2021 | Annual Report

MAPFRE
MIDDLESEA

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

2021 saw the pandemic continue throughout the world and its impact on businesses was profound, mitigated to some extent by Government intervention but hitting some industries harder than others. Quantitative easing, in the more developed economies softened the harsher impact of this phenomena, the like of which has had no precedent in the modern world. However, Governments, companies and indeed the world population at large has had to adapt and live with the effects of the global pandemic – and what is perhaps surprising is the speed and relative efficiency with which all have changed in order to combat, and to some extent live with its restrictions and limitations. As I write we are 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.

The insurance industry has been no exception to this upheaval and has been greatly affected by the pandemic. Whilst the effects of the almost total shutdown in 2020 had kept claims low in non-life insurance, especially motor, as restrictions were relaxed, claims increased to their normal levels, with motor still marginally below the pre-COVID level. Our results in MAPFRE Middlesea p.l.c. ("MAPFRE Middlesea", "MMS" or "Company") were therefore affected and our profit decreased from record levels in 2020 where profit before tax was €6.4 million, to a more average result of €4.1 million. With the life company, MAPFRE MSV Life p.l.c. ("MAPFRE MSV Life"), the effect was more complex. The volatility of the markets greatly affected that company's solvency, mainly brought about by the company's best-selling investment product, which generally gives stable returns but where the capital of the investor is guaranteed by the company. In this case the fluctuations in share prices coupled with the very low returns on fixed interest bonds meant that the company needed to bolster its capital buffer which had necessitated an injection of capital of some €40m by the company's shareholders – MAPFRE Middlesea and Bank of Valletta p.l.c. in early 2021. Whilst the company continued to register increasing profits, it was deemed prudent not to issue dividends to those shareholders last year, but to retain those profits to ensure a comfortable solvency ratio.

As MAPFRE MSV Life did not issue dividends in 2020, and 2021, MAPFRE Middlesea could only pay dividends out of its own earnings. I must inform you therefore that for the second year the dividend pay-out is at a reduced level.

RESULTS

MAPFRE Middlesea returned a profit of €4.1 million. Whilst premiums continued to increase, the Company was hit by high claims especially in motor, which impacted the profitability of the Company. Net non-life claims increased from €29.8 million in 2020 to €34.9 million in 2021 an increase of 16.9% whilst net earned premiums increased to €60.7 million or an increase of 5.7%. The result was that profit fell to €4.1 million from €6.4 million.

With the Company's principal subsidiary, MAPFRE MSV Life, premium income continued to increase to record levels with premium turnover reaching €325.1 million, up from €269.6 million, an increase of 20.6%. The main driver for this was the sale of the company's Single Premium investment product which continues to remain popular, having a track record of delivering good returns whilst setting the investors mind at ease that the capital is guaranteed. MAPFRE MSV Life's profit before tax increased from €15.0 million to €16.7 million. However, as noted above, in spite of the increased profit, the directors have adopted a prudent approach. In 2020 the dividend was cancelled, whilst in 2021 no dividend was declared. As stated, this means that there were no distributable dividends released to MAPFRE Middlesea which means that there was no onward transmission of dividends to you the ultimate shareholders.

DIVIDENDS

MAPFRE Middlesea is declaring a net dividend in respect of the profit earned in 2021 of €2.4 million which translates into a net dividend per share of €0.026087. This compares to the dividend declared last year of €3.2 million.

I should also inform you that the Directors of MAPFRE MSV Life are determined to resume dividend payments albeit prudently in the near future. It is difficult for me to predict with any certainty when this will occur or indeed the rate of pay-out as this is subject to the prevailing economic situation which on a global level remains highly uncertain, but is likely to be prudent and having due regard to the solvency of the company.

SOLVENCY

2020 saw the solvency ratio of MAPFRE MSV Life fall to 101% in March. This was brought about by the onset of the pandemic which brought havoc on the world markets. The company took immediate remedial action, repositioning its investments to a more defensive position and cancelling the declared dividend declared for that year. The capital injection of €40m by its shareholders MAPFRE Middlesea and Bank of Valletta further bolstered its solvency which is now in what we term, the green zone, and well in excess of 200% (provisional). The Group continues to monitor the solvency of the group, but more specifically that of MAPFRE MSV life, very closely in view of the continued volatility in the markets but the Board remains confident that the steps taken, ensure the Group's resilience in the face of this.

OPERATIONAL DEVELOPMENTS

In spite of the pandemic, MAPFRE Middlesea and MAPFRE MSV Life, continued to transform their respective businesses to meet the exigencies of the future. Both companies are in the middle of transforming their IT systems and processes and significant improvements have been registered in the past year. We view this as key to the development of both companies and indeed we hope to reap great efficiencies in the near future as a result of this.

Both companies are developing new products and especially in the case of MAPFRE MSV Life, which should have significant long term benefits. This includes the new pension

CHAIRMAN'S STATEMENT

schemes which are being rolled out and which will help provide additional income to those taking up pension plans on retirement. For the company this will constitute a new diversified source of income.

CHALLENGES

The economic situation remains unstable. As the effects of the pandemic recede, new geopolitical risks, specifically in the Ukraine, have taken centre stage, whilst the potential effects of the withdrawal of quantitative easing have yet to be seen. All this makes for the roller-coaster effect on the markets likely to continue.

In Malta the short term effects of grey listing seem to have been weathered, however the longer term impact of this in attracting new business has yet to be seen. Further, the global minimum tax rate set at 15% which is due to be implemented will impact our financial services.

We look to the Government to seek out new sustainable industries whilst ensuring that public finances are carefully expended and invested wisely in the best way possible and rendering value for money. The Government needs to work hard to restore the country's reputation and remove its name from the Grey List and do its utmost to ensure that Malta is a place to do business, with a highly skilled flexible workforce, where the rule of law is applicable to everyone without fear or favour.

On the environment side, we have seen that climate change is a reality. As insurers we are often at the sharp end of its effects with ever increasing pay-outs due to storms, drought, floods, and crop failures. We will continue to pay for our inaction, and can only urge our own and other governments to work towards resolving this existential problem.

Caution remains the watchword when looking forward but this does not mean we need be pessimistic. We have the means to resolve these issues but require the will.

REGULATION

The MFSA, as regulator, has become increasingly active and placed onerous demands on companies operating in the financial services sector. This is not only a national issue as regulators the world over are becoming increasingly intrusive. Combating financial crime, implementing complex reporting, solvency and accounting standards have meant that we have continued to invest heavily in skills and technology to ensure that we fulfil our obligations in this regard. I must say that in five short years the landscape has entirely changed and the group has built up a team of highly skilled professional personnel in finance, compliance, risk management, actuarial and anti-financial crime departments. The cost of compliance is indeed high but is an investment necessary to do business in the modern landscape.

2023 will see the introduction of IFRS 17, an accounting standard which will revolutionise the way we account for and report our results. This will be seen in the 2023 statutory accounts but of course the 2022 figures, as comparatives need to be computed including a restatement of the opening position for that year. We are well prepared to achieve this milestone and in this I must acknowledge the great assistance we are receiving from MAPFRE S.A..

OUR EMPLOYEES

2021 saw a reduction in the number of employees working from home. As the pandemic receded, many preferred to work from the office which of course has its advantages. However, in this the world has changed and the company has become, where possible, more flexible, more family friendly than in the past. As always, our primary aim is the health and safety of our employees.

In 2022 we are looking to increase our staff training, which had proved difficult during the pandemic and on which we place much importance.

Employment has grown in line with turnover and the increasing regulatory requirements. We now employ some 295 staff in the Group. Together with the Board I should like to thank them for their sterling efforts, especially during the pandemic, but also due to the additional demands brought about by the IT transformation and the increased regulatory structures.

DISTRIBUTION

MAPFRE Middlesea distributes business with a multi-channel approach which means that many of the policies sold are generated through a network of Agents, Brokers and Tied Insurance Intermediaries. Over 35% of our income comes from 6 agents, whilst 22% comes from our own Tied Insurance Intermediaries of which we have around 60. Clearly therefore they remain critical to the success of the Company. We maintain close links with all of our distributors who have also felt the brunt of increased regulation whilst maintaining their businesses and selling our products to the market. We remain grateful for the hard work they put in and reiterate our committment to them to continue to improve our service as well as ensuring that our product offering remains competitive and innovative.

CORPORATE SOCIAL RESPONSIBILITY

During 2021, despite the challenging times caused by the pandemic, MAPFRE Malta endeavoured, as part of the MAPFRE Group, in its committment in environmental, social and governance (ESG) matters by once again meeting our CSR objectives collaborating with a number of different entities to organize various activities ranging from food and blood donations, environmental activities and clean-ups.

Fundación MAPFRE allocated over €100k for projects in Malta across different areas (road safety, health and social actions). The Foundation has once again funded the provision of specialized services to children and adults with disabilities to enable them 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.

CHAIRMAN'S STATEMENT

SHAREHOLDERS

MAPFRE Middlesea p.l.c. is a listed entity regulated by the Malta Financial Services Authority. It is a subsidiary of MAPFRE Internacional. Being part of one of the largest insurance companies in the world allows us to access technical know-how which is at the cutting edge of the industry. In 2021 MAPFRE Internacional increased its shareholding from 54.56% to 55.83% through the purchase of 1,168,140 ordinary shares.

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 3,750.

I have the privilege to work with a board which is professional in its dealings and technically competent. Joseph F.X. Zahra, Jose Ramon Alegre, Jose Luis Jimenez and Jose Maria del Pozo were appointed by Mapfre whilst Taddeo Scerri and John Cassar White 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 already reported last year that Javier Moreno was appointed the President and CEO of MAPFRE Middlesea. It was an eventful year which he handled intelligently and skillfully at full tilt. He took over in early 2021 a year which proved what I might say eventful.

2021 also saw the retirement of David Curmi who was CEO of MAPFRE MSV Life for 19 years. The company, with the assistance of MAPFRE SA made an international call to find a replacement and I am pleased to say that after a rigorous selection process Etienne Sciberras was appointed in his stead. He was formerly the Group Risk Chief Officer and has moved into his new role as CEO seamlessly. I am grateful for the work, professionalism and dedication of the two new CEOs and their immense contribution to the Group. They are ably supported in this by the whole team of chief officers and staff who have ensured the Group's continued progress in these unprecedented times.

Signed by Martin Galea (Chairman) on 23 March 2022

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT

MAPFRE MIDDLESEA GROUP HIGHLIGHTS

Once again, 2021 has been a complex year in our lives. The continuing pandemic has brought about restrictions in mobility and has affected the country's normal social and economic development. We started the year with wave 4 and closed it with wave 5 of this pandemic.

Our objective as MAPFRE Malta Group ("Group") has been twofold: to preserve the health and safety of our employees, clients, intermediaries and other stakeholders, and to maintain at all times the high level of service to our policyholders and distributors. I must say that we have shown complete flexibility in adapting our service format to the changing circumstances. This has been thanks to our technological capacity to work virtually and above all, to the total commitment of each and every employee in our organisation.

Though uncertainty is not conducive to business development, our financial performance has been very good thanks to the remarkable effort made by all our teams, by our intermediaries and strategic partners.

Premiums written amounted to €405.2 million, with significant growth in both Long term business and non-life. The increase compared to 2020 is remarkable at 17.6%, mainly due to our strong distribution capacity and more favourable economic conditions.

In addition to the growth in the managed business, our profit before tax reached €20.4 million, slightly below the exceptional result of 2020 where we were able to obtain a higher technical result than usual. In any case, we are very pleased to have even exceeded the targets we set ourselves.

Long term business once again experienced high volatility, but unlike the previous year, the highest tensions in the international financial markets occurred in the last quarter. Fortunately, our successful diversification strategy and our active management of the portfolio, has led to good investment results at the end of the year. In addition, we have a solvency position reinforced by the increase in capital and by appropriate management, which has enabled us to continue growing the savings business. The growth in premiums was magnificent, as was the result, exceeding in both cases the 2020 figures. These are discussed in more detail later in this report.

Non-Life business has returned to growth in almost all our lines, despite the abnormal situation, with the low tourist activity and reduced international mobility, still affecting automobile and travel. The technical performance, with a Net Combined Ratio ("COR") of 91.8%, was good overall, though not reaching the excellent and atypical 86.1% of 2020 that was due to the drop in claims associated with the lack of mobility caused by the pandemic. This performance was not evenly spread in all sectors, with a better performance in personal and commercial lines compared to motor and health. However, our risk model, where diversification is key, has enabled us to once again perform well.

Premium written for MAPFRE Middlesea p.l.c. ("MAPFRE Middlesea", "MMS" or "Company") including group life reached the €80.0 million mark for the first time at €80.1 million and profit before tax closed at €4.1million, lower than the excellent atypical result in 2020 but above the targets set for the year.

On balance, this year has been clearly positive despite the persistent effects of the pandemic. As a Group we have managed to grow in almost all businesses and maintain a good level of profitability, rising to the challenge set by Company's strategy of transforming ourselves to grow profitably.

The experience gained in 2020 enabled us to face 2021 with renewed capabilities. The great assets of our Company 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 the planned transition of the Chief Executive Officer positions in MAPFRE Middlesea and MAPFRE MSV Life p.l.c. ("MMSV") have been carried out successfully.

GENERAL BUSINESS

Premiums in 2021 reached €77.6 million, representing a growth of 6.9% over 2020. Since the beginning of the year, we have made a constant effort to recover the growth that we have enjoyed in recent years and that was brought to an abrupt halt in 2020 by the shock of the pandemic. Preliminary figures show that we have managed to grow our local non-life risk business in line with the rest of the market, and marginally strengthening our leading position to 33.23%.

We have achieved clear and balanced growth across all business lines except travel and marine cargo, which are still impacted by the effects of COVID19. Of note was the return to growth in motor, with increases of 3.3%, the magnificent result in health, and the consistency of the rest of the personal and commercial lines.

With 109,031 customers and 213,439 policies, we have achieved increases of 1.26% and 4.69% respectively over 2020. This good news confirms that more and more clients are placing their trust in MAPFRE.

Commercial activity has been intense and more than 54,000 new policies have been issued, a significant figure that has been possible thanks to our large distribution network and

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT

GENERAL BUSINESS – CONTINUED

the attractive value proposition that the Company offers to its clients.

Our retention ratio is 81.2%, a very good figure in general terms but one that needs to be optimized in the coming years. 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 to innovate and develop new insurance solutions, with important launches such as the Electric Vehicle (EV) policy, a pioneer in our market, simplified more adaptable offerings for SMEs, and the COVID coverage in our travel policies. Without a doubt, MMS has the widest coverage of insurance solutions that allow our intermediaries to always meet the needs of each family, company or organisation.

Regarding our distribution, our partners, brokers, agents and TIIs have demonstrated once again this year that a relationship based on mutual trust and commitment is the basis for excellent service to our clients, offering agile and personalised attention.

Our agents have developed a formidable year, showing that this model generates profitable and sustainable growth. They have increased by 6.8%, 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.

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 2021 has struck three additional agreements with three established partners which will surely contribute in delivering higher sales figures in the coming years.

Motor business evolution this year was complicated by two factors: a higher frequency of serious claims, concentrated mainly in Q4, and an upturn in the average cost of claims associated with the higher cost of vehicle repairs. The net COR reached 100.3%, and Management has already taken steps to improve in 2022, and will continue to monitor closely its development. Health business performed very well with net COR holding at a very positive 75.9%, higher than 2020 but still more than adequate. The rest of the business lines had a net COR of 83.4%, which is very satisfactory and allowed us to maintain the good overall technical result.

With Motor already below 50% 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, which has enabled us to slightly reduce our internal expenditure by 0.7%.

With a headcount at the end of 2021 of 194 employees, MMS has suffered a variation of 1.6%, with a turnover of 9.4%. 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 continues to be very high, as provisionally determined by management at 257.9%, are 2.6 times the minimum legal requirement. 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.

Investment return at €0.4 million, is higher than in 2020 but conditioned by the slightly negative adjustment of the valuation of our main real estate investment, Development House.

LONG TERM BUSINESS

2021 has again been a challenging year for MMSV. The first months were in particular more hesitant due to the uncertainty of the pandemic but in the end, in close collaboration with our strategic partner Bank of Valletta p.l.c. ("BOV"), MMSV has achieved premium figures of €325.1 million across all lines of business. This represents a very significant increase of 20.6% and the highest premium income year in the Company's history.

The growth was mainly driven by savings products and in particular by our well-known With-Profits product in Single Premium mode. Again, our main distributor was BOV.

The other business lines: protection, pension plans, periodic premium savings, investment bond and unit-linked, also performed very well in all cases.

Of particular note is that despite parting ways with two important distributors this year, MMSV was able to offset those losses and even grow above our initial estimates including through a new agreement with a financial institution that will further strengthen its distribution network. Our direct distribution channel, shared with MMS, has performed extraordinarily well and almost doubled its turnover. Finally, other TIIs have also continued to contribute to the Company's

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LONG TERM BUSINESS – CONTINUED

strong business development. MMSV has continued to work on improving the performance of With-Profits products, with special offers and with additional services included in protection policies. MMSV offers the widest range of protection, savings and retirement solutions on the market, suitable for families, companies and diverse organisations.

Investment management has again been key and thanks to our diversified investment strategy MMSV has achieved a very positive financial result for its policyholders, resulting in the allocation of a Regular Bonus of 2%. In addition, certain investments have been adjusted to focus more on assets that generate returns with lower volatility over the long term.

Funds under management increased to €2,253 million, an increase of 3.5% over 2020, thanks to the With-Profit's excellent sales figures as well as a return of the fund of €93.6 million, representing a gross investment return of 4.2%, despite the volatility experienced especially in Q4.

