



MIDDLE SEA INSURANCE

Annual Report & Financial Statements 2000



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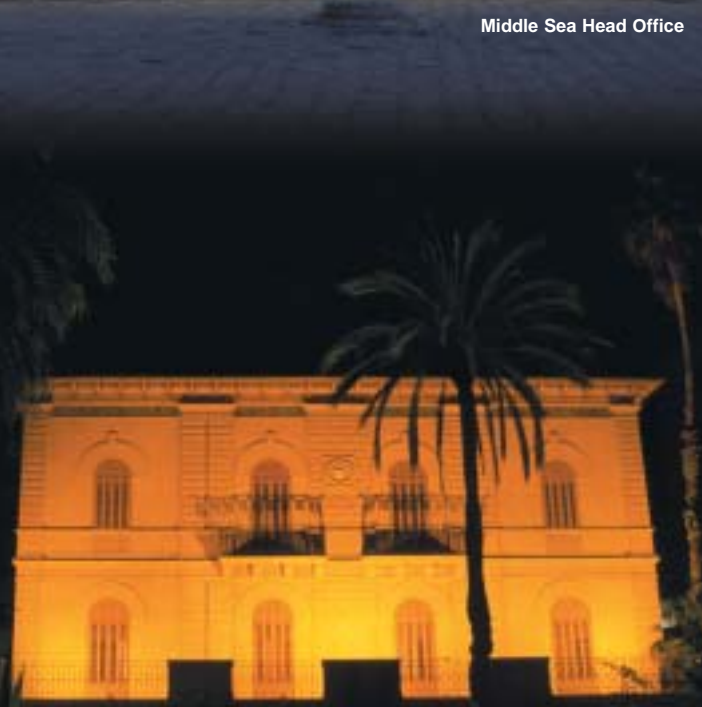
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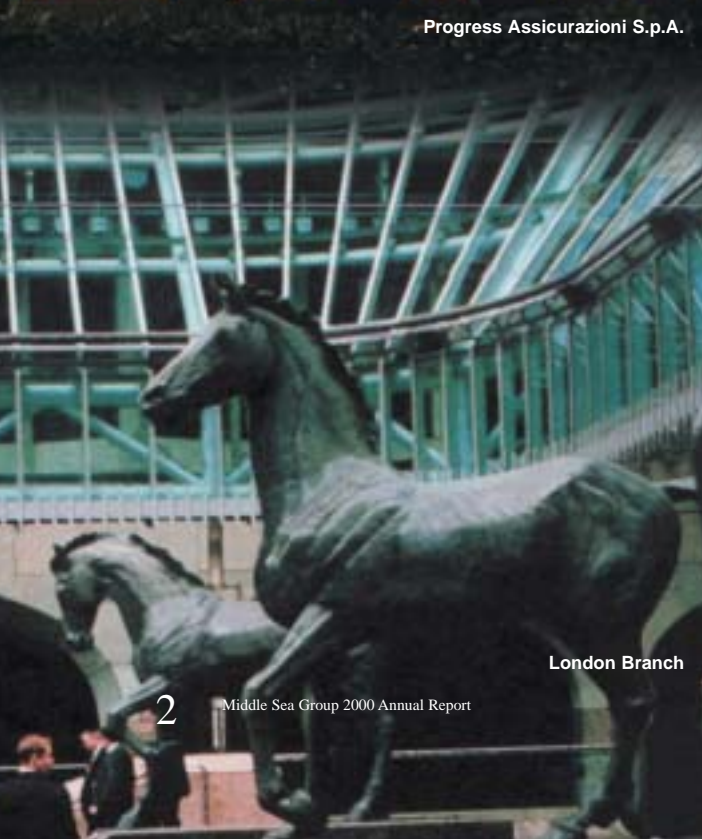
Middle Sea Insurance p.l.c.



Middle Sea Head Office



Progress Assicurazioni S.p.A.



London Branch

Mission Statement

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

Business Philosophy

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

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

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

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

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

Chairman's Statement

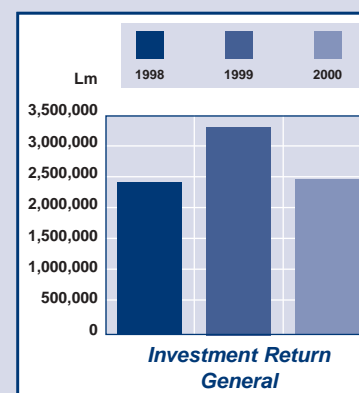
The Group has experienced significant change this year with the withdrawal from International Reinsurance acquisition of a majority interest in Progress Assicurazioni S.p.A and the opening of a branch operation in Gibraltar. Seen holistically, Middle Sea's 19th year of operation has produced results that are reflective of the persistently cut-throat competitive market both in insurance and reinsurance as well as the deterioration in local and overseas capital markets.

The profit after tax for the year was of Lm0.77m (US\$1.76m). The operating profit on ordinary activities before tax dropped by 24% to Lm1.4m (US\$3.19m) as compared to Lm1.8m (US\$4.11m) the previous year with underlying earnings per share decreasing to 6.2c. After consolidation of accounts, the Company achieved a positive result in Gross Premiums Written in general business, which amounted to Lm15.1m (US\$34.48m), an increase of 51.7% over 1999. Shareholders' Funds grew by 6% to Lm23.3m (US\$53.20m), and the total assets increased by Lm25.8m (US\$58.91m) to Lm73.2m (US\$167.13m). The Net Asset Value increased by 5.7% to Lm1.86 as at December 2000.

In line with Middle Sea's dividend policy, the Board is recommending to maintain the final dividend at the same level as that distributed for 1999 of 6.8c gross dividend per share. This is equivalent to a return of 13.6% on the nominal value of each share.

With the market for financial products and services changing rapidly, Middle Sea has acted decisively to keep the initiative and maintain its strong position. It is clear that changes in legislation, technology, customers' expectations and competitive pressures will result in further changes in the retail financial services in local and overseas markets. With the actions we have taken over the last two years, we are confident that we can compete in this environment. What has differentiated us is that, despite the many changes to our practices and procedures, we have sought to maintain our focus on customer service, within the framework of our new strategy where our core operation has changed from that of a reinsurer to an insurer and financial services provider.

In view of the consolidation in the reinsurance markets through mergers and acquisitions, Middle Sea's dependence on retrocession protections and the inherent significant increases in retrocession costs, besides the persistent negative results in this specialised business, the Board decided to withdraw from reinsurance business in London. Hence following representations to the UK Financial Services Authority, the Company voluntarily withdrew its capacity from the London Market as from 1 November 2000, thereby discontinuing its underwriting activities in the London Branch. As a consequence of this withdrawal, in accordance with International Accounting



Chairman's Statement - continued

Standards, the company absorbed in the financial year 2000 a non-recurrent net provision of Lm0.52m (US\$1.19m) covering the run-off period.

Exceptional volatility in foreign equity investments was a major feature during the year 2000. Stock markets were under pressure from the unexpectedly rapid decline in US growth. There was a sharp drop in the value of technology and telecommunications stocks. This reflected the growing nervousness over the sustainability of future earnings growth in these sectors. While the equity markets suffered, bonds delivered positive returns during the final quarter of the year. This was derived from an improved interest rate sentiment and under-performance of equity assets. Consequently the bond yields fell further. Local equities and bonds displayed a sluggish performance in sharp contrast to their excellent returns in 1999. Despite the negative underlying trends and difficult investment scenario the overall investment return was in accordance with that projected, although lower than in 1999 which benefited from unrealised capital gains.

The depressed capital market significantly influenced the contribution of Middle Sea Valletta Life Assurance Co. Ltd to the Group's overall profit. In fact, the Group's share of profits from this specialised life company decreased by Lm0.81m (US\$1.85m) to Lm0.19m

(US\$0.43m). Indeed this reduction has significantly affected this year's Group profit.

Upon adoption of its turnaround strategy, a decision instigated in part by the wave of deregulation and liberalisation of the financial sector in Malta in 1992, Middle Sea successfully established itself as a leading insurer in its home market. The objective was to turn Middle Sea from an international reinsurer into a direct insurer in Malta, and to develop a strategy for overseas expansion in primary markets with particular emphasis on the Euro-Med region. This was a complex exercise that required the Company to refocus its core operations and establish a network of tied intermediaries. Our first venture into this field was obtaining a license from the Gibraltar Financial Services Commission to operate a branch in Gibraltar. Mascarenhas Insurance and Finance Ltd was appointed as representative agents for the new branch in Gibraltar to underwrite most classes of business.

A simultaneous process of seeking the right strategic partners with whom synergy existed was carried out in order to be able to enter other identified primary markets overseas. This was achieved through the acquisition of a 51% shareholding in Progress Assicurazioni S.p.A., a company operating in the south of Italy and Sicily. This acquisition was attained, partly through the subscription of shares in the company, and partly through the

Chairman's Statement - continued

purchase of shares from Corporacion Mapfre Compania Internacional de Reaseguros S.A. This acquisition was structured in a manner that ensures the Group is not exposed to any financial or insurance risks relating to the period prior to acquisition. Our move into mainland Europe is significant. It provides us with a foothold in markets, including the E.U., that will be of increasing importance over the coming years. It is intended that in the medium to long term, Progress will serve as a platform for the provision of financial services by the Group in Southern Italy and Sicily.

One of the prime movers that urged Middle Sea to enter these new ventures was that the expected premium income to be generated by the Group's acquisitions in the primary insurance market would exceed the premium income attributable to reinsurance business from which the company is withdrawing. The Board believes that these events will give valuable opportunities; indeed we are already experiencing encouraging results.

Every endeavour is being made to improve the technical results of our core operations, both in Malta and overseas. Consolidation through selective underwriting will be implemented even at the cost of a reduced market share.

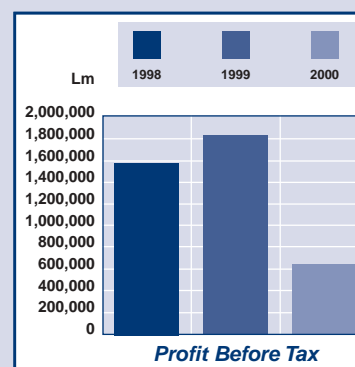
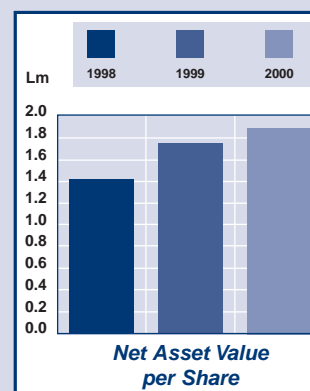
Middle Sea continues to seek and identify international partners who offer the required synergy to

realise further expansion within the Euro-Med region with a total focus in primary insurance markets. Our commitment to our shareholders is to maximise the value over time of their investment. Our continued cost control efforts bring promising prospects for future consolidation through our utilisation of the subsidiary International Insurance Management Services Ltd. The Board of Directors and Management are confident that the Company has been placed on a solid foundation with the full implementation of the new strategy. With prudent optimism, we feel confident of achieving the desired result of enhancing our shareholders' real value notwithstanding a most challenging business scenario in the short to medium term. The Directors, Management and staff are fully conscious of this uphill task.

In conclusion, I thank my colleagues on the Board of Directors, the Management team and staff for their prevailing determination and efforts to succeed and your continued confidence in the Company and the Group.



M.C. Grech
Chairman & CEO



Stqarrija taç-Chairman

Din is-sena l-Grupp għadda minn tibdiliet sinifikanti, bl-irtirar minn-negozju ta' riassigurazzjoni Internazzjonali bl-akkwist ta' interess maġoritarju fi Progress Assicurazioni S.p.A. u l-ftuh ta' fergħa f'Ġibiltà. Meta thares lejha b'mod globali, id-dsataxil sena ta' l-operat tal-Middle Sea tat riżultati li jirriflettu s-suq li baqa' joffri pressjonijiet kompetittivi kemm fl-assigurazzjoni u r-riassigurazzjoni u kemm fid-deterjorament fis-swieq kapitali lokali u barranin.

Il-profitt qabel it-taxxa għas-sena kien Lm0.77m (US\$1.76m). Il-profitt mill-operat fuq attivitajiet ordinarji qabel it-taxxa niżel b'24% għal Lm1.4m (US\$3.19m) mqabbel ma' Lm1.8m (US\$4.11m) is-sena ta' qabel; il-qligħ li jissottoskrivi kull sehem naqas għal 6.2ç. Wara l-konsolidament tal-kontijiet, il-Kumpanija waslet għal riżultat pożittiv fil-Primjums Sottoskritti Gross fil-każ tan-negozju ġenerali li ammonta għal Lm15.1m (US\$34.48m), żjieda ta' 51.7% fuq l-1999. Il-Fondi ta' l-Azzjonisti telgħu b'6% għal Lm23.3m (US\$53.20m), u l-assi totali żdiedu b'Lm25.8m (US\$58.91m) għal Lm73.2m (US\$167.13m). Il-Valur ta' l-Assi Nett tela' b'5.7% għal Lm1.86 f'Diċembru 2000.

Konformi mal-prattika tal-Middle Sea dwar dividendi, il-Bord

irrikkmanda li jżomm id-dividend finali fl-istess livell ta' dak imqassam għall-1999, jiġifieri dividend gross ta' 6.8ç kull sehem. Dan hu ekwivalenti għal qligħ ta' 13.6% fuq il-valur nominali ta' kull sehem.

