MIDDLE SEA INSURANCE

Annual Report & Financial Statements 1999

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Middle Sea Insurance p.l.c

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.

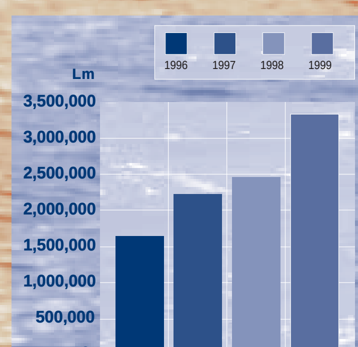
Chairman's Statement

Middle Sea's 18th year of operation has produced satisfactory results in all areas other than international reinsurance business. I commented in my statement last year on the highly competitive market environment both locally and overseas. This situation remains and the pressures were even greater in 1999. We are effectively looking at a market scenario involving a process of change negating a strategy of maintaining the *status quo*. The redefinition of the Company's strategy to concentrate our efforts in establishing new core activities has allowed Middle Sea to initiate growth strategies on a consolidation base. I believe that restructuring and re-engineering are of a continuous nature. Satisfactory business performance and good returns for shareholders could only be sustained through a proactive policy of grasping opportunities as they present themselves in a changing environment.

The fundamental strength of our business provided for a 21% increase in Gross Premiums Written in general business in 1999 that amounted to Lm9.96 million (US$24.2m). The Group's profit before tax of Lm1.85 million (US$4.5m) compared favourably with 1998 registering an increase of 11.4%. Shareholders' funds grew by 22% to Lm21.53 million (US$52.2m). Earnings per share increased by 13% to 13.2c whilst the Net Asset Value increased to Lm1.72 (US$4.2) in 1999.

Given these results, our confidence in the continuing expansion of our business, and the positive performance of Middle Sea equity on the Malta Stock Exchange, the Board is recommending to increase the final dividend by five per cent to 6.8c per share (equivalent to 13.60% on the nominal value of each share). After paying a net dividend of Lm0.55 million (US$1.3m), the Group will carry forward retained profits of Lm6.90 million (US$16.7m). This is in line with our dividend policy.

The rapid pace of change within the financial industry has also reached



Investment Return General

Chairman's Statement (cont)

Malta, with participants in the indigenous market competing head-to-head across the market. Against this background, we adopted a proactive style of management whereby we became a leader in the market. Middle Sea entered 1999 with a number of important objectives for local and overseas operations. We wanted to expand our presence in 'third sector' insurance, especially in life, retirement planning and health. We were keen to expand our professional distribution network and to develop our agencies within the Middle Sea Group. Management is determined to continue to build on a customer-led culture transcending the Group to ensure that our products meet the ever changing needs of our customers. This was also achieved through a network of tied professional intermediaries. Our strategy for growth was clearly demonstrated during the year as most of our objectives were met.

The reinsurance market persisted with its negative cycle. Over the period 1990 to 1998, the market encountered eleven losses that were deemed to be catastrophic in nature. Indeed, in my report last year I made reference to two of these losses, namely Hurricanes "Georges" and "Mitch". In 1999 alone the market was hit with fourteen catastrophic losses! We had the Colombian, Greek, Taiwanese and Turkish earthquakes, the Venezuelan floods and a number of weather related catastrophes. Clearly, and as happened in 1998, the positive performance from local underwriting activities (Lm0.56 million) was adversely affected by our result from activities in the international reinsurance market in that an overall loss of Lm0.24 million (US$0.6m) was recorded in the net technical underwriting result after expenditure.

Although Middle Sea's overall technical underwriting result was weaker, we benefited from the excellent performance of our underlying investments. 1999 was a very mixed year for the major asset classes. Global equity markets produced solid positive returns while global bonds produced negative ones making equity markets outperform over bonds and cash for the 5th year running.

The European equity market surged as a result of merger and acquisition activities, whilst economies across the region benefited from the recovering global economy and loose monetary conditions. In the U.S., the stock market rise has been characterised by significant sector polarisation and primarily driven by the spectacular rises in the new sectors such as telecommunications and technology.

Indeed, the poor performance from global bond markets, one of the worst years historically in terms of performance in Malta lira terms, dragged down overall returns. Effectively, bond markets fell in 1999 on the prospects of rising rates resulting from the improving economic environment.

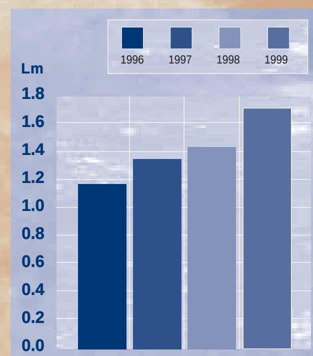
Our underlying investments are spread locally and internationally; this as a result of the limited investment opportunities locally, the matching of foreign liabilities and the required spread to achieve diversification. Local investment returns in both equity and bond markets outperformed our overseas portfolios.This resulted in an overall investment return of 11.80% excluding unrealised capital gains and of 24.41% gross of unrealised capital gains.

The establishment of Middle Sea Valletta Life Assurance Co. Ltd (MSV) in alliance with Bank of Valletta plc and Munich Reinsurance Company continues to justify our proactive decision in September 1994 when considering the valuable contribution this investment is giving to the Middle Sea Group. This company, in which Middle Sea Insurance plc holds 51% shareholding, maintained its steady growth with annual premia from long term business increasing to Lm13.5 million (US$32.7m) and assets reaching a record level of Lm64 million (US$155.4m) since 1994.

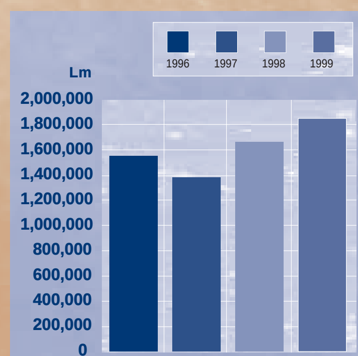
Increased resources have had to be allocated over the last 15 months in order to effectively meet further growth. The scale of the Y2K challenge made it an important priority for management and, through a diligent approach, the Group completed all the changes within the necessary time scales. Hence the increased administrative cost over the previous 4 years when this was successfully contained.

In the industry at large, the year has brought about more mergers and acquisitions as insurers seek to become leaner with a greater market share. At the same time, more insurance companies are forming partnerships with banks and other financial institutions to market niche products while 'virtual' insurers are starting to offer quotations over the Internet in developed markets. Middle Sea continues to monitor this important development closely, acknowledging the medium to long term realities of new distribution networks.

World-wide, the insurance industry continues to go through a period of significant change, and we continue to keep a close watch for opportunities that conform with our strategic direction. A number of particular corporate initiatives have been taken by the Group that demonstrate our capability to reinforce existing operations or introduce new ones in our desire to create further spread in our business. The focus on carefully



Net Asset Value per Share



Profit Before Tax

Chairman's Statement (cont)

targeted developments forms an important component of our overall strategy.

In this report we set out our Mission Statement and Business Philosophy. These focus clearly on valuing professional staff and shareholder value - everything we do must be directed towards increasing these values through our products, our services and our determination to succeed. The value of the company will grow only if we continuously motivate our staff and provide our customers with innovative and competitive products and services in new customer-friendly ways. Putting the customer first is the best route to producing real value for our shareholders.

You will recall that during the Extraordinary General Meeting held on 16 December 1999, I had mentioned that the Euro-Mediterranean region offers certain opportunities of interest to us. Part of our evolution has been the issuing of the relevant branch licence from the Financial Services Commission of Gibraltar and our consideration of commencing operations through the acquisition of a majority interest in Mapfre Progress Assicurazioni SpA which operates mainly in Southern Italy. The key considerations in foreign market entry decisions remain the cost dimension, the expected rate of return on the investment with the commensurate risk, and lastly the political and regulatory environment in the host country. All this indicates that Middle Sea's millennium project is a serious, prudent and professional commitment to extensive work in an endeavour to increase the local and overseas revenue of the Group in the medium to long term. Future success of the Group depends entirely on our ability to enter foreign primary markets, taking account of our competitiveness in this new dimension, together with identified international partners who offer the required synergy.

Our management and staff are eager to grasp these opportunities in which they have played an invaluable role. Their commitment to the future success of the Group is clear and they have my thanks for their support and determination in consolidating Middle Sea's respectable name internationally. I have no doubt that these qualities will enable the Middle Sea Group to face the challenges which lie ahead with great confidence. I am also grateful to my fellow Board members for their valuable contribution and commitment to generate real added value to our shareholders.

M.C. Grech
Chairman & CEO

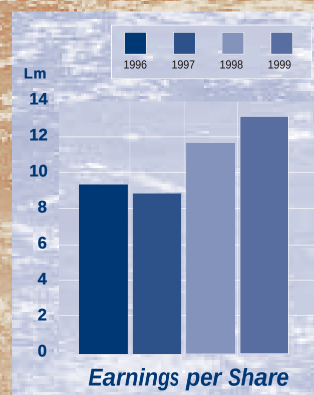
Stqarrija taċ-Chairman

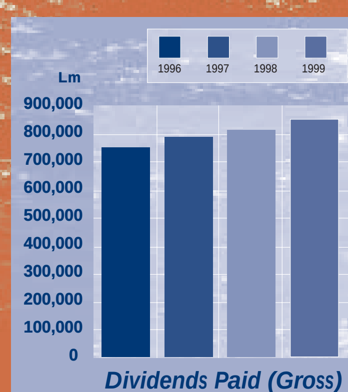
It-18il sena ta' operat tal-Middle Sea tat riżultati sodisfaċenti fl-oqsma kollha minbarra fin-negozju ta' riassigurazzjoni internazzjonali. Fl-istqarrija li għamilt is-sena l-oħra kkummentajt fuq l-ambjent ta' suq kompetittiv għall-aħħar kemm lokalment u kemm barra. Is-sitwazzjoni għadha l-istess u l-pressjonijiet saħansitra kibru fis-sena 1999. Fil-fatt għandna quddiemna xenarju ta' suq li jinvolvi proċess ta' bidla li jxejjen strateġija ta' *status quo*. Id-definizzjoni mill-ġdid ta' l-istrateġija tal-Kumpanija biex tikkonċentra fuq l-isforzi tagħna li nistabbilixxu attivitajiet bażiċi ġodda ppermettiet li l-Middle Sea tidħol għal strateġiji ta' tkabbir minn pożizzjoni ta' bażi konsolidata. Jiena nemmen li r-ristrutturazzjoni u l-ippjanar mill-ġdid iridu jibqgħu għaddejjin il-ħin kollu. Riżultati sodisfaċenti fin-negozju u qligħ tajjeb għall-azzjonisti setgħu jkunu sostnuti biss bis-saħħa ta' politika proattiva li taħtaf l-opportunitajiet kif ifiġġu f'ambjent dejjem jinbidel.

Is-saħħa fundamentali tan-negozju tagħna wasslet għal żjieda ta' 21% fil-Primjums Gross Miktubin fin-negozju ġenerali tul is-sena 1999 li b'kollox ammontaw għal Lm9.96 miljun (US$24.2 m). Il-profitti tal-Grupp qabel it-taxxa, li kienu Lm1.85 miljun (US$4.5 m), jitqabblu tajjeb mas-sena 1998 u jirreġistraw żjieda ta' 11.4%. Il-fondi ta' l-azzjonisti telgħu bi 22% għal Lm21.53 miljun (US$52.2 m). Il-qligħ fuq kull sehem tela' bi 13% għal 13.2ċ filwaqt li l-Valur ta' l-Assi Nett tela' għal Lm1.72 (US$4.2) fis-sena 1999.