Operating expenses were closely controlled. The 1.1% reduction below 2020 was mainly due to a reduction in internal expenses of 6.3% which compensated the higher acquisition expenses from new business.

The protection business delivered an excellent technical result, strongly supported by an improvement in interest rates, mortality rate adjustments and optimisation of reinsurance protection.

As a consequence of the above, MMSV's profit before tax reached €16.7M, an excellent figure exceeding 2020 and contributing decisively to Group consolidated results of over €20.0 million.

Solvency is a key aspect of MMSV. Our ratios are further reinforced, rising from 189% to more than 228% (provisional) in 2021. This increase is due not only to the capital injection made in March 2021 but also to a continuous improvement of those aspects of the With-Profit products that most penalise capital requirements.

Regarding the MMS group life business, 2021 has been a better year than expected as the increased competition in the market finally had a low impact and the premiums figure has remained broadly similar to 2020 at €2.5 million with a 0.5% reduction. In addition, the profitability of this business line has been very positive, €0.9 million, outperforming 2020 by 85.1%.

CONSOLIDATED RESULTS

In 2021, the group registered a profit before tax of €20.4 million, 3.8% lower compared to the previous year. After tax, the Group generated a profit of €12.9 million or 9.5% lower than the previous year. The tax expense of 2021 is more than the 35% corporate rates closing at 36.6% compared to 32.6% in the previous year due to a lower impact of Property gains that are taxed at 10%. Earnings per share attributable to shareholders have been reduced to 8c3. The profit attributable to shareholders was reduced by the lower result achieved by MMS. MMS is committed to returning value to its shareholders and will continue to dedicate an important part of its profit to remunerate the shareholder.

After a complex few years and 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 €0.026087 per share. The Company's payout will be 92.02% of this year's profit after tax of the Company. It is envisaged that MMSV will return to pay a dividend to its shareholders in 2022 at a level that would safeguard a good level of Solvency.

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.

STATEMENTS OF FINANCIAL POSITION

The group's total assets increased by 5.4% and totalled €2.83 billion. More than 92.7% of them are return-seeking assets (investments and cash and cash equivalents) derived from the increase in MMSV's funds under management. These funds are invested in diversified securities (local and foreign), 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, 97.0% of the balance pertains to technical provisions. Life technical provisions increased as a result of inflows exceeding outflows from 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 €40.7 million or 22.4% including the minority interest mainly driven by the injection of €20.0 in MMSV's capital by BOV, the profit for the year and the increase in the value of the in-force business.

REVIEW OF OPERATIONS

During 2021 MAPFRE Malta has continued to drive forward its omnichannel approach, introducing improvements across the board. At MAPFRE we want to accompany clients and engage with them based on their preferences.

Starting with the website, we have developed an integrated site for the local Group, mapfre.com.mt. 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

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REVIEW OF OPERATIONS – CONTINUED

promote direct services to policyholders to make regular processes, such as quotations, renewals, and notification of claims, easier and simpler. The 'My Insurance' customer portal gives access to the excellent offers of MAPFRE's Insure&Save loyalty programme. We cannot forget Emma, our chatbot, which continues to handle a growing volume of interactions with our policyholders.

But we also continue to provide a first-class contact centre through our associate company MAPFRE Middlesea Assist, a company specialising in road and home assistance services, which are being digitalised for the convenience of our customers. Of course, communications via WhatsApp are fully operational.

It is important to mention that all our intermediaries and regional offices play a key role in creating a good customer experience, a situation that MAPFRE evaluates through studies based on NPS (Net Promoter Score) methodology and where this year MMS has obtained the best rating in the market.

We constantly strive for greater operational efficiencies, which is why several operational processes have been optimised this year with RPA technology.

In 2021, we made organisational adjustments in MMS to strengthen the technical and operations functions and those that are shared between MMS and MMSV.

Regarding digital transformation, progress in the implementation of the new core systems of both companies has been remarkable, reaching important milestones, although we have again suffered some delays in some projects. 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.

SUBSIDIARIES AND ASSOCIATES

BEE INSURANCE MANAGEMENT LIMITED

BEE Insurance Management Limited 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, but have again encountered difficulties in acquiring new clients due to the pandemic. Malta's grey-listing status has also resulted in potential clients delaying their decision to establish themselves in Malta.

Due to these circumstances we made a small loss of €0.1 million. Nevertheless, we continue to explore new opportunities that will allow us to maintain the sustainable development of this activity within MAPFRE Malta.

MIDDLESEA ASSIST LIMITED

MAPFRE Middlesea Assist Ltd, our joint venture between MMS and MAPFRE Asistencia, generated a profit of €0.18 million, a reduction of 2.2% compared to 2020.

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

Middlesea Assist continues to develop its telephone customer care services, using WhatsApp.

CSR AND SUSTAINABILITY

We are a socially responsible business Group committed to the environment. We believe that the development of our Company must be accompanied by absolute respect for all the stakeholders with whom we interact. We aspire to contribute to the well-being of society, which we are a part of. MAPFRE is a company with a heart, whose pulse supports our social strength as an organisation.

We are actors of social commitment through volunteering and through Fundacion MAPFRE activities. Our employees, ourselves, are the protagonists collaborating in social tasks that help others, something that, if in normal circumstances is very important, this year has become fundamental. Our volunteers have participated in activities that have benefited a lot of people in need, giving them food and a helping hand whenever possible.

Building a better, fairer, safer, more equal, more prosperous world is what MAPFRE aims to achieve with #playingourpart, a concept targeting people and based on deeds and actions. It revolves around what each one of us can do, those thousands of small gestures that contribute to the common goal of protecting the planet and building a better today and tomorrow for everyone.

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.

LOOKING FORWARD

The year 2021 is over and with it our current strategic cycle and so we need to take stock. In 2019 we set out to transform ourselves to grow profitably. There have been clear advances

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LOOKING FORWARD – CONTINUED

in our customer focus, in the technical and operational management of our businesses and culture and talent as fundamental pillars of our business development.

It has definitely not been a normal period with the pandemic hitting us all through 2020 and 2021 but, despite adjustments to some of our projects to address more urgent needs, we have been able to achieve most of our objectives and KPIs for the period.

Now it is time to look to the future, and we have defined a new strategic plan for MAPFRE Malta 2022-2024, with specific developments for each company generating important synergies.

Briefly, our lines of action will have very clear drivers.

CUSTOMER FOCUS

Our mission is to provide the best protection and the best service to our customers. We have a magnificent starting point, but we are not satisfied. We want to be leaders in customer experience in Malta and for this, we must listen more, understand all their needs and their preferred form of relationship. We want to accompany clients in their lives and be there with them, supporting them, at all times being reliable and trustworthy. 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

While maintaining and reinforcing all our current distribution agreements with our important commercial and strategic partners, we must continue to strengthen the direct relationship with our customers when they require it, either in person or digitally. We remain committed to a multi-channel distribution model, adapted to the needs of our customers. 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 the lowest possible cost, driving towards simplicity and agility. This means transforming many processes, and we are taking on the challenge determined to achieve this ambitious goal.

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 MFSA. 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.

Any business strategy requires a favourable 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 so that situations such as the current grey-listing can be remedied quickly. 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. As a society, we cannot accept that serious avoidable accidents continue to occur. We must raise awareness of the risks of drug consumption, the use of mobile phones and inappropriate speed. We must act in education, legislation, infrastructure and vehicle fleets to rise to the challenge of Zero Fatalities in cars.

ESG is already deeply embedded in our strategy, 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.

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 23 March 2022

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.

At present: Director of MAPFRE MSV Life p.l.c., Director of Melita Ltd., Director of Printex Limited, involved in other family and licensed companies.

Alfred Attard
NED I, resigned with effect from 30 April 2021
At Present: Employed with the Bank of Valletta for the past forty four years holding several senior management positions, mostly in credit. Between January 2015 and May 2016, served as Chief Officer SME Finance until June 2016 when he was appointed Chief Officer Corporate Finance. In 1995 spent six months at the Bank's representative offices in Australia.

Antoinette Caruana
NED I
Formerly: Held a number of positions in the private sector including the post of Chief HR Officer at Lufthansa Technik; General Manager HR of the Brandstaetter Group and previously worked at Bank of Valletta for over 11 years. She was also Chief Executive of the newly incorporated government agency Heritage Malta between 2003 and 2006. She has lectured at the University of Malta in Management, Industrial Relations and HRM. She served as director of the Central Bank of Malta, the Employment and Training Corporation and Chairperson of the Malta Professional and Vocational Qualifications Award Council. She was also a trustee of the Richmond Foundation, director of the Foundation for Human Resources Development and a core member of the Malta-EU Steering & Action Committee.

At present: Company secretary and Group HR manager of the Farsons Group and member of the Farsons Group Senior Management Board. She also serves as a member of the Foundation for the Rehabilitation of Drug Abusers (Caritas Malta) Board, the Institute for Public Services Board and as employers' representative on the Industrial Tribunal.

Taddeo Scerri
NED I
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.

David G. Curmi
NED, resigned with effect from 31 January 2021
Formerly: President of the Malta Chamber of Commerce, Enterprise and Industry, and President of the Malta Insurance Association.

Up till 31 January 2021: Chief Executive Officer of MAPFRE MSV Life p.l.c., Chairman of Growth Investments Ltd., Director of Middlesea Assist (a MAPFRE company), Director of Midi plc, Deputy Chairman of Plaza Centres plc. and Chairman of the National Development and Social Fund.

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.

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 plc., Innovate Software Limited, Cablenet Communication Systems Ltd (a company incorporated in Cyprus) and a Director within the Testaferrata Group of Companies.

BOARD OF DIRECTORS & COMPANY SECRETARY

Joseph F. X. Zahra
NED I
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 plc; Chairman, Middlesea Valletta Life Assurance Co. Ltd; Chairman, Maltacom plc.; Chairman, National Euro Changeover Committee; Chairman, National Commission for Higher Education; Chairman, Middlesea Insurance plc; 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 plc; Director, Curmi & Partners Ltd; Director, Birks Group Inc. (Canada).

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 EURASIA Region of the MAPFRE GROUP since April 2018, Director of MAPFRE MSV Life plc.

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.

At Present: CEO of the EURASIA Region in the MAPFRE Group since 1 January 2021.

John Cassar White
NED I
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.

Felipe Navarro
President & CEO
resigned with effect from 1 April 2021
Formerly: Assistant General Manager of MAPFRE VIDA, Board member of different Life Insurance and Pensions companies: Director in various companies namely Bankinter Seguros de Vida SA, CCM Vida y Pensiones S.A., Unión del Duero Compañía de Seguros de Vida S.A., Duero Pensiones EGFP S.A., Catalunya Caixa Vida S.A., Bankia Mapfre Vida S.A., ASEVAL S.A., Laietana Vida S.A.,

Up till 31 March 2021: Outgoing President and CEO of MAPFRE Middlesea p.l.c., CEO of MAPFRE MSV Life plc, Director of Middlesea Assist Ltd, Chairman of Growth Investments Ltd.

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 plc., 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 plc 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 plc 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 2021.

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 investment services and insurance management services.

REVIEW OF BUSINESS

THE COMPANY

MAPFRE Middlesea p.l.c. (the 'Company') registered a profit before tax of €4.1 million during the financial year ended 31 December 2021 ("FY 2021") compared to €6.4 million registered in the previous financial year ("FY 2020") with post-tax profits of €2.6 million, compared to €4.1 million in FY 2020. Whilst COVID-19 pandemic remained with us, a level of normality returned impacting our technical performance through increased claims in the non-life business. On the other hand group life business returned a stronger result than the comparative year. Negative fair value movements, particularly in investment property, together with the non-payment of dividend from the subsidiary MAPFRE MSV Life p.l.c. resulted in a modest financial contribution from investments to the profits of the Company.

Premiums written by the Company reached €80.1 million (2020: €75.1 million), a 6.6% increase with growth in all main non-life classes of business with a marginal drop in Group Life. MAPFRE Middlesea p.l.c. remained the leader of the non-life market with the Company's market share increasing marginally from the previous year following the receipt of provisional market data as the market registered a growth in line with the Company's.

Technical results for general business dropped to €5.3 million from the €7.9 million of FY 2020, a 33.7% reduction. Premium growth was encouraging although the growth in Motor was subdued compared to other classes. Travel premium continued with negative trends as the Company stopped offering the product to individual travellers for most of the year until the approval of the COVID cover rolled out towards the end of 2021. Claims frequency, which was in 2020 significantly reduced particularly in Motor and Health business returned to normality with the easing of restrictive measures during 2021. An increase in average claim cost in Motor was also experienced which, together with a higher impact from major large losses saw the net combined ratio in Motor increase to 100.3%, well above the 89.3% registered in FY 2020, and above set targets. The whole non-life portfolio closed with a net combined ratio of 91.8% up from the 86.1% registered the previous year. Group Life business although retracting marginally in premiums recorded a strong result contributing €0.9 million, above the €0.5 million in FY 2020 mainly due from a reduction in reinsurance cost emanating from reduced claim severity.

As the economy partially recovered from the contraction experienced in 2020 and with GDP growth projections showing a reducing trend, the quest for profitable growth remains at the core of the MAPFRE Group strategy to ensure adequate returns to its shareholders even at such a turbulent period. The Company continues to monitor each line of business, ensuring pricing adequacy whilst introducing changes in the products offered, taking on risk that is within its 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 whilst upgrading its technological platforms that 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 €0.4 million compared to the €0.1 million in FY 2020. In both financial years MAPFRE MSV Life p.l.c. did not pay any dividends to its shareholders. As reported last year due to the financial market crises which was at its worst during March 2020, the Solvency ratio of MAPFRE MSV Life p.l.c. had reduced significantly though remaining within regulatory requirements. Management took the necessary action to restore the Solvency position to a more adequate level, including by not paying dividends and by increasing its issued and paid up share capital. Local financial securities continued on the negative trend of the previous year. During 2021, the Company disposed of its foreign equity holdings and appointed MAPFRE ASSET MANAGEMENT as its investment manager to actively monitor the portfolio and take the necessary actions to improve returns. Revaluation of property investments rendered a loss of €0.5 million for 2021 compared to a gain of €0.1 million the previous year.

The Shareholder's Funds of the Company at €76.4 million saw a reduction of 0.8% during FY 2021 resulting from the payment of dividend for FY2020, which exceeded the profit for the year. Net Asset Value per share as at 31 December 2021 amounted to €0.83.

DIRECTORS' REPORT

REVIEW OF BUSINESS - CONTINUED

THE COMPANY - CONTINUED

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 €16.7 million for FY 2021, up 11.3% on the previous year where a €15.0 million profit before tax was generated. Profit after tax is recorded at €10.6 million, up 2.9% on the €10.3 million in the previous year.

Operating results benefited from the strong economic recovery and the significant liquidity in the local market. Consumer sentiment continued to improve as unemployment levels went down as concerns related to COVID-19 continued to abate as vaccination rates increased.

During the year, governments and Central Banks' accommodative fiscal and monetary policy continued to support asset prices, driving major equity indices to record highs. Notwithstanding the supply chain issues and the spike in commodities prices, equities continued to outperform while fixed income securities suffered some losses as inflation surged across many countries fuelling interest rates increase expectations. In the US, the Federal Reserve System took centre stage in communicating that interest rate will have to rise in 2022 to manage the increase in inflation while the asset purchase programme will be gradually withdrawn. On the other hand, the ECB has been more cautious not to derail the economic recovery and is thus expected to start the interest rate normalization cycle later when compared to his US and UK counterparts.

Gross premiums written for FY 2021 totalled €325.1 million, an increase of 20.6% over the prior year €269.6 million, driven by a strong demand across all lines of business. The economic recovery, the high levels of liquidity in the local economy and the low interest rates characterizing the market were the main catalysts behind the increased demand for MMSV's products. Both single and regular premium business benefited from this environment. The With Profits Single Premium Plan contributed significantly towards the gross premium written in 2021. In terms of regular business, personal pension plans continued to experience a sustained demand.

Net claims incurred increased to €305.0 million through the year compared to a prior year €261.2 million largely as a result of a continuing trend which sees an increase 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 increased to €18.1 million from a prior year €14.9 million as a result of slow but steady growth in the volume of With Profit funds throughout the year as well as life assurance protection business driven by good underwriting performance.

The MAPFRE MSV Group's total assets increased by 6.2% from €2,563.7 million at the end of 2020 to €2,721.4 million at the end of 2021, whilst net technical provisions (including investment contracts without DPF) increased by 3.8% from €2,349.3 million in 2020 to €2,437.6 million in 2021.

The value of in-force business, which projects future transfers to shareholders arising from policies in force at the end of the year, increased by 12.8%, up from €77.2 million in 2020 to €87.1 million in 2021. This is attributable to the impact of new business inflows, improved technical margins and improved mortality performance when comparing actual mortality to assumed mortality updated run rates.

Total shareholders' funds at the close of 2021 amounted to €221.9 million (2020: €161.4 million), an increase of 37.5% over the previous year and well ahead of minimum solvency guidelines. In March 2021, MMSV's shareholders increased the issued and paid up share capital by €40.0 million.

The shareholders of MAPFRE MSV Life are wholly committed to 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.

DIRECTORS' REPORT

REVIEW OF BUSINESS - CONTINUED

MAPFRE MSV LIFE P.L.C. – CONTINUED

The MAPFRE MSV With Profits Fund stood at €2.25 billion at 31 December 2021 (2020: €2.18 billion) with growth in the fund driven both by operational cash flows arising from new business as well as market returns on the differing asset classes held within the portfolios. Notwithstanding new COVID-19 virus variants, inflationary pressures, supply chain disruption and geopolitical concerns, markets continued to trend broadly higher in 2021 on favourable economic, financial market and policy conditions. The total investment return of the With Profits Fund amounted to €93.6 million generating a return of 4.2%.

