MAPFRE

MIDDLESEA

2022 | Annual Report

MAPFRE
MIDDLESEA

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Our **vision** is to be **Your trusted global insurance company,** for you, for everyone, in every country in the world.

We want to be the benchmark that all clients think of when they need an insurance solution to protect themselves and their families, their belongings and also when they are seeking a financial institution to trust with their future.

We are **people who look after people**, and it is our **MISSION** to be **a multinational team** that works to constantly improve services and develop the best possible relationships with our clients, distributors, providers, shareholders and society in general.

This is a commitment to continuous improvement that we fulfill through our **Values** and which helps us to execute our Mission and achieve our **Vision**.

These values are: solvency, understood as financial strength with sustainable results, with international diversification and a consolidated position in different markets; **integrity**, which comes about through ethical action on the part of everyone and a socially responsible focus in all our activities; **vocation for service**, understood as the permanent quest for excellence and the continuous initiative aimed at caring for our client relationships; **innovation for leadership**, the eagerness to continuously succeed and improve, a different way of thinking to see what others have not seen and incorporate these advances in the business, because ongoing innovation is vital in such a global and competitive environment; and conducting our activities with a **committed team** that is fully involved in the MAPFRE project and the constant training of our people and the development of their skills and capacities.

CHAIRMAN'S STATEMENT

With the passing of the pandemic, we were hoping for a return to normality. Indeed, in my report last year I said that we were looking to the future with some optimism that the worst may be over, and that we may again be able to return to normality after more than two years. However, it seems that crises seems to be the new norm. 2022 saw global supply chain issues, the war in Ukraine and subsequent sanctions on Russia, which contributed to further uncertainty and worldwide inflation. The reaction by Governments and Central Banks to combat this, including the slowdown and halting of quantitative easing and increasing the interest rates, played havoc with the markets, resulting in another year of turbulence.

Towards the beginning of the year markets fell drastically, partially recovered and fell again towards the end of the year. Whilst equities fell, the increase in interest rates caused a corresponding fall in bond prices. As I write this report, the markets remain depressed and it is difficult to predict whether these large fluctuations will continue or whether the world can return to a more stable pattern of growth.

Other geopolitical turmoil may aggravate this state of uncertainty. Tragically, the war in Ukraine does not seem to be moving towards any sort of resolution. On the wider stage, the United States and China seem to be moving towards political confrontation. Refugees fleeing war zones or oppressive governments or even the effects of climate change, contribute to this instability as Europe struggles to have a coherent, yet humanitarian approach to this issue.

The local market was to an extent shielded from this and therefore the results of MAPFRE Middlesea p.l.c. ("MAPFRE Middlesea", "MMS" or "Company"), which deals in general insurance, reflected this with profitability largely on track. On the other hand, MAPFRE MSV Life p.l.c. ("MAPFRE MSV Life"), the life company which has a substantial investment fund, was greatly affected by the performance of the markets which, even if this has not significantly affected profitability, has impacted the performance of the fund as well as putting pressure on solvency.

All in all, a complex situation which I shall endeavour to explain further.

RESULTS

The consolidated results show a profit before tax and minority interests of €22.2 million. MAPFRE Middlesea made a profit of €6.0 million (compared to €4.1 million in 2021) whilst MAPFRE MSV Life made a profit of €17.2 million (compared to a profit of €16.7 million in 2021). This is before tax and minority interests. The seeming excellent results belie the complex effects brought about by the markets, principally on the life company.

MAPFRE Middlesea's results reflect the Company's ability to retain its market share of the underwriting market in General Business. Turnover increased from €80.1 million to €87.1 million and the market share dropped marginally to 32.57%. 46.7% of this turnover remains in motor where the net combined ratio was 99.8%. This is a far cry from the ratio of 89.3% enjoyed during the height of Covid and to an extent the increase was not unexpected as use of vehicles returned to normal levels. However, the ratio is deemed high and the Company is taking steps to correct this not least through increasing policy rates to sustainable levels and through de-risking the motor portfolio. It should be noted that the value of claims is increasing and the safety standards on our roads is far from satisfactory, as witnessed by the record number of mortal accidents in 2022. We join the Malta Insurance Association in its appeal to Government to take firm steps to reduce the number and extent of accidents on our roads.

We are pleased to report the increasing level of health and home policies. Health and Home business is important to allow the spread of risk and ensures we maintain a balanced profitable portfolio.

MAPFRE MSV Life returned a record profit this year. However, this belies the complexity of the result. The share of term business, which represents the life protection segment accounted for 32% of these profits. The major part of the result however, some 65% is from With-Profits Fund, which is underpinned by single and regular premium business. The With-Profit Fund's flagship product unique characteristics are to provide policyholders with smoothen returns over the term of the policy and a capital guarantee on the invested amount and any declared bonuses, upon death or policy maturity.

MAPFRE MSV Life applies an Annual Management Charge (AMC) on the With Profit fund's assets under management (AUM) and consequently the returns depend on the size of the fund rather than the investment return generated by the fund. As at the year-end the With Profits Fund's assets under management stood at €1.89 billion (2021 €2.25 billion).

The With-Profits Fund's investment portfolio is broadly diversified across asset classes, namely equities, bonds and property, and geographies. Notwithstanding, the unusual concurrent fall in equity markets and bonds, as interest rates moved significantly higher, led to a negative return of 13.1%, which obviously impacted the With Profits Fund adversely. From a solvency perspective, this affects the solvency capital requirements and hence the reported solvency ratio of the company. At the end of 2021, the company's solvency ratio stood at 226.1% whilst as at year-end 2022 the solvency ratio is estimated to remain above the regulatory solvency capital requirements but not within the desirable range as articulated within the risk appetite of the company. The company will continue to monitor its risk profile in the context of the prevailing market situation and outlook and act accordingly. I am sure, you will appreciate the company's cautious outlook particularly at this time of uncertainty.

CHAIRMAN'S STATEMENT

RESULTS – CONTINUED

The bonus payout has been set at 0.90%-1.00% compared to 1.90%-2.00% last year which again was affected by the poor performance of the markets. This must be seen in the light of those who invested in the capital markets where investors suffered capital losses as both equity and bonds experienced falling prices but without the benefits enjoyed by With-Profits policyholders. We believe the With Profits Fund will continue, over the long term, to meet policyholders' reasonable return expectations through smoothed returns and peace of mind given through the capital guarantee as outlined in the terms and conditions of the product.

On the other hand, the company continues to make progress in sale of unit linked products as well as making inroads in the pensions market. With regards to the latter, it is important for people to understand the importance of having a pension plan which helps them achieve the desired standard of living after retirement. I am pleased to report that over 36 companies have chosen MAPFRE MSV Life p.l.c.'s WorkSave Pension Scheme for their Voluntary Occupation Pension Scheme (VOPS) for the benefit of their employees apart from around 14,000 individual pension policies. The company sees this as an important growth area which is slowly gathering traction.

DIVIDENDS

MAPFRE Middlesea is declaring a net dividend in respect of the profit earned in 2022 of €3.5 million, which translates into a net dividend per share of €0.038043. This compares to the dividend declared last year of €2.4 million.

Whilst a dividend of €1.0 million has been received from MAPFRE MSV Life during 2022, which is being distributed as part of the dividend above, the life subsidiary will not declare any dividend for the financial year ended 31 December 2022 given the diminishing solvency ratio expected to be published in the coming weeks. MAPFRE MSV Life's priority is to ensure that its equity remains at a level that can guarantee an adequate solvency level in these most uncertain economic times whilst being able to develop its strategy for the future.

SOLVENCY

In these difficult times, the Company has been focusing on its solvency requirements. Under Solvency II, through the standard formula, the Company forecasts the solvency requirements, that is, the ability of the group companies to continue to function at the same level of business even in the event of a 1 in 200 year event. These calculations are further stressed to withstand a more frequent 1 in 10 year event (such as large fluctuations in share prices, severe claims and general deterioration in loss ratios).

As at year-end the solvency ratio for MAPFRE Middlesea is expected to close below the 257.9% of 2021 after deducting the dividend that is being proposed. As noted, the board closely monitors solvency in these uncertain times and takes appropriate actions to ensure that we remain well within our risk appetite.

REGULATION

The burden of regulation continues unabated. As a Group, which remains systemic to the Maltese economy, we remain under the spotlight of the Malta Financial Services Authority ("MFSA"). Nonetheless we remain committed to best practice and ensuring that our regulatory departments remain well-resourced and manned by highly skilled employees.

In 2022, we focused on the impending implementation of IFRS 17. This is a seismic shift in the way profit, as well as insurance assets and liabilities, are measured and reported in insurance undertakings, especially in long-term business. IFRS 17 comes into play in 2023 and the first results under this regime which will be reported to you will be the interim 2023 results. At this stage, I am unable to give you exactly what the impact on profitability and balance sheet values will be, both for the Company and the Group. This is entirely due to the way assets and liabilities as well as profit will be calculated and presented under the new standard, and not due to any change in the business. .

OPERATIONAL DEVELOPMENTS

Both companies in the Malta group have spent considerable energy and resources implementing core IT systems. I am pleased to say that finally we are at an advanced stage. We should have the majority of the business of both companies on the new IT systems by the middle of the year. With MAPFRE Middlesea this has been a very long journey, I would say too long, but the benefits we will reap having systems which allow us to manipulate data to assist our actuaries in their calculations, helping to properly calculate reserving, and ensuring correct pricing, are immense. The front end will also allow for better client experience and faster onboarding. It will also allow us to nuance our pricing based on risks to a much greater extent than previously, making the Company more agile as well as more competitive.

On the motor side, we are analysing data from different sources to ensure correct pricing as well as the reduction of risk to bring the combined ratio to more profitable levels. Of course, we are in the business of taking on the risks of our clients and therefore, whilst predictions are fraught, the more scientific we are, the probability of achievement of this goal increases.

MAPFRE MSV Life is also in the process of migrating to a new core IT system which will enhance its operational capability. This process will be largely completed this year.

DISTRIBUTION

MAPFRE Middlesea has some 6 agents, over 60 tied insurance intermediaries and we also do business through 23 brokers. Only 10% of our business is written directly by us. Our agents and Intermediaries are often the face of our business and we are grateful for their efforts in helping us grow the business, whilst maintaining the professional image of the Group. The insurance industry has become more technical, and considerably more regulated. This means there is more training on compliance, and anti-financial crime, which combined with the roll out of the new IT systems, next year will continue to burden our

CHAIRMAN'S STATEMENT

DISTRIBUTION – CONTINUED

distributers. I should like to place the great thanks of the Board and staff of the Company to our distributers for their loyalty, professionalism and dedication to their work. It is teamwork and I promise we will continue to improve our products, as well as our systems and procedures, to provide the support that is required.

With MAPFRE MSV Life, Bank of Valletta p.l.c. ("Bank") remains by far the single largest producer for the company, both in terms of term assurance as well as Single premium products. The Bank has proved to be an excellent partner, as well as shareholder in the group. I cannot emphasise the importance of the Bank to the Malta group, which has in no small way contributed to the results of the group. This is a partnership which has stood the test of time and has delivered results for customers and shareholders alike.

MAPFRE S.A.

MAPFRE Middlesea is a subsidiary of MAPFRE Internacional S.A. who in turn is a fully owned subsidiary of MAPFRE S.A.. Since 2011, when the Company became a MAPFRE Group company, it would be difficult to describe the transformation it has gone through. They have brought a new level of expertise in the increasingly complex business of insurance, which has allowed us to maintain our lead in the market.

CORPORATE SOCIAL RESPONSIBILITY

During 2022, MAPFRE Malta once again met its CSR objectives collaborating with a number of different entities to organise various activities ranging from food and blood donations, environmental activities and various donations to various charitable organisations and NGOs such as Malta Community Chest Fund, Malta Trust Foundation, Majjistral Park, Malta Red Cross Foundation, Fondazzjoni Patrimonju Malti and Down Syndrome Association, to mention a few.

Fundación MAPFRE allocated over €160,000 for projects in Malta across different areas (road safety, health, and social actions). The Foundation has once again collaborated with Inspire and Equal Partners Foundation, funding the provision of specialised services to children and adults with disabilities (€53,000 to cover the running costs of Inspire's therapeutic facilities Multi-Sensory Rooms and over €30,000 to Equal Partners Foundation to support their efforts to enable children who suffer from a disability to lead a more independent life).

MAPFRE Malta also joined the fight against breast cancer with a variety of awareness-raising activities through their #ThinkPink campaign, as well as by collaborating with the Action for Breast Cancer Foundation as per previous years.

SHAREHOLDERS

MAPFRE Middlesea p.l.c. is a listed entity regulated by the MFSA. It is a subsidiary of MAPFRE Internacional S.A.. Being part of one of the largest insurance companies in the world allows us to access technical knowhow which is at the cutting edge of the industry. In 2022 MAPFRE Internacional S.A. has a shareholding of 55.83% in the Company.

Bank of Valletta p.l.c. is the other major corporate shareholder with 31.08% of the shareholding and is a 50% co-shareholder in MAPFRE MSV Life p.l.c.. The Bank has proved to be a steady partner throughout the years, providing not only input and insight at board level but is the main generator of turnover in MMSV. The commercial relationship between the Bank and the company remains very strong which is critical to the evolution of the company.

13.09% of the shareholding in MAPFRE Middlesea is held by the so-called smaller shareholders, of which we have some 3,720.

I have the privilege to work with a board which is professional in its dealings and technically competent. Jose Ramon Alegre, Jose Luis Jimenez, Etienne Sciberras and Jose Maria del Pozo were appointed by MAPFRE Internacional S.A. whilst Gordon Cordina and Robert Suban were appointed by Bank of Valletta. The smaller shareholders elected Antoinette Caruana and Paul Testaferrata Moroni Viani. I am grateful to them for their focused insight in helping to resolve the many issues which arose during the year and in providing direction and perspective to management. I need to pay tribute to Joseph F.X. Zahra who retired at the last Annual General Meeting. Mr Zahra has been a director of the Company for many years and indeed was a past Chairman, in the more difficult times. The Company owes him a great debt. I am pleased to inform you that he has been appointed a director of MAPFRE MSV Life where we have been able to retain his considerable knowledge and acumen. Taddeo Scerri and John Cassar White also retired last year and I thank them for their support and contribution during their tenure.

2021 saw the appointment of new CEOs Javier Moreno at MAPFRE Middlesea and Etienne Scibberas at MAPFRE MSV Life. They joined at a time of uncertainty and change and have done an excellent job in guiding the company in unchartered waters throughout 2022.

It is also fitting to record our thanks to James Mallia our CFO who was acting CEO for a period when Javier Moreno was indisposed. He was a steady hand on the tiller bringing his vast experience and calm to the fore when needed. The Company is ably supported by the whole team of Chief Officers and staff who have ensured the Group's continued progress in these unprecedented times. I join my fellow directors in thanking them for the hard work and commitment during the past year.

Signed by Martin Galea (Chairman) on the 22 March 2023

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT

MAPFRE MIDDLESEA GROUP HIGHLIGHTS

A year ago I remember that I began my annual report by stating that 2021 had been a complex year in our lives. At that time we were not yet aware of the new and unexpected circumstances that were going to turn 2022 into another turbulent year: we have faced very significant geopolitical instability with a more direct impact on Europe, very volatile financial markets, high interest rates, inflation with increases not seen in the last 40 years, all circumstances that have a direct impact on our insurance activity.

On the positive side, the situation regarding the Pandemic, although not over, has stabilised in most of the world, turning towards a chronic situation that does not limit work and commercial and social activity.

As always, our objectives as MAPFRE Malta Group ("MAPFRE Malta", "Group") have been focused on offering the best service to all our clients, intermediaries, strategic partners and other stakeholders, while maintaining the best possible performance in this complex environment, rigorously executing our commitment to profitable development. All this without ever forgetting our care for all our employees, undoubtedly one of the great strengths of our Group in Malta.

In the times we live in, rigid strategies are no longer appropriate and therefore adaptation and flexibility become strategic values in their own right. In MAPFRE Malta, we have combined in an adequate way the development of reactive measures to mitigate the different impacts generated by the difficult global situation.

Our financial performance has been very positive and even more so in the current circumstances, maintaining our position as the insurance leader in general insurance as well as in life and pension insurance. This has only been possible thanks to the efforts and commitment of all our employees, strategic partners, intermediaries and suppliers.

Premiums written amounted to €335.9 million, with a different evolution based on the type of business, clear growth in Non-Life in almost all products and selective growth in Life, with a focus on regular premiums, pensions and protection in contrast to some slowdown in the single Premium line. Details of these activities are provided below.

Importantly, the consolidated result before tax was excellent at € 22.2 million and very positive in both companies. We have exceeded the 2021 result and even the internal targets we set ourselves for this year.

In the Non-Life business, we should point out that commercial activity has been very strong, and we have been able to contrast the recovery of the travel business as well as greater mobility, despite the fact that this has brought about additional stress in the Motor line, due to an increase in the frequency of accidents.

Thus, the Premium written figures for MAPFRE Middlesea p.l.c. ("MAPFRE Middlesea", "MMS", "Company") including group life reached a total of €87.1 million at the end of 2022, generating an increase of 8.7% over 2021, undoubtedly a relevant growth in an uncertain year. The result was also remarkable, with a profit before tax of €6.0 million, clearly better than the €4.1 million obtained in 2021, even if one had to exclude the €0.5 million reversal of impairment in relation to Progress Assicurazioni S.p.A..

In any case, technical performance remained resilient, with a Net Combined Ratio ("COR") for non-life business of 92.6%, slightly higher than in 2021 but robust especially if we consider the aforementioned circumstances of higher claims frequency and cost increases due to inflation. Once again, our diversification strategy has contributed to generate a good technical result, with some lines of business performing better than others do but with an adequate mix.

Regarding the long-term business, volatility was even higher than in 2021, with very challenging international and local financial markets and asset depreciation that led us to take decisions aimed at protecting both current policyholders and the solvency of the Life Company, MAPFRE MSV Life p.l.c. ("MAPFRE MSV Life", "MMSV"). These are discussed in more detail later in this report.

On balance, this year has been very positive in terms of results and adequate in terms of the growth of the business lines that contribute most to the future sustainability of the group in Malta and consistent with our strategy of sustainable and profitable development.

We have once again experienced challenging circumstances, which we have been able to manage appropriately. The great assets of our Group have once again proved to be the key to our clients' trust and we continue to maintain and reinforce a leading position in the insurance industry in Malta.

We again reassert our commitment to strong, sustainable development and value creation for our shareholders.

Finally, it is important to note that despite the difficult labour market, we have managed to maintain great stability in our management teams, as well as in our governing bodies. Undoubtedly a key support for the achievement of our objectives.

GENERAL BUSINESS

Premiums in 2022 reached €84.4 million, representing an increase of 8.8% over 2021; we have made a constant effort to keep on the growth that we have enjoyed in 2021.

Preliminary figures show that, although maintaining the market leadership in the non-life business, our growth rate was slightly lower than that of the market, leading to a marginal reduction in our market share from 33.24% to 32.57%, remaining well balanced across the major lines of business.

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT

GENERAL BUSINESS – CONTINUED

We have achieved clear growth in premiums written in all business lines except Marine Hull and Engineering, the first case due to restricted underwriting and the second because of the reduction of major new projects in this activity in comparison with 2021. Motor and travel, still affected in 2021 due to Pandemic, showed a good recovery in premium volumes this year. Of note was the magnificent and recurrent result in health, and the consistency of the rest of the personal and commercial lines.

With just over 127,000 customers and more than 224,000 policies, we remain as the major player in the market. These figures are undoubtedly one of the most important for MAPFRE as they show that we continue to have the support and trust of our clients.

Commercial activity has been even more intense than in 2021 and 67,419 new policies have been issued, a significant figure that has been possible thanks to our large distribution network and the attractive value proposition that the Company offers to its clients. It is worth mentioning that the growth in the number of policies and policyholders in Health and Travel have been particularly significant.

Our policy retention ratio is 79% and our client's retention ratio, above 85%, remain in a high standard in general terms although not enough for us as we see some clients leaving the Company. Our ambition and business culture must drive us to consistently keep our customers satisfied, loyal and open to placing greater trust in us with more insurance products.

Regarding our product offering, MMS has continued working in adapting concrete solutions for real life, examples are the upgrade of travel, commercial home, business combined solutions and specific promotions on home, health, SMEs and motor. We reiterate MMS has the widest coverage of insurance solutions that allow our intermediaries and sales force to meet the needs of each family, company or organisation.

Regarding our distribution, we had the opportunity to be even closer to our intermediaries as the face-to-face relationships came back, acting with all of them in a very proactive approach to better fit real client's needs. Our partners, brokers, agents and TIIs have demonstrated once again that a relationship based on mutual trust and commitment is the basis for excellent service to our clients, offering agile and personalised attention.

On top of this, as part of our value proposition, clients who bundle their insurance requirements with MMS will not only get a cost saving but also enjoy additional benefits.

Our agents have developed a formidable year, showing that this model generates profitable and sustainable growth. They have increased premium by 10.9%, a remarkable figure, and a significant contribution to the diversification that is always part of our strategy.

MMS has always maintained an excellent professional relationship with brokers and this year has been no exception as the strong figures show. Considering Commercial lines, Reinsurance restrictions and higher costs are generating more complexity as this type of business requires more protection capacity to meet concrete customer´s needs.

Our direct business, consisting of our regional offices and TIIs, has also performed very positively. As a Company, we want to continue to promote this channel further as we still see more potential to be opened up. MMS continues to develop this channel and during 2022 we have been reviewing the current model to gain efficiency and working with actual partners to establish the right plans with them for delivering higher sales figures in the coming years. Important to note the excellent satisfaction level reported by our clients when they are serviced by our offices, 6.5 out of 7 is the score we got here.

Motor business evolution this year was extremely complicated by two factors: higher frequency of claims due to major mobility of the population, and a strong increase in the average cost of claims associated with inflation. The net COR reached 99.8%, slightly better than the one got in 2021. Management has defined a specific motor plan during the year that we will continue to action and monitor closely its development during 2023. Analytical capabilities have been improved during this year through enhanced data extraction.

Health business performed very well with net COR holding at a very positive 74.9%, even better than in 2021 and becoming strategic for the Company.

The rest of the business lines had a net COR of 90.8%, with a small deterioration from last year mainly due to several large claims on the liability products, partly offset by an excellent behavior of Marine Hull business.

With Motor business weighting 48% of the non-life portfolio, the diversification of businesses ensures greater stability in our technical performance.

Special mention should be made of the high control of management expenses, although we had to deal with a significant pressure coming from staff costs and IT projects.

With a headcount at the end of 2022 of 177 employees, MMS has suffered a variation of 2.3%, with a turnover of 10.4%, a very good outcome when we compare with the market for financial institutions that is close to 30%. The commitment to our employees and society remains unchanged and embedded in our corporate culture and this is a strategic pillar for the coming years as we face a difficult labour market, with very low levels of unemployment, rising wage pressure and high mobility in the market.

The solvency of MMS, as provisionally determined by Management, continues to be very high, and although expected to be lower than that for 2021 will remain more than

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT

GENERAL BUSINESS – CONTINUED

double the minimum legal requirement. On top of this, the reinsurance protection offered to the Company by MAPFRE Re, the MAPFRE Group reinsurance company, ensures an adequate cover for significant losses that ensures that our Solvency is not negatively impacted by such occurrences. Taking advantage of the MAPFRE Group purchasing power ensures that such cover is obtained at an optimal cost for the Company, especially when the reinsurance market is on a hard side due to big losses happening worldwide.

Investment return, at a negative €0.2 million excluding Group dividends of €1.3 million, is conditioned by the negative adjustment of the valuation of our main real estate investment, Development House, marginally offset by the rentals from tenants. The performance of our financial investments in a negative environment did not help.

On a different note, we received a final amount of € 0.54 million from the liquidation of our old Italian subsidiary Progress Assicurazioni S.p.A..

LONG TERM BUSINESS

MMSV offers a wide range of protection, savings, investments and retirement solutions addressing the diverse needs of individual clients, companies as well as other organisations.

Undoubtedly, 2022 shall be remembered for the war in Ukraine and the surge in inflation to levels last seen decades ago. Global Central Banks responded through an aggressive monetary tightening policy to try and bring runaway inflation under control. Economic forecast started to project a recessionary environment while capital markets became increasingly more volatile. For the first time in many years, mainstream asset classes, equities and fixed income securities, did not provide the traditional diversification benefits. In general, balanced investment portfolios saw negative double-digit returns.

Against the backdrop of negative consumer sentiment and low investors' confidence, MMSV's gross written premium saw a drop of 23.5% when compared to 2021, which was a record year in terms of premium. In 2022, MMSV's gross written premium was of €248.8 million compared to the €325.1 million registered in 2021.

The reduction in premium was mainly driven by the With-Profits single premium business which saw a lower demand due to the current uncertain environment, measures taken to protect the With Profits fund and ensure fairness across its policyholders. With the rise in interest rates, the competitive landscape for investment solutions continued to intensify.

Compared to 2021, both With-Profits and Unit Linked regular savings premiums increased on positive and encouraging demand for pension products. Protection premium was broadly in line with expectations.

Funds under management decreased to €1,895 million, a decrease of 16% over 2021, driven by With-Profit's maturities and a negative investment return of €270.4 million, representing a negative gross investment return of 13.1%.

Operating expenses were 3.9% below 2021. This was mainly due to the lower acquisition expenses from new business which compensated for the increase in internal expenses.

The lower contribution towards profitability from With-Profits business due to lower Assets Under Management was partly offset by the protection business delivering an excellent technical result, strongly supported by an improvement in interest rates, mortality experience and improved reinsurance terms.

As a consequence of the above, MMSV's profit before tax reached €17.17M, exceeding the 2021 corresponding figure and contributing decisively to Group consolidated results of over €22.2 million.

The fall in asset values together with a change in the tax treatment in the Solvency balance sheet contributed to the deterioration in the reported solvency ratio. The solvency ratio, as provisionally determined by Management, is expected to drop significantly remaining above the regulatory requirements. The company continues to closely monitor and consider options to strengthen its solvency position in line with its risk appetite.

CONSOLIDATED RESULTS

In 2022, the group registered a profit before tax of €22.2 million, 8.9% higher compared to the previous year. After tax, the Group generated a profit of €14.7 million or 13.5% higher than the previous year. The tax expense of 2022 is less than the 35% corporate rates closing at 33.9% compared to 36.6% in the previous year due to a lower impact of Property gains that are taxed at 10%. Earnings per share attributable to shareholders have increased to 9c6. The profit attributable to shareholders increased both from a better technical result from MMS and MMSV and from a one-time amount recovered from the liquidation of Progress Assicurazioni S.p.A.. MMS is committed to returning value to its shareholders and will continue to dedicate an important part of its profit to remunerate the shareholder.

Whilst still maintaining a prudent policy in line with discussions with our regulator, MMS will propose to the board of directors to pay a net dividend of €0.038043 per share. The Company's payout will be 92.37% of this year's profit after tax of the Company.

In parallel, we continue to increase the value through both companies' capitalisation to manage stressed scenarios as we still face complex years with significant levels of uncertainty.

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT

STATEMENTS OF FINANCIAL POSITION

The group's total assets reduced by 12.8% and totalled €2.47 billion. More than 91.5% of them are return-seeking assets (investments and cash and cash equivalents) mostly within MMSV's funds under management that suffered a sharp drop in 2022. These funds are invested in diversified securities (local and foreign), and are managed in-house or externally by highly reputable entities. The Group also has a portfolio of rented property investments and property-related shares.

On the liabilities side, 96.2% of the balance pertains to technical provisions. Life technical provisions shrank as a result of negative investment returns and outflows exceeding inflows into the Fund, whilst non-life business saw an increase both in unearned premium provision from increased sales and in claims outstanding provision from higher claim frequency and severity.

Total equity increased by €3.3 million or 1.5% including the minority with the profit for the year mostly outweighed by the drop in the value of the in-force business and the dividends paid.

REVIEW OF OPERATIONS

During 2022 MAPFRE Malta has continued to drive forward its omni channel approach, introducing improvements across the board. At MAPFRE, we want to accompany clients and engage with them based on their preferences. This is a reality as we provide attention and services through our website, contact center, direct offices, TIIs, agents and brokers.

Starting with the website, www.mapfre.com.mt, after the integration we did last year, we saw an intense traffic of clients going through. This provides the customer with a global vision of the solutions and services that our Group offers in both Life and Non-Life, undoubtedly the widest insurance offer in the country. We continue to promote direct services to policyholders to make regular processes, such as quotations, renewals, and notification of claims, easier and simpler.

Our customer portal 'My Insurance' gives, among other services, access to the excellent offers of MAPFRE's Insure&Save (https://www.mapfre.com.mt/insure-and-save/), the loyalty program created solely for the benefit of our clients, definitively delivers additional value for money when you decide to be part of the MAPFRE community.

The MAPFRE contact center performed through our associate company MAPFRE Middlesea Assist Limited, has been already fully digitalised and it´s our flagship service on behalf of the customers to deliver all kind of services related to their policies, as the roadside assistance or the home assistance.

The experience of our customers is always key for us, that is why we have turned to our NPS (Net Promoter Score) survey where, despite the good results obtained, we have analysed those points that obtained a lower score in order to implement specific action plans to improve.

We constantly strive for greater operational efficiencies, which is why more operational processes have been optimised this year with 2 additional Robotic Process Automation technology.

In 2022, we continued executing organisational adjustments recruiting specific new joiners with special skills to strengthen the technical functions and those that are shared between MMS and MMSV. It is important to mention the creation of a data office to help MAPFRE Malta to be a totally data driven insurer. Other areas with additional reinforcement have been Anti Financial Crime, IT and Business development.

Regarding digital transformation, progress in the implementation of the new core systems of both companies has been rolled out to the Tied Insurance Intermediaries and Brokers. Currently, the main products of both companies can now be issued through the new platforms, providing underwriting and operational improvements and a solid pillar on which to build the digital ecosystem of the companies. Customer experience remains in the center of all our technological projects.

SUBSIDIARIES AND ASSOCIATES

BEE INSURANCE MANAGEMENT LIMITED

BEE Insurance Management Limited ("BEE") and Euromed Risk Solutions Limited, our subsidiaries dedicated to the provision of insurance services to third-party companies, have managed to maintain business with their existing clients, with a good progress in terms of new potential clients which unfortunately requires time to onboard them as final clients.

Due to these circumstances and the pressure coming from staff costs, the company is not registering the profitability that one would expect on the third-party business. Nevertheless, we continue to explore new opportunities that will allow us to maintain the sustainable development of this activity within MAPFRE Malta.

Apart from third-party business, BEE also started providing IT services to the MAPFRE Malta Group insurance companies during 2022, gaining more efficiencies as a unique qualified team.

MIDDLESEA ASSIST LIMITED

MAPFRE Middlesea Assist Ltd, our joint venture between MMS and MAPFRE Asistencia, generated a profit of €0.19 million, an increase of 6.3% compared to 2021.

Its principal role is to be MAPFRE Malta's arm in developing services for our clients. As a leader in roadside and home assistance services, it is perfectly aligned with our service ethos: we prefer to solve our clients' problems rather than

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT

MIDDLESEA ASSIST LIMITED – CONTINUED

pursue a compensation process. Once again this year, the evaluation of these services has been highly rated by our customers and we have finalised the digitalisation of services with the MIA (MAPFRE Intelligence Assistance) Drive project, which allows smartphone access to the assistance service.

Middlesea Assist continues to develop its telephone customer care services, also using WhatsApp. But our bet for technology and automation for the benefits of our clients is fully committed.

WHEN PEOPLE COME FIRST

We are by your side, accompanying you so that you can progress calmly, contributing to the development of a more sustainable and caring society. We take care of what matters to you.

Because our reason for being is to work every day giving the best of ourselves, always being close to our clients. Prepared to support them and offer what they need today and what is to come tomorrow, as we have been doing for many years. Because, in an uncertain world, we are defined by the capacity of all our employees, collaborators and suppliers providing the best service, innovating, adapting to customer needs and being there when they need us.

Because for us, trust is the basis of the relationship with our customers and other stakeholders. At MAPFRE, we want to give people confidence so that they have security, strength and the ability to meet their goals and objectives. We will be by your side, providing the necessary peace of mind so that no unforeseen event can stop us. We put all our knowledge, experience, innovation and capacity at the service of our clients, so that they can move forward and enjoy their lives to the fullest.

Also, our way of doing things is different. Our values and our commitment translate into a permanent concern for the development of the communities where we operate. The ultimate mission of our Company is to generate shared value with society. In short, carrying out our activity based on a commitment to our environment and to people, with a long-term vision, working for the improvement of society as a whole. We cannot carry out our business activity without working in parallel for a more sustainable and caring world.

We are actors of social commitment through Fundación MAPFRE activities. We continue supporting different organisations in Malta to help people in need. Providing training for the young generation is key for us and we want to play a main role in road safety, whether they are pedestrians, cyclists, drivers or passengers, because every person using the road plays an important role on it. Following the success of the Street smart campaigns in schools, Fundación MAPFRE partnered with Malta Public Transport (MPT), the Ministry for Education and the Road Safety Council and introduced a new project in all schools via interactive videos on road safety using real-life situations.

Fundación MAPFRE has also continued the very successful campaign called Logging Off. The campaign is aimed at raising awareness about internet addiction among school children. The campaign is composed of workshops streamed live into a classroom via interactive whiteboard technology. This way students receive a fun and interactive lesson on healthy interaction with the online world.

During 2022, Fundacion MAPFRE has also continued its support to Inspire Foundation, through a generous donation that allowed specialised services for children and adults with a disability by covering the running costs of one of Inspire's therapeutic facilities – the Multi-Sensory Rooms (MSR).

Our volunteers have been involved in activities that have benefited many people with a helping hand whenever possible. Also taking care of the environment by planting thousands of trees at Majjistral Park.

MAPFRE Malta also collaborated with a number of different entities to organise various activities ranging from food and blood donations, environmental activities and various donations to various charitable organisations and NGOs, such as Malta Community Chest Fund, Malta Trust Foundation, Malta Red Cross Foundation, Fondazzjoni Patrimonju Malti and Down Syndrome Association, to mention a few.

MAPFRE is a committed Company that is concerned about its social print and fosters economic and social development in the countries in which it operates. MAPFRE believes that business development also entails a demanding social, environmental and governance commitment to protect the legacy handed down to our future generations.

ESG is high on everyone's agenda, and means using Environmental, Social and Governance factors to evaluate companies on how far advanced they are with sustainability. At MAPFRE Malta this is already deeply embedded in our strategy and in our commitment to society here at MAPFRE Malta. We take specific action on environmental sustainability, in society and governance. We are not starting from scratch, these activities were already part of our corporate DNA and were already present in our daily business, but now we will promote them more directly and visibly.

Managing the social and environmental impact of companies and people is closely linked to our activity. Sustainability is strategic for us because each pillar of our plan allows us to continue moving forward and fulfilling our purpose. At MAPFRE Malta we take care of what matters to you, and our Sustainability Strategy allows us to continue doing so.

This plan goes hand in hand with our strategy in a fully integrated manner in the business, especially in the development of products and services, and it determines the

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT

WHEN PEOPLE COME FIRST – CONTINUED

responsible management of our assets and investments. It also produces transformative effects, both in relation to the environment and in the Group's corporate governance; but what makes us different lies in the "S" for Social, because it is part of our way of understanding business.

We are expanding MAPFRE's ambition and commitment to advance in the decarbonisation of the economy and in reducing all kinds of gaps, as well as helping our clients make a fair transition for the generation of people that now depends on less sustainable activities.

We are aligned with MAPFRE Group's sustainability plans on emissions neutrality by 2030, inclusive labour policies for people with disabilities making up at least 3.5% of the workforce, working towards having 100% sustainable providers, and not investing in, or insuring, coal, gas or oil companies that do not have an energy transition plan in place.

We continually review and increase our transparency and ESG requirements based on what others expect of us, and on what we believe ourselves to be capable of doing to contribute on social and environmental matters. At MAPFRE Malta, we are aligning our services and products with these aims. We achieve this through sustainable products, sustainable investment, and sustainable underwriting. In 2022, MAPFRE Middlesea launched the first electric vehicle insurance policy on the island and MAPFRE MSV Life was the first company to launch ESG funds linked to their investment portfolio.

In July 2022 we joined MESGA, Malta ESG Alliance, to become an active player in conjunction with other relevant companies in the country and fostering initiatives from the private sector that may accelerate the sustainability of Malta. At MAPFRE Middlesea we will be investing in solar panels to reduce our carbon footprint and we have implemented many initiatives to optimise waste management.

At MAPFRE Malta we are fully committed to the 2030 Agenda and we believe that we are playing a key role in transforming the present to ensure a fairer, more egalitarian, and safer world for all.

LOOKING FORWARD

MAPFRE has a long history of being an innovative Company. Innovation is in our DNA and is one of our main drivers in boosting organic growth and executing our strategies. This permanently generates differentiating value propositions for clients, with a transversal and integral vision that means we can respond to business challenges.

We are living through a time of historic change. We are in the Decade of Action, a context of urgency in which we have the unique opportunity to collaborate in order to tackle social and environmental challenges. At MAPFRE we know that our response to these global challenges can only be collective. We believe that small actions add up to create big changes, which is why we aim to contribute to this process through demanding and unequivocal commitments. Through this vision, we are working to make quality employment, inclusion, financial education, accessibility to insurance, and the sustainability of our value chain the drivers of transformation.

In 2023 we will continue to work on our employer's brand, to show that we are a different Company, with a clear purpose, and an excellent place to work, a place "where your time becomes meaningful".

MAPFRE's Strategic Plan 2022-2024 deepens the transformation process that began several years ago, so we can continue adapting to the complex macroeconomic environment we operate in, improving our client value proposition and adapting to their new preferences, being more accessible, different and scalable.

Our change agenda is based on sustainable, balanced and profitable growth; on the continuous improvement of internal efficiency; and further accelerating the transformation already underway. Our values are constant and comprise the hallmarks of our group: Solvency, Innovation, Service, Integrity, and a Multicultural and diverse team. All of this makes up the new roadmap that will allow us to achieve our commitments and objectives.

Last year we defined a new strategic plan for MAPFRE Malta 2022-2024, with specific developments for each company generating important synergies.

We said we had three major areas in our new strategy based on the Group Pillars:

Customer focus. The value proposition must serve this great principle and promote a holistic view of the customer, differentiating individuals and families from corporate customers.

Distribution and diversification. We remain committed to a multi-channel distribution model, adapted to the needs of our customers and we must continue to strengthen the direct relationship with our customers when they require it, either in person or digitally. We shall continue to offer the widest range of insurance products, diversifying towards those insurance solutions that best suit our customers and which are also aligned from a technical and capital management point of view.

Gaining efficiency. Offering the best solutions and services is all well and good, but we also have to do it at an affordable price, driving towards simplicity and agility. This means transforming many processes and being more technological, and we are taking on the challenge determined to achieve this ambitious goal.

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT

LOOKING FORWARD – CONTINUED

One year later, we keep all our commitments and we confirm we are working intensively in all areas, client focus, distribution and diversification, technical performance and efficiency to achieve our goal: developing a balanced, profitable and sustainable growth.

We cannot and must not forget that the regulatory environment will continue to be very intense in the coming years and as MAPFRE Malta we welcome all these changes. We will maintain the same fluid, transparent and cooperative relationship with the different bodies that regulate our activity, mainly the Malta Financial Services Authority. We always aim to strike the balance between proper control and business development on behalf of our intermediaries, providers and other stakeholders. We must all cooperate to achieve full regulatory compliance without affecting commercial and competitive activity.

A special mention to IFRS17, the new accounting standard we will be adopting in 2023 that will change the way we account for the insurance business, with significant modifications in comparison with IFRS 4, mainly for the long term business. We will not modify the performance of the companies but we will report in a different manner.

Any business strategy requires a favorable and predictable environment to be successful and we must defend Malta's excellent prospects. Together, we must continue to work towards making our country increasingly transparent in financial practices and this year we are glad to see Malta being removed from the grey listing. We must also find solutions to the growing shortage of qualified professionals in a market of full employment.

As an insurance Group, we reiterate our total commitment to collaborating with other institutions in the promotion of road safety. We do it with Fundación MAPFRE. As a society, we cannot accept that serious avoidable accidents continue to occur. Last year was a terrible one in terms of severe accidents and it seems that 2023 started in a similar condition. We must raise awareness of the risks of alcohol and drug consumption, the use of mobile phones and inappropriate speed. We must act holistically in all relevant areas as education, legislation, scoring of irresponsible drivers, ensuring compliance with the law, improving infrastructures and black points and vehicle fleets to rise to the challenge of Zero Fatalities on the roads. All the stakeholders need to act in a coordinated manner to change this situation and MAPFRE will be there.

As we said last year, we are an insurance Group committed to our shareholders, customers, distributors, employees and Maltese society and we will continue to work hard every day to be Your Trustworthy Company.

Signed by Javier Moreno Gonzalez (President & CEO) on 22 March 2023

BOARD OF DIRECTORS & COMPANY SECRETARY

Martin Galea
Chairman
NED I

Formerly: Managing Director of Joinwell Ltd., President of the Malta Federation of Industries, Vice President of the Malta Chamber of Commerce Enterprise and Industry, Member of the Malta Council of Economic and Social Development, Director of Malta Enterprise, President of Din L-Art Helwa, Member of the Malta Olympic Committee, Editor of the Malta Independent, President of The Malta Rugby Football Union, Chairman of the Malta Winemakers Association, Director of MAPFRE MSV Life p.l.c.

At present: Director of Dalma Capital SICAV p.l.c., Zodial Opportunities SICAV p.l.c., Cevian Capital (Malta) Ltd. and the Blevins Franks Group as well as involvements in other family businesses and licensed companies.

Jose Ramon Alegre
NED

Formerly: Mr Alegre is a Graduate of Economic and Business Sciences and Program for Management Development (IESE). He joined MAPFRE in 1999 as an Export Risk Analyst in MAPFRE Risk & Credit, in 2002 he was transferred to Puerto Rico as Sales Network Supervisor and in 2003 he took the position of Sales and Marketing Manager in MAPFRE Florida. He returned to Spain in 2007 to become Manager of Club MAPFRE. In 2012 he took on the function of Sales Manager of the proprietary network and from 2016 until December 2020 he was CEO of Verti Germany. Between 1 January 2021 until 31 December 2022 he was the CEO of the EURASIA Region of the MAPFRE Group.

At Present: CEO of the EMEA Region in the MAPFRE Group since 1 January 2023.

Antoinette Caruana
NED I

Formerly: Recently retired from the positions of Company Secretary and Group HR Manager of the Farsons' Group; also held a number of positions in the private sector including the posts of Chief HR Officer of Lufthansa Technik Malta and General Manager; HR of the Brandstaetter Group; Chief Executive of Heritage Malta; specialized in human resource management and development and been actively involved in local industrial relations; lectured at the Faculty of Economics, Management and Accountancy, University of Malta; served as Director of the Central Bank of Malta between 2008 and 2013; previously a trustee of the Richmond Foundation and a director of the Foundation for Human Resources Development; Chairperson of the Malta Professional and Vocational Qualifications Awards Council; Director of the Employment and Training Corporation and served as a core member of the Malta-EU Steering & Action Committee.

