



MIDDLE SEA INSURANCE

Annual Report & Financial Statements 2001

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Mission Statement



To foster the development of the Maltese economy by engaging in the local and international insurance markets with a comprehensive range of services which aims at a planned growth and maximised profitability.

Business Philosophy

We make quality and reliability the driving force to uphold our professional reputation and image.

We strive to ensure this by developing the professional competence, capabilities and well-being of our staff at all levels, through a well developed career planning process.

We regard the Company as a customer driven organisation and provide a service of excellence to secure the satisfaction of our customers' needs.

We pursue innovation and maintain active systems of analysis, research and market monitoring.

We seek to improve our performance and services by continuously encouraging a positive change orientation in our team of management and staff.

Chairman's Statement

The year 2001 was a year of significant development for the Middlesea Group despite difficult market conditions both locally and overseas. The Group saw the first benefits of the hard work and strategic changes taken during previous years and which have strengthened the foundations for future growth. The rapid pace of change within the financial industry persisted, with participants in the indigenous market competing head-to-head across the market. Middlesea entered 2001 with a number of important objectives. These included: dedicating its activities to the management of spread and assumption of risk at the primary level only, preserving a balanced approach to growth between the various lines of business, responding more effectively to its customers' needs and thereby improving its potential to realise profits and the strengthening of its human resource capital via an active policy of training and knowledge sharing.

Indeed, the success of the adopted strategy is borne out when one compares a few key indicators over the period. Gross Premiums Written in General Business in 2001 amounted to Lm23.84 million (US\$52.75 million). This represents an increase of 58% over 2000. Whilst the main reason for this increase can be attributed to the consolidation of premiums written by Progress Assicurazioni SpA, a significant increase of 19% was also registered in premium written by the holding company. The 2001 accounts also reflect the reduction of premium income previously generated from international reinsurance business.

The final results show that the Group had registered consolidated profits of Lm1.42 million (US\$3.14 million) for the year ended 31 December 200. This was a significant increase over the profits of Lm0.86 million (US\$ 1.9 million) achieved during 2000. This further underscores the view that 2001, Middlesea's 20th year of operation, was a year of consolidation, building on the achievements and activities commenced in previous years

Before viewing the overall performance, I would draw your attention to a particular feature in the Financial Statements for 2001. As from 1 January 2001, the Group adopted two new International Accounting



Standards, IAS 39 – Financial Instruments: Recognition and Measurement and IAS 40 – Investment Properties. These new policies bring the Company's financial statements in line with current European practices. As a consequence, comparative figures have had to be restated and one cannot therefore compare the results for 2001 with those previously reported for 2000. Details of these changes are included in this Annual report.

Shareholders' funds stood at Lm20.51 million (US\$45.38 million), a marginal decrease from total funds at 31 December 2000 of Lm20.92 million. The low returns on the local and international markets and the introduction of IAS 39 and IAS 40 affected the Group's shareholders funds adversely, that was partly mitigated by the registered profits of Lm1.42 million. Total assets increased to Lm71.48 million (US\$158.16

Lm'000s Gross Premiums Written - General Business



Chairman's Statement

million) and earnings per share increased by 90% from 6c to 11c4,

Our strong balance sheet, overall performance and Middlesea's strategic position in the market have permitted the maintenance of a dividend policy that seeks to enhance shareholder value. In line with Middlesea's dividend policy, the Board is recommending a dividend of 7.0c, which is equivalent to 14% on the nominal value of each share.

Although the Company had placed the international reinsurance operation in run-off in November 2000, the nature of the business is such that the company remained exposed to certain catastrophe risks during the 2001. Indeed, two natural catastrophes, the El Salvador and the Indian Earthquakes affected the Company. Middlesea's stated international reinsurance policy was not to underwrite business emanating from the USA and Canada. With regard to the tragic events of 11 September 2001 event the company was not expecting to incur any claims other than incidental losses.

The Group's total investments as at the end of 2001 amounted to Lm41.5 million (US\$91.82 million). For all asset classes, 2001 has been a generally disappointing year. World equity markets declined for the second consecutive year whilst Government bonds, although in positive territory, failed to match the returns seen in 2000. The local equity market also delivered a negative return but local bonds registered higher prices at the end of the year due to the decline in interest rates experienced throughout 2001. On the backdrop of the international and local investment scene, the Group's investment portfolio suffered due to a disappointing equity performance. However the overall investment result was favourably affected by the realisation of certain positions that mitigated the negative effect leaving an overall positive investment return.

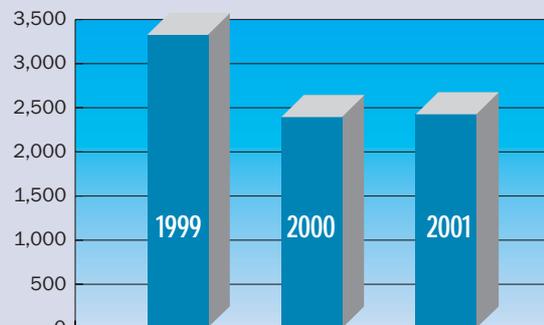
The depressed capital markets significantly influenced the contribution of Middle Sea Valletta Life Assurance Co. Ltd to the Group's overall profit for the second consecutive year. This Associate continued to register growth that is reflected in the premium income for the year of Lm22.1 million (US\$ 48.9 million), and the increase of the embedded value from Lm8.87 million (US\$19.62 million) to Lm9.5 million (US\$21million). The

Group's share of profits at 31 December 2001 was Lm0.12 million (US\$0.28 million) as compared to Lm0.19 million (US\$0.42 million) in 2000.

During its first full year of operation as part of the Group, Progress Assicurazioni S.p.A contributed materially to the overall technical operations. The company concentrated on correcting pricing, reviewing reserving and pursuing growth, paying due attention to territorial spread and balance. To this end Progress enhanced its distribution network by opening 24 new agencies and also commenced operations in the regions of Lazio and Sardegna. Today 56% of the company's agents are located on the Italian mainland compared to 34% in the year 2000. The implementation of this distribution strategy resulted in an increase in premium income of 42% to Lm11.8 million (US\$26.2 million) and contributed a profit after minority interest of Lm133,854 (US\$296,165) to the Middlesea Group.

The reduction in administrative expenditure was largely due to the cost savings following the closure of the London Branch. Middlesea's strategy has been set with a view to achieving sustainable development. The businesses comprising the insurance value chain have traditionally been integrated. Increasingly, however, specialists seeking to optimise costs and performance will carry them out. Middlesea's strategy in the face of this trend is clear, we have chosen to focus on risk taking activities. Our culture is about understanding, pricing and managing

Lm'000s Investment Return -General



risk. This choice is not totally exclusive, however. We will also carry on other businesses in the value chain, but only if they are complementary to help us consolidate our core business. Such activities will be undertaken either directly, or with specialist strategic partners. Consequently, in order to allow the various Group companies to focus on their core underwriting activities, it was decided at the end of 2001 that the operations of International Insurance Management Services Ltd (IIMS) be used as a vehicle to create more effective cost control within the Group companies. IIMS, which is licensed to act as an insurance manager under the Insurance Business Act, 1998, and under separate agreements subject to MFSC's authority, will provide back office operations that previously formed part of the administration departments within the holding company. IIMS will continue to offer risk management services to international companies operating from Ma

Middlesea Insurance plc celebrated its 20th anniversary in 2001, with its shareholders, clients and staff, providing an occasion to celebrate its achievements to date and reformulate its strategy for the medium term. Middlesea has now followed a strategy combining organic growth, successfully building strategic relationships with carefully targeted market penetration. We will pursue this strategy, systematically rejecting proposals unlikely to enhance value for Middlesea and its shareholders. Middlesea will continue to strive to try to anticipate the main trends and changes in order to adjust its solutions to the new

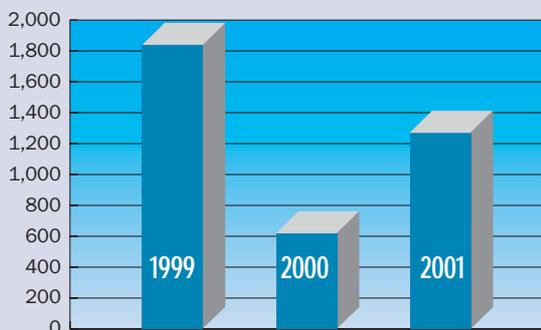
problems arising from them. Innovation and knowledge sharing are vital to our efforts to respond to customer demands, to stand out from the competition and to enhance our profitability. Middlesea may have entered a period of consolidation following the changes initiated in previous years, but the company is far from static. There are further changes in the pipeline, which are expected to come to fruition in the coming years.

Middlesea is fortunate to have a Board consisting of Directors with great experience and from a wide range of backgrounds. Each contributes to the successful performance of the Group. I wish to thank them for their continued support, counsel and encouragement. I thank all the staff of the Group for the way they have responded to the challenges of the year. The increase in competitive pressures meant that everyone had to work harder to meet the expectations of policyholders and shareholders. Their hard work and commitment is greatly appreciated and is confirmed in these results.

Thank you for your continued confidence and support in Middlesea Insurance plc..

M.C. Grech
Chairman & CEO

Lm'000s Profit before Tax after minority interest



Stqarrija ta-Chairman

Is-sena 2001 kienet sena ta' żvilupp sinifikanti għall-Middlesea Group minkejja kondizzjonijiet ta' suq diffiċli kemm lokalment u kemm barra minn Malta. Il-Grupp ra l-ewwel benefiċċji tax-xogħol iebes u bidliet strateġiji li saru fis-snin ta' qabel u li saħħu s-sisien għal tkabbir fil-gejjieni. Il-pass ta' bidla mgħaġġel fl-industrija finanzjarja baqa' għaddej, u l-partecipanti fis-suq indigenu baqgħu jikkompetu sfieq kontra xulxin fis-suq kollu. Il-Middlesea dahlet għas-sena 2001 b'għadd ta' objettivi importanti. Dawn kienu jinkludu: konċentrazzjoni tal-hidmiet tagħha fuq l-immaniġġjar tat-tifrix u l-aċċettazzjoni ta' riskji fil-livell primarju biss, żamma ta' atteġġjament bilanċjat għat-tkabbir bejn il-linji diversi tan-negozju, reazzjoni aktar effettiva għall-htigiet tal-klijenti tagħha biex b'hekk ittejjeb il-potenzjal tagħha biex tagħmel il-qliġh, u t-tishih tal-kapital tar-riżorsi umani permezz ta' politika attiva ta' taħriġ u skambju ta' esperjenza.

Fil-fatt, is-suċċess ta' l-istrateġija adottata jidher sewwa meta wiehed iqabbel ftit indikaturi tul dan il-perijodu. Primjums Gross Sottoskritti fin-Negozju Ġenerali fl-2001 kienu Lm23.84 miljun (US\$52.75 miljun). Dan jirrappreżenta żjieda ta' 58% fuq is-sena 2000. Filwaqt li r-raġuni prinċipali ta' din iż-żjieda tista' tkun attribwita għall-konsolidament tal-primjums sottoskritti minn Progress Assicurazioni SpA, kienet reġistrata wkoll żjieda sinifikanti ta' 19% mill-kumpanija ewlenija (holding company). Il-kontijiet għas-sena 2001 ukoll

jirriflettu t-tnaqqis fid-dhul minn primjum li qabel kien ikun iġġenerat minn negozju ta' riassigurazzjoni internazzjonali.

Ir-riżultati finali juru li l-Grupp irreġistra qligħ konsolidat ta' Lm1.42 miljun (US\$3.14 miljun) għas-sena li għalqet fil-31 ta' Di_embre 2001. Din kienet żjieda sinifikanti fuq il-qliġh ta' Lm0.86 miljun (US\$ 1.9 miljun) li kien sar fis-sena 2000. Dan isaħħa aktar il-fehma li s-sena 2001, l-20 sena ta' hidma tal-Middlesea, kienet sena ta' konsolidament li bniet fuq il-kisbiet u l-hidmiet mibdija fis-snin ta' qabel.

Qabel ma nagħti harsa lejn kif morna b' mod ġenerali, nixtieq nigbdilkom l-attenzjoni għal fattur partikolari fid-Dikjarazzjonijiet Finanzjarji għall-2001. Sa mill-1 ta' Jannar 2001, il-Grupp adotta żewġ International Accounting Standards ġodda, l-IAS 39 – Financial Instruments: Recognition and Measurement u l-IAS 40 – Investment Properties. Dawn iġibu d-dikjarazzjonijiet finanzjarji tal-Kumpanija konformi mal-prattiki Ewropej kurrenti. B'konsegwenza ta' dan, ċifri mqabblin kellhom jinħadmu mill-ġdid u għalhekk wiehed ma jistax iqabbel ir-riżultati għall-2001 ma' dawk irrappurtati qabel għall-2000. Dettalji ta' dawn il-bidliet huma inklużi f' dan ir-Rapport Annwali.

Il-fondi ta' l-azzjonisti kienu Lm20.51 miljun (US\$45.38 miljun), tnaqqis marġinali mill-fondi totali ta' Lm20.92 miljun fil-31 ta' Di_embre 2000. Il-qliġh baxx mis-swieq lokali u internazzjonali u d-dhul ta' l-IAS 39 u l-IAS 40 kellhom effett

negattiv fuq il-fondi ta' l-azzjonisti tal-Grupp, haġa li ttaffiet parzjalment bil-qligh reġistrat ta' Lm1.42 miljun. L-assi totali telghu għal Lm71.48 miljun (US\$158.16 miljun) u d-dhul kull sehem tela' b'90% minn 6ċ għal 11ċ4.

Il-karta bilanċjali soda taghna, il-mod ġenerali kif morna, u l-qagħda strategika tal-Middlesea fis-suq ippermettew li tinżamm politika ta' dividendi li tfittex li tkabbar il-valur lill-azzjonist. Konformi mal-politika ta' dividendi tal-Middlesea, il-Bord qiegħed jirrikkmanda dividend ta' 7.0ċ, li hu ekwivalenti għal 14% fuq il-valur nominali ta' kull sehem.

Għalkemm il-Kumpanija f'Novembru 2000 kienet bdiet il-proġess ta' l-għelug ta' l-operazzjoni ta' riassigurazzjoni internazzjonali, in-natura ta' dan in-negozju hija tali li l-kumpanija baqq_et esposta għal ċerti riskji katastrofiċi tul is-sena 2001. Fil-fatt, żewġ katastrofi naturali, it-terremoti ta' El Salvador u l-Indja, laqtu lill-Kumpanija. Il-politika ddikjarata tal-Middlesea fil-qasam ta' riassigurazzjoni internazzjonali kienet li ma jkunx sottoskritt negozju ġej mill-Istati Uniti u l-Kanada. Il-Kumpanija ma kinitx tistenna li jkollha klejms fir-rigward tal-ġrajjet traġiċi tal-11 ta' Settembru 2001, hlief għal xi telfiet inċidentali.

L-investimenti totali tal-Grupp fi tmiem is-sena 2001 ammontaw għal Lm41.5 miljun (US\$91.82 miljun). Fil-każ tal-klassijiet ta' l-assi kollha, is-sena 2001 f'linja ġenerali kienet sena ta' diżappunti. Is-swieq mondjali ta' l-ishma niżlu għat-

tieni sena wara l-oħra filwaqt li bonds tal-Gvern, għalkemm baqgħu pożittivi, ma waslux għall-livelli ta' qligh li rajna fis-sena 2000. Anki s-suq ta' l-ishma lokali ta' riżultati negattivi iżda bonds lokali rreġistraw proċess oghla fi tmiem is-sena minhabba t-tnaqqis tar-rati ta' mgħax li kien hemm tul is-sena 2001 kollha. Fl-isfond tax-xena ta' investimenti lokali u internazzjonali, il-portafoll ta' investimenti tal-Grupp bata għaliex l-ishma tiegħu ma marrux tajjeb. Madankollu r-riżultat ġenerali ta' l-investimenti kienet affettwat favorevolment mir-realizzazzjoni ta' ċerti pożizzjonijiet li taffew l-effett negattiv u waslu għal qligh ġenerali pożittiv mill-investiment.

Is-swieq kapitali depressi influwenzaw b'mod sinifikanti l-kontribut tal- Middle Sea Valletta Life Assurance Co. Ltd lill-profitti ġenerali tal-Grupp għat-tieni sena wara l-oħra. Din il-Kumpanija assoċjata kompliet tirreġistra tkabbir li hu rifless fid-dhul minn primjums li dis-sena kien Lm22.1 miljun (US\$ 48.9 miljun), u ż-żjieda fil-valur intrinsiku minn Lm8.87 miljun

Lm'000s Shareholders Funds



Stqarrija ta-Chairman

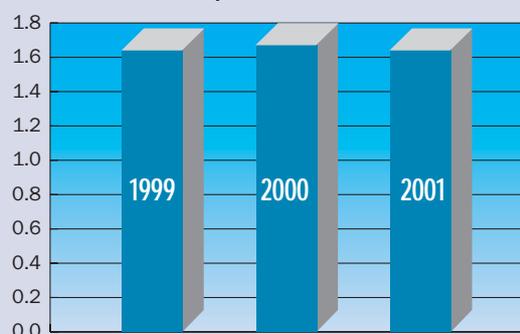
(US\$19.62 miljun) għal Lm9.5 miljun (US\$21miljun). Is-sehem tal-Grupp mill-profitti fil-31 ta' Dicembru 2001 kien Lm0.12 miljun (US\$0.28 miljun) mqabbel mal-Lm0.19il miljun (US\$0.42 miljun) fis-sena 2000.

Tul l-ewwel sena shiha ta' hidma bhala parti mill-Grupp, Progress Assicurazioni S.p.A ikkontribwiet materjalment għall-operazzjonijiet tekniċi generali. Il-kumpanija kkonċentrat biex tikkoreġi l-prezzijiet, tirrevedi r-riservi u fittex it-tkabbir, waqt li tat l-attenzjoni misthoqqa lill-firxa u bilanċ territorjali. Għal dan il-ghan Progress tejjbet ix-xibka ta' distribuzzjoni tagħha billi fethet 24 aġenzija ġdida u bdiet ukoll taħdem fir-regjuni tal-Lazio u Sardegna. Illum 56% ta' l-aġenti tal-kumpanija qeghdin f'terraferma Taljana; is-sena 2000 kienu 34%. L-implimentazzjoni ta' din l-istrategija ta' distribuzzjoni wasslet għal żjieda ta' 42% fid-dhul minn primjums li telghu għal Lm11.8 miljun (US\$26.2. miljun) u kkontribwiet qligħ wara interess minoritarju ta' Lm133,854 (US\$296,165) lill-Middlesea Group.

It-tnaqqis fl-ispejjeż amministrattivi kien dovut l-aktar g_all-iffankar fl-ispejjeż wara l-gheluq tal-Fergħa ta' Londra. L-istrategija tal-Middlesea tfasslet biex twassal għal żvilupp sostenibbli. In-negozji li jiġbru fihom il-katina li għandha valur għall-assigurazzjoni minn dejjem kienu integrati. Iżda jiġri li l-hidma ssir dejjem iżjed minn speċjalisti li jkabbru kemm jista' jkun l-ispejjeż u l-mod kif isir ix-xogħol. L-istrategija tal-

Middlesea quddiem din it-tendenza hija ċara; ahna għażilna li niffokaw fuq hidmiet li jgħorru r-riskju. Il-kultura tagħna għandha x'taqsam mal-fehim, ipprezzar u immaniġġar tar-riskji. Iżda din l-għażla m'hix għal kollox esklussiva. Ahna wkoll nidhlu għal negozju ieħor fil-katina ta' dak li għandu valur għall-assigurazzjoni, imma biss jekk dan ikun komplimentari biex jgħinna nikkonsolidaw in-negozju bażiku tagħna. Hidmiet ta' din ix-xorta nehduhom jew direttament jew ma' shab strateġiċi speċjalisti. Għalhekk, biex inhallu d-diversi kumpaniji tal-Grupp jiffokaw fuq il-hidmiet ta' sottoskrizzjoni bażiċi tagħhom, fi tmiem is-sena 2001 kien deċiż li l-operazzjonijiet ta' l-International Insurance Management Services Ltd (IIMS) jintużaw bhala mezz halli jinholoq kontroll iżjed effettiv ta' l-ispejjeż fil-kumpaniji tal-Grupp. L-IIMS, li għandha liċenzja biex topera ta' maniger ta' l-assigurazzjoni taħt l-Att ta' l-1998 dwar in-Negozju ta' l-Assigurazzjoni, u taħt ftehim separati soġġetti għall-awtorità

Lm Net Asset Value per Share



tal-MFSC, min-naħa tagħha se tipprovdi operazzjonijiet ta' uffiċċju li qabel kienu jaqgħu taħt id-dipartimenti amministrattivi tal-kumpanija ewlenija (holding company). L-IIMS se tibqa' toffri servizzi ta' mmaniġġar ta' riskji lil kumpaniji internazzjonali li joperaw minn Malta.

Il-Middlesea Insurance plc iċċelebrat l-20 anniversarju tagħha fis-sena 2001 ma' l-azzjonisti, klijenti u impjegati tagħha, u ħadet l-okkażjoni biex tiċċelebra dak li għamlet s'issa u ssawwar mill-ġdid l-istrategija tagħha għat-terminu medju. Il-Middlesea issa segwiet strategija li tgħaqqad flimkien tkabbir organiku li bih tibni b'suċċess relazzjonijiet strateġiġi b'penetrazzjoni tas-suq ippjanata tajjeb. Ahna se nkomplu b'din l-istrategija u nibqgħu nwarbu proposti li x'aktarx ma jkabbrux il-valur għall-Middlesea u l-azzjonisti tagħha. Il-Middlesea se tkompli taħdem biex tipprova tanticipa t-tendenzi u bidliet ewlenin biex taġġusta s-soluzzjonijiet tagħha għall-problemi ġodda li joħorġu minnhom. Innovazzjoni u skambju ta' esperjenzi huma vitali għall-isforzi tagħna biex inwieġbu għal dak li jitolbu l-klijenti biex nispikkaw fuq il-kompetizzjoni, u biex inkabbru l-profitti tagħna. Il-Middlesea setgħet dahlet għal perijodu ta' konsolidament wara l-bidliet mibdija fis-snin ta' qabel, imma l-kumpanija qatt ma kienet waħda statka. Hemm bidliet oħra li qed ikunu ppjanati u li mistennija jaslu biex jagħtu l-frott fis-snin li ġejjin.

Il-Middlesea hija ffortunata li għandha Bord magħmul minn Diretturi b'esperjenza kbira u ġejjin minn medda wiesgħa ta' oqsma. Kull wieħed jikkontribwixxi għas-suċċess tal-mod kif imur il-Grupp. Nixtieq niringrazzjahom għall-appoġġ, pariri u inkoraġġiment kontinwi tagħhom. Niringrazzja lill-impjegati tal-Grupp kollha għall-mod kif wieġbu għall-isfidi tas-sena. It-tkabbir fil-persjonijiet kompetittivi kien ifisser li kull wieħed kellu jaħdem iżjed biex jilhaq dak li jistennew l-assigurati u l-azzjonisti. Ix-xogħol iebes u l-impenn tagħhom huma apprezzati hafna u għandhom il-konferma b'dawn ir-riżultati. Niringrazzjakom għall-fiduċja u l-appoġġ kontinwi lill-Middlesea Insurance plc.



M.C. Grech
Chairman & CEO

Board of Directors



Mr. M.C. Grech



Mr. J.F.X. Zahra



Mr. L. Spiteri



Dr. J.C. Grech



Mr. P. Borg



Mr. A. Corsi



Dr. M. Sparberg

Mr. M.C. Grech - Group Chairman

Formerly: Managing Director of the Mediterranean Insurance Brokers Group, Director on the Board of Mediterranean Survey Bureau, Governor of the Malta International Business Authority and Chairman of the Malta Green Card Bureau, Governor on the Board of the Malta Financial Services Centre.

At present: President of Progress Assicurazioni S.p.A., Deputy Chairman and CEO of Middle Sea Valletta Life Assurance Co. Ltd, Governor on the Board of the Malta Arbitration Centre and Malta College of Arts Science and Technology, Chairman and Managing Director of Growth Investments Ltd, Chairman of International Insurance Management Services Ltd, and Euroglobe Ltd, Director of Malta International Training Centre, Midi p.l.c. and Plaza Centres p.l.c., President of the Malta Insurance Association, Life Vice President – Chartered Insurance Institute U.K. Holds directorships on other company boards.

Mr. J.F.X. Zahra B.A. (Hons) Econ M.A. (Econ) MCIM - Deputy Chairman

Formerly: Head of Research of the Malta Development Corporation, visiting lecturer at the University of Malta, Secretary to the UNIDO National Committee (Malta), member of the Phoenicia Export Award Scheme and the Malta Export Award Scheme, member on the Boards of the Central Bank of Malta and the Malta Development Corporation. President of the Mediterranean Bank Network.

At present: Chairman of the Bank of Valletta Group p.l.c. and Middle Sea Valletta Life Assurance Co. Ltd, Managing Director of Market Intelligence Services Co. Ltd, member representing Government on the Retail Price Index Management Board and member of the Economics Affairs Committee of the Malta Chamber of Commerce. Visiting lecturer in Managerial Economics at the Università degli Studi di Messina.