Is-suq tal-prodotti u servizzi finanzjarji qed jinbidel il-hin kollu, u għalhekk il-Middle Sea aġixxiet b'mod determinat biex iżżomm f'idejha l-inizjattiva u l-pożizzjoni soda tagħha. Hu ovvju li bdil fil-leġislazzjoni, teknoloġija, aspettattivi tal-konsumaturi u pressjonijiet kompetittivi se jġibu tibdiliet ohra fis-swieq lokali u barranin tas-servizzi finanzjarji lill-pubbliku. Dak li għamilna f'dawn l-aħhar sentejn jagħtina l-fiduċja li nistgħu nikkompetu f'dan l-ambjent. Fejn imxejna b'mod differenti minn haddiehor hu li, minkejja l-hafna bidliet fil-prattiki u l-proċeduri, ahna ppruvajna nibqgħu niffokaw fuq servizz ta' kwalita lill-klijent fil-qafas ta' l-istrateġija ġdida tagħna li biha l-operazzjonijiet bażiċi tagħna nbidlu minn dawk ta' riassigurat u għal assigurat u provveditur ta' servizzi finanzjarji.

Fid-dawl tal-konsolidament fis-swieq internazzjonali b'raggruppamenti u akkwisti, id-dipendenza tal-Middle Sea fuq il-protezzjoni tar-retroċessjoni u ż-żjiediet sinifikanti fl-ispejjeż li gġib magħha, minbarra r-riżultati

Stqarrija ta' Chairman - tkompli

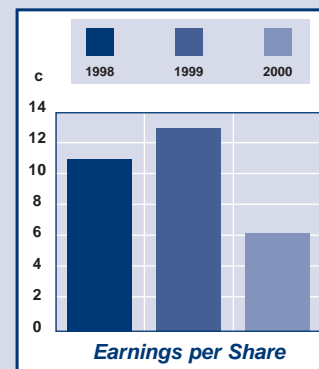
negattivi persistenti f'dan in-negozju speċjalizzat, il-Bord iddeċieda li jirtira minn negozju ta' riassigurazzjoni f'Londra. Ghalhekk, wara rappreżentazzjonijiet lill-UK Financial Services Authority, il-Kumpanija rtirat minn neġożju tagħha fis-Suq ta' Londra mill-1 ta' Novembru 2000 u hekk qatgħet il-hidmiet ta' sottoskrizzjoni fil-Fergħa ta' Londra. B'konsegwenza ta' dan l-irtirar, skond l-International Accounting Standards, fis-sena finanzjarja 2000 il-kumpanija assorbiet proviżzjoni netta li mhix rikorrenti ta' Lm0.52m (US\$1.19m) li tkopri l-perijodu sakemm l-impenji tagħha f'dan in-negozju jingħalqu għalkollox.

Is-sena 2000 kienet karatterizzata minn ċaqliq eċċezzjonali f'investimenti ta' ishma. Swieq ta' stokks kellhom pressjoni mill-inżul mgħaġġel u mhux mistenni fit-tkabbir Amerikan. Kien hemm waqgħa qawwiya fil-valur ta' ishma fit-teknoloġija u fit-telekomunikazzjoni. Dan irrifletta n-nervożiżmu dejjem jikber dwar kemm jista' jibqa' jkun sostnut fil-futur it-tkabbir ta' qligh f'dawn is-setturi. Waqt li s-swieq ta' ishma soffrew telf, bonds taw riżultati pożittivi fl-aħhar tliet xhur tas-sena. Dan ġara mhabba rati ta' interess ahjar u mhabba l-fatt li assi ta' l-ishma ma marrux daqshekk tajjeb. B'konsegwenza ta' dan, il-qligh

mill-bonds kompla jinżel. Ishma u bonds lokali ddgħajjfu, kuntrarjament għall-qligh eċċellenti li kienu hallew fl-1999. Minkejja xejriet negattivi u xenarju ta' investment diffiċli, il-qligh ġenerali mill-investimenti mar kif kien proġettat għalkemm inqas mill-1999 meta bbenefika minn qligh kapitali mhux realizzat.

Is-suq kapitali depress influwenza sewwa l-kontribut tal-Middle Sea Valletta Life Assurance Co. Ltd għall-profitt ġenerali tal-Grupp. Infatti, is-sehem tal-Grupp mill-profitti minn din il-kumpanija speċjalizzata ta' assigurazzjoni tal-hajja niżel b'Lm0.81m (US\$1.85m) għal Lm0.19m (US\$0.43m). Fil-fatt, din ir-riduzzjoni affettwat b'mod sinifikanti l-profitti tal-Grupp għal din is-sena.

Wara li adottat l-istrategija ta' bidla ta' direzzjoni, deċiżjoni mehuda parzjalment mhabba l-mewġa ta' deregolamentazzjoni u liberalizzazzjoni tas-settur finanzjarju f'Malta fl-1992, il-Middle Sea stabbiliet ruhha b'suċċess bhala l-assiguratur ewlieni fis-suq domestiku tagħha. L-oġġettiv kien li l-Middle Sea tinbidel minn riassigurat internazzjonali f'assigurat dirett f'Malta, u biex tkun żviluppata strategija għal espansjoni barra minn Malta fi swieq primarji b'enfasi partikolari fuq ir-reġjun



Stqarrija ta' Chairman - tkompli

Ewro-Mediterraneu. Dan kien eżerċizzju kumpless li htieg li l-Kumpanija tiffoka b'mod ġdid l-operazzjonijiet bażiċi tagħha u tistabbilixxi grupp ta' intermedjarji marbutin magħha. L-ewwel intrapriża f'dan il-qasam kienet l-akkwist ta' liċenzja mill-Financial Services Commission ta' Ġibiltà biex inhaddmu fergħa f'Ġibiltà. Mascarenhas Insurance and Finance Ltd nhatru aġenti rappreżentattivi għall-fergħa ġdid f'Ġibiltà biex tissottoskrivi l-parti l-kbira tal-kategoriji ta' negozju.

Fl-istess hin kien għaddej proċess biex jinstabu soċji strateġiċi adattati u b'sinergija komuni biex nistgħu nidhlu fi swieq primarji magħżulin ohra barra minn Malta. Dan intlaħaq bis-saħħa ta' l-akkwist ta' 51% ta' l-ishma ta' Progress Assicurazioni S.p.A., kumpanija li topera fin-nofsinar ta' l-Italja u fi Sqallija. Dan l-akkwist sar parzjalment bis-saħħa ta' sottoskrizzjoni ta' ishma fil-Kumpanija, u parzjalment bix-xiri ta' ishma mill-Corporacion Mapfre Compania Internacional de Reaseguros SA. Dan l-akkwist kien strutturat b'mod li jiżgura li l-Grupp ma jkunx espost għal riskji finanzjarji jew ta' assigurazzjoni konnessi mal-perijodu qabel l-akkwist. Id-dhul tagħna fl-Ewropa kontinentali hu sinifikattiv. Dan jagħtina preżenza fis-swieq, inkluż dak ta' l-Unjoni Ewropea, li għandhom ikunu ta'

importanza dejjem tikber tul is-snin li ġejjin. Hu mahsub li f'medda ta' żmien minn medja għat-tul, Progress isservi ta' targa għall-provvediment ta' servizzi finanzjarji mill-Grupp fl-Italja tan-Nofsinar u fi Sqallija.

Wahda mill-affarijiet li heġġu lill-Middle Sea tidhol għal dawn l-intrapriži kienet li d-dhul mill-primjum mistenni li jinholq mill-akkwisti tal-Grupp fis-suq ta' assigurazzjoni primarja jaqbez id-dhul mill-primjum li kien jiġi min-negozju ta' riassigurazzjoni li l-kumpanija qed tirtira minnu. Il-Bord jemmen li dawn l-avvenimenti jholqu opportunitajiet ta' siwi; fil-fatt diġà qed naraw riżultati inkoraġġanti.

Qed isir kull sforz biex jittejjbu r-riżultati tekniċi ta' l-operazzjonijiet bażiċi tagħna, kemm f'Malta u kemm barra. Il-konsolidament permezz ta' sottoskrizzjoni selettiva jrid isir mqar jekk a spejjeż ta' sehem inqas mis-suq.

Il-Middle Sea tkompli tfittex u tidentifika soċji internazzjonali li joffru s-sinergija meħtieġa biex naslu għal espansjoni akbar fir-reġjun Ewro-Mediterraneu ffokat totalment fuq swieq ta' assigurazzjoni primarja. L-impenn tagħna lill-azzjonisti hu li maż-żmien inkabbru kemm nistgħu l-valur ta' l-investment

Stqarrija ta' Chairman - tkompli

taghhom. L-isforzi kontinwi taghna biex nikkontrollaw l-ispejjeż iġibu maghhom prospetti promettenti ghal konsolidament futur bis-sahha ta' l-użu tas-sussidjarja taghna International Insurance Management Services Ltd. Il-Bord tad-Diretturi u l-Management huma fiduċjużi li l-Kumpanija tqieghdet fuq sisien solidi bl-implimentazzjoni ta' l-istrateġija l-ġdida. Ahna nhossuna fiduċjużi, b'ottimiżmu prudenti, li niksbu r-rizultat mixtieq li nkabbru l-valur reali ta' l-azzjonisti taghna minkejja xenarju ta' negozju li joffri sfidi mill-akbar f' medda ta' żmien medju.

Naghlaq billi nirringrazzja lill-kollegi tieghi fil-Bord tad-Diretturi, il-grupp tal-Management u l-impjegati għad-determinazzjoni li ghandhom u għall-isforzi taghhom biex ikollna suċċess, u lill-fiduċja kontinwa taghkom fil-Kumpanija u fil-Grupp.

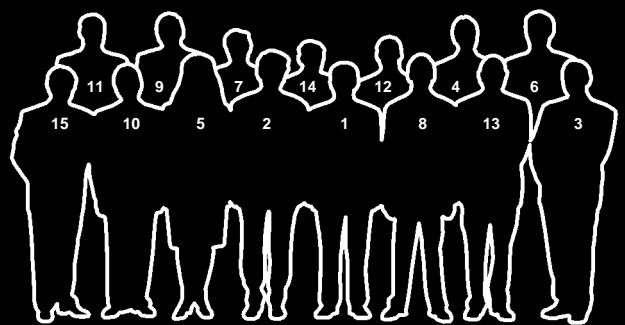


M.C. Grech
Chairman & CEO



Middle Sea Insurance p.l.c.

Board of Directors



Board of Directors

- 1. Mr. M.C. Grech - Group Chairman**
Formerly: Managing Director of the Mediterranean Insurance Brokers Group, Director on the Board of 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.
- At present:* President of Progress Assicurazioni S.p.A., 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., and Euroglobe Ltd., Director of Malta International Insurance Training Centre, and Malta College of Arts Science and Technology, President of the Malta Insurance Association, Life Vice President - Chartered Insurance Institute U.K. 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.
- At present:* Chairman of the Bank of Valletta Group and Middle Sea Valletta Life Assurance Co. Ltd., Deputy Chairman of Middle Sea Insurance p.l.c., Managing Director of Market Intelligence Services Co. Ltd. and MISCO International Ltd., Director of Progress Assicurazioni SpA, Council Member of the Malta Chamber of Commerce, Chairman of the Financial Services Trade Section and member of the Economic Affairs Committee within 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.
- At present:* Director on various boards and Financial Controller.
- 4. Mr. P. Borg**
At present: Managing Director of Bortex Clothing Ind. Co. Ltd.
- 5. Dr. E. Caruana Demajo LL.D.**
At present: Served as a Director on the Middle Sea Board as from May 2000
- to date. An advocate in civil and commercial practice.
- 6. Mr. G. Daboni**
Formerly: Chief Underwriter of Generali - UK Branch.
- At present:* Executive Officer - Risk Management - UK Branch.
- 7. 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.
- At present:* Chairman APS Bank Ltd.
- 8. Mr. R.R. Franke**
At present: Member of the Executive Management of Munich Reinsurance Company, Munich. Responsible for Munich Re operations in Portugal, Spain, Malta, Italy, Greece and Cyprus.
- 9. Mr. J.V. Gatt B.A. (Hons) Econ, A.C.I.B.**
At present: 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.
- 10. Dr. J.C. Grech M.A.(Econ.), Dip.I.C.E.I. (A'dam), Ph.D. (Geneva), F.C.I.B., M.B.I.M., F.M.I.M.**
Formerly: Chairman of the Malta External Trade Corporation, Deputy Chairman of the Malta Development Corporation, Director on the board of the Malta Freeport Corporation, Chairman of Bank of Valletta Group of Companies, Chairman of Middle Sea Valletta Life Assurance Co. Ltd., Founding President of the Maltese Australian Chamber of Commerce, Founding President of the Mediterranean Bank Network.
- At present:* Chairman of the Malta Tourism Authority, Member of the Advisory Board of the Mediterranean Academy of Diplomatic Studies, Chairman & Managing Director of EMCS Ltd., Chairman Unipol Insurance Services Limited, Chairman International Advisory Board and member of the Board of Directors of FIMBANK. Holds directorships on various other company boards.
- 11. Mr. L. Grech M.A. (Oxon)**
Formerly: Chief Executive and/or Director on various Air Malta subsidiaries and Associated Companies.
- At present:* Chairman of the Air Malta Group of Companies, Chairman of Air Supplies and Catering Co. Ltd., Hal Ferh Holidays Co. Ltd., Selmun Palace Hotel Co. Ltd., Tigne Development Co. Ltd., Sterling Travel and Tourism Co. Ltd., and Holiday Malta Co. Ltd., Accor-Air Malta Co. Ltd. and Malta Air Charter Co. Ltd. and several associated companies. He is also a Director on the Board of Medavia Co. Ltd., Dragonara Casino Ltd. and Flight Catering Co. Ltd. and various other company boards.
- 12. Mr. M. Grima DIP. M.S., M.B.A. (Henley)**
Formerly: Trustee member of the BOV Employees Foundation.
- At present:* Assistant General Manager, Bancassurance Office, Bank of Valletta p.l.c., Director of Bank of Valletta p.l.c.
- 13. Mr. J.G. Hogg**
Formerly: Director of Hogg Robinson Group, now part of AON, underwriting member of Lloyds 1951 to 1997.
- 14. 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.
- 15. 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.
- At present:* 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

Last year marked a watershed in the Group's development, the year 2000 having seen an important shift in emphasis between the Group's direct operations and its involvement in international reinsurance. On the one hand, as an integral part of the Group's strategy to expand in Euro-Med primary markets, the establishment of a Branch office in Gibraltar and the significant acquisition during the year of Progress Assicurazioni S.p.A. boosted the Group's direct premium income. However, in so far as international reinsurance business is concerned, the Board took the decision to discontinue the Group's historical involvement in this area.