At present: Currently serves on the Board of Heritage Malta; Director on the Board of the Foundation for the Rehabilitation of Drug Abusers (Caritas Malta); serves as employers' representative on the Industrial tribunal.

John Cassar White
NED I, resigned with effect from 29 April 2022

Formerly: A banker by profession serving in various executive and managerial posts; Chairman of Bank of Valletta p.l.c between 2013 and 2016.

At present: Chairman of the Malta Fiscal Advisory Council and the Supervisory Board of the Malta Development Bank.

Gordon Cordina
NED I

Formerly: Several years' experience of Board and Risk Committees in major financial institutions in Malta, amongst which Bank of Valletta p.l.c. and HSBC Bank Malta p.l.c.. He served as Manager of the Research Department of the Central Bank of Malta, Director General of the National Statistics Office of Malta, Head of the Economics Department of the University of Malta and Economic Advisor to the Malta Council for Economic and Social Development.

At present: Chairman of Bank of Valletta, also Chairing the Bank's ESG Committee and co-chairing the Nominations and Remuneration Committee. Chairman of Mapfre MSV Life p.l.c. and through the private consultancy firm which he co-founded in 2006, is involved in a number of local and international research projects and consultancy assignments with institutions including the EU Commission, NGO's and private sector entities. Also, a visiting senior lecturer at the University of Malta.

José Luis Jiménez
NED

Formerly: An economist in the Research Department of Caja Madrid, Chief Economist at Skandia Vida, Chief Investment Officer at SkandiaLink in the European and Latin America Division, Head of Asset Allocation at Skandia Investment Group, CEO at March A.M. and Founder and former Chairman of the Group of Boutique Asset Managers (GBAM): an international network of specialized asset managers.

At present: Chief Investment Officer at MAPFRE, Madrid since 2015 heading the Global Investment Function and Lecturer in Macroeconomics at the IE Business School.

Taddeo Scerri
NED I, resigned with effect from 29 April 2022

Formerly: Served as Director of Bank of Valletta p.l.c between April 2013 and December 2016 during which time he also chaired the Bank's Audit Committee. In December 2016 he was appointed Chairman of the said Bank, chairing also its Nominations and Governance Committee and the Remuneration Committee. He resigned from the Bank as at May 2020. Formerly also Managing Partner of RSM Malta and Chairman of the local UEFA Clubs Licencing Board.

At present: A qualified accountant by profession currently serving as consultant and independent director of a number of private companies. Currently also Financial Consultant to the Malta Football Association.

BOARD OF DIRECTORS & COMPANY SECRETARY

Etienne Sciberras
NED I, appointed with effect from 29 April 2022
Formerly: A Certified Public Accountant, holder of the CFA designation and an Honours Degree in Commerce with a major in Management. With over 20 years' experience in the insurance business occupying various roles including that of Senior Manager with MAPFRE MSV Life p.l.c.'s Investments Unit and subsequently Chief Risk Officer at MAPFRE Malta.

At Present: Chief Executive Officer of MAPFRE MSV Life p.l.c. Member of the Board of Directors and Chairman of the Audit Committee of Plaza Commercial Centres p.l.c.

Robert Suban
NED I, appointed with effect from 29 April 2022
Formerly: Graduated with a Bachelor in Business Administration, a Masters Degree, and a Ph.D. in Accounting & Finance from the Alliance Manchester Business School and ACCA. Worked at the Central Bank of Malta, Jobsplus and a leading private travel organisation in Malta.

At Present: Head of the Department of Banking and Finance at the University of Malta. Non-Executive Director of Malita Investments p.l.c.

Jose Maria del Pozo
NED
Formerly: He holds a degree in Business Administration from the Complutense University of Madrid and, after working for four years at EY, joined MAPFRE in 1992 and since then has held several senior management positions, mostly in the Finance Area. Until March 2018, he served as CFO at MAPFRE GLOBAL RISKS. Member of the Board of Directors of several MAPFRE GROUP companies and consultant professor for accounting and financial analysis of insurance companies.

At Present: CFO for the EMEA Region of the MAPFRE GROUP since April 2018; Director of MAPFRE MSV Life p.l.c.

Paul S. Testaferrata Moroni Viani
NED I
At Present: Mainly involved in tourism and investment services, market and sales research, contracting, administration, property construction and development, managing operations, strategic planning and new business development. Director of GO p.l.c.., Innovate Software Limited and a Director within the Testaferrata Group of Companies.

Joseph F. X. Zahra
NED I, resigned with effect from 29 April 2022
Formerly: Head of Research, Malta Development Corporation; Director, Central Bank of Malta; Director, Malta Development Corporation; Director, Medserv p.l.c; Chairman, Bank of Valletta p.l.c.; Chairman, Middlesea Valletta Life Assurance Co. Ltd; Chairman, Maltacom p.l.c..; Chairman, National Euro Changeover Committee; Chairman, National Commission for Higher Education; Chairman, Middlesea Insurance p.l.c.; Chairman, Malta Council for Culture and the Arts; Managing Director, Market Intelligence Services Co. Ltd.

At present: Chairman, Vodafone Holdings Ltd.; Director, Vodafone Insurance Co. Ltd.; Director, SurgeAdvisory Ltd; Director, United Finance p.l.c.; Director, Pendergardens Developments p.l.c.; Director, Curmi & Partners Ltd; Director, Birks Group Inc. (Canada).

Javier Moreno
President & CEO, appointed with effect from 1 April 2021
Formerly: Joined the MAPFRE Group in 2000 and developed his professional career with MAPFRE in Spain, assuming different positions mainly in the Health Business Unit, as Chief Claims Officer in MAPFRE CAJA SALUD and Chief Claims Officer for Personal Lines (Health, Personal Accident and Burial Expenses) in MAPFRE ESPAÑA. A member of the Permanent Commission in Unespa (the Spanish Insurance Association) representing MAPFRE for Health Business. In 2015 he was appointed by the Group as Corporate Director leading the global development of Health insurance in the Business & Clients Corporate Area. Prior to joining MAPFRE in Malta he held the position of Corporate Director for Global Life Business Development in the Business & Clients Corporate Area with the responsibility of developing the Life Strategic Initiative globally.

At present: Incoming President and CEO of MAPFRE Middlesea p.l.c.., Director of MAPFRE MSV Life p.l.c., Chairman of Bee Insurance Management Ltd, Chairman of Middlesea Assist Ltd, Chairman of EuroMed Risk Solutions Ltd, Chairman of Euro Globe Holdings Ltd, Chairman of Church Wharf Properties Ltd, Director of Growth Investments Ltd.

Daphne Sims Dodebier
Company Secretary
Formerly: Senior Legal Advisor at HSBC Bank Malta p.l.c, Committee Member of the Malta Chamber of Advocates, Director of Trustmoore Corporate Services Ltd.

At present: Joined MAPFRE Middlesea p.l.c. in April 2018 as Head of Legal and was appointed Company Secretary on 26 April 2019. Serves as Committee Secretary to the Board Committees of MAPFRE Middlesea p.l.c. as well as being Company Secretary of the majority of its subsidiary companies. She was also appointed Whistle Blowing Reporting Officer in October 2018 and Complaints Officer in November 2018. She is a member of the Malta Chamber of Advocates and a recognised translator with the Ministry for Justice and Foreign Affairs in Malta.

NED – Non Executive Director
I - Independent

HEAD OFFICE & AGENCIES

HEAD OFFICE

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DIRECTORS' REPORT

The Directors present their annual report for the year ended 31 December 2022.

PRINCIPAL ACTIVITIES

The principal activities of the Group consist of the business of insurance. The Group is licensed to carry on general and long-term business. The Group is also authorised to provide insurance management services.

REVIEW OF BUSINESS

THE COMPANY

MAPFRE Middlesea p.l.c. (the 'Company') registered a profit before tax of €6.0 million during the financial year ended 31 December 2022 ("FY 2022") compared to €4.1 million registered in the previous financial year ("FY 2021") with post-tax profits of €3.8 million, compared to €2.6 million in FY 2021. Technical performance in the non-life business remained level with previous year although claim levels returned to pre-pandemic level particularly in Motor. On the other hand group life business returned an even stronger result than the comparative year. Negative fair value movements, particularly in investment property, continued on previous year trends particularly resulting from the general increase in interest rates. During the year a net €1.0 million dividend was received from the subsidiary MAPFRE MSV Life p.l.c., which improved the financial contribution from investments to the profits of the Company. Company results also include a €0.5 million recovery from the liquidation of Progress Assicurazioni S.p.A. equivalent to 6.35% of a subordinated loan that the Group had given to the then Italian group undertaking.

Premiums written by the Company reached €87.1 million (2021: €80.1 million), an 8.7% increase with growth in all main classes of business, including Group Life. MAPFRE Middlesea p.l.c. remained the leader of the non-life market although the Company's market share reduced marginally from the previous year following the receipt of provisional market data as the market registered a growth above that of the Company's.

Technical results for general business dropped to €4.8 million from the €5.3 million of FY 2021, a 9.4% reduction. Premium growth was encouraging particularly in Health and Travel business, that picked up as outbound tourism outperformed sector estimates. Claims frequency, which was in part of 2021 still impacted by restrictive measures, increased over 2021 almost reaching pre-pandemic levels. An increase in average claim cost in Motor was again experienced due to inflation and rising motor parts shipping costs. The impact of large losses was lower in Motor compared to 2021 which together with favourable run-offs mitigated most of the higher frequency and higher cost impact. The net combined ratio in Motor improved marginally to 99.8% from the 100.3% registered in FY 2021, however it still closed above set targets. The whole non-life portfolio closed with a net combined ratio of 92.6% up from the 91.8% registered the previous year as a number of large losses in the Liability class of business edged up the total large loss impact for the year. Group Life produced another strong result contributing €1.3 million, above the €0.9 million in FY 2021 mainly due to a reduction in claims incurred.

As the economy continued to recover from the effects of the pandemic, the impacts of the Ukrainian war on the world economy, spiralling inflation worldwide, and increased interest rates, all had an impact on asset values and Company expenses. Margins continue to be squeezed and in particular in non-life business the rising claim costs has required close monitoring of each line of business, ensuring pricing adequacy whilst introducing changes in the products offered, taking on risk that is within the Company's risk appetite to maximise profit.

Business and client retention remains a major challenge as clients seek insurance cover that suits their needs at the right price. The Company remains focused on offering its clients a better service directly or through its numerous intermediaries, even if remotely. The Company continues to roll-out its implementation of its new insurance IT system, both in terms of products, with the first Motor products launched, and also in term of distribution, with the system rolled out to all Tied Insurance Intermediaries and Brokers. This together with upgrading its technological platforms will bring the Company closer to its clients. As progress is made in rolling further products onto the new system, the Company is aware of the inherent risks that an overhaul of the core IT system brings about both to resources and operations and Management plans to ensure transition is done in a way to mitigate such risks.

The Company's net investment return amounted to €1.1 million compared to the €0.4 million in FY 2021. During 2022 MAPFRE MSV Life p.l.c. paid a contained dividend to its shareholders after an absence of two years of which the Company received a net €1.0 million. Due consideration is taken of the Solvency position of MAPFRE MSV Life p.l.c. in determining the level of dividend to be paid. The current economic environment and the significant fair value losses put a strain on the Solvency of the life company and management continues to take all necessary actions to maintain the Solvency position in an adequate level in line with its risk appetite. Revaluation of investment property held by the Company rendered a loss of €0.6 million for 2022 compared to a loss of €0.5 million the previous year.

DIRECTORS' REPORT

REVIEW OF BUSINESS – CONTINUED

THE COMPANY – CONTINUED

The Shareholder's Funds of the Company at €77.1 million saw an increase of 0.9% during FY 2022 resulting from the profit for the year exceeding the payment of dividend for FY2021 and negative investment value movements in equity. Net Asset Value per share as at 31 December 2022 amounted to €0.84.

MAPFRE Middlesea p.l.c.'s solvency position remained strong with net assets remaining adequately above the capital requirements under Solvency II with the cover being reported in the Solvency and Financial Condition Report (SFCR) to be published by the Company later in the year.

MAPFRE MSV LIFE P.L.C.

MAPFRE MSV Life p.l.c. ("MAPFRE MSV Life" and "MAPFRE MSV Group") registered a profit before tax of €17.2 million for FY 2022, up 3.0% on the previous year when a €16.7 million profit before tax was generated. Profit after tax is recorded at €11.7 million, up 10.4% on the €10.6 million in the previous year.

Operating results benefited from a better than expected performance from the Life protection book of business. Apart from the positive underwriting result, this line of business benefited significantly from the increase in interest rates experienced during 2022. However, the difficult and complex economic and financial market environment has weighed heavily and negatively, in terms of With-Profits gross written premium, with a marked reduction over the previous year.

During the year, Central Banks shifted from an accommodative to a restrictive monetary policy to stem the surge in inflation, which was initially fuelled by supply chain challenges, economies opening up following improvement in COVID-19 situation and then further compounded with the war in Ukraine. The global economic outlook deteriorated with consensus forecasts pointing towards a recession with estimates ranging from a mild to a more severe recession. This backdrop was conducive to a risk off sentiment for the most part of the year resulting in a selloff in the equity markets while negative yields turned positive, effectively ending a decade long of low and negative yields environment. The unusual simultaneous losses in equities and bonds were even more extraordinary given that both asset classes' losses were significant, in double-digit figures.

Gross premiums written for FY 2022 totalled €248.8 million, a decrease of 23.5% over the prior year €325.1 million, driven mainly by a lower demand from single premium With-Profits business. The uncertain economic environment, increased market volatility and increased debt issuance at higher coupon rates were the main factors behind the decrease in demand for MAPFRE MSV Life's flagship product, the With Profits Single Premium Plan. Regular premium business was more resilient with premiums growing at a satisfactory rate over previous year. In terms of regular business, it is noteworthy to mention that personal pension plans continued to experience sustained demand while interest in Voluntary Occupational Pension Schemes (VOPS) improved and encouraging results registered in this segment. In line with our strategy of risk, product and income diversification, increasing focus on unit-linked single and regular-premium business together with personal and corporate pensions business will drive new business to support our flagship with-profits products.

Net claims incurred decreased to €295.0 million through the year compared to a prior year €305.0 million largely as a result of a decline in maturing medium-term single premium contracts. A large proportion of maturing contracts were subsequently re-invested in new medium to long-term contracts.

In aggregate, the balance on the long term business technical account decreased to €17.2 million from a prior year €18.1 million as a result of the lower demand for single premium With Profit product.

The MAPFRE MSV Group's total assets decreased by 13.4% from €2,721.4 million at the end of 2021 to €2,357.0 million at the end of 2022, whilst net technical provisions (including investment contracts without DPF) decreased by 15.3% from €2,437.6 million in 2021 to €2,063.8 million in 2022.

The value of in-force business, which projects future transfers to shareholders arising from policies in force at the end of the year, decreased by 8.4%, from an €87.1 million value in 2021 to €79.8 million in 2022. This is attributable to the impact of increased interest rates and lower asset market values.

DIRECTORS' REPORT

REVIEW OF BUSINESS – CONTINUED

MAPFRE MSV LIFE P.L.C. – CONTINUED

Total shareholders' funds at the close of 2022 amounted to €224.3 million (2021: €221.9 million), an increase of 1.1% over the previous year and well ahead of minimum solvency guidelines. The end of year Solvency Capital Requirement ratio is expected to be lower than the corresponding 2021 figure. The Company will continue to monitor the business and financial markets developments and consider measures in line with its risk management framework to maintain the solvency ratio within its articulated risk appetite.

The shareholders of MAPFRE MSV Life are wholly committed in ensuring that the company remains adequately capitalised at all times to sustain business growth and to meet Solvency Capital Requirements in line with the Solvency II framework.

The MAPFRE MSV Life With Profits Fund stood at €1.89 billion at 31 December 2022 (2021: €2.25 billion). The fall in the fund value was driven by the lower re-pricing of assets following the financial markets downturn and the negative operational cashflows arising from maturity outflows and decrease in gross written premiums.

As mentioned above, the breadth and depth of the financial markets turmoil was such that even well diversified investment portfolios closed the year with a negative performance, notwithstanding the market recovery from the year's low, during the last quarter. Historically, whenever equities experienced increased volatility, bonds provided the main diversification benefits within investment portfolios. However, in 2022, this was not the case given that even investment grade credit and government bonds registered double-digit losses. Locally, the 10-year Malta Government Stock saw a price reduction of over 20%. In 2022, bond markets suffered the worse loss in more than a century.

The investment strategy of the MAPFRE MSV Life's With Profits Fund is to hold a diversified range of quality assets, spread across different geographies and currencies to mitigate market and concentration risk. This asset diversification together with the robust investment management process, the expertise of the asset managers engaged, and the company's strong track record of investment management continue to be fundamental in managing policyholders' assets in a challenging and even more volatile investments market environment.

Notwithstanding the active management of the Fund, which resulted in a number of tactical positions being taken during the year, the total investment losses of the With Profits Fund amounted to €270.4 million generating a negative return of 13.1%. This performance was comparable to what are generally referred to as "balanced" investment funds. The With Profits Fund's investment strategy, which is subject to regular review, remains well positioned to benefit from the eventual economic and capital markets recovery and the medium to long-term opportunities that this new environment presents.

In March 2023, the Board of Directors of MAPFRE MSV Group approved a resolution whereby differential rates of Regular Bonuses were declared in respect of With Profits plans held with MAPFRE MSV Life for the year ended 31 December 2022. These amounted to 0.90% for the Comprehensive Life Plan (regular and single premium policies), 1.00% in respect of the Comprehensive Flexi Plan (regular and single premium policies), 1.00% under the Single Premium Plan and 1.00% under the With-Profits options of the Investment Bond, Retirement Plan and of the Personal Pension Plan. On the 'Old Series' Endowment and Whole Life policies, a Regular Bonus of 1.00% of the basic sum assured plus bonuses was declared.

In addition, the Board also announced the declaration of a Final Bonus in respect of Comprehensive Life Plans (single and regular premium), Comprehensive Flexi Plans (single and regular premium) and Single Premium Plans that have been in force for more than 10 years. For Regular Premium policies, the Final Bonus is expressed as a flat percentage plus a percentage for every year in force after the 25th year of the policy whilst, for the Final Bonus on Single Premium policies is being expressed as a combination of a flat percentage plus an additional percentage for every year in force after the 10th year of the policy. Final Bonuses will be paid on the value of the Policy Account as at the date of death or maturity between 1 May 2023 and the next bonus declaration in accordance with the following table:

Product	Final Bonus Flat Rate %	Rate per Year in Force	After Years in Force
Comprehensive Life Plan (Regular Premium)	5.00%	1.50%	25
Comprehensive Flexi Plan (Regular Premium)	Nil	Nil	N/A
Single Premium Plan	5.00%	0.75%	10
Comprehensive Life Plan (Single Premium)	Nil	3.00%	10
Comprehensive Flexi Plan (Single Premium)	7.50%	Nil	N/A

DIRECTORS' REPORT

REVIEW OF BUSINESS – CONTINUED

MAPFRE MSV LIFE P.L.C. – CONTINUED

The Board of MAPFRE MSV Life also approved a Regular Bonus of 0.90% on those Secure Growth policies which formed part of the portfolio of business transferred to MAPFRE MSV Life from Assicurazioni Generali S.p.A. during 2000. Finally the Board also approved a Regular Bonus of 1.00% on the ALICO 78 policies and a Regular Bonus of 1.00% on the ALICO 66 polices which formed part of the portfolio of business transferred to MAPFRE MSV Life in 2011 from American Life Insurance Company ("ALICO").

Notwithstanding the prudent investment policy adopted by MAPFRE MSV Life, past performance is no guarantee for the future. Although MAPFRE MSV Life's With Profits investments have generally provided policyholders with stable and satisfactory returns when compared with other similar investment products, in the light of the current uncertainty in the capital markets, investment returns could fluctuate further. Fair value movements and investment returns impinge directly on the rates of bonuses declared by the company. Regular Bonuses are therefore expected to vary over the lifetime of the policy whilst Final Bonuses are likely to be highly volatile and very dependent on the investment performance of the company.

In 2022, the life insurance market in Malta saw a contraction as inflation surged and the economic and financial markets outlook deteriorated. The 2022 regular bonus rates represent a maximum reduction of 1.00% from the 2021 declaration. The policy holders are benefiting from the application of the smoothing with the With Profits fund, in light of the negative investment performance experienced in 2022.

Following MAPFRE MSV Life's Board of Directors' approval of the 2022-2024 Strategic Plan, the unfolding economic and capital market developments during 2022 were significantly and unfavourably different to the assumption made at plan definition stage. Notwithstanding, the company remains resolute in the 2022-2024 Strategic Plan execution. Good progress along the three main strategic pillars of; revenue streams diversification; data and digital transformation and excellence in customer service has been made.

Revenue streams diversification is one of the main pillars over this strategic period. Product innovation and distribution channel enhancement initiatives are the main drivers underpinning this strategic objective. The company remains focused on growing the regular savings business and in further developing the Unit Linked business segment. The company remains committed in contributing towards a solution to the country's challenge of pension system sustainability. The company continues to invest in products and systems to enable it to offer financial solutions to better support policyholders' financial goals and aspirations during their retirement years.

In the second half of the year, we saw a more subdued demand for single premium contracts. In the last quarter of the year, with investor sentiment and consumer confidence at low levels, the drop in demand was more accentuated. The shift away from low and negative interest rates is expected to continue to affect negatively on short-term demand as economies transition to a higher interest environment.

The demand for new retirement savings products continues to be encouraging and the company saw improved turnover in regular savings contracts. The company continued to be very active in the Personal Pension segment and the Voluntary Occupational Pension Scheme product, WorkSave, saw increased demand with the on boarding of a number of companies.

The life protection line of business demand was in line with expectations. Locally, demand for life protection continues to be strongly correlated with the demand for home loans. The need to have life protection as a basic element of financial planning remains underappreciated. The company feels that promoting the importance of having adequate levels of insurance is also part of its responsibilities to build more financially secure and resilient communities.

There were no significant insurance or financial risks impacting the portfolios of business, during the year, and mortality assumptions used in the valuation of policyholder obligations remained appropriate.

DIRECTORS' REPORT

REVIEW OF BUSINESS – CONTINUED

OTHER SUBSIDIARIES

The other subsidiaries within the Group, though not significant to the size of the Group, had a mixed contribution to the results of the year.

BEE Insurance Management Limited ('BEE') and its subsidiary Euro Med Risk Solutions Limited which offer Insurance and Non-Insurance management services saw a drop in third-party revenue due to fee adjustments. During FY2022 BEE commenced servicing the Group's insurance entitities in the Information Technology sphere. A combined profit of €0.2 million was registered compared to a loss of €0.1 million in the comparative period.

Church Wharf Properties Limited holds a property within the Regeneration of the Grand Harbour Area. A negligible gain was recorded in the year compared to loss of €0.4 million was registered at the end of 2021 which had resulted from a change in methodology applied for the valuation of property. The directors continue to monitor the evolution of this project which gives a potential future increase in value of this investment.

THE GROUP

The Group registered a profit before tax of €22.2 million in FY 2022 compared to €20.4 million achieved in FY 2021. Profit after tax for FY 2022 closed at €14.6 million a 13.3% increase from the €12.9 million achieved in FY 2021. Group premiums written reaching €335.9 million saw a drop of 17.1% against that registered in FY 2021, with both insurance companies remaining leaders in their respective markets.

MAPFRE Middlesea's Group capital and reserves attributable to shareholders at 31 December 2022 amounted to €113.1 million (2021: €111.0 million) on a consolidated basis with a net asset value per share of €1.23 as at 31 December 2022 mainly as the result for the year outweighed the decrease in the value of in-force business and the payment of dividend by both MAPFRE Middlesea and MAPFRE MSV Life.

Whilst as a Group we have an important role to provide our customers with prosperity and peace of mind, we acknowledge that we have a wider commitment to society by also supporting those who are not our customers. Over the years we have developed a Corporate Social Responsibility (CSR) policy framework which encompasses shareholders, the environment, people, communities and customers. Through our CSR programme we cooperate with and assist a number of public and private institutions, NGOs, museums, foundations and associations who share similar goals and values as us.

Sustainability is also very high in our agenda. In line with the MAPFRE Group's Sustainability Plan, the Group is committed to be carbon neutral by end 2030. To this effect a number of initiatives are being implemented and more will be formulated as we move towards this important goal. Good progress is also being registered in terms of the environment, social and governance (ESG) dimensions.

As a financial institution, we are aware of our responsibility and contribution towards sustainability and that this will primarily depend on how the Group allocates capital through its investing decisions. To this effect, our initial focus revolved on updating the Investment Policy and processes at MAPFRE MSV Life p.lc. through the endorsement of the Principles for Responsible Investing. In terms of the Sustainable Financial Disclosure Requirements (SFDR), our With-Profits Fund, is currently classified as Article 6. The intention is to transition this Fund to an Article 8 classification. An article 8 Fund has greater disclosure requirements and must also promote environmental or social characteristics. Segregated Investment management's mandates have been updated to include sustainability factors and financial exposures via pooled funds are being monitored and assessed depending on in their sustainability objectives. In 2022, our Product Oversight Governance (POG) policy at both MAPFRE Middlesea and MAPFRE MSV Life were updated to include sustainability factors considerations. We believe that by promoting and providing pension products we are also contributing to the social dimension.

Other initiatives like remote working, files digitilisation, electronic communication and promotion of hybrid and electric vehicles, and the upcoming installation of photovoltaic panels on the roofs of both Head Offices, lower our carbon footprint and move us closer to our goal of becoming carbon neutral. The Group can also boast to have a diverse multinational workforce with high levels of female participation in senior management positions. We are also proud to have achieved the target set in terms of the gender pay gap metric. During 2022 the Company has also joined the MESGA, the Malta ESG Alliance that brings together the main private companies on the island that foster ESG initiative and can accelerate the sustainability of Malta.

DIRECTORS' REPORT

REVIEW OF BUSINESS – CONTINUED

THE GROUP – CONTINUED

Training and development of our people continued to feature high on our agenda during 2022. We value our people and seek to help them achieve their full potential by providing them with internal and external training opportunities in Malta as well as overseas. In order to ensure the well-being and ongoing development of our people, we are continuously reviewing and updating our HR policies and implementing new policies and employment practices. During the year, both MAPFRE Middlesea p.l.c and MAPFRE MSV Life p.l.c. were awarded the HR Quality Mark by the Foundation for Human Resources Development.

The Board expresses its gratitude and appreciation to the management and staff of all the Group companies for their commitment and contribution to another satisfactory year, to intermediaries for their continued support and to the many loyal customers for placing their trust in MAPFRE Middlesea p.l.c. and MAPFRE MSV Life p.l.c..

Going forward we will maintain strong focus on our customers by continuously assessing our business processes and operations in order to provide good value and excellent service. To this end, we will continue to invest and innovate in information technology. During 2022 we progressed on our major IT programmes in both insurance companies. MAPFRE Middlesea, whilst still suffering some delays, achieved a number of goals in its plan for the year, including the launch of Motor product and the roll-out to Tied Insurance Intermediaries and Brokers, and is heading for critical milestones in its roll-out in the coming months. MAPFRE MSV Life achieved a number of important milestones with the main highlight being a successful migration of the savings book of business to the new Policy Administration System. This was only possible thanks to our employees' professionalism and commitment together with our supplier's expertise. Over the next year, the Group looks forward to consolidate on these achievements and to further deliver in terms of the customer journey experience and its digital transformation.

We consider our distribution footprint in Malta to be one of our key strengths. We are going to persist on the multichannel approach, we want the client to receive the same price from the Company whatever channel he chooses to approach the Company: Direct, Agents, Tied Insurance Intermediaries or Brokers. In MAPFRE MSV Life, whilst bancassurance remains the most important distribution channel, to ensure that we provide our customers with greater accessibility and a better service, we are continuously seeking to strengthen all other distribution channels.

The Group continues to seek growth in its core business lines and believes that its increasing integration with MAPFRE Group strategies will further strengthen and consolidate business prospects.

OUTLOOK

The outlook of the Board of Directors for 2023 remains one of cautious optimism. The local economy is expected to remain resilient in the context of a more challenging environment as inflationary pressures continue to push the cost of living higher. Global capital markets outlook remains one of volatility, at least, as long as inflation concerns persist and the interest rate path remains unclear with continued geopolitical risks in the background. With inflation running at levels not seen in decades, global central banks will continue to play a crucial role through monetary policy and their actions and forward guidance having a significant bearing of the investors sentiment and capital markets performance. Taming inflation while avoiding a hard landing will remain the key tough priority of global central banks. Geopolitical risks will also continue to bear on the global economic recovery and capital markets volatility. The war in Ukraine not only continues to exacerbate the supply chain bottlenecks and inflationary pressures but further potential escalations could serve as a catalyst for markets to sell off.

Within this context, inflation will have an impact on all the services that the Group receives both in running its operations and also from a claims perspective. Correct pricing will be key to ensure that the demand for general business products grows sustainably yielding an adequate return. Demand for the regular protection and savings business are expected to remain strong but the more challenging conditions present in the last quarter of 2022, particularly for lump sum single premium business, are expected to persist in 2023. In the medium to the long term, the structural shift from negative to positive interest rates is considered favourably for MAPFRE MSV's business model. However, in the short term, this acts as a headwind for our traditional lump sum investment and savings products as competition intensifies.

Changing customer behaviours, dramatic technological developments, product innovation and the disruption that is taking place in the insurance industry will require insurance companies to adapt to be in a position to exploit the many opportunities that will certainly arise

DIRECTORS' REPORT

REVIEW OF BUSINESS – CONTINUED

OUTLOOK – CONTINUED

From a regulatory point of view, in terms of prudential and conduct regulation, we are looking at developments in a number of important reviews in the context of Packaged Retail and Insurance - Based Investment Products (PRIIPS), the Insurance Distribution Directive and Solvency II. Increased regulation in the form of sustainability-related disclosures emanating from the Sustainable Finance Disclosure Regulation (SFDR) and the new Corporate Sustainability Reporting Directive (CSRD) is also expected. Of particular relevance will be the developments in the European Commission's Retail Investment Strategy. The prevailing Anti-Money Laundering Directives will also feature prominently in the evolving regulatory landscape as well as the newly enacted Digital Operational Resilience Act (DORA), with requirements emanating thereunder seeking to achieve a high common level of digital operational resilience. Over the past year, we have made significant investments to strengthen our compliance and risk management framework, particularly in terms of the Prevention of Money Laundering and Funding of Terrorism (PMLFT).

MMS and MMSV will apply IFRS 17 and IFRS 9 for the first time on 1 January 2023. Both companies have an ongoing implementation programme to implement such standards, which are responsible for forming accounting policies and developing methodologies, establishing appropriate processes and controls and implementing actuarial and accounting system changes. The Board is monitoring the progress of the implementation plan to ensure that the necessary priority is given to the implementation of IFRS 17.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's principal risks and uncertainties are further disclosed in Note 4 dealing with management of risk as supplemented by Note 3 relating to the use of accounting estimates and judgements in applying accounting policies, Note 16 on intangible assets covering details on the Group's value of in-force business, Note 19 on investment property discussing significant unobservable inputs used, and Note 24 discussing the assumptions underlying the technical provisions.

GROWTH INVESTMENTS LIMITED

During 2022, Growth Investments Limed, the subsidiary of MAPFRE MSV Life p.l.c., surrendered its license and resolved to liquidate effective 31 August 2022, as per Note 36 in the below financial statements. The appointed external auditor is currently auditing the subsidiary's winding up accounts and scheme of distribution.

RESULTS AND DIVIDENDS

The consolidated profit or loss account is set out on page 53. A gross dividend in respect of year ended 31 December 2022 of €0.054617 per share amounting to a total dividend of €5,024,817 is to be proposed by the Directors at the forthcoming annual general meeting. This is equivalent to a net dividend of €0.038043per share amounting to a total net dividend of €3,500,000 (2021: €2,400,000).

DIRECTORS

The Directors of the Company who held office during the period under review were:

Martin Galea
Jose Ramon Alegre
Antoinette Caruana
John Cassar White (appointed until 29 April 2022)
Gordon Cordina (appointed as from 29 April 2022)
Jose Maria del Pozo
Jose-Luis Jimenez
Taddeo Scerri (appointed until 29 April 2022)
Etienne Sciberras (appointed as from 29 April 2022)
Robert Suban (appointed as from 29 April 2022)
Paul Testaferrata Moroni Viani
Joseph F.X. Zahra (appointed until 29 April 2022)

In accordance with the Articles of Association of the Company, all Directors retire from office at the Annual General Meeting and are eligible for re-election or re-appointment. Further information is given in the Statement of Corporate Governance.

DIRECTORS' REPORT

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are required by the Insurance Business Act, 1998 and the Companies Act, 1995 to prepare financial statements which give a true and fair view of the state of affairs of the Group and the Company as at the end of each reporting period and of the profit or loss for that period.

In preparing the financial statements, the Directors are responsible for:

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business as a going concern

The Directors are also responsible for designing, implementing and maintaining internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Insurance Business Act, 1998 and the Companies Act, 1995. They are also responsible for safeguarding the assets of the Group and the parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of MAPFRE Middlesea p.l.c. for the year ended 31 December 2022 are included in the Annual Report 2022, which is published in hard-copy printed form and also made available on the Company's website. The Directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Company's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

The directors confirm that, to the best of their knowledge:

- the financial statements give a true and fair view of the financial position of the Group and Company as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union on the basis explained in Note 1 to the financial statements; and
- the Annual Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with additional information of the principal risks and uncertainties that the Group and Company face.

INFORMATION PURSUANT TO CAPITAL MARKETS RULE 5.64

The Company has an authorised share capital of €31,500,000 divided into 150,000,000 ordinary shares with a nominal value of €0.21 each.

The issued share capital of the Company is €19,320,000 divided into 92,000,000 ordinary shares of €0.21 each. The issued shares of the Company consist of one class of ordinary shares with equal voting rights attached.

The directors confirm that as at 31 December 2022, only MAPFRE Internacional (55.83%) and Bank of Valletta p.l.c. (31.08%) held a shareholding in excess of 5% of the total issued share capital.

Pursuant to the Company's Articles of Association, the appointment of Directors to the Board is reserved exclusively to the Company's shareholders (in line also with general and commonly accepted practice in Malta). Shareholders with 11% or more of the shares in issue are entitled to appoint one director for every 11% holding, whilst the other shareholders are entitled to appoint the remaining Board members at the Annual General Meeting in accordance with the provisions of the Articles of Association. The Chairman shall be appointed by the Board of Directors.

The rules governing the appointment and replacement of the Company's directors are contained in Articles 93 to 102 of the Company's Articles of Association.

DIRECTORS' REPORT

INFORMATION PURSUANT TO CAPITAL MARKETS RULE 5.64 – CONTINUED

The Directors can only issue shares following an extraordinary resolution passed in the General Meeting. This and other powers vested in the Company's Directors are contained in Articles 84 to 90 of the Company's Articles of Association.

The Memorandum and Articles of the Company may be amended by means of an extraordinary resolution of the Company during general meetings.

There are no agreements between the Company and the Directors on the Company's Board or employees providing for compensation on termination or cessation of their office for any reason whatsoever.

It is hereby declared that as at 31 December 2022, information required under Capital Markets Rules 5.64.2, 5.64.4, 5.64.5, 5.64.6, 5.64.7 and 5.64.10 is not applicable to the Company.

GOING CONCERN

The Directors, as required by Capital Markets Rule 5.62 have considered the Group's and Company's operational performance, the statements of financial position as at year end as well as the business plans for the coming year, and declare that they have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, in preparing the financial statements, the Group and Company are in a position to continue operating as a going concern for the foreseeable future.

AUDITORS

The auditors, KPMG, have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

INFORMATION PURSUANT TO CAPITAL MARKETS RULE 5.70

There were no material contracts in relation to which a Director of the Company was directly or indirectly interested.

INFORMATION PURSUANT TO CAPITAL MARKETS RULE 5.70.2

The Company Secretary is Dr Daphne Sims Dodebier and the registered office is Middle Sea House, Floriana, Malta.

INFORMATION PURSUANT TO CAPITAL MARKETS RULE 5.68

We, the undersigned, declare that to the best of our knowledge, the financial statements prepared in accordance with the requirements of International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and its subsidiaries and that this report includes a fair review of the development and performance of the business and the position of the Company and its subsidiaries, included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Signed on behalf of the Company's Board of Directors on 22 March 2023 by Martin Galea (Chairman) and Gordon Cordina (Director) as per the Directors Declaration on ESEF Annual Financial Report submitted in conjunction with the Annual Report and Accounts 2022.

CORPORATE GOVERNANCE STATEMENT

1. INTRODUCTION

In accordance with Rule 5.94 of the Capital Markets Rules, an issuer whose securities are admitted to trading on the Malta Stock Exchange should endeavour to adopt the principles as promulgated within Appendix 5.1 of the Capital Markets Rules entitled *The Code of Principles of Good Corporate Governance* ('the Code') and is, moreover, obliged to prepare a report disclosing both compliance and non-compliance with the said principles. In addition, the Company's auditors are to include a report on the Corporate Governance Statement in the Annual Financial Report of the Company.

The Board of Directors ('the Board') of MAPFRE Middlesea p.l.c. (the 'Company' or 'MMS') acknowledges that compliance with the said Code is not mandatory, however notes that the principles are designed to serve as a guide for the Board and the Company's Management in their pursuit of objectives in the interests of both the Company and its shareholders. The Board, therefore, firmly upholds the principles therein contained as guaranteeing the required standards of accountability and transparency and strives, to adhere to the Code as well as to maintain the highest standards of disclosure insofar as both compliance and explaining the rationale behind the instances of non-compliance.

As evidenced by the information set out in this Statement and that contained in the Remuneration Statement and Report of the Remuneration Committee to the Shareholders, the Company believes that it has, save as indicated herein in the section entitled Non-Compliance with Code, applied the principles and complied with the provisions of the Code throughout the accounting period under review. In the Non-Compliance Section, the Board outlines and explains the instances where there has been a departure from, or non-application of, the principles as contained within the Code, in accordance with the same Code.

2. COMPLIANCE WITH THE CODE

Principle 1 – The Board

The Board's role and responsibility is to lead the Company, to discuss and approve strategy and to exercise good oversight, challenging the Management and Control Functions where necessary to this end.

As at 31 December 2022 the Board was composed of a non-executive Chairman and eight non-executive Directors. The Directors, appointed in terms of the Memorandum and Articles of Association of the Company, are all competent, honest and solvent individuals and thus fit and proper to direct the business of the Company. The maximum number of Directors pursuant to the Memorandum and Articles of Association is ten. Martin Galea was re-appointed as a non-executive Chairman during the Board meeting held on the 29 April 2022, which followed the Annual General Meeting (AGM) held on the same day.

During the said AGM the two institutional shareholders re-appointed the retiring Directors Jose Ramon Alegre, Martin Galea, Jose-Luis Jimenez and Jose Maria del Pozo, while the other shareholders re-appointed the retiring Directors Antoinette Caruana and Paul Testaferrata Moroni Viani during the election for directors. Gordon Cordina and Robert Suban were newly appointed by the shareholder Bank of Valletta p.l.c and Etienne Sciberras was newly appointed by MAPFRE Internacional S.A. in order to bring the total number of Directors to nine.

All of the Directors of the Company are approved by the Regulator as being fit and proper to direct the business of the Company and are deemed to conduct themselves with honesty, competence and integrity. Both on an individual level and collectively, the Members of the Board are deemed to possess the necessary skills and experience to make effective contribution to the leadership and decision-making processes of the Company as reflected within the Company's strategy and policies. The Board moreover exercises prudent and effective controls in order to achieve both short and long-term sustainability of the business and assesses the compatibility of the MAPFRE Group policies with local legal and regulatory requirements, adapting them where appropriate.

The Board liaises closely with the President & Chief Executive Officer ('CEO') of the Company at all times in order to ensure that the Board receives timely and complete information in relation to the business of the Company and management performance. This enables the Board to contribute effectively to the decision-making process and to exercise the aforementioned controls. Javier Moreno, appointed CEO on the 31 March 2021, continued to hold the position of CEO throughout 2022.

As is customary, during the year the Board delegated specific responsibilities to a number of Board Committees, namely the Audit Committee, the Risk and Compliance Committee, the Investments Committee and the Remuneration Committee, each of which operated under their respective formal terms of reference approved by the Board.

Further detail in relation to the Committees and the responsibilities of the Board is provided under Principles 4 and 5 of this Statement.

CORPORATE GOVERNANCE STATEMENT

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 2 – Chairman and CEO

The positions of Chairman and CEO are occupied by different individuals with a clear demarcation between the leading of the Board and the CEO's management of the business of the Company, despite the strong cooperation between the two.

The Chairman is independent and is responsible for leadership of the Board and for the setting of its agenda. He ensures that the Board's discussions on any issue put before it are addressed with adequate depth, that the opinions of all the Directors are taken into account, and that all the Board's decisions are supported by comprehensive and timely information. He encourages active engagement by all the members of the Board with constructive challenging of the Management where necessary and generally promotes and ensures the effective functioning of the Board.

The CEO advises and makes recommendations to the Board while leading the Senior Management team, with the main role and responsibility of managing the Company's business in line with its Strategy. Indeed, 2022 was the first year of the new three-year Strategic Plan as developed by Management in cooperation with the Chairman and approved by the Board.

The CEO develops and drives performance within the Strategy approved by the Board and makes decisions on all matters affecting the operations, performance and strategy of the business save for those matters specifically reserved to the Board or its delegated Committees. The Company also has Technical Committees composed of senior members of the relative technical areas that hold regular meetings and a Management Committee, bringing together the Chief Officers within MMS under the Chairmanship of the CEO on a monthly basis.

The positions of the Chairman of the Board and CEO are distinguished accordingly within the Terms of Reference of the Board of Directors. In practice, there is a clear division of responsibility between the overseeing of the Board and the CEO's responsibility in managing the business of the Company rendering these positions completely independent from one another to avoid concentration of authority and power within a single individual and to differentiate leadership from the running of the business.

Principle 3 – Composition of the Board

The Board considers and experience has shown, that the number of Members as stipulated in the Memorandum and Articles of the Company are appropriate relative to the size of the Company and its operations.

The combined and varied knowledge, experience and skills of the Board members, including a broad knowledge of the business of the Company and awareness of statutory and regulatory requirements, provide a balance of competences, as required, and add value both to the functioning of the Board and to the direction given to the Company. In this regard the Company remains committed to non-discrimination, not least in its Boardroom, promoting a diverse and inclusive culture where Directors' views are heard, concerns are attended to and the environment does not tolerate bias, discrimination or harassment of any kind.