Mr. H. Attard Montalto

Formerly: Director of Freeport Terminal (Malta) Ltd, Malta Development Corporation and Mid-Med Bank p.l.c.

At present: Director on various boards and Financial Controller.

Mr. G. Bonnici

Formerly: Managing Director of Galdes & Mamo Ltd, Managing Director of Hayes Insurance Agency Ltd, Chairman of the Board of Management of The Union Club.

At present: Director and Chairman of Bonnici Insurance Agency Ltd. Also holds directorship of various other subsidiary and/or associated companies.

Mr. P. Borg

At present: Managing Director of Bortex Clothing Ind. Co. Ltd.

Dr. E. Caruana Demajo LL.D.

At present: An advocate in civil and commercial practice.

Mr. A. Corsi

Formerly: Actuary in the Life department - Assicurazioni Generali Head Office and Subsidiaries.

At present: Executive Officer at Assicurazioni Generali Head Office

Prof. E. P. Delia B.A. (Hons) Econ., M.A., M. Litt (Oxon)

Formerly: Director of Central Bank of Malta and Malta Development Corporation, and Chairman Mid-Med p.l.c.

At present: Chairman APS Bank Ltd.



Mr. L. Grech



Mr. H. Attard Montalto



Dr. E. Caruana Demajo



Mr. F. Spiteri



Mr Frank Xerri de Caro



Mr. G. Bonnici



Mr. M. Grima



Prof. E. P. Delia

Dr. J.C. Grech M.A.(Econ.) Dip.I.C.E.I. (A'dam), Ph.D. (Geneva), F.C.I.B., M.B.I.M., F.M.I.M.

Formerly: Chairman of the Malta External Trade Corporation, Deputy Chairman of the Malta Development Corporation, Director on the board of the Malta Freeport Corporation, Chairman of Bank of Valletta Group of Companies, Chairman of Middle Sea Valletta Life Assurance Co. Ltd, Founding President of the Maltese Australian Chamber of Commerce, Founding President of the Mediterranean Bank Network.

At present: Chairman of the Malta Tourism Authority, Member of the Advisory Board of the Mediterranean Academy of Diplomatic Studies, Chairman & Managing Director of EMCS Ltd, Chairman Unipol Insurance Services Ltd, Chairman International Advisory Board and member of the Board of Directors of FIMBANK. Holds directorships on various other company boards. Dr Grech is also visiting professor at the University of Malta.

Mr. L. Grech M.A. (Oxon)

Formerly: Chief Executive and/or Director on various Air Malta subsidiaries and Associated Companies.

At present: Chairman of the Air Malta Group of Companies, Chairman of Air Supplies and Catering Co. Ltd, Hal Ferh Holidays Co. Ltd, Selmun Palace Hotel Co. Ltd., Tigne Development Co. Ltd, Sterling Travel and Tourism Co. Ltd, and Holiday Malta Co. Ltd., Accor-Air Malta Co. Ltd. and Malta Air Charter Co. Ltd and several associated companies. He is also a Director on the Board of Medavia Co. Ltd, Dragonara Casino Ltd and Flight Catering Co. Ltd and various other company boards.

Mr. M. Grima Dip. M.S., M.B.A. (Henley), M.I.M.

Formerly: Trustee member of the BOV Employees Foundation

At present: Executive Head Bancassurance, Bank of Valletta p.l.c., Director of Bank of Valletta p.l.c., Director of Middle Sea Valletta Life Assurance Company Ltd.

Dr Michael Sparberg

At present: Senior Executive Manager of Munich Re Insurance Company, Munich. Responsible

for Malta, Italy, France, Belgium and Luxembourg for all classes (property, casualty, marine) of reinsurance business. Vice President of Munich Re, Italy.

Mr. F. Spiteri MIED (UK)

Formerly: Chief Draughtsman Drydocks, Council Chairman of Malta Drydocks, Chairman of the Mediterranean Insurance Training Centre, Vice President of the GWU and Section Secretary, Director and Secretary Untours Ltd, Managing Director Mediterranean Survey Bureau Ltd, Director on the Board of Middlesea Insurance p.l.c., Malta Ship Building, Malta Drydocks, Mediterranean Insurance Brokers, Electoral Commissioner.

Mr. L. Spiteri M.A. (Oxon).

Formerly: Member of Parliament, Co-Chairman, Malta-EU Joint Parliamentary Committee; Minister of Finance, Minister of Trade & Economic Development; Chairman, Public Accounts Committee; Deputy Governor and Chairman of the Board of Directors, Central Bank of Malta; Research Officer, Malta Chamber of Commerce; Head of Publications Union Press, Editor Malta News, Deputy Editor It-Torca; Chairman, University Selection Board; Member, Malta Broadcasting Authority.

At present: Financial Consultant, Bortex Group, Roosendaal Hotels Ltd, Director, Bortex Clothing Industry Co. Ltd, VBIE Ltd, Futures Ltd, Miracle Foods Ltd, Pinto Cold Stores Ltd, Columnist, The Sunday Times and the Times of Malta.

Mr. F. Xerri de Caro, ACIB

Formerly: Chairman and Director of Lohombus Corporation, Chairman of the Malta Bankers' Association, Director on the Board of Bank of Valletta International Ltd, Director on the Board of Investment Finance Bank Ltd and Director on the Board of Valletta Investment Bank Ltd.

At present: Chief Officer, Credit Management & Retail Business at Bank of Valletta plc, Director on the Board of Valletta Fund Management Ltd and Director on the Board of Middle Sea Valletta Life Assurance Company Ltd.

Business Review

Last year saw the consolidation of the Group's strategy aimed at strengthening its direct insurance operations and continuing its orderly exit from the international reinsurance market. The Group's strategy over recent years has been increasingly concentrated on the consolidation of its position as a primary insurer in its local market and the expansion of its presence in Euro-Med primary markets. During 2001 the Group started to reap the benefits of this strategy. The full effect of the acquisition of 51% of the shareholding in Progress Assicurazioni S.p.A. (Progress) was felt last year with premium income from this source increasing by twofold.

The Group's gross income reached Lm24.3m (Euro 60.7), an increase of 56% over 2000. This growth was attributable to two factors: an increase of 18% in the volume of primary business written by the parent company and the consolidation for a full year of the income written by the subsidiary, Progress. These significant increases in the volumes of primary business written by the Group have more than compensated for the amount of income lost from its International Reinsurance operations following the decision taken during 2000 to discontinue this business.

The Group's overall net underwriting result, after the allocation of investment income, apportionment of direct expenditure and application of the equalisation reserve, showed a considerable improvement over 2000. The main contributors to this improvement were the Group's direct underwriting and group life operations which both registered lower overall loss ratios. In this regard, whilst the loss ratio for motor business still remains unsatisfactory, it is encouraging to note that this was lower than 2000. All other areas of business also registered improvements with marked increases in performance recorded in the liability and



Middlesea Group Management

health classes. Local reinsurance business also produced an improved net underwriting profit. International Reinsurance business, which was placed into run-off during 2000, sustained a loss for the year 2001 mainly as a result of two catastrophes which occurred during the year and affected areas in which the Group had some residual exposure. A technical profit of Lm.0.18m (Euro 0.45m) was recorded by Progress for the year, this subsidiary continuing to impact favourably on the Group's overall performance. Total income from insurance activities taking account of the Group's share of participating interests' profit before tax from long term business increased by Lm0.55m (Euro 1.40m) to Lm.0.66m (Euro 1.65m). The Group's specialist life company, Middle Sea Valletta Life Assurance Co. Ltd., contributed Lm.0.12m (Euro 0.31m). The Group's post-tax net profit was, after minority interest and taking account of a provision of Lm.0.03m (Euro 0.07m) in respect of the International Reinsurance account, Lm.1.42m (Euro 3.55m). This compares favourably with Lm.0.76m (Euro 1.9m) for 2000.

Net technical provisions at the end of 2001 totalled Lm.23.6m (Euro

58.90m) an increase of Lm.1.0m (Euro 2.49m) over 2000. As at the end of 2001, the reserve ratio of net technical provisions, to net written premiums (after reinsurance) was 136%.

The Holding Company's expenditure, excluding the provision for the International Reinsurance run-off, amounted to Lm.1.17m (Euro 2.92m), a decrease of 9.9% over 2000. This also equates to a reduced percentage of premium income which, at 9.2%, compares favourably against last year's ratio of 9.7%.

The Group's total investments as at the end of 2001 amounted to Lm.41.5m (Euro 103.7m). Despite a strong fourth quarter, 2001 was generally disappointing for the major asset classes. World equity markets delivered negative absolute returns. Bond investments were also uninspiring and experienced severe volatility in the latter stages of the year. The equity market locally extended its losses from the year 2000. While equities suffered, local bonds appreciated due to a lower interest rate environment.

Although the Group's investment portfolio was negatively affected by the performance of equities, overall investment income amounted to Lm.2.3m (Euro 5.75m) and was in line with the result achieved in year 2000.

DOMESTIC BUSINESS

The Group's domestic operations comprise direct underwriting, group life and indigenous reinsurance. The run-off of legal cession business remains a minor contributor to this source.

Direct Underwriting

Domestic premiums written in the direct underwriting account, now comprising 82.3% of the Company's turnover, were Lm.10.5m (Euro 26.2m), some Lm.2.20m (Euro 5.50m) larger than 2000 and representing a 26.2% increase. Most classes registered increases in volume over last year with the exception of pleasure craft and liability. The most significant growth was achieved by the motor and health accounts, the latter increasing by 61%.

The net underwriting result, before the effect of the equalisation reserve, was a profit of Lm.0.53m (Euro 1.32m) and compares favourably with last year's profit of Lm.0.02m (Euro 0.05m). Whilst an improvement was registered in all classes of business including motor, the rate of return achieved in this class is still disappointingly negative. This category presently comprises some 48.6% of the total business written and it follows that any adverse development of the motor loss ratio will impact detrimentally on the portfolio as a whole. The Company has continued to apply corrective measures aimed at securing further improvements and, ultimately, a positive result. These essentially entail a continuous review of its pricing levels and selection criteria.

The gross loss ratio of incurred claims to earned premiums reduced slightly over 2000 in all classes of business.

Group Life

As a composite insurer, the Company provides group life insurance facilities to its clients. Gross premiums written in this category during 2001 increased by Lm.0.04m (Euro 0.1m) over 2000 levels to Lm.0.48m (Euro 1.20m), representing 9.2% growth. Whilst few insurers operate in

Business Review

this sector of the market, competition remains strong for what is essentially a relatively small client base. Whilst incurred claims during the year increased over 2000, the Company succeeded in reducing its cost base. This resulted in the transfer of a profit of Lm.0.04m (Euro 0.11m) to the profit and loss account compared to a loss of Lm.0.05m (Euro 0.12m) for 2000.

Indigenous Reinsurance

This business mainly comprises proportional reinsurance arrangements effected with local carriers. A small net underwriting profit was registered on this account.

INTERNATIONAL BUSINESS

The Company's international operations comprise primary business written by its Gibraltar Branch and Italian subsidiary, Progress, and discontinued International Reinsurance business written by its Head Office and London Branch.

Gibraltar Branch

The Company's written premium income for 2001 from this source amounted to Lm.1.12m (Euro 2.80m). This volume is equivalent to 9.7% of the overall income generated by the Company's direct operations, excluding Progress. Encouragingly, the Company's Gibraltar account, after reinsurance and the allocation of investment income and management expenses, produced a net underwriting profit of Lm.0.09m (Euro 0.22m) in 2001, compared to a small underwriting loss of Lm.0.03m (Euro 0.07m) for 2000.

Progress Assicurazioni S.p.A.

Progress, which today forms an integral part of the Middlesea Group, operates in most regions of South Italy and Sicily. Its head office is located in Palermo and it has other offices in Naples and Catania, the latter primarily for the settlement of claims. The Company's distribution network consists almost entirely of agents located in Lazio, Puglia, Campania, Calabria, Sardegna and Sicily. Progress' agents produce business which falls within underwriting criteria established and strictly controlled by the Company but the handling of all claims is undertaken by Progress' own employees in conjunction with designated professionals. Progress transacts all classes of non-life business with the exception of credit and bonds. During 2001, Progress employed 29 persons.

Progress became part of the Group in the latter part of 2000 and, immediately upon the transfer of management responsibility, a new development strategy was introduced. The Company is aiming, in the medium term, to enhance its distribution network to cover all regions South of and including Lazio whilst at the same time paying close attention to the correct pricing of its products and its portfolio composition. The Company is also considering, in the longer term, supplementing its existing distribution infrastructure by new channels. At that stage, it is expected that the first incursions into regions north of Lazio will be made.

2001 was the first full year of operations for the Company under its new ownership and, during this period, much emphasis was placed on implementing this new strategy. As soon as the price freeze had, in April 2001, been lifted, the Company reviewed with utmost priority its pricing

policy for motor liability business. This resulted in the implementation of important rate increases which had a significantly favourable effect on the results achieved by the Company. Notwithstanding these price increases, the Company was able, due to favourable market conditions, to produce increased volumes of business particularly in those sectors known to be most attractive.

In addition to the above, efforts were also made to prune the existing portfolio through agency development plans or, exceptionally, through the discontinuation of particular agencies. Special emphasis was placed on the development of non-motor classes, the premium income from which increased by 52%.

The Company also sought to expand its portfolio through the enhancement of its regional spread albeit limited, at this stage, to the regions south of and including Lazio. This development brought the total number of agents representing the Company to 77, an increase of 45%. Today, the proportion of agencies located on the mainland stands at 56%, up from 34% in 2000. This initiative also saw the opening of agencies in Sardegna and Lazio, regions where the Company had not formerly been represented.

During the year all policy documents were reviewed and enhanced to achieve greater compatibility with the needs of the Company's clients. A number of variations to existing coverages were introduced to provide policyholders with more choice whilst a completely restructured hoteliers' policy was also launched in the latter weeks of the year. Further revisions became necessary to reflect the conversion to Euro, a major exercise that affected all sectors of the Company. This conversion

was completed successfully without significant interruption and it is pleasing to report that all agencies were open for business on the first working day after the New Year.

Premium income increased by 43% over 2000 to Lm.11.8 million (Euro 29.5m), whilst acquisition costs equated to 12.6% of income, down from 13%. This growth in premium volume was attributable partly to a 123% increase in the number of new policies issued and also to an increase of 13% in the average premium generated per policy.

Incurred claims decreased by 13% and amounted to Lm.10.3 million (Euro 25.7m) resulting primarily from a 2.6% reduction in claims frequency.

Administrative expenses increased by 42% in line with expectations following the implementation of the Company's new strategy for growth. Whilst investment income fell to Lm.0.3million (Euro 0.07m), a reduction of 73% over 2000, it should be noted that the Company's investment results were significantly affected by unrealised losses resulting from prevailing market conditions which, in line with Italian regulations, were taken to profit and loss. Additionally, in accordance with the conditions negotiated for the transfer of majority interest in Progress to Middlesea, investment returns in 2000 were enhanced by a one-off gain made from the sale of the investment portfolio.

During the early part of the year, the Company completed a full revision of claims reserves based on new reserving criteria. These revised standards were then applied consistently throughout the remainder of the year. This revision resulted in an average increase in the value of reserved claims of 25%. All upward revisions relating to business written prior to the acquisition of the company by Middlesea are covered by the

Business Review

comprehensive indemnity provided by the previous shareholders.

Notwithstanding the unfavourable conditions affecting investments and after taking into account adjustments to conform with the Group's accounting policies, the Company contributed a profit of Lm.0.13m (Euro 0.32m) towards the Group's results. Total assets increased by 14% to Lm.25.8m (Euro 64.5m) the full impact of which is reflected in the Group's total assets.

Following the successful completion of this first full year as part of the Group, the Company is continuing to pursue its strategy of planned development, particularly in those southern regions of Italy where it is not currently represented. Progress is also investing in a major upgrade in its information systems which is expected to be completed by the end of 2002. This upgrade will not only allow the Company to improve further the management of its portfolio but is also expected to make a major contribution towards the containment of its costs.

International Reinsurance

As previously recorded, the Company ceased writing International Reinsurance business with effect from 1st November 2000. Whilst regretful of withdrawing from a sector in which the Company had traditionally operated, this decision freed more resources for devotion to the Group's strategy of developing its direct portfolio in the important Euro-Med region. The Company's International Reinsurance portfolio is accordingly now being accounted as a discontinued operation. In particular, this entailed a provision in the 2000 accounts of an estimate for all future expenditure to be incurred in the closing-off of this branch of business as well as the inclusion of estimated investment income to

be earned on technical funds held. It follows that, whilst the results included in the 2000 accounts should have represented the eventual technical position for all underwriting years thereby producing a neutral effect of this business on future years' performance, it was recognised that any favourable or adverse developments for any underwriting year over and above the estimates provided for in the accounts would impact on succeeding years' figures.

The total net underwriting loss registered by the Company for the first full year of run-off of the International Reinsurance portfolio was Lm.0.27m (Euro 0.67m). This result takes into account movements in the pure underwriting result as well as adjustments to the reserve in respect of expenses still to be incurred and future investment income which together had a negative impact of Lm.0.03m (Euro 0.07m) on the net result.

Other than the movement in reserves for expenditure and investment income, the overall pure technical result was a deterioration of Lm.0.24m (Euro 0.60m) mainly as a result of two catastrophes which occurred during 2001 for which the Company was still on risk.

International Insurance Management Services Limited

International Insurance Management Services Limited (IIMS) forms part of Middlesea Group and was established in 1991. The Company is licensed to act as an Insurance Manager under the terms of the Insurance Business Act 1998.

Up until 31st December 2001, the Company concentrated entirely on third party servicing and management functions including the maintenance of full accounting records and, subject to the terms and

conditions of specific appointments, entering into contracts of insurance on behalf of its clients. In particular, the Company focused on the area of risk management as well as the establishment and management of insurance and reinsurance captives and administrative, company secretarial, accounting, licensing and registration functions. These activities were supplemented by a wide range of other management services to insurance, reinsurance and captive insurance companies operating in and from Malta, both on a direct and sub-contracted basis.

Whilst the Company continues to operate in and develop its established areas of expertise, it has, from 1st January 2002, extended its activities further to encompass responsibility for a significant number of the Group's service departments. These include accounts, finance and investments, management information systems, marketing, product development, administration, human resources, reinsurance and other ancillary services. These areas have all now been transferred to IIMS's control which has also assumed responsibility for those departments' personnel. Management and service agreements have been effected with the other Group and associated companies to provide services

through each respective department on an out-sourcing basis. This restructuring is aimed at arming each company within the Group with a more targeted and effective business production strategy as well as providing its customers with enhanced service and value.

The Group is, with a view to providing similar facilities to companies wishing to operate in and/or from Malta, marketing its out-sourcing services on an international basis. This campaign is aimed at highlighting to prospective IIMS clients the benefits, on a cost effective, confidential and commercially competitive basis, of its experience and servicing expertise in the field of insurance and reinsurance management. As part of this international marketing strategy, IIMS is also taking the opportunity to emphasise the advantages enjoyed by insurance companies registered in Malta. These include easy access to European and North African markets, an effective communications infrastructure, a flexible regulatory regime and an efficient fiscal environment. Above all, however, the country is blessed with a government committed to promoting Malta as a financial centre of world renown.



Branches & Agencies

U.K. Branch

London Underwriting Centre
Upper Ground Floor, Suite 4
3 Minster Court, Mincing Lane
London EC3R 7DD
U.K.
Tel: 0207 617 6730
Fax: 0207 220 7421
e-mail: middlesea@middlesea.co.uk

Gibraltar Branch

Suite 1A, Tisa House
143 Main Street
Gibraltar
Tel: 00350 76434
Fax: 00350 76741
e-mail: masbro@gibnet.gi

LOCAL AGENCIES

Allcare Insurance Agency Limited

University Roundabout
Msida MSD 04
Tel: 21 33 00 11
Fax: 21 34 79 47/8
e-mail: info@allcare.com.mt

Bonnici Insurance Agency Limited

222, The Strand
Gzira GZR 03
Tel: 21 33 91 10
Fax: 21 31 03 90
e-mail: info@bonniciinsurance.com

Contigen Insurance Agency Limited

164 Melita Street
Valletta VLT10
Tel: 21 24 47 59
Fax: 21 24 68 60
e-mail: contigen@kemmnet.net.mt

Cordina Insurance Agency Limited

Kingsway Palace
55, Republic Street
Valletta VLT04
Tel: 21 22 47 02
Fax: 21 22 55 44
Email: cordbros@excite.com

England Insurance Agency Limited

190, 1st Floor, Marina Street
Pieta MSD08
Tel: 21 25 10 15
Fax: 21 24 45 07
e-mail: info@englandins.com.mt

Fortress Insurance Agency Limited

3A, Rue D'Argens
Msida MSD05
Tel: 21 31 00 62
Fax: 21 33 08 34
e-mail: fia@waldonet.net.mt

Melita Insurance Agency Limited

56/3, Transcontinental House
Zachary Street
Valletta VLT04
Tel: 21 24 72 61
Fax: 21 24 65 31
e-mail: melitains@nextgen.net.mt

Unipol Insurance Agency Limited

57 Market Street
Floriana VLT 15
Tel: 21 23 63 63
Fax: 21 24 19 54
e-mail: unipol@unipol2000.com

Laferla Insurance Agency Limited

(agents for Marine and Health)
Vincenti Buildings
Strait Street
Valletta CMR01
Tel: 21 22 44 05
Fax: 21 24 08 11
e-mail: info.lis@laferla.com.mt

Untours Insurance Agency Limited

(agents for non-Motor)
South Street
Valletta VLT11
Tel: 21 23 16 19
Fax: 21 24 35 30
e-mail : untours@waldonet.net.mt

OVERSEAS AGENT

Mascarenhas Insurance and Finance Ltd

Suite 1A, Tisa House
143 Main Street
Gibraltar
Tel: 00350 76434
Fax: 00350 76741
e-mail: masbro@gibnet.gi

Group Financial Highlights

GROUP FINANCIAL HIGHLIGHTS in EURO and US\$

YEAR ENDED 31st DECEMBER 2001

	2001		2000	
	EURO'000	US\$'000	EURO'000	US\$'000
Gross premiums accounted:				
General Business	59,569	52,757	37,750	33,433
Life Business	1,207	1,069	1,105	979
Total gross premiums	60,776	53,825	38,855	34,412
Group investment income	5,363	4,750	6,024	5,335
Profit before taxation	3,167	2,805	1,543	1,367
Gross Dividend	2,186	1,936	2,124	1,881
Net Dividend	1,421	1,258	1,380	1,222
Gross Dividend per Lm0.50 share	0.17	0.15	0.17	0.15
Share Capital	15,614	13,829	15,614	13,829
Technical reserves:				
General Business	58,678	51,968	56,126	49,707
Life Business	378	334	398	353
Shareholders' Funds	51,232	45,373	52,274	46,296
Net Assets value per Lm0.50 share	4.10	3.63	4.18	3.70
Total number of ordinary shares in issue	12,500,000	12,500,000	12,500,000	12,500,000

All figures have been translated at the rate of exchange ruling at 31 December 2001.

	2001	2000	1999
	Lm	Lm	Lm
Gross premiums written			
- Non Life	23,843,779	15,110,345	9,958,171
- Life	482,979	442,417	398,437
General business technical results	495,004	55,876	(358,496)
Life business net results	38,319	(48,686)	117,818
Investment return - general	2,426,011	2,396,160	3,324,892
Investment return - life	37,462	26,509	67,854
Profit before tax after minority interest	1,267,747	617,742	1,838,329
Profit attributable to shareholders	1,423,322	756,059	1,634,911
Dividends proposed (Gross)	875,000	850,000	850,000
Earnings per share	11.4c	6.0c	13.1c
Net asset value per share	1.64	1.67	1.66

Professional Services

The Company, in addition to its regular staff complement, as at 31 December 2001 utilised the professional services of various individuals and institutions.

Legal Advisors

Dr Adrian Borg Cardona LL.M. (Lond.) LL.D.

Dr Richard Camilleri LL.M. (Lond.) LL.D.

Auditors

PricewaterhouseCoopers

Actuaries

Watson Wyatt Worldwide

Bankers

Banco di Sicilia S.p.A

Bank of Valletta p.l.c.

Lombard Bank (Malta) Limited

HSBC Bank p.l.c.

National Westminster Bank

SG Hambros Bank & Trust (Gibraltar) Limited

Investment Managers

Merill Lynch Investment Managers Limited

Investment Committee

M.C. Grech (Chairman)

L.Grech M.A. (Oxon)

Dr R.Borg B.A. (Hons), M.A. LL.D

J.F.X. Zahra B.A. (Hons) Econ, M.A. (Econ) MCIM

J. M.Rizzo ACII, AIMIS, AMIAP

F.Xerri de Caro, ACIB

D.G.Curmi ACII

E.Ellul B.A. (Hons) Econ., Dip Pol Econ

M.Formosa M.A. (Econ), M.A. (Financial Services)

Investment Consultant

Futures Ltd.

