

Review of Group Operations

Half Yearly Financial Statements - 30 June 2023

Commentary

The Directors present the unaudited consolidated interim results of MAPFRE Middlesea p.l.c..

MAPFRE Middlesea p.l.c. ("Company") and its subsidiary MAPFRE MSV Life p.l.c. ("MAPFRE MSV Life") have adopted IFRS 17 Insurance Contracts and IFRS 9 Financial Instruments for the first time on 1 January 2023. These standards brought significant changes to the accounting for insurance and reinsurance contracts and financial instruments and more information was presented in Note 1 - Basis of Preparation in the Groups's Annual Report 2022. Given the significance of these changes, the respective companies have been working on an implementation project albeit still subject to external audit.

As these standards must be applied retrospectively the first impact in the Group financial statements is the opening Statement of financial as at 1 January 2022 together with the restatement of the Statement of profit or loss for 2022 and the Statement of financial position as at 31 December 2022. Total Equity for the Group on transition date saw a reduction of €69.1 million with the major impact emanating from the de-recognition of MAPFRE MSV Life's Value of in-force business amounting to €84.0 million. The Value of in-force business under IFRS4 represented the net present value of future cash flows expected from contracts in force at the respective year-end, with movement in value recognized in other comprehensive income. Under IFRS 17, such an intangible asset is no longer recognizable, and instead recognizes the Contractual Service Margin (CSM) released over time to reflect insurance contract services transferred to policyholders during the reporting period. The movement in retained earnings was a positive movement of €14.7 million reflecting the change in the technical provisions recognized under IFRS4, including an element of prudence, and the insurance, reinsurance and investment contract assets and liabilities under IFRS17 and IFRS9 valued on a market consistent basis.

The Group has in the half year ending 30 June 2023 registered a profit before tax of €10.75 million against the restated comparative of €2.97 million. The profit after tax and non-controlling interests, allocated to shareholders, amounted to €4.99 million as compared to €1.96 million in 2022.

The deterioration in the restated June 2022 result (previously €11.76 million), is mainly derived from MAPFRE MSV Life's Term Business which in the comparative year had its portfolio being hedged by a Bond portfolio, which, whilst experiencing fair value losses due to increase in yield rates, was mitigated by a lowering in technical provisions resulting from increased valuation interest rates. Due to the retrospective adoption of IFRS 17, a significant part of the reduction in the technical provisions moved into the transition figures leaving the result for June 2022 heavily impacted by the loss in Bond value. Such loss is not repeatable as the Bond portfolio was subsequently disposed of.

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The Company's non-life business saw premium written registering a strong growth from the already improving levels of June 2022. Claim frequency in the Motor line of business saw an improvement compared to 2022 with average cost remaining stable. Large losses had a similar impact as the comparative albeit in different classes of business, contained in Motor this year whilst mainly in Liability line of business in the previous year. The Company's results saw an overall improvement in the insurance and investment income consolidated in Group figures. The comparative results were however supplemented by a one-off receipt of €0.54 million from the liquidation of Progress Assicurazioni S.p.A..

MAPFRE MSV Life p.l.c. insurance and investment sales levels remained subdued in the first six months of the year, as the company had to compete with high coupon government and corporate bond issues and other financial products in the local market offering a high interest return. Investment returns improved compared to the negative return experienced in 2022 with an increase registered in both Insurance contracts liabilities and Investment contract liabilities.

The Group is compliant with the regulatory capital requirements as stipulated by the MFSA which are in line with the Solvency II requirements and continues to maintain its healthy Solvency position as a result of the attained positive results.

Financial highlights for the half year

- **General Business Gross Premium written** increased by 13.1% from €44.89 million in 2022 to €50.76 million as at the 30 June 2023.
- **Long term Gross business Written** by the Group registered a downward movement of 34.4% to €101.28 million compared to €154.25 million in the comparative period of 2022.
- The Group registered a **Profit after taxation** for the 6 months ended 30 June 2023 of €7.65 million, of which €4.99 million attributable to shareholders, compared with a restated profit after taxation of €2.36 million for the same period last year of which €1.96 million attributable to shareholders.
- **Net Insurance, Investment and Reinsurance Assets and Liabilities** at 30 June 2023 increased by 1.8% to €2.15 billion compared to the 31 December 2022 restated net assets of €2.11 billion.
- **Total assets** increased by 1.3% and totaled €2.40 billion as at 30 June 2023, as compared to the total assets of €2.37 billion at 31 December 2022 as restated.
- **Total Equity** of the Group attributable to shareholders amounted to €79.48 million as at 30 June 2023, up from €77.97 million at 31 December 2022 as restated, with MAPFRE Middlesea p.l.c. having paid a dividend for financial year 2022 of €3.5 million outweighed by the results for the half year. The net asset value per share stands at €0.86 as at June 2023.