B'dawn ir-riżultati f'idejna, bil-fiduċja tagħna fl-espansjoni kontinwa tan-negozju tagħna, u bir-riżultati pożittivi ta' l-ishma tal-Middle Sea kkwotati fil-Borża ta' Malta, il-Bord qed jirrikkmanda li jżid id-dividend finali b'ħamsa fil-mija għal 6.8ċ kull sehem (ekwivalenti għal 13.60% fuq il-valur nominali ta' kull sehem). Wara l-ħlas tad-dividend nett ta' Lm0.55 miljun (US$1.3m), il-grupp se jgħaddi 'l quddiem profitti miżmuma ta' Lm6.90 miljun (US$16.7 m). Dan jaqbel mal-prattika tad-dividendi tagħna.

Il-pass mgħaġġel tal-bidla fl-industrija tal-finanzi wasal f'Malta wkoll bil-parteċipanti fis-suq indiġenu jikkompetu ras imbras fis-suq kollu. F'dan l-isfond, aħna adottajna stil proattiv ta' amministrazzjoni maniġerjali li bih aħna sirna *leader* fis-suq. Il-Middle Sea daħlet fis-sena 1999 b'numru ta' objettivi importanti fil-qasam ta' l-operazzjonijiet lokali u barra mill-pajjiż. Ridna nwessgħu l-preżenza tagħna fl-assigurazzjoni tat-"tielet settur", l-aktar fl-assigurazzjoni tal-ħajja, fl-ippjanar ta' l-irtirar u fis-saħħa. Konna ħerqana li nespandu d-distribuzzjoni professjonali tagħna u niżviluppaw l-aġenziji fi ħdan il-Middle Sea Group. L-amministrazzjoni maniġerjali hi determinata li tkompli tibni fuq kultura li tagħti kas il-konsumatur u li togħla 'l fuq mill-Grupp biex tiżgura li l-prodotti tagħna jilħqu l-ħtiġiet dejjem jinbidlu tal-klijenti tagħna. Dan wasalna għalih ukoll bis-saħħa ta' xibka ta' intermedjarji marbutin magħna. L-istrateġija għat-tkabbir dehret sewwa tul is-sena għaliex ilħaqna l-parti kbira ta' l-objettivi kollha.





Is-suq ta' riassigurazzjoni kompla sejjer biċ-ċiklu negattiv tiegħu. Tul il-perijodu 1990-1998 is-suq ħabbat wiċċu ma' ħdaxil telfa li tqiesu ta' natura katastrofika. Fil-fatt, fir-rapport tiegħi tas-sena l-oħra kont għamilt referenza għal tnejn minn dawn it-telfiet, jiġifieri l-uragani "Georges" u "Mitch". Fis-sena 1999 biss, is-suq intlaqat minn erbataxil telfa katastrofika! Kellna t-terremoti fil-Kolombja, il-Greċja, it-Tajwan u t-Turkija, l-għargħar fil-Venezwela u numru ta' katastrofi marbutin mat-temp. Hu ċar, kif ġara fis-sena 1998, ir-riżultati pożittivi tagħna minn attivitajiet ta' sottoskrizzjoni lokali (Lm0.56 miljun) ntlaqtu ħażin mir-riżultati miksuba minn attivitajiet fis-suq tar-riassigurazzjoni internazzjonali għaliex kien irreġistrat telf totali ta' Lm0.24 miljun (US$0.6 m) fir-riżultat tekniku nett ta' sottoskrizzjoni wara li jitqiesu d-dħul u l-ispejjeż ta' l-investimenti.

Għalkemm ir-riżultat tekniku totali tas-sottoskrizzjoni tal-Middle Sea kien aktar dgħajjef, aħna bbenefikajna mir-riżultat eċċellenti ta' l-investimenti li jsostnuha. Is-sena 1999 kienet sena mħawwda ħafna għall-klassijiet ta' l-assi ewlenin. Is-swieq globali ta' stocks ħallew riżultati pożittivi solidi filwaqt li bonds globali taw riżultati negattivi u hekk is-swieq ta' l-istokks marru aħjar minn dawk tal-bonds u l-flus likwidi għall-ħames sena konsekuttiva.

Is-suq Ewropew ta' l-istokks mexa ´l quddiem b´riżultat ta' attivitajiet ta' inkorporazzjonijiet u akkwisti, filwaqt li ekonomiji fir-reġjun kollu bbenefikaw mill-irkuprar ta' l-ekonomija globali u l-kondizzjonijiet mlaħalħin monetarji. Fl-Istati Uniti, it-tlugħ fis-suq ta' l-istokks kien karatterizzat minn polarizzazzjoni sinifikanti tas-setturi u mmexxi ´l quddiem primarjament mit-tkabbir spettakolari fis-setturi ġodda bħalma huma t-telekomunikazzjoni u t-teknoloġija.

Fil-fatt, ir-riżultati fqar miksubin mis-swieq globali tal-bonds, f´sena li tinżel fl-istorja bħala waħda li tat l-aktar riżultati mill-agħar meta titqies f´termnini ta' liri Maltin, tefgħu lura l-qligħ ġenerali. Effettivament, is-swieq tal-bonds niżlu fis-sena 1999 quddiem il-prospetti ta' rati telgħin ikkawżati minn ambjent ekonomiku li qed jitjieb.

L-investimenti li jirfdu l-operat tagħna huma mifruxin lokalment u internazzjonalment; dan b´riżultat ta' l-opportunitajiet ta' investiment limitati lokali, it-tqabbil ma' passivi esteri u t-tifrix meħtieġ biex naslu għad-diversifikazzjoni. Qligħ fuq investimenti lokali fis-swieq ta' l-istokks u tal-bonds marru aħjar mill-portafolli barranin tagħna. Dan kollu ħalla qligħ ġenerali ta' 11.80% fuq l-investimenti wara li wieħed jeskludi qligħ kapitali mhux realizzati, u qligħ ta' 24.41% meta tinkludi qligħ kapitali mhux realizzati.

It-twaqqif tal-Middle Sea Valletta Life Assurance Co. Ltd (MSV) f´alleanza mal-Bank of Valletta plc u l-Munich Reinsurance Company ikompli jiġustifika id-deċiżjoni proattiva tagħna ta' Settembru 1994 meta wieħed iqis il-kontribut siewi li dan l-investiment qed jagħti lil-Middle Sea Group. Il-kumpanija, li fiha l-Middle Sea Insurance plc għandha sehem ta' 51%, żammet ir-ritmu sostenut ta' tkabbir bil-primjums annwali minn negozju għal medda ta' tul ta' żmien jitla' għal Lm13.5 miljun (US$32.7 m) u l-assi jilħqu livell record ta' Lm64 miljun (US$155.4 m) mis-sena 1994 ´l hawn.

F´dawn l-aħħar ħmistaxil xahar kienu allokati riżorsi aktar biex l-iskala ta' l-isfida tal-Y2K kellha tingħata prijorità għolja mill-amministrazzjoni maniġerjali u, bis-saħħa ta' approċċ diliġenti, il-Middle Sea għamlet it-tibdiliet kollha fiż-żmien meħtieġ. Din hi r-raġuni ta' spejjeż amministrattivi akbar minn dawk ta' l-erba' snin ta' qabel.

Fl-industrija in ġenerali, is-sena ġabet aktar inkorporazzjonijiet u xiri ta' kumpaniji fi żmien meta l-assiguraturi qed jippruvaw jamalgamaw biex ikollhom sehem akbar mis-suq. Fl-istess ħin aktar kumpaniji ta' assigurazzjoni qed jidħlu sħab ma' banek u istituzzjonijiet finanzjarji oħra biex ibigħu prodotti għal setturi speċjalizzati tas-suq waqt li assiguraturi 'virtwali' bdew joffru kwotazzjonijiet fuq l-Internet. Il-Middle Sea se tkompli tosserva dan l-iżvilupp importanti mill-qrib għaliex tagħraf ir-realtajiet fiż-żmien medju u fit-tul ta' metodi ta' distribuzzjoni ġodda.

Mad-dinja kollha l-industrija ta' l-assigurazzjoni għadha għaddejja minn perijodu ta' bidla sinifikanti, u aħna qed inkomplu ngħassu tajjeb għal opportunitajiet li jaqblu mad-direzzjoni strateġika tagħna. Għadd ta' inizjattivi korporattivi partikulari meħudin mill-Grupp juru l-ħila tagħna li nsaħħu l-operazzjonijiet eżistenti jew indaħħlu oħrajn skond ix-xewqa tagħna li nifirxu aktar in-negozju. L-iffokar fuq żviluppi magħżula b´għaqal, hija komponent importanti ta' l-istrateġija ġenerali tagħna.

F'dan ir-rapport aħna qegħedna d-Dikjarazzjoni ta' Missjoni u l-Filosofija tan-Negozju tagħna. Kif taraw, dawn jiffokaw b´mod ċar fuq l-apprezzament tan-nies professjonali u fuq il-valur għall-azzjonisti – kulma nagħmlu jrid imur biex ikabbar dawn il-valuri bis-saħħa tal-prodotti tagħna, tas-servizzi tagħna u tad-determinazzjoni tagħna li nirnexxu. Il-valur tal-kumpanija jikber biss jekk aħna nimmotivaw kontinwament l-impjegati tagħna u nagħtu lill-klijenti tagħna prodotti u servizzi innovattivi u kompetittivi b´modi ġodda li jiġbdu lill-konsumatur. It-tqegħid fuq quddiem tal-konsumatur huwa l-aħjar triq biex noħolqu valur reali għall-azzjonisti tagħna.

Intom tiftakru li fil-Laqgħa Ġenerali Straordinarja li saret fis-16 ta' Diċembru 1999 jien semmejtilkom li r-reġjun Euro-Mediterranju joffri ċerti opportunitajiet li jinteressawna. Parti sinifikanti mill-evoluzzjoni tagħna kienet il-ħruġ tal-liċenzja relattiva mill-Kummissjoni għas-Servizzi Finanzjarji ta' Ġibiltà u l-konsiderazzjoni li nibdew bl-operazzjonijiet tagħna bis-saħħa ta' l-akkwist ta' interess maġoritarju f´Mapfre Progress Assicurazioni SpA li topera l-aktar fl-Italja t'Isfel. Il-konsiderazzjonijiet kjavi fid-deċiżjonijiet dwar dħul fi swieq barranin jibqgħu d-daqs ta' l-ispiża, ir-rata ta' qligħ fuq investiment mistennija meta mqabbla mar-riskju ta' l-investiment, u fl-aħħarnett l-ambjent politiku u regolatorju fil-pajjiż li jilqgħek. Dan kollu juri li l-proġett tal-Millennju tal-Middle Sea huwa impenn serju, prudenti u professjonali ta' ħidma estensiva fi sforz biex jitkabbar id-dħul lokali u barrani tal-Grupp f´medda ta' żmien medju u fit-tul. Is-suċċess fil-ġejjieni tal-Grupp jiddependi għalkollox mill-ħila tagħna li nidħlu fi swieq primarji barranin, fejn nieħdu konsiderazzjoni tal-kompetittività tagħna f´din id-dimensjoni ġdida, flimkien ma' sħab internazzjonali identifikati li joffru s-sinerġija meħtieġa.

L'amministrazzjoni maniġerjali u l-impjegati tagħna huma ħerqana li jaħtfu dawn l-opportunitajiet li fihom kellhom rwol li m´hemmx prezzu. L-impenn tagħhom għas-suċċess futur tal-Grupp hu ċar u jien nirringrazzjahom għall-appoġġ kontinwu tagħhom biex jagħmlu isem il-Middle Sea rispettat fuq skala internazzjonali. Jien m'għandix dubju li dawn il-kwalitajiet se jagħtu l-ħila lill-Middle Sea Group biex jiffaċċja b'fiduċja kbira l-isfidi li hemm quddiemna. Jien grat lejn il-kollegi membri tal-Bord għall-kisbiet ta' l-imgħoddi u għall-impenn tagħhom biex niġġeneraw iżjed valur reali għal l'azjonisti tagħna.