Sponsoring Stockbrokers

Globe Financial Stockbrokers Limited

Share Register Information

Share Register information pursuant to the Malta Stock Exchange Bye-Laws

Directors' interest in the share capital of the Company as at 31 December 2001

H. Attard Montalto	72 shares
G. Bonnici	3,255 shares
Dr E. Caruana Demajo	14 shares
Dr J.C. Grech	5,108 shares
L. Grech	1,250 shares
M.C. Grech	2,725 shares
F. Spiteri	1,525 shares
F. Xerri de Caro	29 shares
J.F.X. Zahra	165 shares

Shareholders holding 5% or more of the equity share capital as at 26 February 2002

	% holding
Assicurazioni Generali S.p.A.	7.00%
Air Malta p.l.c.	7.33%
Münchener Rückversicherungs Gesellschaft	12.73%
Government of Malta – Consolidated Fund	15.77%
Bank of Valletta p.l.c.	21.19%

Shareholding Details

As at 26 February 2002, Middlesea Insurance p.l.c.'s Issued Share Capital was held by 4,763 shareholders. The Issued Share Capital consist of one class of ordinary shares with equal voting rights attached.

Distribution of shareholders as at 26 February 2002 analysed by range:

Range of Shareholding	No. of shareholders	Shares
1 – 500	3,489	473,545
501 – 1000	555	401,126
1001 – 5000	657	1,288,683
5001 & over	62	10,336,646

Company Secretary and Registered Office:

Evander M. Borg FCII, FRSA, MBA
Middle Sea House
Floriana VLT 16
Malta
Tel. (00356) 21 246262

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 2001.

Change in name

By virtue of a shareholders' resolution dated 22 June 2001, the shareholders of the Company approved the change of name of Middle Sea Insurance p.l.c. to Middlesea Insurance p.l.c. with effect from the same date.

Principal activities

The principal activities of the Group consist of the business of insurance, including long term business, and reinsurance operations.

Review of the business

The Group registered a profit before tax of Lm1,407,314 compared to Lm856,873 in 2000. The main reason for the improvement in results was the satisfactory performance of general insurance annual business. Results generated from long term business operations, principally carried out through a participating interest, remained at the same level as the previous year.

In November 2000, the Company ceased to accept international reinsurance business and had provided for Lm515,993 in that year for the estimated costs of running-off this business. The overall loss arising from the discontinuing operation amounted to Lm270,495 in 2001, mainly as a result of two catastrophes that occurred in the current year in respect of which the Company was still at risk.

The Group's profit for the year amounted to Lm1,423,322 (2000: Lm756,059), after accounting for minority interests in the Italian subsidiary. The directors expect that the present level of activity will be sustained for the foreseeable future.

Results and dividends

The consolidated profit and loss account is set out on page 29. The directors recommend the payment of a net dividend of Lm568,750 (2000 – Lm552,500) equivalent to a gross dividend of 7 cents per share (2000 – 6.8 cents).

Directors

The directors of the Company who held office during the year were:

M.C. Grech - Chairman and C.E.O., J.F.X. Zahra B.A. (Hons.) Econ., M.A. (Econ.), M.C.I.M., M.M.R.S. - Deputy Chairman, H. Attard Montalto, G. Bonnici - appointed 22 June 2001, P. Borg, E. Caruana Demajo LL.D., G. Daboni, E.P. Delia B.A. (Hons.) Econ., M.A., M. Litt (Oxon), R.R. Franke, J.C. Grech B.A. (Hons.) Econ., M.A. (Econ.), Dip. ICEI (A'dam), PhD (Geneva), F.C.I.B., M.B.I.M., F.M.I.M., L. Grech M.A. (Oxon), M. Grima Dip. M.S., M.B.A. (Henley), M.I.M., F. Spiteri, L. Spiteri M.A. (Oxon), F. Xerri De Caro A.C.I.B. - appointed 15 June 2001, J.V. Gatt B.A. (Hons.) Econ., A.C.I.B. - resigned 15 June 2001, J.G. Hogg - resigned 22 June 2001.

On 31 January 2002, Mr. G. Daboni resigned from office. On 25 February 2002, Mr R.R. Franke resigned from office and Dr M. Sparberg was appointed in his stead.

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. Those members who either separately or in aggregate hold not less than 7% of the total voting rights have the right to appoint a director, by letter addressed to the Company, for each and every complete 7% shareholding, so however that those members who hold that percentage separately are required to exercise this right. The remaining directors are elected at the Annual General Meeting.

Auditors

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

By order of the Board



M.C. Grech
Chairman & C.E.O.

Middle Sea House
Floriana,
Malta

9 April 2002

Id-Diretturi jipprezentaw ir-rapport tagħhom u d-dikjarazzjonijiet finanzjarji għas-sena li għalqet fil-31 ta' Diċembru 2001.

Bdil fl-isem

Bis-sahha ta' riżoluzzjoni ta' l-azzjonisti li għgib id-data tat-22 ta' Gunju 2001, l-azzjonisti tal-Kumpanija approvaw il-bdil ta' isem il-Middle Sea Insurance p.l.c. għal Middlesea Insurance p.l.c. b'effett mill-istess data.

Attivitajiet prinċipali

L-attivitajiet prinċipali tal-Grupp huma n-negozju ta' l-assigurazzjoni, inkluża l-assigurazzjoni tal-hajja, u tar-riassigurazzjoni.

Kif sejjer in-negozju

Il-Grupp irreġistra qligħ ta' Lm1,407,314 qabel il-hlas tat-taxxa mqabbel ma' Lm856,873 fis-sena 2000. Ir-raġuni ewlenija ta' dan it-titjib fir-riżultati kienet il-mod sodisfacenti kif mar in-negozju ta' assigurazzjoni ġenerali tul is-sena. Riżultati għenerati minn operazzjonijiet ta' assigurazzjoni tal-hajja, mħaddmin prinċipalment permezz ta' interessi partecipattivi, baqghu fl-istess livell tas-sena ta' qabel.

F'Novembru 2000, il-Kumpanija ma baqgħetx taċċetta negozju ta' riasigurazzjoni internazzjonali u kienet ipprovdiet Lm515,993 f'dik is-sena biex tagħmel tajjeb għall-ispejjeż stmati li jsiru sakemm jingħalaq dan in-negozju. It-telf kollu li sar mit-twaqqif ta' l-operazzjoni tela' għal Lm270,495 fis-sena 2001, l-aktar minhabba riżultat ta' żewġ katastrofi li għaw fis-sena kurrenti u li l-Kumpanija kienet għadha tissottoskrivi.

Il-profit tal-grupp għas-sena ammonta għal Lm1,423,322 (2000: Lm756,059), wara li tqies l-interess minoritarju fis-sussidjarja Taljana. Id-Diretturi jistennew li l-livell preżenti ta' attività jinżamm fil-futur safejn wieħed jista' jara.

Riżultati u dividendi

Il-kont ta' qligħ u telf konsolidat jinsab f'paġna 29. Id-Diretturi jirrikmandaw il-hlas ta' dividend nett ta' Lm568,750 (2000 - Lm552,500) li hu ekwivalenti għal dividend gross ta' 7 ċenteżmi kull sehem (2000 - 6.8 ċenteżmi).

Diretturi

Id-diretturi tal-Kumpanija tul is-sena kienu:

M.C. Grech - Chairman u C.E.O., J.F.X. Zahra B.A. (Hons.) Econ., M.A. (Econ.), M.C.I.M., M.M.R.S. - Deputat Chairman, H. Attard Montalto, G. Bonnici - mahtur 22 ta' Gunju 2001, P. Borg, E. Caruana Demajo LL.D., G. Daboni, E.P. Delia B.A. (Hons.) Econ., M.A., M. Litt (Oxon), R.R. Franke, J.C. Grech B.A. (Hons.) Econ., M.A. (Econ.), Dip. ICEI (A'dam), Ph.D. (Geneva), F.C.I.B., M.B.I.M., F.M.I.M., L. Grech M.A. (Oxon), M. Grima Dip. M.S., M.B.A. (Henley), M.I.M., F. Spiteri, L. Spiteri M.A. (Oxon), F. Xerri De Caro A.C.I.B. - mahtur 15 ta' Gunju 2001, J.V. Gatt B.A. (Hons.) Econ., A.C.I.B. - irriżenja 15 ta' Gunju 2001, J.G. Hogg - irriżenja 22 ta' Gunju 2001

Fil-31 ta' Jannar 2002 is-Sur G. Daboni rriżenja mill-kariga. Fil-25 ta' Frar 2002 is-Sur R.R. Franke rriżenja mill-kariga u f'loku nhatar Dr M. Sparberg.

Skond l-Artikli ta' Assocjazzjoni tal-Kumpanija, id-diretturi kollha jirtiraw mill-kariga tagħhom fil-Laqgħa Generali Annwali u jkunu jistgħu jigu eletti jew appuntati mill-ġdid. Dawk il-membri li jew għal rashom jew flimkien ikollhom mhux inqas minn 7% tad-drittijiet għall-voti totali jkollhom id-dritt li jappuntaw direttur, b'ittra indirizzata lill-Kumpanija, iżda b'mod li dawk il-membri li għandhom din il-percentwali separatament huma obligati jużaw dan id-dritt. Id-diretturi l-oħra jkunu eletti fil-Laqgħa Generali Annwali.

Awdituri

L-awdituri, PricewaterhouseCoopers, wrew ir-rieda tagħhom li jibqgħu fil-kariga u riżoluzzjoni għall-hatra mill-ġdid tagħhom se titressaq fil-Laqgħa Generali Annwali.

B'ordni tal-Bord



J.F.X. Zahra
Deputy Chairman

Statement of directors' responsibilities

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

In preparing the financial statements, the directors are responsible for ensuring that:

- appropriate accounting policies have been consistently applied and supported by reasonable and prudent judgements and estimates;
- the financial statements have been drawn up in accordance with International Accounting Standards;
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business as a going concern.

The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Maltese Insurance Business Act, 1998 and with the Maltese Companies Act, 1995. They are also responsible for ensuring that an appropriate system of internal control is in operation to provide them with reasonable assurance that the assets of the Company and the Group are properly safeguarded and that fraud and other irregularities will be prevented or detected.

Report of the auditors

To the Members of Middlesea Insurance p.l.c.

We have audited the financial statements on pages 26 to 68. As described in the statement of directors' responsibilities on page 24, these financial statements are the responsibility of the Company's directors. Our responsibility is to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our evaluation of the presentation of information has had regard to the statutory requirements for insurance companies to maintain equalisation reserves. The nature of equalisation reserves and the amount set aside at 31 December 2001 are disclosed in accounting policy 5 and note 26.

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2001 and of the profit, changes in equity and cash flows for the year then ended in accordance with the requirements of the Maltese Insurance Business Act, 1998 and the Maltese Companies Act, 1995.

PRICEWATERHOUSECOOPERS 

167 Merchants Street
Valletta
Malta

9 April 2002

Profit and loss account

Technical account – general business

Annual business

	Notes	Group		Company	
		2001 Lm	2000 Lm	2001 Lm	2000 Lm
Earned premiums, net of reinsurance					
Gross premiums written	1	23,462,818	12,005,735	11,616,010	9,817,446
Outward reinsurance premiums		(6,616,345)	(5,811,580)	(5,903,548)	(5,606,248)
Net premiums written		16,846,473	6,194,155	5,712,462	4,211,198
Change in the gross provision for unearned premiums		(2,175,123)	(1,557,633)	(743,339)	(1,360,773)
Change in the provision for unearned premiums, reinsurers' share		(604,151)	714,823	(585,704)	702,890
		(2,779,274)	(842,810)	(1,329,043)	(657,883)
Earned premiums, net of reinsurance		14,067,199	5,351,345	4,383,419	3,553,315
Allocated investment return transferred from the non-technical account					
	4	867,145	527,888	698,059	471,213
Total technical income		14,934,344	5,879,233	5,081,478	4,024,528
Claims incurred, net of reinsurance					
Claims paid					
- gross amount		16,383,787	8,454,650	7,319,937	5,983,827
- reinsurers' share		(4,480,417)	(3,261,796)	(3,783,724)	(3,223,290)
		11,903,370	5,192,854	3,536,213	2,760,537
Change in the provision for claims					
- gross amount		1,925,299	4,347,121	659,694	1,339,361
- reinsurers' share		(1,969,012)	(4,857,294)	(209,860)	(607,366)
		(43,713)	(510,173)	449,834	731,995
Claims incurred, net of reinsurance		11,859,657	4,682,681	3,986,047	3,492,532
Net operating expenses	3	2,365,416	820,465	566,947	538,327
Change in the equalisation provision		-	(26,076)	-	(26,076)
Total technical charges		14,225,073	5,477,070	4,552,994	4,004,783
Balance on the technical account for general annual business (page 29)		709,271	402,163	528,484	19,745

Profit and loss account

Technical account - general business

Fund business

	Notes	Group		Company	
		2001 Lm	2000 Lm	2001 Lm	2000 Lm
Earned premiums, net of reinsurance					
Gross premiums written	1	380,961	3,104,609	639,583	3,104,609
Outward reinsurance premiums		(175,450)	(860,755)	(187,416)	(860,755)
Earned premiums, net of reinsurance		205,511	2,243,854	452,167	2,243,854
Allocated investment return transferred from the non-technical account					
	4	49,558	392,409	49,558	392,409
Total technical income		255,069	2,636,263	501,725	2,636,263
Claims incurred, net of reinsurance					
Claims paid					
- gross amount		2,821,080	4,199,511	2,858,448	4,199,511
- reinsurers' share		(1,002,417)	(1,422,821)	(1,002,417)	(1,422,821)
		1,818,663	2,776,690	1,856,031	2,776,690
Change in the provision for claims					
- gross amount		(1,187,614)	(1,514,124)	(1,100,519)	(1,514,124)
- reinsurers' share		(333,632)	684,478	(333,632)	684,478
		(1,521,246)	(829,646)	(1,434,151)	(829,646)
Claims incurred, net of reinsurance		297,417	1,947,044	421,880	1,947,044
Net operating expenses	3	171,919	1,152,746	294,112	1,152,746
Change in the equalisation provision		-	(117,240)	-	(117,240)
Total technical charges		469,336	2,982,550	715,992	2,982,550
Balance on the technical account for general fund business (page 29)		(214,267)	(346,287)	(214,267)	(346,287)

Profit and loss account

Technical account – long term business

	Notes	Group and Company	
		2001	2000
		Lm	Lm
Earned premiums, net of reinsurance			
Gross premiums written	1	482,979	442,417
Outward reinsurance premiums		(228,818)	(241,924)
Earned premiums, net of reinsurance		254,161	200,493
Investment income			
Income from other investments		37,462	36,829
Other technical income, net of reinsurance		67	94
Total technical income		291,690	237,416
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		420,157	231,317
- reinsurers' share		(217,287)	(129,571)
		202,870	101,746
Change in the provision for claims			
- gross amount		(50,974)	130,113
- reinsurers' share		20,648	(76,917)
		(30,326)	53,196
Claims incurred, net of reinsurance		172,544	154,942
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance			
- gross amount		48,178	8,676
- reinsurers' share		(26,053)	(3,561)
		22,125	5,115
Net operating expenses	3	58,702	115,725
Unrealised losses on investments		-	10,320
Total technical charges		253,371	286,102
Balance on the technical account for long term business (page 29)		38,319	(48,686)

Profit and loss account

Non-technical account

	Notes	Group		Company	
		2001 Lm	2000 Lm	2001 Lm	2000 Lm
Balances on technical accounts					
General business – annual (page 26)		709,271	402,163	528,484	19,745
General business – fund (page 27)		(214,267)	(346,287)	(214,267)	(346,287)
Long term business (page 28)		38,319	(48,686)	38,319	(48,686)
		533,323	7,190	352,536	(375,228)
Share of group undertaking's profit before tax involved in general business	4	-	-	133,854	237,432
Share of participating interest's profit before tax involved in long term business	4	124,631	189,750	124,631	189,750
Less: distributions received from participating interest already included in general business technical account	4	-	(86,165)	-	(86,165)
Total income from insurance activities		657,954	110,775	611,021	(34,211)
Share of group undertakings' profit before tax	4	-	-	78,106	274,297
Other investment income	4	2,803,148	2,490,827	2,023,625	2,024,971
Investment expenses and charges	4	(501,768)	(284,417)	(466,517)	(254,909)
Allocated investment return transferred to the general business technical account	4	(916,703)	(834,132)	(747,617)	(777,457)
Other income	5	315,962	292,745	203,949	174,847
Other charges		(920,950)	(402,932)	(409,904)	(278,088)
Continuing operations		1,677,809	1,722,035	1,532,829	1,478,619
Discontinuing operation	2	(240,166)	(349,169)	(240,166)	(349,169)
Operating profit on ordinary activities before tax	6	1,437,643	1,372,866	1,292,663	1,129,450
Provision for loss on discontinuing operation	27	(30,329)	(515,993)	(30,329)	(515,993)
Profit on ordinary activities before tax		1,407,314	856,873	1,262,334	613,457
Tax on profit on ordinary activities	8	155,575	138,317	160,988	142,602
Profit on ordinary activities after tax		1,562,889	995,190	1,423,322	756,059
Minority interests	24	(139,567)	(239,131)	-	-
Profit for the financial year		1,423,322	756,059	1,423,322	756,059
Earnings per share	10	11.4c	6.0c	11.4c	6.0c

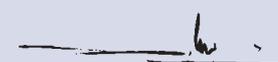
Balance sheet

	Notes	Group		Company	
		2001 Lm	2000 Lm	2001 Lm	2000 Lm
ASSETS					
Investments					
Land and buildings - investment property	12	3,770,729	2,873,405	2,872,872	1,966,703
Investments in group undertakings	13	-	-	2,930,186	3,148,900
Investment in participating interest	14	6,799,697	7,032,431	6,799,697	7,032,431
Other financial investments					
- held-to-maturity	15	3,360,767	3,445,152	-	-
- deposits with banks or credit institutions	16	2,575,623	3,532,471	1,649,258	2,067,255
- other originated loans and receivables	17	4,276,095	3,113,486	3,051,100	2,741,393
- available-for-sale	18	20,515,573	23,606,757	12,176,057	13,895,697
Deposits with ceding undertakings		243,229	207,558	243,229	207,558
		41,541,713	43,811,260	29,722,399	31,059,937
Reinsurers' share of technical provisions					
Provision for unearned premiums		1,564,708	2,171,405	1,427,275	2,012,979
Long term business provision	25	81,811	55,758	81,811	55,758
Claims outstanding	19	13,914,346	11,725,102	6,409,506	5,886,662
		15,560,865	13,952,265	7,918,592	7,955,399
Debtors					
Debtors arising out of direct insurance operations					
- policyholders		147,134	269,472	147,134	269,472
- intermediaries		4,533,902	3,363,126	2,800,602	2,514,873
Debtors arising out of reinsurance operations		791,521	2,060,352	791,521	2,060,352
Amounts owed by group undertakings		-	-	992,366	845,191
Other debtors		753,394	708,901	-	-
Taxation recoverable		1,183,404	1,231,074	601,770	701,118
		7,409,355	7,632,925	5,333,393	6,391,006
Other assets					
Tangible assets	20	1,093,641	1,119,823	466,238	491,572
Deferred taxation	27	284,096	81,729	264,518	81,729
Cash at bank and in hand		3,311,177	1,798,016	1,445,692	1,166,162
		4,688,914	2,999,568	2,176,448	1,739,463
Prepayments and accrued income					
Accrued interest and rent		680,146	760,856	394,546	415,859
Deferred acquisition costs		1,030,887	840,461	1,030,887	840,461
Other prepayments and accrued income		570,650	478,507	537,850	457,526
		2,281,683	2,079,824	1,963,283	1,713,846
Total assets		71,482,530	70,475,842	47,114,115	48,859,651

Balance sheet

	Notes	Group		Company	
		2001 Lm	2000 Lm	2001 Lm	2000 Lm
LIABILITIES					
Capital and reserves					
Called up share capital	21	6,250,000	6,250,000	6,250,000	6,250,000
Share premium account		1,192,500	1,192,500	1,192,500	1,192,500
Revaluation reserve	22	1,386,355	2,933,148	1,386,355	2,933,148
Other reserves	23	3,459,596	3,172,200	3,459,596	3,172,200
Profit and loss account		8,218,252	7,375,786	8,218,252	7,375,786
		20,506,703	20,923,634	20,506,703	20,923,634
Minority interests					
	24	2,056,577	2,099,290	-	-
Technical provisions					
Provision for unearned premiums		8,353,546	6,216,243	4,609,138	3,865,799
Long term business provision	25	193,943	145,765	193,943	145,765
Claims outstanding		30,651,739	30,215,219	14,174,837	14,666,636
		39,199,228	36,577,227	18,977,918	18,678,200
Provisions for other risks and charges					
	27	346,907	1,056,567	85,836	816,564
Deposits received from reinsurers					
		1,652,530	2,085,487	1,393,697	1,889,015
Creditors					
Creditors arising out of direct insurance operations		1,458,434	989,874	894,706	669,427
Creditors arising out of reinsurance operations		789,540	1,661,248	789,540	1,661,248
Amounts owed to credit institutions	28	1,586,014	1,587,151	1,586,014	1,587,151
Amounts owed to participating interest		1,150,702	1,050,136	780,900	672,009
Other taxation and social security		343,426	203,179	-	-
		5,328,116	5,491,588	4,051,160	4,589,835
Accruals and deferred income					
		2,392,469	2,242,049	2,098,801	1,962,403
Total liabilities					
		71,482,530	70,475,842	47,114,115	48,859,651

The financial statements on pages 26 to 68 were authorised for issue by the Board on 9 April 2002 and were signed on its behalf by:



M.C. Grech
Chairman and C.E.O.



J.F.X. Zahra
Deputy Chairman

Statement of changes in equity

Group

	Notes	Share capital Lm	Share premium account Lm	Revaluation reserve Lm	Other reserves Lm	Profit & loss account Lm	Total Lm
Balance at 1 January 2000:							
- as previously reported		6,250,000	1,192,500	4,950,192	2,244,000	7,344,570	21,981,262
- effect of adopting IAS 40	22,27	-	-	(1,244,709)	-	(172,343)	(1,417,052)
- as restated		6,250,000	1,192,500	3,705,483	2,244,000	7,172,227	20,564,210
Net fair value losses, net of deferred taxation	22	-	-	(28,434)	-	-	(28,434)
Transfer to net profit on realisation of investments, net of deferred taxation	22	-	-	(534,218)	-	-	(534,218)
Share of participating interest's reserves	22,23	-	-	(209,683)	928,200	-	718,517
Net (losses)/gains not recognised in profit and loss account		-	-	(772,335)	928,200	-	155,865
Dividends for 1999	11	-	-	-	-	(552,500)	(552,500)
Profit for the financial year		-	-	-	-	756,059	756,059
Balance at 31 December 2000		6,250,000	1,192,500	2,933,148	3,172,200	7,375,786	20,923,634
Balance at 1 January 2001:							
- as previously reported		6,250,000	1,192,500	5,128,374	3,172,200	7,563,372	23,306,446
- effect of adopting IAS 40	22,27	-	-	(2,201,169)	-	(181,643)	(2,382,812)
- effect of adopting IAS 39	22	-	-	(186,490)	-	(34,299)	(220,789)
- as restated		6,250,000	1,192,500	2,740,715	3,172,200	7,347,430	20,702,845
Available-for-sale investments:							
- net fair value losses, net of deferred taxation	22	-	-	(1,357,165)	-	-	(1,357,165)
- transfer to net profit on realisation of investments, net of deferred taxation	22	-	-	79,060	-	-	79,060
Share of participating interest's reserves	22,23	-	-	(76,255)	321,300	-	245,045
Currency translation differences	23	-	-	-	(33,904)	-	(33,904)
Net (losses)/gains not recognised in profit and loss account		-	-	(1,354,360)	287,396	-	(1,066,964)
Dividends for 2000	11	-	-	-	-	(552,500)	(552,500)
Profit for the financial year		-	-	-	-	1,423,322	1,423,322
Balance at 31 December 2001		6,250,000	1,192,500	1,386,355	3,459,596	8,218,252	20,506,703

Statement of changes in equity

Company

	Notes	Share capital Lm	Share premium account Lm	Revaluation reserve Lm	Other reserves Lm	Profit & loss account Lm	Total Lm
Balance at 1 January 2000:							
- as previously reported		6,250,000	1,192,500	4,950,192	2,244,000	7,344,570	21,981,262
- effect of adopting IAS 40	22,27	-	-	(1,244,709)	-	(172,343)	(1,417,052)
- as restated		6,250,000	1,192,500	3,705,483	2,244,000	7,172,227	20,564,210
Net fair value losses, net of deferred taxation	22	-	-	(139,113)	-	-	(139,113)
Transfer to net profit on realisation of investments, net of deferred taxation	22	-	-	(454,423)	-	-	(454,423)
Share of group undertakings' reserves	22	-	-	30,884	-	-	30,884
Share of participating interest's reserves	22,23	-	-	(209,683)	928,200	-	718,517
Net (losses)/gains not recognised in profit and loss account		-	-	(772,335)	928,200	-	155,865
Dividends for 1999	11	-	-	-	-	(552,500)	(552,500)
Profit for the financial year		-	-	-	-	756,059	756,059
Balance at 31 December 2000		6,250,000	1,192,500	2,933,148	3,172,200	7,375,786	20,923,634
Balance at 1 January 2001:							
- as previously reported		6,250,000	1,192,500	5,128,374	3,172,200	7,563,372	23,306,446
- effect of adopting IAS 40	22,27	-	-	(2,201,169)	-	(181,643)	(2,382,812)
- effect of adopting IAS 39	22	-	-	(186,490)	-	(34,299)	(220,789)
- as restated		6,250,000	1,192,500	2,740,715	3,172,200	7,347,430	20,702,845
Available-for-sale investments:							
- net fair value gains, net of deferred taxation	22	-	-	(1,031,597)	-	-	(1,031,597)
- transfer to net profit on realisation of investments, net of deferred taxation	22	-	-	87,973	-	-	87,973
Share of group undertakings' reserves	22	-	-	(334,481)	-	-	(334,481)
Share of participating interest's reserves	22,23	-	-	(76,255)	321,300	-	245,045
Currency translation differences	23	-	-	-	(33,904)	-	(33,904)
Net (losses)/gains not recognised in profit and loss account		-	-	(1,354,360)	287,396	-	(1,066,964)
Dividends for 2000	11	-	-	-	-	(552,500)	(552,500)
Profit for the financial year		-	-	-	-	1,423,322	1,423,322
Balance at 31 December 2001		6,250,000	1,192,500	1,386,355	3,459,596	8,218,252	20,506,703

Cash flow statement

	Notes	Group		Company	
		2001 Lm	2000 Lm	2001 Lm	2000 Lm
Operating activities					
Cash generated from/(used in) operations	29	549,009	679,441	(397,304)	908,795
Tax (paid)/recovered		(3,273)	(240,622)	99,348	(152,374)
Net cash generated from/(used in) operating activities		545,736	438,819	(297,956)	756,421
Investing activities					
Purchase of investment property	12	(1,735,797)	(698,142)	(1,735,797)	(14,064)
Disposal of investment property	12	3,100,633	192,360	3,100,633	70,074
Purchase of financial investments	15-18	(7,972,133)	(13,039,755)	(5,339,699)	(4,985,479)
Disposal of financial investments	15-18	8,333,532	6,778,176	5,092,793	5,843,999
Purchase of tangible assets	20	(125,226)	(91,265)	(85,457)	(87,089)
Disposal of tangible assets	20	760	1,200	760	1,200
Acquisition of subsidiary	31	-	8,060,551	-	(1,918,828)
Net cash generated from/(used in) investing activities		1,601,769	1,203,125	1,033,233	(1,090,187)
Financing activities					
Bank loans	28	(1,137)	87,151	(1,137)	87,151
Dividends paid to group shareholders	11	(552,500)	(552,500)	(552,500)	(552,500)
Dividends paid to minority interests	24	-	(9,678)	-	-
Share issue proceeds from minority interests		20,000	-	-	-
Net cash used in financing activities		(533,637)	(475,027)	(553,637)	(465,349)
Increase/(decrease) in cash and cash equivalents		1,613,868	1,166,917	181,640	(799,115)
Movement in cash and cash equivalents					
At beginning of year		4,712,738	3,545,821	2,560,668	3,359,783
Increase/(decrease)		1,613,868	1,166,917	181,640	(799,115)
Effect of exchange rate changes		29,848	-	-	-
At end of year	30	6,356,454	4,712,738	2,742,308	2,560,668

Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below.