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- Both insurance companies in the Group are compliant with the regulatory **solvency requirements** under Solvency II regime as at June 2023.

Outlook

In a year of accounting standard transition the Group looks at the second half of 2023 with cautious optimism as it navigates through an economic environment influenced by the ongoing effects of the Ukraine war, high inflation, and an increasing interest rate backdrop. The Board and Management remains focused on the Group's strategic actions to meet its set Key Performance Indicators and increasing shareholders returns whilst improving operational efficiency and client satisfaction in line with its mission of being the most trusted insurer.

In line with Company policy, the Board of Directors do not propose to pay an interim dividend for the half year ended 30 June 2023 (2022 – nil).

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**Condensed Statement of Profit or Loss
for the half year ended 30 June**

	Group	
	6 months to 30 June 2023	6 months to 30 June 2022 as restated
	€'000	€'000
Insurance revenue	76,559	69,306
Insurance service expenses	(57,084)	(53,405)
Net expenses from reinsurance contracts held	(7,322)	(3,905)
Insurance service result	12,153	11,996
Net investment income	89,598	(258,688)
Finance income from insurance/reinsurance contracts	1,085	254,953
Finance expense from insurance/reinsurance contracts	(90,592)	(5,171)
Net insurance finance expenses	(89,507)	249,782
Net insurance and investment results	12,244	3,090
Other revenue	600	1,125
Other operating expenses	(2,098)	(1,788)
Recovery of impairment in group undertaking	0	540
Profit before tax for the half year	10,746	2,967
Tax expense	(3,097)	(603)
Profit for the half year	7,649	2,364
Attributable to:		
- owners of the Company	4,986	1,960
- non-controlling interests	2,663	404
	7,649	2,364
Earnings per share attributable to owners of the Company	5c4	2c1

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**Condensed Statement of Comprehensive Income
for the half year ended 30 June**

	Group	
	6 months to 30 June 2023	6 months to 30 June 2022 as restated
	€'000	€'000
Profit for the half year	7,649	2,364
Other comprehensive income:		
<i>Other comprehensive Income to be reclassified to profit and loss in subsequent periods</i>		
Change in other fair value through other comprehensive income	18	(504)
Total other comprehensive income, net of tax	18	(504)
Total comprehensive income for the half year	7,667	1,860
Attributable to:		
- owners of the Company	5,004	1,456
- non-controlling interests	2,663	404
Total comprehensive income for the half year	7,667	1,860

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Condensed Statement of Financial Position

	Group		
	June	December	December
	2023	2022	2021
	as restated	as restated	as restated
	€'000	€'000	€'000
ASSETS			
Cash and cash equivalents	76,328	137,286	71,443
Investment in associated undertakings	23,173	23,027	22,831
Other investments	2,081,432	1,983,770	2,413,876
Insurance contract assets	2,534	4,047	14,243
Reinsurance contracts assets	22,708	29,798	34,498
Income tax receivable	43	42	308
Other assets	39,828	31,110	29,354
Intangible assets	28,837	28,150	22,623
Investment property	108,758	108,278	110,016
Right-of-use assets	1,335	1,461	1,802
Property, plant and equipment	17,290	17,626	17,657
Deferred income tax	2,178	8,750	2,313
Total assets	2,404,444	2,373,345	2,740,964
EQUITY			
Capital and reserves attributable to owners of the Company	79,477	77,973	77,028
Non-controlling interests	78,635	75,972	75,793
Total equity	158,112	153,945	152,821
LIABILITIES			
Income tax payable	42,613	42,570	838
Other current liabilities	19,453	17,554	19,359
Insurance contracts liabilities	156,635	140,019	142,702
Investment contract liabilities	1,999,947	1,987,000	2,345,495
Reinsurance contracts liabilities	13,766	13,446	23,838
Derivative financial instruments	-	-	775
Lease liabilities	1,405	1,530	1,866
Provisions for other liabilities and charges	836	854	997
Deferred income tax	11,677	16,428	52,271
Total liabilities	2,246,332	2,219,401	2,588,141
Total equity and liabilities	2,404,444	2,373,345	2,740,962

These condensed financial statements were approved by the Board on 26 July 2023 and were signed on its behalf by

Martin Galea
Chairman

Javier Moreno Gonzalez
President & CEO

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Statement of Changes in Equity for the half year ended 30 June