M.C. Grech
Chairman & CEO

Board of Directors

1 Mr M.C. Grech - Group Chairman

Formerly: Managing Director of the Mediterranean Insurance Brokers Group, Director on the Board of M.I.B. (SpA), Mediterranean Survey Bureau Malta, International Business Authority and Chairman of the Malta Green Card Bureau, Governor on the Board of the Malta Financial Services Centre and President of the Malta Insurance Association.

Presently: Executive Chairman of the Mediterranean Insurance Training Centre, Deputy Chairman and C.E.O. of Middle Sea Valletta Life Assurance Co. Ltd, Governor on the Board of the Malta Arbitration Centre, Chairman and Managing Director of Growth Investments Ltd, Chairman of International Insurance Management Services Ltd, Chairman of Euroglobe Ltd, Life Vice President - Chartered Insurance Institute. Holds directorships on various company boards.

2 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 of UNIDO National Committee, member on the Boards of the Central Bank of Malta and the Malta Development Corporation.

Presently: Chairman of the Bank of Valletta Group and of Middle Sea Valletta Life Assurance Co. Ltd, Managing Director of Market Intelligence Services Co. Ltd, member of the Economic Affairs Committee of the Malta Chamber of Commerce.

3 Mr H. Attard Montalto

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

Presently: Director on various boards and Financial Controller.

4 Mr P. Borg

Presently: Managing Director of Bortex Clothing Ind. Co. Ltd

5 Mr G. Daboni

Formerly: Chief Underwriter of Generali - UK Branch

Presently: Executive Officer - Risk Management - UK Branch

6 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 Bank p.l.c.

Presently: Chairman APS Bank Ltd.

7 Mr R.R. Franke

Presently: Member of the Executive Management of Munich Reinsurance Company. Responsible for Munich Re operations in Portugal, Spain, Malta, Italy, Greece and Cyprus.

8 Mr J.V. Gatt B.A. (Hons) Econ., A.C.I.B.

Presently: General Manager Bank of Valletta p.l.c., Director of Middle Sea Valletta Life Assurance Co. Ltd., Bank of Valletta International Limited and Valletta Fund Management Limited.

9 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.

Presently: 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 Limited, Chairman International Advisory Board of FIMBANK. Holds directorships on various other company boards.

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

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

Presently: 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 a number of other company boards.

11 Mr M. Grima M.S. Dip B.M. (Henley)

Presently: Consultancy Manager, Bancassurance Office, Bank of Valletta p.l.c. Director of Bank of Valletta p.l.c. Trustee member of the BOV Employees Foundation.

12 Mr J.G. Hogg

Formerly: Director of Hogg Robinson Group, now part of AON, underwriting member of Lloyds 1951 to 1997, Chairman of the Gil Y Carajal p.l.c. (also now part of AON).

13 Mr F. Spiteri

Formerly: Council Chairman of Malta Drydocks, Chairman of the Mediterranean Insurance Training Centre, Vice President of the GWU and Section Secretary, Managing Director Mediterranean Survey Bureau Ltd, Electoral Commissioner. Board member of various companies.

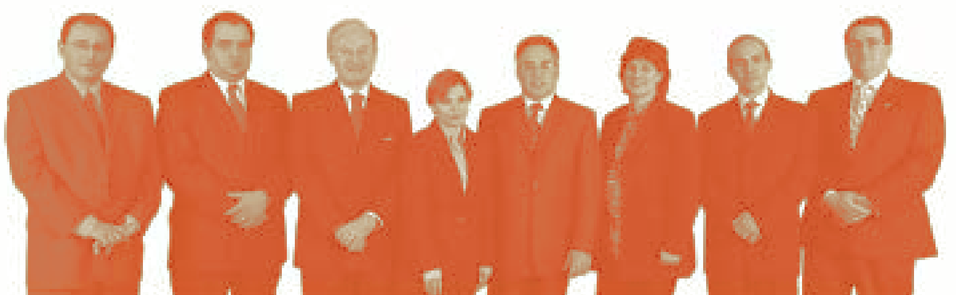
14 Mr L. Spiteri MA (Oxon)

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.

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

Business Review

During 1999, the Company went through further expansion in the local market by strengthening its already well established distribution network of agents and sub-agents. In the international reinsurance market it maintained its position in respect of premium income notwithstanding the difficulties experienced due to the inherent cycle of this business and the Company's prudent underwriting philosophy. This resulted in an overall increase, including long term business, of 21%. Annual business, consisting mainly of direct underwriting, increased by 35% whilst funded business decreased marginally by 2% and long term increased by 10%. The total gross premium income amounted to Lm10.40 million (US$ 25.2m) as compared to Lm8.60million (US$ 20.9m).



From left to right:
Simon Camilleri ACII, Chartered Insurer, Assistant General Manager-Marketing & Special Risks
Stephen Gauci ACII, Chartered Insurer - Assistant General Manager - International Operations
Terence G . Fairs ACII, Chartered Insurer - Assistant General Manager - London Branch
Marzena Formosa MA(Econ.) - Assistant General Manager-Investments
Joseph M. Rizzo ACII, AIMIS, AMIAP, General Manager
Anne Marie Tabone BA(Hons) Accty, MIA, CPA - Assistant General Manager -Finance
Joseph Avellino ACII, Chartered Insurer, Assistant General Manager - Technical Operations(Malta)
Evander M. Borg FCII, FRSA, MBA(Brunel-Henley) - Company Secretary

The net underwriting result emanating from annual business, after allocation of investment income, apportionment of expenditure and movement in equalisation reserve, was positive but reduced by 23%. The principal reasons for this deterioration were the adverse loss experience in the commercial property and the motor accounts. This source of business, which also includes residual marginal gains from the legal cession 'run-off', contributed 39% and 24% towards the profit before tax of the Holding Company and the Group respectively. Long term business produced a marginally smaller net profit and contributed 6% to the profit before tax of the Group. That part of the Company's portfolio which is accounted on a funded basis produced a negative result which outweighed any other technical profits, therefore rendering a net underwriting loss from operations. The release from the equalisation reserve set up last year has smoothened down this loss by approximately 50%. However, taking into consideration income arising out of the Holding Company's participating interest in Middle Sea Valletta Life Assurance Co. Ltd., the profit generated from insurance operations for the Holding Company amounted to Lm 0.32 million (US$ 0.78m), up by 29%.

Net technical provisions, after reinsurance and excluding the equalisation reserve, amounted to Lm10.10 million (US$ 24.5m), an increase of 17%. The reserve ratio of net technical provisions as defined above to the net premiums written (after reinsurance) is 194%.

The Holding Company's expenditure allocated to the technical operations amounted to Lm0.97 million (US$ 2.4m), an increase of 30% over the comparative 1998 figures and equates to 9.4% of premium income as compared to 8.6% the previous year. This increase not only reflects the growth in the Company's turnover but also the commitment to continue to improve the services to our valued customers together with the preparation required to fulfil the territorial expansion strategy.

The Group's investment fund at the end of 1999 grew to Lm31.9 million (US$ 77.3m), an increase of Lm5.50 million (US$ 13.2m) over 1998. Net investment income amounted to Lm3.34 million (US$ 8.1m), an improvement of Lm0.87 million (US$ 2.1m) over the previous year.

The Maltese economy registered sustained growth during 1999, mainly led by the exports sector. Although investment activity remained weak, signs of recovery were evident towards the end of the year. Securities listed on the Malta Stock Exchange registered an exceptional performance during 1999. Consequently the MSI Group realised capital gains from the sale of quoted securities. The sustained growth of Middle Sea Valletta Life Assurance Company Ltd., an associate company of the Group, also reflected positively on the investment return. Income from this company amounted to Lm1.01 million (US$ 2.5m), registering an increase of Lm0.3million (US$ 0.8m) over 1998.

The world economy registered an improving performance during 1999. Better economic prospects resulted in positive returns on equity. Conversely, prospects of rising interest rates deriving from the improving economic environment impacted negatively on bond market performance. Despite concerns of higher interest rates, global inflation remained muted as supply, boosted by technology, outstripped demand.

Business Review (cont)

The global recovery contributed positively towards generating new economic opportunities across Europe. Business confidence continued to improve and employment prospects looked brighter, thus supporting consumer confidence. Consequently, European equity markets rose markedly towards the end of the year, also reflecting significant activities by companies repositioning themselves in their drive towards improving return to their shareholders.

The US economy has shown few signs of slowing down during 1999. Despite higher interest rates during the year, the stockmarket moved ahead pulled up by extraordinary gains in telecom and tech stocks. However outside these sectors, many stocks have shown negative returns for the year.

Japan's economic performance remained weak as demand remained sluggish. Interest rates in the Japanese economy remained at record low. Despite retaining a cautious approach, many foreign investors found the Japanese equity market attractive with opportunities arising from technology and telecommunication sectors as well as from long established companies implementing on-going restructuring.

The positive performance achieved in investment income compensated for the negative results attained from operations. The Holding Company's pre-tax profit of LM1.11 million (US$ 2.7m) is only slightly more than what was achieved last year.

Local Operations

The local operations consist mainly of direct underwriting together with group life and indigenous reinsurance business. The run-off of the legal cession business remains a minor contributor to this source.

The premium written from the direct underwriting business has now reached the figure of Lm7.0 million (US$ 16.9m) a growth of 35% compared to only 8% the previous year. Total business emanating from this source amounted to 67% of the total turnover of the Company making it the largest contributor. This year the income includes premiums from private medical insurance which last year was negligible. This new component now forms 4% of premiums written.

The net underwriting result of Lm0.30 million (US$ 0.7m), after allocation of investment income and apportionment of expenditure, indicates a decrease of 25% from last year and results in a rate of return of 4% to premium income. The performance of the portfolio indicates that the losses incurred in the earlier part of the year affected the overall result. Recovery picked up during the second half of the year, but was once again slowed down by the November storms. The property and pleasure craft accounts produced net underwriting losses because of certain individual risk losses. The Motor account produced a loss due to frequency of claims rather than severity. Liability business continued to produce positive results and in fact contributed 52% of the total net underwriting result with miscellaneous accident second at 32%.

There was a general deterioration in the gross loss ratio of incurred claims to earned premiums for all classes. The property account was heavily affected by three substantial fire losses in the beginning of the year and subsequently by the November storm losses, which respectively accounted for 33% and 17% of the total claims incurred from this class. Total claims incurred in motor increased by another 50% and the gross loss ratio deteriorated by a further 13%. The major impact on this class was the adverse performance of the

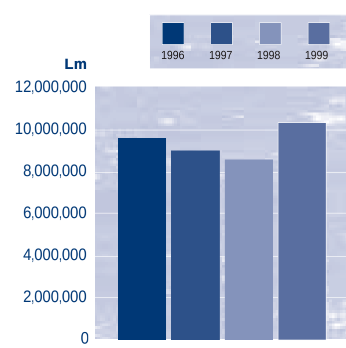
Local Operations (cont)

commercial and the comprehensive private motor business, the latter normally being a profitable account. Certain corrective changes to the pricing levels for this class had to be adopted, however care was taken not to penalise unduly those drivers with a good claims record. The Company is also taking the necessary steps to monitor closely and control further the escalating claims costs without compromising on the standard of service and quality of repair. These efforts are intended to benefit ultimately our customers.

Within the personal lines division, motor continues to be the dominant class of business at 47% of overall total turnover. Nevertheless, the portfolio has attained a better balanced composition of business from that registered in 1998. This was mainly due to an increase in its distribution network both in the appointment of new agents and in its number of sub-agents. In addition, the Company pursued growth by offering capacity to large industrial and commercial businesses. During the year, the Company continued with its strategy of refining existing products and developing new ones by introducing a new travel policy offering improved terms and service within this class. Gross premiums from the Company's activity in the indigenous reinsurance market dropped mainly due to the portfolio transfer to Middle Sea Insurance p.l.c. which followed the withdrawal of Assicurazioni Generali S.p.A. from the local market. This source produced a positive gross underwriting result but a net loss after investment income and allocation of expenditure.