1. Basis of preparation

These financial statements are prepared in accordance with the Maltese Insurance Business Act, 1998 and the Maltese Companies Act, 1995, which requires their preparation in accordance with International Accounting Standards. The financial statements are prepared under the historical cost convention as modified to include the fair valuation of available-for-sale investments and the share of participating interest's value of in-force business.

In 2001, the Group adopted IAS 40 - Investment Property and IAS 39 - Financial Instruments: Recognition and Measurement. The financial effect of adopting IAS 40 and IAS 39 is reported in the statement of changes in shareholders' equity. Further information is disclosed in the accounting policies for land and buildings and other financial investments, and in notes 12-15, 17, 22 and 27 to these financial statements.

2. Form and content of these financial statements

The Maltese Insurance Business Act, 1998 governs the form and content of the financial statements. The Company has followed regulations issued in terms of this Act in the preparation of these financial statements.

3. Consolidation

(a) Group undertakings

Group (or subsidiary) undertakings, which are those companies in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, have been consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. On acquisition of a subsidiary undertaking, all of its assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. All intercompany transactions between group companies are eliminated. Where necessary, accounting policies for subsidiaries are changed to ensure consistency with the policies adopted by the Group. Separate disclosure is made of minority interests.

A listing of the Group's principal subsidiaries is set out in note 13.

(b) Participating interests

Interests in participating interests are accounted for by the equity method of accounting. These are undertakings over which the Group has significant influence, but which it does not control. Equity accounting involves recognising in the income statement the share of the participating interest's profit or loss for the year. The interest in the participating interest is carried in the balance sheet at an amount that reflects the share of the net assets of the participating interest. Where necessary, accounting policies for participating interests are changed to ensure consistency with the policies adopted by the Group.

A listing of the Group's principal participating interests is set out in note 14.

(c) Foreign currency translation

Profit and loss accounts of foreign entities are translated into the Group's reporting currency at the weighted average exchange rates for the year, and balance sheets are translated at the exchange rates ruling on 31 December. Exchange differences arising from the retranslation of the net investment in foreign subsidiaries are taken to shareholders' equity. On disposal of a foreign entity, accumulated exchange differences are recognised in the profit and loss account as part of the gain or loss on sale.

4. Basis of accounting

(a) General business - annual basis

The results for direct 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:

- (i) Premiums written relate to business incepted during the year less cancellations.
- (ii) Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis.
- (iii) Acquisition costs, which represent commission and other related expenses, are deferred over the period in which the related premiums are earned.
- (iv) Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.
- (v) Claims outstanding represent the ultimate cost of settling all claims (including direct and indirect claims settlement costs) arising from events which have occurred up to the balance sheet date, including provision for claims incurred but not yet reported, less any amounts paid in respect of those claims. Where applicable claims outstanding are reduced by anticipated salvage and other recoveries.

Accounting policies

4. Basis of accounting - continued

(a) General business - annual basis (continued)

- (vi) Provision has been made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks provision. The expected claims are calculated having regard to events that have occurred prior to the balance sheet date.
- (vii) Premium payments arising as a result of portfolio transfers are accounted for as written premiums or outward reinsurance as appropriate. Portfolio claims payments are debited or credited to claims paid.

(b) General business - fund basis

The technical result for reinsurance business is determined using a fund basis of accounting recognising that the Group is not always able to obtain sufficient, timely information in respect of premiums and claims for reliable estimates to be made on an annual basis of accounting. Under the fund basis, premiums and claims are allocated to each underwriting year beginning 1 January, the results of which are determined and reported when the underwriting year is closed after three years of development, at which time any profits are recognised. Losses on open years are provided for as soon as they become anticipated.

- (i) Premiums written relate to business incepted during the year, together with any difference between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the Company.
- (ii) The insurance fund is included within the technical provision for claims outstanding and is assessed after making full provision for the estimated ultimate costs of all claims, including the related expenses, whether reported or not, in respect of each underwriting year. The level of the insurance fund is established using statistical projections of the amounts that the Company expects the ultimate settlement will cost, based on the current facts and circumstances.

While the Group has taken into account all available information within its assessment of future claims liabilities, there is nevertheless inherent uncertainty. The ultimate liability may vary as a result of subsequent information and events which may result in adjustments being made to the amounts provided.

(c) Long term business

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. Profits which accrue as a result of actuarial valuations are released to the non-technical profit and loss account. Any shortfall between actuarial valuations and the balance on the long term business provision is appropriated from the non-technical profit and loss account.

5. Equalisation provision

Amounts are set aside as equalisation provisions in accordance with section 17 (7) of the Insurance Business Act, 1998 for the purpose of mitigating exceptional levels of underwriting losses in future years. The amounts set aside are not liabilities because they are in addition to the provision required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date. Notwithstanding this they are required by the Insurance Business Act, 1998 to be included within technical provisions.

6. Land and buildings – investment property

Freehold and leasehold properties treated as investments principally comprise office and other commercial buildings that are held for long-term rental yields and that are not occupied by the Group. The Group adopted the cost model under IAS 40 - Investment Property as at 1 January 2001, whereby investment property is stated in the balance sheet at cost less accumulated depreciation and impairment losses. Maintenance expenses and repairs are recognised as an expense. Subsequent expenditure that increases the value of property is capitalised if it extends the useful life. The capitalised costs of buildings are amortised over 100 years at most, in accordance with their useful lives. If the recoverable amount of land and buildings falls below its carrying amount and the diminution in value is likely to be permanent, the carrying amount is reduced to the recoverable amount. Any impairment loss is recognised as an investment expense in the profit and loss account. Realised gains and losses on the sale of investment property are credited or charged to the profit and loss account.

Previously, the Group had recorded investment property at fair value. Fair value changes, net of deferred income taxes, had been recognised in the revaluation reserve in shareholders' equity, and have been eliminated upon adoption of this Standard. The comparative amounts for the year ended 31 December 2000 have been restated. The financial effect of adopting IAS 40 is displayed in notes 12, 22 and 27.

7. Investments in group undertakings and participating interests

Investments in group undertakings and participating interests are accounted for by the equity method of accounting. Equity accounting involves recognising in the income statement the share of the group undertakings' and participating interests' profit or loss for the year. The interest in the group undertakings and the participating interests is carried in the balance sheet at an amount that reflects the share of the net assets of the group undertakings and the participating interests.

Accounting policies

8. Share of participating interest's value of in-force business

The value of in-force business is determined by the directors of the participating interest, based on the advice of the company's consulting actuaries. The valuation represents the discounted value of projected future transfers to shareholders from policies in force at the year end, after making 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 assumed vary depending upon the mix of investments held by the company and expected market conditions.

Annual movements in the share of the in-force business valuation are credited or debited to reserves and are included in the balance sheet as part of investments.

9. Other financial investments

At 1 January 2001, the Group adopted IAS 39 - Financial Instruments: Recognition and Measurement, and classified its investments into the following categories:

- (a) Held-to-maturity investments include securities with fixed or determinable payments and maturity that the Group has the intent and ability to hold to maturity.
- (b) Originated loans and receivables are financial assets created by the Group by providing money to debtors, other than those that are originated with the intent to be sold immediately or in the short term. They include, inter alia, securities acquired at original issuance, i.e. directly from the issuer.
- (c) Available-for-sale investments include all securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

The directors determine the appropriate classification of investments at the time of purchase and re-evaluate such designation on a regular basis. 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 recorded at cost (which includes transaction costs). Available-for-sale investments are subsequently re-measured at fair value. Held-to-maturity investments and originated loans and receivables are carried at amortised cost using the effective yield method, less any provision for impairment. Deposits with banks or credit institutions are stated at face value. The fair value of quoted shares and securities and units in unit trusts classified as available-for-sale is based on quoted market prices at the balance sheet date. Unquoted equities are stated at a directors' valuation, in most cases by reference to the net asset backing of the investee. Unrealised gains and losses arising from changes in the fair value of available-for-sale investments are recognised in equity in a fair value reserve. When the investments are disposed or impaired, the related accumulated fair value adjustments in the revaluation reserve are included in the profit and loss account as gains or losses from investment securities. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

Prior to the adoption of IAS 39, the Group had recorded all its investments at fair value. On the adoption of IAS 39 at 1 January 2001, the cumulative fair value adjustments, net of deferred income taxes, in respect of held-to-maturity investments and originated loans and receivables were eliminated from the revaluation reserve in shareholders' equity. IAS 39 has been applied prospectively in accordance with the requirements of this Standard and, therefore, comparative financial information has not been restated. The financial effect of adopting IAS 39 is displayed in notes 13,14,15,17 and 22 to these financial statements.

10. Deposits with ceding undertakings

Deposits retained on assumed reinsurance are claims which the reinsurers have on their clients for cash deposits that have been retained under the terms of reinsurance agreements. They are accounted for at face value.

11. Investment return

Investment return comprises all investment income (which includes the amortisation charge in respect of investments carried at amortised cost), the share of group undertakings' and participating interests' profit before tax, realised gains and losses, and is net of investment expenses, charges and interest.

Dividends are recorded on the date when the shareholder's right to receive income is established. Interest, rents and expenses are accounted for on an accruals basis. Realised gains and losses on investments are calculated as the difference between net sales proceeds and the original purchase price or amortised value.

Investment return is initially recorded in the non-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.

12. Leases

Assets leased out under operating leases are included in investments in land and buildings. Rental income is recognised in the profit and loss account over the period of the lease to which it relates.

Accounting policies

13. Debtors

Debtors are carried at anticipated realisable value. An estimate is made for doubtful debtors based on a review of all outstanding amounts at the year end. Bad debts are written off during the year in which they are identified.

14. Tangible fixed assets

Tangible fixed assets are initially stated at cost, and are subsequently shown at cost less depreciation. Depreciation is calculated on the straight line method to write off the cost of the assets to their residual values over their estimated useful life as follows:

	%
Buildings	2.5 - 3
Leasehold improvements	2.5
Furniture, fittings and equipment	10 - 33.3
Motor vehicles	20

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in operating profit.

15. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks and time deposits or treasury bills maturing within three months.

16. Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill is amortised through the profit and loss account using the straight line method over its estimated useful life of four years. Amortisation of goodwill is included in other charges in the non-technical account.

17. Share capital

Dividends on ordinary shares are recognised in equity in the period in which they are declared.

18. Provisions

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) Provision for loss on discontinuing operation

Provision has been made for the full cost of running-off a material category of business that the Group has ceased to write. Future investment income is taken into account in setting this provision to the extent that it is not already recognised in setting the technical provisions.

(b) Provision for severance indemnity

Provision is made for the legal obligation to pay a severance indemnity to personnel upon termination of their contract of employment. The obligation arises under Italian legislation and the provision is determined on the basis of length of service and remuneration for each employee whose contract of service is governed by Italian law.

19. Deferred taxation

Deferred income tax is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

The principal temporary differences arise on the revaluation of certain financial assets and unutilised tax losses and allowances. Deferred income tax related to fair value re-measurement of available-for-sale investments is charged or credited directly to equity.

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

20. Foreign currencies

Transactions in foreign currencies have been converted into Maltese Lira at the rates of exchange ruling on the date of the transaction. Assets and liabilities denominated in foreign currencies have been translated into Maltese Lira at the rates of exchange ruling at the balance sheet date. All resulting differences are taken to the profit and loss account.

21. Borrowing costs

Interest costs are charged against income without restriction. No borrowing costs have been capitalised.

Notes to the financial statements

1. Segmental analysis

General business

Gross premiums written and gross premiums earned by class of business

	Group			
	Gross premiums written		Gross premiums earned	
	2001	2000	2001	2000
	Lm	Lm	Lm	Lm
Direct insurance				
Motor (third party liability)	10,965,765	3,244,945	9,687,603	2,830,010
Motor (other classes)	5,590,319	4,005,244	5,276,285	3,380,166
Fire and other damage to property	2,913,412	2,288,711	2,605,558	2,124,124
Other classes	3,993,322	2,466,835	3,718,249	2,113,802
	23,462,818	12,005,735	21,287,695	10,448,102
Reinsurance acceptances				
Motor (other classes)	70,732	133,192	70,732	133,192
Fire and other damage to property	304,110	2,955,489	304,110	2,955,489
Other classes	6,119	15,928	6,119	15,928
	23,843,779	15,110,344	21,668,656	13,552,711

45% (2000: 69%) of gross premiums written on direct general insurance business result from contracts concluded in or from Malta, 50% (2000: 18%) result from contracts concluded in or from Italy and 5% (2000: 13%) result from contracts concluded in or from Gibraltar.

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

	Gross claims incurred		Gross operating expenses		Reinsurance balance	
	2001	2000	2001	2000	2001	2000
	Lm	Lm	Lm	Lm	Lm	Lm
Direct insurance						
Motor (third party liability)	11,209,515	6,632,191	1,999,972	582,322	(2,194,555)	(4,482,400)
Motor (other classes)	4,085,369	3,419,845	1,286,812	820,063	(245,753)	(337,313)
Fire and other damage to property	1,361,093	1,251,540	767,405	596,924	331,922	196,156
Other classes	1,653,109	1,498,195	910,987	510,242	279,693	(87,862)
	18,309,086	12,801,771	4,965,176	2,509,551	(1,828,693)	(4,711,419)
Reinsurance acceptances						
Motor (other classes)	30,363	152,233	23,127	53,153	23,826	(10,423)
Fire and other damage to property	1,594,418	2,561,276	173,088	1,112,567	(1,196,731)	100,669
Other classes	8,685	(28,122)	2,080	10,596	(14,070)	8,596
	19,942,552	15,487,158	5,163,471	3,685,867	(3,015,668)	(4,612,577)

Notes to the financial statements

1. Segmental analysis - continued

General business - continued

Gross premiums written and gross premiums earned by class of business

	Company			
	Gross premiums written		Gross premiums earned	
	2001 Lm	2000 Lm	2001 Lm	2000 Lm
Direct insurance				
Motor (third party liability)	1,687,760	1,588,721	1,596,662	1,325,812
Motor (other classes)	4,254,818	3,709,814	4,025,102	3,095,895
Fire and other damage to property	2,594,094	2,224,138	2,337,133	2,069,077
Other classes	3,079,338	2,294,773	2,913,774	1,965,889
	11,616,010	9,817,446	10,872,671	8,456,673
Reinsurance acceptances				
Motor (other classes)	137,768	133,192	137,768	133,192
Fire and other damage to property	339,577	2,955,489	339,577	2,955,489
Other classes	162,238	15,928	162,238	15,928
	12,255,593	12,922,055	11,512,254	11,561,282

90% (2000: 85%) of gross premiums written on direct general insurance business result from contracts concluded in or from Malta. The balance results from contracts concluded in or from Gibraltar.

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

	Company					
	Gross claims incurred		Gross operating expenses		Reinsurance balance	
	2001 Lm	2000 Lm	2001 Lm	2000 Lm	2001 Lm	2000 Lm
Direct insurance						
Motor (third party liability)	1,495,514	1,383,656	423,778	322,450	(131,945)	(155,252)
Motor (other classes)	3,791,920	3,290,625	1,059,928	752,694	(355,925)	(405,776)
Fire and other damage to property	1,232,635	1,219,118	713,157	579,938	325,653	170,023
Other classes	1,459,562	1,429,789	755,694	470,646	272,275	(123,694)
	7,979,631	7,323,188	2,952,557	2,125,728	110,058	(514,699)
Reinsurance acceptances						
Motor (other classes)	66,064	152,233	54,467	53,153	23,826	(10,423)
Fire and other damage to property	1,610,079	2,561,276	190,247	1,112,567	(1,194,089)	100,669
Other classes	81,786	(28,122)	75,776	10,596	(4,748)	8,596
	9,737,560	10,008,575	3,273,047	3,302,044	(1,064,953)	(415,857)

Notes to the financial statements

1. Segmental analysis - continued

General business - continued

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

Long term business

	Group and Company	
	2001	2000
	Lm	Lm
Gross premiums written		
Direct insurance	470,316	429,280
Reinsurance inwards	12,663	13,137
	482,979	442,417

Gross premiums written by way of direct business of insurance relate to periodic premiums under group contracts. All long term contracts of insurance are concluded in or from Malta.

Analysis by geographic area

The Group is organised into three continuing geographic segments, Malta, Italy and Gibraltar and London that is being presented as a discontinuing segment. These segments, which are based on internal management accounts, are all principally involved in the business of general insurance.

	Group			
	Gross premiums written		Profit/(loss) before taxation	
	2001	2000	2001	2000
	Lm	Lm	Lm	Lm
Continuing operations				
Malta	11,088,141	8,950,681	1,323,026	1,282,051
Italy	11,846,808	2,188,289	262,459	465,553
Gibraltar	1,128,756	1,500,942	92,324	(25,569)
Total continuing operations	24,063,705	12,639,912	1,677,809	1,722,035
Discontinuing operation (note 2)				
Malta	37,580	(60,915)	61,036	65,676
London branch	225,473	2,973,764	(331,531)	(930,838)
Total discontinuing operation	263,053	2,912,849	(270,495)	(865,162)
Total for the year	24,326,758	15,552,761	1,407,314	856,873

There is no business transacted between the segments, other than as disclosed in note 35.

Notes to the financial statements

1. Segmental analysis - continued

Analysis by geographic area - continued

Segment assets and liabilities

Segment assets include all operating assets used by a segment and consist principally of investments, reinsurers' share of technical provisions and debtors, net of provisions. Segment liabilities comprise operating liabilities including mainly technical provisions. Segment liabilities for the London and Gibraltar branch mainly comprise insurance technical provisions, and are principally backed by investments managed from Malta (the home country of the parent company).

The Group's assets and liabilities are all managed from Malta except for:

- Assets of Lm25,792,121 (2000: Lm23,355,199) and liabilities of Lm21,676,703 (2000: Lm19,073,903) that are held by the Group's subsidiary in Italy.
- Net technical provisions of Lm2,403,187 (2000: Lm3,899,258) that relate to the Group's London branch operation. These technical provisions are backed by net assets of Lm827,669 (2000: Lm837,944) held by the branch and by Lm1,575,518 (2000: Lm3,061,314) worth of investments managed from Malta.
- Net technical provisions of Lm738,487 (2000: Lm407,215) that relate to the Group's agency in Gibraltar. These technical provisions are backed by Lm738,487 (2000: Lm407,215) worth of investments managed from Malta.

Net technical provisions relating to discontinuing operations amount to:

	Group	
	2001 Lm	2000 Lm
Malta	301,230	320,641
London	2,403,187	3,889,258
	2,704,417	4,209,899

Other information

	2001				Group				2000			
	Malta Lm	London Lm	Italy Lm	Total Lm	Malta Lm	London Lm	Italy Lm	Total Lm	Malta Lm	London Lm	Italy Lm	Total Lm
Share of profit before tax of participating interest	124,631	-	-	124,631	189,750	-	-	189,750	-	-	-	189,750
Capital expenditure	95,703	-	29,523	125,226	60,872	26,217	4,176	91,265	-	-	-	-
Depreciation												
– investment property	18,923	-	6,218	25,141	18,937	-	-	18,937	-	-	-	18,937
Depreciation – tangible assets	93,342	19,921	26,420	139,683	101,343	23,160	17,094	141,597	-	-	-	-
Non-cash expenses other than depreciation	12,308	30,329	21,068	63,705	3,077	515,993	30,881	549,951	-	-	-	-

Capital expenditure comprises additions to tangible assets.

Notes to the financial statements

2. Discontinuing operation

In October 2000, the Group publicly announced its intention to cease accepting international reinsurance business, which was mainly written from its London branch. This is being reported in these financial statements as a discontinuing operation and mainly relates to property reinsurance business, which the Company ceased writing as from 1 November 2000.

	Group and Company	
	2001	2000
	Lm	Lm
Earned premiums, net of reinsurance	131,170	2,134,580
Allocated investment return transferred from the non-technical account	22,361	374,976
Claims incurred, net of reinsurance	(234,983)	(1,884,611)
Net operating expenses	(158,714)	(1,091,285)
Change in the equalisation provision	-	117,171
Balance on the technical account for general fund business in respect of discontinuing operation	(240,166)	(349,169)
Operating cash flows	(2,373,864)	(789,955)

In addition, a provision of Lm30,329 (2000: Lm515,993) has been made for estimated costs of running-off the Company's international reinsurance business (note 27).

An adverse run-off deviation was experienced during the year in respect of provisions made in prior years for claims outstanding on international reinsurance acceptances as follows:

	Group and Company	
	2001	2000
	Lm	Lm
Gross run-off incurred	1,562,029	1,122,962
Reinsurers' share	(1,327,046)	(655,593)
Run-off, net of reinsurance	234,983	467,369

Notes to the financial statements

3. Net operating expenses

	Group		Company	
	2001 Lm	2000 Lm	2001 Lm	2000 Lm
Acquisition costs	4,290,802	3,190,226	3,038,057	2,889,950
Change in deferred acquisition costs, net of reinsurance	(345,458)	(43,632)	(345,458)	(43,632)
Administrative expenses	1,146,559	904,529	508,879	820,433
Reinsurance commissions and profit participation	(2,495,866)	(1,962,187)	(2,281,717)	(1,859,953)
	2,596,037	2,088,936	919,761	1,806,798
Allocated to:				
Annual general business	2,365,416	820,465	566,947	538,327
Fund general business	171,919	1,152,746	294,112	1,152,746
Long term business	58,702	115,725	58,702	115,725
	2,596,037	2,088,936	919,761	1,806,798

Total commissions for direct business accounted for in the financial period amounted to Lm3,749,133 (2000: Lm1,842,259) in the Group's technical result and Lm2,374,194 (2000: Lm1,647,924) in the Company's technical result.

