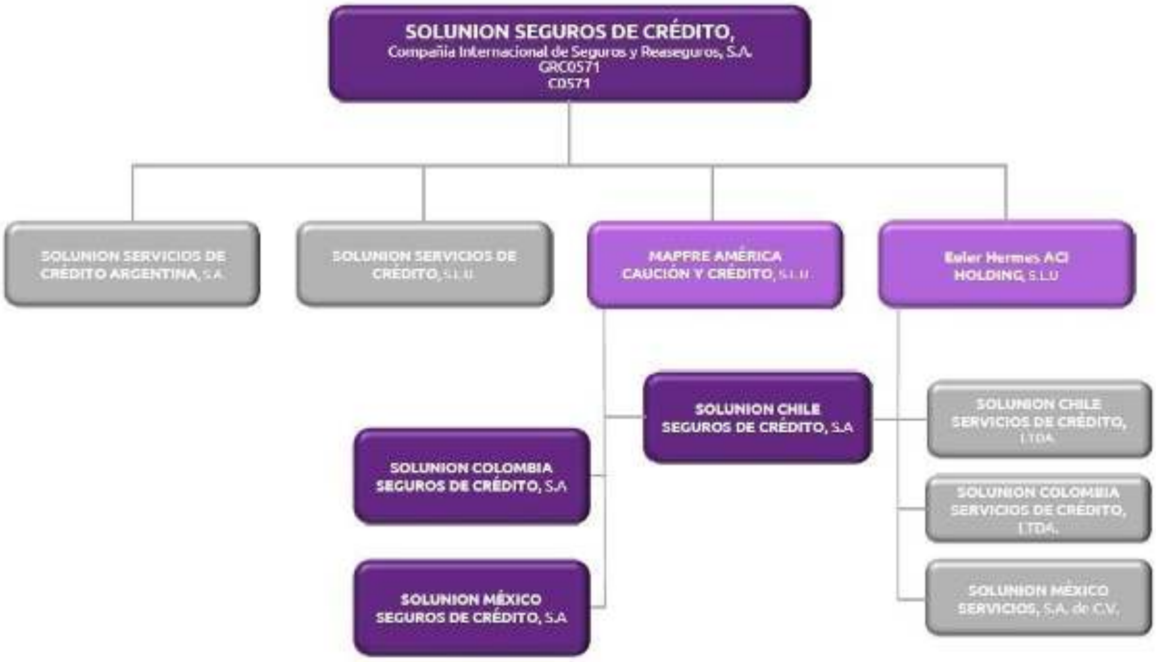
Holders of qualifying holdings

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

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

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

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



Lines of business

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

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

Geographic areas

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

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

The following significant events took place during 2016, with a significant effect on the Company:

Significant events of the year

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

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

<u>*Corporate matters*</u>

In 2016, there were no corporate actions worth mentioning.

<u>*Main activities in 2016*</u>

- General matters

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

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

- New products

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

- Commercial action

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

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

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

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

- Risk underwriting

In risk underwriting, additional implementation of good practices from the Euler Hemes Collection enabled SOLUNION to significantly improve collection performance in all countries, thus increasing income and reducing indemnities of insurance.

- Information and technology systems

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

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

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

A.2. Underwriting performance

Quantitative figures on the Company's business and underwriting results in 2016, as shown in figure S.05.01.02, indicate that the Company ended the year with gross earned premiums of EUR 132,454 thousand, of which the net amount was EUR 10,562 thousand. Also, the gross claims rate in direct insurance fell to EUR 66,424 thousand, and after discounting the effect of reinsurance of thousands of euros, the net claims rate amounted to EUR 5,187 thousand.

The technical result amounted to EUR 3,265 thousand.

By geographic area of the Company, as shown in figure S.05.02.01 of the Appendix, the largest volume of gross earned premiums was in Mexico, amounting to EUR 12,947 thousand, followed by Colombia, which reached EUR 9,217 thousand.

A.3. Investment performance

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

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

Item	Finance income and expense	Net gain or loss
Financial assets		
Financial investments in capital	-	-
Shareholdings in investment funds	-	-
Fixed income securities	745	286
Other assets	(40)	-
Subtotal	**705**	**286**
Financial liabilities		
Deposits received on ceded reinsurance	-	-
Other liabilities	(4)	-
Subtotal	**(4)**	**-**
Total	**701**	**286**

Data in thousands of euros

Total financial income amounted to EUR 701 thousand, of which EUR 286 were a net gain.

First, on the financial asset side, fixed income securities generated income of EUR 745 thousand, while "other assets" generated an expense of EUR 40 thousand. Also, on the financial liabilities side, an expense of EUR 4 thousand was generated in "other liabilities".

Some of the following events influenced investment in the Company:

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

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

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

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

The following is the quantitative information regarding income and expenses arising from investments broken down by type of asset and liability recognized directly in equity at year-end 2016:

Item	Financial income or expense in equity
Financial assets	
Financial investments in capital	-
Shareholdings in investment funds	87
Fixed income securities	(509)
Other assets	
Subtotal	**(422)**
Financial liabilities	
Deposits received on ceded reinsurance	-
Other liabilities	-
Subtotal	**-**
Total	**(422)**

Data in thousands of euros

Shareholdings in investment funds made a positive contribution to equity of EUR 87 thousand, while fixed income securities brought about a decrease of EUR 509 thousand, resulting in an overall negative effect in equity of EUR 422 thousand. Further, financial liabilities had no effect in equity.

A.3.3. Information on asset securitisation

SOLUNION does not invest in this type of assets.

A.4. Performance of other activities

A.4.1 Other income and expense

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

	2016
Income from property, plant and equipment and from investments	192
Expense on property, plant and equipment and investments	(212)
Other income	27
Other expenses	(2,018)
Non-technical result	**(2,012)**

Data in thousands of euros

Income from activities other than insurance is negative due to the amortisation of the Company's goodwill, which is included in "other expenses".

A.4.2 Lease contracts

Operational leases

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

Expense accrued in 2016 in operating leases amounted to EUR 645 thousand (EUR 534 thousand in 2015).

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

Item	Future minimum payments							
	Up to one year		From one to five years		More than five years		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Buildings and other constructions	645	751	658	436	-	-	1,303	1,187
Total	**645**	**751**	**658**	**436**	**-**	**-**	**1,303**	**1,187**

Data in thousands of euros

Finance lease

The Company does not have this type of lease.

A.5. Any other information

There are no additional disclosures worth mentioning.

B. System of governance

B.1. General information on the system of governance

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

B.1.1 Company's own System of Governance

The system of governance of SOLUNION has the following characteristics:

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

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

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

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

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

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

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

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

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

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

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

  Board supporting committees

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

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

    a) preparation of financial statements;

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

    c) reporting and financial policy processes;

    d) internal audit operation and functions, and

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

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

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

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

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

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

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

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

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

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

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

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

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

Support Committees of Company Management Committee

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

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

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

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

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

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

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

B.1.2. Key functions

As set out in current regulation, the Board of Directors approved the latest revision of the Actuarial, Compliance and Risk Management Policies in its meeting of 30 September 2016 and of the Internal Audit Policy in its meeting of 31 March 2016. These policies establish the operational independence of these key functions and their direct line of reporting to the governing body.

The names of individuals responsible for key functions have been reported to the DGSFP.

ACTUARIAL FUNCTION

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

COMPLIANCE FUNCTION

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

RISK MANAGEMENT FUNCTION

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

AUDIT FUNCTION

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

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

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

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

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

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

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

Data in thousands of euros

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

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

Its objectives include:

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

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

B.1.5 Additional information

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

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

B.2. Fit and proper requirements

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

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

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

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

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

   1) insurance and financial markets;

   2) strategies and business models;

   3) systems of governance;

   4) financial and actuarial analysis;

   5) regulatory framework.

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

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

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

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

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

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

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

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

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

f) any other fact set out in insurance regulation.

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

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

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

- Of the members of the Board of Directors: the shareholders.

- Of the members of the Management Committee and the Company Management Committee: the Board of Directors or designated committees.

- Of the holders of key functions (heads): the Board of Directors or designated committees.