Being a composite insurer the company continued to offer its services in group life business. This generated an increase in premium income of 10% with a net result of LM0.12 million (US$0.3m), after providing for actuarial liabilities.

The Company continues to pursue its objective of enhancing its share in the domestic market and maintaining profitability. This has become increasingly difficult due to market pressures in premium rates and deterioration in the loss experience. In fact, this has been evident in the results of 1999. During the forthcoming years, the underwriting philosophy will not change. It will emphasise more on prudent and consistent underwriting to achieve the desired results and consolidate a market share, which will be beneficial in our long term commitment within the domestic market.



Gross Premiums Written

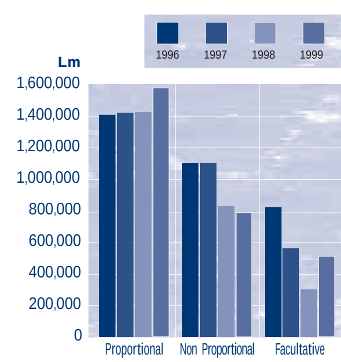
Overseas Operations

The performance of the Company's international reinsurance operations reflects the depressed rating environment for this sector of the market and an unusually high frequency of catastrophic events. Gross premiums written amounted to Lm2.86 million (US$ 6.9m), a 9% increase over 1998. Almost all of this growth was attributable to the re-establishment of the Company's facultative operations as a consequence of employing a specialist underwriter. On the treaty side, however, non-proportional volumes were down on 1998 levels, reflecting a further erosion of rates and an increased volume of business which did not meet the Company's strict underwriting criteria. At the same time, the Company's international reinsurance premium base was adversely affected by its tight and uncompromising approach to electronic date recognition exposures. Leading up to the important 1st January 2000 date change period, the Company was at the forefront of the market in developing and implementing a specific underwriting policy on such issues. Being, however, stricter than most other reinsurers, this resulted in the termination of some existing contracts and the declinature of new business, which did not satisfy the Company's requirements. The Company took the view, in determining its strategy, that it could not be unduly exposed to a potential claims scenario that the market itself was incapable of quantifying. Whilst no important date recognition incidents arose from the crucial 1st January and 29th February 2000 date changes, the Company's portfolio was especially well prepared for such contingency had the disasters predicted by many commentators actually occurred.

The 1999 year was marked by an exceptionally high frequency of natural disasters, a number of which impacted upon the international reinsurance account. These included earthquakes in Colombia, Turkey and Taiwan as well as a hailstorm in Australia. However, there was also a high frequency of windstorm losses including typhoons in South East Asia and Japan, hurricanes in the Caribbean and severe windstorms affecting Denmark and Southern Europe in the last month of the year. The floods, which devastated the northern part of Venezuela, also impacted upon the portfolio. As a consequence of the increased frequency of natural catastrophes experienced in 1998, the Company reviewed its protections and purchased additional cover for 1999. This led to the Company's loss position arising from the 1999 events being significantly mitigated. Whilst the Company's reinsurance outflows grew substantially over 1998, this increase was mainly attributable to a market hardening of retrocession prices. Together with cessions made to the Company's new Facultative Surplus Treaty, introduced at the end of 1998 to boost the Company's gross capacity, reinsurance costs increased over 1998 by some 73%.

Incurred losses for the Company's retained account increased by 39% to Lm2.9 million (US$ 7.0m) caused by the increased frequency of catastrophe events and some general deterioration in the portfolio. Despite a positive contribution by the Company's proportional treaty account, this resulted in the Company's net underwriting loss increasing, after administration expenses and investment income on cash flow and technical funds, to Lm1.56 million (US$ 3.8m) prior to the application of the equalisation reserve. The ratio of technical reserves to net premium income did, however, improve significantly over 1998, this relationship increasing from 215.5% to 263.7% in 1999.

The poor loss experience of 1999 has, of course, not only impacted upon the Company's own portfolio but has also affected the industry as a whole. Indeed, in respect of reinsurers who have so far published their 1999 results, significant operating losses are, in many cases, being suffered. At the same time, it was noted last year that the retrocession market started responding punitively to the bad experience it was suffering and all reinsurers will, to some degree or another, be hit by increased protection costs. Bearing in mind a number of the catastrophe losses which were sustained in 1999 had, when renewal prices for 2000 were being determined, either not actually occurred or were not fully developed, the market can expect an even greater reaction from retrocessionaires when prices are re-negotiated for 2001. The Company is convinced that these pressures allied with inadequate margins on inwards acceptances will accelerate a market recovery. Whilst there were some signs in the important 1st January treaty renewal period that the decline had been arrested and, in some cases, reversed, it is believed that increased shareholder pressure will give added impetus to an improved rating environment. We at Middle Sea, having an established position within the London Market, providing meaningful levels of capacity and enjoying strong broker support, should be well placed to benefit from the increased opportunities a hardening and stronger market will provide.



International Reinsurance Premiums Written

Agencies

Allcare Insurance Agency Limited
University Roundabout,
Msida
Tel: 226190 Fax: 226188

Allied Insurance Services Ltd
331, St Paul's Street,
Valletta.
Tel: 245710 Fax: 245713

Bonnici Insurance Agency Limited
222, The Strand,
Gzira
Tel: 339110 Fax: 310390

Contigen Insurance Agency Limited
164, Melita Street,
Valletta
Tel: 244759 Fax: 246860

Cordina Insurance Agency Limited
Kingsway Palace,
55, Republic Street,
Valletta
Tel: 224702 Fax: 225544

England Insurance Agency Limited
190, 1st Floor, Marina Street,
Pieta
Tel: 251015 Fax: 244507

Hayes Insurance Agency Limited
12/9, Vincenti Buildings,
Strait Street,
Valletta
Tel: 233849 Fax: 247402

Laferla Insurance Agency Ltd. **(agents for Marine)**
204A, Vincenti Buildings
Old Bakery Str.
Valletta
Tel: 224405 Fax: 240811

Melita Insurance Agency Limited
56/3, Transcontinental House,
Zachary Street,
Valletta
Tel: 223385 Fax: 231959

Rausi Insurance Services Limited **(agents for Marine)**
Sir Ugo Mifsud Street,
Ta' Xbiex
Tel: 330826 Fax: 330792

Unipol Insurance Services Limited
57, Market Street,
Floriana
Tel: 236363 Fax: 241954

Untours Insurance Agents Limited **(agents for non-Motor)**
South Street
Valletta
Tel: 231619 Fax:243796

Financial Highlights

	1999		1998	
	EURO '000	**US$ '000**	EURO '000	US$ '000
Gross premiums:				
General business	**24,009**	**24,149**	19,816	19,932
Life business	**961**	**966**	876	881
Total gross premiums	**24,970**	**25,115**	20,692	20,812
Group investment income	**8,054**	**8,101**	5,946	5,981
Profit before taxation	**4.470**	**4,496**	4,013	4,036
Gross dividend	**2,049**	**2,061**	1,959	1,970
Net dividend	**1,332**	**1,340**	1,273	1,281
Gross dividend per Lm 0.50 share	**0.16**	**0.16**	0.16	0.16
Net technical reserves:				
General business	**24,502**	**24,645**	23,014	23,148
Life business	**205**	**206**	190	191
Shareholders' funds	**51,917**	**52,219**	42,548	42,795
Net asset value per Lm 0.50 share	**4.15**	**4.17**	3.40	3.42
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 1999

Group results for the last three years

		1999 Lm	**1998 Lm**	**1997 Lm**
Gross premiums written:	Non life	9,958,170	8,219,194	8,643,121
	Life	398,437	363,167	379,706
General business technical results		(358,498)	(558)	193,514
Life business net results		117,818	130,973	(4,844)
Investment return - General		3,340,638	2,466,282	2,225,174
Investment return - Life		67,854	75,529	35,810
Profit before tax		1,854,075	1,664,487	1,384,104
Profit attributable to shareholders		1,650,657	1,457,150	832,306
Dividends paid (gross)		850,000	812,500	787,500
Earnings per share		13.2	11.7	8.9
Net asset value per share		1.72	1.41	1.36

Professional Services

The Company, in addition to its regular staff complement, as at 31 December 1999 utilised the professional services of various individuals and institutions.

Legal Advisors
Adrian Borg Cardona LL.M. (Lond.) LL.D.
Richard Camilleri LL.M. (Lond.) LL.D.

Auditors
PricewaterhouseCoopers (Malta)
PricewaterhouseCoopers (U.K.)

Actuaries
Watson Wyatt Worldwide

Bankers
APS Bank Limited
Banco di Sicilia S.p.A.
Bank of Valletta p.l.c.
Bank of Valletta International Limited
Lombard Bank Malta p.l.c.
HSBC Bank Malta p.l.c.
National Westminster Bank

Investment Managers
Merill Lynch Mercury Asset Management Limited

Investment Committee
Mario C. Grech (Chairman)
Sunny Borg
Reno Borg B.A. (Hons), M.A., LL.D
Louis Grech M.A. (Oxon)
Tony M. Meilaq CPAA, MBIM
Eric Pace Bonello
J. Rizzo ACII, AIMIS, AMIAP
J.F.X. Zahra B.A. (Hons) Econ M.A. (Econ) MCIM

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 Company as at 31 December 1999:

Mr Joseph V. Gatt	436 shares
Dr John C. Grech	5,000 shares
Mr Louis Grech	1,250 shares
Mr Mario C. Grech	2,725 shares
Mr Frans Spiteri	1,525 shares
Mr Joseph F.X. Zahra	165 shares

Shareholders holding 5% or more of the equity share capital as at 25 April 2000:

AirMalta p.l.c.	7.12%
Assicurazioni Generali S.p.A	7.00%
Government of Malta	21.00%
Bank of Valletta p.l.c.	21.00%
Munchener Ruckersicherungs Gesellschaft	12.73%

Shareholding Details:

As at 25 April 2000, Middle Sea Insurance p.l.c.'s Issued Share Capital was held by 2,322 shareholders. The Issued Share Capital consists of one class of ordinary shares with equal voting rights attached.

Distribution of shareholders as at 25 April 2000 analysed by range:

Range of shareholding	Total shareholders	Shares
1 - 500	1,109	262,882
501 - 1000	498	365,417
1001 - 5000	656	1,276,913
5001 and over	59	10,594,788

Company Secretary and Registered Office:

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

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 1999.

Principal activities

The principal activities of the group consist of the business of insurance, including long term business limited to group contracts, and of reinsurance operations.

Review of the business

The level of new business and the group's financial position remain satisfactory, and 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 Lm552,500 (1998 – Lm528,125) equivalent to a gross dividend of 6.8 cents per share (1998 – 6.5 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 (appointed 25 June 1999), P. Borg, G. Daboni, E.P. Delia B.A. (Hons.) Econ., M.A., M. Litt (Oxon), R.R. Franke, J.V. Gatt B.A. (Hons.) Econ., A.C.I.B. , J.C. Grech B.A.(Hons.) Econ., M.A.(Econ.), Dip. ICEI (A'dam), PhD (Geneva) (appointed 25 June 1999), L. Grech M.A. (Oxon), M. Grima Dip. M.S. , J.G. Hogg, E. Mizzi LL.D. (deceased 16 February 2000), F. Spiteri, L. Spiteri M.A. (Oxon) (appointed 25 June 1999), M. Azzopardi F.C.I.I. (resigned 25 June 1999), N. Grixti LL.D., Dip. Bus. Law & Acc. (resigned 25 June 1999), A. Mizzi (resigned 9 June 1999)

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 in Malta and in the United Kingdom, have indicated their willingness to continue in office.

By order of the board

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

Middle Sea House
Floriana
Malta

27 April 2000

Id-diretturi jippreżentaw ir-rapport taghhom u d-dikjarazzjonijiet finanzjarji awditjati ghas-sena li ghalqet fil-31ta'Diċembru 1999.

