SOLVENCY AND FINANCIAL CONDITION REPORT

BRIEF ENGLISH SUMMARY

-

YEAR 2020

The full version of our Solvency and Financial Condition Report is available in Spanish and Portuguese languages at www.espanasa.com.

ESPAÑA, S.A.
COMPAÑÍA NACIONAL DE SEGUROS

SUMMARY

Activity and results

"ESPAÑA, S.A., Compañía Nacional de Seguros" is an independent Spanish insurance company, leader in financial solvency and specialized in individual and group life insurance since 1928.

Our mission is to help our clients achieve sound financial planning, caring for their families in case of death and providing financial security for retirement, through our classical life insurance guaranteed products.

For over ninety years we have underwrote individual and group life insurance throughout Spain and Portugal and since INSUROPE's foundation in 1968 we are members of the best international network of independent insurance companies providing employee benefits services to multinational companies across the world.

In 2020 our Company has performed well in a very complex economic and operational environment, impacted by the outbreak of the global COVID-19 pandemic that was first detected in Wuhan (China) in late 2019. There is no known cure for this highly contagious disease which is especially dangerous for the elderly and people with pre-existing disease. Following a major international research effort, the first effective vaccines were approved in late 2020 and are currently being distributed globally.

In this context our Company's revenue amounted to EUR 94,140 thousand, with an increase of 0.38% compared to the previous year. However, excluding extraordinary items and realized capital gains total revenues were 4.5% lower, in positive contrast with the 20 percent decrease in gross written premiums of the Spanish life insurance market. At year-end the Company's total sums assured in the life insurance line of business reached EUR 5,292,115 thousand and total assets considered for solvency purposes were valued at 1,085,485 thousand euros.

Solvency position and risk profile

The Company enjoys a very solid financial situation as a result of the excess of the value of its assets (economic rights) over its liabilities (financial obligations). For solvency purposes the valuation of assets and liabilities is carried out at fair or market value.

Equity or own funds (total assets minus total liabilities) constitute the free capital of the Company that is available to respond for future losses, and for solvency purposes this amount is compared with the Solvency Capital Requirement (SCR) a figure that is specifically calculated for each insurance firm based on its risks incurred. The solvency ratio of España S.A. at year-end 2020 was 278 per cent, obtained from dividing its own funds by the Solvency Capital Requirement.

The Solvency Capital Requirement (SCR) represents the maximum loss an insurance company must be able to endure in a 1 in 200 worst-case scenario, taking into account the specific risks the company is exposed to and the relationships among them. The SCR is calculated using the same formula throughout the European Union, so the Solvency II ratio is comparable among different European insurance companies working under Solvency II rules.

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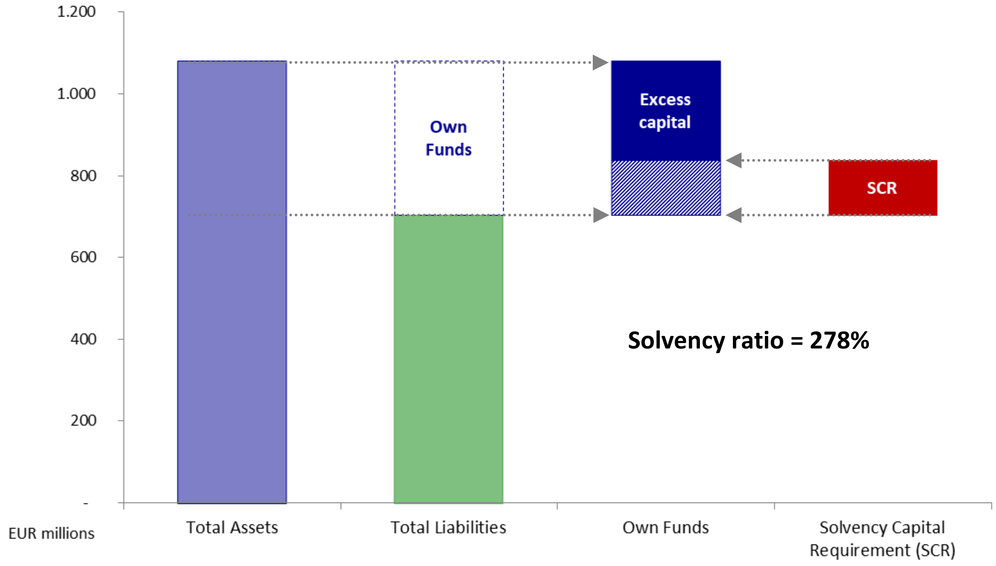
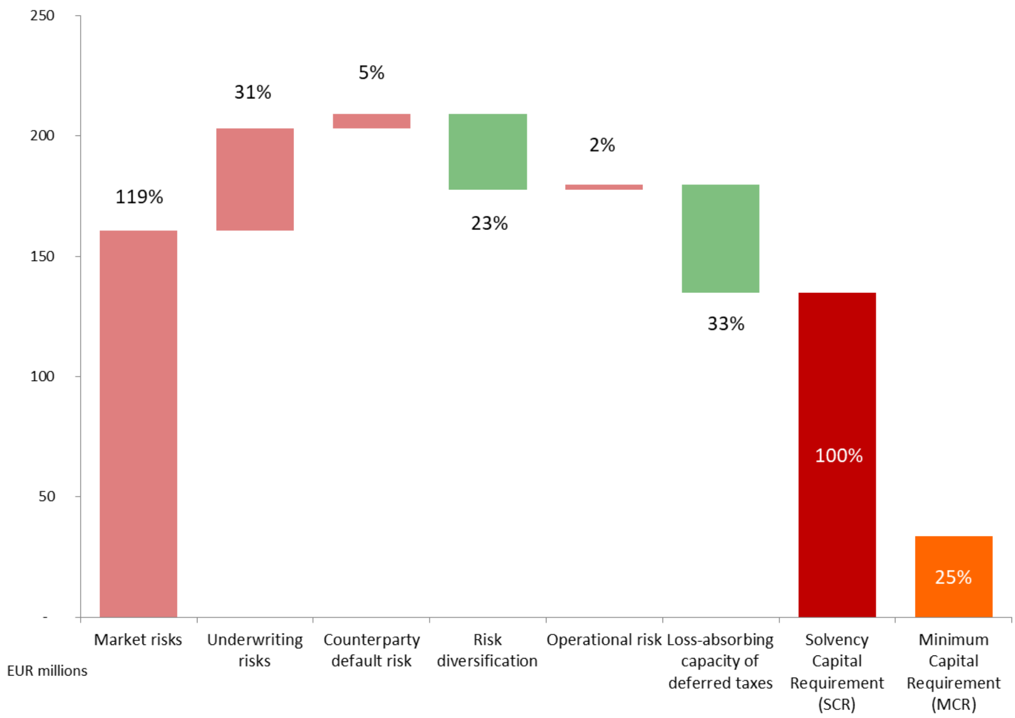