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

a) Job descriptions/fitness requirements for position:

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

b) Curriculum vitae; background check:

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

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

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

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

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

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

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

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

B.3.1 Governance framework

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

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

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

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

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

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

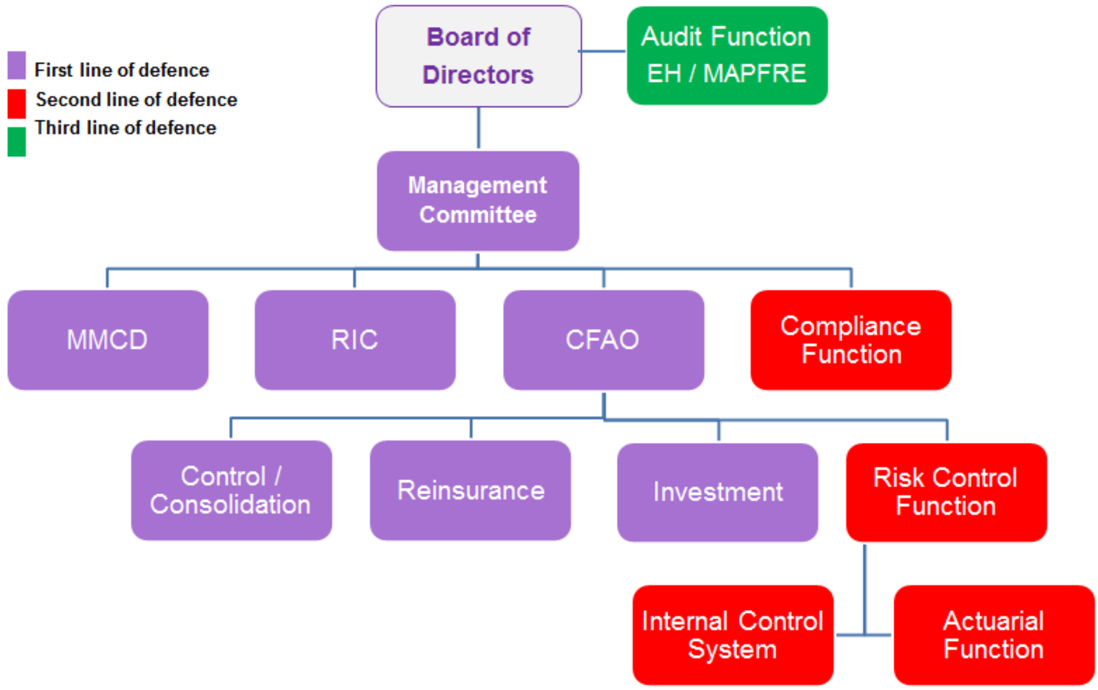
The Company adopts the three-lines of defence model as an organisational scheme of risk management, which is widespread in literature on business risk management and corporate governance, such that:

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

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

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

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



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

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

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

- Board of Directors:

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

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

- Management Committee:

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

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

- Risk Committee:

  Comprises all members of the Management Committee and by the CRO (non-voting), it is tasked with supervising the risk management function and system, particularly compliance with risk appetite. The Company CRO will receive the meeting minutes of established Risk Committees, may attend such meetings without a vote, and report to the Risk Committee any decision or potential risks that may affect the Company's solvency position.

- Actuarial and Reserves Committee:

  Comprises all members of the Management Committee, the CRO and the head of the actuarial function (non-voting), it is tasked with overseeing the actuarial function and policy in the company, and with the establishment of reserves within the framework of policies and standards approved by the Board of Directors.

- Compliance Committee:

  Comprises all member of the Management Committee, the Corporate Directors of Human Resources (non-voting), it is tasked with overseeing the compliance function and policy in the Company within the framework of the policy and standards approved by the Board of Directors.

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

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

The risk management function enables adequate oversight of risks through the adoption of decisions that facilitate the identification, measurement, supervision, management and monitoring of the same. This function encompasses 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. Also, the risk function coordinates the assessment and oversight of the Company's most critical risks.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

  - Authorising an excess beyond the risk limit, in which case sufficient documentation and notification of the governing bodies and the Group's risk control department is essential, along with the reason for such authorisation and an indication of any additional risk taken owing to the same. If the excess surpasses the limits set by the Group's parent, the governing bodies, the Group's risk control department and the Group's governing bodies are notified.
  - Cancel risk.
  - Contract additional protection that allows for adjusting the risk to established limits, subject to an assessment of the consequences of breach by the supplier of such protection and its impact on operational risks.
  - Raise additional capital resources as necessary to keep the risk taken within established risk limits.

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

The strategies, objectives, and informing procedures for the key risks to which the Company is exposed, reflected in the risk appetite approved by the Entity'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.

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

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

- Outsourcing risk.

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

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

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

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

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

B.3.3. Own risk and solvency assessment

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

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

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

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

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

This processes is detailed below:

1. **Risk appetite and limits.**

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

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

2. **Strategic and business plan.**

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

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

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

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

   - Identify the main critical risks.
   - Assess and define critical risks (assessment of residual risks).
   - Establish a risk appetite that is acceptable for each critical risk.

- Identify and prioritise mitigation activities.

- Guide the preparation of reports and the approval of critical risks.

- Control the development of risk exposure and mitigation plans.

4. Standard formula of required solvency capital

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

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

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

5. Stress testing.

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

6. ORSA report.

The ORSA report presents the results of the Own Risk and Solvency Assessment obtained by SOLUNION. It also sets out and documents the 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 this report.

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

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

B.4. Internal control system

B.4.1. Internal control

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

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

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

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

- **First line of defence**: Operational areas, business lines or support units. They are responsible for the application of internal control procedures in every process in which they intervene and for which they are responsible, and manage the risks that originate in these processes.
- **Second line of defence**: Risk Control Department It is a body that is independent from areas for the implementation of the internal control system with responsibility for defining applicable policies and procedures, coordinating and supervising evaluation and control activities, launching action plans and generating management reporting for different areas and governing bodies.
- **Third line of defence**: Internal audit, as an independent evaluator tasked with overseeing the correct functioning of the internal control system, compliance with policies and procedures and final evaluation of the effectiveness of the action plans and initiatives launched.

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

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

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

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

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

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

B.4.2. Compliance verification function

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

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

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

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

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

B.5. Internal audit function

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

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

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

B.6. Actuarial function

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

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

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

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

B.7. Outsourcing

Information on current outsourcing arrangements

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

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

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

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

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

B.8. Any other information

The Company's governance system reflects the requirements established in the Solvency II Directive on the system for management of risks inherent to its activity. It employs its own strategy for implementing and carrying out the risk management area, where it is the responsibility of the SOLUNION Management Committee to define the reference criteria and establish/validate its organisational structure.

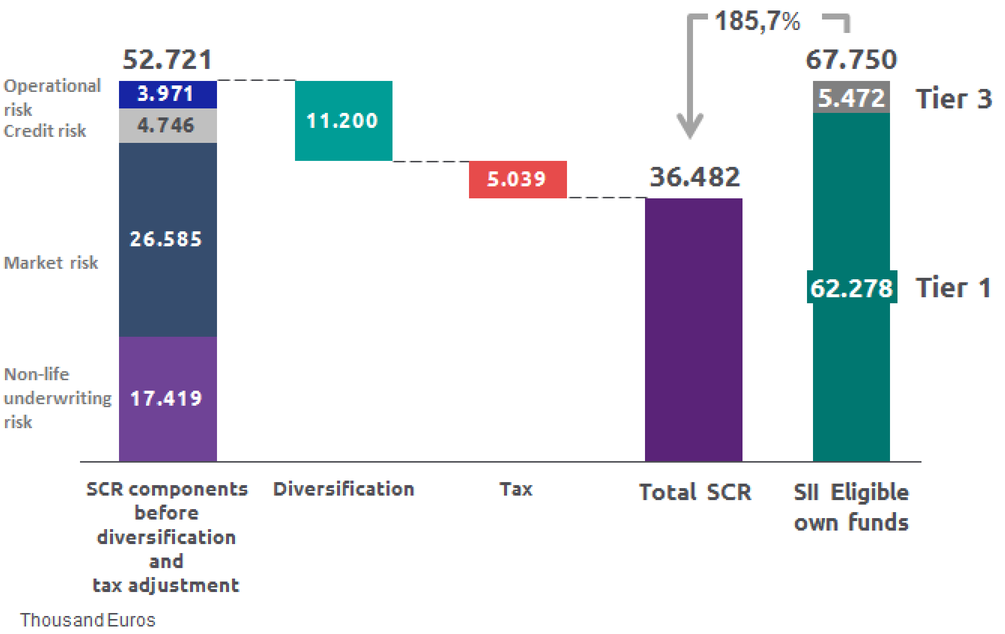
Its structure is based on the related regulatory requirements, as well as the principle of proportionality related to its business size and the nature/complexity/size of the risks assumed by the Company.

C. Risk profile

After the entry into force of Solvency II regulations, the Company calculates its 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 Company's risk exposure, as it recognises the capital charge corresponds to key risks (such as underwriting, market, and counterparty risk). As explained below, the Company's exposure to other risks not included in the SCR calculation using the standard formula (risk of liquidity, technical provisions, business continuity, compliance, reputational and outsourcing) are not considered significant, since the Company applies effective measures to manage and mitigate them.

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

The following graph shows the most significant risks that make up the risk profile of SOLUNION based on the regulatory capital required (this information can also be found on table S.25.01.21 of the Appendix):



As can be seen, the risk that affects the Company most intensely is the market risk, which has a capital solvency of 26,585 thousand euros before applying the diversification and adjustment for taxes. That is followed by Non-Life Underwriting risk (with 17,419 thousand euros), to which catastrophic credit and surety risk mainly contribute, due to the recession risk that burdens SOLUNION for 100% of the underwritten premiums.

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

C.1 Underwriting Risk

C.1.1 Exposure to the risk

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

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

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

Underwriting Risk is included under the SCR Standard Formula calculation and entails 33% of the total SCR (before diversification).