Attivitajiet prinçipali

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

Kif sejjer in-negozju

Il-livell ta' negozju ġdid u l-qaghda finanzarja tal-grupp baqghu sodisfaċenti, u d-diretturi jistennew li, safejn wiehed jista' jara, il-livell ta'attivita ta' bhalissa jinżamm kif inhu fil-ġejjieni.

RiΩultati u dividendi

Il-kont ta' qligh u telf jidher f'paġna 29. Id-diretturi jirrikkmandaw il-hlas ta' dividend nett ta' Lm552,500 (1998-Lm528,125) li hu ekwivalenti ghal dividend gross ta' 6.8 ċenteżmi kull sehem (1998 - 6.5ċ).

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 (appuntat 25 ta' Ġunju 1999), P. Borg, G. Daboni, E.P. Delia B.A. (Hons.) Econ., M.A., M. Litt (Oxon), R.R. Franke, J.V. Gatt B.A. (Hons.) Econ., A.C.I.B. , J.C. Grech B.A.(Hons.) Econ., M.A.(Econ.), Dip. ICEI (A'dam), PhD (Geneva) (appuntat 25 ta' Ġunju 1999), L. Grech M.A. (Oxon), M. Grima Dip. M.S., J.G. Hogg, E. Mizzi LL.D. (miet fis-16 ta' Frar 2000), F. Spiteri, L. Spiteri M.A. (Oxon) (appuntat 25 ta' Ġunju 1999), M. Azzopardi F.C.I.I. (irrizenja fil- 25 ta' Ġunju 1999), N. Grixti LL.D., Dip. Bus. Law & Acc. (irrizenja fil-25 ta' Ġunju 1999), A. Mizzi (irrizenja fid-9 ta' Ġunju 1999)

Skond l-Artikli ta' Assocjazzjoni tal-kumpanija d-diretturi kollha jirtiraw mill-kariga taghhom fil-Laqgha Ġenerali Annwali u jkunu jistghu jiġu eletti jew appuntati mill-ġdid. Dawk il-membri li jew ghal rashom jew flimkien ikollhom mhux inqas minn 7% tad-drittijiet ghall-voti totali jkollhom id-dritt li jappuntaw direttur, b'ittra indirizzata lill-kumpanija, iżda b'mod li dawk il-membri li ghandhom din il-perċentwali separatament huma obbligati jużaw dan id-dritt. Id-diretturi l-ohra jiġu eletti fil-Laqgha Ġenerali Annwali.

Awdituri

L-awdituri, PricewaterhouseCoopers f'Malta u fir-Renju Unit, wrew ir-rieda taghhom li jibqghu fil-kariga.

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 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 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 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 are properly safeguarded and that fraud and other irregularities will be prevented or detected.

Report of the auditors

To the Members of Middle Sea Insurance p.l.c.

We have audited the financial statements on pages 26 to 56. 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 1999 are disclosed in accounting policy 5 and note 19.

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 1999 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

Certified Public
Accountants and Auditors
Malta

Chartered Accountants and
Registered Auditors
London
U.K.

27 April 2000

Profit and loss account - Technical account - general business

Annual business

	Notes	Group and Company 1999 Lm	Group and Company 1998 Lm
Earned premiums, net of reinsurance			
Gross premiums written	1	**6,985,334**	5,180,890
Outward reinsurance premiums		**(3,933,089)**	(3,244,168)
Net premiums written		**3,052,245**	1,936,722
Change in the gross provision for unearned premiums		**(559,583)**	(312,205)
Change in the provision for unearned premiums, reinsurers' share		**355,893**	523,880
		(203,690)	211,675
Earned premiums, net of reinsurance		**2,848,555**	2,148,397
Allocated investment return transferred from the non-technical account		**531,083**	360,286
Total technical income		**3,379,638**	2,508,683
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		**3,811,137**	3,239,601
- reinsurers' share		**(2,108,285)**	(1,303,206)
		1,702,852	1,936,395
Change in the provision for claims			
- gross amount		**1,966,171**	(310,969)
- reinsurers' share		**(1,134,366)**	(236,878)
		831,805	(547,847)
Claims incurred, net of reinsurance		**2,534,657**	1,388,548
Net operating expenses	2	**484,264**	554,109
Change in the equalisation provision		**(77,270)**	-
Total technical charges		**2,941,651**	1,942,657
Balance on the technical account for general annual business (page 29)		**437,987**	566,026

Profit and loss account - Technical account - general business

Fund business

	Notes	Group and Company 1999 Lm	1998 Lm
Earned premiums, net of reinsurance			
Gross premiums written	1	**2,972,836**	3,038,304
Outward reinsurance premiums		**(1,004,066)**	(769,332)
Earned premiums, net of reinsurance		**1,968,770**	2,268,972
Allocated investment return transferred from the non-technical account		**606,655**	465,565
Total technical income		**2,575,425**	2,734,537
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		**4,256,344**	3,680,090
- reinsurers' share		**(1,754,918)**	(1,086,431)
		2,501,426	2,593,659
Change in the provision for claims			
- gross amount		**1,179,941**	205,145
- reinsurers' share		**(767,502)**	(750,794)
		412,439	(545,649)
Claims incurred, net of reinsurance		**2,913,865**	2,048,010
Net operating expenses	2	**1,227,553**	1,253,111
Change in the equalisation provision		**(769,508)**	-
Total technical charges		**3,371,910**	3,301,121
Balance on the technical account for general fund business (page 29)		**(796,485)**	(566,584)

Profit and loss account - Technical account - long term business

	Notes	Group and Company 1999 Lm	1998 Lm
Earned premiums, net of reinsurance			
Gross premiums written	1	**398,437**	363,167
Outward reinsurance premiums		**(206,601)**	(185,279)
Earned premiums, net of reinsurance		**191,836**	177,888
Investment income			
Income from other investments		**39,122**	38,669
Unrealised gains on investments		**28,732**	36,860
Other technical income, net of reinsurance		**289**	4,929
Total technical income		**259,979**	258,346
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		**118,817**	203,806
- reinsurers' share		**(56,292)**	(84,072)
		62,525	119,734
Change in the provision for claims			
- gross amount		**27,308**	(96,962)
- reinsurers' share		**(12,907)**	31,662
		14,401	(65,300)
Claims incurred, net of reinsurance		**76,926**	54,434
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance			
- gross amount		**13,580**	(367)
- reinsurers' share		**(5,724)**	(3,871)
		7,856	(4,238)
Net operating expenses	2	**57,379**	77,177
Total technical charges		**142,161**	127,373
Balance on the technical account for long term business (page 29)		**117,818**	130,973

Profit and loss account - Non-technical account

	Notes	Group 1999 Lm	Group 1998 Lm	Company 1999 Lm	Company 1998 Lm
Balances on technical accounts					
General business – annual (page 26)		**437,987**	566,026	**437,987**	566,026
General business – fund (page 27)		**(796,485)**	(566,584)	**(796,485)**	(566,584)
Long term business (page 28)		**117,818**	130,973	**117,818**	130,973
		(240,680)	130,415	**(240,680)**	130,415
Income from participating interest involved in long term business	3	**1,013,895**	691,878	**561,000**	118,575
Total income from insurance activities		**773,215**	822,293	**320,320**	248,990
Other investment income	3	**2,488,493**	1,941,539	**2,210,538**	1,963,619
Investment expenses and charges	3	**(161,750)**	(167,135)	**(161,750)**	(167,992)
Allocated investment return transferred to the general business technical account	3	**(1,137,738)**	(825,851)	**(1,137,738)**	(825,851)
Other income	4	**254,301**	200,691	**140,395**	98,317
Other charges		**(362,446)**	(307,050)	**(261,177)**	(215,968)
Profit on ordinary activities before tax	5	**1,854,075**	1,664,487	**1,110,588**	1,101,115
Tax on profit on ordinary activities	7	**(203,418)**	(207,337)	**(142,583)**	(173,511)
Profit for the financial year		**1,650,657**	1,457,150	**968,005**	927,604
Earnings per share	9	**13.2c**	11.7c	**7.7c**	7.4c

Statement of total recognised gains

	Notes	Group 1999 Lm	Group 1998 Lm	Company 1999 Lm	Company 1998 Lm
Revaluation surplus, net of deferred taxation	16	**950,765**	218,314	**2,546,083**	653,344
Group share of participating interests' reserves	16	**1,837,186**	157,588	**-**	-
Profit for the financial year		**1,650,657**	1,457,150	**968,005**	927,604
Total recognised gains		**4,438,608**	1,833,052	**3,514,088**	1,580,948

Balance sheet

	Notes	Group 1999 Lm	Group 1998 Lm	Company 1999 Lm	Company 1998 Lm
ASSETS					
Investments					
Land and buildings	11	**3,692,330**	5,340,332	**3,601,874**	5,249,876
Investments in group undertakings and participating interests	12	**6,211,581**	3,954,905	**6,378,898**	3,768,941
Other financial investments	13	**21,748,585**	16,917,313	**20,636,498**	16,247,605
Deposits with ceding undertakings		**202,506**	185,676	**202,506**	185,676
		31,855,002	26,398,226	**30,819,776**	25,452,098
Reinsurers' share of technical provisions					
Provision for unearned premiums		**1,310,089**	954,196	**1,310,089**	954,196
Long term business provision	18	**52,197**	46,473	**52,197**	46,473
Claims outstanding		**5,886,857**	3,972,082	**5,886,857**	3,972,082
		7,249,143	4,972,751	**7,249,143**	4,972,751
Debtors					
Debtors arising out of direct insurance operations					
- policyholders		**39,027**	50,246	**39,027**	50,246
- intermediaries		**2,019,485**	1,599,597	**2,019,485**	1,599,597
Debtors arising out of reinsurance operations		**2,582,619**	2,388,638	**2,582,619**	2,388,638
Amounts owed by group undertakings		**-**	-	**395,650**	324,636
Other debtors		**374,546**	289,106	**-**	-
Taxation recoverable		**525,734**	516,005	**549,748**	526,737
		5,541,411	4,843,592	**5,586,529**	4,889,854
Other assets					
Tangible assets	14	**546,148**	556,677	**529,691**	541,539
Cash at bank and in hand		**858,469**	474,256	**748,658**	302,931
		1,404,617	1,030,933	**1,278,349**	844,470
Prepayments and accrued income					
Accrued interest and rent		**341,108**	280,401	**329,274**	280,401
Deferred acquisition costs		**571,117**	436,836	**571,117**	436,836
Other prepayments and accrued income		**349,314**	340,449	**337,642**	325,161
		1,261,539	1,057,686	**1,238,033**	1,042,398
Total assets		**47,311,712**	38,303,188	**46,171,830**	37,201,571

Balance Sheet

	Notes	Group 1999 Lm	Group 1998 Lm	Company 1999 Lm	Company 1998 Lm
LIABILITIES					
Capital and reserves					
Called up share capital	15	**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	16	**7,194,192**	4,406,241	**6,169,560**	3,623,477
Profit and loss account		**6,896,858**	5,798,701	**5,223,860**	4,808,355
Total shareholders' funds		**21,533,550**	17,647,442	**18,835,920**	15,874,332
Technical provisions					
Provision for unearned premiums		**2,505,026**	1,945,443	**2,505,026**	1,945,443
Long term business provision	18	**137,089**	123,509	**137,089**	123,509
Claims outstanding		**14,711,286**	11,537,866	**14,711,286**	11,537,866
Equalisation provision	19	**143,316**	990,094	**143,316**	990,094
		17,496,717	14,596,912	**17,496,717**	14,596,912
Provisions for other risks and charges	20	**709,780**	508,069	**2,320,238**	1,219,559
Deposits received from reinsurers		**1,325,675**	999,220	**1,325,675**	999,220
Creditors					
Creditors arising out of direct insurance operations		**384,848**	372,858	**384,848**	372,858
Creditors arising out of reinsurance operations		**1,920,331**	1,588,755	**1,920,331**	1,588,755
Amounts owed to credit institutions	21	**1,500,000**	-	**1,500,000**	-
Amounts owed to participating interests		**392,482**	853,734	**380,502**	841,753
Proposed dividends		**552,500**	528,125	**552,500**	528,125
		4,750,161	3,343,472	**4,738,181**	3,331,491
Accruals and deferred income		**1,495,829**	1,208,073	**1,455,099**	1,180,057
Total liabilities		**47,311,712**	38,303,188	**46,171,830**	37,201,571