The investment strategy of the MAPFRE MSV With Profits Fund is to hold a diversified range of quality assets and currencies that mitigates against market risk. This asset diversification together with the robust investment management process, the quality of the asset managers engaged, and the Company's strong track record of investment management continue to be fundamental in deriving value in a challenging and more volatile investment market environment.

In March 2022, 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 2021. These amounted to 1.90% for the Comprehensive Life Plan (regular and single premium policies), 2.00% in respect of the Comprehensive Flexi Plan (regular and single premium policies), 2.00% under the Single Premium Plan and 1.90% 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 1.50% 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 percentage for every year in force after the 10th 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 April 2022 and the next bonus declaration in accordance with the following table:

Product	Final Bonus Flat Rate %	Rate per Year in Force >10 years %
Comprehensive Life Plan (Regular Premium	Nil	0.50%
Comprehensive Flexi Plan (Regular Premium)	7.50%	0.25%
Single Premium Plan	9.00%	Nil
Comprehensive Life Plan (Single Premium)	Nil	2.50%
Comprehensive Flexi Plan (Single Premium)	10.00%	1.50%

The Board of MAPFRE MSV Life also approved a Regular Bonus of 1.90% 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 1.25% on the ALICO 78 policies and a Regular Bonus of 1.25% 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 2021, the life insurance market in Malta continued to recover from the significant challenges brought about by the outbreak of the pandemic in 2020 and by the continuing climate of low interest rates. The 2021 regular bonus rates represent an increase of 0.50% from the 2020 declaration. This reflects the improved investment performance of 2021.

During the year, the company continued to follow health and safety measures to mitigate the potential business disruptions associated with COVID-19. The company followed local authorities' protocols and internal policy to minimize the risk of virus exposure to the employees, customers and other stakeholders. A hybrid working model has been maintained with continued investment in information technology infrastructure to better support remote working. The digitilization effort continues to be paramount not only to enhance the customer experience but also to improve operational resiliency.

DIRECTORS' REPORT

REVIEW OF BUSINESS - CONTINUED

MAPFRE MSV LIFE P.L.C. – CONTINUED

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.

The single premium contracts saw a very strong demand in the first and last quarter of the year. Pent up demand and a more subdued first quarter in terms of local capital market issues are believed to have contributed to this improved performance. Whilst demand was moderated in the second and third quarter, it picked up significantly during the last quarter a driven by the Single Premium special offer that was launched at the time.

The demand for new retirement savings products continues to be encouraging and the Group saw improved turnover in regular savings contracts and protection business. We continued to be very active in the voluntary personal pensions market and continued to successfully promote our Voluntary Occupational Pension Scheme in the market.

As a result, MAPFRE MSV Life continue to see good take up of all its product groupings as customers continue to choose the company, trusting in its brand and in the quality of its service proposition.

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 pick-up in revenue as a new client was onboarded. A combined loss of €0.1 million was registered a decrease of 48.2% on the previous year's loss.

Church Wharf Properties Limited holds a property within the Regeneration of the Grand Harbour Area. A loss of €0.4 million was registered at the end of 2021 following 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 €20.4 million in FY 2021 compared to €21.2 million achieved in FY 2020. Profit after tax for FY 2021 closed at €12.9 million a 9.6% drop from the €14.3 million achieved in FY 2020. Group premiums written saw a strong recovery reaching €405.3 million, 17.6% above that registered in FY 2020 with both insurance companies remaining leaders in their respective markets.

MAPFRE Middlesea's Group capital and reserves attributable to shareholders at 31 December 2021 amounted to €111.0 million (2020: €100.6 million) on a consolidated basis with a net asset value per share of €1.21 as at 31 December 2021 mainly as a result of good results, the increase in the value of in-force business and the non-payment of dividend by 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 objective, the Group is aiming 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. Our investment policies and processes are being reviewed and updated to promote Responsible Investing principles, initiatives have been rolled out to reduce our carbon footprint while the Group can also boast to have a diverse multinational workforce with high levels of female participation in senior management positions.

DIRECTORS' REPORT

REVIEW OF BUSINESS - CONTINUED

THE GROUP – CONTINUED

Training and development of our people continued to feature high on our agenda during 2021 notwithstanding the pandemic. 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.

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 2021 we progressed on our major IT programmes in both insurance companies. MAPFRE Middlesea, whilst suffering some delays, achieved a number of goals in its plan for the year and is heading for critical milestones in its roll-out in the coming months. MAPFRE MSV Life achieved a number of important milestones related to the current phase of the new Life Administration System implementation. Over the next year, the company 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 2022 remains one of cautious optimism. The global economic recovery experienced in 2021 should be sustained into 2022 though the growth rate will not benefit from the low base effect of 2020. High liquidity and a still supportive fiscal and easy monetary policy should continue to underpin growth. However, down side risks persist in the form of structural inflationary pressures, supply side bottlenecks, new COVID-19 variants and geopolitical risk. The insurance market has not been effected as negatively as other sectors of the economy although the pinch felt by the rest of the economy is having its side effects on our sector both in the sale of certain products and through inflationary pressures on claims. Within this context, demand for general business is expected to grow at a lower rate experienced in the last pre-pandemic years and in the context of Malta's high savings ratio, the demand for the protection, savings and investments products in life is expected to remain strong.

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.

In terms of prudential and conduct regulation, in 2022 we are looking at 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 Technical Advice of EIOPA to the European Council on aspects relating to Retail Investor Protection. The prevailing Anti-Money Laundering Directive will also feature prominently in the evolving regulatory landscape.

Russia's invasion of Ukraine is a great human tragedy. This event has significantly increased the level of political, economic and market risks. Prior to the military escalation witnessed over the last few weeks, the general outlook was one of a return to pre-pandemic economic and market conditions driven by a consolidation of the global recovery and the renewed hope for an end to the pandemic. The latter being dependent on a broad population immunity and from the absence of any new more vaccine resilient virus strains. Inflationary pressure was expected to lessen in the second half of the year while monetary policy remains relatively easy. This would normally lead to a strong cyclical recovery, a return of global mobility and a release of pent-up demand from consumers and corporates. This backdrop would be supportive of equities but negative for bonds.

DIRECTORS' REPORT

OUTLOOK – CONTINUED

However, an aggressive interest rate policy approach would derail the economic recovery and negatively impact equity asset prices. Certain sectors would be more vulnerable should Central Banks' expected tighter monetary policy move faster and further than what the market is currently pricing in. However, the latest developments, which crystalizing the geopolitical risk have significantly increased the level of uncertainty. Economic growth is expected to be lower, with growth in Europe being impacted the most. The economic magnitude of this will depend on how the conflict unfolds. Different scenarios present different economic outcomes in terms of impact magnitude and on the eventual recovery. Capital markets are expected to remain volatile and Central Bank's policy will need to balance the need to contain inflation and to support the economic recovery.

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.

EVENTS AFTER THE FINANCIAL REPORTING DATE

The transfer of the portfolio of funds held by the subsidiary of MAPFRE MSV Life, Growth Investments Limited to Bank of Valletta p.l.c., as contemplated under the Transfer of Business Agreement (TOBA) with BOV Asset Management Ltd and Bank of Valletta p.l.c. signed on 6 February 2020 was finalised subsequent to the balance sheet date.

The consideration of €0.30 million was settled in February 2022. The remainder of the subsidiary's portfolio is expected to be transferred to MAPFRE MSV Life p.l.c. by end of the first half of 2022.

The subsidiary has engaged the services of a highly reputable consultant to advise on the liquidation process. The directors expect the subsidiary to wind down by end of 2022.

There were no further important events or transactions which took place after the financial reporting date which would require disclosure or adjustment to this annual report and financial statements.

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 2021 of €0.030401 per share amounting to a total dividend of €2,796,910 is to be proposed by the Directors at the forthcoming annual general meeting. This is equivalent to a net dividend of €0.026087 per share amounting to a total net dividend of €2,400,000 (2020: €3,200,000).

DIRECTORS

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

Martin Galea
Jose Ramon Alegre
Alfred Attard (resigned as of 30 April 2021)
Antoinette Caruana
John Cassar White (appointed as from 30 April 2021)
David G. Curmi (resigned as of 31 January 2021)
Jose Maria del Pozo
Jose-Luis Jimenez
Taddeo Scerri
Paul Testaferrata Moroni Viani
Joseph F.X. Zahra

DIRECTORS' REPORT

DIRECTORS – CONTINUED

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.

The Board of Directors (acting in accordance with Article 100 of the Memorandum and Articles of Association) re-appointed Jose Maria del Pozo.

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 2021 are included in the Annual Report 2021, which is published in hard-copy printed form and also made available on the parent 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 2021, 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.

DIRECTORS' REPORT

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 2021, 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.

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 2021, 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.

DIRECTORS' REPORT

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 23 March 2022 by Martin Galea (Chairman) and Taddeo Scerri (Director) as per the Directors Declaration on ESEF Annual Financial Report submitted in conjunction with the Annual Report and Accounts 2021.

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 plc (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 the 31 December 2021 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 30 April 2021, 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, Taddeo Scerri, David Curmi, Martin Galea, Jose-Luis Jimenez and Joseph F. X. Zahra, while the other shareholders re-appointed the retiring Directors Antoinette Caruana and Paul Testaferrata Moroni Viani during the election for directors. John Cassar White was newly appointed by the shareholder Bank of Valletta p.l.c and Jose Maria del Pozo was co-opted to the Board of Directors in accordance with Article 100 of the Memorandum and Articles of Association, at the Board Meeting immediately following the AGM.

In the interim period David Curmi tendered his resignation from the MAPFRE Group as of 31 January 2021 and consequently from the Company's Board in order to take up other employment. David Curmi was not replaced and thus the Board was reduced to the nine non-Executive members as aforementioned.

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, after a robust hand over process from the outgoing CEO Felipe Navarro who had been at the helm of the Company since 1 October 2015, continued to hold the position of CEO throughout the rest of 2021.

CORPORATE GOVERNANCE STATEMENT

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 1 – The Board - continued

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 explained under Principles 4 and 5 of this Statement.

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. 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 as well as in practice. 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 to be 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 are required to 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.

CORPORATE GOVERNANCE STATEMENT

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 3 – Composition of the Board - continued

The Board is composed exclusively of non-executive Directors. 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 26 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.

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 Joseph F. X. Zahra has served on the board for more than twelve consecutive years, however, the Board was of the opinion that Joseph F. X. Zahra had immeasurable experience and sufficient maturity to remain independent of character and objective in judgement at all times notwithstanding the lapse of the recommended twelve years. That said, in light of the provision, the Company has taken proactive steps in the interim period to identify a suitable replacement.

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.

CORPORATE GOVERNANCE STATEMENT

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 5 – Board Meetings - continued

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 the relative 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.

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 2021, the Board of Directors of the Company held seven Board Meetings with attendance as follows:

Martin Galea (Chairman) (NED I)	7
Jose Ramon Alegre (NED)	6
Alfred Attard (NED - resigned as from 30 April 2021)	2
Antoinette Caruana (NED I)	7
John Cassar White (NED – appointed as from 30 April 2021[1])	6
David G. Curmi (NED – resigned as from 31 January 2021)	-
Jose Maria del Pozo (NED)	7
Jose-Luis Jimenez (NED)	6
Taddeo Scerri (NED I)	7
Paul Testaferrata Moroni Viani (NED I)	7
Joseph F.X. Zahra (NED I)	7

NED – Non-executive Director
I – Independent
[1]With approval communicated by the Regulator on 21 June 2021.

The MMS CEO attended all the Board meetings by invitation.

During 2021 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 February was to review the Financial Highlights of the previous financial year including the achievement of Key Performance Indicators and to take a deeper look at Claims Reserving relative to the actuarial calculations on the attritional claims and the treatment of larger losses. During the Directors' Briefing held in February the Board also discussed the comparative figures for the insurance market in Malta based on the financial data submitted by competitors to the Regulator within the annual Solvency and Financial Condition Report.

During the second Briefing held in May the Board reviewed the information that would feed into the Own Risk & Solvency Assessment and held an in-depth discussion on the pertinent risks of the Company. In addition, a presentation was also delivered to kick off preparatory discussions for the new three-year Strategic Plan for the period 2022 to 2024. An on-line MAPFRE Group training syllabus covering twelve sections with a range of topics including Operational, Technical and AML matters was also made available to all Directors by way of continued professional development for Directors in the discharge of their functions on the Board and Committees.

CORPORATE GOVERNANCE STATEMENT

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 5 – Board Meetings - continued

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. That said, no induction programme was conducted in 2021 given that John Cassar White, who was appointed to the Board in April 2021 as an Independent Director, had previously served for many years on the Board of a Company subsidiary and was thus already very well acquainted with the business of the Company, not least due to also having been a member of, as well as chairing, the Joint Investment Committee for various periods since 2014.

In the second half of 2020 a structured Board training and development programme was also launched for Directors in Malta by the MAPFRE Group including both awareness sessions facilitated by members of the Management team as well as a full on-line training schedule available for subscription. The key objective of the programme being to contribute to 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 on-line training sessions were also held on various topics during the course of 2021 including on Prevention of Financial Crime, Ethics, Leadership, the Digital Environment and Cyber Security.

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 2021 as co-ordinated by the Company Secretary and overseen by the Chairman.

2. COMPLIANCE WITH THE CODE - CONTINUED

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
- 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 2021, 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, Martin Galea and Taddeo Scerri are the members of the Audit Committee with the necessary qualifications, experience and knowledge to render them competent in accounting and auditing. Both Directors are also considered Independent Director in accordance with the criteria set out in Capital Markets Rule 5.119 and Martin Galea was appointed Chairman of the Audit Committee by the Board of Directors in accordance with Capital Markets Rule 5.117.4 as of 30 April 2021, taking over from Alfred Attard.

CORPORATE GOVERNANCE STATEMENT

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 8 – Committees - continued

AUDIT COMMITTEE - CONTINUED

The Audit Committee held seven meetings during 2021. 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 Taddeo Scerri (replacing Alfred Attard as of 30 April 2021), Antoinette Caruana and Martin Galea. The Audit Committee members and relative attendance at meetings is listed below.

Alfred Attard (Chairman until 30 April 2021)	4
Antoinette Caruana	7
Martin Galea (Chairman as from 30 April 2021)	7
Jose Maria del Pozo	7
Taddeo Scerri (as of 30 April 2021)	3

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 six meetings during 2021. The Committee members and relative attendance to meetings is listed below.

Antoinette Caruana (Chairperson, until 30 April 2021)	6
Diane Bugeja (as of 30 April 2021)	3
Albert Frendo (until 30 April 2021)	3
Martin Galea	6
Jose Maria del Pozo	6
Joseph F X Zahra (Chairman as of 30 April 2021)	3

CORPORATE GOVERNANCE STATEMENT

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 8 – Committees- continued

RISK AND COMPLIANCE COMMITTEE - CONTINUED

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 Investments 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 four meetings during 2021. The Committee members and relative attendance to meetings is listed below.

Simon Azzopardi	2
John Cassar White (Chairman until 23 March 2021)	1
Romeo Cutajar (Chairman as of 23 March 2021)	4
Jose-Luis Jimenez	3
Felipe Navarro Lopez de Chicheri (until 31 March 2021)	1
Jose Maria del Pozo	4
Javier Moreno (as of 1 April 2021)	3
Patrick Spiteri Swain	4
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 2021 are considered in the Remuneration Statement and Report to the Shareholders.

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

Jose Ramon Alegre	2
Antoinette Caruana (as from 30 April 2021)	1
John Cassar White (as from 30 April 2021)	1
Martin Galea (until 30 April 2021)	2
Taddeo Scerri (until 30 April 2021)	2

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 2021 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.

CORPORATE GOVERNANCE STATEMENT

2. COMPLIANCE WITH THE CODE - CONTINUED

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.

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 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.

CORPORATE GOVERNANCE STATEMENT

2. COMPLIANCE WITH THE CODE - CONTINUED

Principle 11 – Conflicts of Interest - continued

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 a regular 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 2021 has been declared by Joseph F. X. Zahra who has a very minor shareholding whereas Paul Testaferrata Moroni Viani has declared an indirect shareholding in the Company's shares through his shareholding in other companies.

Principle 12 – Corporate Social Responsibility

Despite the challenging times caused by the COVID-19 pandemic, MAPFRE Malta has remained committed to its Corporate Social Responsibility objectives, namely to protect the health of its employees, collaborators, clients and other individuals. In addition, to assist entities that were negatively affected by the COVID-19 crisis through its commitment to the implementation of several social welfare projects carried out by Fundación MAPFRE throughout the year.

During 2021, 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 clean-ups.

Fundación MAPFRE allocated over €100k 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 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.

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.

3. NON-COMPLIANCE WITH THE CODE - CONTINUED

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.

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 John Cassar White. The composition has seen a reshuffle relative to the previous year, to utilize the expertise of Antoinette Caruana in associated matters as well as to ensure independence and objectivity in the functioning of the Committee, while decisions continue to be passed with 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.

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.

CORPORATE GOVERNANCE STATEMENT

3. NON-COMPLIANCE WITH THE CODE - CONTINUED

Principle 9 – Relations with Shareholders and with the Market

Code Provision 9.3 requires the Company to have in place a mechanism 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 Group'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.

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.

CORPORATE GOVERNANCE STATEMENT

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 2021, particularly bearing in mind health and safety aspects and the restrictions in place, the AGM was held remotely on 30 April 2021 in accordance with Legal Notice 288 of 2020 and live streamed.