C.1.2 Risk mitigation techniques

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

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

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

- Sufficient reserves or technical provisions set aside:

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

- Reinsurance:

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

- Setting a sufficient premium:

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

- Through Insurance Compensation Consortium:

  It affects the catastrophic risk because the Company operates mainly in Spain. This entity shall be in charge of covering extraordinary risks as indicated in Article 6 of its Charter.

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

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

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

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.

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

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

Asset category	Market value as at 31/12/2016	% Investment
Real estate investments	**690**	**0.9%**
Financial Investments	**74,188**	**97.0%**
Fixed-income securities	34,760	46.8%
Equity securities and investment funds	2,796	3.8%
Holdings in Group companies	36,632	49.4%
Accepted reinsurance deposits	**1,608**	**2.1%**
Hedging derivatives	-	-
Other investments	-	-
Total	**76,486**	**100.0%**

Data in thousands of euros

As of 31 December 2016, 97% of all Company investments were financial investments. They are broken down into holdings in Group companies (49.4%) and fixed-income investments (46.8%).

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

- Share risk: sensitivity of the value of the assets, liabilities, and financial instruments to changes in the level or the volatility of the shares' market prices.
- Concentration risk: additional risks to which an insurance or reinsurance company is exposed as a consequence of a lack of asset portfolio diversification or significant exposure to noncompliance risk of a securities issuer or a group of connected issuers.
- Interest rate risk: sensitivity of the value of the assets, liabilities, and financial instruments to changes in the temporary structure of interest rates or the volatility of the interest rates.
- Spread risk: sensitivity of the value of the assets, liabilities, and financial instruments to changes in the level or the volatility of credit differentials with regard to the time structure of risk-free interest rates.
- Currency risk: sensitivity of the value of the assets, liabilities, and financial instruments to changes in the level or the volatility of the currency exchange rates.
- Real estate risk: sensitivity of the value of the assets, liabilities, and financial instruments to changes in the level or the volatility of the market prices of the real estate property.

The SCR market risk entails 50.4% of the total SCR before diversification and taking into account the loss absorption capacity.

C.2.2 Risk mitigation techniques

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

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

Additionally, for each risk sub-model:

- Spread and concentration risks are mitigated by the high proportion of fixed income securities with credit ratings classified as degree of investment, and through issuer diversification.
- Share investments are subject to the maximum limit of the investment portfolio, and issuer limits.
- The Investment Policy establishes an asset exposure limit for currency coverage in order to minimise foreign currency risk. It also looks for a correlation between the currencies in which the assets and liabilities are denominated. There is a list of assets in which it is permitted to invest, others that are not permitted and others for which prior approval is required from the Investment Committee.

C.3 Credit risk

C.3.1 Exposure to the risk

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

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

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

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

c. Fixed income securities, derivative instruments, and other financial investments not considered fixed income. Its exposure to Credit Risk is measured at its economic value, once possible mitigating factors have been deducted. (Investments)

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

	Exposure to credit risk 31/12/2016
Reinsurers	106,592
Financial entities	3,338
Other investments	0

Data in thousands of euros

Credit Risk is included under the SCR Standard Formula calculation.

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

The SCR credit risk entails 9% of the total SCR before diversification and taking into account the loss absorption capacity.

C.3.2 Risk mitigation techniques

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

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

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

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

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

C.4 Liquidity risk

C.4.1 Exposure to the risk

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

The Company 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 balances to cover any situations arising as a result of its commitments to policyholders and creditors.

At 31 December 31, 2016, the balance of cash and cash equivalents amounted to 3,338 thousand euros, which is equivalent to 4.3% of total financial investments and cash balances. Additionally, the majority of fixed-income investments have high credit ratings and are traded on organised financial markets, which grants a great deal of leeway for action in the face of potential liquidity tensions.

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

C.4.2 Risk mitigation techniques

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

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

C.5 Operational risk

C.5.1 Exposure to the risk

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

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

The SCR operational risk represents 7.5% of the total SCR (before diversification). Below is a table reflecting the results based on premiums accrued and technical provisions:

	2016
Operational risk module	**3,971**
30% BSCR	11,265
Maximum premiums and provisions	3,971
Accrued premiums risk	3,971
Technical provisions risk	3,660

Data in thousands of euros

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

C.5.2 Risk mitigation techniques

The identification and evaluation of operational risks and business processes are managed by the Company's Risk Control area, which creates Risk Maps for the Company, in which analyses on the importance and probability of occurrence of different risks are performed.

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

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

C.6 Other material risks

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

- **Technical provisions recognition risk:**

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

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

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

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

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

- **Business continuity risk:**

Business continuity risk is that which supports SOLUNION'S activities due to the possibility that future events will cause negative consequences to meeting the financial and business goals, or the Group's financial situation.

This risk is discussed in the Business Continuity Plan, the purpose of which is to define the processes to follow before, during and after an incident that causes or can cause interruption in 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. This takes into account the areas, internal departments, suppliers and Company services and should be updated and revised continuously to include potential significant changes.

- **Compliance risk:**

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

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

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

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

- **Reputational risk:**

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

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

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

The following measures are carried out to mitigate risk:

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

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

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

- **Outsourcing risk:**

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

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

C.7 Any other information

C.7.1 The most significant concentrations of risk.

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

For market risk, the Company applies the limits established in the Investment Plan, which ensures sufficient diversification by issuer, country, and activity sectors.

Public Debt investment in Spain represents 67.5% of total investment.

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

C.7.2 Sensitivity analysis

This process entails the following steps:

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

- Based on the above jumping-off point, a number of asset and liability variables are chosen which affect the Company's solvency ratio, which are then subjected to upwards or downwards movements to detect any especially-relevant risk factors, as well as those considered residual risks due to their negligible impact.
- The Company includes a forward projection of the Company's situation during the subsequent three years based on its approved business Plan, to determine any effects on solvency ratio.
- The projection is made using a base scenario considered by the Company to be probable, and a series of additional scenarios including risk factors identified as relevant.

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

C.7.3 Other matters

Off-balance-sheet positions

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

Transfer of risk to special-purpose entities

The Company does not transfer risk to special-purpose entities.

D. Valuation for Solvency Purposes

D.1. Assets

Information on asset valuation

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

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

Assets	Solvency II Value	Accounting Value
Goodwill		**18,122**
Deferred acquisition costs		**6,470**
Intangible assets	**-**	**1,655**
Deferred tax assets	**8,809**	**8,809**
Assets and rights to reimbursement for long-term remuneration to the personnel	**4,655**	**4,655**
Property, plant & equipment held for own use	**642**	**642**
Investments (other than assets that are held for "index-linked" and "unit-linked" funds)	**74,236**	**84,262**
Property (other than for own use)	48	40
Investments	36,632	47,296
Equities	-	-
Equities - listed	-	-
Equities - unlisted	-	-
Bonds	34,760	34,130
Public debt	27,589	27,151
Private debt	7,171	6,979
Structured financial assets	-	-
Asset securitisation	-	-
Investment funds	2,796	2,796
Derivatives	-	-
Deposits other than cash equivalent assets	-	-
Other investments	-	-
Assets held for "index-linked" and "unit-linked" contracts	**-**	**-**
Loans and mortgages	**-**	**-**
Advanced payments on policies	-	-
For individuals	-	-
Other	-	-
Reinsurance recoverables from:	**109,785**	**121,748**

Assets	Solvency II Value	Accounting Value
Insurance other than life insurance, and health similar to insurance other than life insurance	109,785	121,748
Insurance other than life insurance, excluding health insurance	109,785	121,748
Health insurance similar to insurance other than life insurance	-	-
Life insurance, and health similar to life insurance, excluding health and "index-linked" and "unit-linked"	-	-
Health insurance similar to life insurance	-	-
Life insurance, excluding health and "index-linked" and "unit-linked"	-	-
Life insurance, "index-linked" and "unit-linked"	-	-
Accepted reinsurance deposits	**1,608**	**1,608**
Credits for direct insurance and coinsurance operations	**29,850**	**29,850**
Reinsurance operation credits	**4,841**	**4,841**
Other credits	**5,127**	**5,127**
Treasury shares	**-**	**-**
Mutual shareholders for required disbursements	**-**	**-**
Cash and cash equivalents	**3,338**	**3,338**
Any other assets, not elsewhere shown	**168**	**797**
TOTAL ASSETS	**243,059**	**291,924**

Data in thousands of euros

D.1.1. Goodwill

Assets	Solvency II Value	Accounting Value
Goodwill		18,122

Data in thousands of euros

a) Valuation for Solvency II purposes

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

b) Valuation differences between Solvency II and those established under the accounting policies for insurance companies (hereafter PCEA) criteria.

Unlike under the Solvency II provisions, according to the PCEA, goodwill is value at its cost adjusted in line with accumulated amortisation and any possible impairment. The above goodwill represents the excess amount paid during a business combination for the fair value of identifiable assets acquired and the liabilities and contingencies assumed.

D.1.2. Deferred acquisition costs

Assets	Solvency II Value	Accounting Value
Deferred acquisition costs		6,470

Data in thousands of euros

a) Valuation for Solvency II purposes

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

b) Valuation differences between Solvency II and PCEA criteria.