The Group's gross income, substantially lifted by its new ventures in Gibraltar and Italy, increased to Lm15.55m (US\$35.50m), a 50% improvement over 1999. In addition to

income of Lm1.50m (US\$3.42m) produced by the Gibraltar Branch, the Italian subsidiary generated, in respect of the post-acquisition part of the year, some Lm2.20m (US\$5.02m) of premium whilst the Group's domestic operations grew by Lm1.33m (US\$3.04m) to Lm8.32m (US\$18.99m), a 19% increase over 1999. Local reinsurance contributed Lm0.20m (US\$0.46m) whereas group life business increased by 11% to Lm0.44m (US\$1m) and premium income from international reinsurance grew marginally to Lm2.91m (US\$6.64m).

The Group's overall net underwriting result, after the allocation of investment income, apportionment of direct expenditure and application of the equalisation reserve, improved over 1999 to a breakeven position. The comparative figures for 1999 and 2000 are affected by the significant reduction in

contribution from the equalisation reserve, which is now fully exhausted. The Group's direct underwriting and group life activities experienced some worsening in performance. This was mainly attributable respectively to an increase in the loss ratio for motor business and an exceptional increase in the incidence of group life claims. The local reinsurance account did, however, make a small net underwriting profit although this was lower than last year. The international reinsurance business, whilst still sustaining a loss for the year 2000, showed a marked improvement over 1999. This was mainly due to the significantly lower number of catastrophes occurring in 2000 when compared to 1999. A technical profit of Lm0.38m (US\$0.87m) was recorded by Progress Assicurazioni S.p.A. on consolidation of the last three months of 2000 which has impacted favourably on the Group's overall performance. The total income from insurance activities taking account of the Group's share of participating interest's profit before tax involved in long term business decreased by Lm0.40m (US\$0.91m) to Lm0.11m (US\$0.25m). This result was significantly affected by the underlying investment performance of the Group's specialised life company, Middle Sea Valletta Life Assurance Co. Ltd. The Group's pre-tax net profit after minority interest and after taking into account a one-off provision of Lm0.52m (US\$1.19m) for the run-off on the international reinsurance account was Lm0.63m (US\$1.44m) as compared to Lm1.84m



Middle Sea Insurance p.l.c. - Staff

Business Review - continued

(US\$4.20m) registered in 1999. Post-tax profits amounted to Lm0.77m (US\$1.76m) as against Lm1.63m (US\$3.72m) in 1999.

Net technical provisions as at the end of 2000 totalled Lm22.63m (US\$51.67m), an increase of 120.8% over 1999. This increase is mainly due to the consolidation of Progress's figures into the Group accounts. As previously noted, the equalisation reserve has now been wholly used, last year's residual balance of Lm0.14m (US\$0.32m) having been released into this year's results. As at the end of 2000, the reserve ratio of net technical provisions, as defined above, to net written premiums (after reinsurance) was 262 %.

The Holding Company's

expenditure, excluding the provision for the international reinsurance run-off, amounted to Lm1.30m (US\$2.97m), an increase of 5.5% over 1999. This does, however, equate to a reduced percentage of premium income which, at 9.7%, compares favourably against last year's ratio of 11.9%.

The Group's total investments at the end of 2000, grew by 45.9% to Lm46.66m (US\$106.53m), an increase of Lm14.68m (US\$33.52m) over 1999. Most of this growth is attributable to the consolidation of Progress Assicurazioni S.p.A's investments. Despite negative underlying trends and a difficult investment environment, the overall investment return, excluding returns from

participating interest, although lower than 1999, was Lm2.22m (US\$5.07m). In addition the Group also registered an unrealised capital gains of Lm0.97m (US\$ 2.21m)

In the year 2000 stock markets suffered high levels of volatility world-wide. The performance of leading stock exchange indices was greatly effected by the speed and the extent of the slowdown in the US economy. Whilst the international equity markets have declined sharply, bonds delivered positive results in the last quarter of the year reflecting a lower interest rate environment.

Local equity and bond markets produced a dull performance in 2000 contrary to the excellent results experienced in 1999.

Middle Sea Insurance p.Lc. - Management



Left to right:

Simon Camilleri ACII Chartered Insurer Assistant General Manager Marketing & Special Risks,
Anne Marie Tabone B.A.(Hons.)Accty, MIA,CPA - Assistant General Manager - Finance,
James Mallia B.Com,B.A.(Hons.)Accty, MIA,CPA Senior Executive Manager - Accounts ,
Elizabeth Carbonaro FCCA,MIA Senior Executive Manager - Accounts,
Bernard Fenech AIMIS,MIAP Senior Executive Manager - Management Information Services,
Joseph M.Rizzo ACII,AMIS,AMIAP - General Manager,
Peter Spiteri FCII Chartered Insurer - Senior Executive Manager - Reinsurance,
Marzena Formosa M.A. (Econ.) Assistant General Manager - Investments,
Patrick Muscat ACII Chartered Insurer Senior Executive Manager - Claims,
Ana Cristina Zammit Munro B.A.(Hons.) Mgmt,MBA(Marketing) Senior Executive Manager - Marketing Research and Development,
Joseph Avellino ACII Chartered Insurer Assistant General Manager - Technical Operations

Domestic Business

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

Direct Underwriting

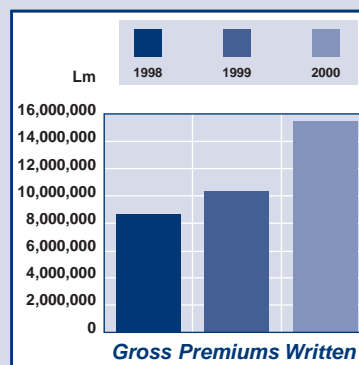
Domestic premiums written in the direct underwriting account, now comprising 62.2% of the Company's turnover, were Lm8.31m (US\$18.97m), some Lm1.33m (US\$3.04m) higher than 1999 and representing a 19.1% increase. Most classes registered increases in volume over last year with the exception of accident and marine hull and cargo. The most significant growth was achieved in the motor and health accounts, the latter

having almost tripled in size.

The net underwriting result, before the effect of the equalisation reserve, was a marginal profit of Lm0.02m that compares unfavourably with last year's profit of Lm0.31m. This deterioration in experience reflects the diminishing margins currently inherent in the motor class. This category presently comprises some 50.4% of the total business written and it follows that any adverse development of the motor loss ratio will impact detrimentally on the portfolio as a whole. This is precisely the effect seen in the 2000 accounts with profits made in all of the other categories having been negated by the performance of the motor account.



Middle Sea Valletta Life Assurance Co. Ltd. - Staff



Domestic Business - continued

The gross loss ratio of incurred claims to earned premiums reduced slightly with fire, accident, engineering and marine hull all having registered improvements over 1999. There was, however, a small deterioration in the claims position for marine cargo, liability and motor. There were two significant fire losses during the year, both reserved at Lm0.20m (US\$0.46m). The motor loss ratio deteriorated and the Company is continuing to apply corrective measures aimed at securing a positive technical result. These essentially entail a continuous review of selection criteria. Having identified its agency network as a contributor to its disappointing motor result, the Company has been working closely with its agents to identify and address problem areas.

Although international mergers have reduced the number of carriers now represented by local agents, competition remains fierce and, as a result, premium rates continue to come under pressure.

Group Life

As a composite insurer, the Company provides group life insurance facilities to its clients. Gross premiums written in this category during 2000 increased over 1999 levels to Lm0.44m (US\$1m), representing an 11% improvement. Whilst few insurers operate in this sector of the market, competition remains strong for what is essentially a relatively small client base. The year 2000 was marked by a record number of individual claims and, as a result, the gross incurred loss

ratio increased from an average of some 36.7% to 81.7%. This represents a claims cost of Lm0.36m (US\$0.82m). A deficit of Lm0.05m was transferred to the profit and loss account which compares with a profit of Lm0.12m for 1999.

Indigenous Reinsurance

Gross premiums from the Company's involvement in the indigenous reinsurance market, including a small volume of legal cession run-off business, increased by 67.2% to Lm0.20m (US\$0.46m). This business mainly comprises proportional reinsurance arrangements effected with local carriers. A small net underwriting profit was registered on this account.

Middle Sea Valletta Life Assurance Co. Ltd. - Management



Left to right:
Henrik D'Amato B.A.(Hons.)Accty.,MIA,CPA - Senior Executive Manager - Growth Investments Limited,
Vince Ellul - Senior Executive Manager - Client Services,
Joseph Demnuele FCCA,MIA,CPA - General Manager,
Denise Bezzina ACII - Senior Executive Manager Operations,
Evander M. Borg FCII,MBA, FRSA - Senior Executive Manager Bancassurance & Intermediaries,
Mark Camilleri FCII,DMU(AMS) - Assistant General Manager - Underwriting

International Business

The Company's international operations comprise international reinsurance business written by its Head Office and London Branch and primary business written by its Gibraltar Branch and Italian subsidiary, Progress Assicurazioni S.p.A.

International Reinsurance

The Company's international reinsurance operations have traditionally comprised a significant proportion of its turnover. At the same time, the Company has always recognised the inherent volatility of this part of its account which, in particular, has been especially vulnerable to catastrophic events. In recent years, there has been a trend for reinsurance buyers to migrate towards the larger professional reinsurers. This has made it increasingly difficult for smaller operators to maintain client and geographical balance, an

important component to the success of any reinsurance venture. As a result, the Board concluded that trading conditions in this sector were such that profitability from this source was likely to remain elusive and determined that the Company's best interests could only be served through an orderly withdrawal from this sector of the market. The Company accordingly announced on 13th October 2000 that, with effect from 1st November 2000, international reinsurance business would no longer be written. Whilst regretful of withdrawing from a part of the market in which the Company had developed a strong presence and professional reputation since 1981, it is recognised that this decision will increasingly release more resources for focusing on to the Group's strategy of developing business from primary markets within the Euro-Med region.

As a result of the above developments the reinsurance portfolio is now being accounted as a discontinuing operation. This entails the provision in the 2000 accounts of an estimate for all future expenditure to be incurred in the closing-off of this branch of business as well as the inclusion of estimated investment income to be earned on technical funds held. It follows that the result included in this year's accounts should represent the eventual technical position after completion of the run-off. Whilst, therefore, a neutral effect should be seen in subsequent years' accounts, it should be recognised that any favourable or adverse developments will invariably impact on future years' technical result.

During the year 2000, international reinsurance premium income written by the Company amounted to Lm2.91m (US\$6.64m). The composition of the account had changed in accordance with the Company's stated objectives of reducing its reliance on proportional treaty business and moving more in the direction of non-proportional business, an area in which reinsurers have more influence over terms and for which the London Market has been more successful in defending its pre-eminent position. The cost of protecting the portfolio rose significantly over the previous year as a result of the loss experience suffered by reinsurers from the exceptionally high



Progress Assicurazioni S.p.A - Staff

International Business - continued

frequency and severity of catastrophes during 1999.

Gross incurred losses before expenses totalled Lm2.74m (US\$6.25m), a considerable reduction from last year's figure of Lm5.05m (US\$11.53m) much of which related to the extreme incidence of natural perils claims during 1999. This trend was also observed in the net incurred losses which reduced by 20.6% to Lm2.29m (US\$5.23m). The portfolio was affected during 2000 by one significant catastrophe loss, Hurricane "Keith", which impacted the Company's West Caribbean account. Net technical provisions as at the end of 2000 amounted to Lm4.63m (US\$10.57m), an 8.7% reduction over last year's fund of Lm5.07m (US\$11.57m).

The overall net loss sustained by the international reinsurance account during 2000 was Lm0.47m (US\$1.07m), a 70% reduction over 1999's comparable

figure of Lm1.56m (US\$3.56m). After taking account of the release of the residue of Lm0.12m (US\$0.27m) from the equalisation reserve, the net loss reduced to Lm0.35m (US\$0.80m). This compares favourably with last year's loss of Lm0.80m (US\$1.83m) which also had the benefit of a much larger equalisation reserve contribution amounting to Lm0.77m (US\$1.76m). In addition to the foregoing, a further provision of Lm0.52m (US\$1.19m) was also provided for the estimated future costs of closing down the business. In order to ensure an orderly run-off and full continuity of service to the London reinsurance market, the Company's Branch office remains open.