Signed by Martin Galea (Chairman) and Antoinette Caruana (Director) on the 23 March 2022

REMUNERATION STATEMENT AND REPORT OF THE REMUNERATION COMMITTEE TO THE SHAREHOLDERS

1. TERMS OF REFERENCE AND MEMBERSHIP

The MAPFRE Middlesea p.l.c. ("MMS") Remuneration Committee (the "Committee") hereby submits its Remuneration Statement to the shareholders 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 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 2021 the Committee Members were Jose Ramon Alegre (Chairman), Martin Galea and Taddeo Scerri. Jose Ramon Alegre was appointed as of 1 January 2021 in lieu of Jaime Tamayo who tendered his resignation from the MMS Board of Directors, and consequently from the MMS Remuneration Committee, as of the same date in order to take up other responsibilities within the MAPFRE International Group. Thereafter, at the Annual General Meeting of the Company held on 30 April 2021, Jose Ramon Alegre (Chairman), Antoinette Caruana and John Cassar White were appointed as the members of the Remuneration Committee.

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 three meetings during the period under review and the attendance was as follows:-

Member	Attended
Jose Ramon Alegre (Chairman)	2
Antoinette Caruana (Member as from 30 April 2021)	1
John Cassar White (Member as from 30 April 2021)	1
Martin Galea (Member until 30 April 2021)	2
Taddeo Scerri (Member until 30 April 2021)	2

The Committee determined and/or discussed the following matters:

- Succession Planning;
- New Senior Management Appointments;
- HR Reports;
- Remuneration for Directors, CEO and Senior Management for 2021;
- 2021 Variable remuneration framework;
- 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.

REMUNERATION STATEMENT AND REPORT OF THE REMUNERATION COMMITTEE TO THE SHAREHOLDERS

3. REMUNERATION STATEMENT - CONTINUED

a) Remuneration Policy – Senior Management - continued

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

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 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.

The performance appraisal system underpinning the Company's remuneration structure was implemented in 2013 and the performance bonus scheme implemented in 2014. The latter was further enhanced in 2015 and both remain in place. 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 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. No supplementary pension or other pension benefits are payable to Senior Management.

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 2021 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 2021, 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. David G. Curmi, who was the tenth Director of the Company, resigned from his position as the CEO of MAPFRE MSV Life p.l.c. (a subsidiary of MMS) and consequently from his position as Director of the Company with effect from 31 January 2021 and was not replaced. Mr Curmi did not receive a fee for his service given his then employment within the MAPFRE Group as detailed below.

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 (2020: €60,000)
Other Directors (per Director)	€40,000 per annum (2020: €40,000)

Audit Committee Fees	
Chairman	€5,000 per annum (2020: €5,000)
Member (per member)	€3,000 per annum (2020: €3,000)

Subsidiary Fees	
Chairman	€5,000 per annum (2020: €5,000)
Member (per member)	€3,000 per annum (2020: €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 or any other remuneration.

c) Code Provision 8.A.5

Directors' Emoluments 2021

Fixed Remuneration	Variable Remuneration	Share Options	Others
€283,500	None	None	None

Fees payable to directors in respect of 2021 amounted in total to €283,500 (2020: €279,000).

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.

REMUNERATION STATEMENT AND REPORT OF THE REMUNERATION COMMITTEE TO THE SHAREHOLDERS

3. REMUNERATION STATEMENT - CONTINUED

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 CompensationPolicy 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 fortieth Annual General Meeting held on the 30 April 2021, which has remained consistent since 2018.

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	**2021 Fees €**	**2020 Fees €**	**Percentage Annual Change of Remuneration (2020-2021)**
Alfred Attard (NED until 30 April 2021) *	15,000	45,000	0.00**
Antoinette Caruana (NED)	43,000	43,000	0.00
John Cassar White (NED from 30 April 2021)	34,167	nil	n/a
David G Curmi (NED until 31 January 2021)	nil	nil	n/a
Martin Galea (NED) ***	69,333	68,000	1.96
Jose Luis Jimenez (NED)	nil	nil	n/a
Taddeo Scerri (NED) *	42,000	40,000	5.00
Paul Testaferrata Moroni Viani (NED) ***	40,000	43,000	-6.98
Joseph F. X. Zahra (NED)	40,000	40,000	0.00
Jose Maria del Pozo (NED from 15 July 2020)	nil	nil	n/a
Total	**283,500**	**279,000**	

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.

** In the case of Mr Alfred Attard €7,917 of the amount (2020: €25,000) was paid to Bank of Valletta p.l.c as Mr Attard's employer based on a separate agreement for services rendered.*
In the case of Mr Taddeo Scerri €7,500 of the 2020 amount was paid to Bank of Valletta p.l.c. 'pro-rata' as Mr Scerri's employer until 15 May 2020 based on a separate agreement for services rendered;

*** Percentage annual change of remuneration (2020-2021) was based on annualised remuneration for 2021 to allow for a meaningful comparison.*

**** amount includes €7,500 paid to John Cassar White for his position as Chairman of the subsidiary Board till 31 March 2021;*
€5,000 (2020: €5,000) were paid to Martin Galea for the position as Chairman of the subsidiary's Audit Committee and;
€3,000 were paid to Paul Testaferrata Moroni Viani in 2020 for being a member of the subsidiary's Investment Committee.

REMUNERATION STATEMENT AND REPORT OF THE REMUNERATION COMMITTEE TO THE SHAREHOLDERS

3. REMUNERATION STATEMENT - CONTINUED

d) *Code Provision 12.26K* - continued

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.

In this respect and relative to Appendix 12.1 the total emoluments paid by the Company to the two Chief Executive Officers in office during Financial Year 2021 were as follows:

President & CEO	Financial Year	Fixed Salary €	Fringe benefits €	Total Fixed remuneration €	Variable remuneration €	Total remuneration €	Fixed-Variable Proportion %
Felipe Navarro Lopez de Chicheri	2021	49,654	67,962	117,616	57,767	175,383	67%-33%
	2020	198,615	212,383	410,998	224,231	635,229	65%-35%
Javier Moreno Gonzalez	2021	135,000	114,637	249,637	97,817	347,454	72%-28%

Felipe Navarro Lopez de Chicheri terminated his appointment as President & CEO on the 31 March 2021 and was replaced by Javier Moreno as from the 1 April 2021.

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 2021.

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.

REMUNERATION STATEMENT AND REPORT OF THE REMUNERATION COMMITTEE TO THE SHAREHOLDERS

3. REMUNERATION STATEMENT - CONTINUED

d) *Code Provision 12.26K* - continued

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:

Percentage annual change of the remuneration of the President & CEO* (2020-2021) %	Percentage annual change of the Company's performance- Profit after tax** (2020-2021) %	Percentage annual change of the Company's performance – Gross premiums written (2020-2021) %	Percentage annual change in Employees' Average Remuneration in Company's employees on a full-time equivalent basis (2020-2021) %	Percentage annual change in Employees' Average Remuneration in Group's employees on a full-time equivalent basis (2020-2021) %
1.9%	-36.6%	6.6%	6.44%	5.54%

** The percentage increase relates only to Felipe Navarro Lopez de Chicheri being the President & CEO employed in both years being compared. For comparison purpose, since Felipe Navarro Lopez de Chicheri's appointment ended on 31 March 2021, his 2021 remuneration has been annualized.*

*** The reduction arose from 2020 being favourably impacted by the onset of the pandemic which had resulted in significantly lower claims particularly in Motor and Health both in frequency and severity.*

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 (Renumerations Committee Member) on 23 March 2022

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 2021, the statements of profit or loss, 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 2021, 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") (€53,767 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' (€2,438,532 thousand for all business, inclusive of the term business); and VIF (€87,104 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.

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: €110,016 thousand; and Company: €13,529 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.

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. Together with our valuation specialist, we applied our industry

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

knowledge and experience in assessing the appropriateness of the methodology and assumptions used by management and evaluating the carrying amounts of its investment properties in the financial statements.

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 'Mission Statement';
- the 'Chairman's Statement';
- the 'President & Chief Executive Officer's Statement';
- informational matters relating to the 'Board of Directors & Company Secretary', 'Head Offices & Agencies' and 'Professional Services';
- 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.

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS - CONTINUED

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.

KPMG

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 seven 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.

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 2021, 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 2021 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 Hilary Galea-Lauri.

KPMG
Registered Auditors

23 March 2022

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 2021 as to whether they are 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 in accordance with the requirements of the Capital Market Rules.

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.

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 Control 1 *Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements* and, accordingly, maintains a comprehensive system of quality control including documented policies and 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.

INDEPENDENT ASSURANCE 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 Hilary Galea-Lauri.

KPMG
Registered Auditors

23 March 2022

STATEMENT OF PROFIT OR LOSS TECHNICAL ACCOUNT - GENERAL BUSINESS

		Year ended 31 December	
		Group and Company	
	Notes	2021 €'000	2020 €'000
Earned premiums, net of reinsurance			
Gross premiums written	6	**77,613**	72,611
Outward reinsurance premiums		**(15,350)**	(15,035)
Net premiums written		**62,263**	57,576
Change in the gross provision for unearned premiums		**(2,979)**	(464)
Change in the provision for unearned premiums, reinsurers' share		**1,434**	326
		(1,545)	(138)
Earned premiums, net of reinsurance		**60,718**	57,438
Allocated investment return transferred from the non-technical account	8	**307**	(58)
Total technical income		**61,025**	**57,380**
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		**37,134**	38,247
- reinsurers' share		**(5,524)**	(5,619)
		31,610	32,628
Change in the provision for claims			
- gross amount		**2,964**	(1,816)
- reinsurers' share		**313**	(967)
		3,277	(2,783)
Claims incurred, net of reinsurance		**34,887**	29,845
Net operating expenses	7	**20,878**	19,603
Total technical charges		**55,765**	49,448
Balance on the technical account for general business (page 53)		**5,260**	7,932

STATEMENT OF PROFIT OR LOSS TECHNICAL ACCOUNT - LONG TERM BUSINESS

		Year ended 31 December			
		Group		Company	
	Notes	**2021 €'000**	2020 €'000	**2021 €'000**	2020 €'000
Earned premiums, net of reinsurance					
Gross premiums written	6	**327,632**	272,091	**2,497**	2,509
Outward reinsurance premiums		**(3,390)**	(4,010)	**(211)**	(355)
Earned premiums, net of reinsurance		**324,242**	268,081	**2,286**	2,154
Investment return					
Return from investments	8	**97,458**	62,497	**(11)**	(28)
Other technical income, net of reinsurance	9	**788**	707	**-**	-
Total technical income		**422,488**	331,285	**2,275**	2,126
Claims incurred, net of reinsurance					
Claims paid					
- gross amount		**305,907**	251,462	**1,250**	1,207
- reinsurers' share		**(1,859)**	(1,436)	**(122)**	(349)
		304,048	250,026	**1,128**	858
Change in the provision for claims					
- gross amount		**2,339**	12,401	**(143)**	316
- reinsurers' share		**(319)**	(118)	**113**	(60)
		2,020	12,283	**(30)**	256
Claims incurred, net of reinsurance		**306,068**	262,309	**1,098**	1,114
Change in other technical provisions, net of reinsurance					
Long term business provision – gross		**(24,367)**	(26,450)	**(67)**	142
Investments contracts with DPF – gross		**103,203**	61,259	**-**	-
		78,836	34,809	**(67)**	142
Net operating expenses	7	**18,572**	18,814	**328**	375
		403,476	315,932	**1,359**	1,631
Total technical charges					
Balance on the technical accounts for long term business (page 53)		**19,012**	15,353	**916**	495

STATEMENT OF PROFIT OR LOSS NON-TECHNICAL ACCOUNT

	Notes	Group 2021 €'000	Group 2020 €'000	Company 2021 €'000	Company 2020 €'000
		Year ended 31 December			
Balances on technical accounts					
General business (page 51)		**5,260**	7,932	**5,260**	7,932
Long term business (page 52)		**19,012**	15,353	**916**	495
Total income from insurance activities		**24,272**	23,285	**6,176**	8,427
Other investment income	8	**956**	1,319	**1,107**	1,153
Investment expenses and charges	8	**(675)**	(1,143)	**(659)**	(1,075)
Allocated investment return transferred to the general business technical account	8	**(307)**	58	**(307)**	58
Revaluation loss on property	18	**(1,521)**	-	**-**	-
Other income	9	**1,438**	1,296	**-**	-
Administrative expenses	7	**(3,773)**	(3,624)	**(2,254)**	(2,175)
Profit for the financial year before tax		**20,390**	21,191	**4,063**	6,388
Tax expense	12	**(7,467)**	(6,905)	**(1,455)**	(2,271)
Profit for the financial year		**12,923**	14,286	**2,608**	4,117
Attributable to:					
- owners of the Company		**7,643**	9,123	**2,608**	4,117
- non-controlling interests		**5,280**	5,163	**-**	-
		12,923	14,286	**2,608**	4,117
Earnings per share attributable to owners of the Company	14	**8.3c**	9.9c		

The Notes on pages 61 to 152 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December			
		Group		Company	
	Notes	**2021 €'000**	2020 €'000	**2021 €'000**	2020 €'000
Profit for the financial year		**12,923**	**14,286**	**2,608**	**4,117**
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	**53**	(216)	**51**	(211)
Available-for-sale investments reclassified to profit or loss	29	**(102)**	333	**(102)**	333
Revaluation gain on freehold land and buidings	18	**1,081**	-	**-**	-
Items that are or may be reclassified to profit or loss					
Re-measurement actuarial gain/(loss) on provision for other liabilities and charges		**2**	(8)	**2**	(8)
Increase in value of in-force business	16	**9,912**	3,698	**-**	-
Total other comprehensive income, net of tax		**10,946**	3,807	**(49)**	114
Total comprehensive income for the year		**23,869**	18,093	**2,559**	4,231
Attributable to:					
- owners of the Company		**13,633**	11,081		
- non-controlling interests		**10,236**	7,012		
Total comprehensive income for the year		**23,869**	18,093		

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

The Notes on pages 61 to 152 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

		Year ended 31 December			
		Group		Company	
	Notes	**2021 €'000**	2020 €'000	**2021 €'000**	2020 €'000
ASSETS					
Intangible assets	16	**109,729**	94,836	**9,146**	7,762
Property, plant and equipment	18	**17,657**	17,913	**4,542**	2,252
Right-of-use assets	17	**1,802**	931	**1,685**	766
Investment property	19	**110,016**	111,518	**13,529**	16,205
Investment in subsidiary undertakings	20	**-**	-	**77,214**	57,214
Investment in associated undertakings	21	**22,831**	25,174	**383**	385
Other investments	22	**2,421,911**	2,262,757	**8,382**	5,354
Deferred income tax	23	**2,313**	2,350	**1,268**	1,332
Reinsurers' share of technical provisions	24	**33,247**	31,807	**32,314**	31,306
Deferred acquisition costs	25	**8,427**	8,080	**8,427**	8,080
Insurance and other receivables	26	**32,069**	33,828	**19,222**	19,584
Income tax receivable		**308**	1,174	**-**	-
Cash and cash equivalents	27	**71,443**	97,060	**11,575**	31,432
Total assets		**2,831,753**	2,687,428	**187,687**	181,672
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	**44,817**	38,829	**34,935**	34,986
Retained earnings		**46,211**	41,766	**21,468**	22,058
		111,036	100,603	**76,411**	77,052
Non-controlling interests		**110,932**	80,696	**-**	-
Total equity		**221,968**	181,299	**76,411**	77,052
LIABILITIES					
Deferred income tax	23	**42,599**	37,467	**1,989**	2,230
Provision for other liabilities and charges	30	**997**	1,057	**997**	1,057
Technical provisions:					
- Insurance contracts and investment contracts with DPF	24	**2,470,668**	2,383,550	**93,005**	87,272
- Investment contracts without DPF	24	**60,869**	53,531	**-**	-
Derivative financial instruments	22	**775**	168	**-**	-
Lease liabilities		**1,866**	1,021	**1,745**	849
Insurance and other payables	31	**31,173**	27,491	**13,401**	11,975
Income tax payable		**838**	1,844	**139**	1,237
Total liabilities		**2,609,785**	2,506,129	**111,276**	104,620
Total equity and liabilities		**2,831,753**	2,687,428	**187,687**	181,672

The Notes on pages 61 to 152 are an integral part of these financial statements.

The financial statements on pages 51 to 152 were approved by the Board of Directors and authorised for issue on 23 March 2022 and were signed on its behalf by Martin Galea (Chairman) and Taddeo Scerri (Director). As per the directors declaration on ESEF and will finacial report submitted in conjunction with the annual report 2021.