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

D.1.3. Intangible assets

Assets	Solvency II Value	Accounting Value
Intangible assets	-	1,655

Data in thousands of euros

a) Valuation for Solvency II purposes

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

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

b) Valuation differences between Solvency II and PCEA criteria.

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

D.1.4. Deferred tax assets

Assets	Solvency II Value	Accounting Value
Deferred tax assets	8.809	8,809

Data in thousands of euros

a) Valuation for Solvency II purposes

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

The Company recognised deferred tax assets on the Solvency II balance sheet, as it offset deferred assets and liabilities as set forth in EIOPA technical specifications, when they are taxes established by the same tax authority.

b) Valuation differences between Solvency II and PCEA criteria

Under PCEA, deferred taxes are recognised using the liability method on all temporary differences at the consolidated balance sheet date between the tax bases of assets and liabilities and their carrying amounts.

Offsetting of deferred tax assets and liabilities is not contemplated under PCEA, unlike Solvency II valuation methods.

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:

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

D.1.5. Pension benefit surplus

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

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

Assets	Solvency II Value	Accounting Value
Property, plant & equipment held for own use	642	642

Data in thousands of euros

a) Valuation for Solvency II purposes

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

b) Valuation differences between Solvency II and PCEA criteria

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

In this case, this item does not present valuation differences, its amount is 642 thousand euros on both the economic and accounting balance sheets.

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

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

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

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

Level 1 corresponds to unadjusted quoted prices on active markets. Level 2 uses observable data, or listed prices for instruments which are similar to those being appraised, or other valuation techniques in which all the significant variables are based on observable market data; Level 3 uses specific variables for each case. Nonetheless, we must stress the slight relevance of assets included in the last level.

Although not all assets and liabilities may have available observable market transactions or information, in any case the purpose of a fair value appraisal is always the same: estimate the price for an orderly transaction for selling or transferring the liability between market participants at the valuation date in present market conditions.

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

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

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

Data in thousands of euros

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

a) Valuation for Solvency II purposes

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

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

b) Valuation differences between Solvency II and PCEA criteria

Under PCEA, properties 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 the two valuation criteria represented the recognition of the higher amount of properties on the Solvency II balance sheet in the amount of 48 thousand euros.

D.1.7.2 ***Investments***

Assets	Solvency II Value	Accounting Value
Investments	36,632	47,296

Data in thousands of euros

In accordance with the text of Article 131 of the Regulations for the Ordinance, Supervision, and Solvency of insurance entities (hereafter ROSSEAR), related parties and subsidiaries are related companies which are subsidiaries or companies in which there is an investment or which can be considered to have a dominant or significant influence.

a) Valuation for Solvency II purposes

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

b) Valuation differences between Solvency II and PCEA criteria

Under PCEA, investments in related party equity is valued at cost, and where applicable, at the accumulated amount of impairment losses. As a result, an increase/decrease was revealed (indicate applicable term for each Entity) in the valuation of investments on the Solvency II balance sheet in the amount of 36,632 thousand euros, vs. PCEA stipulations.

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

Equities

a) Valuation for Solvency II purposes

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

b) Valuation differences between Solvency II and PCEA criteria

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

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

Bonds and obligations

Assets	Solvency II Value	Accounting Value
Public debt	27,589	27,151
Private debt	7,171	6,979
Structured financial assets	-	-
Asset securitisation	-	-

Data in thousands of euros

a) Valuation for solvency purposes

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

b) Valuation differences between Solvency II and PCEA criteria

Only the assets valued at amortised costs will need to be recalculated to adjust them to their fair value. This applies to public and private debt items.

Bonds are classified as follows:

- Public debt:

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

- Private debt:

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

- Structured financial assets:

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

D.1.7.4 ***Investment funds***

Activos	Valor Solvencia II	Valor Contable
Investment funds	2.796	2.796

Data in thousands of euros

a) Valuation for solvency purposes

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

b) Valuation differences between Solvency II and PCEA criteria

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

D.1.7.5 ***Derivatives***

a) Valuation for solvency purposes

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

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

b) Valuation differences between Solvency II and PCEA criteria

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

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

D.1.7.6 ***Deposits other than cash equivalents***

This category includes all deposits in financial institutions other than those which are immediately available or which are very short-term which were included under “Cash and cash equivalents” as well as other short-term loans.

a) Valuation for Solvency II purposes

For the purposes of the Solvency II economic balance sheet, the Company recorded the different deposits of the cash equivalent assets and fair value deposits using a valuation methodology based on updating the assets’ future flows (certain or estimated) using a risk-free discount curve and considering the counterparty’s risk.

b) Valuation differences between Solvency II and PCEA criteria

Under PCEA, deposits other than cash equivalents are carried at amortised cost due to their classification under “Loans and receivables,” leading to valuation differences.

D.1.7.7 ***Other investments***

This category includes all investments not included in the others.

a) Valuation for Solvency II purposes

Assets included in this category are valued at fair value or amortised cost depending on the category in which they were designated according to PCEA / IAS 39.

b) Valuation differences between Solvency II and PCEA criteria

Only the assets valued at amortised costs will need to be revalued to adjust them to their fair value.

In 2016, the value for the item is zero.

D.1.8. Loans and mortgages

a) Valuation for Solvency II purposes

Loans for policies are stated at amortised costs according to PCEA / IAS 39, therefore they must be revalued to adjust the valuation to Solvency II criteria.

For purposes of Solvency II economic balance sheet, the following aspects were taken into account when determining the value of amounts recoverable from loans:

- The expected value of prospective nonpayment, and where applicable, the recoverable value of the guarantee obtained.
- Expected collections pattern for these loans and mortgages.

b) Valuation differences between Solvency II and PCEA criteria

Loans and mortgages are stated according to PCEA / IAS 39 and can be measured at fair value or amortised cost depending on the category in which they are classified. Only the loans and mortgages valued at amortised costs will need to be recalculated to adjust them to their fair value.

In 2016, the value for the item is zero.

D.1.9. Reinsurance recoverables

Assets	Solvency II Value	Accounting Value
Reinsurance recoverables	109,785	121,748

Data in thousands of euros

a) Valuation for Solvency II purposes

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

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

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

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

  The classification among the different reinsurance businesses and the development of reinsurance claims are based on the hypotheses and assumptions made for direct insurance with regard to the technical provisions.

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

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

b) Valuation differences between Solvency II and PCEA criteria

Under PCEA, technical reserves 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 insurance.

D.1.10. Deposits to cedants

Assets	Solvency II Value	Accounting Value
Deposit to cedants	1,608	1,608

Data in thousands of euros

a) Valuation for Solvency II purposes

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

- The ability meet the grantor's future payment commitments.
- 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.

b) Valuation differences between Solvency II and PCEA criteria

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

D.1.11. Insurance and intermediaries receivables

Assets	Solvency II Value	Accounting Value
Insurance and intermediaries receivables	29,850	29,850

Data in thousands of euros

a) Valuation for Solvency II purposes

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

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

b) Valuation differences between Solvency II and PCEA criteria

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

D.1.12. Reinsurance receivables

Assets	Solvency II Value	Accounting Value
Reinsurance receivables	4,841	4,841

Data in thousands of euros

a) Valuation for Solvency II purposes

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

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

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

b) Valuation differences between Solvency II and PCEA criteria

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

D.1.13. Receivables (trade, not insurance)

Assets	Solvency II Value	Accounting Value
Receivables (trade, not insurance)	5,127	5,127

Data in thousands of euros

a) Valuation for Solvency II purposes

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

b) Valuation differences between Solvency II and PCEA criteria

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

D.1.14. Cash and cash equivalents

Assets	Solvency II Value	Accounting Value
Cash and cash equivalents	3,338	3,338

Data in thousands of euros

a) Valuation for Solvency II purposes

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

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

b) Valuation differences between Solvency II and PCEA criteria

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

D.1.15. Any other assets, not elsewhere shown

Assets	Solvency II Value	Accounting Value
Any other assets, not elsewhere shown	168	797

Data in thousands of euros

a) Valuation for Solvency II purposes

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

b) Valuation differences between Solvency II and PCEA criteria

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

- Commissions and other granted accrued reinsurance expenses are contemplated during the valuation of technical provisions, as they include the entirety of the associated expenses.
- Available-for-sale assets: accounting guidelines for non-current assets (or disposal groups) maintained for sale and discontinued operations are provided in the PCEA. This rule requires that the assets and disposal groups of items maintained for sale be valued carried at the lower of the book value and the fair value less cost to sell. As this is not in line with the Solvency II framework (i.e., the valuation base to apply to the assets and liabilities identified according to their nature), the assets and disposal groups classified and valued under PCEA usually have to be reclassified under other asset categories. This reclassification shall be made according to their nature and revalued as necessary.
- Other: depending on the nature of the assets, they may need to be revalued at market value.

D.1.16. Additional information

There is no other additional information to be highlighted.