The financial statements on pages 26 to 56 were approved by the Board on 27 April 2000 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 1998		6,250,000	1,192,500	4,030,339	2,583,992	2,929,245	16,986,076
Revaluation surplus, net of deferred taxation	16	-	-	348,670	-	-	348,670
Group share of participating interests' reserves	16	-	-	157,588	-	-	157,588
Net gains not recognised in profit and loss account		-	-	506,258	-	-	506,258
Amount released on realisation of investments	16	-	-	(130,356)	-	-	(130,356)
Transfer to equalisation provision, net of deferred taxation	19	-	-	-	(643,561)	-	(643,561)
Transfer from statutory reserve	17	-	-	-	(1,940,431)	1,940,431	-
Dividends for 1998	10	-	-	-	-	(528,125)	(528,125)
Profit for the financial year		-	-	-	-	1,457,150	1,457,150
Balance at 31 December 1998		**6,250,000**	**1,192,500**	**4,406,241**	**-**	**5,798,701**	**17,647,442**
Balance at 1 January 1999		6,250,000	1,192,500	4,406,241	-	5,798,701	17,647,442
Revaluation surplus, net of deferred taxation	16	-	-	1,554,081	-	-	1,554,081
Group share of participating interests' reserves	16	-	-	1,837,186	-	-	1,837,186
Net gains not recognised in profit and loss account		-	-	3,391,267	-	-	3,391,267
Amount released on realisation of investments	16	-	-	(603,316)	-	-	(603,316)
Dividends for 1999	10	-	-	-	-	(552,500)	(552,500)
Profit for the financial year		-	-	-	-	1,650,657	1,650,657
Balance at 31 December 1999		**6,250,000**	**1,192,500**	**7,194,192**	**-**	**6,896,858**	**21,533,550**

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 1998		6,250,000	1,192,500	2,970,133	2,583,992	2,468,445	15,465,070
Revaluation surplus, net of deferred taxation	16	-	-	674,207	-	-	674,207
Net gains not recognised in profit and loss account		-	-	674,207	-	-	674,207
Amount released on realisation of investments	16	-	-	(20,863)	-	-	(20,863)
Transfer to equalisation provision, net of deferred taxation	19	-	-	-	(643,561)	-	(643,561)
Transfer from statutory reserve	17	-	-	-	(1,940,431)	1,940,431	-
Dividends for 1998	10	-	-	-	-	(528,125)	(528,125)
Profit for the financial year		-	-	-	-	927,604	927,604
Balance at 31 December 1998		**6,250,000**	**1,192,500**	**3,623,477**	**-**	**4,808,355**	**15,874,332**
Balance at 1 January 1999		6,250,000	1,192,500	3,623,477	-	4,808,355	15,874,332
Revaluation surplus, net of deferred taxation	16	-	-	2,913,828	-	-	2,913,828
Net gains not recognised in profit and loss account		-	-	2,913,828	-	-	2,913,828
Amount released on realisation of investments	16	-	-	(367,745)	-	-	(367,745)
Dividends for 1999	10	-	-	-	-	(552,500)	(552,500)
Profit for the financial year		-	-	-	-	968,005	968,005
Balance at 31 December 1999		**6,250,000**	**1,192,500**	**6,169,560**	**-**	**5,223,860**	**18,835,920**

Cash flow statement

	Notes	Group 1999 Lm	Group 1998 Lm	Company 1999 Lm	Company 1998 Lm
Operating activities					
Cash generated from/(used in) operations	22	**452,625**	(231,567)	**654,412**	(216,205)
Tax paid		**(27,007)**	(40,318)	**(23,011)**	(53,272)
Net cash generated from /(used in) operating activities		**425,618**	(271,885)	**631,401**	(269,477)
Investing activities					
Purchase of tangible assets		**(147,106)**	(175,413)	**(141,136)**	(155,661)
Purchase of investments		**(14,955,311)**	(6,856,318)	**(14,417,304)**	(6,820,468)
Disposal of tangible assets		**1,605**	10,311	**1,605**	10,311
Disposal of investments		**11,708,082**	8,560,287	**11,088,773**	8,267,219
Net cash (used in)/generated from investing activities		**(3,392,730)**	1,538,867	**(3,468,062)**	1,301,401
Financing activities					
Bank loan		**1,500,000**	-	**1,500,000**	-
Dividends paid		**(528,125)**	(511,875)	**(528,125)**	(511,875)
Net cash generated from/(used in) financing activities		**971,875**	(511,875)	**971,875**	(511,875)
Movement in cash and cash equivalents		**(1,995,237)**	755,107	**(1,864,786)**	520,049
Cash and cash equivalents at beginning of year		**5,541,058**	4,785,951	**5,224,569**	4,704,520
Cash and cash equivalents at end of year	23	**3,545,821**	5,541,058	**3,359,783**	5,224,569

Accounting policies

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

1. Basis of preparation

These consolidated financial statements comply with the Maltese Insurance Business Act, 1998 and the Maltese Companies Act, 1995, which require their preparation in accordance with International Accounting Standards. The consolidated financial statements are prepared under the historical cost convention as modified to include the revaluation of investments.

2. Form and content of these financial statements

The Maltese Insurance Business Act, 1998 governs the form and content of the financial statements.

Pending the formal issue of regulations in terms of this Act, the company has for the purpose of this year's financial statements followed directives, which are based on the draft regulations, issued to it by the Malta Financial Services Centre, the competent regulatory authority.

3. Basis of consolidation

The consolidated financial statements include the results, cash flows, statements of changes in equity and balance sheets of the company and its subsidiaries made up to 31 December. Intra-group transactions are eliminated on consolidation and all revenue and expenditure figures relate to external transactions only. Participating interests are accounted for using the equity method of accounting.

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.

(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 received or made as a result of portfolio transfers are accounted for as written premiums or outward reinsurance respectively. 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. Investment return

Investment return comprises investment income, including the group's share of 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.

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.

7. 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.

8. Investments

Investments in freehold properties are initially stated in the balance sheet at cost and are subsequently revalued at open market value as determined by independent professional advisers every five years. Net unrealised appreciations arising on revaluations are credited to a revaluation reserve and, to the extent that this is insufficient to cover any net deficits, are charged to the profit and loss account.

Investments in quoted shares and securities and units in unit trusts are stated at market value. Unquoted equities are stated at a directors' valuation. Net appreciations and deficits arising from movements in market or net book value are treated in the same manner as for investment properties.

9. 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 group's share of the in-force business valuation are credited or debited to reserves and are included in the balance sheet as part of the group's investments.

10. Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is calculated so as to write off the cost on a straight line basis over the expected useful economic lives of the assets concerned. Assets not yet in use are not depreciated.

The principal annual rates used for this purpose are:

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

11. 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.

12. 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 deposits or treasury bills which mature within three months.

13. 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.

Deferred income tax arising on the revaluation of investments is charged or credited directly to the revaluation reserve.

14. Borrowing costs

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

1. Segmental analysis

General business

Gross premiums written and gross premiums earned by class of business

	Group and Company			
	Gross premiums written		Gross premiums earned	
	1999 Lm	1998 Lm	**1999 Lm**	1998 Lm
Direct insurance				
Motor (third party liability)	**1,255,822**	925,472	**1,151,057**	890,928
Motor (other classes)	**2,008,337**	1,561,653	**1,840,795**	1,503,362
Fire and other damage to property	**1,910,878**	1,505,436	**1,786,508**	1,373,405
Other classes	**1,810,297**	1,188,329	**1,647,391**	1,100,990
	6,985,334	5,180,890	**6,425,751**	4,868,685
Reinsurance acceptances				
Motor (other classes)	**51,644**	180,353	**51,644**	180,353
Fire and other damage to property	**2,909,179**	2,763,037	**2,909,179**	2,763,037
Other classes	**12,013**	94,914	**12,013**	94,914
	9,958,170	8,219,194	**9,398,587**	7,906,989

All gross premiums written on direct general insurance business result from contracts concluded in or from Malta.

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

	Group and Company					
	Gross claims incurred		Gross operating expenses		Reinsurance balance	
	1999 Lm	1998 Lm	**1999 Lm**	1998 Lm	**1999 Lm**	1998 Lm
Direct insurance						
Motor (third party liability)	**1,075,772**	689,507	**270,635**	217,635	(92,027)	**(3,278)**
Motor (other classes)	**1,761,156**	1,263,731	**433,820**	367,241	(163,208)	**(85,486)**
Fire and other damage to property	**1,921,827**	661,893	**509,772**	402,473	(568,565)	**372,021**
Other classes	**1,018,553**	313,501	**444,669**	290,758	(16,287)	**172,949**
	5,777,308	2,928,632	**1,658,896**	1,278,107	(840,087)	**456,206**
Reinsurance acceptances						
Motor (other classes)	**215,972**	139,633	**30,766**	71,737	(189,813)	**(2,264)**
Fire and other damage to property	**5,194,939**	3,802,882	**1,205,605**	1,188,502	(1,327,725)	**(1,150,812)**
Other classes	**25,374**	(57,280)	**7,264**	49,438	(16,898)	**28,617**
	11,213,593	6,813,867	**2,902,531**	2,587,784	(2,374,523)	**(668,253)**

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

Notes to the financial statements

1. Segmental analysis - continued

Long term business

	Group and Company	
	1999	1998
	Lm	Lm
Gross premiums written		
Direct insurance	**385,547**	345,800
Reinsurance inwards	**12,890**	17,367
	398,437	363,167

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

	Group					
	Gross written premiums		Profit before taxation		Net assets	
	1999	1998	**1999**	1998	**1999**	1998
	Lm	Lm	**Lm**	Lm	**Lm**	Lm
Malta	**8,025,612**	6,056,571	**2,639,944**	2,639,017	**18,355,893**	13,963,355
London branch	**2,330,995**	2,525,790	**(785,869)**	(974,530)	**3,177,657**	3,684,087
	10,356,607	8,582,361	**1,854,075**	1,664,487	**21,533,550**	17,647,442

2. Net operating expenses

	Group and Company	
	1999	1998
	Lm	Lm
Acquisition costs	**2,393,906**	2,163,314
Change in deferred acquisition costs, net of reinsurance	**(12,072)**	104,191
Administrative expenses	**771,892**	634,139
Reinsurance commissions and profit participation	**(1,384,530)**	(1,017,247)
	1,769,196	1,884,397
Allocated to:		
Annual general business	**484,264**	554,109
Fund general business	**1,227,553**	1,253,111
Long term business	**57,379**	77,177
	1,769,196	1,884,397

Total commissions for direct business accounted for in the financial period amounted to Lm1,356,610 (1998 : Lm1,113,692).