STATEMENT OF CHANGES IN EQUITY

Group

	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 2020		19,320	688	36,863	32,634	89,505	73,684	163,189
Comprehensive income								
Profit for the financial year		-	-	-	9,123	9,123	5,163	14,286
Other comprehensive income:								
Change in available-for-sale investment's fair value	29	-	-	(216)	-	(216)	-	(216)
Available-for-sale investments - reclassified to profit or loss	29	-	-	333	-	333	-	333
Re-measurement actuarial loss on provision for other liabilities and charges		-	-	-	(8)	(8)	-	(8)
Increase in value of in-force business	16	-	-	1,849	-	1,849	1,849	3,698
Total other comprehensive income, net of tax		-	-	1,966	(8)	1,958	1,849	3,807
Total comprehensive income		-	-	1,966	9,115	11,081	7,012	18,093
Transactions with owners								
Write-back of prior year dividends		-	-	-	17	17	-	17
Total transactions with owners		-	-	-	17	17	-	17
Balance at 31 December 2020		**19,320**	**688**	**38,829**	**41,766**	**100,603**	**80,696**	**181,299**

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 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 investments' 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
Dividend for 2020		-	-	-	(3,200)	(3,200)	-	(3,200)
Total transactions with owners		-	-	-	(3,200)	(3,200)	20,000	16,800
Balance at 31 December 2020		**19,320**	**688**	**44,817**	**46,211**	**111,036**	**110,932**	**221,968**

The Notes on pages 61 to 152 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 2020		19,320	688	34,864	17,932	72,804
Comprehensive income						
Profit for the financial year		-	-	-	4,117	4,117
Other comprehensive income:						
Change in available-for-sale investment's fair value	29	-	-	(211)	-	(211)
Available-for-sale investments - reclassified to profit or loss	29	-	-	333	-	333
Re-measurement actuarial loss on provision for other liabilities and charges		-	-	-	(8)	(8)
Total other comprehensive income, net of tax		-	-	122	(8)	114
Total comprehensive income		-	-	122	4,109	4,231
Transactions with owners						
Write-back of prior year dividends		-	-	-	17	17
Total transactions with owners of the Company		-	-	-	17	17
Balance at 31 December 2020		**19,320**	**688**	**34,986**	**22,058**	**77,052**

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 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	29	-	-	51	-	51
Available-for-sale investments - reclassified to profit or loss	29	-	-	(102)	-	(102)
Re-measurement actuarial gain on provision for other liabilities and charges		-	-	-	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**

The Notes on pages 61 to 152 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

		Year ended 31 December			
		Group		Company	
	Notes	**2021 €'000**	2020 €'000	**2021 €'000**	2020 €'000
Cash flows from operating activities					
Cash generated from operations	32	**9,360**	8,098	**12,414**	4,458
Dividends received		**9,572**	6,693	**168**	179
Interest received		**21,296**	19,636	**96**	223
Interest paid		**(66)**	(135)	**(66)**	(135)
Income tax paid		**(2,501)**	(1,130)	**(2,742)**	(1,309)
Net cash generated from operating activities		**37,661**	33,162	**9,870**	3,416
Cash flows from investing activities					
Purchase of investment property	19	**(1,627)**	(2,059)	**(4)**	(6)
Disposal of investment property		**16**	93	**16**	93
Increase in investment in group undertaking		**-**	-	**(20,000)**	-
Purchase of financial investments		**(1,382,857)**	(1,870,200)	**(5,131)**	-
Disposal of financial investments		**1,312,522**	1,873,696	**2,116**	3,778
Purchase of property, plant and equipment and intangible assets		**(8,227)**	(8,731)	**(3,524)**	(3,006)
Disposal of property, plant and equipment and intangible assets		**95**	95	**-**	95
Net cash (used in)/generated from investing activities		**(80,078)**	(7,106)	**(26,527)**	954
Cash flows from financing activities					
Increase in share capital of group undertaking		**20,000**	-	**-**	-
Dividends (paid)/cancelled to owners of the Company		**(3,200)**	17	**(3,200)**	17
Cash generated from/(used in) financing activities		**16,800**	17	**(3,200)**	17
Net movement in cash and cash equivalents		**(25,617)**	26,073	**(19,857)**	4,387
Cash and cash equivalents at beginning of year		**97,060**	70,987	**31,432**	27,045
Cash and cash equivalents at end of year	27	**71,443**	97,060	**11,575**	31,432

The Notes on pages 61 to 152 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.

Standards, interpretations and amendments to published standards effective in 2021

In 2021, the Group adopted new standards, amendments and interpretations to existing standards that are mandatory for the Group's accounting period beginning on 1 January 2021. 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 2021 for which the Group elected for the temporary exemption

IFRS 9 - 'Financial instruments'

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 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. For those assets which are not measured at fair value through profit or loss, the Group is assessing the impact of the new impairment model introduced by the standard. As at the time of issue of these financial statements, the impact is not yet known or reasonably estimable.

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

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION - CONTINUED

Standards, interpretations and amendments to published standards effective before 2021 for which the Group elected for the temporary exemption - continued

IFRS 9. The options permit 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 2021, 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 are predominantly connected with insurance. More than 90% of the Group's liabilities at 31 December 2015 are liabilities arising from contracts within the scope of IFRS 4. As at the same date the Company's predominant activities were also established to be insurance related as evidenced through revenues reported in the Annual Report of that year.

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.

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

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the Group's accounting periods beginning after 1 January 2021. The Group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Group's directors are of the opinion that, with the exception of the standards discussed below, there are no requirements that are expected to have a significant impact on the Group's financial statements in the period of initial application.

IFRS 17 - 'Insurance Contracts'

From 1 January 2023, IFRS 17 will replace the current standard IFRS 4, fundamentally changing the accounting and reporting practices for insurance companies.

IFRS 17, 'Insurance Contracts', establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with discretionary participation features. It introduces a model that measures groups of contracts based on the Group's 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. In addition, a simplified measurement approach is permitted for short-duration contracts in which the coverage period is approximately one year or less.

The Group is considering the implications of the standard and its impact on the Group's financial results and position. The quantitative impact that the application of the new IFRS will have on the Group's financial statements in the period of initial application is not known or reasonably estimable.

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.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

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.

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 into 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.

2. ACCOUNTING POLICIES - CONTINUED

2.1 CONSOLIDATION - CONTINUED

(b) Associated undertakings - continued

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.

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.

2. ACCOUNTING POLICIES - CONTINUED

2.4 INTANGIBLE ASSETS - CONTINUED

Value of business acquired

The value of business acquired is amortised using the straight-line method over a period not exceeding five years. The carrying value is assessed yearly for impairment by projecting the profitability of the portfolio acquired over the life of the asset having considered projected combined ratios and retention patterns.

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.

2.5 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'.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.5 PROPERTY, PLANT AND EQUIPMENT - CONTINUED

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. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.9 FINANCIAL ASSETS - CONTINUED

Recognition and measurement - continued

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. 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 and discounted cash flow analysis.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.10 IMPAIRMENT OF ASSETS - CONTINUED

(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).

2.11 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.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.14 INSURANCE AND INVESTMENT CONTRACTS - CONTINUED

(a) Classification - continued

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.

- 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.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.14 INSURANCE AND INVESTMENT CONTRACTS - CONTINUED

(b) Recognition and measurement - continued

(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.14 INSURANCE AND INVESTMENT CONTRACTS - CONTINUED

(b) Recognition and measurement - continued

(v) Investment contracts with DPF - continued

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.

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

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.14 INSURANCE AND INVESTMENT CONTRACTS - CONTINUED

(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.

2.15 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.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.16 CURRENT AND DEFERRED INCOME TAX - CONTINUED

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.

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.

(a) 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. ACCOUNTING POLICIES - CONTINUED

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.20 LEASES - CONTINUED

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES - CONTINUED

2.20 LEASES - CONTINUED

(b) As a lessee - continued

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 judgments 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 2021 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 2021 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.

NOTES TO THE FINANCIAL STATEMENTS

3. USE OF ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES - CONTINUED

(a) General business insurance contract liabilities - continued

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.

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.

4. MANAGEMENT OF RISK - CONTINUED

4.1 INSURANCE RISK - CONTINUED

(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:

- 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 2021, 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 2021, 100% of the Group's business was written in Malta (2020: 100%). The portfolio is diversified in terms of type of business written, with motor comprehensive business comprising 23% (2020: 24%) and accident and health comprising 20% (2020: 20%) of the total portfolio (including Group Life business). Other significant insurance business classes include motor liability business at 24% (2020: 25%) and fire and other damage to property at 18% (2020: 17%). The remaining 15% (2020: 14%) 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

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 - continued

Further detail on the process of estimation is provided in Note 24 to these financial statements.

4.2 FINACIAL 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

In general, the Group is exposed to risk associated with the effects of fluctuations in the prevailing levels of market interest rates. Several line items on the statement of financial position are based on fixed interest rates, and are therefore subject to changes in fair value resulting from changes in market rates. Group investment parameters exist to limit exposure to any one particular issuer and any one particular security (with the exception of investment in government securities). The Group also has assets as well as loan facilities issued at variable rates which expose it to cash flow interest rate risk. Periodic reports are prepared at portfolio, legal entity and asset and liability class level that are circulated to the Group's relevant key management personnel.

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 FINACIAL 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. Several line items on the statement of financial position are based on fixed interest rates, and are therefore subject to changes in fair value resulting from changes in market rates. Group investment parameters exist to limit exposure to any one particular issuer and any one particular security (with the exception of investment in government securities). The Group also has assets as well as loan facilities issued at variable rates which expose it to cash flow interest rate risk. Periodic reports are prepared at portfolio, legal entity and asset and liability class level that are circulated to the Group's relevant key management personnel.

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

Assets and liabilities exposed to interest rate risk and their maturities are analysed below:

		2021				
Group	Notes	**Within 1 year** €'000	**Between 1 – 2 years** €'000	**Between 2 – 5 years** €'000	**Over 5 years** €'000	**Total** €'000
Assets						
Debt securities	22	33,601	68,426	237,667	671,791	1,011,485
A component of equity securities and units in unit trusts		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

		2020				
Group	Notes	**Within 1 year** €'000	**Between 1 – 2 years** €'000	**Between 2 – 5 years** €'000	**Over 5 years** €'000	**Total** €'000
Assets						
Debt securities	22	89,832	51,653	276,412	645,723	1,063,620
A component of equity securities and units in unit trusts		48,501	-	-	-	48,501
Loans and receivables:						
- Deposits with banks and credit institutions	22	115,504	60,003	44,859	-	220,366
- Loans secured on policies	22	8,214	-	-	-	8,214
- Cash and cash equivalents	27	97,060	-	-	-	97,060
Total interest bearing assets		359,111	111,656	321,271	645,723	1,437,761
Liabilities						
Long-term insurance contracts		-	-	-	2,203,606	2,203,606
Total interest bearing liabilities		-	-	-	2,203,606	2,203,606

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

				2021		
	Notes	**Within 1 year €'000**	**Between 1 - 2 years €'000**	**Between 2 - 5 years €'000**	**Over 5 years €'000**	**Total €'000**
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

Company

				2020		
	Notes	**Within 1 year €'000**	**Between 1 - 2 years €'000**	**Between 2 - 5 years €'000**	**Over 5 years €'000**	**Total €'000**
Assets						
Debt securities	22	946	-	845	1,245	3,036
Loans and receivables:						
- Cash and cash equivalents	27	31,432	-	-	-	31,432
Total interest bearing assets		32,378	-	845	1,245	34,468

The Company had no interest bearing liabilities as at 31 December 2021 and 2020.

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

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		Company	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
Assets held at variable rates				
Debt securities	**72,637**	60,835	**-**	-
Cash and cash equivalents	**71,443**	97,060	**11,575**	31,432
	144,080	157,895	**11,575**	31,432
Liabilities issued at variable rates				
Net long term insurance contracts	**2,276,558**	2,203,606	**-**	-
	2,276,558	2,203,606	**-**	-

Interest rate risk in relation to linked liabilities for contracts that also combine a discretionary feature amounting to €55.03 million (2020: €49.08 million) has been excluded as the directors consider the exposure to be insignificant.

	Group		Company	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
Assets held at fixed rates				
A component of equity securities and units in unit trusts	**197,691**	48,501	**-**	-
Loans secured on polices	**8,035**	8,214	**-**	-
Deposits with banks or credit institutions	**204,888**	220,366	**-**	-
Debt securities	**938,848**	1,002,785	**6,337**	3,036
	1,349,462	1,279,866	**6,337**	3,036

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

i) Cash flow and fair value interest rate risk - continued

In managing its portfolio, during the year ended 31 December 2021, 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	
	2021	2020
	€'000	€'000
Long positions		
- Federal Republic of Germany	**109,748**	102,900
- United States Government	**1,040**	746
	110,788	103,646
Short positions		
- Federal Republic of Germany	**129,257**	104,653
- United States Government	**2,416**	3,109
	131,673	107,762

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.

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 2021, had interest rates been 100 basis points (2020: 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 €0.74 million (2020: higher by €0.20 million) and higher by €0.04 million (2020: €0.01 million) respectively. An increase of 100 basis points (2020: 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 €2.18 million (2020: lower by €0.13 million) and unchanged (2020: higher by €0.15 million) 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.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

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.

The total assets subject to equity price risk are the following:

	Group		Company	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
Assets subject to equity price risk	**908,624**	844,773	**2,045**	2,318
The above includes:				
Component of investments in associated undertakings (Note 21)*	**22,321**	24,849	**-**	-
Component of equity securities and units in unit trusts (Note 22)	**886,303**	819,924	**2,045**	2,318
	908,624	844,773	**2,045**	2,318

* Investments in associates (Note 21) amounting to €0.38 million (2020: €0.39 million) for the Group and €0.38 million (2020: €0.39 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).

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

ii) Equity price risks - continued

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 €0.39 million (2020: €0.38 million) and a negative impact of €0.39 million (2020: €0.38 million) on the Group's pre-tax profit and a positive or negative impact of €0.14 million on the Company's pre-tax results (2020: €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 2021 foreign currency exposure amounted to €334.61 million (2020: €303.12 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.

The table below summarises the Group's exposure to foreign currencies other than euro.

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

Group

31 December 2020

	Net exposure before hedging €'000	Notional amount of currency derivatives €'000	Net exposure after hedging €'000
Currency of exposure:			
USD	274,871	65,108	209,763
CHF	26,891	-	26,891
GBP	19,516	9,435	10,081
SEK	5,505	-	5,505
DKK	14,202	49	14,153
Others	47,054	10,325	36,729
	388,039	**84,917**	**303,122**

Within the table above, €324.31 million of the unhedged exposure relates to equity investments (2020: €291.21 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 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
Other	2	-	2
	38	**-**	**38**

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(a) Market risk - continued

iii) Currency risk - continued

31 December 2020

	Net exposure before hedging €'000	Notional amount of currency derivatives €'000	Net exposure after hedging €'000
Currency of exposure:			
USD	(83)	-	(83)
GBP	98	-	98
Others	2		2
	17	**-**	**17**

The Company's foreign exposure relates to foreign operations now in run-off.

(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. 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.

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(b) Credit risk - continued

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.

The total assets bearing credit risk are the following:

	Group		Company	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
Debt securities	**1,011,485**	1,063,620	**6,337**	3,036
Other financial assets (including deposits with banks and credit institutions)	**204,888**	220,366	**-**	-
Forward foreign exchange contracts	**-**	1,313	**-**	-
Reinsurers share of technical provisions	**25,823**	25,817	**24,890**	25,316
Insurance and other receivables	**29,333**	31,087	**17,416**	17,605
Cash and cash equivalents	**71,443**	97,060	**11,575**	31,432
Total	**1,342,972**	1,439,263	**60,218**	77,389

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(b) Credit risk - continued

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	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
AAA	**159,144**	128,753	**-**	-
AA	**239,071**	199,123	**2,834**	3,129
A	**327,557**	417,272	**25,676**	25,845
BBB	**465,102**	570,900	**9,761**	22,118
Not rated	**152,098**	123,215	**21,947**	26,297
	1,342,972	1,439,263	**60,218**	77,389

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.

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	
	2021	2020
	€'000	€'000
Within credit terms	**9,272**	6,550
Not more than three months	**3,263**	2,466
Within three to twelve months	**1,926**	2,117
Over twelve months	**716**	769
	15,177	11,902

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.

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(b) Credit risk - continued

The overall exposure of the Group and Company in terms of IFRS 7 is €15.18 million (2020: €11.90 million), of which €9.27 million (2020: €6.55 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 2021 did not comprise any amounts (2020: 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	
	2021	2020
	€'000	€'000
Over twelve months	**387**	333

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(c) Liquidity risk - continued

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) 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

	Group expected cash flows (€ millions) 2020						
	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	351.7	253.2	251.6	203.4	171.7	1,064.8	2,296.4
Technical provisions – claims outstanding	13.4	5.7	3.4	2.3	2.0	24.0	50.8
Lease liabilities	0.3	0.2	0.2	0.2	0.1	0.1	1.1
Insurance and other payables (contractual)	27.5	-	-	-	-	-	27.5

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) 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)	3.4	-	-	-	-	-	13.4

	Group expected cash flows (€ millions) 2020						
	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5yrs	Total
Technical provisions – claims outstanding	13.4	5.7	3.4	2.3	2.0	24.0	50.8
Lease liabilities	0.2	0.2	0.1	0.1	0.1	-	0.7
Insurance and other payables (contractual)	12.0	-	-	-	-	-	12.0

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.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK - CONTINUED

(c) Liquidity risk - continued

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.

	2021	2020
	€'000	€'000
At 31 December		
Foreign exchange contracts		
- outflow	**(128,215)**	(108,214)
- inflow	**127,440**	109,814

At 31 December 2021 and 2020, 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 2021:

- 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.

NOTES TO THE FINANCIAL STATEMENTS

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**

4. MANAGEMENT OF RISK - CONTINUED

4.3 FAIR VALUES - CONTINUED

The following tables present the assets measured at fair value at 31 December 2020.

Group

	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	918,292	50,060	968,352
- Debt securities	755,862	306,230	1,062,092
Other available-for-sale investments	2,410	10	2,420
Derivative financial instruments	-	1,313	1,313
Investment in associated undertakings	-	24,849	24,849
Total assets	**1,676,564**	**382,462**	**2,059,026**
Liabilities			
Unit linked financial liabilities	-	100,818	100,818
Derivative financial instruments	-	168	168
Total liabiities	**-**	**100,986**	**100,986**

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	-	1,426	1,426
- Debt securities	1,508	-	1,508
Other available-for-sale investments	2,410	10	2,420
Total assets	**3,918**	**1,436**	**5,354**

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.