Gibraltar Branch

The year 2000 saw the establishment of the Company's branch in Gibraltar, an important step in the diversification of its operations into other Euro-Med primary markets. Discussions on

this new venture started in 1999 when Assicurazioni Generali, in view of its globalisation strategy, wanted to pull out from certain markets and as a result the Company was approached to take over their portfolio in Gibraltar. After careful examination of the market and the portfolio in question, Middle Sea commenced the process of acquiring a licence for the establishment of a branch office with the Financial Services Commission in Gibraltar. The licence was issued on the 22nd of March 2000 and the Company through its appointed agent started to issue its own policies as from June 2000. Gibraltar's strategically important location also affords the Company a unique base from which to service the requirements of clients seeking to broaden their financial interests and activities in the expanding European markets. The Company's written premium income from this source for 2000 amounted to Lm1.50m (US\$3.42m) inclusive of a premium portfolio

Progress Assicurazioni S.p.A. - Management



Left to right:
Dott. Stephen Gauci - Direttore Generale
Sig.ra Nunzia Ciotta - Responsabile Sinistri - Riassicurazione - Internal Auditing
Dott. Claudio Lesca - Commerciale - Tecnica assuntiva
Rag. Giovanni Ficarra - Amministrazione, Finanze, Risorse Umane-EDP

International Business - continued

transfer. This volume is equivalent to 15.3% of the overall income generated by the Company's direct operations. The Gibraltar account produced encouraging results in 2000 although, at the net level, after reinsurance and the allocation of investment income and management expenses, a small underwriting loss was sustained. With a view to developing the non-motor business categories, the balance of the account is currently undergoing some scrutiny.

Progress Assicurazioni S.p.A.

During the year 2000 Middle Sea purchased a 51% shareholding in Progress Assicurazioni S.p.A. (Progress), a company licensed by the Italian Regulatory Authority, ISVAP, to write most classes of non-Life insurance in Italy and Sicily.

Progress' head office is located in Sicily. It has two other representative offices, primarily for the settlement of claims, in Catania and Naples. It transacts business through 52 agents located in Puglia, Calabria, Campania and Sicily. As at the end of the year 2000, Progress employed 27 persons.

Much of the year 2000 was utilised in the negotiation of the partnership with Corporacion Mapfre, who continue to own 49% of the company, as well as the due diligence exercise carried

out prior to acquisition. Since Middle Sea took control of the Company on the 29th September 2000 the Middle Sea Group accounts reflect only the company's results for the last quarter of the financial year 2000.

Middle Sea's total investment in the company amounts to Lm1.8m (US\$4.11m). Part of this investment was in the form of a fresh issue of share capital, which has laid the foundations for the development plans agreed between the new shareholders. In addition it has been agreed that the company would be protected from any unfavourable run-off of past claims. This has been achieved through a comprehensive warranty and indemnity backed up in part by an aggregate excess of loss protection placed with a triple A rated reinsurer. Consequently the company is well poised to concentrate its entire efforts on business development in the south of Italy and Sicily.

The company's performance for the financial year 2000, improved by 29% over the comparative results reported for 1999, after taking into account an exceptional reinsurance cost of Lit3,650m (US\$1.75m) and an exceptional gain on the sale of investments of Lit1,781m (US\$0.86m) which do not affect Middle Sea. The company incurred a net loss of Lit2,378m (US\$1.14m) during the full year 2000.

Premium income increased by 7% to Lit40,022m (US\$19.2m) whilst acquisition costs equated to 13% of income, down one percentage point from 1999.

Net claims incurred reduced by 4% to Lit32,222m (US\$15.4m) partly as a result of the reduction in claims frequency experienced during the year. Gross technical provisions increased by 39% to Lit85,191m (US\$40.9m), however as a result of recoveries from the aggregate excess of loss protection mentioned above, net technical provisions remained consistent with 1999 at Lit57,002m (US\$ 27.3m) and equated to 177% of the net premium written (after reinsurance).

Administrative expenses reduced by 10% whilst net investment income increased by 26% as a result of gains on the sale of the investment portfolio realised as part of the agreement for the transfer of shares to Middle Sea. The proceeds of this sale were passed to the Group's portfolio managers for appropriate management in accordance with Group guidelines and Italian regulatory requirements.

The balance sheet of the company was strengthened during the year 2000 with total assets increasing from Lit74,775m (US\$35.9m) to Lit110,171m (US\$52.8m) an increase of 47%, whilst net assets increased by 132% to Lit19,388m (US\$9.3m).

Branches and Agencies

U.K. Branch

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3 Minster Court, Mincing Lane
London EC3R 7DD
Tel: 0207 617 6730
Fax: 0207 220 7421

Gibraltar Branch

Suite 1A, Tisa House
143 Main Street
Gibraltar
Tel: (00350) 76434
Fax: (00350) 76741

LOCAL AGENCIES

Allcare Insurance Agency Limited

University Roundabout
Msida MSD 04
Tel: 330011
Fax: 347947/8
e-mail: info@allcare.com.mt

Allied Insurance Agency Limited

Allied House
331, St. Paul Street
Valletta VLT 07
Tel: 245710
Fax: 245713
e-mail: alliedinsurance@maltanet.net

Bonnici Insurance Agency Limited

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Gzira GZR 03
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e-mail: info@bonniciinsurance.com

Contigen Insurance Agency Limited

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Fax: 244507
e-mail: info@englandins.com.mt

Fortress Insurance Agency Limited

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Msida MSD 05
Tel: 310062
Fax: 330834

Hayes Insurance Agency Limited

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Tel: 233849
Fax: 247402
e-mail: hayes@onvol.net

Melita Insurance Agency Limited

56/3, Transcontinental House
Zachary Street
Valletta VLT 04
Tel: 247261
Fax: 246531
e-mail: melitains@nextgen.net.mt

Unipol Insurance Agency Limited

57, Market Street
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Tel: 236363
Fax: 241954
e-mail: unipol@unipol2000.com

Untours Insurance Agents

(agents for non-Motor)
South Street
Valletta VLT 11
Tel: 231619
Fax: 243530
e-mail: untours@waldonet.net.mt

Laferla Insurance Agency Limited

(agents for Marine & Health)
Vincenti Buildings
Strait Street
Valletta CMR 01
Tel: 224405
Fax: 240811
e-mail: info.lis@laferla.com.mt

OVERSEAS AGENT

Mascarenhas Insurance and Finance Ltd.

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Tel: (00350) 76434
Fax: (00350) 76741
e-mail: masbro@gibnet.gi

Group Financial Highlights

	2000		1999	
	EURO'000	US\$'000	EURO'000	US\$'000
Gross premiums accounted:				
General Business	37,143	34,500	24,478	22,736
Life Business	1,088	1,010	979	910
Total gross premiums	38,230	35,510	25,458	23,646
Group investment income	5,927	5,506	8,173	7,591
Profit before taxation	1,556	1,445	4,519	4,197
Gross Dividend	2,089	1,941	2,089	1,941
Net Dividend	1,358	1,261	1,358	1,261
Gross Dividend per Lm0.50 share	0.17	0.16	0.17	0.16
Share Capital	15,363	14,270	15,363	14,270
Technical reserves:				
General Business	55,223	51,293	24,941	23,167
Life Business	392	364	248	231
Shareholders' Funds	57,290	53,213	54,032	50,188
Net Asset value per Lm0.50 share	4.58	4.26	4.32	4.02
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 2000.

	2000	1999	1998
	Lm	Lm	Lm
Gross premiums written			
- Non Life	15,110,345	9,958,170	8,219,194
- Life	442,417	398,437	363,167
General business technical results	55,876	(358,498)	(558)
Life business net results	(48,686)	117,818	130,973
Investment return - general	2,411,403	3,324,892	2,388,408
Investment return - life	26,509	67,854	75,529
Profit before tax after minority interest	632,985	1,838,329	1,586,613
Profit attributable to shareholders	771,302	1,634,911	1,379,276
Dividends proposed (Gross)	850,000	850,000	812,500
Earnings per share	6.2c	13.1c	11.0c
Net asset value per share	1.86	1.76	1.41

Professional Services

The company, in addition to its regular staff complement, as at 31 December 2000 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

SG Hambros Bank & Trust (Gibraltar) Limited

Investment Manager

Merill Lynch Investment Managers Limited

Investment Committee

Mario C. Grech (Chairman)

Reno Borg B.A. (Hons), M.A. LL.D

Louis Grech M.A. (Oxon)

Tony M. Meilaq CPAA, MBIM

Joseph M. Rizzo ACII, AIMIS, AMIAP

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

Investment Consultant

Futures Ltd.

Sponsoring Stockbroker

Globe Financial Stockbrokers Limited

Share Register Information

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

Directors' interest in the share capital of the Company as at 31 December 2000

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 Francis Spiteri	1,525 shares
Mr Joseph F.X. Zahra	165 shares

Shareholders holding 5% or more of the equity share capital as at 24 April 2001

	% holding
AirMalta p.l.c.	7.33%
Munchener Ruckversicherungs Gesellschaft	12.73%
Government of Malta – Consolidated Fund	15.81%
Bank of Valetta p.l.c.	21.19%

Shareholding Details

As at 24 April 2001, Middle Sea Insurance p.l.c.'s Issued Share Capital was held by 4,825 shareholders. The Issued Share Capital consists of one class of ordinary shares with equal voting rights attached.

Distribution of shareholders as at 24 April 2001 analysed by range:

Range of shareholding	No. of shareholders	Shares
1 - 500	3,552	481,265
501 – 1000	546	394,149
1001 – 5000	668	1,317,394
5000 & over	59	10,307,192

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 2000.

Principal activities

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

Review of the business

The Group registered an operating profit of Lm1,388,109 compared to Lm1,838,329 in 1999. The main reason for the deterioration in results was the performance of its long term business operations (both those operated by the holding company and those operated through a participating interest). This was principally due to lower investment returns compared to last year.

In late September 2000, the Group acquired a 51% stake in an Italian insurance company. The Group's share of this company's results for the three months of the year when it had acquired control amounted to a profit of Lm237,432.

Also during the year the holding company decided to cease accepting international reinsurance business. Provision has been made for Lm515,993, representing the estimated costs of running-off this business.

After providing for this provision, for tax and for equity minority interests in the Italian subsidiary the Group's profit for the year amounts to Lm771,302 (1999: Lm1,634,911). The combined effect of the losses arising on the discontinued operation on these results was a charge of Lm865,162 (1999: Lm800,581). The directors are therefore confident that the Group's performance in 2001 will improve.

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 (1999 - Lm552,500) equivalent to a gross dividend of 6.8 cents per share (1999 - 6.8 cents).

Directors

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

M.C. Grech - Chairman and C.E.O., J.F.X. Zahra B.A. (Hons.) Econ., M.A. (Econ.), M.C.I.M., M.M.R.S. - Deputy Chairman, H. Attard Montalto, 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), L. Grech M.A. (Oxon), M. Grima Dip. M.S., J.G. Hogg, F. Spiteri, L. Spiteri M.A. (Oxon), E. Caruana Demajo LL.D. (appointed 29 May 2000), E. Mizzi LL.D. (deceased 16 February 2000)

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 & C.E.O.

Middle Sea House
Floriana, Malta

26 April 2001

Id-Diretturi jipprezentaw ir-rapport tagħhom u d-dikjarazzjonijiet finanzjarji għas-sena li għalqet fil-31 ta' Diċembru 2000.

Attivitajiet prinċipali

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

Kif sejjer in-negozju

Il-Grupp irreġistra Lm1,388,109 qligħ fuq l-operat imqabbel ma' Lm1,838,329 fis-sena 1999. Ir-raġuni ewlenija ta' dan id-deterjorament fir-riżultati qiegħda fil-mod kif marru l-operazzjonijiet tal-hajja (kemm dawk imhaddmin mill-kumpanija ewlenija u kemm dawk imhaddmin permezz ta' interess partecipattiv). Dan kien dovut l-aktar għal naqqis fil-qligħ mill-investimenti meta mqabbel mas-sena ta' qabel.

Lejn tmieġ Settembru 2000, il-Grupp akkwista sehem ta' 51% f'kumpanija ta' assigurazzjoni Taljana. Is-sehem tal-Grupp mir-riżultati ta' din il-kumpanija għat-tliet xhur tas-sena meta kellu l-kontroll kien profit ta' Lm237,432.

Matul is-sena wkoll, il-kumpanija ewlenija ddeċidiet li ma tibqax taċċetta negożju ta' riassigurazzjoni internazzjonali. Sar provvediment ta' Lm515,993 li jirrappreżenta l-ispejjeż smati biex dan in-negozju jingħalaq għalkollox.

Wara li ttejed hsieb għal dan il-provvediment, għat-taxxa u għal interessi tal-minoranza fis-sussidjarja Taljana, il-qligħ tal-Grupp għas-sena jammonta għal Lm771,302 (1999: Lm1,634,911). L-effett globali tat-telf li jirriżulta mil waqfien ta' l-operazzjoni fuq dawn ir-riżultati kien spiza ta' Lm865,162 (1999: Lm800,581). Għalhekk id-diretturi huma fiduċjużi li l-affarijiet imorru aħjar fis-sena 2001.

Riżultati u dividendi

Il-kont ta' qligħ u telf konsolidat jinsab f'paġna 29. Id-diretturi jirrikmandaw il-has ta' dividend nett ta' Lm552,500 (1999: Lm552,500) li hu ekwivalenti għal dividend gross ta' 6.8 ċenteżmi kull sehem (1999: 6.8 ċenteżmi).