D.2. Technical provisions

Information on technical provision valuation

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

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

Technical provisions	Solvency II Value	Accounting Value
Technical provisions - insurance other than life insurance	124,403	134,808
Technical provisions - insurance other than life insurance (excluding health insurance)	124,403	0
Technical provisions calculated as a whole	0	
Best Estimate (BE)	121,988	
Risk margin (RM)	2,415	
Other technical provisions		0
TOTAL TECHNICAL PROVISIONS	**124,403**	**134,808**

Data in thousands of euros

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

With regard to the valuation of technical provisions, the Company, following the PCEA, establishes its accounting provisions according to ROSSEAR.

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

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

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

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

D.2.1. Best estimate and risk margin

Best estimate

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

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

a) Best estimate of the provision for pending claims

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

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

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

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

- This corresponds to claims taking place prior to the valuation date, regardless of whether they have been declared or not.
- It is calculated by the current value of expected future cash flows associated to the commitments. Projected cash flows will include payments for services and related expenses: claim and investment management.
- Should there be any commitments transferred to a counterparty, the recoverable amounts are adjusted to contemplate the expected losses arising from nonpayment.
- The best estimate considers the time value of money based on the consideration of the claim inflows and outflows.
- From a methodological point of view, it is determined as the final cost of claims and effective payments made, net of their potential recovery or collection.

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

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

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

b) <u>Best estimate of the provision for premiums</u>

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

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

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

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

- Current portfolio. This includes the following headings:
  - Expected loss ratio. Two methodologies may be used to calculate the current value of service payments:
    - The frequency and average cost method: claims are calculated as the result of exposure based on frequency hypotheses and final average costs.
    - Loss ratio method: the expected loss ratio arising from applying the final claim ratio to gross PPNC acquisition expenses.
  - Expenses attributable to the current portfolio: acquisition (without commissions), administration, chargeable to services, investment expenses, as well as other technical expenses.
- Future business: This includes the following headings:
  - Premiums corresponding to policies which have not yet been renewed but include company commitments to renew (this is the case for tacit renewals or those for pluri-annual policies with annual guaranteed premium payments). This calculation includes the future performance of policyholders based on the applications of an estimated cancellation probability.

- Expected claims corresponding to future premiums. 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.

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

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

Contract limits

As outlined in the Solvency II Directive, when calculating the best estimate, it is necessary to consider the contractual limits. In certain cases, this implies the inclusion of future premiums arising from commitments in force. If the contracts are profitable, cash inflows corresponding to these premiums will be higher than the outflows (payments and expenses); thereby generating a negative BEL. Depending on the product's profitability, the inclusion of contractual limits generates a decrease in the best estimate (if the contracts are profitable) or an increase (if they are not).

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

- Commitments provided by the Company after the date during which:
  - The Company has unilateral cancellation rights over the contract.
  - The Company reserves the right to reject premiums payable related to the contract.
  - The Company reserves the unilateral right to modify its premiums or services to which it is bound by virtue of the contract, so that the premiums clearly reflect the risks.
- All obligations which do not correspond to premiums which have already been paid, unless the policyholder may be forced to pay future premiums, except for the following conditions:
  - The contract does not establish an indemnity for a specific undetermined event which may adversely affect the reinsured party.
  - The contract does not include a financial guarantee for coverage provided.

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

- The application of the concept of contractual limits, which involves the consideration of future business. Under PCEA, future premiums must be taken into account if they contemplate the corresponding technical note.

- The consideration of all cash flow sources. In general, under Solvency II, the premium provision for profitable products included in a portfolio in force are less than the provision for unearned premiums (PPNC) reflected on financial statements. In cases of premium inadequacy, the premium provision is comparable to the PPNC plus the prevailing risk provision (without taking the discount effect into account). For future business, the Solvency II premium provision for profitable products will be negative.

- The credit risk adjustment to recoverable reinsurance amounts.

- The financial discount of cash flows.

Risk margin

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

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

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

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

- SCR Premiums and Reserves (RU): for premiums earned, only the current business is considered according to Article 38 section e) of the Delegate Regulation for Solvency II .

- Counterparty SCR: considers only the risk mitigating contracts.

- SCR residual market: for long-term obligations, only the assets used as risk mitigators should be considered.

- The non-existence of absorption capacity of deferred tax losses is assumed.

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

- Method 1: The SCR (RU) is calculated in each future year, applying shocks to the BEL of the liabilities that remain in the portfolio in each future projection year.

- Method 2: The SCRs (RU) of the individual risks are approximated through a driver. It is usually used when the exposure among risks is not homogenous.

- Method 3: Estimate of the SCR (RU) as a whole through a driver, mainly the technical provisions.

- Method 4: Method based on the duration of the liabilities.

- Method 5: The risk margin is estimated through factors (stipulated in the technical specifications) of the BEL.

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

Necessary inputs

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

Parameters

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

Calculations

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

Additionally, the rule requires that said calculation is listed by Solvency II business line, which can be seen in Form S.17.01.02 of the Appendix.

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

Where:

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

Degree of uncertainty regarding to the amount of technical provisions

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

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

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

Actuarial methods and hypotheses used when calculating technical provisions

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

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

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

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

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

  - Interest rate structure broken down by the commitment currencies.

  - Exchange rates.

  - Market trends and financial variables.

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

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

  - Customer losses and policy surrenders.

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

  - Legislative changes.

Also, it is worth noting that under PCEA, Management's actions and policyholder behaviour are not included when calculating technical provisions, while under Solvency II, as indicated in its Directive, companies may establish a comprehensive plan covering future decisions considering the necessary time frame to calculate their best estimates, including a probability analysis of when policyholders might exercise certain rights included in their insurance policies.

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

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

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

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

D.2.3. Provision of premium and claims recoverables

See the explanation under above Section D.1.9

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

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

D.3. Other liabilities

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

Other liabilities	Solvency II Value	Accounting Value
Total technical provisions	**124,403**	**134,808**
Contingent liabilities	-	-
Provisions other than technical provisions	2,365	2,365
Pension and similar obligations provision	4,655	4,655
Deposits received on ceded reinsurance	3,235	3,235
Deferred tax liabilities	2,683	2,067
Derivatives	-	-
Debts owed to credit institutions	-	-
Financial liabilities other than debts owed to credit institutions	-	-
Debts for insurance and coinsurance operations	21,733	21,733
Reinsurance operation debts	8,389	8,389
Other debts and payables	6,816	6,816
Subordinated liabilities	-	-
Subordinated liabilities not in Basic Own Funds	-	-
Subordinated liabilities in Basic Own Funds	-	-
Any other liabilities, not elsewhere shown	376	12,515
TOTAL LIABILITIES	**174,655**	**196,583**
SURPLUS OF ASSETS VS. LIABILITIES	**68,404**	**95,343**

Data in thousands of euros

D.3.1. Contingent liabilities

a) Valuation for Solvency II purposes

Contingent liabilities are recognised when they are significant and when the information on the current or potential volume/nature may affect decision making or its recipient's criteria, including supervisory authorities.

Their valuation is the same as the current value expected of future cash flows necessary for settling the contingent liability over its lifetime, using the basic temporary risk-free interest rate structure.

b) Valuation differences between Solvency II and PCEA criteria

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

In this case, the amount for the item is zero.

D.3.2. Provisions other than technical provisions

Other liabilities	Solvency II Value	Accounting Value
Provisions other than technical provisions	2,365	2,365

Data in thousands of euros

a) Valuation for Solvency II purposes

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

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

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

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

The section "Other non-technical provisions" in fiscal year 2016 includes 691 thousand euros corresponding to the commitments for tenure awards, 90 thousand euros corresponding to other personnel expenses and 155 thousand euros corresponding to expenses for conventions, the settlement of which is estimated to be made in 2017. Additionally, 1,430 thousand euros corresponding to personnel expenses are included.

b) Valuation differences between Solvency II and PCEA criteria

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

D.3.3. Pension benefit obligations

Other liabilities	Solvency II Value	Accounting Value
Pension benefit obligations	4,655	4,655

Data in thousands of euros

a) Valuation for Solvency II purposes

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

b) Valuation differences between Solvency II and PCEA criteria

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

D.3.4. Deposits from reinsurers

Other liabilities	Solvency II Value	Accounting Value
Deposits received on ceded reinsurance	3,235	3,235

Data in thousands of euros

a) Valuation for Solvency II purposes

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

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

b) Valuation differences between Solvency II and PCEA criteria

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

D.3.5. Deferred tax liabilities

Other liabilities	Solvency II Value	Accounting Value
Deferred tax liabilities	2.683	2.067

Data in thousands of euros

a) Valuation for Solvency II purposes

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

The Company recognised deferred tax liabilities on the Solvency II balance sheet, as it offset deferred assets and liabilities as set forth in EIOPA technical specifications, when they are taxes paid to the same tax authority.

b) Valuation differences between Solvency II and PCEA criteria

Under PCEA, deferred taxes are recognised using the liability method on all temporary differences at the consolidated balance sheet date between the tax bases of assets and liabilities and their carrying amounts. Offsetting of deferred tax assets and liabilities is not contemplated under PCEA, unlike the Solvency II balance sheet.

The differences between the Solvency II and accounting value arose due to the different valuation criteria:

- Intangible assets.
- Real estate.
- Investments.
- Recoverable amounts of reinsurance.
- Technical provisions.