NOTES TO THE FINANCIAL STATEMENTS

4. MANAGEMENT OF RISK - CONTINUED

4.3 FAIR VALUES - CONTINUED

At 31 December 2021, 0.9% (2020: nil) of the financial assets measured at fair value on a recurring basis were classified as Level 3. They constitute investment in unlisted equities and their fair values were determined by using valuation techniques. Determination to classify fair value instruments within Level 3 of the valuation hierarchy is generally based on the significance of the unobservable factors to the overall fair value measurement. The Group has €18.8m (2020: nil) assets classified as Level 3, the valuation of which has been determined by reference to the net assets of the underlying investment.

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**

The analysis of investment property is included within Note 19.

At 31 December 2021 and 2020, 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.

NOTES TO THE FINANCIAL STATEMENTS

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.

During the first quarter of 2021, MAPFRE MSV Life p.l.c.'s shareholders carried out a €40 million TIER 1 capital increase to further strengthen the statement of financial position and increase resiliency in adverse market scenarios. The year was characterised by increases in the yield curve as inflation started to increase and equity markets trending upwards driven by a strong economic recovery underpinned by governments' expansionary fiscal policy and Central Banks' continuing to provide liquidity through conventional monetary policy and Quantitative Easing. Given these developments together with an improved economic and financial outlook, MAPFRE MSV Life p.l.c. believes that is appropriate to consider the resumption of dividend payments following the COVID-19 suspension of dividends.

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.

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 €7,400,000 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.

NOTES TO THE FINANCIAL STATEMENTS

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 2021 and 2020 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	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
Direct insurance				
Motor (third party liability)	**19,131**	18,390	**18,843**	18,680
Motor (other classes)	**18,615**	18,149	**18,334**	18,436
Fire and other damage to property	**14,550**	13,120	**13,554**	12,613
Accident and health	**16,093**	14,907	**15,358**	14,663
Other classes	**9,224**	8,045	**8,545**	7,755
	77,613	72,611	**74,634**	72,147

100% (2020: 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.

Gross claims incurred, gross operating expenses and reinsurance balance by class of business

	Group and Company					
	Gross claims incurred		Gross operating expenses		Reinsurance balance	
	2021	2020	**2021**	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000	**€'000**	€'000
Direct insurance						
Motor (third party liability)	**21,820**	15,880	**6,243**	6,048	**(1,984)**	(1,053)
Motor (other classes)	**5,474**	6,783	**5,552**	5,443	**160**	272
Fire and other damage to property	**3,703**	4,387	**4,534**	4,173	**4,710**	3,795
Accident and health	**6,883**	7,239	**5,192**	4,714	**232**	260
Other classes	**2,218**	2,142	**3,464**	3,162	**1,481**	912
	40,098	36,431	**24,985**	23,540	**4,599**	4,186

The reinsurance balance represents the charge/(credit) to the technical account arising from the aggregate of all items relating to reinsurance outwards.

6. SEGMENT INFORMATION - CONTINUED

General business - continued

Long term business

(i) Gross premium written

	Group		Company	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
Gross premiums written				
Direct insurance	**327,632**	272,091	**2,497**	2,509

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	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
Non-participating	**17,107**	15,678	**-**	-
Participating	**42,186**	39,771	**264,353**	213,343
Linked	**1,967**	2,021	**2,019**	1,278
	61,260	57,470	**266,372**	214,621

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	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
Investment contracts	**2,603**	2,030	**1,456**	1,547

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	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
Charge/recovery for reinsurance outwards	**1,049**	2,284	**202**	(54)

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT INFORMATION - CONTINUED

Long term business - continued

(iii) Analysis between insurance and investment contracts

	Group		Company	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
Gross premiums written				
Insurance contracts	**33,245**	33,354	**2,497**	2,509
Investment contracts with DPF	**294,387**	238,737	**-**	-
	327,632	272,091	**2,497**	2,509
Claims incurred, net of reinsurance				
Insurance contracts	**56,877**	55,329	**1,098**	1,114
Investment contracts with DPF	**249,191**	206,980	**-**	-
	306,068	262,309	**1,098**	1,114

Reconciliation of reportable segment profit to profit or loss for the financial year before tax

	Group	
	2021	2020
	€'000	€'000
Profit on general business	**5,260**	7,932
Profit on long term business	**19,012**	15,353
Net investment income not allocated to the technical accounts	**(26)**	234
Revaluation loss on property	**(1,521)**	-
Other income	**1,438**	1,296
Administrative expenses not allocated to the technical accounts	**(3,773)**	(3,624)
Profit for the financial year before tax	**20,390**	21,191

	Company	
	2021	2020
	€'000	€'000
Profit on general business	**5,260**	7,932
Profit on long term business	**916**	495
Net investment income not allocated to the technical accounts	**141**	136
Administrative expenses not allocated to the technical accounts	**(2,254)**	(2,175)
Profit for the financial year before tax	**4,063**	6,388

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT INFORMATION - CONTINUED

Long term business - continued

Geographical information

The segment results for the years ended 31 December 2021 and 2020 by geographical area are indicated below:

	Group Gross premiums written		Company Gross premiums written	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
Malta	**405,246**	344,702	**80,110**	75,120

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 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
At 31 December 2020								
Assets allocated to business segments	38,450	14,371	15,231	9,750	16,055	2,351,303	16,998	2,462,158
Assets allocated to shareholders	-	-	-	-	-	-	225,270	225,270
Total assets	38,450	14,371	15,231	9,750	16,055	2,351,303	242,268	2,687,428

The total of non-current assets, other than financial instruments, deferred tax assets and risks arising under insurance contracts of €239.20 million (2020: €225.20 million) are all located in Malta.

7. NET OPERATING EXPENSES

	Group		Company	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
Acquisition costs	**34,695**	33,085	**21,709**	20,269
Change in deferred acquisition costs, net of reinsurance	**212**	(161)	**212**	(161)
Administrative expenses	**13,143**	13,369	**6,204**	6,126
Reinsurance commissions and profit participation	**(4,827)**	(4,252)	**(4,665)**	(4,081)
	43,223	42,041	**23,460**	22,153
Allocated to:				
General business technical account	**20,878**	19,603	**20,878**	19,603
Long term business technical account	**18,572**	18,814	**328**	375
Non-technical account (administrative expenses)	**3,773**	3,624	**2,254**	2,175
	43,223	42,041	**23,460**	22,153

Total commissions for direct business accounted for in the financial year amounted to €23.51 million (2020: €21.64 million) in the Group's technical result and €15.36 million (2020: €13.88 million) in the Company's technical result. €7.45 million (2020: €6.96 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		Company	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
Investment income				
Dividend income from group undertakings	**-**	-	**141**	136
Share of profit of other associated undertaking, net of tax	**89**	93	**-**	-
Rent receivable from investment property	**5,835**	5,431	**717**	784
Interest receivable from loans and receivables				
- other financial assets not at fair value through profit or loss	**1,893**	2,204	**-**	1
Income from financial assets at fair value through profit or loss				
- dividend income	**9,572**	6,544	**7**	3
- net fair value gains and interest on bonds	**90,006**	56,052	**-**	-
Income from available-for-sale assets				
- dividend income	**26**	55	**26**	55
- net fair value gains and interest on bonds	**187**	47	**187**	47
Net fair value gains on investment property	**-**	-	**-**	122
Other investment income	**595**	435	**-**	5
Exchange differences	**17**	-	**17**	-
	108,220	70,861	**1,095**	1,153
Investment expenses and charges				
Direct operating expenses arising from investment property that generated rental income	**385**	445	**15**	9
Interest expenses on loans and receivables	**66**	135	**66**	135
Interest expense for financial liabilities that are not at fair value through profit or loss	**3**	5	**3**	5
Expense on financial assets at fair value through profit or loss				
- net fair value losses and interest on bonds	**51**	249	**51**	249
Impairment charge on available for sale financial assets	**-**	658	**-**	658
Net fair value losses on investment property	**3,113**	507	**473**	-
Other investment expenses	**6,815**	6,142	**2**	-
Interest on lease liabilities	**48**	33	**48**	33
Exchange differences	**-**	14	**-**	14
	10,481	8,188	**658**	1,103
Net investment income	**97,739**	62,673	**437**	50
Analysed between:				
Allocated investment return transferred to the general business technical account	**307**	(58)	**307**	(58)
Investment return included in the long term business technical account	**97,458**	62,497	**(11)**	(28)
Other investment income included in the non-technical account	**(26)**	234	**141**	136
	97,739	62,673	**437**	50

NOTES TO THE FINANCIAL STATEMENTS

9. OTHER INCOME

	Group	
	2021	2020
	€'000	€'000
Other technical income, net of reinsurance		
Investment management fees	**724**	640
Other income	**64**	67
	788	707
Other income – non technical		
Management fees	**655**	530
Other income	**783**	766
	1,438	1,296

10. PROFIT BEFORE TAX

The profit before tax is stated after charging/(crediting):

	Group		Company	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
Employee compensation (Note 11)	**12,649**	11,976	**7,784**	7,500
Depreciation/amortisation:				
- intangible assets (Note 16)	**2,207**	3,614	**1,523**	1,657
- property, plant and equipment (Note 18)	**855**	939	**518**	476
Release of provision for impairment on receivables (Note 26)	**(106)**	(32)	**(106)**	(32)
Impairment of receivables	**9**	3	**9**	3
Increase in provision for impairment on receivables (Note 26)	**160**	174	**160**	174

The financial statements include fees, exclusive of VAT, charged by the parent company auditor for services rendered during the financial years ended 31 December 2021 and 2020, relating to entities that are included in the consolidation amounting to:

	Group		Company	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
Annual statutory audit	**310**	249	**149**	116
Solvency II audit	**103**	102	**44**	44
Non-audit services	**1**	-	**-**	-
Paid during the year:				
For financial year 2021	**143**	-	**70**	-
For financial year 2020	**319**	58	**160**	-
For financial year 2019	**-**	255	**-**	170

NOTES TO THE FINANCIAL STATEMENTS

11. EMPLOYEE COMPENSATION

	Group		Company	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
Salaries	**12,001**	11,356	**7,366**	7,091
Social security costs	**648**	620	**418**	409
	12,649	11,976	**7,784**	7,500

The average number of persons employed during the year was:

	Group		Company	
	2021	2020	**2021**	2020
Key management personnel	**26**	26	**14**	14
Managerial	**42**	34	**20**	19
Technical	**208**	210	**148**	147
Administrative	**9**	9	**5**	5
	285	279	**187**	185

12. TAX EXPENSE

	Group		Company	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
Current tax expense	**2,311**	2,998	**1,645**	2,413
Deferred tax expense (Note 23)	**5,156**	3,907	**(190)**	(142)
Income tax expense	**7,467**	6,905	**1,455**	2,271

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	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
Profit before tax	**20,390**	21,191	**4,063**	6,388
Tax at 35%	**7,137**	7,417	**1,422**	2,236
Adjusted for tax effect of:				
Net exempt income and disallowed expenses	**49**	90	**47**	230
Property withholding tax at 8% or 10%	**476**	(439)	**115**	(29)
Other	**(195)**	(163)	**(129)**	(166)
Income tax expense	**7,467**	6,905	**1,455**	2,271

NOTES TO THE FINANCIAL STATEMENTS

13. DIRECTORS' EMOLUMENTS

	Group		Company	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
Directors' fees	**284**	279	**271**	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	
	2021	2020
	€'000	€'000
Profit attributable to owners of the Company	**7,643**	9,123
Number of ordinary shares in issue (Note 28)	**92,000,000**	92,000,000
Basic and diluted earnings per share attributable to owners of the Company (€)	**8.3c**	9.9c

15. DIVIDENDS

A final gross dividend in respect of year ended 31 December 2021 of €0.030401 (2020: €0.052434) per share amounting to a total dividend of €2,796,910 (2020: €4,823,996) is to be proposed by the directors at the forthcoming annual general meeting. This is equivalent to a net dividend of €0.026087 (2020: €0.034783) per share amounting to a total net dividend of €2,400,000 (2020: €3,200,000).

16. INTANGIBLE ASSETS

Group	Value of in-force business (ii) €'000	Value of business acquired €'000	Computer software €'000	Deferred policy acquisition costs (i) €'000	Total €'000
At 1 January 2020					
Cost or valuation	73,494	1,651	29,734	3,583	108,462
Accumulated amortisation and impairment	-	(1,486)	(15,990)	(3,253)	(20,729)
Net book amount	**73,494**	**165**	**13,744**	**330**	**87,733**
Year ended 31 December 2020					
Opening net book amount	73,494	165	13,744	330	87,733
Increase in value of in-force business debited to reserves	3,698	-	-	-	3,698
Additions	-	-	6,960	59	7,019
Amortisation charge	-	(165)	(3,321)	(128)	(3,614)
Closing net book amount	77,192	-	17,383	261	94,836
At 31 December 2020					
Cost or valuation	77,192	1,651	36,694	3,642	119,179
Accumulated amortisation and impairment	-	(1,651)	(19,311)	(3,381)	(24,343)
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	1,651	43,805	3,719	136,279
Accumulated amortisation and impairment	-	(1,651)	(21,345)	(3,554)	(26,550)
Net book amount	**87,104**	**-**	**22,460**	**165**	**109,729**

Amortisation of €0.38 million (2020: €0.84 million) is included in acquisition costs and €1.83 million (2020: €2.77 million) is included in administrative expenses.

(i) This intangible asset relates to investment contracts without DPF only.

16. INTANGIBLE ASSETS - CONTINUED

(ii) Value of in-force business - assumptions, changes in assumptions and sensitivity

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 at least 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 €0.64 million. A 1% fall in the size of the fund value will reduce the embedded value reported by €0.63 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 €0.07 million. A 1% fall in the size of the fund value will reduce the embedded value by €0.07 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 €0.32 million, while a 1 percentage point decrease in the rate will increase the embedded value by €0.32 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. The valuation assumed a real return of 1% pa (2020: 1% pa) for with-profits business with a risk discount rate of 4.0% pa (2020: 4.0% pa). For term assurance business the valuation assumed a real return of -0.5% (2020: -0.5% pa) with a risk discount rate of 4.5% pa (2020: 4.5% pa). For unit-linked business the valuation assumed a real return of -1% (2020: -1% pa) with a risk discount rate of 4.5% pa (2020: 4.5% pa). Expenses are assumed to inflate at 2.0% pa (2020: 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 best estimate and 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 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	Value of business acquired €'000	Total €'000
At 1 January 2020			
Cost	12,846	1,651	14,497
Accumulated amortisation	(6,078)	(1,485)	(7,563)
Net book amount	6,768	166	6,934
Year ended 31 December 2020			
Opening net book amount	6,768	166	6,934
Additions	2,485	-	2,485
Amortisation charge	(1,491)	(166)	(1,657)
Closing net book amount	7,762	-	7,762
At 31 December 2020			
Cost	15,331	1,651	16,982
Accumulated amortisation	(7,569)	(1,651)	(9,220)
Net book amount	**7,762**	**-**	**7,762**
Year ended 31 December 2021			
Opening net book amount	7,762	-	7,762
Additions	2,907	-	2,907
Amortisation charge	(1,523)	-	(1,523)
Closing net book amount	9,146	-	9,146
At 31 December 2021			
Cost	18,238	1,651	19,889
Accumulated amortisation	(9,092)	(1,651)	(10,743)
Net book amount	**9,146**	**-**	**9,146**

No amortisation (2020: €0.17 million) is included in acquisition costs and €1.52 million (2020: €1.49 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.

NOTES TO THE FINANCIAL STATEMENTS

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.

(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.

2020	**Group**		
	Property	**Motor vehicles**	**Total**
	€'000	**€'000**	**€'000**
Balance on 1 January	475	219	694
Additions	-	531	531
Depreciation charge for the year	(134)	(160)	(294)
Balance on 31 December	**341**	**590**	**931**

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**

2020	**Company**		
	Property	**Motor vehicles**	**Total**
	€'000	**€'000**	**€'000**
Balance on 1 January	475	96	571
Additions	-	410	410
Depreciation charge for the year	(134)	(81)	(215)
Balance on 31 December	**341**	**425**	**766**

NOTES TO THE FINANCIAL STATEMENTS

17. LEASES - CONTINUED

(a) *Leases as the lessee* - continued

(i) *Right-of-use assets* - continued

2021	Company		
	Property €'000	Motor vehicles €'000	Total €'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**

(ii) *Amounts recognised in profit or loss*

2020	Group		
	Property €'000	Motor vehicles €'000	Total €'000
Depreciation of right-of-use assets	134	160	294
Interest expense on lease liabilities	14	30	44

2021	Group		
	Property €'000	Motor vehicles €'000	Total €'000
Depreciation of right-of-use assets	173	155	328
Interest expense on lease liabilities	21	35	56

2020	Company		
	Property €'000	Motor vehicles €'000	Total €'000
Depreciation of right-of-use assets	134	81	215
Interest expense on lease liabilities	14	19	33

NOTES TO THE FINANCIAL STATEMENTS

17. LEASES - CONTINUED

(a) Leases as the lessee - continued

(ii) Amounts recognised in profit or loss - continued

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

In 2021, the Company recognised €36,658(2020: €50,141), 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	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
Less than one year	**4,969**	5,219	**541**	629
One to two years	**3,388**	3,844	**295**	312
Two to three years	**2,676**	2,508	**236**	92
Three to four years	**2,268**	2,153	**225**	18
Four to five years	**858**	1,910	**232**	-
More than five years	**2,434**	2,478	**38**	-
Total	**16,593**	18,112	**1,567**	1,051

18. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land and buildings €'000	Leasehold improvements €'000	Furniture, fittings and equipment €'000	Total €'000
At 1 January 2020				
Cost	14,257	3,164	7,206	24,627
Accumulated depreciation	(167)	(1,675)	(5,074)	(6,916)
Net book amount	**14,090**	**1,489**	**2,132**	**17,711**
Year ended 31 December 2020				
Opening net book amount	14,090	1,489	2,132	17,711
Additions	764	225	724	1,713
Amount transferred to investment property (Note 19)	(500)	-	-	(500)
Disposal	(98)	(16)	(93)	(207)
Depreciation charge	(21)	(259)	(659)	(939)
Depreciation released on transfer to investment property (Note 19)	24	-	-	24
Depreciation released on disposal	17	1	93	111
Closing net book amount	14,276	1,440	2,197	17,913
At 31 December 2020				
Cost	14,423	3,373	7,837	25,633
Accumulated depreciation	(147)	(1,933)	(5,640)	(7,720)
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**

Freehold land and buildings transferred from investment property are transferred at the fair value at the point of transfer and subsequently depreciated. 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

Company	Freehold land and buildings €'000	Leasehold improvements €'000	Furniture, fittings and equipment €'000	Total €'000
At 1 January 2020				
Cost	98	2,578	2,796	5,472
Accumulated depreciation	(15)	(1,208)	(1,946)	(3,169)
Net book amount	**83**	**1,370**	**850**	**2,303**
Year ended 31 December 2020				
Opening net book amount	83	1,370	850	2,303
Additions	-	225	296	521
Disposal	(98)	(16)	(93)	(207)
Depreciation charge	(2)	(203)	(271)	(476)
Depreciation released on disposal	17	1	93	111
Closing net book amount	-	1,377	875	2,252
At 31 December 2020				
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)	(1,521)
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**

Freehold land and buildings transferred from investment property are transferred at the fair value at the point of transfer and are subsequently depreciated. 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 the current year. The fair value movements were credited 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 €13.7 million (2020: €12.5 million) and for the Company €1.1 million (2020: nil).