The Company's Articles of Association determine the composition of the Board. The appointment of Directors to the Board is accordingly reserved exclusively to the Company's shareholders, except in so far as an appointment may be made to fill a casual vacancy. All Directors, as well as some key officials, are required to fulfil the fit and proper regime prescribed by the Malta Financial Services Authority ('MFSA') in line with standard regulatory due diligence procedures. Moreover, all Directors apply the necessary time and attention to their duties and required to limit the number of directorships held in other companies thereby also ensuring the proper performance of their functions.

The Board is composed exclusively of non-executive Directors, of which eight are male and one is female. Although not a Director of MMS, the CEO is invited to attend Board meetings with a view to ensuring a full understanding and appreciation of the Board's policies and strategy and to provide direct input to the Board's deliberations. In addition, certain members of Senior Management are invited to report to the Board as and when required thereby securing effective information flows as well as fostering a culture of continuous dialogue between the Board and the Company's Management.

As at the date of this review, the Board consists of six independent Directors (including the Chairman), and three non-independent Directors (as indicated on page 28 of the Annual Report) as defined by the Code.

In determining the independence or otherwise of its Directors, the Board considers, amongst others, the principles relating to independence of directors contained in the Code, the Company's own policies as well as general principles of good corporate governance.

CORPORATE GOVERNANCE STATEMENT

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 3 – Composition of the Board - continued

In relation to Code Provision 3.2.5 specifically the Code requires that the Board states its reasons if it determines that a director is independent notwithstanding *inter alia* if the director: "*has served on the board for more than twelve consecutive years*".

It is noted in this regard that as from April 2022 Paul Testaferrata Moroni Viani has served on the Board for a period of more than twelve consecutive years, however, the Company was and remians of the opinion that Paul Testaferrata Moroni Viani has sufficient experience and maturity to remain independent of character and objective in judgment at all times notwithstanding the lapse of the recommended twelve years.

In terms of Code provision 3.4 each non-executive director has moreover submitted his / her confirmation in writing that he / she undertakes:

i. to maintain in all circumstances his independence of analysis, decision and action;
ii. not to seek or accept any unreasonable advantages that could be considered as compromising his / her independence; and
iii. to clearly express his / her opposition in the event that he /she finds that a decision of the Board may harm the Company.

Principle 4 – The Responsibilities of the Board

The Board acknowledges its statutory mandate to set policy and to provide direction as well as to monitor the implementation thereof. The Board fulfills this mandate and discharges its responsibilities through the execution of the four basic principles of corporate governance namely, accountability, monitoring, strategy formulation and policy development.

The Board continually and consistently reviews all the different aspects of the Company within the parameters of the relevant laws, regulations and codes of best practice, applies high ethical standards whilst taking into account stakeholders' interests, maintains an effective dialogue with all stakeholders, monitors the application of management policies and motivates Company Management.

Principle 5 – Board Meetings

The Board of Directors sets and supervises the strategy and the policies of the Company, both of which are discussed on a regular basis, and the business of the Board as well as its agenda are managed in such a way so as to ensure effective supervision of the Company's operations in accordance therewith.

The Board meets as often as required to discharge its duties effectively. Specific members of the Management team are invited to update and provide the Directors with a direct report at each Board Meeting depending on the items on the agenda, however, a detailed review of the Company's Management Accounts and Key Performance Indicators (as promulgated by the MAPFRE Group in line with industry norms) is carried out at every Board Meeting. The Board is also updated at every meeting in terms of Management's comments on the results and on relevant events and decisions and background information on various subjects including any matter requiring the approval of the Board.

Apart from setting the strategy and direction of the Company, the Board is actively involved in monitoring progress against Budget and Strategy and in approving material or significant transactions.

The Chairman in conjunction with the Company Secretary ensures that all relevant issues are on the agenda and are supported by all available information. The agenda for each meeting seeks to strike a balance between long-term strategic objectives and shorter-term performance matters. Notice of the dates of forthcoming Board meetings together with all relevant documentation are circulated in advance to all Directors in order to give them opportunity to consider the information and prepare well in advance of each Board meeting.

During Board meetings members of Management are often invited to present on the subject matter being discussed while the Chairman facilitates discussion and ensures that all Directors are given ample opportunity to discuss issues set on the board agenda and convey their opinions thereon.Minutes are taken of each and every Board meeting faithfully recording attendance, matters discussed, action points and resolutions. These minutes are subsequently circulated for review to all Directors prior to sign off by the Chairman.

CORPORATE GOVERNANCE STATEMENT

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 5 – Board Meetings - continued

Decisions of the Board are taken by majority of those present subject to the Chairman's casting vote in the case of parity.

During financial year 2022, the Board of Directors of the Company held eight Board Meetings with attendance as follows:

Martin Galea (Chairman) (NED, I)	8
Jose Ramon Alegre (NED)	8
Antoinette Caruana (NED, I)	8
John Cassar White (NED - appointed until 29 April 2022)	2
Gordon Cordina (NED -appointed on 29 April 2022)[1]	5
Jose Maria del Pozo (NED)	8
Jose-Luis Jimenez (NED)	6
Taddeo Scerri (NED, I - appointed until 29 April 2022)	2
Etienne Sciberras (NED - appointed on 29 April 2022)[2]	5
Robert Suban (NED, I - appointed on 29 April 2022)[3]	6
Paul Testaferrata Moroni Viani (NED, I)	8
Joseph F.X. Zahra (NED, I - appointed until 29 April 2022)	2

NED – Non-executive Director
I – Independent
[1] With regulatory approval as from 20 September 2022;
[2] With regulatory approval as from 12 August 2022;
[3] With regulatory approval as from 12 September 2022.

The MMS CEO attended all the Board meetings by invitation.

Moreover, during 2022 two Board Briefings were also held in order to provide the Directors with more detailed information on the subject matter identified as well as to allow opportunity for deeper discussions of pertinent issues. The focal point of the Directors' Briefing in June was to review the draft Own Risk and Solvency Assessment prior to submission to the Regulator including the appropriateness of the Standard Formula approach, the extent of the Company's solvency, the Own View solvency calculations and the outcome of the Stress Tests. The second part of the June Briefing was an Induction Briefing for the newly appointed Directors, delivered by the Chief Officers of the Company according to their Area, as will be further detailed below.

During the second Briefing held in December the Board carried out an in-depth review of the strategic developments during 2022, being the first year of the three-year Strategic Plan including the proposed amendments as to the way forward in 2023 and 2024. In addition, a presentation was also delivered by PwC, engaged by the Company to oversee and guide the implementation of IFRS 17. This detailed presentation included, amongst others, an introduction to the changes that would be brought about by IFRS 17, reporting timelines and the technical implications relative to the current IFRS 4 comparative.

Notices of meeting dates were circulated well in advance of the relative meetings and meeting packs containing all relevant information, including the minutes of the previous Board Meeting, were circulated to the Directors ahead of each meeting by the Company Secretary. Each communication allowed ample opportunity for the Directors to review the information and prepare for the next scheduled Board or Committee meeting.

Principle 6 – Information and Professional Development

A formal and structured induction programme consisting in a series of presentations and meetings with members of the Management team of the Company is conducted for newly appointed Directors to enable new incumbents to familiarise themselves with the Company's strategy, risk appetite and operations. Directors also receive a MAPFRE Corporate comprehensive guide which includes, amongst others, Directors' duties and responsibilities. This Induction Briefing was delivered in the first week of June as aforementioned further to the appointment of the new Directors at the AGM held on 29 April 2022. Seven of the Company's Chief Officers, including the CEO, were present at the Briefing to deliver presentations on their respective Areas and take questions from the Directors.

CORPORATE GOVERNANCE STATEMENT

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 6 – Information and Professional Development - continued

The Directors also continued to benefit from the MAPFRE Group structured Board training and development programme including a full on-line training schedule available for subscription covering twelve sections with a range of topics including Operational, Technical and AML matters. The key objective of the programme being to contribute to the continued professional development of the Directors and the Board's collective awareness of corporate governance, solvency, insurance finance, strategy and operations.

Moreover, Directors are at liberty to take independent professional advice on any matter at the Company's expense where they deem it necessary in order to better discharge their duties as Directors and they have open access to the advice and services of the Office of the Company Secretary. The Company Secretary remains mindful at all times of the responsibility of ensuring adherence to Company policies, Board procedures as well as the facilitation of continual and consistent information flow within the Board and its Committees.

The CEO is appointed by and enjoys the full confidence of the Board and ensures that systems are in place to cater for, amongst others, the on-going monitoring of Management, the development and training of both Senior Management and Directors, as well as succession planning, as required by the provisions of clause 6.4 of Appendix 5.1 of the Capital Markets Rules. The CEO, although responsible for the recruitment and selection of senior management, consults with the Remuneration Committee and with the Board on the appointment of, and on the succession plan, for Senior Management. Training (both internal and external) of management and employees is prioritised and is implemented through the Human Resources Department. Several training sessions, both on-line and live, were also held on various topics during the course of 2022 including on Leadership, Operational Risk, Change Management, the Digital Environment and Data and challenges within the Insurance Market.

Principle 7 – Evaluation of the Board's Performance

During the year under review, the Board once again undertook an evaluation of its own performance, the Chairman's performance and that of its Committees. The evaluation was not conducted externally, but rather, the evaluation exercise was conducted through a Board Effectiveness Questionnaire prepared by the Compliance Function in cooperation with the Company Secretary and the Chairman. The outcome of the exercise was summarised into a Report based on the replies of each individual Director that was then submitted to the Chairman before being circulated amongst all Board members. The outcome was discussed during an informal off-site meeting.

No requirement for material changes in the governance structure or processes resulted from this evaluation exercise, however, the emerging action points and recommendations were implemented within 2022 as co-ordinated by the Company Secretary and overseen by the Chairman.

Principle 8 – Committees

The activities of the Board and of the Company's Senior Management team are additionally supported by the Company's Board Committees structured in such a way so as to assist in the guiding and monitoring of particular business processes and specific governance issues. The said Board Committees are the Audit Committee, the Risk and Compliance Committee, the Investments Committee and the Remuneration Committee. The Terms of Reference of all the Board Committees have been approved by the Board of Directors and by the MFSA.

AUDIT COMMITTEE

The Audit Committee's terms of reference are modelled on the recommendations of statutory directives, the Capital Markets Rules and the principles of Corporate Governance, whilst also reflecting the provisions of the relevant MAPFRE Group principles. The responsibilities of the Audit Committee include the following:

- monitoring of the financial reporting process
- monitoring of the independence and effectiveness of the Company's internal control, internal audit and risk management systems
- monitoring of the audit of the annual and consolidated accounts
- maintenance of communication on such matters between the Board, management, the external Auditors and the internal Auditors

CORPORATE GOVERNANCE STATEMENT

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 8 – Committees - continued

AUDIT COMMITTEE - CONTINUED

- making of recommendations to the Board in relation to the appointment of the external Auditor and the approval of the remuneration and terms of engagement of the external Auditor following appointment by the Shareholders in general meeting
- monitoring and reviewing of the external Auditor's independence and in particular the provision of additional services
- development and implementation of a policy on the engagement of the external Auditor to supply non-audit services
- reviewing of actuarial reports
- management of financial risks
- analysis and endorsement of the Annual Internal Audit Plan
- arm's length nature of related party transactions and
- the audit process.

The Committee generally protects the interests of the shareholders and assists Directors in ensuring the accuracy of the Company's financial results and reporting. It ensures that the Company's accounting and finance function are robust, advises the Board on financial reporting in terms of both the financial statements and announcements relative to performance and also has oversight of the Internal Audit Function to ensure adequate resources, independence and follow up on any pertinent audit recommendations.

In regard to the latter, Internal Audit is an independent appraisal function established to examine and evaluate the activities of the Company and its subsidiaries. The Internal Auditor reports to the Audit Committee and attends its meetings. The Internal Auditor is charged by the Audit Committee with the conducting of business process risk-based audits aimed at assessing the adequacy of controls and business process efficiency. The Internal Audit Area also liaises closely with the MAPFRE Group Internal Audit Area to this end.

The Audit Committee moreover ensures co-operation between the internal and external auditors of the Company.

Furthermore, although no such instances arose within 2022, the Audit Committee also reviews related party transactions, considering their nature and materiality and approves them if it deems fit, as well as overseeing the implementation of the Company's Whistleblower Policy.

The composition of the Company's Audit Committee is regulated by the Capital Markets Rules and the Malta Financial Services Authority is kept informed as to any changes in its composition. In terms of Capital Markets Rule 5.117.3, Jose Maria del Pozo and Martin Galea are the members of the Audit Committee with the necessary qualifications, experience and knowledge to render them competent in accounting and auditing. Jose Maria del Pozo has held the position of Chief Financial Officer of the Eurasia Region of the MAPFRE Group since 2018 and is also a consultant professor for accounting and financial analysis, while Martin Galea is qualified in accounting and auditing with years of experience in company management.

Gordon Cordina was appointed Chairman of the Audit Committee by the Board of Directors in accordance with Capital Markets Rule 5.117.4 as of 29 April 2022, taking over from Martin Galea. Of the four Directors making up the Audit Committee, three are considered Independent Directors in accordance with the criteria set out in Capital Markets Rule 5.119.

The Audit Committee held seven meetings during 2022. In accordance with Capital Markets Rule 5.117.2, three out of four members are considered independent in line with the criteria set out in Capital Markets Rule 5.119. These are Gordon Cordina (replacing Taddeo Scerri as of 29 April 2022), Antoinette Caruana and Martin Galea. The Audit Committee members and relative attendance at meetings is listed below.

Martin Galea (Chairman until 29 April 2022)	7
Antoinette Caruana	6
Gordon Cordina (Chairman as from 29 April 2022)	4
Jose Maria del Pozo	7
Taddeo Scerri (until 29 April 2022)	3

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 8 – Committees - continued

AUDIT COMMITTEE - CONTINUED

In accordance with Capital Markets Rule 5.118, the Board considers the four Audit Committee members as having the required competence individually and jointly as a Committee, due to their professional background and experience in the financial sector, as well as in other sectors, including the insurance sector, at both national and international level.

The CEO, the Chief Financial Officer, and the Internal Auditor, amongst other members of Management, attend the Audit Committee meetings by invitation. The Whistleblower Reporting Officer reports to the Audit Committee as and when required. The external auditors are invited to attend meetings of the Audit Committee and are entitled to convene a meeting of the Committee if they consider that it is necessary. The Company Secretary also acts as Secretary to the Audit Committee.

The Chairperson of the Audit Committee reports to the Board at every Board meeting thus ensuring good communication and continuity between the said Board Committee and the other members of the Board.

RISK AND COMPLIANCE COMMITTEE

This Committee has a two-fold function: it assists the Board in overseeing the Company's compliance with the obligations imposed by legislation, codes, rules and regulations, relevant to the Company and its business; and it maintains oversight for review and proper implementation of the Company's Risk policies and assessing and advising the Board on high-level risk-related matters, including the different types of Risk which the Company and its subsidiaries may be exposed to from both a financial and non-financial perspective.

To this end the Committee ensures that the Company's strategy and risk appetite are aligned and monitors the stress testing framework, governance and internal control structures. Furthermore, the Committee approves the annual plan for the Compliance Function and is updated at every meeting on progress in relation to plan and other matters referring to regulatory compliance risk and the relationship with the Company's Regulator.

The Money Laundering Reporting Officer, the Complaints Officer and the Anti-Fraud Officer report directly to this Committee. The Compliance Officer of the subsidiary companies Bee Insurance Management Ltd. and EuroMed Risk Solutions Ltd. also report to this Committee at every meeting.

The Risk and Compliance Committee held five meetings during 2022. The Committee members and relative attendance to meetings is listed below.

Martin Galea (Chairman)	5
Diane Bugeja	2
Jose Maria del Pozo	3
Etienne Sciberras (as from 29 April 2022)	3
Joseph F X Zahra (until 29 April 2022)	2

The CEO, the Chief Financial Officer, the Chief Compliance Officer and the Chief Risk Officer, amongst others as may be required, attend the Committee meetings by invitation. The Company Secretary also acts as Secretary to the Committee.

The Chairperson of the Risk and Compliance Committee reports to the Board at every Board meeting thus ensuring good communication and continuity between the said Board Committee and the other members of the Board.

INVESTMENT COMMITTEE

The Investment Committee is a joint Committee composed of Directors of the Company and Directors of its subsidiary MAPFRE MSV Life p.l.c.. The Investment Committee oversees the investment activities of the Company and its subsidiaries, executes its policies and guidelines, scrutinises and approves material transactions and monitors results.

Although the Investment Committee meets on a monthly basis the business of the Company was discussed at three meetings during 2022. The Committee members and relative attendance to meetings is listed below.

CORPORATE GOVERNANCE STATEMENT

2. COMPLIANCE WITH THE CODE - CONTINUED

INVESTMENTS COMMITTEE - CONTINUED

Simon Azzopardi	3
Romeo Cutajar (Chairman)	3
Jose-Luis Jimenez	3
Jose Maria del Pozo	3
Javier Moreno	3
Patrick Spiteri Swain	3
Paul Testaferrata Moroni Viani	3

The CEO of the subsidiary MAPFRE MSV Life p.l.c., the Chief Financial Officer both of the Company and of its subsidiary MAPFRE MSV Life p.l.c., the MAPFRE Regional Chief Financial Officer, amongst others as may be required, attend the Committee meetings by invitation. The Company Secretary of the subsidiary MAPFRE MSV Life p.l.c. acts as Secretary to the Committee.

REMUNERATION COMMITTEE

The Board of Directors approves the remuneration of Directors and Chief Officers on the recommendation of the Remuneration Committee. The maximum aggregate directors' emoluments are established and approved by the shareholders during General Meetings as and when required.

Further detail on the various aspects of how the Company remunerates its employees, the workings of this Committee and information relative to its meetings in 2022 are considered in the Remuneration Statement and Report to the Shareholders.

The Remuneration Committee held two meetings during the period under review and the attendance was as follows:

Jose Ramon Alegre (Chairman)	2
Antoinette Caruana	2
John Cassar White (until 29 April 2022)	1
Robert Suban (as from 29 April 2022)	1

The CEO for MAPFRE Middlesea p.l.c., the CEO for MAPFRE MSV Life p.l.c., the Chief Officer, Human Resources for MAPFRE Middlesea p.l.c., amongst others as may be required, attend the Remuneration Committee meetings by invitation. The Company Secretary also acts as Secretary to the Committee.

The 2022 Annual Report includes a separate Remuneration Statement in terms of Code Provisions 8.A.3 and 8.A.4 and Remuneration Report in terms of Code Provision 12.26K.

Principle 9 – Relations with Shareholders and with the Market

The Company recognises the importance of maintaining a dialogue with its shareholders and of keeping the market informed to ensure that its strategies, as well as performance, are well understood. The Board is of the view that during the period under review the Company has communicated effectively with the market through a number of company announcements and press releases.

The Company also communicates with its shareholders through the Company's Annual General Meeting ('AGM') concerning which further detail is provided under the section entitled General Meetings. The Chairman ensures that all relevant individuals including the Chairpersons of the Board Committees are present at the AGM to answer any questions as may arise.

Apart from the AGM, the Company communicates with its shareholders through the Company's Annual Report, as available for review and downloading from the Company's website. The Company's website (www.mapfre.com.mt) also contains information about the Company and its business, including the six-monthly financial statements and all issued company announcements together with a section entirely dedicated to investor relations for the benefit of all Shareholders and the general public.

Furthermore, the Chairman ensures that constant and consistent communication is maintained with the major shareholders particularly to discuss matters of significant importance or to address particular issues or concerns. In addition, the Chairman, CEO and Company Secretary hold an annual meeting with representatives of the Malta Association of Small Shareholders to discuss various matters in the interests of the minority shareholders.

CORPORATE GOVERNANCE STATEMENT

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 9 – Relations with Shareholders and with the Market - continued

Individual shareholders can raise matters relating to their shareholding and the business of the Company at any time throughout the year via the Office of the Company Secretary. Shareholders are also given the opportunity to ask questions at the AGM or submit written questions in advance and the Company recognises their statutory right to request the convening of an extraordinary general meeting in accordance with Article 52 of the Articles of Association of the Company and Article 129 of the Companies Act (Cap. 386 of the Laws of Malta).

Principle 10 – Institutional Shareholders

The Company's institutional shareholders keep the market updated on issues related to their respective companies through company announcements and press releases. During the year under review, the Company issued various press releases related to the controlling shareholder, namely MAPFRE Internacional S.A. in connection with the latter's operations abroad. The other institutional shareholder, namely Bank of Valletta p.l.c., is a listed company on the Malta Stock Exchange and consequently a steady flow of information is maintained through company announcements and press releases. In addition, the six monthly and annual results include a section on the insurance interests of institutional shareholders.

Principle 11 – Conflicts of Interest

The Directors are strongly aware of their responsibility to act in the interest of the Company and its shareholders as a whole at all times, irrespective of whom appointed them to the Board, and of their obligation to avoid conflicts of interest. During the period under review, the Board maintained its practice that in the event of a real or potential conflict of interest arising in respect of a Director in connection with any transaction or other matter, the interest is to be declared and the individual concerned shall refrain from taking part in proceedings or decisions relating to the matter. The Board minutes would include a record of such declarations and of the action taken by the individual director concerned as and when required.

In accordance with the MAPFRE Corporate Governance Policy and the Policy for Managing Conflicts of Interest, a Director is to avoid situations in which he could have a conflict of interest, whether direct or indirect, actual or potential, with the interest of the Company and shall ensure that personal interests of any nature do not take precedence over the interests of the Company and its shareholders.

The Company also has an Internal Code of Conduct Relating to Listed Securities addressed to all directors and selected officers of the Company and its Subsidiary undertakings. The aim behind this Code is to ensure compliance with the Prevention of Market Abuse Regulatory Framework as well as the recommendations and principles contained in the Capital Markets Rules. The Company keeps a record of all advance notices received in connection with permitted dealings by directors and selected officers and acknowledgements of such advance notices. The Company reminds all Directors and senior officers of their obligation to conform to the Code on an annual basis.

As required by clause 11.3 of Appendix 5.1 of the Capital Markets Rules a Directors' beneficial interest in the share capital of the Company as at 31 December 2022 has been declared by Paul Testaferrata Moroni Viani stemming from his indirect shareholding in the Company's shares through his shareholding in family businesses.

Principle 12 – Corporate Social Responsibility

During 2022, MAPFRE Malta once again met its CSR objectives collaborating with a number of different entities to organize various activities ranging from food and blood donations, environmental activities and various donations to various charitable organisations and NGOs such as Malta Community Chest Fund, Malta Trust Foundation, Majistral Park, Malta Red Cross Foundation, John's Rescue Corp, Fondazzjoni Patrimonju Malti and Down Syndrome Association to mention a few.

Fundación MAPFRE allocated over €160,000 for projects in Malta across different areas including road safety awareness, health campaigns and social actions. Moreover, the Foundation has once again collaborated with Inspire and Equal Partners Foundation, funding the provision of specialized services to children and adults with disabilities (€53,000 to cover the running costs of Inspire's therapeutic facilities Multi-Sensory Rooms and over €30,000 to Equal Partners Foundation to support their efforts to enable children who suffer from a disability to lead a more independent life).

MAPFRE Malta also joined the fight against breast cancer with a variety of awareness-raising activities through their #ThinkPink campaign, as well as by collaborating with the Action for Breast Cancer Foundation as per previous years.

3. NON-COMPLIANCE WITH THE CODE

Principle 3 – Composition of the Board

The Code recommends that the Board of Directors be composed of executive and non-executive Directors, including independent non-executives. The Company's Board, as explained in Section 2 – Principle 3 of this Statement, is composed exclusively of non-executive Directors. The appointment of Directors to the Board is a matter reserved exclusively to the Company shareholders (except in the case of the filling of a casual vacancy) and each Director retires from office at the AGM. Therefore, the composition of the Board of Directors is determined by the shareholders during the AGM. Moreover the CEO of the Company attends and reports during all meetings of the Board and various Senior Managers attend by invitation to report on salient matters thereby ensuring a constant and effective flow of information between the Company's Management and Board of Directors.

Principle 4 – The Responsibilities of the Board

Code Provision 4.2.7 recommends: "*the development of a succession policy for the future composition of the Board of Directors and particularly the executive component thereof, for which the Chairman should hold key responsibility*".

Regard being had to the non-executive role of the Company's Directors and in view of the facts explained above, particularly that the appointment of Directors is a matter reserved exclusively to the Company's shareholders and that every director retires from office at the Annual General Meeting, the Company has opted not to formalise a succession policy for the Board of Directors. That said, the Company and its Board remain mindful of the recommendation as contained within the Capital Markets Rules and frequently reviews the current position.

Principle 7 – Evaluation of the Board's Performance

Code Provision 7.1 recommends: *"the Board should appoint a committee chaired by a non-executive Director in order to carry out a performance evaluation of its role"*.

As explained above the Board has not appointed a specific committee to carry out a performance evaluation but has rather opted to have an annual performance evaluation exercise carried out under the auspices of the internal Compliance Area through the compilation of a Board Effectiveness Questionnaire by each individual Director.

The questionnaire is particularly robust and is structured into eight sections with a total of 63 statements covering several aspects of Board membership including the understanding of the workings of the Board and its Committees, the Company's products and services, distribution channels, strategy and risk, as well as governance, training requirements, subsidiaries and contingent liabilities. Directors are also invited to elaborate further on any of the statements at the end of the questionnaire.

An objective and independent report as to the overall outcome of the findings is then drawn up by the Compliance Area and shared with the Chairman to co-ordinate further individual or group discussion with the Directors based on the replies. In 2022 a group discussion was facilitated by a specific off-site meeting presided over by the Chairman.

For these reasons the process is deemed to be comprehensive and sufficient to meet the intended aims.

Principle 8A – Remuneration Committee: Code Provision 8.A.1

Code Provision 8.A.1 recommends that the Board of Directors "*should establish a Remuneration Committee composed of non-executive Directors with no personal financial interest other than as shareholders in the Company, one of whom shall be independent and shall chair the Committee*".

The Remuneration Committee is made up of Jose Ramon Alegre (Chairman), Antoinette Caruana and Robert Suban. The composition has seen a reshuffle relative to the previous year to continue to foster open dialogue and to ensure that all shareholders are represented contributing to independence and objectivity in the functioning of the Committee. Decisions are reached on the basis of the consensus of all members present.

The fact that decisions are taken by the unanimous agreement of all members present also implies that the final outcome of discussions and decisions taken by the Remuneration Committee are not affected by the director holding the Chair even though the Committee is not chaired by an independent non-executive Director.Committee document packs are also circulated to all Members well in advance of the meeting allowing all Members ample opportunity to informally discuss any matters in anticipation of the Meeting and / or to represent their views.

CORPORATE GOVERNANCE STATEMENT

3. NON-COMPLIANCE WITH THE CODE - CONTINUED

Principle 8B – Nomination Committee

Pursuant to the Company's Articles of Association and as aforementioned the appointment of Directors to the Board is reserved exclusively to the Company's shareholders, in line with the general commercial practice in Malta. Shareholders holding 11% or more of the issued shares are entitled to appoint one director for every 11% holding, whilst the other shareholders are entitled to appoint the remaining Board members at the Annual General Meeting in accordance with the provisions of the Articles of Association. Thus the Company considers that the procedure is already sufficiently defined and the requirements of transparency are also well-met without the need for the establishment of a formal Nomination Committee at this stage.

Principle 9 – Relations with Shareholders and with the Market

Code Provision 9.3 recommends the Company to have a mechanism in place to resolve conflicts between minority shareholders and controlling shareholders

The balance between the interests of all shareholders is a matter that is kept under continuous review by the Board and is consistently evaluated in the interest of all shareholders. Therefore, although the Company does not have a specific mechanism in place there is open dialogue between Management and all the non-Executive Directors of the Company to this end. The Company also has a good relationship with the Malta Association for Small Shareholders and the Board maintains an open door policy with them, as well as with any individual shareholders who may be interested in making direct submissions to the Company, at all times through the Office of the Company Secretary.

In light of this, and as the Company is mindful of the protection granted to minority shareholders in terms of the Companies Act (Cap. 386 of the Laws of Malta) by which it would necessarily be bound to abide, the Company is of the opinion that no formal procedures to resolve conflict between minority and controlling shareholders are necessary at this stage.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

This information is being provided in terms of Capital Markets Rule 5.97.4.

While authority to manage the daily business of the Company is delegated to the CEO within the limits set by the Board, the Board is ultimately responsible for the Company's internal control systems and for ensuring their effectiveness. Such systems are designed to manage, rather than eliminate, the risks associated with achieving business objectives and can only provide reasonable (as opposed to absolute) assurance against material misstatement or loss.

The Company manages its internal risk through the 'three lines of defence' approach, ensuring achievement of commercial aims while continuing to meet all legal and regulator requirements. These then feed into the Board through the Audit Committee and the Risk and Compliance Committee in order for the Board to maintain oversight of the processes and procedures ensuring the effectiveness of the systems of internal control.

The key features of the Company's systems of internal control are as follows:

Organisation - The Company has clear reporting lines from the Boards of Directors of subsidiary and associated companies. The MMS Chairman is also kept informed as to the operations of the subsidiary companies either by sitting directly on the respective Boards or through the other Company Directors and Senior Management who sit on the Company and subsidiary boards, Management and Operational Committees.

Risk Identification - The respective Management of each of the Group companies is responsible for the identification and evaluation of key risks applicable to their areas of business. The Board reviews its Risk Management policies and strategies and oversees their implementation to ensure that identified key risks are properly assessed and managed. The risk based nature of the Solvency II regime requires the company to have an effective risk management system in place to identify, measure, manage, monitor and report on the main risks which could impact the entity. This process is embodied in the annual ORSA (Own Risk and Solvency Assessment) process. Expert judgements, stress testing and sensitivity analysis are important elements in the company's risk identification framework embedded in the ORSA process. The ORSA report is submitted to the competent Authority on an annual basis after approval of the Risk and Compliance Committee and ultimately of the Board of Directors.

CORPORATE GOVERNANCE STATEMENT

3. NON-COMPLIANCE WITH THE CODE - CONTINUED

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM - CONTINUED

Reporting - Functional, operating and financial reporting standards are applicable to all entities of the Group. Systems and procedures are in place to identify, control and report on the major risks. The Board receives periodic management information giving comprehensive analysis of financial and business performance including variances against budgets.

GENERAL MEETINGS

This information is being provided in terms of Capital Markets Rule 5.97.6.

The General Meeting is the Company's most supreme decision-making organ and its functions are governed by, and conducted in accordance with, the Company's Articles of Association. The General Meeting is called with not less than twenty-one days' notice in writing. In addition to any matters which would be deemed to constitute "special business", the annual general meeting deals with matters of a recurring nature namely, the declaration of a dividend, the consideration of the accounts, statements of financial position and reports of the directors and auditors, the election of directors, the appointment of the auditors and the authorisation of the directors to set their remuneration. The Memorandum and Articles of the Company may be amended by means of an extraordinary resolution (as defined in the Articles) of the Company during general meetings.

The Board of Directors is responsible for developing the agenda for the AGM and sending it to the shareholders.

Shareholders' rights can be exercised in accordance with the Articles of the Company, the Companies Act and the Capital Markets Rules. Accordingly, all shareholders registered in the Shareholders' Register on the Record Date as defined in the Capital Markets Rules, have the right to attend, participate and vote in the general meeting. A shareholder or shareholders holding not less than 5% of the nominal value of all the shares entitled to vote at the General Meeting may request the Company to include items on the agenda of a General Meeting and / or table draft resolutions for items included in the agenda of a general meeting. Such requests are to be received by the Company at least forty-six days before the date set for the relative General Meeting.

A shareholder who cannot participate in the General Meeting can appoint a proxy by written or electronic notification to the Company. Every shareholder represented in person or by proxy is entitled to ask questions which are pertinent and related to items on the agenda of the General Meeting and to have such questions answered by the Directors or such persons as the Directors may delegate for that purpose.

In view of the pandemic environment in the first half of 2022, particularly bearing in mind health and safety aspects and the restrictions in place, the AGM was held remotely on 29 April 2022 in accordance with Legal Notice 288 of 2020 and live streamed. It however remains the intention of the Company to revert to the holding of a physical AGM henceforth to enable active participation by all those having an interest in doing so and to allow the shareholders proper opportunity to engage with the Company Directors and members of Management.

Signed by Martin Galea (Chairman) and Antoinette Caruana (Director) on the 22 March 2023

REMUNERATION STATEMENT AND REPORT OF THE REMUNERATION COMMITTEE TO THE SHAREHOLDERS

1. TERMS OF REFERENCE AND MEMBERSHIP

In accordance with Section 8A of The Code of Principles of Good Corporate Governance (Appendix 5.1 of the Capital Markets Rules under Chapter 5 on Continuing obligations), the Remuneration Committee ("'the Committee") of MAPFRE Middlesea p.l.c.("MMS" or "the Company") hereby submits the Remuneration Statement and Report to the shareholders of MMS.

The Committee's main task is to ensure that the MMS Remuneration Policy is implemented and to propose appropriate remuneration packages for Directors and Chief Officers in accordance therewith. The Remuneration Committee also monitors the level and structure of the remuneration packages for Directors and Chief Officers based on the information presented by Management from time to time.

As at 1 January 2022 the Committee Members were Jose Ramon Alegre (Chairman), John Cassar White and Antoinette Caruana. John Cassar White did not submit his nomination to the Board of Directors for re-election at the Company's Annual General Meeting ("AGM") held on the 29 April 2022, and thus, at the Board meeting held directly after the AGM, Jose Ramon Alegre, Antoinette Caruana and Robert Suban were appointed as the members of the Remuneration Committee. Jose Ramon Alegre was once again appointed Chairman.

All the Committee Members are non-Executive Directors of MMS with no personal financial interest as recommended by Code provision 8.A.1. The MMS President & CEO, Javier Moreno, the MAPFRE MSV Life p.l.c (MMSV) CEO, Etienne Sciberras and other members of senior management were invited to attend Committee meetings as and when required. The Company Secretary, Dr Daphne Sims Dodebier, acted as the Secretary to the Committee.

Code provision 8.A.1 recommends that an independent non-Executive Director chairs the Committee. The Committee takes decisions by the unanimous agreement of its Members. Therefore, even though the Committee is not chaired by an independent non-Executive Director, the Director chairing the Committee is non-Executive and his vote does not sway the outcome of discussions and decisions taken by the Committee.

2. MEETINGS

The Remuneration Committee held two meetings during the period under review and the attendance was as follows:

Member	Attended
Jose Ramon Alegre (Chairman)	2
Antoinette Caruana	2
John Cassar White (Member until 29 April 2022)	1
Robert Suban (Member from 29 April 2022)	1

The Committee determined and/or discussed the following matters:

- New & Temporary Senior Management Appointments:
- HR Reports;
- Proposed MAPFRE Malta Employee Pension Scheme:
- Remuneration for Directors, CEO and Senior Management for 2022;
- 2022 Variable remuneration framework;
- Collective Agreement Amendments:
- Remuneration Statement for the Annual Report

3. REMUNERATION STATEMENT

a. *Remuneration Policy - Senior Management*

The MMS Remuneration Policy framework is set by the Board of Directors acting through the Remuneration Committee and is based on the guidelines and principles contained within the MAPFRE Group Compensation (Remuneration) Policy which was approved by the majority of shareholders during the Annual General Meeting held on 27 October 2020.

The Committee reviews and approves the individual remuneration arrangements for Senior Management, namely, the President & CEO, the Chief Financial Officer, the Company Secretary, the Chief Officers and the Internal Auditor.

REMUNERATION STATEMENT AND REPORT OF THE REMUNERATION COMMITTEE TO THE SHAREHOLDERS

3. REMUNERATION STATEMENT - CONTINUED

a. Remuneration Policy - Senior Management - continued

The Committee has access to both internal and independent external advice on remuneration matters as and when required.

The Committee deems the current Senior Management remuneration packages to be in line with the local market equivalents and holds them to be fair, reasonable and commensurate to the responsibilities involved. The Committee also believes that the remuneration packages are such as to enable the Company to attract, retain and motivate employees having the appropriate skills and qualities to ensure the proper management of the organisation.

There have been no significant changes to the Company's Remuneration Policy for Senior Management during the financial year under review save for the introduction of the MAPFRE Malta Employees WorkSave Pension Scheme (the "Pension Scheme"), during the second half of the financial year.

The Pension Scheme is voluntary and intended to provide employees with an opportunity to build up on their retirement savings during their employment. All employees of the Company, including Senior Management, but excluding Directors, are eligible to be enrolled in Pension Scheme, provided that they have been in employment with the Company for at least two years. Those employees who opt to participate in the Pension Scheme, determine their own monthly contribution between the minimum and the maximum amounts established by the Pension Scheme's Terms and Conditions. In return, the Company makes contributions into the accounts of these employees who would have opted to participate in the Pension Scheme and shall contribute twice the amount contributed by the employee subject to a maximum based on duration of service, which is also established in the Pension Scheme's Terms and Conditions. Please refer to Note 11 in the Financial Statements below, for further information with regard to the contributions made by the Company in this regard.

On the other hand, the performance appraisal system underpinning the Company's remuneration structure was implemented in 2013 and the performance bonus scheme implemented in 2014. The latter is reviewed and further enhanced as necessary on an annual basis. Both the appraisal system and the bonus scheme remain applicable in 2022. The said performance bonus scheme is still based on the achievement of Group, Company and Departmental objectives and was further enhanced in 2019 to give some weight to the adherence to Corporate Values. In Financial Year 2020 the performance appraisal system was upgraded to a new tool which allows for the generation of 360 degree feedback between peers and internal clients and continuous communication between employees and their direct managers throughout the year making the performance evaluation a lot more holistic.

The terms and conditions of employment for Senior Management are set out in their respective contracts of employment. In principle, these contracts do not contain provisions for termination payments or other amounts linked to early termination nor have there been any cases of early termination in practice. Share options, pension benefits, save for that herein provided in relation to the Pension Scheme, and profit sharing are not part of the MMS Remuneration Policy for Senior Management. Indeed, Senior Management is not entitled to any compensation of a variable nature except the performance bonus set out hereunder.

The MMS President & CEO is eligible for an annual bonus entitlement calculated with reference to the attainment of pre-established objectives and targets as recommended by the Remuneration Committee and approved by the Board of Directors.

Senior Management are eligible for a performance bonus calculated in accordance with the percentage achievement of the Group and Departmental objectives as per the performance bonus scheme aforementioned which is inter alia approved by the Remuneration Committee and determined in accordance with the performance appraisal process. Save for that herein provided in relation to the Pension Scheme, no supplementary pension or other pension benefits are payable to Senior Management. Additionally, in 2022, a right of clawback has been introduced for Key Staff where, if the relevant Variable Remuneration attains one of two quantitative criteria, 30% of the said Variable Remuneration would be deferred.

Both in the case of the MMS President & CEO, and for Senior Management, the Remuneration Committee is of the view that the proportion of fixed remuneration to performance bonus is also reasonable and appropriate.

Non-cash benefits to which Senior Management are entitled include the use of a company car and health insurance. The death-in-service benefit also forms part of the non-cash benefits and the same terms are applicable to all other Company employees.

Total emoluments received by Senior Management during Financial Year 2022 are deemed to be of a commercially sensitive nature and are thus not being disclosed in this Report in line with Code Provision 8.A.6.

REMUNERATION STATEMENT AND REPORT OF THE REMUNERATION COMMITTEE TO THE SHAREHOLDERS

3. REMUNERATION STATEMENT - CONTINUED

b. Remuneration Policy – Directors

As at 31 December 2022, the Board of Directors of MAPFRE Middlesea p.l.c. was composed of nine non-Executive directors. Three Directors, namely Jose Ramon Alegre, Jose-Luis Jimenez and Jose Maria del Pozo, did not receive a fee in accordance with the established policy of the MAPFRE Group with which they are employed and which appointed them. Etienne Sciberras, appointed as from the AGM held on 29 April 2022, also did not receive a fee since during Financial Year 2022 he occupied the position of Chief Executive Officer of MAPFRE MSV Life p.l.c. (a subsidiary of MMS)

Based on the recommendations of the Committee, the current Directors' fees, for each Director as applicable, and as approved by the Board are as follows:

Directors' Fees including Board Committees as applicable	
Chairman	€60,000 per annum (2021: €60,000)
Other Directors (per Director)	€40,000 per annum (2021: €40,000)
Audit Committee Fees	
Chairman	€7,000 per annum (2021: €5,000)
Member (per member)	€5,000 per annum (2021: €3,000)
Subsidiary Fees	
Chairman	€7,000 per annum (2021: €5,000)
Member (per member)	€5,000 per annum (2021: €3,000)

None of the Company's Directors had any service contracts with either the Company or any of its subsidiaries as at the end of the Financial Year.

Directors' emoluments are established to reflect the responsibility and time committed by Directors to the affairs of the Company, including the Board Committees of which a Director may be a member save for the Audit Committee that is additionally remunerated as detailed above. None of the Directors, in their capacity as Director of the Company and/or Committee members, are entitled to profit sharing, share options, pension benefits, participation in the Employee Pension Scheme or any other remuneration.

c. Code Provision 8.A.5

Directors' Emoluments 2022

Fixed Remuneration	Variable Remuneration	Share Options	Others
€307,350	None	None	None

Fees payable to directors in respect of 2022 amounted in total to €307,350 (2021: €288,500).

The emoluments of Senior Management are not being disclosed in line with Code Provision 8.A.6 since these are deemed to be of a commercially sensitive nature. This decision will continue to be reviewed on an annual basis.

d. Code Provision 12.26K

In addition to the information provided above and with reference to Appendix 12.1 of the Capital Markets Rules it is noted that the maximum annual aggregate emoluments that may be paid to the Directors are approved by the shareholders in the General Meeting in terms of Article 81 of the Company's Articles of Association. This amount was established by the Board of Directors after consultation with the MAPFRE Group and based on the guidelines as set forth in the Compensation Policy relative to the fixing of compensation for the non-Executive members of the governance bodies having regard to the Company's financial situation, profitability and sustainability. The maximum annual aggregate amount was then confirmed in the total sum of €350,000 per annum at the forty-first Annual General Meeting held on the 29 April 2022, which has remained consistent since 2018.