D.3.6. Derivatives

a) Valuation for Solvency II purposes

These are measured as the value of the future flows expected, discounting the risk-free interest rate at the valuation date, increased by the spread of debt valuation adjustment (DVA) in existence when the transaction commences, so that subsequent oscillations in the differential have no impact on the valuation.

b) Valuation differences between Solvency II and PCEA criteria

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

In 2016 the Company does not have derivatives.

D.3.7. Debts owed to credit institutions

a) Valuation for Solvency II purposes

For Solvency II purposes, debts with credit institutions have to be valued at market value.

b) Valuation differences between Solvency II and PCEA criteria

If the debts are classified as long-term, there may need to be an adjustment since the Company's credit solvency should not be considered in the valuation.

In 2016, the Company did not have debt with credit institutions, therefore the value in the accounting and economic balance sheets is zero.

D.3.8. Financial liabilities other than debts owed to credit institutions

a) Valuation for Solvency II purposes

A revaluation will be necessary when the corresponding element is valued at amortised cost and is not short-term. In addition, if the Company's credit solvency is included in the reasonable value calculation, this item must be excluded from the balance sheet at market value.

b) Valuation differences between Solvency II and PCEA criteria.

As we mentioned in the previous section, according to the Solvency II criteria, this item is valued at zero, as opposed to the PCEA criteria.

In 2016, the Company did not have financial liabilities other than the debt with credit institutions, therefore the value in the accounting balance sheets is also zero.

D.3.9. Insurance & intermediaries payables

Other liabilities	Solvency II Value	Accounting Value
Insurance & intermediaries payables	21,733	21,733

Data in thousands of euros

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

a) Valuation for Solvency II purposes

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

b) Valuation differences between Solvency II and PCEA criteria

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

D.3.10. Reinsurance payables

Other liabilities	Solvency II Value	Accounting Value
Reinsurance payables	8,389	8,389

Data in thousands of euros

a) Valuation for Solvency II purposes

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

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

b) Valuation differences between Solvency II and PCEA criteria

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

D.3.11. Payables (trade, not insurance)

Other liabilities	Solvency II Value	Accounting Value
Payables (trade, not insurance)	6,816	6,816

Data in thousands of euros

a) Valuation for Solvency II purposes

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

b) Valuation differences between Solvency II and PCEA criteria

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

D.3.12. Any other liabilities, not elsewhere shown

Other liabilities	Solvency II Value	Accounting Value
Any other liabilities, not elsewhere designated	376	12,515

Data in thousands of euros

a) Valuation for Solvency II purposes

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

b) Valuation differences between Solvency II and PCEA criteria

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.

Under PCEA regulations, these items fall under this heading.

D.3.13. Additional information

There is no other significant information to be highlighted.

D.4. Alternative methods for valuation

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

The Company does use alternative valuation methods for their liabilities.

D.5. Any other information

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

SOLUNION Seguros de Crédito, Compañía Internacional de Seguros y Reaseguros S.A. has a Capital Management Policy approved by the Board of Directors on 19 December, 2016, that is reviewed annually to be updated.

The principal objectives of this Policy are the following:

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

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

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

The Risk Management Area must submit the medium-term Capital Management Plan to the Board of Directors or equivalent body for approval. The plan is part of the ORSA report. The projected period covers 3 years, and is aligned with the budget preparation approach.

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

Structure, amount, and quality of own shares

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

As of 31 December, 2016, the Company holds the following own funds:

2016	Total	Tier 1	Tier 2	Tier 3
Own funds	**68.404**	62.278	-	6.126

Data in thousands of euros

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

At December 31, 2016, the Company had basic unrestricted Tier 1 Own Funds totalling 62,278 thousand euros. These own funds have the maximum availability for absorbing losses. They are comprised of:

- ordinary paid-in share capital,
- treasury shares

It also has basic Tier 3 own funds in the amount of 6,126 thousand euros, composed of deferred tax assets.

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

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

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

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

As mentioned above, given that the Company's own funds include both tier 1 and tier 3, and according to the standard formula, the tier 3 own funds are not fully eligible to cover the regulatory capital. Consequently, the calculation method proposed by EIOPA has been used in this case. The result has been to recognize tier 3 own funds equivalent to 15% of the regulatory capital, therefore the resulting eligible amount to cover the SCR is 67,750 million euros. The following chart shows the detail:

2016	Total	Tier 1	Tier 2	Tier 3
Own funds eligible to cover SCR	**67.750**	62.278	-	5.472

Data in thousands of euros

The Company's solvency ratio, which measures the relationship between eligible own funds and the SCR, reaches 185.7%, therefore it is found within the Risk Appetite safety zone established for the Company and approved by the Board of Directors.

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

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

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

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

Given the classification of the Company's own funds, the eligible amount to cover the MCR is 62,278 thousand euros. The following chart shows the detail:

2016	Total	Tier 1	Tier 2	Tier 3
Own funds eligible to cover MCR	**62.278**	62.278	-	-

Data in thousands of euros

The Company's solvency ratio, which measures the relationship between the eligible own funds and the MCR amounts to 682.8%.

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

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

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

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

As of 31 December, 2016, net equity on the financial statements totalled 95,343 thousand euros, while surplus assets vs. liabilities for Solvency II purposes was 68.404 thousand euros.

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

Own Funds issued and instruments redeemed

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

Essential items on the Reconciliation Reserve

The amount of the Company's Reconciliation Reserve is -20,414 thousand euros and it is composed mainly of "Other items of basic own funds" and of "Surplus of assets vs. liabilities." A breakdown is shown below:

Reconciliation reserves	2016
Surplus of assets vs. liabilities	68.404
Treasury shares (included as assets on the balance sheet)	-
Dividends, distributions and foreseen costs	-
Other elements of basic own funds	88.818
Adjustments for own fund items restricted by FDL and CSAC	-
Total reconciliation reserves	**(20.414)**

Data in thousands of euros

E.1.3. Transitional measures

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

E.1.4. Complementary equity

All the Company's Own Funds are considered basic. The Company did not include any complementary own funds.

E.1.5. Items deducted from Own Shares

As of 31 December, 2016, no items have been deducted from the own funds.

E.1.6. Other information

Other ratios apart from those included on template S.23.01

The Company does not use other ratios apart from other ratios apart from those included on template S.23.01.01, on its solvency.

Subordinated debt

The Company has no subordinated debt.

Main loss absorption mechanisms

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

E.2. Solvency Capital Requirement and Minimum Capital Requirement

E.2.1. Amount of Solvency Capital Requirement

SCR amounts and Minimum Capital Requirements

The SCR by risk models uses the Solvency II standard formula methodology as at 31 December, 2016, is listed in Section C Risk Profile. Additionally, figures S.25.01.21 and S.28.01.01 of the Appendix contain more detailed information on the regulatory capitals.

The Company's total Solvency Capital Requirement (SCR) included in Appendix S.24.01.21 amounts to 36,482 thousand euros, corresponding to the level of own funds required by the supervisory authorities from the insurance and reinsurance agencies for the purpose of absorbing significant losses and offering the policyholders and insurance beneficiaries a reasonable guarantee that the payments will be made upon maturity. It has been calculated using the simplification set forth in Article 109 of Directive 2009/138/EC.

As detailed in Section C, SOLUNION'S risk profile is affected mainly by market risk. That is followed by non-life underwriting risk, to which catastrophic credit and surety risk mainly contribute, due to the recession risk. Third is credit risk, which is generated mainly because of SOLUNION's heightened exposure in reinsurance agreements. The exposure level of reinsurance recoverables is affected by the heightened level of transfer defined in the reinsurance structure.

The loss absorption capacity of these technical provisions amounts to 0, and for deferred tax losses it amounts to 5,039 thousand euros

Minimum Solvency Capital Requirements (MCR), the capital amount that guarantees the security minimum, under which financial resources should never drop, has a value of 9,121 thousand euros.

To obtain the MCR, the linear MCR should be calculated, the value of which is 3,215 thousand euros. It was obtained applying the factors corresponding to data used in their calculation, and are included in Appendix S.28.01.01. The combined MCR amounted to 9,121 thousand euros. The combined MCR is the result from applying maximum and minimum limits to the linear MCR.

Since the combined MCR is higher than the MCR’s absolute limit (3,700 thousand euros), the amount of the combined MCR is considered as the amount of MCR, which is, therefore, 9,121 thousand euros.

Data used by the Company in calculation of the MCR Solvency

The Company calculated the MCR as indicated in Delegated Regulation 2015/35, Article 248. Therefore, the linear MCR and the combined MCR were calculated.