Diretturi

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

M.C. Grech - Chairman u C.E.O., J.F.X. Zahra B.A. (Hons.) Econ., M.A. (Econ.), M.C.I.M., M.M.R.S. - Deputat Chairman, H. Attard Montalto, 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), Ph.D. (Geneva), L. Grech M.A. (Oxon), M. Grima Dip. M.S., J.G. Hogg, F. Spiteri, L. Spiteri M.A. (Oxon.), E. Caruana Demajo LL.D. (mahtura 29 ta' Mejju 2000), E. Mizzi LL.D. (miet 16 ta' Frar 2000).

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

Awdituri

L-awdituri, PricewaterhouseCoopers f'Malta u fir-Renju Unit, wrew ir-rieda tagħhom li jibqgħu 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 63. 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 2000 are disclosed in accounting policy 5 and note 22.

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 2000 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.

26 April 2001

Profit and loss account

Technical account - general business

Annual business

	Notes	Group		Company	
		2000 Lm	1999 Lm	2000 Lm	1999 Lm
Earned premiums, net of reinsurance					
Gross premiums written	1	12,005,735	6,985,334	9,817,446	6,985,334
Outward reinsurance premiums		(5,811,580)	(3,933,089)	(5,606,248)	(3,933,089)
Net premiums written		6,194,155	3,052,245	4,211,198	3,052,245
Change in the gross provision for unearned premiums					
		(1,557,633)	(559,583)	(1,360,773)	(559,583)
Change in the provision for unearned premiums, reinsurers' share					
		714,823	355,893	702,890	355,893
		(842,810)	(203,690)	(657,883)	(203,690)
Earned premiums, net of reinsurance		5,351,345	2,848,555	3,553,315	2,848,555
Allocated investment return transferred from the non-technical account					
	4	527,888	531,083	471,213	531,083
Total technical income		5,879,233	3,379,638	4,024,528	3,379,638
Claims incurred, net of reinsurance					
Claims paid					
- gross amount		8,454,650	3,811,137	5,983,827	3,811,137
- reinsurers' share		(3,261,796)	(2,108,285)	(3,223,290)	(2,108,285)
		5,192,854	1,702,852	2,760,537	1,702,852
Change in the provision for claims					
- gross amount		4,347,121	1,966,171	1,339,361	1,966,171
- reinsurers' share		(4,857,294)	(1,134,366)	(607,366)	(1,134,366)
		(510,173)	831,805	731,995	831,805
Claims incurred, net of reinsurance		4,682,681	2,534,657	3,492,532	2,534,657
Net operating expenses	3	820,465	484,264	538,327	484,264
Change in the equalisation provision		(26,076)	(77,270)	(26,076)	(77,270)
Total technical charges		5,477,070	2,941,651	4,004,783	2,941,651
Balance on the technical account for general annual business (page 29)		402,163	437,987	19,745	437,987

Profit and loss account

Technical account - general business

Fund business

	Notes	Group and Company	
		2000	1999
		Lm	Lm
Earned premiums, net of reinsurance			
Gross premiums written	1	3,104,609	2,972,836
Outward reinsurance premiums		(860,755)	(1,004,066)
Earned premiums, net of reinsurance		2,243,854	1,968,770
Allocated investment return transferred from the non-technical account	4	392,409	606,655
Total technical income		2,636,263	2,575,425
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		4,199,511	4,256,344
- reinsurers' share		(1,422,821)	(1,754,918)
		2,776,690	2,501,426
Change in the provision for claims			
- gross amount		(1,514,124)	1,179,941
- reinsurers' share		684,478	(767,502)
		(829,646)	412,439
Claims incurred, net of reinsurance		1,947,044	2,913,865
Net operating expenses	3	1,152,746	1,227,553
Change in the equalisation provision		(117,240)	(769,508)
Total technical charges		2,982,550	3,371,910
Balance on the technical account for general fund business (page 29)		(346,287)	(796,485)

Profit and loss account

Technical account - long term business

	Notes	Group and Company	
		2000	1999
		Lm	Lm
Earned premiums, net of reinsurance			
Gross premiums written	1	442,417	398,437
Outward reinsurance premiums		(241,924)	(206,601)
Earned premiums, net of reinsurance		200,493	191,836
Investment income			
Income from other investments		36,829	39,122
Unrealised gains on investments		-	28,732
Other technical income, net of reinsurance		94	289
Total technical income		237,416	259,979
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		231,317	118,817
- reinsurers' share		(129,571)	(56,292)
		101,746	62,525
Change in the provision for claims			
- gross amount		130,113	27,308
- reinsurers' share		(76,917)	(12,907)
		53,196	14,401
Claims incurred, net of reinsurance		154,942	76,926
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance			
- gross amount		8,676	13,580
- reinsurers' share		(3,561)	(5,724)
		5,115	7,856
Net operating expenses	3	115,725	57,379
Unrealised losses on investments		10,320	-
Total technical charges		286,102	142,161
Balance on the technical account for long term business (page 29)		(48,686)	117,818

Profit and loss account Non-technical account

	Notes	Group		Company	
		2000 Lm	1999 Lm	2000 Lm	1999 Lm
Balances on technical accounts					
General business - annual (page 26)		402,163	437,987	19,745	437,987
General business - fund (page 27)		(346,287)	(796,485)	(346,287)	(796,485)
Long term business (page 28)		(48,686)	117,818	(48,686)	117,818
		7,190	(240,680)	(375,228)	(240,680)
Share of group undertaking's profit before tax involved in general business	4	-	-	237,432	-
Share of participating interest's profit before tax involved in long term business	4	189,750	998,149	189,750	998,149
Less: distributions received from participating interest already included in general business technical account	4	(86,165)	(244,035)	(86,165)	(244,035)
Total income from insurance activities		110,775	513,434	(34,211)	513,434
Share of group undertakings' profit before tax	4	-	-	274,297	539,760
Share of other participating interest's profit before tax	4	-	9,902	-	9,902
Other investment income	4	2,487,133	2,478,591	2,021,277	1,951,468
Investment expenses and charges	4	(265,480)	(161,750)	(235,972)	(161,750)
Allocated investment return transferred to the general business technical account	4	(834,132)	(893,703)	(777,457)	(893,703)
Other income	5	292,745	254,301	174,847	140,395
Other charges		(402,932)	(362,446)	(278,088)	(261,177)
Continuing operations		1,737,278	2,638,910	1,493,862	2,638,910
Discontinuing operation	2	(349,169)	(800,581)	(349,169)	(800,581)
Operating profit on ordinary activities before tax	6	1,388,109	1,838,329	1,144,693	1,838,329
Provision for loss on discontinuing operation	23	(515,993)	-	(515,993)	-
Profit on ordinary activities before tax		872,116	1,838,329	628,700	1,838,329
Tax on profit on ordinary activities	8	138,317	(203,418)	142,602	(203,418)
Profit on ordinary activities after tax		1,010,433	1,634,911	771,302	1,634,911
Minority interests		(239,131)	-	-	-
Profit for the financial year		771,302	1,634,911	771,302	1,634,911
Earnings per share	10	6.2c	13.1c	6.2c	13.1c

Statement of total recognised gains

	Notes	Group		Company	
		2000 Lm	1999 Lm	2000 Lm	1999 Lm
Revaluation surplus, net of deferred taxation	18	387,865	950,765	383,858	883,746
Share of group undertakings' and participating interest's reserves	18,19	718,517	1,837,186	722,524	1,903,109
Profit for the financial year		771,302	1,634,911	771,302	1,634,911
Total recognised gains		1,877,684	4,422,862	1,877,684	4,421,766

Balance sheet

	Notes	Group		Company	
		2000 Lm	1999 Lm	2000 Lm	1999 Lm
ASSETS					
Investments					
Land and buildings	12	5,717,659	3,692,330	4,810,957	3,601,874
Investments in group undertakings	13	-	-	3,148,900	1,246,817
Investments in participating interests	14	7,032,431	6,336,293	7,032,431	6,336,293
Other financial investments	15	33,697,866	21,748,585	18,704,345	20,636,498
Deposits with ceding undertakings		207,558	202,506	207,558	202,506
		46,655,514	31,979,714	33,904,191	32,023,988
Reinsurers' share of technical provisions					
Provision for unearned premiums		2,171,405	1,310,089	2,012,979	1,310,089
Long term business provision	21	55,758	52,197	55,758	52,197
Claims outstanding		11,725,102	5,886,857	5,886,662	5,886,857
		13,952,265	7,249,143	7,955,399	7,249,143
Debtors					
Debtors arising out of direct insurance operations					
- policyholders		269,472	39,027	269,472	39,027
- intermediaries		3,363,126	2,019,485	2,514,873	2,019,485
Debtors arising out of reinsurance operations		2,060,352	2,582,619	2,060,352	2,582,619
Amounts owed by group undertakings		-	-	845,191	395,650
Other debtors		708,901	374,546	-	-
Taxation recoverable		1,231,074	525,734	701,118	549,748
		7,632,925	5,541,411	6,391,006	5,586,529
Other assets					
Tangible assets	16	1,119,823	546,148	491,572	529,691
Cash at bank and in hand		1,798,016	858,469	1,166,162	748,658
		2,917,839	1,404,617	1,657,734	1,278,349
Prepayments and accrued income					
Accrued interest and rent		760,856	341,108	415,859	329,274
Deferred acquisition costs		840,461	571,117	840,461	571,117
Other prepayments and accrued income		478,507	349,314	457,526	337,642
		2,079,824	1,261,539	1,713,846	1,238,033
Total assets		73,238,367	47,436,424	51,622,176	47,376,042

Balance sheet

	Notes	Group		Company	
		2000 Lm	1999 Lm	2000 Lm	1999 Lm
LIABILITIES					
Capital and reserves					
Called up share capital	17	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	18	5,128,374	4,950,192	5,128,374	4,950,192
Other reserves	19	3,172,200	2,244,000	3,172,200	2,244,000
Profit and loss account		7,563,372	7,344,570	7,563,372	7,344,570
		23,306,446	21,981,262	23,306,446	21,981,262
Minority interests					
	20	2,099,290	-	-	-
Technical provisions					
Provision for unearned premiums		6,216,243	2,505,026	3,865,799	2,505,026
Long term business provision	21	145,765	137,089	145,765	137,089
Claims outstanding		30,215,219	14,711,286	14,666,636	14,711,286
Equalisation provision	22	-	143,316	-	143,316
		36,577,227	17,496,717	18,678,200	17,496,717
Provisions for other risks and charges					
	23	1,436,280	709,780	1,196,277	702,625
Deposits received from reinsurers					
		2,085,487	1,325,675	1,889,015	1,325,675
Creditors					
Creditors arising out of direct insurance operations		989,874	384,848	669,427	384,848
Creditors arising out of reinsurance operations		1,661,248	1,920,331	1,661,248	1,920,331
Amounts owed to credit institutions	24	1,587,151	1,500,000	1,587,151	1,500,000
Amounts owed to participating interests		1,050,136	621,982	672,009	610,002
Other taxation and social security		203,179	-	-	-
		5,491,588	4,427,161	4,589,835	4,415,181
Accruals and deferred income					
		2,242,049	1,495,829	1,962,403	1,454,582
Total liabilities					
		73,238,367	47,436,424	51,622,176	47,376,042

The financial statements on pages 26 to 63 were authorised for issue by the board on 26 April 2001 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 1999:							
As previously reported		6,250,000	1,192,500	4,406,241	-	5,798,701	17,647,442
Effect of adopting IAS 10 (Revised)	11	-	-	-	-	528,125	528,125
Adjustment in computations of taxation on investment gains	14	-	-	-	-	(89,042)	(89,042)
Transfer to other reserves	18,19	-	-	(677,280)	677,280	-	-
As restated		6,250,000	1,192,500	3,728,961	677,280	6,237,784	18,086,525
Revaluation surplus, net of deferred taxation	18	-	-	1,554,081	-	-	1,554,081
Share of participating interest's reserves	18,19	-	-	270,466	1,566,720	-	1,837,186
Net gains not recognised in profit and loss account		-	-	1,824,547	1,566,720	-	3,391,267
Amount released on realisation of investments, net of deferred taxation	18	-	-	(603,316)	-	-	(603,316)
Dividends for 1998	11	-	-	-	-	(528,125)	(528,125)
Profit for the financial year		-	-	-	-	1,634,911	1,634,911
Balance at 31 December 1999		6,250,000	1,192,500	4,950,192	2,244,000	7,344,570	21,981,262
Balance at 1 January 2000:							
As previously reported		6,250,000	1,192,500	7,194,192	-	6,896,858	21,533,550
Effect of adopting IAS 10 (Revised)	11	-	-	-	-	552,500	552,500
Adjustment in computations of taxation on investment gains	14	-	-	-	-	(104,788)	(104,788)
Transfer to other reserves	18,19	-	-	(2,244,000)	2,244,000	-	-
As restated		6,250,000	1,192,500	4,950,192	2,244,000	7,344,570	21,981,262
Revaluation surplus, net of deferred taxation	18	-	-	955,932	-	-	955,932
Share of participating interest's reserves	18,19	-	-	(209,683)	928,200	-	718,517
Net gains not recognised in profit and loss account		-	-	746,249	928,200	-	1,674,449
Amount released on realisation of investments, net of deferred taxation	18	-	-	(568,067)	-	-	(568,067)
Dividends for 1999	11	-	-	-	-	(552,500)	(552,500)
Profit for the financial year		-	-	-	-	771,302	771,302
Balance at 31 December 2000		6,250,000	1,192,500	5,128,374	3,172,200	7,563,372	23,306,446