REMUNERATION STATEMENT AND REPORT OF THE REMUNERATION COMMITTEE TO THE SHAREHOLDERS

3. REMUNERATION STATEMENT - CONTINUED

d. Code Provision 12.26K - continued

The amount paid to each Director by the Company for attendance at meetings of the Board or of the Board Committees, when due as explained above, is not tied to the Company's performance or other performance criteria but is a pre-determined, fixed annual amount as indicated below:

Director	2022 Fees €	2021 Fees €	Percentage Annual Change of Remuneration (2020-2021) %	
			2021-2022	2020-2021
Jose Ramon Alegre (NED)	nil	nil	n/a	n/a
Alfred Attard (NED until 30 April 2021)[1]	nil	15,000	n/a	0.00
Antoinette Caruana (NED)	45,000	43,000	4.65	0.00
John Cassar White (NED until 29 April 2022)[2]	13,333	39,167	(55.56)	n/a
Gordon Cordina (NED from 29 April 2022)[3]	54,683	nil	n/a	n/a
Jose Maria del Pozo (NED)	nil	nil	n/a	n/a
Martin Galea (NED)[4]	68,000	69,333	4.81	1.96
Jose Luis Jimenez (NED)	nil	nil	n/a	n/a
Taddeo Scerri (NED until 29 April 2022)	15,000	42,000	4.65	5.00
Etienne Sciberras (NED from 29 April 2022)[5]	nil	nil	n/a	n/a
Robert Suban (NED from 29 April 2022)	26,667	nil	n/a	n/a
Paul Testaferrata Moroni Viani (NED)	40,000	40,000	0.00	(6.98)
Joseph F.X. Zahra (NED until 29 April 2022)[6]	44,667	40,000	17.50	0.00
Total	**307,350**	**288,500**		

[1] *In the case of Mr Alfred Attard €7,917 of the amount for 2021 was paid to Bank of Valletta p.l.c. as Mr Attard's employer based on a separate agreement for services rendered.*

[2] *The amount includes €12,500 paid to John Cassar White for his position as Chairman of the subsidiary Board till 31 March 2021, with €5,000 of the amount paid to Bank of Valletta p.l.c. as Mr Cassar White's employer based on a separate agreement for services rendered.*

[3] *The amount includes €50,000 paid to Dr Gordon Cordina as Chairman of the subsidiary Board. From the whole amount €22,349 was paid to Bank of Valletta p.l.c. as Dr Cordina's employer based on a separate agreement for services rendered.*

[4] *The amount includes €5,000 paid to Martin Galea in 2021 for the position as Chairman of the subsidiary's Audit Committee.*

[5] *Total emoluments for 2022 paid to Mr Etienne Scbiberras as CEO of MAPFRE MSV Life amounted to €211,444.*

[6] *The amount includes €31,333 paid to Joseph F X Zahra for the position as Director of the subsidiary's Board and Chairman of the subsidiary's Audit Commitee as from 30 April 2022.*

* *Percentage annual change of remuneration (2021-2022) was based on annualised remuneration for 2022 and/or 2021 to allow for a meaningful comparison.*

Remuneration paid to Directors as shown in the above table are all fixed in nature and thus the ratio of fixed and variable remuneration was 100%-0% for both years being reported. The changes in the total remuneration of Non-Executive Directors is to be considered with the information included in the table, further down in this report, showing a comparison between the percentage annual change of remuneration of President & CEO against company performance metrics and percentage annual change of the Company's employees' average remuneration employed on a full-time basis equivalent.

None of the Directors and Members of the Board Committees held any service contracts with the Company or any of its subsidiary undertakings and no Director is entitled to share options, profit sharing, pension benefits or any other type of emoluments save for the provision of cover under a Group Life scheme. It is also confirmed that no other fees were payable or paid to any of the Directors or Committee Members during the financial year under review.

By reference to Capital Markets Rule 12.2A no other person is deemed to be in charge of the operations or the activities of the Company, and thus fall within the definition of director, beyond the members of the Board and the Chief Executive Officer.

REMUNERATION STATEMENT AND REPORT OF THE REMUNERATION COMMITTEE TO THE SHAREHOLDERS

3. REMUNERATION STATEMENT - CONTINUED

d. Code Provision 12.26K - continued

In this respect and relative to Appendix 12.1 the total emoluments paid by the Company to the Chief Executive Officer in office during Financial Year 2022 were as follows:

	Financial Year	
President & CEO, Javier Moreno Gonzalez	2022	2021
	€	€
Fixed Salary	184,500	135,000
Defined pension contribution	41,985	30,375
Other fringe benefits	106,644	84,262
Total Fixed remuneration	333,129	249,637
Variable remuneration	116,320	97,817
Total remuneration	449,449	347,454
Fixed Variable Proportion	74%-26%	72%-28%

In respect of Variable Remuneration, deferred or otherwise, paid or pending payment, a partial or total reduction is possible if particular circumstances arise including in the event of a restatement of annual accounts other than resulting from a change in legislation and in the event of fraud. No such occurrence took place in 2022.

Variable remuneration for the President & CEO is based on Global, Regional and Country results together with Country premium written targets, with the highest weighting given to the Country results and premiums respectively. The main objective of the Group is profitable Growth and the targets are aligned with such objectives. As part of a Global Group it is expected that as a Country we contribute towards the profitability of both the Region and the Global Group results and accordingly part of the variable remuneration is attached to the achievement of the higher Group results. The achievement percentage follows a set scale going from complete non-achievement, to pro-rata if not fully achieved, to accelerated achievement if targets are exceeded. These scales are in line with the Remuneration Policy and approved accordingly by the Remuneration Committee. In terms of the requirements within Appendix 12.1 of the Capital Markets Rules, the following table presents the annual change of remuneration of the President & CEO, of the Company's performance, and of average remuneration on a full-time equivalent basis of the Company's employees over the two most recent financial years:

Performance indicators	% Difference FY2022-FY2021	% Difference FY2021-FY2020
Company's profit after tax	45.3%*	(36.64)%
Company's gross premium written	8.75%	6.64%
Remuneration of Company's President & CEO	(2.98)%**	1.90%
Company's employees' average remuneration on full time equivalent	3.39%	6.44%
Group's employees' average remuneration on full time equivalent	3.01%	5.54%

* *The increase arose from 2022 being favourably impacted by the receipt of a net 1.00 million in dividend from MAPFRE MSV Life p.l.c. and a 0.54 million recovery of an amount previously impaired in relation to an amount due from Progress Assicurazioni S.p.A..*

** *For comparison purpose, since Javier Moreno Gonzalez's appointment began on 1 April 2021, his 2021 remuneration has been annualised.*

In terms of the requirements within Appendix 12.1 (f) there has been no deviation from the procedure for the implementation of the remuneration policy as defined in Chapter 12 of the Capital Markets Rules.

As required by provision 12.26N of the Capital Markets Rules the Company's auditors have verified that the information that needs to be included in the Remuneration Report as per Chapter 12 and Appendix 12.1 of the Capital Markets Rules, has been included.

Signed by Antoinette Caruana (Director and Remuneration Committee Member) on 22 March 2023

KPMG

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MAPFRE MIDDLESEA P.L.C.

1. REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of MAPFRE Middlesea p.l.c. (the "Company") and of the Group, of which the Company is the parent, which comprise the statements of financial position as at 31 December 2022, the statements of profit or loss, technical account - general business, technical account - long term business, profit or loss - non-technical account, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements:

a. give a true and fair view of the financial position of the Company and of the Group as at 31 December 2022, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU; and

b. have been properly prepared in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act") and the Insurance Business Act, 1998 (Chapter 403, Laws of Malta) (the "Insurance Business Act") and, additionally, specifically in relation to those of the Group, with the requirements of article 4 of the Regulation on the application of IFRS as adopted by the EU.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Chapter 281, Laws of Malta) ("APA"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period (selected from those communicated to the audit committee), and include a description of the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters, together with our response by way of the audit procedures we performed to address those matters in our audit, and key observations arising with respect to such risks of material misstatement.

Estimates for insurance claim provisions in relation to general business

Accounting policy note 2.14 to the financial statements and notes 3, 4,1 and 24 for further disclosures

Outstanding claims – general business' ("OSC") (€54,167 thousand) included in 'Technical provisions'

The Company enters into insurance contracts which expose it to the uncertainty surrounding the amount of claims reserved resulting on the occurrence of insured events whether reported or yet to be reported. We have considered the estimate of OSC as a key audit matter in view of the subjectivity surrounding: (i) the ultimate cost of claims; and (ii) the judgement applied by the claims handling personnel in determining the claim amount, based on the information as it becomes available, also having regard to the nature of the claim, and the incurred but not yet reported claims.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MAPFRE MIDDLESEA P.L.C.

1. REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS - CONTINUED

KEY AUDIT MATTERS - CONTINUED

Estimates for insurance claim provisions in relation to general business - continued

Due to the degree of such inherent estimation uncertainty underlying the calculation of OSC, the amounts recognised in the statement of financial position may result to be different from those settled.

Our response

As part of our procedures, we evaluated the appropriateness of the Company's assumptions applied in estimating the OSC and their quantum. Our evaluation considered industry norms, as well as our industry knowledge and experience, in performing substantive procedures, which included:

- involving our actuarial specialist, in assessing the appropriateness of the Company's assumptions to develop the ultimate cost of claims of the motor OSC (excluding the motor business addressed in the below procedure) and, evaluating the amount recorded based on our analysis of the data elements; and
- in relation to the remaining motor OSC and OSC arising from the other lines of general business, evaluating samples of such claims to assess the basis of the estimates, and evaluating the appropriateness of the Company's assumptions underlying the incurred but not yet reported claims assessment.

Key observation

We have no key observations to report, specific to this matter.

Actuarial assumptions underlying the calculations of the (a) 'long term business provision' ("LTBP") relating to term business; and (b) 'value of in force business' ("VIF") in relation to business carried out by the main subsidiary of the group MAPFRE MSV Life p.l.c. (MMSV)

Accounting policy note 2.4 and 2.14 to the financial statements and notes 3, 16 and 24 for further disclosures

LTBP relating to the term business within 'Technical provisions' (€2,064,259 thousand for all business, inclusive of the term business); and VIF (€79,837 thousand) included in 'Intangible assets'

MMSV enters into insurance contracts which comprise term, unit-linked and participating (with-profits) business. For term business, the obligation of MMSV is the payment of a death benefit, where such an event occurs during the period the policy is in force. Within the amounts reported under 'Technical provisions', we have considered the LTBP relating to the term business as a key audit matter in view of the judgement involved in estimating the ultimate total settlement value (therefore subject to significant actuarial assumptions). Due to inherent estimation uncertainty, the outcomes of the estimated outflows (being the ultimate total settlement value) in relation to long-term business provisions ("LTBP") on the non-participating business (term business), may be different from the amounts provided.

Also, as part of its intangible assets, MMSV recognises the discounted value of projected future transfers to shareholders from those insurance contracts and the investment contracts in force at the end of the reporting period, net of deferred tax. The determination of this VIF also involves judgement.

The judgement involved relates, in the main, to actuarial assumptions which impact the LTBP relating to the term business and the VIF. Those assumptions comprise both economic assumptions (namely, valuation rate of interest ("VIR"), inflation, risk discount rate and the investment return), and non-economic (operating) assumptions (namely, mortality and lapse rates).

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MAPFRE MIDDLESEA P.L.C.

1. REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS - CONTINUED

KEY AUDIT MATTERS - CONTINUED

Actuarial assumptions underlying the calculations of the (a) 'long term business provision' ("LTBP") relating to term business; and (b) 'value of in force business' ("VIF") in relation to business carried out by the main subsidiary of the group MAPFRE MSV Life p.l.c. (MMSV) - continued

Our response

As part of our procedures, we involved our actuarial specialist to assess the appropriateness of the following key assumptions underlying the calculations of the actuarial elements:

Economic assumptions

- We assessed the VIR against the regulatory valuation rules as used for accounting purposes. We have also assessed whether the VIR derivation: (i) took into account the critical factors impacting the portfolio yield; and (ii) contains prudence consistent with the relevant regulations.
- Specifically in relation to the LTBP calculations, we assessed the appropriateness of the inflation assumption, as to whether the expense inflation was set in accordance with the applicable valuation rules, by considering the movements in Malta's Consumer Price Index, published by the National Office of Statistics, and the economic forecasts prepared by the Central Bank of Malta.
- Specifically in relation to the VIF calculation, we assessed whether: (i) the assumptions underlying the risk discount rate, the investment return and inflation are set in line with MMSV's long-term expectations; and (ii) MMSV's approach in determining the assumptions in line with MMSV's long-term expectations, for the purpose of the VIF calculation, reflects industry practice.

Non-economic assumptions

- We assessed MMSV's best estimate mortality assumptions against observed data in light of its experience in recent years and compared such assumptions to those used in MMSV's computation of the actuarial results for accounting purposes.
- Specifically, in relation to the VIF calculation, we assessed the appropriateness of the MMSV's best estimate lapse assumptions, through the evaluation of observed data over recent years.
- Specifically, in relation to expense assumptions, we assessed the appropriateness of the maintenance expense allocation through the evaluation of the methodology underlying the maintenance expense allocation.

Key observation

We have no key observations to report, specific to this matter.

Valuation of Investment property

Accounting policy note 2.6 to the financial statements and note 3 and 19 for further disclosures

'Investment property' (Group: €108,278 thousand; and Company: €13,404 thousand)

As part of its investment strategy, the Group and Company hold freehold and leasehold properties as investment property. The valuation of such investment property at its fair value is subject to significant judgement. Such judgement revolves around assumptions underlying the determination of fair value as at the reporting date. We have considered the valuation of investment property as a key audit matter in view of the subjectivity surrounding the judgement applied and our audit focus on this area.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MAPFRE MIDDLESEA P.L.C.

1. REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS - CONTINUED

KEY AUDIT MATTERS - CONTINUED

Valuation of Investment property - continued

Our response

We gained an understanding of the Group and Company's valuation methodology and assumptions used in estimating the fair value of the investment property as at the reporting date. As part of our procedures, we involved our valuation specialist to develop a possible range of values appropriate to such property, having regard to their earnings potential and compared these values to those recorded by the Group and Company.

Key Observations

We have no key observations to report, specific to this matter.

Other information

The directors are responsible for the other information which comprises:

- the 'Chairman's Statement';
- the 'President & Chief Executive Officer's Statement';
- the 'Directors' Report';
- the 'Corporate Governance - Statement of Compliance'; and
- the 'Remuneration Committee's Statement to the Shareholders',

but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and, other than in the case of the directors' report on which we report separately below in our 'Opinion on the Directors' Report', we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation of financial statements that (a) give a true and fair view in accordance with IFRS as adopted by the EU, and (b) are properly prepared in accordance with the provisions of the Act and the Insurance Business Act, and, additionally, specifically in relation to those of the Group, with the requirements of article 4 of the Regulation on the application of IFRS as adopted by the EU. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company and/or the Group or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the financial reporting process.

KPMG

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MAPFRE MIDDLESEA P.L.C.

1. REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS - CONTINUED

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Consider the extent of compliance with those laws and regulations that directly affect the financial statements, as part of our procedures on the related financial statement items. For the remaining laws and regulations, we make enquiries of directors and other management, and inspect correspondence with the regulatory authority, as well as legal correspondence. As with fraud, there remains a higher risk of non-detection of other irregularities (whether or not these relate to an area of law directly related to the financial statements), as these may likewise involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company and/or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MAPFRE MIDDLESEA P.L.C.

2. OPINION ON THE DIRECTORS' REPORT

The directors are responsible for preparing a directors' report in accordance with the provisions of article 177 of the Act and other applicable legal requirements, and is to include a statement that the Company is a going concern with supporting assumptions or qualifications as necessary, as required by Capital Markets Rule 5.62 issued by the Listing Authority in Malta.

We are required to consider whether the information given in the directors' report for the accounting period for which the financial statements are prepared is consistent with those financial statements; and, if we are of the opinion that it is not, we shall state that fact in our report. We have nothing to report in this regard.

Pursuant to article 179(3) of the Act, we are also required to:

- express an opinion on whether the directors' report has been prepared in accordance with the applicable legal requirements; and
- state whether, in the light of the knowledge and understanding of the entity and its environment obtained in the course of our audit of the financial statements, we have identified material misstatements in the directors' report, giving an indication of the nature of any such misstatements.

Pursuant to Capital Markets Rule 5.62 of the Capital Markets Rules issued by the Listing Authority in Malta, we are required to review the directors' statement in relation to going concern.

In such regards:

- in our opinion, the directors' report has been prepared in accordance with the applicable legal requirements;
- we have not identified material misstatements in the directors' report; and
- we have nothing to report in relation to the statement on going concern.

3. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Matters on which we are required to report by the Act, specific to public-interest entities

Pursuant to article 179B(1) of the Act, we report as under matters not already reported upon in our 'Report on the Audit of the Financial Statements':

- we were first appointed as auditors by the shareholders on 15 July 2015, and subsequently reappointed at the Company's general meetings for each financial year thereafter. The period of total uninterrupted engagement is eight years;
- our opinion on our audit of the financial statements is consistent with the additional report to the audit committee required to be issued by the Audit Regulation (as referred to in the Act); and
- we have not provided any of the prohibited services as set out in the APA.

Matters on which we are required to report by exception by the Act

Pursuant to articles 179(10) and 179(11) of the Act, we have nothing to report to you with respect to the following matters:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not obtained all the information and explanations which, to the best of our knowledge and belief, we require for the purpose of our audit.

KPMG

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MAPFRE MIDDLESEA P.L.C.

Report on compliance with the requirements of the Commission Delegated Regulation (EU) 2018/815 supplementing Directive 2004/109/EC (the "ESEF Regulation"), by reference to Capital Markets Rule 5.55.6 issued by the Listing Authority

We have undertaken a reasonable assurance engagement in accordance with the requirements of Directive 6 issued by the Accountancy Board in terms of the Accountancy Profession Act, 1979 (Chapter 281, Laws of Malta), the Accountancy Profession (European Single Electronic Format) Assurance Directive, on the Group's Annual Report for the year ended 31 December 2022, prepared in a single electronic reporting format.

Responsibilities of the directors for compliance with the requirements of the ESEF Regulation

As required by Capital Markets Rule 5.56A, the directors are responsible for the preparation of the Annual Report in XHTML format, including the specified mark-ups, in accordance with the requirements of the ESEF Regulation.

In addition, the directors are responsible for such internal control as they determine is necessary to enable the preparation of the Annual Report that is in compliance with the requirements of the ESEF Regulation.

Auditors' responsibilities to report on compliance with the requirements of the ESEF Regulation

Our responsibility is to obtain reasonable assurance about whether the Annual Report in XHTML format, including the specified mark-ups, comply in all material respects with the ESEF Regulation based on the evidence we have obtained.

In discharging that responsibility, we:
- obtain an understanding of the entity's financial reporting process, including the preparation of the Annual Report, in accordance with the requirements of the ESEF Regulation;
- perform validations to determine whether the Annual Report has been prepared in accordance with the requirements of the technical specifications of the ESEF Regulation; and
- examine the information in the Annual Report to determine whether all the required mark-ups therein have been applied and whether, in all material respects, they are in accordance with the requirements of the ESEF Regulation.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Annual Report for the year ended 31 December 2022 has been prepared, in all material respects, in accordance with the requirements of the ESEF Regulation, by reference to Capital Markets Rule 5.55.6.

The Principal authorised to sign on behalf of KPMG on the audit resulting in this independent auditors' report is Thane Micallef.

KPMG
Registered Auditors

22 March 2023

KPMG

INDEPENDENT ASSURANCE REPORT TO THE SHAREHOLDERS OF MAPFRE MIDDLESEA P.L.C.

Report required by Capital Markets Rules 5.98 and 12.26N issued by the Malta Financial Services Authority (the "MFSA")

We were engaged by the Directors of Mapfre Middlesea p.l.c.(the "Company") to report on the disclosures of specific elements in the Corporate Governance Statement and the Remuneration Report (the "Disclosures") as at 31 December 2022, in the form of an independent reasonable assurance conclusion, as to whether they are, in all material respects, in compliance with the corporate governance regulations and information to be provided in the Remuneration Report set out in the Capital Markets Rules issued by the MFSA (the "Capital Market Rules"). More specifically, we are required to report on the Disclosures in the form of an independent reasonable assurance conclusion about whether:

a. in light of our knowledge and understanding of the Company and its environment obtained in the course of the statutory audit, we have identified material misstatements with respect to the information referred to in Capital Markets Rules 5.97.4 (dealing with the Company's internal control and risk management systems in relation to the financial reporting process) and 5.97.5 (where a takeover bid applies). Where material misstatements are identified in relation to those requirements, we shall, in addition to our conclusion, provide an indication of the nature of such misstatements;
b. the Disclosures include the other information required by Capital Markets Rule 5.97, insofar as it is applicable to the Company; and
c. the Disclosures include the information required by Appendix 12.1, '*Information to be provided in the Remuneration Report*', to Chapter 12 of the Capital Markets Rules (as applicable).

Responsibilities of the Directors

The Directors are responsible for preparing and presenting the Disclosures that are free from material misstatement in accordance with the requirements of the Capital Market Rules and for the information contained therein.

This responsibility includes designing, implementing and maintaining internal control as they determine is necessary to enable the preparation and presentation of the Disclosures that are free from misstatement, whether due to fraud or error

The Directors are also responsible for preventing and detecting fraud and for identifying and ensuring that the Company complies with laws and regulations applicable to its activities. The Directors are responsible for ensuring that personnel involved in the preparation and presentation of the Disclosures are properly trained, systems are properly updated and that any changes in reporting relevant to the Disclosures encompass all significant business units.

Our Responsibilities

Our responsibility is to examine the Disclosures prepared by the Company and to report thereon in the form of an independent reasonable assurance conclusion based on the evidence obtained. We conducted our engagement in accordance with International Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* ("ISAE 3000") issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform our procedures to obtain reasonable assurance about whether the Disclosures are properly prepared and presented, in all material respects, in accordance with the requirements set out in the relevant Capital Markets Rules.

The firm applies International Standard on Quality Management 1, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)*, together with the ethical requirements that are relevant to our assurance engagement in accordance with the *Accountancy Profession (Code of Ethics for Warrant Holders) Directive* issued in terms of the Accountancy Profession Act (Chapter 281, Laws of Malta), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. The IESBA Code is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MAPFRE MIDDLESEA P.L.C.

Our Responsibilities – continued

The procedures selected and our determination of the nature, timing and extent of those procedures, will depend on our judgment, including the assessment of the risks of material misstatement of the preparation and presentation of the Disclosures whether due to fraud or error.

In making those risk assessments, we have considered internal control relevant to the preparation and presentation of the Disclosures in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the Company's internal control over the preparation and presentation of the Disclosures. Reasonable assurance is less than absolute assurance.

We are not required to, and we do not, consider whether the Directors' statements on internal control and risk management systems cover all the risks and controls in relation to the financial reporting process or form an opinion on the effectiveness of the Company's corporate governance procedures or its risks and control procedures, nor on the ability of the Company to continue in operational existence. Our opinion in relation to the disclosures pursuant to Capital Markets Rules 5.97.4 and 5.97.5 (as appropriate) is based solely on our knowledge and understanding of the Company and its environment obtained in forming our opinion on the audit of the financial statements.

As part of this engagement, we have not performed any procedures by way of audit, review or verification of the Disclosures nor of the underlying records or other sources from which the Disclosures were extracted.

Other Information

We also read the other information included in the Annual Report that contains the Disclosures, and our report thereon, in order to identify material inconsistencies, if any, with the Disclosures. We have nothing to report in this regard.

Conclusion

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

In our opinion:

a. in light of our knowledge and understanding of the Company and its environment obtained in the course of the statutory audit, we have not identified material misstatements with respect to the information requirements referred to in Capital Markets Rules 5.97.4 and 5.97.5;
b. the Disclosures include the other information required by Capital Markets Rule 5.97; and,
c. the Disclosures include the information required by Appendix 12.1 to Chapter 12 of the Capital Markets Rules.

The Principal authorised to sign on behalf of KPMG on the work resulting in this assurance report is Thane Micallef.

KPMG
Registered Auditors

23 March 2023

STATEMENT OF PROFIT OR LOSS
TECHNICAL ACCOUNT - GENERAL BUSINESS

	Notes	2022 €'000	2021 €'000
		Year ended 31 December	
		Group and Company	
Earned premiums, net of reinsurance			
Gross premiums written	6	**84,439**	77,613
Outward reinsurance premium		**(15,166)**	(15,350)
Net premiums written		**69,273**	62,263
Change in gross provision for unearned premiums		**(2,679)**	(2,979)
Change in the provision for unearned premiums, reinsurers' share		**(54)**	1,434
		(2,733)	(1,545)
Earned premiums, net of reinsurance		**66,540**	60,718
Allocated investment return transferred from the non-technical account	8	**(171)**	307
Total technical income		**66,369**	61,025
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		**42,336**	37,134
- reinsurers' share		**(7,011)**	(5,524)
		35,325	31,610
Change in the provision for claims			
- gross amount		**400**	2,964
- reinsurers' share		**3,014**	313
		3,414	3,277
Claims incurred, net of reinsurance		**38,739**	34,887
Net operating expenses	7	**22,867**	20,878
Total technical charges		**61,606**	55,765
Balance on the technical account for general business		**4,763**	5,260

STATEMENT OF PROFIT OR LOSS
TECHNICAL ACCOUNT - LONG TERM BUSINESS

		Year ended 31 December			
		Group		Company	
		2022	2021	**2022**	2021
	Notes	**€'000**	€'000	**€'000**	€'000
Earned premiums, net of reinsurance					
Gross premiums written	6	**251,439**	327,632	**2,680**	2,497
Outward reinsurance premium		**(3,558)**	(3,390)	**(225)**	(211)
Earned premiums net of reinsurance		**247,881**	324,242	**2,455**	2,286
Investment return					
Return from investments	8	**(286,614)**	97,458	**(49)**	(11)
Other technical income, net of reinsurance	9	**743**	788	**—**	—
Total technical income		**(37,990)**	422,488	**2,406**	2,275
Claims incurred, net of reinsurance					
Claims paid					
- gross amount		**295,532**	305,907	**839**	1,250
- reinsurers' share		**(1,507)**	(1,859)	**—**	(122)
		294,025	304,048	**839**	1,128
Change in the provision for claims					
- gross amount		**1,079**	2,339	**(243)**	(143)
- reinsurers' share		**457**	(319)	**—**	113
		1,536	2,020	**(243)**	(30)
Claims incurred, net of reinsurance		**295,561**	306,068	**596**	1,098
Change in other technical provisions, net of reinsurance					
Long term business provision, net of reinsurance					
- gross amount		**(104,057)**	(24,367)	**68**	(67)
Investments contracts with DPF - gross		**(266,314)**	103,203	**—**	—
		(370,371)	78,836	**68**	(67)
Net operating expenses	7	**18,251**	18,572	**421**	328
Total technical charges		**(56,559)**	403,476	**1,085**	1,359
Balance on the technical account for long term business		**18,569**	19,012	**1,321**	916

STATEMENT OF PROFIT OR LOSS
NON-TECHNICAL ACCOUNT

		Year ended 31 December			
		Group		Company	
		2022	2021	**2022**	2021
	Notes	**€'000**	€'000	**€'000**	€'000
Balances on technical accounts					
General business		**4,763**	5,260	**4,763**	5,260
Long term business		**18,569**	19,012	**1,321**	916
Total income from insurance activities		**23,332**	24,272	**6,084**	6,176
Other investment income	8	**1,084**	956	**2,182**	1,107
Investment expenses and charges	8	**(1,251)**	(675)	**(1,040)**	(659)
Allocated investment return transferred to the general business technical account	8	**171**	(307)	**171**	(307)
Revaluation loss on freehold land and buildings	18	**—**	(1,521)	**—**	—
Other income	9	**1,135**	1,438	**—**	—
Administrative expenses	7	**(2,829)**	(3,773)	**(1,946)**	(2,254)
Reversal of impairment in group undertaking		**540**	—	**540**	—
Profit for the financial year before tax		**22,182**	20,390	**5,991**	4,063
Tax expense	12	**(7,539)**	(7,467)	**(2,201)**	(1,455)
Profit for the financial year		**14,643**	12,923	**3,790**	2,608
Attributable to:					
- owners of the Company		**8,794**	7,643	**3,790**	2,608
- non-controlling interests		**5,849**	5,280	**—**	—
		14,643	12,923	**3,790**	2,608
Earnings per share attributable to owners of the Company	14	**€0.096**	€0.083		

The Notes on pages 61 to 161 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December			
		Group		Company	
		2022	2021	**2022**	2021
	Notes	**€'000**	€'000	**€'000**	€'000
Profit for the financial year		**14,643**	12,923	**3,790**	2,608
Other comprehensive income:					
Items that are or may be reclassified subsequently to profit or loss					
Change in fair value of available-for-sale investments	29	**(770)**	53	**(764)**	51
Available-for-sale investments reclassified to profit or loss	29	**—**	(102)	**—**	(102)
Revaluation gain on freehold land and buildings	18	**—**	1,081	**—**	—
Items that will not be reclassified to profit or loss					
Re-measurement actuarial gain on provision for other liabilities and charges		**57**	2	**57**	2
(Decrease)/increase in value of in-force business	16	**(7,266)**	9,912	**—**	—
Total other comprehensive income, net of tax		**(7,979)**	10,946	**(707)**	(49)
Total comprehensive income for the year		**6,664**	23,869	**3,083**	2,559
Attributable to:					
- owners of the Company		**4,448**	13,633		
- non-controlling interests		**2,216**	10,236		
Total comprehensive income for the year		**6,664**	23,869		

Items disclosed in the statement above are disclosed net of tax.

The Notes on pages 61 to 161 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

		Year ended 31 December			
		Group		Company	
	Notes	**2022 €'000**	2021 €'000	**2022 €'000**	2021 €'000
ASSETS					
Intangible assets	16	**107,987**	109,729	**9,967**	9,146
Property, plant and equipment	18	**17,626**	17,657	**4,480**	4,542
Right-of-use assets	17	**1,461**	1,802	**1,378**	1,685
Investment property	19	**108,278**	110,016	**13,404**	13,529
Investment in subsidiary undertakings	20	**—**	—	**77,214**	77,214
Investment in associated undertakings	21	**23,027**	22,831	**389**	383
Other investments	22	**1,992,902**	2,421,911	**12,097**	8,382
Deferred income tax	23	**8,750**	2,313	**1,292**	1,268
Reinsurers' share of technical provisions	24	**29,722**	33,247	**29,246**	32,314
Deferred acquisition costs	25	**9,367**	8,427	**9,367**	8,427
Insurance and other receivables	26	**33,740**	32,069	**20,099**	19,222
Income tax receivable		**42**	308	**—**	—
Cash and cash equivalents	27	**137,286**	71,443	**11,130**	11,575
Total assets		**2,470,188**	2,831,753	**190,063**	187,687
EQUITY					
Capital and reserves attributable to owners of the Company					
Share Capital	28	**19,320**	19,320	**19,320**	19,320
Share premium account		**688**	688	**688**	688
Other reserves	29	**40,189**	44,817	**34,171**	34,935
Retained earnings		**52,887**	46,211	**22,915**	21,468
		113,084	111,036	**77,094**	76,411
Non-controlling interests		**112,148**	110,932	**—**	—
Total equity		**225,232**	221,968	**77,094**	76,411
LIABILITIES					
Deferred income tax	23	**11,822**	42,599	**2,295**	1,989
Provision for other liabilities and charges	30	**854**	997	**854**	997
Technical provisions:					
- Insurance contracts and investment contracts with DPF	24	**2,104,455**	2,470,668	**95,909**	93,005
- Investment contracts without DPF	24	**55,713**	60,869	**—**	—
Derivative financial instruments	22	**—**	775	**—**	—
Lease liabilities		**1,530**	1,866	**1,449**	1,745
Insurance and other payables	31	**28,012**	31,173	**12,379**	13,401
Income tax payable		**42,570**	838	**83**	139
Total liabilities		**2,244,956**	2,609,785	**112,969**	111,276
Total equity and liabilities		**2,470,188**	2,831,753	**190,063**	187,687

The Notes are an integral part of these financial statements.

These financial statements on pages 51 to 161 were approved by the Board of Directors and authorised for issue on 22 March 2023 and signed on its behalf by Martin Galea (Chairman) and Gordon Cordina (Director) as per the Directors' Declaration on ESEF Annual Financial report submitted in conjunction with the Annual Report 2022.

STATEMENT OF CHANGES IN EQUITY

Group		Attributable to owners of the Company						
	Notes	Share capital €'000	Share premium account €'000	Other reserves €'000	Retained earnings €'000	Total €'000	Non-controlling interests €'000	Total equity €'000
Balance at 1 January 2021		19,320	688	38,829	41,766	100,603	80,696	181,299
Comprehensive income								
Profit for the financial year		—	—	—	7,643	7,643	5,280	12,923
Other comprehensive income:								
Change in available-for-sale investment's fair value	29	—	—	53	—	53	—	53
Available-for-sale investments - reclassified to profit or loss	29	—	—	(102)	—	(102)	—	(102)
Revaluation gain on freehold land and buildings	18	—	—	1,081	—	1,081	—	1,081
Re-measurement actuarial loss on provision for other liabilities and charges		—	—	—	2	2	—	2
Increase in value of in-force business	16	—	—	4,956	—	4,956	4,956	9,912
Total other comprehensive income, net of tax		—	—	5,988	2	5,990	4,956	10,946
Total comprehensive income		—	—	5,988	7,645	13,633	10,236	23,869
Transactions with owners								
Increase in share capital of group undertaking		—	—	—	—	—	20,000	20,000
Dividends for 2020		—	—	—	(3,200)	(3,200)	—	(3,200)
Total transactions with owners		—	—	—	(3,200)	(3,200)	20,000	16,800
Balance at 31 December 2021		**19,320**	**688**	**44,817**	**46,211**	**111,036**	**110,932**	**221,968**

STATEMENT OF CHANGES IN EQUITY

Group continued

	Notes	Share capital €'000	Share premium account €'000	Other reserves €'000	Retained earnings €'000	Total €'000	Non-controlling interests €'000	Total equity €'000
		Attributable to owners of the Company						
Balance at 1 January 2022		19,320	688	44,817	46,211	111,036	110,932	221,968
Comprehensive income								
Profit for the financial year		—	—	—	8,794	8,794	5,849	14,643
Other comprehensive income:								
Change in available-for-sale investments' fair value	29	—	—	(770)	—	(770)	—	(770)
Revaluation gain on freehold land and buildings reclassified to retained earnings		—	—	(225)	225	—	—	—
Re-measurement actuarial gain on provision for other liabilities and charges		—	—	—	57	57	—	57
Decrease in value of in-force business	16	—	—	(3,633)	—	(3,633)	(3,633)	(7,266)
Total other comprehensive income, net of tax		—	—	(4,628)	282	(4,346)	(3,633)	(7,979)
Total comprehensive Income		—	—	(4,628)	9,076	4,448	2,216	6,664
Transactions with owners								
Dividend for 2021		—	—	—	(2,400)	(2,400)	(1,000)	(3,400)
Total transactions with owners		—	—	—	(2,400)	(2,400)	(1,000)	(3,400)
Balance at 31 December 2022		**19,320**	**688**	**40,189**	**52,887**	**113,084**	**112,148**	**225,232**

The Notes on pages 61 to 161 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Company

	Notes	Share capital €'000	Share premium account €'000	Other reserves €'000	Retained earnings €'000	Total €'000
Balance at 1 January 2021		19,320	688	34,986	22,058	77,052
Comprehensive income						
Profit for the financial year		—	—	—	2,608	2,608
Other comprehensive income:						
Change in available-for-sale investment's fair value		—	—	51	—	51
Available-for-sale investments - reclassified to profit or loss	29	—	—	(102)	—	(102)
Re-measurement actuarial loss on provision for other liabilities and charges	29	—	—	—	2	2
Total other comprehensive income, net of tax		—	—	(51)	2	(49)
Total comprehensive income		—	—	(51)	2,610	2,559
Transactions with owners						
Dividends for 2020		—	—	—	(3,200)	(3,200)
Total transactions with owners of the Company		—	—	—	(3,200)	(3,200)
Balance at 31 December 2021		**19,320**	**688**	**34,935**	**21,468**	**76,411**

STATEMENT OF CHANGES IN EQUITY

Company continued

	Notes	Share capital €'000	Share premium account €'000	Other reserves €'000	Retained earnings €'000	Total €'000
Balance at 1 January 2022		19,320	688	34,935	21,468	76,411
Comprehensive income						
Profit for the financial year		—	—	—	3,790	3,790
Other comprehensive income:						
Change in available-for-sale investment's fair value	29	—	—	(764)	—	(764)
Re-measurement actuarial gain on provision for other liabilities and charges		—	—	—	57	57
Total other comprehensive income, net of tax		—	—	(764)	57	(707)
Total comprehensive income		—	—	(764)	3,847	3,083
Transactions with owners						
Dividend for 2021		—	—	—	(2,400)	(2,400)
Total transactions with owners of the Company		—	—	—	(2,400)	(2,400)
Balance as at 31 December 2022		**19,320**	**688**	**34,171**	**22,915**	**77,094**

The Notes on pages 61 to 161 are an integral part of these financial statements.

STATEMENT OF CASH FLOW

		Year ended 31 December			
		Group		Company	
	Notes	**2022 €'000**	2021 €'000	**2022 €'000**	2021 €'000
Cash flows from operating activities					
Cash (used in)/generated from operations	32	**(64,364)**	9,360	**11,262**	12,414
Dividends received		**10,519**	9,572	**1,347**	168
Interest received		**17,729**	21,296	**97**	96
Interest paid		**(27)**	(66)	**(27)**	(66)
Income tax paid		**(2,770)**	(2,501)	**(1,944)**	(2,742)
Net cash (used in)/generated from operating activities		**(38,913)**	37,661	**10,735**	9,870
Cash flows from investing activities					
Purchase of investment property	19	**(936)**	(1,627)	**(76)**	(4)
Disposal of investment property		**113**	16	**9**	16
Increase in investment in group undertaking		**—**	—	**—**	(20,000)
Purchase of financial investments		**(1,319,341)**	(1,382,857)	**(5,135)**	(5,131)
Disposal of financial investments		**1,437,912**	1,312,522	**183**	2,116
Purchase of property, plant and equipment and intangible assets		**(9,592)**	(8,227)	**(3,761)**	(3,524)
Disposal of property, plant and equipment and intangible assets		**—**	95	**—**	—
Net cash (used in)/generated from investing activities		**108,156**	(80,078)	**(8,780)**	(26,527)
Cash flows from financing activities					
Increase in share capital of group undertaking		**—**	20,000	**—**	—
Dividends paid to owners of the Company		**(2,400)**	(3,200)	**(2,400)**	(3,200)
Dividends paid to non controlling interests		**(1,000)**	—	**—**	—
Cash (used in)/generated from financing activities		**(3,400)**	16,800	**(2,400)**	(3,200)
Net movement in cash and cash equivalents		**65,843**	(25,617)	**(445)**	(19,857)
Cash and cash equivalents at beginning of year		**71,443**	97,060	**11,575**	31,432
Cash and cash equivalents at end of year	27	**137,286**	71,443	**11,130**	11,575

The Notes on pages 61 to 161 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The financial statements of MAPFRE Middlesea p.l.c. are prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union and the Companies Act, 1995. The financial statements of the Group to which the Company is parent are prepared in accordance with article 4 of Regulation 1606/2002/EC (the "Regulation") which requires that, for each financial period starting on or after 1 January 2005, companies governed by the law of an EU Member State shall prepare their consolidated financial statements in conformity with IFRS as adopted by the EU if, at their reporting date, their securities are admitted to trading on a regulated market of any EU Member State. The Regulation prevails over the provisions of the Companies Act, 1995 to the extent that the said provisions of the Companies Act, 1995 are incompatible with the provisions of the Regulation. Both sets of financial statements as referred to in the Annual Report relate to both those of the Company and the Group and have also been prepared in accordance with the Insurance Business Act, 1998.

The financial statements are prepared under the historical cost convention as modified by the measurement at fair value of: investment property, financial assets and financial liabilities (including derivatives) at fair value through profit or loss, and available-for-sale investments. Investment in associated undertaking is measured using equity method, that is, cost plus or minus net income or loss of associate.

As permitted by IFRS 4 'Insurance Contracts' the Group continues to apply existing accounting practices for value of in-force business, insurance and participating investment contracts, modified as appropriate to comply with the IFRS framework and applicable standards. Further details are given in the respective accounting policies.

The preparation of financial statements in conformity with the above reporting framework requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

The statements of financial position are organised in increasing order of liquidity, with additional disclosures on the maturity analysis of the Group's assets and liabilities provided within the Notes to the financial statements. All amounts in the Notes are shown in thousands of euro, rounded to the nearest thousand, unless otherwise stated.

Certain corresponding information in the disclosures have been reclassified or enhanced to conform with the current year's presentation.

Standards, interpretations and amendments to published standards effective in 2022

In 2022, the Group adopted new standards, amendments and interpretations to existing standards that are mandatory for the Group's accounting period beginning on 1 January 2022. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Group's accounting policies.

Standards, interpretations and amendments to published standards effective before 2022 for which the Group elected for the temporary exemption

a. IFRS 9 - 'Financial instruments'

IFRS 9 'Financial Instruments' is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. However, the Group has met the relevant criteria and has applied the temporary exemption from IFRS 9 for annual periods before 1 January 2023. Consequently, the Group will apply IFRS 9 for the first time on 1 January 2023.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling.

The new expected credit losses model replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION - CONTINUED

Standards, interpretations and amendments to published standards effective before 2022 for which the Group elected for the temporary exemption - continued

a. IFRS 9 - 'Financial instruments' - continued

no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The Group is considering the implications of the standard and its impact on the financial results and position once adopted.

IFRS 9 became effective for years beginning on or after 1 January 2018. However, in September 2016, the International Accounting Standards Board issued amendments to IFRS 4 which provide optional relief to eligible insurers in respect of IFRS 9.

The option permits entities whose predominant activity is issuing insurance contracts within the scope of IFRS 4, a temporary exemption to defer the implementation of IFRS 9.

Entities that apply the optional temporary relief were initially required to adopt IFRS 9 on annual periods beginning on or after 1 January 2021. However, on 14 November 2018 and subsequently on 17 March 2020 the IASB deferred both the effective date of IFRS 17, 'Insurance Contracts', and the expiry date for the optional relief in respect of IFRS 9 to 1 January 2022 and subsequently by another year. Therefore, entities that apply the optional temporary relief will be required to adopt IFRS 9 on 1 January 2023 which aligns with the new effective date of IFRS 17.

The Group evaluated its liabilities at 31 December 2015, the prescribed date of assessment under the optional temporary relief provisions and concluded that all of the liabilities were predominantly connected with insurance. More than 90% of the Group's liabilities at 31 December 2015 were liabilities arising from contracts within the scope of IFRS 4. The Group's predominant activities were and still are insurance related as evidenced through revenues reported in this Annual Report.