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. No valuation has been carried out in 2020.

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 €14.0 million and €2.2 million respectively (2020: €14.3 million and nil respectively), was determined by capitalizing future net income streams based on significant unobservable inputs. These inputs include:

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 6.2% & 6.8%. - The valuation provides for a void factor of 2.5% 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 2020		
Cost	60,783	8,078
Accumulated fair value gains	48,800	8,092
Net book amount	**109,583**	**16,170**
Year ended 31 December 2020		
Opening net book amount	109,583	16,170
Transfer from property, plant & equipment (Note 18)	476	-
Additions	2,059	6
Disposals	(90)	(90)
Net fair value (losses)/gains	(510)	119
Net book amount	111,518	16,205
At 31 December 2020		
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**

Transfers to or from property, plant & equipment and disposals are inclusive of accumulated fair value gains at the point of transfer.

NOTES TO THE FINANCIAL STATEMENTS

19. INVESTMENT PROPERTY - CONTINUED

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 2021 and 2020. The fair value movements were credited to profit or loss and are presented within 'investment return' (Note 8).

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 and qualified valuers to determine the fair value of the land and buildings. As at 31 December 2021, 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.

In 2020 the Company adopted the use of the discounted cash flow valuation technique for one of its principal investment properties. In 2021 the Group adopted this technique for most of its property, which was previously valued using the income capitalisation method, with the exception of one property for which the residual value method was used one due to the nature and state of the property. The objective was to provide additional 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 4.9% and 8.0% (2020: 7.5%). - The valuation provides for a void factor varying between 1.9% to 6.7% (2020: 2.5%) on rental income. - A benchmark lease market rate was applied once current lease terms expired. - Expected market rental growth rate of 1.6% (2020: 2.1%) 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).

NOTES TO THE FINANCIAL STATEMENTS

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 of 6.2% (2020: 7.5%). - The valuation provides for a void factor of 6.7% (2020: 2.5%) on rental income. - A benchmark lease market rate was applied once current lease terms expired. - Expected market rental growth rate of 1.6% (2020: 2.1%) 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).

The fair value of investment property determined by external, qualified property valuers on the basis of the discounted cash flow method amounted to €105.68 million (2020: €12.11 million) for the Group and €12.51 million (2020: €15.20 million) for the Company. The Company transferred a portion of Investment Property having a value of €2.19 million to Property, plant and equipment for own use.

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.

NOTES TO THE FINANCIAL STATEMENTS

19. INVESTMENT PROPERTY - 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 €137 - Number of car spaces on completion 149 - Annual net rental rate per car space €813 - Capitalisation rate 6.8% - Net development costs €8.9m - Developer's profit 15% - Planning uncertainty discount 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 methods amounted to €2.62 million for the Group.

Valuation technique – Comparative transaction 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 2021. The comparable transactions 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

All other investment property with a total carrying amount of €1.00 million (2020: €99.4 million) for the Group and €1.00 million (2020: €1.00 million) for the Company, the valuation 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

Information about the fair value measurements using significant unobservable inputs (level 3)

Group

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 – 5.50

Group

Description	Fair value at 31 December 2020 €	Valuation technique	Significant unobservable Inputs: Rental value €	Significant unobservable Inputs: Capitalisation rate %
Office buildings	99.40m	Capitalisation of future net income streams	4.34m	3.00 – 7.50

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

Company

Description	Fair value at 31 December 2020 €	Valuation technique	Significant unobservable Inputs: Rental value €	Significant unobservable Inputs: Capitalisation rate %
Office buildings	1.00m	Capitalisation of future net income streams	0.04m	3.00 – 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.

NOTES TO THE FINANCIAL STATEMENTS

19. INVESTMENT PROPERTY - CONTINUED

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 percenatge 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

	2021 -0.5% € million	**2021 +0.5% € million**	2020 -0.5% € million	2020 +0.5% € million
Capitalisation rates	**-**	**-**	10.3	(8.5)
Discount rates	**8.9**	**(8.9)**	1.5	(1.2)

	2021 -5% € million	**2021 +5% € million**	2020 -5% € million	2020 +5% € million
Market rates	**(7.7)**	**4.4**	(0.7)	0.7

Company

	2021 -0.5% € million	**2021 +0.5% € million**	2020 -0.5% € million	2020 +0.5% € million
Discount rates	**1.0**	**(0.9)**	1.5	(1.2)

Company

	2021 -5% € million	**2021 +5% € million**	2020 -5% € million	2020 +5% € million
Market rates	**(0.5)**	**0.5**	(0.7)	0.7

The impact on profit or loss would be a maximum increase of €1.1 million (2020: €1.5 million) or a maximum decrease of €1.1 million (2020: €1.2 million) for the Group and a maximum increase of €1.1 million (2020: €1.5 million) or a maximum decrease of €0.9 million (2020: €1.2 million) for the Company.

NOTES TO THE FINANCIAL STATEMENTS

20. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	Company €'000
Year ended 31 December 2021	
Opening net book amount	57,214
Additions	20,000
Closing net book amount	**77,214**
Year ended 31 December 2020	
Opening and closing net book amount and deemed cost	**57,214**

The subsidiary undertakings at 31 December are shown below:

Subsidiary undertakings	Registered office	Class of shares held	Percentage of shares held 2021	2020
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%

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:

2021	% Held by non-controlling interests	Assets €'000	Liabilities €'000	Revenues €'000	Profit before tax €'000	Net cash flows
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)	-

NOTES TO THE FINANCIAL STATEMENTS

20. INVESTMENT IN SUBSIDIARY UNDERTAKINGS - CONTINUED

2020	% Held by non-controlling interests	Assets	Liabilities	Revenues	Profit before tax	Net cash Flows
		€'000	€'000	€'000	€'000	
MAPFRE MSV Life p.l.c. (consolidated results)	50%	2,563,705	2,402,311	273,159	15,044	21,794
Church Wharf Properties Limited	25%	3,026	314	-	15	-

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 2021	2020
Growth Investment Limited (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 after year end 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..

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 and it is expected that a small recovery be made. However the amount and timing of such receipt is not certain. The Directors are not aware of any developments that could have an impact on the Company's obligations attached to this investment.

NOTES TO THE FINANCIAL STATEMENTS

21. INVESTMENT IN ASSOCIATED UNDERTAKINGS

	Group	Company
	€'000	€'000
At 1 January 2020		
Cost	14,480	294
Accumulated share of associated undertaking's equity	86	86
Accumulated fair value movements	11,850	-
Net book amount	**26,416**	**380**
Year ended 31 December 2020		
Opening net book amount	26,416	380
Share of associated undertaking's movement in equity	5	5
Fair value movements	(1,247)	-
Closing net book amount	25,174	385
At 31 December 2020		
Cost	14,480	294
Share of associated undertaking's movement in 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 movements	(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**

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:

2021	Registered office	Assets €'000	Liabilities €'000	Revenues €'000	Profit €'000	Percentage of shares held
Middlesea Assist Limited	Development House Floriana	1,602	802	2,810	183	49%

2020	Registered office	Assets €'000	Liabilities €'000	Revenues €'000	Profit €'000	Percentage of shares held
Middlesea Assist Limited	Development House Floriana	1,677	890	2,472	187	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		Group	
			2021	2020	2021	2020
Plaza Centres p.l.c.	The Plaza Commercial Centre Bisazza Street Sliema	Ordinary shares	31.42%	28.36%	31.42%	28.36%
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 2021 was €0.93 and €0.75 respectively (31 December 2020: €0.98 and €0.85 respectively).

NOTES TO THE FINANCIAL STATEMENTS

22. OTHER INVESTMENTS

The investments are summarised by measurement category in the table below.

	Group		Company	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
Fair value through profit or loss	**2,202,757**	2,031,757	**2,151**	2,934
Other available-for-sale	**6,231**	2,420	**6,231**	2,420
Loans and receivables	**212,923**	228,580	**-**	-
	2,421,911	2,262,757	**8,382**	5,354

(a) Investments at fair value through profit or loss

Analysed by type of investment as follows:

	Group		Company	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
Equity securities and units in unit trusts	**1,083,341**	867,534	**1,393**	1,426
Debt securities	**1,005,906**	1,062,092	**758**	1,508
Assets held to cover linked liabilities – collective investment schemes	**113,510**	100,818	**-**	-
Forward foreign exchange contracts	**-**	1,313	**-**	-
Total investments at fair value through profit or loss	**2,202,757**	2,031,757	**2,151**	2,934

Technical provisions for linked liabilities amounted to €114.8 million as at 31 December 2021 (2020: €101.3 million). Linked liabilities are included in technical provisions for insurance contracts, investments contracts with DPF and investment contracts without DPF.

At 31 December 2021 and 2020, the Group and Company had no financial commitments in respect to uncalled capital.

Equity securities and collective investment schemes other than those at Company level are substantially non-current assets in nature.

NOTES TO THE FINANCIAL STATEMENTS

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 2020		
Opening net book amount	1,966,718	3,866
Additions	1,869,192	-
Disposals	(1,851,809)	(620)
Net fair value gains/(losses)	47,489	(312)
Closing net book amount	**2,031,590**	**2,934**
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**

Derivative financial liabilities amounting to €0.78 million (2020: €0.17 million), included in the table above, are classified within liabilities in the statement of financial position.

(b) *Other available-for-sale financial assets*

	Group		Company	
	2021 €'000	2020 €'000	**2021 €'000**	2020 €'000
Listed debt securities	**5,579**	1,528	**5,579**	1,528
Listed shares	**652**	892	**652**	892
	6,231	2,420	**6,231**	2,420

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	
	2021 €'000	2020 €'000	**2021 €'000**	2020 €'000
A	**2,484**	1,528	**2,484**	1,528
BBB	**2,980**	-	**2,980**	-
BB or lower	**115**	-	**115**	-
	5,579	1,528	**5,579**	1,528

NOTES TO THE FINANCIAL STATEMENTS

22. OTHER INVESTMENTS - CONTINUED

The movements for the year are summarised as follows:

Listed debt securities	Group		Company	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
Year ended 31 December				
Opening net book amount	**1,528**	4,781	**1,528**	4,781
Additions	**4,531**	-	**4,531**	-
Disposals	**(398)**	(3,178)	**(398)**	(3,178)
Net fair value losses	**(82)**	(75)	**(82)**	(75)
Closing net book amount	**5,579**	1,528	**5,579**	1,528

Listed shares	Group		Company	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
Year ended 31 December				
Opening net book amount	**892**	1,208	**892**	1,208
Additions	**600**	15	**600**	15
Disposals	**(882)**	-	**(882)**	-
Net fair value gains/ (losses)	**42**	(331)	**42**	(331)
Closing net book amount	**652**	892	**652**	892

(c) Loans and receivables

	Group	
	2021	2020
	€'000	€'000
Deposits with banks or credit institutions	**204,888**	220,366
Loans secured on policies	**8,035**	8,214
	212,923	228,580

NOTES TO THE FINANCIAL STATEMENTS

21. OTHER INVESTMENTS - CONTINUED

(c) Loans and receivables - continued

Maturity of deposits with bank or credit institutions:

	Group	
	2021	2020
	€'000	€'000
Within 3 months	**25,955**	23,064
Within 1 year but exceeding 3 months	**118,594**	92,240
Between 1 and 5 years	**60,339**	104,862
	204,888	220,366

The above deposits earn interest as follows:

	Group	
	2021	2020
	€'000	€'000
At fixed rates	**204,888**	220,366
	204,888	220,366

As at 31 December 2021 an amount of €3.14 million (2020: €1.92 million) within deposits with banks or credit institutions, was held in a margin account as collateral against exchange traded futures.

The movements for the year (excluding deposits) are summarised as follows:

Group	**Loans secured on policies €'000**
Year ended 31 December 2020	
Opening net book amount	8,358
Additions	1,008
Disposals (sales and redemptions)	(1,152)
Closing net book amount	**8,214**

Group	**Loans secured on policies €'000**
Year ended 31 December 2021	
Opening net book amount	8,214
Additions	1,178
Disposals (sales and redemptions)	(1,357)
Closing net book amount	**8,035**

The above loans earn interest at fixed rates.

NOTES TO THE FINANCIAL STATEMENTS

23. DEFERRED INCOME TAX

	Group		Company	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
Balance at 1 January	**35,117**	31,027	**898**	857
Movements during the year:				
Profit or loss account (Note 12)	**5,156**	3,907	**(190)**	(142)
Other comprehensive income	**13**	183	**13**	183
Balance at 31 December – net	**40,286**	35,117	**721**	898

Deferred income taxes are calculated on all temporary differences using a principal tax rate of 35% (2020: 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 (2020: 8% or 10%), if appropriate. The analysis of deferred tax (assets)/liabilities is as follows:

	Group		Company	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
Temporary differences on property, plant and equipment	**2,608**	1,788	**607**	803
Temporary differences attributable to investment property, unrealised capital losses and fair value adjustments on financial assets	**81,496**	72,849	**1,218**	982
Temporary differences attributable to unabsorbed tax losses and allowances carried forward	**(43,646)**	(39,345)	**(932)**	(712)
Temporary differences attributable to other provisions	**(172)**	(175)	**(172)**	(175)
Balance at 31 December – net	**40,286**	35,117	**721**	898

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	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
Deferred tax asset	**(2,313)**	(2,350)	**(1,268)**	(1,332)
Deferred tax liability	**42,599**	37,467	**1,989**	2,230
	40,286	35,117	**721**	898

The tax effect of temporary differences attributable to the value of in-force business amounts to €5.34 million (2021: €1.99 million).

NOTES TO THE FINANCIAL STATEMENTS

23. DEFERRED INCOME TAX - CONTINUED

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 €6.53 million (2020: loss of €5.36 million), which give rise to a deferred tax liability of €2.28 million (2020: tax asset of €1.88 million) that has not been recognised in these financial statements. The Group also has unutilised trading losses of €2.40 million (2020: €2.40 million) giving rise to a deferred tax asset of €0.84 million (2020: €0.84 million) which has not been recognised in these financial statements.

The Group's and Company's deferred tax liability was established on the basis of tax rates that were substantively enacted as at the financial year end.