3. Investment return

	Group		Company	
	1999 Lm	1998 Lm	**1999 Lm**	1998 Lm
Investment income				
Income from group undertakings	**-**	-	**250,000**	225,000
Income from participating interests	**-**	-	**561,000**	118,575
Income from land and buildings	**334,561**	363,206	**327,366**	356,662
Income from other investments	**884,333**	808,963	**831,048**	750,136
Interest receivable from group undertakings	**-**	-	**19,624**	13,062
Gains on the realisation of investments	**1,259,697**	768,813	**773,430**	618,759
Group share of participating interests' profit before tax	**1,023,797**	692,435	**-**	-
Value re-adjustment on investments	**-**	-	**9,070**	-
	3,502,388	2,633,417	**2,771,538**	2,082,194
Investment expenses and charges				
Investment management expenses, including interest	**161,750**	167,135	**161,750**	167,135
Value adjustment on investments	**-**	-	**-**	857
	161,750	167,135	**161,750**	167,992
Total investment return	**3,340,638**	2,466,282	**2,609,788**	1,914,202
Analysed between:				
Allocated investment return transferred to the general business technical account	**1,137,738**	825,851	**1,137,738**	825,851
Investment return included in the non-technical account	**2,202,900**	1,640,431	**1,472,050**	1,088,351
	3,340,638	2,466,282	**2,609,788**	1,914,202

4. Other income

	Group		Company	
	1999 Lm	1998 Lm	**1999 Lm**	1998 Lm
Management fees	**254,301**	200,691	**140,395**	98,317

5. Profit on ordinary activities before tax

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

	Group		Company	
	1999 **Lm**	1998 Lm	**1999** **Lm**	1998 Lm
Staff costs (note 6)	**682,093**	564,575	**650,488**	537,928
Auditors' remuneration	**16,400**	16,000	**15,100**	15,100
Depreciation (note 14)	**132,886**	121,260	**128,235**	116,646
Loss/(profit) on sale of tangible fixed assets	**23,144**	(8,569)	**23,144**	(8,569)
Exchange differences	**(112,166)**	73,726	**(112,166)**	73,726

6. Staff costs

	Group		Company	
	1999 **Lm**	1998 Lm	**1999** **Lm**	1998 Lm
Salaries	**660,940**	536,730	**631,388**	511,835
Social security costs	**54,528**	43,845	**52,475**	42,093
	715,468	580,575	**683,863**	553,928

Staff costs include Lm33,375 (1998: Lm16,000) which have been capitalised.

The average number of persons employed during the year was:

	Group		Company	
	1999	1998	**1999**	1998
Managerial	**23**	19	**21**	18
Technical	**33**	27	**33**	27
Administrative	**29**	31	**26**	28
	85	77	**80**	73

7. Tax on profit on ordinary activities

	Group		Company	
	1999 **Lm**	1998 Lm	**1999** **Lm**	1998 Lm
Current tax expense	**17,278**	91,340	**-**	89,952
Group's share of participating interests' taxation	**43,557**	32,438	**-**	-
Deferred tax expense (note 20)	**142,583**	83,559	**142,583**	83,559
	203,418	207,337	**142,583**	173,511

7. Tax on profit on ordinary activities - continued

The tax on the group's and company's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:-

	Group		Company	
	1999	1998	**1999**	1998
	Lm	Lm	**Lm**	Lm
Profit on ordinary activities before tax	**1,854,075**	1,664,487	**1,110,588**	1,101,115
Tax on ordinary profit at 35%	**648,926**	582,570	**388,706**	385,390
Permanent differences arising from:				
Dividends received from untaxed income	**(2,993)**	(2,993)	**(286,843)**	(91,043)
Provisions of Income Tax Act regulating long term business	**-**	128,926	**-**	(69,482)
Differences relating to accounting changes arising on new insurance legislation	**213,182**	-	**213,182**	-
Exempt capital gains	**(645,125)**	(511,124)	**(163,410)**	(59,921)
Other	**(10,572)**	9,958	**(9,052)**	8,567
	203,418	207,337	**142,583**	173,511

8. Directors' emoluments

	Group		Company	
	1999	1998	**1999**	1998
	Lm	Lm	**Lm**	Lm
Directors' emoluments under management and consultancy contracts	**30,771**	30,327	**30,771**	30,327

The company has paid insurance premiums of Lm3,981 (1998: Lm3,800) during the year in respect of professional indemnity insurance in favour of its directors.

9. 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	
	1999	1998	**1999**	1998
	Lm	Lm	**Lm**	Lm
Net profit attributable to shareholders	**1,650,657**	1,457,150	**968,005**	927,604
Weighted average number of ordinary shares in issue	**12,500,000**	12,500,000	**12,500,000**	12,500,000
Earnings per share	**13.2c**	11.7c	**7.7c**	7.4c

10. Dividends

	Group and Company	
	1999	1998
	Lm	Lm
Gross	**850,000**	812,500
Tax at source at 35%	**(297,500)**	(284,375)
	552,500	528,125
Proposed dividend per share (net)	**4c4**	4c2

11. Land and buildings

	Group	Company
	Freehold investment properties	
	Lm	Lm
Year ended 31 December 1999		
Opening net book amount	5,340,332	5,249,876
Additions	21,658	21,658
Disposals	(1,378,220)	(1,378,220)
Amount released on realisation of investments	(291,440)	(291,440)
Closing net book amount	**3,692,330**	**3,601,874**
At 31 December 1999		
Cost	2,233,649	2,177,225
Revaluation reserve	1,458,681	1,424,649
Net book amount	3,692,330	3,601,874
Year ended 31 December 1998		
Opening net book amount	5,221,727	5,073,727
Additions	181,805	176,149
Disposals	(32,048)	-
Amount released on realisation of investments	(31,152)	-
Closing net book amount	5,340,332	5,249,876
At 31 December 1998		
Cost	3,590,211	3,533,787
Revaluation reserve	1,750,121	1,716,089
Net book amount	5,340,332	5,249,876

The freehold properties were last revalued at 31 December 1997 by independent professional advisers on the basis of an open market valuation.

12. Investments in group undertakings and participating interests

	Group	Company		
	Participating interests Lm	Shares in group undertakings Lm	Participating interests Lm	Total Lm
Year ended 31 December 1999				
Opening net book amount	3,954,905	862,506	2,906,435	3,768,941
Additions	250	40,000	250	40,250
Movement in provision for diminution in value	-	2,999	6,071	9,070
Revaluation movements	-	341,312	2,219,325	2,560,637
Group's share of participating interests' profits and reserves	2,256,426	-	-	-
Closing net book amount	**6,211,581**	**1,246,817**	**5,132,081**	**6,378,898**
At 31 December 1999				
Cost	1,048,791	708,354	1,048,791	1,757,145
Provision for diminution in value	-	(82,731)	(3,252)	(85,983)
Revaluation reserve	-	621,194	4,086,542	4,707,736
Group's share of participating interests' profits and reserves	5,162,790	-	-	-
Net book amount	6,211,581	1,246,817	5,132,081	6,378,898
Year ended 31 December 1998				
Opening net book amount	3,285,895	864,635	2,264,135	3,128,770
(Transfers)/additions	(30,000)	43,129	(30,000)	13,129
Movement in provision for diminution in value	-	(1,905)	1,048	(857)
Revaluation movements	-	(43,353)	671,252	627,899
Group's share of participating interests' profits and reserves	699,010	-	-	-
Closing net book amount	3,954,905	862,506	2,906,435	3,768,941
At 31 December 1998				
Cost	1,048,541	668,354	1,048,541	1,716,895
Provision for diminution in value	-	(85,730)	(9,323)	(95,053)
Revaluation reserve	-	279,882	1,867,217	2,147,099
Group's share of participating interests' profits and reserves	2,906,364	-	-	-
Net book amount	3,954,905	862,506	2,906,435	3,768,941

12. Investments in group undertakings and participating interests - continued

The principal group undertakings at 31 December 1999 are shown below:

Group undertakings	**Registered office**	**Class of shares held**	**Percentage of shares held 1999**	Percentage of shares held 1998
Euroglobe Limited	Middle Sea House Floriana	Ordinary shares	100%	100%
International Insurance Management Services (Offshore) Limited	Middle Sea House Floriana	Ordinary shares	100%	100%
International Insurance Management Services Limited	Middle Sea House Floriana	Ordinary shares	100%	100%
Mediterranean Insurance Training Centre Limited	Europa Centre Floriana	Ordinary shares	100%	100%

The principal participating interests at 31 December 1999 are shown below:

Participating interests	**Registered office**	**Class of shares held**	**Percentage of shares held 1999**	Percentage of shares held 1998
Middle Sea Valletta Life Assurance Company Limited	Middle Sea House Floriana	Ordinary shares	51%	51%
Mediterranean Survey Bureau Limited	48, Lascaris Wharf Valletta	Ordinary 'A' shares	20%	20%
Churchwharf Properties Limited	Middle Sea House Floriana	Ordinary shares	50%	-

Middle Sea 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.

Lm6,458,042 (1998: Lm4,238,717) of the total investments held in participating interests relate to the company's investment in MSV. The profit after tax earned by MSV for the year ended 31 December 1999 was Lm1,902,627 (1998: Lm1,293,066).

12. Investments in group undertakings and participating interests - continued

A summary of the audited balance sheet at 31 December 1999 of Middle Sea Valletta Life Assurance Company Limited, which represents a significant investment to the group, is set out below:

	1999	1998
	Lm	Lm
Investments	**51,043,538**	31,971,155
Value of in-force business	**7,050,000**	3,978,000
Tangible fixed assets	**437,271**	286,586
Assets held to cover linked liabilities	**225,114**	-
Net current assets	**1,707,312**	919,574
Technical provisions	**(46,374,595)**	(28,778,809)
Amounts owed to credit institutions	**(3,000,000)**	-
Deferred taxation	**1,574,188**	(65,296)
Shareholders' funds	**12,662,828**	8,311,210
51% thereof relating to group	**6,458,042**	4,238,717
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	**(272,000)**	(299,200)
Amount at which the group's investment is carried in the consolidated balance sheet	**6,186,042**	3,939,517

13. Other financial investments

Group

	Quoted shares, other variable yield securities and units in unit trusts Lm	Quoted debt securities and other fixed income securities Lm	Unquoted shares & securities Lm	Deposits with credit institutions Lm	Total Lm
Year ended 31 December 1999					
Opening net book amount	1,585,706	8,492,490	772,316	6,066,801	16,917,313
Additions	6,779,248	8,154,155	-	-	14,933,403
Disposals	(2,272,003)	(6,502,012)	-	(2,629,449)	(11,403,464)
Revaluation surplus/(deficit)	1,671,816	(123,624)	182,920	-	1,731,112
Amount released on realisation of investments	(256,492)	(173,287)	-	-	(429,779)
Closing net book amount	**7,508,275**	**9,847,722**	**955,236**	**3,437,352**	**21,748,585**
At 31 December 1999					
Cost	5,900,057	9,762,859	203,321	3,437,352	19,303,589
Revaluation reserve	1,608,218	84,863	751,915	-	2,444,996
Net book amount	7,508,275	9,847,722	955,236	3,437,352	21,748,585
Year ended 31 December 1998					
Opening net book amount	2,470,143	9,484,050	672,356	3,015,281	15,641,830
Additions	1,687,348	3,887,166	100,000	3,051,520	8,726,034
Disposals	(2,570,674)	(5,157,130)	-	-	(7,727,804)
Revaluation surplus/(deficit)	48,212	341,378	(40)	-	389,550
Amount released on realisation of investments	(49,323)	(62,974)	-	-	(112,297)
Closing net book amount	1,585,706	8,492,490	772,316	6,066,801	16,917,313
At 31 December 1998					
Cost	1,392,812	8,110,716	203,321	6,066,801	15,773,650
Revaluation reserve	192,894	381,774	568,995	-	1,143,663
Net book amount	1,585,706	8,492,490	772,316	6,066,801	16,917,313