Further to the above, the Group has not previously applied IFRS 9. Therefore, the Group is an eligible insurer that qualifies for optional relief from the application of IFRS 9. As at 1 January 2018, the Group has elected to apply the optional temporary relief under IFRS 4 that permits the deferral of the adoption of IFRS 9 for eligible insurers. The Group will continue to apply IAS 39 until the financial reporting period ending 31 December 2022. However, the subsidiaries and associates of the Group, not having their activities predominantly in insurance, have applied IFRS 9 from 1 January 2018. The subsidiaries disclose references to IFRS 9 information that is not provided in the consolidated financial statements but is publicly available for the relevant period in the individual financial statements of the subsidiaries or associates.

i. Financial assets and liabilities – Classification

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 includes three principal measurement categories for financial assets – measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) – and eliminates the previous IAS 39 categories of held-to-maturity investments, loans and receivables, and available-for-sale financial assets.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as measured at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as measured at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION - CONTINUED

Standards, interpretations and amendments to published standards effective before 2022 for which the Group elected for the temporary exemption - continued

a. IFRS 9 - 'Financial instruments' - continued

i. Financial assets and liabilities – Classification - continued

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Nevertheless, on initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI.

IFRS 9 largely retains the requirements in IAS 39 for the classification and measurement of financial liabilities. However, under IAS 39 all fair value changes of financial liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes will generally be presented as follows.

- The amount of the change in the fair value that is attributable to changes in the credit risk of the liability will be presented in OCI.
- The remaining amount of the change in the fair value will be presented in profit or loss.

ii. Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group deems its current investment holdings to be held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. On the other hand the Company holds financial assets to generate returns and provide a capital base to provide for settlement of claims as they arise.

iii. Financial assets – Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' model. This will require considerable judgement about how changes in economic factors affect ECL, which will be determined on a probability-weighted basis.

The new impairment model will apply to the Group's financial assets measured at amortised cost, debt investments at FVOCI and lease and other receivables.

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECL or lifetime ECL. Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument; 12-month ECL are the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The Group is still assessing the most relevant impairment methods available for its financial assets.

When determining whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group will consider reasonable and supportable information that is relevant and available without undue cost or effort. This will include both qualitative and quantitative information and analysis based on the Group's experience, expert credit assessment and forward-looking information. As a backstop, the Group will consider that a significant increase in credit risk occurs no later than when an asset is more than 90 days past due.

iv. Measurement of Expected Credit Losses (ECL)

ECL are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). For each exposure subject to impairment, an expected credit loss shall be calculated for this purpose.

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION - CONTINUED

Standards, interpretations and amendments to published standards effective in 2022 - continued

a. IFRS 9 - 'Financial instruments' - continued

v. Transition

The general principle in IFRS 9 is for retrospective application in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The transition requirements refer to the date of initial application (DIA), which is the beginning of the reporting period in which an insurer first applies IFRS 9. IFRS 9 contains certain exemptions from full retrospective application. These include an exemption from the requirement to restate comparative information about classification and measurement, including impairment. If an insurer does not restate prior periods, then opening retained earnings (or other components of equity, as appropriate) for the annual reporting period that includes the DIA is adjusted for any difference between the carrying amounts of financial instruments before adoption of IFRS 9 and the new carrying amounts.

The Group is considering the implications of the standard on transition and its impact on the financial results and position. The Group is not illustrating quantitative figures as assessments are ongoing thereby resulting in limited use of such information.

Standards, interpretations and amendments to published standards that are not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2023 and earlier application is permitted. However, the Group has not early adopted the new standards in preparing these consolidated financial statements.

The Group will apply IFRS 17 Insurance Contracts and IFRS 9 Financial Instruments for the first time on 1 January 2023. These standards will bring significant changes to the accounting for insurance and reinsurance contracts and financial instruments and are expected to have a material impact on the Group's consolidated financial statements in the period of initial application.

IFRS 17, published on 18 May 2017, and amended on 25 June 2020, supersedes IFRS 4 Insurance Contracts and is applicable for annual periods beginning on or after 1 January 2023, with early adoption permitted. IFRS 17 was adopted by the European Union ('EU') on 19 November 2021, with an exemption regarding the annual cohort requirement. The current standard on insurance contracts, IFRS 4, has been amended accordingly, extending to 2023 the temporary exemption for qualifying insurers to apply IFRS 9. The Group has not early adopted IFRS 17.

a. Estimated impact of the adoption of IFRS 17 and IFRS 9

The Group is not in a position to disclose known or reasonably estimable information relevant to assessing the possible financial impact that the application of IFRS 17 and IFRS 9 will have on its financial statements in the period of initial application when the 2022 financial statements were authorised for issue.

b. FRS 17 Insurance Contracts

The nature of the changes in accounting policies, to the extent that the Group has assessed so far, are summarised below.

i. Identifying contracts in the scope of IFRS 17

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and to investment contracts with discretionary participation features ('DPF').

When identifying contracts in the scope of IFRS 17, the Group will have to assess whether a set or series of contracts needs to be treated as a single contract and whether goods and services components, embedded derivatives and investment components within particular contracts must be separated and accounted for under another standard. The Group is assessing the impact of the scope changes arising from the application of these requirements as compared to IFRS 4.

1. **BASIS OF PREPARATION** - CONTINUED

Standards, interpretations and amendments to published standards that are not yet effective - continued

b. IFRS 17 Insurance Contracts - continued

ii. Level of aggregation

Under IFRS 17, insurance contracts and investment contracts with DPF are aggregated into groups for measurement purposes. Groups of contracts are determined by first identifying portfolios of contracts, each comprising contracts subject to similar risks and managed together. Contracts in different product lines or issued by different Group entities are expected to be in different portfolios. Each portfolio is then divided into annual cohorts (i.e., by year of inception) and each annual cohort into three groups:

- any contracts that are onerous on initial recognition.
- any contracts that, on initial recognition, have no significant possibility of becoming onerous subsequently; and
- any remaining contracts in the annual cohort.

The Group is assessing the possibility to align annual cohorts with its financial year (i.e. calendar year), and is presently in the process of formulating the methodology for allocating contracts to profitability groups.

IFRS 17 as adopted by the EU provides an optional exemption from applying this annual cohort requirement to a) groups of insurance contracts with direct participation features and groups of investment contracts with DPF with cash flows that affect or are affected by cash flows to policyholders; as well as b) groups of insurance contracts that are managed across generations of contracts and meet specific conditions for the application of the matching adjustment. This exemption will be reviewed by the EU by the end of 2027, taking into account the outcome of the IASB's post-implementation review of IFRS 17. The Group intends to apply the exemption from annual cohorts to its with-profits portfolio.

Contracts within a portfolio that would fall into different groups only because law or regulation specifically constrains the Group's practical ability to set a different price or level of benefits for policyholders with different characteristics are included in the same group. The Group will consider this for contracts issued by the Group that are required by EU regulation to be priced on a gender-neutral basis.When a contract is recognised, it is added to an existing group of contracts or, if the contract does not qualify for inclusion in an existing group, it forms a new group to which future contracts may be added. Groups of reinsurance contracts will also need to be established and the Group intends to establish these such that each group comprises a single reinsurance contract.

The level of aggregation requirements of IFRS 17 limit the offsetting of gains on groups of profitable contracts, which for general business insurance contracts are generally released over the duration of the contract, against losses on groups of onerous contracts, which are recognised immediately. Additionally, for life contracts these are generally deferred over time via a Contractual Service Margin ('CSM') under the General Measurement Model ('GMM') or Variable Fee Approach ('VFA'), against losses on groups of onerous contracts, which are recognised immediately.

iii. Contract boundaries

Under IFRS 17, the measurement of a group of contracts includes all of the future cash flows within the boundary of each contract in the group. Compared with the current accounting, the Group does not expect the IFRS 17 contract boundary requirements to significantly change the scope of cash flows to be included in the measurement of existing and future recognised contracts. The period covered by the premiums within the contract boundary is the 'coverage period', which is relevant when applying a number of requirements in IFRS 17.

Insurance contracts

For insurance contracts cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the group can compel the policyholder to pay premiums or has a substantive obligation to provide services (including insurance coverage). A substantive obligation to provide services ends when:

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION - CONTINUED

Standards, interpretations and amendments to published standards that are not yet effective - continued

b. FRS 17 Insurance Contracts - continued

iii. Contract boundaries - continued

Insurance contracts - continued

- the Group has the practical ability to reassess the risks of the particular policyholder and can set a price or level of benefits that fully reflects those reassessed risks; or
- the Group has the practical ability to reassess the risks of the portfolio that contains the contract and can set a price or level of benefits that fully reflects the risks of that portfolio, and the pricing of the premiums up to the reassessment date does not take into account risks that relate to periods after the reassessment date.

Investment contracts with DPF

For investment contracts with DPF, the cash flows are within the contract boundary if they result from a substantive obligation of the Group to deliver cash at a present or future date. The Group has no substantive obligation to deliver cash if it has the practical ability to set a price for the promise to deliver the cash that fully reflects the amount of cash promised and related risks.

Reinsurance contracts

For reinsurance contracts, cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Group is compelled to pay amounts to the reinsurer or has a substantive right to receive services from the reinsurer. A substantive right to receive services from the reinsurer ends when the reinsurer:

- has the practical ability to reassess the risks transferred to it and can set a price or level of benefits that fully reflects those reassessed risks; or
- has a substantive right to terminate the coverage.

Reinsurance contracts - Non-Life Insurance contracts

Under IFRS 17, cash flows arising from underlying contracts expected to be issued and ceded after the measurement date, in addition to those arising from underlying contracts already ceded, may be within the boundaries of the reinsurance contracts and may have to be considered and estimated in their measurement.

Reinsurance contracts - Life Insurance contracts

Reinsurance contracts cover protection contracts underwritten within the annual term of the reinsurance contract on a risk-attaching basis. Given the contract boundary of the underlying term contracts is equal to the lifetime of the policy, the contract boundary of the reinsurance contract will end once the underlying protection contracts end.

iv. Measurement Overview

IFRS 17 introduces a measurement model based on the estimates of the present value of future cash flows that are expected to arise as the Group fulfills the contracts, an explicit risk adjustment for non-financial risk and a Contractual Service Margin (CSM).

Within IFRS 17 there are three possible measurement models: the General Measurement Model (GMM), the Premium Allocation Approach (PAA) and the Variable Fee Approach (VFA). The GMM is the “default” measurement model for insurance contracts. For contracts with a coverage period shorter or equal to one year, there is the option to choose PAA as a simplified measurement model. For contracts with direct participation features it is mandatory to use VFA. For contracts that do not classify as direct participation, it is not allowed to use VFA.

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION - CONTINUED

Standards, interpretations and amendments to published standards that are not yet effective - continued

b. IFRS 17 Insurance Contracts - continued

v. Measurement – Non-Life Contracts

The Company is currently assessing whether its contracts are PAA eligible, and it is expected that it will apply the PAA to most insurance and reinsurance contracts held because the following criteria are expected to be met at inception:

- Insurance contracts and loss-occurring reinsurance contracts: The coverage period of each contract in the group is one year or less.

- Risk-attaching reinsurance contracts: The Company is currently testing if the resulting measurement of the asset for remaining coverage would differ materially from the result of applying the accounting policies described above.

The measurement principles of the PAA differ from the 'earned premium approach' used by the Company under current IFRS 4 in the following key areas:

- The liability for remaining coverage reflects premiums received less deferred insurance acquisition cash flows and less amounts recognised in revenue for insurance services provided. The word 'received' is interpreted literally, rather than interpreted to mean amounts due. Under IFRS 4, the unearned premium provision would have often been set up based on premiums receivable, with a separate asset recorded for the premium receivable in the balance sheet.

- Measurement of the liability for remaining coverage includes an adjustment for the time value of money and the effect of financial risk where the premium due date and the related period of services are more than 12 months apart.

- Measurement of the liability for remaining coverage involves an explicit evaluation of risk adjustment for non-financial risk when a group of contracts is onerous in order to calculate a loss component (previously these may have formed part of the unexpired risk reserve provision)

- Measurement of the liability for incurred claims (previously claims outstanding and incurred-but-not- reported (IBNR) claims) is determined on a discounted probability-weighted expected value basis and includes an explicit risk adjustment for non-financial risk. The liability includes the Company's obligation to pay other incurred insurance expenses.

- In the statement of financial position, deferred acquisition cost (DAC) and insurance-related receivables will no longer be presented separately, but as part of the insurance liabilities. This will lead to a reduction in total assets, offset by a reduction in total liabilities, with only limited impact on equity.

Liability for remaining coverage on initial recognition and subsequent measurement

On initial recognition of each group of Non-life insurance contracts, the carrying amount of the liability for remaining coverage is measured at the premiums received on initial recognition less any insurance acquisition cash flows at that date.

Subsequently, the carrying amount of the liability for remaining coverage is increased by any further premiums received and decreased by the amount recognised as insurance revenue for services provided. The Company expects that the time between providing each part of the services and the related premium due date will be no more than a year. Accordingly, as permitted under IFRS 17, the Company will not adjust the liability for remaining coverage to reflect the time value of money and the effect of financial risk.

If at any time before and during the coverage period, facts and circumstances indicate that a group of contracts is onerous, then the Company will recognise a loss in profit or loss and increase the liability for remaining coverage to the extent that the current estimates of the fulfillment cash flows that relate to remaining coverage exceed the carrying amount of the liability for remaining coverage.

The Company will recognise the liability for incurred claims of a group of contracts at the amount of the fulfillment cash flows relating to incurred claims. The future cash flows will be discounted (at current rates).

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION - CONTINUED

Standards, interpretations and amendments to published standards that are not yet effective - continued

b. IFRS 17 Insurance Contracts - continued

v. Measurement – Non-Life Contracts - continued

Significant judgement and estimates

Estimates of future cash flows

In estimating future cash flows, the Company will incorporate, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort at the reporting date. This information includes both internal and external historical data about claims and other experience, updated to reflect current expectations of future events.

The estimates of future cash flows will reflect the Company's view of current conditions at the reporting date, as long as the estimates of any relevant market variables are consistent with observable market prices.

Cash flows within the boundary of a contract are those that relate directly to the fulfilment of the contract, including those for which the Company has discretion over the amount or timing. These include payments to (or on behalf of) policyholders, insurance acquisition cash flows and other costs that are incurred in fulfilling contracts. Insurance acquisition cash flows and other costs that are incurred in fulfilling contracts comprise both direct costs and an allocation of fixed and variable overheads.

Discount rates

Due to the low duration of non-life portfolios held by the Company, the Euro risk-free rate (RFR) as published monthly by EIOPA are likely to be applied without considering any type of additional differential.

Risk adjustment for non-financial risk

Risk adjustments for non-financial risk will be determined to reflect the compensation that the Company would require for bearing non-financial risk and its degree of risk aversion. They will be allocated to groups of contracts based on an analysis of the respective risk profiles. Applying a confidence level technique, the Company will estimate the probability distribution of the expected present value of the future cash flows from the contracts at each reporting date and calculate the risk adjustment for non-financial risk as the excess of the value at risk at the target confidence level over the expected present value of the future cash flows allowing for the associated risks over all future years.

vi. Measurement – Life Contracts

IFRS 17 introduces a default measurement model, known as the GMM. The GMM is based on the estimate of future cash flows that are expected to arise as the Group fulfills the in scope contracts, including an explicit risk adjustment for non-financial risk, and the resultant CSM. In arriving at its future cash flows, the Group will need to estimate the expected value (i.e. the probability-weighted mean) of the full range of possible outcomes. The CSM of a group of contracts represents the unearned profit that the Group will recognise as it provides services under those contracts. The CSM for issued contracts cannot be negative (at inception or subsequently), with any negative amount (known as an onerous 'loss component') recorded in profit or loss immediately. The Group is looking into the relevant measurement models for its protection and reinsurance contracts held.

Contracts with direct participating features are subject to certain different requirements. These contracts are substantially investment-related service contracts under which the Group promises an investment return based on underlying items. They are contracts for which, at inception:

- the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;
- the Group expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items; and
- the Group expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items.

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION - CONTINUED

Standards, interpretations and amendments to published standards that are not yet effective - continued

b. IFRS 17 Insurance Contracts - continued

vi. Measurement – Life Contracts - continued

The Group issues with profits and unit linked contracts that meet the above criteria and is looking into the possibility of measuring these contracts using the VFA.

The Premium Allocation Approach ('PAA') is an optional simplified measurement model in IFRS 17 that is available for insurance and reinsurance contracts that meet the eligibility criteria (i.e., if the measurement of the liability for remaining coverage provides a measurement that is not materially different from the GMM) or if the coverage period is one year or less.

i) Estimate of future cash flows

In estimating future cash flows, the Group will incorporate, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort at the reporting date. This information includes both internal and external historical data about claims and other experience, updated to reflect current expectations of future events.

The estimates of future cash flows will reflect the Group's view of current conditions at the reporting date, as long as the estimates of any relevant market variables are consistent with observable market prices.

When estimating future cash flows, the Group will take into account current expectations of future events that might affect those cash flows. However, expectations of future changes in legislation that would change or discharge a present obligation or create new obligations under existing contracts will not be taken into account until the change in legislation is substantively enacted.

Cash flows within the boundary of a contract are those that relate directly to the fulfillment of the contract, including those for which the Group has discretion over the amount or timing. These include payments to (or on behalf of) policyholders, insurance acquisition cash flows and other costs that are incurred in fulfilling contracts. Insurance acquisition cash flows and other costs that are incurred in fulfilling contracts comprise both direct costs and an allocation of fixed and variable overheads.

Cash flows will be attributed to acquisition activities, other fulfillment activities and other activities at local entity level using allocation techniques depending on the nature of the expense. Cash flows attributable to acquisition and other fulfillment activities will be allocated to groups of contracts using methods that are systematic and rational and will be consistently applied to all costs that have similar characteristics.

Management is performing an analysis on all the expenses to determine which expenses are to be considered directly attributable and thus would impact the CSM, and those not directly attributable which are to be expensed directly to P&L.

ii) Discount rates

The requirement to measure liabilities for insurance contracts and investment contracts with DPF using current discount rates will differ slightly from the Group's current practice. The Group will be using the EIOPA risk free rates as the base of the Risk Free Rate curve. The Group is considering the use of the illiquidity premium to discount the illiquid liabilities, as applicable.

iii) Risk adjustment for non-financial risk

The risk adjustments for non-financial risk reflects the compensation that the Group would require for bearing non-financial risk and will align to its risk appetite. The Group is considering to use value at risk ('VaR') methodology to derive the risk adjustment for its business. In the future, the financial statements will disclose the entity's confidence level.

1. BASIS OF PREPARATION - CONTINUED

Standards, interpretations and amendments to published standards that are not yet effective - continued

vi. Measurement – Life Contracts - continued

b. IFRS 17 Insurance Contracts - continued

iv) CSM

The CSM is a component of the carrying amount of the asset or liability for a group of insurance contracts representing the unearned profit that the entity will recognise as it provides insurance contract services under the insurance contracts in the group. The Group will recognise the CSM for a group of insurance contracts in its profit or loss, to reflect insurance contract services transferred to policyholders during the period based on coverage units.

vii. Presentation and disclosure

IFRS 17 will significantly change how insurance contracts, reinsurance contracts and investment contracts with DPF are presented and disclosed in the Group's consolidated financial statements.

Under IFRS 17, portfolios of insurance contracts and investment contracts with DPF that are assets and those that are liabilities, and portfolios of reinsurance contracts that are assets and those that are liabilities, are presented separately in the statement of financial position. All rights and obligations arising from a portfolio of contracts will be presented on a net basis for the Company and on an aggregate basis for the Group; therefore, balances such as insurance receivables and payables will no longer be presented separately. Any assets or liabilities recognised for cash flows arising before the recognition of the related group of contracts (including any assets for insurance acquisition cash flows) will also be presented in the same line item as the related portfolios of contracts.

Under IFRS 17, amounts recognised in the statements of profit or loss and statements of comprehensive income are disaggregated into:

(a) an insurance service result, comprising insurance revenue and insurance service expenses; and
(b) insurance finance income or expenses.

Amounts from reinsurance contracts will be presented separately.

There will also be additional notes to the financial statements, including detailed reconciliations. The separate presentation of underwriting and financial results under IFRS 17 will provide added transparency about the sources of profits and quality of earnings backed up by additional notes and reconciliations.

Disclosure

IFRS 17 requires extensive new disclosures about amounts recognised in the financial statements, including detailed reconciliations of contracts, effects of newly recognised contracts and information on the expected CSM emergence pattern, as well as disclosures about significant judgements made when applying IFRS 17. There will also be expanded disclosures about the nature and extent of risks from insurance contracts, reinsurance contracts and investment contracts with DPF. Disclosures will generally be made at a more granular level than under IFRS 4, providing more transparent information for assessing the effects of contracts on the financial statements.

viii. Transition

IFRS 17 must be applied retrospectively and consequently the Group will need to restate the opening Statement of financial position (i.e. at 1 January 2022) as well as the Statement of profit or loss for 2022 and Statement of financial position as at 31 December 2022. The standard must be applied using a fully retrospective approach ('FRA'), unless impracticable, in which case two options are possible:

- the modified retrospective approach ('MRA'): this approach is based on maximising the Group's use of reasonable and supportable information available without undue cost and effort to the entity, with certain modifications permitted to the extent that FRA is not possible. The MRA has the objective to achieve the closest outcome to the FRA as possible; or

1. BASIS OF PREPARATION - CONTINUED

Standards, interpretations and amendments to published standards that are not yet effective- continued

b. IFRS 17 Insurance Contracts - continued

viii. Transition - continued

- the fair value approach ('FVA'): the CSM is determined as the positive difference between the fair value determined in accordance with IFRS 13 'Fair Value Measurement' and the fulfillment cash flows at the transition date.

Life Contracts

At the transition date (i.e. 1 January 2022), the Group will:

- identify, recognise and measure each group of insurance contracts, reinsurance contracts and investment contracts with DPF as if IFRS 17 had always been applied;

- identify, recognise and measure any assets for insurance acquisition cash flows as if IFRS 17 had always been applied, except that they will not be tested for recoverability before 1 January 2022;

- derecognise previously reported balance that would not have existed if IFRS 17 had always been applied; and

- recognise in equity, on a net basis, any differences between amounts recognised under IFRS 4 and other applicable standards and IFRS 17.

Given the long term nature of life contracts, it is not practicable for the fully retrospective approach to be adopted for all cohorts. Similarly, investment contracts with DPF are generally long-term in nature and it may not be practicable to apply the fully retrospective approach for all cohorts. Management is currently exploring the other transition options.

As explained above, IFRS 17 differs from IFRS 4 in a number of ways. The Group expects that two of the largest differences will pertain to the value of in-force business and the measurement of its in-scope contracts in accordance with the requirements of IFRS 17. The value of in-force business will be derecognised upon transition to IFRS 17 leading to a reduction in equity (undistributable reserves). On the other hand, the impact of the measurement of in-scope contracts in accordance with IFRS 17 is still to be determined.

Non-Life Contracts

Changes in accounting policies resulting from the adoption of IFRS 17 are likely to be applied using a full retrospective approach to the extent practicable.

This implies that:

- Each group of contracts must be identified, recognized, and measured as if IFRS 17 had always applied.
- Balances that would not exist had IFRS 17 always applied shall be derecognised from the financial statements, and
- Any net difference shall be recorded in equity.

c. IFRS 17 and IFRS 9 implementation program

In conjunction to the qualitative impacts described above, the Group is currently assessing the quantitative impact of the application of IFRS 17 and IFRS 9. The final figures will also depend on the application of key systems being provided by third party service providers and guidance by MAPFRE SA.

Although IFRS 17 and IFRS 9 implementation projects have made significant progress, as of the date of the publication of these financial statements, it is not practicable to reliably quantify the effects on the financial statement mainly because;

- The assessments made by the Group on key IFRS 17 and IFRS 9 topics are not finalised and therefore may be subject to adjustment.

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION - CONTINUED

Standards, interpretations and amendments to published standards that are not yet effective - continued

c. IFRS 17 and IFRS 9 implementation program - continued

- Implementing the new standard will require the Group to revise certain accounting processes and internal controls and these changes are not yet complete.

Transformation risk is a material risk for the group, with a number of significant change programmes under way which if not delivered to defined timelines, scope and cost may negatively impact its operational capability, control environment, reputation, and ability to deliver its strategy and maintain market competitiveness.

The Group's current portfolio of transformation and significant change programmes include the continued implementation of a core transactional system; the expansion of the Group's digital capabilities and use of technology, platforms and analytics; and improvement of operational processes leading to business efficiencies.

The Group therefore aims to ensure that, for both transformation and strategic initiatives, strong programme governance is in place with adequate support from third party service providers to ensure that the set targets for implementation are met both in terms of timelines and budgeted costs.

2. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 CONSOLIDATION

(a) Subsidiary undertakings

The consolidated financial statements incorporate the assets, liabilities and results of the Company and its subsidiary (or group) undertakings drawn up to 31 December each year. Subsidiary undertakings are those companies over which the Group has control, either by way of majority shareholding, through contractual agreements with the other vote holders of the investee or rights arising from other contractual agreements, giving it the power to govern the financial and operating policies of the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of financial position and the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS

2. **ACCOUNTING POLICIES** - CONTINUED

2.1 **CONSOLIDATION** - CONTINUED

(a) Subsidiary undertakings - continued

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through profit or loss.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. A list of the Group's subsidiaries is set out in Note 20.

(b) Associated undertakings

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries. Except for investment-linked insurance funds, interests in associated undertakings are accounted for by the equity method of accounting and are initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of profit or loss of the investee after the date of acquisition.

The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. Equity accounting involves recognising in the profit or loss the share of the associated undertaking's post-acquisition profits or losses. The interest in the associated undertaking is carried in the statements of financial position at an amount that reflects the share of the net assets of the associated undertaking. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Intra-group gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Intra-group losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies for associated undertakings are changed where necessary to ensure consistency with the policies adopted by the Group. A list of the Group's associated undertakings is set out in Note 21.

Interests in associated undertakings that are allocated to the insurance fund are designated as financial assets at fair value through profit or loss. They are accounted for in accordance with the recognition and measurement principles described in Note 2.9.

2.2 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive management which implements the strategic decisions taken by the Board. In identifying the Group's business segments, the chief operating decision-maker is also guided by the Regulations under the Insurance Business Act, 1998 ("Insurance Regulations") on the disclosure requirements relevant to specified insurance classes of business.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.3 FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The euro is the Group's and Company's functional and presentation currency.

Transactions and balances

Transactions in foreign currencies have been converted into the functional currency at the rates of exchange ruling on the date of the transaction or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss account.

All foreign exchange gains and losses that relate to net claims incurred are presented in the technical profit or loss account within 'claims incurred'. All other foreign exchange gains and losses are presented in the profit or loss account within 'investment income' or 'investment expense'.

Translation differences on non-monetary items held at fair value through profit or loss, are reported as part of the fair value gain or loss in the profit or loss. Translation differences on non-monetary financial assets, such as equities classified as other available-for-sale financial assets, are included in the fair value reserve in other comprehensive income.

2.4 INTANGIBLE ASSETS

Value of in-force business

The value of in-force business is determined by the directors after considering the advice of the Group's Approved Actuary. The valuation represents the discounted value of projected future transfers to shareholders from contracts in force at the year end, after making a provision for taxation. In determining this valuation, assumptions relating to future mortality, persistence and levels of expenses are based on experience of the type of business concerned.

Gross investment returns and asset allocations assumed vary depending upon the mix of investments held by the Group and expected market conditions. Annual movements in the value of the in-force business are credited or debited to other comprehensive income. Note 16 contains further information in relation to this asset.

Computer software

Acquired computer software licences are measured at cost less any accumulated amortization and any accumulated impairment losses. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight-line method over their useful lives, not exceeding a period of ten years. All costs associated with maintaining computer software programmes are recognised as an expense as incurred.

Deferred policy acquisition costs – long term contracts

Incremental costs that are incurred in acquiring new investment contracts without DPF are capitalised as deferred acquisition costs ('DAC'). The DAC is subsequently amortised over the life of the contracts as follows:

- For long term investment contracts with a fixed maturity date, DAC is amortised over the life of the contract.

- For long term investment contracts with no fixed date of maturity, DAC is amortised over the estimated useful life of the contract. This basis is reviewed periodically with reference to the historical experience of surrenders for these contracts.

2. ACCOUNTING POLICIES - CONTINUED

2.5 PROPERTY, PLANT AND EQUIPMENT

All property, plant and equipment is initially recorded at historical cost. Freehold land and buildings are subsequently shown at fair value based on periodic valuations by external independent valuers, less subsequent depreciation for buildings. Valuations are carried out on a regular basis such that the carrying amount of property does not differ materially from that which would be determined using fair values at the end of the reporting period. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the re-valued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to the profit or loss account during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income as other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against other comprehensive income as other reserves directly in equity; all other decreases are charged to the profit or loss account. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the profit or loss account and depreciation based on the asset's original cost is transferred from 'other reserves' to 'retained earnings'.

Freehold land is not depreciated as it is deemed to have an indefinite life. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives as follows:

Buildings	100 years
Leasehold improvements	10 - 40 years
Motor vehicles	5 years
Furniture, fittings and equipment	3 - 10 years

The assets' residual values and useful lives are reviewed at the end of each reporting period and adjusted if appropriate.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (accounting policy 2.10).

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the profit or loss account. When revalued assets are sold, the amounts included in other reserves relating to the assets are transferred to retained earnings.

2.6 INVESTMENT PROPERTY

Freehold and leasehold properties treated as investment property principally comprise office and other commercial buildings that are held for long term rental yields and that are not occupied by the Group or Company respectively. Investment property is initially measured at cost and subsequently carried at fair value. Fair value is based on active market prices, adjusted, if necessary for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as discounted cash flow projections or recent prices in less active markets. These valuations are prepared annually by a qualified valuation expert. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value. Changes in fair values are reported in the profit or loss account.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.7 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

In the Company's financial statements, investments in subsidiary undertakings are accounted for by the cost method of accounting less impairment.

Provisions are recorded where, in the opinion of the directors, at the end of a reporting period, there is an impairment in value. Where there has been an impairment in the value of an investment, it is recognised as an expense in the period in which the impairment is identified or has occurred. If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit or loss account.

The dividend income from such investments is included in the profit or loss account in the accounting year in which the Company's rights to receive payment of any dividend is established.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the profit or loss account and included within investment expense or income.

2.8 INVESTMENTS IN ASSOCIATED UNDERTAKINGS

In the Company's financial statements, investments in associated undertakings are accounted using the equity method. They are initially recognised at cost which includes transaction costs. Subsequent to initial recognition the carrying amount is increased or decreased to recognise the investor's share of profit or loss. Distributions received from an investee reduce the carrying amount of the investment. The changes in the investee's proportionate interest arising from changes in the investee's other comprehensive income, such as those arising from revaluation of property, plant and equipment and from exchange translation differences are recognised in the other comprehensive income.

2.9 FINANCIAL ASSETS

The Group classifies its financial assets (other than its investment in subsidiaries) into the following categories: financial assets at fair value through profit or loss, other available-for-sale investments and loans and receivables. The directors determine the appropriate classification of financial assets at the time of purchase and re-evaluate such designation at every reporting date.

Classification

- Financial assets at fair value through profit or loss are part of a group of investments that is managed on a portfolio basis and whose performance is evaluated and reported internally on a fair value basis to the Board and relevant key management personnel in accordance with a documented investment strategy. Assets that are part of these portfolios are designated upon initial recognition at fair value through profit or loss. Financial assets that are held to match insurance and investment contracts liabilities are also designated at inception as fair value through profit or loss to eliminate or significantly reduce the accounting mismatch that would otherwise arise from measuring insurance assets or liabilities, or recognising the gains and losses on them on different basis. Derivatives are also classified at fair value through profit or loss.

- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group has designated at fair value through profit or loss. They include, inter alia, reinsurers' share of technical provisions, insurance and other receivables, cash and cash equivalents in the statements of financial positions as well as other financial investments (comprising deposits with credit institutions, and loans) classified as loans and receivables within Note 22.

- Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity or (c) financial assets at fair value through profit or loss.

2. ACCOUNTING POLICIES - CONTINUED

2.9 FINANCIAL ASSETS - CONTINUED

Recognition and measurement

All purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the assets. All investments are initially recognised at fair value plus, in the case of all financial assets not carried at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Financial assets are de-recognised when the rights to receive cash flows from them have expired or where they have been transferred and the Group has also transferred substantially all risks and rewards of ownership.

Financial assets at fair value through profit or loss and other available-for-sale investments are subsequently re-measured at fair value. Loans and receivables are carried at amortised cost using the effective interest method, less any provision for impairment.

Realised and unrealised gains and losses arising from changes in the value of the 'financial assets at fair value through profit or loss' category are presented in the profit or loss account in the period in which they arise.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the profit or loss account within investment income.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges. The quoted market price used for financial assets held by the Group is the current bid price or closing price as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same or valued by reference to the net assets of the underlying investment.

Derivatives are recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets and other valuation techniques, as appropriate. Subsequent changes in the fair value of any derivative instruments are recognised immediately in the profit or loss account. All derivatives are carried as assets when fair value is positive, and as liabilities when fair value is negative.

The Group enters into currency forward contracts to hedge the foreign exchange risk arising on its investments denominated in a foreign currency. These transactions provide effective economic hedges under the Group's risk management policies. However, hedge accounting under the specific rules in IAS 39 is not required because the change in the value of the hedged financial instrument is recognised in the profit or loss account.

2.10 IMPAIRMENT OF ASSETS

(a) Impairment of financial assets at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset ("a loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

NOTES TO THE FINANCIAL STATEMENTS

2. **ACCOUNTING POLICIES** - CONTINUED

2.10 **IMPAIRMENT OF ASSETS** - CONTINUED

(a) Impairment of financial assets at amortised cost - continued

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following events:

i. significant financial difficulty of the issuer or debtor;
ii. a breach of contract, such as a default or delinquency in payments;
iii. it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
iv. the disappearance of an active market for that financial asset because of financial difficulties; or
v. observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred on loans and receivables carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit or loss account.

(b) Assets classified as investments in associated undertakings/other available-for-sale investments

The Group assesses at end of the reporting period whether there is objective evidence that an available-for-sale financial asset is impaired, including in the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in the profit or loss – is removed from equity and recognised in the profit or loss account. Impairment losses recognised in the profit or loss account on equity instruments are not subsequently reversed through the profit or loss account but through other comprehensive income as other reserves.

(c) Impairment of non-financial assets

Assets that have an indefinite useful life and are not subject to amortisation and/or assets not yet available for use are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable and independent cash flows (cash-generating units).

2. ACCOUNTING POLICIES - CONTINUED

2.11 OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount is reported in the statements of financial position only when there is a current legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.12 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are carried in the statements of financial position at face value. In the cash flow statement, cash and cash equivalents include cash in hand and deposits held at call with banks, which are held for operational purposes.

2.13 SHARE CAPITAL

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds net of tax.

2.14 INSURANCE AND INVESTMENT CONTRACTS

The Group issues contracts that transfer insurance risk or financial risk or both.

(a) Classification

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Group defines as significant insurance risk the probability of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

A number of insurance and investment contracts contain a discretionary participation feature ('DPF'). This feature entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the Group; and
- that are based on realised and/or unrealised investment returns on underlying assets held by the Group.

Local statutory regulations and the terms and conditions of these contracts set out the basis for the determination of the amounts on which the additional discretionary benefits are based (the DPF eligible surplus), and within which the Group may exercise its discretion as to the quantum and timing of their payment to contract holders, also considering the advice of the Approved Actuary.

(b) Recognition and measurement

Insurance contracts and investment contracts with DPF are classified into five main categories depending on the duration of risk and whether or not the terms and conditions are fixed.

(i) Short-term insurance contracts - General business

The results for general business are determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

- Premiums written comprise all amounts due during the financial year in respect of contracts of insurance entered into regardless of the fact that such amounts may relate in whole or in part to a later financial year and includes any differences between the booked premiums for prior years and those previously accrued, less cancellations.

- Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the statement of financial position date, calculated on a time apportionment basis.

2. ACCOUNTING POLICIES - CONTINUED

2.14 INSURANCE AND INVESTMENT CONTRACTS - CONTINUED

(b) Recognition and measurement - continued

(i) Short-term insurance contracts - General business - continued

- Commissions and other acquisition costs that vary with, and are related to, securing new contracts and renewing existing contracts are deferred over the period in which the related premiums are earned. These are capitalised and shown as deferred acquisition costs ('DAC') in the statement of financial position. DAC is amortised over the term of the policies as the premium is earned. All other costs are recognised as expenses when incurred.

- Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

- Provision is made at the year-end for the estimated cost of claims incurred but not settled at the statement of financial position date, including the estimated cost of claims incurred but not yet reported to the Group. The estimated cost of claims includes expenses to be incurred in settling claims. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group including those that may be affected by external factors (such as court decisions). Statistical analysis by the in-house actuary are carried out on certain portfolios to determine ultimate cost of claims reported and those incurred but not yet reported.

- Provision in the form of an unexpired risk provision, is made on the basis of claims and administrative expenses likely to arise after the end of the financial year from contracts concluded before the reporting date, in so far as their estimated value exceeds the provision for unearned premiums and any premiums receivable under those contracts.

(ii) Group Life insurance contracts

Group life business (classified as long-term insurance business under the Insurance Business Act, 1998) consists of annual policies that cover the lives of a group of customers' employees for the year under cover. Premiums, including reinsurance premiums, and claims are accounted for when due for payment. Reinsurance recoveries are accounted for in the same period as the related claim. The long-term business provision is based on the net "unearned premiums" method as adjusted to take into account the premium written. The valuation is carried out in conjunction with the Company's appointed actuary. Profits, which accrue as a result of actuarial valuations, are released to the non-technical profit or loss account. Any shortfall between actuarial valuations and the balance on the long-term business provision is appropriated from the non-technical profit or loss account.

(iii) Long term insurance contracts – individual life

These contracts insure events associated with human life (for example death or survival) over a long and fixed duration. The guaranteed and fixed element for these contracts relates to the sum assured, i.e. the benefit payable on death or maturity.

Premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission and are inclusive of policy fees receivable. A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised.

Maturity claims are charged to income as incurred when due for payment, at which date they cease to be included within the calculation of the liability. Surrenders are accounted for as incurred when paid or, if earlier, on the date when the policy ceases to be included within the calculation of the liability. Death claims are accounted for when notified. Claims payable include related claims handling costs.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.14 INSURANCE AND INVESTMENT CONTRACTS - CONTINUED

(b) Recognition and measurement - continued

(iv) Long term insurance contracts with DPF – individual life

For traditional life insurance contracts, the liability is calculated on the basis of a prudent prospective actuarial method, using assumptions regarding mortality, maintenance expenses and investment income, and includes a margin for adverse deviations. Additionally, liabilities under unit-linked life insurance contracts reflect the value of assets held within unitised investment pools. The liability is recalculated at each reporting date. It is determined by the Group's Approved Actuary following his annual investigation of the financial condition of the Group's long term business as required under the Insurance Business Act, 1998. The above method of calculation satisfies the minimum liability adequacy test required by IFRS 4.

These contracts further combine a DPF that entitles the holder to receive a bonus as declared by the Group from the DPF eligible surplus.

Premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission, and are inclusive of policy fees receivable.

Maturity claims are charged to profit or loss as incurred when due for payment, at which date they cease to be included within the calculation of the liability. Surrenders are accounted for as incurred when paid or, if earlier, on the date when the policy ceases to be included within the calculation of the liability. Death claims are accounted for when notified. Claims payable include related claims handling costs.

Bonuses charged to the long term business technical account in a given year comprise:

(i) new reversionary bonuses declared in respect of that year, which are provided within the calculation of the respective liability;
(ii) terminal bonuses paid out to policyholders on maturity and included within claims paid; and
(iii) terminal bonuses declared at the Group's discretion and included within the respective liability.

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liability is determined as the sum of the expected discounted value of the future cash flows based on bonuses consistent with the bonus policy and prudent rates of future investment return, expenses and mortality, and includes margins for adverse deviations. The liability is recalculated at each reporting date. The liability is determined by the Group's Approved Actuary following his annual investigation of the financial condition of the Group's long term business as required under the Insurance Business Act, 1998. The above method of calculation satisfies the liability adequacy test required by IFRS 4.

(v) Investment contracts with DPF

These contracts do not expose the Group to significant insurance risk. They contain a DPF that entitles the holder to receive a bonus as declared by the Group from the DPF eligible surplus.

Recognition and measurement principles are the same as for insurance contracts with DPF as described above. Additionally, liabilities under unit-linked investment contracts reflect the value of assets held within unitised investment pools.

(c) Reinsurance contracts held

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.14 INSURANCE AND INVESTMENT CONTRACTS - CONTINUED

(c) Reinsurance contracts held - continued

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within receivables), unless netted off against amounts payable to reinsurers, as well as longer term receivables (classified within reinsurers' share of technical provisions) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The Group assesses its reinsurance assets for impairment on a regular basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the profit or loss account. The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets. These processes are described in accounting policy 2.10.

(d) Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers, tied insurance intermediaries, third party insurers by way of recoveries on claims and insurance contract holders.

If there is objective evidence that an insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the profit or loss account. The Group gathers objective evidence that an insurance receivable is impaired using the same process adopted for financial assets held at amortised cost.

The impairment loss is calculated following the same method used for these financial assets. These processes are described in accounting policy 2.10.

(e) Liability adequacy test

The Company reserves for unexpired risks for those lines of general business where the expected loss ratio exceeds 100% of the earned premium less acquisition cost. Additional reserves for unexpired risks are calculated as a product of unearned premiums less deferred acquisition cost and the difference between the value of the loss ratio and 100%.

Additional tests are performed to check the adequacy of the unearned premiums and unexpired risk reserves. The amounts of future gross claims and gross claim handling costs are applied in these tests and compared with the amount of established provisions for unearned premiums reduced by deferred insurance acquisition costs.

(f) Investment contracts without DPF

The Group issues investment contracts without DPF.

Premium arising on these contracts is classified as a financial liability – investment contracts without DPF. The fair value of these contracts is dependent on the fair value of underlying financial assets. These are designated at inception as fair value through profit or loss. The fair value of a unit linked financial liability is determined using the current unit values that reflect the fair values of the financial assets linked to the financial liability. This is multiplied by the number of units attributed to the contract holder at the reporting date.

If the investment contract is subject to a surrender option, the fair value of the financial liability is never less than the amount payable on surrender, where applicable. Other benefits payable are also accrued as appropriate.

2. ACCOUNTING POLICIES - CONTINUED

2.15 FINANCIAL LIABILITIES

Financial liabilities are initially recognised on the trade date, which is the date the Company becomes a party to the contractual provisions of the instruments and derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Borrowings are recognised initially at their fair value, net of incremental direct transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of incremental direct transaction costs) and the redemption value is recognised in the profit or loss account over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting year.

Fees paid on the establishment of loan facilities are recognised as transaction cost of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

2.16 CURRENT AND DEFERRED INCOME TAX

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statements of financial position date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provision where appropriate.

Deferred income tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and reflect uncertainty relating to income taxes, if any. Deferred tax is expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that future taxable profit or taxable capital gains will be available such that realisation of the related tax benefit is probable.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the Group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences are considered. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profit improves.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balance on a net basis.