4. Investment return

	Group		Company	
	2001 Lm	2000 Lm	2001 Lm	2000 Lm
Investment income				
Share of group undertakings' profit before tax	-	-	211,960	511,729
Share of participating interest's profit before tax	124,631	189,750	124,631	189,750
Income from investment property	341,710	383,462	254,540	314,175
Interest receivable from group undertakings	-	-	38,790	28,418
Other interest receivable from other investments	1,400,409	1,024,700	689,928	714,602
Other income from other investments	104,151	91,213	83,489	172,680
Gains on the realisation of investment property	1,209,877	40,462	1,209,877	40,462
Gains on the realisation of other investments	-	950,990	-	754,634
	3,180,778	2,680,577	2,613,215	2,726,450
Investment expenses and charges				
Direct operating expenses arising from investment property that generated rental income	70,493	62,280	59,900	58,909
Interest expense	90,726	91,936	83,167	79,068
Other investment expenses	204,169	130,201	156,784	116,932
Losses on the realisation of other investments	136,380	-	166,666	-
	501,768	284,417	466,517	254,909
Total investment return	2,679,010	2,396,160	2,146,698	2,471,541
Analysed between:				
Allocated investment return transferred to the general business technical account	916,703	920,297	747,617	863,622
Investment return included in the non-technical account	1,509,308	1,475,863	1,146,082	1,607,919
Allocated against provision for loss on discontinuing operation (note 27)	252,999	-	252,999	-
	2,679,010	2,396,160	2,146,698	2,471,541

Notes to the financial statements

5. Other income

	Group		Company	
	2001 Lm	2000 Lm	2001 Lm	2000 Lm
Management fees	210,268	185,119	203,949	174,847
Other income	105,694	107,626	-	-
	315,962	292,745	203,949	174,847

6. Operating profit on ordinary activities before tax

Operating profit on ordinary activities before tax is stated after charging/(crediting):

	Group		Company	
	2001 Lm	2000 Lm	2001 Lm	2000 Lm
Staff costs (note 7)	1,183,504	850,552	722,273	725,356
Auditors' remuneration	34,829	22,088	11,500	15,100
Amortisation of goodwill	12,308	3,077	12,308	3,077
Depreciation:				
- investment property (note 12)	25,141	18,937	18,923	18,937
- tangible assets (note 20)	139,683	141,597	108,940	124,503
Exchange (gains)/losses	(43,020)	112,646	(43,020)	112,646

7. Staff costs

	Group		Company	
	2001 Lm	2000 Lm	2001 Lm	2000 Lm
Salaries	1,044,326	792,835	698,485	693,330
Social security costs	155,142	79,461	51,655	53,770
Provision for contracted pension obligations	23,806	-	11,903	-
	1,223,274	872,296	762,043	747,100

The above staff costs for 2001 include Lm39,770, which had already been provided for in the previous year. No costs were capitalised during the year (2000: Lm 21,744).

The average number of persons employed during the year was:

	Group		Company	
	2001	2000	2001	2000
Managerial	31	26	26	23
Technical	48	40	32	36
Administrative	38	32	24	26
	117	98	82	85

Notes to the financial statements

8. Tax on profit on ordinary activities

	Group		Company	
	2001 Lm	2000 Lm	2001 Lm	2000 Lm
Current tax expense	42,107	54,690	-	1,004
Share of group undertakings' taxation	-	-	17,116	49,401
Share of participating interest's taxation	(10,184)	43,536	(10,184)	43,536
Deferred tax credit (note 27)	(187,498)	(236,543)	(167,920)	(236,543)
	(155,575)	(138,317)	(160,988)	(142,602)

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	
	2001 Lm	2000 Lm	2001 Lm	2000 Lm
Profit on ordinary activities before tax	1,407,314	856,873	1,262,334	613,457
Tax on ordinary profit at 35%	492,560	299,906	441,817	214,710
Adjusted for tax effect of:				
Dividends received from untaxed income	(2,993)	(2,993)	(2,993)	(2,993)
Exempt income	(572,998)	(248,643)	(571,688)	(247,575)
Temporary differences attributable to deferred tax asset not recognised	(90,997)	(162,154)	(46,977)	(82,311)
Adjustments regarding previous years	9,365	-	9,365	-
Other	9,488	(24,433)	9,488	(24,433)
	(155,575)	(138,317)	(160,988)	(142,602)

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through future taxable profits is probable. The Group has unrecognised tax losses of Lm2,858,000 (2000: Lm4,270,000) available for carry forward against future taxable income, which relate to the subsidiary that was acquired in the previous year. According to Italian tax legislation, losses may be carried forward for up to five years and the expiry of the above losses is summarised as follows:

	Group	
	2001 Lm	2000 Lm
Within one year	704,000	1,870,000
Within two and five years	2,154,000	2,400,000
	2,858,000	4,270,000

Notes to the financial statements

9. Directors' emoluments

	Group		Company	
	2001 Lm	2000 Lm	2001 Lm	2000 Lm
Contracted emoluments paid to management	38,714	38,204	38,714	38,204

The Company has paid insurance premiums of Lm3,490 (2000: Lm3,490) during the year in respect of professional indemnity insurance in favour of its directors. Furthermore, provisions have been made (Group: 2001 - Lm23,806 and 2000 - nil, Company: 2001 - Lm11,903 and 2000 - nil) in respect of contracted pension obligations.

10. Earnings per share

Earnings per share is based on the net profit for the year divided by the weighted average number of ordinary shares in issue during the year.

	Group		Company	
	2001	2000	2001	2000
Net profit attributable to shareholders	Lm1,423,322	Lm756,059	Lm1,423,322	Lm756,059
Weighted average number of ordinary shares in issue	12,500,000	12,500,000	12,500,000	12,500,000
Earnings per share	11.4c	6.0c	11.4c	6.0c

11. Dividends

At the forthcoming Annual General Meeting, a dividend in respect of 2001 of 7 cents per share (gross) amounting to Lm568,750 (net) is to be proposed. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2002. The net dividends declared after the financial year end in respect of 2000 and 1999 were Lm552,500 (gross 6.8c per share) and Lm552,500 (gross 6.8c per share) respectively.

Notes to the financial statements

12. Land and buildings - investment property

	Group Lm	Company Lm
Year ended 31 December 2001		
Opening net book amount		
- as previously reported	5,717,659	4,810,957
- effect of adopting IAS 40	(2,844,254)	(2,844,254)
- as restated	2,873,405	1,966,703
Additions	1,735,797	1,735,797
Disposals	(930,176)	(930,176)
Depreciation	(25,141)	(18,923)
Depreciation released on disposals	119,471	119,471
Currency translation differences	(2,627)	-
Closing net book amount	3,770,729	2,872,872
At 31 December 2001		
Cost	3,866,612	2,959,910
Depreciation	(93,256)	(87,038)
Translation reserve	(2,627)	-
Net book amount	3,770,729	2,872,872
Year ended 31 December 2000		
Opening net book amount		
- as previously reported	3,692,330	3,601,874
- effect of adopting IAS 40	(1,631,024)	(1,596,992)
- as restated	2,061,306	2,004,882
Acquisition of subsidiary (note 31)	222,624	-
Additions	698,142	14,064
Disposals	(93,424)	(37,000)
Depreciation	(18,937)	(18,937)
Depreciation released on disposals	3,694	3,694
Closing net book amount	2,873,405	1,966,703
At 31 December 2000		
Cost	3,060,991	2,154,289
Depreciation	(187,586)	(187,586)
Net book amount	2,873,405	1,966,703

The Group has adopted the cost model under IAS 40 with effect from 1 January 2001. Previously, the Group had accounted for all its investment property at fair value.

The fair value of land and buildings at the balance sheet date amounted to Lm4,458,432 (2000: Lm5,717,659) for the Group and Lm3,551,730 (2000: Lm4,810,957) for the Company. The fair value is the open market value as determined by independent professionally qualified valuers.

Notes to the financial statements

13. Investments in group undertakings

	Company Lm
Year ended 31 December 2001	
Opening net book amount	
- as previously reported	3,148,900
- effect of adopting IAS 39	(45,173)
	<hr/>
- as restated	3,103,727
Share of group undertakings' profits and reserves	(139,637)
Currency translation differences	(33,904)
	<hr/>
Closing net book amount	2,930,186
At 31 December 2001	
Cost	2,623,784
Share of group undertakings' profits and reserves	340,306
Translation reserve	(33,904)
	<hr/>
Net book amount	2,930,186
Year ended 31 December 2000	
Opening net book amount	
- as previously reported	1,246,817
- effect of adopting IAS 40	(26,877)
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- as restated	1,219,940
Additions	1,919,078
Disposal	(3,648)
Share of group undertakings' profits and reserves	13,530
	<hr/>
Closing net book amount	3,148,900
At 31 December 2000	
Cost	2,623,784
Share of group undertakings' profits and reserves	525,116
	<hr/>
Net book amount	3,148,900

The principal group undertakings at 31 December are shown below:

Group undertakings	Registered office	Class of shares held	Percentage of shares held 2001	Percentage of shares held 2000
Euroglobe Limited	Middle Sea House Floriana	Ordinary shares	100%	100%
Church Wharf Properties Limited	Middle Sea House Floriana	Ordinary shares	75.5%	75.5%
International Insurance Management Services Limited	Middle Sea House Floriana	Ordinary shares	100%	100%
International Insurance Management Services (Offshore) Limited	Middle Sea House Floriana	Ordinary shares	100%	100%
Malta International Training Centre Limited (formerly Mediterranean Insurance Training Centre Limited)	Europa Centre Floriana	Ordinary shares	60%	100%
Progress Assicurazioni S.p.A.	Piazza A. Gentile Palermo	Ordinary shares	51%	51%

Notes to the financial statements

14. Investment in participating interest

	Group and Company Lm
Year ended 31 December 2001	
Opening net book amount	
- as previously reported	7,032,431
- effect of adopting IAS 39	(43,634)
	<hr/>
- as restated	6,988,797
Addition	510,000
Group's share of profit arising on sale of investment property to participating interest	(1,078,960)
Share of participating interest's profits and reserves	379,860
	<hr/>
Closing net book amount	6,799,697
	<hr/>
At 31 December 2001	
Cost	782,540
Share of participating interest's profits and reserves	6,017,157
	<hr/>
Net book amount	6,799,697
	<hr/>
Year ended 31 December 2000	
Opening net book amount	6,336,293
Addition	331,500
Disposal	(25,539)
Share of participating interest's profits and reserves	390,177
	<hr/>
Closing net book amount	7,032,431
	<hr/>
At 31 December 2000	
Cost	1,351,500
Share of participating interest's profits and reserves	5,680,931
	<hr/>
Net book amount	7,032,431
	<hr/>

The participating interest at 31 December is shown below:

Participating interest	Registered office	Class of shares held	Percentage of shares held 2001	Percentage of shares held 2000
Middle Sea Valletta Life Assurance Company Limited	Middle Sea House Floriana	Ordinary shares	51%	51%

Notes to the financial statements

14. Investment in participating interest - continued

Middlesea Insurance p.l.c. is entitled in terms of the Articles of Association of Middle Sea Valletta Life Assurance Company Limited (MSV) to elect four out of eight directors and no shareholder is in a position to exercise a dominant influence on the financial and operating policies of this company. Accordingly, MSV has been excluded from consolidation in terms of Section 170(4)(a) of the Companies Act, 1995 and has been accounted for as a participating interest.

A summary of the audited balance sheet at 31 December 2001 of Middle Sea Valletta Life Assurance Company Limited, which represents a significant investment to the Group, is set out below:

	2001 Lm	2000 Lm
Investments	80,118,510	64,890,595
Value of in-force business	9,500,000	8,870,000
Tangible fixed assets	492,614	518,877
Assets held to cover linked liabilities	3,228,633	2,404,042
Net current assets	3,617,058	3,196,041
Technical provisions	(81,032,025)	(66,716,565)
Deferred taxation	(10,896)	1,109,059
Shareholders' funds	15,913,894	14,272,049
51% thereof relating to Group	8,116,086	7,278,745
Less: amounts arising on the transfer of individual life assurance business to Middle Sea Valletta Life Assurance Company Limited in 1994, not recognised in the consolidated balance sheet	(217,600)	(244,800)
Less: Group's share of the profit arising on the sale of investment property to Middle Sea Valletta Life Assurance Company Limited	(1,078,960)	-
Other	(19,829)	(1,514)
Amount at which the Group's investment is carried in the balance sheet	6,799,697	7,032,431

The profit after tax earned by Middle Sea Valletta Life Assurance Company Limited for the year ended 31 December 2001 was Lm300,253 (2000: Lm309,165).

Notes to the financial statements

15. Other financial assets – held-to-maturity

Group

	Quoted fixed income debt securities Lm	
Year ended 31 December 2001 at amortised cost		
Opening net book amount		
- as previously reported	3,445,152	
- effect of adopting IAS 39	(60,352)	
- as restated	3,384,800	
Amortisation	30,431	
Currency translation differences	(54,464)	
Closing net book amount	3,360,767	
At 31 December 2001		
Amortised cost	3,415,231	
Translation reserve	(54,464)	
Net book amount	3,360,767	
Year ended 31 December 2000 at fair value		
Acquisition of subsidiary (note 31)	3,360,960	
Net gains from changes in fair value	84,192	
Closing net book amount	3,445,152	
Year ended 31 December 2000		
Cost	3,360,960	
Revaluation reserve	84,192	
Net book amount	3,445,152	
Maturity of fixed income debt securities:		
	2001	2000
	Lm	Lm
Over 5 years	3,360,767	3,445,152
Weighted average effective interest rate	6.4%	6.4%

IAS 39 requires held-to-maturity investments to be measured at amortised cost. Previously, the Group had accounted for all its securities at fair value.

Notes to the financial statements

16. Other financial investments – deposits with banks or credit institutions

	Group		Company	
	2001 Lm	2000 Lm	2001 Lm	2000 Lm
Deposits with banks or credit institutions	2,575,623	3,532,471	1,649,258	2,067,255

Maturity of deposits with banks or credit institutions:

	Group		Company	
	2001 Lm	2000 Lm	2001 Lm	2000 Lm
Within 3 months	1,707,712	2,664,722	781,347	1,199,506
Within 1 year but exceeding 3 months	750,000	750,000	750,000	750,000
Between 1 and 2 years	117,911	117,749	117,911	117,749
	2,575,623	3,532,471	1,649,258	2,067,255

The above deposits earn interest as follows:

	Group		Company	
	2001 Lm	2000 Lm	2001 Lm	2000 Lm
At floating rates	1,048,273	995,785	1,013,273	955,113
At fixed rates	1,527,350	2,536,686	635,985	1,112,142
	2,575,623	3,532,471	1,649,258	2,067,255
Weighted average effective interest rate	4.6%	4.8%	5.1%	5.0%

Notes to the financial statements

17. Other financial assets – other originated loans and receivables

Group

	Quoted fixed income debt securities Lm	Treasury bills Lm	Unquoted fixed income securities Lm	Total Lm
Year ended 31 December 2001 at amortised cost				
Opening net book amount				
- as previously reported	2,647,486	366,000	100,000	3,113,486
- effect of adopting IAS 39	(146,376)	-	-	(146,376)
- as restated	2,501,110	366,000	100,000	2,967,110
Additions	387,420	2,692,295	-	3,079,715
Disposals	(50,000)	(1,719,000)	-	(1,769,000)
Amortisation	-	(1,730)	-	(1,730)
Closing net book amount	2,838,530	1,337,565	100,000	4,276,095
Year ended 31 December 2000 at fair value				
Opening net book amount	2,298,023	40,000	100,000	2,438,023
Additions	682,866	1,582,000	-	2,264,866
Disposals	(232,856)	(1,256,000)	-	(1,488,856)
Net losses from changes in fair value	(59,797)	-	-	(59,797)
Transfer to net profit on realisation of investments	(40,750)	-	-	(40,750)
Closing net book amount	2,647,486	366,000	100,000	3,113,486
At 31 December 2000 at fair value				
Cost	2,514,798	366,000	100,000	2,980,798
Revaluation reserve	132,688	-	-	132,688
Net book amount	2,647,486	366,000	100,000	3,113,486

Maturity of fixed income debt securities and treasury bills:

	2001 Lm	2000 Lm
Within one year	1,337,565	366,000
Between 2 and 5 years	417,000	379,260
Over 5 years	2,521,530	2,368,226
	4,276,095	3,113,486
Weighted average effective interest rate	5.9%	6.6%

Notes to the financial statements

17. Other financial assets – other originated loans and receivables - continued

Company

	Quoted fixed income debt securities Lm	Treasury bills Lm	Unquoted fixed income securities Lm	Total Lm
Year ended 31 December 2001 at amortised cost				
Opening net book amount				
- as previously reported	2,330,393	311,000	100,000	2,741,393
- effect of adopting IAS 39	(131,982)	-	-	(131,982)
- as restated	2,198,411	311,000	100,000	2,609,411
Additions	237,419	1,870,000	-	2,107,419
Disposals	-	(1,664,000)	-	(1,664,000)
Amortisation	-	(1,730)	-	(1,730)
Closing net book amount	2,435,830	515,270	100,000	3,051,100
Year ended 31 December 2000 at fair value				
Opening net book amount	2,024,732	-	100,000	2,124,732
Additions	632,866	1,447,000	-	2,079,866
Disposals	(232,857)	(1,136,000)	-	(1,368,857)
Net losses from changes in fair value	(53,598)	-	-	(53,598)
Transfer to net profit on realisation of investments	(40,750)	-	-	(40,750)
Closing net book amount	2,330,393	311,000	100,000	2,741,393
At 31 December 2000 at fair value				
Cost	2,212,098	311,000	100,000	2,623,098
Revaluation reserve	118,295	-	-	118,295
	2,330,393	311,000	100,000	2,741,393
Maturity of fixed income debt securities and treasury bills:				
			2001	2000
			Lm	Lm
Within one year			515,269	311,000
Between 2 and 5 years			364,301	346,462
Over 5 years			2,171,530	2,083,931
			3,051,100	2,741,393
Weighted average effective interest rate				
			6.5%	6.7%

IAS 39 requires originated loans and receivables to be measured at amortised cost. Previously, the Group had accounted for all its securities at fair value.

The above financial assets for the Group include pledged investments amounting to Lm789,000.

Notes to the financial statements

18. Other financial investments – available-for-sale

Group

	Quoted shares, other variable yield securities and units in unit trusts Lm	Quoted fixed income debt securities Lm	Unquoted shares & securities Lm	Total Lm
Year ended 31 December 2001				
Opening net book amount	5,758,517	16,740,725	1,107,515	23,606,757
Additions	2,513,905	4,512,040	2,762	7,028,707
Disposals	(1,372,447)	(6,906,612)	(24,853)	(8,303,912)
Amortisation	-	(5,614)	-	(5,614)
Net (losses)/gains from changes in fair value	(1,747,773)	132,716	(164,529)	(1,779,586)
Transfer to net profit on realisation of investments	140,161	(22,294)	-	117,867
Currency translation differences	(14,597)	(133,235)	(814)	(148,646)
Closing net book amount	5,277,766	14,317,726	920,081	20,515,573
At 31 December 2001				
Cost	6,213,636	14,228,045	157,109	20,598,790
Revaluation reserve	(921,273)	222,916	763,786	65,429
Translation reserve	(14,597)	(133,235)	(814)	(148,646)
Net book amount	5,277,766	14,317,726	920,081	20,515,573
Year ended 31 December 2000				
Opening net book amount	7,588,073	7,469,901	855,236	15,913,210
Acquisition of subsidiary (note 31)	-	1,770,928	50,590	1,821,518
Additions	4,232,387	7,890,753	25,289	12,148,429
Disposals	(5,041,711)	(721,413)	-	(5,763,124)
Net (losses)/gains from changes in fair value	(397,664)	341,665	176,400	120,401
Transfer to net profit on realisation of investments	(622,568)	(11,109)	-	(633,677)
Closing net book amount	5,758,517	16,740,725	1,107,515	23,606,757
At 31 December 2000				
Cost	5,090,733	16,638,339	179,200	21,908,272
Revaluation reserve	667,784	102,386	928,315	1,698,485
Net book amount	5,758,517	16,740,725	1,107,515	23,606,757

Notes to the financial statements

18. Other financial investments – available-for-sale - continued

Company

	Quoted shares, other variable yield securities and units in unit trusts Lm	Quoted fixed income debt securities Lm	Unquoted shares & securities Lm	Total Lm
Year ended 31 December 2001				
Opening net book amount	4,378,395	8,460,633	1,056,669	13,895,697
Additions	1,682,523	2,909,594	-	4,592,117
Disposals	(886,658)	(4,256,797)	-	(5,143,455)
Amortisation	-	4,930	-	4,930
Net (losses)/gains from changes in fair value	(1,216,104)	72,058	(164,529)	(1,308,575)
Transfer to net profit on realisation of investments	139,529	(4,186)	-	135,343
Closing net book amount	4,097,685	7,186,232	892,140	12,176,057
At 31 December 2001				
Cost	4,717,436	7,103,695	127,589	11,948,720
Revaluation reserve	(619,751)	82,537	764,551	227,337
Net book amount	4,097,685	7,186,232	892,140	12,176,057
Year ended 31 December 2000				
Opening net book amount	6,825,760	7,469,901	854,980	15,150,641
Additions	3,299,751	819,114	25,289	4,144,154
Disposals	(4,791,702)	(67,785)	-	(4,859,487)
Net (losses)/gains from changes in fair value	(412,644)	250,512	176,400	14,268
Transfer to net profit on realisation of investments	(542,770)	(11,109)	-	(553,879)
Closing net book amount	4,378,395	8,460,633	1,056,669	13,895,697
At 31 December 2000				
Cost	3,940,123	8,449,400	127,589	12,517,112
Revaluation reserve	438,272	11,233	929,080	1,378,585
Net book amount	4,378,395	8,460,633	1,056,669	13,895,697
Maturity of fixed income debt securities:				
	Group		Company	
	2001	2000	2001	2000
	Lm	Lm	Lm	Lm
Within one year	246,480	855,178	246,480	242,910
Between 1 and 2 years	1,335,600	403,529	1,046,087	104,854
Between 2 and 5 years	7,210,021	8,779,285	1,866,993	3,219,579
Over 5 years	5,525,625	6,702,733	4,026,672	4,893,290
	14,317,726	16,740,725	7,186,232	8,460,633
Weighted average effective interest rate	5.0%	5.0%	4.9%	5.1%

Notes to the financial statements

19. Reinsurers' share of technical provisions

Group recoveries on claims outstanding from reinsurers include an amount of Lm1,410,000 that is recoverable from Corporacion Mapfre Compania Internacional De Reaseguros S.A. under reinsurance arrangements entered into upon the acquisition of a 51% shareholding in Progress Assicurazioni S.p.A. on 29 September 2000. In terms of these arrangements, Corporacion Mapfre Compania Internacional De Reaseguros S.A. agreed to meet the run-off cost of all risks incepted prior to the date of acquisition.

20. Tangible assets

Group

	Buildings & leasehold improvements Lm	Office furniture & equipment Lm	Property furniture & fittings Lm	Motor vehicles Lm	Total Lm
Year ended 31 December 2001					
Opening net book amount	795,403	291,127	22,581	10,712	1,119,823
Additions	17,513	82,076	18,142	7,495	125,226
Disposals	-	-	(25,727)	-	(25,727)
Depreciation charge	(15,156)	(105,852)	(14,671)	(4,004)	(139,683)
Depreciation released on disposals	-	-	23,876	-	23,876
Currency translation differences	(9,356)	(474)	(44)	-	(9,874)
Closing net book amount	788,404	266,877	24,157	14,203	1,093,641
At 31 December 2001					
Cost	936,922	1,240,040	103,266	99,482	2,379,710
Accumulated depreciation	(139,162)	(972,689)	(79,065)	(85,279)	(1,276,195)
Translation reserve	(9,356)	(474)	(44)	-	(9,874)
Net book amount	788,404	266,877	24,157	14,203	1,093,641
At 31 December 2000					
Cost	919,409	1,157,964	110,851	91,987	2,280,211
Accumulated depreciation	(124,006)	(866,837)	(88,270)	(81,275)	(1,160,388)
Net book amount	795,403	291,127	22,581	10,712	1,119,823

Company

	Leasehold improvements Lm	Office furniture & equipment Lm	Property furniture & fittings Lm	Motor vehicles Lm	Total Lm
Year ended 31 December 2001					
Opening net book amount	213,941	247,216	19,851	10,564	491,572
Additions	17,513	65,205	2,739	-	85,457
Disposals	-	-	(25,727)	-	(25,727)
Depreciation charge	(8,718)	(91,080)	(5,553)	(3,589)	(108,940)
Depreciation released on disposals	-	-	23,876	-	23,876
Closing net book amount	222,736	221,341	15,186	6,975	466,238
At 31 December 2001					
Cost	353,826	1,152,693	83,705	88,347	1,678,571
Accumulated depreciation	(131,090)	(931,352)	(68,519)	(81,372)	(1,212,333)
Net book amount	222,736	221,341	15,186	6,975	466,238
At 31 December 2000					
Cost	336,313	1,087,488	106,693	88,347	1,618,841
Accumulated depreciation	(122,372)	(840,272)	(86,842)	(77,783)	(1,127,269)
Net book amount	213,941	247,216	19,851	10,564	491,572

Notes to the financial statements

21. Share capital

	Group and Company	
	2001	2000
	Lm	Lm
Authorised		
30,000,000 Ordinary shares of 50 cents each	15,000,000	15,000,000
Issued and fully paid		
12,500,000 Ordinary shares of 50 cents each	6,250,000	6,250,000

22. Revaluation reserve

	Group		Company	
	2001	2000	2001	2000
	Lm	Lm	Lm	Lm
Balance at 1 January before taxation:				
- as previously reported	5,759,352	5,374,123	5,759,352	5,366,968
- effect of adopting IAS 40	(2,662,611)	(1,458,681)	(2,662,611)	(1,451,526)
- effect of adopting IAS 39	(193,720)	-	(193,720)	-
- as restated	2,903,021	3,915,442	2,903,021	3,915,442
Net (losses)/gains from changes in fair value	(1,634,143)	71,352	(1,308,575)	(39,330)
Transfer to net profit on realisation of investments	126,434	(674,427)	135,347	(594,629)
Share of group undertakings' reserves	-	-	(334,481)	30,884
Share of participating interest's reserves	(76,255)	(209,683)	(76,255)	(209,683)
Balance at 31 December before taxation	1,319,057	3,102,684	1,319,057	3,102,684
Deferred taxation	67,298	(169,536)	67,298	(169,536)
Balance at 31 December	1,386,355	2,933,148	1,386,355	2,933,148

On the adoption of the cost model under IAS 40 as at 1 January 2001, fair value changes on investment property, net of deferred income taxes, (note 27), were eliminated from the revaluation reserve. In addition, securities classified as held-to-maturity or originated loans and receivables have been re-measured at cost upon the adoption of IAS 39 as at the beginning of the year. The financial effect of adopting IAS 39 as shown above is gross of deferred taxation amounting to Lm7,230, which was credited to retained earnings.