13. Other financial investments - continued

Company

	Quoted shares, other variable yield securities and units in unit trusts Lm	Quoted debt securities and other fixed income securities Lm	Unquoted shares & securities Lm	Deposits with credit institutions Lm	Total Lm
Year ended 31 December 1999					
Opening net book amount	1,175,932	8,377,975	772,060	5,921,638	16,247,605
Additions	6,353,941	8,001,455	-	-	14,355,396
Disposals	(2,140,506)	(6,500,466)	-	(2,560,513)	(11,201,485)
Revaluation surplus/(deficit)	1,457,284	(211,014)	182,920	-	1,429,190
Amount released on realisation of investments	(20,891)	(173,317)	-	-	(194,208)
Closing net book amount	**6,825,760**	**9,494,633**	**954,980**	**3,361,125**	**20,636,498**
At 31 December 1999					
Cost	5,432,074	9,510,159	202,300	3,361,125	18,505,658
Revaluation reserve	1,393,686	(15,526)	752,680	-	2,130,840
Net book amount	6,825,760	9,494,633	954,980	3,361,125	20,636,498
Year ended 31 December 1998					
Opening net book amount	2,009,862	9,381,404	672,100	2,971,538	15,034,904
Additions	1,644,024	3,887,166	100,000	2,950,100	8,581,290
Disposals	(2,491,330)	(5,157,130)	-	-	(7,648,460)
Revaluation (deficit)/surplus	(23,341)	329,509	(40)	-	306,128
Amount released on realisation of investments	36,717	(62,974)	-	-	(26,257)
Closing net book amount	1,175,932	8,377,975	772,060	5,921,638	16,247,605
At 31 December 1998					
Cost	1,218,639	8,009,170	202,300	5,921,638	15,351,747
Revaluation reserve	(42,707)	368,805	569,760	-	895,858
Net book amount	1,175,932	8,377,975	772,060	5,921,638	16,247,605

14. Tangible assets

Group

	Leasehold improve-ments Lm	Office furniture & equipment Lm	Property furniture & fittings Lm	Motor vehicles Lm	Total Lm
Year ended 31 December 1999					
Opening net book amount	215,929	290,908	40,769	9,071	556,677
Additions	19,096	110,044	1,782	16,184	147,106
Disposals	(13,000)	(247)	(62,409)	(6,502)	(82,158)
Depreciation charge	(8,033)	(107,785)	(8,362)	(8,706)	(132,886)
Depreciation released on disposals	5,715	202	44,990	6,502	57,409
Closing net book amount	**219,707**	**293,122**	**16,770**	**16,549**	**546,148**
At 31 December 1999					
Cost	333,702	1,067,962	97,163	92,983	1,591,810
Accumulated depreciation	(113,995)	(774,840)	(80,393)	(76,434)	(1,045,662)
Net book amount	219,707	293,122	16,770	16,549	546,148
Year ended 31 December 1998					
Opening net book amount	223,369	214,783	49,859	16,255	504,266
Net book value attributable to acquisition of subsidiary	-	16,242	-	549	16,791
Additions	1,387	153,025	4,210	-	158,622
Disposals	(655)	(11,652)	-	(5,617)	(17,924)
Depreciation charge	(8,172)	(92,055)	(13,300)	(7,733)	(121,260)
Depreciation released on disposals	-	10,565	-	5,617	16,182
Closing net book amount	215,929	290,908	40,769	9,071	556,677
At 31 December 1998					
Cost	327,606	958,165	157,790	83,301	1,526,862
Accumulated depreciation	(111,677)	(667,257)	(117,021)	(74,230)	(970,185)
Net book amount	215,929	290,908	40,769	9,071	556,677

14. Tangible assets - continued

Company

	Leasehold improvements Lm	Office furniture & equipment Lm	Property furniture & fittings Lm	Motor vehicles Lm	Total Lm
Year ended 31 December 1999					
Opening net book amount	215,929	275,770	40,769	9,071	541,539
Additions	19,096	104,074	1,782	16,184	141,136
Disposals	(13,000)	(247)	(62,409)	(6,502)	(82,158)
Depreciation charge	(8,033)	(103,134)	(8,362)	(8,706)	(128,235)
Depreciation released on disposals	5,715	202	44,990	6,502	57,409
Closing net book amount	**219,707**	**276,665**	**16,770**	**16,549**	**529,691**
At 31 December 1999					
Cost	333,702	1,018,471	97,163	88,251	1,537,587
Accumulated depreciation	(113,995)	(741,806)	(80,393)	(71,702)	(1,007,896)
Net book amount	219,707	276,665	16,770	16,549	529,691
Year ended 31 December 1998					
Opening net book amount	223,369	214,783	49,859	16,255	504,266
Additions	1,387	150,064	4,210	-	155,661
Disposals	(655)	(11,652)	-	(5,617)	(17,924)
Depreciation charge	(8,172)	(87,990)	(13,300)	(7,184)	(116,646)
Depreciation released on disposals	-	10,565	-	5,617	16,182
Closing net book amount	215,929	275,770	40,769	9,071	541,539
At 31 December 1998					
Cost	327,606	914,644	157,790	78,569	1,478,609
Accumulated depreciation	(111,677)	(638,874)	(117,021)	(69,498)	(937,070)
Net book amount	215,929	275,770	40,769	9,071	541,539

15. Share capital

	Group and Company	
	1999 Lm	1998 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

16. Revaluation reserve

	Group		Company	
	1999	1998	**1999**	1998
	Lm	Lm	**Lm**	Lm
Balance at 1 January before taxation	**4,771,044**	4,365,733	**4,759,046**	3,851,276
Revaluation surplus arising during the year	**1,731,112**	389,550	**3,989,827**	934,027
Amount released on realisation of investments	**(721,219)**	(141,827)	**(485,648)**	(26,257)
Group share of participating interests' reserves	**1,837,186**	157,588	**-**	-
Balance at 31 December before taxation	**7,618,123**	4,771,044	**8,263,225**	4,759,046
Deferred taxation	**(423,931)**	(364,803)	**(2,093,665)**	(1,135,569)
Balance at 31 December	**7,194,192**	4,406,241	**6,169,560**	3,623,477

The revaluation reserve is not a distributable reserve.

17. Other reserves

The statutory reserve was previously maintained in terms of the Maltese Insurance Business Act, 1981. Its use was discontinued by the Maltese Insurance Business Act, 1998.

In terms of the regulatory options available under the Insurance Business Act, 1998, the company utilised the statutory reserve in 1998 to introduce the equalisation provision which is required in terms of the Act as follows:

	1998
	Lm
Transfer to equalisation provision, equivalent to the maximum amount permissible	990,094
Deferred tax thereon	(346,533)
Net transfer from statutory reserve (note 19)	643,561

The balance remaining on the statutory reserve, after effecting the above, was transferred to retained earnings in 1998.

18. 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 1999. The net assets representing this long term business provision, which are included under the respective headings in the company's overall balance sheet, are as follows :

	Group and Company	
	1999 Lm	1998 Lm
Investments	**656,748**	538,120
Debtors	**23,409**	126,080
Cash at bank and in hand	**64,378**	38,757
Claims outstanding	**(16,158)**	(1,758)
Creditors	**(643,485)**	(624,163)
Long term business provision, net of reinsurance	**84,892**	77,036

19. Equalisation provision

As explained in accounting policy 5 on page 36, an equalisation provision is established in the financial statements. The effect of this provision is to reduce shareholders' funds by Lm93,155 (1998: Lm643,561). The decrease in the provision during the year had the effect of increasing the balance on the technical account for general business and the profit on ordinary activities before taxation by Lm846,778.

20. Provisions for other risks and charges

Deferred taxation

	Group		Company	
	1999 Lm	1998 Lm	**1999 Lm**	1998 Lm
Balance at 1 January	**508,069**	741,634	**1,219,559**	1,228,107
Movements during the year :				
Profit and loss account	**142,583**	83,559	**142,583**	83,559
Tax effect of revaluation of investments (note 16)	**59,128**	29,409	**958,096**	254,426
Arising on equalisation provision (note 17)	**-**	(346,533)	**-**	(346,533)
Balance at 31 December	**709,780**	508,069	**2,320,238**	1,219,559

20. Provisions for other risks and charges - continued

Deferred taxation is calculated on all temporary differences under the liability method using a principal tax rate of 35% (1998: 35%). The year end balance comprises:

	Group		Company	
	1999 Lm	1998 Lm	**1999 Lm**	1998 Lm
Temporary differences on fixed assets	**29,802**	31,488	**29,802**	31,488
Temporary differences on provisions of Income Tax Act regulating insurance Business	**-**	(272,001)	**-**	(272,001)
Temporary differences on unrealised capital and exchange gains	**723,115**	663,987	**2,392,850**	1,434,754
Temporary differences on unutilised tax losses	**(119,931)**	-	**(119,931)**	-
Other temporary differences	**76,794**	84,595	**17,517**	25,318
Balance at 31 December	**709,780**	508,069	**2,320,238**	1,219,559

21. Amounts owed to credit institutions

	1999 Lm	1998 Lm
Long term		
Bank loan	**1,500,000**	-

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

The interest rate exposure of the borrowings of the company was as follows:-

	1999 Lm	1998 Lm
At floating rates	**1,500,000**	-

Weighted average effective interest rates:

	1999	1998
Bank loan	**5.28%**	-

Maturity of long term borrowings:

	1999 Lm	1998 Lm
Between 2 and 5 years	**1,500,000**	-

22. Cash generated from/(used in) operations

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

	Group		Company	
	1999	1998	**1999**	1998
	Lm	Lm	**Lm**	Lm
Profit on ordinary activities before tax	**1,854,075**	1,664,487	**1,110,588**	1,101,115
Adjustments for:				
Profits retained in associated undertakings	**(462,797)**	(573,860)	**-**	-
Depreciation	**132,886**	121,260	**128,235**	116,646
Loss/(profit) on sale of tangible fixed assets	**23,144**	(8,569)	**23,144**	(8,569)
Provision for diminution in value of investments	**-**	-	**(9,070)**	857
Gains on the realisation of investments	**(1,305,848)**	(768,813)	**(819,581)**	(618,759)
Movements in :				
Deposits with ceding undertakings	**(16,830)**	125,917	**(16,830)**	125,917
Reinsurers' share of technical provisions	**(2,276,392)**	(1,483,761)	**(2,276,392)**	(1,483,761)
Debtors and prepayments and accrued income	**(891,943)**	(846,525)	**(798,285)**	(867,806)
Amounts owed by group undertakings	**-**	-	**(71,014)**	(104,438)
Technical provisions	**2,899,805**	109,052	**2,899,805**	109,052
Deposits received from reinsurers	**326,455**	422,723	**326,455**	422,723
Creditors and accruals and deferred income	**631,322**	887,557	**618,608**	871,854
Amounts owed to participating interests	**(461,252)**	118,965	**(461,251)**	118,964
Cash generated from/(used in) operations	**452,625**	(231,567)	**654,412**	(216,205)

23. Cash and cash equivalents

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

	Group		Company	
	1999 **Lm**	1998 Lm	**1999** **Lm**	1998 Lm
Cash at bank and in hand	**858,469**	474,256	**748,658**	302,931
Time deposits and treasury bills maturing within three months	**2,687,352**	5,066,802	**2,611,125**	4,921,638
	3,545,821	5,541,058	**3,359,783**	5,224,569

24. Financial instruments

Derivative financial instruments

The group did not make use of derivative financial instruments during the year ended 31 December 1999 (1998 - nil).

Foreign exchange risks

The group's exposure to foreign exchange risks is managed through a combination of:

(a) maintaining a portion of the company's investments, as would equate to the company'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 which determines the value of the Maltese Lira.

Credit risk

Financial assets which potentially subject the company to concentration of credit risk consist principally of investments and debtors. The company's financial investments are held with quality financial institutions and other issuers. Debtors are presented net of an allowance for doubtful debts. Credit risk with respect to debtors is limited due to the large number of customers comprising the company's debtor base and the company has no significant concentration of credit risk.

Fair values

At 31 December 1999 and 1998, the carrying amount of the group's assets and liabilities approximated their fair values.

25. Capital commitments

	Group and Company	
	1999 **Lm**	1998 Lm
Authorised and not contracted for	**310,000**	159,000

26. Contingencies

The company has given guarantees to third parties amounting to Lm25,000 (1998: Lm25,000) not arising under contracts of insurance.

27. Related party transactions

The company has an agreement with one of its associated undertakings for the sharing of certain common administrative costs.

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

28. Statutory information

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

Middle Sea Insurance p.l.c.

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