Deferred tax related to fair value re-measurements charged or credited directly in other comprehensive income or to equity, is also credited or charged directly to equity and subsequently recognised in the profit or loss account together with the deferred gain or loss.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.17 PROVISIONS FOR PENSION OBLIGATIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

A defined benefit plan defines an amount of pension that an employee will receive on retirement. In the Group's case, this amount is dependent upon an employee's final compensation upon retirement.

The liability recognised in the statement of financial position is the present value of the defined benefit obligation at the end of the reporting period. The present value of a defined benefit obligation is determined by discounting the estimated future cash outflows using interest rate yields of government or high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in assumptions are charged or credited to other comprehensive income in the period in which they arise.

2.18 REVENUE RECOGNITION

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Group's activities. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met as described below.

Rendering of services

Premium recognition is described in Note 2.14 dealing with insurance contracts and investment contracts with DPF.

Revenue arising from the issue of investment contracts without DPF and other related services offered by the Group, is recognised in the accounting period in which the services are rendered.

Fees include investment management fees arising from services rendered in conjunction with the issue and management of investment contracts where the Group actively manages the consideration received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the instrument. The Group recognises these fees on a straight-line basis over the estimated life of the contract.

The Group charges its customers for management and other related services using the following different approaches:

- Front-end fees are charged to the client on inception. The consideration received is deferred as a liability and recognised over the life of the contract on a straight-line basis.
- Regular fees are charged to the customer periodically (monthly, quarterly, half yearly or annually) either directly or by making a deduction from invested funds. Regular charges billed in advance are recognised on a straight-line basis over the billing period.

Other revenue receivable by the Group mainly comprises commission or trailer fees receivable on account of investment or other services provided in an intermediary capacity which is accounted for on an accruals basis.

2.19 INVESTMENT RETURN

Investment return includes dividend income, gains on financial assets at fair value through profit or loss (including interest income from financial assets classified as fair value through profit or loss), other net fair value movements, interest income from financial assets not classified as fair value through profit or loss, rental income receivable, share of associated undertaking's result, and is net of investment expenses, charges and interest payable.

(a) Dividend income

Dividend income is recognised in the profit or loss account as part of investment income when the right to receive payment is established.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.19 INVESTMENT RETURN - CONTINUED

(b) Other net fair value gains/(losses) from financial assets at fair value through profit or loss

Other gains or losses arising from changes in the fair value of the 'Financial assets at fair value through profit or loss' category are presented in the profit or loss account within 'other investment income' or 'investment expenses and charges' in the period in which they arise.

(c) Interest income

Interest income from financial assets not classified as fair value through profit or loss is recognised using the effective interest method.

(d) Rental income

Rental income from investment property is accounted for on an accruals basis in accordance with the substance of the relevant lease agreements.

Investment return is initially recorded in the non-technical account, except for income attributed to long term business which is recognised immediately in the long term business technical account. A transfer is made from the non-technical account to the general business technical account of the actual investment return on investments supporting the insurance technical provisions. With respect to the Group's long-term business the investment return is apportioned between the technical and non-technical profit or loss accounts on a basis which takes into account that technical provisions are fully backed by investments and that intangible assets, property, plant and equipment, and working capital are financed in their entirety from shareholders' funds.

2.20 LEASES

At inception of a contract, the Group assess whether a contract is, or contains, a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

(a) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group recognises lease payments received under operating leases as income on a straight line basis over the lease term as part of 'other income' – Note 9.

(b) As a lessee

A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. As described later in this note there are recognition exemptions for short-term leases and leases of low-value items.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

2. ACCOUNTING POLICIES - CONTINUED

2.20 LEASES - CONTINUED

(b) As a lessee - continued

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset of the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by using interest rate curves by country and termination dates, coordinated in a centralized manner, in which the interest rate calculation is obtained by adding the differential related to the asset's nature. Interest rate curves are reviewed twice a year.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments (including payments which are essentially fixed), minus any incentive to lease to be paid;
- the price for exercising a purchase option which the lessee is reasonably certain to exercise; and
- payments for early cancellation.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use asset that do not meet the definition of investment property in 'Right-of-use assets'.

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

A lease modification is defined as a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease. A lease modification includes adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term.

A lease modification is accounted for in one of two ways;

- It is treated as a separate lease; or
- It is not treated as a separate lease.

A modification will only be treated as a separate lease if it involves the addition of one or more underlying assets at a price that is commensurate with the standalone price of the increase in scope. All other modifications are not treated as a separate lease.

Modifications, taken place during 2021 include changes in lease consideration and extension of lease term all of which do not constitute a separate lease.

2.21 DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders is recognised as a liability in the period in which an obligation to pay a dividend is established.

3. USE OF ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes, which also include information about assumptions and uncertainties at 31 December 2022 that have a significant risk of resulting in a material adjustment in the carrying amounts of assets and liabilities in the next financial year.

- Value of in-force business

The Group's value of in-force business is a projection of future shareholders' cash flows expected from contracts in force at the year end, appropriately adjusted for taxation and discounted by a risk adjusted discount rate. In assessing the projected cash flows, the directors assume a long term view of a maintainable level of investment return and fund size. This valuation requires the use of a number of assumptions relating to future mortality, persistency, levels of expenses, investment returns and asset allocations over the longer term. This valuation is inherently uncertain and assumptions are reviewed on an annual basis as experience and the reliability of the estimation process develop.

Details of key assumptions, and sensitivity of this intangible asset are provided in Note 16. The impact of a change to key assumptions supporting the value of in-force business as at 31 December 2022 is disclosed in Note 16 to the accounts.

- Insurance and investment contracts liabilities

(a) General business insurance contract liabilities

For general business insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported and those incurred but not yet reported at the reporting date. The ultimate cost of claims is derived by using a standard actuarial claims projection technique, the Chain Ladder method. The key assumption underlying this technique is that past claims development experience can be used to project future claims development and hence ultimate claims costs. Historical claims development is mainly analyzed by accident years, as well as by specific business lines.

Claims reserves which are not adjusted for the ultimate cost, particularly those involving fatalities and/or serious bodily injuries, are reserved at the case-by-case reserve estimate. The measurement of claim payments due by the Company involves the assessment of future settlements and is therefore dependent on assumptions around determining such reserves based on, among others, legal precedent and current trends in compensation awards. The assumptions considered to be key in this regard are determining (i) the inputs to the compensation awarded for loss of future income; and (ii) whether certain claims will be settled out of court or otherwise, which would have a significant impact on the determination of legal costs.

Due to the degree of estimation uncertainty underlying the key assumptions outlined above, the amounts recognised in the financial statements may result to be different from the actual amounts and these differences may be material.

(b) Insurance and participating investment contract liabilities

The technical provisions in respect of long term contracts and linked long term contracts are subject to an annual statutory valuation using generally accepted actuarial practice.

Different principles and valuation methodologies are adopted depending on the type and generation of products. Further key assumptions used in determining the technical provisions in respect of insurance contracts and investment contracts with DPF are described in Note 24 to the financial statements.

- Investment property

The fair value of investment properties which involves judgement and estimation uncertainty, is determined by qualified valuers. The assumptions used are reviewed on an annual basis.

NOTES TO THE FINANCIAL STATEMENTS

3. USE OF ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES - CONTINUED

- Investment property - continued

The key assumptions used in determining the value of investment property is described in Note 19 to the financial statements.

- Consolidation of entities in which the Group holds less than majority of voting rights

The Group considers that it controls MAPFRE MSV Life p.l.c. ('MMSV') even though it does not own more than 50% of the voting rights. This is because strategic, operating and financing policies of MMSV are directed by means of shareholders' agreement which provides MAPFRE Middlesea p.l.c. with the right to select, appoint and remove the key management personnel of MMSV and approve its business plan and capital expenditure.

For all the financial years up to 31 December 2010, MMSV was considered to be an associate and was accounted for using the equity method. Following the shareholders' agreement, on 29 July 2011, MAPFRE Middlesea p.l.c. acquired control over MMSV based on the factors explained in this note and started consolidating MMSV as from that date.

4. MANAGEMENT OF RISK

The Group is a party to contracts that transfer insurance risk and/or financial risk. This section summarises these risks and the way that the Group manages them.

4.1 INSURANCE RISK

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is fortuitous.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments are significantly different to the amounts included within technical provisions. This could occur because the frequency or severity of claims and benefits are greater or lower than estimated. Insurance events are fortuitous and the actual number and amount of claims and benefits may vary from year to year from the estimate established using statistical and actuarial techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risk accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the potential variability of the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk and geographical location. The Group is largely exposed to insurance risk in one geographical area, Malta.

(a) Short term business insurance contracts – general insurance

Frequency and severity of claims

The terms and conditions of the contracts set out the bases for the determination of the Group's liability should the insured event occur. The risks underwritten include accident and health, motor (including third party liability), marine and transport, fire and other damage to property, liability and group life. Details of gross premiums written as well as the insurance liabilities analysed by class are provided in the "Segment information" (Note 6).

The frequency and severity of claims can be affected by several factors. The following are considered by the Group to be the most significant:

4. **MANAGEMENT OF RISK** - CONTINUED

4.1 **INSURANCE RISK** - CONTINUED

(a) Short term business insurance contracts – general insurance - continued

Frequency and severity of claims - continued

- The increasing levels of court awards in cases where damages are suffered as a result of injuries, the divergence of awards that is dependent on the territory of the claim and the jurisdiction of the court, the effect of inflation due to the prolonged period typically required to settle such cases; and
- The risk of a single event that can extensively affect a multiple of individual risks to which the Group is exposed.

The Group manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The underwriting strategy ensures that the risks underwritten are well diversified in terms of type and amount of risk. The Group follows strict underwriting guidelines and sets limits on the overall retention of risk that it carries. Any risk in excess of this limit is either reinsured under a facultative cover note or is declined. Underwriting limits are in place to enforce appropriate risk selection criteria. In certain circumstances, certain exclusions to risks are included within these guidelines. For example, the Group does not insure US risks unless they are incidental. The Group can impose deductibles to help manage its costs. It also uses its experience and expertise to mitigate the risk of fraudulent claims. Insurance contracts also entitle the Group to pursue third parties for payment of some or all of the costs (i.e. subrogation). A significant portion of the Group's business is underwritten through an agency distribution network. Underwriting authority limits are set for individual agencies or branches, and any contracts through which the Group is committed to cover risks in excess of these authority limits require head office approval.

The Group has reinsurance protection in place for all classes of business. The type of reinsurance cover, and the level of retention, is based on the Group's internal risk management assessment which takes into account the risk being covered, the sums assured and the geographical location of the risk. The Board approves each reinsurance programme on an annual basis. The reinsurance arrangements include a mix of proportional, facultative and non-proportional covers, which limit the liability of the Group to any one individual claim or event. Generally the Group's policy is to place reinsurance with listed multinational reinsurance companies whose credit rating is not less than BBB. No rating limitation shall apply to treaty placements with MAPFRE Re or any MAPFRE Group company designated to write any or all of the MAPFRE Group Reinsurance treaties. At 31 December 2022, MAPFRE Re's rating stood at A. The Board will monitor the security rating of MAPFRE on a periodic basis.

The Group has specialised claims units dealing with the mitigation of risks surrounding known claims. These units investigate and adjust claims as appropriate. Claims are individually reviewed regularly, and are adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions and other factors. The Group actively manages and pursues early settlement of claims to reduce its exposure to unpredictable developments. Authority limits are set for the settlement of claims through the individual agents. Any claims incurred above these limits are referred to head office for handling. In addition, all claims involving bodily injury are referred to head office irrespective of their amount.

Concentration of insurance risk

Up until 31 December 2022, 100% of the Group's business was written in Malta (2021: 100%). The portfolio is diversified in terms of type of business written, with motor comprehensive business comprising 24% (2021: 23%) and accident and health comprising 22% (2021: 20%) of the total portfolio (including Group Life business). Other significant insurance business classes include motor liability business at 23% (2021: 24%) and fire and other damage to property at 17% (2021: 18%). The remaining 14% (2021: 15%) of premium written is generated across a spread of classes including marine, other non-motor liability business and long term business. Further information on premiums written, and claims incurred by insurance business class is provided in Note 6 to these financial statements.

4. MANAGEMENT OF RISK - CONTINUED

4.1 INSURANCE RISK - CONTINUED

(a) Short term business insurance contracts – general insurance - continued

Sources of uncertainty in the estimation of future claim developments and payments

Claims on contracts are accounted for on a claims-occurrence basis. The Group is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. Certain classes of business, most notably those exposed to liability, can take several years to develop and are therefore subject to a greater degree of uncertainty than other classes of business which are typically settled in a shorter period of time.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is possible that the final outcome will prove to be different from the original liability established.

In calculating the estimated cost of unpaid claims, the Group considers the results of estimation techniques that are based partly on known information at year-end and partly on statistical analysis of historical experience. In the case of the main classes of business, motor and health, the Company makes use of Development Factor Models (DFM) through Chains Ladder techniques to project the ultimate cost of the claims reported and those incurred but not yet reported (IBNR). Ultimate cost averages applied are based on claim averages acquired from historical data. In other classes of business validation techniques are used to ensure the sufficiency of case reserves which could lead to an IBNR provision being made. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims.

Note 24 presents the development of the estimate of ultimate claim cost for claims notified in a given year.

(b) Long term business insurance contracts

Frequency and severity of claims

For contracts where death is the insured risk, the most significant factor that could increase the overall frequency of claims are epidemics or wide spread changes in lifestyle resulting in earlier or more claims than expected.

At present these risks do not vary significantly in relation to the location of the risk insured by the Group. However, undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

For contracts with fixed and guaranteed benefits and fixed future premiums, there are no mitigating terms and conditions that reduce the insurance risk accepted. For contracts with DPF, the participating nature of the contracts results in a portion of the insurance risk being reduced over the term of policy. Investment contracts with DPF carry negligible insurance risk.

The Group manages these risks through its underwriting strategy and reinsurance arrangements. The underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and level of insured benefits. Medical selection is also included in the Group's underwriting procedures with premiums varied to reflect the health condition and life expectancy of the applicants.

The Group has reinsurance protection in place to cover death claims. The type of reinsurance cover and the level of retention for each risk are based on the Group's internal risk management assessment, which takes account of the nature of the risk covered and the sum assured. The reinsurance programme is approved by the Board annually. The reinsurance arrangements in place include a mix of quota share, facultative, excess of loss and catastrophe protection, which limits the liability of the Group to any one individual life or event. The Group's reinsurance is placed with listed multinational reinsurance companies whose rating is not less than A.

4. **MANAGEMENT OF RISK** - CONTINUED

4.1 **INSURANCE RISK** - CONTINUED

(b) Long term business insurance contracts - continued

Sources of uncertainty in the estimation of future benefit payments and premium receipts

Uncertainty in the estimation of future benefit payments and premium receipts for long term insurance contracts arises from the unpredictability of long term changes in overall levels of mortality, and the variability in contract holder behaviour. The Group uses appropriate base tables of standard mortality according to the type of contract being written. The Group does not take credit for future lapses in determining the liability for long term contracts.

Further detail on the process of estimation is provided in Note 24 to these financial statements.

4.2 FINANCIAL RISK

The Group is exposed to financial risks through its financial assets, financial liabilities and insurance and reinsurance assets and liabilities. In particular, the key risk is that in the long term, the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts. The components of financial risks for the Group are market risk (including cash flow and fair value interest rate risk, equity price risk and currency risk), credit risk and liquidity risk. These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Group primarily faces due to the nature of its assets and liabilities are interest rate risk and equity price risk.

The Group has developed its Asset/Liability management framework to further support the manner in which these risk positions are managed. It actively manages its assets to achieve a competitive rate of return within risk objectives delineated by asset liquidity measures, duration targets and credit quality parameters. The respective Investment Committees review and approve investment strategies on a periodic basis ensuring that assets are managed efficiently and within approved risk mandates.

(a) Market risk

i) Cash flow and fair value interest rate risk

Short term insurance and other liabilities are not directly sensitive to the level of market interest rates, as they are not discounted. In those instances where interest is payable (e.g. in the case of damages awarded by the Courts), interest is included in the claims cost whilst the investment income earned until the claim is settled is credited to the profit or loss account as it accrues.

Insurance and investment contracts with DPF at Group level have benefit payments that are fixed and guaranteed at the inception of the contract (for example, sum assured), or as annual discretionary bonuses are declared. The Group's primary financial risk on these contracts is the risk that interest income and capital redemptions from the financial assets backing the liabilities are insufficient to fund the guaranteed benefits payable.

The Group does not guarantee a positive fixed rate of return to its long-term contract policyholders at the inception of a contract. The declaration of discretionary bonuses is guided by the bonus philosophy of the Board of Directors. Once a reversionary bonus is declared, it is guaranteed to be paid in full at maturity or on the prior death of the life assured. Also policyholders have the option to withdraw their current year's bonus without any charges following the date the bonus is declared.

The bonus philosophy considers historic and current rates of return generated by the Group's investment portfolio as well as the Group's expectations for future investment returns. The impact of interest rate risk is mitigated by the presence of the DPF. These guaranteed benefits increase as discretionary benefits are declared and allocated to contract holders.

All insurance and investment contracts with a DPF feature can be surrendered before maturity for a cash surrender value that is always less than the actual contract liability. Cash surrender values are determined at the discretion of the Group, and can be varied from time to time.

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

i) Cash flow and fair value interest rate risk - continued

The primary factor affecting the level of cash surrender value is the investment return earned on the assets of the Group. In addition, the cash surrender value is affected by the expenses, tax and the cost of risk benefits (such as life cover) borne by the Group, deductions to provide a return to shareholders, as well as profits and losses arising on other contracts. The expenses include payment of commission, medical report expenses, office administration costs and other expenses incurred in the setting up and maintenance of the contract. At most, the cash surrender value will be the amount of the actual liability reduced by the surrender charge (where applicable).

Furthermore, in respect of all contracts with DPF (with the exception of some contracts that have been in force more than a certain number of years), the Group reserves the right to increase the level of the surrender charge and, if necessary, to apply a Market Value Reduction ('MVR'). A MVR is a deduction which the Group may make on surrender of a contract with DPF. For example, if the underlying investment return, after allowing for expenses, tax, risk benefits, shareholder returns and adjustment for profits or losses on other contracts is less than the return already provided for in the form of reversionary bonuses, the Group may decide to apply a MVR.

The MVR serves to protect the interests of remaining investors and the Group, who would otherwise have to subsidise the amount paid on surrendering contracts. The Group does not apply a standard percentage deduction on all contracts but determines the deduction to apply to each individual surrender at the time the surrender is made. The amount depends on a number of factors including the length of time the contract has been in force and the underlying investment return over the same time period. There will be no MVR at maturity or on death. This means that at maturity or on death the payment of the actual contract liability is guaranteed.

The cash surrender value may also be less than the total amount of premiums paid up to the date of surrender. The Group is not required to, and does not, measure the effect of the above embedded derivative at fair value.

The Group matches its insurance liabilities with a diversified portfolio of assets which includes equity, debt securities and property. The return from debt and cash based securities is subject to interest rate risk.

In general, the Group is exposed to risk associated with the effects of fluctuations in the prevailing levels of market interest rates. Assets/liabilities issued at variable rates generally expose the Group to cash flow interest risk. Assets/liabilities issued at fixed rates generally expose the Group to fair value interest rate risk. Group investment parameters exist to limit exposure to any one particular issuer and any one particular security. Periodic reports are prepared at portfolio, legal entity and asset class level that are circulated to the Group's key management personnel.

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) *Market risk* - continued

i) *Cash flow and fair value interest rate risk* - continued

Assets and liabilities exposed to interest rate risk and their maturities are analysed below:

Group	Notes	Within 1 year €'000	Between 1 – 2 years €'000	Between 2 – 5 years €'000	Over 5 years €'000	Total €'000
		2022				
Assets						
Debt securities	22	58,337	77,605	201,915	449,735	787,592
Collective investment schemes		243,126	—	—	—	243,126
Loans and receivables:						
- Deposits with banks and credit institutions	22	96,091	20,637	—	—	116,728
- Loans secured on policies	22	9,132	—	—	—	9,132
- Cash and cash equivalents	27	137,286	—	—	—	137,286
Total interest bearing assets		543,972	98,242	201,915	449,735	1,293,864
Liabilities						
Long-term insurance contracts		—	—	—	1,912,983	1,912,983
Total interest bearing liabilities		—	—	—	1,912,983	1,912,983

Group	Notes	Within 1 year €'000	Between 1 – 2 years €'000	Between 2 – 5 years €'000	Over 5 years €'000	Total €'000
		2021				
Assets						
Debt securities	22	33,601	68,426	237,667	671,791	1,011,485
Collective investment schemes		197,691	—	—	—	197,691
Loans and receivables:						
- Deposits with banks and credit institutions	22	144,550	60,338	—	—	204,888
- Loans secured on policies	22	8,035	—	—	—	8,035
- Cash and cash equivalents	27	71,443	—	—	—	71,443
Total interest bearing assets		455,320	128,764	237,667	671,791	1,493,542
Liabilities						
Long-term insurance contracts		—	—	—	2,276,558	2,276,558
Total interest bearing liabilities		—	—	—	2,276,558	2,276,558

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) *Market risk* - continued

i) *Cash flow and fair value interest rate risk* - continued

Company	Notes	**Within 1 year** €'000	**Between 1 - 2 years** €'000	**Between 2 - 5 years** €'000	**Over 5 years** €'000	**Total** €'000
				2022		
Assets						
Debt securities	22	—	854	6,962	2,525	10,341
Loans and receivables:						
- Cash and cash equivalents	27	11,130	—	—	—	11,130
Total interest bearing assets		11,130	854	6,962	2,525	21,471

Company	Notes	**Within 1 year** €'000	**Between 1 - 2 years** €'000	**Between 2 - 5 years** €'000	**Over 5 years** €'000	**Total** €'000
				2021		
Assets						
Debt securities	22	101	—	2,747	3,489	6,337
Loans and receivables:						
- Cash and cash equivalents	27	11,575	—	—	—	11,575
Total interest bearing assets		11,676	—	2,747	3,489	17,912

The Company had no interest bearing liabilities as at 31 December 2022 and 2021.

Assets and liabilities issued at variable rates expose the Group to cash flow interest rate risk whilst assets and liabilities issued at fixed rates expose the Group to fair value interest rate risk. The overall exposure to these two risks is as follows:

	Group	
	2022 **€'000**	2021 €'000
Assets held at variables rates		
Debt securities	**67,608**	72,637
Cash and cash equivalents	**928**	8,207
	68,536	80,844
Liabilities issued at variable rates		
Net long term insurance contracts	**1,912,983**	2,276,558
	1,912,983	2,276,558

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) *Market risk* - continued

i) *Cash flow and fair value interest rate risk* - continued

Interest rate risk in relation to linked liabilities for contracts that also combine a discretionary feature amounting to €48.17 million (2021: €55.03 million) has been excluded as the directors consider the exposure to be insignificant.

	Group		Company	
	2022	2021	**2022**	2021
	€'000	€'000	**€'000**	€'000
Assets held at fixed rates				
Debt securities	**719,984**	938,848	**10,341**	6,337
Loans secured on policies	**9,132**	8,035	**—**	—
Deposits with banks and credit institutions	**116,728**	204,888	**—**	—
A component of equity securities and units in unit trusts	**243,126**	197,691	**—**	—
	1,088,970	1,349,462	**10,341**	6,337

In managing its portfolio, during the year ended 31 December 2022, the Group entered into fixed income security futures contracts. Accordingly, it is exposed to movements in interest rates in the respective markets of the underlying, which comprise short, medium and long-term sovereign debt. The notional amount of futures contracts outstanding at 31 December is shown below:

	Group	
	2022	2021
	€'000	€'000
Long positions		
- Federal Republic of Germany	**69,704**	109,748
- United States Government	**—**	1,040
	69,704	110,788
Short positions		
- Federal Republic of Germany	**76,362**	129,257
- United States Government	**2,730**	2,416
	79,092	131,673

Up to the statements of financial position date the Group did not have any hedging policy with respect to interest rate risk other than as described in note 2.9.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

Sensitivity Analysis – interest rate risk

The sensitivity analysis for interest rate risk illustrates how changes in the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.

At 31 December 2022, had interest rates been 100 basis points (2021: 100 basis points) lower with all other variables held constant, the Group and Company pre-tax results for the year would have been higher by €0.29 million (2021: higher by €0.74 million) and higher by €0.04 million (2021: €0.04 million) respectively. An increase of 100 basis points (2021: 100 basis points), with all other variables held constant, would have resulted in the Group's and Company's pre-tax results for the year being lower by €0.97 million (2021: lower by €2.23 million) and lower by €0.04 million (2021: €0.05) respectively.

Managing interest rate benchmark reform

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk- free rates (referred to as 'IBOR reform'). Currently the Group has no exposures to IBORs on its financial instruments.

ii) Equity price risks

The Group's financial assets are susceptible to the risk of decreases in value due to changes in the prices of equities. The directors manage this risk of price volatility by entering into a diverse range of investments including equities and collective investment schemes. In addition, the Group's investments are spread geographically in a diverse number of different countries. The Group has active Investment Committees that have established a set of investment guidelines that are also approved by the Board of Directors. Investments over prescribed limits are directly approved by the respective Boards. These guidelines provide parameters for investment management, including contracts with external portfolio managers. They include, inter alia, reference to an optimal spread of the investment portfolio, assessment of equity issuers and maximum exposures by the Group to any one issuer and its connected parties (with the exception of investments in Government paper). These parameters also consider solvency restrictions imposed by the Regulator.

Management structures are in place to monitor all the Group's overall market positions on a frequent basis. Reports are prepared at portfolio, legal entity and asset and liability class level that are circulated to the Group's relevant key management personnel. These are also reviewed by the respective Investment Committees and Boards.

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) *Market risk* - continued

ii) *Equity price risks* - continued

The total assets subject to equity price risk are the following:

	Group		Company	
	2022	2021	**2022**	2021
	€'000	€'000	**€'000**	€'000
Assets subject to equity price risk	**753,882**	908,624	**1,756**	2,045
The above includes:				
Component of investments in associated undertakings (Note 21)*	**22,512**	22,321	**—**	—
Component of equity securities and units in unit trusts (Note 22)	**731,370**	886,303	**1,756**	2,045
	753,882	908,624	**1,756**	2,045

* Investments in associates (Note 21) amounting to €0.39 million (2021:€0.38 million) for the Group and €0.39 million (2021: €0.38 million) for the Company have been excluded from equity price risk since they are accounted for under the equity method.

In the case of assets held to cover unit-linked liabilities the exposure is carried by the contract holder. In the case of capital guaranteed products any shortfalls guaranteed upon maturity are mitigated by a back to back guarantee with international financial service providers as further referred in 4.2 (a) (i).

The sensitivity for equity price risk illustrates how changes in the fair value of equity securities (excluding investments in associated undertakings) will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity traded in the market.

Given the investment strategy of the Group and Company, a 10% positive or negative movement in equity prices is considered to be an appropriate benchmark for sensitivity purposes. An increase and a decrease of 10% in equity prices, with all other variables held constant, would result in a positive impact of €0.33 million (2021: €0.39 million) and a negative impact of €0.33 million (2021: €0.39 million) on the Group's pre-tax profit and a positive or negative impact of €0.12 million on the Company's pre-tax results (2021: €0.14 million).

iii) *Currency risk*

The Group and Company have assets and liabilities denominated in major foreign currencies other than euro. The Group and Company are therefore exposed to currency risk, as the value of assets and liabilities denominated in other currencies will fluctuate due to changes in exchange rates. The Group hedges its foreign currency denominated debt securities using forward exchange contracts in order to mitigate the risk that principal cash flows for these investments fluctuate as a result of changes in foreign exchange rates. The Group is also exposed to foreign currency risk arising from its equity securities denominated in major foreign currencies. At 31 December 2022 foreign currency exposure amounted to €263.00 million (2021: €334.61 million).

The Group's and Company's exposure to exchange risk is limited through the establishment of guidelines for investing in foreign currency and hedging currency risk through forward exchange contracts were considered necessary. These guidelines are approved by the respective Boards and a manageable exposure to currency risk is thereby permitted.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

iii) Currency risk - continued

The table below summarises the Group's exposure to foreign currencies other than euro.

Group

31 December 2022

	Net exposure before hedging €'000	Notional amount of currency derivatives €'000	Net exposure after hedging €'000
Currency of exposure:			
USD	194,131	2,325	191,806
CHF	19,762	—	19,762
GBP	6,679	901	5,778
SEK	11,932	—	11,932
DKK	13,378	—	13,378
HKD	7,454	—	7,454
Others	19,687	6,801	12,886
	273,023	**10,027**	**262,996**

Group

31 December 2021

	Net exposure before hedging €'000	Notional amount of currency derivatives €'000	Net exposure after hedging €'000
Currency of exposure:			
USD	295,887	65,317	230,570
CHF	29,450	—	29,450
GBP	18,566	9,752	8,814
SEK	15,122	—	15,122
DKK	19,277	—	19,277
Others	72,873	41,500	31,373
	451,175	**116,569**	**334,606**

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

iii) Currency risk - continued

Within the table above, €238.20 million of the unhedged exposure relates to equity investments (2021: €324.31 million). Due to an increasingly globalised economy, the Group's equity investments are diversified across various currencies. The directors consider that the exposure to currency risk is appropriately captured in the equity price risk sensitivity (Note 4.2(a)(ii)). Any residual currency exposure relating to non-equity investments is not considered to be significant.

The table below summarises the Company's exposure to foreign currencies other than euro.

Company

31 December 2022

	Net exposure before hedging €'000	Notional amount of currency derivatives €'000	Net exposure after hedging €'000
Currency of exposure:			
USD	(155)	—	(155)
GBP	(33)	—	(33)
Other	2	—	2
	(186)	**—**	**(186)**

Company

31 December 2021

	Net exposure before hedging €'000	Notional amount of currency derivatives €'000	Net exposure after hedging €'000
Currency of exposure:			
USD	(72)	—	(72)
GBP	108	—	108
Others	2	—	2
	38	—	**38**

The Company's foreign exposure relates to foreign operations now in run-off.

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(b) Credit risk

Credit risk is the risk of decreases in value when counterparties are not capable of fulfilling their obligations or when a change in their credit status takes place. The Group has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Group is exposed to credit risk are:

- Investments and cash and cash equivalents
- Reinsurers' share of technical provisions
- Amounts due from reinsurers in respect of claims already paid
- Amounts due from insurance contract holders
- Amounts due from insurance intermediaries
- Counterparty risk with respect to forward foreign exchange contracts

The Group places limits on the level of credit risk undertaken from the main categories of financial instruments. These limits also take due consideration of the solvency restrictions imposed by the relevant Insurance Regulations. The investment strategy of the Group considers the credit standing of the counterparty and control structures are in place to assess and monitor these risk thresholds

The Group structures the levels of credit risk it accepts by limiting as far as possible its exposure to a single counterparty or groups of counterparties. The Group has in place internal control structures to assess and monitor credit exposures and risk thresholds.

The Group's cash is placed with a number of core domestic credit institutions and investment grade international banks, thereby reducing the concentration of counterparty credit risk to an acceptable level.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is monitored on a quarterly basis by reviewing credit grades provided by rating agencies and other publicly available financial information, thereby ensuring the continuous financial strength of the reinsurer. At the same time as the Board approves the overall reinsurance protection of the Group, it ensures that the reinsurers' credit rating (either Standard & Poor's or equivalent) is within the parameters set by it.

The Group is exposed to contract holders and intermediaries for insurance premium. Credit agreements are in place in all cases where credit is granted, and in the case of certain larger risks, premium payment warranties are in place. This limits the liability of the Group towards the insured or any third party if the premium remains unsettled after the credit period granted and allows the Group to cancel the policy ab initio, if considered necessary. Records are kept of the payment history for significant contract holders and intermediaries with whom regular business is conducted. Credit is not granted to contract holders or intermediaries whose payment history is not satisfactory. Credit risk with respect to debtors is further limited due to the large number of customers comprising the Group's debtor base.

The exposure to individual counterparties is also managed by other mechanisms, such as the right to offset where counterparties are both debtors and creditors of the Group. Management information reported to the Group includes details of provisions for impairment on loans and receivables and subsequent write-offs. The Company performs risk-based reviews to assess the degree of compliance with the Group's procedures on credit and take action accordingly.

The Group does not trade in derivative contracts, with the exception of forward contracts and exchange traded futures. All derivative contracts are placed with quality financial institutions within the parameters of a hedging policy approved by the Board.

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(b) Credit risk - continued

The total assets bearing credit risk are the following:

	Group		Company	
	2022	2021	**2022**	2021
	€'000	€'000	**€'000**	€'000
Debt securities	**787,592**	1,011,485	**10,341**	6,337
Other financial assets (including deposits with banks and credit institutions)	**116,728**	204,888	**—**	—
Forward foreign exchange contracts	**2,698**	—	**—**	—
Reinsurers share of technical provisions	**22,352**	25,823	**21,876**	24,890
Insurance and other receivables	**27,029**	29,333	**18,402**	17,416
Cash and cash equivalents	**137,286**	71,443	**11,130**	11,575
Total	**1,093,685**	1,342,972	**61,749**	60,218

The carrying amounts disclosed above represent the maximum exposure to credit risk.

These assets are analysed in the table below using Standard & Poor's rating (or equivalent).

	Group		Company	
	2022	2021	**2022**	2021
	€'000	€'000	**€'000**	€'000
AAA	**115,968**	159,144	**1,976**	—
AA	**179,400**	239,071	**2,642**	2,834
A	**273,745**	327,557	**23,990**	25,676
BBB	**386,998**	465,102	**9,542**	9,761
Below BBB or not rated	**137,574**	152,098	**23,599**	21,947
	1,093,685	1,342,972	**61,749**	60,218

Debt securities, loans and receivables and cash and cash equivalents that are not rated are primarily held with highly reputable financial institutions.

The Company does not hold any collateral as security to its credit risk.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(b) Credit risk - continued

Financial assets that are past due but not impaired

The following insurance and other receivables are classified as past due but not impaired:

	Group and Company	
	2022	2021
	€'000	€'000
Within credit terms	**9,906**	9,272
Not more than three months	**3,450**	3,263
Within three to twelve months	**2,211**	1,926
Over twelve months	**441**	716
	16,008	15,177

IFRS 7 defines a financial asset as being past due when the counterparty has failed to make a payment when contractually due. It goes further to stipulate that full disclosure must be made of all balances due from this particular counterparty, including those, which are still within credit terms and therefore not contractually due.

The overall exposure of the Group and Company in terms of IFRS 7 is €16.01 million (2021: €15.18 million), of which €9.91 million (2021: €9.27 million) is not contractually due. It is the view of the directors that no impairment charge is necessary, due to the following reasons:

1. Settlements after year-end.
2. In cases where the amount has not been settled, agreement for settlement has been reached or is being negotiated.

Trade receivables at 31 December 2022 did not comprise any amounts (2021: nil) whose terms had been renegotiated from the original terms and which were classified as fully performing.

Financial assets that are impaired

Within insurance and other receivables are the following receivables that are classified as impaired against which a provision for impairment has been provided as per Note 26:

	Group and Company	
	2022	2021
	€'000	€'000
Over twelve months	**440**	387

A decision to impair an asset is based on the following information that comes to the attention of the Group:

- Significant financial difficulty of the debtor.
- It becoming probable that the debtor will enter bankruptcy or other financial reorganisation.
- A breach of contract, such as protracted default in payments
- The debtor has been referred to the in-house legal office.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(c) Liquidity risk

The Group is exposed to daily calls on its available cash resources mainly from claims and benefits arising from insurance contracts. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Group manages its funds in such a manner as to ensure an adequate portion of available funds to meet such calls. With respect to life insurance contracts this is principally managed through limits set by the Board of MMSV on the minimum proportion of maturing funds available to meet such calls. Furthermore, the Group invests a majority of its assets in listed investments that can be readily disposed of.

The following table indicates the expected timing of cash flows arising from the maturity or settlement of Group's liabilities. The expected cash flows do not consider the impact of early surrenders on life insurance contracts.

	Group expected cash flows (€ millions) 2022						
	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5yrs	Total
Technical provisions – Life insurance contracts and investment contracts with DPF	296.9	212.7	176.5	155.8	122.1	1,044.5	2,008.5
Technical provisions – claims outstanding	15.3	6.0	3.6	2.5	1.2	25.6	54.2
Lease liabilities	0.4	0.4	0.3	0.2	0.2	0.2	1.7
Insurance and other payables (contractual)	28.0	—	—	—	—	—	28.0

	Group expected cash flows (€ millions) 2021						
	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5yrs	Total
Technical provisions – Life insurance contracts and investment contracts with DPF	338.9	264.6	219.8	191.5	163.2	1,199.7	2,377.7
Technical provisions – claims outstanding	14.6	5.8	3.2	2.5	1.1	26.6	53.8
Lease liabilities	0.4	0.4	0.3	0.3	0.2	0.4	2.0
Insurance and other payables (contractual)	31.2	—	—	—	—	—	31.2

Expected cash flows on unit linked liabilities have not been included as the directors consider that there is limited exposure to liquidity risk given that these are principally backed by unit linked assets.

	Company expected cash flows (€ millions) 2022						
	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5yrs	Total
Technical provisions – claims outstanding	15.3	6.0	3.6	2.5	1.2	25.6	54.2
Lease liabilities	0.4	0.3	0.3	0.2	0.2	0.2	1.6
Insurance and other payables (contractual)	12.6	—	—	—	—	—	12.6

	Company expected cash flows (€ millions) 2021						
	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5yrs	Total
Technical provisions – claims outstanding	14.6	5.8	3.2	2.5	1.1	26.6	53.8
Lease liabilities	0.4	0.3	0.3	0.3	0.2	0.4	1.9
Insurance and other payables (contractual)	13.4	—	—	—	—	—	13.4

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(c) Liquidity risk - continued

The above cash flows are undiscounted other than those for Technical provisions – Life insurance contracts and investment contracts with DPF, which liability is determined as the sum of the expected discounted value of future cash flows.

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Group	
	2022	2021
	€'000	€'000
At 31 December		
Foreign exchange contracts		
- outflow	**(97,744)**	(128,215)
- inflow	**100,443**	127,440

At 31 December 2022 and 2021, the above derivatives were due to be settled within three months after year end.

4.3 FAIR VALUES

The following table presents the assets measured in the statements of financial position at fair value by level of the following fair value measurement hierarchy at 31 December 2022:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

4. MANAGEMENT OF RISK - CONTINUED

4.3 FAIR VALUES - CONTINUED

The following tables present the assets measured at fair value at 31 December 2022.

Group

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Assets				
Financial assets at fair value through profit or loss				
- Equity securities, units in unit trusts and collective investment schemes	973,661	40,912	61,609	1,076,182
- Debt securities	529,741	248,113	—	777,854
Other available-for-sale investments	5,605	4,703	—	10,308
Derivative financial instruments	—	2,698	—	2,698
Investment in associated undertakings	—	22,647	—	22,647
Total assets	**1,509,007**	**319,073**	**61,609**	**1,889,689**
Liabilities				
Unit linked financial liabilities	—	102,256	—	102,256
Total liabilities	**—**	**102,256**	**—**	**102,256**

Company

	Level 1 €'000	Level 2 €'000	Total €'000
Assets			
Financial assets at fair value through profit or loss			
- Equity securities, units in unit trusts and collective investment schemes	—	1,186	1,186
- Debt securities	603	—	603
Other available-for-sale investments	5,605	4,703	10,308
Total assets	**6,208**	**5,889**	**12,097**

4. MANAGEMENT OF RISK - CONTINUED

4.3 FAIR VALUES - CONTINUED

The following tables present the assets measured at fair value at 31 December 2021.

Group

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Assets				
Financial assets at fair value through profit or loss				
- Equity securities, units in unit trusts and collective investment schemes	1,129,261	48,834	18,756	1,196,851
- Debt securities	691,704	314,202	—	1,005,906
Other available-for-sale investments	4,265	1,965	—	6,230
Investment in associated undertakings	—	22,449	—	22,449
Total assets	**1,825,230**	**387,450**	**18,756**	**2,231,436**
Liabilities				
Unit linked financial liabilities	—	113,509	—	113,509
Derivative financial instruments	—	775	—	775
Total liabilities	**—**	**114,284**	**—**	**114,284**

Company

	Level 1 €'000	Level 2 €'000	Total €'000
Assets			
Financial assets at fair value through profit or loss			
- Equity securities, units in unit trusts and collective investment schemes	—	1,393	1,393
- Debt securities	758	—	758
Other available-for-sale investments	4,265	1,965	6,230
Total assets	**5,023**	**3,358**	**8,381**

Fair value measurements classified as Level 1 include government debt securities, units in unit trusts and collective investments schemes and foreign listed equities.

Corporate debt securities are classified as Level 2 in view of their trading characteristics. The financial liabilities for unit linked contracts were classified as Level 2. The fair value of these contracts is determined using the current unit values that reflect the fair values of the financial assets (classified as Level 1) linked to the financial liability. Derivative foreign exchange forward contracts have been classified as Level 2. The fair value of these instruments is determined by reference to market observable forward currency rates and interest rates. Domestic equities are classified as Level 2 in view of their trading characteristics.

At 31 December 2022, 3.3% (2021:0.9%) of the financial assets measured at fair value on a recurring basis were classified as Level 3. They constitute investment in unlisted equities. The Group has €61.6m (2021:€18.8m) assets classified as Level 3, the valuation of which has been determined by reference to the net assets of the underlying investment.

4. MANAGEMENT OF RISK - CONTINUED

4.3 FAIR VALUES - CONTINUED

The following table presents the changes in Level 3 instruments for the year ended 31 December:

Group 2021

	Equity securities €'000
Opening balance	—
Additions	18,558
Total gains recognised in profit or loss	198
Closing Balance	**18,756**

Group 2022

	Equity securities €'000
Opening balance	18,756
Additions	38,363
Total gains recognised in profit or loss	4,490
Closing Balance	**61,609**

The analysis of investment property is included within Note 19.

At 31 December 2022 and 2021, the carrying amount of the Group's and Company's other financial assets and liabilities approximated their fair values with the exception of the subsidiary's financial liabilities emanating from investment contracts with DPF. It is impractical to determine the fair value of these contracts due to the lack of a reliable basis to measure the future discretionary return that is a material feature of these contracts.

5. CAPITAL MANAGEMENT

The Group's policy is to maintain a strong capital base to support its business growth plans and comply with all regulatory requirements on an ongoing basis whilst assessing the impact of shareholder returns on its capital employed. The Group defines capital as shareholders' equity.