The revaluation reserve is not a distributable reserve.

Notes to the financial statements

23. Other reserves

Group and Company

	Value of in-force business Lm	Translation reserve Lm	Total Lm
Balance at 1 January 2001	3,172,200	-	3,172,200
Share of participating interest's reserves	321,300	-	321,300
Exchange differences arising on retranslation of foreign subsidiary	-	(33,904)	(33,904)
Balance at 31 December 2001	3,493,500	(33,904)	3,459,596
Balance at 1 January 2000	2,244,000	-	2,244,000
Share of participating interest's reserves	928,200	-	928,200
Balance at 31 December 2000	3,172,200	-	3,172,200

The above reserves are not distributable reserves.

24. Minority interests

	Group	
	2001 Lm	2000 Lm
Balance at 1 January		
- as previously reported	2,099,290	-
- effect of adopting IAS 39	(29,097)	-
- as restated	2,070,193	-
Acquisition of subsidiary (note 31)	-	1,796,270
Share of net profit of group undertakings	139,567	239,131
Share of movement in reserves of group undertakings	(145,006)	73,444
Currency translation differences	(32,553)	-
Dividends paid	-	(9,678)
Amount arising on dilution of shareholding in group undertaking	24,376	-
Other	-	123
Balance at 31 December	2,056,577	2,099,290

25. Long term business provision

The balance on the long term business provision has been certified by approved actuaries as being sufficient to meet liabilities at 31 December 2001. The net assets representing this long term business provision, which are included under the respective headings in the Group's overall balance sheet, are as follows :

	Group and Company	
	2001 Lm	2000 Lm
Investments	669,142	719,011
Debtors	102,725	106,713
Cash at bank and in hand	67,147	28,586
Claims outstanding	(39,029)	(69,354)
Creditors	(681,734)	(694,949)
Revaluation reserve	(6,119)	-
Long term business provision, net of reinsurance	112,132	90,007

Notes to the financial statements

26. Equalisation provision

As explained in accounting policy 5 on page 36, an equalisation provision is established in the financial statements. The Group had no equalisation provision in its balance sheet at 31 December 2001 and 2000. The decrease in the provision during the previous year had the effect of increasing the balance on the technical account for general business and the profit on ordinary activities before taxation by Lm143,316.

27. Provisions for other risks and charges

	Group		Company	
	2001 Lm	2000 Lm	2001 Lm	2000 Lm
Deferred tax liability	85,836	300,571	85,836	300,571
Provision for loss on discontinuing operation	-	515,993	-	515,993
Provision for severance indemnity	261,071	240,003	-	-
	346,907	1,056,567	85,836	816,564

Deferred taxation

	Group		Company	
	2001 Lm	2000 Lm	2001 Lm	2000 Lm
Balance at 1 January				
- as previously reported	680,284	709,780	680,284	702,625
- effect of adopting IAS 40	(461,442)	(213,972)	(461,442)	(206,817)
- as restated	218,842	495,808	218,842	495,808
Movements during the year:				
Profit and loss account (note 8)	(187,498)	(236,543)	(167,920)	(236,543)
Revaluation reserve (note 22)	(229,604)	(40,423)	(229,604)	(40,423)
Balance at 31 December (net)	(198,260)	218,842	(178,682)	218,842

Deferred taxation is calculated on temporary differences under the liability method using a principal tax rate of 35% (2000: 35%). The year end balance comprises:

	Group		Company	
	2001 Lm	2000 Lm	2001 Lm	2000 Lm
Temporary differences attributable to fixed assets	11,335	23,831	11,335	23,831
Temporary differences attributable to unrealised capital and exchange gains	231,884	468,718	231,884	468,718
Temporary differences attributable to unabsorbed tax losses and allowances carried forward	(468,377)	(291,224)	(448,799)	(291,224)
Other temporary differences	26,898	17,517	26,898	17,517
Balance at 31 December (net)	(198,260)	218,842	(178,682)	218,842

Notes to the financial statements

27. Provisions for other risks and charges - continued

Deferred taxation - continued

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 balance sheet.

	Group		Company	
	2001 Lm	2000 Lm	2001 Lm	2000 Lm
Deferred tax asset	(284,096)	(81,729)	(264,518)	(81,729)
Deferred tax liability	85,836	300,571	85,836	300,571
	(198,260)	218,842	(178,682)	218,842

Provision for loss on discontinuing operation

This was established to provide for the estimated costs of running-off the book of international reinsurance acceptances which the Group ceased writing as from 1 November 2000. The provision has been based on the directors' estimate of the likely costs of running-off the business. It is estimated that all material costs associated with running-off the business will be incurred by 31 December 2002. The gross provision of Lm157,382 (2000: Lm950,450) has been reduced by offsetting an expected future investment return of Lm161,570 (2000: Lm434,457) on reserves for outstanding claims liabilities.

	Group and Company	
	2001 Lm	2000 Lm
At 1 January	515,993	-
Profit and loss account	30,329	515,993
Utilised during the year	(550,510)	-
Balance at 31 December	(4,188)	515,993

The excess of the future investment return over the gross provision amounting to Lm4,188 has been classified within other prepayments and accrued income.

Provision for severance indemnity

	Group	
	2001 Lm	2000 Lm
Balance at 1 January	240,003	-
Acquisition of subsidiary (note 31)	-	209,122
Profit and loss account	24,930	30,881
Currency translation differences	(3,862)	-
Balance at 31 December	261,071	240,003

The above represents a provision for the legal obligation to pay a severance indemnity to personnel upon termination of their contract of employment. The obligation arises under Italian legislation and the provision is determined on the basis of length of service and remuneration for each employee whose contract of service is governed by Italian law.

Notes to the financial statements

28. Amounts owed to credit institutions

	Group and Company	
	2001	2000
	Lm	Lm
Long term		
Bank loans	1,586,014	1,587,151

The bank borrowings are secured by a special hypothec on investments.

The interest rate exposure of the borrowings of the Group and the Company was as follows:

	Group and Company	
	2001	2000
	Lm	Lm
At floating rates	1,586,014	1,587,151

Weighted average effective interest rate:

	Group and Company	
	2001	2000
Bank loans	5.2%	5.3%

Maturity of long term borrowings:

	Group and Company	
	2001	2000
	Lm	Lm
Between 2 and 5 years	1,586,014	1,587,151

29. Cash generated from/(used in) operations

Reconciliation of operating profit on ordinary activities before tax to cash generated from/(used in) operations:

	Group		Company	
	2001	2000	2001	2000
	Lm	Lm	Lm	Lm
Operating profit on ordinary activities before tax	1,437,643	1,372,866	1,292,663	1,129,450
Adjustments for:				
Share of group undertakings' profit before tax, adjusted for net dividend received	-	-	(211,960)	(91,733)
Share of participating interest's profit before tax, adjusted for net dividend received	(124,631)	295,250	(124,631)	295,250
Depreciation (notes 12, 20)	164,824	160,534	127,863	143,440
Provision for severance indemnity (note 27)	24,930	30,881	-	-
Amortisation	(12,509)	3,077	7,378	3,077
Loss/(profit) on sale of tangible fixed assets	1,091	(4,189)	1,091	(4,189)
Gains on the realisation of investments	(1,074,588)	(981,132)	(1,044,302)	(781,082)
Movements in:				
Deposits with ceding undertakings	(35,671)	(5,052)	(35,671)	(5,052)
Reinsurers' share of technical provisions	(1,705,095)	(4,968,117)	36,807	(706,256)
Debtors, prepayments and accrued income	(56,659)	(603,664)	847,883	(633,216)
Amounts owed by group undertakings	-	-	(147,175)	(449,541)
Technical provisions	2,910,013	4,386,103	299,718	1,181,483
Deposits received from reinsurers	(429,796)	560,345	(495,318)	563,340
Creditors, accruals and deferred income	(100,599)	345,958	(510,031)	533,317
Amounts owed to participating interests	100,566	86,581	108,891	(269,493)
Provision for loss on discontinuing operation	(550,510)	-	(550,510)	-
Cash generated from/(used in) operations	549,009	679,441	(397,304)	908,795

Notes to the financial statements

30. Cash and cash equivalents

For the purpose of the cash flow statement, the year end cash and cash equivalents comprise the following:

	Group		Company	
	2001 Lm	2000 Lm	2001 Lm	2000 Lm
Cash at bank and in hand	3,311,177	1,798,016	1,445,692	1,166,162
Time deposits and treasury bills maturing within three months	3,045,277	2,914,722	1,296,616	1,394,506
	6,356,454	4,712,738	2,742,308	2,560,668

Deposits held with banks, included in cash at bank and in hand, earn interest as follows:

	Group		Company	
	2001 Lm	2000 Lm	2001 Lm	2000 Lm
At floating rates	2,954,565	1,407,587	1,128,063	895,785
At fixed rates	30,352	112,008	-	-
	2,984,917	1,519,595	1,128,063	895,785
Weighted average effective interest rate	2.4%	3.7%	2.8%	4.1%

31. Acquisition

On 29 September 2000, the Group acquired 51% of the share capital of Progress Assicurazioni S.p.A., an insurance company operating in the south of Italy. The acquired business contributed net earned premiums of Lm1,798,030 and an operating profit of Lm465,553 to the Group for the period from 29 September 2000 to 31 December 2000, and its assets and liabilities at 31 December 2000 were Lm23,355,199 and Lm19,073,903 respectively.

Details of net assets acquired and goodwill were as follows:

Purchase consideration – cash paid	Lm 1,918,828
Fair value of net assets acquired	1,869,588
Goodwill	<u>49,240</u>

Goodwill has been included within other prepayments and accrued income in these financial statements, on the basis of the immateriality of the amount.

Other than for land and buildings, financial investments, and government grants receivable, the fair value of the net assets approximated the book value of the net assets acquired.

Notes to the financial statements

31. Acquisition - continued

The assets and liabilities arising from the acquisition were as follows:

	Lm
Assets	
Investments	5,405,102
Technical provisions – reinsurers’ share	
– unearned premiums	146,493
– outstanding claims	1,588,512
Debtors	1,454,632
Taxation recoverable	519,408
Other assets	10,604,091
Liabilities	
Technical provisions – gross	
– unearned premiums	(2,153,584)
– outstanding claims	(12,540,823)
Creditors	(1,148,851)
Provision for risks and other charges	(209,122)
	<hr/>
	3,665,858
Minority interests	(1,796,270)
	<hr/>
Fair value of net assets acquired	1,869,588
Goodwill	49,240
	<hr/>
Total purchase consideration	1,918,828
Less:	
Cash and cash equivalents in subsidiary acquired	(9,979,379)
	<hr/>
Cash inflow on acquisition	(8,060,551)
	<hr/>

32. Financial instruments

The nature of the Group’s operations implies that financial instruments are extensively used in the course of its activities. The Group did not make use of derivative financial instruments during the years ended 31 December 2001 and 2000. The Group is potentially exposed to a range of risks that are managed as outlined below.

Currency risk

The Group’s exposure to foreign exchange risk is managed through a combination of:

- (a) maintaining a portion of the Group’s investments, as would equate to the Group’s foreign liabilities, in a mix of currencies broadly matching that in which the liabilities are stated.
- (b) managing other foreign currency investments in a manner which minimises variations from the basket of currencies that determines the value of the Maltese lira.

Notes to the financial statements

32. Financial instruments - continued

Credit risk

Financial assets which potentially subject the Group to concentration of credit risk consist principally of cash at bank, debtors and investments. The Group's cash is placed with quality financial institutions. Debtors are presented net of an allowance for doubtful debts as follows:

	Group		Company	
	2001 Lm	2000 Lm	2001 Lm	2000 Lm
Provision for bad and doubtful debts	395,000	380,000	65,000	65,000

Credit risk with respect to debtors is limited due to the large number of customers comprising the Group's debtor base. Credit risk in respect of concentration of investments is not considered by the directors to be significant in view of the credit standing of the issuers. The Group has in place internal control structures to assess and monitor credit exposures and risk thresholds. The Group places limits on the level of credit risk undertaken from the main categories of financial instruments.

Fair values

The fair value of publicly traded available-for-sale securities is based on quoted market bid prices at the balance sheet date. Unquoted equities are stated at a directors' valuation, in most cases by reference to the net asset backing of the investee. The following table summarises the carrying amounts and fair values of the main financial assets and liabilities not presented on the Group and Company balance sheet at their fair value.

	Group		Company	
	Carrying value 2001 Lm	Fair value 2001 Lm	Carrying value 2001 Lm	Fair value 2001 Lm
Financial				
Held-to-maturity investments	3,360,767	3,500,113	-	-
Other originated loans and receivables	4,276,095	4,466,843	3,051,100	3,228,283
	7,636,862	7,966,956	3,051,100	3,228,283

At 31 December 2001 and 2000, the carrying amounts of the Group's other financial assets and liabilities approximated their fair values.

Liquidity risk

The Group's liquidity risk is considered to be relatively insignificant by the directors in view of the nature of its main financial assets and liabilities. Listed securities are considered to be realisable as they are listed either on the Malta Stock Exchange or on a recognised foreign stock exchange.

Market risk

The Group's financial assets are susceptible to market price risk arising from uncertainties about future prices of these instruments. The directors manage this risk by reviewing on a regular basis market value fluctuations arising on the Group's investments.

Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Notes 15 to 18, 28 and 30 incorporate interest rate and maturity information with respect to the Group's assets and liabilities. Up to the balance sheet date the Group did not have any hedging policy with respect to interest rate risk as exposure to such risks was not deemed to be significant by the directors.

Notes to the financial statements

33. Commitments

Capital commitments

	Group and Company	
	2001	2000
	Lm	Lm
Authorised and not contracted for	660,000	480,000

Operating lease commitments – where the company is a lessor

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	Group		Company	
	2001	2000	2001	2000
	Lm	Lm	Lm	Lm
Not later than 1 year	233,843	183,194	157,259	106,610
Later than 1 year and not later than 5 years	404,797	577,222	250,651	397,222
Later than 5 years	72,000	118,688	-	10,688
	710,640	879,104	407,910	514,520

34. Contingencies

The Company has given guarantees to third parties amounting to Lm25,000 (2000: Lm25,000) not arising under contracts of insurance. At 31 December 2001, the Company and the Group had a contingent tax liability of Lm163,000 arising in respect of property sold to an associated company.

35. Related party transactions

The Company has an agreement with Middle Sea Valletta Life Assurance Company Limited for the sharing of certain common administrative costs. During 2001 the Company sold investment property to this associated undertaking for a consideration of Lm2,803,750. The unrealised profit element arising on this transaction was credited against the net investment in the participating interest (note 14).

This year the Company has entered into a reinsurance arrangement for a portion of the business underwritten by the foreign subsidiary. This reinsurance contract represented approximately 2% of the total premiums written by the Company during 2001.

Two directors are shareholders in companies that act as insurance agents for Middlesea Insurance p.l.c. Another director is a shareholder of a company acting as investment consultant to Middlesea Insurance p.l.c.

All transactions with related parties are carried out at arm's length.

Notes to the financial statements

36. Statutory information

Middlesea Insurance p.l.c. is a public limited company and is incorporated in Malta.

37. Comparative information

The Group has adopted IAS 40 and IAS 39 with effect from 1 January 2001. The comparative financial information for the Group's investments has been re-classified to conform with the current year's disclosure for the purpose of fairer presentation. The re-classification was made on the basis of management's intentions as at 31 December 2000.



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Valletta
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DECADE OF SUCCESS

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International Certificate For Financial Advisers

The Bond

Collage Index

1. First Annual General Meeting of Middle Sea Insurance Company Ltd. presided over by Mr A. Mizzi
2. The setting up of Middle Sea Valletta Life Assurance Co. Ltd - 1994
3. The setting up of Growth Investments Limited as an exclusive representative of Fidelity Investments in Malta - 1997
4. Mr Sunny Borg presiding over the Middle Sea Insurance Company Ltd. Annual General Meeting - 1992
5. Signing of Partnership Agreement between Middle Sea Insurance p.l.c. and Corporacion Mapfre S.p.A. - Middle Sea acquired 51% of Progress Assicurazioni S.p.A. - 2000
6. Signing of Agreement of Gibraltar Branch Office - 2000
7. Launching of the first Unit Linked Life Assurance product - The Middle Sea Valletta Investment Bond in 1998
8. The Tenth Anniversary of Middle Sea Insurance Company Ltd. - 1991
9. MITC Applied Insurance Studies Course Graduation - 1998
10. Shareholders of Middle Sea Insurance Company Ltd. at the First Annual General Meeting
11. The official opening of Middle Sea House by the Minister of Finance, Hon. L. Spiteri - 1982
12. Dr G. Caruana Demajo presiding over the Extraordinary General Meeting - 1994
13. Mr Phillip A. Long

A Historical Overview

Middle Sea Insurance Company Limited was registered under the Commercial Partnerships Ordinance 1962 on 29 June 1981 and began trading on 1 July 1981 on the strength of a licence issued under the Insurance Business Act 1981.

It was Malta's only international insurance and reinsurance composite company and from its very beginning it transacted business in all classes of general insurance and reinsurance in Malta and worldwide. The concept of having a national insurance company stems from the political reality of the time when such companies as Air Malta, Sea Malta, EneMalta, the Bank of Valletta, Mid-Med Bank, Xandir Malta and others were set up by government to maximize the potential of Maltese resources at a time when colonial ties had been politically cut off but could still be felt in the de facto running and performance of the national economy.

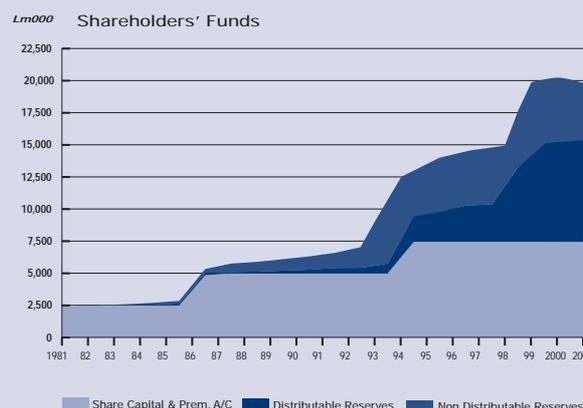
Even if with enough foreign participation to make it an international company, the national element becomes quite evident in the composition of Middle Sea Insurance 'A' and 'B' shareholders; these were the Mediterranean Insurance Brokers Ltd, the Malta Development Corporation, the Investment Finance Bank Ltd, Air Malta Co. Ltd, the Malta Drydocks Corporation, and the Malta Government Savings Bank.

Public and Foreign Shareholding

Besides, on 25 September 1981 the Company offered 500,000 'C' shares to the general public, thus offering small investors a participation in the new insurance enterprise. The response was overwhelming. 2,300 applications were received for 935,703 shares, an over-subscription of 87 per cent. Share certificates were issued on 27 November 1981.

A number of 'C' and 'D' shares were offered to, and taken up, by Insurance Investments Limited incorporating a number of local agents of foreign insurance companies operating in Malta, Untours Insurance Ltd, John H. Caruana Ltd and Mediterranean Insurance Brokers Ltd who later sold their shares to EneMalta Corporation and, later, Bank of Valletta.

Foreign companies who accepted 'D' shares were Assicurazioni Generali of Italy, Belaire Insurance Co. Ltd, Eagle Star Insurance Co. Ltd, Growth Enterprises Ltd, Guardian Royal Exchange Assurance Ltd, General Accident Fire & Life Assurance Co. Ltd, and Prudential Assurance Co. Ltd, all of the United Kingdom, Kuwait Insurance Co. KSC, and Qatar Insurance Co.



The initial six-month trading period produced a positive, even if low result. The bulk of nearly half a million Maltese liri premium came from local reinsurance business since the Insurance Business Act 1981 stipulated that all licensed foreign companies had to cede to a national company a percentage of all business written in Malta, including placements at Lloyd's, irrespective of class other than life business and this on the basis of a quasi quota share reinsurance.

In September 1981 an Investment Committee was formed to study sources of possible local and foreign investment that was "expected to be a major item contributing to the Company's future profits." It was the aim to have a balanced portfolio that would include foreign investment, equity participation in local companies and investment in property.

Shares were bought in the newly established Mediterranean Survey Bureau Co. Ltd and Mediterranean Insurance Training Centre Ltd which were envisaged as servicing both the needs of the Middle Sea Insurance and also of the local insurance sector as a whole.

Professional Insurance Training

Professionally qualified insurers were at a premium on the island. Suffice it to say that in the mid-1960's there were only two chartered insurance practitioners. Anyone seeking professional recognition had either to go abroad or to undertake a correspondence course with the Chartered

A Historical Overview

Insurance Institute of the United Kingdom. No direct individual training was available. It was with this in mind that in 1981 the MITC was set up as a joint venture between Middle Sea Insurance and Mediterranean Insurance Brokers.

The first course was inaugurated in January 1982; it was a six-month induction course for 35 students, sponsored mainly by Middle Sea Insurance and MIB. Lecturers were mainly United Kingdom specialists under the direction of the first Principal of the Centre, Mr Edward Whitmore with the assistance of Mr. Eric Jelfs from Swiss Insurance Training Centre.

In the course of 1982-83, 64 students were prepared for Chartered Insurance Institute examinations as a result of which "Malta had the highest percentage in the world of candidates sitting for C.I.I. examinations in the spring of 1983." A number of Middle Sea Insurance employees were sent on overseas training courses in England, Switzerland and Germany.

International Reinsurance

The second year of operations saw Middle Sea Insurance going into underwriting international reinsurance. As a result, 8.5 per cent of its 1991 premiums came from this source which, although considered unattractive due to economic recession, placed Middle Sea Insurance on the international reinsurance scene even if with a consciously low profile.

Local reinsurance business continued to play a major role in the Company's business but progress was being made in the direct underwriting of long-term business (life assurance) and support to the market in certain specialised large risks which required additional underwriting capacity.

Overseas investment yields did well in spite of a drop in world market interest rates. So did yields on property acquisition made locally; these were expected to make good for shortfalls in income from overseas investments that were expected in 1983.

The major event for 1982 was the official opening of Middle Sea House in Floriana on 8 July by the Minister of Finance, the Hon. Mr Lino Spiteri. The opening was attended by over 150 overseas guests, senior executives of major international and local insurance companies.

Year after year Middle Sea's international reinsurance and local

reinsurance retained their major share of the company's portfolio. In 1983 a contact office was opened in London "to take advantage of the opportunities available."

Life Business

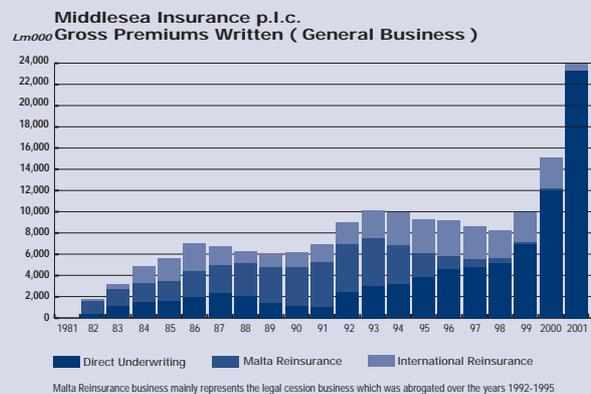
Middle Sea Insurance commenced writing Life Business in January 1983 and by the end of the year had issued 381 policies providing an annualised premium of Lm177,217. This increased by 25% in 1984 when the Company grew on all fronts and registered a total premium income of Lm4.9 million while achieving very good results in international reinsurance business.

In the meantime, life business was growing steadily so much so that in 1985 it had "reached a sufficient surplus situation to enable a bonus to be paid to with-profit policyholders."

Even at this early stage, the restrictions of a small island were already being felt. In 1985 Mr Sunny Borg, the Chairman of the Board, declared that "to sustain the continued growth of a company with the expertise and ambition of Middle Sea we have been actively researching the possibility of entering overseas markets" and mentioned the U.K. and Italian markets as offering possibilities for expansion.

The contact office in London was showing its mettle but the expansion operation had to wait for some time to be achieved. EU (EEC at the time) regulations precluded direct reinsurance underwriting in the U.K. and so plans were taken in hand to apply for the opening of a London branch.

1986 saw a successful restructuring exercise in shareholding and also a change in the top management of the company. Mr Philip Long, Managing Director since inception, handed over to Mr Mario C. Grech who became Middle Sea Insurance Chief Executive and Managing Director. He became the first Maltese national managing an indigenous insurance company.