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

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

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

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

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

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

Appendices

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

S.02.01.02 – Balance sheet

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

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

S.17.01.02 – Technical provisions for non-life

S.19.01.21 – Non-life claims

S.23.01.01 – Equity

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

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

S.02.01.02

Asset	C0010 Solvency II Value	
Intangible assets	0	R0030
Deferred tax assets	8,809	R0040
Pension benefit surplus	4,655	R0050
Property, plant & equipment held for own use	642	R0060
Investments (other than assets held for index-linked and unit-linked contracts)	74,236	R0070
Property (other than for own use)	48	R0080
Holdings in related undertakings, including participations	36,632	R0090
Equities	0	R0100
Equities - listed	0	R0110
Equities - unlisted	0	R0120
Bonds	34,760	R0130
Government Bonds	27,589	R0140
Corporate Bonds	7,171	R0150
Structured notes	-	R0160
Collateralized securities	-	R0170
Collective Investments Undertakings	2,796	R0180
Derivatives	-	R0190
Deposits other than cash equivalents	-	R0200
Other investments	-	R0210
Assets held for index-linked and unit-linked contracts	-	R0220
Loans and mortgages	-	R0230
Loans on policies	-	R0240
Loans and mortgages to individuals	-	R0250
Other loans and mortgages	-	R0260
Reinsurance recoverables from:	109,785	R0270
Non-life and health similar to non-life	109,785	R0280
Non-life excluding health	109,785	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	1,608	R0350
Insurance and intermediaries receivables	29,850	R0360
Reinsurance receivables	4,841	R0370
Receivables (trade, not insurance)	5,127	R0380
Own shares (held directly)	-	R0390

Asset	C0010 Solvency II Value	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	-	R0400
Cash and cash equivalents	3,338	R0410
Any other assets, not elsewhere shown	168	R0420
Total assets	**243,059**	R0500

Liability	C0010 Solvency II Value	
Technical provisions - non-life	124,403	R0510
Technical provisions - non-life (excluding health)	124,403	R0520
Technical provisions calculated as a whole	121,988	R0530
Best Estimate	2,415	R0540
Risk margin	-	R0550
Technical provisions - health (similar to non-life)	-	R0560
Technical provisions calculated as a whole	-	R0570
Best Estimate	-	R0580
Risk margin	-	R0590
Technical provisions - life (excluding index-linked and unit-linked)	-	R0600
Technical provisions - health (similar to life)	-	R0610
Technical provisions calculated as a whole	-	R0620
Best Estimate	-	R0630
Risk margin	-	R0640
Technical provisions - life (excluding health and index-linked and unit-linked)	-	R0650
Technical provisions calculated as a whole	-	R0660
Best Estimate	-	R0670
Risk margin	-	R0680
Technical provisions - index-linked and unit-linked	-	R0690
Technical provisions calculated as a whole	-	R0700
Best Estimate	-	R0710
Risk margin	-	R0720
Contingent liabilities	-	R0740
Provisions other than technical provisions	2,365	R0750
Pension benefit obligations	4,655	R0760
Deposits from reinsurers	3,235	R0770
Deferred tax liabilities	2,683	R0780
Derivatives	-	R0790
Debts owed to credit institutions	-	R0800
Financial liabilities other than debts owed to credit institutions	-	R0810
Insurance & intermediaries payables	21,733	R0820

	C0010	
Liability	**Solvency II Value**	
Reinsurance payables	8,389	R0830
Payables (trade, not insurance)	6,816	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	376	R0880
Total liabilities	**174,655**	R0900
Excess of assets over liabilities	**68,404**	R1000

S.05.01.02		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120
		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)											
		Medical expense insurance	**Income protection insurance**	**Workers' compensation insurance**	**Motor vehicle liability insurance**	**Other motor insurance**	**Marine, aviation and transport insurance**	**Fire and other damage to property insurance**	**General liability insurance**	**Credit and suretyship insurance**	**Legal expenses insurance**	**Assistance**	**Miscellaneous financial loss**
	Premiums written												
R0110	Gross - Direct Business									98,107			
R0120	Gross - Proportional reinsurance accepted									36,054			
R0130	Gross - Non-proportional reinsurance accepted												
R0140	Reinsurers' share									123,261			
R0200	**Net**									**10,900**			
	Premiums earned												
R0210	Gross - Direct Business									97,962			
R0220	Gross - Proportional reinsurance accepted									34,190			
R0230	Gross - Non-proportional reinsurance accepted												
R0240	Reinsurers' share									121,243			
R0300	**Net**									**10,909**			
	Claims incurred												
R0310	Gross - Direct Business									70,282			
R0320	Gross - Proportional reinsurance accepted									82,835			
R0330	Gross - Non-proportional reinsurance accepted												
R0340	Reinsurers' share									152,042			
R0400	**Net**									**1,075**			
	Changes in other technical provisions												
R0410	Gross - Direct Business									(25,472)			
R0420	Gross - Proportional reinsurance accepted									(61,221)			
R0430	Gross - Non- proportional reinsurance accepted												
R0440	Reinsurers' share									(89,946)			
R0500	**Net**									**3,253**			
R0550	**Expenses incurred**									5,081			
R1200	**Other Expenses**												
R1300	**Total expenses**												

S.05.01.02

		C0130	C0140	C0150	C0160	C0200
		Line of business for: accepted non-proportional reinsurance				Total
		Health	Casualty	Marine, aviation, transport	Property	
	Premiums written					
R0110	**Gross - Direct Business**					98,107
R0120	**Gross - Proportional reinsurance accepted**					36,054
R0130	**Gross - Non-proportional reinsurance accepted**				302	302
R0140	**Reinsurers' share**				648	123,909
R0200	**Net**				**(347)**	**10,554**
	Premiums earned					
R0210	**Gross - Direct Business**					97,962
R0220	**Gross - Proportional reinsurance accepted**					34,190
R0230	**Gross - Non-proportional reinsurance accepted**				302	302
R0240	**Reinsurers' share**				648	121,892
R0300	**Net**				**(347)**	**10,562**
	Claims incurred					
R0310	**Gross - Direct Business**					70,282
R0320	**Gross - Proportional reinsurance accepted**					82,835
R0330	**Gross - Non-proportional reinsurance accepted**					
R0340	**Reinsurers' share**				(5,817)	146,225
R0400	**Net**				**5,817**	**6,892**
	Changes in other technical provisions					
R0410	**Gross - Direct Business**					(25,472)
R0420	**Gross - Proportional reinsurance accepted**					(61,221)
R0430	**Gross - Non- proportional reinsurance accepted**					
R0440	**Reinsurers' share**				4,958	(84,988)
R0500	**Net**				**(4,958)**	**(1,705)**
R0550	**Expenses incurred**					5,081
R1200	**Other Expenses**					
R1300	**Total expenses**					**5,081**

S.05.02.01

		C0080	C0090	C0100	C0110	C0120	C0130	C0140
		SPAIN	**ITALY**	**ARGENTINA**	**CHILE**	**COLOMBIA**	**MÉXICO**	**Total Top 5 and home country**
	Premiums written							
R0110	**Gross - Direct Business**	98,107						98,107
R0120	**Gross - Proportional reinsurance accepted**		1,721	1,896	6,496	9,181	12,559	31,853
R0130	**Gross - Non-proportional reinsurance accepted**				88	36	178	302
R0140	**Reinsurers' share**	89,174	1,485	1,749	6,493	9,177	12,091	120,169
R0200	**Net**	**8,933**	**236**	**147**	**91**	**40**	**646**	**10,093**
	Premiums earned							
R0210	**Gross - Direct Business**	97,962						97,962
R0220	**Gross - Proportional reinsurance accepted**		1,710	1,725	5,677	9,181	12,769	31,062
R0230	**Gross - Non-proportional reinsurance accepted**				88	36	178	302
R0240	**Reinsurers' share**	88,904	1,471	1,592	5,670	9,177	12,313	119,127
R0300	**Net**	**9,058**	**239**	**133**	**95**	**40**	**634**	**10,199**
	Claims incurred							
R0310	**Gross - Direct Business**	70,282						70,282
R0320	**Gross - Proportional reinsurance accepted**		(21)	543	6,530	8,189	9,852	25,093
R0330	**Gross - Non-proportional reinsurance accepted**							
R0340	**Reinsurers' share**	69,352	(19)	528	6,463	8,184	9,747	94,255
R0400	**Net**	**930**	**(2)**	**15**	**67**	**5**	**105**	**1,120**
	Changes in other technical provisions							
R0410	**Gross - Direct Business**	(25,472)						(25,472)
R0420	**Gross - Proportional reinsurance accepted**		1,408	(667)	1,940	(1,669)	(3,267)	(2,255)
R0430	**Gross - Non- proportional reinsurance accepted**							
R0440	**Reinsurers' share**	(29,352)	1,275	(702)	1,971	(1,626)	(3,453)	(31,887)
R0500	**Net**	**3,880**	**133**	**35**	**(31)**	**(43)**	**186**	**4,160**
R0550	**Expenses incurred**	6,817	228	(202)	(299)	(134)	(201)	6,209
R1200	**Other Expenses**							
R1300	**Total expenses**	**6,817**	**228**	**(202)**	**(299)**	**(134)**	**(201)**	**6,209**

	S.17.01.02	C0020	C0030	C0040	C0050	C0060	C0070
		Direct business and accepted proportional reinsurance					
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance
R0010	Technical provisions calculated as a whole						
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole						
	Technical provisions calculated as a sum of BE and RM						
	Best estimate						
	Premium provisions						
R0060	Gross - Total						
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						
R0150	Net Best Estimate of Premium Provisions						
	Claims provisions						
R0160	Gross - Total						
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						
R0250	Net Best Estimate of Claims Provisions						
R0260	Total Best estimate - gross						
R0270	Total Best estimate - net						
R0280	Risk margin						
	Amount of the transitional on Technical Provisions						
R0290	TP as a whole						
R0300	Best estimate						
R0310	Risk margin						
	Technical provisions - total						
R0320	Technical provisions - total						
R0330	Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total						
R0340	Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total						