The Group's objectives when managing capital are to:

- comply with the obligations to hold Eligible Own Funds to cover the Solvency Capital Requirement and Minimum Capital Requirement in terms of the Insurance Business Act, 1998, (Chapter 403, Laws of Malta) and the applicable Insurance Rules issued under the Insurance Business Act ('Insurance Rules') by the Malta Financial Services Authority ('MFSA');
- provide for the capital requirements of the companies within the Group;
- safeguard the Group's and individual component companies' ability to continue as a going concern and provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance contracts commensurate with the level of risk.

5. CAPITAL MANAGEMENT - CONTINUED

The individual insurance Group companies are required to hold regulatory capital for their non-life and life assurance business in compliance with the Insurance Rules issued by the MFSA. The minimum capital requirements must be maintained at all times throughout the period. The individual Group companies monitor the level of their own funds on a regular basis. Any transactions that may potentially affect the individual company's own funds and solvency position are immediately reported to their respective directors and shareholders for resolution.

The Company's Minimum Capital Requirement Absolute Floor stands at €8,000,000, up from the €7,400,000 in the previous year, as per paragraph 5.6.4 of Chapter 5 ('Valuation of assets and liabilities, technical provisions, own funds, Solvency Capital Requirement, Minimum Capital Requirement and investment rules') of Part B of the Insurance Rules.

Based on management calculations to date, the Company is sufficiently capitalised and was compliant at all times with the regulatory capital requirements as stipulated by the MFSA which are in line with the Solvency II requirements. All other companies within the Group were also compliant with the respective minimum regulatory requirements throughout the financial period as per management calculations to date.

6. SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the Executive Management team that are used to make strategic decisions. In identifying the Group's business segments, the chief operating decision-maker is also guided by the Regulations under the Insurance Business Act, 1998 on the disclosure requirements relevant to specified insurance classes of business.

The Group operates in two main business segments, general business, that is further sub-divided into various insurance business classes, and long-term business. The segment results for the years ended 31 December 2022 and 2021 are indicated below.

General business

Gross premiums written and gross premiums earned by class of business

	Group and Company			
	Gross premiums written		Gross premiums earned	
	2022	2021	**2022**	2021
	€'000	€'000	**€'000**	€'000
Direct insurance				
Motor (third party liability)	**19,852**	19,131	**19,097**	18,843
Motor (other classes)	**20,875**	18,615	**20,082**	18,334
Fire and other damage to property	**15,089**	14,550	**14,619**	13,554
Accident and health	**18,986**	16,093	**18,098**	15,358
Other classes	**9,637**	9,224	**9,864**	8,545
	84,439	77,613	**81,760**	74,634

100% (2021: 100%) of consolidated gross premiums written for direct general insurance business emanate from contracts concluded in or from Malta. All premiums emanate from external customers and there is no business transacted between segments other than as disclosed in Note 35.

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT INFORMATION - CONTINUED

General business - continued

Gross claims incurred, gross operating expenses and reinsurance balance by class of business

	Group and Company					
	Gross claims incurred		Gross operating expenses		Reinsurance balance	
	2022	2021	**2022**	2021	**2022**	2021
	€'000	€'000	**€'000**	€'000	**€'000**	€'000
Direct insurance						
Motor (third party liability)	**18,707**	21,820	**6,210**	6,243	**(902)**	(1,984)
Motor (other classes)	**8,390**	5,474	**6,530**	5,552	**152**	160
Fire and other damage to property	**4,281**	3,703	**4,865**	4,534	**4,822**	4,710
Accident and health	**8,781**	6,883	**6,009**	5,192	**190**	232
Other classes	**2,577**	2,218	**4,086**	3,464	**2,128**	1,481
	42,736	40,098	**27,700**	24,985	**6,390**	4,599

The reinsurance balance represents the charge/(credit) to the technical account arising from the aggregate of all items relating to reinsurance outwards.

Long term business

(i) Gross premium written

	Group		Company	
	2022	2021	**2022**	2021
	€'000	€'000	**€'000**	€'000
Gross premiums written				
Direct insurance	**251,439**	327,632	**2,680**	2,497

The long-term business is mainly written through its subsidiary undertaking MAPFRE MSV Life p.l.c. ('MSV').

Group direct insurance is further analysed between:

	Periodic remiums		Single premiums	
	2022	2021	**2022**	2021
	€'000	€'000	**€'000**	€'000
Non-participating	**17,599**	17,107	**—**	—
Participating	**44,203**	42,186	**184,696**	264,353
Linked	**1,858**	1,967	**3,083**	2,019
	63,660	61,260	**187,779**	266,372

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT INFORMATION - CONTINUED

Long term business - continued

(i) Gross premium written - continued

In addition to the above, premium credited to liabilities in Note 24 in relation to linked products classified as investment contracts without DPF was as follows:

	Periodic premiums		Single premiums	
	2022	2021	**2022**	2021
	€'000	€'000	**€'000**	€'000
Investment contracts	**3,777**	2,603	**2,373**	1,456

Gross premiums written by way of direct business of insurance relate to individual business and group contracts. All long term contracts of insurance are concluded in or from Malta.

(ii) Reinsurance balance

The reinsurance balance, which represents the aggregate of all items relating to reinsurance outwards mainly attributable to insurance contracts included in the long-term business technical account are as follows:

	Group		Company	
	2022	2021	**2022**	2021
	€'000	€'000	**€'000**	€'000
Charge for reinsurance outwards	**2,476**	1,049	**225**	202

(iii) Analysis between insurance and investment contracts

	Group		Company	
	2022	2021	**2022**	2021
	€'000	€'000	**€'000**	€'000
Gross premiums written				
Insurance contracts	**32,047**	33,245	**2,680**	2,497
Investment contracts with DPF	**219,392**	294,387	**—**	—
	251,439	327,632	**2,680**	2,497
Claims incurred, net of reinsurance				
Insurance contracts	**51,945**	56,877	**596**	1,098
Investment contracts with DPF	**243,616**	249,191	**—**	—
	295,561	306,068	**596**	1,098

6. SEGMENT INFORMATION - CONTINUED

(iii) Analysis between insurance and investment contracts - continued

Reconciliation of reportable segment profit to profit or loss for the financial year before tax
Geographical information

	Group	
	2022	2021
	€'000	€'000
Profit on general business	**4,763**	5,260
Profit on long term business	**18,569**	19,012
Net investment income not allocated to technical accounts	**4**	(26)
Revaluation loss on freehold land and buildings	**—**	(1,521)
Other income	**1,135**	1,438
Administrative expenses	**(2,829)**	(3,773)
Recovery of impairment in group undertaking	**540**	—
Profit for the financial year before tax	**22,182**	20,390

	Company	
	2022	2021
	€'000	€'000
Profit on general business	**4,763**	5,260
Profit on long term business	**1,321**	916
Net investment income	**1,313**	141
Administrative expenses	**(1,946)**	(2,254)
Recovery of impairment in group undertaking	**540**	—
Profit for the financial year before tax	**5,991**	4,063

The segment results for the years ended 31 December 2022 and 2021 by geographical area are indicated below:

	Group		Company	
	Gross premiums written		Gross premiums written	
	2022	2021	**2022**	2021
	€'000	€'000	**€'000**	€'000
Malta	**335,878**	405,245	**87,119**	80,110

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT INFORMATION - CONTINUED

Group segment assets and liabilities

The Group operates a business model which does not allocate either assets or liabilities of the operating segments in its internal reporting. Segment assets below consist principally of investments backing up the net technical provisions.

	Motor third party €'000	Motor other €'000	Fire and other damage to property €'000	Accident and health €'000	Other classes €'000	Long-term business €'000	Unallocated €'000	Total €'000
At 31 December 2022								
Assets allocated to business segments	45,253	15,638	15,380	12,121	15,773	2,065,369	17,422	2,186,956
Assets allocated to shareholders	—	—	—	—	—	—	283,232	283,232
Total assets	45,253	15,638	15,380	12,121	15,773	2,065,369	300,654	2,470,188
At 31 December 2021								
Assets allocated to business segments	43,786	14,887	14,929	10,802	15,742	2,439,816	16,562	2,556,524
Assets allocated to shareholders	—	—	—	—	—	—	275,229	275,229
Total assets	43,786	14,887	14,929	10,802	15,742	2,439,816	291,791	2,831,753

The total of non-current assets, other than financial instruments, deferred tax assets and risks arising under insurance contracts of €235.35 million (2021: €239.20 million) are all located in Malta.

7. NET OPERATING EXPENSES

	Group		Company	
	2022	2021	**2022**	2021
	€'000	€'000	**€'000**	€'000
Acquisition costs	**35,964**	34,695	**24,177**	21,709
Change in deferred acquisition costs, net of reinsurance	**(845)**	212	**(845)**	212
Administrative expenses	**13,789**	13,143	**6,830**	6,204
Reinsurance commissions and profit participation	**(4,961)**	(4,827)	**(4,928)**	(4,665)
	43,947	43,223	**25,234**	23,460
Allocated to:				
General business	**22,867**	20,878	**22,867**	20,878
Long term business	**18,251**	18,572	**421**	328
Non-technical account (administrative expenses)	**2,829**	3,773	**1,946**	2,254
	43,947	43,223	**25,234**	23,460

Total commissions for direct business accounted for in the financial year amounted to €23.11 million (2021: €23.51 million) in the Group's technical result and €16.51 million (2021: €15.36 million) in the Company's technical result. €6.03 million (2021: €7.45 million) of the Group charge arose on investment contracts. Administrative expenses mainly comprise employee benefit expenses which are analysed in Note 11. Further detail relating to administrative expenses is included in Note 10.

Non-technical account

Administrative expenses in the non-technical profit or loss account represent expenditure after appropriate apportionments are made to the general and long term business technical accounts. They include staff costs, premises costs, depreciation charge, directors' fees, auditors' remuneration, professional fees, marketing and promotional costs, and other general office expenditure.

NOTES TO THE FINANCIAL STATEMENTS

8. INVESTMENT RETURN

	Group 2022 €'000	Group 2021 €'000	Company 2022 €'000	Company 2021 €'000
Investment income				
Dividend income from group undertakings	—	—	1,313	141
Share of profit of other associated undertaking, net of tax	95	89	—	—
Rent receivable from investment property	6,196	5,835	776	717
Interest receivable from loans and receivables				
- other financial assets not at fair value through profit or loss	1,427	1,893	—	—
Income from financial assets at fair value through profit or loss				
- dividend income	10,780	9,572	33	7
- net fair value gains and interest on bonds	—	90,006	—	—
Income from available-for-sale assets				
- dividend income	—	26	—	26
- net fair value gains and interest on bonds	55	187	55	187
Net fair value gains on investment property	—	—	—	—
Other investment income	996	595	5	—
Exchange differences	2	17	2	17
	19,551	108,220	2,184	1,095
Investment expenses and charges				
Direct operating expenses arising from investment property that generated rental income	342	385	13	15
Interest expenses on loans and receivables	27	66	27	66
Interest expense for financial liabilities that are not at fair value through profit or loss	7	3	7	3
Expense on financial assets at fair value through profit or loss				
- net fair value losses and interest on bonds	296,097	51	333	51
Net fair value losses on investment property	3,011	3,113	642	473
Other investment expenses	6,797	6,815	18	2
Interest on lease liabilities	51	48	51	48
	306,332	10,481	1,091	658
Net investment income	(286,781)	97,739	1,093	437
Analysed between:				
Allocated investment return transferred to the general business technical account	(171)	307	(171)	307
Investment return included in the long term business technical account	(286,614)	97,458	(49)	(11)
Other investment income included in the non-technical account	4	(26)	1,313	141
	(286,781)	97,739	1,093	437

NOTES TO THE FINANCIAL STATEMENTS

9. OTHER INCOME

	Group	
	2022	2021
	€'000	€'000
Other technical income, net of reinsurance		
Investment management fees	**688**	724
Other income	**55**	64
	743	788
Other income – non technical		
Management fees	**603**	655
Other income	**532**	783
	1,135	1,438

10. PROFIT BEFORE TAX

The profit before tax is stated after charging/(crediting):

	Group		Company	
	2022	2021	**2022**	2021
	€'000	€'000	**€'000**	€'000
Employee compensation (Note 11)	**13,709**	12,649	**7,553**	7,784
Depreciation/amortisation:				
- intangible assets (Note 16)	**2,575**	2,207	**1,973**	1,523
- property, plant and equipment (Note 18)	**1,071**	855	**579**	518
Release of provision for impairment on receivables (Note 26)	**(135)**	(106)	**(135)**	(106)
Impairment of receivables	**29**	9	**29**	9
Increase in provision for impairment on receivables (Note 26)	**188**	160	**188**	160

The financial statements include fees, exclusive of VAT, charged by the Company's auditors for services rendered during the financial years ended 31 December 2022 and 2021, relating to entities that are included in the consolidation amounting to:

	Group		Company	
	2022	2021	**2022**	2021
	€'000	€'000	**€'000**	€'000
Annual statutory audit	**599**	310	**271**	149
Solvency II audit	**105**	103	**45**	44
Non-audit services	**2**	1	**—**	—
Paid during the year:				
For financial year 2022	**296**	—	**136**	—
For financial year 2021	**276**	143	**127**	70
For financial year 2020	**—**	319	**—**	160

11. EMPLOYEE COMPENSATION

	Group		Company	
	2022	2021	**2022**	2021
	€'000	€'000	**€'000**	€'000
Salaries	**12,908**	12,001	**7,098**	7,366
Social security costs	**667**	648	**395**	418
Contributions to Employee Voluntary Occupational Pension Scheme	**134**	—	**60**	—
	13,709	12,649	**7,553**	7,784

The average number of persons employed during the year was:

	Group		Company	
	2022	2021	**2022**	2021
	€'000	€'000	**€'000**	€'000
Key management personnel	**27**	26	**14**	14
Managerial	**41**	42	**19**	20
Technical	**213**	208	**139**	148
Administrative	**9**	9	**5**	5
	290	285	**177**	187

12. TAX EXPENSE

	Group		Company	
	2022	2021	**2022**	2021
	€'000	€'000	**€'000**	€'000
Current tax expense	**44,722**	2,311	**1,888**	1,645
Deferred tax expense (Note 23)	**(37,183)**	5,156	**313**	(190)
Income tax expense	**7,539**	7,467	**2,201**	1,455

NOTES TO THE FINANCIAL STATEMENTS

12. TAX EXPENSE - CONTINUED

The tax on the Group's and Company's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	Group		Company	
	2022	2021	**2022**	2021
	€'000	€'000	**€'000**	€'000
Profit before tax	**22,182**	20,390	**5,991**	4,063
Tax at 35%	**7,764**	7,137	**2,097**	1,422
Adjusted for tax effect of:				
Net exempt income and disallowed expenses	**(17)**	49	**306**	47
Property withholding tax at 8% or 10%	**(97)**	476	**170**	115
Other	**(111)**	(195)	**(372)**	(129)
Income tax expense	**7,539**	7,467	**2,201**	1,455

13. DIRECTORS' EMOLUMENTS

	Group		Company	
	2022	2021	**2022**	2021
	€'000	€'000	**€'000**	€'000
Directors' fees	**307**	289	**224**	271

Group Directors' fees include fees payable to the Company's directors both from the Company and from other Group Companies where applicable.

14. EARNINGS PER SHARE

Earnings per share are based on the net profit for the year divided by the weighted average number of ordinary shares in issue during the year.

	Group	
	2022	2021
	€'000	€'000
Profit attributable to owners of the Company	**8,794**	7,643
Number of ordinary shares in issue (Note 28)	**92,000**	92,000
Basic and diluted earnings per share attributable to owners of the Company (€)	**0.096**	0.083

15. DIVIDENDS

A final gross dividend in respect of year ended 31 December 2022 of €0.054617 (2021: €0.030401) per share amounting to a total dividend of €5,024,817 (2021: €2,796,910) is to be proposed by the directors at the forthcoming annual general meeting. This is equivalent to a net dividend of €0.038043 (2021: €0.026087) per share amounting to a total net dividend of €3,500,000 (2021: €2,400,000).

NOTES TO THE FINANCIAL STATEMENTS

16. INTANGIBLE ASSETS

Group	Valuation of in-force business (i) €'000	Computer software €'000	Deferred acquisition costs (ii) €'000	Total €'000
At 1 January 2021				
Cost or valuation	77,192	36,694	3,642	117,528
Accumulated amortisation and impairment	—	(19,311)	(3,381)	(22,692)
Net book amount	**77,192**	**17,383**	**261**	**94,836**
Year ended 31 December 2021				
Opening net book amount	77,192	17,383	261	94,836
Increase in value of in-force business credited to reserves	9,912	—	—	9,912
Additions	—	7,111	77	7,188
Amortisation charge	—	(2,034)	(173)	(2,207)
Closing net book amount	**87,104**	**22,460**	**165**	**109,729**
At 31 December 2021				
Cost or valuation	87,104	43,805	3,719	134,628
Accumulated amortisation and impairment	—	(21,345)	(3,554)	(24,899)
Net book amount	**87,104**	**22,460**	**165**	**109,729**
Year ended 31 December 2022				
Opening net book amount	87,104	22,460	165	109,729
Decrease in value of in-force business debited to reserves	(7,266)	—	—	(7,266)
Additions	—	7,946	155	8,101
Disposals	—	(2)	—	(2)
Amortisation charge	—	(2,563)	(12)	(2,575)
Closing net book amount	79,838	27,841	308	107,987
At 31 December 2021				
Cost or valuation	79,838	51,749	3,874	135,461
Accumulated amortisation and impairment	—	(23,908)	(3,566)	(27,474)
Net book amount	**79,838**	**27,841**	**308**	**107,987**

(i) Value of in-force business - assumptions, changes in assumptions and sensitivity

(ii) This intangible asset relates to investment contracts without DPF only.

Amortisation of €0.24 million (2021: €0.38 million) is included in acquisition costs and €2.34 million (2021: €1.83 million) is included in administrative expenses.

16. INTANGIBLE ASSETS - CONTINUED

The after tax value of in-force business is determined by the directors on an annual basis. The embedded value and expected future profits of each line of business is assessed.

The value of in-force business is calculated using a large number of assumptions about future experience. These assumptions concern both future economic and demographic experience. Forecasting future experience is inherently difficult.

The Group seeks to set assumptions that are consistent with the actual experience of the business. As a result, the assumptions used in the assessment are revised, at least annually, to be up to date. The process by which assumptions are changed is described in more detail below.

The value of with-profits business is most sensitive to the size of the with-profits fund. A 1% increase in the size of the fund value will increase the embedded value reported by €0.58 million. A 1% fall in the size of the fund value will reduce the embedded value reported by €0.61 million.

Similarly, the value of unit-linked business is most sensitive to the size of the unit-linked fund. A 1% increase in the size of the fund value will increase the embedded value by €0.14 million. A 1% fall in the size of the fund value will reduce the embedded value by €0.15 million.

Term assurance business is particularly sensitive to the rates assumed for future mortality. A 1 percentage point increase in the rates will reduce the embedded value by €0.29 million, while a 1 percentage point decrease in the rate will increase the embedded value by €0.29 million.

The economic assumptions used in the calculation have been set to be internally consistent as well as reflecting the directors' view of economic conditions in the longer term. For the current year, short term (2023-2025) inflation assumptions have been adjusted in line with the Central Bank of Malta outlook. The valuation assumed a long term real return of 1.4% pa (2021: 1.0% pa) for with-profits business with a risk discount rate of 4.5% pa (2021: 4.0% pa). For term assurance business the valuation assumed a real return of 0.15% (2021: -0.5% pa) with a risk discount rate of 5.25% pa (2021: 4.5% pa). For unit-linked business the valuation assumed a real return of -0.35% (2021: -1% pa) with a risk discount rate of 5.25% pa (2021: 4.5% pa). Expenses are assumed to inflate at 2.1% pa (2021: 2.0% pa).

As noted, economic assumptions are set to be internally consistent and reflect the real long-term returns anticipated and the risk appetite of the Directors. To maintain this internal consistency, any changes to the economic assumptions are considered as a whole. We consider that any changes to the assumptions that do not change the internal consistency will not significantly change the value of the in-force business.

Demographic assumptions are reviewed on an annual basis to reflect the development of experience and to improve on the reliability of the estimation process. This year the prudent rates of expected future mortality have been revised across all product lines. Future mortality assumptions continue to be set with reference to standard mortality tables and vary with the age of the policyholder.

Future lapse/surrender assumptions continue to be set as a function of the product type, the premium frequency, and the duration a policy has been in force. Assumptions about the servicing costs of in-force policies are also made in line with the current, aggregate renewal costs as reflected in profit or loss.

Lapse and policy assumptions were also updated in line with past experience and future expectations.

NOTES TO THE FINANCIAL STATEMENTS

16. INTANGIBLE ASSETS - CONTINUED

Company

	Computer software €'000
At 1 January 2021	
Cost	15,331
Accumulated amortisation	(7,569)
Net book amount	7,762
Year ended 31 December 2021	
Opening net book amount	7,762
Additions	2,907
Amortisation charge	(1,523)
Closing net book amount	9,146
At 31 December 2021	
Cost	18,238
Accumulated amortisation	(9,092)
Net book amount	**9,146**
Year ended 31 December 2022	
Opening net book amount	9,146
Additions	2,794
Amortisation charge	(1,973)
Closing net book amount	9,967
At 31 December 2022	
Cost	21,032
Accumulated amortisation	(11,065)
Net book amount	**9,967**

No amortisation (2021: nil) is included in acquisition costs and €1.97 million (2021: €1.52 million) is included in administrative expenses.

Computer software mainly represents amounts capitalised relating to the development of the Group and Company's IT system by related companies forming part of the MAPFRE S.A. Group.

17. LEASES

(a) Leases as the lessee

The Group leases property and motor vehicles. Property leases generally run for a period of five to seven years without the option to renew, whilst motor vehicle leases typically run for a period of seven years. Lease payments are subsequently renegotiated to reflect market rates.

NOTES TO THE FINANCIAL STATEMENTS

17. LEASES - CONTINUED

(a) *Leases as the lessee* - continued

i. *Right-of-use assets*

Right-of-use assets related to leased motor vehicles and properties that do not meet the definition of investment property are presented as a separate line item on the face of the Statement of Financial Position.

2021	**Group**		
	Property	**Motor vehicles**	**Total**
	€'000	€'000	€'000
Balance on 1 January	341	590	931
Additions	1,036	208	1,244
Derecognition of right-of-use assets	—	(45)	(45)
Depreciation charge for the year	(173)	(155)	(328)
Balance on 31 December	**1,204**	**598**	**1,802**

2022	**Group**		
	Property	**Motor vehicles**	**Total**
	€'000	€'000	€'000
Balance on 1 January	1,204	598	1,802
Additions	—	—	—
Derecognition of right-of-use assets	—	(46)	(46)
Depreciation charge for the year	(212)	(129)	(341)
Depreciation released on derecognition	—	46	46
Balance on 31 December	**992**	**469**	**1,461**

2021	**Company**		
	Property	**Motor vehicles**	**Total**
	€'000	€'000	€'000
Balance on 1 January	341	425	766
Additions	1,036	153	1,189
Depreciation charge for the year	(173)	(97)	(270)
Balance on 31 December	**1,204**	**481**	**1,685**

NOTES TO THE FINANCIAL STATEMENTS

17. LEASES - CONTINUED

(a) *Leases as the lessee* - continued

i. *Right-of-use assets* - continued

2022	Company		
	Property	**Motor vehicles**	**Total**
	€'000	€'000	€'000
Balance on 1 January	1,204	481	1,685
Depreciation charge for the year	(212)	(95)	(307)
Balance on 31 December	**992**	**386**	**1,378**

ii. *Amounts recognised in profit or loss*

2021	Group		
	Property	**Motor vehicles**	**Total**
	€'000	€'000	€'000
Depreciation of right-of-use assets	173	155	328
Interest expense on lease liabilities	21	35	56

2022	Group		
	Property	**Motor vehicles**	**Total**
	€'000	€'000	€'000
Depreciation of right-of-use assets	212	129	341
Interest expense on lease liabilities	27	28	55

2021	Company		
	Property	**Motor vehicles**	**Total**
	€'000	€'000	€'000
Depreciation of right-of-use assets	173	97	270
Interest expense on lease liabilities	21	27	48

17. LEASES - CONTINUED

(a) *Leases as the lessee* - continued

ii. *Amounts recognised in profit or loss* - continued

2022	Company		
	Property	Motor vehicles	Total
	€'000	€'000	€'000
Depreciation of right-of-use assets	212	95	307
Interest expense on lease liabilities	27	24	51

In 2022, the Company recognised €28,119 (2021: €36,658), relating to short term leases, as lease expense in the statement of profit or loss and other comprehensive income.

(b) *Leases as the lessor*

The Group and the Company lease out certain property. Note 19 sets out information about investment property. The Group has classified these leases as operating leases because they do not transfer substantially all the risks and rewards incidental to the ownership of the assets.

The following table sets out a maturity analysis of lease payments receivable, showing the undiscounted lease payments to be received after the reporting date.

Operating leases	Group		Company	
	2022	2021	**2022**	2021
	€'000	€'000	**€'000**	€'000
Less than one year	**5,530**	4,969	**654**	541
One to two years	**4,309**	3,388	**510**	295
Two to three years	**3,229**	2,676	**314**	236
Three to four years	**1,578**	2,268	**274**	225
Four to five years	**1,217**	858	**38**	232
More than five years	**3,726**	2,434	**—**	38
Total	**19,589**	16,593	**1,790**	1,567

NOTES TO THE FINANCIAL STATEMENTS

18. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land and buildings €'000	Leasehold improvements €'000	Furniture, fittings and equipment €'000	Total €'000
At 1 January 2021				
Cost	14,423	3,373	7,837	25,633
Accumulated depreciation	(147)	(1,933)	(5,640)	(7,720)
Closing Net book amount	**14,276**	**1,440**	**2,197**	**17,913**
Year ended 31 December 2021				
Opening net book amount	14,276	1,440	2,197	17,913
Additions	218	270	551	1,039
Revaluation gain to other comprehensive income	1,081	—	—	1,081
Revaluation loss to profit or loss	(1,521)	—	—	(1,521)
Depreciation charge	(24)	(219)	(612)	(855)
Closing net book amount	14,030	1,491	2,136	17,657
At 31 December 2021				
Cost	14,201	3,643	8,388	26,232
Accumulated depreciation	(171)	(2,152)	(6,252)	(8,575)
Net book amount	**14,030**	**1,491**	**2,136**	**17,657**
Year ended 31 December 2022				
Opening net book amount	14,030	1,491	2,136	17,657
Additions	156	580	754	1,490
Amount transferred to investment Property (Note 19)	(457)	—	—	(457)
Depreciation charge	(89)	(238)	(744)	(1,071)
Depreciation on amount transferred to investment properties (Note 19)	7	—	—	7
Closing net book amount	13,647	1,833	2,146	17,626
At 31 December 2022				
Cost	13,900	4,223	9,142	27,265
Accumulated depreciation	(253)	(2,390)	(6,996)	(9,639)
Net book amount	**13,647**	**1,833**	**2,146**	**17,626**

NOTES TO THE FINANCIAL STATEMENTS

18. PROPERTY, PLANT AND EQUIPMENT - CONTINUED

Company	Freehold land and buildings €'000	Leasehold improvements €'000	Furniture, fittings and equipment €'000	Total €'000
At 1 January 2021				
Cost	—	2,787	2,999	5,786
Accumulated depreciation	—	(1,410)	(2,124)	(3,534)
Net book amount	**—**	**1,377**	**875**	**2,252**
Year ended 31 December 2021				
Opening net book amount	—	1,377	875	2,252
Transfer from investment property (Note 19)	2,191	—	—	2,191
Additions	—	269	348	617
Depreciation Charge	(18)	(187)	(313)	(518)
Closing net book amount	**2,173**	1,459	910	4,542
At 31 December 2021				
Cost	2,191	3,056	3,347	8,594
Accumulated depreciation	(18)	(1,597)	(2,437)	(4,052)
Net book amount	**2,173**	**1,459**	**910**	**4,542**
Year ended 31 December 2022				
Opening net book amount	2,173	1,459	910	4,542
Transfer to investment property (Note 19)	(457)	—	—	(457)
Additions	—	579	388	967
Depreciation Charge	(21)	(212)	(346)	(579)
Depreciation released on transfer to investment property (Note 19)	7	—	—	7
Closing net book amount	1,702	1,826	952	4,480
At 31 December 2022				
Cost or valuation	1,734	3,635	3,735	9,104
Accumulated depreciation	(32)	(1,809)	(2,783)	(4,624)
Net book amount	**1,702**	**1,826**	**952**	**4,480**

Freehold land and buildings transferred from investment property are transferred at the fair value at the point of transfer and are subsequently depreciated. Transfers to investment property are made at the depreciated value at the point of transfer. If the fair value of the freehold land and buildings is significantly different as compared to its carrying amount then a revaluation adjustment is recorded.

Depreciation charge has been included in administrative expenses.

NOTES TO THE FINANCIAL STATEMENTS

18. PROPERTY, PLANT AND EQUIPMENT - CONTINUED

The Group's and Company's Land and buildings are shown at fair value (level 3).

A valuation of land and buildings was carried out by external qualified valuers during 2021. The fair value movements were debited to profit or loss. The carrying amount of land and buildings that would have been included in the financial statements had these assets been carried at cost less accumulated depreciation for the Group is €12.2 million (2021: €13.7 million) and for the Company €0.8 million (2021: €1.1 million).

Valuation processes

Periodically, the Group engages qualified valuers to determine the fair value of the Group's land and buildings. As at 31 December 2021, the fair value of the land and buildings has been determined by PwC Malta. The Company's land and buildings was also revalued by PwC Malta in 2022 with no significant change to the carrying amount. No valuation has been performed in 2022 on the land and building of the subsidiary.

Whenever a valuation is carried out the finance department:

- verifies all major inputs to the valuation report prepared by the qualified valuer;
- assesses property valuation movements when compared to the prior valuation report; and
- holds discussions with the qualified valuer.

Valuation techniques

The fair value of the Group's and the Company's land and buildings, with a total carrying amount of €13.6 million and €1.7 million respectively (2021: €14.0 million and €2.2 million respectively), was determined by capitalizing future net income streams based on significant unobservable inputs. These inputs include:

Valuation technique	Significant unobservable inputs for 2021	Inter-relationship between key unobservable inputs and fair value measurement
Discounted cash flows: The valuation model considers the present value of net cash flows potentially generated from the property, taking into account the expected rental growth rate, void periods and costs not paid for by the tenants. The expected net cash flows are discounted using the risk-adjusted discount rates. Among other factors, the discount rate estimation considers the quality of a building and its location (prime vs secondary), lease terms, property risk premium and inflation.	- Risk-adjusted discount rate varying between 6.2% & 6.8%. - The valuation provides for a void factor varying between 2.5% & 6.7% on rental income. - A benchmark lease market rate was applied once current lease terms expired. - Expected market rental growth rate of 1.6% in line with the implied inflation rate IRR (Internal Rate of Return).	The estimated fair value would increase/(decrease) if: - The risk-adjusted discount rate were lower/(higher); - Void factor were lower/(higher) - The market rate were higher/(lower); - Expected market rental growth were higher/(lower).

Although the properties are currently being used by MMS as its Floriana Regional Office and MMSV as its head office, for the purpose of the valuation, it was assumed that the property's highest and best use would be rental to a third party, assuming same use. Although the Market Approach was considered, its applicability is limited, due to the illiquidity of the commercial property market in Malta and therefore, the limited number of transactions available. Moreover, it is inherently difficult to find transactions including office blocks that are directly comparable to the property.

NOTES TO THE FINANCIAL STATEMENTS

19. INVESTMENT PROPERTY

	Group €'000	Company €'000
At 1 January 2021		
Cost	63,301	8,047
Accumulated fair value gains	48,217	8,158
Net book amount	**111,518**	**16,205**
Year ended 31 December 2021		
Opening net book amount	111,518	16,205
Transfer to property, plant & equipment (Note 18)	—	(2,191)
Additions	1,627	4
Disposals	(16)	(16)
Net fair value losses	(3,113)	(473)
Net book amount	**110,016**	**13,529**
At 31 December 2021		
Cost	65,116	7,022
Accumulated fair value gains	44,900	6,507
Net book amount	**110,016**	**13,529**
Year ended 31 December 2021		
Opening net book amount	110,016	13,529
Transfer from property, plant & equipment (Note 18)	450	450
Additions	936	76
Disposals	(90)	(7)
Net fair value losses	(3,034)	(644)
Net book amount	108,278	13,404
At 31 December 2022		
Cost	66,412	7,541
Accumulated fair value gains	41,866	5,863
Net book amount	**108,278**	**13,404**

Transfers to or from property, plant & equipment and disposals are inclusive of accumulated fair value gains at the point of transfer.

Fair value of land and buildings

A valuation of the Group's and Company's land and buildings was performed by external qualified valuers to determine the fair value of the land and buildings as at 31 December 2022 and 2021. The fair value movements were credited to profit or loss and are presented within 'investment return' (Note 8).

19. INVESTMENT PROPERTY - CONTINUED

Fair value of land and buildings - continued

The Group's and the Company's investment property, comprising mainly office buildings, have been determined to fall within level 3 of the fair valuation hierarchy. The different levels in the fair value hierarchy have been defined in Note 4.3.

The Group's and the Company's policy is to recognise transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers between levels during the year.

Valuation processes

On an annual basis, the Group and Company engage external, independent property valuers, having appropriate recognized professional qualifications and recent experience in the location and category of the properties being valued to determine the fair value of the land and buildings. As at 31 December 2022, the fair values of the land and buildings have been determined by PwC Malta and DHI Periti.

At each financial year end the investments department:
- verifies all major inputs to the valuation report prepared by the qualified valuer;
- assesses property valuation movements when compared to the prior year valuation report; and
- holds discussions with the qualified valuer.

The valuation techniques used for investment properties were the discounted cash flow valuation and comparative methods so as to provide accuracy and consistency in arriving at a fair value that reflects a price that would be reasonably expected to be received in an orderly transaction between market participants at the measurement date.

Valuation technique - Discounted cash flow

The following tables shows the valuation technique used in measuring the fair value of investment property using the discounted cash flow technique, as well as the significant unobservable inputs used. These inputs include:

Group

Valuation technique	**Significant unobservable inputs**	**Inter-relationship between key unobservable inputs and fair value measurement**
Discounted cash flows: The valuation model considers the present value of net cash flows generated from the property, taking into account the expected rental growth rate, void periods and costs not paid for by the tenants. The expected net cash flows are discounted using the risk-adjusted discount rates. Among other factors, the discount rate estimation considers the quality of a building and its location (prime vs secondary), lease terms, property risk premium and inflation.	– Risk-adjusted discount rate varying between 5.7% and 8.1% (2021: 4.9% and 8.0%%). – A void factor varying between 1.5% to 6.5% (2021: 1.9% and 6.7%) on rental income. – Lease market rate was applied once current lease terms expired. – Expected market rental growth rate of 2.0% (2021: 1.6%) in line with the general inflation rate – Construction costs for undeveloped airspace and re-developable land varying between €656/sqm and €1,535/sqm (2021: €725/sqm and €1,349/sqm)	The estimated fair value would increase/(decrease) if: – The risk-adjusted discount rate were lower/ (higher); – Void factor were lower/(higher); – The market rate were higher/ (lower); – Expected market rental growth were higher/(lower). – Constructions costs were lower/ (higher).

19. INVESTMENT PROPERTY - CONTINUED

Valuation technique - Discounted cash flow - continued

Company

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Discounted cash flows: The valuation model considers the present value of net cash flows generated from the property, taking into account the expected rental growth rate, void periods and costs not paid for by the tenants. The expected net cash flows are discounted using the risk-adjusted discount rates. Among other factors, the discount rate estimation considers the quality of a building and its location (prime vs secondary), lease terms, property risk premium and inflation.	– Risk-adjusted discount rate varying between 7.1% and 7.9% (2021: 6.2%). – A void factor of 4.5% (2021: 6.7%) on rental income. – Lease market rate was applied once current lease terms expired. – Expected market rental growth rate of 2.0% (2021: 1.6%) in line with general inflation rate.	The estimated fair value would increase/(decrease) if: – The risk-adjusted discount rate were lower/(higher); – Void factor were lower/(higher); – The market rate were higher/(lower); – Expected market rental growth were higher/(lower).

The fair value of investment property determined by external, qualified property valuers on the basis of the discounted cash flow method amounted to €103.64 million (2021: €105.68 million) for the Group and €12.13 million (2021: €12.51 million) for the Company.

In 2021 the Company transferred a portion of Investment Property having a value of €2.19 million to Property, plant and equipment for own use. During 2022 the Company transferred back Property, plant and equipment having a value of €0.45 million to Investment Property.

Valuation technique – Residual value

One property held by the Group situated within the Grand Harbour Local Plan has been valued using the Residual Method, a technique typically applied in valuations of development properties and existing properties that have a potential to be redeveloped.

19. INVESTMENT PROPERTY - CONTINUED

Valuation technique - Comparative transactions method - continued

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Residual method: The valuation model comprises: (a) the estimation of the gross development value of the property in a redeveloped form by applying the investment method (income approach), on the basis of potential developed area on completion and a market rent (net of non-recoverable expenses) per square metre (sq.m.), capitalised using an equivalent yield; and deducting (b) estimated development costs incurred in relation to the demolition of existing buildings, design costs, infrastructure works, construction costs, professional fees and costs of letting and sale; and (c) a 'developer's profit' representing an allowance for the risk of undertaking the development.	– Offices net internal area on completion 7,130 sq.m. – Annual net rental rate per sq.m. of office space €141 (2021: €137) – Number of car spaces on completion 159 (2021: 149) – Annual net rental rate per car space €816 (2021: €813) – Capitalisation rate 6.4% (2021: 6.8%) – Net development costs €10.0m (2021: €8.9m) – Developer's profit 15% (2021: 15%) – Planning uncertainty discount 10% (2021: 10%)	The estimated fair value would increase/(decrease) if: – Offices net internal area on completion were higher/(lower); – Annual net rental rate per sqm of office space were higher/(lower); – Number of car spaces on completion were higher/(lower); – Net rental rate per car space were higher/(lower); – Capitalisation rate were lower/(higher); – Net development costs were lower/(higher); – Developer's profit were lower/(higher); and – Planning uncertainty discount were lower/(higher).

The fair value of investment property determined by external, qualified property valuers on the basis of residual method amounted to €2.67 million (2021: €2.62 million) for the Group.

Valuation technique - Comparative transactions method

The fair value of the Group's investment properties determined on the basis of the market comparison method amounted to €0.7 million in 2022 and 2021. The comparative method is based on an expected sales value per square metre based on an average/ median of values derived from observable market transactions for comparable properties.

Valuation technique - Income Capitalisation Method

The valuation for all other investment property with a total carrying amount of €1.27 million (2021: €1.0 million) for the Group and Company, was determined by capitalising future net income streams based on significant unobservable inputs. These inputs include:

Future rental cash inflows	based on the actual location, type and quality of the properties and supported by the terms of any existing lease, other contracts or external evidence such as current market rents for similar properties;
Capitalisation rates	based on actual location, size and quality of the properties and taking into account market data at the valuation date.

NOTES TO THE FINANCIAL STATEMENTS

19. INVESTMENT PROPERTY - CONTINUED

Valuation technique - Comparative transactions method - continued

Information about fair value measurements using significant unobservable inputs (level 3)

Group & Company

Description	**Fair value at 31 December 2022 €**	**Valuation technique**	**Significant unobservable Inputs: Rental value €**	**Significant unobservable Inputs: Capitalisation rate %**
Office buildings	1.27m	Capitalisation of future net income streams	0.05m	3.50 – 5.00

Group & Company

Description	**Fair value at 31 December 2021 €**	**Valuation technique**	**Significant unobservable Inputs: Rental value €**	**Significant unobservable Inputs: Capitalisation rate %**
Office buildings	1.00m	Capitalisation of future net income streams	0.04m	4.25 – 5.00

For each valuation for which rental value and capitalisation rate have been determined to be the significant unobservable inputs, the higher the rental value and the lower the capitalisation rate, the higher the fair value. Conversely, the lower the rental value and the higher the capitalisation rate, the lower the fair value.

In the absence of future rental cash inflows, fair value is based on active market prices, adjusted, if necessary for any difference in the nature, location or condition of the specific asset.

Sensitivity analysis

Sensitivity analysis was carried out to assess the impact of changing the risk-adjusted discount rate (0.5 percentage point increase/decrease), or the market rental rate growth (5.0 percentage point increase/decrease) in the case of the discounted cash flow or residual method, and the capitalisation rate for the income capitalisation method. The tables below show the changes in the valuation arising from such changes:

Group

	2022 -0.5% € million	**2022 +0.5% € million**	2021 -0.5% € million	2021 +0.5% € million
Discount rates	**9.3**	**(8.0)**	9.6	(8.2)

	2022 -5% € million	**2022 +5% € million**	2021 -5% € million	2021 +5% € million
Market rates	**(5.4)**	**5.3**	(6.0)	6.0

NOTES TO THE FINANCIAL STATEMENTS

19. INVESTMENT PROPERTY - CONTINUED

Sensitivity analysis - continued

Company

	2022 -0.5% € million	**2022 +0.5% € million**	2021 -0.5% € million	2021 +0.5% € million
Discount rates	**1.1**	**(0.9)**	1.0	(0.9)

	2022 -5% € million	**2022 +5% € million**	2021 -5% € million	2021 +5% € million
Market rates	**(0.5)**	**0.5**	(0.5)	0.5

The impact on profit or loss would be a maximum increase of €1.1 million (2021: €1.1 million) or a maximum decrease of €1.1 million (2021: €1.1 million) for the Group and a maximum increase of €1.1 million (2021: €1.0 million) or a maximum decrease of €0.9 million (2021: €0.9 million) for the Company.

20. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	Company €'000
Year ended 31 December 2022	
Opening and closing net book amount	77,214
Closing net book amount	77,214
Year ended 31 December 2021	
Opening net book amount	57,214
Additions	20,000
Closing net book amount	**77,214**

The subsidiary undertakings at 31 December are shown below:

Subsidiary undertakings	**Registered office**	**Class of shares held**	**Percentage of shares held 2022**	**2021**
Euro Globe Holdings Limited (Company in liquidation)	Middle Sea House Floriana	Ordinary shares	100%	100%
Euromed Risk Solutions Limited	Development House Floriana	Ordinary shares	100%	100%
Bee Insurance Management Limited	Development House Floriana	Ordinary shares	100%	100%
MAPFRE MSV Life p.l.c.	Level 7 The Mall Floriana	Ordinary shares	50%	50%
Church Wharf Properties Limited	Middle Sea House Floriana	Ordinary shares	75%	75%

20. INVESTMENT IN SUBSIDIARY UNDERTAKINGS - CONTINUED

The Group's aggregated assets and liabilities and the results of its subsidiary undertakings that have non-controlling interest, before elimination entries, are as follows:

2022	% Held by non-controlling interests	Assets	Liabilities	Revenues	Profit before tax	Net cash
		€'000	€'000	€'000	€'000	€'000
MAPFRE MSV Life p.l.c. (consolidated results)	50%	2,357,045	2,132,748	254,910	17,166	65,934
Church Wharf Properties Limited	25%	2,674	333	—	8	(1)

2021	% Held by non-controlling interests	Assets	Liabilities	Revenues	Profit before tax	Net cash flows
		€'000	€'000	€'000	€'000	€'000
MAPFRE MSV Life p.l.c. (consolidated results)	50%	2,721,437	2,499,570	329,195	16,685	(5,637)
Church Wharf Properties Limited	25%	2,623	284	—	(414)	—

The amount of dividends that can be distributed in cash by MAPFRE MSV Life p.l.c. is restricted by the solvency requirements imposed by the MFSA Regulations.