Steady progress was consolidated on long-term and general business accompanied by significant strengthening of the Company's technical reserves and in the value of its property investment. Early in 1987 the share capital was doubled to Lm5 million. The London Branch became operational by the end of 1987.

An important introduction was the requirement of all local reinsurance cedants to enter formally into a contracted relationship with Middle Sea through the signing of treaties with the result that the Reinsurance Procedures became legally effective. This was achieved by the end of January 1987.

On a national scale, new entrants in the local market, both insurers and brokers, were creating an over-capacity. Established insurers responded by trying to maintain or increase their portfolio. This resulted in a soft market. Middle Sea Insurance, as the recipient of the legal reinsurance cession, played its part in promoting professional underwriting practices for the benefit of the industry and the insuring public through what was referred to as 'The Reinsurance Procedures'.

Notwithstanding these efforts, taken jointly with the Insurance Association, a situation of over-capacity continued to prevail for some years and underwriting results suffered through continuous undercutting. It was a time when risk-taking seemed "to be getting more onerous", which is why the Company laid great importance on the consolidation of its investment income policy which helped it offset losses on non-life business and gave it a competitive edge in life business. Investment business was handled by a newly established fully owned subsidiary, EuroGlobe Ltd.

Export Credit

In 1990 Middle Sea Insurance assumed the responsibility to prepare a report on the feasibility of the formation of an export credit insurance company. The Malta Export Credit Guarantee Company, a joint venture between the Malta Export Trade Corporation and the Malta Government Investment Corporation to provide short term credit financial insurance for commercial and political risks to Maltese exporters, was set up and Middle Sea Insurance was entrusted with the underwriting and management of the portfolio. Middle Sea Insurance reported to the Board of Directors of MEGC Co. Ltd.

That same year Middle Sea Insurance showed a profit of Lm280,000 on

its direct underwriting account, the best ever it had had in ten years of operation. This placed the Company in a strong position to meet the challenges poised by an expected liberalisation of the insurance market and the end of the legal cession, in line with the policy of a new government elected in 1987.

1992 brought about a change in chairmanship. Dr Giannino Caruana Demajo took over from Mr Sunny Borg who had served the Company since 1982. In the words of the new Chairman, under the leadership of Mr Borg "the Middle Sea Group of Companies has built the firm foundations and the excellent international reputation it enjoys today."

That same year registered a dramatic increase in gross direct underwriting premia which rose to nearly Lm2.5 million from the 1991 figure of just over Lm1 million. Life operations continued to produce better results from year to year with the 1991 figure of Lm598,592 gross written premia rising to Lm929,207 in 1992.



International reinsurance was giving problems. The international market was experiencing difficulties which the Company had weathered through a prudent approach and judicious underwriting. However, rates were hardening and a more optimistic outlook seemed to be justified.

Much more encouraging was the world stock and bond market which, helped by declining interest rates and signs of an economic recovery, made 1993 a vintage one in this sector. Returns from Middle Sea's foreign investments rose, and so did local ones. So much so that the Company's gross investment income for the year was Lm1.75 million, a rise of 38% over that of the previous year.

A Historical Overview

The Challenge of Deregulation and Liberalisation

The first phase of the deregulation and liberalisation of the Maltese insurance market began in 1993 with the abolition of the legal cession on marine and aviation classes. The abolition time-table on a class-by-class basis by 1995 was also published. Although it was agreed that abrogation of the legal cession would take effect within 3 years, the Board of Directors decided on a transition period of 6 years for its own strategy which was based on a policy of "selectivity"

Plans had already been drawn up to meet this new challenge when Middle Sea Insurance would have to rely on its own strengths in a small, highly competitive direct local market. Now was the time to put these plans in action. The first agency agreement was signed with Mizzi Insurance Agency Limited, a subsidiary of the Mizzi organisation which had long been seeking a principal insurer to represent in Malta. Towards the end of the year discussions with other agencies were in the course of finalisation.

Core operations were revised and the resources of the intermediary network made up of brokers, salespersons and tied agents and binder-holders were garnered.

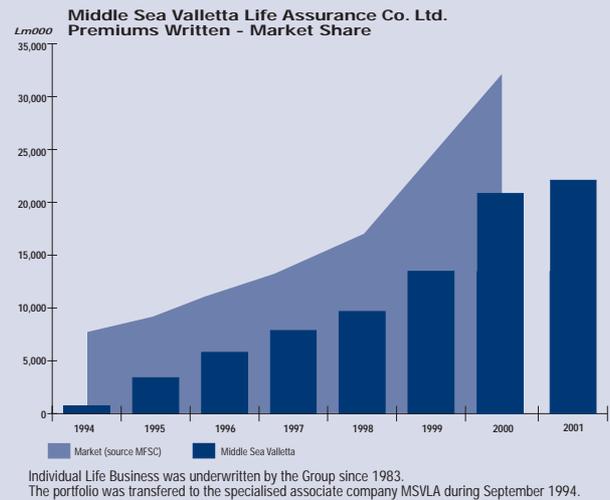
It was also in 1993 that active preparations were being made for the admission of the parent Company to a listing on the Malta Stock Exchange and for the formation of a joint bancassurance venture in life assurance business together with Bank of Valletta Limited and Münchener Rückversicherungs-Gesellschaft.

1994 brought about another change in chairmanship. Dr G. Caruana Demajo had to retire on his appointment as Judge, and Mr Mario C. Grech, the Company's Chief Executive since 1986, was appointed in his stead.

On the Stock Exchange

Following a restructuring and increase of the Company's capital, on 28 September 1994 Middle Sea shares were traded for the first time on the Stock Exchange. "This was a milestone in the history of the Stock Exchange in that Middle Sea was the first non-banking institution to be quoted on the Exchange."

At the first trading session 336,102 shares, of a nominal value of 0.50cents priced from Lm1.15 to Lm1.30, changed hands. By the end of the year 613,000 shares had been traded and Middle Sea Insurance shares had gone up by 26% in the space of three months. It was only a beginning.



The second major event of the year was the establishment of Middle Sea Valletta Life Assurance Company Limited which commenced operations on 2 September. This specialist life assurance company introduced the concept of bancassurance in Malta. It was also directed "at the enhancement and enlargement of the indigenous insurance industry based on a European model."

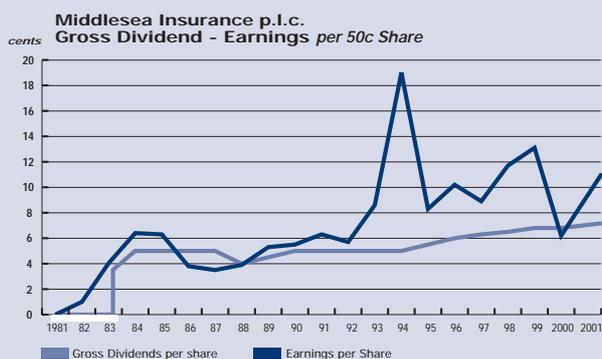
It must also be recorded that, as from 1 December 1994, the jurisdiction of the Ministry of Finance on insurance matters was delegated to the Malta Financial Services Centre set up by an Act of Parliament in that same year which saw also the enactment of legislation regulating Consumer Protection, Competition and Professional Secrecy besides various other Acts which were based on international 'best practice' model.

On this latter subject the insurance industry was already having discussions in connection with the new Insurance Business Act that was to become part of Maltese legislation in 1998, bringing it in line with European Union standards and practice.

The careful phasing of Middle Sea Insurance's new role as a direct insurer on the local market was already bearing positive results. The 1994 Report says, "While retaining its role as a reinsurer, both locally and in the international market, the contribution to Middle Sea's results from the legal

reinsurance cession is gradually becoming less of a determining factor. Indeed it is most encouraging that in 1994 the refocused core operations produced 67% of the net underwriting result." This percentage grew in 1995 when the new core operations in general business generated a premium growth of 20%, rising to Lm7.89 million.

Middle Sea Insurance sold 80% of its shareholding in Mediterranean Survey Bureau Limited in order to secure greater industry involvement in the enterprise and ensure "the continuity of an essential specialised service to the local and international market in areas such as surveying and surveillance."



At the same time the Company "continued to support and participate in the running of the Mediterranean Insurance Training Centre which, over the years, has proved instrumental in the upgrading of professional standards within the domestic market. It is pleasing to see this training centre also being of service to overseas participants. "At that stage, Middle Sea became the sole shareholder of the Centre."

In 1991 Middle Sea Insurance established a subsidiary company, International Insurance Management Services Ltd, specialising in risk management, insurance and reinsurance company formation and management (including captives), besides various other outsourcing services.

The Company has been active in establishing Malta as an international financial centre of repute and managed the set-up of the first captive insurance and reinsurance company in Malta.

IIMS has also entered into special agreements with international captive management companies.

From Transition to Consolidation

1996 was the first year in which Middle Sea Insurance operated totally independently of the legal cession.

The first phase of the transitional period had come to a successful end. "We not only accelerated organic growth through selective underwriting, but also increased the persistency of our business and won new clients both corporate and individual," said the Chairman's Statement.

This was laying the foundation for the development of the Middle Sea Insurance's presence in foreign primary markets, given that the Company's share of the small local market had its inherent growth restrictions and limited spread.

Meanwhile Middle Sea Valletta Life Assurance Company Limited immediately produced better results than projected and has continued, year after year, to make a satisfactory contribution to Middle Sea Insurance's financial results.

A wholly-owned subsidiary of Middle Sea Valletta is Growth Investments Limited which, established in 1997, markets collective investment funds locally, acts as a financial intermediary for securities listed on the Malta Stock Exchange and represents Fidelity Funds SICAV, the largest

A Historical Overview

independent fund manager in the world with over one trillion US Dollars of funds under management.

These years saw an increase in the number of agencies underwriting business under the Middle Sea banner. In quite a number of cases this was the result of a number of UK-based insurance companies withdrawing from overseas markets such as Malta. The strength and expertise of Middle Sea Insurance could offer these agencies underwriting facilities. At the same time the Company was consolidating its position as the leading indigenous provider of insurance and reinsurance services. By the end of 1997 Middle Sea Insurance had eight agency agreements. These have now grown to nine, with two others being specialised agencies.

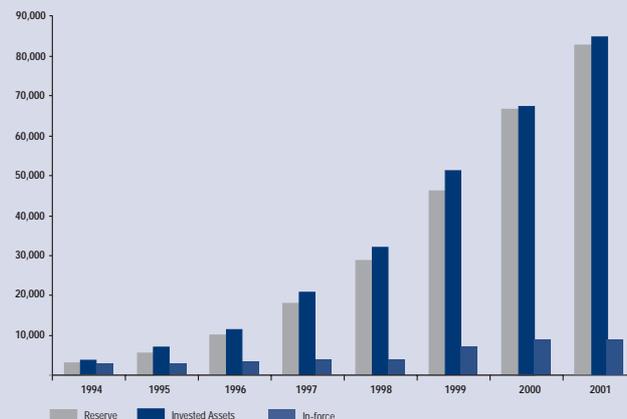
This was also a time when the international reinsurance situation was subjected to pricing pressures and highly competitive market conditions.

The London Branch registered a negative result and, with the future looking rather gloomy, the situation was being continually monitored to assess the feasibility of retaining this involvement. The recurrence of claims following natural catastrophes compounded the problem further.

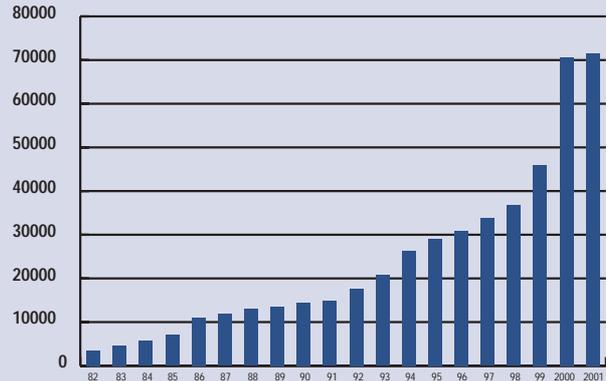
On the 1 November 2000 the decision was taken to cease underwriting International reinsurance business and place into run off the London branch operations.

1997 also saw a further restructuring of the Company's shareholding base to coincide with the decision, pursuant to the passing of the Companies Act

Middle Sea Valletta Life Assurance Co. Ltd.
Lm000 Long-term Provision & Invested Assets



Middlesea Insurance p.l.c.
Lm000 Total Assets



of 1995, to change the Company's name to Middlesea Insurance p.l.c. The new structure was also meant to strengthen the international involvement in Middle Sea Insurance.

Shares held by former parastatal companies were bought by new entrants or by former shareholders with the result that the Company's main shareholders became the following: AirMalta p.l.c., Assicurazioni Generali S.p.A., Bank of Valletta p.l.c., Mid-Med Bank p.l.c. and Münchener Rückversicherungs-Gesellschaft.

A Euro-Mediterranean Presence

The entry of Middle Sea Insurance into foreign countries as a direct insurer was high on the agenda. It had been established that the Euro-Mediterranean region posed "a real challenge with realistic possibilities."

In 1998 discussions to establish a branch office in Gibraltar were in an advanced stage while contacts had also been made to acquire a shareholding in an Italian subsidiary of a Spanish insurance company.

Both ventures were launched in 2000 with the Gibraltar office opening on 1 June 2000 following the issue of a licence from the Financial Services Commission of Gibraltar and the signing of an agreement with Mascarenhas Insurance and Finance Ltd who were appointed representative agents for Middle Sea Insurance.

The agreement with the Spanish Corporacion Mapfre Compania Internacional de Reaseguros S.A. was signed on the 28 September 2000.

Middle Sea bought a 51% shareholding in Mapfre Progress S.p.A. and that very day the name of the company was changed to Progress Assicurazioni

S.p.A. At present the company has 77 agents in Southern Italy and Sicily.

Progress has already contributed to Middle Sea Insurance's profits for the year 2000. However, its real significance lies in the fact that Middle Sea is now present in continental Europe, an asset that is to be utilised in the future.

The year 2000 has not been without its problems. Volatility in the investment field and the general nervousness in the financial markets have had their effect on the Company's profits. So also had the cutthroat

competitiveness of the insurance market.

With this scenario Middle Sea had adopted a prudent approach that is meant to ensure the consolidation of its portfolio.

The Board of Directors and staff are confident that the last two decades have provided the Middlesea Group with a solid foundation for future expansion with the ultimate objective to create further wealth to the shareholders.



The Hon. Mr. Justice Giannino
Caruana Demajo
Chairman 1992-1994

Mr. Sunny Borg
Chairman
1982-1992

Mr. Mario C. Grech
Present Chairman
and CEO

Mr. Albert Mizzi
Chairman
1981-1982

L-istorja fil-qosor

Il-Middle Sea Insurance Company Limited kienet irregistrata taht il-Commercial Partnerships Ordinance 1962 fid-29 ta' Ġunju 1981 u bdiet topera fl-1 ta' Lulju 1981 bis-sahha ta' liċenzja mahruġa taht l-Att ta' l-1981 dwar Negozju ta' Assigurazzjoni.

Kienet il-kumpanija internazzjonali Maltija waħdanija komposta ta' assigurazzjoni u riassigurazzjoni, u mill-bidunett tagħha nneozjat kull xorta ta' koperturi ta' assigurazzjoni u riassigurazzjoni kemm f'Malta u kemm barra.

Il-kunċett ta' kumpanija nazzjonali ta' assigurazzjoni johroġ mir-realtà politika taż-żmien meta kumpaniji bħala Air Malta, Sea Malta, EneMalta, il-Bank of Valletta, Mid-Med Bank, Xandir Malta u oħrajn twaqqfu mill-gvern biex ikabbru kemm jista' jkun il-potenzjal tar-riżorsi Maltin fi żmien meta rabtiet kolonjali kienu nqatghu politikament iżda kienu ghadhom jinħassu fit-thaddim u t-tmexxija ta' l-ekonomija nazzjonali.

Mqar jekk is-sehem barrani kien biżżejjed biex jagħmel mill-kumpanija waħda internazzjonali, l-element nazzjonali jidher ċar biżżejjed fil-kompożizzjoni ta' l-azzjonisti tal-kategoriji 'A' u 'B'; dawn kienu l-Mediterranean Insurance Brokers Ltd, il-Malta Development Corporation, l-Investment Finance Bank Ltd, l-Air Malta Co. Ltd, il-Malta Drydocks Corporation, u l-Malta Government Savings Bank.

Azzjonisti mill-Pubbliku u Barranin

Barra minn hekk, fil-25 ta' Settembru 1981 il-kumpanija harġet għall-pubbliku 500,000 sehem tal-kategorija 'C' u hekk tat iċ-ċans lil investituri żgħar li jieħdu sehem fl-intrapriża ta' assigurazzjoni ġdida. It-tweġiba kienet ta' l-għaġeb. Dahlu 2,300 applikazzjoni għal 935,703 sehem, sottoskrizzjoni 87% oghla minn dak mistenni. Iċ-ċertifikati ta' l-ishma nharġu fis-27 ta' Novembru 1981.

Għadd ta' ishma tal-kategoriji 'C' u 'D' kienu offruti lil diversi kumpaniji li aċċettawhom. Dawn kienu Insurance Investments Limited li kienet tiġbor fiha numru ta' aġenti lokali ta' kumpaniji

Shareholders' Funds



ta' assigurazzjoni barranin li kienu joperaw Malta, Untours Insurance Ltd, John H. Caruana Ltd u Mediterranean Insurance Brokers Ltd li wara bieghu sehemhom lill-EneMalta Corporation, u l-quddiem lill-Bank of Valletta.

Kumpaniji barranin li aċċettaw ishma tal-kategorija 'D' kienu Assicurazioni Generali ta' l-Italja, Belaire Insurance Co. Ltd, Eagle Star Insurance Co. Ltd, Growth Enterprises Ltd, Guardian Royal Exchange Assurance Ltd, General Accident Fire & Life Assurance Co. Ltd, u Prudential Assurance Co. Ltd, kollha mir-Renju Unit, Kuwait Insurance Co. KSC, u Qatar Insurance Co.

L-ewwel perijodu ta' sitt xhur ta' riżultati pożittivi, anke jekk kienu neċessarjament baxxi. Il-parti l-kbira tan-nofs miljun lira Maltin ta' primjums ġew min-negozju ta' riassigurazzjoni lokali billi l-Att ta' l-1981 dwar Negozju ta' Assigurazzjoni kien jitlob li l-kumpaniji barranin b'liċenzja biex jahdmu Malta kellhom jghaddu lill-kumpanija nazzjonali 30 fil-mija tan-negozju kollu sottoskritt f'Malta, inkluż dak ta' Lloyd's, kienet x'kienet il-klassi tagħhom, minbarra negozju ta' assigurazzjoni tal-hajja, u dan fuq il-bażi ta' riassigurazzjoni *quasi quota share*.

F'Settembru 1981 twaqqaf Kumitat għall-Investimenti biex jistudja l-possibilitajiet ta' investment lokali u barrani; "id-dhul mill-investimenti mistenni jkun fattur importanti fil-profitti tal-Kumpanija fis-snin li ġejjin." Il-kumitat kellu l-iskop li jibni portafoll bilanċjat li jkun fih investment barrani, sehem

f'ekwitajiet f'kumpaniji lokali u investiment fi propjetà.

Nxtraw ishma fil-Mediterranean Survey Bureau Co. Ltd u fil-Mediterranean Insurance Training Centre Ltd li kienu ghadhom kemm twaqqfu bil-hsieb li jaqdu l-htigiet kemm tal-Middle Sea Insurance u kemm tas-settur ta' l-assigurazzjoni lokali kollu.

Tahriġ Professjonali fl-Assigurazzjoni

Dak iż-żmien ftit li xejn kien hawn nies professjonali jaħdmu fl-assigurazzjoni. Biżżejjed wiehed jghid li f'nofs is-sittinijiet kien hawn biss tnejn min-nies li kellhom kwalifika fl-assigurazzjoni. Kull min kien jixtieq ikollu għarfien professjonali jew kellu jmur barra jew jagħmel kors bil-korrispondenza maċ-Chartered Insurance Institute tar-Renju Unit. Ma kien hawn ebda tahriġ individwali dirett. Kien għalhekk li fl-1981 twaqqaf il-Mediterranean Insurance Training Centre bħala intrapriża flimkien bejn il-Middle Sea Insurance u l-Mediterranean Insurance Brokers.

L-ewwel kors kien inawgurat f'Jannar 1982; kien kors tal-bidu li fih hadu sehem 35 student, kollha sponsorjati mill-Middle Sea Insurance u l-Mediterranean Insurance Brokers. L-għalliema kienu l-aktar speċjalisti mir-Renju Unit immexxija mill-ewwel Principal taċ-Ċentru, is-Sur Edward Whitmore, bl-ghajnuna tas-Sur Eric Jeffs tas-Swiss Insurance Training Centre.

62 student thejjuw tul is-sinjura 1982-83 għall-eżamijiet taċ-Chartered Insurance Institute u r-riżultat kien li "Malta kellha l-ogħla perċentwali fid-dinja ta' kandidati li għamlu l-eżamijiet fir-rebbiegħa ta' l-1983." Numru ta' impjegati tal-Middle Sea Insurance ntbagħtu għal korsijiet ta' tahriġ fl-Ingilterra, l-Isvizzera u l-Ġermanja.

Riassigurazzjoni Internazzjonali

Fit-tieni sena tagħha l-Middle Sea Insurance daħlet għas-sottoskrizzjoni ta' riassigurazzjoni internazzjonali. Ir-riżultat kien li 8.5 fil-mija tal-primjums ta' l-1991 ġew minn din l-ghajn li, għalkemm ma kinitx meqjusa attraenti mħabba reċessjoni ekonomika, qiegħdet lill-Middle Sea Insurance fix-xena tar-riassigurazzjoni internazzjonali anki jekk bi profil miżmum baxx apposta.

In-negozju ta' riassigurazzjoni lokali baqa' jkollu funzjoni qawwiya fin-negozju tal-Kumpanija imma kien qed isir progress ukoll fis-sottoskrizzjoni diretta ta' negozju għat-tul (assigurazzjoni tal-hajja) u fl-apoġġ lis-suq fil-każ ta' riskji speċjalizzati kbar li jehtieġu kapaċità ta' sottoskrizzjoni addizzjonali.

Il-qligh minn investimenti barranin mar tajjeb minkejja nżul fir-rati ta' interessi fis-suq dinji. Anki l-qligh fuq propjetà mixtrija lokali mar tajjeb. Dan kien maħsub li jagħmel tajjeb għal tnaqqis mid-dhul minn investimenti barranin li kien mistenni fl-1983.

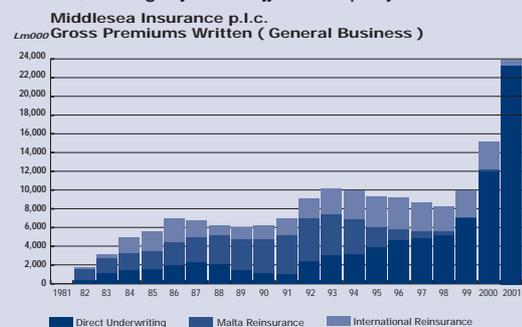
L-avveniment ewlieni ta' l-1982 kien il-ftuh uffiċjali tal-Middle Sea House, il-Furjana, fit-8 ta' Lulju mill-Ministru tal-Finanzi, l-Onor. Lino Spiteri. Għall-ftuh attendew aktar minn 150 mistieden barrani, kollha uffiċjali eżekuttivi ta' kumpaniji ewlenin internazzjonali u lokali.

Sena wara sena l-portafoll ta' riassigurazzjoni internazzjonali u lokali baqa' jkun il-parti ewlenija tal-portafoll tal-kumpanija. Fl-1983 nfetħ uffiċċju f'Londra biex iservi ta' kuntatt "biex niehdu vantaġġ mill-opportunitajiet li jinsabu hemmhekk."

Assigurazzjoni tal-Hajja

F'Jannar 1983 il-Middle Sea Insurance bdiet tissottoskrivi Negozju tal-Hajja u sa tmiem is-sena harġet 381 polza li ġabu Lm177,217 primjum annwalizzat. Fl-1984 dan żdied b'25% meta l-Kumpanija kibret f'kull qasam u rreġistrat primjum totali ta' Lm49 miljun waqt li kellha riżultati tajbin hafna fin-negozju ta' riassigurazzjoni internazzjonali.

Sadattant, in-negozju tal-hajja kien qed jikber il-hin kollu tant li



L-istorja fil-qosor

fl-1985 kienet kisbet "profitt żgħir li kien biżżejjed biex inhallsu bonus lil dawk li kellhom maghna polza ta' Assigurazzjoni tal-Hajja bi Qligh."

Sahansitra f'dan l-istadju bikri kienu qed jinhassu r-restrizzjonijiet ta' gżira żghira. Fl-1985 is-Sur Sunny Borg, Chairman tal-Bord, iddikjara li "sabiex nilhqu l-ambizzjonijiet u nsostnu t-tkabbir li nixtiequ, irridu nohorġu barra minn pajjiżna. Ahna diġà stharrigna l-possibiltà li nidhlu fi swieq barranin" u semma li s-swieq tar-Renju Unit u l-Italja joffru possibiltajiet għal espansjoni.