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 1999:							
As previously reported		6,250,000	1,192,500	3,623,994	-	4,808,355	15,874,849
Effect of adopting IAS 10 (Revised)	11	-	-	-	-	528,125	528,125
Effect of adopting equity accounting in terms of IAS 27 (notes 14, 18,19, 23)		-	-	106,063	677,280	990,346	1,773,689
Adjustment in computations of taxation on investment gains	14	-	-	-	-	(89,042)	(89,042)
As restated		6,250,000	1,192,500	3,730,057	677,280	6,237,784	18,087,621
Revaluation surplus, net of deferred taxation	18	-	-	1,251,491	-	-	1,251,491
Share of group undertakings' reserves	18	-	-	65,923	-	-	65,923
Share of participating interest's reserves	18,19	-	-	270,466	1,566,720	-	1,837,186
Net gains not recognised in profit and loss account		-	-	1,587,880	1,566,720	-	3,154,600
Amount released on realisation of investments, net of deferred taxation	18	-	-	(367,745)	-	-	(367,745)
Dividends for 1998	11	-	-	-	-	(528,125)	(528,125)
Profit for the financial year		-	-	-	-	1,634,911	1,634,911
Balance at 31 December 1999		6,250,000	1,192,500	4,950,192	2,244,000	7,344,570	21,981,262
Balance at 1 January 2000:							
As previously reported		6,250,000	1,192,500	6,170,077	-	5,223,860	18,836,437
Effect of adopting IAS 10 (Revised)	11	-	-	-	-	552,500	552,500
Effect of adopting equity accounting in terms of IAS 27 (notes 14, 18, 19, 23)		-	-	(1,219,885)	2,244,000	1,672,998	2,697,113
Adjustment in computations of taxation on investment gains	14	-	-	-	-	(104,788)	(104,788)
As restated		6,250,000	1,192,500	4,950,192	2,244,000	7,344,570	21,981,262
Revaluation surplus, net of deferred taxation	18	-	-	845,253	-	-	845,253
Share of group undertakings' reserves	18	-	-	4,007	-	-	4,007
Share of participating interest's reserves	18,19	-	-	(209,683)	928,200	-	718,517
Net gains not recognised in profit and loss account		-	-	639,577	928,200	-	1,567,777
Amount released on realisation of investments, net of deferred taxation	18	-	-	(461,395)	-	-	(461,395)
Dividends for 1999	11	-	-	-	-	(552,500)	(552,500)
Profit for the financial year		-	-	-	-	771,302	771,302
Balance at 31 December 2000		6,250,000	1,192,500	5,128,374	3,172,200	7,563,372	23,306,446

Cash flow statement

	Notes	Group		Company	
		2000 Lm	1999 Lm	2000 Lm	1999 Lm
Operating activities					
Cash generated from operations	25	679,441	452,625	908,795	654,412
Tax paid		(240,622)	(27,007)	(152,374)	(23,011)
Net cash generated from operating activities		438,819	425,618	756,421	631,401
Investing activities					
Acquisition of subsidiary	27	8,060,551	-	(1,918,828)	-
Purchase of other investments	12,15	(13,737,897)	(14,955,311)	(4,999,543)	(14,417,304)
Disposal of investments	12,15	6,970,536	11,708,082	5,914,073	11,088,773
Purchase of tangible assets	16	(91,265)	(147,106)	(87,089)	(141,136)
Disposal of tangible assets	16	1,200	1,605	1,200	1,605
Net cash from/(used in) investing activities		1,203,125	(3,392,730)	(1,090,187)	(3,468,062)
Financing activities					
Bank loans	24	87,151	1,500,000	87,151	1,500,000
Dividends paid to group shareholders	11	(552,500)	(528,125)	(552,500)	(528,125)
Dividends paid to minority interests	20	(9,678)	-	-	-
Net cash (used in)/generated from financing activities		(475,027)	971,875	(465,349)	971,875
Movement in cash and cash equivalents		1,166,917	(1,995,237)	(799,115)	(1,864,786)
Cash and cash equivalents at beginning of year		3,545,821	5,541,058	3,359,783	5,224,569
Cash and cash equivalents at end of year	26	4,712,738	3,545,821	2,560,668	3,359,783

Accounting policies

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

1. Basis of preparation

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

2. Form and content of these financial statements

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

3. Consolidation

(a) Group undertakings

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

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

(b) Participating interests

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

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

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 arising as a result of portfolio transfers are accounted for as written premiums or outward reinsurance as appropriate. Portfolio claims payments are debited or credited to claims paid.

(b) General business - fund basis

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

Accounting policies

4. Basis of accounting - continued

- (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. Goodwill

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

7. Investments in group undertakings and participating interests

Investments in group undertakings and participating interests are accounted for by the equity method of accounting. They were previously revalued in accordance with the accounting policy for other investments (see accounting policy 9). Comparative figures have been restated to reflect this change in accounting treatment.

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

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

The value of in-force business is determined by the directors of the participating interest, based on the advice of the company's consulting actuaries. The valuation represents the discounted value of projected future transfers to shareholders from policies in force at the year end, after making provision for taxation. In determining this valuation, assumptions relating to future mortality, persistence and levels of expenses are based on experience of the type of business concerned. Gross investment returns assumed vary depending upon the mix of investments held by the company and expected market conditions.

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

9. Other investments

Freehold and leasehold properties treated as investments principally comprise office and other commercial buildings that are held for long-term rental yields and that are not occupied by the Group. They are initially stated in the balance sheet at cost and are subsequently revalued at open market value as determined by independent professional advisers every three years (previously 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.

10. Investment return

Investment return comprises investment income, including the share of group undertakings' and participating interests' profit before tax, realised gains and losses, and is net of investment expenses, charges and interest.

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

Accounting policies

11. Leases

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

12. 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.

13. 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:	%
Buildings	2.5 - 3
Leasehold improvements	2.5
Furniture, fittings and equipment	10 - 33.3
Motor vehicles	20

No depreciation is charged in respect of properties held as property investments.

14. Cash and cash equivalents

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

15. Share capital

Dividends on ordinary shares are recognised in equity in the period in which they are declared. This is a change in accounting policy that is further explained in Note 11.

16. Provisions

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

- (a) Provision for loss on discontinuing operation
Provision has been made for the full cost of running-off a material category of business that the Group has ceased to write. Future investment income is taken into account in setting this provision to the extent that it is not already recognised in setting the technical provisions.
- (b) Provision for severance indemnity
Provision is made for the legal obligation to pay a severance indemnity to personnel upon termination of their contract of employment. The obligation arises under Italian legislation and the provision is determined on the basis of length of service and remuneration for each employee whose contract of service is governed by Italian law.

17. 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.

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

18. 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.

19. Borrowing costs

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

Notes to the financial statements

1. Segmental analysis

General business

Gross premiums written and gross premiums earned by class of business

	Group			
	Gross premiums written		Gross premiums earned	
	2000	1999	2000	1999
	Lm	Lm	Lm	Lm
Direct insurance				
Motor (third party liability)	3,244,945	1,255,822	2,830,010	1,151,057
Motor (other classes)	4,005,244	2,008,337	3,380,166	1,840,795
Fire and other damage to property	2,288,711	1,910,878	2,124,124	1,786,508
Other classes	2,466,835	1,810,297	2,113,802	1,647,391
	12,005,735	6,985,334	10,448,102	6,425,751
Reinsurance acceptances				
Motor (other classes)	133,192	51,644	133,192	51,644
Fire and other damage to property	2,955,489	2,909,179	2,955,489	2,909,179
Other classes	15,928	12,013	15,928	12,013
	15,110,344	9,958,170	13,552,711	9,398,587

69% (1999: 100%) of gross premiums written on direct general insurance business result from contracts concluded in or from Malta, 18% result from contracts concluded in or from Italy and 13% result from contracts concluded in or from Gibraltar.

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

	Group					
	Gross claims incurred		Gross operating expenses		Reinsurance balance	
	2000	1999	2000	1999	2000	1999
	Lm	Lm	Lm	Lm	Lm	Lm
Direct insurance						
Motor (third party liability)	6,632,191	1,075,772	582,322	270,635	(4,482,400)	(92,027)
Motor (other classes)	3,419,845	1,761,156	820,063	433,820	(337,313)	(163,208)
Fire and other damage to property	1,251,540	1,921,827	596,924	509,772	196,156	(568,565)
Other classes	1,498,195	1,018,553	510,242	444,669	(87,862)	(16,287)
	12,801,771	5,777,308	2,509,551	1,658,896	(4,711,419)	(840,087)
Reinsurance acceptances						
Motor (other classes)	152,233	215,972	53,153	30,766	(10,423)	(189,813)
Fire and other damage to property	2,561,276	5,194,939	1,112,567	1,205,605	100,669	(1,327,725)
Other classes	(28,122)	25,374	10,596	7,264	8,596	(16,898)
	15,487,158	11,213,593	3,685,867	2,902,531	(4,612,577)	(2,374,523)

Notes to the financial statements

1. Segmental analysis - continued

General business - continued

Gross premiums written and gross premiums earned by class of business

	Company			
	Gross premiums written		Gross premiums earned	
	2000 Lm	1999 Lm	2000 Lm	1999 Lm
Direct insurance				
Motor (third party liability)	1,588,721	1,255,822	1,325,812	1,151,057
Motor (other classes)	3,709,814	2,008,337	3,095,895	1,840,795
Fire and other damage to property	2,224,138	1,910,878	2,069,077	1,786,508
Other classes	2,294,773	1,810,297	1,965,889	1,647,391
	9,817,446	6,985,334	8,456,673	6,425,751
Reinsurance acceptances				
Motor (other classes)	133,192	51,644	133,192	51,644
Fire and other damage to property	2,955,489	2,909,179	2,955,489	2,909,179
Other classes	15,928	12,013	15,928	12,013
	12,922,055	9,958,170	11,561,282	9,398,587

85% (1999: 100%) of gross premiums written on direct general insurance business result from contracts concluded in or from Malta. The balance results from contracts concluded in or from Gibraltar.

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

	Company					
	Gross claims incurred		Gross operating expenses		Reinsurance balance	
	2000 Lm	1999 Lm	2000 Lm	1999 Lm	2000 Lm	1999 Lm
Direct insurance						
Motor (third party liability)	1,383,656	1,075,772	322,450	270,635	(155,252)	(92,027)
Motor (other classes)	3,290,625	1,761,156	752,694	433,820	(405,776)	(163,208)
Fire and other damage to property	1,219,118	1,921,827	579,938	509,772	170,023	(568,565)
Other classes	1,429,789	1,018,553	470,646	444,669	(123,694)	(16,287)
	7,323,188	5,777,308	2,125,728	1,658,896	(514,699)	(840,087)
Reinsurance acceptances						
Motor (other classes)	152,233	215,972	53,153	30,766	(10,423)	(189,813)
Fire and other damage to property	2,561,276	5,194,939	1,112,567	1,205,605	100,669	(1,327,725)
Other classes	(28,122)	25,374	10,596	7,264	8,596	(16,898)
	10,008,575	11,213,593	3,302,044	2,902,531	(415,857)	(2,374,523)

The reinsurance balance represents the charge/(credit) 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	
	2000	1999
	Lm	Lm
Gross premiums written		
Direct insurance	429,280	385,547
Reinsurance inwards	13,137	12,890
	442,417	398,437

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

Analysis by geographic area

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

	Gross premiums written		Group Profit/(loss) before taxation	
	2000	1999	2000	1999
	Lm	Lm	Lm	Lm
Continuing operations				
Malta	8,950,681	7,494,943	1,297,294	2,638,910
Italy	2,188,289	-	465,553	-
Gibraltar branch	1,500,942	-	(25,569)	-
Total continuing operations	12,639,912	7,494,943	1,737,278	2,638,910
Discontinuing operation (note 2)				
Malta	(60,915)	530,669	65,676	(14,712)
London branch	2,973,764	2,330,995	(930,838)	(785,869)
Total discontinuing operation	2,912,849	2,861,664	(865,162)	(800,581)
Total for the year	15,552,761	10,356,607	872,116	1,838,329

There is no business transacted between the segments.

Notes to the financial statements

1. Segmental analysis - continued

Analysis by geographic area - continued

Segment assets and liabilities

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

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

- Assets of Lm23,355,199 and liabilities of Lm19,073,903 that are held by the Group's subsidiary in Italy (note 27).
- Net technical provisions of Lm3,899,258 (1999: Lm4,057,693) that relate to the Group's London branch operation. These technical provisions are backed by net assets of Lm837,944 (1999: Lm1,612,253) held by the branch and by Lm3,061,314 (1999: Lm2,445,440) worth of investments managed from Malta.
- Net technical provisions of Lm407,215 that relate to the Group's branch in Gibraltar. These technical provisions are backed by Lm407,215 worth of investments managed from Malta.

Net technical provisions relating to discontinuing operation amount to:

	Group	
	2000	1999
	Lm	Lm
Malta	320,641	1,010,039
London branch	3,889,258	4,057,693
	4,209,899	5,067,732

Other information

	2000			Group			
	Malta	London	Italy	Total	Malta	London	Total
	Lm	Lm	Lm	Lm	Lm	Lm	Lm
Share of profit before tax of participating interests	189,750	-	-	189,750	1,008,051	-	1,008,051
Capital expenditure	60,872	26,217	4,176	91,265	128,005	19,101	147,106
Depreciation	101,343	23,160	17,094	141,597	102,440	30,446	132,886
Non-cash expenses other than depreciation	3,077	515,993	30,881	549,951	-	-	-

Capital expenditure comprises additions to tangible assets.