Group

	Attributable to owners of the Company						
	Share	Share	Other	Profit &		Non-	
	capital	premium	reserves	loss	Total	controlling	Total
	account	account	account	account	interests	interests	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Balance as at 1 January 2022							
as previously stated	19,320	688	44,817	46,211	111,036	110,932	221,968
Effect of adopting IFRS9 & IFRS17	-	-	(43,384)	9,376	(34,008)	(35,139)	(69,147)
Balance as at 1 January 2022 as restated	19,320	688	1,433	55,587	77,028	75,793	152,821
Comprehensive income							
Profit for the half year	-	-	-	1,960	1,960	404	2,364
Other comprehensive income:							
Change in FVOCI investments' fair value	-	-	(504)	-	(504)	-	(504)
Total other comprehensive income, net of tax	-	-	(504)	-	(504)	-	(504)
Total comprehensive income	-	-	(504)	1,960	1,456	404	1,860
Transactions with owners							
Dividends for 2021	-	-	-	(2,400)	(2,400)	(1,000)	(3,400)
Total transactions with owners	-	-	-	(2,400)	(2,400)	(1,000)	(3,400)
Balance as at 30 June 2022	19,320	688	929	55,147	76,084	75,197	151,281
Balance as at 1 January 2023							
as previously stated	19,320	688	40,189	52,887	113,084	112,148	225,232
Effect of adopting IFRS9 & IFRS17	-	-	(39,849)	4,738	(35,111)	(36,176)	(71,287)
Balance as at 1 January 2023 as restated	19,320	688	340	57,625	77,973	75,972	153,945
Comprehensive income							
Profit for the half year	-	-	-	4,986	4,986	2,663	7,649
Other comprehensive income:							
Change in FVOCI investments' fair value	-	-	18	-	18	-	18
Total other comprehensive income, net of tax	-	-	18	-	18	-	18
Total comprehensive income	-	-	18	4,986	5,004	2,663	7,667
Transactions with owners							
Write-back of prior year dividends	-	-	-	-	-	-	-
Increase in share capital of subsidiary undertaking by non-controlling interest	-	-	-	-	-	-	-
Dividends for 2022	-	-	-	(3,500)	(3,500)	-	(3,500)
Total transactions with owners	-	-	-	(3,500)	(3,500)	-	(3,500)
Balance as at 30 June 2023	19,320	688	358	59,111	79,477	78,635	158,112

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**Statement of cash flows
for the half year ended 30 June**

	Group	
	6 months to 30 June 2023	6 months to 30 June 2022 as restated
	€'000	€'000
Cash flows from operating activities		
Cash used in operations	(42,009)	(35,945)
Dividends received	6,265	6,676
Interest received	8,539	9,082
Interest paid	0	(23)
Tax paid	(1,235)	(1,465)
Net cash used in operating activities	(28,440)	(21,675)
Investing activities		
Purchase of investment property	(483)	(475)
Disposal of investment property	-	-
Purchase of financial investments	(789,472)	(631,935)
Disposal of financial investments	763,986	699,709
Purchase of property, plant and equipment and intangible assets	(3,049)	(3,043)
Net cash (used in)/generated from investing activities	(29,018)	64,256
Financing activities		
Dividends paid to owners of the Company	(3,500)	(2,400)
Dividends paid to non-controlling interests	-	(1,000)
Cash used in financing activities	(3,500)	(3,400)
(Decrease)/increase in cash and cash equivalents	(60,958)	39,181
Movement in cash and cash equivalents		
At beginning of year	137,286	71,443
Net cash (outflow)/inflow	(60,958)	39,181
At end of half year	76,328	110,624

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Notes to the Condensed Financial Statements For the half year ended 30 June 2023

1. MAPFRE Middlesea p.l.c. is authorized by the Malta Financial Services Authority to carry on long term and general business of insurance under the Insurance Business Act, 1998.
2. Basis of preparation

These condensed financial statements are being published in accordance with Chapter 5 of the Capital Markets Rules of the Malta Financial Services Authority and the Prevention of Financial Markets Abuse Act 2005. These statements have been extracted from the Group's unaudited financial statements as approved by the Board on 26 July 2023 and have been prepared in accordance with International Financial Reporting Standards as adopted by the EU applicable to interim financial reporting (IAS34). They do not include all information required for full annual financial statements, and should be read in conjunction with the financial statements for the year ended 31 December 2022. The accounting policies applied in these condensed financial statements are the same as those applied by the group in its financial statements for the year ended 31 December 2022 as amended by the implementation of IFRS 9 – 'Financial instruments' and IFRS 17 – 'Insurance contracts' as explained in the Basis of preparation in its financial statements for the year ended 31 December 2022.

Related party transactions with other members of the MAPFRE Middlesea Group were at a similar level to the comparable period.

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Statement pursuant to Capital Markets Rule 5.75.3 issued by the Malta Financial Services Authority

We confirm that to the best of our knowledge:

- the condensed interim financial statements for the Group give a true and fair view of the financial position as at 30 June 2023, financial performance and cash flows for the period then ended, in accordance with accounting standards adopted for use in the EU for interim financial statements (IAS 34 'Interim Financial Reporting') for the Group; and
- the commentary includes a fair review of the information required in terms of Capital Markets rule 5.75.2.



Martin Galea
Chairman



Javier Moreno Gonzalez
President & CEO