L-uffiċċju ta' kuntatti f'Londra kien qed juri hiltu, imma l-operazzjoni ta' espansjoni kellha tithalla għal xi żmien. Ir-regoli ta' l-Unjoni Ewropea (dak iż-żmien il-Komunità Ekonomika Ewropea) kienu jipprobbixxu sottoskrizzjoni ta' riassigurazzjoni diretta fir-Renju Unit, u għalhekk bdew il-pjanijiet biex issir applikazzjoni għall-ftuh ta' fergħa Londra.

Fl-1986 sar eżercizzju ta' ristrutturazzjoni ta' l-ishma, li mar tajjeb, u kien hemm bidla fit-tmexxija għolja tal-kumpanija. Is-Sur Philip Long, Direttur Maniġerjali sa mill-bidu, għadda l-kariga lis-Sur Mario C. Grech li sar il-Kap Eżekuttiv u Direttur Maniġerjali tal-Middle Sea Insurance. Is-Sur Grech sar l-ewwel ċittadin Malti jmexxi kumpanija ta' assigurazzjoni indigena.

Il-progress kontinwu kien ikkonsolidat fil-każ ta' negozju għat-tul u ġenerali, u miegħu sar ukoll tishih sinifikattiv tar-riservi tekniċi tal-Kumpanija u tal-valur ta' l-investimenti immobbli tagħha. Kmieni fl-1987 il-kapital ta' l-ishma kien irduppjat għal Lm5 miljun. Il-Fergħa ta' Londra bdiet topera fl-aħħar kwart ta' l-1987.

Kien ukoll importanti li dawk kollha marbutin li jghaddu r-riassigurazzjoni lokali lill-Middle Sea Insurance jagħmlu ftehim formali magħha bl-iffirmar ta' trattati. Hekk il-Proċeduri ta' Riassigurazzjoni ngħataw effett legali. Dawn kienu diġà dahlu fis-seħh sa l-aħħar ta' Jannar 1987.

Fuq skala nazzjonali, ditti ġodda fis-suq lokali, kemm assiguratari u kemm brokers, kienu qed johlqu kapaċità oghla milli mehtieg. Assiguratari stabbiliti rreaġixxew billi ppruvaw

iżommu jew ikabbru l-portafoll tagħhom. Dan wassal għal suq dgħajjef. Il-Middle Sea Insurance, bhala r-riċevitur taċ-ċessjoni legali ta' riassigurazzjoni, għamlet il-parti tagħha biex thegġeg prattiki ta' sottoskrizzjoni professjonali għall-benefiċċju ta' l-industrija u tal-pubbliku li juża l-assigurazzjoni permezz ta' dawk li kienu jissejju "Il-Proċeduri ta' Riassigurazzjoni".

Minkejja dawn l-isforzi, meħudin flimkien ma' l-Insurance Association, is-sitwazzjoni ta' kapaċità oghla milli mehtieg baqgħet sejra għal xi snin u r-riżultati tas-sottoskrizzjoni baww htiġa ta' tqaċċit kontinwu fil-prezzijiet tal-primjums. Kien żmien meta t-tehid tar-riskju deher "li qed isir aktar diffiċli" u għalhekk il-Kumpanija tat importanza kbira lill-konsolidament tal-politika ta' dhul minn investimenti tagħha li għenitha tagħmel tajjeb għat-telf minn negozju mhux ta' l-assigurazzjoni tal-hajja u tatha vantaġġ kompetittiv fin-negozju ta' l-assigurazzjoni tal-hajja. Negozju ta' investiment tmexxa minn sussidjarja ġdida, EuroGlobe Ltd, li l-ishma tagħha huma kollha tal-Middle Sea Insurance.

Kreditu għall-Esportaturi

Fl-1990 il-Middle Sea Insurance hadet ir-responsabbiltà li thejji rapport fuq il-formazzjoni b'suċċess ta' kumpanija ta' assigurazzjoni ta' kreditu għall-esportaturi. Wara dan twaqqfet il-Malta Export Credit Guarantee Company, intrapriża flimkien tal-Malta Export Trade Corporation u l-Malta Government Investment Corporation biex tipprovdi assigurazzjoni finanzjarja ta' kreditu għal żmien qasir. Ix-xogħol ta' sottoskrizzjoni u tmexxija tal-portafoll thalla f'idejn il-Middle Sea Insurance bid-dmir li tipprezenta r-rapporti tagħha lill-Bord tad-Diretturi tal-Malta Export Credit Guarantee Co. Ltd.

Dik l-istess sena l-Middle Sea Insurance għamlet Lm280,000 qligh mill-kont ta' sottoskrizzjoni diretta, l-aħjar ċifra li kellha f'għaxar snin hidma. Dan qiegħed il-Kumpanija f'qagħda soda biex tilqa' l-isfidi li kienu ġejjin mid-deregolamentazzjoni u liberalizzazzjoni mistennija tas-suq ta' l-assigurazzjoni u t-tmiem taċ-ċessjoni legali skond il-politika ta' gvern ġdid elett fl-1987.

L-1992 rat bidla taċ-Chairman. Dr Giannino Caruana Demajo



ha l-kariga minghand is-Sur Sunny Borg li kien serva lill-Kumpanija sa mill-1982. Fi kliem iċ-Chairman il-ġdid, taht it-tmexxija tas-Sur Borg "il-Middle Sea Group of Companies bena s-sisien sodi u l-fama eċċellenti li jgawdi illum."

Dik l-istess sena rreġstrat żjeda drammatika fil-primjums gross minn sottoskrizzjoni diretta li telghu ghal kważi Lm2.5 miljun miċ-ċifra ta' ftit aktar minn Lm1 miljun fl-1991. L-operazzjonijiet ta' assigurazzjoni tal-hajja komplew jaghtu riżultati itjeb minn sena ghal sena, u ċ-ċifra ta' Lm598,592 minn primjums gross sottoskritti fl-1991 telghet ghal Lm929,207 fl-1992.

Ir-riassigurazzjoni internazzjonali kienet qed tohloq il-problemi. Is-suq internazzjonali kien għaddej minn diffikultajiet li l-Kumpanija kienet għelbet bis-sahha ta' atteġġjament prudenti u sottoskrizzjoni għaqlija. Iżda r-rati kienu qed jinżammu sodi u kien jidher li ta' min ihares lejn il-futur b'ottimizmu.

Is-suq dinji ta' stokks u bonds kien aktar inkoraġġanti; flimkien ma' rati ta' interessi aktar baxxi u sinjali ta' qawmien ekonomiku, dan għen biex is-sena 1993 kienet tassew tajba f'dan is-settur. Il-qlich mill-investimenti barranin tal-Middle Sea Insurance telghu, bħalma għamlu dawk lokali. Tant hu hekk li d-dhul tal-Kumpanija mill-investimenti kien Lm1.7 miljun, żjeda ta' 38% fuq is-sena ta' qabel.

L-Isfida tad-Deregolamentazzjoni u tal-Liberalizzazzjoni

L-ewwel fazi tad-deregolamentazzjoni u liberalizzazzjoni tas-suq ta' l-assigurazzjoni Malti bdiet fl-1993 bit-tnehhija taċ-ċessjoni legali fuq il-klassijiet tal-marittimu u l-avjazzjoni. L-

iskeda tat-tnehhija klassi klassi sa l-1995 kienet ippubblikata wkoll. Ghalkemm kien miftiehem li t-tnehhija taċ-ċessjoni legali kellha ssir fi żmien 3 snin, il-Bord tad-Diretturi ddeċieda favur perijodu ta' transizzjoni ta' 6 snin biex jimplimenta l-istrategġija tiegħu li kienet ibbażata fuq politika ta' "selettività".

Kienu diġà tffaslu pjanijiet biex tintlaqa' din l-isfida ġdida meta l-Middle Sea Insurance ikollha tistrieħ biss fuq saħhietha f'suq lokali dirett mill-aktar kompetittiv. Issa kien il-waqt li dawn il-pjanijiet jibdwet jittwettqu. Lejn tmiem is-sena kien iffirmit l-ewwel ftehim ta' aġenzija ma' Mizzi Insurance Agency Limited, sussidjarja tal-Mizzi Organisation li kienet ilha tipprova ssib Assiguratur Principali biex tirrappreżentah f'Malta. Lejn tmiem is-sena, diskussjonijiet ma' aġenziji oħra kienu waslu biex ikunu ffinalizzati.

L-operazzjonijiet bażiċi kienu riveduti u r-riżorsi ta' l-intermedjarji, bħal brokers, bejjiegħa individwali u aġenti marbutin mal-Kumpanija, tlaqqgħu flimkien.

Kien ukoll fl-1993 li bdew it-tnejniet biex il-Kumpanija ewlenija tkun illistjata fil-Borża ta' Malta u biex titwaqqaf intrapriża komuni ta' bankassigurazzjoni għal negozju ta' assigurazzjoni tal-hajja mal-Bank of Valletta u l-Münchener Rückversicherungs-Gesellschaft.

L-1994 għebet magħha bidla oħra ta' chairman. Dr G. Caruana Demajo kellu jirtira meta nħatar Imhallel, u s-Sur Mario C. Grech, il-Kap Eżekuttiv tal-Kumpanija mill-1986, nħatar floku.

Fil-Borża ta' Malta

Wara ristrutturazzjoni u tkabbir fil-kapital tal-Kumpanija, fit-28 ta' Settembru 1994 l-ishma tal-Middle Sea kienu nnegozjati fil-Borża għall-ewwel darba fl-istorja. "Dan kien jum storiku fl-istorja tal-Borża għaliex il-Middle Sea kienet l-ewwel istituzzjoni mhix bankarja li ġiet ikkwotata fil-Borża."

Fl-ewwel sessjoni ta' negozju 336,102 ishma, b'valur nominali ta' 0.50ċ kull wiehed, għadew minn id għal oħra bi prezzijiet bejn Lm1.15 u Lm1.30 kull sehem. Sa tmiem is-sena kienu ġew negozjati 613,000 sehem u l-ishma tal-Middle Sea telghu b'26% fi żmien tliet xhur. Dan kien biss bidu.

L-istorja fil-qosor

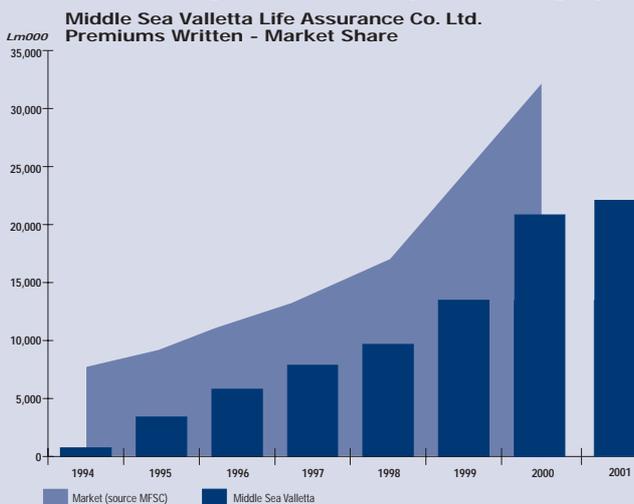
Il-Middle Sea Valletta Life

It-tieni avveniment ewlieni tas-sena kien it-twaqqif tal-Middle Sea Valletta Life Assurance Company Limited li bdiet topera fit-2 ta' Settembru. Din il-kumpanija speċjalizzata ta' assigurazzjoni tal-hajja dahhlet f'Malta l-kunċett ta' bankassigurazzjoni. Hi kellha wkoll l-iskop li ttejjeb u twassa' "l-industrija ta' l-assigurazzjoni indigena fuq il-fasla ta' mudell Ewropew."

Irid jinghad ukoll li, mill-1 ta' Diċembru 1994, il-ġurisdizzjoni tal-Ministeru tal-Finanzi fuq materji ta' assigurazzjoni kienet delegata liċ-Ċentru Malti għal-Servizzi Finanzjarji mwaqqaf b'Att tal-Parlament dik is-sena stess meta għaddiet ukoll leġislazzjoni li tirregola l-Harsien tal-Konsumatur, il-Kompetizzjoni u s-Segretezza Professionali, minbarra Atti oħra li kienu bbażati fuq mudelli ta' "l-oghla Prattika" internazzjonali.

Fuq dan l-aħħar suġġett l-industrija ta' l-assigurazzjoni kienet diġà f'diskussjonijiet rigward l-Att ġdid dwar in-Negożju ta' Assigurazzjoni li kellu jsir parti mill-leġislazzjoni Maltija fl-1998, u hekk iġibha taqbel ma' standards u Prattiki Ewropej.

Il-mod attent kif iddahhlet il-funzjoni ġdida tal-Middle Sea Insurance bhala assiguratordirett fis-suq lokali kien diġà qed



Individual Life Business was underwritten by the Group since 1983. The portfolio was transferred to the specialised associate company MSVLA during September 1994.

jaghti riżultati pożittivi. Ir-Rapport ghas-sena 1994 jghid, "Waqf li l-Middle Sea tibqa' żżomm il-funzjoni tagħha ta' riassiguratord, kemm lokalment u kemm fis-suq internazzjonali, l-effett tad-dhul miċ-ċessjoni legali ta' riassigurazzjoni kull ma jmur qed jonqos mill-importanza tiegħu fir-riżultati tal-Kumpanija. Hu fil-fatt inkoraġġanti hafna li fl-1994 l-operazzjonijiet bażiċi, kif mibdula għaċ-ċirkustanzi ġodda, iġġeneraw 67% tar-riżultati ta' sottoskrizzjoni netti."

Din il-perċentwali telgħet fl-1995 meta l-operazzjonijiet bażiċi ġodda fin-negożju ġenerali iġġeneraw tkabbir ta' 20% fil-primjum u waslu għal Lm7.89 miljuni.

Il-Middle Sea Insurance bieghet 80% ta' l-ishma li kellha fil-Mediterranean Survey Bureau Limited biex twassal għal involviment akbar mill-industrija f'din l-intrapriża u tiżgura l-kontinwità ta' servizz speċjalizzat essenzjali lis-suq lokali u internazzjonali f'oqsma bħall-perizja u s-sorveljanza.

Fl-istess waqt il-Kumpanija "baqqgħet tappoġġa u tiegħu sehem fit-tmexxija tal-Mediterranean Insurance Training Centre li matul is-snin kien strumentali biex jogħlew il-livelli professjonali fis-suq domestiku. Kien ta' inkoraġġiment li wiehed jara dan iċ-ċentru ta' taħriġ ikun ta' servizz anke lil parteċipanti barranin." F'dan l-istadju l-Middle Sea saret l-azzjonist wahdani taċ-Ċentru.

International Insurance Management Services

Fl-1981 il-Middle Sea Insurance waqqfet kumpanija sussidjarja, l-International Insurance Management Services Ltd, li tispeċjalizza fl-immanigġar tar-riskji, u fil-formazzjoni u tmexxija ta' kumpaniji *captive* ta' assigurazzjoni u riassigurazzjoni, minbarra li tagħti diversi servizzi lil kumpaniji oħra.

Il-Kumpanija hadmet biex Malta ssir ċentru finanzjarju internazzjonali ta' fama u mexxiet it-twaqqif ta' l-ewwel kumpanija *captive* ta' assigurazzjoni u riassigurazzjoni f'Malta.

L-IIMS għamlet ukoll ftehimiet speċjali ma' kumpaniji internazzjonali ta' mmanigġar *captive*.

Minn Transizzjoni ghal Konsolidament

Is-sena 1996 kienet l-ewwel waħda li fiha l-Middle Sea Insurance operat b'mod għalkollox indipendenti miċ-ċessjoni legali.

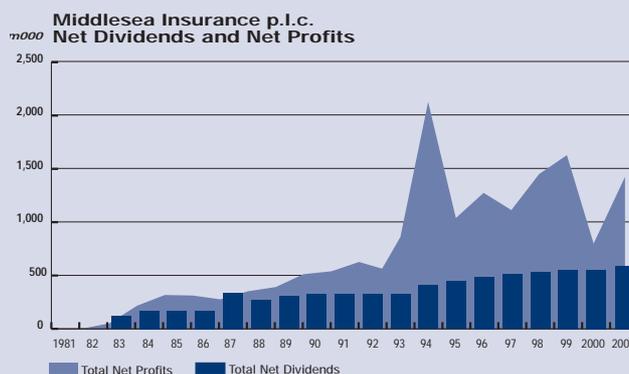
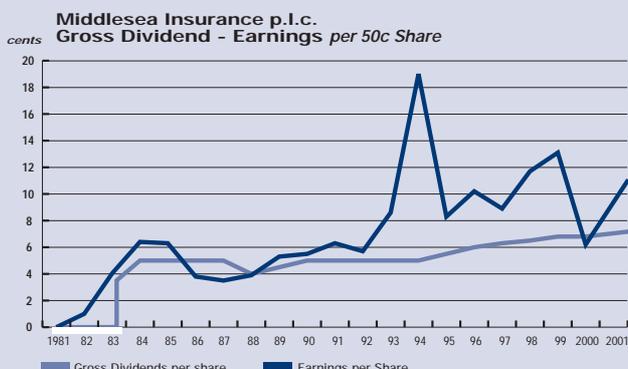
L-ewwel fażi tal-perijodu ta' transizzjoni kienet intermett b'suċċess. "Ahna mhux biss aċċelerajna t-tkabbir organiku permezz ta' sottoskrizzjoni selettiva imma żidna wkoll il-kontinwità insistenti tan-negożju tagħna u akkwistajna klijenti kemm korporattivi u kemm individwali ġodda."

Dan kien qiegħed ipoġġi s-sisien għall-iżvilupp tal-preżenza tal-Middle Sea Insurance fi swieq primarji barranin, billi s-sehem tal-Kumpanija fis-suq lokali zghir kien iġib restrizzjonijiet ta' tkabbir u espansjoni limitata.

Sadattant il-Middle Sea Valletta Life Assurance Company Limited tat immedjatement riżultati aħjar minn dawk proġettati u baqgħet, sena wara sena, tagħti kontribut sodisfaċenti għar-riżultati ġenerali tal-Middle Sea Insurance.

Growth Investments Limited

Growth Investments Limited, sussidjarja bl-ishma tagħha kollha tal-Middle Sea Valletta, twaqqfet fl-1997 biex tbigh lokalment fondi ta' skemi kollettivi u taġixxi bħala intermedjarju finanzjarju għal ishma llistjati fil-Borża ta' Malta. Growth Investments tirrappreżenta lil Fidelity Funds SICAV, l-akbar maniger indipendenti ta' fondi fid-dinja li jimmaniġġa fondi li jammontaw 'il fuq minn biljun dollaru Amerikan.



Aġenziji lokali

Dawn is-snin raw żjeda fin-numru ta' aġenziji li jissottoskrivu negożju taht il-bandiera tal-Middle Sea. F'għadd imdaqas ta' każijiet dan ġara għalix għadd ta' kumpaniji bbażati fir-Renju Unit iriraw minn swieq barranin bħal Malta. Is-sahha u l-esperjenza tal-Middle Sea Insurance setghu joffru faċilitajiet ta' sottoskrizzjoni lil dawn l-aġenziji. Fl-istess hin il-Kumpanija kienet qed tikkonsolida l-pożizzjoni tagħha bħala l-provveditur indigenu ewlieni ta' servizzi ta' assigurazzjoni u riassigurazzjoni. Sa tmiem l-1997 il-Middle Sea Insurance kellha tmien ftehim ma' aġenziji. Bhalissa dawn huma disgha bi tnejn oħra ta' natura speċjalizzata.

Dan kien ukoll żmien meta s-sitwazzjoni ta' riassigurazzjoni internazzjonali kienet soġġetta għal pressjonijiet ta' prezzijiet u għal kondizzjonijiet ta' suq kompetittiv għall-aħhar.

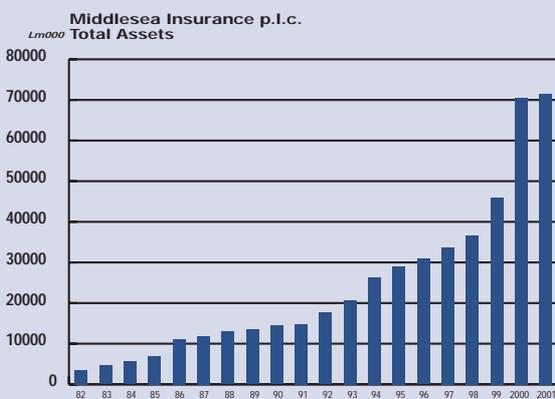
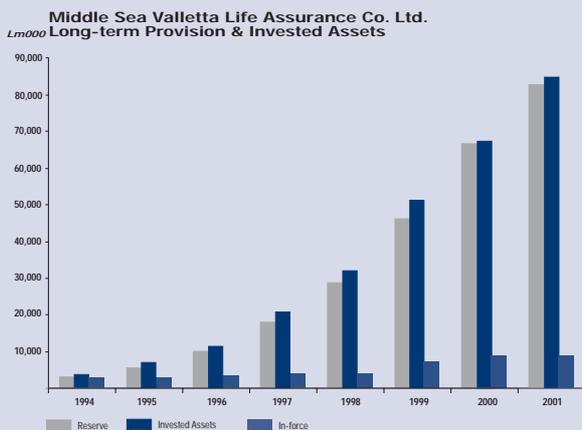
Il-Ferġha ta' Londra kellha riżultati negattivi u, billi l-prospetti kienu jidhru x'aktarx koroh, is-sitwazzjoni kienet qed tkun ikkontrollata l-hin kollu biex wiehed jara jkunx ta' min iżomm dan l-involvement. Ir-rikorrenza ta' klejms htija ta' katastrofi naturali kabbret il-problema.

Fl-1 ta' Novembru 2000 ittiehdet id-deċiżjoni li n-negożju ta' sottoskrizzjoni ta' riassigurazzjoni internazzjonali jitwaqqaf u li l-operazzjoni tal-Ferġha ta' Londra tintemm wara li jkunu thallsu l-pendenzi kollha.

L-istorja fil-qosor

L-1997 rat ukoll aktar ristrutturazzjoni tal-baži ta' l-ishma tal-Kumpanija biex tikkoinċidi mad-deċiżjoni, li għet wara li għadda l-Att ta' l-1995 li jirregola l-Kumpaniji, li isem il-Kumpanija jinbidel u jsir Middle Sea Insurance p.l.c. L-istruttura l-ġdida kienet maħsuba wkoll biex issahha l-involviment internazzjonali tal-Middle Sea Insurance.

Ishma li qabel kienu għand kumpaniji parastatali nixtraw minn gruppi ġodda jew minn azzjonisti eżistenti u dan wassal biex l-azzjonisti tal-Middle Sea saru l-AirMalta p.l.c., Assicurazioni Generali S.p.A., Bank of Valletta p.l.c., Mid-Med Bank p.l.c. u Münchener Rückversicherungs-Gesellschaft.



Preżenza Ewro-Mediterranea

Id-dhul tal-Middle Sea Insurance f'pajjiżi barranin bhala assiguratour dirett kellu post prominenti fl-aġenda. Kien gie stabbilit li r-reġjun Ewro-Mediterraneu "joffri tassew sfida b'possibilitajiet realistċi."

Fl-1998, diskussjonijiet għat-twaqqif ta' fergha f'Ġibiltà kienu fi stadju avanzat waqt li kienu saru wkoll kuntatti biex jinxtraw ishma f'sussidjarja Taljana ta' kumpanija ta' assigurazzjoni Spanjola. Iż-żewġ intrapriżi nbdew fis-sena 2000. L-uffiċċju ta' Ġibiltà fetax fl-1 ta' Ġunju 2000 wara l-hruġ ta' liċenzja mill-Kummissjoni għas-Servizzi Finanzjarji ta' Ġibiltà u l-iffirmar tal-ftehim ma' Mascarenhas Insurance and Finance Ltd li nhatru aġenti rappreżentattivi tal-Middle Sea .

Il-ftehim mal-kumpanija Spanjola Corporacion Mapfre Compania Internacional de Reaseguros S.A. kien iffirmit fit-28 ta' Settembru 2000. Il-Middle Sea xtrat 51% ta' l-ishma f'Mapfre Progress S.p.A. u dakinhar stess isem il-kumpanija nbdel u sar Progress Assicurazioni S.p.A. Bhalissa l-kumpanija għandha 77 aġent fin-nofsinar ta' l-Italja u fi Sqallija.

Progress diġà kkontribwiet għall-profitti tal-Middle Sea Insurance għas-sena 2000. Iżda t-tifsira reali tagħha qiegħda fil-fatt li l-Middle Sea issa għandha preżenza fl-Ewropa kontinentali, vantaġġ li jrid ikun użat fil-ġejjieni.

Is-sena 2001 kellha l-problemi tagħha. Iċ-ċaqliq kbir fil-qasam ta' l-investimenti u n-nervożiżmu fis-swieq finanzjarji hallew l-effetti tagħhom fuq il-profitti tal-kumpanija. Kif halliet ukoll il-kompetittività sfrenata fis-suq ta' l-assigurazzjoni.

Fil-kuntest ta' dan ix-xenarju l-Middlesea adottat atteggiġjament prudenti maħsub biex jiżgura l-konsolidament tal-portafoll tagħha.

Il-Bord tad-Diretturi u l-impjegati huma fiduċjużi li l-ahhar għoxrin sena taw lill-Middlesea Group sisien sodi għal espansjoni fil-ġejjieni bl-objettiv ahhari li jinholoq ġid akbar lill-azzjonisti.



Middle Sea Insurance p.l.c.

— M A L T A —