Notes to the financial statements

2. Discontinuing operation

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

	Group and Company	
	2000	1999
	Lm	Lm
Earned premiums, net of reinsurance	2,134,580	1,922,113
Allocated investment return transferred from the non-technical account	374,976	583,395
Claims incurred, net of reinsurance	(1,884,611)	(2,888,662)
Net operating expenses	(1,091,285)	(1,175,985)
Change in the equalisation provision	117,171	758,558
Balance on the technical account for general fund business in respect of discontinuing operation	(349,169)	(800,581)
Operating cash flows	(789,955)	(1,857,187)

In addition, a provision of Lm515,993 has been made for estimated costs of running-off the Company's international reinsurance business (note 23).

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

	Group and Company	
	2000	1999
	Lm	Lm
Gross run-off incurred	1,122,962	1,413,397
Reinsurers' share	(655,593)	(951,848)
Run-off, net of reinsurance	467,369	461,549

Notes to the financial statements

3. Net operating expenses

	Group		Company	
	2000 Lm	1999 Lm	2000 Lm	1999 Lm
Acquisition costs	3,190,226	2,393,906	2,889,950	2,393,906
Change in deferred acquisition costs, net of reinsurance	(43,632)	(12,072)	(43,632)	(12,072)
Administrative expenses	904,529	771,892	820,433	771,892
Reinsurance commissions and profit participation	(1,962,187)	(1,384,530)	(1,859,953)	(1,384,530)
	2,088,936	1,769,196	1,806,798	1,769,196
Allocated to:				
Annual general business	820,465	484,264	538,327	484,264
Fund general business	1,152,746	1,227,553	1,152,746	1,227,553
Long term business	115,725	57,379	115,725	57,379
	2,088,936	1,769,196	1,806,798	1,769,196

Total commissions for direct business accounted for in the financial period amounted to Lm1,842,259 (1999: Lm1,356,610) in the Group's technical result and Lm1,647,924 (1999: Lm1,356,610) in the Company's technical result.

4. Investment return

	Group		Company	
	2000 Lm	1999 Lm	2000 Lm	1999 Lm
Investment income				
Share of group undertakings' profit before tax	-	-	511,729	539,760
Share of participating interests' profit before tax	189,750	1,008,051	189,750	1,008,051
Income from land and buildings	383,462	334,561	314,175	327,366
Income from other investments	1,112,219	884,333	887,282	831,048
Interest receivable from group undertakings	-	-	28,418	19,624
Gains on the realisation of investments	991,452	1,259,697	791,402	773,430
	2,676,883	3,486,642	2,722,756	3,499,279
Investment expenses and charges				
Investment management expenses, including interest	265,480	161,750	235,972	161,750
Total investment return	2,411,403	3,324,892	2,486,784	3,337,529
Analysed between:				
Allocated investment return transferred to the general business technical account	920,297	1,137,738	863,622	1,137,738
Investment return included in the non-technical account	1,491,106	2,187,154	1,623,162	2,199,791
	2,411,403	3,324,892	2,486,784	3,337,529

Notes to the financial statements

5. Other income

	Group		Company	
	2000 Lm	1999 Lm	2000 Lm	1999 Lm
Management fees	185,119	151,457	174,847	140,395
Other income	107,626	102,844	-	-
	292,745	254,301	174,847	140,395

6. Operating profit on ordinary activities before tax

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

	Group		Company	
	2000 Lm	1999 Lm	2000 Lm	1999 Lm
Staff costs (note 7)	850,552	690,822	725,356	659,863
Auditors' remuneration	22,088	16,400	15,100	15,100
Amortisation	3,077	-	-	-
Depreciation (note 16)	141,597	132,886	124,503	128,235
(Profit)/loss on sale of tangible fixed assets	(495)	23,144	(495)	23,144
Exchange differences	112,646	(112,166)	112,646	(112,166)

7. Staff costs

	Group		Company	
	2000 Lm	1999 Lm	2000 Lm	1999 Lm
Salaries	792,835	669,669	693,330	640,763
Social security costs	79,461	54,528	53,770	52,475
	872,296	724,197	747,100	693,238

Staff costs include Lm21,744 (1999: Lm33,375) which have been capitalised.

The average number of persons employed during the year was:

	Group		Company	
	2000	1999	2000	1999
Managerial	26	23	23	21
Technical	40	33	36	33
Administrative	32	29	26	26
	98	85	85	80

Notes to the financial statements

8. Tax on profit on ordinary activities

	Group		Company	
	2000 Lm	1999 Lm	2000 Lm	1999 Lm
Current tax expense	54,690	17,278	1,004	-
Share of group undertakings' taxation	-	-	49,401	17,278
Share of participating interests' taxation	43,536	43,557	43,536	43,557
Deferred tax (credit)/expense (note 23)	(236,543)	142,583	(236,543)	142,583
	(138,317)	203,418	(142,602)	203,418

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	
	2000 Lm	1999 Lm	2000 Lm	1999 Lm
Profit on ordinary activities before tax	872,116	1,838,329	628,700	1,838,329
Tax on ordinary profit at 35%	305,241	643,415	220,045	643,415
Adjusted for tax effect of:				
Dividends received from untaxed income	(2,993)	(2,993)	(2,993)	(2,993)
Differences relating to accounting changes arising on new insurance legislation	-	213,182	-	213,182
Exempt income	(248,643)	(639,614)	(247,575)	(639,614)
Temporary differences attributable to deferred tax asset not recognised	(162,154)	-	(82,311)	-
Other	(29,768)	(10,572)	(29,768)	(10,572)
	(138,317)	203,418	(142,602)	203,418

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of Lm4,270,000 (1999: nil) available for carry forward against future taxable income, and which relate to the subsidiary that was acquired this year. According to Italian tax legislation, losses may be carried forward for up to five years and the expiry of the above losses is summarised as follows:

	Group	
	2000 Lm	1999 Lm
Within one year	1,870,000	-
Between 2 and 5 years	2,400,000	-
	4,270,000	-

Notes to the financial statements

9. Directors' emoluments

	Group		Company	
	2000 Lm	1999 Lm	2000 Lm	1999 Lm
Directors' emoluments under management and consultancy contracts	38,204	30,771	38,204	30,771

The Company has paid insurance premiums of Lm3,490 (1999: Lm3,981) during the year in respect of professional indemnity insurance in favour of its directors.

10. Earnings per share

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

	Group		Company	
	2000 Lm	1999 Lm	2000 Lm	1999 Lm
Net profit attributable to shareholders	771,302	1,634,911	771,302	1,634,911
Weighted average number of ordinary shares in issue	12,500,000	12,500,000	12,500,000	12,500,000
Earnings per share	6.2c	13.1c	6.2c	13.1c

11. Dividends

The net dividends declared after the financial year end in respect of 1999 and 1998, which were Lm552,500 (gross 6.8c per share) and Lm528,125 (gross 6.5c per share) respectively, were previously reflected as dividends payable as at 31 December 1999 and 1998. The treatment of dividends payable has changed in accordance with IAS 10 (Revised), which requires dividends to be reflected in the financial statements in the year they are declared. The comparative information has been restated accordingly to reflect this change in accounting treatment.

At the forthcoming Annual General Meeting, a dividend in respect of 2000 of 6.8c per share (gross) amounting to Lm552,500 (net) is to be proposed. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2001.

Notes to the financial statements

12. Land and buildings

	Group Lm	Company Lm
Year ended 31 December 2000		
Opening net book amount	3,692,330	3,601,874
Acquisition of subsidiary (note 27)	222,624	-
Additions	698,142	14,064
Disposals	(93,424)	(37,000)
Revaluation surplus	1,241,518	1,241,518
Amount released on realisation of investments	(43,531)	(9,499)
	5,717,659	4,810,957
At 31 December 2000		
Cost	3,060,991	2,154,289
Revaluation reserve	2,656,668	2,656,668
Net book amount	5,717,659	4,810,957
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)
	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

The freehold properties were last revalued at 31 December 2000 by independent professional advisers on the basis of an open market valuation.

Notes to the financial statements

13. Investments in group undertakings

	Company Lm
Year ended 31 December 2000	
Opening net book amount (as previously reported and as restated)	1,246,817
Additions	1,919,078
Disposal	(3,648)
Share of group undertakings' profits and reserves	(13,347)
	<hr/>
Closing net book amount	3,148,900
	<hr/>
At 31 December 2000	
Cost	2,623,784
Share of group undertakings' profits and reserves	525,116
	<hr/>
Net book amount	3,148,900
	<hr/>
Year ended 31 December 1999	
Opening net book amount:	
As previously reported	862,506
Effect of adopting IAS 10 (Revised)	192,798
	<hr/>
As restated	1,055,304
Addition	40,000
Share of group undertakings' profits and reserves	151,513
	<hr/>
Closing net book amount	1,246,817
	<hr/>
At 31 December 1999	
Cost	708,354
Share of group undertakings' profits and reserves	538,463
	<hr/>
Net book amount	1,246,817
	<hr/>

The principal group undertakings at 31 December are shown below:

Group undertakings	Registered office	Class of shares held	Percentage of shares held 2000	Percentage of shares held 1999
Euroglobe Limited	Middle Sea House Floriana	Ordinary shares	100%	100%
Church Wharf Properties Limited	Middle Sea House Floriana	Ordinary shares	75.5%	75.5%
International Insurance Management Services Limited	Middle Sea House Floriana	Ordinary shares	100%	100%
International Insurance Management Services (Offshore) Limited	Middle Sea House Floriana	Ordinary shares	100%	100%
Mediterranean Insurance Training Centre Limited	Europa Centre Floriana	Ordinary shares	100%	100%
Progress Assicurazioni S.p.A.	Piazza A. Gentile Palermo	Ordinary shares	51%	-

Notes to the financial statements

14. Investments in participating interests

	Group Lm	Company Lm
Year ended 31 December 2000		
Opening net book amount:		
As previously reported	6,211,581	5,132,081
Effect of adopting IAS 10 (Revised)	229,500	229,500
Effect of adopting equity accounting in terms of IAS 27	-	1,079,500
Adjustment in computations of taxation on investment gains	(104,788)	(104,788)
As restated	6,336,293	6,336,293
Addition	331,500	331,500
Disposal	(25,539)	(25,539)
Share of participating interest's profits and reserves	390,177	390,177
Closing net book amount	7,032,431	7,032,431
At 31 December 2000		
Cost	1,351,500	1,351,500
Share of participating interest's profits and reserves	5,680,931	5,680,931
Net book amount	7,032,431	7,032,431
Year ended 31 December 1999		
Opening net book amount:		
As previously reported	3,954,905	2,906,435
Effect of adopting IAS 10 (Revised)	118,575	118,575
Effect of adopting equity accounting in terms of IAS 27	-	1,052,299
Adjustment in computations of taxation on investment gains	(89,042)	(89,042)
As restated	3,984,438	3,988,267
Addition	250	250
Share of participating interests' profits and reserves	2,351,605	2,347,776
Closing net book amount	6,336,293	6,336,293
At 31 December 1999		
Cost	1,048,791	1,048,791
Share of participating interests' profits and reserves	5,287,502	5,287,502
Net book amount	6,336,293	6,336,293

The participating interests at 31 December are shown below:

Participating interests	Registered office	Class of shares held	Percentage of shares held 2000	Percentage of shares held 1999
Middle Sea Valletta Life Assurance Company Limited	Middle Sea House Floriana	Ordinary shares	51%	51%
Mediterranean Survey Bureau Limited	48, Lascaris Wharf Valletta	Ordinary shares	-	20%

Notes to the financial statements

14. Investments in participating interests - continued

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.

Lm7,278,745 (1999: Lm6,582,754 - as restated) 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 2000 was Lm309,165 (1999: Lm1,871,753).

A summary of the audited balance sheet at 31 December 2000 of Middle Sea Valletta Life Assurance Company Limited, which represents a significant investment to the Group, is set out below:

	2000	1999
	Lm	Lm
Investments	64,890,595	51,043,538
Value of in-force business	8,870,000	7,050,000
Tangible fixed assets	518,877	437,271
Assets held to cover linked liabilities	2,404,042	225,114
Net current assets	3,196,041	2,157,312
Technical provisions	(66,716,565)	(46,374,595)
Amounts owed to credit institutions	-	(3,000,000)
Deferred taxation	1,109,059	1,368,721
Shareholders' funds	14,272,049	12,907,361
51% thereof relating to Group	7,278,745	6,582,754
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 balance sheet	(244,800)	(272,000)
Amount at which the Group's investment is carried in the balance sheet	7,033,945	6,310,754

The above summary includes Middle Sea Insurance p.l.c.'s indirect shareholding (25.5%) in Church Wharf Properties Limited, which has been reclassified within investments in group undertakings for the purpose of these financial statements.