24. INSURANCE LIABILITIES AND REINSURANCE ASSETS

Technical provisions – insurance contracts and investment contracts with DPF, including reinsurers' share of technical provisions

	Group		Company	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
Gross				
Short term insurance contracts – general business				
- claims outstanding	**53,767**	50,803	**53,767**	50,803
- provision for unearned premiums	**37,953**	34,974	**37,953**	34,974
Short term insurance contracts - Group life				
- claims outstanding	**559**	702	**559**	702
- long term business provision	**726**	793	**726**	793
Long term contracts				
- individual life insurance contracts	**506,666**	529,554	**-**	-
- investment contracts with DPF	**1,870,997**	1,766,724	**-**	-
Total technical provisions, gross	**2,470,668**	2,383,550	**93,005**	87,272
Recoverable from reinsurers				
Short term insurance contracts – general business				
- claims outstanding	**24,890**	25,203	**24,890**	25,203
- provision for unearned premiums	**7,424**	5,990	**7,424**	5,990
Short term insurance contracts - Group life				
- claims outstanding	**-**	113	**-**	113
Long term contracts				
- individual life insurance contracts	**933**	501	**-**	-
Total reinsurers' share of technical provisions	**33,247**	31,807	**32,314**	31,306
Net				
Short-term insurance contracts – general business				
- claims outstanding	**28,877**	25,600	**28,877**	25,600
- provision for unearned premiums	**30,529**	28,984	**30,529**	28,984
Short term insurance contracts - Group life				
- claims outstanding	**559**	589	**559**	589
- long term business provision	**726**	793	**726**	793
Long term contracts				
- individual life insurance contracts	**505,733**	529,053	**-**	-
- investment contracts with DPF	**1,870,997**	1,766,724	**-**	-
Total technical provisions, net	**2,437,421**	2,351,743	**60,691**	55,966

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 2017 and 2021 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	2011 €'000	2012 €'000	2013 €'000	2014 €'000	2015 €'000	2016 €'000	2017 €'000	2018 €'000	2019 €'000	2020 €'000	2021 €'000	Total €'000
Estimate of the ultimate claims costs:												
- at end of accident year	15,972	15,756	16,104	17,775	23,216	30,078	33,106	33,539	33,848	28,126	34,703	
- one year later	15,402	14,183	14,205	16,060	23,350	30,320	33,952	33,645	35,714	28,373		
- two years later	13,702	12,932	13,465	15,565	22,442	29,171	33,638	33,846	36,717			
- three years later	12,694	12,543	13,288	15,608	22,786	28,863	33,325	33,248				
- four years later	12,467	12,586	13,178	15,611	22,551	29,038	33,158					
- five years later	12,476	12,144	13,044	15,420	22,489	29,030						
- six years later	12,504	12,311	13,016	15,247	22,656							
- seven years later	12,398	12,094	13,233	15,222								
- eight years later	12,581	11,981	13,247									
- nine years later	12,551	11,965										
- ten years later	12,564											
Current estimates of cumulative claims	12,564	11,965	13,247	15,222	22,656	29,030	33,158	33,248	36,717	28,373	34,703	270,883
Cumulative payments to date	(12,281)	(11,597)	(13,020)	(14,965)	(21,497)	(28,047)	(31,521)	(31,636)	(34,155)	(25,584)	(18,623)	(242,926)
Liability recognised in the statements of financial position	283	368	227	257	1,159	983	1,637	1,612	2,562	2,789	16,080	27,957
Liability in respect of prior years												920
Total reserve included in the statements of financial position												28,877

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 2020		
	Gross €'000	**Reinsurance** €'000	**Net** €'000
Total at beginning of year	52,619	(24,236)	28,383
Claims settled during the year	(38,247)	5,619	(32,628)
Increase in net liabilities			
- arising from current year claims	32,635	(4,509)	28,126
- arising from prior year claims	3,796	(2,077)	1,719
At end of year	**50,803**	**(25,203)**	**25,600**

	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**

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 unfavourable run-off of €1.75 million (2020: unfavourable €3.80 million). After the effect of reinsurance, this amounts to an unfavourable €0.20 million (2020: unfavourable €1.72 million). This net run-off arose principally from an unfavourable development on claims in the 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 2020		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	34,510	(5,664)	28,846
Net charge/(credit) to profit or loss	464	(326)	138
At end of year	**34,974**	**(5,990)**	**28,984**

	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**

€0.08 million in provision for unexpired risks was recognised as at 31 December 2021 (2020: nil million).

NOTES TO THE FINANCIAL STATEMENTS

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 2020		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	386	(53)	333
Claims settled during the year	(1,207)	349	(858)
Increase in net liabilities	1,523	(409)	1,114
At end of year	**702**	**(113)**	**589**

	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**

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 at 31 December 2021. 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:

	2021 €'000	2020 €'000
Other Investments	**1,396**	1,134
Insurance and other receivables	**361**	434
Cash and cash equivalents	**862**	749
Claims outstanding	**(559)**	(589)
Insurance and other payables	**(1,334)**	(935)
Long term business provision, net of reinsurance	**726**	793

24. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

(d) Long term business – Individual Insurance life contracts and investment contracts with DPF

Individual life insurance contracts

	2021 €'000	2020 €'000
Gross technical provisions		
- claims outstanding	9,129	7,718
- long term business provision	497,537	521,836
	506,666	529,554
Reinsurers' share of technical provisions		
- claims outstanding	933	501
	933	501
Net technical provisions		
- claims outstanding	8,196	7,217
- long term business provision	497,537	521,836
	505,733	529,053

The movements for the year are summarised as follows:

	Group Year ended 2020		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	553,769	(443)	553,326
Credit to the profit or loss account	(24,215)	(58)	(24,273)
At end of year	**529,554**	**(501)**	**529,053**

	Group Year ended 2021		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	529,554	(501)	529,053
Credit to the profit or loss account	(22,888)	(432)	(23,320)
At end of year	**506,666**	**(933)**	**505,733**

The above liabilities are substantially non-current in nature.

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 2021 €'000	Group 2020 €'000
Investment contracts with DPF (gross and net)		
- claims outstanding	**36,944**	35,874
- long term business provision	**1,834,053**	1,730,850
	1,870,997	1,766,724

The movements for the year are summarised as follows:

	2021 €'000	2020 €'000
Year ended 31 December		
At beginning of year	**1,766,724**	1,695,757
Charge to the profit or loss account	**104,273**	70,967
At end of year	**1,870,997**	1,766,724

The above liabilities are substantially non-current in nature.

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 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.

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

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 (2020: 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 our mortality and policy expense expectations were also updated. The combined impact of these changes in assumptions was charged against the technical result for the year.

(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.

Technical Provisions - Investment contracts without DPF

	2021	2020
	€'000	€'000
Long term business provision	**59,784**	52,202
Claims outstanding	**1,085**	1,329
	60,869	53,531

The above liability is considered to be substantially non-current in nature.

NOTES TO THE FINANCIAL STATEMENTS

25. DEFERRED ACQUISITION COSTS – SHORT TERM INSURANCE CONTRACTS

	Group and Company	
	2021	2020
	€'000	€'000
Year ended 31 December		
Opening net book amount	**8,080**	7,775
Net amount charged to profit or loss	**347**	305
Closing net book amount	**8,427**	8,080

Deferred acquisition costs are all classified as current assets.

26. INSURANCE AND OTHER RECEIVABLES

	Group		Company	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
Receivables arising from direct insurance operations:				
- due from policyholders	**272**	654	**272**	466
- due from agents, brokers and intermediaries	**16,297**	15,994	**16,297**	15,996
- due from reinsurers	**363**	667	**363**	667
Receivables arising from reinsurance operations:				
- due from reinsurers	**16**	16	**16**	16
Other loans and receivables:				
- prepayments	**4,669**	4,490	**1,806**	1,979
- accrued interest and rent	**10,507**	11,865	**173**	194
- receivables from subsidiary undertakings	**-**	-	**470**	180
- receivables from associated undertaking	**212**	419	**212**	419
- other receivables	**120**	56	**-**	-
Provision for impairment of receivables	**(387)**	(333)	**(387)**	(333)
	32,069	33,828	**19,222**	19,584
Current portion	**32,069**	33,828	**19,222**	19,584

Balances due from group undertakings, associated undertaking and other receivables are unsecured, non-interest bearing and have no fixed date of repayment.

26. INSURANCE AND OTHER RECEIVABLES - CONTINUED

Movements in the provision for impairment of receivables are as follows:

	Group and Company	
	2021	2020
	€'000	€'000
Balance as at 1 January	**333**	191
Increase in provision for impairment (Note 10)	**160**	174
Release of provision for impairment during the year	**(106)**	(32)
Balance as at 31 December	**387**	333

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	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
Cash at bank and in hand	**71,443**	97,060	**11,575**	31,432

28. SHARE CAPITAL

	Group and Company	
	2021	2020
	€'000	€'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

NOTES TO THE FINANCIAL STATEMENTS

29. OTHER RESERVES

Group	Value of in-force business €'000	Freehold land and undertaking €'000	Available-for-sale investments €'000	Total €'000
Balance at 1 January 2020	36,748	-	115	36,863
Fair value movements – gross	-	-	(331)	(331)
Fair value movements – tax	-	-	115	115
Available-for-sale investments – reclassified to profit or loss				
- gross	-	-	635	635
- related tax	-	-	(302)	(303)
Share of increase in value of in-force business of subsidiary undertaking	1,849	-	-	1,849
Balance at 31 December 2020	**38,597**	**-**	**232**	**38,829**
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 subsidairy undertaking	4,956	-	-	4,956
Balance at 31 December 2021	**43,553**	**1,081**	**183**	**44,817**

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 2020	34,663	86	115	34,864
Fair value movements – gross	-	-	(331)	(331)
Fair value movements – tax	-	-	115	115
Available-for-sale investments – reclassified to profit or loss				
- gross	-	-	635	635
- related tax	-	-	(302)	(302)
Other	-	5	-	5
Balance at 31 December 2020	**34,663**	**91**	**232**	**34,986**
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 investments – 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**

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	
	2021	2020
	€'000	€'000
Balance at 1 January	**1,057**	1,101
Interest expense – profit or loss (Note 8)	**3**	5
Settlements	**(61)**	(61)
Re-measurements actuarial loss – other comprehensive income	**(2)**	12
Balance at 31 December	**997**	1,057

The following payments as expected in the future years:

	Group and Company	
	2021	2020
	€'000	€'000
Within one year	**61**	60
After more than one year	**936**	997
	997	1,057

The significant assumptions used in determining the pension obligation are shown below:

	Group and Company	
	2021	2020
	€'000	€'000
Mortality	**AMC00**	AMC00
Discount rate	**0.7%**	0.3%
Inflation rate	**1.2%**	0.9%

	Group and Company	
	2021	2020
	€'000	€'000
Discount rate – 1% pt increase	**(87)**	(96)
Discount rate – 1% pt decrease	**100**	122
Inflation rate – 1% pt increase	**93**	104
Inflation rate – 1% pt decrease	**(82)**	(92)

A quantitative analysis of the impact on the pension obligation for the significant assumptions is shown below:

NOTES TO THE FINANCIAL STATEMENTS

31. INSURANCE AND OTHER PAYABLES

	Group		Company	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
Creditors arising out of direct insurance operations	**13,641**	12,546	**4,063**	3,609
Creditors arising out of reinsurance operations	**172**	172	**172**	172
Amounts owed to associated undertaking (Note 35)	**217**	258	**217**	258
Amounts owed to subsidiary undertakings (Note 35)	**-**	-	**1,013**	1,007
Social security and other tax payables	**4,540**	3,890	**1,645**	1,458
Accruals and other payables	**9,548**	8,173	**3,950**	3,660
Deferred income	**3,055**	2,452	**2,341**	1,811
	31,173	27,491	**13,401**	11,975
Current	**30,974**	27,319	**13,401**	11,975
Non-current	**199**	172	**-**	-
	31,173	27,491	**13,401**	11,975

Balances due to group undertakings are unsecured, non-interest bearing and have no fixed date of repayment.

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 generated from operations:

	Group		Company	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
Profit before tax	**20,390**	21,191	**4,063**	6,388
Adjusted for:				
Depreciation (Note 18)	**855**	939	**518**	476
Increase in provision for impairment of receivables (Note 26)	**54**	142	**54**	142
Settlement of provision for liabilities and charges and charges (Note 30)	**(61)**	(61)	**(61)**	(61)
Amortisation (Note 16)	**2,207**	3,614	**1,523**	1,657
Depreciation of right-of-use assets (Note 17)	**328**	294	**270**	215
Lease payments against lease liabilities	**(411)**	(386)	**(341)**	(311)
Adjustments relating to investment return	**(112,135)**	(61,291)	**274**	717
Loss on sale of property, plant and equipment	**-**	2	**-**	2
Revaluation loss on property (Note 18)	**1,521**	-	**-**	-
Movements in:				
Insurance and other receivables	**63**	(2,398)	**310**	(2,416)
Deferred acquisition costs (Note 25)	**(347)**	(305)	**(347)**	(305)
Reinsurers' share of technical provisions	**(1,440)**	(1,411)	**(1,008)**	(1,353)
Technical provisions	**94,456**	46,697	**5,733**	(894)
Insurance and other payables	**3,880**	1,071	**1,426**	201
Cash generated from operations	**9,360**	8,098	**12,414**	4,458

NOTES TO THE FINANCIAL STATEMENTS

33. COMMITMENTS

Capital commitments

Commitments for capital expenditure not provided for in these financial statements are as follows:

	Group		Company	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
Authorised and not contracted for				
- property, plant and equipment	**920**	1,266	**920**	1,266
- intangible assets	**2,914**	1,009	**2,914**	1,009
- investment property	**118**	303	**-**	-
Authorised and contracted for				
- property, plant and equipment	**903**	705	**684**	333
- intangible assets	**1,668**	7,150	**1,480**	1,452
- investment property	**3,834**	754	**-**	-

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	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
Not later than 1 year	**4,970**	5,219	**541**	629
Later than 1 year and not later than 5 years	**9,190**	10,415	**988**	422
Later than 5 years	**2,433**	2,478	**38**	-
	16,593	18,112	**1,567**	1,051

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 €0.19 million (2020: €0.21 million) not arising under contracts of insurance.

NOTES TO THE FINANCIAL STATEMENTS

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 Internacional S.A. and/or MAPFRE S.A. or companies owned by MAPFRE S.A.. Bank of Valletta p.l.c. is a related party 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.

Relevant particulars of related party transactions are as follows:

	Group	
	2021	2020
	€'000	€'000
(a) Sales of insurance contracts and other services		
Transactions with parent undertaking		
- Commission received	**4,549**	4,135
- Claims recovered	**5,518**	5,669
Transactions with related undertaking		
- Trailer fees received	**23**	21
- Sale of insurance contracts	**925**	650
- Dividends received and interest income	**1,332**	1,692
- Rental income on investment property	**288**	274
Transactions with associated undertaking		
- Sale of insurance contracts	**27**	24
- Dividends received	**141**	136
- Rental income on investment property	**36**	43
- Reimbursement of expenses for back office support services	**17**	18
(b) Purchases of products and services		
Transactions with related undertaking		
- Reinsurance premium ceded	**16,015**	16,920
- Staff development training	**7**	-
- Expat staff benefits	**29**	192
- Computer maintenance and Group IT shared services	**1,279**	1,209
- Capitalisation of software development	**399**	241
- Corporate areas cost allocations	**417**	287
Transactions with related undertaking		
- Acquisition cost payable	**5,552**	4,457
- Bank Charges	**169**	248
- Bank Interest	**353**	413
Transactions with associated undertaking		
- Roadside assistance membership and other centre services	**2,500**	2,430

NOTES TO THE FINANCIAL STATEMENTS

35. RELATED PARTY TRANSACTIONS - CONTINUED

	Company 2021 €'000	2020 €'000
(a) Sales of insurance contracts and other services		
Transactions with parent undertaking		
- Commissions received	**4,417**	3,975
- Claims recovered	**5,518**	5,669
Transactions with related undertaking		
- Sale of insurance contracts	**925**	650
- Dividends received and interest income	**-**	1
Transactions with subsidiary undertaking		
- Sale of insurance contracts	**232**	187
Rental income on investment property	**87**	169
- Rental income from sub-letting of shared premises	**34**	34
- Reimbursement of expenses for back office support services	**783**	664
Transactions with associated undertaking		
- Sale of insurance contracts	**27**	24
- Dividends received	**141**	136
- Rental income on investment property	**38**	43
- Reimbursement of expenses for back office support services	**17**	18
(b) Purchases of products and services		
Transactions with parent undertaking		
- Reinsurance premium ceded	**14,483**	14,852
- Staff development training	**7**	-
- Expat staff benefits	**29**	192
- Computer maintenance, Group IT shared services	**534**	836
- Capitalisation of software development	**351**	241
- Corporate area cost allocations	**417**	286
- Investment management services	**4**	-
Transactions with parent undertaking		
- Bank Charges	**85**	141
- Bank Interest	**47**	107
Transactions with subsidiaries		
- Reimbursement of expenses for back office support services	**515**	479
Transactions with associated undertaking		
- Roadside assistance membership and other centre services	**2,500**	2,430

35. RELATED PARTY TRANSACTIONS - CONTINUED

Key management personnel during 2021 and 2020 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 €3.52 million (Company: €1.82 million). Corresponding figures for 2020 were €3.23 million paid by the Group and €1.63 million paid by the Company.

Year-end balances arising from the above transactions:

	Group		Company	
	2021	2020	**2021**	2020
	€'000	€'000	**€'000**	€'000
Debtors arising out of direct insurance operations				
- Related undertaking	**194**	45	**194**	45
- Parent undertaking	**116**	286	**116**	286
Creditors arising out of direct insurance operations				
- Parent undertaking	**1,714**	1,005	**1,294**	832
- Related undertaking	**481**	488	**-**	-
Amounts owed to				
- Associated undertaking	**217**	258	**217**	258
- Subsidiary undertaking	**-**	-	**1,013**	1,007
Amounts owed by				
- Associated undertaking	**212**	423	**212**	423
- Subsidiary undertaking	**-**	-	**454**	174
- Parent undertaking	**317**	682	**1**	15
Accruals – Parent Undertaking	**126**	658	**85**	361
Reinsurers share of technical provisions				
- Parent Undertaking	**29,066**	28,111	**29,066**	28,111
Investments with related parties	**150,264**	179,135	**507**	535
Cash and cash equivalents with related undertaking	**44,264**	68,703	**6,735**	22,117

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, non-interest bearing and have no fixed date of repayment.

36. SIGNIFICANT EVENTS DURING THE PERIOD AND SUBSEQUENT TO THE REPORTING DATE

Growth Investments Limited

During the financial reporting period ended 31 December 2020, the subsidiary of MAPFRE MSV Life p.l.c., Growth Investments Limited ("GIL"), started to formally inform clients of the directors' intention to wind down the entity. In addition, GIL entered into a transfer of business agreement with related companies. The process of transferring business and/or closure of clients' accounts is nearing completion and, as at the date of issue of these financial statements, only one account remains open. GIL's directors expect the remaining transfer to be completed by the first half of 2022. Once that process is complete, the intention is to voluntary surrender the subsidiary's investment licence issued by the Malta Financial Services Authority. Following the conclusion of that step, the subsidiary's directors intend to proceed to liquidate the entity.

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 (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. 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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