Most life insurance companies must maintain substantial long-term investments in order to meet their insurance commitments. Consequently, the greatest risks our Company faces are market risks associated with possible losses in the value of our investment portfolio. The Company's risk profile is analyzed in greater detail in section C of the full version of this document. The following chart shows a detailed breakdown of the Company's Solvency Capital Requirement (SCR) composition:



Our Company's high solvency ratio should be viewed as particularly strong, since we use the Solvency II Standard Formula and have not developed an internal model to calculate our Solvency Capital Requirement. Moreover, our Company doesn't use either any of the mitigating adjustments and transitional measures allowed to comply and ease the transition of European insurance companies to the Solvency II regime.

Section B of the full version of this report offers a detailed description of the Company's governance system, a prominent feature of which is the existence of four separate, fundamental functions performed by different managers: the risk management function, the actuarial function, the compliance function, and the internal audit function.

In 2020 there have been no significant changes in the Company's activity, results, governance system, risk profile, or capital management, although the solvency ratio has decreased mainly due to the extraordinary decrease of risk-free interest rates used to calculate de present value of the Company's technical provisions. As of 12/31/2020 the risk-free rate curve issued by EIOPA has reached a historical low level, to the point of being negative up to its 22nd year. As a result, during 2020 the value of our liabilities has increased to a greater extent than that of the Company's assets resulting in a lower solvency ratio. At the same time the Solvency Capital Requirement (SCR) has also increased due to the lower interest rates and to the higher market risks.

For solvency purposes, own funds have reached EUR 377 million. Solvency own funds are 43% higher than the net book value in our accounting balance sheet.

For the sake of this document, information is considered material if its omission or misstatement could affect the decision-making or the judgment of the users of the solvency and financial condition report. In any case, and in general, variations which represent less than 1 percent of the Company's total assets for solvency purposes are considered immaterial.

Target market and type of product: Classic Life Insurance

The Company's target market is conservative families and households with needs in the areas of family protection and long-term saving.

A "classic" or "traditional" life insurance policy is a long-term policy which, from the first moment and for its entire duration, fully guarantees the insured capital and return at maturity (for example, in the case of retirement), the death and disability benefits (which are very difficult to match by other financial products), and the surrender and discontinuation values of the policy. The classic life insurance policy has been designed to satisfy, in a single product, the main saving and protection needs that arise during the life cycle of typical families and households, which make up the broadest sections of the population.

Our Values

Security

Our clients need to be certain that their families will be protected and their retirement secure. That is why we offer fully guaranteed, classic life insurance policies, and we maintain a level of solvency that is beyond all doubt.

Quality and Trust

Our professional network of knowledgeable and understanding life insurance brokers provide clients with comprehensive advice tailored to their personal circumstances.

Specialization

Since 1928, we have focused exclusively on doing one thing well: covering our clients' family-protection and retirement-savings needs with our classic life insurance policies.

Independence

We value our independence as a family company which does not depend on other financial or banking groups. Our only duty is to our policyholders and clients.

Tradition

Our vocation is to take up the baton from those who came before us and to pass it on, along with the enrichment and improvements gleaned from our own experience, to those who come after us. We take pride in having upheld the essence and principles of classic life insurance for almost 100 years, to the benefit of our clients.