Notes to the financial statements

15. 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 & treasury bills Lm	Total Lm
Year ended 31 December 2000					
Opening net book amount	7,588,073	9,767,924	955,236	3,437,352	21,748,585
Acquisition of subsidiary (note 27)	-	5,131,888	50,590	-	5,182,478
Additions	4,232,386	8,573,620	25,289	3,010,989	15,842,284
Disposals	(5,041,711)	(954,269)	-	(2,549,870)	(8,545,850)
Revaluation (deficit)/surplus	(397,664)	366,060	176,400	-	144,796
Amount released on realisation of investments	(622,568)	(51,859)	-	-	(674,427)
Closing net book amount	5,758,516	22,833,364	1,207,515	3,898,471	33,697,866
At 31 December 2000					
Cost	5,090,732	22,514,098	279,200	3,898,471	31,782,501
Revaluation reserve	667,784	319,266	928,315	-	1,915,365
Net book amount	5,758,516	22,833,364	1,207,515	3,898,471	33,697,866
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)	1,751,614	(203,422)	182,920	-	1,731,112
Amount released on realisation of investments	(256,492)	(173,287)	-	-	(429,779)
Closing net book amount	7,588,073	9,767,924	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	1,688,016	5,065	751,915	-	2,444,996
Net book amount	7,588,073	9,767,924	955,236	3,437,352	21,748,585

Notes to the financial statements

15. 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 & treasury bills Lm	Total Lm
Year ended 31 December 2000					
Opening net book amount	6,825,760	9,494,633	954,980	3,361,125	20,636,498
Additions	3,299,751	1,451,979	25,289	1,447,000	6,224,019
Disposals	(4,791,702)	(300,641)	-	(2,429,870)	(7,522,213)
Revaluation (deficit)/surplus	(412,644)	196,914	176,400	-	(39,330)
Amount released on realisation of investments	(542,770)	(51,859)	-	-	(594,629)
Closing net book amount	4,378,395	10,791,026	1,156,669	2,378,255	18,704,345
At 31 December 2000					
Cost	3,940,123	10,661,497	227,589	2,378,255	17,207,464
Revaluation reserve	438,272	129,529	929,080	-	1,496,881
Net book amount	4,378,395	10,791,026	1,156,669	2,378,255	18,704,345
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

Notes to the financial statements

15. Other financial investments - continued

Maturity of fixed income debt securities:

	Group		Company	
	2000 Lm	1999 Lm	2000 Lm	1999 Lm
Within one year	855,178	-	249,120	-
Between 1 and 2 years	403,529	249,120	104,854	249,120
Between 2 and 5 years	9,158,545	3,162,681	3,566,041	3,129,589
Over 5 years	12,416,112	6,356,123	6,871,011	6,115,924
	22,833,364	9,767,924	10,791,026	9,494,633
Weighted average effective interest rate	5.2%	5.6%	5.5%	5.6%

Maturity of deposits with credit institutions and treasury bills:

	Group		Company	
	2000 Lm	1999 Lm	2000 Lm	1999 Lm
Within 3 months	2,914,722	2,687,352	1,394,506	2,611,125
Within 1 year but exceeding 3 months	866,000	750,000	866,000	750,000
Between 1 and 2 years	117,749	-	117,749	-
	3,898,471	3,437,352	2,378,255	3,361,125
Weighted average effective interest rate	4.4%	4.6%	4.3%	4.6%

Notes to the financial statements

16. Tangible assets

Group

	Buildings & leasehold improvements Lm	Office furniture & equipment Lm	Property furniture & fittings Lm	Motor vehicles Lm	Total Lm
Year ended 31 December 2000					
Opening net book amount	219,707	293,122	16,770	16,549	546,148
Acquisition of subsidiary (note 27)	583,096	37,577	4,039	-	624,712
Additions	2,611	78,740	9,649	265	91,265
Disposals	-	(26,315)	-	(1,261)	(27,576)
Depreciation charge	(10,011)	(117,607)	(7,877)	(6,102)	(141,597)
Depreciation released on disposals	-	25,610	-	1,261	26,871
Closing net book amount	795,403	291,127	22,581	10,712	1,119,823
At 31 December 2000					
Cost	919,409	1,157,964	110,851	91,987	2,280,211
Accumulated depreciation	(124,006)	(866,837)	(88,270)	(81,275)	(1,160,388)
Net book amount	795,403	291,127	22,581	10,712	1,119,823
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

Company

	Leasehold improvements Lm	Office furniture & equipment Lm	Property furniture & fittings Lm	Motor vehicles Lm	Total Lm
Year ended 31 December 2000					
Opening net book amount	219,707	276,665	16,770	16,549	529,691
Additions	2,611	74,852	9,530	96	87,089
Disposals	-	(5,835)	-	-	(5,835)
Depreciation charge	(8,377)	(103,596)	(6,449)	(6,081)	(124,503)
Depreciation released on disposals	-	5,130	-	-	5,130
Closing net book amount	213,941	247,216	19,851	10,564	491,572
At 31 December 2000					
Cost	336,313	1,087,488	106,693	88,347	1,618,841
Accumulated depreciation	(122,372)	(840,272)	(86,842)	(77,783)	(1,127,269)
Net book amount	213,941	247,216	19,851	10,564	491,572
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

Notes to the financial statements

17. Share capital

	Group and Company	
	2000	1999
	Lm	Lm
Authorised		
30,000,000 Ordinary shares of 50 cents each	15,000,000	15,000,000
Issued and fully paid		
12,500,000 Ordinary shares of 50 cents each	6,250,000	6,250,000

18. Revaluation reserve

	Group		Company	
	2000	1999	2000	1999
	Lm	Lm	Lm	Lm
Balance at 1 January before taxation:				
As previously reported	7,618,123	4,771,044	8,263,742	4,759,563
Effect of adopting equity accounting in terms of IAS 27	-	-	(2,896,774)	(674,603)
Transfer to other reserves (note 19)	(2,244,000)	(677,280)	-	-
As restated	5,374,123	4,093,764	5,366,968	4,084,960
Revaluation surplus arising during the year	1,312,870	1,731,112	1,202,188	1,431,267
Amount released on realisation of investments	(717,958)	(721,219)	(604,128)	(485,648)
Share of group undertakings' reserves	-	-	4,007	65,923
Share of participating interest's reserves	(209,683)	270,466	(209,683)	270,466
Balance at 31 December before taxation	5,759,352	5,374,123	5,759,352	5,366,968
Deferred taxation	(630,978)	(423,931)	(630,978)	(416,776)
Balance at 31 December	5,128,374	4,950,192	5,128,374	4,950,192

The revaluation reserve is not a distributable reserve.

19. Other reserves

Group and Company

	Value of in-force business Lm
Balance at 1 January 2000 - as restated (note 18)	2,244,000
Share of participating interest's reserves	928,200
Balance at 31 December 2000	3,172,200
Balance at 1 January 1999 - as restated (note 18)	677,280
Share of participating interest's reserves	1,566,720
Balance at 31 December 1999	2,244,000

The above reserve is not a distributable reserve.

Notes to the financial statements

20. Minority interests

	Group	
	2000	1999
	Lm	Lm
Acquisition of subsidiary (note 27)	1,796,270	-
Share of net profit of group undertakings	239,131	-
Share of movement in reserves of group undertaking	73,444	-
Dividends paid	(9,678)	-
Other	123	-
Balance at 31 December	2,099,290	-

21. 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 2000. 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	
	2000	1999
	Lm	Lm
Investments	719,011	656,748
Debtors	106,713	23,409
Cash at bank and in hand	28,586	64,378
Claims outstanding	(69,354)	(16,158)
Creditors	(694,949)	(643,485)
Long term business provision, net of reinsurance	90,007	84,892

22. Equalisation provision

As explained in accounting policy 5 on page 36, an equalisation provision is established in the financial statements. The Group had no equalisation provision in its balance sheet at 31 December 2000. The effect of this provision was to reduce shareholders' funds by Lm93,155 in 1999. 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 Lm143,316 (1999: Lm846,778).

Notes to the financial statements

23. Provisions for other risks and charges

	Group		Company	
	2000 Lm	1999 Lm	2000 Lm	1999 Lm
Deferred taxation	680,284	709,780	680,284	702,625
Provision for loss on discontinuing operation	515,993	-	515,993	-
Provision for severance indemnity	240,003	-	-	-
	1,436,280	709,780	1,196,277	702,625

Deferred taxation

	Group		Company	
	2000 Lm	1999 Lm	2000 Lm	1999 Lm
Balance at 1 January:				
As previously reported	709,780	508,069	2,320,238	1,219,559
Effect of adopting equity accounting in terms of IAS 27	-	-	(1,617,613)	(721,390)
As restated	709,780	508,069	702,625	498,169
Movements during the year:				
Profit and loss account (note 8)	(236,543)	142,583	(236,543)	142,583
Tax effect of revaluation of investments (note 18)	207,047	59,128	214,202	61,873
Balance at 31 December	680,284	709,780	680,284	702,625

Deferred taxation is calculated on temporary differences under the liability method using a principal tax rate of 35% (1999: 35%). The year end balance comprises:

	Group		Company	
	2000 Lm	1999 Lm	2000 Lm	1999 Lm
Temporary differences on fixed assets	23,831	29,802	23,831	29,802
Temporary differences on unrealised capital and exchange gains	930,160	723,113	930,160	715,958
Temporary differences on unutilised tax losses	(291,224)	(119,929)	(291,224)	(119,929)
Other temporary differences	17,517	76,794	17,517	76,794
Balance at 31 December	680,284	709,780	680,284	702,625

Notes to the financial statements

23. Provisions for other risks and charges - continued

Provision for loss on discontinuing operation

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

	Group and Company	
	2000	1999
	Lm	Lm
Profit and loss account	515,993	-
Balance at 31 December	515,993	-

Provision for severance indemnity

	Group	
	2000	1999
	Lm	Lm
Acquisition of subsidiary (note 27)	209,122	-
Profit and loss account	30,881	-
Balance at 31 December	240,003	-

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

24. Amounts owed to credit institutions

	Group and Company	
	2000	1999
	Lm	Lm
Long term		
Bank loans	1,587,151	1,500,000

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

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

	Group and Company	
	2000	1999
	Lm	Lm
At floating rates	1,587,151	1,500,000

Notes to the financial statements

24. Amounts owed to credit institutions - continued

Weighted average effective interest rates:

	Group and Company	
	2000	1999
Bank loans	5.3%	5.3%

Maturity of long term borrowings:

	Group and Company	
	2000	1999
	Lm	Lm
Between 2 and 5 years	1,587,151	1,500,000

25. Cash generated from operations

Reconciliation of operating profit on ordinary activities before tax to cash generated from operations:

	Group		Company	
	2000	1999	2000	1999
	Lm	Lm	Lm	Lm
Operating profit on ordinary activities before tax	1,388,109	1,838,329	1,144,693	1,838,329
Adjustments for:				
Share of group undertakings' profit before tax, adjusted for net dividend received	-	-	(91,733)	(289,760)
Share of participating interests' profit before tax, adjusted for net dividend received	295,250	(447,051)	295,250	(447,051)
Depreciation (note 16)	141,597	132,886	124,503	128,235
Provision for severance indemnity (note 23)	30,881	-	-	-
Amortisation of goodwill	3,077	-	3,077	-
(Profit)/loss on sale of tangible fixed assets (note 6)	(495)	23,144	(495)	23,144
Gains on the realisation of investments	(981,132)	(1,305,848)	(781,082)	(819,581)
Movements in :				
Deposits with ceding undertakings	(5,052)	(16,830)	(5,052)	(16,830)
Reinsurers' share of technical provisions	(4,968,117)	(2,276,392)	(706,256)	(2,276,392)
Debtors, prepayments and accrued income	(603,664)	(891,943)	(633,216)	(798,285)
Amounts owed by group undertakings	-	-	(449,541)	(71,014)
Technical provisions	4,386,103	2,899,805	1,181,483	2,899,805
Deposits received from reinsurers	560,345	326,455	563,340	326,455
Creditors, accruals and deferred income	345,958	631,322	533,317	618,608
Amounts owed to participating interests	86,581	(461,252)	(269,493)	(461,251)
Cash generated from operations	679,441	452,625	908,795	654,412

Notes to the financial statements

26. Cash and cash equivalents

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

	Group		Company	
	2000 Lm	1999 Lm	2000 Lm	1999 Lm
Cash at bank and in hand	1,798,016	858,469	1,166,162	748,658
Time deposits and treasury bills maturing within three months	2,914,722	2,687,352	1,394,506	2,611,125
	4,712,738	3,545,821	2,560,668	3,359,783

27. Acquisition

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

Details of net assets acquired and goodwill are as follows:

Purchase consideration - cash paid	Lm 1,918,828
Fair value of net assets acquired	(1,869,588)
Goodwill	49,240

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

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

Notes to the financial statements

27. Acquisition - continued

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

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

Under the terms and conditions of the acquisition agreement, Progress Assicurazioni S.p.A. will be indemnified by Corporacion Mapfre Compania Internacional De Reaseguros S.A. for any potential deficiencies on all transactions that occurred on or before 30 June 2000, and which were not provided for in the accounts of Progress Assicurazioni S.p.A. as at 30 June 2000. Accordingly, Middle Sea Insurance Group is not liable for any deficiencies not provided for in Progress Assicurazioni's balance sheet as at 30 June 2000.

28. Financial instruments

Derivative financial instruments

The Group did not make use of derivative financial instruments during the year ended 31 December 2000 (1999 - nil).

Notes to the financial statements

28. Financial instruments - continued

Foreign exchange risks

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

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

Credit risk

Financial assets which potentially subject the Group to concentration of credit risk consist principally of investments and debtors. The Group'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 Group's debtor base and the Group has no significant concentration of credit risk.

Fair values

At 31 December 2000 and 1999, the carrying amount of the Group's assets and liabilities approximated their fair values.

29. Commitments

Capital commitments

	Group and Company	
	2000	1999
	Lm	Lm
Authorised and not contracted for	480,000	310,000

Operating lease commitments - where the Company is a lessor

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

	Group and Company	
	2000	1999
	Lm	Lm
Not later than 1 year	238,929	265,715
Later than 1 year and not later than 5 years	589,957	684,218
Later than 5 years	641,938	786,606
	1,470,824	1,736,539

Notes to the financial statements

30. Contingencies

The Company has given guarantees to third parties amounting to Lm25,000 (1999: Lm25,000) not arising under contracts of insurance.

31. 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.

32. Statutory information

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

Branches and Agencies

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Fax: 0207 220 7421

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Middle Sea Insurance p.l.c.

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