In addition to the subsidiary undertakings above, MAPFRE MSV Life p.l.c. also held the following investments in subsidiary undertakings:

Subsidiary undertakings	Registered office	Class of shares held	Percentage of shares held 2022	Percentage of shares held 2021
Growth Investment Limited (Company in liquidation) (held indirectly by MAPFE MSV Life p.l.c.)	Pjazza Papa Giovanni XXIII Floriana	Ordinary shares	50%	50%

Note 36 explains the Transfer of Business Agreement entered into during the year with respect to Growth Investments Limited.

During 2011, the Company acquired control of MAPFRE MSV Life p.l.c. following a shareholders' agreement. MAPFRE MSV Life p.l.c. had previously been accounted for as an associated undertaking.

As a result of this business combination, Church Wharf Properties Limited, which was previously classified as an associated undertaking, also became a subsidiary in view of the fact that the remaining interest in this company is held by MAPFRE MSV Life p.l.c.

NOTES TO THE FINANCIAL STATEMENTS

20. INVESTMENT IN SUBSIDIARY UNDERTAKINGS - CONTINUED

As disclosed in prior years' financial statements, the Company's 100% holding in Progress Assicurazioni S.p.A. ('Progress') was derecognised in 2009. This was due to Progress being put into compulsory administrative liquidation. Subsequent bankruptcy procedures were also initiated and accordingly, the investment was fully written off in previous years. A subordinated loan receivable from Progress by a Group company amounting to €8.50 million has also been fully provided for in previous years. A scheme of distribution was communicated by the liquidator in 2021 which was executed during 2022. A final payment of 6.35% of the subordinated loan receivable was received by MAPFRE Middlesea p.l.c. amounting to €0.54 million. The Directors are not aware of any developments that could have an impact on the Company's obligations attached to this investment.

21. INVESTMENT IN ASSOCIATED UNDERTAKINGS

	Group €'000	Company €'000
At 1 January 2021		
Cost	14,480	294
Accumulated share of associated undertaking's equity	91	91
Accumulated fair value movements	10,603	—
Net book amount	**25,174**	**385**
Year ended 31 December 2021		
Opening net book amount	25,174	385
Share of associated undertaking's movement in equity	(2)	(2)
Fair value movement	(2,341)	—
Closing net book amount	22,831	383
At 31 December 2021		
Cost	14,480	294
Accumulated share of associated undertaking's equity	89	89
Accumulated fair value movements	8,262	—
Net book amount	**22,831**	**383**
Year ended 31 December 2022		
Opening net book amount	22,831	383
Share of associated undertaking's movement in equity	6	6
Fair value movement	190	—
Closing net book amount	23,027	389
At 31 December 2022		
Cost	14,480	294
Accumulated share of associated undertaking's equity	95	95
Accumulated fair value movements	8,452	—
Net book amount	**23,027**	**389**

NOTES TO THE FINANCIAL STATEMENTS

21. INVESTMENT IN ASSOCIATED UNDERTAKINGS - CONTINUED

The Group's aggregated assets and liabilities and the share of the results of its associated undertaking, which is unlisted is as follows:

2022	Registered office	Assets €'000	Liabilities €'000	Revenues €'000	Profit €'000	Percentage of shares held
Middlesea Assist Limited	Europa Centre Floriana	1,456	662	2,863	195	49%

2021	Registered office	Assets €'000	Liabilities €'000	Revenues €'000	Profit €'000	Percentage of shares held
Middlesea Assist Limited	Europa Centre Floriana	1,556	775	2,622	181	49%

In addition to the associated undertakings above, MAPFRE MSV Life p.l.c. also held the following investments in associated undertakings:

Associated undertakings	Registered office	Class of shares held	Percentage of shares held MSV 2022	MSV 2021	Group 2022	Group 2021
Plaza Centres p.l.c.	The Plaza Commercial Centre Bisazza Street Sliema	Ordinary shares	**31.42%**	31.42%	**31.42%**	31.42%
Tigne Mall p.l.c.	The Point Shopping Mall Tigne Point Sliema	Ordinary shares	**35.46%**	35.46%	**35.46%**	35.46%

Plaza Centres p.l.c. and Tigne Mall p.l.c. are listed on the Malta Stock Exchange and their share price as at 31 December 2022 was €0.73 and €0.84 respectively (31 December 2021: €0.93 and €0.75 respectively).

NOTES TO THE FINANCIAL STATEMENTS

22. OTHER INVESTMENTS

The investments are summarised by measurement category in the table below.

	Group		Company	
	2022	2021	**2022**	2021
	€'000	€'000	**€'000**	€'000
Fair value through profit and loss	**1,856,734**	2,202,757	**1,789**	2,151
Other available-for-sale	**10,308**	6,231	**10,308**	6,231
Loans and receivables	**125,860**	212,923	**—**	—
	1,992,902	2,421,911	**12,097**	8,382

(a) Investments at fair value through profit or loss

Analysed by type of investment as follows:

	Group		Company	
	2022	2021	**2022**	2021
	€'000	€'000	**€'000**	€'000
Equity securities and units in unit trusts	**973,927**	1,083,341	**1,186**	1,393
Debt securities	**777,854**	1,005,906	**603**	758
Assets held to cover linked liabilities – collective investment schemes	**102,255**	113,510	**—**	—
Forward foreign exchange contracts	**2,698**	—	**—**	—
Total investments at fair value through profit or loss	**1,856,734**	2,202,757	**1,789**	2,151

Technical provisions for linked liabilities amounted to €103.00 million as at 31 December 2022 (2021: €114.80 million). Linked liabilities are included in technical provisions for insurance contracts, investments contracts with DPF and investment contracts without DPF.

At 31 December 2022, the Group had €66.1 million financial commitments in respect of uncalled capital (2021: €34.5 million).

Equity securities and collective investment schemes other than those at Company level are substantially non-current assets in nature.

22. OTHER INVESTMENTS - CONTINUED

(a) Investments at fair value through profit or loss - continued

The movements for the year are summarised as follows:

	Group €'000	Company €'000
Year ended 31 December 2021		
Opening net book amount	2,031,590	2,934
Additions	1,376,549	—
Disposals	(1,284,046)	(704)
Net fair value gains/ (losses)	77,889	(79)
Closing net book amount	2,201,982	2,151

	Group €'000	Company €'000
Year ended 31 December 2022		
Opening net book amount	2,201,982	2,151
Additions	1,312,024	—
Disposals	(1,452,223)	—
Net fair value losses	(205,049)	(362)
Closing net book amount	1,856,734	1,789

There are no derivative financial liabilities in 2022. Derivative financial liabilities amounting to €0.78 million in 2021, included in the table above, are classified within liabilities in the statement of financial position.

(b) Other available-for-sale financial assets

	Group & Company	
	2022	2021
	€'000	€'000
Listed debt securities	**9,738**	5,579
Listed shares	**570**	652
	10,308	6,231

22. OTHER INVESTMENTS - CONTINUED

(b) Other available-for-sale financial assets - continued

Listed debt securities have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Their credit rating, using Standard & Poors rating is as below:

	Group & Company	
	2022	2021
	€'000	€'000
AAA	**1,964**	—
AA	**665**	—
A	**3,141**	2,484
BBB	**3,871**	2,980
BB or lower	**97**	115
	9,738	5,579

The movements for the year are summarised as follows:

Listed debt securities	Group & Company	
	2022	2021
	€'000	€'000
Year ended 31 December		
Opening net book amount	**5,579**	1,528
Additions	**5,135**	4,531
Disposals	**(203)**	(398)
Net fair value losses	**(773)**	(82)
Closing net book amount	**9,738**	5,579

Listed shares	Group & Company	
	2022	2021
	€'000	€'000
Year ended 31 December		
Opening net book amount	**652**	892
Additions	**—**	600
Disposals	**—**	(882)
Net fair value (losses)/gains	**(82)**	42
Closing net book amount	**570**	652

22. OTHER INVESTMENTS - CONTINUED

(c) Loans and receivables

Analysed by type of investment as follows:

	Group	
	2022	2021
	€'000	€'000
Deposits with banks or credit institutions	**116,728**	204,888
Loans secured on policies	**9,132**	8,035
	125,860	212,923

Maturity of deposits with bank or credit institutions:

	Group	
	2022	2021
	€'000	€'000
Within 3 months	**19,564**	25,955
Within 1 year but exceeding 3 months	**76,527**	118,594
Between 1 and 5 years	**20,637**	60,339
	116,728	204,888

The above deposits earn interest as follows:

	Group	
	2022	2021
	€'000	€'000
At fixed rates	**116,728**	204,888
	116,728	204,888

22. OTHER INVESTMENTS - CONTINUED

(c) Loans and receivables - continued

The movements for the year (excluding deposits) are summarised as follows:

Group	Loans secured policies €'000
Year ended 31 December 2021	
Opening net book amount	8,214
Additions	1,178
Disposal (sale and redemptions)	(1,357)
Closing net book amount	**8,035**
Year ended 31 December 2022	
Opening net book amount	8,035
Additions	2,182
Disposal (sale and redemptions)	(1,085)
Closing net book amount	**9,132**

The above loans earn interest at fixed rates.

23. DEFERRED INCOME TAX

	Group		Company	
	2022 €'000	2021 €'000	**2022 €'000**	2021 €'000
Balance at 1 January	**40,286**	35,117	**721**	898
Movements during the year:				
Profit or loss account (Note 12)	**(37,183)**	5,156	**313**	(190)
Other comprehensive income	**(31)**	13	**(31)**	13
Balance at 31 December – net	**3,072**	40,286	**1,003**	721

23. DEFERRED INCOME TAX - CONTINUED

Deferred income taxes are calculated on all temporary differences using a principal tax rate of 35% (2021: 35%) with the exception of investment property and freehold and other property, for which deferred income taxes may be calculated using a principal tax rate of 8% or 10% of the carrying amount (2021: 8% or 10%), if appropriate. The analysis of deferred tax (assets)/ liabilities is as follows:

	Group		Company	
	2022	2021	**2022**	2021
	€'000	€'000	**€'000**	€'000
Temporary differences on property, plant and equipment	**4,365**	2,608	**991**	607
Temporary differences attributable to investment property, unrealised capital losses and fair value adjustments on financial assets	**752**	81,496	**1,082**	1,218
Temporary differences attributable to unabsorbed tax losses and allowances carried forward	**(1,908)**	(43,646)	**(932)**	(932)
Temporary differences attributable to other provisions	**(137)**	(172)	**(138)**	(172)
Balance at 31 December – net	**3,072**	40,286	**1,003**	721

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off a current tax asset against a current tax liability. The following amounts determined after appropriate offsetting are shown in the statements of financial position:

	Group		Company	
	2022	2021	**2022**	2021
	€'000	€'000	**€'000**	€'000
Deferred tax asset	**(8,750)**	(2,313)	**(1,292)**	(1,268)
Deferred tax liability	**11,822**	42,599	**2,295**	1,989
	3,072	40,286	**1,003**	721

The tax effect of temporary differences attributable to the value of in-force business amounts to €3.91 million (2021: €5.34 million).

The deferred income tax assets and liabilities are, principally, recoverable after more than 12 months.

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

The Group and Company have unutilised capital gains of €9.05 million (2021: €6.53 million), which give rise to a deferred tax liability of €3.17 million (2021: €2.28 million) that has not been recognised in these financial statements. The Group also has unutilised trading losses of €2.48 million (2021: €2.40 million) giving rise to a deferred tax asset of €0.87 million (2021: €0.84 million) which has not been recognised in these financial statements.

The Group's and Company's deferred tax asset and liability were established on the basis of tax rates that were substantively enacted as at the financial year end.

NOTES TO THE FINANCIAL STATEMENTS

24. INSURANCE LIABILITIES AND REINSURANCE ASSETS

Technical provisions – insurance contracts and investment contracts with DPF, including reinsurers' share of technical provisions

	Group		Company	
	2022	2021	**2022**	2021
	€'000	€'000	**€'000**	€'000
Gross				
Short term insurance contracts – general business				
- claims outstanding	**54,167**	53,767	**54,167**	53,767
- provision for unearned premiums	**40,632**	37,953	**40,632**	37,953
Group life insurance contracts				
- claims outstanding	**316**	559	**316**	559
- long term business provision	**794**	726	**794**	726
Long term contracts				
- individual life insurance contracts	**400,172**	506,666	**—**	—
- investment contracts with DPF	**1,608,374**	1,870,997	**—**	—
Total technical provisions, gross	**2,104,455**	2,470,668	**95,909**	93,005
Recoverable from reinsurers				
Short term insurance contracts – general business				
- claims outstanding	**21,876**	24,890	**21,876**	24,890
- provision for unearned premiums	**7,370**	7,424	**7,370**	7,424
Long term contracts				
- individual life insurance contracts	**476**	933	**—**	—
Total reinsurers' share of technical provisions	**29,722**	33,247	**29,246**	32,314
Net				
Short-term insurance contracts – general business				
- claims outstanding	**32,291**	28,877	**32,291**	28,877
- provision for unearned premiums	**33,262**	30,529	**33,262**	30,529
Group life insurance contracts				
- claims outstanding	**316**	559	**316**	559
- long term business provision	**794**	726	**794**	726
Long term contracts				
- individual life insurance contracts	**399,696**	505,733	**—**	—
- investment contracts with DPF	**1,608,374**	1,870,997	**—**	—
Total technical provisions, net	**2,074,733**	2,437,421	**66,663**	60,691

Technical provisions in relation to short term insurance contracts are classified as current liabilities, in that, claims outstanding represent events that happened and which would normally be settled within the normal operating cycle. The timing of payment can be dependent on factors, like court cases, that could defer such payment to beyond a year from the reporting date. Technical provisions in relation to long term business are substantially non-current.

24. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

(a) Short-term insurance contracts – claims outstanding

The gross claims reported are net of expected recoveries from salvage and subrogation.

The technical provisions are largely based on case-by-case estimates adjusted for in those instances where the ultimate cost determined by estimation techniques differs. This is further supplemented with additional provisions for IBNR.

Motor claims occurring between 2018 and 2022 have been determined on an ultimate cost basis having regard to estimation techniques establishing the average ultimate cost per claim, which average was applied to the number of reported claims and the estimated number of incurred but not yet reported claims. Motor large losses, in the main involving fatalities or serious bodily injury, are still reserved at the case-by-case reserve estimate rather than the established ultimate cost average.

The development tables in this note give an indication of the time it takes to settle certain claims. This is attributable to certain classes of business taking several years to develop and is also due to the length of time it takes for the respective cases to be resolved in court.

The top half of the table below illustrates how the Company's estimate of total claims incurred for each accident year has changed at successive year-ends on a net basis. The bottom half of the table reconciles the cumulative claims to the amount appearing in the statement of financial position on a net basis. The accident-year basis is considered to be the most appropriate for the general business written by the Company.

Company

Accident year	2012 €'000	2013 €'000	2014 €'000	2015 €'000	2016 €'000	2017 €'000	2018 €'000	2019 €'000	2020 €'000	2021 €'000	2022 €'000	Total €'000
Estimate of the ultimate claims costs:												
- at end of accident year	15,756	16,104	17,775	23,216	30,078	33,106	33,539	33,848	28,126	34,703	39,744	—
- one year later	14,183	14,205	16,060	23,350	30,320	33,952	33,645	35,714	28,373	34,148	—	—
- two years later	12,932	13,465	15,565	22,442	29,171	33,638	33,846	36,717	28,529	—	—	—
- three years later	12,543	13,288	15,608	22,786	28,863	33,325	33,248	37,196	—	—	—	—
- four years later	12,586	13,178	15,611	22,551	29,038	33,158	32,623	—	—	—	—	—
- five years later	12,144	13,044	15,420	22,489	29,030	32,970	—	—	—	—	—	—
- six years later	12,311	13,016	15,247	22,656	28,807	—	—	—	—	—	—	—
- seven years later	12,094	13,233	15,222	22,764	—	—	—	—	—	—	—	—
- eight years later	11,981	13,247	15,452	—	—	—	—	—	—	—	—	—
- nine years later	11,965	13,245	—	—	—	—	—	—	—	—	—	—
- ten years later	11,962	—	—	—	—	—	—	—	—	—	—	—
Current estimates of cumulative claims	11,962	13,245	15,452	22,764	28,807	32,970	32,623	37,196	28,529	34,148	39,744	297,440
Cumulative payments to date	(11,599)	(13,026)	(14,973)	(21,833)	(28,173)	(31,711)	(31,609)	(35,367)	(26,317)	(28,775)	(22,637)	(266,020)
Liability recognised in the statements of financial position	363	219	479	931	634	1,259	1,014	1,829	2,212	5,373	17,107	31,420
Liability in respect of prior years												871
Total reserve included in the statements of financial position												32,291

NOTES TO THE FINANCIAL STATEMENTS

24. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

(a) Short-term insurance contracts – claims outstanding - continued

The Company benefits from reinsurance programmes that were purchased in the current and prior years which include proportional cover supplemented by excess of loss reinsurance cover. The reinsurers' share of claims liabilities is estimated net of the provision for known and expected incidents of insolvency of reinsurers.

Movements in claims and loss adjustment expenses:

	Group and Company Year ended 2021		
	Gross €'000	**Reinsurance** €'000	**Net** €'000
Total at beginning of year	50,803	(25,203)	25,600
Claims settled during the year	(37,134)	5,524	(31,610)
Increase in net liabilities			
- arising from current year claims	38,348	(3,644)	34,704
- arising from prior year claims	1,750	(1,567)	183
At end of year	**53,767**	**(24,890)**	**28,877**

	Group and Company Year ended 2022		
	Gross €'000	**Reinsurance** €'000	**Net** €'000
Total at beginning of year	53,767	(24,890)	28,877
Claims settled during the year	(42,336)	7,011	(35,325)
Increase in net liabilities			
- arising from current year claims	43,241	(3,496)	39,745
- arising from prior year claims	(505)	(501)	(1,006)
At end of year	**54,167**	**(21,876)**	**32,291**

The Group continuously monitors closely the development in insurance liabilities in order to ascertain the adequacy of its claims reserves. Movements in reserves in respect of claims occurring in previous years arise when these claims are actually settled and/or when reserves are revised to reflect new information that emerges.

The Company registered a gross favourable run-off of €0.50 million (2021: unfavourable €1.75 million). After the effect of reinsurance, this amounts to a favourable €1.01 million (2021: unfavourable €0.18 million). This net run-off arose principally from a favourable development on claims in the health and motor class of direct general business of insurance.

NOTES TO THE FINANCIAL STATEMENTS

24. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

(b) Short-term insurance contracts - provision for unearned premiums and unexpired risks

The movements for the year are summarised as follows:

	Group and Company Year ended 2021		
	Gross €'000	**Reinsurance** €'000	**Net** €'000
At beginning of year	34,974	(5,990)	28,984
Net charge/(credit) to profit or loss	2,979	(1,434)	1,545
At end of year	**37,953**	**(7,424)**	**30,529**

	Group and Company Year ended 2022		
	Gross €'000	**Reinsurance** €'000	**Net** €'000
At beginning of year	37,953	(7,424)	30,529
Net charge to profit or loss	2,679	54	2,733
At end of year	**40,632**	**(7,370)**	**33,262**

No provision for unexpired risks was recognised as at 31 December 2022 (€0.08 million in 2021).

24. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

(c) Group Life insurance contracts

Claims outstanding

Movement in claims outstanding is summarised as follows:

	Group and Company Year ended 2021		
	Gross €'000	**Reinsurance** €'000	**Net** €'000
At beginning of year	702	(113)	589
Claims settled during the year	(1,250)	122	(1,128)
Increase in net liabilities	1,107	(9)	1,098
At end of year	**559**	**—**	**559**

	Group and Company Year ended 2022		
	Gross €'000	**Reinsurance** €'000	**Net** €'000
At beginning of year	559	—	559
Claims settled during the year	(839)	—	(839)
Increase in net liabilities	596	—	596
At end of year	**316**	**—**	**316**

Long term business provision

The balance on the long term business provision has been assessed by the Company's appointed actuary as being sufficient to meet liabilities as at 31 December 2022. The net assets representing this long term business provision, which are included under the respective headings in the Group's overall statement of financial position, are as follows:

	2022 **€'000**	2021 €'000
Other Investments	**1,234**	1,396
Insurance and other receivables	**244**	361
Cash and cash equivalents	**634**	862
Claims outstanding	**(316)**	(559)
Insurance and other payables	**(1,002)**	(1,334)
Long term business provision, net of reinsurance	**794**	726

NOTES TO THE FINANCIAL STATEMENTS

24. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

(d) Long term business – Individual Insurance life contracts and investment contracts with DPF

Individual life insurance contracts

	2022 €'000	2021 €'000
Gross technical provisions		
- claims outstanding	**6,760**	9,129
- long term business provision	**393,412**	497,537
	400,172	506,666
Reinsurers' share of technical provisions		
- claims outstanding	**476**	933
	476	933
Net technical provisions		
- claims outstanding	**6,284**	8,196
- long term business provision	**393,412**	497,537
	399,696	505,733

The movements for the year are summarised as follows:

	Group Year ended 2021		
	Gross €'000	**Reinsurance** €'000	**Net** €'000
At beginning of year	529,554	(501)	529,053
Charge to the profit or loss account	(22,888)	(432)	(23,320)
At end of year	**506,666**	**(933)**	**505,733**

NOTES TO THE FINANCIAL STATEMENTS

24. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

(d) Long term business – Individual Insurance life contracts and investment contracts with DPF - continued

Individual life insurance contracts - continued

	Group Year ended 2022		
	Gross €'000	**Reinsurance** €'000	**Net** €'000
At beginning of year	506,666	(933)	505,733
(Credit)/charge to the profit and loss account	(106,494)	457	(106,037)
At end of year	**400,172**	**(476)**	**399,696**

The above liabilities are substantially non-current in nature.

	Group	
	2022 €'000	**2021** €'000
Investment contracts with DPF (gross and net)		
- claims outstanding	**40,635**	36,944
- long term business provision	**1,567,739**	1,834,053
	1,608,374	1,870,997

The movements for the year are summarised as follows:

	Group	
	2022 €'000	**2021** €'000
Year ended 31 December		
At beginning of year	**1,870,997**	1,766,724
(Credit)/charge to the profit and loss account	**(262,623)**	104,273
At end of year	**1,608,374**	**1,870,997**

The above liabilities are substantially non-current in nature.

24. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

(d) Long term business – Individual Insurance life contracts and investment contracts with DPF - continued

Long term contracts – assumptions, changes in assumptions and sensitivity

(i) Assumptions

Rate of future investment return

The rate of future investment return (valuation interest rate) is calculated in accordance with the Insurance Regulations. In accordance with these rules the calculation of the rate of future investment return is based on a prudent assessment of the yields generated by the long term business assets. This assessment does not include any allowance for capital growth on assets other than bonds. On bonds the allowance must be consistent with the yield to maturity of the instrument in the market. This could be interpreted as setting the rate of future investment return in line with the weighted average portfolio yield taking into account certain risk adjustments.

Bonus rates

The current rates of reversionary and terminal bonuses are determined by the Board in consultation with the Approved Actuary. Different bonus rates are declared on different generations of contracts depending on the type of product, cost structure, past investment performance and premium rates. Different bonuses are declared to maintain equity between different generations of contract holders and products with different characteristics. Future bonus rates are not guaranteed and the assumptions are set to allow for a fair and orderly run-off of the fund.

The levels of reversionary bonus rates are affected by measures taken to provide resilience to market conditions, and to provide for future payments of terminal bonuses. These measures are not intended, over the long term, to be a source of profit or loss.

Policy maintenance expenses

The per policy maintenance expense has been determined by reference to the Group's cost base.

Minimum reserve

With profits policy reserves are equal to the underlying asset share as aggregated at the homogeneous product cohort level.

The minimum reserve for unit linked contracts is determined on a policy by policy basis where appropriate and is set equal to the current surrender value or zero whichever is greater.

The minimum reserve for protection contracts is also determined on a policy by policy basis and is set equal to the policy reserve or zero, whichever is higher.

Mortality

The Group makes reference to the AMC00 (2021: AMC00) standard mortality table. Mortality experience is reviewed annually and assumptions are set separately for protection and savings and investment contracts having regard to past experience and trends. A margin for adverse deviation is applied to best estimate mortality rates when determining the prudent valuation assumption.

(ii) Changes in assumptions

In accordance with normal practice, investment return assumptions were reviewed to reflect market movements over the year. Similarly, surrender and policy expense expectations were also updated. The combined impact of these changes in assumptions was charged against the technical result for the year.

24. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

(d) Long term business – Individual Insurance life contracts and investment contracts with DPF - continued

(iii) Sensitivity analysis

The directors have considered the sensitivity of the key variables underlying the liability for long term contracts. The most sensitive assumption is the rate of future investment return that will be driven by market forces. Sensitivity analysis for interest rate risk and equity price risk has been disclosed in Note 4. The Insurance Regulations ensure a consistent and prudent derivation of this key estimate as described above. The Group's bonus policy is also influenced by market conditions. The Group's reserving policy considers market conditions over the longer term through prudent assumptions of future investment returns combined with a consistent view of future bonuses. This acts to mitigate the impact of market movements and profit or loss is not affected by changes in the rate of regular bonus.

	2022	2021
	€'000	€'000
Long term business provision	**54,870**	59,784
Claims outstanding	**843**	1,085
	55,713	60,869

The above liability is considered to be substantially non-current in nature.

25. DEFERRED ACQUISITION COSTS – SHORT TERM INSURANCE CONTRACTS

	Group & Company	
	2022	2021
	€'000	€'000
Year ended 31 December		
Opening net book amount	**8,427**	8,080
Net amount charged to profit or loss	**940**	347
Closing net book amount	**9,367**	8,427

Deferred acquisition costs are all classified as current assets.

26. INSURANCE AND OTHER RECEIVABLES

	Group		Company	
	2022	2021	**2022**	2021
	€'000	€'000	**€'000**	€'000
Receivables arising from direct insurance operations:				
- due from policyholders	**920**	272	**920**	272
- due from agents, brokers and intermediaries	**16,635**	16,297	**16,635**	16,297
- due from reinsurers	**291**	363	**291**	363
Receivables arising from reinsurance operations:				
- due from reinsurers	**16**	16	**16**	16
Other loans and receivables:				
- prepayments	**5,476**	4,669	**1,697**	1,806
- accrued interest and rent	**10,593**	10,507	**377**	173
- receivables from subsidiary undertakings	**—**	—	**420**	470
- receivables from associated undertaking	**183**	212	**183**	212
- other receivables	**66**	120	**—**	—
Provision for impairment of receivables	**(440)**	(387)	**(440)**	(387)
	33,740	32,069	**20,099**	19,222
Current portion	**33,740**	32,069	**20,099**	19,222

Balances due from group undertakings, associated undertaking and other receivables are unsecured and non-interest bearing.

Movements in the provision for impairment of receivables are as follows:

	Group and Company	
	2022	2021
	€'000	€'000
Balance as at 1 January	**387**	333
Increase in provision for impairment	**188**	160
Release of provision for impairment during the year	**(135)**	(106)
Balance as at 31 December	**440**	387

27. CASH AND CASH EQUIVALENTS

For the purpose of the statements of cash flows, the year-end cash and cash equivalents comprise the following:

	Group		Company	
	2022	2021	**2022**	2021
	€'000	€'000	**€'000**	€'000
Cash at bank and in hand	**137,286**	71,443	**11,130**	11,575

As at 31 December 2022 an amount of €2.16 million (2021: €3.14 million) within deposits with banks or credit institutions, was held in a margin account as collateral against exchange traded futures.

28. SHARE CAPITAL

	Group and Company 2022 €'000	2021 €'000
Authorised		
150 million ordinary shares of €0.21 each	**31,500**	31,500
Issued and fully paid		
92 million ordinary shares of €0.21 each	**19,320**	19,320

29. OTHER RESERVES

Group	Value of in-force business €'000	Freehold land and buildings €'000	Available-for-sale investments €'000	Total €'000
Balance at 1 January 2021	38,597	—	232	38,829
Fair value movements – gross	—	—	117	117
Fair value movements – tax	—	—	(64)	(64)
Available-for-sale investments – reclassified to profit or loss				
- gross	—	—	(155)	(155)
- related tax	—	—	53	53
Revaluation gain on freehold, land and buildings	—	1,081	—	1,081
Share of increase in value of in-force business of subsidiary undertaking	4,956	—	—	4,956
Balance at 31 December 2021	**43,553**	**1,081**	**183**	**44,817**
Balance at 1 January 2022	43,553	1,081	183	44,817
Fair value movements – gross	—	—	(831)	(831)
Fair value movements – tax	—	—	61	61
Revaluation gain on freehold land and buildings reclassified to retained earning	—	(225)	—	(225)
Share of decrease in value of in-force business of subsidairy company	(3,633)	—	—	(3,633)
Balance at 31 December 2022	**39,920**	**856**	**(587)**	**40,189**

The above reserves are not distributable reserves.

29. OTHER RESERVES - CONTINUED

Company	Investment in subsidiary undertaking €'000	Investment in associated undertaking €'000	Available-for-sale investments €'000	Total €'000
Balance at 1 January 2021	34,663	91	232	34,986
Fair value movements -gross	—	—	117	117
Fair value movements -tax	—	—	(64)	(64)
Available-for-sale investment reclassified to profit or loss				
- gross	—	—	(155)	(155)
- related tax	—	—	53	53
Other	—	(2)	—	(2)
Balance at 31 December 2021	**34,663**	**89**	**183**	**34,935**
Balance at 1 January 2022	34,663	89	183	34,935
Fair value movements -gross	—	—	(831)	(831)
Fair value movements -tax	—	—	61	61
Other	—	6	—	6
Balance at 31 December 2022	**34,663**	**95**	**(587)**	**34,171**

The above reserves are not distributable reserves.

30. PROVISION FOR OTHER LIABILITIES AND CHARGES

The Group and Company operate a defined benefit plan in favour of a former Executive Chairman. The pension plan defines an amount of pension benefit that he receives on retirement. The liability recognised in the statements of financial position is the present value of the obligation determined by discounting estimated future cash outflows.

The following table shows the changes in the present value of the pension obligation and amounts shown in the profit or loss and other comprehensive income:

	Group and Company	
	2022	2021
	€'000	€'000
Balance at 1 January	**997**	1,057
Interest expense – profit or loss (Note 8)	**7**	3
Settlements	**(62)**	(61)
Re-measurements actuarial loss – other comprehensive income	**(88)**	(2)
Balance at 31 December	**854**	997

30. PROVISION FOR OTHER LIABILITIES AND CHARGES - CONTINUED

The following payments as expected in the future years:

	Group and Company	
	2022	2021
	€'000	€'000
Within one year	**65**	61
After more than one year	**789**	936
	854	997

The significant assumptions used in determining the pension obligation are shown below:

	Group and Company	
	2022	2021
	€'000	€'000
Mortality	**AMC00**	AMC00
Discount rate	**3.8%**	0.7%
Inflation rate	**2.1%**	1.2%

A quantitative analysis of the impact on the pension obligation for the significant assumptions is shown below:

	Group and Company	
	2022	2021
	€'000	€'000
Discount rate – 1% pt increase	**(64)**	(87)
Discount rate – 1% pt decrease	**72**	100
Inflation rate – 1% pt increase	**68**	93
Inflation rate – 1% pt decrease	**(61)**	(82)

31. INSURANCE AND OTHER PAYABLES

	Group		Company	
	2022	2021	**2022**	2021
	€'000	€'000	**€'000**	€'000
Creditors arising out of direct insurance operations	**11,057**	13,641	**2,922**	4,063
Creditors arising out of reinsurance operations	**38**	172	**38**	172
Amount owed to associated undertakings	**264**	217	**257**	217
Amount owed to group undertakings	**—**	—	**1,012**	1,013
Social security and other tax payables	**4,295**	4,540	**1,711**	1,645
Accruals and other payables	**9,173**	9,548	**3,963**	3,950
Deferred income	**3,185**	3,055	**2,476**	2,341
	28,012	31,173	**12,379**	13,401
Current	**27,797**	30,974	**12,379**	13,401
Non-current	**215**	199	**—**	—
	28,012	31,173	**12,379**	13,401

Balances due to group undertakings are unsecured and non-interest bearing.

Deferred income for the Group includes front-end fees received from holders of investment contracts without DPF as a prepayment for asset management and related services and rental income received in advance. These amounts are non-refundable and are released to income as the services are rendered.

NOTES TO THE FINANCIAL STATEMENTS

32. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash (used in)/generated from operations:

	Group		Company	
	2022	2021	**2022**	2021
	€'000	€'000	**€'000**	€'000
Profit before tax	**22,182**	20,390	**5,991**	4,063
Adjusted for:				
Depreciation (Note 18)	**1,071**	855	**579**	518
Increase in provision for impairment of receivables (Note 26)	**53**	54	**53**	54
Settlement of provision for liabilities and charges and charges (Note 30)	**(62)**	(61)	**(62)**	(61)
Amortisation (Note 16)	**2,575**	2,207	**1,973**	1,523
Depreciation of right-of-use assets	**338**	328	**307**	270
Lease payments against lease liabilities	**(387)**	(411)	**(347)**	(341)
Adjustments relating to investment return	**283,604**	(112,135)	**(342)**	274
Loss on disposal of intangible asset	**2**	—	**—**	—
Revaluation loss on property (Note 18)	**—**	1,521	**—**	—
Movements in:				
Insurance and other receivables	**(1,735)**	63	**(900)**	310
Deferred acquisition costs (Note 25)	**(940)**	(347)	**(940)**	(347)
Reinsurers' share of technical provisions	**2,636**	(1,440)	**3,068**	(1,008)
Technical provisions	**(370,480)**	94,456	**2,904**	5,733
Insurance and other payables	**(3,221)**	3,880	**(1,022)**	1,426
Cash (used in)/generated from operations	**(64,364)**	9,360	**11,262**	12,414

33. COMMITMENTS

Capital commitments

Commitments for capital expenditure not provided for in these financial statements are as follows:

	Group		Company	
	2022	2021	**2022**	2021
	€'000	€'000	**€'000**	€'000
Authorised and not contracted for				
- property, plant and equipment	**1,354**	920	**707**	920
- intangible assets	**3,517**	2,914	**1,326**	2,914
- investment property	**—**	118	**—**	—
Authorised and contracted for				
- property, plant and equipment	**132**	903	**110**	684
- intangible assets	**1,984**	1,668	**1,386**	1,480
- investment property	**1,427**	3,834	**—**	—
- other investments	**47,937**	—	**—**	—

33. COMMITMENTS - CONTINUED

Operating lease commitments – where a Group company is a lessor

The Group and the Company lease out certain premises under operating leases. The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	Group		Company	
	2022	2021	**2022**	2021
	€'000	€'000	**€'000**	€'000
Not later than 1 year	**5,530**	4,970	**654**	541
Later than 1 year and not later than 5 years	**10,333**	9,190	**1,136**	988
Later than 5 years	**3,726**	2,433	**—**	38
	19,589	16,593	**1,790**	1,567

Rental income from operating leases recognised in profit or loss during the year is disclosed in Note 8.

34. CONTINGENCIES

The Company has given guarantees to third parties amounting to €0.14 million (2021: €0.19 million) not arising under contracts of insurance.

35. RELATED PARTY TRANSACTIONS

In the normal course of business, the Group enters into various transactions with related parties. Related parties are defined as those that have an ability to control or exercise significant influence over the other party in making financial and operational decisions. These include directors, key management personnel and shareholders, and their close family members, who hold a substantial amount of the votes able to cast at general meetings. Parent undertaking refers to MAPFRE S.A. and/or companies owned by MAPFRE S.A.. Bank of Valletta p.l.c. is a related undertaking in light of its shareholding in the Company and in MAPFRE MSV Life p.l.c.. Subsidiary undertakings and associated undertakings refer to the companies listed in Notes 20 and 21 respectively.

35. RELATED PARTY TRANSACTIONS - CONTINUED

Relevant particulars of related party transactions are as follows:

	Group	
	2022	2021
	€'000	€'000
(a) Sales of insurance contracts and other services		
Transactions with parent undertaking		
- Commission received	**4,849**	4,549
- Claims recoverable	**7,560**	5,848
Transactions with related undertaking		
- Trailer fees received	**4**	23
- Sale of insurance contracts	**1,039**	925
- Dividends received and interest income	**1,221**	1,589
- Rental income on investment property	**230**	288
Transactions with associated undertaking		
- Sale of insurance contracts	**25**	27
- Dividends received	**137**	141
- Rental income on investment property	**43**	36
- Reimbursement of expenses for back office support services	**19**	17
Purchases of products and services		
Transactions with related undertaking		
- Reinsurance premium ceded	**15,325**	16,015
- Staff development training & Fringe Benefits	**5**	7
- Expat staff benefits and services	**127**	29
- Computer maintenance and Group IT shared services	**1,558**	1,279
- Capitalisation of software development	**28**	399
- Other back office support services	**802**	417
- Investment management services	**16**	4
- Commission payable	**120**	—
Transactions with other related undertaking:		
- Acquisition cost payable	**4,304**	5,552
- Bank Charges	**207**	169
- Bank Interest payable	**197**	208
- Investment management services	**64**	96
- Claims paid	**335**	428
Transactions with associated undertaking:		
- Roadside assistance membership and other back office support services	**2,750**	2,500
- Claims paid	**11**	4

35. RELATED PARTY TRANSACTIONS - CONTINUED

	Company 2022 €'000	Company 2021 €'000
Sales of insurance contracts and other services		
Transactions with parent undertaking		
- Commissions received	**4,849**	4,417
- Claims recoverable	**6,918**	5,518
Transactions with related undertaking		
- Sale of insurance contracts	**1,039**	925
- Dividends received and interest income	**15**	—
- Trailer fees receivable	**1**	—
Transactions with subsidiary undertaking		
- Sale of insurance contracts	**294**	232
- Dividends received	**1,176**	—
- Rental income on investment property	**52**	51
- Rental income from sub-letting of shared premises	**37**	34
- Reimbursement of expenses for back office support services	**798**	783
Transactions with associated undertaking		
- Sale of insurance contracts	**25**	27
- Dividends received	**137**	141
- Rental income on investment property	**43**	36
- Reimbursement of expenses for back office support services	**19**	17
Purchases of products and services		
Transactions with parent undertaking		
- Reinsurance premium ceded	**14,992**	14,483
- Staff development training & fringe benefits	**5**	7
- Expat staff benefits and services	**127**	29
- Computer maintenance, Group IT shared services	**564**	534
- Capitalisation of software development	**28**	351
- Other back office support services	**453**	294
- Investment management services	**16**	4
Transactions with other related parties:		
- Bank Charges	**119**	85
- Bank Interest payable	**20**	47
- Claims paid	**335**	428
Transactions with subsidiaries		
- Reimbursement of expenses for back office support services	**1,886**	515
- Claims paid	**165**	—
- Employer's contribution to defined contribution work pension scheme	**60**	—
Transactions with associated		
- Roadside assistance membership and other centre services	**2,750**	2,500
- Claims paid	**11**	4

NOTES TO THE FINANCIAL STATEMENTS

35. RELATED PARTY TRANSACTIONS - CONTINUED

Key management personnel during 2022 and 2021 comprised the President & Chief Executive Officer, Chief Executive Officers, Assistant General Managers, General Manager, Chief Financial Officer, Chief Officers and Chief Underwriters. Total remuneration paid by the Group to key management personnel amounted to €3.43 million (Company: €1.70 million). Corresponding figures for 2021 were €3.52 million paid by the Group and €1.82 million paid by the Company.

	Group		Company	
	2022	2021	**2022**	2021
	€'000	€'000	**€'000**	€'000
Debtors arising out of direct insurance operations				
- Related undertaking	**156**	194	**156**	194
- Parent undertaking	**148**	116	**148**	116
Creditors arising out of direct insurance operations				
- Parent undertaking	**1,263**	1,714	**894**	1,294
- Related undertaking	**171**	481	**—**	—
Amounts owed to				
- Associated undertaking	**257**	217	**257**	217
- Subsidiary undertaking	**—**	—	**1,029**	1,013
Amounts owed by				
- Associated undertaking	**183**	212	**183**	212
- Subsidiary undertaking	**—**	—	**500**	472
- Parent Undertaking	**191**	317	**1**	1
Accruals - Parent undertaking	**277**	126	**163**	85
Reinsurers share of technical provisions				
- Parent undertaking	**27,299**	29,452	**27,105**	29,066
Balance of Claims Outstanding				
- Related undertaking	**55**	311	**55**	311
- Subsidiary undertaking	**—**	—	**156**	307
- Associated undertaking	**6**	6	**6**	6
Investments in related undertakings	**59,128**	150,264	**456**	507
Cash and cash equivalents	**111,723**	44,264	**5,513**	6,735

Year-end balances arising from the above transactions:
All balances above have arisen in the course of the Group's and Company's normal operations. Balances due from/to group undertakings are unsecured and non-interest bearing.

NOTES TO THE FINANCIAL STATEMENTS

36. EVENTS DURING THE PERIOD

Growth Investments Limited

During the financial reporting period ended 31 December 2022, the subsidiary of MAPFRE MSV Life p.l.c., Growth Investments Limited ("GIL"), ceased its principal activities and the shareholders resolved to liquidate the company effective 31 August 2022. The subsidiary has completed the transfer of business and closure of clients' accounts and accordingly surrendered its license for the provision of investment services. The appointed external auditor is currently auditing the subsidiary's winding up accounts and scheme of distribution.

37. STATUTORY INFORMATION

MAPFRE Middlesea p.l.c. is a public limited company and is incorporated in Malta.

The Group is 55.83% owned by MAPFRE Internacional S.A. (the "immediate parent"), a company registered in Spain, the registered office of which is situated at Carretera de Pozuelo 52, Majadahonda 28222, Madrid, Spain.

The Group's ultimate parent is Fundación MAPFRE, the registered office of which is situated at Paseo de Recoletos 23, 28004, Madrid, Spain.

The Group's results are consolidated at MAPFRE S.A. level of which Fundación MAPFRE is the parent and MAPFRE Internacional S.A. is the subsidiary. MAPFRE S.A. is a company the registered office of which is situated at Carretera de Pozuelo 52, Majadahonda 28222, Madrid, Spain

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