S.17.01.02

		C0080	C0090	C0100	C0110	C0120	C0130
		Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss
R0010	Technical provisions calculated as a whole						
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole						
	Technical provisions calculated as a sum of BE and RM						
	Best estimate						
	Premium provisions						
R0060	Gross - Total			25,504			
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default			23,352			
R0150	Net Best Estimate of Premium Provisions			2,152			
	Claims provisions						
R0160	Gross - Total			96,484			
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default			86,432			
R0250	Net Best Estimate of Claims Provisions			10,052			
R0260	Total Best estimate - gross			121,988			
R0270	Total Best estimate - net			12,204			
R0280	Risk margin			2,415			
	Amount of the transitional on Technical Provisions						
R0290	TP as a whole						
R0300	Best estimate						
R0310	Risk margin						
	Technical provisions - total						
R0320	Technical provisions - total			**124,403**			
R0330	Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total			109,784			
R0340	Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total			14,619			

S.17.01.02

		C0140	C0150	C0160	C0170	C0180
		Accepted non-proportional reinsurance				Total non-life commitments
		Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
R0010	Technical provisions calculated as a whole					
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole					
	Technical provisions calculated as a sum of BE and RM					
	Best estimate					
	Premium provisions					
R0060	Gross - Total					25,504
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default					23,352
R0150	Net Best Estimate of Premium Provisions					2,152
	Claims provisions					
R0160	Gross - Total					96,484
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default					86,432
R0250	Net Best Estimate of Claims Provisions					10,052
R0260	Total Best estimate - gross					121,988
R0270	Total Best estimate - net					12,204
R0280	Risk margin					2,415
	Amount of the transitional on Technical Provisions					
R0290	TP as a whole					
R0300	Best estimate					
R0310	Risk margin					
	Technical provisions - total					
R0320	Technical provisions - total					**124,403**
R0330	Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total					109,784
R0340	Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total					14,619

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Gross Claims Paid (non-cumulative)

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	
		Development year										
	Year	0	1	2	3	4	5	6	7	8	9	10 & +
R0100	Prior											(51)
R0160	N - 9	-	-	-	-	-	-	-	-	-	272	
R0170	N - 8	-	-	-	-	-	-	-	-	(66)		
R0180	N - 7	-	-	-	-	-	-	-	(174)			
R0190	N - 6	-	-	-	-	-	-	(31)				
R0200	N - 5	-	-	-	-	-	(341)					
R0210	N - 4	-	-	-	-	(115)						
R0220	N - 3	6.282	37.680	6.448	1.825							
R0230	N - 2	5.910	34.469	9.311								
R0240	N - 1	7.264	127.840									
R0250	N	14.647										

	C0170	C0180	
	In current year	Sum of years (cumulative)	
Prior	(51)	(51)	R0100
N-9	272	272	R0160
N-8	(66)	(66)	R0170
N-7	(174)	(174)	R0180
N-6	(31)	(31)	R0190
N-5	(341)	(341)	R0200
N-4	(115)	(115)	R0210
N-3	1,825	52,235	R0220
N-2	9,311	49,690	R0230
N-1	127,840	135,104	R0240
N	14,647	14,647	R0250
Total	**153,117**	**251,170**	R0260

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Gross undiscounted Best Estimate Claims Provisions

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290			C0360	
	Year	**0**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10 & +**		**Year end (discounted data)**	
R0100	**Prior**											-	**Prior**	-	R0100
R0160	**N - 9**										-		**N-9**	-	R0160
R0170	**N - 8**									-			**N-8**	-	R0170
R0180	**N - 7**								(49)				**N-7**	(47)	R0180
R0190	**N - 6**							(280)					**N-6**	(276)	R0190
R0200	**N - 5**						(629)						**N-5**	(625)	R0200
R0210	**N - 4**					(682)							**N-4**	(683)	R0210
R0220	**N - 3**				3,704								**N-3**	3,723	R0220
R0230	**N - 2**			39,220									**N-2**	39,466	R0230
R0240	**N - 1**		44,262										**N-1**	44,494	R0240
R0250	**N**	10,401											**N**	10,432	R0250
													Total	96,484	R0260

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		C0010	C0020	C0030	C0040	C0050
		Total	**Tier 1 - unrestricted**	**Tier 1 - restricted**	**Tier 2**	**Tier 3**
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35					
R0010	Ordinary share capital (gross of own shares)	40,148	40,148			
R0030	Share premium account related to ordinary share capital	42,543	42,543			
R0040	Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings					
R0050	Subordinated mutual member accounts					
R0070	Surplus funds					
R0090	Preference shares					
R0110	Share premium account related to preference shares					
R0130	Reconciliation reserve	(20,414)	(20,414)			
R0140	Subordinated liabilities					
R0160	An amount equal to the value of net deferred tax assets	6,126				6,126
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					

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		C0010	C0020	C0030	C0040	C0050
		Total	**Tier 1 - unrestricted**	**Tier 1 - restricted**	**Tier 2**	**Tier 3**
R0290	**Total basic own funds after deductions**	**68,404**	**62,278**			**6,126**
	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	**A legally binding commitment to subscribe and pay for subordinated liabilities on demand**					
R0340	**Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC**					
R0350	**Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC**					
R0360	**Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC**					
R0370	**Supplementary member calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC**					
R0390	**Other ancillary own funds**					
R0400	**Total ancillary own funds**					
	Available and eligible own funds					
R0500	**Total available own funds to meet the SCR**	68,404	62,278			6,126
R0510	**Total available own funds to meet the MCR**	62,278	62,278			
R0540	**Total eligible own funds to meet the SCR**	67,750	62,278			5,472
R0550	**Total eligible own funds to meet the MCR**	62,278	62,278			

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		C0010	C0020	C0030	C0040	C0050
		Total	**Tier 1 - unrestricted**	**Tier 1 - restricted**	**Tier 2**	**Tier 3**
R0580	**SCR**	36,482				
R0600	**MCR**	9,121				
R0620	**Ratio of Eligible own funds to SCR**	185.7%				
R0640	**Ratio of Eligible own funds to MCR**	682.8%				

		C0060
	Reconciliation reserve	
R0700	Excess of assets over liabilities	68,404
R0710	Own shares (held directly and indirectly)	
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	88,818
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	
R0760	**Reconciliation reserve**	**(20,414)**
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	
R0790	**Total Expected profits included in future premiums (EPIFP)**	

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		C0040	C0090	C0100
		Gross solvency capital requirement	USP	Simplifications
R0010	**Market risk**	26,585		
R0020	**Counterparty default risk**	4,746		
R0030	**Life underwriting risk**	-		
R0040	**Health underwriting risk**	-		
R0050	**Non-life underwriting risk**	17,419		
R0060	**Diversification**	(11,200)		
R0070	**Intangible asset risk**	-		
R0100	**Basic Solvency Capital Requirement**	**37,550**		

	Calculation of Solvency Capital Requirement	C0100
R0130	**Operational risk**	3,971
R0140	**Loss-absorbing capacity of technical provisions**	-
R0150	**Loss-absorbing capacity of deferred taxes**	(5,039)
R0160	**Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC**	
R0200	**Solvency Capital Requirement excluding capital add-on**	36,482
R0210	**Capital add-on already set**	
R0220	**Solvency capital requirement**	36,482
	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**	

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	Linear formula component for non-life insurance and reinsurance obligations	C0010		
R0010	MCR^{NL}Result	3,215	C0020	C0030
			Net best estimate (of reinsurance/SPV) and TP calculated as a whole	Net written premiums (of reinsurance) in the last 12 months
R0020	Medical expense insurance and proportional reinsurance			
R0030	Income protection insurance and proportional reinsurance			
R0040	Workers' compensation insurance and proportional reinsurance			
R0050	Motor vehicle liability insurance and proportional reinsurance			
R0060	Other motor insurance and proportional reinsurance			
R0070	Marine, aviation and transport insurance and proportional reinsurance			
R0080	Fire and other damage to property insurance and proportional reinsurance			
R0090	General liability insurance and proportional reinsurance			
R0100	Credit and suretyship insurance and proportional reinsurance		12,203	9,333
R0110	Legal expenses insurance and proportional reinsurance			
R0120	Assistance and proportional reinsurance			
R0130	Miscellaneous financial loss insurance and proportional reinsurance			
R0140	Non-proportional health reinsurance			
R0150	Non-proportional casualty reinsurance			
R0160	Non-proportional marine, aviation and transport reinsurance			
R0170	Non-proportional property reinsurance			

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

	Overall MCR calculation	C0070
R0300	Linear MCR	3,215
R0310	SCR	36,482
R0320	MCR cap	16,417
R0330	MCR floor	9,121
R0340	Combined MCR	9,121
R0350	Absolute floor of the MCR	3,700

R0400	Minimum Capital Requirement	9,121